

Government report on its performance in 2014

The State Duma of the Russian Federation, Moscow

21 April 2015

Report by Dmitry Medvedev

Good afternoon, Mr Naryshkin, State Duma deputies and colleagues. I'd like to begin by expressing gratitude for the deputies' support for the Government's key initiatives, for their proposals on improving our initiatives and, of course, for your numerous critical but constructive remarks.

We have always cooperated with you, and we'll continue to do this. However, last year our cooperation entered a fundamentally new stage in terms of speed and content, due to changes on the foreign policy stage and for economic reasons. Hence, many results about which I will speak in this report were achieved thanks to smoothly running cooperation.

Of the draft laws which the Government prepared and submitted to the parliament, 256 became laws last year. You know this very well. Thank you again for our cooperative work. During the current session, the State Duma has adopted 58 laws submitted by the Government. We prepared many draft laws in close coordination with the parliament, which was considering, as of 13 April, 226 Government-submitted draft laws, including documents that are directly connected to the implementation of the Plan of Priority Measures to Ensure Sustainable Economic Development and Social Stability in 2015.

In addition, we have actually reworked the 2015 budget twice this year and made amendments again only recently. I also want to thank everyone who supported the Government; these were not easy decisions. I hope as we work on next year's budget, which will not be easy either, we'll communicate with you just as effectively to identify the possibilities to balance it and to find additional reserves, which again, I hope will be there.

I'd like to begin by saying a few words about the conditions in which the Government has been working in the past 12 months, which, in fact, the entire country had as well. Standing here at this podium a year ago, I told you we were in for a very difficult period.

At that moment, you probably thought, at least some of you, that it was a figure of speech, an exaggeration. But reality proved even more difficult.

For the first time in Russia's modern history after the Soviet Union's collapse, and possibly even in our Soviet and post-Soviet history in the 20th century, our country faced two external challenges simultaneously: plummeting oil prices and unprecedentedly harsh sanctions. We had never faced this combination of challenges before. There were periods in Soviet and Russian history when our economy seriously depended on hydrocarbons, and when oil prices were very low. In 1998, oil prices plunged to \$9 per barrel. By the way, this plunge is

comparable to the current fall in oil prices, considering the current purchasing power of the dollar along with several other economic indicators and factors.

Sanctions have been imposed on the Soviet Union and Russia before. Overall, as I said more than once last year, there were approximately ten such sanction cycles. The latest wave of sanctions is probably the most powerful one. But we had never encountered such a hugely negative multiplier effect, as economists say, in the Soviet or post-Soviet period, with several elements factoring in, compounding each other's influence immensely.

In short, our economic situation is indeed very complicated. GDP growth was only 0.6 percent in 2014. The situation was the worst at the end of last year and at the beginning of this year. Plummeting oil prices pulled the rouble rate along, inflation soared to 16 percent, real incomes were falling, GDP registered negative growth, and investment activity and domestic consumption seriously slackened. And the backdrop for this was a politicised downgrade of Russia's investment rating and large-scale capital flight.

These negative trends continued into this year. In January-March 2015, GDP declined by approximately two percent and industrial production by 0.4 percent from the first quarter of last year. But investments decreased most significantly. However, this is far from the worst-case scenario. In fact, the situation with prices and unemployment, in the banking sector and in many industries, could have been much worse. I'd like to remind you that we faced much bigger problems in 2009, when GDP plummeted by nearly eight percent and industrial production by over 10 percent, and the quoted prices of Russian shares dropped abruptly. The situation on the employment market was much, much worse too. Of course, this doesn't mean that we can breathe a sigh of relief. But we must see the whole picture.

Even last year, we began to take the necessary steps, bearing in mind the experience from the previous crisis. Many of our decisions then found their way into the priority plan for sustainable economic and social development in 2015. These moves have already produced at least some effect.

The foreign exchange market has calmed down, and the economy is gradually adapting to a floating rouble exchange rate. Public debt remains low. The federal budget deficit, although somewhat increased, remains at an economically safe level, and the unemployment rate remains within reasonable limits, meaning it is lower than in other countries, in comparable figures.

The Bank of Russia cut its key rate along with the downturn in inflation. If we assess the situation as a whole, it has stabilised, but we had better not delude ourselves.

Today we are faced with more than short-term meltdowns. Yes, we were able to overcome most of them, but if the external pressure increases, and oil prices remain at this extremely low level for a long time, we'll have to live and grow in a different economic reality, which will test and challenge all of us. So we will all need to learn to work in that reality, solving the complex and important tasks for our country's development.

I am confident that we will be able to live in that reality. Our recent experience shows that we have learned what we needed to know, although it might not be the best development.

