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Why Russian Businesses Are Begging for State Intervention

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Central Bank of the Russian Federation

Over nearly four years of war, the Russian business community has been on a journey from the panic of 2022 through the euphoria of 2023 and early 2024, to a growing pessimism that has crystallized into a demand for state support.

Nobody is under any illusions that the price of such interventions will at best compromise their independence or, at worst, result in their seizure.

But the business community no longer sees any alternatives. It is suffering, according to a study from the Institute of National Economic Forecasting of the Russian Academy of Sciences (INP RAS). The researchers attribute this to tight monetary policy, but their findings make it clear that sanctions are causing businesses the most pain. More than 70% of respondents say their enterprises have been affected, with 60% naming difficulties obtaining imported raw materials, components and spare parts for equipment repairs as their main

problems.

The most interesting answers came when respondents were asked what they believe the authorities should do.

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The conclusion is straightforward: entrepreneurs are asking the state to treat them the way it treats the defense sector and politically connected firms.

Everyone understands what that entails. State support comes at the price of autonomy — and often ownership itself. Recent examples are instructive. The Kremlin seized assets from the Danish company Rockwool without even bothering to invent a pretext. The company stayed in Russia after the invasion began, and its insulation materials were used in Russian submarines. None of that mattered. Nor did political connections save the gold-mining giant Yuzhuralzoloto.

For decades, Russian entrepreneurs had a single request of the state: don't interfere — we'll manage on our own. Now, they cannot.

It is hard to blame business owners for this shift. They genuinely tried to survive without state help. But in Russia, being right has never mattered as much as being strong. Over the years, state power has expanded and consolidated. Business has had little choice but to adapt.

Yes, monetary policy is exceptionally tight, but this is hardly the Central Bank's doing alone. The INP RAS study shows that half of respondents blamed sanctions for rising prices, with expensive credit and higher import costs close behind. The Central Bank has only one effective tool to combat inflation: high interest rates.

Rates might be lower if businesses operated on a level playing field. But respondents are not asking for government procurement, state orders, and preferential loans by accident. These benefits already flow to defense enterprises and companies tied to the state through ownership or special political relationships. When some firms pay less and receive more, others inevitably bear the cost. In essence, business is asking for equality. That this "equality" now exists mainly within the state's orbit has become secondary. Survival comes first.

This really is a matter of survival. A letter from the Central Bank to its regional departments and commercial lenders urges a more lenient approach to corporate loan restructurings, allowing payment arrears of up to 30 days over a six-month period. At the same time, the regulator recommends that such restructured loans be kept in a separate pool, acknowledging that mixing bad debt with healthy portfolios threatens financial stability.

Experts say the banking system itself is not at risk, noting that the Central Bank has pledged to reimburse lenders if problems arise. That guarantee, however, applies only to large, mostly state-owned banks. Smaller institutions are excluded.

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Banks remain nervous. Since late last year, they have increasingly refused to issue bank guarantees for business deals or demanded collateral equal to the full guarantee amount. Corporate lending has declined, despite a brief uptick toward the end of the year. In practice, as both bankers and entrepreneurs repeatedly note, only those who don't need loans can obtain them.

There is another reason the Central Bank may have eased restructuring rules. In late 2024 and early 2025, many businesses expected rate cuts to be imminent and took out floating-rate loans. Some hoped to benefit from cheaper credit; others were offered no alternative. According to banking experts, a surprisingly large share of these loans went to major companies in "sensitive" sectors.

The Central Bank itself likely planned to cut rates faster and more aggressively. But fiscal reality intervened. The government needed tens of trillions of rubles to fund the war. With oil prices falling, sanctions squeezing export revenues and the National Wealth Fund being depleted, the burden shifted to households and businesses.

Higher tariffs, taxes, duties, excises, and fines were once things Russia mocked Europe for, while boasting of its low-tax model. In Europe, however, those revenues fund social support, healthcare and environmental protection. One can debate priorities, but they are undeniably more rational than Russia's use of funds to bomb apartment blocks and postal warehouses.

Unsurprisingly, higher fiscal pressure fed directly into higher prices. No matter how Rosstat manipulated the numbers — publishing implausibly low inflation figures in the final week of last year — it was forced to account for the gap in the first working week of this year, producing a record inflation spike. Judging by online videos of stunned shoppers comparing prices, everyday goods really have become far more expensive in a very short time.

Experts insist this was a one-off spike and that inflation will now fall. As one interlocutor noted dryly, that decline will largely be the product of Rosstat's revised methodology. There is little doubt the statistics will improve: by the time of the Duma elections, inflation will be "defeated." That it may surge again in October, when most tariff hikes are scheduled, will no longer matter politically.

The Central Bank is harder to deceive. Elvira Nabiullina has all but said outright that the state itself is the main driver of inflation. More precisely, it is President Vladimir Putin's obsession with destroying Ukraine, an obsession that carries a literal and growing price tag.

Rates will eventually come down, but slowly and grudgingly. Credit will remain expensive, including floating-rate loans. Businesses will continue clinging on by their fingernails and some will fall. Calls for the state to intervene will only grow louder and more desperate.

There is little doubt about what comes next. The most profitable assets — or those whose loss could spark unrest — will be absorbed first. Nationalization is no longer a question of principle; it is a question of tempo.

Everything has a price, and this transition is no exception. Until now, Russia's economic resilience was often attributed to its remaining market mechanisms. Judging by business sentiment, that argument no longer holds.

The only sectors likely to remain genuinely market-based will be small businesses serving a population struggling under the same pressures. Everything else will drift into an ever-closer embrace with the state, bringing with it distortions, shortages, and all the familiar failures of state-run economies, amplified by corruption, clientelism and the enormous cost of war.

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