



MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 5(107) April 2020

MAIN TRENDS AND CONCLUSIONS.....	3
1. INFLATION AND MONETARY POLICY IN THE CONTEXT OF LARGE-SCALE SHOCKS	
A. Bozhechkova, P. Trunin	5
2. RETAIL LENDING AT YEAR-END 2019	
S. Zubov.....	8
3. RUSSIA'S POPULATION: TOTAL AND NATURAL DECLINE	
A. Makarentseva, R. Khasanova.....	11
4. HOW TO SIMPLIFY ELECTRONIC COMMERCE	
A. Levashenko, M. Girich.....	15
AUTHORS.....	18

Monitoring of Russia's Economic Outlook

Monitoring has been written by experts of Gaidar Institute for Economic Policy (Gaidar Institute), Russian Presidential Academy of National Economy and Public Administration (RANEPA).

Editorial board: Sergey Drobyshevsky, Vladimir Mau, and Sergey Sinelnikov-Murylev.

Editor: Vladimir Gurevich



ИНСТИТУТ
ЭКОНОМИЧЕСКОЙ
ПОЛИТИКИ
имени Е. Т. ГАЙДАРА



РАНХиГС
РОССИЙСКАЯ АКАДЕМИЯ НАРОДНОГО ХОЗЯЙСТВА
И ГОСУДАРСТВЕННОЙ СЛУЖБЫ
ПРИ ПРЕЗИДЕНТЕ РОССИЙСКОЙ ФЕДЕРАЦИИ

5(107) 2020

Monitoring of Russia's Economic Outlook: trends and challenges of socio-economic development. 2020. No. 5 (107). April / Bozhechkova A., Girich M., Zubov A., Levashenko A., Makarentseva A., Trunin P., Khasanova R. Edited by: V. Gurevich, S. Drobyshevsky, V. Mau, and S. Sinelnikov-Murylev; Gaidar Institute for Economic Policy, Russian Presidential Academy of National Economy and Public Administration. 18 p. URL: http://www.iep.ru/files/text/crisis_monitoring/2020_5-107_April_eng.pdf

The reference to this publication is mandatory if you intend to use this material in whole or in part.

MAIN TRENDS AND CONCLUSIONS

Our experts analyze inflation and monetary and fiscal policy in the wake of double shocks – plummet of crude oil prices and coronavirus pandemic. In the short-run, these shocks have placed in jeopardy financial sustainability in Russia. However, according to the experts' opinion, the Bank of Russia operations on the currency market related to the sale of controlling block of shares in Sberbank to the government will allow to balance the currency market roughly at the current levels. Calculations demonstrate that the **fundamentally justifiable ruble rate** to USD at the crude oil price of \$25–30 per barrel amounts to around Rb 75–80 per dollar.

In view of this, so far the situation in Russia has been such that no monetary policy tightening is needed in order to stabilize the financial markets. From the point of view of achieving the inflation target, there is no need to raise the key rate yet, because under the current conditions **we can expect only a temporary surge in inflation by 1–2 p.p. above its target by year-end 2020, followed by its slide back to 4% in 2020.**

The key **monetary policy goal** for 2020 should be to ensure financial sustainability and to maintain the inflation rate close to its target level, as well as to prevent any significant increase in the inflationary expectations of economic agents, as well as their expectations of devaluation. Consequently, the monetary policy measures should be aimed at preventing any significant departure of the ruble exchange rate from its fundamentally justified levels.

Our experts observe that by the year-end 2019, high rates of the **consumer lending market growth** were reported. This growth attested to an increase of credit accessibility for the population amid moderate inflation and stable financial situation of households. In the event of increment of crisis developments in the economy a sharp growth of demand on credits in the short-run and interest rates spike. Contraction of demand of credits, reduction of lending volumes and decline of banks, income is feasible amid a prolonged crisis. Non-payment risks can significantly increase which can lead to a serious revaluation of the banks' credit portfolios, growth of costs on reserves and capital loss by the credit institutions. Further development of the situation will heavily depend on the stabilization measures implemented by the government and the Central bank of Russia, on their inclusiveness and timeliness.

Our experts estimate **total and natural population decline rates** in Russia. In the course of 2019, the number of Russia's resident population declined by 35.6 thousand persons. Decline demonstrates a downward trend for a second year in a row. Decline demonstrates a downward trend for a second year in a row. Population decline seen in 2019–2020 is due to natural loss while net migration stopped offsetting it. The picture of coronavirus cases and mortality in the world and in Russia is highly divergent. The spread of the virus can affect the mortality rates but so far it is impossible to make projections.

As our experts point out, **electronic trading platforms (EPT)** establish the infrastructure for new Web businesses and being the most important member

of the e-Commerce, act in most countries as guarantors of consumer confidence towards online shopping. In the wake of response of states and world economies to the spread of coronavirus, online shopping is getting momentum, replacing the usual trading formats. Meanwhile, there are a number of issues in Russia related to regulating the operation of electronic trading platforms that impede their development and, accordingly, the growth of consumer confidence to electronic commerce..

