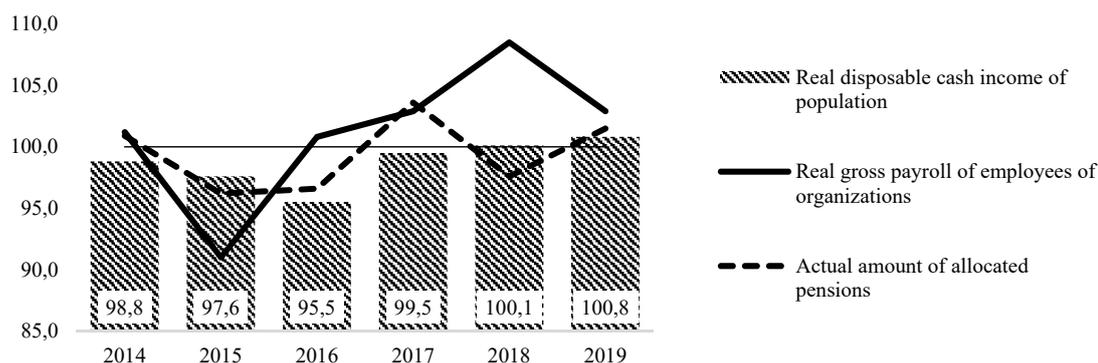


## Section 5. Social sphere

### 5.1. Incomes of the population and assessment of financial situation<sup>1</sup>

#### 5.1.1. Dynamics of incomes of population and their components

In 2019, the real disposable cash income increased by 0.8 percent relative to the same period of the previous year, the real gross payroll went up by 2.9 percent, and the actual amount of allocated pensions moved up by 1.5 percent (*Fig. 1*).



*Fig. 1.* Dynamics of the real disposable cash income of the population, real gross payroll and salaries and the actual amount of allocated pensions in 2014–2019, in % year-on-year

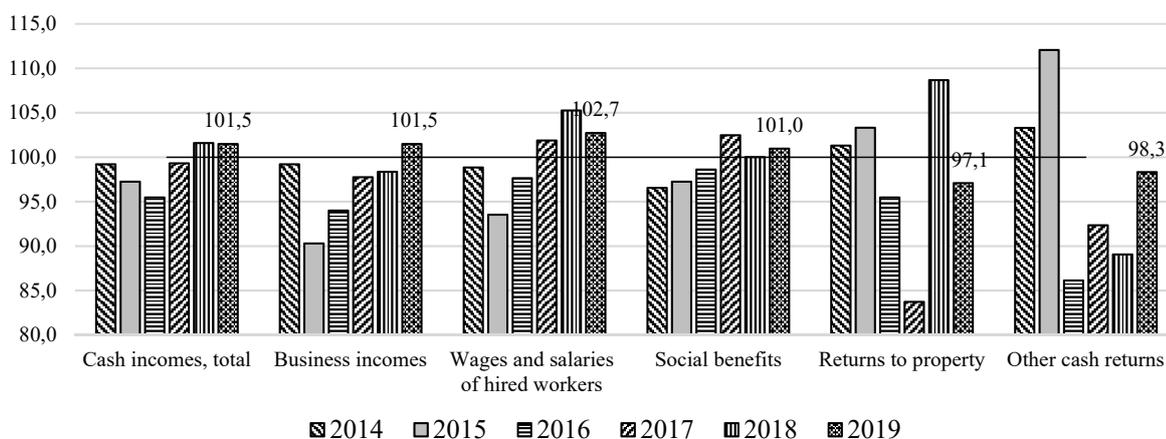
Source: Rosstat.

Despite a small growth of the real disposable cash income of the population seen in 2018–2019, so far there has been no recovery to the cash income of the population seen in 2013 in the wake of their decrease seen in 2014–2016. The real disposable cash income in 2019 came

<sup>1</sup> The sections 5.1–5.6 were written by *Burdyak A.Ya.*, senior researcher, INSAP, RANEPА; *Grishina E.E.*, Candidate of science (Economics), leading researcher, Head of Center “Quality of life and social safety net”, INSAP, RANEPА; *Eliseeva M.A.*, researcher, INSAP, RANEPА; *Lyashok V.Yu.*, Candidate of science (Economics), senior researcher, Head of Center “Labor market and labor relations”, INSAP, RANEPА; *Maleva T.M.*, Candidate of science (Economics), Director of INSAP, RANEPА; *Mkrtchyan N.V.*, Candidate of science (Geography), leading researcher, INSAP, RANEPА; *Florinskaya Yu.F.*, Candidate of science (Geography) leading researcher, INSAP, RANEPА; *Khasanova R.R.*, Candidate of science (Economics), senior researcher, INSAP, RANEPА.

to barely 92.5 percent of the 2013 level. Also there was no recovery growth of the average amount of allocated pensions: in 2019 they came to 96.2 percent in real terms of the 2013 level. For comparison, the real wage recovered relative to the 2013 level even in 2018, and in 2019 it amounted to 106.6 percent against the 2013 level.

The total amount of cash income of the population increased in real terms in 2019 by 1.5 percent to the 2018 level. At the same time, compensation of employees went up in real terms by 2.7 percent, welfare payments – by 1.0 percent, income from entrepreneurial activity – by 1.5 percent (*Fig. 2*). At the same time, returns to property and the amount of other cash returns contracted in real terms in 2019 relative to 2018 by 2.9 percent and 1.7 percent, respectively.



*Fig. 2.* Dynamics of the total real cash incomes of the population and its components in real terms in 2014-2019, in % year-on-year

Source: own calculations based on Rosstat data

Compensation of employees beside organizations in 2019 decreased by 0.2 percent in real terms relative to 2018, and the wages of employees of organizations in real terms on the contrary went up by 4.1 percent (*Fig. 3*).

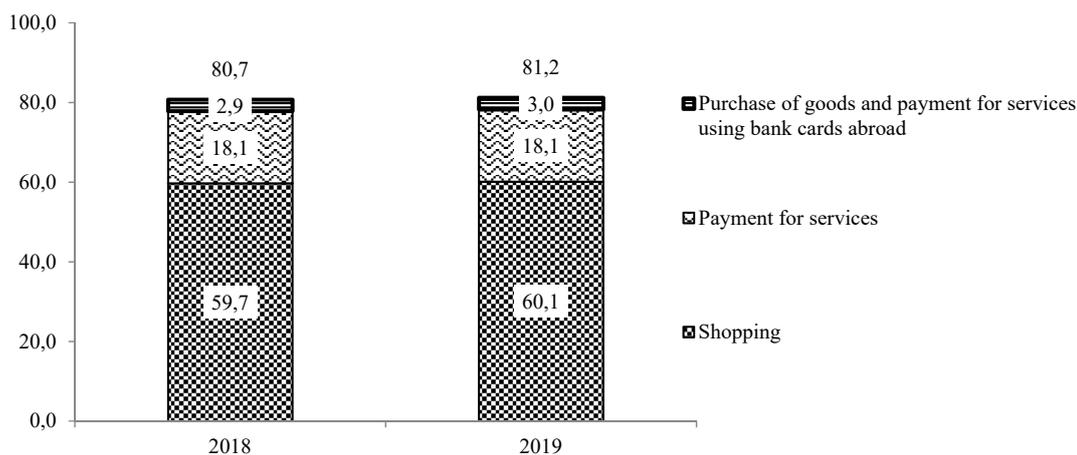


*Fig. 3.* Dynamics of compensation of employees in 2019, in % year-on-year

Source: Rosstat.

This being said, the data released by the Treasury of Russia<sup>1</sup> demonstrate that the growth of PIT in 2019 in real terms relative to 2018 came to 3.6 percent, which is more than the growth of the total volume of income in real terms. This fact can affirm that the growth of the wages of employees of organizations was due to a transfer from the informal part of the payroll fund to the formal one.

The proportion of cash income of the population diverted for purchases of goods and services in 2019 relative to the previous year went up slightly from 80.7 to 81.2 percent (*Fig. 4*).



*Fig. 4.* Proportion of cash income of the population diverted for purchases of goods and services in 2018–2019, %

Source: Rosstat.

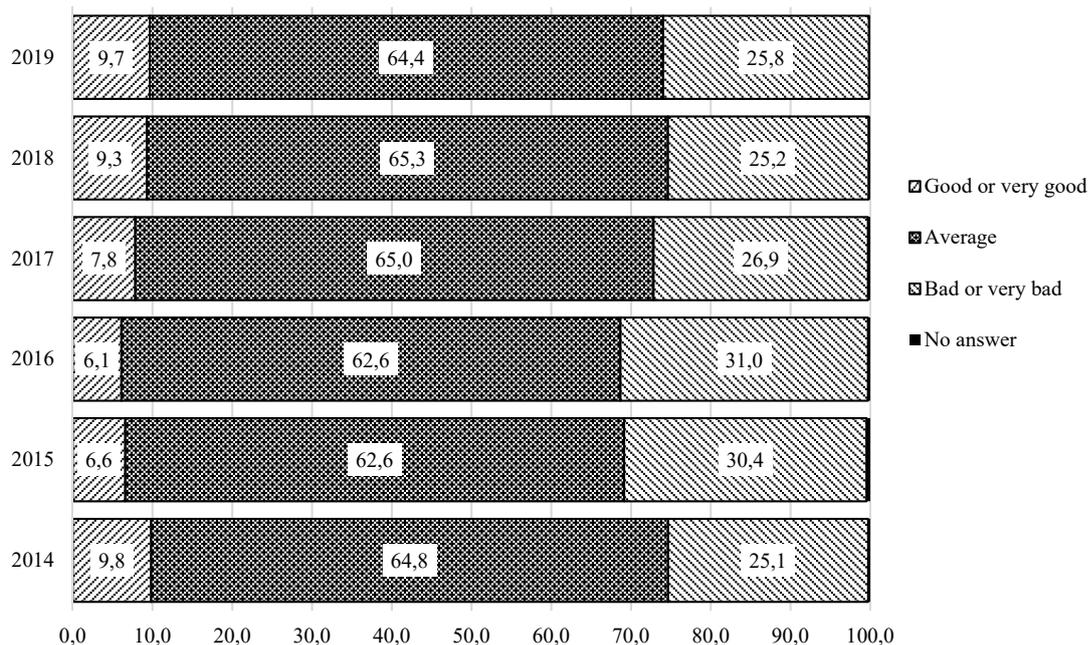
2019 saw a reduction of savings increment of the population from 4.2 percent seen in 2018 to 3.4 percent in 2019. At the same time, savings increment in deposits and securities went up and came to 4.3 percent (to compare: in 2018 – 3.1 percent) cash in hand decreased from 2.5 percent seen in 2018 to 0.5 percent in 2019.

#### 5.1.2. Dynamics of subjective and monetary poverty

In 2019 the number of subjectively poor population who perceive their financial situation as “bad” or “very bad” improved insignificantly relative to the previous year and hit 25.8 percent (*Fig. 5*). Having said that the share of individuals who positively assess their financial situation has come to 9.7 percent, which is above the level seen in 2018. Thus, 2019 has demonstrated small differentiation of the population according to subjective perception of their wellbeing.

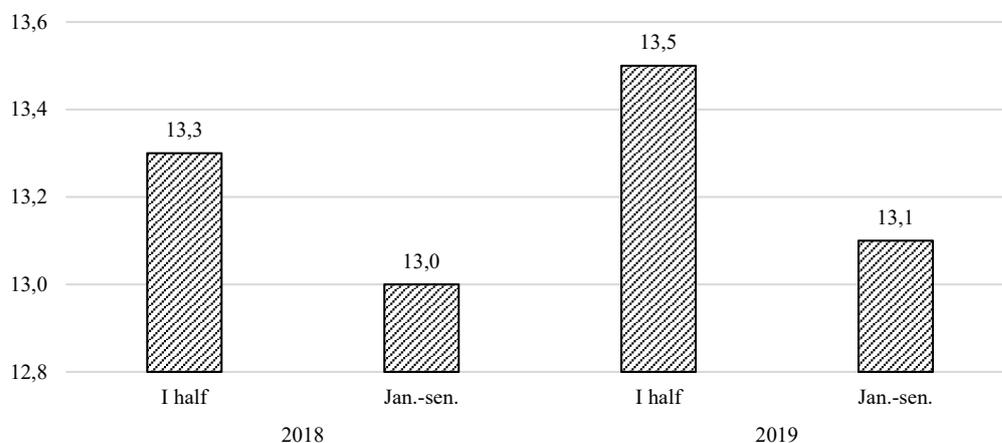
Data on absolute monetary poverty rate as a whole for 2019 so far are unavailable. However, in January-September 2019, the proportion of the population with cash earnings below the subsistence rates lightly increased relative to the same period of the previous year – 13.1 percent against 13.0 percent (*Fig. 6*). To note, in 2016–2018 the same reduction of the poverty rate occurred in January-September relative the same period of the previous years.

<sup>1</sup> Consolidated budget of the Russian Federation and the budgets of state extra budgetary funds /Treasury of Russia. URL: <https://roskazna.ru/ispolnenie-byudzhetrov/konsolidirovannyj-byudzhet/191/>



*Fig. 5. Perception of the population of the current financial situation in 2014–2019, %*

Source: Rosstat.



*Fig. 6. Proportion of the population with cash incomes below the subsistence rate, %*

Source: Rosstat.

In 2019, per capita cash incomes of the population practically stayed flat relative the subsistence rate for entire population as a whole, meanwhile the average monthly wages of employees of organizations increased relative to the subsistence minimum for the able-bodied population from 393 to 402 percent (*Fig. 7*). Per capita cash incomes have contracted by 28 percent of the subsistence minimum relative to 2013, and average amount of allocated pensions down 8 percent.

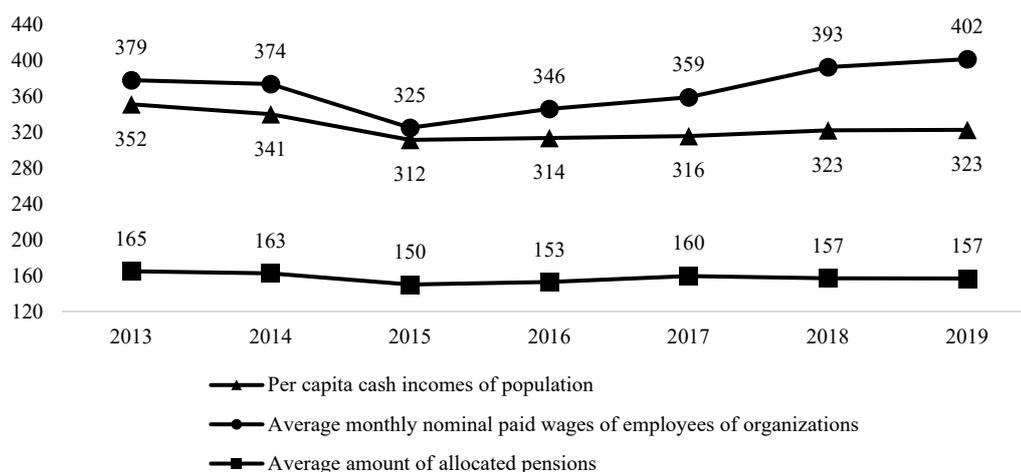


Fig. 7. Correlation of cash incomes of the population, wages and pensions with the subsistence minimum in 2013–2019, %

Source: Rosstat.

### 5.1.3. Dynamics of the income inequality

Dynamics of R/P 10% and Jinni Coefficient demonstrate that the level of income inequality of the population in 2019 did not change against the 2018 level (Fig. 8). On the whole, the level of income inequality has stayed above the 2015–2017 level, however it was below the 2013–2014 level.

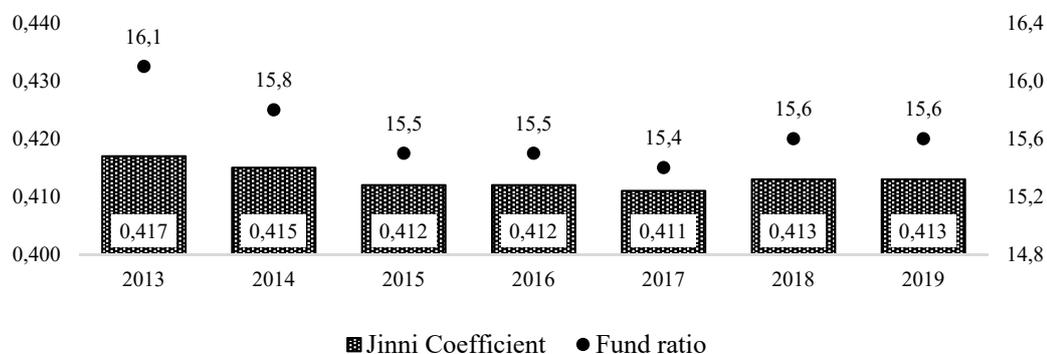


Fig. 8. Jinni Coefficient and R/P 10% in January-September 2018–2019

Source: Rosstat.

### 5.1.4. Risk factors of decrease of incomes and increase of the poverty rate in 2020

The coronavirus pandemic and reduction of crude oil prices seen in 2020 can create risk for a decrease of incomes and increase of the poverty rate.

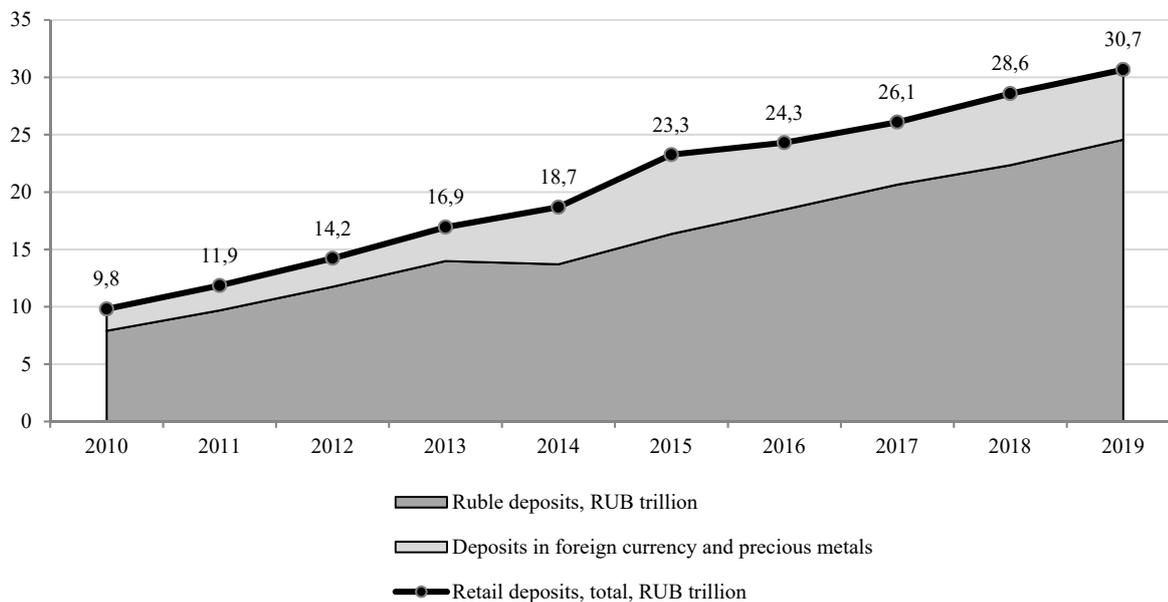
For example, amid the putting in place restrictions on attendance of institutions of supplementary education, culture and entertainment, physical fitness and sports within the measures to fight coronavirus pandemic, as well as decrease of visits of catering facilities and

putting in place restrictions on tourism and air travel abroad, incomes of certain employees of mentioned institutions can fall because part of the workers can be sent in administrative holidays, and part—on sick leave. This being said, the share of workers who may face risks of reduction of earned income and profundity of income reduction will depend on the length of the restrictions period.

However, even after the coronavirus pandemic the Russian economy can face significant difficulties amid the decline of the oil prices and reduction of economic growth rates in all countries. This can lead to a contraction of income and bankruptcy of certain organizations and increase risks of income decline and increase of the poverty rate.

**5.2. Loans and retail bank deposits**

The amount of retail bank deposits during 2019 according to the Bank of Russia data increased by RUB 2.1 trillion (+7.3 percent) and as of January 1, 2020 amounted to RUB 30.7 trillion (Fig. 9), deposits denominated in foreign currency and precious metals calculated in rubles amounted to RUB 6.1 trillion. The ruble equivalent of retail currency deposits over the year has contracted by 2 percent (as of January 1, 2019 it stood at RUB 6.2 trillion), whereupon the exchange rate of foreign currencies has decreased over the same period more significantly – USD down 10.9 percent and euro – down 12.7 percent<sup>1</sup>. The share of retail currency deposits hit maximum for the last ten years in 2015 (29.7 percent of all retail deposits), then it fell to 21–22 percent in 2017–2018, and at the year-end results of 2019 amounted to 19.9 percent of the total volume of retail deposits.

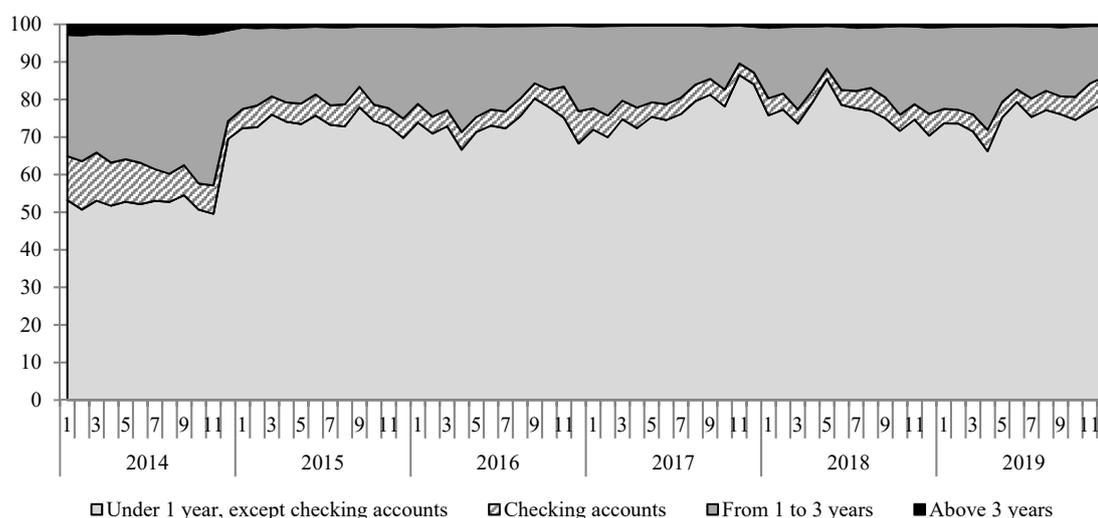


*Fig. 9. Amount of retail bank deposits in rubles and foreign currency*

Source: Bank of Russia data.

<sup>1</sup> As of January 1, 2019 Bank of Russia set the exchange rate of foreign currencies at: RUB 69.4706/USD and RUB 79.4605/EUR. As of January 1, 2020 the rate amounted to RUB 61.9057/USD and RUB 69,3777/EUR, falling by 10,9 percent and 12.7 percent, respectively.

On the whole, population opens bank fixed-term deposits for under 1 year, and up to 70–80 percent of ruble deposits are open for this fixed-term (*Fig. 10*). In 2014, fixed-term deposits for under 1 year constituted roughly half of retail ruble deposits, around 35 percent of deposits were opened for a fixed-term from one to three years, however in 2015 the term of deposits contracted and the structure has taken the current shape.



**Note.** Share of deposits on each term attracted in reported month, in total amount of attracted retail deposits in reported month.

*Fig. 10.* Structure of retail ruble deposits by terms, %

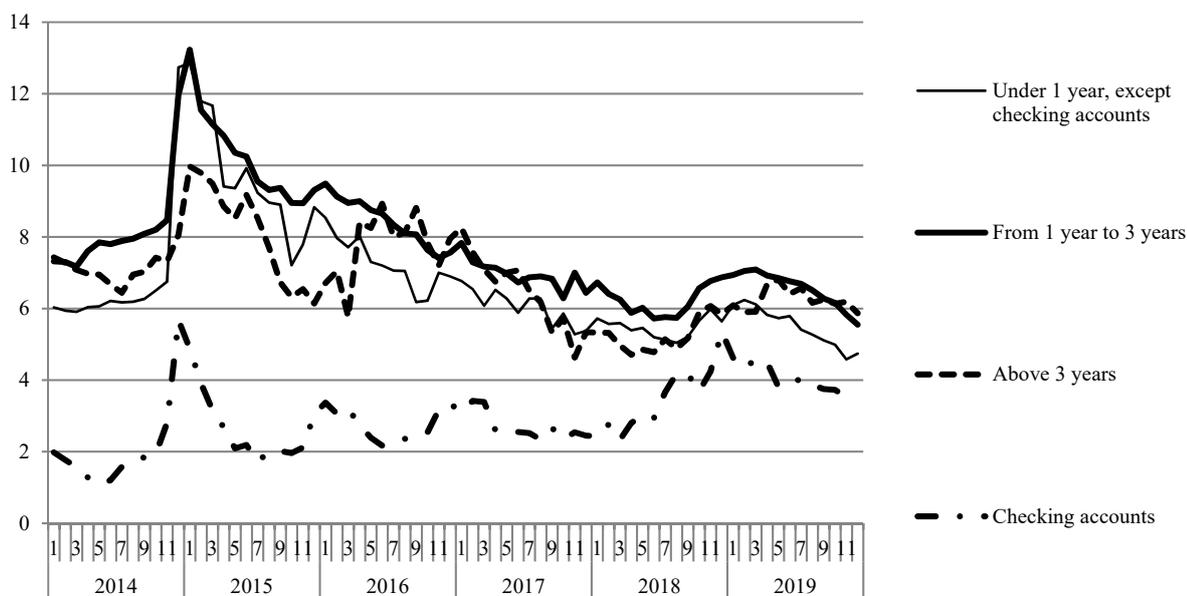
*Source:* Bank of Russia data.

First of all, this was driven by increased uncertainty and change of the banks' policy: from mid-2014 rates on long-term deposits were cut and they became less attractive for investors (*Fig. 11*). In H2 2016-H1 2017 performance of holdings for 3-year term was comparable with deposits for a fixed-term from 1 to 3 years, but in 2018 rates on "long-term" deposits again became below than on deposits for a shorter term. Over December 2019, 86 percent of the total amount of attracted retail bank ruble deposits were for under 1 year fixed-term, which is close to a record indicator of 89.6 percent of deposits opened for a fixed-term of under 1 year (including checking accounts) recorded in November 2017.

Annual amount of cash income of the population over 2019 in nominal terms went up by 6.0 percent relative to the previous year (calculated on the new Rosstat methodology), the retail bank savings moved up by 7.3 percent (comparison on January 1). As in 2018, savings growth exceeded income growth of the population and at the period-end results for 2019, the volume of bank deposits totaled 49.5 percent of the annual amount of cash incomes (a year earlier – 48.9 percent). Thus, funds of individuals deposited in banks in late 2019 were equal half of the annual income of the Russian population.

Credit exposure of the population before banks has also significantly exceeded the income growth of the population. Household debt on loans as of January 1, 2020 hit record value of RUB 17.56 trillion. During 2019, it rose by RUB 2.7 trillion or by 18.5 percent (increment

during 2018 amounted to 22.4 percent)<sup>1</sup>. In the total amount of all loans provided to the population 4.2 percent<sup>2</sup> account for past-due debt, which is significantly less than it was recorded in 2018 (5.1 percent); in nominal terms the volume of past-due debt compared to the 2018 situation has also decreased. Mortgages amounted to 42.7 percent of the credit portfolio of all loans originated for the population (as of January 1, 2020). The share of past-due debt on mortgages comes to 0.97 percent.



**Note.** Weighted average interest rates in annual terms are calculated on the back of annual interest rates set in deposit contracts and volumes of attracted in reporting period deposits. Dynamics of the indicator is determined both by the level of interest rates and by the volume of attracted funds.

Fig. 11. Weighted average rates on retail ruble bank deposits by term, % annual

Source: Bank of Russia data.

In contrast with 2018, when mortgage and unsecured consumer lending were growing practically at the same pace (23.1 percent and 22.7 percent, respectively), in 2019 mortgage loans went up by 17.1 percent and growth of unsecured consumer loans constituted 20.8 percent. Consequently, unsecured consumer loans were outstripping all other types of consumer lending in 2019. Auto lending lagging behind the general trend in 2018 (up by 14.5 percent), in 2019 caught up with dynamics of other retail loans and moved up by 17.0 percent.

The structure of the retail credit portfolio is presented on Fig. 12. Loans for one-year term constituted 78 percent in January 2014, 80 percent – in January 2016, and at December-end 2019 hit 89 percent of all loans originated to the population in rubles. The amount of auto loans during the period under review was in the range of 7–9 percent. As a year before, loans for a short-term (for one year) account for around 3 percent of the credit portfolio.

