



# Russia Macroeconomic Report



## Economic Profile

Country	Russia
Currency	Russian Ruble
Population	145.6 million
Economy	Mixed
GDP	\$1.78 trillion
GDP per Capita	\$12,194.8
Largest Trading Partner	China

## Market Outlook

Point in Economic Cycle	Right-of-Peak
Outlook	Bearish

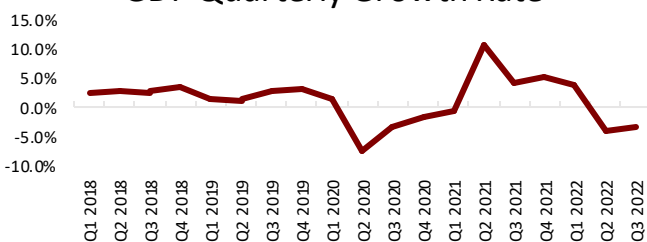
### Macroeconomic Thesis:

After conducting research on several leading, lagging, and coincidental economic indicators, we believe that Russia's position is right-of-peak in the current economic cycle. Furthermore, our outlook is bearish for the next 12 months and we believe that Russia's economy will contract due to the combination of decreased oil and gas prices, increased war spending, government budget deficit, and high inflation.

By examining various economic criteria such as GDP (Gross Domestic Product) quarterly growth rate, unemployment rate, inflation rate, consumer spending, government budget, and the oil and gas market, it is reasonable to say that Russia did not suffer as much last year as many economists had anticipated. High revenues from energy exports to China, India, and Turkey benefit the country's performance. However, the country has not been able to maintain high revenues from exports. According to the Ministry of Finance of the Russian Federation, the country recorded a budget deficit of around RUB 2.58 trillion in the first two months of 2023, which can be attributed to a decrease in oil and gas prices and an increase in spending related to the war. Moreover, with a current inflation rate of 11.90%, which is significantly higher than the central bank's target rate of 4%, the country's economic outlook is concerning.

In addition, many western countries imposed sanctions upon Russia. These sanctions impacted the country's exports and imports and resulted in a big loss of foreign investments. Although Russia managed to create new trade routes with countries like China and Turkey, the country is facing a scarcity of certain goods and products. Therefore, by examining leading indicators and anticipating that the country will deal with a more challenging scenario in the next 12 months, we believe that Russia's economy will contract, and our outlook is bearish.

### GDP Quarterly Growth Rate



Russia GDP Quarterly Growth Rate 2018-2022 (Source: Statista)

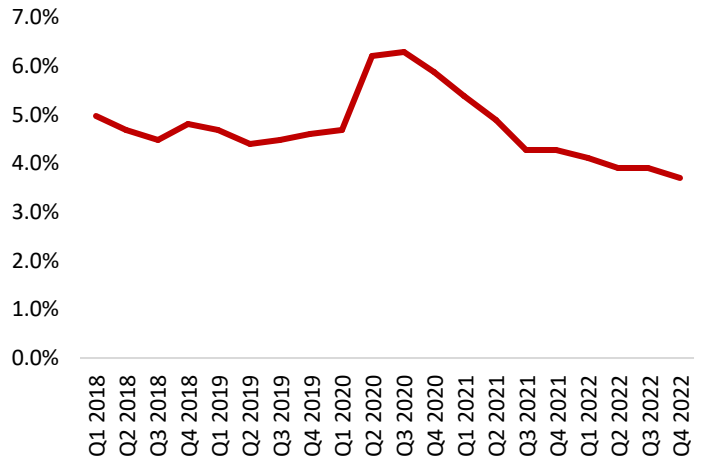


# Economic Indicators

## Unemployment Rate:

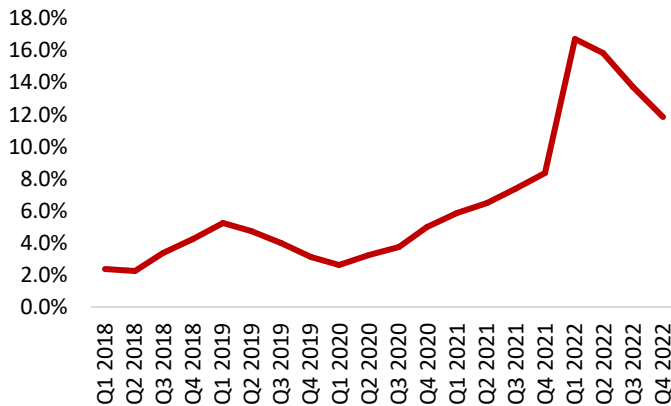
Unemployment is the measure of the number of unemployed people as a percentage of the labor force. The unemployment rate steadily has been declining from 6.6% in September of 2020, and has fallen to 3.7% in December of 2022. The growing demand for soldiers for the war and government contribution to protecting jobs in times of crises has kept the unemployment rate low. However, this relatively low unemployment rate may not be sustainable in the long term, as potential economic sanctions, shifting global demand, and post-war economic adjustments could lead to structural unemployment and job market imbalances.

