

# Situation in the Russian economy and impact of sanctions

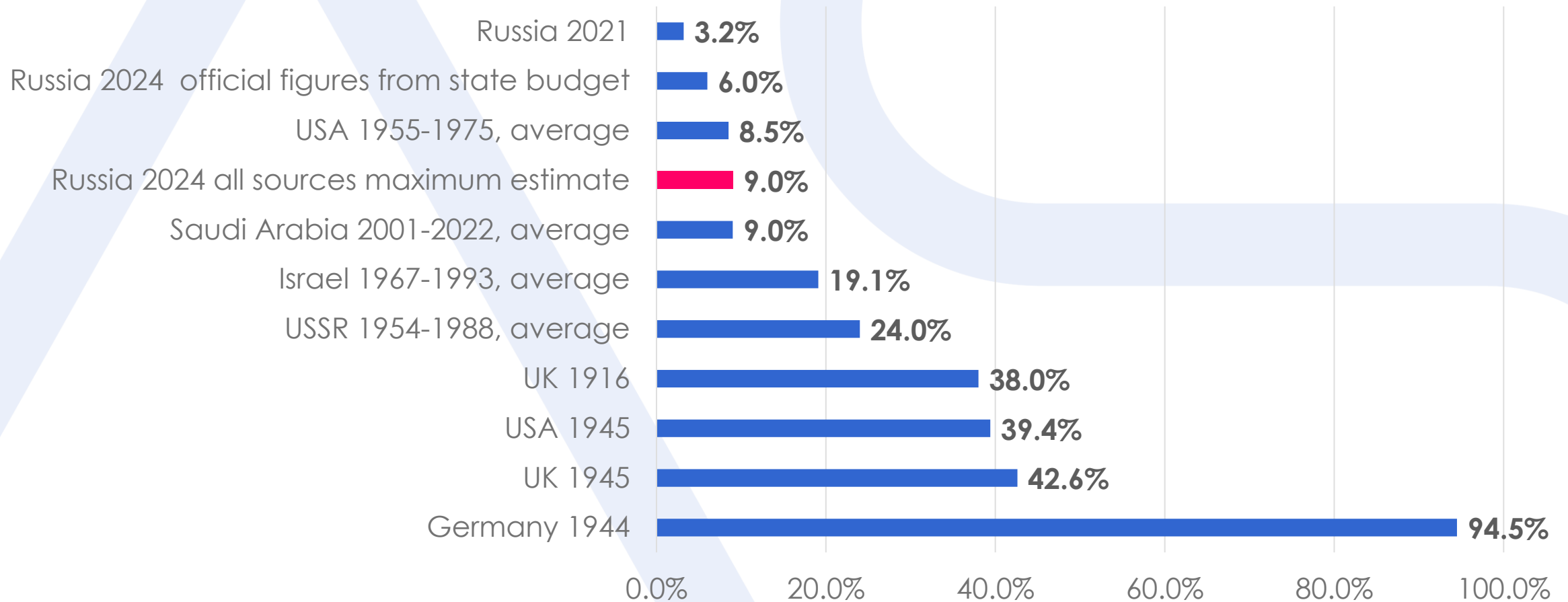
Center for Analysis and Strategies in Europe “CASE”



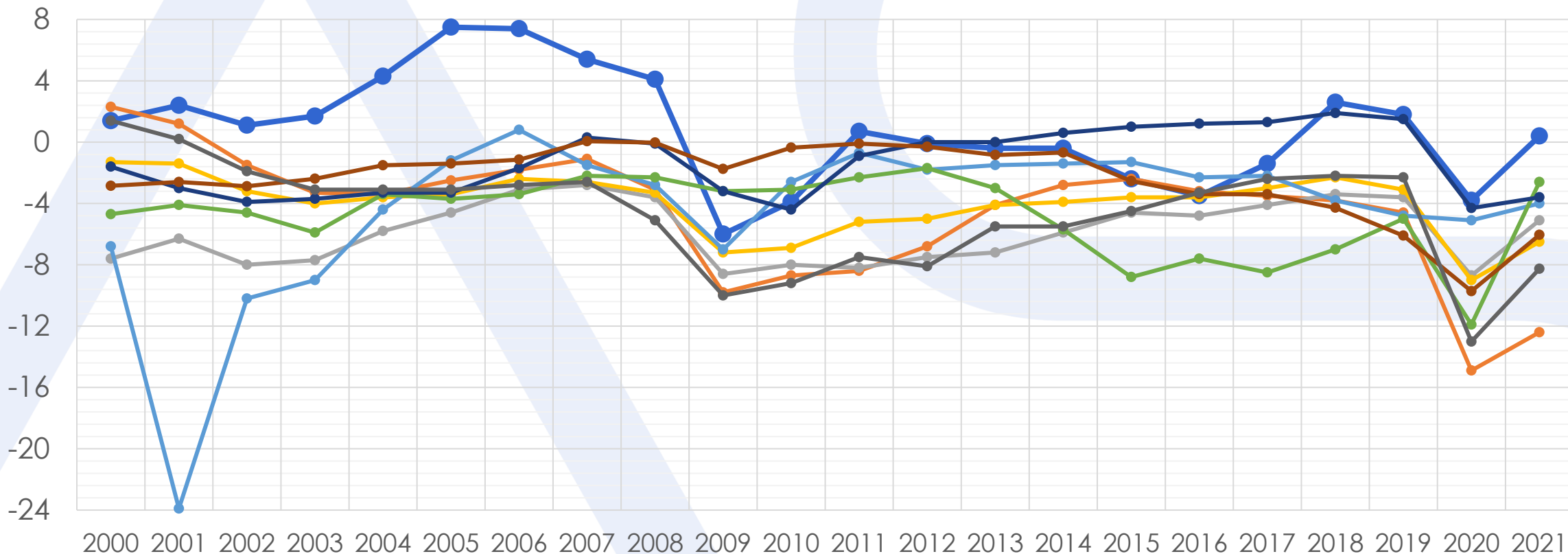
# Main questions to answer:

- Why problems in Russian economy, are far not so serious as majority of experts predicted?
- Current trends in Russian economy, and how long Putin can afford himself to continue this war?
- What is real economic impact of sanctions imposed by western countries?

