

## **RUSSIAN PRESIDENTIAL ELECTION: FIRST YEAR OF PUTIN'S LAST TERM**

On March 18, 2018, Russia held its Presidential election. According to exit polls, as everyone expected, the incumbent President Vladimir Putin won the election with 76,65% votes, according to the Central Election Commission.

Following the election, Putin becomes the president for a second consecutive six-year term until 2024 (the President's term of office was increased from 4 to 6 years in 2008). This term will highly likely be the last for Putin in this post.

The Russian Constitution limits the number of the President's terms of office by two in a row. Putin himself has repeatedly stated that he will not initiate a change in this constitutional provision. In addition, by the end of the term, Putin will turn 72 years old and the age will already play a role.

Thus, over the next 5-6 years, the re-elected President will be required to make decisions on the economic policy, the implementation of reforms on which the intra-elite consensus already exists, shuffles in the team and a key decision on possible successor and scenario for power transformation by 2024.

Next, we will focus on key events of 2018 that will follow the elections and determine the economic course, its impact on the regulatory environment and key parameters of business climate – tax system, budget structure, public investment in economy and infrastructure, measures of investment support, macroeconomic and monetary policy, etc.

The key decisions on the economic policy (the implementation of "mobilization scenario", focus on development of infrastructure and industrial sector, or, on the contrary, the liberalization of economy to ensure the "quality" of economic growth), the definition of priority reforms and timeline of their implementation (in early years of the presidential term or closer to its end), the depth of the reforms ("cosmetic" changes or radical decisions) will depend on changes in the presidential team for the next term – in particular, on composition and organizational structure of the Government and Presidential Administration.

The key decisions on the economic policy will also be affected by external conjuncture – dynamics of relations with the West, decision to maintain or adjust foreign policy, possible tightening of sanctions in the first months after the election, etc.

Thus, in the first period after the re-election, Putin will focus on these decisions – structure and composition of the Government and Presidential Administration, formalization of economic policy (the "May Decrees"), etc. These issues are considered below in more details.



# Key Events of 2018

## after the Presidential elections in Russia



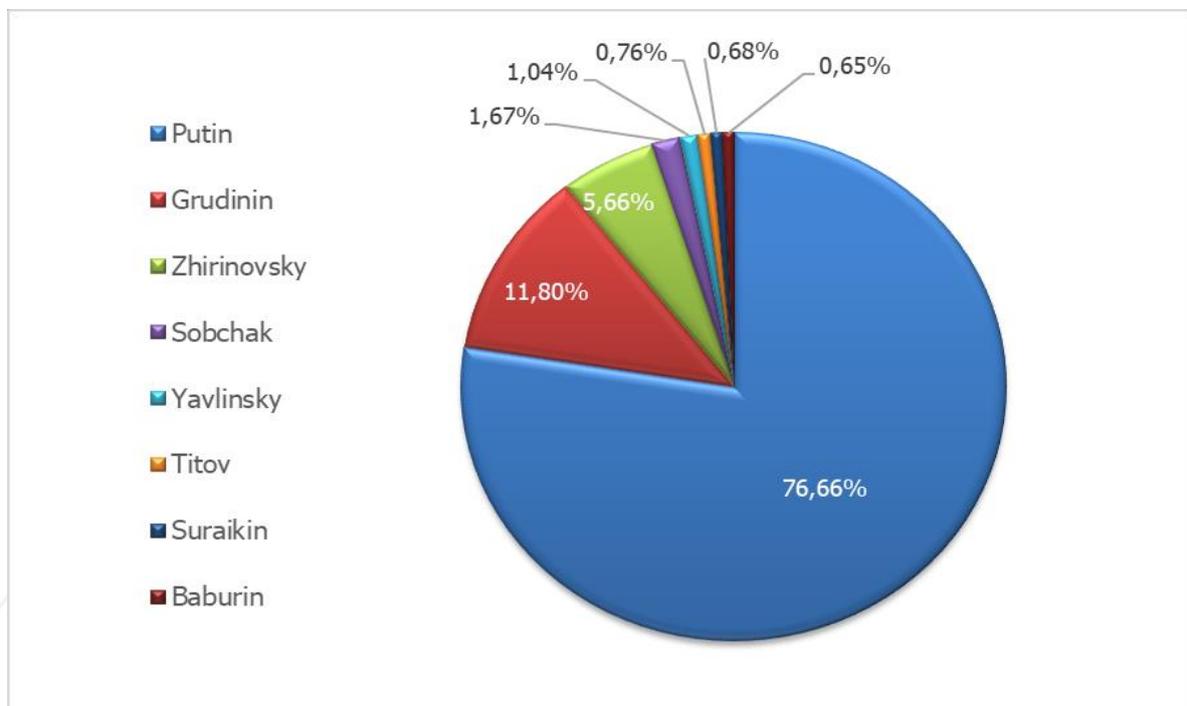


## Key results of the electoral campaign

The election did not produce any sensation and were actually the confidence referendum for President Putin and his policies.

