Russian economy stagnates as presidential election approaches

By Andrea Peters
10 March 2018

As the March 18 presidential election in Russia approaches, the Kremlin has sought to shore up the government's position by highlighting indicators that the country's economy is in recovery and promising to improve social conditions. While President Vladimir Putin is expected to easily win re-election, popular dissatisfaction with his regime has grown in recent years, bound up with an economic downturn linked to falling oil prices and Western sanctions.

Recent polls show a sharp dip in support for the Russian leader in the country's large cities, with his popularity rating declining by 12 points in urban centers of a million or more people in February.

Evidence points to continuing economic stagnation and distress for the overwhelming majority of the population. In 2017, Russia's gross domestic product grew by 1.5 percent, ending two consecutive years of decline. The uptick was largely driven by rebounding world prices for oil and gas, which continue to be the mainstay of the country's economy.

Notwithstanding the Kremlin's insistence that Russia can and must diversify economically, there are few signs that it is actually moving in this direction. Industrial production fell by 3.6 percent in 2017, due to a drop defense sector spending. Both federal and local budgets are dependent on revenues from natural resource extraction. Oil, gas, and metal ores alone accounted for 40 percent of last year's increased tax revenue.

Gas and coal deliveries to the European market are currently at record highs for Russia. However, shifts in Germany's energy policy and conflicts with Ukraine over transit routes through its territory threaten Russia's position, reports the liberal press *Nezavisimaya Gazeta* (*NG*).

Russia's growth rate lags behind the global average, as well as that of other natural resources-dependent economies, with the exception of Venezuela. "Zero growth" is the "new normal," declared *NG* on March 5.

There is an ongoing crisis in Russia's banking industry. In 2017, the government bailed out three of the country's top private firms—Otkritie, B&N, and Promsvyazbank—with multi-billion dollar injections of funds. According to the Central Bank, the actions were necessary to stop the risk of financial contagion. Funneling of further money into the private banking sector is expected in 2018, with the industry confronting an estimated 2.7 trillion rubles ($47.7 billion) in unfunded liabilities, according to the Analytical Credit Rating Agency.

After four years of decline, January data showed an increase in year-over-year real wages. However, real incomes, of which pension payments make up a large portion, fell. Rosstat, the government's official statistical agency, sought to cover up this fact by including a one-time five thousand ruble pension payment made in January 2017 in its calculations. This provoked a storm of public criticism. Rosstat was compelled to release revised income data in early March.

While inflation in food prices has finally stabilized according to official statistics and 2017 saw an increase in retail sales, households continue to report high levels of economic distress. According to a recent study by the Institute of Social Analysis and Prognosis (ISAP), 40 percent of Russians do not have the resources necessary to "adapt" to the economic crisis. "These are, above all, the elderly, those who reside in villages and small cities, people without a higher education, workers of different skill levels, employees in retail and consumer services, and the unemployed have been the worst impacted. If the situation in the economy does not improve, their welfare will continue to worsen, poverty will spread," reported a March 6 article in the newspaper *Vedmosti*.

Consumer debt has risen dramatically in Russia, with households turning to borrowing in order to sustain living standards. By the end of 2016, however, 20 percent of consumer loans in the country were non-performing.

In his address to the nation in February, President Putin promised to boost spending on education and healthcare, increase productivity by five-fold, double the share contributed to the country's GDP by small and medium-sized enterprises, raise the subsistence minimum by 50 percent and halve the country's poverty rate over the next six years. Official estimates place the number of poor at 14 percent of the population but researchers estimate it to actually be closer to 22 percent, about 40 million people.

The Russian president failed to provide any details as to how he would accomplish his economic goals. Over the past several years, his government has systematically cut funding for schools and medical services, and left many infrastructure and transportation improvements unfunded. What remains of Russia's public health and educational systems is marred by corruption, with more than half the population reporting paying bribes for allegedly "free" services.

Putin's promised improvements and predictions about Russia's forthcoming economic rebound are based, in part, on future annual growth estimates of around 2.2 percent from the Ministry of the Economy. Experts believe this to be highly improbable.

The Kremlin's limited populist appeal is an attempt to divert attention away from the right-wing economic policies it is preparing to institute, including an increase in the retirement age and the implementation of regressive tax reforms.

In an indication of the government's approach, the Russian Labor Ministry recently announced that it would raise the maximum amount an unemployed worker could receive from 4,900 ($86) to 8,000 rubles ($140) a month, and cut in half the length of time the individual could receive such payments—from one year to six months.