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TRENDS AND OUTLOOKS

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The review “Russian economy. Trends and outlooks” has been published by the Gaidar Institute since 1991. This is the 45th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 5 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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Contents

Introduction. From the editors.....	7
Section 1. Monetary and fiscal systems	9
1.1. Monetary policy.....	9
1.1.1. Key trends of monetary policy	9
1.1.2. Monetary market.....	13
1.1.3. Inflation processes	19
1.1.4. Balance of payments and ruble exchange rate.....	23
1.2. Fiscal policy.....	26
1.2.1. Characteristics of the budgets of the budget system of the Russian Federation	26
1.2.2. Characteristics of the federal budget.....	31
1.2.3. Interbudgetary relations and subnational finances.....	34
Section 2. Financial markets and financial institutions	43
2.1. Global and Russian financial markets.....	43
2.1.1. Trends in the global financial market.....	43
2.1.2. Map of returns and risks of financial instruments in the world.....	56
2.1.3. Returns and risks of financial instruments of Russian issuers.....	60
2.1.4. Crisis situations in financial markets	77
2.1.5. Institutional parameters of the Russian equity market.....	83
2.1.6. The bond market.....	98
2.1.7. Derivatives and foreign-exchange markets	117
2.1.8. Financial intermediaries and exchanges	121
2.1.9. Investors on the domestic financial market.....	123
Section 3. The real sector	137
3.1. Dynamic and structure of GDP and investments.....	137
3.1.1. The context and factors of the recovery growth in 2023	137
3.1.2. Structural transformation of domestic production	143
3.1.3. Domestic market: consumption and household income.....	147
3.1.4. Investment and construction complex: structural features 2022 ...	149

3.2. Sectoral dynamics of industrial production in 2023	154
3.2.1. Dynamics of the industrial production index in Q1 2023.....	156
3.2.2. Industrial production dynamic on Q2 2023	157
3.2.3. Industrial production dynamic in Q3 2023	157
3.2.4. Industrial production dynamic in Q4 2023	158
3.3. Transportation complex	160
3.3.1. Achievements and new tasks of the transportation sector.....	160
3.3.2. Transport performance indicators in 2023	162
3.3.3. Sanction challenges and performance indicators of certain types of transportation	167
3.4. Production and consumption of agricultural products.....	178
3.4.1. Production	178
3.4.2. Consumption	182
3.4.3. Regulation and support policies in agriculture in 2023.....	184
3.5. Small and medium-sized enterprises in Russia in the context of sanctions	194
3.5.1. Dynamic of the number of enterprises in SME sector	195
3.5.2. Employment dynamic in the SME sector.....	196
3.5.3. Turnover of the SME sector companies.....	198
3.5.4. SME's exports	200
3.5.5. Lending to SMEs.....	200
3.6. Foreign trade	202
3.6.1. The state of the world economy and world trade	202
3.6.2. Terms of Russian foreign trade: price trend for the main goods of Russian exports and imports	206
3.6.3. Main indicators of the Russian foreign trade	209
3.6.4. Regional pattern of Russian foreign trade	212
3.6.5. Regulation of Russian foreign trade	217

Section 4. Social sphere 223

4.1. Dynamics of labor market	223
4.2. Household incomes: consumer demand and savings.....	226
4.3. The education system	230
4.3.1. General education	231
4.3.2. Additional education for children	236
4.3.3. The secondary vocational education (SVE).....	238
4.3.4. The higher education	241
4.4. The housing market in Russian cities and housing construction.....	244
4.4.1. Housing market prices	245
4.4.2. Construction and commissioning of new housing	249
4.4.3. The situation in the construction sector.....	254
4.4.4. Moscow's housing market.....	256
4.4.5. Mortgage lending dynamic and state support measures	258
4.4.6. Prospects for the housing market in 2023	262

Section 5. Institutional changes	265
5.1. Public sector and privatization.....	265
5.1.1. Scale of state ownership	265
5.1.2. Privatization policy: results of implementation and short-term prospects.....	271
5.1.3. Improving privatization legislation.....	277
5.1.4. The state participation in the economy and its presence in the economy.....	285
5.1.5. Public sector: radical innovations in governance	289
5.1.6. Impact of external pressures on property policy	298
5.1.7. Budgetary effect of state property policy	302
5.2. Corporate governance 2023: regulatory perspectives, anti-sanctions and national ESG agenda.....	313
5.2.1. Corporate governance 2024–2026: main directions in the development of regulation	313
5.2.2. Corporate legislation: extension of anti-crisis measures	317
5.2.3. Promotion of the national sustainability agenda by the Bank of Russia in 2023	320
5.3. The state of science and innovation	325
5.3.1. Science on the agenda of technological sovereignty.....	325
5.3.2. Financing of research and development.....	328
5.3.3. Government measures to mitigate the consequences of sanctions	332
5.3.4. Estimates of sanctions implications	335
5.3.5. Science in universities	337
5.3.6. Initiatives of the Russian Academy of Sciences.....	340
5.3.7. State of innovation business.....	345
5.4. Russia in key international institutions.....	349
5.4.1. The Group of 20	349
5.4.2. BRICS	353
5.4.3. The Shanghai Cooperation Organization (SCO).....	356
5.4.4. The International Monetary Fund.....	359
5.4.5. Multilateral development banks	361
5.4.6. The United Nations	362
5.4.7. The World Health Organization	365
5.4.8. The EAEU	366
5.4.9. The EU.....	369
5.4.10. UNFCCC.....	372
5.5. Russia’s participation in WTO disputes.....	375
5.5.1. WTO crisis and Russia’s participation in WTO after beginning of SMO.....	375
5.5.2. Retaliatory measures in the WTO.....	378

5.5.3. The WTO Trade Dispute Settlement Mechanism	379
5.5.4. WTO trade disputes with Russia's participation	380
References.....	395
Authors	419

Introduction. From the editors

The main economic result of Russia in 2023 evidenced resumption of economic growth, which reached 3.6% after a drop of 1.2% in 2022. The cumulative GDP growth since 2019 accounted for 5.4%.

The manufacturing industry (mainly machinery and instrumentation), construction, trade and catering, information and communication services became the main drivers of economic growth.

However, a certain stagnation was observed in a number of sectors of the economy: extractive industry and transportation. The main reason for this slowdown was the change in terms of foreign trade: the trade surplus declined by 2.6 times compared to 2022, from \$303 bn to \$120 bn. This was mainly due to a reduction in exports, as well as a result of some growth in imports. External sanctions and related transportation, logistics and payment/ settlement problems became the main factors behind the decline in exports.

Russian exports in 2023 amounted to just over 70% of the 2022, while the main reduction accounted for mining products, but significant decline took place also in chemicals and wood processing. Imports into Russia increased by almost 10% mainly due to growth in imports of machinery and equipment, vehicles, as well as textiles and footwear.

Radical changes in the structure of trade balance became the main factor of pressure on the ruble exchange rate, which at the end of Q3 2023 came close to the Rb100 /\$1, which became one of the main drivers of inflation in mid-2023.

The Bank of Russia raised the key rate several times in Q2 2023, more than doubling it from 7.5% to 16%.

Along with other regulatory measures of the Central Bank, this allowed stabilizing the ruble exchange rate and inflation at below 8% per year with good prospects for its reduction in 2024.

Despite a significant decline in exports and, consequently, a reduction in export revenues, the tax and fiscal situation in 2023 proved to be quite good.

Fiscal revenues of the enlarged government grew by Rb6 trillion and amounted to Rb59 trillion. In real terms, fiscal revenues of the enlarged government grew

by 3.6% (in 2022 they fell by 1.5%). Fiscal spending of the enlarged government reached Rb63 trillion and increased in real terms by 6.3% (by 2% in 2022). The enlarged government budget deficit amounted to 2.3% of GDP.

A rather radical restructuring of the fiscal revenue base is behind these very favorable figures. Oil and gas revenues of the federal budget declined in 2023 by Rb2.7 trillion relative to 2022 (by 24%). However, at the same time, non-oil revenues of the federal budget increased by more than Rb4.0 trillion (by 25%) and significantly exceeded the fall in oil and gas revenues.

Thus, in 2023 Russia embarked on a path of deep structural reorganization of economy with a focus on development of domestic market and reduced dependence on fluctuations in the external economic environment. The policy of the monetary authorities made it possible to keep inflation under control and stabilize the exchange rate. The outstripping growth of non-oil and gas revenues reflects the growing role of the domestic market and makes it possible to compensate for the negative impact of the external environment on the revenue fiscal base.

The medium-term sustainability of these positive trends will largely depend on the degree to which the infrastructural constraints to the development of domestic market will be overcome and the extent to which the potential decline in commodity exports will be replaced by exports of highly processed products.

Section 1. Monetary and fiscal systems

1.1. Monetary policy¹

1.1.1. Key trends of monetary policy

In 2023, monetary policy of the Bank of Russia continued to be implemented amid significant restrictions on capital movements, freezing of international reserve assets and trade restrictions, thereby creating additional risks for macroeconomic and financial stability.

During 2023, inflation accelerated, driven by rapid growth of aggregate demand in Russia amid mild fiscal policy, as well as by transfer to prices of the ruble depreciation. This marked the beginning of tightening the monetary policy cycle in H2 2023. In H1, the regulator kept the key rate unchanged at 7.5% per annum, only tightening the key rate movement signal at each subsequent meeting.

Since July 2023, the CBR has raised the key rate five times: on July 21 by 1 p.p. up to 8.5% per annum, on August 14 by 3.5 p.p. up to 12.0% per annum, September 15 by 1 p.p. up to 13% per annum, on October 27 by 2.0 p.p. up to 15% per annum and on December 15 up to 16% per annum (*Fig. 1*).

Moreover, the August meeting of the Bank of Russia turned out to be unscheduled and was caused by the weakening of the ruble exchange rate. Considering that after several rounds of rate increases lending growth rates remained high, and signs of a slowdown in certain segments appeared only in October 2023, the CBR still plans to maintain tight monetary conditions in the economy for a long time.

In 2023, a significant decline in the current account balance (4.7 times in 2023 vs 2022) impacted the domestic foreign exchange market, reducing the supply

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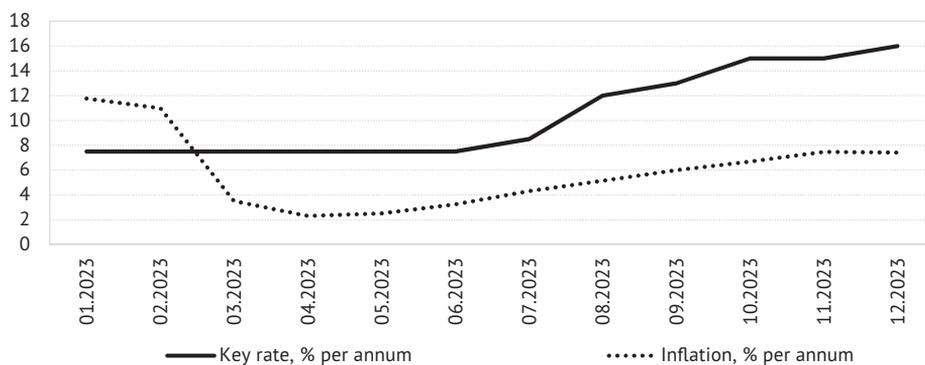


Fig. 1. Dynamics of the Bank of Russia key rate (% per annum) and inflation (% for previous 12 months) in 2023

Source: Bank of Russia.

of foreign currency in Russia against growing demand from importers, while aggregate demand expanded rapidly.

Apart from that, the currency imbalance in international settlements resulting from the expansion of payments in rubles, challenges in conducting transactions in the currencies of countries that imposed sanctions against Russia, as well as in the currencies of a number of friendly countries due to their limited convertibility, played a certain role in the depreciation of the ruble.

A striking example is the currency imbalance between Russia and India, which arose as a result of a trade imbalance: Russian exports to India significantly exceed imports of Indian goods to Russia. This caused the accumulation of Indian rupees in the accounts of Russian exporters in Indian banks due to limited opportunities for their conversion into rubles, a reduction in the inflow of export revenues to Russia and weakening of the ruble.

Weakening of the ruble started as early as Q4 2022 and continued for four consecutive quarters; thus, as a result, the ruble/dollar exchange rate has decreased 1.7 times to Rb97.41 /dollar at the end of Q3 2023. Having said that, the exchange rate dynamics became one of the factors of inflation acceleration.

In H2, the ruble was supported by a gradual tightening of monetary policy by the Bank of Russia, as well as by suspension of currency purchases in the domestic market under the fiscal rule. Moreover, mandatory sale of export proceeds by some major Russian exporters was reintroduced on October 16, 2023 aimed to stabilize the foreign exchange market.

In compliance with the rules, at least 80% of export foreign currency proceeds must be credited by the exporter to accounts with Russian banks within 60 days of receipt. However, mandatory sale of export proceeds should be at least 90% of the credited funds and not less than 50% of each contract.

As a result, the size of net sales of export proceeds increased from \$23.1 bn in Q3 2023 to \$41.2 bn in Q4 2023. This measure supported ruble, resulting in growth in the supply of currency already in November 2023. It has to be recalled

that a similar measure was temporarily introduced in 2022, which also contributed to financial stability in 2022.

During 2023, the CBR repeatedly revised the inflation forecast and the expected pathway of the key interest rate, taking into account changing external economic conditions, as well as the dynamics of domestic economic activity. In February 2023, the inflation rate forecasted by the regulator at the end of the year amounted to 5–7% with the average annual interest rate of 7–9%. In April, the Bank of Russia lowered its inflation forecast to 4.5–6.5% with the key rate of 7.3–8.2% per annum. However, due to the continuing growth of domestic demand exceeding the capacity to increase supply, shortage of employees in the labor market, and the increase in government spending, the regulator’s forecast has been revised upward three times since April 2023.

In this way, in October 2023, the inflation forecast for the end of 2023 was raised by the Bank of Russia to 7.0–7.5% with the average annual rate of 9.9% (*Table 1*). The inflation forecast for the end of 2024 was raised to 4.0–4.5%, and the forecast for average inflation in 2024 increased by 0.8–0.9 p.p. to 5.8–6.5%. Furthermore, the Bank of Russia raised its estimate of the neutral key rate from 5.0–6.0% at the beginning of the year to 6.0–7.0%. This means that with all other things being equal, the Central Bank of Russia will maintain increased interest rates to ensure price stability (12.5–14.5% per annum on average in 2024, 7–9% p.a. in 2025).

Table 1

Mid-term forecast by the Bank of Russia

Month of the forecast publication	February 2023	April 2023	July 2023	September 2023	October 2023
Inflation, December 2023 against December 2022, %	5–7	4.5–6.5	5.0–6.5	6.0–7.0	7.0–7.5
Average inflation for 2023, % against previous year	4.0–5.3	3.9–4.9	5.1–5.7	5.5–5.9	5.8–5.9
Mid-year key rate in 2023, % per annum	7–9	7.3–8.2	7.9–8.3	9.6–9.7	9.9

Source: own estimates based on mid-term forecasts of the Bank of Russia

Trends observed for Russia’s inflation in 2023 driven by structural reorganization of the economy under sanctions differ from the global trends. In 2023, inflation was slowing down in most countries of the world. This is due to the tightening of monetary policy and stabilization of world prices for food and energy commodities. Thus, inflation in the USA dropped from 6.5% in December 2022 to 3.4% in December 2023, from 9.2% in December 2022 to 2.9% in December 2023 in the Eurozone, from 10.5% in December 2022 to 4.0% in December 2023 in Great Britain (*Table 2*).

By Q4 2023, the cycle of monetary policy rate hikes in the developed G20 countries has been completed. In the US, the federal funds rate reached in September a twenty-year high of 5.25–5.5%, while in the eurozone it has hit an all-time high of 4.5%. In developing countries, the rates remained elevated, reached by the end of 2022. In addition to Russia, the cycle of key rate increases was resumed by the central bank of Turkey from mid-2023.

Table 2

Inflation and key rate in a number of developed and developing countries

	Actual inflation, December 2023 against December 2022, %	Key rate at the end of December 2023, % p.a.
<i>Developing countries</i>		
Poland	6.20	5.75
Indonesia	2.1	6
India	5.69	6.5
Peru	4.4	6.5
Chile	4.15	7.25
South Africa	5.10	8.25
Hungary	5.50	10.00
Brazil	4.62	11.25
Mexico	5.09	11.25
Columbia	9.28	12.75
Kazakhstan	9.80	15.25
Russia	7.40	16.00
Turkey	64.77	45.00
<i>Developed countries</i>		
Australia	4.1	4.35
Norway	4.8	4.5
EC	2.9	4.5
Canada	3.4	5
Great Britain	4	5.25
USA	3.4	5.5
New Zealand	4.7	5.5
Czech Republic	6.9	6.75
Iceland	7.7	9.25

Source: websites of central banks

As a result of tight monetary policy by central banks of both developed and developing countries, real rates measured based on actual inflation evidenced positive in most countries in 2023 (8.6% p.a. in Russia, 6.63% p.a. in Brazil, 5.45% p.a. in Kazakhstan, 2.1% p.a. in Peru, 2.1% p.a. in the US, 1.6% in the EU) (Fig. 2).

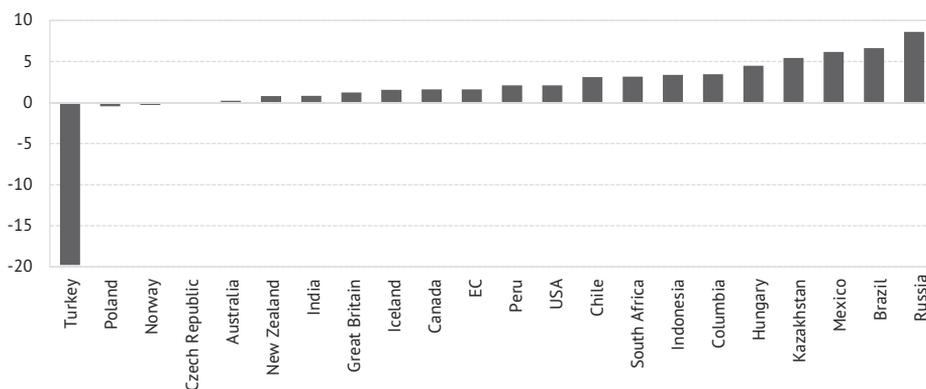


Fig. 2. Real key interest rate at the end of December 2023, % p.a. (measured based on inflation for the previous 12 months)

Sources: websites of central banks; own calculations.

Among the reviewed countries, Russia is the leader in terms of the real key interest rate at the end of December 2023. Negative real key interest rate in December 2023 was established in a number of developed countries, including the Czech Republic (-0.15% p.a.), Norway (-0.3% p.a.), as well as in Turkey in the context of significant acceleration of inflation (-19.8% p.a.).

On the whole, inflation, both overall and core, continues to be well above target in most of the countries under consideration, indicating persistent elevated price pressures and suggesting a prolonged period of tight monetary policy.

1.1.2. Monetary market

The Bank of Russia's policy in 2022 made it possible to stabilize the situation in the monetary market and satisfy banks' demand for ruble liquidity. In H1 2023, monetary market evidenced a liquidity surplus¹ in the amount of Rb1.8 trillion on average. High values of liquidity surplus at the beginning of the year (Rb3.4 trillion on average in January 2023) due to the inflow of funds to banks resulted from budget operations gradually declined (to Rb0.5 trillion in July 2023) due to the April increase in mandatory reserve requirements, as well as to the growing demand for cash mainly because of the increase in cash settlements in new regions of Russia.

In July 2023, the size of liquidity surplus has significantly reduced, and since mid-September, monetary market turned to liquidity deficit of the banking sector. This transition is primarily associated with the suspension of mirroring² operations under fiscal rule (cessation of foreign currency purchases by the Central Bank of the Russian Federation until the end of 2023) from August 10, 2023 due to the need to stabilize the domestic foreign exchange market. Fiscal operations also contributed to the outflow of bank liquidity in H2 2023 (*Fig. 3*).

In the period from January to July 2023, the Russian Ministry of Finance sold foreign currency in the amount of Rb550 bn under fiscal rule due to the situation

-
- 1 According to the definition of the Bank of Russia, the level of structural liquidity deficit/surplus means the difference between the debt on refinancing operations and absorption operations of the Bank of Russia. Structural liquidity deficit of the banking sector is a state of the banking sector marked by a stable need of credit institutions to attract liquidity through operations with the Bank of Russia. The reverse situation, i.e. a stable need of credit institutions to place funds with the Bank of Russia, is a structural liquidity surplus. Since November 2023, the Bank of Russia has clarified the methodology for calculating the liquidity deficit/surplus of the banking sector. Now the balance between the balances on banks' correspondent accounts and the averaged amount of required reserves (RRR) is taken into account when assessing the indicator. Taking into account in the calculation the balance between banks' correspondent accounts and the RRR allows excluding the impact on the indicator of operations that reflect banks' strategies for maintaining the RR.
 - 2 Operations carried out by the Bank of Russia in the foreign exchange market aimed to ensure neutrality of the impact of operations under the fiscal rule on the monetary market. In addition, the investment of the NWF funds requires their withdrawal from the liquid part of the NWF denominated in foreign currency, the sale of foreign currency on the foreign exchange market and purchase of ruble assets. The sale of foreign currency from the NWF is mirrored by the CBR in the foreign exchange market.

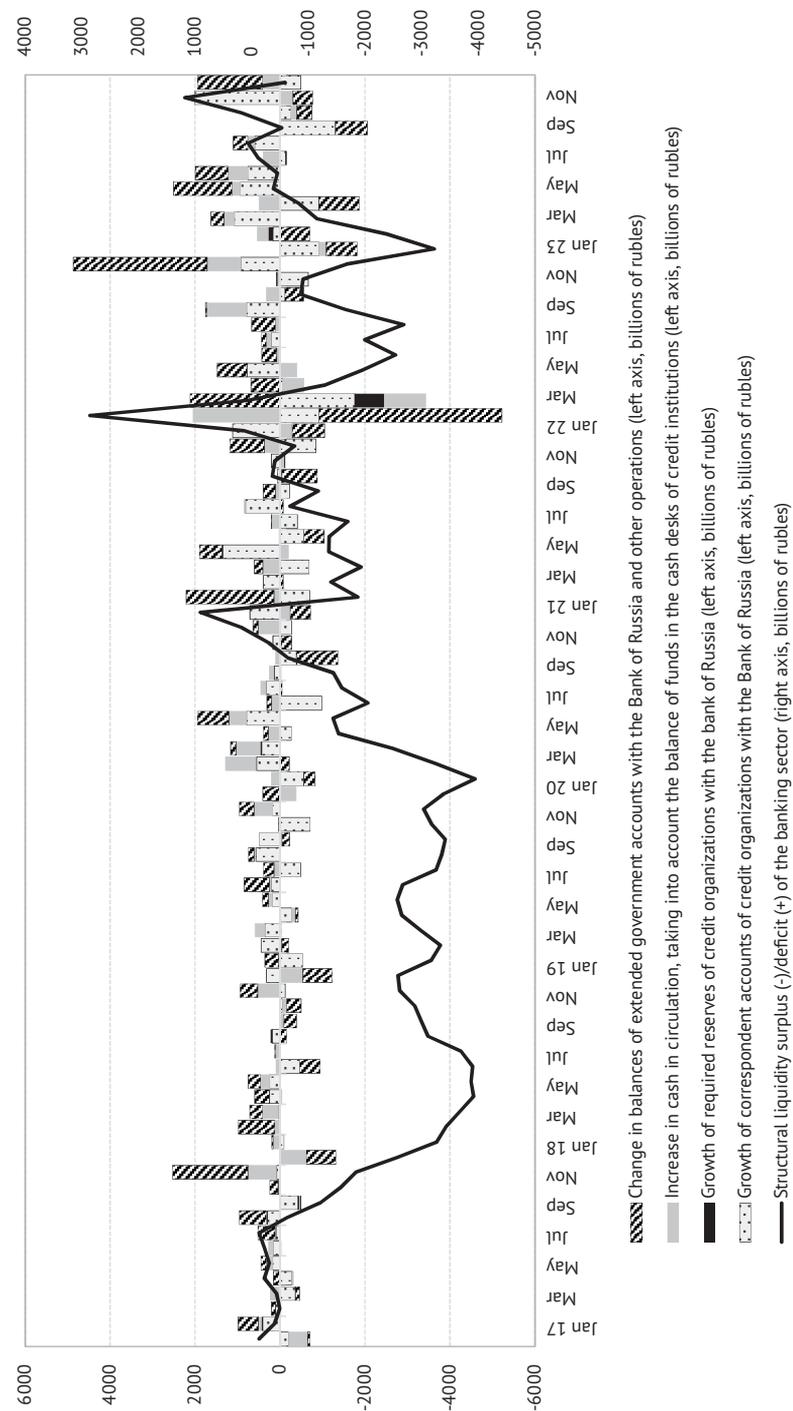


Fig. 3. Structural liquidity surplus of the banking sector and its components, 2017–2023

Source: Bank of Russia.

that actual oil and gas revenues did not exceed the base level. In August-December 2023, due to growth of actual oil and gas revenues, the Russian Ministry of Finance should have bought foreign currency, but, as noted above, taking into consideration the continued weakening of the ruble, currency purchase operations (in the amount of about Rb1.7-1.8 trillion) were postponed until 2024.

Besides, starting from August 1, 2023, the CBR started mirroring the operations on investment of the NWF funds to permitted financial assets (i.e. sterilization of rubles spent from the NWF by selling foreign currency from international reserves), implemented by the Russian Ministry of Finance in H1 2023 in the amount of Rb288.4 bn.

The Bank of Russia planned to conduct mirroring operations evenly during August 2023 – January 2024 with a daily volume of operations of Rb2.3 bn. However, in the period from September 14 to September 22, 2023, the Bank of Russia accelerated these operations by increasing the daily volume to Rb21.4 bn instead of Rb2.3 bn. As a result, the total volume of foreign currency sales by the Bank of Russia under operations of mirroring NWF investments in the period from August to December 2023 amounted to Rb280.1 bn.

It has to be noted that starting from 2024, the Bank of Russia resumed operations on the foreign exchange market using the NWF funds: during the first six months, the CBR plans to buy or sell foreign currency, adjusting the volume of operations announced by the Russian Ministry of Finance under the fiscal rule by the amount of currency sales in the amount of Rb 2.1 trillion (Rb1.4 trillion is the difference between the volume of currency purchases deferred from August 10 to December 31, 2023 under the fiscal rule and the volume of NWF expenditures aimed to finance budget deficit in 2023 apart from fiscal rule, Rb 0.7 trillion, is the sale of foreign currency in the volume of net investment of the NWF).¹ The planned currency sales in H1 2024 will support the ruble.

Operations under fiscal rule, as well as the revaluation of assets influenced the dynamics of international reserves² in 2023. In 2023, the total amount of international reserves of the CBR increased by 2.9% to \$598.6 bn (*Fig. 4*). However, the share of foreign exchange reserves in the total volume of international reserves as of January 1, 2024 evidenced 74.0% (76.6% as of January 1, 2023), while the share of monetary gold was 26.0% (23.4% as of January 1, 2023). The revaluation of reserve assets against dollar as well as positive revaluation of monetary gold had an upward effect on the size of international reserves,³ whereas RMB sale transactions implemented under new fiscal rule until August 2023, as well as operations of mirroring transactions for the investment of NWF funds implemented in H2 2023, contributed to their reduction in the amount of Rb832.8 bn. It should be noted that currently the central bank's assets, which are not frozen due to sanctions, consist mainly of yuan and gold. In the context of external financial sanctions, this structure of international reserves makes

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

2 Data on the structure of international reserves are not available due to reduction of statistical information published by the Bank of Russia.

3 Data on the size of revaluation of international reserves are not published as such.

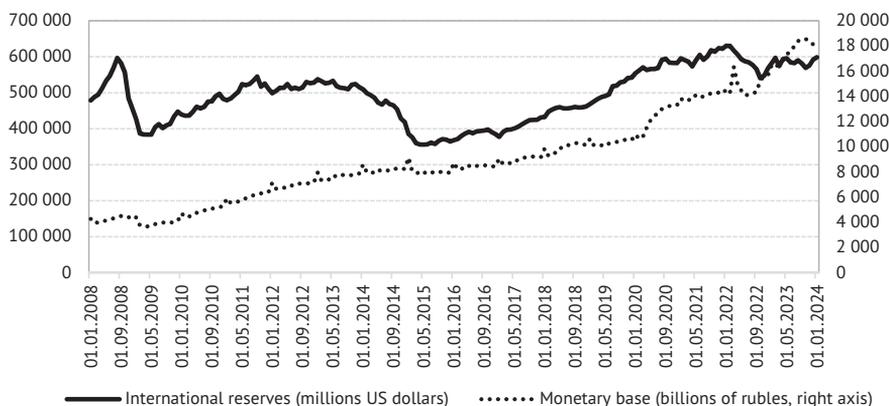


Fig. 4. Dynamic of monetary base (in proper definition) and gold and foreign exchange (international) reserves of the Russian Federation, 2008–2023

Source: Bank of Russia.

it possible to implement the mechanism of the fiscal rule, as well as to set up reserves in case of risks to financial stability.

Among the banking sector liquidity deficit formed in H2 2023 at the 2023 year-end, the value of loans attracted by credit institutions from the Bank of Russia increased by 17.4% to Rb5.2 trillion (Rb4.5 trillion as of January 1, 2023) (Fig. 5). Banks' indebtedness through repo auctions averaged Rb 1.4 trillion, which is 60% higher than in 2022, when this indicator averaged Rb0.9 trillion. The increase in banks' indebtedness through this channel appears to be due to the placement of OFZ by the Russian Ministry of Finance during the year. Banks' indebtedness on loans secured by non-marketable assets in 2023 averaged Rb0.9 trillion, which is the same as the average level of the previous year. On average, in 2023, the demand for lombard loans was significantly lower than in 2022, and the average debt of banks on this type of lending amounted to Rb 15.9bn, down by 76% year-on-year. In 2022, significant growth of lombard loans was secured by the increased demand of commercial banks for ruble liquidity amidst uncertainty and turbulence in the monetary market.

In 2023, banking sector continued to demand deposit auctions of the Bank of Russia. This was due to heterogeneous liquidity situation among banks: some banks attracted funds, while others, on the contrary, placed them on deposits. The amount of funds placed as part of weekly deposit auctions averaged Rb2.2 trillion at a weighted average rate of 9.96% per annum (Rb1.7 trillion in 2022 at a weighted average rate of 8.4% per annum). In order to maintain short-term money market rates close to the key interest rate in 2023, the Bank of Russia repeatedly conducted one day "fine-tuning" deposit auctions. The average amount of funds raised under these operations amounted to Rb1.1 trillion at a weighted average rate of 10.2% p.a. (Rb1.0 trillion in 2022 at a weighted average rate of 16.0% p.a.) (Fig. 6).

It has to be noted that in 2023, "fine-tuned" repo auctions for provision of liquidity were not conducted in the context of a relatively stable situation in

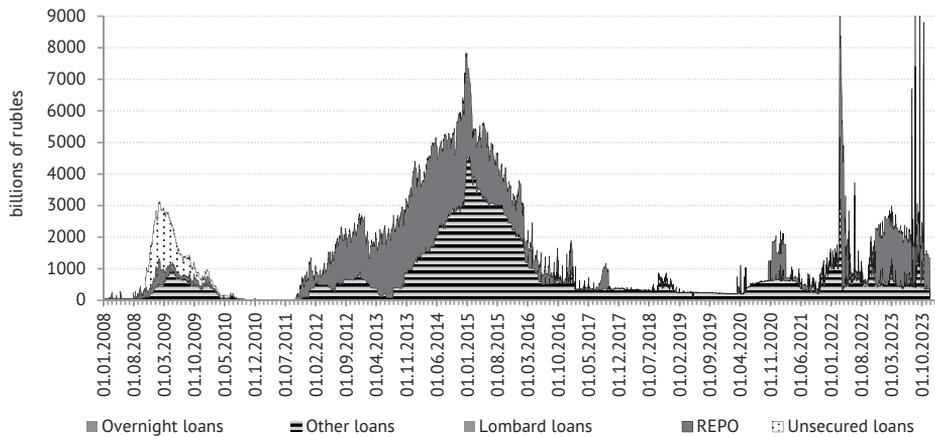


Fig. 5. Commercial banks' ruble debt to the Bank of Russia, 2008–2023

Source: Bank of Russia.

the money market. These operations were actively conducted by the regulator in February-April 2022 with the aim to maintain stability of credit institutions.

Amidst structural liquidity surplus in H1 2023, the MIACR rate was predominantly in the lower part of the interest rate corridor and its spread to the key rate was -0.3 p.p. on average.

In H2, as a result of transition from the banking sector liquidity surplus to deficit, the average value of the spread declined 1.8 times to -0.17 p.p. In July, October – November 2023, predominantly positive values of the spread were observed.

In the context of monetary policy tightening, the MIACR rate reached 9.79% per annum on average in 2023 (10.4% per annum on average in 2022). It has to be noted that volatility (standard deviation) of the spread of the interbank lending rate against the key rate in 2023 declined 1.3 times compared to 2022 (from 0.35 to 0.26 p.p.).

For 2023, the monetary base in the broad definition grew by 8.5% to Rb26,507 bn (for 2022 it grew by 20.1% to Rb24,429 bn). Among the fastest growing components of the broad monetary base at the end of 2023 are mandatory reserves (+86.2% to Rb271.7 bn), correspondent accounts of credit organizations (+51.8% to Rb4,530.5 bn), cash in circulation (+12.1% to Rb18,321 bn).

At the same time, banks' deposits with the Bank of Russia decreased by 31.7% to Rb3,384 bn. It should be noted that growth in the size of mandatory reserves is due to the increase in the norms for rubles liabilities from 4 to 4.5% and in foreign currency from 5.5 to 6% from June 1, 2023. On the whole, amidst transition to liquidity deficit of the banking sector, the size of excess reserves¹ for 2023 declined insignificantly by 0.3% and amounted to Rb7,914 bn (Table 3).

¹ Excess reserves of the banking system include deposits of credit organizations with the Bank of Russia, correspondent accounts of credit organizations with the Bank of Russia, as well as bonds of the Bank of Russia with credit organizations.

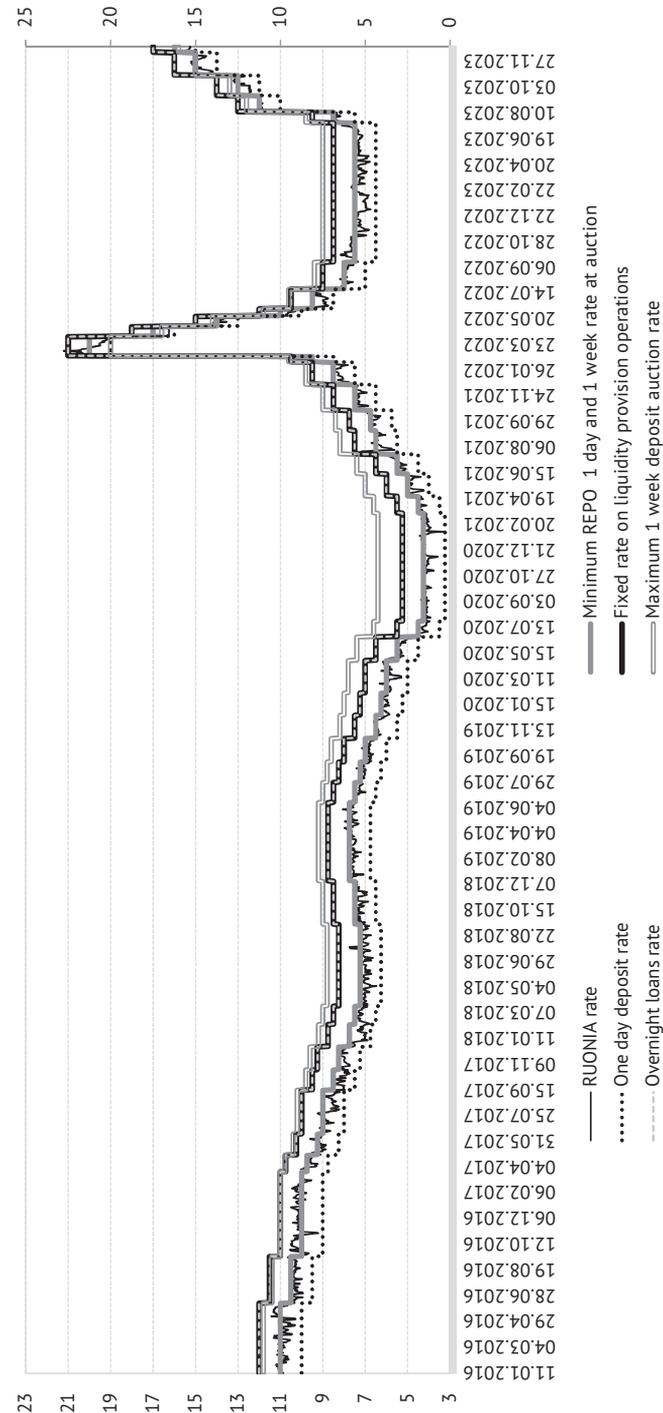


Fig. 6. Bank of Russia interest rate corridor and dynamics of interbank market rates, 2016–2023

Source: Bank of Russia.

Table 3

Dynamics of monetary base in broad definition in 2021–2023, Rb bn

	01.01.2022	01.01.2023	01.01.2024
Monetary base (in broad definition)	20 338.9	24 428.6	26 506.8
Cash in circulation assuming cash balances of credit organizations	14 068.1	16 347.7	18 320.7
Correspondent accounts of credit organizations with the Bank of Russia	2 650.6	2 983.6	4 530.5
Required reserves	815.3	145.9	271.7
Deposits of credit organizations with the Bank of Russia	2 805	4 951.4	3 383.9
Bonds of the Bank of Russia with credit organizations	0.0	0.0	0.0
<i>Reference: excess reserves</i>	5 456	7 935	7 914

Source: Bank of Russia.

Stimulating aggregate demand and credit activity, in 2023, growth of budget expenditures resulting from spending of the NWF funds continued to make a positive contribution to the dynamics of money supply. Thus, the average monthly growth rate of money supply M2 (relative to the same period of the previous year) in 2023 reached 23.2%, while in 2022 it was 19.3%. Assuming that the average growth rate of the monetary base in 2023 was 21.4%¹ (4.3% in 2022), the money multiplier (the ratio of the M2 aggregate to the monetary base) was 3.6 (3.5 in 2022). Growth of M2 money supply is explained by the expansion of both retail and corporate lending. In October 2023, signs of a slowdown in unsecured consumer credit growth after several rounds of key interest rate hikes were evident, however, corporate lending continued to grow at a fast pace, as businesses did not perceive credit conditions as tight due to high inflation expectations.

It should be noted that dynamics of mortgage lending made a significant contribution to growth of money supply. Thus, in September 2023 credit institutions provided a record volume of mortgages in the primary market (with subsidized rates). Expectations of economic agents regarding tightening of credit conditions increased the demand for mortgages. As a result, the Bank of Russia tightened macroprudential requirements for mortgage loans, which had a deterrent effect on the dynamics of mortgage lending.

1.1.3. Inflation processes

In 2023, inflation accelerated as a result of a soft fiscal policy, rapid growth of aggregate demand and credit activity, as well as a significant weakening of the ruble (*Fig. 7*). In Q2 2023, annual inflation (over the last 12 months) reached a minimum (2.3% in April 2023 against April 2022), and then it began to gradually increase due to depletion of high base effect (high values of inflation in March – May 2022) and an increase in inflationary pressure.

¹ Average growth rate (month over corresponding month of the previous year) calculated on the basis of the geometric mean.

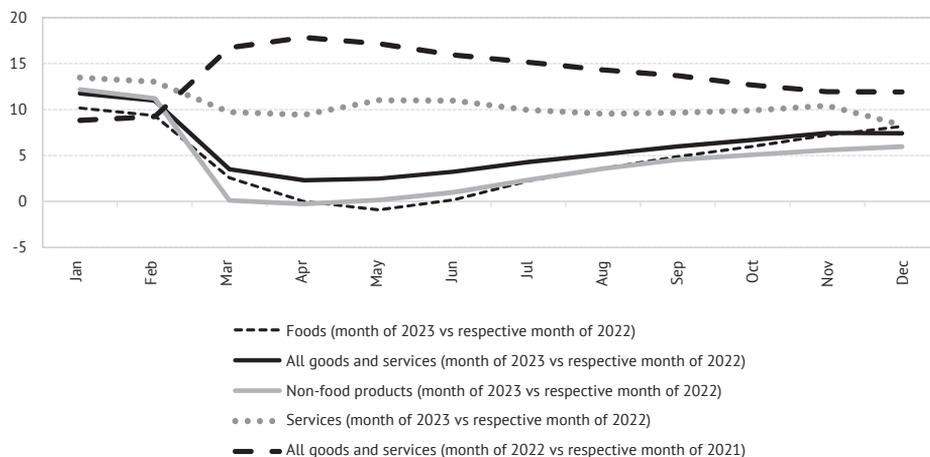


Fig. 7. PPI growth rate in 2022-2023, % over the previous 12 months

Sources: Rosstat, own calculations.

Hence, by December, annual inflation reached 7.4%, corresponding to September 2021. This means that inflation at the end of 2023 (December 2023 vs December 2022) was near the upper limit of the Bank of Russia’s forecast (7.0–7.5%).

Along with growing inflation since May 2023, there was an increase in core inflation from 1.99% in April 2023 vs April 2022 to 6.83% in December 2023 vs December 2022. In this case, unlike 2022, marked by excess of core inflation over the headline inflation (spread from 2 to 4 p.p. during certain months in May-December 2022), since April 2023, core inflation has been below the headline inflation (spread from 0.4 to 1.3 p.p. during certain months in April-December 2023).

This means that in addition to acceleration of a stable component of inflation (cleared from the influence of administrative and seasonal factors), contributing a lot to headline inflation in 2023, growing prices for regulated and volatile components (accounting for market factors) also contribute to higher consumer prices.

Acceleration of inflation in 2023 was typical for certain groups of food and non-food goods, while the services sector experienced consistently high rates of price growth throughout the year (*Fig. 7*).

Food inflation at the end of December 2023 amounted to 8.2% against December 2022 (+10.3% in December 2022 against December 2021). Eggs were leaders in price growth (+61.4% in December 2023 vs December 2022), as well as fruit and vegetables (+24.2% vs December 2022) and meat and poultry (+16.2% vs December 2022) (*Table 4*). Growth in prices for non-food products in December reached 5.96% vs December 2022 (+12.7% in December 2022 vs December 2021). Medicines were the most expensive (7.90% in December 2023 vs December 2022 vs 10.78% in December 2022 vs December 2021), as well as motor gasoline (7.23%

Table 4

**Annual growth rate of prices for certain types of consumer goods and services
in 2021–2023, %, December vs December of the previous year**

	2021	2022	2023	2021–2023
PPI	8.4	11.9	7.4	30.3
Foods	10.6	10.3	8.2	30.8
Shugar	30.6	13.5	8.2	60.3
Eggs	16.0	-6.5	61.4	75.0
Meat and poultry	17.5	4.0	16.2	42.1
Fruit and vegetables	14.0	-2.0	24.2	38.8
Fish and seafood	10.7	14.0	5.8	33.5
Bread and bakery	10.3	13.0	5.2	31.1
Milk and dairy products	9.8	15.2	0.5	27.2
Pasta products	15.0	14.6	-3.8	26.8
Cereal and legumes	16.1	9.0	-2.4	23.5
Alcoholic beverages	2.6	8.1	2.5	13.7
Sunflower oil	8.7	5.2	-1.4	12.7
Non-food products	8.6	12.7	6.0	29.7
Detergents and cleaners	7.4	29.8	2.2	42.5
Tobacco goods	16.4	10.2	7.0	37.3
Construction materials	23.8	3.6	5.5	35.2
Medicines	4.6	10.8	7.9	25.1
Knitwear	4.2	9.7	3.6	18.4
Motor gasoline	8.8	0.9	7.2	17.8
Clothing and underwear	3.4	7.9	3.2	15.1
Teleradio products	12.7	-4.3	-6.2	1.2
Services	5.0	13.2	8.3	28.7
Foreign tourism	2.6	70.7	24.8	118.6
Passenger transportation	9.6	10.7	15.7	40.3
Insurance	6.7	28.2	-1.1	35.4
Household services	6.9	11.0	8.5	28.7
Health resort services	5.9	10.8	9.3	28.3
Medical services	5.8	11.7	7.8	27.5
Housing and utility services	4.1	11.6	2.3	18.9
Education	5.5	6.1	8.2	21.1

Source: Rosstat.

in December 2023 vs December 2022 vs 0.91% in December 2022 vs December 2021), tobacco (7.03% in December 2023 to December 2022 vs 10.24% in November 2022 to November 2021), and construction materials (5.46% in December 2023 to December 2022 vs 3.58% in December 2022 to December 2021).

Note that in October 2023, a decrease in motor fuel prices was recorded for the first time since February. The reasons were the return to the original version of the damping mechanism, as well as the ban on the export of oil products from September 21.

Paid services to households in December 2023 rose in price by 8.33% vs December 2022 (13.19% in December 2022 vs December 2021). However, prices for foreign tourism (+24.77%), passenger transportation (+15.69%), health resort and recreation (+9.31%), hotels and other accommodation (+9.11%), education (+8.17%) grew quite rapidly.

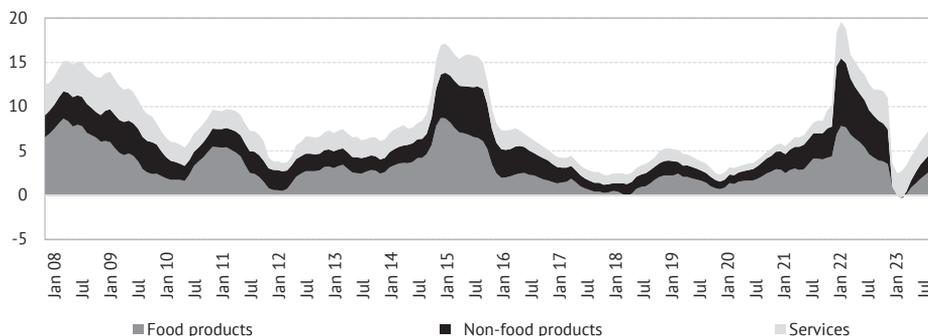


Fig. 8. Structure of inflation in 2008–2023, %, month vs respective month of the previous year

Sources: Rosstat, own calculations.

On the whole, decomposition of inflation by components shows that the largest contribution to inflation amounting to 7.4% in December 2023, was made by growing food prices (3.1 p.p.), while the contribution of services and non-food group amounted to 2.3 and 2.1 p.p., respectively (*Fig. 8*).

Weakening of the ruble in Q1–Q3 2023 (by 11.4% on average on a quarterly basis) and gradual impact of this weakening on prices were important factors in accelerating inflation. However, stabilization of the ruble exchange rate in October–December 2023 resulting from several rounds of monetary policy tightening by the Bank of Russia, as well as the recovery of mandatory sale of foreign currency earnings by major exporters will contribute to slow down inflation in 2024.

As noted above, in 2023, soft fiscal policy was one of the important pro-inflationary factors. Thus, federal budget expenditures in 2022 grew by 25.7% to Rb31.1 trillion compared to 2021 and remained high in 2023 (Rb32.4 trillion).

Federal budget expenditures planned for 2024 will grow to Rb 37.0 trillion. Relatively high values of the federal budget deficit in 2022 (Rb3.3 trillion) and in 2023 (Rb3.2 trillion) also indicate high pro-inflationary demand risks. In this regard, in the medium term, soft fiscal policy will remain an important pro-inflationary factor.

Rising demand exerted upward pressure on inflation. From April to December, retail trade turnover increased on average monthly by 10.6% against the corresponding month of the previous year (-9.6% on average in April – December 2022). Monthly growth in the volume of paid services provided to households in April–December 2023 averaged 5.0% (3.4% on average in April–December 2022). Real households’ monetary incomes grew by 4.6% in 2023 (-0.6% in 2022).

According to the survey of LLC “InFOM”, during 2023 inflation expectations of households were persistently high (10.4–12.2%) and reached a local maximum of 14.2% in December 2023.

Price expectations of enterprises also remained high during 2023: share of enterprises planning price growth, declined in H1 to 15.7% in June and rose

to 23.3% in December 2023. High inflation expectations will contribute to the persistence of enhanced inflation in 2024.

According to CBR forecasts, taking into account existing monetary policy, inflation will return to the target of 4.0-4.5% by the end of 2024, and afterwards will consolidate near 4%. According to our forecast, annual inflation will continue to accelerate until the end of Q2 2024, peaking at 8.0%.

A steady slowdown in annual inflation will start from mid-2024, and by the end of 2024 it will decline to 5.5–6.0%.^{1,2} It should be noted that quarterly seasonally smoothed inflation began to decline already from Q4 2023. The main reasons for slowdown in inflation will include cooling of consumer and investment demand due to tight monetary policy, as well as gradual depletion of the impact of allocation of exchange rate in prices.

1.1.4. Balance of payments and ruble exchange rate

According to preliminary balance of payments estimate for 2023 published by the Bank of Russia, the current account balance amounted to \$50.6 bn, which is 4.7 times less than the current account balance for 2022. (\$238.0 bn). Due to difference in the breakdown in the balance of payments published by the CBR, the current account could only be described in terms of two basic balances: trade in goods and services and balance of primary and secondary incomes.

The balance of trade in goods in 2023 amounted to \$120.1 bn, which is 2.6 times lower (in absolute value of \$195.5 bn) than the level of 2022 (\$315.6 bn). A significant drop in the value of goods exports from \$592 bn in 2022 to \$424 bn in 2023 (by 28%) was pivotal, while imports of goods increased from \$276.5 bn in 2022 to \$303.8 bn in 2023 (by 9.9%).

Such dynamics of exports was due to the decline in prices for basic goods of Russian exports (primarily oil, gas and oil products), which was observed along with the reduction in the physical volume of exports. Imports recovered due to high domestic demand and reorientation towards alternative suppliers.

Growth of imports in goods was accompanied by weakening of national currency: according to the Bank of Russia, the fall in the index of real ruble-dollar exchange rate for 2023 was 19%, which proves a significant weakening, meaning a relative price hike of import supplies.³

Balance of trade in services in 2023 amounted to -\$34.7 bn, an absolute value 56% higher than its negative value for 2022 (-\$22.2 bn). As with trade in goods, there was a decline in services exports (mainly transportation) from \$48.6 bn

1 Yuriy N. Perevyshin, Pavel V. Trunin Monitoring of economic situation in Russia. The Bank of Russia announced a prolonged period of tight monetary policy. February 2024.

2 For more details about the model see: Yuriy N. Perevyshin. Short-term forecasting of inflation in the Russian economy // Economic Policy. 2022. V. 17. No.5. P. 1-18.

3 On the impact of exchange rate dynamics on trade see Alexander Yu. Knobel. Assessment of import demand function in Russia // Applied econometrics. 2011. No. 4 (24). p. 3–26; Alexander Knobel, Alexander Firanchuk. Russia in global export in 2017 // Russian Economic Development. 2018. No. 9. p. 17–21.

in 2022 to \$40.7 bn in 2023 (down 16%) and growth in services imports (mainly travel) from \$70.9 bn in 2022 to \$75.4 bn in 2023 (up 6%).

Balance of primary and secondary incomes in 2023 has significantly declined compared to 2022. In 2023, it amounted to -\$34.9bn, which is 36.9% less in absolute terms than the same indicator in 2022 (-\$55.3 bn). However, in 2023, both income receivable (reduction in capital income receipts from abroad from \$51.5 bn in 2022 to \$44.7 bn in 2023) and income payable (reduction in the withdrawal of income and repatriation of profit abroad, including due to restrictions on the cross-border movement of capital from \$106.8 bn in 2022 to \$79.6 bn in 2023) have significantly dropped.

In the near future it can be expected that due to stabilization of restrictions on capital movement, difficulties related to repatriation of profits from Russia by foreign investors, restriction by the EU and the US, primary and secondary income payable will remain at approximately the current level, and in 2024 their balance will amount to -\$30 bn to -\$40 bn (in 2023 the balance of primary and secondary income was -\$35 bn).

As for trade balance, as well as current account balance, one can expect a moderate reduction in 2024 (compared to 2023) due to decline in prices for basic goods of Russian exports and continued recovery of imports.

As we have already noted, since starting from Q1 2022 the balance of payments estimates is published by the Bank of Russia in aggregate form, the financial account is represented by data on net external assets and liabilities of all sectors of the economy.

In 2023, the balance of payments financial account, excluding reserve assets, showed \$56.3 bn, down 4.2 times from 2022 (\$234.8 bn).

The balance of the financial account, excluding reserve assets, in 2023 was drawn under the impact of growth of foreign assets of all sectors and decrease in the volume of foreign liabilities. Growth of foreign assets (excluding reserve assets) in 2023 amounted to \$50.2 bn, which is 2.2 times lower than in 2022 (\$108.7 bn).

In 2023, foreign assets were increasing as a result of accumulation of residents' funds on foreign accounts and deposits, growth in other investments through receivables, including those related to outstanding foreign trade settlements, as well as foreign direct investments.¹

Liabilities of all sectors of the Russian economy to non-residents in 2023 reduced by \$6.2 bn, which is significantly lower than in 2022 (-\$126.1 bn), due to a lower intensity of foreign capital outflow from Russia than a year earlier. As of January 1, 2024, the external debt of the Russian Federation amounted to \$326.6bn, having decreased by 15% compared to January 1, 2023.

The external debt of public administration authorities declined most of all (by 29% in the Q1–Q4 2023 to \$32.7 bn). The share of non-residents in the OFZ market continued to decline from 11.1% as of January 1, 2023 to 7.4% as of January 1, 2024, corresponding to July–August 2012.

¹ Balance of payments of the Russian Federation. No.4 (17). Q4 2023. Information and analytical commentary of the Bank of Russia.

Other sectors of economy reduced their external liabilities by 18% to \$199.4bn, which was mainly due to a decline in their liabilities on attracted loans. The external debt of banks and the CBR remained virtually unchanged (\$94.4bn as of January 1, 2024).

Russia's reserve assets in 2023 declined by \$10bn (-\$7.3 bn in 2022). As noted above, the reduction in reserve assets was facilitated by the sale of yuan, implemented under new fiscal rule until August 2023, as well as operations on mirroring transactions on investment of the FNB funds, implemented in H2 2023.

Ruble depreciation, which lasted for four consecutive quarters (since Q4 2022), stopped in Q4 2023, and it appreciated against the dollar by 7.9% to Rb89.7/dollar.

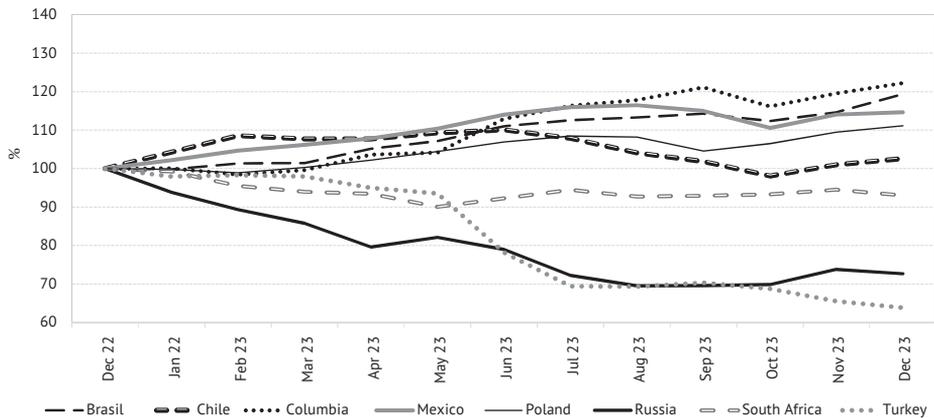


Fig. 9. Dynamics of nominal effective exchange rate of currencies of developing countries targeting inflation (December 2022 = 100%)

Source: Bank of Russia.

The ruble appreciation at the end of 2023 was due to an increase in net sales of foreign currency by major exporters from \$23.1 bn in Q3 2023 to \$41.2 bn in Q4 2023, including due to adoption of measures on mandatory sale of export proceeds by some major Russian exporters, which increased the supply of currency and reduced pressure on the ruble.¹ The ruble appreciation was also supported by the sale of foreign currency by the Bank of Russia in Q4 2023 and its tightening of monetary policy (after five rounds of growth, the key rate reached 16% p.a. in December 2023), resulting in growing attractiveness of national assets, as well as in reduction in demand for imports. It should be noted that on the whole, the nominal effective exchange rate of the ruble declined by 27.3% in 2023. The Turkish lira (36.2%) and the South African rand (7%) have also declined, while the effective exchange rates of currencies of many other inflation-targeting

¹ Since October 16, at least 80% of export foreign currency proceeds must be credited by exporters to accounts in Russian banks within 60 days of receipt. Mandatory sale of export proceeds must be at least 90% of the credited funds and at least 50% of each contract.

developing countries, on the contrary, strengthened (19.3% – in Brazil, 22.2% – in Colombia, 14.6% – in Mexico, 2.6% – in Chile) (Fig. 9).

This is mainly due to relatively high real interest rates in a number of developing countries resulted from implementation of tight monetary policy, which determined the attractiveness of buying such assets by foreign investors.

According to our estimates, if oil prices remain at \$65-70/bbl and assuming the monetary policy pursued by the Bank of Russia, measures to stabilize the foreign exchange market and the Bank of Russia's operations with the NWF funds on the domestic foreign exchange market described in the subsection "Monetary Market", the ruble exchange rate in 2024 will average Rb 90-100/dollar.

1.2. Fiscal policy¹

1.2.1. Characteristics of the budgets of the budget system of the Russian Federation

Revenues of the Extended Government Budget (hereinafter referred to as the EGB) in 2023 relative to the previous year decreased by 0.1 pp. GDP to 34.5% of GDP. In recent years, total revenues as a share of GDP have shown high stability, fluctuating slightly around the level of 35% of GDP. Deviations of the parameters of the actual fulfillment of the EGB revenues in 2023 from those forecast by the Ministry of Finance of Russia are insignificant, which allows us to draw conclusions about a fairly good accuracy of budget forecasting, as well as about the high quality of administration of state revenues (Table 5).

Table 5

Main parameters of the enlarged government budget of the Russian Federation in 2020–2023

	2020		2021		2022		2023				Change, 2023 on 2022	
	Actual		Actual		Actual		Russian Minfin forecast		Actual		Rb bn	p.p. of GDP
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP		
Revenue	38 206	35.5	48 118	35.6	53 074	34.6	57 244	34.5	59 074	34.5	6 000	-0.1
Including:												
Oil and gas	5 235	4.9	9 056	6.7	11 586	7.6	8 863	5.4	8 822	5.1	-2 764	-2.5
Non-oil and gas	32 971	30.6	39 062	28.9	41 488	27.0	48 381	29.1	50 252	29.4	8 764	2.4
Expenditure	42 503	39.5	47 073	34.8	55 182	36.0	61 686	37.2	62 984	36.8	7 802	0.8

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	2020		2021		2022		2023				Change, 2023 on 2022	
	Actual		Actual		Actual		Russian Minfin forecast		Actual		Rb bn	p.p. of GDP
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP		
Deficit (-)/ Surplus (+)	-4 297	-4.0	1 045	0.8	-2108	-1.4	-4 442	-2.7	-3 910	-2.3	-1 802	-0.9
<i>For reference only: GDP, Rb bn</i>	107 658		135 295		153 435		166 015		171 041			

Sources: Ministry of Finance of Russia, Federal Treasury, Rosstat, own calculations.

Revenues of the enlarged government budget

In real terms, EGB revenues rose by 3.6% in 2023, while oil and gas revenues declined by almost 30% year-on-year. Notable growth in non-oil and gas EGB revenues increased their share in total revenues to 85% against 78% a year earlier. The share of federal budget revenues in total revenues of the budget system in 2023 amounted to just over 49%, which is below the level of 2022 (52.4%).

The level of tax burden in the past year compared to 2022 remained unchanged, while the dynamics of revenues for some taxes had a multidirectional character (Table 6).

Table 6

Receipts of main taxes to the RF enlarged government budget in 2020–2023, % of GDP

	2020	2021	2022	2023	Change, 2023 on 2022, p.p. of GDP
Revenue, total *	34.9	35.0	34.5	34.5	0.0
Including:					
Corporate profit tax	3.7	4.5	4.2	4.6	0.4
PIT	4.0	3.6	3.8	3.8	0.0
Insurance contributions*	7.0	6.1	5.7	6.8	1.1
VAT	6.7	6.8	6.3	6.8	0.5
Excises	1.8	0.6**	-0.6**	-0.3**	0.3
MET	3.7	5.4	7.0	5.8	-1.2
Customs duties and fees	1.1	1.9	1.9	0.8	-1.1

* Insurance premiums and total income are given without double counting insurance premiums for the non-working population, the values of total revenues differ from the official by the amount of insurance premiums.

** Decrease in the total volume of excise duties is associated with the implementation of the mechanism of refundable excise duty on oil raw materials in the framework of the completion of the tax maneuver in the oil industry.

Sources: Federal Treasury, Rosstat, own calculations.

Corporate profit tax. In 2023 compared to 2022, there is a notable increase in profit tax revenues – by 0.4 p.p. of GDP, or by 17.3% in real terms. This growth is partly a recovery one – Russian companies adapted to the sanctions restrictions imposed in 2022, and domestic entrepreneurs took the place of foreign companies that ceased operations in the Russian Federation. Corporate profit tax receipts in 2023 have also increased by 5.8% in real terms and by 0.1 p.p. of GDP. Growth

beyond the recovery one can relate to the stimulating effect of the fiscal policy – in 2022–2023, there was a significant increase in government demand, financed mainly by debt borrowings.

The basis for calculating profit tax revenues is the profit of profitable organizations. According to Rosstat, this indicator grew by 18.9% in real terms in 2023, with growth observed in most industries. The largest industries with a significant reduction in profit in 2022 show insignificant growth in 2023 (Table 7). The largest contribution to growth in 2023 is made by the industries of administrative activities (mainly due to renting and leasing, security services and other business support services), insurance and financial activities, supply of electricity, gas and water, construction, transportation and storage. Thus, we can speak about a significant change in the profit structure of the economy in 2023 compared to a year earlier.

Table 7

Change in profit of profitable organizations in real terms in ten largest sectors

	Change, 2022 on 2021, %	Change, 2023 on 2022, %
Manufacturing	-8	7
Extraction of mineral resources	-19	2
Wholesale and retail commerce; motor vehicle and motorcycle repair	-22	-6
Financial and insurance activity	-1	142
Transportation and storage	24	22
Supply of electricity, gas and water; air conditioning	-2	56
Professional, scientific and technical activity	-1%	52
Activity if the sphere of information and communications	-14	37
Administrative activity and accompanying additional services	-46	258
Construction	34	27
Total	-12.0	18.9

Sources: Rosstat, own calculations.

PIT and insurance contributions. The growth of revenues in 2023 from the personal income tax and insurance contributions in nominal terms amounted to 14.1% and 24.0%, respectively, which is explained by the growth of nominal average wages by 13.8%. In addition, at the end of 2023, the unemployment rate was at the lowest level in the last 20 years – 3.2%. Simultaneously with the reduction in the number of the unemployed, the number of employed in the economy increased by 1.6 mn people. Significant growth of insurance contributions was due to the fact that most sectors of the economy were entitled to deferral of insurance contributions in the second and third quarters of 2022, and in May 2023 the shortfall in insurance contributions was compensated for.

VAT. At the end of 2023, budget revenues from VAT, unlike in 2022, increased not only in nominal terms (21.5%), but also in real terms (13%). At the same time, the collection rate in the broad sense (C-efficiency) almost recovered to the level of 2021 (56.3%), amounting at the end of the year to 55.4% against 51.7% in

2022. However, it should be borne in mind that both the fall in 2022 and the growth of this indicator in 2023 are significantly related to the processes at the level of intermediate products. For example, logistical difficulties in 2022 led to slowdown and pauses in the intermediate stages of goods production, resulting in the economy spending inventories on which VAT had been paid earlier. With the relative stability of final consumption (real growth of just over 2%), this led to a decline in C-efficiency in 2022. In 2023, the recovery of value chains, including partial substitution of foreign components with domestic analogs, led to a return to the situation in 2021. Increased investment in inventories made its contribution (in 2023, the contribution of inventories to GDP was the highest since 1995, amounting to 4.4%). A decline in the share of preferential goods in the consumption structure in 2023, as well as some cooling of demand in the real estate market as a result of the increase in the key rate also contributed. Therefore, we cannot say that the dynamics of the collection rate is related to fluctuations in the quality of administration. It should also be noted that there was a recovery in the structure of revenues: if in 2022 the share of VAT from imported goods and while in 2022 the share of VAT on imported goods and services decreased to 32% compared to the average level of 41% over a number of previous years, at the end of 2023 it amounted to 38%.

Excises. As of year-end 2023, the total revenues from excise duties on addictive products amounted to Rb1.34 trillion (2.3% of non-oil and gas revenues of the consolidated budget). At the same time, total revenues from tobacco and nicotine-containing products increased by 11% and amounted to Rb810 bn. The contribution of innovative nicotine-containing products continues to grow in the structure of these revenues: if in 2021 their share was 5.8%, then by the end of 2023 – already 7%. The budgetary effect is partly due to the increase in excise duty rates from March 2023, with the innovation segment of the tobacco market being affected to a greater extent (10% for heated tobacco and more than 100% for nicotine-containing liquids, while the weighted average excise duty rate for cigarettes increased by 8%). This increase in the rate on nicotine-containing liquids to some extent compensated for low excise duty collection in this segment, but it also increases the risks of expanding the share of shadow sales. It should be noted that the growth of weighted average prices for cigarettes in the last 2 years was below inflation (about 3.9%), which made this product more affordable relative to the consumer basket as a whole. For this reason, the level of consumption of legal tobacco products in physical terms decreased very slightly compared to 2021 (only by 1.3%), while the overall level of consumption remained virtually unchanged.

With regard to the alcoholic beverages market, it is worth noting the continued growth of consumption in physical terms: the consumption of strong alcoholic beverages is growing at a rate of 3.1%, while the consumption of low-alcoholic beverages continues growing (16% by 2022). In 2023, beer and wine consumption growth resumes (by 2.1% and 4.7%, respectively), although wine is more likely to recover from a 5.1% drop in 2022 due to logistical difficulties and change of suppliers. The main reason for the noticeable upward trend in consumption for

all types of beverages is the weak (lagging behind inflation) growth of excise duty rates against the background of a still noticeable share of illegal turnover: weighted average prices for spirits and wine in 2023 increased by only 2.7% and 4.7% respectively, while beer remained unchanged. As a result, as in the case of tobacco products, alcohol is becoming relatively more affordable and therefore consumption is increasing. But despite this, in real terms, total budget revenues from excise duties on alcoholic beverages in 2023 remained virtually unchanged, while in nominal terms they grew by 7.5%. The growth of revenues in real terms was observed only in the segment of low-alcohol products.

MET and export customs duties. According to the Neftegaz.Ru portal,¹ oil and gas production decreased by 1.0% and 5.5% in 2023. At the yearend, despite the growth of the dollar exchange rate to the national currency from Rb68.5 in 2022 to Rb89.7 in 2023, the federal budget revenues in 2023 relative to 2022 decreased by 1.4 p.p. on mineral extraction tax, by 1.4 p.p. of GDP, on export customs duties – by 1.2 p.p. of GDP (*Table 8*).

Table 8

Receipts from MET, EPT and export customs duties on petroleum commodities in 2020–2023

	2020		2021		2022		2023		Change, 2023 on 2022	
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	p.p. of GDP
MET on oil	3 198	3.0	6 296	4.7	8 391	5.5	7 787	4.6	-604	-0.9
MET on gas and gas condensate	621	0.6	815	0.6	2 252	1.5	1 678	1.0	-574	-0.5
Export customs duties on oil and petroleum products	692	0.6	1 099	0.8	876	0.6	411	0.2	-465	-0.4
Export customs duties of gas	439	0.4	1 125	0.8	1 630	1.1	566	0.3	-1 064	-0.8
Excises on petroleum commodities	-222	-0.2	-565	-0.4	-971	-0.6	-1 174	-0.7	-203	-0.1
K _{demp}	358	0.3	-674	-0.5	-2 171	-1.4	-1 589	-0.9	582	0.5
K ^{inv}	0	0.0	-49	0.0	-106	-0.1	-150	-0.1	-44	0
Excess-Profits Tax	149	0.1	1 009	0.7	1 685	1.1	1 293	0.7	-392	-0.4
Reference: Average export crude oil price USD/bbl.	66.0		79.6		63.4		63.0			
Average gas price, USD/thousand cub. m	208		703		354		464			

Sources: Ministry of Finance of Russia, Federal Treasury, Rosstat, own calculations.

ITS The tax maneuver implemented in recent years, which envisages an increase in tax rates on crude oil and gas condensate, abolition of some benefits for extra-viscous and hard-to-recover oil production, while reducing

1 Neftegaz.Ru Portal. News. Production. 2023 results from A. Novak. January 25, 2024. URL: <https://neftegaz.ru/news/dobycha/814415-itogi-2023-g-ot-a-novaka-dobycha-nefti-v-rossii-upalamentee-chem-na-1-gaza-na-5-5/>

the export duty on hydrocarbons and petroleum products and bringing it to zero by 2024, actually entered its final phase in 2023. As part of the maneuver, an excess-profits tax (windfall profits tax) on the extraction of hydrocarbon raw materials (EIT) and deductions for excise duty on crude oil for oil refining were introduced. Sharing the idea of the tax maneuver, we have to admit that the increased volumes of “reverse excise tax” from 2022 become a tangible factor of “pressure” on the state budget revenues, which in the medium term will require the Ministry of Finance of Russia together with the Ministry of Energy of Russia to take additional measures to regulate the situation on the domestic fuel market with partial or full refusal to use this compensating mechanism after the tax maneuver completion.

Expenditure and deficit of the enlarged government budget

The EGB expenditures in 2023 amounted to 36.8% of GDP. Compared to 2022, the expenditure part of the budget system increased markedly – by Rb7.8 trillion in nominal terms, or by 0.8 p.p. of GDP. In real terms, expenditures also increased – by 6.3% in 2022 prices.¹

Based on the results of the EGB execution in 2023, the deficit amounted to Rb3.9 trillion, or 2.3% of GDP. There are deficits at all levels of the budget system, with the largest imbalance at the federal level – Rb3.2 trillion, or 1.9% of GDP. In the year under review, the balance of the consolidated budget of the constituent entities of the Russian Federation amounted to Rb220.2 bn, which is equivalent to 0.1% of GDP, and that of the budgets of state non-budgetary funds amounted to Rb488.7 bn, or 0.3% of GDP. Federal borrowings in the amount of Rb2.6 trillion became the basic source of deficit financing.

1.2.2. Characteristics of the federal budget

Federal budget revenues

The federal budget revenues amounted to 17.0% of GDP in 2023, which is the minimum since 2020. In the reporting year, the actual volume of budget execution by revenues amounted to Rb29.1 trillion, exceeding the forecast level by Rb450 bn (*Table 9*). Cash execution at the end of 2023 amounted to 98.1% of the approved volumes.

Compared to 2022, there is a reduction in the federal budget revenues by 1.1 p.p. of GDP, but with multidirectional dynamics: the oil and gas revenues fell by Rb2.76 trillion, or by 2.5 p.p. of GDP, while non-oil and gas revenues grew by Rb4.06 trillion, or by 1.4 p.p. of GDP. The share of the oil and gas in total federal budget revenues amounted to 30.3% in 2023 against 41.6% a year earlier. Non-oil and gas revenues of the federal budget as a share of GDP in 2023 practically

¹ As of mid-March 2024, the Federal Treasury has not provided the details of the EGB and federal budget expenditures in the functional breakdown for 2023, and therefore it is impossible to make any meaningful analysis of changes in the structure of budget expenditures for the reporting year. Expenditures on defense and social policy were likely to increase.

returned to the level of 2021, and their share in total budget revenues went up to 70% (higher was observed only in 2020, when their share amounted to 72%).

Table 9

Main parameters of the federal budget in 2020–2023

	2020		2021		2022		2023				Change 2023 on 2022	
	Actual		Actual		Actual		Russian Minfin estimates		Actual		Rb bn	p.p. of GDP
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP		
Revenues	18 719	17.4	25 286	18.7	27 824	18.1	28 674	17.3	29 124	17.0	1 300	-1.1
Including:												
Oil and gas	5 235	4.9	9 056	6.7	11 586	7.6	8 863	5.4	8 822	5.1	-2 764	-2.5
Non-oil and gas	13 484	12.5	16 230	12.0	16 238	10.5	19 811	11.9	20 302	11.9	4 064	1.4
Expenditures	22 822	21.2	24 762	18.3	31 119	20.2	31 675	19.1	32 354	18.9	1 235	-1.3
Deficit (-) / surplus (+)	-4 103	-3.8	524	0.4	-3 295	-2.1	-3 001	-1.8	-3 230	-1.9	65	0.2
<i>Non-oil and gas deficit</i>	<i>-9 338</i>	<i>-8.7</i>	<i>-8 532</i>	<i>-6.3</i>	<i>-14 881</i>	<i>-9.7</i>	<i>-11 864</i>	<i>-7.2</i>	<i>-12 052</i>	<i>-7.0</i>	<i>2 829</i>	<i>2.7</i>

Sources: Ministry of Finance of Russia, Federal Treasury, own calculations.

Negative dynamics in oil and gas revenues was observed from the beginning of 2023, which was triggered by two factors – lower hydrocarbon prices and accelerated VAT refunds to Russian exporters – and continued for several months. Largely thanks to the devalued ruble and the recovery of world oil prices, by the middle of the year it was possible to rectify this situation, almost reaching the level of oil and gas revenues (Rb8.9 trillion) initially planned in the law on the federal budget for 2023. The rent revenues to the budget in H2 2023 were supported not only by a rather high oil price and a relatively cheap ruble, but also by Gazprom’s monthly payments of additional MET in the amount of Rb50 bn (this tax is expected to remain in force until the end of 2025).

Last year’s novation was the excess profits tax, which provided revenues to the federal budget in the amount of Rb315 bn, while the Russian Ministry of Finance expected Rb300 bn. The decision on a one-time tax of 10% of the excess of profits for 2021–2022 over the same indicator for 2018–2019 was legislated in August 2023. At the same time, in case of payment of this tax in the period from October 1 to November 30, 2023, a reduced rate of 5% could be used.

Federal budget expenditures

ITS The federal budget expenditures in 2023 increased by Rb1.2 trillion against 2022, while in terms of GDP share they decreased by 1.3 p.p. The level of budget funds utilization amounted to 98.1% of the annual volumes according to the consolidated budget statement. The absence of publicly available data on the execution of expenditures in the functional breakdown for the period under review makes it impossible to assess changes in their structure, but given the outstripping financing of power expenditures during the current year, there is a high probability of a slight drop in the share of productive expenditures in the total volume of federal budget expenditures.

Almost Rb3 trillion was spent on the implementation of national projects (NP) in 2023, which is, nevertheless, below the level of 2022 and can be partly explained by the difficulties in pumping up the budget, which were observed in the first half of the last year (*Table 10*). In real terms, the largest reduction in the volume of financing of the national projects affected NP “Integrated Infrastructure Modernization Plan” and “Housing and Urban Environment”. The cash execution of the implementation of the national projects at the end of 2023 amounted to 99.2% of the adjusted annual volumes of expenditures, and only for four NPs – NP “Small and Medium Entrepreneurship and Support for Individual Entrepreneurial Initiative” (92.9%), NP “Digital Economy of the Russian Federation” (95.8%), NP “Tourism and Hospitality Industry” (97.4%), NP “Health Care” (97.9%) – the cash execution was lower than for the federal budget as a whole.

Table 10

Dynamic of the federal budget expenditures on the implementation of national projects in 2020–2023, Rb bn

	2020	2021	2022	2023	Estimate of execution in 2023 on 2022	
					Rb bn	In 2022 prices
Total	2 149	2 549	3 269	2 984	-285	-491
Including:						
Demography	689	631	744	808	64	8
Health care	296	243	361	312	-49	-71
Education	115	131	208	231	23	7
Housing and urban environment	169	263	258	176	-82	-94
Ecology	63	78	136	122	-14	-22
Safe and quality roads	156	364	490	527	37	1
Labor productivity	4	5	5	5	0	0
Science and universities	40	80	120	144	24	14
Digital economy of the Russian Federation	86	131	165	132	-33	-42
Culture	16	23	48	53	5	1
Small and medium-sized entrepreneurship and support for individual entrepreneurial initiative	62	63	76	66	-10	-15
International cooperation and export	70	124	128	139	11	1
Comprehensive infrastructure modernization plan	383	373	465	213	-252	-267
Tourism and hospitality industry	0	38	64	54	-10	-14

Sources: Ministry of Finance of Russia, Federal Treasury, own calculations.

Federal budget deficit

The federal budget deficit in 2023 amounted to Rb3.2 trillion, or 1.9% of GDP, against Rb3.3 trillion and 2.1% of GDP a year earlier, i.e. practically remained at the level of 2022. At the same time, non-oil and gas deficit contracted notably by 2.7 p.p. of GDP to 7.0% of GDP.

Domestic borrowings remained the main source of deficit repayment in 2023, their accumulated volume as of January 1, 2024 amounted to Rb20.8 trillion, which is Rb2 trillion higher than in the previous year. In contrast, the external debt of the Russian Federation decreased from \$57.4bn to \$53.3 bn.

In December 2023, Rb1.33 trillion was received on the accounts of the National Wealth Fund, while during the year the amount of withdrawals reached Rb3.46 trillion. At the end of the year, the fund's resources amounted to Rb11.95 trillion against Rb10.43 trillion at the beginning of the year. This growth was mainly due to the exchange rate difference: in dollar terms, the volume of the NWF decreased from \$148.3 bn to \$133.4 bn.

In general, the situation with the execution of the federal budget for 2023 can be characterized as quite favorable, despite much more pessimistic sentiments at the beginning of the year. Nevertheless, the main risks of budget imbalance in the form of lower oil prices due to the beginning of the global recession and sanctions, as well as the slowdown in the dynamics of Russian GDP against the backdrop of the exhaustion of growth drivers and the persistence of high power expenditures not only persist, but also grow.

1.2.3. Interbudgetary relations and subnational finances

Revenues of the consolidated budgets of the RF subjects

The dynamic of the main revenues of the consolidated budgets of the RF subjects in 2023 is presented in *Table 11*. The right hand part of the table shows the growth of revenues in real terms (adjusted for the consumer price index).¹

Table 11

Revenues of the consolidated budgets of the Russian Federation in 2023²

	In nominal terms, Rb bn		Increment, 2023 on 2022, %	
	2023	2022	Nominal	Real (CPI adjusted)
Revenues, total	21 667.6	19 673.2	10.1	4.3
<i>Including:</i>				
Tax-generated and non-tax revenues	17 805.1	15 431.0	15.4	9.5
Tax-generated:	16 445.5	14 171.7	16.0	10.2
<i>Corporate profits tax</i>	5 987.7	4 686.4	27.8	21.9
<i>PIT</i>	6 308.6	5 578.9	13.1	7.2
<i>Excises</i>	1 188.7	1 116.7	6.4	0.6
<i>Total income tax</i>	1 030.1	980.6	5.1	-0.8
<i>Property taxes</i>	1 683.1	1 632.2	3.1	-2.8
Non-tax revenues	1 359.5	1 259.2	8.0	2.1
Fiscal transfers from budgets of other levels	3 487.6	3 919.4	-11.0	-16.9
Other revenues	374.9	322.9	16.1	10.3

Sources: Federal Treasury, own calculations.

According to the Federal Treasury's data on the execution of regional budgets, the total amount of revenues of the consolidated budgets of the subjects of the Russian Federation excluding new regions in 2023 as compared with the level

1 According to Rosstat, average annual index of consumer price index in 2023 came to 105.87%. URL: <https://www.fedstat.ru/indicator/57982>

2 In order to ensure comparability of data, the table shows the values of indicators excluding Donetsk People's Republic, Luhansk People's Republic, Kherson and Zaporizhzhya oblasts.

of 2022 increased in nominal terms by 10.1% and amounted to Rb21.7 trillion. In real terms (CPI adjusted), revenues grew by 4.3 p.p. Tax and non-tax revenues of the regions demonstrated growth both in nominal and real terms (by 15.4% and 9.5%, respectively). The greatest contribution to the growth of tax revenues was made by the profit tax, whose revenues increased by Rb1.3 trillion (+27.8%). It should also be noted the growth of personal income tax (+13.1%) and non-tax revenues (+8.0%). There was a slight increase in taxes on total income and property, but revenues from these taxes in real terms slightly decreased (-0.8% and -2.8%, respectively). The volumes of inter-budget fiscal transfers declined to the greatest extent: by 11.0% in nominal terms and by 16.9% CPI adjusted. Thus, the revenues of the consolidated budgets of the subjects of the Russian Federation in 2023 increased, despite the drop in financial aid from the federal budget, due to a significant increase in tax and non-tax revenues, mainly on the back of an increase in income tax revenues.

In 2023, in 69 subjects of the Russian Federation consolidated budget revenues grew, in 16 regions they dropped. The largest increase in consolidated budget revenues in 2023 was observed in the Khanty-Mansi Autonomous Okrug-Yugra (+37.3%), the Tyumen oblast (+31.9%), the Leningrad Oblast (+27.9%), the Republic of Adygea (+24.1%) and the Smolensk oblast (+23.8%). In almost all of the above regions the main contribution to the increase in revenues was provided by the corporate profit tax, except for the Republic of Adygea, where budget revenues increased primarily due to the increase in the volume of intergovernmental fiscal transfers. The largest reduction in consolidated budget revenues in 2023 compared to 2022 occurred in the Nenets Autonomous Okrug (-18.2%), the Republic of Ingushetia (-17.5%), the Republic of Mordovia (-6.9%), the Republic of Khakassia (-11.2%), the Karachay-Cherkess Republic (-10.9%) and the Kemerovo oblast – Kuzbass (-10.4%). The main reason for the reduction in revenues of the above regions was the decrease in the volume of intergovernmental fiscal transfers. In addition, in the Nenets Autonomous Okrug the drop in revenues was due to a reduction in the corporate profit tax on the implementation of the production sharing agreement on the Kharyaginsky oil field project. A significant reduction in corporate profits tax revenues was also observed in the Republic of Khakassia and in the Kemerovo Region – Kuzbass.

In 2023, the consolidated budget revenues of the new regions of Russia (Donetsk People's Republic, Lugansk People's Republic, Kherson and Zaporizhzhya regions) amounted to Rb653.4 bn, of which Rb539.1 bn were non-repayable receipts from other budgets. Tax and non-tax revenues of the new regions amounted to Rb110.0 bn, with the largest contribution to this amount provided by personal income tax revenues (63.4% of total tax and non-tax revenues of the new regions).

Expenditures of the consolidated budgets of RF subjects

The movement of the main indicators of the volume and structure of expenditures of the consolidated budgets of the RF subjects in 2023 is presented in the *Table 12*.

Table 12

Expenditures of the consolidated budgets of RF subjects

	In nominal terms, Rb bn		Growth, 2023 on 2022, %		Structure of expenditures, % to total		Share change in structure, p.p.
	2023	2022	Nominal	Actual (CPI ad- justed)	2023	2022	2023/2022
Expenditures, total	21 839.2	19 622.6	11.3	5.4	100	100	0.0
Nationwide issues	1 319.2	1 117.3	18.1	12.2	6.0	5.7	0.3
National defense	102.4	58.1	76.3	70.4	0.5	0.3	0.2
National security and law enforce- ment activity	295.7	245.0	20.7	14.8	1.4	1.2	0.1
National economy Including:	5 042.4	4 491.0	12.3	6.4	23.1	22.9	0.2
<i>Agriculture and fisheries</i>	329.4	308.3	6.8	1.0	1.5	1.6	-0.1
<i>Transportation</i>	1 323.7	1 093.5	21.1	15.2	6.1	5.6	0.5
<i>Motor road system (road funds)</i>	2 209.2	2 046.9	7.9	2.1	10.1	10.4	-0.3
<i>other national economy issues</i>	1 180.0	1 042.4	13.2	7.3	5.4	5.3	0.1
Housing and community amenities	2 640.6	2 035.0	29.8	23.9	12.1	10.4	1.7
Environmental protection	155.5	154.1	1.0	-4.9	0.7	0.8	-0.1
Education Including:	5 065.5	4 531.1	11.8	5.9	23.2	23.1	0.1
<i>Preschool education</i>	1 222.9	1 125.3	8.7	2.8	5.6	5.7	-0.1
<i>General education</i>	2 704.6	2 408.2	12.3	6.4	12.4	12.3	0.1
<i>Additional education of children</i>	323.2	300.1	7.7	1.8	1.5	1.5	0.0
<i>Secondary vocational education</i>	340.5	310.0	9.8	4.0	1.6	1.6	0.0
<i>Other education issues</i>	474.4	387.5	22.4	16.5	2.2	2.0	0.2
Culture, cinematography	717.6	619.9	15.8	9.9	3.3	3.2	0.1
Health care	1 871.9	1 952.0	-4.1	-10.0	8.6	9.9	-1.4
Social policies	3 949.1	3 775.7	4.6	-1.3	18.1	19.2	-1.2
Physical culture and sports	539.2	500.3	7.8	1.9	2.5	2.5	-0.1
Mass media	65.8	59.3	11.1	5.2	0.3	0.3	0.0
Government and municipal debt servicing	73.2	82.9	-11.8	-17.7	0.3	0.4	-0.1

Sources: Federal Treasury, own calculations.

In 2023, the expenditures of the consolidated budgets of the subjects of the Russian Federation, excluding new regions, grew in nominal terms by 11.3% (CPI adjusted – by 3.8%) against the level of 2022 and reached Rb21.8 trillion. Thus, expenditures grew at a faster rate than revenues.

In nominal terms, there was an increase in expenditures in all areas except health care and debt service. Expenditures on health care decreased in 2023 compared to the previous year by 4.1% in nominal terms and by 10.0% in real terms. Such dynamics can be explained by the winding down of measures aimed at combating the coronavirus pandemic. Expenditures on servicing the state and municipal debt declined by 11.8%, which was due to the reduction in the volume of commercial debt, which in turn was a consequence of the substitution of bank loans with budget loans that were cheaper to service. The regions' expenditures

in the spheres of national defense (+76.3%), housing and public utilities (+29.8%), transportation (+21.1%), national security and law enforcement (+20.7%), general state issues (+18.1%), social security of the population (+15.8%), culture and cinematography (+15.8%), as well as general education (+12.3%) increased to the greatest extent.

The most significant changes in the structure of expenditures in 2023 were associated with an increase in the share of expenditures on housing and utilities (from 10.4% to 12.1%), as well as a decrease in the share of health care from 9.9% to 8.6% and social policy from 19.2% to 18.1%. These trends are associated with the winding down in 2023 of many activities related to the elimination of the consequences of the COVID-19 pandemic.

The analysis of the dynamics of budget expenditures in the regional context shows that in 2023 the expenditures rose in 75 subjects of the Russian Federation and decreased in 10 regions. The greatest growth in the volume of expenditures was demonstrated by the Republic of Adygea (+33.3%), the Smolensk oblast (+23.9%), the Yamal-Nenets Autonomous Okrug (+22.7), the Khanty-Mansi Autonomous Okrug – Yugra (+22.2%) and the city of Moscow (+22.2%). Budget expenditures fell in the Republic of Ingushetia (-13.0%), 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, expenditures of the new regions amounted to Rb681.8 bn and their structure differed significantly from that of the other regions. Thus, a significant share in the expenditures of the new regions (42.2%) was accounted for by the expenditures on social policy, with pension payments accounting for 2/3 of this amount. In addition, a higher share of expenditures on health care (13.7%) and national security (4.0%) was observed in the new regions compared to the rest of the subjects of the Russian Federation.

Financial assistance to regions

In 2023, the volume of transfers to regions (excluding new regions) as compared to 2022 dropped both in nominal terms (-11.0%) and in real terms (-16.0%) (*Table 13*). Nominal growth is characteristic only for grants (+4.0%), while in real terms they decreased (-1.8%). All other intergovernmental fiscal transfers declined both in nominal and real terms: subsidies – by 5.8% and 11.0%, subventions – by 35.0% and 38.6%, other intergovernmental fiscal transfers – by 28.1% and 32.1% respectively. The real growth of grants for fiscal capacity equalization should be regarded as positive (+2.5% with a nominal growth of 8.5%). As a result, the share of non-targeted financial aid (grants) increased by 4.3 p.p. compared with 2022 and amounted to 30.3%. The real volume of subsidies and other interbudgetary transfers decreased by 17.9%.

In moreover, the growth rates of receipts of all types of intergovernmental fiscal transfers in H1 2023 were higher than in H2 2023. 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.

Table 13

**Fiscal transfers to the consolidated budgets of the subjects
of the Russian Federation**

	2021		2022		2023		Change, 2023 on 2022, %	
	Rb bn	% to total	Rb bn	% to total	Rb bn	% to total	nomi- nal	real
Transfers to regions, total	3 674.8	100.0	3 919.4	100.0	3 487.6	100.0	-11.0	-16.0
Grants	1 020.4	27.8	1 018.1	26.0	1 058.4	30.3	4.0	-1.8
<i>Including:</i>								
Equalization transfers	718.3	19.5	758.6	19.4	822.9	23.6	8.5	2.5
To support measures designed to ensure fiscal balance	122.1	3.3	79.4	2.0	82.6	2.4	4.0	-1.7
Subsidies	1 194.0	32.5	1 669.1	42.6	1 572.6	45.1	-5.8	-11.0
Subventions	519.5	14.1	428.5	10.9	278.6	8.0	-35.0	-38.6
Other intergovernmental fiscal transfers	940.9	25.6	803.6	20.5	577.9	16.6	-28.1	-32.1

Sources: Federal Treasury, Rosstat, own calculations.

Taking into account the new regions, the nominal volume of intergovernmental fiscal transfers rose by 2.7%, but the real volume dropped by 3.0%. The main source of revenues of the new regions were grants to support measures to ensure equalization of budgets (18.1% of budget revenues of the new regions) and other grants not related to fiscal equalization and budget balance (57%), which affected the dynamics of grants. Thus, the nominal volume of grants grew by 52.2% and the real volume by 43.8%, while the nominal volume of grants to support measures to balance budgets grew by 153.2% and the real volume by 139.2%. All other intergovernmental fiscal transfers decreased, even taking into account the new regions, both in nominal and real terms: subsidies – by 5.6% and 10.8%, subventions – by 34.8% and 38.5%, other intergovernmental transfers – by 22.6% and 26.9%, respectively. The share of non-targeted financial aid increased by 12.5 p.p. and amounted to 38.5%.

As a share of GDP, the total volume of fiscal transfers to the regions (excluding new regions) decreased from 2.52% to 2.04%, but exceeded the level of the period 2014–2018¹ (Fig. 10). At the same time, the volumes of certain types of intergovernmental fiscal transfers changed significantly over the period 2014–2023. Thus, in 2023, the level of equalization grants was still low (0.48% of GDP, the lowest value for the whole period) and the volume of subventions reached the minimum (0.16% of GDP). The volume of other intergovernmental transfers (0.34% of GDP) in 2023 declined to about the level of 2018, while the volume of subsidies, despite the reduction, remains significant (0.92% of GDP, the third highest value over the entire period).

Taking into account the new regions, the level of fiscal transfers amounts to 2.35% of GDP, while the level of grants for fiscal equalization, subsidies and

1 However, the base effect should be taken into account as real GDP declined in 2015, 2020 and 2022, giving overestimates of transfers as a share of GDP.

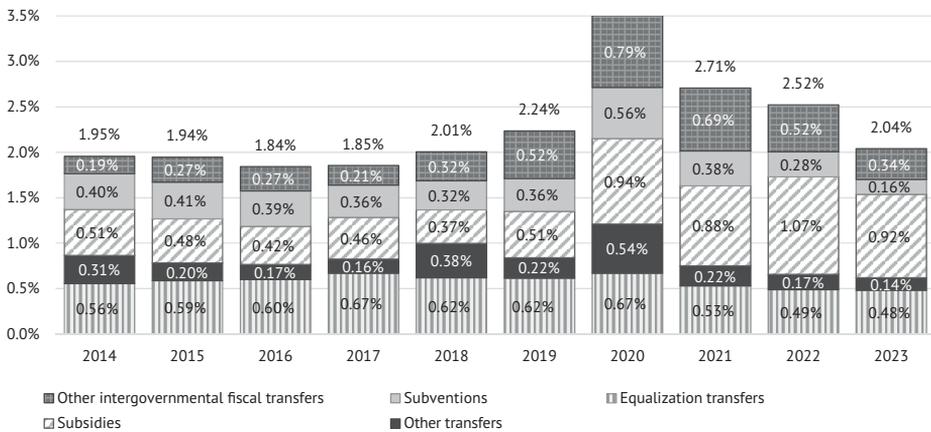


Fig. 10. Intergovernmental fiscal transfers to the regions from the federal budget, % of GDP

Sources: Federal Treasury, Rosstat, own calculations.

subventions remains unchanged, and the level of other intergovernmental fiscal transfers slightly increases to 0.36% of GDP. The main contribution is made by other grants: without taking into account the new regions their level is 0.14% of GDP, and taking into account new regions – 0.42% of GDP.

Interregional differentiation of average per capita tax revenues assessed by means of the coefficient of variation, in 2023 decreased compared to 2022, if we do not take into account the federal territory “Sirius” (Table 14). The differentiation of average per capita tax and non-tax revenues has also decreased. At the same time, fiscal equalization in 2023 was slightly more effective than in the previous year: if in 2022 after equalization the differentiation of tax and non-tax revenues decreased by 17.8%, in 2023 – by 19.3%. Thanks to the provision of subsidies in general, the differentiation of tax and non-tax revenues declined by 22.4% in 2023, which is approximately the same as in 2022 (22.0%). A significant effect was also achieved through subsidies, while other intergovernmental transfers had little impact on the reduction of differentiation

Table 14

The variance coefficient of the consolidated regional budgets revenues (per capita, adjusted to the budget expenditure index)

Year	Tax-generated revenues	Tax-generated and non-tax revenues	Tax and non-tax revenues, fiscal equalization transfers	Tax and non-tax revenues, grants	Tax and non-tax revenues, subsidies	Tax and non-tax revenues, grants, subsidies, other intergovernmental transfers
2015	0.678	0.700	0.566	0.541	0.495	0.483
2016	0.549	0.568	0.442	0.423	0.391	0.391
2017	0.548	0.572	0.437	0.422	0.394	0.401
2018	0.572	0.590	0.458	0.429	0.398	0.405

THE RUSSIAN ECONOMY in 2023

trends and outlooks

Year	Tax-generated revenues	Tax-generated and non-tax revenues	Tax and non-tax revenues, fiscal equalization transfers	Tax and non-tax revenues, grants	Tax and non-tax revenues, subsidies	Tax and non-tax revenues, grants, subsidies, other intergovernmental transfers
2019	0.593	0.620	0.489	0.459	0.415	0.405
2020	0.552	0.570	0.437	0.391	0.322	0.318
2021	0.549	0.562	0.448	0.415	0.339	0.325
2022	1.470	1.384	1.253	1.214	1.039	0.984
2023	1.930	1.909	1.758	1.723	1.526	1.476
2022*	0.591	0.614	0.505	0.479	0.382	0.373
2023*	0.537	0.553	0.446	0.429	0.345	0.343

* Minus federal territory "Sirius".

Sources: Federal Treasury, Rosstat, own calculations.

Deficit and the regional debt

In 2023, the consolidated regional budgets were executed with a deficit of Rb171.7 bn (Rb200.1 bn including new regions), while in 2022 – with a surplus of Rb50.6 bn. The number of regions with budget surplus decreased from 36 to 34 (Table 15). In 14 regions (17 including new regions) the consolidated budget deficit exceeded 10% of tax and non-tax revenues (in 2022 – in 12 regions). Thus, the budget balance of the consolidated regional budgets slightly deteriorated.

Table 15

Execution (deficit/surplus) of the consolidated budgets of the Russian Federation

Year	Number of RF subjects that have executed the budget	
	With deficit	With surplus
2014	74	11
2015	76	9
2016	56	29
2017	47	38
2018	15	70
2019	35	50
2020	57	28
2021	19	66
2022	50	36
2023	52 (55*)	34 (35*)

*With new regions.

Sources: Federal Treasury, own calculations.

The volume of public debt of the subjects of the Russian Federation (excluding new regions) at the end of 2023 increased from Rb2.79 trillion to Rb3.19 trillion, while its ratio to the volume of tax and non-tax revenues of the budgets of the subjects of the Russian Federation decreased slightly from 20.9% to 20.5% compared to 2022. In 2023, the debt burden on the budgets of individual regions changed: the ratio of debt to tax and non-tax revenues declined in 40 regions and rose in 45 regions. In 8 regions the debt burden growth exceeded 10 p.p., and all these regions also had a high level of consolidated budget deficit. A high level

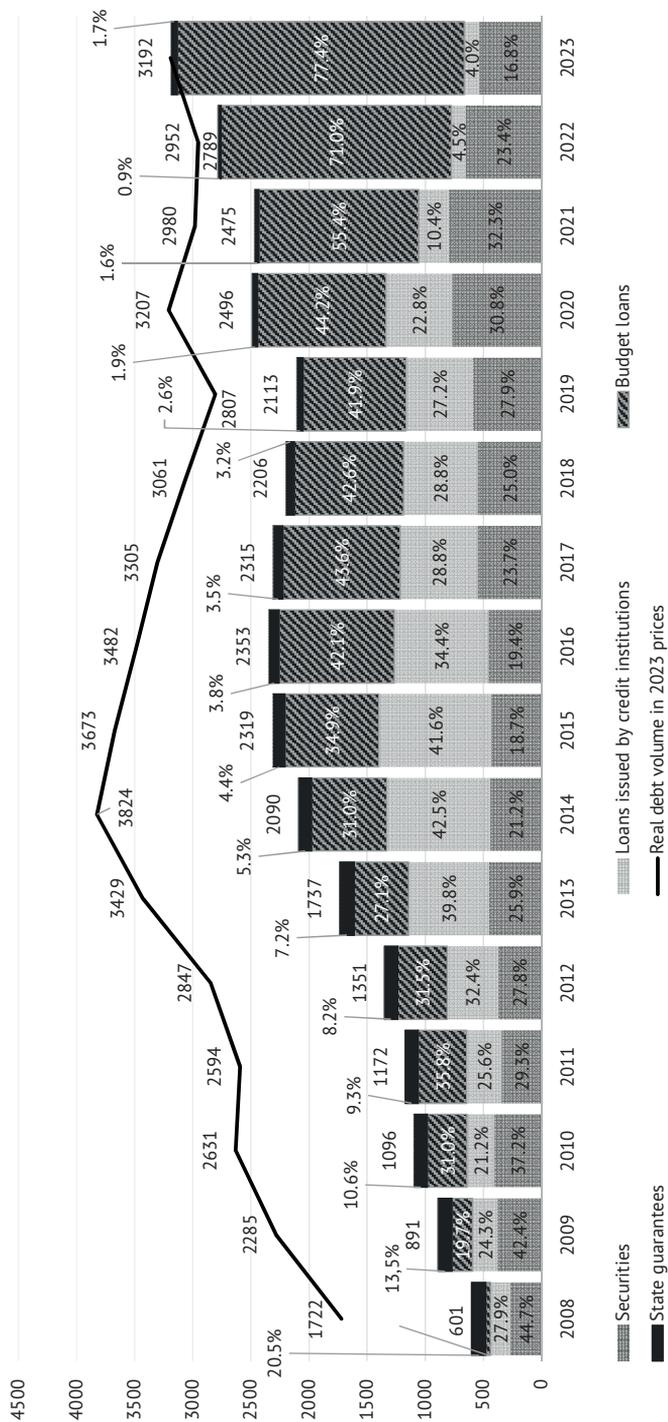


Fig. 11. Nominal volume (Rb bn) and structure (%) of public debt of RF subjects in 2008–2023

Sources: Finance Ministry of Russia, Rosstat, own calculations.

of debt burden (over 50%) was observed in 24 regions (25 regions in 2022), and a super-high level (over 100%) – in none of the regions (one region in 2022). High level of both debt burden and budget deficit was observed in 10 regions against 5 regions in 2022.

Although in nominal terms the debt volume in 2023 reached the maximum over the period 2008–2023, in real terms it is lower than in 2013–2017 and 2020 (*Fig. 11*). In 2023, the debt structure continued to change: the share of budget loans went up by 6.4 p.p. and amounted to 77.4% (the maximum value over the period 2008–2023), while the share of loans of credit organizations dropped to 4.0% (the minimum value over the period 2008–2023). The nominal growth of budget credits in 2023 amounted to Rb489 bn (+24.7%), while credits of credit organizations amounted to Rb0.5 bn (+0.4%). Debt in the form of securities of the subjects of the Russian Federation decreased by Rb115 bn (-17.6%). The volume of state guarantees increased for the first time since 2013 – by Rb28 bn (+114.1%).

Thus, at the end of 2023, the deficit of consolidated regional budgets was formed and the volume of regional public debt increased. At the same time, the growth of tax revenues and federal inter-budgetary policy, including the replacement of regional “market” debt with budget loans, made it possible to restrain the growth of debt burden on regional budgets.

Section 2. Financial markets and financial institutions

2.1. Global and Russian financial markets¹

2.1.1. Trends in the global financial market

In contrast to 2022, a rare phenomenon of negative returns on almost most categories of financial assets happened due to a sharp increase in interest rates by central banks of developed countries, the year 2023 was a relatively favorable year of recovery growth in returns on these assets. The economies of the United States and the European Union avoided recession, and the decline in inflation offered financial markets hope for lower interest rates in 2024.

To assess the investment attractiveness of different financial instruments in 2023, it is essential to analyze data on returns and risks of 147 investment strategies popular in the world, represented by stock indices and large investment funds over different time horizons in 2014–2023.

Fig. 1 and *Table 1* show that in 2023, 55 of 63 popular investment strategies in stocks and alternative assets yielded positive dollar returns. The most profitable were investments in the sector of U.S. technology companies, cryptocurrency, shares of communications and communications companies, and shares of issuers popular with users in social networks.

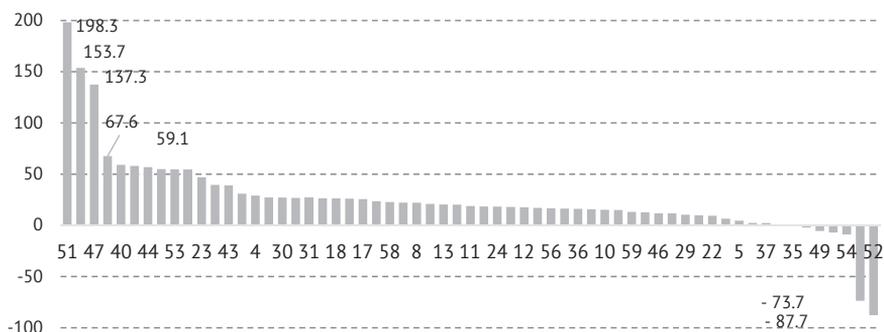
For instance, yield of the exchange-traded investment fund (ETF) focused on purchase of shares of NASDAQ-100 index at the expense of borrowed funds with threefold leverage NASDAQ-100 ProShares UltraPro (serial No. 51 in *Table 1*)², constituted 198.3%, cryptocurrency S&P Bitcoin Index (No.48) was 153.7%, equity fund for innovative companies ARK Innovation ETF (No.61) was 67.6%, ETF shares

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2 Hereinafter, serial numbers of portfolio strategies in corresponding tables are given in brackets.

THE RUSSIAN ECONOMY in 2023

trends and outlooks



Note. Name of investment strategy indicated as a number on the chart, is indicated in *Table 1* with the corresponding serial number by column 1.

Fig. 1. Nominal dollar returns on global equity and alternative investment portfolios in 2023, % p.a.

Source: own calculations based on statistics of the information resource Morningstar: URL: <https://www.morningstar.com/>

Table 1

Nominal dollar returns of popular equity and alternative investment portfolios in 2014–2023 (% per annum), January – February 2024 (%)

	Investment strategies	Indices Morningstar and ETFs	Returns, %		
			2014–2023	2023	Jan-Feb 2024
-	Global market				
1	Broad stock market	Morningstar Global Markets	8,3	22,1	4,6
2	Stocks of companies from developed countries	Morningstar Developed Markets	8,9	23,5	5,7
3	Stocks of companies from developed countries, excluding USA	Morningstar Developed Markets ex-US	4,9	17,9	1,7
4	Stocks of fintech companies	Morningstar Global Fintech Innovation		29,0	5,5
5	Dividend stocks – broad diversification	Schwab U.S. Dividend Equity ETF (SCHD)	11,0	4,6	2,0
6	Dividend stocks of international companies	Vanguard International Dividend Appreciation (VIGI)		16,3	1,4
7	Stocks of European companies	Vanguard European Stock Index/ FTSE Europe ETF (VEUSX, VGK)	4,3	20,2	1,2
8	Stocks of global companies	Vanguard Total World Stock Index/ ETF (VTWAX, VT)	8,1	22,0	4,5
9	Stocks of European, Australian and Far East major companies	iShares MSCI EAFE (EFA)	4,2	18,4	2,5
10	Companies small cap stocks	Dimensional International Small Cap ETF (DFIS)		15,2	-0,2
11	Value stocks of non-U.S. companies in developed countries (unhedged)	iShares MSCI EAFE Value (EFV)	3,0	18,9	0,1
12	Growth stocks of non-U.S. companies of developed countries (unhedged)	iShares MSCI EAFE Growth (EFG)	4,8	17,6	4,9
13	Investing in non-U.S. growth stocks in developed countries with hedging of local currency risks	iShares Currency Hedged MSCI EAFE (HEFA)		20,3	6,2
14	Stocks of 23 developed and 24 developing markets (unhedged)	iShares MSCI ACWI ex US ETF (ACWX)	3,0	15,7	1,3

	Investment strategies	Indices Morningstar and ETFs	Returns, %		
			2014–2023	2023	Jan-Feb 2024
15	Investing in non-U.S. growth stocks in developed countries with hedging of local currency risks	iShares Currency Hdgd MSCI ACWI exUS ETF (HAWX)		17,0	4,4
	USA				
16	The US broad stock market	Morningstar US Market	11,6	26,4	6,8
17	Stocks of the S&P 1500 index (90% of equity capitalization in the U.S.)	SPDR® Port S&P 1500 Comps Stk Mkt ETF (SPTM)	11,7	25,5	6,6
18	Stocks of S&P 500 index	Vanguard S&P 500 ETF (VOO)	12,0	26,3	6,9
19	U.S. broad stock market	Vanguard Total Stock Market Index/ETF (VTSAX) (VTI)	11,4	26,1	6,5
20	Stocks of major companies	Vanguard Large Cap Index/ETF (VV)	11,7	27,2	7,1
21	Stocks of NASDAQ-100 index	Invesco QQQ Trust (QQQ)	17,7	54,9	7,2
22	Value Stocks	Morningstar US Value	9,7	9,3	4,2
23	Growth Stocks	Morningstar US Growth	14,0	46,8	9,4
24	Small companies stocks	Vanguard Small-Cap ETF (VB)	8,4	18,2	2,9
25	Dividend stocks	Morningstar US High Dividend Yield	9,2	6,5	3,4
26	High-dividend stocks	WisdomTree US High Dividend ETF (DHS)	7,9	-0,2	0,0
27	Stocks of ESG companies	Morningstar US Sustainability	11,7	26,7	8,8
28	Quality stocks	iShares MSCI USA Quality Factor ETF (QUAL)	11,9	30,8	8,9
29	Stocks with minimal volatility	iShares MSCI USA Min Vol Factor ETF (USMV)	10,3	10,3	4,3
30	Portfolios compiled using AI	QRAFT AI-Enhanced US Large Cap Mmntm ETF (AMOM)		27,1	14,8
31	Portfolios compiled using AI	AI Powered Equity ETF (AIEQ)		26,5	-1,8
	U.S. sectors of economy				
32	Telecommunications and communications	Morningstar US Communication Services	9,6	54,5	10,2
33	Cyclical consumer goods sector	Morningstar US Consumer Cyclical Sector	12,4	39,5	3,5
34	Countercyclical consumer goods sector	Morningstar US Consumer Defensive Sector	8,9	2,4	4,1
35	Energy	Morningstar US Energy	2,8	-0,6	2,5
36	Financial services	Morningstar US Financial Services Sector	10,3	16,1	7,1
37	Medicine and healthcare	Morningstar US Healthcare Sector	11,0	2,2	5,9
38	Manufacturing industry	Morningstar US Industrials Sector	10,4	20,9	5,5
39	Utilities	Morningstar US Utilities Sector	8,7	-7,0	-1,8
40	Technological sector	Morningstar US Technology Sector	19,8	59,1	11,0
41	Sector of basic materials	Morningstar US Basic Materials Sector	8,8	15,0	1,7
42	Real estate operations	Morningstar US Real Estate Sector	7,3	11,8	-2,7
43	Investing in shares of AI companies	Global X Robotics & Artificial Intelligence ETF (BOTZ)		39,0	9,4
44	Investing in shares of AI companies	Robo Global Artificial Intelligence ETF (THNQ)		56,8	7,4
	Alternative assets				
45	Gold	SPDR® Gold Shares (GLD)	5,1	12,7	-1,0
46	Real estate	Vanguard Real Estate ETF (VNQ)	7,4	11,8	-3,2
47	Cryptocurrency	ProShares Bitcoin Strategy ETF (BITO)		137,3	45,2
48	Cryptocurrency	S&P Bitcoin Index		153,7	47,5
49	Index S&P of commodity assets	iShares S&P GSCI Commodity-Indexed Trust (GSG)	-4,6	-5,5	5,3
	Popular speculative strategies in the USA				
50	Down play on NASDAQ-100 index stocks	ProShares UltraPro Short QQQ ETF (SQQQ)	-52,0	-73,7	-18,3
51	Upside play on NASDAQ-100 index stocks	ProShares UltraPro QQQ ETF (TQQQ)	35,0	198,3	19,1

THE RUSSIAN ECONOMY in 2023
trends and outlooks

	Investment strategies	Indices Morningstar and ETFs	Returns, %		
			2014–2023	2023	Jan-Feb 2024
52	Betting on changes in the VIX index	ProShares Ultra VIX (UVXY)	-76,6	-87,7	-19,9
53	Stocks popular in social networks	VanEck Social Sentiment ETF (BUZZ)		54,6	8,9
54	Hedging strategies for trend reversal ("crisis alpha")	iMGP DBi Managed Futures Strategy ETF (DBMF)		-8,9	6,2
55	Hedging strategies for trend reversal ("crisis alpha")	Simplify Managed Futures Strategy ETF (CTA)		-2,3	6,7
56	Risk parity hedging strategies (investments in less volatile assets)	AQR Equity Market Neutral N (QMNNX)	5,3	16,7	6,1
57	Fund with covered options (hedging by selling call options)	JPMorgan Equity Premium Income ETF (JEPI)		9,8	4,2
58	Fund with covered options (hedging by selling call options)	Global X NASDAQ-100 Covered Call ETF (QYLD)	6,9	22,8	5,1
59	Strategy Long/Short - purchase of undervalued stocks, sale of stocks which may fall in prices	Neuberger Berman Long Short Instl (NLSIX)	5,3	13,1	2,0
60	Thematic strategy: blue chip growth stocks in the U.S.	Fidelity® Blue Chip Growth ETF (FBCG)		58,0	12,1
61	Thematic strategy: stocks of innovation companies	ARK Innovation ETF (ARKK)		67,6	-2,1
62	Portfolio reflecting investments of Democrats in the Congress (Nancy)	Unusual Whales Subversive Dem Trd ETF (NANC)			8,8
63	A portfolio reflecting investments of Republicans in Congress (Cruz)	Unusual Whales Subversive Rep Trd ETF (KRUZ)			5,4

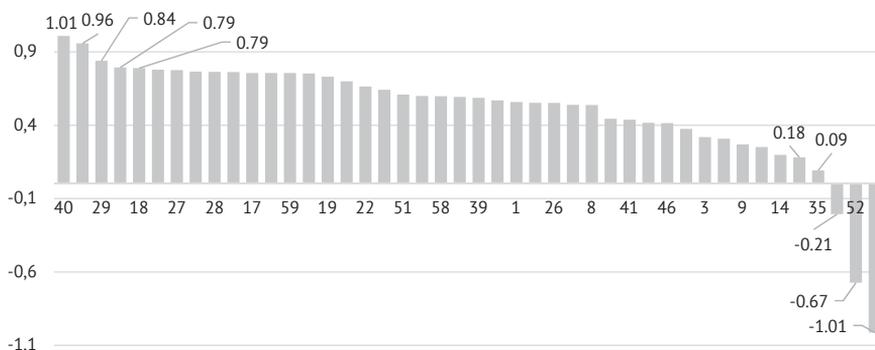
Source: own calculations based on statistics of the information resource Morningstar: URL: <https://www.morningstar.com/>

from the field of artificial intelligence (AI) Robo Global Artificial Intelligence ETF (No.44) was 56.8%, stock fund popular on social media VanEck Social Sentiment (No.53) was 54.6%.

In contrast, the largest losses for investors in 2023 came from the VIX ProShares Ultra VIX Index Derivatives Fund (No. 52) at -87.7%, the NASDAQ-100 ProShares Ultra VIX Index Downside ETF (No. 50) at -73.2%, and hedging strategies focused on shifts in macroeconomic trends ("crisis alpha") iMGP DBi Managed Futures Strategy ETF (No.54) – -8,9%, utility company index Morningstar US Utilities Sector (No.39) – -7,0%, ETF of trade assets iShares S&P GSCI Commodity-Indexed Trust (No.49) – -5,5%, index of energy companies shares Morningstar US Energy (No.35) – -0,6% and high dividend stock exchange fund WisdomTree US High Dividend ETF (No.26) – -0,2% per annum.

Fig. 2 shows data for 44 equity and alternative asset investment strategies over the 10-year period from 2014 to 2023 on a risk-adjusted basis, i.e., as a return/risk ratio. Only three strategies out of 44 yielded negative average annualized returns. Strategies with the highest return/risk ratios were portfolios of technology, medical and health care stocks, factor strategies (growth, quality, and low volatility return stocks), and a broad index portfolio of U.S. stocks.

The Morningstar US Technology Sector Index Portfolio (No.40), the Invesco QQQQ Trust NASDAQ-100 Index Exchange Traded Fund (No.21) and the Morningstar US Healthcare Sector Companies Index (No.37) had return/risk ratios of 1.01, 0.96 and 0.77, respectively; 0.96 and 0.77, for the factor strategies of the iShares MSCI USA Min Vol Factor ETF (No.29), Morningstar US Growth Portfolio



Note. The name of investment strategy labeled as a number in the chart is indicated in *Table 1* with the corresponding serial number in column 1.

Fig. 2. Return/risk ratio of global equity and alternative asset investment strategies for 2014–2023 (ratio)

Source: own calculations based on statistics of the information resource Morningstar: URL: <https://www.morningstar.com/>

Growth Stocks (No.23) and Quality Stocks in the iShares MSCI USA Quality Factor ETF (No.28) – 0.84; 0.79 and 0.76; 0.79 and 0.78 for the Vanguard S&P 500 ETF (No.18) and Morningstar US Market Index; and 0.78 for the Morningstar US Sustainability Index (No.27).

Speculative portfolios with bets on the growth of the VIX index and on the decline of the NASDAQ-100 index, commodity assets, shares of energy companies and shares of non-US companies from developed countries showed the lowest value of the return/risk ratio over the considered 10-year time horizon. Thus, the return/risk ratio of exchange-traded investment funds with highly speculative strategies ProShares UltraPro Short QQQ (No.50) and ProShares Ultra VIX (No.52) constituted -1.02 and -0.67, portfolio of trading assets of the fund iShares S&P GSCI Commodity-Indexed Trust (No.49) – -0.21, stocks of energy company Morningstar US Energy (No.35) – 0.09, exchange-traded investment funds value stocks of non-U.S. companies in developed countries iShares MSCI EAFE Value (No.11), stocks of 23 developed and 24 developing markets iShares MSCI ACWI ex US ETF (No.14) – 0.20 and stocks of European companies Vanguard European Stock Index/FTSE Europe ETF (No.7) – 0.25.

Table 2 and *Fig. 3* show that in 2023, of the 52 popular strategies for investing in bonds and mixed investment funds, all but one strategy for investing in Japanese government bonds (No.38 in *Table 2*) yielded positive dollar returns to investors. Investments in mixed investment funds and corporate bonds, including high-yield bonds, were the most profitable in 2023.

Investments in life cycle funds have yielded the highest returns of the strategies under consideration Fidelity Freedom 2065 (No.49), Fidelity Freedom 2040 (No.48), Vanguard Target Retirement 2045 (No.50), Vanguard Target Retirement 2035 (No.51) respectively 20.5; 20.1, 19.5 и 17.1% p.a., in mixed investment funds (70% stocks and 30% bonds) Fidelity Asset Manager (No.52) –

Table 2

**Nominal dollar returns on global bond and commingled portfolios
for 2013–2022 (% p.a.) and YTD through February 29, 2024 (%)**

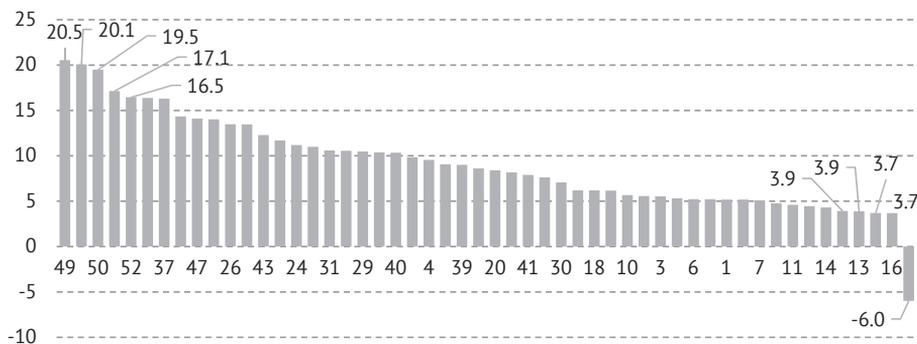
	Investment strategies	Morningstar and ETFs indices	Returns, %		
			2014–2023	2023	Jan – Feb 2024
	Global market				
1	Broad bond market	Morningstar Global Core Bond	0,1	5,2	-2,6
2	Government bonds	Morningstar Global Treasury Bond	-0,6	3,7	-3,1
3	Inflation indexed government bonds	Morningstar Global Treasury Inflation-Linked Securities	0,8	5,5	-2,8
4	Corporate bonds	Morningstar Global Corporate Bond	1,5	9,5	-2,1
5	Infrastructural bonds	Morningstar Global Bond Infrastructure	1,5	10,4	-2,2
6	Global fund of monetary market	Invesco Treasurer's Ser Tr Prem Instl (IPPXX)	1,3	5,2	0,9
	USA				
7	Fund of the U.S. monetary market	Vanguard Cash Rsrv Federal MnyMktAdmiral (VMRXX)	1,3	5,1	0,9
8	Fund of the U.S. monetary market	Fidelity® Treasury Money Market (FZFX)		4,8	0,8
9	Broad bond market	Morningstar US Core Bond	1,7	5,3	-1,6
10	Broad bond market	Vanguard Total Bond Market Index/ETF (VBTIX, BND)	1,8	5,7	-1,5
11	Broad bond market with duration 1–3 year	Morningstar US 1-3 Yr Core Bond	1,2	4,6	0,1
12	Broad bond market with duration 5–10 years	Morningstar US 5-10 Yr Core Bond	1,9	5,2	-1,4
13	Government bonds	Morningstar US Treasury Bond	1,2	3,9	-1,4
14	Government bonds with duration 1–5 years	Morningstar US 1-5 Yr Treasury Bond	1,1	4,3	-0,4
15	Government bonds with duration 5–10 years	Morningstar US 5-10 Yr Treasury Bond	1,6	3,9	-1,7
16	Inflation indexed government bonds	Morningstar US Treasury Inflation-Protected Securities	2,3	3,7	-0,7
17	Municipal bond ETFs	iShares National Muni Bond ETF (MUB)	2,8	5,6	-0,3
18	Mortgage bonds	Morningstar US Asset-Backed Securities	1,8	6,2	0,7
19	Mortgage bonds secured by commercial property	Morningstar US Commercial Mortgage-Backed Securities	2,0	5,2	0,1
20	Corporate bonds	Morningstar US Corporate Bond	2,8	8,4	-1,6
21	Corporate bonds with duration 1–5 years	Morningstar US 1–5 Yr Corporate Bond	2,1	6,2	-0,1
22	Short-term corporate bonds	Vanguard Short-Term Corporate Bond Index/ETF (VSTBX, VCSH)	2,0	6,2	-0,1
23	Corporate bonds with duration 5–10 years	Morningstar US 5–10 Yr Corporate Bond	3,2	8,6	-1,5
24	Long-term corporate bonds	Vanguard Long-Term Corporate Bond Index/ETF (VLTCX, VCLT)	3,8	11,2	-3,5
25	Fallen Angels Bond ETFs	VanEck Fallen Angel High Yield Bond (FALN)		13,5	1,0
26	High yield bonds	Morningstar US High-Yield Bond	4,6	13,5	0,3
27	High yield bonds	CrossingBridge Low Dur Hi Yld Instl CBLDX		7,6	1,5
	Eurozone, Great Britain, Japan				
28	Broad bond market	Morningstar Eurozone Core Bond	-1,2	10,6	-3,5

	Investment strategies	Morningstar and ETFs indices	Returns, %		
			2014–2023	2023	Jan – Feb 2024
29	Government bonds	Morningstar Eurozone Treasury Bond	-0,9	10,5	-3,7
30	Government bonds with duration 1–3 years	Morningstar Eurozone 1–3 Yr Treasury Bond	-2,1	7,1	-2,5
31	Government bonds with duration 5–7 years	Morningstar Eurozone 5–7 Yr Treasury Bond	-1,0	10,6	-3,7
32	Inflation indexed government bonds	Morningstar Eurozone Treasury Inflation-Linked Securities	0,3	9,1	-3,5
33	Corporate bonds	Morningstar Eurozone Corporate Bond	-1,0	11,7	-3,0
34	High yield bonds	Morningstar Eurozone High-Yield Bond	1,2	16,4	-1,1
35	Broad bond market	Morningstar UK Core Bond	-1,2	11,0	-3,9
36	Government bonds	Morningstar UK Gilt Bond	-1,5	9,8	-4,3
37	Corporate bonds	Morningstar UK Corporate Bond	0,2	16,3	-2,8
38	Government bonds	Morningstar Japan Treasury Bond	-2,3	-6,0	-6,8
	Emerging markets				
39	Broad bond market	Morningstar Emerging Markets Composite Bond	3,0	9,0	-0,6
40	Government bonds	Morningstar Emerging Markets Sovereign Bond	3,0	10,3	-1,5
41	Corporate bonds	Morningstar Emerging Markets Corporate Bond	3,0	7,9	0,2
42	Infrastructural bonds	Morningstar Emerging Markets Infrastructure Bond	3,3	8,2	-0,3
43	High yield bonds	Morningstar Emerging Markets High-Yield Bond	3,1	12,3	1,4
44	Broad bond market of Chinese issuers	Morningstar China USD Broad Market Bond	2,1	4,5	0,6
	Mixed investments				
45	60% stock/40% bonds – the largest fund	American Funds American Balanced A (ABALX)	7,6	14,0	3,3
46	60% stock/40% bonds –the oldest fund	Vanguard Wellington™ Inv VWELX	7,9	14,3	3,1
47	Life Cycle Fund 2025	Fidelity Freedom® 2025 (FFTWX)	6,0	14,1	1,9
48	Life Cycle Fund 2040	Fidelity Freedom® 2040 (FFAFX)	8,1	20,1	3,8
49	Life Cycle Fund 2065	Fidelity Freedom® 2065 (FFSFX)		20,5	4,6
50	Life Cycle Fund 2045	Vanguard Target Retirement 2045 Fund (VTIVX)	8,0	19,5	3,6
51	Life Cycle Fund 2035	Vanguard Target Retirement 2035 Fund (VTTHX)	7,1	17,1	2,7
52	70% stock / 30% bonds	Fidelity Asset Manager® 70% (FASGX)	7,0	16,5	3,1

Source: own calculations based on statistics of the information resource Morningstar: URL: <https://www.morningstar.com/>

70%, in the oldest American fund of mixed investments with a strategy 60%/40% Vanguard Wellington Inv (No.46) and the largest mutual fund with a similar strategy American Funds American Balanced A (No.45) in the amount of 16.5; 14.3 и 14.0% respectively. The yields on investments in Morningstar Eurozone High-Yield Bond (No. 34) and Morningstar UK Corporate Bond (No.37) indices of European companies amounted to 16.4% and 16.3% per annum, respectively.

The lowest yields in 2023 came from portfolios of low-risk, mostly government, bonds due to lack of growth or even decline in their value in an environment of high interest rates of central banks of developed countries. A portfolio of



Note. The title of the investment strategy labeled as a number in the chart is indicated in *Table 2* with the corresponding serial number in column 1.

Fig. 3. Nominal dollar returns in 2023 of global bond and mixed investment strategies, % p.a.

Source: own calculations based on statistics of the information resource Morningstar: URL: <https://www.morningstar.com/>

Japanese government bonds (No.38) returned -6.0%, while the returns of the broad U.S. government bond index (No.13) and broad global government bond index (No.2) were 3.9% and 3.7%, respectively.

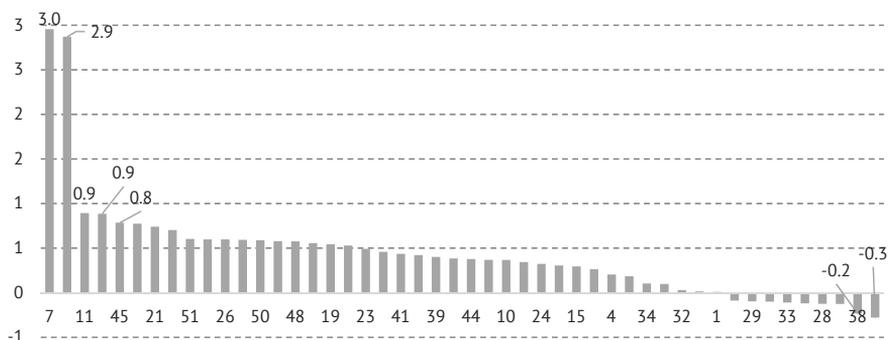
The reason for low return of money market fund (No.7 & 8) most in demand among investors when interest rates rose in 2023, was that by that time rates of central banks of developed countries had reached their peak values, and market actors switched to expectations of their reduction in 2024, which reduced the demand for money market funds among investors and resulted in a limited growth in their market value.

Low return of the China Broad Bond Index (No.44) was due to low government bond yields in this country in a deflationary environment and low value of corporate bonds due to risks of defaults on the debt of large real estate developers.

After 2021–2022, difficult years for the bond and mixed investment strategies market, when the returns of these strategies were predominantly negative, 2023 saw a recovery of positive returns for bonds and commingled investments, which is important in terms of the financial stability of pension funds and other large institutional investors utilizing these strategies.

Of the 48 bond and mixed investment fund strategies over the 10-year time horizon from 2014 to 2023, most strategies showed moderate returns and 9 were loss-making (*Fig. 4*). This is due to the significant losses of these conservative strategies in 2021 and especially in 2022.¹ The worst performers in terms of return/risk over the 10-year period in 2014–2023 were: the Eurozone 1–3 year duration government bond portfolios (No.30) at -0.28, the Japan (No.38) and UK (No.36) government bond portfolios at -0.23 and -0.13 respectively, the Eurozone

¹ For more details see: Russian Economy in 2022. Trends and Prospects. Issue 44. Section 2.1.1. Moscow: Gaidar Institute Press, 2023. URL: <https://www.iep.ru/files/text/trends/2022/2.pdf>



Note. The title of the investment strategy labeled as a number in the chart is indicated in *Table 2* with the corresponding serial number in column 1.

Fig. 4. The return/risk ratio of global bond and commingled investment strategies over the period 2014–2023

Source: own calculations based on statistics of the information resource Morningstar: URL: <https://www.morningstar.com/>

broad bond portfolio (No.28) and the Eurozone corporate bond portfolio (No.33) at -0.13 and -0.11, and the Global Government Bond Portfolio (No.2) at -0.09.

The highest return/risk ratios between 2014 and 2023 were in portfolios of financial instruments with higher tolerance to central bank interest rate hikes, including money market funds, broad low duration bond portfolios and classic mixed investment funds with a 60%/40% strategy.

The U.S. money market fund (No.7) and global money market fund (No.6) had the highest ratios at 2.96 and 2.87, respectively; the broad U.S. issuer bond market with 1–3 year duration and mortgage bond portfolios each at 0.89; and the two most popular U.S. mixed-investment funds with 60%/40% strategies, American Funds American Balanced A (No.45) and Vanguard Wellington Inv (No.46), at 0.79 and 0.77, respectively.

In 2023, a number of emerging market equities, including Russia, showed relatively high returns compared to the previous 10-year period, due to different factors for certain countries. While markets of Brazil, India, Mexico and Poland grew to a greater extent due to the attraction of foreign portfolio investments, and Argentina due to the demand for shares from domestic investors who consider the stock market as one of the ways to preserve savings against high inflation, growth of the Russian RTS index was supported by the inflow of funds from private investors with restrictions to withdraw assets of non-resident investors. Even portfolios of foreign equity funds of Russian companies with assets blocked in Russian depositories and in the process of liquidation, showed positive returns in 2023: VanEck Russia ETF (No.9) at 12.0% and iShares MSCI Russia ETF (No.8) at 4.4%.

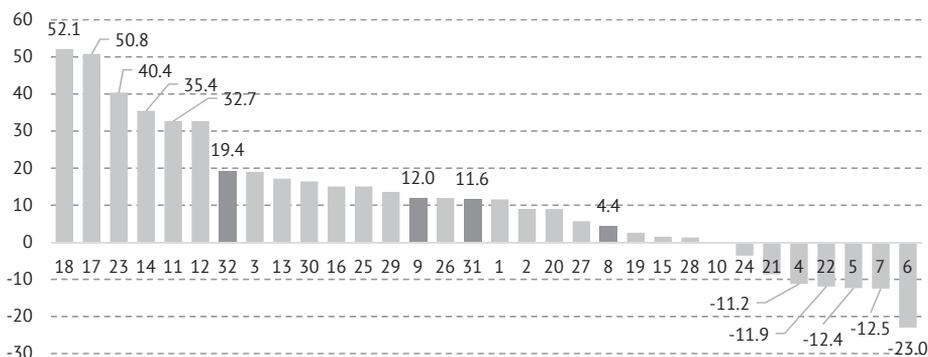
With high interest rates of the FRS and, thus, a strong dollar exchange rate, it was difficult for shares of developing countries to compete in terms of dollar

yield with shares of American companies. Nevertheless, as shown in *Fig. 5* and *Table 3*, in 2023, out of the 32 investment strategies in emerging equity markets, 6 portfolios had higher returns compared to the S&P 500 index portfolio of 26.3% per annum. The return of equity funds of companies from Argentina (No.18 in *Table 3*) amounted to 52.1%, Poland (No.17) – 50.8%, Mexico (No.23) – 40.4%, Brazil (No.11) – 32.7%, small companies from India (No.14) and Brazil (No.12) – 35.4 and 32.7%, respectively. The portfolio of the Russian RTS Total Return Index (No.32), while not outperforming the S&P 500 Index, returned 19.4%, ranking 7th out of the 32 emerging market strategies under this criterion.

In 2023, the portfolios of Chinese, Turkish and Malaysian stocks provided negative returns to investors. The problems in Chinese equities were due to the outflow of funds from foreign portfolio investors amid growing risks of a slowdown in the Chinese economy and instability in corporate borrowing markets, as well as the behavior of domestic investors withdrawing funds from equities in favor of safer investments in government bonds and gold.

In Turkey, investors preferred to invest more in deposits, gold and foreign currencies amid a sharp rise in the central bank’s interest rate due to high inflation. Low stock returns in Malaysia were driven by a sharp slowdown in the country’s economic growth in 2023 and accelerating inflation. In 2023, returns of the China small companies stocks (No.6), A-Shares (No.7), major company stocks (No.5) and broad equity index (No.4) portfolios evidenced -23.01; -12.5; -12.4 and -11.2%, respectively. The return of the Turkish companies ETF portfolio (No. 22) dropped to -11.9% and the return of the Malaysia companies ETF (No. 24) dropped to -3.6%.

Over the 10-year time horizon from 2014 to 2023, the return and risk performance of all 30 emerging market equity exchange-traded funds shown in



Note. ETF serial number on the chart – see *Table 3*.

Fig. 5. Nominal dollar yield of exchange-traded funds (ETFs) investing in emerging market equities in 2023, % p.a.

Source: own calculations based on statistics of the information resource Morningstar: URL: <https://www.morningstar.com/>

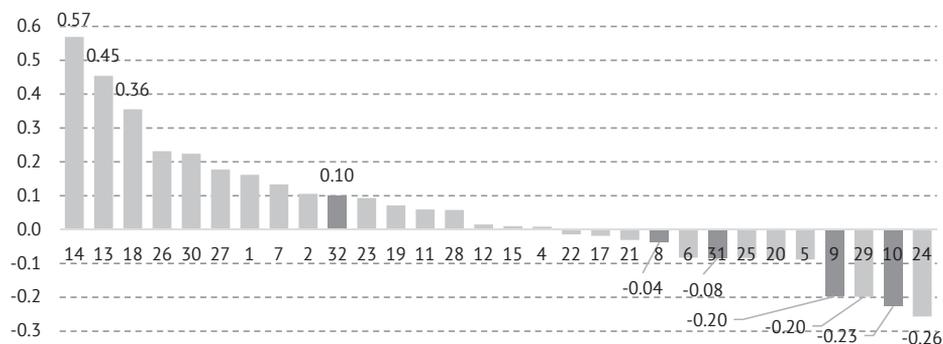
Table 3

Nominal dollar returns of emerging market equity index portfolios in 2014–2023 (% p.a.) and YTD through February 29, 2024 (%)

	Investment strategies	Morningstar and ETFs indices	Ticker	Returns, %		
				2014–2023	2023	Jan –Feb 2024
1	Broad market ETF	iShares Core MSCI Emerging Markets ETF	IEMG	2,8	11,6	-0,5
2	Emerging Markets Equity ETFs	iShares MSCI Emerging Markets	EEM	1,8	9,0	-0,6
3	Developing countries excluding China	iShares MSCI Emerging Mkts ex China ETF	EMXC		19,0	0,6
4	China	iShares MSCI China ETF	MCHI	0,2	-11,2	-4,3
5	China, major companies	iShares China Large-Cap ETF	FXI	-2,1	-12,4	-2,5
6	China, small companies	iShares MSCI China Small-Cap ETF	ECNS	-2,0	-23,0	-8,4
7	China, A share	Xtrackers Harvest CSI 300 China A ETF	ASHR	3,3	-12,5	0,4
8	Russia	iShares MSCI Russia ETF	ERUS	-11,9	4,4	0,0
9	Russia	VanEck Russia ETF	RSX	-11,2	12,0	0,0
10	Russia, small companies	VanEck Russia Small-Cap ETF	RSXJ	-9,9	0,0	0,0
11	Brazil	iShares MSCI Brazil ETF	EWZ	2,0	32,7	-5,6
12	Brazil, small companies	iShares MSCI Brazil Small-Cap	EWZS	0,6	32,7	-6,5
13	India	iShares MSCI India ETF	INDA	8,4	17,2	4,8
14	India, small companies	iShares MSCI India Small-Cap ETF	SMIN	13,5	35,4	4,2
15	South Africa	iShares MSCI South Africa ETF	EZA	0,3	1,5	-11,1
16	Saudi Arabia	iShares MSCI Saudi Arabia	KSA		15,1	5,1
17	Poland	iShares MSCI Poland ETF	EPOL	-0,5	50,8	2,9
18	Argentine	Global X MSCI Argentina ETF	ARGT	11,2	52,1	-2,9
19	Indonesia	iShares MSCI Indonesia ETF	EIDO	1,5	2,6	0,2
20	Chile	iShares MSCI Chile ETF	ECH	-2,2	9,0	-6,7
21	Turkey	iShares MSCI Turkey ETF	TUR	-1,0	-8,7	16,1
22	Turkey	iShares MSCI Turkey ETF USD Dist	ITKY	-0,5	-11,9	14,0
23	Mexico	iShares MSCI Mexico ETF	EWWM	2,2	40,4	-3,9
24	Malasia	iShares MSCI Malaysia ETF	EWM	-3,9	-3,6	2,3
25	Vietnam	VanEck Vietnam ETF	VNM	-1,9	15,1	4,6
26	Broad market index	Morningstar Emerging Markets	Index 1	3,9	11,9	0,3
27	BRIC	Morningstar BRIC	Index 2	3,2	5,7	0,0
28	BRICK (ETF)	iShares MSCI BIC ETF	BKF	1,1	1,3	-1,3
29	Developing countries in Europe	Morningstar Emerging Markets Europe	Index 3	-6,3	13,6	12,1
30	Dividend stock	Morningstar Emerging Markets Dividend Yield Focus	Index 4	3,3	16,4	1,2
31	Russia	RTS index	RTSI	-2,8	11,6	4,1
32	Russia	RTS index – total returns	RTSTR	3,4	19,4	4,7

Source: own calculations based on statistics of the information resource Morningstar: URL: <https://www.morningstar.com/>

Fig. 6, significantly underperformed the broad U.S. equity index S&P 500. With the S&P 500 Index's return/risk ratio of 0.79, this indicator for the fastest-growing emerging market equity indices was only 0.57 for the India small company equity ETF (No.14), 0.45 for the India broad dividend equity portfolio ETF (No.13), 0.36 for the Argentina equity fund (No.18), 0.23 for the emerging markets broad equity index (No.26), 0.22 for the high dividend yield emerging markets equity ETF (No.30), 0.18 for the BRIC Equity Index and 0.16 for the emerging markets broad portfolio ETF (No.1). The Russian RTS total return index (No.32) with a return/risk



Note. Serial ETF numbers on a chart – Table 3.