Now I want to ask whether our country could have avoided this economic scenario. The answer is no, and we all know why. This strong external economic pressure was triggered by a major political decision last year – Crimea returned to Russia. It was the only decision possible. So we all supported it – the country as a whole, the Government and Parliament – knowing what the consequences would be, and here we are all in this together, needing to work to minimise the economic problems, maintain stability and social development in our country.

There are moments in every country's history when it turns a page to a new era. It is obvious that 2014 was one of those for modern Russia. Last year was the year of Crimea for all of us, for the whole country, without exaggeration, as it was returned to Russia, as how the overwhelming majority of people on both sides of the Kerch Strait felt was given legal clearance. The Crimean peninsula, despite its formal post-Soviet border, has always been our land, our common pain, and common pride, common challenge and common victory.

I am sure every citizen of Russia and every responsible politician is aware of how important this event is. For many, the return of Crimea means the restoration of historical justice, something comparable - in intensity and importance - to the fall of the Berlin Wall and German reunification, or the return of Hong Kong and Macau to China.

Moments like these always have an enormous geopolitical impact. As Pyotr Stolypin once said, "There is no revenge in politics, but there are consequences." The unprecedented political and economic pressure is payment for our position. However, both the authorities and society understood that we do not have an alternative, whatever the consequences.

Now the development of Crimea has become solely our country's internal concern. For the first time in the history of modern Russia, the Government was faced with a challenge that was unique in its complexity and scale: to ensure the full-fledged integration of new regions, i.e., the Republic of Crimea and Sevastopol, into the country's administrative, legal and economic system. We did it. We put in place a legal framework for the economy and the social sector to operate in accordance with Russian laws. Eight constitutional laws, 32 federal laws and over 600 bylaws were adopted with your participation. To reiterate, the Government has accomplished a significant portion of this work in conjunction with our colleagues from the State Duma. Almost immediately after the reunification, internal Russian passports began to be issued. By now about 2 million Crimeans have already received them.

The social sphere involves a great number of issues. I will enumerate the main results. Pensions for Crimeans have been raised. As a result, their pensions have come close to average Russian levels. The introduction of Russian labour regulations has led to the doubling of average wages.

Last year, Crimeans were fully integrated into the Russian social security system. As we promised, Crimeans retain the benefits and allowances that were previously provided for under Ukrainian law, but which are not provided for under Russian law.

Healthcare modernisation programmes for Crimea and Sevastopol, worth over 6 billion roubles, were approved and are now in effect.

All specific steps toward the development of the peninsula are now part of the federal targeted programme, Socio-Economic Development of the Republic of Crimea and Sevastopol to 2020. It may be recalled that its funding will be about 700 billion roubles over five years, including 660 billion from the federal budget. This is very big money.

However, it is only a fraction of the work done in the Crimean Federal District. I made a point of mentioning this because, apart from funding, Crimea will require our active cooperation in the very near future. This is why we all often go there – both our State Duma colleagues and my colleagues in the Government – not because Crimea has a good climate but because this territory is significantly behind our country. Significantly behind. Our goal is to make up for ground lost in the last 25 years, so that we don't regret later the decisions that have been made. This is especially important, which is why I opened my presentation with it, despite the fact there was no question about Crimea in the questions that were put to me in writing.

The reunification of Crimea has influenced the economy. There is practically no economic sector that hasn't been affected by some or other political measures, from the financial sphere and restrictions on access to foreign credit to technology imports. Losses caused by these restrictions are considerable, let's not conceal them. As estimated by a number of experts, Russia has suffered damage worth about 25 billion euros, or 1.5 percent of the GDP. In 2015, this damage may increase several times over.

But, certainly, the economic consequences of the Crimean decision would have been easier if a number of internal problems had not piled up in the economy, problems that we had failed to solve. And this should be admitted frankly as well. All regions in this country have felt in full measure the repercussions of the deteriorating foreign economic situation and foreign policy upheavals. Budget revenues have sunk, while expenditures have, on the contrary, risen.

This situation made the Government take prompt action to support the regions. Of course, we will help the regions – there is no doubt about it. Generally, the regional financial situation makes us devise non-routine solutions. All of you asked me to answer these questions, and we will possibly discuss them later today. I invite you to do this both during today's discussion of the Government report and at a meeting which I am going to hold soon in order to look at this problem at a slightly different angle because, in all likelihood, the backlog of problems is such that it requires, let me stress it once again, some out-of-the-box solutions.

