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State Loan Subsidies to Soften the Fall of the Car Market

By Anatoly Medetsky

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New state loan subsidies could help automakers sell at least 80,000 more cars this year, consultant PricewaterhouseCoopers said Tuesday in the first in-depth study of the measure.

That means that the market for new cars would shrink no more than 3 percent, a big improvement on the company's previous estimate, said Ser Litvinenko, a PwC manager in charge of services for the automotive industry.

The government's initiative, which subsidizes part of the interest on loans taken out to buy new vehicles, kicked off earlier this month.

Interest rates on car loans recently reached 16 percent, fueled in part by the growing proportion that are overdue, Litvinenko said.

"It's a timely and effective measure," he said. "It will make an impact quickly."

In the background, Russia's economic slowdown is putting the brakes on any acceleration of car sales, he said.

"People now have the money, but they consciously aren't spending," Litvinenko said. "This measure will reassure the market."

Sales will slide to a total of 2.7 million units this year, he said.

Manufacturers are facing a grim global environment. Sales fell in most of Europe and in a number of other key markets in the first half of this year, compared to the same period last year. China, the U.S., Brazil and Britain posted strong growth.

To be eligible for the loan program, which will run through March next year, vehicles must cost no more than 750,000 rubles ($23,000).

Unlike Russia's previous car loan subsidy program in 2011, the latest plan covers not only locally made models, but also imports.

Litvinenko attributed this expansion to the country's entry to the World Trade Organization last year, adding that it would not harm the position of Russian manufacturers on the market.

The overall 6 percent decline in sales over the first half of the year was a result of flagging interest toward native brands, chiefly Lada, and imports. Locally made foreign brands recorded slightly higher sales.

"We retain our positive forecast and believe the market will grow in the long term," Litvinenko said. "This year, however, is hard."

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