1. INFLATION AND MONETARY POLICY IN THE CONTEXT OF LARGE-SCALE SHOCKS

A. Bozhechkova, P. Trunin

The beginning of this year was characterized by a slow increase in consumer prices, stability in the forex market, and continuing monetary policy easing. However, the situation has changed dramatically as a result of the impact on the economy of two major interconnected shocks: a slowdown in the global economy triggered by the historically unprecedented coronavirus pandemic and a dramatic plunge of oil prices. In response to the ruble weakening in March, the Bank of Russia launched a package of measures designed to ensure financial sustainability decided to maintain its key rate at 6%.

In February-March 2020, the Russian economy experienced two large-scale shocks. The slowdown in the global economy due to the rapid spread of coronavirus led to a sharp shrinkage in aggregate demand, and the quarantine and the lockdown measures introduced in Russia pushed down aggregate supply. All this was occurring alongside a growing uncertainty and capital outflows from the developing markets. In addition, the collapse of the OPEC+ deal on March 6, 2020 sharply accelerated the oil price decline. Following the auction on March 9, prices of Urals crude plummeted more than 30%, to \$33 per barrel. Over the remaining weeks of March, Urals prices continued to slide, reaching a local minimum of \$18.64 per barrel on March 18, 2020, which corresponds to their level in February 2002.

These shocks created a threat to Russia's financial sustainability. So, in February 2020, the ruble depreciated against the US dollar by 5.1%, to Rb 66.3, and over the period from March 1 to March 27, 2020, it lost another 17.5%, getting to the mark of Rb 78.7 per USD.

This rapidly deteriorating situation was a shock for the Russian financial market, and so the RF Central Bank decided, on March 9, to abstain from foreign currency purchases on the domestic forex market for 30 days as part of the fiscal rule mechanism. On March 10, the regulator began proactive sales of foreign currency, thereby implementing the mechanism of the fiscal rule in order to support the cheapening ruble. Thus, over the period from March 10 to March 25, the Bank of Russia sold foreign currencies to the total value of Rb 74.2bn. It should be noted that if oil prices fall in Q2 2020 to \$20–25 per barrel, and then stabilize at \$30–35 per barrel throughout H2 2020, the Bank of Russia's year-end index foreign currency sales for 2020 under the fiscal rule should stand at about Rb 1.3–1.4 trillion.

An additional mechanism applied in order to boost the foreign currency supply in the domestic forex market was the sale of foreign currency reserves from the National Welfare Fund (NWF) to pay for the government purchase of shares in Sberbank to the value of Rb 2.8 trillion. The daily foreign currency sale volume in the framework of that deal will vary depending on the fluctuations of the price of Urals crude under \$25 per barrel. If this level is exceeded, operations will not be carried out. It is planned that this mechanism should function until September 30, 2020. As a result, total sales of foreign currency in the domestic forex market may amount to about Rb 37.3bn.

We estimate that in 2020, amid a massive drop in oil prices, the current account balance in the balance of payments may shrink by half, to about to \$35–40bn. The negative financial account balance is unlikely to plummet to the depth it had hit during the previous crises (in 2014, it stood at \$ -130bn; in 2008 – at \$ -140 bn). The foreign debt of Russian economic agents has also declined significantly. Given all these circumstances, the Bank of Russia's foreign currency sales under the fiscal rule on the domestic forex market, as well as its operations carried on in that market in the framework of the sale of a controlling stake in Sberbank to the RF Government, are expected to sustain the forex market's equilibrium approximately at its current levels. Our calculations have demonstrated that a fundamentally sound ruble-to-USD exchange rate should hover around Rb 75–80, if the price of oil remains at around \$25–30 per barrel¹.

Thus, so far the situation in Russia has been such that no monetary policy tightening is needed in order to stabilize the financial markets. At the Bank of Russia Board's meeting on March 20, 2020, it was decided to keep the key rate at 6% per annum. From the point of view of achieving the inflation target, there is no need to raise the key rate yet, because under the current conditions we can expect only a temporary surge in inflation by 1–2 p.p. above its target by year-end 2020, followed by its slide back to 4% in 2021. By this parameter, the situation observed this year differs significantly from that in 2014, when in response to the ruble's downfall, inflation soared to 11.4% in 2014, and to 12.9% in 2015.

The effects on inflation of the weakening ruble and the increased demand for consumer goods have already begun to be felt. While early this year the CPI growth rate of consumer prices stood at 2.4% in January, and at 2.3% in February (relative to the previous 12 months) (*Fig. 1*), later on, as demonstrated by the results of the first three weeks of March, that index plunged to 0.5% (vs 0.3% in March 2019). At the same time, the CPI increase occurred mostly in the third week of March (0.3%). In March 2020, the highest growth indices were displayed by prices of sugar (9.4% on February 2020) and buckwheat (3.7% at the end of February 2020).

According to the InFOM survey results released by the Bank of Russia, the median one-year forward inflation expectation rate was 7.9% in March 2020, thus remaining unchanged relative to February 2020, which points to the adaptive nature of inflationary expectations. Nevertheless, the balance of answers given by the respondent enterprises concerning their price expectations for the next three months increased from 8.6 in January to 13.4 in February, and to 18.0 in March.