Nevertheless, if we go back to the existing commitments, the amount of budget credits to be issued to constituent entities of the Russian Federation has been increased from 150 to 310 billion roubles under the plan of priorities for 2015. These funds will serve to balance the regional budgets and reduce the cost of commercial credits. But local heads, for their part,

will certainly have to do all they can to consolidate financial stability. It is important to adjust the main budget parameters for 2015 and stick to regional anti-crisis plans. We have come to terms in this regard with all constituent entities of the Russian Federation. These plans have been approved everywhere, and there are anti-crisis teams everywhere, which should do their job. We mustn't relax even if we have generally managed to stabilise the situation. This is why the exact and timely fulfilment of the regional plans and the government plan of priorities will make it possible to launch the optimal real sector support mechanisms in the regions, which would guarantee that the money will be invested in new promising businesses rather than siphoned off to the money market, as our colleagues from A Just Russia, who asked this question, fear. Well, those who are ready to produce high-quality and sought-after goods should, of course, receive subsidies and incentives and, most importantly, fairly priced credits. I know that practically all deputies, specifically members of the LDPR, the Communist Party, and A Just Russia, are concerned over this issue. We understand their concern.

The terms of crediting that have taken shape in this country are certainly far from being ideal, for well-known reasons. We have, therefore, extended the range of measures and incentives to support investment activity, primarily in order to mitigate the consequences of the interest-rate stress for the real sector of the economy.

What has been accomplished so far? First, we are conducting an unprecedented campaign to increase the capital of banks that are actively financing agricultural and industrial projects. We have allocated 831 billion roubles for this purpose through the Deposit Insurance Agency.

I'd like to say that this is being done not through infusions of money but through state bonds. So it's not correct to say that we are providing priority assistance to banks at this difficult time. What we are doing is a vital necessity. Banks are the circulatory system of the economy. It is banks that bring money to the real economy, including industry and agriculture. In the event of problems in the banking system, the first to suffer are industry and agriculture. I think that we should realise this.

Second, we are investing the National Wealth Fund, up to 40 percent of the fund, in large projects of system-wide importance for national economy. This year we will be financing the upgrade of the BAM and the Trans-Siberian railways – we haven't abandoned this project – as well as the construction of the Central Ring Road (TsKAD) in the Moscow Region and several other projects.

Third, we have a system of project financing for smaller projects ranging between 1 billion and 20 billion roubles, which are usually undertaken by medium-sized businesses. Borrowers who present a good investment plan will be able to take out loans at a fixed rate of up to 11.5 percent in the current financial conditions.

Fourth, we will also increase financial assistance to the projects of small and medium-sized businesses. It has been proposed that we rally the resources of the Credit Guarantee Agency and SME Bank to create an integrated development institution for supporting small and medium-sized companies. This institution would have additional powers to ensure that small

companies are comprehensively involved in state and municipal procurement, in the acquisition contracts of natural monopolies and state-owned companies as well as in import substitution programmes.

I'd like to remind you that the plan of priority measures stipulates measures that should help producers not only to adapt to new conditions as soon as possible, but also to grow by exploiting the positive conditions that have been created by restrictions on certain imported goods and the weakening of the rouble. As our colleagues from the Liberal Democratic Party said, import substitution takes time and money. We are well aware of this. I'd like to quote Lee Kuan Yew, the man who engineered Singapore's economic miracle. He said that if you want to succeed, you must rely only on yourself.

We have prepared import substitution programmes for all sectors: industry, the energy sector and agriculture. They comprise over 2,500 projects.

Import substitution is not just a nice-sounding slogan, but concrete work, which has recently gathered momentum. Of course, we are not advocating economic self-isolation. Here is an example to prove my point. Some of our colleagues, in particular from the Communist Party, claim that foreign retail chains occupy too much space in the country. This idea should be analysed, but consumers believe that the more diversity, the better. Besides, we have not only foreign chains, but also Russian chains that have been built from scratch and have developed in accordance with Russian laws. All of us remember empty store shelves in the Soviet era. I don't think anyone, including our colleagues in the Communist Party, would like to see this again. It's another matter that we are focused on creating favourable conditions for competitive Russian suppliers, and not only in the food market. We are pinpointing sensitive areas where import substitution will be economically substantiated.

The instruments of our economic policy have recently become more diversified. We have adopted a law on industrial policy, which has streamlined state support mechanisms. The industry development fund has started working. Budget allocations are being used to subsidise interest rates on investment loans and spending on research and design projects, and loans to replenish working capital are being subsidised as an antirecession measure.

One more powerful investment resource, which we have recently been using, is government procurement and purchases for state-owned companies. Experts have estimated them at over 24 trillion roubles. At least 15 percent of federal and municipal purchases must be made from small companies. The share of such purchases for large state-owned companies and infrastructure monopolies must be even larger, at least 18 percent. Of course, we should also support the companies that are ready to emerge on foreign markets, and so we'll continue our loan and guarantee support programmes for industrial exports, including by subsidising interest rates.

