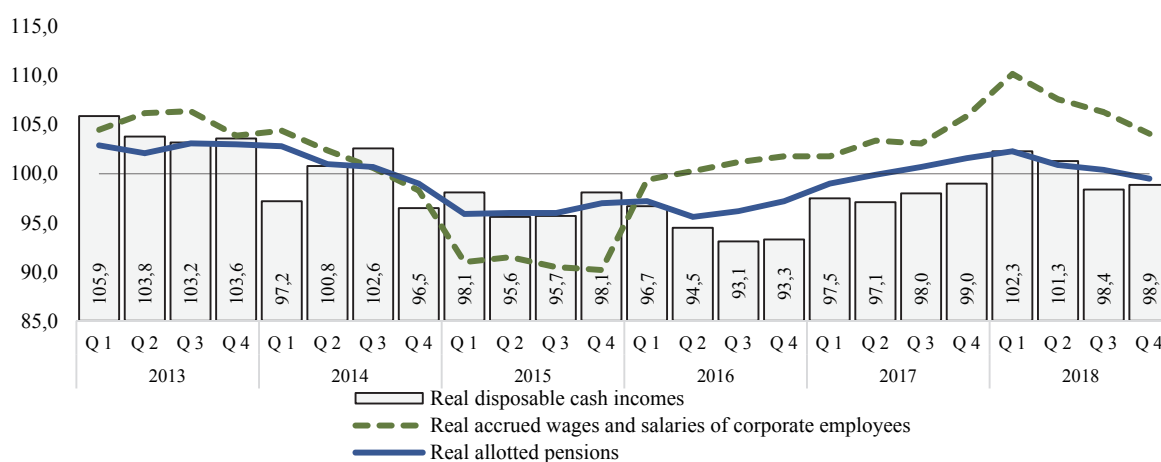


## Section 5. Social sphere

### 5.1. The households' income, poverty and income inequality<sup>1</sup>

In 2018 real accrued wages and salaries of corporate employees increased in Q1 by 10.2%, by 7.6% in Q2, by 6.3 in Q3 and by 4.1% in Q4 against the same period of the previous year (*Fig. 1*). At the same time, real disposable cash incomes of households grew in Q1 and Q2, 2018, by 2.3 и 1.3% respectively against the same period of 2017<sup>2</sup> while in Q3 and Q4 they decreased by 1.6 and 1.1% against the same period of 2017<sup>2</sup>. Real allotted pensions increased in Q1-2, 2018, by 2.3–0.4% against the same period of 2017 and decreased by 0.5% in Q4.



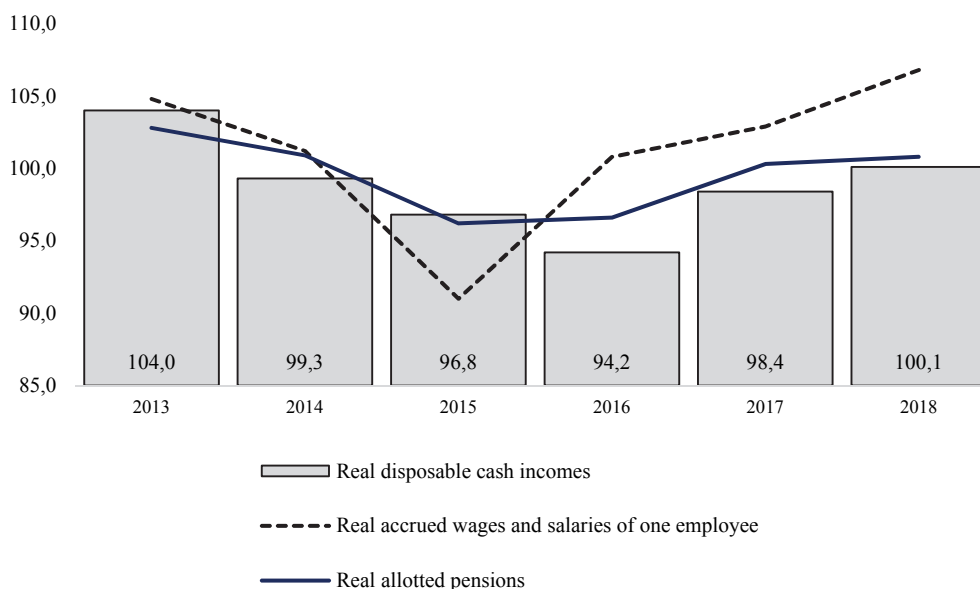
*Fig. 1.* Dynamics of real disposable cash income of households, real accrued wages and salaries and real allotted pensions in 2013–2018, % against relevant quarter of the previous year

Source: Rosstat.

<sup>1</sup> Sections 5.1–5.6 were written by: A. Burdiak, E. Grishina, M. Eliseeva, V. Lyashok, T. Maleva, N. Mkrtychyan, E. Seredkina, Y. Florinskaya, R.Khasanova all from RANEPА.

<sup>2</sup> In Section 5.1 real disposable cash incomes of households for 2017 and 2018 do not include a lump-sum amount of RUB 5000 paid to pensioners in January of 2017.

On the whole, incomes of households and pensions amounted respectively to 100.1 and 100.8% in real terms in 2018 against 2017 and decreased respectively by 10.8 and 5.2% against 2013 (*Fig. 2*). However, real accrued wages and salaries of corporate employees increased by 6.8% in 2018 against 2017 and by 2.0% against 2013.



*Fig. 2.* Dynamics of real disposable cash income of households, real accrued wages and salaries and real allotted pensions in 2013–2018, % against previous year

*Source:* Rosstat.

A gap in the dynamics of real accrued wages and salaries of corporate employees and real incomes of households can be explained by re-allocation between observable and unobservable payroll fund in favor of the observable one, probable reduction of real accrued wages and salaries in unobservable sector and reduction of entrepreneurial and property income in real terms.

Cash incomes of households amounted to 286–310% of subsistence minimum for all households in Q1-Q3, average wages and salaries of corporate employees amounted to 370–394% of subsistence minimum for working population and average allotted pensions were 155–161% of subsistence minimum for pensioners (*Fig. 3*).

Cash incomes of households increased in H1 2018 with regard to subsistence minimum (SM hereunder) compared to the same period of 2015–2017, however, remained below level of 2013–2014. However, they decreased in Q3 against SM compared to 2013–2016.

Average pensions increased in January – September 2018 against SM compared to 2015–2017 but remained below level of 2013–2014.

At the same time, average wages and salaries of corporate employees increased in January – September 2018 against SM of the same period of 2013–2017.

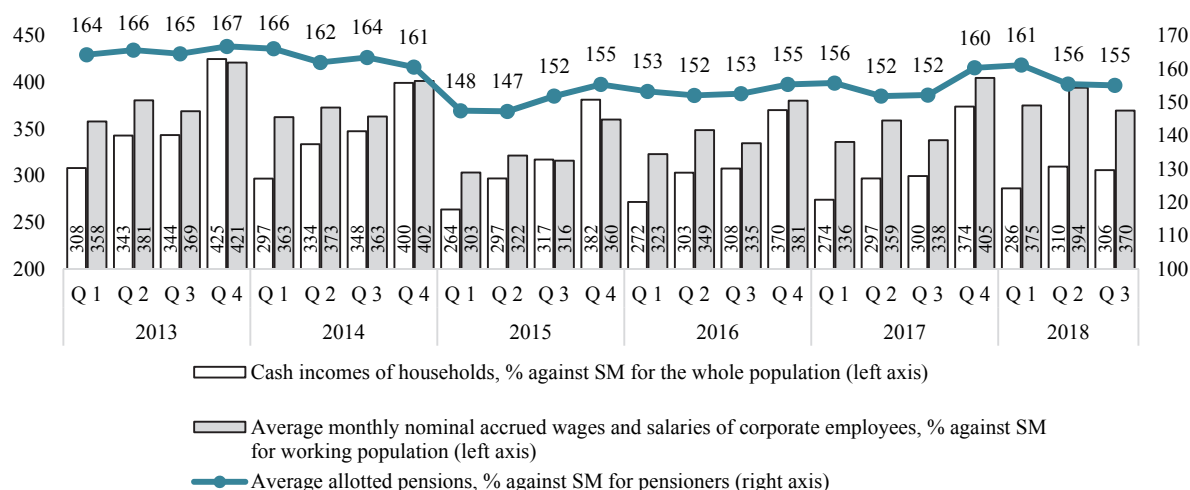


Fig. 3. Cash incomes of households, average monthly nominal accrued wages and average allotted pensions in 2013–2018, % against subsistence minimum

Source: Rosstat.

Shares of labor remuneration including off-the-book wages and social payments increased in the structure of cash incomes of households in 2018 compared to 2015–2017 while share of property and entrepreneurship incomes reduced (Fig. 4).

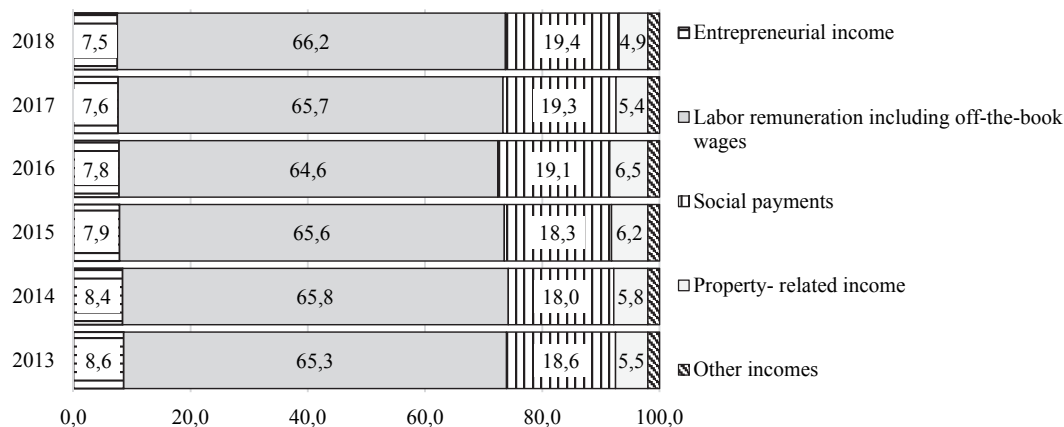


Fig. 4. Structure of cash incomes of households in 2013–2018, %

Source: Rosstat.

The share of cash income spent on goods and services constituted to 76.9% in 2018, which was above the level observed in 2013–2017 (Fig. 5). The share of cash income allocated towards savings amounted to 5.5% in 2018, which was minimal since 2009. The decline of this share resulted, inter alia, from growth of retail loan indebtedness.

According to RF Central Bank data, retail loan indebtedness increased by 22.8% in 2018 compared to just 13.2% in 2017.

## RUSSIAN ECONOMY IN 2018

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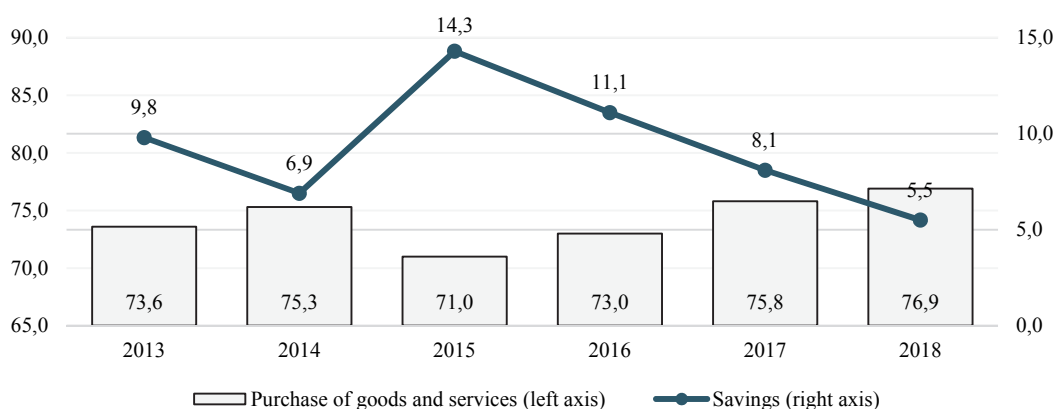


Fig. 5. Share of cash income of households spent on goods and services and allocated towards savings in 2013–2018, %

Source: Rosstat.

Thus, in 2018, in conditions of extremely low growth of cash income population applied for loans to maintain consumer standards.

Findings released by Rosstat survey on consumer expectations demonstrated that proportion of people who considered situation for purchasing major goods as favorable, increased in H1 2018 compared to the same period in 2015–2017, whereas those who thought that this situation was not favorable, decreased, on the opposite (Fig. 6).

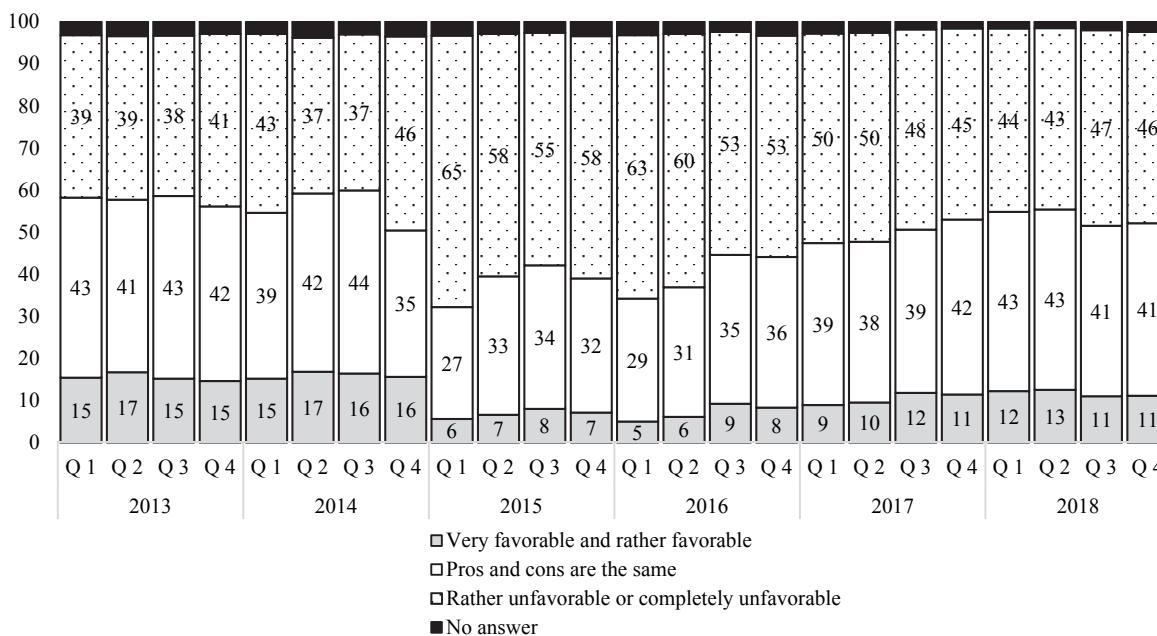
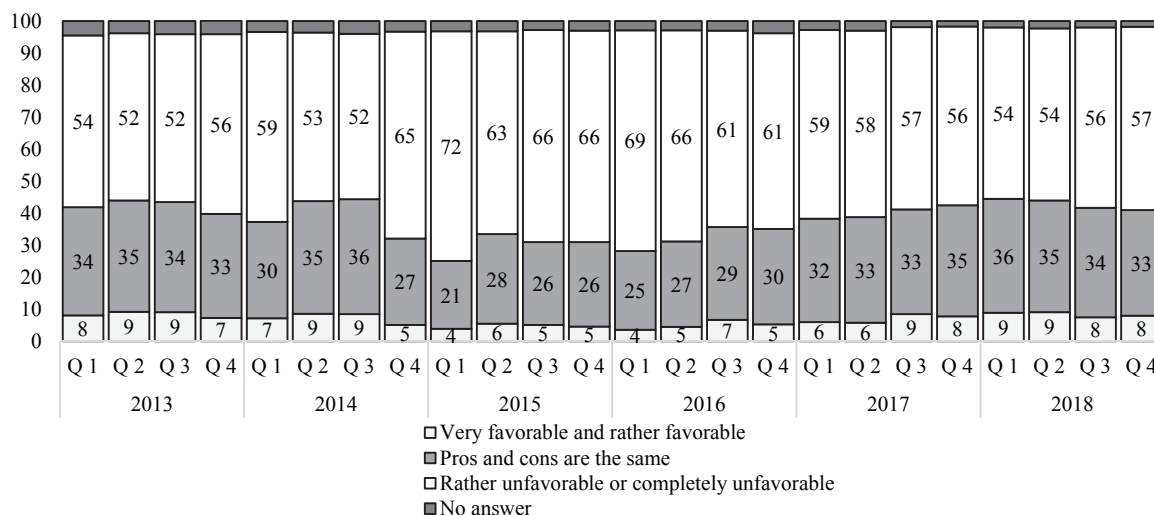


Fig. 6. Popular opinion on favorable period for major purchases in 2013–2018, %

Source: Rosstat.

Moreover, the share of households considering favorable situation for making savings increased in H1 2018 compared to the same period in 2015–2017 while the number of those who thought the opposite, reduced (*Fig. 7*).

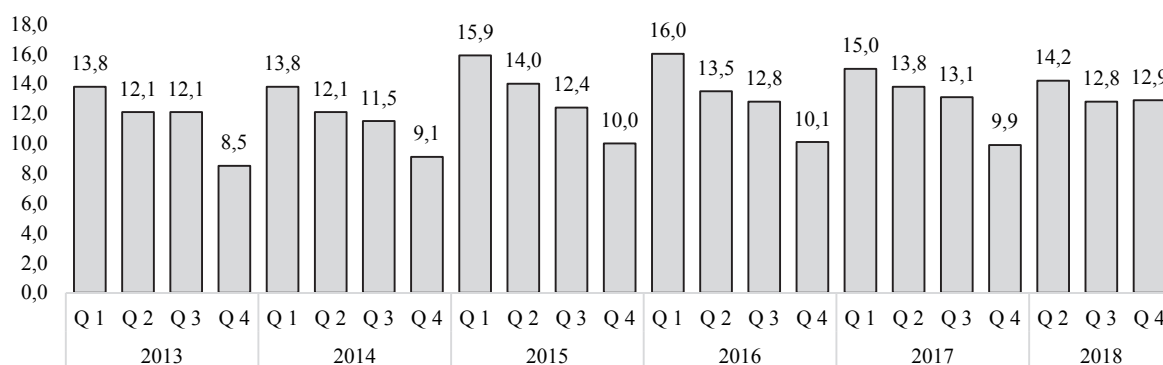


*Fig. 7.* Popular perceptions on favorable situation for making savings in 2013–2018, %

Source: Rosstat.

The share of households possessing cash income below subsistence minimum amounted to 12.9% in Q3 and reduced against the same period of 2017, however, remained higher than in 2013–2016 (*Fig. 8*).

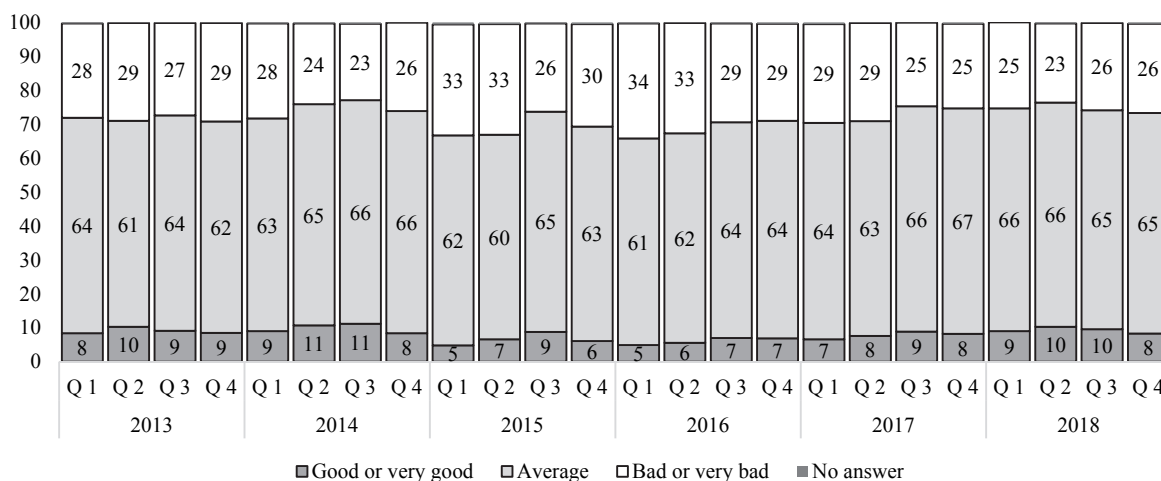
On the whole, level of absolute monetary poverty of households amounted to 13.3% in January – September 2018, which was lower than in cthe same period of 2015–2017, however, higher than in 2013–2014.



*Fig. 8.* Share of households possessing cash incomes lower than subsistence minimum across Russian Federation in 2013–2018, %

Source: Rosstat.

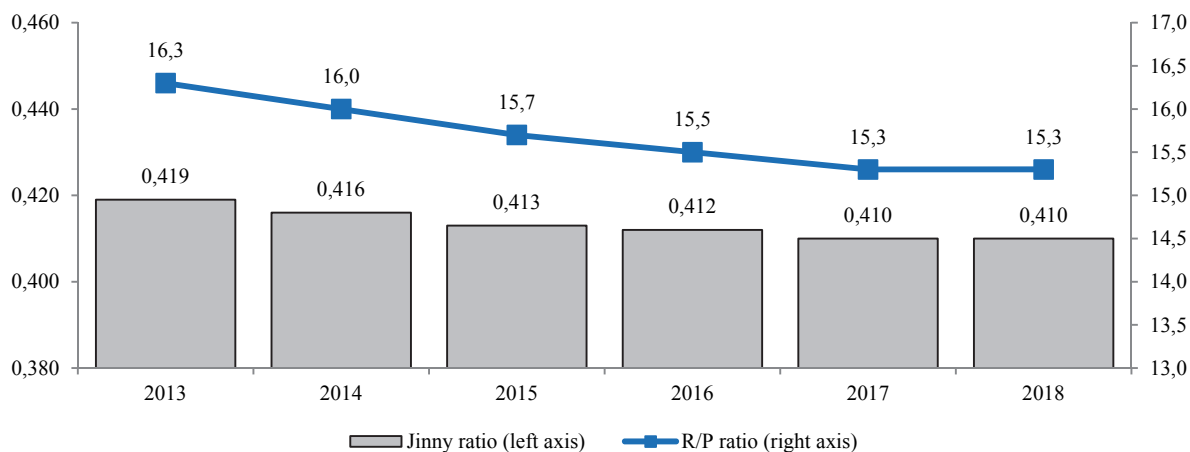
In 2018, share of subjectively poor households evaluating their financial situation as “bad” or “very bad” amounted to 23–26% and reduced compared to 2015–2016 (*Fig. 9*).



*Fig. 9.* Popular perceptions on current financial situation in 2013–2018, %

Source: Rosstat.

R/P ratio and Jinny ratio prove that level of income inequality has not changed in 2018 against 2017 and remained lower than in 2013–2016 (*Fig. 10*).



