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# Anti-crisis State Policy in Russia

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# Presentation overview



- Current framework for the state policies in Russia
- Policy of the Central Bank of Russia
- Economic policy of the Government
  - Focus on Affordable Loans (2016-2018), revisited in 2020
  - Since 2018 - focus on new strategic goals to be achieved until 2024

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# Current framework for the state policies in Russia

# Since 2014: new environment for Russian economy

2020: Pandemic!

“Western Sanctions” (financial, technological, personal)

Russian counter-sanctions (food import ban – about 20% of food imports)

New economic and business environment

Economic decline in Russia (dropdown in internal demand, ruble devaluation)

New Government policies in Russia (import substitution, business support)

# Old and New Challenges

Russian economy is still much dependent on oil and gas

The Central Bank of Russia is focused on inflation targeting



Political sanctions still in effect

COVID-19 story is far from the end

Oil prices have a great impact on ruble exchange rate and inflation

Interest rates for business loans are very high, making investment too expensive

War of sanctions affects foreign trade

No economic stability anymore (GDP declines, incomes fall down, unemployment rises, etc)

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# Policy of the Central Bank of Russia in 2016-2020

# Main directions of the CBR policy

## Policy instruments in 2016-2020

- Slow decrease of continuously high interest rates (to keep inflation on low levels)
- Tight bank control (compliance with the new banking regulations)
- “Free float” of ruble exchange rate (started from 2014)

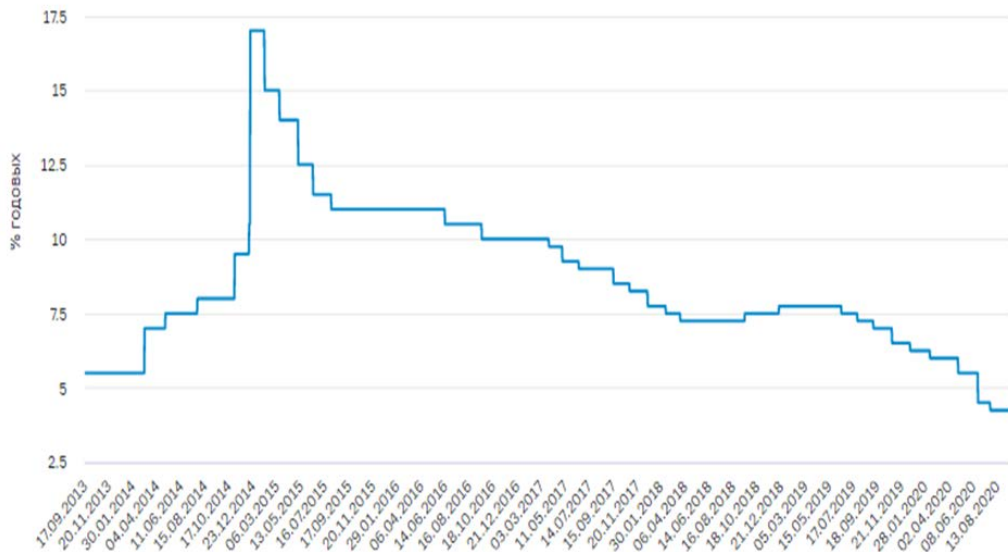
Main building of the Central Bank of Russia (Moscow)



# Interest rate policy in Russia

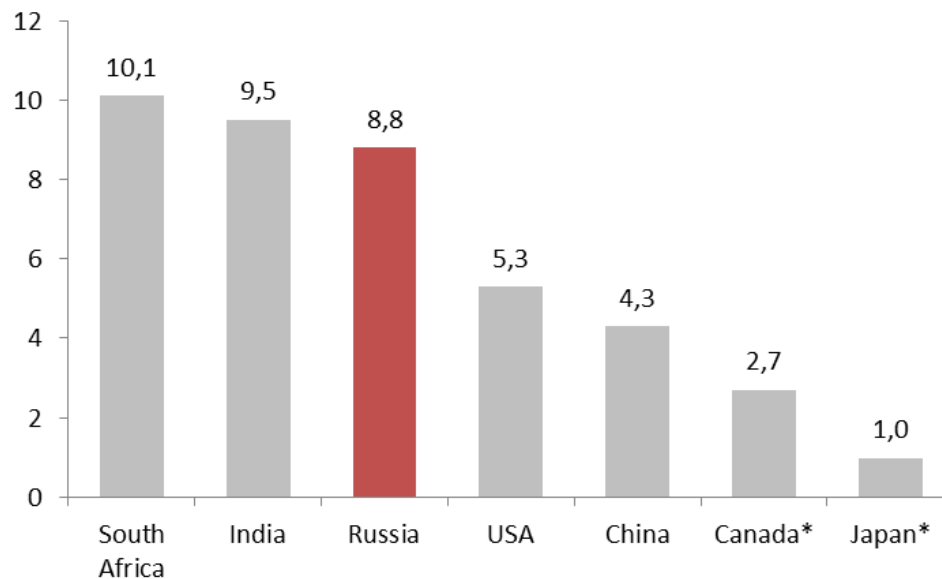
- The key rate of the CBR is now on the record low level of 4,25%. But the interest rates for all kinds of loans still remain high.

