

The Macroeconomic Situation in the Russian Federation before, during and past Covid-19

A Scenario-based Outlook



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Introduction – questions

- How did the Corona pandemic impact the Russian Economy?
- Are there significant regional differences?
- Will Russia catch up with Western Economies and follow the growth path of China?

Agenda

- (1) Introduction
- (2) Russia at glance
- (3) Covid-19 incidence – regional differences
- (4) The macroeconomic development since 1990
- (5) The Ukraine / Crimea Sanctions of 2014 as a threshold
- (6) Scenarios for Russia's Socio-Economic Development
- (7) Policies and investments for the post-pandemic time – recovery
- (8) Conclusions

Russia at a Glance

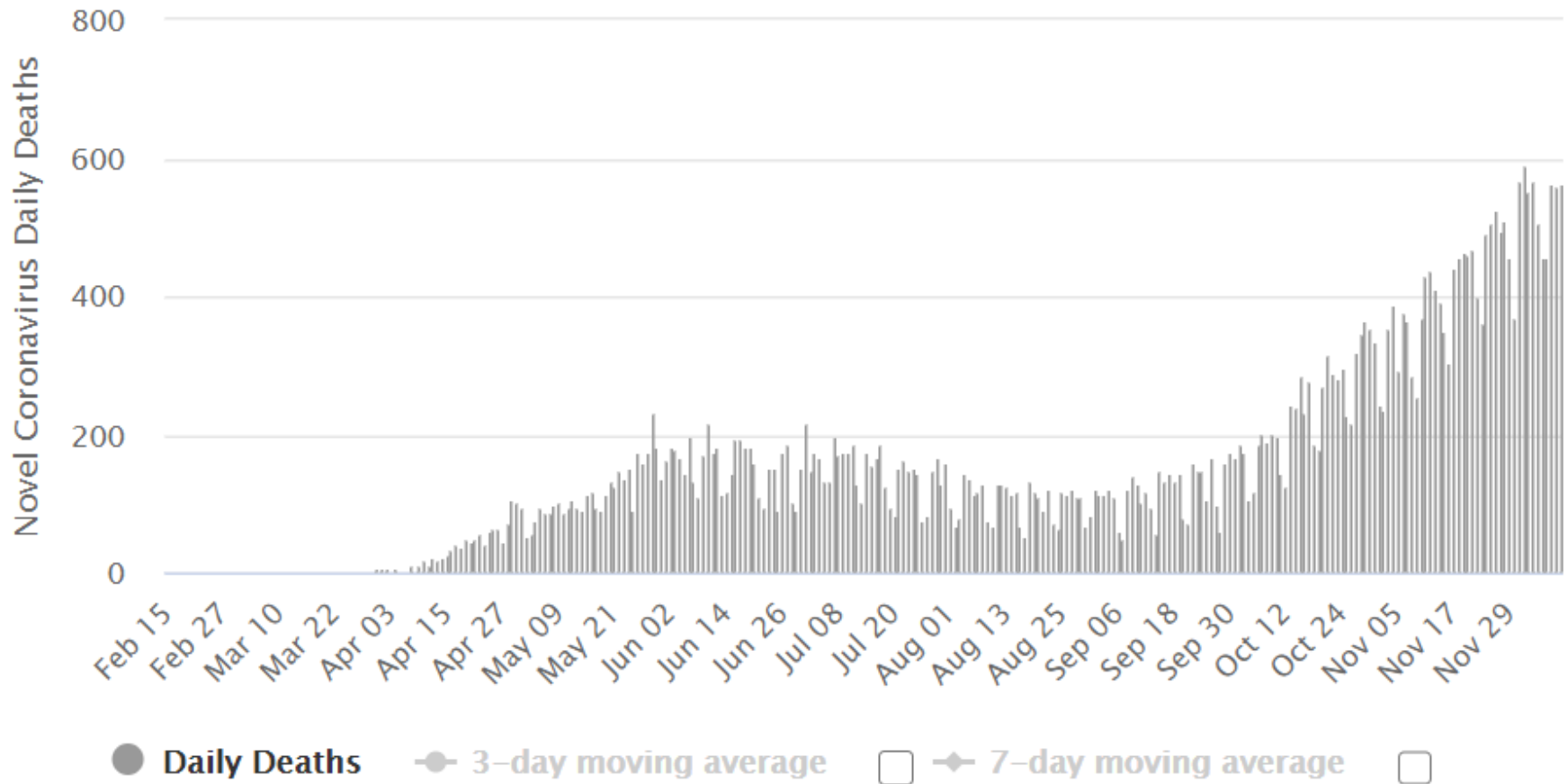
- Population: 144.4 million (2019)
- GNI per capita in US\$: 11,260 (2019)
- unemployment: 6.7 (Aug 2020)
- Inflation: ca. 3.7% (Sep 2020)
- life expectancy at birth: 72 years (2018)