<sup>1</sup> In the development of the banking sector of the Russian Federation in January 2020. URL: [http://www.cbr.ru/Collection/Collection/File/27385/razv\\_bs\\_20\\_01.pdf](http://www.cbr.ru/Collection/Collection/File/27385/razv_bs_20_01.pdf)

<sup>2</sup> Calculated on data released by the Bank of Russia of January 1, 2020. Information on credits originated to individuals-residents. URL: <http://old.cbr.ru/statistics/pdko/sors/>

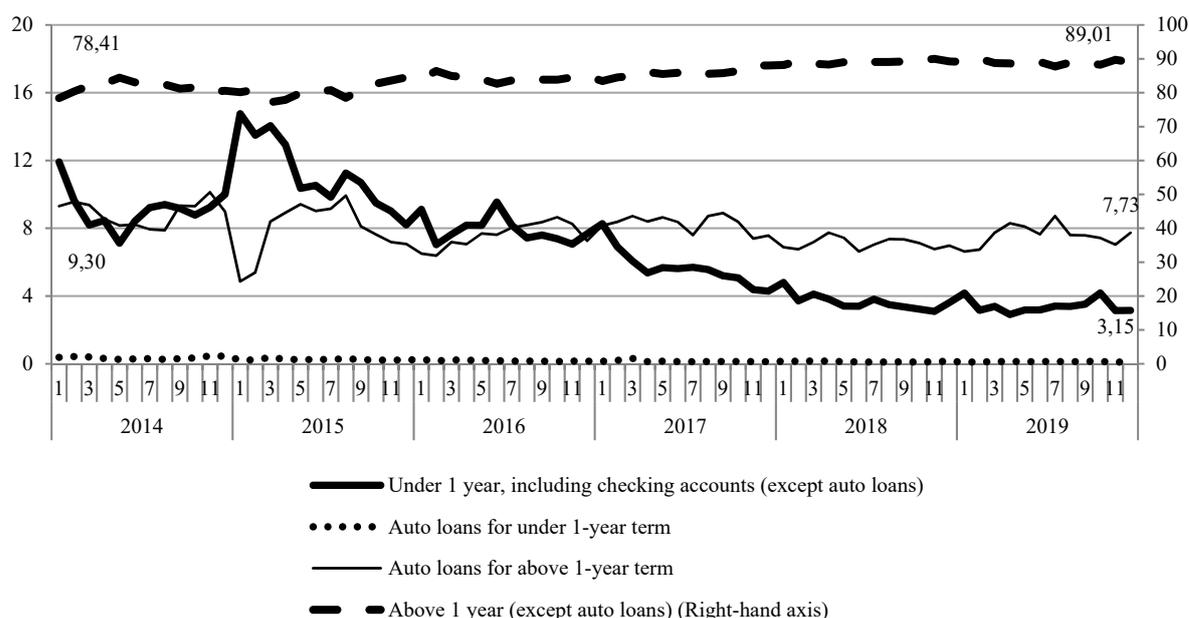


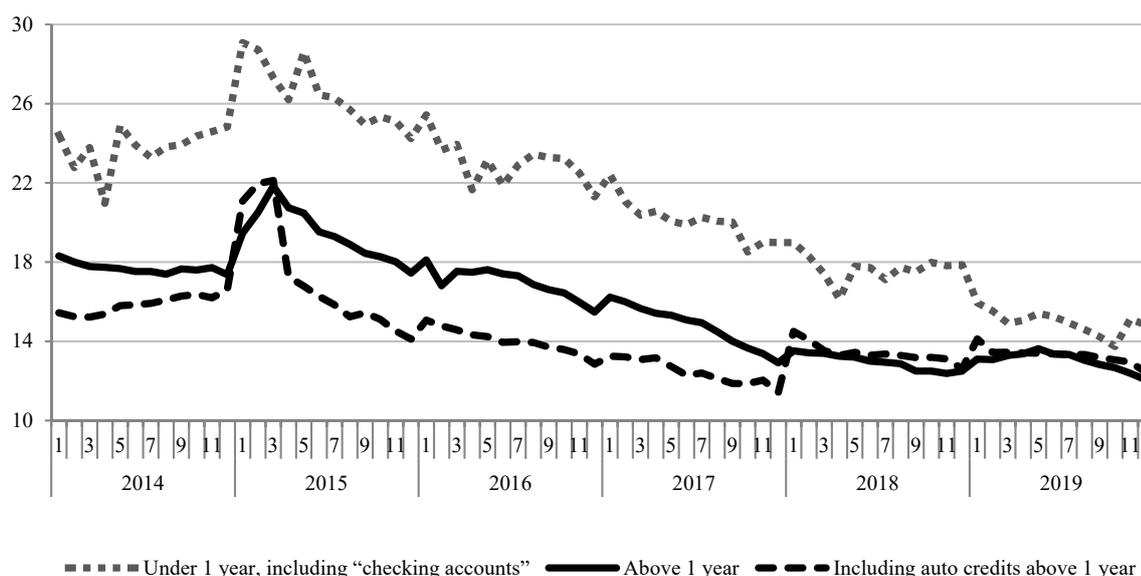
Fig. 12. Turnover structure of ruble loans originated by credit institutions to individuals, by maturity term, %

Source: Bank of Russia data.

This effect has been partly achieved by measures taken by the Bank of Russia which regulates the activity of microfinance organizations and origination to the population of exceptionally expensive “payday” credits as well as increased attention to the issue of household debt load. Banks were proactively combating bad loan debts during Q2 and Q3 which on the whole improved the quality of the credit portfolio. Besides, from October 1, 2019, increased additional changes to risk coefficients on the unsecured consumer loans with high index of debt burden came into force when the ration of payments on all credits to income exceeds 50 percent.

Dynamic of interest rates on credits represents an important feature of recent years. Interest rates were decreasing both on short-term consumer credits and on loans for a term above one year from mid-2015 through 2018 (Fig. 13). Prior to 2017 auto credits were more attractive from the point of view of the interest rates against loans for a term above one year, however in 2018–2019 we do not observe the same advantage in weighted average interest rates. In H2 2019, interest rates on consumer loans were gradually falling on the back of a reduction of the key rate of the Bank of Russia.

Reduction of interest rates on credits was one of the key factors of lending growth seen in 2018 when the credits were accessible to wider groups of population on the back of a decrease of credits service cost and amount of amount of monthly contribution. A number of borrowers in previous years refinanced their debts on a more favorable conditions. In H1 2019, mortgage rates slightly increased to 9.9–10.6 percent, but remained below those seen in 2017 and refinancing continued affecting the statistics of origination of new credits. The share of refinancing decreased from 11.5 percent reported in 2018 to 6.9 percent in 2019.



*Fig. 13. Weighted average interest rates on ruble retail credits originated by credit institutions, %*

Source: Bank of Russia data.

In 2019, 1.3 million mortgage loans totaling to RUB 2.85 trillion were originated. This was down by 13.8 percent than in the previous year in the quantitative terms and by 5.5 percent in monetary terms. Origination of new mortgage loans has practically remained on the level of the previous year amounting to 1.2 million loans to the tune of RUB 2.65 trillion (in 2018–1.3 million credits to the tune of 2.67 trillion).

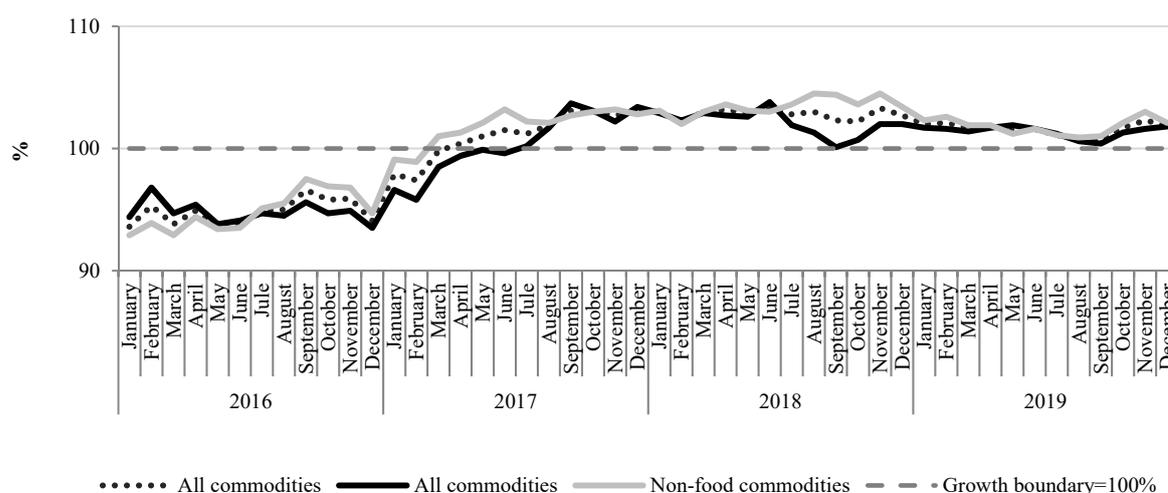
Mortgage lending remains the best segment of retail lending in qualitative terms: the debt on mortgage loans with 90 and more days past due constitutes 1.4 percent (on other retail loans – 7 percent).

The share of loans for new construction in 2019 went up from 28.9 to 32.4 percent and on the backs of mortgage loans 17.6 million sq. m of apartment blocks have been constructed. In 2019, the structure of mortgage portfolio practically did not change compared to the previous year: 72 percent are loans for new construction after commissioning, 18 percent are loans against security of co-investment contracts, 7 percent are loans against mortgage-backed securities, and 3 percent are acquired rights.

In 2019, mortgage interest rates averaged 9.9 percent, the targeted value of national project “Housing and urban environment” comes to 8.9 percent. Supply mortgage rates hit 9.0 percent in late 2019 which was the minimum for the entire period of the mortgage market. Growing popularity of the “family mortgage” program significantly contributed to the reduction of rates which amount to 5 percent and below originated by major banks. Without this program, mortgage rates on new construction in December 2019 hit 8.9–9.0 percent (December 2018 – 9.5 percent), rate on mortgage loans on the secondary market decreased to 9.3 percent (December 2018 – 9.7 percent. In Q4 2019, mortgage loans on “family mortgage” program constituted around 20 percent of the overall number of mortgages on new construction.

### 5.3. Retail sales and consumer prices

The retail turnover in the Russian Federation in December 2019 hit RUB 3.47 trillion<sup>1</sup> and increased at comparable prices by 1.9 percent year-on-year. The indicator peaked in November (2.3 percent) similar to 2018. Nevertheless, in December compared to November, increased growth rates of retail sales of food products, beverages and tobacco products (1.8 percent against 1.6 percent), meanwhile sales growth of non-food products, on the contrary, slowed down (2.1 percent against 3 percent) (*Fig. 14*). For comparison, in December 2018, the retail sales growth was faster – year-on-year amounting to 2.7 percent including 2 percent accounted for food sales and 3.4 percent for non-food products.



*Fig. 14.* Monthly dynamics of retail turnover and its components at comparable prices, in % month-on-month

Source: Rosstat.

Over 2019 as a whole, retail sales turnover hit RUB 33.53 trillion. Compared to the same period of 2018, the increment constituted 1.6 percent as a whole (a year earlier it was 2.8 percent) in comparable prices, including sales of food products increased by 1.4 percent including beverages and tobacco products, and non-food products went up by 1.8 percent (in 2018 – up by 2.1 and 3.5 percent, respectively). Thus, increase of the retail sales turnover in 2019 has slowed down both as a whole and across each of its components. Despite a decline of retail sales turnover growth rates, its dynamics year-on-year in comparable prices remains positive both as a whole and separately regarding food products (including beverages and tobacco products) and non-food products.

The structure of retail sales turnover over time changes insignificantly over the entire period of observation (from 2013), in particular, the share of foodstuffs, beverages and tobacco products accounts for a shade under half of total turnover. In 2019, the share of foodstuffs hit

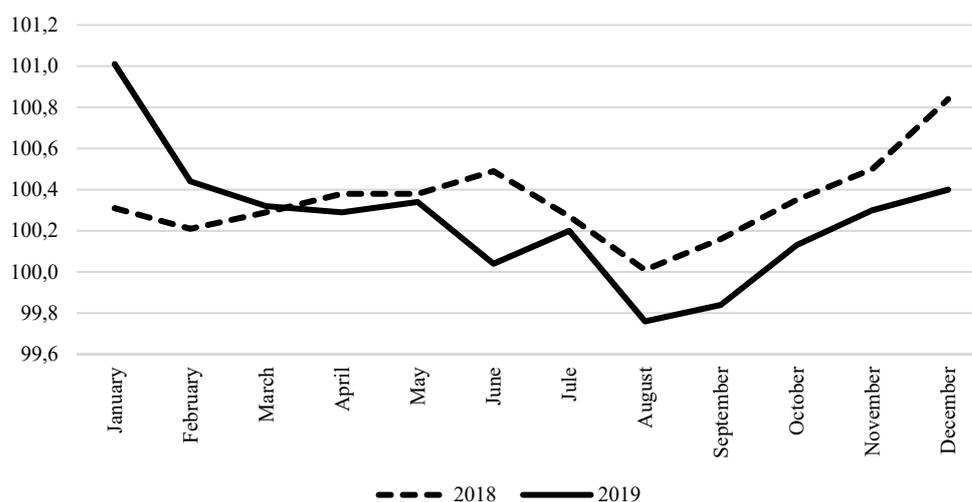
<sup>1</sup> Socio-economic situation of Russia in January-December of 2019 / Rosstat. URL: <https://gks.ru/storage/mediabank/osn-12-2019.pdf>

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47.9 percent, in 2018, for comparison it came to 47.7 percent. In December 2019, the share of food products was the same as that seen in December 2018 – 48.1 percent.

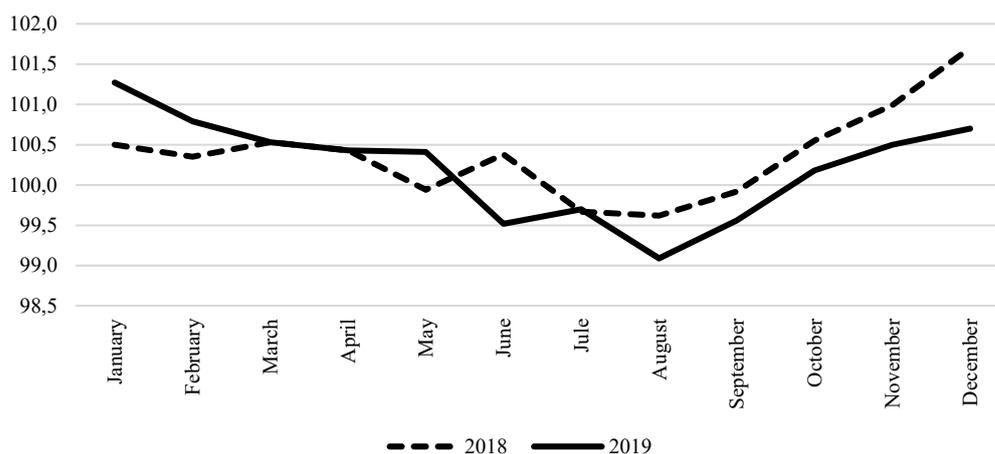
In Q1, 2019, growth of consumer prices was observed, which was due to a reaction of producers to the VAT rate rise. Nevertheless, from March the price growth rate fell and from mid-year the consumer inflation was far below than seen during the same months of 2018 (*Fig. 15*).



*Fig. 15.* Consumer price index (CPI), in % month-on month

Source: Rosstat.

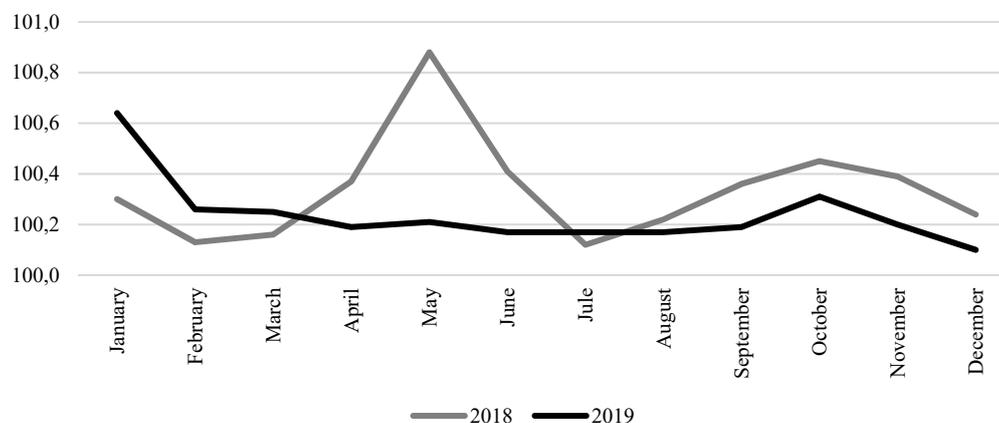
Foodstuffs' prices were growing at faster rates solely in January, February and May 2019 than in 2018. Commencing from August, the CPI on foodstuffs in relation to the previous month was significantly less than in the previous year (difference 0.4-1.0 percentage points) (*Fig. 16*).



*Fig. 16.* Consumer price index on food products, in % month-on month

Source: Rosstat

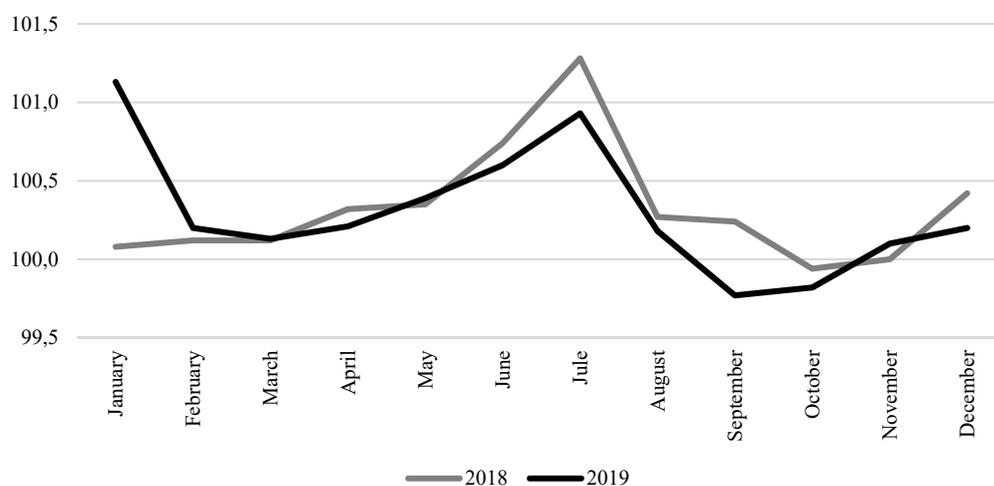
As distinct from 2018 when April to June exhibited a significant price growth, in 2019, prices on non-food products month-on-month commencing from February demonstrated a rather flat dynamic (*Fig. 17*).



*Fig. 17.* Consumer price index on non-food products, in % month-on-month

Source: Rosstat.

In 2019, tariffs growth on housing and utility services occurred in two stages at the start of the year and in mid-year in summer. This was a key factor influencing the general price dynamic on services month-on-month. *Fig. 18* exhibits price hikes on services in January and July.



*Fig. 18.* Consumer price index in services, in % month-on-month

Source: Rosstat.

December 2019 demonstrated gradual slide of consumer inflation year-on-year, which commenced in March: relative to December 2018 consumer prices increased by 3 percent, including by 2.6 percent on foodstuffs, by 3 percent on non-food products, and by 3 percent on services. For comparison, in December 2018 relative to December 2017 the index as a whole amounted to 4.3 percent (*Fig. 19*).

## RUSSIAN ECONOMY IN 2019

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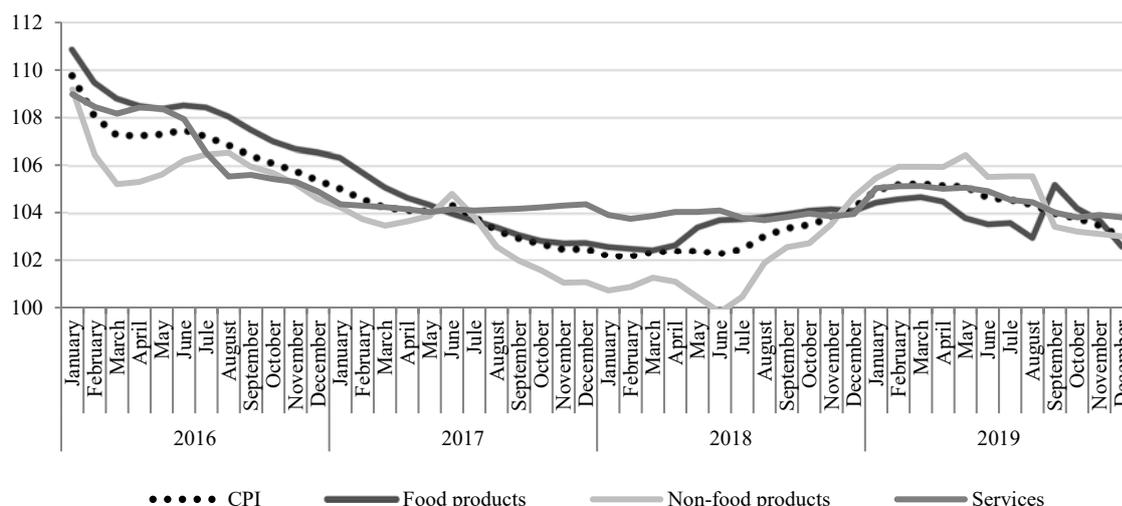


Fig. 19. Composite consumer price index (CPI), indexes of prices on foodstuffs, non-food products and services, in % year-on-year

Source: Rosstat.

Rosstat also releases data on inflation in Russia and certain EU countries. In 2019, price were growing in the Russian Federation at a faster pace than in the majority of European countries. The higher CPI was recorded only in five of European countries – Hungary, Rumania, Slovakia, Czechia, and Bulgaria (103.1–104.1 percent to December 2018). In the meantime, it should be noted that seven European countries (Luxemburg, Austria, Greece, Belgium, Portugal, and Ireland) with Russia posted lower CPI on food products than the CPI index as a whole (Fig. 20).

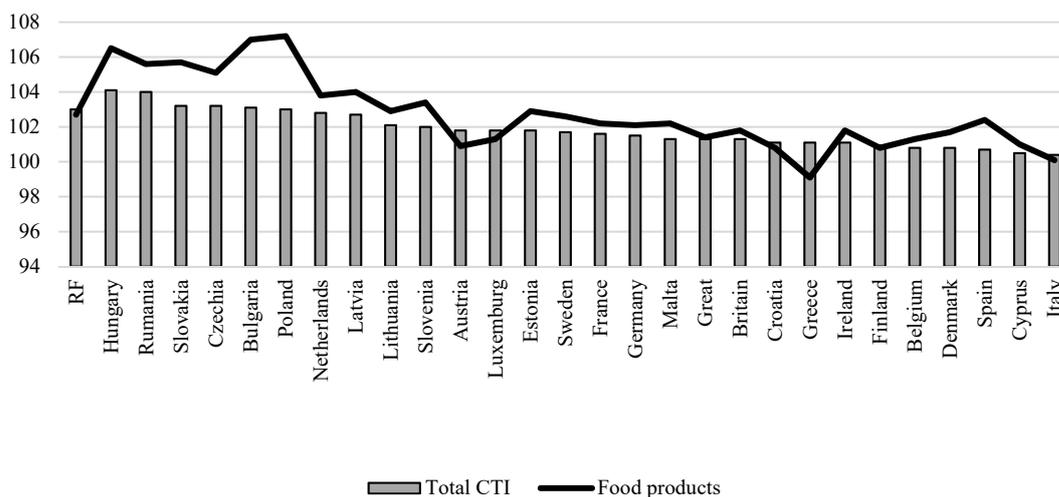


Fig. 20. CPI in Russia and EU countries in December 2019 relative to December 2018, %

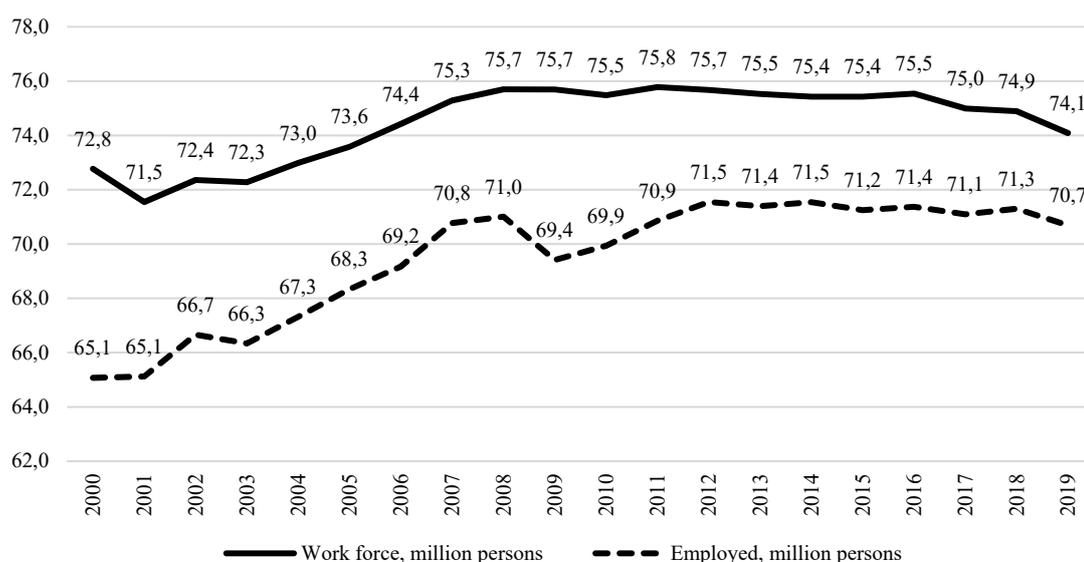
Source: Rosstat.

Regarding growth rates of consumer price index on foodstuffs Russia takes twelfth place among all review countries. Noteworthy that in Poland CPI as a whole equal that of Russia (103 percent), however, prices on food products have grown more than in Russia (107.2 percent) than on non-food products of the consumer basket.

#### 5.4. Labor market dynamics

In 2019 as a whole, the work market remained stable. All changes took far back rooted trends. The most serious changes were due to a reduction of the work force number: on average per annum the reduction amounted to 792 thousand persons or 1 percent of the 2018 level. Although, a downward trend has been dominating throughout already a decade, this is the sharpest annual decrease for the given period. Furthermore, if before 2019 decline of the work force supply was due, first of all, to a reduction of the unemployed number, then in 2019 the number of employed fell significantly (*Fig. 21*).

The level of economic activity of the population aged 15 and above declined by 0.6 percentage points due to both changes in the demographic structure of the population (population number aged 20–29 has decreased by 1.3 percent) and a reduction of the level of economic activity of those aged 25–50 by 0.6–0.8 percentage points depending on the age group.



*Fig. 21.* Number of work force and employed aged 15–72 (minus Crimea), million persons

Source: Rosstat.

In the context of a sluggish economic growth the decrease of the work force has been accompanied both by a reduction of the number of unemployed (according to the WLO methodology) and by the number of employed. In the meantime, the number of supplied workplaces in large and medium-sized organizations has even moved up by 0.8 percent hitting 33.2 million persons. Of that number, the headcount minus external part-time workers accounted for 31.8 million, external part-time workers accounted for 0.5 million, and those working on civil law contracts account for 0.9 million. At the same time, the number of workers in the informal sector of the economy has gone up by 1.5 percent according to the sample survey

data. Thus, employment decline should be observed, first of all, in the sphere of small and medium-sized enterprises.

The unemployment rate hit 4.6 percent in 2019 updating the all-time minimum. Alongside this, the number of jobless registered in employment agencies went up slightly hitting 733 thousand persons, which is evidently due to the increased amount of unemployment benefits by roughly two-fold last year. Possibly, new programs developed by Rostrud contributed somewhat which were aimed at the training of pre-retirement citizens. Nevertheless, such contribution should be considered limited because the proportion of those registered in the employment agencies remains small relative to the total number of jobless – 21.7 percent. Meanwhile, demand for the work force by employees registered in the employment agencies increased slightly in 2019. As a result, the proportion of the non-working population per year per 100 vacancies went up per 1 jobless and hit 54.4 individuals in that group.

Positive changes were observed in the composition of unemployed (according to the WLO methodology): the share of those seeking employment during 12 months and more among all jobless declined during the year from 28.5 to 23.8 percent, and the average period of seeking employment fell by 0.5 months.

Unfortunately, in the context of a decrease of the number of work places, reduction of the official unemployment was taking place not only due to much rapid obtaining employment but also owing to exit from the labor market of part of unemployed which is attested by the dynamic of the potential work force. In the first place, it consists of non-working not engaged in seeking employment but ready to work individuals.<sup>1</sup> Formally, this group does not pertain to the work force and is not beyond the labor market. Nevertheless, their representatives can be taken as reserve, which is holding back a reduction of the work force. The number of this category moved up last year by 473 thousand persons. At the same time, the number of the so called discouraged workers has increased by 284 thousand persons by over 1.5-fold.

