

# Russian enterprises meet sanctions

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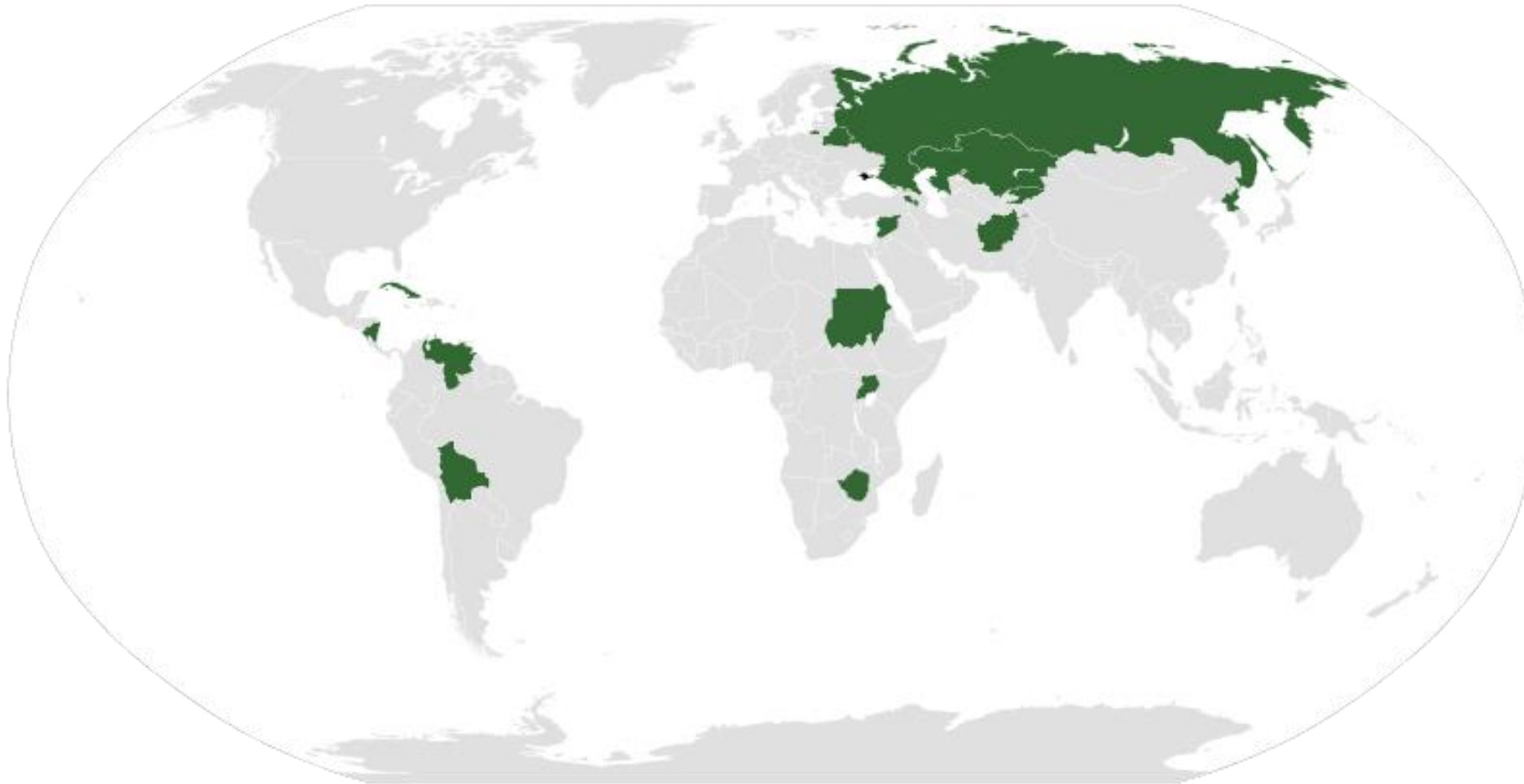
# Content

- Sanctions overview
- Macroeconomic situation
- Russian enterprises
- Threats and opportunities
- Conclusion

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



Source: Wikipedia

***Arms embargo***

***Asset freeze***

***Russia's access to EU capital markets restriction***

***Visa or travel ban***

***Additional restrictions for Crimea and  
Sevastopol***



# OFFICE OF FOREIGN ASSETS CONTROL

## Sectoral Sanctions Identifications List

July 29, 2014

- 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.



# ПРАВИТЕЛЬСТВО РОССИЙСКОЙ ФЕДЕРАЦИИ

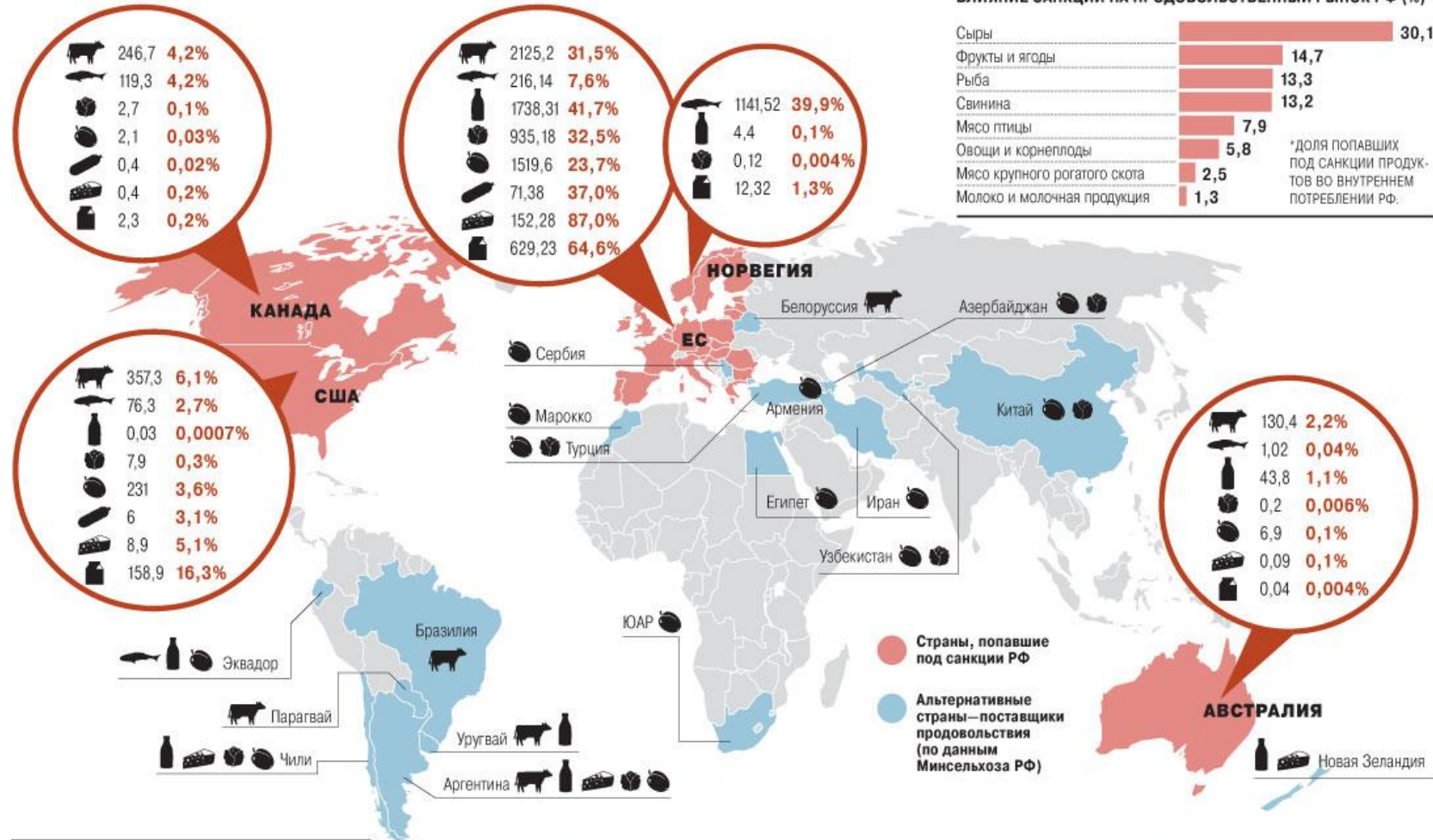
## ПОСТАНОВЛЕНИЕ

от 7 августа 2014 г. № 778

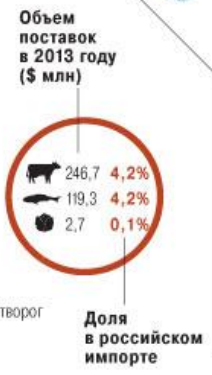
МОСКВА

- 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



- ПРОДУКТЫ, ЗАПРЕЩЕННЫЕ К ВВОЗУ В РОССИЮ
- Мясо и мясные субпродукты
  - Рыба и ракообразные
  - Молоко и молочная продукция
  - Овощи и корнеплоды
  - Фрукты и орехи
  - Колбасы и аналогичные продукты
  - Готовые продукты, включая сыры и творог
  - Молокосодержащие продукты на основе растительных жиров





