



# *Public sector in Russia*

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# *Learning outcome of this lecture*

Recent public policy reforms in Russia.

Principles of current Russian public policy.

Political discourse on the state in Russia.

State companies in Russia.

Russian governmental debt.

# *Public sector during Soviet times*

- Economy driven by plan not market forces
  - Key difference (control vs. providing the setting)
- Only private personal capital
  - No private firms or means of production or land
- State provided everything
  - Production of goods and services
  - Free education, health care, housing, job security
  - Often via big local employer (paternalism)

# *Public sector in modern Russia*

- Stronger (influential) than in many Western countries
- More entangled with the private sector
  - State has a large role in strategic sectors
  - Corruption
- State capitalism
  - Government driving economic development (“top down”)
  - Due to institutional inheritance and large natural resources

## *Recent public policy reforms that improved significantly its effectiveness*

In 2000s financial stabilization has been achieved → sustainability of Federal Budget.

In 2002 stabilization fund was created to prevent budget deficit.

In the last years before crisis of 2014, social expenditures significantly increased.

From 2008 state finances were planned every three years.

Significant tax reform in 2000s.

# *Tax reform in 2000s*

Sale tax was abolished.

Income tax has become proportional and was decreased to 13%.

Corporate tax was decreased from 36.5 to 24%.

VAT was decreased from 20 to 18% (though in June 2018 it was again increased to 20%).

# *Public policy in Russia*

is mainly realized through the adoption of state programs. They are grouped into five program blocks:

- A new quality of life (social policy);
- Innovative development and modernization of the economy (economic policy);
- Ensuring national security (security policy);
- Balanced regional development (Federalism and development);
- Effective state (public administration reform).

# *Principles of Economic policy*

Investments: -- a driver;

Effective fiscal policy: balance between the need to live within the means and the creation of budget incentives for the resumption of growth;

Structural reforms: competitiveness of the economy;

Foreign economic openness: the creation of free trade zones with individual countries and group of countries, and sign preferential trade agreements;

Stimulation of entrepreneurship: to reverse the negative expectations of business, to reduce the economic, political and law enforcement risks of entrepreneurial activity.



# *Principles of public administration*

Optimization and simplification of the state apparatus.

The creation of a single mechanism for the administration of tax, customs and other fiscal payments.

Improvement of strategic management.

# *Principles of social policy*

Must address those who in the most need (retired, children, disables, poor).