Given this context, the key monetary policy goal for 2020 should be to ensure financial sustainability and to maintain the inflation index close to its target level, as well as to prevent

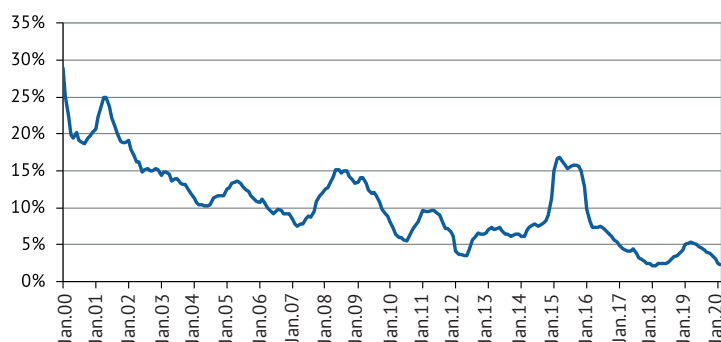



Fig. 1. Inflation over the previous 12 months, %

Source: Rosstat.

¹ The calculations are based on the econometric model of a fundamental ruble exchange rate movement pattern, developed by the Gaidar Institute and the RANEPa.

1. Inflation and monetary policy in the context of large-scale shocks

any significant increase in the inflationary expectations of economic agents, as well as their expectations of devaluation. Consequently, the monetary policy measures should be aimed at preventing any significant departure of the ruble exchange rate from its fundamentally justified levels in response to panic sentiment, because in the event of the ruble's dramatic dive, the forex market can stabilize at its much weaker level, thus translating into a strong deviation of inflation from its target, followed by a reassessment of the country's risks and a massive capital outflow. 

2. RETAIL LENDING AT YEAR-END 2019

S. Zubov

At year-end 2019, high rates of the retail lending market were registered. This growth demonstrated increased accessibility of loans to households amid moderate inflation and stable financial state of households. Excessive banking sector's liquidity was an additional trigger for this growth. Meanwhile, the excessive level of the debt burden can lead to losses in the banking sector, pose risks for the real sector of the economy, provoke adverse social consequences.

Stagnation of households' budgets in the wake of their multiyear contraction to a large extent triggered the ongoing growth of debt overload: in 2019 the real disposable cash income of the population went up by mere 0.8%. In this context consumer lending has contributed to spending volume of the population on final consumption and stability of household savings.

Analysis of **aggregate retail credit portfolio** in 2019 demonstrates that monthly credit growth rates originated by banks to Russian citizens varied in the range of 1–2%. Total retail lending debt burden from early 2019 has moved up by 18.4% and at January 1, 2020 amounted to Rb 17.6 trillion. In 2018, annual growth stood at 22.4% (total Rb 14.9 trillion). Ruble loan portfolio rose by 18.8% (up by 22.6% for the last year), hard currency loan portfolio in ruble equivalent fell by 26.6% (growth hit 2.2% in 2018).

In 2019, the volume of ruble housing loans originated to individuals-residents moved up by 17.0% hitting Rb 7.5 trillion (up by 23.6% in 2018). This was driven by systematic reduction of the key rate, which the Bank of Russia carried out 5 times during 2019. Demand hike for mortgage loans amid low mortgage interest rates was due to the households' demand for the resolution of the residential problem. In the meantime, the certain role in the mortgage demand growth today was also played by a transition to a new procedure of housing purchase by application of project financing and escrow accounts according to which developers must borrow from banks for construction. This triggered price hikes in new construction sites and in the run-up to price hike households' behavior on the housing market was proactive.

Assessments of the consumer lending market situation in Russia carried out by various representatives of economic management bodies, experts, bank experts differ notably. Many people do not see serious risks in the spike of consumer lending. For example, according to former minister for economy Maxim Oreshkin, the lack of due control over the consumer lending growth by the bank of Russia could result in structural failure of credit supply¹. However, other experts, in particular, experts of international rating agency S&P did not see big risks in the housing bubble growth in Russia². Another argument in favor of lack of any prerequisites for the inception of the lending bubble, which is given by Sberbank experts, is a high level of long-term maturities indicating a good solvency of bank clients – individuals.

1 <https://www.rbc.ru/economics/28/06/2019/5d162a1e9a7947cc9e0500b8>

2 https://arb.ru/b2b/news/v_s_p_schitayut_chno_riski_obrazovaniya_kreditnogo_puzyrya_v_rossii_neveliki-10274454/

2. Retail lending at year-end 2019

At Q2-end 2019, FICO registered the credit health index growth calculated on the data released by the National Bureau of Credit Histories (NBCH), which demonstrates a somewhat improvement of the credit environment. The index envisages determination of bad debts with 60 days past due during last six months. In Q4 of the last year, the index went up by 4 points and amounted to 96 points¹. Thus, the index returned to values reported prior to December crisis of 2014.

Certain overestimated opinion on the households' load overload is also supported by the fact that the ratio between the amount of consumer credits and deposits volume at the year-end 2019 hit 58% while the acceptable ratio stands at 80–90% (as in the EU countries), which demonstrates a potential for retail lending growth.

