



THE IMPACT OF THE COVID-19 PANDEMIC ON THE RUSSIAN ECONOMY

The COVID-19 pandemic with various restrictions implemented on a global level and additional measures taken at the national level have distorted the economic growth forecasts of almost all countries. According to the estimates of the International Monetary Fund, the total loss in the world economy for 2020-2021 will reach approximately 12 trillion USD. The negative impact of the COVID-19 pandemic on the global economy has caused a serious drop in oil prices, as well as affecting other areas. There was a 65.5% decrease in oil prices in the first half of 2020. It is seen that the pandemic, which significantly affected the oil sector, affected the transportation sector at almost the same rate.

From the point of view of Russia, the economy was negatively affected by both the deteriorating foreign economic conditions and the restrictive measures taken by the government. There are significant differences among the predictions regarding the decline in Russia's gross domestic product (GDP), such as the Higher school of economics (HSE) consensus estimate of 4.3% and the International Monetary Fund's 6.6% band. According to the World Bank estimates, the average decrease in GDP is estimated to be around 5.4%. This number is higher than the estimates made in May 2020. It can be said that the main effect of the restrictive measures is due to the decrease in consumer demand and investments.

In the period before the widespread implementation of restrictive measures in Russia, the Russian Ministry of Economic Development showed an average GDP growth rate of 1.8% for the first half of 2020. According to the ministry, the driving force of GDP growth in the first half of 2020 were trade and manufacturing. The implementation of restrictive measures in Russia and Russia's trading partners resulted in significant decrease in business activity. The biggest decrease was experienced by the manufacturing industry due to the decreasing demand in related sectors with the addition of the restrictions imposed. As a result, the decrease in production in the first half of 2020 reached an average of 9%. The pandemic also had a significant impact on retail trade, and as expected, the decline became more pronounced by 32.4% in non-food products in the first half of 2020. On

the other hand, there is an increase in production volumes in sectors that are not affected by the restrictions, like the production of basic goods. Continuity in demand has positively affected the production of food products, chemical industries, pharmaceuticals and medical instruments and equipment. According to the data of the Center for Macroeconomic Analysis and Short-Term Forecast (CMASF), compared to 2019, the production volume of food products increased by 2.2%, 2% in the chemical industry, 8.9% in the industry of pharmaceutical production, and 30.9% in the production of medical tools and equipment.

The investment sector of the country has also been negatively affected by the above-mentioned pandemic restrictions. According to the "Rosstat" data, investments in the second quarter of 2020 decreased by 7.6% compared to the same period of the previous year. This number shows that the investment level in the country is at a minimum level compared to the previous five years. Similar trends are observed in production of investment goods, transportation and imports of engineering products. Even in the revised macroeconomic forecast of the Russian Ministry of Economic Development published on September 30th, 2019, the growth expectation in fixed asset investments decreased in the coming years. The investment dynamics estimate decreased from 3.1% to 2.0% in 2019. As the sectors most affected by the spread of the COVID-19 pandemic, transportation, education, tourism and commerce are included in the list approved by the Russian Government.

In recent years, large and medium-sized enterprises have used their own funds as the main source of capital investment in Russia. These funds accounted for approximately 57% of all investments in fixed assets in 2019. In 2019, the volume of investments from fixed assets increased to 13.3%, and the investment amount resulting from the funds withdrawn increased up to 1.3%. Budget funds, corresponding to 36.8% in 2019, constitute an important part of the funds withdrawn. In 2019, bank loans amounted to approximately 20.3% of the funds withdrawn and 8.7% of the total volume of funds. Under conditions of deterioration in financial values, it is expected that companies will not be able to maintain

their previous investment level and as a result, it will take a long time to recover.

In Russia, the COVID-19 pandemic has affected approximately 3.3 million out of 5.6 million companies in total, it is around 59% of small, medium and large enterprises and individual entrepreneurs. According to the calculations of the Center for Strategic Studies (CSR) based on the economic expectations of the business world, the share of the state in the total income in the economy is expected to increase by 0.5 points to 27.5% in 2020. Similarly, the share of small and medium-sized enterprises will decrease by 1% point to 16.1%. The decrease in the number of small and medium-sized enterprises, decrease in production volumes and deterioration of financial indicators may cause the share of products produced by small and medium-sized enterprises to decrease in GDP. The NAFI (National Financial Research Agency) report shows that the spread of COVID-19 negatively affected the financial performance of 85% of businesses in 2020. According to NAFI surveys, 43% of businesspersons think it is possible for entrepreneurs to establish a new business in at least a year. According to the data in the same report, approximately 14% of businesspersons think that the recovery process will take two or three years. According to the data of CSR, the improvement process in businesses can only be around 66% until the summer of 2021. At the same time, 15% of companies affected by the COVID-19 pandemic are unsure whether their revenues reach the pre-crisis level by 2023.

