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10 Kremlin Moves That Hurt Russia's Economy

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As the economy nosedives, the public mood threatens to plunge right alongside it — and some of the Kremlin's more questionable economic moves may come back to haunt the people who made them happen.

As the Russian economy ambles toward recession, the government grapples with how to explain the downturn — no easy feat after 15 years of slowly mounting prosperity and President Vladimir Putin's campaign promises of lavish social spending.

So far, the authorities have been inclined to blame external factors, such as sanctions imposed by the West over accusations of Russian meddling in Ukraine and the sliding price of oil, which at least some Kremlin backers blame on a covert deal between Washington and the Gulf monarchies.

The approach is clearly working, with Putin's approval ratings resting comfortably above 80 percent, and widespread public adoration fueled by a patriotic euphoria over said meddling

in Ukraine.

But as the economy nosedives, the public mood threatens to plunge right alongside it — and some of the Kremlin's more questionable economic moves may come back to haunt the people who made them happen.

The Moscow Times has compiled a list of 10 economic moves currently hitting the Russian business community and/or the general populace that the government has had a hand in. The impact of most items on the list — up to and including the hypothetical risk of "smoker riots" — is expected to be felt in 2015, just around the corner.

1. Falling Ruble

The ruble has lost 38 percent of its value versus the U.S. dollar since the start of the year, and earlier this month the Central Bank stopped supporting the exchange rate, apparently due to shrinking currency reserves. The devaluation is expected to hit all industries with foreign connections in the coming year, including retail, tourism and dining. About 25 percent of the restaurants in Moscow are expected to shut down next year, consumer confidence is sliding, and clothes shopping and travel abroad are becoming less accessible to middle-class Russians.

2. Borrowing Restrictions

The EU and U.S. have limited access to international capital for Russia's state-owned banks and corporations, including VTB, Sberbank and Rosneft, because of Russia's support for separatists in Ukraine. Other Russian banks and companies are also reportedly struggling to borrow internationally, with foreign lenders increasingly distrustful of Russian businesses in light of a geopolitical standoff.

The end result is obstructed access to capital and rising borrowing costs for Russian companies, which already have a corporate debt of $600 billion as of October, according to Central Bank data.

3. Food Sanctions

One of the most questioned countermoves against the Western sanctions was an embargo on food exports from the U.S. and most European countries. The government promised that the embargo would boost domestic productivity, and that Asian and South American exports would make up for the rest. But dairy and meat imports have shrunk by a third, according to customs data, and food inflation this year has neared double digits, the State Statistics Service said this month.

4. Bashneft

In what has arguably been the highest-profile corporate scandal since the fall of oil giant Yukos in the 2000s, the government earlier this year voided the 2003 privatization deal for oil company Bashneft, nationalizing the controlling stake and placing its owner Vladimir Yevtushenkov under house arrest.

The selective inspection of a single privatization deal among dozens prompted speculations about its motives — with many commentators referring to it as a takeover attempt by state-run Rosneft. The company denied it, but the move — which highlighted a lack of property-right guarantees in Russia — did nothing to boost investor confidence, which had already taken a hit from political risks in the country.

5. New Business Duty

As falling oil prices ($79.2 per barrel of Brent as of Tuesday) drain the state coffers, the government is struggling for revenue and apparently expects small businesses to foot the bill. Though plans for a sales tax have been shelved, a government-penned bill under review in the State Duma proposes a new duty for small businesses of all stripes, from hairdressers to grocery stores, transportation firms and even public pay-per-use toilets.

The quarterly municipal duty is to vary from 6,000 to 600,000 rubles ($130 to $13,000). Analysts said it would cripple Russia's already heavily taxed small and mid-sized businesses, which — according to Prime Minister Dmitry Medvedev — account for a mere 20 percent of Russia's GDP, compared with 50-60 percent in developed countries.

6. Gas Prices

As oil prices plummet, gasoline prices in Russia continue to soar (9 percent since the start of the year, to about 33 rubles, or $0.70, per liter). A hike to 50 rubles ($1.06) per liter is expected in 2015 because of new duties. Given that Russia is a leading oil producer, the government will have a hard time selling the hike to millions of motorists nationwide — and that is without mentioning the negative impact of increased transportation costs on the economy.

7. Property Tax

Russian real estate tax is currently a blip on the radar of public spending, but new rules will cause it to surge 10 to 20 times by 2016, to between 5,000 and 26,000 rubles ($107 to $550) a year for typical Moscow apartments, according estimates by news site Realty.NewsRu.com.

The tax has been in talks for years, continually mothballed over fear of public discontent, especially among apartment owners in the lower income brackets. Given the slowing economy and rising prices, discontent is exactly what can be expected to happen when hefty new bills hit mailboxes everywhere.

8. Pension Freeze

The government has approved a freeze of a combined 540 billion rubles ($11.5 billion) of non-governmental pension fund savings for 2014 and 2015, with the money expected to be spent on more immediate state projects. Simultaneously, it expects to spend the last 3 trillion rubles ($64 billion) from the state's National Welfare Fund — intended as backup for the flagging, also state-run Pension Fund. The money has been earmarked for state corporations, with Rosneft and Russian Railways having already requested 1.5 trillion rubles each.

Though the official line is that the savings will be returned, and emptying the National

Welfare Fund will boost the economy, many observers are skeptical. The state risks running out of emergency savings, while simultaneously incurring the ire of 28 millions of Russians who keep their pension money in those plundered private funds.

9. Social Spending Cuts

State spending on health care and education will be slashed in 2015 by 21 percent and 6 percent year-on-year, respectively, as outlined in the draft state budget. In Moscow, a handful of public hospitals are slated to be shut down — and replaced by malls and high-end real estate — already triggering street protests by medics.

10. Tourism Slump

The Russian tourism industry is in its death throes, with dozens of travel agencies having declared bankruptcy this year, in many cases leaving hundreds of tourists stranded at a time. A story by the Kommersant newspaper in October linked the industry's turmoil to decreased revenues caused by the government prohibiting about 4 million officials, or 22 percent of all tourists, from traveling abroad over fears that they risked being seized by Western spy agencies. And that was before the ruble's devaluation and its devastating effect on tourism (see above).

Honorary Mention: Tobacco Tax Hike

The State Duma last week approved a new increase in tobacco excise tax, the second in two years. Cigarette brands used by 80 percent of smokers will become about 10 rubles ($0.20) more expensive per pack, Kommersant said.

While modest, the hike may prove to be the final straw as far as public patience is concerned. In a country where the average salary is 22,000 rubles ($460) and half of the male population is smoking, "smoker riots" are undesirable but possible.

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