MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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1. INFLATION RISKS HAVE LED TO A SIZABLE INCREASE IN THE KEY RATE

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On September 15, the Bank of Russia raised the key rate by 100 bps to 13.0% per annum, which was the third consecutive meeting that ended with a tightening of monetary policy. Since July 21, the rate had been raised by 550 bps. In addition, a rather tight signal was given on the further trajectory of monetary policy and the published forecast on the rate allows its increase by another 100 bps in October.

In August, annual inflation (over the last 12 months) accelerated to 5.2% with the consumer price level rising by 0.28% in August, which seasonally adjusted amounts to 10.0% in annualized terms. In July-August, the price growth for non-food products and foodstuffs with the exception of fruit and vegetables accelerated, which was, among other things, a result of the ruble exchange rate pass-through that fell by almost 30% since the beginning of the year. According to our estimates, annual inflation will continue to accelerate and will amount to 6.5–7% year-on-year by the end of the year. A steady slowdown in annual inflation will commence only from mid-2024 and by the end of 2024 it will drop to 5–6%.

On September 15, 2023, the Board of Directors of the Bank of Russia at its regular monetary policy meeting decided to raise the key rate by 100 bps to 13.0% per annum. The rate was raised for the third consecutive meeting (including an unscheduled meeting held on August 15), and since July 21, its increase has reached 550 bps. Previously, the key rate was above 13% in the periods from December 2014 to April 2015 and from March to May 2022. The reasons for the tightening of monetary policy were the growth of inflationary pressure as a result of rapid expansion of domestic demand and weakening of the ruble. The decision was made in the context of increased uncertainty of analysts' expectations, some of whom assumed that the regulator would not change the rate while others expected its increase by 100–200 bps.[1]

The Bank of Russia accompanied its decision with a rather harsh signal about further dynamics of the key rate, noting that at the next meetings it will assess the expediency of its increase, while the return to the inflation targeting will require maintaining tight monetary policy. The CBR confirmed its intentions in its updated forecast (according to the plan, the last meeting was not a reference one and did not imply the publication of the forecast), from which it follows that as a base scenario the Bank of Russia considers keeping the key rate unchanged until the end of the year or raising it by another 100 bps at the October meeting. For 2024, the key rate forecast was raised by 300 bps (to 11.5–12.5%) compared to July meeting, while the average inflation forecast for 2024 was raised by only 0.2–0.5 bps (to 5.0–5.6%), which looks quite optimistic and implies rapid

1 URL: https://www.interfax.ru/business/920668

stabilization of monthly seasonally adjusted inflation near the target as early as early 2024. We estimate that price pressures in Q3 went up by around 5 p.p. YoY in terms of quarterly seasonally adjusted annualized inflation (SAAR) in Q2 2023, which is commensurate with the increase in the key rate over this period. Thus, given the expected slowdown in inflation in Q4 2023, the current level of the key rate is sufficient to return inflation to target over the medium term. In case inflationary pressures continue to build up in the second half of September – early October, the regulator may raise the rate by another 100 bps at the October meeting, which would correspond to the upper boundary of the 2023 key rate projected range.

The Bank of Russia retained its expectations for GDP dynamics in 2023 and lowered the upper limit of the 2024 growth range by 1 p.p. (0.5–1.5%) due to the worsening of the forecast for the dynamics of household consumption, fixed capital accumulation and exports, which is explained by the tightening of monetary conditions and the slowdown in the growth rate of lending to the economy in 2024 by 2.0 p.p. (to 7.0–12.0%). It is noteworthy that the Bank of Russia expects a decrease in household consumption in 2024 by 0.5–1.5% (in July the positive dynamics of this indicator was forecasted at 0.0–2.0%). Thus, the Bank of Russia projects a slowdown in economic growth owing to the cooling of domestic demand, affecting credit activity, among other things, by raising the key rate.

The inflation forecast for the end of 2023 was raised by the Bank of Russia to 6.0–7.0% on the back of the increased price pressure caused by the rise in domestic consumer demand, the effect of exchange rate pass-through and the growth of inflation expectations.[1] The upper boundary of the CBR's forecast range of annual inflation assumes seasonally adjusted average price growth in the remaining 4 months of 2023 at the level of 9.5% month-on-month, which assuming the key rate remains unchanged gives an estimate of the lower boundary of the real interest rate at the level of 3.5%. Thus, even if inflationary pressures remain at current levels until the end of the year, the real interest rate is above the neutral level, which, according to the regulator's estimates, is 1.5–2.5%.[2] Implementation of the tight monetary policy allows the Bank of Russia to forecast a slowdown in annual inflation to 4% by the end of 2024.

At the same time, we can expect a decrease in price pressure by the end of the year due to the measures taken by the regulator to cool the economy even despite the acceleration of inflation over the previous 12 months, which amounted to 5.2% at the end of August 2023 (*Fig. 1*). The growth of annual inflation, which commenced in May 2023, is associated with the withdrawal from the calculation base of record low values of monthly inflation in May-June 2022, as well as accelerated growth of prices for non-food and food products in July-August 2023. Despite this, in August, a significant part (about half) of the contribution to annual inflation was still made by services, which were actively growing in price from mid-2022 to mid-2023 (*Fig. 1*).

In August, the level of consumer prices increased by 0.28% MoM and the greatest contribution to the consumer basket price rise (the same as in July) was made by the growth of prices on food products without fruit and vegetables (0.23 p.p.) and non-food products (0.40 p.p.) (*Fig. 2*). In addition, for four months in a row, a significant contribution to the growth of consumer prices (0.35 p.p.

