

## Annex I Macro-economic, Public Finance and Socio-Economic Overview of Rostov Oblast

### 1. Background

Rostov Oblast (RO) is located in the southern part of the Eastern-European Valley and partially in the Northern Caucasus region, covering a vast area in the Lower Don basin. The oblast covers about 100.9 thousand km<sup>2</sup> that is some 0.6% of the territory of the Russian Federation. It stretches for 470 km from north to south and 455 km from west to east. The Oblast consists of 55 administrative entities: 12 towns and 43 districts (rayons), out of which 4 are administrated jointly with big cities.

The Don River, flows across the territory of the oblast (2 thousand km length, one of the largest rivers in Europe). The *Tsimlyanskoye more* reservoir (total volume 24 billion m<sup>3</sup>) is also situated in RO. The main tributaries of the Don are navigable rivers, the Seversky Donets and Manych. The forest resources in RO are not very substantial; they take up only 2.8% of the oblast territory. Mainly these forests have water protection and conservation functions. The main riches of the oblast are its soil resources. Fertile black soil (*chernozem*) covers 65% of the territory, the thickness of the fertile layer reaches one and a half meter. The agricultural sector provides for 15% of the Gross Regional Product, while more than 15% of the working population is employed in this sector.

The main mineral resources of the oblast are coal in the Eastern Donbass deposit, anthracite having the greatest calorific value, and also some gas and oil reserves. Rostov oblast is the main coal base of the Northern Caucasus region. More than 6.5 billion tons of explored coal resources are concentrated here, and there is a reserve of thoroughly explored sites with a potential coal reserve of 1.5 billion tons for which new coalmines can be constructed. There are quite substantial gas reserves in RO (54 billion m<sup>3</sup>) with 18 explored gas deposits, of which 9 are in operation (with gas reserve of some 16.3 billion m<sup>3</sup>). The fluxing and converter limestone, quartzite for ferroalloys deposits are developed by the metallurgy industry. Marl deposits are explored (37 million tons); these can be used for cement production (Sort 400-500). The total estimation of the reserves is more than 300 million tons. There are also deposits of extended clay, lime sand and mortar sand, carbonate strata for production of lime and construction rocks.

The average population employed in the economy of the oblast per year is some 1.75 million people, including 1.2 million people in the private sector

### 2. Macroeconomic indicators

#### Gross Regional Product (GRP)

The real GRP of RO has been growing since 1999. The growth rates of the GRP of Rostov Oblast and GDP of the Russian federation (RF) over 1996 - 2001 are presented in Table 1.1

Table 1.1 Growth rates of RO GRP, 1996 - 2001

	1996	1997	1998	1999	2000	2001
GRP, billion RUR	31,4	35,6	40,3	68,5	96,0	127,3
Real GRP growth, % p.a.	-20,6	3,4	-6,8	10,0	0,1	12,6
Real GRP growth, %	-3,6	0,8	-4,9	5,4	8,3	5,0

Source: Russian Statistical Yearbook 2002, Russian State Committee of Statistics, 2002, page 292, page 279

Table 1.1 demonstrates that the real growth rates of RO GRP are characterized by greater fluctuations as compared to the GDP growth rates of Russia. But in general, they follow the trend of the Russian GDP.

### **Forecasted Growth of GRP**

In line with the medium term forecasts of the Ministry of the Economic Development and Trade the annual growth rate of the Real GDP in Russia will amount to about 3.5-4.5%. Considering the deeper downturn in the economy of the oblast at the beginning of the 90-ties, a more rapid GRP growth can be anticipated in the oblast in the medium-term perspective, on average about 5% a year.

### **Composition of GRP**

The main contributors to GRP are industry, agriculture, commerce and non-market services and construction. Main industries are food production, machine building, ferrous and non-ferrous metallurgy and power sector. While Rostov oblast remains a developed industrial region, over 1992- 2000 the share of industrial output in the GRP had been decreasing. However, this trend changed to growth in 2000.