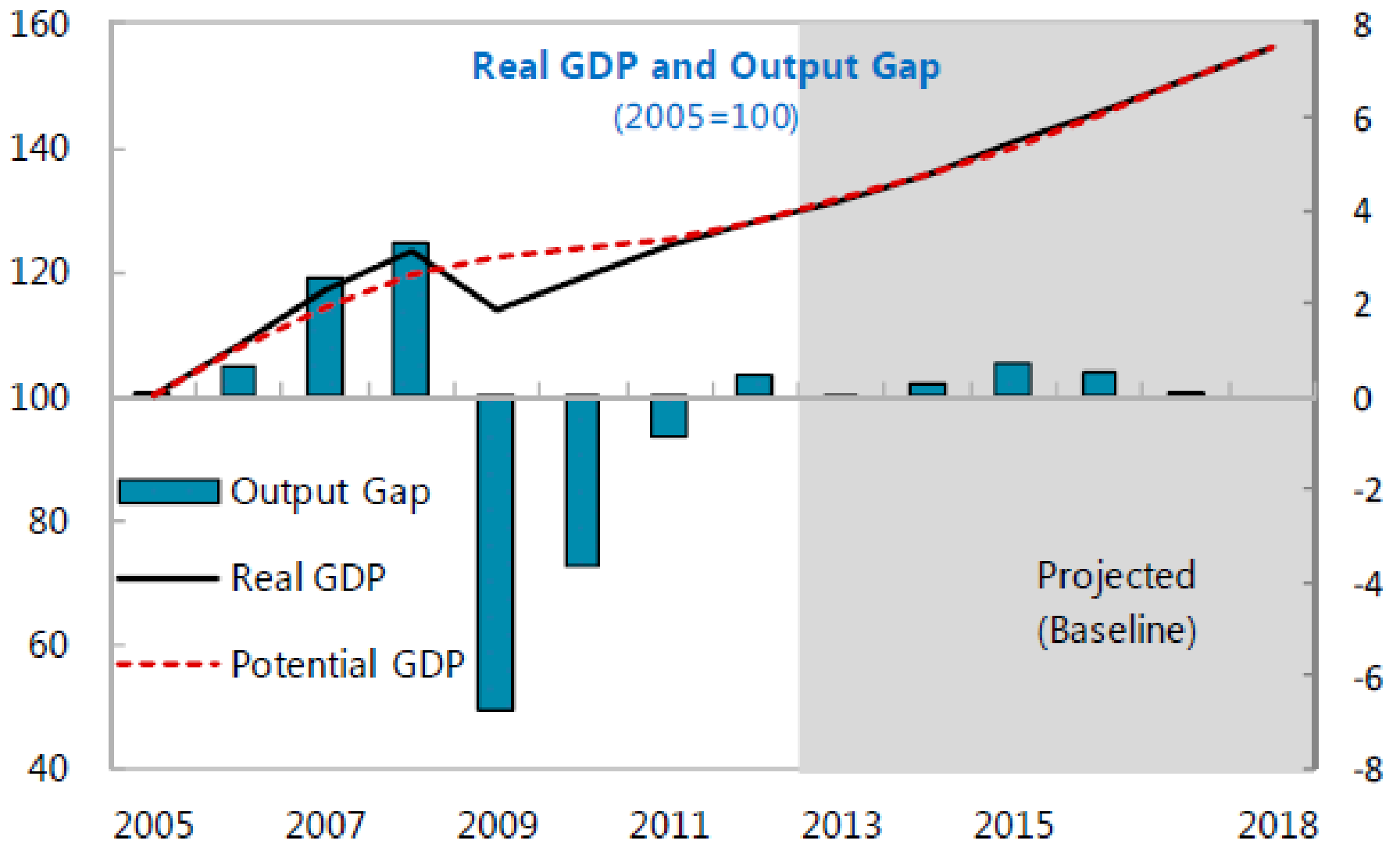
# Russia – Ukraine bilateral sanctions

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

Various sanctions.

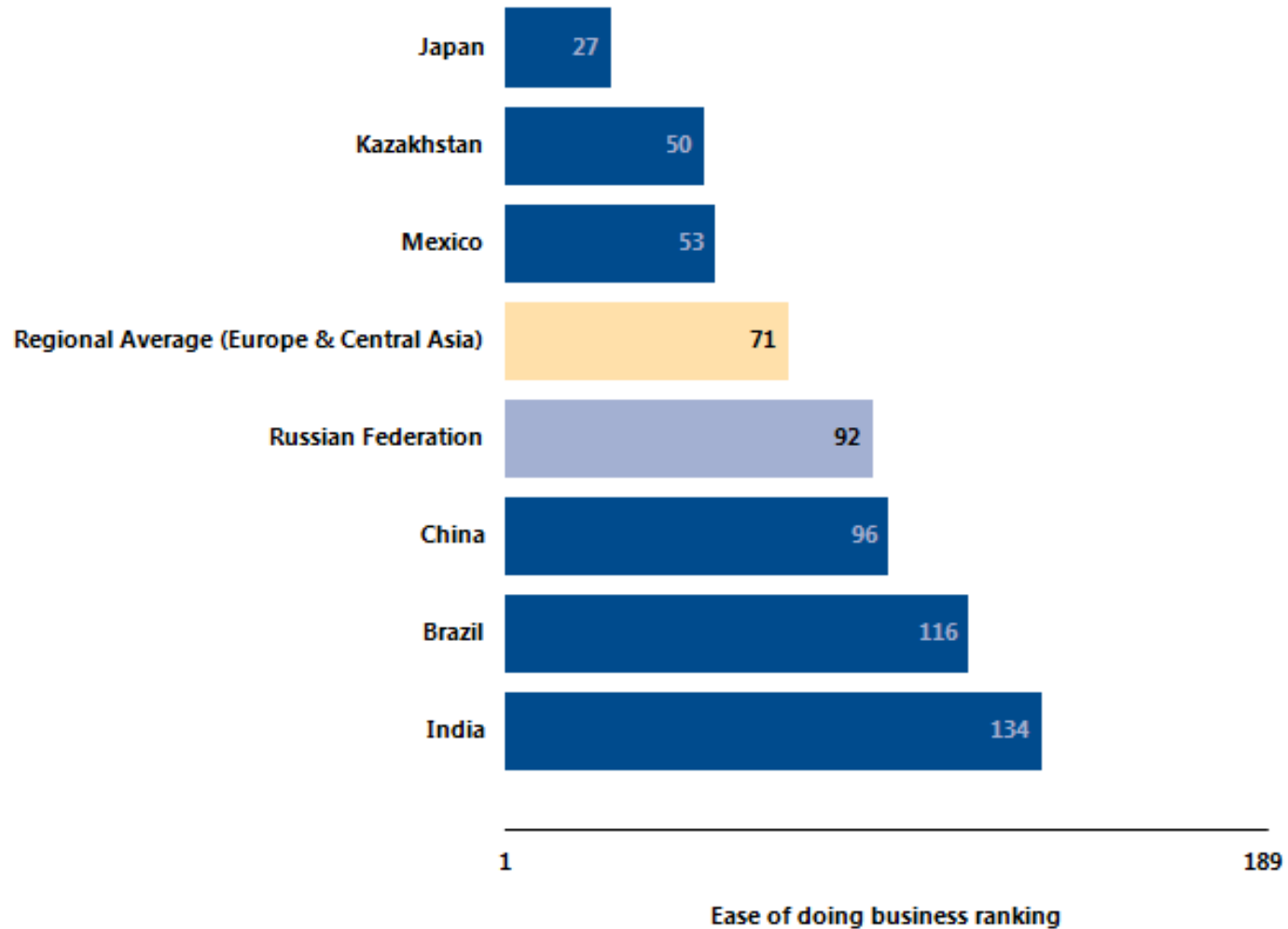
# Macroeconomic situation

- 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.



