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10 Events That Shook Russia's Economy in 2014

By Peter Hobson

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President Vladimir Putin is seen on a screen during his annual end-of-year news conference in Moscow Dec. 18.

A recap of Russia's economic year makes grim reading.

2014 began with slowing growth. Moscow's seizure of Crimea and standoff with the West over Ukraine's breakaway eastern regions deepened the malaise. Western sanctions severed Russia from international capital markets, and a collapse in oil prices from July multiplied the damage.

Facing economic isolation, Russia tried to pivot east to China. Legislation was passed to push foreign owners out of domestic media and an oil company was summarily nationalized.

Now the country's currency is wracked by a plunging economy set for recession, inflation is racing higher and higher, and only a radical but unlikely rebound in oil prices could prevent

deep budget problems next year.

The Moscow Times looks back at the key events that got us here.

January: Ruble Trouble

Russia was set for a slump before the year even began. The economy grew just 1.3 percent in 2013 — less than half its rate the year before — and looked set to slow further.

The ruble, which had been sliding since the previous summer, began to accelerate its decline, hit by falling confidence in Russia and a global capital exodus from emerging economies as the United States prepared to scale back monetary stimulus.

Despite Russia's Central Bank spending nearly $10 billion to defend the ruble — at one point throwing more than $1 billion per day into the fight — the currency lost 7 percent of its value against the U.S. dollar during January, hitting its weakest levels in five years. It lost 5 percent to the euro, achieving all-time record lows.

The loses seemed spectacular, and jittery Russians began dumping rubles for hard currency and real estate. Worse was to come.

March: Crimea and First Sanctions

Troops fanned out across Ukraine's Crimean Peninsula in the first days of March, seizing key infrastructure in a bloodless takeover. On March 18, Moscow officially annexed the territory.

The same week, the U.S. and EU slapped sanctions on rich and powerful Russians deemed culpable for the land grab or close to President Vladimir Putin, as well as companies belonging to them.

Russian officials laughed off the measures. Two banks owned by sanctioned individuals that the U.S. promised to "freeze out of the dollar" got juicy new work at home.

But the risk premium attached to Russia by investors and banks went through the roof. New investment shriveled, and capital flight spiked. About $63 billion fled Russia in the first quarter, according to the Central Bank. By the end of the year, some $125 billion will have seeped out of the country, government estimates say.

May: Gas Deal With China

With the West apoplectic over Crimea, Moscow looked for new opportunities in the East, where leaders are less concerned by European border issues.

Russia soon proved how serious it was by signing of a 30-year natural-gas supply deal with China worth $400 billion.

But despite the Kremlin's positive spin, many analysts believe that the contract's unknown terms most likely offer slim profits for Russia.

June: Russia Cuts Gas to Ukraine

Russia nearly doubled the price of gas for Ukraine following the ouster of Kiev's pro-Russian government in February. When cash-strapped Ukraine refused to pay, Gazprom on June 16 cut supplies to the country.

The two sides immediately filed competing claims at the international arbitration court in Stockholm. Gazprom said Kiev owed it $4.5 billion and pointed to signed contracts justifying its price hikes. Ukraine said Moscow had abused its monopolistic power to systematically overcharge and demanded $6 billion in compensation.

The dispute cemented Europe's belief that the Kremlin has no qualms about using its gas dominance as a foreign policy weapon. After five months of EU-brokered crisis talks, a temporary agreement to resume supplies was achieved only in October.

The dispute also cost Gazprom billions of dollars in lost revenue at a time when capital expenditure obligations were increasing and sanctions were complicating its financing.

July: New Sanctions

On July 17, a passenger airliner was brought down over eastern Ukraine, killing 298 mostly Dutch citizens and inflaming the debate over the long-running Ukraine crisis.

The day before, the first U.S. "third wave" sanctions had crashed into Russia's banking, energy and defense sectors. More would follow, and the EU, united by the airliner tragedy, would announce similar measures.

The sanctions bar many of the country's biggest companies from raising long-term finance on Western-controlled capital markets, and have scared most of the world's banks away from Russia.

Russian banks and corporations had $650 billion of external debt. Unless the sanctions are repealed, these loans will have to be returned instead of being rolled over. Some $100 billion — or 5 percent of gross domestic product — will pass from Russia to its overseas creditors each year. For years.

