Yuri V. Simachev, Andrei A. Yakovlev, Boris V. Kuznetsov, Michael Y. Gorst, Aleksandr V. Daniltsev, Michael N. Kuzyk, Sergey N. Smirnov

Assessment of policy measures to support Russia’s real economy
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Key words: Russia, anti-crisis measures, economic policy, state subsidies, fiscal policy.

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1 Introduction

The global economic crisis has challenged every government in the world. Although huge financial resources have been utilized to combat this crisis, so far no country has managed to find a prescription for a way out. The search for effective solutions that could minimize and overcome its aftermath is closely related to the working out of new ideas and recommendations for anti-crisis measures. This was the very task the government of the Russian Federation has focused on since October 2008, along with rapid implementation of a package of emergency measures. Up till now, the Government has devised and is putting into practice a most extensive range of anti-crisis measures, unique in terms of the diversity of ways of influencing the economy, and also in terms of the volume of allocated resources.

After the most urgent problems relating to the stability of our financial system have been solved and the cycle of emergency mergers is completed, and as soon as the duration of the crisis is fully recognized, a systemic evaluation of the government’s anti-crisis measures will come to the fore. In addition, suggestions on how to improve anti-crisis policies in the making and in practice will be needed.

The reason for taking such a step is our awareness that the resources and reserves available for support of the economy are limited, particularly as the quickest way out of the crisis is becoming less and less likely. This change will be a necessary precondition for yet another shift in economic policy away from ‘theatre-of-war weapons’ that are supposed to alleviate the immediate consequences of the crisis and repair the damage to the most vulnerable sectors and towards ways of overcoming the crisis, creating incentives for entering new markets, expanding output and creating new jobs. A shorter horizon of economic policy was inevitable in the acute phase of the crisis. A regular overview of adopted measures and a better-structured preliminary assessment of new measures will help to lengthen this horizon and combine current policies with strategic priorities that were announced earlier by our government.

This is particularly important now when resource limitations are becoming more stringent. We must emphasize that for us, the evaluation of problems and risks related to the anti-crisis measures under way has nothing to do with claims that ‘the adopted measures are bad, but we know the good ones’. We are convinced that practically every anti-crisis measure comes together with substantial risks. These risks are different, and they need to be duly recognized so that their possibly negative effects can be limited.

The present paper is the result of a joint project launched by the SU-HSE and the Interagency Analytic Center for the creation and approbation of procedures for evaluating and monitoring the anti-crisis program. This project is already underway in developed countries. Moreover, international organisations have already conducted a comparative analysis of fiscal policy response to the crisis in a number of countries (OECD 2009, chapter 3). However, Russia is not yet included in these studies. The only exception we are aware of is the World Bank Russian Economic Report published in March 2009. This report gives the first description of anti-crisis measures in Russia in comparison with the programs that are being implemented in other countries. However, it focuses on a general overview of the economic situation in Russia and contains only a very brief analysis of anti-crisis measures. On the contrary, in our study we concentrate on the support measures for the real economy and try to single out beneficiaries by industry and enterprise size, and to give a comprehensive assessment of the outcomes that the measures under way will produce during the recession and at the time of recovery from the recession. We also define the main risks the Russian Government will face in practical implementation of the support measures and describe the key problems and inconsistencies of the anti-crisis policy.
This project was carried out in a very short time span, in February-March 2009, which imposed a number of limitations and bifurcation points on the authors. Firstly, we had to choose between detailed procedures and a swift achievement of practical results. Being aware that the proposed approaches to an assessment of anti-crisis measures are far from being ideal, we chose to test this set of tools immediately on a relatively wide range of measures, instead of honing the procedures to an evaluation of several examples of concrete measures. Secondly, we faced a choice between a detailed, all-inclusive assessment of the measures announced by the government (taking several months and involving drawing in a larger number of experts), and a swift evaluation of a set of interrelated measures on a unified schedule and unified and simplified range of characteristics. We took the second option as the more reasonable one, and conducted “express diagnostics” of about 100 measures designed to support the real economy. Meanwhile, measures to support the financial sector, some actions in support of people’s livelihood and other measures fell outside the scope of our study, mainly because our time and human resources were so limited. We used only public data even though this meant that we would be evaluating some measures less correctly than our much better informed colleagues in economic agencies could do. Finally, one of the limitations we faced was that each measure was evaluated by a single expert, so the results may include some subjective opinions.

Therefore, this was essentially a pilot project. Our major task was to offer and test a possible set of instruments for an evaluation of anti-crisis measures. Assessing anti-crisis measures, we focused our attention not on a discussion of their suitability but on an evaluation of the regulatory tools that are being used, as well as the relevant rules and mechanisms that ensure their accomplishment. At the same time, we believe that we have successfully achieved positive practical results even at this pilot stage. Our approach has enabled us to analyze a wide spectrum of policy tools, to evaluate their relative pluses and minuses, and to define the risks related to their application. Reliance on this analysis has enabled us to identify a number of problems that are typical of the anti-crisis program, and to formulate recommendations for their removal or alleviation.

2 Impact of the financial crisis on the Russian economy

For a better understanding of the context in which the anti-crisis measures are being implemented in Russia, we must give a brief account of the general economic situation in Russia in 2008-2009. The global crisis affected Russia later than other countries, and up to mid-2008, Russia’s economic growth rates stayed high, following the trend of the preceding nine years (the average annual GDP growth rate was 7-8%). However, in the second half of 2008, the effects of the crisis became more profound. The Russian economy went into a recession in the second quarter of 2009, and the drop in GDP was substantial (-7.9%). The main drivers of the recession were a sharp reduction in domestic demand, a significant decline in exports and capital inflows, and a rise in government spending on social expenditures.

1 In the framework of this project, evaluation of anti-crisis measures had been roughly accomplished by March 15, 2009, before the Federal Government presented its Program of Anti-crisis Measures for 2009 (on March 19, 2009). This Program identified seven policy priorities, and classified the ongoing and planned measures according to the following priorities: 1) The Government will fully honour its commitments to the public. Special attention will be paid to preserving the labour potential. 2) The industrial and technological potential of future growth should be preserved and strengthened. The Government will not invest tax-payers’ money in ineffective production lines. 3) Domestic demand should become the foundation of post-crisis recovery and subsequent steady advance. During the crisis, the Government’s support for domestic demand (investments and contracts) will play an increasing role. 4) Main task on the road to modernization is to change the current model of economic growth. The Government will support major innovations-based processes, including higher energy efficiency of the economy. 5) Business should be freed from pressure of officials. It will also propose a new package of measures to enable small businesses to make steady progress despite the crisis. 6) The economy should rely on a powerful national financial system. 7) The Government and the Central Bank will conduct responsible macro-economic policy. However, the vast majority of these measures was declared earlier and is already evaluated by experts.
growth rate in 1999-2007 was 7%; in 2007 the rate was 8.1%). The crisis first manifested itself in August, when the stock indexes fell sharply, and the market crashed in September. As a result, the leading RTS stock market indicator fell four times (from almost 2,500 points in the beginning of May to less than 600 points in the late October, 2008). This steep decline posed problems for the financial sector because banks extensively borrowed foreign money on share packages. A number of big banks hovered on the brink of bankruptcy, and panic ensued among their depositors.

Nevertheless, prompt assistance from the Government and the Central Bank helped stabilize the situation in the financial sector by November, despite increasing inflationary pressure on the rouble. As a result, by the end of autumn 2008, the probable economic slowdown and the need to settle the external debts of Russian corporations, along with rising inflation, were believed to be the major challenges for the Russian economy. Meanwhile, economic growth forecasts for 2009 were generally positive. For instance, Sergei Aleksashenko, a well-known Russian expert, former Deputy Governor of the Bank of Russia, believed in November that GDP growth in 2009 would be no higher than 2.5 per cent (Aleksashenko 2008, p.34); the World Bank saw GDP growth at 3 per cent based on unchanged oil prices around US$75 a barrel (World Bank 2008, p.17), and the November outlook by the European Commission for Russia put growth at 6 per cent in 2009 and 6.5 per cent in 2010 (DG ECFIN 2008, p.137).

However, in reality, the outcome of the crisis was much more severe. As stated in the Russia Economic Report released by the World Bank in March 2009, the decline in global demand, the fall in commodity prices, and the tightening of credit have accelerated Russia’s economic slowdown since the fourth quarter of 2008 (see the table 1). Estimated real GDP growth in the fourth quarter of 2008 was about 1.1 percent, down from 9.5 percent during the same period in 2007. With few exceptions, all sectors reported lower growth rates in 2008, but the tradables are slowing faster, in line with collapsing global demand. These sectors grew by only 1.8 percent in 2008, compared with 3.9 percent in 2007, with growth in manufacturing turning negative in late 2008. Non-tradables – driven mainly by retail and construction – posted growth of 7.4 percent for 2008, compared with 10.3 percent growth in 2007.

