



## RUSSIA AND THE COVID-19 PANDEMIC

■ ANALYSIS		
	Russia's Health Care System and the Covid-19 Pandemic	2
	By Judy Twigg (Virginia Commonwealth University)	
■ STATISTICS		
	Covid-19 Cases in Russia	5
■ ANALYSIS		
	Two Economic Crises at the Same Time—Too Much Even for Russia	10
	By Gunter Deuber, Raiffeisen Bank International AG	
■ STATISTICS		
	GDP Growth Forecast, Critical Oil Price Levels, Current Account Balance, Ruble Exchange Rate	13
■ OPINION POLL		
	Coronavirus in Russia (20–26 February and 19–25 March 2020)	16

## Russia's Health Care System and the Covid-19 Pandemic

By Judy Twigg (Virginia Commonwealth University)

DOI: [10.3929/ethz-b-000411027](https://doi.org/10.3929/ethz-b-000411027)

### Abstract

While coping with the coronavirus pandemic, Russia currently shows only moderate (though accelerating) numbers of Covid-19 cases in international comparison. However, the real challenge that the country has to deal with is enormous. From handling statistics to dealing with infected cases, the approach to containing the virus and the condition of the healthcare system raise serious questions about the efficacy of the much-vaunted “power vertical” in this instance.

### Bad Numbers

Russia is currently facing one of the world's more moderate, though accelerating, challenges with coronavirus. The Russian government reported its first confirmed case on March 2, and its first case of community spread on March 15. As of April 16, about 28,000 Russians are reported to be infected, based on over 1.6 million conducted tests. The number of daily new reported cases has accelerated over the last 7–10 days. Russia's epidemic is skewing relatively young: 80% of reported cases as of April 5 were between the ages of 18 and 60.

There are many caveats to these reported data, however. The quality and coverage of coronavirus testing is unclear. There are numerous anecdotal reports of people hospitalized with pneumonia or other causes of severe respiratory distress who are not being tested, even though their conditions clearly indicate they might be infected. The real number of cases of Covid-19 in Russia is therefore most certainly higher than what is being reported.

Existing incentives within the Russian bureaucracy encourage officials at the local government and health facility level not to be the bearer of bad news. Many hospital heads are likely experiencing strongly conflicting impulses at this point: they desperately want additional resources to handle existing or potential Covid-19 case-loads, yet they do not want to call negative attention to themselves. To this point, Putin's videoconference with the country's regional leaders during the last week of March was extraordinary in what it implied. Putin stressed repeatedly how important it was for his underlings to tell him the truth, to provide him with real data, and to follow orders. Putin would not have stressed this point so urgently unless the reality, the way things usually work, were otherwise: subordinates lie routinely about both the situation on the ground and what they are doing about it. An effective response to any epidemic requires comprehensive, accurate data, and strict observation of public health protocols formulated on the basis of that information. The implied level of deception,

mistrust, and inaction throughout the Russian system raises serious questions about the efficacy of the much-vaunted “power vertical” in this instance.

### (Limiting) the Spread

The highest burden of reported Covid-19 is not surprisingly in the largest urban areas: Moscow city and oblast, St. Petersburg, and Leningrad oblast. There are also smaller local outbreaks reported in other areas: Komi, Nizhny Novgorod, Sverdlovsk, and Krasnodar. The cases in Komi are reported to have spread through a physician at a city hospital who had traveled recently to Europe, or whose children had traveled. A Russian open-source model using data from the tutu.ru travel service finds that, based on movement of passengers on airplanes, trains, and buses in April 2019, the epidemic will last until September or longer in many Russian cities. Russia's large number of spread-out urban areas and low population density ease the task of physical distancing, if proper policies are put in place and enforced in a timely manner. The highly centralized transport system—with half of all flights across just five cities: Moscow, St. Petersburg, Krasnodar, Simferopol and Sochi—concentrates many passengers in relatively few places (which encourages spread of the virus), but also facilitates quick intervention to stop the spread of disease. The centralization of traffic flows, as everywhere, makes the residents of larger cities more vulnerable.

The capital city, Moscow, adopted serious physical distancing measures that would be expected to “flatten the curve” only very recently. There were early reports of discussions about closing Moscow off from other parts of the country, but it is unclear that Russia has the manpower to enforce such an action. The region of Chechnya—which has been charting its own, particularly harsh course of action against the pandemic from the beginning—was the first to seal off internal borders, as of April 5. It is not clear whether others will independently follow suit. Other regions have instituted varying degrees of physical distancing measures.

Tatarstan has copied Moscow's system of requiring QR codes or other special passes in order for residents to leave their homes. The Siberian provinces of Krasnoyarsk, Norilsk, and Tomsk have, as of April 6, introduced a 14-day quarantine on all visitors from Moscow. Residents of Belgorod will now be fined for driving a private automobile. It may be the case, however, that—just as in the United States—failure to introduce uniform measures across the country will prolong the extent to which the epidemic persists inside Russia, with various regions experiencing peaks over a series of months, depending on when their physical distancing and other control measures are introduced and how tightly they are enforced.

Russian President Vladimir Putin's reaction to the Covid crisis was initially tepid, at best. His March 25 address to the nation—the first point at which the national government showed signs that it was comprehending the severity of the coronavirus threat—was oddly subdued, and he spoke almost exclusively about economic impact and not at all about the kinds of measures society should be taking to slow spread of the virus. His initial announcement of a week-long paid work holiday was a huge mistake in terms of mitigating the epidemic: people took it as an announcement of vacation, and many traveled from Moscow to other parts of the country. The consequences of this blunder will not be clear for another 7–10 days, but it is possible that this move will have been responsible for spread of the virus to smaller cities and rural areas where the health care system could be easily overwhelmed.

### Health Sector's Capacity as Response

In terms of the health sector's capacity to respond, there are two major issues: (1) How well equipped are the country's two major cities, Moscow and St. Petersburg, to handle a surge of moderate to severe cases of respiratory distress? and (2) Will there be significant spread to other cities, even small towns or villages, where the health care system is much less well developed and would crumble quickly? Overall, Russia's health care system has some advantages. Stemming largely from the enduring legacy of an output-driven Soviet system that prioritized quantity over quality, it has plenty of doctors, nurses, and other personnel: according to OECD data, 4.04 doctors/1000 population, over 50% more than in the United States (2.6), and 70% more than hard-hit South Korea (2.34). Its advantage in hospital beds is even greater: 8.05 beds/1000 people, almost three times that in the U.S. (2.77) and Italy (3.17). Its vertical command structure allows redirection and mobilization of new resources relatively quickly, exemplified by the hurry-up construction of a new hospital on the outskirts of Moscow dedicated to Covid-19 patients,

and reprofiling of other health facilities and departments around the country.

Russia also has long, relevant experience dealing with infectious disease. Its recent history with tuberculosis, another respiratory infection requiring sophisticated diagnostics and high standards of infection control, may serve it well. Although Russia has not been able to bring drug-resistant TB under control, overall TB incidence has gone down by 5–6% annually since 2010, an impressive success story. Ideally, skills and experience from the world of TB and other infectious diseases will translate into a head start against Covid-19.

But more broadly, the Russian health care system is ill-equipped to handle a large influx of Covid-19 patients. Despite significant levels of investment over the last decade, access to care has diminished since the Soviet period, and improvements in quality have been far from universal. Corruption and convoluted incentive structures skew resource allocation decisions. Much of Russia's hospital equipment is still old and of poor quality. Its medical personnel are not well trained—a license to practice medicine in Russia, for example, does not automatically transfer to a license to practice in Europe or the United States—and there may not be enough of the right kinds of personnel (anesthesiologists, respiratory therapists, lab technicians, skilled intensive care nursing staff) needed specifically for treatment of moderate to severe cases of Covid-19. The Russian government has insisted that it has more than enough ventilators on hand—40,000 in total, along with ample stocks of protective gear for health care personnel—but some Russian physicians are expressing concern that many of those machines are old and in disrepair, and that neither the physical nor human supporting resources at hand to operate them are up for the challenge that may be coming. And there have been reports of wealthy Russians buying and hoarding scarce ventilators for their own personal use.

Russia does not reply on large, multi-profile hospitals as is the case in much of the Western world. Instead, most inpatient facilities are highly specialized: infectious disease hospitals, maternity hospitals, cardiovascular centers, etc. And rightly, most of the last decade's heavy investment had been in the areas most impacting the country's most severe demographic challenges: maternity and neonatal care (to increase the birth rate) and non-communicable disease (heart disease, stroke, cancer) to tackle the burden of premature mortality among working-age men. A key question is therefore: Can the Russian health sector make the shift, in terms of personnel, infrastructure, and equipment, to gear up against this pandemic? Importantly: can it break down the significant administrative and bureaucratic silos between these facilities and sub-sectors, where there

has traditionally been lack of communication and collaboration, and interactions have instead been prone to competition and turf protection?

### **Risks and Shortcomings**

All of these issues are reflected in survey data revealing the Russian public's deep distrust of their health care system. A 2018 poll of 6500 respondents across Europe found only 13% of Russians expressing confidence that their system would provide them with the best available treatment, a sharp contrast to 64% in Spain and 63% in Great Britain. Similar surveys within Russia find lack of access to health care consistently among Russians' top worries (coming in behind only inflation, poverty, unemployment, and corruption). Access to health care is one of Russia's key overall advantages, in principle—a legal resident needs only a mandatory medical insurance card, providing universal coverage—but an overwhelming majority of Russians question the quality of the services offered under that guarantee.

There are many factors impacting the extent to which Covid-19 will place overwhelming demands on Russia's health system. The US Centers for Disease Control and Prevention released data in early April making it clear that people with underlying comorbidities—heart disease, diabetes, chronic obstructive pulmonary disease—are much more likely to require intensive care if they are infected with coronavirus. Despite progress in bringing down the prevalence of these kinds of conditions over the last 15 years, Russia still suffers a disproportionately high burden, especially among middle-aged men. Russia also has a comparatively high number of people with

other diseases that compromise their immune systems and may make them more likely to contract coronavirus: HIV, tuberculosis, hepatitis-C.

