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How Far Will Russia's Recession Spread Beyond Its Borders?

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As the clouds of recession gather over Moscow, Russia isn't the only one preparing for a storm.

Russia's economic crisis announced itself to the world last week, when the collapse of the Russian ruble sent spasms through currency markets across Central Asia and Eastern Europe.

Some post-Soviet neighbors have already taken action to insulate themselves. Belarus on Monday temporarily closed all over-the-counter currency exchanges, adding to a 30 percent commission on purchases of foreign currency announced last week. Kyrgyzstan has also closed down private exchange offices in an effort to protect its currency.

Switzerland was the first European country to act, last week placing a negative interest rate on deposit accounts in an attempt to protect the Swiss franc's exchange rate from capital fleeing Russia and other emerging markets.

Further afield, the European banking system is looking on warily, as some of its member nations have substantial Russia exposure.

As low oil prices, Western sanctions over the crisis in Ukraine and systemic internal problems push Russia into a likely recession next year, neighboring economies will have their own host of economic difficulties to contend with.

Here are the countries that will feel the heat of Russia's economic crisis in 2015.

Eurasian Economic Union

Two countries stand out for their close economic and political ties with Russia: Belarus and Kazakhstan, who earlier this year signed an agreement to create the Eurasian Economic Union with Russia.

Although the union is widely viewed as a power play by Russia, the two post-Soviet neighbors have undeniably strong ties with the Russian economy.

About half of Belarussian GDP is tied to the Russian economy via trade, remittances and banking assets, the European Bank of Reconstruction and Development (EBRD) said in a report in September.

According to Belarus' Foreign Ministry, Russia accounts for more than 40 percent of Belarussian exports and more than half of its imports.

This high exposure leaves Belarus vulnerable to declining consumer spending power in Russia, a weakness that has already taken its toll.

Belarus last month cut its growth forecast for 2014 from 2 percent to 0.2-0.7 percent due to Russia's economic downturn, state news agency BelTA quoted Belarussian Economy Minister Nikolai Snopkov as saying.
About 10 percent of Kazakhstan's GDP is exposed to Russia, according to the EBRD, but Kazakhstan has larger concerns.

"The oil price is much more important than Russian performance by itself [for Kazakhstan]," said Oleg Kuzmin, economist for Russia and the CIS at Renaissance Capital.

Caucasus and Central Asia

While Kazakhstan's $224 billion economy can weather a blow of two from without, many of its smaller Central Asian neighbors are not so lucky.

These countries rely heavily on remittances, often via money transfers, from migrant workers in Russia.

Remittances account for 29 percent of Kyrgyzstan's GDP and a full 49 percent of Tajikistan's, according to the EBRD. Armenia, Uzbekistan and Georgia, as well as nearby Moldova, depend on remittances too.

But as economic activity drops, there are less jobs to be had, and the ruble's fall of more than

40 percent agains the U.S. dollar this year means that migrant workers' wages are now worth less in their home country.

The outflow of remittances from Russia to Central Asia shrank in the first quarter of this year for the first time since 2009, according to the EBRD.

The International Monetary Fund in October forecast that economic growth in the Caucasus and Central Asia will slow to 5.5 percent in 2014-15, down from 6.6 percent in 2013, largely due to slowing economic growth in Russia.

Oil importers will be hit particularly hard, with growth falling from 5.6 percent in 2013 to 4.5 percent next year, the IMF said.

Central and Eastern Europe

Moving west, formerly Soviet countries with significant exports to Russia and Ukraine are the next in line to take a hit from Russia's impending recession.

Central and Eastern Europe could lose 0.3 to 1 percent of GDP growth next year due to slowing growth in Russia, macroeconomic research company Capital Economics said in a report late last week.

The Baltic states — which comprise Estonia, Latvia and Lithuania — are particularly vulnerable, as is Poland. The Baltics all send between 10 and 20 percent of their merchandise exports to Russia, while Poland sells more than 5 percent of its exports there, the Economist Intelligence Unit (EIU) reported.

"A Russian recession could, in a bad scenario, cause growth in the Baltics to slow from around 2-3 percent to around 1 percent. ... It's a significant headwind, but not a disaster," Capital Economics analyst William Jackson told The Moscow Times.

Both Poland and the Baltics are buffered by strong domestic demand and, in Poland's case, exports to Germany, Jackson said.

Europe and Beyond

Europe's ties with Russia are nothing to sniff at. The European Union is Russia's biggest source of foreign direct investment and biggest trade partner, with 336 billion euros ($412 billion) of trade in 2012.

As the Russian economy grinds to a halt, Western companies with Russia exposure are scaling back business or cutting down on planned investments, Reuters reported last week.

On a global scale, the biggest hypothetical threat emanating from Moscow is the possibility that a meltdown in the Russian banking system would transfer to Europe and trampoline from there to the world economy.

Several European banks, such as France's Societe Generale, Italy's UniCredit and Austria's Raiffeisen, have significant Russia exposure. But so far, although these individual banks have seen their share prices fall, there has been little transfer to their countries' real economies, according to the EIU.

In short, Russia's slowdown will have its victims regionally, but on a global scale economists expect the blowback to be contained. Russia makes up just 2.7 percent of world GDP and about 1.7 percent of world trade, according to Capital Economics.

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