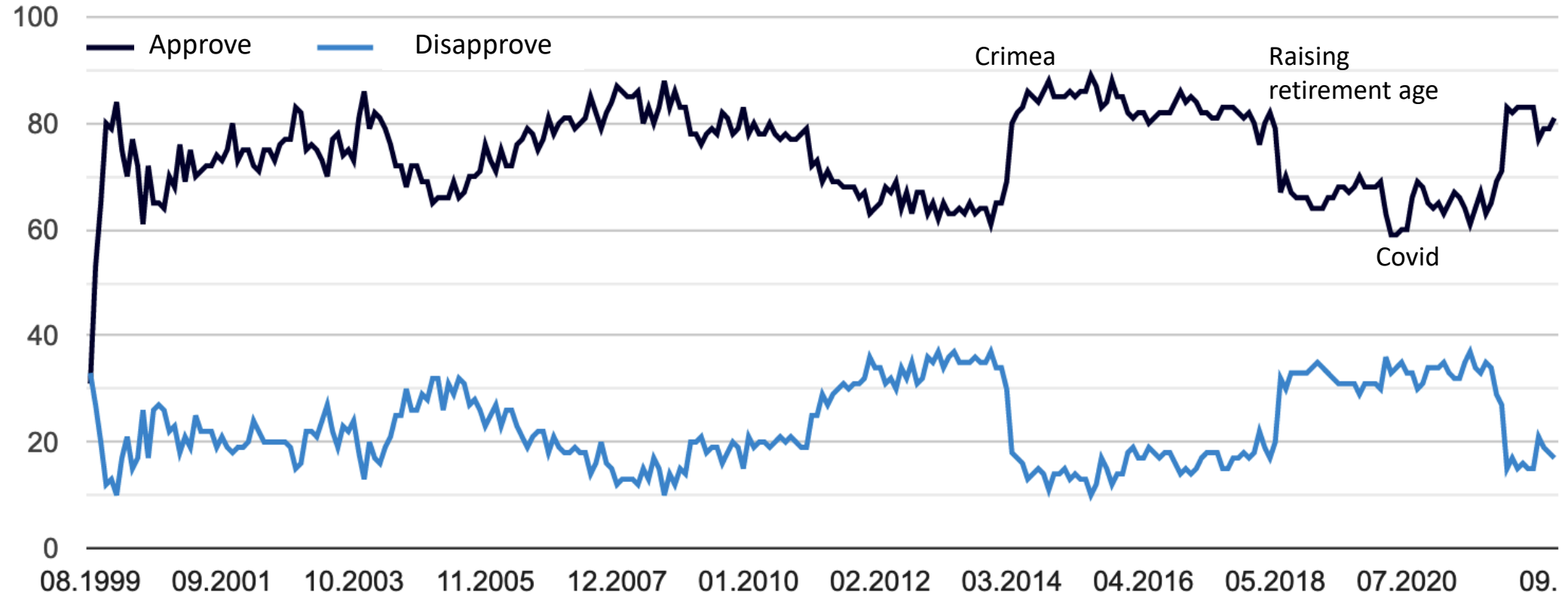


Political Economy of Putin's War in Ukraine

Sergei Guriev

January 10, 2023

Putin's approval rating



Source: Levada Center

SERGEI GURIEV & DANIEL TREISMAN



SPIN DICTATORS

**THE CHANGING FACE
OF TYRANNY IN
THE 21ST CENTURY**

Central idea:

Instead of scaring people into obedience, most modern autocrats manipulate information to project image of competent leadership.