According to preliminary results announced by the Central Election Commission, Putin won the election with 76,66% votes (56,2 million of voters. Across Russia, Putin gained support of 64,38% of voters in the Republic of Yakutia to more than 90% in several North Caucasus regions and the Crimea.

*Chart 1: Russian Presidential election results*

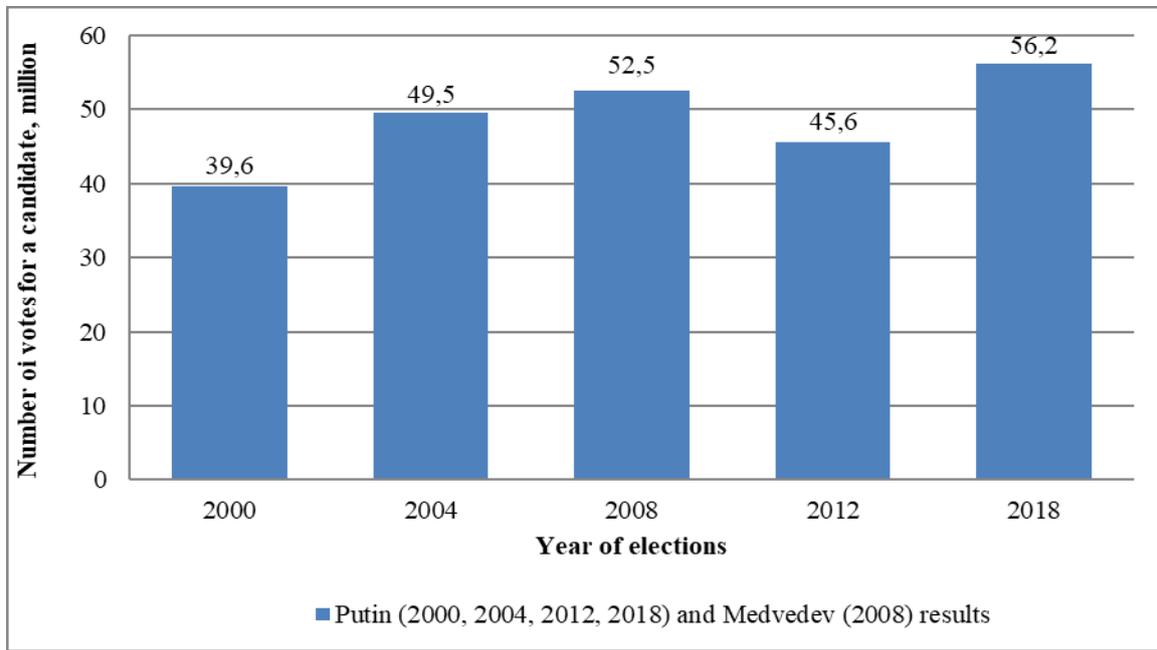


The turnout was 67,47%.

The results of voting in key regions also have some political significance. In Moscow, Putin was supported by 70,88% of voters with the turnout reaching 59,95%, in Saint Petersburg, Putin gained 75,01% of votes. During the 2012 elections, Moscow became the only region in which Putin got less than 50% of votes (46,7%).



Chart 2: Comparative results of the Presidential elections in Russia



The election campaign was of managed and depoliticised nature. It was marked by limited level of public interest and lack of any significant program statements or initiatives from Putin.

During the campaign, Putin actually failed to disclose any comprehensive plan or program for the next term, especially in the economic and social policy. His late Address to the Federal Assembly (*usually, the President makes the address in December, but the 2017 address was postponed to March 2018*) was full of internal inconsistencies and cannot be considered as a Presidential Program. This, the adoption of program documents has been postponed to the post-election period.

Following the announcement of the election results (according to the legislation, the Central Election Commission is to announce the results before March 29), the preparation for the President's inauguration will start. The inauguration will be held on May 7, 2018.

Thus, Putin's re-election itself does not bring any direct implications for businesses. The most significant developments related to the presidential election are expected after the inauguration, in the period from May to December 2018.

These key developments include:

- Entry into office of the new Government and appointment of officials of the Presidential Administration.
- Publication of Presidential decrees on key areas of economic and social policy (so-called "May Decrees" that will in fact constitute the Presidential program for the next term).
- Announcement and implementation of potential reforms.
- Preserving or adjusting the current foreign policy.



## Approval of the composition and structure of new Government and appointment of Presidential Administration officials

In May, following the inauguration, the key development will be the appointment of the new Prime Minister, approving the structure and composition of the Cabinet and Presidential Administration.

Most probably, the key decision-makers will approve the nominees for the position of Prime Minister and key government officials in March-April (the candidates will not be publicly disclosed).

Therefore, formal approval of the Prime Minister and the Cabinet will take place within a short period of time from May 7 to May 28, 2018.

### *Background note*

According to the Russian Constitution, the Government resigns following the inauguration of the elected President. After that, the President is to submit a candidate for the position of Prime Minister to the State Duma within two weeks after the inauguration.

The State Duma is to consider the nominee in one week.

After that, in one week following the appointment, the Prime Minister shall submit to the President his suggestions on the structure of federal executive authorities and candidates for the position of deputy PMs and federal ministers.