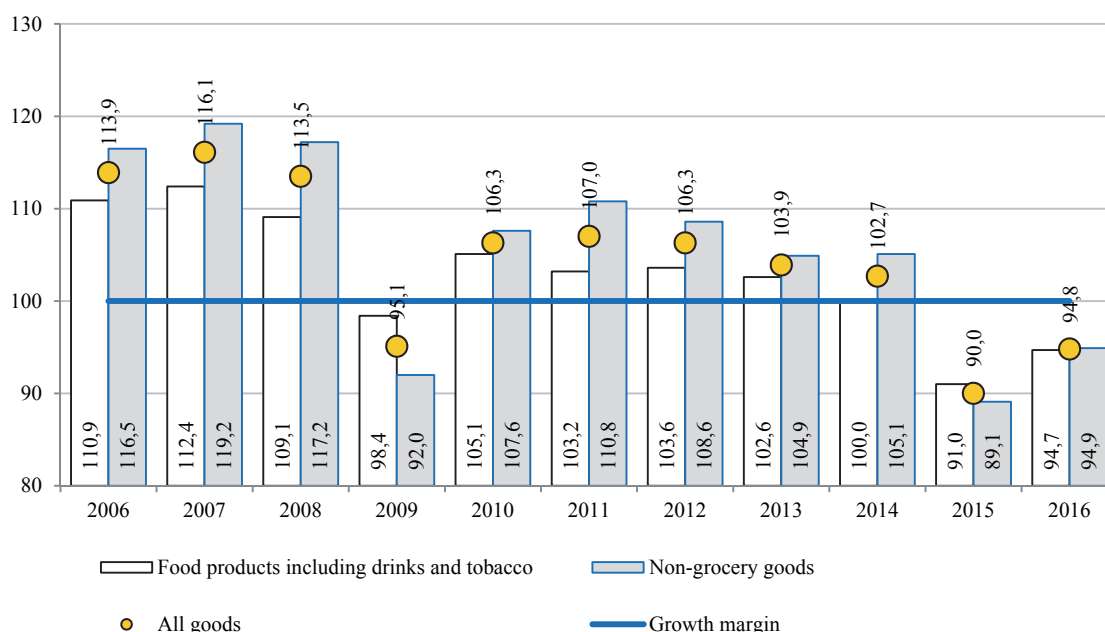
*Fig. 10.* Jinny ratio and R/P ration, 2013–2018

Source: Rosstat.

## 5.2. Retail trading and consumer prices

The turnover of retail trading amounted to RUB 31.5 trillion in 2018 in monetary terms. However, traffic of goods increased by 2.6% against 2017 including growth of food products, drinks and tobacco by 1.7% and non-grocery goods by 3.4%. Thus, it is obvious that growth of goods’ traffic commenced in 2017, is going on. Moreover,

according to results of 2018, growth of retail trading turnover can be compared with indicators of 2014, i.e. one may speak about rollback to pre-crisis figures. Again, one can mention that role of food products including drinks and tobacco has significantly increased in 2018 against 2014 when growth of commodities turnover was secured primary at the expense of non-grocery goods (*Fig. 11*).



*Fig. 11.* Dynamics of retail trading turnover in comparable prices, % against previous year

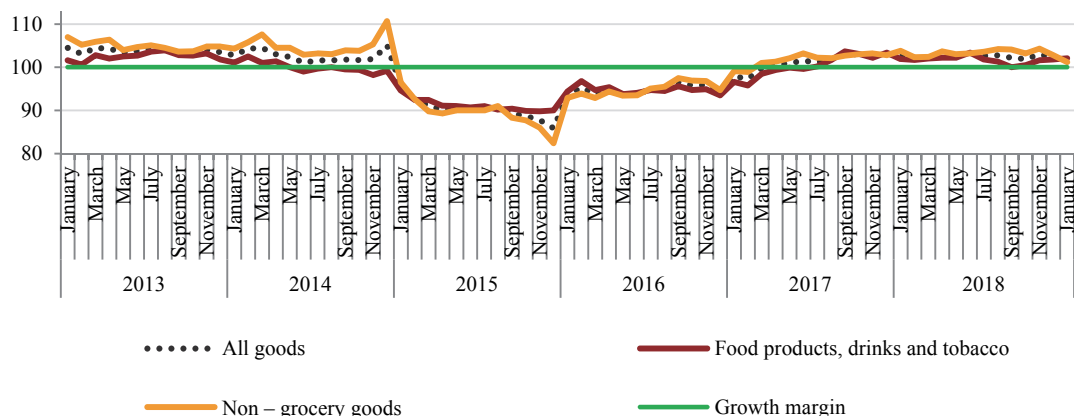
Source: Rosstat.

If comparison concerned two-year period, when increase of retail trading turnover demonstrated negative value, i.e. 2015 and 2016, one can state that turnover grew by 3.8% within two years in comparable prices against 2016 including growth of food products, drinks and tobacco by 2.2% and non-grocery goods by 5.4%. However, turnover of retail trading basically reduced by 1.6% even against the pre-crisis 2015 and by 3.2% for food products including drinks and tobacco, although it remained stable for non-grocery goods.

Making a comparison against pre-crisis 2014, it is obvious that indices of that year have not been achieved and turnover of retail trading reduced by 0.4% in comparable prices, which can, however, be explained by reduction of turnover for food products by 2.7%. At the same time, turnover of non-grocery goods increased by 1.9%. In 2019, it may be expected that turnover of retail trading will get around pre-crisis values or even exceed them.

*Fig. 12* shows monthly dynamics of retail trading with regard to respective period of the previous year in comparable prices. It is evident that turnover of retail trading grew during previous year. However, turnover of food products, drinks and tobacco declined

from June to September and decline of non-grocery goods started in October and by January 2019 its index was below food products.



*Fig. 12.* Monthly dynamics of the retail trading turnover including its components in comparable prices, % against respective month of the previous year

Source: Rosstat.

The turnover of retail trading amounted to RUB 2.5 trillion in monetary terms in January of 2019 or 101.6% in comparable prices against January of the previous year. Growth of food products, drinks and tobacco accounted for 102.1% in January 2019 compared to 100% in September 2018. Growth of non-grocery products reduced to 1.2% in January, though it was still positive.

Turnover of retail trading and their both components was positive in comparable prices with regard to January 2019, i.e. the index exceeded 100% for eleven month in a row.

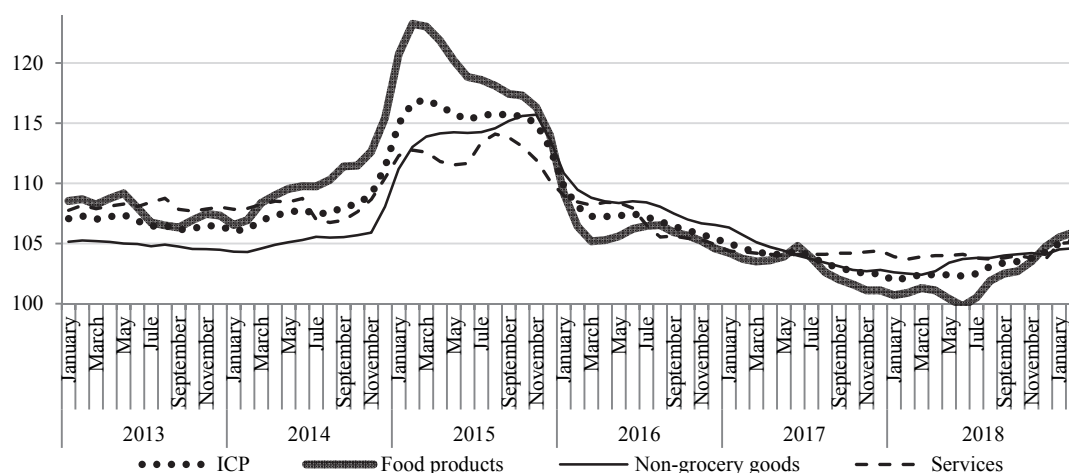
Turnover of retail trading increased by 2.4% against January 2015. It happened, first of all, due to 4.1% growth of non-grocery segment, although growth of food products including drinks and tobacco was also going on. Thus, January 2019 was the first month since December 2016 when the index of retail trading turnover including their both components, were positive.

However, turnover of retail trading reduced almost by a quarter for food products, drinks and tobacco as well as for non-grocery goods in January of this year against December 2018. This fact can be easily explained by peak in consumption on the eve of New year festivities, which goes sharply down afterwards.

The structure of the retail trading turnover changes insignificantly over time: non-grocery goods constitute slightly more than half since the beginning of 2013 and, consequently, slightly less for food products, drinks and tobacco. In January 2019, the ratio was 51.7% (RUB 1.3 trillion in monetary terms) and 48.3% (RUB 1.2 trillion) respectively. On the whole, the 2018 turnover of non-grocery goods amounted to 52.4% (RUB 16.5 trillion) and 47.6% (RUB 15 trillion) for food products, drinks and tobacco.



Index of consumer prices constituted 105% in February 2019 against respective period of the previous year including 105.5% for food products, 104.5% for non-grocery goods and 105% for services. Thus, prices increased for every component of the turnover of retail trading in a year terms (*Fig. 13*).



*Fig. 13.* Overall index of consumer prices (IPC), price indices for food products, non-grocery goods and services, % against respective month of the previous year

Source: Rosstat.

Food products that experienced the largest increase in prices by February 2018 in a year terms were granulated sugar, i.e. by 30.2%. Chicken eggs were in the second place although their price increased much less, i.e. by 20.5%. Meat and poultry increased by 10.8% and horticulture products by 9.1%. Other categories of food products experienced the rise within 1.5–6.7%.

Prices reduced for several categories of food products this February compared to the previous month, January. Prices reduced for chicken eggs (-5%), granulated sugar (-1.1%), meat and poultry (-0.6%), sunflower oil (-0.3%). Horticulture produce experienced the largest increase in prices (4.9%). It is related, first of all, to rise in prices for tomatoes by 16.6%, cucumbers by 14.8%, white cabbage by 8.4%, yellow onion by 5%. Prices for other categories of products increased by 0.5–1.6%.

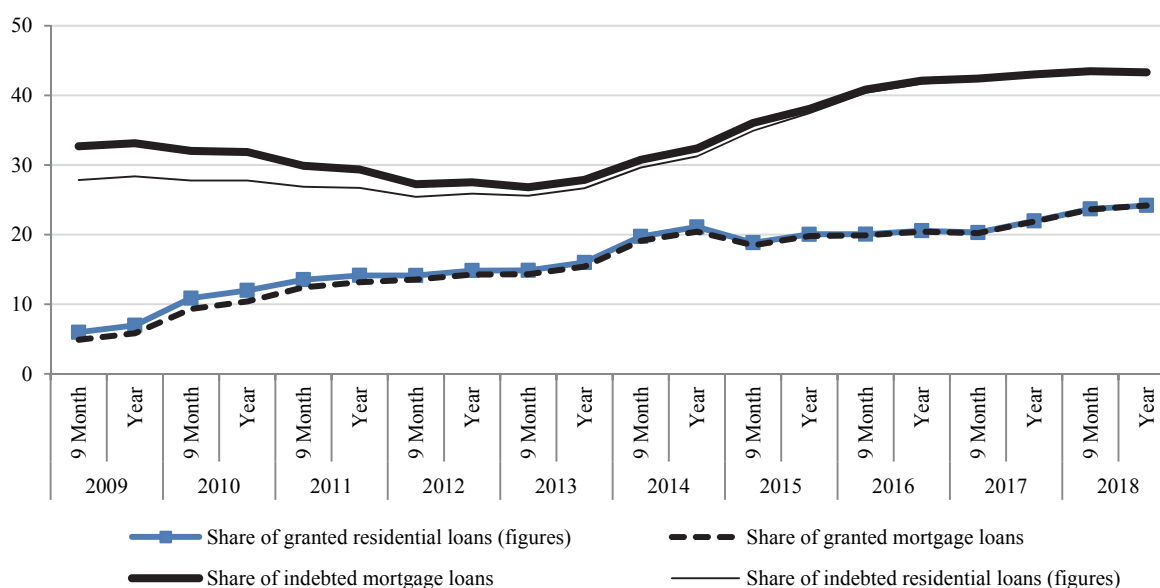
The largest increase in prices in the category of non-grocery goods concerned tobacco in a year terms, i.e. 9.9% and car petrol, i.e. 9.6%. Construction materials, medical supplies, electric goods and other home appliances, washing and cleaning products, knitwear, shoes, clothes and underwear, textile have also become more expensive, i.e. by 1.8–5.8%. Only TV and radio goods reduced in prices (-1.1%).

### 5.3. Loans and savings of households

The year 2018 was a record year for mortgage credits. The total number of 1.47 mn mortgage credits for the amount of RUB 3 trillion was granted in 2018 exceeding 2017 in quantity by 35.4% and in volume by 49%. Growth of mortgage was contributed,

firstly, by accumulated unrealised demand of the Russian families in residential property in the previous years, and, secondly, by gradual reduction of rates to the historical minimum 9.41% on loans granted in September-October and to 9.56%<sup>1</sup> in general for 2018, and, thirdly, by prospects of the VAT growth and switch to escrow accounts for financing new construction in 2019. Mortgage loans constitute 99.7% among residential loans in quantity and 99.8% in volume, proving that current residential loans in the Russian Federation are represented by mortgage loans almost completely.

Role of residential lending is increasing in loans issued to households. In 2017, such loans constituted 22% of the volume of banking loans granted to households, larger than within all previous years under observation while the share of residential mortgage lended loans achieved 24.2% following results of 2018 (Fig. 14). Households indebtedness to banks was secured by 43% of mortgage (dwelling) in 2017 and by 43.3% at the end of 2018. Auto loans constitute almost the tenth of loans banking portfolio. As compared with 2017, the volume of auto loans increased from RUB 713 to 817 billion and their share decreased from 10.3 to 9.7% of the total households loan debt.



*Fig. 14. Role of residential mortgage lending in issuing loans to households and in the amount of individuals' debt on loans to banks, %*

Source: own calculations using data released by Bank of Russia.

Dynamics of mortgage and non-mortgage lending of households differs significantly and this is absolutely predictable as there are different rates, terms, lending conditions in these sectors of lending. The most important factor that they have different sensitivity against economic situation. Indebtedness of households on all loans decreased by 6% as

<sup>1</sup> Annual weighted average rate.

a result of recession in granting consumer non-residential loans by 14% in 2015 despite growth of residential lending by 13% (Fig. 15). In 2016, decline in non-residential lending extended for another 5%, however, residential lending grew by 13% per year, remainin the overall driver of consumer loans.

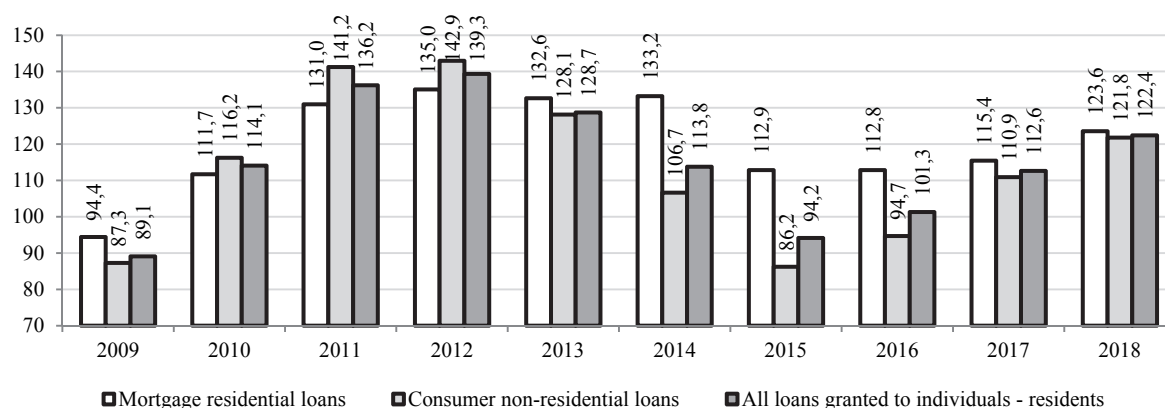


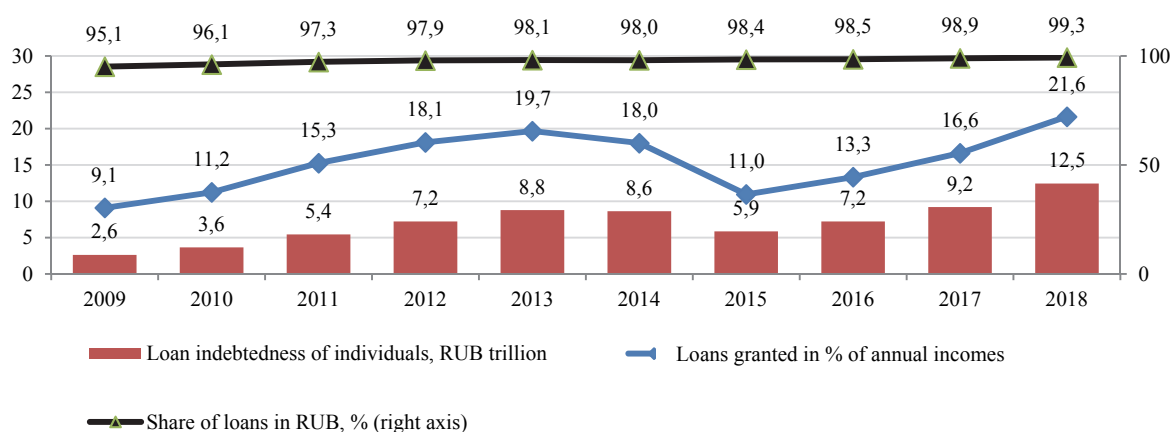
Fig. 15. Growth of households' indebtedness on residential and non-residential loans, % against previous year

Source: own calculations using data released by Bank of Russia.

Non-residential lending actively increased in 2017 though at lower pace than mortgage, and in 2018 growth of individual indebtedness on non-residential loans constituted 21.8% against previous year having almost catching up with growth rates of residential lending, i.e. 23.6%. it should be noted that growth on auto loans was lower in 2018, 14.6% against 2017. A deeper retrospective shows that increased rate of nominal indebtedness of households on loans reached 35–40% in 2011–2013, however, at that time non-residential lending developed faster than mortgage in contrast with the recent years.

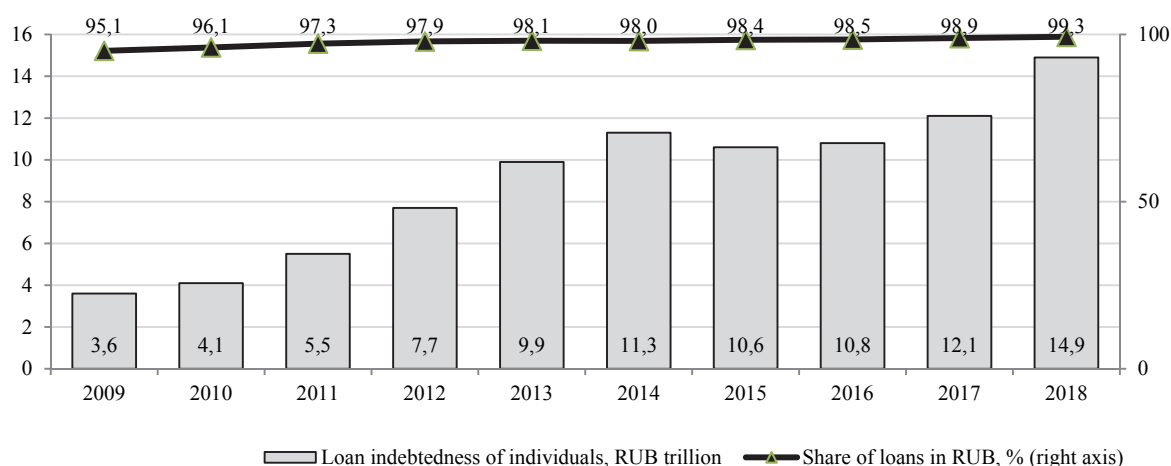
In 2018, banks issued a record amount of RUB12.5 trillion to individuals (Fig. 16) while a year ago in 2017 individuals lended RUB 9.2 trillion. Amount of loans issued in 2017 reached the level of 2013 in nominal terms, however, the pre-crisis level was reached only now against annual households incomes: amount of credit loans issued in 2018 equaled to 21.6% of the annual households incomes (previous maximum constituted 19.7% in 2013.). Practically every loan to individuals is issued in the national currency nowadays.

Total loans debt of households reached RUB 14.9 trillion based on the 2018 results (Fig. 17). The amount of RUB 757.6 billion, i.e. 5.1% of this debt represented loan arrears as on January 1, 2019. Loan arrears on mortgage reduced to 1.1% of the total debt of households by the end of 2018 compared to 1.7% in the middle of the 2016 crisis. Mortgage crediting was and still is the most performing loan issued to households.



*Fig. 16. Amount of loans granted to individuals*

Source: own calculations using data released by Bank of Russia.



*Fig. 17. Loan indebtedness of individuals at the year end*

Source: own calculations using data released by Bank of Russia.

Households banking deposits have also increased in nominal terms in 2018. Amount of individual deposits reached RUB 28.6 trillion including 6.2 trillion or 21.8% of these financial means in foreign currency and precious metals (*Fig. 18*). Share of foreign currency deposits reached its maximum at the end of 2015, i.e. 29.7% of total deposits.

Thus, growth of deposits as well as of households debts on loans was observed in recent years in nominal terms. Which indicator grew faster: deposits or debts? In 2010, amount of deposits exceeded loan debts by 2.41. (*Fig. 19*). Then, crediting grew more intensively and the said proportion reduced to 1.65 in 2014. Further dynamics turned to saving behaviour by households: by 2016, this proportion increased and reached 2.26 times. Crediting grew faster than deposits in the last two years and proportion of savings

vs credits reduced. According to results of 2018, amount of deposits constituted 192% of individuals' loan debts corresponding to 2011–2012.

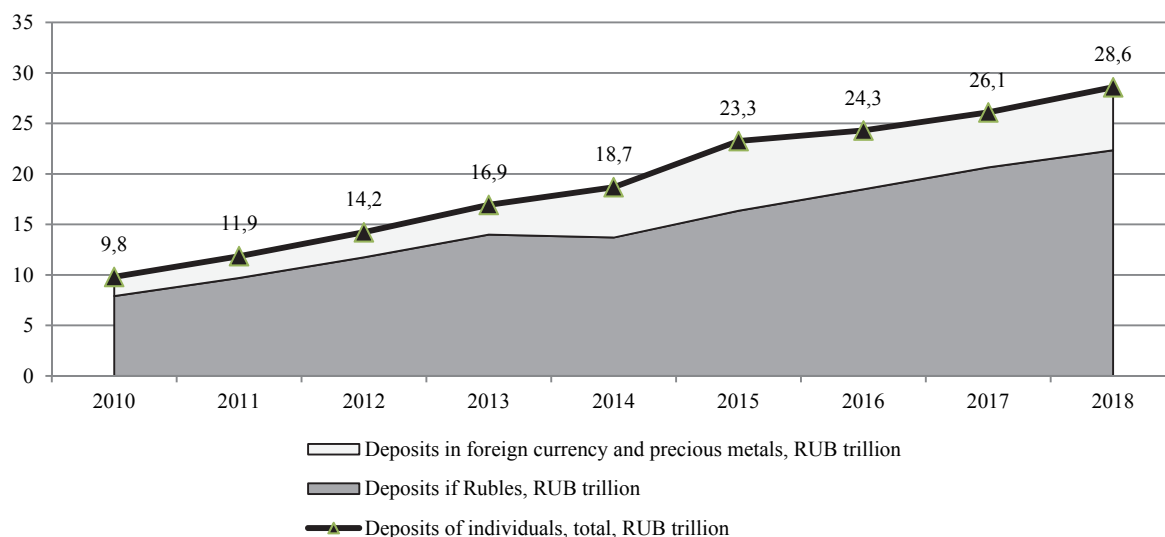


Fig. 18. Amount of individual deposits at the end of the year, RUB, trillion

Source: own calculations using data released by Bank of Russia.

