

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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1. BALANCE OF PAYMENTS IN Q3 2023

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At the end of Q3 2023, the current account surplus fell 3 times compared to Q3 2022 against the backdrop of both a decrease in the value of exports and an increase in the value of imports. The financial account deficit was formed in the wake of the outstripping increase in foreign assets (including reserve assets) compared to the growth of foreign liabilities. These trends resulted in the weakening of the ruble. This being said, the ruble was supported by the tightening of monetary policy, as well as the suspension of foreign exchange purchases by the Bank of Russia within the framework of mirroring regular operations of the Finance Ministry of the Russian Federation.

According to the preliminary assessment of the balance of payments released by the Bank of Russia, the current account balance in Q3 2023 amounted to \$16.6 bn. This is approximately three times less than the same indicator for Q3 2022 (\$47.9 bn), however, it is significantly higher than the current account balance for Q2 2023 (\$9.6 bn) with increasing monthly intra-quarter dynamics (in July – \$1.3 bn; in August – \$5.7 bn; in September – \$9.6 bn).

Under the current detail of the balance of payments of the Russian Federation published by the Bank of Russia, the structure of the current account can be presented in terms of three main balances: trade in goods, trade in services, and the balance of primary and secondary income.

The balance of trade in goods amounted to \$30 bn, which is about 60% lower (by \$43 bn in absolute value) than the value for Q3 2022 (\$72.8 bn). Both the growth in the value of imports of goods from \$68.8 bn in Q3 2022 to \$76 bn in Q3 2023 (10% increase) and the fall in the value of exports from \$141.7 bn in Q3 2022 to \$106 bn in Q3 2023 (25% decrease) played a determining role in this drop.

Such dynamics of exports is due to lower (compared to the same period last year) prices for basic goods of Russian exports (oil, gas, oil products, grain, coal, ferrous and non-ferrous metals) and incomplete redirection of export flows from the EU and other unfriendly economies limited by sanctions.

The observed dynamics of imports of goods is associated with the recovery of physical volumes of supplies against the background of the reorientation to supplies from neutral partners and moderate (within the limits of world inflation) growth of world prices for imported goods.

The deterioration of the trade balance was accompanied by the weakening of the national currency: according to the Bank of Russia, the average nominal exchange rate of the US dollar against the ruble in Q3 2023 amounted to 94.07 rubles/dollar, while in the same period last year it amounted to 59.4 rubles/dollar (58% change). At the same time, the decline in the index of the real

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ruble-dollar exchange rate in January-September 2023 versus January-September 2022 hit 15% (despite strengthening in Q1 by 19.6%), which means a relative appreciation of imports.¹ Thus, there is currently an increase in imports with their appreciation, which is owing to both the inertia of imports some of which were paid for at a higher ruble exchange rate, and the import of necessary investment goods and goods of intermediate use, which cannot be substituted by domestic products produced by the Russian economy.

The balance of trade in services in Q3 2023 came to -\$9.0 bn, an absolute value 29% higher than the value of the balance of trade in services in Q3 2022 (-\$7.0 bn). As with trade in goods, there is a decline in services exports (mainly transportation) from \$11.4 bn in Q3 2022 to \$10.1 bn in Q3 this year (down 10%) and an increase in services imports (mainly travel) from \$18.3 bn in Q3 2022 to \$19.1 bn in Q3 2023 (up 4%).

The balance of primary and secondary income has changed quite significantly. In Q3 2023, it amounted to -\$4.5 bn, which in absolute terms is 13.5 times less than the same indicator in Q3 2022 (-\$18.0 bn). At the same time, in Q3 of this year, income receivable (capital income receipts from abroad) fell by 25% (from \$12.7 bn in Q3 of last year to \$9.4 bn in Q3 of 2023), but it was income payable (reduction of income withdrawal and repatriation of profits abroad, including due to restrictions on cross-border movement of capital) that fell most sharply. Income payable fell 2.2-fold – by \$16.8 bn (from \$30.7 bn to \$13.9 bn), which was responsible for the reduction in the balance of primary and secondary income.

The financial account is represented by data on net external assets and liabilities of all sectors of the economy. In Q3 2023, the balance of the financial account of the balance of payments, including reserve assets, amounted to \$12.5 bn, having dropped 3.6-fold compared to the same period of 2022 (\$44.4 bn). The growth of foreign assets of all sectors (excluding reserve assets) in Q3 2023 4 times exceeded the growth of foreign liabilities.

The increase in foreign assets (including reserve assets) in Q3 2023 amounted to \$16.8 bn, 45% lower than in Q3 2022 (\$30.5 bn). The build-up of foreign assets was mainly due to an increase in other investments in the form of receivables, including outstanding foreign trade settlements, which apparently reflects difficulties in making payments for Russian exports. In Q3 2023, liabilities of all sectors of the Russian economy to non-residents went up by \$4.3 bn (-\$13.9 bn in Q3 2022).