In practice, since 2004 the President submitted his nominee for the position of Prime Minister on the inauguration day and the State Duma approved this candidate the next day. Hence, the approval of the composition of the Government and its entry into office took approx. two weeks.

Thus, the new Government is to enter into office in the period from May 7 to May 28, 2018.

Within this period, the President should also appoint key officials of the Presidential Administration (the Head and Deputy Head of the Presidential Administration, Aides to the Presidents, etc.) and other advisory bodies under the President (the Security Council, etc.). Key officials of the Presidential Administration are appointed by Presidential decrees.

## Changes in the Government

The key questions regarding the Government concern its composition and organisational structure.

The composition and structure of the Government will largely depend on who becomes the Prime Minister. Up to date, both retaining Dmitry Medvedev as a Prime Minister and appointing another candidate is possible.



The first scenario is supported by the fact that Medvedev still enjoys Putin's trust and is member of his inner circle. The President can also take into account the fact that Medvedev's cabinet did not make any serious economic failures that might have caused considerable political threats to the President and the fact that Medvedev himself remains politically loyal to Putin.

The second option, i.e. changing the Prime Minister, is supported by the need to conduct significant social and economic reforms and potential implementation of an opposite scenario - "militarization" of the structure of economy. Both these scenarios may require a new structure and composition of the Cabinet.

It is also noteworthy that before the presidential election, a "mini-campaign" over the position of the Prime Minister took place. The list of participants of the campaign included the Chairman of the Center for Strategic Research (an economic expert center close to the government) and former Minister of Finance Alexey Kudrin and Sberbank's CEO German Gref.

The shortlist of candidates to the position of Prime Minister in case of Medvedev's resignation also includes the Moscow Mayor Sergey Sobyenin (*he avoided his mentioning in this context*) and some other candidates.

### ***Scenario 1: Medvedev retains the post of Prime Minister***

If Medvedev is re-appointed as Prime Minister, the structure and composition of the Government may generally remain unchanged. As for the structure, it is noteworthy that one of specific features of Medvedev's management style is that he gives preference to "compact" (i.e. smaller in size and in powers) ministries and other governmental bodies with heads performing rather technical role and having no political ambitions.

In this structure of the Government, the key role in decision-making is played by the deputy PMs who have broad powers and supervise significant economic sectors (Igor Shuvalov is in charge of macroeconomic, tax policy, finance issues; Arkady Dvorkovich – the real sector of economy, industry, agriculture; Olga Golodets – social policy, healthcare, education, etc.). The Government Executive Office, which coordinates and controls the activity of ministries and other governmental bodies, also has substantial bureaucratic influence.

If Dmitry Medvedev remains the Prime Minister, the Government will retain its subordinate position in relation to the Presidential Administration. The system of decision-making on key issues, including in the spheres of the Government's competence (economic and social policy, regulation of key economic sectors, etc.) will remain concentrated in the Presidential Administration. The President and Presidential Administration will continue to exercise "manual" control over the work of the Government (through regular meetings of the President with the Government officials, implementation of presidential assignments, "hybrid" institutions like the project office, the Agency of Strategic initiatives, etc.).



Key officials of the Presidential Administration (Deputy Heads, Aides to the President) will retain their dominant bureaucratic weight compared to the members of the Government (Deputy PMs, ministers, etc.). Overall, the functions of the Government will essentially remain technical.

If Medvedev is re-appointed as the Prime Minister, there could be some replacements of the ministers whose work was previously criticised by the President personally and those with ambiguous reputation (subject to criticism by the industries they supervise, public discontent, etc.).

Taking the abovementioned criteria into account, the following ministers might be replaced:

- Minister of Transport (M. Sokolov), Minister of Internal Affairs (V. Kolokoltsev). Both ministers were publicly criticized by Putin.
- Minister of Culture (V. Medinsky). Medinsky has ambiguous public reputation and is subject to criticism of the industries he supervises.
- Minister of Natural Resources (S. Donskoy), Minister for Civil Defense and Emergencies (V. Puchkov). The abovementioned ministers have low bureaucratic influence and lack support of higher-level political decision-makers.

Other potential changes include the reduction of certain ministries to the level of federal agencies (e.g. the Ministry of Sports) and division of some ministries (e.g. the Ministry of Education and Science), etc.

The Minister of Foreign Affairs might be replaced because of his age (*please see below for more details on potential changes in the foreign policy bloc*).

If the abovementioned ministers are replaced, there could also be staff reshuffles in subordinate federal services and agencies: the Federal Service for Supervision of Natural Resources (Rosdprirodnadzor), the Federal Agency for Mineral Resources (Rosnedra) – supervised by the Ministry of Natural Resources and Environment; the Federal Service for Supervision of Transport (Rostransnadzor), the Federal Air Transport Agency (Rosaviation) – supervised by the Ministry of Transport; the Federal Agency for Tourism (Rosrtourism) – supervised by the Ministry of Culture.

In addition, Medvedev's appointment as the Prime Minister may lead to staff reshuffles at the level of Deputy PMs (these changes are hard to predict). Specifically, Deputy Prime Minister Vitaly Mutko who supervises sports, tourism and youth policy may leave his office following FIFA World Cup.