**Table 1.2 GRP composition of RO in 1995, 1998 and 1999, %**

Year	Goods					Services			Other
	Total	Industry	Agriculture	Construction	Other	Total	Market services	Non-market services	
1995	63,8	37,0	15,8	10,6	0,4	31,6	25,0	6,6	4,6
1998	42,9	23,1	5,8	5,8	0,5	51,2	41,9	9,3	5,9
1999	48,1	22,7	4,9	4,9	0,6	45,7	37,9	7,8	6,2

*Source: Statistical Yearbook of Rostov oblast, 2002, Rostov Oblast Committee of State Statistics, Rostov-on-Don, 2001, page 297.*

Growth of industrial output in RO reached 0.3% in 1998, 28.6 % - in 1999; 18.5 % - in 2000, 40.1% - in 2001.

Many industrial enterprises are of national importance, being the only or largest producers of certain types of goods in the country. 100% of main-line electric trains, sewing machines, more than 50% of the combine harvesters in Russia are manufactured at the enterprises of the oblast. The leading industries are also heavy helicopter engineering, and manufacturing navigation systems for ships, heat-exchangers and water-warming equipment for boiler houses, oil equipment, and tractor cultivators. Production of the leading enterprises of the food industry JSC “YUG-Russie”, JSC “Baltika-Don”, JSC “Donskoy Tabak” covers a share of 11 – 18% of the Russia’s tobacco and beer market, resp..

### **Export - Import**

External economic links of the oblast have been developing positively. There is some growth in international trade both with foreign and NIS countries. Exports dominate in the structure of international trade with foreign countries (71.8% of the total volume), while imports dominate in the trade with the NIS countries (69.6%). In general, the oblast is net-exporter.

*Table 1.3 Data on export and import, Rostov Oblast, January - November 2001*

	Export	Import	Net export	Foreign trade
Total, million USD	775,5	638,5	137	1414
Foreign countries, million USD	599,7	235,7	364	835,4
NIS countries, million USD	175,8	402,8	-227	578,6

*Source: Socio-economic development of Rostov Oblast in January – December 2001, Rostov Oblast Committee of State Statistics, Rostov-on-Don, 2002, page 228.*

The share of net exports in international trade is 9.7 %, which is 21.1% less than for Russia.

### Investments

There were some favorable conditions for the investment growth over 1999-2001: stabilization of financial markets, industrial production growth, improvement of the financial situation of enterprises and growth of savings in the real sector. Investment rate growth in the constant prices is the following: 1998 – 8 %; 1999 – 2.3 %, 2000 – 53.8%. In 2001 the volume of investments in the oblast reached 31.7 billion RUR which is 12.1% more than in 2000.

The share of gross savings in GRP increases gradually. For example, in 1998 it was 15.3 %, while 15.9 % in 1999, and 22.8% in 2000. This positive growth trend remained in 2001. While overall in Russia a decrease of investments in industry was observed, in Rostov oblast there is a stable growth of investments, of which more than 50% go to industries. The biggest growth is registered in the following industries: power sector, ferrous and non-ferrous metallurgy, machine building and metal processing, as well as in transport and communications sector, in agriculture and forestry. Significant amounts were invested in housing and municipal services sector, public health industry, science and education.

Competitive enterprises in the power sector, ferrous metallurgy, fuel, wood and wood-processing industry, machine building and metal processing used mostly their own funds for investment purposes. The share of industrial enterprises' own funds in total investments in the industry reached some 93%. The same situation can be observed at the commercial enterprises and public catering facilities, agricultural and transport enterprises.

Positive changes are observed in the structure of financing sources for capital investments: amount of bank loans used for investment purposes increased by factor 4 over 2000, in 2001 the year-on-year growth rate was some 20%.

During January-March 2002 18.7 million USD were invested in the Oblast from abroad, which is 34.4% higher than it was observed in the first quarter of the previous year. Direct investments are an important part of foreign investments; their share has increased and achieved 35.3% of the total foreign investment in the first quarter of 2002. In January-March 2001 the same indicator was only 13.4%. Foreign co-owners of the enterprises invest into the equity capital, which dominates in the structure of direct investments.