# Historical examples of military spendings, % of GDP



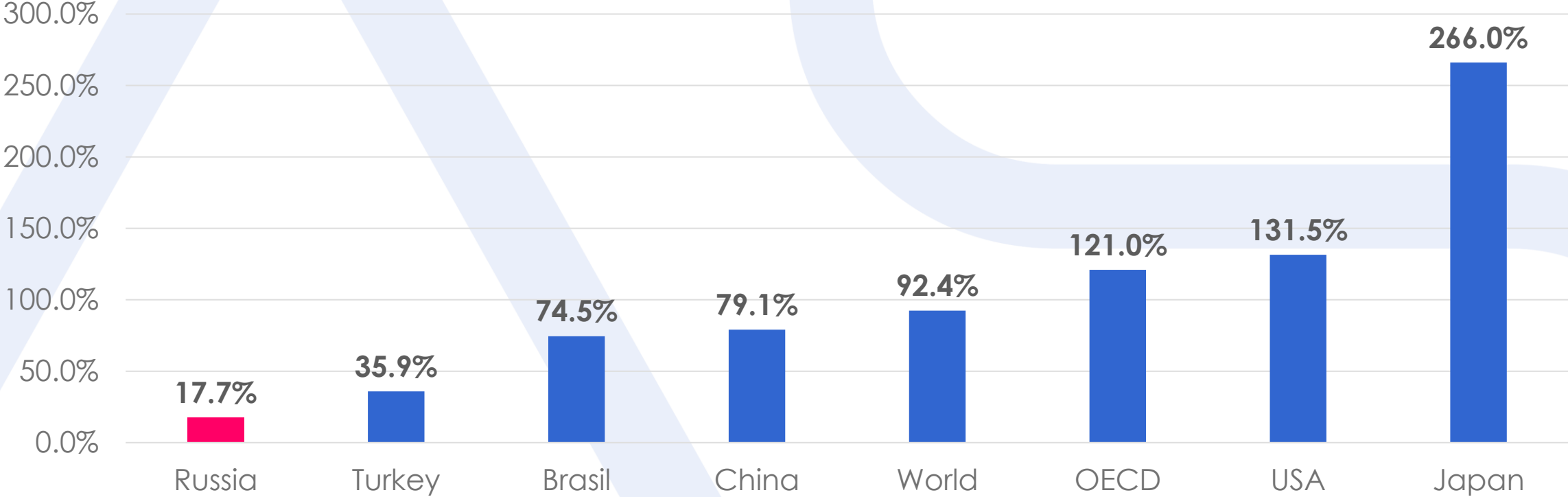
# Comparison of budget situation of Russia during Putin rule and world largest economies deficit / surplus of budget, % GDP