The prospects of several other Deputy Prime Ministers are also unclear:

- Dmitry Rogozin (in charge of defense, nuclear, shipbuilding, aviation, radio electronic and space industry)
- Olga Golodets (in charge of healthcare, circulation of drugs and medical products, education, social welfare, etc.)



- Sergey Prikhod'ko, the Government Chief of Staff (coordinates regulatory and legislative activity of the Government, supervises reform of control and supervision activity, etc.).

Another possible scenario is the appointment of a "strong" First Deputy Prime Minister to Medvedev's Cabinet. This First Deputy PM will be fully responsible for elaboration and implementation of the economic policy. In that case, Medvedev's political and bureaucratic status will be further reduced, although he retains the post of the Prime Minister (mainly as a person who benefits Putin's personal confidence and whom the functions of the acting President may be delegated in various situations).

A possible decision to appoint a "strong" First Deputy PM will also signal a choice in favor of one of possible economic policy models – "stimulating the economy" (priority development of manufacturing sectors, industry and infrastructure, softer monetary policy) or "liberalization" and structural reforms to ensure the "quality" of economic growth.

Potential candidates to the role of "strong" First Deputy PM under Medvedev are the Aide to the President on economic affairs Andrey Belousov (scenario of "stimulating the economy") and Aleksey Kudrin ("liberalization" scenario).

Besides, the decisions on the composition of the government may be affected by possible desire of several high-level officials (Deputy PMs, Ministers, Vice-Ministers) to leave the cabinet voluntarily, even if Medvedev retains the post of Prime Minister.

Earlier, multiple sources reported that some members of the Government (including Deputy PMs) repeatedly asked to move them to another job outside the Cabinet.

The main reason for this is probability of further reduction of the Government's role in policy-making, reduction of bureaucratic weight of ministers against the backdrop of the need for "unpopular" economic decisions (e.g. the pension reform) in conditions of difficult international and economic environment for Russia. Since the government will be responsible for economic failures, some members of the current Cabinet may seek to leave it.

Moreover, it is possible that Medvedev himself will not try to achieve his re-appointment as Prime Minister, expecting to take more "calm" position in a large state corporation or other non-governmental structure.

Moving to the state corporations and other state-run structures seems one of the best options for a number of current government members. The general reason is probability of further nationalization of economy and increase in the role of state-run companies, including their political status.

The largest state-run companies will play a political role in the eventual transit of power in 2022-2024 and will try to "take" key positions in the Government / Presidential Administration (financial, economic, industrial, military, law enforcement, foreign policy and state security bloc).



### *Scenario 2: appointment of a new Prime Minister*

In case of appointment of a new Prime Minister instead of Dmitry Medvedev, the Government will undergo significant staff and structural changes.

Supposedly, the following government officials may retain their offices:

- Among Deputy Prime Ministers – Igor Shuvalov (in charge of macroeconomic, tax policy, international economic integration, etc.), Dmitry Kozak (in charge of regional issues), Yury Trutnev (in charge of the Far Eastern Federal District), Alexander Khloponin (in charge of environmental policy, circulation of alcohol products, North Caucasus, etc.).
- Among ministers – the Minister of Industry and Trade Denis Manturov (could be promoted to the position of the Deputy Prime Minister), Minister of Economic Development Maxim Oreshkin (supported by the Aide to the President on economic issues Andrey Belousov).
- There could be considerable changes of key officials of federal services and agencies: the Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rosпотребнадзор); the Federal Service for Supervision of Natural Resources (Rosприроднадзор); the Federal Service for Supervision of Communications, Information Technology, and Mass Media (Roskomnadzor); the Federal Agency for Tourism (Rostourism), etc.

The composition of the Government will largely depend on its structure. As for the structure of the Government, various scenarios are possible – from a large-scale reform of the executive branch to the maintenance of existing Government structure.

The system of interaction between the Government and Presidential Administration may also change.

The most radical option is the merger of the Government with the Presidential Administration. The basic technical argument in favor of this is the unwieldiness and excessiveness of existing state apparatus, duplication of functions between sub-divisions of Presidential Administration and the Government Executive Office, etc.

Fundamentally, this option reflects the discussion on establishing a management tool (institutional structure), which will be optimal for implementing the presidential program, ensuring economic growth and “quality” of growth, especially under conditions of external sanctions.

In addition, as the next Presidential term will be the last one for Putin as the President, re-organization of the executive branch can be regarded as preparation for changes in the power structure after 2024.