In Q3 2023, the foreign debt of the Russian Federation declined by 4% to \$329.5 bn. The external debt of public administration authorities decreased to the greatest extent (by 13.1% to \$32 bn), which was due to the sale of Russian OFZ by non-residents. The share of non-residents in the OFZ market in July-August went down by 1 p.p. to 7.8% as of the beginning of September 2023, which corresponds to the level of July-August 2012. In Q3 2023, other sectors of the economy reduced their external liabilities by 3.6% to \$205.4 bn including within the framework of the mechanism of issuing replacement bonds. Banks and the Central Bank of the Russian Federation cut their external liabilities by 1.6% to \$92.1 bn in Q3 2023.


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

1. Balance of payments in Q3 2023

International reserves of the Russian Federation for Q3 2023 decreased by 2.3% and as of October 1, 2023 stood at \$569.0 bn. This is predominantly due to the sale of yuan in the wake of under-receipt of oil and gas revenues by the budget compared to the base level. Thus, in Q3 2023, the Bank of Russia sold Rb274.2 bn worth of yuan on behalf of the Finance Ministry of Russia. It should be noted that since August 10, 2023, the Central Bank of Russia has suspended the purchase of foreign currency on the domestic foreign exchange market as part of mirroring the regular operations of the Ministry of Finance of Russia related to the implementation of the budget rule in order to reduce volatility on financial markets. The deferred purchases may be made during 2024 and subsequent years, taking into account the situation on the financial markets.

The above-mentioned trends in the dynamics of the main balance of payments items led to the fact that in Q3 2023 the weakening of the ruble against the dollar continued and amounted to 11.9%, as a result of which the ruble exchange rate fell to 97.41 rubles/dollar, which corresponds to the level of the end of March 2022. The weakening of the ruble is mainly owing to the continuing deficit of foreign currency supply into Russia with the growing demand for it on the part of importers. Having said that, the volume of net sales of foreign currency by the largest exporters in Q3 2023 (\$23.3 bn) generally remained at the level of Q2 2023 (\$23.1 bn),¹ despite the growth in prices for the main goods of Russian exports.

During Q3 2023, the Bank of Russia raised the key interest rate three times from 7.5% p.a. at the beginning of the quarter to 13% p.a. at the end of the quarter, which together with the suspension of currency purchases in the domestic market supported the ruble. In addition, in order to stabilize the situation on the foreign exchange market, starting from October 16, 2023, a measure on mandatory sale of export proceeds was introduced for some large Russian exporters, according to which at least 80% of export foreign exchange proceeds must be credited by the exporter to accounts in Russian banks within 60 days from the date of its receipt. The mandatory sale of export proceeds is from 90% of the credited funds and at least 50% of each contract. This measure should also support the ruble by increasing the supply of currency.

According to our estimates, if the current oil prices remain unchanged and taking into consideration the monetary policy pursued by the Bank of Russia and measures to stabilize the situation on the currency market, the ruble exchange rate may stabilize at the level of 90–92 ruble/dollar by the end of the year. 

¹ Review of financial market risks No. 6 (75) June 2023 // Information and analytical material of the Bank of Russia.

2. THE BANKING SECTOR'S FUNDING BASE IN JANUARY-AUGUST 2023

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The RF Government's and the Central Bank of Russia's effective regulation of the credit and financial sector, as well as implementation of the policy on establishment of banking capital provisions have facilitated the banking sector's sustainability in January-August 2023. Banks' funding base has considerably increased owing both to growth in enterprises' bank account balances as a result of budget expenditures funding and an inflow of funds to individuals' deposits amid growth in households' incomes in H1 2023.

Credit institutions' main resource is still customers' funds (both individuals' and legal entities') on bank accounts and in deposits. As of the end of the current year, the overall volume of customers' funds is equal to Rb111.0 trillion, an increase of 13.5% since the beginning of the year, that is, a much higher growth as compared with the relevant period of the previous year (3.3%).

As of September 1, 2023, the overall volume of individuals' funds (without counting in those on escrow accounts) amounted to Rb40.4 trillion, an increase of Rb3.8 trillion or 10.4% in absolute terms in the period under review in 2023, while the relevant period of 2022 saw a decrease of Rb0.9 trillion or 2.6%. Amid stabilization of the macroeconomic situation, an increase in H1 2023 was driven by growth in households' real incomes. In Q3 2023, an additional driver of the influx of individuals' funds to bank accounts was an increase in the key rate and, as a consequence, interest rates on bank deposits (Fig. 1).

In January through August 2023, the overall volume of funds in legal entities' (individual entrepreneurs') accounts and deposits with banks increased by Rb2.2 trillion or 8.2% to the level of Rb28.9 trillion, while over the relevant period of 2022 there was an outflow of Rb2.2 trillion (9.5%). In 2022–2023, the public budget financing of the corporate sector is the main driver of the inflow of funding.