Russia also has large numbers of disadvantaged, marginalized populations whose situation with coronavirus is currently unknown. Prisons are incubators for coronavirus (hundreds of incarcerated people and staff members, for example, are infected at New York's infamous Riker's Island prison), but no data have been released on infections or measures to prevent infection in Russia's detention centers and prisons. Similarly, Russia's millions of labor migrants often live in cramped, unsanitary dormitories or apartments where coronavirus could spread easily; these undocumented people have no access to health care, and therefore are unlikely to be receiving coronavirus testing should they fall ill.

Overall, the Russian government is still taking too many risks. Hundreds of Central Asian labor migrants were trapped in close quarters at a Moscow airport in late March for days, for example, waiting for flights home. Events honoring particularly vulnerable elderly World War II veterans, on the sacred occasion of the 75<sup>th</sup> anniversary of the war's end, are still being held around the country. The Ministry of Defense is proceeding with plans for the spring 2020 rounds of conscription across the country. Given the magnitude of the threat, a more urgent and robust set of physical distancing measures against coronavirus is clearly warranted. In their absence or failure, the fragility and inconsistency of Russia's medical system may force its valiant health workers to struggle mightily to deal with the consequences.

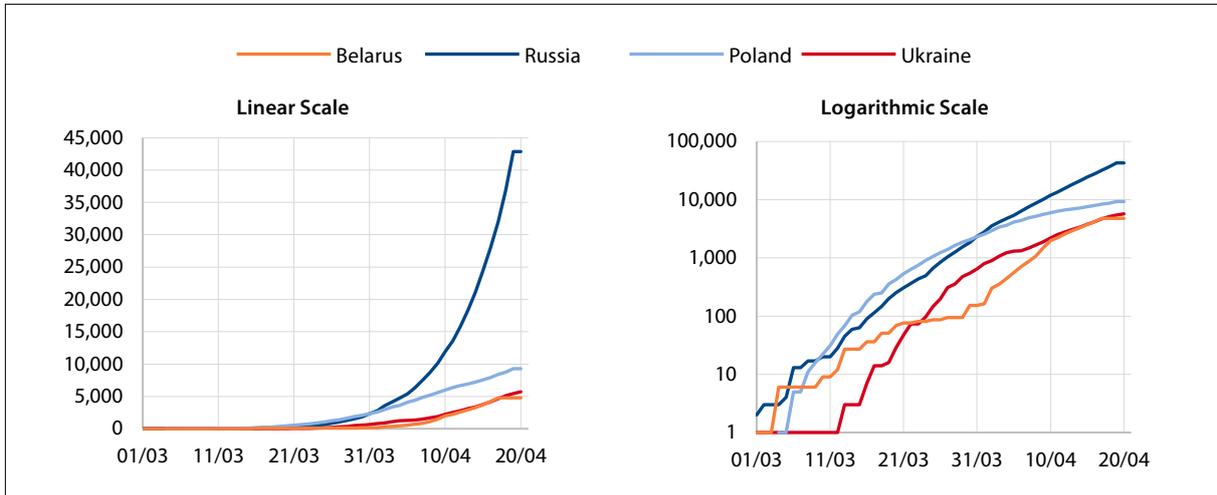
#### *About the Author*

Dr. Judy Twigg is a Professor of Political Science at Virginia Commonwealth University in Richmond, Virginia, USA, and a consultant with the World Bank, the Center for Strategic and International Studies (Washington, DC), and several other agencies. She is writing a book on health sector reform in Eurasia.

STATISTICS

## Covid-19 Cases in Russia

Figure 1: Covid-19 Cases in Comparison (1 March – 20 April 2020)

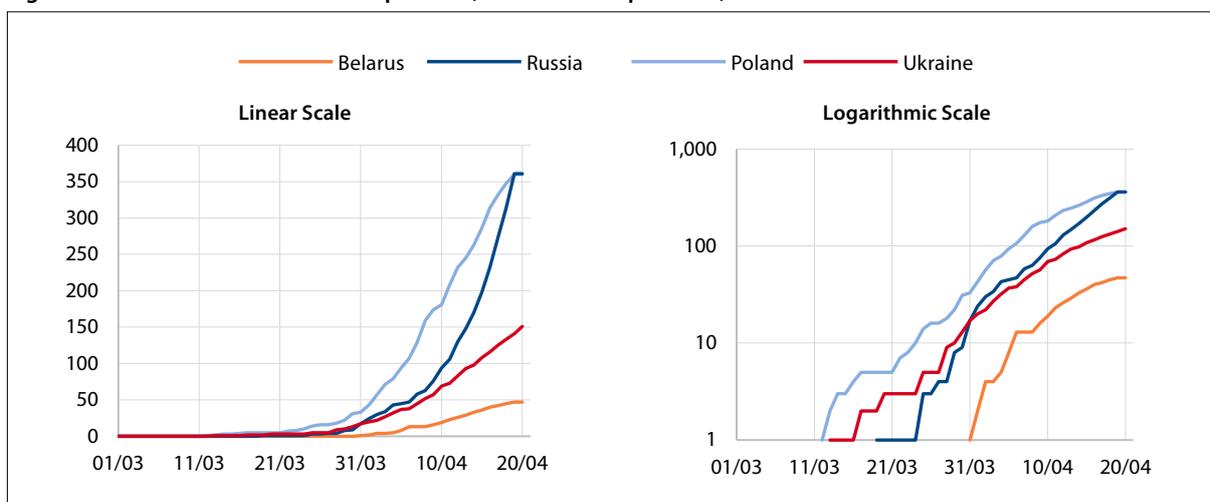


Date	Belarus	Poland	Russia	Ukraine
01/03	1		2	1
02/03	1		3	1
03/03	1		3	1
04/03	6	1	3	1
05/03	6	1	4	1
06/03	6	5	13	1
07/03	6	5	13	1
08/03	6	11	17	1
09/03	6	16	17	1
10/03	9	22	20	1
11/03	9	31	20	1
12/03	12	49	28	1
13/03	27	68	45	3
14/03	27	103	59	3
15/03	27	119	63	3
16/03	36	177	90	7
17/03	36	238	114	14
18/03	51	251	147	14
19/03	51	355	199	16
20/03	69	425	253	29
21/03	76	536	306	47
22/03	76	634	367	73
23/03	81	749	438	73
24/03	81	901	495	97
25/03	86	1,051	658	145
26/03	86	1,221	840	196
27/03	94	1,389	1,036	310

Date	Belarus	Poland	Russia	Ukraine
28/03	94	1,638	1,264	356
29/03	94	1,862	1,534	475
30/03	152	2,055	1,836	548
31/03	152	2,311	2,337	645
01/04	163	2,554	2,777	794
02/04	304	2,946	3,548	897
03/04	351	3,383	4,149	1,072
04/04	440	3,627	4,731	1,225
05/04	562	4,102	5,389	1,308
06/04	700	4,413	6,343	1,319
07/04	861	4,848	7,497	1,462
08/04	1,066	5,205	8,672	1,668
09/04	1,486	5,575	10,131	1,892
10/04	1,981	5,955	11,917	2,203
11/04	2,226	6,356	13,584	2,511
12/04	2,578	6,674	15,770	2,777
13/04	2,919	6,934	18,328	3,102
14/04	3,281	7,202	21,102	3,372
15/04	3,728	7,582	24,490	3,764
16/04	4,204	7,771	27,938	4,161
17/04	4,779	8,379	32,008	4,662
18/04	4,779	8,742	36,793	5,106
19/04	4,779	9,287	42,853	5,449
20/04	4,779	9,287	42,853	5,710

Source: Johns Hopkins University. 20 April 2020, 9:38 AM CEST, <https://coronavirus.jhu.edu/map.html>; [https://github.com/CSSEGISandData/COVID-19/blob/master/csse\\_covid\\_19\\_data/csse\\_covid\\_19\\_time\\_series/time\\_series\\_covid19\\_confirmed\\_global.csv](https://github.com/CSSEGISandData/COVID-19/blob/master/csse_covid_19_data/csse_covid_19_time_series/time_series_covid19_confirmed_global.csv)

Figure 2: Covid-19 Deaths in Comparison (1 March – 20 April 2020)