Fig. 6. The return/risk ratio of emerging market equity portfolios in 2014–2023

Source: own calculations based on statistics of the information resource Morningstar: URL: <https://www.morningstar.com/>

ratio of 0.10 ranked in the top ten of the 30 strategies under consideration against its competitors

The index portfolios of Malaysia (No.24) at -0.26, Emerging Europe (No.29) at -0.20, Large China (No.5) at -0.09, Chilean (No.20) and Vietnamese (No.25) stocks with ratios of -0.09 and -0.08 showed negative return/risk in 2014–2023. Among the worst performers in terms of return/risk over a 10-year time horizon were three ETFs of Russian equities with blocked assets: VanEck Russia Small-Cap ETF (No.10), VanEck Russia ETF (No.9) and iShares MSCI Russia ETF (#8) with indicators of -0.23; -0.20 and -0.04, respectively. Sanctions, asset blocking and serious losses of investors in Russian equities may limit the access of Russian companies to international capital markets for a long time in the future.

In early 2024, the U.S. Securities and Exchange Commission registered the first exchange-traded funds investing in bitcoin on the spot market. In addition, two of the world’s largest closed-end cryptocurrency funds, Grayscale Bitcoin Trust (BTC) and Grayscale Ethereum Trust (ETH), were re-registered as ETFs. As shown in Table 4, as of February 29, 2024, there were 15 primarily bitcoin ETFs registered in the U.S. with a net asset value of \$60.9 bn.

The future of private cryptocurrencies is still a matter of debate, and in some developing countries, including Russia, transactions by domestic investors using these financial instruments are restricted. Nevertheless, the entry of the largest management companies in the world, such as BlackRock, Fidelity Investments, Invesco, Franklin Templeton, etc., which have a high reputation as providers of financial services for long-term savings, to the spot market of cryptocurrencies, gives us to hope that bitcoin and some other cryptocurrencies will eventually become part of the organized market of financial assets and will be able to compete with such assets as gold and other precious metals.¹ Two newly created

¹ So far, the Grayscale Bitcoin Trust (BTC) and SPDR Gold Shares (GLD) bitcoin ETFs differ significantly in terms of yield and risk. Thus, over a 10-year horizon from 2014 to 2023, the average annualized

bitcoin ETFs are particularly promising. i.e. the iShares Bitcoin Trust ETF managed by BlackRock with \$9.4 bn in assets and the Fidelity Wise Origin Bitcoin ETF managed by Fidelity Investments at \$6.4 bn.

Table 4

**Major exchange-traded funds (ETF) investing in crypto assets
as of February 29, 2024**

	Investment strategies	Exchange-traded funds (ETF)	Ticker	Value of assets, bn USD	Management remuneration, %	Returns, %		
						10 years	Year	Jan- Feb 2024
1	Investing in cryptocurrency derivatives	ProShares Bitcoin Strategy ETF	BITO	2,6	0,95		146,2	45,2
2	Investing in cryptocurrency derivatives, betting on bitcoin's decline in value	ProShares Short Bitcoin Strategy ETF	BITI	0,1	0,95		-67,5	-33,6
3	Direct investment in bitcoin on the spot market avoiding ETFs	Grayscale Bitcoin Trust (BTC)	GBTC	27,2	1,50	56,4	366,5	59,9
4	Direct investment in etherium on the spot market avoiding ETFs	Grayscale Ethereum Trust (ETH)	ETHE	10,0	2,50		291,3	48,6
5	Direct investment in a basket of cryptocurrencies in the spot market avoiding ETFs	Grayscale Digital Large Cap ETC	GDLC	0,5	2,50		142,0	44,0
6	Direct investment in bitcoin on the spot market	iShares Bitcoin Trust ETF	IBIT	9,4	0,12			
7	Direct investment in bitcoin on the spot market	Fidelity Wise Origin Bitcoin ETF	FBTC	6,4	No			
8	Direct investment in bitcoin on the spot market	ARK 21Shares Bitcoin ETF	ARKB	2,1	No			
9	Direct investment in bitcoin on the spot market	VanEck Bitcoin Trust ETF	HODL	0,3	0,25			
10	Direct investment in bitcoin on the spot market	Bitwise Bitcoin ETF	BITB	1,5	No			
11	Direct investment in bitcoin on the spot market	Franklin Bitcoin ETF	EZBC	0.2	No			
12	Direct investment in bitcoin on the spot market	Invesco Galaxy Bitcoin ETF	BTCO	0.4	No			
13	Direct investment in bitcoin on the spot market	WisdomTree Bitcoin	BTCW	0.1	No			
14	Direct investment in bitcoin on the spot market	Valkyrie Bitcoin ETF	BRRR	0.2	No			
15	Direct investment in bitcoin on the spot market	Hashdex Bitcoin Futures ETF	DEFI	0,03	0.94		140.9	42.9

Source: own calculations based on statistics of the information resource Morningstar: URL: <https://www.morningstar.com/>

return of the former was 56.4% p.a. and the return/risk ratio was 0.72, while the gold ETFs had similar indicators of 5.1% and 0.37. That is, even taking into account the increased volatility, the bitcoin ETF was significantly more profitable than the gold fund.

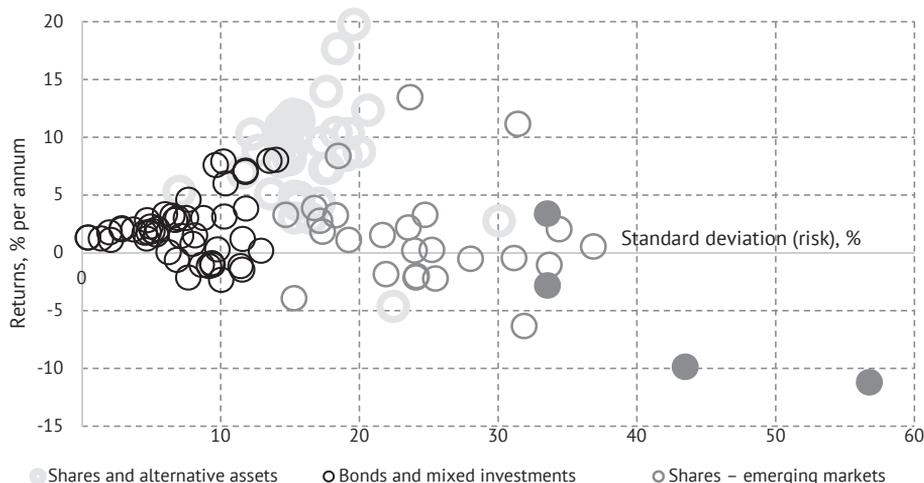
2.1.2. Map of returns and risks of financial instruments in the world

To analyze the available investment strategies in the global financial market for private investors with different risk profiles, here, a concept such as “*return and risk map*” is used.

It represents a sample of 122 investment strategies (discussed in *Tables 1–3*), classified by criterion of decreasing standard deviation (risk) into 5 parts equal in number of strategies: with high, increased, moderate, moderately low and low risk. Depending on results of testing of the investor’s risk profile, the investor can select portfolios from the risk group that matches his individual profile. Portfolios of Russian equities (RTS and RTS total return) were added to the global return and risk map to present the risk profile of strategies available to the Russian private investor.

As *Fig. 7* shows, over the 10-year time horizon 2014–2023, private investor in the global market had access to a wide range of strategies with moderately low returns and risks in terms of bond funds and blended investments (red circles), with higher returns and risks in terms of equity and alternative investment portfolios predominantly in developed countries (blue circles), and emerging market equity portfolios, which tended to be inferior to similar investment strategies in developed markets, marked by significantly higher risks.

Fig. 7 has specially highlighted fully shaded green circles reflecting the returns and risks of investing in the shares of Russian issuers: RTS indexes (No.31 in *Table 3*)



Note. The ETFs serial numbers the chart – see *Tables 1, 2, 3* for corresponding groups of financial instruments.

Fig. 7. Average annual returns and risks of portfolio strategies in global markets over a 10-year time horizon in 2014–2023, % p.a.

Source: own calculations based on statistics of the information resource Morningstar: URL: <https://www.morningstar.com/>

and RTS Total Return (No.32), as well as global exchange-traded index funds VanEck Russia Small-Cap ETF (No.), VanEck Russia ETF (No.9) and iShares MSCI Russia ETF (No.8). The last three ETFs had the lowest returns and highest risks of all 122 strategies in the sample. Meanwhile, the iShares MSCI Russia ETF strategy (No.8) with an average annualized return of 11.9% and a standard deviation of 313.0% has not been shown in the figure due to the limited scaling of the chart on the y-axis. The difference between the 3.4% annualized average return of the RTS Total Return Index (32) and the -11.2% annualized return of VanEck Russia ETF (No. 9), once the largest foreign ETF of Russian equities, reflects the difference in valuation of Russian equities in the domestic market and in foreign funds with assets locked up in Russian depositories.

As *Table 5* shows, the map of returns and risks of global investment strategies for a private investor over the 2014–2023 horizon, strategies with annualized standard deviation (risk) values ranging from 21.9% to 313.0% are classified as high-risk portfolios. The returns of the strategies included in this category ranged from -76.6% to +350.0%. The highest risk portfolios include all five Russian equity investment strategies under consideration, including the RTS Total Return Index Portfolio (No. 32) and the RTS Index (No. 31). Assuming that only shares from the RTS index are available to a Russian private investor from equity instruments in the domestic market, it means that in the process of forming long-term savings, the investor has to work with one of the riskiest instruments in the global market. In addition to Russian equities, the highest-risk strategies were dominated by portfolios of many other emerging market equities.

The second group of high-risk strategies included strategies with risk values from 15.5% to 21.7% with a range of average annualized returns from 1.1% to 19.8% per annum. The most common for this strategy were portfolios of stocks of certain developing countries (India, Indonesia, BRIC), sector and factor strategies in the US and other developed countries market, real estate funds and US broad equity market.

The third group of strategies marked by a moderate risk included portfolios with a risk indicator of 12.3% to 15.4% and a return range of -3.9% to 12.0%. This group includes mainly portfolios of factor equity strategies, the S&P 500 Index portfolio, gold and individual life cycle funds with mixed investment strategies.

The fourth group of strategies with moderately low risk includes portfolios with a standard deviation value of 7.2 to 11.8%, with a range of returns from -2.3 to 7.9% per annum. This group includes mainly bond funds, life cycle funds, 70%/30% and 60%/40% mixed investment strategies. Among bond funds there are portfolios of broad market bonds, corporate bonds, high yield bonds, government bonds of Eurozone countries, UK and Japan.

Finally, the fifth group of strategies with the lowest risk includes portfolios with a risk indicator from 0.5% to 7.0% and a range of returns from -0.09% to 2.96% per annum. Among these strategies there are equity ETFs with hedging elements (No.56 and No.59), however, strategies investing in bonds of U.S. issuers, in infrastructure, municipal and mortgage bonds, and in money market funds dominated in this group.

Table 5

Return and risk map of investment strategies in the global financial market over a 10-year time horizon from 2014 to 2023

Risk level	No.	Investment strategies	Morningstar and ETFs indices	Per year, %:		Returns / risk ratio
				Standard deviation (risk)	Returns	
High risk	8	Russia	iShares MSCI Russia ETF	313,0	-11,9	-0,04
	52	VIX index changes rate	ProShares Ultra VIX (UVXY)	113,7	-76,6	-0,67
	51	Upside play on NASDAQ-100 index stocks	ProShares UltraPro QQQ ETF (TQQQ)	57,5	35,0	0,61
	9	Russia	VanEck Russia ETF	56,8	-11,2	-0,20
	50	Down play on NASDAQ-100 index stocks	ProShares UltraPro Short QQQ ETF (SQQQ)	51,3	-52,0	-1,01
	10	Russia, small companies	VanEck Russia Small-Cap ETF	43,5	-9,9	-0,23
	12	Brazil, small companies	iShares MSCI Brazil Small-Cap	36,9	0,6	0,01
	11	Brazil	iShares MSCI Brazil ETF	34,4	2,0	0,06
	21	Turkey	iShares MSCI Turkey ETF	33,7	-1,0	-0,03
	31	Russia	RTS Index	33,6	-2,8	-0,08
	32	Russia	RTS Index – full yield	33,6	3,4	0,10
	29	Developing countries in Europe	Morningstar Emerging Markets Europe	31,9	-6,3	-0,20
	18	Argentina	Global X MSCI Argentina ETF	31,4	11,2	0,36
	22	Turkey	iShares MSCI Turkey ETF USD Dist	31,2	-0,5	-0,01
	35	Energy	Morningstar US Energy	30,1	2,8	0,09
	17	Poland	iShares MSCI Poland ETF	28,0	-0,5	-0,02
	20	Chile	iShares MSCI Chile ETF	25,5	-2,2	-0,09
	15	South Africa	iShares MSCI South Africa ETF	25,2	0,3	0,01
	7	China, A shares	Xtrackers Harvest CSI 300 China A ETF	24,7	3,3	0,13
	6	China, small companies	iShares MSCI China Small-Cap ETF	24,1	-2,0	-0,08
	5	China, major companies	iShares China Large-Cap ETF	24,1	-2,1	-0,09
	4	China	iShares MSCI China ETF	24,0	0,2	0,01
	14	India, small companies	iShares MSCI India Small-Cap ETF	23,7	13,5	0,57
	23	Mexico	iShares MSCI Mexico ETF	23,5	2,2	0,09
	49	S&P index of commodity assets	iShares S&P GSCI Commodity-Indexed Trust (GSG)	22,4	-4,6	-0,21
25	Vietnam	VanEck Vietnam ETF	21,9	-1,9	-0,08	
Increased risk	19	Indonesia	iShares MSCI Indonesia ETF	21,7	1,5	0,07
	33	Cyclical sector of consumer goods	Morningstar US Consumer Cyclical Sector	20,6	12,4	0,60
	41	Sector of basic materials	Morningstar US Basic Materials Sector	20,0	8,8	0,44
	40	Technological sector	Morningstar US Technology Sector	19,6	19,8	1,01
	28	BRIC (ETF)	iShares MSCI BIC ETF	19,2	1,1	0,06
	36	Financial services	Morningstar US Financial Services Sector	19,2	10,3	0,54
	24	Small companies' stocks	Vanguard Small-Cap ETF (VB)	19,0	8,4	0,44
	13	India	iShares MSCI India ETF	18,5	8,4	0,45
	21	Index NASDAQ-100 stock	Invesco QQQ Trust (QQQ)	18,4	17,7	0,96
	38	Manufacturing industry	Morningstar US Industrials Sector	18,3	10,4	0,57
	27	BRIC	Morningstar BRIC	18,3	3,2	0,18
	46	Real estate	Vanguard Real Estate ETF (VNQ)	17,8	7,4	0,41
	23	Growth stocks	Morningstar US Growth	17,6	14,0	0,79
	42	Real estate operations	Morningstar US Real Estate Sector	17,5	7,3	0,42
	2	Emerging Markets Equity ETFs	iShares MSCI Emerging Markets	17,4	1,8	0,11
	32	Telecommunications and communications	Morningstar US Communication Services	17,3	9,6	0,55
	1	Broad Market ETFs	iShares Core MSCI Emerging Markets ETF	17,2	2,8	0,16
	7	Stocks of European companies	Vanguard European Stock Index/FTSE Europe ETF (VEUX, VGK)	17,1	4,3	0,25
	26	Broad market index	Morningstar Emerging Markets	16,8	3,9	0,23
	11	Value stocks of non-U.S. companies in developed countries (unhedged)	iShares MSCI EAFE Value (EFV)	16,5	3,0	0,18
	12	Growth stocks of non-U.S. companies in developed country (unhedged)	iShares MSCI EAFE Growth (EFG)	15,7	4,8	0,31
	19	U.S. broad stocks market	Vanguard Total Stock Market Index/ETF (VTSAX) (VTI)	15,6	11,4	0,73
	28	Quality stocks	iShares MSCI USA Quality Factor ETF (QUAL)	15,5	11,9	0,76
	9	Stocks of European, Australian and Far East major companies	iShares MSCI EAFE (EFA)	15,5	4,2	0,27

Risk level	No.	Investment strategies	Morningstar and ETFs indices	Per year, %:		Returns / risk ratio	
				Standard deviation (risk)	Returns		
Moderate risk	17	Stocks of the S&P 1500 index (90% of equity capitalization in the U.S.)	SPDR® Port S&P 1500 Comps Stk Mkt ETF (SPTM)	15,4	11,7	0,76	
	20	Major companies' stocks	Vanguard Large Cap Index/ETF (VLCAX) (VV)	15,3	11,7	0,76	
	14	Stocks of 23 developed and 24 emerging markets (unhedged)	iShares MSCI ACWI ex US ETF (ACWX)	15,3	3,0	0,20	
	3	Stocks of companies from developed countries, excluding the USA	Morningstar Developed Markets ex-US	15,3	4,9	0,32	
	24	Malasia	iShares MSCI Malaysia ETF	15,3	-3,9	-0,26	
	18	S&P 500 index stocks	Vanguard S&P 500 ETF (VOO)	15,2	12,0	0,79	
	2	Stocks of companies from developed countries	Morningstar Developed Markets	15,1	8,9	0,59	
	27	Stocks of ESG companies	Morningstar US Sustainability	15,0	11,7	0,78	
	8	Stocks of global companies	Vanguard Total World Stock Index/ETF (VTWAX, VT)	15,0	8,1	0,54	
	1	Broad stocks market	Morningstar Global Markets	14,9	8,3	0,56	
	16	Broad U.S. stocks market	Morningstar US Market	14,9	11,6	0,78	
	39	Communal services	Morningstar US Utilities Sector	14,8	8,7	0,59	
	30	Dividend stocks	Morningstar Emerging Markets Dividend Yield Focus	14,7	3,3	0,22	
	22	Value stocks	Morningstar US Value	14,7	9,7	0,66	
	5	Dividend stocks – broad diversification	Schwab U.S. Dividend Equity ETF (SCHD)	14,7	11,0	0,75	
	37	Medicine and health care	Morningstar US Healthcare Sector	14,4	11,0	0,77	
	25	Dividend stocks	Morningstar US High Dividend Yield	14,4	9,2	0,64	
	26	High dividend stocks	WisdomTree US High Dividend ETF (DHS)	14,3	7,9	0,55	
	48	Life cycle fund 2020	Fidelity Freedom® 2040 (FFFX)	14,0	8,1	0,58	
	45	Gold	SPDR® Gold Shares (GLD)	13,6	5,1	0,37	
	50	Life cycle fund 2045	Vanguard Target Retirement 2045 Fund (VTIVX)	13,5	8,0	0,59	
	37	Corporate stocks	Morningstar UK Corporate Bond	12,9	0,2	0,01	
	34	Countercyclical consumer goods sector	Morningstar US Consumer Defensive Sector	12,7	8,9	0,70	
	29	Stocks with minimum volatility	iShares MSCI USA Min Vol Factor ETF (USMV)	12,3	10,3	0,84	
	Moderate risk	24	Long-term corporate bonds	Vanguard Long-Term Corporate Bond Index/ETF (VLTCX, VCLT)	11,8	3,8	0,32
		51	Life cycle fund 2035	Vanguard Target Retirement 2035 Fund (VTTHX)	11,8	7,1	0,60
		52	70% stocks / 30% bonds	Fidelity Asset Manager® 70% (FASGX)	11,8	7,0	0,59
		58	Covered options fund (hedging by selling call options)	Global X NASDAQ-100 Covered Call ETF (QYLD)	11,6	6,9	0,60
		34	High yield bonds	Morningstar Eurozone High-Yield Bond	11,6	1,2	0,10
36		Government bonds	Morningstar UK Gilt Bond	11,6	-1,5	-0,13	
35		Broad bonds market	Morningstar UK Core Bond	11,5	-1,2	-0,10	
47		Life cycle fund 2025	Fidelity Freedom® 2025 (FFTWX)	10,4	6,0	0,58	
43		High yield bonds	Morningstar Emerging Markets High-Yield Bond	10,3	3,1	0,31	
46		60% stocks / 40% bonds – the oldest fund	Vanguard Wellington™ Inv VWELX	10,2	7,9	0,77	
38		Government bonds	Morningstar Japan Treasury Bond	10,1	-2,3	-0,23	
32		Inflation indexed government bonds	Morningstar Eurozone Treasury Inflation-Linked Securities	9,8	0,3	0,03	
45		60% stocks / 40% bonds – the largest fund	American Funds American Balanced A (ABALX)	9,7	7,6	0,79	
33		Corporate bonds	Morningstar Eurozone Corporate Bond	9,4	-1,0	-0,11	
29		Government bonds	Morningstar Eurozone Treasury Bond	9,4	-0,9	-0,10	
28		Broad bond market	Morningstar Eurozone Core Bond	9,2	-1,2	-0,13	
40		Government bonds	Morningstar Emerging Markets Sovereign Bond	8,8	3,0	0,34	
31		Government bonds with duration 5–7 years	Morningstar Eurozone 5-7 Yr Treasury Bond	8,7	-1,0	-0,12	
5		Infrastructural bonds	Morningstar Global Bond Infrastructure	8,2	1,5	0,19	
3		Inflation indexed government bonds	Morningstar Global Treasury Inflation-Linked Securities	8,0	0,8	0,10	
26		High yield bonds	Morningstar US High-Yield Bond	7,7	4,6	0,60	
30		Government bonds with duration 1–3 years	Morningstar Eurozone 1–3 Yr Treasury Bond	7,7	-2,1	-0,28	
39		Broad bond market	Morningstar Emerging Markets Composite Bond	7,5	3,0	0,40	
4		Corporate bonds	Morningstar Global Corporate Bond	7,2	1,5	0,20	

THE RUSSIAN ECONOMY in 2023

trends and outlooks

Risk level	No.	Investment strategies	Morningstar and ETFs indices	Per year, %:		Returns / risk ratio
				Standard deviation (risk)	Returns	
Low risk	56	Risk parity hedging strategies (investments in less volatile assets)	AQR Equity Market Neutral N (QMNNX)	7,0	5,3	0,76
	59	Long/Short strategy – buying undervalued shares, selling shares whose prices may fall	Neuberger Berman Long Short Instl (NLSIX)	7,0	5,3	0,76
	41	Corporate bonds	Morningstar Emerging Markets Corporate Bond	6,9	3,0	0,44
	2	Government bonds	Morningstar Global Treasury Bond	6,9	-0,6	-0,09
	20	Corporate bonds	Morningstar US Corporate Bond	6,7	2,8	0,42
	23	Corporate bonds with duration 5–10 years	Morningstar US 5–10 Yr Corporate Bond	6,5	3,2	0,49
	1	Broad bond market	Morningstar Global Core Bond	6,3	0,1	0,01
	42	Infrastructural bonds	Morningstar Emerging Markets Infrastructure Bond	6,0	3,3	0,56
	44	Broad bond market of Chinese issuers	Morningstar China USD Broad Market Bond	5,5	2,1	0,38
	15	Broad bond market with duration 5–10 years	Morningstar US 5–10 Yr Treasury Bond	5,4	1,6	0,29
	12	Broad bond market with duration 5–10 years	Morningstar US 5–10 Yr Core Bond	5,1	1,9	0,37
	16	Inflation indexed government bonds	Morningstar US Treasury Inflation-Protected Securities	5,0	2,3	0,46
	10	Broad bond market	Vanguard Total Bond Market Index/ETF (VBTIX, BND)	4,8	1,8	0,37
	17	Municipal bond ETFs	iShares National Muni Bond ETF (MUB)	4,7	2,8	0,60
	13	Government bonds	Morningstar US Treasury Bond	4,7	1,2	0,26
	9	Broad bond market	Morningstar US Core Bond	4,5	1,7	0,38
	19	Mortgage bonds secured by commercial property	Morningstar US Commercial Mortgage-Backed Securities	3,7	2,0	0,54
	22	Short-term corporate bonds	Vanguard Short-Term Corporate Bond Index/ETF (VSTBX, VCSH)	2,9	2,0	0,70
	21	Corporate bonds with duration 1–5 years	Morningstar US 1–5 Yr Corporate Bond	2,9	2,1	0,74
	14	Government bonds with duration 1–5 years	Morningstar US 1–5 Yr Treasury Bond	2,1	1,1	0,53
18	Mortgage bonds	Morningstar US Asset-Backed Securities	2,0	1,8	0,89	
11	Broad bond market with duration 1–3 years	Morningstar US 1–3 Yr Core Bond	1,4	1,2	0,89	
6	Global monetary market fund	Invesco Treasurer's Ser Tr Prem Instl (IPXX)	0,5	1,3	2,87	
7	U.S. monetary market fund	Vanguard Cash Rsrv Federal MnyMktAdmiral (VMRXX)	0,5	1,3	2,96	

Source: own calculations based on statistics of the information resource Morningstar: URL: <https://www.morningstar.com/>

An important feature of all five groups of strategies on the return and risk map over the 10-year time horizon in 2014–2023 is that their portfolios did not guarantee a breakeven exit of investors at the end of the investment period. This may be due to the impact on long-term portfolio returns of market downturns in 2021–2022, with significant losses in bond portfolios and blended investments due to very rapid increases in FRS and ECB interest rates during this time.

2.1.3. Returns and risks of financial instruments of Russian issuers

Over the past two years from February 2022 to February 2024, dependence of Russian companies' stocks prices on global capital markets has significantly declined. According to our estimates, the correlation margin of profits of the RTS index with the dollar returns of the MSCI indices of large and medium-sized

companies in the US, China, Germany and emerging markets¹, which were 0.77; 0.36; 0.85 and 0.73 respectively as of December 2021, have decreased to the corresponding values of 0.14; 0.20; 0.15 and 0.09 in February 2024. Such a decrease in the correlation between the yields of the RTS and MSCI US indices was observed only once in H2 2007, while it has never happened with the index of developing countries. This means that dynamics of the RTS index is in no way related to the dynamics of these stock indices, even the MSCI emerging markets index.

This phenomenon can be explained as such that under conditions of sanctions, the cash flows of funds of foreign portfolio investors from unfriendly countries still impacted on the change in the value of shares. However, indirect channels of interconnection between the Russian financial market and global financial markets through changes in prices for raw materials and other goods exported from Russia, preservation of the ruble convertibility to the dollar, euro, yuan and other currencies, prices for gold and other precious metals, prices for imported goods and some other channels remain.

Counter-sanctions policy

The key events of 2023 and the beginning of 2024 were associated with attempts to solve the problems of unfreezing the financial assets of Russian investors in foreign depositories and moving the securities of Russian companies² registered abroad to the Russian jurisdiction.

Despite the lacking full official information on the value of the mutually frozen assets as of 2023, they can be estimated as follows:

- Russian assets frozen in the EC area amounted to about \$273 bn,³ of which \$227 bn (84.1%) belonged to assets of the Russian Federation, \$29 bn (10.6%) to Russian legal entities under sanctions⁴, and \$17 bn (5.3%) to private resident investors;
- according to our estimates, the blocked investments of private foreign investors, amounted to about \$164 bn including \$133 bn (81.1%) in shares of Russian issuers,⁵ \$16 bn (9.8%) in OFZ and \$15 bn (9.1%) in Eurobonds of Russian issuers. However, estimates of the value of frozen investments in shares is conditional, since it is not reflected in the accounts of foreign investors.

1 The correlation ratio at the end of the month was calculated using monthly values of index returns for 3 preceding years according to the MSCI resource.

2 Companies implementing their principal activities the Russian Federation

3 According to Russian business media estimates, only about \$5-6 billion of Russian assets have been blocked in the United States. See: *Aleksey Dolzhenkov*. Russia is ready to respond to confiscation // *Monocle*. No. 5. January 29 – February 4, 2004.

4 According to a statement by European Commissioner for Justice Didier Reynders, as of the beginning of March 2024, Russia's state reserves worth Euro208 bn were blocked in European depositories. and assets of sanctioned entities worth about Euro27 bn. URL: <https://www.vedomosti.ru/politics/news/2024/03/05/1023870-es-hochet-dostich-dogovorennosti>

5 Calculated as 60% of the Free float of Russian shares, which is 33% of the amount of capitalization in 2023. The estimate of the indicated share of non-residents in Free float is based on statements of Moscow Exchange representatives published by RBC. URL: <https://www.rbc.ru/finances/12/12/2023/65783e559a79476ca3869857>

Some of these frozen assets and the income paid are recorded in so-called “C” accounts in Russian financial organizations, and their value is estimated at Rb1.06 trillion or about \$14 bn which according to representatives of the Russian Ministry of Finance, is approximately equal to the above-mentioned asset value of Russian private investors in the amount of \$17 bn, blocked in European depositories.

In 2023, Russia managed to partially solve the problem of unlocking assets belonging to Russian legal entities and individuals; according to the Bank of Russia, the amount constituted about Rb3 trillion rubles (\$33 bn).¹ This was mainly due to forced conversion of depository receipts for shares of Russian companies, issuance of replacement bonds and other measures. However, negotiations and court procedures have not been very successful, the value of the still frozen assets of about 2.5 mn private investors is about Rb1.6 trillion (\$17 bn) as of March 2024.

Moreover, during the second wave of blocking foreign assets of resident investors in November 2023, the St. Petersburg Stock Exchange and related client assets in its infrastructure organizations worth approximately \$3 bn fell under the US blocking sanctions.²

The mechanism of voluntary exchange of blocked assets of Russian and foreign investors envisaged by the Executive Order of the President of the Russian Federation No.844 dated 08.11.2023 “On additional temporary economic measures related to circulation of foreign securities”³ may be more effective in solving this problem.

It suggests the possibility of exchanging blocked foreign assets of Russian private investors up to the amount of Rb100.000 for foreign investors’ funds blocked on “C” type money accounts. According to subsequent explanations of the Ministry of Finance and the Bank of Russia, the said exchange is supposed to be conducted under voluntary auctions organized by the Voronezh broker Investment Chamber, which initiated such an original procedure. The responsibility for unblocking of the received foreign assets in foreign depositories lies with the purchasers of the said securities. According to the Ministry of Finance, implementing the above measures could reduce the value of unblocked assets by only Rb100 bn, however, the number of private investors affected by the asset freeze would be reduced by 2.5 mn out of 3.6 mn investors affected by the sanctions.⁴

In the context of preparation of a decision by the European Union on the unilateral withdrawal of income received on blocked assets of the Russian Federation⁵ in European depositories in the amount of about \$3 bn per year, risks of escalation of the conflict over blocked assets and retaliatory measures from Russia have significantly increased. Adoption of such measures in unfriendly countries increases the likelihood that the Russian Federation will introduce retaliatory measures in terms of similar withdrawal of a part of non-residents’ funds on “C” accounts or tougher conditions for repatriation of foreign capital

1 URL: <https://quote.rbc.ru/news/article/64e4d83a9a79473cbcf9b43e>

2 URL: <https://quote.rbc.ru/news/article/65d46d289a79478199c6ddef>

3 URL: <http://publication.pravo.gov.ru/document/0001202311080023>

4 URL: <https://quote.rbc.ru/news/article/654babc89a7947761d40573f>

5 URL: <https://www.consilium.europa.eu/media/69866/20240201-special-euco-conclusions-mff-ukraine-en.pdf>

in case of termination of production activities in Russia. At the same time, these measures may be asymmetric in many respects, since seizure of proceeds from frozen assets abroad mainly concerns government assets of the Russian Federation, while Russia's possible retaliatory measures will apply to the assets of private individuals and institutional investors.

Despite the available restrictions, in 2023 the value of non-residents' assets in government securities of the Russian Federation decreased from \$30bn in 2022 to \$16bn in 2023 for OFZs and from \$16bn to \$15bn for government Eurobonds. This indicates that in these market segments non-residents still had some opportunities to sell bonds to various structures of residents of the Russian Federation and non-residents from friendly countries.

A severe risk, including for the stability of the ruble exchange rate, remains the problem of foreign direct investment outflow by global companies deciding to stop doing business in Russia. According to the current legislation¹ in this case, selling transactions of Russian assets are subject to approval by foreign investment commission and should be concluded at a discount of at least 50% of the companies' market value. Moreover, the company must pay a "voluntary" contribution of 5 to 10% of the assets' market value to the budget.

According to the New York Times, in December 2023, losses of Western companies after the decision to leave Russia amounted to more than \$103bn. At least \$1.25bn was paid in 2023 to the budget from sale of business by non-residents in "voluntary" contributions. Many companies continue to stay in Russia because they do not want to lose funds they have invested in the development of Russian business.²

Owing to strict requirements related to sale of assets at high discounts imposed on non-residents going out of business in Russia in 2022–2023, the government has largely succeeded in preventing the impact of the direct outflow of foreign investments on weakening of the ruble exchange rate. However, in the long run, this measure may have more severe implications for the prospects of attracting DFI to Russia.

In order to maintain access to the capital market for Russian issuers admitted to listing on foreign stock exchanges and unblock the funds of their resident shareholders invested in depositary receipts, in 2023 a number of large companies fulfilled the procedure of re-registration of their parent holding companies from a foreign jurisdiction to Russia. According to investment company "Aigenis", organized by RBC³ publishing house, at the end of 2023, the aggregate value of equity securities of Russian companies moving from foreign jurisdictions amounted to about Rb2.6 trillion or \$28.5 bn. On the one hand, it creates additional opportunities for Russian investors to invest in shares of promising companies, and on the other hand, amid limited monetary resources of domestic investors

1 Executive Order of the President of the Russian Federation of 08.09.2022 No.618 "On Special Procedure for implementation (execution) of certain types of transactions (operations) between certain persons" and other legal acts.

2 URL: <https://www.forbes.ru/biznes/502683-nyt-ocenila-ubytki-zapadnyh-kompanij-posle-uhoda-iz-rossii-v-103-mlrd>

3 URL: https://pro.rbc.ru/demo/6560a1709a7947525c498723?from=article_body

may result in fire sale of shares of other issuers and reduction in share prices on the stock market.

In 2022, a decision was made to issue so-called replacement bonds in compliance with the Executive Order of the President of the Russian Federation aimed to prevent mass defaults of issuers of corporate Eurobonds due to sanctions restrictions on the fulfillment of their obligations, as well as blocking of assets owned by Russian investors,

Companies that did not receive special permits to retain Eurobond issues were obliged to issue replacement bonds instead of Eurobonds until January 1, 2024. This deadline was subsequently extended to July 1, 2024.¹ In turn, the Ministry of Finance decided to postpone the project to replace sovereign Eurobonds to 2024.² According to the Bank of Russia, the volume of the replacement bond market in 2023 amounted to Rb1.8 trillion, (\$19.8 bn), they were issued by 15 issuers replacing 49 Eurobond issues. According to the Bank of Russia experts, the replacement of corporate issuers' Eurobonds in 2023 was slower than market actors³ expected. The reason is the limited demand for a significant supply of these securities in the domestic market.

Thus, the unprecedented sanctions of unfriendly countries, adopted in 2022-2023, due to effective measures of the government did not result in a crisis of the domestic financial system, however, significant risks and restrictions for the domestic financial market still remain. Blocking of foreign assets of resident investors limits growth of domestic demand for financial instruments of Russian issuers, while blocked assets of foreign investors, primarily in shares, remain a "overhang" creating risks of falling prices for shares of the largest blue chips in case of unfreezing of these funds.

Internal factors affecting financial market

The most severe risks for investors in the Russian financial market in 2023 – early 2024, caused by internal factors, include tightening of monetary policy, liquidity problems and sufficiency of domestic demand for financial instruments, as well as risks of violation of minority investors' rights in the process of nationalization of certain private companies.

Rising inflation in 2023 resulted in raising the key rate by the Bank of Russia from 7.5% at the beginning of the year to 16.0%, keeping it at this level at the end of March 2024 (*Fig. 8*). Rising key rate creates risks of reduction in the market value of fixed-income bonds, increase in the cost of new bond borrowings for issuers, including the government, increase in the risks of financial stability of banks and

1 Executive Order of the President of the Russian Federation of 22.05.2023 No.364 On amendments to the Executive Order of the President of the Russian Federation No. 430 of 05.07.2022 "On repatriation of foreign currency and currency of the Russian Federation by residents-participants in foreign economic activities."

2 URL: <https://www.forbes.ru/investicii/502009-minfin-resil-otlozit-zamesenie-suveren-nyh-evrobondov-novymi-bumagami-na-2024-god>

3 Review of financial instruments. 2023. // Bank of Russia. Analytic material. 2024. URL: https://www.cbr.ru/Collection/Collection/File/48944/fi_review_2023.pdf

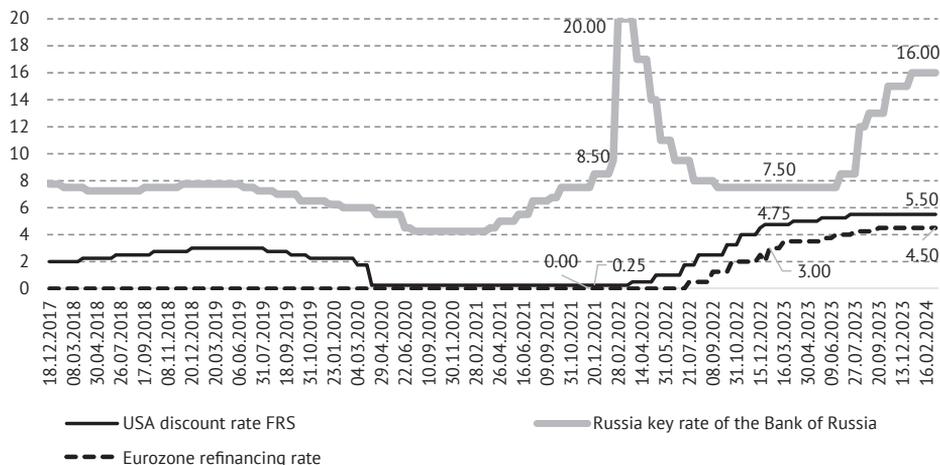


Fig. 8. FRS discount rate, European Central Bank refinancing rate and Bank of Russia key rate, % p.a. from December 2017 to March 7, 2024

Source: own calculations based on Cbonds.

other financial organizations, a significant part of whose portfolios are invested in bonds. Rising interest rates have a negative impact on the whole on the stock market, increasing the attractiveness of bank deposits and reducing the market value of stock issuers by increasing the discount factor of their future financial flows. However, part of this negative impact of rising interest rates on the value of shares is compensated by the fact that amid increased inflation companies' profits grow, and private investors invest additional funds in shares as an instrument that protects against inflation.

As of March 2024, actors of the Russian financial market, as well as investors in the financial markets of developed countries, expect a massive reduction in interest rates by central banks amid slowing inflation starting from the H2 2024, which may provide an impetus for growth in the stock and bond markets, including the domestic Russian market.

Stability of the domestic bond market largely depends on the level of liquidity of the banking system¹, which we estimate as the sum of surplus (+) or deficit (-) of banks' liquidity and the value of funds placed by banks on deposits with the Bank of Russia and in bonds (Fig. 9). As shown in the chart, on the whole, in 2023, the average liquidity of banks remained virtually unchanged compared to 2022. Its average daily level in 2023 amounted to Rb4.2 trillion compared to Rb4.3 trillion in 2022. However, in November-December 2023, as shown in Fig. 9, the liquidity of banks became very unstable, its average daily value during this period decreased to Rb 2.5 trillion. According to the Bank of Russia, this was primarily due to

1 Since banks are the main investors in the market of government and corporate bonds.

THE RUSSIAN ECONOMY in 2023

trends and outlooks

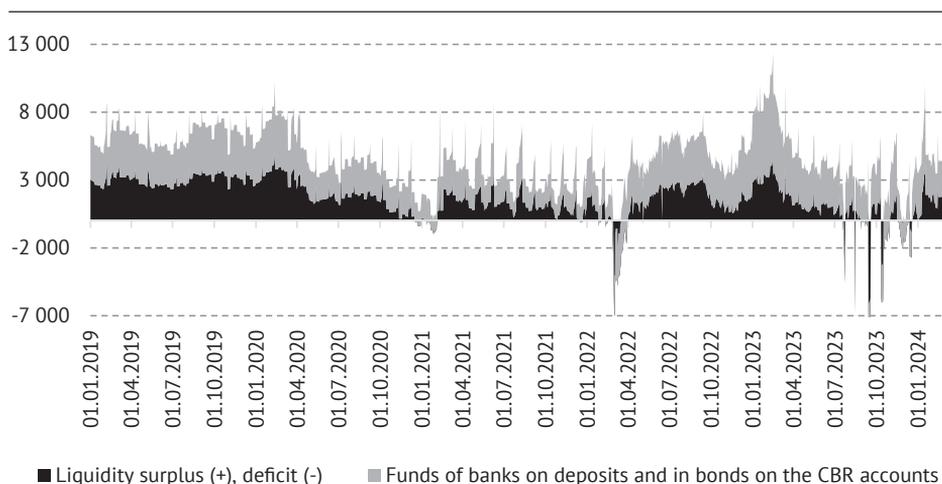


Fig. 9. Total bank liquidity from January 2019 to March 7, 2024, billions of rubles

Source: own calculations according to Bank of Russia. URL: http://www.cbr.ru/hd_base/bliquidity/

growing federal and regional budget expenditures at the end of 2023.¹ It may also be associated with significant investments by banks in corporate bonds in December 2023, when in one month, issuers placed bonds worth Rb 1.9 trillion or 25.7% of the annual volume of their new issues. In January-February 2024, bank liquidity recovered to the average daily level of Rb4.6 trillion.

The main sources to create bank liquidity were cash inflows from banks' activities, including temporarily free budgets' funds (Fig. 10), as well as refinancing by the Bank of Russia. In the context of the key rate growth in 2023 compared with 2022, the refinancing by the Central Bank of Russia began to play a more significant role in ensuring banks' liquidity, especially during the period of outflow of budgetary funds from the banking system in November – December 2023.

Average daily refinancing of banks due to Bank of Russia loans increased from Rb1.5 trillion in 2022 to Rb2.3 trillion in 2023, including up to Rb2.4 trillion in November – December 2023. Accordingly, the average annual refinancing share of the Bank of Russia in sources of bank liquidity rose from 35.3% in 2022 to 54.1% in 2023, including 96.1% in November – December 2023. According to experts of the Bank of Russia, at the end of 2023, banks mainly borrowed loans backed by non-market assets.²

In January-February 2024, as the outflow of budgetary funds from the banking system stopped, the share of refinancing in the sources of liquidity dropped to

1 On development of banking sector of the Russian Federation in December 2023 // Bank of Russia. Information-analytical material. January 2024. p.9. URL: https://www.cbr.ru/Collection/Collection/File/47805/razv_bs_23_12.pdf

2 On development of banking sector of the Russian Federation in December 2023 //Bank of Russia. Information-analytic material. January 2024 p. 9. URL: https://www.cbr.ru/Collection/Collection/File/47805/razv_bs_23_12.pdf

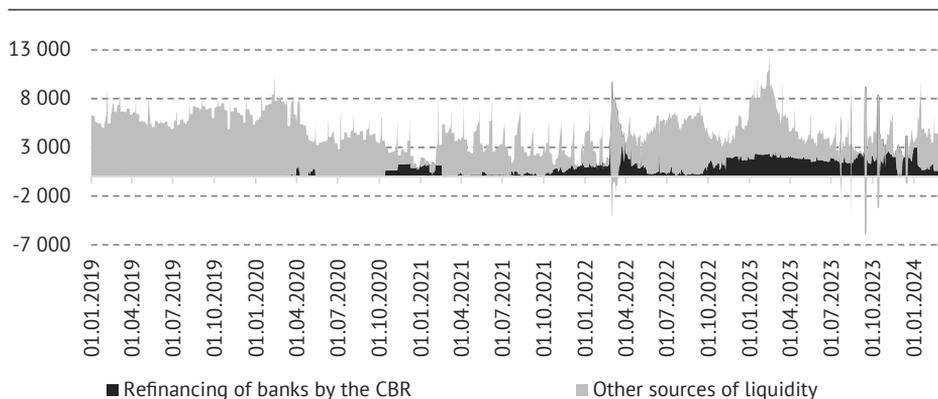


Fig. 10. Sources of bank liquidity from January 2019 to March 7, 2024, billions of rubles

Source: own calculations based on the Bank of Russia. URL: http://www.cbr.ru/hd_base/bliquidity/

21.4%. Cash flows from banks' core activities became the main source of liquidity support with the share of 78.6%.

Largely due to efforts of the Government of the Russian Federation and the Bank of Russia it was possible to maintain financial stability in the domestic stock and bond markets and to prevent devaluing of the ruble exchange rate. In 2023, exchange liquidity in the equity, non-government bond, money and foreign exchange markets generally recovered and exceeded the average level of exchange trading volumes over 2017–2021 (Table 6). In 2023, trading volumes on the equity market exceeded this annual average for the period 2017–2021 by 33.4%, while on the non-government bond market the similar excess amounted to 40.7%, on repo transactions on the money market – 80.4%, on the foreign exchange market the respective deviation amounted to only -1.0%. This was due to the involvement of private investors' funds and banks in the market, while limiting the opportunities for selling shares and bonds by non-residents. However, liquidity of the OFZ, futures and options markets in 2023 never recovered to the average levels of 2017–2021. The market for shares of foreign companies on the St. Petersburg Exchange ceased to exist; client assets in the exchange's depository were blocked abroad due to sanctions imposed on the SPSE and its settlement depository.

The resources of private investors on the stock exchange market are not unlimited; in 2022–2023, there was a tendency of slowing down the inflow of new funds to the stock market. According to the Moscow Exchange, in 2020–2023, the inflow of new funds of private investors on the stock market amounted to \$17.1 bn. However, it is decreasing from \$4.2 bn in 2020 and \$7.2 bn in 2021 to \$3.6 bn in 2022 and \$2.1 bn in 2023. Starting from 2024, the problem of attracting new funds to the exchange market may become more acute. Its solution implies not only the expansion of tax benefits for long-term savings on individual investment accounts (IIA) and in the Long-Term Savings Program (LTSP), but also the stimulation of institutional investors to more active investing in the market of shares and other risky assets.

Table 6

Trading volumes on the Moscow Exchange (ME) and the St. Petersburg Exchange (SPSE) from 2017 to February 2024, trillion rubles

	Mean value in 2017–2021	2022	2023	Changes in 2023 vs mean value in 2017–2021, %	January – February			
					2021	2023	2024	Change in 2024 vs 2021, %
1. Secondary trading volume:								
Shares, receipts, units	17,3	17,6	23,0	33,4	4,5	1,8	4,0	-10,2
OFZ	7,1	4,2	6,5	-8,8	0,8	0,5	0,7	-11,9
Non-government bonds	3,5	2,3	4,9	40,7	0,5	0,6	0,7	63,7
2. REPO operations	365,8	541,9	659,9	80,4	51,8	74,4	117,7	127,2
Including with central counterparty (CC)	230,9	301,8	364,0	57,6	32,9	39,6	67,5	105,2
3. Currency market	331,4	267,8	328,0	-1,0	46,9	36,3	55,1	17,5
4. Futures	102,8	75,6	77,9	-24,3	22,8	7,6	12,7	-44,1
5. Options	6,2	2,3	2,9	-53,2	0,9	0,3	0,5	-45,0
6. SPSE, foreign shares, billions of rubles	277,9*	122,2	33,9**	-87,8	74,2	9,4		

* Average for 2020–2021

** January-October 2023

Source: own calculations based on Moscow exchange and EPSE.

In 2023 and early 2024, risks of nationalization of stakes in companies that violated privatization legislation in previous years became apparent. As of the beginning of March 2024, according to RBC's calculations, more than 55 companies in Russia have been ruled in courts or are in the process of being considered for nationalization.¹ This was alarming for business, so the Russian Union of Industrialists and Entrepreneurs came up with a legislative initiative to protect bona fide acquirers from transferring their assets to the state.²

The uprise of a precedent of seizure of shares of public companies from their bona fide purchasers – minority investors became a significant risk for the stock market. It concerned the shares of Solikamsk Magnesium Plant (SMZ). In 2023, by court decision, the state became the owner of the bulk of the plant's shares, which privatization in the 1990s was deemed illegal by the court. After that, the Perm Region Prosecutor's Office filed a lawsuit to seize the remaining 10.6% of SMZ shares from the minority shareholders. On March 22, 2023, the Arbitration Court of the Perm Region satisfied the claim of the Kama Region Prosecutor's Office to seize the remaining SMZ shares owned by 2.266 minority shareholders in favor of the state.

1 For details see: *Alexander E. Abramov*. Subtraction of property: what risks for the economy and business nationalization brings // Forbes. March 13, 2024. URL: <https://www.forbes.ru/mneniya/507852-vycitanie-sobstvennosti-kakie-riski-dla-ekonomiki-i-biznesa-neset-nacionalizacia>

2 URL: <https://www.forbes.ru/biznes/506813-rspp-razrabotal-popravki-dla-zasity-biznesa-ot-deprivatizacii>

In response, Elvira Nabiullina, Governor of the Central Bank of Russia, stated that the Bank of Russia “will look” at what can be done in this situation, and the regulator will assess precedents concerning seizure of shares from minority shareholders taking in consideration the legislation.¹ In our opinion, in this case the question arises as to how effective is the norm of Article 302 of the Civil Code of the Russian Federation, which does not allow seizure of property from bona fide purchasers.

Investor strategies in the Russian market

To assess the ruble yield of various financial instruments available to private investors in the Russian financial market, *Table 7* provides data on the nominal yields of 114 portfolios and individual securities issues over the 10-year time horizon 2014-2023 and 2023, grouped into five categories: portfolios of Moscow Exchange indices, portfolios of bonds and mixed investments, portfolios of exchange-traded and open-end mutual investment funds (UIFs), individual issues of shares of issuers of the first, second and third tiers, as well as portfolios of factor strategies on the stock market.²

In 2023, the leaders in terms of profitability in the domestic market were the so-called second and third tier stocks (*Table 7, Fig. 11*).³ Thus, the yield of Globaltruck shares (No.82 in *Table 7*) amounted to 1031.4% per annum, TNS Energo Rostov-on-Don (No.82) to 438.3, Krasny Oktyabr (No.79) to 383.6, TGK-14 (No.83) to 361.8, RCC Energia (No.76) to 325.7, Sollers (No. 80) to 279.7%, while the yield of the Moscow Exchange index including dividends was only 53.8%. In 2023, the factor portfolio of shares of small-capitalization companies (No.90) was among the top ten in terms of return, with a 282.8% return among portfolio strategies.

The increased interest of private investors in second- and third-tier shares is one of the most noticeable trends on the Russian stock market in 2023. According to experts of the Bank of Russia, it is explained by the “lack of new investment ideas,” the weakening ruble exchange rate and rising inflation expectations, that is why “these securities may be considered as objects of speculative transactions.”⁴ However, the interest of private investors in these shares may be largely due to an attempt to find more profitable investments than blue chips. With non-residents’ funds blocked in the first-tier shares, the demand of domestic investors logically shifts in favor of those shares where non-residents’ investments are lacking or

1 The Central Bank was concerned about cases of seizure of shares bought at auctions from minority shareholders // *Vedomosti*. March 22, 2024. URL: <https://www.vedomosti.ru/investments/news/2024/03/22/1027391-izyatiya-aktsii-u-minoritariyev>

2 Portfolios of factor strategies on the stock market were calculated by the Laboratory for institutions and financial markets analytics, IAES RANEPА

3 The division of share issues into echelons is conditional and has no official classification. As a rule, the first tier includes stocks with high trading volumes and large shares in stock indices, while the second and third tiers include less liquid stocks. For the sake of simplification, with few exceptions, the second and third tiers are often referred to as shares from the second and third levels of the Moscow Exchange listing, respectively.

4 Review of financial instruments. 2023 // *Analytics*. Bank of Russia, 2024. p. 27. URL: https://www.cbr.ru/Collection/Collection/File/48944/fi_review_2023.pdf

Table 7

Returns in rubles on investments in financial instruments of Russian issuers
in 2014–2023 (% p.a.) and from January to February 2024 (%)

Strategies	Serial Number	Financial instruments	Returns, %		
			2014–2023	2023	Jan – Feb 2024
Indices of Moscow Exchange shares	1	Moscow Exchange index (IMOEX)	7,5	43,9	5,1
	2	Moscow Exchange total yields index (MCFTR)	14,4	53,8	5,7
	3	Index of RTSI in US dollars	-2,8	11,6	4,0
	4	RTS index of total gross yields (RTSTR) in US dollars	3,4	19,4	4,7
	5	Moscow Exchange mid-cap and small capitalization index (MCXSM)	8,0	60,5	5,2
	6	Moscow Exchange broad market index (MOEXBMI)	7,8	44,8	5,5
	7	Moscow Exchange blue chips index (MOEXBC)	6,9	43,2	4,2
	8	Moscow Exchange oil and gas index (MOEXOG)	9,7	56,4	3,0
	9	Electrical energy index (MOEXEU)	6,2	32,9	6,9
	10	Telecommunications index (MOEXTL)	-2,9	15,3	20,4
	11	Moscow Exchange Metals and Mining index (MOEXMM)	13,1	32,0	2,3
	12	Finance Index (MOEXFN)	6,4	58,8	5,8
	13	Moscow Exchange consumer sector index (MOEXCN)	2,5	52,6	12,1
	14	Chemistry and petrochemistry index (MOEXCH)	18,5	14,3	2,6
	15	Transportation index (MOEXTN)	2,6	133,5	5,4
	16	Moscow Exchange IT index (MOEXIT)		53,6	19,6
	17	Moscow Exchange Construction index (MOEXRE)		41,3	19,4
Bonds and mixed investments	18	Moscow Exchange government bond index RGBITR	6,6	0,8	-0,2
	19	Cbonds-GBI RU	6,8	0,7	-0,3
	20	Cbonds-GBI RU 1–3Y	7,2	2,0	1,4
	21	Cbonds-GBI RU 3–5Y	7,4	1,2	0,1
	22	Cbonds-GBI RU 5Y	6,9	-0,1	-0,9
	23	RUGBINFTR		1,7	-3,5
	24	IFX-Cbonds	9,1	5,9	1,7
	25	Cbonds-CBI RU BBB/ruAA-	8,1	2,7	0,8
	26	Cbonds-CBI RU BB/ruBBB	8,3	5,3	2,4
	27	Cbonds-CBI RU B/ruB-	10,6	10,3	3,0
	28	Cbonds-CBI RU High Yield		11,8	2,2
	29	Cbonds-CBI RU 1-3Y	9,1	4,2	1,2
	30	Cbonds-CBI RU 3-5Y	8,7	1,7	1,4
	31	Cbonds-CBI RU 5Y	6,7	-0,1	-0,9
	32	Shares 10% / bonds 90%	8,8	7,6	1,0
	33	Shares 40% / bonds 60%	11,2	21,4	1,6
	34	Shares 50% / bonds 50%	11,9	26,4	1,8
	35	Shares 60% / bonds 40%	12,6	31,5	1,9
	36	Shares 90% / bonds 10%	14,2	48,0	2,5
Collective investments	37	Index IF-FI – bond funds	9,5	5,5	2,1
	38	Index IF-MM – monetary market funds	8,4	11,6	2,6
	39	Index IF-EG – stock funds	15,6	63,8	4,4
	40	Index IF-PE – Electricity stock funds	9,3	24,8	4,8
	41	BPIF Liquidity MC VIM Investment		9,5	2,6
	42	BPIF Pervaya – Savings Fund MC Pervaya		9,3	2,6
	43	BPIF Pervaya – Corporate bonds Fund MC Pervaya		3,2	3,0
	44	BPIF Moscow Exchange Index MC VIM Investment		51,3	5,9
	45	BPIF Alfa Capital Managed bonds MC Alfa-Capital		12,7	2,2
	46	BPIF Gold. Stock Exchange MC VIM Investment		39,6	0,9
	47	BPIF Pervaya – Government bonds fund MC Pervaya		0,1	-0,2
	48	BPIF Pervaya – Responsible investment fund MC Pervaya		35,3	4,4
	49	BPIF Raiffeisen – High yield bonds MC Raiffeisen Capital		8,4	1,9
	50	BPIF DOKHOD Dividend shares index RF MC Dokhod		56,4	5,9
	51	BPIF DOKHOD Growth stock index RF MC Dokhod		42,9	8,1
	52	BPIF Gazprombank – Corporate bonds 2 years MC AAA Capital management		3,2	0,9
	53	BPIF Gazprombank – Corporate bonds 4 years MC AAA Capital management		0,9	0,6
	54	OPIF Pervaya – Russian shares fund MC Pervaya	9,1	60,6	4,7
	55	OPIF C Pervaya – Balanced MC Pervaya	10,1	42,1	3,3
	56	OPIF Aton shares – Peter Stolypin MC Aton-management	12,8	53,8	3,4
	57	OPIF Aton shares – Tier 2.0 MC Aton management	20,5	106,5	7,4
	58	OPIF Alyonka shares – Capital MC RECORD CAPITAL		113,9	27,9
	59	OPIF Oil/gas sector MC VIM Investment	15,5	86,2	5,2
	60	OPIF Pervaya – Mixed fund income producing MC Pervaya (June 2022)		28,7	4,7
	61	OPIF Treasury MC VIM Investment	8,0	5,5	1,3
	62	OPIF Raiffeisen – Corporate bonds MC Raiffeisen Capital	5,5	6,7	1,5
	63	OPIF Raiffeisen – Dividend shares MC Raiffeisen Capital	7,4	60,1	4,9
	64	OPIF MM Monetary market. Rubles MC VIM Investment		9,2	2,6
	65	OPIF Metallurgy shares MC VIM Investment	17,0	40,1	0,3
	66	OPIF April Capital – Shares MC April Capital	19,8	55,5	5,1

Strategies	Serial Number	Financial instruments	Returns, %			
			2014–2023	2023	Jan – Feb 2024	
Shares of Russian issuers	67	Gazprom	1.4	-1.9	0.7	
	68	JSC Sberbank	10.4	92.8	7.2	
	69	Rosneft	8.9	61.9	-3.9	
	70	Lukoil	12.8	66.4	7.2	
	71	MMC Norinikel	11.6	5.6	-9.6	
	72	NOVATEK	13.7	34.1	-6.9	
	73	Surgutneftegaz (PJSC)	7.9	112.2	12.0	
	74	Sberbank (PJSC)	13.0	92.9	7.3	
	75	PJSC Ashinsky metallic plant (AMEZ)	34.9	140.7	6.7	
	76	PJSC RCC Energiya (RKKE)	19.8	325.7	-1.7	
	77	OJSC Belon (BLNG)	27.6	183.2	-2.8	
	78	PJSC GAZ (GAZA)	-0.6	124.8	11.4	
	79	PJSC Krasnyy Ochyabr (KROT)	27.2	383.6	6.9	
	80	PJSC Sollers (SVAV)	-0.7	279.7	5.1	
	81	PJSC TNS energo Voronezh (VRSB)		278.8	26.1	
	82	PJSC TNSenergo Rostov-on-Don (RTSB)		438.3	46.7	
	83	PJSC TGC-14 (TGKN)	22.3	361.8	26.0	
	84	PJSC European electric technique (EELT)		107.7	54.8	
	85	PJSC Samaraenergo (SAGO)		146.7	15.6	
	86	Globaltruck (MMC) GTRK		1031.4	-12.9	
	Factor strategies by Department for analysis of institutions and financial markets IAES RANEPА	87	Broad stock index (Wide Market)	14.0	55.6	5.5
		88	Broad stocks index – total returns (Wide Market TR)	21.0	69.4	6.3
		89	Stocks of Large Cap Companies (Big)	13.8	51.7	5.1
		90	Stocks of Small Cap companies (Small)	37.8	282.8	12.6
		91	Growth stocks (Growth L)	13.5	50.6	10.0
		92	Value stocks (Value H)	11.5	34.6	3.9
93		Stocks with low previous return (Low Return)	4.3	28.8	21.1	
94		Stocks with high previous return (High Return)	15.4	71.5	7.6	
95		Low liq stocks (Low Liq)	10.7	47.9	3.7	
96		High liq stocks (High Liq)	14.2	58.0	9.4	
97		Low dividend return stocks (Low DY)	14.2	39.9	5.7	
98		High dividend return stocks (High DY)	12.3	45.5	3.1	
99		Stocks without dividend payments (No Div)	15.6	77.9	8.8	
100		Stocks with dividend payments (Was Div)	12.9	44.3	3.7	
101		Stocks with low dividend return – total return (Low DY TR)	18.8	49.5	5.7	
102		Stocks with high dividend return – total return (High DY TR)	23.3	65.5	4.5	
103		Stocks without dividend payments – total return (No Div TR)	16.4	88.1	9.1	
104		Stocks with dividend payments – total return (Was Div TR)	20.6	59.7	4.7	
105		Private companies' stocks (Private)	15.0	44.0	4.7	
106		Stocks of state-owned companies (SOE)	12.3	64.1	4.5	
107		Private companies' stocks – total return (Private TR)	22.6	54.5	4.7	
108		State-owned companies' stocks – total return (SOE TR)	19.0	80.6	5.8	
109		Low market stocks (Low PE)	17.0	95.7	18.5	
110		High market stocks (High PE)	13.9	52.7	13.6	
111		Low market stocks – total return (Low PE TR)	23.3	109.6	20.1	
112		High market stocks – total return (High PE TR)	21.0	61.2	13.6	
113		Stocks of financial ecosystems (RusEco Index)		57.4	9.8	
114		Stocks of financial ecosystems – total return (RusEco Index)		64.2	9.8	

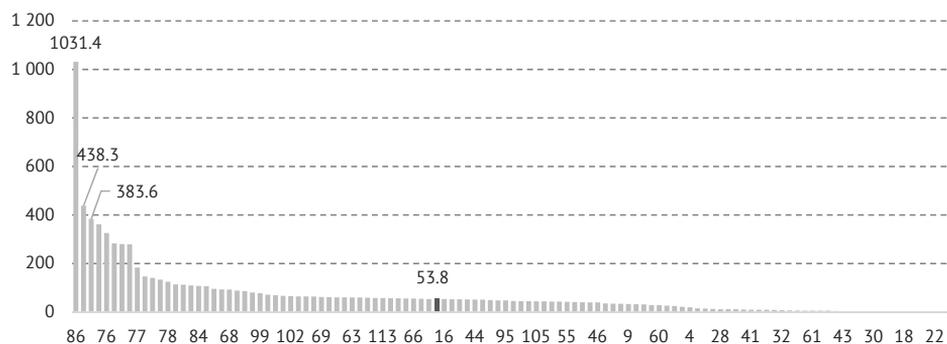
Source: own calculations based on Moscow Exchange, Cbonds and Constructor CAPM ru IAES RANEPА. URL: <https://ipei.ranepa.ru/ru/capm-ru/ruseco-index>

insignificant. In this sense, investments in the shares of new companies may become one of the drivers of structural transformation of the Russian economy if the appropriate regulation is available.

The lowest returns of 114 strategies under consideration in 2023 were those of Gazprom (No.67) at -1.9% p.a., and various government bond portfolios: index Cbonds-GBI RU5Y (No.22) – -0.1%, exchange-traded mutual fund Pervaya – State Bonds Fund managed by MC Pervaya (No.47) – 0.1%, index portfolios Cbonds-GBI RU (No.19) – 0.7% and RGBITR (No.18) – 0.8% and the inflation indexed government bonds RUGBINFTR¹ (No.23) in the amount of 1.7%. Similarly, one of the lowest yields for the year was demonstrated by the exchange-traded mutual

1 Index of the Moscow Exchange government bonds RUGBINFTR is the indicator of OFZ market attached to inflation (OFZ- Inflation).

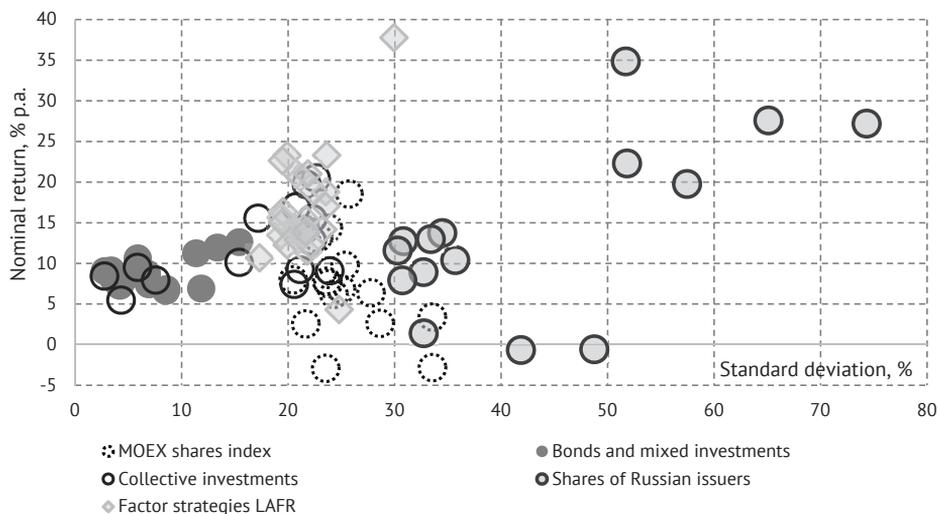
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Note. The investment strategy serial number corresponds to their names in *Table 7*. The return of the Moscow Exchange is highlighted in dark color on the graph – total return.

Fig. 11. Nominal ruble return of various financial instruments of Russian issuers in 2023, % per annum

Sources: own calculations based on resources of Moscow Exchange, Cbonds and Constructor CAPM-ru RANEPА. URL: <https://ipei.ranepa.ru/ru/capm-ru/ruseco-index>



Note. See Table 3 for ETF serial numbers on the chart.

Fig. 12. Average annual nominal yield and risk of ruble-denominated investments in financial instruments of Russian issuers over time horizon 2014-2023, % per annum

Sources: own calculations based MOEX, Cbonds and Constructor CAPM-ru resources, RANEPА. URL: <https://ipei.ranepa.ru/ru/capm-ru/ruseco-index>

fund Gazprombank – Corporate Bonds with a duration of 4 years managed by AAA Capital Management (No.53) in the amount of 0.9%. The low yield of bond portfolios, mostly with long duration, was caused by growth of the key rate of the Bank of Russia, and of Gazprom shares by the consequences of sanctions from unfriendly countries.

In 2023, 15 of the 27 factor investing strategies mentioned in *Table 7* outperformed the Moscow Exchange index by the return criterion – full return (*Fig. 11*).

Fig. 12 considers the return and risk indicators of 86 strategies out of 114 listed in *Table 7*, with data over a 10-year time horizon from 2014 to 2023. These strategies have also been grouped into five categories. High risks of direct investments in company shares (red circles), which are not always compensated by higher returns, present a special visual feature of the chart.

However, description of portfolios of collective investments, i.e. mutual funds, marked by green circles, and factor strategies of investing in shares,¹ primarily due to diversification effect, in many cases evidence significantly lower risk values and higher returns rather than direct investments in shares.

Moreover, many portfolios relevant to MOEX indices, where sectoral indices and benchmarks of issuers with different capitalization prevail, noticeably lose to factor strategies and portfolios of exchange-traded and open-end mutual funds in the sample by the yield/risk criterion.

Depending on the value of return/risk ratio, the most successful portfolios over the 10-year horizon under consideration were predominantly bond portfolios with investments in corporate bonds, as well as a mixed strategy of stocks 10% / bonds 90%. The said ratio amounted to 3.22 for IFX-Cbonds broad corporate bond portfolio (No.24), 3.06 for IF-MM index – money market funds (No.38), 2.69 for Cbonds-CBI RU 1-3Y index (No.29), 2.27 for Cbonds-CBI RU BBB/ruAA (No.25), from 1.81 to 1.72 – for three other corporate bond portfolios with different credit quality and duration (Nos. 27, 26 and 20), 1.62 – for IF-FI index – bond funds (No.37) and 1.44 – for the mixed portfolio of shares 10% / bonds 90% (No.32).

Among strategies with the lowest return/risk ratios were the telecom index portfolio (No.10) with -0.12, Sollers (No.80) and GAZ (No.78) with zero ratios, Gazprom (No.67) with 0.04, Moscow Exchange Transportation (No.15) with 0.09, Consumer sector (No.13) with 0.12 and Finance (No.12) with 0.25.

Thus, over the 10-year time horizon from 2014 to 2023, diversified portfolios of mutual funds and factor indices had a noticeable advantage in terms of return/risk on the domestic market compared to investors' direct investments in shares of different tiers and sectoral indices of the Moscow Exchange, while bond portfolios, primarily corporate ones, were noticeably superior to stock portfolios.

Map of returns and risks of ruble-denominated financial instruments

The map of returns and risks of ruble financial instruments for a private investor includes strategies with the average annual risk (standard deviation) from 29.9% to 74.3%, classified as portfolios with particularly high risk out of investments in 86 financial instruments on the horizon of 2014-2023 (*Table 8*). The ruble nominal yield of financial instruments included in this category ranged from -0.7 to +37.8%. This group of portfolios included only equity investments, with their major part being direct investments in second and third tier stocks (No.79, 77, 76, 83, 83,

1 Each factor strategy shown in *Table 7* is usually given as two portfolios – with and without dividends.

Table 8

Return and risk map of 86 investment strategies in ruble-denominated financial instruments of Russian issuers on a 10-year time horizon in 2014–2023

Strategies based on risk level	No.	Financial instruments	Per year, %:		
			Standard deviation (risk)	Return	Return/ risk ratio
High risk	79	PJSC Krasnyy Ocyabr (KROT)	74,3	27,2	0,37
	77	JSC Bellon (BLNG)	65,1	27,6	0,42
	76	PJSC RCC Energy (RKKE)	57,5	19,8	0,34
	83	PJSC TGC-14 (TGKN)	51,8	22,3	0,43
	75	PJSC Ashinsky metal works plant (AMEZ)	51,7	34,9	0,67
	78	PJSC GAZ (GAZA)	48,8	-0,6	-0,01
	80	PJSC Sotler (SVAV)	41,9	-0,7	-0,02
	68	JSC Sberbank	35,7	10,4	0,29
	72	NOVATEK	34,5	13,7	0,40
	3	RTS Index (RTSI) in US dollars	33,6	-2,8	-0,08
	4	RTS index of full gross yields (RTSTR) in US dollars	33,6	3,4	0,10
	74	PJSC Sberbank	33,4	13,0	0,39
	67	Gazprom	32,7	1,4	0,04
	69	Rosneft	32,7	8,9	0,27
	70	Lukoil	30,8	12,8	0,41
	73	PJSC Surgutneftegaz	30,7	7,9	0,26
	71	MMC Norinikel	30,3	11,6	0,38
90	Low cap companies' stocks (Small)	29,9	37,8	1,26	
Higher risk	15	Transportation index (MOEXTN)	28,7	2,6	0,09
	12	Finances index (MOEXFN)	27,8	6,4	0,23
	14	Chemistry and petrochemistry index (MOEXCH)	25,7	18,5	0,72
	8	MOEX oil and gas index (MOEXOG)	25,4	9,7	0,38
	7	MOEX blue chips index (MOEXBC)	25,0	6,9	0,27
	93	Stocks with low accumulated return (Low_Return)	24,8	4,3	0,17
	9	Electric energy index (MOEXEU)	24,3	6,2	0,25
	54	OPIF Pervaya – Russian Equity Fund MC Pervaya	23,9	9,1	0,38
	2	Moscow Exchange Index of full yield «gross» (MCFTR)	23,8	14,4	0,60
	1	MOEX index (IMOEX)	23,8	7,5	0,32
	6	MOEX broad market index (MOEXBMI)	23,6	7,8	0,33
	111	Stocks with low market valuation – total return (Low PE_TR)	23,6	23,3	0,99
	10	Telecommunications index (MOEXTL)	23,5	-2,9	-0,12
	109	Stocks with low market valuation – total return (Low PE)	23,5	17,0	0,72
	101	Stocks with low dividend return-total return (Low_DY_TR)	23,5	18,8	0,80
	97	Low dividend return stocks (Low_DY)	23,3	14,2	0,61
	11	MOEX metals and mining index (MOEXMM)	22,8	13,1	0,58
Moderate risk	57	Aton Equity OPIF – tier 2.0 MC Aton -Management Management	22,6	20,5	0,91
	108	State-owned companies' stocks – total return (SOE_TR)	22,4	19,0	0,85
	59	Oil and gas sector equity OPIF VIM Investments Management Company	22,3	15,5	0,70
	56	Oil and gas sector equity OPIF VIM Investments Management Company	22,2	12,8	0,58
	106	State-owned companies' stocks (SOE)	22,1	12,3	0,56
	112	Stocks with high market valuation – total return (High PE_TR)	21,9	21,0	0,96
	92	Value stocks (Value_H)	21,8	11,5	0,53
	66	April Capital OPIF – Stocks of April Capital Management Company	21,7	19,8	0,91
	36	Stocks 90% / bonds 10%	21,7	14,2	0,66
	94	Stocks with high accumulated return (High_Return)	21,7	15,4	0,71
	13	MOEX consumer sector index (MOEXCN)	21,7	2,5	0,12
	110	Stocks with high market value (High PE)	21,7	13,9	0,64
	96	High liq stocks (High Liq)	21,5	14,2	0,66
	104	Stocks with dividend payment – total return (Was_Div_TR)	21,1	20,6	0,97
	40	Index IF-PE – funds of electric power stocks	21,1	9,3	0,44
	100	Stocks with dividend payment (Was_Div)	21,0	12,9	0,62
	88	Broad index stocks – total return (Wide_Market_TR)	20,8	21,0	1,01

Strategies based on risk level	No.	Financial instruments	Per year, %:		Return/risk ratio
			Standard deviation (risk)	Return	
Moderate low risk	65	Metallurgy equity mutual investment fund VIM Investments Management Company	20,8	17,0	0,82
	87	Broad stocks index (Wide_Market)	20,6	14,0	0,68
	63	Raiffeisen OPIF – Dividend Stocks Raiffeisen Capital Management Company	20,6	7,4	0,36
	5	MOEX average and small cap index (MCXSM)	20,5	8,0	0,39
	89	High Cap companies' stock (Big)	20,4	13,8	0,68
	98	Stocks with high dividend return (High_DY)	19,9	12,3	0,62
	102	Stocks with high dividend return – total return (High_DY_TR)	19,9	23,3	1,17
	103	Stocks without dividend payment – total return (No_Div_TR)	19,5	16,4	0,84
	105	Private companies' stocks (Private)	19,5	15,0	0,77
	107	Private companies' stocks-total return (Private_TR)	19,5	22,6	1,16
	99	Stocks without dividend payment (No_Div)	19,4	15,6	0,81
	91	Growth stocks (Growth_L)	19,3	13,5	0,70
	95	Low liq stocks (Low_Liq)	17,3	10,7	0,62
	39	Index IF-EG – stocks funds	17,2	15,6	0,91
	35	Stocks 60% / bonds 40%	15,4	12,6	0,82
	55	OPIF C Pervaya – Balanced MC Pervaya	15,4	10,1	0,66
	34	Stocks 50% / bonds 50%	13,4	11,9	0,89
Low risk	22	Cbonds-GBI RU 5Y	11,8	6,9	0,58
	33	Stocks 40% /bonds 60%	11,4	11,2	0,99
	19	Cbonds-GBI RU	8,6	6,8	0,81
	18	MOEX government bond index RGBITR	8,5	6,6	0,78
	61	OPIF Treasury MC VIM Investments	7,6	8,0	1,05
	21	Cbonds-GBI RU 3–5Y	6,9	7,4	1,07
	30	Cbonds-CBI RU 3–5Y	6,7	8,7	1,30
	32	Stocks 10% / bonds 90%	6,1	8,8	1,44
	27	Cbonds-CBI RU B/ruB-	5,9	10,6	1,81
	37	Index IF-FI – bond funds	5,9	9,5	1,62
	26	Cbonds-CBI RU BB/ruBBB	4,7	8,3	1,76
	62	Raiffeisen OPIF – Corporate Bonds Raiffeisen Capital Management Company	4,3	5,5	1,27
	20	Cbonds-GBI RU 1–3Y	4,2	7,2	1,72
	25	Cbonds-CBI RU BBB/ruAA-	3,6	8,1	2,27
	29	Cbonds-CBI RU 1–3Y	3,4	9,1	2,69
	24	IFX-Cbonds	2,8	9,1	3,22
	38	Index IF-MM – monetary market funds	2,8	8,4	3,06

Sources: own calculations based on MOEX, Cbonds resources and Constructor CAPM-ru RANEPА.
URL: <https://ipei.ranepa.ru/ru/capm-ru/ruseco-index>

75, 78, 80, etc.), as well as in blue chips – Sberbank shares (No.79, 77, 76, 83, 75, 78, 80, etc.), as well as in blue chips – shares of Sberbank (No.68 – ordinary shares and No.74 – preferred shares), NOVATEK (No.72), Gazprom (No.67), Rosneft (No.69), Lukoil (No.70) and MMC Norilsk Nickel (No.71), Surgutneftegaz (No.73).

The second group of high-risk strategies included portfolios with risk values ranging from 22.8% to 28.7% and a range of average annual returns from -2.9% to 23.3%. This group also includes only equity investments, but, unlike the first group, conducted through diversified broad and sectoral indices of the Moscow Exchange and separate factor portfolios.

This group of strategies includes MOEX broad index portfolios – total returns (No.2) and without dividends (No.1), MOEX broad market index (No.6), open-end mutual fund Pervaya – Russian equities fund managed by MC Pervaya (No.54). Considering sectoral portfolios, this group of strategies included MOEX transportation indices (No.15), chemicals and petrochemicals (No.14), finance

(No.12), electric power (No.9) and telecommunications (No.10), as well as five factor stock portfolios (Nos.93, 97, 101, 109, 111).

The third group of strategies marked by a moderate risk included portfolios with a risk indicator from 20.8% to 22.6% and a return range from 2.59% to 21.0%. Only one – stocks 90% / bonds 10% (No.36) of the 18 strategies in this group presents a mixed investment, all others are represented by diversified stock portfolios. This group includes 10 factor strategies, investments in the stocks of state-owned companies (No.106 and 108¹), stocks with high P/E ratios (No.110 and 112), stocks involving dividend payment (No.100 and 104), inertia strategy stocks (No.94) and some others. This group also includes four open-end equity mutual funds with a broad portfolio (No.56, 59, 66) and a second-tier equity fund (No.57).

The fourth group of moderately low-risk strategies includes portfolios with a standard deviation of 13.4 to 20.8% and a return range of 7.4 to 23.3%. This group also includes, in addition to three mixed investment portfolios – stocks 60% / bonds 40% (No.35), stocks 50% / bonds 50% (No.34) and the open-ended mixed investment mutual fund Pervaya – Balanced managed by MC Pervaya (No.55) – stock portfolios with lower return volatility. In this group of strategies, 10 portfolios represent factor investments, including investments in private company stocks (Nos.105 and 107), high dividend yielding stocks (Nos. 98 and 102), non-dividend paying stocks (Nos. 99 and 103), growth company stocks (No.91), low liquidity company stocks (No. 95), as well as portfolios of the Moscow Exchange index of mid- and small-capitalization companies (No.5), Raiffeisen dividend stocks open-end mutual fund managed by Raiffeisen Capital Management Company and other investments.

Finally, the fifth lowest risk strategy group consists of portfolios with a risk indicator between 2.8% and 11.8% and a return range between 5.5% and 11.2%. It includes exclusively bond portfolios and mixed portfolios of stocks 40% / bonds 60% (No.33), stocks 10% / bonds 90% (No.32).

Assessing the return and the risks of investment strategies that were available to the bulk of private investors in 2014–2023, a number of conclusions can be drawn.

The safest strategies for private investors are three of the five strategies listed in *Table 8*, namely, those with moderate, moderate-low and low risk. Over a 10-year horizon, the average annual returns of almost all portfolios in these groups are positive, which means that there is an almost minimal risk of a long-term investor leaving these portfolios with losses.

However, direct investments in shares of issuers of different levels, including blue chips, currently the most popular among private investors, are too risky strategies, which in some cases are not even compensated by an adequate risk premium.

Only diversified investments significantly limit investors' risks by providing comparable equity returns to direct investment. The portfolios of our

1 Same strategy without and with dividends.

sample of the largest exchange-traded and open PIFs greatly improve the accessibility of diversification to private investors. Using factor investment strategies, unfortunately, not yet popular in the domestic market and also allows to significantly increase the availability and efficiency of the effects of diversification of investments for private investors. Considering the criterion return/risk, bonds, especially corporate, remain more profitable investments for private investors.

Finally, mapping the return and risk of financial instruments with their information technology shown above on the example of a 10-year time horizon, allows investors to better assess opportunities of the domestic financial market and risks when making investment decisions in the implementation of different financial goals.

2.1.4. Crisis situations in financial markets

In 2023, global and Russian stock markets were recovering after a difficult 2022.

There have been no classical financial crises in this sphere. However, there is no universally recognized understanding of financial crisis. Risks of financial crises, quite often manifested in sharp drops in the prices of financial assets, are perceived as a rare and unpredictable event, called a “black swan.”¹ In this sense, financial crises are understood, for example, as situations where stock indices fall by 25% or more from their peak value within one year.²

In our view, the alternative “black turkeys” hypothesis of Lawrence Siegel³ and Paul Kaplan⁴ more accurately describe the dynamics of the Russian issuers’ equity market over long horizons since 1997. According to this theory, financial crises are considered as events lasting over time, starting from the moment of stock prices decline to their full recovery to pre-crisis values. In this context, financial crises are not such rare and unpredictable events; many capital markets continuously live amid such environment during long runs. Considering modern financial markets from the perspective of Siegel-Kaplan theory reveals important trends in capital markets over long time horizons.

Using the example of 70 MSCI indices measuring monthly changes in dollar value of shares of large and medium-sized companies from 59 countries (including Russia)⁵ over the time horizon from December 1969 to February 2024, we tried to assess to what extent the phenomenon characterized by the term “black turkey”,

1 *Nassim Taleb*. Black swan. The impact of the Highly improbable. 2-nd edition, add. / Translated from English. M.: KoLibri; Azbuka – Attikus, 2015.

2 *Barro R.J., Ursúa J.F.* Stock market crashes and depressions. NBER Working Paper № 14760. 2009. URL: <http://www.nber.org/papers/w14760>; Reinhart Carmen M., Rogoff Kenneth S. (2009). This time is different. *Eight Centuries of Financial Folly*. Princeton University Press.

3 *Lawrence B.Siegel*. Black Swan or Black Turkey? The State of Economic Knowledge and the Crash of 2007–2009 // *Financial Analysts Journal*. 2010. July/August. Vol. 66. Iss. 4. P. 6–10.

4 *Lawrence B.Siegel L.B.* Black Swan or Black Turkey? The State of Economic Knowledge and the Crash of 2007–2009 // *Financial Analysts Journal*. 2010. July/August. Vol. 66. Iss. 4. P. 6–10.

5 The dynamics of the Russian stock market in dollar terms was assessed using the RTS and RTS-to-total return indices.

i.e. stock indices that have not recovered for a long time, is typical for different countries, including Russia.

According to our estimates (*Table 9*), in February 2024, 58 stock indices of 70 examined or 82.3% of the indices in our sample, have not recovered from previous severe declines. The longest recovery time is the MSCI Japanese equity market index, which by February 29, 2024, has not recovered for 35 years since its peak in February 1989. The top five MSCI stock indices that have not yet recovered are also China and Thailand with the same recovery time of 30.2 years since their December 1993 peaks, Philippines with 27.1 years since January 1997, and Finland with 23.8 years since April 2000.

The world equity index, excluding U.S. equities, has recovered only 96.3% within 16.3 years from its October 2007 peak. At the same time, the MSCI emerging markets index is only 2.8 years away from its May 2021 peak. Surprisingly, but stock markets of 29 or 49.1% of all countries in our sample, did not recover to pre-crisis levels after 2007–2008 stock market crisis, which happened during global financial crisis. These indices include Russia’s RTS index, which has recovered only 45.8% over the past 15.7 years to its May 2008 value. For the RTS Total Return Index, the situation is more favorable: since its last peak in October 2021, it has reached 73.3% in 2.3 years.

Thus, based on Siegel-Kaplan approach to understanding financial crises, it can be concluded that most stock markets in the world, including the Russian one, are constantly experiencing prolonged recovery of stock values from previous shocks. In this sense, ensuring financial stability of capital markets may probably be understood not only as a financial regulation supporting the ability of these markets to withstand short-term equity price shocks, but also as creating background for growth and early recovery of these markets from previous financial crises. Examples of such new approaches in financial regulation include strategic measures in Japan and South Korea in 2023 and early 2024 to address the problem of chronically low equity capitalization of domestic companies.¹

Table 9

Panorama of financial crises is based on the MSCI stock indices in dollar terms of countries that have not recovered from financial shocks in the past as of February 29, 2024

Serial number	Country and groups of countries	Recovery period, years	Current value, % to peak	Peak year	Serial number	Country and groups of countries	Recovery period, years	Current value, % to peak	Peak year
1	Japan	35,0	95,2	Feb.89	30	Kuweit	15,9	60,5	Feb.08
2	China	30,2	40,2	Dec.93	31	Nigeria	15,9	11,5	Feb.08
3	Thailand	30,2	50,9	Dec.93	32	Marocco	15,9	39,6	Mar.08
4	Philippines	27,1	65,8	Jan.97	33	Egypt	15,8	39,9	Apr.08
5	Finland	23,8	39,1	Apr.00	34	Brazil	15,7	36,2	May 08
6	UAE	18,4	37,4	Sep.05	35	Norway	15,7	48,0	May 08
7	Jordan	18,3	15,3	Nov.05	36	Kazakhstan	15,7	75,0	May 08
8	Saudi Arabia	18,0	71,9	Feb.06	37	Oman	15,7	46,7	May 08
9	Vietnam	17,0	35,6	Feb.07	38	RTS Index	15,7	45,8	May 08

¹ See, for example: *Sanyal Shreyashi*. South Korea to speed up reforms for boosting shareholder returns and tackling «Korea discount» // CNBC – online. 15 March 2024. URL: <https://www.cnbc.com/2024/03/15/south-korea-plans-to-speed-up-reforms-to-boost-shareholder-returns.html>

Serial number	Country and groups of countries	Recovery period, years	Current value, % to peak	Peak year	Serial number	Country and groups of countries	Recovery period, years	Current value, % to peak	Peak year
10	Belgium	16,8	49,9	Apr.07	39	EM – Latin America	15,7	49,0	May 08
11	Italy	16,8	52,8	Apr.07	40	Czech Republic	15,7	39,1	June 08
12	Austria	16,8	32,4	Mar.07	41	Average of indices of 50 sample countries	15,3	53,0	
13	Ireland	16,8	42,1	May.07	42	Israel	13,9	73,5	Mar 10
14	Hungary	16,5	67,2	Jul.07	43	Chile	13,2	35,4	Dec 10
15	Rumania	16,5	80,7	Jul.07	44	South Africa	12,8	59,2	Apr 11
16	Estonia	16,5	46,4	Jul.07	45	Columbia	11,1	30,1	Jan 13
18	Australia	16,3	80,1	Oct.07	46	Mexico	10,9	89,1	Mar 13
19	Spain	16,3	51,5	Oct.07	47	Индонезия	10,8	80,1	Apr 13
20	Singapore	16,3	65,0	Oct.07	48	Lithuania	9,9	73,4	Apr 14
21	United Kingdom	16,3	66,6	Oct.07	49	Malasia	9,5	49,1	Aug 14
22	Poland	16,3	37,4	Oct.07	50	China class A	8,8	62,8	May 15
23	Turkey	16,3	38,5	Oct.07	51	Peru	5,8	91,6	Apr 18
24	Greece	16,3	2,8	Oct.07	52	Trinidad & Tobago	4,9	50,0	Mar 19
27	Bulgaria	16,3	17,2	Oct.07	53	New Zealand	3,1	67,7	Jan 21
17	World without USA	16,3	96,3	Oct.07	54	Hongkong	2,8	60,5	May 21
25	BRIC	16,3	55,3	Oct.07	55	Emerging markets	2,8	74,2	May 21
26	Portugal	16,2	28,1	Nov.07	56	EM Asia	2,8	72,3	May 21
28	Germany	16,2	88,9	Dec.07	57	South Korea	2,7	69,1	June 21
29	Slovenia	16,2	51,3	Dec.07	58	Index RTS-TR	2,3	73,3	Oct 21

Source: own calculations based on MSCI. URL: <https://www.msci.com/>

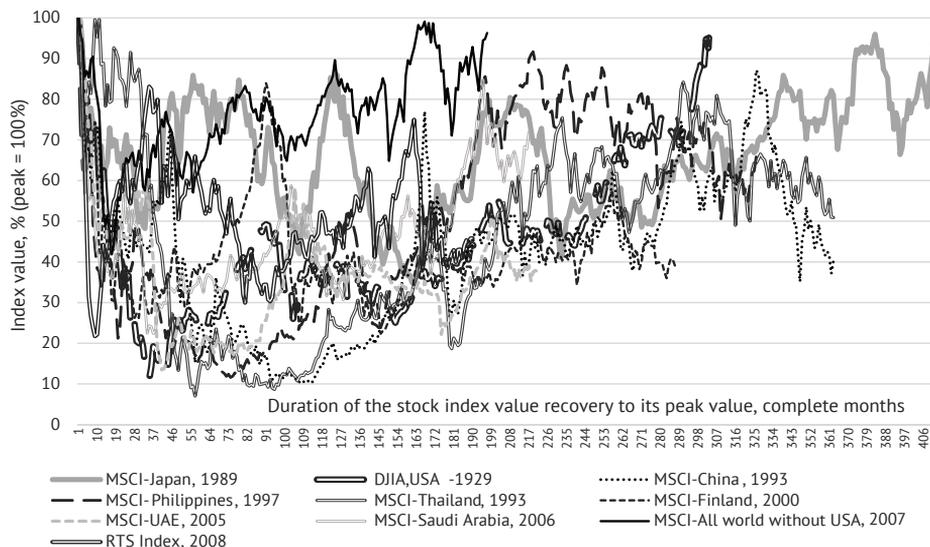


Fig. 13. Depth and duration of the longest recovery periods of stock indices as of February 29, 2024 (recovery duration in months, index value in % (peak = 100%))

Source: own calculations based on MSCI.

The recovery of the RTS index after May 2008 within 15.7 years to the level of only 45.8% is not the longest compared to other long-term financial shocks in modern history (Fig. 13). In the list of the longest financial crises, the most famous

is the recovery of the Dow Jones Industrial Average (DJIA) in the USA after the Great Depression of 1929 which lasted 25.3 years.

However, it currently ranks only 5th in terms of duration, behind Japan's Nikkei-225, which has been recovering for 35 years since February 1989, and MSCI's China, Thailand and Philippine large and mid-cap equity indices with recovery durations of 30.2; 30.2 and 27.1 years, respectively.

Moreover, the Japanese Nikkei-225 index in dollar terms is likely to recover in 2024, as its value as of February 29, 2024 was 95.2% of its pre-crisis peak in February 1989, which may become an important historic event in the world of finance. This is facilitated by significant improvements in economic growth and financial stability of the Japanese economy, as well as the implementation of measures of the country's government to increase the capitalization of national companies.

The duration of the RTS index recovery has already surpassed classic medium-term crises, such as the NASDAQ crisis in 2000 and South Korea's Kосpi index with recoveries of 14.8 and 15.3 years, respectively. As for the current path of slow recovery, the RTS index is still following the recovery path of the DJIA after the Great Depression of 1929.

In contrast to the dynamically growing MSCI – global companies index, the problem of slow recovery after the 2008 crisis of equity indices is typical for all BRICS countries, except for India (Fig. 14). Like the Russian RTS index, the MSCI-Brazil has been unable to recover for 15.7 years since May 2008, and its current value compared to its pre-crisis 36.2% is even lower than that of the Russian index (45.8%). The MSCI indices of companies from China and South Africa reached a recovery point at different times after 2008, i.e. they formally overcame the 2008

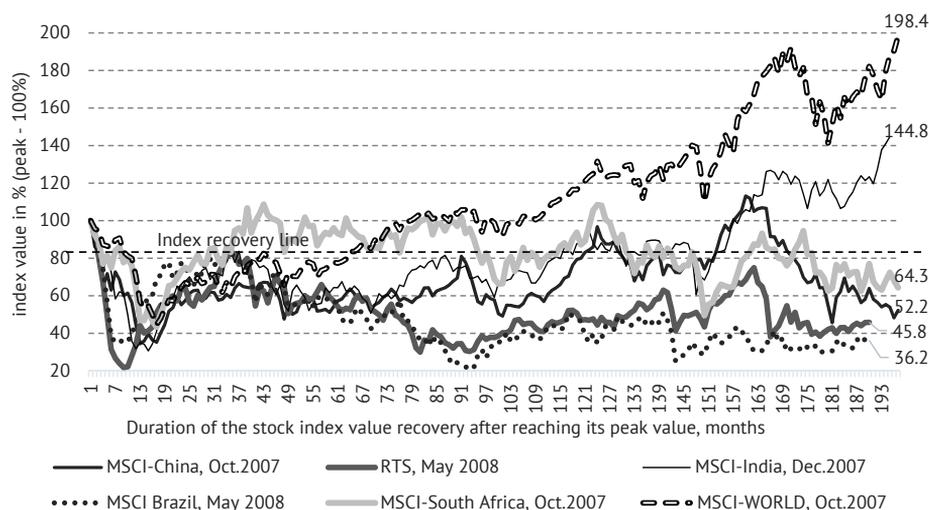


Fig. 14. Recovery dynamics of the BRICS and MSCI World indices in dollar terms after the peaks reached in 2007–2008 (peak = 100%) as of February 29, 2024

Source: own calculations based on MSCI.

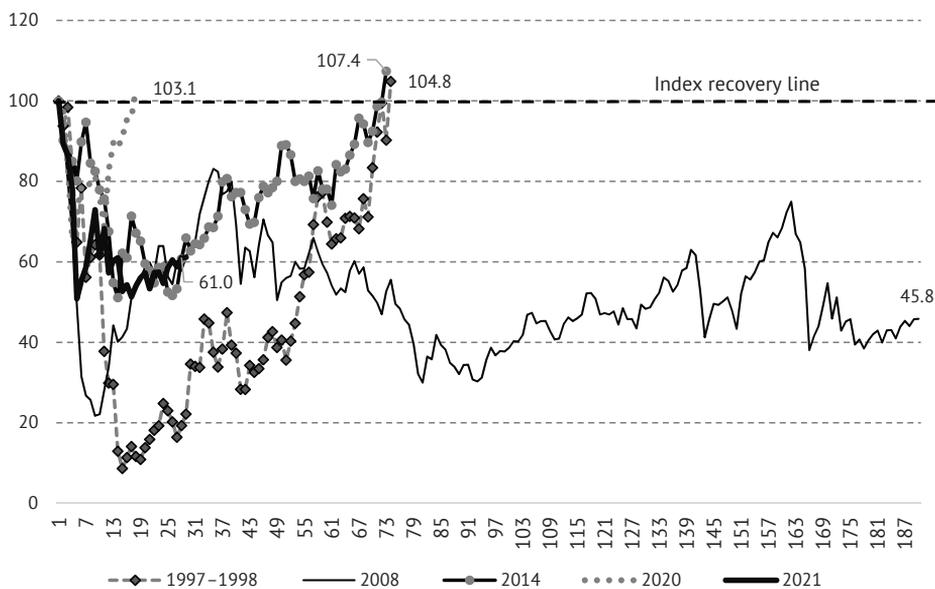


Fig. 15. Changes in the RTS Index relative to its peak values in July 1997, May 2008, February 2014, December 2019, and October 2021 on a time horizon measured in number of months, as of February 29, 2024, % (peak = 100%)

Source: own calculations based on MOEX

crisis. However, these markets have since experienced new recessions, thus, on February 29, 2024, values of MSCI-China and MSCI-South Africa were only 52.2% and 64.3%, respectively of their peak values in October 2007 for both indices.

More dynamic growth of the MSCI-India index is associated with high rates of economic growth in this country and stable inflow of foreign portfolio investments in securities of Indian issuers.

Since 1995, the RTS index has experienced five financial crises, when it declined by 60% or more; two of them, occurring in June 2008 and November 2021, have not ended to date according to the Segel-Kaplan criterion (Fig. 15). Apart from the time-delayed recovery of the RTS index from June 2008, the recovery of the RTS index from the more recent financial shock from November 2021 as of February 29, 2024, has lasted 28 months (2.3 years), with its current value at 61.0% of its peak in October 2021.

In relation to the peak value on December 29, 2021, after the SMO began, the Moscow Exchange ruble index recovered only 86.2% by February 29, 2024 (Fig. 16). Factors that impede the recovery of blue-chip stocks, constituting the core of the above index, are their dependence on blocked foreign fund investments and limited demand from domestic investors compared to the market value of outstanding shares of major issuers.

During the period under review, the recovery rate for Gazprom shares was 47.3%, MMC Norilsk Nickel – 63.6, NOVATEK – 78.5, Rosneft – 96.5 and Sberbank

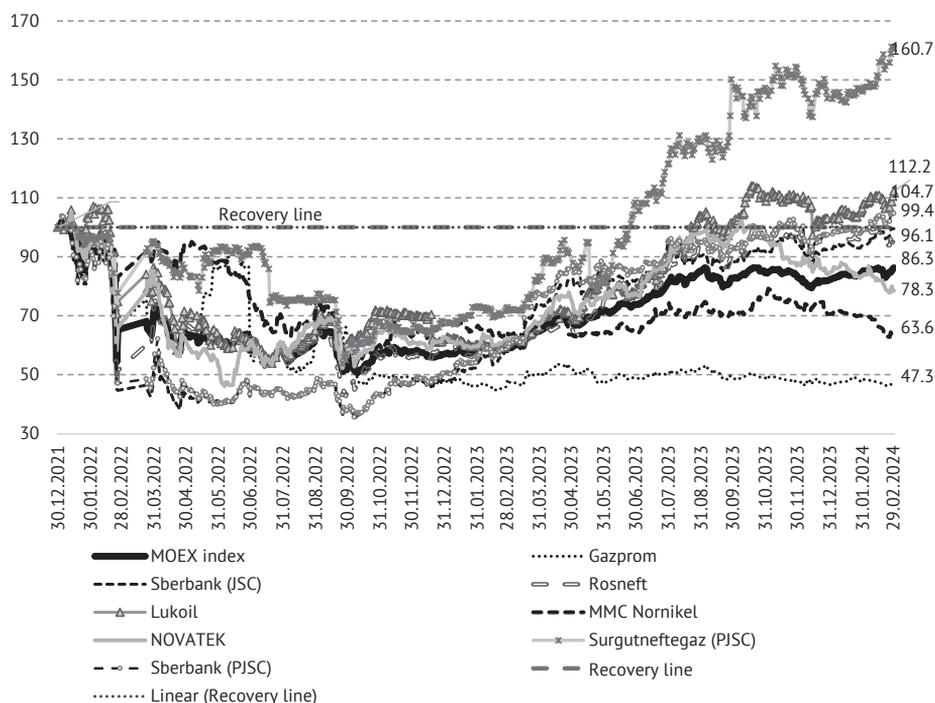


Fig. 16. Change in the value of Moscow Exchange index and share prices of Gazprom, MMC Norilsk Nickel, NOVATEK, Lukoil, Rosneft and Sber as of February 29, 2024, % (values of Moscow Exchange index and share prices of issuers as of December 30, 2021 = 100%)

Source: own calculations based on Moscow Exchange.

common shares – 99.6%. The recovery of those shares of large companies on which issuers paid high dividends was more favorable. For example, preferred shares of Sberbank reached 104.7% compared to prices as of December 29, 2021, shares of Lukoil reached- 112.2%, preferred shares of Surgutneftegaz – 160.7%.

A multiple increase in the value of many second and third tier stocks was a phenomenon of 2023. This phenomenon is only partly explained by speculative factors, to a large extent it can be considered as a search by qualified private investors for more profitable investments in shares of those companies that do not depend on the previous investments of non-residents with growth potential in the current economic environment.

On February 29, 2024 vs December 29, 2021, GAZ share prices amounted to 198.9%, Belon – 247.0, Ashinskiy metal works plant – 391.0, RCC Energia – 391.8, Sollers – 397.0, TGC-14 – 579.2, Krasny Oktyabr – 665.6, TNS Energo Rostov-on-Don – 709.4, Globaltrax (GTM) – 1681.7% (Fig. 17).

Thus, in terms of currency returns on long-term time horizons, the Russian equity market belongs to the category of markets marked by increased volatility and a tendency to long recoveries after periodic financial shocks.

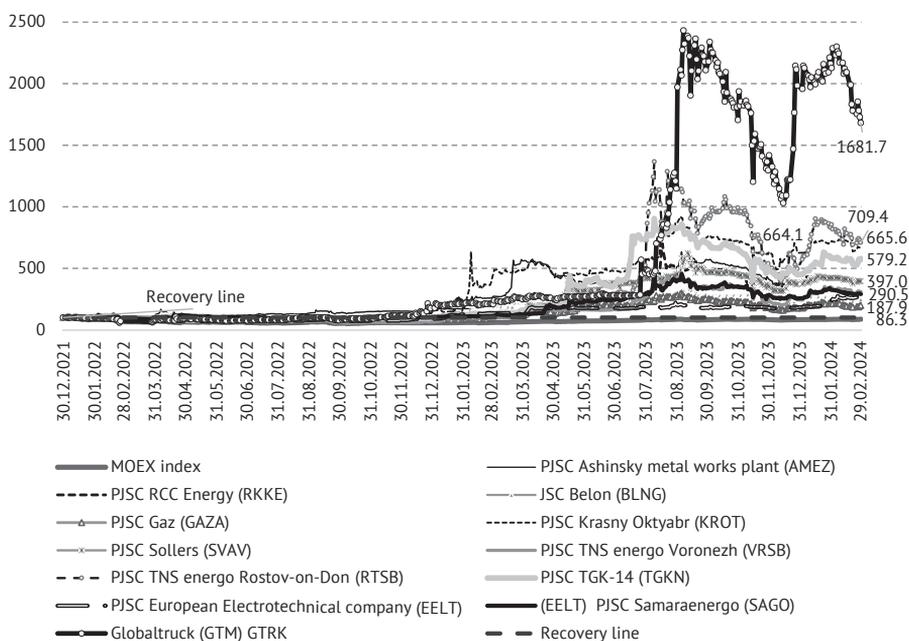


Fig. 17. Change in the value of the Moscow Exchange index and stock prices of a number of second-tier stocks on the Moscow Exchange as of February 29, 2024, % (values of the Moscow Exchange index and issuers' share prices as of 30.12.2021 = 100%)

Source: own calculations based on MOEX data

Currently, like indices of many other countries, the RTS index has not fully recovered from the 2008 crisis and geopolitical events in 2022-2023. The recovery of Russian stock indices in ruble terms is more rapid; as of the beginning of 2024, the Moscow Exchange index has almost recovered to the level of December 2021. In terms of stock returns, the domestic market is becoming increasingly segmented, with moderate price growth of most blue chips accompanied by rapid price growth and increased volatility of second- and third-tier stocks.

2.1.5. Institutional parameters of the Russian equity market

The capitalization of Russian companies increased from \$567 bn in 2022 to \$673 bn in 2023 or by 18.7% (Fig. 18). The net worth of companies partially overcame a 23.4% decline in 2022. In 2023, the equity market's liquidity worth of \$236 bn virtually remained at the previous year's level, an increase of the mere 2.6%, while in 2022 its decline was equal to 39.5%.

On March 22, 2024, the Chairman of the RF Central Bank declared about the need to double the capitalization of the Russian equity market by 2030.¹ By our estimates,

¹ Elvira Nabiullina called for doubling the potential of the Russian stock market // The Vedomosti daily, March 22, 2024. URL: <https://www.vedomosti.ru/investments/news/2024/03/22/1027382-nabiullina-fondovogo-rinka>

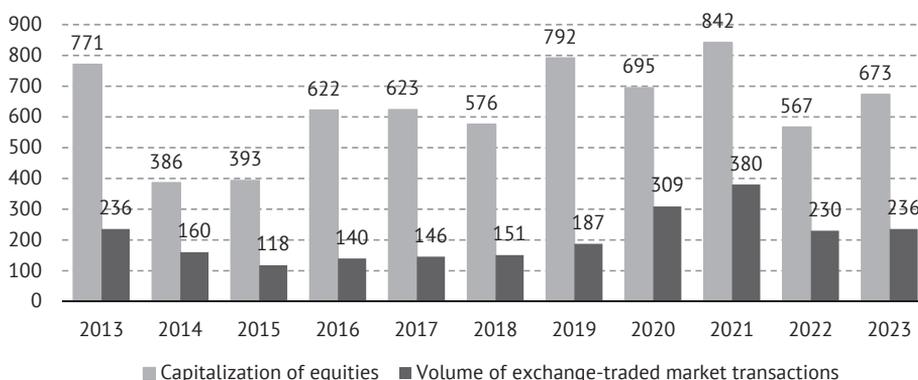


Fig. 18. Capitalization and the volume of market transactions with equities on the Moscow Exchange in 2013–2023, billion US dollars*

* Deemed as market transactions are deals made at an anonymous auction on the Moscow Exchange.
Source: own calculations based on the data of the World Federation of Exchanges.

in 2023 the capitalization/GDP ratio was equal to 33.3%, so, in 2030 this ratio should be around 66%. At the same time, in the updated text of the “Strategy for the Development of the Financial Market of the Russian Federation until 2030,”¹ the stock market capitalization/GDP ratio is planned to be equal to 50%–60% in 2030.

To achieve this result, it is necessary to ensure a considerable increase in domestic investors’ demand for equities. In 2023, growth in the value of Russian companies’ equities was largely facilitated by private investors’ transactions amid the ban on the sale of equities by non-residents, who, by our estimates, own about \$133 bn worth of equities or 60% of Free float. A sale of these equities may cause primarily a capitalization collapse of blue chips. This problem can be solved, for example, by means of a gradual repurchase of these equities by their issuers. Further, to increase capitalization it is necessary to ensure a considerable influx of new funds into domestic market equity instruments, primarily, from domestic institutional investors and non-residents from friendly countries.

To support the domestic stock market, the “Strategy 2030” envisages the implementation of the “Long-Term Savings Program” (LTSP), which became effective on January 1, 2024. However, according to our calculations based on a number of simple assumptions² and published LTSP targets in “The Strategy 2030”, with the existing proportions of investment of NPF pension reserves into Russian companies’ equities maintained, LTSP’s contribution to the support of the

1 Annex No.2 to “The Strategy for the Development of the Stock Market of the Russian Federation till 2030.” (as amended by RF Government Edict No.3753-r of December 21, 2023).

2 When assessing the cash flows of LTSP savings into equities, we proceeded from the following assumptions: 1. The main LTSP participants will be individuals with a moderate level of income amounting on average to Rb80,000 per month. 2. At the initial LTSP stages, the share of personal contributions and funds of their co-financing from the budget in the amount of individuals’ pension savings in their LTSP accounts will be equal to 17%–33%. 3. The average nominal return on investments of pension savings is equal to 5%–7% per annum. 4. The average share of investments of LTSP reserves into equities will be equal to 10.4%, that is, a similar average value of the NPF’s pension reserves in the period from 2019 to September 2023.

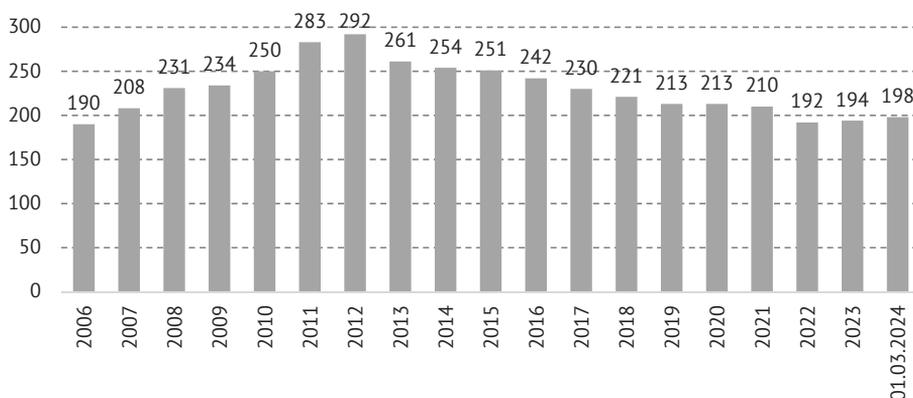


Fig. 19. The number of Russian companies listed at the Moscow Exchange in 2006 to March 1, 2024*

* As regards 2006–2011, the data are based on the MICEX listing; as regards 2012–2022, on the listing of PAO Moscow Exchange.

Source: own calculations based on the data of the NAUFOR Bulletin: “The Russian Stock Exchange Market in 2015. Events and Facts” in 2006–2008, as well as the data of the World Federation of Exchanges in 2009–2024.

equity market will be quite moderate. Overall, over seven years – from 2024 to 2030 - the flow of new funds from LTSP to the domestic stock market will amount only to Rb155 bn – Rb422 bn rubles or based on the average annual exchange rate of the ruble in 2023, to Rb1.8 bn to Rb\$5.0 bn. These funds are explicitly insufficient for planned capitalization growth.

Owing to the revival of IPO transactions, the Moscow Exchange has started to overcome the long-term trend of reduction in the number of listed companies since 2023 (*Fig. 19*). The number of listed issuers increased from 192 issuers in 2022 to 194 issuers in 2023 and 198 issuers as of March 1, 2024. At the same time, equities of non-residents-owned companies, which under sanctions became the property of Russian owners, did not appear on the stock exchange.

In terms of key ratios characterizing the depth of the stock market, the Moscow Exchange explicitly lags behind many foreign competitors. However, the sanctions introduced against the Russian financial market have not virtually affected the key indicators of its competitiveness.

As seen from the data in *Fig. 20, a, b, c*, in terms of the number of listed national companies in 2023, the Moscow Exchange lagged behind 36 world exchanges against 38 exchanges in 2021 (*Fig. 20, a*). The Moscow Exchange’s share in the total number of publicly traded companies worldwide even increased to 0.39% as compared to 0.38% in 2021. In 2023, in terms of capitalization value the Moscow Exchange lagged behind 22 world exchanges as compared to 19 exchanges in 2021; its share in the global capitalization of companies fell from 0.70% to 0.60%. (*Fig. 20, b*). In 2023, in terms of the volume of market equity transactions the Moscow Exchange lagged behind the same 27 exchanges as in 2021, but its share

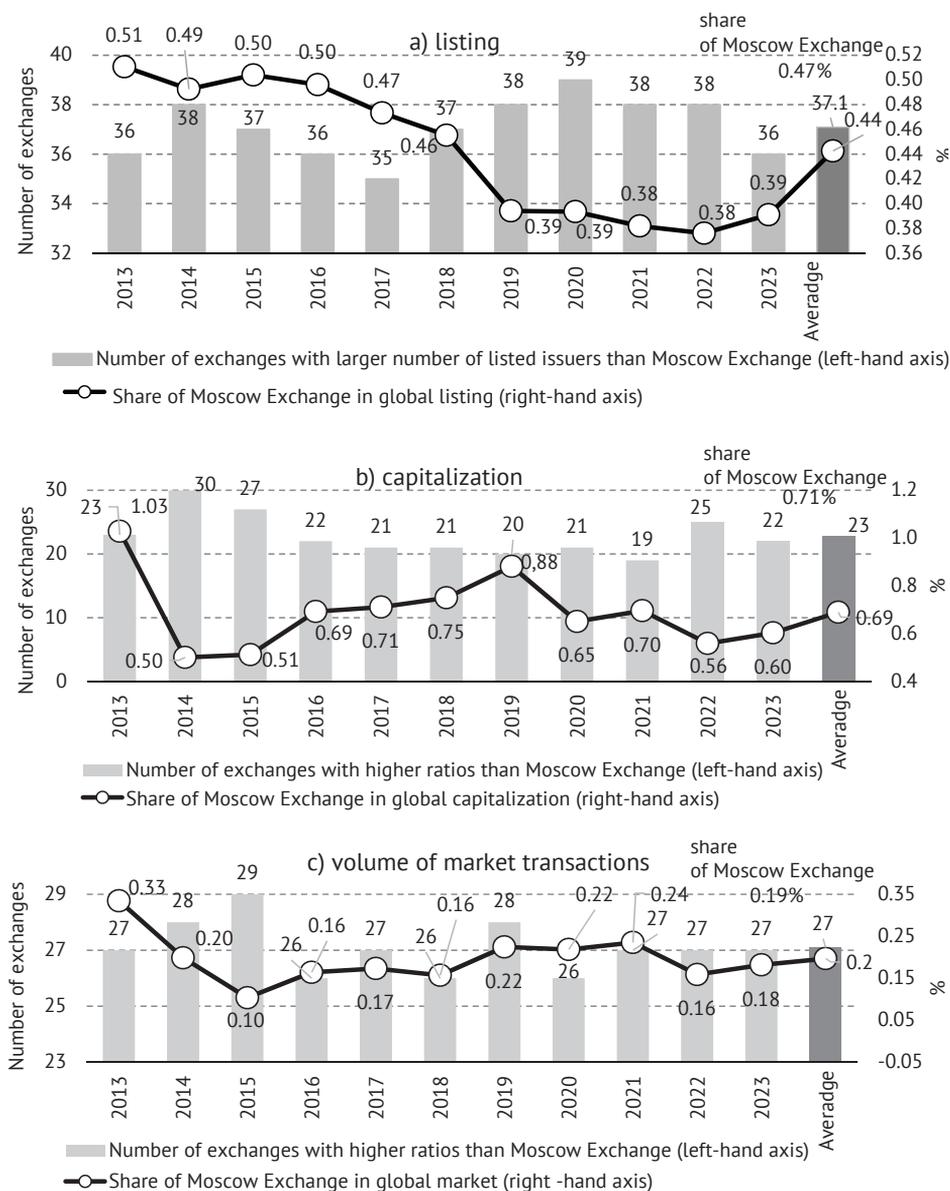


Fig. 20. Russian equity market competitiveness ratios in 2013–2023:

a) the number of foreign exchanges with a larger number of listed issuers than the Moscow Exchange (ME) and the share of ME in the sample of listed companies on the global stock market; b) the number of exchanges with higher capitalization of listed issuers than the Moscow Exchange and the share of ME in global capitalization; c) the number of exchanges exceeding the Moscow Exchange in terms of the volume of market transactions, and the share of the Moscow Exchange in the total value of market-traded equity transactions in the world.

Source: Own calculations based on the data of the World Federation of Exchanges and the Moscow Exchange.

in the total volume of exchange-traded equity transactions declined from 0.24% in 2021 to 0.18% in 2023.

A revival of the IPO and SPO market for Russian companies has become an important trend on the domestic capital market since December 2022; this became feasible owing to efforts mainly by small companies from the financial sector, the IT sector, the food industry and other sectors to raise market equity financing amid high interest rates on the debt market provided that there was demand for new public companies' equities on the part of private investors. According to the RF Central Bank's experts, individuals' interest in the stock market has increased amid households' growing incomes, the development of retail financing mechanisms and high dividend payments on Russian companies' equities.¹

According to our calculations based on an extensive sample of transactions related with public offerings of Russian companies' equities² (Fig. 21 and Table 10), in the period from 1996 to February 2024 the total volume of such transactions amounted to \$136.4 bn of which transactions done in 1996–2003, 2004–2013 and 2014–2023 accounted for 1.1%, 81.0% and 17.9%, respectively. IPO-SPO transactions worth \$529 mn and \$104 mn in 2023 and February 2024, respectively, accounted for the mere 0.4% and 0.1% of the total volume of transactions made from 1996 to February 2024.

A comparative analysis of the parameters of IPO-SPO transactions in the period from 2023 to January - February 2024 as compared with relevant transactions of previous years allows us to identify the specifics of the development of the market of public offerings of Russian companies' equities at the current stage.

Despite certain prevalence in value terms of IPO transactions over SPO transactions for a long time, there was a long-term trend of faster growth in secondary offering transactions over initial public offering transactions. In the pattern of public offering transactions, the average share of SPO transactions increased from 0% in 1996–2003 to 36.7 % and 48.2% in 2004–2013 and 2014–2022, respectively. In 2023, the share of IPO transactions increased to 85.3%, while in January–February 2024, to 100.0%. An increase in the share of IPO transactions in the overall pattern of transactions under review points to a more active influx of new companies to the market as compared to a relatively narrow circle of issuers which regularly carry out repeated offerings of equities.

In public offerings of equities, issuers have been raising more actively additional capital since 2023 for the development of companies compared to the resale of equities by former owners. If in 2004–2013 and 2014–2023 the average share of IPO-SPO capital raising transactions was equal to 55.8% and 40.9% of all transactions, respectively, in 2023 and in January - February 2024 it amounted to 84.2% and 100.0%, respectively. In other words, in the current situation IPO-

1 The Review of Financial Instruments. 2023. // The analytical material. The RF Central Bank, 2024. p. 24. URL: https://www.cbr.ru/Collection/Collection/File/48944/ri_review_2023.pdf

2 Here and below in the section on IPO-SPO transactions, deemed as Russian companies are legal entities registered in Russia (onshore companies), as well as foreign (offshore) companies whose main activities are carried out in the territory of the Russian Federation.

THE RUSSIAN ECONOMY in 2023

trends and outlooks

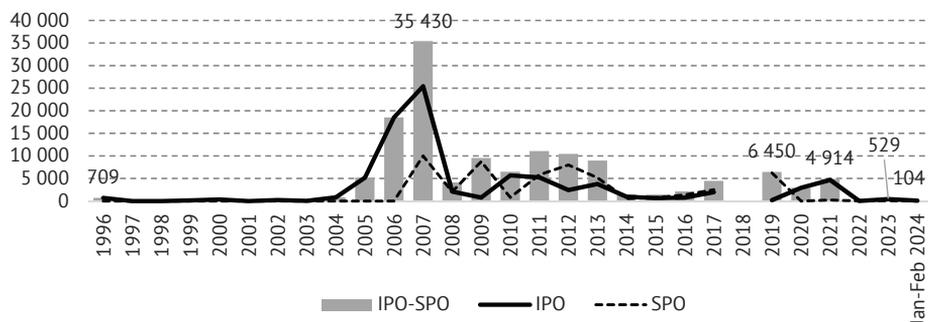


Fig. 21. IPO-SPO* equity transactions of Russian companies, 1996 – February 2024, million US dollars

* Here and below the notion of IPO-SPO transactions includes 8 categories of exchange-related transactions with equities of Russian offshore and onshore companies classified on the basis of three criteria: the place of transaction (Russian or foreign stock exchange), as well as the content of transaction (raising of a new capital for the company or resale of a package of equities by former owners)

Source: Calculations made by the Department of Financial Institutes and Markets Analysis of the IAES RANEPА on the basis of the official data of issuers and the Moscow Exchange.

SPO transactions are more focused on attracting new investments into issuing companies.

In 2023 and January – February 2024, all IPO-SPO transactions of Russian companies were carried out exclusively on Russian exchanges because of sanctions, while in the entire period from 1996 till early in 2024, on average 51.9% of IPO-SPO transactions of these companies on the basis of the value criterion were carried out on foreign exchanges.

In previous years, an important growth driver of the IPO-SPO market for Russian companies was privatization transactions with their equities on stock exchanges. Over the entire period under review, the share of privatization transactions in the total value of IPO-SPO transactions was equal to 38.1%. Though in the past two years the RF Ministry of Finance and the RF Central Bank have repeatedly taken the initiative to carry out privatization transactions on the stock exchange¹, no such transactions have been done on the stock exchange so far, so this can become an untapped growth potential of the IPO-SPO sector of Russian companies.

IPO transactions completed in 2023 and January–February 2024 were characterized by a higher level of the so-called “underpricing,”² which is generally regarded as positive information for investors because it suggests a higher level

1 *Mosolkina D.* The RF Ministry of Finance regards privatization as a source of replenishment of the budget next year // The Vedomosti daily, December 27, 2023. URL: <https://www.vedomosti.ru/economics/articles/2023/12/27/1013325-minfin-rassmatrivaet-privatizatsiyu-kak-odin-iz-istochnikov-popolneniya-byudzheta>

2 Underpricing is the difference between the equity price at the end of the first trading day and the offering price of the equities as a percentage of the offering price. Many experts consider undervaluation as an indicator of motivation of owners of the company, which is going public, to avoid overpricing of equities when setting the offering price to allow future investors to receive higher returns on these equities.

Table 10

The pattern of Russian companies' IPO-SPO transactions in the period from 1996 till February 2024

Classification criteria	1996–2003	2004–2013	2014–2023	Over entire period	2023	Jan. –Feb. 2024
1. Volume of IPO-SPO transactions, million US dollars	1 468	110 566	24 409	136 443	529	104
Including share of transactions in total volume, %	1.1	81.0	17.9	100.0	0.4	0.1
2. Type of transactions, share, %						
IPO	100.0	63.3	51.8	61.6	85.3	100
SPO	0.0	36.7	48.2	38.4	14.7	0
3. Transactions to raise capital for company, share, %						
IPO-SPO capital raising transactions	69.8	55.8	40.9	53.3	84.2	100
IPO-SPO transactions without capital raising	30.2	44.2	59.1	46.7	15.8	0
4. Transactions by place of execution, share, %						
Russian exchanges	1.9	46.1	59.7	48.1	100.0	100
Foreign exchanges	98.1	53.9	40.3	51.9	0.0	0
5. Privatization transactions, share, %						
IPO-SPO privatization transactions	40.7	41.8	21.2	38.1	0.0	0
Other IPO-SPO transactions	59.3	58.2	78.8	61.9	100.0	100

Source: Calculations made by the Financial Institutes and Markets Analysis Department of the IAES RANEPA on the basis of the official data of issuers and the Moscow Exchange.

of long-term return premium on publicly traded equities as compared to the Moscow Exchange index. Over a long historical period (1996–2023), the average size of underpricing of IPOs of Russian companies' equities was equal to the mere 5.3% on the back of the widespread practice of overpricing issuers' equities (*Table 11*). According to a study by J. Ritter et al. on average underpricing in different countries, the size of undervaluation of Russian companies is the lowest one across 26 countries.¹

In 2023 and early in 2024, the amount of undervaluation of IPO transactions with Russian equities increased considerably on average to 15.4% in 2023 and 9.8% in January - February 2024. This means that original owners set the offering price for equities at a more reasonable level with taking into account the interests of long-term investors.

Under new conditions, positive changes have also taken place in terms of SPO underpricing. Most commonly, taking into account the fact that repeated sales of SPO equity packages on the exchange are carried out with a prevailing shareholder value of these equities, the size of underpricing of such transactions should be

¹ Loughran T., Ritter J., Rydqvist K. Initial Public Offerings – International Insights // Pacific-Basin Finance Journal. 2020. No. 2. P. 165–1996. URL: <https://www.scirp.org/reference/referencespapers?referenceid=2914801>

**Undervaluation in case of IPO-SPO transactions by Russian companies
in 1996 – February 2024, % to the equity offering price**

	1996– 2003	2004– 2013	2014– 2023	Over entire period	2023	Jan. – Feb. 2024
On all transactions	12.5	6.6	4.8	6.2	8.0	9.8
including:						
IPO	12.5	4.6	5.9	5.3	15.4	9.8
SPO		13.4	3.3	8.5	0.3	
On Russian exchanges	12.5	8.4	4.5	6.9	11.3	9.8
On foreign exchanges	12.5	4.7	5.2	5.2		
Capital raising IPO-SPO	13.6	7.9	5.3	7.4	11.5	9.8
IPO-SPO with resale of equity packages	7.1	5.2	4.3	4.9	15.0	
IPO-SPO privatization transactions		2.9	4.2	3.4		
Other (non-privatization) IPO-SPO transactions	12.5	6.6	4.8	6.2	11.3	9.8

Source: Calculations made by the Financial Institutes and Markets Analysis Department of the IAES RANEPА on the basis of the official data of issuers and the Moscow Exchange.

insignificant and, on average, lower than that of IPO transactions.¹ Paradoxically, in the previous period the average SPO underpricing of 8.5% on the Russian stock market considerably exceeded the relevant IPO ratio of 5.3%. This means that SPO participants received a considerable premium to the detriment of the interests of other shareholders of the listed company. In transactions completed in 2023, this problem was solved; this year the average size of undervaluation was equal to 15.4% and 0.3% in case of IPO and SPO, respectively.

IPO transactions completed in December 2022 – February 2024 are characterized by positive parameters of the mid-term cumulative excess return on equities demonstrating profitability higher than the Moscow Exchange yield index. As shown in *Fig. 22*, in case of 11 transactions the cumulative excess return on the portfolio of these equities within 95 days after equity placement averaged about 20%, while in previous periods, by our own calculations, IPO transactions tended to have negative excess returns over a long period.

Thus, despite a relatively moderate volume of IPO-SPO transactions by Russian companies over the past year and a half, this market segment has lots of positive parameters as compared to the previous history of the equity market of public offerings because it acts as a driver of the domestic market development and attracts new issuers.

Another driver of the stock market development and appreciation of listed companies' net worth is their active dividend policy. Over the past 10 years, dividends have become an important factor influencing companies' value and investors' decision-making. This can be seen in accelerated growth in the number of companies paying dividends and the amount of dividend payments.

¹ High SPO undervaluation means that a package of equities was placed on the exchange at prices significantly lower than current exchange prices and this may infringe the interests of private investors who bought the issuer's equities on the exchange before SPO.

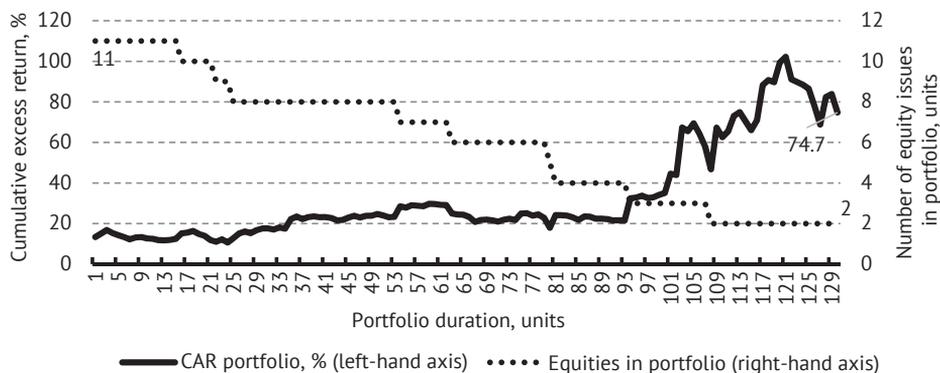


Fig. 22. Cumulative excess returns on the IPO Russian equity portfolio in respect of 11 IPO transactions completed in 2022 – February 2024 and calculated by means of the event window method over the period of up to 130 business days after completion of public offering transactions in equities, p.p.

Source: Calculations made by the Financial Institutes and Markets Analysis Department of the IAES RANEPA on the basis of the official data of issuers and the Moscow Exchange.

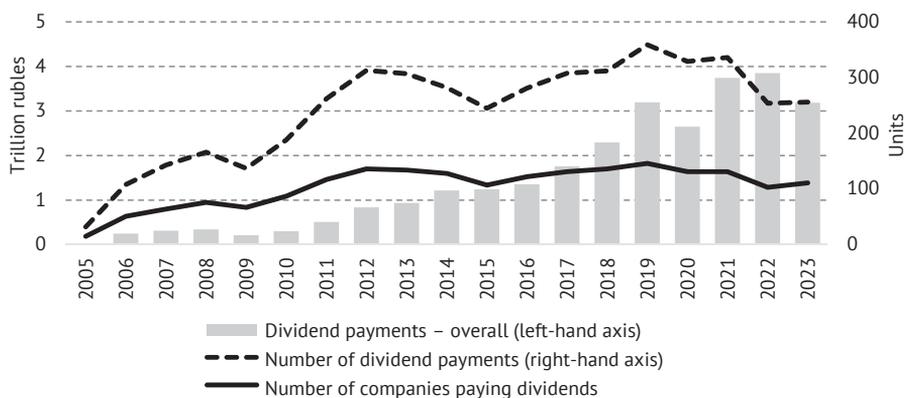


Fig. 23. The number of Russian listed companies paying dividends, the number of dividend payments and the sum of dividend payments in 2005–2023, trillion rubles

Source: own calculations based on the data of Cbonds, SPARK and the Moscow Exchange.

In 2005–2023, Russian companies paid Rb28.2 trillion worth of dividends of which Rb24.5 trillion or 86.9% were the dividends paid in 2014–2023 and Rb16.6 trillion or 59.0%, the dividends paid over the past five years (2019–2023) (Fig. 23).¹ At the same time, the number of listed companies paying dividends has stabilized over

¹ Here and below are the results of a study by the Financial Institutions and Markets Department of IAES RANEPA on Russian companies' dividend policy in 2005–2024 published at the EKONS internet resource. Abramov A.E., Chernova M.I. The Generosity Fair: Main Trends in Russian

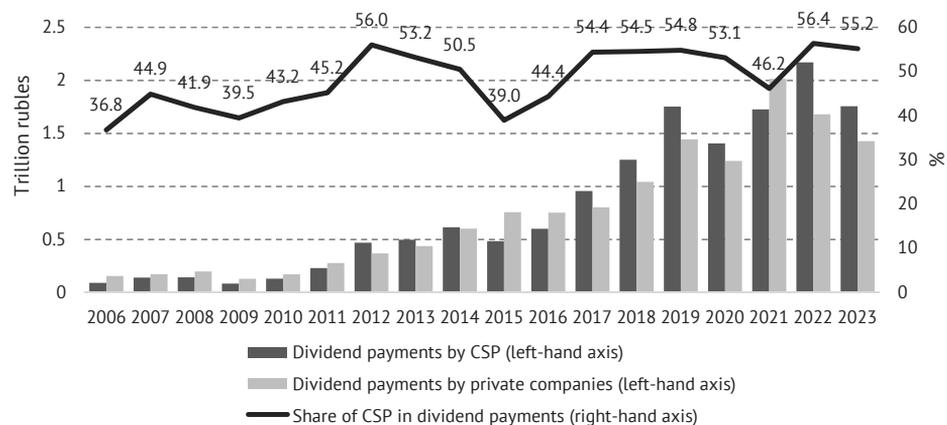


Fig. 24. The value of dividends paid by private companies and CSP (trillion rubles) and the share of dividend payments by companies with state participation in the total sum of dividend payments (%)

Source: own calculations based on the data of Cbonds, SPARK and the Moscow Exchange.

the past 10 years varying from year to year in the range of 103 companies to 146 companies.

Companies with state participation (CSP) account for a larger share of dividend payments.¹ In 2017–2023, with an exception of 2021 when dividends accrued in the year of the coronavirus epidemic were paid, the share of dividends paid by CSP fluctuated in the range of 54%–56% of the overall amount of dividend payments (*Fig. 24*). This may be the consequence of the Russian government’s measures taken during several years and aimed at ensuring dividend payments by each large CSP in the amount of at least 50% of the net profit.

The bulk of dividend payments was paid by a limited circle of large issuers. Six companies – Gazprom, Sberbank, Lukoil, Rosneft, Gazprom Neft and Norilsk Nickel – accounted for 68.3% of all dividend payments in 2023. The average share of these companies remains consistently high throughout the period under review; it has increased from an average level of 53.5% in 2006–2017 to 59.3% in 2018–2023.

A considerable increase in equities’ dividend yield from 2012 explicitly shows the dividend policy’s increased role in maintaining issuers’ investment appeal (*Fig. 25*). The average dividend yield of equities in the Moscow Exchange index increased from 2.3% in 2011 to 13.7% in 2023. Further, equities’ dividend yield has exceeded yield to maturity of government bonds in the portfolio of the RGBI broader index since 2019. This means that equities have become attractive to

Companies’ Dividend Policy // Ekons March 25, 2024. URL: <https://econs.online/articles/opinions/yarmarka-shchedrosti-glavnye-trendy-dividendnoy-politiki-rossiyskikh-kompaniy/>
¹ A company with state participation (CSP) is a state-controlled entity acting as a sole owner, owner of a majority equity interest or significant minority equity interest (share in the charter capital) of at least 10%.



Fig. 25. Weighted average dividend yield of equities of the Moscow Exchange index and yield to maturity of government bonds of the RGBI index, % per annum

Sources: own calculations based on the data of Cbonds, SPARK and the Moscow Exchange.

those investors who are pursuing a passive strategy of receiving a regular income on their capital investments.

The issue remains open as to what extent dividend payments facilitate growth in the value of Russian companies and the long-term profitability for their shareholders. On one hand, as shown in *Table 12*, equities with a high dividend yield on almost all time-horizons, except for the first two months of 2024, in terms of the total return, consistently outperformed the portfolio of equities with a low dividend yield. In addition, on all time-horizons – starting from 2021 – equities of companies with state participation brought higher total returns than a portfolio of equities of private companies, which situation may be the result of higher dividend payments by CSP as compared to private issuers’ equities in the specified years.

Table 12

The ratios of total (including dividends) returns and risks of portfolios of factor investment in Russian companies’ equities in various time periods on the 1999 – February 2024 horizon

Factor strategies	Cumulative geometric mean return, % per annum								
	2024*	2023	2 years (2022–2023)	3 years (2021–2023)	5 years (2019–2023)	10 years (2014–2023)	15 years (2009–2023)	20 years (2004–2023)	25 years (1999–2023)
1. Cumulative geometric mean return, % per annum									
Broad equity market	6.3	69.4	13.5	20.2	22.2	21.0	22.1	17.9	14.1
Equities with low dividend yield	5.7	49.5	2.8	14.8	19.8	18.8	19.3	13.3	10.5
Equities with high dividend yield	4.5	65.5	18.3	19.7	21.7	23.3	24.0	15.1	11.9
Equities without dividend payments	9.1	88.1	22.9	27.2	17.9	16.4	20.6	16.6	13.1

Factor strategies	Cumulative geometric mean return, % per annum								
	2024*	2023	2 years (2022– 2023)	3 years (2021– 2023)	5 years (2019– 2023)	10 years (2014– 2023)	15 years (2009– 2023)	20 years (2004– 2023)	25 years (1999– 2023)
Equities with dividend payments	4.7	59.7	10.0	17.6	21.0	20.6	20.5	13.8	10.9
Equities with high E/P ratio	20.1	109.6	26.7	26.6	26.4	23.3	23.5	17.9	14.1
Private companies' equities	4.7	54.5	10.6	16.9	23.0	22.6	25.1	14.2	11.2
CSP equities	5.8	80.6	15.3	20.9	19.8	19.0	18.4	8.2	6.5
2. Total return / standard deviation ratio									
Broad equity market		4.3	0.4	0.7	0.9	1.0	1.0	0.8	0.7
Equities with low dividend yield		3.0	0.1	0.5	0.7	0.8	0.8	0.5	0.5
Equities with high dividend yield		4.3	0.6	0.7	0.9	1.2	1.2	0.6	0.5
Equities without dividend payments		4.1	0.7	0.9	0.7	0.8	1.0	0.7	0.6
Equities with dividend payments		4.1	0.3	0.6	0.8	1.0	0.9	0.6	0.5
Equities with high E/P ratio		4.2	0.7	0.8	0.9	1.0	1.0	0.7	0.6
Private companies' equities		3.1	0.3	0.6	1.0	1.2	1.2	0.7	0.6
CSP equities		5.3	0.4	0.7	0.7	0.8	0.8	0.3	0.3

* Yield in January-February 2024.