1 URL: https://www.cbr.ru/press/keypr/
2 URL: https://www.cbr.ru/about_br/publ/ondkp/on_2024_2026/

1. Inflation risks have led to a sizable increase in the key rate

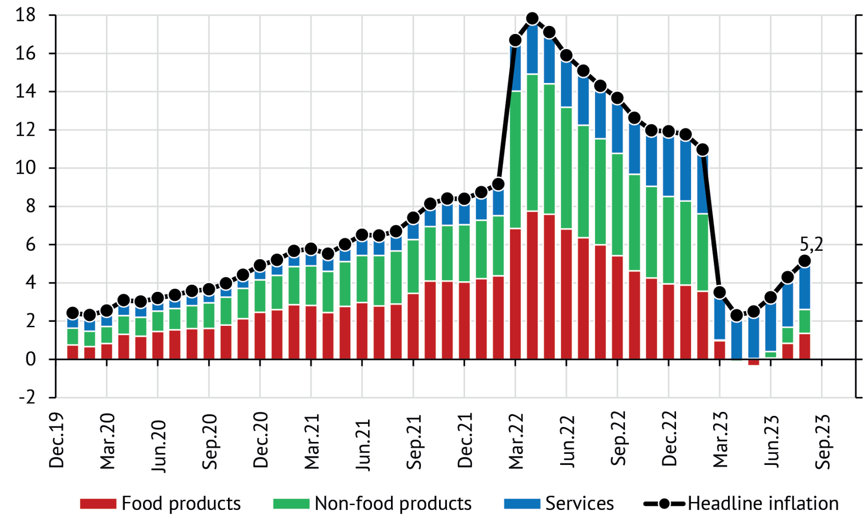

Fig. 1. Component contribution to the annual inflation, p.p.

Source: Rosstat.

out of 1.6% growth in consumer prices, i.e. about 22%) has been made by the rise in the price of gasoline and diesel fuel (from May to August 2023, the growth in prices for motor fuel amounted to 7.6%, which is higher than the total growth in prices of this category from April 2021 to April 2023). The reason for the increase in fuel prices was the weakening of the ruble, as well as the adjustment of the damping mechanism implemented at the end of July, according to which from September 2023 there was a 50% reduction in payments to producers of petroleum products when supplying motor fuel to the domestic market.

In August, the decline in prices for fruit and vegetables, which discontinued in July, ran on that reduced the monthly inflation by 0.25 p.p., and also, for the first time since May 2022, a decline in prices for services was recorded, which reduced the August growth rate of consumer prices by 0.09 p.p. Decrease in

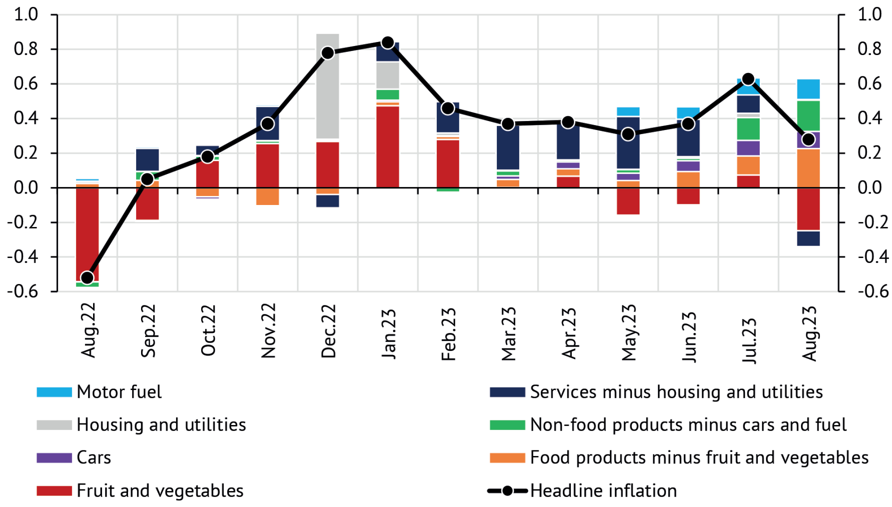

Fig. 2. Certain components contribution to monthly inflation, p.p.

Sources: Rosstat, own calculations.

prices for services was almost entirely due to the drop in the price of passenger transportation services by 5%: prices for air travel and rail travel went down.

Seasonally adjusted,[1] we estimate August consumer inflation at 0.8% MoM or 10.0% YoY[2] (SAAR), which is close to the July values (*Fig. 3*). Among the inflation components, we note an acceleration of price growth (above the target level of 4%) for food products in July-August, as well as non-food products, which have been rising in price at rates above 4% since May 2023. The reasons for this are the carryover effect (in 8 months of 2023, the index of nominal effective ruble exchange rate indicates a 28.6% weakening of the national currency) and increased consumer demand for non-food products, which is indicated by the active recovery growth of non-food retail turnover: 13.8% YoY in Q2 2023 and 17.2% YoY in July 2023.[3]

Dynamics of prices for services year-on-year in July-August remained at the level below 4% (from July 2022 to June 2023 this indicator was significantly higher than the Central Bank of Russia target). While in July this was due to the postponement of indexation of housing and utilities services to December 2022, the August slowdown in the growth rate of prices for services indicates the completion of the period of recovery of the services sector from the effects of the coronavirus pandemic.

In August, the three-month moving average of YoY inflation (3 mma SAAR) exceeded 8% (the target level of 4% was exceeded back in June). The ruble depreciated by 13.6% against the currencies of major trading partners in the summer months, which will increase the annual growth rate of consumer prices by 0.7 to 1.0 p.p. until the end of 2023, while the 3-month moving average (*Fig. 4*) indicates a steady weakening of the national currency since December last year.

In the second half of August, the situation with the ruble exchange rate stabilized. Nevertheless, the exchange rate pass-through will remain a pro-inflationary factor in the coming months.

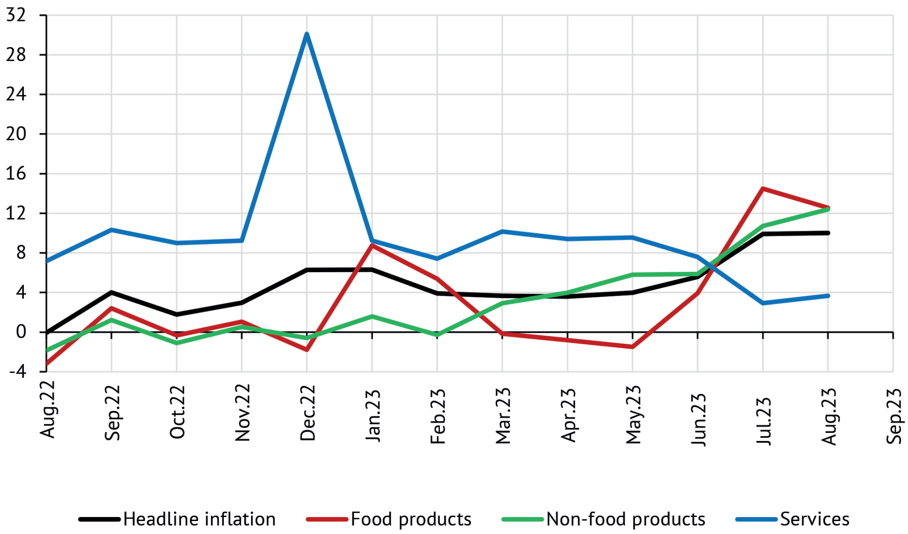

Fig. 3. Dynamics of headline inflation and its main components, % SAAR

Sources: Rosstat, own calculations.

