GAIDAR INSTITUTE FOR ECONOMIC POLICY

RUSSIAN ECONOMY IN 2021

TRENDS AND OUTLOOKS

(*Issue 43*)

Gaidar Institute Publishers
Moscow / 2022

UDC 338.1(470+571)"2021"
BBC 65.9(2Рос)"2021

R95 **Russian Economy in 2021. Trends and outlooks**. **(Issue 43)** / [V. Mau et al; scientific editing by Kudrin A.L., Doctor of sciences (economics), Radygin A.D., Doctor of sciences (economics), Sinelnikov-Murylev S.G., Doctor of sciences (economics)]; Gaidar Institute. – Moscow: Gaidar Institute Publishers, 2022. – 568 pp.: illust.

ISBN 978-5-93255-637-5

The review "Russian Economy. Trends and Outlooks" has been published by the Gaidar Institute since 1991. This is the 43th issue. This publication provides a detailed analysis of the most significant trends in the Russian economy, global trends in the social and economic development. The work contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: global economic and political challenges and national responses, economic growth and economic crisis; the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The work is based on an extensive array of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

Reviewers:
Glinskiy V.V., Doctor of sciences (economics), Professor, Department of Statistics, Novosibirsk State University of Economics and Management (NSUEM);
Tyutyunnik A.V., Doctor of sciences (economics), Business Development Director, Luxms BI.

UDC 338.1(470+571)"2021"
BBC 65.9(2Рос)"2021

ISBN 978-5-93255-637-5

Vera Barinova, Stepan Zemtsov, Yulia Tsareva

4.8. Russian small and medium-sized businesses during coronavirus crisis[1]

4.8.1. Anti-crisis support measures for SMEs

Recently, the Russian government's policy aimed at developing the small and medium-sized enterprise (SME)[2] sector has included: the implementation of a reform of control and oversight activities; simplification of registration procedures for legal entities and individual entrepreneurs; digitalization of tax authorities; introduction of a tax maneuver for IT companies; expansion of support infrastructure facilities, etc. However, the contribution of SMEs to the economy remains modest compared to developed countries,[3] and the sector's performance deteriorated over the past two years.

In 2021, the pandemic-induced harsh conditions for small businesses were: decreasing income, anti-epidemiological measures (lockdown in November, introduction of QR codes, masking regime, etc.). A considerable part of Russian small business belongs to the spheres that were among the most affected ones:[4] retail trade in non-food products, provision of household services, and public catering. The coronavirus-induced crisis is unique in the scale of the imposed restrictions, due to the high contagiousness of the new infection and its duration. The situation is accentuated by the recurrence of morbidity waves, the emergence of new strains of the virus, and, consequently, the uncertainty of the end date and unpredictability of entrepreneurial risks.

Across 2021, the authorities of many European countries (Great Britain, France, the Czech Republic, Austria, etc.)[5] reintroduced full or partial lockdown with various degree of restrictions. In Russia, in the summer of 2021, various lockdowns were put in place in some regions of the country (Moscow, St. Petersburg, Krasnodar Krai, Sevastopol, etc.), and from October 30 to November 7, 2021, presidential decree established "days off with pay for employees" to contain the spread of infection.

The governments of many countries were supporting the most affected segments of the SME sector. Developed economies allocated substantial funds aimed to support technology start-ups and creative industries, i.e. those

1 This section was written by: *Barinova V.*A., Candidate of Economic Sciences, Head of International department of Sustainable development issues studies, IAES RANEPA; Head of Innovation economy department, Gaidar Institute; *Zemtsov S.P.*, Candidate of Technical Sciences, Director of center for Economic geography and regional studies, IAES RANEPA; *Tsareva Yu.V.*, Researcher at the International department of Sustainable development issues, IAES RANEPA.

2 *Zemtsov S.P., Chepurenko* A.*Yu., Barinova V.*A., *Krasnoselskih* A.*N.* New entrepreneurship policy in Russia after the 2020 crisis // Voprosy Ekonomiki. 2020. No.10, pp. 44–67: *Barinova V., Zemtsov S., Kotsubinskiy V., Krasnoselskih* A., *Tsareva Yu.* Implementation of the strategy for the development of small and medium entrepreneurship in Russia // Russian Economic Development. 2018. Vol. 25. No. 11, pp. 36–45.

3 *Barinova V.*A., *Zemtsov S.P.* International comparative analysis of the role of small and medium-sized enterprises in the national economy: a statistical study // Voprosy statistiki, 2019, Vol. 26, No. 6, pp. 55–71.

