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Russia's Post-Election Economy: Down, But Not Out

Parliamentary elections are rapidly approaching, but this time politicians aren't making any pie-in-the-sky promises

By [Boris Grozovsky]

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Maxim Stulov / Vedomosti

Russia's parliamentary elections are rapidly approaching, but this time politicians aren't making any pie-in-the-sky promises. After all, pie costs money and they don't have any. But they are also careful to avoid making any unpopular decisions, preferring to postpone them for another 18 to 24 months un
til after the 2018 presidential election.

By any measure,

the Russian economy is deep in a classic recession: GDP has dropped for the sixth consecutive quarter. If Russia had political competition, these elections would pose a challenge for both the ruling party and the opposition. But without real competition, politicians are under little pressure to lift the economy out of the current crisis.

The economic downturn was sharpest in late 2014 and early 2015. After that, the decline gave way to the current creeping stagnation in which indices hover near zero, with some sectors of the economy showing a slight upturn or downturn. Even if GDP rebounds from the current 0.5-0.7 percent decline to 0.7-0.8 percent growth (as the Economic Development Ministry blithely predicts), businesses and consumers will feel no difference. Russia is not Europe: Price ratios remain uncertain here, and people begin to sense growth only when it reaches a rate of 5 percent.

Even optimists aren't predicting that sort of growth in the next three to four years.

After real, inflation-adjusted wages grew slightly in the spring, they started falling again in June and July, according to the Center for Macroeconomic Analysis and Short-Term Forecasting. The August figures for wages are not yet in, but it is already evident that real consumer spending is down as citizens avoid making major purchases.

Political competition would undoubtedly have emboldened citizens to vote their current leaders out of office for allowing living standards to drop well below the 2013-14 levels. This is especially true because the Russian economy has stagnated for the last eight years, with average GDP growth at a measly 0.2 percent from 2009 to 2016. But even that is apparently not reason enough for leadership change: President Vladimir Putin has successfully remained at the helm by claiming since 2008 that Russia has “gotten up off its knees.”

But this has come at a high price. The leaders are struggling mightily to keep spending within budget. The Finance Ministry has raided the reserve fund three times this year to keep the economy afloat, emptying coffers of almost 1.2 trillion rubles ($18.5 million). Additionally, the authorities burned through 2.6 trillion rubles ($40 million) of reserve funds last year. At the current rate, those reserves will run dry by summer 2017, and the 4.7 trillion ruble ($72 million) National Wealth Fund, which the government wisely built up when oil prices were high, could be depleted in 2017-2019.

Money is now so short that the government will take the unprecedented step of refusing to index pensions to inflation in 2017. Instead, retirees will receive only a one-time payment of 5,000 rubles ($77) to tide them over for 12 long months.

But Putin isn't risking much. Retirees are his most reliable constituency. Moreover, the recession has driven inflation down significantly. Over the past 12 months, price increases have not exceeded 7 percent, and the inflation rate might even fall to 4-6 percent next year.

The current economic policy priorities will remain in place after the parliamentary elections. Leaders will:

First, continue buoying companies with close personal ties to the ruling regime or that have lost money to falling oil prices, Western sanctions, and Russia's political and economic isolation;

Second, prioritize spending increases on the army, security forces, and the state industries that support them;

Third, keep state salaries and retirees' pensions high enough to prevent them from growing dissatisfied.

As before, the leaders will finance this policy at the expense of the middle class and the small and medium-sized businesses that have already endured the worst of this crisis. According to Ipsos Comcon, in cities with populations of over 100,000, families with barely enough money for food have risen from 13 to 21 percent. And a staggering 63 percent of families now spend more than half of their income on rent and utilities. During the 2009 economic crisis that number was only 55 percent.

The labor market is worsening as foreign companies leave the country and the service sector stagnates. Many people, especially the youth, spend more time looking for jobs than actually working. In another blow to the working class, the government has conclusively eliminated the accumulative pension system and steadily raised property taxes.

The shortage of funds will probably force the authorities to raise the retirement age and income tax – but, naturally, only after 2018.

Putin is unlikely to start printing money as some business leaders suggested. Rather, the government will continue its fiscal policy of restraint in the hope oil prices start rising again.

Most importantly, the Kremlin has learned to keep the Russian people happy using geopolitical victories. If they can manipulate the public mood with claims of fighting corruption and military feats in foreign lands, the leaders have no need to spend money.

Russia is locked in an economic crisis, but the tightly scripted story state television conveys to millions each day is far more important than money.

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The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.