### Employment

Official statistics report that as of 01.07.2002 the official registered unemployment rate reached 0.8% (average in Russia – 1,8 %). But the real picture is not so optimistic. Level of unemployment, calculated on the basis of the International Labour Organisation (ILO) methodology of was at **12.9%** in 2001 compared to 9.1% on average in Russia.

There is a very complicated situation in the labour market in coal mining areas. Earlier, the registered unemployment rate there exceeded the average Oblast indicator by factor 1.5-2.

Now, due to the reorganisation of big coal producer - JSC "Rostovugol" and other enterprises the unemployment rate in the mining areas exceeds the average level by factor 3-3.5. Recent data report that 17.6 thousand people involved in the coal mining industry were fired since the beginning of the year. There are 7.5 thousand unemployed people officially registered in the State Employment service. It is anticipated that many other workers will also join them as soon as the coal mining enterprises pay them a dismissal pay.

As of 1.07.2002, the Employment service was ready to offer 27.3 thousand vacant positions at the enterprises and organisations of the Oblast. 81.3% out of the total number of vacant positions were workers positions. The share of the vacancies with a salary below the minimum standard has been slightly decreased. In the first quarter of the year it reached 67.4 %. On average in the Oblast, there are 0.8 unemployed people per one vacant position, 0.7 - in towns but **1.7** – in rural areas.

Average salaries development is presented in Table 1.4

**Table 1.4 Salaries and incomes development over 1995-2001, RUR per month**

	1995	1996	1997	1998	1999	2000	2001 (1)
Average per capita money income, RUR per month	333,0	524,3	655,4	719,6	1221,7	1614,8	2074,2
Real salary, annual change, %	83,3	108,5	105,8	84,5	88,1	111,0	107,5
Average monthly salary, RUR	328,8	514,0	589,1	646	931,9	1360,5	2114,5
Real gross salary, annual change, %	60,2	107,8	97,2	84,8	75,3	123,4	124,2

*Source: Statistical Yearbook of Rostov Oblast, 2002, Rostov Oblast Committee of State Statistics, Rostov-on-Don, 2001, page 127-128. Socio-economic development of Rostov Oblast in January – December 2001, Rostov Oblast Committee of State Statistics, Rostov-on-Don, 2002, page 272. 1 – data for 2001 – January - November 2001*

In 2001 the average gross salary in the housing and communal services (**HCS**) sector amounted to 1854.4 RUR/month (84.0 % of the average oblast level), while in the construction industry the gross salary was 3670.4 RUR/month.

### **3. Public finance**

The consolidated oblast budget (**COB**) consists of the consolidated revenues and expenditures of the Oblast Administration and 55 municipalities.

The total public revenues in 2001 amounted to some RUR 19.8 billion (over 1996 – 2001 the total consolidated Rostov Oblast budget revenues had increased by factor 5).

*Financial support for the consolidated public budget from the federal budget amounted to some RUR 5.34 billion, including:*

- => Federal transfers – RUR 3126.9 million;
- => Subventions – RUR 1528.1 million;
- => State subsidy – RUR 632.2 million;
- => Other – RUR 51.9 million.

*The total public expenditures in 2001 reached some RUR 20.2 billion. Therefore the deficit of the consolidated oblast budget amounted to some RUR 428.2 million (2.2 % of the budget revenues).*

There were significant changes in the **inter-budgetary relations** with the local municipalities.

Starting from 2000, all payments between the oblast and local municipal budgets are arranged on the basis of the Procedures of inter-budget relations that are approved annually as part of the oblast Law on oblast budget for the coming financial year. The rules to calculate the transfers to municipalities have been formalized and the transfers became much less dependant on *ad hoc* decisions.

The principal difference in the Procedures starting from 2000 is to secure the local budgets with the revenue sources (regulating revenues and if necessary subsidies) in order to cover the basic expenditures of the municipalities, defined on the basis of existing norms of budget service use.