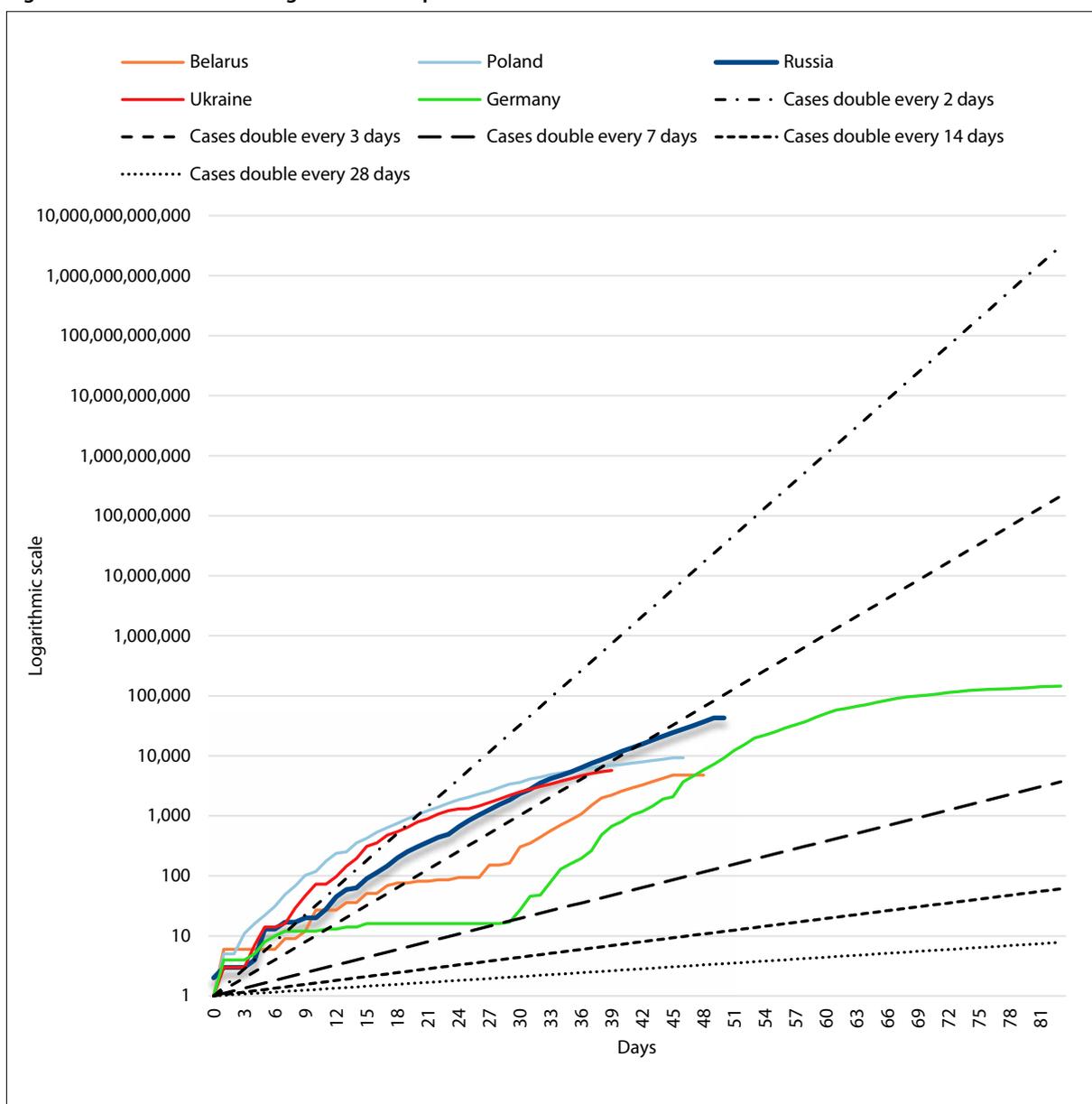


Date	Belarus	Poland	Russia	Ukraine
01/03	0	0	0	0
02/03	0	0	0	0
03/03	0	0	0	0
04/03	0	0	0	0
05/03	0	0	0	0
06/03	0	0	0	0
07/03	0	0	0	0
08/03	0	0	0	0
09/03	0	0	0	0
10/03	0	0	0	0
11/03	0	0	0	0
12/03	0	1	0	0
13/03	0	2	0	1
14/03	0	3	0	1
15/03	0	3	0	1
16/03	0	4	0	1
17/03	0	5	0	2
18/03	0	5	0	2
19/03	0	5	1	2
20/03	0	5	1	3
21/03	0	5	1	3
22/03	0	7	1	3
23/03	0	8	1	3
24/03	0	10	1	3
25/03	0	14	3	5
26/03	0	16	3	5
27/03	0	16	4	5
28/03	0	18	4	9

Date	Belarus	Poland	Russia	Ukraine
29/03	0	22	8	10
30/03	0	31	9	13
31/03	1	33	17	17
01/04	2	43	24	20
02/04	4	57	30	22
03/04	4	71	34	27
04/04	5	79	43	32
05/04	8	94	45	37
06/04	13	107	47	38
07/04	13	129	58	45
08/04	13	159	63	52
09/04	16	174	76	57
10/04	19	181	94	69
11/04	23	208	106	73
12/04	26	232	130	83
13/04	29	245	148	93
14/04	33	263	170	98
15/04	36	286	198	108
16/04	40	314	232	116
17/04	42	332	273	125
18/04	45	347	313	133
19/04	47	360	361	141
20/04	47	360	361	151

Source: Johns Hopkins University. 20 April 2020, 9:38 AM CEST, <https://coronavirus.jhu.edu/map.html>; [https://github.com/CSSEGISandData/COVID-19/blob/master/csse\\_covid\\_19\\_data/csse\\_covid\\_19\\_time\\_series/time\\_series\\_covid19\\_deaths\\_global.csv](https://github.com/CSSEGISandData/COVID-19/blob/master/csse_covid_19_data/csse_covid_19_time_series/time_series_covid19_deaths_global.csv)

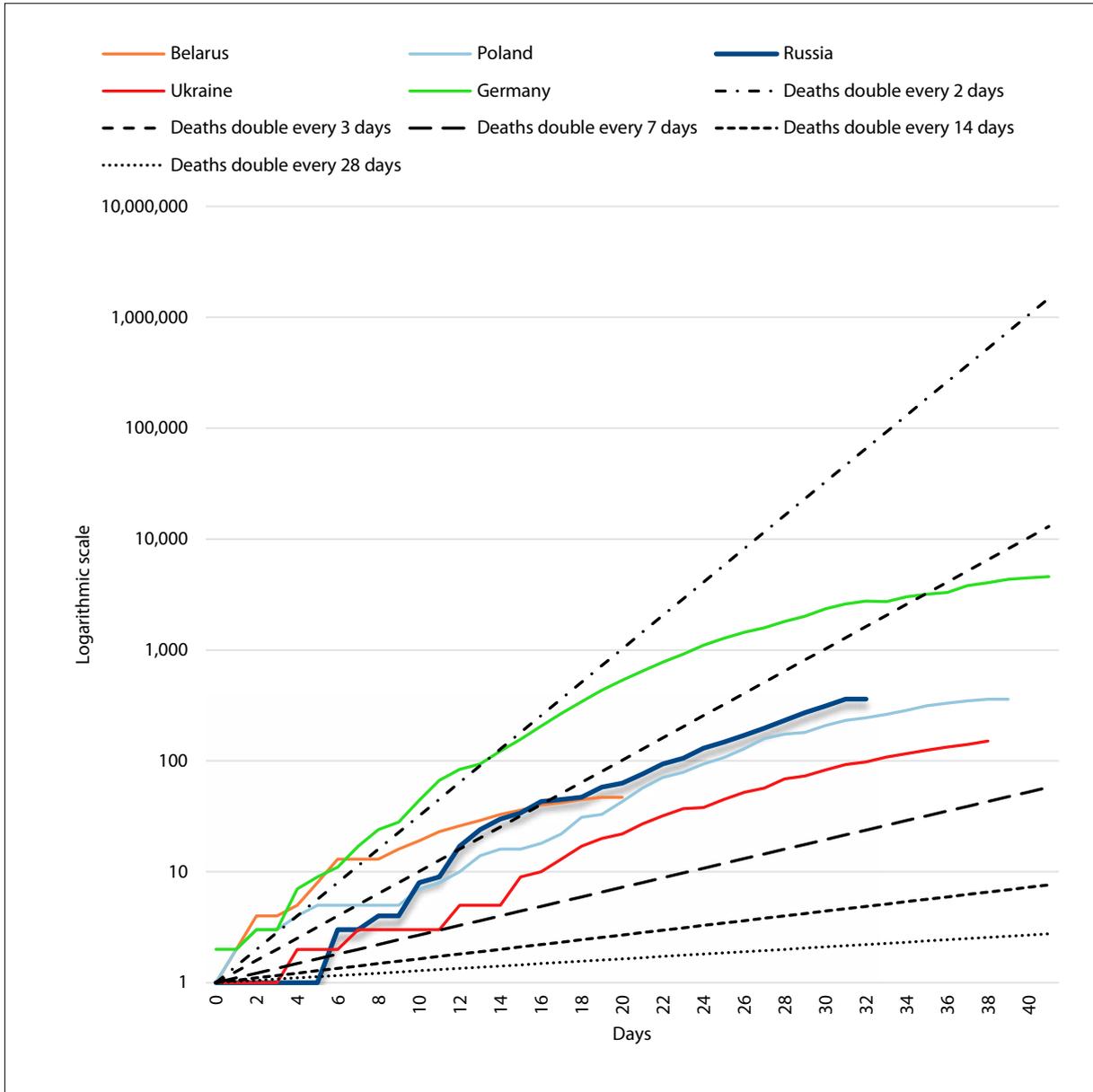
**Figure 3: Covid-19 Doubling Rates in Comparison: Confirmed Cases**



Day Zero is the last day with one confirmed case, or the number closest to one case.

Source: Johns Hopkins University. 20 April 2020, 9:38 AM CEST, <https://coronavirus.jhu.edu/map.html>; [https://github.com/CSSEGISandData/COVID-19/blob/master/csse\\_covid\\_19\\_data/csse\\_covid\\_19\\_time\\_series/time\\_series\\_covid19\\_confirmed\\_global.csv](https://github.com/CSSEGISandData/COVID-19/blob/master/csse_covid_19_data/csse_covid_19_time_series/time_series_covid19_confirmed_global.csv); formula for doubling rates from <https://blog.datawrapper.de/weekly-chart-coronavirus-doublingtimes/>

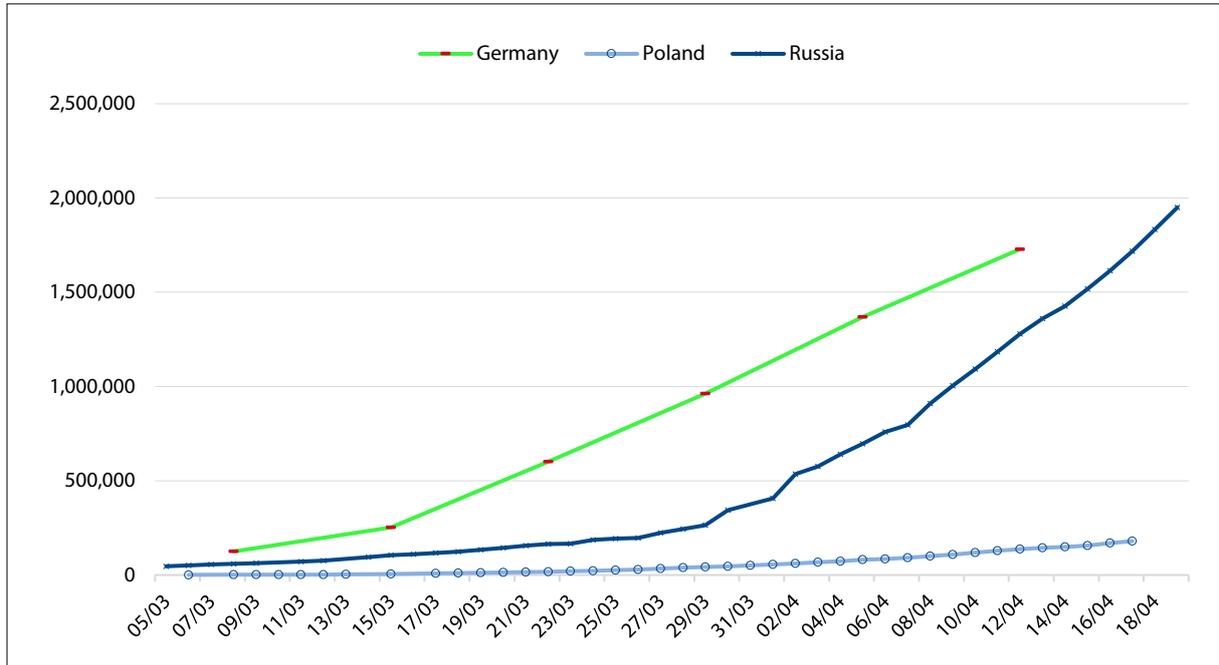
Figure 4: Covid-19 Doubling Rates in Comparison: Deaths



Day Zero is the last day with one confirmed death, or the number closest to one death.