1 Seasonal adjustment for inflation was performed in the R program using the seasonal package.
2 Monthly inflation elevated to the degree of 12.
3 URL: https://rosstat.gov.ru/storage/mediabank/ind_07-2023.xlsx

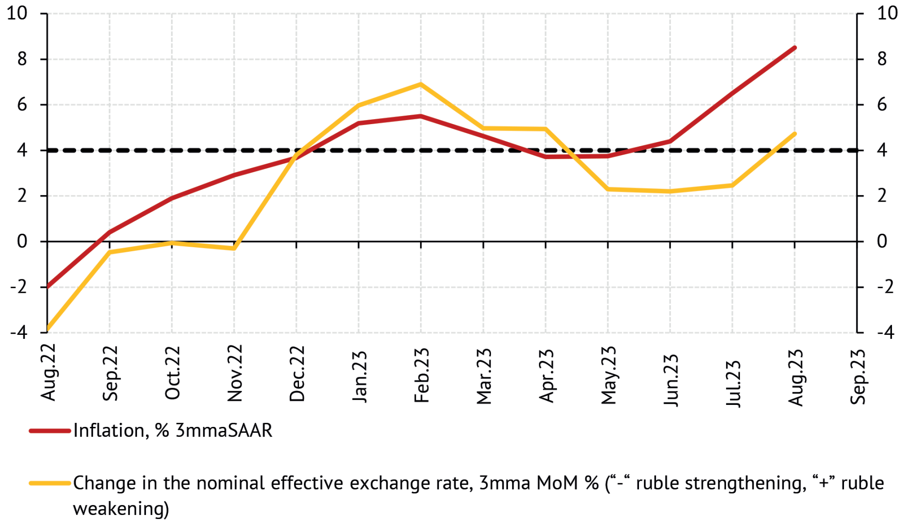

Рис. 4. Inflation and the ruble/dollar exchange rate, MoM %

Sources: Rosstat, RF CB.

According to Rosstat, from September 1 through September 11, consumer prices rose by 0.13%,[1] which is significantly higher than the trajectory of price growth over the same period last year. From the beginning of the year to September 11, prices rose by 3.9%, while the Bank of Russia estimates that annual inflation accelerated to 5.5%.[2] Most likely, the annual inflation will amount to 5.5–5.6% YoY by the end of September, and its gradual acceleration will continue in Q4. According to our model forecast[3] by December 2023, YoY inflation will amount to 6.5–7%, reach its peak at the end of Q2 2024 (7.5%), and slow down to 5–6% by the end of 2024. Quarterly seasonally adjusted inflation will start to slow down as early as Q4 2023. The main reasons for the slowdown will be the closing of the positive output gap due to the cooling of consumer and investment demand as a result of the tight monetary policy, as well as the gradual exhaustion of the effect of exchange rate pass-through. The difference from the Bank of Russia forecast is due to the greater inertia of the price growth rate in our forecast, which assumes stabilization of seasonally adjusted inflation at the level of 4% by the end of 2024, while the Central Bank of Russia forecasts a slowdown of the current price growth rate to the target rate as early as in early 2024.

1 URL: https://rosstat.gov.ru/storage/mediabank/144_13-09-2023.html
2 URL: https://www.cbr.ru/press/keypr/
3 For more details about the model see: *Perevyshin Yu.N.* Short-term forecasting of inflation in the Russian economy // Economic Policy. 2022. Vol. 17. No. 5. P. 1–18.

2. REGIONAL BUDGETS IN H1 2023

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As time goes, the impact of partial carryforward of tax payments to the next month due to changing the mode of taxpayers to using a single tax account from January 1, 2023, began to weaken, while the dynamics of main tax revenues of regional and local budgets returned to normal, slightly exceeding the inflation rate. As before, the volume of the regional public debt, as well as regions' debt burden, remain at a safe level.

Revenues

As per results of H1 2023, the total amount of revenues of the consolidated budgets of the RF regions, excluding data on the Donetsk People's Republic, Lugansk People's Republic, Zaporozhye and Kherson regions[1] amounted to Rb10.1 trillion, which is 7.3% higher than the value of this indicator for the same period of 2022 and slightly higher than the inflation rate.[2] However, slight slowdown in the growth rate of budget revenues in Q2 2023 should be noted, which evidenced 5.2% against 9.7% in Q1. This resulted from the change in the dynamics of gratuitous receipts from other budgets (+33.2% in Q1 2023 and -3.2% in Q2), which is explained by the advanced provision of grants to equalize fiscal capacity of RF regions in January 2023, while in the remaining months of H1 2023 the schedule of the said grants on the whole coincided with the schedule for the same period of 2022.

Among other intergovernmental fiscal transfers, it is worth noting the growth of subsidies (+22.1%), a slight increase in other intergovernmental fiscal transfers (+8.0%) and a decrease in subventions (-28.0%). The abnormal growth of grants for the fiscal balance (1205.3%!) in H1 2023 is explained by provision of additional funds to the budgets of Belgorod, Bryansk and Kursk regions vs low allocation of these transfers in H1 2022.[3]

The dynamics of tax revenues is still affected by the transition in 2023 to the payment of taxes through the unified tax account (UTA), resulting in a delay in timing of revenue enrollment in the budget by several days and some incomparability with revenues for the same period of the previous year.