The following options of considerable reform of the executive branch are possible. They may be implemented independently one from another:



- Changes in the role of Deputy Prime Ministers. Potential changes may include distribution of powers between Deputy PMs on the basis of the "profitable-non-profitable" principle (depending on the spheres supervised), abolishing the positions of "territorial" Deputy PMs or, on the contrary, increasing their number and connection with the Presidential Administration, etc.
- Consolidation of ministries and agencies/services, especially in the economic sphere – the merger of the Ministry of Finance and the Ministry of Economic Development, the expansion of powers of the Ministry of Industry and Trade, the merger of the Federal Tax Service and the Federal Customs Service, further expansion of powers of the Federal Antimonopoly Service, etc.
- Structural reform of control and supervision authorities (consumer protection watchdog Rospotrebnadzor, agriculture sector watchdog Rosselkhozadzor, ICT sector watchdog Roskomnadzor, etc.) – the merger of several supervision services and establishment of mega-regulators on their basis, etc.
- Reform of the "hybrid" management institutions coordinated both by the Government and the Presidential Administration:
  - Revision (increase) of the role of "project office" system, which oversees such priority areas as digital economy, healthcare and drug supply, reform of control and supervision activity, development of exports, promotion of healthy lifestyle, etc.
  - The system of "Open Government" is likely to be abolished if Medvedev leaves the office of the Prime Minister.
  - Revision of the role of the Agency for Strategic Initiatives (in charge of implementation of the National Technological Initiative), etc.
- Reform in the social sphere – the merger of the Russian Pension Fund, the Federal Medical Insurance Fund and the Social Insurance Fund into a single social fund.

## Changes in the Presidential Administration

The degree of changes in the Presidential Administration ("cosmetic" changes or a radical reform) will directly depend on staff reshuffles in the Government.

Generally, the changes in the Presidential Administration may go in the following directions:

- Further increase in the role of Presidential Administration in economic and social policy through the appointment of "protégés" of the key Presidential Administration officials to the position of Ministers and Vice-Ministers (case of the Minister of Economic Development Maxim Oreshkin, close to the Aide to the President A. Belousov), appointment of the Presidential Administration officials to positions in the government (appointment of former Chief of Presidential Anti-Corruption Directorate Oleg Plokhoy as the First Deputy Minister of Justice in autumn 2017).



- Optimization of the institute of Aides to the President (*they have direct access to the President*) by reducing the number of Aides along with the expansion of their powers.
- Potential significant changes in the domestic policy bloc of the Presidential Administration (Sergey Kiriyenko may leave the office of the First Deputy Head of the Presidential Administration in charge of domestic policy).
- Reform of the system of Presidential Plenipotentiary Representatives in the federal districts (expansion of their powers, further strengthening of control over the regions by the Administration).

### Changes in foreign policy bloc and international economic cooperation authorities

Possible staff reshuffles in the foreign policy bloc and among Russia's representatives in international economic cooperation authorities (Inter-Governmental Commissions, international economic institutions) are also important for businesses. They will follow the change of the Government and top officials of the Presidential Administration.

In the foreign policy bloc, the key issue is possible resignation of Foreign Minister Sergey Lavrov. One of the scenarios is moving Lavrov to the position of the President's Aide on foreign policy instead of Yury Ushakov who will probably resign after the elections (as he reaches 70 old age).

The scenario of retaining Lavrov as the Minister for a certain period after the elections (1-2 years) is also possible. This decision can be argued by growing tensions in Russia's relations with the West, the lack of an "adequate successor" of Lavrov as a Minister, etc.

Meanwhile, none of these changes will result in any change in Russia's foreign policy and position on key international issues (relations with the US, EU and other key foreign partners, Ukraine settlement, sanctions policy, etc.), as the decisions on these issues are made by President Putin personally.

Staff reshuffles in the government will also result in changing Russia's representatives in institutions dealing with international economic cooperation and interaction with foreign investors (bilateral Inter-Governmental Commissions on economic cooperation with Russia's key foreign partners, the Foreign Investment Advisory Council (FIAC), Russia's representatives in international organizations (EEC, G20, etc.).

In particular, the following staff changes are possible:

- The change of the Prime Minister will mean the replacement of Chairman of FIAC (this function is performed by the PM), as well as Russia's representatives in the EAEU Inter-Governmental Council and mechanisms of regular meetings of heads of governments with China, Brazil, etc.
- The resignation of the First Deputy PM Shuvalov – change of Russia's representative in the Council of the Eurasian Economic Commission, as well as the Russian co-Chairman in Inter-Governmental Commission on Investment Cooperation with China and Commission on Economic Cooperation with Japan (both commissions work actively over the last years and are the key institutions of economic cooperation with respective countries).



- Resignation of the Deputy PM Dvorkovich – change of Russian co-Chairman in Intergovernmental Commission with Italy (resumed its work in 2017).
- Deputy PM Rogozin – change of Russian co-chairman in Inter-Govt Commission with India, etc.

## Possible priorities of the presidential program for 2018-2024

Staff reshuffles in the Government and the Presidential Administration are also considered as a condition to implement the presidential program for the next term in office.

The basic framework of the program is likely to be promulgated in May 2018 shortly after the inauguration.

The program will be presented in the form of Presidential decrees (or one decree with several thematic blocs included), outlining main policy goals and priorities for the next presidential term.

Putin is to sign the Decrees soon after the inauguration in May 2018. During the previous inauguration on May 7, 2012 Putin signed 11 so-called “May decrees”.

