



Lomonosov Moscow State University
Business School

Anti-crisis Economic Policy in Russia

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Presentation overview



- Russian economic policies before 2020
- Fiscal and Monetary anti-coronacrisis policies in 2020
- 2021: Reset of economic policies

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Russian economic policies before 2020

Since 2014: new environment for Russian economy

“Western Sanctions” (financial, technological, personal)

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

New economic and business environment

2020: COVID-crisis

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

New economic policies in Russia (anti-inflation, import substitution, business support)

Economic policies since 2014: challenges



2014-2017

- Monetary Policy (the Central Bank of Russia, CBR) – to bring inflation down to 4% target
- Fiscal policy (the Government of Russia) – to foster import substitution and to avoid budget deficit

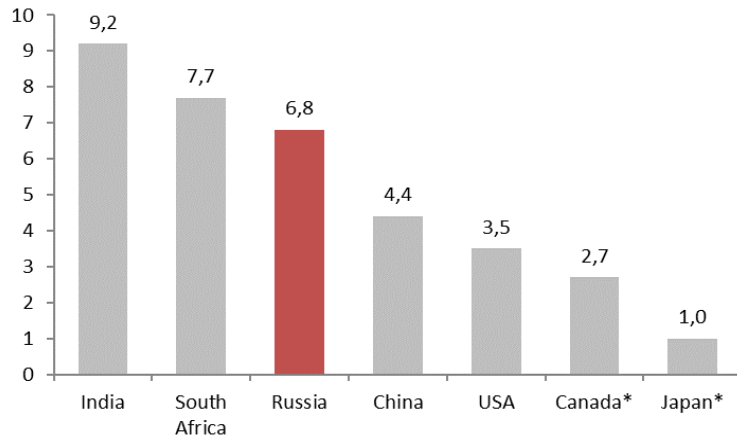
2018-2019

- The Presidential Decree about National Strategic Goals
- Monetary Policy (CBR) – to reach the strategic goals and to bring inflation down to 4% target
- Fiscal policy (the Government of Russia) – to reach the strategic goals and to avoid budget deficit

Inflation targeting vs business development



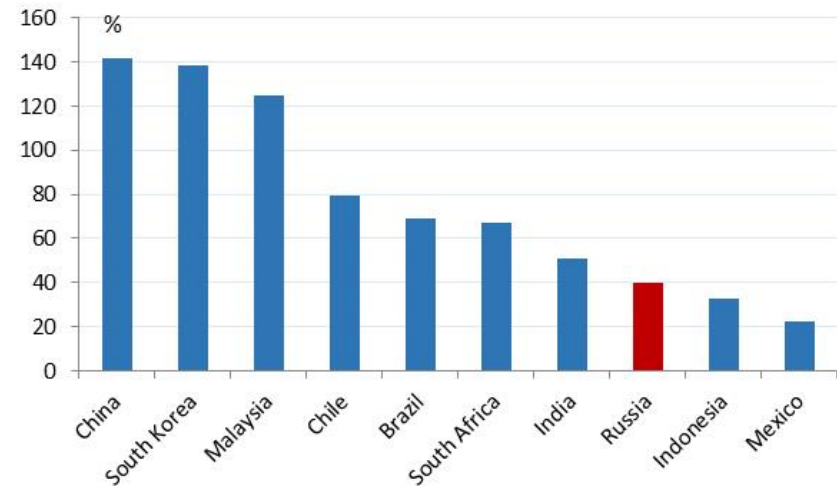
Interest rates for loans to non-financials (<1 year)