- macroeconomic management: inflation-targeting
- status: middle income country
- export model: resource-based with gross reserves of ca. 30% of GDP
- too slow growth to keep up with other emerging economies – average yearly growth rate from 2011-2020: only 1.49% (!)

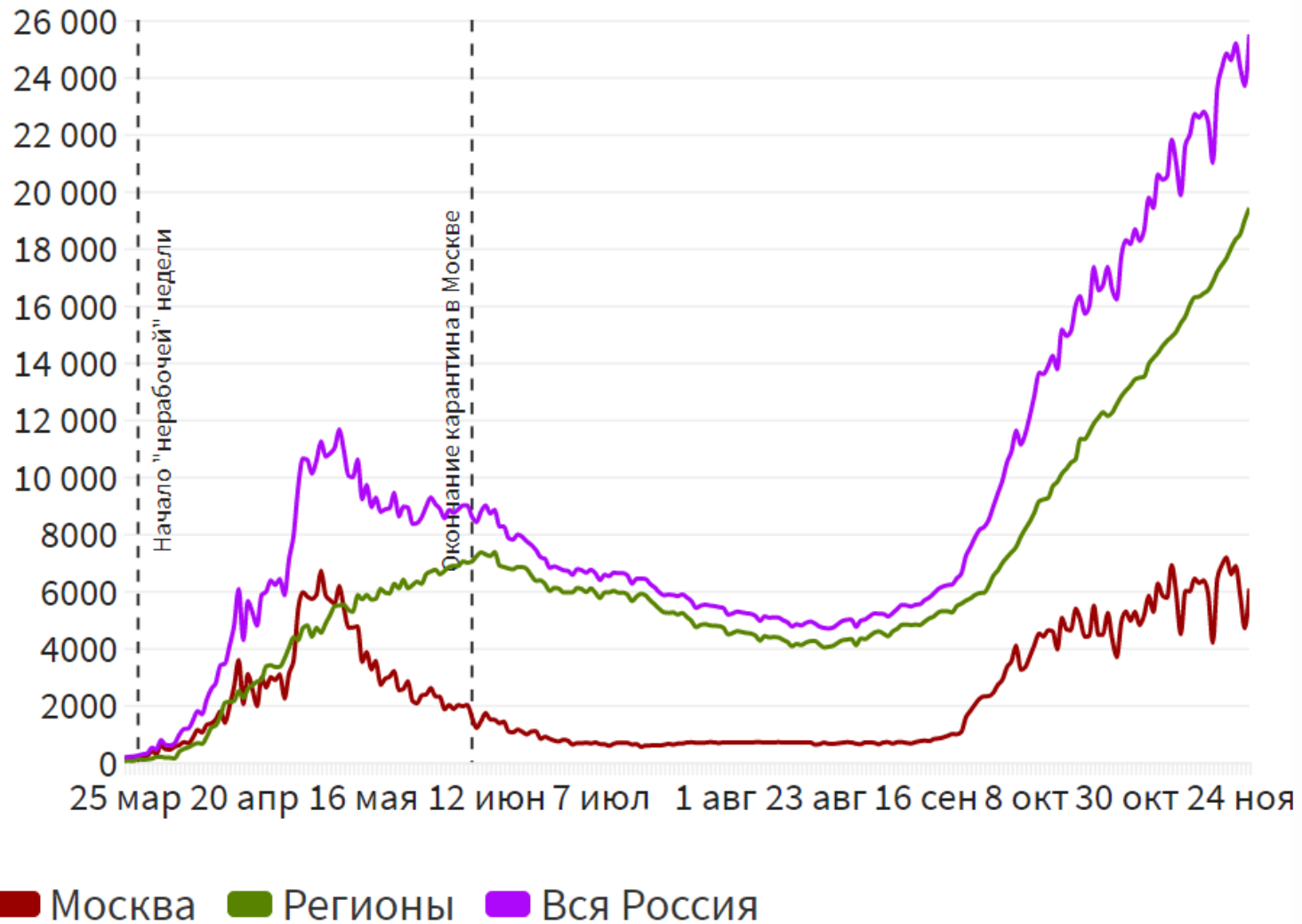
Corona crisis:

- Moscow: strict policy against Corona shows a better result than in the regions
- but: dynamic elsewhere outside of Russia is much more dramatic

Daily New Deaths in Russia

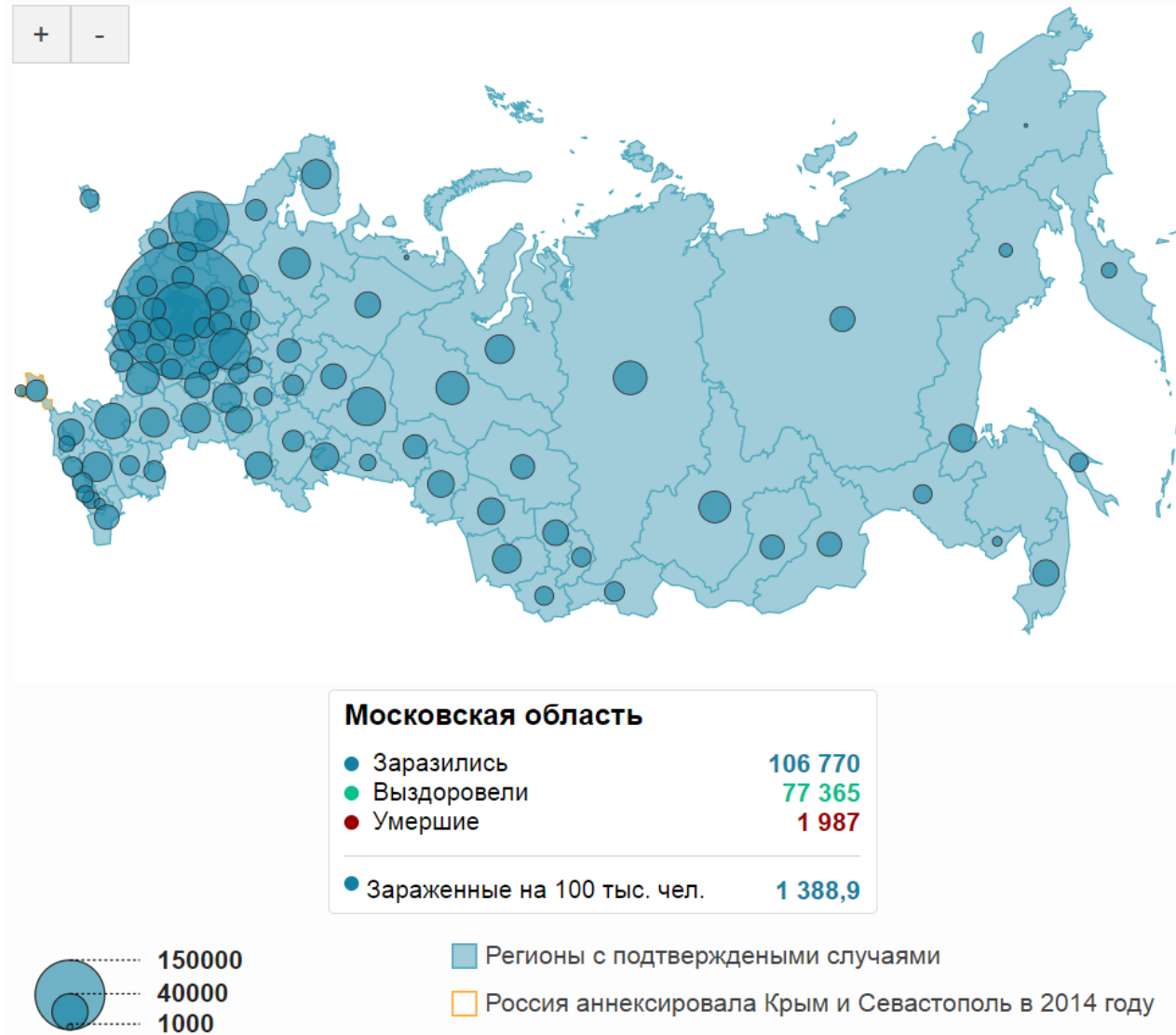


Covid-19 Pandemic Development in Russia – March-November 2020



Source: BBC News (2020).

Regional Incidence – November 2020



Source: BBC News (2020).

The Specific Economic Impact

- the impact was not so severe as elsewhere outside of Russia
- the sound fiscal and financial policy of the previous years provides room for manoeuvre
- see the IMF mission statement as of 24th of November 2020:

“The economy was showing signs of a healthy recovery that is now under threat from a sharp rise in infections. The large contraction in the second quarter was not as severe as in most other G20 countries.

Russia’s strong fiscal, monetary, and macroprudential response to the crisis helped put a floor under the downturn and fostered a stronger-than-projected rebound of third quarter gross domestic product (GDP). Some restrictions have now been reintroduced, but we expect these restrictions to have a less severe impact than those of the spring.

All in all, we project the economy to contract by about 4 percent this year, and to expand by some 2½ percent in 2021, assuming the COVID-19 situation gradually normalizes. Nevertheless, the economy will remain well below full employment for the foreseeable future.”

Source: IMF (2020).

