Sanctions and Russia's economy

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Immediate effect of sanctions, uncertainty etc. on GDP

In Q2023 GDP declined 1.9% yoy.
What held up Russia’s GDP in 2022? Public services, investment, construction and certain industrial sectors
Government has sought to insulate large parts of the population from negative economic shocks

Russia's wage and income development

Change, % y/y

Source: Macrobond/Rosstat.
Some industrial sectors have suffered more than others
Waging a war is expensive, and oil price cap pushes down tax revenues

Nominal federal budget revenues and expenditures, % change y-o-y
This year’s budget deficit was supposed to be 2%, could easily be 4–5%
More than 40% of Russia’s imports now from China
Especially China’s vehicle exports to Russia have grown a lot.
China gets a discount on Russian oil (and so does India)

China's average monthly crude oil import price

USD per imported ton

- Imports from Russia
- Imports from elsewhere

Sources: China Customs, CEIC and BOFIT.
What next for Russia’s economy?

• Towards war-time economy
• Recovery in some sectors continues, but everything relying on foreign components and services is experiencing difficulties
• Search for alternative component and machinery components continues, but in many ways Russia has become much less integrated with the rest of the global economy
• Despite announcements Russia has not cut its oil production/exports significantly – it needs the revenue
• This year’s federal government deficit can easily reach 5% of GDP, which can be financed from domestic sources, but such a deficit would wipe out the remaining fiscal buffers – how would fiscal policy be adjusted?