Pre-war economic outlook: micro vs. macro

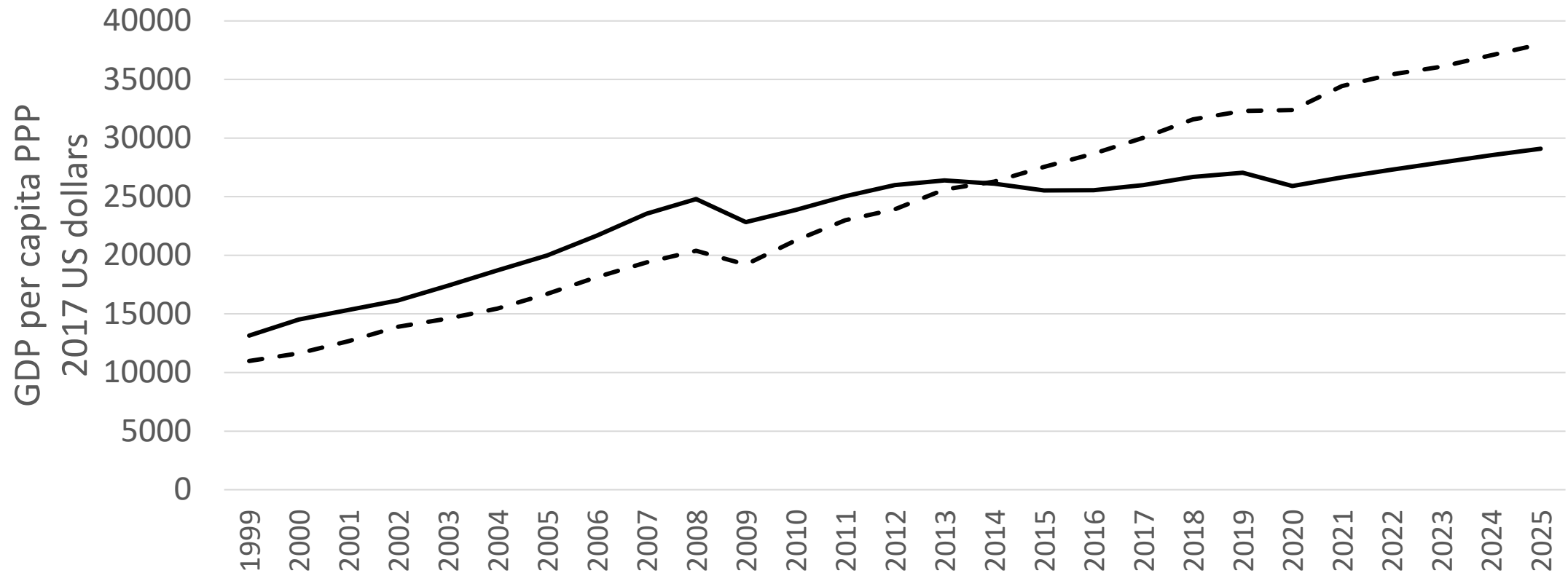
Slow economic growth

- Stagnation: average GDP growth rate in 2013-19: 0.9 % per year
 - Projected to continue stagnating after Covid
- Falling household incomes
- Capital outflow: about 4% GDP per year
- Investment/GDP stagnating at 20-22%

Robust macro

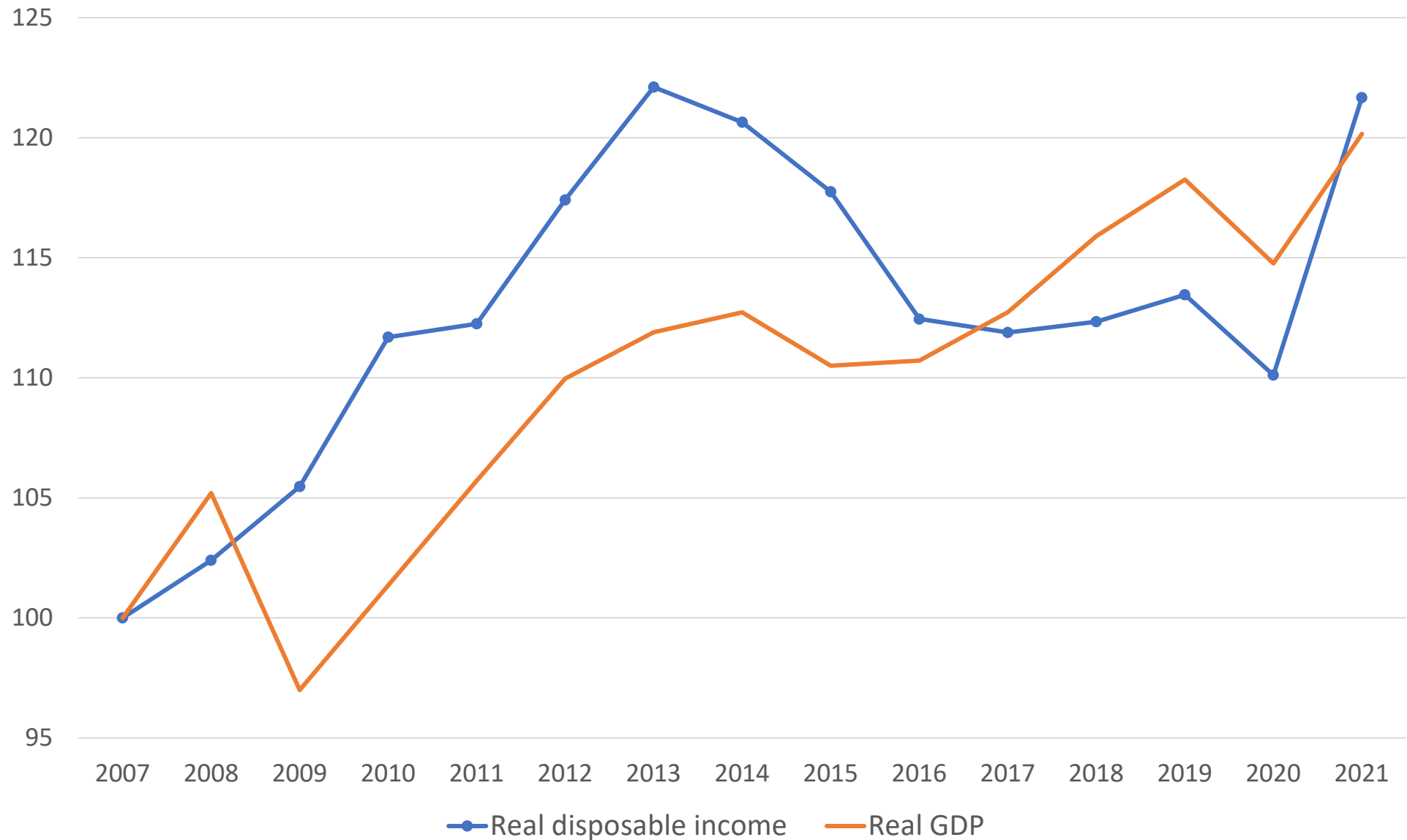
- Balanced budget (based on \$44/barrel),
- Low debt: 20%GDP sovereign debt (including 5%GDP external), 30%GDP total external debt
- Large currency reserves (40% GDP)
- Large sovereign wealth fund: 12% GDP
- Inflation targeting
- Recapitalized banking system

