

Economic Development Ministry Says Economy Will Lag for 20 Years

By [The Moscow Times](#)

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Russia acknowledged for the first time Thursday that its economy would lag global growth over the next two decades, setting the stage for an era of stagnation that could threaten President Vladimir Putin's grip on power.

Economic Development Minister Alexei Ulyukayev forecast that Russia's economy would grow at an average rate of 2.5 percent during that period — down from an earlier 4 percent and half the rate Putin targeted before his return to the Kremlin last year.

The downward revision casts Russia as the poor relation in the BRICS group of large emerging markets that includes Brazil, China, India and South Africa. The ministry expects the BRICS to grow at a 5.2 percent clip during that time.

With the ministry expecting global economic growth to average 3.4 to 3.5 percent, the outlook threatens to make a mockery of Putin's oft-repeated pledge to lift Russia into the world's top

five economies by the end of this decade.

And it is still based on an oil price forecast many analysts view as over-optimistic, showing just how much Putin's Russia, the world's largest oil producer, relies on not only high, but rising, oil prices to prosper.

"To a large extent the forecasts are catching up with reality," said Neil Shearing, chief emerging markets economist at Capital Economics in London.

He estimates Russia's long-term growth potential at 2 to 2.5 percent, in line with the view of the Central Bank, which sees the economy running at close to capacity.

"It could go to 3.5 or 4 percent if you have a really reform-minded government," he said. "But I do not think that applies to current reform, of which there is little prospect at the moment."

"Stagnation is starting to look like a policy goal in Russia," said Sanna Kurronen, an analyst at Danske Capital, adding that it was vital for Russia to invest to replace its aging Soviet capital stock.

Prime Minister Dmitry Medvedev admitted last week in an interview that "there is no magic formula to boost growth. In any case, if there is, we do not know what it is."

Newly appointed Central Bank chief Elvira Nabiullina has prioritized fighting inflation over promoting economic growth. She was handpicked by Putin in a move typical of a leadership style that plays factions against each other to prevent the emergence of an obvious potential successor.

In a frank admission, the Economic Development Ministry said there was no-one else to blame for the poor outlook but Russia itself.

The ministry said one of the reasons for latest changes is that now it is taking a conservative scenario as the base scenario, while in the spring it took a moderate outlook.

"Even sustaining the generally low rate of growth that we have projected will require a lot of hard work," Ulyukayev told a news conference.

Domestic and foreign direct investment will remain weak, as will growth of retail sales, exports and wages, the forecast cautioned, while business will be hampered by a lack of competitiveness and rickety infrastructure.

It said oil prices would rise to \$160 to \$170 per barrel by 2030. In real terms, adjusted to account for inflation after 2010, this translates into a range of \$90 to \$110 per barrel throughout the forecast period.

That is more bullish than expectations of a decline to \$80 per barrel in real terms by 2020 in a recent Reuters poll of analysts who took greater account of the U.S. shale energy revolution that has thrown Russia off balance.

"It is good that the government ... prefers to be realistic rather than live in denial," said Sergei Guriev, a prominent economist and former adviser to the government who has become

an outspoken critic of Putin and now lives in exile in France.

"On the other hand, it shows that Russia has hideous internal problems."

Trends for Main Economic Indicators and Growth Scenarios

Indicator	Version*	Average					Growth Rate
		2011-2015	2016-2020	2021-2025	2026-2030	2013-2030	2030 / 2012
GDP Growth Rate, %	March, v. 2	4.0	4.4	4.0	3.7	4.0	104
	March, v. 1	3.6	3.6	3.0	2.5	3.1	74
	Oct., v. 1	3.1	3.1	2.5	1.8	2.5	56
Average Inflation Growth for the Year, %	March, v. 2	6.1	5.0	3.7	2.6	4.1	105
	March, v. 1	6.1	5.0	3.9	2.7	4.1	107
	Oct., v. 1	6.1	4.0	2.6	2.0	3.3	81
Investment Growth Year-on-Year, %	March, v. 2	7.8	6.6	5.5	4.8	5.9	180
	March, v. 1	7.4	5.1	4.3	3.6	4.7	128
	Oct., v. 1	5.8	5.7	4.4	2.9	4.3	112
Capital Influx, % of GDP	March, v. 2	-0.9	1.9	2.0	1.0	1.5	
	March, v. 1	-1.6	0.1	0.3	0.2	0.1	
	Oct., v. 1	-2.2	0.2	-0.0	-0.0	-0.2	
* v. 1 — conservative (worst-case) scenario for long term growth; v. 2 — moderately optimistic scenario for long-term growth. Source: Updated forecast of socioeconomic development until 2030.							

— *Vedomosti*

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