

Medvedev Bets on Private Business in Hard Economic Times

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Prime Minister Dmitry Medvedev during a state visit to Zurich on Sept. 21, 2009. **Maiak.info**

Prime Minister Dmitry Medvedev warned Friday that the economy had fallen on hard times and identified the private sector as the engine for future growth.

Medvedev made what was one of the key political statements of his premiership at the annual International Investment Forum in Sochi after numerous economic forecasters worsened their outlook for this year.

Reliance on spending by the state and the giant corporations that it controls can no longer save the economy from slowing down, Medvedev said.

“We must acknowledge with full responsibility that the country has exhausted that potential,” he said in the forum's keynote speech. “We must all therefore be ready to make hard decisions.”

“We are obligated to find other sources of growth for our economy. First and foremost [this means] sources in the nonstate sector.”

In its latest forecast, the Economic Development Ministry said the economy would expand by 1.8 percent this year, half the rate estimated at the start of the year. Last week, both the IMF and the World Bank issued sombre growth assessments and highlighted structural impediments. What's more, the downgrades come despite the high price for Russia's chief export: oil.

Medvedev called for a state-of-the-art economic model, ensuring maximum freedom for entrepreneurship, healthy competition and a significant improvement in the business climate.

He struck a similar note in an article published in the business daily Vedomosti on Friday. Unless the government succeeded in encouraging private domestic and foreign capital to flow into the economy, Medvedev wrote, Russia would continue on a path of negligible growth, hamstrung by the “perceived opportunity to preserve the prosperity at hand.”

“In fact, we stand at a crossroads.”

Demonstrative of state dominance in the economy is the situation in the banking sector, where five state-controlled lenders hold 56 percent of individual deposits and 53 percent of corporate loans, the article said. A thousand other banks are therefore losing out because they do not have state backing leading to exorbitant interest rates, a lack of reputable regional banks and restraints on investment activity.

“This [situation] does not exist in any country with an advanced legal and political system, and we need to rid ourselves of it,” Medvedev wrote.

He conceded that investors have “irrational fear of working in an incomprehensible and unpredictable Russia, as well as an explicable distrust of public institutions, including — regrettably — the justice system and law enforcement agencies.”

Medvedev addressed the issue of the justice system again in a television interview Saturday, saying that judicial reform is unnecessary. The problem is not with legislation but with “general trust in the court system,” he said, RIA Novosti reported.

“I think such an atmosphere of trust cannot be established by means of reforms. The judicial system should, in the process of its development, earn the respect of everyone who turns to it on its own.”

Medvedev offered no major new initiatives in either the article or the speech and instead reiterated a number of measures recently approved by the government in a bid to spur growth, such as a freeze on some key transport and utility tariffs.

He devoted part of his forum speech to a new measure that directs government agencies to allocate 15 percent of state contracts to small- and medium-sized businesses and social nongovernmental organizations as of Jan. 1, 2014.

In Sochi, Medvedev also drew attention to his recent signing of an order creating a

government agency to attract investment to the regions. Primarily targeted at foreign investors, the agency will seek commitments starting at \$5 million.

One minor proposal in Friday's article sought to allow regional authorities to grant tax holidays for certain small- and medium-sized companies. Another called for the expansion of the definition of small IT companies eligible for discounted tax rates.

The Vedomosti article served one more purpose: Medvedev defended the record of his Cabinet following a series of rebukes to the Cabinet from President Vladimir Putin.

Medvedev credited his Cabinet with shifting to a tight spending policy and adjusting economic support measures to the rules of the World Trade Organization, which Russia joined in August last year.

He also pointed to Cabinet-sponsored legislation that gave investors tax rebates if they started businesses in the remote Far East or the exclave of Kaliningrad on the Baltic coast.

In addition, Medvedev said construction of several infrastructure projects, such as railways, ports and airports, had begun during his tenure as prime minister. He did not name the projects.

He mentioned the adoption of multiple state programs laying out the country's course of development for many years to come and spoke of efforts to implement road maps produced by the Agency of Strategic Initiatives, aimed at improving the business climate.

Putin has dressed down the Cabinet several times since the beginning of his third presidential term in 2012, harshly criticizing its failure to adequately execute his directives.

Economic Development Minister Alexei Ulyukayev, speaking at the Sochi-2013 investment forum, said the economy was not on the verge of a recession, but that a long period of stagnation would be worse than an acute crisis.

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