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Research Report

Lending is a political issue in Russia

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Abstract

We extend our previous work on bank lending around elections in Russia's electoral autocracy (Fungáčová et al., 2023) by considering the most recent data on bank lending and 2024 presidential election. Unlike the elections held between 2004 and 2019, our findings show no systematic evidence of increased bank lending ahead the 2024 presidential election. This reduced political interference in pre-election lending since the invasion of Ukraine in 2022 may reflect a tendency towards traditional autocracy in Russia.

Keywords: bank, lending, politics, Russia, electoral autocracy, war

JEL: G21, P3

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1. Introduction

Russia has experienced strong growth in bank lending since its full-scale invasion of Ukraine in 2022. In 2023–2024, the corporate loan stock grew nominally by about 50 % to around 74 trillion rubles (700 billion euros). Such growth during wartime might seem surprising as uncertainty typically depresses lending activity. Furthermore, high inflation in Russia has led the central bank to increase the key rates to high levels, pushing up market interest rates.

Some of this rapid growth in corporate borrowing reflects financial sanctions as Russian corporations virtually lost access to international financial markets and had to turn to domestic sources of financing. However, extensive government support is a key feature of recent lending growth in Russia. To support domestic industries struggling with consequences of the Western sanctions, and to fast-track domestic production especially in the military-industrial branches, Russian government has initiated lavish loan-subsidy programs. The range of interest-support programs available targets e.g. small and medium-sized enterprises (SMEs) and companies in various manufacturing branches. Unsurprisingly, corporate lending has enjoyed particularly robust growth in branches that directly support the war effort (defense industries and certain research & development branches). Bank lending to households has also soared. As seen in Figure 1, the household loan stock at the end of 2024 was 37 trillion rubles, a roughly 35 % increase from the beginning of 2022. Much of this growth has come from subsidized housing loans.

These developments highlight the political aspects of bank lending in Russia since the full-scale invasion of Ukraine. The interplay between lending and politics has been particularly visible during elections.

In this analysis, we extend our previous work on bank lending around elections in electoral autocracy of Russia (Fungáčová et al., 2023) by including recent data on bank lending and 2024 presidential elections. Since February 2022, the role of the state in the Russian economy increased and the political regime in Rus-

sia has gradually moved toward traditional autocracy.¹ This motivates us to investigate possible effects on bank lending trends in the lead-up to the presidential election of March 2024.

1.1. Bank lending and elections

Recent literature provides theoretical and empirical evidence for manipulation of bank lending before elections. The political economy literature has long shown that politicians try to manipulate economic instruments to improve their chances of re-election (Nordhaus, 1975; Rogoff and Sibert, 1988). In addition to the use of fiscal tools such as tax cuts or increased public spending, politicians can also use their influence to boost bank lending. Since credit contractions can be politically costly (Funke, Schularick and Trebesch, 2016; Gyongyosi and Verner, 2019), incumbent governments may use bank lending as a strategic tool to expand bank credit in election times.

Studies of a number of countries provide evidence that state-owned bank lending increases in election years, a finding consistent with the view that governments may seek to directly influence the lending behavior of state-owned banks (Dinc, 2005; Carvalho, 2014; Englmaier and Stowasser, 2017; Kumar, 2020; Bircan and Saka, 2021). Notably, Schoors and Weill (2020) show that the lending behavior of Sberbank, Russia's largest state-owned bank, contributed to Putin's rise to power in the 2000 presidential election.

Looking a bit deeper into Russia's lending behavior, we ask whether state-owned banks account exclusively for the bump in lending ahead of presidential elections or whether private banks also join in the action.

