

THE POLITICAL AND ECONOMIC RESULTS OF JANUARY 2014

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Although January 2014 saw few politically or economically significant events, it certainly witnessed an upsurge of debates on economic issues. Thus, top government officials, including Prime Minister Dmitry Medvedev, expressed their somewhat conflicting views on Russia's economic policy at the 5th Gaidar Forum. Their assessments of the current state of the Russian economy were rather pessimistic. In January, the ruble was devalued for a second time in half a year; its exchange rate against the dollar dropped to 35 rubles per dollar. Apparently, Russia's authorities still cherish the hope that the ruble's gradual devaluation will revitalize the state budget and make it deficit-free, as well as simultaneously increase the competitiveness of the Russian economy. Despite the mounting economic problems, Russia cavalierly agreed to extend a \$ 10bn line of credit to Hungary to finance construction of two new power units of the Paks nuclear power plant.

In his speech delivered at the 5th Gaidar Forum, Prime Minister Dmitry Medvedev characterized the current situation in Russia as '... the consequence of the successful implementation of our economic policy over the past 10–12 years. It was this policy that allowed Russia to surge ahead and to enter a qualitatively new stage, where we face entirely different challenges in terms of their nature and scale. By the way, these challenges differ completely from the ones facing Russia 10–15 years ago'. According to Mr. Medvedev, the case in point was the general rise of the standard of living observed throughout the Noughties, when personal income growth outpaced inflation by around two to one. Such a rise in personal incomes has been a mixed blessing for the Russian economy: Russia has ceased to be a country with cheap labor but has failed to become a country with a highly efficient workforce. The Prime Minister warned that in the next few years the share of the economically active population will continue to gradually decrease (the author's note: in fact, Russia's economically active population has been growing for the past two years; moreover, in 2013, Russia, for the first time in many years, saw a natural increase in population). He promised that at least 15% of the annual volume of government orders would be handled by small businesses and socially oriented non-profit organizations. Also, Dmitry Medvedev emphasized the necessity to radically improve the quality of business environment. However, the special responsibility for improving the business climate should be borne by regional and local authorities. In return, he promised to compensate them for the funds invested in industrial parks and business incubators, and called for the creation of regional guarantee funds. As regards the federal government, its major aim in this field, according to the Prime Minister, should be '... to encourage private investment in major projects

in Siberia and the Russian Far East, the housing and utilities sector, construction and innovations. There is much talk about promoting social business and public-private partnership in this sphere.' In general terms, according to Mr. Medvedev, '... our most important task can be summed up by the word 'quality'. This includes labor quality, as well as the quality of goods and proposed investment projects and, of course, the quality of management solutions. In the long run, everything that determines the quality of our life'.

RF Minister of Economic Development Aleksey Uliukaev gave a moderately pessimistic forecast of Russia's economic development. According to his estimates, in 2013, Russia's GDP growth amounted to between 1.3% and 1.5%, while in 2014 her GDP growth rate will not exceed 2-2.5%; in 2013, industrial production growth amounted to 0.1%. Against the background of high oil prices, staying persistently above \$ 100 a barrel, such growth figures definitely fail to excite. First Deputy Governor of the RF Central Bank Ksenia Yudaeva pointed to the danger of stagflation – a sharp slowdown of economic growth at a time when inflation is high – when either toughening or easing up the country's monetary policy can be equally harmful (Deputy Minister of Economic Development Andrei Klepach did not agree with her). Finance Minister Anton Siluanov stated that the pension age should be raised in order to prevent the collapse of Russia's pension system, whose deficit has already climbed to over 1 trillion rubles and, according to some estimates, is expected to become astronomically high over the next two to three decades (Minister of Labor Maxim Topilin and Deputy Prime Minister Olga Golodets cast doubt on that point of view). Another hot dispute flared over the situation in Russia's fuel and energy complex, whose growth rate dropped to less than 1% over the course of 2013. Vice President of LUKoil Andrei Gaid-

amak insisted that, in order to encourage the use of new oil well drilling technologies, the flexibility of Russia's taxation system should be increased. Gaidamak's views on taxation were apparently not shared by Minister of Energy Alexander Novak, who dropped a bomb on the oilmen by his announcement that the government was planning to introduce a tax on oil companies revenues (a penalty for success, so to say).

As far as these statements are concerned, the following observations can be made. *First*, high-ranking government officials are full of pessimism; they are trying to exculpate themselves for the worsening situation by pinning the blame for it on objective factors of the world economy, on the 'middle-income trap', on regional bosses, on regional authorities (despite the fact that the bulk of financial resources is concentrated at the federal level), etc. Their speeches are dominated by blame shifting and contain very few, if any, really novel insights on how to improve the situation. *Second*, government officials are not ready to cut budget expenditures which have skyrocketed over the post-crisis period, sometimes without a shred of justification. To some extent, their reticence to embrace spending cuts is caused by their reluctance to risk the ire of powerful lobbyists. That's really not an excuse, though.

