

RUSSIAN ECONOMY IN 2023  
TRENDS AND OUTLOOKS

(Issue 45)

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The review “Russian economy. Trends and outlooks” has been published by the Gaidar Institute since 1991. This is the 45th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 5 big sections that highlight different aspects of Russia’s economic development, which allow to monitor all angles of ongoing events over a prolonged period: the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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### 3.5. Small and medium-sized enterprises in Russia in the context of sanctions<sup>1</sup>

The 2022 sanctions crisis has led to a number of structural changes in the Russian economy: the severance of long-standing partnerships with companies from unfriendly countries;<sup>2</sup> destruction of supply chains; restriction of imports of materials, components and technologies, some of which have no analogues in friendly countries; complication of financial transactions, etc.<sup>3</sup> However, already in 2023, the Russian economy demonstrated positive dynamics (growth of household incomes and investment), which contributed to the improvement of the situation in the SME sector, as the demand for their goods and services, particularly in the hospitality, trade and entertainment sectors, was growing.

The effect of sanctions on Russian firms, including SMEs,<sup>4</sup> depends on the degree of their inclusion in global production chains and world trade, as well as on the technologies they use. Unlike previous crises, the most negative impact of the sanctions crisis was felt by more competitive, technologically advanced companies. At the same time, the increase in domestic demand, parallel imports and the clearing of a number of market niches after the withdrawal of foreign companies from the Russian market created prerequisites for the development of mass service businesses, while the government, using various instruments, stimulated the growth of the manufacturing sector and information technology in SMEs.

Sanctions pressure and increased uncertainty led to a sharp deterioration in business sentiment<sup>5</sup> and a drop in business activity.<sup>6</sup> However, business was able to quickly adapt to the new conditions, and by Q2 2023, the share of pessimistic entrepreneurs significantly decreased, and the level of business activity grew.

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- 2 RF Government Decree of 05.03.2022 No. 430-p // SPS KonsultantPlus. 2022. URL: [https://www.consultant.ru/document/cons\\_doc\\_LAW\\_411064/e8730c96430f0f246299a0cb7e5b27193f98f-daa/](https://www.consultant.ru/document/cons_doc_LAW_411064/e8730c96430f0f246299a0cb7e5b27193f98f-daa/)
- 3 Russian Economy in 2022. Trends and Prospects. Issue 44. Moscow, Gaidar Institute Press, 2023.
- 4 *Barinova V.A.*, *Zemtsov S.P.*, *Tsareva Yu.V.* In Search of Entrepreneurship in Russia. Part I. What prevents small and medium-sized businesses from developing. Moscow. "Delo" Publishing House. RANEPa, 2023.
- 5 Longitudinal study by FOM and the National Research University Higher School of Economics. URL: <https://smbiz.fom.ru/longitude?ysclid=lnsc3e9r8q992583783>
- 6 RSBI Index. URL: <https://www.psbank.ru/Business/RSBI>

Among the negative consequences of sanctions, small and medium-sized companies of the manufacturing industry most often point out:<sup>1</sup> rising prices for raw materials, supplies and components in the domestic market; problems with import of raw materials, supplies and components; problems with logistics; problems with imports of equipment, its maintenance and repair; reduced demand from Russian consumers; increased risks associated with exchange rate fluctuations. Small and medium-sized companies perceive issues related to technology import, logistics, breakdown of relations with foreign partners, difficulties in financial transactions, reduction of foreign demand less acutely than large companies.

### 1. Dynamic of the number of enterprises in SME sector

At the end of 2023, the Unified Register of SMEs<sup>2</sup> included 6.3 million companies, which is 5.7% higher than the number as of December 2022 (excluding new territories, the increase amounted to 2.16%) and 6.5% higher than the value as of December 2019 (*Fig. 17*). The number of micro-enterprises grew the most, by 5.9% (excluding new territories, the increase was 4.1%) and 6.5% compared to 2019 (excluding new territories, the increase was 4.9%), but the number of small companies increased by only 0.9% compared to 2022 and decreased by 4.5% compared to 2019.<sup>3</sup> The reason for the decrease in the number of small companies can be attributed to the uncertain economic situation, the departure of some entrepreneurs to foreign countries (in particular, a sharp increase in the number of registered firms is observed in Kazakhstan, Georgia, Armenia, and Turkey).<sup>4</sup> The growth in the number of micro-enterprises is associated with an increase in the number of individual entrepreneurs (IEs), which are often opened instead of legal entities (LEs) to reduce the tax burden, and with an increase in the number of new businesses as some market niches are being freed up after the departure of foreign companies. The number of newly established SMEs increased compared to 2022, but slightly below the pre-pandemic level. The number of medium-sized companies increased as