Source: *World Economic Outlook*.

# Doing Business 2014



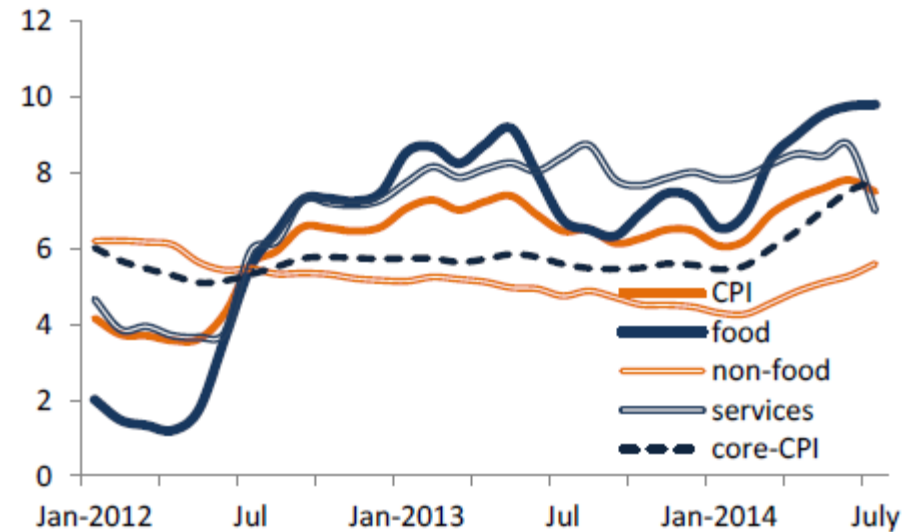
# Macroeconomic indicators

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



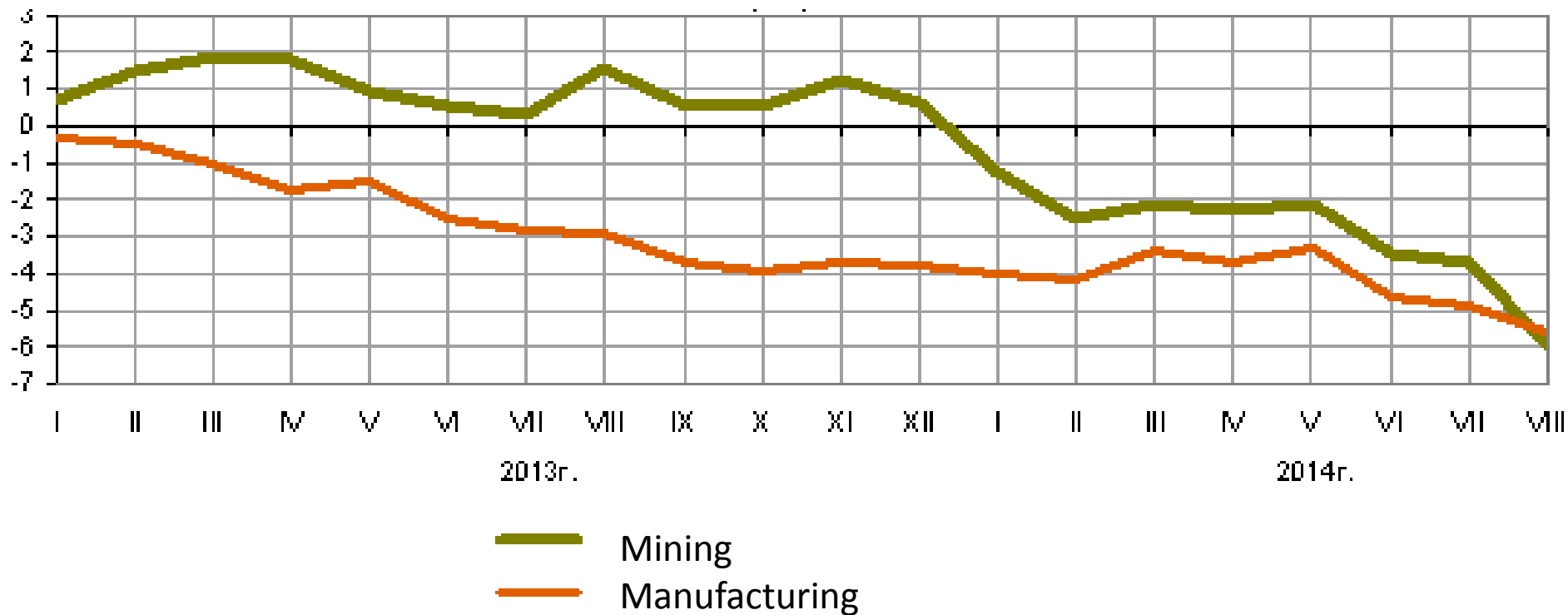
Source: Rosstat, Haver Analytics, World Bank team

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



Source: Rosstat, Haver Analytics, WB team

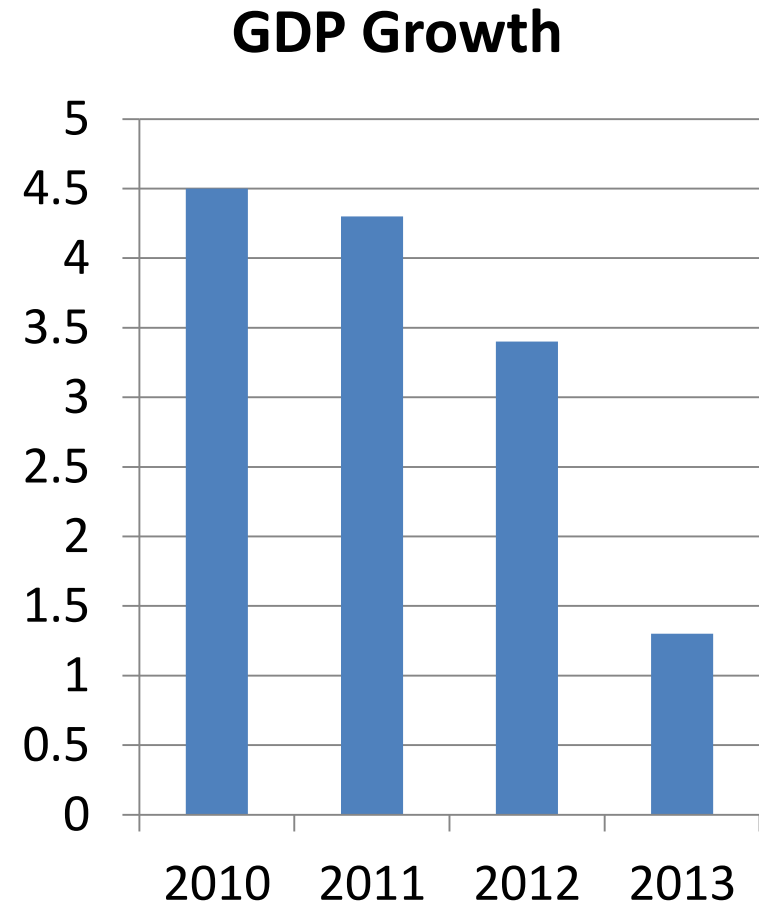
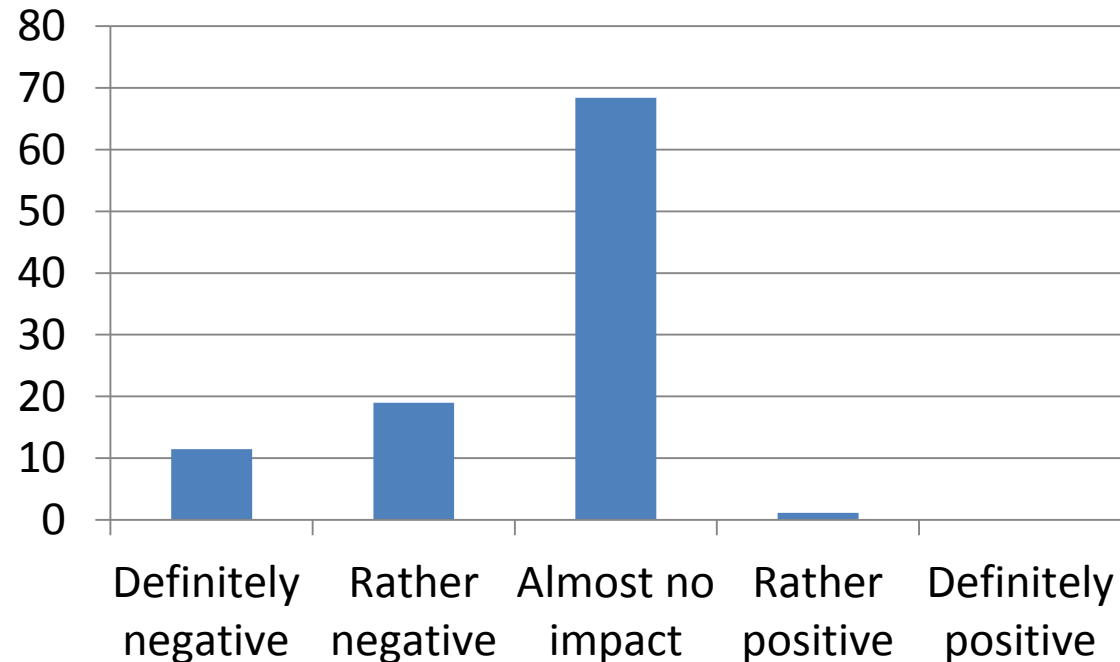
# Business confidence index