On the whole, the effect of this factor results in some underestimation of growth rates of tax revenues of regional and local budgets. However, this

1 Hereinafter, unless otherwise stated, in order to ensure comparability of the regional budget statistics indicators, public and municipal debt, as well as their growth rates, the data are presented lacking information on the Donetsk People's Republic, Lugansk People's Republic, Zaporozhye and Kherson regions.

2 According to Rosstat, consumer price index evidenced 103.25% in June 2023 against June 2022 and 105.55% in H1 2023 against H1 2022.

3 In H1 2023, regions received 4.6% of the annual subventions value for budget balance.

influence drops months after month. Taking into account this fact, it should be noted that growth rate of tax and non-tax revenues of the regional consolidated budgets in H1 2023 amounted to 6.6%.

On the whole, main taxes did not demonstrate any exceptional dynamics and grew at rates close to the growth rate of total tax and non-tax revenues (6.6%): corporate profit tax – 7.8%, personal income tax – 4.2%, excise taxes – 5.6%, taxes on total income – 6.4%, property taxes – 15.7%. Non-tax revenues dropped by 4.2%.

Thus, even considering those factors negatively affecting the receipt of own tax and non-tax revenues of regional and local budgets, in H1 2023 their growth rates did not lag behind inflation, indicating maintenance of budgets' stability at the subnational level.

According to H1 2023, positive growth rates of consolidated budget revenues were observed in 70 regions of the Russian Federation with the highest ones in Sevastopol (54.1%), Jewish Autonomous Region (36.5%), Smolensk region (31.3%), Krasnodar Krai (28.4%) and Chuvash Republic (26.4%). In all regions under consideration transfers from federal budget as well as own tax and non-tax revenues are the main growth drivers.

Four regions of the 15 that experienced a drop in budget revenues, faced a drop of more than 10%: the Nenets Autonomous Okrug (-35.1%), the Republic of Khakassia (-27.2%), Kemerovo region, Kuzbass (-21.7%), and St. Petersburg (-13.2%), where the main reason for the reduction was the high base in H1 2022.[1]

The main source of revenues in the new RF regions in H1 2023 were grants to support measures to ensure balanced budgets (55.2%), other subventions not related to the equalization of fiscal capacity (30.1%), PIT (6.5%), corporate income tax (2.2%), as well as non-tax revenues (2.1%).

Expenses

As per H1 2023, expenses of the regional consolidated budgets amounted to Rb9.3 trillion, increasing by 13.2% against H1 2022, being higher that the inflation rate as well as the growth rate of budget revenues. However, this growth was lower than the respective figure for Q1 (20.1%), which was the result of the lower growth rate of expenditures in Q2 2023 (8.4%).

Growth leaders were expenditures on national security and law enforcement (53.4%), national affairs (29.2%), housing and communal services (25.1%), road facilities (20.2%), social security (18.0%), culture and cinematography (16.8%), general education (15.4%), physical education and sports (13.8%). Following the trend of 2022, expenditures on healthcare (-3.4%) and servicing of public and municipal debt (-31.6%) declined. First, this is due to the winding down of many anti-Covid measures, second, to the reduction in the volume of commercial debt of the regions due to its replacement by budget loans.

In H1 2023, expenditures of the consolidated budgets increased in 80 regions of the Russian Federation, while in 79 growth exceeded inflation for the same period and in 5 regions expenditures grew more than 30%: in Sevastopol (62.2%, the main growth was in national defense, housing and utilities, social policy, health care and culture), Novgorod region (37.0%, national economy, education), Republic of Adygea (34.6%, housing and utilities, education, culture, social

1 Growth rates of the consolidated budget revenues in the RF regions under consideration amounted to 41.4% in Nenets Autonomous Okrug, 70.8% in the Republic of Khakassia, 106.2% in Kemerovo region, Kuzbass, 71.8% in St. Petersburg in H1 2022 against H1 2021.

policy), Jewish Autonomous Region (31.7%, national economy, housing and utilities), Kursk region (30.1%, national defense, transport and road economy).

Budget expenditures in the Tyumen region (-8.0%), Nenets Autonomous Okrug (-2.7%), Murmansk region (-2.1%), Karachay-Cherkess Republic (-1.0%) and the Amur region (-0.5%) slightly decreased. In the Tyumen region, this reduction was kind of a correction rebound after a 58.8% growth in H1 2022. In the other regions, the reduction in expenditures was insignificant and does not pose a threat to the fulfillment of current expenditure commitments.

The structure of expenditures in the new RF regions in H1 2023 differed from the structure of other regions by a smaller share of expenditures on the national economy (6.9% vs 19.3%), housing and public utilities (2.0% vs 9.6%) and education (15.7% vs 26.3%), but a larger share of expenditures on national security and law enforcement (6.1% vs 1.3%), as well as social security (50.4% vs 20.9%). At the same time, it should be noted that these differences tended to decrease in Q2 of the current year as compared to Q1 2023.

Regional budget balance and public debt

The consolidated regional budget surplus was observed in 59 regions of the Russian Federation, and its total volume amounted to Rb765.5 bn, or 7.7% of the total revenues of the regional consolidated budgets, excluding subventions. The Zaporozhye region also completed H1 with a surplus, while the rest of the new regions executed their budgets with a deficit.

Despite high figures of balanced regional budgets at the end of H1 2023, the total volume of public debt of the RF regions has grown since the beginning of the year by Rb238.1 bn (+8.5%) and amounted to Rb3.03 trillion, having increased by 17.8% over 12 months.

A noticeable growth in the volume of public debt at a high level of budget surplus is explained both by the need to provide treasury credits to cover cash gaps incurred by the regions due to changes in the of the abovementioned tax payments and by provision of infrastructure budget credits that do not depend on the size of the budget balance.

The debt burden of the regions,[1] although it increased from 19.3% as of July 1, 2022 to 21.9% as of July 1, 2023, continues to remain at a safe level below the figure recorded in the period 2014–2021 (*Fig. 1*).

Number of regions having debt burden above 50% increased from 23 to 26 in 12 months, but still does not pose a threat to the stability of regional budgets (*Fig. 2*).

