

The Christian Science Monitor – 13.01.2015

By Fred Weir

Bear's bad year? Russia faces grim economic outlook in 2015

У "ведмедя" поганий рік? Росію в 2015 очікують похмурі економічні перспективи

Пробуджуючись від новорічної сплячки, росіяни бачать перед собою економічний ландшафт, який сильно змінився. Офіційна інфляція становить 11%, але вона набагато вища для продуктового кошика. Скоро фінансові труднощі країни обрушаться на населення.

<http://www.csmonitor.com/World/Europe/2015/0113/Bear-s-bad-year-Russia-faces-grim-economic-outlook-in-2015>

Moscow — For the past two weeks in Russia, the country has been a period of virtual winter hibernation, where all but the most basic services are shut down. The extended, official New Year holiday has put most everything in Russia on hold – including its response to the economic turmoil of recent months, brought on by plunging oil prices and a mutual sanctions war with the West.

Now, Russians are emerging to confront a vastly changed economic landscape – and a tough year ahead. Experts say that the country's financial woes promise to hit the public broadly in 2015.

And while President Vladimir Putin has promised reforms to remedy the hardship, particularly via promotion of small businesses, there is no clear sign yet of bringing them to fruition.

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"It all adds up a major shift in our economic reality. That may not translate into political protests for some time, but we're definitely headed into new territory," says Yevgeny Gontmakher, a social economist who is deputy director of the official Institute of World Economy and International Relations in Moscow. "It's no longer an academic discussion. The economic pinch is starting to hit the majority of ordinary Russians in noticeable ways.

A creaking system

Russia's economic model for the past 15 years has been based on export of the country's vast raw materials, primarily energy, by big state-owned and Kremlin-friendly businesses. Then the proceeds are used to buy back Western consumer goods and foodstuffs favored by the population. Those business tycoons, known as oligarchs, made money coming and going on that cycle, but didn't bother to plow much of it back into domestic industry or agriculture.

The Kremlin, its revenues buoyed by expanding oil prices, redistributed much of that through higher pensions and public sector salaries, leading to a fourfold increase in popular living standards that is still the basis of President Vladimir Putin's stratospheric public approval ratings. The Kremlin also invested huge sums into grand projects like the Sochi Olympics and an ambitious rearmament program.

That model has been showing strains for some time. But with oil prices plummeting and Western sanctions biting, it is facing its toughest test since the 1990s.

As of Tuesday, the Russian ruble was trading at 64 to the US dollar, or exactly half its value of just a year ago. The price of oil, Russia's main export and source of over 50 percent of its budget revenues, has plunged by well over half in the past six months, and now appears headed for a lengthy stay in the \$40 per barrel range.

Inflation, officially projected last January to run at about 5 percent, is now more than double that and ticking higher by the day. Russia's Central Bank spent \$74 billion of its precious currency reserves in a vain attempt to slow the ruble's slide, and is committed to spend the next year stretching its still substantial remaining resources to help sanctions-hit Russian banks and businesses to meet their international debt calls.

Finally, economists say, the whacking 17 percent interest rate imposed by the Central Bank last month to cool speculation around the ruble is likely to throw what's left of Russian consumer spending into a deep freeze for the foreseeable future.

"Real incomes are falling for the first time in the Putin era. Inflation is now officially 11 percent, but it's much higher for the typical food basket," Mr. Gontmakher says. "This is happening in conjunction with significant cuts to health and education services. Public sector employees, who've been pampered until now, are not going to see their wages indexed, and that means effective wage cuts this year of 15 percent or more for them. The list of specific public impacts could go on."

'Dig in and wait'

Now experts say fundamental changes are going to be needed. Mr. Putin himself has acknowledged that, for the first time in its history, Russia may have no choice but to unleash the forces of small business, to produce goods that substitute for now-overpriced imports and start creating sources of domestic capital to avoid dependence on foreign banks.

"With long-term low oil prices, and the devaluation shock, we're looking at a deep recession this year. Russia won't collapse, but restoring real economic growth does not look possible within the present model," says Alexei Devyatov, chief economist for UralSib Capital, a leading Moscow-based investment firm. "And it's clear we will continue to be hit by sanctions, and the credit squeeze they impose, for a long time to come."

But making those changes would involve curtailing the profit-cycle of the oligarchs, and encouraging the emergence of an independent business class who might start to challenge Kremlin power.

So far, Putin's pledges to slash red tape, cut taxes, and provide incentives for small business start-ups have yet to see the light of day.

"It's early days, and we're still quite optimistic," says Vladlen Maximov, vice-president of OPORA, a Moscow-based small business association. "There have been some rules changes, and the Ministry of Industry and Trade has adopted a new strategy toward us, which gives some hope. But the economic crisis is deep, the sanctions make it harder, and it's not an easy time to start new things."

Gontmakher says the prevailing view in the Kremlin is still that Russia can ride out the crisis without embarking on fundamental changes and that, absent new and deeper shocks, no major reforms are likely.

"It's theoretically possible to overcome the crisis by releasing Russia's internal energies, and it sounds really good when expressed in a political speech," he says. "But in practice we see very little happening. It's more a mood of dig in and wait."