Our export companies, both big and small ones, must be able to receive the necessary financial and other services in the one-stop-shop system. With this purpose in mind, we are creating an integrated export support centre at the Export Insurance Agency and Eximbank. Recent changes to the road map to support exports have been approved to ease the customs,

fiscal and administrative procedures to the maximum extent possible. All these measures, as well as others, are expected to give an impetus to industrial production, which last year was up 1.7 percent from 2013.

I would like to cite some figures, although I am sure that my colleagues – the deputies – know them well. The manufacturing sector showed growth of slightly over two percent and the growth in the heavy engineering industry was close to 1.3 percent. The chemical industry grew by a little over 100 percent, and can be described as fairly stable. Mineral fertilisers remain a major Russian export. Work is underway to carry out priority projects in the timber industry.

Of course, this year the situation is not straightforward. The engineering industry has been facing challenges since the beginning of the year, as the majority of its subindustries showed a decline in production. We expect that the Government's measures to encourage consumer spending will help significantly make up for the decline. First of all, this applies to car sales. A decision was taken to extend the old car scrapping programme as part of the Government plan for priority measures. Ten billion roubles have been allocated to implement this programme. In addition, a soft loan programme for car buyers has been approved and a programme to rent a car on favourable terms will be launched before long. We have extended the programme for purchasing vehicles running on a more environmentally-friendly gas fuel for at least another 12 months. Government funding for these purposes totalled 3 billion roubles. These measures are expected to help bring down the rate of market decline by 25 percent. Of course, we will not be able to make up for the negative impact in full, however, we can significantly alleviate this impact in order to keep people employed and keep manufacturing companies afloat.

The situation in the machine-tool industry remains complicated enough, with an extremely high proportion of certain imported items. Of course, this causes deep concern. It is very important for us to encourage the manufacturing of competitive equipment in the country. Certain bans and restrictions regarding deliveries for defence and national security purposes have already been introduced, and they also apply to some Government-funded construction projects. These requirements will be getting tougher as domestic manufacturers step up production. At the same time we are looking forward to cooperation with foreign companies, including engineering firms. However, all design work and production should be based in our country. This will be the right thing to do.

Regretfully, there has also been a decline in pharmaceuticals, an industry of social importance. I think that we'll get back to this issue later today. Our efforts to support this industry will certainly continue in order to ensure national pharmaceutical security.

Our country's energy sector operated smoothly. Last year, 30 new power-generating units were installed at heat stations, a record number for our country. The construction of the Boguchanskaya hydro power station was completed while the Sayano-Shushenskaya hydro power station was completely restored after the 2009 accident.

Over 50 billion roubles in private investment have been raised to develop renewable power facilities. Of course, this is an important sector. Work is underway to improve access for consumers to the electric power infrastructure. Starting 1 October, the fee to connect to the city's power grid will be cut in half for small business.

Last year we made strategic decisions to eliminate systemic problems in the sector. This includes overlapping subsidies, something we talked about a great deal, as well as reducing losses in the power grids and the introduction of a new thermal energy market model. All of these are long-term goals that will take a few years to achieve.

The situation in the nuclear power industry is stable. It stands out for its unified technological processes and technologies both for energy needs and for arms production, so this stable development of the nuclear sector is of critical importance to us. As you know, there are some cutting-edge, breakthrough technologies there of which we are proud.

Rosatom's portfolio of orders includes 29 power units, 19 of which will be built in China, India, Turkey, Belarus, Bangladesh, Finland, Vietnam, Armenia, and Hungary. To compare, in 2008, the portfolio included 19 power units. In other words, we are growing.

Oil production has stabilised at about 527 million [metric] tonnes, a slight growth on the previous period. This level is enough to meet our own needs and our exports.

Natural gas production is 640 billion cubic metres. There was a slight fall, but we reached an agreement to build a new gas pipeline to Turkey and Greece, as you know, instead of South Stream. A breakthrough 30-year contract was signed on gas supplies to China. A section of the pipeline to China along the Sila Sibiri [Siberian Might] eastern route is under construction.

Now, a few words about the transport sector. It was largely thanks to state support that air transport continued to grow, including, which is especially important, on domestic routes – something we have been working on in recent years and which we finally managed to restore. Excluding Moscow, domestic air transport was up 22 percent, with over 10 million passengers carried. A total of 93 million people used air transport, which is 110 percent on 2013. Let me remind you that under the priority measures for domestic air travel, we set a 10 percent VAT rate to support carriers and therefore support our passengers.

The situation in the commuter railway service was difficult. Under the priority action plan, a zero VAT rate was introduced for this sector. The situation has on the whole stabilised and is under control.

Last year, over 700 kilometres of federal motorways and 1,500 kilometres of regional roads were built or upgraded.

The year 2014 was very successful for housing construction. More housing was built in Russia than in the Russian Soviet Federative Socialist Republic in the record year of 1987. Remember, 73 million square metres of housing were built at that time, as compared to 81 million square metres in 2014.

