

## The Impact of the Covid-19 Pandemic on the Real Sector of the Russian Economy

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## The Impact of the Covid-19 Pandemic on the Real Sector of the Russian Economy

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The 2020 coronavirus pandemic caused the deepest recession in the global economy since the Great Depression of 1929–33. However, the economic crisis generated by the pandemic had a number of serious differences in comparison to previous crises. Sanitary measures introduced by national governments to prevent the spread of infection have artificially limited supply in the economy and, above all, in the B2C segment serving end consumers. The service industries and their dominant small firms were the main victims. At the same time, the problems faced by many companies were not related to their competitiveness. Another specific feature of the current crisis is its focused impact and the presence of “aftershocks”. This has led to high uncertainty in supply chains and disruptions in global value chains. All of this has created new challenges for economic policy.

As part of a joint project between the National Research University—Higher School of Economics (HSE) and the Russian Union of Industrialists and Entrepreneurs, implemented in Autumn 2020 to Spring 2021, we tried to assess the consequences of the crisis

caused by the Covid-19 pandemic for the Russian economy. In our analysis, we relied on Russian and international statistics and industry reports, and also conducted over 40 interviews with heads of enterprises and business associations in six large industries: retail, IT, tourism, pharmaceuticals, chemical industry, and automotive.

Our analysis leads to the following conclusions:

- Contrary to the very sceptical forecasts and expectations of Spring 2020, in general, in comparison with the EU countries, the crisis led to a noticeably smaller recession in the Russian economy: the decline in Russian GDP in 2020 was 3.1% against 4.9% in Germany and 8.1% in France. This result can be explained by the structure of the Russian economy, it being far less reliant on the service sector and small business, the areas most affected by sanitary restrictions during the pandemic. The lesser severity of the restrictive measures applied by the Russian government also played a role. At the same time, our interviews showed that one of the reasons for the “soft landing” was the greater resilience of Russian firms associated with their preparedness

for all sorts of emergencies. Many enterprises operating on the Russian market today were able to survive during the acute crises of 2008–9 and 2014–15. Insuring themselves against surprises, they preferred to have bigger inventories and less debt and build flexible labour relations. This strategy was partly due to the lower level of efficiency of Russian firms in comparison with foreign competitors, which limited their growth rates before the crisis, but at the same time it reduced losses for firms in 2020 and allowed them to more easily adapt to the shock of the Covid-19 pandemic.

- While governmental support was fairly limited and delayed, respondents from practically all sectors spoke about increased contacts between the authorities and business in 2020. The initiators of this process, as a rule, were sectoral ministries interested in the prompt receipt of information from business. The consequence of these active communications was the solution in 2020 of some of red tape problems faced by Russian business. However, according to our interviews, although the pandemic and the crisis have led to the exacerbation of many problems at the firm level, almost all of these problems arose before the crisis and had remained unresolved for many years.
- The government's anti-crisis policy has had different effects for different industries and different types of enterprises. In particular, one can distinguish industries with predominantly vertical coordination (mining and metals, machine-building, chemical industry) and industries with predominantly horizontal coordination (trade, IT sector, tourism, consumer services). The first group of industries is more sensitive to the monopoly of their counterparties in the supply chains and switching of suppliers to foreign markets. At the same time, large enterprises prevail there and the government can more easily

interact with them. After the crises of 2008–9 and 2014–15, the Russian government was able to build support mechanisms for these industries. The second group of industries is mainly represented by small and medium-sized firms, which are more sensitive to red tape and a shortage of qualified personnel. It was these industries in 2020 that most needed help, but in interviews, many respondents spoke from personal experience about the “toxicity of state support”—the point when, after the company received financial resources from the budget, inspections and sanctions by various control bodies began.

In general, the crisis showed that the service industries have changed radically since the Soviet era. They are characterized by a high intensity of organizational changes, mergers and acquisitions, and technological innovations. Their mobility contradicts the traditional ideas of the state about possible regulatory mechanisms. As a result, the government responds with a delay to problems and challenges in the development of these industries.

One can also talk about companies' awareness of a set of lessons related to pre-crisis activities and crisis response. The horizontally coordinated sectors have in response to the crisis accelerated digital transformation and the introduction of new business models. The winners were those companies that actively began to master digital technologies even before the crisis. In vertical coordinated industries, the response to the crisis was to improve the reliability of cooperation chains, focus on the development of supply chains and control over the formation of prices, and the introduction of digital technologies to reduce costs. The result is a shift in the focus of company policy from increasing efficiency to increasing reliability. This is likely to result in weak economic growth—combined with a greater ability to withstand external shocks.

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