1 *Simachev Yu. V., Yakovlev A. A.* Adaptation of Russian industrial companies to sanctions: first steps and expectations. Presentation at XXIV Yasin (April) international scientific conference on issues of economic development and society. Moscow, 2023.

2 Unified register of small and medium-sized enterprises of the Federal Tax Service of the Russian Federation. URL: <https://ofd.nalog.ru/>

3 The criteria for classifying enterprises as small and medium-sized enterprises are set forth in the Federal Law of 24.07.2007 No. 209-FZ (ed. 12.12.2023) "On the Development of Small and Medium-Sized Enterprises in the Russian Federation" and contain the criterion of the average number of employees (up to 15 people – microenterprise, up to 100 people – small enterprise, up to 250 people – medium-sized enterprise, except for certain industries), the criterion of income from entrepreneurial activity for the previous calendar year (microenterprises – up to Rb120 mn, small enterprises – up to Rb800 mn, medium-sized companies – up to Rb2 bn), independence of origin criterion (the share of state or public companies in the authorized capital does not exceed 25%, the share of foreign companies in the authorized capital does not exceed 49%).

4 Russians started 3 times more businesses in Georgia after the start of the SMO than in the 27 previous years. URL: <https://www.kommersant.ru/doc/6123828>; <https://www.rbc.ru/rbcfreenews/64eb67199a79473860622da2>; Russians have become the leaders among foreigners in starting companies in Turkey in 2022, followed by Iranians and Germans. URL: <https://vc.ru/migrate/588996-rossiyane-stali-liderami-sredi-inostrancev-po-otkrytiyu-kompaniy-v-turcii-v-2022-godu-dalee-sleduyut-irancy-i-nemcy>

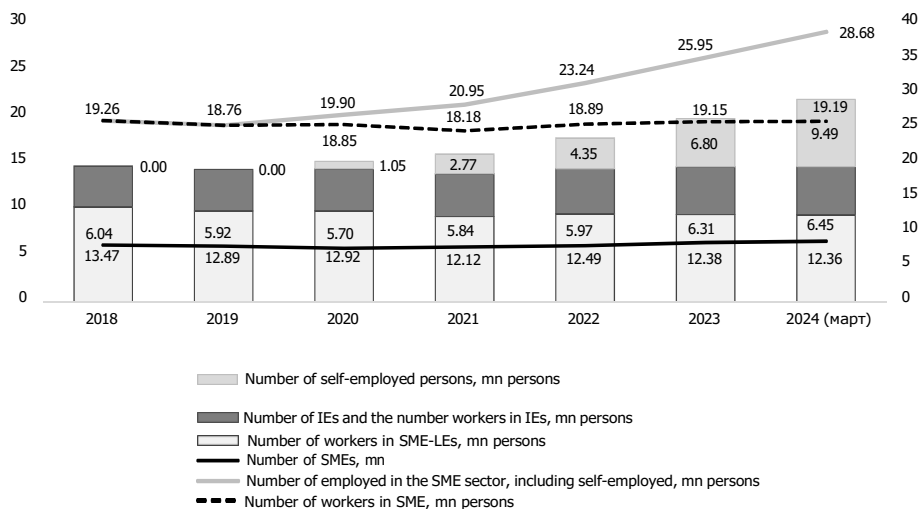


Fig. 17. Dynamics of the main indicators of the SME sector in Russia in 2018–2024

Source: Unified register of the subjects of small and medium-sized enterprises. URL: <https://ofd.nalog.ru/>

a result of the transition of enterprises from the category of large companies due to lower performance indicators, as well as for tax and other preferences.