This was greatly facilitated by the Agency for Housing Mortgage Lending and the Housing Development Foundation. In order to create a centre of competences, we plan to merge these two organisations and establish an institute for the development of the housing sector. I am asking you to support this initiative. The new agency will finance the Russian Family Housing Programme, as a result of which over 10 million square metres of housing will be built in 49 regions, and it will also support the creation of the utility infrastructure, the building of rental housing and mortgage lending programmes, which also grew substantially last year.

Construction development was expedited by the streamlining of administrative procedures. It may be recalled that of 220 procedures, only 130 remained as a result. In 2015, Russia significantly improved its positions in the Doing Business ratings, placing 12th in the world in the “Registering Property” index, which in and of itself is not bad because this means that administration activity and administration standards are approaching the world’s highest levels.

With active input from our colleagues in parliament, amendments have been made to the Land Code. They make it possible to remove unnecessary administrative barriers to providing land plots, and to improve conditions for the implementation of investment projects.

The priority action plan includes a number of important steps to support mortgage lending programmes.

First, this includes subsidising the interest rate on mortgage lending for those buying flats in new development projects. Now it is 12 percent. A total of 20 billion roubles were provided to subsidise mortgage programmes. I hope that as the Central Bank reduces the key interest rate, mortgage rates will also be reduced.

Second, we are taking some measures to help those who have problems with mortgage payments due to the changed economic situation. Banks approach each specific case individually. The Government plans to allocate 4.5 billion roubles to address this issue.

We also work to help people who are dealing with unreasonable increases in their utility bills. It is the Government’s decision that the increase in the total public utility services charges across Russia should not exceed inflation. Naturally, this year’s utility figures will be higher than last year’s, about 8.7 percent, because of higher inflation.

Another field we are doing a lot in has to do with major repairs of residential buildings. Let me remind you that we launched a large programme in 2014. Some of our colleagues insist on initiating the suspension of the legislation that would allow using the property owners’ contributions to finance major repairs until 2020. It is clear that the reasons behind it may be different, and obviously, this initiative may appeal to some. But we still have to think about what to do with a vast array of residential properties that are currently in the private rather than state ownership, because by 2020 many of them will become dilapidated and dangerous, so we need a source to repair them sooner.

The growing debt for utility services remains a major headache for housing and utility companies. Parliament members from the United Russia party have pointed out this problem. The industry's total debt has almost reached 1 trillion roubles. The Ministry of Energy and the Ministry of Construction have drafted the necessary amendments and submitted them to the State Duma. Once they are passed, we expect to be able to resolve this debt problem. The document stipulates liability for nonpayment of utility bills. This mostly applies to chronic defaulters; in fact, what they do is parasitism, including the so-called consumers who cannot be cut off and who have currently become the biggest debtors.

The Government is focusing on the defence industry for obvious reasons. I think that here we have been able to maintain all the positive trends of the last 5-7 years. We almost completed the consolidation of all the defence sector assets in 2014. All of the defence industry segments showed growth in production from 2013: 24 percent in the electronics industry, 17 percent in aviation, nearly 15 percent in shipbuilding, 13 percent in munitions, and 8.5 percent in the aerospace industry. The share of high-tech products increased to 63 percent in 2014.

The defence procurement system finally began operating properly. Its funding increased to over 1.9 trillion roubles last year, from 1.5 trillion in 2013. State guarantees were provided for loans defence companies borrowed to fulfill their state defence orders based on contracts with the Ministry of Defence worth over 470 billion roubles.

As in previous years, state defence contracts primarily aimed to reequip the Russian Armed Forces. In 2012-2014, the weapons systems were upgraded comprehensively. Over this period, military units received about 20,000 various types, systems and complexes of military equipment and weapons for the first time in many years.

Russia remains a leading global arms exporter. According to preliminary estimates, arms sales accounted for 3.2 percent of total 2014 export volumes. In 2013-2014, arms export revenues totaled over \$15 billion which is rather impressive. As you may know, the current portfolio of contracts is worth about \$49 billion.

We launched our import substitution programme back in 2008-2010 under the federal targeted programme for expanding our defence industry. Last year, we formulated and approved detailed timeframes to substitute for components being made in Ukraine, NATO countries and the European Union. This programme has to be implemented completely.

Positive results were also achieved in the aerospace sector. Our orbital cluster received 17 more satellites, for a total of 134, or about 10 percent of the global orbital cluster. Despite pretty tough competition, Russia has retained its leading position in the global market, and it accounted for almost 50 percent of all space launches worldwide.

The aerospace industry is being restructured under a programme to improve the management system. I would like to remind you that we have established a shareholding company in this area, and it's already up and running. There are plans to set up a specialised state corporation based on this and also the Federal Space Agency.