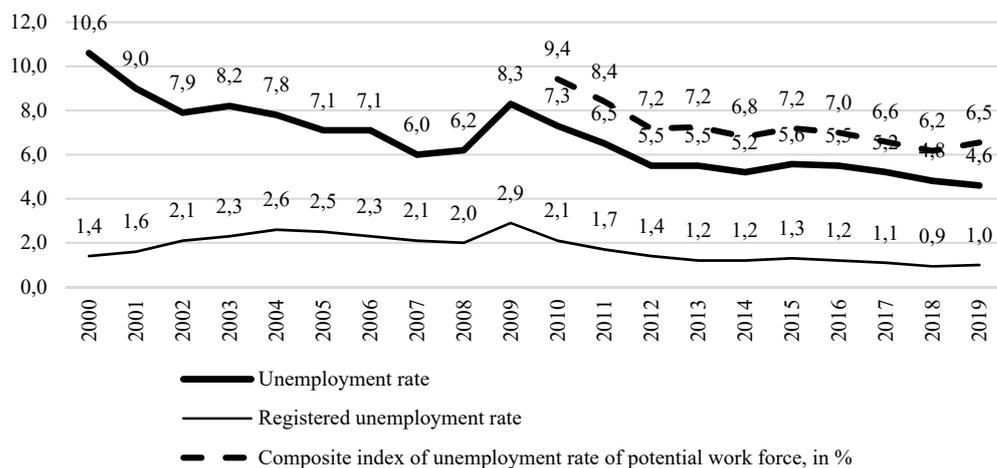


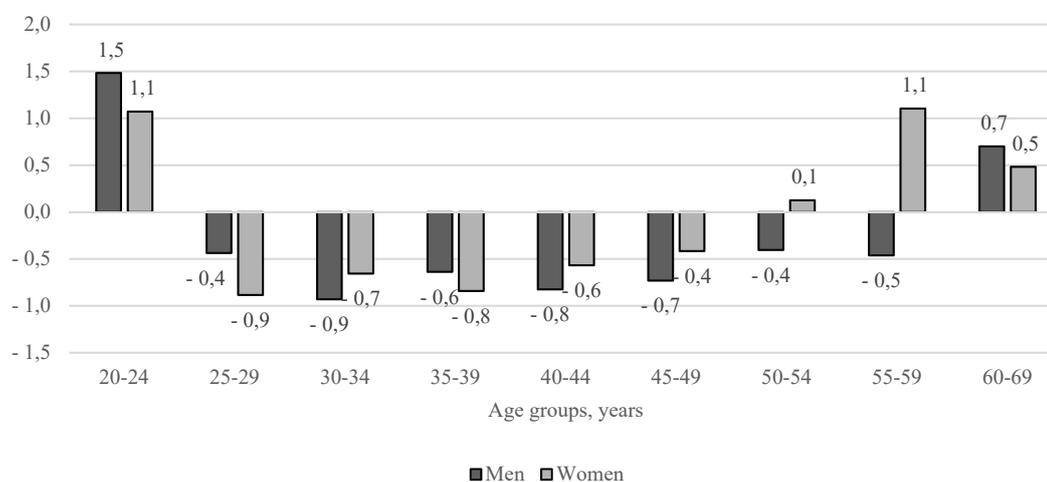
Fig. 22. Dynamics of unemployment, %

Source: Rosstat.

<sup>1</sup> Besides, this category comprises non-working, seeking employment but not available for work in the near future. The share of the latter constitutes roughly 5 percent.

The effect from the retirement age rise was practically unobserved on the labor market in 2019. On the other hand, the number of new pensioners in 2019 was less by 355 thousand persons than that without the measure<sup>1</sup>. The major part of them constituted men of 60 and women of 55. According to the data released by Rosstat, these age groups reported 51.5 percent working men and 66.9 percent working women in 2018. Correspondingly, additional influx to the labor market could not have totaled more than 100–150 thousand persons or 0.1–0.2 percent of the entire work force. The Rosstat data exhibits an increase of the economic activity in the retirement age, especially regarding women (*Fig. 23*). For instance, the rate of working women in the age group of 55–59 has gone up by 1.1 percentage points and in the group of 60–69 by 0.5 percentage points. Working men in the age group of 60–69 demonstrated growth by 0.7 percentage points. It should be pointed out that the main growth of economic activity of men and women of the retirement age was observed in the last quarter of 2019. Although partly this data could have been driven by the rise of the retirement age, the economic activity growth of the elderly population had been observed before 2019. Herewith, the dynamic of the unemployment rate across certain age groups helps to reveal that the retirement age rise has not led to the unemployment growth both neither among elderly population nor among other age groups.

The highest economic activity growth over the year has been observed in the 20–24 age group. Such dynamics can reflect changes taken place in the structure of education, decline of the number entering higher educational establishments and popularity of secondary vocational education that requires a shorter training time than in the higher education. Thus, 2019 was marked by additional influx elderly population to the labor market amid a decline of economic activity of the main able bodied age groups.

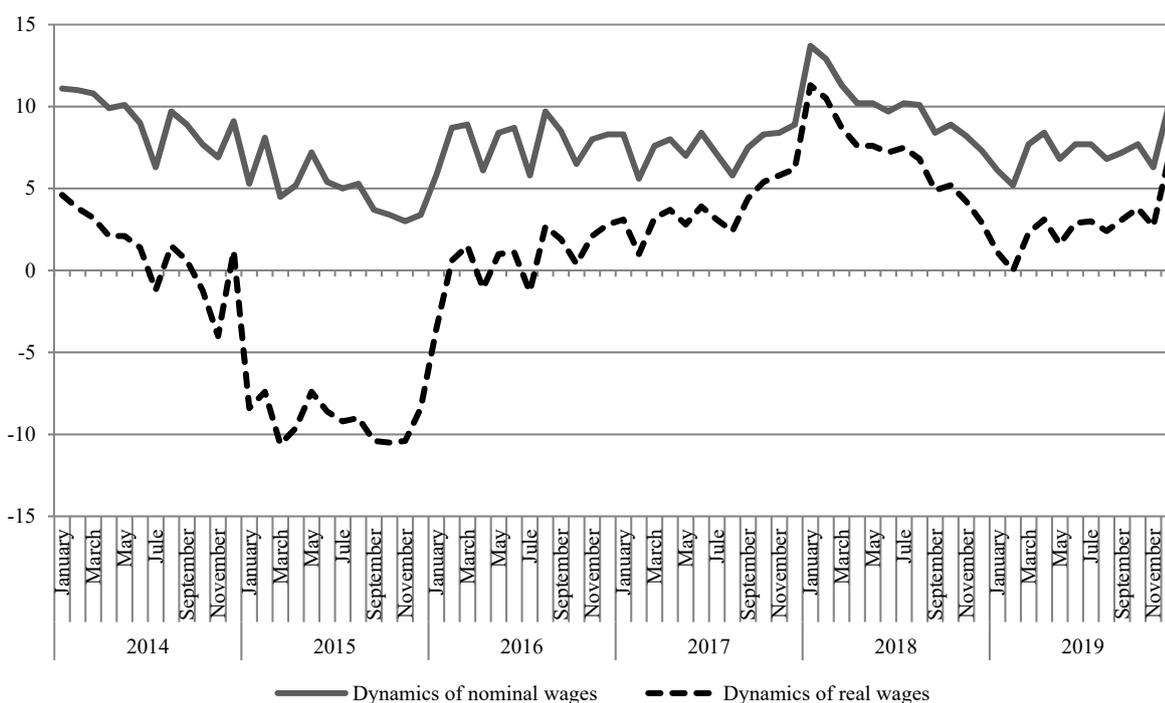


*Fig. 23.* Changes in the economic activity rate between 2019 and 2018 in various age groups, percentage point

Source: Rosstat, own calculations.

<sup>1</sup> Rosyiskaya Gazeta. The Head of PFR briefed on the falling number of pensioners. URL: <https://rg.ru/2020/01/21/glava-pfr-rasskazal-ob-umenshenii-chisla-pensionerov-iz-za-pensionnyj-reformy.html>

Following a significant growth posted in 2019, a slowdown of the wages growth rates in real terms was observed (*Fig. 24*). On average in 2019, the monthly average wages of corporate employees according to preliminary data released by Rosstat stood at RUB 47,468, which in real terms is by 2.9 percent above the year before last level. The slowdown of the growth rates is due to several factors. Whereas in 2018 the minimum wage rise and raise of wages for a number of categories of the public sector employees was pushing wages up, in 2019 raising of VAT has produced a contrary effect. Herewith, wages rise in the public sector contrary to 2018 although was above the inflation rate but became the main driver of wages growth in the country. Nevertheless, the real wage growth seen in the last year was twice as high as GDP growth. Even amid a decline on the number of employed, this indicator grew at a faster pace than the productivity rate.



*Fig. 24.* Growth in nominal and real wages, year-on year, in %

Source: Rosstat.

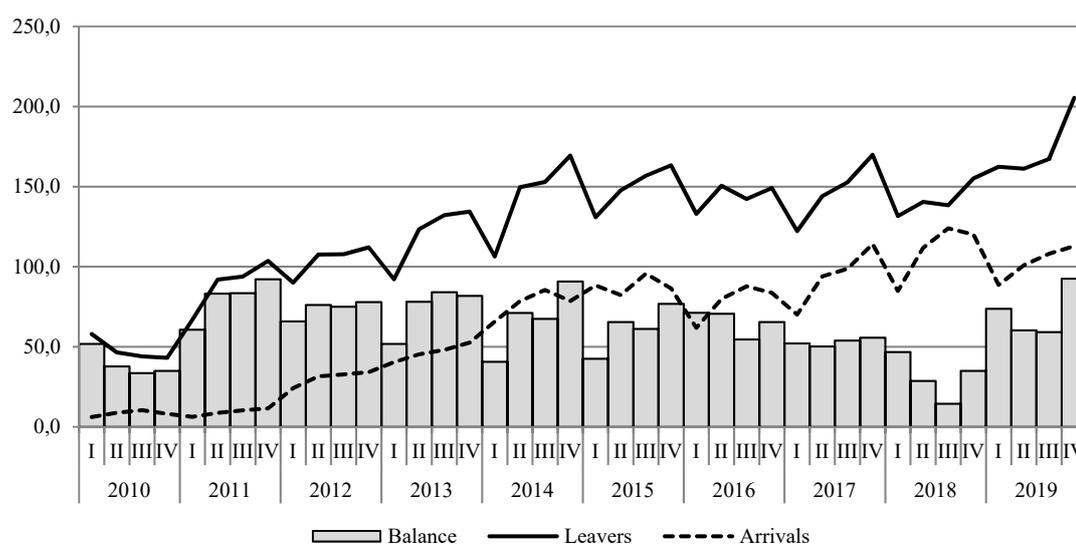
The highest wage growth was observed in the financial insurance sectors (up by 11.7 percent in nominal terms), paper and paper products manufacturing (up by 11.0 percent), mining (up by 10.7 percent), professional, scientific and technical sectors (up by 9.2 percent). At the same time, wages in oil refining average wages fell by 7.1 percent, in publishing sector down by 0.1 percent. In services sluggish growth was observed in hotel and catering sectors (up by 5.2 percent, sports, recreation and entertainment (up by 2.1 percent). In education and healthcare wages were growing by 0.1–0.2 percentage points more than on average in the economy.

## 5.5. Migration processes

### 5.5.1. Long-term migration

During 2019 positive migration balance in Russia surged year-on-year totaling 285.8 persons. It has exceeded values of recent years and moreover those reported in the year before last when it plummeted to 124.9 thousand persons. Inter alia, low net migration rate posted in 2018 was due to the problems arisen with the transfer of data from the Ministry of Internal Affairs to Rosstat. From 2019 onwards this issue was resolved but it remained unclear whether net migration rate returned to values seen in mid-2010s or it was a regular surge. Migrants count remains unbalanced, registration methodology suffers from a number of serious problems<sup>1</sup>.

Q4 2019 saw a surge of arrivals to Russia while the number of leavers remained flat quarter-on-quarter. As a result, positive migration balance in Q4 hit an all-time high and has even surpassed values seen 2011 and 2014 (*Fig. 25*). Before recent months of 2019, one could expect that the dynamics of the long-term migration indexes which were disrupted by migration count in 2018 would be stable in the course of the year. A surge of migration growth posted in Q1 2019 was regarded as a result of a plummet seen in the previous period. A hike in the rate reported at the year-end was not due to the same reason, the growth rate of arrivals is similar to that observed in mid-2014.



*Fig. 25.* International long-term migration in Russia, Q-o-Q, thousand persons

Source: Rosstat.

In 2019, even a surge in net migration rate would not have offset the ongoing natural population decline in Russia. At the year-end, migration offset natural population decline by 90.4 percent. Meanwhile, total offset of the natural population decline was reported in H2 2019

<sup>1</sup> Chudinovskikh O.S. On Revision of the UN Recommendation of 1998 on Migration Statistics in Russian Context // *Voprosy statistiki* 2019. Vol.26, No.8, pp. 61–76

(Fig. 26). Without the net migration rate, Russia would have seen a more drastic population decline in 2019.

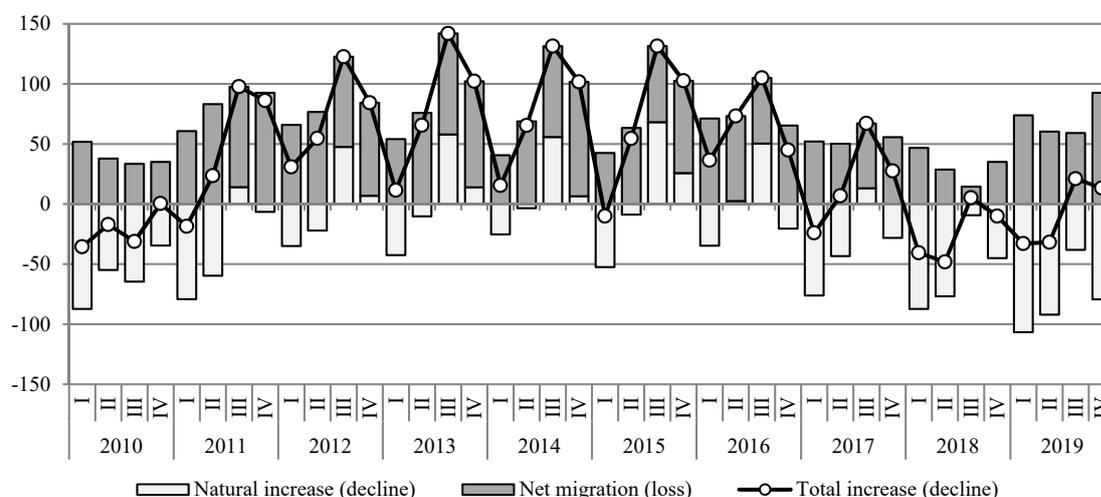


Fig. 26. Components of the change of Russia’s population count, 2010–2019, Q-o-Q

Source: Rosstat.

According to various data for 2010s, net migration rate in Russia in 2019 trails only to indexes for 2011–2013. Compared to 2018, net migration rate in Russia went up with all countries except Belorussia and Moldova. The highest migration growth was registered with Ukraine; it has surpassed not only data for the last year but very significantly data for 2013, which has triggered migration surge (Table 1). The highest net migration rate with Ukraine occurred at the year-end, only in Q4 it totaled 30.7 thousand persons—slightly less than during the first three quarters of the year.

It is still unclear, whether simplified procedure for Russian naturalization adopted in 2019 has triggered the surge. For a second time in this decade Ukraine has become the main donor country for long-term migration.

Table 1

**Positive (negative) migration balance in Russia due to international migration, by countries, 2012–2019, thousand persons**

	2012	2013	2014	2015	2016	2017	2018	2019
International migration, total	294.9	295.9	280.3	245.9	261.9	211.9	124.9	285.8
Including with CIS countries	268.4	274.9	270.2	237.8	255.3	203.4	129.1	256.4
including:								
Azerbaijan	18.1	17.2	12.4	10.7	10.4	8.6	8.7	16.8
Armenia	32	32.2	24	20.6	12	14	14.4	35.5
Belarus	10.2	3.7	6.8	4.9	2.1	11.8	7.2	6.3
Kazakhstan	36.7	40.1	40.8	34.8	37.1	32.7	26.5	39.1
Kirgizia	24.1	19.8	15.3	10	11	19.4	8.8	14.9
Moldova	18.6	20.6	17.6	17.4	14.4	9.6	7.7	5.5
Tajikistan	31.4	33.6	19.4	11.4	27.3	34.6	31	47.8
Turkmenia	3.9	3.8	2.6	2.3	2.4	2.9	3	6.2
Uzbekistan	56.3	67.3	37.1	-20.4	19.7	22.2	6.8	19.1
Ukraine	37	36.4	94.4	146.1	118.8	47.7	14.8	65.1
Other countries	26.5	21	10.1	8.2	6.7	8.4	-4.2	29.4

Source: Rosstat.

In 2019, net migration rate with Uzbekistan also went up, however compared to 2013 it is still low. Net migration rate with Armenia, Tajikistan, and Turkmenistan in 2019 was the highest during recent years, net migration rate with Kazakhstan is close to record values.

Russia's immigrant population growth was due to such far abroad countries – China, Vietnam, India, and Syria. Whereas, immigration balance with developed western countries remained flat. It should be noted that the long-term migration from this group of countries has been counted unsatisfactorily, data released by statistics agencies of those countries differ from the Russian data several-fold or even by ten times.

In 2019 compared to the previous year the number of internal long-term migrants contracted by 298.2 thousand persons or by 6.9 percent. Such fluctuations has been repeatedly noted, for example, in 2018 indicator increased by 3.8 percent. On the whole, the scale of migration within the country after two-fold growth in 2011–2012 due to a change of count methodology.

Data across regions for January-November 2019 demonstrate a significant reduction of net migration rate in Moscow and St. Petersburg against the corresponding period of the previous year. At the same time, net migration rate in Moscow and Leningrad regions has not changed. Many Russian regions on the back of a surge of positive migration balance due to international migration has improved net migration rates. If in January-November 2018 Russia boasted of solely 20 regions with total net migration, then in 2019 their number moved up to 39. The sharpest growth of net migration rate was reported in Rostov region, Stavropol krai, Samara and Nizhniy Novgorod regions. However, However, There's no point to come to conclusions on the change of priority migration strands. Possibly, this is due to already mentioned increased growth from Ukraine of by other factors. Partly situation can be revealed by more detailed data but it has not been released yet.

Significantly feel negative migration balance in Far East federal district (-10.3 against -29.8 thousand persons for corresponding period of 2018), even despite the entry into it of two regions with stable migration loss – Zabaikalsky krai and Republic of Buryatia. Migration loss has also contracted from Siberian district. However, it still remains unclear what role in the population balance of the district has been played by internal and international migration including with China and other countries of Asia. The migration balance with these countries is highly unstable and is marked by sharp spikes, growth in one year is replaced with a loss in another one. To what extent has changed the key index – outflow of population from the Far East westbound – will be clear solely following the release of the data on internal and international migration.

### 5.5.2. Temporary migration

In 2019, the number of temporary arrivals of foreign citizens to Russia notably increased Y-o-Y. During the year the number of arrivals fluctuated in the range of 9.5 million to 11.2 million persons, in certain months, indexes exceeded the 2015 – 2017 data, however the 2013 – 2014 level has not been reached so far. At year – end of 2019, Russia hosted 10.4 million foreign citizens (at late 2018 – 9.7 million), maximum values (11.2 million) were observed in late September-early October (in 2018 recorded 10.2 million at the same time). The highest contribution to the index growth was made by tourists, migrant workers and arrivals for private purposes.

The vast majority of temporary arrivals were citizens of CIS, as of end of 2019 they numbered 8.23 million persons (as of end of 2018 – 8.19 million), which is 79 percent the total number of arrivals. Top three countries remain unchanged so far – Uzbekistan, Ukraine, and Tajikistan (*Table 2*), however Ukraine is already second to Uzbekistan.

Table 2

**Arrivals of CIS citizens to the Russian Federation as of date, persons**

	05.11.14	05.11.15	01.11.16	01.11.17	01.11.18	01.11.19
Azerbaijan	610327	532321	527615	597938	660314	759095
Armenia	514663	504971	509070	507790	507557	497685
Belarus	498878	634861	744653	699463	656815	690265
Kazakhstan	575400	685841	607044	545852	545592	559033
Kirgizia	552014	526502	581197	619498	654892	737769
Moldova	586122	517692	495463	448728	361397	315484
Tajikistan	1105500	933155	964030	1037729	1155114	1292240
Uzbekistan	2335960	1943384	1671931	1793664	1961814	2083452
Ukraine	2651109	2566377	2590568	2217642	1987752	1795225
Total	9429973	8845104	8691571	8468304	8491247	8730248

Sources: data released by FMS RF and General Administration for Migration Issues MIA RF.

Trends of growth and contraction of stay of CIS citizens does not practically change over recent years. Migration from the EAEU countries was stable except from Kirgizia—the number of citizens of that country in Russia exceeds the 2014 value by one third. Year-on-year migration from Azerbaijan, Tajikistan, and Uzbekistan demonstrates an upward trend. Having said that, regarding first two countries the pre-crisis stay values have been surpassed and the number of citizens from Uzbekistan so far is below the pre-crisis level by 10–12 percent. Simultaneously, the number of temporary arrivals from Moldova and Ukraine demonstrate downward trend.

2019 for the first time recorded a notable growth of arrivals from developed countries (Table 3); tourists have contributed most to this growth, although their number is only half of the number seen in the pre-crisis years. Compared to the previous year, the number of arrivals with other purposes increased y-o-y, for example, the number of arrivals with employment purpose increase by one third from 23 thousand to 31 thousand persons (end-year data).

Table 3

**Arrivals of foreign citizens from several countries of EU  
and USA to Russia as of date, persons**

	13.11.13	01.11.15	01.11.16	01.11.17	01.11.18	01.11.19
EU as a whole	1177829	481567	516368	448566	462276	696208
Germany	352335	122131	115425	111792	108591	153018
Spain	77200	15864	15579	14337	16127	31579
Italy	77193	30489	28244	24388	25761	43751
Great Britain	174061	38637	29142	23944	23020	30216
Finland	108312	46513	99065	73715	64819	87517
France	65559	35968	29268	26963	30010	54560
USA	220086	50638	52840	44370	46988	60612

Source: data released by FMS RF and General Administration for Migration Issues MIA RF.

As of late 2019, Russia hosted 3.9 million migrant workers (as of late 2018 – 3.76 million), the CIS citizens account for 3.77 million (97 percent), and citizens from far abroad – 131 thousand persons. The number of migrant workers in Russia demonstrates an upward trend, although y-o-y growth is moderate – 3–5 percent. CIS countries minus Ukraine and Moldova account for the major part of the migrant workers increase. The latter citizens oftener choose European countries for work.

For the third year in a row the share of migrant workers in Russia with authorization documents stays flat: at 2019 year-end 1.73 million had effective papers for employment (work permits and patents) and 1.1 million were eligible for hire without papers (EAEU citizens), i.e. 72 percent of migrant workers could officially get employment in the Russian Federation (this

proportion fluctuated around 70 percent in previous years. The lack of significant progress in the sphere of migrant workers' authorization demonstrates inefficiency of legislative and law-enforcement novations in current economic environment.

The index of new authorization documents for migrant workers moved up slightly compared to two previous years and still accounts for a half of the 2014 level (*Table 4*).

*Таблица 4*

**Filing of authorization documents for migrant workers in RF,  
January-December, persons**

		2014	2015	2016	2017	2018	2019
Work permits for foreign citizens (FC)*		1334899	177175	133215	139595	120666	117452
Including:	WP for qualified specialists (QS)*	158644	22099	14775	17333	19360	16877
	PWork permits for highly qualified specialists	34225	41829	25469	21363	25845	31754
Patents**		2379374	1779796	1492203	1658119	1649121	1686418
<b>Total</b>		<b>3714273</b>	<b>1956971</b>	<b>1625418</b>	<b>1797714</b>	<b>1769787</b>	<b>1803870</b>

\* – From January 1, 2015 issued for from visa regime countries.

\*\* – From January 1, 2015 issued from visa-free regime countries for hire by physical and legal entities.

Migrant workers continue notably replenish regions' budgets: during 2019 advance payments for patents totaled RUB 60.4 billion (in 2018 – 57.3 billion). To a higher degree than before migrants from Uzbekistan and Tajikistan account for over 90 percent of issued patents (in 2018 – 88 percent, and in 2017 – 86 percent). Each year there are fewer citizens from Ukraine account who obtain patents – 4.7 percent (in 2018 – 6.5 percent, and in 2017 – 7.9 percent).

Analysis of the flow of migrant workers to Russia in 2019 demonstrates that the interest towards the labor market in Russia has not been lost by the majority of our neighbors. Having said that, one should acknowledge that migrant workers from the countries that have alternative strands of migrant employment (Ukraine and Moldova) prefer to choose otherwise than Russia. The inflow of migrant workers in 2020 will be adversely affected by the restrictions put in place amid the spread of the coronavirus pandemic. The amount of the inflow for time-wise will undoubtedly depend on the timeframe of the restrictions put in place but in any case will see a decrease in annual terms. This been said, pandemic induced economic recession will somewhat reduce the demand for the migrant workers.

## 5.6. Demographic situation

The number of resident population in Russia as of January 1, 2020 (by preliminary data released by Rosstat) totals 146.7 million persons (*Fig. 27*). This index is below that seen for 2019 by 35.6 thousand. Contraction of the total number of Russia's population has been ongoing for a second year in a row. For 2018–2019, the total population loss numbered 135.3 thousand persons. The average population of Russia for 2019 hit 146.8 million persons. That index is below the one seen in 2018 by 0.05 percent or by 67.7 thousand persons.

Contraction of the total population is due to a natural population loss, the net migration stopped offsetting it. In 2019, deaths outnumbered live births by 316.2 thousand persons (*Fig. 28*), this value exceeds the one seen in 2018 by 41.7 percent (by 93 thousand persons). Last time such population loss was observed in 2008 (362 thousand persons). Natural population growth (loss) rate in 2019 stood at -2.2‰ less than seen in 2018 by 37.5 percent

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(-1.6‰). Natural population decline currently is due both to the ongoing significant birth rate contraction and insignificant reduction in death rates.

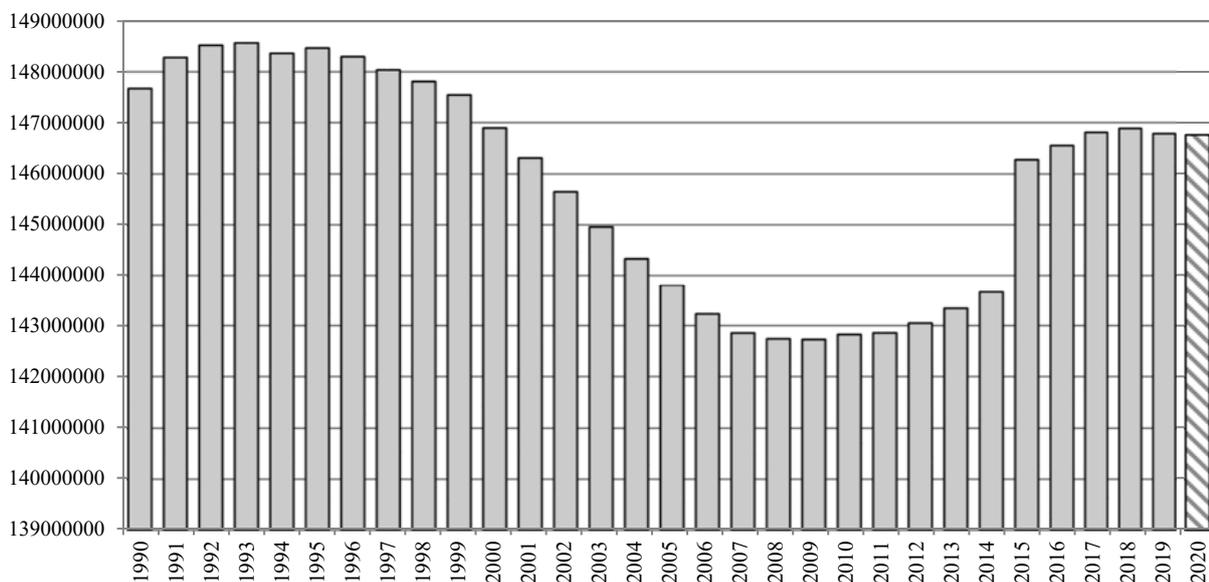


Fig. 27. Number of resident population as of January 1, 1990–2019, persons

Source: data released by Rosstat.