Middle income trap: Russia is not South Korea

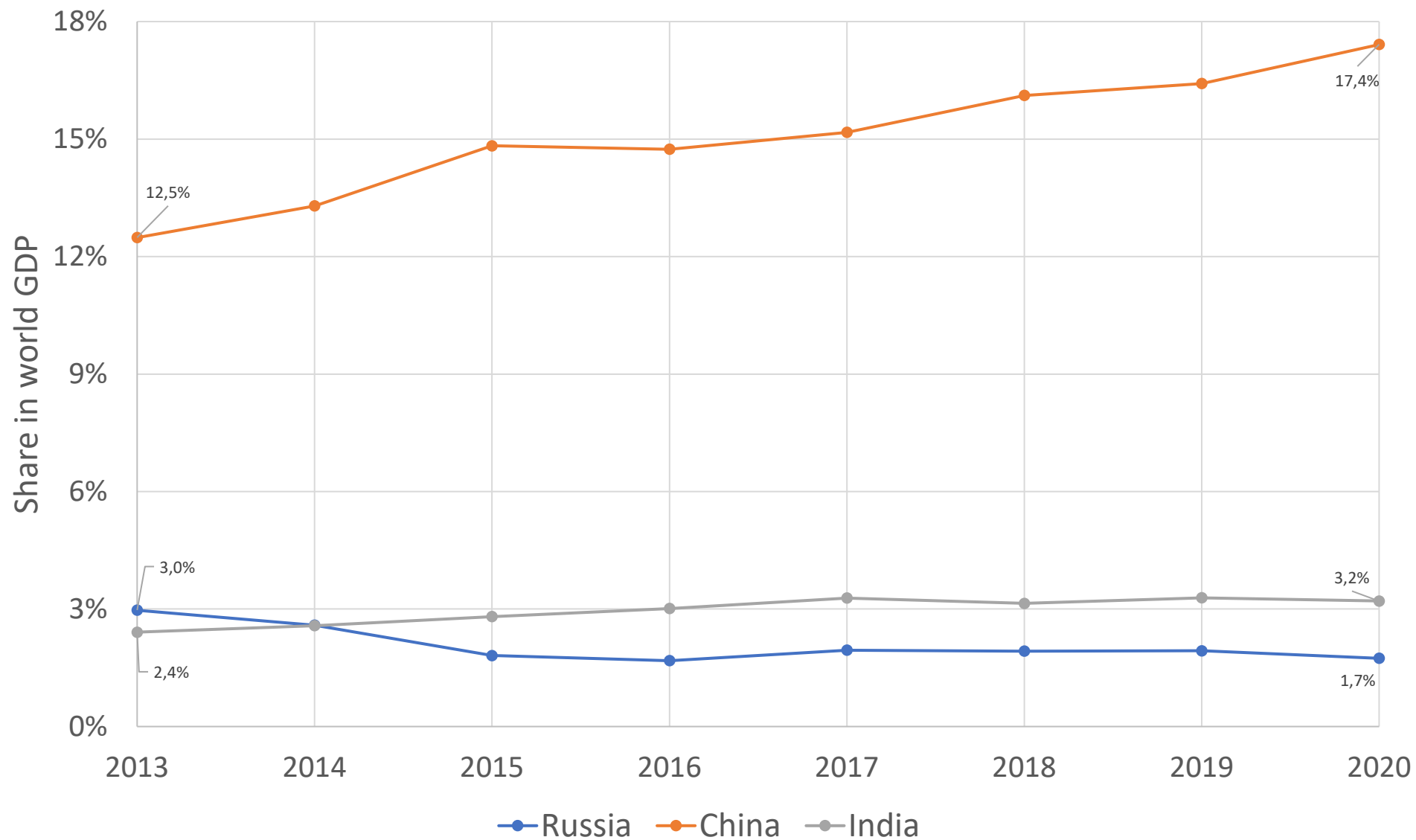


Source: IMF. Solid: Russia. Dashed: Korea (-11 years).