The agricultural sector has posted impressive growth rates for the second consecutive year. Last year, Russia gathered an almost record-breaking harvest and posted a 13 percent increment on 2013. That was a good harvest; it is second only to the 2008 harvest, although we almost reached 2008 levels this time. These are not mere statistics. First of all, this proves that food security is a very realistic objective. Moreover, this makes us feel confident that speculations about empty Russian grocery stores coming from abroad have been and are a myth. Second, this proves the effectiveness of the state policy in the agrarian sector which received almost 189 billion roubles in 2014.

The agricultural sector development programme was expanded by quite a bit. We drafted an import substitution road map for the sector and pinpointed all the main import substitution priorities: The development of the agrarian sector remains our top priority.

We approved a list of 464 specific investment projects in the area of import substitution worth over 265 billion roubles. Import substitution programmes should create favourable conditions for major agro-industrial holding companies (we have agreed on this issue) and small businesses.

In 2014-2015, new farmers received about two billion roubles. In this area, the Government worked rather actively with its colleagues-legislators and with representatives of industry unions. The majority of proposals from the Government-approved Plan of Priority Measures have been implemented.

The agriculture industry has received additional support and will receive more funds this year. The allocations, nearly 188 billion roubles, have been included in a state programme, and another 50 billion roubles have been stipulated in the priority measures plan. I believe that we're moving in the right direction. I hope our people will gradually come to see that the best products are marked "Made in Russia."

To be sure that everything we make – whether it's food or other products – satisfy market requirements and ultimately result in satisfactory market growth rates, we must continue to improve the business climate. We've moved forward with the National Business Initiative roadmaps, have simplified the customs procedure at vehicle checkpoints (it now takes barely an hour), have accelerated the registration of legal entities and sole proprietorships at state extra-budgetary funds (it takes three days now), and have reduced paperwork by approximately 50 percent. We are on the home stretch for regulatory acts, but it's more important for these regulations to be effective, so that improvements do not remain only on paper and our business people see positive change.

Efficiency is important not only for private businesses, but also for state-owned and state-run companies. We have adopted decisions on improving their performance. First, it has been proposed to create corporate treasury systems for companies and their subsidiaries. The funds that were distributed among many accounts should be held in a single purse.

Second, our companies have created long-term development strategies adjusted to government priorities in their respective industries. Special audit mechanisms with

independent auditors will be sued to monitor the implementation of these programmes. We have also selected the key performance indicators on which the career and remuneration of top management will directly depend. We have also decided to return government representatives to the boards of some large companies to better coordinate their performance in the current situation.

Our investment attractiveness definitely depends on capital amnesty. A bill on capital amnesty is being discussed in the State Duma, as well as with the business community and with Russian and foreign experts. Truth be told, it is a very complex bill, and we'll need to work together to find reasonable compromises on a number of issues.

As I promised last year, the Government has not increased the fiscal weight on business, even though proposals to this effect were made. On the contrary, VAT rates have been decreased for some economic sectors (I mentioned them here). The tax system will be moderated for small companies. At the same time, some tax decisions will be made at the regional level. For example, the regions now have the power to introduce two-year tax holidays for startup proprietors.

Now I'd like to say a few words about support for small and medium-sized businesses. First, we've increased the number of small companies that are eligible for the simplified taxation system. The regions are able to reduce the tax rate for some companies from six to one percent.

For some types of activities the unified tax on imputed income may be cut in half – from 15 to 7.5 percent. Second, we have expanded the range of small and medium companies that may take part in government support programmes. We have also raised the ceiling of annual revenues by which companies are categorised as micro-, small, or medium-sized businesses (up to 120 million, 800 million and two billion roubles, respectively). We continue discussing this issue.

Third, innovative small business projects that are likely to become commercial are eligible for grants. We will increase their support via the Small Business Assistance Fund and have set aside about five billion roubles for this purpose in our anti-crisis plan.

Fourth, the recently adopted law on priority development territories in the Far East and single-industry cities provides for tax benefits as well.

I'd like to speak about the Far East in more detail. We all remember the aftermath of the 2013 flood, which was the worst in almost a century. It left about 13,000 people homeless. Much was done to recover from it and by last autumn all who were left homeless were able to move into new housing. Despite all the upheavals last year, the economy of the Far East registered solid growth. I'll simply remind you that industrial production increased by 5.5 percent and agriculture almost by 19 percent (while the economy of the Far East is not large, these figures are significant). They show that the adopted measures have had a positive effect on the economy. We have endorsed six investment projects that will receive government support.

We will submit a draft law on a free port in Vladivostok for your consideration in the near future.

No matter what measures the Government may take, their ultimate goal is to alleviate the consequences of the crisis for our people. Our task is to help them through this period as painlessly as possible.