4 Russian Economy in 2020 году. Trends and Prospects. (Issue. 42) / [Edited by: Dr. of Economic Sciences Kudrin A.L., Dr. of Economic Sciences Mau V.A., Dr. of Economic Sciences Radygin A.D., Dr. of Economic Sciences Sinelnikov-Murylev S.G.]; Gaidar Institute. – Moscow: Gaidar Institute Press, 2021. – 712 p.

5 OECD. SME and entrepreneurship outlook 2021. – Paris: OECD, 2021.

entrepreneurs who create new market niches and adapt the economy to new realities. They placed much emphasis on the formation of inclusive policies: support for social, women's and silver entrepreneurship.[1]

In Russia, federal aid to small businesses increased 20.7-fold in 2020 compared to 2018. As of December 2021, according to the register of the Federal Tax Service (FTS) [2], the government assistance amounted to around Rb 434bn, of which Rb 177.3bn are guarantees and sureties.

By the end of 2021, the following financial measures of anti-crisis support for SMEs were in effect in Russia, as presented on the website of the Government of the Russian Federation:[3]

- preferential credit program "FOT 3.0";
- grants to organizations that suspended operations owing to anti-epidemic measures;
- subsidies to businesses for employment of jobless;
- deferral of rent payments;
- preferential lending, guarantee lending, microcredit;
- additional capitalization of state microfinance organizations that provide soft loans to SMEs in the subjects of the Russian Federation;
- subsidies to exporters for the certification of goods.

In order to avoid a reduction in employment in the SME sector, the Russian government issued payroll loans to employees at 2% under the FOT 2.0 program, which was in effect from June to April 2020, and 3% under the FOT 3.0 program, which was in effect from March 9 to July 1, 2021, for the most affected businesses. Only 40,000 applications (0,7% of the number of SMEs) were received under the preferential program of Welfare Fund 3.0. Entrepreneurs were in no hurry to take payroll loans, as they were not confident in their own solvency. The high indebtedness of businesses in general was an urgent problem of the SME sector induced by the coronavirus crisis in 2020.

The pandemic also hit people's incomes, reduced consumer demand for goods and services provided by the SME sector. The government indirectly helped businesses to maintain demand by expanding small business access to government procurement and indirectly by providing subsidies to the poor.

However, these measures proved to be insufficient, as employment in the SME sector declined by a record amount since 2015.

4.8.2. Dynamics of the number of enterprises

According to the Federal Law on the Development of SMEs[4] in Russia, SMEs include legal entities and individual entrepreneurs (IEs), however in its statistical

1 OECD. The Missing Entrepreneurs 2021. Policies for inclusive entrepreneurship and self-employment. Paris: OECD. 2021

2 Unified register of small and medium-sized businesses - recipients of support. FTS of Russia. 2021.URL: https://rmsp-pp.nalog.ru/

3 Measures of the Russian Government to combat coronavirus infection and support the economy. Russian Government website. URL: http://government.ru/support_measures/category/finance/

4 Federal Law of 24.07.2007No.№ 209-FZ "On the development of small and medium-sized businesses in the Russian Federation".

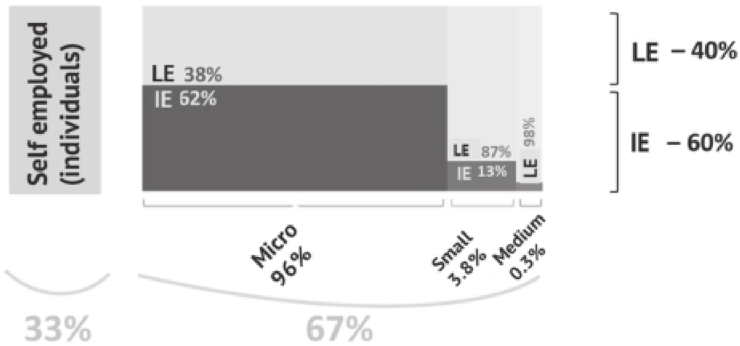

Fig. 31. Structure of the number of SMEs by size and status

Source: compiled by the authors according to the Unified Registry of Small and Medium Entrepreneurship of the Federal Tax Service: URL: https://rmsp.nalog.ru/

reports the Ministry of Economic Development of Russia recently began to include in the SME sector the self-employed citizens – self-employment taxpayers. As of August 2021,[1] there were 5,621,000 enterprises in the SME registry against 5,837,000 in 2019 by 3.84% more. The share of individual entrepreneurs (IE) in the structure of SMEs came up to 60% (40% in 2019) as a result of the closure of companies, the transition to more generous tax regimes for individual entrepreneurs (*Fig. 31*). As demand drops, the share of microenterprises grows — 95.87% (95.78% in 2020). The number of self-employed (individuals) in August 2021 amounted to 2.8 million people, however in December, according to the Federal Tax Service,[2] exceeded 3.64 million people.

