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ANALYSIS

Fighting the Pandemic and Fighting Sanctions: Can the Russian Economy Now Benefit from Its Experience with Anti-Crisis Measures?

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Abstract
Faced with tough international sanctions in reaction to its war against Ukraine, the Russian government has resorted to measures developed during the COVID-19 pandemic in order to stabilize the economy. This short analysis discusses the rationale behind this approach and demonstrates its limits.

Introduction
Against the background of the harsh international sanctions imposed since late February, the Russian government began to make active use of the set of anti-crisis measures that had been applied in 2020, during the Covid-19 pandemic. These measures included tax deferrals, subsidies for small enterprises, preferential loans to help small and medium firms continue their operations, and specific measures for individual industries. On the whole, these measures have proven quite effective at counteracting the pandemic-induced recession: contrary to very pessimistic initial expectations, the decline in Russian GDP as of the end of 2020 was 2.5%, compared to 3.4% in the US and 6.5% in the Eurozone.

The reason for resorting to these measures in the current situation may be that, like the 2020 shock, the 2022 one is external for Russia. The large-scale restrictions on exports from and imports to Russia imposed since late February by the United States, the EU, and other developed countries—combined with the shutdown of hundreds of international companies—have affected the activities of Russian firms in much the same way as the quarantine restrictions in the early months of the COVID-19 pandemic. In both cases, we could observe an abrupt break in established supply chains—and this may be why the Russian government is again trying to use the tools that it tested with such success two years ago.

Factors Promoting Economic Stability during the Pandemic
However, in order to accurately assess the possible effects of these measures, it is worth looking at the whole range of factors that made it possible to mitigate the effects of the coronavirus pandemic on the Russian economy in 2020. Based on the results of a project of the Higher School of Economics and the Russian Union of Industrialists and Entrepreneurs about business' reaction to the COVID-19 pandemic and its evaluation of the government's anti-crisis measures, we can highlight the following factors:

- Experience with serious downturns in the economy every 4–5 years since 2008 meant that Russian firms were psychologically more prepared for "black swan" events; maintained a lower level of debt and had financial reserves in case of crises; and had developed schemes to retain key personnel.
- Unlike firms in developed countries, Russian companies were less affected by disruptions in global value chains due to their less sophisticated logistics. Because of the higher risks of supply delays, they have traditionally maintained a higher level of inventory, which had a positive impact during the pandemic.
- The initially very negative expectations regarding the consequences of the pandemic led to "bureaucratic mobilization," or the increased efficiency of the state apparatus during the crisis. One manifestation of this was the active communication of officials with business, which made it possible to develop support measures tailored to specific industries.
- Since 2014 (when the Kremlin increasingly demanded from the bureaucracy not only loyalty, but also performance), we have seen the emergence of new industrial policy institutions capable of providing state support based on objective selection criteria and the monitoring of implementation. One example is the Industrial Development Fund.

What Is Different Now

These factors continue to play a role in the current crisis. However, the fundamental difference is that in 2020 all state support measures were implemented on the understanding that after several months the situation with supplies would return to normal—and the government tried to help firms to keep employees and not to stop production, primarily using financial incentives for business, as well as instruments of direct support for the population. Now, given the protracted nature of the war with Ukraine and the growing confrontation with the United States and the European Union, it is increasingly clear that there will be no "return to normal." Through its actions, the Kremlin has convinced the West that Putin's Russia poses a serious threat to global security. But since the West is not ready to go to war with Russia, the goal of weakening Russia's military potential will be achieved by ratcheting up the pressure of sanctions, with the ultimate goal of destroying the Russian economy's ability to support possible aggression.

Outlook

What effect can the Russian government's anti-crisis measures have in this situation? Measures taken by the Central Bank to stabilize the currency market had an important psychological impact, preventing short-term panic. At the same time, a sharp increase in the Central Bank rate in March 2022 was almost immediately accompanied by the launch of concessional lending schemes for strategic enterprises and small and medium-sized businesses. These measures, which worked successfully in 2020, also contributed to a relative stabilization of sentiments in business—especially in the context of the perception, which prevailed among entrepreneurs in March and April, that it would be possible to find alternative channels for the supply of necessary components fairly quickly.

Judging by various circumstantial data, these perceptions proved to be illusory. Compared to 2014, the current sanctions are not simply more extensive. The control over their implementation will also be different, with much greater risks of secondary sanctions for companies and countries that engage in circumvention schemes. Telling in this regard are the measures of the Kazakh authorities against attempts by Russian and Belarusian companies to import sanctioned products via Kazakhstan.

Also quite revealing are the decision to no longer publish information about state budget revenues and expenditures, the discussion among key officials of the economic cabinet at the St. Petersburg International Economic Forum about "forecasts that are harmful for the country," and news of large enterprises going into extended downtime due to a lack of components, as well as about strikes in reaction to delayed wage payments. It is telling that such news are published by the regional media, which find it difficult to ignore events in their own region, but are not reported in the national business media.

To summarize, the anti-crisis measures implemented by the government—which are analogous to those employed in 2020—have made it possible to stabilize the situation in the short term and to limit negative expectations, but they do not help at all to solve the longer-term problem of a lack of critical imported components for industrial production. It is therefore highly likely that in the coming months, the number of forced outages at enterprises will increase and industrial production will drop on a much higher scale than currently expected in macroeconomic forecasts. At the same time, it remains absolutely unclear how the government intends to tackle these problems.

About the Author

Andrei Yakovlev is one of the leading Russian experts in the field of state-business relations, industrial policy, and the political economy of reforms. In 2017 he was awarded the Gaidar Memorial Prize in economics. Since June 2022 he has been a visiting researcher at the Institute for East European Studies at Freie Universität Berlin.