Inflation rate – since 1993 and in the last 10 years

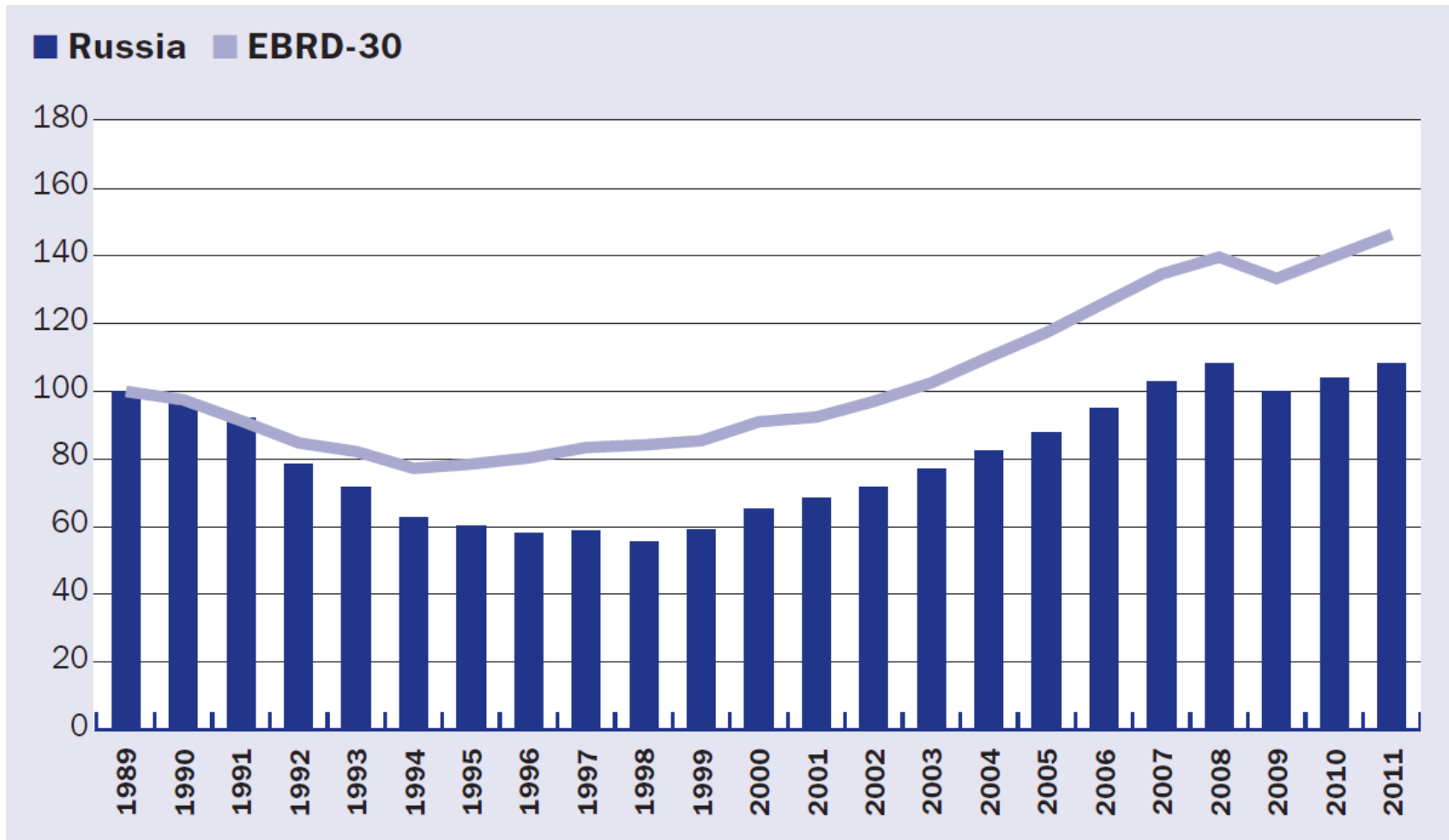


Looking back and ahead

Change of the growth model – recommended

Soviet time	1990s	2000-...	2020-...
planning economy	<p>integration in the world economy</p> <p>uncontrolled privatization</p> <p>lack of market institutions</p>	<p>growth based on natural resources and market reforms</p> <p>top-down governance (“power vertical”)</p> <p>after 2014: some import substitution</p> <p>lower oil price level since 2015</p>	<p>investments in infrastructure and innovation required</p> <p>bottom-up development based on regional incentives and initiatives</p> <p>motivation of young people is necessary</p>

The Economic Development 1989-2011 – Real GDP (1989 = 100)



Source: EBRD (2011), p. 151.

The Economic Development before the Sanctions of 2014

Year	2011	2012	2013	2014	2015
GDP growth	4.3	3.5	1.3	0.7	-3.7
Inflation (average)	8.4	5.1	6.8	7.8	15.5
Government balance/GDP	1.5	0.4	-1.2	-1.1	-3.5
Current account balance/GDP	5.1	3.3	1.5	2.8	5.2
Net FDI/GDP (neg. sign = inflows)	0.6	-0.1	0.8	1.7	1.2
External debt/GDP	27.6	29.3	32.7	29.5	39.1
Gross reserves/GDP	26.9	24.8	22.8	19.0	27.8
Credit to private sector/GDP	44.8	44.7	49.4	54.3	56.4

Source: EBRD (2015b, p. 2) and EBRD (2016, p. 2).