In addition to the Federal Tax Service data, Rosstat sample surveys (2008—2018), Federal Tax Service (FTS) accounting reports (2012—2020) and SPARK-Interfax data can be used to analyze the movement of the number of enterprises. Changes in the SMEs' classification criteria and incompleteness of sample survey data distort the real picture. Therefore, to analyze the movement of the number of enterprises we used unified accounting and financial statements (AFS) criteria for the entire period of analysis. On the whole, the negative dynamic of recent years (*Fig. 32*) becomes apparent, although the number of companies without legal entities with zero reporting even slightly increased in 2020 as compared to 2018 according to SPARK and the financial statements of the Federal Tax Service. The availability of state support may have stimulated a rise in the number of reporting firms. This outcome was clearly seen in 2020 employment data, when appropriate subsidies were allocated to job retention.[3]

1 Each year in August, the registry is cleared of "dead" companies that have not submitted reports, so it is advisable to use August data to compare data for different years.

2 Statistics for the national project "Small and medium entrepreneurship and support for individual entrepreneurial initiatives". URL: https://ofd.nalog.ru/statistics2.html?t=1642533761179

3 *Zemtsov S.P., Mikhailov A.A.* Trends and factors of development of small and medium businesses in Russian regions during the coronavirus crisis // Russian Economic Development. 2021. Vol. 28, No. 4, pp. 34–45

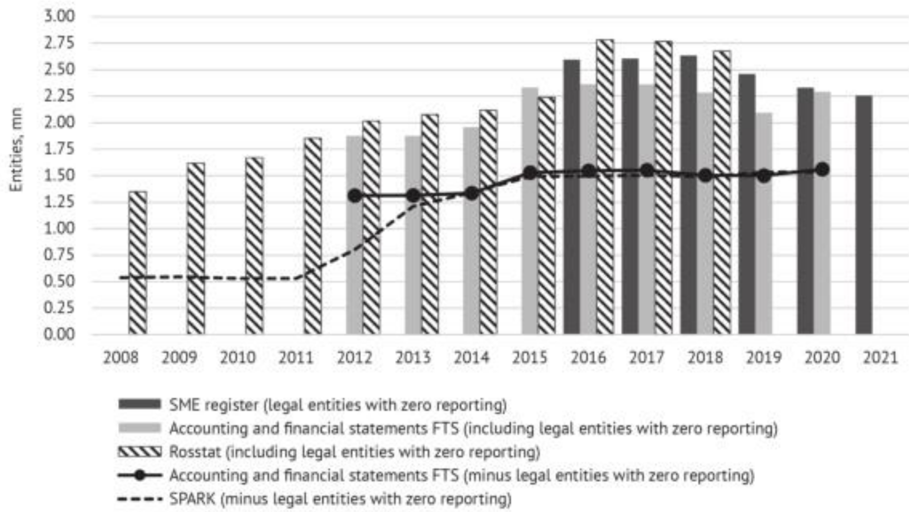

Fig. 32. Dynamics of SMEs number (legal entities) in Russia in 2008–2021

Source: own calculations on Rosstat data, SMEs register, AFS FTS, CPARK-Interfax.

