

# 5 Forces Battering Russia's Economy as Putin Faces Nation

By [Howard Amos](#)

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The speech will be televised live by state-run channels starting at noon.

President Vladimir Putin's annual state of the union address on Thursday takes place at a time of economic pain and international isolation unprecedented during the Russian leader's almost 15-year political dominance.

More than 1,000 senior government officials will gather in the Kremlin to hear the keynote speech, listening for new policy announcements and for hints about how Putin is looking to deal with everything from the ongoing crisis in Ukraine to economic recession and the plunging ruble.

The Moscow Times compiled a list of five of the most pressing economic issues that Putin faces — issues on which lawmakers, analysts and the public will be looking for clarity.

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## **Looming Recession**

Battered by a falling oil price, Western sanctions, rising inflation, spiraling capital flight and a plunging currency, Russia's economy is headed for a recession. The Economic Development Ministry said Tuesday that the country's gross domestic product could shrink by as much as 0.8 percent next year, a major contraction for a country that once stood alongside India, China and Brazil as one of the world's fastest-growing markets. During his state of the nation address in 2012, Putin said that the Russian economy needed economic growth of 5 or 6 percent a year for a decade. How far will Putin go in recognizing the extent of Russia's economic troubles, and what strategies and initiatives will he propose to address them?

## **Ruble**

The Russian ruble has collapsed almost 40 percent this year against the U.S. dollar, making it one of the world's worst performing currencies. Devaluation is raising uncomfortable memories of the 1998 financial crisis and pushing up consumer prices inside Russia. The Central Bank, run by Putin's former economic adviser Elvira Nabiullina, has spent about \$70 billion defending the currency so far this year, and has stepped in twice to prop up the ruble this week alone — a step that, since it let the ruble free-float on Nov. 10, it only takes because of threats to financial stability. Putin is unlikely to announce any change to the Central Bank's policy managing the ruble, but will he comment on the extent of possible future falls?

## **Oil Price**

For every \$1 dollar shaved off the global oil price, Russia loses about \$2 billion in budget revenue. The price of crude oil has fallen almost 40 percent since July — jeopardizing the state's finances and bringing recession closer. Russia failed to win any production cuts from the November OPEC meeting, despite sending a high-level delegation, and is now facing a possible long period of low crude prices. The 2015 budget, signed by Putin into law this week, balances if oil averages \$100 a barrel, but the government itself now predicts that oil will average \$80 a barrel next year — a price that Putin himself predicted would cause the world economy to "collapse" earlier this year. Will Putin give any hint as to how Russia will deal with lower oil prices?

## **Inflation**

Earlier this year, the Central Bank was targeting 2015 consumer price rises of between 5 and 6 percent — now government officials are predicting the figure will be almost 10 percent. Bans on food imports from the United States and European Union imposed in response to Western sanctions have noticeably pushed up food prices, while retailers are marking up the cost of imported goods to offset the weakening ruble. How much of a priority is bringing down inflation for the government, and what practical steps could be taken to address the problem? Will Putin acknowledge, even obliquely, that rapidly rising prices pose a risk to social stability?

## **Investment Climate**

Deteriorating political relations with the U.S. and EU have not been the only body blow

to Russia's already vulnerable business climate: In September one of the country's richest men, Vladimir Yevtushenkov, was arrested amid what appears to be an attempt to nationalize private oil company, Bashneft. Corruption also seems to be growing. The Transparency International NGO said this week that Russia had slipped nine places in the watchdog's 2014 corruption index. With Putin reported to be considering a new campaign against graft to stimulate economic growth, all eyes will be on what steps he could propose to improve the languishing investment climate.

Contact the author at [h.amos@imedia.ru](mailto:h.amos@imedia.ru)

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