Amid high rates of money creation in 2023, corporate customers' settlement and current account balances kept growing; during the period under review, they increased by Rb2.4 trillion (19.2% year-on-year) to Rb22.4 trillion, a somewhat decrease as compared with the relevant period of the previous year (Rb4.0 trillion or 24.9%).

High growth rates of account balances were registered with state-owned companies; in January through August 2023 growth was equal to 41.2% (20.8% in 2022). As of September 1, 2023, their overall volume amounted to Rb12.1 trillion.

Starting from 2022, the pattern of individuals' funds has been changing in favor of short-term deposits. This trend is still observed this year. However,

2. The Banking Sector's Funding Base in January-August 2023

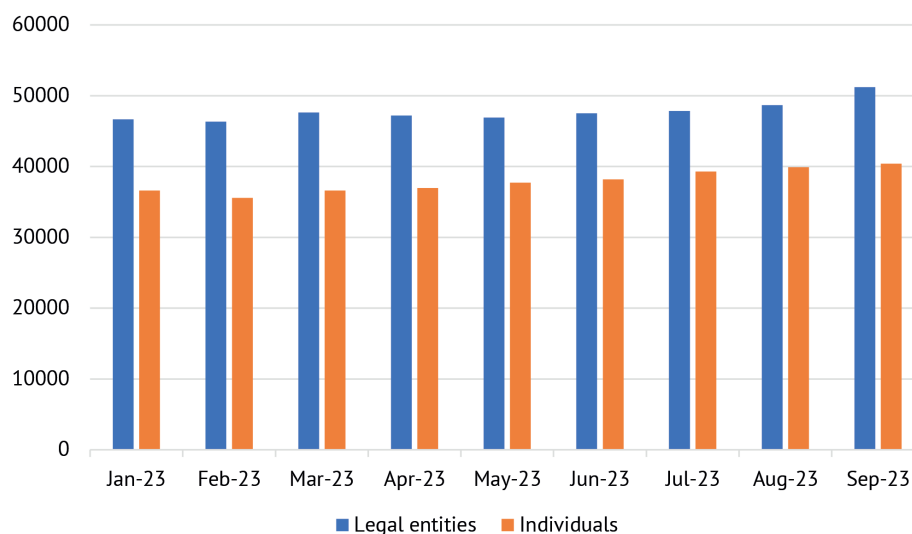


Fig. 1. Dynamics of overall debt on accounts and deposits of individuals and legal entities as of the beginning of the month in 2023, billion rubles.

Source: The Statistical Data on the Banking Sector of the Russian Federation (an Internet-version) / The Central Bank of Russia. URL: https://cbr.ru/banking_sector/statistics/

contrary to the previous year when the volume of funds in short- and long-term deposits fell considerably, there has been no such a decrease this year. Amid overall growth in individuals' funds, the sum of deposits for the term of over 1 year increased by 9.0%. This being said, account balances, demand deposits and short-term deposits up to one year increased by 10.7%. Deposits with a term from 90 days to 181 days account for over a half of all fixed-term deposits (51.1%).

During the period under review, individuals' ruble account balances and deposits increased by 10.8 % and those in foreign currency, by 6.7%; the increase was driven by appreciation of foreign currency's exchange rate against the ruble.

Enterprises' interest in short-term deposits increased, too: deposits for a term of over 1 year decreased by 5.5%, while account balances and short-term deposits for a term of less than 1 year increased by 21.6%.

Escrow account balances kept growing and increased up to Rb4.9 trillion, however growth rates decreased substantially (20.5%) as compared with the previous year (30.2%) owing to a decline in growth rates of the mortgage lending market.

A substantial driver of credit institutions' higher sustainability was growth in a bottom-line result. In January through August 2023, the banking sector's profit amounted to Rb2.4 trillion which is equal to the bottom-line result for the entire (record) 2021.

In 2023, a structural liquidity deficit was registered on July 20 for the first time since May 2022. The structural liquidity deficit is the banking sector's state characterized by credit institutions' sustained need in attracting liquidity by means of operations with the Central Bank of Russia. At present, the volume of loans extended by the Central Bank of Russia is equal to the mere Rb4.5 trillion (a 2.4% growth since the beginning of the year). If the structural liquidity deficit becomes a permanent one, the growth rates of the banking sector's debt to the regulator will increase considerably in the short-term.

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The stress test of the banking sector carried out by the Central Bank of Russia has revealed sustainability of the banking sector. By experts' estimates, the banking sector is able to withstand an unfavorable development scenario. In 2022, based on the findings of the stress test the Central Bank of Russia evaluated the banking sector's need in additional capitalization in the sum of Rb700 bn. However, the Government's and the Central Bank of Russia's timely measures have facilitated stabilization of the credit and financial sector and at present only a small number of banks experience capital adequacy problems.

