Russian government moves to save big business, suppress opposition

Vladimir Volkov
4 March 2009

The rapidly spreading global financial crisis has forced the Kremlin to radically alter the economic and political assessments it made in September-October of last year. A sense of complacency and declarations about Russia's supposed invulnerability have been replaced by statements of concern and fear over the destabilizing impact of the economic crisis and the danger of social unrest.

In the beginning of February, Igor Shuvalov, the first vice-premier, acknowledged for the first time that in October and November of 2008, Russia's financial system was "on the brink of serious structural problems."

In an interview on the television channel "Russia" that was broadcast on February 15, President Dmitry Medvedev announced that "crisis-associated phenomena" would be the object of the government's concern "not only in this year, but possibly in the next year as well."

In turn, while he was speaking in February at the international economic forum at Davos, Prime Minister Vladimir Putin acknowledged that the world financial crisis had seriously hit Russia, revealing an excessive dependence on natural resources and weaknesses in the financial market.

In continuing to explain the government's new attitude at a meeting in Novo-Orarevo with the leaders of the party "United Russia," Putin said, "We must say that the crisis is not over and that it has still not reached its peak, yet the measures being taken by the most developed countries have not brought visible results. This means that such a situation might continue for a rather long time." The scale of the crisis, he added, is "too great," acknowledging its impact on Russia.

The clearest example of this has been revealed in the devaluation of the ruble by 40 percent compared to last summer. In addition, the stock exchange indexes have lost more than 70 percent of their value since the end of May and have approached the levels of 10 years ago, on the eve of the booming oil and natural resource prices.

From May through November 2008, the loss of capitalization of Russian enterprises amounted to US$1 trillion, or about 84 percent of the Russian GDP.

The government is hastily reviewing the figures of the budget for 2009-2011, proceeding from a projected price of oil at US$41 per barrel, and not at US$95—the price used in the current version of the budget adopted in November 2008.

On February 24, Finance Minister Aleksei Kudrin declared that the incoming revenue for the 2009 budget would decline by 42 percent compared to last year and would amount to 6.3 trillion rubles. Meanwhile, the expenditures would reach 9.3 to 9.5 trillion rubles, leaving an expected deficit of 8 percent of GDP. The shortfall will be overcome by significantly reducing social expenditures.

The crisis has revealed the deep parasitism of the Russian financial markets. In the last quarter of 2008, the Central Bank provided 3.1 trillion rubles in aid to the banks. Of this sum, only 600 billion was used to cover banking debts—that is, no more than one fifth. The rest was squandered on speculative ventures on the currency market, which guaranteed the banks yearly profits of a minimum of 200 percent.

In essence, the financial structures of Russia ravaged the budget twice: first by receiving preferential direct aid, and then in the form of currency speculation.

The volume of Russian hard currency reserves, which amounted to US$598 billion at the beginning of August 2008, shrank by the end of January 2009 to approximately US$380, decreasing by about US$40-US$45 billion per month.

On February 11, the London *Financial Times* wrote: "Most of the ruble liquidity the government has already pumped in looks to have been sold for dollars, helping the central bank's hard currency reserves fall more than $200bn in the past six months as it battled the run on the currency. ‘This was free money,' said one western senior banker in Moscow. ‘It was the silliest thing I have ever seen.' "

In the course of the last month, this flurry has calmed somewhat; however, according to widely held views among experts, it can recur in the next months or even weeks.

Devaluation of the ruble was not simply a spontaneous market process. It began—to a significant degree—as a result of the conscious decision by the Russian government, which is trying to shift the burden of the crisis onto the shoulders of the population. Simultaneously, it is giving exporters enormous gains in addition to the direct aid they have received in the form of inexpensive long-term credit and the liquidation of export tariffs, for example, on nickel, copper cathodes and fertilizer.

The devaluation helped the oil industry "earn" around 800 billion rubles. A February presentation of the company "Rosneft" to investors stated that, for the exporter of oil, the growth in the dollar exchange rate by 1 ruble is equivalent to the growth in the price of oil by US$5. "Taking into account the devaluation and the leveling of tariffs we are now working at approximately $70 per barrel," said the vice-president of "Rosneft," Peter O'Brien, to *Vedomosti*.

According to Herman Han, executive director of the oil company TNK-VR, "there is no critical price: at $9 per barrel and an exchange rate of 50 rubles to the dollar we can remain stable."