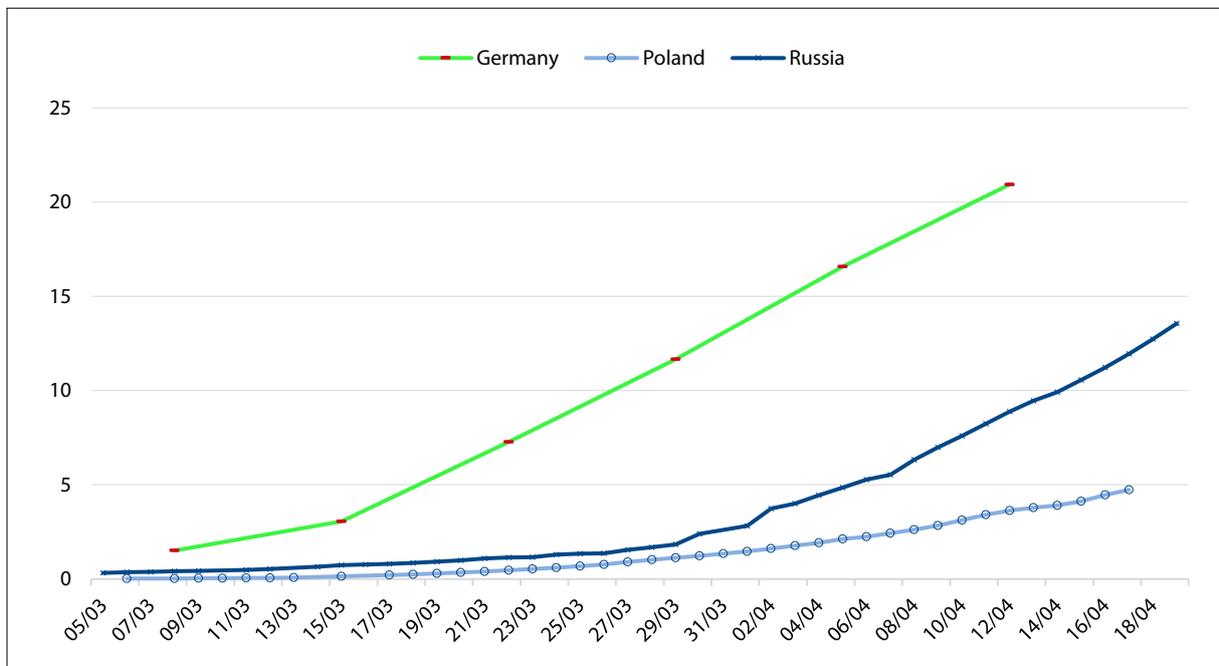
Source: Johns Hopkins University. 20 April 2020, 9:38 AM CEST, <https://coronavirus.jhu.edu/map.html>; [https://github.com/CSSEGISandData/COVID-19/blob/master/csse\\_covid\\_19\\_data/csse\\_covid\\_19\\_time\\_series/time\\_series\\_covid19\\_deaths\\_global.csv](https://github.com/CSSEGISandData/COVID-19/blob/master/csse_covid_19_data/csse_covid_19_time_series/time_series_covid19_deaths_global.csv); formula for doubling rates from <https://blog.datawrapper.de/weekly-chart-coronavirus-doublingtimes/>

**Figure 5: Total Tests for Covid-19 in Comparison (5 March – 19 April 2020)**



Source: Our World in Data, 20 April 2020, <https://ourworldindata.org/covid-testing>

**Figure 6: Total Tests for Covid-19 Per 1,000 People in Comparison (5 March – 19 April 2020)**



Source: Our World in Data, 20 April 2020, <https://ourworldindata.org/covid-testing>

## Two Economic Crises at the Same Time—Too Much Even for Russia

By Gunter Deuber, Raiffeisen Bank International AG

DOI: [10.3929/ethz-b-000411027](https://doi.org/10.3929/ethz-b-000411027)

### Abstract

Russia's economy is currently suffering from two simultaneous, partly interdependent crises. Since 2014, Russia has been prepared for one of them: an oil market shock for which it is partly to blame. However, Russia is only partially prepared for the simultaneous spread of the Covid-19 pandemic. Overcoming this crisis is becoming a systemic issue. More cooperation at the international level is desirable in the short term. Domestically, the Kremlin's economic policy response remains modest. Companies and the middle class will help to overcome the crisis, while the government has yet to take meaningful action. The Russian leadership calculus could change if the Covid-19 fallout on the Russian economy becomes more predictable.

### Prepared for an Oil Price Shock/Market Share Conflict

Macroeconomic downside risks posed to Russia by quarantine measures to contain the spread of Covid-19 are definitely higher than those posed by an oil price shock. This holds true even if such an oil price collapse is accompanied by a global/local financial market shock—including a drastic rouble devaluation to a four-year low, as was the case recently. In 2020, the rouble saw its second-largest devaluation shock since 2014. However, concerns about Russia's macro-financial stability were not apparent. The retreat from international capital markets since 2014 as well as the de-dollarisation in the local banking sector have reduced macro-financial vulnerabilities decisively. In addition, Russia accumulated ample budget and foreign exchange reserves—at the expense of austerity and weak growth. Thus, the Russian authorities continuously were able to lower the oil price required to balance the state budget. Fiscal break-even oil prices in Russia are half the level needed in Saudi Arabia (40 vs. 80 US-Dollars per barrel). Therefore, a drastic oil price shock such as that experienced in March is manageable for Russia. At current oil prices, Russia can continue functioning for at least several quarters and well into 2021 or 2022.

In addition, Russia's local economy improved in Q4 2019 and the first months of 2020. At the beginning of this year, the country was prepared for a market share conflict on global oil markets and was simply waiting for an occasion to act. Such an escalation must start when prices are already low in order to have the desired impact. Otherwise it is impossible to force competitors out of the market, whether they are within OPEC or outside of it. This holds especially true for U.S. shale oil drillers. According to the Federal Reserve Bank of Dallas, the regional branch of the U.S. central bank, private U.S. shale oil drillers need oil prices around USD 35 to 40 to stay afloat; and such leveraged producers

have less leeway than state actors in Russia or Saudi Arabia. Russia's escalating behaviour was rationally calculated, though Western observers were surprised that it was seeking direct confrontation with the USA, the world's largest oil producer. The logic held at least until the unpredictability surrounding the Covid-19 pandemic began to undermine the strength of the global and Russian economies.

### Covid-19 Losses in Russia—Greater Than an Oil Price Shock

The extremely diverse risk profiles of an oil price shock vs. the Covid-19 pandemic disruption can be illustrated on the basis of the following estimates. Due to deleveraging in recent years, the build-up of reserves and associated stabilisers, Russia's economy can achieve growth of 0.5 per cent or slightly more over a 12–24 month horizon at an oil price of USD 35. Even at 30 dollars there is “only” the threat of stagnation. The situation is totally different with the Covid-19 related restrictions. The planned 4–5 weeks of national holidays, paid leave and quarantine measures will lead to a GDP slump of at least 3 percent for the whole year (assuming that still some 70% of the economy is functioning). The looming recession will be as broad-based as in 2016, including sharp setbacks in private consumption and industrial production. A minor spurt in investments seems probable in 2020, due to presumed state activity in H2 2020. If restrictions on social and economic life are tightened (lasting 5 weeks, but more restrictive), economic output could collapse by 5 to 9 percent on an annual basis, depending on the mix of measures. If current restrictions were extended, each additional week would translate into an additional 0.5 percentage point in output loss. Currently, we anticipate at least a 2-week prolongation of the restrictions, possibly coupled with a minor tightening. Therefore, our current GDP call for 2020 is for drop by close to 5%. This forecast clearly illustrated

that anticipated economic losses from the pandemic are significantly higher than those that would result from an oil price shock alone.

In addition, the Covid-19 crisis is less predictable and calculable for the administration than an environment marked only by an oil price shock. The Covid-19 pandemic also brings the oil market much further away from equilibrium than it already was when the Russian–Saudi escalation started. Due to weak economic activity in major economies, the demand for oil—in an already oversupplied market—is likely to collapse by an additional 30–40 percent. Hence, the OPEC+ agreement reached in mid-April to take approx. 10–15 percent of production off the market will bring the oil market closer to equilibrium again only in 2021 at the earliest. This holds especially true as the agreement is associated with implementation risks.

### **High Losses—Albeit Lower in the Short Term Than in Complex Economies**

The drastic economic consequences of the quarantine measures explain why 2020 GDP estimates for Russia are currently extremely divergent. Forecasts range from slightly negative values to -6 percent. At present any serious economic forecast is based on a hypothetical assumption about the duration of the state of emergency, which implies a high degree of uncertainty. Whereby it currently seems realistic that for Russia it could be feasible to get away with five scheduled non-working weeks (plus May holidays making 6 May the first full working day). This timeframe assumes that in economically important cities, the rules are fully complied with. Russia's capacity to monitor its own population also suggests that Russia could follow China's path in Covid-19 containment in its key economic centers rather than the more liberal policies of some Western societies, including the U.S., UK and parts of the EU in particular. Therefore, national containment of the Covid-19 pandemic is also becoming a systemic global leadership issue—both socio-politically and economically.