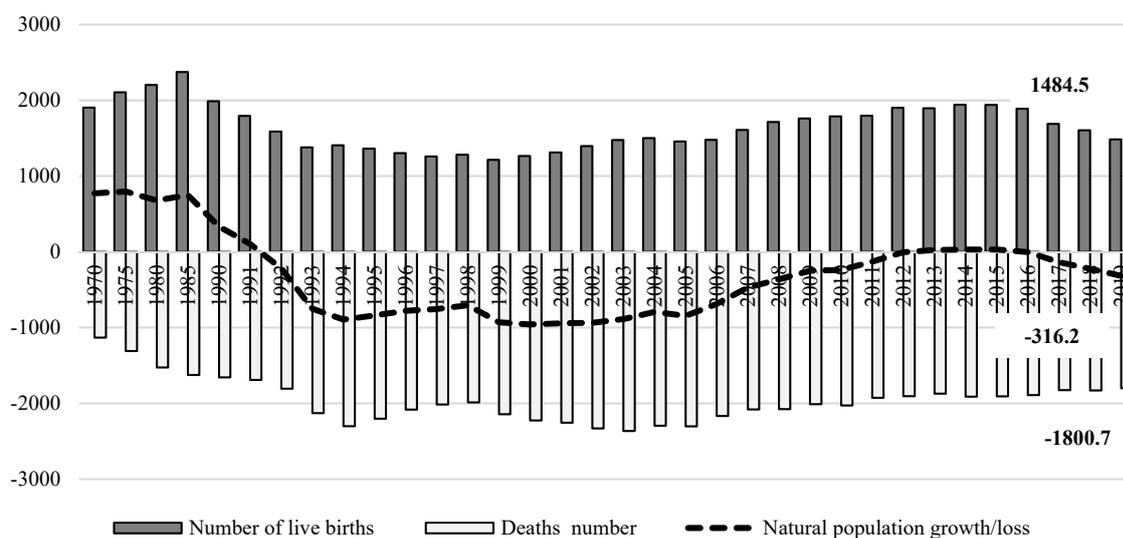


Fig. 28. Number of live births, deaths and natural population growth (loss), 1970–2018, thousand persons

Sources: Unified Interdepartmental Statistical Information System (UISIS), flash data released by Rosstat.

Population decline has been observed in the majority of Russia's regions. However, there are regions with a population increase (Fig. 29). Maximum values of natural population loss have still been observed in Pskov (-8.4‰), Tula (-8.3‰), Ivanovo (-7.9‰), Novgorod (-7.7‰),

Tver (-7.7%), Vladimir and Smolensk regions (-7.5%). The highest natural population increase has been recorded in North Caucasus regions (but even there dynamic is negative – growth stood at 6.2 percent against 6.9% seen in 2018 across North Caucasus Federal District on average), in Republics of Tyva and Sakha, Tyumen region and its autonomous districts.



Fig. 29. Natural population growth (loss), 2019

Source: flash information released by Rosstat.

2019 demonstrates contraction of both births and the crude birth-rate. Number of live births in 2019 hit 1,484.5 thousand persons down by 7.5 percent (down by 120 thousand persons) year-on-year. Live births peaked in July (Fig. 30) with 140.7 thousand births. The bottom index was observed in February (113 thousand persons).

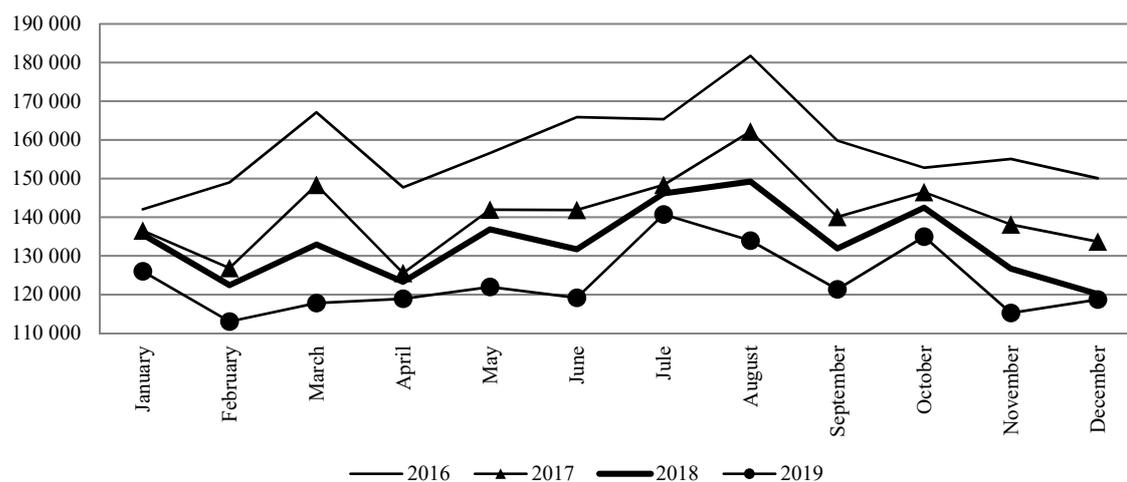


Fig. 30. Number of live births, January-December 2016–2019, persons

Sources: UISIS, flash data released by Rosstat.

In 2019, crude birth-rate stood at 10.1 percent which is down by 7.3 percent against the 2018 index (10.9%). Rate reduction has been demonstrated by practically all the Russian regions except Karachaevo-Cherkassia Republic, Moscow and Republic of Ingushetia. The number of live births in those regions went up by 2.7 percent (by 133 live births), by 2.5 percent (per 3.4 thousand births) and 1.9 percent (by 60 live births), respectively.

The total fertility rate (TFR) is being used as the most truthful integral description of the birth rate. This rate demonstrates average number of births per woman in a hypothetical generation for her entire life while retaining existing birth rates in each age group independent of death rate of age composition. In 2019, the total fertility rate in Russia numbered 1.51 child births per woman of reproductive age. This is by 4.4 percent less than the 2018 level (1.58). This index has been falling from 2016. According to UISIS, this indicator’s decline has been observed in all regions except Karachaevo-Cherkassia Republic (by 5 percent), Kamchatka krai (by 1 percent), and city of Moscow (by 7 percent). This index demonstrates the highest contraction in Chukotka autonomous district (by 17 percent), Kaluga, Ivanovo, Moscow, Vladimir regions and Republic of Altai (by 9 percent).

The highest total fertility rate during 2019 was exhibited by Republic of Tyva (2.97 live births per woman of reproductive rate), Chechen Republic (2.6), Republic of Altai (2.35), Nenets AD (2.24), Republic of Buryatia (2.04), Chukotka AD (2.02), Sakhalin region (1.95), and Ymal-Nenets AD (1.9) (*Fig. 31*).



*Fig. 31. Crude birth-rate, 2019, per woman of reproductive age*

Source: UISIS.

The feature of the current situation consists not so much in the overall birth rate decline as in dynamic of its components regarding sequence of births. Reduction of the total fertility rate stems from a decline of number of births across all birth order. At 2019 year-end, total first births rate averaged at 0.65 per woman. This is below the same rate for 2018 by 2 percent (in 2018 – 0.66). The reduction is drastic against the backdrop of 2010–2015 when it fluctuated at relatively high rate of 0.8 births. Such low rate of first births was observed in Russia only once in 1999 at the “bottom” of the birth rate downward trend. Reduction of the first births rate has been observed in the majority of Russian regions. Eight regions demonstrate growth of this rate, in nine regions it has remained at the 2018 level (*Fig. 32*).



Fig. 32. Cumulative first live births rate, 2019, per woman of reproductive age

Source: UISIS.

Aggregate second births rate commenced declining in 2016 and in 2019 stood at 0.53 live births. This index is lower than that seen in 2018 by 9 percent (in 2016 it stood at 0.69, in 2017 – 0.6, and in 2018 – 0.58 live births). Reduction of second births number has been observed in all regions except Kamchatka krai (up by 11 percent against 2018), Moscow (by 4 percent), Sebastopol (by 2 percent), and Republic of Ingushetia (retains 2018 level).

Republic of Tyva (0.84), Nenets AD (0.74), Sakhalin region (0.7), Khanty-Mansi AD (0.66), Jewish AD (0.65), and Republic of Altai (0.64) demonstrate the highest second births rates (Fig. 33). The lowest second births rates have been observed in the Republic of Ingushetia (0.37), Leningrad region (0.39), Karachaevo-Cherkassia Republic (0.44), Voronezh, Smolensk, Tula, and Tomsk regions (0.45).



Fig. 33. Cumulative second live births rate, 2019, per woman of reproductive age

Source: UISIS.

Rate of third and subsequent live births in 2019 stood at 0.33 live births. This is lower than that seen in 2018 by 3 percent (in 2018 – 0.34 live births, in 2017 – 0.31 live births). Reduction of cumulative third and subsequent live births has been observed in 26 regions, in 29 regions it stayed at the 2018 level, and the rest of the regions demonstrate rate growth. The highest rates have been noted in Chechen Republic (1.25), Republics of Tyva (1.15), Ingushetia (1), Altai (0.79), Dagestan (0.68), Sakha (0.62), and Nenets AD (0.71). The bottom rate of third and subsequent live births are being demonstrated by Sebastopol (0.2), Belgorod, Smolensk, Voronezh, Leningrad regions, Republic of Mordovia (0.21), St. Petersburg (0.22), Briansk, Penza, and Ivanovo regions (0.23) (*Fig. 34*).



*Fig. 34.* Cumulative rate of third and subsequent live births, 2019, per woman of reproductive age

Source: UISIS.

Besides a change in the number of women of reproductive age, a change in the age related birth rate profile. Recently, there was a shift in the birth rate towards women of older age. In 2018<sup>1</sup> the highest fertility rate was observed among 20–24, 25–29, and 30–34 age groups. The mean maternal age has been growing, most significantly the shift occurred at the mean age of the mother at first birth, in 2018 it came to 25.9 years (second child – 29.6, and third – 32 years).

2019 demonstrated a contraction both in the death rate and in crude death rate. Absolute mortality rate in 2019 stood at 1,800.7 thousand cases down by 1.5 percent (by 27.2 thousand) against the same period y-o-y. The highest mortality rate was recorded in January (172.4 thousand persons) and the minimum absolute mortality rates were reported in June (137.3 thousand persons) (*Fig. 35*).

The crude mortality rate in 2019 stood at 12.3 per 1,000 of population. This is by 1.6 percent lower than that of 2018 (12.5‰). By flash data released by Rosstat, in 2019 the gap between the minimum and maximum crude mortality rate in Russian regions constituted 14 permille. The highest rate has been demonstrated by Pskov region (16.9‰), and the lowest – Republic of Ingushetia (2.9‰). The crude mortality rate peaks in regions with high proportion of old age population (Pskov, Novgorod, Tver, Tula, Ivanovo, and Vladimir regions). Low rates have been

<sup>1</sup> Detailed information on age composition of birth rate for 2019 will be available solely in August 2020.

commonly demonstrated by regions with younger population composition (Republic of Ingushetia, Chechen Republic, Republic of Dagestan, Yamal-Nenets AD, and Khanty-Mansi AD).

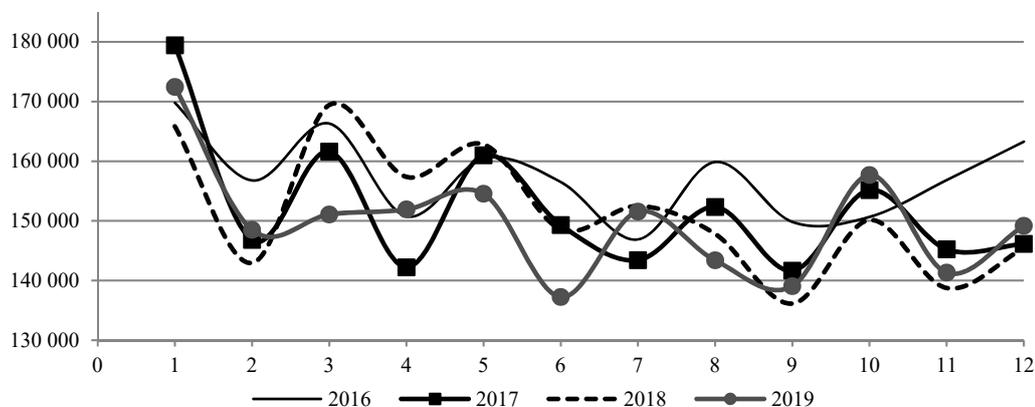


Fig. 35. Mortality rate, January-December of 2016–2019, cases.

Sources: UISIS, flash data released by Rosstat.

Compared to the same period of 2018, in 2019 growth of the crude mortality rate growth was observed in 18 regions (from 0.8 to 5.5 percent), in 6 regions it remained at the 2018 level, and in the remaining regions – declined. The highest growth of the index is observed in Khabarovsk krai (by 5.5 percent), Amur region (by 5.3 percent), Jewish AD (by 5.2 percent), Republic of Buryatia (by 3.7 percent) (Fig. 36). A significant decline in the mortality rate is demonstrated by Chukotka AD (by 7.1 percent), Republic of Ingushetia (by 6.2 percent), Chechen Republic (by 8.7 percent), Kabardino-Balkar Republic ((by 9.4 percent), Nenets AD (by 6.6 percent), Tyva (by 5.7 percent), Mariy El (by 4.7 percent), and Tatarstan (by 4.3 percent).

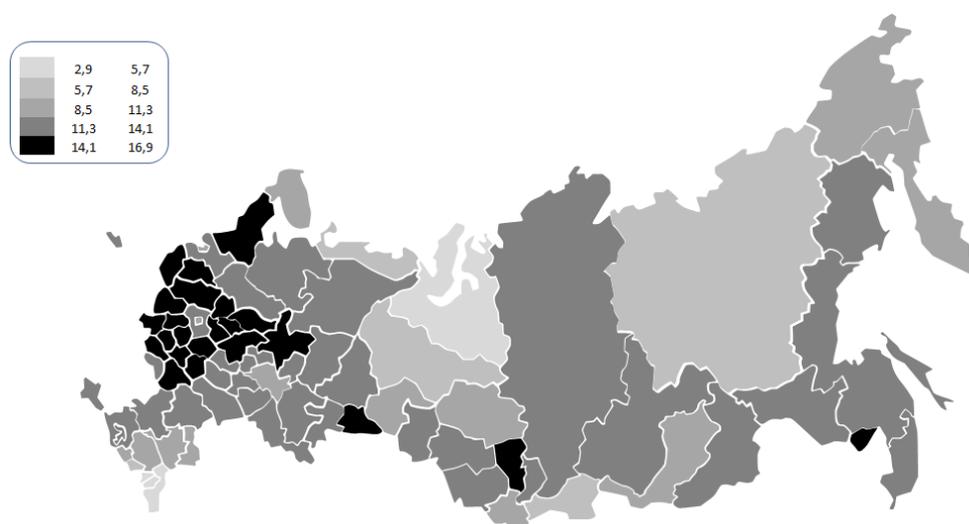


Fig. 36. Crude mortality rate region-wise, 2019, in percent

Source: flash data released by Rosstat.

The crude mortality rate gives a change to swiftly but very approximately to assess mortality trends in the country. As far as the mortality rate to a significant extent depends on age and gender, the crude mortality rate value is also strongly affected by the age composition of the population. More detailed information on mortality rate gender- and age-wise are released based on the findings of annual statistics, and they were unavailable for 2019 at the date of preparation of the review.

The infant mortality rate is the number of deaths of under one year of age per 1,000 live births remains an important mortality index and of a quality of life as well. The infant mortality rate continues falling. During 2019, the index stood at 4.9 cases per 1,000 live births. This was lower by 3.9 percent than that in 2018. The regional divide in the infant mortality rate has increased. Over 2019, it came to 11.3 percent. In 2018, this index stood at 9.5 percent. The regional divide increase between the minimum and maximum indexes triggered an increase in the maximum index (11.1 percent – in 2018 against 12.7 percent – in 2019).

The highest infant mortality rate of children under one tear of age has been observed in Chukotka AD (12.7‰), Republic of Altai (11.2‰), Jewish AD (9.3‰), Kamchatka krai (8.4‰), Republic of Dagestan (7.5‰), and Kostroma region (7.4‰). Republic of Kalmykia (1.4‰), Nenets AD (1.7‰), Lipetsk region (2.9‰), Leningrad region (2.9‰), Belgorod region (3‰), Kirov region (3.1‰), and Chuvash Republic (3.3‰) boast of minimum infant mortality rates.

35 regions recorded growth of the infant mortality rate (compared to the same index in 2018), 4 regions reported the rate at the 2018 level, and in the remaining regions it decreased. The highest growth was recorded in Magadan region (by 79 percent), Sakhalin region (by 53.6 percent), Kamchatka krai (by 47 percent), Tambov region (by 46 percent), and Khanty-Mansi AD (by 41 percent (*Fig. 37*)).



Fig. 37. Infant mortality rate, 2019 in % to 2018

Source: flash data released by Rosstat.

One of the key factors of Russia staying behind the developed countries regarding life expectancy at birth is high premature mortality. It is due among other to mortality from

noninfectious diseases (diseases of cardiovascular system, tumors, respiratory system, endocrine system, nutrition disorders and metabolic disorder). In 2019, these diseases caused 68.7 percent of the total number of deaths (in 2018 – 68.3 percent). Among the reasons of mortality by causes of death still dominate cardiovascular diseases (46.7 percent), hereafter in the descending order follow tumors (16.4 percent), other types of diseases (11.5 percent), external causes (7.1 percent), nervous system disorders (5.6 percent), digestive system diseases (5.4 percent), diseases of respiratory system (3.2 percent), endocrine system diseases, nutrition disorders and metabolic diseases (2.4 percent), infectious and parasitic diseases (1.7 percent).

Compared to the same period of 2018, the mortality rates demonstrate reduction from external causes (by 4.9 percent), respiratory system diseases (by 3.7 percent), blood circulation diseases (by 1 percent), from infectious and parasitic diseases (by 3.6 percent), from nervous system diseases (by 10.5 percent). However, not all causes of death demonstrate an upward trend. Causes of death from endocrine system diseases, nutrition disorders and metabolic disorders (by 0.7 percent), digestion system diseases (by 3.4 percent), tumors (by 0.7 percent) were higher in 2018 against 2018.

One of the key integral mortality rates is life expectancy. At present, data on life expectancy for 2019 is not available yet. However, Russia for the first time commenced to define healthy life expectancy in 2019. Healthy life expectancy defines as how long at a certain age a person has healthy life, i.e. without any serious health problems. This indicator has been proactively used by the WHO for monitoring the situation in the healthcare system in different countries and development of practical proposals for an increase or decrease of regional divide. According to Rosstat data, in 2019 life expectancy in Russia stood at 60.3 year. This is lower than that seen in 2018 by 12.6 years. According to previous estimates made by the WHO<sup>1</sup> (2016) healthy life expectancy indicator equaled 63.5 years (*Fig. 38*). Despite the discrepancy in the indicator released by Rosstat (2019) and by WHO (2016), it should be noted that Russia is way below the countries of Western and Eastern Europe both by life expectancy and by healthy life expectancy. At present, the index calculated by Rosstat is the most reliable of all available.

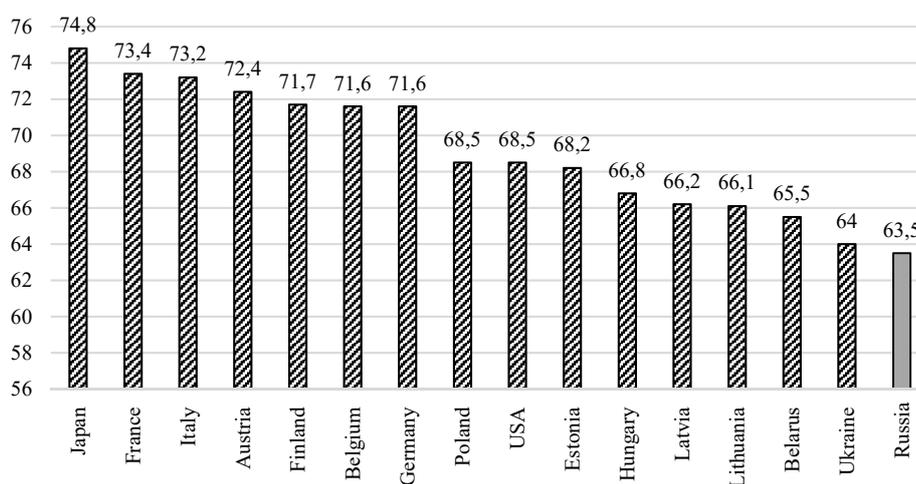


Fig. 38. Healthy life expectancy, 2016 years

Source: WHO03.

<sup>1</sup>Healthy life expectancy (HALE). URL: <http://apps.who.int/gho/data/view.main.HALEXv?lang=en>.

The Rosstat data allows to assess the regional divide of healthy life expectancy (*Fig. 39*). The discrepancy between the maximum and the minimum healthy life expectancy rate stood at 18 years in 2019. Republics of Ingushetia (67.2 years), Dagestan (66.2 years), Tatarstan (65.4 years), Chechen Republic (66.1 years), and Moscow (65.1 years) demonstrate the highest healthy life expectancy rates (*Fig. 39*). The minimum healthy life expectancy rate is recorded in Chukotka AD (49 years), Jewish AD (53 years), Orel region, Nenets AD, Briansk region (55.7 years), Sebastopol (55.9 years), Republic of Mari El (56 years), Magadan region (56.1 years), Yamal-Nenets AD (56.5 years), Altai krai (56.8 years), and Pskov region (56.9 years).



*Fig. 39.* Healthy life expectancy rate, 2019, years

Source: UISIS.

Separately one should note the trend regarding marriages and divorces. According to 2019 data, the number of registered marriages went up by 2.5 percent (22.8 thousand) compared to 2018, and the number of registered divorces contracted by 10.6 percent (-62.8 percent). Crude marriage rate came to 6.3 percent, which is above the 2018 index by 3.3 percent (*Fig. 40*). Divorce rate contracted by 10 percent and in 2019 stood at 3.6 per 1,000 of population. Change in the number of marriages and divorces as in the number of births to a certain extent is also due to demographic wave. To date thin generation born in the 1990s are reaching the proactive marriage and reproductive age, the share of unregistered marriages has been growing too.

Thus, at present Russia's demographic situation is noted by the ongoing natural population loss. The situation is adversely affected by 2-year contraction of the total number of population. Ongoing significant contraction of the number of births has been driven by a small number of women of reproductive age and changes in birth order rate. High mortality rates and their weak decline is another factor of the natural population loss growth. Spread of the new coronavirus pandemic COVID-2019 globally and in Russia creates an emergency situation for the public health system, which can also tell on the morbidity and mortality rates.

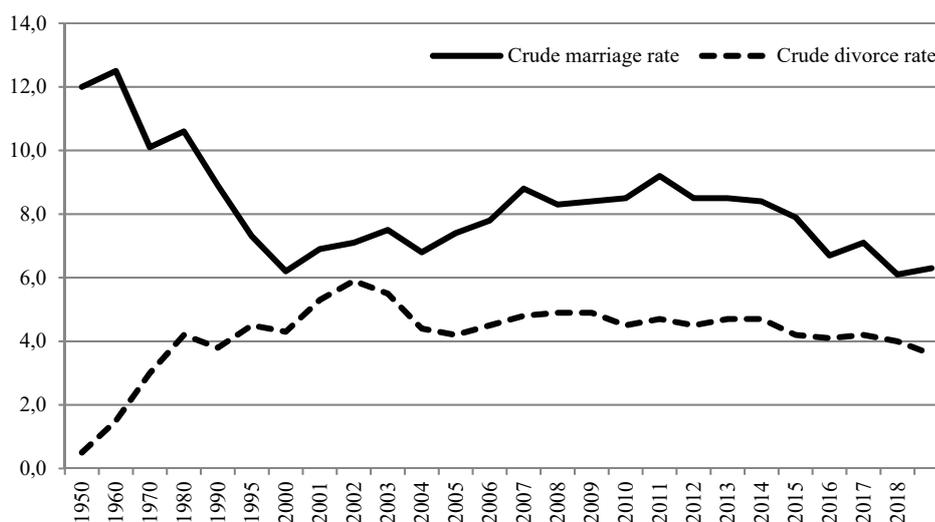


Fig. 40. Crude marriage and divorce rates, 1950–2019, per 1,000 persons

Source: Rosstat.

## 5.7. The main issues of the state policy in education in 2019<sup>1</sup>

In 2019, the implementation of the “Education” national project began in the education sector. If in 2012–2018 the state policy’s main objective was to raise wages of teaching employees, now within the next six years it is necessary to carry out ten federal projects – included in the specified national project – which set the lines of the long-term development of this sector.

The second issue which attracted considerable public attention and gave rise to fierce debates is the adoption of new federal state educational standards (hereinafter FSSES) of the elementary, basic and general secondary education. The advocates of new standards regard them as a guarantee facilitating the cohesion of Russia’s educational space, while the opponents, as a return to the Soviet school with its overregulation and a denial of all achievements made in the Russian education in the past 30 years.

The third issue which is widely discussed in the education sector is the “regulatory guillotine”, that is, clearing the regulatory and legal environment of excessive regulation and supervision in respect of educational establishments’ activities.

The fourth issue is the development of the Russian education system in 2020 amid the outbreak of the coronavirus.

### 5.7.1. The “Education” National Project

The “Education” national project started to be formed in summer 2019 after Executive Order No.204 of the President of the Russian Federation “On National Goals and Strategic Objectives of the Development of the Russian Federation in the Period till 2024” was issued. As national goals for the education system, the following objectives were set:

<sup>1</sup> This Section was written by *Klyachko T.L.*, Doctor of science (Economics), Director of the Center for Continuing Education Economics, IAES, RANEPa.

- Facilitation of global competitiveness of the Russian education, entering by the Russian Federation the rating of the world’s top ten countries as regards the standard of education;
- Upbringing of a harmoniously developed and socially responsible personality on the basis of moral and spiritual values of peoples of the Russian Federation and historic, national and cultural traditions.

To achieve the specified objectives, within the frameworks of the “Education” national project ten federal projects worth RUB 784.5 billion for the term of six years were formed. The volume of financing of each federal project and its share in the overall volume of funds allocated to the specified national project are presented in *Table 5*.

*Table 5*

**The volume of funding of federal projects within the framework of the “Education” national project**

	<b>Federal project</b>	<b>Volume of funding, billion RUB</b>	<b>Share in overall volume of allocated funds, %</b>
1	Modern School	295.1	37.6
2	Success of Each Child	80.5	10.3
3	Support of Families with Children	8.6	1.1
4	Digital Education Environment	79.8	10.2
5	Teacher of Future	15.4	2.0
6	Young Professionals	156.2	19.9
7	New Opportunities for Each Person	9.2	1.2
8	Social Activity	27.3	3.5
9	Exports of Education	107.5	13.6
10	Social Lifts	4.4	0.6

*Source:* own calculations based on the data of the “Education” national project: URL: <https://edu.gov.ru/national-project/>

So, the main funds of the “Education” national project were invested in three federal projects – “Modern School”, “Young Professionals” and “Exports of Education” – on which 71.1 percent of all allocated funds will be spent, while with two more federal projects – “Success of Each Child” and “Digital Education Environment” – taken into account, it will amount to 91.6 percent. Thus, it is expected to spend the mere 8.4 percent of the funds on the other half of federal projects.

Such a pattern of funding of federal projects highlights the main line of utilization of allocated funds, that is, the development of the infrastructure of the education system, namely:

- Creation of new places at schools (building and modernization of school buildings) to liquidate the third shift and reduce the share of students of the second shift;
- Formation of conditions for the development of extended education for children and the youth (the “Quantorium” children’s technology parks, the “Talent and Success” educational centers, rural schools’ playgrounds and other);
- Establishment of centers for advanced professional training in the system of the secondary vocational training and equipment thereof with modern facilities;
- Building of hostels for foreign students and students from other cities.

The “Education” national project’s orientation mainly on the development of the infrastructure can be justified, on one side, by the general orientation of all national projects on this goal, while, on the other side, by the fact that educational establishments experience acute shortages of funds to develop their material and technical base. Thanks to the efforts taken in the past six years to raise teachers’ wages, at present they account for 75-80 percent and sometimes even 85 percent of the budgets of preschool, general and secondary vocational training establishments. With public utility payments taken into account, educational

establishments financed out of regional and municipal budgets lack funds for other needs. Further, most of them do not virtually have any possibility to attract extra-budgetary resources. With few exceptions, regions are not able to finance the required development of the educational infrastructure because they have not been relieved from the duties to support wages of social services workers at the fixed level, though the interest to this issue has waned somewhat.

Accordingly, the federal budget has actually taken upon itself the required modernization of the material, technical and information base without participation of the regional education systems through the implementation of the “Education” national project.

To what extent is it feasible to achieve this goal? With teachers’ average pay increased, teachers’ wages have become much more diversified both across and inside the regions. At the same time, according to the Monitoring of School Efficiency (which has been carried out on a regular basis by the Center for Permanent Education Economics IAES RANEPa since 2013) two-thirds of school teachers did not even notice any pay rise, which situation on the backdrop of the official data on wage hikes leads to growth in social tensions in this sector.

Another negative factor, which emerged last year, is related to the fact that parents who in 2013-2015 started to regard teachers as representatives of the middle class after many years of attributing them to low-income people on the basis of the mass media’s reports about teachers’ low wages started to reduce again the estimate of the latter’s social status. As a consequence, a teacher is regarded almost everywhere as a “loser” and the society believes that such teachers will not be able to educate a successful person of the future.