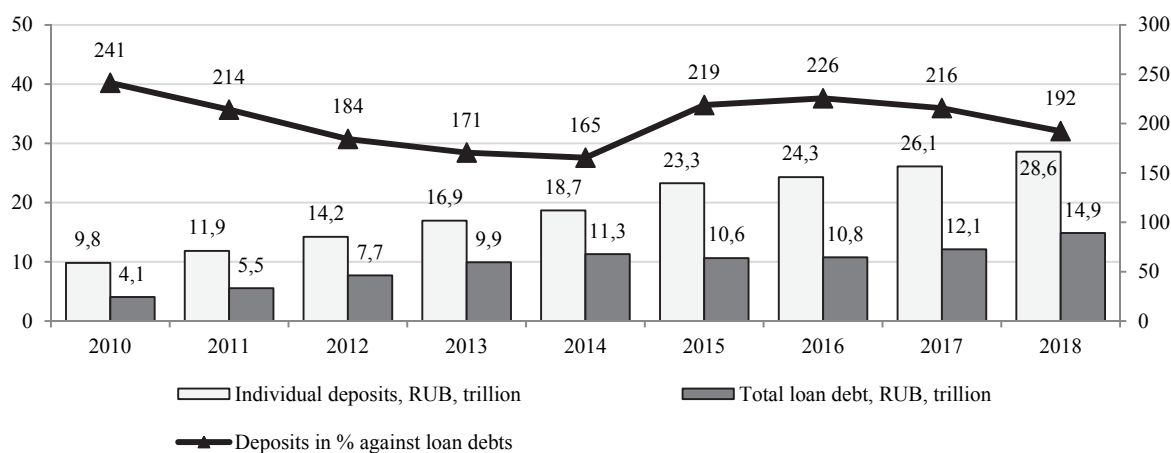
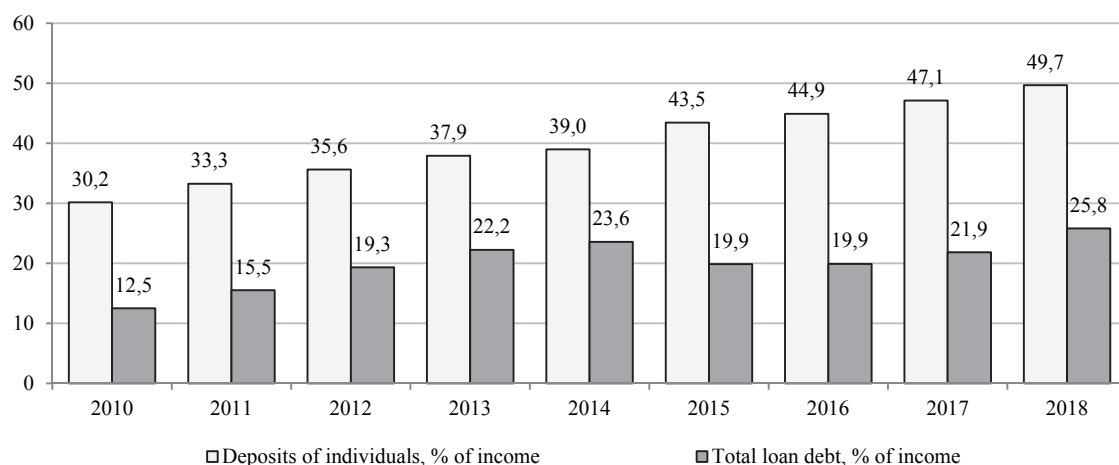


Fig. 19. Proportion of individual deposits vs households loan debt at the end of the year

Source: own calculations using data released by Bank of Russia.

Deposits grew against cash incomes during years under consideration. Deposits constituted 47% by the end of 2017 compared to 47% of the annual income of households and by the end of 2018 deposits reached practically half of the income, i.e. 49.7%. It signifies that deposits grew faster than incomes, which, in their turn, demonstrated decline or stagnation in the recent years in real terms (Fig. 20).



*Fig. 20.* Individual deposits and loan debts, % of cash households' annual income

*Source:* own calculations using data released by Bank of Russia and Rosstat.

Households loan debt increased against cash incomes. According to results of 2018, it was equivalent to 26% of the annual amount of households cash incomes, thus, exceeding pre-crisis margin. In 2017, it constituted 22% and was lower than in 2013–2014. Thus, new correlated records of loan debt and deposits were achieved in 2018 against stagnating incomes. Loan debt of individuals amount now to almost quarter of annual households deposits. At year-end, deposits of individuals exceed cumulative loan debt twice and correspond in fact to half of annual income of Russian households.

#### **5.4. Dynamics of labor market**

Significant reduction of labor force by 0.5 mn. people marked 2017 and had an essential impact on many other labor market indicators, however, this reduction practically stopped in 2018 (*Fig. 21*). Number of economically active population constituted 74.9 mn.people in 2018 excluding Crimea, being only 0.1 mn. less than in 2017. However, number of working age people was declining but labor force participation rate significantly increased: by 0.5 pp in the first three quarters of 2018 among working age people and by 0.6 pp among over working age people<sup>1</sup>. Occasional engagement to labor market allows to moderate negative demographic trends for a long period of time and maintain the size of labor force at almost the same level. Although number of working age people was reducing since 2006 and has already reduced by eight mn.people, size of labor force is maintained at 75–76 mn.people. As a result, Russia is significantly outperforming most of the developed countries by level of engagement of principal working age population, i.e. 25–54 years old: this index accounted for 90.9% in Russia in 2018 compared to average 82.1% in the OECD countries<sup>2</sup>.

<sup>1</sup> Data for a full year were not published yet as of this publication.

<sup>2</sup> Source: OECD-stat. URL: <https://stats.oecd.org/#>

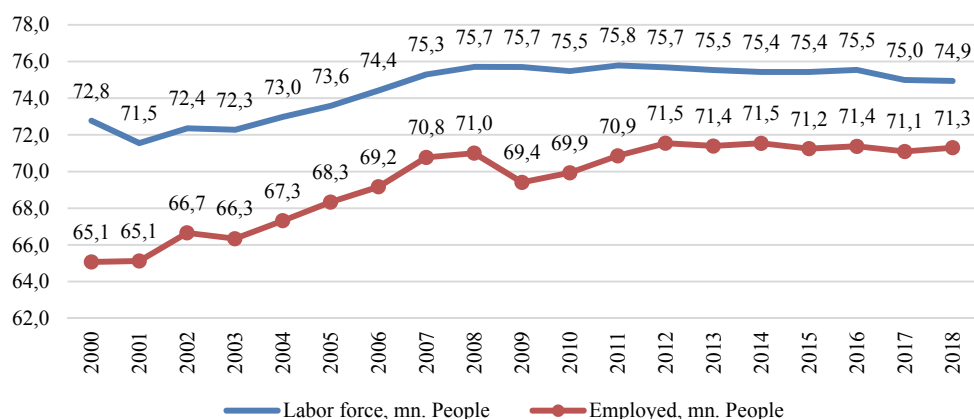


Fig. 21. Size of labor force and employed (excluding Crimea)

Source: Rosstat.

At the same time, number of employed people has even grown in 2018 by 0.2 mn. people. Such spheres as healthcare, extraction of mineral resources, administrative activity and other accompanying additional services experienced the largest growth. Rosstat include various services required for support of principal activity of enterprises in the latter type of economic activity: renting and leasing, travel and human resources agencies, etc. It is not feasible to define which activities experience the largest growth. Reduction was observed in construction, electric energy, process industries and public administration. Thus, share of different services is increasing in the structure of engagement against reduction of industrial share.

Unemployment reached its historical minimum in 2018: 4.8% (Fig. 22). Number of unemployed constituted average 3.7 mn. people over a year, lower by 0.3 mn. than in 2017. Russia is below majority of OECD countries according to this index while average index for these countries was 5.9%.

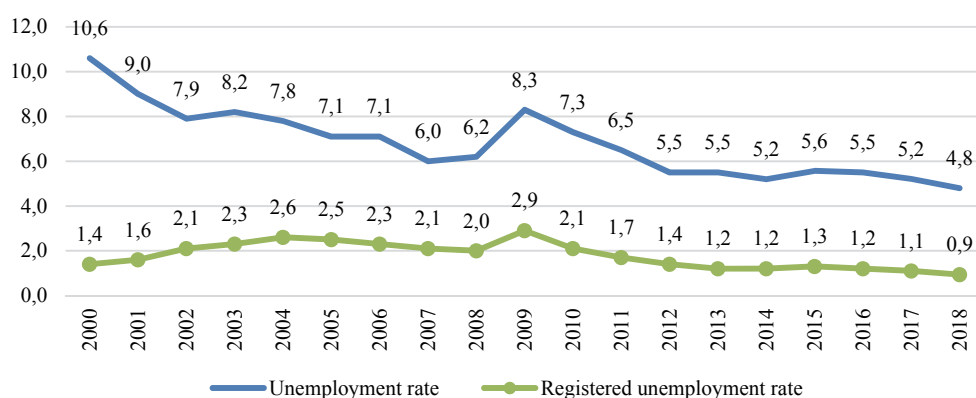
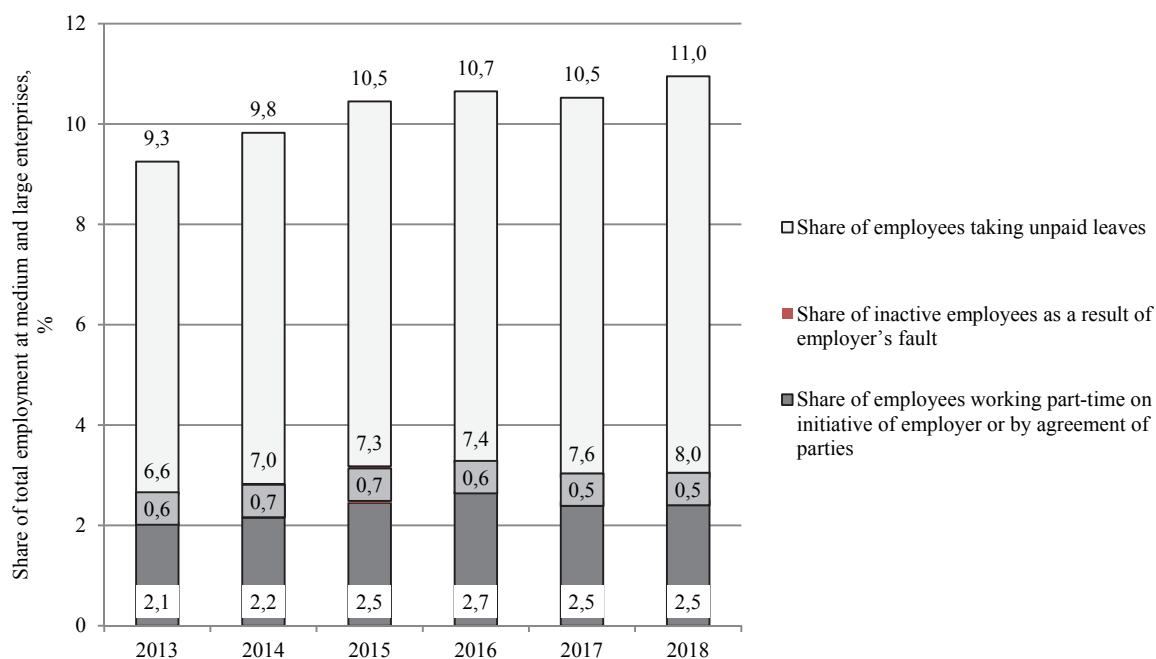


Fig. 22. Unemployment rates according to ILO methodology and registered unemployment, %

Source: Rosstat.

Reduction of unemployment rate and growth of engagement prove gradual economic growth resulted in the growth of labor force deficit. Other factors prove it as well. Firstly, according to surveys of industrial enterprises, the load on available labor force remains high<sup>1</sup>, i.e. at the level of 2011–2014. Secondly, number of vacancies is growing in public employment agencies against reduction of unemployed people addressing them. In 2018, average load of unemployed people in the employment agencies was 53.8 people per 100 published vacancies presenting again a historical minimum according to this index. Thirdly, private employment agencies noted changes in the proportion of those looking for a job and vacancies. According to data of Headhunter, there were 5.7 active resume per one opened vacancy in 2018 at an average while in 2017 this number was by 15% higher<sup>2</sup>.

However, part-time employment is increasing (*Fig. 23*) but its structure has slightly changed within the period that Rosstat provided data for: 2013–2018. The share of forced part-time employment slightly decreased to 3% in 2018 after achieving its peak of 3.3% of the average staff count in 2016<sup>3</sup>. Nevertheless, share of employees taking unpaid leaves is growing. On a par, 8% of all employees at large and medium enterprises took such leaves in 2018, which was by 1.4 pp higher than in 2013.



*Fig. 23.* Part-time employment at large and medium enterprises, % of total staff count at medium and large enterprises

Source: Rosstat.

<sup>1</sup> S.P. Aukutsionek et al. REB statistical data series//Russian Economic Barometer – 2018. – №. 2 (68).

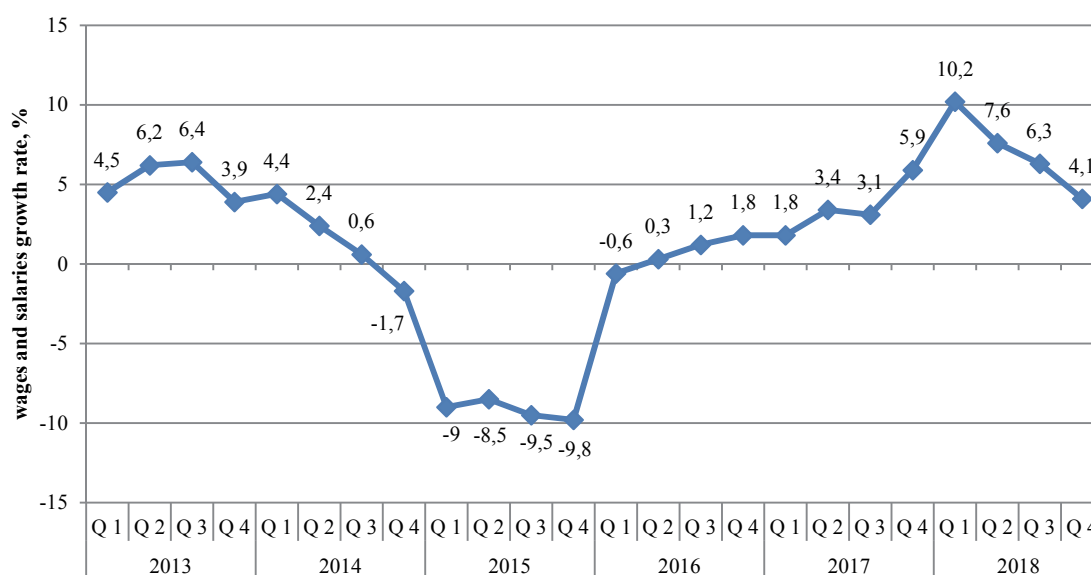
<sup>2</sup> Source: <https://stats.hh.ru/>

<sup>3</sup> Forced part-time employment means that people worked part time on the initiative of employer or due to agreement of parties or were inactive due to employer's fault.



Unpaid leaves were most relevant for processing industries with 17.5% of all employees experiencing them in Q4 of the previous year, and also in construction (16.5%), hotel and restaurant business (14,5%). Although, such leaves are voluntary for the employee, one can suggest that in most of the cases, especially in the abovementioned industries, unpaid leave was forced on employees and imposed by employer. It also highlights the issues that enterprises operating in these industries face. Herewith, wages of employees taking such a leave are indicated in the statistical accounting of the organization based on their wages in the previous periods. It allows enterprises to maintain their wages and salaries fund unchanged in their statistical accounting.

In Q4 2017 and Q1 2018, growth of salaries and wages significantly accelerated (*Fig. 24*). As a result, average real salaries and wages increased by 6.8% in 2018 and for the first time exceeded level of 2014. Although decline of salaries and wages was rather short during the latest economic crisis, further growth was minimal and that is why average wages were below level of 2014 for a long period of time. Growth acceleration was associated by and large with two factors: on one hand, increase of minimum monthly wage (MMW), on the other hand, implementation of May 2012 Presidential Executive Orders striving to raise wages of public-sector employees in certain categories to target indicators stipulated by the Order.



*Fig. 24.* Growth rate of real salaries and wages vs respective index of the previous year, %

Source: Rosstat.

Growth of MMW was caused not only by growth of its rate from RUB 7.800 to 11.163 on the federal level but also by reversion of legal framework, when this rate requires regional salary coefficients for employees working in the regions of Russia Far

North and neighbor territories. Thus, the largest growth of MMW was observed in northern regions, Siberia and Far East, Chukotka, Arkhangelsk region, Tyva, Khakassia, Primorsky region, Mountain Altay.

Implementation of May 2012 Presidential Executive Orders led to essential growth of salaries and wages predominantly in the public-sector areas: wages increased in healthcare by 23.7% in nominal terms, education by 14.2%, culture activities by 18.9%. Growth was significantly lower in other areas, especially, in the extraction of natural resources (5.9%), public administration (6.1%), trade (6.3%).

Thus, labor market demonstrated reversion to pre-crisis tendencies in 2018: maintainance of employment volume practically unchanged as a result of growth of households economic activity and reduction of unemployment. Informal economy was growing while number of employed at large and medium enterprises reduced. The most important changes in the labor market related to growth acceleration of salaries and wages in H1 2018, however, both factors of growth, i.e. increase of MMW and wages in public sector were initiated by state authorities, were artificial and not related with acceleration of economic growth or internal changes. Therefore, it is not surprising that swift growth of salaries was limited and signs of stagnation were visible by Q3. By December, growth of salaries and wages has practically stopped along with acceleration of inflation.

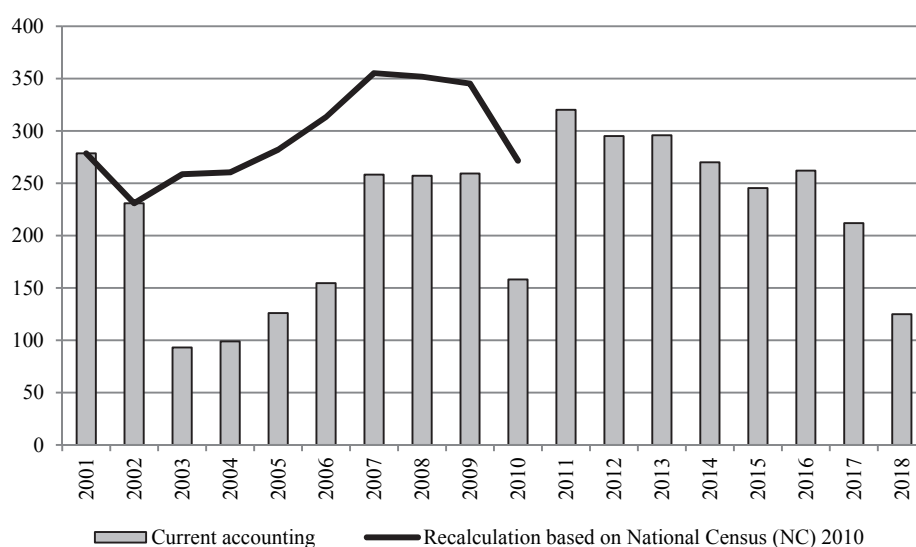
Pension reform and its short term impact on labor market shall not be overlooked. Transition period started in 2019 with increase of pension age. Men and women born in 1959 and 1964 whose pension age will be increased by six months, will be primarily affected by pension reform in its first year. This means that some people in these cohorts who intended to leave labor market at the onset of retirement age will be forced to remain for at least another six months. At the same time, according to Rosstat, only 34.7% stopped working in 2016 reaching retirement age, while majority worked much longer, on average, about five years more. According to our estimates, raising the retirement age will force 150–200 thousand people to remain in the labor market. This is relatively little; thus, number of people older than working age employed in the labor market increased by 400 thousand within 3 quarters of 2018. Thus, an additional influx of older population into labor market will correspond to the natural trend of growth in economic activity among senior population, at least during first years of reform.

## **5.5. Migration**

### **5.5.1. Long-term migration**

In 2018, number of international migrants arriving to Russia has slightly decreased compared to the previous year, however, number of departures significantly increased. As a result, net migration was far much lower than in 2017 and constituted 124.9 thousand people. This is the lowest index of Russia's migration gain in the current decade. Last time Rosstat registered migration gain below 150 thousand people in 2003–2005 (*Fig. 25*) and it was associated with a considerable underestimation of international

migration in Russia<sup>1</sup>. Measures on improvement of current accounting of international migrants taken by Rosstat in 2007 and 2011 have practically liquidated main reasons of their underestimation and therefore, there is no reason to think that migration gain can be capitalily corrected according to results of the forthcoming 2020 census.



**Note:** NC – National Census

*Fig. 25. Migration gain in Russia, 2001–2018, thousand people*

*Source:* Rosstat.

Data of the current accounting of the population turnover and migration show that migration compensated losses resulted from natural population decline only by 57.2% in 2018. In this decade, such a situation developed for the first time. Even in 2010, when natural decline was 241.4 thousand people, i.e. was higher than in 2018, migration compensated for these losses by 65.5%. Thus, after a long break, there was a population decline again in Russia in 2018.

Reduction of migration gain in the population of Russia affected exchange with almost all countries in 2018 (*Table 1*) and this is especially evident when compared with the beginning of the decade. Compared with the average annual data for 2012–2013, migration gain in the population of Russia has slightly increased only with Belarus (by 3.6%) and a slight decline (4.6%) was observed only in migration from Tajikistan. Migration growth with Kazakhstan fell by almost one third, with Azerbaijan and Armenia by more than half, Ukraine, Moldova and Kyrgyzstan by 60%. This reduction can be partially explained as a consequence of rising influx in 2014–2016 and the following growth of departures with certain lag against reversion of arrivals to pre-crisis level of 2012–2013 and only in case of Ukraine.

<sup>1</sup> Later on data were recalculated taking consideration results of 2010 census.

Table 1

**Migration gain/decline in population of Russia based  
on international migration in 2012–2018, thousand people**

	2012	2013	2014	2015	2016	2017	2018
International migration – total	294.9	295.9	280.3	245.9	261.9	211.9	124.9
With CIS countries, including:	268.4	274.9	270.2	237.8	255.3	203.4	129.1
Azerbaijan	18.1	17.2	12.4	10.7	10.4	8.6	8.7
Armenia	32	32.2	24	20.6	12	14	14.4
Belarus	10.2	3.7	6.8	4.9	2.1	11.8	7.2
Kazakhstan	36.7	40.1	40.8	34.8	37.1	32.7	26.5
Kyrgyzstan	24.1	19.8	15.3	10	11	19.4	8.8
Moldova	18.6	20.6	17.6	17.4	14.4	9.6	7.7
Tajikistan	31.4	33.6	19.4	11.4	27.3	34.6	31
Turkmenistan	3.9	3.8	2.6	2.3	2.4	2.9	3
Uzbekistan	56.3	67.3	37.1	-20.4	19.7	22.2	6.8
Ukraine	37	36.4	94.4	146.1	118.8	47.7	14.8
With other countries	26.5	21	10.1	8.2	6.7	8.4	-4.2

Source: Rosstat.

At the same time, migration from Ukraine maintained net migration in Russia on a standard level, 250–280 thousand persons in 2014–2016; migration gain would be below 200 thousand persons already from 2015 if sharp increase of Ukrainian migrants did not take place.

Migration gain with Uzbekistan has not recovered since its fall in 2014; in 2018, it amounted to only 31% of the previous year. Probably, lack of interest in migration to Russia for people of this country is associated with hope of positive changes in Uzbekistan. In 2018, Tajikistan became the main migration donor to Russia.

For the first time since 2007, Rosstat recorded decline in population of Russia due to migration with foreign countries. However, it is difficult to talk about changes in migration trends based on this information: accounting of migration with these countries is not reliable in Russia; departures are underestimated compared to data provided by major receiving countries.

Reduction of migration gain of the Russian population below 200 thousand people is not relevant to the targets of demographic development if they are understood as quest for long-term stabilization and increase in population. Migration gain of 250–300 thousand people would correspond to demographic situation expected in the coming years.

