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Economist Predict 3.6 Percent Contraction for Russia Next Year

By The Moscow Times

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The Russian economy will slide next year into its first recession since the global financial crisis and inflation will be close to double digits, economists forecast in a Reuters poll, as the oil price crash and Western sanctions bite.

According to the median of 11 economists' predictions, gross domestic product will fall 3.6 percent in 2015. After growth of just 0.5 percent this year, the recession will challenge President Vladimir Putin's promise last week that Russia can eventually recover from what he called "tough times."

They also predicted the ruble would stay under pressure, forcing the Central Bank to keep punishingly high interest rates until well into 2015.

At the start of this year analysts forecast the economy would expand by 2 percent in 2014. But since then it has suffered a reversal of fortunes due to the unexpected plunge in the price of oil, Russia's main export earner, and the sanctions imposed over Moscow's role in the Ukraine crisis that have drastically curbed foreign financing.

Vladimir Miklashevsky, an economist at Danske Bank in Copenhagen, made the most pessimistic GDP forecast in the poll. He expects the economy to shrink 7.9 percent next year, about the same as in the global crisis year of 2009.

"As a result of the geopolitical problems, Western sanctions against the Russian Federation and the response of the Russian authorities in 2014, there has been a significant increase in both consumer prices and the cost of foreign funding," he said.

Inflation is expected to hit 10.1 percent at the end of this year, the poll showed — nearly double the 5.5 percent target the Central Bank had at the beginning of this year for 2014 — before slipping to 9.2 percent in 2015.

Former finance minister Alexei Kudrin said Monday that he expected inflation to hit 12-15 percent in 2015 as the country suffers a full-fledged economic crisis.

The ruble's more than 40 percent drop against the dollar this year has forced the Central Bank to raise interest rates several times. The latest emergency rise last week by an unprecedented 6.5 percent took its main rate to 17 percent, a level that virtually kills commercial lending.

Economists forecast in the poll that the Central Bank would start easing rates only in the second half of the year, and if the overall situation improves.

The ruble has firmed in recent sessions to around 55 to the dollar thanks to stabilizing oil prices and a series of measures by the Central Bank and the finance ministry to support banks and squeeze ruble liquidity.

Nevertheless the currency is still facing tough times. The economists forecast it would end this year at around 60 rubles per dollar before firming to 50 rubles by the end of 2015.

"[It's] very hard to forecast the ruble," said Christopher Shiells, an economist at Informa Global Markets. "But I am of the view that the worst has been seen."

Olga Lapshina, an economist at Bank St. Petersburg, said the ruble could weaken in the first quarter of 2015 due to large debt repayments by Russian companies but may firm later.

Russian banks and companies face around $120 billion in debt repayments next year, according to Central Bank data.

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