## **Public revenues of Rostov Oblast**

Tax revenues for the consolidated oblast budget over the period 1997 - 1999 were steadily decreasing but in 2001 they were back at the level of 1998. The budget in general is rather balanced (see table 1.5).

**Table 1.5 Revenues and expenditures of the Consolidated Oblast Budget, 1997-2001, million RUR**

	1997	1998	1999	2000	2001
Revenues	5887,0	6227,9	8542,3	12523,8	19760,3
Expenditures	6491,9	6155,6	8619,7	12428,4	20188,5
Balance	-604,9	72,3	-77,4	95,4	-428,2
Revenues/GRP, %	16,5	15,5	12,5	13,0	15,5
Expenditures/GRP, %	18,2	15,3	12,6	12,9	15,9

*Source: Statistical Yearbook of Rostov Oblast, 2002, Rostov Oblast Committee of State Statistics, Rostov-on-Don, 2001, page.582-586.*

## **Revenue structure of the consolidated budget**

Main sources of own revenues of the oblast budget are presented in Table 1.6

**Table 1.6 Revenue structure of the COB in 1997-1999, in % of total revenues**

Source	1997	1998	1999
Tax revenues	73,9	67,3	55,8
Profit tax	12,1	10,9	10,9
Personal income tax	17,0	13,3	10,3
VAT	12,1	12,7	6,1
Excise tax	2,4	3,0	4,8
Tax on total revenue	0,0	0,6	3,0
Property	13,9	13,3	7,3
Charges for natural resources use	4,2	1,2	1,8
Non-tax revenues	4,2	7,3	6,1

\* - from January 2001 100% of VAT due to the Federal budget

*Source: Statistical Yearbook of Rostov Oblast, 2002, Rostov Oblast Committee of State Statistics, Rostov-on-Don, 2001, page.582-583*

It is important to note that in Rostov oblast as in many other Russian oblasts two taxes – profit tax and personal income tax – have been the main contributors to the consolidated public revenue budget.

## **Public expenditures**

The expenditure structure of the COB is shown in Table 1.7

**Table 1.7 Oblast expenditure budget, 1997-1999, in % to the total expenditure**

	1997	1998	1999
State management	4.4	4.4	4.4
Legal enforcement	2.7	2.2	2.2
Industry, power sector and construction	3.8	2.7	1.1
Agriculture and fishing	2.2	1.6	2.2
Transport, road construction and information technologies	3.3	2.7	1.6
<b>Housing and Communal Services</b>	<b>24.2</b>	<b>22.5</b>	<b>13.2</b>
Social services and other expenditure	59.4	63.9	75.3

*Source: Statistical Yearbook of Rostov Oblast, 2002, Rostov Oblast Committee of State Statistics, Rostov-on-Don, 2001, page 585-586.*

Table 1.7 shows that the expenditure on Housing and Communal Services (HCS) sector comprise a significant share of total public expenditures, followed by expenditures on social and cultural activities (Public health, education, social policies, art and culture, mass media, sport). However, as there has been a gradual growth of the housing and municipal services tariffs for the population in order to more fully cover the actual cost of HCS, the share of HCS in the consolidated expenditure budget has decreased considerably compared with 1997.

The social sector remains one of the most important budget expenditures. Its share in the expenditure budget almost doubled from 38.2 % to 72.2 %. In 2001 1189.2 million RUR were allocated for transfer payments to the population.

From 1996 to 2000 expenditures on the local budgets increased by two times, and the financial support from the oblast budget grew 2.2 times.

Starting from 2000, there have been special funds earmarked for financing the privileges established in the Russian Federation for certain categories of HCS users. In 2001 all allowances related to HCS amounted to RUR 2.17 billion. This amounted to 20.1 % of total expenditures of the oblast budget.

### **Expenditure on HCS**

There have been significant changes in defining the budget allocations for HCS. Since 2000 the financing demand for HCS is defined on the basis of expenditure levels, established by special norms, for services provided per one oblast citizen using correction coefficients depending on the deterioration level and maintenance of housing, type of fuel used by heating sources, sources of water supply and other factors

It is also important to note that in 2000 the oblast did not have any increase in the accounts payable for current municipal payments, and also the total overdue debt was considerably reduced.