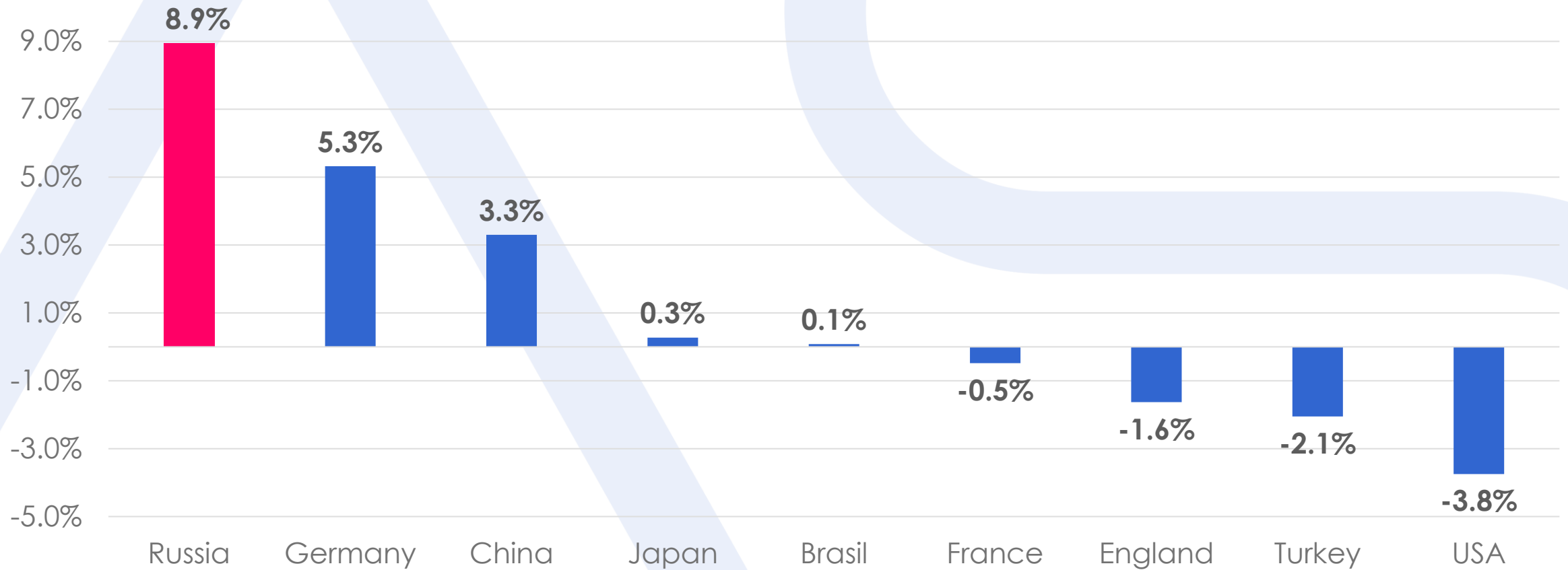
2000-2021 average

<b>Russia</b> +0,86	<b>USA</b> -4,48	<b>Japan</b> -5,88	<b>France</b> -4,03	<b>Turkey</b> -4,43	<b>Brasil</b> -4,76	<b>Germany</b> -1,33	<b>China</b> -2,47	<b>England</b> -4,63
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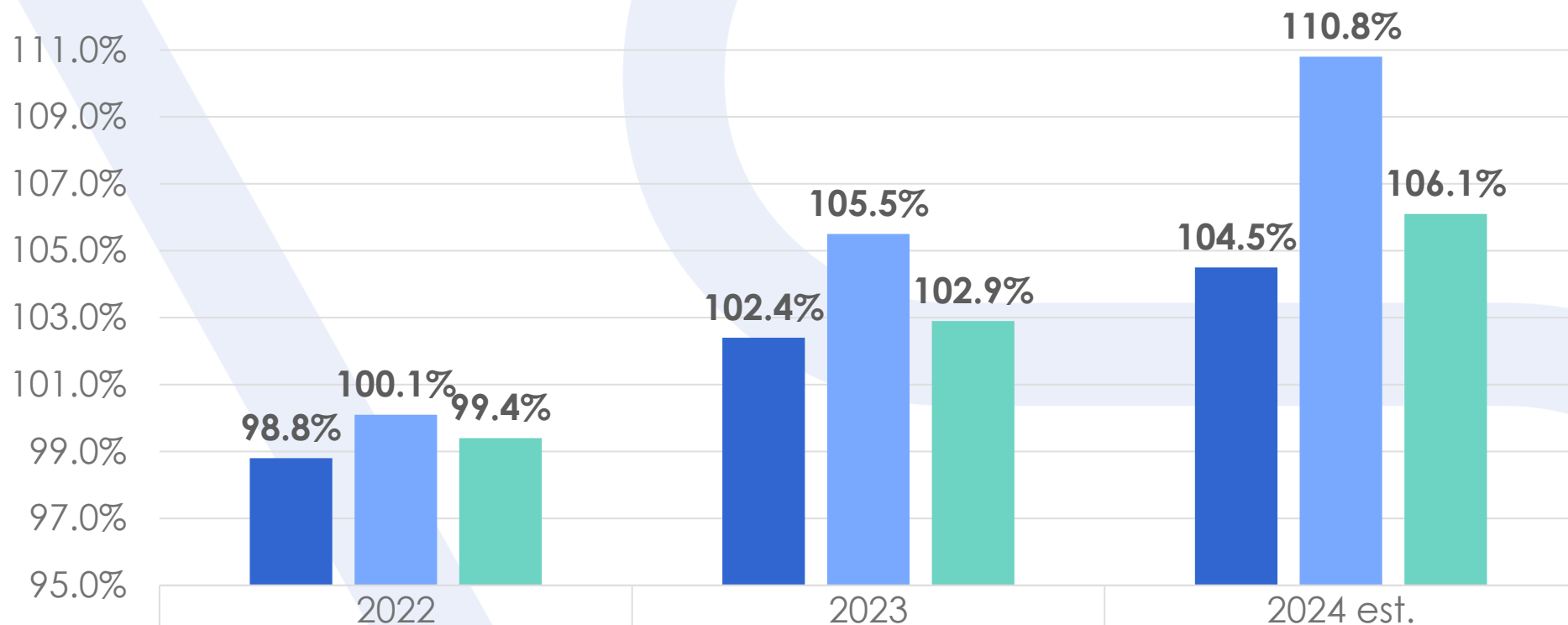
# Current state debt, % GDP



# Foreign trade balance 2000-2021 average, % GDP



# Dynamics of main indicators 2021 = 100 %

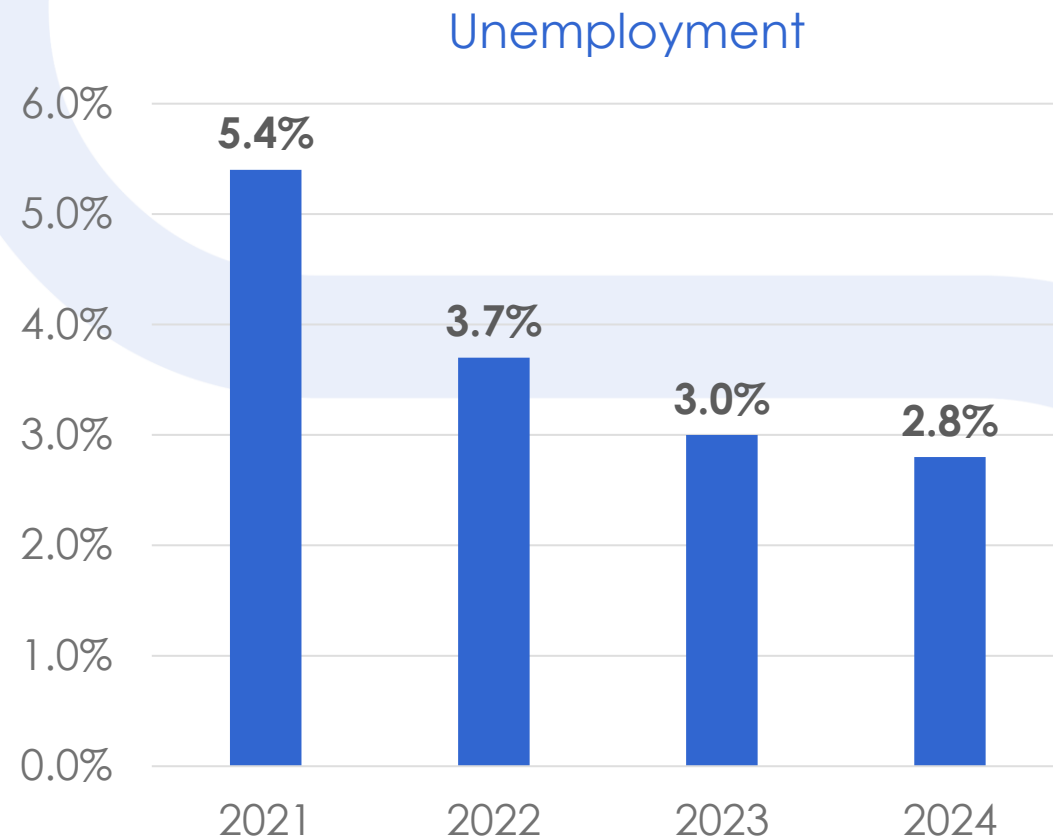


■ GDP	98.8%	102.4%	104.5%
■ Real disposable incomes	100.1%	105.5%	110.8%
■ Industrial production	99.4%	102.9%	106.1%