Source: own calculations based on the data of the Konstruktor CAPM-ru Internet resource. URL: <https://ipei.ranepa.ru/ru/capm-ru>

On the other hand, a number of patterns confirm the correctness of Modigliani-Miller's ideas¹ that the distribution of net profit for dividend purposes and the size of the dividend yield do not have a fundamental impact on the value of companies and the total return on investments in equities. Firstly, as seen from the calculations in *Table 12*, in the past three years (2021–2023), despite rising dividend payouts, a portfolio of non-dividend paying equities generated higher returns than high-dividend equities. The same thing was observed on the horizons of 20 years and 25 years. Secondly, equities with higher E/P ratios (net income per share to the market value of these equities) consistently outperformed in most time periods under review of the 25-year time horizon (with the exception of 2009–2013) equities with high dividend yields. This is the evidence of the fact that the total return on equities depends to a greater extent on the size of net profit and not on its distribution for dividends and other purposes.

Most commonly, payments of substantial dividends lead to a fall in equity prices (a gap) starting from the ex-dividend date and their lengthy recovery eliminating such equities' total return advantages as compared to equities with modest dividends or without them.² An increase in dividend payments in

1 Miller M., Modigliani F. Dividend policy, growth and the valuation of shares // Journal of Business. 1961. Vol. 34. No. 4. P. 411–433. URL: <https://doi.org/10.1086/294442>

2 A dividend gap is characterized by a fall in the equity price on the first days from the ex-dividend date from which the purchase of equities does not allow the investor to expect the receipt of the declared dividend. As databases for the historical sample of dividend payments have an error and liquidity for a number of stocks is reduced, the study used a time window of 10 days and

2019–2023 was accompanied by growth in the depth of gaps and especially the deadlines for their closure. According to our calculations, for the entire sample of equities in 2022–2023 the dividend yield was on average 2 times less than the dividend gap and for equities of the Moscow Exchange index, 2.5 times less, especially, for those with a high dividend yield.

Thus, a high dividend yield, especially amid sanctions, helped considerably companies maintain their capitalization and increase shareholder loyalty to their equities. However, this led to new risks for investors in terms of dividend gaps with a subsequent slow recovery of the value of company equities. In such a situation, private investors need to be guided by more complex criteria for selecting equities, rather than simply focus their attention on the size of dividend yield. This increases the importance of financial information and its disclosure in order to ensure the interests and protect the rights of such investors.

Through mergers and acquisitions (M&A), stock markets facilitate structural changes in the economy. On the back of the US Fed Reserve's and EU central banks' rising interest rates and geopolitical tensions in 2023 as well as the year before, the world saw a decline in M&A transactions (*Fig. 26*). The volume of finalized transactions decreased from \$5.4 trillion in 2021 to \$3.4 trillion in 2022 and \$3.0 trillion in 2023. In 2022 and 2023, Russia also saw a decline in mergers and acquisitions. An increase in the number of such transactions amid sanctions, when many subsidiaries of foreign companies passed into the hands of Russian owners, did not bring about growth in the volume of the M&A market due to these transactions' low value formed in compliance with legal requirements. As a result, the volume of M&A transactions involving Russian companies decreased from \$37.7 bn in 2021 to \$28.1 bn in 2022 and \$22.3 bn in 2023. At the same time, according to our calculations based on the data of Merger.ru, Russia's share in the global volume of M&A transactions increased slightly from 0.70% in 2021 to 0.83% in 2022, with a subsequent decrease to 0.74% in 2023.

The Russian stock market is characterized by a high level of concentration of issuers in terms of capitalization, however, there has been a stable downward trend since 2020 (*Fig. 27* and *Table 13*). In issuers' total capitalization, the share of the top-ten PJSCs decreased from 70.1% in 2019 to 62.6% in 2023 and the share of the top-20 issuers, from 82.9% to 75.8%, respectively. This generally reflects important changes in the exchange listing pattern in terms of accelerated growth in market value and investment appeal of less liquid second- and third-tier equities as compared to blue chips.

In 2023, the capitalization of Russian companies did not recover to the level seen in 2021. In 2021, it was equal to Rb62.6 trillion, while in 2023, to Rb57.0 trillion or 91.1% of the 2021 level. At the same time, over the same period the capitalization of the top 10 issuers in terms of size recovered only to 86.7%.

the dividend gap was considered the maximum percentage drop in the equity price from the day preceding the ex-dividend date. The dividend gap closing period was calculated as the number of calendar days required to restore the equity price to the level of the day before the ex-dividend date. It was assumed that if the dividend gap on the equity was not closed within 726 or 727 days (depending on the leap year), it was recognized as not closed at all.

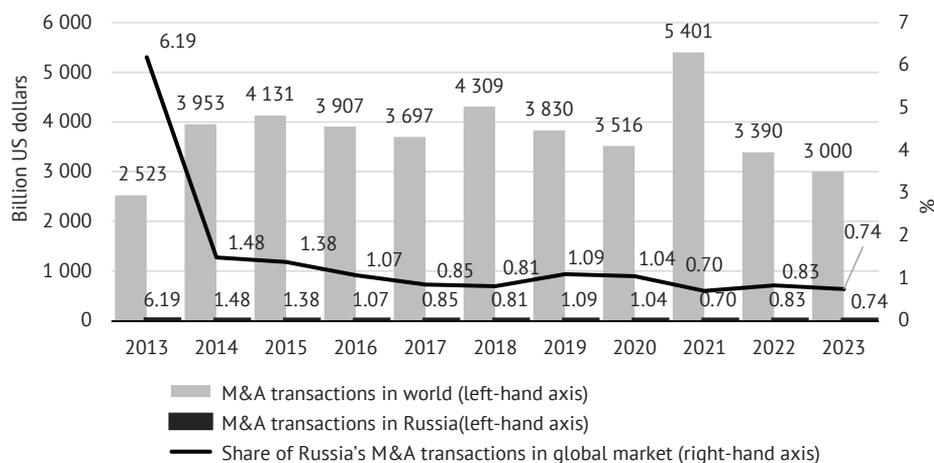


Fig. 26. The value of mergers and acquisitions (M&A) in the world and Russia (billions of US dollars) and the share of M&A transactions in Russia in the total value of relevant transactions in the world (%), 2013–2023

Source: own calculations based on the data of the Merger.ru information resource (URL: <http://mergers.ru/>) and SIFMA.

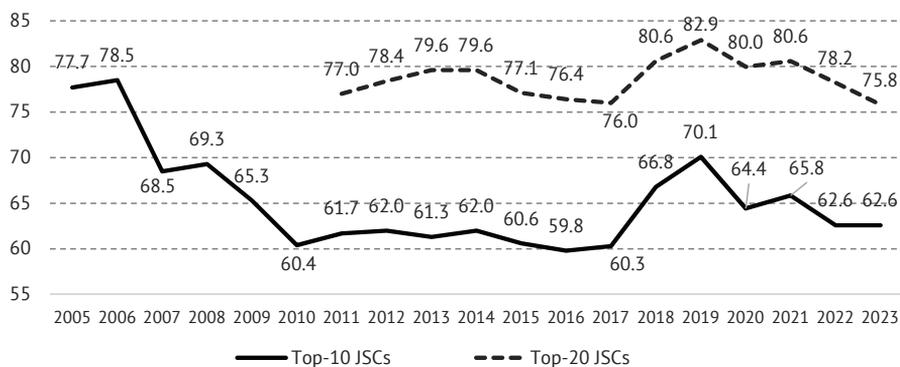


Fig. 27. The share of large PJSCs in the domestic market capitalization, %

Source: own calculations based on the data of the Moscow Exchange.

In 2021–2023, among the top 10 blue chips in the capitalization pattern, there was growth in the share of equities: Rosneft (from 10.1% in 2021 to 11.0% in 2023), Sberbank (from 10.1% to 10.3%), Lukoil (from 7.2% to 8.2%) and Gazprom Neft (from 4.1% to 7.0%). At the same time, there was a decrease in the share in the capitalization of such companies as Gazprom (from 12.9% to 6.7%), NOVATEK (from 8.4% to 7.8%), GMK Norilsk Nickel (from 5.6% to 4.3%) and “Polyus” (from 2.8% to 2.5%). The equities of Surgutneftegaz and Yandex dropped out of the top-ten group; their share in the total capitalization decreased from 2.3% and 2.3% in 2021 to 1.7% and 1.5%, respectively.

Table 13

Capitalization of Russia's top-10 public joint-stock companies (PJSC) in 2021–2023

	Issuer	2021		Issuer	2022		Issuer	2023	
		Capitalization, billion rubles	Unit weight, %		Capitalization, billion rubles	Unit weight, %		Capitalization, billion rubles	Unit weight, %
1	PJSC Gazprom	8 078	12.9	PJSC Gazprom	3 852	10.1	PJSC NK Rosneft	6 278	11.0
2	PJSC NK Rosneft	6 336	10.1	PJSC NK Rosneft	3 834	10.0	PJSC Sberbank	5 863	10.3
3	PJSC Sberbank	6 329	10.1	PJSC NOVATEK	3 242	8.5	PJSC Lukoil	4 680	8.2
4	PJSC NOVATEK	5 248	8.4	PJSC Sberbank	3 040	7.9	PJSC NOVATEK	4 448	7.8
5	PJSC Lukoil	4 539	7.2	PJSC Lukoil	2 811	7.4	PJSC Gazprom Neft	3 983	7.0
6	PJSC GMK Norilsk Nickel	3 496	5.6	PJSC GMK Norilsk Nickel	2 339	6.1	PJSC Gazprom	3 790	6.7
7	PJSC Gazprom Neft	2 568	4.1	PJSC Gazprom Neft	2 169	5.7	PJSC GMK Norilsk Nickel	2 476	4.3
8	PJSC Polyus	1 761	2.8	PJSC Polyus	1 044	2.7	PJSC V.D. Shashin Tatneft	1 539	2.7
9	YANDEX N.V.	1 447	2.3	PJSC FosAgro	828	2.2	PJSC Polyus	1 444	2.5
10	PJSC Surgutneftegaz	1 423	2.3	PJSC Surgutneftegaz	774	2.0	PJSC Severstal	1 172	2.1
	Capitalization of all issuers at Moscow Exchange	62 604	100	Capitalization of all issuers at Moscow Exchange	38 238	100	Capitalization of all issuers at Moscow Exchange	56 981	100
	Capitalization of top-5 issuers	30 528	48.8	Capitalization of top-5 issuers	16 778	43.9	Capitalization of top-5 issuers	25 252	44.3
	Capitalization of top-10 issuers	41 224	65.8	Capitalization of top-10 issuers	23 931	62.6	Capitalization of top-10 issuers	35 673	62.6

Source: own calculations based on the data of the Moscow Exchange. URL: <https://www.moex.com/s26>

In 2023, the share of CSP in capitalization amounted to 52.8%, which is only less than this ratio's record-high values seen in 2006–2007 and 2019 on the 2005–2023 horizon (Fig. 28). In 2023, advanced growth in capitalization of CSP by contrast with private companies can be explained by a higher level of

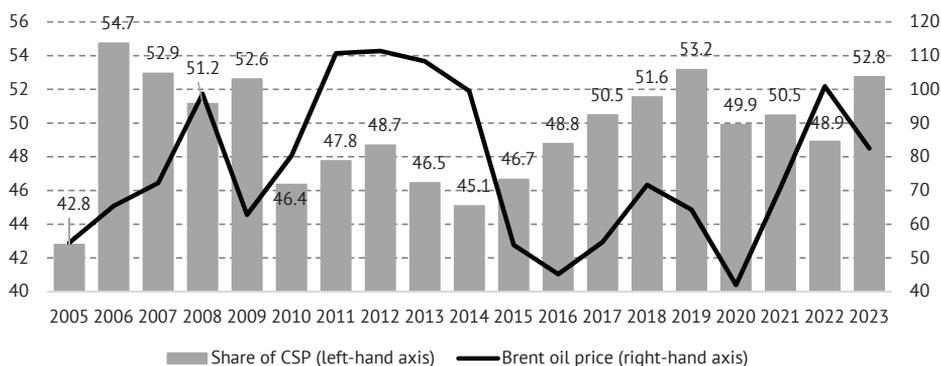


Fig. 28. The share of companies with state participation (CSP) in the capitalization of the domestic equity market and the price for a Brent oil barrel in 2005–2023

Source: Calculations made by the Financial Institutes and Markets Analysis Department of the IAES RANEP.

dividends paid by state-owned companies, as well as support they received from the government amid sanctions and the special military operation.

Thus, in 2023 despite sanctions and a decrease in export revenues, the equity market of Russian companies kept recovering. Growth constraints were still the suspension of the inflow of non-resident funds from unfriendly countries and low investment demand on the part of domestic institutional investors. There was a decline or slow growth in the capitalization of a number of large companies. At the same time, this market segment growth was facilitated by issuers' active dividend policy, private investors' high investment activity and the revival of the IPO-SPO market on the Moscow Exchange. Companies of the second and third echelons demonstrated significant capitalization growth.

2.1.6. The bond market

The situation on the bond market

In 2022, the domestic bond market remained stable owing to the moderately low key rate of the RF Central Bank and a liquidity surplus in the banking sector. With a decrease of 37.3% in the Moscow Exchange stock index, taking into account the full return, bonds made it possible to receive a positive ruble return. In 2022, the RGBI government bond index showed a market return of 3.7% per annum and the IFX-Cbonds broad corporate bond index, a market return of 11.9% per annum.

In 2023, less favorable conditions prevailed on the bond market on the back of a sharp increase in the key rate from 7.5% in July 2023 to 16.0% and some signs of unstable bank liquidity. In 2023, the Moscow Exchange index grew by 53.8%, while the yield of the RGBI and IFX-Cbonds indices decreased to 0.8% and 5.9%, respectively. However, investor confidence in the bond market did not decrease. On the contrary, according to the data of the Moscow Exchange, in 2022, private investors invested Rb243.5 bn and Rb299.4 bn worth of new funds in equities and bonds, respectively. In 2023, the influx of new funds from private investors into equities decreased to Rb178.1 bn, while on the bond market it amounted to Rb715.0 bn, that is, 4 times more.

According to the classical patterns of the bond market, an increase in the key rate is expected to restrain the bond market growth because it leads to an increase in issuers' costs associated with attraction of new debts and a decrease in the market value of earlier purchased bonds in investor portfolios. Rising borrowing costs limit issuers' ability to refinance debts, thus increasing the likelihood of bond defaults.

However, despite the increase in the key rate from July 24, 2023 from 7.5% to 16.0%, the so-called g-spreads on corporate bonds¹ increased on expectations of interest rate and credit risks, but to a level below the specified spreads as of the beginning of 2023 when the RF Central Bank's rate was equal to 7.5% (*Fig. 29*).

¹ The difference between the yield to maturity of corporate bonds as compared to the yield to maturity of government bonds with the same duration. It characterizes credit risks of corporate issuers.

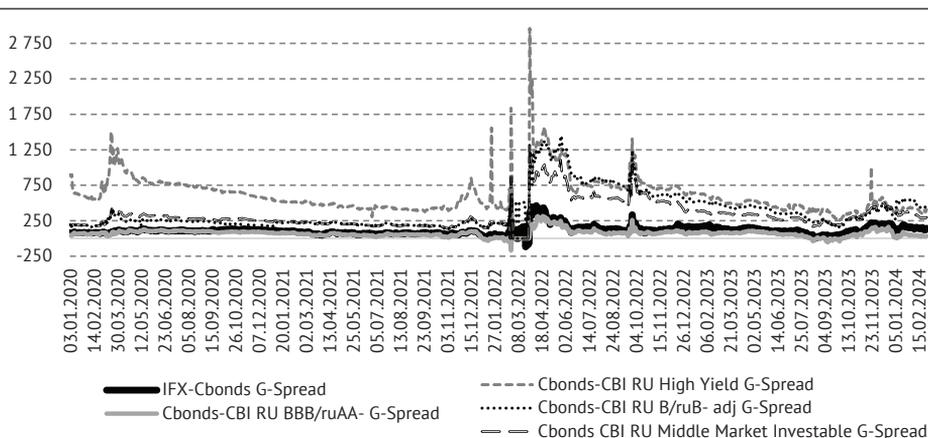


Fig. 29. Average sizes of G-spreads* of ruble corporate bonds with different credit ratings in 2020–2023 and early in 2024

* G-spread is an indicator of the credit risk of corporate bond issues, representing the difference between the yield to maturity of corporate bonds and the yield to maturity of government bonds with a similar duration.

Source: own calculations based on the data of Cbonds.

Spreads of the IFX-Cbonds broad portfolio of corporate bonds increased from 96.86 p.p. as of July 24, 2023 to 142.95 p.p. as of February 20, 2024, while the value of this ratio as of January 3, 2023 was equal 169.93 p.p. G-spreads behaved similarly in case of bonds with a high investment rating from the Cbonds-CBI RU BBB/ruAA- index and high-yield bonds (HYB) in the Cbonds-CBI RU High Yield portfolio.

Moderate yield spreads on corporate bonds were largely ensured by stable demand, which amid the rising inflation, was supported by large companies' issues of bonds with a floating coupon tied to the size of the key rate or the RUONIA money market rate.

Another reaction of corporate issuers to a higher interest rate risk is the reduction in the circulation period or duration of issued bonds. As shown in Fig. 30, the average annual duration of the IFX-Cbonds broad portfolio of bonds decreased from 675 days in 2021 to 407 days in January - February 2024 or by 26.8%, the duration of bonds with a high investment rating Cbonds-CBI RU BBB/ruAA- decreased over the same period from 854 days to 714 days or by 16.4% and that of HYB shrank from 511 days to 369 days or by 27.8%. A decrease in bond duration occurs during periods of economic uncertainty and expectations of rising interest rates. Low duration bonds are more difficult to use as a source of long-term investment, so, in the current situation they are used to a greater extent as an instrument for refinancing issuers' current activities and repaying debts on bank loans.

The rise in the key rate in H2 2023 led to various anomalies in investor behavior on the government bond (OFZ) market. With the start of a rise in the key rate in July 2023, the yield to maturity of short-term bond issues and money market rates increased while the yield to maturity of long-term OFZ issues saw moderate

THE RUSSIAN ECONOMY in 2023
trends and outlooks

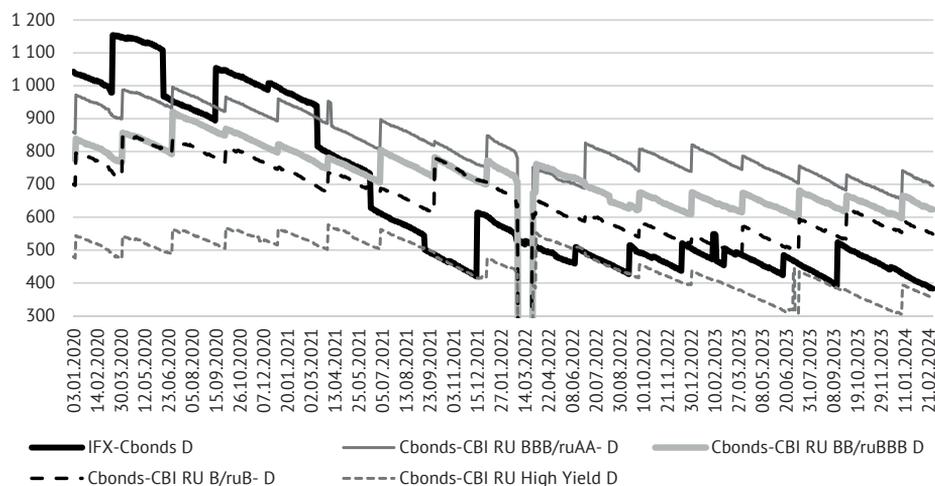
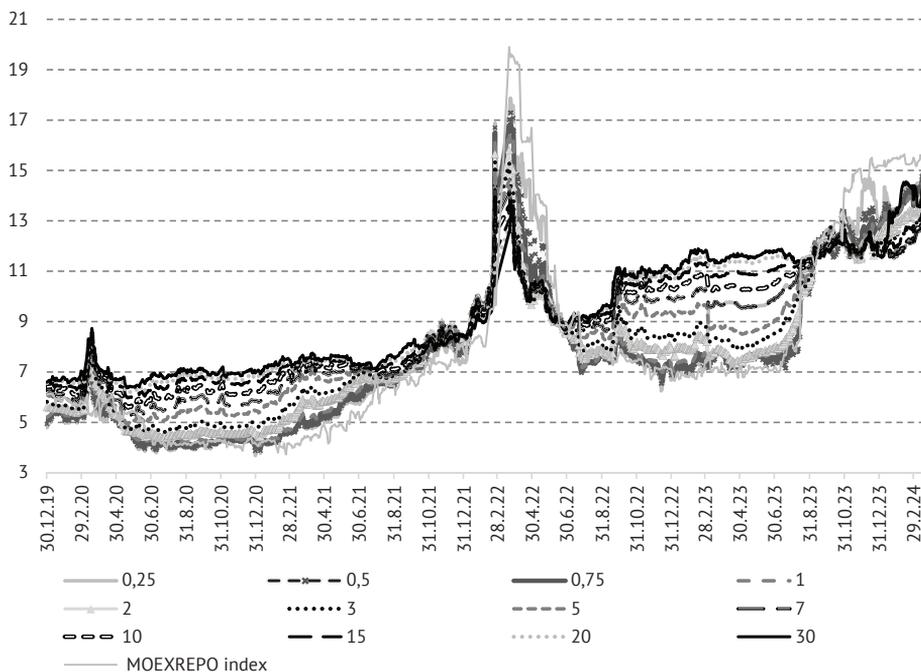


Fig. 30. The duration of corporate bonds (days), January 1, 2020 – February 29, 2024

Source: own calculations based on the data of Cbonds.



Note. MOEXREPO is the interest rate of the REPO exchange-based money market with the central counterparty (REPO with the CC) on the Moscow Exchange.

Fig. 31. The values of the OFZ zero-coupon yield curve with maturities of 0.25 – 30 years and the MOEXREPO money market rate, December 30, 2019 – March 29, 2024, % per annum

Source: own calculations based on the data of the RF Central Bank and the Moscow Exchange.

growth, as investors expected that a high key rate would help reduce inflation and the RF Central Bank would start reducing the rate no later than early in H2 2024. As shown in *Fig. 31*, from July 5, 2023 till December 29, 2023, the yield on money market rates, as measured by the MOEXREPO index, increased from 7.01% to 15.19% or by 116.7%, while the yield on one-year OFZ bonds and 10-year OFZ bonds grew from 7.76% to 12.78% or by 64.7% and from 10.58% to 11.86% or by 12.5%, respectively.

However, in 2024 amid a lack of noticeable progress in reducing the rate of inflation in January–February 2024, OFZ market participants began to doubt whether the RF Central Bank would be able to bring the inflation to the level of 4.0%–4.5% late in 2024; on the back of it the yield on long-term OFZ issues began to grow at a faster rate and in placing new OFZ issues the RF Ministry of Finance had to increase the yield on bonds, providing buyers with an additional premium as compared to the yield on similar outstanding bonds.¹ From December 29, 2023 till March 29, 2024, the yield of MOEXREPO index rates increased from 15.19% to 15.41% or just 1.4%, while the yield on one-year OFZ bonds and 10-year OFZ bonds grew from 12.78% to 14.14% or 10.6%, and from 11.86% to 13.26% or 11.8%, respectively.

Thus, in February–March 2024 OFZ market participants, mostly banks and some institutional investors, had more cautious expectations regarding the achievement of the target inflation level by the end of 2024 and, accordingly, the rate of reduction in the key rate.

In 2023, the value of outstanding government securities increased from Rb18.1 trillion rubles in 2022 to Rb20.2 trillion or 11.6%, which is lower than the average annual growth rate of 17.0% in the past 10 years (2014–2023). Over the same period, the value of domestic corporate bonds increased from Rb19.8 trillion to Rb 25.2 trillion or 27.3%, which is higher than the average annual growth rate of 17.4% in 2014–2023 (*Fig. 32*). Growth in the value of outstanding government and corporate bonds continued in January–February 2023.

In 2022–2023, important conditions for the support of the domestic bond market were the maintenance of macroeconomic stability and a liquidity surplus in the banking sector, financial support of companies, as well as creation of mechanisms for issuers to meet their obligations in respect of Eurobonds despite sanctions. To hold bonds till maturity dates is one of the ways of protecting investors from the growing key rate, leading to a decrease in the market value of bonds.

In 2023, amid rising interest rates the RF Ministry of Finance reduced considerably the volume of funds raising through OFZ issues (*Fig. 33*). The auctions raised Rb2.8 trillion as compared to Rb3.3 trillion in 2022, that is, a decrease of 15.2%. Given a relatively high cost of borrowing, funds from the National Welfare Fund were used to finance the budget deficit. At the same time, the volumes of new corporate bond issues increased from Rb 4.1 trillion in 2022 to Rb7.2 trillion in 2023 or by 75.6%.

In 2023, all types of bonds of Russian issuers amounted to 0.46% of the value of outstanding bonds worldwide (*Fig. 34*). Interestingly, the total value of

1 URL: <https://quote.rbc.ru/news/article/65d611589a79479c6573e62c>

THE RUSSIAN ECONOMY in 2023
trends and outlooks

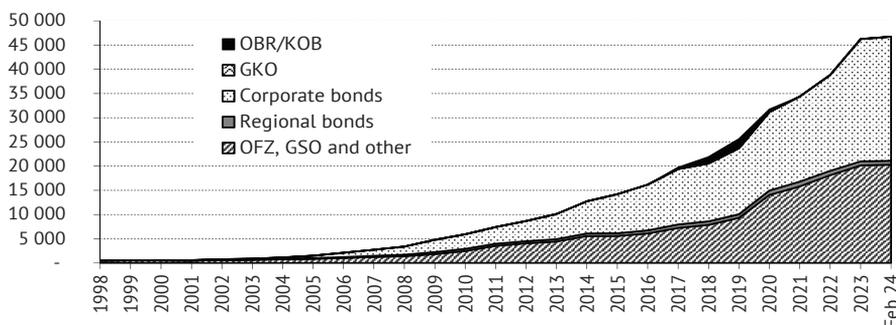


Fig. 32. The volumes of outstanding ruble bonds, 1998 – February 2024, billion rubles
Source: own calculations based on the data of the RF Ministry of Finance and Cbonds.

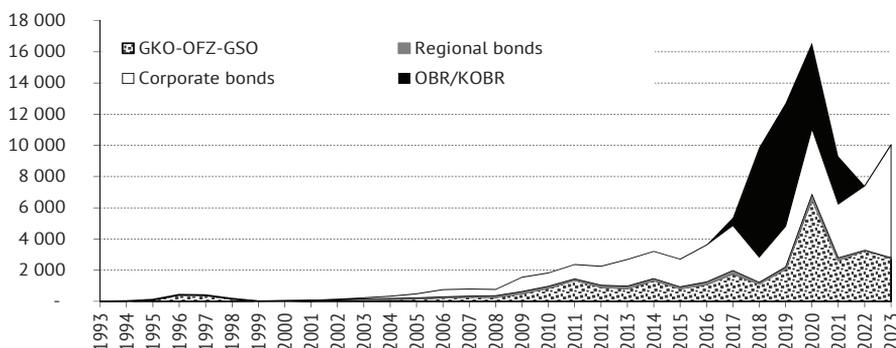
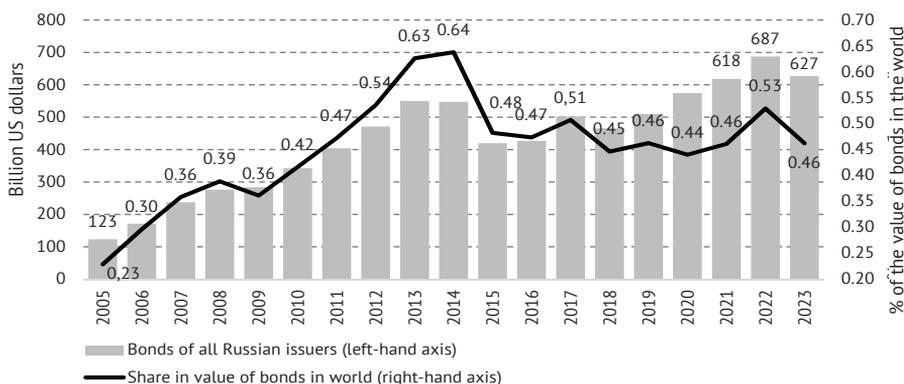


Fig. 33. The volumes of placement of ruble bonds, 1993–2023, billion rubles
Source: own calculations based on the data of Cbonds.



Note. Russian issuers' bonds include corporate, government and municipal domestic bonds and Eu-bonds.

Fig. 34. The value of Russian issuers' outstanding bonds (billion US dollars) and their share in the value of bonds in the world, %, 2005–2023

Source: own calculations based on the data of Cbonds and SIFMA.

bonds of Russian issuers attained approximately the level of capitalization of listed companies. In 2022, the value of bonds was equal to \$687 bn or 121.2% of capitalization (\$567 bn), while in 2023 the value of bonds (\$627 bn) decreased to 93.1% of capitalization (\$673 bn).

The value of bond issues in dollars and its share in the value of bonds in the world increased rapidly from 2005 to 2014. During this period, the Russian debt market was growing at a faster rate than the global one. From 2015, the Russian bond market growth has slowed down and become more volatile. Over 10 years (2014–2023), the average share of Russian bonds in the value of bonds in the world was equal to 0.49%, which approximately corresponds to the level seen in 2023.

(For comparison: the average share of capitalization of Russian companies in the world is equal to 0.66%, that is, slightly higher than that of bonds.) The value of bonds of Russian issuers decreased from \$687 bn in 2022 to \$627 bn in 2023 or by 8.7%.

Corporate bond market

The domestic corporate bond market was growing rapidly with corporate bond issuing growth of 20.6% and 75.6% in 2022 and 2023, respectively. According to our calculations, the share of the value of corporate bond issues in the value of bank loans to businesses picked up from 39.2% in 2021 to 39.9% in 2023, with the average value of this ratio being equal to 35.1% in 2014–2023. For companies, corporate bonds have become an important instrument of refinancing debts, replenishing working capital and financing investments.

Amid a high key rate, for external debt restructuring and funds raising from various domestic investors it was crucial to find numerous innovative solutions, such as issuing of bonds with a floating coupon (“floaters”), bonds in yuan and other foreign currencies, replacement bonds, HYB, “gold” bonds and other financial instruments.

An increase in the key rate from July 2023 had virtually no effect on the issuing activity of corporate bond issuers (*Fig. 35*). Over the remaining 5 months of the year (August – December), Rb3.9 trillion worth of bonds or 53.9% of the total annual volume of their issue were placed, including Rb1.9 trillion worth of bonds or 25.7% of the annual bond issuing program in December.

In January–March 2024, though the key rate still stood at 16.0%, the volume of corporate bond placements during this period amounted to Rb1.1 trillion as compared to Rb1.3 trillion in January – March 2023 when the key rate was equal to 7.5%. In other words, the “cooling” of the corporate bond market was quite moderate in Q1 2024.

After the 2008 crisis, the ruble yield of the IFXCND index increased occasionally on the back of a fall in oil prices and investors’ fears of geopolitical risks and international sanctions (*Fig. 36*). The peaks in the yield to maturity of the index portfolio in 2014 and February 2022 took place at a time of the highest values of the key rates set by the RF Central Bank. The corporate bond market growth has

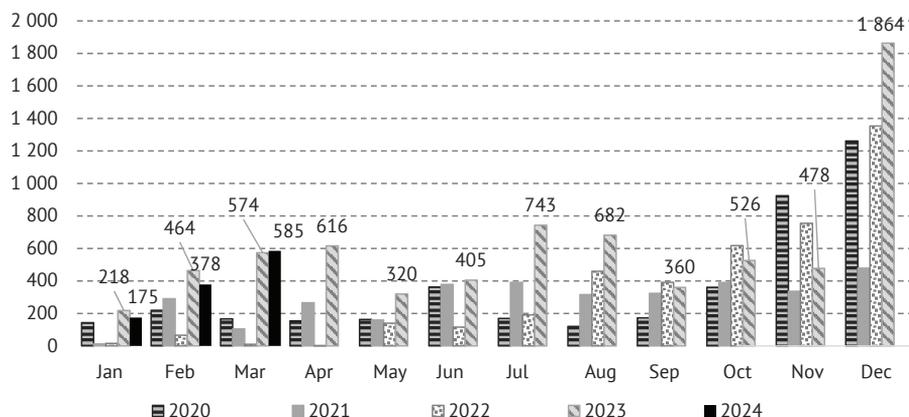


Fig. 35. The volumes of placement of corporate bonds in 2020–2023 and January-March 2024, billion rubles

Source: own calculations based on the data of Cbonds.

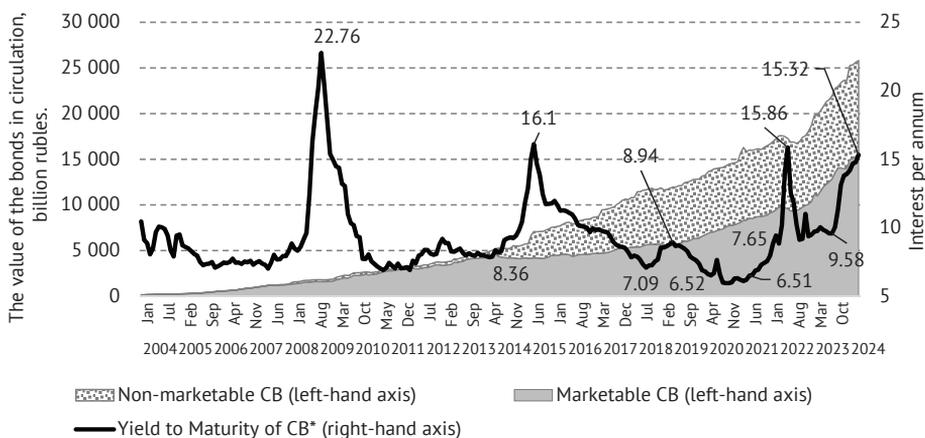


Fig. 36. The value of outstanding ruble corporate bonds and yield to maturity of IFX-Cbonds corporate bond portfolio, December 2002 – March 2024

Source: own calculations based on the data of Cbonds.

been largely facilitated by growth in non-market bond issues since 2014.¹ From March 2021 till March 2022, with the key rate growth from 4.25% to 20.0%, the average yield to maturity of the IFXCBND index bond portfolio picked up from 6.6% to 15.9% per annum. The increase in the key rate from July 2023 did not

¹ According to the definition of the RF Central Bank, deemed as a non-marketable issue is a situation when the purchase of the entire issue or a larger portion thereof is carried out by the lead bank or companies close to the issuer. See: The Review of the Russian Financial Sector and Financial Instruments. 2019 // The analytical material. The RF Central Bank. 2020. p. 37.

lead to a halt in the placement of corporate bonds, however, the yield to maturity of the IFXCND bond portfolio increased from 9.6% per annum in June 2023 to 15.3% in March 2024, which is only slightly lower than the value of this ratio in March 2022 when there were practically no new corporate bond issues for several months.

The fact that the current average borrowing rate did not lead to a halt in initial placements of bonds in Q1 2024 can be explained by issuers' hopes for a quick reduction in the key rate by the RF Central Bank from H2 2024. For investors, the impact of an increase in the yield to maturity of bonds on a decrease in the market value of their bond portfolios is limited by holding of bonds on their balance till maturity dates. In this case, investors' short-term liquidity needs are met through the repo market.

In 2023, out of Rb25.3 trillion worth of outstanding ruble corporate bonds, marketable bond issues accounted for Rb15.0 trillion or 59.3% and non-marketable bonds, for Rb10.3 trillion (40.7%). The share of marketable bonds increased from 56.6% in 2022 to 60.2% in March 2024.

In 2023, the pattern of corporate bond issues was dominated by financial instruments with a high credit rating. The share of bonds rated AAA increased from 38.9% in 2022 to 46.2% in 2023 and that of bonds rated A- to AA+, from 21.5% to 45.9%. By contrast, over the same period the share of bonds with a missing or revoked credit rating fell from 37.5% to 5.6% (Fig. 37). With a lack of access to external financing, the domestic bond market saw primarily large issuers with a high-quality investment rating.

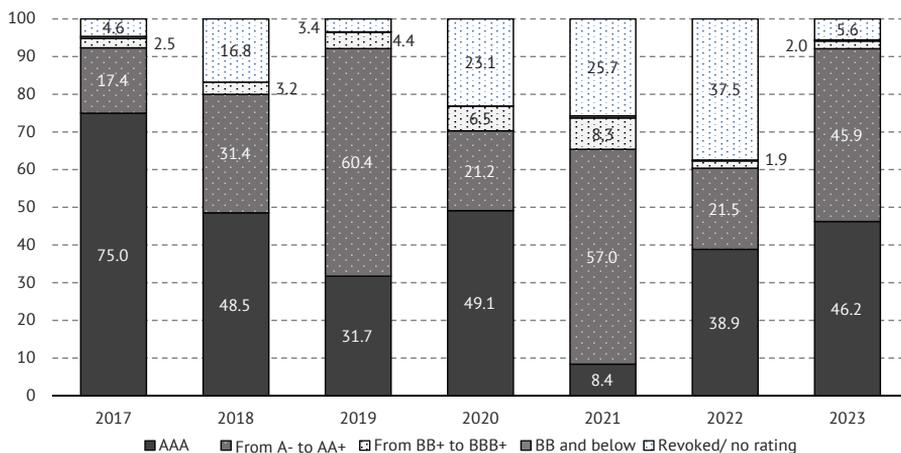


Fig. 37. The rating pattern of corporate bonds in terms of the value of issues, 2017–2023, %

Source: own calculations based on the data of the Review of the Russian Financial Sector and Financial Instruments of the RF Central Bank for a number of years. URL: http://www.cbr.ru/securities_market/analytcs/.

A certain prevalence of borrowers with high credit ratings among corporate bond issuers, despite the financial market's increased volatility and the effect of large-scale economic sanctions can be explained to a great extent by a relatively low level of issuers' defaults on the domestic debt market over the past few years. At the same time, 2023 saw the worsening of the volumes of corporate issuers' defaults in terms of statistical data, but this situation has not yet materialized in the revision of credit ratings and growth in credit risk premiums. As shown in Fig. 38, the share of ruble corporate bonds with one or another form of default increased from 1.68% in 2022 to 3.32% in 2023, the highest value of this ratio since 2013. At the same time, the volume of net attraction of funds (Rb4.0 trillion) by issuers (the difference between the cost of placed and redeemed bonds for the year) is also the highest one in the specified period and this is the evidence of accelerated growth in corporate bond debts.

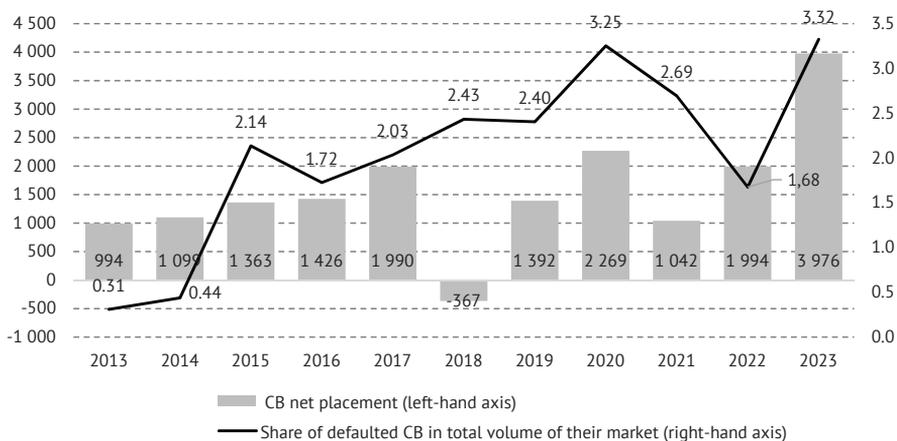


Fig. 38. The value of net placement of corporate bonds (CB) (billion rubles) and the share of defaulted CB in the total volume of their market (%) in 2013–2023

Source: own calculations based on the data of Cbonds.

The number of issuers on the CB market of the Moscow Exchange exceeds considerably the number of companies in the stock listing. In this sense, the corporate bond market is used more actively than the equity market for raising new funds and refinancing companies in different sectors of the economy.

For a long time, the stock exchange saw a decrease in the number of corporate bond issuers from 467 issuers in the pre-crisis 2007 to 198 issuers in 2018 (Fig. 39). This was caused not only by changes in the structuring of loans, when earlier the issuer's subsidiary used to issue bonds, while at present companies do it directly, but also the advantages of large issuers in terms of bond issuing costs and conditions for getting into a higher level of the exchange listing. In 2018, the securities market legislation was amended with a view to simplify corporate bonds issuing in terms of decision-making on bonds issuing, reduction in the time frame

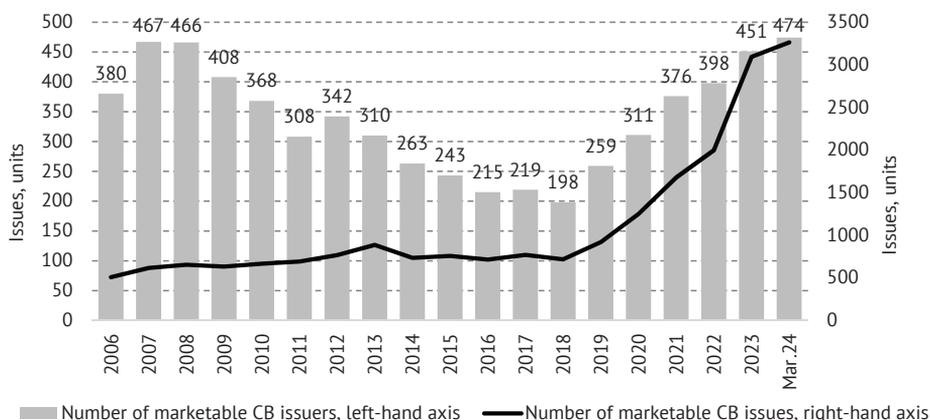


Fig. 39. The number of issuers and marketable corporate bond issues on the Moscow Exchange, 2006-March 2024

Source: Cbonds's data.

for registering issues, simplification of reporting on the results of the issue and removal of restrictions in respect of deadlines for completion of the placement of securities. This led to an increase in the number of issuers in the bonds listing.

In 2023, the number of corporate bond issuers on the Moscow Exchange picked up from 398 issuers to 451 issuers or by 13.3%.

Despite advanced growth in the value of corporate bond issues of large and high-quality borrowers, the level of concentration of new bond issues has been steadily decreasing since 2021. The share of the top-20 issuers in the total volume of new bond issues was equal to 75.9% in 2023 against 78.6% in 2020 and the share of the top-10 issuers decreased from 68.3% in 2020 to 62.3 in 2023 (Fig. 40).

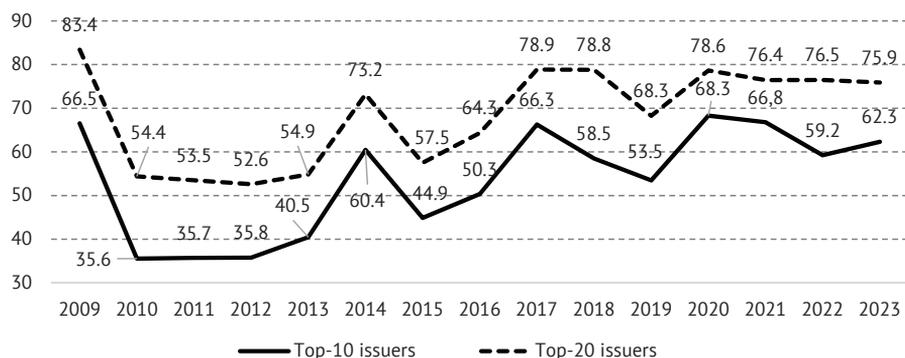


Fig. 40. The share of the top-10 and top-20 issuers in new ruble corporate bond issues in 2009–2023, %

Source: own calculations based on the data of Cbonds.

In 2023, Gazprombank together with Gazprom Capital accounted for about 18.6% of the value of marketable ruble corporate bond issues, DOM.RF and DOM.RF Mortgage Agent, for 13.0% and 4.4%, respectively, Avtodor – 4.4%, the Sberbank of Russia and the SberCIB – 4.3% and VEB.ZF – 3.1%. All these companies were the top-10 borrowers in 2022. In 2023, new top-10 issuers included NLK-Finance, a leasing company and the structures of Rostekhnologia, Aviakapital-Servis and RZhD (*Table 14*). The other two large issuers in the top-10 list were the so-called “special purpose financial institutions” (SPFI), i.e. insufficiently transparent entities established for the securitization of financial flows from various assets. For instance, SPFI – Ideas and Investments and SPFI – Optimum Finance accounted for 5.3% and 3.5% of the value of new ruble bond issues, respectively.

Table 14

Top-10 corporate bond issuers and their share in the total value of ruble corporate bond issues

Issuers	2021			Issuers	2022			Issuers	2023	
	Billion rubles	%			Billion rubles	%			Billion rubles	%
DOM.RF Mortgage Agent	418	13.3	1	DOM.RF and DOM.RF Mortgage Agent	519	18.6	1	Gazprombank and Gazprom Capital	1 106	18.6
VEB.RF	411	13.1	2	Avtodor	277	10.0	2	DOM.RF and DOM.RF Mortgage Agent	776	13.0
Sberbank of Russia and SberCIB	399	12.7	3	SPFI Ideas and Investments	156	5.6	3	SPFI Ideas and Investments	316	5.3
VTB, including Demetra holding	273	8.7	4	VEB.RF	156	5.6	4	NLK Finance	265	4.4
Veresayeva 6	130	4.1	5	Sberbank of Russia and SberCIB	149	5.3	5	Avtodor	263	4.4
Gazprombank and Gazprom Kapital	162	5.2	6	SPFI Aurum-1	101	3.6	6	Sberbank of Russia and SberCIB	259	4.3
OTEKO-Portservis	96	3.1	7	SPFI MIP-1	83	3.0	7	SPFI Optimum Finance	208	3.5
Alfa-Lizing	76	2.4	8	Rosseti	80	2.9	8	VEB.RF	186	3.1
PRZhD	69	2.2	9	MTS	72	2.6	9	Aviakapital-Servis	180	3.0
AFK Sistems	63	2.0	10	SPFI Media Assets	58	2.1	10	RZhD	150	2.5
Capitalization of all CB issues	3 137	100		Capitalization of all CB issues	2 787	100		Capitalization of all CB issues	5 958	100
Capitalization of issues of top-10 CB issuers	2096	66.8		Capitalization of issues of top-10 CB issuers	1651	59.2		Capitalization of issues of top-10 CB issuers	3710	62.3

Source: own calculations based on the data of Cbonds.

In the total value of outstanding corporate bonds, the share of bond issues of financial institutions increased from 40.3% in 2018 to 43.7% in 2023 and 43.8% in March 2024 (*Table 15*). As of March 2024, the share of the financial sector, together with extractive industries, transport, power generation and construction amounted to 85.4% of the value of outstanding corporate bonds. This means that companies in such modern sectors of the economy as manufacturing, chemicals and petrochemicals, IT, telecommunications and communications, education and other do not yet take a full advantage of market mechanisms of funding by means of bonds by contrast with the above five sectors of the economy.

Table 15

Sectorial pattern of the ruble corporate bond market, 2018 – March 2024, %

	2018	2019	2020	2021	2022	2023	March 2024
Financial institutions	40.3	41.8	40.2	42.9	43.7	43.7	43.8
Production of oil, gas and coal	30.2	27.9	28.3	25.5	25.3	27.1	27.5
Transport	9.5	8.9	9.3	9.7	7.6	5.9	5.9
Power industry	4.6	3.9	3.2	2.8	3.1	2.9	2.9
Construction	4.1	4.4	4.4	4.3	5.4	5.2	5.4
Other industries	11.3	13.1	14.6	14.8	14.8	15.2	14.6

Source: own calculations based on the data of Cbonds.

Despite demands to Russian companies that Eurobond issues should be substituted for replacement bonds, in 2023 and January-February 2024 the Eurobond market volume in dollar terms remained considerable (Fig. 41). As of February 2024, its size was equal to \$44 bn or 15.3% of the value of domestic corporate bond issues. Taking into account the fact that there are increased risks of payments on these bonds being frozen in favor of Russian residents with foreign banks and depositories, as well as announcement of formal defaults on these bonds due to issuers' inability because of sanctions to timely transfer funds to foreign Eurobond holders, issuers have to take efforts to make early repayment of this debt.

In 2023, the corporate bond market saw a surge in issuers' innovative activity in terms of issuing various types of debt financing instruments. The cost of replacement bond issues increased from Rb0.5 trillion in 2022 up to Rb1.8 trillion in 2023 or 3.3 times over (Table 16). In 2023, the pattern of replacement bonds in currency terms was made up of US dollars (74.2%) and euros (22.1%). The main

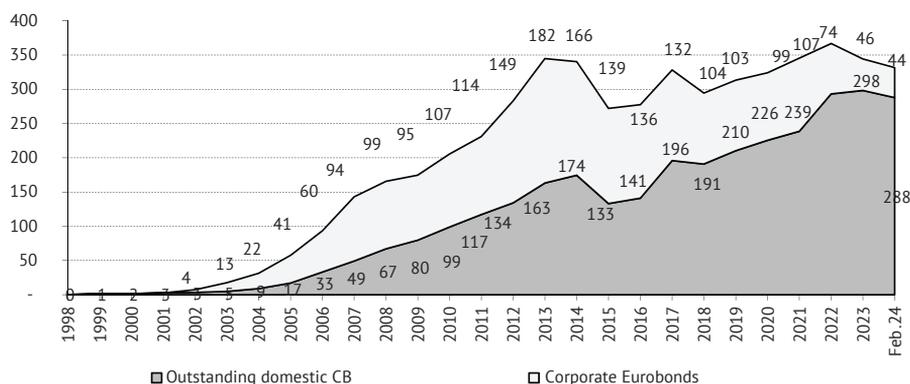


Fig. 41. The volumes of outstanding corporate bonds of Russian issuers, 1998 – February 2024, billion US dollars

Source: Own calculations based on the data of Cbonds and the Moscow Exchange.

The value of outstanding corporate bond issues with special risk characteristics or terms of issue, billion rubles

Types of bonds	2022	2023	Growth, %
Replacement bonds	541.3	1 767.5	226.5
Foreign currency bonds (domestic market)	4 006.5	5 008.9	25.0
Bonds in yuans	599.4	1 088.1	81.5
"Floaters" corporate bonds*	3 696.3	4 160.5	12.6
Bonds linked to value of gold		17.8	
High-yield bonds (HYB)**	73.0	89.5	22.6

* Bonds with a floating coupon income.

** According to the definition of the RF Central Bank, in this particular case HYB include issues that meet simultaneously the following three conditions: the issuer's credit rating is not higher than BBB on the Russian scale (including companies without a credit rating or with a revoked one), the issue volume is not higher than Rb2 bn and the spread between the yield of the initial placement and the key rate of the RF Central Bank amounts to at least 5 percentage points.

Source: Based on the data of the Review of Financial Instruments of the RF Central Bank for 2023
URL: https://cbr.ru/ec_research/analitics/

issuers of replacement bonds were companies of the oil and gas industry which accounted for 74.5% of the value of the issues of these bonds. In 2023, the main holders of replacement bonds were credit institutions whose share was equal to 33.5%, households (29.3%), mutual funds and other financial institutions (20.4%), insurers (8.1%) and other investors (8.1%).¹

The value of foreign currency bonds on the domestic market increased from Rb4.0 trillion in 2022 to Rb5.0 trillion in 2023 or by 25.0% and the volume of corporate bonds in yuan, from Rb0.6 trillion to Rb1.1 trillion or by 81.5%. According to the RF Central Bank, the main investors on the yuan bond market were credit institutions and private investors, whose shares in the pattern of holders of these instruments accounted for 68.1% and 20.6%, respectively. In 2023, the oil and gas industry accounted for 50.2% of the total RMB bond issue, while the non-ferrous metals industry, the mining industry and the ferrous metals industry, for 15.2%, 9.9% and 6.7%, respectively.

To make corporate bonds more attractive to investors amid the growing inflation rate and the volatile key rate of the RF Central Bank, in 2023 companies began to issue more actively the so-called corporate "floaters", that is, bonds with a floating coupon income. The value of corporate floater issues increased from Rb3.7 trillion in 2022 to Rb4.2 trillion in 2023 or by 12.6%. In 2023, the oil and gas industry, transport and trade and retail accounted for 53.9%, 12.6% and 8.2%, respectively, of the total issue of corporate floaters. Growth in floater issues suggests that companies are increasingly taking on interest rate risks.

As an important trend, 2023 saw significant growth of the high-yield bond (HYB) market, despite record-high volumes of placement of bonds with high investment ratings and increased interest and credit risks during the period of high inflation. The value of HYB issues picked up from Rb73.0 bn in 2022 to Rb89.5 bn in 2023 or

¹ Based on the data of the RF Central Bank. URL: https://cbr.ru/ec_research/analitics/.

by 22.6%. According to the RF Central Bank, the main HYB investors were private investors and credit institutions, whose shares in the pattern of holders of these bonds accounted for 83.6% and 12.1%, respectively. The prevalence of individuals in the pattern of HYB holders makes the Russian market different from developed countries' markets where institutional investors are the main holders of these bonds. According to the RF Central Bank, in 2023 the construction industry and development business accounted for 25.6% of all issued HYB; non-bank financial institutions, for 18.5%; trade and retail, for 15.6%; leasing and rent, for 13.0%; the food industry and the agro-industrial complex, for 7.0% and other industries, for 20.4%.

In 2023, two gold mining companies issued Rb17.8 bn worth of bonds linked to the value of gold, a new type of bonds on the domestic market for investors in gold and gold derivatives.

Thus, in 2023 corporate bonds were still a popular instrument with issuing companies and domestic investors on the domestic financial market. The volume of their placement reached a record-high level. The main growth drivers of this market were banks with a liquidity surplus, NPF, mutual investment funds, insurers, as well as private investors who were after higher returns than interests on bank deposits, provided that their investments entailed relatively moderate risks amid increased financial market volatility.

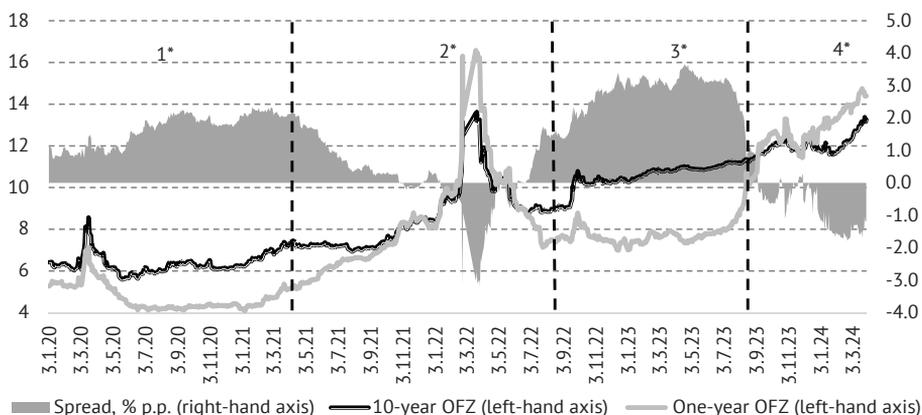
The market of government bonds of the Russian Federation

In 2023, owing to an increase in the key rate in H2 2023, the RF Ministry of Finance did not fully implement the internal borrowing plan. With planned fund-raising targets of Rb3.5 trillion for the year, OFZ placements brought actually in only 2.8 trillion rubles.¹ This OFZ placement volume exceeded that of Rb2.6 trillion in 2021, but was lower than the volume of funds raised in 2022 (Rb3.3 trillion).

An indicator of stable conditions for government bond placement is the spread of the yield to maturity of 10-year and one-year government bonds. With positive expectations of future inflation and economic growth, the yield on long-term securities typically exceeds the yield on short-term ones. With high inflation, unstable key rates and expectations of slower growth, an inversion of the bond yield curve occurs when the yield to maturity of short-term bonds exceeds that of long-duration securities. Due to a high key rate or lack of liquidity, the short-term cost of money is high, while in case of long-term bonds lower key rates are expected in order to support economic growth.

In January 2020-March 2024, we can find four periods in the government securities market with different conditions for issuing government bonds. In the first period – from January 3, 2020 till March 22, 2021 – with a stable key rate and favorable conditions for placing OFZs, the yield to maturity of one-year OFZs decreased from 5.6% to 5.4% per annum or by 0.2 p.p., while the yield on 10-year government securities increased from 6.4% to 7.4% or by 1.0 p.p. (*Fig. 42*).

¹ URL: <https://www.interfax.ru/business/938060>.



Notes. 1* – period of stable key rate from March 01, 2020 till March 22, 2021 when the key rate first decreased from 6.25% to 4.25% and then from July 20, 2020 till March 22, 2021 remained low at 4.25%; 2* – a period of high volatility of the key rate from March 22, 2021 till July 25, 2022 when it increased from 4.25% to 20.0% on April 08, 2022 and then began to decrease sharply to 8.0% until July 25, 2022; 3* – period of a relative stable key rate from July 25, 2022 till July 24, 2023 when the rate decreased from 8.0% to 7.5% and was at this level from September 19, 2022 till July 24, 2023; 4* – a new wave of growth in the key rate on the back of inflation expectations from July 24, 2023 to the present day (March 29, 2024), when the rate grew from 7.5% to 16.0% with expectations of its decline only in H2 2024.

Fig. 42. Yield to maturity of one-year and 10-year OFZs (% per annum) and the spread between the yield of 10-year and one-year OFZs (p.p.) from January 3, 2020 till March 29, 2024

Source: Own calculations based on the data of the RF Central Bank and the Moscow Exchange.

The second period – from March 22, 2021 till July 25, 2022 – is characterized by increased volatility of the key rate, inversion of the government bond yield curve and difficulties in raising funds through the issue of OFZs. During this period, the yield to maturity of one-year OFZs grew from 5.4% to 7.2% per annum or by 1.8 p.p., the yield of 10-year government securities increased from 7.4% to 8.8% or by 1.4 p.p.

The third period – from July 25, 2022 till July 24, 2023 – was characterized by relative stability of the key rate even amid sanctions and the RF Ministry of Finance’s high activity in issuing bonds to finance the budget deficit. Over this period, the yield to maturity of one-year OFZs increased from 7.2% to 8.4% per annum or by 1.2 p.p. and the yield on 10-year government securities, from 8.8% to 11.2% or by 2.4 p.p.

The fourth period – from July 24, 2023 till March 2024 – was a period of rising key rates, recovery of the yield curve inversion and a reduction in the volume of OFZ placements. During this period, the yield to maturity of one-year OFZs increased from 8.4% to 14.4% per annum or by 6.0 p.p. and the yield on 10-year government securities, from 11.2% to 13.3% or by 2.1 p.p.

Thus, it can be assumed that unfavorable conditions for OFZ placements are high volatility of the key rate and inversion of the yield curve of government securities. These conditions developed in H2 2023 and still prevail.

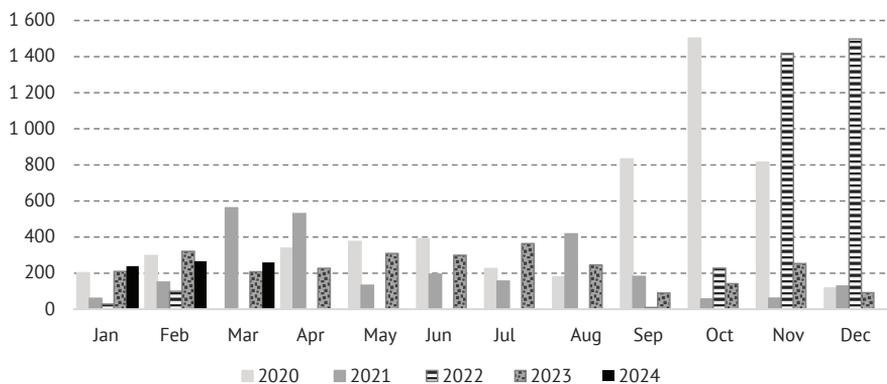
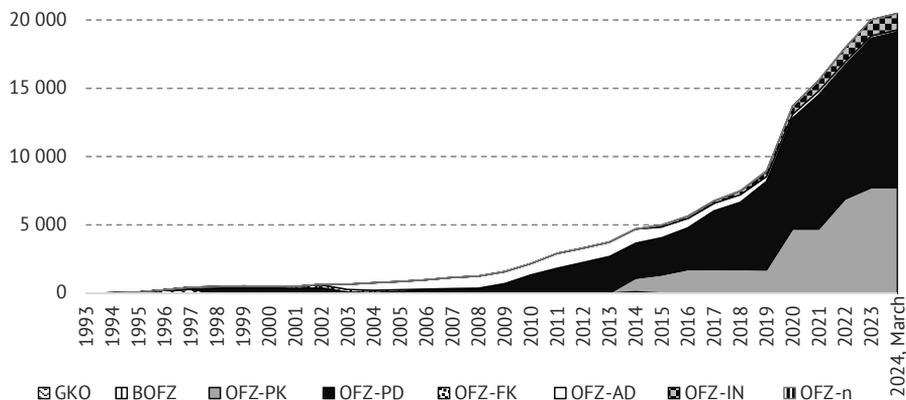


Fig. 43. The volumes of OFZ placements at auctions in 2020–2022 and January–March 2024, billion rubles

Source: Own calculations based on the data of Cbonds.



Note. BOFZ is zero-coupon federal loan bonds;
GKO is zero-coupon short-term government bonds;
OFZ is federal loan bonds;
OFZ-AD is federal loan bonds with debt amortization;
OFZ-IN is federal loan bonds with par value indexed to the level of inflation in the Russian Federation (“linkers”);
OFZ-PD is federal loan bonds with constant coupon income;
OFZ-PK is federal loan bonds with variable coupon income “linked” to the RUONIA rate (“floaters”);
OFZ-n is federal loan bonds for individuals (“popular bonds”).

Fig. 44. The volumes of GKO-OFZ issue in circulation, 1993 – March 2024, billion rubles

Source: Own calculations based on the data of the RF Ministry of Finance and Cbonds.

By contrast with the corporate bond market, the rise in the key rate from July 2023 led to a considerable decrease in the volume of OFZ placements by the RF Ministry of Finance, which due to the risk of rising public debt servicing costs had to switch over to the strategy of financing the budget deficit at the expense of the

National Welfare Fund. In August–December 2023, they placed Rb823.7 bn worth of OFZs or 29.8% of the volume of funds raised in 2023. In December, the RF Ministry of Finance placed only Rb92.0 bn worth of bonds or 3.3% of the annual borrowing volume (*Fig. 43*).

In January–March 2024, despite the key rate of 16.0% the volume of OFZ placements began to recover amounting to Rb 764.8 bn against Rb738.8 bn rubles in Q1 2023 when the key rate was equal to 7.5%.

The total value of OFZ issues increased from Rb18.0 trillion in 2022 to Rb20.0 trillion in 2023 or by 11.5%, and to Rb20.5 trillion or by 2.3% in January–March 2024 (*Fig. 44*). Growth in the OFZ value was facilitated by three types of government securities: OFZ-PK, bonds with a floating coupon (“floaters”); OFZ-PD, bonds with a constant income and OFZ-IN, bonds with a par value indexed to the level of inflation (“linkers”).

The most significant segment of the OFZ market in terms of value is OFZ-PD with a constant coupon income. The size of coupon income on these OFZs are set in advance for the entire circulation period which allows the RF Ministry of Finance to manage more effectively public debt servicing costs without taking on interest rate risks. As OFZ-PD are characterized by a diversified pattern of its holders, this facilitates a higher level of liquidity of this type of OFZ. According to the data of the RF Central Bank, in 2023 27.3% of these bonds belonged to credit institutions, 22.9% to public sector entities, 15.6% to NPF, 13.7% to non-residents, 7.4% to insurers, 6.9% to other financial institutions and 3.5% to private investors. Before the sanctions were imposed, the main investors in OFZ-PD, especially those with a long duration, used to be for a long time foreign portfolio investors. The value of OFZ-PD increased from Rb9.8 trillion in 2022 to Rb10.9 trillion in 2023 or by 11.7% and to Rb11.4 trillion in March 2024, or by another 4.2%.

A reduction in the key rate by the RF Central Bank, which process is expected in H2 2024, will contribute to investors’ increased demand for long duration OFZ-PD with a decline in the investment appeal of OFZ-PK (“floaters”) and OFZ-IN (“linkers”).

Amid rising inflation expectations and the key rate, OFZs with a floating coupon (OFZ-PK) are more attractive to domestic investors as their holders have more flexibility in managing liquidity and interest rate risk. In case of OFZ-PK, the coupon size is tied to the RUONIA money market rate which normally follows the values of the RF Central Bank’s key rate. The total value of outstanding OFZ-PK bonds increased from Rb6.9 trillion in 2022 to Rb7.7 trillion in 2023. In January–February 2024, expecting a reduction in the key rate the RF Ministry of Finance did not place new issues of “floaters” because of low investor demand for them in anticipation of a reduction in the key rate by the Bank of Russia

Amid increased inflation risks in 2023 – Q1 2024, OFZ-IN (“linkers”) became more popular with investors because these bonds envisage indexation of their nominal value depending on the level of inflation measured on the basis of the consumer price index. By virtue of their protective properties, these bonds were in domestic institutional investors’ high demand. According to the data of the RF Central Bank, in 2023 33.4% of “linkers” belonged to credit institutions, 30.8% to

NPF, 28.3% to other financial institutions, 4.7% to non-residents, 1.3% to insurers and only 1.3% to private investors. The specified pattern with prevalence of institutional investors holding bonds to maturity reduces liquidity of OFZ-IN on the stock market. The value of OFZ-IN picked up from Rb1.02 trillion in 2022 to Rb1.17 trillion in 2023 or by 14.3% and to Rb1.21 trillion in March 2024 or by 3.5%.

Two other types of government bonds – OFZ-AD with amortization of the principal debt for investing pension savings on a volatile financial market and OFZ-n, which are called “popular bonds” because of their focus on investments by private investors in the over-the-counter market – are not popular in the current conditions and may disappear in the near future. The abovementioned three types of exchange-traded OFZs turned out to be more suitable for the portfolio strategies of NPF and private investors.

The value of OFZ-AD decreased from Rb222 bn in 2022 to Rb176 bn in 2023 or by 20.8% and to Rb146 bn in March 2024 or by another 16.8%. The value of OFZ-n decreased from Rb42 bn in 2022 to Rb14 bn in 2023 or by 38.4% and to Rb8 bn in March 2024 or by 40.5%. The issuer’s hopes for these bonds being popular with households when selling them to private investors directly through banks in bypass of the exchange infrastructure did not materialize.

For 11 years from February 2013, that is, from the day of opening by Euroclear and Clearstream, foreign settlement and clearing organizations, of nominal holder accounts with the Russian central depository (NSD) till March 2024, the share of non-resident investments in OFZs was very volatile. The maximum share (34.9%) of non-resident investments in OFZs was registered in February 2020; in March 2024, this ratio fell to 7.3% (*Fig. 45*).

Such a sharp decrease in the volume of non-residents’ investments in OFZs, despite the blocking of these funds in Russian depositories during the sanctions, suggests that many non-residents from unfriendly countries managed to avoid Russian countersanctions envisaged by Federal Law No.319-FZ of July 14, 2022 by reselling securities to entities which were not subject to sanctions.¹

In 2022–2023, on the government Eurobond market of the Russian Federation the decline in the share and absolute value of non-resident investments was slower than that on market of ruble OFZs (*Fig. 46*). The value of non-resident investments in Russian Eurobonds decreased from \$16.3 bn in 2022 to \$14.8 bn in 2023 or by 9.2%. At the same time, the share of non-residents in Eurobonds of the Russian Federation decreased from 45.0% in 2022 to 44.8% in 2022 or by the mere 0.2 p.p.

For a long time after the financial crisis, the Russian Federation pursued a policy of advanced growth in borrowings on the domestic market in rubles as compared to the building-up of debts in foreign currency (*Fig. 47*). The total value of government bonds fell from \$307 bn in 2022 to \$262 bn in February 2024 or by 14.7%. At the same time, on the back of depreciation of the ruble exchange rate, the value of ruble-denominated government bonds decreased from \$269 bn to

1 Non-residents keep selling OFZs with a discount of up to 40% in 2023, as well. // Frank Media. January 27, 2023 URL: <https://frankrg.com/110155>

THE RUSSIAN ECONOMY in 2023
trends and outlooks

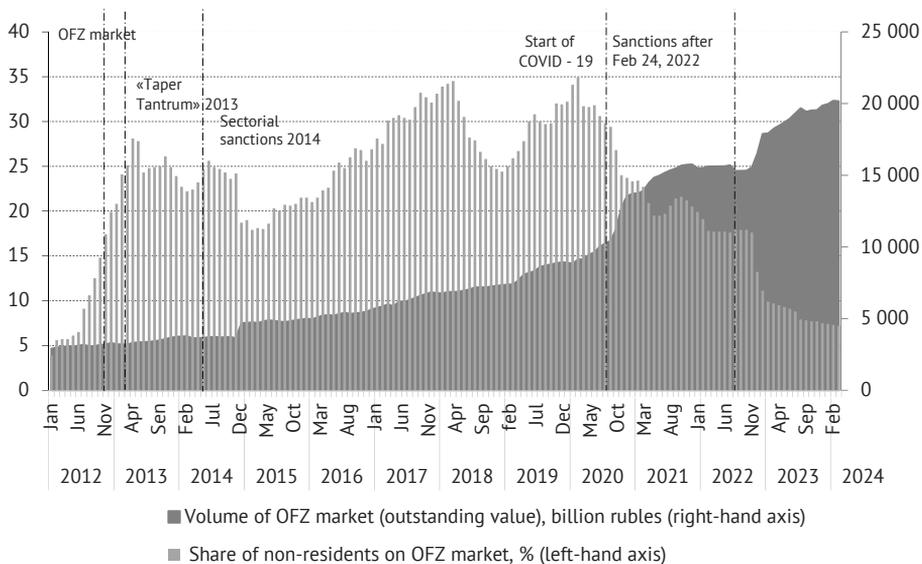


Fig. 45. The share of non-residents on the OFZ market (%) and the value of outstanding OFZ (billion rubles), February 2012 – February 2024

Source: Own calculations based on the data of the RF Ministry of Finance and Cbonds.

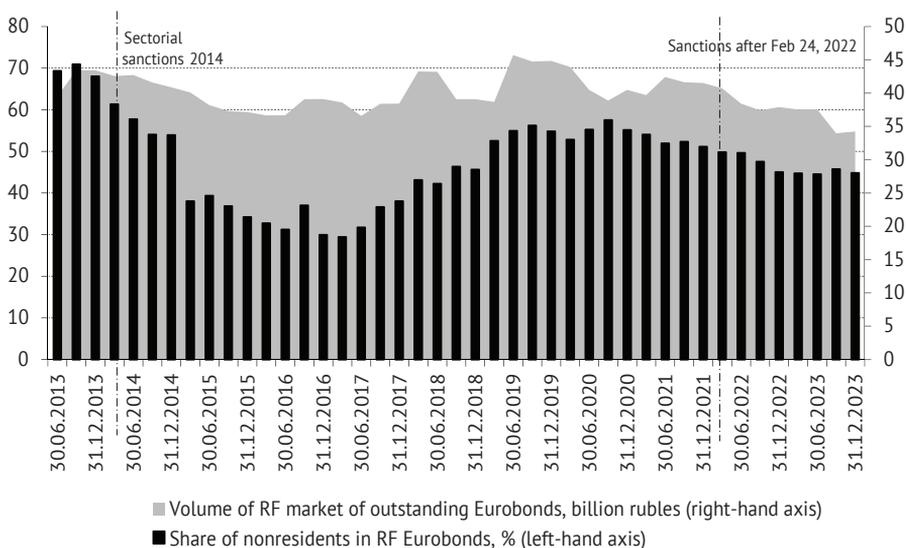


Fig. 46. The share of non-residents on the government Eurobond market of the Russian Federation (%) and the value of outstanding government Eurobonds (billion rubles), July 2013 – December 2023

Source: Own calculations based on the data of the RF Ministry of Finance and Cbonds.

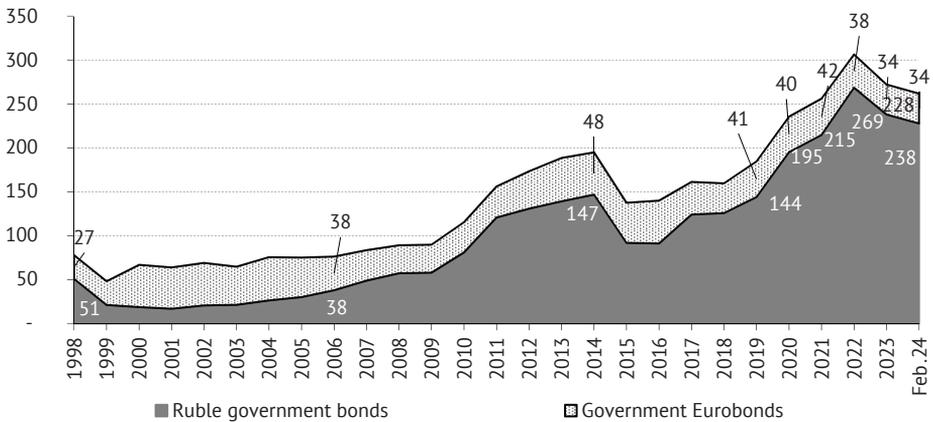


Fig. 47. The volumes of outstanding government domestic bonds and Eurobonds of the Russian Federation, 1998 – February 2024, billion rubles

Source: Own calculations based on the data of the RF Ministry of Finance and Cbonds.

\$228 bn or by 15.2%, and the value of Eurobond issues as they matured decreased from \$38 bn to \$34 bn or by 10.5%.

Thus, in 2023 the government securities market remained stable owing to a liquidity surplus in the banking sector and an influx of funds into bonds from domestic institutional investors and households. A set of OFZs with different terms of issue (constant income bonds, “floaters”, “linkers”) allowed the RF Ministry of Finance to pursue a flexible policy of raising debt financing amid changes in macroeconomic parameters, the monetary policy and investor expectations. Nevertheless, the key rate that remained at 16% in 2023 and in Q1 2024 and some investor skepticism regarding the outlook for its rapid decline in H2 2024 led to growth in the yield of government bonds and a decrease in the market value of the broad government bond index RGBI. This limited the RF Ministry of Finance’s ability to implement in full the government borrowing program in 2023 and Q1 2024.

2.1.7. Derivatives and foreign-exchange markets

The economic importance of the derivatives market consists in the pricing of investment assets, as well as providing market participants with options to hedge against sharp changes in asset prices in future. However, the derivatives market where private investors prevail is often used for speculative transactions with a high financial leverage, rather than for risk management.

Private investors who dominate on the derivatives market use it more for short-term transactions, rather than for hedging. Trading volumes on the Moscow Exchange futures market increased moderately from Rb75.6 trillion in 2022 to Rb77.9 trillion in 2023 or by 3.0%, the volume of option trades picked up more markedly from Rb2.3 trillion to Rb2.9 trillion or by 26.9% (*Fig. 48*). At the same

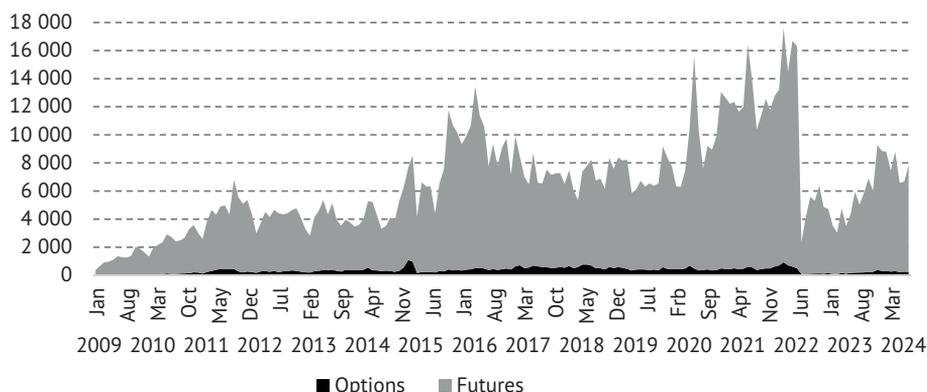


Fig. 48. The value of futures and options at the Moscow Exchange, January 2009 – March 2024, billion rubles

Source: Own calculations based on the data of the Moscow Exchange.

time, in 2023 the liquidity of the futures and options markets amounted only to 51.2% and 42.6%, respectively, of the trading volumes seen in 2021. By contrast with Q1 2023, in January–March 2024 the volumes of futures and option trades decreased by 40.7% and 40.5%, respectively.

In 2023, the Moscow Exchange derivatives market saw lots of new instruments, for example, timeless futures for gold and the Moscow Exchange index, premium options for currencies and commodities and futures for new currency pairs, stocks and commodities. However, derivatives market growth was hampered by high competition on the part of alternative stock and bond markets, bank deposits with high interest rates, exchange-traded money market mutual funds, as well as lack of non-residents which accounted for 48% of the trading volume in 2021. According to the data of the Moscow Exchange, the share of individuals in trading volumes on the derivatives market increased from 59% in 2022 to 62% in February 2024.¹

In 2023, traditional exchange-traded contracts accounted for the bulk of transactions on the futures market (Fig. 49). According to the data of Finam, in 2023 the most popular futures contracts in terms of the number of private investors were foreign currency/Russian ruble contracts: “US dollar/Russian ruble contracts” and “Chinese yuan/ Russian ruble contracts”, as well as contracts on prices for natural gas, Brent oil, Sberbank’s common shares and gold (24%).² Due to the continued decline in demand for US dollars and euros in 2023, the volume of currency futures decreased from Rb45.3 trillion in 2022 to Rb44.5 trillion or by 1.8%. Relative to 2021, in 2023 the liquidity of this futures market segment was equal to 66.7%. The share of currency futures fell from 66.9% in 2022 to 56.2% in 2023 and 51.2% in March 2024.

1 URL: <https://www.moex.com/n68157?nt=0>

2 URL: <https://www.finam.ru/publications/item/na-srochnyy-rynok-moskovskoy-birzhi-v-2023-godu-prishlo-100-tysyach-novykh-klientov-20240119-1113/>

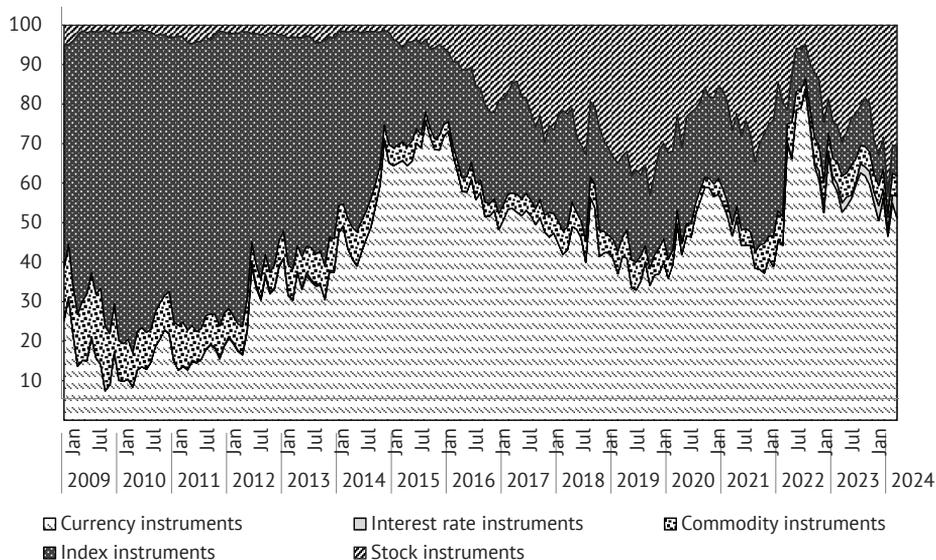


Fig. 49. The pattern of the Moscow Exchange futures market, January 2009 – March 2024, % on transaction value

Source: Own calculations based on the data of the Moscow Exchange.

The second most important segment of the futures market is contracts on stock indices, primarily the RTS and Moscow Exchange indices. Their volume decreased from Rb14.8 trillion in 2022 to Rb7.8 trillion in 2023 or by 47.0%. Relative to 2021, in 2023 the liquidity of this segment of the futures market was equal only to 20.1%. The share of index futures decreased from 8.9% in 2022 to 8.2% in 2023 and 7.3% in March 2024. On the contrary, the share of futures for stock instruments (stocks and other) increased from 4.4% in 2022 to 5.2% in 2023, remaining at 5.1% in March 2024.

In the past few years, futures for various commodity assets (Brent oil, natural gas, gold, silver, wheat, copper, nickel and other commodities) have been one of the most actively developing sectors of the Moscow Exchange futures market. In 2023, commodity futures trading volumes increased from Rb10.4 trillion in 2022 to Rb19.5 trillion or by 87.7%; as a result, the share of commodity futures rose from 18.5% in 2022 to 28.4% in 2023 and 30.8% in March 2024.

The options market is quite a risky one for individuals' short-term transactions. Unlike previous years, currency options have recently become the most traded contracts on the exchange (Fig. 50). The volume of currency instrument options increased from Rb1.1 trillion in 2022 to Rb2.0 trillion in 2023 or by 87.7%. At the same time, relative to 2021, the liquidity of currency options was equal to 99.3% in 2023. Over the same period, their share in the total volume of option transactions grew from 61.7% to 73.0% with a slight decrease to 67.8% in March 2024.

On the contrary, the volume of index instrument options decreased considerably from Rb1.1 trillion in 2022 to Rb0.7 trillion in 2023 or by 31.3%;

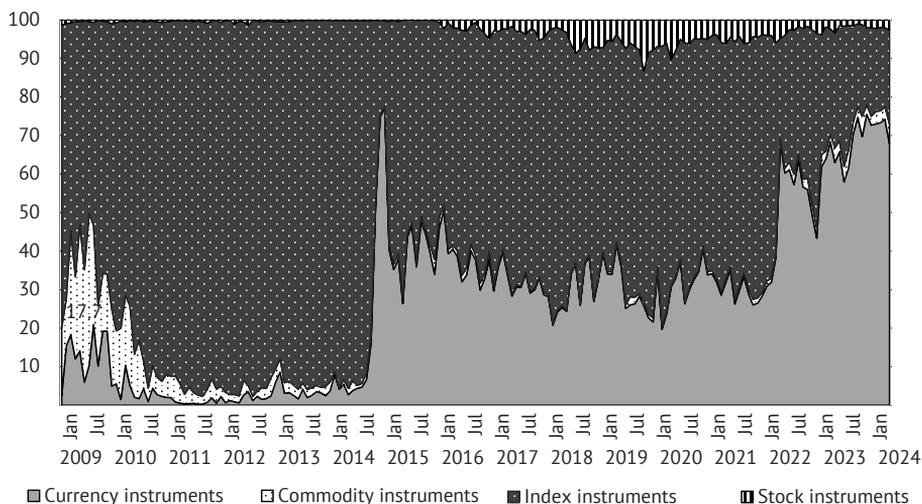


Fig. 50. The pattern of the Moscow Exchange options market, January 2009 – March 2024, % on transaction value

Source: Own calculations based on the data of the Moscow Exchange.

relative to 2021, their liquidity was equal to the mere 17.1% in 2023. The share of these options in the total volume of option transactions on the exchange decreased from 31.0% in 2022 to 21.5% in 2023 with a subsequent increase to 24.4% in March 2023. The launch by the Moscow Exchange of trading in premium options on the Moscow Exchange index, the main indicator of the Russian stock market, at the end of December 2023 stimulated growth in private investors' interest in index instrument options. The remaining segments of the options market are very small.

In 2022–2023, the diminishing role of transactions with the US dollar and euro on the foreign exchange and derivatives markets of the Moscow Exchange was accompanied by the growing interest of exchange trading participants in alternative currencies of friendly countries, primarily, the Chinese yuan. On the spot market, the share of the yuan in foreign exchange trading volumes increased from 0.4% in 2021 to 64.75% in March 2024 (*Fig. 51*). At the same time, the share of the US dollar decreased accordingly from 82.6% to 20.4%. In addition to its use in foreign trade transactions, an increase in investor demand for the yuan was fueled primarily by the emergence of new financial products, such as yuan deposits with banks, as well as placement by a number of large Russian companies of yuan-denominated bonds.

In 2022–2023, growth in the volume of yuan transactions on the futures market was more moderate (*Fig. 52*). However, it is speeding up, too. The share of yuan transactions increased from 0% in 2021 to 35.3% in March 2024. Over the same period, the share of transactions in US dollars decreased from 92.0% to 54.4%, while the share of transactions in euros increased from 8.0% to 10.3%.

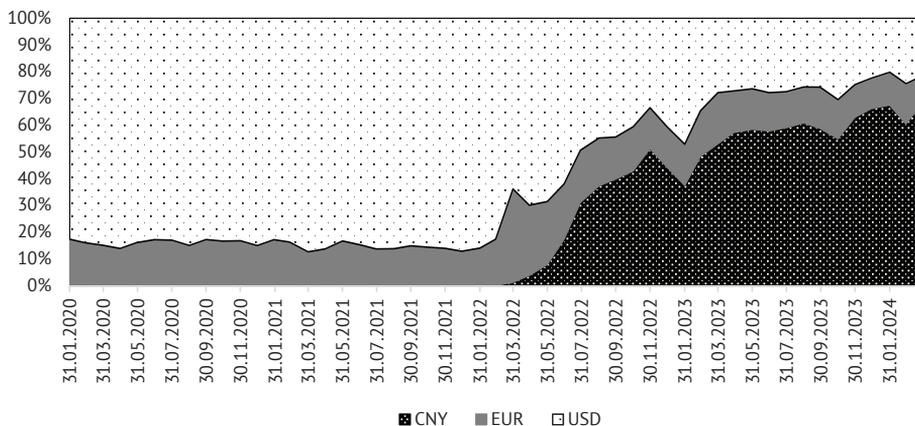


Fig. 51. The pattern of the Moscow Exchange spot market of currency transactions, 2020 – March 29, 2024, % on transaction value

Source: Own calculations based on the data of the Moscow Exchange.

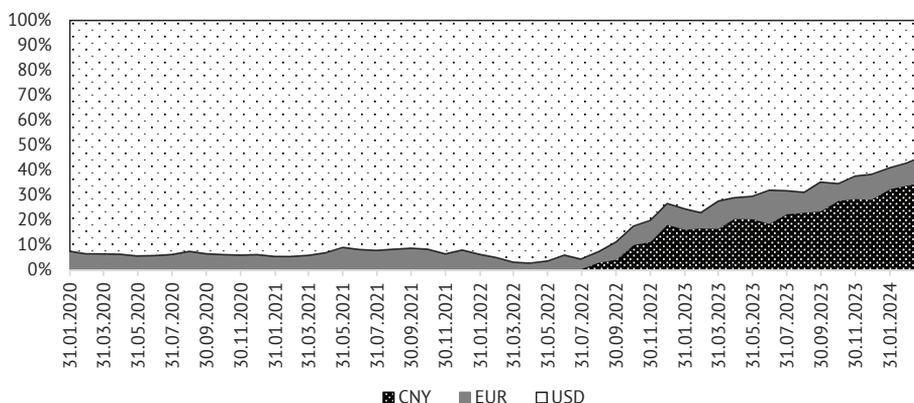


Fig. 52. The pattern of the Moscow Exchange futures foreign exchange market, 2020 – March 29, 2024, % on transaction value

Source: Own calculations based on the data of the Moscow Exchange.

2.1.8. Financial intermediaries and exchanges

The Russian financial market is characterized by a situation where despite the development of fintech and entry of dozens of millions of private investors into the market, the long-term trend of a declining number of licenses to carry out professional activities in the securities market is coupled with a trend of a very limited number of new companies entering the market. In 2023, the number of financial intermediaries increased somewhat as compared to the previous year: from 277 intermediaries to 282 intermediaries in dealer activities; from

179 intermediaries to 182 intermediaries with the right to act in trust management of securities; from 253 intermediaries to 254 intermediaries in brokerage activities (Fig. 53). However, the number of new licenses declined from 47 licenses in 2022 to 35 licenses in 2023.

In 2011, with a merger of the MICEX and RTS exchanges, it became possible to speed up the development of exchange-related technologies and concentrate liquidity on trading participants' accounts in the unified settlement and trading system. Along with positive changes, the merger of the RTS and MICEX exchanges led to the situation where the competition between the exchanges disappeared. In 2020–2021, the accelerated development of the St. Petersburg Exchange (SPE), which acted as the organizer of trading in foreign issuers' equities, made it possible to revive the competition between the exchanges on the stock market. However, in 2023 SPE practically stopped its main activities because of sanctions imposed against it and its settlement depository.

In the past few years, the Moscow Exchange tried to realize its advantages in the market as a universal organizer of trading in various investment and financial assets. The total volumes of exchange trading increased from Rb1,056 trillion in 2022 to Rb1,310 trillion in 2023 or by 24.1 (Fig. 54).

Apart from advantages, the modal of a universal exchange creates risks in terms of reduced motivation to develop business segments which do not generate high commissions. As compared to 2021, the share of the stock market decreased from 5.2% to 4.8% in 2023, while in 2010 it was equal to 13.2%. The bulk of trading volumes on the Moscow Exchange is generated by the foreign exchange and money market; in 2022–2023 its share remained at the level of 89% against 72.0% in 2010. The share of the derivatives market decreased from 7.4% in 2022 to 6.2% in 2023 and amounted to 14.8% in 2010 (Table 17).

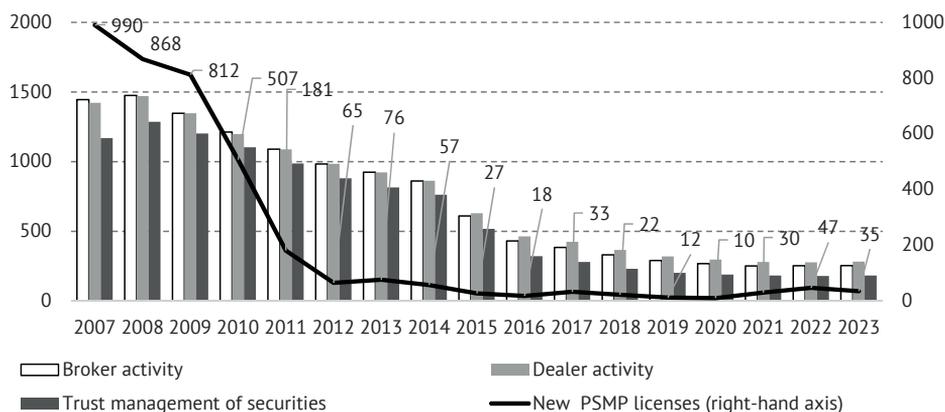


Fig. 53. The number of licenses to carry out broker and dealer activities and trust management of securities (left-hand axis) and the number of issued licenses of professional securities market participants (right-hand axis), 2007–2023

Source: Own calculations based on the data of NAUFOR and registers of the RF Central Bank. URL: https://www.cbr.ru/securities_market/registries/

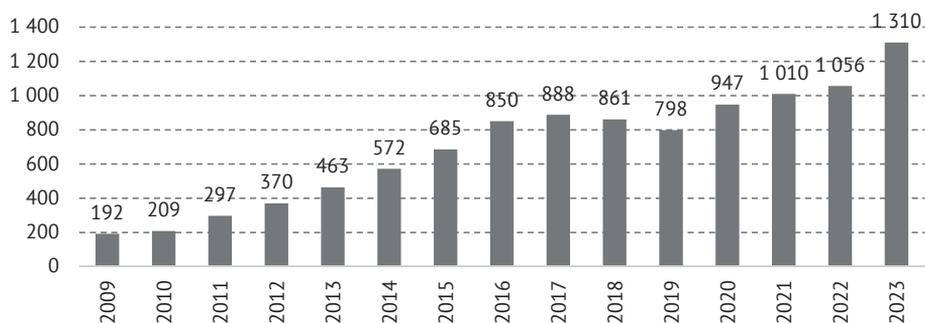


Fig. 54. The total volumes of trading in all instruments on the Moscow Exchange, 2009–2023, trillion rubles

Source: Own calculations based on the data of the Moscow Exchange.

Table 17

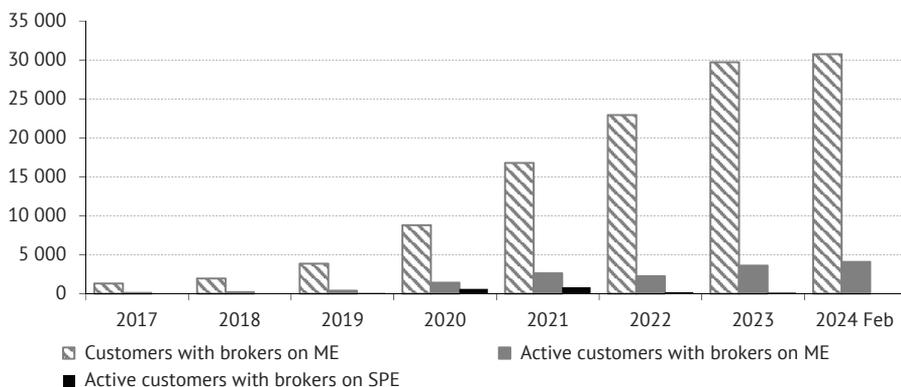
The pattern of the Moscow Exchange market in 2010–2023, %

	2010	2015	2020	2021	2022	2023
Stock market	13.2	3.0	5.8	5.2	3.5	4.8
including:						
Equities, RDR and units	8.0	1.4	2.5	3.0	1.7	1.8
Bonds	5.2	1.6	3.2	2.2	1.9	3.0
Secondary trading	3.4	1.2	1.2	1.0	0.6	0.9
Market of placements	1.8	0.4	2.1	1.2	1.2	2.2
Foreign exchange and monetary market	72.0	83.3	80.5	78.9	89.1	89.0
Including:						
Money market	33.9	38.0	45.7	47.2	63.7	63.9
REPO operations	31.5	33.2	40.7	41.7	51.3	50.4
Loan market	2.4	4.8	5.0	5.5	12.4	13.6
Foreign exchange market	38.1	45.4	34.7	31.7	25.4	25.0
Spot transactions	18.0	15.1	10.2	9.4	9.5	8.2
SWAP transactions	20.1	30.3	24.5	22.2	15.9	16.8
Derivatives market	14.8	13.7	13.7	15.7	7.4	6.2
Derivatives financial instruments	0.0	0.001	0.1	0.3	0.0	0.0
Commodity market	0.001	0.02	0.01	0.02	0.02	0.04
Total	100	100	100	100	100	100

Source: Own calculations based on the data of the Moscow Exchange.

2.1.9. Investors on the domestic financial market

Over the past five years, the number of private investors on the Russian market has been growing. The number of unique customer accounts with brokers on the Moscow Exchange increased from 22.9 million accounts in 2022 to 23.6 million accounts in 2023 and to 30.7 million accounts in February 2024 or by 34.1% (Fig. 55). However, as most accounts do not have assets, a more objective ratio of private investors' trading activity is the number of active customer accounts in



Note. The number of SPE customers in 2023 is given as of October 2023. Later, such information was not disclosed by SPE because of suspension of trading owing to the sanctions introduced from November 2023.

Fig. 55. The number of accounts of registered and active customers with brokers on Russian exchanges, 2017 – February 2024, thousand units

Source: Own calculations based on the data of the Moscow Exchange and SPE.

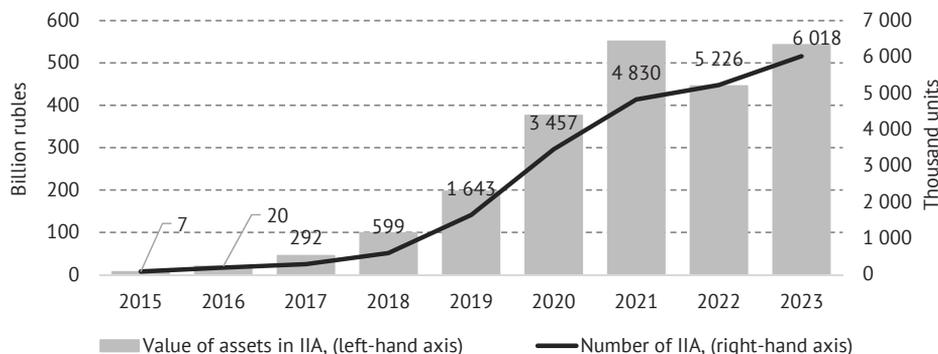


Fig. 56. The number of individual investment accounts (IIA-1 and IIA-2) (thousand units) and the value of customer assets in these accounts (billion rubles), 2015–2023

Source: Own calculations based on the data of the RF Central bank and the Moscow Exchange.

which at least one exchange-related transaction is made a month. The number of such accounts on the Moscow Exchange increased from 2.2 million accounts in 2022 to 4.1 million accounts in February 2024 or by 81.3%. As of November 2023, there were 126,000 active customers on the St. Petersburg Exchange, but later the Exchange stopped disclosing this information because it suspended trading.

The number of individual investment accounts (IIA) of private investors increased from 5.2 million in 2022 to 6.0 million in 2023 or by 15.1% (*Fig. 56*). In 2023, growth in the number of IIA sped up by 8.2% as compared to 2022. In 2023 this growth in the number of IIA was driven by private investors' rush to open individual investment accounts of the first- and second types until the end

of 2023, that is, before the new legislation on individual investment accounts of the third type (IIA-3) came into force. In compliance with the Federal Law “On the Securities Market” as amended and effective from January 1, 2024,¹ the opening of new IIA-1 and IIA-2 accounts ceased from January 1, 2024, but individuals could open new IIA-3 accounts.

Unlike previous types of individual investment accounts, a new IIA type allows their owners to take advantage of a wider range of tax benefits, combining the advantages of IIA-1 and IIA-2 in terms of receiving a tax deduction when depositing new funds into the account in the amount of up to Rb400,000 per year, as well as exemption from personal income tax on investment income when withdrawing savings from the account. At the same time, the amount of funds deposited into IIS-3 is not limited, and the maximum amount of investment income exempt from tax is equal to Rb30 mn. The main disadvantage of IIS-3 as compared to IIS-1 and IIS-2² is that the minimum duration of keeping assets in the account must be 5 years and subsequently this period will increase to 10 years. Due to this factor, there is a risk of a substantial slowdown in the growth rates of opening of this type of accounts.

The value of assets in the previous version of IIA reached the maximum of Rb551 bn in 2021, fell to Rb446 bn in 2022 and picked up to Rb543 bn in 2023, that is, 1.5% below the peak value seen in 2021.

Owing to restrictions on the application of tax benefits in respect of the ultimate amount of new deposits to IIA-1 and IIA-2, savings in these accounts accounted for a small portion of client assets with brokers (*Fig. 57*). At the peak of the growing popularity of IIA in 2020, the assets value kept in such accounts was equal to the mere 6.7% of individuals’ assets in brokerage accounts; in 2023 this ratio fell to 4.9%. The share of brokerage accounts with a IIA status in the total number of brokerage accounts peaked at 33.6% in 2019 and then decreased to 14.5% in 2023.

Overall, the history of the use of IIA-1 and IIA-2 in 2015–2023 points to the need to maintain more stable rules of the game in the field of households’ long-term savings, as well as develop a cautious approach to the application of tax benefits.

The data on the number of brokerage accounts registered by the exchanges does not reflect the actual extent of households’ involvement in stock market transactions. The bulk of individuals’ brokerage accounts is empty or holds assets which sum is insufficient for safe investment. As shown in *Table 18*, the value of assets in private investors’ brokerage accounts picked up from Rb8.3 trillion in 2021 to Rb9.2 trillion in 2023 and over the same period the number of brokers’ unique customers increased from 20.2 million customers to 38.9 million customers.³

In 2023, 25.3 million people (65.1%) of the total number of brokerage account holders had no assets in their accounts; in 2021 the relevant ratio was equal to

1 Federal Law No. 600-FZ of December 19, 2023 “On Amendment of Individual Statutory Acts of the Russian Federation.”

2 The minimum period for which assets were kept in IIA-1 and IIA-2 accounts was equal to three years and not linked to the date of depositing funds to the account.

3 The RF Central Bank’s data on the number of private investors’ brokerage accounts are normally higher than the ratio of the number of unique customer accounts with brokers published by the Moscow Exchange.

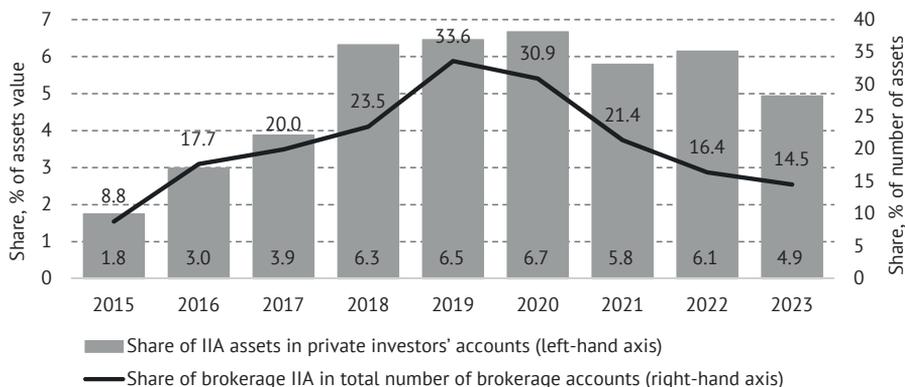


Fig. 57. The share of assets in IIA (IIA-1 and IIA-2) in the total value of assets in private investors' accounts and the share of brokerage IIA in the total number of brokerage accounts, 2015–2023, %

Source: Own calculations based on the data of the RF Central Bank and the Moscow Exchange.

Table 18

The data on the distribution of the number of private investors and the value of client assets depending on the value of assets in a brokerage account, 2021–2023

	Number of customers						Portfolio volume					
	2021		2022		2023		2021		2022		2023	
	Mn persons	%	Mn persons	%	Mn persons	%	Trillion rubles	%	Trillion rubles	%	Trillion rubles	%
1. From Rb1 mn and more	0.6	3.0	0.5	1.8	0.7	1.8	7.6	91.1	5.3	87.6	8.5	91.9
2. From Rb100,00 and more	2.0	9.9	2.0	6.9	2.4	6.2	8.2	99.1	5.9	98.5	9.1	99.1
3. Up to Rb100,000	5.4	26.8	8.0	27.4	11.2	28.7	0.1	0.9	0.1	1.5	0.1	0.9
4. Empty accounts	12.8	63.3	19.2	65.7	25.3	65.1	0.0	0.0	0.0	0.0	0.0	0.0
5. Overall (csum of lines 2–4)	20.2	100.0	29.1	100.0	38.9	100.0	8.3	100.0	6.0	100.0	9.2	100.0

Source: The RF Central Bank. The statistical data to the review of key indicators of securities market professional participants. URL: https://www.cbr.ru/securities_market/statistic/

63.3%. By our estimates, to build a simple diversified portfolio, a private investor needs to have at least Rb100,000 in the account.¹ In 2023, the number of private investors with an investment potential (the asset value of Rb100,000 and more in the account) was equal to 2.4 million people or 6.2% of the total number of brokerage account holders; in 2021 the share of such investors was equal to 9.9%.

1 According to the study by the RF Central Bank, as comprehensive diversification of brokers' customer portfolios with assets of Rb10,000-Rb100,000 was impossible, this group of investors saw the worst negative returns on individual portfolios across different groups of investors in H1 2022 // Portrait of a Broker's Client. H1 2022. Moscow: The RF Central Bank, 2022. p. 14. URL: https://cbr.ru/Content/Document/File/143859/Portrait_client_brok.PDF

The number of private investors, who could not fully diversify their investments (the asset value of up to Rb100,000 in their accounts) and were more likely to receive returns on individual portfolios below the market level, amounted 11.2 million people in 2023 or 28.7% of brokers' clients; in 2021 the ratio was equal to 26.8%. Thus, the existing practice of disclosing information on brokerage accounts, including unfunded accounts, distorts considerably the general public's comprehension of the extent of private investors' participation in stock market transactions. Other countries – the USA, the EU, China, India and South Korea – publish normally information only on customers' funded accounts with brokers.

The data of *Table 18* also point to a high level of concentration of private investors' assets with brokers. In 2021 and 2023, the accounts of the mere 600,000–700,000 individuals with assets worth of Rb1 mn or more accounted for 91%–92% of the assets kept in brokerage accounts.

In 2023, amid banks' high interest rates on deposits even despite a high yield of the Moscow Exchange index, households sharply increased their investments in bank deposits from Rb46.9 trillion in 2022 to Rb59.7 trillion in 2023; the share of bank deposits in the pattern of household assets grew from 54.6% to 55.4%. Investments in equities increased from Rb4.6 trillion to Rb7.2 trillion, their share in the pattern of financial assets rose from 5.3% to 6.7%. During the period under review, there was growth in the shares of household investments in bonds (from 3.3% to 3.6%) and investment funds (mainly mutual funds) (from 3.9% to 4.9%) (*Table 19*).

Table 19

The pattern of household financial assets, 2017–2023, %

	2017	2018	2019	2020	2021	2022	2023
Cash	24.7	25.5	23.5	26.3	24.3	25.1	23.2
Deposits and funds in escrow accounts	57.8	56.4	56.4	52.9	52.5	54.6	55.4
Equities	3.7	3.6	4.4	5.3	6.8	5.3	6.7
Bonds	1.9	2.3	3.0	3.3	4.0	3.3	3.6
Investment funds	2.3	2.8	3.0	3.4	4.1	3.9	4.9
Pension and insurance reserves	9.6	9.4	9.7	8.8	8.3	7.8	6.3
Financial assets, overall	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Own calculations based on the data of the RF Central Bank. URL: http://www.cbr.ru/statistics/macro_itm/households/

However, cash reserves remained the second largest category of household financial assets. The share of these investments decreased from 25.1% in 2022 to 23.2% in 2023, however, the value of these assets increased considerably from Rb21.6 trillion in 2022 to Rb24.9 trillion in 2023. In 2023, an alarming trend was a decrease in the share of pension and insurance reserves in household financial

assets from 7.8% to 6.3%; these assets in terms of value remained practically unchanged (Rb6.7 trillion–Rb6.8 trillion).

Thus, in 2023 the consolidated portfolio of household financial assets remained markedly conservative and aimed more at preserving the value rather than generating an additional income from investments in risky assets.

With the freezing of non-resident investments in Russian issuers' securities in 2022 and the insufficient level of the development of domestic institutional investors, private investors have become the main driving force maintaining the liquidity of exchange-traded equities and bonds. The share of non-residents in market transactions with equities on the Moscow Exchange fell from 48.5% in 2021 to zero in 2022–2023 and, on the contrary, the share of private investors over the same time increased from 38.5% to 77.0% in January 2024 (Fig. 58). Also, the share of resident-institutions, primarily non-bank financial institutions, increased from 13.0% in 2021 to 23.0% in 2022.

With a high level of dependence of the stock exchange market on private investors, new challenges arise. In particular, funds from private investors returning to the market facilitate growth in the value of small and medium-sized companies in which non-residents did not participate. Private investors' funds yield better results on the example of growth in prices for second- and third-tier equities and the boom on the market of IPO-SPO companies. At the same time, most blue chips have significant blocks of equities blocked in non-residents' accounts. This is a factor constraining value growth of these issuers' equities. In future, domestic institutional investors are expected to become growth drivers for these equities.

The main holders of corporate bonds are credit institutions, NPF and other financial institutions (Fig. 59, Table 20). In 2023, by contrast with the previous year, the share of credit institutions in the pattern of corporate bond holders decreased from 47.4% to 42.9%, while the share of other financial organizations increased

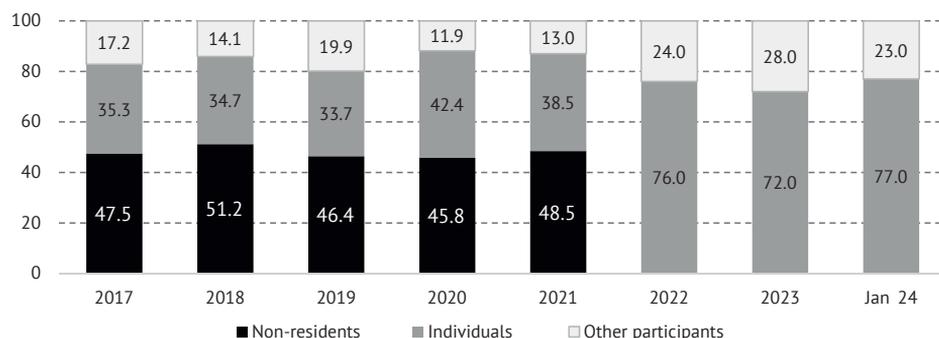


Fig. 58. The pattern of investors in the secondary trading of equities on the Moscow Exchange, 2017 – January 2024, %

Source: Based on the statistical data to the RF Central Bank's Review of Financial Stability (URL: <https://www.cbr.ru/finstab/statistics/>) and the data of the Moscow Exchange.

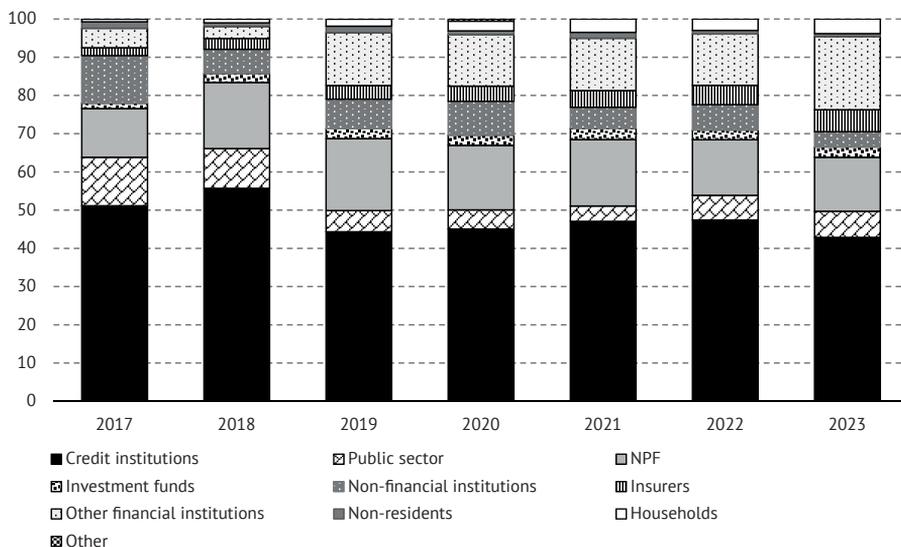


Fig. 59. The pattern of corporate bond holders in 2017–2023, %

Source: Own calculations based on the data of the Review of the Russian Financial Sector and Financial Instruments of the RF Central Bank for a number of years. URL: http://www.cbr.ru/securities_market/analytics/

Table 20

The pattern of corporate bond holders, 2017–2023, %

	2017	2018	2019	2020	2021	2022	2023
Credit institutions	51.2	55.7	44.3	45.0	47.1	47.4	42.9
Other financial institutions	5.1	3.1	13.8	13.4	13.7	13.4	19.2
Non-residents	1.7	1.0	1.7	1.1	1.6	0.9	0.8
Households	0.7	1.0	1.9	2.5	3.5	3.0	3.8
NPF	12.8	17.3	18.8	16.9	17.4	14.5	14.1
Investment funds	1.4	2.3	2.6	2.7	3.0	2.6	2.7
Public sector	12.7	10.4	5.5	5.0	4.0	6.4	6.8
Insurers	2.1	2.9	3.6	4.0	4.4	5.1	5.8
Non-financial institutions	12.4	6.3	7.7	8.8	5.4	6.6	4.0
Other	0.0	0.0	0.0	0.6	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
For reference: share of non-residence according to the RF Central Bank's previous reports published before 2023	14.0	10.0	13.0	12.0	11.0	1.0	

Source: Own calculations based on the data of the Review of the Russian Financial Sector and Financial Instruments of the RF Central Bank for a number of years. URL: http://www.cbr.ru/securities_market/analytics/

from 13.4% to 19.2%; the share of NPF declined from 14.5% to 14.1%. The share of private investors (households) is moderate and equal to 3.0% and 3.8% in 2022 and 2023, respectively. The share of non-residents in corporate bonds does not exceed 1%. In future, the corporate bond sector growth depends on the raising of funds from credit institutions and banks, as well as private investors and partly non-residents from friendly countries.

The main holders of government bonds are currently credit institutions, the public sector (development institutions and other), NPF and non-residents (Fig. 60). In 2023, by contrast with 2022, the share of banks in the pattern of government bond holders decreased from 40.0% to 33.8%, the share of the public sector increased from 25.0% to 26.7%, the share of NPF rose from 9.0% to 10.2% and that of non-residents, from 11.0% to 12.3%. The level of households' participation in government bonds still remains moderate, its share increased from 2.0% in 2022 to 3.8% in 2023. In this segment of financial instruments, the main market growth prospects are associated with banks, domestic institutional investors and partly with households and non-residents from friendly countries.

In 2023, as compared to 2021, the value of assets of financial institutions increased from 97.2% to 106.3% relative to GDP (Fig. 61). However, this ratio's main growth was facilitated by the share of bank assets in GDP, which increased from

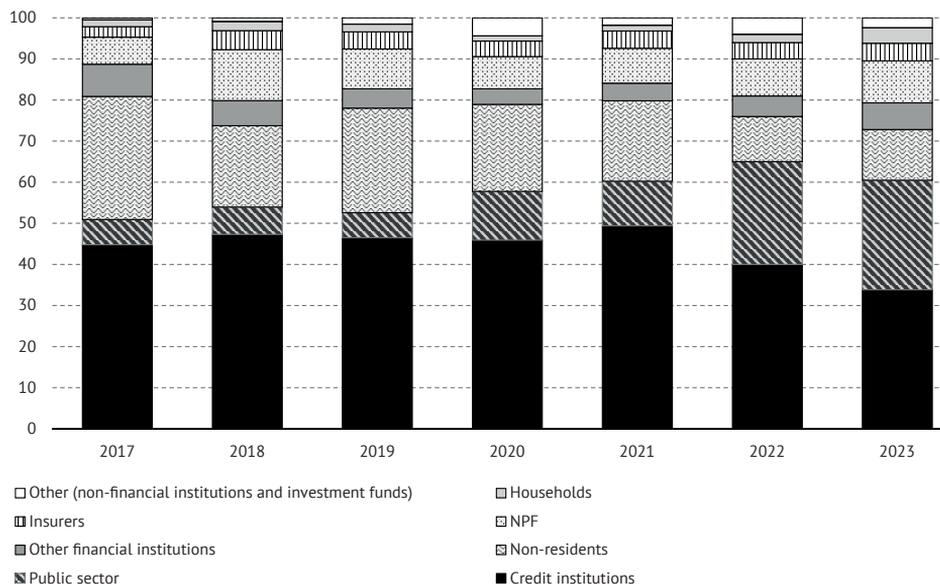
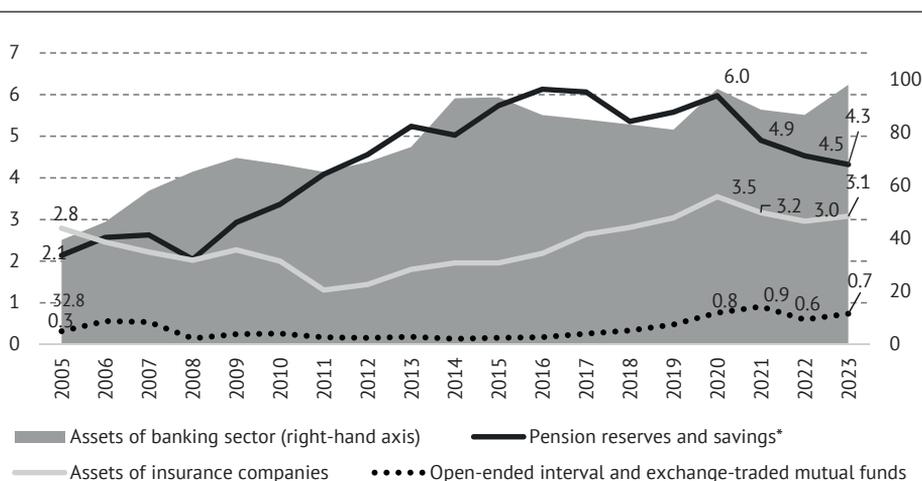


Fig. 60. The pattern of government bond holders, 2017–2023, %

Source: Own calculations based on the data of the Review of the Russian Financial Sector and Financial Instruments of the RF Central Bank for a number of years. URL: http://www.cbr.ru/securities_market/analytics/



* The data on pension reserves and savings in 2023 are provided as of October 1.

Fig. 61. The share of bank assets, pension reserves and savings, insurers' assets and net assets of open-end, interval and exchange-traded mutual investment funds in Russia's GDP, 2005–2023, %

Source: Own calculations based on the data of the RF Central Bank, VEB and Rosstat.

88.6% to 98.0%. As regards other financial institutions, their shares in GDP decreased in 2023 as compared to 2021, including the value of net assets of open-end, interval and exchange-traded mutual investment funds (UIFs) (from 0.9% to 0.7%), pension reserves and savings (from 4.9% to 4.3%) and insurers' assets (from 3.2% to 3.1%). Thus, in 2022–2023 growth in financial assets of the banking sector outpaced growth in financial assets of key institutional investors.

In 2022–2023, the main achievement of the sector of collective investments is the preservation of financial stability of this market segment in general and the trust of several million private investors, despite the fact that some of financial assets of open-ended and exchange-traded mutual funds were blocked in foreign jurisdictions.

As of February 2024, by contrast with 2021, the value of net assets of open-end mutual investment funds decreased from Rb921 bn to Rb809 bn or by 12.2%, while the value of exchange-traded mutual funds increased from Rb213 bn to Rb392 bn or by 84.0% (Fig. 62). Faster growth in assets of open-end funds is largely complicated by their low information transparency for investors, outdated practices of selling fund units, high assets management costs and insufficient efficiency of many mutual funds' investment strategies.

In 2022, the 7-year period that lasted from 2015 was interrupted when on the back of rising yields on securities of Russian and foreign issuers and declining returns on bank deposits, funds from private investors were steadily flowing into open-end mutual funds (Fig. 63). However, in 2023 the inflow into open-end mutual funds recovered on the back of high returns on equity portfolios.

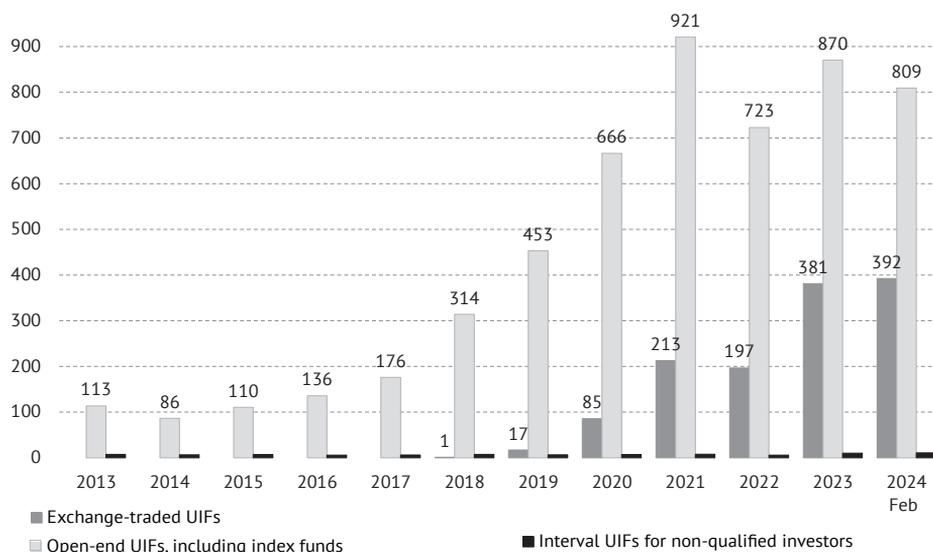
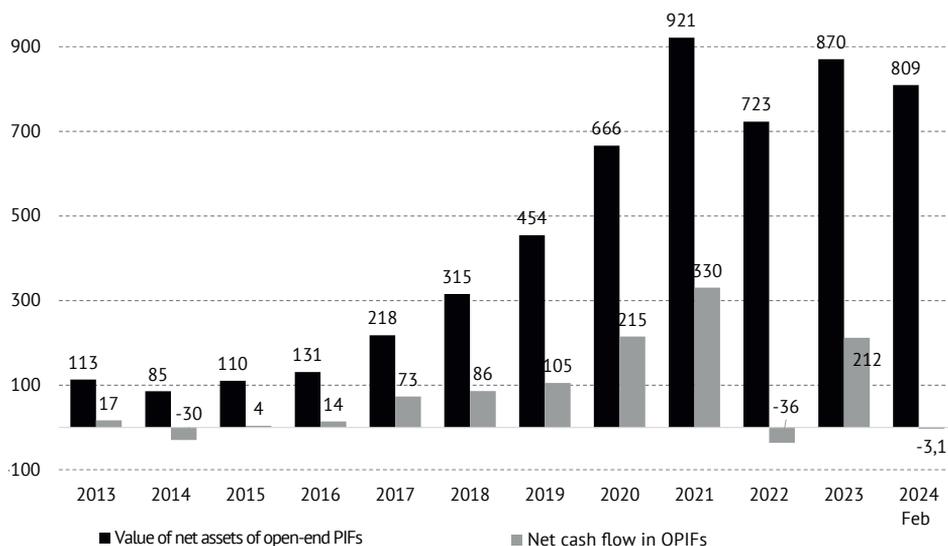


Fig. 62. The value of net assets of open-end exchange-traded mutual investment funds (UIFs). 2013 – February 2024, billion rubles

Source: own calculations based on the data of Investfunds.ru, including the value of mutual investment funds with blocked assets.



Note. The value of net assets of OPIFs in 2022–2023 includes the value of UIFs with blocked assets. The value of net assets of OPIFs without blocked assets is equal to Rb515.2 bn.

Fig. 63. The value of net assets of open-end UIFs and investors' net cash flow into these mutual funds, 2013 – February 2024, billion rubles

Source: Own calculations based on the data of Investfunds.ru

Owing to rising interest rates and the attractiveness of bank deposits amid a decrease in the market value of bond portfolios, bond mutual funds have faced a serious outflow of money since H2 2023. At the same time, thanks to the influx of new investor funds, the value of the net assets of money market funds increased almost 10-fold.

Thus, in 2022–2023 amid sanctions the role of private investors and domestic institutional investors has increased on the financial market. The role of private investors was particularly significant on the stock market and derivatives markets. Thanks to private investors, high liquidity of the blue chips market was maintained, and the phenomenon of accelerated growth of the market of the second- and third-tier equities and the sector of IPO-SPO companies became explicit. In their mass, private investors are not homogeneous.

The main group of private investors has assets of less than Rb100,000 or no assets at all. The main driving force in the market consists of 600,000–700,000 investors with assets of Rb1 mn or more in their accounts. The bulk of private investors plays a passive role in the market, mostly due to the fact that the existing mechanisms of collective investment and long-term savings do not work effectively enough. The main drivers of bond market growth are credit institutions and institutional investors. The role of private investors in this sector remains quite moderate.

* * *

In 2023, the global financial market was recovering from the hard year 2022. The growth drivers in the equity and alternative investment markets were the sectors of technology companies, communications companies, as well as equities of issuers popular with social network users and the cryptocurrency. The most profitable investments on the bond and mixed investment markets were those in life cycle funds, mixed investment funds with a 60% equity/40% bond strategy, as well as corporate bonds, including HYB. Across the country-specific strategies on stock markets, the strategy of investing in a broad portfolio of equities of American companies remained the most profitable one in a strong dollar environment. However, investments in equities of issuers from Argentina, Brazil, India, Mexico and Poland yielded competitive returns. Though it did not outperform the S&P 500, the Russian RTS Total Return Index portfolio ranked relatively high at 7th place out of 32 emerging markets strategies reviewed.

On the example of a wider range of stock indices of different countries, it was shown that most of them are characterized by slow recovery of stock markets after considerable financial shocks in the past, that is, the Siegel-Kaplan phenomenon known in the scientific literature as “black turkey”. The RTS index includes about 30 stock indices that have not recovered to their peak levels after the global financial crisis of 2007–2008. The susceptibility of most stock markets in the world to this phenomenon means that the maintaining of their financial stability implies not only measures to ensure resilience to sudden shocks, that is, the “black turkey” phenomena, but also measures aimed at facilitating long-term

growth of stock markets and overcoming the long-term underestimation of the value of national companies.

Over a 10-year time horizon, a wide range of strategies were available to private investors on the global market, allowing them to form portfolios with different levels of risk. This made it possible to a great extent to mitigate investment shocks to investors' portfolios during the coronavirus epidemic and a large-scale drop in the value of most financial assets in 2022. Among the specified 10-year strategies, the RTS index portfolio was one of the five groups of the riskiest strategies on the global market. At the same time, none of the five groups of strategies in question on the global market, differing by the level of risks, guaranteed investors exit from their portfolios without losses within the specified time horizon.

With the exit of foreign investors from the Russian financial market, the correlation of the Russian stock market with most stock indices of developed and developing countries reached the lowest level in the entire history of the RTS index. At the same time, in 2023 many Russian investment strategies in stocks, bonds and mixed investments demonstrated high returns in rubles.

When analyzing the map of returns and risks of strategies available to private investors on the Russian financial market on the 2014–2023 investment horizon, it was shown that direct non-diversified investments in blue chips and second- and third-tier equities were quite risky investments with a high probability for investors to sustain losses when exiting them. A broad diversification of individual portfolios and the use of collective forms of investment help reduce the risks of investing in such instruments. However, these strategies are not yet quite popular with private investors; the bulk of such investments is made directly in equities of a limited range of blue chips.

The Moscow Exchange's broad, sectoral and thematic indices, which are most popular with domestic investors, are not sufficiently diversified; their pattern is dominated by a narrow circle of "blue chips." Both on the long-term and one-year horizons, many factor investment strategies that imply a higher diversification of investments in equities turned out to be more profitable and less risky.

At the same time, NPF, mutual investment funds and other domestic institutional investors face a challenge of increasing the share of investments in equities of Russian companies, including the second- and third-tier stocks and equities of new issuers carrying out IPOs. The 60% stock / 40% bond strategy, which is popular with institutional investors worldwide, allows investors on the Russian market to receive high returns with risks comparable to those related with investments in bonds.

In 2022–2023, the main achievement of the domestic financial market is its stability and trust of domestic investors. All financial instruments on the exchange market are traded as usual; there were no serious bankruptcies of corporate and regional bond issuers. The number of private investors entering the market is steadily growing. The involvement of considerable household savings in cash and deposits into the stock market can become a driver of recovery and subsequent growth of the domestic stock and bond markets.

In 2022–2023, the market of internal corporate borrowings was growing dynamically. A variety of bonds with different terms of issue, even amid the rising key rate since H2 2023, attracted funds from investors with different financial goals and preferences. The sector of second- and third-tier stocks grew rapidly and there was a revival in the IPO-SPO market segment, which is still dominated mainly by placements of small companies' equities.

The domestic financial market faces the following main challenges.

Despite considerable efforts by the government and market participants, a substantial portion (Rb1.6 trillion) of domestic private investors' assets remains blocked in international depositories' accounts; the release of these funds could facilitate significant growth in investment demand on the domestic securities market.

Domestic investors' funds are not sufficient enough to restore fully the value of blue chips, 60% of which Free float continues to belong to non-residents, mainly from developed countries. Under these conditions, wealthy private investors are paying more and more attention to investments in second- and third-tier equities and this creates risks of bubble formation in this market segment.

Retail investors' portfolios consist mainly of cash, bank deposits and bonds. The inclusion of equities and other financial instruments with high returns in private investors' portfolios is limited by a low level of development of collective investments and lack of popularity of the idea of wide diversification of individual portfolios.

The worsening of information transparency regarding securities issuers' activities because of sanctions is a major obstacle to informed decision-making by investors. A more balanced approach is needed to the composition of restrictions in respect of the disclosure of financial statements, as well as support for Russian information resources and platforms providing services in the field of information disclosure. All publicly traded companies' official financial statements must be transparent (except for some data relating to the ownership and management structure of a narrow circle of issuers).

There is still insufficient competition between financial institutions. It can be seen in high tariffs for financial services and interbank transfers, the limited number of new companies entering the stock market and the limited range of services of fintech companies independent of banks as compared to other developed and developing countries.

In 2023, the RF Central Bank approved the "Main Guidelines for the Development of the Financial Market in 2024 and the 2025–2026 Period" and the government specified the targets of the "Strategy for the Development of the Financial Market of the Russian Federation till 2030." In accordance with the above strategies, to stimulate the development of long-term private savings, the Long-Term Savings Program (LTSP) and third-type individual investment accounts (IIA-3) began to operate from January 1, 2024. It is important to monitor the effectiveness of portfolio management of NPF and individual investors, as well as the attractiveness of LTSP and IIA-3 to households. So far, statistics on these new savings mechanisms is not transparent.

Section 3. The real sector

3.1. Dynamic and structure of GDP and investments¹

3.1.1. The context and factors of the recovery growth in 2023

The year-end results of 2022 determined starting positions of 2023, when the output by basic types of economic activities was at the level of 99.6%, GDP volume amounted to 98.8% relative to the previous year. Investment demand grew by 6.8%, while government spending rose by 3.0%, with household final demand contracting by 1.1%. The state of the domestic market was significantly affected by an increase in the contribution of net exports to 12.8% of GDP against 9.8% in 2021 (according to the SNA methodology in current prices), with foreign trade in goods and services expanding by 6.3%, including goods – by 8.8% (according to the balance of payments methodology).

Changes in the domestic and external environment, acceleration of inflation as of year-end 2022 up to 11.9% determined the implementation of flexible monetary policy with regulation of the level of the Bank of Russia key rate in the range from 20% (28.02.2022) to 7.5% (19.09.2022). Consistent implementation of government measures of anti-sanctions fiscal and monetary policy resulted in the formation of conditions for a gradual deceleration of inflation, and reduction of the key rate during 2022.

Economic dynamic in 2023 was shaped by the active adjustment of the Russian business to the new environment in the domestic and foreign markets with a gradual reduction in the risks of sanction and infrastructure restrictive measures on the real and financial sectors of the domestic economy.

Recovery of GDP growth in 2023 at the level of 103.6% was determined by the acceleration of domestic market dynamics by 9.1%, including household final consumption by 6.1% and investment in fixed assets by 9.8% vs. the previous year.

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The growth of output of basic economic activities rose to 105.1% against a 0.4% drop in output in 2022.

The strongest positive response to the changes in political and economic conditions was observed in the manufacturing and investment, and construction sectors of the economy. The growth of manufacturing industries in 2023 amounted to 107.5% and construction – 107.9% against the indicators of the previous year. With the growth of economic activity of business and changes in consumer demand from Q2 2023, the indicators of trade organizations were recorded in the area of positive values. The turnover of wholesale trade in 2023 increased by 10.9% and retail trade – by 6.4% as compared to the previous year, however, the results of activity remained below the 2021 indicators. The expansion of consumer demand was driven by the growth of real disposable household income by 5.4%, real wages – by 7.8%, real size of assigned pensions – by 3.3%. Freight transportation showed restrained dynamics: at the end of 2023, cargo turnover decreased by 0.6% (a year earlier – by 2.3%), which was explained by the current structure of the transportation system due to the difficulties in building new logistical chains, expanding opportunities for multimodal transportation, especially in the eastern direction. Cardinal changes in the movement of commodity flows in the domestic and foreign markets were supported by government policy measures for the development of transportation and logistics infrastructure and financial and insurance services.

In recent years, agriculture steadily contributed positively to the dynamics of the Russian economy. However, in 2023 the rate of agricultural output is estimated at 99.7% relative to the previous year due to the exceptionally high 2022 base over the last decade (*Table 1*).

Table 1

**Dynamics of main macroeconomic indicators in 2022–2023,
in % on corresponding period of the previous year**

	Internal conditions									
	2022					2023				
	year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
GDP	98.8	103.0	95.5	96.5	97.3	103.6	98.4	105.1	105.7	104.9
Output of goods and services by basic economic activity	99.6	105.6	97.0	98.6	98.0	105.1	98.6	107.3	107.9	106.1
Industry	100.7	106.3	98.6	99.8	98.7	103.5	98.6	105.7	105.4	104.1
Agriculture	111.3	106.4	109.4	113.8	110.5	99.7	101.6	101.1	102.4	94.3
Construction	107.5	105.1	105.8	107.2	110.2	107.9	110.0	109.1	107.5	106.6
Transportation	97.7	104.2	97.4	94.9	94.7	99.4	98.2	97.6	100.8	101.0
Retail turnover	93.5	104.8	90.4	90.2	90.4	106.4	93.1	109.4	111.3	111.1
Paid services to population	105.0	111.5	103.3	103.9	103.0	104.4	102.8	105.0	104.9	104.9
Wholesale turnover	83.3	102.1	80.1	76.2	79.1	110.9	89.3	112.9	123.1	119.6
External conditions*										
Balance of foreign trade	172.6	316.4	263.2	139.2	87.6	29.1	28.4	19.0	35.6	39.2

	Internal conditions									
	2022					2023				
	year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4
Export of goods and services	116.5	160.7	127.4	104.7	91.4	72.5	68.3	69.9	77.5	74.9
Import of goods and services	91.4	110.2	76.7	87.9	93.6	109.2	105.5	134.9	109.4	94.1
Ruble exchange rate (Average for period) Rb/USD	68.12	84.73	66.01	59.40	62.32	85.12	72.71	80.97	94.07	92.93
Urals price, USD/bbl.	77.6	90.5	80.6	76.2	62.9	64.0	49.0	56.0	73.7	77.1

* Balance of payments methodology.
Sources: Rosstat, CBR.

The nature of economic development in 2023 was determined by the impact of such factors as the imbalance of supply and demand in the domestic and external markets; high inflationary pressure on the financial and economic activities of businesses and on the consumer behavior of the population; changes in the parameters of monetary and currency regulation.

GDP dynamic in 2022–2023 was significantly affected by the changes in external demand. In 2023, the reduction in Russian exports was driven by the slowdown in demand from the global markets, as well as by a voluntary reduction in export supplies of certain types of commodities. Due to objective constraints, in particular, the transportation and logistics infrastructure, the reorientation of export flows to loyal sales markets took place at a restrained pace. The dynamic of imports in 2023 was determined by the high level of domestic demand and adaptation of the economy to changes in terms and directions of trade.

Prompt measures to support systemic enterprises, small and medium-sized businesses, exports of Russian goods, import/import substitution of common and critical goods and technologies, formation of alternative transportation and logistics routes allowed the Russian economy to demonstrate resilience to external shocks, despite a rather high dependence on export-import components at the level of both individual basic industries and final and intermediate demand.