With a lack of external funding sources, credit institutions enter into an acute phase of competition for resources on the domestic market. The level of competition for short-term resources of a transactional nature (settlement and current accounts) has increased considerably owing to the presence of fintech companies and digital banks which offer their customers attractive terms and conditions. Also, a substantial share of resources can be absorbed by the cryptocurrency market, particularly in case some types of cryptocurrencies being legalized as a payment instrument.

The expected introduction of the digital ruble may step up competition for funds. By various estimates, the outflow of customers' funds into digital rubles on the Central Bank of Russia's platform may amount up to Rb4 trillion, thus facilitating the formation of a structural liquidity deficit¹, which in its turn may affect credit institutions' financial soundness.

Also, in 2023 the upward trend on the corporate and government securities markets still constrains growth in the funding base, particularly in H1 amid low interest rates on bank deposits. At the same time, with the relevant tax on bank deposits introduced, the existing order of investment deductions on the personal income tax in case of opening a personal investment account makes investments in securities more attractive as compared with bank deposits.

With the growth potential of the corporate equity market being exhausted and interest rates on deposits being further increased, bank customers' behavior may change and a portion of funds from the stock market will replenish credit institutions' funding base.

Amid a rather high inflationary pressure, the Central Bank of Russia will not be easing the current monetary policy in the forthcoming months (till the end of 2023); the key rate is highly likely to be increased. In the present situation, further growth in interest rates on deposits can be expected and banks will be able to stabilize their funding base, but a higher cost of funding will inevitably lead to the adjustment of the unprecedentedly high level of banking profits. 

1 URL: [http://www.cbr.ru/Content/Document/File/150582/on_2024\(2025-2026\).pdf](http://www.cbr.ru/Content/Document/File/150582/on_2024(2025-2026).pdf)

3. INDUSTRIAL PRODUCTION DYNAMICS IN Q2 2023

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The industrial sector in Q2 2023 continued to grow on the back of the industries focused mainly on the domestic market, as well as due to increased demand for intermediate products for the State Defense Procurement.

To provide accurate interpretation of trends in individual industries we decompose their output into calendar, seasonal, non-recurrent and trend components.¹ The interpretation of the latter is of particular interest. Experts of the Gaidar Institute have cleared seasonal and calendar components from all of manufacturing industries indices for 2003–2022 and singled out the trend component based on statistics released by Rosstat on output indices in industrial sectors of the economy.²

The resulting series for the industrial production index on the whole are presented in *Fig. 1*. Shown in *Fig. 2* is the result for aggregate indices of the extractive and manufacturing sectors and production and distribution of electricity, gas and water. The results for the decomposition of other series are presented in *Table 1*.

In Q2 2023, the trend component of the industrial production index showed a slow growth of 1.38% (June 2023 vs. March 2023). Having said that, growth was observed in the majority of manufacturing industries, as well as in production and distribution of electricity, gas and water. In mining and production of coke and petroleum products one can note stagnation of output in the specified period.

From March 2023, Rosstat stopped publishing statistics on the volume of oil production, and accordingly, there were no data on the index of production in the oil and gas sector, which is included in the production index of the fuel and energy sector.

However, we know from Rosstat's monthly publication *On Industrial Production* that 15.9% less natural gas was produced in Q2 2023 than in the same period of 2022, while 7.9% more associated petroleum gas was produced in this period compared to the previous one. The decrease in natural gas production was owing to the fact that in Q2 2023 there was a record drop in

1 "Trend component" is a well-established term in the literature; however, it is noteworthy that this component is not a "trend" in a strict sense and is used in econometrics for analyzing time series: in this particular case, it is the remainder after the time series have been cleared from calendar, seasonal and non-recurrent components. It is incorrect to use the "trend component" for forecasting time series: for most industrial production indices it is time-varying in levels (and time-invariant in differences), but can be used for interpreting short-term dynamics and for comparison with events that have taken place.

2 The trend component was determined using Demetra package with the X12-ARIMA procedure.

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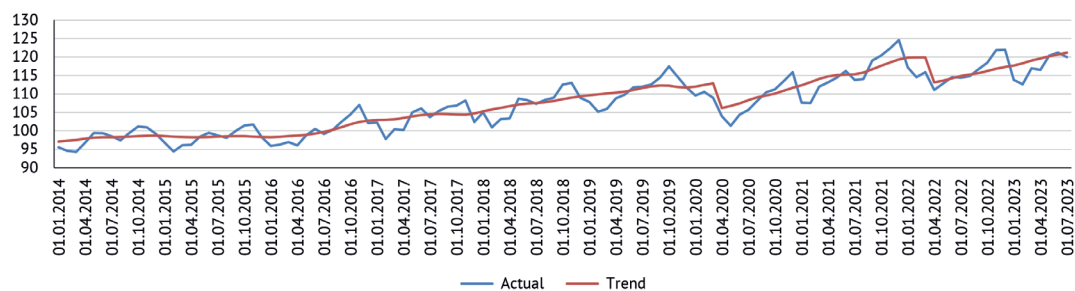


Fig. 1. Industrial Production Index Dynamics, 2014–2023 (actual data and trend component), % change relative to average annual value in 2016

Sources: Rosstat, own calculations.



