Russian enterprises meet sanctions

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After the Ukraine 2014 revolution, Russia refused to recognize the new interim government and seized control of the Crimean Peninsula in Ukraine.
Countries recognizing results of 2014 Crimean referendum

Arms embargo
Asset freeze
Russia's access to EU capital markets restriction
Visa or travel ban
Additional restrictions for Crimea and Sevastopol
• The following transactions by U.S. persons or within the United States are hereby prohibited: transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity or new equity for these persons (listed below), their property, or their interests in property.
• One year ban on fruit, vegetables, meat, fish, milk from the United States, the European Union, Norway, Canada and Australia.

• Prior to the embargo, food exports from the European Union to Russia were worth around €11.8 billion. United States - €972 million, Canada - €385 million.
ГЕОГРАФИЯ ПРОДОВОЛЬСТВЕННЫХ САНКЦИЙ РОССИИ

ВЛИЯНИЕ САНКЦИЙ НА ПРОДОВОЛЬСТВЕННЫЙ РЫНОК РФ (%)

Сыры: 30,1
Фрукты и ягоды: 14,7
Рыба: 13,3
Семена: 13,2
Мясо птицы: 7,9
Овощи и корнеплоды: 5,8
Мясо крупного рогатого скота: 2,5
Молоко и молочная продукция: 1,3
*Доля попавших под санкции продуктов во внутреннем потреблении РФ.

ТОП-10 САМЫХ ЗАВИСИМЫХ ОТ ЭКСПОРТА В РФ СТРАН (% ДОЛЯ РОССИИ В ОБЩЕМ ЭКСПОРТЕ ПРОДУКТОВ)

ТОП-10 САМЫХ НЕЗАВИСИМЫХ ОТ ЭКСПОРТА В РФ СТРАН (% ДОЛЯ РОССИИ В ОБЩЕМ ЭКСПОРТЕ ПРОДУКТОВ)

ИСТОЧНИКИ: ФСС РОССИИ, КОНФЕРЕНЦИЯ «ОПО РОТОВОЛОЧЕ И РАЗВИТИЕ» (ОФТАЛМ).
Russia – Ukraine bilateral sanctions

• Ukraine 5.2% of Russian export.
• Ukraine 5.7% of Russian import.

Various sanctions.
Macroeconomic situation

• Second quarter GDP estimates and high-frequency indicators suggest continued weakness in the economy even before the latest round of economic sanctions introduced by the EU, the US, and other countries in late July. The World Bank maintains its current 0.5 percent growth projection for 2014.

• Inflation slowed in July, but the wide-ranging ban on food imports the Russian authorities introduced in early August will likely increase short-term inflationary pressure and put the Central Bank’s 2014 inflation target further out of reach.

• Pressure on the Ruble resumed on the back of escalating geopolitical tension and advanced sanctions.
Doing Business 2014

- Japan: 27
- Kazakhstan: 50
- Mexico: 53
- Regional Average (Europe & Central Asia): 71
- Russian Federation: 92
- China: 96
- Brazil: 116
- India: 134

Ease of doing business ranking
Macroeconomic indicators

Figure 1: Russia’s high frequency indicators, growth rates, percent, y-o-y

Figure 2: Russia’s CPI by components, percent, y-o-y

Source: Rosstat, Haver Analytics, World Bank team

Source: Rosstat, Haver Analytics, WB team
Business confidence index

- Mining
- Manufacturing
Russian enterprises in 2013

1. World Trade Organization (WTO) regulations came into force in the domestic market.

2. Economic growth rates decreased sharply.

Russia is a member of WTO since 22 August 2012. What impact did Russia’s WTO accession have on the performance of your enterprise?

GDP Growth
What makes ruble exchange rate important for you?

- High level of competition with foreign manufacturers in...
- Strong need for buying imported machinery and equipment
- Large share of imports in buying raw materials and utilities
- Large share of exports in product sales

Source: Kuvalin, Moiseev, 2014
How do you estimate competition in your market at present (Nov-Dec 2013)?