Following a surge in external market activity on the wave of post-pandemic economic recovery, the annual turnover of trade in goods and services in 2021 surged by 35.5% (in balance of payments methodology) and 1.8% in physical volume (in SNA methodology) and surpassed that of pre-pandemic 2019. The contribution of net exports in 2021 to GDP amounted to 9.3% (in 2021 prices, according to SNA methodology), including exports of 30.1% and imports of 20.8%, and determined the potential for development in the short term. A drastic change in the 2022 political and economic context and the introduction of unprecedented restrictive measures limiting the access of Russian business to the world markets of goods, services and technologies led to the disruption of the established model of functioning of the export-import complex of the Russian economy.

The impact of sanctions on the real and financial sectors of the economy was stretched both in terms of time and the nature of impact, which, given the accumulated experience of resisting the 2014 restrictions and the pandemic period, allowed Russian business to react quickly enough to the disruption of trade,

transportation, logistics, production and technological chains and actively reorient to the formation of new business relations in the markets of goods and services of friendly countries. With different speed of changes in the parameters of foreign trade in goods and services and favorable global environment, the surplus of trade in goods and services in 2022 reached \$293.3 bn and exceeded the previous year's figure by 1.72-fold. Economic activity was also supported by the proactive accumulation of stocks of material assets of imported and domestic import-substituting production, which made it possible to somewhat weaken the negative impact of the unstable dynamics of imports of goods in 2022–2023. However, difficulties with foreign trade turnover of services, especially transportation and financial, and insurance services, persisted.

In the context of geopolitical and market instability, in 2023, the foreign economic turnover of goods and services fell by 14.5% against the previous year (in current prices according to the balance of payments methodology), including goods by 16.7% and services by 2.8%. The contribution of net exports to GDP in 2023 amounted to 4.3% vs. 12.7% in 2022, including exports – 23.3% and imports – 19.0% against the figures of 27.7% and 15.0% a year earlier.

In 2023, external restrictive measures continued to complicate the international logistics of Russian export. The balance of foreign trade in goods and services in 2023 amounted to \$85.4 bn and decreased by almost 70% compared to the indicator of a year earlier (according to the balance of payments methodology). The 61.9% reduction in the trade surplus (to \$120.90 bn) was driven by a 28.4% decrease in exports (to \$423.9 bn) and a 9.9% increase in imports of goods (to \$303.8 bn). The deficit in the balance of foreign trade in services increased almost 1.6-fold (up to \$34.7 bn), including at the expense of a decline in the volume of services provided to non-residents and import of transportation services. The weakening of the nominal ruble exchange rate to 92.9 rubles/dollar in 2023 against 62.3 rubles/dollar a year earlier had also a significant impact on the dynamics and structure of the foreign trade. The change in net exports of goods and services under the existing sanctions on financial transactions and the system of cross-border payments narrowed the possibilities of transferring net income from foreign trade activities to support the domestic market (*Table 2*).

Table 2

Dynamics and structure of use of GDP use in 2019–2023

	As % of total, in current prices					% on previous year, in comparable prices				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
GDP	100	100	100	100	100	102.2	97.3	105.9	98.8	103.6
Including:										
Domestic market	92.3	94.9	90.7	87.3	95.7	103.1	96.0	109.9	100.3	109.1
Including:										
Final consumption expenditure	69.7	71.5	67.8	64.8	69.5	103.4	96.1	108.4	99.9	106.6
Gross savings	22.6	23.4	22.9	22.5	26.1	102.3	95.7	114.4	101.3	115.8

	As % of total, in current prices					% on previous year, in comparable prices				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Net exports	7.7	5.1	9.3	12.7	4.4	96.5	110.2	79.5	n/a	n/a
Export	28.5	25.5	30.1	27.7	23.4	100.7	95.8	103.3	n/a	n/a
Import	20.8	20.4	20.8	15.0	19.0	103.1	88.1	119.1	n/a	n/a
Note:										
Rb exchange rate (average for period), Rb/USD	64.73	72.04	73.65	68.12	85.12	103.3	111.3	102.2	92.5	125.0
Average Brent crude oil price, USD/bbl	64.03	42.03	70.44	99.82	82.0	90.1	65.6	167.6	141.7	82.1

Source: Rosstat.

Changes in the outlines of economic development in 2023 continued to be significantly influenced by the imbalance of supply and demand across the segments of domestic and external markets; high inflationary pressure on the financial and economic activities of businesses and consumer behavior of the households; changes in the parameters of monetary and foreign exchange regulation.

The increasing focus of the Russian economy on the domestic market was accompanied by the outstripping growth of final private and public consumption and acceleration of gross savings movement. The growing gap between the expansion of domestic demand by sectors of the economy and the increasing deficit of output and labor resources provoked pressure on prices. The growth of producer prices for industrial products accelerated to 119.2% after the deceleration of prices in H2 2022, agricultural producers – to 109.1%, in the construction sector – to 110.1% and was translated into consumer inflation. At the end of 2023, inflation is estimated at 7.4%, a year earlier consumer price growth amounted to 11.9%.

Rather rapid strengthening of inflationary pressure and formation of a monthly devaluation wave in the foreign exchange market in H2 2023 was regulated by the monetary policy instruments: in Q3 the key rate was raised three times – from 8.5% per annum (24.07.2023 to 12.0% (August 15, 2023) and 13.0% (September 19, 2023), and twice in Q4 – to 15.0% (October 30, 2023) and 16.0% (December 15, 2023) (Table 3).

Table 3

**Financial conditions: Key rate and price index in 2022–2023,
in % on previous year**

	2022					2023				
	year	Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4
Key rate (quarter-end), % per annum	10.6*	20.0	9.5	7.5	7.5	9.9*	7.5	8.5	13.0	16.0
Consumer prices	111.9	110.0	101.3	99.1	101.3	107.4	101.7	101.1	101.8	102.7
Producer prices:										
Industrial goods	96.7	110.2	95.0	96.0	96.3	119.2	102.6	106.2	110.8	98.8
Extraction of mineral resources	84.7	123.3	80.0	92.6	92.7	140.9	100.0	114.4	131.6	93.6

	2022					2023				
	year	Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4
Manufacturing	99.1	106.9	100.4	95.5	96.6	114.9	102.4	105.1	106.4	100.4
Agricultural products	95.9	102.5	99.1	96.7	97.6	109.1	100.0	97.0	104.6	107.5
Capital goods	114.7	108.9	102.9	101.1	101.3	110.1	101.9	102.6	103.9	101.4

* Average annual key rate.

Sources: Rosstat, CBR.

Economic adaptability to the new price proportions of the domestic market and the ruble exchange rate was accompanied by a change in the GDP structure by income with the share of net taxes on production and imports increasing to 8.0%. While the change in net taxes on production and imports was influenced by a rise in the volume of foreign supplies and the ruble exchange rate, the dynamics of gross profit with the remaining imbalance of supply and demand was defined by the transfer of increasing production costs and transaction costs to prices; in particular, producer prices in mining increased by 40.9% in annual terms, in manufacturing – by 14.9%.

In addition, the adjustment mechanisms of business regulation and fulfillment of social obligations enhanced the process of redistribution of gross profit of the economy and other mixed incomes in GDP structure in favor of wages of hired workers up to 40.3% in 2023 against 38.5% a year earlier (*Table 4*). With a shortage of labor resources, this allowed businesses to retain qualified personnel and maintain stability in the labor market with a decrease in the general unemployment rate from 3.5% in Q1 to 2.9% in Q4.

Table 4

Structure of GDP by revenue source in 2019–2023, in % to GDP

	2019	2020	2021	2022	2023	Q1	Q2	Q3	Q4
GDP	100	100	100	100	100	100	100	100	100
Compensation of employees	44.1	45.2	40.4	38.5	40.3	44.8	42.6	38.4	37.1
Net taxes on production and imports	11.0	9.7	10.0	7.7	8.0	9.4	8.4	6.8	7.7
Gross profit of economy and gross mixed income	44.9	45.1	49.6	53.8	51.7	45.8	49.0	54.8	55.2

Source: Rosstat.

Given the long-standing trend in the Russian economy of outstripping growth of wages relative to labor productivity, redistribution of income in favor of wages requires the implementation of effective measures to restructure employment in accordance with changes in demand for labor by qualifications, competencies and skills and the creation of material and technological conditions for optimizing the management of production and financial business processes. At the current level and structure of employment and at critically high capacity utilization, sustainable economic growth depends on investments in human capital and technological development of production as factors in increasing labor productivity.

3.1.2. Structural transformation of domestic production

The functioning of the economy in the last two years (2022-2023) relied on intensive diversification of the domestic market. The dynamics of industrial output has recovered since the second quarter of 2023, demonstrating growth by 3.5% and offsetting the decline of the previous year. The transformation of financial and economic interactions under the sanctions pressure changed the context of business environment in the domestic and foreign markets. Structural changes were determined by the outstripping rates of industrial growth and an increase in the share of manufacturing production in the gross value added of industry to 45.2% against 43.3% a year earlier. These trends strengthened the domestic market demand for domestic raw materials and high-tech goods with high added value and intellectual services. Outpacing growth in gross value added of manufacturing production (107.0% relative to 2022), construction (107.0%), trade and transportation infrastructure (105.9%), information and communication services (110.0%), and research and development (112.1%) were landmark events in 2023 (*Table 5*). The share of products of high-tech and knowledge-intensive industries in GDP increased from 22.2% in 2019 to 23.5% in 2023.

The dynamic growth of manufacturing and related service segments was supported by the reallocation of labor and capital to activities with high potential for technological development and import substitution. As business environment and structural transformation of the economy intensified, the growth of production capacity utilization partially compensated for the contraction of external demand, but increased the burden on the labor market due to the diversification of the economic structure. Budget and tax support of critical activities, including through increased government orders, had a significant impact on the nature of economic growth.

Table 5

**Physical volume indices of gross domestic product in 2020–2023,
in % on previous year**

	2020	2021	2022	2023
Gross domestic product in market prices	97.3	105.9	98.8	103.6
Gross value added in base prices	97.8	106.3	99.7	103.7
Including:				
Agriculture, forestry, hunting, fishing	100.2	100.5	107.0	100.1
Extraction of mineral resources	93.5	103.5	100.6	98.0
Manufacturing	100.1	105.9	98.0	106.9
Electricity, gas and steam supply	97.0	106.0	100.3	100.1
Water supply; wastewater disposal, waste utilization, pollution elimination	100.3	110.6	95.2	97.0
Construction	96.6	105.7	107.1	106.6
Wholesale and retail trade	98.7	105.5	87.2	106.6

	2020	2021	2022	2023
Transportation and storage	89.1	107.9	100.1	103.2
Hospitality and catering business	75.2	127.5	105.1	110.0
Information and communication	101.6	113.5	100.9	109.8
Financial and insurance activity	112.9	114.5	102.4	108.7
Real estate activities	98.1	104.5	101.5	100.8
Professional, scientific and technical activities	99.6	105.7	101.1	105.9
Public administration and national defense	102.7	104.2	109.5	105.8
Education	96.9	100.0	102.0	101.8
Health care	98.5	112.9	93.4	100.5
Culture, sports and leisure activities	89.1	114.9	107.5	101.0
Rendering of other types of services	92.9	109.0	97.5	97.0

Source: Rosstat.

In 2023, there was an acceleration of monthly dynamic with annual output growth by 7.5% in manufacturing industries, while in mining and production of electric power and gas there was a drop by 1.3% and 0.2%, respectively. In the extractive industries, the negative trend was due to the strengthening of external restrictions on export of mineral commodities, as well as internal measures of regulation in the fuel and energy complex.

It is important that support for manufacturing industries was shifting from immediate contingency management to the solution of strategic development tasks. The production index in the high-tech sector against 2022 amounted to 121.8% versus 106.8% a year earlier.

In 2023, the main contribution to the growth of manufacturing output was ensured by the machine-building complex, which demonstrated a steady diversification of the system of production-technological and trade-logistical interactions in the new markets of suppliers of components and finished products, while increasing the production potential of domestic manufacturers. Besides, the gradual recovery of investment and intermediate imports, especially in the types of activities critically dependent on foreign components and equipment, had a positive impact on the dynamic of the machine-building complex. Expansion of the parallel import scheme, smoothing of a number of logistical and financial challenges, testing of new goods and brands were supported by the growth of incomes and expansion of opportunities for obtaining credit resources and budget support.

In 2023, production growth in the machine-building complex as a whole amounted to 21.1% with positive trends in all sub-productions: manufacturing of computer and electronic equipment went up by 32.8%, electrical equipment – by 19.0%, vehicles – by 13.6% and other vehicles – by 25.5%. High-tech industries of the machine-building complex took the leading positions in terms of potential for the production of import-substituting products. The main trend in machine-building remained the expansion of production aimed at the substitution of imported materials and components, the output of which still lags behind the demand of the domestic market (*Table 6*).

Table 6

Movement of extraction and manufacturing sectors of the Russian industry in 2022–2023, in % on the corresponding period of the previous year

	2021	2022					2023				
		year	Q1	Q2	Q3	Q4	year	Q1	Q2	Q3	Q4
Industry	106.3	100.7	106.3	98.6	99.8	98.7	103.5	98.6	105.7	105.4	104.1
Extraction of mineral resources	104.2	101.5	108.1	99.7	100.6	98.4	98.7	96.4	100.5	98.7	99.3
Manufacturing sectors	107.4	100.3	106.4	97.6	99.6	98.7	107.5	100.5	110.5	110.8	107.8
Consumer complex:											
Food industry	104.6	101.6	104.9	100.2	100	101.5	104.6	104.0	105.7	106.3	103.1
Textile, clothing and footwear industry	111.6	104.5	105.8	99.7	105.0	107.2	104.3	100.7	105.4	106.8	104.4
Timber processing complex	110.5	98.0	108.7	98.7	94.2	91.7	99.6	89.1	98.8	103.9	107.2
Chemical complex	108.7	99.7	108.3	100.7	98.8	93.2	105.0	95.2	107.6	109.0	109.4
Petrochemical complex	103.6	99.4	102.8	94.4	100.7	99.8	102.6	102.9	108.3	100.8	99.0
Construction complex (non-metal mineral products)	109.3	103.9	115.7	105.7	101.3	96.7	102.6	94.9	104.0	104.9	105.2
Metallurgical complex	104.1	102.7	108.4	97.2	104.8	101.3	109.3	106.6	114.9	110.4	106.5
Machine building complex	111.8	94.1	103.5	91.1	90.1	93.1	121.1	103.8	132.6	138.5	120.4
Including computers, electronics, optics	109.9	109.4	114.7	111.0	108.1	106.9	132.8	118.9	138.5	141.6	130.5
Electrical equipment	107.7	101.1	102.6	94.8	99.0	106.9	119.0	107.5	135.4	123.5	112.3
Machinery and equipment not included in other groups	117.1	99.3	111.7	99.6	95.8	93.9	104.5	95.0	105.8	112.6	103.9
Road transport trailers and semi-trailers	114.6	55.8	86.3	37.4	49.1	52.1	113.6	60.3	152.4	148.4	137.5
Other means of transport and equipment	110.5	97.9	100.2	98.9	92.3	99.3	125.5	118.6	130.3	149.0	114.8

Sources: Rosstat; RF Ministry of Economic Development.

In the metallurgical complex, the output dynamic was shaped by, on the one hand, the growing domestic demand for engineering materials from the machine-building and construction complexes, and, on the other hand, the simultaneous restructuring of export activities. In 2023, the output rate of the metallurgical complex increased to 9.3% on 2.7% a year earlier, including finished metal products with a high share of added value – to 27.8% vs. 13.4% a year earlier.

Increased construction sector demand for machinery, equipment and construction materials remains a significant growth factor. In 2023, the volume of construction works grew by 7.9%, but the production of construction materials increased by only 2.6%. Such dynamic of related sectors of the economy may create problems for the future functioning of such activity as construction works. The dynamic of the chemical and forestry complexes is significantly affected by the capacity of the domestic market, the narrowing of exports and the difficulties of forming new production, technological and trade and sales chains.

In timber processing complex, the limited domestic market without adequate measures to stimulate exports restrains the processes of production restructuring and implies the formation of new approaches to the development of the industry. In the last two years, the timber processing complex has been experiencing negative movement of production. In 2023, the output of the timber processing complex decreased by 0.4%, while production fell by 2.0% a year earlier.

Due to changes in geographic export destinations for basic goods the chemical industry is experiencing increasing competition from producers from loyal countries in both domestic and foreign markets. Limited availability of foreign technologies and services for maintenance of specialized foreign equipment affects economic efficiency with a restrained potential for the introduction of domestic technologies. In 2023, the chemical complex output as a whole was up 5.0% and compensated for the previous year's decline by increasing output of agrochemical products (107.5%), restoring growth in the production of basic chemicals (103.7%), and accelerating demand by 9.2% from the rubber products and plastics industries.

In chemical complex the production of pharmaceuticals retained a rather stable position in the domestic market, which remained outside the strict restrictive measures on trade in chemical and biological substances and had a certain potential for development and import substitution due to the domestic base of production of chemical products and substances. Unstable dynamic in 2023 and the decrease in the growth rate of the output of pharmaceuticals to 101.9% is explained by the exceptionally high base of the previous year, when production rate amounted to 109.3%. While assessing the state of drug production, it should be noted that due to the refusal of some foreign companies operating in the Russian market to invest in scientific and clinical research, it was necessary to update the program of development of domestic pharmaceutical market taking into account the new realities of inter-country interaction and domestic potential. Gradual substitution of foreign products with Russian analogs at high capital intensity of research and development, production and technological processes is associated with the risks of appreciation of critically needed pharmaceutical substances.

The consumer complex trend was positive over the last two years. In 2023, food industry output grew by 4.6%, including food products for domestic market by 5.9% against 1.1% a year earlier.

In 2023, the light industry demonstrated stable dynamics of production expansion with an annual growth rate of 107.2% on the back of an increase in government orders. The growth of domestic consumer goods and parallel imports contributed to the recovery of positive dynamics of the retail market turnover by 6.4% in 2023, including the market of food products by 3.3%, non-food products by 9.8%. Positive dynamics of real disposable income maintained expansion of consumer demand.

In general, the industrial sector in 2023 demonstrated sufficiently high resistance to external shocks and market factors in the domestic market and identified basic development potential in the short term.

3.1.3. Domestic market: consumption and household income

In 2023, starting conditions of final consumption were determined by the tense situation in the social sector, which was predetermined by the previous year's trend (decline in real disposable income of the population by 1.0%, reduction in household expenditures by 1.1% and decrease in their contribution to GDP dynamics by 2.6 p.p.). The implementation of an expanded package of systemic measures to support the households determined the recovery of positive dynamics of social parameters in 2023. The increase in public expenditures on final consumption played a key role in mitigating shocks of the inflationary wave, in reducing tension in the labor market and in preserving social stability. In 2023, the 5.4% increase in real disposable personal income fully offset the decline in the previous year's figure and had a stimulating effect on the growth of consumer and investment activity of the households. Household final consumption expenditures in 2023 increased by 6.5% and exceeded the indicators of the pre-pandemic 2019. Of course, the acceleration of the growth rate of public consumption expenditures by 7.0% had a positive impact on the social sector (*Table 7*).

Table 7

Expenditure on final consumption in gross domestic product 2020–2023 – growth rates and share

	In % of total, in current prices				In % to the previous year, in comparable prices			
	2020	2021	2022	2023	2020	2021	2022	2023
GDP	100	100	100	100	97.3	105.9	98.8	103.6
Including final consumption	71.5	67.8	64.8	68.7	96.1	108.4	99.9	106.6
Households	50.8	49.9	47.3	49.8	94.1	110.5	98.9	106.5
Public administration	20.1	17.3	16.9	18.3	101.9	102.9	103.0	107.0

Source: Rosstat.

There was a change in the structure of consumer demand against the backdrop of the household income growth. The increase in the turnover of the non-food market amounted to 9.5% and food products – 3.3% and took place on the back of an increase in retail trade turnover by 6.4% in 2023. In 2023, the consumer services sector demonstrated stable positive movements with an increase in volumes by 2.4% and a shift in demand to the segments of tourist (109.0% by 2022), sports and recreation (107.6%), educational (104.0%), and medical (102.7%) services.

In 2023, the structure of personal income was transformed under the influence of the outstripping growth of labor remuneration of employees and income from entrepreneurial activity. Changes in the competitive environment in the domestic market and the emergence of new niches for the economic activity of domestic businesses determined growth of the contribution of household income from entrepreneurial activity to the growth of household income in 2023 up to 6.8% (+1.1 p.p. to 2022), and the increase in economic activity and employment – the increase in wages of salaried workers up to 59.0% (+1.5 p.p.). With the outstripping

growth of labor income of the population in 2023, a relative weakening of the contribution of social payments and property income was recorded (*Table 8*).

Table 8

Structure of cash personal income generation in 2019–2023, in % of total

	Cash income, total	Including				
		Incomes from entrepreneurial activity	Compensation of employees	Social payments	Returns on property	Other cash incomes
2019	100	5.9	57.3	18.8	5.1	12.9
2020	100	5.2	57.2	21.4	5.8	10.4
2021	100	5.7	57.2	20.6	5.7	10.8
2022	100	5.7	57.5	20.0	7.8	9.0
2023	100	6.8	59.0	19.5	4.4	10.3
Q1	100	7.4	65.2	19.7	4.1	3.6
Q2	100	7.3	60.0	20.2	4.2	8.3
Q3	100	7.1	57.0	19.7	4.8	11.4
Q4	100	5.8	55.7	18.6	4.4	15.5

Source: Rosstat.

The population reacted to the changes in the level of income and conditions of monetary regulation starting from Q2 2023 by restoring the savings model of consumer behavior.

The investment potential of the households was formed in the context of retaining the trend to increase the share of deposits in the personal income and GDP. As of year-end 2023, the share of savings in deposits went up to 6.9% against 5.8% a year earlier, while in Q4, following a rise in the key rate, the share of savings in household income reached 15.1% due to a decrease in the level of expenditures on the purchase of goods and services and cash on hand (*Table 9*).

Table 9

Structure of household income aimed at current expenditure and savings, 2019–2023, in % of total

	2019	2020	2021	2022	2023	Q1	Q2	Q3	Q4
Incomes, total	100	100	100	100	100	100	100	100	100
Consumer expenditure	80.9	75.7	80.2	78.3	78.7	85.8	79.9	82.5	70.0
Including:									
Mandatory payments and contributions	15.2	15.2	15.5	15.9	14.4	13.7	13.9	15.0	14.9
Growth (+), decline (-) personal savings in deposits, securities, real estate, change in debt on loans and in accounts of individual entrepreneurs	3.4	4.6	3.4	5.8	6.9	0.5	6.2	2.5	15.1
Growth/decline of cash on hand	0.5	4.5	0.9	2.4	0.5	1.0	0.4	1.0	-0.1

Source: Rosstat.

With the acceleration of the dynamics of household cash income, an increase in personal financial activity was recorded. In 2023, household deposits in the banking system grew by 22.7% year-on-year and amounted to 26.3% of GDP

(+2.7 p.p. by 2022). Increased activity in the credit market is due, among other things, to the effect of pent-up demand for goods and services and increased participation in the real estate market. With the volume of loans extended to individuals growing by 22.0% in 2023, housing mortgage loans increased by 1.62 times and their share in household income rose to 8.8% vs. 6.0% a year earlier. Government measures to expand mortgage lending programs, including preferential housing mortgages, stimulated investment activity of the population. In 2023, preferential loans worth Rb4.7 trillion were extended, which was more than twice as much as in 2022 (Rb2.3 trillion) and accounted for 60.2% of the total volume of housing mortgage loans (*Table 10*).

Table 10

Household investment potential and activity in 2019–2023

	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
	% GDP					Rb trillion				
Deposits of individuals	27.7	30.5	25.6	23.6	26.3	30.4	32.8	34.7	36.6	44.9
Loans granted to individuals	16.1	18.6	18.2	17.4	16.0	17.7	20.0	25.0	27.7	33.8
Including housing mortgages	2.6	4.2	4.2	3.1	4.5	2.9	4.4	5.7	4.8	7.8
	In % to household cash income									
Deposits of individuals	48.6	51.6	49.2	45.9	50.9					
Loans granted to individuals	28.2	31.5	34.9	34.4	31.1					
Including housing mortgages	4.7	6.9	8.0	6.0	8.8					

Sources: CBR; Rosstat.

3.1.4. Investment and construction complex: structural features 2022

The dynamics and structure of investment and construction activity in 2022–2023 were generated in the context of expanding domestic demand. The basic conditions for the growth of investment in fixed assets were determined by the trend of increasing the contribution of investment demand to the dynamics of the domestic market and the implementation of state support measures, as well as the reduction of financial and economic risks.

State measures to support and regulate investment activity, in particular, included: 1) updating the main provisions of the agreement on the protection of investments in the form of capital investments and special investment contracts; 2) restructuring of loans for large businesses; 3) introduction of the practice of regional investment standard; 4) expansion of the practice of supporting small and medium-sized enterprises; 5) specification of prices of state contracts in connection with the growth of the cost of resources; 6) adjustment of the programs of preferential lending to businesses and special investment contracts.

In 2022–2023, the investment activity dynamic was significantly influenced by changes in financial terms. Gradual reduction of the key rate throughout 2022 with the subsequent slowdown in the growth of prices for investment products and services made it possible to support economic activity in the construction sector: the growth of investment in fixed assets at the level of 6.7% became the impetus for the acceleration of work in construction by 7.5%. The economy's adaptation to the new realities of price and exchange rate policy proved to be quite stable. Despite a significant increase in the key rate in H2 2023, fixed capital investment and construction activity maintained high growth rates. Investments in fixed capital in 2023 grew by 9.8%, the volume of works in construction – by 7.9%. (Table 11). Investments in fixed capital in 2023 amounted to 19.9% of GDP (+1.6 p.p. to 2022), while the contribution of construction to GDP remained at 5.0%.

Table 11

**Investment and construction complex dynamic in 2019–2023,
in % to the corresponding period of the previous year**

	2019	2020	2021	2022	2023				
					year	Q1	Q2	Q3	Q4
GDP	100.2	97.3	105.9	98.8	103.6	98.4	105.1	105.7	104.9
Investment in fixed assets	102.1	99.9	108.6	106.7	109.8	101.0	113.6	114.5	108.6
Construction	102.1	100.7	106.0	107.5	107.9	110.0	109.1	107.5	106.6
Commissioning of living space	106.7	100.2	112.6	110.9	107.5	98.8	99.4	104.1	130.3

Source: Rosstat.

Changes in the conditions of financing investment programs in 2023 were determined by an increase in the volume and share of using own funds of enterprises and organizations, as well as borrowed funds, which allowed to partially offset the change in demand for bank loans at high interest rates. Restructuring of loans taken at a adjustable rate made it possible to support investors and construction companies that found themselves in a difficult situation due to price increases and rising debt service costs.

Budgetary sources continued to support high investment activity. Active implementation of state investment and infrastructure projects, allocation of additional funds within the framework of infrastructure budget loans had a favorable impact on the dynamics of gross fixed capital formation and investment activity. The share of budgetary funds in the sources of funding amounted to 19.6% in 2023, falling by 0.9 p.p. compared to 2022.

In 2023, the main funding source for investment programs remained the enterprises' own funds and borrowed funds. The rise in the share of companies' own funds to 55.6% (+2.5 p.p. by 2022) was driven by the growth of business income: the balance profit of companies in 2023 grew by 35.5%, while the share of gross profit and other mixed income amounted to 58.1% of GDP (+4.3 p.p. by 2022). The increase in companies' own funds – along with budget expenditures and credit growth – allowed businesses to expand their investment plans.

The role of bank loans in the sources of funding investments in fixed capital has been decreasing since 2021. The rise in the cost of loans led to a drop in the share of Russian banks in the sources of funding investments in fixed capital to 8.2% against 9.0% a year earlier. In the context of external sanctions on the movement of capital and investment goods, the share of foreign banks' credits and investments from abroad in the sources of financing of investments in fixed capital decreased to 0.6% against 1.5% a year earlier (*Table 12*).

Table 12

Investment in fixed assets by sources of funding in 2018–2023, in % of total

	2018	2019	2020	2021	2022	2023
Investment in fixed assets	100.0	100	100	100	100	100
Own funds	53.0	55.0	55.2	56.0	53.1	55.6
Borrowed funds	47.0	45.0	44.8	44.0	46.9	44.4
Bank loans	11.2	9.8	9.9	11.0	10.2	8.7
Of which:						
Russian banks	6.8	7.8	8.1	9.1	9.0	8.2
Foreign banks	4.4	2.0	1.8	1.9	1.2	0.5
Borrowed funds of other organizations	4.3	4.8	4.9	4.5	5.9	7.1
Investments from abroad	0.6	0.4	0.3	0.4	0.3	0.1
Budget funds	15.3	16.2	19.1	18.3	20.5	19.6
Of which:						
Federal budget	7.6	7.6	8.7	8.1	9.8	9.4
Budgets of RF subjects	6.6	7.4	9.2	9.0	9.4	9.1
Local budgets	1.1	1.2	1.2	1.2	1.3	1.1
Funds of state extra-budgetary funds	0.2	0.2	0.2	0.2	0.2	0.1
Other	15.4	13.6	10.4	9.6	9.8	8.8

Source: Rosstat.

The structure of the sources of funding the investments in fixed capital was transformed under the influence of changes in production by institutional sectors. In 2023, the share of investments in state-owned facilities increased to 17.5% (+1.5 p.p. vs. 2022) in the structure of investments in fixed capital with the outstripping dynamic of investment support of federal property structures. A significant impact on the implementation of major investment projects by companies with state participation was made by the placement of the National Welfare Fund assets. Investments in fixed capital of private Russian ownership in the context of tightening monetary policy conceded the leadership in the dynamics of investment activity to the economic entities of federal ownership. Structural changes by institutional investors were determined by the fall in the volume of investments in the structures of various forms of foreign ownership in 2023 to 8.2% of the total volume of investments in fixed capital against 9.8% in 2022, including foreign ownership – respectively to 1.7% against 3.0% a year earlier (*Table 13*).

Table 13

The share of investments in fixed capital by form of ownership in 2020–2023, in actual prices, in % of total

	Share of investment in fixed assets, %				Share, % of GDP			
	2020	2021	2022	2023	2020	2021	2022	2023
Investment in fixed assets	100	100	100	100	18.9	17.1	18.3	19.9
Including:								
Russian ownership	87.4	86.0	90.2	91.8	16.6	14.8	16.1	18.3
Including:								
State ownership	17.5	16.2	16.9	17.5	3.3	2.8	3.0	3.5
Federal ownership	8.2	7.5	8.3	9.4	1.6	1.3	1.5	1.9
Ownership of subjects of the Federation	9.3	8.7	8.6	8.1	1.8	1.5	1.5	1.6
Municipal ownership	2.9	2.8	2.7	2.7	0.5	0.5	0.5	0.5
Private ownership	60.4	61.6	65.6	66.0	11.4	10.6	11.7	13.1
Mixed Russian ownership	5.8	4.4	4.1	4.3	1.1	0.8	0.7	0.9
State corporations ownership	0.8	1.0	0.9	1.3	0.2	0.2	0.2	
Foreign ownership, joint Russian and foreign ownership	12.6	14.0	9.8	8.2	2.4	2.4	1.7	1.6
Of which:								
Foreign ownership	5.7	6.5	3.0	1.7	1.1	1.1	0.5	0.3

Source: Rosstat.

Despite a sharp decline in foreign direct investment in the Russian economy, the departure of foreign companies from the Russian market and weakening dynamics of foreign supplies of investment and intermediate goods against the background of geopolitical sanctions, government measures to support domestic demand made it possible to maintain a high level of business investment activity.

The strengthening of sectoral measures to support investment activity became effective for a wide range of activities in 2023. The analysis of the Russian industry dynamics and structure shows a differentiated impact of investment in fixed capital on the dynamics of output depending on the state of the technological base, the degree of capacity utilization and support measures.

The implementation of investment programs in production and housing construction required the involvement of idle production capacities of the construction industry, machine-building industries focused on the production of machinery, equipment and technology, while forming new supply chains and alternative foreign suppliers of engineering equipment and materials for construction projects. Decrease in the share of machinery and equipment in specific structure of investment in fixed assets to 34.5% in 2023 (Table 14) and growth of the load on production capacities at the level of 75-80% with the existing age structure of machinery, information, computer and telecommunication equipment and vehicles determine the risks of implementation of programs of technological modernization and reconstruction of the industrial sector and associated infrastructure. Creating of conditions for the development of the investment complex's own production and technological base remains a priority task for strengthening the economy.

Table 14

**Structure of investments in fixed capital by types of major funds 2019–2023,
in % of total**

	2019	2020	2021	2022	2023
Investment in fixed assets, total	100	100	100	100	100
Including:					
Residential buildings and premises	14.4	14.5	12.9	14.2	12.0
Buildings (except for residential) and facilities	38.4	37.5	37.0	40.2	39.8
Machinery, equipment, means of transportation	37.0	37.1	39.5	34.8	34.5
Intellectual property items	3.3	4.0	4.4	4.6	5.3
Other	6.9	6.9	6.2	6.2	8.4

Source: Rosstat.

With an increase in investment in fixed assets by large enterprises in 2023 by 9.4%, structural changes were determined by the outstripping growth of investment activity in manufacturing by 19.22%, supply of electricity and gas by 21.4%, and information and communication activities by 20.5%, which accounted for 28.2% of total investment expenditures.

In mining, which accounts for 17.4% (-0.6 p.p. of the 2022 figure) of the volume of fixed capital in the economy as a whole, investment growth amounted to 5.5% versus 2022. Investments in oil and natural gas extraction increased by 4.7%, in mining of metal ore – by 22.2%. Fulfillment of guaranteed obligations under previously signed contracts for supply and maintenance of process equipment and accumulated material inventories, formation of a new pool of suppliers from loyal markets allowed to continue implementation of investment projects in this segment of industrial activity. In the associated industries of oil and gas chemical and refining complexes, the investment growth rate accelerated to 11.2% in 2023.

In manufacturing industry, investments in all sub-productions of machine-building, metallurgical and chemical complexes grew dynamically.

The highest growth rates of investment programs funding relative to 2022 were recorded in the manufacturing of computers, electronic and optical products (71.8%), motor vehicles (65.3%), power equipment (67.8%), which determined the intensive recovery of production, utilization of existing and reserve capacities and employment generation. With the growth of production demand for intermediate goods, investments in the associated activities increased: in metallurgical production (by 9.7%) and in the production of finished metal products (by 85.5% vs. 2022).

In the timber industry complex, while maintaining high demand and raising capacity utilization, investments in paper production went up by 13.5% compared to 2022. The change in the position of wood processing in the global and domestic markets led to a sharp decline in investments in fixed assets and determined the acuteness of the problem of improving management of the industry in the new economic environment.

The change of the situation in the domestic market boosted the realization of investment projects in the production of consumer complex with the expansion of

the contribution of domestic business. In particular, investments in the production of textile products increased by 19.1% in 2023, leather goods – by 74.1%.

In transportation and storage, investments in 2023 increased by 4.0%. In the context of reorientation of cargo flows from western to southern and eastern directions, investments in the development of port and railway infrastructure became important. Investments in freight rail transportation increased by 54.5%, road transportation (freight transportation) – by 46.1%, water transportation – by 45.8% and warehousing – by 11.0% as compared to 2022. Investments in the development of wholesale trade infrastructure are increasing: growth of 3.5% as compared to 2022.

Despite the fact that the majority of basic industries in recent years have carried out quite active modernization with the outstripping growth of expenditures on upgrading machinery, equipment and vehicles, it should be recognized that, in general, the state of fixed assets does not correspond to the dynamic changes in demand for new product lines and production technologies. With the current level of capacity utilization in the economy as a whole and in the manufacturing industries in particular, with changing access to the world market of investment goods, transformation of the price structure, the exchange rate of the national currency, the Russian machine-building complex is experiencing a deficit of capacities capable of replacing the demand for technical means, especially in industries with a high share of foreign technologies and finished investment goods. This kept up to date the elaboration of the concept of technological development for the period up to 2030, which defined measures to support institutions of innovative development and active involvement of private business in the implementation of investment projects aimed at ensuring the development of investment production.

3.2. Sectoral dynamics of industrial production in 2023¹

In 2023, the trend component of the industrial production index kept growing, which was primarily provided by the industries related to the production of goods for the state defense order (manufacture of motor vehicles, manufacture of fabricated metal products, manufacturing of electrical equipment), and industries in which import substitution processes are underway (manufacturing of equipment, machine building, production of durable goods for households). Dependence of the extractive sector on imported technologies under sanctions, labor shortage, high inflation and secondary sanctions are the main risks for maintaining growth next year.

In order to correctly interpret the available trends in individual sectors, it is necessary to decompose their output into components: calendar, seasonal,

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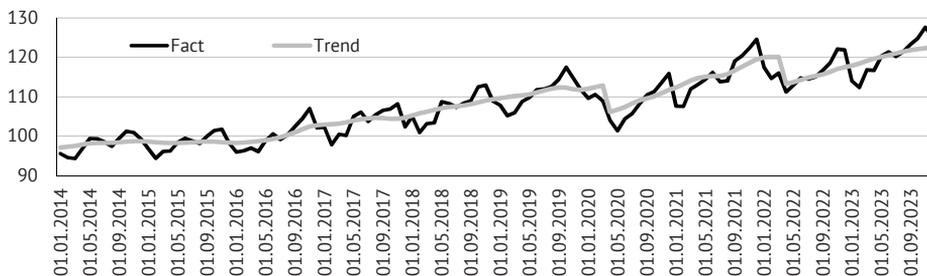


Fig. 1. Dynamics of the industrial production index in 2014–2022 (Actual data and trend component), in % to 2016 annual average

Sources: Rosstat, own calculations.

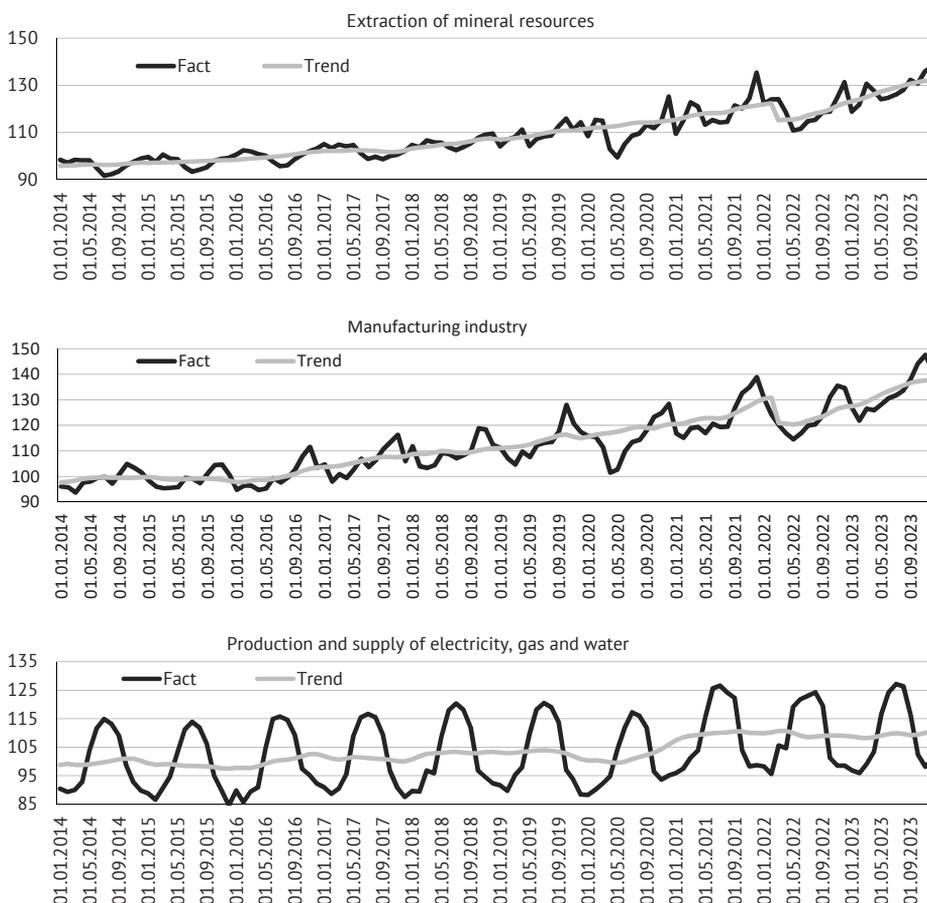


Fig. 2. Production indexes dynamic by industry in 2014–2023 (actual data and trend component), in % to 2016 annual average

Sources: Rosstat, own calculations.

irregular and trend.¹ The interpretation of the latter is of substantial interest. Experts of the Gaidar Institute have identified the trend component of the series of production indices for 2003-2023² on the basis of actual statistics published by Rosstat.

The results of series processing for the index of industrial production as a whole are shown in *Fig. 1*. *Fig. 2* presents the results for the aggregated indices of the extractive and manufacturing sectors, as well as the production and distribution of electricity, gas and water. For the rest of the series, the decomposition results are presented in *Table 15*.

3.2.1. Dynamics of the industrial production index in Q1 2023

Despite the consequences of the imposed in 2022 anti-Russian sanctions (increase in logistics costs, search for new suppliers and buyers, increase in insurance premium, supply chains disruptions, working out parallel import chains, increase in delivery time, lack of alternatives when replacing import components, etc.), the trend component of the index of industrial production in Q1 2023 showed a slow growth of 1.0% against the corresponding period of the previous year (*Fig. 1*).

The extractive and manufacturing sectors have made the main positive contribution. The sector of production and supply of electricity, gas and water showed a slow decline. The dynamics of the actual data of production indices and their trend components are shown in *Fig. 2*.

The drivers of positive trends in the economy in early 2023 were the construction sector and manufacturing industries whose products are targeted to meet domestic demand (food industry, textile and clothing manufacturing, furniture production) or are intermediate for the needs of the state defense order and construction projects, including the development of railway and marine infrastructure.³

Economic growth through Q1 2023 has also been retained:

- in retail trade by replacing American and European chains in the non-food segment with products of Russian, Turkish and Chinese brands;
- in construction through the renovation and construction of infrastructure in the incorporated territories and the implementation of transport infrastructure expansion projects;
- cargo turnover growth was due to increased production capacity of Russian seaports and import substitution, reorientation of cargo flows to Turkey, Arab countries and Africa from the European direction.

1 Trend component is a well-established term used in the literature, but it should be noted that this component is not a "trend" in the strict sense used in econometrics when analyzing time series: in this case it is the residual from the separation of calendar, seasonal and irregular components from the series. "Trend component" is incorrect to use for time series forecasting (for most of the indexes of industrial production it is non-stationary in levels (and stationary in differences), but it can be used for interpretation of short-term dynamics and its comparison with the events that took place.

2 The trend component was extracted with the Demetra package using the X12-ARIMA procedure.

3 *Tairov R.* Russian industry grew in March for the first time in a year // *Forbes*. 26.04.2023. URL: <https://www.forbes.ru/biznes/488437-rossijskaa-promyslennost-vyrosla-v-marte-vpervye-za-god>

3.2.2. Industrial production dynamic on Q2 2023

In Q2 2023, the growth of the trend component of the industrial production index accelerated to 1.18% against the corresponding period of the previous year. The growth was driven by the same factors as in Q1 2023.¹

Additional growth factors in Q2 include the impact of pent-up demand. Deferred purchases and spending related to travel (mostly foreign) and entertainment started in the pandemic, then continued due to the growth of prices for electrical devices, household appliances, cars (the reason was the shortage of semiconductors), in 2022 the trend continued due to the restructuring of trade flows. This affected the growth of the most liquid assets (cash and funds on current accounts) in the structure of household savings. And any improvement of the situation (for example, setting more attractive credit rates, commissioning of frozen residential and infrastructure construction projects, measures of anti-crisis state support) could lead to their spending.

In the services sector, the growth of the trend component of production indices for the majority of industries remained, which is explained by the increase in consumer demand against the backdrop of accelerated growth of wages due to the shortage of labor force. The effect is temporary, as there is a potential for inflation growth due to faster growth rates of wages than labor productivity. Freight turnover decreased slowly due to lower mineral supplies and low capacity of railroads in the eastern direction, as a result of which it is impossible to cover the entire volume of shed European demand even with full utilization in this direction.

3.2.3. Industrial production dynamic in Q3 2023

The growth of the trend component of industrial production index in Q3 2023 remained unchanged: 1.17% vs. the corresponding period of the previous year. The manufacturing industries continued making the main contribution to the dynamic (*Fig. 2*).

A negative impact on the dynamics of the trend component of the mineral extraction industry production index in Q3 2023 was caused by the extension by Russia until the end of 2024 for the third time² of its commitments on voluntary reduction of oil production by 500,000 barrels per day (excluding gas condensate). Coal mining made a positive contribution to the trend component of the mining industry production index with a slight increase due to raised demand from China, where safety inspections at mines were intensified owing to a number of

1 *Milkin V.* Steel consumption in Russia started to recover in Q2 // *Vedomosti*. 08.08.2023. URL: <https://www.vedomosti.ru/business/articles/2023/08/08/988981-potreblenie-stali-v-rossii-nachalo-vosstanavlivatsya>

2 On March 1, 2023 Russia voluntarily reduced oil production by 500,000 barrels per day. The first time it extended the decision until June 2023, the second time - until the end of 2023, and the third time - until the end of 2024. The reduction was carried out from the production level agreed on June 4, 2023 (i.e. from 9.8 million barrels per day).

emergency incidents during the year as well as increased demand from India¹ on the back of higher steel production in the country.²

The decline in pulp and paper production was due to issues with the supply of chemicals, spare parts and the ban on the export of wood pulp from Russia to the EU. In coke and petroleum products production, the near-zero growth rates can mostly be attributed to the expectation of changes in tax legislation parameters (reduction of reverse excise tax payments, etc.).

3.2.4. Industrial production dynamic in Q4 2023

In Q4 2023, the trend component of industrial production index slowed slightly to 1.13% y-o-y growth (*Fig. 1*).

The positive dynamics of the trend component of the industrial production index of the mining industry was ensured by:

- coal mining on the back of growing demand from the metallurgical, chemical and power industries in China and India;³
- growth in the volume of services rendered in the field of mineral resources extraction on the back of increased drilling of oil wells (in the first 11 months of 2023, the volume of production drilling in Russia amounted to 28,100 kilometers, the number of launched wells reached 7,930, the number of completed wells – 8,540 the results exceeded the final figures for the whole 2022⁴);
- growth in the volume of geological exploration work (193 new fields were put on the balance sheet in 2023, which is 23 more than in 2022⁵).

The drivers of growth in the manufacturing industry by the end of 2023 can be identified as the industries that produce goods intended, among other things, for the needs of the defense industry (metallurgical production and production of finished metal products; manufacturing of electrical equipment, electrical and optical equipment; manufacturing of vehicles and equipment), and industries whose products are aimed at domestic final demand and substitution of imported products (production of medicines, furniture manufacturing, and food industry).

The growth of trend components of the production indices of the service sector industries was retained: in trade due to the sale of non-food products, including imported goods of new partners; in construction owing to the rehabilitation of

1 *Milkin V.* Export prices on Russian coal turned to growth in Q3 // *Vedomosti*. 25.09.2023. URL: <https://www.vedomosti.ru/business/articles/2023/09/25/996848-eksportnie-tseni-na-rossiiskii-ugol>

2 *Milkin V.* Russia more than doubled metallurgical coal exports to India // *Vedomosti*. 23.10.2023. URL: <https://www.vedomosti.ru/business/articles/2023/10/23/1001892-eksport-metallurgicheskogo-uglya-v-indiyu>

3 *Zainulin E., Kozlov D.* Metallurgical coal is piling up nicely // *Kommersant*. 21.12.2023. URL: <https://www.kommersant.ru/doc/6412972>.

4 *Russia's Oil Drilling Boom Proves Moscow's Resilience to Western Sanctions* // *Bloomberg*. 10.01.2024. URL: <https://www.bloomberg.com/news/articles/2024-01-10/russia-s-oil-drilling-boom-proves-moscow-s-resilience-to-western-sanctions>

5 *Geological exploration in Russia in 2023: Summarizing results and making plans* // *Mining sector*. 10.01.2024. URL: <https://dprom.online/mtindustry/gyeologorazvyedka-v-rosseeee-v-2023-godu//>

infrastructure and housing construction; in other paid services to the population due to public eating places.

Possible risks to maintaining industrial growth in the near term include:

- dependence of the upstream sector on imported technologies (exploration software, marine seismic software, GIS technologies and general-purpose infrastructure equipment for remote regions), which may become a challenge for further development, as oil drilling is required to maintain production at a certain level and to increase it;
- labor force shortage as a consequence of population decline (“demographic hole” of the 1990s, COVID-19, relocation and partial mobilization, decreased inflow of migrants), which limits opportunities for increasing output in the economy (especially by manufacturing, agriculture, water supply and transportation enterprises) to meet the growing demand, forces to reduce requirements for personnel competencies (with plans to improve the qualifications of hired workers through training programs, etc.), which, as a consequence, in the short term, will lead to a reduction in productivity and performance quality because professional retraining is a rather prolonged process.
- high inflation caused by competition for employees in industrial sectors in terms of wages. At the same time, the growth of wages occurs in industries that are related to the production of goods directed to the needs of the defense industry, but the price increase falls on the entire population;
- secondary sanctions may force Russia’s trading partners to resort to self-restrictions. Strengthened control over compliance with sanctions in the financial sphere may limit the possibility of using dollars and euros in foreign trade settlements. All this will affect the growth of trade costs (including the circumvention of restrictions).

Table 15

Change in the output index across sectors of the economy, %

Sectors	Share in industrial production index, %	December 2023 on December 2022	December 2023 on September 2023
Industrial production index		104.3	100.6
Extraction of minerals	34.54	108.0	101.2
Manufacturing, including:	54.91	108.3	100.9
Production of food, including beverages and tobacco	16.34	110.8	102.4
Textile and garment production	1.14	111.4	103.4
Manufacturing of leather, articles thereof and footwear	0.27	113.3	101.5
Wood processing and wood ware manufacturing	2.02	110.0	99.1
Pulp-and-paper industry	3.35	85.5	98.3
Production of coke and petrochemicals	17.25	99.4	100.0
Chemical industry	7.56	116.1	103.0
Manufacturing of rubber and plastic articles	2.14	108.2	98.3
Manufacturing of other nonmetallic mineral products	4.02	105.3	97.2
Metallurgy and manufacturing of ready-made fabricated metal products	17.42	126.3	103.6

Sectors	Share in industrial production index, %	December 2023 on December 2022	December 2023 on September 2023
Manufacturing of machinery and equipment	6.97	107.3	98.5
Manufacturing of electrical, electronic and optical equipment	6.27	120.9	101.7
Manufacturing of transport vehicles and equipment	6.75	144.7	104.7
Other industries	2.42	108.1	96.0
Electricity, gas and water supply	13.51	101.5	101.3
Wholesale trade		119.0	103.1
Retail sales		109.9	100.8
Cargo turnover		100.0	99.5
Construction		105.8	101.1
Agriculture		99.7	94.3
Volumes of paid services to households		104.7	101.0

Sources: Rosstat, own calculations.

3.3. Transportation complex¹

3.3.1. Achievements and new tasks of the transportation sector

The transportation complex is the most important component of the modern Russian economy, playing a systemic role, including in terms of the quality of life of the population and economic growth. In the previous years, the transportation industry faced a large number of challenges and crises related to the COVID-19 pandemic and international sanctions restrictions. Accordingly, the priorities for the transportation complex were to adapt to changes in the economy, overcome the “transportation blockade” and rebuild the industry. In 2023, the objectives of the transportation complex development were outlined.²

One of the achievements of the transportation industry in 2023 is the growth of cargo and passenger flows within the country. Thanks to the redirection from international to domestic transportation, the volume of passenger air transportation was restored. The number of international destinations increased: regular air service was established with 37 countries. The trends that emerged in 2022 continued: a decrease in the volume of cargo turnover by pipeline and air transport, growth in cargo transportation by sea and an increase in the role of motor vehicles in cargo transportation.

The transportation industry is facing new challenges. In 2023, another package of sanctions was adopted against Russia, affecting the transportation and logistics sectors. In particular, the 10th package of EU restrictions included a ban on the transit through Russia of dual-use goods and technologies exported from the EU to third countries. The 11th package of EU restrictions included bans

1 Authors: Yu.Yu. Ponomarev, Candidate of Economic Sciences, Head of the Infrastructure and Spatial Studies Department, IAES RANEPА; Rostislav K.A., Researcher at the Infrastructure and Spatial Studies Department, IAES RANEPА; Researcher at the Quantitative Analysis of Economic Effects, Gaidar Institute.

2 Belousov: The task of breaking the transportation blockade can be removed from the agenda // Rossiyskaya Gazeta. URL: <https://rg.ru/2023/11/15/dorozhnye-napravleniia.html>

on the transportation of goods to the EU by road with trailers and semi-trailers registered in Russia (exception: transportation between the Kaliningrad region and “mainland” Russia), a ban on exports to Russia of new and used cars with an engine capacity of more than 1.9 liters, electric cars and hybrid vehicles,¹ as well as a ban on access to EU ports and gateways for vessels, ship-to-ship transshipment if it is suspected that the vessel is in violation of bans on the importation of Russian crude oil and petroleum products into the EU by sea or is carrying Russian crude oil and petroleum products purchased at a price above the ceiling price.²

In December 2023, the 12th package of EU sanctions was approved, which, among other things, included restrictions on exports of lithium batteries and servo motors for drones, freezing of assets of PJSC “Tupolev”, obligations to notify and inform the European Council on the resale of vessels, in particular tankers, to third countries.³ Tankers transporting Russian oil were included in the U.S. sanctions list: after the imposition of restrictions, 20 out of 50 tankers under sanctions stopped shipment of Russian oil.⁴ In response to the sanctions, Russian carriers developed alternative routes for cargo deliveries (in particular, via the North-South corridor) and expanded cooperation with Turkey, China and Belarus. Transportation via Azerbaijan, Turkmenistan and Kazakhstan⁵ doubled compared to 2022. In addition to the new sanctions, the Russian transportation complex is facing a shortage of rolling stock and logistics infrastructure to export cargo to all directions: the Far East, South and North-West of Russia.⁶

Current priorities for the development of the transportation industry include increasing the carrying capacity of existing transport and logistics corridors (highways of the Eastern polygon, approaches to ports in the Azov-Black Sea and Caspian basins), restoring the transport infrastructure of new regions and integrating it into the country’s transport framework, strengthening the connectivity of territories and increasing the mobility of the population, ensuring stable passenger transportation by various modes of transport, and maintaining high rates of infrastructure construction (in particular, highways), digitalization of the transportation industry and development of intelligent transportation systems, attraction of qualified personnel.⁷ Special attention is paid to the technological development of the transportation industry, promotion of import

1 A year and a half of sanctions. How they have affected Russia and what experts predict for 2023? // TRANS.INFO. URL: <https://trans.info/ru/poltora-goda-sanktsiy-kak-oni-povliyali-narossiyyu-i-chto-prognoziruyut-ekspertyi-v-2023-godu-2-353621>

2 The 11th EU package of sanctions. What is important to know // RBC. URL: <https://www.rbc.ru/business/23/06/2023/6495732f9a79479fb62b4589>

3 The EU has approved a new packet of sanctions against Russia // RBC. URL: <https://www.rbc.ru/politics/18/12/2023/658061119a7947040b368f4b>

4 20 tankers under the US sanctions stopped shipments of Russian crude oil // Maritime News of Russia. URL: <https://morvesti.ru/news/1679/107570/>

5 IA year and a half of sanctions. How they have affected Russia and what experts predict for 2023? // TRANS.INFO. URL: <https://trans.info/ru/poltora-goda-sanktsiy-kak-oni-povliyali-narossiyyu-i-chto-prognoziruyut-ekspertyi-v-2023-godu-2-353621>

6 Logistics infrastructure shortage is the most important topic of Transport Week 2023 // Vedomosti. URL: https://spb.vedomosti.ru/press_releases/2023/11/15/defitsit-logisticheskoi-infrastrukturivazhneishaya-tema-transportnoi-nedeli-2023

7 Mikhail Mishustin outlines six priorities for Russia’s transportation complex // Rossiyskaya Gazeta. URL: <https://rg.ru/2023/11/15/dvizhenie-po-glavnoj-doroge.html>

substitution and domestic developments as part of the solution of the strategic tasks to achieve Russia's technological sovereignty.

Priorities for the development of the transportation industry form the basis of the new national project "Transport" for the period up to 2030. The new national project is at the stage of development, but it is noted that promising transport projects from the SQR (national project "Safe and Quality Roads") and CPMI (national project "Comprehensive Plan for Modernization and Expansion of Trunk Infrastructure"), which have led to positive results in the development of the transportation industry, will be transferred to the new national project, updated and continued.¹ The concept of the new national project "Transport" will also take into account the development of foreign markets of friendly countries and the strengthening of foreign relations. The new national project will focus on the development of a backbone transport network that would unite all modes of transport, which should contribute to the balanced development of all transportation industries and improve transport connectivity within the country.

3.3.2. Transport performance indicators in 2023²

In 2023, the share of the transportation sector in gross value added³ stood at 6.9% (an increase of 0.4 p.p. by 2022). In the structure of GVA (gross value added) of the transport sector, the activities of land and pipeline transportation prevail: this type of activity accounts for 65% of the total gross value added of transportation. The balanced financial result (profit minus losses) of the transportation industry organizations, excluding small and medium-sized enterprises, in January-November 2023 amounted to Rb2153.8 bn, which is 1.34 times higher than in 2022.⁴ The share of profitable organizations in the industry went up from 69.1% in 2022 to 71.6% in 2023, which is comparable with the figure for 2021 (71.4%).

Freight traffic activity

According to the estimates of the Ministry of Economic Development of the Russian Federation,⁵ the indicator of freight turnover of transport in 2023 declined by 0.6% relative to 2022, by 2.9% to the level of 2021. Excluding pipeline transportation, freight turnover increased by 1.9% as compared to 2022 (by 2.1% as compared to 2021). The main contribution to the growth of freight turnover was made by road and sea transportation. The highest growth occurred in October: 2.9% vs. the corresponding period of the previous year.

1 Belousov and Savelyev: new national project "Transport" to be developed by summer // TASS. URL: <https://tass.ru/interviews/19775727>

2 Excluding statistical information on Donetsk People's Republic (DPR), Luhansk People's Republic (LPR), Zaporizhzhya and Kherson oblasts.

3 GDP produced. Annual data on OKVED-2 in current prices // Rosstat. URL: <https://rosstat.gov.ru/statistics/accounts>

4 Socio-economic situation in Russia. January 2024 // Rosstat. URL: <https://rosstat.gov.ru/storage/mediabank/osn-12-2023.pdf>

5 On the current situation in the Russian economy. 2023 Outcome. URL: https://www.economy.gov.ru/material/file/a30ffe689e1cd3fa8f083b2d7aa36cb1/o_tekushchey_situacii_v_rossiyskoy_ekonomike_itogi_2023_goda.pdf

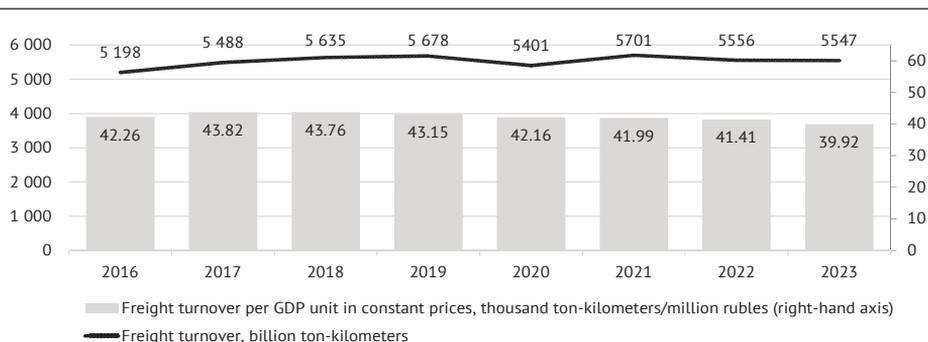


Fig. 3. The dynamic of freight turnover, 2016–2023

Sources: Rosstat, own calculations.

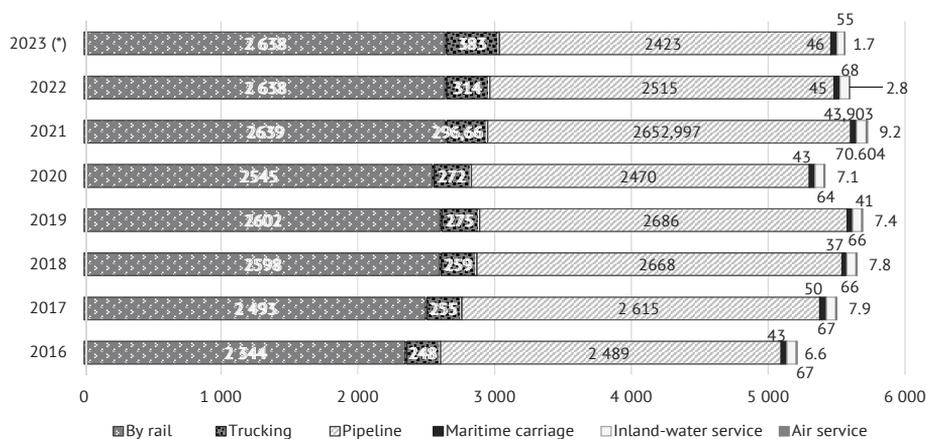
Freight transportation intensity¹ fell in 2023 compared to previous years, indicating a relatively more efficient use of transport and an increase in value added to the economy through the transportation industry. Despite the small drop (less than 1%), freight turnover remained almost at the same level as in 2022. Relative to 2021, when the domestic economy was recovering from the pandemic and international sanctions had not yet been imposed, freight turnover decreased by 2.7% (Fig. 3).

The main decline in cargo turnover was in air operations (-39%) owing to the current (continuing) restrictions on access to international markets and the reorientation of cargo flows to road transport and rail container freight. To a lesser extent, cargo turnover of inland waterways (-19%) and pipeline (-3.7%) transportation decreased. The most stable situation is observed with regard to the rail freight turnover (change within 1% upward). The greatest increase in freight turnover was shown by road transport (22%). Positive dynamics of cargo turnover is also observed in maritime transport (3%). The structure of cargo turnover by types of transport in 2023 has not changed significantly: the share of air service, inland waterway and pipeline transport has slightly decreased, while the share of road and rail transportation has increased (Fig. 4).

In contrast to freight turnover, the volume of freight traffic rose, which is probably due to the continuing trend of shortening freight transportation routes owing to the restrictions. According to the operational data for 2023, the volume of freight traffic increased by almost 9% compared to 2022 (Fig. 5). The growth of freight traffic is attributed to the stabilization of supply chains. To a greater extent, cargo maritime transportation increased (19.4%), which is explained by the growth of loading volumes through Russian seaports.² Road transportation showed about zero growth in freight traffic (0.23%).

1 Freight transportation intensity or “burden” of the economy with the work of transport – the amount of cargo turnover (the sum of products of the weight of each batch of transported cargo by the distance of its transportation) per unit of GDP.

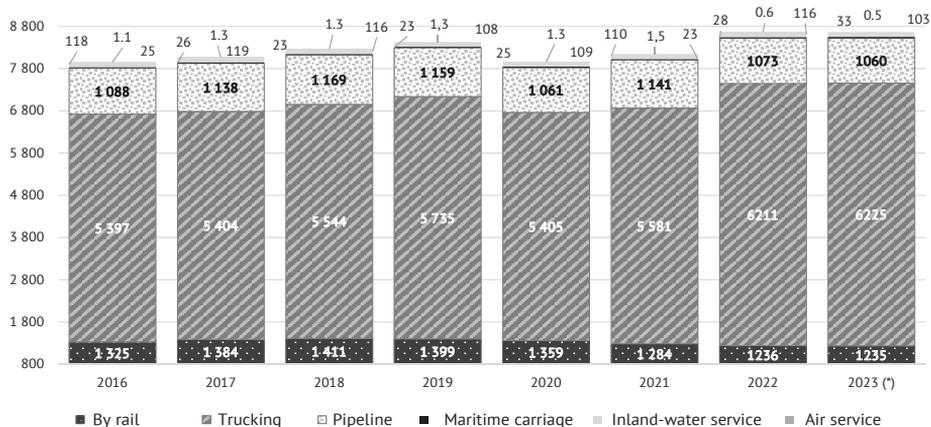
2 The Ministry of Transport commented on the growth of freight turnover and passenger transportation in 2023 // Rossiyskaya Gazeta. URL: <https://rg.ru/2023/11/29/v-mintranse-prokomentirovali-rost-gruzooborota-i-passazhirskih-perevozok-v-2023-godu.html>



* Operational data.

Fig. 4. Freight turnover structure by the type of transportation, bn ton-kilometers, 2016–2023

Sources: Rosstat, own calculations.



* Operational data.

Fig. 5. Freight traffic structure by the type of transportation, mn t, 2016–2023

Sources: Rosstat, own calculations.

As in the previous year, the strongest decrease in freight traffic was in air services (-23%). Inland waterway (-11%), pipeline (-1.2%) and rail (-0.11%) transportation also declined.

In 2023, the growth of freight traffic tariffs slowed down. In the industry as a whole, freight traffic tariffs grew by 16%, which is lower than the previous year's level (Fig. 6). However, the growth of freight traffic again exceeded the average growth rate of prices for all goods and services (7.42% in December 2023 vs. December 2022¹), the same as a year earlier. The growth of tariffs was

1 Rosstat. URL: <https://rosstat.gov.ru/statistics/price>

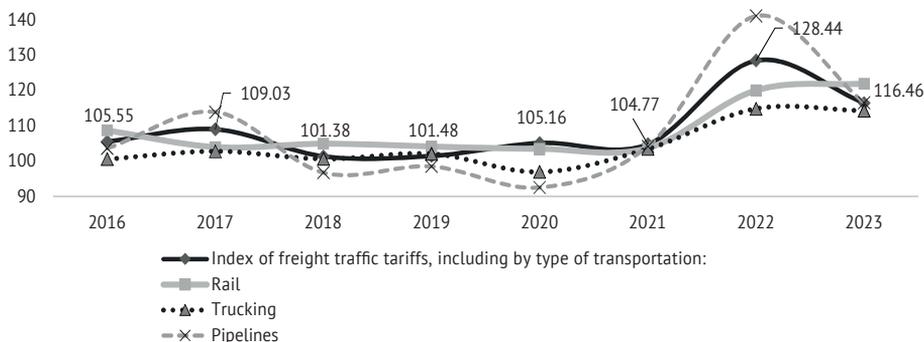


Fig. 6. Dynamics of freight traffic tariffs (aggregate and by the type of transportation) December on December of the previous year, %

Sources: UISIS (URL: <https://fedstat.ru/indicator/31076>); own calculations.

facilitated by the indexation of tariffs for freight traffic, in particular, by railway transportation, by 8% from January 1, 2023¹ (tariffs of JSCo “Russian Railways” – by 10%²), tariffs for freight and passenger railway transportation, including surcharge for infrastructure overhaul – by 10.75% from December 1, 2023.³ Rosneft tariffs for oil transportation services were increased by 5.99% from January 1, 2023.⁴ From February 1, 2023, in accordance with the growth of consumer prices, the tariff for travel on federal highways by heavy-duty vehicles with a permitted maximum weight of over 12 tons was increased.⁵

Passenger transportation

In 2023, the passenger traffic turnover including streetcar, trolleybus and subway increased by 12% to the level of 2022. Transport mobility of the population within Russia also increased significantly in 2023: 3,722 mn pass – km/mn people in 2023 compared to 3,318 mn pass – km/mn people in 2022 (Fig. 7). One of the factors affecting the transport mobility of the population was the rise in the availability of inland transportation within Russia, in particular due to an increase in the number of subsidized regional air routes.⁶

An increase in passenger turnover is observed for almost all types of transportation. Passenger turnover of inland waterway (17.7%), air (16%), sea

1 FAS approved indexation of railway tariffs for passenger transportation by 8.1% from 2023 // TASS. URL: <https://tass.ru/ekonomika/16422521>

2 Russian Railways tariffs to increase by 10% // Kommersant. URL: <https://www.kommersant.ru/doc/5651246>

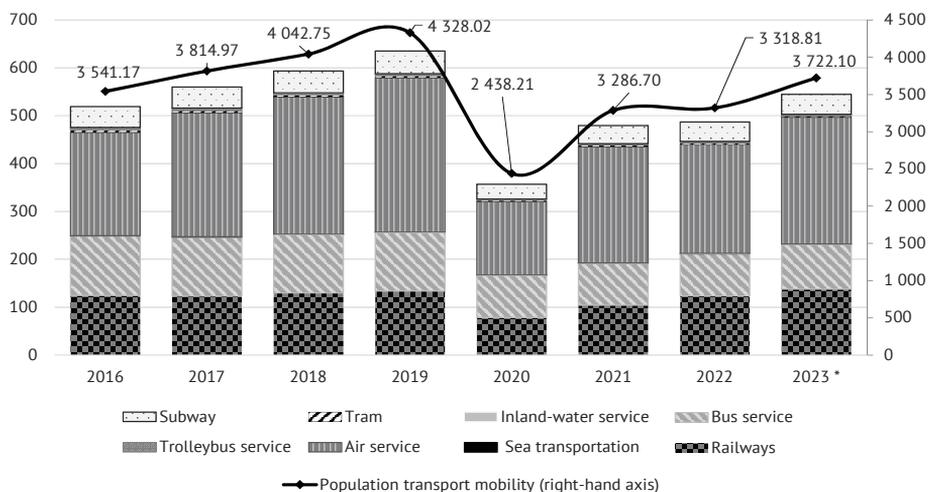
3 Russian Railways tariffs to rise again from December 1 // RZD Partner.ru. URL: <https://www.rzd-partner.ru/zhd-transport/opinions/tarify-rzhd-s-1-dekabrya-snova-podrastut/>

4 Transneft’s oil pumping tariffs to increase by 5.99% in 2023 // Interfax. URL: <https://www.interfax.ru/business/876015>

5 Indexation of the tariff in the Platon system will make it possible to increase the volume of road repairs // Ministry of Transport of the Russian Federation. URL: <https://mintrans.gov.ru/press-center/news/10590>

6 In 2023, subsidized air services in the Far East grew by 13% // RZD Partner.ru. URL: <https://www.rzd-partner.ru/aviation/news/v-2023-godu-subsidirovannye-aviaperevozki-na-dalnem-vostokey-vyrosli-na-13/>

THE RUSSIAN ECONOMY in 2023
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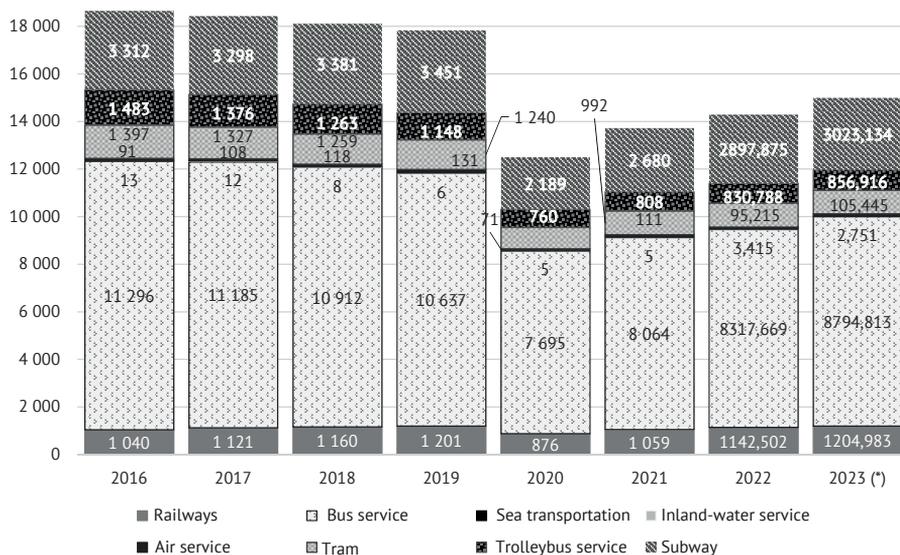


* Operational data (adjusted for streetcar, trolleybus and subway).

Note. Transport mobility of the population is the ratio of passenger turnover to the average annual population (mn passengers/km/m people).

Fig. 7. Structure of passenger traffic by types of transportation, bn passengers/kilometers, 2016–2023

Sources: Rosstat. URL: <https://rosstat.gov.ru/statistics/transport>; URL: <https://rosstat.gov.ru/folder/12781>; UISIS. URL: <https://fedstat.ru/indicator/43534>, own calculations.



*Operational data (adjusted for streetcar, trolleybus and subway).

Fig. 8. Passenger traffic pattern by the type of transportation, mn persons, 2016–2023

Sources: Rosstat, own calculations.

(16.5%) and railway (11%) transportation has grown to a greater extent. In addition, the passenger turnover of bus transportation (6.7%) and subway (3%) increased. A decrease in passenger turnover is noted for streetcar (-0.42%) and trolleybus (-1.7%) types of transportation. There were no significant changes in the structure of passenger turnover, but there was an increase in the share of air service. The growth of air passenger turnover is attributed to an increase in the number of international flights.¹

The volume of passenger traffic in 2023 went up by 4.8% against 2022. The main contribution to the growth of passenger traffic volumes was made by inland waterway (+15%) and air service (+11%). Positive growth in passenger transportation volumes was observed for rail (5.5%) and bus (5.7%) transport, as well as trolleybus (3%) and subway (4.3%). On the contrary, the volume of passenger traffic by sea (-19%) and, to a lesser extent, by streetcar transport (-0.5%) decreased. The structure of transportation has not undergone significant changes, the shares of all modes of transportation are relatively stable over time (*Fig. 8*).

3.3.3. Sanction challenges and performance indicators of certain types of transportation

Railway service

In 2023, application of load on the Russian Railways network decreased by 0.2% to 1,232 mn tons.² The year-on-year reduction was due to a decline in loading of the main cargoes (coal and oil products) in Q4 2023 on the back of the temporary embargo on exports of oil products introduced by the Russian Government at the end of September. At the year-end, export loading by rail in the direction of seaports grew by 0.5% to 334.7 mn tons with export shipments in the north-western direction increasing by 3.5% and in the southern and Far Eastern directions decreasing by 2.5% and 0.4%, respectively.³

In 2023, there was an upsurge in the shipment by rail of cargoes that are not subject to restrictive measures or are subject to them, but to a lesser extent. In particular, the loading of grain (+37%), coke (14%), ferrous scrap (7%), industrial raw materials (6%), fertilizers (5%), ferrous metals (2%) rose. The high performance was due to a number of factors: high demand for agricultural products on the world market, the absence of restrictive measures and a good grain harvest, an increase in containerized fertilizer shipments to underutilized northwestern port terminals and growth in port capacity. Construction freight transportation volumes declined amid a slowdown in loading dynamics in Q4 2023 due to the completion of a number of major infrastructure projects.⁴ The

1 The Ministry of Transport commented on the growth of freight turnover and passenger traffic in 2023 // Rossiyskaya Gazeta. URL: <https://rg.ru/2023/11/29/v-mintranse-prokomentirovali-rost-gruzooborota-i-passazhirskih-perevozok-v-2023-godu.html>

2 Loading on the Russian Railways network in 2023 amounted to 1 bn 232.3 mn tons // Russian Railways. URL: <https://company.rzd.ru/ru/9397/page/104069?id=290211>

3 Growing at the bottom // Kommersant. URL: <https://www.kommersant.ru/doc/6478439>

4 Russian Railways passengers went for a record, freight almost missed the mark // Gudok.ru. URL: <https://vgudok.com/lenta/passazhiry-rzhd-poshli-na-rekord-gruzy-chut-ne-dotyanuli-zheleznodorozhnyy-holding-zavershil>

drop in transportation volumes was partly caused by an increase in the downtime of locomotives for repairs.¹ There was no fall in exports of key cargoes (coal, oil and oil products) over the year due to an increase in the volume of shipments to the markets of China and India. Thus, the volume of rail transportation between Russia and China surged by 36% by 2022 to 161 mn tons, in particular due to the active operation of a new border crossing point – the Nizhneleninskoye – Tongjiang railway bridge.² Container transportation through the Russian Railways network increased significantly: by 14% to 7.4 mn TEU (twenty-foot equivalent unit).³ The Kemerovo Oblast (225 mn tons), Sverdlovsk Oblast (66.5 mn tons), Krasnoyarsk Krai (48.6 m tons), Perm Krai and Belgorod Oblast (44 mn tons each), and Irkutsk Oblast (42.4 mn tons) are the leaders in terms of freight loading and shipment by rail in 2023. The highest loading growth was recorded in the Republic of Mari El: 3.6 times by 2022.⁴

Loading dynamic by rail is constrained by existing infrastructure limitations, as well as logistical issues at certain destinations. For example, the handling capacity of Novorossiysk railway station (the number of freight cars that can be handled by the station with the best use of tracks and technical equipment⁵) in the Azov-Black Sea basin is 1.6 times lower than that of the adjacent non-revenue tracks.⁶ In 2023, BAM was equipped with new facilities: access roads to stations were modernized, dozens of railway sections were extended with second tracks.

Despite visible successes in modernizing and expanding throughput capacity, according to the Center for Infrastructure Economics, the infrastructural constraints of the eastern polygon, through which exports to Asia and the Pacific are shipped, do not yet allow to fully meet transportation needs even in the domestic market.⁷

Partially solving the problem and ramp up deliveries to the east is the replacement of the open railway freight car fleet at the Eastern Range with innovative open railway freight cars with greater capacity, which will increase carrying capacity by boosting the car's load capacity.⁸ A total of 63,500 rolling stock units were produced in 2023, of which 19,600 were universal open railway freight cars, 18,500 were hoppers, 11,700 were platforms, 8,500 were tank cars,

1 The effects of big construction and record harvests. What 2023 was like for freight traffic // Gudok.ru. URL: <https://gudok.ru/content/amp/analitika/gruzoperevozki/1654875/>

2 Russian Railways recorded 36% growth in the volume of transportation with China in 2023 // Interfax. URL: <https://www.interfax.ru/business/945988>

3 URL: <https://portnews.ru/news/358312/>

4 JSC RZD has identified the top 5 leaders in 2023 among Russian regions in terms of dynamics and loading volumes // RZD Partner.ru. URL: <https://www.rzd-partner.ru/zhd-transport/news/v-oao-rzd-opredelili-top-5-liderov-2023-goda-sredi-rossiyskikh-regionov-po-dinamike-i-obemam-pogruz/>

5 Draft Order of the Ministry of Transport of the Russian Federation "On Approval of the Methodology for Determining the Carriage and Traffic Capacity of Public Railway Infrastructure" (prepared by the Ministry of Transport of Russia on 05.03.2018).

6 Logistics must be logical // Vgudok. URL: <https://vgudok.com/lenta/logistika-dolzha-byt-logichnoy-prezident-putin-prizval-razvivat-transportnyu-infrastrukturu>

7 Railway logistics // Vedomosti. URL: https://www.vedomosti.ru/industry/infrastructure_development/articles/2023/09/20/996062-zheleznaya-logistika

8 Innovostochny polygon of Russian Railways // Vgudok. URL: <https://vgudok.com/lenta/innovostochnyy-poligon-rzd-premer-mishustin-prizval-zheleznodorozhnikov-otpravlyat-na-bam-i>

4,600 were boxcars, and 200 were dump cars.¹ The largest increase in the volume of railcar production was noted for hoppers, tank cars and boxcars. In aggregate, sales of freight cars in 2023 went up by 28% compared to 2022.² Having said that, in 2023 the sales and lease price of freight cars increased: the cost of a boxcar increased by 8%, the lease rate of a boxcar increased by 5%,³ and the lease rate of a fitting platform rose by 30%.⁴

Implementation of infrastructure projects continues. On December 15, 2023, a new double-track Kerak tunnel was put into operation at the Kovali-Ulrichii section of the Trans-Siberian Railway in the Amur Region. In the Murmansk Region, traffic was launched on the railway line Vykhodnoy – Lavna to the new seaport in the Kola Bay “Lavna”, which will be launched in 2024.⁵ The project of a high-speed railway (HSR) from Moscow to St. Petersburg has reached the stage of feasibility. In the future, a high-speed rail link from Moscow to Yekaterinburg, Minsk, Adler, Lugansk and Donetsk may be designed.⁶

The subway infrastructure was actively developed. In particular, in 2023, traffic was opened on the MCD-3 and MCD-4 railroad lines connecting Moscow and cities of the Moscow Region, and the Great Ring Line of the Moscow subway was fully launched.⁷

Freight vehicles

In 2023, freight and passenger transportation by road shows positive dynamics. The main growth driver is domestic transportation. The domestic market of freight transportation by road in 2023 was marked by a decrease in the number of vehicles, an increase in the number of trips and high demand for long-distance transportation.⁸

The growth of freight flows by road was facilitated by switching from other modes of transportation – rail and air. Shippers – in particular, SMEs – choose road transport over rail because of the relatively high speed of delivery by road, even taking into account non-high-speed road sections, as well as economic

1 By the end of 2023, the carriage rolling accounted for about 69% of the train carriage construction volume // RZD Partner.ru URL: <https://www.rzd-partner.ru/zhd-transport/news/po-itogam-2023-goda-v-obeme-vagonostroeniya-na-spetspark-prishlos-okolo-69/>

2 More than 64,000 freight cars sold in Russia in 2023 // RZD Partner.ru URL: <https://www.rzd-partner.ru/zhd-transport/news/bolee-64-tys-gruzovykh-vagonov-realizovano-v-rossii-v-2023-godu/>

3 By the end of 2023, the situation in the boxcar segment has not improved // RZD Partner.ru. URL: <https://www.rzd-partner.ru/zhd-transport/interview/k-kontsu-2023-goda-situatsii-v-segmente-krytykh-vagonov-ne-uluchshilas/>

4 Container market: rates for fitting platforms rose by 30% over the year // RZD Partner.ru. URL: <https://www.rzd-partner.ru/zhd-transport/comments/konteynernyy-rynok-za-god-stavki-na-fitingovye-platformy-podorozhali-na-30/>

5 A decade of big projects // Transport of Russia. URL: <https://transportrussia.ru/razdely/zheleznodorozhnyj-transport/10676-desyatiletie-bolshikh-proektov.html>

6 Roads at high speeds // Vedomosti. URL: https://www.vedomosti.ru/industry/infrastructure_development/articles/2023/11/29/1008492-dorogi-na-visokih-skorostyah

7 BKL, Moscow central diameters, and social infrastructure: Moscow's main achievements in the construction sector in 2023 // Moscow Mayor's Website. URL: <https://www.mos.ru/mayor/themes/4299/10556050/>

8 Experts summarized the results of 2023 for the road transportation market and briefed what 2024 will be like // ATI.SU. URL: <https://news.ati.su/article/2024/01/25/eksperty-podveli-ito-gi-2023-goda-dlja-ryнка-avtoperevozok-i-rasskazali-kakim-budet-2024-826393/>

benefits: tariffs on most road sections remained unchanged in 2023 (the last indexation was in February 2023), while rail tariffs were indexed twice in 2023 (similarly in 2022).¹ According to available estimates, in 2023, the volume of road freight transportation along three transport corridors – Eastern, Azov-Black Sea Basin and North-South – amounted to a record 500 mn tons.² The volume of transportation also increased on international routes, in particular, to Belarus and China, as well as to Iran, Turkey, Armenia, Georgia and Central Asia.³

The growth in passenger traffic by road is associated with the development of road tourism: in the context of air service restrictions to the southern regions of the country, the highway takes over the service of seasonally high tourist flows. In 2023, there was an increase in transportation on toll road sections. Thus, according to the data of SC Avtodor, a total of 278.7 million vehicle trips were made on the network sections, which is 18% more than in 2022.

Demand for freight transportation is constrained by its high cost and supply-side constraints: a shrinking number of logistics companies, shortage of drivers, rolling stock and spare parts, and difficulties in maintaining and repairing European-made vehicles.⁴ Over 2023, the cost of freight transportation increased by 40%⁵ In addition, not only the cost of services has grown, but also the cost of vehicles themselves. On average, automobiles increased in price by 24% over 2023, including foreign automobiles by 39% and domestic automobiles by 29.6%.⁶ Despite the growth in the cost of motor vehicles, according to the analytical agency “Avtostat”, in 2023, more than 1 mn new passenger cars were sold, which exceeds the level of the previous year by 69%. More than 30% in the sales structure were cars of the domestic brand “Lada”.⁷

The high demand for automotive equipment is driven, among other things, by the high pace of road and infrastructure construction in Russia. In 2023, 650 km of federal and regional roads were reconstructed and built, which is three times more than in 2022.⁸ More than 10 thousand km of roads were repaired, including 1,500 km of highways in the new regions.⁹ Routes linking new regions with the

1 Freight owners are leaving the railroad network for roads // RZD Partner.ru. URL: <https://www.rzd-partner.ru/zhd-transport/comments/gruzovladeltsy-ukhodyat-s-zheleznodorozhnoy-seti-na-avtodorogi/>

2 Transport week – 2023. The key event of the Transport of Russia forum was dedicated to the new transport economics. URL: <https://2023.transweek.digital/ru/media/klyuchevoe-sobytie-foruma-transport-rossii-bylo-posvyashcheno-novoy-ekonomike-transporta/>

3 Transportation and logistics: reorientation of directions and changes in structure // RA Expert. URL: https://raexpert.ru/researches/traffic_2023/

4 UAZ raised prices for its vehicles due to rising logistics costs // Vedomosti. URL: <https://www.vedomosti.ru/auto/articles/2023/11/01/1003808-uaz-podnyal-tseni-iz-za-logistiki>

5 The cargoes caused a real furor // Kommersant. URL: <https://www.kommersant.ru/doc/6267981>

6 Car as a luxury: Why Muscovites are switching to public transportation // Novye Izvestia. URL: <https://newizv.ru/news/2023-12-21/avtomobil-kak-roskosh-pochemu-moskvichi-peresazhivayutsya-na-obschestvennyy-transport-425434>

7 Sales of new passenger cars in 2023 increased by 69% // Avtostat. URL: <https://www.autostat.ru/news/56546/>

8 Mikhail Mishustin announced the development of the transportation industry in Russia despite sanctions // Izvestia. URL: <https://iz.ru/1605715/2023-11-15/mishustin-zaiavil-o-razvitiitransportnoi-otrasli-v-rf-vopreki-sanktsiam>

9 Mikhail Mishustin outlines six priorities for Russia's transportation complex // Rossiyskaya Gazeta. URL: <https://rg.ru/2023/11/15/dvizhenie-po-glavnoj-doroge.html>

Republic of Crimea and Rostov Region (Tavrida-2 highway) are being developed.¹ One of the main achievements of road construction in 2023 was the opening of the M-12 Vostok expressway linking Moscow and Kazan. On December 30, 2023, a record number of cars drove along this highway: more than 91,000.² Work is underway to eliminate bottlenecks in the transport infrastructure, particularly in the eastern direction: checkpoints have been modernized and equipped with portal inspection and examination complexes, and an electronic queuing system for trucks has been introduced.³

One of the main areas of industry development has been the expansion of the park of environmentally friendly modes of transportation. In 2023, 14.5 thousand new electric vehicles were sold – 5 times more than in 2022. Against this background, the demand for related infrastructure is growing: in December 2023, the total number of electric charging stations (ECS) was 3,783, and 1437 ECS will be commissioned in 2024.⁴ In Moscow in 2023, the length of eco-friendly routes increased by a third: electric buses, of which there are more than 1400, serve 39 city routes with a length of 450 km.⁵ In 2023, 240 electric buses were delivered to 64 regions as part of the national project “Safe and Quality Roads” (SQR).⁶ In 2023, programs were launched for preferential leasing of buses through the State Transport Leasing Company (STLC) using funds from the National Welfare Fund and special treasury loans for the purchase of new public transport by regions.⁷

The micro-mobility transportation market has developed the most, which stimulates, among other things, the development of e-commerce. In 2023, 64 mn trips were made on electric scooters in Moscow during the season, which is 2.5 times higher than the level of the previous year.

Air service

Compared to other transport sectors, air service faced the largest number of restrictive measures. In 2023, it was possible to reduce the lag from the transportation indicators before the introduction of sanctions: the volume of passenger traffic by 10% exceeded the 2022 level. In 2023, Russian airlines carried 105 million passengers, which is higher than the plan – according to the

1 The new Tavrida-2 highway from Rostov-On-Don to Crimea will not receive the status of an expressway // Yug Expert. URL: <https://expertsouth.ru/news/novaya-trassa-tavrida2-iz-rostovanadonu-v-krym-ne-poluchit-status-skorostnoy-dorogj/>

2 More than 3 mn passages of vehicles were recorded along the M-12 Vostok highway // Kommersant. URL: <https://www.kommersant.ru/doc/6508778>

3 The Ministry of Transport commented on the growth of cargo turnover and passenger transportation in 2023 // Rossiyskaya Gazeta. URL: <https://rg.ru/2023/11/29/v-mintranse-prokomentirovali-rost-gruzooborota-i-passazhirskih-perevozok-v-2023-godu.html>

4 We see increased demand for electro-charging stations // Vedomosti. URL: https://www.vedomosti.ru/industry/infrastructure_development/characters/2024/02/06/1018771-povishennii-sposuslugi-elektrozapravochnih-stantsii

5 In 2023, the length of electric bus routes in Moscow grew by 450 kilometers // Moscow Mayor's Website. URL: <https://www.mos.ru/news/item/134585073/>

6 In 2023, 4.4 thousand vehicles will be delivered to Russian regions under the National Project // Safe and quality roads. URL: <https://bkdrf.ru/news/read/v-2023-godu-po-natsproektu-v-rossiyskie-regiony-postavleno-44-tys-transportnyh-sredstv>

7 How public transportation will develop in Russia // Vedomosti. URL: <https://www.vedomosti.ru/partner/articles/2023/10/11/996654-obschestvennii-transport>

comprehensive program for the development of the aviation industry until 2030 – this figure is 2 mn.¹ On the contrary, freight transportation by Russian airlines in 2023 declined by 23% compared to 2022, due to more complicated logistics and competition with foreign carriers.²

Domestic transportation made the main contribution to the aggregate growth of passenger air service. Despite continuing restrictive measures on the operation of 11 regional airports, the volume of air services on domestic routes exceeded the pre-pandemic values of 2019 (+12%, or 83 mn passengers), but has not yet equaled the peak level of 2021 (87.5 mn).³ The configuration of flights is changing: the reorientation of passenger traffic to the regions and an increase in flights bypassing Moscow in 2023 led to a decrease in passenger traffic at Domodedovo and Vnukovo and an increase in passenger traffic at St. Petersburg and Sochi airports.⁴ The list of subsidized regional routes bypassing Moscow in 2023 includes 296 destinations, in 2024 the total number of such routes will be 270.⁵ In 2023, the volume of passenger transportation to the Far East grew by 13%, including 18% on subsidized routes.⁶ On the whole, there is a trend towards a decrease in state support for the aviation industry: the amount of subsidies in 2023 amounted to Rb60.42 bn⁷ against Rb 172 bn in 2022.⁸ The decrease in subsidies, on the one hand, reduces the industry's dependence on state support, but on the other hand, creates risks of higher airfares, reduced flights and passenger traffic within the country.

International air services are recovering: in 2023, Russia had direct air links with 37 countries (compared to 32 countries in 2022), international passenger flights were operated by 18 Russian⁹ and 65 foreign airlines. Since the official statistics of Rosaviatsiya has not been published in the public domain since February 2022, it is not possible to assess changes in the dynamics and structure of passenger air services in 2023. According to estimates, the share of domestic

1 Russian airlines expanded services by more than 10% in 2023 // RZD Partner.ru. URL: <https://www.rzd-partner.ru/aviation/news/aviakompanii-rf-za-2023-g-uvelichili-perevozki-bolee-chem-na-10/>

2 Russian airlines reduced cargo transportation by almost a quarter in 2023 // Vedomosti. URL: <https://www.vedomosti.ru/business/articles/2024/02/05/1018371-rossiiskie-aviakompanii-pochti-na-chetvert-snizili-gruzoperevozki>

3 How air services changed in Russia by 2024 // T-Zh. URL: <https://journal.tinkoff.ru/kuda-letim-avia-stat/>

4 Increase in flights bypassing Moscow led to a decrease in passenger traffic at Domodedovo and Vnukovo // Aviation of Russia. URL: <https://aviation21.ru/uvelichenie-rejsov-v-obhod-moskvy-privelo-k-snizheniyu-passazhiropotoka-v-domodedovo-i-vnukovo/>

5 Subsidizing regional transportation // Rosaviatsiya. URL: <https://favt.gov.ru/deyatelnost-vozdushnye-perevozki-subsidirovanie-regiony/>

6 In 2023, subsidized air services in the Far East grew by 13% // RZD Partner.ru. URL: <https://www.rzd-partner.ru/aviation/news/v-2023-godu-subsidirovannye-aviaperevozki-na-dalnem-vostokey-vyrosli-na-13/>

7 Ministry of Transport: subsidization of the aviation industry in Russia exceeded Rb60.42 bn // Aviation Explorer. URL: <https://www.aex.ru/news/2023/11/8/263842/print/>

8 Rosaviatsiya summarized preliminary results of passenger air services // Rosaviatsiya. URL: <https://favt.gov.ru/novosti-novosti/?id=9811>

9 Russian airlines can carry 103 mn passengers by the end of 2023 // Aviation Explorer. URL: <https://www.aex.ru/news/2023/11/1/263595/>

air service in 2023 is about 80%, international – 20% (in 2019 – 60% and 40%,¹ respectively). Based on data for January–August 2023, traffic on international routes grew 33% over the corresponding level in 2022 to 14.6 mn passengers, the highest value since pandemic 2020. The number of passenger jets on international lines increased, averaging 85.7% from January to August 2023 (82.4% for the same period in 2022).²

Over the past two years, a set of measures was implemented to restore and adapt the air transport industry to the new realities. In particular, planned work was carried out to register jets in the domestic registry, reinsure jets, replace components and software with domestic part, including the transition to Russian booking systems. An important result on import substitution in the industry was the flight in 2023 of the first Russian SJ-100 model using domestic components and the modernized IL-96-400M. In addition, serial production of composite wing and engines for the MS-21 medium-range airliner was launched, and work is underway to ramp up production capacity to produce the Tu-214 from 1–1.5 to 20 jets per year.³

Currently, the aircraft fleet includes 1,165 civil passenger jets, of which 225 have Russian registration. The share of passenger transportation by domestic aircraft is growing: from 6% in 2019 to 10.3% in 2023.⁴ Deregistration (getting rid of double registration) of aircraft and their transfer from foreign registries to the Russian aviation register were carried out in 2023. The process of buying out aircraft in service with Russian airlines from foreign leasing companies was called “de-bermudization” of the fleet. About 300 billion rubles of budget funds were allocated for this purpose.⁵ In 2023, 98 Aeroflot,⁶ 45 S7 and 19 Ural Airlines⁷ jets underwent de-bermudization. Problems with aircraft maintenance are observed at airlines with the largest share of foreign aircraft and jets with foreign components in their fleet structure.⁸

In 2023, the development of air service infrastructure continued: 12 airfield infrastructure facilities, including 9 runways, were modernized. In particular, the airports of Arkhangelsk and Magnitogorsk opened after reconstruction. Particular

1 Civil aviation in the Russian Federation today and its future direction // Russian Academy of Transport. URL: <https://rosacademtrans.ru/aviation2023/>

2 Air service abroad turned out to be the highest since pre-pandemic times // Vedomosti. URL: <https://www.vedomosti.ru/business/articles/2023/10/05/998874-aviaperevozki-za-rubezh-okazalis-maksimalnimi-s-dopandemiinih-vremen>

3 Course on import substitution: how Russian civil aviation developed in 2023 // Aviaport. URL: <https://www.aviaport.ru/news/kurs-na-importozameshchenie-kak-razvivalas-rossiyskaya-grazhdanskaya-aviatsiya-v-2023-godu/>

4 GTLC presents an overview of Russia’s transportation complex for the first 9 months of 2023 // GTLC. URL: https://www.gtlk.ru/press_room/news/gtlk-predstavlyaet-obzor-transportnogo-kompleksa-rossii-po-itogam-9-mesyatsev-2023-goda/

5 Air service abroad turned out to be the highest since pre-pandemic times // Vedomosti. URL: <https://www.vedomosti.ru/business/articles/2023/10/05/998874-aviaperevozki-za-rubezh-okazalis-maksimalnimi-s-dopandemiinih-vremen>

6 Aeroflot Group will transfer 98 aircraft to a Russian legal entity by the end of 2023 // Interfax. URL: <https://tourism.interfax.ru/ru/news/articles/105035/>

7 Russian airlines bought 64 foreign-made airplanes and will be able to fly abroad on them // Komsomolskaya Pravda. URL: <https://www.kp.ru/daily/27598.5/4870257/>

8 S7 to cut winter schedule due to difficulties with Airbus engines // Kommersant. URL: <https://www.kommersant.ru/doc/6267234>

attention is paid to the renovation and development of airfield infrastructure in the Far East regions: in 2023, reconstruction was completed at Vilyuysk, Ust-Nera, Chersky, Yakutsk, Pevek, Yelizovo, and Ust-Kamchatsk airports.¹ In the Samara region, the SEZ “Togliatti” launched serial production of domestic drones that will serve the purposes of monitoring and delivery of urgent cargoes, as well as the needs of agriculture.²

Maritime transport

In 2023, maritime transport showed the highest growth among other types of transportation: 19.4% against 2022. The increase in the volume of maritime transport is explained by the growth of loading through Russian seaports. In 2023, the cargo turnover of seaports reached a record high since 2018: 883.8 mn tons, which exceeds the same figure for 2022 by 5% (841.5 mn tons). The main contribution to the growth in port cargo turnover was a 10% increase in dry cargo handling (446.9 mn tons). The volume of liquid cargo transshipment remained unchanged year-on-year and amounted to 436.9 mn tons.³ Renovation of transport infrastructure at the approaches to the ports⁴ and dredging of seaport water areas contributed to the growth of indicators.⁵

The Caspian basin ports showed the largest increase in cargo transshipment: 7.8 mn tons, or 29.7% vs. 2022. In particular, a significant year-on-year increase in cargo transshipment volumes was noted in the port of Astrakhan (up 48.5% to 3.7 mn tons), which is due to the doubling of the port’s production capacity over the past two years.⁶ Cargo transshipment also increased by 14% to 3.4 mn tons in the port of Makhachkala. In general, the growth in port cargo turnover is due to the fact that the Caspian basin is a transit basin for the North-South ITC.⁷

Cargo turnover of ports in the Azov-Black Sea basin grew by 10.4% to 291.4 mn tons, which was due to an increase in cargo traffic from the stations of the North Caucasus Railway: in 2023, 22.5 mn tons (7.7% growth vs. 2022) of export cargo, mainly grain, ferrous metals and oil products bound for Eurasia, Africa and South America, were unloaded from the stations of the North Caucasus Railway to seaports. Cargo turnover dynamics were multidirectional by individual ports: cargo handling increased at the ports of Novorossiysk (by 9.4% to 161.4 mn tons),

1 Large-scale reconstruction of airport infrastructure continues in Russia // Ministry of Transport of the Russian Federation. URL: <https://mintrans.gov.ru/press-center/news/11159>

2 Samara Oblast launches the first stage of drone production // Rossiyskaya Gazeta. URL: <https://rg.ru/2023/12/25/reg-pfo/v-samarskoj-oblasti-zapustili-pervuiu-ochered-proizvodstva-bespilnikov.html>

3 Freight turnover of Russian sea ports by the end of 2023 increased by 5% to 883.8 mn tons // Federal Agency of Sea and River Transport. URL: <https://morflot.gov.ru/novosti/lenta/gruzooborot-morskikh-portov-rossii-po-itogam-2023-goda-vyros-na-5-do-883-8-mln-t/>

4 Export freight transportation to Azov-Black Sea ports from SCR stations rose by 7.7% in 2023 // Portnews. URL: <https://portnews.ru/news/358712/>

5 The Ministry of Transport briefed on the growth of cargo turnover and passenger transportation in 2023 // Rossiyskaya Gazeta. URL: <https://rg.ru/2023/11/29/v-mintrane-prokomentirovali-rost-gruzooborota-i-passazhirskih-perevozok-v-2023-godu.html>

6 Stable growth amid sanctions // Transport of Russia. URL: <https://transportrussia.ru/razdely/logistika/10624-stabilnyj-rost-na-fone-sanktsij.html>

7 The turnover between Russia and Azerbaijan in 2023 moved up by 17.5% due to the growth of cargo transportation via the North-South ITC // Portnews. URL: <https://portnews.ru/news/358778/>

Tuapse (by 14% to 24.8 mn tons), Kavkaz (by 28% to 21.4 mn tons) and Rostov-On-Don (by 8.9% to 16.3 mn tons), and decreased at the port of Taman (by 5.4% to 40.5 mn tons).

Cargo turnover of Arctic basin seaports dropped by 0.7% to 97.9 mn tons. Almost all ports showed negative dynamics: Arkhangelsk (-18% to 1.9 mn tons), Varandey (-10.6% to 5.2 mn tons), Sabetta (-2% to 27.8 mn tons), except for the port of Murmansk (positive growth of 2.8% to 57.8 mn tons).

Cargo turnover at seaports in the Far Eastern basin went up by 4.5% to 238.1 mn tons. However, the share of Far Eastern ports in container turnover shrank in favor of Baltic and Azov-Black Sea ports: in the structure of seaport cargo turnover across all basins, Far Eastern ports handled 52% of traffic (56% in 2022).¹ The cargo turnover of Vostochny (+5.2% to 86.5 mn tons), Vladivostok (+4% to 33.5 mn tons), Nakhodka (+6.9% to 27.6 mn tons) ports increased, while the cargo turnover of Prigorodnoye (-11.6% to 13.6 mn tons) and Vanino (-7% to 35 mn tons) ports decreased.

Cargo turnover at Baltic basin seaports expanded by 1.3% to 248.6 mn tons. Positive growth in cargo transshipment was recorded at the ports of Primorsk (+10.4% to 63.1 mn tons) and Bolshoi Port of St. Petersburg (+28% to 49.6 mn tons), while negative growth was recorded at the ports of Vysotsk (-19.9% to 12.8 mn tons) and Ust-Luga (-9.3% to 112.5 mn tons).

In 2023, 82,364 passenger ships were served, which is 31.7% higher than in 2022. Marine passenger terminals served 33.4% more passengers: 5,175.5 thousand people. The largest increase was recorded in the ports of Sevastopol (+46%) and Sochi (+35%).²

At the end of 2023, maritime operators, domestic carriers and cargo owners faced problems with ships passing through the Suez Canal, which accounts for 25–30% of global container traffic. According to UNCTAD, between December 2023 and January 2024, the number of ships passing through the Suez Canal decreased by 39% and the volume of cargo transportation fell by 45%. The consequence was an increase in freight rates and the lengthening of trade and transportation routes.³ Transportation via the Northern Sea Route (NSR) has developed as an alternative: in October 2023, a vessel from China called at the port of Baltiysk via the NSR.⁴ In 2023, in the context of subsidies for domestic companies engaged in short sea shipping along the NSR between Far Eastern and North-Western ports, the subsidies were expanded.⁵

Much attention was paid to the development of maritime transport infrastructure. In particular, the “Transport Week – 2023” presented projects for

1 Far East ports reduced the share of container turnover in favor of the Baltic and Azov-Black Sea basins // RZD-Partner. URL: <https://www.rzd-partner.ru/news/porty-dalnego-vostoka-sokratile-dolyu-konteyneroborota-v-polzu-baltiyskogo-i-azovo-chernomorskogo-ba/>

2 Freight turnover of Russian seaports in January-December 2023 // Association of Commercial Seaports of Russia. URL: <https://www.morport.com/rus/news/gruzooborot-morskikh-portov-rossii-za-yanvar-dekabr-2023-g>

3 UNCTAD: The weekly transits going through the Suez Canal decreased by 42% over the past two months // Portnews. URL: <https://portnews.ru/news/358934/>

4 For the first time, a vessel that traveled the Northern Sea Route has called at Baltiysk (Kaliningrad Oblast) // Portnews. URL: <https://portnews.ru/news/354536/>

5 The government expanded subsidies for transportation along the Northern Sea Route // Vedomosti. URL: <https://www.vedomosti.ru/business/articles/2023/07/28/987519-rasshirilo-subsidirovanie-sevmorputi>

the construction of a gas fleet in the Arctic and year-round navigation along the NSR, as well as a project to expand the throughput capacity of the Vostochnaya Stevedore Company marine container terminal.¹

Inland water transport

The length of inland waterways in Russia is 102,000 km. In 2023, cargo transportation and cargo turnover fell due to the current international sanctions (in particular, restrictions on export supplies of timber and construction cargo) and reorientation of cargo to land types of transportation. In addition, the drop in the volume of transportation was caused by low-water inland waterways. The decline in cargo transportation was mainly observed in the basins of inland waterways of the European part of the country: in the Dvinsko-Pechorsky basin – by 21.5%, in the Lena basin – by 11.4, in the Belomorsko-Onezhsky basin – by 10.5, in the Volga-Baltic basin – by 10.1, in the Moscow basin – by 9, in the Yenisei basin – by 2.7%. The volume of cargo delivered to the Far North also decreased: by 8.4% to 16.2 mn tons. In the southern and eastern basins there was an increase in cargo transportation: in particular, in the Amur basin – by 13.1%, in the Kamsky basin – by 9.3, in the Baikal-Angar basin – by 4.9, in the Volga basin – by 4.6, in the Ob-Irtysh basin – by 2.9, in the Azov-Don basin – by 1.8, in the Volga-Don basin – by 0.5%.²

In contrast to cargo transportation, passenger turnover and passenger transportation by inland water transport rose due to increased demand for cruise travel and the launch of regular water routes, as well as the development of high-speed navigation (e.g., in Nizhny Novgorod Oblast). In 2023, the two year-round routes of electric river vessels were launched in Moscow,³ the navigation of the first recreational electric vessel opened in Krasnoyarsk, and regular passenger transportation by water was resumed in the Rostov Oblast.⁴ Some private companies, such as Vodokhod, note that passenger traffic on cruise ships in 2023 exceeded pre-pandemic levels.⁵ Despite the growth in demand for cruises, ship utilization dropped by 10% due to a 25-27% increase in supply and an expansion in the number of ships in navigation.⁶

In 2023, inland waterways were dredged⁷ and 18 inland water transport infrastructure facilities were reconstructed, in particular, hydraulic structures

1 From autonomous boat to new security systems on transport: Gostiny Dvor hosts the exhibition "Transport of Russia" // Transport Week – 2023. URL: <https://2023.transweek.digital/ru/media/ot-avtonomnogo-katera-do-novykh-sistem-bezopasnosti-na-transporte-v-gostinom-dvore-prokhodit-vystavka/>.

2 In 2023, cargo transportation by GDP declined by 6.4% to 108.8 m tons // Portnews. URL: <https://portnews.ru/news/357853/>.

3 The second river route of electric vessels was launched on the Moscow River // Portnews. URL: <https://portnews.ru/news/354200/>

4 Rostov Oblast presents projects worth over Rb240 bn at the "Transport Week – 2023" // Official Portal of the Rostov Oblast Government // Official Portal of the Rostov Oblast Government. URL: <https://www.donland.ru/news/24562/>

5 Passenger transportation: a new impetus for development // Marine News of Russia. URL: <https://morvesti.ru/analitika/1692/107257/>

6 Stable growth amid sanctions // Transport of Russia. URL: <https://transportrussia.ru/razdely/logistika/10624-stabilnyj-rost-na-fone-sanktsij.html>

7 The Ministry of Transport briefed on the growth of cargo turnover and passenger transportation in 2023 // Rossiyskaya Gazeta. URL: <https://rg.ru/2023/11/29/v-mintranse-prokomentirovali-rost-gruzooborota-i-passazhirskih-perevozok-v-2023-godu.html>

in the Yenisei, Volga, Kamsky, Azov-Don, Baikal-Angarsk, Belomorsko-Baltiysky, Volga-Don and Moscow basins.¹

Projects of an autonomous (crewless) vessel based on the “Volzhanka Voyager 800 Cabin” for operation on inland waterways were presented at “Transport Week – 2023”.² Domestic developments were also presented: a Russian vessel traffic control system, as well as an electronic chart navigation and information system ECDIS “Bering”.³

Pipelines

Cargo turnover and cargo transportation by pipeline transportation decreased in 2023. At the same time, gas production declined by 5.5% to 636.9 bcm. Gas exports by pipeline transport fell by 29.9% to 99.6 bcm, while exports of liquefied natural gas were down by 1.9% to 45.4 bcm.⁴

The decrease in transportation was caused by damage to the pipeline infrastructure, falling prices on the world market, and the loss of a large part of the European market: the EU countries reduced their use of Russian gas by 18%, a number of them (Poland, Romania, Bulgaria, Finland, the Netherlands and Denmark) – completely refused to supply gas from Russia.⁵ Direct sanctions in 2023 were imposed against oil and oil products supplies: a ban was imposed on oil transportation through the northern branch of the Druzhba oil pipeline.⁶

In the context of restrictive measures and reduced consumption of Russian gas by the EU countries, there was an increase in gas supplies to China via the Power of Siberia pipeline: Gazprom’s supplies in 2023 exceeded the previous year’s figures by 1.5 times and reached 22.7 bcm.⁷ The construction of a major infrastructure project, the Soyuz Vostok gas pipeline from Russia to China via Mongolia, which will continue the route of the Power of Siberia-2 gas pipeline, is under discussion.

The main risks for the pipeline industry in 2024 include the possible complete refusal of EU countries to supply Russian gas through Ukraine.⁸

1 In 2023, the volume of cargo transportation by water transport will reach 118.8 million tons // RZD-Partner.ru. URL: <https://www.rzd-partner.ru/wate-transport/news/v-2023-godu-obem-perevozok-gruzov-vodnym-transportom-sostavit-118-8-mln-t>

2 From autonomous boats to new transportation security systems: Gostiny Dvor hosts the Transport of Russia exhibition // Transport Week – 2023. URL: <https://2023.transweek.digital/ru/media/ot-avtonomnogo-katera-do-novykh-sistem-bezopasnosti-na-transporte-v-gostinom-dvore-prokhodit-vystavk/>

3 President of Sitronics Group took part in the forum “Transport Week – 2023” // Vedomosti. URL: https://www.vedomosti.ru/press_releases/2023/11/17/prezident-sitronics-group-prinyal-uchastie-v-forume-transportnaya-nedelya-2023

4 Russian pipeline gas exports down by almost 30% in 2023 // Kommersant. URL: <https://www.kommersant.ru/doc/6494313>

5 Why 2023 was the year of the failure of anti-Russian sanctions // Forbes. URL: <https://www.forbes.ru/biznes/502974-pocemu-2023-j-stal-godom-provala-antirossijskih-sankcij>

6 The Hungarian government clarified the content of the 11th package of EU sanctions // RIA Novosti. URL: <https://ria.ru/20230622/druzhba-1879762637.html>

7 Gazprom to increase gas supplies to China 1.5 times in 2023 // TASS. URL: <https://tass.ru/ekonomika/19670859>

8 The European Commission is working on a complete rejection of gas supplies from Russia via Ukraine // Kommersant. URL: <https://www.kommersant.ru/doc/6535034>

3.4. Production and consumption of agricultural products¹

3.4.1. Production

In 2023, the volume of production in agriculture decreased against the high base of the previous year. The index of physical volume of agricultural production by the agricultural organizations, peasant (farmer) farms and household farms amounted to 99.7%, while the value of output in current prices decreased by 2.6%.

The highest production growth in crop production was observed in sunflower seeds and potatoes (2.0 and 8.7%, respectively), vegetable production rose (1.3%). The grain harvest decreased by 9.5% compared to the record harvest of the previous year. Livestock production grew in all main types of products: livestock and poultry for slaughter (live weight, +2.0%), milk (+2.5%), and eggs (+1.2%).

Despite the decline in grain production in 2023, agricultural organizations increased its sales by 16.4%. The reasons: a good grain harvest in 2023 and large reserves of the 2022 harvest. With the increase in production, the volume of sales of livestock and poultry (live weight) increased by 2.7%, milk – by 6.3%, eggs –by 1.2%. Traditionally, the number of cattle continues to decrease. The rate of its reduction in household farms exceeds the rate of reduction in agricultural organizations. The number of cattle in peasant (private) farms is growing. At the same time, the reduction in the number of cows does not lead to a decrease in milk production, on the contrary, its output is steadily increasing on the back of a rise in specific milk yields (*Fig. 9*). In 2023, this indicator increased by 5.6% compared to the previous year and by 24.3% compared to 2019. The average milk yield per cow in 2023 amounted to 8.1 tons against 7.6 tons in 2022 and 2.5 tons in 2000.

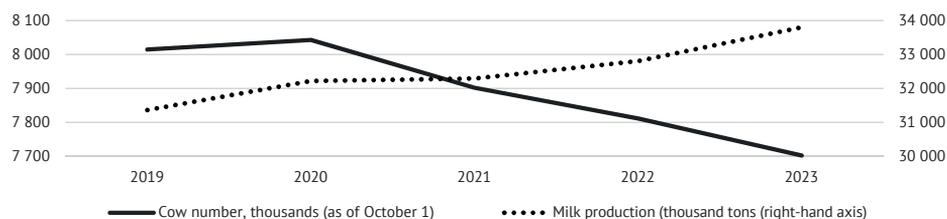


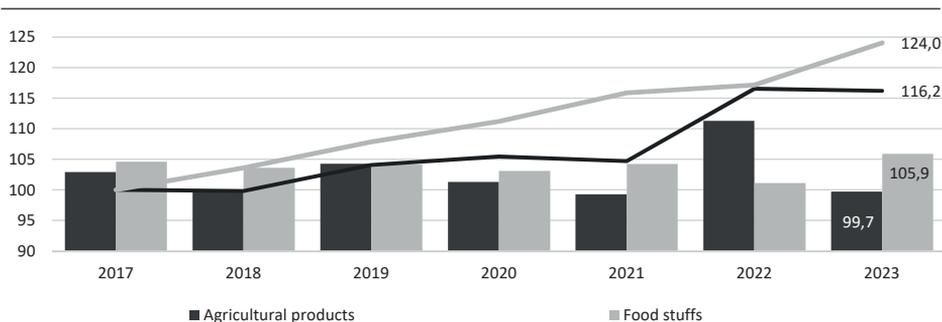
Fig. 9. Dynamics of cow population and milk production in Russia in 2019–2023

Source: Own calculations on Rosstat data.

The growth of agricultural production stimulated the food industry dynamic – in 2023, the index of food production totaled 105.9%, and the volume of shipped goods increased by 9.8% (*Fig. 10*).

Despite the persistence of geopolitical tensions in the Black Sea basin, the restrictions under which the export of agricultural products was carried out, the export of food products and agricultural raw materials (TN VED codes 01-24)

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Note. Columns to the previous year, lines - to 2017.

Fig. 10. Production indices of agricultural products and food stuffs in 2017–2023

Source: Own calculations on Rosstat data.

reached \$43.1 bn (10.1% of total Russian exports, 2.1% of GDP), increasing by 4.3% on the previous year. Food imports in 2023 amounted to \$35.1 bn, having decreased by 1.7%. The export-import balance continues to increase. While in 2022 this value amounted to 13.4% of exports, in 2023 the figure increased to 18.4%.

During 2023, some negative developments in the Russian agricultural sector emerged: a decline in poultry and egg production, which led to a price crisis in the fall of 2023, worsening price disparity for agricultural products and the resources required for their production, as well as a shortage of labor resources.

Chicken meat and eggs

A noticeable increase in production and sales of chicken meat and eggs in the first months of 2023 in the second half of the year was replaced by a decline: for chicken meat - since July, for eggs - since August (in September, the decrease in production of this product relative to August was already almost 7%). In H2 2023, the lag from the corresponding period of 2022 amounted to 1.7% for eggs and 2.1% for chicken meat (*Fig. 11*).

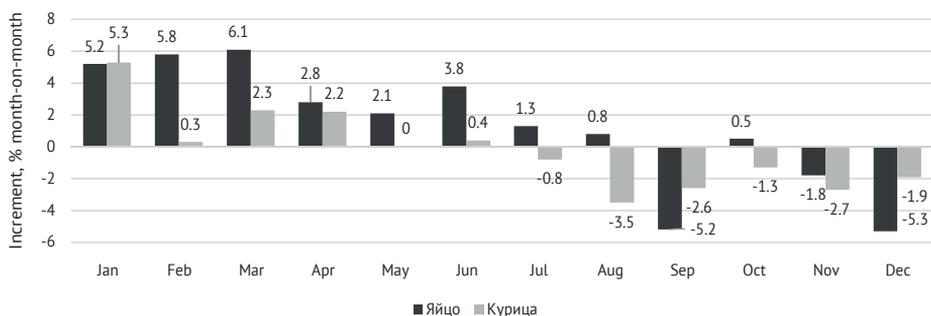


Fig. 11. Chicken meat production and egg sales by Russian agricultural organizations in 2023

Source: Own calculations based on Rosstat data.

Widening price disparity

In December 2023, the producer price index for agricultural products amounted to 109.1% vs. December 2022, outpacing the consumer price index by 1.7 p.p. This being said, the price growth for agricultural products was ensured by a sharp rise in prices for livestock products (+13.5%), while prices for crop products (+1.7%) increased at a much slower pace than the headline inflation.

Compared to 2019, the last year before the COVID-19 pandemic and the price crisis on the global food market, in December 2023, wheat, the main Russian crop, rose in price by 5.5%, which is several times lower than the general inflation rate. This being said, prices for the resources required for its production increased to a much greater extent: the increase in prices for nitrogen fertilizers amounted to 55.5%, for fuel – 28.9%, the average wage increased by 67.6%. The price of Russian-made combine harvesters increased by 27.7% (*Fig. 12*), while their share in the market is about 50%, and the dynamics of multiply increased prices for imported machinery is difficult to assess due to the change in the nomenclature of supplies.

Expectations of a significant increase in global and Russian grain export prices by the end of 2023 did not materialize. Average domestic prices are at their lowest level since 2019 as a result of falling prices on the external market. This complicates the state of the agricultural producers after the record harvests of the last two years.

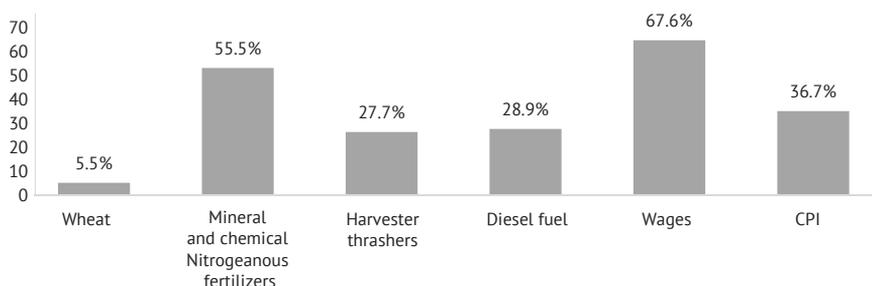


Fig. 12. Price movement on wheat and resources required for its production in Russia (December 2023 on December 2019)

Source: Own calculations based on Rosstat data.

Shortage of labor in agriculture

In 2023, the Ministry of Agriculture of Russia stated that there was a shortage of 200,000 persons¹ in the industry. Meanwhile, from 2020, the beginning of the pandemic, the reduction in the number of average employees, according to Rosstat, has amounted to only about 88,000 persons. There are also no grounds for the formation of a resource deficit of 200,000 people on the back of the growth of production – the growth of labor demand does not correspond to the increase

1 URL: <https://rns.online/economics/51733694-v-minselhoze-otsenili-defitsit-kadrov-v-otrasli-v-200-tysyach-chelovek/>

in agricultural production. Obviously, statistical observation and reporting forms of agricultural organizations did not reflect the real actual number of workers employed in agricultural production on the territory of the organizations.

The issue that the data of organizations on the number of workers who work for these agricultural organizations are understated has been raised before Rosstat. For example, after the interim agricultural census in 2021, it turned out that the workers employed through outstaffing and later through outsourcing (even for milking cows, for example) were not counted. Most likely, they were foreign labor migrants, which is indirectly indicated by the data on the dynamics of the ruble exchange rate and vacancies in agriculture:¹ when the ruble is weak, there are many vacancies, and vice versa. Russian workers do not react to fluctuations of the ruble against the dollar in this way. Today the problem of import substitution of labor resources in agriculture is becoming urgent.

The wide attraction of migrant workers in agriculture has an economic explanation, if we do not consider the low transaction costs of attracting cheap labor through third-party organizations. Russia has built huge facilities in livestock farming, where animals are concentrated on one production site. These facilities are disproportionate to the ability of the territory to provide labor resources, which predetermines the use of migrant labor in the future.

Attraction of Russian labor migrants in agriculture is feasible, as there are labor-surplus regions with young population. However, Russian labor migrants are more protected and their costs are higher than those of foreign migrants.

There is an accepted opinion about the low mobility of labor resources in Russia. This opinion is only partially true. Workers are not inclined to radically change their place of residence, as it requires high costs for settling in a new place, but they are quite mobile when it is necessary to leave for a while. Thus, while the share of rural residents employed in agriculture (from 49% of the able-bodied population in 2000 to 18% in 2022) and public administration (from 27% to 26%) has decreased, employment in businesses that are most likely to be located outside the employee's locality (mining, construction, trade, restaurants, financial activities, etc.) has increased significantly (from 17% to 43%). This means that the share of workers who are likely to leave for work but return home is increasing. In order for them to work in agriculture, they need material incentives no less than in extractive and other industries.

In public discussions, as a goal in terms of increasing the attractiveness of agricultural employment, it is often said about achieving wages in agriculture at least at the level of 80% of the average level of wages in the region.² But there are territories where the average level of wages in the region has already been achieved and even exceeded. The problem is that the level of wages in these territories remains low compared to the average wage in the country. For example, in the Tambov oblast, wages in agricultural organizations are more than 125% of the regional average, but only about 75% of the national average. Moreover, in an

1 On the basis of website hh.ru – the largest recruiting website.

2 URL: <https://proftat.ru/otraslevoe-soglashenie-analiziruem-itogi-stroim-budushhee-interv>

absolute number of regions, wages in agricultural organizations are lower than the average for the economy of these regions.

All these aspects of the problem are unfolding against the background of a general decline in the working-age population in Russia. Even taking into account the fact that the working age increased after the pension reform, the share of able-bodied people in rural areas fell from 63% to 57% from 2000 to 2022. Since 2015, fewer children per 1,000 inhabitants have been born in rural areas than in urban areas. The rural resource is shrinking.

In a situation when the total volume of labor resources for the whole economy is decreasing, agriculture, despite its success in agricultural production, is at a disadvantage. Consequently, labor issues in agriculture will continue to persist in the future.

3.4.2. Consumption

The food demand in Russia is met mainly by domestic production. The Doctrine of Food Security of the Russian Federation provides indicators of self-sufficiency in basic agricultural products. In 2022, these indicators were achieved for almost all products, excluding dairy products (86% with the indicator of 90%), vegetables and melons (89% with the indicator of 90%), fruits and berries (47% with the indicator of 60%). Taking into account the data on production in 2023, the situation with food self-sufficiency has not deteriorated.

Indirectly, the change in food consumption in 2023 – information on this is not yet available – can be judged from the data on retail sales of food products. *Fig. 13* shows the dynamics of the level of food consumption relative to the corresponding month of 2019 (to calculate changes in consumption through the volume of retail sales, all data are given in 2019 prices). This year is chosen as the last year before the pandemic, when normal consumption levels were established.

Fig. 13 shows that the index of physical volume of retail food sales in 2023 increased greatly versus 2022. This situation varies greatly by region (*Table 16*). Most likely, the changes in sales are caused by different rates of income growth by regions.

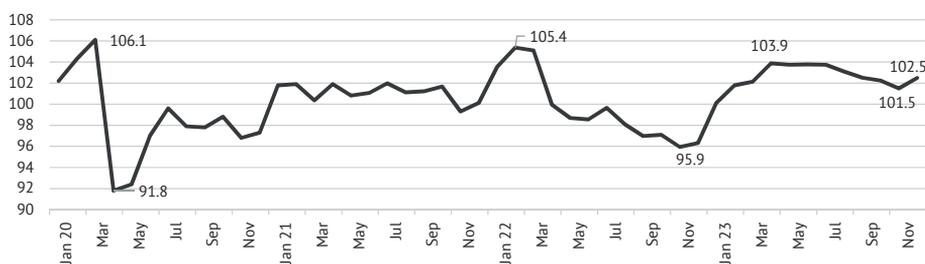


Fig. 13. Index of physical volume of retail sales turnover in food products, including beverages, and tobacco products, month-on-month, 2019

Source: Own calculations based on Rosstat data.

Table 16

**Retail sales turnover in food products, including beverages and tobacco products
(in comparable prices, % on January-December 2019)**

Region	January-December 2023	Region	January-December 2023
Kabardino-Balkar Republic	147.4	Kursk oblast	96.8
Republic of Adygea	132.0	Khabarovsk krai	96.5
St. Petersburg	123.8	Kaluga oblast	96.4
Leningrad oblast	122.9	Perm krai	96.3
Republic of Ingushetia	122.3	Arkhangelsk oblast minus autonomous okrug	95.9
Republic of Mordovia	121.0	Omsk oblast	95.8
Novosibirsk oblast	121.0	Vologda oblast	94.6
Yamal-Nenets autonomous okrug	119.2	Stavropol krai	94.2
Krasnodar krai	117.6	Lipetsk oblast	93.6
Irkutsk oblast	117.1	Moscow	92.9
Tomsk oblast	116.0	Briansk oblast	91.8
Chechen Republic	115.4	Tambov oblast	85.0
Rostov oblast	115.2	Sverdlovsk oblast	84.9

Source: Own calculations based on Rosstat data.

Sales prices

By December 2023 as compared to December 2022, retail prices for food stuffs (excluding public catering) went up by 8.9%, while the prices of goods included in the list of socially important goods rose to a greater extent – by 12.2%. In general, food inflation in 2023, unlike in the previous year, outpaced the general inflation.

Despite the public attention to the price rise for chicken meat and chicken eggs, tropical fruits and grapes were the leader in price growth among commodity groups (+46.5%), which is obviously owing to the weakening of the ruble. The price for chicken eggs grew by 61.3%, for poultry – by 23.9%. The price of vegetables, both those included in the borsch set (+26.1%) and other vegetables, represented mainly by the greenhouse crops (+30.8%), went up significantly. In addition to potatoes, the decrease in prices was observed for sunflower oil (-1.4%), flour (-1.6%), cereals (-2.8%), pasta (-3.8%), which is probably associated with the decline in world prices for vegetable oils and grain. The contribution of individual commodity groups to the growth of retail food prices is shown in Fig. 14.

After a relatively stable period from mid-2022 to mid-2023, from July 2023 the FAO quarterly price anomaly indicator moved into a zone of moderate to high volatility, where it remained for the next 6 months (Fig. 15).

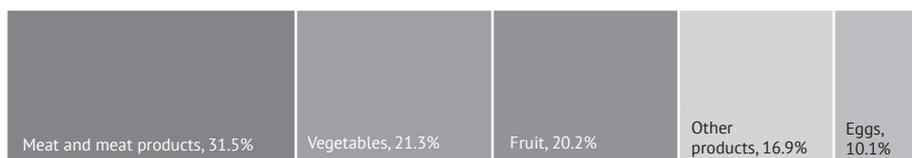
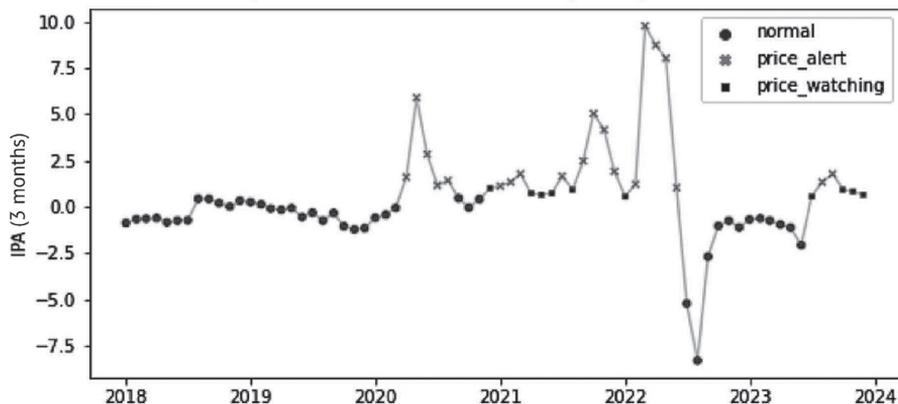


Fig. 14. Contribution of certain commodity groups to the sales price growth on food stuffs adjusted to the consumption structure in 2023, p.p.

Source: Own calculations based on Rosstat data.



Note. Volatility level - difference in the rate of price growth in the observed year and the average for the previous 3 years, related to the standard deviation of growth rates.

Fig. 15. Level of annual volatility of food stuffs in Russia (FAO methodology, price anomaly indicator, units)

Source: Report of the High-Level Panel of Experts on Food Security and Nutrition of the Committee on World Food Security. Rome, 2011. P. 104. URL: <https://www.fao.org/publications/card/en/c/ca7b994d-715a-5f6e-84ee-6879701d75b2/>

3.4.3. Regulation and support policies in agriculture in 2023

In 2022, the Chairman of the RF Government Mikhail Mishustin stated that an unprecedented amount of support to agriculture was allocated in 2022. Indeed, if the federal amount of support was meant, it was only slightly less than the consolidated support (from the federal, regional and municipal budgets) a year earlier (*Table 17*).

Table 17

Consolidated budget expenditure on agriculture, Rb bn

Year	GDP deflator index	Budget expenditure (in real prices) Rb bn	Budget expenditure (in 2012 prices) Rb bn	Chain index deflator of GDP	Share of agriculture in the total budget expenditure, %
2012	1.09	277	277	1	1.2
2013	1.05	361	343	1.05	1.43
2014	1.08	314	277	1.13	1.14
2015	1.07	362	298	1.21	1.22
2016	1.03	332	266	1.25	1.06
2017	1.05	344	262	1.31	1.06
2018	1.10	366	253	1.44	1.07
2019	1.03	435	291	1.49	1.16
2020	1.01	419	279	1.50	0.99
2021	1.19	475	265	1.79	1.01
2022	1.16	423*	204	2.07	0.77***
2023	1.03	471**	221		n/a

* Explanatory Note to the Draft Federal Law "On the Federal Budget for 2024 and for the Planning Period of 2025 and 2026".

** Share of agriculture in the federal budget expenditures.

Source: Own calculations based on Rosstat data.

However, the explanatory note to the draft Federal Law “On the Federal Budget for 2024 and for the planning period of 2025 and 2026” shows that the budget of the three state programs, which received payments from the federal budget, amounted to a record Rb471 bn in 2023. This budget will be supplemented by payments from the budgets of the subjects of the Federation and municipalities (Table 18). The main funding from the federal budget goes through the “State Program of Agricultural Development and Regulation of Markets of Agricultural Products, Raw Materials and Foodstuffs” (about 79% of budget expenditures for these purposes).

Table 18

Main budget expenditures for support of agriculture and rural areas¹

Support directions	Rb bn	%
State program for the development of agriculture and regulation of markets of agricultural products, raw materials and foodstuffs	370 841.20	78.8
State program “Integrated rural development”	65 093.30	13.8
State program “Effective involvement in turnover of agricultural land and development of land reclamation”	35 014.50	7.4
Total	470 949.00	100

Source: Explanatory note to the draft of the Federal Law. Amounts as of September 1, 2023.

In addition to these programs, the federal budget funds the “Federal Scientific and Technical Program of Agricultural Development for 2017–2030”.² The state also supports manufacturers of agricultural machinery by indirectly helping them.

The main funding of the “State Program for the Development of Agriculture and Regulation of Markets of Agricultural Products, Raw Materials and Foodstuffs” is provided by federal projects (more than 90% of the State Program budget), the main of which is “Stimulation of Investment Activity in the Agro-Industrial Complex” (46.5%) (Table 19).

Table 19

Directions of funding under the “State Program of Agricultural Development and Regulation of Markets of Agricultural Products, Raw Materials and Foodstuffs” from the federal budget, 2023

Title	Rb mn	%	Title	Rb mn	%
Total	370 841.20	100			
Federal projects	334 087.60	90.1	Federal project “Development of vegetable and potato growing industries”	4658.2	1.3
Federal project “Stimulation of investment activity in the agro-industrial complex”	172 564.50	46.5	Federal project “Promotion of wine-growing and winemaking development”	3496	0.9
Federal project «Development of branches and technical modernization of the agro-industrial complex»	97 088.20	26.2	Departmental projects	1136.4	0.3

1 Indicators of the consolidated budget statement as of September 1, 2023

2 URL: <https://specagro.ru/fntp>

Title	Rb mn	%	Title	Rb mn	%
Federal project "Export of agro-industrial products"	48 377.80	13.0	Federal project "Creating the context for independence and competitiveness of the domestic agro-industrial complex"	1040.4	0.3
Complexes of process measures	35 617.20	9.6	Departmental project "Strengthening of material and technical base of the Federal Service for veterinary and phytosanitary supervision"	902.6	0.2
Complex of process measures "Supporting the activities of the Ministry of Agriculture of the Russian Federation and subordinate organizations"	20 260.20	5.5	Federal project "Rural tourism development"	500	0.1
Complex of process measures "Organization of veterinary and phytosanitary supervision"	15 357.00	4.1	Departmental project "Digital agriculture"	233.8	0.1
Federal project "Acceleration of small and medium-sized businesses"	6 362.60	1.7	Federal project "Promoting demand for domestic unmanned aerial systems"	0	0.0

Source: Explanatory note to the draft deferral law.

The State Program "Integrated Development of Rural Areas" continued to support activities under the federal project "Development of Transportation Infrastructure in Rural Areas, Development of Housing Construction and Improvement of Rural Areas, Promotion of Agricultural Employment". This State Program is complementary, as the main funds for the development of rural areas are allocated under the relevant programs for the development of education, health care, road construction and other programs aimed at the development of the entire territory of Russia.

In December 2023, the Russian Government allocated more than Rb7.9 bn from the Reserve Fund to reimburse part of the costs of agricultural producers for the creation and modernization of agro-industrial complex facilities. These funds will help implement more than 100 investment projects in the country.

Investments in the authorized capital of agricultural organizations continued to decrease in 2023, but the rate of reduction has contracted (*Fig. 16*).

In 2023, measures were taken to regulate markets to meet domestic demand.

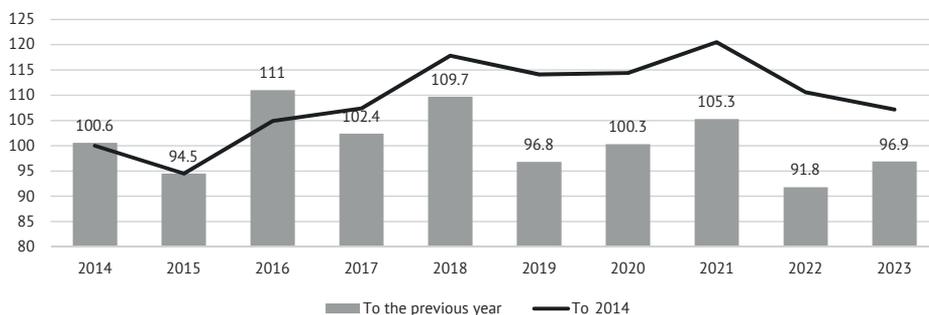


Fig. 16. Investment volume index in fixed capital of agricultural sector, %

Source: Own calculations based on Rosstat data.

Regulation of the grain market

In H1 2023, tensions on the grain market were linked to grain exports under the Black Sea Grain Initiative – grain deal. In mid-July, Russia’s refusal to participate in the deal exacerbated risks with regard to both Ukrainian grain, which was supplied through this corridor, and Russian grain. The latter was caused by the fear of aggravation of the situation in the Azov-Black Sea basin when exporting Russian grain, which threatened a new price crisis, although by that time grain prices had been falling for 14 months in a row from the peaks reached in May 2022.