The St. Petersburg International Economic Forum (SPIEF) will probably become a platform to present and explain the presidential program. The SPIEF will be the first public event for newly appointed government and top official of the Presidential Administration. It is illustrative that this year, the Forum is scheduled for May 24-26, while usually it was held in June.

*This year, the Saint Petersburg forum is also planned as a major international event important for Putin's foreign policy goals. By the end of 2017, the French President Emmanuel Macron and Japan's Prime Minister Shinzo Abe have confirmed their participation in the Forum. These visits are of high importance for President Putin as they should symbolize the restoration of Russia's economic cooperation with "selected partners" on the West and bring additional international legitimacy of Putin's re-election.*

*Nowadays, both these visits, as well as the political status of the Saint Petersburg Forum are in question due to the deepening confrontation between Russia and the West and probable new round of Western sanctions against Russia in connection with Sergey Skripal case.*

## Preparation of the presidential program

The preparation of the presidential program is taking place without wide publicity due to high political risks for the Russian president. They include the lack of consensus in political establishment on the most fundamental issues of economic policy and the very fact that technically, the next presidential term should be the last for Putin. Putin's official program has not been presented during the election campaign. Therefore, it is not possible to conduct a detailed analysis of the program.

The main directions of the future program were outlined in the Presidential Address to the Federal Assembly on March 1. However, the economic and social blocks of the Address contained a minimum



of concrete initiatives. Putin indicated only general outlines and directions of policymaking for the next presidential term.

On March 16, Vladimir Putin signed a list of assignments based on the Address. The first assignment in the list requests the Presidential Administration to elaborate the draft Presidential Decree "On National Development Goals of the Russian Federation until 2024". **In fact, this decree will be a form of promulgating the presidential program.** The Decree will integrate the main policy initiatives included in Putin's Address to the Federal Assembly.

The Presidential Administration is to elaborate the draft decree and submit it to the President by April 15. Most likely, the decree will be signed and published on the inauguration day.

The assignment on elaborating the Decree contains a brief outline of the main directions, priorities and thematic blocks to be encompassed in the document.

Basically, the Decree (Presidential Program) will integrate the economic and social policy measures and initiatives, on which a political consensus exists. At the same time, the Decree, as well as the Presidential Address, most likely would not address the most significant and conflictual issues of economic and social policy (e.g. changing the tax system, pension reform, new public spending priorities, the defense spending issue, increase / reduction of state involvement in economy, etc.).

*Given the conflicting nature of these topics, the lack of intra-elite consensus and political risks associated with them, the decisions on these issues will not be included in the presidential program and adopted separately (probably in H2 2018 - 2019).*

The assignments of the President following the address to the Federal Assembly are also indicative from political viewpoint and illustrate the role of Presidential Administration and the Government after the elections:

- The assignments confirm the probability of strengthening the role of Presidential Administration, including in relation to the Government (the Presidential Administration is responsible for a conceptual, strategic part of the assignments, although many areas of the assignments are formally within the competence of the government).
- Further "technocratization" of the government (assignments to the government are of narrow tactical nature) with a probable re-appointment of Medvedev (assignments are given to PM Medvedev with a deadline in July 2018).
- Probability of reorganization of the "project office" system up to its "appointment" responsible for implementation of "May decrees" (many areas of the assignments coincide with the current areas of project office's activities - digital economy, healthcare, etc.).



## Key priorities of the program

Actually, the Presidential program (the Decree “On National Development Goals...”) will focus on more specific policies and initiatives that are not of high importance for political system and will not require systemic economic or institutional reforms.

The policy measures and initiatives included in the program are seen by the Russian political establishment as a tool to resolve or alleviate the most significant domestic economic problems (*the need to foster economic growth under the Western sanctions, reduce economy’s dependence on oil prices, combat the technological backwardness, declining household income, poverty, etc.*) without systemic reforms.

Based on these general assumptions, the presidential program will include the following main blocks:

### *Macroeconomic objectives*

- **Fiscal manoeuvre** – the redistribution of budget spending in favor of social policy issues (healthcare, education, social and demographic policy, infrastructure development) while reducing spending for the law enforcement and supervisory activities. Such redistribution was discussed by the government on the eve of the elections and was in fact approved in the President’s Address to the parliament. At the same time, the specific parameters of the fiscal maneuver are unknown. The Address only indicates the need to increase budgetary spending on healthcare to 4 percent of GDP in 2019-2024. The fiscal maneuver can be funded by increased budget revenues from commodities exports, possible changes in the tax system and some other sources.
- **The growth of labour productivity.** Growth of the labour productivity is seen as one of the most important drivers of the economic growth by a number of Putin’s economic advisers, particularly the Minister of Economic Development Maxim Oreshkin and the Aide to the President on economic affairs Andrey Belousov. This approach was supported by the President in his Address to the Parliament through a task to ensure the growth of labor productivity by 5 percent a year. However, specific mechanisms to implement this policy still not defined, and now it is only proclamation.

### *Industry-specific blocks of the program*

In addition to the macroeconomic block, the program (the Presidential Decree) will also include a number of blocks on specific branches of economic and social policy. The key priorities and tasks for these areas were identified in the Presidential Address, but only some of them were specified with concrete policies.