Banks are interested in ramping up consumer lending in order to raise their income amid a reduction of the sales margin. This is driven by the profit rate of these operations due to high compared to corporate lending interest rates. From Q3 2019, aggregate interest income on retail loans exceed total income from corporate lending (Fig. 1).

Up to the middle of 2019, the **interest rates** were affected by increased inflationary expectations and in certain moments demonstrated small growth, and in the second half of the year they were steadily declining. Against this backdrop fee-based income of banks spiked on originated retail loans (up by 22.7% during the year).

In 2019, the central bank, Ministry of Economic Development and Finance Ministry of Russia time and again expressed their preoccupation with the extension of the consumer lending, and took concrete steps designed to restrict it.

One of the factors, which had to affect banks' policy was the introduction by the Bank of Russia from October 1, 2019 in regulatory documents **debt burden index** (DBI) designed to introduce premiums on the risk rates depending on the state of the credit portfolio. DBI was calculated as a ratio of monthly average payments across all credits of a borrower to his monthly average income and is taken into account on issuing a loan in excess of Rb 10 thousand at the credit limit discretion on the credit card at prolongation of credit contract life or at the debt restructuring. Previously, credit institutions used this index with similar purposes. This is designed to restrict banks' expansion on the consumer lending market – the majority of credit institutions will have to adjust their procedures with the CB's requirements and be more inventive in approaching lending in highly risky segments.

Besides, from January 31, 2019, entered into force amendments to the Federal Law "On Credits Histories" according to which Russians get **personal credit rating** which is a score constructed on the basis of

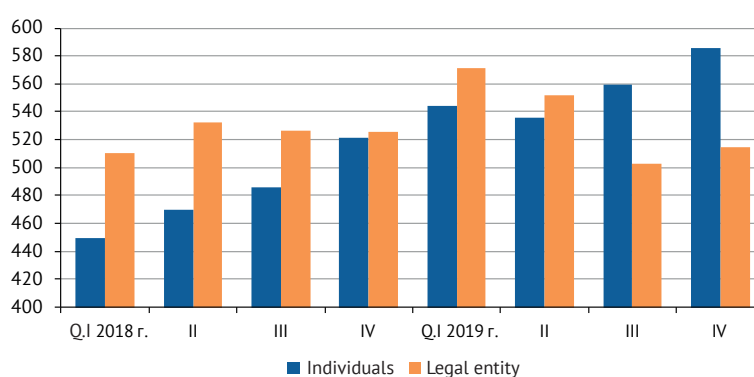



Fig. 1. Interest bank rates on retail loans and corporate lending, Rb trillion

Source: Report on financial results (Form No.102) for January 1, 2018 till October 1, 2019 / Bank of Russia. URL: <http://www.cbr.ru/credit/forms/>

1 URL: <https://www.nbki.ru/company/news/?id=27458>

personal history. The value of the rating is affected by loan delinquencies, level of debt burden, number of requests for credit history inspection and other indicators. Introduction of the personal credit rating should assist banks in proactively take decisions on issuing a loan, reduce operational costs. This being said, accessibility of loans for citizens with low rating will be reducing, which, in its turn, can affect the differentiation of the interest rates and slowdown of growth of aggregate credit portfolio volume.

In the event of growing crisis developments in the economy on the back of epidemiological factors, plummet of crude oil prices and decline of business activity a spike is feasible on credits by the population in short-run and interest rates growth. In case of a prolonged crisis, decline of credits demand, reduction of lending volumes and fall of banks' income is feasible. Non-payments risks grow significantly, which can result in a serious revaluation of banks' credit portfolios, spending growth on reserves and capital loss by credit institutions. Further development of the situation to a large extent will depend on the stabilization measures taken by the RF government, their coverage and timeliness. 

3. RUSSIA'S POPULATION: TOTAL AND NATURAL DECLINE

A. Makarentseva, R. Khasanova

In the course of 2019, the number of Russia's resident population declined by 35.6 thousand persons. Decline demonstrates a downward trend for a second year in a row. Population decline in seen in 2019–2020 is due to natural loss while net migration stopped offsetting it. In 2019, the mortality rate surpassed the birth rate by 316.2 thousand persons by 41.7 % more (93 thousand persons) against 2018. In 2019, the number of live births totaled 1,484.5 thousand persons down by 7.5 % (120 thousand persons) year-on-year. The absolute mortality rate stood at 1,800.7 thousand cases down by 1.5 % (down by 27.2 thousand) against 2018. Obviously, the spread of coronavirus pandemic will tell on the mortality rates, however is it impossible to project the situation in detail.

According to Rosstat preliminary data, as of January 1, 2020 the number of Russia's resident population totaled 146.7 mn persons declining by 35.6 thousand y-o-y. Russia's crude mortality rate has been demonstrating a downward trend for a second consecutive year: during 2018–2019 it amounted to 135.3 thousand persons. The previous period of the population growth lasted 8 years (2009–2017) and resulted in population growth by 1.8 mn persons (minus Crimea) or by 4.1 mn (with Crimea). Before that period population decline demonstrated a steady downward trend from 1995 totaling 5.7 mn persons over 15 years (Fig. 1). According to Rosstat's average projection, the crude population decline in Russia will continue through the end of the projection period, according to the UN¹ average forecast through 2100.