The Ukraine / Crimea Conflict as a Threshold

- Russia's involvement in the Ukraine conflict and its annexation of Crimea in 2014 triggered severe **EU sanctions**
- Russia in turn reacted with **import sanctions** – especially on **agricultural products** also still at place – currently imposed till the end of 2021
- due to this **the year 2014 became a historical point** – marking the end of the first transition post cold war time period (“end of the peace dividend”)
- since 2014 the political and economical **relationship** between Russia and the European Union has dramatically **worsened**
- internally, the Russian government reacted with **import substitution** measures; companies sought new suppliers for deliveries formerly imported from Western Europe (EU)

The Economic Development under the Sanctions since 2014

Year	2016	2017	2018	2019	2020 (projected)	2021 (projected)
GDP growth	0.2	1.8	2.5	1.3	-4.5	5,0
Inflation (average)	7.1	3.7	2.9	4.5	3.2	
Government balance/GDP	-3.7	-1.5	2.9	1.9	-3.5	
Current account balance/GDP	1.9	2.0	6.9	3.8	1.2	
Net FDI/GDP (neg. sign = inflows)	-0.8	0.5	1.4	-0.6	0.0	
External debt/GDP	40.1	32.9	27.4	28.9	n.a.	
Gross reserves/GDP	29.5	27.5	28.1	32.7	n.a.	
Credit to private sector/GDP	53.1	52.1	50.9	52.4	n.a.	

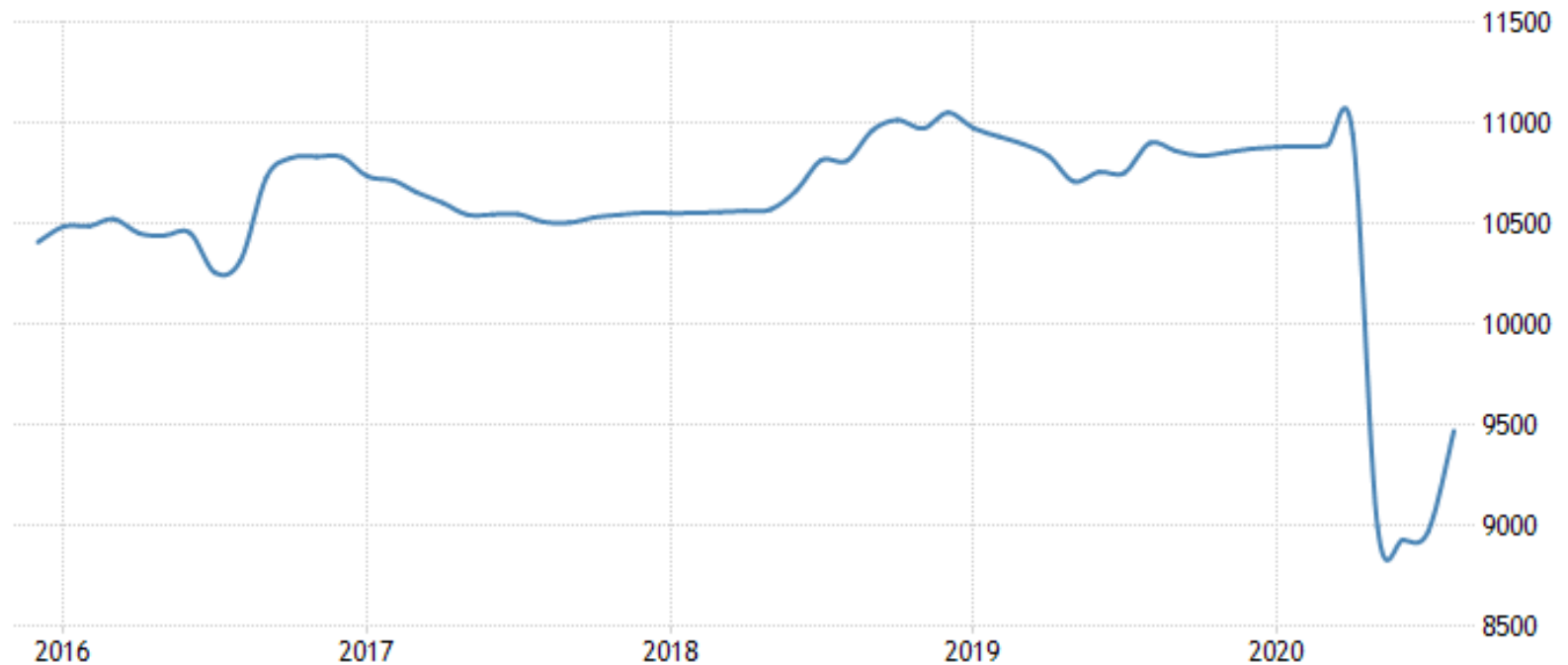
Source: EBRD (2020b), p. 1.