### Key rate of the Central Bank of Russia



Source: CBR

### Interest rates for loans to non-financials (<1 year)



\* 2017 data

Source: World Bank



# Banking system control

- Since 2014, the CBR follows the policy of strict banking control. Failure to comply with the rules of the CBR results in license revocation

## License revocation summary

- In 2014 the regulator revoked licenses from 84 credit institutions for the unsatisfactory quality of assets, loss of capital, risky lending policies and dubious transit transactions
- In 2015 the licenses were revoked from 93 credit institutions, in 2016 – from 118, in 2017 – from 97 credit institutions (including 3 banks from TOP 15), in 2018 – from 77 banks, in 2019 – from 38 banks.
- As of November 1, 2020, Russian banking system consisted of 372 banks, compared to 923 at the end of 2013
- Central Bank officials announce that the process is not over yet

*Source: CBR*

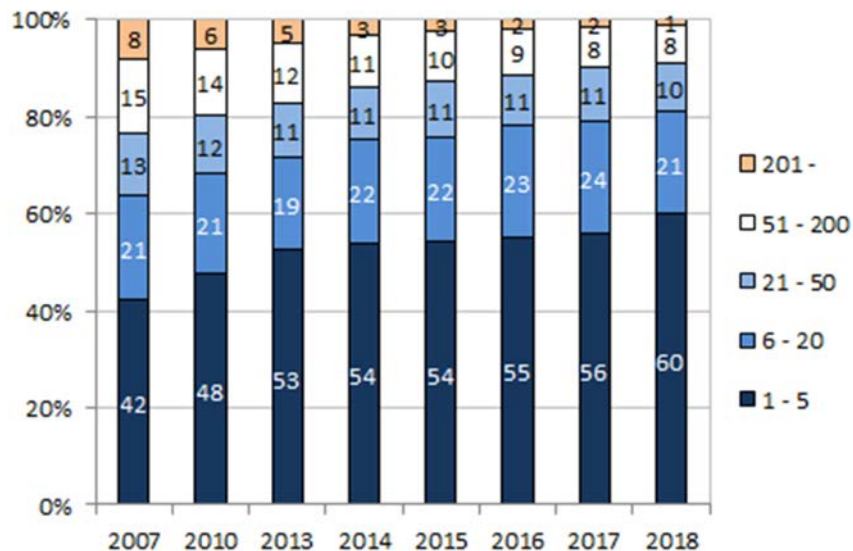
# Current trends – Banking

- Banking sector is highly concentrated, dominated by state-owned banks

## Largest banks by assets volume

Bank	Type
Sberbank	State owned
VTB	State owned
Gazprombank	State owned
Alfa Bank	Private
Rosselkhozbank	State owned
Moscow Credit Bank	Private
FC Otkrytie	State owned
Sovcombank	Private
Rosbank	Foreign
Raiffeisenbank	Foreign