Natural and migration movement affect the dynamic of crude population rate. Population decline seen in 2019–2020 is due to growing natural population loss as well as to the fact that the net migration stopped offsetting it despite its growth posted in 2019 compared to two previous years. In 2013–2015, for the first time since prolonged population decline a small natural population growth has been noted. From 2016 natural population loss has renewed (Fig. 2). Nowadays, net migration is the only way to offset the population number.

In 2019, the mortality rate surpassed the birth rate by 316.2 thousand persons by 41.7%

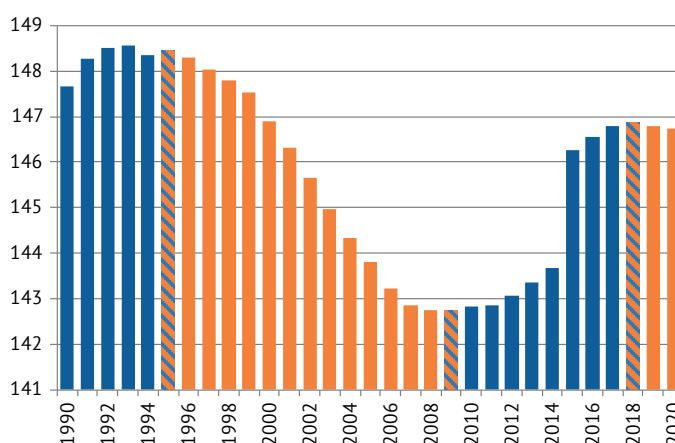


Fig. 1. Resident population as of January 1, 1990–2020, mn persons

Source: Rosstat.

1 United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Prospects 2019, Online Edition. POP/DB/WPP/Rev.2019/POP/F01-1; Probabilistic Population Projections based on the World Population Prospects 2019. POP/DB/WPP/Rev.2019/PPP/POPTOT. — URL: <http://esa.un.org/unpd/wpp/>.

more (by 93 thousand persons) against 2018. The natural growth (decline) rate in 2019 stood at -2.2‰ down from 2018 by 37.5% (-1.6‰). In 2019 the natural decline rate (-316.2 thousand) is similar to the 2008 index (-362 thousand). Reasons for the natural population decline are both the ongoing significant birth rate decline and insufficient mortality rate reduction.

In 2019, the number of live births amounted to 1,484.5 thousand persons down by 7.5% (120 thousand persons) against 2018 (Fig. 3). In January 2020 the number of live births constituted 94.3% of the same indicator for 2019 – population decline continued.

2019 demonstrated a continuation of the crude birth-rate decline to 10.1‰, which is below the same indicator for 2018 – 10.9‰ by 7.3%. Practically all Russian regions demonstrate a reduction of the birth rate, except Karachaevo-Cherkassia Republic, Moscow and Republic of Ingushetia. Such dynamic is based firstly on the influence of structural factors. The most active reproductive ages include scanty generations of women while numerous currently finish gathering second, third and subsequent live births. In five years the most scanty generation of women born in 1999 will reach the current average mother's age at the birth of the first child (26 years) which will be followed by a gradual increase of the number of women in peak reproductive ages. Secondly, the intensity of all birth order has been contracting including among women in the most active age group (25–29 years)

2019 demonstrated reduction both of the number of deaths and of the crude mortality rate. The absolute mortality rate in 2019 amounted to 1,800.7 thousand cases down by 1.5% (down by 27.2 thousand) against 2018. However, this is insufficient to offset the ongoing decline of the number of live births.

The crude mortality rate in 2019 stood at 12.3 per 1,000 of population down by 1.6% against 2018 (12.5‰). Over a long period of time, Russia demonstrated an upward trend of the death number. The absolute mortality rate peaked in 2003 with 2,365.8 thousand dead persons. 2004 onwards demonstrated a

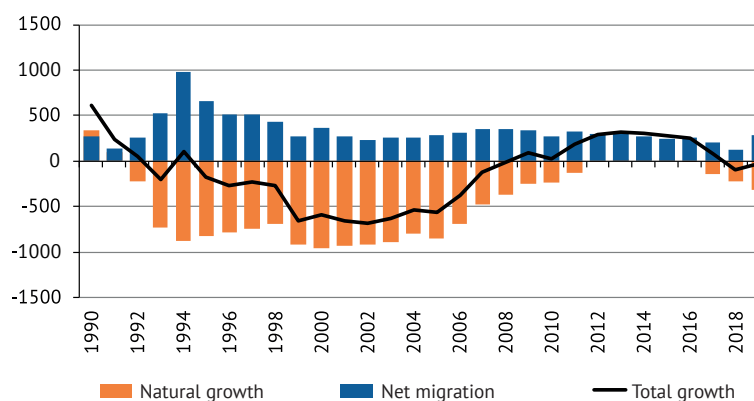


Fig. 2. Components of crude population rate change, 1990–2020, thousand persons

Source: data released by Rosstat. Population data as of January 1, 2004–2010 and net migration for 2004–2010 have been recalculated taking into account findings of the Second Russian Census 2010 (RPC-2010); crude growth in percent for 2003–2010 has been calculated with the population number recalculated taking into account findings of RPC-2010. Total population growth in percent for 2014 has been calculated excluding population of the Republic of Crimea and Sebastopol. Data for 2015 and subsequent years are given including population of the Republic of Crimea and Sebastopol. Data for 2020 – preliminary.