Real GDP and real disposable incomes, 2007=100



Falling behind India and China

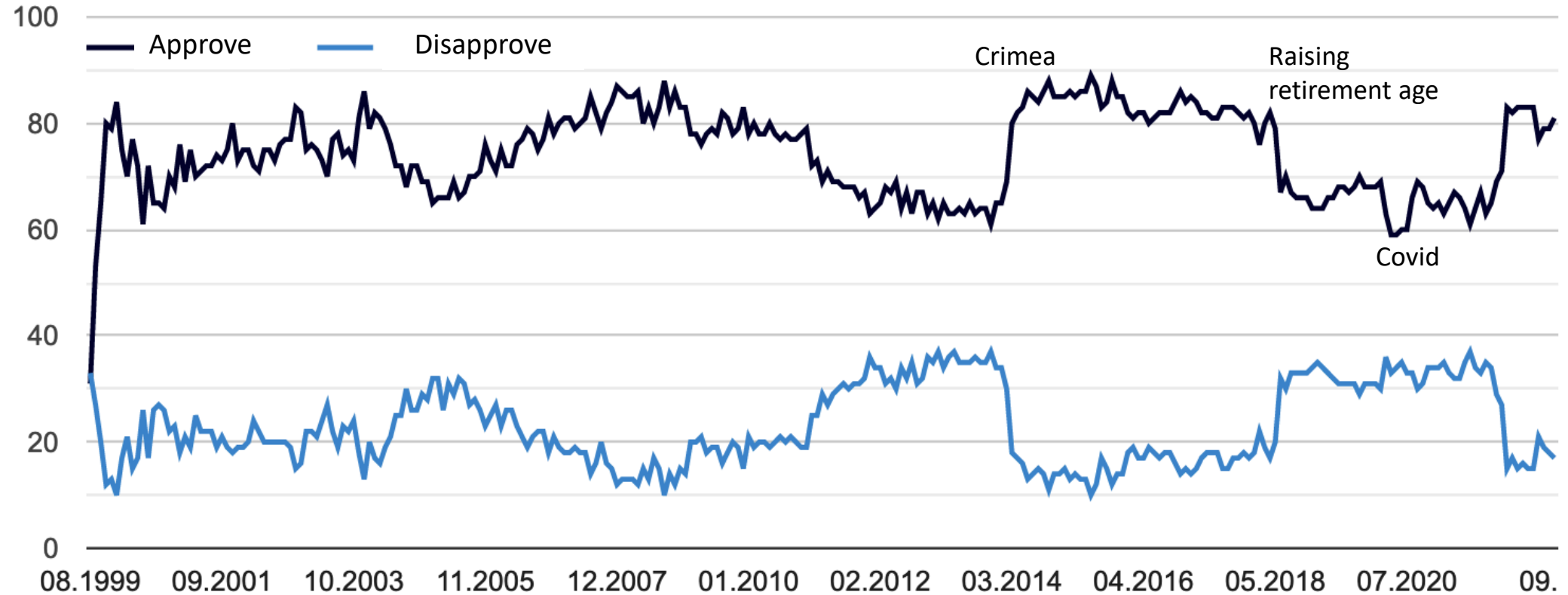


The only major economy with a balanced budget in 2022-24

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
World	-3.5	-3.0	-3.0	-3.6	-10.2	-7.9	-5.2	-4.2	-3.8	-3.6	-3.5
Advanced Economies	-2.7	-2.4	-2.5	-3.0	-10.8	-8.8	-4.8	-3.6	-3.2	-3.1	-3.0
Canada	-0.5	-0.1	0.3	0.5	-10.9	-7.5	-2.2	-0.5	-0.1	0.2	0.4
Euro Area	-1.5	-0.9	-0.5	-0.6	-7.2	-7.7	-3.4	-2.4	-2.0	-1.7	-1.6
France	-3.6	-3.0	-2.3	-3.1	-9.2	-8.9	-4.7	-3.9	-3.6	-3.4	-3.4
Germany	1.2	1.3	1.9	1.5	-4.3	-6.8	-1.8	-0.4	0.0	0.5	0.5
Italy	-2.4	-2.4	-2.2	-1.6	-9.5	-10.2	-4.7	-3.5	-2.9	-2.6	-2.4
Spain ¹	-4.3	-3.0	-2.5	-2.9	-11.0	-8.6	-5.0	-4.4	-4.2	-4.2	-4.3
Japan	-3.8	-3.3	-2.7	-3.1	-10.3	-9.0	-3.9	-2.1	-2.1	-2.1	-2.2
United Kingdom	-3.3	-2.4	-2.2	-2.3	-12.5	-11.9	-5.6	-3.6	-3.2	-3.1	-2.9
United States ²	-4.3	-4.6	-5.4	-5.7	-14.9	-10.8	-6.9	-5.7	-5.2	-5.3	-5.3
Others	0.5	1.2	1.2	-0.2	-5.2	-4.2	-2.3	-1.4	-1.0	-0.7	-0.6
Emerging Market Economies	-4.8	-4.1	-3.7	-4.7	-9.6	-6.6	-5.8	-5.2	-4.8	-4.4	-4.1