Also, the worsening of schools’ material and technical base has become a serious problem in the past few years. If the population at large is unsatisfied with the general education system<sup>1</sup>, parents specifically believe that the school where their child (children) goes to is quite all right and meets its obligations. There are 84–86 percent of such parents depending on the region or populated area. However, the conditions in which children study arouse more and more criticism. According to the survey carried out by the All-Russian Public Opinion Research Center (VCIOM)<sup>2</sup>, over 32 percent of parents point to the poor state of schools’ material and technical base and a lack of renovation for a long period of time, which factors cannot, but affect children. At the same time, the Monitoring of School Efficiency did not identify such high discontent (*Fig. 41*).

As seen from *Fig. 41*, across three regions where the Monitoring was carried out the technical equipment of schools – 21.7 percent (the Pskov Region which is a highly subsidized subject of the Russian Federation) and the condition of school buildings – 10.8 percent (the Samara Region which is a donor region) accounted for the highest degree of parents’ discontent.<sup>3</sup> At the same time, most parents (35–40 percent) are “more likely satisfied” with the state of school premises and technical equipment of schools (45–48 percent). In other words, they are not satisfied with everything as regards educational establishments’ material and technical base.

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<sup>1</sup> According to the data of various opinion polls, up to 38 percent of respondents say that there are more problems in the general education system. See, for example, URL: <https://wciom.ru/index.php?id=236&uid=9874>.

<sup>2</sup> URL: <https://wciom.ru/index.php?id=236&uid=9874>.

<sup>3</sup> The Monitoring of School Efficiency of the Center for Permanent Education Economics, IAES RANEPa includes regions which differ by the social and economic situation and are representative of the aggregate of Russia’s regions.

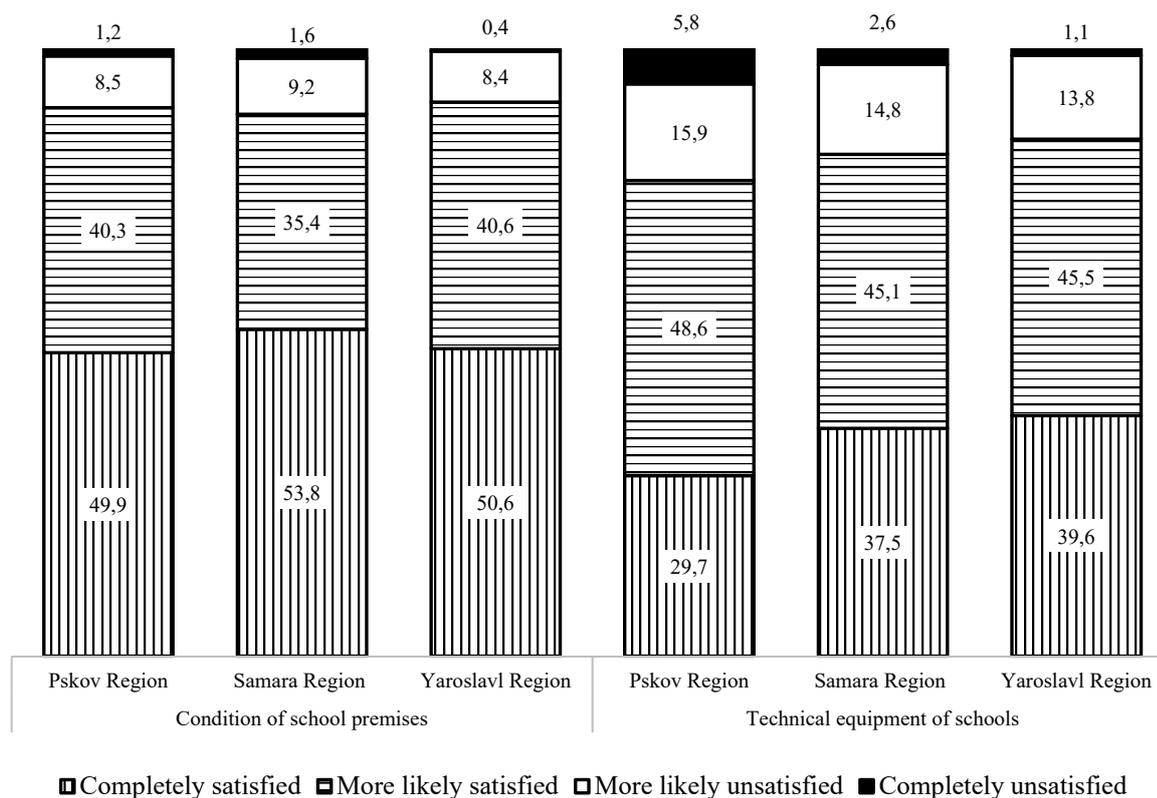


Fig. 41. Parents' satisfaction with the material and technical base of the school, which their child goes to, %

Source: The Monitoring of School Efficiency of the Center for Permanent Education Economics, IAES RANEPА.

As a result, in 2019 the issues related to the worsening of the learning environment took the forefront, having left behind even parents' discontent with a lack of subject teachers at some school (Fig. 42).

Generally, a lack of teachers is more typical of rural schools; to solve this problem, one teacher has to conduct classes in different subjects. However, the discontent with staffing of schools with teachers is more explicit in regional capitals and cities where 12.5–12.4 percent of parents are “completely or more likely dissatisfied”, against 11.8 percent in rural areas (as you can see the difference is not very big). However, the problems related to shortage of teachers become more acute and soon are likely come to the top of agenda. According to our calculations, schools need minimum 250,000 teachers, which situation creates a serious overburden for the existing staff.

At present, regions started to conduct on-line learning because of a lack of teachers in schools with relatively high-speed internet. The tasks of the Digital Education Environment federal project include the digitalization of education, introduction of new digital education technologies and connection of all schools to the high-speed internet; the work on these lines is being actively carried out at schools. However, the utilization of new technologies is sometimes urgently required by virtue of the existing shortage of teachers.

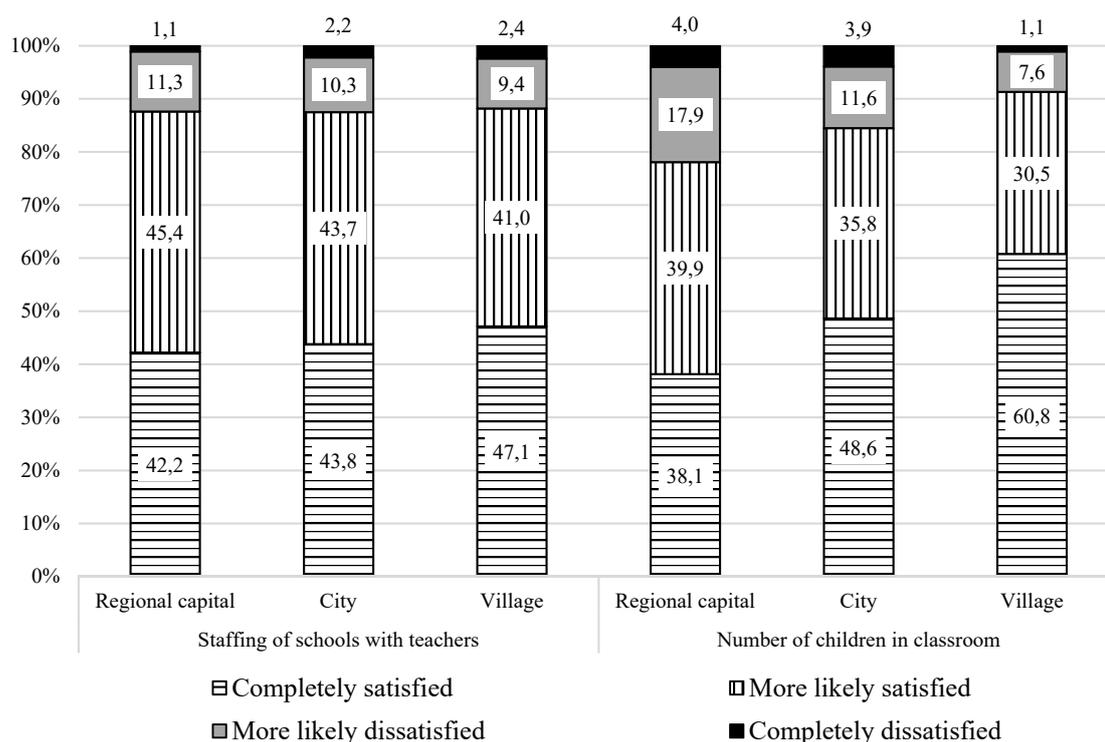


Fig. 42. Parents' satisfaction with staffing of schools where their children study with teachers, %

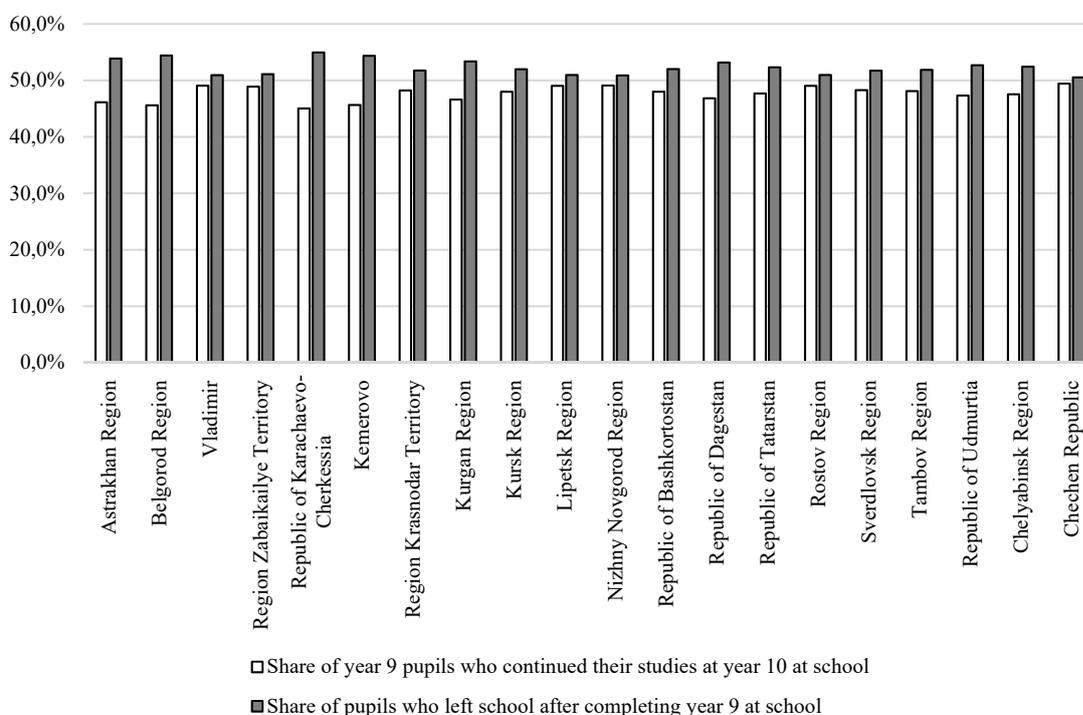
Source: The Monitoring of School Efficiency of the Center for Permanent Education Economics, IAES RANEPa.

Overall, the “Education” national project deals with a limited range of issues and, in our view, it can be explained by the fact that its implementation, generally speaking, is stalled because the essential problems of the education system are getting worse.

It is worthwhile to mention another important thing which results from the distribution of budget funds across federal projects included in the “Education” national project. Despite all talks about the importance of the human capital, the education management system is aimed at building up the physical capital of this sector, while it pays less attention to the human capital. The “Teacher of the Future” federal project accounts for the mere 2 percent of the total volume of this national project’s expenditures (see Table 5). At the same time, the human capital and development of this country depend a lot on the standard of the teaching staff (attention is mainly paid to its number).

This relates to the development of vocational education and training in Russia, too. In the “Young Professionals” federal project, an emphasis is made on the development in the Russian Federation of WorldSkills technologies which are used in developed countries in training of the personnel. Russia, which used to lag behind in WorldSkills global championships from competitor-countries, has advanced to the leading positions in the past few years. However, it does not mean that everything is all right in the system of secondary vocational education (hereinafter, SVE) which deals with training of workers. Russia is likely to have switched over as usual to the training of a small number of students who can perform well, while the rest of the SVE system is plunging into a serious crisis. In SVE, the number of students is rapidly growing; in numerous regions after completion of year nine at school over 50 percent of pupils

go the SVE system (Fig. 43). At the same time, its funding does not grow, while technical and technological equipment becomes obsolete. The teaching personnel is getting older, too (particularly, vocational training foremen), which makes it infeasible in principle for SVE institutions to prepare innovative workers and mid-tier employees.



*Fig. 43. Subjects of the Russian Federation where over 50 percent of pupils go to SVE institutions after completing year nine at school, 2018, %*

Source: calculations based on the data of the RF Ministry of Education. URL: <https://edu.gov.ru/activity/statistics/>

In 2018,<sup>1</sup> in Russia one SVE student accounted on average for RUB 83,700, while one student of a higher education establishment, for RUB 135,200.<sup>2</sup> With taking into account the practice-oriented nature of training personnel in the SVE system, such funds are not enough. Consequently, SVE institutions differentiate into those which provide more or less the required standard of training and those where this standard is rather low. As a result, employers' attitude to the SVE system is getting worse. First, regional authorities try to make business predict their need in personnel and then employ the trained workforce; second, SVE institutions switch over mainly to training of mid-tier employees specializing in accounting, design and other, which does not require a modern technical base. This situation prompted regional authorities to obligate employers to hand over to colleges and secondary technical schools modern equipment so that the latter could train personnel and, in addition, produce goods on orders of the business to compensate the latter's costs on purchasing of the equipment. The business is unlikely to agree on it because modern equipment is quite expensive and it is also needed to train first those

<sup>1</sup>As of the date of preparation of this section, the official data on administration of the 2019 consolidated budget were unavailable.

<sup>2</sup> Calculated on the basis of the data of the RF Federal Treasury and the Rosstat.

who will teach students. Again, it is quite a large sum of money, which employers cannot take without detriment to their own economic activity.

As regards the higher education, the “Young Professionals” federal project (a “Global Competitiveness of Higher Education” subproject) actually tries to expand somewhat the well-established practice of the 5/100 project where universities receive substantial funding to enter the global institutional ratings. If earlier it was required that minimum five Russian universities should enter the top-100, at present the goal is reduced to enter the top-500 and increase the presence in subject ratings. The number of higher education establishments involved in this task is expected to be increased from 21 universities which have already participated in the 5/100 project to 30 universities and it is likely that a small rotation of participants which jointed the project earlier will take place.

The above-listed measures permit, on one side, to finance out of the budget those higher education establishments (or at least most of them) which entered the 5/100 project in the previous years, while, on the other side, increase somewhat their number in order to give some impetus to the project. The risk related to this approach consists in the fact that in the system of vocational training the “elite sport” will prevail over the orderly promotion of the standard of personnel training.

#### 5.7.2. The new FSES in general education

In 2019, the issue of new federal state education standards has become very topical. A portion of the pedagogical community and those experts who developed the previous FSES insisted that schools should be orientated at developing metasubject competences, which were regarded as competences of the 21st century, that is, creativity, critical thinking, interpersonal skills and teamwork (ability to work in a team). In addition, it is important to teach children and teen-agers to work independently, look for the required information and systemize it. The emphasis is made on the design work which can be done both individually (each student works on his/her own project) and in groups in case a team works on the project.

This approach is based on the perception that in the modern world the specific knowledge becomes very quickly outdated, so it is necessary to orient students at something which is nontemporal. In addition, amid the growing information flow it is necessary to teach students to orientate themselves and find the data they need.

The other portion of the pedagogical community and experts believed that it was important to give students the domain knowledge because without it the creativity and critical thinking had no foundation to rely on and such an approach would lead to negative consequences where a new generation of young people without proper knowledge on the subject would be ready to discuss and modify it.

Actually, this dispute stems from the correlation in the modern world of *soft skills* (that is, “flexible” and “soft” skills) and *hard skills* (“hard” and “tough” skills) or a more profound thing, that is, prevalence of socialization and upbringing or professionalism and education. At the same time, both the sides have tried and still try to appeal to employers. According to numerous sociological surveys, the modern employer needs primarily workers with soft skills; for example, graduates of the secondary vocational education institutions lack such skills. At the same time, employers seek to employ a practice-orientated specialist or worker with the specific knowledge and skills which help him/her get integrated into the working process. However, it is ignored that due to rapid technological progress this orientation on practice becomes outdated because permanent retraining is required and, consequently, a worker with

vocational training should have a base, that is, hard skills, a nucleus, which new knowledge is based on. Obviously, in new conditions the worker has to look for the required information singlehandedly. But it is also important for him/her to differ the professional and trustworthy information from the incorrect one. But it is impossible to do that without professional knowledge and skills based on the fundamental education. When they say that children should not be overloaded with information because it is available in Google or Yandex they forget that someone should first receive (get) knowledge and then place the relevant information into modern databases and search engines.

At the same time, the school seems to have stuck between these two approaches: as a consequence students become overloaded because instructors try to cultivate with them as many as possible soft and hard skills simultaneously. Students lose interest in their studies and low-performing pupils fall virtually out of the education process. As was stated above, in the past few years this situation has led to growth in the flow of year nine pupils to vocational training institutions. It is noteworthy that schools oriented at high grades to be received by their pupils at single state exams – the criteria by which schools are regarded successful – try to get rid of low-performing pupils, rather than bring them up at least to the average level of learning. Most teachers of year nine pupils believe that 15–20 percent of their pupils are unable to learn the school curricula. Though this estimate in respect of year ten pupils is lower, teachers say that 5–10 percent of their pupils are unable to study at high school.<sup>1</sup>

As seen from the school efficiency monitoring, in addition to the fact that both parents and teachers would like to see a higher stability of school educational programs they believe that children's interest in learning can be increased primarily by means of modification of the educational content. Note that only 36.6 percent of parents are completely satisfied with the content of school programs, 52 percent are more likely satisfied, while 9.6 percent and 1.8 percent are unsatisfied and completely unsatisfied.<sup>2</sup>

Like parents, most teachers (73.6 percent) and primarily rural school teachers (77 percent) believe that the content of educational programs needs to be changed (*Fig. 44*). This need is pointed out not only by teachers of ordinary schools (74.8 percent), but also those who work at upper secondary schools, lysees and schools with advanced study of subjects (70.1 percent).

The more experience teachers have, the larger number of teachers is in favor of modification of educational programs and fewer teachers doubt the correctness of this answer: 83.5 percent of teachers with minimum 30-year long record of service at schools are confident that the content of subjects, as well as the methods of teaching should be changed.<sup>3</sup>

It is noteworthy that two-thirds of teachers (67.5 percent) believe that instruction based on the utilization of single textbooks is more effective and this approach is supported more widely by rural school teachers (72.9 percent), rather than school teacher in regional capitals (62.1 percent). So, teachers are not ready for variability and innovation: they prefer the uniformity of education programs. Probably, the problem consists in the fact that teachers are overburdened as over 61.3 percent of teachers say that they have to take 1.5 paid positions or even or more.

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<sup>1</sup> The Monitoring of School Efficiency. The Center for Permanent Education Economics, IAES RANEP, November 2018.

<sup>2</sup> The Monitoring of School Efficiency. The Center for Permanent Education Economics, IAES RANEP, September 2019.

<sup>3</sup> *Ibid.*

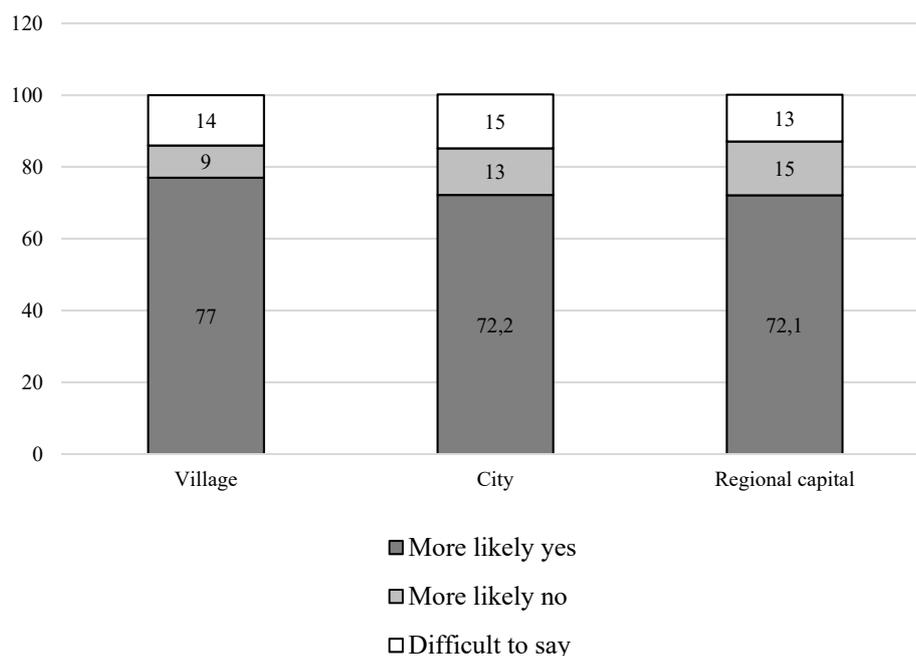


Fig. 44. Teachers’ opinion as regards the need to upgrade the content of educational programs; type of settlement, 2019, %

Source: The Monitoring of School Efficiency. The Center for Permanent Education Economics, IAES RANEPА.

In developing the new FSES, the Ministry of Education paid attention in many respects to the collective request both of teachers and parents. After the change of top officials in the Ministry of Education, the issue of FSES is again on the agenda. The problem is not in educational standards alone; despite all efforts to modernize the teaching personnel, the “teacher of the future” represents a teacher of the present or even of the past who is overloaded, among other things, with numerous bureaucratic requirements. For the development (or before the development) of the new FSES, it is important to understand what content the general education should have amid the ongoing technological and social changes. It is believed that with the emphasis made on the fundamental nature of education the younger generation will be able to adapt itself more quickly to the growing “uncertainties of the future.”

### 5.7.3. The “Regulatory Guillotine” and accreditation of higher education institutions

Growth in a bureaucratic burden causes considerable damage to the development of the economy and the society. So, the need to decrease this burden by means of the “regulatory guillotine”, that is, to give up the excessive control in all spheres was accepted positively.

In the education sector, growth both in the red tape and burden on teachers prevents this sector from developing properly. The costs which educational establishments encounter at all levels of education are growing constantly, while the standard of training is more likely declining because of growth in supervision.

In the higher education, the issue of reduction of the administrative control has become particularly topical in a situation where the accreditation was withdrawn from two higher education establishments whose standards of training and research were never put into question

by the expert community. Those two institutions were the European University of St. Petersburg (both the accreditation and license were withdrawn from it, but later renewed) and the Moscow School of Social and Economic Sciences – the renowned “Shaninka” (its accreditation<sup>1</sup> was cancelled, but not the license).

However, the problem consists in the fact that the system of state accreditation deals not only with the higher education, but also its other levels and is linked with the FSES; furthermore, the availability of accreditation permits to solve many important issues (for example, in the higher education it is draft exemption, the prospect for a private higher education establishment to receive admission quotas, that is budget funding and other), so the deadlock is quite difficult to untangle.

In principle, the issue of the state accreditation of educational institutions highlights the fact that it is easy to establish a bureaucratic system, but difficult to change it.

The main idea, which is widely debated at present, deals with the shifting of the emphasis from accreditation to licensing of educational institutions. In principle, a higher attention paid to licensing and toughening of regulation thereof is the evidence of the fact that the emphasis in regulation has shifted to the process of admission of new participants to the education system (the education market). However, as before, the licensing procedure applied to state-owned kindergartens, schools, SVE institutions and higher education establishments is not quite clear. As regards municipal educational establishments, the licensing procedure was clear because under the Constitution the municipal level is not included into the system of state authorities and, consequently, may not comply with any state requirements. Municipal educational establishments (like municipal medical institutions, municipal institutions of culture and other) are actually quasi-state institutions: they are established by agreement with regions and funded partially (and often completely) out of regional budgets though budget subventions, subsidies and transfers pass officially through municipal budgets. Eventually, this factor is behind the intension of many subjects of the Russian Federation to make at least all schools be state-owned. Accordingly, the word “establishment” in cases where the state “establishes” a kindergarten, school or higher education establishment” defines more precisely the relations and nature of engagement between the state and a state educational establishment. In this case, granting of a license to a school or higher education establishment is a strange action because the state establishes them for carrying out functions it needs. Also controversial is the practice of accreditation of state educational establishments, that is, granting by the state of a “credit” (credit of trust): the state has already established a state educational establishment, defined its functions, sets objectives to it and finances fulfillment thereof. In this context, it is absolutely unclear what they verify in the process of accreditation: the standard of education or the standard of management of the educational establishment by the appointed state manager, no matter whether he/she is a school principal or rector of the higher education establishment. It seems the standard of management should be meant here and, consequently, the standard of the HR policy of the state in education when this refers to state educational establishments (institutions). However, the objective of accreditation is neither set nor formulated this way.

In case of private educational establishments, both licensing and accreditation have a somewhat different meaning. By issuing a license, the state takes responsibility for fulfillment by the educational establishment of its functions and for this reason verifies whether the private (non-state) founder is able to ensure the required training conditions and has the required

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<sup>1</sup> In March 2020 the accreditation was returned. URL: [http://obrnadzor.gov.ru/common/upload/doc\\_list/Zakluchenie\\_oano\\_vo\\_Moskovskaya\\_vyssshaya\\_shkola\\_sotsialnykh\\_i\\_ekonomicheskikh\\_nauk\\_1.pdf](http://obrnadzor.gov.ru/common/upload/doc_list/Zakluchenie_oano_vo_Moskovskaya_vyssshaya_shkola_sotsialnykh_i_ekonomicheskikh_nauk_1.pdf).

personnel to carry out the declared educational programs, while in the process of accreditation they check whether the educational establishment complies with the requirements set to its activity and personnel.

It is noteworthy that in case of both state (municipal) and private educational establishments the issue of “conversion” of conditions of training (material and technical facilities, information resources and other) and the existing personnel into the proper quality of education remains open. In principle, a larger volume of resources should lead to a higher standard of education (the principle of transition of quantity to quality is widely known), but it does not happen often in reality. According to Mikhail Agranovich, the method of assessment of the condition of the education system based on the volume of costs starts to fail from a certain moment (the level of such costs).<sup>1</sup> So, neither an increase in the share of expenditures on education in GDP, nor a high level of teachers’ or professors’ wages, or expenditures per school pupil or student of a higher education establishment permit to judge unambiguously about the quality of education and development of the education system. All these factors put into question the idea that growth in the level of control may facilitate growth in the standard of education as much as a decrease in regulatory zeal. The more so, it is not expected to decrease substantially: in 2018 Russia’s results which used to grow<sup>2</sup> in the PISA international comparative study declined and Russia may face the prospect of not being included into the top-10 leading countries as regards the standard of general (school) education (one of the goals of implementation of the “Education” national project). This may lead to growth in the number of inspections and audits. At the same time, it will be thought that the regulatory control has been relaxed because regulatory documents and, probably, some laws which were never complied with have been removed from the regulatory environment.

#### 5.7.4. The coronavirus pandemic and the measures applied in the Russian education system: challenges for 2020.

The education systems of virtually all countries around the world faced new serious challenges due to the coronavirus SARS-Cov19 outbreak which started in China late in 2019. The problems which have arisen are not completely comprehended so far; solution are yet to be found by numerous pedagogical, managerial and economic mechanisms. Much will depend on the situation and it is hard to tell which measures are going to be effective. At present, almost all countries around the globe close down kindergartens (pre-school educational institutions), schools, vocational training institutions of pre-higher education level and universities. Overall, nearly 1.5 billion children and the youth do not go to educational establishments because of the quarantine being imposed. Russia is not an exception here. At first, the authorities provided parents with a choice, either to send children to kindergartens and schools or leave them at home, having organized home schooling for them. By virtue of the fact that, parents whose children go to pre-school educational institutions and schools, have to go to work, this choice was almost unambiguous: the children kept visiting schools. According to the mass media’s reports, about 2 percent of parents, for example in Moscow, left their children at home, while across Russia the rate was even lower. So, the decision was taken to close pre-school

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<sup>1</sup> Agranovich M.L. Resources in Education: Saturation or Oversaturation? //Voprosy Obrazovania (The Issues of Education), 2019. Issue No. 4. p. 254–275.

<sup>2</sup> The data on the results received by Russian 15 year old school pupils became available only late in 2019.

educational institutions, schools and supplementary education facilities, extend holidays for school children and then switch them over to online training.

Similar measures were taken in the systems of vocational education and higher education: SVE institutions, supplementary vocational education institutions and higher education establishments switched over to the online format with a broad utilization of massive open online courses (MOOC). According to the data of the RF Ministry of Education and Science, by the end of March 80 percent of higher education establishments succeeded in switching over to online learning.

