

5 Things That Will Hit Russians' Quality of Life in 2015 (Video)

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Russian consumers face financial trials and tribulations aplenty in 2015 as the ruble currency bleeds value and warnings of a deep recession mount.

The Russian economy has fallen off course amid slowing growth, Western sanctions over the crisis in Ukraine and a more than 40 percent decline in the price of oil, Russia's key export, which has dragged the ruble down 45 percent against the U.S. dollar this year.

A day after the ruble suffered its largest one-day drop since the financial crisis in 1998, the Moscow Times went out onto the streets of Moscow and asked passersby whether they were concerned.

The Central Bank has said the economy could contract 4.5 percent next year if oil prices stay at \$60 a barrel, and the bank's decision to hike the key interest rate 6.5 percentage points on Monday night is expected to deepen the coming recession.

As Russians know well from the tumult of recent decades, in a recession, it's ordinary people who bear the consequences.

The Moscow Times took a look at five of the worst consequences.

Inflation

Inflation is soaring as the plummeting ruble raises the price of imports, and Russia's ban in August on select food imports from the U.S. and EU — a tit-for-tat reprisal against Western sanctions on Moscow over its policy in Ukraine — has further pushed up food prices.

Year-on-year inflation climbed to 9.1 percent in November, it's highest level in three years, while food prices climbed 12.6 percent.

The Central Bank said in a report this month that inflation will rocket to 11.5 percent in the first quarter of 2015 before decelerating.

The prices of imported goods such as electronics, cars and clothes are expected to increase steeply next year as producers and retailers adjust to the dramatic ruble devaluation.

The price of imported cars could rise as much as 30 percent in 2015, analytics agency Autostat told Russian newspaper Kommersant this month.

Russian consumers returned to car dealerships and flooded electronics stores in Moscow early this week in a bid to get their goods before prices climb.

Falling Real Wages

As inflation climbs and companies cut spending, Russians' real wages will decline. Even before the ruble's early December plunge, the Higher School of Economic's Center for Development said real wages would fall 1.9 percent in 2015.

Only 4 percent of companies increased employees' salaries in the autumn of this year, down from 24 percent in 2013, a survey by researcher Romir found. A worse salary situation was seen only during the financial crisis of 2008, when just 1 percent of companies raised employees' pay, the study said.

Rising Unemployment and Poverty

Unemployment also looms as Russia falls into recession. The Economic Development Ministry earlier this month increased its unemployment forecast for next year from 6.1 percent to 6.4 percent of the economically active population.

The unemployment rate climbed from 5.1 percent in October to 5.2 percent in November this year, according to state statistics service Rosstat.

With inflation up and less jobs available, poverty will also rise. There are currently 15.7 million people living below Russia's official poverty line of 8,000 rubles (\$90) a month, and next year bodes worse, Interfax quoted Deputy Prime Minister Olga Golodets as saying earlier this week.

"In the context of inflation, the number [of poor people] is inevitably going to grow, especially among families with children," Golodets said.

Less Travel Abroad

While a holiday abroad may now be more tempting than ever, the ruble's fall is expected to put a damper on Russians' travel plans.

Tour operators saw demand for travel abroad fall 60 percent as the ruble plummeted through October and November, real estate consultancy Cushman & Wakefield said in a recent report.

In this case, at least, someone stands to benefit: the domestic tourism industry. Demand for internal travel rose 40 percent over that same period, with former Olympic venue Sochi becoming the new prime destination for many Russian travelers, the report said.

Not being able to afford foreign travel will only affect a thin upper crust of the Russian population, however.

A report published by the Higher School of Economics in May found that only 30 percent of Russians had left their hometown for a holiday over the previous year, and that of them only a third had traveled to countries outside the former Soviet Union.

Government Spending Cuts

The government is also expected to slash spending next year in response to the decline in the price of oil, which was trading below \$60 per barrel on Wednesday. The current budget, which relies on the oil and gas industry for half of its revenues, is based on a forecast of \$95 per barrel.

"Even though the 2015-17 budget has already been passed, we all understand that there will be problems implementing it," Audit Chamber head Tatyana Golikova said Wednesday, Interfax reported.

It's "obvious" that the government will need to reduce its budget obligations by 10 percent, Golikova added. Business daily Vedomosti reported previously that a 10 percent cut in spending could save the government about 1.5 trillion rubles (\$23 billion) in planned expenses

The question, of course, is what gets cut. Spending on health and education was already reduced for the existing budget, even as Russia's military expenditures continued to climb.

Following his address to the Federal Assembly earlier this month, President Vladimir Putin called for proposals on how to cut costs 5 percent over the next three years — excluding "national defense and safety" spending.

Bankruptcy Law

At the least, Russians may soon have a law in place to help those who end up falling under the wheels of economic change.

Russia's State Duma on Wednesday passed amendments to a personal bankruptcy law that has crawled its way through the legislature this year. The amendments would have the law go into effect on July 1, 2015, rather than six months later as previously planned.

"This measure stems from the difficult economic situation," Sergei Gavrilov, chairman of the Duma's Property Committee, told Kommersant.

Russia currently doesn't have a personal bankruptcy law, an oversight that has long been the subject of heated criticism from consumer protection groups.

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