Russian economic problems continue, despite ruble rebound

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Russia continues to confront ongoing economic troubles, despite the fact that the country's currency has rebounded, after a massive intervention of Russia's central bank aimed at stabilizing it. The ruble is now trading at 56.61 to the dollar, up from a low of 121.53 in the immediate aftermath of the invasion of Ukraine. In an effort to bring down the ruble's value to somewhere between 70-80 to the dollar, about where it was prior to the war, Putin signed an order on Thursday relaxing certain capital controls.

The strong ruble, which is now worth more than it has been in the last four years, is threatening the country's exports, as it is making the purchase of Russian goods more expensive for overseas buyers. In addition, it is increasing the size of an already-growing federal budget deficit, fueled by military expenditures and measures aimed at ameliorating the effects of Western sanctions. The country's finance minister estimated that there will be a 1.6 trillion-ruble hole in the Russian budget by the end of this year.

Officially, Russia's GDP is predicted to shrink by 7.5 percent in 2022. The World Bank puts that number at 11.2 percent. Real incomes, eroded by inflation, wage arrears, layoffs, and a shift to part-time employment, could shrink by as much as 9 percent, according to a recent analysis published in the business daily *Kommersant*. This estimate is about 3 points higher than that of the Ministry of Economic Development, which predicts that even in the best-case scenario, by 2025 Russians' real earnings will be below those of 2013, before the first round of Western sanctions began.

The Russian economy is largely being sustained at the moment by oil and gas revenues. Western embargoes, which sent prices skyward, have yet to entirely shut the country out of the global energy market. Although the US and its NATO allies are working to increase Moscow's isolation, with Germany just announcing that the EU is "days away" from banning Russian oil imports, China, India and other countries are stepping forward to buy up its supply.

In April, Chinese purchases of Russian goods, overwhelmingly oil and natural gas, rose to $8.89 billion, a 56.5 percent increase over a year ago. Still, Russia is selling barrels at about $10 below the market price, with consumers able to command a steep discount.

Rather than diversifying its economy or trade partners, Russia is becoming increasingly dependent on the energy sector and ties with a relatively small number of major buyers. Revenues earned from the sale of oil and gas, which rose from 1.2 trillion rubles in March 2022 to 1.8 trillion in April 2022, made up 63 percent of Russia's budget last month. As of the first four months of this year, they account for 48 percent, as compared to 36 percent in all of 2021.

While Moscow is reaping significant profits from the surge in oil prices, Russian output is actually falling. As of mid-May, daily oil production was 830,000 barrels lower than in February. There are not enough buyers to make up for lost markets and there are significant logistical challenges with getting the goods to new locales. The infrastructure—pipelines, ports, roads, etc.—necessary to divert large quantities of supply from Europe and deliver it elsewhere do not currently exist and will take years to build.

The situation facing coal producers is emblematic of the crisis. In 2021, Russia sold half of its 440 million tons of the product on foreign markets. One hundred and ten million of that went to Europe, which has now banned purchases of Russian coal, valued at about $8 billion. Indian steelmaker Tata Steel, the largest importer of Russian coal in the country, subsequently declared it too would no longer buy. Big hopes are being placed on the Asian market, but it remains unclear how to get the goods there. As one geography professor at Moscow State

University noted, one potential, albeit circuitous, route, through the Baltic Sea, may well be impossible because of the anti-Russian alliance of states arrayed along the body of water's coastline.

In her remarks to news outlet Rosbalt, Natalya Zubarevicha declared it was possible that the situation would result in labor unrest in Kuzbass, a center of Russian coal production. Low wages, poor working conditions and continual industrial accidents have already fueled workers' anger here. Recently, a government official described conditions in the industry as "bondage-like." In the first quarter of 2022, the supply of Kuzbass coal for export fell by more than 10 percent.

"[Strikes] cannot be ruled out," Zubarevicha said. "Large companies in Russia are now forbidden to fire workers. … [Workers] will not be kicked out the door, but their wages will be cut. It's hard to say how long they will last in this way," she observed.

Whatever temporary arrangement Russian companies have managed to secure at the moment may also be short-lived. On Tuesday, NATO leader Jens Stoltenberg threatened countries that continue to trade with Russia as well as China. "Freedom is more important than free trade. The protection of our values is more important than profit," Stoltenberg declared, in a remarkable discovery of the moral economy.

Oleg Deripaska, one of Russia's wealthiest men, recently said that it would be a "great success" if the country manages to keep its exports at 80 percent of their pre-war level.

Anti-Russian sanctions are hammering away at the economy in other ways, too. Compared to the same time last year, as of April Russian government revenues from outside of the oil and gas industry fell by 18 percent. A crisis in imports, which according to the Ministry of Economic Development will decrease this year in physical terms by 26.5% and in value terms by 17.1%, is also taking a toll, as the government is losing revenues from tariffs, customs duties, and value-added taxes.

Officials currently claim that unemployment is running at just 6.7 percent, up from 4.8 percent last year. Over the course of March and April, Russia added 40,000 to the unemployment rolls, bringing the total number of people looking for work to 690,500, say government authorities.

Alexander Safonov, a professor at the finance university under the direction of the Russian government, recently described these numbers as a "crafty figure," in an interview with Mk.ru. They do not capture the real situation caused by the mass pullout of foreign corporations from the Russian market, the disappearance of overseas purchasers, and production problems due to a lack of components and spare parts.

Many workers have been furloughed or placed on part-time schedules, which obfuscates the real extent of unemployment and underemployment. For instance, Avtozav, one of the country's major car producers, has repeatedly idled workers over the course of the last several months, including twice in May. Recently, it extended by another seven days a temporary shutdown that was supposed to last from May 16 to 20.

In order to prevent a collapse in the labor market, the government has imposed various restrictions that limit the ability of employers—at least those not in the shadow economy—to lay off workers. Experts anticipate that as these limits expire in the coming months and economic difficulties compound, unemployment will rise into the summer and fall. Some large companies have already said they intend to let go 10 to 20 percent of their workforce.

According to one report in *Kommersant*, 68 percent of small and medium-sized firms have made cuts to their labor costs, with 25 percent axing salaries and 27 percent firing people. Companies are halting the payment of bonuses and cost-of-living adjustments. Job vacancies, even in industries like construction that have seen an exodus of migrant laborers, are falling.

Total wages arrears, reports the government agency Rosstat, stood at more than 1 billion rubles as of April 1. They increased by more than 77 million over the course of March.

Inflation is rampant, with some areas of Russia seeing the price of goods and services climb by nearly 20 percent. The cost of "sanitary technology"—i.e., toilets, drains, etc.—rose by 70 percent between February and April. A recent study by the Social Opinion Fund in Russia found that 80 percent of people said prices continued to increase rapidly last month. Many, particularly those living outside of major cities, are also saying that the quality of goods—in particular, salami, preserved foods and milk products—is declining, according to a study by the Center for the Study of Consumer Behavior.