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Can Russia Afford Its Save-a-Billionaire Relief Program? (Op-ed)

Russia's poorest will end up footing the bill.

By Pavel Aptekar and Vladimir Ruvinsky

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Billionaire Oleg Deripaska (r) is on the sanctions list **Kremlin Press Service**

The new sanctions that the West imposed against companies and businesspeople with close Kremlin ties pose a new challenge for the Russian government and economy.

Like in 2014, the authorities have already promised support to those targeted by sanctions. "Supporting those who support you" might make sense politically, but how much of this brotherly love can the Russian economy bear?

What's more, the sanctions list could expand indefinitely. That means Russian leaders will have to exercise more restraint this time in choosing who to bail out and carefully consider the social consequences of those decisions.

The prime minister has promised support to practically every victim of Western sanctions, including those in the metallurgical, energy and defense fields.

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One possible step is to implement an earlier proposal to create what amounts to "onshore off-shores" – special territories offering privileges to businesses – in Kaliningrad in the west and the Primorsky region in the east.

Officials might offer affected businesses tax breaks and trust funds, according to a lawyer involved in the relief effort. The government's ability to compensate the targeted entities will depend on how many there are, and how long the sanctions last.

Short-term panic is mostly to blame for the current drop in share prices of the companies under sanctions, according to Vladimir Nazarov, director of the Finance Ministry's Research Institute. The affected companies do not carry especially large foreign currency debt loads, and at today's prices, the aluminum business is profitable enough to avoid any serious problems.

Still, the government could help redirect those exports to countries other than the U.S., one expert said. And serious problems aren't likely to arise if the current sanctions are not augmented, according to New Economic School professor Oleg Shibanov.

The Central Bank and Finance Ministry, which wield the main set of tools for helping the affected companies, could grant them tax breaks, help direct state contracts their way or temporarily freeze the requirement for state companies to pay 50 percent of net profits into federal coffers – a requirement they often manage to avoid anyway.

The government could also draw on state reserves to temporarily buy products from sanctioned companies or stimulate domestic demand for them.

To buoy the economy, the authorities drained more than 6.4 trillion rubles ($104 billion) from the Reserve Fund and National Wealth Fund (NWF) in 2014-17. Those resources have been seriously depleted, with the Reserve Fund now exhausted and the NWF down to 3.7 trillion rubles. If the sanctions increase in duration or number, this "cushion" could prove insufficient.

Higher School of Economics Development Center Director Natalia Akindinova explains that the best approach would be to formulate a long-term strategy aimed at creating predictable conditions for domestic business.

It is also important to determine priorities and clarify the procedures for actions taken by the Central Bank and government, said Moscow State University associate economics professor Oleg Buklemishev. He adds that the first step should be to set limits on assistance and next, to set clear rules for aid based on the particular corporation's significance to society.

However, it is more likely that the authorities will decide whom to help and to what extent on a case by case basis, only fueling anxiety and intensifying the desperate scramble for the limited resources available.

Experts agree that the top priority should be helping companies that are crucial to local or regional economies and employment levels, and not simply those whose directors have close ties to government leaders.

If a massive halt in production occurs in single-industry towns, the state is likely to return to the methods it used in 2009-2010, when it helped organize public works and pay compensation for forced downtime, according to economist Natalia Zubarevich.

Economists are convinced that the least productive response would be to impose counter-sanctions, as Russia did in 2014.

Not only would they fail to cause perceptible damage to the U.S. economy, but they could significantly hurt Russian importers and trigger price increases for specific goods and products. That would most directly affect the poorest Russians, who would have a hard time understanding why they should pay to bail out billion-dollar businesses.

Pavel Aptekar and Vladimir Ruvinsky are columnists at the Vedomosti business daily, where a version of this article *was originally published. The views and opinions expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.*

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