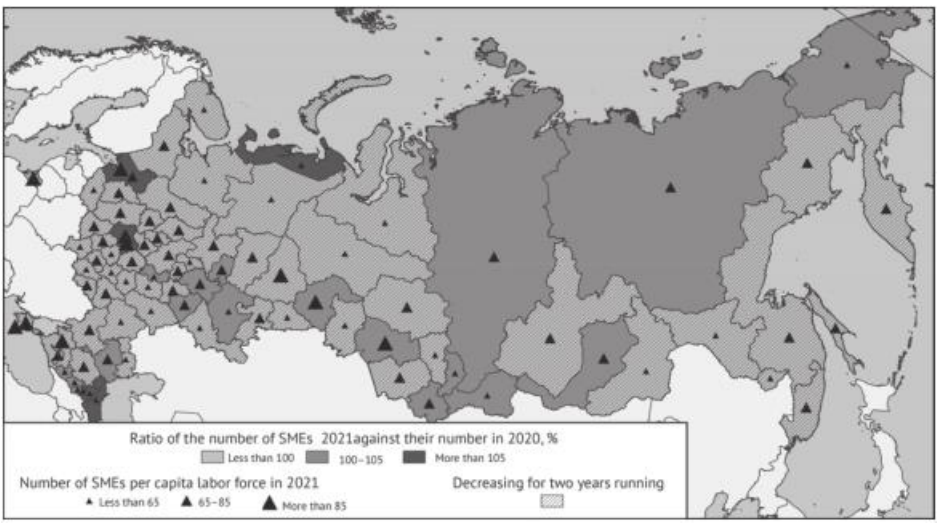

Fig. 33. Change in the number of SMEs in Russia in 2021 compared to 2020.

Source: compiled by the authors according to the Unified Registry of Small and Medium Entrepreneurship of the Federal Tax Service: URL: https://rmsp.nalog.ru/

In 2020, according to the Unified Register of SMEs, the number of SMEs (with individual entrepreneurs) on average in Russia went down by 5% compared to the previous year, and in 2021 stayed almost unchanged. In most Russian regions the number of SMEs decreased for two consecutive years, except for large urban agglomerations (Moscow and St. Petersburg), the national republics of the Volga region, the North Caucasus and Western Siberia, as well as Krasnoyarsk Krai. On average, the number of SMEs grew faster in the Asian part of Russia, especially in the national republics and territories, where this growth rate is partly given the low base effect (*Fig. 33*).

4.8.3. Employment in the SME sector and self-employment

Presidential Decree No. 474 dated July 21, 2020 “On the national development goals of the Russian Federation for the period up to 2030”[1] states the need to have 25 million people employed in the SME sector by 2030. The Unified Plan for achieving these goals comprises the self-employed, and as of November 2021 their number exceeded 3.6 million people. Employment in the SME sector can be increased in several ways: by qualitative improvement of the business environment through the creation of new jobs, i.e., through the outflow of personnel from other sectors and from the unemployed population, and by bringing low-profit businesses out of the shadows (self-employed and personal subsidiary farms) and the adaptation of workers released from large enterprises and the public sector as productivity goes up.[2] During the period of the coronavirus crisis the sector expanded only at the expense of the self-employed. Given continued negative trends in the economy, 2021 reported a record drop (by 4.1% since 2009) in the number of workers in the SME sector, although taking into account the self-employed there was an increase of 4.8%. Overall, the number of SME employees has declined by 6% since 2018. The number of employees of SME-legal entities has dropped by almost 12% (*Fig. 34*).

In 2021, the growth in the number of employees in the SME sector (excluding the self-employed) was observed only in seven regions, primarily in large urban agglomerations (Moscow, St. Petersburg), which increased employment on the back of the delivery sector (online commerce), as well as in regions with a low base effect (Nenets Autonomous Okrug, Altai Republic, Magadan region, Kamchatka Krai) (*Fig. 35*). The greatest reduction in the number of employees in the SME sector was observed in the regions with a high share of the services sector in the economy (Tatarstan, Bashkortostan, Perm Krai, Volgograd, Omsk, Tomsk regions). In the Moscow and Leningrad regions, the growth of the SME indicator may also have been connected with the transfer of workers from the capital to the suburbs, where salaries are lower, and with the demand growth factor — the relocation of remote workers to the suburbs and country houses. In other regions, the decline in the number of SME workers was owing to a general decline in real incomes in 2020—2021.

1 URL: http://www.kremlin.ru/acts/bank/45726

2 *Zemtsov S.P., Tsareva Yu.V., Salimova D.R., Barinova V.*A. Small and medium-sized enterprises in Russia: In search of the employment growth factors. Voprosy Ekonomiki. 2021;(12):66–93. https://doi.org/10.32609/0042-8736-2021-12-66-93.