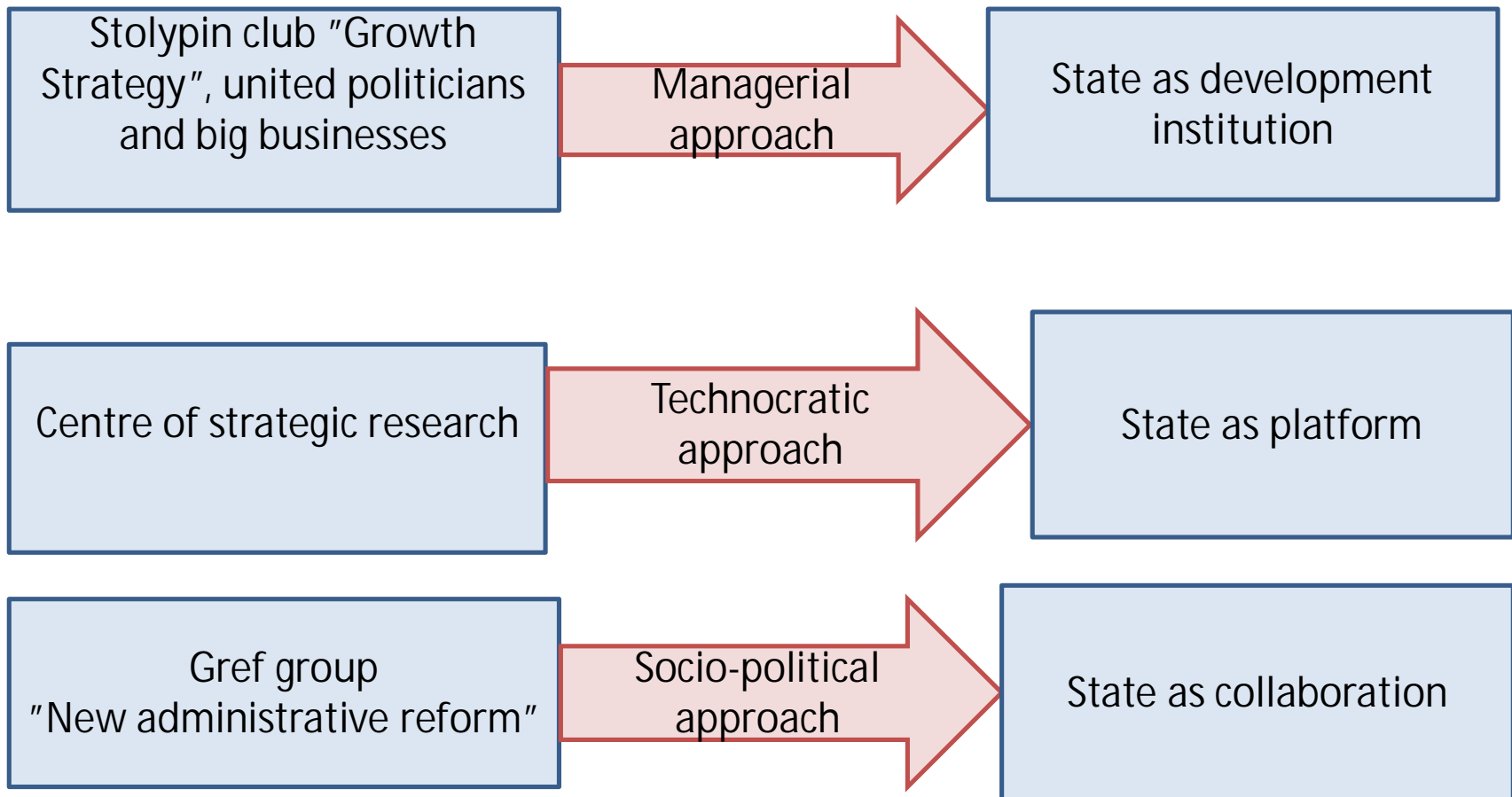
Efficiency of labor market; stimulating enterpeneurship and citizen participation.

**Pension reform:** age of retirement, accumulation of pension contribuions, the rational use of pension funds.

Quality of education; improving secondary and vocational education.

Healthcare – free medical care.

# *Political discourse on the state in Russia*



# *State as Development institution*

Separating development management from administration;

System of budget-program and indicative planning;

Usage of big data in strategic management;

Integrating all statistical data.

# *State as platform*

A high-tech digital platform for public administration – the minimization of the human factor, and, hence, corruption and mistakes;

The customer defines the process of public policy;

Real-time data should be used for public policy administration;

Rules change in real time;

Clients` life situations should be used for developing public policy;

A digital ecosystem as a centre for the synergy of the state, business and citizens.

# *State as collaboration*

Governance based on the human factor, leadership and cooperation;

Crowdsourcing;