# The main risks for the Russian Economy 2024-2025

## Deficit of labor force

- Russia faced decrease of labor force few years before the war because of demographic reasons.
- At least **600 000** people were mobilized or went to military service for money.
- **1-2 million** Russians were additionally hired in the weapon producing industries, military support services, medical workers, logistics and construction works connected with the war.
- According to various estimates, war time emigration is between **400 000** and **1 000 000** people.





## The main risks for the Russian economy 2024-25

# Inflation and hard choice between budget incomes and stability on currency market

- Monetary base grew by **20%** in 2022, **8.5%** in 2023 and is shrinking in the first months of 2024.
- Inflation at the end of 2023 was **7.42%**. In other words, we see that, at least since the summer of 2023, inflation has noticeably outpaced the growth rate of the monetary base and M2.
- Inflation expectations of population are still high.
- Central bank rate is **16%** which means real cost of money of more than **8%**.
- Share of household income directed to bank deposits, which for many years fluctuated in the range from **0%** to **6.6%**, reached a record **13.2%** in the 4th quarter of 2023. Consumer lending in Q4 2023 stagnated in nominal terms (i.e., decreased in real terms). The total share of consumption in household income is around a historically low **80%**.

# Other risks 2024-25



- **Unpredictable oil prices.** Oil and products made of it is fast **1/2** of Russian export and about **1/3** of federal incomes. Drop of oil prices to **40\$** per barrel will lead to lose of budget revenues fast equal to war spendings. Russian export in 2023 decreased by **18%** in constant prices. In the same time import returned to prewar levels.

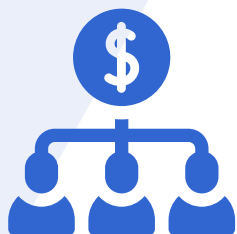


- **Lack of free industry capacity.** Capacity use by the end of 2023 exceeded **80%** in the economy as a whole, approaching **100%** in some industries.



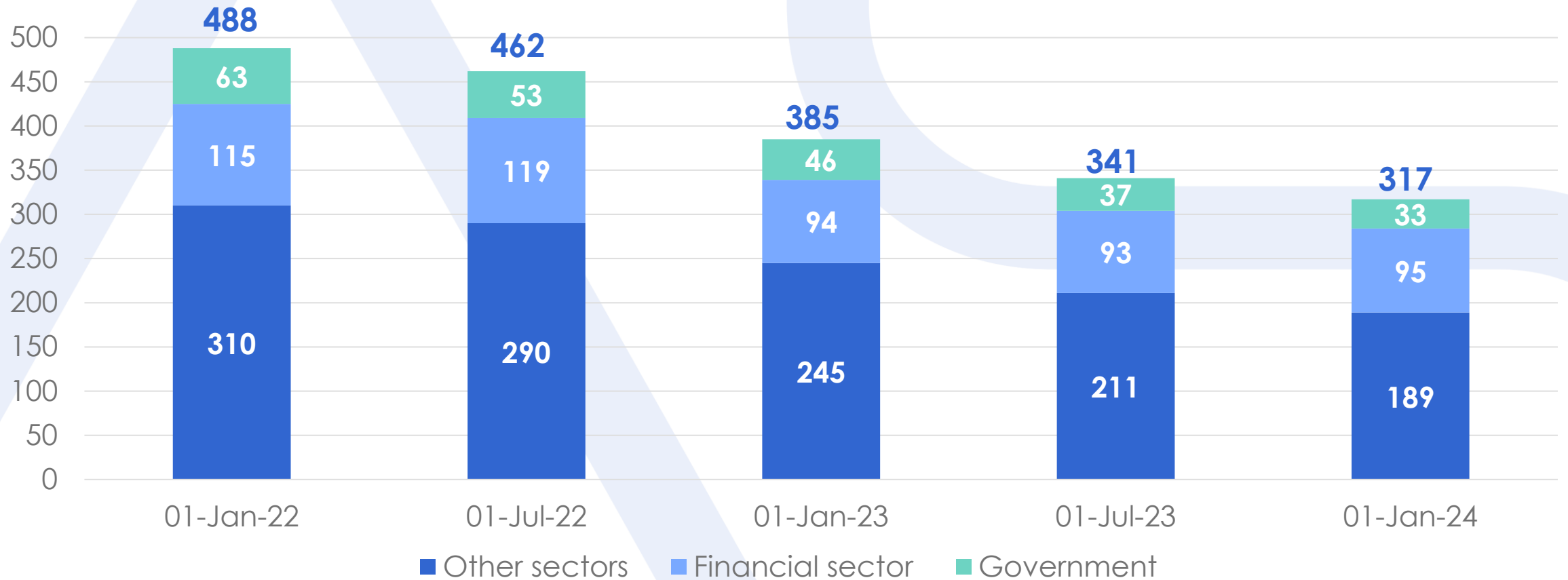
- **Risk of increase of emigration and capital outflow** in case of new wave of mobilization.