Excluding MENA Oil Producers	-4.4	-4.0	-3.9	-4.9	-9.7	-6.9	-6.0	-5.3	-4.9	-4.5	-4.2
Asia	-4.0	-4.0	-4.5	-5.9	-10.8	-7.9	-7.0	-6.2	-5.7	-5.2	-4.8
China	-3.7	-3.8	-4.7	-6.3	-11.2	-7.5	-6.8	-6.2	-5.6	-5.0	-4.5
India	-7.1	-6.2	-6.4	-7.4	-12.8	-11.3	-9.7	-8.8	-8.3	-8.1	-7.8
Europe	-2.8	-1.8	0.3	-0.7	-5.6	-3.2	-2.4	-2.1	-2.2	-2.3	-2.5
Russian Federation	-3.7	-1.5	2.9	1.9	-4.0	-0.6	0.0	0.2	0.1	-0.2	-0.5
Latin America	-6.0	-5.4	-5.0	-4.1	-8.8	-5.7	-4.9	-4.2	-3.5	-3.1	-2.9
Brazil	-9.0	-7.9	-7.1	-5.9	-13.4	-6.2	-7.4	-6.4	-5.4	-4.8	-4.4
Mexico	-2.8	-1.1	-2.2	-2.3	-4.5	-4.2	-3.5	-3.2	-2.9	-2.8	-2.8
MENA	-10.1	-5.3	-1.8	-2.9	-8.2	-4.3	-3.7	-3.7	-3.7	-3.7	-3.4
Saudi Arabia	-17.2	-9.2	-5.9	-4.5	-11.3	-3.1	-1.8	-1.4	-1.1	-0.6	0.1
South Africa	-3.7	-4.0	-3.7	-4.8	-10.8	-8.4	-7.0	-6.4	-6.2	-6.5	-6.8
Low-Income Developing Countries	-3.8	-3.6	-3.4	-3.9	-5.2	-5.4	-5.0	-4.5	-4.3	-4.1	-3.9
Kenya	-7.8	-7.5	-7.0	-7.3	-8.1	-8.0	-6.7	-4.9	-4.0	-3.2	-2.5
Nigeria	-4.6	-5.4	-4.3	-4.7	-5.8	-6.1	-6.0	-5.5	-5.6	-5.9	-6.1
Vietnam	-3.2	-2.0	-1.0	-3.3	-3.9	-4.7	-4.7	-4.5	-4.2	-3.9	-3.6
Oil Producers	-5.2	-2.8	0.4	-0.2	-7.5	-4.2	-2.2	-1.6	-1.6	-1.6	-1.6