The ratio of legal entities to individual entrepreneurs in the SME structure changes towards the latter, as the number of individual entrepreneurs in 2023 increased by 9.9% compared to 2022 and by 18.7% compared to 2019, while the number of legal entities decreased by 0.95% and 9.9%, respectively. The reduction in the number of legal entities may further reduce opportunities for scaling businesses, as individual entrepreneurs are most often not focused on increasing business volumes.

The highest growth in the number of SMEs in 2023 compared to 2019 was observed in Kalmykia (94.4%), Chechnya (50.8%), Dagestan (36.7%), Tyva (26.5%), and Ingushetia (24.2%), where the low base is combined with the new opportunities for parallel imports through neighboring countries, as well as in the Leningrad (23.5%) and Moscow (22.6%) oblasts, where online trade is actively developing thanks to the proximity to major agglomerations. The largest decrease in the number of SMEs was recorded in the regions bordering with unfriendly countries: Pskov (-10.2%) and Bryansk (-7.9%) Oblasts, as well as in the regions affected by the severance of ties with the European Union and the departure of foreign investors:<sup>1</sup> Vologda (-9.9%), Arkhangelsk (-9.7%) oblasts, Komi (-9.5%), the Astrakhan oblast (-8.4%).

## 2. Employment dynamic in the SME sector

In 2023, the average number of employees in SMEs (excluding the self-employed who are not SMEs) is 1.37% higher than in 2022 and 2.07% higher

<sup>1</sup> Zemtsov S.P., Barinova V.A., Mikhailov A.A. Sanctions, withdrawal of foreign companies and business activity in Russia's regions // Economic Policy. 2023. Vol. 18. No 2. P. 44–79.

than in 2019. At the same time, while the indicator for individual entrepreneurs increased by 5.9% and 15.3% respectively, for legal entities it decreased by 0.94% and 3.98%. The decline in employment of legal entities is due to the general shortage of staff in the economy, as well as the desire of businesses to save on payments to social funds, for which some employees may be transferred to the category of self-employed. Of the current employees of legal entities at the end of 2023,<sup>1</sup> around 425,000 (i.e. 2.8%) were simultaneously self-employed and about 5% were individual entrepreneurs, while among those employed by individual entrepreneurs the respective categories amounted to 2.12% and 2.38%. There is a slight overlap between the categories and, accordingly, double counting is observed.

The number of self-employed individuals who have registered their status and apply the special tax regime "self-employment tax" continues to grow steadily. According to the year-end of 2023, the indicator went up by 39% to 9.3 mn. The income of the self-employed over the past year rose by 48% and amounted to Rb1.4 trillion.<sup>2</sup> It is the sharp growth in the number of self-employed that explains the overall growth of employment in the SME sector, recorded by the Ministry of Economic Development of Russia within the framework of reporting on the national project "Small and medium-sized entrepreneurship and support for individual entrepreneurial initiative". At the same time, the main areas of activity of the self-employed are: repair and construction (672,100 people, or 7.2% of the total number of self-employment tax payers); information technology and services (662,700 people, 7.1%); motor transport and repair: drivers, auto mechanics, etc. (556,400 people, 6%); beauty salons (345,900 people, 3.71%); home services (202,500 people, 2.2%); training (194,900 people, 2.1%);<sup>3</sup> real estate renting (178,900 people, about 2%) (Table 20).

*Table 20*

### Self-employed sphere of activity determined by FTS RF in 2023

Sphere of activity	Number of self-employed, persons	Share in the total number of self-employed, %
Repairs	672 094	7.2
Auto	556 452	5.96
IT-sphere	417 281	4.47
Beauty	345 931	3.71
Information services	253 036	2.71
Other	224 315	2.4
Home	202 593	2.17
Do it yourself	201 148	2.15
Training	194 946	2.09
Trade	194 695	2.09

1 Statistics for the national project "Small and medium-sized entrepreneurship and support for individual entrepreneurial initiative". URL: <https://ofd.nalog.ru/statistics2.html#>

2 FTS RF. URL: [https://www.nalog.gov.ru/rn77/news/activities\\_fts/12449545/](https://www.nalog.gov.ru/rn77/news/activities_fts/12449545/)

3 FCS RF. Presentation analysis. URL: <https://geochecki-vpd.nalog.gov.ru/self-employment>

Sphere of activity	Number of self-employed, persons	Share in the total number of self-employed, %
Finances	191171	2.05
Lease	178 717	1.91
Photo, video, print	160 438	1.72
Clothes	114 572	1.23
Health	105 596	1.13
Catering	95 199	1.02
Entertainment	94 586	1.01
Lawyers	90 124	0.97
Nature	58 017	0.62
Sport	46 527	0.5
Animals	46 289	0.5
Other	4 890 973	52.4

Source: FTS RF. Presentation analysis. URL: <https://geochecki-vpd.nalog.gov.ru/self-employment>.