# Budget deficit is not a big issue at the moment

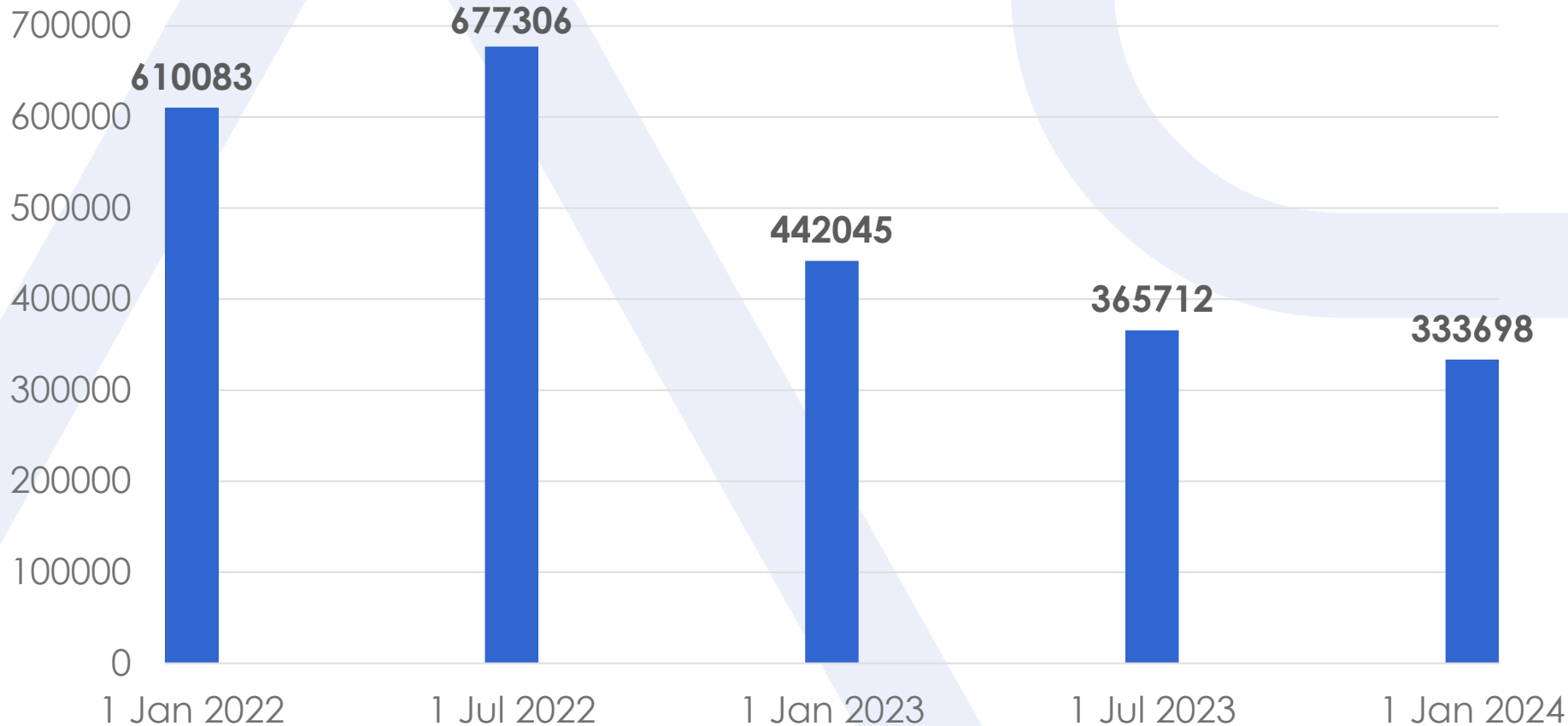


- The 2023 budget deficit was **1.9%** of GDP, and the 2024 deficit is projected at **0.9%** of GDP. This is less than the "peaceful" deficit level of most modern economies.
- The liquid part of the national reserve fund is about **3%** of GDP, i.e. approximately equal to the expected deficit of 2024-2025.
- The announced tax increase should ensure an increase in budget revenues by another **1-1.5%** of GDP starting from 2025.
- Due to the improvement in the quality of tax administration, over the past **15** years, the growth rate of tax collection has consistently outstripped the GDP growth rate even with unchanged tax rates.

# Foreign debt of Russian residents, Billion USD



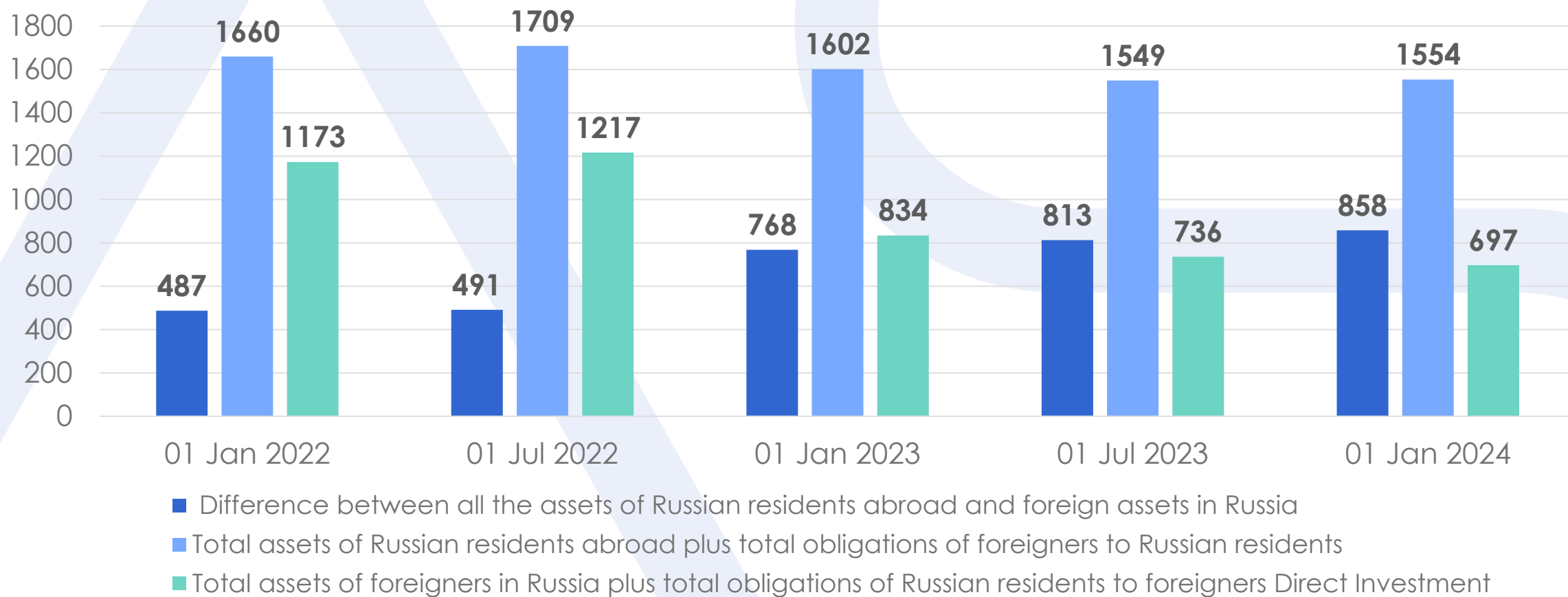
# Cumulative foreign direct investment in Russia, Billion USD