Table 1. Main indicators of Russian economic development, 2006-09

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>Q4 2008</th>
<th>Jan-09</th>
<th>Feb-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth, %</td>
<td>7.7</td>
<td>8.1</td>
<td>5.6</td>
<td>1.1***</td>
<td>-8.8*</td>
<td>-7.3*</td>
</tr>
<tr>
<td>Industrial production growth, year on year, %</td>
<td>6.3</td>
<td>6.3</td>
<td>2.1</td>
<td>-6.1</td>
<td>-16.0</td>
<td>-13.2</td>
</tr>
<tr>
<td>Fixed capital investment growth, %, year on year</td>
<td>16.7</td>
<td>21.1</td>
<td>9.8</td>
<td>-2.3</td>
<td>-15.5</td>
<td>-14.1</td>
</tr>
<tr>
<td>Federal government balance, % GDP</td>
<td>7.4</td>
<td>5.5</td>
<td>4.0</td>
<td>4.0</td>
<td>15.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Inflation (CPI), % change , end of period</td>
<td>9.0</td>
<td>11.9</td>
<td>13.3</td>
<td>13.3</td>
<td>2.4**</td>
<td>4.1**</td>
</tr>
<tr>
<td>Current account, billion USD</td>
<td>95.6</td>
<td>76.6</td>
<td>98.9</td>
<td>8.1</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Unemployment, % (ILO definition)</td>
<td>7.2</td>
<td>6.1</td>
<td>6.3</td>
<td>7.1</td>
<td>8.1</td>
<td>8.5</td>
</tr>
<tr>
<td>Memo: Oil prices, Urals (USD/barrel)</td>
<td>61.2</td>
<td>69.5</td>
<td>95.1</td>
<td>54.9</td>
<td>44.2</td>
<td>43.1</td>
</tr>
<tr>
<td>Reserves (including gold) billion USD, end of period</td>
<td>303.7</td>
<td>478.8</td>
<td>427.1</td>
<td>427.1</td>
<td>386.9</td>
<td>384.1</td>
</tr>
</tbody>
</table>

Source: (World Bank 2009) on the base of Rosstat, CBR, Ministry of Finance, Bloomberg data.
* Preliminary estimate by Ministry of Economic Development.
** Cumulative from end-2008.
*** Preliminary estimate by the WB staff.

As mentioned by Aleksashenko (2008), the total external debt of Russian companies and banks, as of September 30, 2008, was over $510 billion, of which about $200 billion were due before the end of 2009.
The economy deteriorated dramatically in early 2009. Demand- and finance-sensitive construction reported an 18.8 percent decline in January-February relative to the same period in 2008, while transport contracted by 18.2 percent. Retail trade reported modest growth of only 3.1 percent in January, but then registered a decline of 2.4 percent in February. Industrial production fell 10.3 percent in December 2008 relative to December 2007. It then dropped 16 percent year-on-year in January and 13 percent in February 2009.

Five of 14 major manufacturing industries reported output declines in 2008, with electronics, electrical, and optical equipment hardest hit (-7.9 percent), followed by textile and sewing (-4.5 percent) and chemicals (-4.2 percent). Most of this dislocation took place in November and December 2008, when total manufacturing output respectively fell 10.3 and 13.2 percent (year-on-year). As credit continues to tighten and demand to fall, manufacturing is likely to contract further this year. According to recent statistics, manufacturing output dropped 24.1 percent in January 2009, compared with January 2008, and 18.3 percent in February 2009, compared with February 2008.

Although average unemployment in 2008 remained relatively unchanged (6.3 percent in 2008 and 6.1 percent in 2007), it shot up to 8.5 percent in February 2009 (ILO definition), from 8.1 percent in January 2009 (and from a record low of 5.4 percent in May 2008). Real incomes also declined substantially at the end of 2008 and the beginning of 2009. In the fourth quarter of 2008 alone, real disposable income dropped 5.8 percent, compared with the same period in 2007, and 10.2 percent in January 2009 (year-on-year).

It appears that a large share of additional liquidity, initially provided to the financial system was immediately converted into foreign currency, putting more pressure on the rouble. In November the Central Bank of Russia started to allow increasingly frequent step depreciations resulting in a 28% decline of the rouble against the US dollar-euro basket in late January. The CBR tightened monetary conditions in early February 2009 to prevent further loss of foreign exchange reserves. However foreign exchange reserves fell to about USD 380 billion in mid-March 2009, from its record high of more than USD 580 billion in September.

The fiscal position of Russia has worsened considerably, and the Ministry of Finance in early 2009 released the main parameters of its revised federal budget for 2009. It is prudently based on the low oil prices (US $41 a barrel, Urals) and a drop in budget revenues from the original 21.2 percent of GDP (under the old assumption of US $95 a barrel) to 16.6 percent, or RUB 6.72 trillion. At the same time, expenditures will be increased by RUB 667.3 billion to RUB 9.69 trillion, to produce a deficit of RUB 2.98 trillion (about 7.4 percent of GDP), a massive reversal of the fiscal position from the 4.1 percent surplus in 2008. The consolidated general government deficit is expected to be 8 percent in 2009 and it will be financed largely from the Reserve Fund (7 percent of GDP) with modest domestic borrowing (up to 1 percent of GDP).

As a result, according World Bank estimations, due to much worse global financial outlook and oil prices in the USD 45 per-barrel-range the Russian economy is likely to contract by 4.5 percent in 2009 (World Bank 2009, p.6-7). However, the OECD refrains from making precise forecasts for Russia (OECD 2009, p.101-103), and the Ministry of Economic Development of the RF predicts a GDP decline by 2.2 per cent in 2009.

At the same time, the Ministry, in its report on the current economic situation released in May has pointed out that, according to the January-April data, the scale of GDP decline is getting smaller (Ministry of Economic Development 2009). The data from current surveys of industrial enterprises show that the situation has already stabilised since January-February 2009 (IET 2009), and a more detailed analysis of output by commodity shows that in a number of sub-industries, economic growth has already resumed (Ekspert 2009).
3 Main ways and procedures for evaluating anti-crisis measures

At the outset, let us point out that we are not going to examine the anti-crisis program in terms of its actual effect on the real economy or on the specific sectors. In many cases, it is too early for this. Besides, this task would be too complex and too large for this short-term project. We have focused the attention of our experts on the evaluation of probable limitations, problems and risks related to carrying out the anti-crisis program.

The gist of our approach is to make a “thorough” analysis of all measures in question in a single format in the following basic directions:

- Instruments that are used for putting a measure into practice; their functional orientation; time-frame; approximate volumes of fiscal expenditures (lost revenue);
- Assessment in terms of correspondence to or departure from the long-term guidelines (principles) of government policy that were established earlier;
- Identification of the main types of beneficiaries and losers from the realization of the measure (by industry, scale of business, etc.);
- Assessment of underlying motivation (incentives for expansion and innovation for business enterprises); the presence of any performance criteria;
- Assessment of major risks (distorted ‘rules of the game’; higher uncertainty in the business environment; restricted competition; non-transparency of application; conditions for making opportunistic decisions; difficulties in management and tuning);
- Detection of possible ‘traps’, which can appear as soon as the economy resumes growth (risks of formation of “ineffective equilibriums”);
- Detection of factors that can influence the efficiency of the measure (owing to its design, its need for tuning, influence of other measures and external institutional environment);
- Comparison of peculiar effects of the measure (instrument) in the crisis phase and in the phase of the return to economic growth.

With regard to assessment of anti-crisis measures, we had to define their range. This turned out to be not as easy as seemed at first glance. A number of measures now claimed as the anti-crisis ones were decided upon or discussed much earlier (such as changes in depreciation policy). One more problem is the abundance of quasi-state measures (relating to activities of large state-owned companies and systemically important banks) in the path of the government’s anti-crisis policy: they are too opaque to be easily appreciated. Meanwhile, they are the very matters that can cause great distortions to competitive conditions and induce an inefficient redistribution of resources. Nevertheless, we resorted to a formal rule for our preliminary selection, sorting out those measures that had been officially announced as anti-crisis ones3.