Number of migration increased by 160.8 thousand people in 2018 across Russia, or 3.8% compared to corresponding period of the previous year. After a sharp increase of long-term internal migration flows recorded by statistics in 2011–2012, number of migrations has practically stabilized in Russia recently at the level of 4–4.2 million people. Pattern of migration has not changed. New centers of attraction do not appear apart from existing ones in Moscow and Saint Petersburg and in their surrounding regions, Krasnodar region, Sevastopol, Tyumen region. Migration outflow from regions of Far East and Siberian Federal region is maintained despite measures taken towards its reduction.

### 5.5.2. Temporary migration

Statistics recording stay of temporary migrants in Russia has not changed much over the last 3 years. Records relevant to 2018 fluctuated in fact at the level of the previous year: in the first half, they were slightly lower than in 2017, and the second half, as from autumn, demonstrated, on the contrary, slightly higher figures. However, we still observe visible reduction compared to pre-crisis indexes, moreover, even the scope of 2015–2016 has not been achieved yet. Nevertheless, annual variation of the indicator remains, it demonstrates summer growth of temporary migration, which in 2018 also captured the autumn months. The peak was achieved late September – early October with 10.2 million. As of November 1, 2018, there were 10.1 million foreigners in Russia with 9.7 and 9.2 million at the end of 2018 and 2017 respectively.

Among temporary migrants predominant number of CIS citizens has not been changed. Thus, as of November 1, 2018 there were 8.49 mn. (84% of all arrivals) and 8.2 mn. At the end of 2018. Among leasers are citizens of Ukraine, Uzbekistan and Tajikistan (*Table 2*).

*Table 2*

#### **Stay of foreign migrants from CIS in Russia, per date, number of persons.**

	<b>05.11.14</b>	<b>05.11.15</b>	<b>01.11.16</b>	<b>01.11.17</b>	<b>01.11.18</b>
Azerbaijan	610327	532321	527615	597938	660314
Armenia	514663	504971	509070	507790	507557
Belarus	498878	634861	744653	699463	656815
Kazakhstan	575400	685841	607044	545852	545592
Kyrgyzstan	552014	526502	581197	619498	654892
Moldova	586122	517692	495463	448728	361397
Tajikistan	1105500	933155	964030	1037729	1155114
Uzbekistan	2335960	1943384	1671931	1793664	1961814
Ukraine	2651109	2566377	2590568	2217642	1987752
CIS, total	9429973	8845104	8691571	8468304	8491247

*Source:* data provided by Federal Migration Service and RF City Directorate of Internal Affairs of the Ministry of Interior.

Impact of the economic crisis and sharp changes of migration legislation in 2015 have been overcome only partially in the recent years. Initial growth of migration from EEU countries has practically stopped with Kyrgyzstan being the only exception. Number of migrants from this country is still growing and, apparently, the growth capacity has not been exhausted yet. Temporary migration from Azerbaijan rebounded. Migration from Tajikistan and Uzbekistan is growing, however, pre-crisis indexes have not been achieved yet. Compared to 2013, lagging behind is by 6% and 28% respectively. Significant reduction of temporary migration from Moldova is going on and the same concerned Ukraine in the last three years.

Russia did not attract more migrants from developed western countries and their number remains minimal compared to pre-crisis figures. Slight fluctuations in 2018 did not change common tendency (*Table 3*). Commercial and business trips slightly increased compared to 2017 but labor migration and official and private trips continue to reduce. On the whole, comparison with pre-crisis indexes demonstrate decline by 2.5 at an average and by 5-7 times in some countries, i.e. Spain, USA, Great Britain, etc.

Table 3

**Stay of foreign citizens from certain countries of EU and USA in RF,  
per date, number of people**

	13.11.13	01.11.15	01.11.16	01.11.17	01.11.18
EU on the whole	1177829	481567	516368	448566	462276
Germany	352335	122131	115425	111792	108591
Spain	77200	15864	15579	14337	16127
Italy	77193	30489	28244	24388	25761
Great Britain	174061	38637	29142	23944	23020
Finland	108312	46513	99065	73715	64819
France	65559	35968	29268	26963	30010
USA	220086	50638	52840	44370	46988

Source: data provided by RF Federal Migration Service and Central Department of Migration, Ministry of Interior.

At the end of December, 2018 there were 3.76 mn. labor migrants in Russia with 3.64 of them being citizens of CIS countries (97%), 125 thousand from foreign countries. Compared to 2017, the number of labor migrants increased by 4% and reached 3.61 mn. by the end of 2017. Number of labor migrants who officially designated their purpose of visit as “employment” has not changed much in recent years. Inside this category, there is a slight growth of labor migration from all CIS countries with the exception of Ukraine and Moldova; migrants from these two countries reorient more than ever to work in Europe.

Share of legalized labor migrants has not practically changed against previous year while earlier it showed gradual growth after sharp reduction in 2015. It does not benefit recent changes in migration policies and practices or depletion of capacity of those migrants who are in principle ready for legalization in the current situation on the Russian labor market. By the end of the year, about 75% of labor migrants had valid documents for work in Russia, i.e. patent or work permit or had the right to work without such documents being citizens of the EAEU member countries.

Statistics of new documents required for work in Russia does not show growth likewise compared to 2017, although figures are higher than the data for 2016 (Table 4). Moreover, the two times lag behind the peak values in document processing in 2014 has not been overcome yet.

Table 4

**Work permits required for migrants to work in the Russian Federation**

	2014 r.	2015 r.	2016 r.	2017 r.	2018 r.	
Work permits for foreign citizens (FC)*	1334899	177175	133215	139595	120666	
Including:	Work permits for qualified specialists (QS)*	158644	22099	14775	17333	19360
	Work permits for highly qualified specialists (HQS)	34225	41829	25469	21363	25845
Patents**	2379374	1779796	1492203	1658119	1649121	
<b>Total</b>	<b>3714273</b>	<b>1956971</b>	<b>1625418</b>	<b>1797714</b>	<b>1769787</b>	

\* – issued since January 1, 2015 to FC from visa countries

\*\* – issued since January 1, 2015 to FC from non-visa countries authorizing employment with individuals as well as with legal entities

Labor migrants participate more actively in regional budgetary replenishment. Thus, amount of patents exceeded RUB 57 billion in 2018 against RUB 51 billion in 2017. In

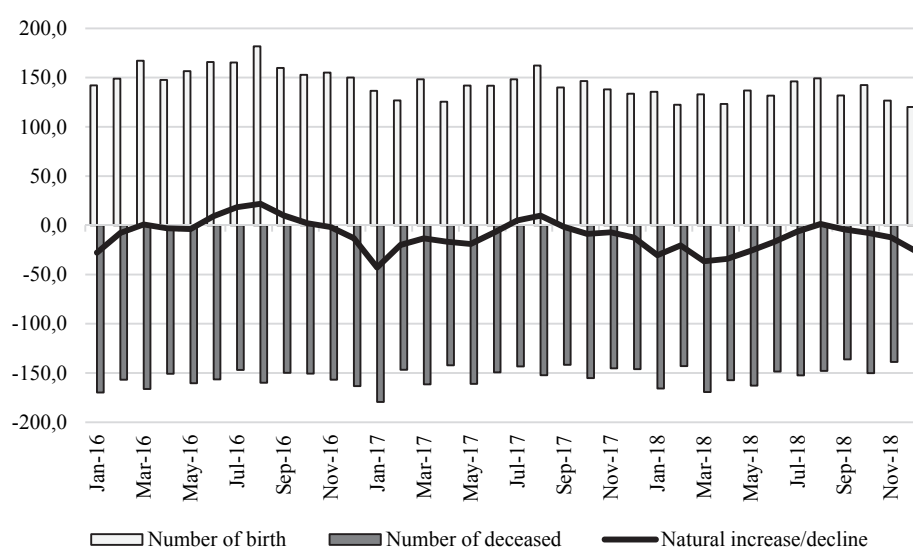
fact, these payments were made by migrants from Uzbekistan and Tajikistan reaching 88% of issued patents vs 86% in 2017. Year by, there are less Ukrainian citizens applying for patents, i.e. 7.9% in 2017 and 6.5% in 2018.

Results of 2018 in the area of labor migration prove conservation of all existed issues. New economic stimuli for mass attraction of more qualified migrants to Russia or at least expansion of donor countries did not appear. Migrants from developed western countries or such CIS countries as Ukraine and Moldova choose employment in Russia less often. At the same time, mechanisms required for legalization of labor migrants are stuck and do not allow to bring those who already take part in the Russian labor market out of shade.

## 5.6. Demographic situation

According to preliminary data provided by Rosstat, expected life expectancy accounted for 72.84 years old (67.66 for men and 77.87 for women), cumulative birth-rate equaled 1.97 per one woman in reproductive age.

Natural decline in population constituted 218.4 thousand people in 2018 in Russia<sup>1</sup> exceeding similar index of 2017 by 62.5%, i.e. 84 thousand people. Overall tendency of the natural increase/decline was similar to previous years (*Fig. 26*). However, monthly decline in population was more meaningful in 2018. In 2016–2017, increase was observed in summer months while in 2018 it was marked only in August.



*Fig. 26.* Number of birth and natural increase/decline, 2016–2018, thousand people

Sources: EMISS, Rosstat operative information.

<sup>1</sup> Here and below: data for October-December 2018 downloaded from Unique state registration database. Data for January – December may be corrected.

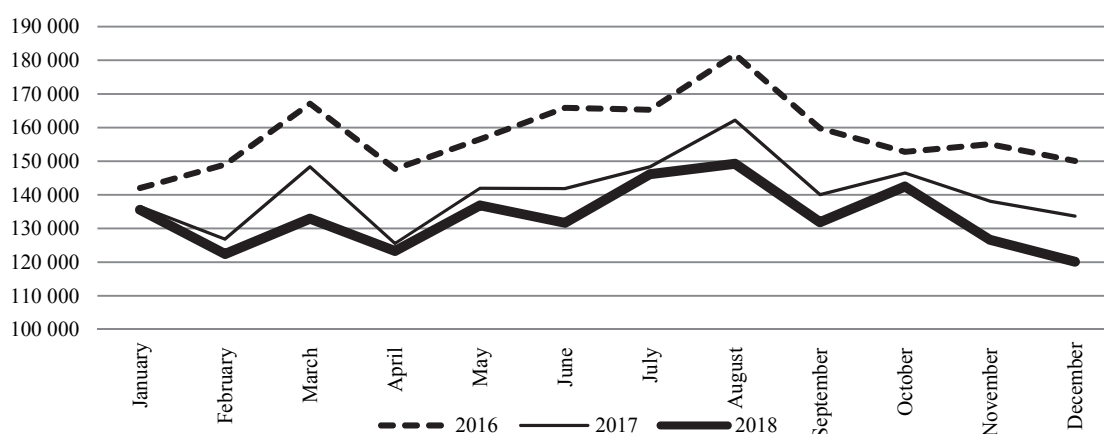
Decline in population was observed in most of the regions of the Russian Federation. However, there are regions demonstrating increase (*Fig. 27*). Republic of Dagestan, Republic of Chechnya, Tyumen region, Khanty-Mansi Autonomous okrug, Moscow demonstrated largest increase. Nizhegorodskaya region, Rostov region, Voronezh region, Kemerovo region, and Tula region demonstrated the most notable decline.



*Fig. 27.* Natural increase/decline of population, January-December 2018

Source: Rosstat.

Two divergent factors influence on natural decline of population in this period, that is, progressing and evident reduction of birth-rate as well as insignificant reduction of mortality rate. Number of people born in 2018 constituted 1599.3 thousand people and this is by 5.4% (90.5 thousand people) less than during similar period of the previous year. Birth peak intensity fell on August (*Fig. 28*) with 149.2 thousand people born. Minimal index was observed in December: 120.1 thousand people.



*Fig. 28.* Number of people born in January-December 2016–2018, thousand people

Sources: EMISS, Rosstat.



Reduction of the overall birth-rate is still going on. In 2018, it equaled 10.9‰. This is below similar 11.5‰ indicator for 2017 by 5.2%. Practically all regions of Russia demonstrate reduction of this rate with the exception of Republics of Kalmykia, North Ossetia-Alanya. Maximum fall of this rate is observed in Magadan region by 12%, Komi Republic by 11%, Nenets Autonomous region by 10.5%, Stavropol region by 9.5%, Kostroma region, Smolensk region, Sevastopol by 9%.

According to overall birth-rate, the following regions were leaders in 2018: Tyva Republic (20.4 ‰), Republic of Dagestan (15.5 ‰), Republic of Ingushetia (15.8‰), Altai region (15.2 ‰), Republic of Chechnya (20.2 ‰) (Fig. 28). Penza region (8.6‰), Republic of Mordovia (8.3‰), Tula region (8.3‰), Smolensk region (8.3‰), Tambov region (8 ‰), Leningrad region (7.7‰) faced the worst situation.

Number of deceased in 2018<sup>1</sup> constituted 1.817.7 thousand people, which is by 6.6 thousand higher than in the same period of 2017 and by 0.4% less compared to 2016. Total mortality rate equaled 12.4‰.

The highest mortality rate was recorded in March 2018, i.e. 169.000 people, while minimum absolute mortality rate, 136.000 people, was registered in September. In March-May and July, 2018 absolute number of deceased was higher than similar indexes of 2017. The lowest absolute mortality rate was in September compared to the same periods of 2016–2017 (Fig. 29).

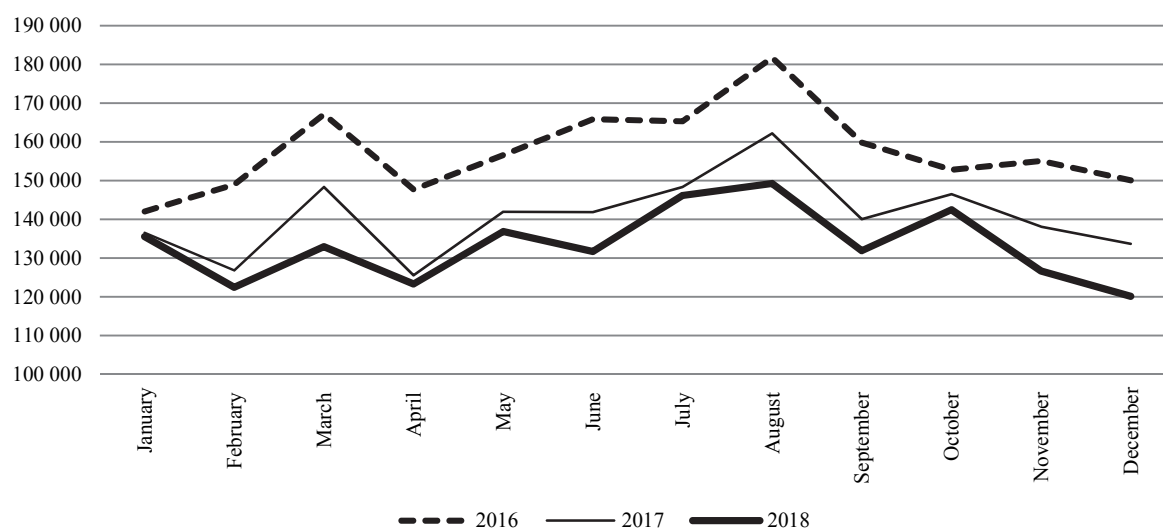


Fig. 29. Number of deceased by months, January-December 2016–2018, people

Sources: EMISS, Rosstat.

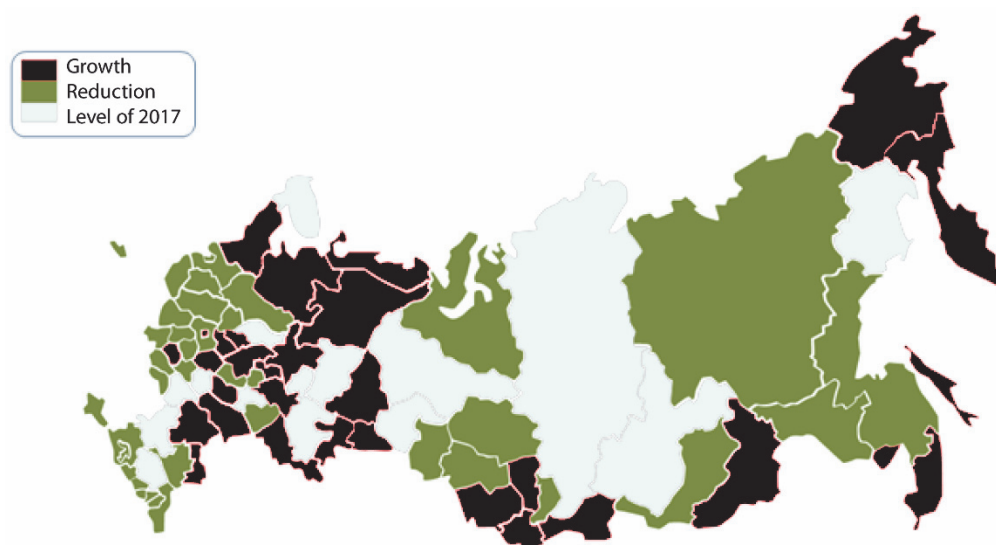
According to Rosstat operative data, the gap between minimum and maximum indicators of the total mortality rate in regions of Russia was 14 ppm in 2018. Pskov and Tver regions demonstrated the highest rate of 16.8‰ while Republic of Ingushetia had

<sup>1</sup> Here and below: data for October-December 2018 downloaded from Unique state registration database. Data for January – December may be corrected.

the lowest rate of 3%. Mortality rate is traditionally high in the regions where share of senior age is high, that is, Pskov, Novgorod, Tver, Tula, Vladimir, Ivanovo regions. Regions characterized by a younger age structure traditionally demonstrate the lowest figures: Republic of Ingushetia, Republic of Chechnya, Yamal-Nenets Autonomous okrug, Republic of Dagestan, Khanty-Mansi autonomous okrug.

Growth of total mortality rate from 0.6 to 22% is observed in 32 regions compared to the same period of 2017 while in 14 regions it remained at the level of 2017 and decreased in other regions. Chukotka Autonomous okrug (22%), Nenets Autonomous okrug (5.9%), Zabaikalsky region (5.2%), Sakhalin region (5%) demonstrated maximum growth of the total mortality rate (*Fig. 30*).

Republic of Chechnya (8.7%), Kabardino-Balkar Republic (8.2%), Republic of Ingushetia (6.2%), Republic of Dagestan (5.9%), Republic of Karachaevo-Cherkassia (4.3%), Yamal-Nenets Autonomous okrug (4%) demonstrated maxim reduction of this index.



*Fig. 30.* Change of total mortality rate per regions, January - December 2018 compared to January - December 2017, %.

*Source:* Rosstat.

Total mortality rate allows to expediently, though roughly, estimate mortality tendencies. As intensity of mortality significantly depends on age pattern and gender, the total mortality rate is subjected to strong influence of the population age pattern. However, data on mortality with a breakdown per age and gender are published according to annual statistical results and they have not been presented yet for 2018.

Infant mortality rate is an important index of mortality and at the same time of a life quality, i.e. number of deceased children aged below one year old per 1000 live born children. Rosstat publish information on infant mortality based not only on annual data but also on a monthly basis in the FSSS (Federal State Statistics Service) operative statistics. However, a careful approach should be implemented for analysis of monthly

indicators, especially, in case of regions. As this indicator is characterized by low figures, any slight monthly fluctuation will have its impact on the level of this indicator.

Infant mortality rate is going down. In 2018, this rate equaled 5.1 cases per 1000 live born children. This indicator is 5.7% lower than the same one in 2017. Regional gap of the infant mortality rate increased. In 2018, it constituted 9.6‰. In 2017, this indicator equaled 8.2‰. Growth of regional gap between minimum and maximum indicator provided for increase of maximum (11.1‰) as well as for reduction of the minimum (1.7‰). The highest infant mortality rate among children below one year old was evidenced in Chukotka Autonomous okrug (11.1‰), Tyva Republic (9.4‰), Jewish Autonomous region (9.5‰), Republic of Dagestan (8.3‰), Altai region (7.5‰) (*Fig. 31*). The following regions demonstrating minimum infant mortality rate in the period under consideration: Nenets Autonomous okrug (1.7‰), Sevastopol (2.8‰), Sakhalin region (2.8‰), Khanty-Mansi Autonomous okrug (2.8‰), Yaroslavl and Leningrad regions (3.2 ‰).



*Fig. 31.* Infant mortality rate, 2018, per 1000 live born children

Source: Rosstat.

Blood circulation deceases still prevailed in the cause-of-death-structure in Russia in 2018 (46.3%). Then, in descending order: neoplasms (15.9%), other groups of causes (11.7%), external causes (7.2%), diseases of nervous system (6.2%), diseases of digestive system (5.1%), diseases of respiratory system (3.3%), diseases of endocrine system, eating disorder and metabolic disturbance (2.3%), infections and parasitic diseases (1.7%).

Total mortality rate in 2018 remained at rate of 2017. If mortality rate indicators demonstrate reduction of death resulted from external causes by 5.5%, diseases of

respiratory system by 1.5%, blood circulation diseases by 1.9%, neoplasms by 0.1%, infections and parasitic diseases by 0.9%, mortality rate resulted from diseases of nervous system (by 12.3%), endocrine system, eating disorder and metabolic disturbance (by 8.4%), digestive system (by 1.6%), other groups of causes (by 0.7%) increased on the contrary compared to the same period of 2017.

Thus, at present, Russia experience transition period on the way to a challenging demographic stage, which is characterized by new demographic risks and natural decline of population. Data for 2018 confirm this fact. There is an ongoing evidenced reduction of birth-rate associated with a small cohort of women in reproductive age. High mortality rate indicators demonstrate another component providing for natural decline in population.

### **5.7. The main developments in the education system in 2018<sup>1</sup>**

In 2018, the main developments in the education system can be divided into the two unequal phases: one before the President's May 2018 Decree and the other after it. Before May 2018, the main attention was focused on teachers' salaries; the "struggle" to raise them to the average pay in a relevant region was already waged for six years running. Average salaries of higher-education teaching personnel attract less attention though by 2000 their value was to be equal to 200 percent of the average salary in a relevant subject of the Russian Federation where the higher educational institution was situated. From May 2018, the main focus in education was switched over to development of the "Education" national project and the volume of budget funding to be allocated on the specified goals. In addition, in the higher education system serious debates started on the issue of state accreditation of higher educational establishments.

#### **5.7.1. Dynamics of average salaries of teachers**

Before the presidential elections, the average salary of teachers used to grow. It is noteworthy that unlike previous years it was published on a monthly basis<sup>2</sup> till March 2018 (*Fig. 32*).

In principle, early in 2018 dynamics of the average salary of teachers were not much different from the changes seen in the previous years, but the very fact of publications of the data on a monthly basis pointed to the exceptional importance of this issue. After growth in H1, the average salary of teachers used to fall in Q3 of all those years and grew again in Q4, decreased somewhat in Q1 and started to grow again in Q2. In 2018, not even the minimum reduction of this indicator was registered in Q1. According to the data the Monitoring of Effectiveness of School Education carried out by the CCEE IAES RANEPА, early in 2018 the share of teachers who were dissatisfied with their salaries eventually fell to 60 percent (40 percent of teachers were satisfied with their salaries) against nearly two-thirds of dissatisfied teachers a year before. However, in the general

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<sup>1</sup> This section was written by T.Klyachko, CCEE (Center for Continuing Education Economics) IAES, RANEPА.

<sup>2</sup> In previous years, the data were published on a quarterly basis.

education system the issue of teachers' dissatisfaction with their financial situation still exists.