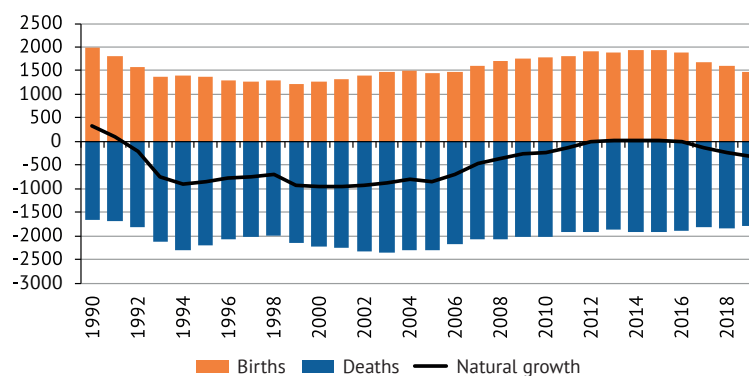


Fig. 3. Number of live births, deaths, natural growth (decline), 1990–2020, Thousand persons

Source: Rosstat.

3. Russia's population: total and natural decline

steady downward trend of the number of deaths except 2005, 2010, 2014, and 2018 when a small growth was registered. The highest reduction of the number of deaths during 2003–2019 was registered in 2017, down by 4%. On the whole from 2013 the index decreased by 565.1 thousand cases per year (or by 24%).

Life expectancy (LE) at birth, which is the key integral indicator of the mortality rate, demonstrates an upward dynamic (data of life expectancy for 2019 is still unavailable). According to Rosstat data, 2018 demonstrated an all-time high if this indicator-72.9 years. Having said that, a significant gender (10 years) and regional divide has been registered.

In 2019 population decline was observed in the majority of Russian regions (Fig. 4). The highest values of the natural population decline are still reported in Pskov (-8.4‰), Tula (-8.3‰), Ivanovo (-7.9‰), Novgorod (-7.7‰), Tver (-7.7‰), Vladimir and Smolensk regions (-7.5‰). The natural population growth peaked in North Caucasus regions, but even there the dynamic is negative – increase constituted 6.2‰ against 6.9‰ y-o-y (average across NCFD), in Republics of Tyva and Sakha, Tyumen region and its autonomous national areas.

These days the world is preoccupied with the spread of the coronavirus pandemic COVID-19. Its global spread demonstrates an exceptionally unhomogeneous picture of coronavirus-related cases and mortality. Statistics demonstrate that one can fall ill from COVID-19 at any age, however the change of catching the disease increases with age. Judging by gender, among those who fell ill in Italy and Germany men prevail (practically in all age groups). South Korea demonstrates higher rates of coronavirus-related cases among women, but the death rate is higher among men. Advance ages risk of higher coronavirus-related deaths than young people. However, young and able-bodied people are not ensured from coronavirus-related deaths. That is why measures aimed at mitigation of coronavirus-related cases and deaths must cover the entire population and not on separate age groups. Today antiepidemiological policy of the developed countries differ by toughness of adopted measures, timely reaction,