The main problems which have already been revealed are as follows:

Except for Moscow, St. Petersburg and a number of other large cities, schools are not prepared for a switchover to online learning; it concerns both teachers and students. The main problem is a lack of the required content and teachers' skills to work with it. In a number of regions (for example, the Kirov Region), some experience has been amassed in this field because due to a lack of subject teachers in rural areas and urban-type settlements the online learning was introduced some time ago for pupils of rural and village schools. However, such measures have not been introduced on a large scale, nor have the quality and efficiency thereof been tested. As was stated above, parents are becoming increasingly discontent with a lack of subject teachers, which factor is the indirect evidence of low efficiency of the current format of online learning. It is also clear that for pupils of the elementary school, particularly year one and year two pupils, it is difficult to organize the online learning without participation of parents. It is likely that teachers will be sending assignments to their pupils by e-mail or put them in electronic diaries (in case such diaries are available) and specify what sections of the textbook pupils should read. In addition, there is evidence of the revival of TV lessons because unlike PCs TV sets can be found in all Russian families.

A switch-over to the online format of training is expected to require a greater involvement of parents into education of their children. The children from the families with a low social and cultural capital where parents cannot help their children are the worst hit. However, these children are in the risk group, anyway. But if in the normal situation, the school could compensate it somehow, it is highly unlikely to achieve it in the online mode.

In the SVE practice-oriented system, the switch-over to the online format of learning entails the risk that the quality of training of the working personnel may decline if the online learning continues for a long time because of the coronavirus pandemic.

In the system of higher education, the loss of quality may be insignificant as students have better skills of individual work than students of other levels of education and with proper consulting work organized by the academic teaching staff in the online mode and active utilization of MOOC, the quality of training is likely to be the same as before or get worse just a little. In this situation, the risk group includes year one students who have not acquired yet the skills of individual work, but this risk in case of organization of webinars can be substantially lower. At the same time, technical equipment of higher education establishments and availability of the required software as well as notebooks or PCs with students at home or a hostel are crucially important at this stage of education.

Higher education establishments may face a serious problem with organization of exams unless the issue of online identification of students is resolved and implementation by students of team projects which have become an important part of the academic activity is made feasible. In addition, the extension of the coronavirus pandemic will put in question higher education establishments' admissions campaigns, including those to the master course and post-graduate

school. Another negative consequence of the pandemic may become the reduction of the number of foreign students at Russian higher education establishments both by virtue of problems related to the organization of admissions of foreign students and by virtue of the outflow of those foreign students who had to leave for their home countries and whose return to Russia under new conditions can be complicated for economic reasons. At the same time, the depreciation of the ruble is likely to have a favorable effect on their inflow to Russia as it happened after the depreciation of the Russian currency in 2014.

What is known for certain is that the arrangement of single state exams (SSE) and basic state exams (BSE) has been postponed, but not for long (just for 1–2 weeks). However, it is not clear how these two exams will be conducted (unless the pandemic subsides completely), nor is it clear in what way the new situation may influence year 9 pupils' and year 11 pupils' (school leavers) choice of their further educational trajectory.

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In 2019, the three issues which prevailed in the public consciousness - national projects, in particular, the “Education” national project, new FSES in general education and the “regulatory guillotine” – highlighted the common dominator of the state education policy, that is, the government cannot facilitate the development of the education system, it can only compensate to regions those costs which the subjects of the Russian Federation incurred before, but which failed to improve substantially the situation in this sector. The issue of adoption of the new FSES in a situation where the system does not evolve, but experiences a growing shortage of resources (particularly, human resources) resembles a “tempest in a teapot”: teachers and schools do their job as they can, while parents who studied earlier and at present are appealed for to compensate as much as possible the shortage of teachers (the poor standard of training) by way of participating in education of their children or through hiring of private tutors choose what they know the best and what they are accustomed to. Put simply, neither changes in the FSES, nor the infusion of funds into the obsolete system (to be precise, they are not invested so much), or the “regulatory guillotine” modify anything substantially in education. One should not interfere in the development of strong institutions (there are few of them). As regards the rest of the education system, it will adapt itself within a few months to any system of reporting as it is well aware of the fact that there is nothing to replace it. So, it is only the private sector, which is likely to be affected by the activities of the state, though it is already shrinking at a high rate, anyway.

The coronavirus pandemic has started to change the customary models of education, in particular, it may speed up the development of online modes of learning and the required content. At the same time, for some territories where the high-speed Internet (the provision of the Internet was planned within the framework of the “Digital Educational Environment” national project) is not available yet, the decisions which are currently taken will lead to serious problems both for schools and families, particularly, low-income families where parents have a low educational level.

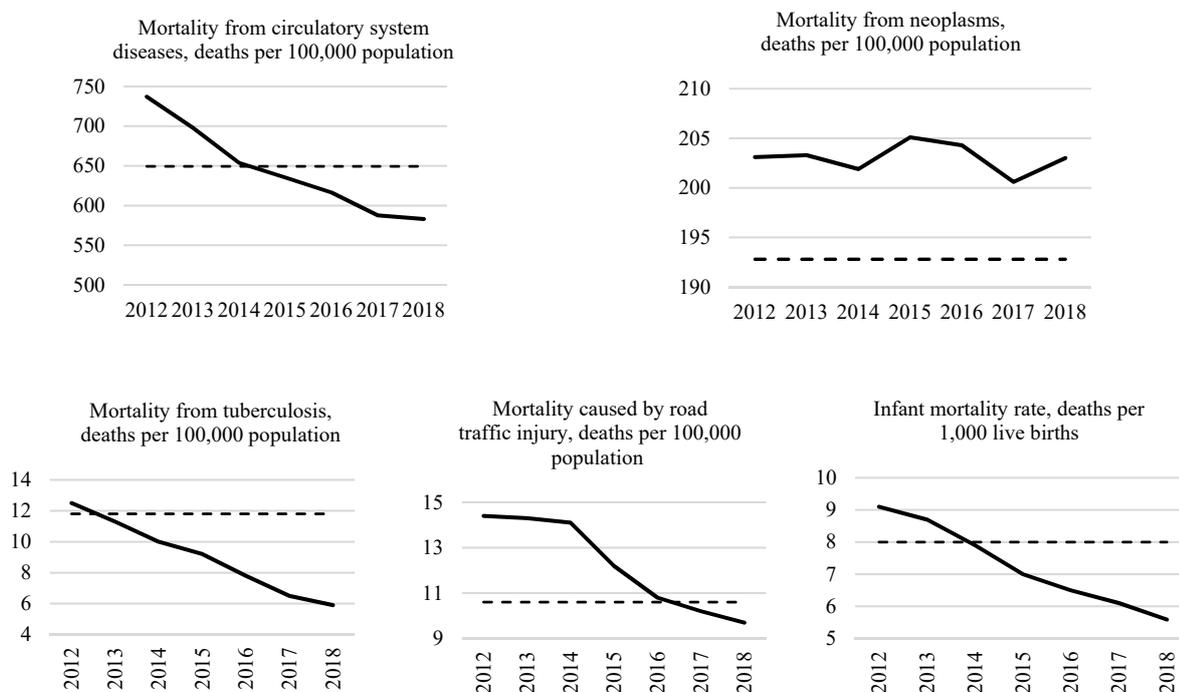
In the vocational training system, the coronavirus pandemic has caused numerous problems, too, particularly, the arrangement of exams and organization of admissions campaigns at higher education establishments.

## 5.8. The creation of a unified national health system<sup>1</sup>

In many ways, the year 2019 was supposed to be a watershed for Russia’s healthcare system. This was the final year of the ambitious six-year program set forth in the May 2012 Executive Orders of the President, to be followed by even more substantial transformations under the new national project ‘Healthcare’. Meanwhile, the burgeoning unified national health system was continually evolving, its goal being to provide the entire nation with guaranteed equal rights to medical care.

### 5.8.1. The outcome of the implementation of the May 2012 executive orders of the President

The majority of targets set in the May Executive Order that addressed the health care system and directly aimed at improving the health of the people, were achieved within the first few years of its implementation. One exception was the neoplasm mortality rate, including deaths from malignant neoplasms, where even a moderate but steady downward trend could not be achieved (*Fig. 45*).



**Note.** The dotted line indicates the targets for 2018.

*Fig. 45.* Reduction in mortality from key causes, 2012–2018

<sup>1</sup> This section was written by *Avksentiev N.A.*, Advisor to Director of the FRI of the RF Ministry of Finance, researcher at the INSAP, RANEP; *Nazarov V. S.*, Candidate of Sciences (Economics), Director of the FRI of the RF Ministry of Finance, Deputy Director of the INSAP, RANEP, senior researcher at the Center for Macroeconomics and Finance, Gaidar Institute; *Sisigina N.N.*, junior researcher at the FRI of the RF Ministry of Finance, researcher at the INSAP, RANEP.

The failure to reduce mortality from neoplasms can be explained by both the weakness of the specialized medical service and the objective rise in oncological morbidity alongside the declining rates of mortality from other causes (primarily from diseases of the circulatory system) and the increased life expectancy, which is a characteristic feature of all developed countries. Nevertheless, the lack of positive results in this area probably played a significant role in determining the priorities of the new national project.

The instruction to raise the salaries of medical workers, those of medical doctors to 200%, and those of secondary and junior medical personnel to 100% of the average salary for a given region, turned out to be less successful. According to official data, as of year beginning 2019, the established targets had been achieved, or nearly achieved, by the majority of subjects of the Russian Federation.<sup>1</sup> However, in many cases, these results were not backed by adequate financing and could be achieved only on a temporary basis, by reducing the number of employees<sup>2</sup> and by redistributing in favor of salaries the funds earmarked for some other expenditures.<sup>3</sup> The relaxation of control led to a rapid decline of the salary level below its target. According to our calculations based on the year-end results of 2019, the ratio of medical worker salaries moved beyond the target values (with due regard for the permissible deviation of 5 percentage points):<sup>4</sup>

- according to our estimates, the salaries of medical doctors are lower than 95% of the national economy's average in 11 of 85 subjects of the Russian Federation (in 2018, there were 5 such regions), and a decline in the ratio between the salaries of medical doctors and the average salary for a given region's economy is possible in 60 subjects of the Russian Federation;
- the salaries of secondary medical personnel are lower than 95% of the national economy's average in 2 subjects of the Russian Federation (in 2018, there were no such regions), and a decline in the ratio between the salaries of this category of workers and the average salary for a given region's economy is possible in 57 regions;
- the salaries of junior medical personnel are lower than 95% of the national economy's average in 26 subjects of the Russian Federation (in 2018, this was the case in 4 subjects of the Russian Federation), and a decline in the ratio between the salaries of this category of workers and the average salary for a given region's economy is possible in 75 regions.

An obvious sign of the deteriorating situation were the large-scale protests of medical doctors employed by state hospitals, who were complaining of their unacceptably low salaries. In its turn, the RF Ministry of Health insists that the healthcare sector's resources are sufficient

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<sup>1</sup> Results of federal statistical monitoring of the remuneration levels of certain categories of employees in the social sphere and the science sector over January - December 2018. URL: [http://www.gks.ru/free\\_doc/new\\_site/population/trud/itog\\_monitor/itog-monitor06-18.html](http://www.gks.ru/free_doc/new_site/population/trud/itog_monitor/itog-monitor06-18.html).

<sup>2</sup> Lopatina, M., Lyashok, V. Implementation of the May 2012 Executive Orders of the President: the consequences for the public sector // Monitoring of Russia's economic outlook. No 15 (76). P. 19–24.

<sup>3</sup> Nevinnaya, I. The salary of doctors amounted to 80% of the budget of medical organizations // The Russian Newspaper. 2017. URL: <https://rg.ru/2017/11/10/zarplata-vrachej-sostavila-80-procentov-biudzheta-medicinskih-organizacij.html>.

<sup>4</sup> By the time of writing this section, Rosstat had published data on the average salaries of medical doctors, and secondary and junior medical personnel across subjects of the Russian Federation for January – December 2019; the information on the average monthly charged salary of the personnel employed by organizations, individual entrepreneurs, and individuals will become available only by April 15, 2020. The preliminary forecast values were calculated on the basis of the assumption that in each region, the ratio between the salaries of all personnel employed by organizations, individual entrepreneurs, and individuals and the salaries of all employees in all categories of organizations will remain at the level of 2018.

for the declared salary level, and attributes the existing unsatisfactory state of affairs solely to the unsubstantiated differentiation in the levels of remuneration. As a measure designed to eliminate the possibility of violations, a new industry-wide remuneration system has been suggested, which will strictly regulate the structure and size of healthcare worker salaries. During the first phase of reform, which is to be launched in 2020, it is planned to limit the possibilities for salary differentiation by cutting the variable salary component, and to guarantee a minimum salary for the key categories of healthcare workers. According to the estimates released by the RF Ministry of Health, these measures will make it possible to reduce the differences in the salary levels of healthcare workers with comparable labor inputs (position, qualification, standard working hours) from the current ratio of 7–9 times<sup>1</sup> to 1.2–1.3 times, solely by redistributing the available resources inside the system, without any additional financing.<sup>2</sup>

It was suggested that the minimum standard for the guaranteed part of salary could be set at 55% of total salary; from 2015, it was established as the recommended norm.<sup>3</sup> In 2019, in the majority of territories, the guaranteed minimum amounted to 40–50% of salary, in 10 subjects of the Russian Federation it was above 50%, and in 4 regions it was at the level of 20–30%.<sup>4</sup> Simultaneously with the mandatory minimum salary, unified lists of incentives and compensations will be introduced, where the amounts of these payments and the grounds for their assignation will be specified.

To prevent the risk of only a formal salary raise, which could be introduced simultaneously with cuts on incentive payments, it is planned that the guaranteed total amount of earnings should be introduced gradually. The RF Ministry of Health suggests that during the first phase of reform, the ratio between the salaries of key categories of healthcare workers and the national economy's average should be fixed at 170% for primary care medical doctors and narrow medical specialists, at 200% for medical doctors in the emergency care system, at 70% for primary care nurses, and at 120% for paramedics who perform some functions of a medical doctor (in all cases, at a second-job pay rate of 1.2).<sup>5</sup>

The joint implementation of both measures should guarantee to these categories of healthcare workers their minimum and average salary levels. It is expected that this will ensure an acceptable level of income for young and experienced professionals alike. However, the Russian government has already declared that an attempt to establish minimum salary standards for certain categories of healthcare workers can be viewed as discrimination in their remuneration levels, which is prohibited by law. In addition, in its commentary on the relevant

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<sup>1</sup> Minister Veronika Skvortsova held a live broadcast with the people. RF Ministry of Health, 2019. URL: <https://www.rosminzdrav.ru/news/2019/09/13/12480-ministr-veronika-skvortsova-provela-pryamoy-efir-s-naseleniem>.

<sup>2</sup> Meeting on the issues of primary health care modernization. August 20, 2019. URL: <http://kremlin.ru/events/president/transcripts/61340>.

<sup>3</sup> Uniform guidelines for the introduction, at the federal, regional and local levels, of the systems of remuneration of the employees of state and municipal institutions for 2015 (approved by decision of the Russian tripartite commission for the regulation of social and labor relations, as of December 24, 2014, Minutes No. 11).

<sup>4</sup> Meeting on the issues of primary health care modernization. August 20, 2019. URL: <http://kremlin.ru/events/president/transcripts/61340>.

<sup>5</sup> Ibid.

draft law, the government pointed out that in order to actually implement this proposal, some additional budget allocations would be required.<sup>1</sup>

Even if a proper solution to these problems should be found, the impact of the new remuneration system on the healthcare sector may be controversial. The imposition of constraints on the size of incentive payments can reduce the motivation of healthcare workers and lead to an outflow of the best-qualified specialists from the public healthcare sector. It appears that a more effective long-run approach would be to create the incentives for head physicians to optimize their healthcare institutions, the necessary condition for such optimization being a strengthened control over the volume and quality of medical care.

#### 5.8.2. The launch of the national project ‘Healthcare’

The relative success of the May 2012 package of Executive Orders of the President served as an impetus for the adoption of a new, more extensive healthcare system development program for the next six years. By Executive Order of the President of the Russian Federation No. 204 dated May 7, 2018 ‘On National Goals and Strategic Objectives of the Russian Federation through to 2024’, the healthcare system not only was assigned a new set of mortality reduction targets, but also a number of tasks concerning the transformation of its structure. The national project ‘Healthcare’ represents the largest investment in the healthcare sector since the regional health modernization programs implemented in 2011–2013. *Fig. 46* shows Russia’s current consolidated budget expenditures earmarked for healthcare in real 2020 prices, with due regard for the national project implementation, as well as the initial trend laid down in the main directions of fiscal policy for 2018–2020, which were prepared by the Russian Ministry of Finance in 2017, prior to the announcement of the forthcoming launch of national projects.

Much of the additional allocations will be earmarked for the fight against cancer – 62% of the total budget projection, including 48.3% for the provision of medical care in accordance with clinical recommendations.<sup>2</sup> The exceptionally high priority given to the oncological service can be explained by the fact that malignant neoplasms represent the only cause of death among the other leading causes of death in regard of which no stable survival statistics improvement could be achieved so far.

The measures that involve altering the medical care tariffs in the field of oncology so as to make them consistent with the actual needs of the oncology branch of the healthcare system can be viewed as a pilot project, and the payment mechanism thus tested can later be implemented in the treatment of other relevant diseases. The previous medical care tariff model based on the actual costs of medical institutions, in spite of some obvious advantages (its simplicity and reliance on easily accessible source data), has two important limitations:

- the actual costs of medical institutions, in fact, depended on the medical care tariffs (it was impossible to spend more money than had actually been allocated);
- the cases with clinical similarities within one diagnosis-related group may vary significantly by the cost of treatment, which was, and still is, determined by the specific therapy administered in each particular case.

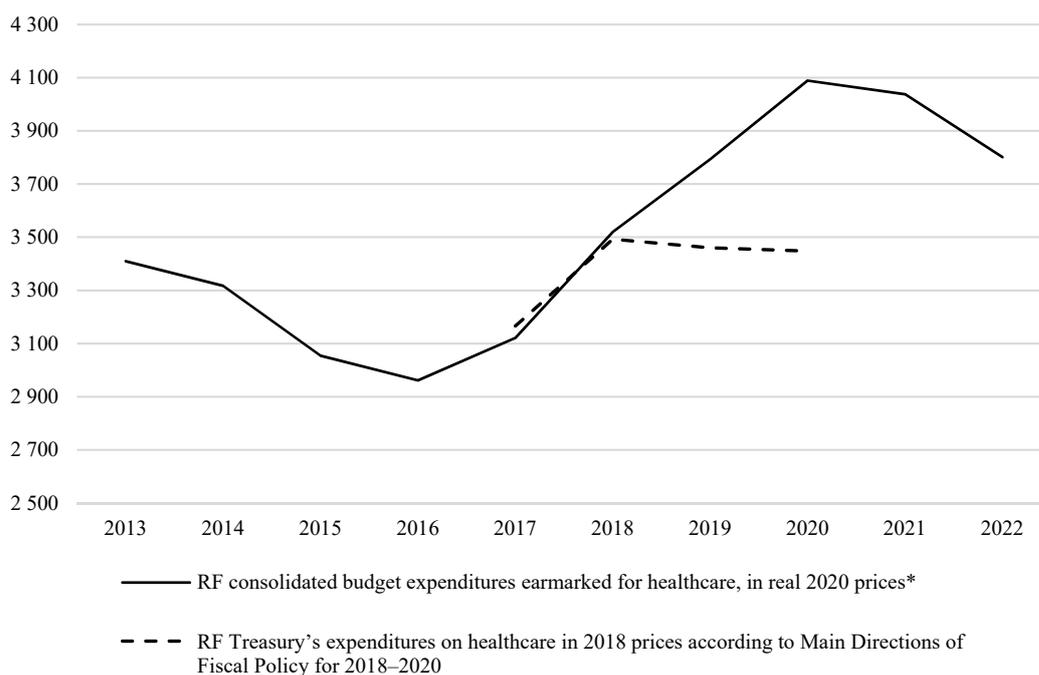
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<sup>1</sup> Draft Law No 898575-7 ‘On the introduction of amendments to the Labor Code of the Russian Federation in the part of establishing the minimum salary for certain categories of medical personnel’.

<sup>2</sup> Certificate of the National Project ‘Healthcare’, approved by the Presidential Council for Strategic Development and National Projects (Protocol No 16 dated December 24, 2018); Certificate of the Federal Project ‘The Combat against Oncological Diseases’ (approved in the summary record of the meeting of the Project Committee on the National Project ‘Healthcare’ No 3 dated December 14, 2018).

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\* Prior to 2018 – the graph is based on data released by the RF Treasury, adjusted by the established medical insurance contribution coefficients for non-working population; for the period 2019–2022, it is based on data provided in the Main Directions of the Budget, Tax and Customs Tariff Policy for 2020–2022.

\*\* Adjusted by the established medical insurance contribution coefficients for non-working population.

*Fig. 46. The RF consolidated budget expenditures earmarked for healthcare, 2013–2022, billions of rubles*

*Source:* own calculations based on data released by the RF Treasury<sup>1</sup>, and on data provided in the Main Directions of the Budget, Tax and Customs Tariff Policy for 2018–2020<sup>2</sup> and the period 2020–2022<sup>3</sup> and in the draft law on the budget of the Federal Compulsory Medical Insurance Fund for the period 2018–2020.<sup>4</sup>

From 2018 onwards, the cost-effectiveness coefficients for the provision of medical care for malignant neoplasms, which determine the tariffs applied in the system of clinical statistical groups (CSG), are calculated with due regard for the actual cost of medical therapy regimens administered in accordance with the national clinical recommendations. In 2018, 3 medical therapy cost levels were established for day hospital care and inpatient care regimens; from 2019, 10 medical therapy cost levels were introduced. The payment is bound to the specific medication administered in each case, and its amount depends on the cost of the medication. Ultimately, this approach makes more accessible for patients the effective medical therapy methods prescribed in the latest clinical recommendations.

<sup>1</sup> RF Treasury. Execution of budgets. URL: <http://www.roskazna.ru/ispolnenie-byudzheto/>.

<sup>2</sup> Main Directions of the Budget, Tax and Customs Tariff Policy for 2018 and the planning period 2019–2020. URL: [https://www.minfin.ru/common/upload/library/2017/10/main/ONBNTTP\\_2018–2020.docx](https://www.minfin.ru/common/upload/library/2017/10/main/ONBNTTP_2018–2020.docx).

<sup>3</sup> Main Directions of the Budget, Tax and Customs Tariff Policy for 2020 and the planning period 2021–2022. URL: <http://www.roskazna.ru/ispolnenie-byudzheto/>

[https://www.minfin.ru/common/upload/library/2019/10/main/ONBNiTTP\\_2020–2022.pdf](https://www.minfin.ru/common/upload/library/2019/10/main/ONBNiTTP_2020–2022.pdf).

<sup>4</sup> Explanatory note to draft law No 274620-7 ‘On the budget of the Federal Compulsory Medical Insurance Fund for 2018 and the planning period 2019–2020’. URL: <http://sozd.duma.gov.ru/download/D6AD2F89-22D6-4E08-A7E5-EE37491BABDB>.

The possibility of extending the practice of tariff-setting based on clinical recommendations to other groups of diseases and medical conditions, as well as to other categories of costs (for example, the equipment necessary for diagnosing and treating some specific diseases in accordance with clinical recommendations) is stipulated in Executive Order of the President No. 204; however, at present its actual implementation is constrained by the following two factors:

- the absence, or low quality, of the existing clinical recommendations for the majority of diseases. Some active efforts to update the clinical recommendations were launched in 2019, after the RF Ministry of Health approved the requirements for their elaboration. It is planned that by 2022, state-of-the-art clinical recommendations will be introduced for all the major nosologies;
- the insufficient financial backing for the established state guarantees. The introduction of new approaches with regard to medical therapy for malignant neoplasms (other than lymphoid and hematopoietic tissue neoplasms) alone required an additional allocation of RUB 70 billion in 2019, RUB 120 billion in 2020, and RUB 140 billion in 2021. It is obvious that in order to apply these practices to other diseases and other categories of costs, even more money will be required.

When assessing the intermediate results of the national project, it should be borne in mind that, as far as most of its directions were concerned, the first year of its implementation was fully or in part spent only on the organizational and methodological activities. By referring to this fact, we can to a certain extent explain why 3 out of the national project's 4 key targets set for 2019 (reduction of the working-age population mortality, mortality from circulatory system diseases, and mortality from neoplasms) were not met (according to preliminary data released by the RF Ministry of Health).<sup>1</sup> At the same time, the failure to meet the intermediate targets may indicate that the healthcare system is not ready for dealing with the complex problems requiring complex intervention.

### 5.8.3. Centralization of the system of state guarantees

The initially introduced decentralized model of state guarantees, which delegates to the subjects of the Russian Federation broad powers to independently regulate the set of medical care services to be covered by compulsory medical insurance and their financing, has been increasingly the target of criticism over recent years. The main source of dissatisfaction has been the varying quality and accessibility of medical care services across the subjects of the Russian Federation, as well as in the prices for medical services, with little justification for such differences.

In spite of the existence of federal recommendations concerning the most controversial issues, the RF Ministry of Health, until recently, has had no opportunity to influence the decisions made by the subjects of the Russian Federation, whenever these ran contrary to the established standards. In 2018, the key element of the future unified model was established, i.e., the mandatory clinical recommendations, on the basis of which the RF Ministry of Health could now introduce its general requirements to the quality of medical services.<sup>2</sup> In 2019, the model

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<sup>1</sup> RF Ministry of Health: eight targets of the national project 'Healthcare' were achieved in 2019 // Future Russia. 2019. URL: <https://futerussia.gov.ru/nacionalnye-proekty/minzdrav-vosem-pokazatelej-nacproekta-zdravoohraneniye-dostignuty-v-2019-godu>.

<sup>2</sup> Federal Law No 323-FZ dated November 21, 2011 'On the fundamental principles of protecting of the health of citizens in the Russian Federation'.

was further centralized, in the part of regulating the financial support of the territorial programs for the implementation of state guarantees.

The most important new mechanism introduced in the compulsory medical insurance system was the mandatory coordination with the Federal Compulsory Medical Insurance (CMI) Fund of the tariff agreements concluded by the subjects of the Russian Federation.<sup>1</sup> The regions do not have the right to approve a tariff agreement without receiving a prior confirmation thereof from the Federal CMI Fund. The latter, thanks to this mechanism, can now control all the attempts to apply the methods of payment for medical care services that have not been properly coordinated, as well as the instances of some unreasonably low or high tariffs being set. From 2021 onwards, legal liability will be established for the failure, on the part of relevant legal entities, to comply with the requirements for proper coordination of tariff agreements; however, the prospects for this norm being actually applied have become dubious after the draft law on administrative responsibility in the healthcare sector was voted down.

By way of protecting the coordinated amount of financial support, attempts have been made to reduce the cost overruns in cases when medical care is provided in excess of the planned volumes. The new CMI rules impose restrictions on the right of medical institutions to submit their registers of accounts to medical insurance organizations (hereinafter – MIOs), which now should be reduced to the volume of medical care assigned to a given medical institution by the Commission for the development of the territorial CMI program. In its turn, medical institutions and MIOs are obliged to appeal to the Commission whenever they identify a possible instance of medical services being delivered in excess of the planned medical care volume, so that its volume could be redistributed. The Commission's powers to redistribute the volume of medical care over the course of one year have been fully legalized, and have become one of its principal functions. The requirements to the allocation to a MIO of funding to cover the excess medical care costs from the insurance reserves held by the territorial funds, for which specific norms are established, have been toughened, and they now require that a general detailed report on the use of funds during the said year should be submitted.<sup>2</sup>

Nevertheless, the said provisions are by no means new in terms of their fundamental principles, and it is unlikely that they can prevent all the instances of overspending in excess of the planned volume. The norm whereby the coverage of medical care costs should be limited to the planned volume of funding was already stipulated in the Federal Law 'On compulsory medical insurance', but it is not recognized by judicial practice.

Alongside all these financial issues, the new CMI Rules also regulate the powers of MIOs and commissions. The MIOs have been delegated the responsibilities of providing insured individuals with information support and exercising additional control over certain types of medical care (the provision of medical care to patients with confirmed or suspected oncological diseases, the keeping of dispensary records, routine medical examinations, hospitalizations, telemedicine consultations). The new responsibilities are consistent with the general strategy of transforming MIOs into administrative control subjects that are not allowed to exercise any independent powers to finance the medical care system. Nevertheless, even in this form, MIOs retain the important role of a professional participant in the healthcare system, which acts independently of the State.

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<sup>1</sup> Federal Law No 437-FZ dated November 28, 2018 'On introducing alterations into the Federal Law 'On compulsory health insurance in the Russian Federation''.

<sup>2</sup> Order of the RF Ministry of Health No 108n dated February 28, 2019 'On approving the Compulsory Medical Insurance Rules'.

As far as the activity of commissions is concerned, some new requirements have been established that address their functions of planning and distributing the assigned medical care volumes, including the responsibility to review the information submitted by the healthcare authorities concerning the current needs for medical care, to apply the established set of criteria when distributing the assigned medical care volumes, and to publish the final medical care distribution schedule. Taken together, these measures increase the transparency of medical care distribution and reduce the risk of subjective decision-making, but do not completely rule out that risk.