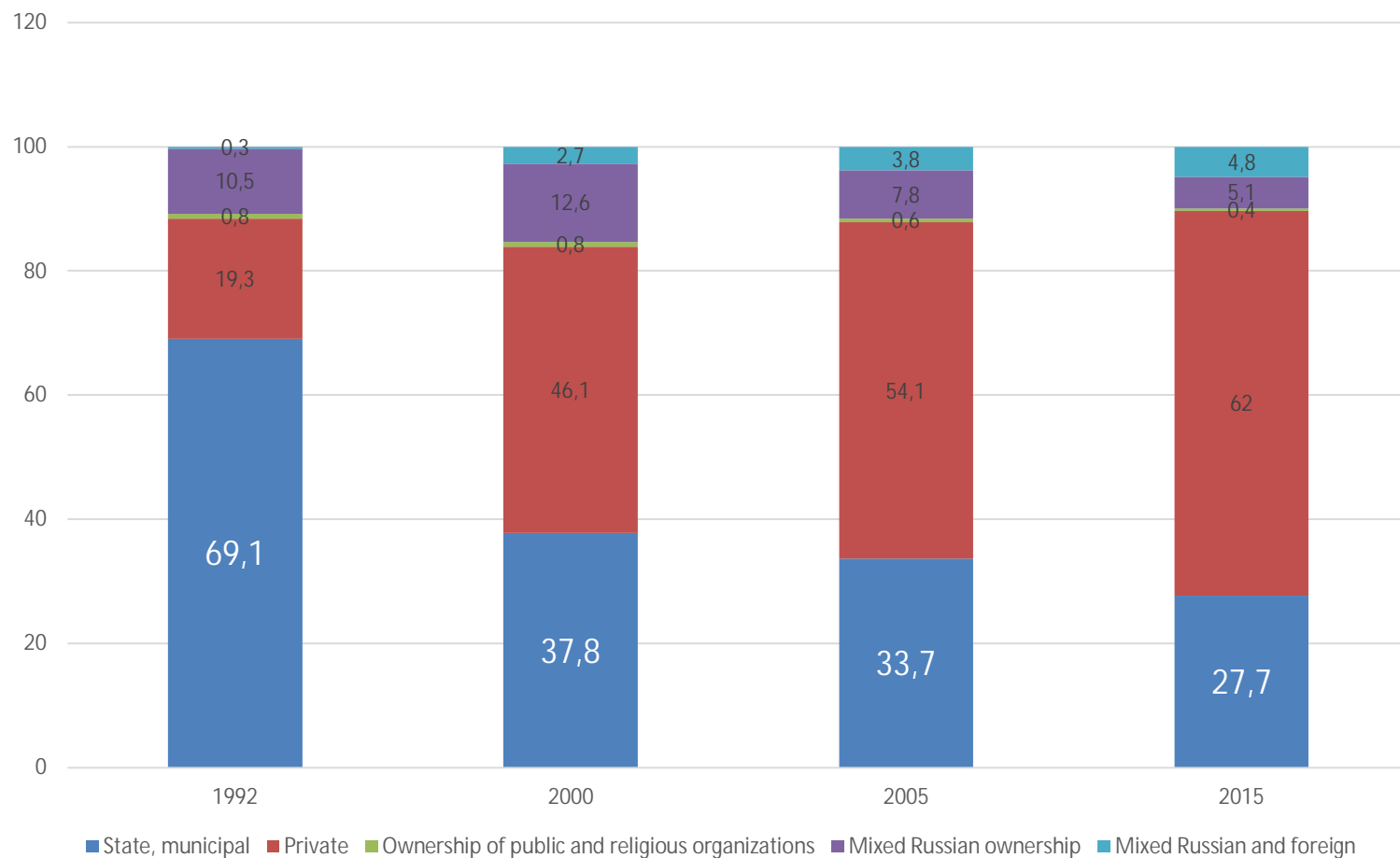
Trust and team work;

Open governance;

Citizen-government collaboration;

Joint responsibility.