3 For quite a long time (November 2008 – March 2009) a single legal document existed which defined the composition of the anti-crisis measures, their timing, and responsibility by ministry and agency: Action Plan for Rehabilitation of the Financial Sector and Certain Industries, enacted on November 6, 2008. However, this Action Plan did not include a number of earlier measures, mostly related to tax policy and to some decisions that were made later, in particular, those related to the automobile industry and agricultural machinery. In this connection, we also used the following documents: “Review of Anti-Crisis Measures for Rehabilitation of the Financial Sector and Certain Industries”, placed on the official web-site of the Federal Government, and “List of Anti-Crisis Measures Being Implemented by the Russian Government and the Central Bank of Russia”, placed on the official web-site of the Prime Minster. Recently (on March 19, 2009) a comprehensive “Anti-Crisis Program of the Government of the Russian Federation for 2009”
We used the following substantive criteria to select the measures to be analyzed:

(1) The measures should be oriented towards the support (and development) of the real economy. We also examined the measures enhancing social welfare, supporting the labour market and expanding demand for goods (or services) of certain industries. However, we did not examine measures aimed at ensuring stability of the financial and banking systems or measures related to improving corporate laws;

(2) Implementation of the measures in question can substantially change the relative positions and behaviour of economic agents, due to changes in the regulation and “tuning” of existing instruments, as well as the appearance of new instruments of government policy;

(3) Implementation of the measures in question will involve a substantial reallocation of public resources needed for the application of individual tools of government support.

As a result, we made a list of about 100 arrangements, which had been claimed as anti-crisis measures and which enabled us to evaluate the application of the instruments in use (either because regulations were being enacted, or because the measures were presented in clear and detailed wording). 4

The informational base for assessing anti-crisis measures was compiled from relevant legislation (laws, resolutions, directions, orders).

Our general principle has been to rely only on the publicly available documents, including documents prepared for meetings of the federal government and transcripts (theses) of statements made by decision-makers, placed on official sites of the public administration. 5

4 Anti-crisis measures: main tasks

A large package of anti-crisis measures was announced within a very short space of time (actually, since November 2008), which require not only the drawing up and adoption of numerous legal acts but also the shaping of mechanisms for the manual control of certain instruments). 6 Many measures were taken within strict time limits and under enormous pressure from various vested interests.

As a result, the public administration faced a much increased workload, and on some occasions, the practical implementation of measures was de-synchronized. For example, we can mention a long delay in government procurement orders that forced the government to help finance was presented for public discussion for the first time. The Program is supplemented with a list of main anti-crisis measures taken by the Russian Government for rehabilitation of the Russian economy in 2009.

Some of the measures were divided, by application of certain tools, into “sub-measures” (for example, co-financing of regional programs for support of small and middle-sized enterprises and co-financing of employment programs).

We should mention that official and freely available information about Russian anti-crisis policy is abundant, but fragmented and placed piecemeal on a number of official sites of the President, Government, ministries and agencies. Our work was made easier because many ministries conduct fairly open policy and have published theses and presentations made by their ministers and vice-minister on their web-sites.

Recall that the Program for Rehabilitation of the Financial Sector and Certain Industries, enacted on November 6, 2008, which includes only a part of all anti-crisis measures, contains 55 points (measures). According to this Program, documents related to 34 points were due as soon as in November, and related to another 10 points, in December.

We can single out the following important measures taken in 2008: in December, refinancing of external indebtedness of major Russian companies; in November, endorsement of a package of laws for reduction of tax burden, changes in tax charge and improvement of tax administration; since November, enactment of a set of legal acts related to changes in rates of custom duties.
the largest systemically important companies and enterprises in the defence-industrial sector. What is most important, a gap opened up between the adoption of legal acts and the implementation of related measures, creating the impression that ‘there are many measures, but still no results’\(^8\). This possibly provided a stronger reason to design additional measures. So, arrangements for individual industries (sectors) and policy directions came in the mode of racing waves. By March 2009, the total set of anti-crisis measures appeared mixed and inconsistent. At the same time, it may be said that in its many aspects, the anti-crisis program helped accelerate a number of strategic policies that had been planned earlier, particularly in corporate law, the support of small and middle-sized enterprises, and the improvement of tax administration.

In this connection, we considered it important to reconstruct the tasks of anti-crisis policy from the point of view of composition and features of the measures in question (see Appendix).

On the basis of our analysis, we can point out that the anti-crisis measures are centred on finding solutions to the following problems:

(1) Expansion of access to financial resources (direct lending by government-affiliated banks and financial institutions for development, and the injection of public funds into these institutions; subsidizing interest rates and giving government guarantees of interest in order to provide incentives for private credit; giving recommendations to banks about lending; issuing shares and bonds and raising public funds to purchase these assets directly from the market by designated organizations).

(2) Reduction of the burden on businesses (lower tax burden, lower rates of customs duties on exports, lower administrative burden).

(3) Easing of negative social consequences of the crisis and development of labour market (higher unemployment benefits, co-financing of regional employment programs\(^9\), and limitation on foreign labour).

(4) Incentives for the expansion of domestic demand (government procurements, advances and preferences for domestic producers; procurements and investment programs of natural monopolists; leasing; customs protection and subsidized consumer loans).

(5) Support of small and middle-sized enterprises (co-financing of regional programs for development of small and middle-sized businesses\(^10\), programs of lending from Vneshekonombank, the Bank for Development and Foreign Economic Affairs) and enhancement of competition.

We would underline that a number of measures can hardly be related to a single designated task. For instance, some of the anti-crisis measures enhancing social welfare can also be regarded as expanding domestic demand for the production of certain industries and promoting enterprise activity.

Certainly, this arranging of priorities by the number of relevant measures is highly relative, taking into account that the appropriated resources are disproportionate in principle, and the scope of coverage of the economy by concrete measures is different. The issue of the redistribution of resources appropriated for the design and implementation of the anti-crisis measures is also very

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\(^8\) At present, measures are under preparation to improve energy efficiency, encourage innovations, and make further changes in taxation.

\(^9\) Includes different lines; the following are designated as priority lines: creation of temporary jobs (public works, on-the-job training), retraining of those who are likely to lose their jobs, assistance in moving to new places of work, support of self-employment and of small businesses.

\(^10\) Includes a large number of lines; the following are priority ones: subsidies to starting businesses, expansion of microcredit, development of a system of guarantee funds and subsidizing of lending rates.
important, but here our evaluations are far from being exact, and are of an exceptionally demonstrative nature for a number of reasons.

### Box 1. Some issues related to the redistribution of resources

Problems and deviations in the estimates arise for the following reasons:

- Many measures are “non-monetary”, such as the lowering of administrative barriers, so that their effect on the redistribution of resources is hard to estimate;
- We failed to find any official estimation for some measures that will undoubtedly involve a substantial redistribution of resources (changes in tariffs for services of natural monopolists; lending to the real economy by banks that have received government aid);
- Assessments of fiscal losses from tax measures are extremely unreliable and tend to change a great deal in the course of time (for instance, a shorter monitoring period for the calculation of customs duty rates on oil exports had a significant effect when world prices went down; the estimate of losses from lowered taxation of profits turned out to be grossly overstated because the tax base dwindled; the assessment of losses from granting regions the right to determine tax rates under a simplified taxation scheme basically depends on how widely and how long this option was used by the regions);
- Besides federal fiscal expenditures, substantial resources are redistributed by state-owned financial institutions for development and by specialized banks; a number of measures are realized on conditions of sharing financial responsibility with the regions, which involves the question of whether these resources should be taken into account or not;
- A sizeable redistribution of resources was made in the fourth quarter of 2008, which involves the question of demarcation with 2009;
- Those measures that include official estimates of the resources in question (fiscal; some related to taxation and some to customs duties on exports) can be correlated with several groups in different types of classifications;
- We consider only increases in the lines of resource provision under the anti-crisis program, although, naturally, these are followed with decreases in some lines.

In general, we estimate the total volume of additional resources, according to existing assessments of the cost of anti-crisis measures designed for the real economy, at 2.1-2.5 trillion roubles for the period October 2008 to December 2009.\textsuperscript{11} Firstly, these measures are aimed at providing wider access of entities in the real economy to financial resources (1.1-1.2 trillion roubles\textsuperscript{12}); secondly, they are aimed at lowering the burden carried by the businesses (fiscal losses about 500-700 billion roubles); thirdly, they are aimed at social welfare and related to the expansion of consumer demand.

\textsuperscript{11} We note that our quantitative estimates differ slightly from those of the volumes of tax and fiscal anti-crisis measures and their distribution among the lines of support that are given in the World Bank Report [World Bank 2009, p. 9-11]. This disparity is due to some differences in methodology – in particular, we analysed the announced measures in detail and took their content into account in their classification. Nevertheless, our conclusions are the same in qualitative terms.

