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Russia to Subsidize Struggling Carmakers With $166 Million

By The Moscow Times

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A man works at a car factory in Moscow.

Russia will provide carmakers with 10 billion rubles ($166 million) in subsidies, the government said Thursday, in a bid to support an industry struggling to cope with the country's economic downturn.

However, the industry is only expected to return to growth in 2016 and is therefore likely to need more government support than the measures announced on Thursday.

Car sales in Russia have fallen sharply as the economy has weakened, as consumers put off big-ticket purchases and auto makers look for ways to cut costs and review their strategies for what was once a booming market.

On Wednesday, General Motors said it would shut its Russian factory, cutting 1,000 jobs.

In addition to lower sales, car producers have seen their margins fall by 10 to 15 percent as a

result of the ruble weakening, which has increased the cost of imported components, as well as higher metals prices, the Kremlin said on its website.

"Most carmakers currently work with a minimum profitability level. ... [The] budget allocation of 10 billion rubles will allow [them] to utilize additional production capacity in the first quarter in the amount of around 110,000 vehicles and preserve jobs," it said.

According to the state statistics office, the production of passenger cars in Russia fell 17 percent year-on-year in February to 130,000 vehicles.

The government is considering allocating additional funds this year to its car-buying incentive program, which offers discounts to buyers trading in their old vehicles and also subsidizes loans and leasing terms.

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