*In order to reduce the losses of the HCS enterprises and meet the Federal legislation requirements set in 1997 on coverage of the operational costs of HCS enterprises by the domestic tariffs, and on the maximum allowed share of expenses on HCS in the total household*

income, tariffs for all types of housing and communal services in RO are established in line with the established federal standards.

To protect the poor and other vulnerable groups of the population, the amount of targeted financial support has been increased annually. Residential subsidies for services are planned for families with a low income as well as expenditures for supplying this category of consumers with solid fuel.

**Table 1.8 Budget financing of HCS, 2001**

Item	Million rubles
Water supply	152,5
Wastewater treatment	56,3
Heating	1041,4
Power supply	102,5
Gas supply	131,5
Municipal housing	392,5
Other	200,8
<b>Total expenditure for HCS</b>	<b>2077,5</b>

*Source: Statistical Bulletin: main indicators, characterising the reform development in HCS of Rostov oblast, 2001, Rostov Oblast Committee of State Statistics, Rostov-on-Don, 2002, page 5.*

Table 1.8 shows that more than half of the total budget expenditures for HCS are expenditures for heat supply while the share of expenditures for water supply and sanitation (WSS) was only 10%.

### **Oblast Budget 2002**

The Oblast budget for 2002, as well as the federal budget, was approved before the beginning of the new fiscal year. For 2002 the revenues were planned in the amount of 23 573.6 million RUR, of which 14 865 million RUR are tax revenues (94% of the total revenue) and 947.6 million RUR non-tax revenues (6 %). So the planned revenues should exceed the revenues actually collected in 2001 by 111 percent.

7 601.1 million RUR should be transferred from the Federal budget. These funds would be used for subsidies to compensate for expenditures related to operational losses of the HCS sector and socio-cultural facilities, transfers to local authorities; for subsidies and allowances to compensate for privileges for handicapped people; for payment of child allowances, to compensate privileges for HCS payment and for communications services to the military people, police staff, internal affairs bodies, tax police staff, etc; financing of the federal target programme of socio-economic development of the South of Russia and for other purposes.

The planned oblast expenditure budget for 2002 with a total amount of 24 193 million RUR is balanced with the available financial resources.

*The budget has the full capacity to guarantee a salary increase to the civil servants (in budgetary organizations) by about 1.89 times, as well as to increase residential subsidies (to pay for HCS) to families with low income; and HCS allowances to socially vulnerable categories of population.*

It was decided to increase expenditures for HCS by 25%. Their total volume amounts to about 1 908.8 million RUR, of which 278 million RUR is allocated for the sector development.

The planned development budget of the oblast from which vitally important capital investments are financed amounts to RUR 3 307.5 million. The main direction of expenditures are capital investments into fixed assets and capital repairs (2 936.9 million RUR, of which capital repairs – 1 011.5 million RUR).

An agreement was signed between the Oblast Administration and Department of Federal Treasury of the Ministry of Finance of the RF in Rostov Oblast that from January 1, 2002 the Federal treasury agencies are responsible for the oblast budget execution.

### **Environmental Fund**

**Table 1.9 Annual revenues and expenditures of the Environmental Fund of RO, '000 RUR**

	2000
Leftover from previous year	3652,6
Current year revenue	72257,7
Total revenues	75910,3
Total expenditures	68210,4
Non disbursed at the end of the year	620,8

*Source: Committee of Natural Resources and Environmental Protection of the Rostov Oblast Administration*

### ***4. Demographic situation***

The population of the oblast comprises some 4.4 million people, of which more than 2/3 is urban population. The composition in the oblast population by nationality is: Russians (90%), Ukrainians (3.4%), Armenians (1,8 %), Belorussians (0,9 %), Tartars and Chechens (both 0,4 %). The share of the economically active population (employed and unemployed) is 56.5%, 22.6 % are retired people and 20.9 % - children under 16 (according to the census of 1997).