Bank assets shares, by groups of banks

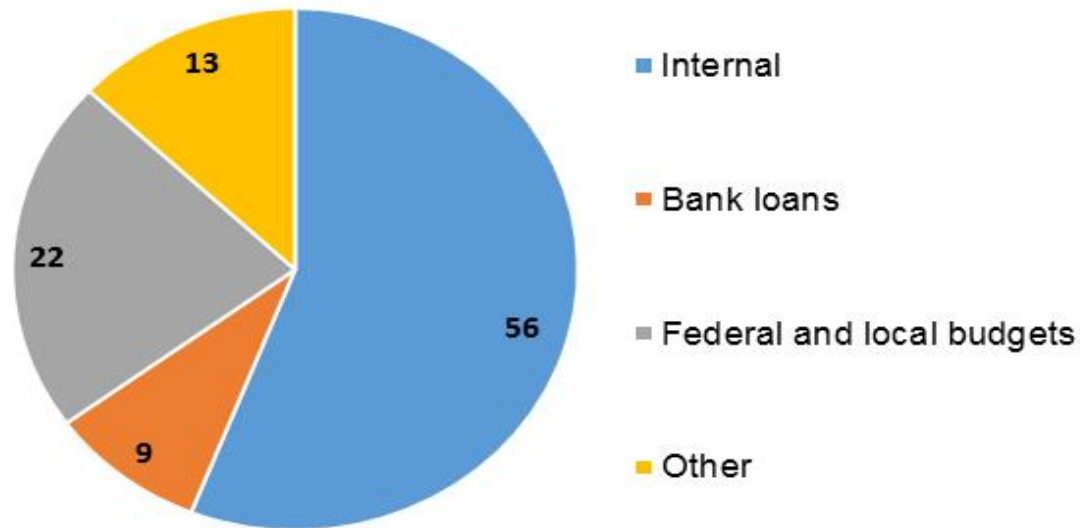


Source: CBR

# Access to finance

- Businesses depend on internal and budget funds, and not on the financing from banks and financial markets

Sources of finance for capital investments, % of total



Source: Rosstat

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# Economic policy of the Government of Russia in 2016-2020

# Government actions

The most important policy instruments in 2016-2019

- Providing accessible loans and subsidies for selected investment projects and small businesses
- Since 2018 - new strategic goals to be achieved until 2024
  - 12 National Projects and project based approach to government spending
  - “Regulatory Guillotine” (to eliminate excessive regulations for business)
  - Attempts to ensure investor protection
- 2020 - new anti-coronavirus policies

The House of the Government of Russia (Moscow)



# Activities of the Ministry of Agriculture of Russia

- The Ministry of Agriculture provides preferential agriculture financing and a set of subsidies

## Preferential Loans

Loans with 1-5% interest rate provided by 42 authorized banks

The Ministry of Agriculture provides compensation for the banks

In 2019 the loans to agricultural companies and farmers reached RUB 735 bln (~USD 11,4 bln)

## Subsidies / compensations

Subsidy for construction / renovation of facilities

Transport expenditures compensation (valid for a number rail export routes to China)

Subsidy for Productivity Improvement in Dairy Farming

Watershed Management Subsidies



2019: total funding provided by Ministry of Agriculture (federal level) was RUB 302 bln (~USD 4,7 bln)

Source: Ministry of Agriculture

# Food Import Ban: impacts on Russian food sector



- After 6 years of food import ban and new agricultural policies, the food sector of Russia entered the new stage of development

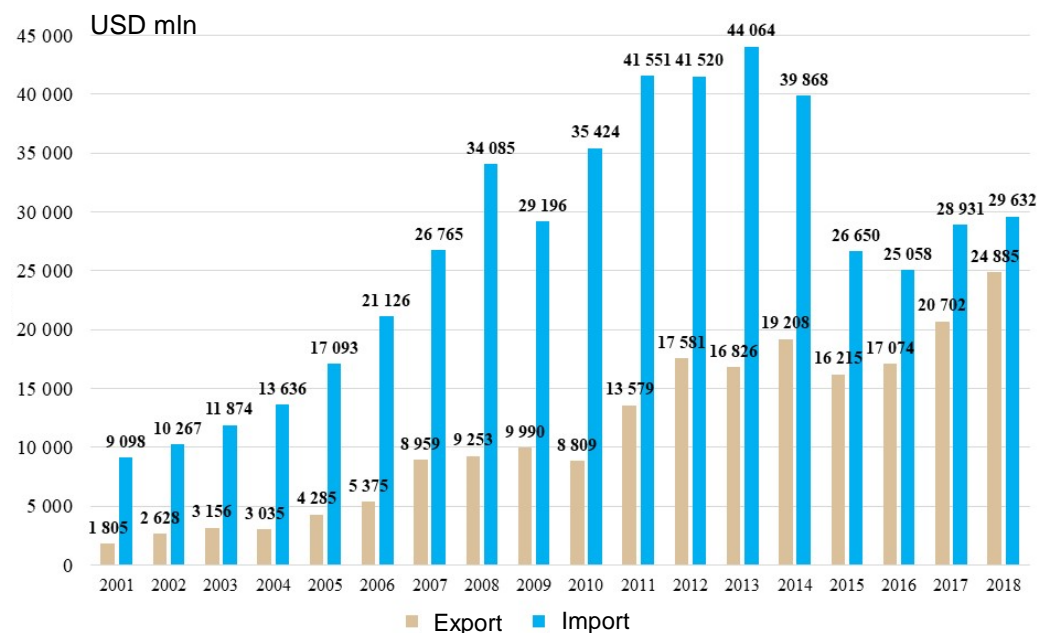
Best results: meat and poultry, vegetables, cheese