Electoral autocracies, including Russia, are likely to display the highest levels of pre-electoral manipulation of bank lending. Electoral autocracies, defined by the V-Dem Institute (V-Dem Institute, 2025), are regimes that combine elections with

¹ Freedom House summarizes this evolution in their 2024 report on Russia: "Since the regime launched a full-scale invasion of Ukraine in February 2022, authorities have intensified restrictions on individual rights and liberties in order to stifle domestic dissent."

a lack of some freedoms such as the freedoms of association or expression, that make the elections free and fair. In these countries, the main purpose of the election is to reinforce the legitimacy of the leader through the vote. In electoral autocracies, elections and the popularity of the leader are important tools in manipulating information, as well as retaining and consolidating power.

Electoral autocracies have distinctly different incentives for influencing state-owned and private banks compared to democracies and traditional autocracies. Governments in democracies only have limited possibilities for influencing elections through private banks due to democratic checks and balances and the existence of a free press. Governments in traditional autocracies have little motivation to influence pre-election lending behavior as elections themselves are largely meaningless or election outcomes are directly manipulated.

Authorities in an electoral autocracy, in contrast, may influence bank lending in the run-up to a presidential election. They not only have direct control of the lending behavior of state-owned banks, but can potentially manipulate the regulatory environment to provide suitable carrots and sticks to all banks (such as threats to withdraw banking licenses or changes in banking regulation) (Müller, 2023).

In Fungáčová et al. (2023), we investigate the existence of political interference in the lending behavior of state-owned banks and private banks prior to presidential elections in Russia. We consider the period from 2004 to 2019 that includes four presidential elections (2004, 2008, 2012 and 2018). We find evidence that all banks, state-owned and private, boosted their lending in the run-up to a presidential election. Moreover, the pre-election lending surge was followed by a deterioration of loan quality the following year, further supporting the existence of a political lending cycle in Russia. Overall, this study supports the view that interference in bank lending was a feature of Russian presidential elections between 2004 and 2019.

2. Data and methodology

This analysis extends our previous research (Fungáčová et al., 2023) to include more recent election. To do this we expand our dataset, which starts in January 2004, to April 2025. This gives sufficient data to bracket the run-up and post-election period for the presidential election of March 2024. We rely on the detailed monthly data on individual banks from the Central Bank of Russia to identify changes in bank lending before elections. However, following the Russia's full-scale invasion of Ukraine in February 2022, the reporting of this data was interrupted for the period between March 2022 and May 2023. Data again became available in June 2023, providing ten months of pre-election data for investigating bank lending before and 13 months after the 2024 presidential election. All the data in this new observation period were recorded during a hot phase of the Ukraine war.

We perform fixed effects panel regressions explaining month-on-month growth in bank lending. The key explanatory variable is *Elections*, a dummy variable concerning the election period. We define *Elections* in several alternative ways to check whether changes in bank lending before elections take place at different times. We consider eight specifications: March (the month of the election), February, January, December, as well as pre-election periods of three months (January-March, December-February) and six months (October-March, September-February). A significant and positive coefficient for *Elections* in the regression indicates abnormally high lending preceding the presidential election and therefore supports the existence of a political lending cycle.

We consider a large set of control variables at the bank level in the estimations, including bank size (logarithm of total assets), capital ratio, loans-to-assets ratio, ratio of overdue loans to loans, as well as changes in the output index for key economic activities from Rosstat to control for macroeconomic fluctuations. Month

and year fixed effects are included in all the estimations. We also combine the bank-level data with information on the bank ownership.²

We perform these regressions by considering the growth of total loans as the dependent variable, as well as scrutinize growth of household and corporate loans separately as political interference could focus on either of these clienteles.

3. Pre-election lending surges

We report the results of the estimations from January 2004 to April 2025 for the *Elections* variable in Table 1. The coefficient of *Elections* is significantly positive in virtually all estimations,³ suggesting that bank lending increases ahead of presidential elections regardless of the length of the pre-election period tested. For example, a coefficient of 0.011 for total loans concerning March *Elections* variable means that in election years, total month-on-month lending growth in March, the month when elections take place, is 0.011 percentage points higher than in other months.