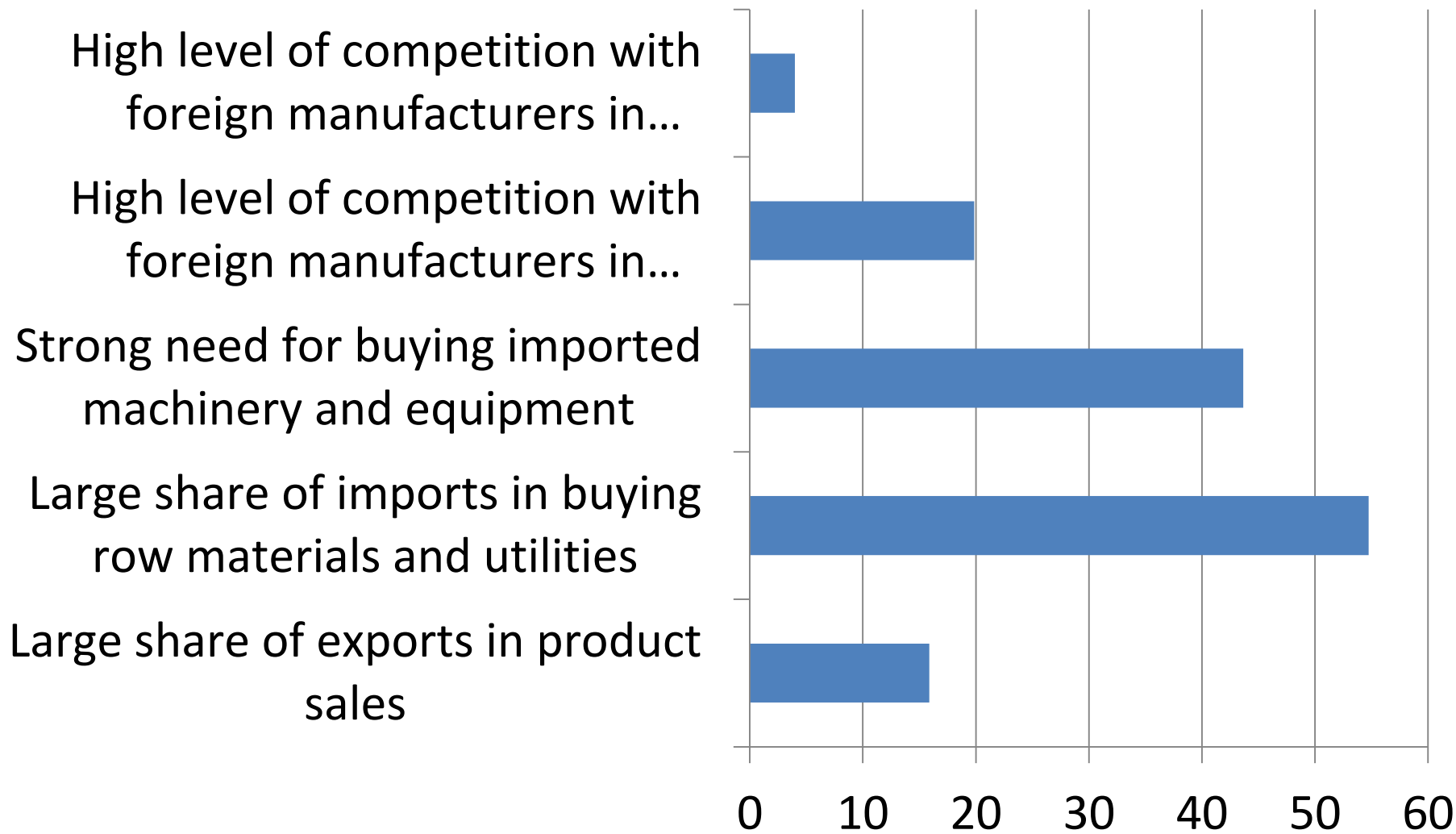
# Russian enterprises in 2013

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?**



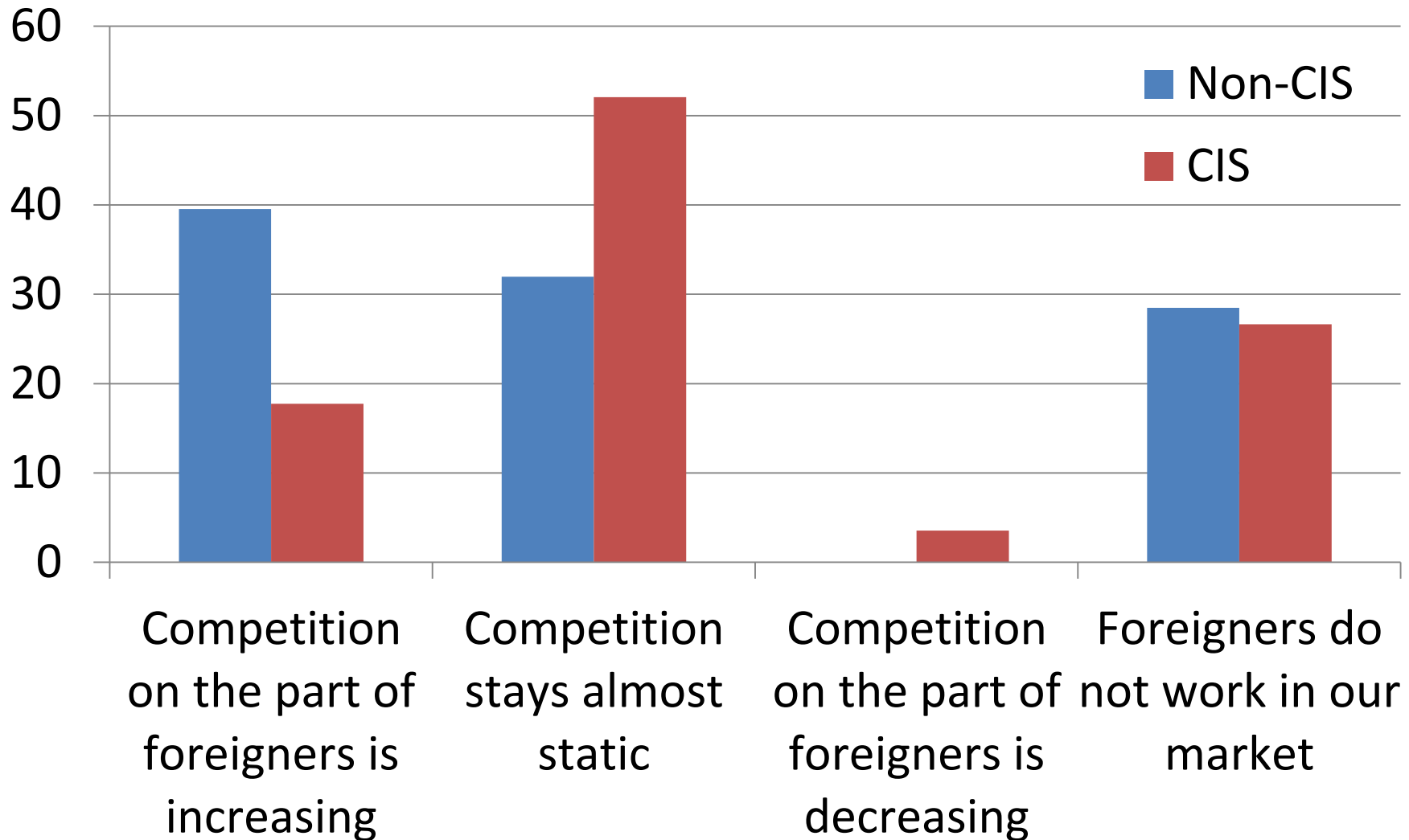
# What makes ruble exchange rate important for you?