ITS With the withdrawal of foreign brands, more and more Russians would like to open their own business or register the status of self-employed.<sup>1</sup> Over the past 15 years, the share of entrepreneurs among Russians has doubled from 4% to 8%;<sup>2</sup> 9 out of 10 respondents (92%) declare a positive attitude towards them, and in the group of young people aged 18–24 – 99%, which generally indicates a positive perception of entrepreneurship and the potential for increasing the number of entrepreneurs in Russia.

### 3. Turnover of the SME sector companies

ITS Almost throughout 2023, the “sales” component of the SME business activity index RSBI is in the decline zone (value below 50 p.), which reflects the pessimistic mood of entrepreneurs. About 27% of SMEs participating in the survey expect a reduction in revenue in future periods, 23% are more optimistic and forecast turnover growth. In October last year, 30% of SMEs recorded a decrease in revenue, while 20% saw an increase. Entrepreneurs fear a decline in demand<sup>3</sup> given the uncertain economic situation and the high key rate of the Bank of Russia. The creditworthiness of the population is growing, which together with high interest rates on consumer and mortgage loans limits the possibility of expanding demand for SME products and services.

According to the Ministry of Economic Development,<sup>4</sup> in 2023 the total proceeds of SMEs increased by more than 13% compared to 2022 and amounted

1 53% of Russians said they were ready to engage in private entrepreneurship (responses: definitely yes – 23%, rather yes – 30%). URL: [https://www.vedomosti.ru/press\\_releases/2023/09/21/bank-otkritie-53-rossiyan-hoteli-bi-zanyatsya-chastnim-biznesom](https://www.vedomosti.ru/press_releases/2023/09/21/bank-otkritie-53-rossiyan-hoteli-bi-zanyatsya-chastnim-biznesom)

2 VCIOM. URL: <https://wciom.ru/analytical-reviews/analiticheskii-obzor/predprinimatelstvo-v-rossii-monitoring>

3 RSBI Pillar Index. Business activity of small and medium-sized businesses. URL: <https://www.psbank.ru/Business/RSBI>

4 Expert. URL: <https://expert.ru/news/zamglavy-mer-vyruchka-msp-rf-za-pyat-let-vyrosla/>

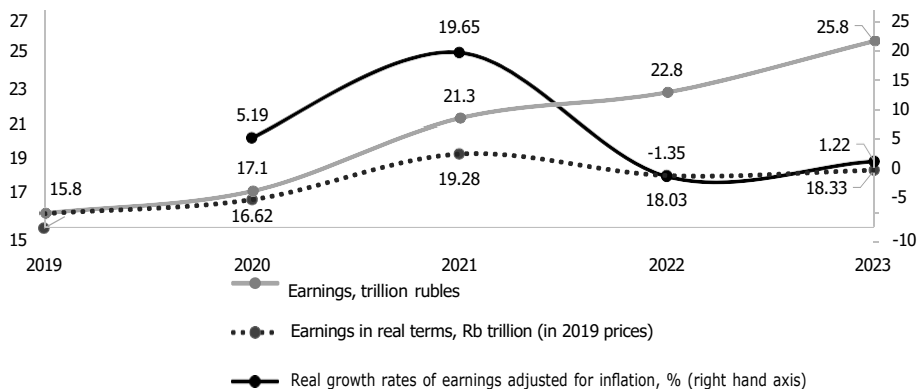


Fig. 18. Dynamics of SME revenue in Russia (adjusted for inflation) in 2019–2023

Source: Ministry of Economic Development of Russia.

to Rb25.8 trillion (Fig. 18). In real terms,<sup>1</sup> the revenues grew by 1.22% (Rb18.33 trillion) in 2023 and are 16% above the 2019 value.