Although work-free weeks mean noticeable economic losses, actual GDP declines in Russia should be less than in much more complex economies. Russia is less integrated into global and multifaceted supply chains. Also, the tourism sector and small and medium-sized enterprises (SMEs) are less relevant to the economy than in countries facing more severe downturns. Additionally, Russia's economy depends on raw material industries that cannot be stopped easily, and which will continue to produce. Moreover, exports are conducted via less complex and robust infrastructure. The monocentric extraction of raw materials could continue even under more stringent quarantine conditions. And even if extracted and processed raw materials are not exported, they con-

tribute to growth in GDP via stockpiling. Given those structural conditions, economic downsides in Russia in 2020 are more limited than those facing complex, integrated and possibly more leveraged economies, such as the U.S., UK or Germany. Due to intensified economic relations with China, Russia should also benefit from the discernible containment of the corona virus there. As a result, energy consumption in China should collapse less than at the global level. Therefore, foreign trade with China should prevent the worst in terms of slumping Russian energy exports. However, Russia's specific economic structure will also imply a less pronounced recovery in 2021 than in many other countries, particularly those with the most advanced economies. The Kremlin's media discourse will compensate for this comparative disadvantage, if necessary, by stressing its successes in the global strategic competition pitting authoritarian vs. liberal societies.

### **Cautious Geopolitical Positioning, But Few Economic Policy Responses**

The simultaneous crises (oil market & Covid-19) are hitting the U.S. economy hard, short-term most likely even harder than the economy of Russia. The privately organised US energy sector also faces massive challenges. From a Russian viewpoint, it no longer makes sense to be seen as a disruptor following the drama of its falling out with OPEC in March. Thus, the mid-April OPEC+ agreement seems like a reasonable move, especially since it is unlikely to bring a rapid oil price recovery. Therefore, Russia will achieve most of its goals on the oil market anyways. However, without any concessionary signals, the anti-Russia hardliners in Washington could assert massive political pressure supporting oil market interventions or sanctioning Russia. Such a scenario is not in Russia's self-interest in the short term—despite all the preparations made to address the permanent U.S. sanctions threats. Russia still faces short-term capital flow risks if the U.S. imposes tough financial sanctions. Even today between 30 and 60 percent of Russian trade is still conducted in dollars. From a financial market perspective, Russia should definitely seek to avoid US sanctions in 2020, a year in which Russia may be running a current account deficit for the first time since the early 1990s, while the rouble already trades near four-year lows. That said, Russian elites have little interest in taking on more risks. In view of Russia's low public debt, a more decisive economic policy response against the 2020 recession would be better achieved—if needed—via tapping international and domestic capital markets, but not necessarily by rapidly depleting reserves, which are buying Russia its geopolitical policy space.

Covid-19 containment measures are causing massive slumps in private consumption and drastic reve-

nue losses in the service sector. SMEs and freelancers face particularly difficult tests. Normally, consumption bolsters GDP in economic crises. For this reason, massive support measures have been announced in Western economies, especially for exposed sectors. To date, Russia has outlined no comprehensive aggregate economic policy response. Hence, it can be concluded that Russia's political priorities lie elsewhere. The cautious economic policy response also reflects the entrenched policy focus on stability and maintaining reserves—at the expense of (long-term) economic development.

So far, only modest fiscal measures amounting to 1–3% of GDP have been arranged in Russia (by comparison: some major industrialized countries are currently implementing fiscal and guarantee packages of 10–30% of GDP). In Russia support measures include support for individuals through a moratorium on loan payments (including a suspension of fines on unpaid mortgages and for debtors whose incomes are cut by more than 30 percent due to the pandemic), support for businesses through a six-month moratorium on bankruptcy filings, and support for SMEs, which can postpone both credit and tax payments while benefiting from reduced social security contributions. Nevertheless, according to the Kremlin's current political creed, wealthy households and corporations rather than the state should provide the cushion for this crisis. Therefore, the government has raised taxes on payments and dividends from offshore companies from 2 to 15 per cent and imposed a new tax on people holding bonds and bank deposits. Some measures clearly affect the savings of the middle class, such as the increased taxation on bank deposits over RUB 1 million (approx. USD 12,000–13,000). Recent tax changes were probably already in the works and have not now been opportunistically implemented. Due to the cautious aggregate economic policy responses, no rebound should be expected in Russia in 2021. Rather, Russia is acting as a free rider, counting on a significant global economic recovery driven by stimulus elsewhere.

### **Further Monetary and Fiscal Policy Support Possible in the Course of 2020**

In the course of 2020, some support from expansionary monetary policy is to be expected. To date, the Russian Central Bank (CBR) has remained cautious and has not lowered key rates below current six-year lows at 6 percent, partly in order to support the rouble. In recent weeks the CBR had to support the rouble for the first time

in five years with foreign currency sales (i.e. RUB purchases) well beyond the scope of what had been planned. Some monetary leeway for rate cuts should open up, since through the quarantine measures the transmission effects from the weaker rouble into inflation should be smaller than in previous crises. Some CBR support has already been provided through a comprehensive RUB 500 billion credit line for SMEs at 4 percent. Nevertheless, such individual measures, even combined with further CBR easing, most likely will not induce a rebound.

However, the referendum on constitutional amendments, postponed from April, may take place later in 2020 and the 2021 Duma elections also will be part of political-economic calculations. In this respect, depending on the course of the crisis, pressure for more public sector spending may increase. However, significant fiscal stimuli are not likely until H2 2020, when the Covid-19 related damage on the Russian economy can be better assessed and there is more certainty about oil market trends. It should then be possible to boost economic growth by 0.5 to 1 percentage point through more significant fiscal stimuli—as happened in 2018 through targeted projects. Such investments could be focussed on more distant districts and the energy industry, even if the Covid-19 pandemic has not yet been contained in all parts of the country.

### **Economic Advancement Out of Reach—Selective Health and Social Exacerbations**

In view of the expected economic trends for 2020 and 2021, Russia's self-proclaimed ambitions are obsolete. The absolute and relative income levels reached before the 2014–2016 crisis are out of reach for the next few years. Russia will likely descend to the income levels of global emerging markets becoming relatively poorer; there is little hope that it will catch-up with more developed economies. This might temporarily be excusable given the imminent worst global recession seen in decades, especially since Russia itself could get away with a smaller GDP slump than the more developed economies and differentiated societies in 2020. After that, however, there might be more pressure for income redistribution and economic policy stimulation than the leadership currently plans. Even if the Covid-19 crisis is contained to the economic capitals and resource-focused parts of the economy in 2020, there is a real threat of a health crisis breaking out in more distant parts of the country, followed by perilous socioeconomic developments.

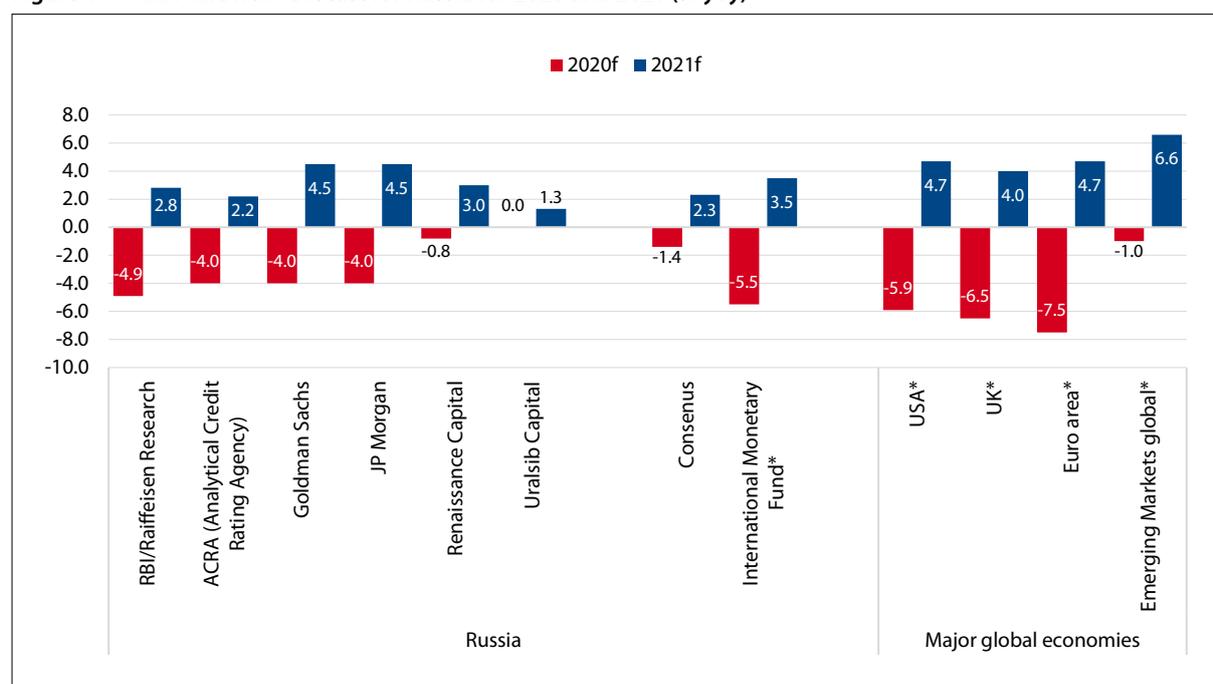
#### *About the Author*

Gunter Deuber heads the Economics department at Raiffeisen Bank International AG in Vienna, one of the largest foreign banks in Russia, specializing in Eastern Europe and Russia. In 2019 he participated in the International Visitor Leadership Program (IVLP), the US Department of State professional exchange program. This article reflects the personal opinion of the author and not necessarily the opinion of RBI AG.