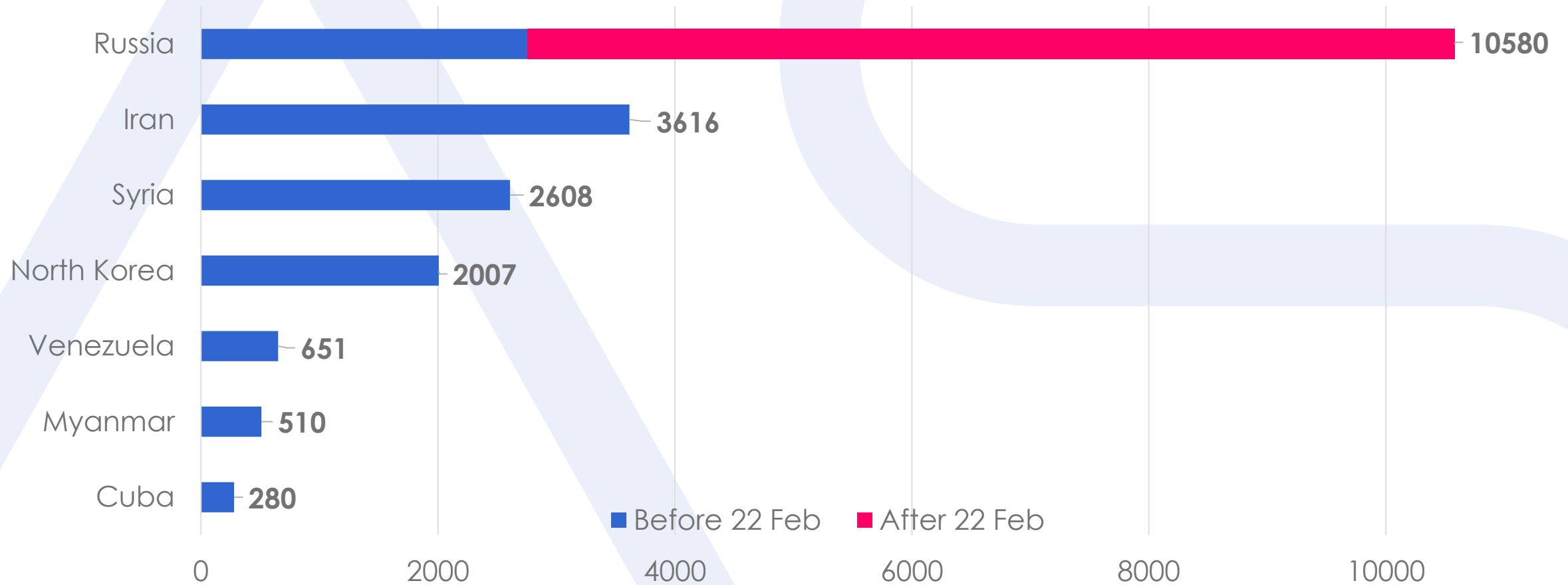
Over  
**1 000**  
foreign firms had  
withdrawn from  
Russia.

**20%**  
of the businesses  
active in Russia before  
the war's inception  
actually departed.

# Difference between all the assets of Russian residents abroad and foreign assets in Russia, **Billion USD**



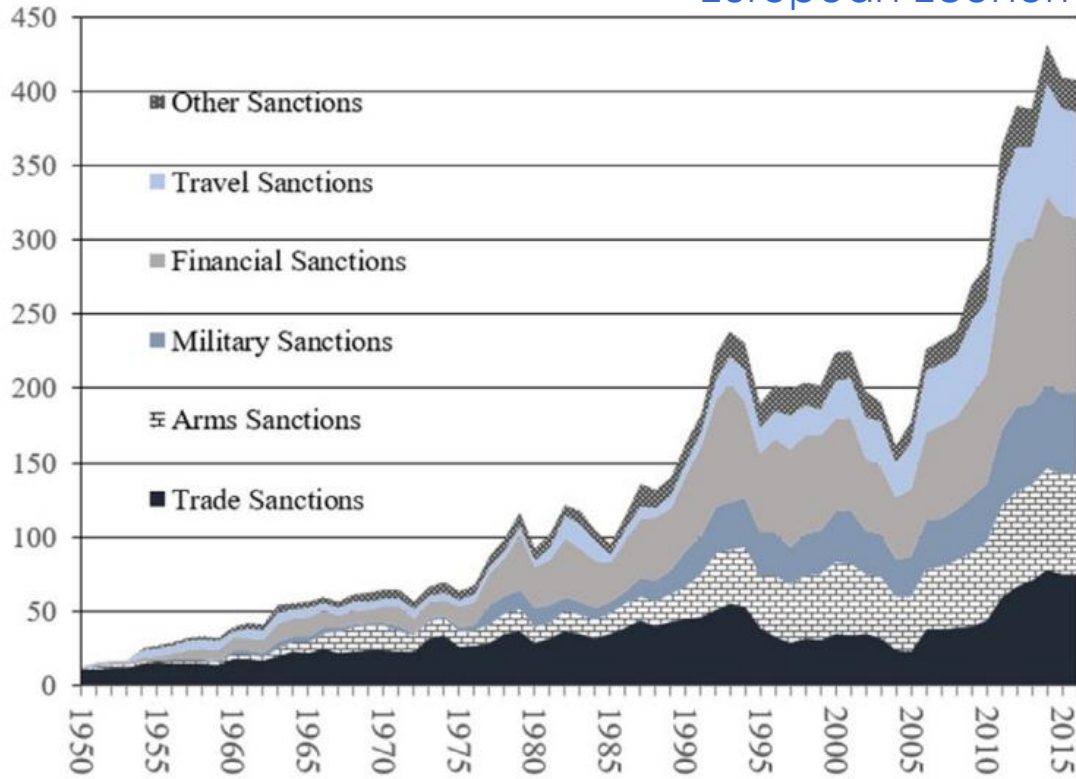
# Russia is the world's most sanctioned country