Source: IMF Oct 2021

Putin's approval rating



Source: Levada Center

Pre-war sanctions: very minor impact

Survey by Korhonen (2019)

Paper	Period	Effect on GDP
IMF (2019)	2014-18	1%
Pestova and Mamonov (2019)	2014-15	1.2%
Kholodilin and Netšunajev (2019)	2014-16	No effect
Barsegyan (2019)	2014-17	1.5% in total

Impact on trade

- Crozet and Hinz (2020): 7% reduction in exports for Russia, 0.3% reduction in exports for the West

Micro studies

- Ahn and Ludema (2020) “The sword and the shield”: targeted firms suffer but state’s protection of strategic firms helps

Countersanctions

- Volchkova and Kuznetsova (2019): 0.5% GDP annual loss of consumer surplus, 0.05%GDP deadweight loss

Sanctions 2022

Certain sanctions were priced in before the war

- Despite substantial increase in oil prices ...
 - Ruble lost about 10% relative to “pre-tension” times
 - Ruble-denominated stock price index lost about 20%
- The worst-case sanctions scenario expected: switching off SWIFT

Actual sanctions went much farther

- Total blocking sanctions against almost major banks
- Comprehensive export controls including chips, aircraft, software
 - Joint by voluntary boycott by 1200+ Western and some non-Western companies -> major fall in imports
- Unprecedented sanctions against Russian Central Bank
 - Including freezing its currency reserves
 - Formally, do not cover gold (22%) and yuan (13%) – but de facto these cannot be used as well
- Finally, oil sanctions started in Dec 2022

GDP forecasts for 2022, Spring 2022

- Pre-war forecast: +3%
- Consensus forecast: -8%
- Central Bank of Russia: -8%
- EBRD: -10%
- Goldman Sachs: -10%
- JPMorgan: -11%
- Institute for Int'l Finance: -15%

This would be the worst recession since early 1990s

Reality much less grim

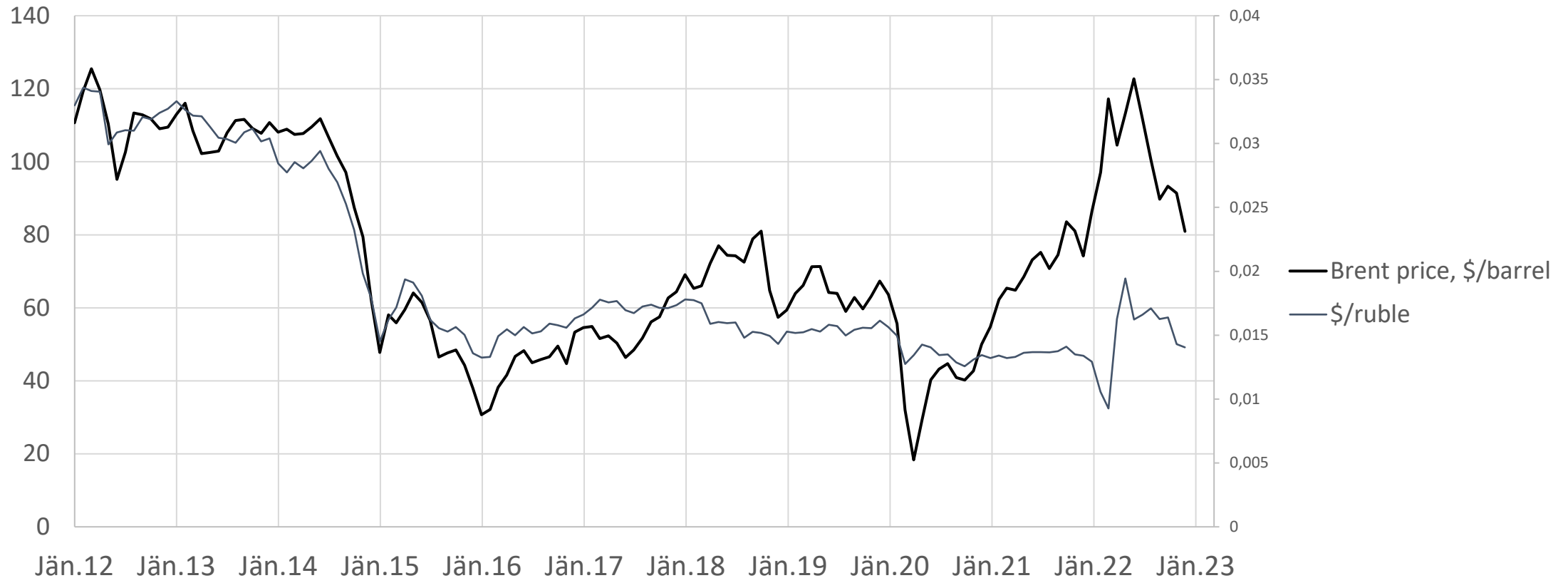
- Official prediction: - 3%
- IMF (WEO Oct 2022): - 3.4% (and further -2.3% in 2023)
- Consensus Economics (Dec): - 3.5%
- BOFIT: - 3% (and further – 3-4% in 2023)