Fig. 2. Production indices' dynamics across sectors, 2014–2022 (actual data and trend component), % change relative to the 2016 annual average value

Sources: Rosstat, own calculations.

3. Industrial production dynamics in Q2 2023

gas deliveries through the Turkish Stream pipeline (one of the two operating routes for pipeline gas exports from Russia to Europe; the other option for gas delivery is the Ukrainian gas transportation system) caused by pricing peculiarities: the export price of Russian gas adjusts slower than it decreases on the spot market.

At the moment, the reorientation of export flows to easterly direction cannot fully offset the loss of gas demand from the EU. Even if there is sufficient demand in the Asian and southern directions, the problem is the current logistical bottlenecks. In particular, at the moment only Russia's Power of Siberia-1 trunk gas pipeline is operating along the easterly direction. Its design capacity is about 50 billion cubic meters of gas per year, which is almost three times less than the average annual volume of natural gas exports through the pipeline to Europe. When calculating the profitability of building new pipelines, it is necessary to take into account possible discounts for importing countries, which may make the eastern direction less profitable in the short term.

Russia decided to voluntarily cut oil production from March 2023 through the end of 2024 by an additional 500,000 barrels per day (excluding gas condensate), in addition to the OPEC+ reduction in response to the EU sanctions that came into force: the introduction of a "price ceiling" and restriction of sea supplies of Russian oil (from December 5, 2022) and oil products (from February 5, 2023). This decision was taken to maintain the crude oil quotations and reduce the discount of Russian oil. At the meeting of OPEC+ ministers in early June 2023, the participants supported this decision by reducing (taking into account Russia's decision) the total quota for oil production by 1.6 mn barrels per day from January 1, 2024.¹ The extension of the voluntary oil production cut will reduce the supply of high-sulfur oil on the market, which will support prices but may have a negative impact on the dynamics of industrial production in Russia as oil production accounts for a significant share in the industrial production index.

Coal production for Q2 2023 rose by 2.5% compared to the same period of 2022 (while comparing the figures for the first half of the year, there is a decrease in coal production by 2.2%), lignite – by 5%, anthracite – by 21.7%, coke – by 5%, coking coal declined by 3.9%. Production growth is explained by the increase in domestic demand, for example, there is a rise in the trend component for the power generation industry, which is a consumer of hard and brown coal. In particular, in Q2 2023, on average, electricity production at TPPs in federal districts producing electricity mainly with coal fuel (FEFD, SFD) went up compared to the same period of 2022, while in federal districts producing electricity mainly with gas (CFD, NWFD) dropped. In addition, there was an increase in the trend component in the metallurgical industry, which is the main consumer of anthracite. The growth of production is also provided by external demand from China, India and Indonesia. However, it is worth taking into account the presence of infrastructural constraints on railroad lines in the Far East, which continues to play a key role in the issue of redirecting export flows to the Asia-Pacific region.

The trend component of the manufacturing sector showed growth in Q2 2023. It became the largest in the machine-building complex and metallurgy industry, which is associated with an increase in demand for the products of these

¹ 48th Meeting of the Joint Ministerial Monitoring Committee // OPEC. 03.04.2023. URL: https://www.opec.org/opec_web/en/press_room/7120.htm.

industries on the part of the main domestic consumers – large enterprises – in order to implement state infrastructure projects and the state, which forms the demand for the defense industry products.

Manufacturing growth factors can also include the impact of pent-up demand. The postponement of purchases and spending related to travel (mostly foreign) and entertainment commenced in the pandemic, then continued on the back of the increase in prices of electronics and cars, which was associated with the shortage of chips, in 2022 this trend was supported by the restructuring of trade flows. This affected the growth of the most liquid assets (cash and current account funds) in the structure of household savings. And any improvement in the situation may lead to their spending, as the factor of pent-up demand will work, for example: the return of deposit and credit rates to the levels of the end of 2021, when the loan was not perceived as expensive, and the deposit was profitable; record expansion of residential and infrastructure construction at the beginning of the year against the backdrop of the commissioning of facilities frozen during the pandemic; implementation of anti-crisis support measures for the population and business. All this, due to the withdrawal of a number of foreign manufacturers from the Russian market, creates demand for goods replacing the vacated market shares, including goods produced by domestic enterprises.