Source: Kuvalin, Moiseev, 2014



# How do you estimate competition in your market at present(Nov-Dec 2013)?



# 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).

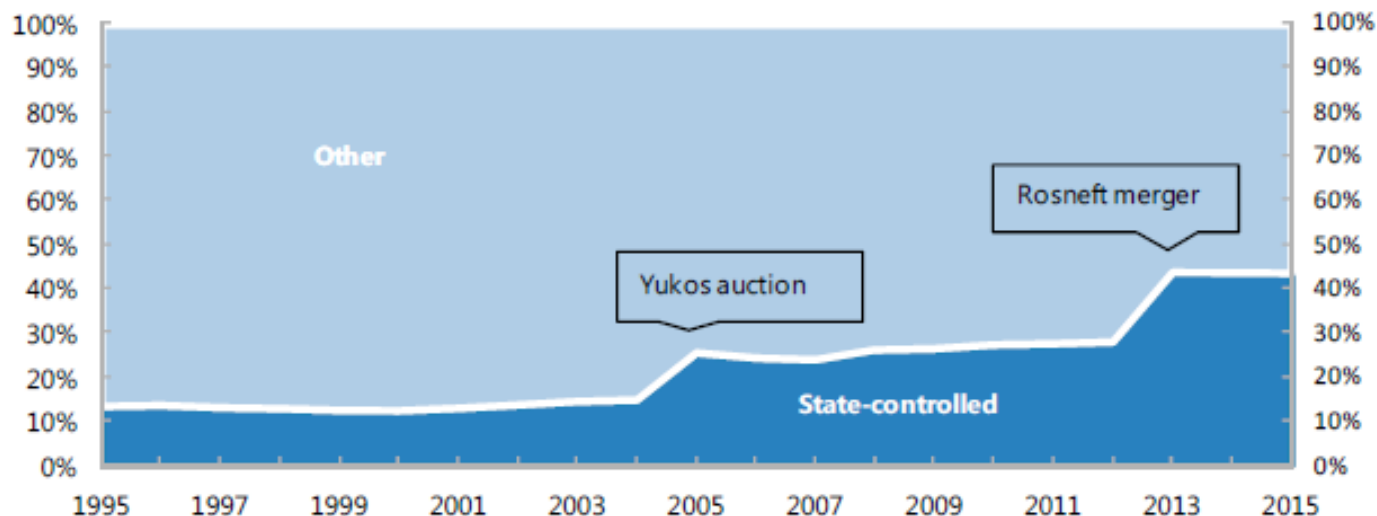
US\$1.665 bln losses last year. Government seeks ways to support company.

- **Rosneft (oil and gaz)**

[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.

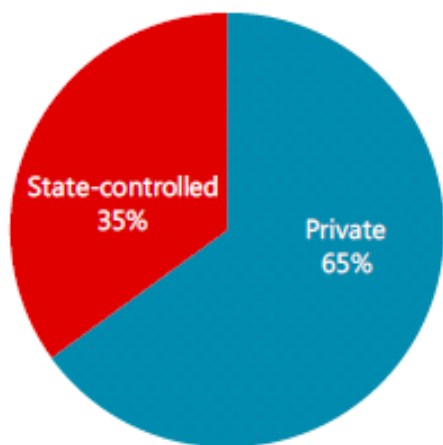
**Figure 2. Russian Federation: Increasing State Presence in the Economy, 1995–2015**

Government ownership in crude oil production has risen.

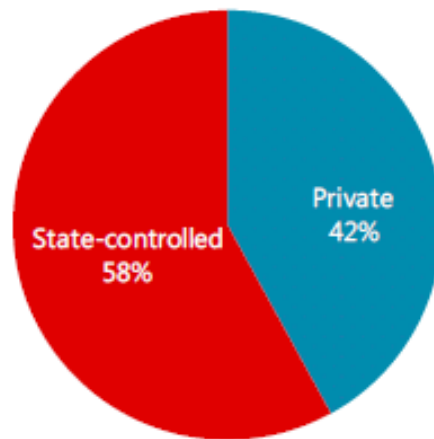


And also in the banking sector.

**Banking Sector Assets**  
(December 2000)



**Banking Sector Assets**  
(January 2012)

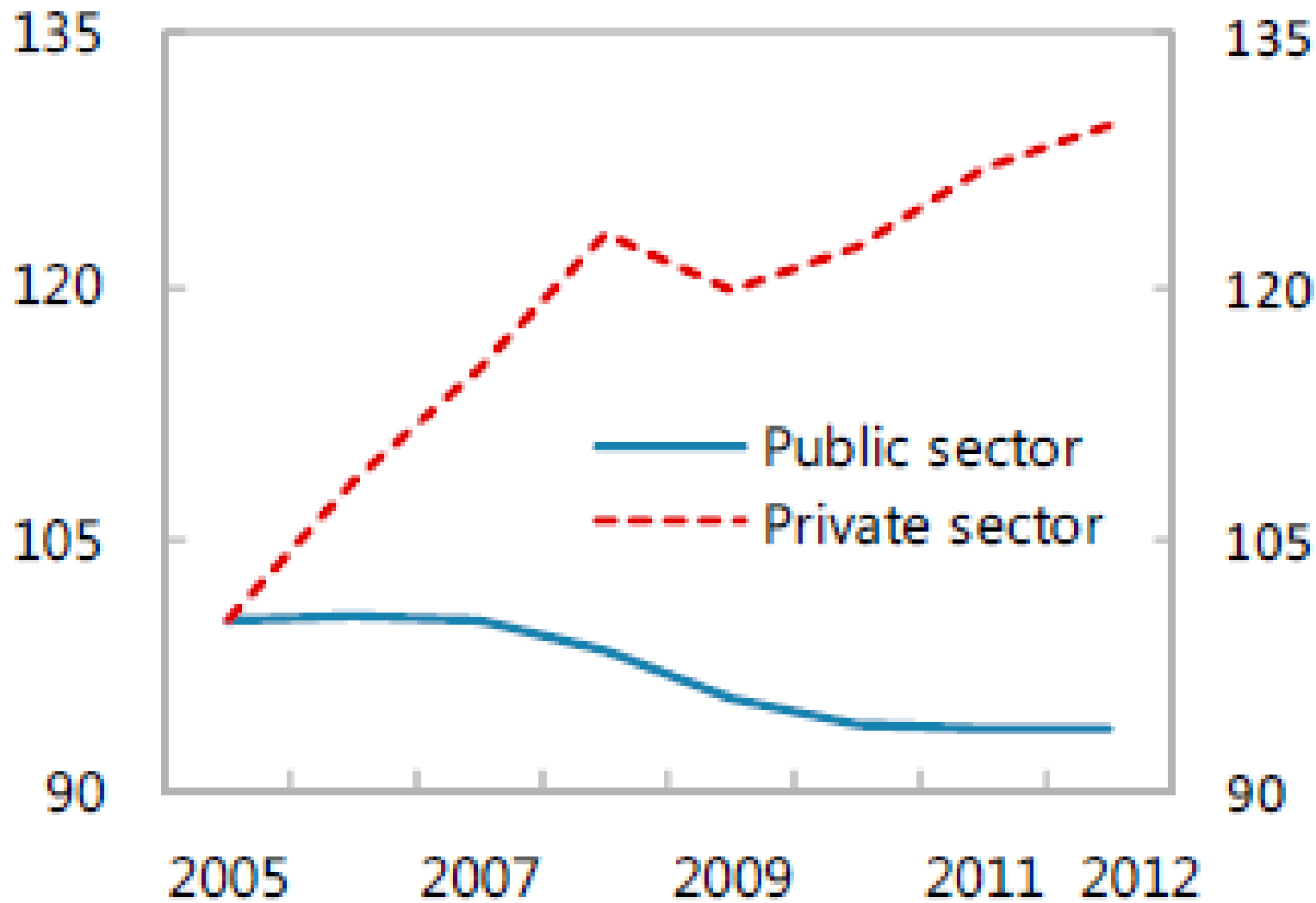


The state remains a significant employer...