I'd like to emphasise that despite all problems we are fully meeting our social commitments. Nobody should have any doubt that no matter how difficult this may be, salaries will be paid and pensions adjusted for inflation. Social stability is one of our most important recent achievements and we'll do everything to preserve it. The plan of priority measures is not only an anti-crisis plan but also a social one because it builds on the decisions that were made in the social sphere and has produced results.

I'd like to point out that demographic success is probably our main achievement of recent years. If more babies are born in the country, we have a future.

Last year natural population growth was double that of 2013. Average life expectancy has reached 71 years. I won't quote the figures of a decade ago – you know them well. No doubt, this is a result of a purposeful social policy and improved healthcare. Now our task is to preserve this trend under any circumstances. I'd like to recall that this year is the year of combatting cardiovascular diseases, which remain the main cause of death in the country. All this has been done to change people's attitude to their own health. Doctors are part of this effort, which also has a sport component. I hope the revived GTO (Ready for Labour and Defence) programme will help people improve their athletic performance and physical fitness.

Almost two million babies were born in 2014. This is more than in 2013. The infant mortality rate fell by almost 10 percent. Naturally, this is not a result of just one year – we consistently worked to this end. We did much to improve our healthcare, especially for mothers with babies, and built many kindergartens and perinatal centres. Understandably, families with two or more children have been the hardest hit by the crisis. We adopted measures to help them in addition to the existing forms of support. In 2015 they will receive a lump sum of 20,000 roubles in the form of maternity capital. We have also expanded what maternity capital can be used for – now it can be spent to pay off both the principal and the interest and make the down payment without waiting for a baby to reach the age of three.

Support for orphans and preventing social orphanhood and child neglect remains one of the key areas of work in the social sphere. In February, several decisions were made that should help implement the National Action Strategy for Children until 2017.

Despite the existing difficulties – and there are plenty – we will not economise on children. This year, we planned to allocate 10 billion roubles for the modernisation of regional preschool systems, in addition to the funds provided last year and the year before last, but we are also ready to provide extra funding. Let's discuss this.

I'd like to thank the regions for the effort, in conjunction with the government, to reduce waiting lines at kindergartens. In 2013-2014 alone, 788,000 new openings were created. This

is a huge figure. Never before have kindergartens been built at such a pace. I suppose, generally, the building of kindergartens is one of the best social programmes of recent years. The most important thing is that people can see the results.

We'll do all we can to prevent the crisis from affecting the quality and availability of medical care, including high-tech care. Last year, the number of healthcare organisations providing this increased to 435, while the number of patients who received high-tech treatment paid for from the federal and regional governments exceeded 715,000.

One of the main priorities today is to stabilise the situation on the medication market. It is crucial for us to prevent a shortage and the unjustified growth of prices for medications, especially vital medications. I believe that we'll discuss this later today. Measures are being taken to increase the share of domestic products. We introduced restrictions on purchases abroad, except of course for the Eurasian Economic Union countries, of all those types of medical products that are manufactured in our country by at least two producers. Yet another indicator that should be used to assess the present situation is the state of the labour market. Under the present circumstances, it is important to prevent mass unemployment and to support the people who have already lost their jobs. This is a challenging goal. Remember that the situation was very difficult in 2009, when unemployment was over 9 per cent.

The present situation is not so acute. The situation has stabilised. In recent years, unemployment in our country was the lowest in Europe. In 2014, it reached an all-time low. At present, some companies need to reorganise, lay off staff and reduce working hours. The situation varies in the regions, of course.

The present unemployment level is 5.8-5.9 per cent – just slightly above last year's, and I think it is vitally important to keep it at that.

Today, we can say with confidence that pessimistic predictions regarding our labour market haven't come true. We have introduced additional measures to support the labour market in a timely manner. The regions have formed their own training and internship programmes. We must support young people with no work experience and people with disabilities who are already struggling to find a job.

Finally, we have used targeted subsidies to support several regions and key enterprises that found themselves in a difficult situation. I have already mentioned them – KAMAZ and AvtoVAZ auto plants and Altaivagon and Tver Carriage Works. Such targeted solutions will be practiced in the future as well, if necessary.

I know that a number of deputies from the parliamentary groups, particularly from the Just Russia, are concerned with hidden unemployment. Of course, we will continue to create a variety of alternative forms of employment, including in company towns.

Employers who create jobs will receive financial assistance in the amount of 225,000 roubles per employee. This will help create the proper conditions for the people who are prepared to relocate to other Russian regions.

With regard to education and science, technical development – or any development for that matter – is impossible without ground-breaking research or innovative products. Last year, overdue reform began at the Academy of Sciences, which caused lively debate. Perhaps, that's the way it should be. Meanwhile, our scholars continued to work producing world-class research, which in itself is significant.

