

POLITICAL AND ECONOMIC RESULTS OF FEBRUARY 2015

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A new truce was arranged in Ukraine in February 2015, following a meeting involving the leaders of Russia, France and the German Chancellor. However, the very context of Minsk II Agreements repeats the numerous understatements of Minsk I Agreements and can be broken any time unless solid guarantees, like peace-keeping forces, are provided. Russian government's attempts to cut budget spending have ultimately been converted into an unimposing figure of mere 2% for 2015, estimated by Russia's Finance Ministry. The brazen slaying of Russian opposition leader Boris Nemtsov has tarnished badly the state of law and order in Russia.

February 2015 was marked by new peace agreements on Ukraine (the so called Minsk II Agreements), the murder of Russian opposition leader Boris Nemtsov, as well as some economic policy news, in particular a substantial uptrend in the international crude oil markets – crude oil prices saw an increase up to \$60 per barrel from less than \$50 during the month.

The seriously aggravated situation in Ukraine triggered by an offensive operation launched by the “self proclaimed peoples republics” late in January (the Ukrainian authorities regard this as offensive operation of Russia's regular armed forces) resulted in a meeting on 6 February in Moscow, involving Russia's President Vladimir Putin, French president François Hollande and German Chancellor Angela Merkel, which ended up with new agreements signed in Minsk on 12 February by the representatives of Russia, the Organization for Security and Cooperation in Europe (OSCE), Ukraine and the “self proclaimed peoples republics” after the negotiations involving the presidents of Russia, Ukraine, France and the German Chancellor. The agreements appear to resemble the agreements concluded in September, providing for a ceasefire, return of prisoners, a “new election” in the territories of conflict in Ukraine, and a decentralization of powers for these territories. However, no details of the “decentralization” were provided. The agreements are guaranteed by the OSCE. It is only ceasefire that can be actually implemented in practice, whereas other provisions thereof are unlikely to be observed in full because they are interpreted so differently by the parties thereto. The agreements proved to be insecure within the first few days after the signing – violent fighting resumed in Debalcevo after the effective date thereof, given the fact that the parties to the conflict were not surprised at all. Therefore, the Ukrainian authorities applied to the United Nations and the European Union for sending peacekeeping forces to the territory of conflict. Russia hasn't yet expressed any explicit opinion on that. Although the Russian

authorities do fear such peacekeeping forces may not keep a neutral stance, they don't want to oppose this forthwith. In the current situation suits the Russian authorities in general while the “self proclaimed peoples republics” equipped heavily with heavy weapons and military equipment are pressing hard the Ukrainian regular arms forces, and Minsk II Agreements, unanimously approved by the UN Security Council on 17 February, suit the situation too. The U.S. and EU authorities are not ready to provide military support requested by Ukraine, and without such support the Ukrainian armed forces will be outperformed by the rebels. Additionally, the current developments eliminate the possibility to lift the economic sanctions on Russia, which seemed to be quite possible as early as 2014. There is no strong evidence that the rebels are capable to go on the offensive any direction, as far as Kiev and Lvov, in which case the United States and the European Union may change their stance. An optimal solution would be the deployment of peacekeeping forces from neutral countries on the territory of conflict. Belarus, Kazakhstan, Switzerland or Turkey could be considered for the purpose. Yet, neither Russian nor Ukrainian politicians are likely to be ready to exercise such a scenario.

Boris Nemtsov, a prominent Russian opposition leader, former deputy prime minister and the head of a parliamentary party was gunned down on the Moscovetsky Bridge in the downtown of Moscow overnight into 28 February, on the eve of an opposition rally scheduled for 1 March. The murder was demonstrative. Furthermore, the surveillance cameras were found to be inactive in this area at that time. The Russian authorities expressed official condolences to Nemtsov's relatives, and the opposition rally turned into a funeral one, gathering some 50,000 persons, nearly as much as previous rallies did. No prominent Russian politicians and para-politicians have been killed since 2006, or since the homicide of Anna Politkovskaya, Alexey Kozlov, and no murder of such a

scale has been reported through the entire post-Soviet stateship. Any murder is utterly disgusting, but on top of that, this one also disturbs badly the feeling of stability.

