

# Russian economy threatened by recession

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There are increasing signs that the Russian economy is headed towards recession. The Kremlin has revised downwards its forecasts for economic growth this year on several occasions and now claims the economy will grow by just 2.4 percent. This represents the lowest level of growth since the crisis year of 2009.

In February, Finance Minister Andrei Belousov warned that Russia could slide into a recession this fall. The country's trade surplus slumped earlier this year by 17 percent, compared to the beginning of 2012. Overall profits at Russian companies and banks declined by 21.2 percent from January to February of this year, the most pronounced decline since the financial crisis of 2009.

Official statistics indicate economic growth of just 1 percent for the first quarter of 2013, a rate that has declined for five consecutive quarters.

According to a report by the Moscow Higher School of Economics in April, total production in key economic sectors, including energy, industry and agriculture, has declined by 4.5 percent since October 2012. The leading sectors of the economy, responsible for two thirds of gross domestic product, were all in the red in the first three months of the year.

The outflow of capital from the Russian economy, which totaled around US\$57 billion last year, is continuing. This year investors are expected to withdraw an estimated US\$30 to US\$35 billion.

The main reason for the economic crisis is the high dependence of the Russian economy on commodity exports. Revenues from the export of oil and gas account for about 50 percent of the state budget. Given the world economic downturn, Russia's customers are importing less, and the prices of oil and gas have declined significantly. The price of oil fell from an average of US\$115 per barrel in July 2012 to US\$100 in early June 2013.

Above all, the recession in the European Union (EU),

which imports about 50 percent of Russia's raw materials, and the slowdown in economic growth in China, Russia's largest trading partner, have led to a sharp decline in energy exports. Oil exports fell by 5.2 percent in the first quarter of 2013 compared to the same period last year.

In addition to the international economic crisis, structural changes in the international energy market have led to the decline in exports. The development of shale gas and oil in the United States is expected to undermine the importance of Russia's own raw material reserves in the long term.

Since 2009, the US has been the largest gas producer in the world. Analysts expect that America could begin exporting gas and oil in the next few years. Gas production in Russia, on the other hand, has declined slightly. In the first five months of the year, it fell by half a percent, while oil production increased by just by half a percent. A significant decline in Russian energy production is expected in the next few years.

The global growth of gas supplies had also led to a sharp fall in prices for this commodity. The Russian energy concern, Gazprom, which accounts for about 8 percent of Russia's gross domestic product and about 20 percent of government revenues, is under increasing pressure. The company's gas exports to Europe declined by over 7 percent in 2012 and reached their lowest level in a decade. Gazprom posted a 9.5 percent decline in profits for 2012, making it no longer the world's most profitable company.

There have been prolonged discussions in the Russian elite about a restructuring of its energy sector and in particular the gas industry. Gazprom, which is closely linked to President Vladimir Putin, may lose its monopoly position as a result.

There has also been a dramatic decline in industrial production in several regions of the country. Last year, 15 regions reported a double-digit decrease in output.

In the southern Russian province of Ingushetia, industrial production fell by 27.5 percent.

The situation has also deteriorated in the more highly industrialised regions in Siberia and northwest Russia. In Kaluga and Kaliningrad oblasts, both centres of the auto industry, production fell by 20.5 and 16.4 percent, respectively. In the Siberian Nenets Autonomous Okrug, home to important oil production sites, as well as chemical and metal working factories, production has declined by 10 percent.

One of the factors contributing to the decline in industrial production was Russia's accession to the World Trade Organisation (WTO) last summer. Russian companies remain technically backward due to the de-industrialisation and economic collapse that took place following the reintroduction of capitalism in the 1990s. This severely hampers their ability to compete on the international market.

Hardest hit by the decline in production are the country's so-called "mono-towns," which are centered on just a handful of factories, or even one. Up to 35 million workers and their families live in these cities, which are in an advanced state of decay.

The economic situation in these cities is so hopeless that in many cases the government has discussed measures for a mass resettlement of the population. In 2010 alone, 6 percent of the working-age population left these cities. This year, a government subsidy programme to support these regions, which was first introduced in 2009 following widespread social unrest, is due to expire. Several cities are now facing financial ruin, with plant closures and layoffs once again on the agenda.

With the onset of the economic crisis in 2009, industrial production in Russia fell by 19 percent, the worst performance since the economic disaster of the 1990s. In some regions, production in 2009 fell by 50 percent, and in some cases approached 80 to 90 percent. Only a handful of factories have been able to return to their pre-crisis production levels.

Formerly, the auto market in Russia was one of the fastest growing in the world. Now it has stalled, with predictions of either stagnation or decline this year. In April, auto sales dropped by 8 percent. The growth of the auto industry prior to 2008-2009 was based primarily on government subsidies, cheap credit and a growing middle class. Since then, government

subsidies to the auto sector have been substantially reduced, business loans are more expensive and the financial position of large sections of the middle class has deteriorated.

Western politicians and the liberal opposition in Russia are using the economic crisis to argue for market reforms and to agitate against the bureaucratic clique led by Putin, which controls large parts of the economy. In fact, the extent of the current crisis is a result of capitalist restoration and the systematic destruction of the Soviet economy in the 1990s.

According to recent estimates by the liberal economist Andrei Illarionov, total production in Russia in early 2013 was 23.1 percent lower than in 1990. Production in the chemical industry has halved since 1990, while light industry is producing just a fifth of its former total. Oil production has declined by 6 percent. The only expansion has been in the gas industry, where production has increased by 17.8 percent.

Now, however, the country's energy exports, which were the basis for Russia's economic boom between 2000 and 2008, are shrinking.



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