* 2018 data

Source: World Bank

Loans to non-financials, % GDP

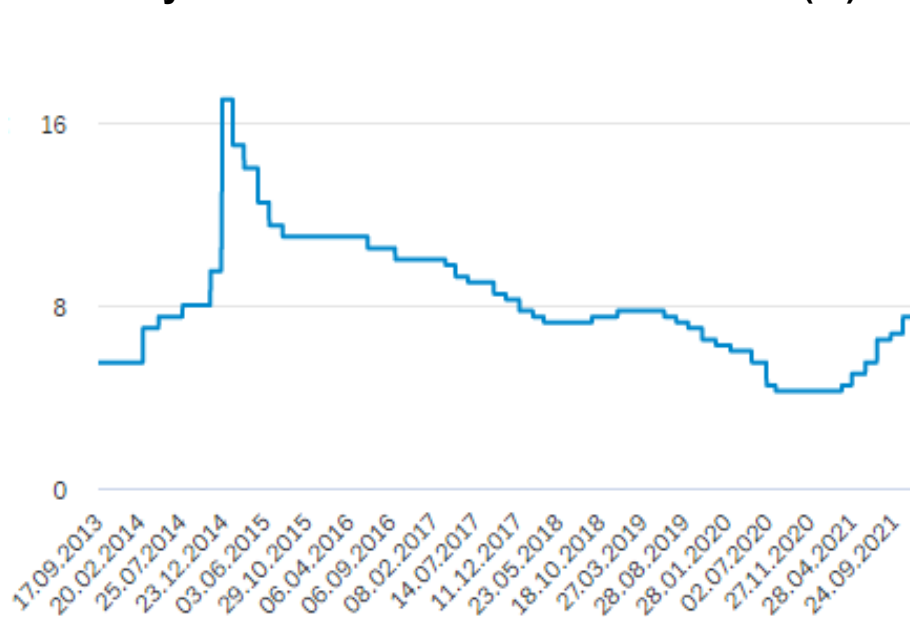


Source: World Bank

Restrictive monetary policy in Russia

- The key rate of the CBR was kept on high levels to slow down inflation, and was lowered only in 2020
- Since 2014, the CBR follows the policy of strict banking control.

Key rate of the Central Bank of Russia (%)



Source: CBR

License revocation summary

Year	Banks with revoked license
2014	84
2015	93
2016	118
2017	97
2018	64
2019	38
2020	37

As of November 1, 2021, Russian banking system consisted of 337 banks, compared to 923 at the end of 2013

Source: CBR

Import substitution, agriculture and affordable loans

- The Ministry of Industry and Ministry of Agriculture are the most active in providing affordable loan programs



Business loans: 1-3% interest rate for competitively selected projects with focus on import substitution, middle-size companies with average loan amount ~200 mln RUB (2,8 mln USD)

Loans with 1-5% interest rate provided by 28 authorized banks. The Ministry of Agriculture provides compensation for the banks. In 2021 it is planned to provide subsidies >80 bln RUB (~1,1 bln USD)

2015-present:
total funding 203,9 bln RUB (USD ~2,8 bln) for 391 projects
IDF has established 69 regional affiliations

2020: total funding provided by Ministry of Agriculture (federal level) was RUB 319,5 bln (~USD 4,4 bln)

Transformation of the State Policies

- The anti-crisis approach to the state policy has changed over 2015-2018

2015	The Government, the Central Bank of Russia	Economic and Social Stability Plan (60 items)
2016	The Government of Russia	Government's action plan for 2016 (120 items)
2017	The Government of Russia	Complex plan for economic development for 2017-2025
2018	The President, the Government of Russia	National Projects 2018-2024, Government activities for the period until 2024

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 –
12+1 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 rates in Russia 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 were 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 could spend, but the private investors were not likely to increase their investment activity

Regulatory Guillotine

- The Government started 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

Russia entered 2020...



- Lower demand and lower rates of economic development
- Many companies had little chances to accumulate reserves enough to survive lockdowns
- Lack of investment activities that could support the ambitious goals of the Government



Fiscal and Monetary Anti-coronacrisis policies in 2020

COVID-19 challenge

- In April 2020 the President and the Government step-by-step adopted new support policies, later summarized in National Economic Recovery Plan
- Some measures of support were provided also by the Central Bank of Russia

Who was eligible for the support?

Systemically important enterprises

Companies that belong to the list of Most Affected Sectors

SMEs and NGOs

Families with children

Frontline medical staff

Unemployed

Support for population



- The main target group for support – families with children

Families with children

- In April, May, June 2020 families with kids aged 3 years and under received ~70\$ per kid per month
- June 2020: families with kids aged 3-16 years received ~140\$ per kid (lump sum payment)
- July 2020: another lump sum payment (~140\$ per kid aged 3-16)

Unemployed

- For those who lost the job in March 2020 and after, unemployment benefits increased to ~60-170\$ per month (depending on work experience)
- Every unemployed person with kids received ~42\$ per kid per month (March-September)
- Remote and simplified registration of unemployment

Support for business and economy

Government of Russia (federal, regional)

- Subsidized and forgivable loans to all companies in most affected sectors to cover the minimum wages for employees for 6 months
- Compulsory social contributions lowered for small businesses (from 30% to 15% for the part of wages above the minimum level)
- Tax deferrals for SMEs (most affected sectors) till the end of 2020
- Interest rate subsidies for SMEs and systemically important enterprises
- Deferrals on rent payments (for the property of federal, regional, local government) until the end of the year
- Moratorium on all kinds of planned inspections for business (including onsite tax audits – till end of June 2020)