## STATISTICS

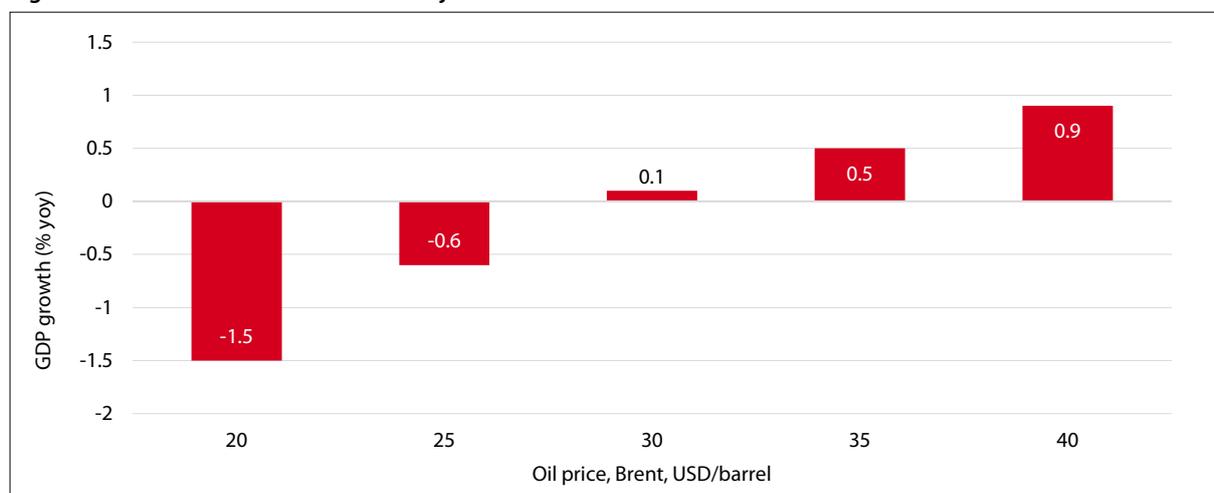
## GDP Growth Forecast, Critical Oil Price Levels, Current Account Balance, Ruble Exchange Rate

Figure 1: GDP Growth Forecast for Russia for 2020 and 2021 (% yoy)



	2020f	2021f
<b>Russia</b>		
RBI/Raiffeisen Research	-4.9	2.8
ACRA (Analytical Credit Rating Agency)	-4.0	2.2
Goldman Sachs	-4.0	4.5
JP Morgan	-4.0	4.5
Renaissance Capital	-0.8	3.0
Uralsib Capital	0.0	1.3
Consensus	-1.4	2.3
International Monetary Fund*	-5.5	3.5
<b>Major global economies</b>		
USA*	-5.9	4.7
UK*	-6.5	4.0
Euro area*	-7.5	4.7
Emerging Markets global*	-1.0	6.6

Source: IMF\* (World Economic Outlook April 2020), Consensus Economics (April 2020), RBI/Raiffeisen RESEARCH

**Figure 2: Russia: Economic Growth Projections in the Event of an Oil Price Shock**

Source: own calculations, RBI/Raiffeisen RESEARCH

**Table 1: Russia: GDP Growth scenarios (% yoy)**

Capacity utilisation (normal = 100%)		Number of quarantine weeks and corresponding GDP losses						
		1	2	3	4	5	6	7
Non-working week	70	-0.6	-1.1	-1.7	-2.2	-2.8	-3.3	-3.9
Moderate quarantine	50	-0.9	-1.9	-2.8	-3.7	-4.6	-5.5	-6.5
Quarantine European standards	30	-1.3	-2.6	-3.9	-5.2	-6.5	-7.7	-9
Total closure	0	-1.9	-3.7	-5.5	-7.4	-9.2	-11	-12.9

Source: own calculations, RBI/Raiffeisen RESEARCH

**Table 2: Critical Oil Price Levels: Russia, Saudi Arabia, USA (USD/barrel)**

<b>Russia</b>	Fiscal break-even oil price	42
	Estimated production costs	25
<b>Saudi Arabia</b>	Fiscal break-even oil price	83
	Estimated production costs	25
<b>USA</b>	Oil price required to develop new fields	48–54
	Oil price required to cover existing fields	27–37

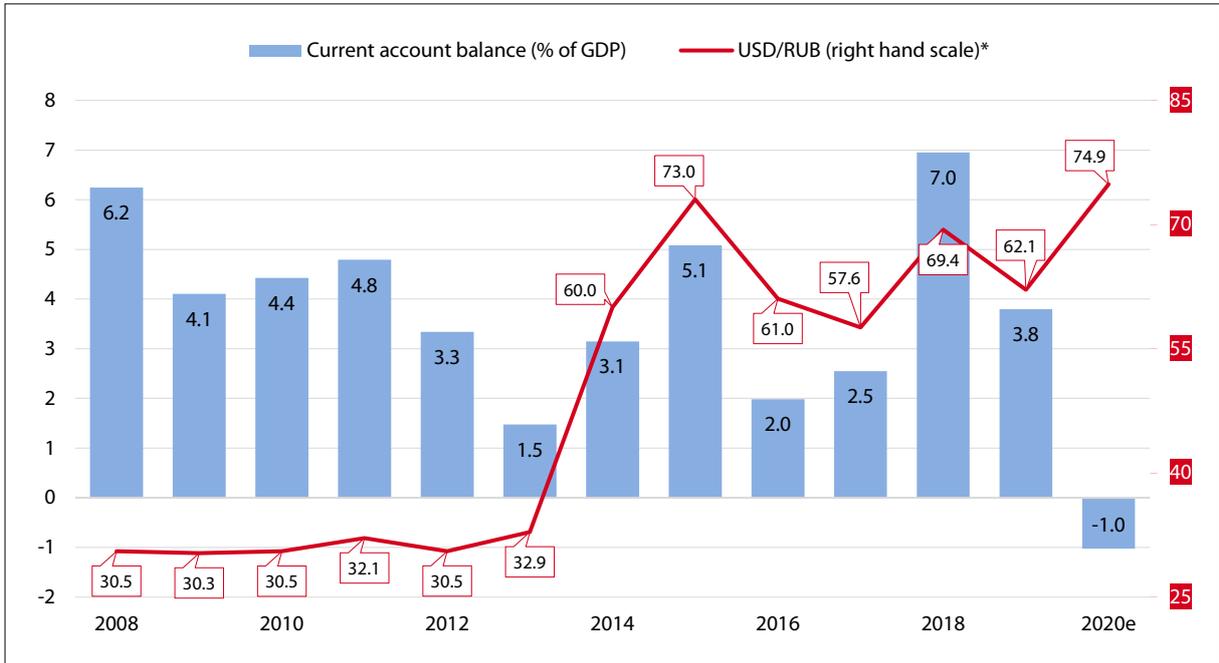
Source: IMF, Fed Dallas, IIF, RBI/Raiffeisen RESEARCH

**Table 3: Macro-Financial Indicators Russia vs Saudi Arabia**

Russia	Average GDP growth 2014–19 (% yoy)	0.8	
	Average budget deficit 2014–19 (% GDP)	-0.5	
		<b>2014</b>	<b>2019</b>
	Government debt (% GDP)	9.4	12.6
	External debt (% GDP)	28.9	28.8
Saudi-Arabia	Average GDP growth 2014–19 (% yoy)	1.9	
	Average budget deficit 2014–19 (% GDP)	-9.2	
		<b>2014</b>	<b>2019</b>
	Government debt (% GDP)	1.6	22.8
	External debt (% GDP)	12.4	30.1

Source: IMF, IIF, RBI/Raiffeisen RESEARCH

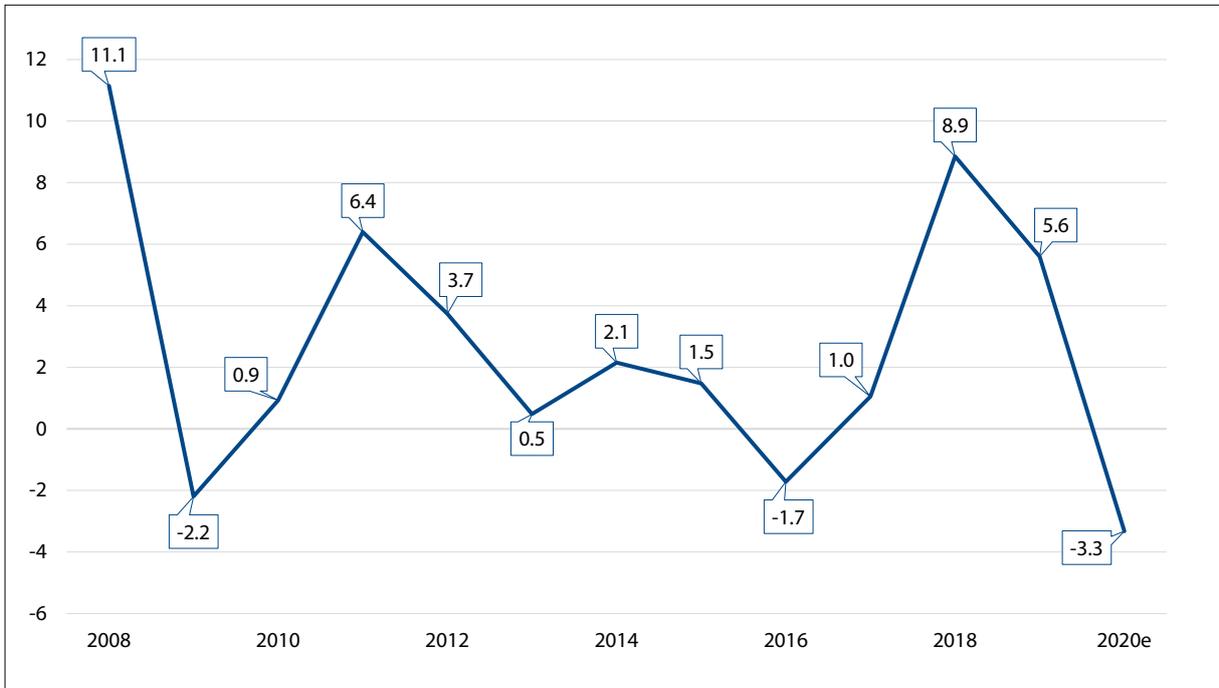
**Figure 3: Current Account and Ruble Exchange Rate**



