

## 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



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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 [peaked](#) 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 [continue to expect](#) a 25bp hike to 4.75% as a base case, but a 50bp hike is also not out of the question (25-30% likelihood).

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