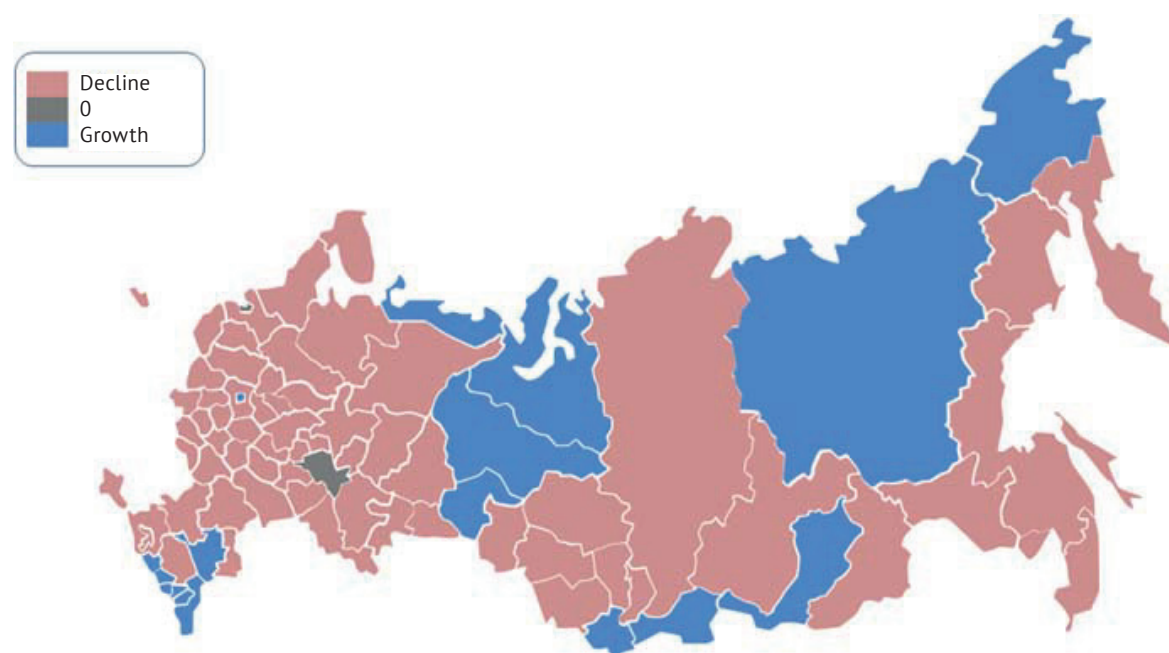



Fig. 4. Natural population growth (decline), 2019

Source: Rosstat.

level and quality of testing and the health care system performance. It remains to be seen the effectiveness of the measures applied. However, it is already clear that the spread of COVID-2019 in the world and in Russia will tell on the coronavirus-related cases and death rates as a whole. 

4. HOW TO SIMPLIFY ELECTRONIC COMMERCE

A. Levashenko, M. Girich

Electronic trading platforms (ETP), establishing the infrastructure for new Web businesses and being the most important member of the e-Commerce, act in most countries as guarantors of consumer confidence towards online shopping. In cooperation with the state, ETP establish and maintain standards of sales jobs, guarantee security of payments and cooperate with tax and customs authorities, as well as agencies protecting consumer rights. Online shopping is gaining momentum, replacing the usual trading formats amid the resistance of states and economies to the spread of coronavirus. For example, Amazon plans to expand its staff in the US alone by 100 000 people to assist the centers responsible for filling orders and delivery services. Meanwhile, there are a number of issues in Russia related to regulating the operation of electronic trading platforms that impede their development and, accordingly, the growth of consumer confidence to electronic commerce.

According to the Data Insight analytical agency, 425 million online orders were placed throughout Russia in 2019, with an average check amounting to RUB3800. Revenues amounted to RUB1.6 trillion. Last year, the e-commerce market grew by 23% compared to 2018. According to the international non-governmental non-profit organization E-Commerce Foundation, 70% of Russian internet users bought goods in online shops back in 2018.

By 2024, according to forecasts by the Gaidar Institute, its volume will reach RUB2.78 trillion, surpassing the indicator of 2018 by 2.16 times. The total turnover of Ozon.ru, one of the largest trading platforms in the B2C sector (business-to-client), amounted to RUB42.5 billion in 2018. Other large web platforms – Yandex.Market, Ulmart, Beru.ru, Avto.ru, also show significant growth. However, in terms of volume and indicators of the online trading permeating our daily life, Russia lags starkly behind developed countries.

One of the institutional factors hindering the development of ETP is the imperfect legislative definition of the range of legal relationship in electronic commerce. The Law of the Russian Federation of February 7, 1992 No. 2300-1 “On the Protection of Consumer Rights” introduced the concept of an aggregator, which, per se, is an electronic trading platform

However, since only an individual purchasing goods for personal advantage, can act as a consumer according to the law, while only a legal entity or individual entrepreneur (i.e. persons engaged in commercial activities) can act as a seller, therefore, the concept of aggregator and the appropriate regulation do not apply to e-commerce relations in the B2B segment (legal relations associated with trade between entrepreneurs), and C2C (legal relations associated with trade between a seller not performing any commercial activities, i.e. an average individual, and the customer),

According to the law, the consumer, acting through an aggregator, can get familiar with the seller's offer, conclude a sales contract and make an advance payment for goods and/or services. However, these three operations should be conducted simultaneously, so that the platform can be recognized as an aggregator. If the aggregator redirects the consumer to the seller's website to

conclude the contract, then the aggregator de jure falls out of the regulation, as was the case, for example, with Yandex. Market platform.

In addition to legislative standards, the OECD recommends the governments of member countries to adopt guidelines and explanatory notes with regard to actual protection of the consumers' rights using ETP services. Similar documents, based on the OECD Recommendations on Consumer Protection in Electronic Commerce, have already been adopted, for example, in Australia and Canada. A similar guideline should also be adopted in Russia.

Furthermore, the OECD proposes to apply the principle of taxation aimed at VAT collection payable where consumer performed actions, rather than at the location of the provider. In Russia, this OECD standard was implemented as part of a special procedure for paying VAT on electronic services provided by foreign organizations (article 174.1 of the Tax Code of the Russian Federation, the so-called "Google tax"). In our opinion, it is necessary to harmonize the requirements for applying VAT within the EAEU (minimum requirements for VAT rates, a single list of grounds for exemption from VAT in the EAEU law) in relation to the export of both services and goods in the e-Commerce industry.