The most significant blocks for the business are outlined below:

- **Modernization of infrastructure and adoption of Russia’s Spatial Development Strategy.** The development of infrastructure is considered as important source for economic



growth, which can also create an environment for increasing domestic investment. In addition to development of transport and communications' infrastructure, this block will also include policies to develop data storage, transmission and processing systems. The Spatial Development Strategy may seek to equalize the economic and social conditions between the largest urban agglomerations and the rest of Russia's territory.

- **Technological development and digital economy.** The Digital Economy Program was announced as a high policy priority already in 2017. Putin's economic advisers (particularly Andrey Belousov, President's Aide of the economy and German Gref, Head of Sberbank) consider the digitalization as a tool to accelerate economic growth under the sanctions, while the President himself – as a national security matter due to risks of technological backwardness from the US, China, etc. In this context, the digital economy was announced one of top priorities of economic policy in general. The "digital" block of the program may contain several priorities: elaboration of regulatory framework for digital economy, the development of national digital platforms and data processing technologies, priority attention to emerging technologies like AI, robot technologies, self-piloted transport, etc.
- **Development of non-primary exports.** The increase of non-primary exports is considered as important source of economic growth and budget revenues in time of low commodity prices. In the Presidential Address, Putin set the task to increase the non-primary export twice over the next 6 years. He also stated that the exports of engineering products should increase to \$ 50 billion a year. In practice, the government's attention to non-primary export may result in improvement of instruments for export support, removing existing barriers for exporters and stimulating the export of production of foreign companies, localized in Russia.

Other industry-specific blocks of the program include the development of healthcare, education, demographics, environmental policy, housing and mortgage market, etc.

### The discussion of key economic policy issues beyond the presidential program

Following the presidential inauguration and appointment of the Government, the discussion on more important alternatives of economic and social policy should resume. By the date, there is no broad political consensus of these issues:

- Fiscal system reform (in particular, the implementation of "tax maneuver" – the VAT rate increase while reducing social security fees, possible increase of the personal income tax rate).
- Pension reform and possible increase of the retirement age.
- Reducing / further increase of the government's share in the economy.
- Addressing problems in the banking sector; increase or decrease of the government's share in the financial sector.
- Changing priorities of budget spending, optimizing military and security expenditures.



These issues were considered by the Government's economic block and the Presidential Administration in 2016-2017, but in the pre-election period this debate was suspended due to the lack of consensus on most of these problems and the electoral risks of their public discussion.

In the post-election period, the discussion of these issues will resume. However, the implementation of significant reforms immediately after the presidential inauguration and the appointment of new government is restrained by a number of factors:

- The public announcement of reforms of the fiscal or pension systems that are very problematic for the government, can carry serious political risks to the power system, especially if these issues would be integrated into presidential program.
- Politically important events in mid-2018 (the FIFA World Cup and regional elections in September 2018). They will also prevent discussions and decision-making process on key economic policy issues.

The regional elections are especially significant in this context, as they will be the first electoral test for the power configuration formed after the presidential election.

On September 9, 2018 the governors will be elected in 17 regions, 12 of them were affected by the governors' rotation in 2017. Elections will also be held in Moscow (the Moscow Mayor election), the Moscow region, Novosibirsk region, Yekaterinburg (the city mayor elections) and a number of other regions with a high proportion of protest voting. In this regard, the discussion of potentially problematic issues may be postponed until autumn 2018.

Nowadays, the decisions on key alternatives in the economic policy are very hard to predict. In fact, they will depend on the fundamental choice in favor of one of possible scenarios of the economic policy for the post-election period. These scenarios are outlined below:

- **Stimulating the economy with focus on development of industrial sector and infrastructure.** This scenario may be supported by Andrey Belousov, the President's Aide of the economy, and assumes gradual easing of monetary and credit policies, ensuring economic growth through prioritized development of industry and infrastructure, increased public and SOEs' investments, etc.
- **Economic liberalization to ensure the "quality" of growth.** This scenario is primarily associated with the chairman of the Centre for Strategic Research Alexey Kudrin. The implementation of this scenario implies the preservation of relatively tight monetary and credit policies and high priority of reforms aimed at reducing the government's share in the economy / the share of budgetary spending in the GDP. These reforms include raising the retirement age, privatizing part of state assets, reducing public investment in favor of private ones, and other initiatives.
- **The "militarization" of economy.** The implementation of this scenario may be caused by deepening confrontation with the West, implementation of costly programs in the military-



industrial complex (“arms race”) and tightening of economic sanctions (further restrictions on export of technology and equipment to Russia). This scenario assumes concentrating economic resources on the development of military industrial complex, expanding the import substitution policy, increasing public share in strategic sectors of the economy, including those in which the government has not previously been involved, etc. Supporters of this scenario include the representatives of military-industrial complex (the head of Rostekh Sergey Chemezov) and responsible members of the government (the Deputy PM Dmitry Rogozin) etc.

The choice in favor of one of these scenarios will depend on the decisions on composition of the Government and Presidential Administration, as well as on some other factors, including the foreign policy situation (possible tightening of Western sanctions and growing confrontation with the West), economic conjuncture (fluctuations in energy prices), the dynamics of budget revenues (possible budget surplus in 2018), etc.