Central Bank of Russia

- Key rate decrease (from 6% in March 2020 to 4,25% in August 2020-March 2021)
- Opportunities to restructure loans for population and SMEs (recommended to the banks)
- Special loans for the banks that continue to provide loans to SMEs (from most affected sectors)

Total fiscal package for 2020 was ~4,4% GDP – much smaller than in many developed economies

Loans for wages

- Loans for Wages program was intended to secure the jobs in Most affected sectors of economy

Max Loan volume = number of employees * minimum wage * 6 months

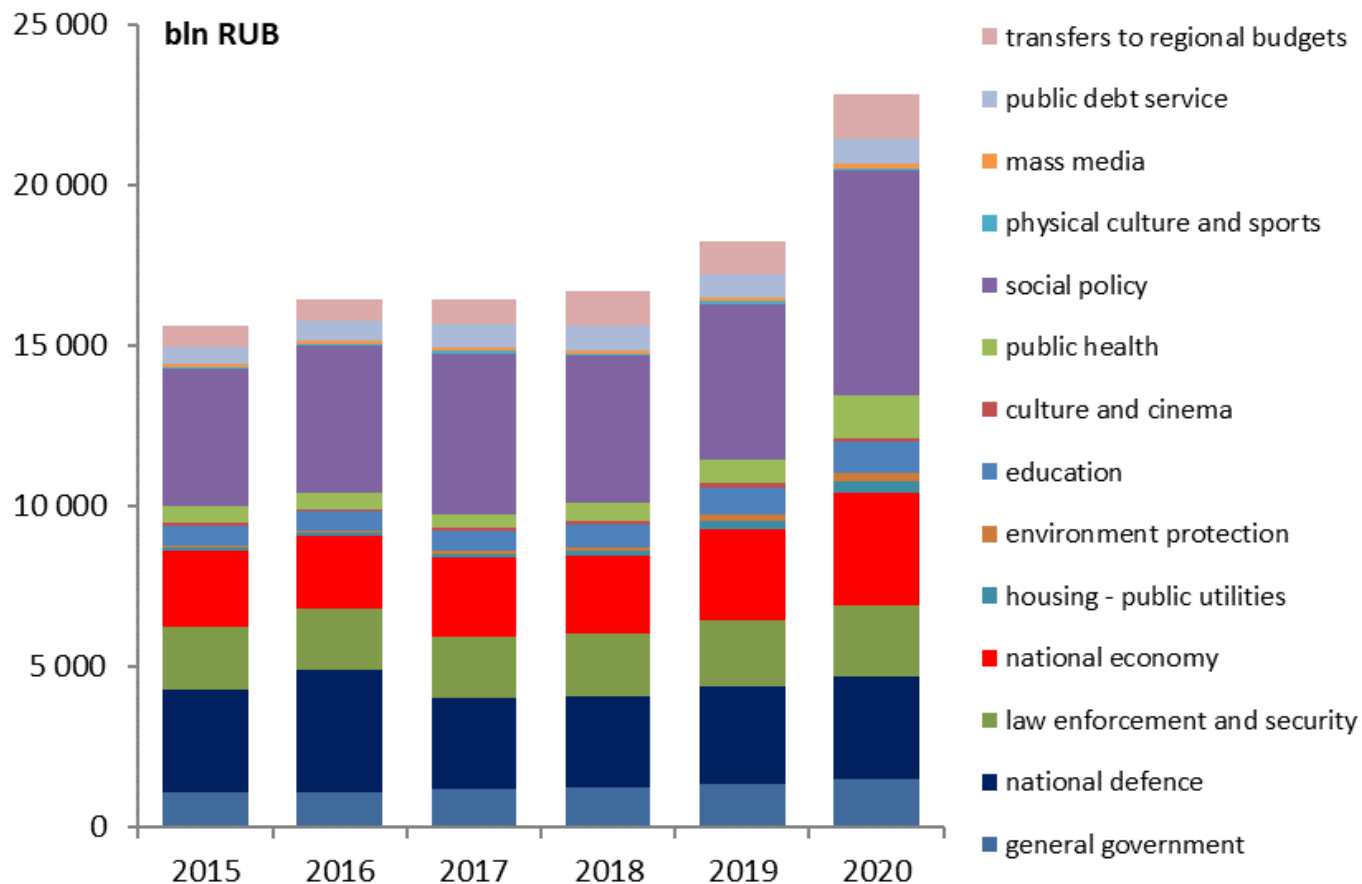
	March-May 2020	June 2020 – April 2021
Who is eligible	Companies from the list of the Most Affected Sectors	Companies from the list of the Most Affected Sectors
Interest rate	0% interest for the first 6 months and for (CBR key rate – 2%) for the next 6 months	2% (payments deferred until April 2021)
Forgivable if...	-	Companies that keep 90% personnel – 100% coverage, 80-90% personnel – 50% coverage