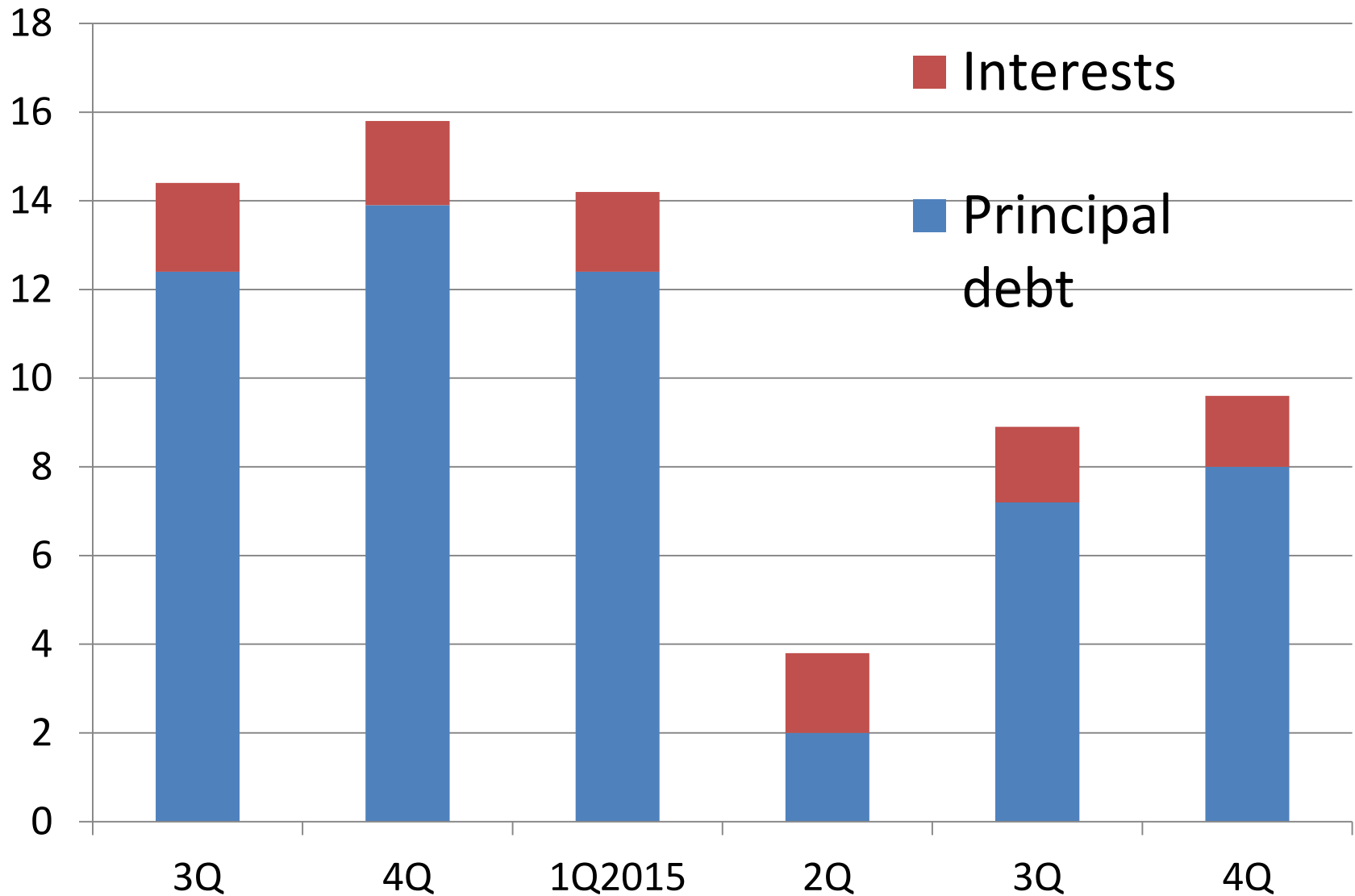
... while public sector productivity is low.

Source: IMF

# Labor Productivity Index (2005=100)



# Banking sector debt position (\$Bln)





# ПРАВИТЕЛЬСТВО РОССИЙСКОЙ ФЕДЕРАЦИИ

## ПОСТАНОВЛЕНИЕ

от 22 августа 2014 г. № 839

МОСКВА

- Russian government spend \$6.64bln to support major state owned banks.
- Military and Crimea-related spending.

# Credit threats

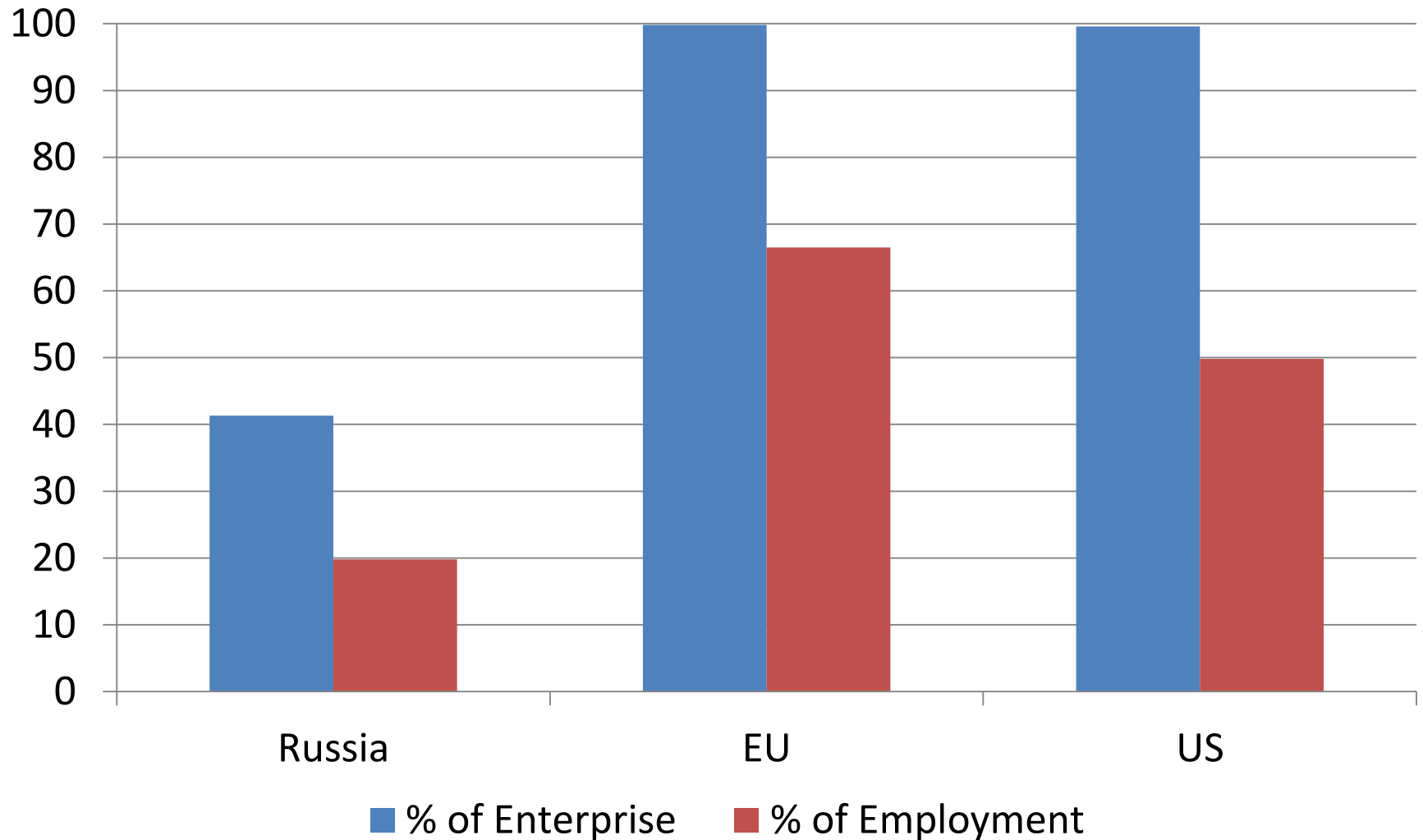
- The lack of cheap foreign credits.
- Limitedness of government resources.
- Loss of trust.
  
