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# THE RESPONSE OF RUSSIAN FIRMS TO THE COVID-19 PANDEMIC AND ECONOMIC CRISIS: THE CASES OF IT INDUSTRY AND TOURISM

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## The idea and approach

In July 2020 HSE University in cooperation with Russian Union of Industrialist and Entrepreneurs (RSPP) pushed a series of sectoral studies of Covid19 impact on key industries of Russian economy

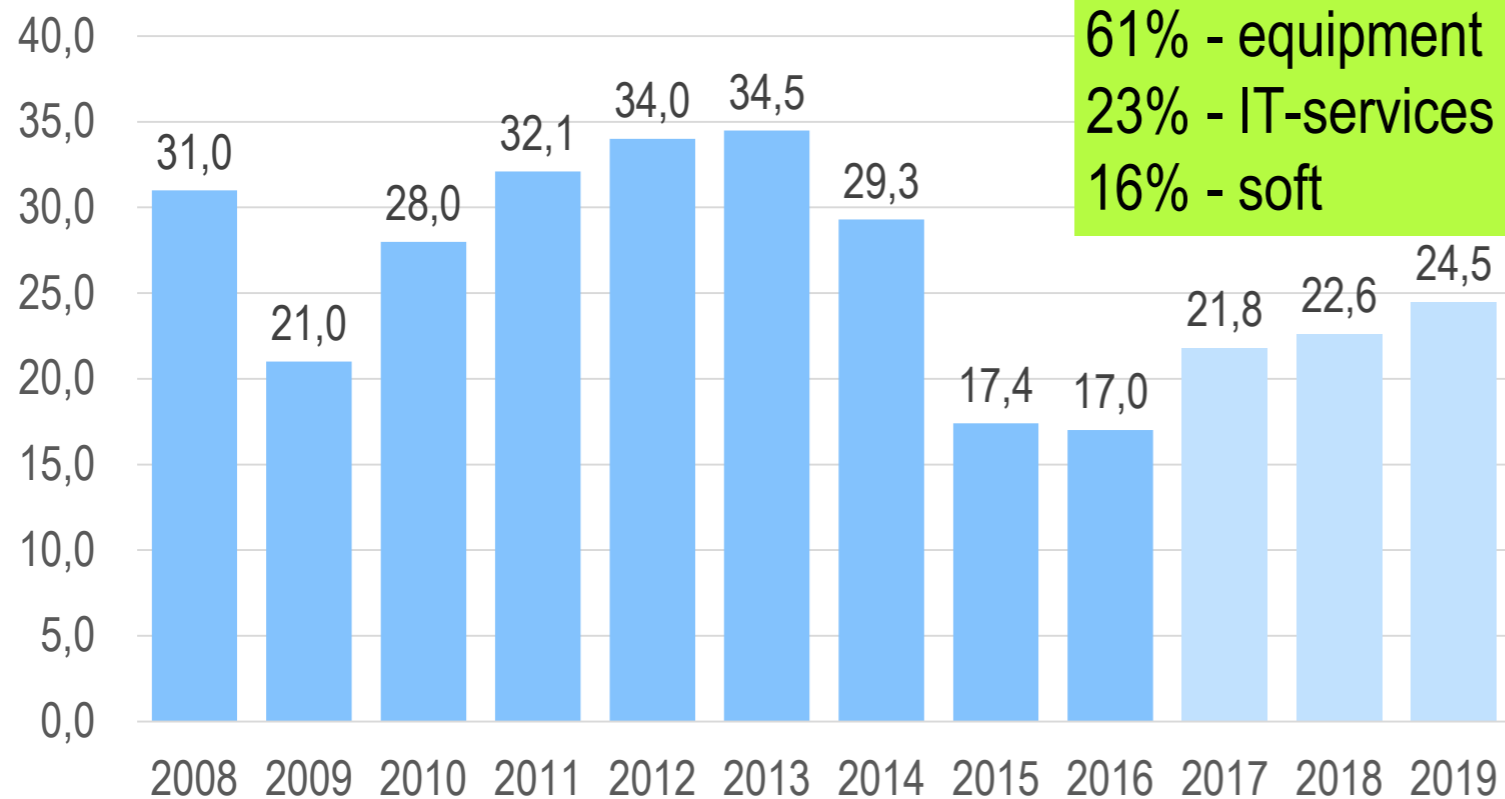
- The goal: to estimate the effects of crisis and the efficiency of governmental support as well as expectations and future plans of firms; policy advice for the government to improve anti-crisis policy
- Sectors: IT, retail trade, pharmaceuticals, metallurgy, tourism, automobile industry, chemical industry
- Methodology: combination quantitative (statistical reports) and qualitative data (in-depth interviews with sectoral associations and firms)