Ministry of Economy reported in March 2021 that 98% participants of the program maintained 90% jobs

Federal government expenditures

- Federal government expenditures increased in 2020 and stimulated the increase of regional financing (through enlarged transfers to regional budgets)

The Accounting Chamber reported that in 2020 anti-COVID19 measures were equal to 12,5% expenditures of federal budget



Source: Ministry of Finance

National Goals Changed

Original 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 rates in Russia 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

New Targets

To 2030

To 2030

Excluded

To 2030

Excluded

Excluded

Other important targets: Fixed capital investments to grow by 70% (real terms) to 2030 compared to 2020 level; Growth of population incomes must be above inflation level

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**2021:
Reset of economic
policies**

Anti-COVID Support almost finished

- The major part of anti-coronavirus measures for population and business adopted in 2020 is now over, new measures are less attractive for recipients

For population

- In 2021: new lumpsum payment “to send kids to school” (~140\$ per kid of school age)
- Unemployment benefits decreased again
- The pre-COVID registration procedure for the unemployed is restored

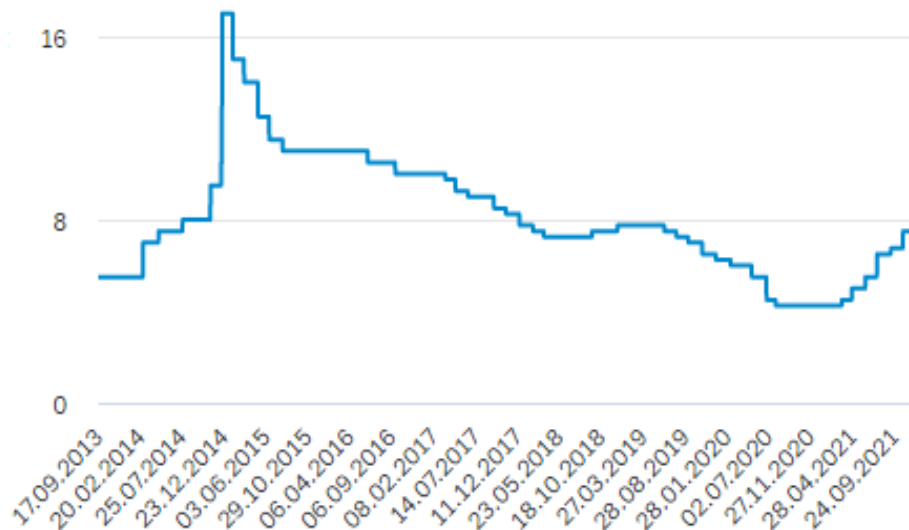
For business

- Decrease in compulsory social contributions is in effect
- New “lockdown subsidy” for closed businesses (same formula as for loans)
- Moratorium for planned inspections continued only for SMEs
- Program “loans for wages” is now for 3% and loans are not forgivable
- Tax deferrals need to be paid back

Restrictive policy is back

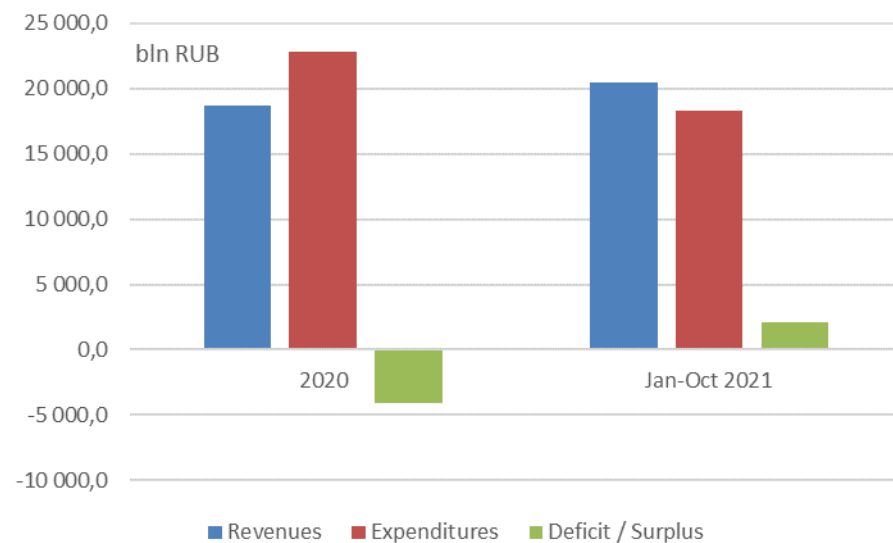
- The monetary policy again is focused on inflation, and fiscal policy is more oriented on minimizing the budget deficit