According to Rosstat data, in 2023 the aggregate turnover<sup>2</sup> of small enterprises (excluding microenterprises), without adjustment for inflation, increased by 15.2% compared to 2022 and by 23.5% against 2019. A reduction in aggregate turnover was observed only among small companies engaged in financial and insurance activities (29.4% compared to 2022). The greatest growth in turnover was observed among companies operating in the following segments: education (41.8% compared to 2022), mining (34.1%), cultural, sports, leisure and entertainment activities (32.6%), information and communication activities (25.3%), and manufacturing (23.9%). The turnover of enterprises engaged in trade, repair of motor vehicles increased by 11.8%. As a result of the population's income growth amid restrictions on travel abroad, the consumption of various kinds of tourist and entertainment services has increased markedly. Information activities, which are substantially supported by the state, are increasing along with the digital economy. Manufacturing enterprises are growing against the background of increasing domestic demand and import substitution programs. One of the fastest growing sub-sectors was professional scientific and technical activity, which grew 2.1 times in 2023 due to the need to develop new goods, services, search for new markets and other related activities within the framework of import substitution.

The decrease in the turnover of small enterprises was observed in the regions affected by the withdrawal of foreign investors: in the Arkhangelsk Oblast (-8.0%), the Nenets Autonomous District (-3.5%), the Pskov Oblast (-0.67%). The highest growth was recorded in the eastern-oriented Amur Oblast (56.3%), the Republic of Tyva (44.9%), the Kemerovo Oblast (41.9%), as well as in the Udmurt Republic (36.3%) and the Lipetsk Oblast (34.8%).

<sup>1</sup> The adjustment was made for the cost of a fixed set of goods and services.

<sup>2</sup> VAT, excise taxes and similar mandatory payments are not taken into account.



According to the SME Corporation,<sup>1</sup> in 2023, 8,000 self-employed persons provided goods and services worth Rb7.2 bn to large state companies under Federal Law No. 223-FZ, which is more than 2 times higher than in 2022. The largest share in government procurement was occupied by financial services and insurance (18.3%), advertising and market research services (13.8%), creative, art and entertainment services (7.8%), scientific and technical services (7.1%). The increase in the number of self-employed among suppliers of large state-owned companies is facilitated by the extension of a special 25% quota for purchases from SMEs.

#### 4. SME's exports

SMEs have become more active in entering foreign markets. According to data from the Russian Export Center, the number of small and medium-sized companies exporting their products abroad in 2023 increased to 83,000 from 61,000 in 2022 and from 53,000 in 2021. Over the period from 2020 to 2023, the figure increased by 60%.<sup>2</sup> The growth in the number of exporting companies is due both to the Russian government's actions to improve border crossing infrastructure and reduce the administrative burden on foreign trade, and to the opportunities offered by digital trading platforms such as Russia's Ozon or China's Alibaba.

According to the data of the cloud service "My Warehouse",<sup>3</sup> in 2023, the turnover of SMEs engaged in foreign trade activities increased by 23% compared to 2022. This may be directly related to the authorization of parallel import mechanism.

According to the results of a survey of entrepreneurs conducted by NAFI and PSB<sup>4</sup>, the share of SMEs supplying goods, services and components to China has doubled in 2023 versus 2020 (up to 21% from 10%). Other key export destinations for SMEs are Belarus (share increased from 33% to 36%), Kazakhstan (share decreased from 43% to 41%), Armenia (share decreased from 13% to 10%).

#### 5. Lending to SMEs

The Bank of Russia estimates<sup>5</sup> that the SME lending market recovered faster during the sanctions crisis than during the pandemic period. By the end of 2023, the loan portfolio of SMEs grew by more than 28% against 2022. The main driver of SME lending is government support programs, including concessional lending.