In the energy sector — the mainstay of Russia's public finances — the measures threaten to slowly erode Russia's production capacity by curbing exports of advanced drilling technology and banning Western companies from working on Russian most hard-to-reach oil projects.

August: Food Import Bans

Russia does not control the world's financial infrastructure as the West does. Its retaliation to Western sanctions was cruder.

On Aug. 6, Moscow imposed one-year bans on imports of meat, fish, fruit and vegetables from the U.S., the EU and a handful of other countries that had imposed sanctions on Russia. The curbs destroyed trade worth $9 billion per year. They hit immediately and hurt Russian consumers along with foreign exporters.

Hopes of a revival in local food production to replace European market-dominators soon fizzled due to a lack of investable capital.

Food price inflation began rocketing as retailers struggled to quickly and cheaply replace banned foodstuffs. Within months, the price of meat and fish would rise by up to 20 percent.

September: Oil Price Falls Below $100

Since 2011, the price per barrel of global benchmark Brent oil has hovered around $110. In mid-July, a barrel cost $115.

Then, as global supply began outpacing demand, it began to fall.

In September it sank through $100. By December, major oil producing nations had failed to agree to measures to stop the slide, and the price fell below $60. Prices are likely to stay low for months, if not years.

For Russia the fall is a catastrophe. Half the country's budget is tax gleaned from the oil and gas industries. For every $1 fall in the oil price means about $2 billion less for the government per year. Long-term gas prices are pegged to oil, so with a small time lag, gas prices will also decline.

The lower oil price multiplies the effect of sanctions. With energy sales earning less dollars for the economy, there is less cash to feed into loan repayments, social spending and investment.

September: Yevtushenkov Arrest

By fall, authorities appeared to be getting twitchy about the worsening economic weather.

On Sept. 16, Vladimir Yevtushenkov, then Russia's 15th richest person, was arrested and placed under house arrest on money laundering charges related to the purchase of Bashneft, a fast-growing and profitable Russian oil company.

Investigators said Bashneft had been illegally privatized in 2003, and that a chunk of money had gone missing during its 2009 purchase by Yevtushenkov's company.

Six weeks later, Bashneft had been expropriated by the state after double-quick court proceedings.

The move decimated investor confidence. Yevtushenkov had been famously apolitical and assiduous in his dealings with those in power, but even he was shaken down.

Yevtushenkov's arrest suggested the accepted rule book had been thrown out; that in difficult times, no one was safe. Many thought the renationalization was intended to aid inefficient, sanctions-struck state-owned oil majors.

In December, Yevtushenkov was released. Bashneft remains in state hands.

September: Curbs on Media

One day after Yevtushenkov's arrest, a law capping foreign ownership of Russian media at 20 percent raced through three readings in parliament and was heading toward the president's rubber stamp.

Russia's key television stations are already held by Russian state companies, but print media in particular are brimming with international firms including News Corp, Hearst, Axel Springer, Conde Nast and Sanoma, owner of The Moscow Times.

All these companies will be forced to dilute or sell their stakes in Russian ventures by February 2017.

If Yevtushenkov's house arrest didn't say it loud enough — the rule book for business in Russia was gone.

December: Ruble Tailspin

Since Jan. 1 the ruble has lost almost 45 percent of its value against the U.S. dollar and 35 percent to the euro. Almost all of those losses came between mid-July and mid-December, echoing the 45 percent fall in oil prices over the same period.

On Dec. 15, strained confidence was shattered by what looked like an undercover attempt to give a $10 billion bailout to state oil firm Rosneft through the Central Bank. Even a stable oil price did not prevent a torrential ruble sell-off from overpowering a 6.5 percent interest rate hike by the Central Bank. At its worst point, the ruble had lost over 25 percent of its value against the dollar in less than two days.

Only a series of emergency meetings and a raft of market-stabilization measures stemmed the panic, allowing the ruble to recover — to its previous level, 45 percent down against the dollar.

In 2008, as the credit crunch exploded through the global economy, oil prices fell from a peak of $140 in the summer to nearly $40 dollars by January 2009 — a decline of 65 percent. But the ruble fared better, falling only 36 percent against the U.S. dollar and less than 25 percent versus the euro.

The difference between the two shocks is sanctions: In this crisis, Russia must face the oncoming recession not only without any outside bridge-loans to help, but while returning old ones.

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