Key rate of the Central Bank of Russia (%)



Source: CBR

Federal budget of Russia in 2020-2021

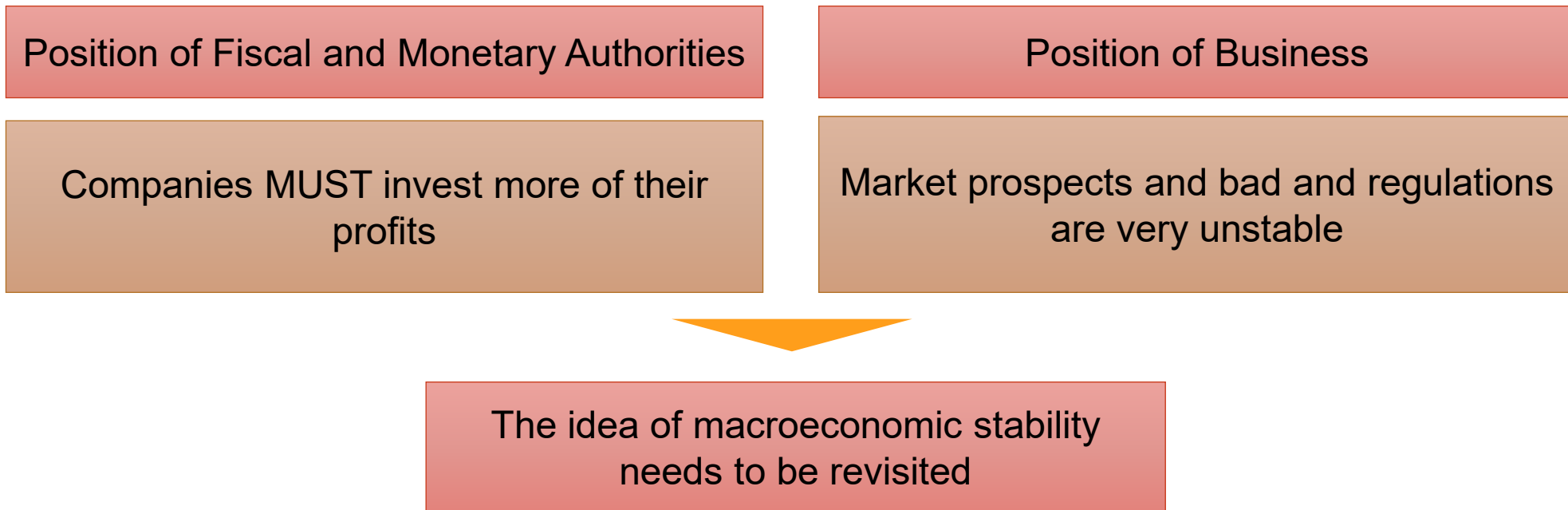


Source: Ministry of Finance

- In October 2021 the federal annual plan for taxes & other revenues was fulfilled by 108,9%, and plan for expenditures – only by 73,4%)

How to bring the business activity back?

- There is an on-going discussion between business and authorities about the future strategies



- The government increased tax and duty burden on a number of exporters that take advantage of the increased world prices (metals, fertilizers, wheat)
- One of the discussed ideas was to increase profit tax for the companies that make “not enough investment” (now postponed)

Investor Protection

- The general idea is to provide the investors the stable legislative conditions and to stimulate the domestic and foreign investor activity

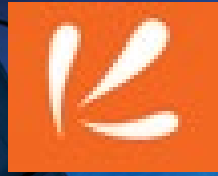
The Federal Law “On Protection and Promotion of Investment”
(Adopted April 2020)

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)



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**Thank you
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