1 SME Corporation. URL: [https://corpmsp.ru/pres\\_slujba/news/v\\_2023\\_godu\\_samozanyaty\\_e\\_predostavili\\_goskompaniyam\\_tovary\\_i\\_uslugi\\_na\\_rekordnye\\_7\\_mlr\\_d\\_rubley](https://corpmsp.ru/pres_slujba/news/v_2023_godu_samozanyaty_e_predostavili_goskompaniyam_tovary_i_uslugi_na_rekordnye_7_mlr_d_rubley)

2 Expert. URL: <https://expert.ru/news/rets-sredi-msp-na-60-vyroslo-chislo-eksporterov/>

3 Vedomosti. URL: <https://www.vedomosti.ru/kapital/trends/articles/2024/02/28/1022487-biznes-shturmu-et-ved>

4 Supply to the East: one in five SMEs started selling to China // Vedomosti. URL: <https://iz.ru/1536047/maria-stroiteleva/postavka-na-vostok-kazhdoe-piatoe-msp-stalo-prodavat-tovary-v-kitai>.

5 Analytical review of the SME // Bank of Russia. 2023. URL: [https://www.cbr.ru/Collection/Collection/File/45145/inf\\_material\\_msp\\_2022.pdf](https://www.cbr.ru/Collection/Collection/File/45145/inf_material_msp_2022.pdf)

About 100,000 SMEs attracted more than Rb1.5 trillion in preferential loans under the Small and Medium Entrepreneurship project.<sup>1</sup>

In 2023, SMEs were granted loans worth Rb15.9 trillion, which is 39% more than in 2022. In the structure of the volume of loans granted in 2023, the largest share of loans was to companies and individual entrepreneurs engaged in the following types of activities: wholesale and retail trade – 29.4%, construction – 15.6%, professional, scientific and technical activities – 12.8%.<sup>2</sup> The trade sector increased its scale of activity due to parallel import mechanism and expansion of online trade, construction grew on the background of record rates of housing commissioning, and scientific and technical activities were in demand in the context of the need for accelerated import substitution.

\* \* \*

Despite the shocks induced by the aftermath of the pandemic crisis and large-scale sanctions restrictions, the SME sector continues to demonstrate stability of key indicators stemming from the emergence of new market niches and economic restructuring with continued consumer demand. The total number of SMEs and employment in the SME sector (including the self-employed) grew; total revenues of SMEs increased in 2023 (after a slight decline in 2022); and export activity expanded to friendly and neutral countries. But there are some contradictory trends. Thus, the number of SMEs is growing mainly at the expense of individual entrepreneurs; the number of self-employed is growing against the background of a reduction in employment in SMEs – legal entities; accordingly, the average size of the enterprise is shrinking, and this may have a negative impact on productivity and prospects for scaling up the business.

Entrepreneurs recovered from the shock, and a number of companies were able to find new business development opportunities as foreign companies withdrew from the Russian market. At this stage, the Russian SME sector was not significantly affected by the sanctions; the negative consequences were felt mainly by those companies that were more dependent on export and import supply chains that were subject to the restrictions, including a number of technology companies.

As SMEs are more flexible and adaptable to new environment compared to large companies, SMEs have the potential to become drivers of structural changes in the economy, helping to mitigate the negative effects of the imposed sanctions restrictions. At present, it is important to establish trade and industrial ties with Asian countries so that entrepreneurs can build new partnerships, supply materials and technologies that have come under restrictions, enter new markets, build new supply chains, and so on. It is also important to support entrepreneurs seeking to occupy niches of foreign companies that have left, especially in the manufacturing sector. A significant role can be played by the “SME+” support

1 Vedomosti. URL: <https://www.vedomosti.ru/business/news/2024/01/18/1015624-msp-poluchili-kreditov>

2 Statistical bulletin “Lending to small and medium-sized enterprises” // Bank of Russia. 2023. URL: [https://www.cbr.ru/Collection/Collection/File/48915/stat\\_bulletin\\_lending\\_23-12\\_43.pdf](https://www.cbr.ru/Collection/Collection/File/48915/stat_bulletin_lending_23-12_43.pdf)

regime currently under discussion, which should soften the barriers of transition from SME to big business status.

In the context of limited access to investment and new technologies, it is necessary to support sanctions-dependent manufacturing companies: information support for entrepreneurs to enter new markets and search for new suppliers of materials, components and technologies; development of payment instruments to simplify settlements with foreign partners; additional direct financial support for SMEs capable of replacing foreign suppliers of materials, components and technologies subject to restrictions through regional funds.