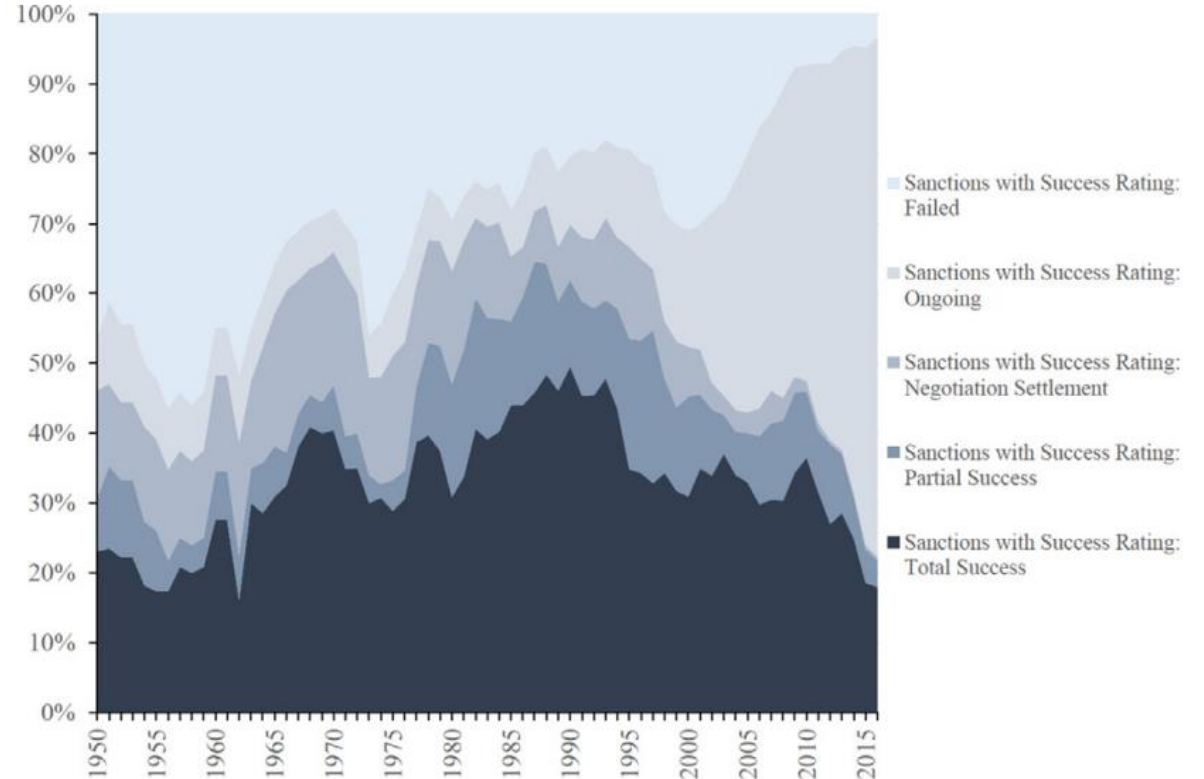
# Global decrease of sanctions efficiency

Gabriel Felbermayr, Aleksandra Kirilakha, Constantinos Syropoulos, Erdal Yalcin, Yoto V. Yoto

European Economic Review. Vol. 129, Oct 2020



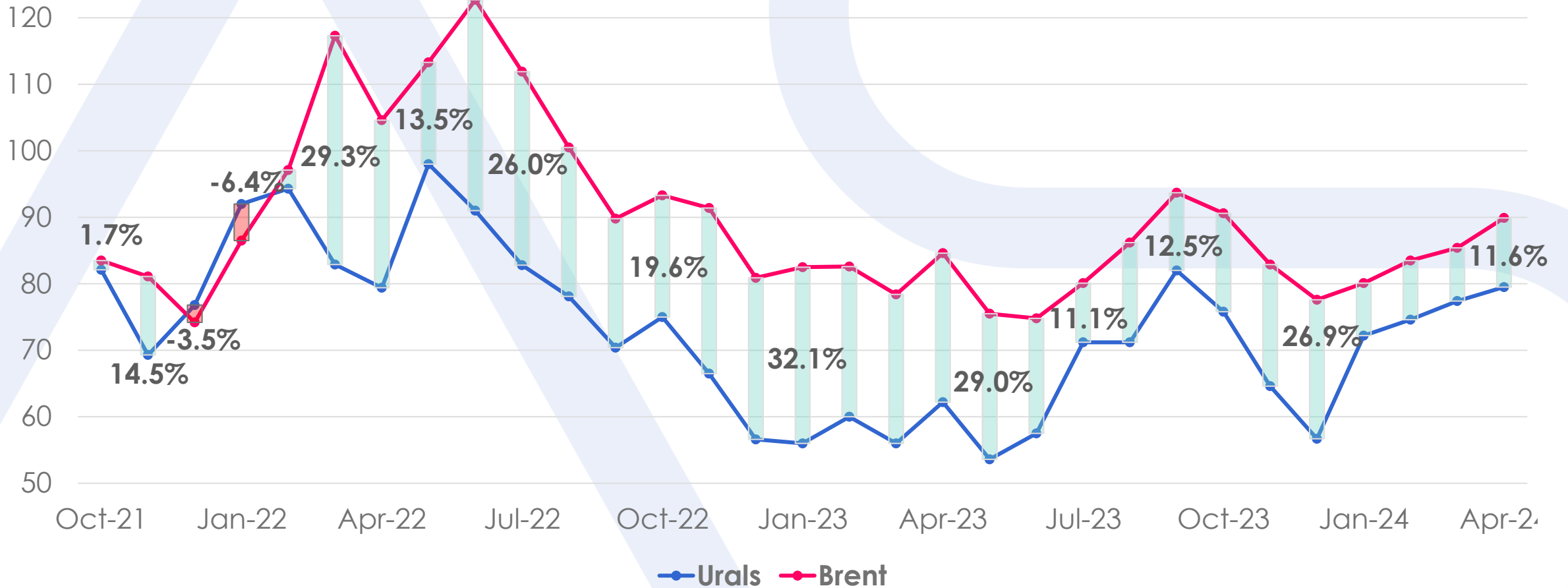
The number of imposed sanctions.  
Frequency by type for the period 1950–2016