Nowadays, the following scenarios of decision-making on these issues seem the most likely:

- **Fiscal system reform.** The proposals for the tax system reform (including the “tax maneuver”) may be discussed since mid-2018. In early July, “The Main Guidelines on Budget, Fiscal and Custom Tariff Policies for 2019-2021” will be submitted to the State Duma. This document should be one of the most important for fiscal policy planning. The final decision on the fiscal system reform may be adopted when discussing the federal budget for 2019 (the government should submit the draft budget to the State Duma by October 1, 2018).
- **Pension reform.** Taking into account conflictual nature of this issue, uncertain position of President Putin on increasing retirement age and some other factors, the key decisions in this area can be postponed to 2019-2020. The decision on this reform will depend on budgetary situation, the figure of the new Prime Minister, who will take political responsibility for the reform, etc.
- **Increasing / reducing public share in the economy.** The most possible scenario is the preservation of the current trends in this sphere with a gradual increase of the government’s role in strategic sectors of Russian economy. The decisions on such issues will depend on the foreign policy environment. The tightening of sanctions and deepening confrontation with the West may result in increasing state involvement in the economy. The general economic situation also matters. For instance, possible cuts in budget revenues and deterioration of the external economic conjuncture may lead to the privatization policy.
- **The change of the budget spending priorities.** The basic scenario is preserving the current level of the military and security spending as the main priority of budgetary policy. The main document assuming the preservation of previous levels of military spending (the State Armament Program for 2018-2027) was signed by President Putin in December 2017. Giving the trend of the growing Russia – US confrontation, the most probable scenario is the preservation of previous priorities of budgetary policy with further growth in military and security spending.



## 2024 Dilemma

Since the next six years may be the last term of Putin's presidency, some parts of the Russian political elite can consider him as a "lame duck" since the re-election. In this regard, such questions as composition of the Government and the Presidential Administration, staff reshuffles, economic reforms, and some other issues can be linked with the problem of Putin's successor. The question is which group of the Russian political establishment will nominate a consolidated candidate for the 2024 Presidential election.

Vladimir Putin can see in this situation significant risks of decline in elites' loyalty and possible political destabilization. Various scenarios for maintaining power in the period after 2024 are currently considered.

Thus, the "2024 dilemma" can exert significant influence on Putin's decisions in the first months after the presidential elections.

Among the options for dealing with this dilemma, the following scenarios are possible:

- Finding a compromise between political elites and nominating a consolidated successor in 2024.
- The creation of the new supreme authority, which may be headed by Putin after the end of his term of office without significant amendments to the Constitution. This new body can be formed on the basis of existing advisory bodies linked with the Russian president (for instance, the Security Council, or the State Council) and empowered to define the priorities of domestic and foreign policy as well as control over the executive branch.
- Constitutional reform which assumes complete revision of the Constitution, with removal of restrictions on the number of possible presidential terms, creation of the new government agency or political office, etc. The possibility of this scenario may increase in connection with the recent changes in political system of China (the cancellation of the senior party leaders' rotation).
- The less probable scenario is expansion of the government's powers while reducing the president's status, with Putin moving to the Prime Minister post in 2024.

## Possible changes in the Eurasian Economic Commission

The presidential election in Russia will not have a significant impact on the situation in the Eurasian Economic Union (EAEU) and permanent authorities of the Union – the Council and Board of the Eurasian Economic Commission. Let us remind you, that since January 2018, Russia took the presidency in the EAEU authorities.

The reason is that Russia already presented its priorities in the Eurasian Economic Union in January 2018 – import substitution, digital economy, coordinated policies in industry and agriculture, formation of a single financial market, creation of free trade areas (FTAs) and signing trade and economic agreements between the EAEU and third countries,



In case of significant change in composition of the Government and Presidential Administration, some former members of the government / administration may be moved to the EEC Board (the permanent executive authority of the Commission).

However, the probability of changing Russia's representatives to the Board is limited by the fact that only two members from each country are represented in the Board, and the current members from Russia are holding stable positions and coping with their duties quite successfully.

Possible changes of officials in charge of the Eurasian Economic Union issues in the Russian Government and Presidential Administration will have much more significant impact on the EAEU activities. This concerns the First Deputy PM Shuvalov, who works as Russia's representative in the EEC Council, top officials of the Ministry of Economic Development coordinating interaction with the EEC, the Ministry of Industry and Trade, etc.

Changes at this level may influence Russia's position in the EAEU on the most pressing issues on the Commission's current agenda:

- Negotiations on establishment of FTA with Egypt, Israel, India, Iran, Serbia and Singapore.
- Signing an agreement on trade and economic cooperation with China.
- Creation of EAEU system of traceability and tagging of goods.
- Implementation of the EAEU digital agenda.
- Further development of common markets of drugs medicines and medical devices, creating conditions for the launch of single financial market.
- Harmonization of tax and excise policy.
- Development and approval of technical regulations, introduction of changes into existing ones, etc.