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New Russian Prime Minister Is No Stranger to Business Community

Investors say he will promote digitization, while critics claim he has taken credit for natural progression.

By Jake Cordell

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Russia's new Prime Minister, Mikhail Mushustin, has been credited with increasing tax revenues and keeping businesses happy. **Valery Sharifulin / TASS**

Russia's new Prime Minister may have had a low profile before his surprise appointment last week, but one section of society was already well aware of Mikhail Mishustin: Russia's business community.

The 53-year old, who has been credited with transforming Russia's tax service over the last decade, had a reputation among business leaders as one of the country's most effective,

popular and smart bureaucrats, long before President Vladimir Putin picked him to replace Dmitry Medvedev in the Russian White House.

"I have the deepest respect for Mikhail Vladimirovich [Mishustin]," German Gref, head of Sberbank and one of Russia's business heavyweights told the BBC. "He is probably one of the most effective managers in the country, a person with the highest qualifications and managerial skills. He is rare — a talented person who is very versatile."

Mishustin's tax transformation

Business figures have praised Mishustin's achievements during his 10 years at the Federal Tax Service. They say he cut tax avoidance and improved the rate of collection by transforming the organization into one of the most technically advanced tax services in the world.

He rolled-out massive new IT schemes, such as digital cash registers to track transactions in real time, and a new automatic tax registration system for small businesses and self-employed people to bring them in from the grey economy. At the same time, he overhauled the organization's reputation as a meddling and corrupt bureaucracy to be feared and avoided.

While businesses invariably complain about the amount of taxes they have to pay, the role of the Federal Tax Service itself is no longer one of their most serious gripes about the business environment in Russia, various surveys show.

In short, his fans say he managed to collect more tax, and make people feel happier about handing it over.

Long-time Kremlin opponents tell a different story, questioning the image of Mishustin as an apolitical technocratic guru who will be able to spread his success at the Federal Tax Service across government.

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Alexei Navalny, for instance, criticized those who praised Mishustin for introducing more digital services to the tax authority during his 10-year reign, arguing that anybody at the top of a major organization over the last decade could not have avoided digitization.

"It's funny about [his work] digitizing and improving the tax service. It's another anecdote from the series 'For 20 years, Putin has made computers ten times smaller and a thousand times faster,'" Navalny wrote on his blog following Mishustin's appointment. "For six years [before becoming head of the agency] Mishustin ... erected a huge number of administrative barriers and created the most ineffective department," he added.

Investigations into Mishustin's wife's income, which topped 500 million rubles ($8.3 million at today's exchange rate) between 2013 and 2018, have also thrown doubt on the former taxman's reputation on anti-corruption.

Meanwhile, U.S. investor and anti-Putin campaigner Bill Browder took to Twitter to caution against Mishustin's investor-friendly credentials, highlighting his role in the "persecution" of Sergei Magnitsky, Browder's lawyer who died in pre-trial detention in 2009 under the custody of Russian police and whose death led to the U.S. adopting the Magnitsky Act.

Mishustin on business

The first signs of what the Mishustin administration might mean for business and the Russian economy came in his address to parliament last week. The new prime minister struck a friendly tone, setting out plans for a mini-reset in relations between businesses and the state.

"Business needs to be protected," he told lawmakers. "Right now, there's macroeconomic stability, we've built up sufficient reserves and we have low inflation. To develop further, we need to stimulate investment growth."

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"We need to regain the trust lost between the authorities and the business community. It is important to improve the entrepreneurial climate so that people who do business, including young people, feel confident and secure, can develop their business, create new jobs and, most importantly, increase wages for their employees."

Many bought the message. After announcing himself as a fan of Russian tech giant Yandex and saying the government should support its development, shares in the firm jumped 5%.

Economic management or structural reform?

On the whole, Mishustin used the speech to tie himself to Putin's economic agenda, setting himself up as the manager needed to kick-start the president's $400 billion national development and investment program which has got off to a sluggish start. Just hours before he appointed the former taxman, Putin reiterated his goal of boosting Russia's economic growth to above the world average — a level Russia has not reached in any of the last seven years — and announced a renewed focus on boosting the living standards of hard-pressed Russians.

His appointment has therefore been interpreted as doubling-down on Russia's current economic policy. With his managerial skills, comfort with new technology, expertise in the digital economy and experience in managing large government projects and unpopular bureaucracies, the logic goes, the National Projects will finally come into their stride.

However, some analysts remain unconvinced about whether Mishustin's managerial excellence alone will be enough to reach Putin's ambitious goals.

"A radical improvement in the economy due to political changes is unlikely to happen," said Raiffeisen Bank economist Stanislav Murashov. "The conservatism of fiscal policy that has been in place since the 2015 crisis, and is — in our opinion — the main brake on economic growth ... is unlikely to change with the arrival of a new government."

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"A move away from long-standing discipline on fiscal and monetary policy is unlikely, though so is a move toward the significant economic reforms necessary to address sluggish economic growth," Eurasia Group's Jason Bush wrote in a note to clients.

Analysts at private lender Alfa Bank noted bluntly: "We do not believe these developments change the macro picture of the Russian economy."

Mishustin's Cabinet

With such a little profile, a clearer picture of what Mishustin's appointment means for Russia's economic and business policy will likely emerge once the rest of his government — who resigned en masse alongside Medvedev — takes shape.

Loko Invest's Kirill Tremasov, who used to work in the Economy Ministry and the Central Bank, said he does not expect "rapid changes" since the government budget for this year has already been passed, but that conclusions for the medium term "can be drawn when the new composition of the government, in particular, its 'economic bloc', becomes known."

Russian media have reported that one member of that so-called economic bloc — the ministers, officials and appointees responsible for designing and executing Russia's economic policy — Putin's own adviser Andrey Belousov could be in line to become Mishustin's first deputy prime minister — a powerful post and a possible indicator of a shift in economic policy, rather than just better implementation.

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"Belousov would be a big shift towards fiscal easing ... He's of a very different school from the 'mainstream' economists like Siluanov or Nabiullina, and much more interventionist," said Oxford Economics' Evghenia Sleptsova.

Mishustin himself has hinted at the potential for higher spending under his premiership, telling parliament he would take a less frugal approach than his predecessor over spending the $125 billion oil profits sitting in Russia's National Welfare Fund. Putin too showed more willingness to open the government's accounts last week, announcing a 450 billion ruble ($7.3 billion) social spending program based on higher payouts to new mothers — a policy which Alfa Bank said would boost expected GDP growth from 1.4% to 1.8% this year alone.

Jockeying for position, other liberal members of the bloc will hope these early measures could signal Mishustin's plans to oversee a freer-spending administration, and have taken the opportunity to renew their push for an overhaul to Russia's hitherto conservative economic approach.

"I think [Medvedev] should have done more for the pace of economic growth and structural reforms," Audit Chamber chair Alexey Kudrin told the Gaidar Forum after the former prime minister's resignation. "[Mishustin] feels the situation in business more and knows how to balance the interests of business and the state."

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