This being said, pulp and paper production turned out to be the only industry for which demonstrated a decline in the trend component Q2 2023 against the background of the aggravated issue with the supply of chemicals and processing equipment, as well as the export ban of wood pulp from Russia to the EU.

In the services sector, for most industries there is also an increase in the trend component of production indices, which is explained by an increase in consumer demand against the background of accelerated growth of wages due to the shortage of workers, however this effect may be temporary as there is a potential for inflation growth owing to the faster rate of wage increase than labor productivity. Despite the departure of major players in the non-food segment, the sales sector maintained turnover growth due to the increase in real incomes of the households, while the habit of buying goods remotely persists. A slow decline was observed in freight turnover, which is explained by the reduction in supply of minerals, LNG and oil, gas transportation via main gas pipelines and the low capacity of railroads in the easterly direction, as a result of which it is impossible to cover the entire volume of the dropped European demand even at full load in this direction. At the same time, there is a question of stimulating the redirection of cargo traffic to the Northern Sea Route (NSR) by subsidizing icebreaking, but the achievement of this goal depends on the availability of ice-class ships in sufficient numbers.

Along with the dynamics of industrial production for the Q2 2023, updated data for 2022 were also published. According to this information, the trend component of the industrial production index in 2022 grew at an average rate of 0.02%, although according to the primary data there was a decline in the index at an average rate of 0.2%. As the main reasons for the change in the data on production indices for 2022, Rosstat points out the clarification of operational data on production and shipment of products by respondents, in particular by microenterprises. The data on some branches of the service sector were also clarified.

3. Industrial production dynamics in Q2 2023

Main risks for the Russian industrial sector in 2023 remain:

- shortage of workers, which is the main factor limiting the possibility of ramping up output;
- issues with logistics along the southern and eastern directions, both by sea and rail transport;
- the need to establish import substitution of high-tech products, chemical reagents, mineral fertilizers and other products made entirely of domestic components.

Table 1

Output index change across economic sectors, %

Name of sector	Share of industrial production index, %	June 2023/ June 2022	June 2023/ March 2023	Change over past months
Industrial production index		105.64	101.38	slow growth
Extraction of minerals	34.54	101.69	99.83	stagnation
Manufacturing, including:	54.91	110.25	103.19	growth
Production of food products, including beverages and tobacco	16.34	113.68	103.23	growth
Textile and garment industry	1.14	109.24	102.35	growth
Manufacturing of leather, articles thereof and footwear	0.27	115.33	105.70	growth
Wood processing and woodware manufacturing	2.02	104.18	103.53	growth
Pulp-and-paper industry	3.35	76.51	94.51	recession
Production of charred coal and petrochemicals	17.25	101.59	100.38	stagnation
Chemical industry	7.56	115.92	105.06	growth
Manufacturing of rubber and plastic articles	2.14	116.38	106.02	growth
Manufacturing of other nonmetallic mineral products	4.02	105.35	105.94	growth
Metallurgy and manufacturing of ready-made fabricated metal products	17.42	133.16	105.70	growth
Manufacturing of machinery and equipment	6.97	108.05	105.12	growth
Manufacturing of electrical, electronic and optical equipment	6.27	129.46	109.55	growth
Manufacturing of transport vehicles and equipment	6.75	162.06	116.71	growth
Other industries	2.42	112.09	105.08	growth
Electricity, gas and water supply	13.51	101.72	102.17	growth
Wholesale trade		117.85	104.42	growth
Retail trade		109.86	102.46	growth
Cargo turnover		98.26	99.02	slow stagnation
Construction		108.79	102.01	growth
Agriculture		100.98	100.18	stagnation
Volumes of paid services to households		105.72	100.89	slow growth

Sources: Rosstat, own calculations. 

4. RUSSIA'S DEVELOPMENT AID BECOMES BILATERAL

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In 2023, Russia continued to provide economic and humanitarian aid to the poorest countries of the world. Below is an overview of the main trends of Russia's aid to international development (IDA) based on open sources of information. In the course of monitoring, a trend evidencing the transition to bilateral development assistance programs in accordance with the new priorities of the updated IDA Concept in 2023 was recorded.

Updating the institutional framework of IDA

On March 13, 2023, an Executive Order of the President of the Russian Federation was signed to amend the 2014 Concept of State Policy of the Russian Federation in the IDA.¹ Earlier, the amendments were included in the document in 2016.² The new version of the Concept focuses on the IDA bilateral programs, that contribute to Russia's own donor potential. For the first time, a principle renouncing political conditions for providing assistance was identified. The new version of the document also shows the adjustment of the priority areas of assistance: EAEU countries; CIS members, other post-Soviet and neighboring countries; states that have historically established friendly ties with Russia or those whose cooperation with Russia is in the national interest.