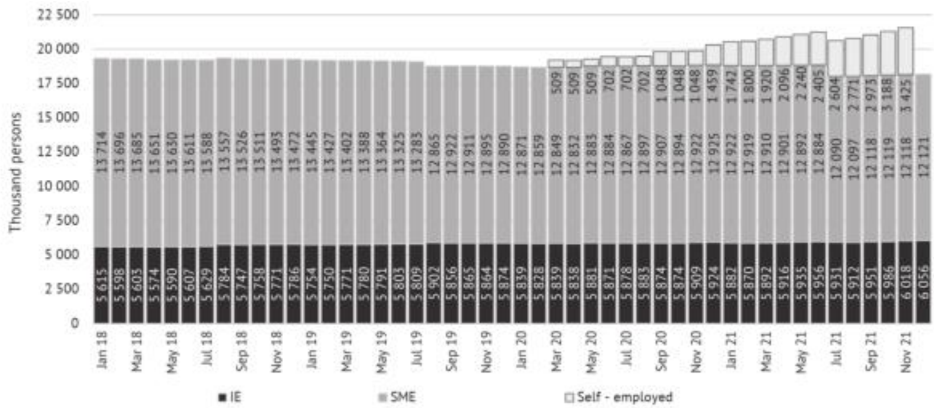

Рис. 34. Change in the number of employees in SME sector in Russia in 2021 against 2020

Source: compiled by the authors according to the Unified Registry of Small and Medium Enterprises of the Federal Tax Service: URL: https://rmsp.nalog.ru/

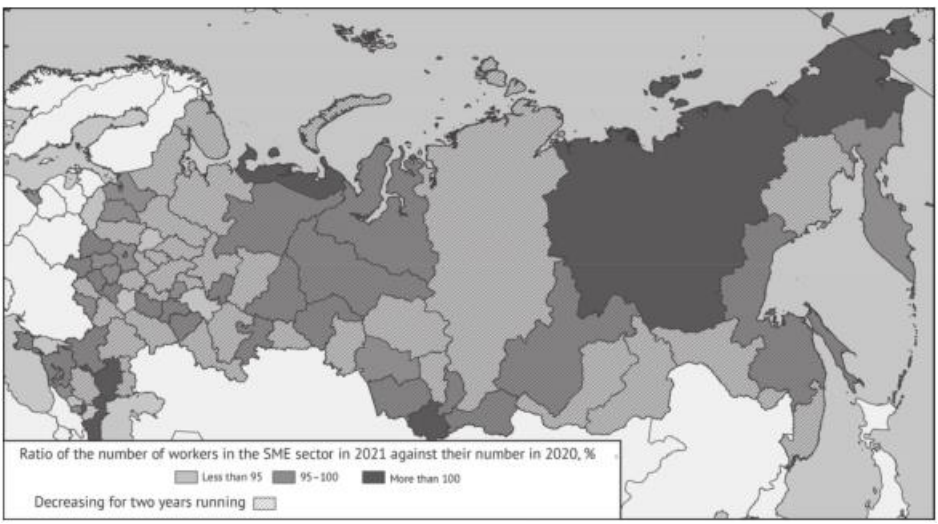

Fig. 35. Change in the number of workers in the SME sector in Russia in 2021 compared to 2020

Source: compiled by the authors according to the Unified Registry of Small and Medium Entrepreneurship of the Federal Tax Service: URL: https://rmsp.nalog.ru/

The share of the self-employed in the total number of employees in the SME sector (including the self-employed) on average in Russia stands at 16%. Over the past year, the relative growth of this index in different regions of Russia

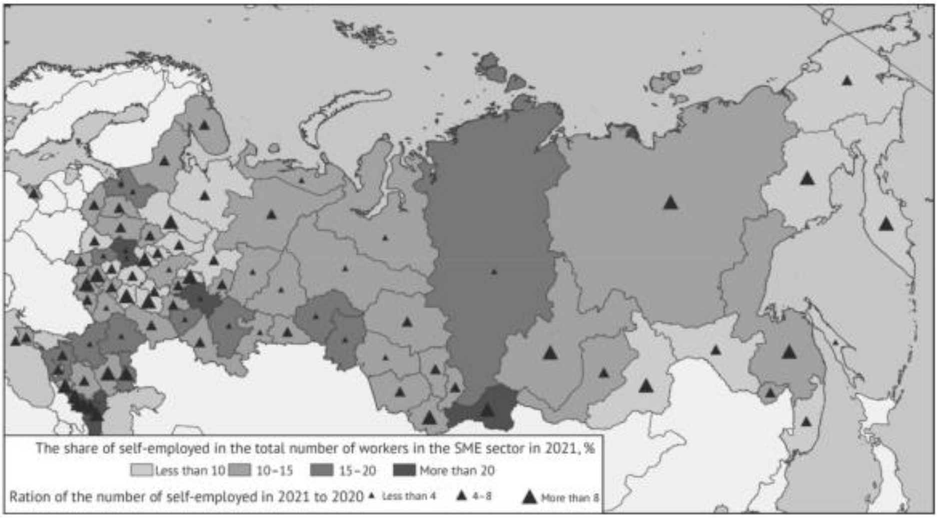

Fig. 36. Change in the number of self-employed in Russia in 2021 compared to 2020

