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Cabinet Plans Tariff Freeze, 5% Spending Cut

By Alexander Panin

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Prime Minister Dmitry Medvedev visiting Chernogolovka. **D. Abramov**

Over the next three years the government will have to cut spending by at least five percent, if not more, Prime Minister Dmitry Medvedev said Thursday, following an earlier decision of the Cabinet, supported by President Vladimir Putin, to freeze the prices for gas, electricity and rail transportation in 2014.

"Everyone will have to think about saving," Dmitry Medvedev said, Itar-Tass reported. "There has been a lot of overspending lately. It could be explained when the basis was a growing economy, but high expenditure levels are unacceptable during a recession."

He also said that this was the reason why the Cabinet supported the idea not to increase the prices for electricity, gas and rail transportation for next year and peg any increase for 2015-16 to the level of inflation.

Prior to this decision, the Cabinet spent more than five hours on Wednesday discussing budget expenditures for the next three years with President Vladimir Putin at his residence in Novo-Ogaryovo.

"Thank God this is not a crisis yet — let it not develop into one," Putin said before the meeting, Kommersant reported.

An hour before midnight, the ministers agreed to freeze 2014 tariffs charged by state monopolies — including those supplying gas, electricity and railway services — the first attempt to limit the growth of tariffs that the authorities have made since 1999.

In June, the Economic Development Ministry presented the first draft of the proposal, which suggested that for 2014-15 natural monopoly price hikes should be limited to 5 percent per year, down from the previous 15 percent.

Last week, the Cabinet was ordered to evaluate by Monday the effect that the freeze on monopoly price hikes would have on the economy.

Experts questioned by The Moscow Times prior to the final decision to freeze tariffs viewed the proposal as being politically motivated and raised doubts that it would be put to practice.

They also said that putting a limit on price hikes would mean monopolies would not be able to complete their costly investment programs, which would further slow the already staggering economy.

"Investment programs of infrastructure monopolies will not shrink automatically," Economic Development Minister Alexey Ulyukayev said, Rossiiskaya Gazeta reported. "This just means that there is big work ahead to seek out inner reserves."

The same idea about inner reserves was earlier expressed by Finance Minister Anton Siluanov as he gave an explanation for the initiative to freeze monopolies' prices.

Russian Railways claimed Wednesday that the company would lose about 77 billion rubles ($2.3 billion) if the decision were to be implemented and its investment program, which was planned for next year at 360 billion rubles, could be cut by as much as a third.

While so far there was no official reaction from Gazprom, Raiffeisenbank estimated earlier that the company could lose as much as 8 percent of its revenue if the growth rates for gas prices were to be set to zero.

But the third state-controlled monopoly to be affected by the freeze, electricity provider Russian Grids, does not seem to be pessimistic about having its rates frozen.

"Putting a limit on price hikes should not have an impact on our reliability, but will serve as an additional drive to increase operational and investment efficiency," said Oleg Budargin, the head of Russian Grids.

But the monopolies will not be left alone with their shrunken investment programs, as the government has offered to provide support. While companies should take measures to seek out the necessary funds to implement the programs, the Cabinet will help them,

Medvedev said, Itar-Tass reported.

Meanwhile, the announced budget plans, which, according to media reports, made ministers "take nervous smoke breaks," are not irreversible. The Cabinet will consider the final draft of the three-year budget in October.

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