In February, the State Duma passed in a first reading a long-awaited draft bill on crediting one day of detention in an investigation cell for one and a half days of detention in a general penal colony and two days in a penal settlement. The draft bill, if adopted, will relate back and may imply a massive amnesty of those convicted for different types of offences, including economic ones, as well as discourage the judicial system to take suspects into custody as prior detention measure. However, there seems to be no guarantee that this useful bill will be adopted. A bill extending the term of “dacha amnesty” for 3 years, until 1 January 2018, was adopted. The bill should be considered as positive measure as well.

While discussing anti-crisis measures, the Russian authorities referred twice to the issue of suburban commuter routes which Russian Railways, a state-controlled company, cancelled in a few local regions in the new year. On 4 and 19 February, Vladimir Putin criticized Deputy Prime Minister Arkady Dvorkovich, in charge of Russian Railways, for the cancellation. As a result, the suburban commuter routes were not cancelled completely and the federal government was commissioned to find resources to compensate for the shortfall in Russian Railways’ income. However, the issue still remains controversial, because governors at various regions express openly their doubts about the transparency of tariffs (Russian Railways’ subsidiaries as passenger transportation service providers pay some sort of a rent for railway cars to Russian Railways) and say about their unwillingness to donate Russian Railways with regional budget resources.

The discussion on federal budget expenditure continued. For instance, following a meeting between economists and President Putin on 13 February, it was stated that President Putin commissioned to “consider” the raise of retirement age, which was not officially denied, as it was previously. Perhaps, it’s about time to undertake a pension reform, and it would be better for the government authorities to disclose their plans, especially since such measures as annual “freeze of pension accumulations” can do nothing but trigger negative expectations among market players, as well as those who will retire in the future and the current tax payers. Furthermore, a combination of a

socially equal measure of reducing a huge number of “benefit holders” from the military-security establishment and a small increase in the retirement age could allow substantial resources to be saved.

Russia’s Finance Minister Anton Siluanov stated that the Finance Ministry insists on setting a deficit-free budget by 2017 as a policy goal. The intention is quite praisable, however, this year the Finance Ministry has almost failed to cut budget spending, with the exception of as little as Rb 300bn, i.e. 2%. Under a new version of the draft budget, budget revenue will be reduced by Rb 2,6 trillion, i.e. nearly 15%, and will be covered with the resources from the Reserve Fund which will shrink to a little over Rb 500bn by 2017. At the same time, the Russian authorities and Duma members announced a 10% wage cut for Duma members and the President Administration personnel, which is quite praisable too, however, it would be better if the same wage cut was applied to all managers and employees of state-run companies.

The discussion on the possibility to support certain airline companies (opposed by stable Aeroflot and S7Airlines) continued in the large business domain. The Commercial Court of Moscow ruled to refund JSFC Sistema for a block of shares in Bashneft, which can be considered as reassuring sign for the market. At the same time, Eurasia Drilling Company, a major prospector, announced it will suspend the purchase of shares with LSE, because it hasn’t yet been permitted by the Federal Anti-Monopoly Service (FAMS) to sell its shares to Schlumberger – the deal of selling a blocking shareholding was reasonably considered as a symbol of readiness of foreign major companies to cooperate with Russia, however, it was found to be delayed or blocked for domestic rather than foreign policy reasons.

In February, Aleksandr Bastrykin, the Head of Investigation Committee of the Russian Federation, made some frightening statements about the need to challenge the international law which is “a sabotage against Russia”, as he put it. The statements were supported by State Duma Chairman Sergey Naryshkin, in a softer manner though. Virtually, such statements can provoke decisions which are financially unfavorable for Russian businesses, namely on 21 February, Moody’s downgraded the sovereign credit rating for Russia to BA1 with a negative outlook (below the investment level; the same outlook was provided for Russia by two of the three major rating agencies).