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Russia Scales Back Support for Small Businesses Amid Budget Strains

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The 'Made in Moscow' Market. **Moskva News Agency**

Russia has sharply reduced state support for small and medium-sized businesses as it grapples with a widening budget deficit and economic slowdown, raising concerns among economists and business leaders about the sector's long-term health.

Government subsidies for small and medium-sized enterprises (SMEs) dropped by 43% in the first quarter of 2025 compared with the same period last year, according to a new report by the Higher School of Economics Development Center.

Total assistance fell from 127.8 billion rubles ($1.6 billion) to 72.3 billion rubles ($918 million).

That figure is also lower than the level of support provided in early 2022, shortly after Russia launched its full-scale invasion of Ukraine, when it stood at 75.8 billion rubles ($962 million).

At the same time, the number of SMEs and self-employed individuals receiving government aid declined by 17%, reaching 99,200 recipients.

The cuts reflect a broader shift in the Kremlin's approach to business support, with planned allocations for the SME sector over the 2025-2030 period totaling 330 billion rubles ($4.2 billion), a 20% reduction from the previous six-year plan.

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Lending programs, particularly the popular 1764 initiative that offered subsidized interest rates through commercial banks, have been hit hardest.

Under new eligibility criteria, just one in 10 businesses now qualifies for the program, and only those operating in five designated sectors — manufacturing, logistics, tourism, science and IT — are eligible.

Russia's Economic Development Ministry has defended the rollback, telling the pro-government daily Izvestia that the SME sector has reached a level of maturity that allows it to function with less state intervention.

Officials cited figures showing that more than 6.5 million companies and over 29 million people are active in the sector, which now accounts for 21.7% of the country's GDP.

The ministry added that entrepreneurs had attracted more than 263 billion rubles ($3.34 billion) through government-backed lending instruments as of early 2025.

Yet economists warn the cuts may deepen economic strain on small firms, which often operate on tight margins and have struggled to access capital in Russia's high-interest-rate environment.

"Access to financing remains a key factor for enterprise competitiveness," said Yegor Diashov, chairman of the financial markets commission at the Moscow branch of the business group Opora Rossii. "Without funding, companies can't grow, modernize or stay competitive in either the domestic or international markets."

Russia's Central Bank has kept interest rates elevated to combat inflation, making it difficult for small businesses to borrow at market rates. As a result, lending to SMEs has declined, and an increasing number of firms are facing difficulties servicing their existing debt.

In the first quarter of 2025, nearly 70,000 small businesses — around one in 10 with outstanding loans — applied for debt restructuring, according to the Higher School of Economics study.

Stepan Zemtsov, director of the Center for Economic Geography and Regional Studies at the Presidential Academy, said reduced state support could stifle growth and limit the sector's ability to fill supply gaps left by large corporations still reeling from Western sanctions.

He noted that small businesses are often the ones sustaining consumer demand at a time when large corporations are struggling under sanctions.

Tatiana Ushkats, an economist at RUDN University in Moscow, warned that continued reductions in support could trigger a broader slowdown, including higher unemployment and weakened domestic competitiveness.

Business confidence is already showing signs of strain. In May, 10% of SMEs reported plans to lay off staff — double the rate reported in April.

The RSBI index, which tracks SME activity, slipped to 50.9 points in May from 52.4 in April, signaling stagnation for the first time in over two years.

“The overall trajectory suggests that SMEs are gradually entering a period of stagnation,” said Kirill Tikhonov, senior vice president of the state-owned Promsvyazbank.

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