Government support for the construction sector as a development factor during the pandemic

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Abstract. The construction industry is one of the key sectors of the Russian economy, since it affects the national projects, other industries and social relations. The construction industry plays an important role in creating modern images of cities, building infrastructure facilities and improving the quality of life of the Russian population. The article aims to determine the impact of the coronavirus pandemic on the construction sector of the Russian Federation. The quantitative and qualitative indicators of development of the construction industry, including the dynamics of the business confidence index, are analyzed. The most significant problems in the construction sector caused by the coronavirus pandemic are identified. The trends created by government support measures are revealed.

1. Introduction

The coronavirus pandemic poses a threat to the development of many Russian industries. Its cumulative impact on the economy depends on restrictive measures. According to the Bank of Russia, the quarantine measures implemented in the first half of 2020 decreased the Russian GDP by 1.5-2%.

The government plays an important role in supporting various industries. There is experience in supporting the largest enterprises and sectors of the Russian economy: the construction industry, the light industry, the automobile industry, the transport industry, and the communications sector [1, 2, 3].

In 2019, the legislation on escrow accounts influenced the development of the construction industry. Construction companies and banks accompanying the financial activities in the construction industry reached a consensus. There was a stable positive trend to a decrease in the key rate and the mortgage rate. In 2018–2019, a decline in the real disposable income of the population stopped.

At the same time, the corporate sector began to expand and modernize its production by building commissioning new objects. Migration flows of foreign "specialists" employed by construction companies have stabilized throughout Russia. A significant increase in the infrastructure funding and the volume of construction works is expected within the national projects.

Finally, the volume of production of building materials began to increase. An important factor in the stabilization of construction activities was reasonable organizational and financial maneuvers of one of the main regulators of contracting activities - "Dom.RF".
2. Analysis of the index of entrepreneurial confidence in the construction industry

These positive trends were observed until the beginning of 2020, when the coronavirus epidemic began to affect the construction industry. This caused a significant decrease in all indicators characterizing the construction activities, including the demand for construction services (volume of orders), the volume of construction works performed and own financial resources and profit. As a result, the main composite indicator - the business confidence index – dropped by nine points to 24%. This value is three points lower than in 2008-2009 (Figure 1).

![Figure 1](image1.png)

**Figure 1.** Dynamics of the business confidence index in the Russian construction industry, % [4].

The coronavirus pandemic has triggered changes in the construction labor market. Adaptation to the emerging economic conditions and the reduced pace of production activity forced construction companies to search for new optimization schemes and formats accompanied by an impressive reduction in the number of employees [5, 6].

An analysis of economic literature made it possible to identify a number of trends in the construction sector during the pandemic (Figure 2).

![Figure 2](image2.png)

**Figure 2.** Trends in the development of the Russian construction sector during the pandemic (compiled by the authors).

The main problem in the construction industry is the low demand for construction services. A decline in demand caused a decline in supply. As a result, the financial state of most construction companies has worsened. It caused a decrease in the capacity load and investment in fixed assets due to the decreasing volume of orders and intensification of the growth of economic and sanitary uncertainty. In order to minimize financial costs, managers of construction companies have already begun to reduce the number of employees and optimize salaries.

A decline in the real disposable income of the population and transition of most households to the saving model of behavior caused a decrease in the volume of housing construction and a drop in
profitability of construction companies. According to Rosstat, in May 2020, the volume of housing areas commissioned of the total area of residential premises fell by 25% compared to the one in the last year. Even taking into account the favorable scenario, the annual losses of the housing construction sector will amount to approximately 10% [7].

Under the increased negative economic and sanitary turbulence, the corporate sector, one of the main investors in the construction industry, limits the horizons of strategic planning and begins to optimize current and expected financial costs. First of all, this is a reduction in the number of employees and abandonment of new high-cost projects, including the construction ones (if they are not vital for the enterprise).

One more question is how the government will behave under large expensive infrastructure national projects. Since the support of employment and incomes of the population is a government priority, capital investment in infrastructure will be partially sequestered [8, 9].

According to experts, all changes in the models of economic behavior of the main investors in the construction sector will have a negative effect on business activities in the construction industry. As a result, supply and demand will decrease and the financial state of construction companies will worsen under the conservative scenario.