\* 2020: USD/RUB exchange rate as of 15 April 2020

Source: national sources, Bloomberg, RBI/Raiffeisen RESEARCH

**Figure 4: Combined Current Account and Budget Balance (% of GDP)**

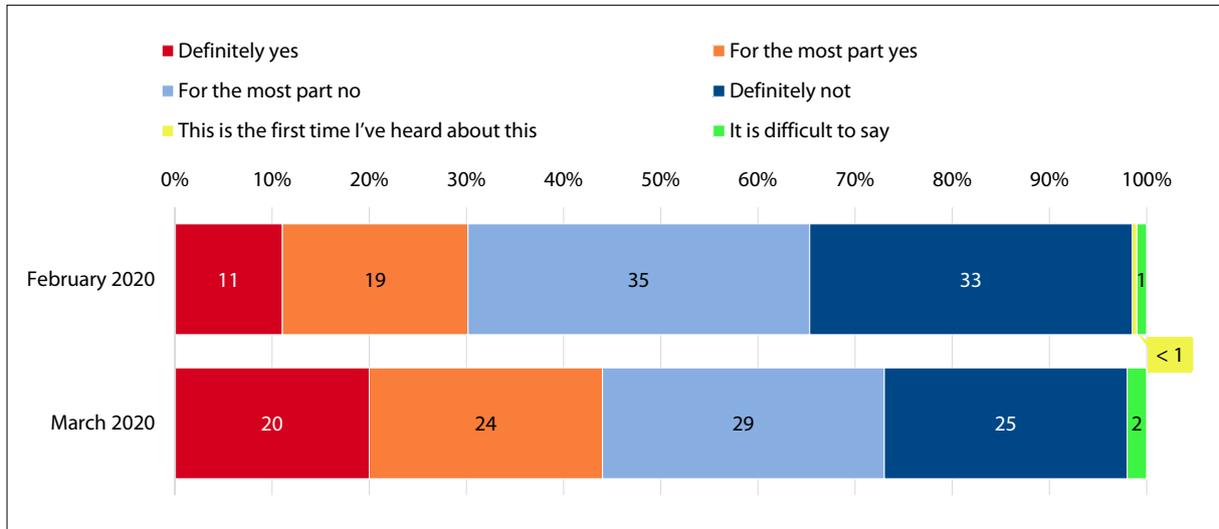


Source: national sources, RBI/Raiffeisen RESEARCH

OPINION POLL

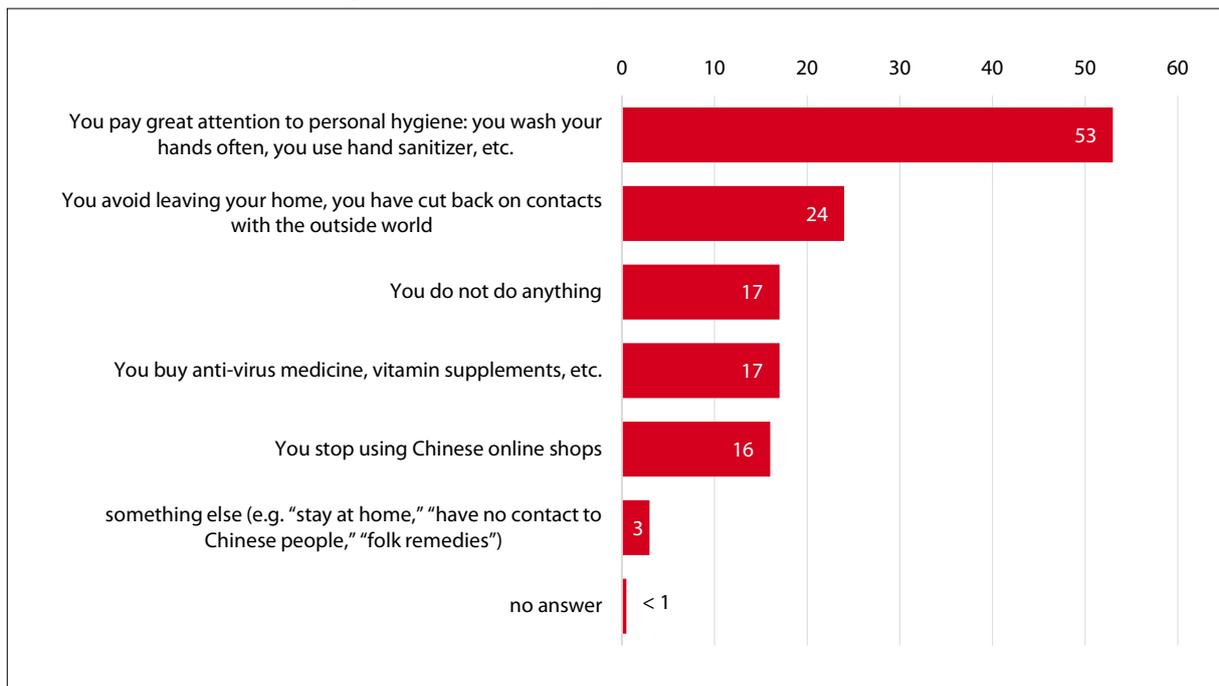
## Coronavirus in Russia (20–26 February and 19–25 March 2020)

**Figure 1: Are You Afraid of Contracting the Coronavirus? (one answer) (20–26 February and 19–25 March 2020)**



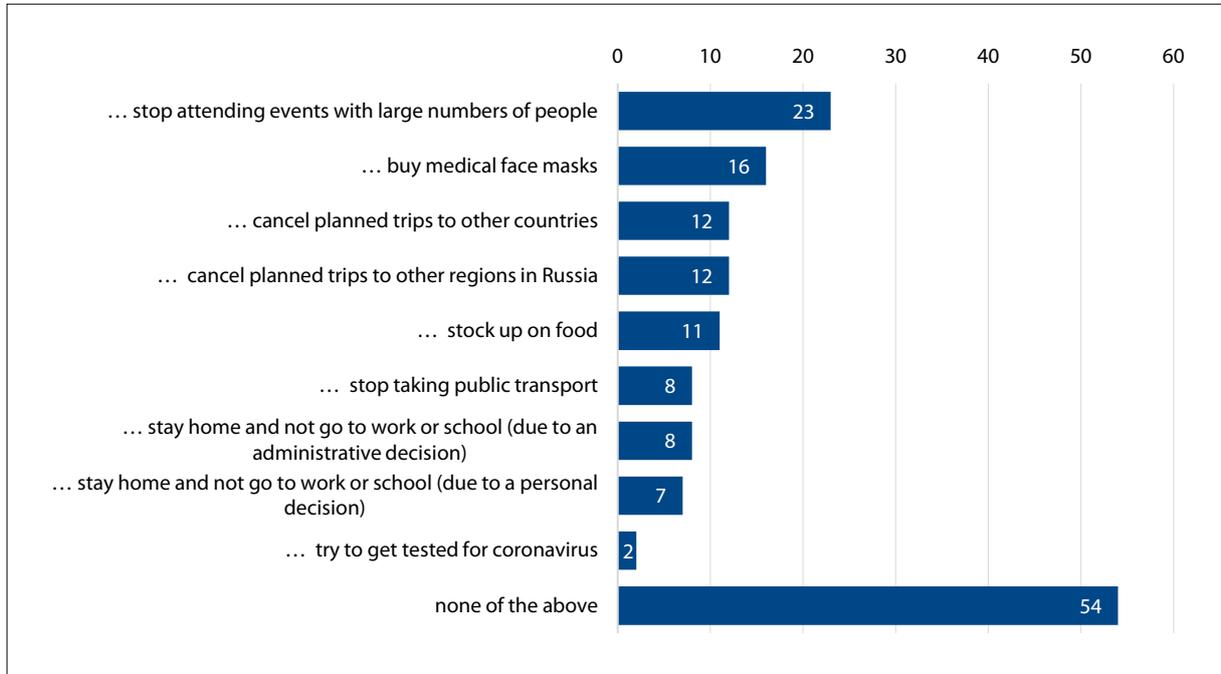
Source: representative polls by Levada-Center 20–26 February and 19–25 March 2020, <https://www.levada.ru/en/2020/04/13/the-coronavirus-situation-in-russia/>, published on 13 April 2020

**Figure 2: What Do You Do To Avoid Contracting Coronavirus (% of respondents, who are afraid of contracting Coronavirus (respondents were presented with a card and they could choose more than one answer; ranked in descending order) (20–26 February 2020)**



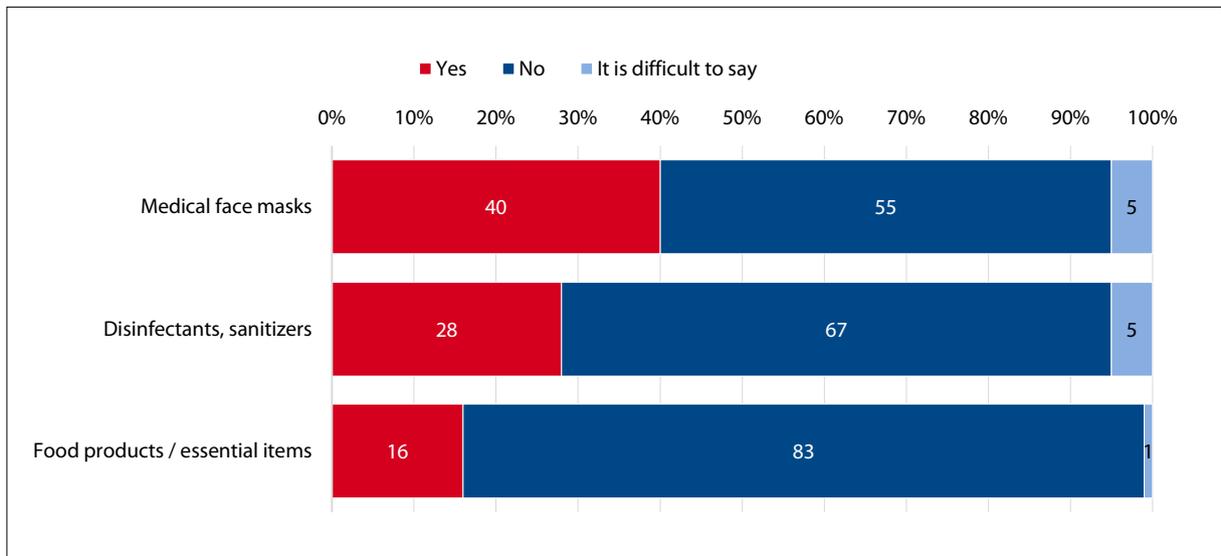
Source: representative polls by Levada-Center 20–26 February, [www.levada.ru/2020/03/02/koronavirus/](http://www.levada.ru/2020/03/02/koronavirus/), published on 2 March 2020

