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Russian Recession Could Damage Global Economy

By The Moscow Times

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WARSAW — The European Bank for Reconstruction and Development slashed its regional growth forecasts in half on Wednesday and warned of damage to the world economy if the crisis in Ukraine sends Russia into recession.

The bank has begun its annual two-day meeting in Warsaw against the backdrop of the worst East-West standoff since the Cold War ended 25 years ago, set off by Russia's annexation of Crimea and alleged backing for separatists in eastern Ukraine.

"What we are worried about, really, is the potential escalation of the sanctions, particularly on the financial system," EBRD chief economist Erik Berglof told a news conference.

Russia's economy was already slowing before its annexation of Crimea drew international sanctions. The extra strain means growth is now likely to flatten this year and reach just 0.6 percent in 2015, the EBRD said. It had forecast growth of 2.5 percent this year.

Worse still, Russia, the region's biggest economy, could fall into recession if more serious sanctions are imposed, the EBRD warned — and that could drag down growth worldwide.

Even under current conditions, Ukraine's economy is expected to plunge 7 percent this year and not grow at all next year. If its crisis escalates, the damage would be even worse.

"Under a more negative scenario, the Russian economy would enter recession and output contraction in Ukraine would deepen," the EBRD said in a report.

"Coupled with increased risk aversion in global markets, this would bring growth in the EBRD region to a standstill. At this point, the Russia-Ukraine crisis would start impacting the global economy."

Latvian Finance Minister Andris Vilks said at the EBRD meeting he may lower his forecast for gross domestic product growth because of the Ukraine crisis. Latvia depends on Moscow for trade and energy, and it has already revised the forecast to 4 percent from 4.3 percent.

The Cold War-tinged unrest was not the only source of downward pressure the EBRD identified.

Lending is slowing in the region as Austrian, Italian, German and Greek banks retrench following the euro crisis. High levels of bad loans are prevalent, most notably in ex-Yugoslav states, Bulgaria and Romania.

Political strains are also widespread. Poland may relax its fiscal discipline to win election votes next year. Hungary's unorthodox monetary policy remains under scrutiny.

The EBRD has expanded its reach in recent years to include Mongolia, Turkey and the economies affected directly or indirectly by the 2011 Arab Spring, such as Morocco, Egypt, Tunisia and Jordan.

The EBRD also cut its forecast for Turkey, another of the big economies in the bank's area. It now predicts 2.5 percent growth, down from the previous 3.3 percent.

It added, however, that Turkey had performed better than some had predicted at the peak of its market turmoil early in the year.

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