The COVID-19 pandemic has had negative effects on macroeconomic indicators. Economic crises are characterized by a decrease in production volumes, an increase in unemployment and a decrease in investments. An effective state support program and measures are needed to overcome this situation. It seems that by the end of 2020, the macroeconomic situation has the potential to change both for the better and for the worse. As for the timing of the recovery in the Russian economy, two scenarios are possible here. According to the optimistic scenario, with oil prices rising, the Russian economy may return to its pre-crisis level in 2019 by mid-2021. On the contrary, according to the more realistic scenario, it will take at least three years to overcome the consequences of the crisis.

Politics, Foreign Affairs, and Security

- Maia Sandu, the chairman of the Party of Action and Solidarity (Partidul Actiunea si solidaritate - PAS) won the first round of the presidential elections in Moldova with 36.16% of the vote. The incumbent President, Igor Dodon, who ran as an independent candidate, received 32.64% of the vote cast. The turnout at the elections were nearly 43% and the Central Electoral Committee recognized the first round as valid (DW.com, 02.11.2020).
- The Minister of Foreign Affairs of Kyrgyzstan, Ruslan Kazakbayev, visited Uzbekistan, where he had a meeting with the Deputy Prime Minister of Uzbekistan, Sardor Umurzakov. The parties discussed implementation of the previously reached agreements and perspectives of the economic cooperation. The officials agreed to remove trade barriers and increase bilateral trade volumes to \$1 billion in coming years. The parties paid special attention to cooperation in transport and infrastructural projects and outlined priority areas for further interaction (UzDaily, 06.11.2020).
- The Minister of Foreign Affairs of Turkmenistan, Rashid Meredov, held a videoconference with the UN Secretary-General's Special Representative for Afghanistan, Deborah Lyons. According to Meredov, Turkmenistan will continue to provide assistance to Afghanistan in developing energy, transport and communication infrastructure. The parties discussed the construction of the Turkmenistan-Afghanistan-Pakistan-India pipeline, the fiber-optic communication between Turkmenistan-Afghanistan-Pakistan and the issues of regional security (Kabar, 05.11.2020).
- The President of Azerbaijan, Ilham Aliyev, received former Prime Minister of Turkey, Binali Yildirim, and the accompanying delegation members of the Turkish Parliament. Binali Yildirim mentioned that Ankara has always supported the stance of Azerbaijan regarding its own territorial integrity and its position regarding the Upper-Karabakh. President Aliyev expressed gratitude to the Turkish side mentioning that the latest developments further strengthened ties between the two brotherly countries (Aa.com.tr, 02.11.2020).
- Commanders of the Air Force and Armed Forces of Ukraine and Turkey agreed on further cooperation and training of Ukrainian military in Turkey. These and other issues of bilateral military cooperation were discussed during the visit of high-ranking Turkish military delegation to Ukraine. The documents were signed within the framework of military agreements between the Governments of Ukraine and Turkey, reached during the meeting between the Presidents of Ukraine and Turkey in October of 2020 (Ukrinform.net, 05.11.2020).
- The Council of Heads of Governments of the CIS held an online meeting with participation of high-ranking CIS officials and heads of government of the member-states. The participants discussed a wide range of political, economic, cultural and humanitarian issues. A special attention was paid to the development of regional transport links and particularly the transit corridors along the North-South and East-West lines (Embassy of Turkmenistan in Uzbekistan, 06.11.2020).