**Figure 3: Due to the Spread of the Coronavirus, Have You Had To ...? (respondents were presented with a card and they could choose more than one answer; ranked in descending order) (19–25 March 2020)**



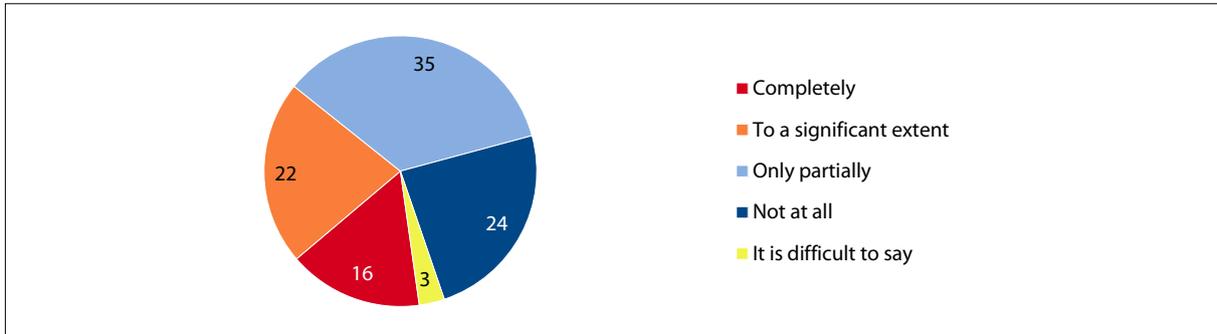
Source: representative polls by Levada-Center 19–25 March 2020, <https://www.levada.ru/en/2020/04/13/the-coronavirus-situation-in-russia/>, published on 13 April 2020

**Figure 4: Lately, Have You Run into Shortages of the Following Products For Sale? (one answer per row) (19–25 March 2020)**



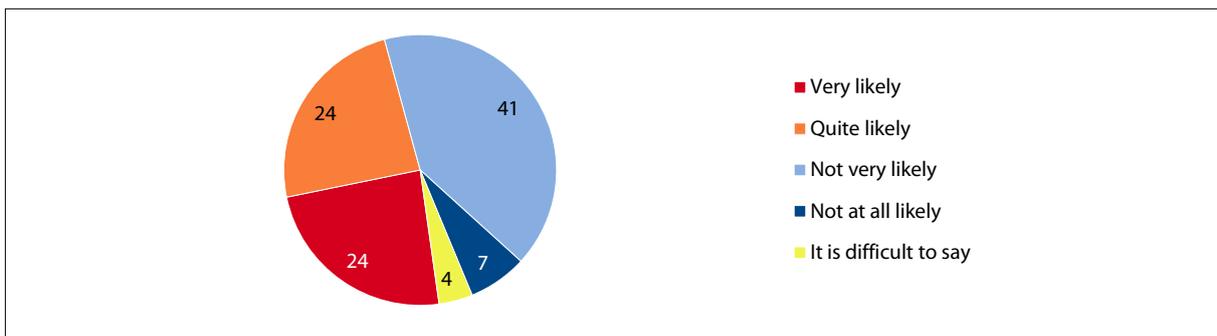
Source: representative polls by Levada-Center 19–25 March 2020, <https://www.levada.ru/en/2020/04/13/the-coronavirus-situation-in-russia/>, published on 13 April 2020

**Figure 5: Do You Trust the Official Information on the Coronavirus Situation in Russia Being Reported by the Media? (one answer) (19–25 March 2020)**



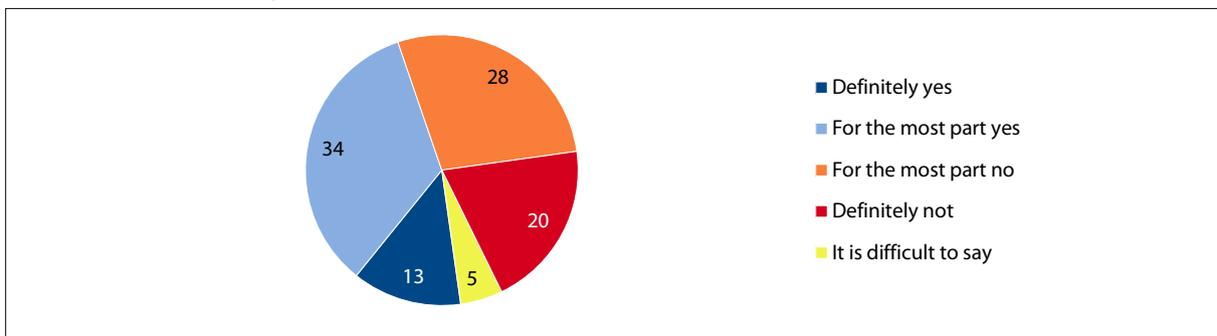
Source: representative polls by Levada-Center 19–25 March 2020, <https://www.levada.ru/en/2020/04/13/the-coronavirus-situation-in-russia/>, published on 13 April 2020

**Figure 6: In Your Opinion, How Likely Is It That a Coronavirus Epidemic Will Start in Russia? (one answer) (19–25 March 2020)**



Source: representative polls by Levada-Center 19–25 March 2020, <https://www.levada.ru/en/2020/04/13/the-coronavirus-situation-in-russia/>, published on 13 April 2020

**Figure 7: In Your Opinion, If a Coronavirus Epidemic Starts In Russia, Is Our Healthcare System Ready For Such an Eventuality? (one answer) (19–25 March 2020)**



Source: representative polls by Levada-Center 19–25 March 2020, <https://www.levada.ru/en/2020/04/13/the-coronavirus-situation-in-russia/>, published on 13 April 2020

**ABOUT THE RUSSIAN ANALYTICAL DIGEST**

Editors: Stephen Aris, Matthias Neumann, Robert Orttung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder, Aglaya Snetkov

The Russian Analytical Digest is a bi-weekly internet publication jointly produced by the Research Centre for East European Studies [Forschungsstelle Osteuropa] at the University of Bremen ([www.forschungsstelle.uni-bremen.de](http://www.forschungsstelle.uni-bremen.de)), the Center for Security Studies (CSS) at the Swiss Federal Institute of Technology Zurich (ETH Zurich), the Center for Eastern European Studies at the University of Zurich (<http://www.cees.uzh.ch>), the Institute for European, Russian and Eurasian Studies at The George Washington University (<https://ieres.elliott.gwu.edu>), and the German Association for East European Studies (DGO). The Digest draws on contributions to the German-language *Russland-Analysen* ([www.laender-analysen.de/russland](http://www.laender-analysen.de/russland)), and the CSS analytical network on Russia and Eurasia ([www.css.ethz.ch/en/publications/rad.html](http://www.css.ethz.ch/en/publications/rad.html)). The Russian Analytical Digest covers political, economic, and social developments in Russia and its regions, and looks at Russia's role in international relations.

To subscribe or unsubscribe to the Russian Analytical Digest, please visit our web page at <http://www.css.ethz.ch/en/publications/rad.html>

**Research Centre for East European Studies at the University of Bremen**

Founded in 1982, the Research Centre for East European Studies (Forschungsstelle Osteuropa) at the University of Bremen is dedicated to the interdisciplinary analysis of socialist and post-socialist developments in the countries of Central and Eastern Europe. The major focus is on the role of dissent, opposition and civil society in their historic, political, sociological and cultural dimensions.

With a unique archive on dissident culture under socialism and with an extensive collection of publications on Central and Eastern Europe, the Research Centre regularly hosts visiting scholars from all over the world.

One of the core missions of the institute is the dissemination of academic knowledge to the interested public. This includes regular e-mail newsletters covering current developments in Central and Eastern Europe.

**The Center for Security Studies (CSS) at ETH Zurich**

The Center for Security Studies (CSS) at ETH Zurich is a center of competence for Swiss and international security policy. It offers security policy expertise in research, teaching, and consultancy. The CSS promotes understanding of security policy challenges as a contribution to a more peaceful world. Its work is independent, practice-relevant, and based on a sound academic footing.

The CSS combines research and policy consultancy and, as such, functions as a bridge between academia and practice. It trains highly qualified junior researchers and serves as a point of contact and information for the interested public.

**The Institute for European, Russian and Eurasian Studies, The Elliott School of International Affairs, The George Washington University**

The Institute for European, Russian and Eurasian Studies is home to a Master's program in European and Eurasian Studies, faculty members from political science, history, economics, sociology, anthropology, language and literature, and other fields, visiting scholars from around the world, research associates, graduate student fellows, and a rich assortment of brown bag lunches, seminars, public lectures, and conferences.

**The Center for Eastern European Studies (CEES) at the University of Zurich**

The Center for Eastern European Studies (CEES) at the University of Zurich is a center of excellence for Russian, Eastern European and Eurasian studies. It offers expertise in research, teaching and consultancy. The CEES is the University's hub for interdisciplinary and contemporary studies of a vast region, comprising the former socialist states of Eastern Europe and the countries of the post-Soviet space. As an independent academic institution, the CEES provides expertise for decision makers in politics and in the field of the economy. It serves as a link between academia and practitioners and as a point of contact and reference for the media and the wider public.

Any opinions expressed in the Russian Analytical Digest are exclusively those of the authors.

Reprint possible with permission by the editors.

Editors: Stephen Aris, Matthias Neumann, Robert Orttung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder, Aglaya Snetkov

Layout: Cengiz Kibaroglu, Matthias Neumann, Michael Clemens

ISSN 1863-0421 © 2020 by Forschungsstelle Osteuropa an der Universität Bremen, Bremen and Center for Security Studies, Zürich

Research Centre for East European Studies at the University of Bremen • Country Analytical Digests • Klagenfurter Str. 8 • 28359 Bremen • Germany

Phone: +49 421-218-69600 • Telefax: +49 421-218-69607 • e-mail: [laender-analysen@uni-bremen.de](mailto:laender-analysen@uni-bremen.de) • Internet: [www.css.ethz.ch/en/publications/rad.html](http://www.css.ethz.ch/en/publications/rad.html)