Simultaneously with the new MHI Rules, some other documents have been adopted that regulate the activities of healthcare system subjects in some other areas. In particular, a mandatory minimum of requirements was established for medical organizations that has to do with the organization and conduct of internal control of the quality and safety of their medical activities; previously, in half of the medical institutions, such quality and safety control procedures were either non-existent or dysfunctional.<sup>1</sup>

For a long time, the budget-funded component of the territorial state guarantees programs has remained an exclusive responsibility of subjects of the Russian Federation. In 2017, a deficit in the budget-funded component of the territorial state guarantees programs was observed in 62 regions; in 2018, in more than 40 regions. In 2019, the formation and approval of deficit-free territorial programs was established as a mandatory requirement for receiving transfers from the federal budget to fund the implementation of regional primary health care modernization programs.<sup>2</sup> In early 2020, that norm was relaxed, and it was allowed to provide the funding on condition that the subject of the Russian Federation should approve the schedule for eliminating the existing financial deficit.<sup>3</sup> As of January 1, 2020, the territorial programs with a deficit in their budget component were approved in 28 subjects of the Russian Federation.<sup>4</sup>

The toughening of requirements for the provision of medical care should have been followed by the introduction of no less stringent administrative responsibility for non-compliance with those requirements. The draft amendments to the Code of Administrative Offenses envisaged the imposition of large fines on medical organizations and their employees for violating the requirements established by legislation in the field of healthcare, including non-compliance with the established procedures for the provision of medical care, medical expert's estimations, and violation of citizen rights in the field of health protection.<sup>5</sup> The penalties included fines of up to RUB 40,000 for individuals, and fines of up to RUB 500,000 and temporary suspension of activities for legal entities.

The sizable fines were one of the reasons for the rejection of the draft law by the State Duma. For state medical organizations, which do not provide paid medical services, or provide them

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<sup>1</sup> Internal control remains a weak spot in many medical organizations // Medical Herald. 2017. URL: <https://medvestnik.ru/content/news/Vnutrennii-kontrol-ostaetsya-uyazvimym-mestom-medorganizacii.html>.

<sup>2</sup> Decree of the RF Government No 1304 dated October 9, 2019 'On approving the principles of primary health care modernization in the Russian Federation.'

<sup>3</sup> Decree of the RF Government No 72 dated February 3, 2020 'On the introduction of alterations into Decree of the RF Government No 1304 dated October 9, 2019.'

<sup>4</sup> *Kamaev D.* In 28 regions, the territorial state guarantees programs were adopted with a deficit // Vademecum. 2020. URL: <https://vademec.ru/news/2020/02/28/defitsit-po-terprogrammam-gosgarantiy-imeyut-28-regionov/>.

<sup>5</sup> Draft Federal Law No 1093620-6 'On the introduction of alterations into the Code of Administrative Offenses of the Russian Federation in the part of improving administrative responsibility provisions in the field of healthcare'. URL: <https://sozd.duma.gov.ru/bill/1093620-6>.

only on a small scale, the payment of fines in the amount suggested in the draft law could have translated into a shortage of funding to cover the costs of their core activities. Another unresolved legal problem that arose in connection with the proposed amendments was the poorly substantiated transfer of legal liability: from the empowered healthcare authorities to medical organizations, for their failure to properly comply with the established procedures for providing medical care; and from medical organizations (legal entities) to their employees (individuals), for violations of citizen rights in the field of healthcare. The second draft law that was elaborated at the same time by the RF Ministry of Health, on the introduction of administrative responsibility for the officials representing the bodies of authority in the public healthcare sector and medical organizations for their failure to create proper conditions for the provision of high-quality accessible medical care, was criticized along similar lines during the phase of its public discussion, and so it was not submitted to the State Duma.<sup>1</sup>

And finally, one more attempt to centralize the healthcare management system was the introduction, from January 1, 2019, of a new procedure for determining the initial contract price cap (ICPC), based on the so-called reference price (the weighted average purchase price over the past 12 months). It was assumed that this would lead to more equitable pricing, because previously that there had often been instances when one and the same pharmaceutical was purchased by neighboring regions at different prices over the course of one year. However, the introduction of new requirements for the formation of ICPC produced the situation where, in the framework of the government purchases, the price cap frequently was set below the economically feasible level, because the previously reduced price applied as the benchmark was set relative to the supplies of pharmaceuticals that were approaching their expiration dates, or could be explained by the special preferential conditions offered by the manufacturers to certain buyers, etc. As a result, a significant number of planned pharmaceutical procurement deals in 2019 did not take place due to lack of offers, which led to significant delays in the supply of pharmaceuticals and the impossibility of their timely delivery both to outpatients and to hospitals.

\* \* \*

The most important outcome of the year 2019 was the approval of new components of the unified national healthcare system: the new requirements to clinical recommendations and the pilot study of the mechanism for their use in tariff-setting (so far, only in the medical treatment of oncological diseases); the introduction of mandatory coordination of CMI tariff agreements with the Federal CMI Fund and a tougher regulation of medical care delivery in excess of its planned volume; and stronger regulation of the activities of the key subjects of the CMI system. It should be noted that most of these changes have been pushing the existing healthcare system still farther away from the classical medical insurance principles, which were originally laid down when the CMI model was considered to be the best choice for this country. Federal regulation has been switching over to an increasingly detailed control of the performance of medical institutions,

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<sup>1</sup> Draft Federal Law ‘On the introduction of alterations into the Code of Administrative Offenses of the Russian Federation in the part of establishing administrative responsibility for a failure to create proper conditions for ensuring medical care quality and accessibility (prepared by the RF Ministry of Health, Project ID 02/04/02-19/00088338).

which to a certain extent can protect the system from direct violations of citizen rights, while at the same time preventing it from upgrading its performance level.

It is expected that next year, a sector-specific remuneration system will be introduced as part of regulation of the financial backing of state guarantees;<sup>1</sup> and a pilot program of the supply of pharmaceuticals to the outpatients being followed after an acute altered cerebral blood circulation episode, myocardial infarction, or other acute cardiovascular diseases or cardiovascular surgery.<sup>2</sup> The mechanisms of the actual implementation of the latter have not yet been determined. From our point of view, when implementing the program, it would be worthwhile to test the cost recovery mechanism, which implies that the patient purchases the prescribed pharmaceutical in a commercial pharmacy. For its part, the pharmacy receives compensation from the State in the amount of the reference price of the delivered pharmaceutical, and the price difference (if any) is covered out of the patient's pocket. The cost recovery mechanism makes it possible to more flexibly adjust to the patient's personal interests and preferences, because the latter will be able to buy generic drugs, while receiving a subsidy from the state. In addition, this mechanism eliminates the public procurement issues, which became especially relevant in 2019 after the entry into force of the new rules for determining the initial contract price cap (ICPC).

Under the national project 'Healthcare', the year 2020 was to see the start of full-scale implementation of the most complex infrastructure measures, as well as the measures designed to transform the existing medical care system. However, it has already become obvious that the spread of the coronavirus (COVID-19) and the resulting preventive measures will require some significant adjustments to the planned transformations. A new priority in the healthcare system development, at least for H1 2020, will become the organization of its performance in an epidemic, including the preparation of isolated wards, the purchase of resuscitation equipment, and the provision of medical institutions with laboratory equipment and supplies, disinfectants and personal protective equipment.

As of the end of March, preventive medical examinations and checkups of certain groups of the adult population had been suspended, and it was recommended that the planned in-hospital and day hospital care and medical procedures should be postponed until later periods.<sup>3</sup> There is no information that the previously approved organizational reforms might be cancelled or postponed, but as a result of the redistribution of resources in favor of anti-epidemiological measures, the government may be forced to abandon some of the most costly measures.

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<sup>1</sup> List of instructions based on the results of the meeting addressing the primary healthcare system modernization (approved by the RF President on October 8, 2019, No Pr-2064). The RF Ministry of Health is planning to prepare, by April, a plan for a new medical worker remuneration system // TASS. 2020. URL: <https://tass.ru/obschestvo/7605301>.

<sup>2</sup> Federal Law No 380-FZ dated December 2, 2019 'On the federal budget for 2020 and the planning period 2021-2022'.

<sup>3</sup> Order of the RF Ministry of Health No 171 dated March 16, 2020 "On the temporary procedure for organizing the operation of medical institutions for the purpose of implementing the measures designed to prevent and reduce the risks of the spread of the new coronavirus infection (COVID-19)."

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

In 2019, the macroeconomic indicators directly affecting the housing market were the following.

The consumer price index stood at 3 percent, households' income movement which is important for the housing market in the course of the major part of the year (after a plunge in Q1) posted positive. Over 2019 as a whole, the real disposable cash income of the population gained less than 1 percent.

The RF Central Bank repeatedly reduced its key rate over the course of last year hitting 6.25 percent in December 2019. Nevertheless, borrowers' activity and the amount of housing mortgage lending (HML) was below that seen last year.

According to the Bank of Russia, in 2019 Russia saw a total of 1.27 million extended mortgages to the tune of RUB 2.85 trillion against 1.47 million totaling RUB 3.01 trillion in 2018, in other words the decline came to 13.6 percent in loans-terms and 5.3 percent in volume-terms. The share of mortgage loans originated for shared-equity construction in the total volume of extended loans of all types constituted in 2019 6.6 percent against 7 percent in 2018. That said, the share of mortgages issued for shared-equity construction in the aggregate volume of solely mortgage loans went up from 28.8 to 32.4 percent.

According to experts of Metrium company<sup>2</sup>, Russia's mortgage market failed to repeat in 2019 successes achieved last year due to the short-term rise of credit rates on the cusp of 2018-2019 and due to a notable growth of the housing price in the course of 2019. In H2 2019, the number of mortgage deals declined monthly by 10-30 percent year-on-year. Having said that, the monthly weighted average rate on mortgage loans exceeded 10 percent from February to August and from September gradually slid to 9 percent at the year-end. In other words, demand for mortgages in December 2019 was lower than a year earlier when rates were above 9.66 percent. Decline of mortgage rates posted in H2 2019 not so much boosted demand as prevented its 10 percent further decline. Positive effect of declined rates has been leveled by housing price growth against the backdrop of ongoing stagnation of incomes.

Preferential mortgage loans extended to households with two children and more have not played a major role. According to estimates of Metrium Group experts made on the basis of the data released by the Finance Ministry of Russia, 38.6 thousand loans were originated under this program totaling RUB 94.9 billion which came to 3.3 percent of the overall HML. If from February (the launch of the program) through December 2019 monthly average origination came to around 400 preferential bank loans, then in 2019 (including November) banks extended 3,500 such loans.

Outstanding mortgage debt has remained small. According to data released by Rosstat as on January 1, 2020 it amounted to RUB 72.6 billion (1.0 percent of the total housing mortgage debt outstanding) and declined year-on-year by 0.4 percent.

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<sup>1</sup> This section was written by: *Malginov G.N.*, Candidate of Sciences (Economics), Head of Ownership Issues and Corporate Governance Department, Gaidar Institute; leading researcher, Analysis of Institutes and Financial Markets, IAES RANEPa; *Sternik S.G.*, Doctor of Sciences (Economics), Professor, Financial Institute under the RF Government, Chairman of the Committee on Analysis and Consulting of Moscow Association of Realtors.

<sup>2</sup> URL: [www.metrium.ru/research](http://www.metrium.ru/research) (according to data released by the Bank of Russia).

### 5.9.1. The movement of housing market prices

The main indices describing the movement patterns of prices on the secondary housing market across Russia's cities can be seen in *Table 6*.<sup>1</sup>

The study sample consists of 23 cities, including 17 capitals of RF subjects, with the total population of over 33 million.

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

- the city of Москва (12.6 million);
- the city of St. Petersburg (5.4 million);
- 7 cities with the population of more than 1 million (Novosibirsk, Yekaterinburg, Omsk, Samara, Krasnoyarsk, Perm, Voronezh) with over 8.6 million in total;
- 8 cities with the population between 500 thousand and 1 million (Tyumen Togliatti, Barnaul, Irkutsk, Khabarovsk, Yaroslavl, Vladivostok, and Kemerovo) with over 5.1 million in total;
- 2 cities with the population between 200,000 and 500,000 (Stavropol, Surgut) (more than 1.0 million in total);
- 4 cities with the population of less than 200,000 (Syzran, Pervouralsk, Novy Urengoy, Tobolsk) (more than 0.5 million in total).

*Table 6*

**Prices on the secondary housing market in Russian cities in 2017–2019**

City (region)	Average per unit asking price, thousands of rubles per m <sup>2</sup>			Price index in December 2019 relative to December 2018		Price index in December 2019 relative to December 2018	
				in nominal terms	in real terms (IGS)	in nominal terms	in real terms (IGS)
	December 2017	December 2018	December 2019				
1	2	3	4	5	6	7	8
Moscow	210.2	222.0	232.0	1.056	1.013	1.045	1.015
St. Petersburg	107.4	114.0	127.7	1.061	1.017	1.120	1.087
Vladivostok	95.9	109.6	121.8	1.143	1.096	1.111	1.079
Novy Urengoy (Tyumen Region)	89.2	93.5	102.9	1.048	1.005	1.101	1.069
Khabarovsk	82.2	82.8	85.5	1.007	0.965	1.033	1.003
Surgut (Tyumen Region)	69.8	75.5	78.6	1.082	1.037	1.041	1.011
Yekaterinburg	67.3	71.0	72.5	1.055	1.012	1.021	0.991
Samara	59.6	60.4	60.3	1.013	0.971	0.998	0.969
Tyumen	59.3	63.2	68.0	1.066	1.022	1.076	1.045
Novosibirsk	58.5	63.4	70.0	1.084	1.039	1.104	1.072
Irkutsk	56.4	61.0	63.6	1.082	1.037	1.043	1.013
Krasnoyarsk	52.6	56.2	60.4	1.068	1.024	1.075	1.044
Perm	49.3	53.3	57.3	1.081	1.036	1.075	1.044
Tobolsk (Tyumen Region)	49.3	43.3	45.3	0.878	0.842	1.046	1.016
Yaroslavl	48.6	51.6	54.0	1.062	1.018	1.047	1.017
Kemerovo	44.3	43.9	46.4	0.991	0.950	1.057	1.026

<sup>1</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-nedvijimosti-gorodo/>); the sources of primary market data are listed in the Note to *Table 7*.

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

1	2	3	4	5	6	7	8
Barnaul	44.0	45.4	47.5	1.032	0.989	1.046	1.016
Voronezh	43.6	46.3	48.6	1.062	1.018	1.050	1.019
Omsk	43.2	45.6	47.5	1.056	1.012	1.042	1.012
Stavropol	39.5	42.9	44.8	1.086	1.041	1.044	1.014
Togliatti (Samara region)	39.3	40.1	40.5	1.020	0.978	1.010	0.981
Syzran (Samara Region)	36.7	35.7	34.6	0.973	0.933	0.969	0.941
Pervouralsk (Sverdlovsk Region)	36.1	36.3	36.8	1.006	0.965	1.014	0.984

*Source:* calculation based on sample data.

The year 2019 was marked, practically everywhere, by rising prices on the secondary housing market. The highest growth indices (by 10–12 percent) were observed in St. Petersburg, Vladivostok, Novosibirsk, and Novy Urengoy. In Tyumen, Krasnoyarsk, Perm, Kemerovo, and Voronezh prices gained more than 5–7 percent. The most numerous group of the “average range” posting 4–5 percent alongside Moscow (3.5 percent) included Yaroslavl, Tobolsk, Stavropol, Irkutsk, Omsk, and Surgut. Just barely Khabarovsk with 3.3 percent can be part of the latter. A significantly lower growth rate (within the range of 1–2 percent) was noted in Ekaterinburg, Pervouralsk and Togliatti, and clear outsiders were Samara (stagnation) and Syzran (decline in absolute terms).

Compared to 2019, the major part of the sample demonstrated a slowdown in price dynamics, although in many cities (St. Petersburg, Novy Urengoy, Khabarovsk, Tyumen, Novosibirsk, Krasnoyarsk, Kemerovo, Barnaul, Tobolsk, and Pervouralsk) an opposite situation was observed including trend change from decline to growth.

At the same time, in the majority of cities included in the sample, housing prices increased in real terms (excluding inflation on the consumer market) (IGS-index).<sup>1</sup>

In St. Petersburg, their growth came to 8.7 percent, in Vladivostok, Novosibirsk and Novy Urengoy, it was 7–8 percent, in Tyumen, Krasnoyarsk, and Perm, it was approximately 4.5 percent, in Kemerovo and Voronezh – around 2–2.5 percent. In the group of cities in the “average range”, the growth index was in the range of 1–1.7, including Moscow with its growth index of 1.5 percent. In all the other cities across our sample stagnation was observed (Khabarovsk) or a decline in real housing prices was most notably observed in Samara and Syzran (by 3 and 6 percent, respectively). In the major part of our sample (except Vladivostok, Surgut, Ekaterinburg, Samara, Irkutsk, Yaroslavl, Omsk, and Stavropol) the dynamic of the real housing prices was better than in 2018.

Data on primary housing market prices is available for 8 cities and Moscow Oblast (*Table 7*).

The primary housing market was demonstrating continuing growth almost in every city.

An absolute leader was Ekaterinburg, where housing prices gained approximately 15 percent. In Tyumen and Novosibirsk its value exceeded 7–8 percent, and in Moscow, St. Petersburg and Tobolsk it stayed in the range of 5–6 percent. In Yaroslavl and Stavropol, the prices were increasing at a slower pace (by 3–4 percent). Price comparison with those in 2018 demonstrate that in one half of sample (Moscow, Novosibirsk, Tyumen, and Stavropol) price growth slowed down and in the other half (St. Petersburg, Ekaterinburg, and Tobolsk) there was a trend change from decline to growth (Yaroslavl).

<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 2017–2019**

City (region)	Mean unit asking price, thousands of rubles per m <sup>2</sup>			Price index in December 2018 relative to December 2017		Price index in December 2019 relative to December 2018	
				in nominal terms	in real terms (IGS)	in nominal terms	in real terms (IGS)
	December 2017	December 2018	December 2019				
Moscow	179.9	202.0	212.0	1.123	1.077	1.050	1.019
St. Petersburg	100.6	106.0	112.0	1.054	1.011	1.057	1.026
Ekaterinburg	63.3	63.3	72.6	1.000	0.959	1.147	1.114
Novosibirsk	59.9	66.3	71.3	1.107	1.061	1.075	1.044
Tyumen	56.6	62.1	67.5	1.097	1.052	1.087	1.055
Yaroslavl	50.6	49.7	51.9	0.982	0.942	1.044	1.014
Tobolsk (Tyumen region)	49.3	50.2	53.1	1.018	0.976	1.058	1.027
Stavropol	36.3	40.7	42.1	1.121	1.075	1.034	1.004

*Source:* for Moscow – 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 Ekaterinburg – IRTS UPN; for Novosibirsk – RID Analytics; for Tobolsk – Federal Real Estate Agency ‘Etazhi’; for Tyumen – ‘UPCConsAllt’It, Federal Real Estate Agency ‘Etazhi’; for Yaroslavl – LLC ‘Metro-Otsenka’; and for Stavropol – LLC ‘Small Enterprises Development Center ‘Ilekta’.

Indexes of the real housing price (IGS-index) went up in all cities in 2019.

Ekaterinburg posted the highest growth (above 11 percent), Novosibirsk and Tyumen registered growth of more than 4 and 5 percent, respectively. Moscow, St. Petersburg, and Tobolsk reported IGS-index growth in the range of 2–3 percent, and in Yaroslavl and Stavropol it was even less. Dynamic of the real housing price in the majority of cities (except Moscow, Novosibirsk, and Stavropol) was better in 2018, whereby in Ekaterinburg, Yaroslavl, and Tobolsk there was a trend change from decline to growth.

Consequently, following the 2017 stabilization, the asking prices on the housing market were on the rise to a second year in a row. This was especially true for the primary market in 2019 despite that fact that the temporary mortgage rate rise against the backdrop of implementation of the cost sharing construction reform resulted in the reduction in the number of apartment purchase deals under co-investment agreements by 1.6 percent to 783,000 (approximately by 8 percent below the peak level seen in 2014).

Let us analyze in further detail the situation in this segment in Moscow.<sup>1</sup>

According to data for Q4 2019, the supply volume within the previously established city borders amounted to 33,200 apartments of which around 51 percent belonged to mass housing, 42.6 percent belonged to the business class, 4.6 percent – to the premium class, and 2 percent – to elite housing (*Table 8*).

Year-on-year, the number of supply has gone up by 2.1 percent, however with respect to the total floor area (2.3 million m<sup>2</sup>) the supply growth has constituted barely 0.6 percent which demonstrates a severe reduction in the average apartment floor area in the 2019 supply. Notable growth in the number of offers was related to mass housing (up by 12.5 percent) and elite class (by more than one third) amid the collapse in the average price range, especially in the premium

<sup>1</sup> According to data released by the Committee on Analysis and Consulting of the Moscow Association of Realtors (MAR).

class (by more than 38 percent). The business class supply has dropped by 2 percentage points against 3 percentage points drop reported in the premium class housing.

Table 8

**Dynamic of apartments supply on the primary market of Old Moscow in 2018–2019, units**

Period	Total		Mass housing		Business class		Premium class		Elite class	
	unit	%	unit	%	unit	%	unit	%	unit	%
Q4 2018	32525	100.0	14990	46.1	14550	44.7	2485	7.65	500	1.55
Q1 2019	33620	100.0	16760	49.9	14230	42.3	2090	6.2	540	1.6
Q2 2019	32845	100.0	16550	50.4	13850	42.2	1920	5.8	525	1.6
Q3 2019	33155	100.0	16950	51.1	13905	41.9	1635	4.9	665	2.0
Q4 2019	33195	100.0	16860	50.8	14140	42.6	1535	4.6	660	2.0

Source: Committee on Analysis and Consulting MAR.

Precisely there the asking prices have gone up (by around 21 percent) the most over the year amid the spike in Q4 (by around 11 percent) (Table 9).

Table 9

**Dynamic of average per unit asking prices on the primary market of Old Moscow in 2018–2019**

Period	Mass class			Business class			Premium class			Elite class		
	RUB/ m <sup>2</sup>	% to		RUB/ m <sup>2</sup>	% to		RUB/ m <sup>2</sup>	% to		RUB/ m <sup>2</sup>	% to	
		Q-o-Q	Q4 2018									
Q4 2018	162 090	...	100	228 100	...	100	459 395	...	100	1 032 895	...	100
Q1 2019	165 700	102.2	102.2	230 390	101.0	101.0	479 100	104.3	104.3	1 016 070	98.4	98.4
Q2 2019	167 820	101.3	103.5	235805	102.4	103.4	488 805	102.0	106.4	1 062 165	104.5	102.8
Q3 2019	171 555	102.2	105.8	237 925	100.9	104.3	501 265	102.5	109.1	1 080 700	101.7	104.6
Q4 2019	174 760	101.9	107.8	241 745	101.6	106.0	554 375	110.6	120.7	1 007 130	93.2	97.5

Source: Committee on Analysis and Consulting MAR.

Dynamic of housing prices in elite class has also stayed within the corridor of classical patterns. The spike in supply was accompanied by negative growth in Q1 (by 1.6 percent) and Q4 (by 6.8 percent) as well as end-of-year period as a whole (by 2.5 percent). Housing price movement in lower price bracket (mass class and business class) which accounted for over 90 percent of supply was similar (growth by 6–8 percent for entire period) despite differently directed trends in the change in its absolute volume. If in mass class the supply has notably increased (by 12.5 percent) then in business class – moderately declined (by approximately 3 percent).

In respect to demand, Moscow within the previously established city borders (also less Zelenograd administrative okrug) registered 47,600 co-investment agreements with individuals up by 6 percent against the 2018 indicator. Nekrasovka reported record high number of co-investment agreements (1,926). Regarding floor area, the demand constituted in 2019 2.7 million m<sup>2</sup> up by 3.7 percent against 2018 which once more attests to the downward trend in the average apartment floor area supply. The share of mortgage deals in mass class housing accounted for 56 percent, in business class – 45 percent, in premium class – 29 percent, and in elite class – 16 percent.

Quarter-over-quarter dynamic of satisfied demand is of interest (registered co-investment agreements) (*Table 10*).

*Table 10*

**Comparable quarter-over-quarter dynamic of co-investment agreements registration for apartments in Old Moscow in 2018–2019, thousand units**

Period	Q1			Q2			Q3			Q4		
	Total	% to		Total	% to		Total	% to		Total	% to	
		Q-o-Q	Y-o-Y									
2018	8.8	...	...	10.1	114.8	...	11.2	110.9	...	14.8	132.1	...
2019	11.7	79.1	133.0	12.0	102.6	118.8	11.1	92.5	99.1	12.8	115.3	86.5

Source: Committee on Analysis and Consulting MAR.

In 2018, the demand was gradually growing due to a gradual reduction in the mortgage rates except December 2018,<sup>1</sup> when they went up. The latter resulted in the registered demand decline in Q1 2019 by 21 percent. Two more peaks were observed in the course of 2019.

One of them (in Q4) was a normal reaction of the market to the reduction in mortgage rates. The other happened earlier in Q1–Q2 when developers carried out accelerated purchase of apartments for sale to the name of top managers and trustees in order to mark sales at above 10 percent of the total floor area of the housing under construction to obtain the right not to switchover from July 1 to escrow accounts and have the right to continue financing through co-investment agreements.

Let’s brief on the situation in the territory within the previously established city borders (Old Moscow) whereas on late 2019 twenty-seven tenement building complexes totaling 182 blocks were under construction, which amounts to supply of 9,753 apartments with total floor area of 541,358 m<sup>2</sup>.

At end-of-year the average price in mass class housing stood at RUB 121,000 per m<sup>2</sup>, in business class – RUB 174,500 m<sup>2</sup>, down by about 30 percent compared to the same indexes seen in Old Moscow. It is worth noting that till July 2019 asking price growth in business class housing was steady and flat, and in July the average price came to RUB 135,500 per m<sup>2</sup>. However, August 2019 saw a spike in the average asking price in business class by 36 percent (up to RUB 184,200 per m<sup>2</sup>) due to purchases by developers seen in July. Already in September it declined by around 7 percent (down to RUB 172,000 per m<sup>2</sup> and did not return to H1 level.

5.9.2. The construction, commissioning, and supply of new housing units

According to preliminary data for 2019, the total volume of housing stock put into operation amounted to 79.4 million m<sup>2</sup>, which is 4.9 more than in 2018 (*Table 11*)<sup>2</sup>.

<sup>1</sup> End-of-Q4 as a whole increment came just short of 1/3.

<sup>2</sup> The 2019 data also provides the amount of housing commissioning to the tune of 80.3 million m<sup>2</sup> (including commissioning of residential buildings on land plots provided for gardening). Prior to August 2019 such buildings were not taken into account. Changes in the accounting were due to fact that provisions of the Federal Law dated July 29, 2017 No. 217-FZ “On gardening for privet needs and introduction of amendments into certain legislative acts of the Russian Federation” fully entered into force.

For comparison with data for the previous periods, it is proper to use the amount of commissioning of residential buildings without those commissioned on the land plots for gardening. Moreover, so far this category represents a small rderpart of proportion of aggregate commissioning of residential housing as of end-of-year 2019: 0.9 million

Table 11

The rate of commissioning of residential buildings across Russia in 1999–2019

Year	Total area, millions of meters <sup>2</sup>	Growth rate, percent	
		Year-on-year	To 2000
1999	32.0	104.2	105.6
2000	30.3	94.7	100.0
2001	31.7	104.6	104.6
2002	33.8	106.6	111.5
2003	36.4	107.7	120.1
2004	41.0	112.6	135.3
2005	43.6	106.3	143.9
2006	50.6	116.0	167.0
2007	61.2	120.9	202.0
2008	64.1	104.7	211.5
2009	59.9	93.4	197.7
2010	58.4	97.5	192.7
2011	62.3	106.6	205.6
2012	65.7	104.7	216.8
2013	70.5	107.3	232.7
2014	84.2	119.4	277.9
2015	85.3	101.3	281.5
2016	80.2	94.0	264.7
2017	79.2	98.8	261.4
2018	75.7	95.1	248.5
2019	80.3/79.4*	106.1/104.9*	265/262.0*

\* Less building commissioned on garden plots.

Sources: Rosstat; own calculations.

Interim results for the past year have demonstrated that transition to the new financing mechanism deployed in housing construction (from co-investment agreements to the project-tied bank lending through escrow accounts for accumulating of buyers' funds) went on better than expected.

Contrary to concerns, volumes of housing commissioning countrywide moved up compared to 2018 by around 5 percent which is due to the permission to finish construction of part of facilities according to former rules and concentration of developers' efforts to complete construction of buildings with high degree of completion and successes of individual housing construction. In doing so, they managed to terminate a three-year-long period of decline (2016–2018) in housing construction.

