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INDEPENDENT NEWS FROM RUSSIA

Coronavirus Could Rock Russia's 'Stable and Isolated' Economy

As markets tumble and a flagship business forum is canceled, experts are questioning the strength of Moscow's finances.

By Jake Cordell

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President Vladimir Putin has spent five years trying to limit Russia's exposure to global economic shocks. **Sergei Savostyanov/TASS**

The coronavirus outbreak is shaping up to be the first serious test of Russia's stability-first economic policy introduced in the wake of the economic and geopolitical turmoil of 2014.

However, economists are divided on whether the country's macroeconomic war chest will be enough to weather the coronavirus storm, or if the nature of the downturn still leaves the country exposed to global turmoil.

Since 2014, the Russian government has made economic stability the bedrock of its economic policy, sacrificing economic growth and improvements in living standards and disposable incomes for ordinary Russians for the prize of some of the best macroeconomic indicators in the world — strong international reserves, low debt and a government budget surplus.

At the same time, its drive for economic sovereignty attempted to pull Russia back from the global economy in order to minimize potential damage from future rounds of sanctions, and bolster Russia's domestic industries.

The government's idea was that with stronger fundamentals and a less connected global economy, Russia would be better shielded from global economic turmoil.

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However, early indications of the coronavirus impact suggest a different story could be at play. Instead of a safe haven, "the country may once again become a 'weak link,' as was the case during the very deep global recession of 2009 and the counter-cyclical downturn in 2015," Vladislav Inozemtsev, director of the Centre for Post-Industrial Studies, wrote on the Riddle website.

With oil prices trading at their lowest level since 2017, Russia's traditional reliance on the black stuff for its economic wellbeing has come into focus yet again. The ruble has fallen to a 15-month low, with $1 now trading at more than 68 rubles. Meanwhile, the Russian stock market lost almost 6% on Friday alone, and has plunged by a quarter in the space of just six weeks — one of the biggest drops anywhere in the world.

Chinese connections

The slowdown in China, which has seen factories closed and internal movement seriously restricted, will deliver a $10 billion hit to Russia's exports for 2020, Raiffeisen Bank's Stanislav Murashov forecast in a research note this week. Last year, Moscow sold more than $40 billion worth of oil and gas to Beijing.

In another sign of how serious the coronavirus hit to Russia's economic relationship with China could be, the government this week decided to cancel its flagship St. Petersburg International Economic Forum, scheduled for June. Last year's event was attended by Premier Xi Jinping and a 1,000-strong Chinese delegation.

"The risks for Russian growth forecasts are now primarily concentrated in the export component, which actually brings a pretty sizeable contribution to total growth in most pre-coronavirus forecasts," Nordea's chief Russia economist Tatiana Evdokimova wrote on Twitter. "In the worst case scenario we may end up with a negative contribution."

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Inozemtsev is even considering the possibility that Russia's prioritization of stability over growth since 2014 could backfire, leaving it more exposed to a slowdown since growth is already so fragile.

"The Russian economy is now in a much less stable condition than the American and

European economies, where consumer confidence has been growing quite steadily, and the authorities know how to conduct an active monetary policy in the conditions of an approaching recession," he said.

"In Russia, with its economic growth of 1.3% last year and the citizens' growth in income of 0.8%, GDP is growing only thanks to investments made by government and state-owned companies. Such investments are likely to decline under the new conditions."

Should Moscow adopt a worst-case-scenario response to the outbreak, such as large-scale quarantines and shutdowns, Oxford Economics' Evghenia Sleptsova said Russia would face a "proper recession."

Coronavirus dilemma for Central Bank

The market panic could also paralyze Russia's economic institutions designed to fight turmoil and support the economy. The Central Bank now faces the conundrum of a weakening economy, inflation running well below its 4% target and crunches to both global demand and supply, against a depreciating ruble and financial market turmoil. Analysts had expected another interest rate cut from governor Elvira Nabiullina, but Murashov now predicts "the Central Bank will shift to a more conservative stance to address elevated ruble volatility."

Despite this, Evdokimova believes Russia is in a better position than before to deal with a global downturn. "Speaking about Russian vulnerability to external shocks now, as opposed to 2008 and 2014 ... the country is indeed better prepared." She added that the government's breakeven oil price is now around $50, compared to $100 during the 2014-15 crisis, and that "foreign exchange reserves exceed external debt by more than ever before."

While it may have a stronger balance sheet, the outbreak has shown that Russia is still deeply connected to the global economy and reliant on global energy prices, despite Moscow's rhetorical drive towards isolation.

Before the worst of this week's turmoil, the OECD had already slashed Russia's GDP forecast for 2020 by 0.4 percentage points, as it cut the global outlook by 0.5 percentage points — a stark visualization of how Russia and the world economy are set to run hand-in-hand when it comes to the coronavirus.

"The risk is that the global estimates are now starting to look on the low side," warned VTB Capital's Neil MacKinnon.

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