We observe the positive and significant result for the categories of total loans, household loans and corporate loans. The estimated coefficient of *Elections* is slightly higher and more significant in the case of household loans than for corporate loans, suggesting that household lending may be especially susceptible to informal guidance from the political leadership during election periods. These estimations support the existence of a general lending surge prior to presidential elections.

To provide a more comprehensive picture of the development of bank lending and further evidence for this interpretation, we estimate separate regressions in a time window of two years (four half-years) before and after the presidential elec-

² As noted in Fungáčová et al. (2023), state ownership turned out to be insignificant in explaining bank loan growth around presidential elections in Russia.

³ The non-significant coefficient for January is mostly due to the inability of monthly dummies to capture fully the significant seasonal slump typical for early January.

tion, where we redefine the election dummy consecutively for all the half-year periods in the estimation window. Figure 2 plots the estimated coefficients of these half-year periods, documenting how banks behave during the full electoral lending cycle. We observe a noticeable increase in lending during the two half-year periods leading up to presidential elections, peaking in the half-year immediately preceding the election and strongly declining after the election. This further confirms that Russian banks boost their lending in the run-up to presidential elections.

3.1. March 2024 presidential election

With the shift to a wartime stance in February 2022, political lending cycles and political interference might have changed as Russia has gradually moved towards a more tightly controlled autocracy. Consequently, Russian authorities may have fewer incentives to manipulate the electoral process via directing bank lending and we may observe a lessening, or even complete abandoning of political interference with bank lending behavior around the most recent presidential election in March 2024.

Alternatively, we might see a continuation or amplification of the political interference in the lending behavior of banks if Russian authorities still see a need to bolster the legitimacy of the regime through pre-election manipulation. The need for a pre-election lending surge might be greater (or at least perceived to be greater) if the authorities are uncertain about popular support after three years of war.

We aim to compare political interference in bank lending in Russia before presidential elections for the pre-war period and the war period. Due to the post-invasion gap in the available data, the pre-war period is defined as the period from January 2004 to February 2022, while the war period covers June 2023 to April 2025. We compare the coefficient of *Elections* variable for these periods in eight model specifications. Table 2 reports the estimations results.

Prior to the war, we observe clear evidence that lending increases ahead of presidential elections. The *Elections* variable is positive and significant in all specifications with the exception of a coefficient for January. This finding accords with

the previous estimations for the full sample period and confirms the increase in bank lending in the pre-electoral period.

However, the results change for the war period. We no longer observe an increase of lending before presidential elections. The *Elections* variable is not significant (March, January, December-February, October-March, September-February), or even significantly negative (February, January-March). It is only significantly positive for December. This may indicate that political interference in pre-election lending has changed since the beginning of the war, comporting with the view that Russia's political regime feels less incentive to manipulate election outcomes with the bank-lending tool in a more traditional autocratic context. Thus, as authoritarian pressures increase, the importance of elections as a means to bolster the legitimacy of the regime appears to diminish. Of course, an increasingly authoritarian regime may simply rely on more direct means of influencing the election outcomes such as jailing opposition candidates or falsifying the vote count.

Great caution is appropriate in interpreting these results. We note that our latest findings are based on the only presidential election since the invasion of Ukraine. More data are needed to validate these findings.

4. Conclusion

This analysis extends our previous research on bank lending around elections in Russia's electoral autocracy (Fungáčová et al., 2023) by considering the most recent data on bank lending around the 2024 presidential election. When considering the full sample period 2004–2025, we consistently document increases in corporate and household lending in periods preceding presidential elections in Russia until the situation changes in the most recent election in March 2024.

While lending retains its political aspects in Russia, our results suggest that political emphases may shift as the authoritarian grip of the regime tightens. In this case, we see a reduction in pre-election interference concerning bank lending.