\textsuperscript{12} Reimbursement of external debts of the largest Russian companies by the Vneshekonombank in October-December 2008 is included, amounting to about $11.5 billion, along with state guarantees for enterprise borrowings in 2009 amounting to 300 billion roubles.
and to supporting starting entrepreneurs (250-300 billion roubles, and a further 180-230 billion roubles), and finally they are aimed at the support of SMEs (60-90 billion roubles).13

This does not mean that there are no significant measures to be taken for the fulfilment of other tasks. We believe that a number of other measures are very important from the point of view of the scale of their effect on the real economy, such as the imposition of ceilings on the tariffs of natural monopolies, accurate assessment of their investment programs, recommendations to banks about lending to industries in the real economy and controlling the banks that have obtained public support. However, these measures are the most opaque ones for assessment as policy instruments.

We note that the main emphasis of the anti-crisis program is on incentives for lending to the real economy; the share of relevant measures is about a half of the total resources in the anti-crisis package. Another quarter of the resources is for reducing tax burdens. Measures for support of domestic demand (no more than 10% of total resources in the anti-crisis package) look quite scanty against this background. It can be seen that the “anti-crisis package” contains a very limited range of export incentives, primarily, those aimed at promotion of high tech exports, and few provisions are made for a competitive environment 14(excluding those designed to support SMEs). There are extremely few incentives for innovative activities and for better performance by natural monopolies and large state-owned companies, and no measures are being taken to attract foreign investors and to develop special economic zones.

5 Main beneficiaries of the anti-crisis measures

To identify the main beneficiaries of the realization of the policy measures, we can apply several different dimensions. Comparing the benefits gained by business scale and the industrial affiliation of companies is the classical approach.

According to expert assessments, the majority of measures are centered on the support of large-scale companies. In principle, most measures have no formal limitations for middle-sized enterprises, but the established order and procedures of decision-making give preferences to big businesses. According to expert assessments, half of all measures are addressed to the interests (problems) of super-large and large corporations, and these account for 60% of total resources in the anti-crisis package; and about a third of the measures is intended for support of small businesses, but their aggregate weight in total resources is just only 5% of all measures assigned for their support.

This is partly due to the priorities of the anti-crisis policy, which focus on highly-concentrated industrial sectors and on the largest corporations. What is also important is that a number of recipients of selective support are enterprises forming company towns (AvtoVAZ, KaMaz and other). Another important factor is that big businesses have direct access to different levels of legislation and public administration and so have more facilities for lobbying for their interests.

Some people maintain that supporting large companies allows channelling the benefits down through links of co-operation. However, we believe that this is possible mainly in industries with rather rigid vertical organizational structures (such as the defence-industrial complex). At the same

13 Since some measures were related to more than one task, our sum of assessments according to the appropriated tasks is slightly higher than the total sum.

14 Here we can mention the importance of the Program for Development of Competition in the Russian Federation, which was approved by the Government on February 26, 2009, but not yet transformed into practical measures.
time, the losers are middle-sized companies in sectors with horizontal organization and in new sectors that have as yet few or no super-large companies.

In principle, a substantial part of the measures are claimed to be aimed at the development of SMEs, but in reality they affect mainly micro-enterprises and small businesses, and provide practically no incentives to small companies for expansion. As a result, middle-size companies (which produce the bulk of output in a number of industries) are at a disadvantage because they are not entitled to general assistance aimed at small businesses or to selective support aimed at large corporations. In our opinion, there are only two important systemic arrangements that do not discriminate against middle-sized businesses: reduction in profit tax rates and the introduction of a 30%-increase in depreciation premiums, and the positive effects of these measures are diminishing rapidly as the crisis becomes more severe.

In general, the anti-crisis measures are concentrated on the margins: big businesses and micro-businesses, in terms of quantity, as well as in terms of the redistribution of resources required for their accomplishment.

Enterprises that are involved in many industrial sectors are recipients of the anti-crisis measures. However, though these look fairly diversified, many industries get little or no special assistance. We refer to chemicals, logging and woodworking, light and food industry, building materials, and some others.

Judging by the quantity of measures, industry-wise priorities can be seen quite easily: automobiles and agricultural machinery, the defence-industrial complex, agribusiness, and housing construction. The set of measures addressed at automobiles and agricultural machinery is distinguished by a wide variety of tools. Judging not only by the quantity of measures but also by the scale of resources involved, the oil and gas sector is certainly one of the industry-wise priorities, because the relevant enterprises will win an estimated 200-250 billion roubles from lowered burden. Direct and indirect support of automobiles and agricultural machinery will “weigh” 190-200 billion roubles, and that of the defence-industrial complex, about 180 billion roubles.

In general, the main beneficiaries of the anti-crisis measures are the traditional industrial sectors, and the most vulnerable ones, and the measures are chiefly aimed at compensating for the losses of larger companies. We believe it is important that the majority of measures with substantial anti-crisis effects are of a compensatory nature (they alleviate the after-effects of the crisis). However, there are practically no measures to encourage enterprises to undertake active tasks of their own (technological modernization, product diversification, opening of new markets, etc.). The importance of assistance to the most vulnerable sectors is understandable, but the impression one gets is that there is a shortage of measures that could ensure the conditions for new dynamic sectors and support the growth of middle-sizes companies.

15 Perhaps for this reason, these measures are applicable on a limited scale to logging and woodworking, or to light and food industries which have no leading companies able to lift the whole chains of co-operation.

16 Nevertheless, measures for support of SMEs are very important for the labor market even in their present shape.

17 In the late 2008, the official estimation of fiscal losses from a reduction in profits taxation amounted to 400-500 billion roubles, and in March 2008, already to 294 billion roubles. Estimated fiscal losses from the 30%-increase in depreciation premium declined from 150 billion roubles to 50.4 billion roubles.

18 Many measures claimed to address social welfare are related to creation (support) of demand for housing, and so housing construction is a significant beneficiary.

19 In the case of automobile enterprises, their share of state guarantees (70 billion roubles) is taken into account, as well as assistance to floatation of their bonds (60 billion roubles); in the case of the defence-industrial complex, granting of state guarantees to defence enterprises is taken into account (100 billion roubles).
6 Main tools used for the implementation of anti-crisis measures

We believe that before assessing the anti-crisis measures, it is important to look at these measures in the context of general economic policy or industrial policy.\(^{20}\)

We attribute to economic policy those measures that affect all economic agents (not necessarily equally). In general, they produce either changes in general tax treatment, or changes in the rules of the game in all markets or in the majority of markets, and also affect an indeterminate range of agents. We attribute to industrial policy measures that provide support to individual enterprises (selective measures), to groups of enterprises in a single sector, and to individual sectors of the economy.\(^{21}\)

Following this classification we find that although measures attributed to general economic policy are fewer, their number is comparable to those attributed to industrial policy (41% compared with 55% of the total number of measures). However, industrial policy has a much heavier weight in terms of resource endowment. According to our estimates, in 2009, economic policy measures (primarily, lower taxation of profits and depreciation premiums) will cost 600 to 900 billion roubles. Meanwhile, industrial policy (in particular, a rise in the non-taxable minimum of tax on the mining of minerals; support of housing construction in a number of ways; packages designed to assist individual industries, and subsidies and state guarantees) will cost approximately 1.4-1.7 billion roubles.\(^{22}\)

Taking a look at the tools used by the government to implement some anti-crisis measure, we see that the spectrum is wide and includes almost the entire set of levers at hand, from tax policy to administrative and organizational measures. However, the most frequently used tools can be classified into four groups: institutional changes (in rules and regulations); changes in taxation; facilitation of access to financial resources, and direct and indirect encouragement of demand for domestic production. These four groups of tools account for about 80% of the total number of measures.\(^{23}\) Notice that two thirds of measures attributed to industrial policy are instruments facilitating access to financial resources and encouraging demand in specific markets, while about a half of the measures attributed to general economic policy are the ones of an institutional nature.

Now let us consider the tools that are used to put anti-crisis measures into practice from the point of view of the main types of government policies. In this context, the most widely used groups of instruments are:

1. Tax policy (lowering of certain tax rates; changes in the tax bases);
   Tax policies are mostly related to novelties in the taxation of profits. The effects of these measures, such as lower taxation of profits and higher depreciation premiums, tend to decrease along with deterioration in the financial health of enterprises, diminishing returns,

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\(^{20}\) In a number of cases, labelling of the measures as belonging to a particular policy line is difficult because both producers in the real economy and households can be their beneficiaries. In these cases, we classified a measure by expertise, finding their main beneficiary. For example, we can refer to subsidizing interest rates on consumer loans for purchase of domestically produced automobiles. Formally, it is a benefit for final consumers who can save money, but directly, it is an incentive for expansion of demand for products of a particular industry.

