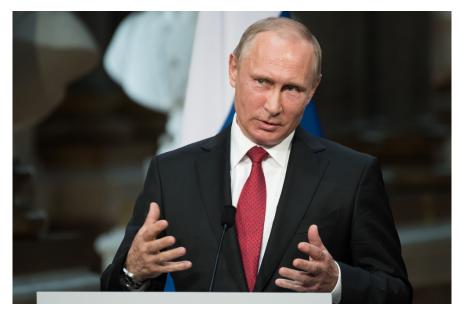


Russia

## Russia: Presidential address focuses on internal issues

The main focus of the Russian president's speech was on financial support to healthcare, education, low-income households, regions, and infrastructure projects. However, the announced social support measures are too modest in volume to affect growth and inflationary expectations. We see the speech as largely neutral for the CBR decision on Friday



Source: Shutterstock

Today, Russian President Vladimir Putin held his annual address to Parliament, where he outlined the priorities of the policies for the current year. The speech was pre-election in nature, as expected, given the Parliamentary elections due this September. The main focus of the speech was on financial support to healthcare, education, low-income households, regions, and infrastructure projects.

On Covid, the president indicated that herd immunity in Russia is targeted for this autumn, depending on the vaccination progress.

Talking about key issues, demography was outlined as the key internal challenge, given the adverse aftershocks of the 1940s and 1990s. The goal is to boost average life expectancy to 78 years by 2030.

Social support measures were, as usual, the most concrete:

- Starting 1 July, medical check ups should be made more widely available to Russians
- Support will also be extended to children and young people travelling in Russia in the summer
- Additional payments to low-income families with single parents (RUB 5,700 per month, low-income pregnant women (RUB 6,400 per month)
- 100% compensation for medical leave due to childcare for children under seven years old
- One-off payment to families with schoolchildren in mid-August, RUB 10,000 per student, including those who start school only this year
- Additional support measures to school, additional payments to some categories of teachers

The key source of financing will be the federal budget, and the Ministry of Finance has indicated that RUB 400bn will be allocated over a period of two years. According to our estimates, payouts to schoolchildren, the centerpiece of the package will total up to RUB 200bn (up to 0.2% GDP). The volume of social support initiatives is modest compared to the RUB 500bn for the full year we expected.

The regional budget will also receive support. The government has a month to develop programmes to improve the financial health of regions. The goal is to replace the market debt of the regions in excess of 25% of own income with budget loans. Also, new cheap 3% 15-year budget loans will be provided to regions for infrastructure projects totalling RUB 0.5 trillion.

The National Wealth Fund, the sovereign oil fund, could be invested into local transport and tourist infrastructure, including high-speed roads to Kazan and Yekaterinburg, and the development of resorts (ski, sun, health recreation). Infrastructure investments out of the NWF are likely to be confirmed at RUB 300-350bn per year, lowering the annual FX purchases by around \$4bn per year, offering some support to the rouble.

Large corporates are also invited to co-finance the economic recovery by channelling corporate profits (the president expects them to be at a record high this year) to local CAPEX instead of offshore dividends. Failure to comply could result in additional taxation initiatives.

Measures aimed at boosting the business and investment climate are less clear, but one positive initiative is that the government has been ordered to come up with new support measures for SMEs, including tax incentives and better access to state procurement contracts.

Another positive point is that the president slammed administrative price controls as a long-term measure (Russian CPI has recently <u>peaked</u> at 5.8% year-on-year on global agro inflation and local gasoline issues).

It is also positive that the foreign policy portion of the speech was brief and only mentioned during the second hour of the speech.

Given the modest amount of budget support and lack of loud political statements, the speech had a largely neutral effect on the local markets and is unlikely to add new data for

the upcoming Central Bank of Russia policy meeting this Friday in terms of growth prospects and inflationary risks. We <u>continue to expect</u> a 25bp hike to 4.75% as a base case, but a 50bp hike is also not out of the question (25-30% likelihood).

## Author

Dmitry Dolgin Chief Economist, CIS dmitry.dolgin@ing.de

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (**"ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.