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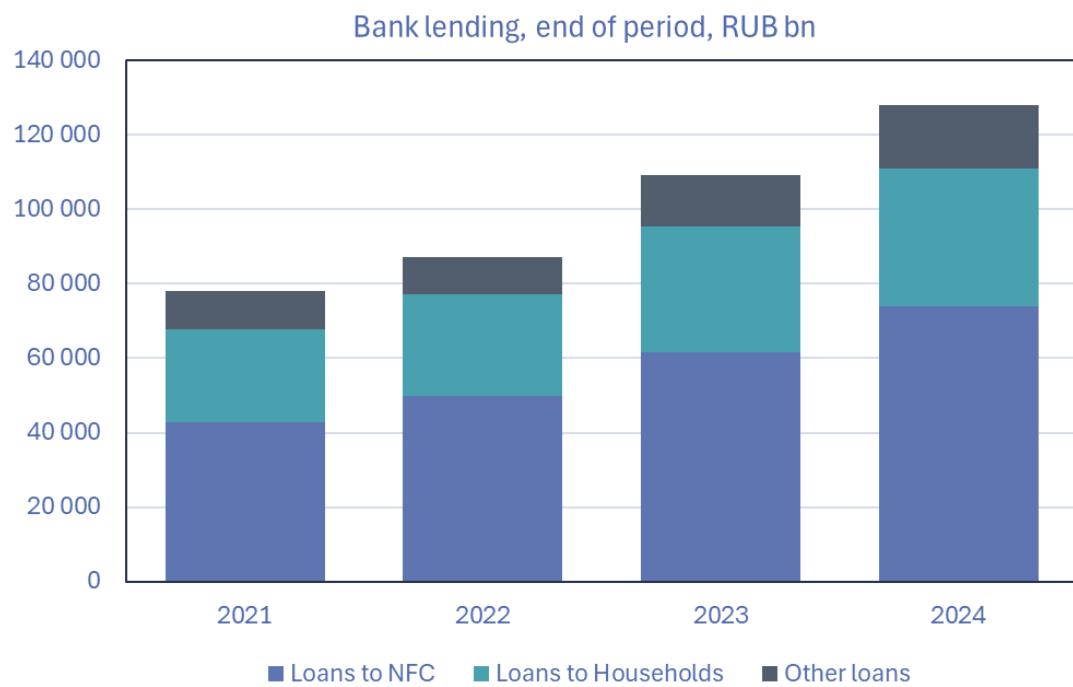
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Figure 1. Russian bank lending has averaged annual growth close to 20 % in recent years.



Source: CBR Статистические показатели банковского сектора Российской Федерации, BOFIT. Note: NFC refers to non-financial corporations.

Table 1. Estimated coefficients for the *Elections* variable

This table lists the estimated coefficients and standard errors (in parentheses) for the *Elections* variable of our baseline panel regression model specifications using the data for the period 2004–2025. Each line shows *Elections* coefficients for the regressions concerning different dependent variable: month-on-month growth in total bank lending, household loans and corporate loans. Bank-level control variables (bank size, capital ratio, loans to assets ratio, ratio of overdue loans to loans) and macroeconomic control variables, as well as month and year fixed effects, are included but not reported.

| | March | February | January | December | Jan-Mar | Dec-Feb | Oct-Mar | Sep-Feb |
|-----------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total loans | 0.011*** (0.003) | 0.007*** (0.003) | -0.007** (0.003) | 0.024*** (0.003) | 0.005*** (0.002) | 0.010*** (0.002) | 0.008*** (0.001) | 0.008*** (0.001) |
| Household loans | 0.010*** (0.003) | 0.008** (0.003) | 0.001 (0.003) | 0.010*** (0.003) | 0.008*** (0.002) | 0.008*** (0.002) | 0.006*** (0.002) | 0.004*** (0.001) |
| Corporate loans | 0.008*** (0.003) | 0.010*** (0.003) | -0.002 (0.003) | 0.003 (0.003) | 0.007*** (0.002) | 0.005*** (0.002) | 0.004*** (0.001) | 0.003** (0.001) |

Figure 2. Loan growth over the full election cycle (half-a-year period)

This figure describes time variation of the estimated coefficients for the *Elections* variable in separate regressions over the full election cycle of two years before and two years after presidential elections in Russia. Bank-level control variables (bank size, capital ratio, loans to assets ratio, ratio of overdue loans to loans) and macroeconomic control variables, as well as month and year fixed effects, are included.