### **Population forecast**

The population forecast for Rostov Oblast was done based on the fact that the number of inhabitants has not changed over the period 1996 - 2001 and based on the assumption that the situation will remain the same in medium and long-term perspective. At the same time a slight trend for increase is probable. A more precise forecast requires a detailed study.

**Table 1.10 Expected population growth in Rostov Oblast 1996-2015, '000 people.**

	1996	2001	*2005	*2010	*2015
Total	4425,4	433,7	4350,0	4400,0	4450,0

*Source: Statistical Yearbook, Rostov Oblast 2000, page 30*

\* - consultant's forecast

### **Socio-economic features**

Table 1.11 presents data on the Income of the Population



*Table 1.11 GDP and GRP per capita for Russia and Rostov Oblast*

	1995	1996	1997	1998	1999	2000	2001
Rostov Oblast' (000' RUR)	9562	13349	15362	16513	32673	22170	29400
Rostov Oblast' (USD)	2348	2910	3056	1867	1330	786	1014
Russia ('000 RUR)	5938	7073	8054	9151	15738	48780	62500
Russia ('000 USD)	1458	1542	1602	1035	641	1730	2155
Rostov Oblast in % of Russia	62	53	52	55	48	45	47

*Source: Statistical Yearbook for Rostov Oblast 2000, Rostov Oblast Committee for State Statistics, Rostov-on-Don, 2001, page 296, Committee of State Statistics of the RF, Consultant's estimation*

Data in Table 1.11 shows a considerable lag between the level of income in Rostov Oblast compared to the whole Russia.

*Table 1.12 Selected indicators for real incomes of the population*

	1995	1996	1997	1998	1999	2000	2001
<b>Rostov Oblast</b>							
"Minimum living standart" (average per capita per month), RUR	229	270	299	244	674	n.a.	1384
Ratio of average income to "official minimum living standart, %	146	194	219	209	181	n.a.	184
Share of population living below the official "minimum living standart", in % of the total population	33,4	21,2	19,4	20,8	25,3	n.a.	n.a.
<b>Russia</b>							
Ratio of average income to official "minimum living standart", times	2,0	2,1	2,3	2,0	1,8	1,8	1,9
Share of population living below the official "minimum living standart" (%)	24,7	22,0	20,7	23,3	28,4	29,1	27,6

*Source: Statistical Yearbook Rostov Oblast 2000, pag.127-128, n.a. – not available*

Data from table 1.12 shows that the unfavourable situation regarding the income level of the population in Rostov oblast and in Russia is quite similar. As can be seen from the table one quarter of the population of Rostov oblast has an income below the official "minimum living standart".

### Distribution of population by the level of average household income per capita

Table 1.13 and Figure 1.1 show the income distribution of the population and Figures 1.1 and 1.2 (presented below) show graphically the situation regarding the income level of the Rostov Oblast population.

*Table 1.13 Distribution of the population in RO by income level (2000)*

Income groups	Thousand people	% of total population
< 400 RUR a month	160,8	3,7
400.1 – 600.0	365,1	8,4
600.1 – 800.0	482,1	11,1
800.1 – 1000.0	500,4	11,5
1000.1 – 1200.0	463,8	10,7
1200.1 – 1600.0	747,9	17,2
1600.1 – 2000.0	518,8	12,0
> 2000.1	1101,9	25,4
Total population	4340,8	100