Despite a number of “apocalyptic” forecasts, the market’s reaction to these events was quite restrained. Probably, its participants were optimistic about both the prospects of the deal’s resumption and the possibility of exporting Ukrainian grain via alternative routes. In addition, the market’s restrained reaction was largely due to fundamental indicators – high predicted volumes of global wheat production in the current season and corresponding international trade flows.

For example, according to the International Grains Council (IGC), despite wheat production in the 2023/2024 crop year declining 2.1% from the previous crop year, this year’s crop of 784 million tons is the second largest in history and will exceed the previous 5-year average. World trade volumes are also expected to grow 4.6% to the 5-year average. In other words, the threat of famine due to physical grain shortages is not supported by current statistics and forecasts.

World grain prices, having briefly reacted sharply to the news background about the deal breakdown, quickly returned to a fairly stable level. According to FAO, average cereal prices in July were 0.5% below the June level and 14.5% below a year ago. Wheat prices rose by 1.6% in July (for the first time in the previous 9 months), mainly due to uncertainty about export supplies from Ukraine. However, such growth is probably explained by short-term fluctuations. The dynamics of the wheat price sub-index of the International Grains Council’s (IGC) Grain and Oilseeds Price Index shows that as of mid-August, world wheat prices were at their lowest level for the last year, lower than before the termination of the grain deal, and the peak values of growth associated with the termination of the grain deal (+7.4% from the level of the last days of its operation) were observed at the end of July.

For Russian grain producers such fluctuations are not something extraordinary. Two other events were more important: the change in the base price for calculating the export duty and the depreciation of the ruble. The floating export duty was introduced in June 2021, and the mechanism of its calculation implies charging and payment of duty in the amount of 70% of the excess of the indicative price, which shows the current level of export prices over the base price, which reflects some “normal” price level. In 2022, the base price became determined in rubles instead of dollars. In June 2023, an increase in the base price from Rb15,000 to Rb17,000 from June 2023 is estimated to increase selling prices by 14%. A rise in the exchange rate from 80 to 100 rubles/dollar at the same time added 13% to the domestic price, taking into account the damping effect of the duty. For consumers in Russia who buy food products, in the production of which wheat and other grains are used to a greater or lesser extent, the impact of fluctuations

in world prices is even less than for producers. In addition to the damping effect of the duty, the relatively small contribution of the cost of grain to the sales price of the final product plays a significant role. The supply of grain to the Russian domestic market is not a cause for concern. Against the backdrop of a record 2022 season, the 2023 harvest is still well above the multiyear average. High yields and carryover grain residues from the previous season create a significant export potential.

In addition to the duty, Russia also applied a tariff export quota of 25.5 million tons in 2023. The quota mechanism has been in effect in Russia since 2020. For 2024, the Ministry of Agriculture and the Ministry of Economic Development of Russia proposed to establish a tariff quota of 24 million tons for the export of major grains. The size of quotas does not hinder exports, which confirms the correctness of their calculation based on the harvest and domestic needs. Moreover, the logic of export quota use over the last few years has been based on the absence of its impact on domestic prices in the context of absence of external shocks. In previous years, the regulator confirmed its readiness to increase the quota if the grain stocks by the end of the season are higher than forecast, taking into account the full satisfaction of domestic needs.

A new regulatory tool for the market was the introduction of a temporary ban on export of durum wheat (from December 2023) against the background of rising domestic and world durum wheat prices. The increase in durum wheat prices may logically lead to an increase in the price of durum wheat products, such as pasta, which in the current context will be paid by the consumer. Prices for pasta products made of top-grade flour are now lower than a year ago, so the increase in their production costs, associated with the rise in wheat prices, can be directly transferred to the prices on the shelf of the store.

Russia produces enough durum wheat to meet its own needs and for the usually small exports. Last year was a combination of unfavorable factors: a decline in the quality of Russian grain due to unfavorable weather conditions in the context of a widening gap between soft and durum wheat prices on the world market. This, on the one hand, reduced supply for domestic consumers and, on the other hand, stimulated exports. Small production volumes of durum wheat relative to soft wheat are associated with higher growing costs and the risk of not obtaining the required quality crop, which is often not compensated by higher prices.

The production and export of durum wheat accounts for a very small part of the Russian wheat market. For producers who diversify their grain production, the impact of the restrictions is likely to be negligible. In addition, durum wheat prices at the end of 2023 are at an abnormally high level relative to other grains, and an export ban is more likely to bring them back to some normal level.

Regulation of the chicken meat and egg market

According to the November report on measuring inflation expectations and consumer sentiment based on the Central Bank's surveys of the population, 54% of respondents named chicken meat and 34% egg among the goods whose prices

increased very much over the last month, which is the highest value among all commodity items included in the survey. In addition, the 2023 maximum was recorded regarding the share of respondents (53%) who believe that the prices for food products, non-food products and services have increased very much over the last month. Taking into account the noticeable increase in retail prices for meat of domestic chickens and eggs in autumn 2023, the regulator made attempts both to limit their export, which was not realized ultimately and to take measures to increase their supply on the market.

The data presented above show that current production volumes of chicken meat and eggs are insufficient to saturate the market while maintaining the same price level. In addition to measures to stimulate output, measures to stimulate imports were proposed at the end of 2023, such as duty-free import quotas. The quota for chicken meat in the volume of up to 160 thousand tons is comparable to the total volume of imports in previous years. If we take into account that the bulk of these supplies were duty-free imports from EAEU countries, mainly Belarus, imports from other countries, exempted from duty within the quota, could triple, and the total increase in imports could exceed 50%. Despite the fact that the share of imports in the balance of production and consumption is small (it does not exceed 5%) and import prices are not able to have a strong impact on domestic prices in general, additional volumes of products may be enough to stabilize the market - to compensate for the difference between the increasing volumes of consumption and domestic production.

An alternative to reducing import duties on chicken meat is to restrict its export. However, there are risks for export development in the long term: despite the current price crisis, the meat market in Russia is saturated, its consumption exceeds the rational norm. Export is the logical direction for the development of meat production; relations with foreign partners in the highly competitive global market have been built over the years, and the consequences of their suspension or rupture should be taken into account when making decisions.

In turn, the use of an operational measure to counter the rise in egg prices – a duty-free import quota of 1.2 billion eggs in H1 2024 - could provide an additional incentive to stabilize prices. However, this measure is unlikely to have a decisive effect on both consumers and producers. This is due, firstly, to the limited global trade in this product (the volume of the entire world market is comparable in value to Russian production, and more than half of the world trade is with the EU countries); secondly, to the historically low prices for eggs on the domestic market relative to the world market, in contrast to the same chicken meat. Russian egg is a highly competitive product. Thirdly, this measure may be detrimental to the producer, since its effect will come during the period of production recovery and lower demand after the mass purchases of eggs by the households.

When planning measures aimed at reducing the current high prices for chicken meat and eggs and preventing such crises in the future, the following characteristics and peculiarities of this market should be taken into account. The domestic meat market in Russia is saturated: while the Ministry of Health recommends a consumption rate of 74 kg per person per year, the actual 2022

consumption exceeded 94 kg. The consumption of eggs does not reach the recommended norm (240 pcs. vs. 260 pcs.), but this is largely due not to economic factors, but – taking into account the price of this product – to the peculiarities of the consumer model. Production oriented only to fully satisfy the needs of such a market may be unsustainable. It is not advisable to increase capacity only to compensate for production temporarily idle due to avian influenza – excess capacity after normalization of the epizootic situation will reduce the efficiency of competitive industries.

Regulation of the wine market

From August 1 to the end of 2023, import duties on wines from unfriendly countries were raised from 12.5 to 20%, but not less than \$1.5 per 1 liter. At the end of 2023, the Russian Ministry of Agriculture advocated the extension of this measure for 2024. In H1 2023, the growth of wine imports, according to expert estimates, amounted to more than 40%, while a year earlier it already increased by 10% (Federal Customs Service). Such an increase in imports, of course, inspires fears of domestic wine producers, who are afraid of losing shelf space, but also alarms informed consumers, who fear a reversal of trade policy towards greater restriction of foreign supplies and the associated price rise.

The increase in imports in the first months of 2023 compared to the same period of 2022 is obviously due to the low base effect – the failure of supplies in the first half of last year, caused by the reconfiguration of logistics after February 2022. In terms of the year, the increase in 2022 indicators compared to 2021 can be explained by the favorable ruble exchange rate for importers and the desire to create stocks against the background of uncertain trade prospects with European countries, the main suppliers of imported wine to the Russian market. The influence of these factors has already been largely exhausted: the next statistics for 2023 will be compared to the high base of H2 2022, and the weakening of the ruble will reduce the price attractiveness of imports. Despite this explanation, the long-standing proposals to tighten imports testify to the real problem of price loss of Russian wine, which is proposed to be resolved through changes in trade policy and consumers.

Among the proposals aimed at strengthening the position of Russian wine, there are measures aimed at regulating both foreign and domestic trade. The former traditionally include an increase in import customs duty, while the latter include the establishment of a minimum price for imported wine. The measures of foreign trade regulation should also include proposals to abolish zero duty on imports of wine from Georgia, which takes about 10% of the physical volume of the Russian market of still wines. The most extreme proposals include a complete ban on imports from certain countries.

The proposal to establish minimum retail prices for imported wine looks the least traumatic for the market. It allows increasing the objectively low level of competitiveness of domestic wine in the lower segment, where the price is determined by the cost of growing and processing large volumes of grapes, development of effective practices of management and support of the industry. But

in practice this proposal is hardly feasible, as it will not allow to achieve the goals of the competing parties. Winemakers will get access to the low-margin segment of the market, which will not allow them to significantly increase their income, while competition in the middle and upper segments will remain at the existing price ratio. On the contrary, importers, including large retailers, will lose a significant share of revenue with high turnover, which generates a significant part of income.

The increase in import duties will reduce the role of price in the competition between Russian and imported wines. In a situation when the import price is determined by their consumer qualities (which stimulates the supply of many types of wine from different wine-producing countries and regions), and Russian wine – by the costs and appetites of the winemaker, the choice in favor of the domestic product is not always obvious. The growth of the duty will lower the bar for comparing the quality of domestic and imported wines of the same price category. At the same time, of course, we cannot talk about the complete ousting of imports from the Russian market – domestic winemaking even under extremely favorable conditions will be unable to double production volumes in a short period of time. On the contrary, in the context of the current weakening of the ruble, we can consider the risks of reducing the volume of consumption of quality wine due to a decrease in imports, which will not be able to compensate for domestic production.

* * *

The existing system of statistical observation does not keep up with the changing forms of providing agricultural (and not only) organizations with labor resources. If it were clear how many foreign labor migrants work in agricultural organizations that use such “advanced forms” as outsourcing and outstaffing, it would be possible to assess the risk of outflow of these labor resources when the ruble depreciates.

The shortage of personnel in agriculture has reasons that can only partially be resolved by increasing the attractiveness of rural life, student contracts, agrarian classes, linking budget students to rural employment, rural mortgages, which is now widely discussed. It is obvious that there are no internal resources at the current level and distribution of productive forces in agriculture to reduce the deficit of labor resources to such an extent. If the current trends persist, the deficit of resources in Russian agriculture will only increase, which will negatively affect the production of agricultural products and their diversity.

Increasing labor productivity remains the main direction in reducing the deficit of labor resources in the long term. Accordingly, all measures that limit the use of global scientific and technological achievements in agriculture should not be applied.

In order to produce cheap products at already established large complexes, for seasonal and labor-intensive work in crop production, cheap foreign labor is needed, which will come if the ruble exchange rate rises. It is possible to offset the decrease in material interest due to the weakening of the ruble by reducing the transaction costs of foreign labor migrants to find work, providing acceptable conditions, including living conditions, and protection from harassment. This

problem exists in other sectors of the economy as well, but it is more acute in agriculture due to the low level of wages. To overcome this problem, efforts of many agencies are needed: a coordinated procedure of the Ministry of Agriculture of Russia, the Ministry of Internal Affairs of the Russian Federation, and the Ministry of Foreign Affairs of the Russian Federation. Perhaps reasonable measures can be targeted recruitment in place of residence, registration of stay in the Russian Federation, which will be undertaken by the receiving party, development of requirements for dormitories for migrant workers, guarantees of protection in case of violation of obligations on payment and work conditions, etc. Increasing such attractiveness can mitigate the negative consequences of the ruble depreciation.

Targeted recruitment in Russian labor-surplus regions might be useful for attracting seasonal Russian workers. But here, competitive wages, decent living conditions, subsidies, and social guarantees are more important.

In the future, in order to prevent the placement of large livestock breeding facilities out of context with rural settlement, it is advisable to promote only those projects that are oriented to local labor markets within the framework of state support.

In order to smooth out the seasonality of earnings in crop production organizations and in the territories where agricultural organizations are engaged mainly in crop production, it is advisable to provide state support to small businesses to organize all-season production, to create incentives to stay in rural areas with agricultural production.

In order to improve the quality of labor resources in rural areas and small towns, it is advisable to consider a reform of secondary vocational education, which would involve the creation of a network of modern colleges with a wide range of professions (not only agricultural), close to high-density rural areas, with scholarships for students who wish to work in rural areas. Obviously, innovative programs, scholarships for guest teachers to transfer experience to local staff, modern campuses and equipment will be needed. There are such colleges now, but they are few. Rural residents have lower incomes than urban residents, and it is very problematic for rural families to send their children far from home for education. Ideally, it is necessary to have training centers with a different set of professions in each district center.

In view of ensuring a high degree of food security in Russia, it is advisable to discuss a paradigm shift in the development of industries: refusal to support exports of relatively cheap products, which is ensured by cheap labor; raising wages in agriculture through the establishment of a minimum hourly wage. The increase in the cost of agricultural products insignificantly affects the price of many food products (for example, a 50% increase in the cost of grain increases the price of bread by 7%). If wages increase, it will stimulate the use of technologies with high labor productivity, which will lead to a decrease in the price of a unit of agricultural products. Within the framework of the topic under consideration, it is possible to discuss the issue of shifting to more marginal products to support exports. For example, it is possible to analyze the U.S.

policy of partial reorientation from cheap wheat to more marginal soybeans and soy products.

In 2023, the Russian grain market avoided any major shocks. By the end of the year, expectations of a significant increase in world grain prices and the need to restrain grain sales did not materialize. The regulator's consistent approach to determining the size of the export quota for grain, which does not limit exports in the normal market context, has had a positive impact on the market for several years in a row. Grain producers were supported by such a measure as an increase in the base price used in calculating the floating export duty, while the duty itself, in the context of a cooling world grain market and rising prices for resources, is more fiscal than regulatory in nature.

The situation in the poultry sector in 2023 has shown the constraints of the current production model to sustainably meet domestic needs. Its further development is possible on the basis of the following approaches. Firstly, it is possible to meet part of domestic needs through imports, which can compensate for fluctuations in domestic output. The disadvantages of this approach are partial loss of control over prices - their dynamics will be determined by the world market and exchange rate - and, which is the main thing for today, leveling of efforts of the last decades to create their own production base. Time-limited measures to stimulate imports to compensate for the unsystematic decline in domestic production are quite justified (for example, a duty-free import quota), but regular imports into a saturated market will lead to a halt in the activities of some domestic producers, who rarely in any years are competitive with the world's leading agricultural producers. Secondly, the stability of supplies to the domestic market can be ensured by expanding exports. Then inevitably occurring fluctuations in production will be transferred not to the domestic market, strongly changing prices, but to the external market, the volume of which allows to more effectively dampen price fluctuations.

Steps are being taken: meat exports have increased by a wide margin over the past decade. However, it is important that the current measures to expand production, which are being proposed against a backdrop of rising prices, are linked to increased export plans. Such export-oriented production growth can be achieved by expanding concessional short-term and investment lending, leasing, and compensation for the cost of insuring poultry losses. However, it is important that the current measures to expand production, which are proposed against the background of rising prices, be linked to an increase in export plans. Such export-oriented production growth can be ensured through the expansion of preferential short-term and investment lending, leasing, and compensation for the cost of insuring losses from poultry losses.

The wine market, which is less important for the consumer, but indicative from the point of view of its development dynamics, is following a similar path: import restriction with the orientation of the manufactured products mainly to the foreign market. A window of opportunity is opening for Russian producers, but it is very narrow and short in time. The actions of Russian winemakers should be aimed not at strengthening their positions on the market, which is falling under

the influence of duties, but at expanding the market and securing the growth of consumption in physical and monetary terms. Otherwise, the simultaneous reduction of competition and price growth will undermine consumer confidence, transform the market of opening new wineries and wine bars, wine tourism routes into a market of price competition of products of dubious content and origin.

3.5. Small and medium-sized enterprises in Russia in the context of sanctions¹

The 2022 sanctions crisis has led to a number of structural changes in the Russian economy: the severance of long-standing partnerships with companies from unfriendly countries;² destruction of supply chains; restriction of imports of materials, components and technologies, some of which have no analogues in friendly countries; complication of financial transactions, etc.³ However, already in 2023, the Russian economy demonstrated positive dynamics (growth of household incomes and investment), which contributed to the improvement of the situation in the SME sector, as the demand for their goods and services, particularly in the hospitality, trade and entertainment sectors, was growing.

The effect of sanctions on Russian firms, including SMEs,⁴ depends on the degree of their inclusion in global production chains and world trade, as well as on the technologies they use. Unlike previous crises, the most negative impact of the sanctions crisis was felt by more competitive, technologically advanced companies. At the same time, the increase in domestic demand, parallel imports and the clearing of a number of market niches after the withdrawal of foreign companies from the Russian market created prerequisites for the development of mass service businesses, while the government, using various instruments, stimulated the growth of the manufacturing sector and information technology in SMEs.

Sanctions pressure and increased uncertainty led to a sharp deterioration in business sentiment⁵ and a drop in business activity.⁶ However, business was able to quickly adapt to the new conditions, and by Q2 2023, the share of pessimistic entrepreneurs significantly decreased, and the level of business activity grew.

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2 RF Government Decree of 05.03.2022 No. 430-p // SPS KonsultantPlus. 2022. URL: https://www.consultant.ru/document/cons_doc_LAW_411064/e8730c96430f0f246299a0cb7e5b27193f98f-daa/

3 Russian Economy in 2022. Trends and Prospects. Issue 44. Moscow, Gaidar Institute Press, 2023.

4 *Barinova V.A.*, *Zemtsov S.P.*, *Tsareva Yu.V.* In Search of Entrepreneurship in Russia. Part I. What prevents small and medium-sized businesses from developing. Moscow. "Delo" Publishing House. RANEPA, 2023.

5 Longitudinal study by FOM and the National Research University Higher School of Economics. URL: <https://smbiz.fom.ru/longitude?ysclid=lnsc3e9r8q992583783>

6 RSBI Index. URL: <https://www.psbank.ru/Business/RSBI>

Among the negative consequences of sanctions, small and medium-sized companies of the manufacturing industry most often point out:¹ rising prices for raw materials, supplies and components in the domestic market; problems with import of raw materials, supplies and components; problems with logistics; problems with imports of equipment, its maintenance and repair; reduced demand from Russian consumers; increased risks associated with exchange rate fluctuations. Small and medium-sized companies perceive issues related to technology import, logistics, breakdown of relations with foreign partners, difficulties in financial transactions, reduction of foreign demand less acutely than large companies.

3.5.1. Dynamic of the number of enterprises in SME sector

At the end of 2023, the Unified Register of SMEs² included 6.3 million companies, which is 5.7% higher than the number as of December 2022 (excluding new territories, the increase amounted to 2.16%) and 6.5% higher than the value as of December 2019 (Fig. 17). The number of micro-enterprises grew the most, by 5.9% (excluding new territories, the increase was 4.1%) and 6.5% compared to 2019 (excluding new territories, the increase was 4.9%), but the number of small companies increased by only 0.9% compared to 2022 and decreased by 4.5% compared to 2019.³ The reason for the decrease in the number of small companies can be attributed to the uncertain economic situation, the departure of some entrepreneurs to foreign countries (in particular, a sharp increase in the number of registered firms is observed in Kazakhstan, Georgia, Armenia, and Turkey).⁴ The growth in the number of micro-enterprises is associated with an increase in the number of individual entrepreneurs (IEs), which are often opened instead of legal entities (LEs) to reduce the tax burden, and with an increase in the number of new businesses as some market niches are being freed up after the departure of foreign companies. The number of newly established SMEs increased compared to 2022, but slightly below the pre-pandemic level. The number of medium-sized companies increased as

- 1 Simachev Yu.V., Yakovlev A.A. Adaptation of Russian industrial companies to sanctions: first steps and expectations. Presentation at XXIV Yasin (April) international scientific conference on issues of economic development and society. Moscow, 2023.
- 2 Unified register of small and medium-sized enterprises of the Federal Tax Service of the Russian Federation. URL: <https://ofd.nalog.ru/>
- 3 The criteria for classifying enterprises as small and medium-sized enterprises are set forth in the Federal Law of 24.07.2007 No. 209-FZ (ed. 12.12.2023) "On the Development of Small and Medium-Sized Enterprises in the Russian Federation" and contain the criterion of the average number of employees (up to 15 people – microenterprise, up to 100 people – small enterprise, up to 250 people – medium-sized enterprise, except for certain industries), the criterion of income from entrepreneurial activity for the previous calendar year (microenterprises – up to Rb120 mn, small enterprises – up to Rb800 mn, medium-sized companies – up to Rb2 bn), independence of origin criterion (the share of state or public companies in the authorized capital does not exceed 25%, the share of foreign companies in the authorized capital does not exceed 49%).
- 4 Russians started 3 times more businesses in Georgia after the start of the SMO than in the 27 previous years. URL: <https://www.kommersant.ru/doc/6123828>; <https://www.rbc.ru/rbcfreenews/64eb67199a79473860622da2>; Russians have become the leaders among foreigners in starting companies in Turkey in 2022, followed by Iranians and Germans. URL: <https://vc.ru/migrate/588996-rossiyane-stali-liderami-sredi-inostrancev-po-otkrytiyu-kompaniy-v-turcii-v-2022-godu-dalee-sleduyut-irancy-i-nemcy>

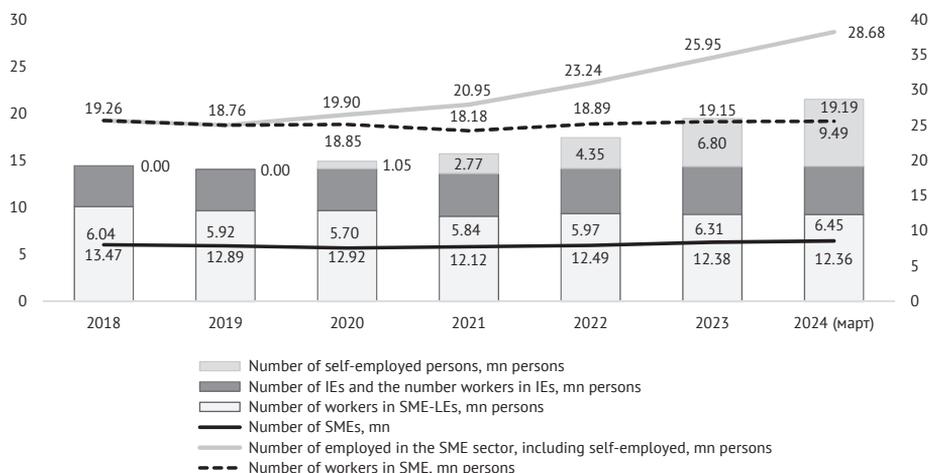


Fig. 17. Dynamics of the main indicators of the SME sector in Russia in 2018–2024

Source: Unified register of the subjects of small and medium-sized enterprises. URL: <https://ofd.nalog.ru/>

a result of the transition of enterprises from the category of large companies due to lower performance indicators, as well as for tax and other preferences.

The ratio of legal entities to individual entrepreneurs in the SME structure changes towards the latter, as the number of individual entrepreneurs in 2023 increased by 9.9% compared to 2022 and by 18.7% compared to 2019, while the number of legal entities decreased by 0.95% and 9.9%, respectively. The reduction in the number of legal entities may further reduce opportunities for scaling businesses, as individual entrepreneurs are most often not focused on increasing business volumes.

The highest growth in the number of SMEs in 2023 compared to 2019 was observed in Kalmykia (94.4%), Chechnya (50.8%), Dagestan (36.7%), Tyva (26.5%), and Ingushetia (24.2%), where the low base is combined with the new opportunities for parallel imports through neighboring countries, as well as in the Leningrad (23.5%) and Moscow (22.6%) oblasts, where online trade is actively developing thanks to the proximity to major agglomerations. The largest decrease in the number of SMEs was recorded in the regions bordering with unfriendly countries: Pskov (-10.2%) and Bryansk (-7.9%) Oblasts, as well as in the regions affected by the severance of ties with the European Union and the departure of foreign investors:¹ Vologda (-9.9%), Arkhangelsk (-9.7%) oblasts, Komi (-9.5%), the Astrakhan oblast (-8.4%).

3.5.2. Employment dynamic in the SME sector

In 2023, the average number of employees in SMEs (excluding the self-employed who are not SMEs) is 1.37% higher than in 2022 and 2.07% higher

1 Zemtsov S.P., Barinova V.A., Mikhailov A.A. Sanctions, withdrawal of foreign companies and business activity in Russia's regions // Economic Policy. 2023. Vol. 18. No 2. P. 44–79.

than in 2019. At the same time, while the indicator for individual entrepreneurs increased by 5.9% and 15.3% respectively, for legal entities it decreased by 0.94% and 3.98%. The decline in employment of legal entities is due to the general shortage of staff in the economy, as well as the desire of businesses to save on payments to social funds, for which some employees may be transferred to the category of self-employed. Of the current employees of legal entities at the end of 2023,¹ around 425,000 (i.e. 2.8%) were simultaneously self-employed and about 5% were individual entrepreneurs, while among those employed by individual entrepreneurs the respective categories amounted to 2.12% and 2.38%. There is a slight overlap between the categories and, accordingly, double counting is observed.

The number of self-employed individuals who have registered their status and apply the special tax regime “self-employment tax” continues to grow steadily. According to the year-end of 2023, the indicator went up by 39% to 9.3 mn. The income of the self-employed over the past year rose by 48% and amounted to Rb1.4 trillion.² It is the sharp growth in the number of self-employed that explains the overall growth of employment in the SME sector, recorded by the Ministry of Economic Development of Russia within the framework of reporting on the national project “Small and medium-sized entrepreneurship and support for individual entrepreneurial initiative”. At the same time, the main areas of activity of the self-employed are: repair and construction (672,100 people, or 7.2% of the total number of self-employment tax payers); information technology and services (662,700 people, 7.1%); motor transport and repair: drivers, auto mechanics, etc. (556,400 people, 6%); beauty salons (345,900 people, 3.71%); home services (202,500 people, 2.2%); training (194,900 people, 2.1%);³ real estate renting (178,900 people, about 2%) (*Table 20*).

Table 20

Self-employed sphere of activity determined by FTS RF in 2023

Sphere of activity	Number of self-employed, persons	Share in the total number of self-employed, %
Repairs	672 094	7.2
Auto	556 452	5.96
IT-sphere	417 281	4.47
Beauty	345 931	3.71
Information services	253 036	2.71
Other	224 315	2.4
Home/Дом	202 593	2.17
Do it yourself	201 148	2.15
Training	194 946	2.09
Trade	194 695	2.09

1 Statistics for the national project “Small and medium-sized entrepreneurship and support for individual entrepreneurial initiative”. URL: <https://ofd.nalog.ru/statistics2.html#>

2 FTS RF. URL: https://www.nalog.gov.ru/rn77/news/activities_fts/12449545/

3 FCS RF. Presentation analysis. URL: <https://geochecki-vpd.nalog.gov.ru/self-employment>

Sphere of activity	Number of self-employed, persons	Share in the total number of self-employed, %
Finances	191171	2.05
Lease	178 717	1.91
Photo, video, print	160 438	1.72
Clothes	114 572	1.23
Health	105 596	1.13
Catering	95 199	1.02
Entertainment	94 586	1.01
Lawyers	90 124	0.97
Nature	58 017	0.62
Sport	46 527	0.5
Animals	46 289	0.5
Other	4 890 973	52.4

Source: FTS RF. Presentation analysis. URL: <https://geochecki-vpd.nalog.gov.ru/self-employment>.

ITS With the withdrawal of foreign brands, more and more Russians would like to open their own business or register the status of self-employed.¹ Over the past 15 years, the share of entrepreneurs among Russians has doubled from 4% to 8%;² 9 out of 10 respondents (92%) declare a positive attitude towards them, and in the group of young people aged 18–24 – 99%, which generally indicates a positive perception of entrepreneurship and the potential for increasing the number of entrepreneurs in Russia.

3.5.3. Turnover of the SME sector companies

ITS Almost throughout 2023, the “sales” component of the SME business activity index RSBI is in the decline zone (value below 50 p.), which reflects the pessimistic mood of entrepreneurs. About 27% of SMEs participating in the survey expect a reduction in revenue in future periods, 23% are more optimistic and forecast turnover growth. In October last year, 30% of SMEs recorded a decrease in revenue, while 20% saw an increase. Entrepreneurs fear a decline in demand³ given the uncertain economic situation and the high key rate of the Bank of Russia. The creditworthiness of the population is growing, which together with high interest rates on consumer and mortgage loans limits the possibility of expanding demand for SME products and services.

According to the Ministry of Economic Development,⁴ in 2023 the total proceeds of SMEs increased by more than 13% compared to 2022 and amounted

1 53% of Russians said they were ready to engage in private entrepreneurship (responses: definitely yes – 23%, rather yes – 30%). URL: https://www.vedomosti.ru/press_releases/2023/09/21/bank-otkритie-53-rossiyan-hoteli-bi-zanyatsya-chastnim-biznesom

2 VCIOM. URL: <https://wciom.ru/analytical-reviews/analiticheskii-obzor/predprinimatelstvo-v-rossii-monitoring>

3 RSBI Pillar Index. Business activity of small and medium-sized businesses. URL: <https://www.psbank.ru/Business/RSBI>

4 Expert. URL: <https://expert.ru/news/zamglavy-mer-vyruchka-msp-rf-za-pyat-let-vyrosla/>

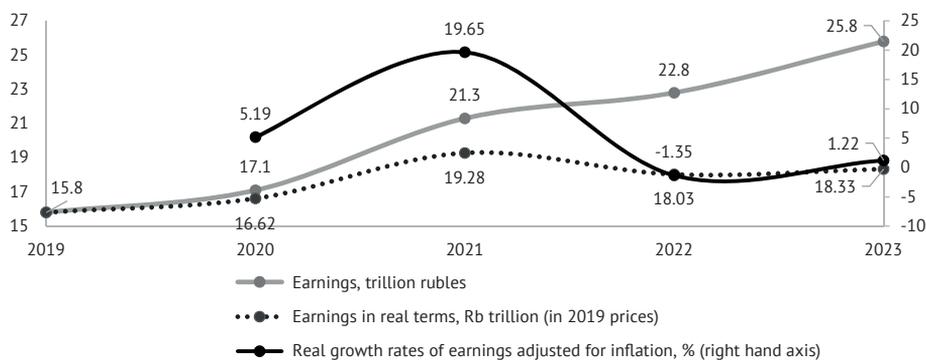


Fig. 18. Dynamics of SME revenue in Russia (adjusted for inflation) in 2019–2023

Source: Ministry of Economic Development of Russia.

to Rb25.8 trillion (Fig. 18). In real terms,¹ the revenues grew by 1.22% (Rb18.33 trillion) in 2023 and are 16% above the 2019 value.

According to Rosstat data, in 2023 the aggregate turnover² of small enterprises (excluding microenterprises), without adjustment for inflation, increased by 15.2% compared to 2022 and by 23.5% against 2019. A reduction in aggregate turnover was observed only among small companies engaged in financial and insurance activities (29.4% compared to 2022). The greatest growth in turnover was observed among companies operating in the following segments: education (41.8% compared to 2022), mining (34.1%), cultural, sports, leisure and entertainment activities (32.6%), information and communication activities (25.3%), and manufacturing (23.9%). The turnover of enterprises engaged in trade, repair of motor vehicles increased by 11.8%. As a result of the population's income growth amid restrictions on travel abroad, the consumption of various kinds of tourist and entertainment services has increased markedly. Information activities, which are substantially supported by the state, are increasing along with the digital economy. Manufacturing enterprises are growing against the background of increasing domestic demand and import substitution programs. One of the fastest growing sub-sectors was professional scientific and technical activity, which grew 2.1 times in 2023 due to the need to develop new goods, services, search for new markets and other related activities within the framework of import substitution.

The decrease in the turnover of small enterprises was observed in the regions affected by the withdrawal of foreign investors: in the Arkhangelsk Oblast (-8.0%), the Nenets Autonomous District (-3.5%), the Pskov Oblast (-0.67%). The highest growth was recorded in the eastern-oriented Amur Oblast (56.3%), the Republic of Tyva (44.9%), the Kemerovo Oblast (41.9%), as well as in the Udmurt Republic (36.3%) and the Lipetsk Oblast (34.8%).

1 The adjustment was made for the cost of a fixed set of goods and services.

2 VAT, excise taxes and similar mandatory payments are not taken into account.

According to the SME Corporation,¹ in 2023, 8,000 self-employed persons provided goods and services worth Rb7.2 bn to large state companies under Federal Law No. 223-FZ, which is more than 2 times higher than in 2022. The largest share in government procurement was occupied by financial services and insurance (18.3%), advertising and market research services (13.8%), creative, art and entertainment services (7.8%), scientific and technical services (7.1%). The increase in the number of self-employed among suppliers of large state-owned companies is facilitated by the extension of a special 25% quota for purchases from SMEs.

3.5.4. SME's exports

SMEs have become more active in entering foreign markets. According to data from the Russian Export Center, the number of small and medium-sized companies exporting their products abroad in 2023 increased to 83,000 from 61,000 in 2022 and from 53,000 in 2021. Over the period from 2020 to 2023, the figure increased by 60%.² The growth in the number of exporting companies is due both to the Russian government's actions to improve border crossing infrastructure and reduce the administrative burden on foreign trade, and to the opportunities offered by digital trading platforms such as Russia's Ozon or China's Alibaba.

According to the data of the cloud service "My Warehouse",³ in 2023, the turnover of SMEs engaged in foreign trade activities increased by 23% compared to 2022. This may be directly related to the authorization of parallel import mechanism.

According to the results of a survey of entrepreneurs conducted by NAFI and PSB⁴, the share of SMEs supplying goods, services and components to China has doubled in 2023 versus 2020 (up to 21% from 10%). Other key export destinations for SMEs are Belarus (share increased from 33% to 36%), Kazakhstan (share decreased from 43% to 41%), Armenia (share decreased from 13% to 10%).

3.5.5. Lending to SMEs

The Bank of Russia estimates⁵ that the SME lending market recovered faster during the sanctions crisis than during the pandemic period. By the end of 2023, the loan portfolio of SMEs grew by more than 28% against 2022. The main driver of SME lending is government support programs, including concessional lending.

1 SME Corporation. URL: https://corpmsp.ru/pres_slujba/news/v_2023_godu_samozanyatyepredostavili_goskompaniyam_tovary_i_uslugi_na_rekordnye_7_mlrd_rubley

2 Expert. URL: <https://expert.ru/news/rets-sredi-msp-na-60-vyroslo-chislo-eksporterov/>

3 Vedomosti. URL: <https://www.vedomosti.ru/kapital/trends/articles/2024/02/28/1022487-biznesshturmuet-ved>

4 Supply to the East: one in five SMEs started selling to China // Vedomosti. URL: <https://iz.ru/1536047/mariia-stroiteleva/postavka-na-vostok-kazhdoe-piatoe-msp-stalo-prodavat-tovaryv-kitai>.

5 Analytical review of the SME // Bank of Russia. 2023. URL: https://www.cbr.ru/Collection/Collection/File/45145/inf_material_msp_2022.pdf

About 100,000 SMEs attracted more than Rb1.5 trillion in preferential loans under the Small and Medium Entrepreneurship project.¹

In 2023, SMEs were granted loans worth Rb15.9 trillion, which is 39% more than in 2022. In the structure of the volume of loans granted in 2023, the largest share of loans was to companies and individual entrepreneurs engaged in the following types of activities: wholesale and retail trade – 29.4%, construction – 15.6%, professional, scientific and technical activities – 12.8%.² The trade sector increased its scale of activity due to parallel import mechanism and expansion of online trade, construction grew on the background of record rates of housing commissioning, and scientific and technical activities were in demand in the context of the need for accelerated import substitution.

* * *

Despite the shocks induced by the aftermath of the pandemic crisis and large-scale sanctions restrictions, the SME sector continues to demonstrate stability of key indicators stemming from the emergence of new market niches and economic restructuring with continued consumer demand. The total number of SMEs and employment in the SME sector (including the self-employed) grew; total revenues of SMEs increased in 2023 (after a slight decline in 2022); and export activity expanded to friendly and neutral countries. But there are some contradictory trends. Thus, the number of SMEs is growing mainly at the expense of individual entrepreneurs; the number of self-employed is growing against the background of a reduction in employment in SMEs – legal entities; accordingly, the average size of the enterprise is shrinking, and this may have a negative impact on productivity and prospects for scaling up the business.

Entrepreneurs recovered from the shock, and a number of companies were able to find new business development opportunities as foreign companies withdrew from the Russian market. At this stage, the Russian SME sector was not significantly affected by the sanctions; the negative consequences were felt mainly by those companies that were more dependent on export and import supply chains that were subject to the restrictions, including a number of technology companies.

As SMEs are more flexible and adaptable to new environment compared to large companies, SMEs have the potential to become drivers of structural changes in the economy, helping to mitigate the negative effects of the imposed sanctions restrictions. At present, it is important to establish trade and industrial ties with Asian countries so that entrepreneurs can build new partnerships, supply materials and technologies that have come under restrictions, enter new markets, build new supply chains, and so on. It is also important to support entrepreneurs seeking to occupy niches of foreign companies that have left, especially in the manufacturing sector. A significant role can be played by the “SME+” support

1 Vedomosti. URL: <https://www.vedomosti.ru/business/news/2024/01/18/1015624-msp-poluchili-kreditov>

2 Statistical bulletin “Lending to small and medium-sized enterprises” // Bank of Russia. 2023. URL: https://www.cbr.ru/Collection/Collection/File/48915/stat_bulletin_lending_23-12_43.pdf

regime currently under discussion, which should soften the barriers of transition from SME to big business status.

In the context of limited access to investment and new technologies, it is necessary to support sanctions-dependent manufacturing companies: information support for entrepreneurs to enter new markets and search for new suppliers of materials, components and technologies; development of payment instruments to simplify settlements with foreign partners; additional direct financial support for SMEs capable of replacing foreign suppliers of materials, components and technologies subject to restrictions through regional funds.

3.6. Foreign trade¹

3.6.1. The state of the world economy and world trade

Despite tighter monetary policy, escalating geopolitical conflicts and increased economic uncertainty, the global economy in 2023 was more resilient than expected. Economic growth exceeded expectations in several major developed and developing economies, and a sustained labor market recovery supported consumer spending. At the same time, global inflation has fallen significantly as energy and food prices have fallen, allowing central banks to slow or pause interest rate hikes. However, this semblance of resilience masks both short-term risks and structural vulnerabilities. Underlying price pressures remain elevated in many countries. Further escalation of conflicts in the Middle East poses a risk of disruption to energy markets and renewed inflationary pressures globally.

As the global economy prepares for the lagged effects of a sharp rise in interest rates, the central banks of major developed economies have signaled their intention to keep interest rates high for as long as possible. The prospects of a prolonged period of higher borrowing costs and restrictive credit conditions pose serious headwinds for a global economy that is burdened by high levels of debt and, at the same time, needs increased investment to revitalize growth. Moreover, tight financial conditions, combined with the growing risk of geopolitical fragmentation, are putting pressure on global trade and industrial production.

According to the World Bank estimates,² global GDP growth in 2023 is estimated at 2.6%, which is 0.5 p.p. higher than forecast last June. The world economy in 2023 avoided a sharp recession, but a prolonged period of low growth is expected. The WB forecasts global growth to slow to 2.4% in 2024. Growth may moderate to 2.7% in 2025, but will remain below the pre-pandemic (2011–2019) growth rate of 3.0%. Growth prospects for many developing countries, especially low-income ones, remain uncertain, making full recovery from the pandemic even more elusive and threatening to further slow sustainable development.

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2 World Bank official website. URL: <https://www.worldbank.org/en/publication/global-economic-prospects>

The US economy expanded by 2.5% in 2023, 1.4 p.p. above the WB's June estimate. Consumer spending remained strong, supported by ongoing job growth, higher real wages and rising asset prices. However, the Federal Reserve's rate hikes are expected to dampen consumption and investment in 2024, with annual GDP growth expected to slow to 1.4%, according to the WB. Growth prospects for Europe and Japan remain subdued. In the European Union, GDP is forecast to expand by 0.7% in 2024 after growing by just 0.4% in 2023. Restrictive credit conditions have led to a 0.6 p.p. cut in the region's economic outlook for 2024 compared to the bank's June estimate. The moderate recovery of the European economy is expected to be supported by a gradual increase in consumer spending as inflationary pressures ease, real wages rise and labor markets remain robust. In Japan, GDP growth is projected to slow from 1.8% in 2023 to 0.9% in 2024, despite continued accommodative monetary and fiscal policies. The slowdown in the economies of Japan's main trading partners, the US and the PRC, is expected to reduce net exports in 2024.

Short-term growth prospects for developing countries and regions differ significantly. In China, annual GDP growth hit 5.2% in 2023, driven by recovery from COVID-19-related constraints. Weakness in the real estate sector and sluggish external demand are expected to moderate the growth rate of the Chinese economy to 4.7% in 2024. Average growth in East Asia is projected to decline from 4.9% in 2023 to 4.6% in 2024. Private consumption is expected to pick up, boosted by easing inflationary pressures and a sustained recovery in the labor market. While the resuscitation of services exports – especially tourism – has been sustained, weak global demand is likely to depress merchandise exports. In South Asia, GDP grew by about 5.3% in 2023 and is projected to grow by 5.2% in 2024. In India, which remains the fastest growing major economy in the world, GDP is projected to expand by 6.2% in 2024 after growing by 6.3% in 2023 on the back of sustained domestic demand and strong manufacturing and services sectors. Tight financial conditions, fiscal and external imbalances, and the return of El Niño climate phenomenon pose risks to these gains for several other South Asian countries.

In the CIS and Georgia, economic growth in 2023 is higher than previously expected, reflecting the resilience of the Russian Federation's economy as well as strong performance in the Caucasus and Central Asia. Regional GDP growth is projected to slow from 3.3% in 2023 to 2.3% in 2024. In Russia, GDP grew by 3.6% in 2023. This stronger-than-expected recovery was supported by substantial fiscal support, including additional military spending. Oil production and exports declined slightly, and the authorities announced an extension of export restrictions by 300,000 bbl/d until the end of 2023, and an increase of 200,000 bbl/d from January 2024. The depreciation of the exchange rate led to a sharp rise in inflation, which contributed to the subsequent increase in the discount rate. Monetary tightening is expected to reduce domestic demand.

Risks to the near-term global outlook continue to be shifted to the downside. Increased geopolitical tensions due to the conflict following Hamas terrorist attacks on Israel are a key near-term concern. A widening conflict could lead

to significant disruptions in energy markets and major trade routes, as well as additional re-pricing in financial markets, which would slow economic growth and increase inflation. Constraints related to growing trade restrictions, domestic market-oriented policies, and restructuring of global supply chains are also contributing to greater uncertainty about the outlook for global trade, a key concern given the importance of trade for productivity and development. Persistent price pressures, renewed increases in energy and food prices, or signs of rising inflation expectations could force central banks to keep interest rates higher for longer than expected, potentially creating additional stress in financial markets. Conversely, the impact of higher interest rates and tighter credit standards could be stronger than expected, leading to a more severe slowdown in spending, higher unemployment, and more bankruptcies. At the same time, however, the global economy and financial markets have so far proved relatively resilient to monetary tightening, and inflation could return to target without a marked slowdown in economic growth or a sharp rise in unemployment. Maintaining this pattern would mean higher-than-expected growth in 2024 with lower inflation. Growth would have also been stronger if households were willing to spend savings accumulated during the pandemic.

The IMF forecasts that global economic growth will slow from 3.5% in 2022 to 3.1% in 2023 and 2024,¹ which is well below the historical average (2000–2019) of 3.8%. Growth in advanced economies is expected to slow to 1.5% in 2024 as monetary stringency begins to take effect. Growth in emerging markets and developing economies is expected to stabilize at 4.1% over the next 2 years. Global inflation is projected to decline from 8.7% in 2022 to 6.8% in 2023 and 5.8% in 2024 due to monetary restraint supported by lower global commodity prices. However, in most cases inflation is not expected to return to the target level until 2025 (*Table 21*).

Table 21

Dynamics of the global GDP and world trade (growth rates, in % on the previous year)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	Estimate	Forecast	
										2023	2024	2025
World GDP	3.6	3.5	3.3	3.8	3.6	2.8	-3.1	6.0	3.5	3.1	3.1	3.2
Advanced economies	2.1	2.3	1.7	2.5	2.3	1.7	-4.5	5.2	2.6	1.6	1.5	1.8
USA	2.5	2.9	1.6	2.4	2.9	2.2	-3.4	5.7	1.9	2.5	2.1	1.7
Euro zone	1.4	2.1	1.9	2.5	1.9	1.3	-6.4	5.2	3.4	0.5	0.9	1.7
Germany	2.2	1.5	2.2	2.5	1.5	0.6	-4.6	2.6	1.8	-0.3	0.5	1.6
France	1.0	1.0	1.1	2.3	1.7	1.5	-8.0	6.8	2.5	0.8	1.0	1.7
Great Britain	2.9	2.3	1.8	1.7	1.4	1.5	-9.4	7.4	4.3	0.5	0.6	1.6

¹ IMF official website. URL: <https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023>

	2014	2015	2016	2017	2018	2019	2020	2021	2022	Estimate	Forecast	
										2023	2024	2025
Emerging and developing economies	4.6	4.0	4.3	4.7	4.5	3.7	-2.0	3.7	4.1	4.1	4.1	4.2
Russia	0.6	-3.7	-0.2	1.5	2.3	1.3	-2.7	4.7	-1.2	3.0	2.6	1.1
Developing countries in Asia	6.8	6.6	6.4	6.5	6.4	5.5	-0.9	7.2	4.5	5.4	5.2	4.8
China	7.3	6.6	6.7	6.9	6.6	6.1	2.3	8.1	3.0	5.2	4.6	4.1
India	7.3	7.6	7.1	6.7	6.8	4.2	-7.3	8.7	7.2	6.7	6.5	6.5
Latin America and the Caribbean	1.3	0.0	-0.9	1.3	1.0	0.0	-6.9	6.9	4.2	2.5	1.9	2.5
Brazil	0.1	-3.8	-3.6	1.4	1.1	1.1	-3.9	3.0	3.0	3.1	1.7	1.9
Mexico	2.1	2.5	2.3	2.2	2.0	-0.3	-8.1	4.8	3.9	3.4	2.7	1.5
World trade in goods and services	3.3	2.6	2.2	5.2	3.9	0.9	-8.2	10.4	5.2	0.4	3.3	3.6

Source: The IMF official website. URL: <https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024>.

In 2023, according to IMF estimates, world trade growth decelerated significantly to 0.4% well below the growth rate of 5.2% recorded in 2022. This slowdown is due to a sharp fall in trade in commodities. In contrast, trade in services, especially in tourism and transportation, continued to recover. The shift in consumer spending from goods to services, tighter monetary policy, the strong United States dollar and geopolitical tensions hampered global trade.

Exports from developing countries have declined, demand from developed countries has weakened, and financial conditions restrict trade financing. International tourism has shown signs of strong recovery, particularly in East and West Asia and is expected to reach pre-pandemic levels by 2024. International trade relations are showing trends of realignment as countries seek to secure supply chains “closer to home” or from more reliable sources. These trends are expected to persist in the coming years, with trade growth projected to remain subdued and export-oriented growth strategies giving way to domestic demand-oriented growth strategies.

The most significant factors affecting world trade are:

- positive dynamics of economic growth, but with significant differences. Global economic forecasts remain stable but still below historical averages. In addition, substantial differences remain between countries and regions in terms of the expected economic outlook for 2024. These disparities will affect trade patterns;
- high interest rates and depressed industrial production. Economic activity has been hampered by persistently high interest rates in a number of countries. The latest Purchasing Managers’ Index (PMI) data in China and the United States suggest a subdued outlook for industrial production in the short term;
- volatility in commodity prices. Regional conflicts and ongoing geopolitical tensions are likely to increase uncertainty in commodity markets;

- lengthening supply chains. Global trade is influenced by changes in supply chains responding to changes in trade policy and geopolitical tensions;
- increase in subsidies and trade restrictive measures. According to the WTO,¹ the trade coverage of trade restrictive measures between mid-October 2022 and mid-October 2023 is estimated at \$337.1 bn, compared to \$278.0 bn between mid-October 2021 and mid-October 2022.

The World Trade Organization has released its latest Commodity Trade Barometer² for March 2024, which provides an indication of the trajectory of the volume of merchandise trade relative to recent trends. The current Barometer value of 100.6 is slightly above the baseline value of 100, implying that world trade will start to grow modestly in Q1 2024 after a weak performance in 2023. However, geopolitical tensions continue to pose a downward risk to the near-term outlook.

The dynamics of the Barometer components are mostly neutral, with export orders (101.7) and air transportation (102.3) slightly above trend, while container transportation (98.6) and raw materials trade (99.1) remain slightly below trend. The auto production and sales index (106.3) remains well above trend, although it has been losing momentum recently. Meanwhile, the seemingly sharp rebound in the electronic components trade index in the previous report was revised downward (95.6).

3.6.2. Terms of Russian foreign trade: price trend for the main goods of Russian exports and imports

In 2023, the World Bank commodity price index³ amounted to 108.0%, which is almost a quarter lower than in 2022 (142.5%). Price declines were observed for all components of the index, except for precious metals (*Table 22*).

Prices were falling during the first half of the year, but many components of the index have seen gains since July. In Q3 2023, the World Bank's Commodity Price Index rose 5% quarter-on-quarter, mainly on the back of an 11% increase in oil prices. With oil accounting for 52% of the index, higher oil prices offset declines in 24 of the 43 commodities in the index. The World Bank's Energy Price Index rose 8.6% in Q3 2023 from the previous quarter due to higher oil prices, responding to a series of supply cuts by OPEC+ countries. In Q4, the commodity price dynamic returned to a negative trend.

Prior to the conflict, commodity prices remained relatively high, around 45% above the 2015–2019 average (*Fig 19*).

In 2023, the energy price index decreased by 29.9% compared to 2022. Brent crude oil prices averaged \$82.62/bbl in 2023, 17.2% lower than in 2022. Due to weaker global growth and increased supply in 2023, the price decline will continue in 2024, with prices expected to stabilize in 2025 as both supply and

1 WTO official website. URL: https://www.wto.org/english/news_e/news23_e/news23_e.htm

2 WTO official website. URL: https://www.wto.org/english/news_e/news24_e/wtoi_08mar24_e.htm

3 World Bank official website. URL: <https://www.worldbank.org/en/research/commodity-markets>

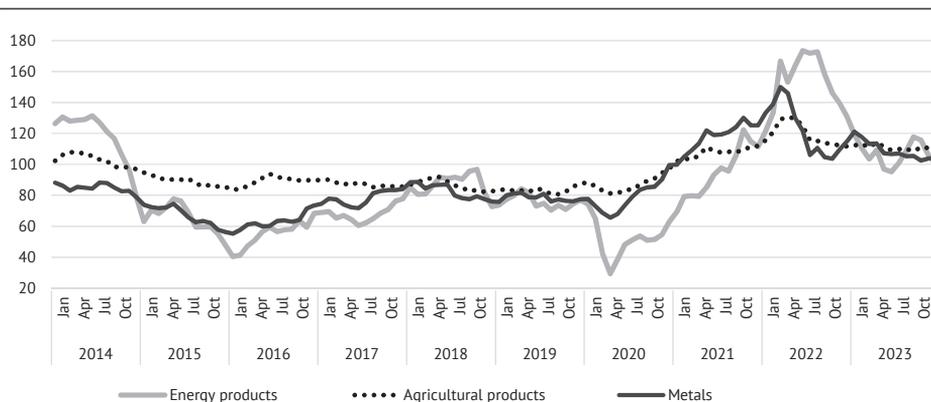


Fig. 19. World Bank commodities price index (2010 = 100%)

Source: World Bank official website. URL: <http://www.worldbank.org/en/research/commodity-markets#1>

demand recover. The WB forecasts that the energy price index will decline by another 5% in 2024 and by 1% in 2025, with the index remaining high in the long-term.

The conflict in the Middle East has led to increased volatility in natural gas prices. Since the conflict broke out in early October, European natural gas prices have increased by 35% due to the closure of a natural gas field off the coast of Israel, an explosion at an interconnector in the Baltic Sea and concerns about escalating conflict in the Middle East. In Q3 2023, the World Bank's natural gas price index increased by 2% compared to the previous quarter, i.e., before the conflict commenced. This followed significant price declines in the previous three quarters as the market rebalanced following the cessation of Russian gas exports to Europe. The three components that make up the gas price index followed different trajectories in Q3, but prices remained high – the Q3 2023 index is still 34% above the 2015–2019 average. The U.S. benchmark (Henry Hub) was volatile, as a 20% increase in Q3 2023 followed a roughly similar drop in Q2 2023. The European benchmark (TTF) continued its decline, but at a more modest rate of 5%, while Japanese LNG fell in price by 6%. Overall in 2023 year-on-year, natural gas was 60.1% cheaper in the U.S., 67.5% cheaper in Europe, and 22.8% cheaper in Japan LNG.

The WB forecasts that European natural gas prices will continue to decline in 2024 before recovering in 2025 on the back of growing demand.

The main risk to the energy price outlook is the potential escalation of the Middle East conflict, which could lead to significant supply disruptions and price spikes. Other risks include continued voluntary OPEC+ supply cuts and slower-than-expected economic activity and lower oil demand in China.

The 2023 non-energy commodity price index declined 9.8% year-on-year. Decrease was observed in all components of the index, except for precious metals.

Metals are 9.6% cheaper in 2023, continuing a trend of steady price declines since early 2022. This largely reflects slowing economic activity in major

economies with ample supply in 2023, especially copper, nickel and zinc. Metals prices have been largely flat since the outbreak of conflict in the Middle East.

The WB forecasts that after an expected decline in 2023, metal prices will continue to decline in 2024 due to slowing demand and ample supply, before stabilizing in 2025 as demand recovers. Escalating Middle East conflict and related supply disruptions represent a key upside risk to industrial metals and gold prices. Other risks to higher prices include an earlier-than-expected recovery in China's real estate sector in 2024 and supply disruptions, including those resulting from trade restrictions.

The Precious Metals Price Index rose by 7.7% in 2023, with all components of the index growing: compared to 2022, gold rose by 7.9%, silver by 7.4%, and platinum by 0.5%. Prices for precious metals were supported by the growing attractiveness of safe haven assets due to geopolitical events and a decline in US Treasury bond yields. Many central banks started actively buying gold to replenish their assets. In September-October 2023 alone, global central banks purchased 114.1 tons of gold, which is 23% higher than the average monthly volumes for this year. As the geopolitical situation in the world is becoming increasingly unstable, it can be assumed that the process of replacing the dollar and euro with gold in international assets may become more intense.

In early December 2023, the gold price rose above \$2,100 per ounce for the first time in its history. The WB forecasts gold prices to average \$1,900 per troy ounce in 2024, before declining in 2025 as inflation and recession fears subside. While the initial impact of the Middle East conflict on the gold price was moderate, its escalation will exacerbate uncertainty, leading to lower risk appetite.

Table 22

Average annual world prices

	2013	2014	2015	2016	2017	2018	2019 r	2020	2021	2022	2023
Crude oil (Brent), USD/bbl.	108.86	98.94	52.37	44.05	54.39	71.07	64.03	42.3	70.44	99.82	82.62
Natural gas (USA), USD/MMBTU	3.72	4.37	2.61	2.49	2.96	3.16	2.57	2.01	3.85	6.37	2.54
Natural gas, European market USD/MMBTU	11.79	10.05	6.82	4.56	5.72	7.68	4.80	3.24	16.12	40.34	13.11
Natural gas (Japan), USD/MMBTU	15.96	16.04	10.93	7.37	8.61	10.67	10.56	8.31	10.76	18.43	14.23
Coal (Australia), USA/t	84.56	70.13	58.94	66.12	88.52	107.02	77.86	60.79	138.05	344.9	172.78
Copper, USD/t	7332.1	6863.4	5510.5	4867.9	6169.9	6529.8	6010.2	6173.8	9317.1	8822.4	8490.3
Aluminum, USD/t	1846.7	1867.4	1664.7	1604.2	1967.7	2108.5	1794.5	1704	2472.8	2705	2255.7
Nickel, USD/t	15032	16893	11863	9595.2	10409	13114	13914	13787	18465	25833	21521
Iron ore, USD/t	135.36	96.95	55.85	58.42	71.76	69.75	93.85	108.9	161.71	121.3	120.57
Gold, USD/troy ounce	1411.5	1265.6	1160.7	1249	1257.6	1269.2	1392.5	1770.3	1799.6	1800.6	1942.7

Source: Calculated on the World Bank data.

The World Bank's price index for agricultural products in 2023 declined by 7.7% year-on-year, mainly due to a 9.3% decline in food prices. Pressure on

prices came from strong grain harvests, which offset disruptions due to weather-related disruptions and Russia’s withdrawal from the Black Sea Grain Initiative. Nevertheless, the emergence of El Niño has caused a significant jump in prices of some agricultural commodities produced mainly in regions that are usually negatively affected by this weather phenomenon. For example, rice and cocoa prices reached the highest level since 2008. Since the outbreak of conflict in the Middle East, agricultural commodity prices have increased by about 4%, mainly due to higher prices for tropical commodities. As the global situation improves, the food price index is expected to decline by 2% in 2024 and 3% in 2025.

3.6.3. Main indicators of the Russian foreign trade

According to the Central Bank of Russia,¹ Russia’s foreign trade turnover in 2023 amounted to \$727.7 bn, which is 16.2% lower than in 2022. The trade surplus decreased 2.6 times – to \$120 bn against \$303 bn in 2022 (Fig. 20).

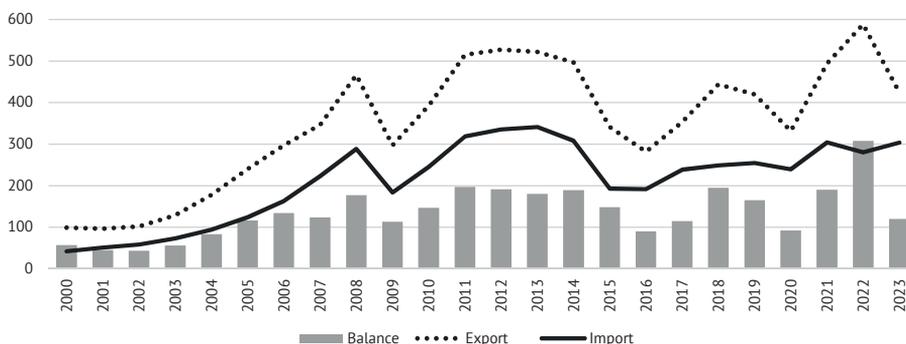


Fig. 20. Main indicators of Russian foreign commodities trade (USD bn)

Source: RF CBR official website.

In 2023, Russian merchandise exports amounted to \$425.1 bn, which is 28.3% lower than the same indicator of 2022 (Table 23). After the record high value volumes of 2022, a downward trend was observed in the exports dynamics in H1 of 2023. Due to the strengthening of restrictive measures and the decline in world commodity prices, the value of exports decreased by 26.9% in Q1 2023 compared to the previous quarter. In Q2, the rate of decline slowed down to 1.7%. Under the influence of the oil price growth in Q3 compared to Q2, the dynamics of the exports value improved – it went up by 5.3%. Russian exports were supported by a good grain harvest and redirection of supplies to new markets. In Q4 2023, the value of exports of goods fell by 2.4% as compared to the previous quarter. Exports of Russian goods were hampered by foreign trade restrictions, low demand in the

1 CBR official website. URL: https://cbr.ru/Collection/Collection/File/43419/Balance_of_Payments_2022-3_12.pdf

international market in the context of slowing global economic growth, as well as issues with sea transportation.

Table 23

Russia's merchandise exports and imports (USD bn)

	Exports			Imports		
	2022	2023	in % on previous year	2022	2023	in % on previous year
Total	592.5	425.1	71.7	255.3	285.1	111.7
Food products and agricultural raw materials	41.3	43.1	104.3	35.8	35.1	98.3
Mineral products	391.6	260.1	66.4	5.3	5.6	105.1
Chemical products, rubber	42.0	27.2	64.8	57.1	55.7	97.6
Raw leather, fur and products thereof	0.2	0.1	62.8	1.0	1.2	122.2
Wood and pulp and paper products	14.0	9.9	70.3	3.9	3.4	86.6
Textiles, textile products and footwear	1.9	1.7	93.2	15.8	19.1	121.4
Metals and metal products	70.7	60.0	84.9	19.1	19.2	100.4
Machinery, equipment, vehicles and other goods	30.8	22.9	74.5	117.5	145.8	124.1

Source: Rosstat. URL: <https://rosstat.gov.ru/storage/mediabank/osn-01-2024.pdf>

Despite tough international sanctions, Russia continues to play a huge role in global crude oil markets. In 2023, it remained the third largest oil producer after the US and Saudi Arabia, the second largest oil exporter in the world after the US, and the largest net exporter in the world.

In early 2022, the EU reduced its imports of Russian fossil fuels from a peak of \$16 billion per month in early 2022 to about \$1 bn per month by the end of 2023. At the same time, physical volumes of Russian crude oil exports in 2023 remained stable compared to 2022 at 7.5 mb/d, with a slight drop in crude oil exports offset by an equivalent increase in petroleum product shipments.

However, as a result of notable decline in world oil prices, introduction of price restrictions by the G7 countries and increased discounts on Russian crude oil, Russia's revenues from mineral fuel exports fell by 33.6% in 2023 compared to 2022, which saw the maximum level of hydrocarbon supplies abroad. At the same time, revenues from mineral fuel exports in 2023 are comparable to 2021 (\$267 bn) mainly due to the shift of oil exports towards China, India and Turkey.

In the commodity structure of Russian exports, the share of mineral commodities fell from 66.1% in 2022 to 61.2% in 2023 (*Fig. 21*).

According to the Ministry of Industry and Trade, the volume of non-resource non-energy exports (NRE) from Russia in 2023 decreased by 23% year-on-year and amounted to \$146.3 bn. Against the background of a decline in the total volume of Russian exports in 2023, the share of NRE in it increased from 28% to 35% compared to 2014. Metal products accounted for 31.4% of non-resource exports, machine-

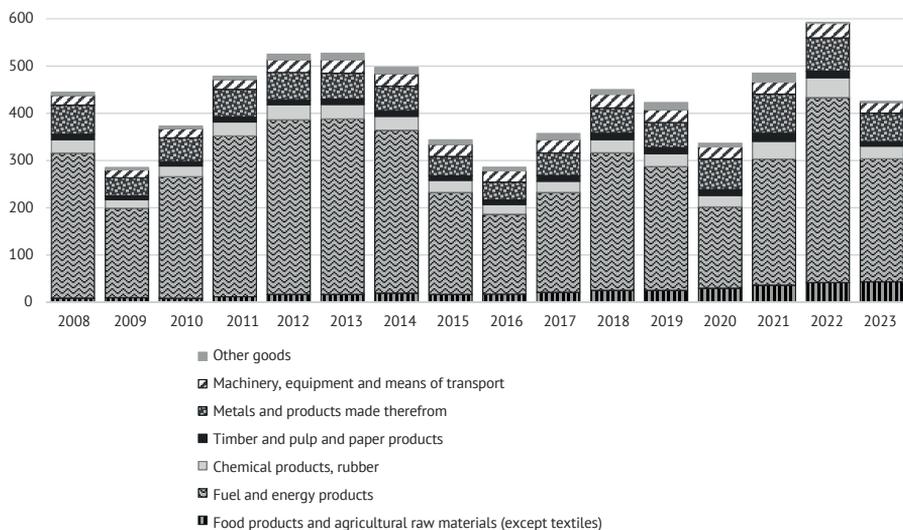


Fig. 21. Goods-wise dynamic of Russian exports (USD bn)

Source: FCS.

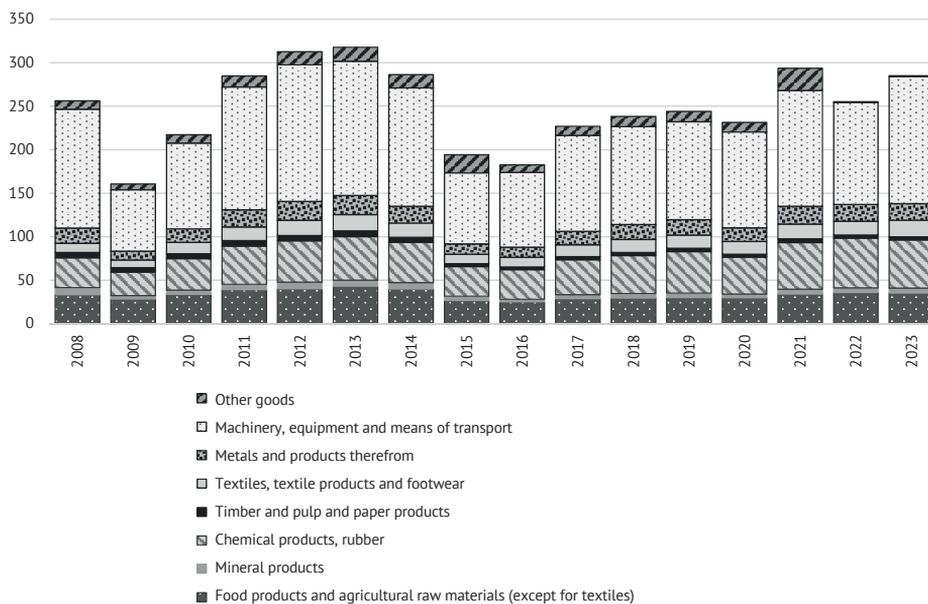


Fig. 22. Goods-wise dynamic of Russian imports (USD bn)

Source: FCS.

building products – 19.1%, chemical products – 10.9%, agricultural products – 18.8%. A record level of \$194 bn of non-commodity exports was recorded in 2021.

Imports of goods to Russia in 2023 amounted to \$303.8 bn, which is 9.9% higher than in 2022. During the first 9 months of 2023, Russian imports continued to recover: in January – September 2023, the value of imports of goods exceeded the level of the same period of 2022 by 16.4%. Imports were supported by reorientation to alternative suppliers, the parallel import mechanism and other government measures on simplified import of goods. Since the middle of Q3 2023, the growth of imports has been restricted by the weakening of the ruble and higher interest rates in the economy. In Q4 2023, the value of imported goods dropped by 5.8% in annual terms.

Among the commodity groups, the largest contribution to the growth of imports in 2023 was made by shipments of machinery, equipment and vehicles, as well as textiles, textile products and footwear (*Fig. 22*).

3.6.4 Regional pattern of Russian foreign trade

Asian countries remained Russia's key trading partners in 2023. According to the Federal Customs Service, their share in exports increased from 49.1% in 2022 to 72.1% in 2023, and in imports – from 56.9% to 65.9%. Trade turnover with European countries continued to decline: their share in total exports of Russian goods decreased from 44.9% to 20%, in Russian imports – from 35.1% to 27.6%. Imports of Russian goods to the EU countries dropped by 75%, supplies of European goods to the Russian Federation fell by 30%.

In Q1 2023, China overtook the EU as Russia's main trading partner for the first time: trade with the PRC accounted for more than 30.7% of Russia's foreign trade, while trade with the EU accounted for only about 19%. The new sanctions imposed by the EU reinforced this trend: in 2023, the share of the PRC increased to 32.9%, while the share of the EU decreased to 13.2%.

According to Eurostat,¹ between February 2022 and December 2023, the value of imported Russian goods to the EU fell by 82%, while the value of exported European goods to Russia fell by 61%. These developments caused the EU's trade deficit with Russia, which peaked at €18.6 bn in March 2022, to decline to €0.8 bn in December 2023.

Russia's share in European exports of goods fell from 3.8% in February 2022 to 1.4% in December 2023. Over the same period, the share of imports of goods from Russia into the EU fell from 9.5% to 1.9%.

Analysis of European statistics for 2023 reveals that the EU continues to purchase oil, oil products and natural gas from Russia (€29.1 bn), as well as ferrous metals, nickel, aluminum, platinum group metals, fertilizers, inorganic chemical products (including nuclear fuel, ammonia, etc.).

The EU also exported a wide range of products to Russia. In value terms, the largest product groups exported to Russia in Q1 2021 were machinery and

1 Eurostat official website. URL: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_trade_with_Russia_-_latest_developments#Latest_developments

equipment, vehicles, pharmaceuticals, electrical equipment and plastics. Between Q1 2021 and Q3 2023, exports of four of these five commodity groups declined significantly, the exception being pharmaceuticals, which amounted to €2,099 mn in Q4 2023 after peaking at €2,894 mn in Q4 2022 (Table 24).

Table 24

EU exports into Russia (Euro mn)

Commodity groups	2021				2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Machinery and equipment	4479	5113	4910	4968	3468	2700	1862	1810	1766	1320	1080	888
Means of transport	2411	2329	1990	2208	1351	191	314	364	257	237	126	112
Pharmaceuticals	1964	1788	1947	2310	2257	1994	2722	2894	2575	1981	2015	2099
Electrical equipment	1684	1844	1882	2169	1307	449	511	586	371	219	212	216
Plastics	952	1099	1156	1164	983	625	534	510	378	381	372	315

Source: Eurostat (online data code: ds-059322).

In 2023, the sanctions pressure on Russia from the West intensified, forcing the country to look for new formats of interaction and expand the geography of trade partners. The development of cooperation within the BRICS, CIS, EAEU is becoming an important area of focus.

China remains the main trade partner of the Russian Federation. In the context of global economic challenges, Russia and China continue to increase bilateral trade. According to the General Administration of Customs of the People's Republic of China, trade turnover between the countries totaled \$240 bn in 2023, up 26.3% year-on-year.¹ This means that the two countries have achieved ahead of schedule the goal that was set in 2019: to increase bilateral trade to \$200 bn by 2024.

The growth rate of China's trade with Russia was significantly higher than the growth rates of China's trade with many other major partners, including the EU (-7.6%) and the US (-12.2%). As a result, Russia ranked 4th among all of China's foreign trade partners.

Exports of Russian goods to the PRC increased by 12.7% and amounted to \$129.14 bn. Mineral products are the basis of Russian goods supplies accounting for 76.7% of total Russian exports to the PRC in 2023. The Russian Federation has overtaken Saudi Arabia to become the largest supplier of oil to the PRC; the Russian Federation ranks second in pipeline gas and coal supplies and third after Australia and Qatar in LNG supplies.

Russia exported 107 mn tons of crude oil to China in 2023, 24% more than in 2022. The value of shipments amounted to \$60.6 bn, 2.9% more than in 2022.

Natural gas trade is expanding rapidly. At the end of 2023, gas exports to China via the Power of Siberia pipeline totaled 22.7 billion cubic meters. This is 700 million cubic meters above Gazprom's contractual obligations and 1.5 times more than in 2022.

1 The General Administration of Customs of the People's Republic of China (GACC) official website. URL: <http://english.customs.gov.cn/Statics/57de06a8-279a-4ee7-952c-d4ce287404e1.html>

Non-energy Russian exports to China are also growing. Thus, China's purchases of Russian food products in 2023 increased by 44.1%. Exports of Russian grain products increased 3.8 times compared to 2022. The main drivers of growth in exports of grain products were rape (17-fold growth), barley (6-fold), flax seeds (2-fold), oilcake (2-fold), and supplies of peas have started.

China and Russia have signed a large number of agreements on agricultural projects that can be extended for more than a decade, providing a guarantee that the potential of bilateral cooperation will be maintained. For the first time in 15 years, it has become possible to supply China with pork from Russia. In addition, negotiations on supply of wheat and barley, rye flour, semolina, animal feed, and dairy products to China are in their final stages.

Deliveries of Russian chemical industry products increased by 21%. Exports of inorganic chemical products rose by 21.4%, organic chemical compounds more than doubled, fertilizers went up by 25.9%, and tannin extracts by 46%.

Imports of Chinese goods into Russia in 2023 increased by 46.9%, amounting to \$110.97 bn. This was mainly due to a sharp, almost 7-fold increase in supplies of Chinese cars and spare parts, which accounted for 10.5% of the total imports of Chinese goods to Russia in 2023 (2.2% in 2022). In addition, supplies of various Chinese equipment, smartphones and computers have increased.

Russia's trade surplus with China in 2023 was roughly halved compared to 2022, to \$18.17 bn.

In mutual settlements, the countries have almost completely switched to national currencies – more than 90% of payments are made in rubles and RMB. According to the Bank of Russia,¹ in the total volume of foreign trade transactions of the Russian Federation in December 2023, the share of RMB in export revenues went up to 35.8% against 15.6% in December 2022, in import payments – to 37.0% against 23%. The share of transactions in rubles in export revenues amounted to 35.7% (34.4% in December 2022), and in import settlements grew from 27.2% to 31.7%.

The main constraints to trade growth include Russia's logistics and border infrastructure in the Far East, namely the capacity of pipelines, ports, railroads and roads, as well as the limited number of border crossing points. However, there is a clear political will on both sides to expand cooperation.

In 2022, India replaced Europe as the main buyer of Russian crude oil by sea, increasing its purchases 16-fold. After processing at refineries in New Delhi, oil products from Russian crude were successfully resold to Western countries at a significant profit. Russian oil exports allowed to quickly surpass the \$30 bn mark of bilateral trade target, which Russian President Vladimir Putin and Indian Prime Minister Narendra Modi in 2019 agreed to reach only by 2025. In 2022, bilateral trade stood at a record \$43.6 bn, moving Russia from 25th to 7th place among India's major trading partners.

In 2023, the high growth rates of mutual trade between the Russian Federation and India continued. According to the Ministry of Commerce and Industry of India,²

1 CBR official website. URL: https://cbr.ru/collection/collection/file/48852/orfr_2024-01.pdf

2 Official website of the Ministry of Commerce and Industry of India. URL: <https://tradestat.commerce.gov.in/meidb/cntcom.asp?ie=i>

total trade turnover between the two countries in 2023 reached \$64.9 bn, which is 75.9% higher than in 2022.

Russian exports to India rose to \$69.9 bn against \$34.0 bn in 2022, mainly due to a 96.2% increase in crude oil purchases. As a result, the share of mineral products in the structure of Russian exports to India accounted for 88.2% (80.5% in 2022). Supplies of Russian foodstuffs to India expanded by 12.5%, chemical products – by 25%, metals and metal products – by 80%.

In 2023, imports of Indian goods into the Russian Federation totaled \$4.1 bn, up 39.3% year-on-year. The most significant commodity groups in the structure of supplies from India to the Russian Federation are products of the chemical industry (mainly pharmaceuticals), which accounted for 33% of the total value of imported Indian goods, machinery and equipment (24%), food products (21%), metals and metal products (13%). These commodity groups saw significant growth in shipments in 2023.

A significant issue in mutual trade between the two countries is the trade deficit for India: for 2023 it has almost doubled to \$60.9 bn (in 2022 – \$34.0 bn). Despite the interest of the parties in the growth of supplies of Indian goods to the Russian Federation, their volumes remain low. One of the reasons for this is the fact that Indian exporters do not dare to bring to Russia such goods as electronics and equipment, for which there is demand, fearing third country sanctions.

However, the parties continue to develop their trade relations. Opportunities are emerging to significantly expand areas of cooperation, discussions on India's free trade agreement with the EAEU are ongoing, and the North-South and Chennai-Vladivostok transport corridor projects are in the final stages of approval. Improved logistical links over the next few years will further boost mutual trade.

Trade relations between Russia and Brazil also saw significant changes in recent years. In 2022, bilateral trade reached a record level of \$9.8 bn, which is 35% more than in the previous year. Brazilian goods import into Russia increased by 25% to \$1.9 bn, while Russian exports grew by 38% to \$7.9 bn. The trade balance was positive for the Russian Federation – \$6 bn.

In 2023, trade turnover between the countries increased by 15.5% to \$11.3 bn compared to 2022. At the same time, exports of Russian goods surged by 27.4% to \$10.0 bn, while imports of Brazilian goods to Russia decreased by 31.9% to \$1.3 bn.¹

Brazil supplies Russia mainly with agro-industrial products. Soybeans are the leading import commodity accounting for 54.9% of the total imports of Brazilian goods to Russia in 2023. Meat was the second largest item of Russian imports accounting for 22.7%. Coffee was the third largest item of Russian imports from Brazil with a share of 9.8%.

Brazil buys mainly middle and heavy distillates from Russia, which accounted for 45.2% (1.3% in 2022) of total Russian exports in 2023 and fertilizers – 35.5% (71.4% in 2022). Wheat and meslin accounted for 2.3% of total Russian exports (1.3% in 2022).

1 Official website of Ministério do Desenvolvimento, Indústria, Comércio e Serviços. URL: <https://www.gov.br/mdic/pt-br>

Western sanctions imposed against Russia have redirected global trade flows making Turkey one of Russia's key trading partners, which is complying with UN sanctions against Russia but refuses to join the unilateral sanctions imposed by the US and the EU. As Turkey's economy is going through a difficult period, ties with Russia offer potential to minimize negative economic trends. As a result, Turkey has become a key transit hub through which goods from all over the world, including the US and European countries, flow. In 2023, compared to the previous year, Russian-Turkish trade turnover almost doubled to \$68.2 bn (\$34.7 bn in 2022).

However, the United States' attempts to prevent the re-export of "dual-use" Western-made products to Russia have become a significant obstacle to further development of Russian-Turkish trade and economic relations. For example, Washington imposed sanctions on 16 Turkish companies for supplying technology and equipment to Russia in circumvention of existing restrictive measures.

In March 2023, Turkey suspended re-export of sanctioned goods to Russia after intensive consultations with the West. As a result, according to the Turkish Statistical Service,¹ in 2023 compared to 2022, the Russian-Turkish trade turnover decreased by 17.1% to \$56.5 bn. This was due to the reduction of Russian exports by 22.5% (in 2022 there was a more than 2-fold growth) with the growth of imports of Turkish goods into Russia by 16.9% (in 2022 imports of Turkish goods increased by 61.8%). It should be noted that the reduction in supply of Russian goods to Turkey can be explained not only by the threats of potential Western sanctions, but also by the relatively difficult economic situation in Turkey itself.

Energy exports traditionally form the basis of Russian supplies to Turkey. Russia also exports grain, copper and copper products, precious stones and metals, and pearls. Imports from Turkey are represented, on the one hand, by re-exports of sub-sanctioned goods from the EU, and, on the other hand, by products of Turkish production. Russia buys food and beverages, boilers, machinery and mechanical devices, fruits and nuts, plastics and plastic products, electrical machinery and equipment, as well as organic chemicals.

In 2023, the foreign trade turnover of the Russian Federation with the CIS countries increased by 6.9% (up to \$94 bn) compared to the previous year, with exports increasing by 1.2% (up to \$59 bn) and imports by 18.1% (up to \$35 bn). The share of these countries in the total volume of Russian trade turnover equals 14.5%.

In Russia's trade with post-Soviet countries, the Russian ruble has become the main currency, accounting for more than 80% of export and import transactions. National currencies are used to pay for imports. Goods from the CIS countries are not subject to customs duties, which facilitates trade operations under a simplified scheme that is beneficial for both businesses and consumers. The major share of Russia's foreign trade turnover with CIS countries is accounted for by Belarus and Kazakhstan.

The volume of bilateral trade between Belarus and the Russian Federation expanded by 6% to \$53 bn in 2023. Russia supplies Belarus with ferrous metals,

1 Official website of Turkish Statistical Service. URL: <https://data.tuik.gov.tr/Bulten/Index?p=Foreign-Trade-Statistics-October-2023-49628>

pipes and bearings, railway locomotives and various machines, rolled aluminum products and grain. Chemical products and agricultural machinery, medicines, milk and dairy products are imported from Belarus to Russia.

Kazakhstan remained Russia's main trade partner among the Asian countries of the near abroad. In 2023, the foreign trade turnover between the countries amounted to \$25.98 bn, which is 3.7% less than in 2022, as a result of which Russia lost its leading position in trade with Kazakhstan for the first time in many years, conceding it to China. Imports of Russian goods into Kazakhstan decreased by 9.4%, while imports of Kazakh goods into Russia increased by 7.7%

3.6.5. Regulation of Russian foreign trade¹

In order to prevent shortages of certain goods on the domestic market and curb price growth, the Russian Government adopted an extensive set of measures in the area of customs and tariff regulation over the past 2 years.

Tariff regulation

Export customs duties

In 2022, the rates of export duties on crude oil and petroleum products were calculated in accordance with the methodology approved by Resolution No. 276 of the Government of the Russian Federation of March 29, 2013 "On calculation of the rates of export customs duties on crude oil and certain categories of goods derived from oil" (Table 25).

Table 25

Export duty rates on crude oil and petroleum products in 2022–2023 (USD/t)

	Crude oil	Petroleum products	
		Light oil products	Dark oil products
2022			
January 1	46.7	14.0	46.7
February 1	47.7	14.3	47.7
March 1	58.3	17.4	58.3
April 1	61.2	18.3	61.2
May 1	49.6	14.8	49.6
June 1	44.8	13.4	44.8
July 1	55.2	16.5	55.2
August 1	53.0	15.9	53.0
September 1	52.0	15.6	52.0
October 1	44.4	13.3	44.4
November 1	42.7	12.8	42.7
December 1	43.3	12.9	43.3
2023			
January 1	16.7	5.0	16.7
February 1	12.8	3.8	12.8

¹ Materials from the information and legal portal GARANT.RU were used to prepare this section.

	Crude oil	Petroleum products	
		Light oil products	Dark oil products
March 1	14.2	4.2	14.2
April 1	14.3	4.2	14.3
May 1	14.4	4.3	14.4
June 1	16.2	4.8	16.2
July 1	15.6	4.6	15.6
August 1	16.9	5.0	16.9
September 1	21.4	6.4	21.4
October 1	23.9	7.1	23.9
November 1	26.2	7.8	26.2
December 1	24.7	7.4	24.7

Source: RF Ministry of Economic Development data.

Since 2015, there has been a gradual reduction in export duties on crude oil and petroleum products with a simultaneous and comparable increase in the mineral extraction tax (MET). An important consequence of this maneuver was an increase in domestic oil prices. As a result of a 10-year tax maneuver in the oil industry, from January 2024 export duties on export of crude oil and petroleum products will be nullified, but export duties on gas will be retained.

The Russian Government Decree No. 1418 of 31.08.2023 extends the period of validity of customs duty rates for sunflower oil exported from Russia outside the Eurasian Economic Union. The new period of their application is from September 1, 2023 to August 31, 2024 inclusive. The rate of export customs duty on sunflower oil will remain the same and will be calculated taking into account the basic export price of Rb82,500 per 1 ton.

The Russian Government Decree No. 1538 dated September 21, 2023 stipulates that from October 1, 2023 to December 31, 2024 Russia will have flexible export duties on a wide range of products linked to the ruble exchange rate. The duty will range from 4 to 7% depending on the exchange rate of the national currency. Thus, at the exchange rate of Rb80-85 per USD the rate will be 4%, at Rb85-90 – 4.5%, at Rb90-95 – 5.5%, at Rb 95 and over – 7%. At Rb80 per USD and lower it will be zero. The new duties do not apply to oil, gas, grain and timber; thus, the largest payers will be mining companies, exporters of ferrous, non-ferrous and precious metals, coal, fertilizers (in respect of fertilizers at the exchange rate of more than 80 rubles per dollar the export duty rate will increase to 10% from the already introduced 7%). Thus, in November 2023, the duties for nitrogen mineral or chemical fertilizers were 10%, but not less than Rb 1,100/t; for phosphate and multi-component fertilizers – 10%, but not less than Rb 2,100/t; for potash fertilizers – 10%, but not less than Rb 1,800/t.

The Protocol of the meeting of the Sub-Commission on Customs-Tariff and Non-Tariff Regulation, Protective Measures in Foreign Trade of the Government Commission for Economic Development and Integration dated December 19, 2023 removes goods dependent on imports of key components as well as certain high-tech goods, from the scope of the so-called exchange rate export duties. Thus, medicines and pharmaceutical substances, chemical products, household metal

products, drilling tools, pressing and other tools, marshmallows, soy protein and other products will not be subject to duties.

The Russian Government Decree No. 2150 dated December 14, 2023 establishes a zero export duty rate for certain types of mineral fertilizers exported outside the EAEU.

The Russian Government Decree No. 2484 dated December 28, 2022 extends the validity of increased rates of export customs duties on certain types of timber until December 31, 2025. The decision will make it possible to limit the export of unprocessed wood under the guise of sawn timber, stimulate the production of timber with deep processing in Russia and reduce prices for construction materials made of wood.

Import customs duties

Decree of the Government of Russia No. 1173 of July 20, 2023 increases the rates of import customs duties:

- with respect to wine originating from unfriendly countries – from 12.5 to 20%, but not less than \$1.5/liter;
- with respect to purified glycerin – from 5 to 35%.

An import duty rate of 50% for plywood and 35% for polyurethane construction parts originating from unfriendly countries is set.

Decree of the Government of Russia No. 1328 of August 12, 2023 establishes a list of priority activities within the framework of which it is possible to import equipment and materials into the country without paying customs duty, including the sphere of sports, recreation and entertainment. In particular, where these activities relate to sports facilities, parks of culture and recreation and theme parks.

Tariff quotas

The Subcommittee on Customs Tariff and Non-Tariff Regulation approved introduction of a quota for scrap export from December 1 to June 30, 2024 in the amount of 600,000 tons.

Decree of the Government of Russia No. 1418 of August 31, 2023 extends tariff quotas on export of sunflower oil and sunflower seeds from the DNR, LNR, Zaporozhye and Kherson oblasts until December 31, 2023.

Import bans and restrictions

Decree of the Government of Russia No. 420 of March 18, 2023 introduced a temporary ban on export of rape seeds with certain exceptions from March 20 to August 31, 2023 inclusive.

Decree of the Government of Russia No. 833 of May 27, 2023 introduced a temporary ban on export of cartridges for civilian and service rifled firearms, as well as cartridge cases for cartridges for rifled firearms of certain calibers, with certain exceptions, until December 31, 2023.

Russian Government Decree No. 1034 of June 26, 2023 provides a list of commodities in respect of which import quantitative restrictions may be imposed

from unfriendly countries from October 1 to December 31, 2023. These are seeds of potatoes, wheat, rye, barley, corn, soybeans, rapeseed, sunflower and sugar beet.

Russian Government Decree No. 1173 of July 20, 2023 introduced a ban on import of finished fish products and seafood products originating from unfriendly countries until the end of 2023.

Decree of the Government of Russia No. 1222 of July 28, 2023 establishes a temporary ban on export of rice and rice groats from Russia from July 29 to December 31, 2023 inclusive.

Decree of the Government of Russia No. 1382 of August 25, 2023 imposes a temporary ban on export of rape seeds with certain exceptions from September 1, 2023 to February 29, 2024 inclusive.

Russian Presidential Executive Order No. 693 of September 18, 2023 extends for 2024 the Russian food embargo on deliveries of products from countries that have imposed or supported anti-Russian sanctions.

Decree of the Government of Russia No. 1537 of September 21, 2023 temporarily banned export of gasoline, including gasoline purchased at exchange auctions, in order to stabilize the situation on the fuel market.

Decree of the Government of Russia No. 1824 dated October 31, 2023 introduces a temporary ban on export of waste and scrap of precious metals in Russia from November 1, 2023 to April 30, 2024.

Decree of the Government of Russia No. 1920 of November 15, 2023 lifted the ban on gasoline supplies abroad.

Decree of the Government of Russia No. 1943 of November 21, 2023 lifted the ban on export of summer diesel fuel.

Russian Government Resolution No. 1660 of October 10, 2023 extends until the end of 2024 the ban on import of certain types of agricultural products, raw materials and foodstuffs from unfriendly countries into Russia.

State support

In 2023, Russia launched a new program of state support for participants in foreign economic activity. Russian importers can obtain insurance, including against the risk of non-return of payment under an import contract, if deliveries of products failed as a result of legislative or administrative measures outside the territory of the Russian Federation.

Within the framework of the critical import insurance program, JSC EXIAR insures import credits for delivery of critical import products (the list of goods, works, services, results of intellectual activity is approved by the Edict of the Government of the Russian Federation No. 3456-r dated November 15, 2022) against business and political risks.

The Russian Government Edict No. 1787-r dated July 04, 2023 greatly expanded the list of goods of critical import for which import insurance support is provided by the state guarantee.

The Russian Government Edict No. 3090-r dated November 02, 2023 specifies the list of goods of critical import with state insurance support.

Decisions of the Sub-Commission on Customs Tariff and Non-Tariff Regulation on protection of the domestic market in 2024

At the end of November 2023, the Sub-Commission on Customs Tariff and Non-Tariff Regulation, Protective Measures in Foreign Trade of the Government Commission for Economic Development and Integration adopted a number of decisions to protect the domestic market and expand supply.¹

In particular, the Ministry of Agriculture and the Ministry of Economic Development supported the proposal of the Ministry of Agriculture and the Ministry of Economic Development to establish a tariff quota for the export of basic grains (wheat, barley, corn, rye) outside Russia to states that are not members of the Eurasian Economic Union in the amount of 24 mn tons. It is planned that the quota will be valid from February 15 to June 30, 2024.

Also supported was the initiative of the Ministry of Agriculture to introduce a temporary ban on export of durum wheat from Russia for a period of 6 months – from December 1, 2023 to May 31, 2024 inclusive. The measure is aimed at ensuring food security and restraining consumer prices for grain processing products on the domestic market.

The subcommittee approved the introduction of a tariff concession for certain types of chicken meat. Thus, in 2024, it is planned to exempt from import customs duty the supply of chicken meat in the amount of up to 160,000 tons. This decision is aimed at stabilizing prices in the market of poultry products by increasing supply in the domestic market.

In addition, the Sub-Commission approved the initiative of the Ministry of Industry and Trade to introduce a quota for scrap export for the period from January 1 to June 30, 2024. The size of the quota of 600,000 tons remains unchanged, as well as the intra-quota duty of 5%, but not less than €15 per ton. The out-of-quota duty will also remain unchanged – 5%, but not less than 290 €/t. The extension of the existing measures will help support prices and provide domestic enterprises in the steel industry with strategic raw materials.

1 Official website of the RF Ministry of Economic Development. URL: https://www.economy.gov.ru/material/directions/vneshneekonomicheskaya_deyatelnost/tamozhenno_tarifnoe_regulirovanie/podkomissiya_po_tamozhenno_tarifnomu_regulirovaniyu_prinyala_ryad_resheniy_po_zashchite_vnutrennego_rynka_i_rasshireniyu_predlozheniya.html

Section 4. Social sphere

4.1. Dynamics of labor market¹

Main indicators of the Russian labor market demonstrated stable positive dynamics throughout 2022–2023. In 2023, the number of employed in the economy involving potential labor force and changes in the retirement age increased by 2.3% relative to 2022, when the recovery of demand in the labor market showed pre-pandemic level.

Moreover, the situation in the labor market was affected by the systematic reduction of employment in the informal sector of the economy to 13.3 mn people vs 14.6 mn in 2021. With growth of economic activity, the unemployment rate (according to the ILO methodology) was steadily declining from 4.8% in 2021 to 3.9% in 2022 and 3.2% in 2023. At the same time, there was a decline in the number of officially registered unemployed in the employment services (*Table 1*).

Table 1

Russian labor market in 2019–2023

	2019	2020	2021	2022	2023				
					Year	Q1	Q2	Q3	Q4
Million people									
Workforce	75.4	74.9	75.3	74.9	76.0	75.6	75.8	76.4	76.4
Employed in economy	71.9	70.6	71.7	72.0	73,6	72,9	73,4	74,1	74,1
Unemployed (according to ILO methodology)	3.5	4.3	3.6	3.0	2.4	2.7	2.4	2.3	2.2
% vs previous year									
Workforce	99.0	99.4	100.6	99.4	101.5	101.1	101.3	101.7	101.8
Employed in economy	99.2	98.1	101.6	100.4	102.3	101.9	102.1	101.7	101.8
% vs number of employed									
Unemployment rate	4.6	5.8	4.8	3.9	3.2	3.5	3.2	3.0	2.9
Unemployment registered rate	0.9	3.7	1.0	0.8	0.6	0.7	0.7	0.66	0.6

Source: Rosstat.

1 Authors: *Izryadnova O.I.*, Head of Structural Policy Department at the Gaidar Institute; Leading Researcher, IAES RANEPА

The labor market in 2022–2023 was formed amidst record low unemployment impacted by the influence of growing deficit of labor force due to the growing demand for human resources and the acceleration of economic growth to 3.6% and stagnation of the labor productivity indicator. The situation in the labor market was determined by factors related to demographic trends, international and regional migration flows.

The shortage of personnel in the economy was developed under the influence of the forced structural shift associated with growth of output in manufacturing industries, in particular, due to the need for import substitution, increased government procurement; active investment and construction activities; changes in interregional interactions in the new geo-economic realities.

The qualification imbalance in the labor market intensified due to rapidly changing requirements to professional skills and knowledge when filling vacant positions. The shortage of personnel shifted from the traditionally high demand for IT specialists to the segments of the labor market of engineering and technical employees, workers and mass professions.

The shortage of personnel in the midst of expansion of import-substituting industries and growth in government orders has become especially relevant for machine-building, chemical, metallurgical, investment and construction enterprises. In the context of reorientation of trade and economic chains and cargo flows, the need for professions in the transportation and logistics sector has increased, especially in the Far East and southern regions.

Retaining personnel has become one of the main problems of businesses in the context of limited labor resources. Changes in the number of employees in certain types of economic activities and dynamics of labor force turnover indicated the overflow of labor resources to more dynamic sectors of the economy. In the economy as a whole, in Q4 2023, 7.7% of employees on the payroll were hired, 7.5% of the similar indicator were discharged for various reasons. In the total number of hired workers, the share of hiring for additionally commissioned jobs in the economy as a whole amounted to 6.4%.

In the industries producing computers, electronic and optical devices, 13.1% of the total number of hired employees were hired to additional working positions considering changes in the scale of output. In production of electrical equipment, the similar indicator amounted to 12.3%, in production of finished metal products this figure was 10.9%, in production of chemicals – 9.3% and in production of medicines and materials – 9.7%.

The personnel competitive environment in the labor market was changing. The need of organizations for employees to fill vacant jobs increased to 5.4% of the total number of jobs (3.7% in 2020), including in manufacturing to 5.0% (2.9%), in mining to 4.1% (2.4%), in energy to 7.7% (3.6%), in construction to 7.5% (5.6%), in transportation and storage to 6.6% (4.7%) and in trade to 7.7% (5.6%).

The problem of labor shortage was aggravated by the lack of skills and competencies to fill vacant positions. According to recruitment agencies, the number of active resumes per 1 vacancy dropped to 3.5 (the number of vacancies

for 2023 grew by 30%, while the number of resumes increased by 1%). These data have also been confirmed by official statistics.

With the number of officially registered unemployed decreasing by almost a quarter compared to 2022, the load per 100 declared vacancies in the employment service fell from 42.3 to 25.9 people in 2023 and the average job search period reduced from 5.9 to 5.4 months.

The limited human resource potential and growth of government orders forced some production facilities to switch to a multi-shift mode of operation. The average duration of the working day reached the maximum for the last twenty years and amounted to 7.17 hours.

Employment was also affected by baseline conditions in 2022, when a 3.6% decline in labor productivity was recorded relative to the previous year (*Table 2*).

Table 2

**Labor productivity index by main types of economic activities in 2019–2022,
% to the previous year**

Types of economic activity	2019	2020	2021	2022
Economy as a whole	102.4	99.6	103.7	96.4
Agriculture, hunting, fishery and fish farming	106.0	99.9	100.6	107.8
Agriculture, forestry, hunting	106.0	100.2	100.0	108.7
Fishery, fish farming	102.0	95.0	100.7	97.6
Mining	101.6	95.2	100.7	96.6
Manufacturing industries	103.6	104.2	102.6	96.7
Provision of electricity, gas and steam	100.2	99.2	105.7	100.8
Water supply; wastewater disposal, waste utilization	105.8	103.4	106.0	93.0
Construction	96.8	100.3	99.7	101.8
Wholesale and retail trade	101.6	104.0	103.8	87.1
Transportation and storage	101.0	89.8	102.8	95.5
Hotel and catering activities	100.6	78.7	116.3	101.3
Information and communication activities	106.1	101.8	103.7	97.2
Real estate activities	102.6	95.7	104.8	98.6
Professional, scientific and technical activity	107.9	104.7	105.8	92.3
Administrative activity	96.3	94.3	103.8	98.3

Source: Rosstat.

The main unrealized reserves for cutting the shortage of personnel and increasing labor productivity remain the problems of reducing the scale of underemployment and informal employment, as well as non-automated workplaces. In 2023, 13.8% of the total number of employees of organizations were underemployed economy-wide. Improvement of labor efficiency depends on the adaptation of conditions of business process management, strengthening of discipline of labor relations, labor organization, dynamics of technological innovations in the economy.

4.2. Household incomes: consumer demand and savings¹

The persisting shortage of personnel restrains processes of alignment of labor productivity dynamics with growth of wages, slowing down the process of convergence of labor supply opportunities and the level of consumer demand.

Shortage of employees resulted in acceleration of wage growth in most types of economic activities as one of the most affordable factors for retaining staff. To retain staff and compensate for the shortage of engineers and workers, companies raised salaries, offered attractive social packages, improved working conditions, and introduced training programs.

However, emergency measure aimed to fix the personnel deficit by increasing salaries was hindered by stagnating labor productivity, including due to the lack of qualification skills and competencies. Addressing a systemic problem of balanced functioning of labor market is long-lasting and is determined by duration of training of qualified engineering, managerial and working personnel in the implementation of innovation-technological and organizational-management programs to improve the efficiency of labor use.

In 2023, the average monthly nominal salary of employees amounted to Rb73,709 and increased by 12.8% year-on-year. Large business structures, defense industry enterprises often offered higher salaries and social programs, which allowed them to compete with civilian enterprises and attract specialized personnel from small and medium-sized businesses.

In 2023, staffing vulnerability of the organizations representing basic sectors of the economy increased. The industries of infrastructure and financial services remained the driver of labor demand and wage growth. The highest growth of labor remuneration in nominal terms in 2023 was observed in the following branches of manufacturing production: manufacture of electrical equipment (123.7%), computer equipment (121.9%), vehicles (121.7%), The gap in wages of manufacturing production and machine-building facilities with the all-Russian indicator and other types of detail is narrowing, thereby increasing the economic attractiveness of employment in these types of activities (*Table 3*).

Table 3

Dynamics of nominal accrued wages by types of economic activities and ratio to national average in 2020–2023

	% to previous year				% to Russian average			
	2020	2021	2022	2023	2020	2021	2022	2023
Total	107.3	111.5	114.1	112.8	100	100	100	100
Agriculture, forestry	109.6	113.4	118.6	113.0	68	69	72	72
Mining	106.7	108.5	114.4	110.5	186	181	181	177
Manufacturing industries	106.1	112.7	115.3	117.9	91	92	93	97
Including: Food processing	106.9	113.3	113.8	116.6	73	74	74	77

¹ Author: *Izryadnova O.I.*, Head of Structural Policy Department at the Gaidar Institute; Leading Researcher, IAES RANEPА.

	% to previous year				% to Russian average			
	2020	2021	2022	2023	2020	2021	2022	2023
Textiles	113.7	112.5	114.3	115.8	59	59	59	61
Clothing	99.3	116.2	112.5	124.5	41	42	42	46
Wood processing and wood products	105.0	117.7	111.4	109.8	60	63	62	60
Paper and paper products	110.0	110.9	114.8	110.3	102	101	102	100
Coke and petroleum products	100.5	106.2	112.0	112.1	160	152	150	149
Chemicals	105.5	111.1	118.2	116.3	112	111	115	119
Medicines and materials	115.4	112.0	110.0	112.1	138	139	134	133
Rubber and plastic products	111.3	113.0	114.8	119.3	77	78	79	83
Non-metallic mineral production	107.4	113.4	116.8	116.1	79	81	83	85
Metallurgic production	106.3	111.1	118.5	113.8	111	110	115	116
Finished metal production	106.3	110.0	116.6	123.8	86	85	86	95
Computers, electronic and optical products	105.0	114.0	115.8	121.9	110	113	115	124
Electric equipment	104.7	111.7	115.8	123.2	89	89	90	99
Machinery and equipment	107.6	113.1	118.0	117.6	93	94	97	101
Motor vehicles	102.6	114.4	109.9	120.3	91	93	90	95
Other vehicles and equipment	103.6	111.7	114.3	122.1	104	104	105	113
Furniture	103.3	116.0	114.5	116.7	54	56	56	58
Repair and installation of machinery and equipment	105.0	116.5	114.0	113.0	101	105	105	105
Provision of electric energy, gas and steam	105.5	108.7	113.2	113.6	104	101	100	101
Construction	104.9	116.1	117.1	113.3	87	91	93	94
Wholesale and retail trade	104.3	120.4	114.7	110.0	82	88	88	86
Transportation and storage	103.5	110.3	114.6	113.6	103	102	102	103
Hotels and catering	97.2	121.2	113.1	115.0	53	58	58	59
Information and communication	112.8	113.8	124.5	107.5	167	170	186	177
Finance and insurance	108.7	115.6	112.6	115.3	219	227	224	229
Professional, scientific and technical activity	106.5	109.1	115.5	106.2	156	153	154	145
Public administration and military security	106.9	107.6	108.3	116.3	106	102	97	100
Education	106.7	109.7	111.5	112.1	77	76	74	74
Health care	114.9	102.3	109.3	110.9	96	89	85	83
Culture, sports, recreation and entertainment	103.1	110.1	107.8	112.9	94	93	88	88

Source: Rosstat.

In 2023, growth of wages in real terms by 7.8% had a decisive impact on socio-economic dynamics. Labor income accounted for 65.8% of total household income, exceeded the 2022 indicator by 2.6 p.p. and showed a steady quarterly increase in the contribution to the overall dynamics. Households' monetary income in 2023 increased by 10.7% year-on-year, and in nominal terms the average households' per capita monetary income amounted to Rb50,265.

As inflationary pressures ease in 2023 to 7.4% compared to 11.95% in the previous year, real monetary incomes rose by 4.6%. Real disposable incomes rose

by 5.4%. Growth in social expenditures related to pension benefits resulted in an increase in the real amount of the awarded pensions by 3.3%, however, it did not remove the tension accumulated in the previous year.

As nominal size of assigned pensions grows by 9.3%, their ratio to the subsistence minimum increased to 157.6%, thereby providing an additional contribution to the restoration of positive dynamics of the households' real incomes, but the gap with the average level of accrued wages increased (*Table 4*).

Table 4

**Dynamics of nominal and real incomes of households in 2022–2023,
% to the corresponding period of the previous year**

Period Cash incomes		In nominal terms			In real terms			
		Cash incomes	wages	pensions	Cash incomes	Disposable cash incomes	wages	pensions
2022	Year	113.5	114.1	107.1	99.4	99.0	100.3	94.2
	Q1	114.3	115.0	106.6	102.0	101.4	103.1	96.1
	Q2	115.3	110.6	103.3	98.2	99.3	94.6	95.41
	Q3	110.8	112.2	105.7	96.4	95.8	98.1	84.1
	Q4	113.9	112.7	100.5	101.1	99.9	100.5	104.2
2023	Year	110.9	114.1	109.3	104.6	105.4	107.8	103.3
	Q1	111.2	110.7	104.4	102.0	104.4	101.9	105.4
	Q2	108.2	114.4	100.6	105.0	105.2	111.4	108.6
	Q3	109.4	114.3	100.4	103.7	103.3	108.7	100.8
	Q4	114.9	116.3	100.4	106.8	108.0	108.5	98.8

Source: Rosstat

The income inequality has slightly increased in 2023 considering the differences in the rate of change in the households' income by social groups and status: Gini, the inequality index, showed 0.403 vs 0.395 a year earlier, while R/P 10% ratio was 14.6 times vs 13.8 times in 2022.

However, due to changes in the structure of distribution of households by average per capita income and those employed by average accrued wages, indexation and outrunning growth of the minimum wage, expansion of social targeted support for low-income groups, the number of low-income households below the poverty line has dropped to 13.5 mn and reduced by 0.8 mn compared to 2022.

In Q4 2023, the poverty rate fell to a minimum of 6.8% during the 30-year observation period, with an annual average of 9.3%. The reduction in poverty is due both to active social support and to stimulation of entrepreneurial activity and employment (*Table 5*).

In 2023, the size of households' monetary income was Rb88,334.1 bn and increased by 10.7% compared to 2022. Households' monetary expenditures in 2023 amounted to Rb82,254.9 bn and increased by 9.5% compared to the previous year. Households spent Rb69,507.2 bn on goods and services, which is 11.3% more than in 2022. In 2023, growth of households' savings increased by 31.7% to Rb6,079.2 bn vs Rb4,627.0 bn a year earlier.

Table 5

Income of households below poverty line

		Million people	% of the total number of households
2022	Year	14.3	9.8
	Q1	20.9	14.3
	Q2	17.6	12.1
	Q3	15.3	10.5
	Q4	11.6	7.9
2023	Year	13.5	9.3
	Q1	19.6	13.5
	Q2	15.7	10.8
	Q3	14.8	10.2
	Q4	9.9	6.8

Source: Rosstat

Retail sales increased by 6.4% in 2023, including non-food market by 9.5% and food market by 3.3%, as households' incomes rose and solvent public demand recovered. In 2023, demand in the food market has generally diluted the decline of the previous year and remained extremely sensitive to changes in price environment. The food market has seen an increase in speculative demand, as prices for foods hiked in H2 2023. The recovery of positive dynamics of the non-food market with the accumulated deferred demand of the previous year in the Q2–Q4 2023 demonstrated quarterly acceleration of growth rates amid persisting high inflation expectations, but remained 2.1% lower than in 2021.

The dynamics of demand for paid services and public catering looks positive for the second year and reflects gradual recovery of signs related to the quality of life (Table 6).

Table 6

Dynamics of consumer market and consumer prices in 2022-2023

	2022	Q1	Q2	Q3	Q4	2023	Q1	Q2	Q3	Q4
% to previous year										
Retail turnover	93.5	104.8	90.4	90.2	90.4	106.4	93.1	109.4	111.3	111.1
Foods	98.3	103.3	97.8	96.9	96.1	103.3	96.8	104.8	104.9	105.9
Non-food goods	89.4	106.1	84.1	84.7	85.5	109.5	90.0	114.1	117.6	116.4
Catering	107.6	112.7	102.1	105.3	110.6	112.3	112.2	118.4	109.9	109.4
Paid services	100.1	97.9	102.6	102.7	95.7	102.4	99.9	102.4	102.6	94.3
% to previous period										
Consumer price index	111.9	110.0	101.3	99.1	101.3	107.4	101.7	101.1	101.8	102.7
Foods	110.6	110.5	102.2	96.4	101.6	108.9	102.4	99.9	101.4	105.0
Non-food goods	112.7	112.9	100.0	99.7	100.2	106.0	100.3	100.9	103.2	101.5
Services	113.2	106.0	101.6	102.0	103.1	108.3	102.7	102.8	100.8	101.8

Source: Rosstat.

With the current dynamics of income in 2023, there was a change in the consumer, saving, investment behavior of households and the structure of borrowing. In 2023, household savings increased mainly in cash and deposits.

With the rise in interest rates, the households' banking accounts increased by 22.7% and equaled for almost 51.0% of their monetary incomes.

Amid the restrained behavior of the securities market, growth in the funds of households in escrow accounts amounted to Rb5.2 trillion. This was the maximum for five years of observation.

Low level of housing provision for households, stimulating government programs, as well as the well-established perception of investments in real estate as a tool for saving determined both investment behavior and dynamics of housing construction. Growth of households' saving activity was accompanied by a shift of part of the demand for real estate towards deposit products. Total area of commissioned residential buildings at the expense of households' funds amounted to 58.7 mn sq. m., or 53.1% of the total volume of housing commissioned in 2023 compared to 55.7% in 2022.

Growth in household lending amounted to 123.8%, and the main contribution, as a year earlier, was provided by housing mortgage loans. The share of mortgage loans in 2023 amounted to 8.8% of household income, and in the structure of household financial liabilities, residential mortgage loans accounted for more than half of outstanding loans. Amid market shocks, the 2023 mortgage demonstrated high resilience while implementing innovations in the regulation of the mortgage business aimed at reducing risks for both households and banks.

4.3. The education system¹

In 2023, the main trends which emerged during the coronavirus pandemic and largely consolidated with the start of the special military operation in 2022 continued in the Russian education system. In the higher education, the Russian Federation announced its withdrawal from the Bologna system, and that has already led to the shrinkage of partner relations with European universities and termination of academic mobility of teachers and students, while in school education Russia found itself cut off from international comparative studies of the quality of general education conducted by the OECD – PISA, TIMSS and PIRLS. A shift is observed towards Asian, Arab and Latin American education systems through which, nevertheless, access is also provided to European/American developments in the field of education. At the same time, a new national system is being designed in the higher education system which architecture has been tested since the spring of 2023 in an experimental mode by six universities: the I. Kant Baltic Federal University, the Moscow Aviation Institute (National Research University), the National Research Technological University "MISIS", The Moscow Pedagogical State University, The St. Petersburg Mining University (NRU) and the Tomsk National Research State University. The experiment on the new higher education system will last for three years, but some higher education establishments will be able to use its outputs in their activities even earlier, i.e.

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before the end of the pilot project. In 2023, as part of the experiment, about 180 new educational programs were developed and they are expected to form the basis for new federal state educational standards (FSSES) and create the framework of a new higher education system in Russia.

4.3.1. General education

In *preschool education* (included in the general education of children), the main emphasis is made on increasing the coverage of children with the services of preschool educational organizations (hereinafter referred to as PEO). From 2018 to 2022, in the Russian Federation as a whole, the coverage of children with preschool education services picked up as follows: children under 3 years old – an increase of 6.1 p.p. (from 22.2% to 28.3%) and children of 3–6 years old – an increase of 4.6 p.p. (from 84.2 to 88.8%).¹ At the same time, for example, in Moscow in 2018–2022 the coverage of preschool children under 3 years of age decreased by 2.8 p.p. (from 19.7% to 16.9%), and children of 3–6 years old increased by 3.3 p.p. (from 67.8% to 71.1%) in 2018–2021, while in 2022 it was even below the level of 2018 (67.6%). It is unlikely that Moscow cannot provide children with places in preschool educational organizations; it is more likely that parents prefer to educate preschoolers at home and have financial resources for this purpose. The situation is quite different in St. Petersburg.

The coverage of children under 3 years of age and children of 3–6 years of age, including children aged 7, with PEO services has increased: the coverage of children under 3 years old with preschool education services rose from 21.4% in 2018 to 29.7% in 2022, and for children of 3–6 years old, from 90.6% to 110.1% (many 7-year-old children attend preschool classes). The lowest coverage of children with preschool education is observed in the Republic of Dagestan: in 2022 covered by appropriate services were only 7.6% of children under the age of 3 and 47.7% of children aged 3–6 year old, i.e. less than a half.² It is usually believed that the population of the Republics of the North Caucasus does not strive to send their children to preschool education, but in other regions of the North Caucasian Federal Okrug there is a rapid increase in the enrollment of children in preschool education, and for children at the age of 3–6 years old this figure approaches or exceeds 2/3 of the total number of preschoolers of this age.

As regards the availability of places in preschool educational organizations, the acute situation remains in the Chechen Republic where in 2022 there were 131 children per 100 places in urban areas and 118 children in rural areas. The situation in the cities of the Republic of Tyva is even more dramatic: 133 children per 100 places. In addition, an acute shortage of places in preschool educational institutions is observed in the Tyumen region (without autonomous national areas): 124 children per 100 places in cities, but 100 children for 100 places in

1 At the time of preparation of the review, the data on the coverage of children with the services of preschool educational organizations in 2023 were unavailable.

2 Rosstat. URL: https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Frosstat.gov.ru%2Fstorage%2Fmediabank%2Fpokazateli_DO.xlsx&wdOrigin=BROWSELINK

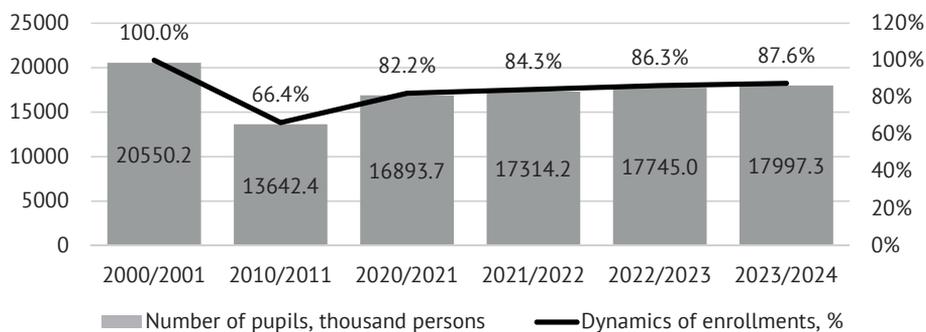


Fig. 1. The number of schoolchildren in 2000/2001–2023/2024 academic years (left-hand axis) and its dynamics (right-hand axis)

Source: Calculations based on the data of Rosstat and OO-1 2023.

villages, i.e. the situation is quite good. In other regions where there is an excess of the number of children relative to the available places, this situation is mainly typical of urban areas and amounts maximum to 112 children per 100 places.¹

In *school education*, after a significant decline in the number of pupils in the 2000s, the 2020s saw a steady increase in enrollments (Fig. 1).

After a decrease in the number of schoolchildren by a third during 2000–2010, it began to grow and in the 2023/2024 academic year amounted to 87.6% of the level of the 2000/2001 academic year (Fig. 1). At the same time, the school-age population could have been even larger in recent years, but the growing outflow of 9th grade pupils into the system of secondary vocational education continues. In the 2022/2023 academic year, 1,535,700 schoolchildren left the 9th grade, while only 663,900 schoolchildren, the 10th grade. Accordingly, after the end of the main schooling in recent years more than 850,000–870,000 pupils (i.e., approximately 55%–57%) leave it (depending on the year).

In 2023, 1,549,300 schoolchildren took the main state exam (MSE) and 1,512,500 pupils passed it (97.5%), receiving the certificate of the basic general education.

In 2023, 612,400 schoolchildren were admitted to the Unified State Exam (USE) of whom 605,200 pupils or 98.8% passed it and received a certificate of the general secondary education. At the same time, the number of 11th grade pupils who took specialized mathematics and physics exams decreased again. So, in 2022 45% and 15% of 11th grade school leavers took specialized mathematics and physics USE exams, respectively, while in 2023, 42% and 12%, respectively. Thus, the decrease over the year was equal to 3 p.p. for each of these disciplines. At the same time, the share of 11th grade pupils who choose specialized mathematics and physics when passing the unified state exam has decreased by 11p.p. and 9 p.p., respectively, since 2018, with simultaneous growth in admission to state-funded places in higher education establishments specializing in engineering specialties where

1 Rosstat. URL: https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Frosstat.gov.ru%2Fstorage%2Fmediabank%2Fpokazateli_DO.xlsx&wdOrigin=BROWSELINK

the passing of exams in these particular disciplines is required for admission. This leads to the fact that either the average USE scores, sufficient for an applicant to become a student in the specified educational programs, are clearly reduced or there is a gradual devaluation of the results of the unified state exam.

In many ways, the situation with the comprehension of mathematics and physics at school, other natural science disciplines as well as the choice of these subjects for passing the Unified State Exam is associated with a shortage of teachers in these subjects, especially in rural schools. Problems with the shortage of teaching staff in the general education system are associated in public opinion almost exclusively with low wages, especially, when it comes to young teachers. At the same time, according to Rosstat's data, the average salary of school teaching staff in most subjects of the Russian Federation amounts at least to 100% of the average salary in the relevant region.

In January – September 2023,¹ for Russia as a whole the salary of school teachers was on average equal to Rb53,637.

The fact that within “their” region the average salary of teachers has reached the approved target is not regarded by the pedagogical community as a breakthrough. At the same time, an interregional comparison of teacher salaries gives rise to a feeling of serious inequality: the average teacher salary of more than Rb53,637 was seen in 21 regions of the country, while in the rest of Russia it was lower, sometimes even significantly. Thus, in 7 subjects of the Russian Federation it ranged from 40% to 60% of the specified average salary in Russia and in other 16 subjects it was above 60%, but below 70%. Therefore, both teachers themselves and deputies of the Legislative Assemblies of the subjects of the Russian Federation and the State Duma constantly raise the question: “Why do teachers in different regions of Russia receive a different pay for equal work?” It is widely accepted that regional differences in living standards should not be reflected in the salaries of teachers with the same qualifications.

The fact that such an approach opens a “Pandora’s box” and raises a large number of questions is not taken into account. At the same time, during its implementation it will be necessary to develop the nationwide criteria for the efficiency of teachers’ work and this may lead to a revision of qualification categories and, quite possibly, to the deprivation of some teachers of these categories and to a decrease, and not an increase, in wages for many elderly teachers, on whom the certain stability of school education relies on. Further, efforts to eliminate interregional differences under the slogan “equal pay for equal work” will quickly entail the need to revise wages and approaches to the establishment thereof in all social sectors, which situation can destabilize many regional budgets and require a revision of the system of intergovernmental fiscal transfers.

The experiment which is currently carried out in 5 subjects of the Russian Federation to introduce a new system of remuneration for teachers is practically not commented either on the content or results, although the news on its initiation

¹ The latest official data available: URL: <https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Frosstat.gov.ru%2Fstorage%2Fmediabank%2F03-23-02.xlsx&wdOrig-in=BROWSELINK>

was greeted enthusiastically by teachers. However, in 2023 the widely discussed initiatives of individual State Duma deputies focused mainly on the issue of retaining young teachers in schools by switching over either to the distribution of graduates of pedagogical universities or to the introduction of special supplement payments to wages of young specialists. Also, it is proposed to overcome the shortage of teaching staff by using the labor of senior students of pedagogical universities and colleges.

Meanwhile, in 2023 8.6% of school teachers had less than 3 years of experience, while 57.8% of teachers had 20 years or more of pedagogical experience. At the same time, the lowest share of 4.9% is made up of teachers whose pedagogical experience varied from 3 to 5 years. This means that young teachers come to school, but after a rather short period leave it because they are unable to withstand the working conditions (high academic load and much paperwork associated with their activities, as well as relations in the teaching staff, with pupils' parents or pupils themselves). Despite all the declared efforts to reduce the "load of paperwork," it still remains quite high.

The distribution of teachers by age in 2023 is shown in *Fig. 2*.

The number of teachers under 35 years old (i.e. the youth) and over 50 years old is currently equal to 23.0% and 43.6%, respectively. Thus, in a few years, the general education system may quite objectively face the challenge of replacing the elder generation of teachers with a younger one.

The rapid development of remote educational technologies and e-learning also sets the task of rejuvenating the teaching staff.

If we consider the issue of the quality of school education, it is to be noted that the use of private tutors in preparing schoolchildren not only for the Unified State Exam, but also for everyday classes has increasingly grown in the past few years (*Fig. 3, 4*).

As seen from *Fig. 3*, almost all school leavers who were planning to enter higher education establishments studied with tutors (individually or in a group)

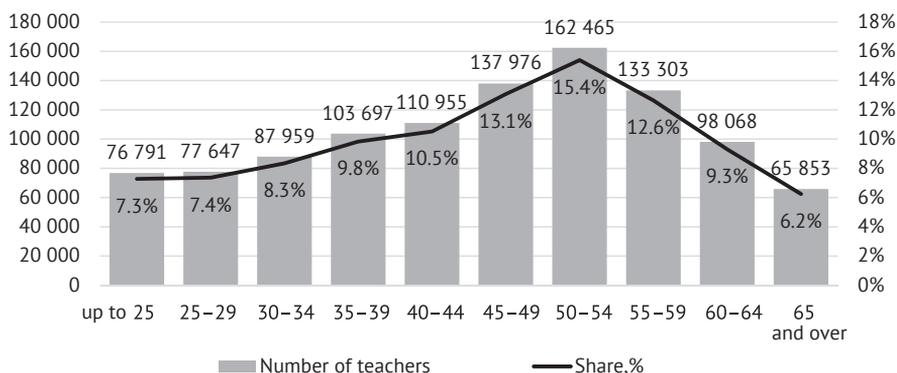


Fig. 2. The distribution of teachers by age (left-hand axis) and the share of teachers of particular age (right-hand axis)

Source: The Ministry of Education. URL: <https://edu.gov.ru/activity/statistics/>

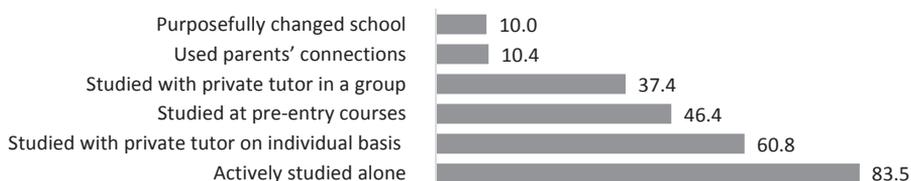


Fig. 3. Methods of preparation of 11th grade pupils for the Unified State Exam, % (maximum two answers were allowed)

Source: The sociological study carried out by the CECE of IAES RANPEA into the models of education and labor behavior of graduates from higher education establishments (May-June 2023).

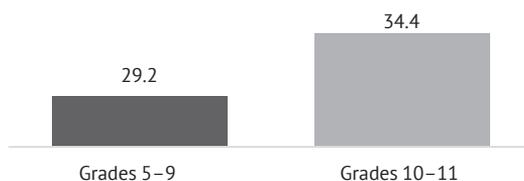


Fig. 4. Classes with private tutors of 5th-9th grade pupils with the aim of “pulling up school subjects”, %

Source: The sociological survey by the CECE of IAES RANPEA of schoolchildren's parents (September 2023).

to get prepared for the Unified State Exam. As for the use of tutors for everyday classes, such involvement of schoolchildren of the secondary and higher secondary schools is shown in Fig. 4.

In the secondary school (grades 5–9), almost 30% of pupils study with tutors in school subjects, while in the higher secondary school, slightly less than 35%. It can be assumed that those who study with tutors in the secondary school are pupils who expect to continue their studies in the 10th and 11th grades, and therefore have to study hard and use external help. At the same time, according to the study by the CECE of IAES RANPEA, 24.1% of 9th grade pupils (i.e., approximately a quarter) prepare with tutors for the OGE exam. Here the motivation for classes with a tutor to pass the OGE exam well in order to get enrolled in prestigious programs at secondary vocational education establishments (primarily ICT, medicine, design, economics, management and law), including colleges at higher education establishments and/or budget-funded places, and also transfer from a regular school to the 10th grade of a lyceum or gymnasium (the best school in the city), get into the 10th grade in the desired profile of study, etc. At the same time, it is noteworthy that the number of cases of turning to private tutors when preparing for the Unified State Exam has been decreasing in recent years, as the choice in favor of secondary vocational education establishments after completion of the 9th grade is growing, and some families prefer to pay for a college education rather than tutors because tuition fees in this case are not high and, most importantly, spread over time.

4.3.2. Additional education for children

The statistical data on additional education for children (hereinafter referred to as AEC) for 2022 and 2023 are unavailable. Therefore, the main trends can only be traced through sociological studies. A sociological survey of schoolchildren's parents carried out by the CECE of IAES RANEPa in 2023 in three Russian regions – the Sverdlovsk region, the Stavropol Krai and the Altai Krai – made it feasible to identify some important points related to the development of AEC.

Involvement of children in AEC was noted by 63% of surveyed parents. More often, such involvement is indicated by families whose level of material well-being (73%), social status (74%) and living conditions (73%) is characterized as high or above average. In other words, families with a high level of social capital pay a great attention to the development of children and are not limited to the opportunities provided by compulsory schooling.

At the same time, in the elite segment of school education the level of attendance at additional classes is higher: in 2023 it amounted to 78% in schools with an advanced curriculum in certain subjects, gymnasiums and lyceums.

More than half (56%) of those who reported that their child participated in the additional education system spoke about free attendance of additional classes. A fifth (19%) of parents indicated only paid classes and a quarter (25%), a combined option (both free and paid classes) (Fig. 5).

It is noteworthy that within the scope of the “Education” national project, they have started in recent years to issue special certificates (certificates of personalized financing of additional education – PFAE) for visiting AEC organizations. This measure increased the attendance of extracurricular activities by children from low-income families. At the same time, families with above-average incomes often prefer to pay for additional education of their children rather than use the certificate, trying to provide their children with a higher quality of teaching.

Thus, paid additional classes are more often attended by children at schools with an advanced curriculum in certain subjects, gymnasiums and lyceums (28%) and from families whose level of material well-being, social status and living conditions is above average (28%, 28% and 29%, respectively).

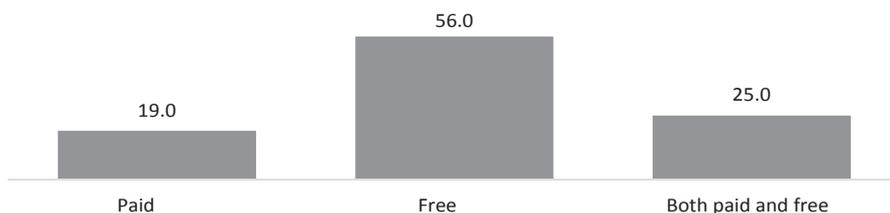


Fig. 5. The distribution of answers to the question about their children's paid/free additional classes, %

Source: The sociological survey by the CECE of IAES RANEPa of schoolchildren's parents (September 2023).

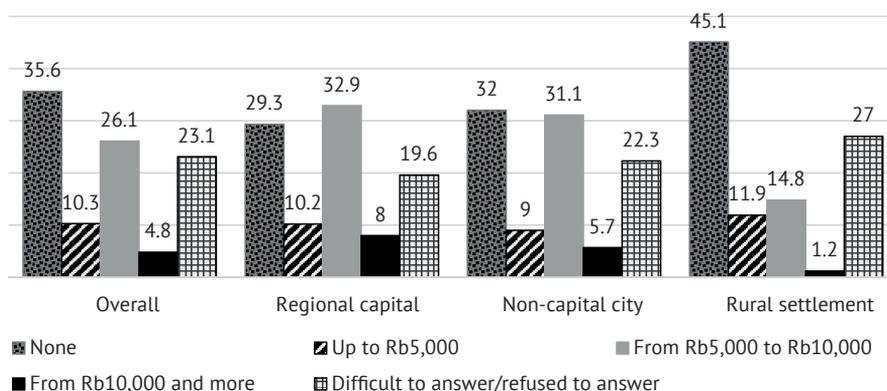


Fig. 6. The distribution of the respondents' answers to the question: "Which sum do you spend a month on all additional classes of your child?" (an open question) and the "Type of Settlement" (the question was put to parents whose child attended additional classes), %

Source: The sociological survey by the CECE of IAES RANEPА of schoolchildren's parents (September 2023).

Free classes are more often attended by children studying in rural areas (70%), at regular schools without specialization (62%), pupils in grades 5–9 (66%), as well as children from families whose level of material well-being, social status and living conditions is characterized as average and below.

Among respondents whose children attend extracurricular activities, 36% of the respondents indicated no monthly expenses for these purposes. Expenses in the amount of up to Rb5,000, from Rb5,000 to Rb10,000 and above Rb10,000 were reported by 10%, 26% and 5% of the respondents. Higher costs are observed in regional centers, lower costs in rural settlements (Fig. 6).

Most parents surveyed (61%) whose child attended additional classes noted that in 2023 there were no changes in the dynamics of family expenses on these purposes. At the same time, 39% of the respondents reported an increase in costs, and less than 1% of the respondents, a decrease. The absence of changes was more often noted by residents of rural settlements (71% of them mentioned



Fig. 7. The distribution of the answers to the question: "Have family expenses on your child's additional classes changed as compared with the previous academic year?", %

Source: The sociological survey by the CECE of IAES RANEPА of schoolchildren's parents (September 2023).

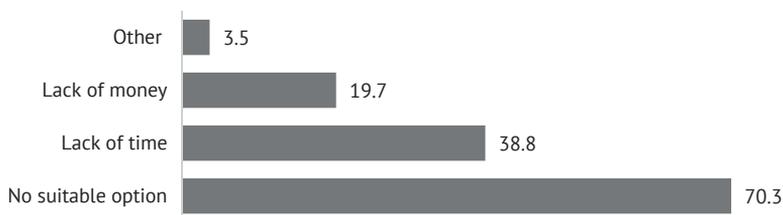


Fig. 8. The distribution of respondents' answers to the question: "For what reasons the child cannot receive the desired additional education?", % (multiple answers were allowed for parents who encountered the unavailability of additional education for their child)

Source: The sociological survey by the CECE of IAES RANEPA of schoolchildren's parents (September 2023).

this); a considerable or insignificant increase in costs was more often reported by parents in non-capital cities (46%) (*Fig. 7*).

More than a quarter of the respondents (28%) found themselves in a situation where additional education was unavailable; this was primarily due to the fact that it was not possible to choose a suitable option (70%). At the same time, 39% of the respondents who faced the unavailability of additional education explained this by lack of time and a fifth (20%), by lack of money (*Fig. 8*).

In general, in 2023 the availability of organizations specializing in additional education for children remained at approximately the same level as a year before, but some children were not involved in additional education owing to various types of deficits: a shortage of supply of activities in which children (families) were interested in, lack of time to attend additional education organizations (classes) or lack of money in the family to pay for relevant services.

4.3.3. The secondary vocational education (SVE)

In 2023 in the Russian Federation there were 4,653 organizations (independent and affiliated) that carried out secondary vocational education programs (programs on training skilled workers and employees and training programs for mid-level specialists) (*Fig. 9*).

In 2023, among independent SVE organizations, public organizations accounted for 87%, while private ones, for 13%; among branches of independent organizations the figures were close: 84% and 16%, respectively. A similar situation is typical for colleges at higher education establishments: they are mainly a part of public higher education establishments, and there are few of them in private ones.

The dynamics of the number of students in secondary vocational education organizations, including by type of education, is presented in *Fig. 10*.

From 2016/2017 to 2023/2024 academic year, the number of students in the secondary vocational education system increased by 30.1%, while from 2020/2021 to 2023/2024 academic year, by 11.2% (*Fig. 11*).

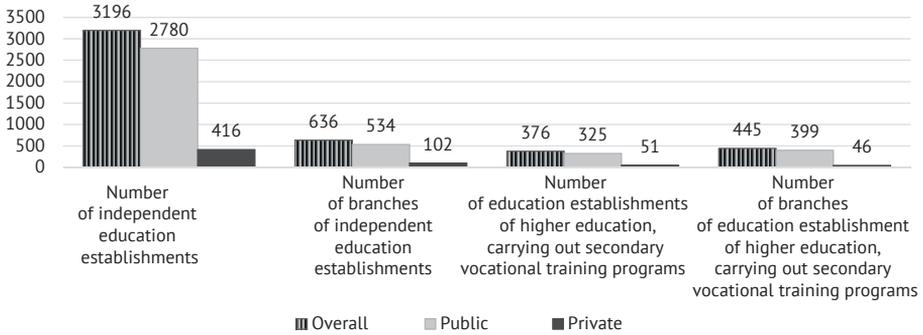


Fig. 9. The number of secondary vocational education establishments in 2023, units

Source: The Ministry of Education, statistical observation form SPO-1 for 2023. URL: https://edu.gov.ru/activity/statistics/secondary_prof_edu

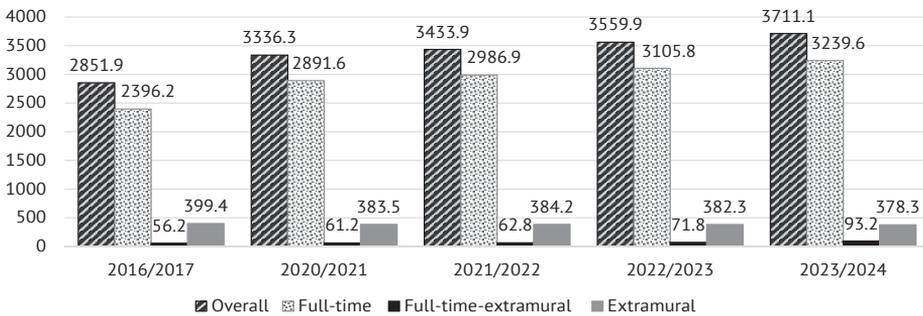


Fig. 10. The number of students in SVE organizations in 2016/2017, 2020/2021–2023/2024 academic years, thousand persons

Source: statistical observation form SPO-1 for 2017 and 2020–2023.

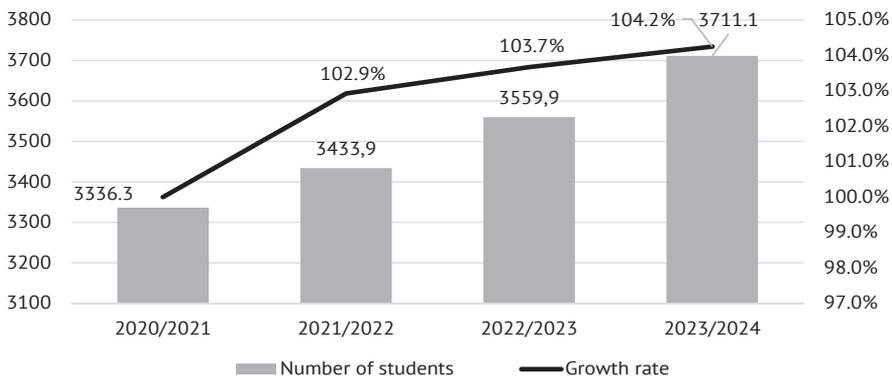


Fig. 11. The number of students in SVE organizations (left-hand axis, thousand persons) and its growth rate (right-hand axis, %, 2020/2021 academic year = 100%)

Source: Calculations based on statistical observation forms SPO-1 for 2020–2023.

In 2023, the bulk of students (85.1%) of secondary vocational education organizations took training programs for mid-level specialists (TPMLS). In recent years, 9th grade pupils leave school in large numbers to enter the secondary vocational education system, which is considered as the educational policy's great achievement. However, the problem is that young people go to colleges not for training programs for workers, but for specialties and that actually repeats the lines of training in BA courses at higher education establishments. This is explicitly seen in colleges that are part of higher education establishments.

At the same time, higher education establishments and their branches take 9th and 11th grade school leavers to their secondary vocational education organizations largely in order to provide themselves with a contingent of students in BA and SD (specialist's degree) courses.

In the regional context, in 2023 the situation was as follows: 7.5% of all students who were trained in TPMLS programs studied in Moscow, 3.4% in St. Petersburg, 4.2% in the Krasnodar Krai, 3.5% in the Moscow region, 3.0% in the Rostov region and 3.4% in the Sverdlovsk region. In other regions these shares were below 3.0%. The lowest level in TPMLS was observed in the Far Eastern Federal Okrug: in the Jewish Autonomous Okrug and the Magadan region – 0.1% each.¹

In 2023, the training of the workforce in the secondary vocational education system was equal to less than 15%, namely 577,200 persons out of 3,711,100 persons. In Moscow, 4.0% of all students in these programs in Russia studied in programs for training skilled workers and employees (PTSWE), in St. Petersburg – 3.6%. The leaders were also the Krasnodar Krai (4.2%), Rostov region (3.8%), Moscow region (3.3%), Sverdlovsk region (3.2%). As for the lowest share, the Jewish Autonomous Okrug and the Magadan region again stood out, but with 0.2% (the Chukotka Autonomous Okrug does not train personnel either in TPMLS or PTSWE).²

The low number of students in programs for training skilled workers was particularly acute in 2022 and 2023 when the Russian economy experienced a growing shortage of workers of this level. At the same time, it is highly unlikely to considerably increase the number of workers as was expected to be done within the scope of the "Specialist's Degree" federal project by reducing the time required for training workers by approximately 50%. Firstly, employers are already talking about a decrease in the standard of education due to such an "acceleration"; secondly, many graduates of the "specialist's degree" programs for training skilled workers do not reach the age of 18 and, therefore, cannot work at many enterprises and entities where the labor of only young adults is allowed. Moreover, for graduates of "specialist's degree" programs the question arises about their future educational trajectories: it is not clear whether they will be able to enter, for example, higher education establishments, which option was available to graduates of traditional programs for training skilled workers

1 Calculations based on statistical observation form SPO-1 for 2023. URL: https://edu.gov.ru/activity/statistics/secondary_prof_edu

2 Ibid.

and employees, although these graduates generally continued their education in programs for training mid-level specialists.