At the moment above 30 interviews were conducted in 4 sectors, here the results for two sectors are presented:

- IT-industry as one of “beneficiaries” of recent development
- Tourism as the sector with worst economic results in 2020

# Overall trends in development of Russian IT-sector before 2020

## Russian IT-market, USD billions



Source: IDC

- About 1% of Russian GDP (vs. 3% and more in EU and USA)
- Less than 1% of global IT-industry

## Key factors

- **Small size of the market.** Limited access to the capital at global financial markets (due to international sanctions of 2014)
- **Shortage of qualified workers.** Good schools in math and computer science but permanent “brain drain” (especially after 2014). Weak links between universities and IT-business
- **Poor investment climate.** High risks of doing business – due to dominance of government in the market and excessive control activity of law enforcement agencies against suppliers and service providers

# Impact of COVID-19 on Russian IT-sector: changes in attitudes of experts and firms

	March-April	Summer and Autumn
<b>Market</b>	<ul style="list-style-type: none"> <li>○ Cost cutting strategy by main clients, very high uncertainty about future, no new projects, existing projects on stop</li> <li>○ Sales in Q1 2020 = 92% of Q1 2019</li> </ul>	<ul style="list-style-type: none"> <li>○ Government and public sector continued key projects → no decline in demand</li> <li>○ New demand for distant technologies .</li> </ul>
<b>New drivers</b>	-	E-commerce, E-finance (non-cash payments), E-government services, Cyber-security systems, Video-communications, Healthcare
<b>Market forecasts 2020-2021</b>	<ul style="list-style-type: none"> <li>○ Expectations of deep decline - about 35% in USD terms till the end of 2020 (up to 16 USD billion)</li> <li>○ Broad consensus in the market about such forecasts</li> </ul>	<ul style="list-style-type: none"> <li>○ Expectations of only 8% decline in 2020</li> <li>○ However: no recovery in 2021 – due to cutting IT-budgets by governmental agencies (delayed crisis)</li> </ul>

# Overall assessment of Covid19 pandemic for IT-sector

- Relatively soft short-term direct impact of crisis – due to stabilizing role of governmental demand
- But long-term negative consequences – due to limited competition in the markets (with weaker incentives at firm-level) and expected decline in public procurement of IT services
- Understanding of key role of IT-industry for development of all other sectors of national economy
- Active communications between IT-business and government (new prime-minister and relevant minister appointed just before the crisis)
- New program of support for IT-sector – approved for 2021 (significant tax preferences and export promotion for software companies)

**“Window of opportunities” for the sector: strong and competent team in the government + mature demand for IT solutions in public and private sector**

# Tourism industry in Russia

- 3,8% of GDP and 0,7% of employment
- Three main segments: **domestic tourism** (visits within a country by visitors who are residents of that country), **inbound tourism** (visits to a country by visitors who are not residents of that country), **outbound tourism** (visits by residents of a country outside that country).
- Outbound tourism as dominant segment for many decades
- Underdeveloped infrastructure with poor quality for domestic and inbound tourism (9 places in hotels for 1000 citizens in Russia vs. 24 in Sweden, 23 in Germany and 20 in France; high cost of domestic travel)
- During many years lack of complex approach to the development of sector and lack of incentives on the side of regional governments

# Impact of COVID-19 on tourism sector in Russia

- Full stop of any activity in the sector in April-June
- Active communications between business and Rosturism (new team since 2019), important role of key sectoral associations – but limited opportunities for small business and lack of incentives for regional governments
- Provision of direct subsidies to firms – but with long delays
- Since August cashback program for domestic travel – but a lot of technical problems
- Reorientation of many companies to domestic market (as more secure)

## Main results:

- **Inbound tourism** – no changes till now
- **Outbound tourism** – Turkey was open since July (30% to 2019)
- **Domestic tourism** - less suffered segment (60-70% to 2019)



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**Thank you  
for your attention!**