

# Russia's Sinking Economy Pulls Down Ex-Soviet Neighbors

By [The Moscow Times](#)

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The main railway station in Dushanbe, the capital of Tajikistan, which is susceptible to Russian economic woes.

LONDON/ALMATY — Farangees Islomova is worried. Her husband, who labors on a construction site in Moscow's Shchyolkovo suburb, usually sends 15,000 rubles home to Tajikistan every month. But in July he sent her just two-thirds of that.

"My husband says they haven't started a new building yet. He had wanted his younger brother to join him in Moscow ... but recently he called and said: 'The master says he will not take any new workers and there will be lay-offs,'" said Islomova, a 36 year-old mother of three, whose family relies on the money her husband sends from Russia.

She says another brother-in-law, a supermarket worker in Moscow, recently had his salary cut, as Russia's deepening economic gloom bites into consumer and housing demand.

Islomova is not the only one worried. To paraphrase the adage: when Russia sneezes, the rest of the ex-Soviet Union catches a cold.

Storm clouds were also gathering over the Russian economy well before the Ukraine crisis took hold late last year, with long-range official projections weakening alarmingly.

But Western sanctions against Russia over its role in Ukraine's conflict have undermined it further. Russia now faces recession this year and countries with post-Soviet economic ties face the fallout as Kiev breaks away to the West.

Across the Commonwealth of Independent States, or CIS, bloc, memories linger of 2008, when Russia's economic slump played out across the region of 300 million people, causing recession, triggering housing crashes and bank debt defaults.

"There is a very strong transmission channel from Russian economic weakness to surrounding areas," said Christopher Granville, managing director at consultancy Trusted Sources, who describes Russia's economy as being in a state of "slow strangulation."

"Russia's recession in 2009 was a major blow to the CIS ... all in all, it is a bleak outlook for the whole region."

In many ways, the economic weakness in most of these countries, run by unpopular authoritarian governments, is structural, due to lack of reform, reliance on commodity exports and weak institutions. Some countries, including Armenia and Azerbaijan, also have their own geopolitical disputes.

In desperately poor Tajikistan, remittances from Russia fell more than 13 percent in the first three months of 2014 from year-ago levels, the country's Central Bank says.

Given that remittances make up 40 percent of Tajik gross domestic product, falling receipts from Russia are likely to hit growth as well as the somoni currency, which has already weakened 5 percent versus the dollar this year.

Such fears are spreading across the CIS, whose citizens sent home \$25 billion from Russia last year. Just more than \$4 billion was sent in the first quarter of 2014.

Then there is trade. Armenia for instance, sends a fifth of its exports to Russia. This revenue is crucial for its balance of payments deficit, a huge 10 percent of GDP. Its other mainstay is remittances, of which 80 percent flow from Russia.

Of the other CIS states, a quarter of Uzbek exports go to Russia, the Asian Development Bank says. Russia also takes 15 percent of Kyrgyz and almost a tenth of Kazakh exports.

"Russia's economy has not gone from 4 percent growth to 0.8 percent because of the Ukraine crisis, the deceleration began a while ago," said Commerzbank analyst Tatha Ghose.

"But if the crisis does not de-escalate soon, we will see the multiplier effects becoming more evident across the region."

## **Customs Union**

Russia's economy will barely grow in 2014, its worst performance since 2009. Interest rates, up 250 basis points this year, may rise further as food import bans push up inflation.

Unsurprisingly, consumer demand, which has underpinned Russia's economy, is cooling as real wages grow at the slowest pace in years. The ruble is down 8 percent against the dollar so far this year.

Ruble depreciation creates its own headaches for regional governments, especially for Kazakhstan and Belarus which earlier this year entered a free trade zone with Russia.

To protect its trade in the face of the ruble's sharp slide, Kazakhstan devalued the tenge by 19 percent in February, replicating steps it took after the 2008 crisis. But the benefits are already eroding — since end-June the tenge has strengthened 9 percent against the fast-weakening ruble.

Kazakhstan's trade turnover with the bloc has already fallen by a quarter in the first half of 2014 from year-ago levels, a consequence of the Russian slowdown, said Alikhan Smailov, the head of the country's state statistics agency.

"Kazakhstan is feeling the consequences of Russia's slowdown," Smailov said, noting that the Kazakh economy had grown 4 percent in the first seven months of 2014, compared with 6 percent full-year levels last year.

While Russia has not asked Kazakhstan and Belarus to comply with the food bans, Granville says Moscow's plans to expand the customs union into a big single market have suffered a setback.

"Not only is Ukraine now lost, the resulting economic blow has weakened the attractions of the union to members," he added.

## **Geopolitics**

Russia's standoff with Ukraine and the West also carries broader geopolitical risks if the region's mostly authoritarian governments are faced with popular discontent due to falling incomes, returning migrant workers and potential bank runs.

The tensions, including Moscow's annexation of Crimea from Ukraine, are reviving long-standing territorial conflicts such as the self-proclaimed republic of Transdnestr in Moldova and the breakaway Georgian regions of Abkhazia and South Ossetia, ratings agency Moody's noted.

Armenia and Azerbaijan have also recently clashed over the Nagorno-Karabakh enclave, claimed by both countries.

"Given that most CIS countries have large ethnic Russian populations, we now consider domestic political stability to be more at risk than prior to the crisis," Moody's added.

There could be some short-term benefits — Belarus and Uzbekistan for instance are

expecting to grow their food exports to Russia while Moscow will allow neighboring countries to re-export items processed from Western raw materials.

Belarussian firms may also be able to cash in by re-routing food imports across the border as suppliers try and sidestep Moscow's ban.

The picture is also less dire than five years ago. Russia's economy will either flatline this year or contract by 1 percent, while in 2008 to 2009 it suffered an 8 percent slump. Oil prices are also about \$100 a barrel and are unlikely to crash to \$45 a barrel as they did in 2008.

That at least may help Russia and fellow energy exporters, Kazakhstan, Uzbekistan and Azerbaijan, to weather the storm.

**See also:**

[Crash in Oil Prices Deals Blow to Sanctions-Hit Russian Economy](https://www.themoscowtimes.com/2014/08/20/russias-sinking-economy-pulls-down-ex-soviet-neighbors-a38555)

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