# Employment in Russia by ownership, % 1992-2015



# *Employment in public sector*

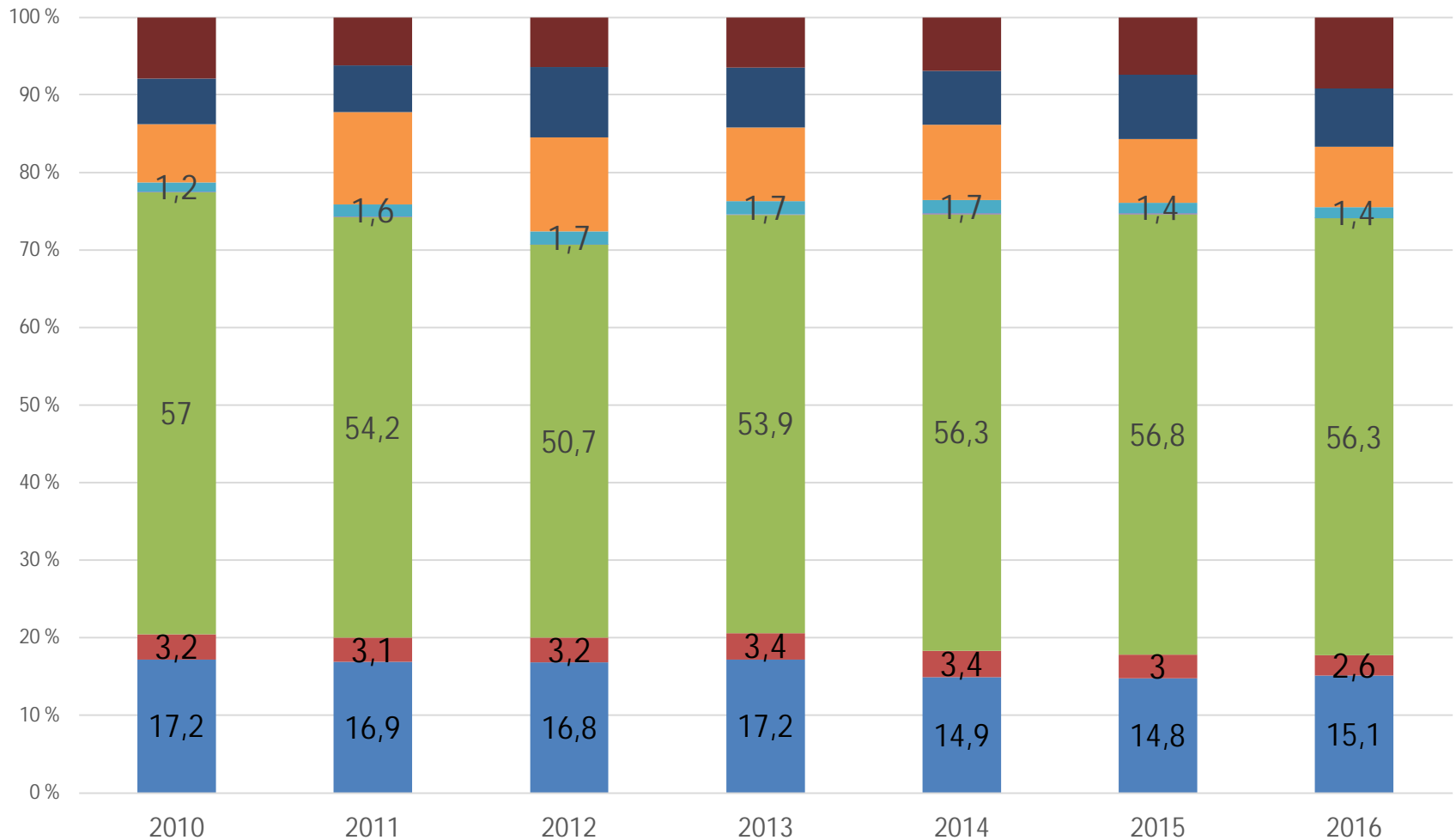
More than 14 million public sector employees [education, health care, culture, and governance] (year of 2014).

Jobs in the Russian public sector tend to pay some 30-40% less.

PSEs are much more likely to have access to a variety of other benefits, such as shorter work hours, better working conditions, health care, vocational benefits, "white" salary.



# Capital investment by ownership, %



State Russian

Private Russian

State corporations, Russian

Foreign

Municipal Russian

Ownership of public and religious organizations, Russian

Consumer cooperation, Russian

Joint foreign and Russian

# *Role of state-owned companies (SOEs) in Russia*

By early 2008, the degree of concentration of property owned by the state in Russia had reached 40-45% according to the Expert-400 database.

In 2009, various experts estimated this figure to be near 50%.

In 2015, the share (contribution) of state-owned enterprises in the GDP was near 29%–30% and the total contribution of the public sector was near 70% (compared to 35% in 2005).

# *Legal forms of SOEs in Russia*

*Joint Stock Companies*: mostly OAO, sometimes ZAO.

Examples: Gazprom, Sberbank, Russian Railways, Transneft.

*Unitary Enterprises at the federal, regional, or municipal level* (FGUP, GUP, MUP). Examples: Rosoboronexport, Post of Russia, Rosspirtprom.

*State Corporations*. Examples: Vnesheconombank, Rosnanotekh, Rostekhnologii, Rosatom.

# *Objectives of state ownership*

## Equity objectives and public goods:

Energy security;

Supply of services with regulated prices;

Non-commercial media

## Industrial policy objectives:

Infrastructure investments;

Enterprise restructuring;

Vertically integrated structures that can survive international competition;

Re-integration of research institutions and industrial enterprises.