Development of the oil price from 2011-2020



Crude oil production in Russia 2016-2020

Russia's resource export dependency – an open flank and a problem of incentives for structural change

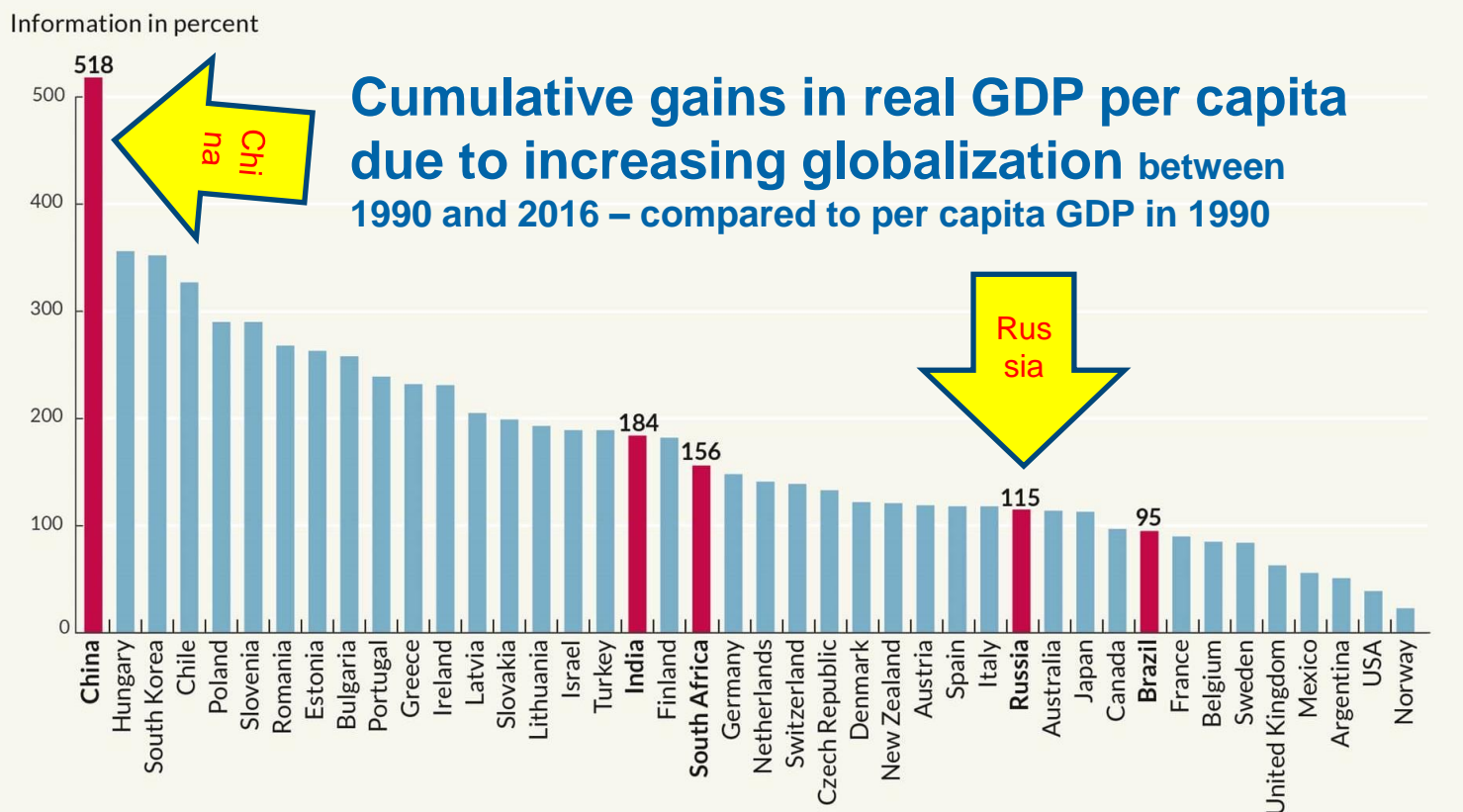


SOURCE: TRADINGECONOMICS.COM | U.S. ENERGY INFORMATION ADMINISTRATION

Source: <https://tradingeconomics.com/russia/crude-oil-production>



The BRICS in the Process of Globalization 1990-2016



Source: Bertelsmann Stiftung (2018).

Scenarios for Russia's Development

	pessimistic	status-quo	optimistic
business climate	deteriorating	stable	improving
open society	remains small	slowly developing	significantly advancing
structural change	not advancing	slowly advancing	significantly advancing
political stability	deteriorating	slowly deteriorating	remaining
sanctions	remaining	slowly vanishing	dropped
GDP growth	rather 0-0,5 %	max. 2 %	3-5 %
poverty incidence	growing	stable	shrinking
regional inequality	growing	stable	shrinking
distance to B(R)ICS	strongly growing	growing	kept

Policies & Investments for the Post-pandemic Time – Recovery

Policies:

- short-term: undertake political initiatives to diminish the sanctions
- mid-term: preserve political stability – plan for the post-Putin-era
- long-term: increase the tax responsibility of the regions

>> *bottom-up instead of top-down model of governance*

Investments:

- health system
- educational system
- digital infrastructure
- overall innovation system
- road infrastructure
- small- and medium-sized companies
- ecological system: permafrost regions

A Regional Perspective

- the country consists of **85 single regional districts** – „federal subjects“
- over 185 different ethnic groups form the society
- the regional dynamic is quite different
- thus there are **tremendous regional economic differences**
- a region may to some degree try to outperform the overall economic development