As of July 1, 2023, only the Udmurt Republic demonstrated high level of public debt exceeding 100% of tax and non-tax revenues of the region (110.2%).

Overall, in the 12 months from the end of June 2022 to the end of June 2023, public debt increased in 67 RF regions and debt burden grew in 51 regions.

The policy of active substitution of expensive in servicing regional commercial public debt (loans of credit organizations and government securities) with budget loans conducted by the federal center in 2022–2023, resulted in reduction of the share of loans of credit organizations in the total volume of regional public debt to a symbolic 1.9%, and of government securities to 20.7%. In turn, the share of budget credits increased from 66.0% as of July 1, 2022 to a record 76.3% as of July 1, 2023 (*Fig. 3*).

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

2. Regional budgets in H1 2023

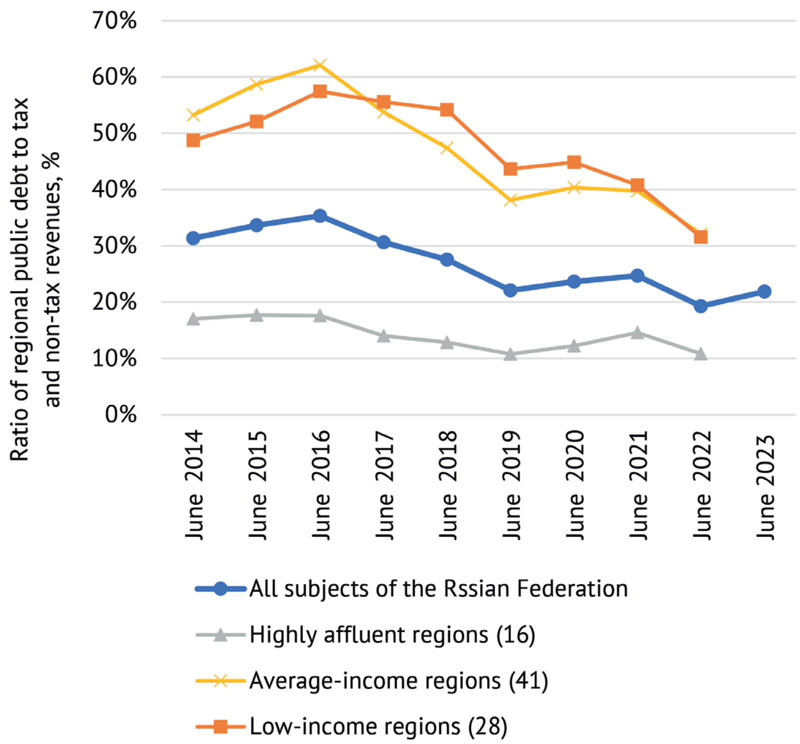

Fig. 1. Debt burden of RF regions as of July 1, %

Source: own calculations based on RF Ministry of Finance and Federal Treasury data.

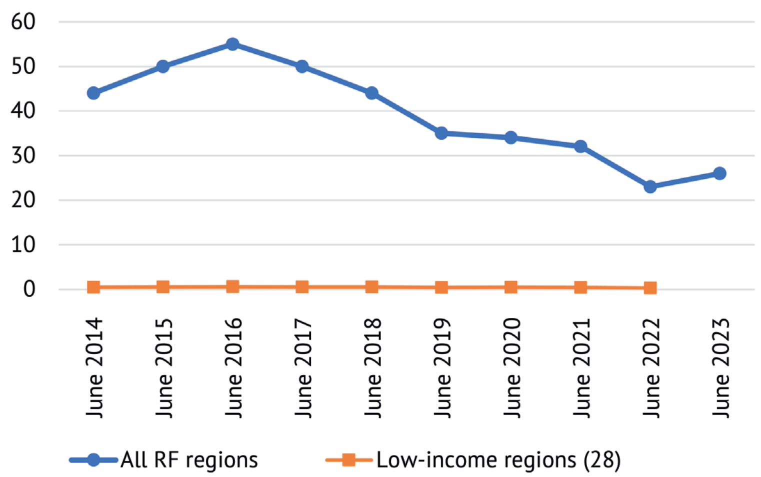

Fig. 2. Number of RF regions demonstrating debt burden more than 50% as of July 1

Source: own calculations based on RF Ministry of Finance and Federal Treasury data.

Thus, growth of regional public debt in H1 2023 was more technical and was not related to the need to compensate for the imbalance of regional budgets. In H2 2023, the trend towards growing regional public debt is expected to develop due to the continued provision of infrastructure budget credits.

In turn, the impact of the consequences of the taxpayers' transition to using a single tax account will continue reducing, which will result in some formal (unrelated to changes in the level of economic activity) increase in the growth

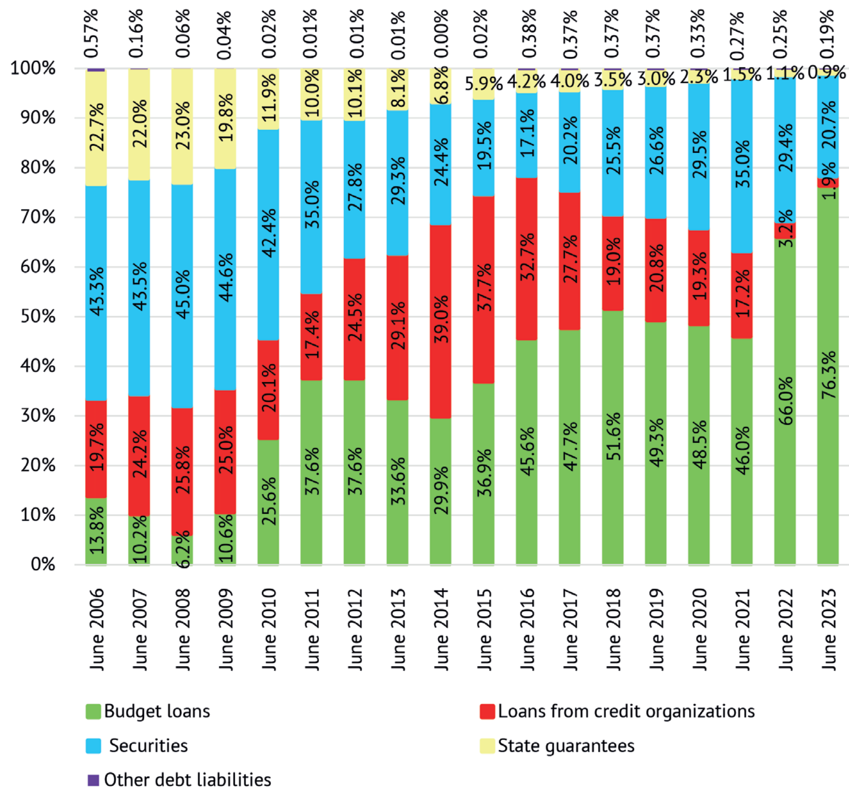

Fig. 3. Structure of public debt of the RF regions as of July 1, % of total

Source: own calculations according to RF Ministry of Finance.