Research funding from the federal budget amounted to 372 billion roubles in 2014.

The Government continued to implement Russia's Innovative Development Strategy to make the economy more focused on innovation.

The foundations of such a system have been established and allowed us to gain a foothold in the innovation activities rankings.

Over 500 small innovation-driven businesses open yearly sponsored by the Foundation for Assistance to Small Innovative Enterprises in Research and Technology. The Russian Venture Company helped create 18 venture capital funds.

The more efficient use of intellectual property is yet another area of our focus.

Last year, we adopted a number of decisions, including amendments to Part IV of the Civil Code on intellectual property that govern these relations.

We will continue this work with our colleagues from the State Duma.

The system of grants and scholarships and support for gifted children and young researchers will continue. The project to make Russian universities included in the world's top 100 universities is implemented rather successfully. A number of our universities enjoy a fairly good reputation today, and are consistently moving up in the university rankings. To boost the number of such educational centres, 10.5 billion roubles have been allocated to support 14 leading federal universities.

We also focus on promoting blue-collar occupations. In 2014, we took part in the WorldSkills Europe international championship. We also held a national championship of cross-sectional occupations for the first time in Yekaterinburg. We will continue to support such work because skilled labour is in short supply in our country. The Worldskills Russia Union was created by Government decision. We will enter the contest for the right to host the 2019 Worldskills championship.

As you are aware, 2014 was the Year of Culture. This year is the Year of Literature, and I hope that it will similarly be a success. As much as 3 billion roubles were allocated for the Year of Culture in 2014. Seventy cultural sites in different Russian regions from St Petersburg to Khabarovsk were commissioned or renovated.

We consistently improved the living standards of workers of culture. The average salary increased by 63 per cent, doubling in certain categories.

Colleagues, we address some of our economic and social problems as they arise.

We use the anti-crisis plan that we are implementing together as a blueprint.

The Government submitted this plan to the State Duma and discussed it with the deputies. We are now working together on its implementation.

You submitted proposals to enhance it with additional measures. First, it has been proposed to step up measures to support people with disabilities and families with children with disabilities. Standard tax deductions may be increased for such families. Let's do this.

Additional benefits can be provided for Russian public organisations of people with disabilities who work under government contracts. They will be entitled to provide goods and services worth up to 1 million roubles as compared to the current 100,000 roubles. To be sure, this will not be based on a competition. I think that it is also a reasonable measure.

Another legislative initiative focuses on the preservation of the zero VAT rate for domestic air travel to and from Crimea, which I have already mentioned.

I want to specifically focus on this once again from this important rostrum — the anti-crisis plan is not set in stone. It is a document we have painstakingly created with you. It can be adjusted depending on the situation. It can be adjusted based on your proposals and whenever we deem it necessary. The same goes for our big Government plan – Policy Priorities of the Government to 2018. The previous revision was adopted two years ago.

The circumstances and our living conditions have changed, and this should be reflected accordingly. Therefore we have drafted a new version of our Policy Priorities. This draft document will be posted on the Ministry of Economic Development's website tomorrow. Just like my colleagues, I would find it very useful to hear your opinion and specific proposals. I will sign the final version of the document after the discussion involving our colleagues, State Duma deputies.

At the end of our conversation, I would like to specially note that various assertions that we must change and adjust everything and live in line with a different model are incorrect. All our priorities and long-term directives should remain the same, and they will remain the same. This includes the concept for the long-term socioeconomic development of the Russian Federation up to 2020 and other documents. Even the current crisis should not change our intentions.

In the long run, the entire Russian economy, specific businesses and individuals should opt for new living conditions. For this purpose, the Russian economy should create a foundation for growth rates that should be no lower than average global rates by 2018.

We can only conduct this work on the basis of public accord, coordinated actions of all branches of government and a broad dialogue between various political forces.

Ladies and gentlemen, we have, indeed, lived through a very difficult and critical year. We have scored major victories during that period, and we have also faced major difficulties.

These difficulties are forcing all of us to realise that the end result is more important than any momentary political goals.

We can belong to different parties, and we can voice the most diverse stances. Or, like you, esteemed colleagues, members of parliament, we can represent the interests of Russians expressing all sorts of convictions. This is correct and normal. But all of us have a common goal: we must live through this difficult period together, so that the country will eventually become economically strong and modern, so that we will feel proud of our country, which needs the talents and energy of every one of its citizens.

Over 100 years ago, Sergei Muromtsev, a famous Russian jurist (whose books, incidentally, I read during my university years) made the following statement: “A great cause also compels us to accomplish a great feat and calls on us to work really hard. Let’s wish each other and ourselves the ability to muster enough strength, so that we would be able to accomplish this objective for the benefit of the people who have elected us and for the benefit of our Fatherland.” These are great words. Thank you for your attention.