*Importance by sector (by volume of shipped products): %  
of state, municipal and mixed domestic companies*

	<i>2010</i>	<i>2015</i>
<i>Mining</i>	<i>14,16 %</i>	<i>12,97 %</i>
<i>Processing industries</i>	<i>16,45 %</i>	<i>18,41 %</i>
<i>Electricity, gas and water distribution</i>	<i>49,33 %</i>	<i>42,77 %</i>

# *Industrial patterns of SOEs: some facts*

Among SOEs, there is a concentration in fuel and energy and the military-industrial complex.

Top 10 Companies In Russia In 2017 – 6 of them are state-owned:

1. Gazprom: 50.23% owned by Russian government.
2. Sberbank – state-owned Russian bank.
3. Rosneft - government-integrated oil company.
4. Lukoil – private.
5. Surgutneftegas – private.
6. VTB Bank – 60.9% owned by Russian government.
7. Novatec – private.
8. Norilsk Nickel – private.
9. Transneft – 100% owned by the Government of Russia.
10. Tatneft – the government of Tatarstan is the main shareholder.

# *Strategic enterprises and sectors*

## Strategic enterprises:

*A presidential decree list* of more than 1000 SOEs from 2004: Privatization and new share issues require explicit approval of the President. **Examples:** *Transneft, Gazprom, Rosneftegas.*

## Strategic sectors:

*Law on foreign investment:* List of sectors where foreign owners need an explicit government permission to acquire a controlling stake of a company. **Examples:** *military-industrial complex, radioactive materials, oil resources, media*

# *Russia`s government debt*

Russia has one of the lowest ratio of Central Government debt to GDP in the World, 14.15% in 2016.

For example, in Japan it is 195%, in USA - 99%.