In January 2014, the Russian budget continued to be rather wastefully spent on dubious and expensive projects. While everyone's attention was focused on Ukraine, this spending spree – in spite of its scale – went almost unnoticed by the general public. Thus, Russia agreed to extend a \$ 10bn line of credit to Hungary to finance construction of two new power units of the Paks nuclear power plant. It is doubtful that the extension of the Paks NPP can be cost-efficient because the price of the power produced by Pak II cannot be made competitive without government subsidies. The same is true of the nuclear power plant to be built in Turkey (in 2012, Vladimir Putin agreed to finance a \$ 20bn nuclear power plant project in Turkey. Unlike the NPP in Hungary, the Turkish nuclear power plant will be owned by Russia). Meanwhile, Ukraine – whose central bank has already received \$ 3bn out of the \$ 15bn bailout package promised by Russia – has apparently become a major financial headache for Russia. Having adopted a package of tough 'anti-extremist' laws, the Ukrainian authorities opened Pandora's Box and found themselves between the devil and the deep blue sea. The Opposition resorted to violence on a massive scale, putting Ukraine on the brink of revolution. With their back to the wall, the authorities were forced to abolish the scandalous legislation. The beleaguered President Yanukovich sacked the government. The most likely outcome of the current events in Ukraine will be Viktor Yanukovich's defeat at the 2015 presidential election.

In this case, the largest benefits from Russia's aid will be reaped by her (reputed) Ukrainian foes. And billions of dollars will go down the drain... As the saying goes, if money burns a hole in your pocket, you want to spend it as soon as you can. In a surprise move, Minister of Transport Maxim Sokolov gave his blessing to the severely criticized and seemingly abandoned Moscow-Kazan high-speed railway project worth over Rb 1 trillion. This project had been previously characterized as a poorly conceived undertaking, wasteful in terms of the federal budget and neither needed nor wanted by the residents of Moscow and Kazan. Thus it seems that the final salvo in the squabble over this railway project has not been fired as yet.

January 2014 saw a considerably weakening of the ruble – from less than 33 per dollar on New Year's Eve 2014 to over 35 in late January. The reasons for this drop were both objective (a deceleration of economic activity, a growth in imports, a worsening of the balance of payments – although Russia's BOP has remained positive, the year 2013 saw a more than two-fold decline in the current account surplus – from \$ 72bn to \$ 33bn; if this downward trend continues and hydrocarbon prices remain stagnant in 2014, Russia may show a current account deficit by the end of December 2014) and subjective – although the RF Central Bank has huge foreign exchange reserves, it is not eager to prop up the ruble, whatever the cost. Apparently, Russia's authorities believe that the ruble's controlled devaluation will revitalize the state budget executed in rubles (in fact, the current devaluation of the ruble will make Russia's state budget 2014 deficit-free, if its basic parameters remain unchanged).

It was announced that Russia's new human rights ombudsman will be Ella Pamfilova, nominated for this position by Vladimir Putin. (Under current legislation, it would have been impossible for Pamfilova's predecessor, Vladimir Lukin, to be reelected by parliament for a third term as human rights ombudsman). Ella Pamfilova's election to this post should be seen as a step in the right direction. Her performance as Minister of Social Protection in the 1990s, long-serving member of parliament and head of several NGOs has indicated that she is capable of defending human rights both calmly and resolutely in a situation of growing witch-hunt against nearly every imaginable form of dissent. In January, on the very eve of the Sochi Olympics, Vladimir Putin continued his policy of pacifying public opinion – the release of Mikhail Khodorkovsky was followed by the Supreme Court decision to release his ex-business partner Platon Lebedev. Moreover, in an interview given to a number of Russian and foreign TV channels, Vladimir Putin assured the journalists that he was a real liberal holding liberal views.

January 2014 saw a noteworthy reshuffle of top personnel – head of Russia’s Federal Fisheries Agency (responsible for allocating fishing quotas) Andrei Krainiy was relieved of his position and replaced by Ilya Shestakov, who was simultaneously appointed RF Deputy Minister of Agriculture. Ilya Shestakov is the

son of State Duma member Vasiliy Shestakov, better known as Vladimir Putin’s former judo sparring partner. As Ilya Shestakov has had a long career in the public sector and civil service, his appointment to these important positions has come as no surprise to anyone. ●