The Concept proposes a new list of 16 trends of assistance, ranging from stimulating economic activity and promoting regional integration to providing training opportunities in Russia and strengthening the capacity of national emergency response services. It is likely to correlate this list with 23 state programs that make up Russia's IDA activities. The main authority implementing IDA policy remains the IDA Interdepartmental Commission (established in November 2020).

Multilateral cooperation

The Russian Federation continues to actively cooperate with international organizations. Most of the multilateral projects in the course of monitoring were recorded in the area of food security.

1 Executive Order of the President of the Russian Federation of 13.03.2023 No. 161 "On amendments to the Concept of State Policy of the Russian Federation with respect to the aid to international development approved by the Executive Order of the President of the Russia Federation of 20.04.2014 No. 259." URL: <http://publication.pravo.gov.ru/Document/View/0001202303130003>

2 Executive Order of the President of the Russian Federation of 24.05.2016 No. 248 "On amendments to the Concept of State Policy of the Russian Federation with respect to the aid to international development approved by the Executive Order of the President of the Russia Federation of 20.04.2014 No. 259." URL: <http://publication.pravo.gov.ru/Document/View/0001201605250011>

4. Russia's development aid becomes bilateral

On July 23, 2023, the Russian Government decided to allocate \$10 mn as a voluntary earmarked contribution to the World Food Program (UNDP WFP) to finance in 2023 the costs associated with humanitarian aid to Burundi, Guinea, Zimbabwe, Mali and Eritrea.¹

There are plans to allocate about \$15 mn for the implementation of the third phase of the project to optimize school feeding in Kyrgyzstan. It is planned to allocate \$6 mn for this purpose in 2023 and another \$9 mn in 2024, 2025 and 2026. Moreover, the Republican Competence Center on School Feeding was opened in Bishkek in November 2022 in partnership with UNDP WFP.²

The effectiveness of the program has been confirmed by the pilot project in Armenia. During the more than 10-year history of the program in Armenia, in addition to funding totaling more than \$40 mn, Russia has also provided the necessary expert support and training to local specialists. Since early July 2023, the program implementation management functions have been fully transferred to the Government of Armenia.³

Similar projects are also being implemented through UNDP WFP mechanisms in Tajikistan, Sri Lanka, Cambodia, Laos and Cuba. In particular, a national School Feeding Center under the Ministry of Education and Science of the Republic of Tajikistan was opened through UNDP WFP involving Russia.⁴

Bilateral cooperation by economic sectors

Health care

In the health care sector, several areas of technical assistance were recorded.

In April 2023, the Russian Government allocated more than Rb415 mn to Rospotrebnadzor to combat the spread of plague as part of the development of cooperation with the countries of Eastern Europe, Transcaucasia and Central Asia in 2023–2025. Nine Russian anti-plague institutions will be involved in this work. At the end of April 2023, Russia transferred a batch of 200,000 doses of plague vaccine to Kyrgyzstan to conduct a package of preventive measures.⁵

In the Republic of the Congo, representatives of Rospotrebnadzor conducted a number of activities to control an outbreak of infectious diseases. Russia handed over a set of equipment for further research to combat infectious diseases.⁶ Teachers of the North-Caucasian Federal University delivered training courses for local medical employees as well as for medical personnel from the Democratic Republic of Congo.

In August 2023, Uganda received from Russia a mobile laboratory with all the necessary equipment. In February 2023, Russia opened a laboratory in Burundi to diagnose dangerous diseases and handed over 200,000 COVID-19 tests.

1 RF Government Edict of 13.07.2023 No. 1881-r. URL: <http://publication.pravo.gov.ru/document/0001202307130034?index=1>.

2 Sputnik. Republican Competence Centre was opened in Bishkek. Russia helped. 03.11.2022. URL: <https://ru.sputnik.kg/20221103/respublikanskij-centr-kompetencij-shkolnoe-pitanie-1069648385.html>

3 URL: https://armenia.mid.ru/ru/press-centre/news/3_iyulya_s_g_chrezvychaynyy_i_polnomochnyy_posol_rossii_v_armenii_s_p_kopyrkin_prinyal_uchastie_v_ts/

4 The RF Embassy in Tajikistan. Russian and UN WFP opened Center of school feeding under the Ministry of education and science of the Republic of Tajikistan. 18.01.2023. URL: https://dushanbe.mid.ru/ru/press_center/rossiya_i_vpp_oon_otkryli_tsentr_shkolnogo_pitaniya_pri_ministerstve_obrazovaniya_i_nauki_respubliki/?TSPD_101_R0=08765fb817ab2000e4a099ed6fa3b4638fa31e7ec820268b30d8d6f5f3103625415ef2bb9681a065082ee6ba851430000c9eb66bdae6d9481093c1cc630306fde23c0ee4ae67ec03000b44631576125dae3717fb5d9794ce96eb5da46dc5be2f