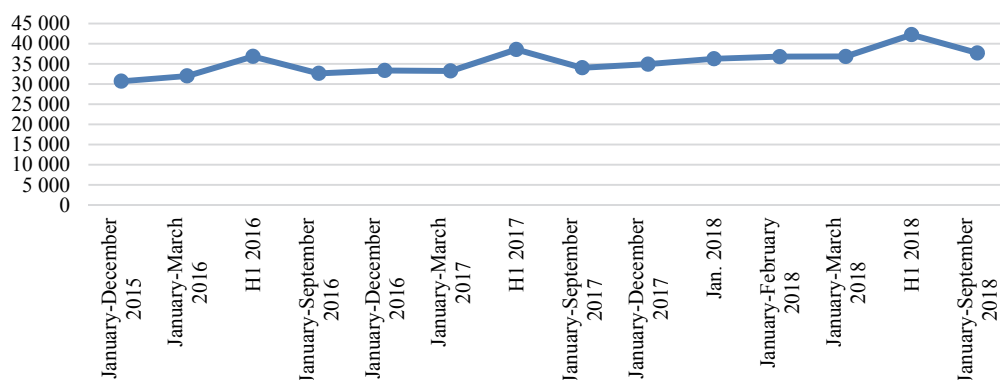


Fig. 32. Dynamics of average salaries of teachers in 2015 – January-September 2018.

Source: The Rosstat.

For nine months of 2018, teachers' average salaries in Russia amounted to 100.9% of the average pay across the national economy, having amounted to RUB 37,697. It is noteworthy that it was much higher – over RUB 63,539 (170.1 percent of the average salary in the Russian economy) – at schools which were at federal ownership, while at schools of subjects of the Russian Federation it was equal to RUB 62,039 (166.1 percent). On the contrary, the average salary of teachers at municipal schools was below the average pay across the national economy and amounted only to 85.7 percent of its level. This factor was behind the drive which emerged in 2017 to transfer municipal schools to the jurisdiction of subjects of the Russian Federation (that is, to “return the state” in the education system) on grounds that the measure in question would facilitate a substantial increase in teachers' salaries. According to proponents of this idea, up to 20 percent of subsidies for remuneration of teachers and payment of educational costs which are transferred from regional budgets to municipal ones fail to reach schools. All the assurances by financial experts that budget funds allocated for such subsidies are of a targeted nature, so they cannot be utilized outside the general education system are utterly dismissed. It seems the problem consists in the fact that municipal authorities do not always see to it that the allocated funds get to a school strictly in conformity with a per-capita norm, they seek to ensure stability (sustainability) of the municipal system as a whole and not prosperity growth of individual good schools<sup>1</sup>. At the same time, the abovementioned differentiation of teachers' salaries which took place in the past few

<sup>1</sup> For example, municipal authorities seek to preserve small schools within a walking distance from houses where school students live, rather than assign them the status of a branch of a big school. This can be explained by a drive to ensure a greater diversification of schools on one side and preservation of jobs at schools to prevent growth in the rate of unemployment amid narrow regional labor markets, on the other side.

years has spurred the governmentalization of schools to reduce accumulated tensions in the system. The fact that there are fewer regional schools and, consequently, teachers' average salaries at such schools can be much higher than in numerous municipal schools is not taken into account: probably, in the teachers community there is an opinion that if schools become a direct responsibility of regional authorities, the latter will have to increase budget expenditures on general education. At the same time, the issue whether a school is going to be municipal or regional is not of a great interest to teachers who are mainly after pay-rises and reduction of differentiation of their salaries. Also, it is noteworthy that there is a perception that if teachers' salaries are increased to the average salary in the region, teachers will not work for 1.5 salaries and/or earn extra money. This can be achieved only through a ban on work for more than one salary, but it is estimated that schools will need then additionally over 230,900 teachers, while expenditures on teachers' salaries are to be increased in such a case by at least RUB 136 billion a year. The specified measures do not necessarily guarantee that teachers will not be making extra money on the side, for example, as private tutors.

The struggle for teachers' pay-rises has pushed aside from the public focus the issues of quality of school training and teachers' professionalism, the standard of training of graduates of teacher training colleges and relevancy of pedagogical programs. It is noteworthy that some interest was taken to the substance of education only after the federal list of textbooks was reduced by one-third and it was declared that the procedure for expert review thereof had been modified. However, no serious discussions of the procedure for selection of school textbooks and their role in the modern educational process in a situation where study materials are available to students in the Internet took place.

#### 5.7.2. The "education" national project

From May 2018, the main focus in the education system was switched over to development of the "Education" national project, as well as the volume of budget funding to be allocated for the specified goals. In addition, working groups were asked to develop measures to implement the goals and tasks set in Presidential Executive Order No. 204 of May 7, 2018 "On National Goals and Strategic Tasks in Development of the Russian Federation in the Period till 2024". Ultimately, the "Education" national project included 10 federal projects:

1. Modern School;
2. Success of Each Child;
3. Support of Families with Children;
4. Digital Educational Environment;
5. Teacher of the Future;
6. Young Professionals (Promotion of Competitiveness of Vocational Education);
7. New Opportunities to Everyone;
8. Social Activity;
9. Export of Education;

#### 10. Social Elevators for Everyone.

Within the framework of the national project, it is expected to promote competitiveness of Russian general and vocational education, including higher education, facilitate early development of children and success of each kid through development of extended childhood education and radically increase the scope of coverage of the working population with vocational training. In addition, it is proposed to develop the digital educational environment, eliminate the shortage of places at kindergartens (nurseries) and schools and upgrade qualifications of Russian teachers who have to work in new conditions. Implementation of the “Education” national project is mainly regarded by the government as a budget maneuver in favor of the education system.

Within the “Modern School” federal project, it is planned to modernize facilities of 16,000 schools in rural areas and small towns by 2024 to carry out digital and humanitarian profile educational programs. It will require regional budgets’ additional expenditures to maintain such facilities and modernize them in the course of upgrading digital and humanitarian profile programs. Implementation of the national project to such an extent suggests a relevant increase in current expenditures of regional budgets (that is, beyond the frameworks of this project), which situation is highly unlikely given the existing economic conditions. Consequently, the effectiveness of budget expenditures within the frameworks of this federal project will gradually decline (as school facilities upgraded in 2019–2020 become obsolete).

The “Success of Each Child” federal project suggests quick expansion of the system of extended childhood education (ECE). It is to be noted that the Federation actually creates conditions for implementation of extended learning activities for children and the youth (up to 18 years old). Facilities of the “Kvantorium” technological park and the “Sirius” educational centers will be upgraded and higher educational institutions will participate more actively in the ECE. At the same time, maintenance of the ECE in subjects of the Russian Federation is mainly funded from regional and municipal budgets whose capacities are rather limited. However, this system is available on the permanent basis to kids from low-income families in rural areas and small towns.

As regards the “Support of Families with Children” federal project, it is planned to develop the infrastructure of pre-school facilities to increase the number of nursery groups for children of 1.5–3 years old and cover them with relevant services. In addition, within the framework of this project it is planned to set up the system of psychological and pedagogical support of parents (legal representatives) at the stage of early development of children, as well as persons who are willing to adopt children left without a parental care. It is noteworthy that the burden related to funding current pre-school education activities owing to growth in the number of nurseries (nursery groups) will increase gradually on regional and municipal budgets as early as the stage of implementation of this project.

The “Digital Educational Environment” federal project suggests establishment of the target-oriented model of educational environment which is to be introduced stepwise in

all the subjects of the Russian Federation. It is to be noted that the information content and functionality of open and generally accessible information resources will be gradually upgraded at educational establishments. Another line is promotion of the Internet data traffic speed at schools and other regional educational establishments. Within the framework of this project, upgrading of information resources can be carried out in future within the frameworks of federal projects and, consequently, be financed out of the federal budget. However, though costs related to implementation of this process are expected to decrease, expenditures related to promotion of the Internet data traffic speed will be ultimately funded by regional budgets unless it is specified from the very beginning that such expenditures remain the responsibility of the federal authorities.

The “Teacher of the Future” federal project is aimed at radical promotion of skills of Russian teachers. It is largely related to the wide-spread idea of late that the quality of education depends to a great extent on professionalism of teachers and to a lesser extent, on the size of classrooms and costs per student. This project can be successful in principle because the Federation takes considerable budget expenditures on implementation of extended vocational education programs which are currently funded by regional budgets. The main problem consists in maintaining advanced training programs, ensuring the quality of extended vocational education institutions (EVE) which are entrusted with carrying out such programs, as well as arranging such training. It would be more efficient to organize retraining of school teacher teams, rather than individual teachers and school managers. At the same time, it is necessary to switch over to a new format of advanced training programs where a teacher undergoes an advance training course not once in three years as it is envisaged by the Law “On Education in the Russian Federation”, but selects (together with his/her colleagues) a definite programs every year. Within the framework of this project, it would be expedient to expand substantially advanced training programs for school teachers and teacher-training colleges on the base of federal, research and backbone universities, rather than the existing regional extended vocational education institutions which find themselves in a serious need of upgrading their activities. This project may require more budget funds than it was originally planned. However, the federal project in question suggests that by means of inter-budget transfers the Federation will transfer funds on advanced training programs for teachers to regions. It means that such programs will be carried out on the base of regional institutes for development of education, that is, in an outdated and inefficient mode.

The “Young Professionals (Promotion of Competitiveness of Vocational Education)” project is meant to promote growth in the standard of Russian vocational education to the level of the world’s best examples. However, in principle, this project as regards secondary vocational education deals with training of labor force within the framework of the WorldSkills international project and this factor substantially diminishes its effectiveness provided that at present the flow to the system of secondary vocational education in Russia after finishing of the 9<sup>th</sup> form is directed mainly to training programs



for mid-ranking specialists. At the same time, the system of secondary vocational education (training of mid-ranking specialists) will enter in the near future the risk zone as regards funding because the number of trainees is rapidly growing, while no additional budget funding is allocated due to limitation of capacities of regional budgets that finance it. In addition, if Russia is going to switch over actively to innovation-based development in the mid-term prospect, it is necessary to modify the main lines of training in the secondary vocational education in favor of new profession lines. This objective will require both retraining of teachers and foremen of vocational training and active replacement of obsolete facilities of secondary vocational education establishments because training is based on mastering of practical skills. So, additional federal budget expenditures above the planned ones may be required.

Global competitiveness growth of the Russian higher education system should be facilitated through implementation of the 5/100 program for 30 Russian universities, but with more realistic success criteria set for Russian higher educational institutions on the international arena: by 2024 each leading university which has received state support is to achieve among other things the following results:

- Enter for at least two years in succession the top 1000 list of international university ratings (actually it was a failure of the 5/100 project in its previous format);
- Enter for at least two years in succession the top 200 list of minimum one subject or sectorial international rating;
- Install at least 10 online courses on international online education platforms with the total number of minimum 5000 listeners from at least five countries;
- Ensure that the share of the academic staff at the age of up to 35 years old is equal minimum to 20 percent of the entire academic staff.

So, such guidelines should facilitate sustainable outputs of activities of leading universities which are included in this federal project.

According to our own calculations, the volume of funding to support Russia's leading universities will amount to about RUB 500 million a year per university (for six years). It is noteworthy that the share of budget expenditures on the university component of this federal project does not exceed 3.5%–4% a year of the total federal budget expenditures on higher education in 2018. So, judging by financial parameters the project in question can be implemented without risks to the federal budget.

The “New Opportunities to Everyone” federal project is aimed at promotion of continuing education (vocational training and extended education). Unfortunately, effectiveness of this project will be rather low because it fails to solve important issues of increasing human capital by means of permanent renewal of workers' competence and creation of conditions for engagement in continuing education of pensioners who will be able then to extend their working careers after receiving new expertise and skills. The projects provides for the possibility of recognition of the results of informal education (including self education), but leaves the issue of service record unresolved, thus preventing creation of motivation for self education with workers and eventually promotion of human capital in Russia.

The “Social Activity” federal project is primarily meant to promote the volunteer movement, that is, the youth’s activity (a component of the youth policy). According to the available information, it is expected to allocate RUB 8.32 billion from the federal budget or on average RUB 1.39 billion a year, which sum is equal to 28.1 percent of federal budget expenditures on the youth policy in 2018 (as per the budget list as of August 1, 2018). On one side, it looks like a substantial increase in federal budget expenditures on the specified goal, while on the other side in 2018 federal budget expenditures on the youth policy fell by RUB 2.6 billion (as per the updated budget list as of August 1, 2018) as compared to 2017, while regional budget expenditures increased by RUB 5.3 billion. In other words, the burden on regions is growing as regards this line, too, so the prospects of effective implementation of the youth policy in the long-term prospect seem quite doubtful because the general burden on consolidated budgets of subjects of the Russian Federation is to increase dramatically in 2019–2024 and beyond.

The “Export of Education” federal project is solely funded from the federal budget: it is planned to allocate within six years RUB 107,493 billion on this project (on average about RUB 18 billion a year). The funds will be spent mainly on establishment and modernization of campuses of higher educational institutions. Growth in Russian human capital within the framework of this project is related to employment of foreign graduates of higher educational institutions in Russia. At the same time, the planned parameters of the specified employment – minimum 5 percent of the turnout of foreign graduates, that is, minimum 5,500 persons a year – seem insignificant to have a serious effect on the Russian labor market. However, what is meant here is the lower limit of the employed foreigners with a higher education degree received in Russia. Nevertheless, the target indicator set in the federal project will not motivate relevant institutions to facilitate actively employment in Russia of foreign graduates of Russian higher educational institutions or with Russian companies operating abroad.

The “Social Elevators for Everyone” federal project is aimed at promotion of professional and career growth through participation of people in various (probably, professional) contests (in 2024 it is planned to carry out 35 contests involving at least 1.7 million participants). The content and nature of such contests should be specified as the project unfolds; the project is funded entirely from the federal budget.

According to the calculations, the volume of funding allocated on the “Education” national project is explicitly insufficient enough to upgrade substantially the existing situation both in general education and vocational training (*Table 5*).

This situation can be explained by the fact that in accordance with the demographic forecast and growth in coverage of children of pre-school age with pre-school education the number of such children at pre-school institutions will be growing in the near future, so, additional funding is required to maintain that system at the level which it attained in 2017. A similar situation can be found in secondary vocational training where more and more students after finishing the 9<sup>th</sup> form go to in the past few years (as per the

forecast the number of students of vocational training institutions may increase more than 1.5 times over (from 2.1 million persons to 3.2 million persons) by 2024.

Table 5

### Dynamics of budget expenditures on education in 2019–2024, billion rubles

	2019	2020	2021	2022	2023	2024
GDP	104974.9	111669.0	118446.1	125385.7	132469.5	139728.7
Expenditures on education without expenditures on national project	3779.1	4020.1	4264.1	4513.9	4768.9	5030.2
Expenditures on national project	110.10	131.50	141.80	120.30	119.80	124.20
Total expenditures on education	3889.20	4151.58	4405.86	4634.18	4888.70	5154.43
Share of expenditures on education in GDP, %	3.70	3.72	3.72	3.70	3.69	3.69

Source: own calculations.

According to calculations, with economic growth rates of maximum 2.5 percent a year maintained up to 2024, expenditures on educations in shares of GDP funded at the level of 2018 (that is, 3.6 percent) and the existing pattern of budget expenditures across education preserved, budget expenditures per kid in the pre-school education system will amount on average in nominal terms to RUB 118,300 (RUB 86,400 in real terms) in 2024 against RUB 107,500 in 2018; in general education – RUB 152,700 (RUB 111,500 in real terms) against RUB 115,500 in 2018; in secondary vocational education expenditures per student will be equal to RUB 101,200 (or RUB 73,900 in real terms) against RUB 108,600 in 2018, while in higher education expenditures grow in nominal terms up to RUB 431,100 in 2024 (RUB 314,700 in real terms) against RUB 288,300 in 2018.

So, firstly, despite implementation of the national project the education system will find itself in quite a complicated financial situation and, unfortunately, be unable to develop properly. In other words, all the innovations (digital educational environment, upgrading of teachers' skills in the vocational training system, establishment of technological parks and educational centers for support of gifted children and teenagers) will not be able to promote further the general standard of quality of the Russian education system. It is noteworthy that human capital will virtually stop growing in Russia (though some local breakthroughs are feasible).

Secondly, the analysis shows that there are substantial risks related to implementation of the “Education” national project in its present format, particularly, to regional budgets because only direct expenditures of regional budgets of subjects of the Russian Federation on implementation of the project – 6 percent of the total volume of expenditures – were taken into account. However, federal projects which are included in the “Education” national project do not take into account those expenditures which arise at the regional level as auxiliary ones. For example, in the “Modern School” federal project the building of new schools and liquidation of the third shift will require more teachers and maintenance personnel and, consequently, higher regional budget expenditures on labor remuneration. In addition, expenditures will grow on educational materials, maintenance and modernization of school buildings and other facilities as it was mentioned above. Consequently, it is necessary to increase substantially budget expenditures not only on project activities, but also ongoing operations in education. It

is believed that only an increase of at least to 4.4–4.6 percent of GDP (that is, up to the average level across the OECD countries) will permit to change for the better the situation in education and facilitate Russia's competitiveness on the international education market.

### 5.7.3. Accreditation of higher educational institutions

State accreditation of higher educational institutions has been an issue for not a single year. It aggravated with cancellation of accreditation and subsequent withdrawal of the license from the European University of St. Petersburg in 2017 (in 2018 the license was granted the university again, but the building in the center of St. Petersburg was never returned). In 2018, the Moscow Higher School of Social and Economic Sciences (renowned "Shaninka") failed to receive accreditation which situation prompted rectors to raise the issue of relevancy of the very procedure for receiving accreditation and composition of expert councils which conduct it. The Rosobrnadzor (Federal Education and Science Supervision Agency) is prepared to introduce some changes, but mainly of technical nature: better selection of experts and a larger volume of documents which can be transferred remotely. In a situation where federal state educational standards (FSES) are virtually aimed exclusively at developing of competences and the quantity thereof, practically nothing can be modified in state accreditation aimed at verifying implementation by higher educational institutions of FSES 3+ (FSES 3++). To change the approach to accreditation of higher educational institutions, it is necessary first to change the approach to FSES.

Actually, amid rapid development of new technologies and constantly growing information flows the drive to replace concrete knowledge by general competences is quite justified: it seems that concrete knowledge becomes outdated very soon. It is important for a person to study to learn, know how to search for the needed information, work in a team and develop excellent communication skills, project thinking, project work skills and other. Consequently, the results of education should represent not the list of concrete knowledge and skills, but a set of various competences a young specialist is expected to have (holder of a bachelor's degree or a master's degree) depending on the line of training or area of expertise. In different countries, such an approach is based on the fact that modern knowledge of subjects is developed and fixed in courses and programs, that is, there is a certain agreed upon general core base which each graduate of a higher educational institution is expected to learn. But this core base is actually supplemented with competences which students should have to use knowledge effectively. This is a kind of adjustment to rapidly changing requirements of the labor market.

Setting of competences proper in FSES without the consensus core base on each subject does not permit to achieve coordinated results of education, both fundamental and applied. Consequently, in this case, FSES fail to facilitate quality of higher education as regards at least its lower limit. In addition, FSES make it unfeasible to

compare the results of training at various higher educational institutions, though such a practice would be very important both to employers and graduates.

It means that approaches to development of FSES in higher education in Russia are in an urgent need of modification. The first step in the right direction would be a reduction of the number of training lines in Bachelor's programs to 20–25 (at present their number is twice as high and cannot be planned).

Accordingly, the state accreditation of higher educational institutions should primarily deal with examination of students' progress in learning the core base agreed upon by higher educational institutions.

In addition, in Russia the accreditation system in higher education is rather controversial. This can be explained by the fact that in the Russian system of higher education there are a few other mechanisms which assess effectiveness of higher educational institutions: the Monitoring of Effectiveness of Higher Educational Institutions (since 2012) and the admission quota distribution competition which should logically take into account the quality of educational services rendered by higher educational institutions, capacity of their academic personnel and the state of facilities and information base for receipt of state assignment and relevant budget funding.

However, there were notorious cases where not only accreditation, but also the license was withdrawn from a higher educational institution recognized effective by the Monitoring of Effectiveness of Higher Educational Institutions (see above). As the same time, higher educational institutions which were recognized ineffective could have state accreditation. It is to be noted that the Rosobrnadzor started to look into that situation only after receipt of the monitoring results.

Under the terms of the admission quota distribution competition, a participating higher educational institution is required to have a state accreditation to receive budget-funded places (state assignment) and budget funding. But a higher educational institution which has received admission quotas can be canceled the state accreditation within the same year.

In addition, one and the same higher educational institution can receive accreditation in respect of some programs and be denied it in respect of others. It is to be noted that unless one educational program (line/vocation) in the enlarged group of lines of training (EGLT) fails to be accredited, the entire line/vocation included in EGLT is not accredited, either.

At the same time, the quality of training at Russian leading higher educational institutions is determined by the entire range of factors which go far beyond the limits of traditional accreditation requirements. They are related to a certain extent to educational research skills of the academic staff of higher educational institutions. In such a case, special requirements need to be set to the academic and research personnel of such higher educational institutions (for example, the number of foreign professors who conduct training courses on a regular basis, the number of publications in rating journals, the rate of participation of academic and research personnel in international

conferences and seminars, the number of foreign students, the number of online courses on educational platforms and other).

An external (independent) assessment of higher educational institutions compared to state accreditation could be the one based on the national rating (ratings)<sup>1</sup> of higher educational institutions; also it is worthwhile to take into account the listing of a higher educational institution in internationally recognized institutional and subject ratings, as well as ratings of different branches of knowledge.

It is noteworthy that in carrying out accreditation the authorized bodies of executive authorities should be entrusted with responsibilities to ensure networking between different entities of the accreditation system, legal regulation and information support of expert teams.

At present, accreditation of higher educational institutions in the Russian Federation should be based on the following two principles: reputation of a higher educational institution and risk-oriented management. The risk-oriented management proceeds from the practice of the Rosobrnadzor which performs supervising functions and forms a “credit” history of higher educational institutions.

With this approach used, one can single out three groups of higher educational institutions:

1. The leading higher educational institutions are characterized by the following two parameters: a) They are entitled to set their own standards, b) they have a good “credit” history;
2. A group of higher educational institutions which have a “good” credit history;
3. A group of higher educational institutions with a “poor” credit history.

Accordingly, the first group (leading higher educational institutions) receives accreditation with no fixed term. However, this group is required to maintain full information openness.

The second group of higher educational institutions receives accreditation for the term of 12 years and then is accredited in accordance with a simplified procedure which is to be developed.

The third group of higher educational institutions is accredited in conformity with the standard procedure (once in six years).

Also, the national rating of higher educational institutions is to be developed (or it is feasible to utilize the “Three Missions of the University” rating developed by the Lomonosov Moscow State University). The movement within the framework of that rating – upgrading of positions within a period of several years may constitute grounds for a transfer of the higher educational institution to another group (a higher one, but such a transfer should be accompanied by the accreditation procedure). At the same time, in case of a sharp upturn or downturn in the rating, for example, within a year, the Rosobrnadzor has to carry out an inspection (accreditation). Also, a gradual (steady) downturn in the rating (for a few years) should prompt the Rosobrnadzor to subject that higher educational institution to scrutiny (accreditation).

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<sup>1</sup> Such ratings should be prepared by independent institutions with international participation.

Accreditation is to be carried out by renowned experts: they sign the conclusion on the accreditation due diligence. A group of such experts may include internationally renowned scholars. These experts (each expert) are allocated a budget to form a team of experts to carry out a due diligence under their guidance (teams may be different in carrying out accreditation of various higher educational institutions).

The accreditation procedure is based on a different approach to FSES: in each standard a core base (see above) is identified and progress in achieving it checked; simultaneously the development of definite (specified) competences (skills to do teamwork, search for the needed information, command of foreign languages and other) is examined. To check the progress in learning the core base, an open (permanently renewed) fund of evaluation tools is formed to carry out an independent evaluation of students' knowledge.

The above approach fits better international standards and norms established in this sector. Accreditation is aimed sooner at evaluating the progress both in achievement of the educational result and development of the university in compliance with new requirements set by the external environment, rather than formalizing the ultimate educational result.