\(^{21}\) Industrial policy measures refer not only strictly to mining and manufacturing (enterprises and/or industries), but to other real economy sectors – agriculture, transportation, construction etc.

\(^{22}\) In the cost of industrial policy, some “conditional” costs are also included – such as state guarantees for lending (300 billion roubles), which are unlikely to be completely used.

\(^{23}\) This classification is informal and based on substantive expert estimations. For instance, changes in leasing rules and an increase in the market value of Rosagroleasing Co. formally looks like facilitation of access of agricultural enterprises to financial resources; but in our classification, it is included in creation of demand because we consider this goal as the principal one.
rising uncertainty about business conditions and soaring prices of imported technological equipment.

(2) Customs policies (multiple changes in customs duty rates in different directions); The activity of the government has increased a great deal in changing customs duty rates \(^{24}\), above all, import rates. To say that this is a policy of frontal customs protection against imports is incorrect, not least because decisions have been taken both on raising and lowering import rates. There are signs that the tariff schedule is becoming more individually targeted, that the list of foreign economic activities is becoming more detailed due to the addition of sub-sub-positions, and that the regulations are addressed to the interests of certain big corporations and some large-scale projects rather than to the relevant markets.

(3) Public procurements (their timely placement, larger advances, extension of rules for public procurements to purchases of natural monopolists and state-owned companies, introduction of preferences for purchases of Russian-made goods); Measures addressed to public procurements for the expansion of demand lag far behind the schedule of other measures. As a result, their effectiveness in preventing the spread of the crisis in the economy has become much weaker. So far, problems of larger advances and guarantees for advances are unresolved. Measures for the extension of rules for public procurements to purchases of natural monopolies have not yet been introduced, although they give the impression of being quite substantial (if they are supplemented with efforts to improve the management of these companies). The development of leasing, to which little attention was paid earlier, deserves a generally positive assessment.

(4) Fiscal measures (subsidizing of interest rates; state guarantees; injections of capital in specialized banks and financial institutions for development in order to increase their loans to the real economy, and replenishment of the capital of individual systemically important enterprises).

These measures, which are the most widespread, are mainly aimed at expanding loans to companies. A special emphasis is placed on subsidizing interest rates and state guarantees for loans. Efforts are also being made to create facilities for the issuance of infrastructure corporate bonds and for progress in the regulation of this area.

Some anti-crisis measures designed by the government of the Russian Federation assume that regional governments will take an active role in their adaptation to regional conditions and in their practical implementation. These measures include:

- Granting the right to differentiate rate to some extent in the simplified taxation scheme,
- Expansion of regional quotas for limiting the size of the foreign workforce;
- Co-financing of programs for renewing municipal transport pools;
- Extension of the requirement to place some orders among SMEs to municipal contracts;
- Co-financing of regional employment programs;
- Support of programs for the development of SMEs.

In our opinion, the measures that are aimed at supporting programs for employment activity and programs for the development of SMEs require an energetic and reasonable participation of regions, because these programs involve a large number of different mechanisms with some significant innovations. The newly-established rules give regions great flexibility and many opportunities to

\(^{24}\) From November 2008 to February 2009, the Federal Government passed 23 resolutions on changes in customs duty rates (of which, 17 established temporary rates for nine months), and in the period November 2007 to February 2008, 14 resolutions on changes in customs duty rates were passed.
vary the content of these programs and to emphasise some of their components according to the situation. The effect of these measures will mostly depend on the reasonable actions of local authorities. This will require monitoring the results, their inter-regional comparisons, and rewards for best practices.

Concerning ways of distributing benefits from achievements among economic agents we can provisionally draw attention to three groups of tools in practice:

1. Selective tools (choice of individual enterprises and individually-tailored decisions according to many criteria that are hard to formalize);
2. Competitive tools (competitive bidding with clear criteria for selection and access);
3. Systemic tools (all enterprises, or those that meet certain size-of-product-line requirements, receive benefits).

As our analysis has demonstrated, a half of all measures under our consideration can be attributed to systemic ones; 20% require competitive bidding, providing that economic agents meet formal criteria; and 30% are selective ones. At the same time, selective measures lead in the anti-crisis package in terms of volume of resources allowed for redistribution (47%). The reason is that the anti-crisis policy focuses on large and super-large corporations, which involves a great number of discretionary decisions, increases vulnerability to pressures from various vested interests, and intensifies lobbying for the additional funding of selective measures.

In principle, selective measures are quite important in crisis situations, but not on this massive scale and not with such a great variety of instruments. Some of the measures relating to changes in customs duty rates could be regarded as systemic ones, but are actually used as selective ones, because they are taken to meet the needs of individual economic agents.

The role of competitive measures is generally on the decline. Expansion of outlays for selective measures involves an extensive search for additional resources at the cost of reduced expenditure on target fiscal programs. The role and place of such programs in crisis conditions are still unforeseen. As a result, lobbying will probably move from programs (while the formation of new programs under existing rules is rather costly) to expansion of selective measures and to their additional funding. Consequently, selective measures can be, for objective reasons, extended to enterprises that fail to wait for procurements.

The systemic measures, which have already been taken, show declining efficiency and orientation towards compensation of losses. They are not aimed at the encouragement of positive results (company growth, opening of new markets, including export markets, effort to attract foreign investments, increase in energy efficiency).

Thus we notice a certain imbalance in favour of selective measures, and, as long as the negative influence of the crisis grows, this bias may strengthen. To a certain extent, this is the result of the absence of a well-developed set of systemic instruments for industrial policy.

At the same time, some of the measures that at present are actually being used as the selected ones (for instance, subsidized interest rates, state guarantees) could be transformed into competitive measures. We also believe that it is important to increase expenditure on active measures for the promotion of employment and support of SMEs, but in mandatory combination with a basic improvement in the monitoring of results and the development of tools for the dissemination of best practices.
7 Risks involved in implementation

We have already mentioned that there are no measures that can be realized without any risks; but it is essential to define the risks related to each measure and to seek ways (mechanisms) to minimize them.

The most frequently mentioned negative outcome was deterioration in competitive environment (46% of total measures under consideration). Such conclusions were related not only to enactment of some protectionist customs regulations or preferential treatment of domestic producers, but also to strong distortions of the competitive environment in the cases of different categories of Russian business receiving unequal treatment, particularly in their access to government support.

As a rule, “strong” tactical measures have a difficult problem of “exit” when a measure that was declared as a tentative one either has no built-in criteria for termination or its abolition would create risks and increase further uncertainty in the changing environment. On many occasions, cancellation of temporary measures would be troublesome because of powerfully lobbying for their preservation. The implementation of anti-crisis measures is taking two directions (in terms of choice of instruments):

1. Efforts to scale-up resource endowment for selected instruments;
2. The creation of new instruments.

Both ways have their advantages and costs (risks). In the first case, the measure can be carried out swiftly, as there is a routine system of administration, but in crisis conditions, an instrument may happen to be insufficiently effective and (or) reproduce unreasonable limitations (see Box 2).

Box 2. Problems with depreciation rules and interest rate subsidies to exporters

We can give examples such as the increase in the depreciation premium and partial subsidizing of interest rates on loans to exporters of products with a high level of processing. The depreciation premium works efficiently during upswings, but has a very limited effect during downturns when enterprise profits fall and investment activity weakens because imported technological equipment becomes very expensive. As a result, the main benefits of this measure tend to go to large companies whose investment programs are “protected”, natural monopolies in the first place.

The choice of partially subsidizing interest rates on loans to exporters was made because this is perhaps the only workable instrument to support high-tech exports. However, it contains (and contained formerly) barriers for new exporters (a three year-long history is required to be entitled to this instrument). Besides, its compensatory effect was increased by a partial reimbursement of interest paid for borrowings after 2005.

In the second case, a larger anti-crisis effect can be hoped for, but the risks become too great: hazards related to overrated expectations, inaccurate initial tuning, delays in putting new instruments into practice, and post-crisis “exit problems” (see Box 3).
Box 3. Support to car industry

Examples: granting support to starting entrepreneurs and partial compensation of interest rates to individuals who borrow to purchase domestically produced automobiles. We believe that granting support to starting entrepreneurs is one of the “breakup” measures, but the essentials here are the conditions of their implementation and management under regional programs, efforts to follow up the real effects and an accurate definition of affordable expenditures on subsidies. What is also fundamental is the risk that potential positive effects were overstated at the start, so that this cutting-edge instrument will be regarded with scepticism. Partial subsidizing of interest rates on lending to individuals is one of the few measures aimed at the creation of consumer demand. Note that initially it was claimed to be a purely selective tool for the creation of demand for products of a single motor car factory, but it was expanded to cover a fairly wide range of automobiles made in Russia, including global brands. However, it is quite unclear how this will actually meet the needs of consumers.