As for the shortage of workers, especially blue-collar workers, in the coming years their shortage will become a significant constraint on Russian economic growth and, as seen from the experience of 2023, it will not be possible to make up for this deficit by means of training them in the secondary vocational education system.

4.3.4. The higher education

As mentioned above, an experiment was started on transition to a new national higher education system in 2023. This pilot project is expected to last for 3 years. Within its framework, as noted, new educational programs and the Federal State Educational Standard (FSES) are being developed.

The experiment demonstrates the main innovations: the introduction of basic and specialized levels of higher education. At the same time, the specialized level is aimed at deepening and expanding the range of knowledge and skills acquired at the basic level. Accordingly, the profile of training is maintained, but due to the interdisciplinarity of the programs, an attempt is made to ensure their certain flexibility. Another important change is associated with a greater practice-oriented nature of main educational programs because the share of work practice in them considerably increased (not only practical exercises or modeling of practical situations with the development of practical skills on simulators, but also training practices), namely, gaining hands-on experience in production conditions (at specific enterprises and entities: for example, design bureaus or research laboratories).

The transformation of a specialized level of higher education – a master's degree – not only into an academic track, but also into a professional one (after 5 years of basic training and work experience) should become an important component of continuous professional education, not necessarily associated with a scientific career (it must be said that, at present, master's degree programs do not automatically lead to postgraduate studies or a scientific degree). In many ways, professional master's degree programs (one-year rather than two-year long) are more equal to modern MBA business education programs which take longer to complete.

At the same time, in the experiment in which the new architecture of the Federal State Educational Standard and main educational programs is being tested, many organizational, economic and financial issues, as well as reactions (or assessments) of the population to the proposed changes, are not approbated. The linking of educational programs to their financial support is substantiated by the mechanism of budgetary financing of the educational process in Russian higher education establishments and, in addition, tuition fees for fee-paying students (Russian and foreign citizens). The mechanism of normative per capita financing used in Russia quite strictly links the educational program and budget-funded students enrolled in it with the volume of budget funds allocated to the

higher education establishment. As for fee-paying students, tuition fees are, to one degree or another, tied to budget funding ratios.

A change in the length of study in main educational programs and the structure of training may lead to a change in the volume of budget funds that will be required for their implementation, as well as to a redistribution of budget funding between higher education establishments. Another outcome may be a revision of the size of budget funding and, accordingly, tuition fees for a particular program. At the same time, an increase or decrease in fees for higher education will lead to a transformation in the behavior of various income groups of the population.

At the same time, while the experiment is underway, the Russian higher education system will actually function as before, with the exception of those few higher education establishments that would like to join the mentioned experiment on their own initiative.

The only thing that will really happen at this time is a continued shift in admission targets (budget-funded places and, accordingly, budget funding) in favor of regional higher education establishments, and the structure of training will increasingly change towards engineering and technical specialties and ICT.

It is noteworthy that these shifts take place amid a decrease in the share of 11th grade school leavers going to higher education establishments (*Table 7*).

Table 7

The share of 11th grade school leavers going to higher education establishments, across federal okrugs, %

	2017/2018 Academic year	2018/2019 academic year	2019/2020 academic year	2020/2021 academic year	2021/2022 academic year	2022/2023 academic year
Russian Federation	54.2	52.6	48.5	44.5	46.5	47.1
Central Federal Okrug	66.1	65.7	62.7	59.1	60.4	62.3
North-Western Federal Okrug	48.9	43.0	43.8	40.9	41.7	42.0
Southern Federal Okrug	67.2	67.8	56.7	51.9	52.4	53.9
North-Caucasian Federal Okrug	41.0	40.5	37.6	32.6	36.2	34.4
Privolzhsky Federal Okrug	69.7	67.3	64.7	61.1	65.7	67.8
Urals Federal Okrug	47.4	48.2	43.0	39.2	41.0	40.9
Siberian Federal Okrug	58.6	56.9	51.2	46.9	48.1	49.4
Far Eastern Federal Okrug	34.4	31.4	28.1	24.1	26.3	26.4

Source: Calculations are based on statistical observation forms OO-1, SPO-1, VO-1 for 2018–2023.

On average in Russia, less than 50% of school leavers have gone to higher education establishments in recent years after completing the 11th grade (*Table 7*). At the same time, as noted above, in 2023, 98% of 11th grade pupils passed the Unified State Exam and received the certificate of secondary education. This means that most of those who received a high school education in 2023 entered vocational education organizations or went to work, interrupting the process of study for some time (it is extremely difficult to assume that they stopped studying

forever, since the modern economy requires continuous additional training and retraining). The lowest share of those going to higher education establishments after leaving a high school has been observed in recent years in the Far Eastern Federal Okrug, while the highest one, in the Privolzhsky Federal Okrug. At the same time, the lowest indicators were seen in all federal districts in the 2020/2021 academic year because of the coronavirus pandemic, when the unified state exam was canceled for those who did not intend to enter higher education establishments.

Under stress conditions caused by the transition to remote learning and problems related with moving to another region to enter a higher education establishment, the choice in favor of continuing education in the secondary vocational education system seemed quite rational. Starting from the 2021/2022 academic year, the share of those entering higher education establishments immediately after leaving school began to grow and thus marked a return to ordinary (normal) life and the usual model of educational behavior. But a complete recovery has not occurred yet. The more so that the worsening of the economic situation of the population in 2017–2022 also stimulated young people to go to secondary vocational education organizations where, as noted above, tuition fees are much lower compared to higher education establishments, if they cannot get to budget-funded places.

The sociological study of graduates of higher education establishments carried out by the CECE of IAES RANEPA showed that in 2023 even those graduating from higher school did not consider it necessary to receive higher education (*Table 8*).¹

Table 8

The idea of graduates of higher education establishment about the need/desire to receive higher education for achieving success in career and life, %

	Required	Desirable	No need	Difficult to answer
Overall	34,2	42,4	11,9	11,6
Type of settlement where higher education is received				
Regional center	32.2	42.9	13.2	11.7
Non-capital city	40.2	40.9	7.9	11.0
Groups of training lines				
Economics and law	45.5	38.4	8.5	7.6
Humanitarian specialties	33.6	44.0	10.8	11.6
Natural science, medicine and engineering specialties	31.3	41.6	15.1	12.0
Services sector	25.5	48.0	7.8	18.6
Parents' education status				
Limited	31.9	45.9	12.2	10.0
Medium	32.7	43.5	11.2	12.6
High	38.6	38.0	11.1	12.2
Parents' material well-being status				
Limited	22,4	47,7	16,8	13,1

¹ The study was carried out in the Sverdlovsk region, Volgograd region and Ivanovo region in May-June 2023.

	Required	Desirable	No need	Difficult to answer
Medium	31.4	45.4	12.5	10.7
High	44.8	34.0	8.7	12.5
Parents' social status				
Limited	26.5	44.9	24.5	4.1
Medium	31.6	45.4	11.8	11.3
High	40.2	36.5	10.3	12.9

Source: The sociological survey of graduates of higher education establishments (carried out by the CECE of IAES RANEPА in May-June 2023).

As seen from *Table 8*, higher education establishment graduates from families with parents' high education status and high material well-being and social status¹ considered it necessary to the greatest extent to receive higher education while students from other families tended to believe that higher education was desirable, but not necessary. At the same time, graduates from families with parents' limited education status and low material well-being and social status denied to the greatest degree the need in higher education. This is quite a serious signal for higher education establishments: if higher education does not provide a high-quality training that meets employers' demand, it cannot be considered as a social lift for young people from the low-income strata of the population.

4.4. The housing market in Russian cities and housing construction²

In 2023, the Russian real estate market was in the stage of strong recovery growth after the 2022 turmoil. Its main driver was the mechanism of state support for mortgages, which boosted demand, ensuring the predominance of mortgage transactions in the total volume of transactions in Russian cities.

Indicators of market consumer activity, especially in terms of mortgage lending, and price dynamic show that predictions of stagnation did not come true. Both primary and secondary segments were marked by an increase in growth rates during the year. Given the unambiguously positive economic situation (GDP growth of 3.6% and the real disposable household income growth of 5.4%), the volume of housing construction grew at a faster pace. At the same time, in contrast to 2022 and several previous years, the increase in the commissioning of apartment buildings was much higher than the results of individual housing construction.

In July-August, the Bank of Russia raised the key rate after a long break, but the market has not yet cooled down. By the end of the year, the effect of the key rate hike (and the resulting reduction in mortgage availability) did not lead to

1 The high level of parents' education means that both parents (or the only one) received higher education; the medium level means that one parent has higher education and the other one does not; the limited level means that both parents (or the only one) do not have higher education. Families' material well-being and social status were determined by respondents themselves.

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either lower growth rates or higher prices, which is probably due to the delayed nature of the possible reaction of the real estate market.

The regulatory effect of the key rate outpaces prices with a certain lag, which was also observed in 2022, when real estate prices peaked about three months after the key rate peaked. The explanation for this is the combined effect of the factors of the relative inertness of the real estate market and the shift of some future demand to closer time intervals. An increase in the key rate will have a stronger impact on the market as the potential for financing through pre-approved mortgages¹ at lower rates is exhausted. Therefore, the expected slowdown in the housing market did not occur in 2023 and could likely occur in H1 2024.

4.4.1. Housing market prices

First of all, it should be noted that there are various sources of information on the dynamics of residential real estate prices. On the one hand, these are official reports of Rosstat, and on the other hand, data from real estate agencies.

First of all, let us turn to the Rosstat data. As indicated on the departmental portal,² price indices on the primary and secondary housing markets are calculated by Rosstat experts on the basis of registered prices for newly built apartments and for apartments of the operating housing stock in ownership, if they are the objects of market transactions. The observation is conducted for a sample of organizations engaged in real estate transactions in territorial centers and individual cities of the subjects of the Russian Federation. When registering prices for apartments, their quantitative and qualitative properties are taken into account. Average prices in Russia are calculated from average prices in the regions. Data on the number of sold total area of apartments separately in the primary and secondary housing markets are used as weights.

Table 9

Price indexes on the housing market in 2023. (at quarter-end in % to the end of the previous quarter, across all types of apartments)

Period	Secondary market	Primary market
Q1	101.24	99.41
Q2	101.62	101.27
Q3	102.34	104.09
Q4	103.06	104.67

Sources: Price indices on the housing market by subjects of the Russian Federation in 2023, data on the primary market. URL: https://rosstat.gov.ru/storage/mediabank/ind_perv_4kv-2023.xlsx; данные по вторичному рынку. URL: https://rosstat.gov.ru/storage/mediabank/ind_vtor_4kv-2023.xlsx

Prices grew at the highest rate in Q3 and Q4 2023, when the market played off the effect of an increase in the discount rate, which caused, among other things, the realization of pent-up demand for pre-approved mortgages at lower mortgage rates (*Table 9*).

¹ Mortgage approved by the banks prior to the rise of the CBR key rate.

² URL: https://rosstat.gov.ru/storage/mediabank/pr_572_12082022.pdf

It was in the second half of the year that the primary market began to overtake the secondary market in terms of price growth rates again, most noticeably in Q3. The moderate dynamics of the first half of the year (price drop in the primary segment in Q1 and lagging behind the secondary segment in Q2) could not radically affect the results of the year as a whole (*Table 10*).

Table 10

Price indexes on the market and average prices of living quarters in 2023 across categories of facilities (Q4-end)

Category of facility	Secondary market		Primary market	
	in % to Q4 2022	Rb thousand per 1 m2 of floor area	in % to Q4 2022	Rb thousand per 1 m2 of floor area
All types of apartments	108.51	97.4	109.68	140.4
Low quality	108.44	77.7	–	–
Average quality (standard)	108.14	91.6	106.83	124.2
Better quality	109.63	108.2	111.56	143.0
Elite apartment	102.03	137.3	107.98	312.3

Source: Rosstat.

In general, at the end of 2023, price growth in the primary market (9.68%) was about 1.14 times higher than in the secondary market (8.51%).

In both segments, the maximum price growth was observed for housing of improved quality with some advantage of the primary segment (11.6% vs. 9.6%). The biggest difference in favor of the primary market was observed for elite housing (8% vs. 2%). On the contrary, the growth rates for medium-quality (standard) apartments on the secondary market were higher than on the primary market (8.1% vs. 6.8%), which is comparable to the price dynamic for low-quality apartments (8.4%).

The price dynamic in the regional breakdown confirms the outperformance of the primary market in terms of price growth rates in the country as a whole. However, in contrast to 2022, when there was a widespread excess of growth rates of the primary market over the secondary market in all regions, the picture of price dynamic has become more mosaic (*Table 11*).

Table 11

Price indexes on the housing market in 2023 across federal districts (at Q4-end, in % to Q4 2022, across all types of apartments)

Federal okrug (FO)	Secondary market	Primary market
Russia	108.5	109.7
Central	106.1	112.6
North-Western	107.1	100.9
Southern	108.8	106.4
North-Caucasus	109.7	102.2
Volga	108.1	111.1
Urals	108.0	116.8

Federal okrug (FO)	Secondary market	Primary market
Siberian	114.1	115.3
Far Eastern	106.5	108.0

Sources: Price indices on the housing market across subjects of the Russian Federation in 2023, data on the primary market. URL: https://rosstat.gov.ru/storage/mediabank/ind_perv_4kv-2023.xlsx; данные по вторичному рынку. URL: https://rosstat.gov.ru/storage/mediabank/ind_vtor_4kv-2023.xlsx

In 5 federal okrugs (Central, Volga, Urals, Siberian and Far Eastern) price growth on the primary segment exceeded the same value in the secondary segment, to the maximum extent – in the Central Federal District and in the Urals. In 3 other federal okrugs (North-Western, Southern, North Caucasus) there was an excess of growth rates on the secondary market over the primary market, to the greatest extent in the North-Western Federal District and in the North Caucasus.

More detailed price dynamics, at the level of the subjects of the Federation,¹ is presented in *Table 12*.

Table 12

Price indexes on the housing market cross oblasts (at Q-end, Q4 2023 on Q4 2022, in % across all types of apartments)

	Secondary market	Primary market
Russia	108.5	109.7
Federal okrug/ oblast		
Central FO	106.1	112.6
Moscow	105.5	113.8
Moscow oblast	103.1	116.0
Voronezh oblast	101.9	111.9
North-Western FO	107.1	100.9
St Petersburg	95.4	100.4
Leningrad oblast	104.6	94.0
Southern FO	108.8	106.4
Krasnodar krai	106.5	104.5
Volgograd oblast	109.7	113.2
Rostov oblast	109.5	108.0
North-Caucasus FO	109.7	102.2
Dagestan	111.2	109.7
Stavropol krai	113.6	99.8
Volga FO	108.1	111.1
Bashkortostan	110.1	107.0
Tatarstan	100.1	108.2
Perm krai	116.7	113.1
Nizhniy Novgorod oblast	116.7	113.3
Samara oblast	110.9	113.1
Urals FO	108.0	116.8
Sverdlovsk oblast	103.5	116.5
Tyumen oblast*	107.1	114.0

1 The sample consisted of the oblasts leading in terms of population in the respective federal districts, including all oblasts with cities with a population of more than 1 mn people.

THE RUSSIAN ECONOMY in 2023

trends and outlooks

	Secondary market	Primary market
Chelyabinsk oblast	124.0	123.2
Siberian FO	114.1	115.3
Krasnoyarsk krai	113.2	116.7
Novosibirsk oblast	121.4	119.4
Omsk oblast	117.5	116.9
Far-Eastern FO	106.5	108.0
Primorsky krai	103.3	106.2
Khabarovsk krai	105.8	108.8

* Including autonomous okrugs.

Sources: Price indices on the housing market by subjects of the Russian Federation in 2023, data on the primary market. URL: https://rosstat.gov.ru/storage/mediabank/ind_perv_4kv-2023.xlsx; data on the secondary market. URL: https://rosstat.gov.ru/storage/mediabank/ind_vtor_4kv-2023.xlsx

The Chelyabinsk oblast (23.2%) became the leading region in terms of price growth (over 20%) on the primary market; with rates over 15% they grew in the Novosibirsk oblast (19.4%), Omsk oblast (16.9%), Sverdlovsk oblast (16.5%), Moscow oblast (16%), as well as in the Krasnoyarsk krai (16.7%). Decrease in the growth rates was observed in all regions, and their number with double-digit growth rates significantly reduced as compared with the situation a year earlier. At the same time, there was a decline in prices in some regions: in the Leningrad oblast they fell by 6%, and in Stavropol krai they demonstrated stagnation.

In the secondary segment, the number of regions with growth rates of over 20% dropped markedly compared to 2022. The Chelyabinsk (24%) and Novosibirsk oblasts (21.4%) joined the group of leaders. Growth rates of more than 10% were observed in the Omsk oblast (17.5%), Nizhny Novgorod oblast (16.7%), Perm (16.7%) and Stavropol (13.6%) kraises, Dagestan (11.2%), and Bashkortostan (10.1%). At the opposite pole were Tatarstan (0.1%), Voronezh (1.9%) and Moscow (3.1%) oblasts, Primorsky Krai (3.3%), and St. Petersburg saw a 4.6% drop in prices.

In general, the number of regions where there was an excess of price growth rates in the primary market compared to the secondary one was approximately equal to the number of regions where the situation was the opposite (12 vs. 11). This makes 2023 significantly different from 2022, when the primary market generally grew more strongly than the secondary market.

In order to analyze the price level in absolute terms, let us consider the data of professional market analysts of a number of well-known companies united by the Russian Guild of Realtors (RGR) (Table 13).

Table 13

Prices on apartment buildings in Russian cities in Q3 2023

Federal Okrug/ city	Secondary market, thousand Rb/ m ²	Primary market, thousand Rb/ m ²	Price difference, %
Central FO			
Moscow	286.5	365.8	By Rb79,300 (27.7%) in favor of primary market
Ramenskoe (Moscow oblast)	146	149.5	By Rb3,500 (2.4%) in favor of primary market
Istra (Moscow oblast)	180	n/a	

Federal Okrug/ city	Secondary market, thousand Rb/ m ²	Primary market, thousand Rb/ m ²	Price difference, %
Sergiev Posad (Moscow oblast)	139.5	n/a	
Voronezh	85	107.5	by Rb22,500 (26.5%) in favor of primary market
Ryazan	126	215.5	By Rb 89,500 (71%) in favor of primary market
Kostroma	100	90	By 10,000 (11.1%) in favor of secondary market
North-Western FO			
Kaliningrad	130	255	By Rb125,000 (96.2%) in favor of primary market
Sothern FO			
Krasnodar	120	129	By Rb9,000 (7.5%) in favor of primary market
Novorossiysk	145	155	By Rb10,000 (6.9%) in favor of primary market
Volgograd	145	130	By Rb15,000 (11.5%) in favor of primary market
Urals FO			
Ekaterinburg	240	235	By Rb5,000 (2.1%) in favor of primary market
Tyumen	172.5	173	By Rb500 (0.3%) in favor of secondary market
Chelyabinsk	72.5	95	By Rb22,500 (31.0%) in favor of primary market
Siberian FO			
Novosibirsk	110	122.5	By Rb12,500 (11.4%) in favor of primary market
Far-Eastern FO			
Khabarovsk	105.5	181.5	By Rb76,000 (72%) in favor of primary market

Sources: Analytical report for Q3 2023. Dynamics of indexes of the market of multi-apartment construction in Russian cities. RGR, 2023. Pp. 7–8; own calculations.

Last year, prices in the primary segment remained higher than in the secondary market in most cities. The most noticeable (almost twice) excess of prices for new buildings was observed in Kaliningrad, followed by Khabarovsk and Ryazan (over 70%). While prices in Tyumen were roughly equal, the opposite ratio was observed in Kostroma, Volgograd and Yekaterinburg, with secondary market prices in the two cities on the Volga River outpacing the primary segment by more than 11%.

4.4.2. Construction and commissioning of new housing

According to the Rosstat preliminary data, 110.4 mn sq. m. of housing were commissioned in Russia in 2023, which is 7.5% more than in 2022, when the previous maximum was reached (*Table 14*). This figure became a record in the entire domestic history.

Positive dynamics of commissioning was observed in the vast majority of regions,¹ including almost all those with a total volume of housing commissioning of more than 1 mn sq. m. (*Table 15*).

¹ Only 8 regions, including the Moscow oblast, saw a drop in commissioning volumes.

Table 14

Commissioning of residential buildings in 1999–2023

Year	Mn m ² of total area	Growth rates, %	
		Over the previous year	over 2000
1999	32.0	104.2	105.6
2000	30.3	94.7	100.0
2001	31.7	104.6	104.6
2002	33.8	106.6	111.5
2003	36.4	107.7	120.1
2004	41.0	112.6	135.3
2005	43.6	106.3	143.9
2006	50.6	116.0	167.0
2007	61.2	120.9	202.0
2008	64.1	104.7	211.5
2009	59.9	93.4	197.7
2010	58.4	97.5	192.7
2011	62.3	106.6	205.6
2012	65.7	104.7	216.8
2013	70.5	107.3	232.7
2014	84.2	119.4	277.9
2015	85.3	101.3	281.5
2016	80.2	94.0	264.7
2017	79.2	98.8	261.4
2018	75.7	95.1	248.5
2019	82.0/81.0*	108.3/107.0*	270.6/267.3*
2020	82.2/77.1*	100.2/95.2*	271.3/254.5*
2021	92.6	112.7	305.6
2022	102.7	111.0	338.9
2023	110.4	107.5	364.3

* Excluding commissioning of houses on private plots, the volume of which is given according to the original Rosstat data (2019 – 1.0 mn m², 2020 – 5.1 mn m², no data for 2021–2023).

Sources: Rosstat; own calculations.

Table 15

**Dynamics of housing commissioning in Russian regions in 2023
(graded along commissioning rates)**

RF subject	Housing commissioning rates, in % to 2022
Republic of Dagestan	160.9
Novosibirsk oblast	134.4
Republic of Crimea	131.5
Kaluga oblast	122.1
Tula oblast	120.9
Irkutsk oblast	119.1
Orenburg oblast	118.9
Udmurt Republic	118.2
Krasnoyarsk Krai	116.8
Primorsk Krai	115.8
Chechen Republic	115.6
Saratov oblast	114.0
Tyumen oblast	112.6

RF subject	Housing commissioning rates, in % to 2022
Chelyabinsk oblast	111.8
Republic of Tatarstan	111.1
Sverdlovsk oblast	110.9
Rostov oblast	109.6
Nizhniy Novgorod oblast	109.3
Stavropol krai	109.2
Republic of Bashkortostan	108.3
Moscow	108.0
Leningrad oblast	105.5
Voronezh oblast	104.8
Samara oblast	103.0
Krasnodar krai	100.6
Saint Petersburg	100.2
Perm krai	97.0
Vladimir oblast	96.8
Kaliningrad oblast	92.3
Moscow oblast	88.6

Source: Socio-economic situation in Russia – 2023. P. 303–304. URL: <http://rosstat.gov.ru/>

The maximum increase in housing commissioning (around 61%) was observed in Dagestan, over 30% – in the Novosibirsk oblast and Crimea, over 20% – in the Kaluga and Tula oblasts. The Irkutsk and Orenburg oblasts, Krasnoyarsk and Primorsky krai, as well as Chechnya demonstrated growth in housing commissioning in the range from 15 to 20%, i.e. growth exceeding the Russian average twice or more. Another 15 regions showed positive dynamics of housing commissioning, but less than the specified figure. In 4 oblasts, including the Moscow oblast, there was a decrease.

Compared to the previous year, there were some changes in the group of leading regions due to a significant reduction in the volume of housing construction in the Moscow oblast, which, despite a drop (11.4% against a growth of more than 1.5 times a year earlier), retained its leadership in terms of the absolute volume of commissioning (about 12.5 mn sq. m.). Moscow with 8% growth closed the top three (more than 7.3 mn sq. m.), leaving behind Krasnodar krai (more than 7.6 mn sq. m.). The top five regions also included the Leningrad oblast (about 4.2 mn sq. m.) and St. Petersburg (about 3.5 mn sq. m.), with the northern capital being behind the neighboring region.¹ The share of the capital region in the total volume of housing construction in the country amounted to 17.9% (including the Moscow oblast – 11.3% and Moscow – 6.6%), decreasing by 2.4 p.p. compared to 2022 at the expense of the Moscow oblast (about 13.7% in 2022).

The total housing input data include both multi-apartment building delivered by professional developers and private housing construction (PHC, i.e., privately built on their land plots).

¹ Also, more than 3 mn sq. m. were commissioned over the year in the Tyumen Region (including autonomous okrugs), Tatarstan, Bashkortostan, Sverdlovsk and Novosibirsk oblasts.

For the third year in a row, the share of housing built by the population independently at their own expense or with the help of borrowed funds exceeded half of the total commissioning (53.2%). Accordingly, the share of multi-apartment buildings, which had been steadily declining after 2016, amounted to 46.8%, being 2.5 p.p. higher than in 2022 (*Table 16*). The latter, however, was not due to the reduction in commissioning as a result of IHC, but due to a sharp increase in multi-apartment delivery (51.7 mn sq. m. vs. 45.5 mn sq. m. a year earlier).

Table 16

Structure of housing commissioning in the Russian Federation in 2010–2023

Year	Total, Mn sq. m	Apartment block construction		Private housing construction from own and borrowed funds	
		Mn sq. m.	Share in total commissioning, %	Mn sq. m.	Share in total commissioning, %
2010	58.4	32.9	56.3	25.5	43.7
2011	62.3	35.5	57.0	26.8	43.0
2012	65.7	37.3	56.8	28.4	43.2
2013	70.5	39.8	56.5	30.7	43.5
2014	84.2	48.0	57.0	36.2	43.0
2015	85.3	50.1	58.7	35.2	41.3
2016	80.2	48.4	60.3	31.8	39.7
2017	79.2	46.2	58.3	33.0	41.7
2018	75.7	43.3	57.2	32.4	42.8
2019	82.0	43.5	53.0	38.5	47.0
2020	82.2	42.4	51.6	39.8	48.4
2021	92.6	43.5	47.0	49.1	53.0
2022	102.7	45.5	44.3	57.2	55.7
2023	110.4	51.7	46.8	58.7	53.2

Sources: Rosstat; own calculations.

According to Rosstat data, the area of private housing construction projects commissioning in Russia in 2023 amounted to 58.7 mn sq. m., which is 2.6% more than in the previous year. The top five leading regions in terms of the absolute volume of housing commissioning by the population included Moscow oblast (around 7.7 mn sq. m.), Krasnodar krai (over 4.2 mn sq. m.), Leningrad oblast (around 2.5 mn sq. m.), Bashkortostan (around 2.1 mn sq. m.), Chechnya (over 2.0 mn sq. m.).

Table 17

**Share of housing commissioning by the population in Russian regions
with a total volume of housing commissioning over 1 mn sq. m in 2023**

RF subject	%
Chechen Republic*	87.3
Republic of Crimea	74.1
Kaluga oblast	73.2
Orenburg oblast	70.3

RF subject	%
Irkutsk oblast*	68.2
Vladimir oblast	67.9
Republic of Dagestan*	67.0
Stavropol krai*	65.1
Perm krai*	64.7
Republic of Bashkortostan*	62.1
Udmurt Republic	62.0
Moscow oblast*	61.5
Nizhny Novgorod oblast*	60.5
Leningrad oblast*	59.5
Samara oblast*	58.9
Rostov oblast*	58.8
Saratov oblast	58.2
Tula oblast	58.2
Krasnodar krai*	55.5
Chelyabinsk oblast*	54.0
Voronezh oblast*	49.7
Republic of Tatarstan*	49.4
Kaliningrad oblast	48.1
Primorsky krai	46.5
Sverdlovsk oblast*	45.2
Krasnoyarsk krai	42.9
Tyumen oblast (including autonomous okrugs)*	42.1
Novosibirsk oblast	29.8
Moscow	11.3
Saint Petersburg	6.3

* Regions with private housing commissioning over 1 mn sq. m.

Sources: Rosstat; own calculations.

Private housing construction provided from 70 to 90% of commissioning volumes in Chechnya, Republic of Crimea, Kaluga and Orenburg oblasts, from 60% to 70% in Irkutsk and Vladimir oblasts, Dagestan, Stavropol and Perm krajs, Bashkortostan, Udmurtia, Moscow and Nizhny Novgorod oblasts, from 50 to 60% in Leningrad, Samara, Rostov, Saratov, Tula and Chelyabinsk oblasts, as well as in Krasnodar krai.

Moscow and St. Petersburg were expectedly at the other pole, where the contribution of private housing construction amounted to 11.3% and 6.3%, respectively.¹ The intermediate position was held by Voronezh oblast, Tatarstan, Kaliningrad oblast, Primorsky krai, Sverdlovsk oblast, Krasnoyarsk krai and Tyumen oblast, where housing construction accounted for 40 to 50% of commissioning volumes, as well as Novosibirsk oblast, where the contribution of housing construction amounted to 29.8%.

Also convincing was the success in the construction of apartment blocks, where the peak for the last decade was exceeded. More than half (59.8%) of the

¹ For comparison: in one more city with federal status – Sevastopol, the share of private housing commissioning amounted to 82.9% (with the total volume of commissioning of about 0.48 mn sq. m.).

volume of housing commissioning (excluding housing built by the population)¹ was accounted for by 12 regions (with commissioning of at least 1 mn sq. m. in each of them), while the share of the top five (Moscow and Moscow oblast, Krasnodar krai, St. Petersburg, Tyumen oblast with autonomous okrugs) accounted for 38.9% of the total volume of apartment blocks commissioning.

The total housing commissioning, which amounted to 110 mn sq. m., exceeded the volume of housing construction envisaged in the passport of the National Project (NP) “Housing and Urban Environment” (in the current version) for 2028 (108 mn sq. m.).² However, it should be noted that taking into account a significant increase in the CBR key rate in H2 2023, a reduction in the volume of commissioning in the medium term is feasible. Thus, according to the assessment of the housing market development institute – DOM.RF,³ 20% less new projects are planned to be launched in 2024, which should lead to a decrease in the volume of commissioning after 2026, i.e. within the time interval when the NP envisages a smooth increase in the volume of housing commissioning from 100 to 120 mn sq. m. in 2029–2030.

4.4.3. The situation in the construction sector

According to the 2023 year-end results, the portal ERZ.RF did not conduct surveys similar to those conducted the previous year⁴ with the participation of the School of Developers,⁵ GMK⁶ and RBG.⁷ At the same time, some market participants⁸ share opinion that the identified key trends of 2022 partly remained relevant (in particular, the entry of developers outside the local markets, reduction in floor space of apartments). However, in addition to this, there is an increased uncertainty associated with both the increase in the key rate and the prospects for the expiration of the “preferential mortgage” program.

According to experts of the Russian Guild of Realtors,⁹ the previously observed trend towards a decrease in the area of apartments has transformed into a clear imbalance towards small-sized apartments (1–2-room apartments). The limited

1 There is no such indicator in the official reports of the Federal State Statistics Service. However, it can be calculated as the difference between the total volume of housing commissioned and housing commissioned by households at the expense of their own and borrowed funds.

2 URL: <https://minstroyrf.gov.ru/docs/221887/>

3 2023 results in the housing sector. DOM.RF. P. 33.

4 See. Russian economy in 2022. Trends and Outlooks. Issue. 44. Moscow. IEP. 2023. P. 349.

5 Specialized competence center and educational platform for developers and building contractors in Russia and the CIS. URL: <https://www.development-school.com/about>

6 GMK Consulting Agency is one of the top 100 largest consulting groups and companies in Russia, in the marketing and PR segment it ranks first (RAEX rating). The agency specializes in complex consulting in development since 2005, helping developers to create the best micro districts and residential complexes. URL: <https://gmk.ru/>

7 RRG is a professional player on the commercial real estate market since 2005. It is a center of professional expertise in real estate with a knowledge base professional connections and expert partners, which allows to customize products and services to the client's needs and project features. URL: <https://rrg.ru/>

8 URL: <https://erzrf.ru/publikacii/rynok-razvitiya-itogi-2023-goda-i-trendy-2024-go>

9 RRG. Analytical report for Q3 2023. Dynamics of indicators of apartment blocks market in RF cities. 2023. P. 4.

choice of larger apartments (3–4 room apartments) with mortgages with the lowest interest rates for this category of housing could potentially lead to a mismatch between supply and demand, especially given that mortgages with state support are one of the key drivers of the market.

Speaking about the mechanism of housing construction funding, it can be stated that transition to a system using project finance instruments has entered the stage of maturity. By the end of 2023, 95% of apartment blocks under construction were already being built using escrow accounts, compared to 51.5%, 76.8% and 89% at the end of 2020, 2021 and 2022, respectively. The latter is evidenced by the steady increase in the volume of lending utilizing the relevant tools. The amount of credit lines increased to Rb16.5 trillion at year-end 2023 (vs. Rb14 trillion in Q3 2022). At the same time, developers received Rb3.7 trillion from disclosed escrow accounts, and the balances on escrow accounts amounted to Rb5.8 trillion, which, according to DOM.RF estimates, will allow developers to maintain financial stability in 2024.¹ Even amid a key rate increase, the financing system as a whole allowed to maintain and increase construction volumes. Its further sustainability and subsequent development will depend not only on short-term factors of availability of appropriate liquidity, but also on long-term parameters related to a stable balance of supply and demand in the market.

The real construction activity in the housing sector and the industry's prospects are characterized by the following indicators.

According to the Unified Housing Construction Information System (UHCIS), the total area of housing under construction, taking into account all financing mechanisms, amounted to 106 mn sq. m. as of December 31, 2023, being approximately 5% more than a year earlier (100.8 million sq. m.). The bulk of it (101.6 mn sq. m.) accounted for housing built in accordance with the Federal Law No. 214-FZ, which implies the conclusion of share participation agreements (SPAs) by individuals. Record housing sales were balanced by high launches. As a result, the share of sold housing in the total volume under construction (32% as of January 1, 2024) corresponded to the normal project financing model (70% of apartments sold at the time of commissioning). The market, however, began to move towards a supply deficit: in particular, projects with planned commissioning in 2024 have already sold out more than half of the floor space, and about 70% of the volume of unsold housing will be commissioned after 2024.²

A notable event in the market was a change in the ranking of apartment blocks construction. PIK Group of Companies (PIK Group), the long-standing leader in development, faced crisis phenomena. The change of management and redistribution of the capital structure with the withdrawal of VTB Bank in Q3 2023 can be considered a serious symptom of the decrease in the investment attractiveness of the developer. The top position went to SC "Samolet".³

For a better understanding of the processes that took place in the housing market last year, let us examine the housing market of the capital, which is

1 DOM.RF. 2023 results in the housing sector, p. 15.

2 2023 results in the housing sector // DOM.RF. March 2024. P. 22.

3 URL: <https://erzrf.ru/top-zastroyshchikov/rf?topType=0&date=240101>

traditionally a benchmark for regional markets, i.e. the situation there may be typical for other major cities (perhaps with a certain time lag).

4.4.4. Moscow's housing market

Primary market

In Moscow in 2023, according to Metrium¹ company 102,800 co-investment contracts for new construction were concluded, which is 36% higher than in 2022. This being said, 79,500 transactions were mortgage transactions (77%). In the last third of the year, 45% of the total number of transactions for the year were concluded against the background of an increase in the key rate.

Their quantitative growth was accompanied by quite vigorous price growth with a drop in supply volumes, which is explained by both increased demand and low activity of developers in terms of bringing additional supply to the market. In December 2023, the volume of supply in the primary market as a whole fell by 1/4 as compared to the last month of 2022.

In general, the reduced level of supply volume by the end of the year was observed in the mass segment. This phenomenon may also be due to the peculiarities of the policy chosen by developers with regard to launching new lots on the market. In Q1 2024, we can expect the supply volume to recover, at least on the back of a reduced buyer activity.

The trend towards an increase in demand for apartments and small apartments remained relevant, which generally corresponds to the all-Russian trend. In 2023, the share of transactions with apartments and apartments of less than 40 sq. m. amounted to 58%, and average floor area of an apartment purchased under shared-equity construction was 41.3 sq. m., having dropped by 7.5% over the year. Studios and one-bedroom lots prevail in the structure of transactions, and the average floor space of lots purchased is also decreasing. This behavior of buyers is due to the desire to reduce mortgage payments.

2023 demonstrated a widespread growth in real estate prices (*Table 18*).

Table 18

Price dynamics in various segments of Moscow's residential market

Segment	Weighted average price as of December 2023, Rb/sq. m.	Price dynamics, %	
		For Q4 2023	For 12 months (Q4 2023 over Q4 2022)
Moscow (within its former boundaries)	508 220	4	16
Mass	332 480	3	24
Business	442 750	0	6
Premium	634 830	3	10
Big budget	1 935 780	-1	6
New Moscow	242 490	2	8
Total	430 140	3	12

Source: Residential real estate market review of Moscow // Metrium Q4 2023. P. 6. URL: <https://www.metrium.ru/upload/iblock/6c3/t0p1ypox8kf5y6qltt382rw6efqd905m.pdf>

1 Residential real estate market review. Q4 2023. URL: <https://www.metrium.ru/upload/iblock/6c3/t0p1ypox8kf5y6qltt382rw6efqd905m.pdf>

As of December 2023, the weighted average price per square meter amounted to Rb430,140, having increased by 12% in the city as a whole over the year (including Q4 – by 3%). The price growth within the boundaries of Old Moscow (16% over the year) was twice as high as the same indicator in New Moscow (8%).

The most noticeable increase in the cost per square meter of mass segment apartments and apartments within the boundaries of Old Moscow was 24% for the year as a whole. The premium segment rose in price by 10%, which is comparable to the inflation rate (as in New Moscow). The price growth for business class and high-budget real estate was the least significant (by 6%), being below the inflation rate. However, it should be taken into account that the growth rate by segment also depends on the supply structure and exposure.

It is worth noting that over the last few months the share of mortgage transactions has been high across all classes of housing. At the same time, the share of mortgage cost sharing construction in the mass segment market while steadily increasing amounted to 89% in December 2023, which determines the dependence of further dynamics of the real estate market on the terms and conditions of mortgage loans issuance.

Due to an increase in the key rate and expectation of a rise in the down payment on preferential mortgages, since August 2023, the Moscow new buildings market has seen an increased demand driven by the consumers' desire to have time to purchase real estate under affordable mortgage programs.

The postponement of future demand to the end of the year was largely due to the expected tightening of mortgage terms and conditions. Thus, the down payment on a mortgage with state support, whereunder it is possible to purchase housing in new buildings at a rate of 8% per annum, increased from 20 to 30%. And the maximum loan amount for such a mortgage was unified for all regions (Rb6 mn), while previously for Moscow, Moscow oblast, St. Petersburg and Leningrad oblast it amounted to Rb12 mn.

Secondary market

Rosreestr noted three records straightaway on the number of transactions with apartments in the Moscow secondary market. The activity of housing buyers in September in Q3 and in general for nine months of 2023 became an absolute record for the entire history of observations of the department.¹

Earlier the rush demand in the capital secondary market was also noted by realtors. Experts explain such activity of buyers of ready residential housing by the changing terms and conditions of mortgage lending in connection with the growth of the CBR key rate and most importantly – the prospect of their further deterioration with the growth of mortgage rates to actually prohibitive highs.

The recovery of demand for secondary housing commenced in early 2023. In spring, the demand of buyers increased sharply. Indicators for the first half of the year exceeded expectations of realtors, the demand was higher than even in pre-crisis 2021. Experts explained it by the accumulated pent-up demand in 2022.

1 URL: <https://realty.rbc.ru/news/65a699f79a79471dbb4f75cf>

Potential buyers realized that mortgage rates would not go down, and were ready to buy real estate again. Interest in the secondary market was also backed by lower prices compared to the primary segment, as well as the end of the period of near-zero mortgage rates on new buildings due to the increase in the CBR key rate.

Following the results of Q3 on the secondary housing market of Moscow 49,440 transactions were registered. This record surpassed indicators of this period in the previous two years: Q3 2022 – by 74.1%, and Q3 2021 – by 17.4%.

4.4.5. Mortgage lending dynamic and state support measures

Demand for mortgages in 2023 was high and in some months – feverish. The market updated the 2022 record against the background of ruble weakening, the key rate increase, changing terms and conditions on preferential programs and tightening of regulation by the Bank of Russia. Mortgage issuance in 2023 (more than 2 mn loans for Rb7.8 trillion) became the highest in history. The share of mortgages with state support reached record highs: around 46% in the total number of originations (38% in 2022) and around 61% in terms of volume (over 48% in 2022).

In the wake of sharp increase in the key rate and expansion of preferential mortgages, the active growth of banks' mortgage portfolios was accompanied by a weakening of lending standards, in particular, the share of loans with down payment less than 20% and the volume of loans granted to borrowers with a high debt load increased. In order to mitigate risks for the banking system and the

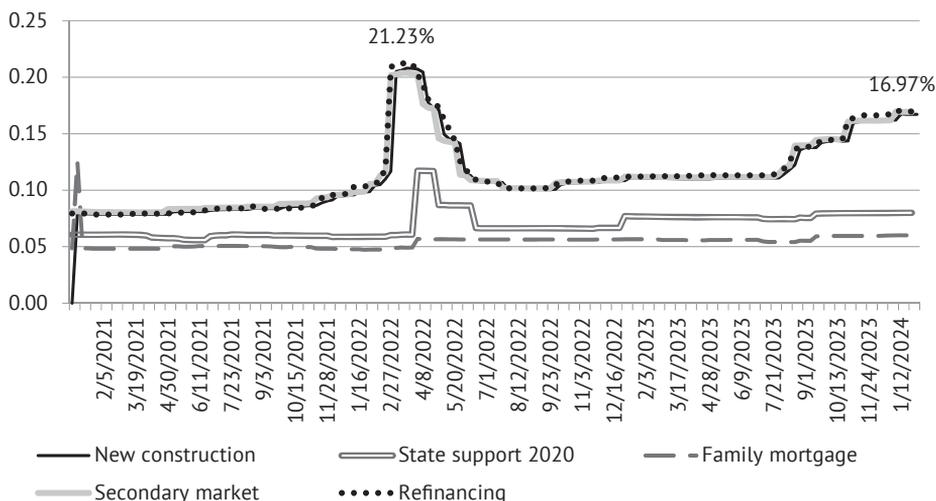


Fig. 12. Dynamics of average weighted rate of main types of mortgage loans in top-20 banks in 2020–2023

Source: DOM.RF (<https://www.xn--d1aqf.xn--p1ai/analytics/mortgage/>)

economy as a whole, the Bank of Russia consistently tightened regulation in 2023. In particular, the CBR raised macro mortgage surcharges, postponing their entry into force until October 1.

Despite a sharp rise in the key rate, which provoked a proportional increase in the weighted average rates on various categories of mortgage loans (*Fig. 12*), there was no decrease in the mortgage portfolio of the banking system in 2023.

During the year, the dynamics of the mortgage portfolio was uneven:

- the beginning of the year was marked by a slight decline in January-February, but from the end of Q1 and in Q2 2023 mortgage originations accelerated on the back of economic recovery, growth in disposable incomes of the population and stable dynamics of housing prices;
- August-September was marked by a frenzied demand for mortgages, which reflected expectations of a sharp increase in the CBR key rate;
- against the background of a highly probable further increase in the key rate, in October-December mortgage originations declined from the September record level. The latter was the result of an increase in market rates amid changes terms and conditions of preferential programs and tighter regulation by the Bank of Russia.

As opposed to 2022, when housing mortgage lending was actually set back by 2–3 years, as the number of loans issued was comparable to pre-pandemic 2019 (1,312,000 units) and their volume was only 8% higher than in 2020 (Rb4.45 trillion), 2023 saw a strong growth. According to the reports of DOM.RF and the Central Bank of Russia, mortgage issuance grew by more than 53% in terms of the number of loans (2,036,000 units) and by about 62% in terms of volume (Rb7.78 trillion) (*Table 19*).

Table 19

Mortgage lending in 2021–2023

Loan category	Number of loans				Total amount of loans originated			
	thousand		%		Rb bn		%	
	2022	2023	2022	2023	2022	2023	2022	2023
Mortgage loans, total	1327	2036	100	100	4813	7779	100	100
Secondary market (including refinancing)	758	1038	57,1	51	2211	3189	45,95	41
Primary market (on security of co-investment agreements CIA)	410	692	30,9	34	2063	3345	42,85	43
IHC and new buildings	160	305	12,05	15	539	1245	11,2	16

Sources: Review of the mortgage lending market in 2023 // DOM.RF. February 2024. P. 2. URL: <https://dom.rf.gov.ru>; own calculations.

Changes in the structure of demand for mortgages towards an increase in the share of products with state support resulted in differentiation of the dynamics of different market segments.

The main shifts in the structure of PHC were the increase in the share of the primary market (secured by share equity construction) and the share of private housing construction and ready houses. Quantitative characteristics of these market drivers where preferential programs are as follows: new buildings

(692,000 loans) demonstrated growth by about 69% by 2022, and construction of private houses (305,000 loans) – by 1.9 times.

Having said that, mortgage originations for ready apartments, where market programs prevail, grew at a slower pace (over 1.0 mn loans, up 37% by 2022) amid an increase in market rates (from 11% in the first half of the year to 16-17% at the end of the year). As a result, the share of ready apartments in the total structure of mortgage loans decreased to 51% (by 6 p.p.), while the share of mortgages for new buildings (by 3 p.p.) and residential housing (by 3 p.p.) rose significantly to 34% and 15%, respectively.

The volume of financing of the primary market went up by 62% compared to 2022. This being said, for the first time in the history of observations, this category of loans in the HML structure surpassed the issuance of new loans in the secondary market (about 43% vs. 41% of the total volume). Financing of HML and finished houses grew 2.3 times and for the first time exceeded Rb1.0 trillion (Rb1,245 bn in 2023 vs. Rb539 bn a year earlier).

In general, mortgage debt increased by Rb4.1 trillion (or by more than 29%) over the year. As of the beginning of 2024, its value exceeded Rb18 trillion (taking into account the rights of claim acquired by credit institutions, excluding securitization). At the same time, mortgages accounted for 65% of the growth of all retail loans, and their share reached 54% of the total debt of individuals. As of the beginning of 2024, the share of overdue debt in the mortgage portfolio on banks' balance sheets was no more than 0.6% versus 0.7% a year earlier (0.8% as of the beginning of 2022).

The level of mortgage interest rates fluctuated throughout the past year under the influence of macroeconomic dynamics, expectations of a key rate increase and growth in the share of preferential programs. Despite a sharp increase in the key rate, weighted average rates in the primary market only returned to the 2021 level and amounted to 5.9%, while in the secondary market, on the contrary, they increased by 0.5 p.p. to 10.1%. As a result, the weighted average mortgage rate in 2023 (8.2%) was higher than in 2022 by only 1 p.p. (7.2%).¹

The gap between primary and secondary market rates by more than 1.5 times determined the popularity of the primary segment and further shift of demand towards new buildings. While in Q4 2022, 39% of residential properties purchased with the help of mortgages were registered with co-investment contracts, in Q4 2023 – 51% already.²

Loans originated under preferential programs constitute a record share in the total structure of loans issued (*Table 20*).

Such transactions accounted for more than 4/5 of all signed CIA in 2023 (2022 – 68.4%, 2021 – 56.6%, 2020 – 58.3%), their absolute number grew by almost 73% compared to 2022, while transactions on market conditions went up by less than 11%. The share of market mortgages was once again minimal (5.4%) decreasing by about a quarter compared to 2022 and almost 4 times compared to 2020. The share of CIAs without mortgage fell by more than half compared to

1 Review of the mortgage lending market in 2023 // DOM.RF. February 2024. P. 1.

2 Ibid. P. 12.

2022 and was less than in all previous years (11.5%). The absolute number of such transactions over the past year (89,000) relative to 2022 dropped by 1/3, for the first time falling below 100,000.

Table 20

Dynamics and structure of sales in new buildings in 2020–2022 (by the number of registered by the population CIA for housing)

Category of transaction	2020		2021		2022		2023	
	thou-sand	%	thou-sand	%	thou-sand	%	thou-sand	%
CIA, total	609	100	676	100	544	100	773	100
Mortgage transactions, total	484	79.5	476	70.4	410	75.4	684	88.5
Concession mortgage programs	355	58.3	383	56.65	372	68.4	642	83.1
Market mortgage programs	129	21.2	93	13.75	38	7.0	42	5.4
Mortgage free	125	20.5	200	29.6	134	24.6	89	11.5

Sources: Review of apartment block construction in the Russian Federation. 2022 // DOM.RF. February 2024. P. 22. URL: <https://дом.рф>; own calculations.

The total volume of state-supported mortgage loans in 2023 was high: about 932,000 loans worth over Rb4.7 trillion (Table 21). Compared to the previous year, it grew by about 85% in terms of the number of loans and more than doubled in terms of their value.

Table 21

Concessional mortgage lending in 2021–2023 (minus rural mortgage)

Category of program	Number of loans				Total value			
	thousand		%		Rb bn		%	
	2022	2023	2022	2023	2022	2023	2022	2023
Mortgage loans, total	504	932	100	100	2319	4727	100	100
Family mortgage	181	431	36.0	46.2	858	2160	37.0	45.7
Preferential loans	292	419	58.0	45.0	1299	2014	56.0	42.6
IT-mortgages	5	41	1.0	4.4	46	373	2.0	7.9
Far Eastern and Arctic mortgage	25	41	5.0	4.4	116	180	5.0	3.8

Note. Without additional agreements to existing family mortgage loans.

Sources: Review of the mortgage lending market in 2023 // DOM.RF. February 2024. P. 5. URL: <https://дом.рф>; own calculations.

Among specific programs, the leader was “Family Mortgage” (about 46% of the total volume of preferential loans against 36-37% a year earlier), demonstrating a 2.4–2.5-fold growth in the number of loans and their value. A little behind is the concessional mortgage, whose share in terms of the amount of lending fell noticeably: to less than 43% against 56% in 2022. Under this program, the number of loans issued grew by about 43%, and their amount – by 55%.

The Far Eastern Mortgage program, despite its expansion to the Arctic zone, turned out to be an outsider, accounting for about 4% of the volume of concessional lending (5% a year earlier). The share of IT-mortgage increased in the structure of lending by value: from 2% in 2022 to almost 8% in 2023. In terms of the number of loans originated, it became comparable to the Far Eastern and Arctic Mortgage program, surpassing it by more than twice the amount of lending.

DOM.RF, a development institution, continued to actively assist in stimulating the mortgage market in 2023:

- a record volume of mortgage bonds was issued (9 placements for almost Rb670 bn), which was 67.5% higher than in 2022 (Rb400 bn);
- mortgage bonds of sustainable development were placed, for the first time were securitized collateral with pledge of rights under CIA, the share of electronic mortgages went on growing;
- the number of investors in the DOM.RF mortgage-backed securities (MBS) market grew from 7,300 to 8,700 over the year, mainly due to individuals, although banks remained the largest holders of DOM.RF MBS;
- the key driver of DOM.RF MBS liquidity growth was repo transactions, whose volume increased almost threefold to Rb16 trillion. More than 90% of transactions were exchange REPOs with the Russian Treasury.¹

4.4.6. Prospects for the housing market in 2023

The current economic situation partly retains the scope of risks for housing construction and sales, which manifested themselves in 2022–2023² and were largely mitigated by government economic policy measures including the stimulation of import substitution.

The key factor, however, is the effect of rising mortgage rates triggered by a sharp increase in the key rate in H2 2023. So far, it has not led to either a slowdown in growth rates or a fall in prices, which is probably due to the delayed nature of the possible reaction of the real estate market and the realization of the effect of reduced mortgage affordability with a certain lag (more than two quarters). The expected market slowdown is expected to take place in H1 2024.

An increase in the key rate potentially leads to higher interest costs for developers due to the rising cost of project funding. Satisfaction of a large part of future demand and setting records for the number of transactions in Q4 2023 are fraught with a sharp decline in all housing market indicators in the next two quarters.

As a result, prices and volumes of construction and, consequently, developers' revenues may decline. The simultaneous increase in interest expenses may have a significant negative impact on the profitability of residential real estate developers and their investment attractiveness, which may be preceded by a fall in the quotations of securities and debt instruments, as well as changes in the capital structure of a number of companies. As a result of the fall in the

1 Review of the mortgage securities market in 2023 // DOM.RF. February 2024. P. 1.

2 See. Russian Economy in 2022. Trends and Outlooks. Issue 44. Moscow. IEP. 2023. P. 362.

profitability of development and its convergence with the level of bank deposit rates, there will be a decrease in activity in the construction industry with an increase in the number of bankruptcies and an increase in the burden on the funds for assistance to housing stakeholders.

In terms of price dynamics, we can expect a slowdown in price growth in both the primary and secondary markets, but not across-the-board decline in prices. Instead, additional discounts may appear, particularly in situations related to the need for urgent sales.¹

Prices in the primary market, in all likelihood, will at least continue to compensate for inflation. There is also a probability of their higher growth on the background of possible reduction in additional supply due to probable purchase of preferential lending, which is focused on the purchase of housing in the primary market. Such a scenario (even in a mild version of introducing additional restrictions under the existing programs) is capable of reducing the price gap between new buildings and the secondary segment of the market. The share of the latter will grow, while buyers' preferences will continue to shift towards more affordable properties of smaller area or located in less popular locations.

In general, real estate will remain an attractive investment, but the drop in demand for housing may come to 10–20%. We should expect a decrease in market activity in terms of the number of transactions, as well as a decrease in price transparency due to the widening gap between supply prices and final transaction prices. Reduced activity and available liquidity may also lead to the emergence of various “hybrid” schemes aimed at structuring more complex transactions (building chains of transactions, use of guarantees, staged mortgages and other more complex and less transparent methods of structuring).

Reduction of the CBR key rate, clarity on future priorities and parameters of preferential housing lending programs will help to determine a new range of market mortgage rates adequate to the situation unfolding in the economy.

1 According to the Central Bank of the Russian Federation, developers have become more active in using dubious schemes for selling apartments in new buildings with further mortgage registration. One of them assumes that a significant part of candidate's funds for purchase of housing in a new building is not transferred to an escrow account in a bank, but is formalized as a future payment in the form of a paper guarantee. It determines when and on what terms the developer-seller will receive the money from the buyer. Another scheme is the sale of an apartment at an undervalued price to a person related to the developer and assignment of rights to it at market value. However, it is not yet widespread. Finally, a tranche mortgage provides for the issuance of mortgages in installments when the price of the CIA is paid “in installments”.

Section 5. Institutional changes

5.1. Public sector and privatization¹

5.1.1. Scale of state ownership

Publication of data according to the System of indicators to assess the effectiveness of state property management began in 2016 in compliance with the RF Government Decree of 29.01.2015 No.72 instead of monitoring of indicators of the public sector of the economy, conducted by Rosstat since the early 2000s based on the RF Government Decree of 4.01.1999 `No.1 (subsequently revised on 30.12.2002). It contains information about the number of federal state unitary enterprises (FSUE) and joint-stock companies (JSCs) with the RF participation in the capital.

The new edition of the “Forecast plan (program) of federal property privatization and focal points of federal property privatization” with shifting of its time limits from 2022–2024 to 2023–2025 allows to describe the processes that took place in the previous year, however, only during H1 (*Table 1*). Due to rather early approval of the privatization program for the next term, it contains data on the number of FSUEs and joint-stock companies with RF participation in the capital as of the beginning of the summer of the previous year, similar to what it was in the first half of the 2000s.

As of June 1, 2023, the Russian Federation was a shareholder in 561 JSCs, and the owner of the property of 278 FGUP (excluding FFE).

Comparing with figures on January 1, 2019 (700 FGUP), i.e., data of the first version of the privatization program for 2020–2022, reduction exceeded 60%. The

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decline in government participation in the corporate sector at the federal level was comparable. By the summer of 2023, it had fallen by 5.1%, more than halving compared to the beginning of 2019 (1,130 enterprises).

Comparing these indicators with data for September 5, 2022, reflected in the previous privatization program for 2023–2025, it can be stated that during 9 months the number of FGUP had reduced by 5.8%.

Table 1

Entities and organizations in federal ownership accounted in the register of federal property and the System of indicators to assess the effectiveness of state property management in 2010–2023

Date	Business entities with federal participation, units		Other owners of federal property records, units		
	stocks package (share) in the capital / of which JSC	special right to participate in the management of golden share ^a in absence of a share ^a	FSUE	FTE	FSI
On January 1, 2010	3 66/2 950 ^b		3 517 ^b		
On January 1, 2013	2 356/2 337 ^b		1 800/1 795 ^b	72	20 458
On January 1, 2016	1 557/1 704 ^b	88/64 ^c	1 488/1 247 ^b	48	16 194
On April 7, 2016 ^c	1 683/1 620 ^d		1 236	48	16 726
On July 1, 2016	1571	82	1 378	47	16 990
On January 1, 2017	1 356/1 416 ^e	81	1 245/1 108 ^e	48	16 846
On July 1, 2017	1247	78	1 058	53	16 244
On January 1, 2018	1 189	77	984	50	15 985
On July 1, 2018	1 060	77	868	50	15 520
On January 1, 2019	1 084/1130 ^b	76	792/700 ^b	48 ^f	15 140
On July 1, 2019	1059	73	712	48	14 942
On January 1, 2020	989	67	672	48	14 576
On July 1, 2020	948	67	640	46	13 915
On January 1, 2021	756	67	581	44	13 681
On July 1, 2021	678	29	539	40	13 149
On November 25, 2021	691 ^g		498 ^g		
On January 1, 2022	646	25	409	41	12 300
On July 1, 2022	578	26	352	41	12 197
On September 5, 2022	591 ^h		295 ^h		
On January 1, 2023	507	23	327	41	12 010
On June 1, 2023	561 ⁱ		278 ^h		
On July 1, 2023	488	23	312	39	11 678

^a Special right is not an accounting entity in the registry, but is mentioned in various materials of Rosimushchestvo in the context of data on state participation in the capital;

^b Number of JSCs and FSUE according to privatization programs for the years 2010–2013, 2014–2016, 2017–2019 (data on distribution by OKVED refers to companies whose shares (interests) are in federal ownership) and 2020–2022 (number of business entities).

^c According to report on the activity of the Federal Property Management Agency (Rosimushchestvo) for 2015.

^d In the numerator – the total number of legal entities, including CJSC and LLC, in the denominator – the number of blocks of shares and stakes (it can be assumed that the difference represents the number of JSCs using the “golden share”, but there is no direct indication).

^e According to report on the implementation of the forecast plan (programs) of privatization of the federal property for 2017–2019 in 2017

^f According to the System of indicators to assess the effectiveness of state property management on the number of business entities owned by the state by organizational-legal forms (OLF) (792 companies on the right of economic management and 48 companies on the right of operational management (state-owned), while the distribution of economic activities (OKVED) and federal authorities in charge of FSUE (OKOGU), their total number is 821 units.

- ^g Number of business entities and FSUE according to privatization program for 2022–2024.
^h Number of business entities and FSUE according to privatization program for 2023–2025.
ⁱ Number of business entities and FSUE according to privatization program for 2024–2026.

Sources: The forecast plan (program) of privatization of the federal property and the focal points of privatization of the federal property for 2011–2013; the forecast plan (program) of privatization of the federal property and the focal points of privatization of the federal property for 2014–2016; 2014–2016, 2017–2019, 2020–2022, 2022–2024, 2023–2025, 2024–2026. URL: www.economy.gov.ru; Report on the activity of the Federal Property Management Agency for 2015; Statistical data on the System of indicators to assess effectiveness of management of the state property; URL: <http://rosstat.gov.ru/> (March 20, 2016, September 5, 2016, March 20, 2017, September 5, 2017, March 20, 2018, September 5, 2018, March 20, 2019, September 5, 2019, March 20, 2020, September 7, 2020, March 22, 2021, September 6, 2021, March 21, 2022, September 5, 2022, March 20, 2023, September 5, 2023).

According to the System of indicators to assess the effectiveness of state property management, as of July 1, 2023, the Russian Federation was a shareholder in 488 JSCs, and owner of property of 312 FGUPs, 39 federal treasury enterprises (FTE) and 11,678 federal state institutions (FSI).

Compared to the similar data a year earlier, there was a reduction in the number of FSUE by 40 units (or 21.0%), JSC with state participation by 90 units (or 15.6%) and FSI by 519 units (or 4.3%). The number of JSCs possessing a special right to participate in the management of the “golden share”, as well as FTE, has declined by 3 and 2 units respectively. Decline in the first of the mentioned categories of business entities was observed in H2 2022 and in H1 2023 in the second category.

Dynamics of the number of subjects of the main organizational-legal forms related to federal property was as follows on a shorter time interval: in H1 2023, the number of unitary enterprises dropped by 4.6%, JSC with state participation fell by 3.7%, state institutions reduced by 2.8%.

Table 2 demonstrates dynamics of the most important category of economic entities with different degrees of state participation.¹

Table 2

Dynamics in the number and structure of business entities (JSC and LLC) by size of the state’s share in the capital (excluding JSCs using special golden share right in the absence of a share) in 2016–2023

Date and source	Business entities (АО и ООО), where RF is a shareholder (participant)									
	total, units	share, %	of these, with the size of the state’s share in the authorized capital							
			100%		50–100%		25–50%		< 25%	
			units	%	units	%	units	%	units	%
RF Government (forecast privatization plans, FPP)										
On January 1, 2016 (FPP for 2017–2019)	1704 ^a	100.0	765	44.9	93	5.4	172	10.1	674	39.6
On January 1, 2019 (FPP for 2020–2022)	1130 ^b	100.0	368	32.55	30	2.65	95	8.4	637	56.4
On November 25, 2021 (FPP for 2022–2024)	691 ^b	100.0	269	38.9	29	4.2	59	8.5	334	48.3

¹ Previously, this group of companies could be more fully characterized by reports on the management of federally owned shares of JSCs and the use of the special right for the participation of the Russian Federation in the management of JSCs (“golden share”) based on the results of the next year, published in 2012–2016 by Rosimushchestvo.

THE RUSSIAN ECONOMY in 2023

trends and outlooks

Date and source	Business entities (АО и ООО), where RF is a shareholder (participant)									
	total, units	share, %	of these, with the size of the state's share in the authorized capital							
			100%		50–100%		25–50%		< 25%	
			units	%	units	%	units	%	units	%
On September 5, 2022 (FPP for 2023–2025)	591 ^b	100.0	256	43.3	22	3.7	36	6.1	277	46.9
On June 1, 2023 (FPP for 2024–2026)	561 ^b	100.0	263	46.9	34	6.05	42	7.5	222	39.55
Rosstat (System of indicators to assess efficiency of management of the state property, only JSC)										
On January 1, 2016	1557	100.0	816 ^c		52.4 ^c		174	11.2	567 ^d	36.4 ^d
On July 1, 2016	1571	100.0	711 ^c		45.3 ^c		189	12.0	671 ^d	42.7 ^d
On January 1, 2017	1356	100.0	575 ^c		42.4 ^c		128	9.4	653 ^d	48.2 ^d
On July 1, 2017	1247	100.0	514 ^c		41.2 ^c		108	8.7	625 ^d	50.1 ^d
On January 1, 2018	1189	100.0	488 ^c		41.0 ^c		102	8.6	599 ^d	50.4 ^d
On July 1, 2018	1060	100.0	448 ^c		42.3 ^c		87	8.2	525 ^d	49.5 ^d
On January 1, 2019	1084	100.0	442 ^c		40.8 ^c		85	7.8	557 ^d	51.4 ^d
On July 1, 2019	1059	100.0	429 ^c		40.5 ^c		85	8.0	545 ^d	51.5 ^d
On January 1, 2020	989	100.0	387 ^c		39.1 ^c		74	7.5	528 ^d	53.4 ^d
On July 1, 2020	948	100.0	362 ^c		38.2 ^c		66	7.0	520 ^d	54.9 ^d
On January 1, 2021	756	100.0	318 ^c		42.1 ^c		60	7.9	378 ^d	50.0 ^d
On July 1, 2021	678	100.0	289 ^c		42.6 ^c		61	9.0	328 ^d	48.4 ^d
On January 1, 2022	646	100.0	299 ^c		46.3 ^c		54	8.4	293 ^d	45.3 ^d
On July 1, 2022	578	100.0	273 ^c		47.2 ^c		47	8.1	258 ^d	44.6 ^d
On January 1, 2023	507	100.0	260 ^c		51.3 ^c		44	8.7	203 ^d	40.0 ^d
On July 1, 2023	488	100.0	253 ^c		51.85 ^c		42	8.6	193 ^d	39.55 ^d

^a The number of JSCs according to FPP for 2017–2019 (the data on the distribution by OKVED refers to the number of companies whose shares (interests) are in federal ownership).

^b Number of business companies.

^c Total number of JSCs with a federal shareholding of over 50% (without singling out JSCs with full (100%) federal shareholdings) and their specific weight.

^d Estimated value based on the total number of JSCs data whose shares are in federal ownership and the number of such JSCs by other categories based on the share in the authorized capital.

Sources: The forecast plan (program) of privatization of the federal property and the focal points of privatization of the federal property for 2017–2019, 2020–2022, 2022–2024, 2023–2025, 2024–2026; statistical data according to the System of indicators to assess effectiveness of the federal property management; URL: <http://rosstat.gov.ru/> (March 20, 2016, September 5, 2016, March 20, 2017, September 5, 2017, March 20, 2018, September 5, 2018, March 20, 2019, September 5, 2019, March 20, 2020, September 7, 2020, March 22, 2021, September 6, 2021, March 21, 2022, September 5, 2022); March 20, 2023, September 5, 2023), own calculations.

Analysis of the Rosstat data according to the System of indicators for evaluation of state property management effectiveness shows that in the period from mid 2022 to mid 2023 a trend, which appeared already in 2020, continued towards an increase in the proportion of JSCs, where the state as a shareholder could exercise full corporate control.¹ Their specific weight in the beginning of 2023 exceeded the halve. As of July 1, 2023, it increased more than by 4.5 p.p. and amounted to 51.9% against 47.2% a year ago, approaching the value recorded at the time of the beginning of the publication of data on the System of Indicators for Assessing the Efficiency of State Property Management (52.4% at the beginning of 2016). The share of JSCs with federal blocking stakes has slightly increased to 8,6%. In contrast, specific weight of all other companies whose shares are in federal ownership dropped almost by 5 p.p. (from 44.6% to 39.6%).

¹ Based on the total number of JSCs with full and majority state-owned stakes.

When comparing data of the privatization programs in the beginning of June 2023 and September 2022, one can state a rather significant reduction in the proportion of business entities with the state share in the capital of less than 25% (by 7p.p.). This group is not that powerful anymore, accounting for less than 40% of all companies with federal stakes, returning to the beginning of 2016.

The proportion of companies where the state as a shareholder could exercise full corporate control grew by 6 p.p. not only at the expense of entities with full (100%) federal block of shares, but also due to those with control block of shares (from 50 to 100% of the capital). As a result, the aggregate share of companies where the state as a shareholder could exercise full corporate control exceeded half for the first time in 7 and a half years, amounting to about 53% (in early 2016 – just over 50%).

They were mainly represented by companies with a full stake in federal ownership (about 47%), while companies with a controlling stake were the smallest category (about 6%). For comparison: at the beginning of 2016, similar values were about 45% and 5.4%, respectively. Meanwhile, in the interval from September 2022 to June 2023, for the first time in the entire period from January 1, 2019, there was an absolute increase in the number of the above-mentioned companies: with a controlling federal stake – by 12 units (more than 1.5 times), and with a full stake in federal ownership – by 7 units (by 2.7%).

The intermediate position was occupied by a small group of companies with blocking (from 25 to 50% of the capital) government stake, whose share decreased by 1.4 p.p. to 7.5% (over 10% in early 2016).

When considering data on the System of indicators to assess the effectiveness of the state property management, not limited to the federal level, we will see the following (*Table 3*).

Table 3

Number of organizations in the public sector of economy accounted by the Federal Property Management Agency, its territorial directorates and state property management agencies of the Russian Federation in 2013–2014 and the number of economic entities in the state sector of economy in 2016–2023 (based on state registration) by organizational/legal forms

Data	Total	State Unitary Enterprises including treasury enterprises	Government institutions	Business entities with the authorized capital more than 50% of shares (stakes) are in the ownership of business entities belonging to the state sector of the economy	
				in the state ownership	in the ownership of business entities belonging to the state sector of economy
On January 1, 2013	67 003 ^a	4 891	56 247	3 501	2 364
On July 1, 2013	66 131 ^a	4 589	56 100	3 201	2 241
On January 1, 2014	64 616 ^a	4 408	54 699	3 097	2 412
On July 1, 2014	63 635 ^a	4 236	54 173	2 988	2 238
On January 1, 2016	65 587 ^b	4 284	56 693/56 649 ^c	3 888 ^d	–
On July 1, 2016.	65 218 ^b	3 982	56 893/56 856 ^c	3 673 ^d	–
On January 1, 2017	64 457 ^b	3 719	56 548/56 507 ^c	3 532 ^d	–

THE RUSSIAN ECONOMY in 2023

trends and outlooks

Data	Total	State Unitary Enterprises including treasury enterprises	Government institutions	Business entities with the authorized capital more than 50% of shares (stakes) are in the ownership of business entities belonging to the state sector of the economy	
				in the state ownership	in the ownership of business entities belonging to the state sector of economy
On July 1, 2017	62 655 ^b	3 294	55 414/55 361 ^c	3 353 ^d	–
On January 1, 2018	61 73 ^b	3 053	54 851/54 814 ^c	3 239 ^d	–
On July 1, 2018	60 391 ^b	2 763	53 933/53 899 ^c	3 125 ^d	–
On January 1, 2019	59 608 ^b	2 608	53 394/53 360 ^c	3 054 ^d	–
On July 1, 2019	58 839 ^b	2 366	52 901/52 870 ^c	2 972 ^d	–
On January 1, 2020	57 903 ^b	2 225	52 207/52 176 ^c	2 864 ^d	–
On July 1, 2020.	56 909 ^b	2 050	51 474/51 445 ^c	2 787 ^d	–
On January 1, 2021	56 288 ^b	1 917	51 076/51 026 ^c	2 713 ^d	–
On July 1, 2021	55 204 ^b	1 792	50 138/50 110 ^c	2 672 ^d	–
On January 1, 2022	53 763 ^b	1 610	48 939/48 912 ^c	2 627 ^d	–
On July 1, 2022	53 013 ^b	1 426	48 433/48 407 ^c	2 583 ^d	–
On January 1, 2023	52 361 ^b	1 353	47 927/47 901 ^c	2 514 ^d	–
On July 1, 2023	51 552 ^b	1 285	47 287//47 26 ^c	2 421 ^d	–

^a Including organizations lacking specific types in their founding documents, which have passed state registration, but without joint stock companies with more than 50% of their shares (stakes) in joint state and foreign ownership.

^b Including business entities with an organizational-legal form other than unitary enterprises, state institutions and business companies (production (artels) and consumer cooperatives, associations (unions), associations of property owners, foundations, public-law companies, etc.).

^c Total number of institutions set up by the Russian Federation and RF regions (excluding state academies of sciences and private institutions, which in the new System are attributed to institutions, but should be excluded);

^d Total number of business entities irrespective of the size of the state-owned stake (share), data on the number of business entities with a controlling block of shares owned by the state are available only for JSCs whose shares are in federal ownership.

Sources: On development of the public sector of the economy of the Russian Federation in 2012 (p. 7–11) in H1 2013 (p. 7–11), 2013 (p. 7–11) in H1 2014 (p. 7–11). M.: Rosstat, 2013–2014; Statistical information on the indicators of effectiveness of the federal property management; URL: <http://rosstat.gov.ru/> (March 20, 2016, September 5, 2016, March 20, 2017, September 5, 2017, March 20, 2018, September 5, 2018, March 20, 2019, September 5, 2019, March 20, 2020, September 7, 2020, March 22, 2021, September 6, 2021, March 21, 2022, September 7, 2022, March 20, 2023, September 5, 2023).

Total number of state-owned business entities was 51.550 units by mid-2023, down about 1500 units (or 2.8%) and by 12.100 units less compared to mid-2014.¹

For certain categories of economic entities, a reduction in the number of unitary enterprises by 141 units (or by almost 1/10), business entities by 162 units (or by 6.3%), state institutions – by about 1.150 units (or by 2.4%) can be observed by mid-2023, as compared to mid-2022.

Considering dynamics on a shorter time interval, in H1 2023, there was a reduction in the number of unitary enterprises by 5.0%, business companies by 3.7%, state institutions by 1.3%.

¹ The latest bulletin on the development of the public sector of the economy was issued for January–September 2014, but the semiannual data as of July 1, 2014 are also good enough for the medium-term analysis.

5.1.2. Privatization policy: results of implementation and short-term prospects

In 2023, implementation of the Forecast Plan (Program) of privatization of the federal property and focal points of privatization of the federal property (FPP) for 2023–2025 started, approved by the RF Government Edict No.3718-r of 02.12.2022.

As in the case of the previous privatization program, numerous amendments and additions were made to the current document. A total of 29 relevant normative legal acts (NLAs) were approved during 2023. For comparison: in 2022 there were 27, in 2021 – 22, in 2020 – 15 NLAs.

The most significant (until a new version of the FPP appeared) was the introduction of JSC Rossirtprom into FPP in spring of 2023 with the prospect of terminating the state’s participation in the authorized capital, similar to the Makhachkala Commercial Sea Port (MCSP), transferred from the previous privatization program based on specific government solutions (Section I of FPP 2023–2025).

However, in contrast to MCSP, Rossirtprom was present in this section less than 3 months, and then was transferred to the FPP section II 2023–2025, which includes the list of federal property privatized mainly according to standard procedures.¹ At the end of the year, the full package of shares (100%) of the company was put up for auction, which was not held due to lack of bids.² The MCSP remained in the list of major companies to be privatized based on special decisions of the RF President and the RF Government moving to the next privatization program.

Thus, in 2023, privatization was organized only according to standard procedures. As a result, blocks of shares (stakes in authorized capitals) of 39 business entities, including 2 privatized entities under specific government solutions, were sold, and decisions on terms of privatization of 3 FSUEs were adopted (*Table 4*).

Table 4

Comparative data on dynamics of privatization of federal state unitary enterprises, federal blocks of shares and objects of state treasury of the Russian Federation in 2008–2023

Period	Number of privatized enterprises (objects) of federal property (according to Rosimushchestvo)		
	Privatized FSUEa, units	Sold blocks of shares of JSC (business entities), units	Sold treasury facilities, units
2008	213	209 ^b	–
2009	316 + 256 ^c	52 ^b	–
2010	62	134 ^b	–
2008–2010	591 + 256 ^c	395 ^b	– ^d

1 However, with regard to some facilities there are clarifications about their inclusion in the authorized capital of different integrated structures and the possibility of privatization after their transfer to the treasury (indicating in some cases the status of a cultural heritage object).

2 URL: <http://rosim.gov.ru>

THE RUSSIAN ECONOMY in 2023

trends and outlooks

Period	Number of privatized enterprises (objects) of federal property (according to Rosimushchestvo)		
	Privatized FSUEa, units	Sold blocks of shares of JSC (business entities), units	Sold treasury facilities, units
2011	143	317 ^a / 359 ^b	3
2012	47 ^f	265 ^c	40
2013	26	148 ^c	22
2011–2013	216	730 ^d	65
2014	33	107 ^e	12
2015	35 ^g	103 ^e	38
2016	60 ^g	179 ^e	282
2014–2016	125 ^g	389 ^e	332
2017	69	47	77
2018	4	46	173
2019	8	51	171
2017–2019	81	144	421
2020	16	23 ^h	312 ^h
2021	64 ⁱ	55	393
2022	11 ⁱ	54	223
2020–2022	91 ⁱ	132	928
2023	3	39	208+386 ^j

^a All preparatory activities have been completed and decisions on conditions of privatization made.

^b Including blocks of shares with the announcement of their sale that took place in the previous year.

^c Number of FSUE for which the decision on corporatization was taken by the RF Ministry of Defense in addition to those where a similar decision was taken by the Federal Property Management Agency.

^d Available information on the sale of the facilities of other property in the specified period comes down to the sale of 4 facilities of the released immovable military property from October 2008 till January 2009, and also on the adoption of decisions on conditions of privatization and publication of information reports on the sale of facilities at the end of 2010 with results of their auctions made in 2011.

^e Excluding stock sales using help of investment advisors.

^f Calculated value is based on the report of the Federal Property Management Agency on fulfillment of the forecast plan (Program) of federal property privatization of 2011–2013 on the total number of FSUE, for which in 2011–2013 orders were issued on the conditions of privatization through conversion into JSC (216 units) and the data on the results of 2011 and 2013.

^g In respect of several enterprises decisions on privatization conditions were cancelled in 2015–2016 and adopted repeatedly, so the total number of FSUE, for which privatization decisions were adopted over 3 years separately, is somewhat higher than in the table data on results of 2014–2016 (125 units).

^h Taking into account blocks of JSCs and treasury facilities sold under the previous privatization program.

ⁱ Number of FSUEs in respect of which decisions on privatization terms have been made for 2022 differs from the data contained in the review "The Russian Economy in 2022. Trends and Prospects" (issue 44, p. 372). The latter reflect the number of FSUEs in respect of which decisions on privatization terms were made (62 units) out of the total number of FSUEs included in the privatization program as of 01.01.2022, and not for 2022. The incorrect interpretation of the data also affected the overall figures for 2020–2022 as a whole.

^j Number of objects privatized without inclusion in the FPP according to list approved by the Ministry of Finance of Russia.

Sources: Report on the Rosimushchestvo activity in 2008; Reports on the implementation of the forecast plan (program) of privatization of the federal property for 2009. M., 2010; Report of the Ministry of economic development on results of privatization of the federal property in 2010; Report of the Ministry of economic development on results of privatization of the federal property in 2011; Report on the implementation of the forecast plan (program) of privatization of the federal property for 2011–2013; The Rosimushchestvo reports on implementation of the forecast plan (program) of the federal property privatization for 2014–2016 in 2014, in 2015, in 2016; The Rosimushchestvo reports on implementation of the forecast plan (program) of the federal property privatization for

2017–2019 in 2017, in 2018, in 2019; The Rosimushchestvo report on implementation of the forecast plan (program) of the federal property privatization for 2020–2022 in 2020; The Rosimushchestvo report on implementation of the forecast plan (program) of the federal property privatization for 2020–2022 in 2021; The Rosimushchestvo report on implementation of the forecast plan (program) of the federal property privatization for 2022–2024 in 2022; The Rosimushchestvo report on implementation of the forecast plan (program) of the federal property privatization for 2023–2025 in 2023; The Rosimushchestvo report on results of implementation of the forecast plan (program) of the federal property privatization without including in the forecast plan (program) of the federal property privatization for planning period, for 2023; URL: <http://rosim.gov.ru>.

Number of privatized unitary enterprises and sold blocks of shares (stakes in authorized capitals) of economic entities and privatized unitary enterprises fell by over a quarter and approximately 4 times respectively compared to 2022.

However, financial results were also exceedingly meaningful. According to the Federal Treasury, the proceeds from sale of shares and other forms of participation in the capital owned by the federal government amounted to Rb27.28 bn, exceeding 18 times the forecast of revenues in the privatization program for 2023–2025. Compared with 2022, the revenues increased by Rb19.49 bn or by 3.5 times. It was the maximum for the whole period of 2017–2023

More than 3/4 of this result was due to the sale of assets under certain governmental decisions: LLC “Phoenix” (company – operator of the port terminal “Bronka”, St. Petersburg, 100%, Rb10.9 bn) (RF Government Edict No. 629-r dated 18.03.2023) and JSC “Kuchuksulfate” (Altai Krai, 100%, Rb10.36 bn) (RF Government Edict No. 1510-r dated 09.06.2023).

If in the first case the obligations of the buyer (NCC-Logistic Ltd.) are reduced to the standard payment, in the second case it is about a whole set of obligations, grouped into 4 blocks in the governmental edict. Three of them contain conditions of technical-economic and production-technological nature, including, in addition to preserving the main type of activity, maintaining the average number of the main production personnel, ensuring preservation of the average annual level of revenue (with the indication of specific values), a list of specific capital construction facilities (with the indication of technical characteristics).

One more block of obligations should be emphasized. It includes adoption, within one year from the date of transfer of ownership of the shares and approval by the FAS of Russia, of the rules of trading activities for the sale of natural sodium sulfate, which provide for, among other things: (1) predominantly meeting the needs of the Russian domestic market for this product at economically justified prices; (2) procedure for consideration of offers and conclusion of contracts for supply of goods; (3) pricing procedure providing for maintenance of an acceptable price for natural sodium sulfate; (4) inadmissibility of economically and (or) technologically unjustified refusals to conclude contracts with buyers; (5) publicity and accessibility of trade policy. A temporary ban is introduced on further transfer of ownership of shares in this JSC for the period of fulfillment of obligations (4–5 years) under control of the Ministry of Industry and Trade, FAS and Rosimushchestvo with the right of the latter to demand termination of the sale and purchase agreement in case of breach of obligations.

A significant amount (over Rb4.9 bn) was received from sale of JSC “Order of the October Revolution, Order of Red Banner of Labor “First Exemplary Printing House” (JSC “POT”) under the government decision 2022.

The capital printing house was sold for the second time, since in 2016 the shares were already sold to «Unitex» LLC. However, the auction and the sale were subsequently declared illegal and the buyer returned the shares to the state.¹ The full (100%) package of shares of JSC «POT» was sold with the start price exceeding 1.65 times. According to the Government Edict of the Russian Federation of 24.08.2022 No.2416-r the buyer is obliged to fulfill within 5 years a number of obligations related to the main activity (indicating specific values). In contrast to the sale of «Kuchukuksulfat», they are less stringent, but there is also a temporary ban on further transfer of ownership of shares of «POT» JSC for the period of fulfillment of obligations under the right of Rosimushchestvo to demand termination of purchase and sale contract in case of breach of obligations. The largest sales (over Rb1.0 bn) also included LLC Ternei Zoloto (Primorsky krai, 100%, Rb1.2 bn). All 4 assets were sold by the Central Office of Rosimushchestvo.

On the other side of the spectrum were the sales of JSC “Novosibirsk zonal gardening station” (100%, Rb135 mn), “Pamashyalsky stone quarry” (the Republic of Mari El, 98.31%, Rb94.145 mn), “Kuedinsky breeding stud farm” (Perm krai, 100%, Rb42.75 mn), JSC “Irkutsk agroorgtekhstrom” (100%, Rb30.5 mn).²

However, even in the group of business entities sold at a relatively small price, there were deals with a noticeable increase in the initial price. For example, in case of sale of 100% of shares of JSC Krasnogorskoye (Samara region, production of seeds of grain and leguminous crops) the price increased more than 2.5 times to Rb291.35 mn.³

Rosimushchestvo continued to monitor the fulfillment of terms and conditions of transactions concluded earlier based on specific Edicts of the Government of the Russian Federation in 2020 and 2022 on the alienation of federal stakes in JSC “Adler Breeding Trout Farm” (buyer is Yug-Businesspartner LLC) and “Electronic Trading and Security” (buyer is Automated Information System of Trading LLC).

More modest results under privatization program were achieved by the sale of property of the RF state treasury. In respect of this category of assets, the authority to carry out privatization activities were fully delegated to territorial bodies of Rosimushchestvo.

The number of sold objects amounted to 208 units, decreasing by 6.7% compared to 2022 (312 units in 2020, 393 units in 2021, 223 units in 2022). Proceeds from sale of the state treasury property in 2023 amounted to Rb0.88 bn. That is, despite the decline in sales, the proceeds were comparable to results of previous years (2020 – Rb0.9 bn, 2021 – Rb1.03 bn, 2022 – Rb0.94 bn).

The territorial bodies of Rosimushchestvo continued to accelerate the process of privatization of non-core assets (NCA) facilities. Out of 18 federal property objects (lots) comprising 29 NCA included in the privatization program, 16 objects

1 URL: <http://rosim.gov.ru>

2 Ibid.

3 Ibid.

(about 89%) were sold as part of 27 NCA (more than 93%), which is comparable to the results of 2022 (16 objects as part of 33 NCA).

In 2023, like a year earlier, Rosimushchestvo conducted privatization activities with regard to confiscated property obtained as a result of corruption offenses and converted to federal property in accordance with court decisions (hereinafter referred to as corrupt property). In 2023, out of 37 lots including such property (land plots including immovable and movable property, as well as non-residential premises), 23 lots were sold at auctions open to participants, and another 1 lot was sold by exercising the tenant's pre-emptive right to buy out the leased property. Proceeds from sale of corrupt property in 2023 amounted to Rb768.9 mn. Monetary funds received from the sale of corrupt property are subject to enrollment in the budget of the Social Fund of Russia.

In 2024, privatization activities will continue in respect of 74 business entities and 98 items of property of the state treasury of the Russian Federation included in the privatization program.

Based on results of 2023, Rosimushchestvo for the first time published a report on the results of privatization of federal property included in the list of federal property, privatization of which is carried out without inclusion in the FPP for the planned period. Such a solution became possible as a result of amendments and additions to the law on privatization adopted in 2022 for property with a market value of up to Rb100 mn (except for shares and stakes in the authorized capitals of business companies, as well as property to be contributed to the authorized capitals of JSCs).

The list of relevant property approved by Order of the Ministry of Finance of Russia No. 553 dated 15.12.2022 (in numerous subsequent editions), as of December 31 of the reporting year included 616 items. Of the 560 items subject to tenders, 386 items were privatized, and budget revenues (Rb 795.3 mn) turned out to be quite comparable to the amount of funds from the sale of treasury property under the privatization program.

Main methods included sales without announcement of price (161 units, or 41.7%) and at auction (156 units, or 40.4%). They were supplemented by sales through public offer (62 units, or 16.1%) and exercising the pre-emptive right, including by small and medium-sized enterprises (SME) (7 units, or 1.8%). As could be expected, the auction became the most competitive method of privatization. The sum of sale prices exceeded almost by 1.9 times the sum of initial prices, while in the case of sale through public offer, on the contrary, it was about 1.5 times lower. As for sale without announcement of price and at realization of the pre-emptive right, there are data available only on the sum of sale prices, which according to the results of realization by these two methods more than twice conceded to the value of the similar indicator at sale by public offer.

As in previous years, only a part of the privatized federal property was of interest to potential investors. The sales success rate as a ratio of the number of sold assets and conducted bidding under privatization program was lower than in the previous year 2022, amounting to 20% for blocks of shares (stakes) and 25.4% for treasury facilities against 28.6% for blocks of shares (stakes) and 30.1%

for treasury facilities respectively in 2022. At the same time, the success rate of property privatization without inclusion in FPP was much higher, reaching 68.9%.

In the context of improving efficiency of the privatization program implementation by increasing the openness of privatization procedures and marketing of privatized property, Rosimushchestvo continued to post information on sales of state treasury property on the Avito, CIAN and Domklik websites, as well as holding “investment hours” to familiarize potential buyers with the objects announced for current and planned sale. In 2023, in order to provide additional information to potential investors, the practice of holding an “investment hour” for corporate assets¹ to be sold was introduced, which showed its effectiveness at the end of the year.

Moreover, in order to accelerate the pace of involvement in economic turnover of immovable and movable property of the state treasury of the Russian Federation, unclaimed by the state, Rosimushchestvo has developed and put into commercial operation the service “Privatization” of the federal state information and analytical system “Unified System of State Property Management” on the unified digital platform of the Russian Federation “GosTech”, which provides for automation of the process of privatization of federal property, starting from the preparation of the object for privatization and ending with its public sale.

In 2023, as part of the implementation of 15 Executive Orders of the President of the Russian Federation and 23 Edicts (Decrees) of the Government of the Russian Federation on the creation/expansion of vertically integrated structures (VIS), Rosimushchestvo took measures to establish 12 VIS. As of the end of the year, relevant decisions on privatization terms were made in respect of 1 FSUE, 79 JSCs and 261 treasury objects.

Among the integrated structures expanded in 2023, are Almaz-Antey Air and Space Defense Concern, United Shipbuilding Corporation (USC), Russian Railways, Head Center for Reproduction of Farm Animals, Russian Post, Kavkaz. RF, Transinzhestroy, VTB Bank (PAO), Russian Newspapers, Rosgeologia, Federal Grid Company – Rosseti, Center for Biometric Technologies JSC.²

The RF Government Edict No.2584-r dated 27.09.2023 approved a new version of the forecast privatization plan (program). De facto, this is about *a new privatization program for 2024–2026*. Compared to a similar document for 2023–2025, the text has not undergone any adjustments, except for the indication of a new term of validity of the document.

In terms of quantity, in 2024–2026 there are plans to complete privatization of 23 FSUE, including 14 treasury enterprises, 173 business entities (including stakes in 7 limited liability companies), as well as 27.815 objects of other property

1 Investment Hour is held by Rosimushchestvo in respect of all corporate assets, subject to privatization, using videoconferencing on the 20th day from the date of the start of acceptance of bids for participation in the relevant auction. Potential buyers can obtain expanded information on the federal property to be put up for auction.

2 It is the operator of the state information system (GIS) “Unified Biometric System”, a digital platform used for remote and face-to-face human recognition. GIS is a part of the infrastructure that ensures the interaction of information systems used to provide state and municipal services in electronic form.

of the RF Treasury. These values do not differ much from those contained in the privatization program for 2023–2025.

The number of unitary enterprises included in the program remained the same, the number of business entities increased by 8%, and the number of privatized objects of other property of the RF treasury decreased by 2.2%. A new point is the allocation of state-owned enterprises among the FSUEs to be privatized, which was not previously included in the privatization programs. Moreover, their number exceeds the number of unitary enterprises to be privatized under the right of economic management by 1.5 times, and the number of LLCs – twice.

As for revenues to the federal budget from privatization of federal property, they will amount in 2024–2026 to Rb1.2 bn annually. These amounts are also present in the draft federal budget for 2024 and the planning period of 2025 and 2026, submitted by the Russian government to parliament after the new version of the FPP had been approved.¹ The projected annual amount of revenues is about 20% less than the amount stated in the forecast privatization plan (program) for 2023–2025, and three times less than the amount contained in the initial version of the privatization program for 2020–2022 (Rb3.6 bn). It should be taken into account that the above annual amount of budget revenues does not include funds that could potentially be received as a result of transactions using shares of the largest companies occupying a leading position in the relevant sectors of economy.

Like in the previous privatization program, in the context of 2023–2025, there is a mention of corporatization of the unitary enterprise “National Fishery Resources” if the President of the Russian Federation takes a decision to exclude it from the list of strategic organizations and termination of the state participation in the authorized capital of JSC Makhachkala Commercial Seaport (in the absence of companies with a reduced share of the state). Specific terms and methods of privatization of this JSC will be determined by the Government of the Russian Federation taking into account market conditions. Similarly to FPP for 2023–2025, there is no reference to recommendations of leading investment consultants in cases stipulated by government decisions.

5.1.3. Improving privatization legislation

Provided that we consider the adopted amendments and additions to the current law on privatization of 2001 (No.178-FZ) in chronological order, one should start with establishing public easement in the privatization of state or municipally owned premises, exclusively used as a passage, access to other premises in a building or structure for realizing such an opportunity.

¹ At the same time, the relevant draft law itself did not contain information on the specific amount of privatization revenues either in the main part or in the annexes. We are talking about information from accompanying materials to the document (explanatory memorandum, data on the forecast plan (program) for privatization of federal property, calculation of the items of the classification of sources of financing the budget deficit). Revenues to the federal budget from the privatization of federal property are projected to be in the amount of: in 2024 – Rb1,229.5 mn, in 2025 and 2026 – Rb1,225.9 mn each.

Such encumbrance is foreseen as an essential condition of the transaction on privatization of such premises and is subject to state registration simultaneously with the state registration of rights to the privatized premises. This public easement cannot be established if the passage, access to other premises in a building, structure may be provided through the premises that are common property in such building, structure.

Regulation of the application of easements as one of the tools in the privatization process was further developed in three federal laws, which in July 2023 introduced significant amendments and additions affecting the privatization of certain types of property.

The list of information to be contained in an information notice on sale of State or municipal property has been expanded by (1) terms of the tender, the forms and deadlines for their execution, and (2) information on establishment of encumbrance of such property with public easements and (or) restrictions provided for by the law on privatization and (or) other federal laws. If the encumbrance relates to property sold at auction, an essential condition of the concluded sale and purchase agreement is the buyer's obligation to comply with the conditions of the said encumbrance.

The sale of property by tender has been significantly modified. The very title of the relevant article of the Privatization Law has become more concise by eliminating the list of objects potentially privatized by this method contained in the previous version. Now it is contained in the text (Art. 20, para. 1). Gas distribution networks, gas consumption networks and objects of such networks have been added to the previously mentioned shares of JSCs, shares in the authorized capital of LLCs representing more than 50% of their capital, objects of cultural heritage (OCH) included in the Unified State Register of Objects of Cultural Heritage (Monuments of History and Culture) of the Russian Federation people. The sale specifics of the latter at a tender, including requirements to participants and terms of fulfillment of its conditions, which should contain a sale and purchase agreement in respect of gas supply facilities, are established in accordance with the new special Article 30.5.

Certain norms concerning price of property sold at a tender are no longer valid (application of an offer on the price of property sold by a participant in a tender on the day of summarizing results of this tender, exclusion of a price offer from a full list of documents specified in the tender information notice, lack absence of which results in refusal of admission to the tender, right to submit only one offer for the price of state or municipal property).

The list of tender conditions has been extended by repair and other works in respect of gas distribution and gas consumption networks and their facilities, as well as other conditions in accordance with Article 29 regulating specifics of privatization of objects of cultural heritage (OCH) included in the relevant register. However, the former wording on the OCH preservation has been clarified. Now such a tender condition applies only to objects that are in poor condition (while retaining the reference to Federal Law No. 73-FZ "On objects of cultural heritage (historical and cultural monuments) of the peoples of the Russian Federation" dated 25.06.2002).

With regard to the alienation of land plots, the following innovations have been approved:

- privatization of an object of cultural heritage (OCH), which is a building, facility or construction, through sale at a tender is carried out along with simultaneous granting to the individual purchasing OCH on lease of a land plot occupied by such an object and required to use it;
- the right to buy out the leased land plot is limited by the exclusion of such an opportunity for a land plot lease agreement concluded for the period of fulfillment by the owner of the OCH located thereon of the conditions of the tender for the sale of such object held in accordance with the law on privatization;
- land plots occupied by OCH owned by federally important cities (Moscow, St. Petersburg, Sevastopol), as well as land plots located on their territory, the state ownership of which is not delimited, are not subject to alienation in cases stipulated by regulatory legal acts of such subject of the Russian Federation.

Article 29 devoted to specifics of privatization of cultural heritage objects included in the Register of Cultural Heritage Objects has been significantly revised.

The set of methods used for this purpose (as part of the property complex of a unitary enterprise when it is transformed into a JSC or LLC, contribution to the authorized capitals of JSCs) has been supplemented with an auction. Privatization by tender is now left only for objects in poor condition.

The list of conditions for privatization irrespective of the method, which included encumbrance with requirements for maintenance and use of objects, their preservation, provision of access, is expanded by requirements for placement of outdoor advertising on such objects and their territories, as well as for the installation of inscriptions and signs containing information about the object.

Objects of cultural heritage included in the Register of Cultural Heritage, except for those in poor condition, may also be privatized by SMEs in accordance with the procedure established by the 2008 law on the specifics of alienation of movable and immovable property owned by the state or municipality and leased by SME (No.159-FZ),¹ provided that they are encumbered with the above-mentioned requirements and comply with the requirements for the decision on terms of privatization and the sale and purchase agreement (information on belonging of the object to the register of OCH, attached copies of protection documents, new owner's obligation to fulfill their requirements).

The list of requirements for conditions of privatization of an object in poor condition through sale at a tender is now more clearly structured:

- requirements established by protection obligation stipulated by Article 47.6 of Federal Law No.73-FZ (2002) "On objects of cultural heritage (historical and cultural monuments) of the peoples of the Russian

¹ At the same time, the new version of the Privatization Law makes reference to the peculiarities of participation of SMEs in the privatization of leased state or municipal property is now limited to real estate.

Federation”, and in its absence by another protection document stipulated by Clause 8 of Article 48 of the said law;

- other requirements for preservation, including restoration of OCH or a part thereof, established by the bodies authorized in the field of preservation, use, popularization and state protection of cultural heritage objects at the respective levels of public authority at the request of the bodies authorized to perform functions of privatization of state or municipally owned property;
- the buyer's obligation to ensure development of project documentation for works on preservation of the cultural heritage site, including works on its restoration, in accordance with the above requirements, within a certain period of time;
- the obligation of the buyer to ensure that the works on preservation of the cultural heritage object are carried out in accordance with the requirements.

A deposit for participation in the tender in the amount of 20% of the cadastral value of such OCH was introduced, maintaining previous norms on a chance to conclude a sale and purchase agreement with an individual who submitted the only application for purchase of an object in poor condition and the initial (minimum) sale price of Rb1. Part of the deposit in the amount exceeding the acquisition price of this property shall be returned to the winner of the tender.

Moreover, in addition to information provided by the norms on information support of privatization, the information notice on the sale of the OCH in poor condition should specify the amount of increase in the initial price (“bid step”).

There is also a direct indication that the document confirming fulfillment of the tender conditions is the acceptance certificate of the completed works on preservation of OCH, issued to the new owner of such object by the body for the protection of cultural heritage objects in accordance with the Federal Law No.73-FZ (2002).

When privatizing an object of cultural heritage, which is a building, facility or construction and is owned by cities of federal significance (Moscow, St. Petersburg, Sevastopol), through sale at auction, if the respective land plot is not sold, the notice, in addition to the information provided by the norms on information support of privatization, shall contain information on the term of lease of the land plot occupied by such object and the amount of rent.

Specifics of the privatization of social, cultural and public utility facilities are now extended to gas distribution networks, gas consumption networks and facilities of such networks.

The initial rule on the possibility of privatization of social and cultural (health care, culture and sports) and public utility facilities as part of the property complex of a unitary enterprise, subject to a number of exceptions, is supplemented with the proviso “unless otherwise provided for by this law”.

These restrictions do not apply to cases where power grid facilities, heat energy sources, heat networks, centralized hot water supply systems and (or) certain facilities of such systems are fixed production assets (FPA) of a unitary enterprise.

Now they are supplemented by gas distribution networks, gas consumption networks and their facilities, and criterion of the enterprise's revenue from sale of goods and provision of services using these facilities, which must exceed the revenue from each other type of activity carried out by the enterprise in accordance with its charter, is used to classify them as fixed assets.

Specifics of privatization of gas distribution and gas consumption networks and their facilities that are not fixed production assets of a unitary enterprise are established in accordance with the new article 30.5 of the law on privatization.

Gas distribution networks, gas consumption networks and facilities of such networks used for gas supply to gas consumers (hereinafter – gas supply facilities) may be privatized in accordance with procedures and methods stipulated by law on privatization, taking into account specifics established by this article, provided that gas supply facilities (GSF) are encumbered with operational obligations (hereinafter – operational obligations).

Decision on the conditions of GFS privatization and sale and purchase agreement must contain as an essential condition the encumbrance of the object with operational obligations (OO). In case of its absence in the sale and purchase agreement, the privatization transaction is null and void.

The OO includes obligation of the purchaser or other legal owner to use the facilities for the purpose of providing gas transportation and supply services to consumers, technological connection of gas-using equipment and capital construction facilities to gas distribution networks, their reconstruction, development of the gas distribution system and ensuring safe operation of gas supply facilities in accordance with industrial safety requirements and regulatory legal acts of the Russian Federation.

Operational obligations with respect to objects of the GSF apply to all of their components, and in general for this category of property the principle of integrity and unity of objects is established while preventing division (fragmentation) into parts.

State registration of restrictions (encumbrances) on the title to gas supply facilities in the form of operational obligations is carried out simultaneously with state registration of the title to GSF facilities.

The preemptive right to purchase them may be exercised by a body, if the following conditions are simultaneously met on the day of submission of an application on the intention to conclude a purchase and sale agreement for a gas supply facility:

- a body is a gas distribution organization (GDO);¹
- a body operates the object being privatized on a legal basis, including in accordance with a contract of gratuitous use, lease or by virtue of another proprietary or obligatory right of possession and (or) use, continuously for two years or more.

No assignment of the pre-emptive right is allowed.

1 The terms “gas distribution organization” and “gas consumer” are used in the same sense as in the Federal Law No. 69-FZ (1999) “On Gas Supply in the Russian Federation”.

A body possessing it, in case the gas supply facility is included in the forecast plans (programs) for privatization of state and municipal property or the list of federal property, when privatization is carried out excluded from privatization program, within 90 calendar days from the date of placement on the official website in the information and telecommunication network “Internet” of the specified documents, has the right to send an application on the intention to conclude a purchase and sale agreement for the gas supply facility to the body authorized to carry out functions of privatization of the gas supply facility to the state and municipal property.

Upon receipt of such an application, the authority shall:

- ensure the conclusion of a contract for the assessment of the market value of the gas supply facility in accordance with the procedure established by the legislation of the Russian Federation on appraisal activities within two months from the date of receipt of the application;
- adopt a decision on terms of privatization of the gas supply facility within two weeks from the date of acceptance of the report on its appraisal;
- send by registered mail with a delivery notice to the body having a pre-emptive right to purchase gas supply facility, a draft contract of sale and a copy of the decision on terms of its privatization within 10 days from the date of the decision.

If a body possessing a pre-emptive right to purchase intends to exercise it, the gas supply facility sale and purchase agreement must be concluded no later than within 30 calendar days from the date of receipt of the above documents by that body.

When using the pre-emptive right of purchase, the value of the GSF is assumed to be equal to its market value determined in accordance with the legislation of the Russian Federation on appraisal activities.

If a body possessing a pre-emptive right of purchase refuses to exercise it or fails to sign a sale and purchase agreement within the established period of time, this body loses this right, and the gas supply facility is privatized through a tender in accordance with the procedure established by the law on privatization. Bodies being gas distribution organizations are allowed to participate in the tender.

The sale and purchase agreement for gas supply facility must contain a material condition on the right of termination by the body authorized to perform the functions of privatization of gas supply facilities in case of material breach of the stipulated operational obligations.

Control over fulfillment of their conditions shall be exercised by the above-mentioned body or by a public authority or local government body to which the relevant powers have been delegated in accordance with the established procedure, while the procedure for exercising control shall be established on their own.

They also have the right, in the event of a material breach of operational obligations, to apply to the court with a claim for withdrawal through redemption of the gas supply facility, which value is determined based on results of evaluation in accordance with the legislation of the Russian Federation on appraisal

activities, less the losses caused to consumers due to the violation of operational obligations.

Failure to use gas supply facilities for the purpose of providing services for gas transportation and supply to consumers, technological connection of gas-using equipment and capital construction facilities to gas distribution networks, their reconstruction, development of the gas distribution system and ensuring safe operation of gas supply facilities in accordance with industrial safety requirements and regulatory legal acts of the Russian Federation is recognized as a material breach thereof.

Operational obligations in respect of a gas supply facility are retained in case of transfer of ownership of it to another body.

Finally, another category, in respect of which significant innovations concerning privatization appeared, turned out to be a type of corrupt property.

If, in general, the effect of the law on privatization does not apply to relations arising from the alienation of state and municipal housing stock,¹ now it contains provision, to which new Article 30.4 is dedicated.

It is stated that residential premises entered into the housing fund of the Russian Federation based on court acts, in cases where such residential premises have been recognized as property obtained as a result of the commission of corruption offences or where, in respect of such residential premises, information confirming their acquisition on lawful income has not been submitted in accordance with anti-corruption legislation, shall be privatized under privatization legislation.

The condition for this is that market value of the residential premises on the secondary housing market exceeds the amount of money determined based on the size of total area multiplied by the amount determined according to official data² indicator of an average price of 1 sq. m. of the total area of residential premises in the relevant subject of the Russian Federation.

Privatization of such housing is possible only through sale at auction. In case of its invalidation, the announcement on holding a repeated auction with a 5% reduction of the initial selling price of such residential premises shall be placed in the order established for information support of privatization, within three months from the date of invalidation of the auction.

If the outcome of the repeated auction is similar, the next procedure can be held no earlier than six months later. Standard procedure for sale of state or municipal property through a public offer in the event that the auction for its sale was recognized as failed is not conducted for the above-mentioned housing.

This procedure applies to the relevant residential premises entered into the housing fund of the Russian Federation not only after the date on which the amendments to the law on privatization come into force, but also to those

¹ The legal basis for free privatization of housing by citizens is a separate law 1991.

² Reference to the federal body of executive power that performs the functions of forming official statistical information on social and economic functions of forming official statistical information on social, economic, demographic, ecological and other public processes in the Russian Federation.

previously entered before that date, if they have not been provided to individuals under social rent agreements as of that date.

It is obvious that all these legal innovations are *in line with the removal of existing restrictions on privatization aimed at accelerating its pace and increasing its efficiency*. The assessment of their consequences is far from ambiguous.

The adopted amendments allow for privatization of cultural heritage objects in satisfactory condition through sale at auction when they are encumbered with requirements for maintenance and use of the cultural heritage objects included in the register, as well as for their redemption by tenants under provisions of Federal Law No.159-FZ (2008) on specifics of alienation of state or municipal property leased by small and medium-sized enterprises (SMEs). A new procedure for privatization of OCH in poor condition through a tender has been established, as well as the possibility of privatization of such objects, which are freestanding structures, constructions, without land plots.¹

On the one hand, the scheme of privatization of OCH is prescribed in sufficient detail. The list of its conditions has been expanded regardless of the method of privatization, there are restrictions on the alienation of land plots occupied by the OCH (impossibility of redemption until the conditions of the tender are met, stricter restrictions in cities of federal significance, allowing *de facto* mainly the lease regime).

On the other hand, the issue of criteria for assessing the condition of the OCH for their objective differentiation and the choice of a specific method of privatization, a large number of reference (to the law on objects of cultural heritage) norms, risks of a formal approach in the development of project documentation for works on preservation of the object and assessment of compliance with the conditions of the tender inspire concern.

As for relaxation of restrictions on privatization of gas supply facilities like power grid facilities, heat energy sources, heat networks, and centralized hot water supply systems, it remains an open question to what extent the previous negative experience has been taken into account.

At the same time, with regard to gas supply facilities, basic norms of the privatization law as such have been substantially revised (priority of the pre-emptive right to buy out, limitation of bidding in terms of the number of participants). The well-known issue of control over fulfillment of operational obligations and tender conditions in case of repair and other works still exists.²

The innovation concerning privatization of residential premises as corrupt property is clearly aimed at maximizing budget revenues through use of an

1 Corresponding amendments were also subsequently introduced to the Land Code of the Russian Federation and to the Decree of the Government of the Russian Federation No. 860 of 27.08.2012 "On the Organization and Conduct of the Sale of State or Municipal Property in Electronic Form".

2 A vivid illustration of the problems in the housing and utilities sector was the accident during the New Year holidays of 2024 in the Moscow region, when a malfunction in the boiler plant of the Klimovsk ammunition plant led to large-scale heat supply cuts to housing and social facilities. The composition of owners of the enterprise privatized in the early 1990s has changed several times. State Corporation Rostec does not hold a controlling stake in the capital structure, and the Prosecutor General's Office is going to file a lawsuit to transfer the enterprise into the ownership of the state.

exclusively auction mechanism, which makes it impossible to noticeably lower the price of the property sold, as in the usual sequence of privatization procedures (from a failed auction through a public offer to a sale without announcement of the price). Such a scheme does not raise obvious objections. However, in practice there may be conflicts in the context of confirmation of information on the legality of real estate acquisition and the reliability of data on housing prices published by Rosstat.

5.1.4. The state participation in the economy and its presence in the economy

General approaches of the state property policy from the end of 2020 are referred to the State Program (SP) “Public Finance Management and Regulation of Financial Markets” supervised by the Ministry of Finance of Russia, which includes the trend (subprogram) “Management of Federal Property”.

In its current version, the set of results of SP includes:

- Increasing revenues from management of federal property on the whole (at least 2 times by 2030 vs 2021);
- creating a digital profile of federal property (all information on federal property (area, cost performance, information on property category, location, right holders, actual use, investment potential) have been digitized);
- establishing a digital system based on artificial intelligence, which makes it possible to prepare management decisions in respect of federal property in an automated mode (complete rejection of operations with federal property using paper documents);
- ensuring the alienation of property from federal ownership not used by Russian government bodies for fulfillment of state functions within a period not exceeding 6 months from the date of the relevant decision;
- ensuring the involvement in economic turnover for agricultural use of at least 60% of the total number of agricultural land plots in federal ownership;
- ensuring at least 60% of the total number of federally owned agricultural land plots to be involved in economic turnover for agricultural use;
- at least 2-fold growth of the share of the RF state treasury property objects involved in economic turnover from total number of state treasury property objects at the end of the reporting year (compared to 2021).

The last of the set of results has been redefined due to changes introduced by Decree of the Government of the Russian Federation No.1397 dated 26.08.2023. Previously, the expected result in respect of the federal treasury property was measured as a specific weight of the total number of property objects (by analogy with the involvement of agricultural land plots in economic turnover).

Interpretation of the stated growth of at least 2 times of the share of objects involved in economic turnover from the total number of objects at the end of the reporting year (compared to 2021) depends on base figure: planned or actually achieved.

Selection of the first of them de facto means stagnation of this indicator, since the Report of Rosimushchestvo on the progress of implementation of the complex of process measures (CPM) “Management of the federal property¹ for 2022 shows its base figure of 18% with the actual estimated value at the end of the reporting period of 36%. At the same time, according to the Report on the implementation of Rosimushchestvo’s activity plan for 2021, as of December 31, 2021, the current value of the indicator was 25.3%. This allows us to assume that by 2030 slightly than half of all the treasury objects will be involved in economic turnover, which exceeds the previous benchmark of 44%, but is very far from the value of 65% set in 2021. It has to be taken into account that it is about relative values, while allowing for fluctuations in absolute values in a very wide range. It should also be noted that the expected results of the State Program “Public Finance Management and Regulation of Financial Markets” in the trend of “Management of Federal Property” only partially coincide with data of the annual reports on the activities of Rosimushchestvo.²

Changes in the list of strategic enterprises in 2023 were minimal. Only 1 FSUE was excluded from this list and 2 included (including 1FTE), while the State Corporation (SC) “Roscosmos”³ began to exercise the rights of property owner. At the same time, two companies increased the threshold of state corporate control.

In PJSC Federal Grid Company-Rosseti, it increased to more than 75% (the previous value was less than 0.1%). This change is very significant for the electric power industry. Decisions adopted in 2012 provided for the contribution of almost the entire federal stake in Federal Grid Company of the Unified Energy System (FGC UES) (about 80%) to the authorized capital of JSC Rosseti (former Holding of Interregional Distribution Grid Companies) (IDGC))⁴ while maintaining direct state participation in the capital of FGC UES of at least one share. In Rosseti, the threshold of state corporate control has been raised 4 times since then and currently constitutes more than 88% of the authorized capital.

In JSC “Transinzhstroy” the threshold of state corporate control increased to 95.2% against 50.3% since the end of 2022. It should be noted that earlier it

1 Budgetary financing of the mentioned SE “Public Finance Management and Regulation of Financial Markets” is represented in recent years by federal and departmental projects, as well as a set of process activities (PA). One of the latter is the PA “Management of Federal Property”.

2 The latter contain indicators that are not available in the GP: registry matching federal property and other state information systems containing information on objects of federal property, share of economic companies, rights of shareholder (participant) where implements Rosimushchestvo, and FSUE, the level of profitability of the assets of which is at the level not lower than industry average according to results of reporting financial year; in the total number of such entities subjects, JSC’s share of more than 50% of voting shares owned by the Russian Federation, received a net financial year profit.

3 According to the amendments to the Law on Privatization (No 72-FZ) adopted in 2023, an employee of the State Company “Roscosmos, who performs his activities on the basis of a regulation approved by the Government of the Russian Federation, may be appointed as a representative of the state in JSCs, in respect of which a decision to use the special right “golden right” has been taken.

4 The state became the owner of controlling stakes in these infrastructure companies after completing the long process of restructuring of electric power industry and liquidation of the power sector RAO UES of Russia in 2008

amounted to 38% of the authorized capital and was increased due to introduction of a full (100%) block of shares of one JSC, excluded from the list of strategic organizations at that time.

The transfer of a full (100%) federal block of shares of JSC United Shipbuilding Corporation (USC) to VTB Bank for trust management was not accompanied by changes in the list of strategic JSCs.

In contrast to the transfer in 2018 of a controlling stake in the United Aircraft Corporation (more than 90%) to Rostec State Corporation as a property contribution, in this case it is about a change in the management tool. Besides, VTB, along with USK, is on the list of strategic organizations, while such an organizational-legal form as state corporations does not exist in principle.

Based on the Executive Order of the RF President No.753 dated 09.10.2023, the Government shall, within six months, ensure the conclusion of a trust management agreement (TMA) for a period of 5 years without holding a tender for the right to conclude a TMA for shares that does not provide for remuneration. The contract should define key performance indicators of trust management of USC shares, obligations on their fulfillment and conditions of early termination of trust management.¹

At the same time, transfer of an integrated structure with obvious mono-specialization, created more than 15 years ago, to the second most important Russian bank looks at least ambiguous. By all means, VTB has some experience in holding non-core assets. Thus, in 2023, it withdrew from the capital of Demetra-Holding (a vertically integrated company combining assets related to the sale of grain, including for export) and one of the largest developers, PIK, but the bank's stake there did not allow to exercise full corporate control. Here it is about a company of national importance, occupying a leading position in a strategic industry, responsible for fulfillment of the most important state orders. Moreover, since its emergence in the 1990s, trust management as a tool for managing the state's assets in the corporate sector has rarely been used.

Financial and economic situation of state-owned companies is reflected in their dividend policy. While the scheme and the dividend transfer norms remained unchanged after the 2021 adjustment, the distribution was subject to the profit based on results of operations amid new sanctions in 2022, whereas a year earlier, dividends were a derivative of recovery growth after the economic downturn in 2020. When Gazprom refused to pay dividends, the top five largest dividend payers were Transneft (held splitting of shares), Rosneftegaz (owns 40% of Rosneft, 11% of Gazprom), Caspian Pipeline Consortium (CPC-R), RusHydro and ALROSA.²

Court cases related to seizure of assets in favor of the state became a distinctive feature of 2023. The law enforcement authorities put forward a fairly wide range of claims, including illegal privatization of hazardous and strategically important industries and facilities, violation of anti-corruption legislation, use of official

1 List of conditions defined by agreement on trust management has been approved in January 2024.

2 Excluding Sber dividends with its control stock belonging to National Wealth Fund (NWF) URL: <https://www.rbc.ru/economics/13/03/2024/65f1684b9a7947a4988d7667>

position by individuals in the civil service and illegal income to acquire assets, ownership by residents of foreign countries, and outward financial flows using offshore companies.

In the industrial sector, litigation was concentrated mainly in the energy, chemical industry and port infrastructure.

With a certain degree of conventionality, the current wave of court cases began with the verdict on the recovery in favor of the state of 100% of shares of JSC Murmansk Sea Fish Port, privatized in 2015 for more than Rb1 bn. The verdict made in October 2022 was confirmed in summer of 2023 when attempt to challenge it was made. However, there is a prospect to postpone consideration to higher instances and conflicts over the use of certain port facilities.¹ As for Kaliningrad Commercial Sea Port JSC, the court satisfied the claim to recognize illegal acquisition of the blocking block of shares, while the block close to the controlling block of shares was seized, as well as the property of Perm Port LLC. 92.4% of shares of Far Eastern Shipping Company (FESCO) (the parent company of the FESCO transportation group) were also seized for state revenue).²

In the energy sector, the court seized in favor of the state the shares of PJSC TGK-2, 38% of shares of Komi Power Supply Company, part of Russia's largest private energy holding T Plus; a lawsuit against Sibeko (Siberia's largest heat and electricity sales company) was under consideration.

In the chemical industry, the General Prosecutor's Office sued to have the privatization of Metafrax Chemicals (formerly Gubakhinsk Chemical Plant, Perm Territory, specializing in production of formalin and methanol) declared illegal, and shares of Uralbiopharm (Yekaterinburg) transferred to the state, Volzhsky Orgsintez JSC (Volgograd Region); a similar case was considered in relation to Dalnegorsk Mining and Processing Plant (Primorsky Krai, the only producer of boric acid in Russia).

Similar examples can be given beyond three activities mentioned above: recovery in favor of the state of shares in the Vyatich Bank, a claim to reclaim a block of shares in the Rostov Optical and Mechanical Plant from other illegal possession, a bit smaller than the controlling block of shares. In Saint-Petersburg and Leningrad Oblast, the property of «Commercial Center, Transport and Forest» JSC was confiscated by the decision of the Arbitration Court, and the transaction to acquire shares of «Syasiysk Pulp and Paper Mill» was declared invalid with their recovery to the income of the Russian Federation; Interim measures have been taken to demand for the state four enterprises producing building materials (LLC «Heidelberg Center Rus», JSC «Raw Materials Company», «Slate Cement Plant «Cesla», JSC «Gurovo-Concrete»).³ However, in the latter case, the suit of the Prosecutor General's Office was withdrawn. However, this example was rather an exception, and already in 2024 similar court cases affected new companies

1 URL: <https://murmansk.rbc.ru/murmansk/01/06/2023/64788f249a7947dfec8d587>

2 URL: <https://www.rbc.ru/business/11/01/2023/63bdf9099a794759e989c932>,

3 URL: www.rbc.ru (August 23, 2023); URL: <https://www.rbc.ru/business/23/08/2023/64e3a6769a7947634c7c9f53>

and enterprises in a number of industries (metallurgy, machine building, food industry, etc.).¹

After the arbitration courts ruled in favor of the state, Rosimushchestvo ensured a change in the composition of the management bodies and management of JSC Urals Electrical Connectors Plant Iset (Sverdlovsk region, state share – 55.35%) and agricultural holding Concern Pokrovsky, uniting more than 35 enterprises in 5 industries (sugar production, meat processing, winemaking, etc.) in the Krasnodar Krai and Stavropol Krai, as well as in the Rostov region.²

5.1.5. Public sector: radical innovations in governance

In 2023, mechanism of management of economic entities belonging to the public sector underwent serious shifts that affected somehow all main aspects of their functioning.

The RF Government Decree No.2404 dated 29.12.2023 introduced important amendments to RF Government Decree No.738 dated 03.12.2004, which approved the Regulation on management of federally owned shares in joint-stock companies and use of the special right for participation of the Russian Federation in management of joint-stock companies (“golden share”) (in subsequent editions).

When refining the timeline for submission the annual report on management of federally owned shares in JSCs and use of the special right of RF participation in the management of JSCs (“golden share”) by the RF Ministry of Finance, the RF Ministry of Defense or the RF Department for Presidential Affairs to the government, the content of this document became much more capacious and detailed, especially with regard to results of financial and economic activities (FEA).

Previously, this part referred to profitability, debt burden (compared to the industry average) and equity adequacy. Now they are supplemented with data on the amount of revenue, profit (net profit) or loss, equity capital, type of activity that accounted for the largest share of revenue and its amount, and the level of operating expenses (if they are analyzed in accordance with the decision of the working group for improving efficiency of state-owned companies, including for improving efficiency of budget expenditures and monitoring debt load of such companies). With regard to the debt load as such, the new edition provides for the presentation of information on the amount of long-term and short-term liabilities, while the data on the indicators of own funds (capital) adequacy relate only to credit organizations. Information on dividend payments is placed in a more detailed context of profit distribution.

The obvious continuity with regard to execution of instructions and directives of the highest state officials is combined with the lack of necessity to reflect measures aimed at improving the corporate governance system, which was required by the previous edition of 2010. It referred to results of General Meetings of Shareholders (GMS), whereas the new version refers to results of Annual General Meetings of Shareholders (AGMs), which raises the

1 URL: <https://www.rbc.ru/business/19/02/2024/64e3a6769a7947634c7c9f53?from=copy>

2 URL: <http://rosim.gov.ru>

issue of reflecting extraordinary AGMs, which usually stem from problems in the development of companies and failures in the functioning of corporate governance mechanisms.

The following adjustments have been made directly to the Regulations on the Management of Federally Owned Shares in Joint-Stock Companies and the use of the special right of participation of the Russian Federation in the Management of Joint-Stock Companies (“golden share”).

One of the criteria for election to the JSC board of directors as an independent director nominated by the state with respect to an individual engaged in auditing has been tightened. Earlier an individual or members of his family (spouse, parents, children, adoptive parents, adopted children, full and half brothers and sisters, grandparents) should not have performed auditor’s functions in JSC for the previous 3 years without any interruption (including as an employee of the audit organization), as well as be affiliated persons of the JSC auditor. In the new wording, restrictions relate to performance of executive function of a director or other official of a JSC audit organization, an employee of such an organization, a member of an audit group, or being in the status of another affiliated person of a JSC audit organization.

Directives issued to representatives of the state’s interests in the Board of Directors of JSCs came under instructions of all deputy chairmen of the RF Government, rather than only the first deputy, as before.

It is stated that Rosimushchestvo shall ensure, inter alia, through the interdepartmental portal for the management of state property in the information and telecommunications network “Internet” (MV Portal) that its directives are communicated to representatives of the state’s interests on the JSC board of directors no later than 2 working days following the day on which such directives were issued.

The termination of control over execution of instructions and directives of the President of the Russian Federation, instructions of the Chairman of the Government of the Russian Federation and all his deputies has been further regulated, for the purpose of which written directives were issued for voting on agenda items of the meeting of the Board of Directors. The Ministry of Finance of Russia sent a report to the government on the rationale to terminating control over implementation of decisions adopted by the JSC boards of directors based on relevant directives. Rosimushchestvo (RF Ministry of Defense or the RF Department of Presidential Affairs) informs representatives of state interests and the JSCs of the decision stipulated by the assignment of senior officials based on relevant report.

Norms concerning communication of directives, execution of orders and instructions of top officials also apply to JSCs included in the special list.¹ It

1 The most significant JSCs in respect of which Rosimushchestvo exercises shareholder rights on behalf of the state in coordination with federal sectoral bodies, depending on the supervising agency. According to the Russian Government Resolution No. 1870-r dated August 30, 2017 (as amended), these include the Ministry of Economic Development of the Russian Federation, Ministry of Energy, Ministry of Industry and Trade, Ministry of Finance, Ministry of Transport,

should be reminded that in this group of companies, directives to representatives of the state's interests on the Board of Directors on a certain range of issues have to be approved by the Chairman of the RF Government or, on his instructions, by his deputies. Draft directives to representatives of state interests on the Board of Directors have to be submitted by the RF Ministry of Finance (RF Ministry of Defense or the RF Department of Presidential Affairs) to the RF Government no later than 7 days prior to the date of the meeting of the Board of Directors.

Deadlines for Rosimushchestvo to submit to the Ministry of Finance the draft directives to representatives of the state's interests in the board of directors of JSCs included in the special list (not later than 12 days before the date of a meeting of the body) have been approved.

At the same time, the deadlines for Rosimushchestvo to send the agenda of the meeting with the necessary materials to a federal ministry or federal body and their proposals to Rosimushchestvo, as well as deadlines for conciliation meetings in the event of disagreements regarding draft directives, have been increased relative to the date of the JSC Board of Directors. If it is impossible to develop an agreed position at these meetings, a deadline has been set for submitting necessary materials to the RF Ministry of Finance (no later than 12 days prior to the date of the Board of Directors' meeting). In this case, draft directives are to be prepared by the RF Ministry of Finance in coordination with a federal ministry or federal body.

The procedure for appointment and activities of state representatives on the board of directors (supervisory board) or audit commission of a JSC for whom a decision has been taken to exercise a special right to the participation of the Russian Federation in its management ("golden share") has been supplemented with provisions regulating their actions in the event of circumstances preventing them from exercising their powers, as well as in the event of dismissal from a civil service position.

In such cases, the state representative must notify Rosimushchestvo and the federal agency or federal body within 5 working days of the occurrence of the said circumstances. Within 10 working days from the date when they became aware of the occurrence of the relevant circumstances, the said departments shall send proposals to Rosimushchestvo for preparing a proposal to replace the relevant representative of the state in the board of directors (supervisory board) or audit commission of a JSC where a "golden share" is used.

Besides, Rosimushchestvo was authorized to independently set¹ drafts of directives for representatives of the state in the boards of directors of those JSCs included in the list of strategic organizations², for whom methodological

Ministry of Agriculture, Ministry of Digitization, Ministry of Natural Resources, Ministry of Construction, Ministry of Labor, Rosreserve, Rosreestr, FSUE.

1 Taking into account the decisions of the working group under the Government Commission on the issues of optimization and increasing the efficiency of budget expenditures or an interdepartmental working group on optimization of the organizational structure of development institutions, formed in accordance with the Resolution of the Government of the Russian Federation No. 3093-r of 24.11.2020.

2 As a general rule in respect of JSCs included in the special list, Rosimushchestvo is authorized by the federal ministry or federal body to develop directives with regard to JSCs included in the list

recommendations on approval and application of key performance indicators (KPIs) of JSC activities approved by the Government of the Russian Federation are applied. Shares of these JSC are subject to methodological recommendations approved by the Government of the Russian Federation on formation and application of key performance indicators (KPIs) for activities of JSCs whose shares are in federal ownership and certain non-profit organizations (NPOs) for the purpose of determining the amount of remuneration for their management staff, as well as the Regulations on conditions of remuneration of managers, their deputies, chief accountants and members of collegial executive bodies of state corporations, state-owned companies, business entities with shares in the charter capital of the state-owned companies, owned by the Russian Federation.

This document was approved by the RF Government Decree No.209 dated 13.02.2023.¹

The terms and conditions of remuneration of the executive officers of the organizations are determined by employment contracts in accordance with the said Regulation. They include provisions establishing the terms of remuneration, the amount of annual maximum possible aggregate personal remuneration, as well as personal liability for non-compliance with the approved Regulations.

Maximum allowable payments to executive officers of organizations consist of (1) official salary, (2) compensatory and (3) incentive payments in accordance with the Regulations, as well as (4) payments from participation in management bodies of other legal entities and other payments in cases stipulated by labor legislation (except for payments stipulated by decrees of the President of the Russian Federation).²

of strategic organizations (excluding those included in the special list) – based on proposals of the federal ministry or federal body and for other JSCs – independently.

- 1 It was virtually identical in content to a previous similar document that had been in force for less than 8 months. The previous Regulation had been in force for less than eight months. The previous Regulation was approved by Decree of the Government of the Russian Federation No. 1127 dated 23.06.2022 and was accompanied by approval of the list of economic entities to which it applied. In the final version it included 118 organizations divided into 5 groups: (I) the largest organizations implementing individual significant projects (12 units), (II) banks and other large organizations (5 units), (III) large organizations responsible for the development of individual territories and organizations (5 units), (III) large organizations responsible for the development of certain territories and economic areas (9 units), (IV) organizations responsible for development of certain areas of the economy (10 units), (V) other organizations (82 units). Additionally, a list of public-law companies (PLCs) was approved (5 units) and JSCs managed by state corporations, state companies, business entities, shares in the authorized capital of which are in federal ownership (5 units), in respect of which the application of the above Regulations was recommended
- 2 The salary is a fixed amount of remuneration for labor (job) duties of a certain complexity for a calendar month excluding compensatory, incentive and social payments. Compensation payments are monetary payments established for the purpose of reimbursing the above-mentioned persons the expenses related to performance of their labor duties, and stipulated by the Regulations. Stimulus payments are incentive payments related to the achievement of target values of key performance indicators (KPIs) and functional KPIs, stipulated by the Regulations. The last of the 4 components of payments to the management staff of the organizations include payments from their participation in the management and control bodies of subsidiaries and dependent business entities and (or) other business entities, subsidiaries and affiliated business entities and (or) other legal entities with direct or indirect participation of the Russian Federation.

Mandatory incentive payments are annual performance bonuses related to the achievement of annual target values of key performance indicators (KPIs).

Amount of annual performance bonus provided annual target KPI¹ and functional KPI² met in accordance with methodological recommendations on developing and applying key performance indicators of joint stock companies with their shares owned by RF, as well as certain NGO aimed to define the size of remuneration of their senior executives, approved by RF Government Edict of 28.12.2020 No.3579-p, which should be not less than 30% and not more than 50% of the annual maximum possible aggregate personal remuneration, unless otherwise agreed by the working group under the Government Commission on Optimization and Efficiency of Budget Expenditures (hereinafter – the working group).

A quarterly performance bonus may be established upon fulfillment of target KPI and functional KPI in accordance with the above methodological recommendations. The aggregate annual cap on quarterly performance bonuses may not exceed 10% of the annual maximum possible aggregate personal remuneration, unless otherwise agreed by the working group. Approval of other incentive payments is not allowed.

The Ministry of Finance assisted by the Ministry of Labor, was instructed to develop an example form of an employment contract for CEOs, their deputies, chief accountants and members of collegial executive bodies (hereinafter referred to as management officials) of the organizations concerned.

Federal executive authorities (federal executive bodies) submit proposals to the RF Ministry of Finance on conditions of remuneration and the amount of the annual maximum possible aggregate personal remuneration of managerial officials of organizations, while Rosimushchestvo in coordination with them exercises the rights of the state as a shareholder, or boards of directors (supervisory boards) of state corporations, state companies, or federal executive bodies exercising shareholder rights with respect to other organizations.³ Based on results of their consideration, the Ministry of Finance develop proposals to be agreed upon with the working group.

The mechanism for regulating remuneration of top managers of public sector business entities involves approval by the Government of the Russian Federation of the list of state corporations, state-owned companies, business entities with shares in the authorized capital owned by the Russian Federation and subject to application of the above Regulation.

The federal executive bodies, state corporations and state companies were instructed to ensure that employment contracts of executive officers and local

1 An indicator related to strategic documents of the Russian Federation, as well as to strategic documents of the organizations, being the basis for assessing the efficiency of their activities, aimed to determine the amount of remuneration to the management staff based on results of work for the year or quarter.

2 Individual indicator, established for senior management officials personally and taking into account specifics of their supervised areas of activity in organizations, characterizing result of the activities of the officials or the implementation of individual significant projects.

3 Together with information on the financial result of the organizations and subsidies received by the organizations from the federal budget, in the form approved by the financial department.

normative acts of the organizations included in the above list to be in line with resolution (without setting deadlines). However, Rosimushchestvo is obliged to submit an annual report to the Russian Government by August 1 on compliance with terms of remuneration of their management staff for the previous year.¹

As follows from the document discussed above, one of the components of top managers' remuneration, the incentive payments, depends on the achievement of annual target KPIs based on methodological recommendations on the development and application of KPIs for JSCs whose shares are in federal and particular non-profit organizations ownership for the purpose of determining the amount of remuneration of their management staff approved by the RF Government Edict No.3579-r dated 28.12.2020. Over the past 3 years, methodological recommendations have been repeatedly amended and supplemented. They mainly consisted in changing the range of organizations covered by the document.²

Now let us cover the changes approved by the RF Government Edict No.3841-r dated 23.11.2023. The new version stipulates that when developing KPIs, it is recommended to establish financial and economic and sectoral KPIs with their aggregate weight being 100%. The total number of KPIs should not exceed 10, and specific weight of each of them should be at least 10%.

If during the reporting year the responsibility for a functional KPI was transferred to another executive officer of the organization or other employee, acting as such person, then, making a decision on payment of a bonus based on performance for the year related to achievement of this functional KPI, it is necessary to take into account the terms of responsibility by concrete persons during the reporting year.

It is recommended to include in sectoral KPIs the indicators developed on the basis of national goals, the Unified Plan for achieving national development goals of the Russian Federation for the period until 2024 and for the planning period until 2030, approved by the RF Government Edict No.2765-r dated 01.10.2021, sectoral strategies of organizations, strategies and long-term development programs (LDP) of organizations, national projects and state programs of the Russian Federation, and corresponding to the above documents in terms of methodology for calculating indicators.

The composition, specific weight and annual target KPIs, as well as composition and annual target functional KPIs of each organization's activities shall be established in accordance with decisions of the interdepartmental working group for optimizing the organizational structure of development institutions, formed in accordance with the RF Government Edict No.3093-r dated 24.11.2020, on their approval, considering the proposals submitted by the Ministry of Finance and

1 There is no information about it (in the database of information system "ConsultantPlus" as of the middle of March 2024).

2 In addition, it should be noted that the conceptual apparatus used should be supplemented and clarified, establishment of a single lower bar (not less than 2) of the total number of recommended for use financial, economic and sectoral KPIs, introduction of a mechanism for placing, monitoring and analyzing the information related to KPIs and related indicators using the IM portal and the State Automated Information System (SIS).

the Ministry of Economic Development of Russia and positions of the relevant sectoral federal executive bodies, as follows.

As for JSCs, this is done by their management bodies depending on the company's inclusion in the special list approved by the RF Government Edict No.91-r dated January 23, 2003 and Appendix No.1 to these methodological recommendations based on written directives or instructions of the Government of the Russian Federation.

With respect to business entities of other organizational and legal forms, it is recommended to establish the composition, specific weight and annual target KPIs, composition and annual target functional KPIs of activity:

- for state corporations, state companies, public not-for-profit companies and other NGO by the management body of the organization based on instructions of the Government of the Russian Federation, taking into account decisions of the interdepartmental working group on their approval and considering proposals submitted by the Ministry of Finance and the Ministry of Economic Development of Russia;
- for JSCs that are subsidiaries of organizations listed in Appendix No.1 (except where such companies are listed therein) in accordance with the procedure provided for in the internal documents of such subsidiary JSCs.

The organization's management body establishes:

- minimum value of each KPI, which is equal to at least 80% of their target values, as well as their limit value, which is equal to no more than 120% of their target values;
- minimum value of each functional KPI, which is equal to at least 90% of their target values, as well as their limit value, which is equal to no more than 100% of their target values.

Minimum and threshold KPIs, including functional KPIs, are taken into account when considering remuneration of the organization's executives. For the purpose of assessing the achievement of such indicators, if the actual value achieved is below the established minimum, it is taken as zero, and if the actual value achieved is above the established threshold value, it is taken as such.

When considering remuneration to management staff of the organization based on the results of the reporting year, the following should be taken into account:

- KPI actually achieved in the reporting year;
- reasons for deviations (non-fulfillment or over-fulfillment) of actually achieved KPI and functional KPI from their established values, taking into account the position of the sectoral federal executive body;
- indicators of depreciation of the organization's management personnel;¹
- the actual values of functional KPIs achieved in the reporting year.

¹ For all organizations, this may be (1) the existence (absence) of arrears on wages to employees, (2) total debt to profit ratio interest, tax and depreciation, (3) excess established by the management body of the organization of a credit and loan to profit ratio before interest, tax and depreciation (4) a loss at the end of the reporting year (introduced at the end of 2023), (5) indicators characterizing shareholder yield, including dividend (introduced in late 2023) and other indicators, determined by the management body of the organization, corresponding to its specific financial-business. For financial companies, the following indicators are added:

When considering payment of remuneration to management staff of the organization based on quarterly results, the KPI achieved in the reporting year based on quarterly performance, set additionally in accordance with the methodological recommendations, should be taken into account.

When considering remuneration to the managerial officials of the organization with functional KPIs, it is recommended to take into account the amount of bonus related to the achievement of their annual target values in the amount from 15 to 50% of incentive payments established for the reporting year, unless otherwise agreed by the working group under the Government Commission on Optimization and Increasing the Efficiency of Budget Expenditures in accordance with the RF Government Decree No.209 of 13.02.2023 on conditions of remuneration of officials of the management staff of public organizations.