Source: compiled by the authors according to the Unified Registry of Small and Medium Entrepreneurship of the Federal Tax Service. URL: https://rmsp.nalog.ru/

ranged from 2 to 15 times (*Fig. 36*). The largest share of the self-employed in the SME sector is observed in large urban agglomerations (Moscow, St. Petersburg, Tatarstan), where there is great demand for the services of drivers, tutors, tenants, etc., as well as in national republics (the North Caucasus, Tyva), where many are employed in agriculture and construction sector. The smallest share of the employed is in the peripheral regions of European Russia, where seasonal work is very popular (earnings in Moscow and large agglomerations), and the incomes of the remaining residents are so low that they cannot pay even the minimum taxes. The greatest relative increase in the number of the self-employed (8 or more times) is characteristic of a number of regions of Central Russia and the republics of North Caucasus, the smallest — for the northern regions, where employment at large enterprises is high.

4.8.4. Changes in sectoral structure

The sectoral structure of micro- and small enterprises (legal entities) is quite similar (*Table 29*): a large share of trade and significant shares of manufacturing industries, construction, renting and real estate management. The branch structure of medium-sized enterprises is marked by the prevailing share of manufacturing enterprises (25.6% — medium-sized enterprises, 8.0% — microenterprises and 13.3% — small enterprises), agriculture (12.5% vs. 1.9% and 3.4%) and mining (1.6% vs. 0.4% and 0.5%), where the economy of scale is important for competitiveness and the barriers to market entry are higher.

Table 29

OSectoral structure of the number of micro- small and medium-sized enterprises by main sections of OKVED, %

Sector (OKVED codes)	Micro-enterprises	Small enterprises	Medium enterprises
Trade (45, 46, 47)	35	32.5	26.4
Construction (41, 42, 43)	12.8	12.4	11.9
Professional, scientific and technical activities (69—75)	9.4	5.2	3.9
Processing industries (10—33)	8.0	13.3	25.6
Activities on operations with real estate (68)	7.8	7.2	3.0
Transportation and storage (49-53)	6.7	5.4	4.9
Administrative activities and related ancillary services (77—84)	4.7	6.3	3.1
Information and communication activities (58—63)	3.4	2.8	1.8
Activities of hotels and catering companies (55, 56)	2.7	3.9	1.0
Agriculture, forestry, hunting, fishing and fish farming (01, 02, 03)	1.9	3.4	12.5
Other	7.7	7.6	5.9

Note. The category “other” includes: health care; education; culture, sports, leisure; water supply; electricity and gas supply; extraction of minerals, etc.

Source: own calculations based on the Rosstat data.

The publicly available SME registry contains the 10 most common activities in this sector, which comprise around 21% of all SMEs, including individual entrepreneurs. The most popular activities are the following (*Table 30*): activities of road freight transport, construction, retail sales of food products, renting and management of own or leased real estate.

The coronavirus pandemic had a noticeable impact on barber shops and beauty salons — their number went down in 2020—2021, while the number of businesses specializing in real estate rentals, on the contrary, moved up. The number of restaurants increased on the back of the reorientation to the delivery of ready-made food. The number of food retailers remained virtually unchanged in 2020, but went up markedly by 2021 despite a significant drop in industry revenues in 2020. The number of construction firms declined in 2020 due to migrant problems, but the government compensated for this with cheap mortgages in 2021. Non-specialized wholesale trade declined driven by growth in online commerce.