5 URL: <https://tass.ru/obschestvo/17564207>

6 URL: https://congo.mid.ru/ru/embassy/news/o_missii_ropotrebnadzora_v_respublike_kongo/

Monitoring of Russia's Economic Outlook

Debt write-off

The Government of the Russian Federation has traditionally promoted debt reduction in the world's poorest countries. In particular, the Russian debt-for-development program is being actively developed. Currently, such countries as Cuba, Madagascar, Mozambique and Tanzania are participating in this program.¹ Several agreements on debt write-off to Russia were recorded in the course of the monitoring. For example, on July 27, 2023, Russia and Somalia signed two agreements on the settlement of Mogadishu's debts to Moscow totaling about \$690 mn. It is expected that part of this amount will be paid and the rest will be written off.

The Republic of the Congo also joined the Russian debt-for-development program. The Russian Government signed an Agreement on using funds from the repayment of the Republic of the Congo's debt to the Russian Federation to finance development projects in the territory of the Republic of the Congo.² The agreements envisage redirecting Congo's debt in the amount of \$29.64 mn to finance the supply of socially important goods and development projects to be implemented by Russian organizations in the Congo, including such areas as: improving the population's access to energy resources; combating infectious diseases; improving the availability and quality of educational services for the population.

Education

Promoting the development of education systems remains a priority area of Russian IDA policy. In July 2023, the Moscow City Government launched Russian language classes in Syria using modern equipment and learning.

Russia has signed agreements with the Government of the Kyrgyz Republic on the construction of 9 joint Russian-language schools for 1,200 students each. The average cost of construction of each school will be about Rb450 mn.

Food security

During the Russia-Africa summit in July 2023, it was stated that Russia is ready to supply 25.000–50.000 tons of grain to Burkina Faso, Mali and Eritrea. In addition, Uralkhim is expected to supply Russian fertilizers to Zimbabwe and Nigeria.

Following the 20th meeting of the Russian-Cuban intergovernmental commission on trade, economic, scientific and technical cooperation in Havana, Russia decided to supply 25.000 tons of wheat to Cuba.

Infrastructure

Infrastructure assistance in recent years has been regional and linked to Eurasian integration programs. For example, in August 2023, the Eurasian Development Bank announced the start of financing the construction and operation of the Kulanak hydropower plant in the Naryn region of Kyrgyzstan.³


- 1 URL: https://minfin.gov.ru/ru/document?id_4=132467-spravochnaya_informatsiya_o_realizatsii_mezhpravosoglashenii_ob_iskpolzovanii_zadolzhennosti_stran_na_proekty_razvitiya
- 2 Government Edict of the Russian Federation of 02.08.2023 No.2092-r "On signing the Agreement between the Government of the Russian Federation and the Government of the Republic of the Congo on the use of funds received in repayment of the debt of the Republic of the Congo to the Russian Federation for the purpose of financing development projects in the territory of the Republic of the Congo" 02.08.2023. URL: <http://publication.pravo.gov.ru/document/0001202308030025?index=1>
- 3 URL: <https://kyrtag.kg/ru/news/minfin-kr-vystupil-poruchitelem-stroitelstva-ges-kulanak>

4. Russia's development aid becomes bilateral

The 100 MW, \$118 mn per year project will generate an average of 435 mn kilowatt hours of clean, renewable electricity. The construction period of the plant will last 4 years. The hydroelectric project was designed by the Russian institute Lengidroproject (part of RusHydro).

Humanitarian aid

Humanitarian aid, unlike economic, in most cases is non-program and is mainly related to helping with disaster management. Humanitarian operations have been carried out in Turkey, Syria, Iran and Libya, among others. The key actor in this area remains the MES, which is usually responsible for the transfer of humanitarian goods and basic necessities. In late September 2023, Russian rescuers took part in the management of the consequences of the cyclone "Daniel" in Libya. 30 tons of relief items and medical assistance were provided.¹

It is worth mentioning the activities of Russian non-profit organizations in this area. For example, the Russian Humanitarian Mission donated a generator for the pulmonology hospital in Sokobanja to Serbia in June 2023.² In Syria, the Russian Red Cross donated more than 15 tons of baby food to earthquake-affected Syrian families.³ 

1 M. Shugoleva. Extraordinary assistance. 20.09.2023. URL: <https://gor.press/article/pomoshh-crezvycajnogo-xaraktera>
2 URL: <https://rhm.agency/news-rhm/russkaya-gumanitarnaya-missiya-peredala-elektrogenerator-v-bolniczu-g-sokobanya-serbiya>
3 URL: <https://www.redcross.ru/news/15-tonn-gumpomoshchi-i-3-5-tysyachi-blagopoluchateley-rossiyskiy-krasnyy-krest-zavershil-vtoruyu-gum/>