Kremlin responds to slowdown in economic growth with deeper social cuts

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7 February 2013

The Kremlin has responded to a decline in the rate of economic growth with major cuts in social programs, which have only worsened an already difficult economic situation for most Russians.

Despite high oil prices on world markets, Russia's gross domestic product (GDP) grew more slowly in 2012 than in 2011, decreasing from a rate of 4.3 percent to 3.4 percent. In the second half of 2012, it slowed to just 2.2 percent.

Industrial growth slowed from 4.7 percent in 2011 to 2.6 percent last year, while the agricultural sector, which suffered due to a heat wave in the summer and poor harvests, shrank by 3.8 percent.

In the second half of 2012, there were a number of plant closures and redundancies in industrial regions, especially in the Urals. Both work hours and wages were reduced for many workers, and in a number of cases the payment of wages was withheld for months. Many companies are now threatened with bankruptcy, having survived the crisis of 2008 only with the support of government loans and subsidies.

Russia's accession to the World Trade Organization last summer has also contributed to the crisis of the country's industrial and agricultural sectors, which are barely competitive on international markets.

The situation is especially bad in those cities where virtually the entire population is dependent on one company or industry. Workers at the Moloto armaments factory in Petrovski, a city in southwestern Russia, have not received their salaries since July. The plant was rescued with state money in 2009, but once again confronts bankruptcy.

According to trade union sources, auto companies Ford, Nissan, General Motors and Volkswagen are planning to cut back their production in Russia due to the slump in European auto sales. Last year the car market expanded in Russia, but experts forecast stagnation over the next few years. Workers in several companies have already suffered shorter work weeks, extended vacations and correspondingly lower incomes.

The auto industry was especially hard hit by the crisis of 2008. AvtoVAZ, the largest East European carmaker, was saved from bankruptcy by state intervention.

The looming crisis in the Russian auto industry is exacerbated by massive cuts in government subsidies. In 2012, subsidies, totaling $3.9 billion, were almost three times lower than originally planned.

Exports, which play a major role in the Russian economy, increased by just 1.8 percent last year and contributed to the slowdown in economic growth. In contrast, imports have increased by 8.7 percent.

The gas monopoly Gazprom suffered a significant decline in exports. The company contributes more than 20 percent of the state budget via tax payments. In the first half of 2012, its exports to Europe, Gazprom's most important market, declined by 8.7 percent. The drop was caused by the intensification of the euro crisis and the growth of competition from shale gas. According to Fitch Ratings this trend will continue in 2013.

The outflow of capital, which amounted to $80.5 billion in 2011, continued in 2012 and totaled $56.8 billion.

The forecasts for 2013 are bleak. The business newspaper *finmarket.ru* commented: "Even assuming that all the major sectors of the Russian economy grow during 2013 at the same rate as in the second half of last year, one will observe a crisis in growth rates at the end of the year in much of the economy."

The Higher School of Economics in Moscow anticipates a significant fall in industrial production and stagnation or decline in most other parts of the economy.

Experts estimate economic growth will be 3.3 percent this year. This compares to the years 2000 to 2008, when Russian GDP quadrupled, mainly due to booming oil and gas exports. The annual GDP growth rate over that period was never less than 4.7 percent.

As elsewhere in the world, the ruling class in Russia has reacted to the economic crisis with drastic austerity measures that plunge an already hard-pressed population into outright misery. The budget for 2013-2015 provides for massive cuts in the spheres of culture, education and health, while the share going to military spending will rise to 6.1 percent of GDP.

Over the next three years, one in five colleges and 30 percent of higher education institutions are to be closed due to alleged “inefficiency.” Late last year, the Kremlin approved a new pension reform, which will lead to further cuts in already meager pensions.

The most dramatic cuts are planned in health care, which is already in dire straits since the restoration of capitalism in the 1990s. Between 2013 and 2015, health spending will be reduced from 507 billion rubles to 373 billion rubles. Numerous medical facilities are due to be closed, in some cases cutting the population off from any medical care.

In St. Petersburg, protests took place in January against the closure of a hospital that serves ordinary citizens. The government plans to “restructure” the hospital, one of the few in the city with modern facilities, to accommodate high-ranking judges and court officials. More than 1,000 took part in the demonstration and the government was forced to temporarily put its plans on hold.

Protests have also taken place over the past two months in the central Russian region of Yaroslavl against the planned closure of 24 birth centers. The closure of the facilities, mostly located in rural areas and small towns, would force thousands of women to bear their children at home, with the all the attendant risks.

In the village of Borisoglebsky, which lies about 120 kilometers from the regional capital of Yaroslavl, pregnant women occupied the local clinic in December to protest its planned closure on January 1. One of the women said: “To close a birth clinic is an anti-people program, because it is clear to all that for pregnant women in our region, which lacks proper roads, it is impossible to get to the hospitals in Rostov and Yaroslavl.”

The roads in the area are in a ruinous condition and the ambulance service is run down and unhygienic. Recently, a sick three-year-old boy from the region died in an ambulance on the way to Yaroslavl because the roads are so bad. The clinics were nevertheless closed.

The authorities have cynically justified the closures on the grounds that they do not comply with medical and hygienic standards and are “inefficient.” In fact, the backwardness of medical facilities is a result of the destruction of the Soviet welfare state in the 1990s. The new cuts will only worsen already disastrous social conditions.

The cuts are to be compounded in the future. At the end of January, President Vladimir Putin announced that the investment climate in Russia had to be improved—a euphemism for further austerity measures.

To this end, the Kremlin hired the American investment bank Goldman Sachs as an adviser at the start of 2013. The bank will work together with representatives from the Ministry of Economy and the leading Russian banks VTB and Sberbank to attract investors and ensure closer cooperation between the Kremlin and international agencies and companies.