

Putin Can't Blame Global Ills for Economic Crunch

By [The Moscow Times](#)

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Kudrin believes that the reasons for the economic slowdown are internal. **Igor Tabakov**

He is one of a few people who can stand up to Vladimir Putin, but even Russia's former finance minister failed to persuade the president his economy's problems lie at home not abroad.

When Alexei Kudrin took Putin to task live on television during the president's annual question-and-answer session and said the economy was tanking because of a poor business climate in Russia, Putin brushed off the criticism — jokingly calling Kudrin a "slacker" for declining a new government job.

The weight of evidence favors Kudrin.

Facing protests, and with his popularity recently at a 12-year low, Putin has been trying to deflect the blame for a stagnating economy, which threatens to arrest the rise in living standards that has underpinned his support.

He says a struggling global economy, particularly the eurozone, is to blame for growth falling to just 1.1 percent year on year in the first quarter, down from almost 5 percent a year earlier.

Blaming other countries for Russia's woes has been a common refrain from Putin since he returned to the presidency a year ago.

Kudrin, a liberal who is admired in the West and still has influence, challenged him in front of millions of Russians. "The main factors of this slowdown remain internal," he said during Putin televised session with the public last month.

What Russia really needed, Kudrin said, was deep reform to boost productive investment. Entrepreneurs also want reassurance over Russia's political future — a veiled reference to middle-class disquiet over Putin's crackdown on political opponents.

Boris Titov, an ombudsman whose role is to relay the concerns of business to the Russian government, agrees with Kudrin that "a lot needs to be done".

A detailed breakdown of the figures also supports Kudrin's diagnosis of what ails the \$2 trillion Russian economy, as shown in the graphic below.

"The external dimension of this is less important than the domestic one," said Ivan Tchakarov, chief Russia economist at Renaissance Capital. "Investment is much less robust than many people, including myself, had thought."

Investment Slump

Russian businesses have long been reluctant to invest in a country that stifles them with corruption and bureaucracy.

"The main problem for entrepreneurs is that they meet corruption everywhere," said Valery Tsaturov, a grocery store owner from outside Moscow, at a recent anti-Putin demonstration.

Tsaturov, dressed as the Grim Reaper with the slogan "korrupsiya" (corruption) written across his cloak, joined the protest after his attempts to build a bigger shop were blocked, he said, by officials demanding bribes.

"The police and prosecutors don't help — that's our authorities, our Putin. As long as he's in power there'll be corruption."

When Putin, 60, returned to the Kremlin last year, many analysts had hoped that political stability and promised reforms would boost investor confidence.

Yet the opposite seems to be happening: Slumping investment, not weak exports, has been by far the biggest contributor to Russia's sliding growth rate.

"Consumption has slowed, but it is doing reasonably well compared with investment, which has collapsed," said Neil Shearing, head of emerging markets research at Capital Economics in London.

While export growth has been low — around 1.4 percent last year — it accelerated from 0.3

percent in 2011. Meanwhile import growth has declined sharply, implying that net trade has actually helped rather than hindered economic growth.

True, the price of oil, Russia's main export, has fallen, yet it remains high by historical standards at over \$100 a barrel. Moreover, the recent oil price slide comes too late to explain a slowdown that set in a year-and-a-half ago.

Policy Divisions

Although Russian officials are keen to blame the global economy, they also acknowledge that weakening investment is a concern. But policymakers are divided on how best to respond.

While "doves" have been pressing for more state spending and lower interest rates to revive investment, hawkish policymakers say such measures will be ineffective and inflationary without structural reforms to encourage greater productivity.

Putin, who has long sat on the fence between the two camps, is now prodding his government towards more fiscal and monetary stimulus to shore up growth in the short run.

With the help of such steps, most economists say there will be some recovery in the second half of the year, when the growth rate is expected to return to around 3.5 percent.

Still, this remains well short of the 5 percent growth that the government aims for, and is half the rate at which Russia's economy grew before the 2008-9 financial slump.

It is a reminder that the economic slowdown owes much to underlying defects — the lack of long-term investment, a shrinking labor force and hostile business climate — that cannot be addressed by pulling short-term policy levers.

"If it was investment that was holding up and consumption that was collapsing, we would say: 'OK, this is bad for growth in the near term, but it is exactly the kind of rebalancing that we need to make growth more sustainable'," said Shearing.

"The opposite is happening. Not only is growth slowing, but the very part of the economy that you want to see growing is what has really collapsed."

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