Plus, a stronger ruble and a lower inflation

Ruble is strong

... but still weaker than would be predicted by high oil prices

Oil price and ruble exchange rate



Why?

Unrealistic expectations in the Spring

- Unprecedented sanctions
- Financial panic – reigned in by competent regulations plus open political repression

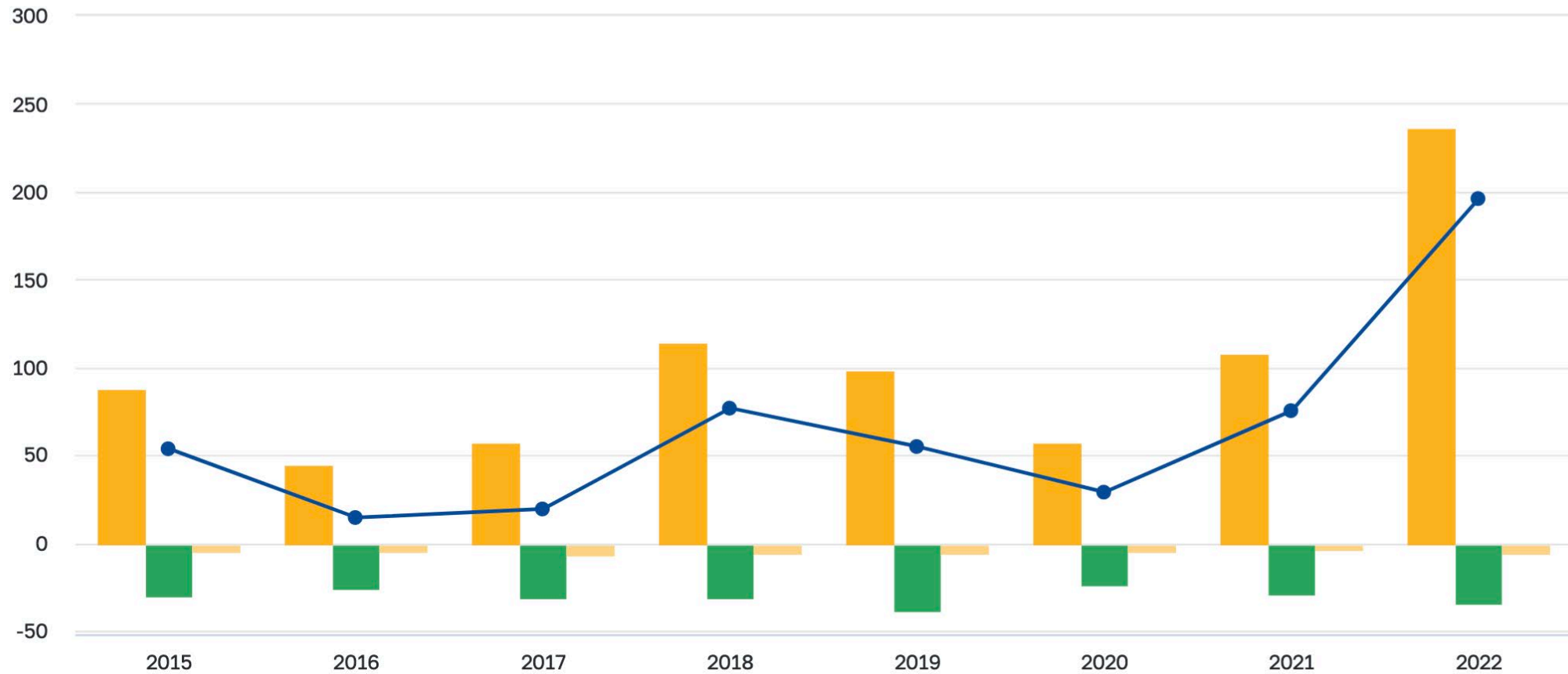
High oil prices

- Given high oil prices, Russia should have grown even more than +3% in 2022
- EU oil sanctions only started in December
- Huge current account surplus

During the war, GDP is not a good measure of economic activity

- Includes production of munitions
- Other measures show much worse performance:
 - E.g. retail turnover: -10% year on year
 - Non-oil taxes: -9% year on year

Trade surplus and current account surplus, 1Q-3Q, \$bln



What next?