*Source: Statistical Yearbook of Rostov Oblast, 2000, page 135*

*Figure 1.1 Distribution of the population of Rostov Oblast by level of income*

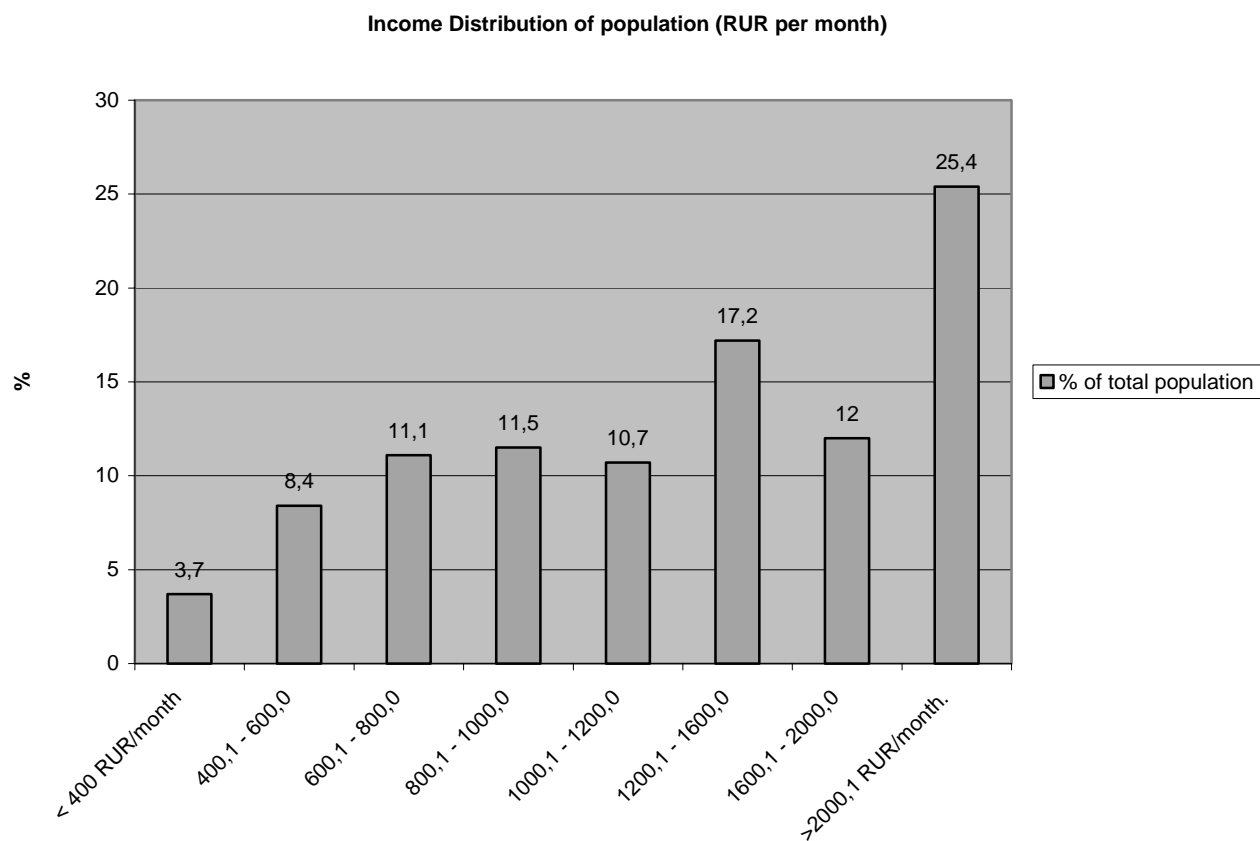
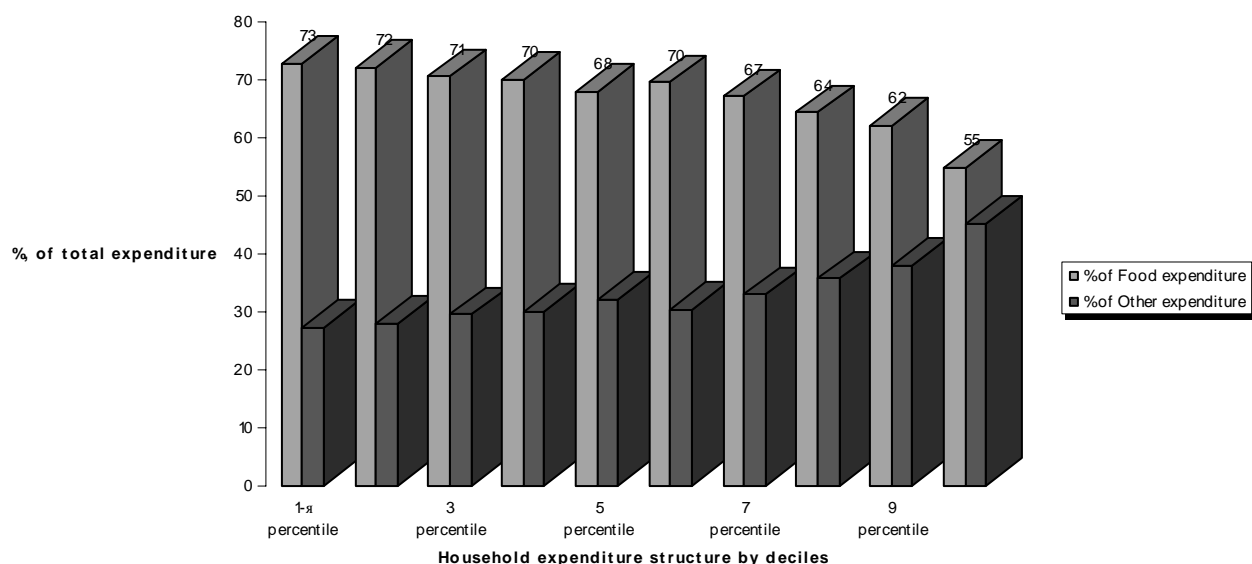


