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Big Companies Cutting Staff in Gloomy Economy

By Yekaterina Yezhova

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AvtoVAZ is making major cuts, dismissing 1,500 workers at the end of April and offering others early retirement. **Denis Abramov**

A slew of announced layoffs is rattling the domestic labor market, threatening to further undermine a weak economy.

Russia's two largest banks, state-owned Sberbank and VTB, have joined the country's biggest carmaker, AvtoVAZ, in declaring significant staff reductions in the upcoming months.

VTB Group disclosed last month that it would cut employees and the salaries of remaining staff at its core business, VTB bank, and its investment arm, VTB Capital, by 15 percent.

"Now is a poor time. We do not expect any increase in profit this year," VTB bank president Andrei Kostin said at the World Economic Forum in Davos late January.

"Our main resource for today is, first of all, a more efficient business and cuts to costs," he

said, Prime news agency reported.

Kostin said the group would consolidate some operations, leading to the layoffs. As of the end of September, VTB Group employed 99,600 people.

The development came two months after Sberbank, the country's largest bank by assets, said it would reduce personnel to 220,000 people over five years from the 250,000 people that it currently employs.

More bad news for workers came in late January when AvtoVAZ, majority-owned by French carmaker Renault-Nissan, said it would dismiss 1,500 pension-age employees by the end of April and offer 1,000 younger employees the option of taking early retirement in an effort to optimize personnel expenses.

AvtoVAZ said earlier that it would lay off a total of 7,500 employees, or about 11 percent of its workforce, in order to improve profitability. AvtoVAZ is based in the Samara region city of Tolyatti.

But the laid-off workers might be put back to work — if they are willing to move several thousand kilometers to the east. Domestic car producer Sollers Group, which represents UAZ, SsangYong and Isuzu, has promised to hire the workers at its facilities in Vladivostok.

"The opportunity to transfer personnel from car-producing enterprises in the European part of Russia is one of the most efficient and quickest ways of tackling a problem of staff shortages in the Far East," Sollers general director Vadim Shvetsov said in a statement.

Sollers is cooperating with the Far East Development Ministry on the relocation program.

Layoffs are a symptom of a bigger problem with the economic health of Russia, which spent $51 billion on the Sochi Winter Olympics, and there is little hope that the labor market will improve any time soon, observers said.

"All of the factors that are causing banks to cut expenses will remain in force in 2014," Veles Capital analyst Yury Kravchenko said.

Nord Capital senior analyst Roman Tkachuk said a 15 percent drop in car sales in 2013 had forced AvtoVAZ president Bo Anderson to take unpopular measures and cut personnel.

"He needs to optimize the structure of AvtoVAZ, and this is impossible to do without layoffs," he said.

Weak car sales are an industry-wide problem as drivers delay new car purchases over fears about the country's economy.

"The situation at VTB is less tense, but the bank is evidently lagging behind its planned growth rates," Tkachuk said.

Official unemployment in Russia grew 3.2 percent to 917,139 people in January, with unemployment numbers up in 75 of Russia's 83 regions, according to the Labor Ministry.

The growth rate for unemployment is the highest since October 2009, when Russia was stuck in the 2008 to 2009 global financial crisis, HSBC said in a report on Russia's Services Purchasing Managers' Index. The indicator, which captures an overview the employment and sales situation, showed that the economy was contracting and moods were bearish.

"Russian service providers opted to cut staff, on average, in January," the report said. "The current sequence of job shedding was extended to five months, and the rate of decline in the latest period was the fastest since August 2010, when the sector was disrupted by extremely hot weather. Manufacturing jobs declined for the 14th time in 15 months, and the overall rate of contraction across both sectors was the fastest since October 2009."

The economy got off to a weak start for the year, leading to an increased risk of stagnation and recession, said Alexander Morozov, HSBC chief economist for Russia. Making matters worse, the rate of new business growth has slowed down and new manufacturing orders have dropped for the past two months in a row, he said.

In 2013, the growth of gross domestic product fell to 1.3 percent from 3.4 percent in 2012 and 4.3 percent in 2011, the Federal State Statistics Service said.

Deputy Economic Development Minister Andrei Klepach has said GDP will grow by 1 percent a month in the first quarter of 2014, followed by 1.5 percent to 2 percent in April, May and June, and by 2.5 percent for the overall year.

Fitch, the international ratings agency expects GDP growth of 2 percent in 2014, driven by private consumption, but does not see a dynamic recovery. "A shrinking labor force and lack of structural reform constrain long-term growth," said the agency, which affirmed the country's Issuer Default Rating at BBB with a stable outlook.

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