## Unemployment Rate



Source: Trading Economics

## Inflation Rate



Source: Trading Economics

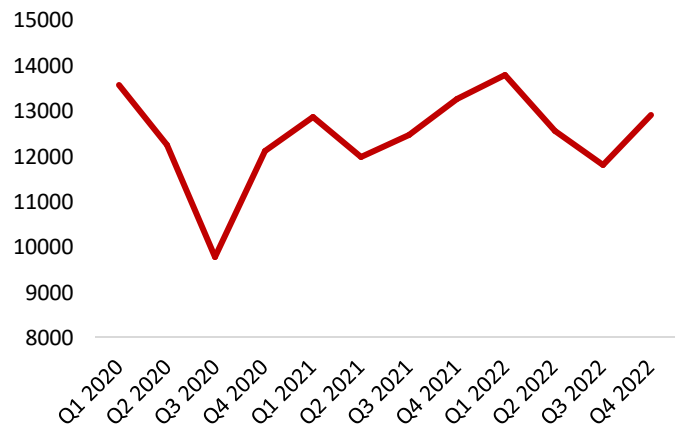
## Inflation Rate:

The inflation rate is the rate of increase in prices over a given period of time. Due to the collapse of the dollar-value of the ruble because of sanctions, the inflation rate rapidly increased to 16.7% in March of 2022 and peaked in April with an inflation rate of 17.8%. However, throughout 2022 it steadily declined as the Russian Central Bank increased interest rates as a means of fighting inflation. It is essential to monitor the potential long-term impact of these high inflation rates on consumer purchasing power, business investment, and economic growth, as prolonged inflationary pressures may hinder Russia's recovery and future growth prospects.

## Consumer Spending:

Consumer spending in Russia has exhibited a fluctuating pattern over the past two years, with a notable dip in Q3 2020 at 9793 RUB Billion, driven by the impact of the pandemic and economic uncertainty. Since then, spending has gradually rebounded, reaching a peak of 13796 RUB Billion in Q1 2022 before experiencing a slight decline in the subsequent quarters. The increase in consumer spending to 12883.80 RUB Billion in Q4 2022 from 11789.30 RUB Billion in Q3 2022 suggests a degree of resilience in the Russian economy, although the potential impact of ongoing sanctions and inflationary pressures may pose challenges to sustaining this growth in the coming months.

## Consumer Spending (in Billions Rubles)



Source: Trading Economics

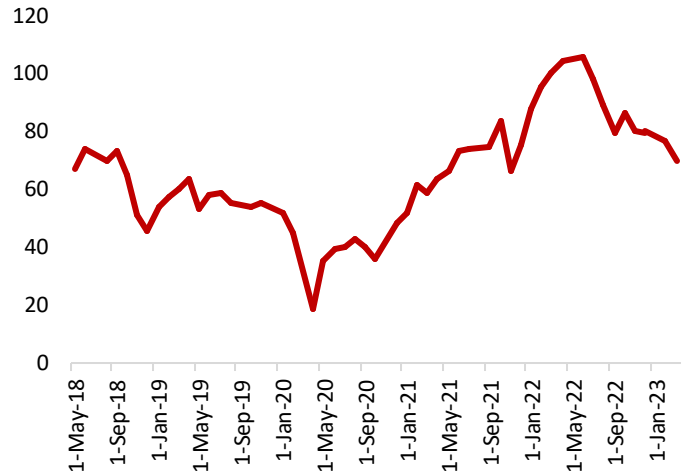


# Economic Indicators

## Oil & Gas Industry:

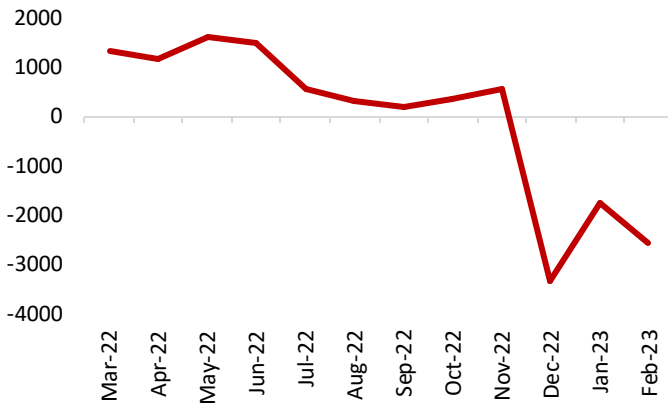
Russia's oil and gas revenues are expected to decline in 2023 due to low global demand and restrictions on Russian oil exports imposed by the EU and G7. The global oil price cap of \$60 per barrel, which requires Western shippers and insurers to ensure compliance, has also contributed to the decline. Additionally, Russia's oil production will be cut by about 500,000 barrels per day, or 5%, in response to Western oil sanctions. The decline in oil and gas revenues will weigh heavily on Russia's budget, which relies heavily on energy exports. Overall, the outlook for Russia's oil and gas sector remains bleak.