Figure 1.1 shows clearly a gap in the income level of the 25% better-off people and the poor population. The poor population includes retired people, unemployed and low-paid workers and civil servants with an income below or close to the “minimum living standard”.

The same distribution is observed in other parts of Russia and in the country in general. This shows that there is still a long way to go before the oblast reaches a minimum level of socio-economic welfare. To achieve this goal it is necessary to substantially increase the income of poor people and at least to reach the “minimum living standard” .

*Figure 1.2 Household Expenditures by income level*



*Source: Statistical Yearbook, Households, Rostov oblast Committee of State Statistics, Rostov-on-Don, 2001, page 11. [1<sup>st</sup> decile – 10% of population with the lowest level of income ... 10<sup>th</sup> decile – 10% of population with the highest level of income]*

According to the World Bank criteria a household is considered poor if it spends on food 70% or more of the available income. Using this criterion 70% of the Rostov oblast population can be considered as poor. While using the 60% threshold – some 90% of population in RO can be counted as poor.

## **5. Affordability of housing and municipal services**

### **Payments for housing and municipal services and incomes of the population**

*Table 1.14 Average monthly charges for HCS for population in Rostov Oblast, December 2001*

	RUR per month	% of average Household income per capita
Water supply and wastewater treatment per person	30.34	1.5
Heating (per 20 m <sup>2</sup> of the total area)	80.20	4.0
Hot water supply per capita	40.84	2.0
Power supply (per 100 kWh*), tariff for apartments with electric stoves	42.93	2.1
Renting (per 20 m <sup>2</sup> ), municipal housing	38.00	2.0
Natural gas (per capita)	6.50	0.3
<b>Total</b>	<b>238.8</b>	<b>11.9</b>

*Source: Statistical Yearbook, Main indicators characterising reform development in the HME of Rostov oblast, 2001, Rostov oblast committee of state statistics, Rostov-on-Don, 2002, page 6.*

Analysing the affordability of HCS charges for households based on the international experience two empirical rules are often used in addition to existing federal and oblast standards for the maximum allowed share of household expenditures for HCS payments:

- Expenditures for water supply and sanitation should not exceed 3.5-4% of total available household income;
- Expenditures for heating and hot water supply should not exceed 10% of the total available household income.

According to the criteria Household expenditures for HCS payments in RO are **on average** not too high. But considering the income distribution of the population, the average affordability can mask the fact that in absence of targeted social support to the poor and vulnerable people, payments for HCS could be a too heavy burden for the population with the lowest income level.