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INDEPENDENT NEWS FROM RUSSIA

Capital Flight Expected to Hit Staggering $70Bln in First Quarter

By Anna Dolgov

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Capital flight will reach up to $70 billion in the first quarter of this year amid the deterioration of the country's relations with the West over Moscow's annexation of Crimea, a deputy economy minister said.

The forecast marks what would amount to the largest capital flight since the 2008 financial crisis.

U.S. and European sanctions against Russia "are not yet economically significant, but the cooling of relations is by itself a substantial negative factor for economic growth and, consequently, will affect capital flight," Deputy Economic Development Minister Andrei Klepach said, Interfax reported.

Investors will funnel $65 billion to $70 billion, but "most likely closer to $70 billion," out of the country in the first three months of the year, Klepach said.

The amount is slightly larger than the $62.7 billion in capital outflow for the whole of last year and is the highest since the fourth quarter of 2008, when flight reached $132.1 billion, according to Central Bank figures.

Nearly half of this year's quarterly outflow has taken place in March after Russia began its annexation of Crimea. In February, Klepach had estimated that capital outflow would total about $35 billion in the first quarter.

The revised forecast of capital flight follows a decision by Standard & Poor's financial rating agency last week to downgrade Russia's credit rating to negative in anticipation of the economic fallout of the Crimea annexation.

Klepach declined to estimate the volume of capital flight for the whole of this year.

He also said that he expected economic growth in the first quarter to be "around zero," despite an acceleration in year-on-year growth in February to 0.3 percent from a revised 0.1 percent in January.

"February turned out to be better than we had expected, but it is too early to talk about an exit from stagnation," he said.

Inflation is expected to reach 0.9 percent to 1 percent in March, compared to 0.7 percent in February, suggesting annual inflation of around 7 percent, Klepach said. The government had earlier projected a target inflation rate of 5 percent for this year.

Last year the economy grew by just 1.3 percent, far below initial forecasts, but government officials have expressed hope that it would recover in 2014.

Amid Russia's deteriorating economy and Western sanctions over Crimea, financier George Soros has warned against tightening the punitive measures too far.

"Just punishing Russia will push Putin further into a corner and as a wounded animal he would strike back and it would be a lose-lose proposition," the billionaire investor and chairman of the Open Society Institute said last week, Bloomberg reported.

Soros said, however, that the U.S. could impose the "strongest sanction" possible by opening up its Strategic Oil Reserve, flooding markets and depressing crude prices. Russia needs oil prices at $100 per barrel or more to balance its budget. Oil is currently trading at about $100 per barrel.