rate of tax revenues, as well as a reduction in the volume of treasury credits, which will contribute to the reduction of both the growth rate of total public debt of the regions and their debt burden.

3. RETAIL LENDING IN JANUARY-AUGUST 2023

Sergey Zubov, Candidate of Economic Sciences, Associate Professor, Senior Researcher, the Structural Studies Department, IAES, RANEPA

A relative stabilization of the financial and economic situation and growth in households' disposable cash incomes have driven up retail lending volumes on the market. The shares of bad loans and overdue loans have remained consistently low, however, the quality of the overall loan portfolio still causes the regulator's concern. As a consequence, the Central Bank has to take measures aimed at cooling the consumer lending market to prevent a further risk buildup.

As of August 1, 2023, the overall volume of bank retail loans amounted to Rb30.5 trillion. In January throughout July 2023, the lending volume increased by Rb3.1 trillion or 11.3%, a considerable increase as compared with the indicator of the relative period of 2022 (Rb757.0 bn or 3.0%). This means that an increase in retail lending volumes is surpassing overall bank assets growth which was equal to 8.5% in January-July.

Unlike the previous year, when growth in retail overall loan portfolio was driven primarily by mortgage loans,[1] this year all retail lending segments saw sustainable growth: consumer lending increased by 9.2%, while mortgage lending and auto loans, by 12.7% and 18.2%, respectively.

It is noteworthy that the ruble segment accounts completely for the overall volume of retail loan debt (99.9%). The debt in foreign currency is equal to the mere Rb36.5 bn; its growth is driven by appreciation of the exchange rate of the foreign currency; specifically, there were actually no transactions in the foreign currency segment in January-July 2023 and overdue debts (51,7%) accounted for a larger portion of the portfolio.

Unlike the relevant period of the previous year which was characterized by a high volatility of market interest rates, this year interest rates have remained at a stable level. The overall dynamics of interest rates on loans was sustainable and tended to decline. The market of short-term loans saw some fluctuations driven by seasonal factors.

From the beginning of the year, overdue debt growth amounted to 6.1% and its overall volume was equal to Rb1,222.4 bn (*Fig. 2*). The share of overdue debt in the loan portfolio did not virtually change and was equal to 4.0% as of August 1, 2023 (4.2% as of the beginning of the year). Overall, the Central Bank's measures aimed at reducing the share of borrowers with a high level of the debt burden – these measures came into force in the beginning of the year – stabilized the level of overdue debt in the segment of unsecured consumer

1 Mortgage lending.

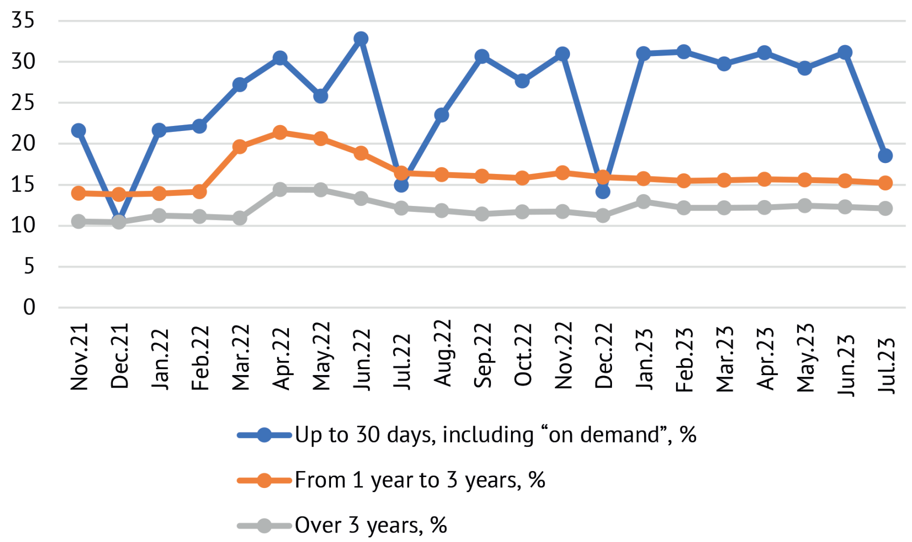

Fig. 1. Weighted average interest rates on loans extended by credit institutions to individuals in rubles in 2022–2023, %

Source: The Central Bank of Russia, URL: https://www.cbr.ru/vfs/statistics/pdko/int_rat/loans_ind.xlsx.

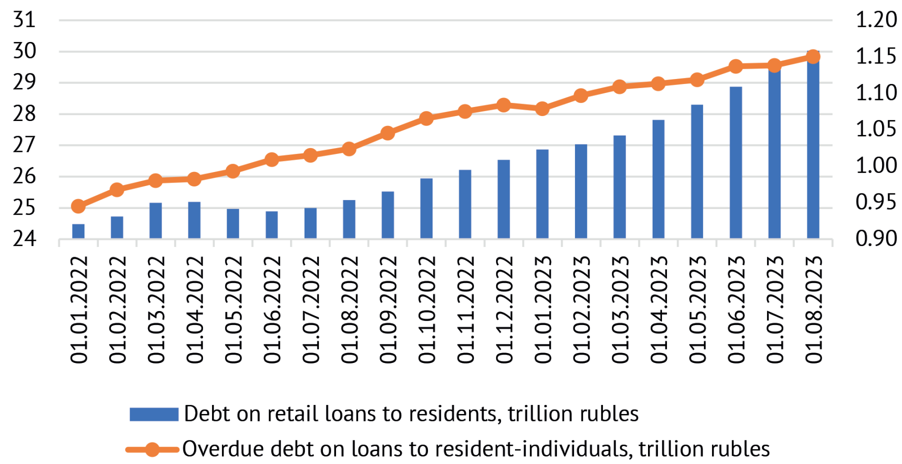

Fig. 2. The overall debt volume and overdue debt on loans extended to resident individuals in 2022–2023, trillion rubles.

