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Putin Says 'No Grounds' to Feel Confident About Russian Economy

By The Moscow Times

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Russia's President Vladimir Putin speaks during a session at the Week of Russian Business, organized by the Russian Union of Industrialists and Entrepreneurs (RSPP), in Moscow, March 19, 2015.

Russian President Vladimir Putin said on Thursday it was still too soon to feel confident about the country's economy, although his ministers said the worst is over.

Speaking to a conference of Russian businessmen, Putin said the Central Bank's main interest rate, now at 14 percent, remains high but that the level was warranted by the situation.

The Central Bank cut its main rate, the one-week repurchasing rate, by 100 basis points in a second easing this year. Businesses have complained that it is still too high to spur much-needed economic growth.

"Indeed, for now the key rate is high enough," Putin said. "For now there are no fundamental grounds for us to feel confident."

Gross domestic product fell 1.5 percent in January in annual terms. The economy has been hit by Western economic sanctions over the Ukraine crisis and the fall in the global price for oil, Russia's main export.

Finance Minister Anton Siluanov, speaking at the same conference, said however that there were signs that the economy had now entered a period of stabilization.

"The end of last year and the beginning of this year were especially difficult when we saw volatility in the foreign exchange market, the value of our assets declining sharply," Siluanov told a conference of Russian entrepreneurs.

"These two shocks hit us hard. Now, in general, we see that the worst is over, and quite the opposite, we see some signs of stabilization."

The ruble, which in mid-December fell briefly to 80 rubles per dollar, has been trading at around 60 rubles per dollar in recent weeks. But it is still 40 percent down against the dollar compared with the middle of last year.

Russia is expected this year to record its first year of recession since 2009, the aftermath of the global financial crisis. According to the Central Bank's latest forecast, GDP is likely to shrink by 3.5 percent-4.0 percent this year.

The United States and the European Union imposed sanctions on Russia last year over the crisis in Ukraine, where Russia has annexed the Crimean Peninsula and supported pro-Russian separatists fighting Kiev's forces in the east.

German Chancellor Angela Merkel said in Brussels the sanctions would remain in place until the conditions of a cease-fire deal agreed in the Belarussian capital Minsk are met.

Economic forecasts also predict the pace of economic contraction will grow in the coming months.

But Economy Minister Alexei Ulyukayev saw positive signs, telling the congress that inflation had peaked and capital flight this year could be lower than expected and may even be below $100 billion.

Even so, inflation, now running at an annual rate of 16.7 percent, remains far above the Central Bank's long-term target of 4 percent.

Siluanov said inflation could ease to an annual rate of 11-12 percent by the end of 2015 and his ministry expects the recovery to be under way by 2016.

Ulyukayev told the congress that GDP could grow by 2.0 percent-2.5 percent in 2016. However, the Central Bank predicts the economic contraction will continue in 2016.

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