- Competition on the part of foreigners is increasing
- Competition stays almost static
- Competition on the part of foreigners is decreasing
- Foreigners do not work in our market

Source: Kuvalin, Moiseev, 2014
Threats and opportunities

- Credit shortage.
- Lack of access to the new technologies.
- Ruble depreciation.

+ Weakening competition with EU food producers.
+ Weakening competition with Ukraine manufacturers.
Big Business

• Mechel (mining)
$8.3 bln debt,— Gazprombank ($2.3 bln), VTB ($1.8 bln), Sberbank ($1.3 bln).

• Rosneft (oil and gas)
Rosneft has asked the Russian government for as much as Rb1.5tn ($42bn) in support, in a clear sign of the growing cost of western sanctions against Moscow.
Figure 2. Russian Federation: Increasing State Presence in the Economy, 1995–2015

Government ownership in crude oil production has risen.

Source: IMF

The state remains a significant employer... ... while public sector productivity is low.
Labor Productivity Index

(2005 = 100)
Banking sector debt position ($Bln)

- **3Q**
- **4Q**
- **1Q2015**
- **2Q**
- **3Q**
- **4Q**

**Interests**

**Principal debt**
• Russian government spend $6.64bln to support major state owned banks.
• Military and Crimea-related spending.
Credit threats

• The lack of cheap foreign credits.
• Limitedness of government resources.
• Loss of trust.

• Big Business is the main victim.
• The most ineffective (or corporations with bad relations with government) should go bankrupt.
Inflation threats

• Food(import) prices channel.
• Monetary channel. Central bank provides liquidity to support major banks.

• Food would have the larger share in consumer budget.
• Consumer demand in many other industries shrinks.
Small and medium enterprises

Russia
EU
US

% of Enterprise
% of Employment
# The problems of Russian Small and medium enterprises

<table>
<thead>
<tr>
<th>Issue</th>
<th>Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low quality of Public administration</td>
<td>25.7</td>
</tr>
<tr>
<td>Government corruption</td>
<td>31</td>
</tr>
<tr>
<td>High taxes</td>
<td>32.7</td>
</tr>
<tr>
<td>High administrative barriers</td>
<td>34.5</td>
</tr>
<tr>
<td>Prices</td>
<td>38</td>
</tr>
<tr>
<td>Lack of qualified labour force</td>
<td>44.4</td>
</tr>
</tbody>
</table>

Problems 3, 5, 6 would escalate.

Source: Kuznetsov, Filimonova, Fedosova, 2014
Number of Cattle, pigs, and sheep in Russia
Components of Russia meat and meat products supply

Source: Kiselev, Romashkin, 2012
The agri-food sector in Russia: current situation and market outlook until 2025

- Supply shortage and increasing demand keep Russian pork prices above the world market price and induce a rise above the EU price.
- The beef baseline projections depict a further decrease in Russia’s beef production, and as at the same time domestic use is expected to increase.
- Pork production is expected to further grow during the projection period. As a result, Russia’s net imports of pork are projected to increase.
- Poultry production continues its increasing trend of the last decade also over the baseline period. Russia is projected to further improve its position as a net-exporter of poultry.
- With the exception of poultry, Russia is projected to remain a net importer of all kinds of meat despite the import tariffs, tariff quotas and subsidies for animal products applied. Income growth drives consumption per capita of all meats to increase.

Source: Joint Research Centre of the European Commission, 2013
Conclusion

• Russian big business is the main loser from trade war.
• Ruble depreciation hits import of row materials, machinery and equipment.
• Import substitution is rhetoric rather than real plan.
THANK YOU FOR YOUR ATTENTION!
References


Pork

[Graph showing trends in pork production, net trade, and price from 1998 to 2010.]
Poultry