Source: The Central Bank of Russia, URL: https://www.cbr.ru/vfs/statistics/BankSector/Mortgage/02_05_Debt_ind.xlsx

lending and reduced the share of borrowers with the debt burden indicator[1] of over 80%.

Lending growth drivers are the following two factors: large-scale government support of mortgage lending and households' higher consumer activity amid growth in households' real disposable incomes. At the same time, it is noteworthy that growth in lending volumes is driven by appreciation of prices for real-estate and goods purchased on credit (cars, household appliances and other).

1 DBI (debt burden indicator) is calculated as a ratio of the borrower's monthly average payments on all loans (including a requested loan) to average monthly income in accordance with the following formula: DBI = monthly average payment on all loans/average monthly income.

3. Retail Lending in January-August 2023

In the absence of new external sociopolitical shocks, there were favorable conditions for the realization of the last year's pent-up demand, while a considerable depreciation of the ruble's exchange rate and associated inflationary developments stimulated the population to take loans on current terms until the rise in the RF Central Bank's key rate and a subsequent increase in banks' interest rates on loans.

The mitigation of banks' scoring models has become an additional factor contributing to growth in households' demand for bank loans. Banks increase ultimate credit limits for their trusted customers and this leads to growth in lending volumes to households. It is noteworthy that despite the tightening of the regulation this growth does not currently entail any higher risks. Further, the borrowers with a low debt burden level have become more active on the market, while earlier they used to have a more cautious approach to loans. In this situation, such customers have to take loans for making large purchases, particularly, amid advanced growth in prices as compared with incomes.

A pickup in the household debt load and banks' increased risk appetite make the RF Central Bank take measures aimed at cooling the retail lending market. To prevent potential risks, the RF Central Bank uses macroprudential limits and capital surcharges aimed at limiting lending to high-risk borrowers. Such measures help control growth in consumer lending and prevent risks to financial stability. From September 1, the RF Central Bank has increased surcharges to risk ratios:

- On unsecured retail loans to borrowers with the DBI of over 50% regardless of the full value;
- On unsecured retail loans which full value is equal to 25% or more regardless of the borrower's DBI;
- On unsecured retail loans to borrowers without DBI.

These measures are primarily aimed at accumulating additional capital in case of losses, increasing sustainability of banks and reducing the risk of a default on loans. The new measures will concern to a large extent credit cards because the level of maintenance costs on them is higher than that of cash loans. According to the RF Central Bank's estimates, about 82% of all issued credit cards and 66% of all extended cash loans are subject to new requirements.[1]

Apart from surcharges for cooling unsecured lending, the RF Central Bank makes use of direct quantitative restrictions, that is, macroprudential limits (MPL). From Q4, new ratios on unsecured loans will become effective; as per the RF Central Bank's decision they are meant to produce a restraining effect on banks and microfinance institutions (MFI) when making loans to borrowers with a high debt load. In particular, for banks (except for banks with a base license) the limit for borrowers with DBI of over 80% will decrease from the current 20% to 5% of the overall volume of lending, while for borrowers with DBI of 50% to 80%, whom banks extend at present unsecured loans without limitations, the limit of 30% will be set.

Also, it is worth mentioning among the restrictions a prohibitive surcharge (effective from December 2022) to a risk ratio on loans for buying housing under construction with an initial contribution of up to 10%. From May 1, 2023 the regulator has tightened capital requirements for most mortgage loans for housing under construction with an initial contribution of less than 30%.

1 URL: https://www.cbr.ru/press/pr/?file=638231361293730699FINSTAB.htm

Further, an increased reservation of loans issued from March 15, 2023 under the developer's marketing programs at a near-zero rate was introduced.

The introduction of the new principles of credit holidays will become another mechanism having a deterrent effect on explosive growth in consumer lending. From January 1, 2024, the mechanism of credit holidays will become a permanent one. According to the new approach, when a grace period is requested, it does not matter when a loan agreement was concluded. Earlier, credit holidays were temporary and introduced on the back of the pandemic or sanctions; they were extended only onto loans issued within a certain period. However, at present any bank customer whose income fell more than 30% as comparted with the previous year and was affected by an emergency situation may take credit holidays for the period of six months on any kind of a loan.

Credit holidays are available only in case if the full sum of a loan does not exceed certain limits. For example, for auto loans the limit is equal to Rb1.6 mn, for credit cards – Rb150,000 and for other types of loans – Rb450,000. To receive a grace period, the borrower has to submit to the creditor the relevant documents certifying the title to credit holidays. If the borrower's income has decreased, this can be certified by a sick leave certificate, a certificate of income from the tax authority or a certificate of registration with the state employment agency. If the borrower was affected by an emergency situation, a certificate on introduction of the emergency situation will be needed from the local authorities.

Despite a sharp increase in key rates and subsequent growth in market interest rates, August set a record as regards the volume of issued loans; this can be largely explained by borrowers' intentions to conclude a loan agreement at previous interest rates and banks' striving to maximize lending before the tightening of regulation in autumn. In the forthcoming months, high growth rates of retail lending will be changed by moderate ones, but one should not expect a considerable decline in growth rates, either, because retail lending is a highly profitable bank asset and banks will strive not to decrease supply; the RF Central Bank will resort to the easing of requirements if availability of loans and the level of consumer demand decline.

4. TRENDS OF INTERNATIONAL MIGRATION IN RUSSIA IN H1 2023

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Indicators of registered net migration of the Russian population in long-term international migration in H1 2023 to the same period of 2022 decreased by around 20%, or 20,000 people, relative to the values characteristic of the years preceding the COVID-19 pandemic. From almost all major migration partners, the number of arrivals to Russia declined. Only the inflow of long-term migrants from Tajikistan increased noticeably but could not compensate for the overall drop. The number of participants in the program of resettlement of compatriots decreased by 1.7 times, the number of temporary residence permits initially issued went down by 2.2 times and 9% fewer residence permits were issued.

