

# COVID-19 Impact on RUSSIAN ECONOMY

The health emergency associated with the Covid-19 outbreak along with falling oil prices since early 2020 has put the Russian economy in a vulnerable state. The virus has disrupted the Russian markets, thus contributing to stock market and Ruble volatility

**-5.5%**

GDP Growth %  
(For FY21)

**3.1%**

Inflation Rate %  
(for FY 21)

**4.8%**

Fiscal Deficit  
% of GDP (FY 21)

**0.7%**

Current Account  
Balance (% of GDP)

**31.3** | **47.5**  
(Apr 2020) | (Mar 2020)

Purchasing  
Managers Index (PMI)

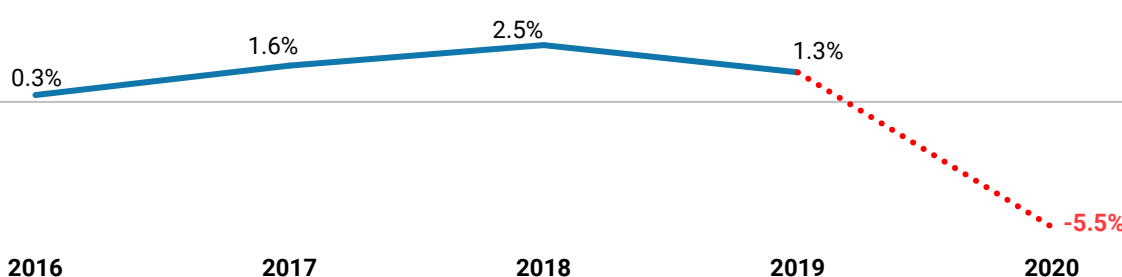
**4.9%**

Unemployment  
Rate

Source: IHS Markit

Note: All indicators for the year 2020 as estimated in April 2020 unless specified  
Source of GDP, Inflation, Fiscal deficit, Current account balance & Unemployment rate: IMF

## Impact on Annual GDP Growth Rate



Source: IMF

- With the second highest covid-19 cases in Europe, Russian economy is expected to experience significant contraction in 2020
- Experts believe that, Russia's responses to the pandemic has been inadequate. This along with the drop in oil prices as Russia wages oil war with Saudi Arabia and other OPEC countries, is expected to have a significant impact on the economy

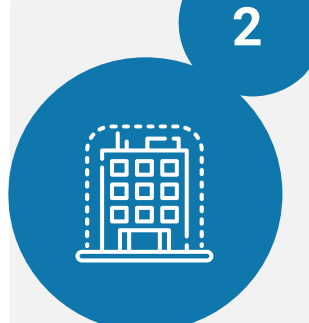
## Key Government Measures...

1



**Bank of Russia engaged in repo auctions of USD 6.5 Bn** to inject liquidity in the banking sector. It also undertook sale of foreign currency in the domestic market. It also eased regulations on loan risk weightings to ensure that banks maintain lending to pharmaceutical and medical equipment companies

2



**A financial reserve worth USD 4 Bn** established to support the economy and compensate quarantined citizens for lost income.

3



**Relaxations on debt repayments announced by the Central Bank** for deferral of loan payments for upto 6 months from March 2020. 0% interest loans to SME in hard-hit sectors such as leisure and hospitality, transportation, travel and so on. A six-month moratorium on initiating bankruptcy proceedings w.r.t companies and individual entrepreneurs in these sectors

4

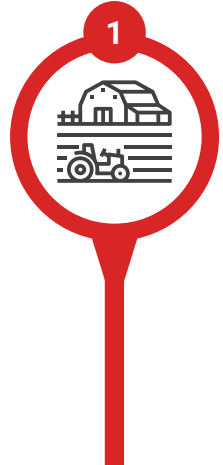


**~USD 5.5 Bn of loan amount sanctioned to the SMEs** listed on the 1100 backbone industries list made by Russian government aiding working capital, subsidies to compensate for the cost of production, provision of work and services, tax and payment deferrals, as well as state guarantees for restructuring the existing loans and bond

The impact has been evident across the sectors contributing to the economy with the services sector being the worst hit. While Russia is all set to ease the lockdown in spite of the increasing number of Covid-19 cases, the country is in need of efficient measures to curb the visible damage to its economy

## Impact on the key sectors contributing to the economy

1



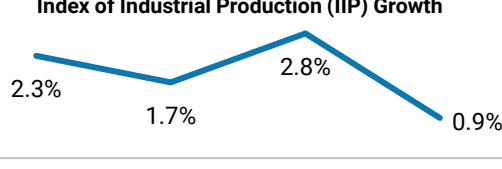
- AGRICULTURE:** The pandemic has slowed down the supply and distribution of agriculture products and hampered the international trades mostly.
- In response to the outbreak, the Russian government has limited the exports of wheat and meslin, rye, barley, and corn from April 1 to June 20, 2020
  - Russia is highly dependent on imports for feed additives, especially on China and European Union. The pandemic halting international trade with China and the market anticipation that China will focus on their indigenous demands of feed additives once they start with full capacity, could trigger a supply shortage for certain types of feed additives
  - The pandemic is also negatively impacting the market; with disruption in exports to China and logistics problems at the sea ports. The pandemic is also expected to jeopardise the Russia's plan to boost its agricultural exports to USD 45 Bn by 2024 from the current USD 20 Bn.
    - The Russian government is considering a reduction of VAT on processed feedstuff from the current 20% to 10%
    - To avoid future logistics problems, the Russian Export Center announced the launch of project of exporting poultry to China via rail

2



- INDUSTRIAL:** The effects of the global oil price slump, alongside weaker demand in the wake of the COVID-19 pandemic is causing the manufacturing of the sector and reduction in manufacturing the PMI due to stop-shock across Europe and contraction in new export orders
- Oil prices are dropping due to failed agreements on production cuts and the need for chemicals and refined products is slowing from industrial slow-downs and travel restrictions amid global pandemic
  - The Russian construction sector is expected to contract by 3.8% in 2020 due to severe interruptions in construction works and delayed projects amid lockdown; a significant downward revision from the 2.6% growth expected prior to the virus outbreak
    - The Russian government has reduced national insurance contribution for SMBs from 30% to 15%. A bill has been drafted to defer all taxes on distressed sectors like Aviation
    - Non-application of penalties for certain government contracts in case obligations are not met by the contractor owing to the consequences of the spread of coronavirus

### Index of Industrial Production (IIP) Growth



Source: Trading economics

3



- SERVICES:** The service sector which contributes almost 62% to Russia's GDP and employs more than 67% of the population has been one of the worst hit. The pandemic has had a negative impact on the dynamics of service sector due to lockdown, reduced transportation, and temporarily closure of HoReCa industry
- Tourism, Leisure & hospitality, transportation, travel and so on are the worst hit segments in current Covid situation due to lockdown
    - Banks have announced deferral of lease payments under real estate lease agreements until 1 October 2020 for companies and individual entrepreneurs in these industries

For a more detailed assessment of the impact of COVID-19 on Russian Economy please reach out to [marketing@datamaticsbpm.com](mailto:marketing@datamaticsbpm.com).