Table 30

Ten most popular activities among all SMEs, including individual entrepreneurs

			2019	2020	2021
Total SME, including IE			**5 836 910**	**5 602 738**	**5 620 997**
OKVED (section, code, decoding)			**Number of SMEs (% of total number of SMEs)**		
Construction	41.20	Construction of residential and non-residential buildings	174 463 (3.0)	171 806 (3.1)	181 111 (3.2)
Trade	46.90	Wholesale non-specialized trade	92 939 (1.6)	87 832 (1.6)	89 045 (1.6)
	47.11	Retail trade predominantly in food products, including beverages and tobacco in non-specialized stores	144 000 (2.5)	144 900 (2.6)	147 300 (2.6)
	47.19	Other retail trade in non-specialized stores	×	×	86 579 (1.5)
	47.71	Retail sale of clothing in specialized stores	×	85 625 (1.5)	×
	47.8	Retail trade in non-stationary trade facilities and markets	106 084 (1.8)	×	×
Transportation and storage	49.4	Activities of road freight transport and transportation services	120 000 (2.1)	104 190 (1.9)	90 055 (1.6)
	49.41	Activities of road freight transport	154 696 (2.7)	171 395 (3.1)	188 832 (3.4)
Hotels and catering	56.10	Restaurant operations and food delivery services	94 116 (1.6)	96 600 (1.7)	101 327 (1.8)
Transactions with real estate	68.20	Lease and management of own or leased real estate	109 505 (1.9)	117 341 (2.1)	132 553 (2.4)
	68.20.2	Lease and management of own or leased non-residential real estate	92 041 (1.6)	94 269 (1.7)	98 200 (1.7)
Other services	96.02	Provision of services by hairdressers and beauty salons	127 572 (2.2)	121 950 (2.2)	93 420 (1.7)

Source: own calculations based on unified register of SME entities for August 2019–2021.

Overall, the number of new organizations in Russia shrank by 23.4% in 2020.[1] But the number of registered private high-tech companies during the same period declined less — by 16.8%, which indicates possible structural changes in the future. In the sectoral structure, the number of startups went up in pharmaceuticals (2-fold), medical devices (1.3-fold), vehicles, veterinary medicine and air and space transport services. Revenues of startups rose in the same industries, as well as in management and R&D. During the pandemic, services related to business process redesign, digitalization and automation, research and medicine were understandably more in demand.

4.8.5. Changes in the availability of credit and access to capital

Since the beginning of 2020, the debt on loans to SMEs, including individual entrepreneurs, was gradually growing (a slight change in the trend was fixed in mid-2021), increasing from Rb4.7 bn to Rb7.2 bn (*Fig. 37*). This is a record high gain since 2012. To a large extent, the debt growth can be explained by the restructuring of SME loans as part of anti-crisis business support measures. Also, an important role was played by the state programs of concessional lending and the reduction of the key rate from 6.25% at the beginning of 2020 by 2 p.p. (to 4.25% per annum) by the end of 2020. It should be noted that from March 2021, the key rate was gradually raised and by January 2022 it peaked 8.5%.

Weighted average interest rates on loans for SMEs are higher than for large businesses, but they were decreasing, reaching their lowest value since 2014 in September 2020 (7.58%), in 2021 (January-August) rose slightly to 8.42%. The Bank of Russia sought to reduce the economy's indebtedness. Although the number of SME borrowers fell sharply by the beginning of 2021 compared to August 2020, the general upward trend in this indicator remains (*Fig. 38*): the number of SME borrowers is significantly higher than in the pre-pandemic period.

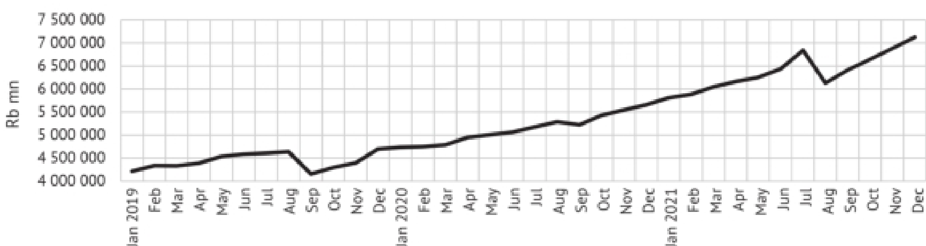

Fig. 37. Indebtedness on loans provided to SMEs, Rb mn

Source: computed by authors based on the Bank of Russia data. Information about allocated and attracted funds. URL: https://cbr.ru/statistics/bank_sector/sors/

1 In detail see: *Zemtsov S., Chepurenko A., Mikhailov A*. Pandemic Challenges for the Technological Startups in the Russian Regions. Foresight and STI Governance, 15(4), 61–77. DOI: 10.17323/2500-2597.2021.4.61.77