It would also be advisable to establish a minimum threshold for applying the registration requirement in order to pay VAT for the provision of electronic services to tax residents of the EAEU member countries and other countries engaged in the exchange of tax information with Russia. Lack of unified approaches will inevitably lead to a distortion of competitive environment.

It is noteworthy that the cooperation of the Federal Tax Service of Russia with electronic trading platforms allows to obtain the most detailed information about exports and imports that they are implementing. Their interaction with the Federal Customs Service of Russia could significantly improve customs administration, for example, in terms of identifying counterfeit goods. Accordingly, it would be reasonable to streamline the ETP cooperation with Rospotrebnadzor, Federal Tax Service, Federal Customs Service of Russia, as well as with Russian Export Center JSC and Federal Corporation for Development of Small and Medium Enterprises.

Russian legislation on personal data contains a number of gaps having a significant impact on the ETP activities.

Thus, a requirement for mandatory data localization was introduced in the Russian Federation in 2014. The OECD has negatively assessed this legislative decision. According to the organization, the localization policy can lead to internet fragmentation and handicap online trading.

Herewith, the Russian legislation lacks provisions on extension of standards pertinent to protection of consumers' rights, to the exchange of goods or services for personal data (that is, on the application of consumer legislation to non-monetary transactions), as well as the right to receive a copy of the data (data portability), as provided, for example, in the EU and India.

Furthermore, there are no effective instruments for exercising the right to be forgotten (data deletion) present in EU legislation; the opportunity to file a class action lawsuit to protect rights with respect to personal data (including those leaking due to ETP involvement and connivance) is not provided.

According to Article 1253.1 of the Civil Law of the Russian Federation, ETP in Russia fit the definition of information intermediaries responsible for protection of intellectual property rights, as in a number of other countries, i. e. USA, EU: they are obligated either to delete or block the content that violates intellectual

4. How to simplify electronic commerce

property rights. Meanwhile, the regulation of OECD countries, on the contrary, provides for limiting their liability for the content posted by third parties.

For example, they are not liable for violation of intellectual property rights in the USA, EU and Australia, if they comply with the legislatively established requirements related to a special copyright protection policy adopted by the information intermediary, who is authorized to delete accounts of those users, who have repeatedly downloaded illegal content. The same goes for the requirement to have a dedicated contact person specializing in interacting with copyright holders and assisting them to protect their rights.


According to paragraph 3 Article 1253.1 of the Civil Code of the Russian Federation, information intermediaries can also be exempted from this responsibility, if they promptly took the necessary and sufficient measures to stop the violation of intellectual rights upon receipt of a notification from the owner of intellectual property. However, so far, a list of these measures has not been established.

An important issue regarding the regulation of online advertising is the spam limitation. For example, Canadian anti-spam legislation (CASL), one of the harshest in the OECD, came into force in 2014, and according to a study by Deloitte, the amount of spam decreased in 2015 by 37%. Russia does not have any dedicated law on protection against spam, however, legislation on advertising contains relevant regulatory standards on personal data and communications.

They do not provide for a regulated unsubscribing from the distribution of electronic messages; there is no requirement to provide a link to unsubscribe from mailout directly in the electronic message; last but not the least, there is no deadline for suspension of mailout. Introduction of these standards would allow to protect consumer web rights and improve the effectiveness of online advertising, attracting new buyers to ETP.

Holding a monopoly in certain e-Commerce areas, ETPs can use anticompetitive practices to maximize profits. The OECD distinguishes two main types: conclusion of vertical agreements and the unilateral anti-competitive behavior of dominant companies. The latter includes, for example, double pricing, when manufacturer charges various wholesale prices for the product, depending on whether it is sold offline or online.

Thus, the German Federal Cartel Authority discovered anti-competitive retail discount practices used by Danish Lego toy manufacturer. Discounts were allowed on basis of various factors, for example, the shelving space in the store. Although online sellers obviously could not take advantage of such a discount.

FAS Russia should explain to ETP the risks of violating competition laws based on OECD recommendations on combatting the anti-competitive practices in the online environment. This includes, among other things, practices related to the conclusion of vertical agreements, when ETP restricts the sellers' opportunities to trade at their platform, or when the platform sets special requirements for sellers that do not apply to all of them and have no relation with the quality of goods or services. 

AUTHORS

Aleksandra Bozhechkova, Head of Monetary Policy Department, Gaidar Institute; senior researcher, Center for Central Banks Studies, IAES, RANEPA

Maria Girich, junior researcher, Russian Center for Competence and OECD Standards Analysis, RANEPA

Sergey Zubov, senior researcher, Structural Research Department, IAES, RANEPA

Antonina Levashenko, Director of Russian Center for Competence and OECD Standards Analysis, RANEPA

Alla Makarentseva, Head of Demography, Migration and Labor Market Research Department, Institute of Social Analysis and Prediction, RANEPA

Pavel Trunin, Director of Center for Macroeconomics and Finance, Gaidar Institute; Director of Center for Central Banks Issues, IAES, RANEPA

Ramilya Khasanova, researcher, Demography, Migration and Labor Market Research Department, Institute of Social Analysis and Prediction, RANEPA