Economic crisis in Russia deepens

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With many indicators pointing to a new downturn in the world economy, high-ranking Russian politicians such as Prime Minister Vladimir Putin and Deputy Finance Minister Sergey Storchak warned of "a difficult 2012" at the start of this year. Despite the growth of the country's GDP by 4.3 percent, there were already signs of recession in 2011.

Russia is highly dependent on the export of raw materials. Around 40 percent of the state's revenues come from the oil and gas sectors. The government's budget dependence on revenues from these sectors fluctuated between 37 and 47 percent in recent years.

Thus, any forecast for Russia's economic growth depends on the development of oil prices on the world market. The main reason for the GDP growth in 2011 was the relatively high oil price. Experts reckon that an oil price of at least $100 per barrel is necessary to balance the state budget in 2012. Economic growth would require a price of $110 per barrel.

The financial crisis of 2008, which sent oil prices through the floor, led to a deep recession in Russia in 2009. The GDP fell by 7.8 percent and the number of unemployed increased from 4 million in the summer of 2008 to 7 million (or 9.3 percent) at the beginning of 2010. Between October and December 2008, production experienced its worst drop in the history of Russia, plummeting by a record 19 percent. The official inflation rate, which reached over 14 percent in 2008, remains high at 6.1 percent.

Although GDP grew in 2010 and 2011 by 4 percent and 4.3 percent respectively, it was nowhere near the pre-crisis level of 8.5 percent (2007). The Russian economy thus has recovered more slowly than all other economies of the so-called BRIC countries (Brazil, Russia, India, China).

A report on economic development by the Ministry for Education and Sciences of the Russian Federation described these growth rates as "insufficient" to combat poverty and develop the infrastructure. It noted an "obvious deficit of factors for economic growth".

The collapse of the economy in 2008 was one of the main motives for the "modernization" campaign of President Dmitry Medvedev, which was allegedly aimed at combating corruption and bureaucracy and diversifying the economy. Prime Minister Vladimir Putin, now running once again for president, laid down plans to restructure the Russian economy in several recent newspaper articles, following the pattern of Medvedev's "modernization".

However, a recently published report by analysts of *Finansexpertizy* indicates that the destruction of the industrial sector has, in fact, advanced, while the dependence on the export of raw materials has increased in recent years. It notes that every fifth workplace in agriculture was abolished between 2006 and 2010, while the workforce in the industrial sector was cut by 16.9 percent.

Moreover, the long-term trend of a continuous outflow of capital has intensified significantly in 2011. The total amount of capital withdrawn during the year was $84.2 billion, with half this sum withdrawn in the last quarter alone. This capital exodus was only topped in 2008, when investors withdrew $133.9 billion from the Russian economy. The main reasons for this massive withdrawal of capital were, firstly, the intensification of the euro crisis and, secondly, the emergence of a protest movement against rigged parliamentary elections in December and the possible new presidency of Vladimir Putin.

Turmoil on the world financial markets, furthermore, led to a rapid depreciation of the ruble against the US dollar by 13.5 percent in the autumn of 2011.

Given the anti-government protests, the upcoming presidential elections and the deepening of the crisis in the euro zone and throughout the world, analysts expect a further intensification of the capital exodus in Russia and an economic decline in 2012.

In a poll conducted by the Levada-Center, only a third of the population would describe the economic situation as “good” or “all right”. *Russia Today* cited the analyst Igor Nikolayev as saying that “the main difference between the current situation and what we had three years ago is that then we had a quick fall followed by a quick rebound; today it’s a slow dip that’s waiting for us, and then a painful and long lasting illness.”

The gulf between rich and poor has widened significantly since the beginning of the crisis. The Russian government spent billions of dollars on bailing out troubled banks and oligarchs. In June 2011, the Bank of Moscow, Russia’s fifth largest bank, was given the largest ever cash injection in the country’s history, receiving a record $14 billion.

The recession notwithstanding, the fortunes of the super-rich have increased substantially since 2008. According to *Finance*, Russian billionaires in 2010 earned 30 percent more than in 2009 and the number of billionaires rose from 62 to 101 in just one year. The fortunes of the 200 richest Russians taken together amounted to $499 billion, with $432 billion concentrated in the hands of the richest 100. In 2011, Moscow took over from New York as the world capital of billionaires, with 79 of them living in the Russian capital.

By contrast, the majority of the population (53.2 percent) earned not more than 15,000 rubles ($500) per month, and 35.5 percent lived on 35,000 rubles ($1,200) or less in the first half of 2011, according to the government agency Rosstat. Only 7.3 percent of the population had a monthly income between 35,000 and 50,000 rubles ($1,700). This trend further intensified during the year, with poverty increasing by 15 percent between January and September.

The middle class was hit hard by the crisis, with the growing burden of taxes forcing many small businessmen to reduce their staff, or to the brink of ruin. Small and mid-sized businesses also often operate in the black economy in order to avoid taxes, the bureaucracy and corruption. According to the Levada-Center, 50 percent of all businessmen want to leave the country.

The official unemployment rate stands at 6.1 percent, and for youth between ages15 and 24 at 18.3 percent. However, the rate differs significantly between various regions. Whereas Moscow and St. Petersburg have a low unemployment rate of 1 to 4 percent, half of the working population is without jobs in many regions of the North Caucasus.

The comparatively low rate of joblessness in industrial regions is mainly due to the policies of entrepreneurs, who widely resort to wage-cutting, the withholding of pay and the widening of the sector of short-term unemployment—thereby avoiding mass layoffs. The *NezavisimayaGazeta* reported in March 2011 that businessmen were thus “adjusting” to the crisis. The newspaper estimated that 20 to 25 percent of the working population were currently “informally” employed, meaning that they lack any social and legal rights.

A study by the Center for Social and Labor Rights suggests that 194 labor protests took place between January and September 2011, as opposed to 158 during the same period in 2010. The authors of the study cited low or undisbursed pay and the impending closure of the enterprise as the main motives for protests.