Decision to pay remuneration to the organization's management staff is taken considering the information on achievement of annual target values of functional KPIs posted in GAS Management and information on achievement of annual target values of KPIs posted via the IM portal in a manner and within timeframe specified in the methodological recommendations. The organization's management body sets deprecation indicators for untimely, incomplete or inaccurate placement of information required for monitoring the achievement of KPIs and functional KPIs in the amount of not less than 20% of incentive payments established for the reporting year, to the responsible official of the organization, whose duty is to place this information.

However, it was only last year that the document was properly algorithmized in the form of a special formula for determining the amount of remuneration to be paid to a member of the organization's governing body.

To summarize, it can be stated that total actual amount of bonus payments based on performance for the year consists of three types of bonuses for achieving annual target values of certain indicators: (1) KPIs, (2) project and non-project functional KPIs¹ (3) functional KPIs associated with implementation of especially meaningful projects.²

(1) deterioration in the ratio of arrears and (2) excess of the set indicator approved by the management body regarding its share.

- 1 Non-project functional KPIs – the result of the organization's activities on its individual functional directions, design functional KPI – the result of the implementation of a separate project.
- 2 Project having a significant impact on the country's economy, its defensive capacity or on ensuring economic security, technological sovereignty, structural adaptation of RF economy, for which liability for implementation rests with senior managerial officials of certain organizations, applying the provision on conditions of labor pay for CEO, their deputies, chief accountant and members of collective executive bodies of state corporations, state companies, economic entities with shares in the authorized capital owned by Russian Federation approved by the RF Government Decree No.209 of 13.02.2023 in accordance with certain directives (instructions) of the government, approved based on decisions made by the working group on budget stability under the Government Commission on optimization and improvement of efficiency of budgetary expenses (hereunder, working group on budget stability). Functional KPI, associated with implementation of EMP is the result of its implementation. Their approval is maintained exclusively based on directives (instructions) of the RF Government, developed in accordance with decisions of a working group on budget stability).

For all components, according to the employment contract, the amount of bonus is adjusted by a correction factor of the top manager's performance assessment, established by the organization's management body based on results of the reporting year in accordance with the procedure determined by its internal documents, and an integral assessment of the achievement of certain KPIs. The latter, in its turn, is calculated as the sum of products of specific weights of indicators and assessment of their achievement, calculated taking into account their minimum and maximum values. The essential difference between bonuses for achieving annual target values of KPIs is the reduction of the integral assessment of achievement by the amount of integral assessment of depreciation, which is not the case when determining the amount of bonus payments related to the second and third components.

Annexes No.2-5 to methodological recommendations, each of which contained a list of recommended KPIs, procedure for their calculation and procedure for setting target value for four categories of economic entities: (1) operating in a competitive market, (2) natural monopoly entities and infrastructure organizations, (3) development institutions, (4) financial companies, became invalid.¹

For better understanding, it should be recalled that lists of organizations of the above categories, whose KPIs are formed and applied in accordance with methodological recommendations, are contained in Annex No. 1.²

As of the end of 2023, they included:

- operating on the competitive market (71 units, in the initial version – 21 units);
- natural monopoly entities and infrastructure organizations (11 units, in the initial version – 4 units);
- development institutions (26 units, in the initial version – 24 units);
- financial companies (6 units, in the initial version – 8 units).

Thus, in 3 years since methodological recommendations were approved, the total number of embraced organizations has doubled from 57 to 114 units. This happened for all categories of organizations, except for financial companies, but mainly at the expense of organizations operating in the competitive market. Their number grew almost 3.5 times, and their share among all organizations covered by the document exceeded 60% against about 37% initially, when development institutions were most numerous.

The RF Government Decree No.1543 of 21.09.2023 also deserves attention. It approves the Rules for exercising control (analysis) functions of financial and business transactions of companies with state share in the authorized capital exceeds 50%, by the Treasury of the Russian Federation.

1 For each of them, the recommended indicators were divided into three groups: (1) KPIs, characterizing profit and sustainability of organizations, (2) sectoral KPIs and (3) specialized KPIs.

2 The RF Government Resolution of 27.06.2019 No.1388-r does not apply to the organizations specified in Annex No.1 on approval of current methodical recommendations for using Key Performance Indicators (KPIs) of business companies, where the share of participation of the Russian Federation or the subject of the Russian Federation exceeds 50% in the authorized capital, and performance indicators of government unitary enterprises to determine the remuneration of their senior staff.

The document defines the procedure for carrying out these functions in state corporations (companies), public not-for-profit companies and business entities based on instructions of the President, the Government and the Minister of Finance of the Russian Federation. Control (analysis) activities are carried out by means of desk and on-site activities by authorized officials of the Treasury. The document sets out the rights and obligations of authorized individuals and monitored objects, procedure for appointment and implementation of control (analysis) activities, specifics of drawing up a conclusion on results of these activities, and so on.¹

5.1.6. Impact of external pressures on property policy

Amid external sanctions pressure in 2022–2024, it was only natural that the regulation of certain aspects of curtailing the business activity of foreign businesses became the new trend in the state economic policy. The solution of this problem could be achieved by including a whole set of positive and negative incentives. The latter could be various conditions for the possible sale of their assets by foreign companies.²

Based on the Executive Order of the President of the Russian Federation No.81 dated 01.03.2022, transactions (operations) entailing the right of ownership of securities and real estate, carried out (executed) with persons of foreign states committing unfriendly actions, may be carried out (executed) based on permits issued by the Government Commission for Control over Foreign Investments in the Russian Federation (hereinafter – the Commission) and, if necessary, containing conditions for implementing (executing) such transactions (operations).

The RF Government Decree No.295 dated 06.03.2022 approved the Rules for issuing permits by the Commission for the purpose of implementing additional temporary economic measures to ensure financial stability of the Russian Federation and other permits provided for by certain Executive Orders of the President of the Russian Federation, as well as the implementation of other powers for the above purposes.

Among transactions, which the Commission authorizes, among others, are the following:

- transactions of residents with parties from unfriendly countries entailing the emergence of ownership rights to securities and immovable property;
- transactions of residents with parties from unfriendly countries that directly and (or) indirectly result in the establishment, change or termination of rights to own, use and (or) dispose of shares in the authorized capitals of limited liability companies (LLCs) (except for credit organizations and non-credit financial organizations) or other rights that allow determining terms of management of such LLCs and (or) terms of their entrepreneurial activities;

1 URL: <http://rosim.gov.ru>

2 The issue of positive incentives, including provision of various (mainly tax) benefits, is more traditional and is not considered further.

- mutual transactions of parties from unfriendly countries and with parties from other jurisdictions resulting directly and (or) indirectly in the establishment, change or termination of the rights to own, use and (or) dispose of shares of joint stock companies (JSCs) (except for credit organizations and non-credit financial organizations) or other rights allowing to determine conditions of management of such JSCs and (or) conditions of their entrepreneurial activities;
- transactions (operations) entailing direct and (or) indirect establishment, change or termination of rights to own, use and (or) dispose of more than 1% of shares, stakes (deposits) constituting the authorized (depository) capital of a Russian credit organization, insurance organization, non-state pension fund, microfinance organization or management company of a joint-stock investment fund, unit investment fund or non-state pension fund, or more than 1% percent of votes on such shares, stakes or deposits, if at least one of the parties (beneficiaries) of such transactions (operations) are those related to foreign states committing unfriendly acts.

In the course of work of the Government commission on control over realization of foreign investments in the Russian Federation at the very end of 2022 (minutes of meeting from 22.12.2022 No.118/1 placed in information system “ConsultantPlus”) it was offered to proceed, as a rule, from expediency of establishment of the following conditions aimed to realize (execute) such transactions (operations):¹

- an independent appraisal of the market value of the assets;
- sale of assets at a discount of at least 50% of their market value specified in the asset appraisal report;
- setting KPIs for new shareholders (owners);
- payment installments for 1–2 years and (or) obligation to voluntarily send money to the federal budget in the amount of at least 10% of the amount of the transaction (operation) being carried out (performed).

Information of the Ministry of Finance and the Bank of Russia on approaches to making decisions on granting organizations permits to pay profits (dividends) to foreign participants (shareholders) in cases established by Executive Orders of the President of the Russian Federation, as a rule, subject to the following conditions, was taken note of:

- the amount of paid profit (dividends) is not more than 50% of the net profit for the previous year;
- considering results of retrospective analysis of profit (dividends) payment for previous periods;
- readiness of foreign participants (shareholders) of the organization to continue commercial activities in Russia;

¹ Extends to the alienation of securities, including shares, stakes (contributions) in the authorized (share) capitals of Russian business entities. Issuance by the Commission of authorizations for transactions and other actions in respect of business entities falling under the provisions of Federal Law No. 57-FZ (2008) “On the Procedure for Foreign Investments in strategic business entities for ensuring national defense and security of the state”), requires prior approval in accordance with this Law.

- considering positions of the Federal Executive Authorities and the Bank of Russia on assessment of significance of the organization's activities and the impact of the organization's activities on the technological and industrial sovereignty of Russia and socio-economic development of the country (its regions);
- setting quarterly KPIs for organizations by Federal Executive Authorities;
- possible quarterly payment of profits (dividends), provided the organization meets the established KPIs.

Despite certain systematization of approaches, with a wide range of options for behavior of foreign companies available, in particular cases, the state may resort to individualized options to regulate property relations.

The establishment of Sakhalin Energy LLC based on the Executive Order of the President of the Russian Federation No.416 of 30.06.2022, can be an example in the fuel-energy complex. It received rights and obligations transferred by Sakhalin Energy Investment Company Ltd, engaged in the development of oil and gas fields based on the 1994 Production Sharing Agreement (Sakhalin-2 Project).¹ It was foreseen to keep previous proportions of shares among participants: 50% – Gazprom (through Gazprom Sakhalin Holding), 27.5% – American Shell, 12.5% – Mitsui, 10% – Mitsubishi. Unlike Japanese participants, the US company did not agree to a change of jurisdiction. In spring 2023, the Russian government approved the sale of its stake for Rb94.8 bn to Gazprom's main competitor, the Russian private company Novatek.² However, slightly earlier, another Gazprom subsidiary, GPN – Middle East Projects, was authorized to acquire Shell's stakes (50%) in Khanty-Mansi Oil and Gas Union CJSC and Salym Petroleum Development LLC.³

Temporary management based on the Executive Order of the President of the Russian Federation No.302 dated 25.04.2023 "On temporary management of certain property" became a palliative option (compared to the possibility to transfer assets of foreign companies into ownership of the state or state-owned companies).

The document states that in case Russia and (or) Russian legal entities or individuals get disbarred of the right of ownership of property located in the territories of unfriendly foreign states, and (or) property rights, restriction of these rights or emergence of a threat of such disbar, restriction, threat to the national, economic, energy or other types of security of the Russian Federation, its defense capability, temporary management shall be introduced in respect of:

- movable and immovable property of foreign parties related to unfriendly foreign states located in the territory of Russia;
- securities, shares in authorized (share) capitals of Russian legal entities and property rights belonging to persons of unfriendly foreign states.

1 The Executive Order of the President of the Russian Federation from 05.08.2022 No.520 determined the overall background for application of special economic measures to fuel and energy the Russian Federation with a term of validity until the end of 2023, which does not covers the project «Sakhalin-2».

2 URL: <https://www.rbc.ru/business/12/04/2023/6436685a9a794795b0ec1f1f>

3 Putin authorized Gazprom Neft subsidiary to buy half of Shell's shares // RBC (rbc.ru).

Rosimushchestvo has been appointed as interim manager, but it can suggest another person to fulfil this duty. The introduced management is temporary (terminated by a decision of the President of the Russian Federation) and means that the original owner no longer has the right to make management decisions.

However, the Executive Order does not deprive owners of their assets, only restricting them from exercising their ownership rights in a number of aspects. The interim manager is authorized to ensure efficiency of enterprises in accordance with their importance for the Russian economy. Having no power to dispose of property, he performs the functions of taking an inventory of the property under temporary management and ensuring its safekeeping. The costs associated with temporary management of property are financed from the proceeds of its utilization. Such an approach implies the possibility of ensuring uninterrupted operation of companies significant for the national economy.

Initially, the list of assets placed under temporary management included some generating assets of paramount importance for the stable functioning of the Russian energy sector: shareholdings in PJSC Unipro (88.73%, controlled by Germany's Uniper¹ and Fortum (98,23% in two packages, control by Finnish Fortum).² Rosimushchestvo, appointed as interim manager, organized the necessary procedures, which resulted in a change of general directors of the companies.³

Later in the year, temporary management was extended to assets of a number of foreign companies in other types of activities.

In food industry, this affected France's Danone (production of dairy products, shareholdings in JSC DANONE RUSSIA)⁴ and Denmark's Carlsberg (brewing). In relation to the latter, it is about three stakes, which together constitute the entire capital of Baltika Breweries LLC. In printing industry, the following companies were placed under temporary management: Prime Print Moscow, Prime Print Ekaterinburg, Prime Print Chelyabinsk (fully owned by a foreign company), Prime Print Novosibirsk, and a stake in Prime Print Voronezh (majority ownership by a foreign company).

Despite large differences in the location of these printing houses, the Moscow City Government has been appointed as temporary manager for all of them, although initially, as in the case of food companies, this role was played by Rosimushchestvo. At the very end of 2023, temporary management involving the agency was established over the assets of a major car dealer, Rolf Group, including stakes in ROLF MOTORS LLC, ROLF Estate LLC and ROLF Tech LLC, which together constitute their entire capital.

It should be added that when the Federal Law No.470-FZ of 04.08.2023 "On the Specifics of Corporate Governance in Business Companies Deemed Economically

1 Operates 5 large thermal power plants (Surgutskaya GRES-2, Berezovskaya, Shaturskaya, Smolenskaya, Yaivinskaya).

2 Former TGC-10, operating 7 CHPPs in the Chelyabinsk and Tyumen regions, and about 30% of TGC-1, operating in the Northwestern Federal District, as well as a number of facilities in the Volga region, related to renewable energy sources (RES).

3 URL: <http://rosim.gov.ru>

4 Temporary management was lifted in mid-March 2024

Significant Organizations” was entered into force, corporate events in holdings with representatives from unfriendly countries owning more than 50% of voting shares (stakes in the authorized capital), as well as the acquisition of public status by such organizations have been suspended. This means economically significant organizations, including state-owned companies.

Now, a foreign legal entity in these holding, that is associated with foreign states committing hostile actions against Russia, Russian legal entities and individuals cannot participate in such corporate events as election of boards of directors, distribution of net profit, including for dividends, changes in the amount of the authorized capital, etc.¹

5.1.7. Budgetary effect of state property policy

In 2023, in contrast to the previous year, federal budget revenues related to state property, showed obvious decline, especially in terms of revenues from the use of state property (from renewable sources). Reduction in payment of dividends by state-owned companies was the main reason of this decline.

Receipts from all other sources, including revenues from privatization and sale of property (from non-renewable sources), increased to varying degrees, but did not compensate for the reduction in dividend payments, i.e. the main source of property income.

Tables 5, 6 present the data on revenues from the reporting on the execution of the federal budget in terms of using state property and its sale only for a certain range of material objects.²

1 URL: <http://rosim.gov.ru>.

2 Excluded are federal revenue generated as payments for natural resources (including aquatic biological resources, forest revenues and in the use of subsoil resources), compensation for losses of agricultural production, recovery of agricultural land, as a result of financial transactions (income from accommodation budget funds (revenues from federal budget balances and allocations since 2006, as well as income from management of the Stabilization Fund of the Russian Federation (since 2009 – the Reserve Fund and National Wealth Fund), income from the disposition of sums accrued during auctions for the sale of shares owned by the Russian Federation), interest received from budget loans within the country at the expense of the federal budget funds, interest on government loans (receipts from foreign governments and their legal entities in payment of interest on credits granted to the Russian Federation, receipts of funds from legal entities (enterprises and organizations), constituent entities of the Russian Federation, municipalities in payment of interest and guarantees on loans received by the Russian Federation from foreign governments and international financial organizations)), from provision of paid services or compensation of the expenses of the state, transfer of profit to the Central Bank of the Russian Federation, some payments from state and municipal enterprises and organizations (patent fees and official registration fees of computer programs, databases and topologies of integrated circuits and other income, which until 2004 were part of the payments from state organizations (in addition to the income from the joint venture «Vietsovpetro» since 2001 and transfer of part of the profit of FSUE since 2002)), revenues from the implementation of production sharing agreements (PSA), proceeds from disposal and disposal of confiscated and other property converted into income of the State (including property transferred to the state ownership as inheritance or donation, treasures), lottery income, other property income and federally owned rights (proceeds from disposition of rights to results activities (R&D and technological works) of military, special and dual appointments, income from management of rights to scientific and technical activities, property of the Russian Federation, income from the operation and use of motor vehicles of vehicles registered in the territories of other states, disposal of the Russian Federation’s exclusive right to the results of intellectual property in the field of geodesy and cartography, payment

Table 5

**Federal budget revenues from using state property (renewable sources)
in 2000–2023, Rb mn**

Year	Total	Share dividends (2000–2023) and other equity income (2005–2023)	Rent for state-owned land	Income from renting out state-owned property	Income from transferring part of the profit remaining after taxes and other obligatory payments of FSUE	Revenues from other sources (2000–2007 and 2011) – from joint venture Vietsovpetro activities and 2018–2023 – from transfer of property in pledge, trust management
2000	23 244.5	5676.5	–	5 880.7	–	11 687.3 ^a
2001	29 241.9	64 78.0	3 916.7 ^b	5 015.7 ^c	209.6 ^d	13 621.9
2002	36 362.4	10 402.3	3 588.1	8 073.2	910.0	13 388.8
2003	41 261.1	12 395.8		10 276.8 ^e	2 387.6	16 200.9
2004	50 249.9	17 228.2	908.1 ^f	12 374.5 ^g	2 539.6	17 199.5
2005	56 103.2	19 291.9	1 769.2 ^h	14 521.2 ⁱ	2 445.9	18 075.0
2006	69 173.4	25 181.8	3 508.0 ^h	16 809.9 ⁱ	2 556.0	21 117.7
2007	80 331.85	43 542.7	4 841.4 ^h	18 195.2 ⁱ	3 231.7	10 520.85
2008	76 266.7	53 155.9	6 042.8 ^h	14 587.7 ⁱ	2 480.3	–
2009	31 849.6	10 114.2	6 470.5 ^h	13 507.6 ⁱ	1 757.3	–
2010	69 728.8	45 163.8	7 451.7 ^h	12 349.2 ⁱ	4 764.1	–
2011	104 304.0	79 441.0	8 210.5 ^h	11 241.25 ⁱ	4 637.85	773.4
2012	228 964.5	212 571.5	7 660.7 ^k	3 730.3 ^l	5 002.0	–
2013	153 826.25	134 832.0	7 739.7 ^k	4 042.7 ^l + 1 015.75 ^m	6 196.1	–
2014	241 170.6	220 204.8	7 838.7 ^k	3 961.6 ^l + 1 348.5 ^m	7 817.0	–
2015	285 371.1	259 772.0	9 032.3 ^k	5 593.8 ^l + 1 687.8 ^m	9 285.2	–
2016	946 723.35/ 254 328.3 ^p	918 969.1/ 226 574.1 ^p	9 412.4 ^k	5 843.25 ^q + 3 026.7 ^m	9 471.9	–
2017	275 168.2	251 327.0	9 825.1 ^k	5 318.4 ^q + 2 857.7 ^m	5 840.0	–
2018	333 396.13	312 565.8	9 783.0 ^k	1 988.6 ^q + 2 922.6 ^m	6 136.0	0.13
2019	465 974.25	441 620.4	12 051.65 ^k	1 290.4 ^q + 3 239.2 ^m	7 616.9	155.7
2020	451 764.45	422 667.6	10 498.7 ^k	7 655.3 ^q + + 2 509.2 ^m + 28.8 ^p	8404.7	0.145
2021	36 4721.3	339 493.2	12 806 ^k	1 207.7 ^o + 3 615.4 ^m + + 24.1 ^o	7 572.4	2.481
2022	777 989.35	753 471.6	13 827.95 ^k	1 209.2 ^o + 3 494.8 ^m + + 876.4 ^p	5 078.0	31.4
2023	372 938.05	339 056.9	14 219.15 ^k	9 016.1 ^o + 3 965.5 ^m	6 564.3	116.1

^a According to the Ministry of property relations of the Russian Federation, the law on the execution of the federal budget for the year 2000 did not specify a separate column, while it was the amount of payments from state enterprises (Rb9887.1 mn) (without any specific components).

^b The amount of rent (i) for agricultural land and (ii) for urban and settlement land.

^c The amount of incomes from lease of property assigned to (1) research organizations, (2) educational institutions, (3) healthcare institutions, (4) state museums, state cultural and art institutions, (5) archival institutions, (6) Ministry of Defense of the Russian Federation, (7) organizations of the Ministry of Railways of the Russian Federation, (8) research service

for use of spatial data and materials that are not objects of copyright contained in the federal fund of spatial data and other receipts from the use of property owned by the Russian Federation) as well as from authorized activities of organizations that are credited to the federal budget, receipts from the sale of state stocks of precious metals and precious stones. Laws on the implementation of the federal budget (until 2015) were used, and then data of annual Federal Budget Performance Reports for January 1, 2016, 2017, 2018, 2019, 2020, 2021, Report on the Implementation of the consolidated budget of the Russian Federation and budgets of the state extra-budgetary funds as of 1 January 2022, report on the performance of the federal budget as of 1 January 2023 (annual) and report on the performance of the consolidated budget of the Russian Federation and budgets of the state extra-budgetary funds as of 1 January 2024 (monthly).

organizations of academies of sciences with the state status, and (9) other incomes from lease of state-owned property.

^d According to the Ministry of property relations of the Russian Federation, the law on the execution of the federal budget for the year 2001 did not specify a separate column, the value coincided with the value of other income in payments from state and municipal organizations.

^e Total amount of incomes from leasing out state-owned property (without the allocation of land rents).

^f Amount of rent (1) for urban and settlement lands and (2) for federally owned lands after the delimitation of state land ownership.

^g Amount of incomes from leasing out property assigned to (1) scientific organizations, (2) educational institutions, (3) health care institutions, (4) state cultural and art institutions, (5) state archival institutions, (6) postal institutions of federal postal service of the RF Ministry of digital development, communications and mass media of the Russian Federation, scientific service organizations of academies of sciences possessing state status and (8) other incomes from leasing out federally owned property.

^h Lease payment after the delimitation of state ownership of land and funds from sale of the right to conclude lease agreements for federally owned land (excluding land plots of federal autonomous (2008–2011) and budget (2011) institutions).

ⁱ Incomes from renting out property in the operational management of federal government bodies and relatively established institutions and in the economic management of FSUE: transferred for operational management to (1) research institutions having state status, (2) institutions of research service of the Russian Academy of sciences and sectoral Academies of sciences, (3) educational institutions, (4) healthcare institutions, (5) federal postal institutions of the Federal Communications Agency, (6) state cultural and art institutions, (7) state archival institutions, and (8) other income from renting out property located in the operational management of federal government bodies and respectively established institutions and in the economic management of FSUE¹ (for 2006–2009 without income from permitted activities and use of federal property located outside the RF territory, received abroad, which were not specified in the previous years).

^j Incomes from renting out property in the operational management of federal government bodies and relatively established institutions (except for autonomous and budgetary institutions): transferred for operative management to (1) research institutions, (2) institutions of research service of the Russian Academy of sciences and sectoral academies of sciences, (3) educational institutions, (4) healthcare institutions, (5) state cultural and art institutions, (6) state archival institutions; (7) in the operational management of the Ministry of Defense and its subordinate institutions (2010), (8) in federal ownership managed by the Presidential Affairs Department (2010) according to the Edict, and (9) other incomes from renting out property in the operational management of federal government bodies and their established institutions (without income from permitted activities and use of federal property located outside the RF territory, received from abroad).

^k Rent after the demarcation of state ownership of land and funds from sale of the right to conclude lease agreements for federally owned land (except for land plots of federal budget and autonomous institutions), as well as (1) rent for land plots located within the right-of-way of federally owned public highways (2012–2022), (2) payment from the implementation of agreements on establishment of easements over the land within the right-of-way of public highways of federal importance for the construction (reconstruction), overhaul and operation of road service facilities, laying, relocation, rebuilding and operation of utilities, installation and use of advertising structures (2012 and 2014–2022), (3) payment under agreements to establish easements over federally owned land plots (2015–2022), (4) amount of unreasonable gains for using federally owned land with the right to dispose them is granted to federal government agencies in accordance with Russian legislation (2020–2022), (5) payment for public easement, as provided for by the decision of the authorized body to establish public easement over land plots owned by federal government agencies (2020–2022), (6) payment received under the agreement for granting the right to locate and operate a non-stationary trading facility, install and use advertising structures on federally owned land or land plots whose state ownership is not demarcated (2022).

1 In 2008–2009, no reference is made to FSUE as a source of income from leasing property in their economic operation, however, leasing of property under operation of the state federal bodies and enterprises created by them excludes property of federal autonomous entities.

2 According to the Russian Ministry of Property relations, income from the use of federal property, located abroad (in addition to income from the share of the Russian participant in JV Vietsovpetro), amounted to Rb315 mn in 1999 and Rb440 mn in 2000. In the future, the main role in organizing commercial use of federal real estate abroad is played now by the Federal State Unitary Enterprise “Property Management Enterprise”.

^l Incomes from renting out property under the operational management of federal government bodies and their relatively established institutions (except for budgetary and autonomous institutions): transferred under the operational management of: (1) research institutions, (2) educational institutions, (3) healthcare institutions, (4) state institutions of culture and art, (5) state archival institutions; (6) other income from renting out property operationally managed by federal government agencies, (7) federal government agencies, the Bank of Russia and authorities managing state non-budgetary funds of the Russian Federation, (8) federal government agencies (2015 only) (without income from use of federal property located outside the Russian Federation received abroad).

^m Income from leasing out property constituting part of the treasury of the Russian Federation (excluding land plots).

ⁿ Excluding funds received from the sale of Rosneft shares (Rb692.395 bn) (excluding payment of interim dividends).

^o Data for 2016–2022 are presented in aggregated form without distinguishing groups of institutions by industry. The generalized classification includes only 2 categories of income depending on the recipient of income from leasing (federal government agencies, the Bank of Russia and management bodies of state non-budgetary funds of the Russian Federation and federal treasury institutions). In the preliminary reporting for 2023, the data are presented without any distinction between categories of revenue recipients.

^p Amount of unreasonable gains for using property (excluding land plots) in federal ownership with the right to dispose in accordance with Russian law is granted to federal government agencies.

Sources: Federal budget execution laws for 2000–2014; Federal budget execution reports as of January 1, 2016, January 1, 2017, January 1, 2018, January 1, 2019, January 1, 2020, and January 1, 2021 (annual); URL: <http://roskazna.gov.ru>; Report on the execution of the RF consolidated budget and budgets of state extra-budgetary funds as of January 1, 2022; URL: <http://budget.gov.ru>; Report on the execution of the federal budget as of January 1, 2023 (annual). URL: <https://roskazna.gov.ru/upload/iblock/Oaf/Otchet-ob-ispolnenii-FB-na-01.01.2023.zip>; Report on the execution of the consolidated budget of the Russian Federation and budgets of state extra-budgetary funds as of January 1, 2024 (monthly); own calculations.

Cumulative income from renewable sources reduced in 2023 compared with the previous year more than halve, amounting to about Rb373 bn. This was mainly due to payment of dividends to the budget (Rb339.1 bn), which reduced 2.2-fold against the indicator of 2022 (Rb753.5 bn), rolling back to 2021 (Rb339.5 bn) and markedly behind the 2019–2020 figures. At the same time, transfers of part of profits by unitary enterprises grew nearly by 30%. However, in terms of their absolute value (Rb6.6 bn), they yielded to indicators of 2019–2021.

Cumulative revenues from leasing out federal property increased by more than 2.3 times (up to Rb13 bn). This was mainly due to a radical increase in revenues from leasing out property under the operational management of federal government agencies and institutions created by them (except for budgetary and autonomous ones) – 7.5 times (over Rb9.0 bn). Revenues from renting out property owned by the treasury of the Russian Federation (excluding land plots) increased by 13.5% (almost to Rb4.0 bn).

Revenues from both sources turned out to be the maximum for the entire period after 2008–2009, when the revenues from the lease of the treasury property were not yet allocated. The share of the latter in the total amount of revenues from the lease of federal property amounted to about 30%, which is comparable to 2016–2017 and higher than the value for 2020, when the aggregate amount of lease revenues included payments of unjust enrichment for using property (except for land plots) owned by the federal government, the right to dispose of which in accordance with the legislation of the Russian Federation is granted to federal government agencies. In 2023, there were no such items in the budget reporting.

The value of budget revenues from land lease increased by almost 3% (more than Rb14.2 bn).¹

Dividends accounted for the lion's share (about 91%) in the overall structure of federal budget revenues from renewable sources, the same as a year earlier, reducing by 6 p.p. as compared with 2022 (about 97%). That way, specific weight of all other sources grew by 1-3 p.p.: the share of land lease payments was 3.8% (1.8% in 2022), property lease payments – 3.5% (0.7% in 2022), profits transferred by FSUE – 1.8% (0.6% in 2022).²

Referring to the analysis of federal budget revenues from privatization and sales of state property (*Table 6*), it should be noted that since 1999 revenues from sales of the main part of such assets (shares, and lands³ since 2003–2007) have been treated as sources of financing of its deficit.

Table 6

Federal budget revenues from privatization and sale of property (non-renewable sources) in 2000–2023, million rubles

Year	Total	Sale of shares in the federal ownership (2000–2023) and other forms of participation in the authorized capital (2005–2023) ^a	Sale of land plots	Sale of various property (excluding movable property of budgetary and autonomous enterprises, as well as property of state unitary enterprises, including treasury)
2000	27 167.8	26 983.5	–	184.3 ^b
2001	10 307.9	9 583.9 ^c	119.6 ^c	217.5+386.5+0.4 (HMA) ^d
2002	10 448.9	8 255.9	1967.0 ^f	226.0 ^a
2003	94 077.6	89 758.6	3992.3 ^b	316.2+10.5 ⁱ
2004	70 548.1	65 726.9	3259.3 ⁱ	197.3+1364.6+0.04 (HMA) ^e
2005	41 254.2	34 987.6	5285.7 ⁱ	980.9 ^e

1 As in the previous year, income from lease of land includes income received in the form of rent for land plots located in the highway right-of-way of federally owned public highways (Rb10.5 mn), payment from the realization of agreements on establishing the easements for land plots within the boundaries of the right-of-way of federally owned highways for the purposes of construction (reconstruction), capital repair and operation of road service facilities, laying, relocation, rearrangement and operation of engineering communications, installation and operation of advertising structures (Rb55.5mn, payment under agreements on the establishment of easements, concluded by federal executive authorities, state enterprises or state institutions with respect to federally owned land plots (Rb135.1 mn), payment allocated for easements stipulated from 2021 by the decision of the authorized body to establish a public easement in respect of land plots owned by the federal government (except for land plots owned by the federal government and the exercise of powers of the Russian Federation to manage and dispose them has been delegated to the state authorities of the subjects of the Russian Federation) and not delegated to individuals and legal entities (except for bodies of state authorities (government bodies), local government bodies (municipal bodies), authorities managing state extra-budgetary funds, public institutions (Rb1.05 mn). As well as payment, allocated since 2022, received under the agreement to authorize the installation and operation of non-stationary trading objects, installation and operation of advertising structures on federally owned land or land plots and on lands and land plots with public property not delimited (Rb17.1 mn). At the same time, in contrast to 2020–2022, in the preliminary budget reporting there is no data on unjustified enrichment for the use of the federally owned land, the right to dispose which provided to federal government agencies in accordance with the legislation of the Russian Federation.

2 A new source of income emerged in the classification of federal budget revenues from the use of property in recent years, i.e., funds received from transfer of federally owned property (except for the property of federal budgetary and autonomous organizations, as well as the property of federal state unitary enterprises, including treasury enterprises), as a pledge, in trust management. However, its role in the structure of revenues from renewable sources remains insignificant (Rb116.1 mn).

3 In 2003–2004, taking into account the sale of lease rights.

Year	Total	Sale of shares in the federal ownership (2000–2023) and other forms of participation in the authorized capital (2005–2023) ^a	Sale of land plots	Sale of various property (excluding movable property of budgetary and autonomous enterprises, as well as property of state unitary enterprises, including treasury)
2006	24 726.4	17 567.9	5874.2 ⁱ	1 284.3 ⁿ
2007	25 429.4	19 274.3	959.6 ^o	5 195.5 ^p
2008	12 395.0	6 665.2 + 29.6	1 202.0 ⁿ	4 498.2+0.025 (HMA) ^r
2009	4 544.1	1 952.9	1 152.5 ⁿ	1 438.7 ^r
2010	18 677.6	14 914.4	1 376.2 ⁿ	2 387.0+0.039 (HMA) ^r
2011	136 660.1	126 207.5	2 425.2 ⁿ	8 027.4 ^r
2012	80 978.7	43 862.9	16 443.8 ⁿ	2 0671.7+0.338 (HMA) ^r
2013	55 288.6	41 633.3	1 212.75 ⁿ	12 442.2+0.310 (HMA) ^r
2014	41 155.35	29 724.0	1 912.6 ⁿ	9 517.7+1.048 (HMA) ^r
2015	18 604.1	6 304.0	1 634.55 ⁿ	10 665.5+0.062 (HMA) ^r
2016	416 470.5	406 795.2	2 112.7 ⁿ	7 562.6+0.012 (HMA) ^r
2017	21 906.7	14 284.5	1 199.6 ⁿ	6421.3+1.3 (HMA) ^r
2018	28 252.0	12 787.5	1 660.6 ⁿ	13 803.7+0.2 (HMA) ^r
2019	20 129.3	11 527.5	1 647.5 ⁿ	6 954.3 ^r
2020	27 961.5	12 570.7	3 235.5 ⁿ	11 247.2+1.9 (HMA) _T +906.2 ^s
2021	20 265.85	5 272.0	2 455.6 ⁿ	11 492.4r +1045.85 ^s
2022	20 636.0	7 792.5	1 733.9 ⁿ	10 175.2r +934.4 ^s
2023	43 267.8	27 278.5	3 022.6 ⁿ	11 289.9r +1 676.8 ^s

^a The amount of Rb29.6 mn in 2008 (according to the data of the Report on the Federal Budget Execution as of January 1, 2009) is treated as a source of internal financing of the federal budget deficit, but is not included in the law on the Federal Budget Execution for 2008.

^b Proceeds from privatization of state-owned organizations attributable to the sources of internal financing of the federal budget deficit.

^c Income from sale of land plots and lease rights to state-owned land plots (with the allocation of those in which privatized enterprises are located), attributable to federal budget revenues.

^d The amount of revenues from (1) the sale of federally owned property attributable to sources of internal financing of the federal budget deficit, (2) revenues from (i) the sale of apartments, (ii) the sale of state production and non-production funds, transport facilities, other equipment and other tangible assets, and (3) revenues from sale of intangible assets (NMA) attributable to federal budget revenues.

^e Including Rb 6mn from sales of shares in the ownership of RF subjects.

^f Revenues from sale of land and intangible assets, the amount of revenues from which was not separately allocated, attributable to federal budget revenues.

^g Proceeds from sale of state-owned property (including Rb1.5 mn from sale of property owned by subjects of the Russian Federation) attributable to the sources of internal financing of the federal budget deficit.

^h Includes proceeds: (1) from sale of land plots with real estate located prior to alienation in federal ownership, credited to the federal budget, (2) from sale of other land plots, as well as from the sale of the right to conclude lease contracts, (3) from sale of land after the differentiation of land ownership, as well as from the sale of the right to conclude lease contracts, credited to the federal budget, referred to the sources of internal financing of the federal budget deficit.

ⁱ The amount of (1) proceeds from the sale of federally owned property attributable to sources of internal financing of the federal budget deficit, and (2) proceeds from the sale of intangible assets attributable to federal budget revenues.

^j Includes proceeds: (1) from sale of land plots prior to the delimitation of state ownership of land on which immovable property located prior to alienation in federal ownership, which are credited to the federal budget, (2) from sale of other land plots, as well as from sale of the right to conclude agreements on their lease, (3) from sale of land plots after demarcation of land ownership, as well as from sale of the right to conclude agreements on their lease, enrolled in the federal budget, attributable to the sources of internal financing of the federal budget deficit.

^k The amount of (1) proceeds from sale of federally owned property attributable to the sources of internal financing of the federal budget deficit, (2) proceeds (i) from sale of apartments, (ii) from sale of equipment, vehicles and other tangible assets credited to the federal budget, (iii) from sale of ship recycling products, (iiii) from sale of property of FSUE, institutions and military property, (iiiii) from the sale of weapons, military equipment and ammunition recycling products, (3) income from sale of intangible assets (NMA) attributable to the federal budget revenues.

^l Includes proceeds: (1) from sale of land plots before division of state ownership of land on which real estate located before alienation in federal ownership, (2) from sale of land plots after division of state ownership of land, credit to the federal budget, (3) from the sale of other land plots owned

by the state before the delimitation of state ownership of land and not designated for housing construction (the latter clarification applies only to 2006), attributable to the sources of financing of the federal budget deficit.

^m Revenues from sale of tangible and intangible assets (net of federal budget funds from the disposal and sale of confiscated and other property converted to state revenue) include revenues (1) from the sale of apartments, (2) from the sale of FSUE property, (3) from sale of property in the operational management of federal institutions, (4) from the sale of military property (5) from sale of recycled products from weapons, military equipment and ammunition, (6) from sale of other federally owned property, (7) from the sale of intangible assets, attributable to federal budget revenues

ⁿ Income from sale of tangible and intangible assets (excluding income in the form of the state's share of profitable production under production sharing agreements (PSAs) and federal budget funds from the disposal and sale of escheat, confiscated and other property turned over to the state) includes income (1) from sale of apartments, (2) from sale of the FSUE property, (3) from sale of property in the operational management of federal institutions, (4) from sale of military property, (5) from sale of products of the utilization of weapons, military equipment and ammunition; (6) income from sale of other property in federal ownership, attributable to federal budget revenues.

^o Proceeds from sale of land plots after the delimitation of land ownership, which are in federal ownership, attributable to the sources of financing the federal budget deficit.

^p Revenues from sale of tangible and intangible assets (excluding revenues in the form of the state's share of profitable production under production sharing agreements (PSAs) and federal budget funds from the disposal and sale of escheat, confiscated and other property converted to state revenue, funds from sale of sequestered wood) include income (1) from sale of apartments, (2) from sale of the FSUE property, (3) from sale of property in the operational management of federal institutions, (4) from sale of released tangible and intangible military and other property of federal executive bodies where military and equated to it service is provided, (5) from sale of military products from reserves of federal executive bodies under military-technical cooperation, (6) income from sale of other property in federal ownership, referred to the income of the federal budget

^q Income from sale of federally owned land plots (excluding land plots used by federal budgetary and autonomous institutions) (except for 2019–2023) attributable to federal budget revenues, as well as for 2015 and 2021–2023 also the payment for expanded in terms of area privately owned land plots as a result of the reallocation of such land plots and federally owned land plots.

^r Revenues from sale of tangible and intangible assets (excluding revenues from the state's share of profit production in the performance of production sharing agreements (PSA), federal budget funds from the disposal and sale of escheat, confiscated and other property turned over to the state, funds from the sale of sequestered wood (2008–2011), income from the release of material assets from state reserves of special raw and fissile materials (in terms of revenues from their sale), from temporary lending and other use), as well as for the years 2012–2020 without funds from the sale of timber obtained during the protection, conservation, re-production of forests when placing state orders for their implementation without the sale of forest plantations for timber harvesting, as well as timber obtained from the use of forests located on lands of the forest fund, in accordance with Articles 43–46 of the Forest Code of the Russian Federation¹, income from commodity interventions from the federal intervention fund of agricultural products, raw materials and foodstuffs, from release of tangible assets from the state reserve, from engaging prisoners in paid labor (in terms of selling finished products), from selling special storage products) include income from (1) sale of apartments, (2) sale of property in the operational management of federal institutions (excluding autonomous and budget institutions (2011–2023)), minus funds coming from activities of foreign missions (2015–2022²), (3) sale of released movable and immovable military and other property of federal executive bodies, in which military and equivalent service is stipulated, (4) sale of products of utilization of weapons, military equipment and ammunition, (5) sale of military products from the federal executive bodies' reserves as part of military-technical cooperation (2008 and 2010–2023), (6) sale of weapons and military equipment recycling products as part of the federal target program "Industrial disposal of weapons and military equipment" (2005–2010).) (up to and including 2017), (7) sale of immovable property of budgetary and autonomous institutions (2014–2018 and 2020–2023), (8) sale of other federally owned property, as well as income from sale of intangible assets (NMA) attributed to the federal budget revenues.

1 This revenue item is not available in the 2021 statements.

2 In the 2023 reporting, funds from activities carried out by the foreign institutions were not allocated. Therefore, the total amount of income from the sale of property under the operational management of federal agencies is probably somewhat overstated.

⁵ Revenues from privatization of property owned by the Russian Federation in terms of non-financial assets of the treasury.

Sources: Laws on Execution of the Federal Budget for 2000-2014; Reports on Execution of the Federal Budget as of January 1, 2016, January 1, 2017, January 1, 2018, January 1, 2019, January 1, 2020, January 1, 2021 (annual). URL: <http://roskazna.gov.ru>; Report on Execution of the Consolidated Budget of the Russian Federation and Budgets of State Extrabudgetary Funds as of January 1, 2022 URL: <http://budget.gov.ru>; Report on Execution of the Federal Budget as of January 1, 2023 (annual). URL: <https://roskazna.gov.ru/upload/iblock/0af/Otchet-ob-ispolnenii-FB-na-01.01.2023.zip>; Report on the Execution of the Consolidated Budget of the Russian Federation and Budgets of State Extrabudgetary Funds as of January 1, 2024 (monthly); own calculations.

In absolute terms, federal property budget revenues from non-renewable sources increased more than twice in 2023 and constituted Rb43.3 bn), being maximum over 10 years since 2013.

Receipts from the sale of shares rose by almost 3.5 times (to Rb27.3 bn), which was the maximum since 2017. Revenues from the sale of land plots increased almost by 3/4, amounting to more than Rb3.0 bn.¹

For the period after 2012, this value is second only to the indicator of 2020 (Rb3.2 bn). Revenues from the sale of various property also increased (by almost 16%), and their absolute value amounted to about Rb13 bn, including revenues from the privatization of property owned by the Russian Federation in terms of non-financial assets of the Treasury property (Rb1,676.8 mn).

As a result, the bulk of the proceeds were provided by the sale of shares – more than 63% (about 38% in 2022), while the sale of property accounted for about 30%² of the proceeds (in 2022 – about 54%), and 7% for sale of lands (in 2022 – 8.4%).

However, total volume of federal budget revenues from privatization (sale) and use of state property in 2023 (*Table 7*) fell by 48% (to Rb416.2 bn) compared to the previous year. As a result, it was less than not only the maximum of 2016, but also of the indicators relevant to 2019–2020.

Table 7

Structure of federal budget material property revenues from various sources in 2000–2023

Year	Aggregate revenues from privatization (sale) and use of state property		Revenues from privatization and sale of property (non-renewable sources)		Income from using state property (renewable sources)	
	Rb mn	% to total	Rb mn	% to total	Rb mn	% to total
2000	50 412.3	100.0	27 167.8	53.9	23 244.5	46.1
2001	39 549.8	100.0	10 307.9	26.1	29 241.9	73.9
2002	46 811.3	100.0	10 448.9	22.3	36 362.4	77.7
2003	135 338.7	100.0	94 077.6	69.5	41 261.1	30.5

1 Including revenues from sale of land plots owned by the federal government, in the use of budgetary and autonomous institutions (Rb19.6 mn). In 2022, they amounted to Rb4.4 mn, and a year earlier Rb76.4 mn (according to budget reporting data). Corresponding values of previous years presented in the Information of the Federal Treasury on indicators characterizing the efficiency of state management: 2015 – Rb0,433 mn, 2016 – Rb2,381 mn, 2017 – Rb4,962 mn, 2018 – 0,1835 mn, 2019 – Rb40.1 mn, 2020 – Rb298.3 mn.

2 Including revenues from privatization of property owned by the Russian Federation in terms of non-financial assets of the treasury property (3.9%).

THE RUSSIAN ECONOMY in 2023

trends and outlooks

Year	Aggregate revenues from privatization (sale) and use of state property		Revenues from privatization and sale of property (non-renewable sources)		Income from using state property (renewable sources)	
	Rb mn	% to total	Rb mn	% to total	Rb mn	% to total
2004	120 798.0	100.0	70 548.1	58.4	50 249.9	41.6
2005	97 357.4	100.0	41 254.2	42.4	56 103.2	57.6
2006	93 899.8	100.0	24 726.4	26.3	69 173.4	73.7
2007	105 761.25	100.0	25 429.4	24.0	80 331.85	76.0
2008	88 661.7	100.0	12 395.0	14.0	76 266.7	86.0
2009	36 393.7	100.0	4 544.1	12.5	31 849.6	87.5
2010	88 406.4	100.0	18 677.6	21.1	69 728.8	78.9
2011	240 964.1	100.0	136 660.1	56.7	104 304.0	43.3
2012	309 943.2/ 469 243.2*	100.0	80 978.7/ 240 278.7*	26.1/ 51.2*	228 964.5	73.9/ 48.8*
2013	209 114.85	100.0	55 288.6	26.4	153 826.25	73.6
2014	282 325.95	100.0	41 155.35	14.6	241 170.6	85.4
2015	303 975.2	100.0	18 604.1	6.1	285 371.1	93.9
2016	1 363 193.85/ 670 798.85**	100.0	416 470.5	30.6/ 62.1**	946 723.35/ 254 328.35	69.4/ 37.9**
2017	297 074.9	100.0	21 906.7	7.4	275 168.2	92.6
2018	361 648.13	100.0	28 252.0	7.8	333 396.13	92.2
2019	486 103.55	100.0	20 129.3	4.1	465 974.25	95.9
2020	479 725.95	100.0	27 961.5	5.8	451 764.45	94.2
2021	384 987.15	100.0	20 265.85	5.3	364 721.3	94.7
2022	798 625.35	100.0	20 636.0	2.6	777 989.35	97.4
2023	416 205.85	100.0	43 267.8	10.4	372 938.05	89.6

* Taking into account funds received by the Central Bank of the Russian Federation from the sale of Sberbank shares (Rb 159.3bn), which probably slightly overestimates the total share of non-renewable sources because the budget did not receive these funds in full, but minus their book value and the amount of expenses related to the sale of these shares. Accordingly, the share of renewable sources is probably slightly underestimated;

** Excluding funds received from sale of Rosneft shares (Rb692.395 bn) (net of interim dividend payments).

Sources: Federal Budget Enforcement Acts 2000-2014; Federal Budget Enforcement Reports as of January 1, 2016, January 1, 2017, January 1, 2018, January 1, 2019, January 1, 2020, and January 1, 2021 (annual). URL: <http://roskazna.gov.ru>; Report on execution of the consolidated budget of the Russian Federation and budgets of state extra-budgetary funds as of January 1, 2022. URL: <http://budget.gov.ru>; Federal budget performance report as of January 1, 2023 (annual). URL: <https://roskazna.gov.ru/upload/iblock/0af/Otchet-ob-ispolnenii-FB-na-01.01.2023.zip>; Report on execution of the consolidated budget of the Russian Federation and budgets of state extra-budgetary funds as of January 1, 2024 (monthly); own calculations.

The structure of aggregate revenues from privatization (sale) and use of state property shifted significantly towards the former. Their share increased 4 times, exceeding 10% for the first time since 2014 (except for 2016, when there was a transaction on the sale of Rosneft shares, the proceeds from which were deposited with federal budget in the form of dividends of Rosneftegaz).

The share of revenues from the use of state property fell below 90%. In terms of absolute value, they yielded to the indicators of 2019–2020, slightly exceeding the level of 2021. Revenues from privatization and sale of property turned out to be the highest since 2014, amounting to more than 3/4 of the value of 2013.

* * *

Results of the implementation of the federal privatization program in the new format with an annual shift of the start and end dates of the forecast privatization plan were impressive.

While the number of sold blocks of shares (stakes) of economic entities declined by more than a quarter, the volume of proceeds from this source increased by 3.5 times, being the maximum for the entire period of 2017–2023. This result was achieved to a high degree due to transactions in assets privatized according to individual government decisions, although not among the largest ones, allocated in the forecast plan for privatization under individual schemes. Some of them include conditions for fulfillment by buyers. The number of sold objects of the treasury amid the privatization program has slightly decreased. However, taking into account privatization of property excluded from the forecast privatization plan (according to the list approved by the Ministry of Finance of Russia), it exceeded the previous maximum in 2020 by about 1.5 times.

Further prospects of the privatization process are associated with another shift of the start and end dates of the current program by 2 years, i.e. 2024–2026. Its quantitative parameters do not differ much from the previous program. A new point is the allocation of state-owned enterprises among the FSUEs to be privatized, which was not previously included in privatization programs. In the group of companies, one JSC and one unitary enterprise (for corporatization) were left for privatization under individual schemes, which have been included in subsequent forecast plans for several years.

The amendments to the law on privatization are mainly in line with removing restrictions, concerning certain categories of property (objects of cultural heritage, gas supply, etc.).

The number of economic entities belonging to the federal property continued to decrease. A comparison of the September 2022 values against June 2023 from the forecast privatization plans shows that the number of unitary enterprises and business entities dropped by about 5–6% over this period. At the same time, the analysis of data from various sources (the System of Indicators for Assessing Efficiency of State Property Management and privatization program) shows that the aggregate share of companies where the state as a shareholder could exercise full corporate control exceeded 50% for the first time after 2016.

With minimal changes in the list of strategic organizations, the threshold of state corporate control increased in two companies, while the United Shipbuilding Corporation was transferred to VTB Bank for trust management. A distinctive feature of the previous year was a wave of lawsuits resulting in the alienation of assets of a number of companies that emerged based on privatized enterprises in favor of the state. The energy sector, chemical industry and ports were the most affected.

Dramatic innovations took place in the management of economic entities of the public sector. There is a new Regulation appeared on the remuneration of

labor of executive officers of state corporations, companies and business entities with a state share. Payments to top management are clearly structured with mandatory incentive payments based on annual performance results related to the achievement of target values of key performance indicators. At the same time, there is no list of business entities to which the new Regulation should apply. The relevant methodological recommendations on development and application of KPIs for state-owned JSCs and particular NPOs, which appeared back in late 2020, among other changes, were supplemented with a special formula for determining the amount of remuneration payable at the end of the reporting year to a member of the organization's governing body.

It consists of three types of bonuses for achieving target values of various KPIs, including functional, including those related to the implementation of particularly significant projects.

The structure of the report on the management of federal shareholdings submitted to the government by the Ministry of Finance, the Ministry of Defense and the Department of Presidential Affairs of the Russian Federation has become much more detailed.

Important amendments and additions were made to the Regulations on the Management of Federally Owned Shares in Joint-Stock Companies and Use of the Special Right of Participation of the Russian Federation in the Management of Joint-Stock Companies ("Golden Share"), 2004.

The scheme for Rosimushchestvo to develop draft directives for representatives of the state in the boards of directors of JSCs has been modified. Among other things, it determines the time period for Rosimushchestvo to submit to the Ministry of Finance draft directives to representatives of the interests of the Russian Federation on the boards of directors of JSCs included in the special list. Cases of terminating control over fulfillment of instructions of the highest officials of the country in the JSC Boards of Directors have been regulated, and replacement of state representatives in those companies where a special right ("golden share") is used.

Regulation of the withdrawal of foreign business, in particular, introduction of the practice of temporary management in respect of the assets of a number of foreign companies became an individual trend of the economic policy of the state under new economic and political situation in 2022–2024.

Revenues from renewable sources prevailed in the structure of federal budget revenues from privatization (sale) and use of state property, as a year earlier. However, their share decreased, amounting to about 90% against more than 97% in 2022. The main part of property income continued to be dividends transferred to the budget, with the volume more than halved, returning to the level of 2021. Revenues from other sources showed growth. The revenues from the lease of property under the operational management of federal government bodies and institutions (except for budgetary and autonomous ones), sale of shares (stakes) in business entities and land plots increased most noticeably.

5.2. Corporate governance 2023: regulatory perspectives, anti-sanctions and national ESG1 agenda²

Decisions in the area of corporate governance regulation in 2023 were related to the need to find a balance between the demand to ensure the efficient functioning of the financial market and increase the inflow of domestic investors, who require greater transparency and predictability, and the implementation of anti-sanctions measures, which implies, among other things, an increase in the level of transparency of public information about the activities of major Russian companies. The result was, on the one hand, the definition of benchmarks in the development of corporate governance for 2024–2026, and, on the other hand, the extension of sanctions-related measures in the area of corporate legislation for 2024. In connection with the sanctions, the ESG agenda has also undergone changes.

5.2.1. Corporate governance 2024–2026: main directions in the development of regulation

At the end of 2023, The Russian Financial Market Development Program 2024–2026 was approved, which, in addition to returning to the previous volume of information disclosure on the financial market, provide for a number of measures in the field of corporate governance:

- 1) legislative provision of the possibility to hold shareholders' meetings in a mixed mode (in person and remotely);
- 2) creation of a legal mechanism to enable the accumulation of minority shareholders' votes for nominating candidates to the boards of directors of public companies;
- 3) improving the procedure for acquiring large blocks of shares in public companies in order to expand their flexibility and reduce costs for majority shareholders, while at the same time strengthening the protection of minority shareholders' rights in the event of a change of controlling owner;
- 4) defining requirements to the content of the dividend policy of a public company; fixing the obligation to approve it, disclose it and explain to shareholders the reasons for deviating from the approved dividend policy;
- 5) improvement of mechanisms for protection of bondholders' rights and expansion of opportunities for bond issuers to quickly and conveniently process transactions;
- 6) development of recommendations on corporate governance in holdings and groups of companies;
- 7) ongoing development of corporate governance in credit and financial organizations;
- 8) development of the institute of reporting audit in the financial market.

¹ ESG – Environmental, Social, Corporate Governance.

² Authors: *Apevalova E.A.*, Senior Researcher, Laboratory for institutions and financial markets analytics, IAES RANEPА; *Polezhaeva N.A.*, Candidate of Legal Sciences, Senior Researcher, Laboratory for institutions and financial markets analytics, IAES RANEPА.

Some of the proposed measures are designed to solve long-standing areas of concern of corporate governance that have not been regulated by legislation. This primarily concerns predictability of decisions and transparency of dividend policy of companies, as well as corporate governance in holdings and groups of companies.

Data disclosure and transparency of decision-making in the sphere of dividend policy of Russian companies have always been one of the weak points of corporate governance. Thus, according to the Bank of Russia's data for 2022,¹ solely 54% of public companies admitted to trading without inclusion in stock exchange quotation lists have developed and disclosed a regulation on dividend policy (in case of public joint-stock companies (PJSCs) from quotation lists, this figure reaches 98%).

This being said, in reality there are not only “developed for the sake of appearances” provisions of the dividend policy of companies (duplicating provisions of the law and the charter), but also the use by companies of other ways of profit distribution in favor of controlling entities, lack of sufficient information about the recommendations of the board of directors on profit distribution submitted to the general meeting of shareholders (GMS), lack of understanding of the reasons for making decisions on non-payment of dividends on shares of this or that category, including in the presence of a dividend policy.²

Another principle of the Corporate Governance Code, concerning dividend policy, the need to inform shareholders in a timely manner about changes in the company's approach to profit distribution due to changes in indicators, debt load, etc., according to the findings of the Bank of Russia, “has not been widely applied”.³

All this significantly reduces the predictability and transparency for shareholders of the profitability of investing in the company's shares and, accordingly, their interest in acquiring them. Since this factor is significant for investment and only a part of companies complies with the recommendations of the Code and the Bank of Russia in this part, the introduction of such requirements into the legislation seems to be perfectly justified.

With regard to corporate governance in holding companies and groups of companies, this problem was identified as a topical issue that needed to be addressed back in the early 2000s in the “Concept for the Development of Corporate Legislation until 2008” due to the prevalence of cross-shareholdings and non-transparency of their activities. Despite the solution of some specific issues related to groups of companies, such as taxation of a group of companies and the first steps towards the development of regulation of groups of companies developing digital services on the basis of one ecosystem, the basic issues of their existence remain unresolved. Among them are the lack of a unified concept and

1 Review of corporate governance practices in Russian public companies as of year-end 2022. Moscow. Bank of Russia, 2023. URL: https://cbr.ru/Collection/Collection/File/46627/Review_corp_2022.pdf, p. 18–19.

2 See: *Apevalova E.A., Polezhaeva N.A.* Coronavirus crisis and companies bankruptcies // Russian Economy in 2020. Trends and Outlooks. Issue 42. Moscow. Gaidar Institute Press, 2021. P. 515–533.

3 2023. URL: https://cbr.ru/Collection/Collection/File/46627/Review_corp_2022.pdf, p. 19.

criteria of a group of companies, the unresolved nature of many problems related to bankruptcy, and others.¹

Improvement of mechanisms for acquiring large blocks of shares is also essential, as its legal regulation raises issues related to practical aspects of determining the value of shares to be bought out, as well as protection of minority shareholders' rights in case of mandatory buyout.²

The proposal of novations on flexible meetings and development of the institute of audit of financial statements is a response to the events of recent years (COVID-19 epidemic and sanctions) due to which a large audit quartet left Russia and businesses lost the opportunity to receive audit services provided by a number of foreign companies. The regulator now faces the challenge of developing an audit institute that would work at the level of the best world practices, which is very important for shareholders when making managerial decisions, etc.

Remote shareholders' meetings were initially associated with declared epidemic. In general, this practice has proved to be a positive one, and the costs of holding such meetings are significantly reduced, which is especially important for large companies with a large number of shareholders. Therefore, the creation of an intermediate option of holding general shareholders' meetings between in-person and remote ones can be regarded as an optimal option in the context of respecting the interests of shareholders and the efficiency of restoring their violated rights in court.

Currently, remote meetings of shareholders reduce to a certain extent the communication opportunities of shareholders with the Boards of Directors and top management, as well as significantly complicate the election of independent directors by minority shareholders, since the latter have no opportunity to see preliminary voting results in absentia and adjust the distribution of votes among independent candidates in order to maximize the number of elected independent candidates.³ In addition, there are still contradictions and inconsistencies in the regulation of such meetings that require attention of the legislator.⁴

With regard to the possibility of accumulating minority shareholders' votes, the question arises: would their presence be formal amid the presence of controlling shareholder in the majority of large companies, whose interests are represented by the majority on the board of directors?

The topic of *improving bankruptcy procedures for companies is also back on the agenda, aimed at expanding the use of procedures to restore the debtor's solvency* (rehabilitation, settlement agreement, etc.). The practice has confirmed the demand for "peaceful" settlement of non-payment issues. The declaration

1 Shinyakova E. Urgent issues of the notion of groups of companies in the system of Intersectoral regulation. URL: https://zakon.ru/blog/2023/1/30/aktualnye_problemy_ponyatiya_grupp_kompanij_v_sisteme_mezhotraslevogo_regulirovaniya?ysclid=ltr60k2v2m870409770

2 In detail see: Internal mechanisms of corporate governance: some applied issues. Edit. By A.D. Radygin. Moscow. Delo, 2009. P. 98–101.

3 Shevchuk A. Corporate governance: Return to normality // Joint stock company: Issues of corporate governance. 2023. No. 7.

4 In detail see: Shitkina I.S., Seveeva K.V. Remote general meetings of participants of business companies: Effectiveness of novelties of the Russian legislation // Arbitration Practice Bulletin. 2022. No. 3. P. 3–16.

of a moratorium on bankruptcies in April 2022, as well as the increase in the problems of companies due to sanctions and the increase of the key rate by the Bank of Russia resulted in the creation in September 2022 of platforms for the settlement of disputes between creditors, debtors and other interested parties.

One was created by the Federal Tax Service (FTS) and the Russian Finance Ministry in April 2022, the other by the Chamber of Commerce and Industry (CCI) of the Russian Federation as the Debt Restructuring Assistance Fund. The debts of 3,000 debtors worth Rb198 bn were restructured on the debt restructuring platform of the Federal Tax Service between April 2022 and December 2023. The creditors and debtors signed composition agreements or granted installments for 3 years. For comparison: in 2020-2021 the debts of 1,200 debtors for the amount of Rb111.9 bn were restructured.¹ In less than a year (from September 2022 to July 2023), the Debt Restructuring Assistance Fund under the Chamber of Commerce and Industry settled debts worth Rb11 bn.²

The current draft law, unlike the 2022 version, can be adopted in parts, which simplifies its consideration by the State Duma. The Ministry of Economic Development of Russia plans to adopt the draft law by the end of 2024. The new version of the draft law provides for:

- the possibility of entering into a rehabilitation agreement between a debtor and creditors, which can be concluded both pre-trial or in court. A necessary condition of a judicial rehabilitation agreement is the consent to rehabilitation of creditors with at least 75% of the monetary claims;
- deferral of obligations;
- possibility of the debtor to make deals that will not be challenged by a creditor in bankruptcy.

The draft law is undoubtedly necessary and the measures envisaged by it will be in demand in bankruptcy practice, since the use of rehabilitation procedures under the current legal regulation does not exceed 2%. It can also increase the level of protection of creditors' rights, since after a debtor is declared bankrupt, they receive no more than 2-5% of debts.³

Another measure that returned to the economic block's attention from the Concept for the Development of Corporate Legislation up to 2008, apparently mainly due to the difficulties in forming board of directors in the context of a decreasing number of foreigners, is *the reinforcement in the law of a more flexible mechanism for forming the board of directors*.

Today, any change in the membership of the board of directors requires its complete re-election at a general meeting of shareholders, which is quite time-consuming and expensive. In this regard, the Ministry of Economic Development of Russia proposes to change the procedure for electing board members so that it would allow for timely replacement not only of board members, but also of candidates for membership in the process of preparation for the GMS. If the

1 Restructuring is promised rehabilitation procedures // Kommersant. 12.02.2024.

2 URL: <https://fondsrud.ru/company/>

3 Apevalova E.A., Polezhaeva N.A. Coronavirus crisis and companies bankruptcies // Russian Economy in 2020. Trends and Outlooks. Issue 42. Moscow. Gaidar Institute Press, 2021. P. 515–533.

relevant draft law is approved,¹ situations when incomplete boards of directors are elected or operate will be minimized. The reserve list will make it possible to quickly replace retired directors by decision of the GMS (or by decision of the entire board in a non-public company). It is envisaged that a second vote or meeting of the GMS will be possible if the board of directors is not elected at the first meeting.

Such an improvement will be in demand regardless of sanctions, as the issue of board incapacity has always existed. However, experts have a number of comments.² For example, two more meetings of the GMS will be required to make the relevant amendments to the Articles of Association and to form a reserve list. There is a possibility that minority shareholders, who lacked enough votes to be elected to the board but were included in the reserve list, may gain a majority on the board.

In general, the creation of a clear and operative mechanism for the formation of the board of directors will reduce time and financial costs for companies and increase their efficiency.

5.2.2. Corporate legislation: extension of anti-crisis measures

The 2023 and early 2024 corporate regulatory changes are, for the most part, extensions of the 2022 anti-crisis corporate measures.

1. *Extension of the option to hold general meeting of shareholders in absentia.* Prior to 2025, the rules prohibiting holding of GMSs in the form of absentee voting on the election of the board of directors and the audit commission, approval of the auditor, approval of the annual report and annual accounting (financial) statements are suspended.³ Such meetings may be held in absentia by decision of the board of directors.
2. *Extending the validity of the raised equity holding threshold for legal recourse and access to information.* Until July 1, 2024, the increased threshold of voting shares held by shareholders from 1 to 5% will remain in effect for the right to apply to the court for compensation for losses caused to the company and other issues, as well as the right to access certain information (e.g., the list of persons entitled to participate in the AGM, unapproved related-party transactions).

Some experts justify this measure as a way to combat the abuse of minority shareholders' right of going to court, which has a particularly negative impact on the company's performance in the context of the crisis.⁴ At the same time,

1 Draft "On Amending the Federal Law "On Joint-Stock Companies" and the Federal Law "On Limited Liability Companies". URL: <https://regulation.gov.ru/Regulation/Npa/PublicView?npalD=139327>

2 They prepared replacement for board of directors. URL: <https://www.kommersant.ru/doc/6056035>

3 Hereinafter: Article 12, 14, 19 of the Federal Law of 25.12.2023 No. 625-FZ "On Amending Article 98 of the Federal Law 'On State Control (Supervision) and Municipal Control in the Russian Federation' and Certain Legislative Acts of the Russian Federation". URL: <http://pravo.gov.ru, 25.12.2023>

4 *Shuvalova M.* Anti-crisis corporate legislation – 2022. URL: <https://www.garant.ru/article/1570526/>

shareholders are deprived of a tool to protect themselves from unlawful actions of the company's management.¹

3. *Extension of the option to prolong the powers of the board of directors.* The provision allowing the GMS to decide on the election of board members for a period of three years has been extended until 2025. Not all experts consider this to be a justified measure, especially for companies with formal board of directors and see it as a reduction in opportunities for minority shareholders to nominate independent candidates. Annual re-election of directors disciplines them, increases their commitment and accountability.²
4. *Extension of the possibility for a company to operate with a truncated board of directors or without a Board.* Until July 1, 2024, the rule according to which the board of directors retains its powers until a decision is made by the General Meeting of Shareholders (GMS) to elect a new composition of the board of directors, if its number of members becomes less than the number stipulated by law, the Articles of Association or a decision of the GMS, but not less than three members.

The GMS can also decide not to establish a board of directors in companies in respect of which restrictive measures have been imposed by foreign states or international organizations. In such cases, the functions of the Board of Directors are performed by the executive body, which may not decide on issues related to determining the priority areas of the company's activities, increasing the charter capital, establishing an executive body, approving the annual report and other issues. Decisions on these issues are made by the GMS.

These measures were justified by the early departure of many directors from Russian companies as a result of sanctions (the share of foreign members on boards of directors decreased from 30% in 2021 to 11.7% in 2023³), the impossibility of their quick replacement due to legal procedural requirements and the limited number of professional directors in the country. In addition, the Bank of Russia recommended that boards of directors should be formed from representatives of Russian business communities and communities of friendly foreign jurisdictions.⁴ Also, the authorization for boards of directors (and other bodies) of certain companies *to make decisions without taking into account votes of members from unfriendly countries*⁵ has been extended for 2024 to avoid suspension

1 *Polezheva N.A.* Main changes in corporate governance in Russia caused by sanctions // *Economy and Law*. 2023. No. 1. P. 46–53.

2 *Shevchuk A.* Corporate governance: return to normality. // *Joint-Stock company: Issues of corporate governance*. 2023. No. 7 (230). P. 5–12.

3 The number of foreigners on the boards of directors of Russian companies has decreased by 3-fold. URL: <https://www.kommersant.ru/doc/6454308>

4 Information letter of the bank of Russia of 17.01.2023 No. IN-02-28/5 “On the Formation of Boards of Directors (Supervisory Boards) of Public Joint-Stock Companies” // *Bulletin of the Bank of Russia*. 26.01.2023. No. 3.

5 Executive Order of the President of RF of 17.01.2023 No. 16 “On the Temporary Procedure for Adoption of Decisions by the Bodies of Certain Russian Business Companies” // *Rossiyskaya Gazeta*. 18.01.2023. No. 9.

of their activities, as sometimes foreign directors cannot vote due to anti-Russian requirements in their jurisdictions.

It is important that these new opportunities are not used to reduce the independence of the board of directors. In 2021, the share of independent directors in Russian companies stood at 44%; now it has decreased to 39%.

5. *Possibility to exclude foreigners from the chain of ownership of economically important organizations* (hereinafter – EIO) (possibility of exemption of a restrictive nature for foreign holding companies when they exercise corporate rights in respect of EIO).¹ A new anti-crisis measure is the possibility to exclude foreigners from the chain of ownership of an EIO with a foreign ownership structure and transfer direct control over it to the Russian beneficiaries of this company in order to restore operational control, in order to prevent the loss of business manageability and its ability to pay dividends as a result of blocking decisions of the real owners by unfriendly governing bodies. It is also established that *EIO does not disclose information subject to disclosure based on legal requirements*.² Since March 2024, the list of EIOs comprises six companies, including AB Holding JSC, which controls Alfa-Bank, and UNS-Holding LLC, which is a beneficiary of AlfaStrakhovanie.³
6. *A ban for Russian issuers to completely refuse to disclose information and to extend the possibility of limited disclosure*. Russian public companies, in order to protect them from sanctions measures, were given the right not to disclose information required by law or to do so partially without any explanation or authorization (as it was not always possible to determine whether there was a credible sanction threat) until July 2023.⁴ At that time, a number of major issuers, including Sberbank and PIK, took advantage of this option.

From July 2023, the option of full refusal to disclose information has been excluded. At the same time, the issuer has the right to restrict access to information included in the closed list (on persons who are members of the issuer's management bodies, bodies controlling its financial and economic activities; on transactions of the issuer and its controlling persons; on the context of the issuer's reorganization, etc.) if its disclosure may lead to sanctions being

1 Federal Law of 04.08.2023 No. 470-FZ "On Peculiarities of Regulation of Corporate Relations in Business Companies that are Economically Significant Organizations" // Rossiyskaya Gazeta. 09.08.2023. No. 175.

2 Executive Order of the President of Russia of 27.01.2024 № 73 // Rossiyskaya Gazeta. 29.01.2024. No. 18.

3 The RF Government Edict of 01.03.2024 No. 491-r "On Approval of the List of Economically Important Organizations" // Collection of Legislation of the Russian Federation. 04.03.2024. No. 10. Article 1475.

4 The RF Government Decree of 12.03.2022 No. 351 "On specifics of disclosure and provision of information subject to disclosure and provision in accordance with the requirements of the Federal Law 'On Joint Stock Companies' and the Federal Law 'On the Securities Market', and specifics of disclosure of insider information in accordance with the requirements of the Federal Law 'On Combating Illegal Use of Insider Information and Market Manipulation and on Amendments to Certain Legislative Acts of the Russian Federation". URL: <http://pravo.gov.ru> (утратило силу).

imposed on the company.¹ In case of restricted access to information, issuers of securities are obliged to send a notice to the Bank of Russia containing information that is not disclosed by the issuer.

Furthermore, from 2023, due to sanctions, *certain companies may conceal a number of provisions of the corporate agreement* (on the scope of the powers of shareholders, founders, etc.).²

From April 1, 2023, *the Bank of Russia has adjusted certain norms regulating the disclosure of information* in the form of a securities prospectus, issuer's report, statements of material facts, and mandatory disclosure of information by joint-stock companies.³

7. *The Bank of Russia's moratorium on the application by trade operators of the consequences of non-compliance with the listing requirements to the corporate governance of listed companies.* Until the end of 2023, the Bank of Russia established a moratorium on the application by trade operators of the consequences of non-compliance with listing requirements to the corporate governance of public companies whose shares are included in quotation lists (downgrade of the quotation list, delisting)⁴ in respect of issuers whose securities and members of boards of directors have been subject to restrictive measures imposed by foreign countries and foreign issuers operating predominantly in Russia (quasi-Russian companies). However, it is still unclear whether the moratorium will be extended, as the legislative norms allowing companies to partially non-disclose information and work with a truncated board of directors are still in force.

The Bank of Russia also plans to extend until 2025 a special procedure for the payment of dividends on shares of Russian joint stock companies to shareholders and holders of depository receipts for shares without the involvement of foreign accounting institutions.⁵

5.2.3. Promotion of the national sustainability agenda by the Bank of Russia in 2023

By 2022, sustainable development had become a financially tangible area of activity for Russian business. Unified ESG strategies began to emerge from fragmented initiatives.

1 The RF Government Decree of 04.07.2023 No. 1102 "On specifics of disclosure and (or) provision of information subject to disclosure and (or) provision in accordance with the requirements of the Federal Law 'On Joint-Stock Companies' and the Federal Law 'On the Securities Market' // Collection of Legislation of the Russian Federation. 10.07.2023. No. 28. Article 5221.

2 The RF Government Decree of 16.09.2022 № 1625 // Collection of Legislation of the Russian Federation. 26.09.2022. No. 39. Article 6607.

3 Instruction of the Bank of Russia of 30.09.2022 No. 6283-Y "On Amendments to the Regulation of the Bank of Russia of 27.03. 2020 No. 714-P "On disclosure of information by issuers of issue-grade securities" // Bulletin of the Bank of Russia. 09.03.2023. No. 16.

4 Decision of the Board of Directors of the Bank of Russia of 23.12.2022 "On Establishing Temporary Requirements for the Activity of Trade Operators". URL: https://cbr.ru/about_br/dir/rsd_2022-12-23_28_01/

5 Support measures for financial market infrastructural organizations in 2024: Completion and temporary extension. URL: <https://cbr.ru/press/pr/?file=638360838918754454INFR.htm>

The agenda was primarily driven by public companies, companies with western markets and foreign funding, as well as companies with an accumulated body of social practices (e.g., in metallurgical engineering). A landmark event was the creation in January 2022 of the National ESG Alliance, which now unites 25 companies that are leaders in sustainable transition in their industries, including En+, Sberbank, X5 Group, AFK Sistema and Nornickel. Alliance members see great financial and reputational prospects in the long-term development of the ESG agenda.

By February 2022, major companies established organizational structures, strategies, documentation and new projects in the area of sustainable development. Individual companies have achieved specific financial results: preferential financing for the construction of production facilities; attracted foreign system investors for whom ESG criteria were prioritized; and placed green bonds, etc.¹ Nevertheless, despite the positive dynamics, the implementation of ESG continues to cause mistrust in Russian society.

Firstly, companies often engaged in greenwashing,² equating to ESG-initiatives and practices projects initiated by legislation that have social and environmental effects, while ESG is marked by activism and actions beyond the mandatory norm.

Secondly, in their reporting, companies focused mainly on investors and foreign consumers, creating the impression that the needs of government and local communities (local issues) stay in the sidelines.

Thirdly, in 2021, the ESG topic turned out to be information overloaded and difficult to grasp. Companies focused on organizational forms, documentation and projects, while specific results of sustainable development policy understandable for society remained uncovered (reduction of atmospheric emissions, poverty reduction, etc.).

The sanctions situation, which cut off Russian business from the Western ESG infrastructure, has challenged the transition of ESG-leading companies to a new qualitative level related to the operational implementation of sustainability principles. Incentives for pursuing sustainability policies have changed. Less attention is paid to the climate agenda, carbon regulation (the eco-logical component of the “E” ESG). The importance of information disclosure has temporarily decreased (management component “G”). At the same time, traditional social practices (care of the territory, ownership responsibility) and creation of a favorable environment for employees were strengthened, i.e. the social component “S” of sustainable development was strengthened.

In 2022, the Bank of Russia defined the legal framework for the issuance of new types of bonds (adaptation bonds; bonds related to sustainable development goals; climate transition bonds),³ established requirements for disclosure of

1 Hereinafter see: Preserving Sustainability: ESG Agenda Perspectives in Russia (research by Platforma CSP commissioned by ESG Alliance). URL: https://drive.google.com/file/d/1U_2F8S3CFWs7LM3GjQ5jR4W4W3xTJqLO/view

2 Greenwashing (or green camouflage) – a form of environmental marketing used by unscrupulous companies to create the appearance of an environmentally friendly organization.

3 Instruction of the Bank of Russia of 04.07.2022 No. 6195-U “On Amendments to the Regulation of the Bank of Russia of 19.12.2019 No. 706-P “On Standards of Securities Issuance” // Bulletin of

information by issuers of these types of bonds and specified requirements for disclosure of information by issuers of green, social, and infrastructure bonds. The Bank of Russia established requirements for information disclosure by issuers of these types of bonds and clarified requirements for information disclosure by issuers of green, social and infrastructure bonds.¹ At the end of the year, recommendations were adopted for financial organizations to take ESG factors and sustainable development issues into account when organizing corporate governance.²

In 2023, among the regulatory initiatives in the area of sustainability are the following.

1. *Assessment of climate risks by financial organizations.* Recommendations on accounting for climate risks in financial organizations³ in order to improve the quality of their management have been developed primarily for systemically important credit organizations.

Climate risks are subdivided into physical (probability of losses associated with natural hazards arising from climate change) and transitional (losses from the transition of foreign counterparties to a low greenhouse gas emission economy).

Experts point out that assessment of climate risks today is complicated by a lack of data, as mankind has either not yet faced many of the possible consequences of climate change or has not collected and stored the necessary indicators to assess such risks. As a result, the Bank of Russia recommends using scenario analysis, i.e. modeling climate change and virtually dealing with scenario risks. This approach and the recommendations themselves can be called formal to a certain extent.⁴

To implement the recommendations, a separate structure could be created within the company to monitor a wide range of climate issues, which is not practical at this stage. Alternatively, to declare compliance with the regulator's recommendations, an annual climate risk report for submission to the board of directors could be assigned to an ESG-aware analyst.

2. *Disclosure by financial organizations of ESG information* in general and information on sustainable development financial products in particular. In order to increase transparency of financial organizations' activities in the field of sustainable development, the Bank of Russia issued recommendations on disclosure of relevant information⁵ and also recommended implementing practices to provide clients with information

the Bank of Russia. 24.11.2022. № 57.

- 1 Instruction of the Bank of Russia of 30.09.2022 No. 6283-U "On Amendments to the Regulation of the Bank of Russia of 27.03. 2020 No. 714-P "On the disclosure of information by issuers of equity securities" // Bulletin of the Bank of Russia. 09.03.2023. No. 16.
- 2 Information letter of the Bank of Russia of 28.12.2022 No. IN0228/145 // Bulletin of the Bank of Russia. 30.12.2022. № 64.
- 3 Information Letter of the Bank of Russia of 04.12.2023 No. IN-018-35/60 "On Recommendations on Accounting for Climate Risks for Financial Organizations". URL: <https://cbr.ru/Crosscut/LawActs/File/6556>
- 4 *Buylov M.* The bank is like a weather station. URL: <https://www.kommersant.ru/doc/6379531>
- 5 Information Letter of the Bank of Russia dated 13.06.2023 No. IN-02-28/44 "On Recommendations on Disclosure of Sustainable Development Information by Financial Institutions" // Bulletin of the Bank of Russia. 21.06.2023. No. 45.

on sustainable development financial products (shares, bonds, services and other financial products that directly or indirectly contribute to the achievement of sustainable development goals).¹

Amid the lack of regulatory requirements for disclosure of information in the field of sustainable development, unified terminology and classification, plus specific metrics and indicators to measure ESG factors, there are risks of offering to customers under the guise of financial products of sustainable development products that do not meet ESG criteria, which may cause distrust in financial products of sustainable development. Therefore, the regulator's measures in this field seem to be particularly relevant. Despite the advisory nature of the Bank of Russia's letters, the entities for which these letters are issued try to follow such recommendations as much as possible. It is extremely important that financial organizations provide a clear description of the characteristics of the products they offer, and that any claims that a product has relevant features are reasonable and substantiated.

3. *Sustainable development and climate transition strategies.* The Bank of Russia has issued a methodology for developing sustainability and climate transition strategies² for PJSCs and other issuers. The strategies are designed to more effectively take into account ESG factors and sustainable development issues in the organization of corporate governance, which should help maintain the competitiveness of Russian companies in domestic and foreign markets. They will also allow companies to issue sustainable development bonds and climate transition bonds.³

When forming strategies, the companies are recommended to prioritize sustainable development goals and key indicators and develop projects aimed at achieving them. Issuers that have a high potential for transforming their ESG activities and have a serious role in the national economy are recommended to set more ambitious goals.

To motivate the implementation of strategies, the regulator recommends linking the amount of remuneration of company executives to progress in achieving them. The Bank of Russia also recommends that strategies should be made available to the general public.⁴

4. *Methodologies and ESG rating.* The benchmarking tool is a significant incentive for ESG policies. The goals of rating are: (a) verification of successes, the ability to appeal to the external evaluation of their results; (b) comparison, which gives owners an understanding of their place in

1 Information Letter of the Bank of Russia of 24.05.2023 No. IN-02-28/38 "On Recommendations on Provision (Disclosure) by Financial Organizations of Information to Clients on Financial Products of Sustainable Development" // Bulletin of the Bank of Russia. 29.05.2023, No. 39.

2 Information letter of the Bank of Russia of 29.12.2023 No. IN-02-28/76 "On Recommendations to Public Stock Companies and Issuers of Equity Securities on the Development of Sustainable Development Strategy and Climate Transition Strategy" // Bulletin of the Bank of Russia. 16.01.2024, No. 2.

3 The Central Bank will issue recommendations for shaping a climate transition strategy. URL: <https://1prime.ru/20230518/840630345.html>

4 The Central Bank has developed recommendations for issuers to create sustainable development strategies. URL: <https://www.interfax.ru/business/940433>

the market and stimulus for development, benchmarks, indicates growth areas; (c) dialog with the regulator through demonstration of dynamics, leadership.

Many sustainability stakeholders are skeptical of Russian ratings, which lack general trust, transparency in methodology, impartiality, financial independence, and real ESG-activity of business rather than its imitation. Not all companies understand who is an applied user of Russian ESG ratings.

The current situation has forced Russian companies to reconsider their attitude to domestic rating, and three quarters of the National ESG Alliance participants were in favor of developing such a product.

In 2023, the Bank of Russia issued recommendations on the development of methodology and assignment of ESG-ratings,¹ the purpose of which is to harmonize ratings, which is supposed to ensure visibility of ESG-ratings, their transparency and comparability among themselves. The recommendations define what is meant by ESG-rating and outline possible approaches to the evaluation of ESG-rating elements.

To increase the level of confidence in Russian rating, the regulator recommends following the most important principles of rating activities in the field of sustainable development, including transparency, development of competencies, minimization of conflicts of interest and communication with users and rated entities. It is necessary that adherence to these principles should not be a mere formality and should be monitored by regulators and users.

Today, there are several entities rating under these recommendations.² There is no unanimous opinion on the required number of ESG ratings. On the one hand, there is a need for competition and risks of centralization. On the other hand, most experts are inclined to a single universal rating, as the presence of several ratings does not allow to understand the degree of their real impact on the market and the objectivity of the assessment.

Another debatable issue concerns the methodology of Russian ESG-rating: should it be original or maximally unified with international products? Some experts³ point out that a number of parameters in international ratings are irrelevant for Russia. However, the majority of experts say that Russian ratings have a narrow applied value and possible difficulties in further integration into international ratings, as well as the impossibility of international comparison of companies.

In 2023, the Alliance approved the ESG rating methodologies of three agencies in the Russian market: National Rating Agency, Analytical Credit Rating Agency and Expert RA. The methodologies of rating agencies and the regulator are

1 Information Letter of the Bank of Russia of 30.06.2023 No. IN-02-05/46 "On Recommendations on the Development of Methodology and Assignment of ESG Ratings (Sustainability Ratings)" // Bulletin of the Bank of Russia 12.07.2023. No. 50.

2 List of verifiers of financial instruments for sustainable development. URL: <https://вэб.пф/ustojchivoe-razvitie/zeljonoje-finansirovanie/perechen-verifikatorov/>

3 Hereinafter: ESG Alliance approved the updated Expert RA ESG rating methodology. URL: <https://esg-a.ru/tpost/2zx7u8xuf1-esg-alyans-odobril-obnovlennuyu-metodolu>

classified as approved by the Alliance if they take into account the comments and recommendations of large businesses to the maximum extent possible.

Thus, on the one hand, the legislator is taking measures aimed at maintaining the current status quo (preserving mechanisms for countering sanctions pressure and adapting to the new situation), and on the other hand, the issues and problems requiring systemic solutions are beginning to return to the agenda. The most important of them are the development of legal regulation in the sphere of dividend policy of companies, corporate governance in holdings and groups of companies and expansion of rehabilitation procedures in the framework of bankruptcy. The problem of abuse of the right not to disclose information about oneself by public companies that are not sanctioned as violating investors' rights and requiring the regulator's attention should be noted separately.

5.3. The state of science and innovation¹

In 2023, the agenda of science and innovation sector focused on solving tasks in order to ensure technological sovereignty through the creation of own development lines – from R&D to the production of new technological items. In line with this agenda, the existing programs to support scientific organizations and universities, as well as the Russian Science Foundation competitions, were adjusted. The Russian Academy of Sciences dealt with the issues of reorganization of expert work in the country, expansion of its influence in this area, and managed to strengthen mutually beneficial partnership with NRC “Kurchatov Institute”, which during the year affiliated 13 institutes previously under the jurisdiction of the Ministry of Science and Higher Education of the Russian Federation.

There were no significant developments in the innovation sector. Moreover, private sector expenditures on R&D have generally decreased. However, industry experts² noted an increase in the interest of certain technology companies in investing in R&D due to the withdrawal of foreign technology suppliers from the Russian market.

5.3.1. Science on the agenda of technological sovereignty

The goal of ensuring technological sovereignty has become a priority in the state science and technology policy. First Deputy Prime Minister Andrei Belousov called the achievement of technological sovereignty a new stage of technological development.³ In accordance with this goal, the existing instruments of science support were adjusted and supplemented (e.g., the tasks of scientific and

1 Author: *Dezhina I.G.*, Doctor of Economic Sciences, Leading Researcher, Gaidar Institute; Head of the Analytical Department on Science and Technology Development, Skolkovo Institute of Science and Technology.

2 *Krasnova V., Matveeva A.* Innovation as a way of survival // *monocle*. 25.12.2023. No. 1–3. P. 36–41. URL: <https://monocle.ru/monocle/2024/03/innovatsii-kak-sposob-vyzhivaniya/>

3 *Andrei Belousov:* Russia enters a new phase of technological development. 24.04.2023. URL: <http://government.ru/news/48329/>

educational centers, the Russian Science Foundation, in the context of the Priority-2030 Program).

It is worth noting that practical steps to ensure technological sovereignty in recent years have been taken not only in Russia. The impetus for this was given by the pandemic, due to which the established value chains were disrupted.¹ In the current economic environment, achieving absolute technological sovereignty is impossible due to the fact that the degree of internationalization of such chains has increased, including through the spread of digitalization. Therefore, the tasks of formation of technological sovereignty are solved by different countries in certain strategically important areas, where the state seeks to ensure the creation of its own technologies.

It is worth noting that practical steps to ensure technological sovereignty in recent years have been taken not only in Russia. The impetus for this was given by the pandemic, which disrupted the established value chains. In the current economic environment, it is impossible to achieve absolute technological sovereignty due to the fact that the degree of internationalization of such chains has increased including through the spread of digitalization. Therefore, the tasks of formation of technological sovereignty are solved by different countries in certain strategically important areas, where the state seeks to ensure the creation of its own technologies.

In May, the Concept of Technological Development of Russia for the period until 2030² was approved. where technological sovereignty is defined as “the presence in the country (under national control) of critical and cross-cutting technologies of its own development lines and output of products based on them, ensuring the sustainable ability of the state and society to achieve their own national development goals and realize national interests”. Thus, a new concept of “own development lines” is introduced, which is defined as a set of measures (projects, programs) and conditions that ensure the creation and sustainable development of specific domestic technologies and products based on them, including the development of their new generations.

The first version of the priority projects of technological sovereignty for the period until 2030 was approved by the Russian Government Decree No. 603³ in

- 1 *Edler J., Blind K., Kroll H., Schubert T.* Technology sovereignty as an emerging frame for innovation policy. Defining rationales, ends and means // *Research Policy*. 2023. Vol. 52. No. 6. DOI: 10.1016/j.respol.2023.104765; *Mazzucato M.* Mission-oriented innovation policies: challenges and opportunities // *Industrial and Corporate Change*. 2018. Vol. 27. No. 5. P. 803–815. DOI: 10.1093/icc/dty034.
- 2 Concept of Technological Development of Russia for the period until 2030. Approved by the Edict of the Government of the Russian Federation dated May 20, 2023. No. 1315-p. URL: <http://publication.pravo.gov.ru/document/0001202305250050>
- 3 Decree of the Government of the Russian Federation of April 15, 2023. No. 603 “On Approval of Priority Areas of Projects of Technological Sovereignty and Projects of Structural Adaptation of the Economy of the Russian Federation and Regulations on the Terms of Attributing Projects to Projects of Technological Sovereignty and Projects of Structural Adaptation of the Economy of the Russian Federation and Maintenance of the Register of These Projects, as well as Requirements for Organizations Authorized to Provide Opinions on the Conformity of Projects with the Requirements for Technological Sovereignty Projects and Projects for Structural Adaptation of the Economy of the Russian Federation”. URL: <http://publication.pravo.gov.ru/Document/View/0001202304170025>

April 2023, even before the Concept was adopted. A total of 13 areas of sectoral development were identified, each of which contains lists of technologies that need to be developed, including due to sanctions that led to the loss of access to modern imported equipment. Not all areas can be referred to as “breakthrough”, about half of the topics were included in the list due to the need for in-house development of existing foreign technologies.¹

The following development indicators are planned to be achieved by 2030 by means of formation of own development lines:²

- reduce the technological dependency ratio by 2.5 times;
- raise the level of innovation activity by 2.3 times;
- triple patent activity;
- increase the growth rate of innovative goods by 1.9 times.

The organization of work within the framework of new research consortia, including universities, research institutes and companies is an integral part of the policy of ensuring technological sovereignty. Their design can be based on elements of past – although not large-scale – experience of such cooperation. One example is the program of partnership between universities and institutes of the Russian Academy of Sciences and companies, which commenced in 2010³ and in many cases led to the strengthening of bilateral partnerships. However, this program allocated relatively modest funds for short periods of time, so they were used to develop small technological products or to improve existing ones. There is also experience of using this approach by development institutions. Since 2022, the Engineering and Innovation Support Center has been financing small technology companies under “future thing” contracts with grants ranging from Rb25 mn to Rb250 mn.⁴

In October 2023, the government announced the launch of major projects (which have been repeatedly used as “megaprojects”⁵) in key areas of technological sovereignty. The products and technologies that the first 10 projects will lead to are diverse: diesel engines, machine tools, medicines and medical devices, chemical, electronic and radio-electronic products, unmanned aerial systems, airplanes and ships.⁶

In order for science to contribute to technological sovereignty, domestic spending on R&D must grow by at least 45% by 2030.⁷ So far, the dynamics of

1 Petrova V., Sapozhnikov O. A thought with a flight altitude cap // Kommersant. April 10, 2023. No. 61/П. P. 2. URL: <https://www.kommersant.ru/doc/5925857>

2 Andrei Belousov: Russia enters a new stage of technological development. April 24, 2023. URL: <http://government.ru/news/48329/>

3 Business and science cooperation. Decree (of 09.04.2010.) No. 218. URL: <https://pp218.ru/>

4 Engineering and innovations support center. URL: <https://inno-sc.ru/grants/>

5 The notion of “megaprojects” was first introduced in the early 2000s, when large public funds were allocated to technology projects carried out by consortia of companies and universities. For more details, see: Dezhina I.G. New instruments of state stimulation of innovation activity // Innovations. 2005. No. 4. URL: <https://cyberleninka.ru/article/n/novye-instrumenty-gosudarstvennogo-stimulirovaniya-innovatsionnoy-deyatelnosti>

6 Kuzmin A. Mishustin announced the launch of technological sovereignty megaprojects // Rossiyskaya Gazeta. 24.10.2023. URL: <https://rg.ru/2023/10/24/mishustin-zaiavil-o-zapuske-megaproektov-tehnologicheskogo-suvereniteta.html>

7 The Russian Government approved the Concept of Technological Development until 2030. Ministry of Science and Higher Education of the Russian Federation. 25.05.2023. URL: <https://minobrnauki.gov.ru/press-center/news/novosti-ministerstva/68378>

both budgetary and private funding of science are such that this indicator seems unrealistic. Thus, starting from 2025, it is planned to reduce budget expenditures on civilian research and development. In turn, the funding received by institutes within the framework of the state assignment, according to the estimates of Academician D.M. Markovich,¹ is sufficient only for the payment of basic salaries to researchers and support staff, and there are no funds for the renewal of equipment, purchase of materials and components. Despite the difficulties of financial support, science, according to A.A. Fursenko, assistant to the President of the Russian Federation, should *“have an early edge in the world scientific development, but for this purpose it is necessary to clearly prioritize, and it will inevitably have to give up something”*.² Most likely, the priorities will be related to the scientific support of individual projects of technological sovereignty.

In addition to extra funding, changes in R&D personnel policy are required, as new tasks demand a different system of incentives that is not related to increasing publication activity. This mainly concerns the reorientation of researchers towards solving applied problems, where publications cannot be the main outcome of work.

Firstly, today the main pool of personnel for the development of own technologies are specialists from medium-sized growing technology companies. They are engaged in the development of niche technologies and products based on their own research. Secondly, the talent pool is represented by teams actively working under contracts and grants. The process of their “reorientation” is likely to be resisted, however it is necessary in the context of a significant change in the technological base of the economy. It is also important to use the opportunities of the current situation, when for the first time in a long time there is a minimal increase in personnel. According to the results of 2022, there were slightly more researchers (only by 0.17%), and their total number reached 340,700 people. The addition is most likely due to the withdrawal from the market of a number of analytical and consulting services, including foreign ones, where qualified, but not necessarily “with degree” personnel worked. The transition to the sphere of science became a logical, although, perhaps, temporary, decision for them. This explanation is supported by the fact that while the number of researchers was growing, the share of researchers with academic degrees was decreasing. Over the year, there were 2.1% fewer candidates of science and almost 3.2% fewer doctors of science.³

5.3.2. Financing of research and development

Expenditure on science as a share of GDP fell to an all-time low of 0.94% in 2022, a drop even compared to the low level of 2021 (0.96% of GDP). This is

1 Kolesova O. Create cannot be bought. New production chains were formed at Technoprom-2023 // Poisk. 02.09.2023. No. 34–35. P. 2–3. URL: <https://poisknews.ru/science-politic/sozdat-nelzya-kupit-na-tehnoprome-2023-formirovali-novye-proizvodstvennye-czepochki/>

2 Andrei Fursenko urged to “have an early edge” in Russian science // Science. TASS. 19.05.2023. URL: <https://nauka.tass.ru/nauka/17790201>

3 Martynova S., Ratai T., Tarasenko I. Personnel of Russian science // Science. Technologies. Innovations. Express-information. HSE ISSEK. 10.11.2023. URL: <https://issek.hse.ru/news/871682314.html>

roughly in line with the level of 1998 (0.95%),¹ when the country faced a serious economic crisis. In 2023, according to preliminary estimates, spending on science is below 1% of GDP.² Having said that, in current prices these expenditures were growing, while in constant prices they dropped by 4.7%³ over the year. The structure of expenditures by sources of funding remained virtually unchanged. More than 2/3 of domestic R&D expenditures (67.3%) were funded by the state, while the share of the business sector accounted for 28.9%, which was a decrease compared with the previous year. In constant prices, the volume of funds of the business sector for R&D decreased by 5.1%.

For 2024, allocations are planned below the level of 2023, and in 2025 there may be a sharp reduction in funding. The maximum allocations for R&D under the state program “Scientific and Technological Development of the Russian Federation”, where budget expenditures on civil science are accumulated, are planned for 2024, but this is 1.4% below the level of 2023, and taking into account inflation, R&D funding is reduced even more significantly (*Table 8*).

Table 8

Dynamics of civilian R&D allocations in 2024–2026

Indicator	2024	2025	2026
Federal budget civilian R&D allocations, total, Rb bn	557.1	436.2	504.4
<i>Change to the previous year, %</i>	-0.9	-21.7	+15.6
Including R&D under the state program “Scientific and Technological Development of the Russian Federation”	546.0	426.3	492.7
<i>Change to the previous year, %</i>	-1.4	-21.9	+15.6

Sources: Annex 14 to the Explanatory Note to the Federal Law “On the Federal Budget for 2024 and the Planned Period of 2025 and 2026”, own calculations.

In 2024, the National Project “Science and Universities” is planned to reduce funding by 4.3%⁴ compared to the Federal Law No. 466-FZ.⁵ In terms of federal projects included in the National Project “Science and Universities”, spending will be cut by more than half for the federal project “Development of infrastructure for scientific research and training”, by 10% – for the federal project “Development of integration processes in science, higher education and industry”, by almost 8% – for the federal project “Development of large-scale scientific and scientific-technological projects in priority research areas”. These are the projects that boost the development of cooperation between science and business, support the renewal of the infrastructure of scientific activity and promote the faster use of research results in the economy. This being said, spending on the federal

1 Science indicators-2006. Stat. digest. Moscow: HSE, 2006. P.60.

2 Science. Technologies. Innovations: 2024. Brief stat. digest. Moscow: HSE ISSEK. P. 42.

3 *Martynova S., Ratai T.* Financing of Russian science in the new context: at year-end 2022 // Science. Technologies. Innovations. Express-information. HSE ISSEK. 02.11.2023. URL: <https://issek.hse.ru/news/870116078.html>

4 Allocations are itemized only for 2024 in Annex 12 to the Explanatory Note to the Draft Federal Law “On the Federal Budget for 2024 and the Planned Period of 2025 and 2026”.

5 Federal Law “On the Federal Budget for 2023 and for the planning period of 2024 and 2025” dated 05.12.2022 No. 466-FZ. URL: https://www.consultant.ru/document/cons_doc_LAW_433298/

project “Human Capital Development for the benefit of regions, industries and the research and development sector” will increase by 85.7%. 80% of the funding under this project is intended for “the creation of new laboratories, including under the leadership of young promising researchers”. However, it is the “cheapest” among the federal projects of the National Project “Science and Universities” (its financing in 2024 will amount to Rb10.7 bn, or 7% of the allocations for federal projects of the National Project). Having being said, another federal project “Creation of a network of modern campuses” appears, but it is not focused on the creation of infrastructure for the transfer of scientific results to the real economy.

Expenditures on basic research (according to the name of the sub-section of the CDF) will increase compared to previous plans, and their share in total R&D expenditures will grow steadily and will amount to 46.8% in 2024, 53.8% in 2025 and 54.9% in 2026 (*Table 9*). At the same time, their share in relation to GDP will remain at the level of 0.1%.¹

Table 9

Budget allocations for fundamental research

Type of expenditure	2024	2025	2026
Fundamental research (subsection CDF), Rb bn	260.8	234.5	277.0
Share in total expenditures for civilian R&D, %	46.8	53.8	54.9
Russian Science Foundation, Rb bn	31.6	35.2	35.5

Sources: Annex No. 14 to the Explanatory Note, Annex No. 15 to the Federal Law “On the Federal Budget for 2024 and for the Planned Period of 2025 and 2026”, own calculations.

Grant funding of fundamental research from the Russian Science Foundation (RSF) will increase in absolute value, but will decline compared to that provided for by the Federal Law No. 466-FZ, while the Foundation remains the only source of grant competitive funding of fundamental and exploratory research. Since the Foundation receives funds from the budget, it follows the priorities of the state policy. Based on the new course towards technological sovereignty, the RSF has introduced contests related to the development of technological solutions in the interests of industry. On the one hand, this trend is important and is in line with the changes taking place in the world with similar funds, which also increasingly support transformational research. On the other hand, projects of this type require much more funding, and the planned increase in the RSF budget is clearly insufficient.

In October 2023, the first RSF grant contest for technological projects in the Microelectronics area was completed, and 10 three-year projects were funded.² The logistics of this area of RNF work are not simple. Project topics were selected in accordance with the interests of customers from the business sector. Therefore, prior to the announcement of the contest, the most promising thematic areas were selected from among those proposed by the companies. The contest among

1 According to Annex 15 to the Explanatory Note to the draft Federal Law “On the Federal Budget for 2024 and for the planning period of 2025 and 2026”.

2 *Volchkova N.* From the mount to the plant floor. RSF form bridges between science and industry // *Poisk*. 13.10.2023. No. 41. P. 4–5. URL: <https://poisknews.ru/granty/so-stenda-v-czeh-rnf-navodit-mosty-mezhdu-naukoj-i-proizvodstvom/>

potential project implementers was small: there were 14 applications for 10 grants awarded. This is due to the strict and unusual for the scientific community in the context of the competition, according to which the results of work should be accepted by the company-customer and be ready to be used in production.

In the future, project contests should be launched in five more strategic areas: medicine, agriculture, genetic resources, green energy and scientific instrument manufacture.¹ This requires not only more substantial financial resources (if not limited to single projects), but also the recruitment of relevant expert practitioners, as well as the search for companies interested in the developments of research institutes and universities.

In general, however, budgetary funding for applied research will decrease, so the choice of priorities should become more stringent. Currently, the development of infrastructure and material base for R&D, thanks to which research results can be quickly translated into the economy, as well as a number of thematic areas, such as the development of civilian industries, aviation, electronics, health care, can be considered as such priorities.

Funding for scientific instrumentation and infrastructure (improvement of the material base of science) will decline in 2024. Including the federal project “Development of domestic civil instrumentation for scientific research”, the funding will amount to Rb3.7 bn per year (in 2024-2025) and Rb3.8 bn in 2026, which is a slight decrease compared to that provided for by epy Federal Law No. 466-FZ. Thus, the project remains in the pilot stage.

The dynamics of R&D allocations by key technological areas is presented in *Table 10*. Compared to 2024, funding will fall, especially in 2025. The cumulative annual reduction of allocations by the level of 2024 for all allocated programs will amount to 22-26%. It is also worth noting that the majority of programs for 2024 are allocated less funding than planned under the Federal Law No. 466-FZ.

Table 10

Budget allocations for applied R&D in priority areas of technological development, Rb bn.

Type of expenditure	2024	2025	2026
Federal projects in the field of electronics development ²	18.2	17.1	18.3
Federal project “Promotion of research and development in civilian industries”	8.3	11.2	11.8
Departmental project “Conducting applied scientific studies for the development of aircraft construction in the Russian Federation”	35.9	15.8	16.7
Federal project “Development, standardization and serial production of remotely piloted aircraft systems and their components”	5.9	5.9	5.9
SP RF “Health care development”	3.0	2.5	2.6
Total	71.3	52.5	55.3
in % on 2024	–	-26.4	-22.4

Sources: Annex 14 to the Explanatory Note, Annex 24 to the Federal Law “On the Federal Budget for 2024 and the Planned Period of 2025 and 2026”, own calculations.

- 1 Volchkova N. Fruits of the decade. The Russian Science Foundation summarized interim results // Poisk. 17.11.2023. No. 45–46. P 6. URL: <https://poisknews.ru/news/vrossii/plody-desyatiletija-rossijskij-nauchnyj-fond-podvel-promezhutochnye-itogi/>
- 2 “Development of electronics manufacturing technologies”, “Applied research, development and implementation of electronic products”.

Thus, the planned volume of budget allocations for R&D does not correspond to the scale of the tasks set to achieve technological sovereignty. The structure of budget expenditures on civil R&D is more in line with a stable import-oriented economy. In the 3–5-year perspective, it would be important to raise budget funding for applied research and development.

5.3.3. Government measures to mitigate the consequences of sanctions

The state policy on overcoming the sanctions developed along the lines laid down in 2022.¹ The greatest attention was paid to two directions: 1) creation of own databases of scientific journals, whose publications will be recognized when assessing the performance of scientific research of individual scientists, postgraduate degree seekers, and organizations as a whole; 2) reorientation of international scientific cooperation to countries that did not impose sanctions.

Last year, work continued on the adjustment of two lists of scientific journals: the so-called “White List”, which includes publications indexed in the Scopus / Web of Science databases, and the VAK list. In addition, new projects have appeared: ISCI (International Science Citation Index) and RSJ (database “Russian Scientific Journals” – a project of the Russian Research Institute of Economics, Policy and Law in Science and Technology (RIEP)). Apparently, the two new initiatives are far from being finalized, as there is little public information about them. According to some responses, the RSJ duplicates existing Russian databases, and it is up to publishers to form it by manually entering information about their journals.² This diversity of lists is somewhat disorienting for both the scientific community and, ultimately, the science administration.

Since the national evaluation system was not created over the year, in November 2023, the Russian Government issued a Decree where the moratorium on reporting on the publication of articles in publications indexed in Scopus/Web of Science was now extended until December 31, 2024, and the last year’s instruction to “develop a system for evaluating the effectiveness of scientific research and development” in 8-months’ time was repeated.³

In 2023, the first results of the measure, according to which publications in journals indexed in international databases become optional, became apparent. The publication activity of Russian scientists in such journals began to decline: in 2022 – by 14.4% compared to 2021 (Scopus database), and Russia’s share in the

1 In detail see: *Dezhina I.G.* The state of science and innovations // Russian Economy in 2022. Trends and Outlooks. Issue 44 / Edited by A.L. Kudrin, V.A. Mau, A.D. Radygin, S.G. Sinelnikov-Murylev Moscow, Gaidar Institute Press, 2023. Pp. 430–435.

2 Beliaeva S. Shall we manage ourselves? The exit of foreign databases from Russia is not a verdict. // *Poisk.* 26.05.2023. No. 21. P. 14. URL: <https://poisknews.ru/konferenczii/spravimsya-sami-uhod-zarubezhnyh-baz-dannyh-iz-rossii-ne-prigovor/>

3 The RF Government Decree of 10.11.2023 No. 1884 “On Amending Resolution No. 414 of the Government of the Russian Federation of March 19, 2022”. URL: <http://government.ru/docs/all/150458/>

global flow of publications fell from 3.6 to 3% over the year.¹ The analytical center “Expert AC”² recorded a decrease in the number of publications from universities – former participants of the Project “5-100”. The indicators of their publication activity declined to the level of 2015–2016. At the same time, the reorientation of universities towards Eastern partners from China, India, Pakistan and Turkey commenced.

For the country as a whole, the importance of scientific collaboration has increased not only with India, China and Turkey, but also with Kazakhstan and Saudi Arabia. According to preliminary estimates, in 2023 China became the main scientific partner (19% of joint publications).³ Having said that, the number of joint Russian-Chinese papers in 2023 slightly dropped compared to 2022.⁴ However, in percentage terms, the collaboration went up due to a sharp decrease in collaboration with the previous main scientific partners (with the USA and Germany).⁵

At the level of individual subject areas (e.g., medicine, artificial intelligence research, astronomy), the dependence on partners from unfriendly countries remained high,⁶ and in general, in all scientific areas, the share of collaborations with “unfriendly countries is still higher than with friendly countries”.⁷

The reorientation of scientific organizations and universities towards cooperation with the countries of the East was a response to the state policy in the field of international scientific collaboration. Now the priority is given to collaboration with countries that did not impose sanctions. Furthermore, the list of unfriendly countries was gradually growing. Against this background, the country continued to withdraw from long-term international scientific and technical programs. The Decree of the Government of the Russian Federation on withdrawal from the European scientific and technical program “Eureka”⁸ became a landmark. The program commenced in 1985, Russia joined it in 1993 to promote

- 1 Kotsemir M., Streltsova E., Filatov M. Publication activity of Russian scientists in the new realities // Science. Technologies. Innovations. Express-information. HSE ISSEK. 11.12.2023. URL: <https://issek.hse.ru/news/879121802.html>
- 2 Rating of publication activity of Russian universities – 2023 // ARETT. Analytical center “Expert”. 15.05.2023. URL: <https://acexpert.ru/publications/rating/reiting-publikatsionnoi-aktivnosti-rossiiskikh-universitetov-2023>
- 3 Kotsemir M., Streltsova E., Filatov M. Publication activity of Russian scientists in the new realities // Science. Technologies. Innovations. Express-information. HSE ISSEK. 11.12.2023. URL: <https://issek.hse.ru/news/879121802.html>
- 4 Van Noorden R. Data hint at Russia's shifting science collaborations after year of war // Nature. 24.02.2023. URL: <https://www.nature.com/articles/d41586-023-00552-w>
- 5 Matthews D. China becomes Russia's biggest collaborator after war decimates science ties with the west // Science-Business. 22.02.2024. URL: <https://sciencebusiness.net/news/international-news/china-becomes-russias-biggest-collaborator-after-war-decimates-science-ties>
- 6 The definition of “unfriendly countries” is given in the Edict of the Government of the Russian Federation No. 430-p dated 05.03.2022. URL: <http://government.ru/docs/44745/>. Unfriendly countries include Russia's main scientific partners (USA, Germany, UK, Italy and France).
- 7 Rating of publication activity of Russian universities – 2023 // ARETT. Analytical center “Expert”. 15.05.2023. URL: <https://acexpert.ru/publications/rating/reiting-publikatsionnoi-aktivnosti-rossiiskikh-universitetov-2023>
- 8 The RF Government Decree of 14.03.2023 No. 391 “On the Withdrawal of the Russian Federation from the European Science and Technology Program “Eureka”. URL: <http://publication.pravo.gov.ru/Document/View/0001202303150017>

domestic scientific and technical developments in the markets of the EU countries and to gain access to new technologies that were created within the framework of the program. Partnerships in information technology and telecommunications, energy, transportation, robotics, laser technology, ecology and biotechnology¹ have been particularly successful. In turn, on the part of unfriendly countries, the severing of ties with Russia led to increased wariness at the level of individual organizations and scientists towards any potential foreign partners. Various aspects of cooperation – from security to practical aspects of organizing scientific and technical collaborations – began to be reconsidered.² Russian partners in various projects were gradually being replaced abroad.³

At the governmental level, there are plans to expand ties with five countries that joined BRICS on January 1, 2024 (these are Saudi Arabia, UAE, Egypt, Ethiopia and Iran). It is worth noting that BRICS is primarily a political and economic alliance, and scientific and technological cooperation was not given a leading role. However, as most of the new countries strive for import substitution, production localization and technological sustainability, there are grounds for cooperation in technology development and adaptation, joint ownership of intellectual property rights and other areas that contribute to the formation of technological sovereignty. For Russia, cooperation with the BRICS countries may also provide an opportunity to enter new technological markets.

In terms of the level of resources invested in innovative development and the results obtained, Russia is approximately in the middle of the group of new BRICS countries (Fig. 1).

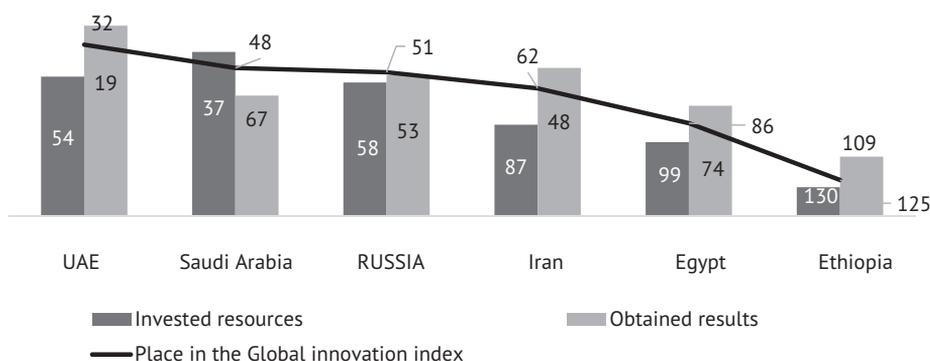


Fig. 1. Ratings of resources invested and results obtained, place in the Global Innovation Index, by new BRICS countries and Russia (2023)

Source: Global innovation index (GII) – 2023. URL: https://www.wipo.int/global_innovation_index/en/2023/index.html

- 1 Farewell to Eureka. Russia withdraws from the European program // Poisk. 24.03.2023. No. 12. P. 2.
- 2 Naujokaitytė G. War in Ukraine prompts shifts in thinking about international cooperation in science // Science| Business. 02.03.2023. URL: <https://sciencebusiness.net/news/International-news/war-ukraine-prompts-shifts-thinking-about-international-cooperation-science>
- 3 Ruffini P.-B. Guerre en Ukraine, sanctions académiques et diplomatie scientifique: Quelques réflexions à partir des résultats d'une enquête récente. 2023. (hal-04110773).

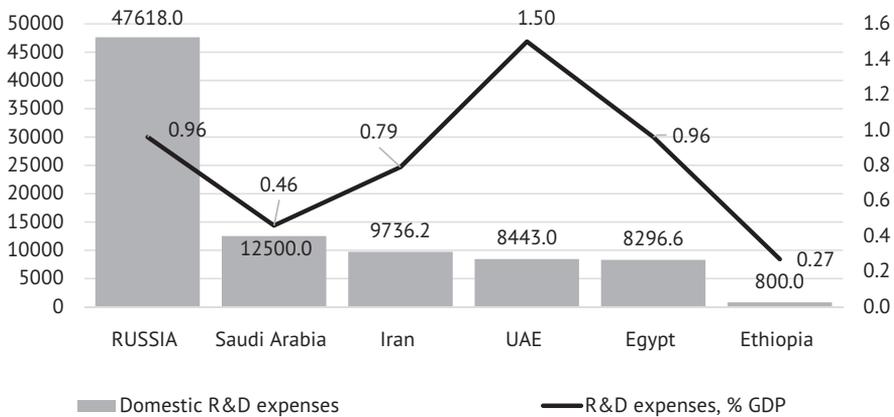


Fig. 2. Expenses on R&D: new BRICS countries and Russia, 2021 or the year nearest to it

Sources: Indicators of science – 2023. P. 346, 348; UNESCO data. URL: <http://data.uis.unesco.org/Index.aspx?queryid=115>

At the same time, in terms of R&D expenditures in absolute terms, Russia significantly overtakes these countries, and in terms of expenditures on science in GDP it is at the level of Egypt (Fig. 2).

For all these countries, the main scientific partners are either countries in their region or leading scientific powers (USA, EU, Canada, Australia). Having said that, based on patenting data, it is possible to identify overlapping areas of interest: medical technologies and pharmaceuticals,¹ measurements, new materials, civil engineering. Most likely, the potential for cooperation lies not primarily in the field of “pure” science, but in the field of practical application of R&D results.

5.3.4. Estimates of sanctions implications

Despite the fact that two years have passed since the introduction of sanctions against Russian science, studies on the extent of their impact are still few and lag behind the dynamically changing situation. The available estimates show that the imposed sanctions have significantly complicated the research activities of 60-70% of researchers from medical, natural, agricultural and technical sciences due to high dependence on imported instruments, equipment and materials.²

Analysis of the sanctions’ impact on the work of the most productive group of researchers and teachers belonging to the 1st-5th percentiles of the RSCI³ core showed that more than 3/4 (76.2%) of them faced at least one of the

1 According to the analysis of PCT patents, WIPO data base. URL: <https://www3.wipo.int/ipstats/ips-search/patent>

2 Gusev A.B., Yurevich M.A. Russia’s scientific policy – 2022: a profession is not more precious than the motherland. Moscow: “Pero” press, 2022. Pp. 17–18.

3 The total sample size was about 2,000 people. Source: Dezhina I.G., Nefedova A.I. Estimates of the impact of sanctions on the work of highly productive Russian researchers // Sociological studies. 2023. No. 12. Pp. 19–31. DOI: 10.31857/S013216250029334-0

restrictive measures. The most tangible were restrictions on access to digital resources and libraries (57.5%), to reagents and materials (51.6%), to foreign software, equipment and databases (48.1%). One in three (32.3%) were denied acceptance of articles to foreign journals and/or had a foreign internship canceled (31.5%). One in five faced rejections by foreign colleagues from co-authorship in a publication (20.7%), and almost as many (18.8%) were denied participation in foreign scientific events.

Representatives of natural sciences were the most affected by the sanctions, however, they were less likely than the average in the sample to face refusals to accept articles in foreign journals. Technical and medical sciences were the next most affected by the sanctions. For the former, the restriction of access to digital resources and foreign software, equipment and databases was significant. Representatives of medical sciences, in turn, suffered the most from reduced access to reagents and materials, as well as from the cancellation of foreign internships. In terms of age structure, the greatest pressure of sanctions was felt by researchers under 35 years of age, who were actively involved in international cooperation.

The consequences of economic sanctions turned out to be the most widespread. Restrictions on access to material and technical base and information resources were noted by 72.8% of respondents, among young scientists – 87%.¹ At the same time, the breakdown of ties in various forms of international cooperation affected slightly more than half of scientists (56.3%). The “weaker” impact of sanctions associated with the breakdown of international relations can be explained by the fact that not all researchers, even highly productive ones, were involved in international cooperation.

As a consequence of the restrictive measures, the participation of Russian researchers in international conferences has decreased.² In 2022, the share of papers with the participation of Russian authors dropped by 40% and continued to decline in 2023. To illustrate this, we can cite data on Journal of Physics conferences cited by the UK Institute of Physics. Russian researchers actively participated in the conferences, as physics remains a strong research area in Russia. In 2021, Russian authors presented almost 6 thousand papers, in 2022 – already a little more than 1 thousand. In 2023, according to information as of November, only 106 Russian papers were submitted.³

According to the study devoted to the assessment of the business climate in Russian science,⁴ in three years managers of research institutes and universities expect complications in the types of activities related to international cooperation.

1 *Dezhina I.G., Nefedova A.I.* Estimates of the impact of sanctions on the work of highly productive Russian researchers // Sociological studies. 2023. No. 12. Pp. 19–31. DOI: 10.31857/S013216250029334 0

2 *Matthews D.* News in depth: Russian researchers disappear from academic conferences as isolation bites // Science| Business, 14.11.2023. URL: <https://sciencebusiness.net/news/international-news/news-depth-russian-researchers-disappear-academic-conferences-isolation>

3 *Ibid.*

4 *Doing science in Russia: attitudes and expectations.* 14.12.2022. URL: <https://issek.hse.ru/mirror/pubs/share/802296588.pdf>

It is predicted that access to databases of publications and patents, as well as opportunities to publish in foreign scientific publications, to speak at conferences abroad, and to organize international events in Russia will be reduced.

5.3.5. Science in universities

In 2023, the main government initiatives aimed at the development of science in higher education institutions continued. First of all, these are the programs “Priority-2030” and World-class Scientific and Educational Centers (WECs).

The Priority 2030 Program¹ has been adjusted in line with the changing science policy and the new priorities of the country’s regional development. This was reflected in the addition of regional tracks (Far Eastern, which appeared at the end of 2022, and Arctic in 2023²), as well as new areas of activity, such as the creation of digital chairs for training and retraining of IT specialists, apparently due to their significant outflow from the country in 2022-2023. Specialists in this area are really needed, because so far, as noted by the Chairman of the Government of the Russian Federation Mikhail Mishustin, the share of domestic developments in new software products is only about 20%.³

In November 2023, the Russian Government issued a Decree,⁴ according to which the requirement for universities – candidates for participation in the program in terms of the number of full-time students is changed (lowering the “entry” bar from 4,000 to 2,500 people, apparently, for the possibility of developing new regional tracks), as well as increased emphasis on the fact that the participating universities should present the results of research and development in demand in the economy, assessed, among other things, by their contribution to the development of cross-cutting and critical technologies.

Orientation on final practical results is also being strengthened for world-class research and education centers. In 2023, a Decree of the Government of the Russian Federation changed arrangements of awarding grants to the existing 15 SPEs and future centers that may enter the program after rotation. Now the size of grants will depend on the results of the previous year, so the gradation of SPCs by the amount of funding allocated to them is introduced (3 categories: maximum, basic and minimum grant size).⁵ The principle of SPCs rotation will be

1 In 2023, 119 universities from 50 regions of the country participated in the Program, and 10 universities had “candidate” status to join the program. This is an increase compared to the initial pool of universities (106). Source: Study in leading universities // Национальные проекты. рф. URL: <https://национальныепроекты.рф/opportunities/uchitsya-v-vedushchikh-vuzakh>

2 Russian Ministry of Education and Science will adjust the “Priority-2030” program for higher education institutions of the Arctic zone // Ministry of Science and Higher Education of the Russian Federation. 31.05.2023. URL: <https://minobrnauki.gov.ru/press-center/news/novosti-ministerstva/68605/>

3 Conference “Digital Industry of Industrial Russia”. URL: <https://cipr.ru/stream-2023>

4 The RF Government Decree of 29.11.2023 No. 2018 “On Amendments to Decree of the Government of the Russian Federation No. 729 of 13.05.2021”. URL: <https://www.garant.ru/products/ipo/prime/doc/408004391/>

5 The RF Government Decree No. 1100 dated 04.07.2023 “On Amendments to Certain Acts of the Government of the Russian Federation” (the document has not entered into force). URL: <https://www.garant.ru/products/ipo/prime/doc/407238744/>

linked to this: centers that fall into the third category twice will be dropped from the program.

In the assessment of SPCs, quantitative parameters will be supplemented by qualitative ones, showing the achievements of SPCs, as well as the level of integration of universities, research institutes and companies that are part of them. Nowadays, SPCs integrate 145 universities, 140 scientific organizations and 319 technology companies.¹

At the moment, not much is known about the effectiveness of the SPC instrument. The SPC program has been implemented for 5 years and its funding has increased from Rb1.6 bn in 2022 to over Rb1.8 bn in 2023.² According to the data of the Ministry of Education and Science, thanks to the work of the SPC, more than 3,000 patents for inventions in priority areas of scientific and technological development were obtained and more than 2,000 technologies³ were developed. It is not known how useful the patented inventions are, where exactly the technologies are used, and whether the results correspond to the scale of resources invested in the SPC.

At the end of 2023, a new call for proposals for the support of SPCs was announced, the results of which and the amount of funding will be known in 2024. It is expected that the call will result in a ranking of applications from SPCs based on three groups of criteria describing the potential of the center, involvement and the potential of the region.⁴ The potential of the region will be assessed based on the presence of SEZs, technology parks and other technical infrastructure.

In general, university science continues to grow in terms of the scale and specific weight of R&D performed there. According to the latest available data, the share of the university science sector in R&D expenditures increased to 10.8%, which is a small but significant increase (in 2018 it was 9.7%), and in absolute terms in current prices, R&D expenditures in universities increased by 17% over the year (although in constant 2015 prices remained virtually unchanged).⁵

At the same time, the cooperation between universities and companies is still poorly established – the funds of the business sector in the financing of university science decreased by 3.5% over the year. Having said that, funding from foreign sources fell by more than half, but this change is quite logical in the context of sanctions.

Nevertheless, some positive shifts in cooperation between universities and companies in connection with the tasks of technological sovereignty began to surface. The projects of leading universities and medium-sized high-tech

1 Assessment of HSE ISSEK. See: Reznik I. How the symbiosis of science and business works for regional economies // RBC+. 07.12.2023. URL: <https://plus.rbc.ru/news/64ccb7a87a8aa901aac1cf09>

2 *Reznik I.* How the symbiosis of science and business works for regional economies // RBC+. 07.12.2023. URL: <https://plus.rbc.ru/news/64ccb7a87a8aa901aac1cf09>

3 For the entire period of operations of SPC. See: Petrova V., Morris S., Khristich A. Education competition // Kommersant. 07.07.2023. No. 121. P. 2. URL: <https://www.kommersant.ru/doc/6085020>

4 Ranking mechanics. SPCs will compete for grants // Poisk, No. 44, November 3, 2023. P. 4.

5 *Martynova S.V., Ratai T.V., Repina A.A., Kotsemir M.N.* University science today // Science. Technologies. Innovations. Express-information. HSE ISSEK. 28.11.2023. URL: <https://issek.hse.ru/news/876050309.html>

companies focused on the creation and development of their own lines of development of critical elements of new technologies have begun to take shape. Examples include MSU and the partner company “Unihimtek” working in the field of composite materials; Skoltech, MSU, MIPT, FIC of Chemical Physics named after N.N. Semyonov, RIAC of the Russian Academy of Sciences. Skoltech, MSU, MIPT, Semenov FIC RAS, in collaboration with companies developing and producing various types of energy storage devices and their individual components; Samara State Medical University in cooperation with companies developing medical equipment; TUSUR working with manufacturers of niche radio electronics.¹ Such universities plan to rely on technology companies to become developers of technologies and products at a level not lower than technology readiness level (TRL) 6-7.²

Apparently, the university research sector is still focused on the publication of articles rather than on practical work in the interests of industry. Given the modest scale of funding and the number of researchers (about 11% of the total number of employees performing R&D), universities demonstrate an unusually high level of publication activity. In 2022, about 70% of Russian publications in scientific editions indexed in the Scopus database were prepared with the participation of university researchers,³ although this is a slight drop compared to the level of 2019-2021.

Another change is related to the training of higher-qualified personnel. In 2022 compared to 2021, the number of PhD thesis defenses increased by 16% (in 2021 the increase was 23%, but from a low base – after the pandemic low of 2020).⁴ However, the system of scientific training has not yet recovered. Thus, compared to 2015, the number of defenses was lower by almost a quarter (24%).

The increase in PhD thesis defenses observed for the second year may be the result of changes in the requirements for theses and dissertation councils. At the end of 2020, the preparation of dissertations became a mandatory condition of the final certification of graduate students, and according to the order of the Ministry of Education and Science of 2021,⁵ the requirements for the composition

- 1 *Dezhina I., Ponomarev A.* Universities in the context of transition to a new model of technological development // *Science Management: Theory and Practice*. 2023. Vol. 5. No. 4 (in print).
- 2 Technology readiness level – a scale for assessing the readiness of technologies during their development. The first level of readiness is the description of the idea and basic principles of the technology, the last, ninth level is the testing of the prototype in real setting, confirming the readiness of the technology for serial production. Levels 6-7 correspond to the availability of a model or prototype, in an environment close to the real one, and then under field conditions. See: GOST 3 58048-2017. Technologies transfer. Methodological guidelines for assessing the level of technology readiness. P. 5.1.
- 3 *Martynova S.V., Ratai T.V., Repina A.A., Kotsemir M.N.* University science today // *Science. Technologies. Innovations. Express-information*. HSE ISSEK. 28.11.2023. URL: <https://issek.hse.ru/news/876050309.html>
- 4 *Martynova S., Streltsova E.* PhD thesis defenses are on the rise again // *Science. Technologies. Innovations. Express-information*. HSE ISSEK. 08.09.2023. URL: <https://issek.hse.ru/news/858083982.html>
- 5 Order of the Ministry of Education and Science of Russia of 07.06.2021 No. 458 “On Amendments to the Regulations on the Council for the Defense of Dissertations for the Degree of Candidate of Sciences, for the Degree of Doctor of Sciences, approved by the Order of the Ministry of Education and Science of Russia of 10.11.2017 No. 1093”.

of dissertation councils were adjusted. The minimum number of dissertation council members was reduced from 19 to 11 people, and the quorum was reduced to 2/3 of all dissertation council members regardless of the form of their participation.¹ This facilitates and accelerates the process of passing the defense of prepared dissertation works.

In the meantime, according to preliminary and not yet confirmed by the Ministry of Science and Higher Education data, in 2023, the number of thesis defenses fell by 22% at once,² i.e. almost returned to the level of 2021. The explanations can be very different – from the emergence of competitive demand for specialists on the part of companies in the absence of a system of remuneration for having an academic degree to the transition to a new nomenclature of research specialties, because of which some dissertation councils restructured their procedures and temporarily did not work. The new system of postgraduate training has been in place for only two years, and it will be possible to interpret the effects in 4-5 years at the earliest.

5.3.6. Initiatives of the Russian Academy of Sciences

Three directions were key in the RAS activity. The first was the promotion of its policy in the field of scientific and technological guidance and expert activity. The second was the development of proposals to change the approaches to the assessment of research institutions and their rating. The third direction was related to the deepening of interaction and partnership between the RAS and NRC Kurchatov Institute (hereinafter referred to as NRC KI).

In the direction related to the expert activity, the aspiration of the Academy's executives to concentrate various types of expert activity and to get the right to determine how and by which experts they should be carried out prevailed. Up to now the RAS experts have been authorized to conduct expert examination of state assignments, which, according to available data, are approved by 99%, since it is known that the draft state assignments by 70-80% have already been fulfilled.³ The task of expert activity is reduced to answering the question whether the application complies with the available heading of topics and requirements for publication activity. In other words, it is practically an ex post examination. Nevertheless, at the end of the year, the President of the RAS Gennadiy Krasnikov reported that the examination of state assignments became stricter and the number of negative conclusions increased threefold.⁴

1 *Martynova S., Streltsova E.* PhD thesis defenses are on the rise again // Science. Technologies. Innovations. Express-information.. HSE. ISSEK.. 08.09.2023.. URL.: <https://issek.hse.ru/news/858083982.html>

2 *Strogova E.* Number of thesis in Russia over the year contracted by 22% // RBC. 21.02.2024. URL: https://www.rbc.ru/technology_and_media/21/02/2024/65d49b5f9a79474bfaa9e935

3 *Medvedev Yu.* The RAS President Gennadiy Krasnikov: Only science can ensure the country's technological sovereignty. // Rossiyskaya Gazeta.. 24.04.2023.. No.. 90.. URL.: <https://rg.ru/2023/04/25/akademiiado-vostrebovanii.html>

4 Meeting with the RAS President Gennadiy Krasnikov. 30.01.2024. URL: <http://kremlin.ru/events/president/news/73347>

The Russian Academy of Sciences' officials proposed to change the system of formation of state assignments so that not to move from what has already been achieved, but to allocate and support really promising work.¹ The idea is that institutes should first send their applications to the RAS, where the departments of the branches of science² will assess the degree of demand for future research results. It is also possible to involve large state-owned companies, such as Rosatom, Rostec or Roscosmos, in the selection process to form a set of topics that may be of interest to companies in the future 3-7 years.

The RAS officials also promoted the idea that the results of scientific research should be evaluated not by publication activity, but by the demand for them by industry or other research institutes.³ In addition, it was proposed to revise all expert councils of the country and eliminate the duplication of expert functions,⁴ as it disperses energy and resources. The desire of the RAS to control various expert examinations is understandable, but this intention to actually monopolize (or, more mildly, to "streamline") the system of various expert examinations may lead to a decline in quality and erroneous decisions.

The RAS also became involved in the expertise of "roadmaps" of high-tech projects, including quantum technologies, artificial intelligence, new materials and mobile communication systems,⁵ and was able to promote the approval of subprogram 6 of the Program of Fundamental Scientific Research for 2021–2030. "Fundamental and prospecting scientific research in the interests of national defense and state security".⁶ The program was agreed upon by the end of 2023⁷ and its actual implementation will commence in 2024. At the first stage, funding will amount to about Rb10 bn per year and will continue to grow.⁸ The RAS plans to develop topics related to biological and food security.⁹

- 1 *Medvedev Yu.* The RAS President Gennady Krasnikov: Only science can ensure the country's technological sovereignty // *Rossiyskaya Gazeta*. 24.04.2023. No. 90. URL: <https://rg.ru/2023/04/25/akademiia-do-vostrebovaniia.html>; RAS changes the system of research expert activity // *Indicator.ru*. 29.11.2023. URL: <https://indicator.ru/humanitarian-science/ran-menyaet-sistemu-nauchnoi-ekspertizy.htm>
- 2 Branch of the Russian Academy of Sciences. URL: <https://www.ras.ru/sciencestructure/departments.aspx>
- 3 *Belyaeva S.* Return to the best. The head of the RAS reported on accomplishments and prospects // *Poisk*. 17.11.2023. No. 45–46. P. 3. URL: <https://poisknews.ru/science-politic/vozvrashhenie-k-luchshemu-glava-ran-soobshhil-o-sdelannom-i-perspektivah/>
- 4 The President of the Russian Academy of Sciences proposed to streamline the field of expert activity in Russia // *Nauka. TASS*. 8.02.2023. URL: <https://nauka.tass.ru/nauka/16998083>
- 5 Meeting with the RAS President Gennady Krasnikov. 30.01.2024. URL: <http://kremlin.ru/events/president/news/73347>
- 6 The RF Government Edict of 31.10.2020 No. 3684-p. URL: <http://static.government.ru/media/files/skz00DEvyFOIBtXobzPA3zTyC71cRAOI.pdf>
- 7 *Vedeneeva N.* The RAS President Krasnikov activated the adoption of a scientific defense program // *MKRU*. 2.11.2022. URL: <https://www.mk.ru/science/2022/11/02/prezident-ran-krasnikov-aktiviroval-prinyatie-nauchnoy-oboronnoy-programmy.html>
- 8 *Belyaeva S.* Return to the best. The Head of the RAS reported on accomplishments and prospects // *Poisk*. 17.11.2023. No. 45–46. P. 3. URL: <https://poisknews.ru/science-politic/vozvrashhenie-k-luchshemu-glava-ran-soobshhil-o-sdelannom-i-perspektivah/>
- 9 *Nedyuk M.* "The RAS takes an active part in the formation of critical infrastructure" // *Izvestia*. 30.04.2023. URL: <https://iz.ru/1503276/mariia-nediuk/ran-aktivno-uchastvuet-v-formirovaniikriticheskoi-infrastruktury>

The desire for comprehensive expert activity was also manifested in the fact that the RAS signed a cooperation agreement with the Internet encyclopedia Ruviki, an analogue of the Russian-language Wikipedia, the beta-testing of which was launched on June 27, 2023. By the end of 2023, it was planned to review at least 2500 articles.¹

The second area of focus of the RAS related to changing the system of categorization of institutes, which determines the distribution of funding among them. Research institutes can belong to one of three categories – the first (the highest), the second or the third, when due to weak performance the organization receives the smallest funding, which does not allow to significantly update the material and instrumentation base. Such a system is criticized by the Academy for the Matthew effect (the weak cannot become stronger, the strong multiply their advantages and successes), as well as for excessive reliance on quantitative indicators, which do not always reflect the demand for the results obtained. The trade union of the RAS employees also opposed the division of institutes into categories, as it “disadvantages” those who fell into the second and third categories,² although they were probably there because of insufficient performance.

It is proposed to make the assessment “multifactorial” – so that institutions have individual indicators, and instead of categories to introduce rating. Then, according to the Academy executives, the institutes will have an incentive to increase their positions in the rating.³ However, the transition to rating itself is of little value if it is not connected with decisions on funding. If rating is a transition to equalized distribution of funds, then the efficiency of the former academic sector of science is unlikely to increase.

The third direction of the RAS activity developed most dynamically. It was connected with the expansion of NRC KI by merging new institutes with simultaneous transition of the center under the scientific and methodological leadership of the RAS. The opinion that de facto NRC Kurchatov Institute has become the Academy of Sciences 2.0 is increasingly heard.⁴

On February 7, 2023, an Edict of the Government of the Russian Federation was published, expanding the list of research organizations, in respect of which SRC “Kurchatov Institute” exercises powers of the founder and property owner. The list includes 7 institutes, whose removal from the officials of the Ministry of Science and Higher Education of the Russian Federation was agreed by the RAS:⁵

1 Evolution of academic expert activity // *Nezavisimaya Gazeta*. 20.09.2023. URL: https://www.ng.ru/editorial/2023-09-20/2_8831_red.html

2 *Kotlyar P.* Hopes for a big budget and problems with openness. What scientists say about the first year of work of the new president of the RAS // RTVI. 20.09.2023. URL: <https://rtvi.com/news/dengi-uvolneniya-aresty-i-vozvrat-k-vremenam-kashpirovskogo-chto-govoryat-uchenye-o-pervom-gode-raboty-novogo-prezidenta-ran/>

3 *Mischenko E.* With new challenges and psychiatrist's certificates: the first day of the General Meeting of the RAS // *InScience*. 23.05.2023. URL: <https://inscience.news/ru/article/discussion/12393>

4 *Morozov A.* General meeting of the RAS in working order // *Nezavisimaya Gazeta – nauka*. 23.05.2023. URL: https://www.ng.ru/nauka/2023-05-23/10_8730_situation.html

5 The RF Government Edict of 07.02.2023 No. 268-p. URL: <http://publication.pravo.gov.ru/Document/View/0001202302080007>

- Institute of Macromolecular Compounds;
- I.V. Grebenshchikov Institute of Silicate Chemistry;
- Federal research center “Crystallography and Photonics”;
- Institute for Systems Research;
- Institute for Design Problems in Microelectronics;
- V.G. Mokerov Institute of Ultrahigh Frequency Semiconductor Electronics;
- Valiev Institute of PhyNRCs and Technology.¹

The total number of institutes under the jurisdiction of NRC KI increased to 18. Finally, in October, the Institute of Design Problems in Microelectronics (IPPM RAS, Zelenograd)² merged with NRC KI, and the number of institutes became 19.