- Total agri-food import to Russia in 2019 was ~33% below 2013 level (a drop from 43,3 to 30,0 bln USD)
- Local production of poultry in 2013-2019 increased at 29%, pork – 40%, cheese – more than 50%, greenhouse vegetables – 100%

Prices have risen, and a number of local argi-businesses still need the support

- Consumer prices for food products in 2018 were 46,4% higher than in 2013 (joint effect of ruble devaluation, import ban, etc)
- Russian agricultural sector needs time to continue modernization

### Russian export and import of agri-food products



Source: Ministry of Agriculture, Rosstat, mass media

# New stage of Strategic Planning in Russia

May 2018: new strategic goals set by the President

“May Order” of the President a set of targets to be fulfilled prior to 2024

National Projects – government programs

Reforms to improve the business environment

The examples of targets:

- Life expectancy to exceed 78 to 2024 (80 to 2030)
- Population in poverty must be 2 times lower to 2024
- To enter the top-5 economies in the world by GDP (measured by PPP) to 2024
- Economic growth to exceed world average
- More than 50% of organizations to be innovative to 2024
- Labor productivity to grow by at least 5% YoY to 2024



# 12 National Projects

- Since 2018, almost all government initiatives are to be in line with National Projects with total amount of spending 25700 bln RUB (~400 bln USD) to 2024

- Demography
- Healthcare
- Education
- Science
- Housing and Urban Environment
- Ecology
- Safe and High-quality Roads
- Labor Productivity and Employment
- Digital Economy
- Culture
- Small and Medium Entrepreneurship
- International Cooperation and Export

## The key problems

- The allocated funds are not used in full due to the excessive regulations and lack of well-developed projects
- Some goals seem hardly achievable at least for a number of Russian regions
- The governments can spend, but the private investors are not likely to increase their investment activity

# Regulatory Guillotine

- The idea of the Government is to remove the excessive regulations for business that lead to additional costs and are not necessary for society

## Why to do the “Regulatory Guillotine”?

- Business is subject to numerous verifications/audits (the exact number is not known)
- Some of the rules to follow are outdated (adopted in Soviet era)
- In many cases – no detailed procedures how the audits should be conducted
- Doubling functions of various authorities
- Risk-oriented approach is adopted only for 28 kinds of audits

If the regulation is dismissed, does it entail damage/risks for society?

Detailed description of what to check and how to check

Risk-oriented approach to be applied for all kinds of audits

- September 2019: the Government adopted the order to dismiss more than 20 000 acts from February 1st, 2020
- The list of acts to be dismissed consists of 1992 pages

# Investor Protection

- The general idea is to improve the investment climate in Russia and to stimulate the domestic and foreign investor activity

The Federal Law “On Protection and Promotion of Investment”  
(Adopted April 2020)

## General Investment Regime

- All changes in legislation that worsen the situation of the investor, are to be applied to them after 3 years since adoption
- Applies to all kinds of investors

## Project Investment Regime

- All changes in legislation that worsen the situation of the investor, are to be applied to them after 3-20 years since adoption (depending on the agreement)
- Applies to investors that concluded the project agreement on federal or regional level (large investment projects, excluding raw materials and financial sectors)
- The agreements may include the government support (subsidies, long-term price agreements with state monopolies)

# New Anti-Coronavirus Policies

- The President and the Government step-by-step adopted new support policies, later summarized in National Economic Recovery Plan

## Who received the benefits?

Companies that belong to the list of Most Affected Sectors

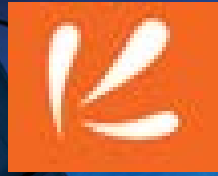
SMEs and NGOs

Families with children

Systemically important enterprises

- Subsidized and forgivable loans to all companies in affected sectors to cover the minimum wages for employees for 6 months
- Tax deferrals for SMEs in most affected industries until the end of 2020
- interest rate subsidies for SMEs and systemically important enterprises
- Deferrals on rent payments to all levels of government until the end of the year
- for those who lost a job after March 1, 2020, the standard unemployment benefit to equal the minimum wage for five months
- increased compensation for frontline medical staff

Total fiscal package is ~4,4% GDP – much smaller than in many developed economies



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**Thank you  
for your attention!**

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