Sometimes the risk of inaccurate initial tuning of new instruments is further intensified because the preparation of different lists that are endorsed by the government’s agencies is done without clear procedures for discussion and reconciliation of various interests, and there are no broad criteria for preparing such lists.

Box 4. Exemption from VAT of imports of technological equipment that has no counterpart in domestic production

Exemption from VAT of imports of “technological equipment (including components and spare parts) that has no counterpart in domestic production in accordance with the list approved by the Government of the Russian Federation” is proclaimed as a measure for the encouragement of technological modernization. So far, there is neither any information about a document that approves this list, nor any announcement about when it is to be accepted (the regulation will be enforced only after this list is approved), nor about the criteria to be used in the preparation of the list. At this stage, this measure looks completely opaque. However, this measure is potentially critical because the VAT on imported equipment is often much higher than customs duties.

Obviously, in order to ensure that this measure will produce real systemic incentives for the economy, the criteria and principles for compilation of the list should be transparently specified. If not, there will be no practical way of creating a sufficiently stable and understandable system of incentives and signals for enterprises. We realize that elaboration of a universal list of equipment that could impartially show the sense of this measure is an extremely difficult task. To this end, criteria should be established for identification of equipment counterparts, which is always difficult. For instance, there is the problem of a variety of criteria to choose from: technical parameters alone, generic features or the commercial interchangeability of goods.

We believe that the risk of administrative failure, which must be taken into account when a measure is designed, is highly important. This risk is higher for those measures which require that decisions on rendering support should be made by skilled public servants (or commissions) and which require competence in economic and even technical matters and/or availability of information that may be given only by the recipient and can hardly be verified, etc. Sometimes, the high risks of administration are related not so much to the difficulty of the decision per se, but to the large number of individual decisions, which can either overload the officers of relevant agencies and
bring decision-making to a standstill, or delay this process. If risks of this type are high, it may be better to change the design of the measure and simplify the procedures and criteria used for decision-making.

The analysis of consolidated assessments made by experts shows that the risks of administrative failure are considered to be high for 42% of all measures; moderate for 21%, and low for 37%. Other things equal, low risks are more typical of measures with routine administrative procedures (payment of unemployment allowances, fixation of tariffs) or of tax policies that are simple in terms of design (such as lowering of tax rate on profits). Concerning the correlation between administrative failures and instruments in use, we note that means for the expansion of demand (in the first place, government and municipal procurements) and means for the stimulation of lending (including subsidized interest rates and state guarantees) are most liable to such failures.

The risk of administrative failure is mostly determined by the type of instrument in use (selective, competitive, or systemic). Systemic measures entail the lowest risks of administering (less than 30% of them are highly risky). Strange as it may seem, measures involving competitive methods of selection are the most risky ones (66%), while only 46% of selective measures are considered to be very risky.

Note that measures that have strong anti-crisis effects more often bear higher risk of administrative failure than measures with relatively weak effects. High risks of mis-administration are typical of 30% of all measures with weak effects, 43% of all measures with moderate effects. Among the measures with strong anti-crisis effects, 57% carry high risks of administrative failure.

We would emphasize that the presence of high risk of administrative failure does not mean that the measure in question is unproductive. This matter must be taken into account, and decision-making must be subjected to more carefully elaborated regulations (criteria, terms, requirements of decision makers, and so on). Typically, many measures involve risks of insufficient transparency of results, and in some cases, the risk that the decision-making procedures will have low transparency.

8 Main problems and contradictions of the anti-crisis policy

In this section, we summarize some basic problems, which were revealed as a result of the expert assessment of a wide range of measures taken by the government of the Russian Federation in order to ease the consequences of the economic crisis in 2008-2009. Although these assessments are based on the working materials submitted by the experts, certain conclusions may not reflect the point of view of the entire group of experts, but present the opinions of the authors. Nevertheless, we hope that our analytical work can become a reason for constructive changes, first of all, in the procedures of elaboration of new measures, in the optimization of the measures under way and in further monitoring of their effects.

8.1 Some fundamental reasons why the effects of the anti-crisis policy have grown weaker

In crisis conditions, the need to take prompt and radical measures that often go counter to the accepted logic of strategic decisions and former principles of economic policy is a serious test for any system of government. This is clearly demonstrated by the present practice of invention and acceptance of anti-crisis measures both in the EU countries and in the United States where decision-making has a long history of correction and tuning. This is an all the more serious trial for the
Russian government because in this country, a systemic approach to the elaboration of economic policy was still unaccomplished before the crisis, so that making decisions and especially controlling their results in practice was never efficient enough.

We believe that a whole range of basic problems has been revealed because the system of decision-making suffered a rapidly increasing workload. These problems were acknowledged earlier but until the present made no serious negative impact on the quality of governing. In our opinion, analyzing the emerging problems of the anti-crisis policy provides a good occasion to have a look at the whole system of taking economic decisions, and possibly, to find some ways of reforming it. This will help improve the quality of governing and administration not only in times of crisis but also afterwards.

Below, we draw attention only to those basic problems of governing that predetermined many shortfalls in the anti-crisis actions of the Government since October 2008 till March 2009.

*Lack of powerful interest groups that are oriented towards modernization, and the absence of effective ways to communicate with them.* Failure of the authorities to create a “coalition for modernization” in the years of economic growth and to set up powerful groups of interests around the goals of renewal is perhaps the most fundamental problem of the design and implementation of economic policy in Russia. Many attempts were made to build mechanisms for interaction or, at least, for “reciprocal informing” between the authorities, the business community and society (deliberative bodies, public chambers, forums, efforts to involve representatives of business into discussions about agendas and concrete decisions), but no efficient system for the coordination of interests and the elaboration of concerted decisions as established. Communication with the business community was often limited to a narrow circle of large and super-large corporations; general distrust between the authorities and businesses continued, and a mechanism for private-public partnership, which had been declared a priority, remained uncalled for. It would be unfair to blame only the state for the failure to build such a coalition. Poor communications efficiency was largely the fault of weak and inefficient business associations, and underdeveloped institutions and organizations of civil society. Nevertheless, the very fact that the government did not fully recognize its own need for such a dialogue is the main reason why many initiatives for modernization were slowed down and stalled, and offers to develop new instruments for economic policy were useless.

*The limited potential of the administrative system.* Even before the crisis arose, the public administration could hardly cope with its workload. Because anti-crisis measures are multiple and mostly selective (so that they need reliance on the operations of different inter-agency groups), the potential for public administration is limited, and facilities for designing, discussing and putting into practice an anti-crisis policy which is both integral and divided into echelons are in short supply. For this reason, the anti-crisis policy is open to the risks of lobbying and the making opportunistic decisions. This drawback is becoming a serious problem against the inconsistent and fragmented informational background of the anti-crisis policy, when the government is failing to distinctly advocate the concrete measures to be enacted.

*The range of tools for governmental influence is limited.* When the crisis broke out, the government had a limited range of tools to influence the economy (federal target programs, public procurement orders, taxes, tariffs etc.). Many of them are not flexible enough and have no devices for the regular optimization, improvement and transfer of best practices. When financial resources were abundant, the state had few good reasons to make them more effective and transparent and to create a system for high-quality monitoring the state of affairs by industry and sector (especially outside the area of government’s influence). These defects were slightly moderated because before the crisis there was enough time for the gradual tuning of certain tools, for their better administering and for learning to use them more skillfully first and foremost paying attention to the reactions of the business community. At that time, the public administration could concentrate its efforts on the
enactment of regulations rather than on monitoring their practical effects. In crisis time, it is impossible and even dangerous to tune the tools in the manner of “let us first act, then watch, and then react”, especially because systemic mechanisms of interaction between the state and the business community have become much weaker.

We believe that reserves for making the anti-crisis policy more effective can be found not so much in putting forward one new proposal after another but rather in improving the tools for their implementation. Some arrangements, even conceptually correct and progressive ones, happen to lose their clout because their tools are wrong, or their tuning is inaccurate, and because their procedures are inexact and non-transparent, poorly administered and formally monitored.

8.2 Special characteristics of the generation and implementation of the anti-crisis policy

We are aware of the fact that in the dire economic situation of autumn 2008, the government of the Russian Federation was obliged to take many measures in a hurry, in response to the arising threats, often having incomplete information about evolving affairs and no time for a careful evaluation of the measures it was taking and their possible aftereffects. The list of these measures is partly a reflection of the lobbying activities of certain companies or industries, and partly a result of “a surge of anti-crisis creativity” in ministries and agencies.