### **5.8. The housing market in Russia's cities<sup>1</sup>**

The preliminary results of the Russian economy's development in 2018 appear to be rather controversial. On the one hand, the growth rate of GDP gained 2.3 percent; on the other, the consumer inflation index increased significantly, to 4.3 percent, from its record low of the entire period since the onset of market reforms (2.5 percent), achieved in 2017. The movement pattern of personal disposable income, which is a much more significant factor determining the situation in the real estate market, was quite volatile throughout the course of last year, with multiple trend reversals. In spite of the positive results of the first two quarters, probably achieved thanks to the current electoral cycle, in the end the personal disposable income index stayed roughly at the same level as in 2017.

The RF Central Bank twice reduced its key rate over the course of H1 2018, to 7.25 percent per annum in early autumn. However, over the next few months it was once again hiked twice, and so returned to its level of late 2017 (7.75 percent). The tricky movement pattern of the key rate pushed down the interest rates on bank loans and notably improved the position of borrowers.

According to *Rosstat* data, the overall volume of housing mortgage lending (HML) in 2018 increased approximately 1.5 times (to RUB 3,012.7 billion) relative to 2017 (RUB 2,021.4 billion)<sup>2</sup>. The average weighted interest rate on housing mortgage loans

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<sup>1</sup> This section was written G.Malginov, Gaidar Institute, RANEPa; S.Sternik, Financial University under the Government of the Russian Federation; Moscow Association of Realtors.

<sup>2</sup> The total amount of all issued housing loans is somewhat higher than the total amount of ruble-denominated housing mortgage loans cited here, but they account for more than 99 percent of the total housing lending market.

issued from the year-beginning decreased by approximately 1 percentage point and amounted to 9.56 percent (in 2017 – 10.64 percent; in 2016 – 12.48 percent).

In 2018, as follows from the report released by DOM.RF (JSC Russia Housing and Urban Development Corporation)<sup>1</sup> jointly with research company Frank RG, a total of 1.5 million loans were issued (including refinancing of previously issued loans). The plunge of the *average weighted* interest rate on housing mortgage loans (in the *primary and secondary housing markets*) to its historic low was the main factor responsible for the increasing HML volume. It attracted more new borrowers to the market, who took housing mortgage loans to the total value of RUB 2.67 trillion. However, the reduced interest rates benefited not only the new borrowers, but also some ‘old’ ones who could now refinance their housing mortgage loans, and thus reduce their monthly redemption payments (by 15 percent on average). The initial interest rate for such borrowers amounted on average to 12.5 percent, and after the refinancing of their loans, it shrank to 9.5 percent per annum. In 2018, their housing mortgage loans were refinanced by approximately 165,000 families (or 11 percent of the total number of housing mortgage borrowers). The average amount of a housing mortgage loan in 2018 was approximately RUB 2 million (in 2017 – RUB 1.86 million). The aggregate housing mortgage portfolio of the RF banking sector increased to RUB 6.7 trillion, having gained more than a quarter in its value over the course of that year. The relative share of housing mortgage deals in the primary housing market in 2018 was 56 percent, and that in the secondary housing market – 49 percent.

It was due to the record-high growth of the housing mortgage lending volume that stagnation in the housing market gave way to growth of prices across both its segments.

### 5.8.1. The behavior of housing market prices

The main indices describing the movement patterns of prices in the secondary housing market across Russia’s cities can be seen in *Table 6*<sup>2</sup>.

The study sample consists of 25 cities and one region (Moscow Oblast, for which by-town average data were collected), including 18 capitals of RF subjects, with the total population of about 40.4 million<sup>3</sup>.

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<sup>1</sup> The new corporate name adopted in March 2018 by the Agency for Housing Mortgage Lending (AHML), on the basis of which, in 2015, the Integrated Housing Development Institution was created, with the AHML and the Russian Housing Development Foundation becoming its subsidiaries.

<sup>2</sup> The sources of secondary market data are the companies included in the Public Graph of Secondary Realty Market Prices Dynamics in Russia's Cities (<http://realtymarket.ru/Publi-nii-grafik-cen-vtori-noi-needvijimosti-gorodo/>); the sources of primary market data are listed in the Note to *Table 2*.

Data processing and interpretation was done in accordance with the guidelines described in: (1) Sternik, G. M., Sternik, S. G. *Real Estate Market Analysis for Professionals: Monograph*. Moscow, Ekonomika, 2009; and (2) Sternik, G. M., Sternik, S. G. *Methodology of Housing Market Modeling and Forecasting: Monograph*. Moscow: RG-Press, 2018.

<sup>3</sup> Unlike the sample used for analyzing the price situation on the secondary market in the previous annual review (see G. Malginov, G. Sternik, S. Sternik. *The Housing Market in Russia's Cities in 2017 // Russian Economy in 2017. Trends and Outlooks*. Moscow, IEP. 2017, pp. 362–382), it does not include



Table 6

**Prices on the secondary housing market in Russian cities in 2016–2018**

City (region)	Average per unit supply price, thousands of rubles per m <sup>2</sup>			Price index in December 2018 relative to December 2017		Price index in December 2018 relative to December 2017	
				in nominal terms	in real terms (IGS)	in nominal terms	in real terms (IGS)
	December 2016	December 2017	December 2018				
Moscow	212.0	210.2	222.0	0.992	0.968	1.056	1.012
St. Petersburg	106.0	107.4	114.0	1.013	0.988	1.061	1.017
Vladivostok	93.8	95.9	109.6	1.022	0.997	1.143	1.096
Novy Urengoy (Tyumen Oblast)	89.9	89.2	93.5	0.992	0.968	1.048	1.005
Moscow Oblast	81.9	81.0	81.7	0.989	0.965	1.009	0.967
Khabarovsk	73.8	82.2	82.8	1.114	1.087	1.007	0.965
Surgut (Tyumen Oblast)	69.0	69.8	75.5	1.012	0.987	1.082	1.037
Kazan	68.4	68.9	79.2	1.007	0.982	1.149	1.102
Yekaterinburg	68.1	67.3	71.0	0.988	0.964	1.055	1.012
Samara	62.1	59.6	60.4	0.960	0.937	1.013	0.971
Tyumen	59.3	59.3	63.2	1.000	0.976	1.066	1.022
Novosibirsk	58.4	58.5	63.4	1.002	0.978	1.084	1.039
Irkutsk	52.0	56.4	61.0	1.085	1.059	1.082	1.037
Krasnoyarsk	51.3	52.6	56.2	1.025	1.000	1.068	1.024
Yaroslavl	51.3	48.6	51.6	0.947	0.924	1.062	1.018
Perm	49.8	49.3	53.3	0.990	0.966	1.081	1.036
Kemerovo	45.7	44.3	43.9	0.969	0.946	0.991	0.950
Voronezh	44.4	43.6	46.3	0.982	0.958	1.062	1.018
Omsk	44.3	43.2	45.6	0.975	0.951	1.056	1.012
Barnaul	44.0	44.0	45.4	1.000	0.976	1.032	0.989
Tobolsk (Tyumen Oblast)	42.6	49.3	43.3	1.157	1.129	0.878	0.842
Togliatti (Samara Oblast)	41.2	39.3	40.1	0.954	0.931	1.020	0.978
Syzran (Samara Oblast)	39.0	36.7	35.7	0.941	0.918	0.973	0.933
Stavropol	38.9	39.5	42.9	1.015	0.990	1.086	1.041
Pervouralsk (Sverdlovsk Oblast)	36.8	36.1	36.3	0.981	0.957	1.006	0.965
Shakhty (Rostov Oblast)	34.6	33.8	33.7	0.977	0.953	0.997	0.956

If this index is to be applied as a classification criterion, the sample appears to be as follows:

- the city of Moscow (approximately 12.5 million);
- Moscow Oblast (total urban population of more than 6.1 million) and the city of St. Petersburg (5.35 million) (approximately 11.5 million in total);
- 8 cities (other than Moscow and St. Petersburg) with the population of more than 1 million (Novosibirsk, Yekaterinburg, Kazan, Omsk, Samara, Krasnoyarsk, Perm, Voronezh) (9.85 million in total);

Nizhny Novgorod, Chelyabinsk, Ulyanovsk and Ryazan, but has been augmented by Khabarovsk and Novy Urengoy.

– 8 cities with the population between 500,000 and 1 million (Tyumen, Togliatti, Barnaul, Irkutsk, Khabarovsk, Yaroslavl, Vladivostok, Kemerovo) (more than 5.1 million in total);

– 3 cities with the population between 200,000 and 500,000 (Stavropol, Surgut, Shakhty) (more than 1.0 million in total);

– 4 cities with the population of less than 200,000 (Syzran, Pervouralsk, Novy Urengoy, Tobolsk) (more than 0.4 million in total).

The year 2018 was marked, practically everywhere, by rising prices in the secondary housing market. The highest growth indices (14–15 percent) were observed in Kazan and Vladivostok. In Stavropol, Novosibirsk, Irkutsk, Surgut, and Perm prices gained more than 8 percent. In Moscow and St. Petersburg, where growth amounted to 5–6 percent, it was within the average range – as it was also in Krasnoyarsk, Tyumen, Voronezh, Yaroslavl, Omsk, Yekaterinburg, and (with some reservations) in Novy Urengoy (where prices increased by slightly less than 5 percent).

A significantly lower growth index (within the range of 1–2 percent) was noted in Samara and Togliatti. In Moscow Oblast, Khabarovsk, Pervouralsk, Shakhty, and Kemerovo prices varied within a range of -1 percent to +1 percent, while the obvious ‘outsiders’ were Syzran and Tobolsk, where prices declined in absolute terms. In all the cities except Khabarovsk, Irkutsk and Tobolsk, prices were following a higher movement pattern relative to 2017, including those situations where decline gave way to growth, and where the rate of decline was becoming slower.

At the same time, in the majority of cities included in the sample, housing prices increased in real terms (IGS index)<sup>1</sup>. In Kazan, their growth surged above 10 percent; in Vladivostok, it was 9.5 percent; in Stavropol, Novosibirsk, Irkutsk, Surgut, and Perm it was above 3.5–4 percent, and in the group of cities in the ‘average range’, the growth index was up to 2.4 percent, including Moscow with its growth index of 1.2 percent. In all the other cities across our sample, including Moscow Oblast, housing prices declined in real terms.

Data on primary housing market prices are available for 12 cities and Moscow Oblast (*Table 7*).

Similarly to the situation in the secondary market, the primary housing market was demonstrating continuing growth almost in every city. The exceptions were Rostov-on-Don and Yaroslavl. An absolute leader was Kazan, where housing prices gained about 16 percent. Growth by more than 9.5–12 percent was observed in Moscow, Stavropol, Novosibirsk, Surgut, and Tyumen. In Samara, St. Petersburg and Tobolsk the prices were increasing at a significantly slower pace. Moscow Oblast and Yekaterinburg demonstrated price stability. Besides, lower movement patterns (relative to 2017) were noted in Rostov-on-Don, Yaroslavl, and Tobolsk.

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<sup>1</sup> The IGS index was calculated by applying the formula  $IGS = HPI/CPI$ , where HPI is the housing price index in rubles, and CPI is the consumer price index.

Table 7

**Prices on the primary housing market in Russian cities  
in 2016–2018**

City (region)	Mean unit asking price, thousands of rubles per m <sup>2</sup>			Price index in December 2017 relative to December 2016		Price index in December 2017 relative to December 2016	
	December 2016	December 2017	December 2017	in nominal terms	in real terms (IGS)	in nominal terms	in real terms (IGS)
Moscow	176.7	179.9	202.0	1.018	0.993	1.123	1.077
St. Petersburg	101.7	100.6	106.0	0.989	0.965	1.054	1.011
Moscow Oblast	81.9	85.1	85.2	1.039	1.014	1.001	0.960
Kazan	66.7	69.1	79.9	1.036	1.011	1.156	1.108
Yekaterinburg	63.1	63.3	63.3	1.003	0.979	1.000	0.959
Surgut (Tyumen Oblast)	61.0	63.2	69.5	1.036	1.011	1.100	1.055
Novosibirsk	58.8	59.9	66.3	1.019	0.994	1.107	1.061
Tyumen	53.4	56.6	62.1	1.060	1.034	1.097	1.052
Samara	53.3	46.3	49.8	0.869	0.847	1.076	1.032
Rostov-on-Don	51.3	52.0	50.6	1.014	0.989	0.973	0.933
Yaroslavl	49.8	50.6	49.7	1.016	0.991	0.982	0.942
Tobolsk (Tyumen Oblast)	46.3	49.3	50.2	1.065	1.039	1.018	0.976
Stavropol	35.9	36.3	40.7	1.011	0.986	1.121	1.075

*Source:* for Moscow and Moscow Oblast – Moscow Association of Realtors Committee on Analysis and Consulting (data released by Miel Group, Miel ‘Novostroiki’; JSC Sterniks Consulting); for the city of St. Petersburg – Group of Companies ‘Real Estate Bulletin’; for Kazan – www.tatre.ru; for Novosibirsk – RID Analytics; for Surgut and Tobolsk – Federal Real Estate Agency ‘Etazhi’; for Tyumen – UPConsAllt, Federal Real Estate Agency ‘Etazhi’; for Samara – Samara Oblast’s Housing and Mortgage Fund (SOHMF); for Yaroslavl – LLC ‘Metro-Otsenka’; for Rostov-on-Don – EMT Consulting; and for Stavropol – LLC ‘Small Enterprises Development Center ‘Ilekta’.

The housing price index in real terms (IGS index) increased in 2016 in the majority of cities across our sample, with the exception of Tobolsk, Yekaterinburg, Yaroslavl, Rostov-on-Don, and Moscow Oblast. The highest growth occurred in Kazan (about 11 percent), and in Moscow and Stavropol it was above 7.5 percent. In Novosibirsk, Surgut, Tyumen, Samara, and St. Petersburg the IGS index gained somewhat less (from 1 percent to 6 percent).

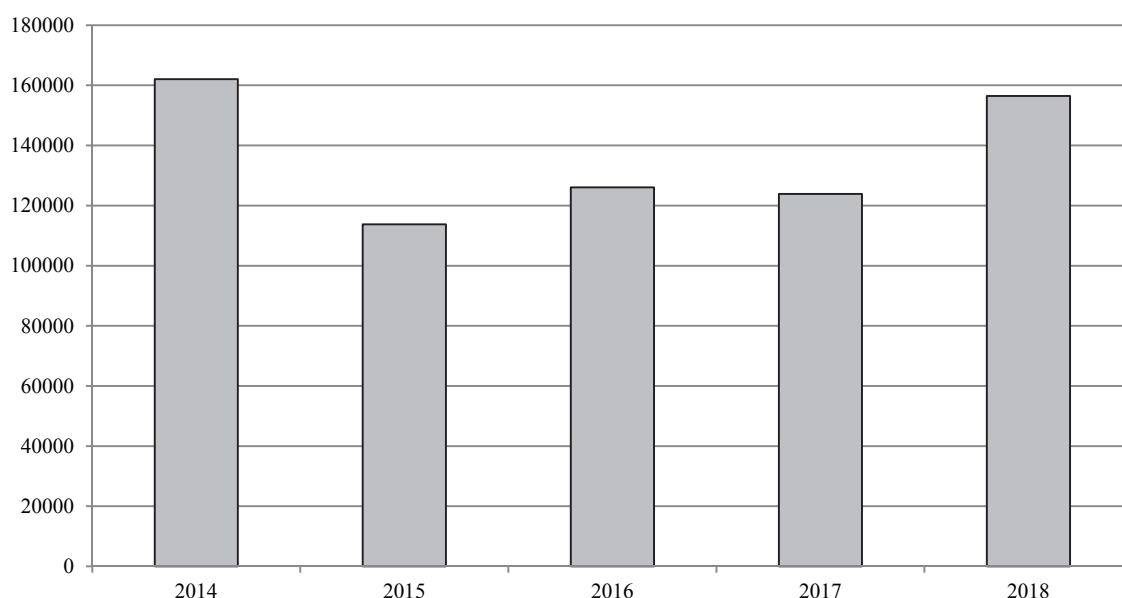
Thus, after their plunge in 2015–2016 followed by stabilization in 2017, the supply prices in the secondary and primary housing markets across Russia’s cities mainly entered the phase of growth, which was more typical of the secondary housing segment, and this trend also influenced the activity of market subjects.

In this connection, special mention should be made of the city of Moscow where, in 2018, some trends in the housing market began to be influenced by the housing fund renovation program.

Some of the potential buyers in the primary housing market, who had been selected as beneficiaries of resettlement plans under the housing fund renovation program, in 2018 abstained from buying in expectation of receiving, at the expense of city budgets, new bigger apartments of a higher quality to replace those currently occupied by their families. Later on, the apartments thus received can be used in many ways, with a possibility of even better market options. In this connection, the prices for apartments in

5-storey walkups earmarked for demolition jumped 20 percent on average. Following this trend, the prices for apartments in the surrounding 5-storey walkups not entered on the housing renovation programs also began to rise relative to those particular housing segments and micro-districts.

As demonstrated by the year-end results of 2018, according to data released by *Rosreestr* in respect of Moscow's secondary housing market, the total number of closed apartment purchase deals was 156,431, which represents a jump by 26.3 percent relative to the previous year. Thus, for the first time after three straight years of relative stability, and in spite of certain fluctuations, the secondary market managed to come close to its level in the record year 2014, when the total index of titles to property registered on the basis of apartment purchase and sale (or exchange) contracts amounted to 162,038 (vs. 113,769 in 2015; 126,045 in 2016; and 123,894 in 2017) (*Fig. 33*).



*Fig. 33.* The movement pattern of apartment purchase deals in Moscow's secondary housing market in 2014–2018, units

*Source:* *Rosreestr* Administration for the city of Moscow.

### 5.8.2. The construction, commissioning, and market supply of new housing units

Over the course of 2018, the total volume of housing stock put into operation amounted to 75.3 million m<sup>2</sup>, which is 4.9 less than in 2017; so, decline in the housing construction sector continued for a third year in a row, and its movement pattern was more negative than that of the general economic indicators (*Table 8*).

Table 8

**The rate of commissioning of residential buildings across Russia in 1999–2018**

Year	Total area, millions of square meters	Growth rate, percent	
		relative to previous year	relative to previous year
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	75.3	95.1	248.5

*Source:* Russian Statistics Yearbook. 2010: Statistics Yearbook / Rosstat, Moscow, 2010, p. 477; Russian Statistics Yearbook. 2016: Statistics Yearbook / Rosstat, Moscow, 2016, p. 427; Regions of Russia. Socio-economic Indicators. 2016: Statistics Yearbook / Rosstat, Moscow, 2016, p. 828; Regions of Russia. Socio-economic Indicators. 2018: Statistics Yearbook / Rosstat, Moscow, 2016, p. 774; On Housing Construction in 2018, [www.gks.ru](http://www.gks.ru); own calculations.

In this connection, the situation in the housing construction sector no longer resembles that observed in 2009–2010 when, after a two-year-long period of decline, the volume of housing stock put into operation once again began to follow an upward trajectory, and this trend continued through the year 2015. Meanwhile, when taken in absolute terms, that index is still above both its pre-crisis record high of 2008 and its 2013 level. Its quarterly movement pattern, after displaying an upward trend in Q1, stabilized at a level of about 90 percent relative to the corresponding period of 2017.

A less bright situation has been observed with regard to developer projects involving multi-apartment residential buildings. The volume of housing stock put into operation in this segment<sup>1</sup> has also been on decline for a third year in a row, at an accelerated rate. After the record high achieved in 2015 (50.1 million m<sup>2</sup>), the rate of decline relative to the previous year amounted in 2016 to 3.4 percent, in 2017 to 4.5 percent, and in 2018 to 7.3 percent. This downward trend can be explained by the shrinking number of new projects launched in 2015–2016 in response to an unstable economic situation and a drop in consumer demand.

The building construction project implementation period is becoming more protracted. According to data collected by Metrium Group, among the developer companies on the Top 100 list, only 14 companies never moved the project completion

<sup>1</sup> In *Rosstat's* official reports there is no such index. However, it can be calculated as the difference between the total volume of housing stock put into operation and the number of housing units put into operation at the expense of consumers (their own funds and consumer loans).

deadline for at least one of its residential buildings. And the relative share of residential complexes completed and put into operation before or not later than their planned deadlines declined to 40.1 percent in 2018 vs. 46.7 percent in 2017 (in 2016 – 58.9 percent)<sup>1</sup>.

In 2018, developer companies put into operation a total of 232,200 one-family homes with total area of 32.5 million m<sup>2</sup>, which is 1.6 percent less than in 2017; in other words, the movement pattern of the corresponding index for one-family homes was better than that of the total index for the housing construction sector. The relative share of the former, in terms of total area, in Russia's total index of completed housing construction projects amounted to 43.1 percent, which roughly corresponds to its level observed over the period 2010–2014.

Positive movement patterns in the housing construction sector were observed in less than half of the Russian Federation's subjects, but in the majority of regions the total volume of housing stock put into operation was in excess of 1 million m<sup>2</sup>.

Table 9

**The commissioning of residential housing in Russia's regions 2018  
(ranked in descending order)**

Region	Housing stock put into operation, percent relative to 2017
St. Petersburg	111.7
Krasnoyarsk Krai	108.0
Chelyabinsk Oblast	106.9
Moscow	103.6
Nizhny Novgorod Oblast	103.3
Leningrad Oblast	100.7
Rostov Oblast	100.6
Novosibirsk Oblast	100.6
Saratov Oblast	100.3
Voronezh Oblast	100.2
Republic of Tatarstan	100.1
Samara Oblast	99.7
Moscow Oblast	96.8
Sverdlovsk Oblast	96.8
Belgorod Oblast	93.5
Republic of Bashkortostan	93.0
Krasnodar Krai	92.9
Perm Krai	91.8
Tyumen Oblast (with autonomous districts)	84.9

Source: On Housing Construction in 2018 (in Russian), www.gks.ru.

As follows from *Table 9*, the movement pattern displayed by the index of the total volume of housing stock put into operation, which considerably exceeded Russia's average (by more than 3 percent), was noted in St. Petersburg, Krasnoyarsk Krai, Chelyabinsk Oblast, Nizhny Novgorod Oblast, and in the city of Moscow. Another 6 regions demonstrated positive movement patterns of that index, but its actual value was less than 1 percent. At the same time, shrinking volumes of housing stock put into operation were seen in 8 regions, including Belgorod Oblast, the Republic of Bashkortostan, Krasnodar Krai, Perm Krai, and Tyumen Oblast (with autonomous districts), where the plunge of that index amounted to 6–15 percent.

<sup>1</sup> <https://erzrf.ru>.

Moscow Oblast demonstrated a decline that was less deep than the corresponding Russia's average (3.2 percent), and so it retained its leading position among Russian regions by the total volume of housing stock put into operation in absolute terms (approximately 8.8 million m<sup>2</sup>). The city of Moscow was in the group of leaders with respect to the growth rate of that index (3.6 percent); however, by its total volume of housing stock put into operation in absolute terms, which was above 3.5 million m<sup>2</sup>, it still fell behind the city of St. Petersburg (about 4.0 million m<sup>2</sup>), where the rate of housing stock put into operation was highest (11.7 percent). The group of top five regions was also joined by Krasnodar Krai (about 4.4 million m<sup>2</sup>) and Leningrad Oblast (more than 2.6 million m<sup>2</sup>).

The relative share of the city of Moscow and Moscow Oblast in the volume of completed housing construction projects in the total economy was 16.4 percent, of which the greater part was taken up by Moscow Oblast (11.7 percent), and the city of Moscow accounted for 4.7 percent. The aggregate relative share of the entire region in and around Russia's capital (including Moscow Oblast) increased relative to its 2017 level (15.8 percent), thus practically returning to its level in 2010 (16.6 percent), whereas over the period 2013–2017 it never rose above 16 percent.