Economy, Finance, and Energy

- According to the governor of the Almaty region of Kazakhstan, Amandyk Batalov, Almaty farmers plan to increase agricultural production. In particular, authorities expect that by 2025, output of meat and milk will grow to 500 and 900 thousand tons, respectively. By 2023, farmers plan to cover 70% of the country's sugar demand. In the last six years, the sown area of sugar beet in the region increased by 14 times. Currently, the region's share in the country's agricultural production equals to 17% (Kazakh TV, 04.11.2020).
- According to the CEO of the Russian Export Center, Veronika Nikishina, the country plans to increase its trade with China to \$200 billion by 2024. In 2020, Russia's export of agricultural and food products to China during the first six months of 2020 rose by 35%. Among Russian exports Russia's meat export to China increased by nine times. According to the Russian Ambassador to China, Andrey Denisov, by the end of the year, bilateral trade between two countries will be equal to \$110 billion (TASS, 06.11.2020).
- Uzbekistan supports its domestic exporters by simplifying and improving their activities abroad. Recently, the country's embassy in Russia launched an electronic B2B platform entitled the "Exporters of Uzbekistan". The portal aims to promote Uzbekistan's products in Russia and strengthen direct dialogue between business circles of the countries. Despite recent creation of the portal, suppliers of dried fruit from Uzbekistan reached an agreement to deliver their products worth \$10 million directly to the retail chains of Russia (UzDaily, 05.11.2020).
- Ukraine continues to attract loans from the international financial institutions for implementation of infrastructural projects. Recently, it announced that the European Bank for Reconstruction and Development would provide loans to finance road infrastructure in Kherson and Dnipropetrovsk regions. In particular, Ukraine plans to construct a bridge in the Kherson region and reconstruct sections of two regional highways in the Dnipropetrovsk region. For the former project, the bank will provide €25 million, while for the latter it will allocate €40 million (Ukrinform, 06.11.2020).
- Member countries of the Economic Cooperation Organization remain important trade partners for Iran. During six months of the current Iranian year, bilateral non-oil trade between the parties equaled to \$4.54 billion, of which \$2.52 and \$2.02 billion were Iran's exports and imports, respectively. A major export destination for Iranian goods was Afghanistan, which imported goods worth \$1.1 billion. Turkey is a main supplier to the Iranian market, which exported products worth \$1.8 billion (Financial Tribune, 06.11.2020).
- According to the Chairman of the State Committee for Industry, Energy and Subsoil Use of Kyrgyzstan, Zhyrgalbek Sagynbayev, the country amended its Law on Subsoil in order to support local production and labor market. Under new changes, a share of foreign workers cannot exceed 10%, and 80-85% of consumer goods such as pens and curtains must be purchased in Kyrgyzstan. If there is a lack of local production of certain products, the Law allows companies to import them (Kabar, 02.11.2020).

Society and Culture

- A meeting titled "Similarity of Great Men: Navai and Abay" was held by the International Turkic Academy. Government officials and diplomats of different Turkic states, poets and writers, scientists and intellectuals attended the event. During the event, Abay's works translated to Uzbek and the Kazakh translation of Alisher Navai's "Hamsa" were presented to the public (TWESCO, 03.11.2020).
- During his visit to Baku, the head of the Presidency for Turks Abroad and Related Communities, Abdullah Eren, held a meeting with the Chairman of the State Committee on Work with Diaspora of Azerbaijan, Fuad Muradov. Abdullah Eren mentioned that Turkish people would always support Azerbaijan in its struggle and use all opportunities to inform the international community about the unlawful acts of Armenia. The chairman expressed his gratitude to the Turkish side for solidarity and brotherly support (Azernews, 04.11.2020).
- Turkmenistan's humanitarian aid sent against the backdrop of the coronavirus epidemic in Russia, reached the Russian city of Astrakhan. A cargo consisting of food and oil products, and other goods worth almost \$1 million was transferred to Russia. Turkmenistan became one of the leading Central Asian states in terms of the amount of humanitarian aid provided to Russia during the pandemic (SNG Today, 02.11.2020).
- The prospects of cultural cooperation between Azerbaijan and Tajikistan were discussed during the meeting of the Acting Culture Minister of Azerbaijan, Anar Karimov, with the Ambassador of Tajikistan to Azerbaijan, Rustam Soli. The sides touched upon holding joint projects aimed at promotion of cultural heritage of both nations. The Ambassador also said that Tajikistan recognized the territorial integrity of Azerbaijan and condemned the rocket attacks on Azerbaijani settlements by the Armenian armed forces (Azernews.az, 06.11.2020).
- The Otandastar Foundation in collaboration with the World Association of Kazakhs RPO held an online grand opening of the Kazakh cultural and business house in Berlin "Abai Uii" (Abay House). The event was held with support of the Ministries of Information and Social Development, and Foreign Affairs of the Republic of Kazakhstan. The primary objective of the "Abai Uii" is to promote and popularize the cultural heritage of Kazakhs and to strengthen business and humanitarian ties with compatriots abroad (Kazinform, 02.11.2020).
- Minister of Digital Development, Innovation and Aerospace Industry of the Republic of Kazakhstan, Bagdat Musin, met with the General Director of the State Corporation for Space Activities "Roscosmos", Dmitry Rogozin, in Moscow. The parties discussed topical issues of Kazakh-Russian cooperation in the space sector and signed the Protocol on amendments and additions to the Agreement between the Governments of Kazakhstan and Russia on the creation of the Baitek space rocket complex and the contract for the provision of services for the creation of the complex (Avesta-news.kz, 02.11.2020).