Hastily-declared measures in many cases were not, and could not be supported with carefully-designed legislation to ensure that these declarations could be put into practice. For this reason, actual execution lagged far behind the declared time limits. As a result, the preemptive anti-crisis potential of a number of measures remained unused. We have to recognize that on many occasions, the government overestimated its real administrative ability to enact the declared measures.

The need to generate anti-crisis measures immediately had another important result: their initiation and provision was opaque, and the course of their accomplishment was non-transparent. Obviously, the losses and risks from insufficient transparency tend to increase many times during a crisis. We can describe this as counteracting asymmetric information.

(1) The government is not familiar enough with the current situation in Russian industries and their prospects. Consulting services that were helpful earlier are now working poorly. They give a better view of the state of large and super-large corporations, which are presented better, but depict the potential of medium-sized companies and new industries in an extremely fragmented way. This situation involves higher risks of lobbying for selective decisions and gives the entire anti-crisis program a bias towards the traditional economy;

(2) In turn, the business community and society are ill-informed about the sequence of the main steps of the anti-crisis program and about how the declared measures work in practice. As a result, their motivational power is lost, giving way to trading in insider information, so that the top echelons of officials get no adequate target information from the business community and society about the actual use and effects of the measures.

Without a doubt, there are different considerations in favour of limiting information. However, such limitations are likely to help make concrete decisions in the actual “trade” between agencies. This makes middle-level bureaucrats feel more at ease, reducing the risk of exposure of their blunders, and letting them readily declare, without good reason, that their actions have great practical possibilities. Such limitations diminish the responsibility of business associations (their
accountability to the members) and give an advantage to representatives of large and super-large corporations, who have better personal access to internal documents of decision-makers.

From the point of view of the assumed measures, the main practical emphases of the anti-crisis policy are:

- To support the fuel and energy complex for the sake of fiscal stability;
- To support the investment programs of natural monopolies in order to expand domestic investment demand, with no serious steps taken to improve their management;
- To support manufacturing in order to diversify the economy, but with the stress on selective assistance to large companies that are often uncompetitive in the global market;
- To support small firms, but with the stress not on the growth of small businesses and their transformation into middle-sized ones, but rather on increasing their number.

This, in our opinion, can produce a redistribution of resources in favour of traditional sectors; preserve an obsolete technological setup, create distortion in regulations and restrict conditions for the recovery of high economic growth after the crisis is over.

The fact that a number of measures are not coordinated with the long-term strategic goals of economic development is fraught with the danger that the system may weaken: prospects for firms will become more uncertain, conditions for fair competition will be broken, and incentives will become destructive. This applies to the measures that are taken on one occasion only, such as the injection of additional capital, or the buying-up of bonds, etc., which leave recipients and other economic agents with unjustifiable hopes that similar measures can be repeated in future. This is also true of some institutional changes that will have long-term consequences. The essentially extraordinary anti-crisis measures, which distort the natural institutional structure and substantially change the “rules of the game”, are often taken with no strict time limits or at least an indication of the conditions when their abolition will be debatable. On a number of occasions these changes have led to “traps” (inefficient equilibriums) that may require new sets of “post-crisis” measures in order to find a way out.

In our opinion, many defects that are typical of some means for directly supporting producers could be avoided with a wider set of “counter-requirements” to the recipients of state assistance. This should not be requests for fixed or controlled prices (although this can be possible if a recipient is a monopoly), but demands for modernization and improvement of competitive power. No doubt, in many cases such “counter-requirements” exist in reality, but they are also opaque and non-public.

8.3 Tendencies and dangers

(1) An expected radical decrease in the amount of resources at the government’s disposal for the anti-crisis support of the real economy will no doubt become the main tendency. This decrease will occur for natural reasons, because tax revenue and other fiscal revenues will decline. The needs for social support, first of all for the underprivileged, will grow; difficulties will arise in many regions, and inter-government transfers will have to be extended. Enterprises forming company towns will probably face new challenges.

(2) If the global crisis is prolonged (which no one can rule out), focusing on instruments for selective assistance will produce areas of “chronic distress”, which will call for more and more spending. Industry-wise priorities in the anti-crisis policy that are determined now (they are addressed to the most vulnerable sectors) have become predominant in the direct or
indirect allocation of resources through systemically important banks. This can lead to excessive concentration of public and private funds that have given to solve the problems of large companies, while more promising firms will face additional resource constraints. This approach can be acceptable only if one is sure the crisis will end soon after 2009.

(3) A prolonged crisis can turn temporary protectionist measures into constant ones and encourage interest groups seeking wider and stronger protection from foreign competition to exert powerful pressure on the government of the RF. If this practice becomes widespread, it will increase the risk of inflation and suppress final demand. This outcome is undesirable in the phase of recession as well as in the phase of revival.

(4) An extension of assistance to private businesses in exchange for a higher share of the state in equity capital can unfold another round of “creeping nationalization” without any improvement in performance. This will impose a higher responsibility on the state for everything that happens in the economy.

(5) Facing a lack of available cash for aid, the government will find a way out in withdrawals of money from institutions for development (which were established in order to achieve the ambitious goals of the technological modernization of the Russian economy). The government will exert fiscal and administrative pressure on “affluent” enterprises that have managed to adapt themselves to new conditions and survived without any public assistance. Moreover, a decrease in resources for the anti-crisis policy will expand the range of non-monetary (regulatory) measures.

(6) If the federal authorities are unable to support regional economies in distress, the regions will most likely unfold unauthorized anti-crisis activities of their own, relying on an abuse of their administrative power.

We have indicated the negative effects that may arise already in 2009 if approaches to the design and implementation of anti-crisis measures are not reconsidered, and if there is no coherent program which will not only alleviate the recession and compensate for its negative effects but will also offer real ways for modernization (the development of new industries, human capital and innovations). In this context, we note that the Anti-Crisis Program for 2009 of the government of the Russian Federation, which has been presented for discussion, is so far only an attempt to organize all measures that are under way or were declared earlier. Nevertheless, the compilation of this Program and its presentation to the public are important.

9 Policy implications

We do not claim to know the secret of how to carry out anti-crisis measures successfully. As we have already mentioned, these measures can be elaborated only in a dialogue between the government, the business community and society. Nevertheless, in this paper, considering the decisions that have already been made by the Russian government, we have tried to understand their possible short-term and long-term outcome and to assess the costs and risks of putting them into practice. In addition to the qualitative conclusions presented in the previous section, this kind of analysis has enabled us to formulate some definite ways of improving the mechanisms of their implementation.

For a start, it would be reasonable to provide better rationale for the procedures of the generation and implementation of the anti-crisis policy and make them more transparent.
First, an initiated and, what is more, an accepted measure must be declared clearly in relation to its ultimate goal. It must contain assessments of its main beneficiaries, its expected effects and possible problems (risks).

Second, the concrete design of a measure, including the ways of giving support, must be made for the projected enactment (conceptions of legislative documents), in consultation with businesses and concerned social organizations. It is important that business associations and social organizations should request the publication of official assessments.

Third, schedules must be set for putting each measure into practice, with test points for controlling them together with the business community and society.

Fourth, all enacted legislation on anti-crisis measures must undergo mandatory tests for adequate and strict requirements of disclosure of information and transparency of decisions.

The availability of such predetermined test points and an appropriate level of disclosure of information will make the monitoring of the implementation of anti-crisis measures feasible and will enable the opening of feedback channels, which will permit decisions to be made on correction or abrogation of relevant measures, if necessary.

We believe that the range of instruments for the anti-crisis policy must be gradually enlarged. With this end in view, the laws and regulations in force must be systematically improved to facilitate a more flexible reaction to coming challenges. In a recession, we perhaps cannot avoid “calling in the fire brigades” in order to alleviate social and economic problems. Nevertheless, we must urgently begin to design in advance the measures that will be needed by the final phase of the crisis. These measures must include bills, prepared beforehand and ready to be enacted without delay, for the abolition (at once or step-by-step) of the measures that were in force during the recession but that will then be inconsistent with national strategic interests. Among others, this refers to the problem of “how to exit from nationalization”.

Special attention should be paid to an improvement in performance of state-owned companies and natural monopolies, along with a revision of their development strategies that must comply with national needs, both during the recession and as the economy rebounds. This segment of the economy is, for the most part, the responsibility of the government, and its impact on the rest of the national economy is very strong. We believe that in the preparation of measures that will support certain industries or enterprises, inefficient substitutions must be minimized. Social policy tasks, such as support of the unemployed and the creation of new jobs, must not be replaced by artificial support of extra demand for hopelessly poor products. Support of demand can be justified only in cases where there is a need to maintain not only jobs but also facilities and skilled personnel. This is reasonable either when it is certain that these resources will remain in demand after the crisis is over, or when this policy is justified for national security reasons.