In the current and post-pandemic conditions, concerns are caused by the state of the labor market in the construction sector. Some contractors find it difficult to recruit migrants. There are logistical difficulties due to the interruptions in freight traffic, especially import supplies and possible disruptions in supply and distribution chains. Sanitary requirements for construction and installation works may be tightened, which will increase the financial costs not related to the construction works and reduce the productivity of companies.

Due to the current and expected problems, the volume of unfinished construction works can increase. It is more than 10 million square meters. To complete the construction works, more than 500 billion rubles are required. Problems of construction companies operating under the old schemes (without escrow accounts) will cause a negative reaction of buyers, who will find themselves in the status of defrauded real estate investors [10, 11].

The transition of the population to the saving model of consumer behavior and the decreasing volume of purchase of expensive goods, including housing objects, should be taken into account.

3. The system of measures of government support for the construction sector
The current economic situation caused by low oil prices, the beginning of the second wave of the pandemic, and the devaluation of the Russian currency have created undesirable price consequences for the construction industry, manufacturers of building materials, and import purchases [12]. This can lead to the inflationary restructuring associated with rising housing prices and increasing mortgage rates.

For the compensatory growth of the construction industry, it is necessary to eliminate the imbalance between the demand and supply, improve the financial state of construction companies, increase their profitability, and overcome all the barriers that arise as a result of the economic turbulence. In the current pandemic conditions, in order to support the construction industry, which is traditionally one of the drivers of the Russian economy, a system of measures has been developed (Figure 3).
Figure 3. The system of measures of government support for the construction sector during the pandemic in the Russian Federation (compiled by the authors)

One of the support measures was temporary cancellation of penalties for violation of construction deadlines which may be shifted owing to circumstances beyond developers’ control: forced suspension of construction works, a decline in demand for apartments. The Russian government decided to loosen the rules of the current construction legislation. If the developer has violated the deadline by more than six months, the facility will not be included in the register of problematic ones.

Another measure to support the construction industry was mortgage loans provided to the population on favorable terms. Cheap mortgage loans can stimulate demand in the housing market. If in the previous crisis periods the rate was 12%, now it has dropped to 6.5%. Thanks to this measure, it is planned to provide the population with 250 thousand mortgage loans and attract at least 900 billion rubles to the construction industry [13, 14].

Project financing for developers at a rate of five and a half percent is one more support measure. The need for the bank project financing increases the cost of construction works and imposes a heavy burden on developers. In this regard, it is necessary to subsidize interest rates for the project financing. An important condition for obtaining subsidies is to retain the staff and not to violate the deadlines. The program aimed at buying out apartments that have not been sold by developers is capable of providing additional demand for apartments [15]. This support measure is implemented by the federal government. It will affect the developers who are experiencing difficulties due to the coronavirus and cannot ensure the planned pace of project implementation. Under the program, apartments in standard-class houses will be purchased by the government. To implement the program, it is planned to create a closed mutual real estate investment fund.

Additional capitalization of the Fund for the Protection of the Rights of Shareholders is a timely government support measure, since the problem of defrauded real estate investors remains one of the most pressing social issues. The coronavirus pandemic can make adjustments to the deadlines of construction projects. To implement the long-term construction project, it is necessary to capitalize the Fund for the Protection of the Rights of Participants in Shared Construction by more than thirty billion rubles. This initiative will restore the rights of nine thousand equity holders. This support measure will attract contractors, builders and provide jobs in the industry.

4. Conclusion

Thus, the comprehensive implementation of these government measures aimed at supporting the construction industry can ensure its development even during the pandemic. Some measures have already contributed to the growing volume of housing commissioning, since the construction industry is reaching the forecasted annual volume and wins back the influence of epidemiological restrictions. Despite the fact that the resulting indicator of activities of developers is the housing commissioning volume, the dynamics of the construction industry is more indicative. It has ceased to decline. Now it is 99 million square meters.

Without the participation of the government, the construction industry will not be able to solve current problems. The lack of proper support from the government authorities will increase the number of construction companies that are in a pre-bankruptcy state, the number of legal proceedings on company defaults; mergers and acquisitions will become more frequent. At the same time, it is important that the participants in these processes do not have a high level of debt load and a significant amount of unfinished construction projects, since they will negatively affect ordinary citizens and the economy as a whole.
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