## Crude Oil WTI Prices



Source: Market Watch

## Government Budget (in Billions Rubles)



Source: Trading Economics

## Government Budget:

Russia's military spending has risen significantly in recent years, driven by the conflict in Ukraine. The government's budget deficit has also widened, and the deficit in the last month of 2022 dropped to a staggering -3347 billion Rubles, the worst budget performance since 2011. The government has increasingly turned to its rainy-day fund to plug the gap, which may not be sustainable in the long run. Rising government borrowing to fund the war is a concern for the Central Bank of Russia, which warned of the pro-inflationary risks posed by higher government spending.

## International Reserves:

Russia's international reserves have experienced fluctuations since September 2020, peaking at 605.9 billion USD in May 2021 before following a generally downward trend, reaching 578.4 billion USD by March 2023. These fluctuations, indicative of the country's economic stability, can be attributed to global economic conditions, domestic policies, and foreign currency demand. The overall trend warrants a cautious outlook on Russia's economic stability and highlights the need for close monitoring of future developments in its international reserves.

## International Reserves (in Billions USD)



Source: Trading Economics



# Geopolitical Indicators

## Russia-Ukraine War:

The Russia-Ukraine War began in 2014 when Russia annexed Crimea (Ukraine's territory since 1954) and supported pro-Russian separatists fighting against the Ukrainian military in the Donbas region. The war has involved naval confrontations, cyberattacks, and increased political tensions. On 24 February 2022, the conflict escalated as Vladimir Putin announced that Russia would start a full-scale invasion of Ukraine, which was internationally condemned. It is estimated that the ongoing conflict has resulted in the death of 200,000 people and the displacement of more than 8 million refugees. Despite attempts to end the conflict, including the Minsk agreements and massive western sanctions, the fighting has continued and remains an uncertain scenario and a major concern for the international community.

## Western Sanctions:

In protest of the invasion of Ukraine, many of the western countries imposed sanctions upon Russia. These sanctions include the banning of exports and imports on certain goods and services, asset freezing of Russian elites, and "cutting off" of Russian banks. Along with the sanctions, many companies and corporations have been leaving Russian soil; McDonald's and Starbucks are some examples. As a result, this forced Russians to rebrand these companies, like Starbucks being renamed to "Stars Coffee". A lack of imports means that the country is struggling within the manufacturing industry. According to a scholar at Columbia University's Center on Global Energy Policy, "Moscow has had to relax rules to allow domestic cars to be manufactured without airbags and anti-lock breaks because they can't source these components domestically." To remedy this issue, Russia has started trying to set up new supply routes to and from places like China and Turkey. While these efforts to establish alternative supply routes and domestic manufacturing capabilities may provide some relief, the sustained impact of western sanctions on Russia's economy will likely hinder its growth prospects in the short to medium term, as reduced foreign investment, limited access to international financial markets, and strained trade relationships may contribute to a more challenging economic environment.

## Energy Pipeline:

The Russian energy sector plays a crucial role in the country's economy, with vast reserves of oil and natural gas contributing significantly to its GDP and export earnings. A critical component of Russia's energy strategy is its extensive pipeline network, which spans across Europe and Asia, allowing it to transport oil and gas to various markets. However, geopolitical tensions and Western sanctions have posed challenges to the expansion and maintenance of these pipelines. Russia's energy pipeline, Nord Stream 1, was shut down in 2022 after a number of leaks were found in the pipeline. The EU leaders say the leaks were caused deliberately, while Russia denies any wrongdoing. The Nord Stream 1 pipeline normally supplies European Union states with about 35% of all the gas they import from Russia.

The closure of the pipeline has caused a major energy crisis in Europe, with prices for natural gas soaring. The EU is now scrambling to find alternative sources of energy, but it is likely to take some time before the pipeline is repaired or replaced. The closure of the pipeline is also a major blow to Russia's economy, as it is a major source of revenue for the country. As a result, Russia has been compelled to reorient its energy exports toward Asian markets, such as China and India, to maintain a steady flow of revenue. This redirection has led to rapid changes in global oil trade patterns and increased reliance on alternative routes, such as the recently completed Nord Stream 2 pipeline. Despite these efforts, the uncertainties surrounding Russia's energy pipeline operations persist, given the potential for further sanctions and disruptions due to geopolitical tensions.



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