- it may also use the so called **Smart Specialisation** (EU concept) perspective to identify and coordinate its local development
- it means to **identify specific local (endogenous) endowments** as basis for a specific future concentration of regional developmental efforts
- the Smart Specialisation Strategy (“S3”) is the current developmental guideline of the EU to foster regional development in its member states

Conclusions

- the country is at **a critical point**
- it is falling behind absolutely und relatively
- the young generation needs to be motivated
- a mix of political opening and future-oriented investment is required
- **cooperation** with the European Union and China needs to be improved or strengthened, respectively
- the **new US presidency** is also a chance to freshly discuss problems in the oil & gas industry (especially **North Stream 2**)
- a regional perspective may open some room to specifically guide the local development in order to partially dissociate from the slow macroeconomic development
- need to create institutions and **incentives for bottom-up governance**

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Annex

The Permafrost Problem

“A cocktail of design flaws, management failures and rising temperatures made the worst oil spill in Russia’s modern history — and the most damaging ever inside the Arctic circle — “inevitable,” a report commissioned by Russian metals giant Nornickel has said.”

Source: The Moscow Times (2020).

Arctic Oil Spill: Nornickel Failures, Tank Flaws Caused Catastrophe – Report

A report commissioned by Nornickel said the metals giant failed to investigate warning signs or grasp the consequences of a possible disaster.



By Jake Cordell
23 hours ago



Russian authorities fined Nornickel a record \$2 billion over the oil spill.

Kirill Kukhmar / TASS

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