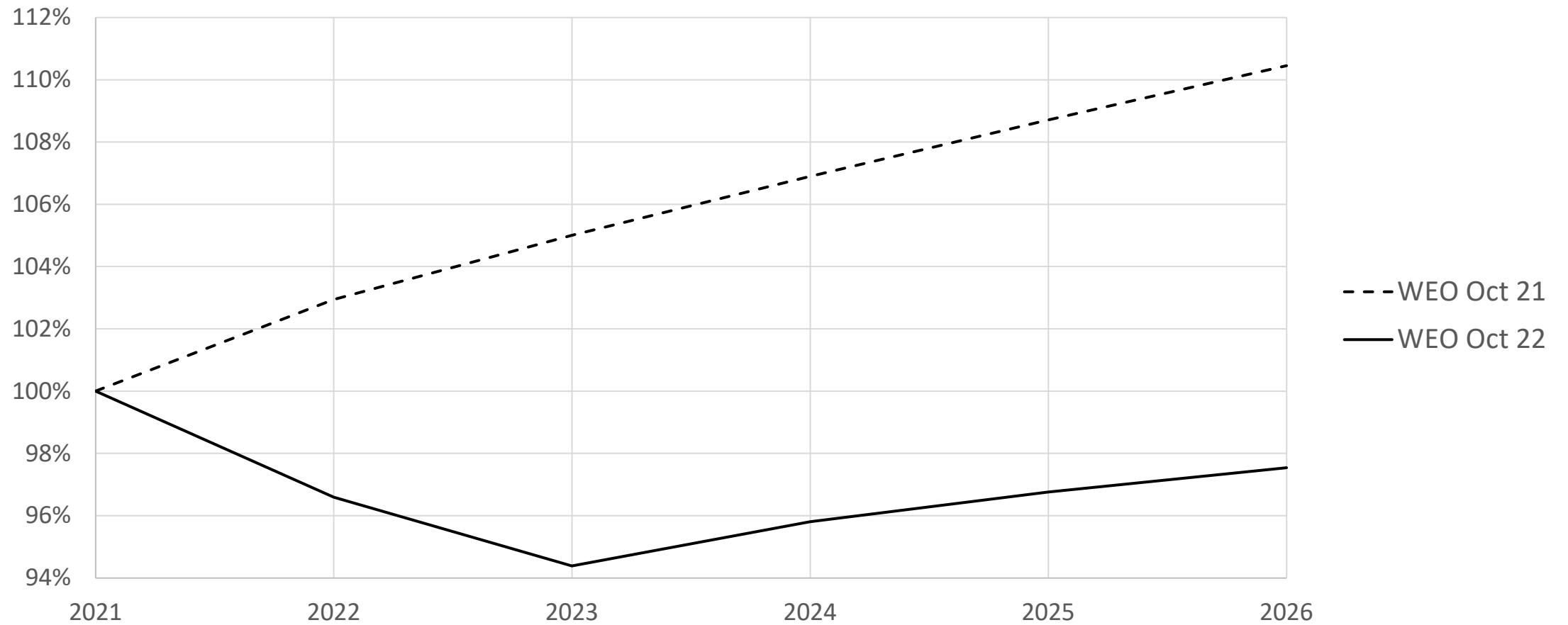
Economy

- Oil sanctions will result in substantial (but not catastrophic?) budget deficit
2.5% annual GDP in December alone
- Recession will continue in 2023
- Capital flight and brain drain will continue
- Major long-term negative impact on growth

Politics

- Sanctions do constrain Putin's military spending and access to technology
- Economic shock may not be enough to stop Putin right away
 - Instead, he will complete the shift from spin dictatorship to fear dictatorship
 - Tightening censorship and repression
 - And cleansing Russia of "national traitors"
- Losing the war will eventually create political problems for Putin

IMF: current GDP forecast vs pre-war forecast



Broader geo-economic and geo-political context

- Global economy?
- Energy market?
- Grain market?
- Inflation?
- European Union?
- Relationship with the Global South?
- Relationship with China?