The data for January show a significant fall in industrial production—the deepest since October 1994, when there was a precipitous fall in the ruble. In particular, production in manufacturing declined by 24.1 percent in comparison to January 2008 and by 32.7 percent in comparison to December 2008.

Speaking before the State Duma on February 25, Sergei Chemezov, head of the state corporation "Rosteknologiia," declared, "Around 30 percent of the organizations of the military-industrial complex show signs of bankruptcy, and 50 percent of enterprises are potentially bankrupt...." Vice-Premier Sergei Ivanov acknowledged that for enterprises in the military-industrial complex, even credit under the state investment projects "is virtually unobtainable."

The fall of the economy has strongly affected such branches as automobile manufacturing and construction. In Moscow, according to some reports, around 80 percent of new construction projects are frozen.

The paralysis in construction is accompanied by a growing crisis of the market in mortgage credits. The overall debts of Russians in mortgage credit have almost doubled in the fourth quarter of 2008, and for all of 2008, they have grown by 15 times.

The volume of non-payment of mortgages toward the end of last year is estimated by the Ministry of Finance to be about 10 percent. In reality, the picture is much worse, since only arrears of three months are taken into account. Meanwhile, many who have lost work will not be able to restore their income over a longer period of time, against a background of a decrease in value of their homes.

The unprecedented measures taken by the Kremlin to save big business stand in stark contrast to the almost complete indifference to the fall in living standards of ordinary working people.

Pay in Russia has been falling since November of last year. In January, real pay, corrected for inflation, fell by 9.1 percent in comparison to January of 2008. The overall number of unemployed in Russia grew in January by 300,000 and reached 6.1 million. According to the well-known specialist in social issues, Evgeny Gontmakher, by the end of 2009 in Russia, there will be about 10 million unemployed.

Speaking in Moscow at a conference of the ministers of "social cohesion" of the 47 States of the Council of Europe on February 26, Vladimir Putin declared that "in this complex period of global financial and economic crisis we feel that it is necessary to secure additional guarantees for our citizens."

However, these are absolutely decorative steps to camouflage the real fall in income.

Thus, there will be an increase in the aid to the unemployed to a maximum of 4,900 rubles (US$135). But only various groups of recently laid-off workers will receive it after presenting a mass of documents and agreeing to unskilled labor jobs. On the other hand, the fall in the ruble exchange rate by 40 percent sharply reduces this sum, which is already insufficient.

An increase in pensions has also been announced. However, the general sum of this increase will hardly cover the losses that pensioners have already incurred due to the fall in the ruble and a significant growth in prices.

One commentator said, "The measures which the government is proposing (retraining of workers, the organization of public works and help in moving to other cities and regions) are incommensurate with the difficulty of the problem. For which factories can we retrain 6 million unemployed workers, what businesses need them? How can a man feed his family while he is working for three months on public works with an income of 4,900 rubles? Where are the promised cities and regions to which people are being advised to migrate their employment?" (APN, February 11).

According to a poll conducted at the beginning of February by sociologists at the Levada Center, in recent months Russians have begun to reduce their expenditures on food, items of prime necessity and public transport.

The authorities have grounds to expect a growth in social tension. They still have not forgotten the protests of pensioners at the start of 2005 when hundreds of thousands of people across the nation took to the streets to condemn the monetization of social benefits, which sharply curtailed support for the elderly.

The media are discussing the danger of mass protests in small industrial cities, which number in the hundreds across the land. The closure of the single enterprise forming such company towns threatens to leave almost the entire population without means to exist.

The Kremlin is deliberately preparing for mass repression. A precedent has already been set with the brutal dispersal of people meeting against raising tariffs on imported automobiles in the Far East. On January 21, this meeting in Primorye was broken up by special forces sent there by Moscow detachments of the militarized police (OMON).

"We expect wide-spread unemployment and disorder," confirmed the former KGB colonel Gennady Gudkov, chairman of the security committee of the State Duma. "In order to stop popular protests by force, the police are not enough."

In December, the layoff of 280,000 army officers was postponed, although it is viewed as key to planned military reforms. The long-anticipated reduction of troops in the Ministry of Internal Affairs (MVD) was also postponed, and the ministry created a special command center in Moscow to fight street disorders. The center is outfitted with various surveillance systems.

On orders from the Kremlin, the Duma has added several new articles to the Criminal Code: one widens the definition of state treason and espionage so that now it includes consultative "and other" aid to foreign and international organizations; another transfers "participation in mass disorders"—like those in Vladivostok—to the category of "crimes against the state."