- Big Business is the main victim.
- The most ineffective (or corporations with bad relations with government) should go bankrupt.



# 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



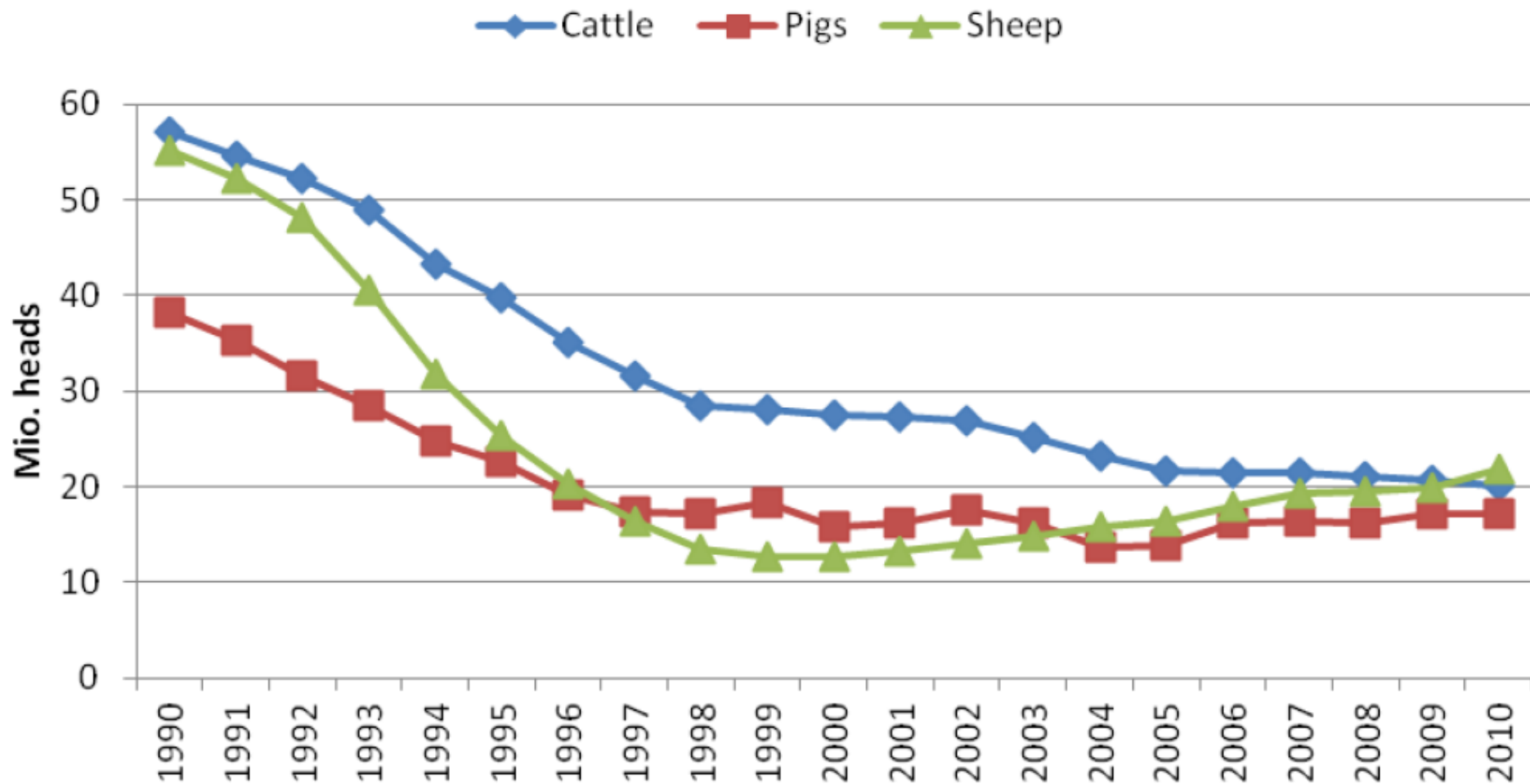
# The problems of Russian Small and medium enterprises

Issue	Share %
Low quality of Public administration	25.7
Government corruption	31
High taxes	32.7
High administrative barriers	34.5
Prices	38
Lack of qualified labour force	44.4

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 raw materials, machinery and equipment.
- Import substitution is rhetoric rather than real plan.