The statistics on permanent (long-term) international migration published by Rosstat take into account permanent migrant registrations (and withdrawals from them), as well as temporary migrant registrations for a period of 9 months or more. These data do not include immigrants with registrations in Russia for periods of less than 9 months as well as emigrants among permanent residents of Russia who have not withdrawn from permanent registration upon departure.

The number of registered arrivals in long-term international migration in H1 2023 amounted to 282,000, having significantly decreased compared to H1 2022 when 333,000 arrivals were registered. At the same time, in H1 2023 against the same period of 2022, the number of registered arrivals from most CIS countries decreased and from Kyrgyzstan remained practically unchanged (*Table 1*). Only Tajikistan and Turkmenistan showed a slight increase in arrivals to Russia in international migration (88,000 arrivals from Tajikistan in H1 2023 against 84,000 in the same period last year and 4.5 and 3.7 thousand respectively from Turkmenistan).

In H1 2023, 202,500 departures from Russia in international long-term migration were recorded but it is impossible to compare them with the figures of 2022. In H2 2021, the Executive Order of the President of the Russian Federation[1] was in force, extending the terms of registration of foreign citizens in Russia. In this regard, the automatic registration of such departures occurred already in 2022, thus the number of departures turned out to be overestimated and the migration growth in H1 2022 was underestimated (*Table 1*).

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1 Executive Order of the President of the Russian Federation of 15.06.2020 No. 392 “On Amendments to Executive Order of the President of the Russian Federation of April 18, 2020 No. 274 “On temporary measures to regulate the legal status of foreign citizens and stateless persons in the Russian Federation in connection with the threat of further spread of a new coronavirus infection (COVID-19)”.

2022 figures. In H2 2021, the Executive Order of the President of the Russian Federation extending the terms of registration in Russia of foreign citizens was in force. In this regard, the automatic registration of such departures took place already in 2022, thus the number of departures turned out to be overestimated, and the net migration in H1 2022 was underestimated (*Table 1*).

Table 1

Indicators of long-term international migration in Russia, first six months of 2023 and 2022, total and by individual countries, people

	Arrivals in H1		Departures in H1		Net migration in H1	
	2023	2022	2023	2022*	2023	2022*
Total,	**281 782**	**332 881**	**202 500**	**419 102**	**79 282**	**- 86 221**
including:						
Azerbaijan	12 620	17 010	10 504	23 089	2 116	-6 079
Armenia	26 177	31 451	20 023	49 023	6 154	-17 572
Belorussia	6 275	9 973	6 009	12 089	266	-2 116
Kazakhstan	23 680	31 026	15 444	40 767	8 236	-9 741
Kirgizia	28 690	28 424	20 473	43 626	8 217	-15 202
Moldova	11 176	12 264	6 686	13 199	4 490	-935
Tajikistan	88 089	84 107	40 303	58 425	47 786	25 682
Turkmenistan	4 461	3 714	2 667	10 375	1 794	-6 661
Uzbekistan	20 961	25 598	18 806	38 619	2 155	-13 021
Ukraine	29 207	59 772	37 233	79644	-8 026	-19 872

* The figures for 2022 are distorted by the postponement of the expiration dates of a significant part of foreign national registrations (and, consequently, their departures) from 2021 to 2022.

Source: Rosstat. Socio-economic situation in Russia. January-July 2023. IV. Demography. Indices 0f international migration. URL: https://rosstat.gov.ru/storage/mediabank/osn-07-2023.pdf.

Besides, the indicators of registered net migration of the Russian population in long-term international migration in 2023 are not comparable with 2022. The registered growth of the Russian population in long-term migration exchange in H1 2023 amounted to 79,000 people (*Table 1*). In the last years prior to the COVID-19 pandemic, the registered net migration for the same period averaged around 100,000 people. Thus, net migration in H1 2023 has decreased relative to recent years with comparable statistics. Having said that, Russia's migration exchange with the CIS countries, except for Ukraine, is still growing. The loss in migration exchange with Ukraine can be explained, among other things, by the automatic attribution of those migrants whose temporary registrations were massively registered last year and expired in the reporting period of 2023 to those departed. At the same time, the number of participants in the program of resettlement of compatriots, who in recent years accounted for a significant part of the net migration of Russia's permanent population, decreased. After 51,800 program participants in H1 2019, their number fell in the first half of 2020 due to the COVID-19 pandemic to 29,400[1] and partially recovered to 34,900 in the same period of 2021. However, the recovery in the number of resettlement program participants stopped and their number began to decline again, amounting to 32,600[2] in H1 2022 and 19,300 in the same period of 2023. Also in H1 2023 compared to the same period of 2022, there was a significant

1 Summary of key performance indicators on the migration situation in the Russian Federation for January-June 2020. Ministry of Internal Affairs of Russia. URL: https://mvd.rf/dejatelnost/statistics/migracionnaya/item/20643454/

2 Summary of key performance indicators on the migration situation in the Russian Federation for January-June 2023. Ministry of Internal Affairs of Russia. URL: https://mvd.rf/dejatelnost/statistics/migracionnaya/item/40034115/

drop in the number of temporary residence permits issued to foreigners in Russia (43,000 vs. 93,000) and residence permits issued to foreigners in Russia (130,000 vs. 142,000). The total number of work permits and patents for foreign citizens valid by the end of H1 2023 increased by about 1%, or about 20,000, compared to H1 2022.

In general, at the end of H1 2023, international migration registered as long-term migration in Russia shows a downward trend in net migration due to a noticeable decrease in arrivals. The internal distribution of long-term international migrants continues to shift primarily in favor of natives of Tajikistan. Also, it should not be forgotten that a significant part of migrants is not included in the records of long-term international migration. This is owing to the fact that some immigrants live in Russia for a long period of time but have registrations for a period of less than 9 months and some emigrants, leaving Russia, do not terminate their permanent registration.