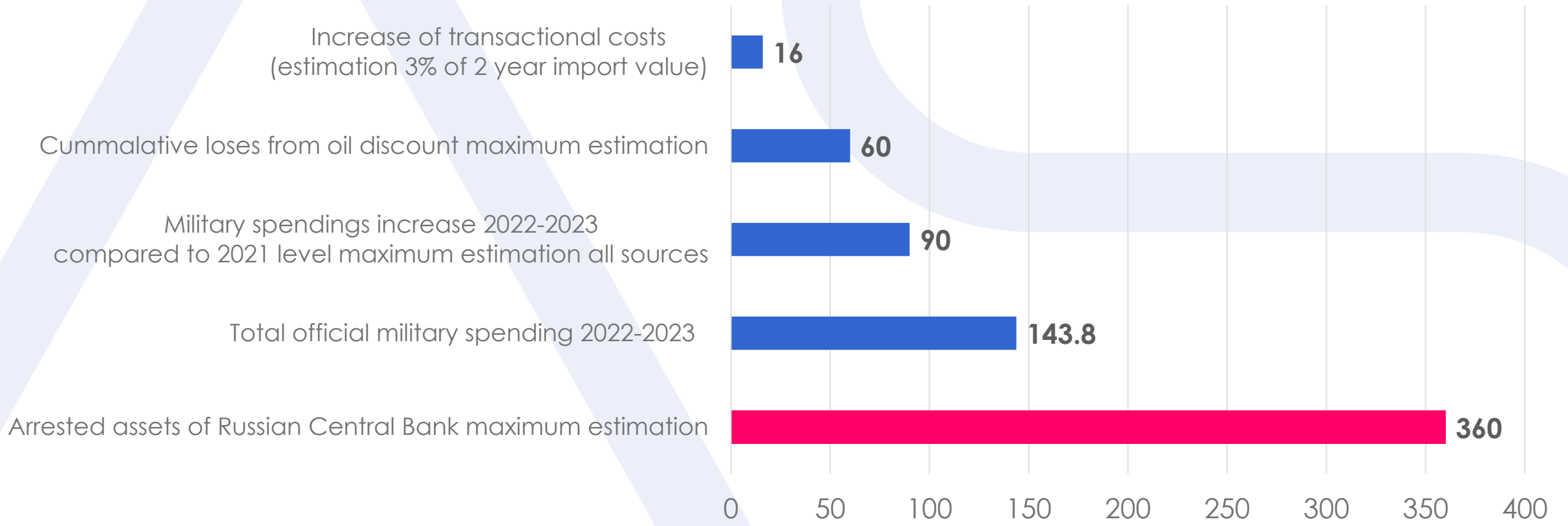
Assessment of policy objectives in sanctions (1950–2016).  
The yearly policy outcome registered for declared policy objectives in sanctions. For each sanction case up to three policy objectives are documented.



# Spread between Brent and Urals crude oil



# Cost of war main components, Billion USD



# Sanctions from which Russian economy and Putin's regime mainly benefited



## Visa problems

In 2023 EU countries issued to Russian citizens **10** time less visas than in 2019. Increase of visa requirements restrained emigration of labor force and potential soldiers.

Especially taking into account that main problem of Russian economy now is the deficit of labor force.



## Ban on money transfers

Difficulties for money transfers outside of Russia restrain outflow of capital held by Russian middle class.

The money which could have been placed in the west are held on deposits in Russian banks which are main buyers of state debt.

Instead of stimulating capital outflow western countries intentionally lock private capital inside Russia. And this capital is now used to finance the war.



## Arrest of private assets

Threat of arrest of assets of rich Russians lead to return back to Russia of at least **100 billion** dollars.

This effect can't be anyhow cured.



## Imposition instead of enforcement

Instead of constant invention of new regulations majority of which does not really work or have very limited impact, it is much more efficient to focus on enforcement of a few sanctions having large impact

# Conclusion

- Adaptation to war and sanctions and the resulting structural transformation of the the Russian economy have generally been finished. In the perspective of **1-2** years, we should expect an inertial continuation of the existing trends. In other words, a further reduction of trade balance, stagnation or insignificant reduction in investment and household consumption, offset by an increase in government consumption.
- Current war burden does not create any critical risks for the Russian economy. If the intensity of war will not increase rapidly, Putin can easily afford himself few more years of such a war.
- Majority of the economic problems caused by war usually comes with war end. The US economy fell by **11.6%** in 1946 (this is the second worst indicator in history), and the British economy by **25.3%** in 1919-1920. The inflation highs were also observed in the first after war years. Increase of unemployment is also unavoidable.