The official explanation of the RAS and the Ministry of Education and Science³ was that the merger was necessary for the creation and implementation of advanced technologies in the field of microelectronics and new materials. The NRC KI executives repeatedly drew an analogy between this task and the Soviet atomic project. However, some prominent academicians opposed this decision, as well as the fact that it was approved behind the scenes by the RAS executives. For example, Academician R.I. Nigmatulin expressed the opinion that the accession of institutes should have been discussed with scientists, rather than “*pushing the takeover through the government, using their power*”. And that “*it is dangerous when only one scientist without opponents has contact with the head of state and pushes through the very top projects that cannot be critically analyzed by other scientists*”.⁴ In addition, large-scale nuclear projects are implemented through the creation of new institutes, not by affiliating several existing ones to one organization. At least, this is how both the atomic and rocket-space projects were carried out; and the Siberian Branch of the USSR Academy of Sciences was created according to the same model. Academician A.R. Khokhlov also pointed to the behind-the-scenes nature of decision-making on the merger of institutes and, in general, insufficient openness of the RAS executives.⁵ Indeed, the problem with openness was obvious: the directors of some institutes learned from the press about their assignment to the Kurchatov Institute.⁶

1 The RF Government Edict of 07.02.2023 No. 268-p. URL: <http://publication.pravo.gov.ru/Document/View/0001202302080007>

2 The RF Government Edict of 12.10.2023 No. 2815-p. URL: <http://publication.pravo.gov.ru/document/0001202310130045>

3 Vasilieva A. The Kurchatov Institute was enriched with science // Kommersant. 13.02.2023. № 26/П. С. 5. URL: <https://www.kommersant.ru/doc/5825034>

4 Morozov A. General meeting of the RAS in working order // Nezavisimaya Gazeta – Nauka. 23.05.2023. URL: https://www.ng.ru/nauka/2023-05-23/10_8730_situation.html

5 Kotlyar P. Hopes for a big budget and problems with openness. What scientists say about the first year of work of the new president of RAS // RTVI. 20.09.2023. URL: <https://rtvi.com/news/dengi-uvolneniya-aresty-i-vozvrat-k-vremenam-kashpirovskogo-chto-govoryat-uchenye-o-pervom-gode-raboty-novogo-prezidenta-ran/>

6 Vedeneeva N. President of the Kurchatov Institute revealed for the first time who made the decision to reform RAS // MKRU. 21.04.2023. URL: <https://www.mk.ru/science/2023/04/21/prezident-kurchatovskogo-instituta-vpervye-raskryl-kto-prinimal-reshenie-o-reforme-ran.html>

Simultaneously with the affiliation of institutes, NRC KI came under the scientific and methodological management of the RAS.¹ And, thus, a mutually beneficial exchange was achieved: the RAS, in fact, receives under its leadership a number of institutes that became part of NRC KI, and the center itself becomes even more influential. At the same time, according to the RAS executives, it has no goal to gradually return the former academic institutes. According to the RAS President, the return of institutes comes into conflict with the main function of the Academy – to conduct expert activity. G.Y. Krasnikov sees an opportunity for the RAS to become a kind of State Committee on Science and Technology, coordinating the activities of federal executive authorities, state corporations and other structures in research and technology sphere.² Nevertheless, in the same logic of “hidden merger of institutes” as in case of NRC KI, but without a wide public resonance, the creation of the Southern Association of Scientific Institutions under the scientific and methodological guidance of the RAS took place.³ The Southern Association includes 37 institutes, stations and reserves, 150 branch and academic research institutes, 62 universities.⁴

As a consequence of the strengthening and expansion of NRC KI, it became possible to promote certain areas of scientific and technological development. The initiative of NRC KI to develop “nature-like” technologies appeared. The President of NRC KI Corresponding Member of the Russian Academy of Sciences M.V. Kovalchuk called “nature-like” technologies not even the seventh technological mode, but a new concept of the noosphere,⁵ as they exist in harmony with the surrounding world and allow restoring the balance between the biosphere and technosphere, which has been disturbed by man. “Nature-like” technologies are linked with ecology and new energy (bioenergy) and in general with technologies that organically fit into the living nature. In turn, Science Minister V.N. Falkov links “nature-like” technologies with solving climate problems, obtaining new materials, as well as technologies in the field of transportation and energy.⁶ Since there is no clear definition, the question arises whether this is not a reincarnation of the disciplines of “bionics” or

- 1 RAS will provide scientific and methodological guidance to the scientific activities of the Kurchatov Institute PAH // RAS. 29.05.2023. URL: <https://new.ras.ru/activities/news/glava-ran-gennadiy-krasnikov-soobshchil-o-perevode-kurchatovskogo-instituta-pod-nauchno-metodicheskoy>
- 2 Vedeneeva N. The RAS President Krasnikov spoke about the revival of microelectronic technologies in Russia П // MKRU. 09.11.2023. URL: <https://www.mk.ru/science/2023/11/09/prezident-ran-krasnikov-rasskazal-o-vozrozhdenii-v-rossii-mikroelektronnykh-tehnologiy.html>
- 3 Erknapehian M. The course to a unified scientific space. The RAS President Gennady Krasnikov spoke at the meeting of the State Duma Committee on Science and Education // Scientific Russia. 09.11.2023. URL: <https://scientificrussia.ru/articles/kurs-na-edinoe-naucnoe-prostranstvo-prezident-ran-gennadij-krasnikov-vystupil-na-zasedanii-komiteta-gosdumy-po-nauke-i-obrazovaniyu>
- 4 Subbotin A. Listen to us! Russian scientists will have to provide answers to the transformation of the world order // Poisk. 26.05.2023. No. 21.Pp. 2–3. URL: <https://poisknews.ru/ran/poslushajte-nas-otvety-na-transformacziyu-miroporjadka-predstoit-dat-rossijskim-uchenym/>
- 5 Presentation by Mikhail Kovalchuk at the session “Nature-like technologies: an era of human development” at the III Congress of Young Scientists. 28.11.2023. URL: <https://конгресс.наука.рф/program/>
- 6 Falkov believes that nature-like technologies have the potential to boost progress in science // Science. TASS. 04.11.2023. URL: <https://nauka.tass.ru/nauka/19202037>

“biomimetic”, which is an approach to the creation of technological devices in which the idea and basic elements are borrowed from living nature.¹

Executive Order of the President of the Russian Federation “On the Development of Nature-Like Technologies in the Russian Federation”,² issued on November 2, 2023, instructs the government to determine “the basic principles and criteria for classifying technologies as nature-like” (paragraph 1a of the Decree). In other words, it is necessary to develop something that has not yet been clearly described. Amid limited resources, which predetermine a rigid choice of priorities, it would be important for the scientific community to explain what the innovation of “nature-like” technologies consist in and how they will ensure “harmony with the surrounding nature”.

The RAS executives, summarizing the results of the year, noted the establishment of the St. Petersburg Branch of the RAS³ and, thus, the return of historical buildings to the Academy, as well as the solution of social issues of the RAS members (improved medical care and increased scholarships) as the most important achievement. From January 1, 2024 the size of payments to academicians and corresponding members of the RAS and other state academies will be increased by 1.5 fold. The monthly payment to an academician of the RAS will amount to Rb150,000, to a corresponding member – Rb75,000.⁴ Moreover, in connection with the 300th anniversary of the Russian Academy of Sciences, the President of the country proposed to further increase academic scholarships, bringing them to Rb200,000 to academicians and 100,000 to corresponding members of the RAS.⁵

5.3.7. State of innovation business

The withdrawal of western tech companies from the Russian market has been the main shift in the business sector. This created both problems related to the complexity and cost of purchasing foreign technologies and opportunities for development using domestic designs.

The availability of own designs at the macro level can be judged by patent statistics. It recorded the departure of foreign tech companies: the number of patent applications for inventions filed in Russia by foreign applicants in 2022 decreased by 30.3% compared to the level of 2021, while in 2021 there was a slight increase compared to the previous year.⁶ There was also a slight decline

- 1 What is biomimetic? // Cleandex. 07.07.2008. URL: <http://www.cleandex.ru/articles/2008/07/06/biomimetic-1>
- 2 Decree of the President of the Russian Federation “On the development of nature-based technologies in the Russian Federation” of 02.11.2023 № 818. URL: <http://publication.pravo.gov.ru/document/0001202311020021>
- 3 *Belyaeva S.* Return to the best. The Head of the RAS reported on accomplishments and prospects // Poisk. No. 45-46, 17.11.2023. P. 3. URL: <https://poisknews.ru/science-politic/vozvrasheniye-k-luchshemu-glava-ran-soobshhil-o-sdelannom-i-perspektivah/>
- 4 Expert: growth of monetary payments to RAS members will raise the prestige of the scientist's profession // Nauka. TASS, 06.12.2023 r. URL: <https://nauka.tass.ru/nauka/19473045>
- 5 Gala evening on the occasion of the 300th anniversary of the Russian Academy of Sciences. 08.02.2024. URL: <http://kremlin.ru/events/president/news/73410>
- 6 *Streltsova E., Nesterenko A.* Toward technological sovereignty: Russia's patent activity in 2015–2022 // Nauka. Technologies. Innovations. Express information. HSE ISSEK. 13.03.2023. URL: <https://issek.hse.ru/news/820285722.html>

in patenting by domestic applicants, with a 3% drop in patent applications filed by domestic applicants in 2022 relative to the previous year. Meanwhile, the data for 2023 may turn out to be a turning point in the direction of an increase in the number of Russian designs being patented.

At the level of individual technological areas and sectors, there was an intensification of interaction between companies and research institutes and universities, which was expressed in the growth in the number of orders, as well as a small overflow of researchers, including those with scientific degrees, into corporate science.¹

Innovation policy has always paid considerable attention to supporting small innovation companies (using, for example, such instruments as the Fund for Assistance to Small Enterprises Development in Science and Technology, Skolkovo Foundation, Internet Initiatives Development Fund (IIDF), platform NTI, etc.). However, the problem with Russian startups is that even granting successful development, they have little chance of being sold to a strategic investor, as there are not enough large private tech companies in the country. In turn, large state corporations have no market incentives to buy small firms, as the markets are rather monopolized and the domestic market itself is small. In addition, corporations do not have a culture of building a belt of independent companies around them to provide them with technological solutions. A number of large companies have a natural monopoly position in their field, and they have built systems close to subsistence farming.² Cultural traditions are always slow to change, so competition among large companies for technology startups has not increased in the past year.³ In terms of products, the situation with innovative solutions of startups was uneven. According to experts, a lot of designs have emerged in the field of unmanned aerial vehicles and IT solutions. There are also innovation solutions in pharmaceuticals, but there are fewer of them, as this is an expensive industry.

In the context of the need to form their own development lines, medium-sized private fast-growing companies have a more important role to play. It is for them that it is important to create favorable work conditions. Among them, there are about 500 “national champion” companies with high R&D expenditures and revenues ranging from Rb500 mn to Rb30 bn.⁴ At the end of 2023, a survey of 105 companies that are members of the National Champions Association was conducted. It turned out that they positively assessed the results of the year: for 67% of them the past year was successful, and for another 33% – stable; 93% of them saw their revenue grow.⁵ Most likely, this result was achieved due to the

- 1 *Mikhailchenko N.* Ita Corporations discipline science // Stimul. Journal about innovations in Russia. 14.09.2023. URL: <https://stimul.online/articles/interview/korporatsii-distsipliniruyut-nauku/>
- 2 *Mekhanik A.* There is no such thing as science in machine tool engineering // Monocle. 20.11.2023. No. 5. URL: <https://monocle.ru/monocle/2023/05/v-stankostroyenii-nauki-ne-suschestvuyet/>
- 3 *Leibin V.* Skolkova, MIPT and gaps in the innovation cycle // Expert. 04.06.2023. No. 23. URL: <https://sk.ru/news/skolkovo-mfti-i-razryvy-v-cikle-innovacij/>
- 4 *Mekhanik A.* In caring for Russian gazelles // Stimul. Journal about Innovations in Russia. 17.07.2023. URL: <https://stimul.online/articles/interview/v-zabotakh-o-russkikh-gazelyakh/>
- 5 *Ivanova A.* 2023: what it was like for “national champion” companies // Stimul. Journal about innovations in Russia. 02.02.2024. URL: <https://stimul.online/articles/kompaniya/2023-godkakim-on-byt-dlya-kompaniy-natsionalnykh-chempionov/>

fact that many “national champions” reoriented to import substitution, diversified their products, and began entering new markets (friendly countries). In particular, such countries as Saudi Arabia, Egypt and India were mentioned. At the same time, the calculation of the index of high-growth companies, first made on the basis of data for the fourth quarter of 2023, revealed that growth remains extensive with low innovation activity.¹

New tools to support companies have also become significant. For medium-sized tech companies, preferential lending at 3% per annum was established (the operator is SME Corporation) and grants were introduced for the improvement (“pre-growth”) of products to meet the requirements of large corporations in the context of co-financing (the operator is the Innovation Engineering Center established by Innopraktika). In November 2023, the law defining the criteria for the allocation of tech companies and the forms of their support came into force.² The forms of state support for tech companies include, in addition to the existing tax benefits and funding from the budget, provision of information and consulting services, export support, and, most importantly, the formation of demand for innovative and (or) high-tech products (works, services) (clause 2 of Article 4). At the same time, in the survey mentioned above,³ companies noted the insufficiency of state support. Among the main requests are the expansion of forms of funding (subsidizing the costs of developing innovative products, which is especially important for resource-intensive industries, such as pharmaceuticals), as well as assistance in introducing companies’ products to foreign markets. For this purpose, it is necessary to adopt legislative acts simplifying the registration of products abroad, in friendly countries.

Thus, at the country level, there were no noticeable changes in the innovation activity of companies, but there were positive changes due to the withdrawal of Western technology suppliers from the Russian market. The number of orders from companies for the development of technological solutions by research institutes and universities has increased, mostly proactively, rather than as a consequence of government incentives. Medium-sized fast-growing companies – “national champions” – managed to diversify their activities through import substitution and entering the markets of friendly countries. Potentially, they can become the drivers of the process of creating their own development lines.

* * *

Last year, the concept of technological sovereignty was set forth in the Concept of Russia’s Technological Development until 2030 and operationalized through the need to create own development lines. Such work requires substantial financial resources and should be carried out by consortia of research institutions,

1 With a good gazelle attitude // Stimul. Journal about innovations in Russia. 04.03.2024. URL: <https://stimul.online/articles/sreda/s-khoroshim-gazelnym-nastroem/>

2 Federal Law No. 478-FZ dated 08/04/2023 “On the Development of Technology Companies in the Russian Federation”. URL: <https://rg.ru/documents/2023/08/08/fz478-site-dok.html>

3 *Ivanova A.* 2023: what was it like for companies – “national champions” // Incentive. A magazine about innovations in Russia. 02.02.2024. URL: <https://stimul.online/articles/kompaniya/2023-god-kakim-on-by-l-dlya-kompaniy-natsionalnykh-chempionov/>

universities and companies. Unfortunately, simultaneously with the ambitious goals, the budget expenditures on civil science were decreasing, they dropped to 0.94% of GDP – a historical minimum for the last 25 years. Business expenditures on R&D in constant prices did not increase either, although they increased slightly in current prices.

This being said, we can note a point-by-point revitalization of collaboration between leading universities and medium-sized technology companies, in many cases proactively rather than as a result of any government incentives. Experts also noted the growth in some areas of companies' orders for R&D performed by research institutes and universities. So far, the potential of such initiatives is not considered at the state level as a strategic direction for the development of research institutes and universities.

Nevertheless, some programs to support university science were being restructured to obtain more practically oriented results (Priority-2030 Program, NLC), and the RAS supported the new agenda by promoting the ideas of revising the system of expertise in the country, so that it would be possible to concentrate resources on projects that would give practical results in the foreseeable future. At the same time, the activities aimed at building a new system of expertise were also aimed at concentration of all types of expert functions under the auspices of the RAS. The alliance between the RAS and NRC Kurchatov Institute was also notable last year, which led to the growth of NRC scale due to the accession of new institutes to it, and to the possibility for the RAS to expand its sphere of influence due to the transfer of NRC KI under its scientific and methodological leadership.

There have been no noticeable shifts in the innovation sphere, but there is a potential for more active involvement of medium-sized fast-growing companies in the creation of their own development lines due to the introduction of new forms of support by the state.

The course on technological sovereignty is one of the responses to the sanctions pressure. Other measures concerned the regulation of international scientific cooperation. Clearer country priorities for cooperation have emerged: the enlarged BRICS states and “friendly” countries in general. The results of this policy have already become visible in the form of expanding partnerships with China, India and a number of other countries. The prospects for developing cooperation with the new BRICS countries lie not so much in the scientific but rather in the technological field, as they are all focused on import substitution and localization of production. For Russia, such partnerships are also an opportunity to enter new technology markets.

Assessments of the sanctions pressure have shown that it is quite significant, especially for natural, technical and medical sciences, as well as for highly productive scientists who were previously closely involved in international academic cooperation. So far, the most sensitive is the impact of economic sanctions related to access to instruments, equipment, reagents, and software. However, the negative effect of isolation of Russian science from its traditional international partners may intensify.

5.4. Russia in key international institutions¹

In 2023, the main trends in the system of international institutions were related with the US and its allies' continued efforts to form new rights and institutes, as well as the mounting pressure on other countries to condemn and isolate Russia in the existing multilateral mechanisms. Overall, it can be stated that isolation of Russia has failed, though in the Bank for International Settlements' committees which are entirely controlled by western countries they succeeded in suspending Russia's participation.² Developing and emerging market countries demonstrated greater resistance to pressure, their independence and weight. However, global institutions turned out to be unable to function fully as a result of adversarial positions between their member-countries. At the same time, the importance of non-western institutions, such as the BRICS and the Shanghai Cooperation Organization increased.

5.4.1. The Group of 20

In 2023, the G7 countries and their partners were stepping up confrontation with Russia at all levels and on all issues. India's presidency in the G20 was well aware of possible implications of differences between the organization's key member-countries for reaching a consensus on the priority issues of the agenda. The presidency's motto – "One Earth, One Family and we share One Future" – underlined a unifying attitude and Prime Minister Narendra Modi's declared commitment to steer cooperation within G20 towards achieving just and sustainable growth and equality "in the common world in which there are no first and third world countries."³ India which acted as a representative of the interests of the global South received support of its mission at the "Voice of the Global South" first summit in January 2023⁴ and endorsement of decisions taken at the second summit in November.⁵ Such an approach was of particular

- 1 Authors: *Ignatov A.A.*, Candidate of Political Sciences, Researcher at the Center for International Institutions Research (CIIR), RANEPa; *Larionova M.V.*, Doctor of Political Sciences, Researcher at Center for International Institutions Research (CIIR), RANEPa; *Popova I.M.*, Researcher at the Center for International Institutions Research (CIIR), RANEPa; *Sakharov A.G.*, Researcher at the Center for International Institutions Research (CIIR), RANEPa; *Shelepov A.V.*, Candidate of Economic Sciences, Senior Researcher at the Center for International Institutions Research (CIIR), RANEPa.
- 2 Participation was suspended in the work of the Payments and Market Infrastructure Committee (URL: <https://www.bis.org/cpmi/membership.htm>), the Global Financial System Committee (URL: <https://www.bis.org/cgfs/membership.htm>), the Markets Committee (URL: <https://www.bis.org/about/factmktc.htm?m=141>), the Committee on Central Bank Statistics (URL: <https://www.bis.org/ifc/members.htm?m=131>), the International Association for Insurance Supervision (URL: https://www.iaisweb.org/uploads/2023/08/iais_organisation_members.pdf). The Russian authorities do not participate in the meetings of the Financial Stability Board (URL: <https://www.fsb.org/about/organisation-and-governance/members-of-the-financial-stability-board/>).
- 3 Text of PM's address at unveiling of the logo, theme and website for India's G20 leadership. URL: <https://pib.gov.in/PressReleaseDetail.aspx?PRID=184781>
- 4 Summary of Deliberations: Voice of Global South Summit 2023. 12–13 January 2023. URL: https://www.mea.gov.in/bilateral-documents.htm?dtl/36119/Summary_of_Deliberations_Voice_of_Global_South_Summit_2023_January_1213_2023
- 5 English rendering of PM's Opening Remarks during the 2nd Voice of Global South Summit. URL: <https://pib.gov.in/PressReleaseDetail.aspx?PRID=1977540>

importance amid growing differences between countries of the global South and developed countries in assessment of the causes and consequences of the conflict in Ukraine, climate policy priorities, approaches to the solution of the sovereign debt problems, food security and reforming of global management multilateral institutes. Numerous efforts by G7 member-countries to persuade partners to provide more support to Ukraine, condemn Russia and join the western sanctions were unsuccessful.¹ Currently, many people in the global South countries regard the standoff between the Russian Federation and the NATO as the former's struggle on the frontline for a multipolar world.²

The new geopolitical situation, a consolidated position of the BRICS and other countries of the global South, pursuit of de-Ukrainization of the agenda, as well as political and diplomatic skills of the Indian Prime Minister's team facilitated the achievement of agreements reflecting the interests and positions of Russia and its partners. The G20 endorsed 290 concrete decisions aimed at ensuring sustainable, balanced and inclusive growth, implementing sustainable development goals (SDG), achieving the goals of the Paris Agreement and facilitating a just transfer to a low-carbon economy with national circumstances taken into account, promoting multilateralism, reforming international financial institutions, strengthening of digital ecosystems and other. India was seeking to separate geopolitical differences from substantive issues, declined to invite Ukrainian President Vladimir Zelensky to the summit and even include his online address to the program despite the pressure of the G7 countries. Russia's western adversaries insisted on including in the G20 documents the Bali summit wordings condemning Russia and blaming it for the conflict in Ukraine, but the presidency understood the position of Russia supported by other BRICS member-countries and made a lot of effort for balanced wordings to be approved. Though owing to the G7 countries' pressure the results of all ministerial meetings were reflected in the summary of the presiding representative of the Indian government, the summit succeeded in achieving the consensus and endorsing the agreed document.

As a result, the leaders' declaration does not include condemnations of or demands to Russia, but focuses on obligations of all countries in conformity with the goals and principles of the UN Charter "to refrain from the threat of force or application thereof for seeking territorial gains aimed against territorial integrity and sovereignty or political independence of any state," the need of peaceful settlement and openness to constructive initiatives facilitating the establishment of a just and lasting peace in Ukraine.³ Also, the declaration calls for putting an end to attacks on and destruction of critical energy and agricultural infrastructure. Though it was not said explicitly, but it refers to terrorist attacks on the North Streams, the Tolyatti-Odessa ammonia pipeline, attacks on the Kakhovskaya

1 Winning back the Global South: difficult but not impossible. URL: <https://www.friendsofeurope.org/insights/critical-thinking-winning-back-the-global-south-difficult-but-not-impossible/>

2 "Russia is spearheading almost alone the struggle for a multipolar world." Paulo Nogueira Batista Closing speech at the VII BRICS Conference USP. URL: <https://www.youtube.com/watch?v=QrxXNWnJ6zY>

3 The Delhi Declaration of G20 Leaders. September 10, 2023 r. URL: <http://www.kremlin.ru/events/president/news/72241>

Hydroelectric Power Station and drone attacks on the Zaporozhye Nuclear Power Plant.¹ So, the geopolitical part reflects Russia's position. To a great extent, the G7 countries and their allies agreed on a compromise because they feared losing the global South which countries sought to focus their attention on economic issues and sustainable growth challenges.²

Another important issue for Russia was the enforcement of implementation by western countries of the obligations under the Istanbul agreements of 2022 on free trafficking of grain, food products and fertilizers/components thereof from the Russian Federation to global markets. Despite the Bali summit agreements on complete and timely implementation of the Istanbul agreements, including the Initiative on a Safe Transportation of Grain and Food Products from Ukrainian Seaports and the Memorandum on the Mutual Understanding between the Russian Federation and the UN Secretariat on Facilitating the Promotion of Russian Food Products and Fertilizers on Global Markets³, the other part of the deal failed to materialize. Vessels with Russian fertilizers were delayed at European seaports and shipments to the global market were complicated because of problems related with bank payments, insurance and transport logistics, as well as a lack of spare parts. It is noteworthy that the countries which imposed sanctions were shifting the blame for risks onto Russia and when Russia made a decision to suspend its participation in the deal⁴, they accused Russia of violating its obligations, breaking up supply chains and aggravating food security risks.⁵ In this context, the affirmation of the need for complete implementation of all obligations under the Black Sea initiative in the Delhi Declaration was of particular importance.

The Green Development Pact for a Sustainable Future incorporating the "Lifestyles for Sustainable Development (LiFE)" concept put forward by Prime Minister Narendra Modi and aimed at facilitating the transition to sustainable models of production and consumption includes 87 obligations (30% of all summit decisions). Traditionally, the G20 reiterates its resolve to pursue further efforts to limit the increase to 1.5°C and achieve carbon neutrality by the mid-century. The Declaration makes a greater emphasis than before on the need for taking into account the national circumstances and different approaches and postulates the acceleration of sustainable and just energy transition based on the needs, priorities and national circumstances as a key factor in achieving balanced growth and climate goals. At the same time, despite calls for more financing to combat climate change, adaptation and acceleration of energy transition, no concrete obligations were made by developed countries.

1 RF Foreign Minister Sergei Lavrov's remarks and answers to media questions on the G20 summit results. New Delhi, September 10, 2023 r. URL: https://mid.ru/ru/foreign_policy/news/1903728/

2 The Geopolitics of G20. URL: <https://www.gatewayhouse.in/the-geopolitics-of-g20-summit/>

3 The Memorandum of Understanding between the Russian Federation and the United Nations Secretariat on Facilitation of Russian Food Products and Fertilizers on Global Markets. URL: https://www.mid.ru/ru/foreign_policy/news/1829558/

4 The RF Ministry of Foreign Affairs' Statement on the Istanbul agreements. URL: https://mid.ru/ru/foreign_policy/news/1897157/

5 For example, the G7 foreign ministers' statement. URL: <http://www.g7.utoronto.ca/foreign/231108-statement.html>

In complete contradiction to actual restrictive actions, but in the spirit of the G7 traditional rhetoric, the need for ensuring “uninterrupted supplies of different energy commodities from various suppliers and across different routes and development of open, competitive, nondiscriminatory and free international energy markets”¹ was documented as a condition for achievement of energy transitions. A number of decisions of the Delhi Declaration repeats almost verbatim the goals set by the G7 countries regarding the formation of new technologies and fuel based on market rules; this is evidence of the G7 countries’ ongoing pursuit of legitimization of their policy through the G20. Such decisions include the acceleration of production, utilization and negotiation of unified standards and development of global markets of hydrogen produced by means of technologies ensuring a zero or low level of emissions and facilitation of diversified and sustainable supply chains for energy transitions, including critical raw materials.² It is obvious that in its national and foreign policy Russia should take into account risks related with legitimization and promotion by the G7 countries of approved standards and interoperable schemes of certification of hydrogen production on global hydrogen markets.

In conformity with the priorities of the global South countries, the presidency paid a particular attention to “the revival of multilateralism for adequately addressing modern global challenges of the 21st century and promoting representativeness, efficiency, transparency and accountability of global governance.”³ The G20 demonstrated its readiness to promote its own legitimacy and inclusivity by taking a decision on accepting the African Union as a permanent member. However, calls for democratization of international economic relations and reforming of international financial institutions, including the completion of the International Monetary Fund (IMF) quota and governance reform before mid-December 2023 proved futile. A vivid example is the decision of the 48th meeting of the IMF’s international monetary and financial committee to bring forward the review of quotas and the quota formula to the 17th General Review⁴, that is, de facto not earlier than June 2025.

At the second (virtual) G20 summit in November conceived by Prime Minister Narendra Modi for “comparing notes” on the implementation of decisions, Narendra Modi stressed that countries of the global South were looking forward to the reforms of global economic governance and implementation of the G20 key decisions on facilitating sustainable growth and development.⁵ These priorities will remain on the top of the G20 agenda in 2024 and 2025 and they meet Russia’s interests.

1 The Delhi Declaration of G20 Leaders. Paragraph 38. URL: https://mid.ru/ru/foreign_policy/news/1903711/

2 Ibid.

3 Ibid. Paragraph 47. URL: https://mid.ru/ru/foreign_policy/news/1903711/

4 Chair’s Statement: Forty-Eighth Meeting of the IMFC. URL: <https://www.imf.org/en/News/Articles/2023/10/14/pr23353-chairs-statement-forty-eighth-meeting-of-the-imfc?cid=em-COM-123-47305>

5 Prime Minister Narendra Modi’s opening remarks at G20 Virtual Summit. URL: <https://www.narendramodi.in/prime-minister-narendra-modis-opening-remarks-at-g20-virtual-summit-576201>

Owing to developing countries' solidarity, the balance of interests changed and due consideration was paid to the position of Russia and its partners in the G20 decisions in 2023. It is important to maintain this momentum and ensure the implementation of the endorsed decisions. In 2026, the G20's new work cycle will begin with the US presidency. Taking into account the G7 countries' pursuit of legitimization of their initiatives and policies through the G20, there is a risk of a change in the trend. In this context, it is crucial for Russia to maintain a close cooperation with its BRICS partners for consolidating common positions and priorities in the G20 agenda and decisions.

5.4.2. BRICS

The year 2023 saw the expansion of BRICS, a major event for the organization and particularly for Russia, which initiated the establishment of this forum. The intention of over twenty countries to join BRICS is the evidence of high political authority of the "group of five" which constantly upholds the formation of "a flexible, effective, efficient, representative, democratic and accountable international and multilateral system."¹ Also, this trend is closely associated with de-Westernization processes in societies and policies of global South countries and their growing pursuit of autonomy and freedom in determining their own policy and priorities (after 2020 and particularly in 2022). Though BRICS has constantly stood for reforming, rather than establishing an alternative global governance system and underlined its commitment to cooperation which is free of a revisionist or anti-western nature, numerous countries of the global South regard BRICS as the forefront of "de-Westernization."²

The "de-Westernization" trend was formed as a reaction to a failure to meet obligations in respect of developing countries in terms of provision of vaccines and medicines, as well as financing to combat climate change and adaptation, lack of reforms of international financial institutions, introduction of unilateral sanctions and use of the US Dollar as an instrument of pressure and double standards in respect of loyal and independent countries. The pressure by the G7 countries and their partners on developing countries to make them condemn and isolate Russia and join the anti-Russian sanctions because of the conflict in Ukraine was the catalyst for a new "active non-aligned movement." The active nonalignment³ is not only a political stance, but, sooner, a policy aimed at overcoming common challenges⁴ and "the most intense fight for unilateral global domination and the

1 The Johannesburg Declaration. Paragraph 4. URL: <http://kremlin.ru/events/president/news/72103>

2 Sidiropoulos E., Carvalho G. de (2023). The Global South and the Resurgence of Non-alignment: An African Perspective Elizabeth Sidiropoulos, Gustavo de Carvalho in «Is Africa Turning Against the West?». P. 40. URL: <https://www.ispionline.it/en/publication/is-africa-turning-against-the-west-154061>

3 Fortin C., Heine J., Ominami C. (2023). Latin American Foreign Policies in the New World Order: The Active Non-Alignment Option. Anthem Press. P. 271–272.

4 Sidiropoulos E., Carvalho G. de (2023). The Global South and the Resurgence of Non-alignment: An African Perspective Elizabeth Sidiropoulos, Gustavo de Carvalho in «Is Africa Turning Against the West?». P. 33. URL: <https://www.ispionline.it/en/publication/is-africa-turning-against-the-west-154061>

soul of the South.”¹ The decision on joining BRICS by the Arab Republic of Egypt, the Islamic Republic of Iran, the United Arab Emirates, the Kingdom of Saudi Arabia and the Federative Democratic Republic of Ethiopia has strengthened the BRICS political weight and influence on formation of a multipolar world and representative and equitable international order.

The group’s economic weight and the level of representativeness in terms of a share of the population have increased. The share of GDP of the enlarged BRICS based on purchasing power parity is equal to 36.9% and the share of the population, to 46.7% of the global one (compared to the G7 countries’ 29.95%² and 8.61%³, respectively). At the same time, the gap between the level of representativeness and the ability to influence decision-making in the IMF has widened. Thus, even after the expansion, the BRICS collective share of quotas and votes in the IMF will be equal to 19.32% and 18.57%, respectively, compared to the collective G7 share of 43.36% and 41.4%, respectively. Overall, this creates additional grounds for a more active position of BRICS on reforms and strengthening of the international financial architecture (IFA). And it concerns not only the Bretton Woods institutions, but also all components of the existing system, including global and regional financial safety nets, sovereign borrowing and debt mechanisms, multilateral development banks, financial market regulation and the financial and payment infrastructure. Taking into account the upcoming UN Summit of the Future⁴ in September 2024 (without any illusions regarding the effectiveness of the preparatory process and the outcome of the negotiations), it is important to ensure the coordination of positions and the development of proposals on the main aspects of the Pact on the Future,⁵ including reforms of the IFA.

The global South countries’ expectations from BRICS as a driver of the formation of a new economic order are associated with hopes for closer and more economically beneficial ties. In this regard, an important role could be played by an initiative to reduce import tariffs for developing countries, both the BRICS countries and their partners in integration associations.⁶ Such an initiative under

1 Statement by Dr Naledi Pandor, the Minister of International Relations and Cooperation of the Republic of South Africa, on the occasion of the General Debate of Summit of Heads of State and Government of the G77 + China, on the theme: «Current Development Challenges: The Role of Science, Technology and Innovation». 16 September 2023. URL: <https://www.dirco.gov.za/statement-by-dr-naledi-pandor-the-minister-of-international-relations-and-cooperation-of-the-republic-of-south-africa-on-the-occasion-of-the-general-debate-of-summit-of-heads-of-state-and-government/>

2 GDP based on PPP, share of world. URL: <https://www.imf.org/external/datamapper/PPPSH@WEO/OEMDC/ADVEC/WEOORLD>

3 Countries in the world by population (2023). URL: <https://www.worldometers.info/world-population/population-by-country/>

4 Summit of the Future. URL: <https://www.un.org/en/summit-of-the-future>

5 The Pact on the Future is a document which is planned to be prepared and approved at the summit in 2024; this document is expected to lay foundations of the new architecture of management and cooperation. The proposals on the IFA reform are set out in the position document of the UN Secretary-General. See: URL: <https://www.un.org/sites/un2.un.org/files/our-common-agenda-policy-brief-international-finance-architecture-en.pdf>

6 *Yaroslav Lisovolik*. “The Summit of Enlargement: Conceptualization of BRICS+ Format.” URL: <https://russiancouncil.ru/analytics-and-comments/analytics/sammit-rasshireniya-kontseptualizatsiya-formata-briks/>

the auspices of the Russian chairmanship could help strengthen the economic agenda and weight of BRICS.

BRICS faces a serious task of integrating new members into existing cooperation mechanisms. Expansion will pose a challenge to the group's internal unity. Added to territorial disputes and differences between China and India are the conflicts between Egypt and Ethiopia over water resources (the Blue Nile) and competition for intraregional influence between the countries of the Middle East.

It is necessary to define the parameters for new BRICS members' accession to the New Development Bank (NDB), including the size of quotas and allocated capital and the nature of participation in the management of the bank, with taking into account the fact that according to Article 6a of the Agreement on the NDB the number of votes of a shareholder is equal to its share in the bank's allocated capital. At the same time, in accordance with Article 8c changes in the subscribed capital cannot lead to a decrease below 55% in the share of the founders of the bank and to an increase above 7% in the share of votes of a non-founder member. It is obvious that new members will be claiming participation in the management of the bank, and a decision will have to be made regarding Article 13c under which each founding country is represented by at least one vice-president, except for a country represented by the president.¹

Enlargement is unlikely to make it easier for BRICS to agree on a single settlement unit within the group. For many years, the idea of creating a single BRICS currency has been debated at the expert and working level. This issue was not reflected in official documents. At the same time, the BRICS countries have noted the need to use national currencies in trade and investment since 2015. In 2023, Brazilian President Lula da Silva raised the issue of creating a single settlement unit to the political level. The Johannesburg summit emphasized the need to encourage the use of national currencies in international trade and financial transactions between the BRICS countries and their trading partners, as well as cooperation on the payment infrastructure to facilitate trade and investment flows. The leaders instructed finance ministers and central bank governors of the BRICS countries to consider the use of national currencies, payment instruments and platforms and report on the results at the next summit.² A single currency is not mentioned in the order, probably, because of India's opposition to this idea. However, there is still a chance that debates will begin on possibilities and practical steps to create a single BRICS settlement unit which would be instrumental in solving the issue of bilateral trade surpluses in national currencies. Specific proposals for the implementation of the idea, including the creation of an "issuing bank" and the provision of securities guaranteed by member countries, were formulated by Paulo Nogueira Batista, Brazilian economist and former NDB vice-president. The settlement unit can be formed by analogy with the special drawing rights on the basis of a basket of national currencies, reflecting the relative economic weight of

1 Agreement on the New Development Bank – Fortaleza. 15 July. URL: <https://www.ndb.int/wp-content/uploads/2022/11/Agreement-on-the-New-Development-Bank.pdf>

2 The Johannesburg Declaration. Paragraph 45. URL: <http://kremlin.ru/events/president/news/72103>

the member countries' economies. At the first stage, it could function as a digital unit of denomination for government transactions and official accounting, as well as for replacing the US Dollar in the NDB's internal accounting and the Contingent Reserve Arrangement. With a single settlement unit available, countries with a trade surplus would be able to use it in bilateral transactions with other member countries. The NDB could promote dedollarization by accelerating the use of the new settlement unit in its loans and other financial transactions, as well as in issuing of securities.¹

The implementation of the initiative could become an important contribution of BRICS to the reform and democratization of the international financial system. It undoubtedly meets Russia's priorities in ensuring economic security, economic sovereignty, sustainable economic growth and a higher international competitiveness of the national economy.² Probably, at the first stage not all BRICS members would like or be able to join the mechanism. One should be prepared that this movement will take place at different speeds. Given the commitment of Brazil's leaders to this idea, there is a chance of launching the mechanism in the next two years. BRICS has entered a new stage of development and its efficiency will depend in particular on the quality of cooperation within the framework of Russia's BRICS chairmanship in 2024.

5.4.3. The Shanghai Cooperation Organization (SCO)

The outputs of the SCO's work under the chairmanship of India were generally positive for Russia, but very modest. There are several reasons. Firstly, the differences between India and China, India and Pakistan, India's desire to limit China's influence in the region³ and policies to strengthen economic, technological and military-industrial cooperation with the United States⁴ have become constraints for promoting cooperation between partners. It is probably for this reason China did not confirm the arrival of Chinese President Xi Jinping, and at the last minute a decision was made to hold the summit of heads of state in a virtual format.⁵ Secondly, India, which held two simultaneous presidencies of the SCO and the G20 in 2023, devoted much more attention and resources to the G20. Thirdly, the traditional prioritization of political and security issues, including by Russia, on the agenda did not allow the organization again to use the full potential for developing trade and investment ties and promoting economic cooperation.⁶ And yet, the participants managed to agree on more than

1 *Batista P.N. Jr.* A BRICS currency? URL: <http://kremlin.ru/events/president/news/72103> <https://www.nogueirabatista.com.br/wp-content/uploads/2023/09/Aug-2023-On-possible-BRICS-currency.pdf>

2 The Foreign Policy Concept of the Russian Federation. Paragraph 39. URL: <http://kremlin.ru/events/president/news/72103> <https://www.mid.ru/ru/detail-material-page/1860586/>

3 The Second Johannesburg Declaration of BRICS countries. URL: <http://kremlin.ru/events/president/news/72103>

4 *Austin Marks.* 'Transformative' Ties With India at Talks in New Delhi. URL: <https://www.defense.gov/News/News-Stories/Article/Article/3586231/austin-marks-transformative-ties-with-india-at-talks-in-new-delhi/>

5 India's SCO Challenge. URL: <https://www.gatewayhouse.in/indias-sco-challenge>

6 *Akylbek Zhaparov,* Head of the Cabinet of Ministers at the SCO summit: "Our organization is open and in demand; evidence of this is the expansion of the "SCO family." URL: <https://www.gov.>

20 documents and ensure further institutional development and expansion of the SCO. Let us highlight some key results of the presidency, which, like the G20, was held under the motto “One Land, One Family, One Future.”

It was important for Russia that the SCO leaders declared their commitment to the principle of indivisible security,¹ opposed the use of economic sanctions, except for those adopted by the Security Council (UNSC), and reiterated their “commitment to respect peoples’ right to an independent and democratic choice of their political and socioeconomic ways of development and resolve peacefully differences and disputes between countries through dialogue and consultations.”

² The conflict in Ukraine is not mentioned in the text of the declaration, but these statements reflect Russia’s position on its causes and possible settlement.

The participants showed unity on an issue, which is important to Russia, of ensuring “equal rights for all countries to regulate the Internet and the sovereign right of states to manage it in their national segment.” SCO members spoke out “against the militarization of the sphere of information and communication technologies (ICT)” and supported Russia’s position on the need to develop universal rules, principles and norms for responsible behavior of states in relation to ICT and the development, under the auspices of the UN, of a comprehensive international convention on countering the use of ICT for criminal purposes.³ This position is especially important in the context of the efforts of the United States and its OECD partners to extend the “rules-based order” to the digital sphere and the policy of compliance with rules and regulations only towards allies and friendly states⁴ reflected in the OECD Declaration on a trusted, sustainable and inclusive digital future.⁵

The leaders’ summit marked the completion of the procedure for the accession of the Islamic Republic of Iran to the SCO as a full member state and the beginning of the process of accession of the Republic of Belarus, whose membership in the organization Russia always supported.

On the economic track, a step towards further promotion of cooperation was the adoption – albeit not by all members of the organization – of the SCO Economic Development Strategy for the Period until 2030 proposed by Emomali Rahmon, President of the Republic of Tajikistan in September 2021. It took more than a year and a half to develop the strategy. However, India did not join the “Strategy” viewing it as a Chinese initiative because of references to global and regional projects of the PRC. According to the SCO Charter, the disinterest of one or more member states in the implementation of individual projects does not prevent interested member states from implementing such cooperation

kg/ru/post/s/23593-minkab-toragasy-akylbek-zaparov-skunun-sammitinde-bizdin-uyum-acykzana-suroo-talapka-ee-munun-dalili-sku-ui-bulosunun-keneiisi

1 The New Delhi Declaration of the Council of Heads of State – members of the SCO. pp. 5–6. URL: <http://kremlin.ru/supplement/5963>.

2 Ibid p. 2. URL: <http://kremlin.ru/supplement/5963>

3 Ibid p. 4. URL: <http://kremlin.ru/supplement/5963>

4 *Zinovieva E.* Digital Sovereignty in the Practice of International Relations. URL: <https://interaffairs.ru/jauthor/material/2798>

5 Declaration on a Trusted, Sustainable and Inclusive Digital Future. URL: <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0488>

projects.¹ This provision makes it possible to implement the “Strategy” without India’s participation and leaves the door open for India to join it in future.

The strategy outlines a wide range of areas, including the digital economy; high technology and innovation; creation of new international routes for road and rail transport and modernization of the existing ones, multimodal transport corridors and logistics centers; finance and investment; energy and food security; reliable, sustainable and diversified supply chains; industrial cooperation. Russia supports promotion of cooperation in these areas.² The heads of government have instructed the relevant ministries and agencies to develop an “Action Plan for the Implementation of the Strategy” which is likely to be endorsed during Kazakhstan’s chairmanship in 2024.

The implementation of the “Strategy” will help consolidate regional integration, especially if differences can be overcome and India’s participation in the most significant and mutually beneficial projects is ensured. This is possible, although the experience of interaction within the SCO has shown that India is not inclined to change its position regarding Chinese initiatives. Thus, India again did not join the statement of other SCO members in support of China’s “One Belt, One Road” (OBOR) initiative and efforts to link the building of the Eurasian Economic Union and the OBOR.

At the same time, there are positive trends. India is expanding the use of national currencies, including the yuan, in mutual trade with partners, which is important for the implementation of the Roadmap for Increasing the Share of National Currencies in Mutual Payments approved in 2022. Russia stands for increasing cooperation on the implementation of the Roadmap: elimination of regulatory barriers, building of a modern payment infrastructure, formation of an independent regional payment and settlement mechanism and creation of conditions for the conversion of currencies of member countries on national exchanges.³

Particular attention was paid to energy and environmental issues. The energy ministers adopted a Joint Statement on cooperation between SCO member states on new types of fuel and modeling in the energy sector. Russia supported the initiative of Kassym-Jomart Tokayev, Leader of Kazakhstan to prepare and adopt the “Strategy for the Development of Energy Cooperation among the SCO Member States until 2030” and Iran’s initiative to create an energy hub within the SCO for trade and energy exchange and ensure the energy security of the organization’s member countries.

Both leaders and heads of government again emphasized the need to upgrade and reform the architecture of global economic governance, but concrete decisions on the formation of regional economic governance institutions

1 The SCO Charter. Article 16. URL: <http://www.kremlin.ru/supplement/3450>

2 The meeting of the Council of Heads of State – SCO members. Russia’s Head of State took part in the meeting of the Council of Heads of State – members of the Shanghai Cooperation Organization via videoconference. URL: <http://kremlin.ru/events/president/news/71578>

3 The speech by Mikhail Mishustin at the meeting of the Council of Heads of Government – SCO member countries. URL: <http://government.ru/news/49883/>

within the SCO were never made. Despite the need recognized by almost all participants to provide financial support for project activities and the need to create financial mechanisms to promote economic cooperation, as well as many years of negotiations on the creation of the SCO Development Bank and the SCO Development Fund (Special Account), participants of the Council of Heads of Government limited themselves as before to an agreement to continue consultations. Russia, which was previously wary of China's initiative, is now interested in creating non-Western financial institutions in the new conditions. So far, India is against it, but there is a hope that within the framework of Kazakhstan's chairmanship the process will gain new dynamics because the leadership of Kazakhstan, like most other SCO members, is actively promoting the idea. If it is not possible to agree on common positions on the establishment of the Bank, then there is an option of using Article 16 of the SCO Charter and establishing the Bank by interested members with the possibility of India joining it at a later stage. Though it is not a desirable approach because it erodes the fragile unity of the organization, it is more preferable than further delaying of a decision on an important economic cooperation which most members are interested in.

After the leaders' summit, the chairmanship of the SCO Council of Heads of State for 2023–2024 passed to Kazakhstan. Serious work is to be done to agree on the “Strategy for the Development of Energy Cooperation” and the parameters of the SCO energy hub, determine priorities in the implementation of the “Strategy of Economic Development”, create conditions for expanding payments in national currencies, finalize the accession of Belarus and Mongolia to the organization and implement many other tasks. Despite the existing differences, the SCO is consolidating the positive dynamics of cooperation and remains the most important multilateral platform for the development of mutually beneficial cooperation between Russia and its partners in Eurasia.

5.4.4. The International Monetary Fund

In 2023, despite calls by a number of politicians to exit the International Monetary Fund (IMF)¹ Russia retained its status as a full member of this international institution. Representatives of the Russian executive authorities noted the invariability of Russia's position regarding its membership in the IMF. Thus, Alexander Pankin, Deputy Minister of Foreign Affairs of the Russian Federation declared that the IMF is an important element of the “economic world order,” and participation in its activities has “an image value” and opens access to “the advanced international financial expertise.” In addition, Russia is interested in

1 For example, a relevant initiative was made by a group of State Duma deputies from the Communist Party of the Russian Federation. See: The draft law on withdrawal from the IMF was submitted to the State Duma. URL: <https://www.rbc.ru/politics/26/07/2023/64c04e8f9a794744fbc3b2c7>

continuing its participation in the activities of the Fund because of “involvement in the process of agreeing on global economic initiatives and projects.”¹

Thus, Russia continues to fulfill its financial obligations to the IMF and contribute to the formation of its credit resources. First of all, they consist of quotas of member countries. The Russian Federation’s quota has remained unchanged since 2016 and is equal to 12.9037 bn units of special drawing rights (SDR) (as of December 10, 2023, the SDR exchange rate to the US Dollar was about 1.33).² Also, Russia’s obligations continued within the framework of the IMF’s “second and third lines of defense” – new borrowing agreements (Russia’s potential obligations of 8.88 bn SDR are valid until the end of 2025) and bilateral borrowing agreements (obligations equivalent to USD3.9 bn are valid until the end of 2023 and can be extended for another year).³ At the same time, Russia’s ability to use the IMF resources if necessary is extremely limited.

In addition to financial relations, Russia previously regularly held consultations with the IMF on various aspects of the state and development of the economy, but after the start of the special military operation, contacts with the IMF in this area were stopped and never resumed. Nevertheless, IMF experts continued to study the prospects of and risks for the Russian economy as part of their work to forecast global economic trends. However, IMF forecasts are constantly changing amid the unstable global economic situation and are often unsubstantiated.

Thus, in 2023 Russian GDP growth rates forecasts varied from 0.3% to 2.2%, while the actual figure was equal to 3.6%.⁴ In the expert community, opinions are increasingly voiced about the discrepancies between the IMF forecasts and recommendations and the current economic realities.⁵

The problem in the relations not only of Russia, but also of other emerging market and developing countries with the IMF is still a lack of progress in implementing capital and governance reforms, including an increase in the share of quotas and votes of underrepresented members and revision of the quota formula. Within the scope of the 16th General Review of Quotas in November 2023, a proposal was adopted to increase quotas by 50% in proportion to current values; from experience of the previous review the approval and enactment of the proposal may take quite a long time.⁶ Proposals on the redistribution of quotas and the new quota formula are expected to be presented not before mid-2025.⁷

1 Interview of Alexander Pankin, RF Deputy Foreign Minister to the TASS News Agency. February 28, 2023. URL: https://www.mid.ru/ru/foreign_policy/news/1855987

2 Russian Federation: Financial Position in the Fund as of 30 November 2023. URL: <https://www.imf.org/external/np/fin/tad/exfin2.aspx?memberKey1=819&date1key=2099-12-31>

3 Russian Federation: Lending to the Fund. URL: <https://www.imf.org/external/np/fin/tad/extlend1.aspx?memberKey1=819&date1key=2022-11-30>

4 Rosstat estimated GDP growth at 3.6% in 2023. URL: https://minfin.gov.ru/ru/press-center/?id_4=38851-rosstat_otsenil_rost_vvp_v_2023_godu_v_36_protSENTa

5 The global economy under pressure of high interest rates. URL: https://raexpert.ru/researches/world_economy_2023/

6 IMF Executive Board Approves a Proposal to Increase IMF Quotas. URL: <https://www.imf.org/en/News/Articles/2023/11/07/pr23383-imf-executive-board-approves-a-proposal-to-increase-imf-quotas>

7 Chair’s Statement: Forty-Eighth Meeting of the IMFC. URL: <https://www.imf.org/en/News/Articles/2023/10/14/pr23353-chairs-statement-forty-eighth-meeting-of-the-imfc>

Another failure of the quota reform perpetuates governance imbalances and undermines the legitimacy and credibility of the Fund.¹

5.4.5. Multilateral development banks

In 2023, as a year before, Russia's interaction with large multilateral development banks (MDBs) was frozen. Thus, the World Bank Group (WBG), whose experts previously carried out expert and analytical work in economic forecasting and upgrading financial regulation in cooperation with representatives of the Russian authorities, announced back in March 2022 the suspension of all types of activities in Russia and Belarus².

The moratorium on the approval of new projects in Russia introduced in 2014 by the International Bank for Reconstruction and Development (IBRD) continued. As of early December 2023, all IBRD projects in Russia that had been approved before the moratorium was introduced were completed or cancelled.³ Other WBG institutions also left in force financial restrictions introduced back in 2014 on interaction with Russia.

The cooperation between Russia and the WBG in the expert and analytical area has also been suspended. The implementation of the Russian Financial Sector Assessment Program and the publication of regular reports on the Russian economy ceased in 2021. Like the IMF, the WBG was constantly changing forecasts for Russia in its publications on global and regional trends and turned out to be inaccurate in them (1.6%⁴ versus actual 3.6%). As in the case of the IMF, in addition to restrictions on financial and expert-analytical networking, there is a lack of progress in implementing WBG equity capital and governance reforms in the interests of "underrepresented" emerging market and developing countries, including Russia. The activities of other MDBs, including those which Russia is a member of (the European Bank for Reconstruction and Development (EBRD), the New Development Bank (NDB), the Asian Infrastructure Investment Bank (AIIB)) also shrank to the minimum in 2023 due to the current geopolitical situation and financial restrictions against the Russian Federation.

Although Russia has retained its status as a full shareholder of the EBRD, there is virtually no interaction.⁵ Back in 2022, the bank's Moscow office was closed. EBRD representatives' statements and actions are highly politicized. In October 2023, the bank announced a full allocation of euro 3 bn to Ukraine over the period 2022–2023. The EBRD positions itself as "the largest institutional investor

1 *Kring W.N., Uy M., Mohan R., Gao H.* Quote Reform is an Opportunity for the IMF to Restore its Legitimacy. URL: <https://oecd-development-matters.org/2023/10/30/quota-reform-is-an-opportunity-for-the-imf-to-restore-its-legitimacy>

2 World Bank Group Statement on Russia and Belarus. URL: <https://www.worldbank.org/en/news/statement/2022/03/02/world-bank-group-statement-on-russia-and-belarus>

3 Projects. URL: https://projects.worldbank.org/en/projects-operations/projects-list?os=0&countryshortname_exact=Russian%20Federation

4 Europe and Central Asia Economic Update. URL: <https://www.worldbank.org/en/region/eca/publication/europe-and-central-asia-economic-update>

5 The EBRD in Russia. URL: <https://www.ebrd.com/russia.html>

in Ukraine”, pledging to continue support “as long as necessary” and to increase financing in key areas.¹

Despite Russia’s cancellation of special economic measures in respect to the NDB and the AIIB² at the end of 2022, banks are building policies taking into account risks associated with current restrictions on the international capital market and are not considering the financing of new projects in the Russian Federation.³ The implementation of the already approved projects has been suspended.⁴ Nevertheless, Russia continues to consider interaction with new financial institutions, in which friendly countries play a leading role, as a priority. Thus, at the meeting with NDB President Dilma Rousseff, Russian President Vladimir Putin noted Russia’s active participation in the bank’s activities and the possibility of jointly solving challenges facing the NDB and the BRICS as a whole (for example, reduction in dependence on the US Dollar in mutual settlements). In turn, Dilma Rousseff stated that the NDB development strategy for the period 2022–2026 “suggests that about 30% of funds should be raised in domestic markets. It is also important to raise funds in different currencies, not just dollars or euros.”⁵

Although technical restrictions and risks related with financial transactions with Russia have led to the suspension of activities of the main MDBs, including the NDB⁶ and the AIIB⁷ on new and previously approved projects in Russia, beyond the framework of the implementation of projects in the Russian Federation interaction with institutions, in which Russia and friendly countries are the main shareholders, is preserved and built for the future with taking into account the potential role of new MDBs in the transformation of the international financial system.

5.4.6. The United Nations

Along with unilateral sanctions, Western countries continued their attempts to turn the UN into an instrument of pressure on Russia, trying to limit its influence on the constructive solution of key issues on the agenda.

1 The EBRD granted Ukraine euro 3 bn. URL: <https://ria.ru/20231023/ukraina-1904646556.html>

2 Special measures envisage a ban on certain financial transactions, in particular those related to the transfer of the ownership title to securities. In addition, the measures related with restrictions on withdrawal of foreign exchange from Russia suggest redemption of foreign currency-denominated obligations to foreign creditors in rubles. Special measures were introduced in response to “unfriendly actions of the United States and foreign countries and international organizations that have joined them.” The withdrawal of the NDB and the AIIB from the measures is likely owing to Russia’s desire to fulfill its obligations to these institutions in a “normal” mode and to ensure the earliest possible resumption of financial interaction and positioning of these banks as Russia-friendly organizations.

3 Executive Order No.738 of October 15, 2022 of the President of the Russian Federation “On Application of Some Executive orders of the President of the Russian Federation.” URL: <http://publication.pravo.gov.ru/Document/View/0001202210150001>

4 Our Projects. URL: https://www.aiib.org/en/projects/list/year/All/member/Russian%20Federation/sector/All/financing_type/All/status/All

5 The meeting with NDB President Dilma Rousseff. URL: <http://www.kremlin.ru/catalog/persons/236/events/71809>

6 A Statement by the New Development Bank. URL: <https://www.ndb.int/news/a-statement-by-the-new-development-bank/>

7 AIIB Statement on war in Ukraine. URL: <https://www.aiib.org/en/news-events/news/2022/AIIB-Statement-on-war-in-Ukraine.html>

In October 2023, a vote took place on the issue of filling the vacancies on the UN Human Rights Council for 2024–2026. As a result of the vote, Russia received 83 votes and was not elected for the upcoming term; its rivals in the regional group – Bulgaria and Albania – received 160 and 123 votes, respectively, and joined the Council.¹ According to Maria Zabolotskaya, Deputy Permanent Representative of the Russian Federation to the UN for Legal Affairs, Human Rights and Counter-Terrorism, the decisive role was played by the “unprecedented” anti-Russian campaign launched by the United States.² According to the Ministry of Foreign Affairs of the Russian Federation, Russia’s competitors in the voting were openly supported not only by the United States, but also “London, Brussels and their allies,” who used the UN Security Council platform for open anti-Russian agitation. Nevertheless, Russia views the Human Rights Council as a key body in the UN system and seeks to reverse the trend of politicization of its work. For the coming period, Russia will maintain its status as an observer state with the Council.³

In April 2023, as a result of a regular rotation Russia became the chairman of the UN Security Council (UNSC). All planned events on global agenda issues were carried out within a month.⁴ The UN Security Council held debates on the risks associated with violation of agreements on regulation of exports of military purpose products; high-level debates took place with the participation of Sergei Lavrov on the issues of forming a “fair multipolar system” based on the principles of the UN Charter; open quarterly debates on security issues in the Middle East were held. A number of informal meetings were organized in conformity with the “Arria formula” on the issue of ensuring the safety of children in the area of the special military operation. Also, on the sidelines of the UN Security Council, multilateral discussions were held on the issues of achieving social consolidation in Afghanistan and normalizing the situation around the Korean Peninsula, in Sudan, Yemen and Columbia.

The support of the United States and its partners for Israeli military actions in the Gaza Strip after the Hamas attack on October 7, 2023 led to an open confrontation in the UN Security Council on the issue of preventing further development of the conflict. The United States with the support of France, Japan and the UK rejected the draft resolution on a humanitarian ceasefire proposed by Russia immediately after the start of the armed confrontation.⁵ Then the United States vetoed Brazil’s draft resolution, which Russia proposed to amend to condemn attacks on civilians and call for a humanitarian truce, citing the lack

1 Russia failed to be reelected to the UN Human Rights Council. URL: <https://www.rbc.ru/politics/10/10/2023/65254ef69a79475a805b114e>

2 Russia fails to return to UN rights body after losing vote. URL: <https://www.reuters.com/world/russian-bid-return-un-rights-body-fails-after-vote-2023-10-10/>

3 On elections to the UN Human Rights Council for 2024–2026. URL: https://mid.ru/ru/foreign_policy/news/1909016/

4 On the results of Russia’s chairmanship in the UN Security Council in April 2023. URL: https://www.mid.ru/ru/foreign_policy/news/1866290/

5 The UN Security Council rejected Russia’s resolution on Gaza. URL: <https://news.un.org/ru/story/2023/10/1445852>

of language in the text on Israel's right to self-defense.¹ After two months of efforts to agree on the UN Security Council decision, on December 9 the United States vetoed the draft resolution demanding an immediate ceasefire proposed by the UAE and supported by 13 UN Security Council members and 97 UN member states. In fact, the UN Security Council found itself “paralyzed by geostrategic differences, its authority and trust in it have been seriously undermined.”²

The achievement of 2023 is the continued broad support on the part of the General Assembly (UNGA) for Russia's activities within the framework of the Open Working Group (OWG) in the field of international information security (IIS). In November 2023, the First Committee of the UN General Assembly adopted the Russian draft resolution on the format of decision-making in the OEWG based on consensus which took into account the opinions of all participants.³ The support of the majority of UN member states makes it possible to maintain the progress achieved in the field of international information security and create the preconditions for continuing negotiations in the future.

In September 2023, during the high-level week of the 78th session of the UN General Assembly, a summit was held to “mark the beginning of a new stage of accelerated progress in achieving the SDGs.”⁴ The final documents of the summit, in particular, the declaration of the UN High-Level Political Forum on Sustainable Development did not include new commitments in respect of specific ways of speeding up progress in achieving the Goals, mechanisms for reforming the 2030 Agenda with taking into account new thematic sectors (in particular, digitalization), as well as instruments for monitoring and evaluating results.⁵

At the summit, on behalf of the member states of the Eurasian Economic Union (EAEU) Russia's representative delivered a report on achievement of the SDGs within the framework of the association. According to the representative of the Russian Federation, the lack of progress in implementing the SDGs is due to the following: miscalculations made by the United States and the European Union in the macroeconomic policy during the pandemic; forced “greening” of the economy without taking into account the social effects of the proposed measures; the reluctance of donors to fulfill their obligations to developing countries, as well as the “policy of illegal unilateral sanctions.”⁶

1 The UN Security Council: the USA vetoed Brazil's resolution on the Middle East. URL: <https://news.un.org/ru/story/2023/10/1445912>

2 'I will not give up' on push for Gaza humanitarian ceasefire: Guterres. URL: <https://news.un.org/en/story/2023/12/1144622>

3 On adoption of Russia's draft resolution on international information security by the First Committee of the UN General Assembly. URL: https://mid.ru/ru/foreign_policy/news/1913423/

4 The UN summit of the future in 2024. The UN. URL: <https://www.un.org/ru/common-agenda/summit-of-the-future>

5 PoliticalDeclarationofthehigh-levelpoliticalforumonsustainabledevelopmentconvenedundertheauspicesoftheGeneralAssembly. URL: https://hlpf.un.org/sites/default/files/2023-09/A%20HLPF%202023%20L1.pdf?_gl=1*13h3m9w*_ga*MTk3MDU3NjU3OS4xNzAxOTQ2ODE0*_ga_TK9BQL5X7Z*MTcwMTk0NjgMy4xLjEuMTcwMTk0ODk2Mi4wLjAuMA

6 The report on the impact of the Eurasian economic integration on the achievement of the UN Sustainable Development Goals within the EAEU during the Sustainable Development Goals Summit under the auspices of the UN General Assembly (September 18–19, 2023). The UN. URL: https://estatements.unmeetings.org/estatements/10.0010/2023091809000000/m2i3qkeWGcpM/k5xFeQj02Mx1_ru.pdf

Despite the negative forecast regarding the prospects for the implementation of the SDGs until 2030, as well as the need recognized by the UN to adopt an action plan to stimulate the achievement of the Goals (SDG Stimulus), no practical steps have been taken to structurally transform the 2030 Agenda. The existing SDG framework provides limited space for integrating the commitments from the Political Declaration and ensuring the monitoring of their implementation because it does not include a sufficient number of targets and indicators in key areas, such as digitalization. The lack of efforts towards structural transformation and renewal of the SDGs calls into question the expected results of the upcoming Summit of the Future in 2024 and worsens the prospects for achieving the Goals by 2030.

5.4.7. The World Health Organization

In 2023, the trend towards curtailing cooperation between Russia and the World Health Organization (WHO), associated with the aggravation of the geopolitical situation, continued.

On May 15, 2023, by decision of the WHO Regional Committee for Europe, the Moscow office for the prevention and control of non-communicable diseases was closed. The implementation of the functions of the office was entrusted with the regional office in Copenhagen.¹ The Ministry of Health of the Russian Federation described this decision as politicized: Deputy Minister Sergei Glagolev noted its contradiction to the “spirit of cooperation and the charter of the WHO Constitution”, as well as the creation of a precedent for curtailing cooperation “in the political interests of a narrow group of countries.”²

On May 21-30, 2023, the 76th session of the World Health Assembly was held with the active participation of Russia. On May 22, 2023, Russia together with the Arab Republic of Syria came up with a draft resolution “Health Emergency in and around Ukraine.”³ According to Sergei Glagolev, Deputy Minister of Health of the Russian Federation, “the Russian side has prepared a politically neutral draft resolution which allows all countries to effectively interact in the interests of resolving the health emergency in Ukraine and increase the effectiveness of this line of work of the World Health Organization.” The representative of the Ministry of Health praised WHO’s activities in health emergencies and also outlined the role of Russia as an important donor in these efforts.⁴ However, the Russian draft resolution failed to receive support of the Assembly with 62 votes against, 13 in

1 Closure of the WHO European Office for the Prevention and Control of Noncommunicable Diseases (NCD Office) in Moscow (the Russian Federation) and transfer of its functions and management to Copenhagen (Denmark). URL: <https://iris.who.int/bitstream/handle/10665/367820/ss3rs2r-NCD-230440.pdf?sequence=1>

2 The Ministry of Health called the closure of the WHO office in Moscow a politicized decision. URL: <https://tass.ru/obschestvo/17811099>

3 Health emergency situation in and around Ukraine. URL: https://apps.who.int/gb/ebwha/pdf_files/WHA76/A76_ACONF4-ru.pdf

4 Russia prepared a draft resolution on work with the WHO in Ukraine. URL: <https://ria.ru/20230523/proekt-1873753098.html>

favor and 61 abstentions.¹ An alternative resolution with political assessments of the situation around Ukraine and condemnation of Russia was adopted, but it did not actually imply specific practical steps aimed at combating the consequences of the conflict in the healthcare sector.

At the practical level, the joint work of Russia and the WHO, although in a truncated format, continues. At a meeting held on October 23, 2023 in Astana, Mikhail Murashko, Minister of Health of the Russian Federation and Tedros Adhanom Ghebreyesus, Director General of the World Health Organization agreed to hold joint activities in the territory of the Russian Federation, in particular, in the field of combating infectious diseases, tuberculosis and HIV, as well as the regulation of medical products. The inclusion of Russian specialists in WHO working bodies was also discussed at the meeting.²

Despite the reduced level of cooperation, the closure of the regional office in Moscow and the general politicization of the process within WHO, the organization remains relevant for Russia. Thus, Health Minister Mikhail Murashko spoke in favor of maintaining ties with the WHO, since the organization can be used “as a platform for the exchange of information, as well as for promoting and upholding one’s point of view.”³

5.4.8. The EAEU

In 2023, the EAEU continued to adjust internal processes amid growing sanctions imposed on Russia and Belarus, search for a compromise on key issues of integration development (for example, in the energy sector and e-commerce) and work on an agreement on data circulation.

In 2023, the climate agenda was a priority and dynamically developing line of cooperation in the EAEU. The adoption of criteria for green projects of the EAEU member states (model taxonomy) can be called the main achievement.⁴ It is meant to simplify the access of investor companies from the EAEU to capital markets through the placement of financial instruments on the exchanges of the EAEU countries. The model taxonomy of the EAEU’s green projects should help reduce possible barriers to attracting investments in innovative projects in the EAEU space, as well as can also be used in the development of national systems for verifying financial instruments as “green” by member states which do not have such systems. As a pilot project, it is planned to issue “green” financial instruments for a cooperative Eurasian project in conformity with the Union’s model taxonomy. In addition, Andrei Slepnev, Minister of Trade of the EAEU, noted that in order to

1 The daily news from the 76th session of the World Health Assembly – May 24, 2023. URL: <https://www.who.int/ru/news/item/24-05-2023-seventy-sixth-world-health-assembly---daily-update--24-may-2023>

2 Mikhail Murashko has declared that the Ministry of Health of the Russian Federation preserves contacts with the WHO . URL: <https://tass.ru/obschestvo/19091103>

3 Mikhail Murashko explained the need to preserve the relations between Russia and the WHO. URL: <https://www.rbc.ru/politics/01/02/2023/63da60d99a7947f4af9faafb>

4 “Green” projects criteria of the EAEU member states. URL: https://eec.eaunion.org/upload/medialibrary/df7/Kriterii-dlya-opublikovaniya-_Modelnaya-taksonomiya_.pdf

eliminate trade barriers, a common market for carbon units would be preferable and this would require the development of general regulation on infrastructure issues and harmonization of sectoral decarbonization plans.¹ In 2023, the Board of the Eurasian Economic Commission adopted recommendations on the concept of introducing the principles of a “green” economy in the Eurasian Economic Union. The document defines four principles of the “green” economy: transparency and cooperative attractiveness in the implementation of “green” projects, exchange of experience and best practices of national climate control systems between member states, economic efficiency and an increase in the gap between economic growth and anthropogenic impact on the environment.²

The EAEU is discussing the prospects for cooperation in the field of hydrogen production. In 2023, a special report was presented; it includes information on the main technologies for the production, transportation, storage and use of hydrogen; review of global experience in the field of hydrogen energy based on the example of individual countries and trends in the development of hydrogen energy in the EAEU states. Promising lines of the development of scientific and technical cooperation in the field of hydrogen energy in the EAEU have been identified; they include the production of low-carbon hydrogen by water electrolysis through the use of electrical energy from nuclear power plants, small hydroelectric power plants and renewable energy sources; production of low-carbon hydrogen by various methods from hydrocarbons; compressing, liquefaction, storage and transportation of hydrogen; hydrogen transport and the infrastructure required for its application; materials for solid oxide electrolyzers and fuel cells, as well as for the use of advanced hydrogen storage technologies.³

The EAEU single energy market is expected to start its work in 2025; it was planned to complete the approval of all the necessary agreements for its launch by 2023, but it was not feasible to complete this work within the set time frame. In 2023, progress was achieved in respect of the electricity market. The Rules for Mutual Trade in Electrical Energy were approved, as well as the Rules for Determining and Distributing the Capacity of Interstate Cross-Sections. These are two of the four main sets of rules that must be adopted by the Union for the successful functioning of the common electricity market.⁴ Also in 2023, the Council of Heads of Authorized Bodies of the Member States of the Eurasian Economic Union in the field of energy began its work with a main objective to

1 *Andrei Slepnev*: “Climate agenda suggests technological transformation and success which will determine competitiveness in the coming decades.” URL: <https://eec.eaeunion.org/news/andrey-slepnev-klimaticheskaya-povestka-predpolagaet-tehnologicheskuyu-transformatsiyu-uspekhtotor/>

2 The EAEU has adopted the concept for introduction of the principles of the “green” economy. URL: <https://eec.eaeunion.org/news/v-eaes-prinyali-kontseptsiyu-vnedreniya-printsipov-zelenoy-ekonomiki/>

3 On the results of the analysis on the prospects for the development of hydrogen energy in the Eurasian Economic Union. URL: <https://eec.eaeunion.org/upload/medialibrary/5ab/HYDROGEN-REPORT-2023.pdf> (date of access: December 19, 2023).

4 The other two rules concern the rules of access to services for interstate electricity transmission and information exchange. The next stage of development of the EAEU common electricity market has completed URL: <https://eec.eaeunion.org/news/zavershilsya-ocherednoy-etaprazvitiya-obshchego-elektroenergeticheskogo-rynka-eaes/>

ensure the approval and adoption of missing agreements, primarily for the oil and gas markets, but so far it appears to be an extremely difficult task. Three main lines of differences between member countries are named. Firstly, this is pricing for gas transportation services. Russia and Kazakhstan are in favor of separate pricing in the domestic and foreign markets, while Belarus, Armenia and Kyrgyzstan are in favor of equal conditions for all members of the EAEU. Secondly, the issue of the continuation of bilateral gas agreements because it is not yet clear whether they will be brought into line with the prospective international agreement or remain in force in their current version. Thirdly, the issue of non-discriminatory conditions for gas transit from third countries.¹ A compromise on these issues is needed to launch a single market, which is regarded as a key line of integration in the Treaty on the EAEU.

In 2023, the EAEU made progress in the development of electronic commerce regulation. The Board of the Eurasian Economic Commission approved general approaches to the protection of consumer rights in electronic commerce and recommended them for inclusion in the legislation of member countries. The document contains a list of information, including the price and conditions for the purchase and return of goods that must be provided to the consumer, as well as characteristics of unfair actions and grounds for establishing liability for violation of consumer rights in electronic commerce. In June 2023, the EEC presented a draft Agreement on Electronic Commerce. Its analysis has shown that Russia's interests, including the right to establish the maximum permissible shares of foreign capital in trading platforms, as well as the right to use the national payment system (MIR) for transactions, were taken into account by the EEC. However, with further negotiation of the project, differences may arise, for example, due to data localization requirements, so mutually beneficial solutions will have to be searched for. Finally, a new legal institution – an e-commerce operator – was established to comprehensively provide logistics for operations with relevant goods, as well as networking with Internet platforms and customs authorities.

In 2023, the development of the digital agenda slowed down, and the extent of public coverage of the Union's activities in this area decreased significantly. The draft international agreement on data circulation failed to be agreed on, although it should have been presented at the beginning of 2023, and before that, in mid-2022. Without agreement on the data circulation regime in the EAEU and all aspects of their cross-border transfer, it will be difficult to implement joint digital projects that form the basis for the development of integration because businesses will encounter different requirements in each member country. The absence of an agreement on data, not necessarily only personal data, deprives the EAEU of a serious resource for the development of the economy. According to calculations of the EEC and the World Bank, despite the fact that today the data industry at the regional level of the EAEU is at an early stage of development, in

1 *Zakrevsky V.* When common energy markets in the EAEU will start working and what benefits consumers will receive. URL: <https://eec.eaeunion.org/news/speech/vadim-zakrevskiy-kogda-darabotayut-obschie-energeticheskie-rynki-v-eaes-i-kakuyu-vygodu-poluchat-potrebiteli/>

future the “data economy’s” active growth is expected and on the back of it the EAEU’s GDP can grow by 2% until 2025.¹

In December 2023, a number of key documents were adopted: “The EAEU Main Guidelines for International Activities in 2024”, “The Main Guidelines for Macroeconomic Policy for 2024–2025” and “The Declaration on the Further Development of the Economic Processes within the EAEU till 2030 and for the period until 2045 “Eurasian Economic Path”. The declaration envisages the expansion and promotion of integration and strengthening of networking with partners in the CIS, BRICS and SCO. In the coming years, important integration challenges for the EAEU will be the following: to promote cooperation on the climate agenda, strengthen integration and ensure harmonization, create conditions for the joint implementation of climate projects and verification and validation of such projects’ results and complete integration processes on energy markets. It is necessary to assess the adequacy of the relevant regimes and agree on interstate agreements on the adequacy and sufficiency of personal data protection between members of the EAEU. Within the EAEU, an agreement on electronic commerce should be adopted. Simultaneously, networking should continue between relevant agencies in order to harmonize the regulation.

5.4.9. The EU

In 2023, the European Union continued its policy of diversifying energy sources, completed the filling of gas reservoirs in advance in preparation for winter and developed alternative energy sources. At the same time, in Q1 2023 the EU demonstrated a reduction in greenhouse gas emissions, while its GDP increased on the same period of 2022.² Russia’s share in EU imports of petroleum products and natural gas has been continuously declining since Q2 2022. Oil imports from Russia fell from an average monthly figure of 8.7 million tons in Q2 2022 to 1.6 million tons in Q2 2023 (-82%), while imports from countries outside the EU, except Russia, on the contrary, increased from 31.5 million tons to 37.3 million tons over the same period. Russia’s share of total imports of petroleum products to the EU was equal to 4.0% in Q2 2023, which is significantly different from 21.6% seen in the same quarter of the previous year.

A similar situation developed with gas: Russia’s share decreased by 14.5 p.p. to 13.8% of the EU total imports, while the shares of Algeria (+9.3 p.p.) and Norway (+6.2 p.p.) increased considerably. Thus, the EU managed to successfully overcome its dependence on energy supplies from Russia and find other suppliers. However, imports of liquefied gas (LNG) from Russia increased in 2023 as it is not yet subject to sanctions and European buyers are taking advantage of this opportunity. EU countries purchased 22 million cubic meters of Russian LNG in January-July 2023

1 The EAEU’s Digital Agenda till 2025: Prospects and Recommendations. URL: <https://eec.eaeunion.org/upload/medialibrary/864/Obzor-VB.pdf>

2 Which EU countries are making the most progress with their emissions reductions? URL: <https://www.weforum.org/agenda/2023/09/eu-greenhouse-gas-co2-emissions/>

compared to 15 million in the same period of 2021.¹ According to the Aurora Energy Research, in January–July Russia provided about 16% of total LNG imports to the EU, ranking second after the United States.

In December 2023, the EU passed a decision under which any EU member country would be able to ban companies from Russia and Belarus to buy capacities in European gas pipelines and LNG terminals. This proposal lays grounds for EU energy companies to terminate contracts with Russian gas suppliers without paying a significant compensation.²

In 2023, the EU kept increasing sanctions pressure on Russia and adopted the tenth and eleventh packages of restrictive measures, which affected sensitive dual-use technologies, bitumen and related materials (asphalt), synthetic rubber and technical carbon. An “anti-circumvention tool” has been introduced: it will allow the EU to restrict the export of certain sanctioned goods and technologies to third countries whose jurisdictions are considered to be subject to a persistent and high risk of circumvention. Also, restrictions have been tightened on imports of iron and steel goods from third countries which have now to prove that the raw materials used do not come from Russia.

The EU and its allies are increasing pressure on the Russian economy, but not all measures ultimately prove effective. The price cap of \$60 per barrel on Russian oil introduced in December 2022 is not complied with; oil is sold at a price of about \$70 per barrel.³ This also demonstrates the limited ability of the EU and its G7 partners to influence world markets and all global actors.

In 2023, the EU finally agreed on the instruments of the Fit for 55 package, including the reform of the European Emissions Trading System (EU ETS) and the introduction of a cross-border carbon adjustment mechanism (CBAM). The CBAM transition phase came into force on October 1, 2023 and will last until the end of 2025. During this period, European importers of non-EU goods subject to the CBAM are required to report the carbon intensity of their imports without incurring any financial obligations. The obligation to purchase and submit CBAM certificates will apply from 2026, actually setting a price on carbon that is expected to reflect the price level of quotas in the EU ETS.⁴ As in the current situation, Russian aluminum, steel and fertilizers are subject to international sanctions and, accordingly, their exports to the EU countries are actively declining, adaptation to CBAM criteria is no longer a priority for their manufacturers.

The EU faces a new challenge: the insufficient scale of production of climate-neutral technologies and raw materials for them. Therefore, two broad strategies

1 Persistent increase of Russian liquefied natural gas imports in the EU. URL: https://www.europarl.europa.eu/doceo/document/E-9-2023-001887_EN.html

2 EU to give member states power to block Russian gas imports. URL: <https://www.ft.com/content/d6a06e26-7256-4b97-92dd-7131fb676ad8>

3 Russian oil price cap has largely failed, new report finds. URL: <https://www.politico.eu/article/russia-oil-price-cap-ukraine-war-centre-research-energy-clean-air/>

4 EU Carbon Border Adjustment Mechanism (CBAM) takes effect with transitional phase. URL: <https://icapcarbonaction.com/en/news/eu-carbon-border-adjustment-mechanism-cbam-takes-effect-transitional-phase>

were introduced to prevent new dependency: the Green Deal Industry Plan¹ and the Critical Raw Materials Strategy.² In the field of development of technologies, the Commission decided to take an unusual step and expanded the range of government support tools. Guaranteed funding for the industry amounts to euro 439.6 bn until 2027 from the Recovery and Sustainability Fund, the Fair Transition Fund, the Horizon Europe and Funding Important Projects of Common European Interests programs. With the attraction of private investments, the EU expects to double this amount.

The EU is seeking to find like-minded partners with whom it can coordinate policies to prevent carbon leakage and provide better business conditions through the creation of clubs. The attempt to extend the same restrictions and standards to the main actors in exchange for a more predictable environment and funding, investment and technology, while protecting against those who are not ready to tighten the requirements, is the basis for forming a climate club. The establishment of limited clubs can undermine efforts within the scope of generally accepted instruments and forums, most notably the United Nations Framework Convention on Climate Change (UNFCCC), and increase fragmentation. Therefore, such initiatives that may discriminate against those who did not join should be treated with caution.

In 2023, the Digital Services Law (DSL) and the Digital Markets Law (DML) came into force. These laws are an example of ex ante regulation of digital services. The DSL regulates a wide range of digital services provided by online intermediaries and platforms, including marketplaces, social networks, content sharing platforms, app stores, and travel and accommodation search platforms. The DSL regulates platforms that are guardians of entry to the market, have systemic importance in the domestic market and represent a “bottleneck” in relations between businesses and consumers. The risks of the EU policy regarding digital platforms’ activities, as well as the interests of users are associated with the development and adoption by the European Commission of delegated acts, methodologies and recommendations on specific aspects of the implementation of regulations, which content, as shown by the recently published report on the methodology for assessing the effectiveness of measures taken by platforms against disinformation on the basis of the risk management principles and risk mitigation requirements of the Digital Services Regulation³, may have a potentially negative impact on users as a result of excessive self-regulation of platforms. The proposed use of “qualitative assessments of the level of risk in context” creates the preconditions for the influence of ideological and political considerations on the process and result of assessing content and moderation measures and the relevant impact on the behavior of platforms that may prefer

1 European Commission (2021) COM/2021/775 final. URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0775>.

2 European Commission (2023) COM/2023/165 final. URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52023DC0165>

3 Digital Services Act. Application of the risk management framework to Russian disinformation campaigns. URL: <https://op.europa.eu/en/publication-detail/-/publication/c1d645d0-42f5-11ee-a8b8-01aa75ed71a1>

tough moderation or blocking of Russian user accounts to fines for violating the Commission's recommendations in respect of the DSL requirements.

Thus, the EU managed to overcome its dependence on Russian energy supplies, expanded the list of suppliers, improved its energy efficiency indicators and even reduced emissions while its GDP increased. The sanctions pressure on Russia continues to grow, but the negotiation of new packages of sanctions is becoming more and more difficult and slower, sanctions are becoming more targeted and limited, and differences between member countries increase.

Some instruments do not yield the expected result as even the group of major developed economies finds it difficult to influence global markets. At the same time, the EU has adopted a range of measures aimed at protecting its own industry and expected to influence the global competition in the markets for climate-neutral technologies and critical raw materials. There is a risk of isolating Russia and closing its access to markets and, as a result, its inability to carry out decarbonization and achieve its climate goals. The beginning of the implementation of the EU DSL and DML has shown that Russian end users and business users may face restrictions as regards the provision of information and EU citizens will be limited in their ability to obtain information from the Russian side. In this regard, it is necessary to monitor and analyze the content and identify risks associated with the adoption by the EC of delegated acts, methodologies and recommendations for the implementation of regulations.

5.4.10. UNFCCC

The 28th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP28 UNFCCC), an annual key event in the field of climate policy was held from November 30 to December 12, 2023 in Dubai. The Conference completed the first "global inventory" that began at COP26 in Glasgow. This process was meant to identify which policies should be a priority and stimulate countries to speed up the climate transition. As a result of lengthy negotiations, the following lines for reducing emissions were fixed:

- increasing by 200 percent the capacity of renewable energy sources (RES) and doubling the average annual rate of increase in energy efficiency by 2030. To implement efforts in this direction, the "Global Commitment on Renewable Energy and Energy Efficiency" was adopted at COP-28, signed by 130 national governments (as of December 11, including the European Union). Russia and its BRICS partners, with the exception of Brazil, did not join the obligation, including due to problems of financing the development and implementation of technologies, as well as non-compliance with the principle of fairness. It was noted that developed countries used the potential of hydrocarbons for their growth, while depriving developing countries of such an opportunity;
- accelerating efforts to gradually phase out coal energy;
- accelerating efforts to create zero-emission energy systems using zero- and low-carbon fuels well before or around mid-century;

- a gradual transition in a fair, orderly and equitable manner from fossil fuels in energy systems, accelerating of actions to achieve zero net emissions by 2050. This point of the final document caused the greatest controversy. Initially, a group of countries, which mainly included EU members and other importers, tried to push for the inclusion in the text of a decision on a complete phase-out of all types of fossil fuels, including gas. Hydrocarbon-exporting countries, including the presidencies of the UAE, Saudi Arabia and Russia, were categorically against such wording, emphasizing the right of countries to choose their own decarbonization path, the risks of worsening poverty and energy security problems in the context of a hasty abandonment of hydrocarbons, and the potential of gas as a transition fuel, the use of which can significantly reduce emissions in developing economies. This position was supported by developing countries, for which the energy transition and complete abandonment of fossil fuels at this stage is impossible without damage to the social and economic development;
- accelerating the introduction of zero- and low-emission technologies, including, in particular, renewable energy sources, nuclear power, pollution control and removal technologies such as carbon capture, utilization and storage, and low-carbon hydrogen production;
- significant reduction in greenhouse gas emissions (in addition to carbon dioxide), including, in particular, methane emissions, by 2030;
- accelerating the reduction of emissions from road transport, including through infrastructure development and the rapid introduction of zero- and low-emission transport vehicles;
- phasing out ineffective fossil fuel subsidies that do not address energy poverty or a just transition.¹

Also, a number of sectoral initiatives were launched. Thirty-seven national governments participating in the Declaration on Mutual Recognition of Certification Schemes for Renewable and Low Carbon Hydrogen and Its Derivatives will seek mutual recognition of their respective schemes.² The initiators of the agreement were the G7 countries. For Russia, the exclusion from mutual recognition of clean hydrogen standards can close an access to markets. The 52 signatories to the Oil and Gas Decarbonization Charter commit to achieve net-zero production emissions not later than 2050, end routine gas flaring by 2030 and reduce methane emissions from production to zero. The Russian company LUKOIL joined the initiative.³ 22 countries have adopted a declaration to triple nuclear power capacity by 2050, recognizing the key role of nuclear energy in achieving “net zero”.⁴

1 Outcome of the first global stocktake. URL: https://unfccc.int/sites/default/files/resource/cma2023_L17_adv.pdf

2 Mutual Recognition of Certification Schemes For Renewable And Low-Carbon Hydrogen And Hydrogen Derivatives. URL: <https://www.cop28.com/en/cop28-uae-declaration-on-hydrogen-and-derivatives>

3 Oil & Gas Decarbonization Charter launched to accelerate climate action. URL: <https://www.cop28.com/en/news/2023/12/Oil-Gas-Decarbonization-Charter-launched-to-accelerate-climate-action>

4 Declaration Recognizes the Key Role of Nuclear Energy in Keeping Within Reach the Goal of Limiting Temperature Rise to 1.5 Degrees Celsius. URL: <https://www.energy.gov/articles/cop28->

Within the framework of the previous COP-27 summit, its participants agreed to create a UN Fund to compensate climate change-related losses and damage to developing countries. Then the parties disagreed on whether it was necessary to compensate all the losses suffered by the countries of the South during the global warming or only new ones (the western countries were in favor of the latter option). In November 2023, the parties agreed to locate the Fund within the framework of the World Bank, although developing countries preferred a separate secretariat, which would be served by a separate legal entity.¹ 18 states, including Germany and Japan, agreed to allocate funds to the Damage Compensation Fund. China and India opposed it, insisting on their status as developing countries. Russia is considering the possibility of financing the Fund using frozen national reserves.² In general, for developing countries the issue of financing remains the main one for global climate regulation. The insufficient amount of resources provided by developed countries, the borrowed nature of financing in the context of the worsening debt problem of developing and least developed countries create obstacles to a just transition and risks of increasing global inequality.

At COP-28, Russia once again confirmed its goal of achieving carbon neutrality by 2060. The main task of the delegation was to prevent discrimination against any types of fuel and energy in the final documents. In a coalition with partners, it became possible to achieve the adoption of a softer wording regarding a gradual transition from fossil fuels.

Russia joined none of the initiatives, however, national documents, primarily the “Strategy for Long-Term Development with Low Emissions” and the new “Climate Doctrine” published in 2023 set out goals for reducing emissions, doubling the share of renewable energy sources and increasing nuclear power capacity. The growing recognition of nuclear energy as “green” meets the interests of Russia, which has a significant potential for implementing international projects in this area. Azerbaijan’s chairmanship at COP-29 in 2024 also provides grounds for successful upholding of Russia’s interests in respect of the use of hydrocarbons and other issues of the agenda.

* * *

A trend has emerged in the system of international institutions towards a change in the balance of influence. The countries of the global South demonstrate growing autonomy and independence in making a political choice on key issues of global and regional governance. The new movement of “active” non-alignment seeks to overcome the unilateral global domination of the United States and its allies and create a representative and fair international order. Russia (more precisely, the USSR) historically showed solidarity with the struggle

countries-launch-declaration-triple-nuclear-energy-capacity-2050-recognizing-key
1 Adaptation to climate change – the key lines of cooperation in the 21st century. URL: <https://fedpress.ru/article/3281126>
2 The Russian Federation is considering the issue of financing the Damage Compensation Fund using its frozen reserves. URL: <https://tass.ru/ekonomika/19497629>

for a new international economic order in the 1970s and 1980s. At present, the process of forming a multipolar world has entered a new stage. Non-Western institutions have become a kind of vanguard of transformation. At the same time, G7 countries and their partners continue to promote their priorities and rules through the existing mechanisms and form new platforms for economic, climate, and digital governance. The experience of the 1970s – 1980s, as well as the results of attempts to reform international economic institutions over the past 15 years show that without the creation of alternative mechanisms and the risks of replacing old structures, reform of the existing system is unlikely.

The success of the new stage of transformation will largely depend on the extent to which new non-Western institutions are able to overcome differences between their members, create their own mechanisms and come up with coordinated positions on reforms, including during the preparations for and at the Summit of the Future in 2024. For Russia, it is particularly important. Its BRICS presidency in 2024 provides additional opportunities to influence transformation processes.

5.5. Russia's participation in WTO disputes¹

5.5.1. WTO crisis and Russia's participation in WTO after beginning of SMO

For several years, the WTO system, in particular trade dispute settlement mechanism, has been in a state of crisis. The main reasons are the following: growth of protectionism, trade wars, the COVID-19 pandemic, systemic problems, primarily, freezing of the Appellate Body (AB). According to the U.S., the AB exceeds limits of its authority, sometimes making decisions outside of the WTO law, thus, developing rights or obligations for member countries that are not provided for in the existing WTO agreements and violating time limits for appeals. The U.S. has blocked decisions on appointment of new AB members. Many WTO member countries agree on the need for reforms.² According to experts, despite internal challenges, WTO has no alternative related to matters regulating international trade relations.

After Russia launched a special military operation (SMO) late February 2022, a number of countries (primarily the EU and the U.S.) began to impose unprecedented trade and economic sanctions against Russia: they began to suspend the most-favored-nation treatment (MFN) against Russia, which contradicts the basic principle of the WTO: non-discrimination; discussing its exclusion from the WTO (suspend Russia's membership rights contrary to the WTO rules, which do not

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2 Details are available in: URL: <https://www.iep.ru/ru/publikatcii/publication/rossiyskaya-ekonomika-v-2020-godu-tendentsii-i-perspektivy-vypusk-42.html>

foresee such actions). Attempts to isolate Russia from WTO activities will result in paralysis of the WTO main functions, i.e. provide a platform for trade negotiations and administering trade agreements.

In mid-March 2022, a message dated March 15, 2022¹ was circulated to WTO Members on behalf of the Russian Federation drawing the attention of WTO Members to threats to multilateral trading system due to recent aggressive and politically motivated trade-restrictive actions by some Members. The message noted that the following measures clearly contradict the provisions of GATT 1994 and GATS:

- imposing import tariffs above MFN rates;
- a ban on imports of Russian crude oil and refined petroleum products, as well as intentions to restrict imports of other energy resources, such as natural gas and coal;
- restrictions on imports of various goods to Russia, including oil refining equipment and technology, foodstuffs and industrial consumer goods;
- blocking Russian financial institutions, including freezing a significant portion of foreign currency reserves, and transportation companies;
- ban on new investments in the Russian Federation, including in the Russian energy sector;
- strict export controls/complete ban on trade in other goods and technologies crucial for economic development.

Due to introduction of large-scale trade sanctions against Russia, thereby discriminating Russian companies in foreign markets, the issue of Russia's prospects of participation in the WTO, possible violations of multilateral trade rules by WTO members, and Russia's potential withdrawal from the organization are widely discussed.² Some Russian experts and politicians suggest that Russia should withdraw from the WTO, while others believe that this is what the countries imposing sanctions against Russia are trying to achieve.³ Others believe that Russia's withdrawal from the WTO will exacerbate discriminatory trade with the world.⁴ A number of expert arguments in favor of Russia's participation in the WTO and suggestions for the Russian position can be identified:⁵

- there will be more restrictions against Russia without WTO. The terms of trade with those countries having no political contradictions with Russia will become more complicated. Most WTO members have not imposed sanctions against Russia;
- WTO is an important tool to support Russian exports, and Russia's withdrawal will create risks for businesses and individuals.
- access to removing barriers in the WTO working bodies;
- access to developing new international trade rules;

1 URL: https://wto.ru/news/rasprostraneno-soobshchenie-rossiyskoy-federatsii-v-ramkakh-vto/?bitrix_include_areas=N.

2 URL: <https://pravo.ru/story/239997/>

3 URL: <https://www.rbc.ru/rbcfreenews/6238870a9a79476f887f02ee>

4 URL: <https://cyberleninka.ru/article/n/vzaimodeystvie-rossii-i-vto-v-usloviyah-mezhdunarodno-pravovyh-i-ekonomicheskikh-sanktsiy-istoriko-pravovoy-aspekt>

5 URL: http://www.vavt-imef.ru/wp-content/uploads/2022/07/Monitoring_82.pdf

- access to the WTO trade dispute settlement mechanism;
- if Russia withdraws from the WTO, it will be extremely difficult to re-enter the organization, as Russia will face completely different, most likely more stringent requirements;
- the WTO principles are largely integrated into the EAEU activities and Russia's withdrawal from the WTO will complicate trade relations with other EAEU member states (Belarus, Kazakhstan, Armenia and Kyrgyzstan);
- it is important to support the process of accession of Belarus to the WTO under a more favorable geopolitical situation, filling formalities for EAEU participation in the WTO (similar to the EU).

The mechanism for suspending MFNs with respect to a particular country is controversial. The Marrakesh Agreement does not contain provisions allowing for such measures. However, other WTO agreements, such as the GATT, allow to introduce some restrictions with reference to Article XXI (Security Exceptions), when there is an emergency and a significant threat to national security. When defendants invoke these provisions, there is a question of enforcement and interpretation of the provisions of the article in relation to each specific situation.

Nevertheless, it seems reasonable, for example, to develop a WTO complaint against the EU and the U.S. for banning sale of airplanes, spare parts and equipment, insurance and maintenance services to Russian airlines; violation of obligations of leasing companies. One of the arguments could be that these bans affect the safety of Russian airlines.

Another controversial issue is the ban of transit of sanctioned goods through Lithuania from Russia to the Kaliningrad region. The EU may also invoke this article in case of a dispute against Russia over the ban of transit of sanctioned goods through Lithuania to the Kaliningrad region. The WTO Dispute Settlement Body (DSB) sided with Russia in a dispute over restrictions on transit of goods from Ukraine through Russia to third countries (Central/East Asia and the Caucasus) initiated by Ukraine in 2016 (DS512).

However, the difference is that Russia banned transit for international trade, while Lithuania banned transit from one Russian region to another. As a result, in July 2022, the European Commission banned road transport of sub-sanctioned goods through its territory from Russia to Kaliningrad, but this regime does not apply to rail transportation.¹

At the 12th WTO Ministerial Conference, Vladimir Ilyichev, Head of the Russian delegation, Deputy Minister of Economic Development highlighted the most problematic issues for Russia:²

- unilateral unlawful sanctions since 2014;
- illegal methods of calculating dumping margins;
- appeals of disputes won (including by Russia) "into the void";
- unilateral tariffs imposed on one or a group of WTO members.

Prior to the 13th WTO Ministerial Conference, Vladimir Ilyichev noted the importance of the ongoing Russia's work in the WTO, both in improving the work

1 URL: <https://www.rbc.ru/politics/13/07/2022/62cecbfa9a79479d807eb34b>

2 URL: http://www.vavt-imef.ru/wp-content/uploads/2022/07/Monitoring_82.pdf

of the DSB, including overcoming the crisis of AB, consideration of alternatives to AB, and in negotiations on such tracks as e-commerce, protectionist measures taken under the pretext of environmental protection, investment facilitation, legislation of countries in the field of fish subsidies, problems of plastic pollution, etc.¹ Finalizing negotiations to improve dispute resolution procedures by the end of 2024 could be an important part of the outcome of the 13th Ministerial Conference.²

Other significant areas of negotiations are sustainable agriculture, renewable energy sources (RES), cross-border telemedicine as a response to future global health crises and technology transfer. There has been an increase in transparency in WTO activities, including the use of electronic databases. WTO rules on sanctions should be reviewed and concept of emergency situations formalized, as well as restrictions on using sanctions measures be introduced.³ This is a challenging task for Russian negotiators at the WTO. In order to counter sanctions, Russia should study the experience of applying retaliatory measures in the WTO.

5.5.2. Retaliatory measures in the WTO

As of the end of 2023, among 621 WTO trade disputes in 1995-2023, a total of about 43 disputes (about 7% of all WTO disputes)⁴ have been requested by claimants to impose retaliatory measures against a respondent that fails to comply within a reasonable period of time with DSB rulings and recommendations.

Retaliatory measures were authorized in 20 disputes. In 75% of cases (15 out of 20 disputes), suspension of concessions was authorized against the U.S., in 3 disputes against the EU, and in one dispute each against Canada and Brazil. The right to impose retaliatory measures (some disputes have multiple plaintiffs): EU – 5 disputes, Canada – 5 disputes, Mexico – 4 disputes, Brazil – 3 disputes and others.

Article 22 (Compensation and Suspension of Concessions) of the Understanding on Rules and Procedures Governing Dispute Resolution (URPGDR) provides that compensation and suspension of concessions or other obligations may be resorted to if the respondent fails to comply with the recommendations of the DSB within a reasonable period of time. Initially, the parties should consult on mutually acceptable compensation.

It does not mean monetary payments; the defendant must offer a benefit (e.g., tariff reduction) equivalent to that which the defendant canceled or reduced by applying the measure.⁵ Compensation must be consistent with the agreements and MFNs covered in the dispute. This may be why WTO Members have almost never been able to agree on compensation in disputes. If, within 20 days after the expiration of a reasonable period of time, parties have not agreed on satisfactory

1 URL: <https://www.interfax.ru/interview/947953>

2 URL: <https://www.kommersant.ru/doc/6532075>

3 URL: http://www.vavt-imef.ru/wp-content/uploads/2022/07/Monitoring_82.pdf

4 Here and further – analysis based on official WTO website: URL: https://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm

5 URL: https://www.wto.org/english/tratop_e/dispu_e/dispu_settlement_cbt_e/c6s9p1_e.htm

compensation, the plaintiff may apply to the DSB for permission to impose retaliatory measures against the defendant, i.e. “suspension of concessions or other obligations under covered agreements.”¹ The task of the arbitrators is to determine limits of permissible retaliation by the claimant in response to the defendant’s initial measure inconsistent with WTO rules and regulations.² Although there is no uniform interpretation of the appropriate level of cancellation or depreciation, a suspension of trade designed to stabilize the value of exports and imports in trade between countries is under consideration. In case of a restrictive measure, the permissible response of the claimant is to reduce exports by an amount equal to the defendant’s reduction in imports, measured in original export prices prior to the violation of WTO obligations (reciprocity principle).³

The parties propose methodology for calculating the limit of suspension of concessions/other obligations. The arbitrator analyzes their arguments and models, proposes a final methodology and calculates such limit, however, the approach depends on specific facts and circumstances of the dispute and the recommendations of the WTO DSB.

Often, a counterfactual situation is considered vs. situation that occurs in presence of the challenged measure, as well as adjustments are made by the requested parties to the values of the countermeasures.

Arbitrators use both simple trade statistics-based share models (DS26, DS27) and more complex partial equilibrium models (mainly the Armington model for resolving disputes over safeguard measures (DS437, DS484, DS471, DS505)), as well as econometric models for calculating prices, volumes and elasticities, etc.) to calculate response limits.

The arbitrators rely on decisions in similar disputes. Some proceedings have allowed for inflation-adjusted responses, while others have not. There are issues of technical complexity of models, availability and reliability of data.

5.5.3. The WTO Trade Dispute Settlement Mechanism

Russia joined the WTO on August 22, 2012. For more than 10 years it has had access to the WTO Trade Dispute Settlement Mechanism. This mechanism operates in accordance with the WTO Trade Dispute Settlement Mechanism.⁴ Since August 2012, Russia has the right to protect its trade interests using this instrument. The WTO dispute settlement procedure consists of five main consecutive stages:⁵

- 1) *holding bilateral consultations* (within 60 days from the date of submission of the request for consultations);

1 URL: https://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c6s10p2_e.htm

2 URL: https://www.wto.org/english/res_e/reser_e/ersd200804_e.pdf

3 URL: https://web.archive.org/web/20030422170827id_/http://www.columbia.edu/80/~kwb8/reciprocity.pdf

4 URL: https://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm

5 URL: <https://www.iep.ru/ru/publikacii/publication/rossiyskaya-ekonomika-v-2021-godu-tendentsii-i-perspektivy-vypusk-43.html>

- 2) *establishment of an Arbitration Panel (AP)* at the request of any disputing party and selection of its members to consider merits of the dispute (45 days from the date of submission of a request to establish a AP);
- 3) *operation of the Arbitration Panel* (6-9 months from the start of the AP) and acceptance of its report by the Dispute Resolution and Recommendation Body (DSB) (approximately 60 days from the date of submission of the AP report);
- 4) *review of the case by the Appellate Body (AB)* when at least one of the parties files an appeal (60-90 days from filing of appeal), acceptance of the Appellate Body's report by the DSB and the announcement of the DSB recommendations to the parties (30 days from the submission of the AB's report);
- 5) *DSB control* over the implementation of recommendations (not more than 15–18 months from the date of the DSB acceptance of the AP or AB report).

The WTO Trade Dispute Settlement Mechanism provides for retaliatory measures against a respondent that does not comply with WTO rules and regulations, but in practice such measures have not been often authorized by the DSB.

5.5.4. WTO trade disputes with Russia's participation

As of the end of 2023, Russia has been and is involved in 121 WTO disputes: 8 as a plaintiff, 11 as a defendant and 102 as a third party. In 2023, neither Russia has initiated any disputes, nor any disputes initiated against Russia. In the role of a third party, Russia joined 5 new trade disputes in 2023. Some of the disputes in which Russia is a third party have already been concluded, and in a number of cases Russia has benefited (directly or indirectly) from its participation.

As a rule, Russia is the principal party in the WTO disputes with the EU, Ukraine and the United States. As a plaintiff, Russia is interested in anti-dumping investigations and measures, particularly in the metallurgical and chemical industries. Countries complain against Russia about TBT, SPS measures, anti-dumping, trade-impacting investment measures, tariffs, transit restrictions, import substitution and export restrictions.

Most of the disputes, which Russia has joined as a third party concern metallurgical industry, agriculture and food, automotive and aircraft industry, wood processing industry and RES. Special attention is paid to disputes over domestic market protection measures (anti-dumping, countervailing and special safeguard measures) as well as subsidies. Cases of trade and economic sanctions and national security exceptions are also attractive.

Russia's participation in the role of a third party is associated not only with a substantial trade interest, but also with the practice of participation in specific disputes, systemic interest in the application of WTO norms and rules. Sometimes Russia takes a position similar to the defendant. In 2023, in many WTO trade disputes where Russia participated as a third party, plaintiffs and defendants reached mutually acceptable solutions.

Russia is interested in preserving the multilateral format of negotiations, observing commitments in accordance with WTO rules, restoring full-fledged activity of the DSB and realizing Russia's goals on current disputes, where it participates, as well as on other disputed trade practices. Moreover, it is important for Russia to participate in negotiations on new international trade rules that meet today's challenges, in particular WTO rules on sanctions, definition of emergency situations, restrictions on the use of sanctions measures¹, etc.

The 2023 changes in WTO trade disputes involving Russia as a plaintiff

DS521: EC – Anti-dumping measures on cold-rolled steel from Russia (Russia)

On January 27, 2017, Russia has submitted a request to the DSB for consultations with the EU on anti-dumping measures against Russian cold-rolled products.² Exports of the disputed goods from Russia to the EU in 2016 dropped by 84% compared to 2015 and the share of Russian exports in total exports of these goods dropped from 46% in 2015 to 10% in 2016.³ Anti-dumping duties: 34% for Severstal, 18.7% for MMK, 36.1% for NLMK and others. The dispute is an example of Russia challenging the practice of “energy adjustments” used in anti-dumping investigations, when information from Russian producers is replaced by data from third countries despite the EU recognition of Russia's market economy status.

The AP is working since April 26, 2019. In 2022, at the request of Russia, the AP suspended its work, resumed in March 2023, but in summer of 2023 the AP suspended its activity again. If the work of the AP is suspended for more than a year, its powers should expire (Art. 12.12 of the URP GSD). Russia seeks to ensure that anti-dumping investigations are conducted and measures are imposed by the EU in accordance with WTO rules and regulations.

If DSB recognizes that the EU's energy adjustment practices are not systemically WTO-consistent, this would make it more difficult for the EU to conduct anti-dumping investigations and impose anti-dumping measures against Russia, which would lower costs for Russian exporters, especially in the metallurgical and chemicals sectors, since safeguard measures are in fact tariff increases. For example, in the DS493⁴, dispute initiated by Russia in 2015, Ukraine lifted anti-dumping measures on ammonium nitrate against Russian exporters.

Since June 2008, an anti-dumping duty has been in effect: Dorogobuzh – 29.25%, for other Russian companies – 42.96%.⁵ Russian imports of ammonium nitrate to Ukraine decreased from \$70.9 mn (7% of Russia's ex-port and 99% of Ukraine's imports of this commodity) in 2013 (prior to crisis in Russian-Ukrainian relations from 2014) to 0 in 2020–2022.⁶

1 URL: http://www.vavt-imef.ru/wp-content/uploads/2022/07/Monitoring_82.pdf

2 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds521_e.htm

3 Data bank UN COMTRADE. URL: <http://comtrade.un.org/>

4 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds493_e.htm

5 URL: https://www.economy.gov.ru/material/directions/vneshneekonomicheskaya_deyatelnost/dostup_na_vneshnie_rynki_i_zashchitnye_mery/reestr_ogranich_mer/

6 URL: https://www.economy.gov.ru/material/directions/vneshneekonomicheskaya_deyatelnost/dostup_na_vneshnie_rynki_i_zashchitnye_mery/reestr_ogranich_mer/

DS554: United States – Protective measures for steel and aluminum products (Russia)

On June 29, 2018, Russia has submitted a request to the DSB to consult with the U.S. on measures on steel and aluminum products imposed in spring 2018.¹ According to Russia, the U.S. imposed these measures in violation of the GATT 1994 and the Agreement on Special Protective Measures: it granted advantages and privileges to some countries that did not apply to other countries, imposed import restrictions in addition to duties, taxes or other charges through quotas, did not justify the imposition of emergency measures, did not send a written notice asap, did not provide opportunity for consultations, and did not provide the U.S. with the necessary information about the measures. In 2017, the share of exports of Russian steel and aluminium to U.S. in the Russian exports of this commodity amounted to 13% and to 32% in the U.S. imports.²

Similar disputes against the U.S. have been initiated by China (DS544), India (DS547), the EU (DS548), Canada (DS550), Mexico (DS551), Norway (DS552) and Switzerland (DS556), most of which Russia has joined. As of November 2018, the AP activities were underway. In 2023, the U.S. objected to Russia's request that the AP be suspended, but the AP has been suspended since June 23, 2023. If the AP is suspended for more than 12 months, its authority should lapse. Russia wants to ensure that special safeguard measures are applied in accordance with WTO rules, in particular, that non-discrimination regime is respected, if the U.S. proves that imports of contested goods are a threat to domestic industry, such measures should be imposed against all countries. Russia also wants to ensure that countries do not invoke national security exceptions when imposing trade-restricting measures, especially from specific countries.

The 2023 changes in WTO trade disputes involving Russia a defendant

*DS604: Russia – Certain measures on domestic and foreign goods and services (EU)*³

On July 22, 2021, the EU submitted a request to the DSB to consult with Russia on measures that result in discrimination of foreign suppliers by Russian state-owned companies.⁴ The EU is challenging Russian measures relating to non-governmental procurement by a wide range of government-related entities that are not public institutions (including state-owned enterprises and state trading enterprises), such as price preferences, non-automatic prior authorization and minimum quotas for domestic products in procurement of state-owned enterprises. On February 22, 2022, the AP started its work, but on March 8, 2022, it suspended its activities for an indefinite period of time at the request of the EU. One year later, in 2023, full powers of the AP have expired. Thus, the EU did not prevail in this dispute.

1 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds554_e.htm

2 Data bank UN COMTRADE. URL: <http://comtrade.un.org/>

3 URL: https://www.vavt-imef.ru/wp-content/uploads/2021/10/Monitoring_74.pdf

4 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds604_e.htm

Trade disputes involving Russia as a third party since 2023

In 2023 Russia joined 5 WTO trade disputes (DS610; DS611; DS616; DS617 and DS618) as a third party; the total number of such disputes reached 102. Most often Russia joins disputes on measures affecting agricultural and food products, metallurgy, automobile and aircraft industry, chemical industry, wood and wood products, renewable energy sources (RES). Fig. 3 shows the distribution of WTO dispute agreements to which Russia joined as a third party. It is already a tradition that most disputes are related to GATT, as well as to Agreements on Antidumping and Subsidies and Countervailing Measures. In addition, Russia shows interest in violations of the Agreement on Special Protective Measures and the Agreement Establishing the WTO, etc.

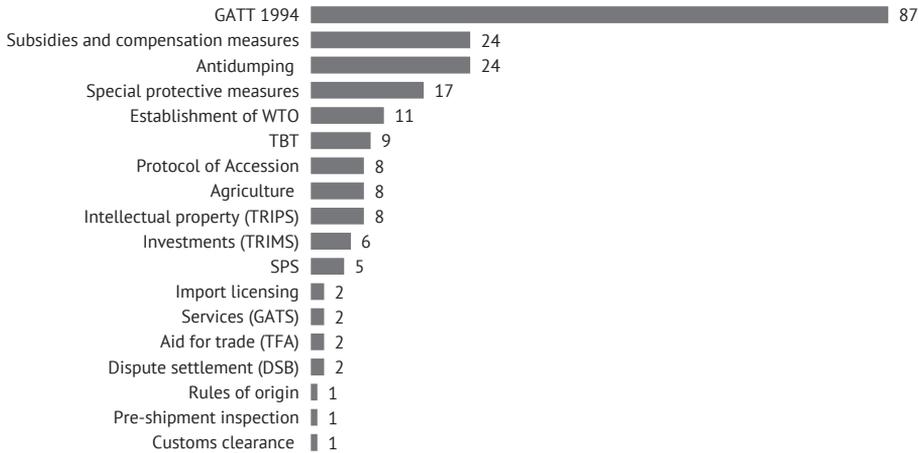


Fig. 3. Topics on WTO dispute agreements to which Russia has joined as a third party by the end of 2023

Source: Own estimates based on WTO official website: URL: https://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm

DS610: China – Measures related to trade of goods and services (EU)

On January 27, 2022, the EU submitted a request to DSB to consult with China on measures regarding China’s trade in goods and services with Lithuania.¹ The AP works since April 18, 2023. In 2021, importers of Lithuanian goods/goods transiting through Lithuania started to face restrictions in customs clearance of goods for import to China, in particular, having IT system errors; blocking of containers in Chinese ports; inability of Chinese customs authorities to process customs clearance requests in a timely manner. Same happened to services. Since 2021, Chinese customs authorities have often refused without proper justification to clear shipments of various goods covered by sanitary and phytosanitary (SPS) certificates issued by Lithuanian authorities. According to the

1 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds610_e.htm

EU, China discriminates SPS measures, which represent a disguised restriction of international trade.

On July 4, 2023, the EU and China agreed on arbitration procedures under Article 25 (Arbitration) of the URPGSD for Multilateral Provisional Appeal Arbitration Agreement (MPIA) to come into effect, which will be the basis for the arbitrator's decision on appeals in this dispute if the AP is unable to consider them due to its crisis. The AP report is not expected until H2 2024.

Russia's interest in participating in the dispute is due to its practice of participating in disputes over SPS measures. Russia had to bring measures in line with WTO rules and regulations in the EU dispute over SPS measures on live pigs, pork and pork products from the EU (DS475).¹ Russia participated as a defendant in a dispute initiated by Ukraine on measures to restrict the import and transit of certain Ukrainian goods (DS532)² and as a plaintiff in a dispute against Ukraine on measures related to trade in goods and services (DS525)³, including transit.

DS611: China– Protection of intellectual property rights (EU)

On February 18, 2022, the EU submitted a request to DSB to consult with China on measures to protect intellectual property rights.⁴ According to the EU, by failing to publish certain judgments on the measures and by failing to provide the EU with information on the judgments upon request, China violated Article 63 (Transparency) TRIPS.⁵ The AP works since the end of January 2023. On July 4, 2023, the parties agreed on arbitration procedures under Article 25 (Arbitration) URPGSD to give effect to the MPIA⁶ for the arbitrator to decide appeals during the AB crisis.

The EU challenges China's policy implying that Chinese courts ban patent owners from asserting their TRIPS rights in other jurisdictions. Fines are foreseen in case of infringement. This policy was first introduced by the decision of the Supreme People's Court of China (SPC) of August 28, 2020 with regard to the case Huawei v. Conversant. Bans were then approved in a series of decisions by Chinese courts in other cases. China does not apply these laws in a uniform, impartial and reasonable manner. In the EU's view, these measures are inconsistent with China's obligations under TRIPS and China's Protocol of Accession to the WTO.

The interest of Russia's participation in disputes on protection of intellectual property rights is due to involvement in such disputes and the study of TRIPS enforcement. Russia has joined 8 WTO trade disputes concerning TRIPS violations. Moreover, the legislation related to protection of property rights in China directly affects Russian companies in high technologies.

1 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds475_e.htm.

2 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds532_e.htm.

3 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds525_e.htm.

4 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds611_e.htm.

5 Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS, Trade-Related Intellectual Property Rights).

6 MPIA, Multi-Party Interim Appeal Arbitration Arrangement.

DS616: EU – Countervailing and anti-dumping duties on cold-rolled stainless steel flat products from Indonesia (Indonesia)

On 24 January 2023, Indonesia requested the DSB for consultations with the European Union with respect to countervailing and anti-dumping measures imposed by the European Union on imports of stainless-steel cold-rolled flat products from Indonesia.¹ AP started its investigation since September 2023. Indonesia claimed that the countervailing measures at issue appear to be inconsistent with WTO.

The most outstanding points are: how the EU determines that nickel ore mining companies are public bodies; the EU is of opinion that provision of land by the Indonesian government is a specific subsidy and the EU decides to compensate for damages through countervailing measures on nickel ore. The EU did not take into account differences in price comparability as required by Article 2.4 (Determination of dumping) of the Anti-Dumping Agreement. The EU deducted selling and administrative expenses and notional profit from the export price for export sales through tied traders, but did not make the same calculation for domestic sales. The EU did not specify what information was needed for a fair comparison.

The interest of Russia's participation in this dispute is primarily due to the fact that a large number of anti-dumping, countervailing and special protection measures (mainly by the US, EU and Ukraine) are in force against Russian exporters, especially in the metallurgical and chemical industries. Such measures often reach levels of prohibitive duties. In accordance with the European Commission's implementing regulation 2022/2068 from October 27, 2022 to October 26, 2027, anti-dumping duties are applied to Russian exporters based on review results:² for PJSC Severstal 34%; for JSC MMK 18.7%; for other Russian producers 36.1%. The measure was first introduced by the EU in July 2016. 5 out of 8 WTO disputes initiated by Russia and 1 out of 11 in which Russia is a defendant are related to anti-dumping measures.

DS617: United States – Anti-dumping measures against oil country tubular goods (OCTG) from Argentina (Argentina)

On 17 May 2023, Argentina submitted a request to DSB for consultations with the United States with respect to the definitive anti-dumping measure imposed on oil country tubular goods (OCTG) from Argentina, and certain provisions of the United States' legislation regarding cross-cumulation of imports in assessing injury caused by imports in anti-dumping and countervailing duty investigations.³ The AP works since October 26, 2023. The dispute concerns U.S. antidumping measures on OCTG imports from Argentina, Mexico, and Russia. In May 2022, the U.S. imposed anti-dumping duties on Argentine OCTG based on a weighted average margin of 78.3% for Siderca SAIC and other Argentine exporters. According

1 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds616_e.htm

2 URL: https://www.economy.gov.ru/material/directions/vneshneekonomicheskaya_deyatelnost/dostup_na_vneshnie_rynki_i_zashchitnye_mery/reestr_ogranich_mer/

3 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds617_e.htm

to the complainant, these measures violate the Anti-Dumping Agreement and GATT 1994, in particular because the U.S. failed to provide sufficient evidence to initiate an investigation, demonstrate a causal link between the imports under consideration and the alleged harm to the domestic industry to ensure that harm caused by other factors was not attributable to dumped imports.

The interest of Russia's participation in this dispute is primarily due to the fact that Russian exporters are also subject to anti-dumping and countervailing duties on oil country tubular goods. Anti-dumping duties¹ are applied against Russian exporters by the United States from November 21, 2022 to November 20, 2027: for JSC OMK – 11.70%, for PJSC TMK – 184.21% and for other Russian producers – 11.87%. In 2022, Russian exports of tubes under TNVED codes 7304, 7305, 7306, which include oil country tubular goods, to the U.S. amounted to \$87.4 mn or 6.2% of Russia's exports of these goods and 0.7% of U.S. imports of these goods.²

DS618: EU – Countervailing Duties on Imports of Biodiesel from Indonesia

On 11 August 2023, Indonesia requested DSB for consultations with the European Union with respect to the definitive countervailing duties on imports of biodiesel from Indonesia,³ as well as the underlying investigation that resulted in the imposition of these duties. The AP started working since end of November. According to the plaintiff, the EU measures are inconsistent with the Agreement on Subsidies and Countervailing Measures and GATT 1994 with respect to the determination of subsidies for the oil palm plantation fund; the alleged state support for the supply of crude palm oil; the findings of threat of material injury under causation; and the rejection of the price bid.

Russia shows interest to participate in the dispute not only because of practicing disputes over safeguard measures, but also because Russia faces anti-dumping measures and investigations to a large extent. As of the end of 2023, the EU had 11 anti-dumping measures in force against Russian exporters, mainly in relation to goods from the metallurgical and chemical industries.⁴ Besides, Russia is interested in RES topic.

The 2023 changes on 17 unique WTO disputes involving Russia as a third party before 2023

DS456: India – Certain measures relating to solar cells and solar modules (USA)

On July 13, 2023, India and the United States notified the DSB in compliance with Article 3.6 (General Provisions) of the URPGSD that they had reached a mutually agreeable solution in the U.S. v. India dispute over India's measures related to requiring a share of domestic components for solar cells and solar

1 URL: https://www.economy.gov.ru/material/directions/vneshneekonomicheskaya_deyatelnost/dostup_na_vneshnie_rynki_i_zashchitnye_mery/reestr_ogranich_mer/

2 URL: <https://www.trademap.org/>

3 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds618_e.htm

4 URL: https://www.economy.gov.ru/material/directions/vneshneekonomicheskaya_deyatelnost/dostup_na_vneshnie_rynki_i_zashchitnye_mery/reestr_ogranich_mer/

modules.¹ India demanded that solar plant designers or users apply domestically manufactured solar cells and modules in order to participate in the National Solar Mission program. Solar plant designers or users receive certain benefits (including subsidies) due to guarantee of long-term electricity tariffs.

According to U.S., this violates the principle of national treatment, as it results in a less favorable mode for foreign goods compared to domestic ones. In addition, these measures constitute prohibited subsidies when using domestic rather than imported goods.

Russia shows interest towards this dispute because the share of Russian exports of these goods to India in Russia's total exports of such goods exceeds 5%. It is also important for Russia to develop alternative forms of energy. Moreover, Russia is interested in practice of participating in disputes over provision of subsidies, including in connection with the use of domestic goods in the production.

DS510: Unites States – Certain measures relating to renewable energy sector (India)

Based on results of the dispute India against the U.S. over claiming a share of domestic components and subsidies under state incentive programs when using domestic components in RES (RES cost recovery, self-generation, water power and solar photovoltaic programs) and tax/credit initiatives for ethanol and biodiesel production,² the AP concluded in June 2019 that measures did not meet the provision of GATT 1994 Article III:4 (National domestic taxation and regulatory regime), as they provide an advantage for using domestic goods, thereby violating the MFN principle for similar imported goods. The United States and India have submitted their appeal.

On July 13, 2023, India and the U.S. reached a mutually acceptable solution, withdrew their appeals, and the dispute was terminated.

The results of this dispute, as well as a similar dispute between the United States and India (DS456)³, to which Russia has also joined, are important for Russia, on the one hand, due to the possibility of increasing exports of the goods under consideration. The share of Russian exports of such goods to India in Russia's total exports of such goods declined from nearly 8% in 2013 to 5% in 2016.⁴ On the other hand, due to high importance of alternative energy development for Russia, it is necessary to take into account issues of using a share of domestic goods in production, as well as subsidies that may be considered as violating WTO rules and regulations.

DS541: India – Measures relating to exports (USA)

In October 2019, the AP reported on the U.S. dispute against India over export subsidies that the U.S. believes are inconsistent with Art. 3.1(a) and 3.2 (Prohibition) of the Agreement on Subsidies and Countervailing Measures.⁵ According to the

1 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds456_e.htm

2 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds510_e.htm

3 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds456_e.htm

4 Data bank UN COMTRADE. URL: <http://comtrade.un.org/>

5 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds541_e.htm

U.S., India provides subsidies depending on export performance through export support for capital goods, special economic zones, duty-free imports for exporter programs and technology parks for equipment and technology in electronics. The AP recommended India to withdraw the disallowed subsidies within 180 days. India appealed to the AB. On July 13, 2023, India and the U.S. reached a mutually acceptable solution and the dispute was terminated.

Russia's accession to this dispute is probably driven not so much by trade interest (Russia's exports to India of all goods in 2017 amounted to about 2% of Russia's total exports) as by interest in applying various export support programs and their possible challenge under WTO trade dispute settlement system.

DS544; DS552; DS556; DS564: United States – Certain measures on steel and aluminium products (China, India, Norway, Switzerland, Turkey)

On December 9, 2022, the AP submitted reports on disputes initiated by China, Norway, Switzerland and Turkey against the United States over additional U.S. import duties on steel (25%) and aluminum (10%) products (DS544¹, DS552², DS556³ and DS564⁴). The AP chose more simple way of showing that duties violated GATT 1994, but did not consider whether they were special protective measures, although the challenged measures bear marks of special protective measures. In particular, the AP stated that those measures were not “adopted during the war or other public emergency in international relations” under GATT Article XXI(b) (iii) 1994, and the inconsistency of the challenged measures with GATT 1994 was not justified under GATT Article XXI(b)(iii). The U.S. is not happy with the decision, noting that national security cannot be considered in WTO dispute settlement, however, the WTO dispute settlement system needs fundamental reform.⁵

On January 26, 2023, the U.S. notified the DSB of its plan to appeal to the AB. On July 13, 2023, India and the US reached a mutually acceptable solution.

Russia, as a respondent, won a dispute against Ukraine in April 2019 for reasons of national security on measures restricting transit (DS512).⁶ Russia also filed a related complaint against the U.S. with the DSB in late June 2018 regarding these measures (DS554).

DS546: United States – Safeguard measure on imports of large residential washers (South Korea)

On April 28, 2023, the U.S. and South Korea reached a mutually acceptable settlement of a dispute over special safeguard measures on large residential washing machines and their components, which Korea argued, violated the Agreement on Special Safeguard Measures and GATT 1994.⁷ In particular, the U.S. was unable to

1 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds544_e.htm

2 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds552_e.htm

3 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds556_e.htm

4 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds564_e.htm

5 URL: <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2022/december/statement-ustr-spokesperson-adam-hodge>

6 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds512_e.htm

7 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds546_e.htm

provide a reasoned explanation for growth in imports that was due to “unforeseen events” and was a result of commitments made by the U.S. In February 2022, the AP report found U.S. violations but rejected several Korean claims.

Russia participated in the dispute as a third party because special safeguard measures imply action against all countries, including Russia. Russia needs the practice of participating in disputes against the United States over safeguard measures because it was Russia who initiated the dispute (DS554).

DS558: China – Additional duties on certain products from the United States;
DS561: Turkey – Additional duties on certain products from the United States;
DS585: India – Additional duties on certain products from the United States (USA)

In 2023, the AP reported on China¹ and Turkey² disputes over additional duties (increases in import tariffs on U.S. goods as retaliation for the U.S. imposition of special safeguard measures in term of respective duties on steel and aluminum products).

The AP ruled that the challenged China measure is a measure of additional duties. The US measures were approved under GATT Article XXI (Security Exceptions) 1994; the Agreement on Special Safeguards Measures did not apply to these measures and accordingly Article 8.2 (Level of Concessions and Other Obligations) of the Agreement on Special Safeguards Measures and GATT Article XIX:3(a) (Emergency Measures on Imports of Certain Products) 1994 do not apply to China’s additional duty measures.

These measures by China are inconsistent with GATT 1994 Articles I:1 (General Most-Favored-Nation Treatment) and II:1(a) and II:1(b) (List of Concessions), because China imposed import duties on U.S. goods higher than on similar products from other countries and the bound level. On September 18, 2023, China appealed to the AB, and Turkey appealed on January 26, 2024. The parties reached a mutually acceptable solution on July 13, 2023 on a similar dispute initiated by India.³

Russia shows interest in the disputes is primarily because the U.S. has filed a complaint on similar measures against Russia (DS566), which the AP was still working in 2023.⁴ The disputes are related to measures imposed by countries in response to additional duties imposed by the U.S. on steel and aluminum products, which are not applied to all countries and impose a burden on Russian exporters in particular.

DS577: United States – Anti-dumping and countervailing measures on ripe olives from Spain (EU)

In January 2022, the United States informed that it intended to implement the recommendations and rulings of the DSB in compliance with its WTO obligations related to a dispute of the EU against U.S. on anti-dumping and countervailing measures on ripe olives from Spain.⁵ The reasonable time period expired on January

1 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds546_e.htm

2 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds558_e.htm

3 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds561_e.htm

4 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds585_e.htm

5 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds566_e.htm

14, 2023. The U.S. informed that it had implemented the recommendations of the DSB. On July 14, 2023, the EU submitted a request to set up AP for a compliance. The AP report is expected in Q1 2024.

Russia's interest can be explained because it has also filed an anti-dumping complaint against the United States (DS586), which was still under consultation in 2023.¹ Russia often joins disputes over countervailing measures and subsidies because Russia is subject to a large number of safeguard measures that have a significant negative impact on Russian exports.

DS582; DS588: India – Tariff treatment on certain goods in the information and communications technology sector (EU, Chinese Taipei); DS584: India – Tariff treatment on certain goods (Japan)

On April 17, 2023, the AP submitted reports on disputes regarding the tariff treatment that India grants to a number of goods in the information and communication technology (ICT) sector initiated by the EU², Japan³, and Chinese Taipei.⁴ Upon accession to the WTO, India bound the import duty rate on the disputed goods at 0%, but the applicable import duty on these goods is as high as 20%.

The AP rejected India's claims that its tariff obligations are set forth in the Information Technology Agreement (ITA), finding that ITA is not the source of India's legal obligations in these disputes because the WTO and URPGSD Agreements do not cover the ITA.

The AP found that India's tariff treatment of the disputed goods was inconsistent with GATT Article II:1 (List of Concessions) 1994, because they were subject to import duties exceeding those specified in India's Schedule, a tariff treatment less favorable than that provided for in its Schedule. In 2023, appeals were filed to the AB.

Russia's priority policy in the ICT sector, as well as study of disputes over tariffs exceeding bound levels determined Russia's participation in these disputes. The trade interest in the disputed goods is not so high and according to data for 2019, the share from Russia to India in the total Russian exports of these goods is about 1.4%, and in Indian imports is 0.1%.⁵

DS583: Turkey – Certain measures concerning the production, importation and marketing of pharmaceutical products (EU)

As for EU vs Turkey dispute over measures concerning pharmaceutical products,⁶ the plaintiff argued that Turkey's measures (localization requirement, technology transfer requirement, ban on imports of localized products and determination of priorities) go against provisions of GATT 1994 on national treatment of domestic taxation and regulation, publication and application of trade rules, general abolition of quantitative restrictions; Trade-Related Investment

1 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds577_e.htm

2 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds586_e.htm

3 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds582_e.htm

4 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds584_e.htm

5 Data bank UN COMTRADE. URL: <http://comtrade.un.org/>

6 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds583_e.htm

Measures Agreements (TRIMS) on national treatment and quantitative restriction; Agreements on Subsidies and Countervailing Measures on prohibited subsidies; and TRIPS Agreements on national treatment, patentable subject matter, granted rights and protection of confidential information.

On April 25, 2023, Turkey complied with arbitration award through a series of legal provisions. In May 2023, a new Alternative Regulation on Drug Reimbursement was published.

Russia's interest in participating in the dispute is related to importance of the pharmaceutical market and cooperation in this area with India and the practice of participating in disputes over localization requirements, which in other areas have also been encountered in Russia.¹

DS589: China – Measures concerning the importation of canola seed from Canada (Canada)

As for dispute Canada vs China concerning measures affecting imports of canola seed for processing and consumption from Canada,² the authority of the AP expired on August 31, 2023. Canada's main claim was that China had suspended or restricted imports of canola seed from Canada, referring to detection of quarantine pests in canola seed shipments.

Russia is one of the largest producers and exporters of rapeseed. In 2018, the volume of Russian exports of this product exceeded 490.000 tons, resulting in significant trade interest of Russia's participation in this dispute. Besides, practice of participation in SPS disputes is important for Russia.

DS590: Japan – Measures related to the exportation of products and technology to South Korea (South Korea)

On March 23, 2023, plaintiff withdrew its complaint in a dispute initiated by South Korea against Japan regarding measures, including licensing policies and procedures adopted by Japan that plaintiff believes restrict exports of fluorinated polyimide, polymer resist, and hydrogen fluoride, as well as related technology destined for Korea.³

Russia's participation in this dispute can be explained by importance of importing goods and technology for production of smartphones, television displays and semiconductors and studying practice of disputes on the relevant restrictions. Disputes over trade restrictions on high-tech goods are important for Russia in the context of sanctions.

DS591: Columbia – Anti-dumping duties on frozen fries from Belgium, Germany and the Netherlands (EU)

On January 20, 2023, Colombia announced that it intends to comply with the arbitrators' decision to bring measures into conformity with WTO rules and regulations in the EU dispute against Colombia over anti-dumping duties on

1 URL: <https://www.iep.ru/files/text/trends/2019/04.pdf>

2 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds589_e.htm

3 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds590_e.htm

imports of frozen fries originating in Belgium, the Netherlands and Germany.¹ In this respect, Colombia published the Ministerial Resolution No.286 in 2023. Colombia believes that these anti-dumping duties should be maintained in terms of the amended and reduced dumping margins. This is the first arbitration based on the MPIA.

Russia is interested in disputes over safeguard measures taking into consideration substantial trade interest and practice of participation and study of enforcement of WTO norms and provisions, since there are many safeguard measures acting in Russia that have a significant negative impact on Russian exports. The procedure for replacing data from exporters subject to anti-dumping investigations with data from third-country producers has been challenged by Russia in a number of disputes (against the EU – DS474, DS494, DS521, against Ukraine – DS493, against the USA – DS586).

DS595: EU – Special safeguard measures on certain steel products (Turkey)

As for Turkey's dispute against the EU regarding special safeguard measures on imports of steel products and the related investigation², the EU stated that it had fully implemented the recommendations of the DSB (Commission Regulation (EU) 2023/104, which entered into force on January 14, 2023 and amended Commission Regulation (EU) 2019/159).

Turkey claimed that the investigation and measures were inconsistent with the Agreement on Special Safeguard Measures and GATT 1994. In particular, the EU failed to make credible findings as to the unforeseen events and how they resulted in growth in imports of respective products, threatening to cause severe damage to domestic producers; failed to correctly identify the categories of products, etc.

Russia's participation in the dispute can be explained by a significant trade interest (in 2019 exports of commodity groups 72 and 73 from Russia to the EU evidenced 28.3% and 12.9%, respectively, while in total EU import of these groups – 3.6% and 0.4%, respectively³), as well as by special safeguard measures applying to all countries, including Russia and having a significant negative impact on Russian exporters.

DS597: United States – Origin marking requirements (Hong Kong)

As for dispute between Hong Kong and USA regarding measures relating to origin marking requirements applied to goods produced in Hong Kong,⁴ on January 26, 2023, the United States have submitted appeal to AB. In the United States, goods produced in Hong Kong should bear marking indicating that their origin is China as from 2020. According to Hong Kong, these measures violate the WTO norms and rules, as the United States apply a more discriminatory treatment towards goods from Hong Kong compared to similar goods from other countries;

1 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds591_e.htm

2 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds595_e.htm

3 Data bank UN COMTRADE. URL: <http://comtrade.un.org/>

4 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds597_e.htm

The United States do not apply its origin labeling requirements in a uniform, impartial, and reasonable manner.

Russia's willingness to participate in the dispute is due to its practice of participating in disputes over rules of origin, as well as in disputes where the defendant refers to national security issues that are not subject to consideration in the WTO.

Participation in this dispute may also be relevant for Russia in terms of the export of the Republic of Crimea and other regions and sanctions, including by the United States, against goods originating from this Russian region. This may be the reason why the U.S. rejected Russia's request to join the consultations.

DS598: China – Anti-dumping and countervailing duty measures on barley from Australia (Australia)

On April 11, 2023, at the request of the parties, the AP suspended work on the Australia v. China dispute over anti-dumping and countervailing duty measures on barley from Australia.¹ On August 11, 2023, Australia and China reached a mutually acceptable solution.

Russia is one of the leading barley exporters. In 2019, Russia's barley exports reached \$763.6 mn, accounting for nearly 11% of global barley exports. Russia has a significant trade and systemic legal interest in this dispute. A large number of anti-dumping and countervailing measures are in place against Russian exporters of ammonium nitrate, including by Australia.

DS601: China – Anti-dumping measures on stainless products from Japan (Japan)

On June 19, 2023, the AP submitted a report relating to dispute Japan vs China on anti-dumping measures for stainless steel bars, hot rolled coil and hot rolled sheet from Japan.² The AP rejected a number of Japan's claims. The DSB obliged China to bring anti-dumping measures into compliance with the WTO, in particular on causally related import and losses, price effects analysis and consideration of domestic market share, price and sales dynamics, capacity utilization and ending stocks, domestic consumption, pre-tax profits and return on investment. In August 2023, China intends to implement recommendations; reasonable period of time is 9 months and 10 days (until May 8, 2024).

Russia is interested in disputes over safeguard measures, especially in relation to metallurgical goods, as Russia is subject to a significant number of anti-dumping measures, in particular against companies in the metallurgical industry.³

DS605: Dominican Republic – Anti-dumping measures on corrugated steel bars (Costa Rica)

Costa Rica challenged the Dominican Republic's anti-dumping investigation, in particular the dumping, the calculation of the dumping margin, damages, etc.⁴

1 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds598_e.htm

2 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds601_e.htm

3 URL: <https://www.iep.ru/files/text/trends/2019/04.pdf>

4 URL: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds605_e.htm

On July 27, 2023, the AP submitted its report. It supported a number of claims lodged by Costa Rica regarding dumping and calculation of dumping margins in the Dominican investigation, however, it rejected several claims. The AP noted that comparison of export price and fair value should be made for the sales closest in time; the methodology should reasonably identify sales that are above cost at the time of sale; the analysis of economic indicators, in particular price, should be objective; the fact of losses from alleged dumped imports should be well-founded and publication of decisions should be timely. The AP recommended that the Dominican Republic bring the measures into conformity with WTO rules and regulations. On September 18, 2023, the defendant filed an appeal with the AB.

Russia actively joins disputes over imposition of anti-dumping measures in violation of WTO rules and regulations. Besides, Russia has a significant trade interest. In 2020, it exported \$279.2 mn worth of other bars made of iron or non-alloyed steel containing less than 0.25 wt% carbon, used for reinforcing concrete (HS code 721499), which constitutes 12.4% of global exports of these goods.

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THE RUSSIAN ECONOMY in 2023

trends and outlooks

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