If we look only at the number of multi-apartment residential buildings put into operation according to *Rosstat's* data for 2018, the Top 10 regions were Moscow Oblast, the cities of St. Petersburg and Moscow, Krasnodar Krai, Leningrad Oblast, the Republic of Tatarstan, Sverdlovsk Oblast, Novosibirsk Oblast, Rostov Oblast, and Samara Oblast. Out of these ten regions, growth in the volume of completed multi-apartment residential construction projects was noted only in the city of Moscow, the city of St. Petersburg, and Rostov Oblast; its decline in Moscow Oblast, Leningrad Oblast, and Samara Oblast amounted to 8–10 percent.

The new financing mechanism employed in housing construction projects has been making its first steps in Russia. By December 2018, a total of 77 ongoing projects including 183 residential properties under construction with a total floor area of more than 1.5 million m<sup>2</sup> had been funded through escrow accounts<sup>1</sup>. In terms of number of projects, the leader by the scale of implementation of such projects is the Republic of Bashkortostan (about 24 projects), and in terms of total floor area to be put into operation – Moscow Oblast (more than 320,000 m<sup>2</sup>). As of year-end of 2018, seven banks were operating escrow accounts. According to data released by the Unified Information System for Housing Construction (UISHC), the highest number of projects relying on the new mechanism are funded through Sberbank, VTB, and DOM.RF Bank, the latter having been created on the basis of the bank *Russian Capital* after the transfer

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<sup>1</sup> Escrow account is a special savings account where funds can be disbursed only on certain liabilities. It is opened for temporary accumulation of funds to be disbursed for specific purposes. As far as shared construction projects are concerned, this instrument envisages transfer of co-investors' funds as work progresses and the developer's report is submitted to the bank.

of its 100-percent stake to the charter capital of the AHML at the very end of the year 2017<sup>1</sup>.

As for the mechanism of attracting private funds of individuals through their participation in shared construction projects (SCP), which had already become a sort of tradition over the last one-and-a-half decades, in the course of the year 2018, according to data released by the Bank of Russia, the total number of housing mortgage loans issued under shared construction schemes was 368,340 units, which is 18 percent above the corresponding index for 2017 (312,164 units).

At the same time, towards the year end, there began to appear some signs that housing mortgage loans were becoming less affordable for participants in shared construction projects. The interest rates on housing mortgage loans secured by shared construction agreements at the year end 2018 increased to 9.39 percent per annum. In December, the number of actually issued HMLs secured by SCPs plunged by 7.7 percent relative to December 2017, while in November that index had gained 5 percent, and in October – 10.8 percent. Such was the effect of the RF Central Bank's decision, adopted in December, to raise its key rate to 7.75 percent per annum. As a rule, the interest rates on HMLs secured by SCPs are higher than the key rate by 1.5–2 percentage points.

In 2018, the housing construction market continued to demonstrate its consolidation.

While the total volume of ongoing construction projects increased by 10.7 million m<sup>2</sup> relative to the year-end of 2017, 38 percent of that growth index was accounted for by the top five companies (including 27 percent by PIK Group, which demonstrated growth in absolute terms by 2.9 million m<sup>2</sup>).

As of December 2018, about 20 million m<sup>2</sup> of floor area (more than 15 percent of the total volume of current housing construction projects across Russia) was being produced by the top 10 developer companies in terms of total volume of housing stock put into operation and their geographic spread. They operate in the main in the European part of this country (the Central, Southwestern, and Southern Federal Okrugs) and in the Urals, where more than 90 percent of all the projects are to be implemented.

Depending on the region where they operate, each of these top 10 developer companies generates up to 30–40 percent of the annual total volume of housing stock put into operation: about 30 percent in the regions near Moscow and St. Petersburg, not more than 10 percent in the other regions situated in European Russia, and about 5 percent regions situated in the Siberian and Far-Eastern Federal Okrugs. As far as the structure of regional markets is concerned, if we consider all their participants, their concentration in the majority of regions is either on a low or moderate level: the

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<sup>1</sup> In this connection it should be reminded that several years ago, this bank experienced some serious problems, and so was restructured by the State Corporation *Deposit Insurance Agency* (DIA). The Law on the federal budget for 2017–2019 established the government's right to receive as part of the RF treasury all the ordinary and preferred shares issued by that bank and held and (or) purchased by the DIA to the total value of up to RUB 92 billion, to replace the property contributions by the state due under the federal budget laws for 2008–2010 and 2014–2016, to value these shares at their balance sheet value (the buying price paid by the DIA), and to transfer them to the charter capital of the AHML.



aggregate share taken up by the 5 major market players does not exceed 50 percent in more than 30 regions, and does not exceed 70 percent in 60 regions. A high market concentration has been observed mostly in those regions where the climatic conditions make it difficult to implement construction projects.

The market consolidation index of the city of Moscow, while staying at a high level, changed only slightly over the course of last year, which is a sign of market maturity. The obvious leader here, in terms of housing construction volume, is PIK Group; since 2016, it has been occupying the topmost position in the primary market of 'Old Moscow' with its market share of 20 percent, and it also accounted for 34 percent of aggregate growth in the housing construction sector in 2018.

As demonstrated by the results of an analytical study conducted by Metrium Group, the Top 20 developer companies operating in the territory within the previously established city borders (Old Moscow) have been building only 150 residential multi-unit and apartment complexes. The total floor area of these complexes amounts to 8.81 million m<sup>2</sup>, or 67.5 percent of the total housing volume at the year end, including also those apartments that are not legally treated as residential premises, but are frequently viewed as an integral component of residential development projects that can be offered on the market, in hopes that resident registration will eventually be permitted there, and so the total volume of housing stock put into operation will be increased.

The five leaders in terms of volume of housing stock put into operation in Old Moscow are as follows:

- PIK Group (1.94 million m<sup>2</sup>, 1<sup>st</sup> place by housing construction volume in the city of Moscow);
- MR Group (884,730 m<sup>2</sup>, 5<sup>th</sup> place in the city of Moscow);
- DONSTROY (831,770 m<sup>2</sup>, 4<sup>th</sup> place in the city of Moscow);
- Capital Group (623,980 m<sup>2</sup>, 14<sup>th</sup> place in the city of Moscow);
- Etalon Group (471,390 m<sup>2</sup>, 8<sup>th</sup> place in the city of Moscow)<sup>1</sup>.

With regard to these achievements, Metrium Group's analysts note that since 2016, PIK Group has confidently retained its leading position in Old Moscow's primary market.

In 2018, the leader of the Russian housing construction market began to sell units in 8 new residential complexes, thus increasing the total number of new street addresses in its portfolio to 23. These are, in the main, large-scale projects totaling hundreds of thousands of square meters each. And the total floor area of buildings currently put on the market by PIK Group has nearly doubled relative to 2016. MR Group, according to Metrium Group's analysts, managed to come second in the ranking thanks to the launch,

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<sup>1</sup> In brackets, we specify the ranking of each company by the volume of its housing stock under construction (to be put on the market) in New Moscow, meaning apartments at any stage of their creation after the issuance of a construction permit.<sup>2</sup> The system functions on the basis of programming products, technical tools and information technologies ensuring the collection, processing, storage, access to, placement and use of information on housing construction projects, as well as other information pertaining to housing construction.

over the course of last year, of 8 residential multi-unit and apartment complexes with total area of 383,600 m<sup>2</sup>. A year earlier, that developer company had come third. Now the third place is occupied by DONSTROY, with its 13 residential multi-unit and apartment complexes under construction. In 2018, the developer company's portfolio was augmented by four new construction projects.

The rankings of Moscow developer companies are still largely determined by the scale of their activity in the territories that were transferred to the city of Moscow a few years ago. However, this factor has been gradually dwindling as a growth driver.

According to data released by the Single Register of Developer Companies (SRDC) on its website, today in New Moscow there are 47 ongoing housing construction projects involving a total of 509 residential properties. The total floor area of these properties (5.33 million m<sup>2</sup>) amounts to 28 percent of the total housing construction volume in the city of Moscow; 95 percent of all the construction sites are situated in New Moscow Administrative Okrug, the remaining 5 percent – in Troitsky Administrative Okrug. At present, New Moscow obviously suffers from a shortage of social and transport infrastructure, as well as quality jobs, while no housing deficit can be expected in the foreseeable future. The currently issued construction permits (for a total of 18 million m<sup>2</sup>) amply provide for the next decade, at the rate of 1.5–2 million m<sup>2</sup> of new housing units to be put into operation every year. So, as Head of the Department for the development of new territories of Moscow Vladimir Zhidkin said at the X Real Estate Financial Forum in February 2019, the city government has no new housing construction plans for the next 5 years concerning these territories, instead giving priority to the development of urban environment, construction of non-residential commercial properties, and creation of new infrastructure entities.

According to Sergey Lobzhanidze, director of the analytical platform bnMAP.pro (an innovative IT product developed by BEST-Novostroy), the apartments situated in New Moscow are currently being sold at a higher rate even than in Old Moscow, because the former are more affordable, and because of the rapid development of Moscow's metropolitan underground network. Over the course of last year, 22 percent of all apartment purchase deals in the new comfort-class housing segment across the Moscow region took place in the territory of New Moscow. If housing prices should slightly increase, some of the demand may overflow to Moscow Oblast, because the average buyer is still constrained by budget considerations.

As time goes on, the housing fund renovation program approved on August 1, 2017 will be gaining in importance. It lists 5,172 residential buildings, with the prospects for resettlement of dwellers of more than 350,000 apartments. The list of street addresses of 318 startup construction sites was adopted, with a potential for building properties with total area of 4.6 million m<sup>2</sup> in all Moscow's okrugs. The list is by no means complete as yet.

As seen from data released by the Department of urban planning policy of Moscow, in 2018, a total of 98 residential buildings were being constructed in Moscow under the renovation program, with total area of about 1.2 million m<sup>2</sup>; of these, 40 new residential

properties with total area of about 500,000 m<sup>2</sup> have already been put into operation. The resettlement of residents from 51 buildings has been started; two of these buildings have been completely vacated, and five have been demolished; the residents moved to 33 newly erected residential buildings in seven okrugs of Moscow: Eastern, North-Eastern, Western, South-Western, Southern, Northern, and South-Eastern.

The prospects of the housing construction sector for the nearest future appear to be controversial.

At year end 2018, according to data released by the Unified Information System for Housing Construction (UISHC)<sup>1</sup> operated by DOM.RF, the projects involving the construction of multi-unit residential buildings with total area of 126.5 million m<sup>2</sup> were underway in Russia, which is more than the corresponding year-end indices for 2017 (115.8 million m<sup>2</sup>) and 2016 (111.0 million m<sup>2</sup>). This movement pattern points to a reviving activity of developer companies, and makes it possible to expect an increase in the volume of housing stock to be put into operation in two or three years, which in its turn can produce a situation where supply will exceed demand, thus creating downward pressure on housing prices. The bulk of *current housing construction projects* launched by developer companies is taken up by multi-unit residential buildings. They account for 97.2 percent of all housing units under construction, while ‘apartments’ account for 2.4 percent, and linked houses – for only 0.4 percent<sup>2</sup>.

The top five regions by the volume of ongoing housing construction projects are, not unexpectedly, the ‘two capitals’ and their environs (the cities of Moscow and St. Petersburg; Moscow Oblast; and Leningrad Oblast), and Krasnodar Krai. The highest volume of current housing construction projects being implemented by developer companies is noted in the city of Moscow – 17.8 million m<sup>2</sup> (14.1 percent of the total floor area of housing units). Second comes Moscow Oblast, where this index amounts to 15.7 million m<sup>2</sup> (12.4 percent of the total current housing construction volume)<sup>3</sup>.

At the same time, at the meeting of the Presidium of the Public Council under the RF Ministry of Construction and Housing Utilities on December 19, 2018, Minister Vladimir Yakushev himself publicly spoke of the impossibility to achieve the **target** ‘of increasing the annual housing construction volume to not more than 120 million m<sup>2</sup> per annum’ (to 2024)<sup>4</sup>, set in the Presidential Executive Order as one of indicators that the **national goal** of ‘improving the housing conditions of not less than 5 million families per annum’.

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<sup>1</sup> The system functions on the basis of programming products, technical tools and information technologies ensuring the collection, processing, storage, access to, placement and use of information on housing construction projects, as well as other information pertaining to housing construction.

<sup>2</sup> Apartments are understood in this context as housing units situated in non-residential buildings (without the right to resident registration). Linked houses are structured like townhouses, whereby each home has a separate street entrance, but they share a common wall in the basement or foundation.

<sup>3</sup> URL: <https://erzrf.ru>.

<sup>4</sup> This index, applied by *Rosstat* in its official documents and reports, describes the volume of housing stock put into operation, and not the volume of ongoing housing construction projects.

According to the certificate of the national project *Housing and Urban Environment*, the volume of housing stock put into operation last year was to amount to 86 million m<sup>2</sup>, but in reality only the prediction of reaching the level of 75.3 million m<sup>2</sup> came true. As seen by the period-end results of the first two months of 2019, the volume of housing stock put into operation shrank by 9.4 percent relative to the corresponding period of the previous year.

Given all these conditions, the situation in the housing construction sector will largely depend on the smooth functioning of the financing mechanisms applied there.

The market response to the December raise of the RF Central Bank's key rate (from 7.5 percent to 7.75 percent) has not yet reached its full force, so one can expect some further growth of the interest rates on housing mortgage loans. The regulator predicts that inflation will peak in H1 2019 and at the year's end will amount to 5.0–5.5 percent, and then, as early as H1 2020, it will slide back to 4 percent. Thereafter, the Bank of Russia will base its key rate decisions on the effects of the increases of the key rate in September and December 2018, with the aim of pushing back annual inflation to its target in 2020. At the same time, the Bank of Russia's cautious approach can be interpreted as its reluctance to significantly raise the key rate, and so it can be expected that the interest rates on housing mortgage loans will not be increasing at a very fast rate over the course of 2019.

A certain role in this connection can be played by the social support measures set forth by the government (subsidies to families with children covering the cost of their mortgage payments, mortgage payment holiday). However, it must be well understood that as the instrument of HML exhausts its growth potential, it is banks and developer companies that will truly benefit from these measures (because for them this is profitable business), and not the population.

Besides, the effects of the switchover to escrow accounts are not yet clearly visible. Suffice to quote, in this connection, the estimates from the already mentioned joint report by DOM.RF and Frank RG. Head of Sberbank Herman Gref believes that this may hit hard the housing mortgage system, and the rising interest rates will push down demand. And Chairman of the State Duma's Committee on Natural Resources, Property and Land Nikolai Nikolaev, on the contrary, expects that after the switchover to escrow account the interest rates will decline because 'the money in this case does not flow elsewhere, but it placed on an escrow account with the same bank', and 'the bank will earn its own from the use of these monies, not only by receiving interest on housing mortgage loans, but also by 'reusing' these monies'.

### 5.8.3. Institutional changes in the shared construction system and their impact on the housing market

Active reforming of the shared construction system through significant adjustments to the basic version of Federal Law No 214 has been underway for several years already<sup>1</sup>. However, the package amendments introduced in 2018 surpass in their scale everything that has been done over the course of the three previous years.

*Firstly*, the list of permitted methods of attracting private funds of individuals no longer includes that of the issuance, by the owner or holder by right of lease of a land plot for which a permit was obtained in the established procedure for the construction therein of a multi-unit residential building, of bonds of a special type – housing certificates, whereby the right of their owners to receive from the issuer of those bonds a housing unit in accordance with RF legislation on securities is secured.

The well-known source of funding (from the past experience of the Soviet period) – housing cooperatives – is allowed to be used only by those housing construction cooperatives (HCC) that implement their projects on land plots received by them by right of use on a non-reimbursable basis for a limited period of time from lands in municipal or state ownership, including under the provisions stipulated in the 2008 Law ‘On Promoting Housing Construction Development’, or those set up in accordance with the 2002 Law ‘On Insolvency (Bankruptcy)’, with the exception of housing saving cooperatives.

Federal Law No 214 regulates the relations arising from a developer company’s liabilities to the participants in shared construction projects (SCP), and the transfer of its property (including the title thereto) and liabilities to the unitary non-profit organization (foundation) set up in accordance with Federal Law No 218-FZ dated July 29, 2017 ‘On the Public Legal Company for the Protection of Rights of Citizens – Participants in Shared Construction Projects in Case of Insolvency (Bankruptcy) of Developer Companies, and on the Introduction of Alterations into Some Legislative Acts of the Russian Federation’<sup>2</sup>, with due regard for the specificities stipulated in that Law, as well as the laws regulating shared construction and bankruptcy issues. The new organization was granted the status of a developer company.

*Secondly*, one of the important qualification requirements to a developer company has been made easier to meet. The threshold for the total floor area of multi-unit residential buildings erected with the participation of a given developer company (over a period of not less than 3 years) has been reduced by half (from 10,000 m<sup>2</sup> to 5,000 m<sup>2</sup>).

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<sup>1</sup> See the IEP’s annual overviews *Russian Economy in 2016. Trends and Outlooks (Issue 38)*. Moscow, IEP. 2017, pp. 328-330; and *Russian Economy in 2017. Trends and Outlooks*. Moscow, IEP. 2017, pp. 376–379.

<sup>2</sup> Public legal company ‘Fund for the protection of rights of citizens – participants in shared construction projects’ was created in the autumn of 2017. Simultaneously, the Rules for making corporate decisions concerning the financing of measures designed to ensure the completion of abandoned building construction projects and to exercise control of the use of funds received as part of such financing were adopted.

At the same time, it is now explicitly prohibited for a developer company to engage in activities involving the attraction of funds from participants in shared construction projects for the construction (or creation) of properties simultaneously under several urban development plans targeting one and the same land plot, or under several approved territory planning projects.

*Thirdly*, there are some changes in the requirements to a developer company that must be met in order to obtain the right to attract funds from participants in shared construction projects, with respect to financial security and control.

The requirement that a developer company, as of the date of filing a project declaration to a relevant empowered body of executive authority of a RF subject, must have money in the amount of not less than 10 percent of the planned construction project's total costs on an account opened with an empowered bank, has been augmented by the provision whereby it was allowed to provide, as of the said date, a credit agreement with the said bank envisaging the issuance by the latter of a targeted loan for the construction (or creation) of a multi-unit residential building and (or) other property entity that incorporates entities to be built in the framework of a shared construction project, in the amount of not less than 40 percent of the planned construction project's total costs.

One exception was introduced with respect to the rule stipulating that the obligations of a developer company unrelated to the attraction of monies from the participants in a shared construction project or to the construction (or creation) of multi-unit residential buildings and (or) other real estate properties covered by one or several construction permits should not exceed 1 percent of the construction project costs. The rule does not apply to the obligation of a developer company to correct the deficiencies of real estate property created under a shared construction agreement in accordance with the quality guarantees stipulated therein.

Another exception was introduced with respect to the norm whereby a developer company with the status of a legal entity must not be subject to a court ruling ordering the enforcement of one of the procedures applicable in the framework of a proceeding in bankruptcy as established by the 'core' 2002 law, concerning the cases envisaged therein.

Now, a developer company must comply with the financial sustainability norms<sup>1</sup>.

The amount of permitted arrears of taxes, levies and other mandatory payments to the budgetary system for the previous calendar year (with a few exceptions) owed by a developer company with the status of a legal entity has been defined more specifically in coordination with the law on bankruptcy.

The developer companies that do not meet these requirements have no right to attract funding from any participants in shared construction projects involving the construction (or creation) of multi-unit residential buildings, and not only from individuals, as it was established previously.

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<sup>1</sup> The norms established by RF Government Decree No 1683 dated December 26, 2018.

If a developer company uses the monies of participants in shared construction projects involving the construction (or creation) of one or several multi-unit residential buildings and (or) other real estate properties covered by one or several construction permits, that developer company must hold a separate settlement account for each of these construction permits. The bank account contract(s) must include a clause whereby the client agrees to disclose to the authorized bank the same information as it is required to disclose, in accordance with the law, to the empowered body of executive authority of a RF subject and to the Public Legal Company ‘Fund for the Protection of Rights of Citizens – Participants in Shared Construction Projects’. The banking operations of money withdrawal from the bank account (or bank accounts) of a developer company are executed by an authorized bank in accordance with the requirements stipulated in the law on shared construction (Article 18.2). The number of settlement accounts held by one and the same developer company should not exceed the number of construction permits.

A developer company has been granted the right to terminate the bank account contract concluded with an authorized bank. If such is the case, the developer company, as well as the technical customer and general contractor operating under the building construction contracts that they are party to, are obliged to open accounts with another authorized bank and to transfer all the monies to the new bank account.

A developer company, not later than one workday after the date of opening a new bank account, should duly notify the bank that the other bank account had been opened with, and all the other parties mentioned earlier. After receiving from the developer company such a notification, the authorized bank is not allowed to execute any banking transactions on its settlement account, with the exception of those transactions that had been ordered prior to or on the same day as it receives the order whereby it is required to transfer all the monies to the new settlement account opened by the developer company. The information concerning a closed or opened settlement account by a developer company, as well as the settlement account number, the name of the authorized bank and its identification details (Taxpayer Identification Number (TIN), Primary State Registration Number (PSRN)) should be submitted by the developer company to the Unified Information System for Housing Construction (UISHC) not later than one workday after the date of opening or closing a settlement account by a developer company.

The period for submitting, by a developer company, of its intermediate accounting (financial) reports after the end of the relevant intermediate reporting period, has been extended from 5 to 30 calendar days.

*Fourthly*, the requirements to information disclosure by a developer company have been toughened.

Now, information disclosure should take place on the UISHC’s website (previously, it was to be disclosed on the developer company’s official website). The information to be disclosed is posted to the UISHC’s website within 5 workdays after receiving, from an empowered body of executive authority of a RF subject, a resolution whereby the

developer company and the project declaration are deemed to be in conformity with the established requirements, and certain information items are to be disclosed on a monthly or quarterly basis. Any alterations to the information and documents to be disclosed should be posted to the UISHC's website within 3 workdays from the date of introducing such alterations.

The list of information items to be disclosed has been augmented by the following items:

- an urban development plan for the land plot;
- a map of the planned development of a land plot prepared in conformity with the urban development plan for the land plot, outlining the building structure, entrances and passages around it, public servitudes, and property entities belonging to the category of archeological heritage;
- documents containing information concerning the calculated amount of funds owned by the developer company and its conformity with the established financial sustainability norms;
- information concerning the initiation of one of the procedures applicable in the framework of a proceeding in bankruptcy as established by the 'core' 2002 law;
- announcement of the start of building construction or reconstruction work on a capital construction site, as established by urban development legislation;
- information concerning the opening (or closure) of a settlement account by a developer company, including the relevant account number, the authorized bank's name and identification details (TIN, PSRN);
- other information, as stipulated in the law.

Certain information items should be provided by a developer company for each of the multi-unit residential buildings and (or) other real estate properties constructed (or created) at the expense of the participants in shared construction projects.

The payment of the contract price under a shared construction project after its state registration may now be effected only by means of bank transfer.

The norms whereby the fulfillment of obligations under a contract should be secured by a pledge do not apply to those cases when, in the framework of a shared construction project, a developer company places the monies received from its participants for the construction (or creation) of multi-unit residential buildings and (or) other real estate properties on escrow accounts.

*Fifthly*, as far as the requirements to a developer company's corporate governance and participants are concerned, the period during which the post of the director or chief accountant of a developer company cannot be occupied by an individual who, in accordance with the law on bankruptcy, has been brought to subsidiary responsibility under the obligations assumed by a legal entity and (or) responsibility in the form of recovery of damages by a legal entity, has been extended. Not less than 5 years should pass from the date of execution of the said obligation in accordance with a court ruling (previously – 3 years).



A similar timeframe adjustment has been introduced with respect to the individuals who had been performing the functions of a single executive body of a legal entity until submitting a project declaration to an empowered body of executive authority of a RF subject and were deemed to be bankrupt by an arbitration court.

The cap on the permitted stake in a developer company's capital has been reduced from 25 to 5 percent for individuals who may occupy the post of that company's director or chief accountant. A similar alteration has been introduced with respect to persons who for 3 years prior to submitting a project declaration have been owning, directly or indirectly (through third parties), a stake in the capital of a developer company that was deemed to be insolvent (bankrupt) by an arbitration court.

