

Russia's Economic Woes Continue to Mount During Coronavirus Outbreak

As the Kremlin resists pressure to spend, official statistics show economic activity down by a third and tax revenues crashing.

By [Jake Cordell](#)

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Around 2,000 businesses are applying for interest-free salary loans every day, the government said. **Kirill Kukhmar / TASS**

A third of the Russian economy has ground to a halt because of the coronavirus lockdown, the Russian government said Wednesday, as authorities continued to resist calls for bolder measures to support the economy, and unveiled a three-step plan to start easing virus restrictions.

In a televised meeting of the Russian cabinet, ministers told President Vladimir Putin that Russia's economic activity has fallen by 33% since the beginning of the coronavirus pandemic.

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Putin instated a “non-working” period at the end of March which is scheduled to run until May 11. In Moscow, and many other regions, strict stay-at-home orders have also been in place for the last six weeks, although outside Moscow enforcement has been patchy and [mobility](#) has remained relatively high.

Finance Minister Anton Siluanov told Russian business daily *Vedomosti* on Wednesday that the government needed to take a cautious approach to spending throughout the crisis, saying it would be wrong to [waste](#) Russia’s \$157 billion national wealth fund, accumulated from years of profits on oil exports, over the next two years.

No further significant measures to support the economy or businesses were unveiled at the latest televised meeting of Russia’s leadership Wednesday afternoon, despite Andrei Belousov — who took over as Russia’s acting prime minister after Mikhail Mishustin contracted Covid-19 — saying that the country is now entering a difficult period for the economy.

The coronavirus crisis has rocked Russia’s stability-first economic model, which was set up to cope with a drop in oil prices, analysts say, but not a drop in oil prices at the same time as the crash in global and domestic spending that the coronavirus has triggered.

Those dynamics have heaped pressure on Russia’s apparent financial strength as the economic costs of the coronavirus continue to mount — for the government, businesses and households.

Every extra week of restrictions costs the Russian economy 1% of its annual GDP, Oxford Economics estimates. Meanwhile, a slump in spending and crash in oil prices saw government tax revenues fall 31% in April, federal tax service head Daniil Yegorov told Putin. Revenues from oil and gas exports collapsed by more than half.

More than a third of retail businesses have been shuttered, Economy Minister Maxim Reshetnikov said, with income across the sector down 25%. A total of 735,000 people have registered as unemployed over the last two months as the official unemployment rate begins to creep up.

Economists remain sceptical about the true number of job losses given the large size of Russia’s informal economy. Many, including Audit Chamber Head Alexei Kudrin, have predicted unemployment could hit 8 million this year. In a sign of the potential stress on Russian consumers, state revenues from personal income taxes — a proxy for official salaries — dropped by 14% in April.

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The government has repeatedly insisted that protecting jobs should be the top priority for firms, but economic support — particularly for smaller businesses — remains light. A program of various government loan subsidies is expected to see 436 billion rubles (\$5.8 billion) dished out to support businesses, but only 80 billion (\$1.1 billion) in direct financial support.

Belousov said Wednesday around 2,000 small businesses were [applying](#) for interest-free loans to pay staff salaries every day — above the government's expectations.

"Modest" is the word economists have used most frequently to describe the Kremlin's stimulus package.

"Russia has outlined no comprehensive aggregate economic policy response," Gunter Deuber, head of economics at Raiffeisen Bank wrote in a recent report. "Hence, it can be concluded that Russia's political priorities lie elsewhere. The cautious economic policy response also reflects the entrenched policy focus on stability and maintaining reserves — at the expense of long-term economic development."

He added: "Due to the cautious aggregate economic policy responses, no rebound should be expected in Russia in 2021. Rather, Russia is acting as a free rider, counting on a significant global economic recovery driven by stimulus elsewhere."

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