**THANK YOU FOR YOUR ATTENTION!**

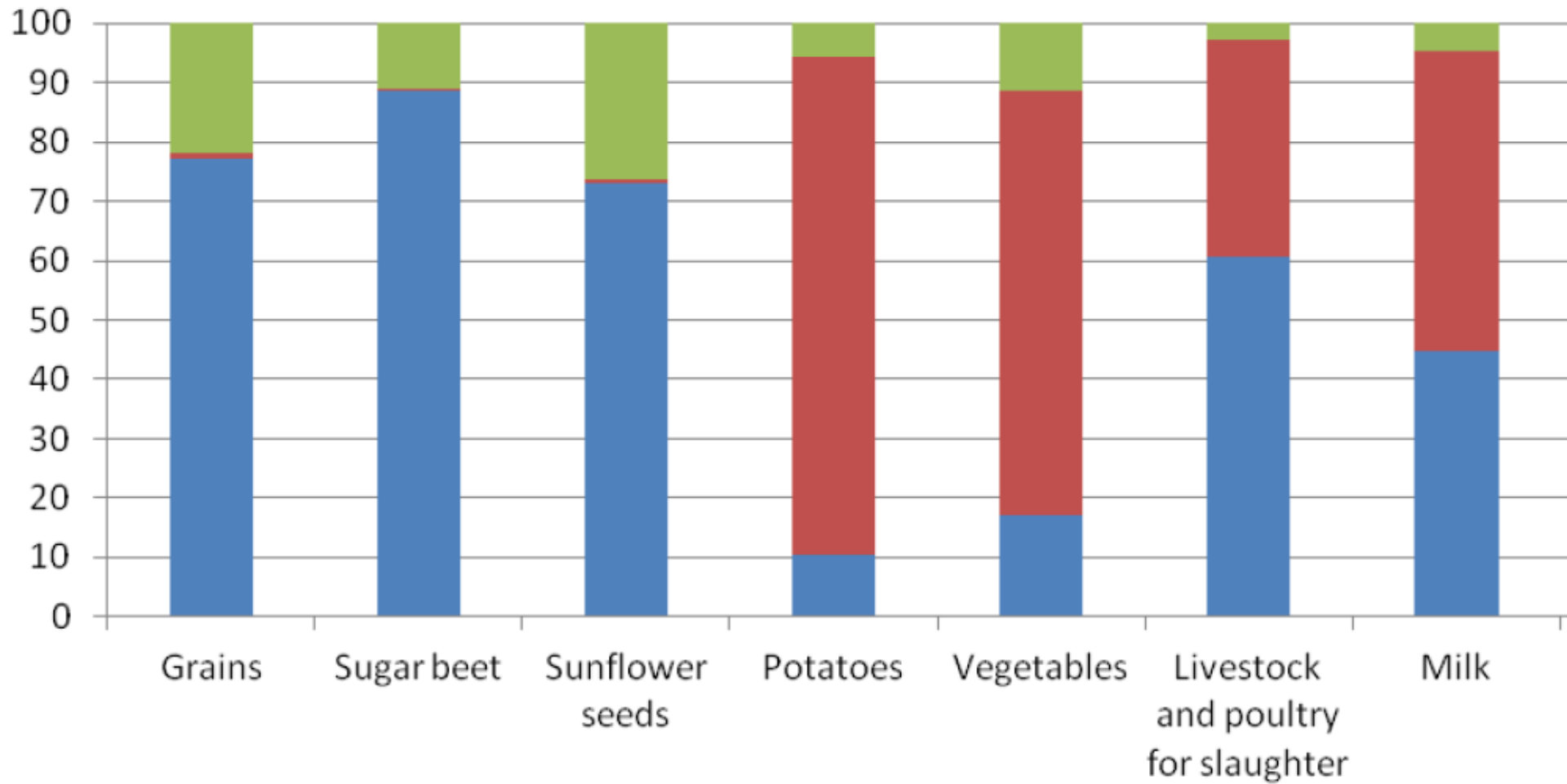


# References

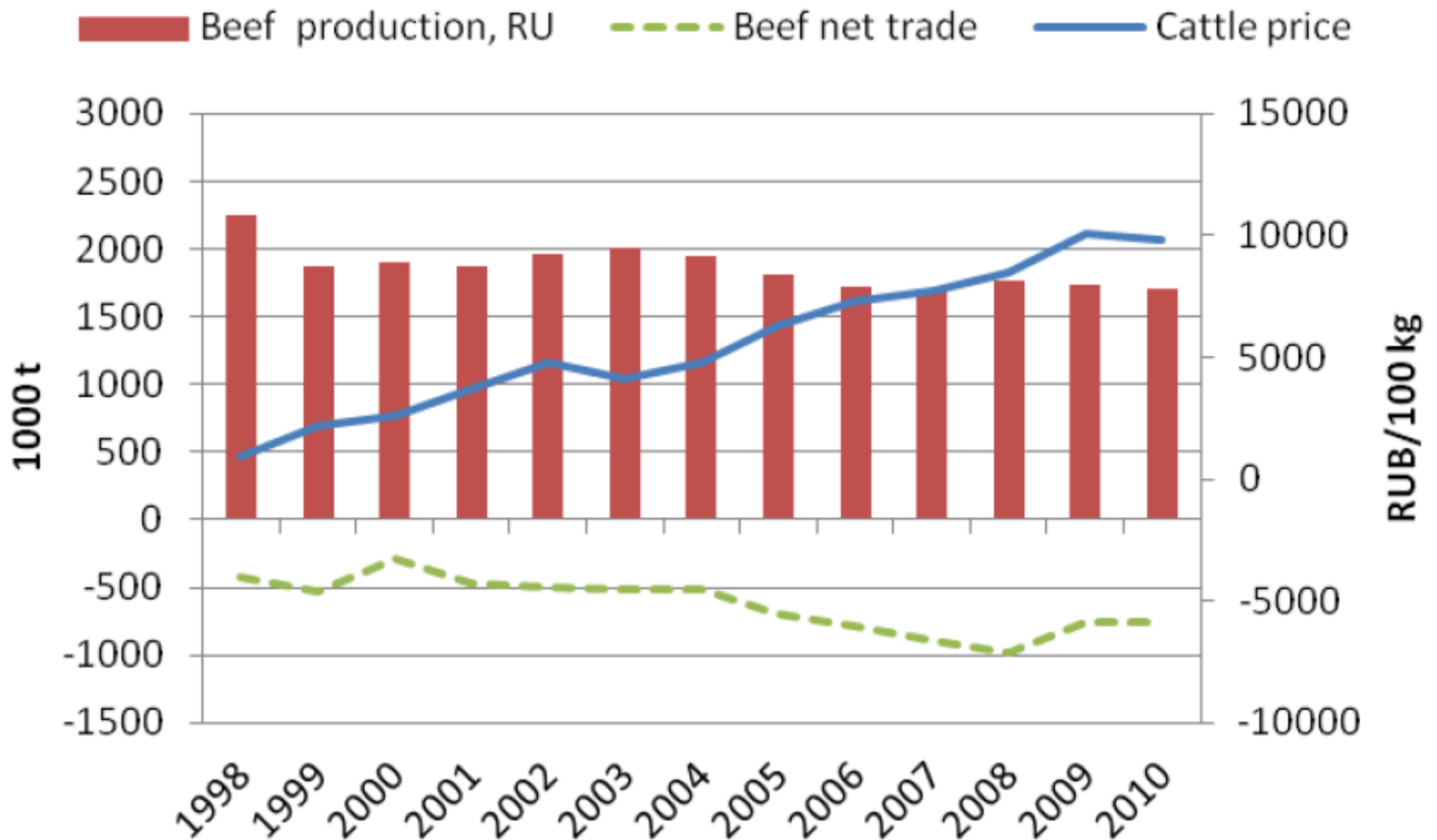
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# Agriculture

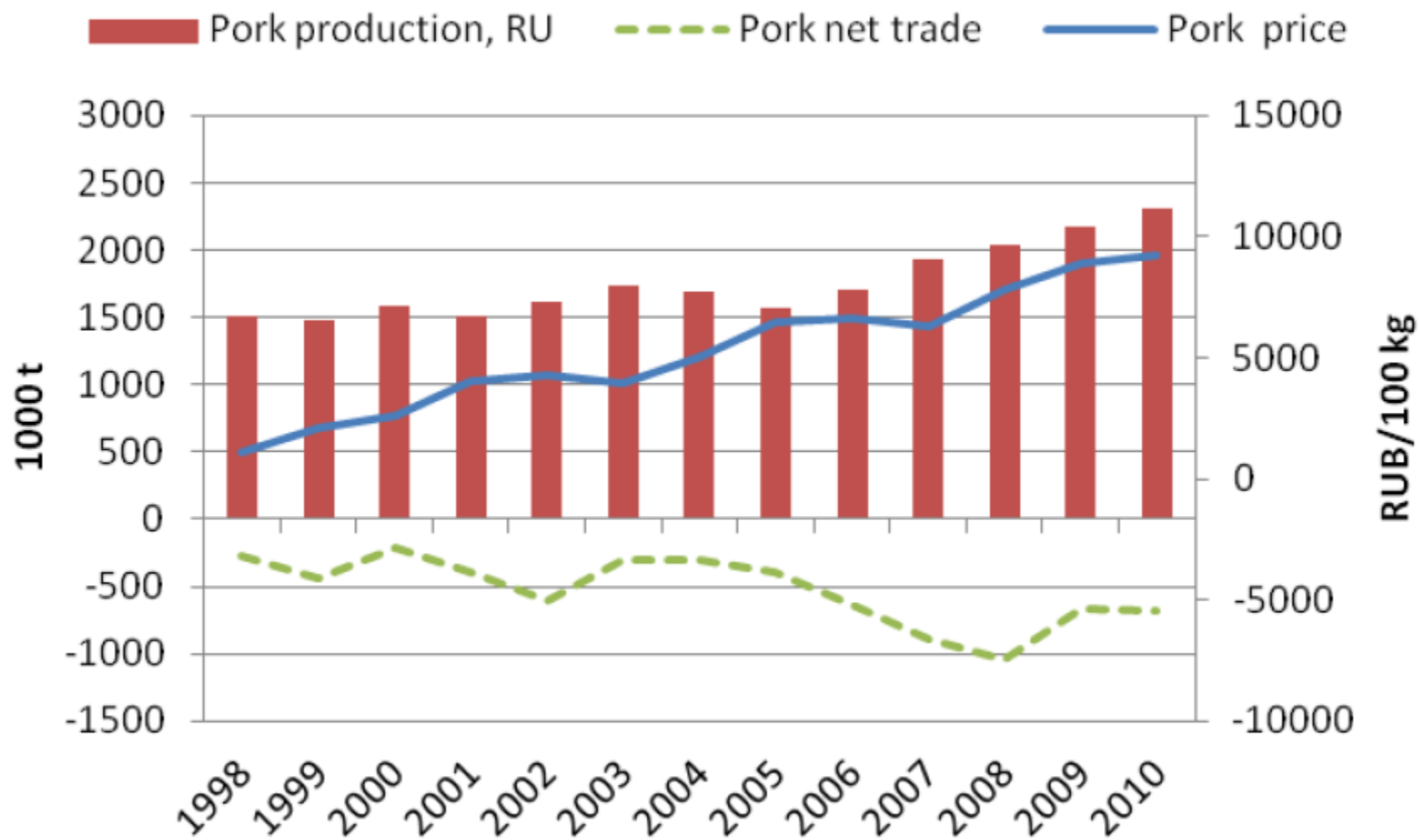
■ Agricultural enterprises    ■ Household farms    ■ Private (peasant) farms



# Beef



# Pork



# Poultry