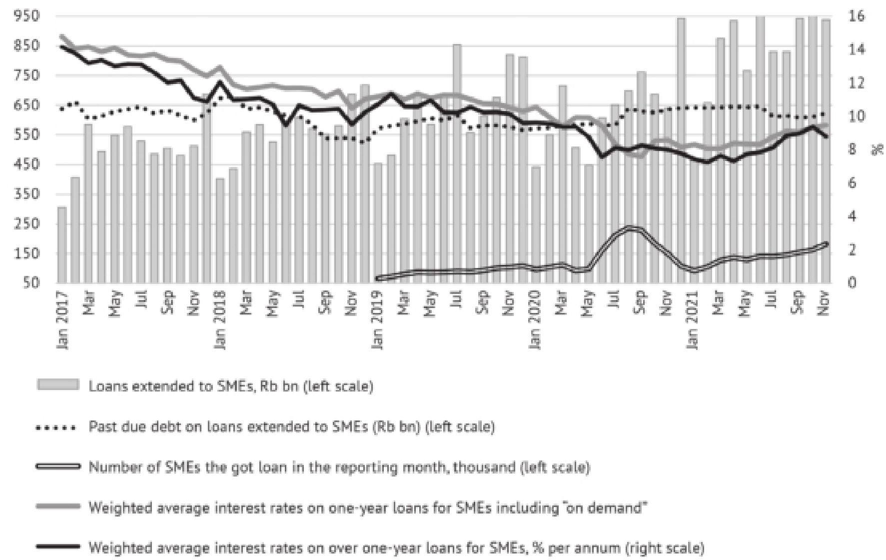

Fig. 38. The main characteristics of lending to the SME sector

Source: Bank of Russia URL: https://cbr.ru/statistics/bank_sector/sors/

The growth in the number of new borrowers is slowing down, as businesses realize that it is becoming more and more difficult to pay back loans in an uncertain economic environment and unstable consumer demand. According to SberIndex,[1] since the end of June 2020, a recovery to the level of the previous year has been observed in the overall movement of consumer spending (*Fig. 39*). The

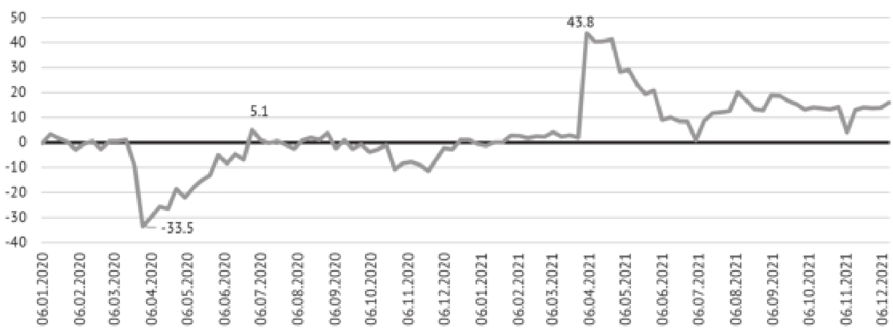

Fig. 39. The volume of consumer spending on goods and services relative to the comparable week of the previous year (% YoY)

Source: Sberindex. Change in consumer spending. https://sberindex.ru/ru/dashboards/ver-izmenenie-trat-po-kategoriyam

1 Sberbank Analitika. URL: https://www.sberbank.ru/ru/about/issledovaniya?fbclid=IwAR07JkTLIMaojuOSDge5H3FeqVGXt0GIZBlGqd9frQcRV1T2n62UR0wN7UU

dynamic of consumer spending in 2021 looks quite positive in contrast to 2020, but *Fig. 39* demonstrates the effects of two "non-business day" periods: in July and in November 2021.

* * *

The pandemic has seriously affected the SME sector. During the lockdown period in April 2020 about half of the companies suspended their activities,[1] more than 75% of SMEs were directly or indirectly affected by the crisis.[2] This led to the start of the record fall in employment in the SME sector since 2009, despite the new support measures. For 2021, the number of enterprises is almost unchanged compared to 2020, however compared to 2019, the number dropped by 3.84%. The sectoral structure of the SME sector has not changed significantly, but the share of online commerce and related delivery services has increased in large agglomerations. In 2021, small businesses continued to "live on borrowed money" as a year before, but overdue debts began to decline.

1 Society and Pandemic. Experience and Lessons Learned from COVID-19 in Russia. Editorial board: *Mau V.A., Idrisov G.I., Kuzminov Ya. I., Radygin A.D., Sadovnichiy V.A., Sinelnikov-Murylev S.G.* Moscow, 2020.

2 *Zemtsov S.P., Mikhailov* A.A. Trends and factors in the development of small and medium-sized businesses in the regions of Russia during the coronary crisis // Russian Economic Development. 2021. Vol. 28, No. 4, pp. 34–45