A less bright situation has been observed with regard to developer projects involving multi-apartment residential buildings.<sup>1</sup> The volume of housing stock put into operation in this segment has also been on decline for a third year in a row, at an accelerated rate (2016 – 3.4 percent, in 2017 – 4.5 percent, and in 2018 – 7.3 percent). Its volume (43.5 million m<sup>2</sup>) stabilized practically at the previous year level when in 2019 individual developers put into operation houses totaling 36.8 m<sup>2</sup> up by 10.7 percent against 2018. Their share in the total volume of housing commissioning came to about 46 percent.

Positive movement patterns in the housing construction sector were observed in the majority of regions (Table 12).

m<sup>2</sup> (or around 1 percent). When we take such residential buildings into account growth comes to 6.1 percent against 2018.

<sup>1</sup> The official Rosstat reporting this index. However, it can be calculated as a difference between total volume of housing commissioning and housing commissioning by population carried out at their own and raised funds.

Table 12

**The dynamic of commissioning of residential housing in Russia's regions  
in 2019 (ranked in descending order)**

Region	Housing stock put into operation, percent relative to 2018
Moscow	141.8
Lipetsk region	139.1
Stavropol krai	123.0
Sverdlovsk region	114.2
Tyumen region (with autonomous districts)	114.2
Tatarstan	111.0
Voronezh region	110.2
Rostov region	109.5
Nizhny Novgorod region	104.3
Ulyanovsk region	103.9
Krasnoyarsk krai	103.4
Bashkortostan	103.2
Perm krai	102.8
Belgorod region	101.5
Krasnodar krai	101.0
Novosibirsk region	100.4
Saratov region	98.9
Samara region	95.6
Moscow region	95.2
Chelyabinsk region	94.9
Leningrad region	92.2
St. Petersburg	87.9

Source: Rosstat.

As follows from *Table 12*, 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 5 percent), was noted in Moscow, Lipetsk region, Stavropol krai, Sverdlovsk and Tyumen regions, Tatarstan, Voronezh and Rostov regions. Another 8 regions demonstrated positive movement patterns of that index, but its actual value was less than average across the country.

At the same time, shrinking volumes of housing stock put into operation were seen in 6 regions, including Saratov region, Samara region, Moscow, Chelyabinsk, Leningrad regions and St. Petersburg. Half of this group included regions which in 2018 were among 5 leaders (outer Moscow, St. Petersburg, and Leningrad region). That said, the deepest plunge (over 12 percent) was reported in St. Petersburg.

Moscow region demonstrated a decline (around 5%), although it retained its leading position among Russian regions on the back of the total volume of housing stock put into operation in absolute terms (over 8.4 million m<sup>2</sup>). The city of Moscow demonstrated novel growth rates (around 42 percent) overtaking St. Petersburg (about 3.5 million m<sup>2</sup>). 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 the highest (11.7 percent). The group of top five leaders was also joined by Krasnodar krai (approximately 4.5 million m<sup>2</sup>) and Tatarstan (around (2.7 million m<sup>2</sup>). The share of the capital region in the total volume of housing construction in the country amounted to around 17 percent (including Moscow region – 10.6 percent and Moscow – 6.3 percent) exceeding the value of the index seen in 2017–2018.

This being said, it is worth noting that the dynamic of mortgage lending by no means always was the key factor in housing construction regions-wise. Against the background of practically across-the-board reduction in the number of mortgage contracts (down by 10–15 percent) even the outstripping contraction of demand for mortgages (down by 20–24 percent according to

data released by Metrium Group<sup>1</sup>) did not stop Tatarstan and Ulyanovsk region not only to stay in the group of regions with housing commissioning over 1 million m<sup>2</sup> but also demonstrate an upward dynamic (especially Tatarstan). Even greater growth (over 22 percent) amid deep decline of mortgage volumes was observed in Khanty-Mansi autonomous okrug, although the absolute value of housing commissioning in that region was below 1 million m<sup>2</sup>.

At the same time, significant growth in the number of mortgage deals compared to 2018 was reported in Chechnya and Dagestan (by 26 and 16 percent, respectively) where in light of the existence of great number of families with many children the government expanded to the utmost accessibility of mortgage lending through mortgage interest rates subsidization. However, neither housing commissioning in absolute terms nor its growth did not impress much. Similar picture was observed in Crimea with its growing tourist attraction.

In relation to the reform of the financing mechanism employed in housing construction then from July 1, 2019 the use of escrow accounts had to be mandatory for all projects. However, authorities in dialogue with the professional community developed a number of criteria which allowed developers to work according to old rules even after that date. According to the adopted version of the RF government resolution dated April 22, 2019 No. 480,<sup>2</sup> such projects should correspond the following criteria:

- the building is completed by more than 30 percent (on criterion of accrued costs), there are decreasing coefficients for complex construction projects (0.5x) and companies on the list of systemic organizations (0.2x);
- construction facilities with co-investment agreements totaling no less than 10 percent of their aggregate floor area.

The government was boosting early transition to the mechanism of escrow accounts in return of lifting part of requirements for developers, for example, contribute 1.2 percent of price from every shared construction agreement to the Fund for protections of rights of citizens participating in shared-equity construction. Having said that, application of IFSR accounting standards was expected which would ease a number of restrictions in relation to indirect costs.

Despite those measures, developers were in no hurry to switchover to the new mechanism of dealing with the participants' funds. Factors hampering the process are the following:

- low level of financial competences with developers which on many occasions does not allow to stand up the project before banks;
- inadequacy of the major part of small size developers to banks' requirements presented to the quality of borrowers;
- insufficient number of bank specialists who are competent in the construction segment;
- unwillingness of banks to deal with lending to developers due to reputation of developers as a “shady” business.

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<sup>1</sup> URL: [www.metrium.ru/research](http://www.metrium.ru/research).

<sup>2</sup> This document has approved (1) criteria which determine the grade of completion of an apartment block and (or) other real estate construction facility (construction project) and the number of co-investment agreements on condition of the correspondence the developer receives the right to raise funds from participants in shared-equity construction without using accounts envisaged by Art 15.4 of the Federal law “On participation in shared-equity construction of apartment blocks and other real estate facilities and on the introduction of amendments in certain legislative acts of the Russian Federation”, on co-investment construction agreements submitted for the state registration after July 1, 2019 (2) methodology to determine conformity of apartment block and (or) other real estate facility (construction project) to indicated criteria, and (3) list of accompanied documents submitted by developer.

As on late 2019, projects implemented via escrow accounts account for 24 percent of the total construction through raising the equity construction investors' funds. The regions with the highest share of such projects are Kalmykia (76 percent), Kurgan region (68 percent) and Chelyabinsk region (59 percent). It is worth noting that the latter belonging to the group of regions with the housing commission above 1 million m<sup>2</sup> demonstrated at year-end of 2019 a decline by around 5 percent. As for the other two regions, amid positive dynamic related to the absolute value of housing commissioning, they belonged to the group of outsiders.

According to data released by the Bank of Russia as of early 2020:

- signed within project-tied lending total number of 778 loan agreements to the tune of RUB 921.82 billion.;
- total number of opened escrow accounts 44,180;
- escrow accounts balance totaled RUB 147.74 billion;
- closed escrow accounts (in operation to putting into operation of financed facilities) totaling 2,547;
- the sum of transferred funds from those accounts totaled RUB 5.43 billion.

So far developers boast of a large backlog of projects which correspond to the criteria of the decree of the RF government for continuing construction on former rules. However, as far as this resource is running out and the developer is getting higher affordability, the volume of funds raised from the co-investment agreements will be declining for construction financing. Gradually, they will be phased out by more conventional sources of debt capital. Meanwhile, major market stakeholders raised loan-based funding cheaper over recent years than the funds generated by the co-investment agreements. The reasons for that lie in the interaction of institutional lease factors (affiliation with system companies) and business features (large scale and vertical integration) which have opened access to bank lending on preferential terms and issuance of bonded debt on the basis of credit ratings (for instance, “PIK”, “LSR”, and “ETALON”).

Main challenge for business model developers when the new rules are in force becomes growing debt burden because the funds generated from housing sales at the construction stage will be frozen on escrow accounts till the completion of construction. In return a company will receive project-tied financing on preferential bank rate. That said, developers with diversified project portfolio and considerable amount of own capital boast of a larger safety cushion. Nevertheless, the share of debt servicing payments in the structure of operational income is spiking (EBIT to Interest rate).

In the course of last decades, the main investment attractiveness of the housing construction was the implementation of rather large projects at the expense of funds raised from equity construction investors on the back of small own investments.

In order to restore return on invested capital (in the context of a need for raising the share of own funds after the reform) price growth was required which was observed on the market last year, especially in Q3 2019. The point is that the price growth reported over that period resulted from a spike in volumes of absorption of co-investment agreements in late Q2 by large and medium-sized developers in large cities. As noted above, they set a goal to mark the sale of more than 10 percent of the total floor area in project-tied housing construction in order to receive the right not to switchover to escrow accounts from July 1 and have a chance to proceed with financing according to the co-investment agreements mechanism. With that in mind, they exercised purchase of apartments for sale in the name of top managers and trustees of developers.

On the whole, complete risk elimination for equity construction investors regarding the loss of their funds as proclaimed target for the introduction of the new mechanism is paid by rising developers' price both due to price growth on completed housing and to the discount reduction at the construction stage because of the introduction of additional link (banks) in redistribution of income generated by construction.

Speaking about sector's prospects as they were seen before the outbreak of the crisis in February-March 2020, the following should be noted.

Quarter-on-quarter dynamic of housing construction volumes compared to 2018 after the collapse seen in Q1 and advance growth rates (12–15 percent) posted in subsequent two quarters, in the closing Q4 demonstrated slight uptick (around 2 percent if not taking into account commissioning of the houses built on garden land plots). And in December when Russia boasts of a spike in housing commissioning, a decline was observed even with the account of this new factor. Having said that, sector's management expressed concerns in late 2019 with respect to big complications the sector can face in 2021–2022. For instance, the Minister of construction, housing and utilities of the Russian Federation, Vladimir Yakushev, underlined at the forum “Digital Transformation in the Construction Industry Aimed at Sustainable Development” held in St. Petersburg that this was due to a small number of issued permits for housing construction.<sup>1</sup>

It is worth noting that obtained increment at year-end 2019 missed targets set forth by the National project “Housing and urban environment”. Growth in housing construction volumes posted in 2019 made provisions for return to the 2016–2017 indicators (80.2 million and 79.2 million m<sup>2</sup>, respectively). Nevertheless, not only targeted index envisaged by the National project (88million m<sup>2</sup>) was missed but the previous peak values of 2014–2015 (84.2 million and 85.5 million m<sup>2</sup>) as well.

### 5.9.3. Legal novations in the shared-equity construction system

Last year boasted of the ongoing reform of the shared-equity construction system comparable in its intensity to the changes happened in 2018.<sup>2</sup>

The Law dated June 27, 2019 No. 151-FZ introduced amendments and supplements to more than ten normative and legislative acts including the Land and Town Planning Codes of the Russian Federation, bankruptcy law, etc. However, many of them have been the result of the next widescale adjustment in the base law on shared construction of 2004 (No. 214-FZ).

First of all, we should underline regulation of relationship with defrauded homebuyers wherefore the Law No. 214-FZ received three new article at one go (Articles 21.1–21.3).

As in the case with the public law company “Fund for Protection of Rights of Citizens' Participating in Shared-Equity Construction” established in 2017 in accordance with the special law (No. 218-FZ), the scope of operation of the Law No. 214-FZ on the local level was extended to the relations related to the settlement of developer's liabilities to the participants in shared-equity construction and transfer of its property (including title thereto) and liabilities to the unitary non-profit organization (Fund) set up by RF subject with due regard for the specificities stipulated in that Law, as well as the laws regulating shared construction and bankruptcy. The new organization was granted the status of a developer company.

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<sup>1</sup> Ministry of construction projects a decline in housing commissioning in 2021–2022, November 18, 2019 URL: <https://realty.interfax.ru/ru/news/articles/112072>.

<sup>2</sup> See IEP's Annual report “Russian Economy in 2018. Trends and Perspectives”. Moscow. IEP, 2019.

RF subject sets up its Fund in accordance with the regional normative and legal acts aimed at the regulating developers' liabilities declared as bankrupts before the participants in shared construction and transfer to them property (including title thereto) and developers' commitments to complete construction of multi-apartment buildings and (or) other real estate facilities, which construction is done through attraction of homebuyers' funds according to the envisaged order, and (or) for the completion of construction of engineering and technical and social infrastructure for its subsequent compensation-free transfer to the state or municipal property.

The fact that RF subject may set up only one Fund is conditioned by the need to include information on construction facilities located on the region's territory into the Single Register of Problematic Facilities.<sup>1</sup> The latter represent multi-apartment buildings and (or) other real estate facilities where developer violated by more than 6 months the timeline for completion of construction and (or) liabilities to transfer the facility to participant in shared construction under the registered agreement or where developer is declared as bankrupt and with respect to whom bankruptcy proceedings were launched in compliance with the bankruptcy law of 2002. For the implementation of measures intended to restore the citizens' rights whose funds have been raised for the construction of those facilities included on the unified register located on the region's territory, the latter's executive authority approves a corresponding implementation roadmap for such measures.

Status, objectives and functions of RF subject's Fund and the procedure for the set up of its management bodies are determined by the RF Civil Code and by the legislation on non-commercial organizations.

Settlement of developers' liabilities can be carried out by RF subject's Fund out of funds provided by public law company "Fund for protection of rights of citizens participating in shared-equity construction" established in 2017. These funds can be allocated for financing the activities of RF subjects' Fund which can act as a developer and engage in completion of construction of multi-apartment buildings and (or) other real estate facilities and objects of infrastructure with account of non-application of a number of articles on shared-equity construction.

RF subject's Fund has the right to raise funds from individuals and legal entities on co-investment agreements with respect to the facilities under completion only on condition the funds being on escrow accounts opened with an authorized bank in the housing construction segment according to the stated order.

For the implementation of envisaged activity any operations transactions carried out by the Fund of RF subject, legal entities, which are its partners including the latter making deals with other legal entities are carried out by authorized bank in the sphere of housing construction to the stated order envisaged by the law of 2017 on public law company on protection of the rights of citizens participating in shared construction (No. 218-FZ). That said, conditions established in relation to "Fund for Protection of Right of Citizens Participating in Shared-Equity Construction", are applied to RF subject as well.

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<sup>1</sup> Formed along with the Single Register of Developer Companies (SRDC) in electronic form in the Unified information system for housing construction (UISHC) by means envisaged by hardware and software complex of the system on the basis of data uploaded by subjects of information. Information contained in the Single Register of Problematic Facilities as well as in SRDC are in open access except information with restricted access by the law of Russia.

By being its founder, the subject's budget finances every day activities of the Fund. For these purposes the Fund does not use its own money.

The Fund of RF subject when receiving developer's property and liabilities before the participants in construction according to the procedure set forth by the bankruptcy law is not responsible for developer's violations that was declared bankrupt, breach of timelines for transfer of facility to participant in shared construction which must be done not later than 3 years from the day of pronouncement of corresponding decision by the court of arbitration.

When region's normative legal act on the establishment of the Fund of RF subject envisages that financing of its activities and measures on the settlement of developer's liabilities are carried out from the fund of RF subject without the attraction of the federal budget funds and (or) funds provided by public law company "The Fund for Protection of Rights of Citizens Participating in Shared-Equity Construction", then the Fund of RF subject carries out its activities with the account of the following factors.

The Fund is not subject to mentioned above bans and provisions with respect to conducting operations with authorized bank in the segment of housing construction. The RF subject's Fund is entitled to raise funds from citizens and legal entities through co-investment agreements with respect to facilities in the state of completion only on condition of their deposit on escrow accounts with authorized bank (regardless of requirements to deposit participants' funds on escrow accounts in the authorized bank in the segment of housing construction).<sup>1</sup>

In case the Fund of RF subject allows to commit non-execution or improper execution of its obligations on the implementation of measures intended to settle developer's commitments, the subject of the Russian Federation-founder of the Fund is subsidiary liable for its commitments.

For carrying out operations with funds received from the regional budget the Fund opens an account with the financial body of RF subject. For all other purposes the Fund of RF subject may open an account with credit institutions located on the territory in due course.

The RF subject's Fund takes decision on financing or inexpediency of financing the measures related to above indicated objectives. The RF subject's Fund informs bankruptcy commissioner and the public law company "Fund for Protection of Rights of Citizens Participating in Shared-Equity Construction" on its decision not later than 3 days following the corresponding decision.

The decision of RF subject's Fund on financing must envisage funding of completion of construction of all located on the territory of the region-founder of the Fund multi-apartment buildings and (or) other real estate facilities and infrastructure objects of the developer in respect of which the Court of Arbitration decided to declare him bankrupt and introduce bankruptcy administration. The RF subject's Fund decides on expediency of funding (except cases if the regional executive authority decides otherwise) on the provisions introduced into the 2017 law on public law company for protection of rights of citizens participating in shared-equity construction (No. 218-FZ).

Just to name a few significant amendments introduced to the law on shared construction (No. 214-FZ).

*Firstly*, regarding the subject of regulation and conceptual framework the term "private premises in multi-apartment buildings" (in the context of attraction of funds from citizens) to replace with a wider one "premises in multi-apartment buildings and (or) other real estate facilities" hereunder are understood non-living premises and car-places.

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<sup>1</sup> On the divergence between two categories of banks see below.

From mid-2018, 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), the direct ban has been imposed on the sale of securities to citizens, the execution of rights upon which according to the terms of issuance and terms and conditions of trust agreement on the management of mutual investment fund, a citizen has the right to claim a unit in a multi-unit residential building and (or) in another real estate facility which has not been put into operation although there was attraction of citizens fund for construction.

Alongside the term “authorized bank” brought about in 2017,<sup>1</sup> definition of an authorized bank in the segment of housing construction was designed, which is a bank established in accordance with the law of the Russian Federation and ascertained by the 2015 law on the assistance to the development and raising efficiency in the segment of housing management (No. 225-FZ). According to the amendments introduced therein in 2019, this is a joint stock company (JSC) representing the credit institution whose all shares are in ownership of a single institute of development in the housing segment. Sale or other way for alienation of those shares, pledging or other way of disposal of the shares is carried out according to the federal law. In truth, this refers to “ДОМ.РФ” which was created on the basis of the bank *Russian Capital*<sup>2</sup> after the transfer of its 100-percent stake to the charter capital of the Agency for Housing Mortgage Lending (AHML) at the very end of the year 2017, which was later reorganized into JSC “ДОМ.РФ”.

*Secondly*, there were important adjustments related to the relationship between developer and credit institutions.

In the context of determination of targeted credit or loan for construction (creation) of multi-apartment residential building and (or) other real estate facility according to the provisions of the contract concluded by a developer and a creditor (bank or founder (participant) of developer), restrictions related to the targeted use of such funds are not applied in case the developer carries out the construction (creation) of indicated facilities with raised funds from participants in shared-equity construction on condition of their deposit on the escrow accounts according to established procedure.

The bank account contract concluded with authorized bank prior to the commissioning of multi-apartment residential building can be terminated by the developer where the developer takes decision not to raise funds from participants in shared-equity construction for construction (creation) of a facility by virtue of participant agreement in the absence of obligations owed to them. However, termination is impossible if the developer becomes the plaintiff or the defender in a lawsuit which contexts are disputes on its obligations emerged after the day of opening a bank account with the authorized bank before such bank or before participants in shared-equity construction as well as where the court enforcement proceedings were not completed regarding mentioned developer’s obligations.

In the event the Bank of Russia crosses out authorized bank from the list of banks corresponding to the criteria established by the RF government, the developer terminates the bank account contract unilaterally. Then, developer, technical customer, and principal contractor executing works according to the signed contracts are obliged to open bank accounts

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<sup>1</sup> Banks for work with developers which correspond to the criteria established by the RF government dated June 18, 2018 No. 697.

<sup>2</sup> Several years ago this bank was eligible for resolution SC “Agency for Deposits Insurance” (ADI).

in another authorized bank and transfer to those accounts all funds not later than 30 days from the release by the Bank of Russia of information on crossing out such bank from the mentioned list.

Having said that, it continues monitoring the compliance of the purpose and amount of payment indicated in the developer's instruction both to the content of submitted documents which are the basis for drafting instruction and to established by law requirements for the use of developer's funds<sup>1</sup> and procedure for the execution of operations as per its account before obtaining from developer of mentioned notification about opening of the new bank account. Upon receipt from the developer of mentioned notification such bank may not execute operations on the developer's current account except those operations instruction on whose execution were received before one day or on the day of receipt of corresponding instruction on execution the operation for transfer of funds to the new bank account of the developer.

*Thirdly*, in relation to the disclosure of information, the developer determined that its major part is subject to be posted on the Unified Information System for Housing Construction (UISHC) website prior to submission for the state registration of the first participant agreement in shared-equity construction of multi-apartment residential building and (or) other real estate facility. And information on the introduction of one of the bankruptcy procedures, on opening or closure of developer's account with indication of its number, name of the authorized bank and its identifications (taxpayer identification number (TIN), main state registration number (OGRN), notification on onset of construction, conversion of the construction project posted in accordance with the law on state-planning activity are posted on UISHC's website not later than 3 working days from the date of the onset of the associated event. Developer in accordance with the law of the Russian Federation is held responsible for incomplete and (or) unauthenticity of information subject to disclosure.

*Fourthly*, the co-investment agreement in shared-equity construction now can be concluded in electronic document signed with an enhanced encrypted and certified digital signature.<sup>2</sup> This being said, it has to contain more precise terms for raising funds from participants in shared construction: (a) execution of obligation on transfer of contributions to the compensation fund or (b) deposit participants' funds on escrow accounts according to the established procedure. Agreement on the cession of rights for forfeit, penalty (fine) is not subject to state registration.

With regard to regulation for ensuring of execution of obligations on the agreement the security deposit determines that when the developer raises funds on agreements for participation in shared construction submitted for state registration after July 1, 2019, in case they were concluded prior to that date and declare developer a bankrupt with opening against him of bankruptcy proceedings, land plot as collateral upon its partition remains with respect to the new land plot where a multi-apartment residential building and (or) other real estate facility is being constructed (created) or were constructed (created) for the construction for which purpose funds from participants in shared construction are raised and terminates in relation to the altered land plot which remains as a result of its partition in the altered borders.

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<sup>1</sup> The list of objectives that are eligible for the use of funds from developer's account was supplemented with payment for costs incurred with placing multi-unit residential building and (or) other real estate facility on state cadaster registration, for which construction funds from participants in shared construction projects were raised.

<sup>2</sup> Requirements to electronic form of contract, agreements introduction of amendments, on assignment of claims thereon, including requirements to format and filing forms of such documents are established by the federal body of executive power in the area of state regulation of ownership rights and transactions therewith.

The partition of land plot does not require consent from the participants in shared construction (pledgeholders) and the bank unless otherwise provided for by the agreement. These rules are also applied in relation to pledge of lease rights or sublease on the land plot. Executive government bodies (local self-administration) authorized for the provision of land plot owned by the central or local government are obliged not later than within 7 working days from the date of receipt from the developer of a corresponding application to carry out actions envisaged by the land legislation required for the state cadaster registration and state registration of rights for the created and altered land plots.

*Fifthly*, regulation of attraction by developer of funds from participants in shared construction in case of their deposit on escrow accounts and their use was supplemented by the following norms.

In case the construction (creation) of a multi-apartment residential building and (or) other real estate facility by a developer company is funded by a targeted loan, extended according to an agreement on syndicated credit (loan), the participants in a shared construction project make their contract price payments to escrow accounts opened with the authorized bank (authorized banks) – participant (participants) in syndicate of creditors determined by such agreement of syndicated credit (loan)

Where construction of real property facility is exercised by a developer at the expense of targeted credit funds then after the Bank of Russia crosses out authorized bank from the list of banks which correspond to criteria established by the government of the Russian Federation, participants in shared construction project deposit their funds towards the payment for participant agreement concluded in relation to such a facility on escrow accounts opened with such authorized bank. Where construction is exercised by a developer without raising funds of targeted credit, then in case of mentioned actions taken by the Bank of Russia, participants in shared construction project deposit funds towards the payment for participant agreement price concluded with respect to such facility on escrow accounts opened with another authorized bank.

Authorized bank (escrow agent) may terminate unilaterally escrow account agreement when funds were not deposited on escrow account within the timeframe of more than 3 months from the date of conclusion of such agreement. The text of the escrow account agreement in addition to bank account of participant in shared construction project (bailer) on which funds are deposited is supplemented with the information on the pledgeholder and requisites of the pledged account where escrow-agent deposit funds if participant agreement in shared construction project specifies the use by participant in borrowed funds for the payment of participant agreement price.

*Sixthly*, all developer's information is augmented with data on individuals and (or) legal entities who in accordance with RF legislation on protection of competition forming the same group with developer specifying: (a) data identifying a person (for individual – full name, citizenship and place of residence, for legal entity—organizational and legal form, OGRN and TIN), and (b) grounds for an individual to form the same group with developer. Developer's responsibility to disclose to any person a certain set of documents appears solely in case of their unavailability on UISHC's website.

All information of construction's project is augmented with the data on targeted credit (targeted loan) including data allowing to identify the creditor, on the available amount of credit (loan) with lending limit in accordance with its agreement provisions, unused balance on the credit line for the last reporting date and on the number of concluded agreements (total floor

area of facilities of shared-equity construction and agreement's price) with indication of the facility's type (residential, non-residential, parking place), including number of agreements concluded on condition of payment of mandatory contributions to the compensation fund or through using escrow accounts.

*Seventhly*, multiple novations appeared in the information provision.

Parting from the information posted on the Unified Information System for Housing Construction (UISHC) website, its operator may form analytical information, including with the account of the aggregated information's level (country-wise, RF subjects-wise, on municipalities, on separate directions in the construction segment, on other levels of aggregation). Disclosure of such information on requests from the government bodies, local governments and the Bank of Russia is exercised free of charge. Information disclosure is exercised with confidentiality and requirements of the RF legislation on commercial secret.

The list of information posted on UISHC's website by a controlling body is augmented with data obtained from the adopted by the executive authority of RF subject roadmap for the implementation of measures on restoration of the citizens' rights whose funds have been attracted for multi-apartment residential buildings and (or) other real estate facilities entered on the Register of Problematic Facilities, and with the implementation timeline of corresponding measures

The registration body posts on the UISHC's website information taken from the Single State Register of the Real Estate identified by the RF government on the land plot, on a multi-apartment residential building and (or) other real estate facility constructed with the attraction of funds from the participants in shared-equity construction as well as on the construction site. The posted information on agreements of participation in shared-equity construction separate information on additional agreements, which alter the substance and the price of an agreement, transfer timeline of the construction site by a developer as well as data on agreements, contracts on the cession of right thereto.

In accordance to the bankruptcy law, the developer being a beneficiary may get access to the documents and information on each capital construction facility, having received liabilities thereto before the participants in shared construction. The access procedure for such developer to those documents and information is determined by the operator of the system—Single institute of housing development, determined by law of 2015 (No. 225-FZ), i.e. JSC “ДОМ.РФ”.

The use of private accounts of developers and HCC has been regulated.<sup>1</sup> In case the document is posted through a personal user account belonging to the subject of information the date of its receipt by another subject is the date following the date of document's post in the personal user account of the first subject.

The controlling body may request from an authorized bank information in relation to developer required for exercising its duties on the government control (supervision) in the segment of shared-equity construction of multi-apartment residential buildings and (or) other real estate facilities in order determined by the RF government on coordination with the Central Bank of Russia.

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<sup>1</sup> The RF government established the procedure for the interaction of the subjects of information while using information resources of UISHC by its Resolution of March 26, 2019, No. 319.

#### 5.9.4. The housing market prospects

The immediate prospects of the housing construction are determined not so much by institutional factors as by the new socio-economic realities of early 2020 shaped by the outbreak of the coronavirus pandemic of its challenges and the absence of agreement between the major crude oil producers. The subsequent plunge of the global crude oil prices has led to a notable depreciation of the ruble.

Retention of the key rate by the central bank at 6 percent has not eliminated an uncertainty for further rates movement on mortgage loans. Even in case of U-turn of the global crude oil prices the shock effect of these events makes feasible the following scenario for the housing market.

In short-term timeline the activity of consumers who have been already getting ready for purchases is boosted and augmented by impulsive actions of those who by analogy with previous crises has been trying to protect accumulated savings by investments in the real estate. In the future as this motivation disappears there comes deep recession on the back of decline of real income of the population and transition to cautious consumer behavior (an attempt to maintain the current quality of life and turn to savings amid favorable concurrence of circumstance). Partial market dollarization has not been excluded if it follows the inflation and devaluation with some lag. Government support of the housing market will be limited due to a probable federal budget deficit and obvious more acute problems to tackle (medicine, social safety net, labor market, etc.). Logically, within these priorities certain effect for the housing market is possible (for instance, mortgage holidays, support of certain groups of citizens).

However, it is obvious that in the current market situation and anyway problematic achievement of targets envisaged by the national project “Housing and urban environment” till 2024 is being postponed. Over 20 recent years there were examples of downturn in the Russian housing construction in 2009–2010 (down by 9 percent) and in 2016–2018 (down by 11 percent) can be surpassed both in depth and duration.