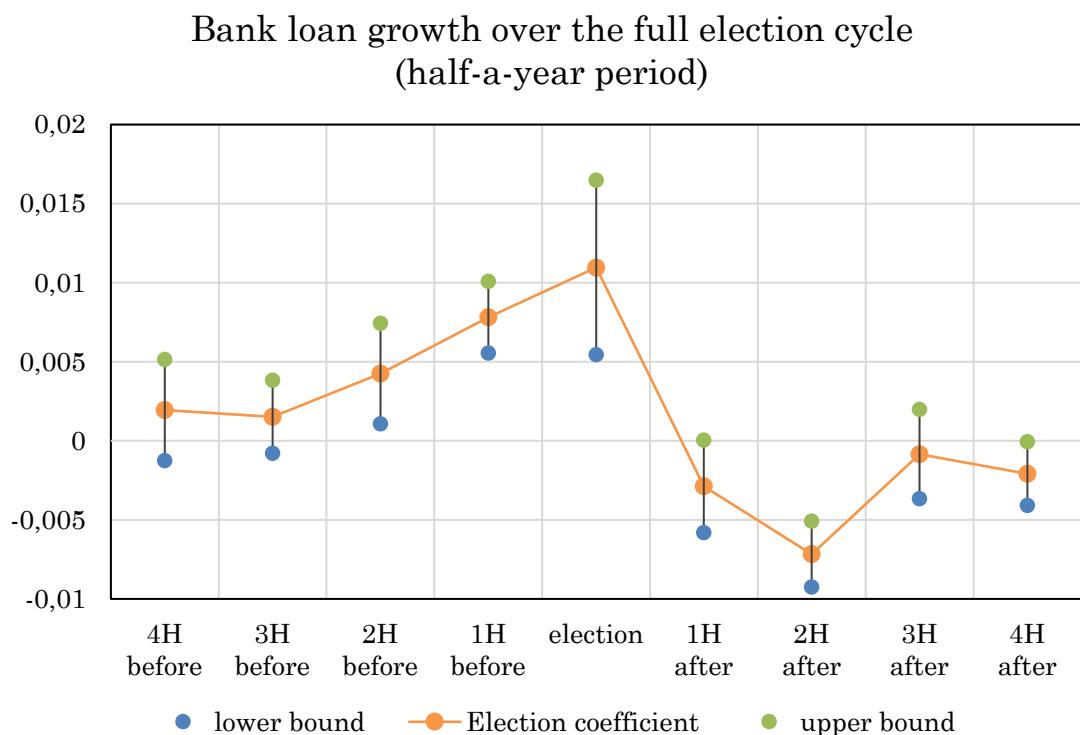


Table 2. Estimated coefficients for the *Elections* variable (pre-war period vs. war period)

This table lists the estimated coefficients and standard errors (in parentheses) for the *Elections* variable of our baseline panel regression model specifications using the data for two subperiods: pre-war period (January 2004–February 2022) and war period for which data are available (June 2023–April 2025). Bank-level control variables (bank size, capital ratio, loans to assets ratio, ratio of overdue loans to loans) and macroeconomic control variables, as well as month and year fixed effects, are included but not reported.

| | March | February | January | December | Jan-Mar | Dec-Feb | Oct-Mar | Sep-Feb |
|---------|---------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Pre-war | 0.012*** (0.003) | 0.007** (0.003) | -0.008** (0.003) | 0.026*** (0.004) | 0.005*** (0.002) | 0.010*** (0.002) | 0.009*** (0.001) | 0.008*** (0.001) |
| War | -0.018 (0.013) | -0.106*** (0.009) | -0.039 (0.036) | 0.060* (0.031) | -0.059* (0.030) | -0.004 (0.035) | -0.029 (0.047) | -0.033 (0.059) |

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