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Russian Firms' Lavish New Year's Parties Curtailed Amid Economic Woes

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Low holiday spending is just salt in the wounds of the Moscow hospitality industry.

Russian companies are cutting back on the lavish New Year's parties that have become a hallmark of Russian corporate culture as falling oil prices and breakneck ruble devaluation stoke fears of economic crisis.

Their newfound thrift is a sign of the dour mood among businesspeople and is bad news for Russia's hospitality industry. Restaurants and hotels count on New Year's events to survive January and early February, when customers stay home and recover from the blow-out spending of the holiday season.

For many restaurants, the current crisis looks "exactly the same," as Russia's economic disaster years of 1998 and 2008-09, said Igor Bukharov, president of Russia's Federation of Restauranteurs and Hoteliers.

Russia is teetering on the edge of recession. Western sanctions over the crisis in Ukraine and a steep fall in oil prices have crushed already faltering growth, devalued the ruble currency by more than 40 percent against the U.S. dollar and sent capital outflows skyrocketing.

The World Bank last week said Russia's economy would contract by 0.7 percent next year.

Businesses are worried, and have slashed their New Year's spending. Restaurants have received 40 percent less calls and orders for holiday company parties than last year, according to Bukharov.

Natalya Takhokhova, PR director for the Paradise banquet hall in central Moscow, agrees. Restaurants have seen demand fall by about 30 percent from 2013, and companies are looking to decrease event budgets by as much as half, she said.

But as is often the case in times of economic hardship, it all depends on where you're sitting. Big oil, diamond and metal companies are still spending as much as ever, said Ilya Avdyunin, head of event agency abd:Entertainment.

On the one hand, these companies can still afford to throw big office parties. And on the other, "they understand that when you're surrounded by crisis, it's very important to rally the team," he said.

While end-of-year parties are common around the world, Russian companies are known for celebrating New Year's — a holiday bigger even than Christmas here — with a special gusto.

State corporations in particular have earned a reputation for throwing opulent celebrations with celebrity headliners and costly gifts handed out like candy.

As public disapproval mounted, these companies were urged to be more frugal. President Vladimir Putin last year publicly criticized spending state funds on company parties, a message reiterated by Prime Minister Dmitry Medvedev last week.

But in the private sector, extravagant celebrations remain par for the course. A sumptuous gala is seen in Russia as a testament to the power and status of the company that throws it, Avdyunin said.

"Everyone in Russia likes to argue about companies hiring stars for business events — but in fact, it sends a message to a company's employees: The higher the status of an entertainer, the higher the status of the company you work in and the more its management is perceived as loving its employees," Avdyunin said.

But while big corporations can afford lavish entertainment, most Russian businesses are forced to make compromises.

Event organizer Art Event is still getting orders for New Year's parties, but clients preferences have changed.

Five-star restaurants near Red Square have been replaced by cheaper venues outside the city center, and companies that would previously pay 1 million rubles excluding food costs, or $33,000 as of Jan. 1, 2013, are now prepared to spend only 300,000-500,000 rubles, or

$5,000-$8,500 at current rates, on an event program, creative director Ashot Pogosyan said.

This is a blow for event organizers, some of whom earn as much as 20 to 30 percent of their revenues in the New Year's season, Pogosyan estimated. All told, the event business could lose half of its turnover next year due to the crisis, he said.

Low holiday spending is just salt in the wounds of the Moscow hospitality industry. Mid-priced restaurants in particular have been hit this year as the falling value of the ruble has driven price inflation and eroded their middle class customers' spending power.

Food prices shot up 9.6 percent between January and October this year, according to data from state statistics service Rosstat.

But the situation may have a silver lining. In his 34 years in hospitality, Bukharov has found that the financial crises punctuating Russia's recent history in the end just make the hospitality industry stronger.

“People who have passed through a crisis become stronger, harder-working. They are able to analyze the market and customers' preferences. The cup is both half-full and half-empty,” Bukharov said.

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