Finally, it is important to define and begin to put into practice, while the recession is still ongoing, measures that could enable us to shift from protection of “the most vulnerable” economic agents to support of “new engines of growth”, which can greatly accelerate the post-crisis economic revival.

Acknowledgements

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## Appendix

Major anti-crisis measures: volumes and potential effect on real economy

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<td>Lending by Vneshekonombank to Russian borrowers for refinancing their foreign loans against the pledge of assets in Russian territory</td>
<td>+</td>
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<td>$11.5 billion*</td>
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<td>Capitalization of the Agency for Housing Mortgage for expansion of mortgage</td>
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<td>Capitalization of the Russian Agricultural Bank for expansion of financing of agricultural and grain market interventions</td>
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<td>Changes in the Vneshekonombank Memorandum on financial policy in order to finance large-scale projects in agribusiness</td>
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<td>60*</td>
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<td>Subsidies for repayment of borrowings by certain airline companies in order to support their operations</td>
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<td>Credit guarantees to organizations for operating in the main areas of productive activity and capital investment</td>
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<td>Credit guarantees to enterprises in the defence-industrial complex</td>
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<td>Subsidizing interest rates on certain types of investment and short-term borrowings in agribusiness</td>
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<td>Fiscal subsidies to enterprises in the defence-industrial complex for repayment of interest on borrowings made in 2008-2009, including borrowings for replenishment of working capital</td>
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<td>Expansion of subsidies to enterprises in the defence-industrial complex for prevention of bankruptcies</td>
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<td>Subsidies to enterprises in the defence-industrial complex for covering of costs or lost revenues on state-defence orders and government procurements</td>
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<td>Expansion of subsidies to Russian exporters of industrial goods for partial reimbursement of interest on their borrowings</td>
<td>+</td>
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<td>6*</td>
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<tr>
<td>Subsidies to enterprises in agricultural machinery, automobiles and transportation machinery for reimbursement of interest on borrowings made in 2008-2009 and used for technological modernization</td>
<td>+</td>
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<td>Subsidizing interest rates for consumer loans, used for purchase of automobiles made in Russia</td>
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<td>Guaranteeing bond issue made by Russian Railways Co. by the Russian Government and Vneshekonombank for financing the company’s capital investment programs</td>
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<td>Assistance for the placement of bonds issues by Russian automobile companies with a guarantee from the Russian Government</td>
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## Anti-crisis measures

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<td>Organization of additional issues of shares and bonds by certain strategically important enterprises</td>
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<td>Subsidizing interest rates on borrowings of enterprises in fisheries and fish farming</td>
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<td>Credit lines to leasing companies for Russian automobiles</td>
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<td>Guidance to commercial banks using different types of public support in allocation of their credit resources to defence enterprises, agribusiness and SMEs</td>
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<td>Recommendations to commercial banks using different types of public support for priority lending to certain industries: automobiles, agriculture machinery, air transportation, residential housing</td>
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<td>Limitation of increases in tariffs for products (or services) of natural monopolists</td>
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<tr>
<td>Reduction in profit tax rate from 24% to 20%</td>
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<td>Shortening of screening terms in calculation of customs duty rates for exports of oil</td>
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<td>Increase in depreciation of premiums for certain types of fixed assets from 10% to 30%</td>
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<td>Increase in the non-taxable minimum of tax on mining of minerals from $9 to $15 per barrel of crude oil</td>
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<tr>
<td>Reduction in the period of acknowledgement of cost of licenses for use of mineral resources to 2 years, and for calculation of profit taxes</td>
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<td>Granting tax holidays for mining of minerals in the continental shelf, in the Nenets Autonomous Area, on the Yamal Peninsula, and in Eastern Siberia</td>
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<tr>
<td>Granting of the right to establish tax rates for simplified taxation schemes in the range of 5-15% to Constituent Entities of Federation</td>
<td>+</td>
<td>+</td>
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<td>Limitation of the number of inspections of business enterprises</td>
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<td>Protection of legal entities' and individual entrepreneurs' rights during the implementation of state and municipal control (supervision)</td>
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<tr>
<td>Limitation of rates of increase in tariffs on products of natural monopolies</td>
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<td>Increase in the size of the maximum unemployment benefit to 4900 roubles, and in the period of payment, from 6 to 12 months</td>
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<td>Tax deductions for people buying or building housing will be doubled to 2 million roubles</td>
<td>+</td>
<td>+</td>
<td></td>
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<tr>
<td>Providing housing for all Second World War veterans</td>
<td>+</td>
<td>+</td>
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### Anti-crisis measures

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<tr>
<td>Enabling families who possess a government maternity capital certificate to use such money for improvement of their housing conditions ahead of standard time</td>
<td>+</td>
<td>+</td>
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<tr>
<td>Co-financing of regional employment programs</td>
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<td>+</td>
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<td>Restructuring of mortgage loans through the Agency for Housing Mortgages for persons who lost their jobs or suffer a decline in income</td>
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<td>Reduction of quotas for foreign workers</td>
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<td>Compensation (through an increase of the authorized capital) of lost revenue of Russian Railways Co. in connection with subsidized fares for students in secondary and higher education.</td>
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<td>Ensuring of bids for the 2009-2010 government procurement program in December</td>
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<td>Increased advance funding for the fulfillment of measures under federal targeted programs and the state defence order</td>
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<td>Preferential prices (from 5 to 25%) for suppliers of Russian goods under the state order</td>
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<td>Regulation of the procedure for buying the products of natural monopolies and state corporations, and for ensuring privileges for Russian producers.</td>
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<td>Increase in import customs duties on automobiles.</td>
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<td>Reduction of tariff quotas for imports of poultry and pork, substantial increase in tariffs on over-the-quota meat imports</td>
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<td>Use of the funds of the state corporation Housing and Utilities Reform Fund in 2008-2009 for the acquisition of economy-class apartments</td>
<td>+</td>
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<td>Use of federal budget funds (“Housing” Program under the Ministry of Defence) in 2008-2009 for acquisition of apartments</td>
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<td>Compensation (through an increase of authorized capital) of the Russian Railways Co. for revenues lost in connection with the slowdown in the rate of indexation of railway carriage tariffs for 2009</td>
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<td>Granting subsidies to the Russian Railways Co. to compensate losses from the transportation of new vehicles from European Russia to East Siberia and the Far East.</td>
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<td>Implementation of a program to renew pools of automobiles used by municipal authorities</td>
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<td>Increase in financing of the purchase of automobiles for the needs of federal authorities</td>
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<td>Increase in the market value of Rosagroleasing for the expansion of purchases of agricultural machines</td>
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Anti-crisis measures

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<tr>
<td>Expansion in lending to SMEs by Vneshekonombank</td>
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<td>30)</td>
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<td>Granting support to regional programs for the development of SMEs</td>
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<td>Required quotas for purchases for small and middle-sized companies will be extended to municipal procurements</td>
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<tr>
<td>Fees for connecting SMEs to small-yield power will be lowered (paid by instalments).</td>
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a) Since 2009, acceptance of new applications for refinancing external debts has been suspended
b) Initially, capitalization of the Bank was increased by 30 billion roubles, and later, by another 45 billion roubles
c) This estimate was made according to comments made by representatives of Vneshekonombank about the portfolio of projects in agribusiness appropriated for lending; at present, Vneshekonombank is reported to have plans to finance agribusiness projects for 100 billion roubles
d) The amount of subsidies provided for 2009 is 6 billion roubles; however, the increase from last year is about 3 billion roubles
e) This estimate was made in the 2008; it is possibly overstated
f) This estimate (made in the late 2008) is most likely to be overstated; so far, only 13 regions have set lowered rates under the simplified taxation scheme, in many cases with industry-wise limitations
g) Including the adopted decision on financing for programs for active employment policy measures (33.9 billion roubles) in addition to the present financing (43.7 billion roubles), and also including regional co-financing (5%), the total amount of resources is estimated at more than 80 billion roubles
h) In principle, in December 2008, a decision was made to increase the authorized capital of the Russian Railways Co. by 41.4 billion roubles. Possibly, 50 billion roubles is an additional capital injection
i) Taking regional co-financing into account, total resources will amount to 30 billion roubles
j) For 2009, the sum of 30 billion roubles was provided; the increase from last year’s level is about 20 billion roubles
k) For 2009, the sum of 10.5 billion roubles was provided; an increase from last year’s level of about 6 billion roubles
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