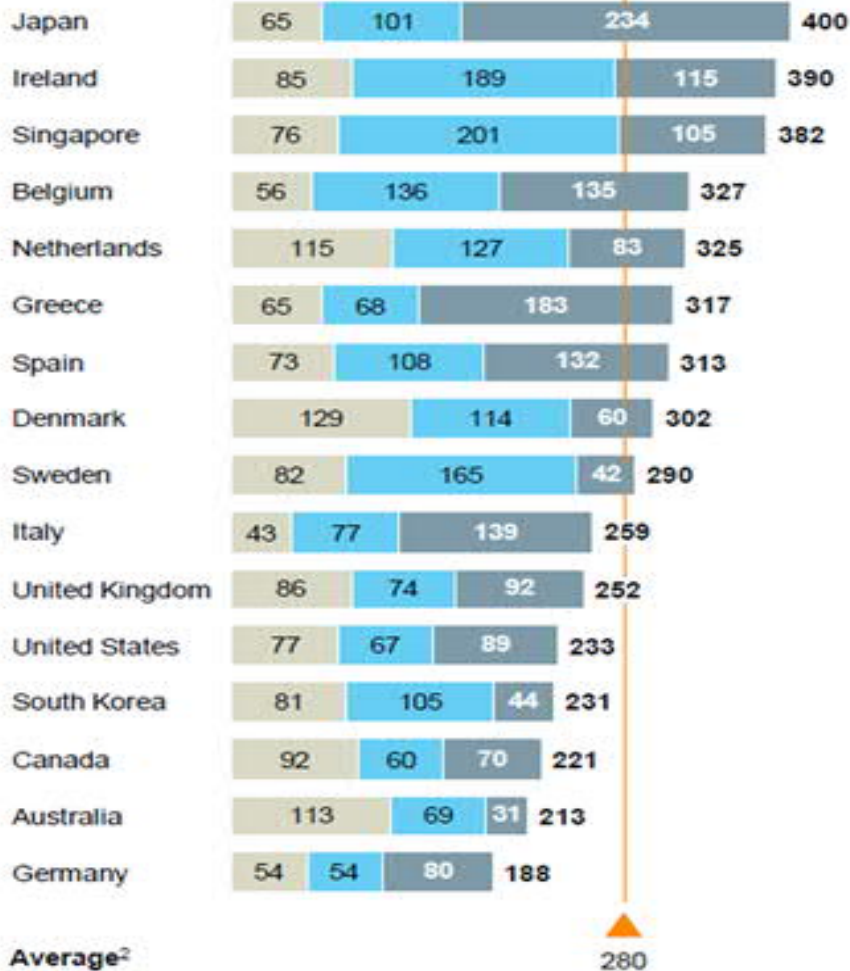


## The debt-to-GDP ratio in developing economies remains less than half the level in advanced economies

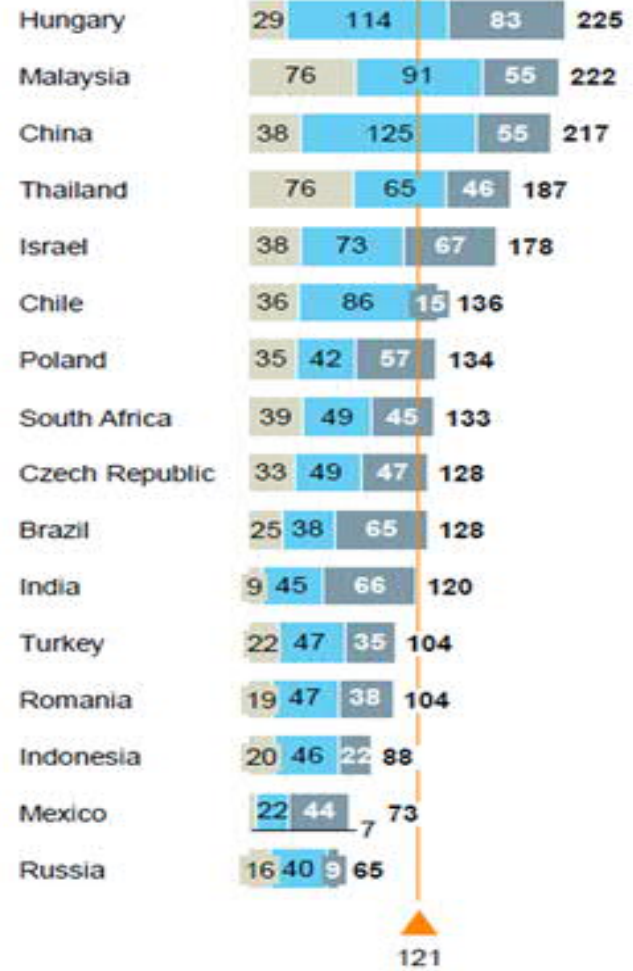
Debt-to-GDP ratio, 2Q14<sup>1</sup>  
%

Household Non-financial corporate Government

### Advanced economies



### Developing economies



<sup>1</sup> Includes debt of households, non-financial corporations, and government; 2Q14 data for advanced economies and China, 4Q13 data for other developing economies.

<sup>2</sup> Average of 22 advanced and 25 developing economies in the MGI Country Debt database.

NOTE: Numbers may not sum due to rounding.

SOURCE: Haver Analytics; national sources; *World economic outlook*, IMF; BIS; McKinsey Global Institute analysis

# *Why so little debt in Russia? 1*

There are several reasons, including purely psychological:



Debt puts borrowers on a dangerous path of dependence. Russia lived through the 1990s on Western credits, and it was not a happy time at all.

Unacceptable level of risk for long-term capital-intensive investments.

High rent from natural resources, especially petroleum.

# *Why so little debt in Russia? 2*

De-industrialization of the country;

The refusal of Russian government to implement large-scale infrastructural projects outside the petroleum sector.

An apocryphal quote of Putin says, *vsyó ravnó vsyó razvoruyút* ("they'll steal it all anyway").

Hence, Russia invests in high-profiled arrangements like World Cup, Olympic Games, the Kerch bridge and Russki Islands bridge only for their political significance.

Borrowing for something like Stalin's industrialization and colonization of territories beyond the Urals is an anathema for Russian President and Government.

# *Can government debt actually be a good thing?*

Many economists argue that the economy needs a sufficient amount of public debt out there to function well. Why?

Issuing debt is a way to pay for useful things, and the countries should do more of that when the price is right.

Government needs to provide funds to its projects and other organized expenditures, to cope up with that, government takes debt.