*Sixthly*, the norms regulating the escrow account mechanism have been fundamentally revised (Article 15.4 and 15.5).

Under a general rule, when a developer company attracts funding from individuals participating in the construction (or creation) of multi-unit residential buildings (or) other real estate properties through escrow accounts, all the participants in a shared construction project should make their contract price payments to escrow accounts opened with an authorized bank.

If the construction (or creation) of a multi-unit residential building and (or) other real estate property by a developer company is funded by a targeted loan, the participants in a shared construction project make their contract price payments to escrow accounts opened with the authorized bank that has issued that particular targeted loan. The same norm applies to the situation when a developer company has concluded a loan refinancing (recrediting) agreement.

The contract for participation in a shared construction project must stipulate all the conditions envisaged in the law, as well as the obligation of a participant in a shared construction project (the deponent) to pay the contract price in full before the multi-unit residential building and (or) other real estate property has been put into operation by depositing money, in the amount and within the timeframe established by the contract (the deposit), to an escrow account opened with an authorized bank (escrow agent), and to provide information concerning the said bank (its name, brand name, location and address, email address, telephone number).

The obligations of a participant in a shared construction project to pay the contract price is deemed to be fulfilled from the moment of crediting the said amount to the escrow account opened with an authorized bank.

An empowered body of executive authority of a RF subject issues to a developer company a resolution concerning conformity of the latter and the project declaration submitted by it with the established requirements, or refuses to issue such a resolution if the requirements are not met. If an insured event occurs for the authorized bank that an escrow account has been opened with, in accordance with the provisions of the 2003 Federal Law on insurance of individual accounts, the developer company and the participants in a shared construction project must conclude an escrow account agreement with another authorized bank.

As far as the use of escrow accounts is concerned, the new provisions are as follows.

The application for opening an escrow account and the corresponding agreement may, in accordance with the banking rule, be filled and signed with a simple electronic signature through a remote banking system of an authorized bank, if the latter can be applied in the bank's dealing with its clients.

Funds are deposited on an escrow account after the registration of a shared construction contract, and the option period for earnest money thus kept cannot be more than 6 months after the multi-unit residential building and (or) other real estate property specified in a project declaration has been put into operation; previously, there was no such provision.

No interest is charged to earnest money on an escrow account, while this was envisaged in the previous norm that was in effect for nearly two years.

The procedure for a transfer of money by bank to a developer company has been altered. While previously this was done under an act of money transfer or some other document, in the new version the grounds for money transfer should be a permit for putting into operation a multi-unit residential building and (or) other real estate property and a statement from *Rosreestr* in confirmation of state registration of a title to property, or the fact of posting such information to the UISHC's website. Besides, a developer company now has the option of transferring funds to its pledged collateral account with an authorized bank, and transfers the possession right thereto as collateral, if this is stipulated in the credit agreement (or loan agreement) concluded by the developer company.

In addition to the grounds for termination of an escrow account contract when the account has been opened for settlements under a shared construction contract as stipulated in the RF Civil Code, the former can be terminated on the following grounds:

- in an event of its cancellation;
- if one party unilaterally terminated the contract.

If an escrow account contract is terminated on such grounds, the earnest money funds, upon the receipt by the authorized bank of information concerning the striking-off of the entry of state registration of a shared construction contract from *Rosreestr*, should be returned to the participant in a shared construction project or transferred to the pledged collateral account, the rights to which are pledged to the bank or another credit institution that had lent money to the participant in a shared construction project, for the latter to pay the contract price under a shared construction contract, if such a clause is included in the contract between the participant and the lender.

An escrow account contract must contain information concerning the deponent's bank account, where the funds are to be transferred if the bank does not receive the client's instruction that the money should be disbursed or transferred if the said contract has been terminated for the aforesaid reasons.

*Seventhly*, many new provisions have to do with the use of funds by a developer company.

The list of possible uses has been augmented by the following items:

- payments by way of purchasing land plots, fees for switching over to another type of permitted use of funds, fees for lifting the ban on construction and reconstruction of buildings or structures situated on such land plots, imposed in accordance with the 2001 Federal Law on putting into force the Land Code of the Russian Federation (previously – land rent only);

- money transfer to an account with another authorized bank, opened in an event of termination of a bank account contract;

- depositing of temporary free funds on an account with the same authorized bank where the developer company holds a settlement account; this is done because the deposited money and the interest charged to it must be returned to the same settlement account held by the developer company where the money was originally placed;

- payment for the upkeep of residential and (or) non-residential premises, garage units, including utilities, in a multi-unit residential building and (or) other real estate property created at the expense of participants in a shared construction project, from the date of receiving the permit for putting the said property entity into operation, if the title to the said premises has not been registered.

The following transactions cannot be executed through the settlement account of a developer company:

- transactions involving the fulfillment of obligations of third parties;

- transactions involving the fulfillment of a developer company's own obligations to third parties not associated with the use of funds received from participants in shared construction projects involving the construction (or creation) of multi-unit residential building and (or) other real estate properties;

- issuance of loans;

- purchase of securities;

- transactions involving the creation of business companies and non-profit organizations, participation in charter capital of economic societies, equity owned by other business companies and non-profit organizations, with the exception of transactions involving the creation (or participation in charter capital) of those economic societies – developer companies in relation to which the developer company is (or becomes) a core company;

- payments related to the securities issued (or released) by the developer company, with the exception of payments related to shares in the developer company.

A developer company is not allowed to engage in other activities, except the activities involving the attraction of funds from participants in shared construction projects involving the construction (or creation) of multi-unit residential building and (or) other real estate properties covered by one or several construction permits. After receiving a permit for putting into operation a multi-unit residential building and (or) other real estate property and until making an entry thereof in the state cadastre register, a developer company may conclude shared construction contracts with respect to real estate properties in the framework of shared construction projects that are not subject to any other similar contract.

The list of economic transactions that a developer company is not allowed to execute has been augmented by some exceptions, in particular the attraction of targeted loans to fund its building construction activity, and targeted loans granted by the company's founders (or participants), targeted loans issued to another developer company affiliated to the core developer company, the creation (or participation in charter capital) of other economic societies – developer companies affiliated to the developer companies, the latter thus being (or becoming) their core company. The list of documents necessary for the execution of banking transactions on the settlement account held by a developer company is to be approved by the RF Government in coordination with the RF Central Bank. An authorized bank executes the banking orders of a developer company not later than on the next workday after receiving such orders, or for the purposes of an additional audit of the documents submitted by a developer company the bank may suspend the execution of such banking order for a period of not more than 3 workdays. After the expiry of the suspension period, the authorized bank executes the said banking order not later than on the next workday, or in the cases defined in a separate list, the bank denies the transaction.

In the event of receiving banking orders concerning the execution of such transactions on the settlement account held by a developer company, the authorized bank suspends the transaction. In the event of denial, the bank notifies thereof the empowered body of executive authority of a RF subject and the Public Legal Company 'Fund for the Protection of Rights of Citizens – Participants in Shared Construction Projects' on the day that the transaction was denied. The notification must contain the identification details of the developer company, the details of the transaction that was denied, and the substantiation for such denial.

No cash withdrawal from or cash deposit in the settlement account of a developer company is allowed, with the exception of wages and salaries, on condition that the transfer of all the taxes and insurance contributions charged to these amounts is simultaneously executed, and also when the cash amounts withdrawn for the said purpose from the settlement account of a developer company are redeposited therein.

A denial or suspension of a transaction in the settlement account of a developer company in the established procedure cannot serve as the grounds for enforcing measures of civil responsibility on the authorized bank.

For several expenditure items and types of transactions, the procedures of compliance with the existing norms and caps on advance payments were introduced.

*Eighthly*, the following new provisions were introduced with respect to project declaration.

The empowered body of executive authority of a RF subject is obliged not only to issue, but also to prepare a resolution stating that the developer company and its project declaration are in conformity with the established requirements, or to refuse to issue such resolution, within not more than 30 days from the date of receiving the application.

An additional reason for refusing to issue a resolution can be the developer company's failure, as of the date of submitting a project declaration by the developer

company and (or) its core company or subsidiary, to meet the deadline for putting into operation the multi-unit residential building and (or) other real estate property erected at the expense of participants in the shared construction project specified in the project declaration, with a delay of three or more months<sup>1</sup>.

*Ninthly*, the list of required information has been augmented by the following details concerning a developer company's founders (or participants) and beneficiary owners:

- information on the individuals, including their full names, who can indirectly (through controlled persons), on their own or jointly with other persons, dispose of not less than 5 percent of votes secured by voting shares (or stakes) in the charter capital of a developer company (hereinafter – beneficiary owners);

- identification details of the founder (participant) and beneficiary owner (for individuals – their Insurance Number of Individual Ledger Account (SNILS) in the compulsory pension insurance system; TIN (if applicable)); and for a legal entity – its PSRN and TIN);

- the size of the stake held by the founder (participant), and the shares controlled by the beneficiary owner, in the charter capital of a developer company;

- a statement of the circumstances (grounds) that substantiate the status of a beneficiary owner.

*Tenthly*, as far as government control (supervision) is concerned, it is to be exercised by the empowered body of executive authority of a RF subject (also referred to as a controlling body) of the territory where a given building construction site is situated, in the procedure introduced at the regional level with due regard for the requirements established by the RF Government; the coordination of appointment of the head of a controlling body, and their dismissal from that post, is to be exercised by the empowered federal body of executive authority in the procedure established by the RF Government.

In order to further protect the rights of citizens participating in shared construction projects, the norm has been introduced whereby the person, including beneficiary owners, who has the actual ability to influence the acts of a developer company, including the ability to instruct the person performing the functions of a single executive, or to instruct a member of collegial managerial bodies of a developer company, should bear subsidiary responsibility to the developer company for the losses incurred through their fault by the citizens participating in shared construction projects, although in the original version of the document, responsibility was grounded in solidarity.

Besides, numerous detailed norms have been introduced concerning the functions of the Unified Information System for Housing Construction (UISHC). In particular, the Single Register of Developer Companies (SRDC) has been made its integral part, and the information entered into it is open, accessible and must be posted to the UISHC's website, with the exception of data deemed to be restricted in accordance with RF legislation.

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<sup>1</sup> This period starts on the date of state registration of the shared construction contract between a developer company and the first participant in the shared construction project.

A separate Article (23.4) regulates the interaction between the empowered body, the body responsible for registration of titles, the controlling bodies, the Public Legal Company ‘Fund for the Protection of Rights of Citizens – Participants in Shared Construction Projects’, authorized banks and developer companies through the information resources posted to the UISHC’s website, including by means granting these entities access to the user personal accounts which are serviced by a system operator in the established procedure, and also by means of electronic documents.

The bulk of amendments to the law on shared construction projects made in 2018, just as a year earlier, these are designed to strengthen the regulation of the activities of developer companies. The issue of economic legislation instability in that sphere continues to be a problem, one example being the reinstatement of the right to operate under several construction permits.

After the significant alterations introduced into prevailing legislation concerning the financing procedures in the framework of multi-unit residential building construction over the period 2017–2018, it can be expected that not only the market share taken up by biggest developer companies will continue to increase<sup>1</sup>, but also that the institutional rent will shift from those developer companies to authorized banks (who are, *de facto*, the principal beneficiaries of that process). The mechanism of that shift of the institutional rent to the banking sector has not yet fully evolved, and it is going to further transform alongside the ongoing changes in regulation, including the practical experience of applying the new requirements. In this connection, considering the general logic of these transformations, it can be said that the most significant changes will be taking place along the following lines:

- The placement of the participants’ funds on the accounts with authorized banks creates for the latter an increased volume of liabilities (and in contrast to other types of deposits, no interest is charged to the residuals on escrow accounts, and so the developer companies are deprived of a most attractive source of direct financing from participants in shared construction projects), while at the same time strengthening the position of authorized banks in the building construction market, and also potentially increasing property concentration (as an asset class) in the balance sheets of biggest banks;
- In their striving to minimize their risks associated with property value fluctuations, as well as a potential bankruptcy of developer companies, authorized banks will be increasing their penchant for ‘financially sustainable’ and ‘reliable’ developer companies. In this connection, it can be expected that some additional requirements

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<sup>1</sup> According to expert estimations, approximately 10 percent of developer companies failed to comply with the requirement to open a special account with an authorized bank; according to data available at [erzrf.ru](https://erzrf.ru), as of October 15, 2018 that requirement had not been met by 143 developer companies in the city of Moscow, Moscow Oblast, and St. Petersburg. URL: <https://erzrf.ru/news/uzhe-143-zastroyschikam-zapreshcheno-privlekat-sredstva-dolshchikov-po-ddu?search=percentD0percent95percentD1percent89percentD0percentB5>

to developer companies will be added by banks to the already existing criteria established by the law;

- The withdrawal from the market of those developer companies that will be unable, for a variety of reasons, to meet the new criteria and to deal with market redistribution in favor of those market players that have long-standing relations with authorized banks<sup>1</sup>. It can be expected in this connection that not only small developer companies will go bankrupt, but also that the activity in the merger and takeover market will intensify in favor of stronger players (including the participation in this process of the banking investment departments of authorized banks).

On the whole, the business stratification process in the multi-unit residential building construction market has dramatically intensified over recent years. This is the natural outcome of the concentration of business activity in the hands of big developer companies and big banks and their increasing institutional power, which has made it possible to move the existing institutional barriers from the level of municipalities (land allocation and land use permits, access to infrastructure) to that of ‘dividing lines’ between the businesses that have been gaining prominence in the building construction sector.

All these alterations in the legal field have been publicly explained as being caused by social factors and the strong need to increase the reliability and transparency of the financing system applied in the multi-unit residential building construction sector, especially in view of the spectacular failures to fulfill their obligations and bankruptcies of some major developer companies (SU-155, Urban Group, and some others). At the same time, such requirements are fraught with future risks for those banks and developer companies that have been left outside of the transformed system. The economic indices achieved in recent years will decline, and the market shares and profits lost by them will be redistributed in favor of the banks and developer companies in the ‘prime group’. The social and other risks faced by the clients of banks and businesses that are thus ‘falling behind’ may also significantly increase later on also in the other market segments.

It is also noteworthy that a special place in the ranking of those authorized banks that rely in their dealings with developer companies on the formal criteria set forth by the RF Government belongs to banking group DOM.RF (reorganized from *Russian Capital*), which until now could not boast of being ranked as one of Russia’s top banks by Russian rating agencies. The other topmost ratings among Russian banks are enjoyed by biggest systemic, predominantly state-owned banks (and first of all, Sberbank and VTB). However, in this connection some questions have been raised about rating

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<sup>1</sup> The governments of three regions (the cities of Moscow and St. Petersburg, and Leningrad Oblast) practically simultaneously took advantage of the new amendments to legislation on shared construction by submitting to *Rosreestr* the lists of developer companies that had been banned from using the funds of participants in shared construction projects. A total of 95 developer companies operating in the three regions with the highest housing construction volume indices were deprived of their right to register with *Rosreestr* their shared construction contracts.

agencies being affiliated with their ‘beneficiary’ banks, and also about their compliance with the international standards (some banks, which have a positive ranking inside Russian, were ranked negatively by international agencies).

It seems that the processes of market consolidation in the multi-unit residential building construction segment will be only gaining in intensity over the next few years (both as a result of bankruptcy of some developer companies and in response to the strengthening trend towards more mergers and takeovers across the building construction sector). It is still difficult to properly assess the consequences of market consolidation for the population, banks, building construction companies, and the shadow market due to the multi-vector trends that have been shaping the market, and also because this process is still undergoing its early phase (according to a variety of estimations, it may further evolve over the next 3–5 years with the direct participation of the state). At the same time, the concept of institutional rent and institutional constraints in a multi-level economy helps to organize a more comprehensive monitoring of this process, and thus to timely identify the risks associated with the ongoing large-scale consolidation and to properly structure the analysis of these processes in order to elaborate appropriate decisions for maintaining stability across the sector and to achieve its priority development targets (including the proclaimed targets for the volume of housing stock to be put into operation, and for its sufficiency and affordability for the population).

The main changes and effects associated with this process will be structured along the following main directions, each of which will need to be further monitored:

- Economic ones, associated with the potential for a faster growth of the housing construction volume sustained by support granted to the building construction sector’s leaders, potential reduction of costs due to economies of scale (including by means of typization, or even ‘commoditization’ of mass housing projects, which will be more convenient for banks to assess as large-scale housing portfolios). On the other hand, there are also factors associated with the risks of housing construction market transformations, obvious or hidden market monopolization, bankruptcy of small developer companies and the resulting increased burden on the labor market (this is especially painful for small towns and economically depressed regions, which are of little interest for big developer companies).
- Social ones, associated with the reduced risks of fraudulent dealings with citizens (project participants) as a result of channeling all the money through bank transfers and placing the funds in sustainable banks; and on the other hand, with higher risks for the clients of banks that operate outside of the system of authorized banks, and shrinkage of the shadow labor market in the building construction sector.
- Technological ones, associated with greater opportunities for big consolidated market players in the building construction sector to develop and implement innovative products (including the skills necessary for the development and implementation of generic housing projects suitable for entire micro-districts, and housing renovation programs in the form of ‘migration waves’).



- Financial ones, associated with the possible toughening of control of money transfers by banks and gradual withdrawal of individual savings from the shadow market turnover, and the resulting expansion of taxable base, as well as increasing sustainability of the budgetary system. The implementation, by banking institutions, of new instruments in their monitoring of the building construction sector (the methodology for estimating the sustainability of developer companies and the resulting ranking of developer companies, improvement of large-scale assessment techniques, etc.)<sup>1</sup>.

#### 5.8.4. The forecast for Moscow's housing market for 2019

While getting down to discussing the housing market forecast for the city of Moscow, let us look first at the results of the previous annual forecast, which was prepared during the period when the current political and economic situation was already evolving.

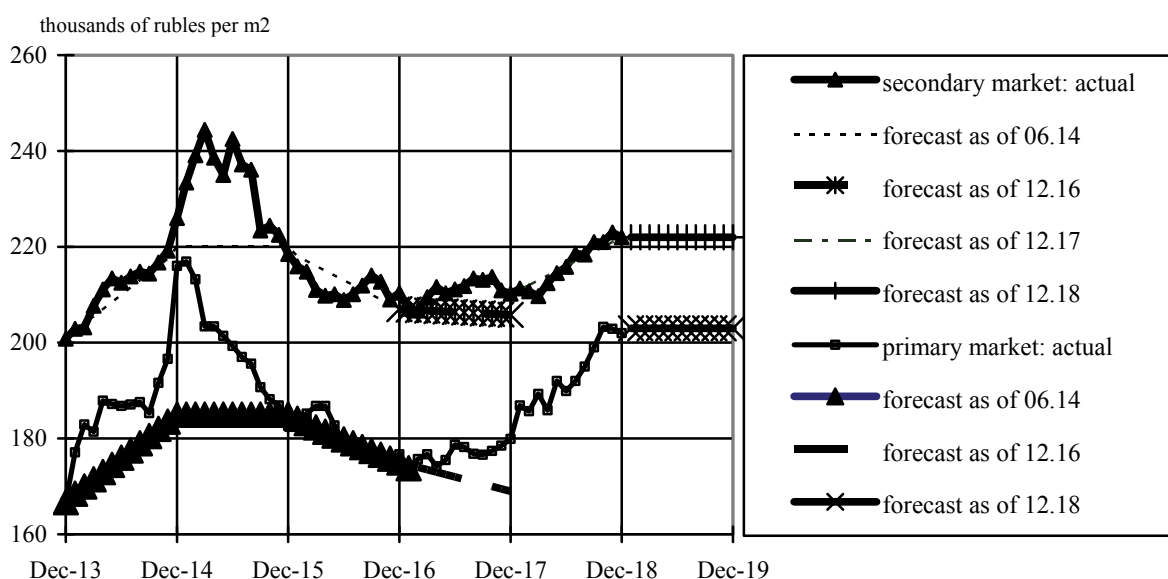
A retrospective verification of the predicted price index movement pattern in Moscow's housing market (plotted in June 2014) by setting it against the actual data revealed that, in December 2014 and early 2015, due to the macroeconomic shock and the surge of demand, housing prices in the secondary and primary markets rose 15–16 percent above their predicted values (*Fig. 34*). Over the period of December 2015 and the year 2016, the actual and plotted prices were practically identical.

For 2017, it was predicted that prices would decline by 2–3 percent in the secondary market, and by 3–5 percent in the primary market. The actual data demonstrated a plunge by only 0.8 percent in the secondary market and a rise by 1.8 percent in the primary market. The deviation from the predicted values was 1–2 percent in the secondary market, and 5–7 percent in the primary market. Thus, the forecast for 2017 calculated relative to price of oil at USD 40 per barrel (decline of prices by 3–5 percent) was not realized, as it turned out to be too pessimistic, because in H2 the prices became stable. There was a consensus among experts with regard to the subsequent downward trend displayed by housing prices, although the majority of Moscow experts predicted that prices would fall by 10–20 percent.

Given the actual year-end indices for 2017 and the onset of growth in the Russian economy alongside declining real disposable income, our forecast for 2018 was that prices in Moscow's housing market might fluctuate in the interval +/-1.5–2.0 percent, thus pointing to ongoing stagnation with an uncertain time horizon.

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<sup>1</sup> A.A. Blokhin, S.G. Sternik, G.V. Teleshev. Transformation of the institutional rent of developers of multi-family housing into institutional rent of credit organizations. In: *Property Relations in the Russian Federation*, No 1 (208), 2019, p. 6-17. (In Russian).



*Fig. 34.* A comparison of the movement patterns of actual and predicted prices in Moscow’s housing market in 2013–2017, and a forecast for 2019

*Source:* for data: Analytical Committee, Moscow Realtor Association; for forecasts: LLC Sterniks Consulting.

The graph in *Fig. 34* demonstrates that the actual movement pattern of prices over the course of 2018 was close to the forecast.

The situation in the housing market was shaped by the following main factors.

The agreement of the world’s major oil producers (OPEC+), also joined by Russia, resulted in rising oil prices since the year-end of 2017, which translated in RF federal budget surplus, and a relative stability of the key rate alongside declining interest rates on housing mortgage loans. Thus it became possible for the government to fulfill all its social obligations, which during the electoral cycle were augmented by some other measures, and so the downward movement of real disposable income was halted. As a result, housing prices became stabilized in those cities where they had been on decline, and they began to increase in those cities where they had been stagnating.

The start of the year 2019 saw a slight plunge of global oil prices, but it is unlikely that later on they will demonstrate any significant changes. According to the RF Ministry of Economic Development’s forecast, the rate of GDP growth will become slower. The situation with regard to real disposable income, which is now far from its baseline 2013 level, is uncertain.

The drivers behind the housing price growth observed over the course of last year (stabilization of real disposable income due to the electoral cycle effects coupled with rising oil prices, declining interest rates on housing mortgage loans) have disappeared. Government support of the housing market (i.e., subsidies to help repay housing mortgage loans) will yield only some moderate effects.

A more in-depth reform aiming towards heavier centralized market management, for which an institutional and normative-legal base is being actively created, in principle may translate into a more active market under the scenario envisaged in the framework of the national project *Housing and Urban Environment until 2024*, but this is not going to happen very soon. So, for the next 2–3 years, it appears feasible to predict that both the market and prices are going to stagnate.

However, in an event of a shock triggered by economic sanctions (which is a non-zero probability) – for example, if Russia’s systemic state-owned banks should be cut off from the US dollar system and so on, the ruble’s exchange rate may sharply fall even if price of oil remains high, followed by a surge of inflation and a return to the market’s partial dollarization; then, with a certain lag, the market will follow the movement pattern of inflation and the ruble’s depreciation. At the same time, as demonstrated by the history of Russia’s domestic housing market since the early 1990s, the by-segment movement pattern of inflation on that market, depending on a particular segment (secondary or primary), may strongly deviate from that of the CPI, both upwardly and downwardly.

