The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Usual Suspects Gobble Up Russia's Budget Pie

By Vladimir Ryzhkov

October 19, 2015

Adverse changes on the world scene, the loss of energy markets, the decline in oil prices, Western sanctions, a lack of domestic reforms, capital flight and diminishing investment have turned this into a chronic economic crisis for Russia.

Standard & Poor's now estimates that gross domestic product will fall by as much as 3.6 percent this year, while the Central Bank anticipates a decline of between 3.9 percent and 4.4 percent.

Opinions vary only slightly concerning 2016, with some predicting negligible growth and others anticipating continued decline. A consensus forecast from Interfax points to a 0.1 percent drop next year.

Following the ruble's sharp devaluation, Russia's nominal GDP dropped from 1.8 trillion dollars in 2014 to approximately 1.1 trillion dollars this year. Accordingly, Russia's GDP for purchasing power parity (PPP) also dropped by almost half.

As a result, Russia will probably lose its ranking as one of the 10 largest economies in the world in 2015.

That means the world's largest and most resource-rich country will fall behind the smaller and resource-poor countries of Italy, France and Britain — not to mention Japan and Germany.

Government coffers continue to fill thanks to the ruble's devaluation, but the real value of that money is falling and incomes have ceased to grow, even in nominal terms.

In its struggle to make ends meet, the government labored two months longer than usual this year to clear the national budget with the president — and still felt compelled to increase the deficit to as much as 3 percent of GDP.

The budget pie is shrinking and money is short everywhere. President Vladimir Putin and his Cabinet face tough choices in deciding what to cut first, what to sacrifice and what to keep.

The final breakdown of the budget reflects the real balance of power in the Russian establishment as well as the nature of the relationship between the authorities and the people.

The most powerful interest groups in Russia remain senior officials and the siloviki — especially the army and secret police. They will suffer the least from budget cuts in 2016.

Their needs will be met at the expense of weaker interest groups — namely, the general public, state employees, pensioners, social welfare programs, raw materials producers and regional and municipal budgets. These are the groups that the crisis will hit hardest.

Inflation is estimated at 12 percent to 13 percent for 2015 while incomes will fall by 10 percent on average. However, the authorities refuse to peg the salaries of state employees to inflation — including for siloviki and state officials — this year or in 2016.

Indexation for unemployed pensioners stands at just 4 percent while those with jobs receive no increase whatsoever.

That means the government will provide almost no compensation to the country's 42.7 million pensioners to offset the effects of inflation — which could reach a total of 20 percent this year and next.

The government plans to dig deeper into citizens' pockets by slashing 40 percent of federal spending on housing and utilities, even while raising the payments required for capital repairs to apartment buildings.

Leaders also plan to cut federal spending on health and education by an average of 10 percent while keeping military spending — which has increased rapidly in recent years — practically untouched, with reductions of only 1.8 percent.

The authorities continue their usual cutbacks to regional and municipal budgets, thereby exacerbating budgetary, social and infrastructure problems across the country.

According to the Finance Ministry, just since the start of 2015 the total debt owed by the regions rose from 2.089 trillion rubles ($33.8 billion) to 2.11 trillion rubles ($34.2 billion), while municipalities have a combined debt of 313 billion rubles ($5.1 billion).

That represents 3 percent of GDP in addition to the 3 percent national budget deficit.

Future pensioners are faring no better. For three consecutive years the authorities have dipped into pension savings in order to finance current expenditures and plan to withdraw or "freeze" a staggering 350 billion rubles ($5.7 billion) of those funds in 2016.

The government also plans to collect another 330 billion rubles ($5.3 billion) from oil companies. With oil prices low, those companies will have to cut back their investment programs while hiking gasoline prices for an already impoverished population.

Former Finance Minister Alexei Kudrin has warned that if the authorities continue in their unwillingness to reduce inefficient spending, they will be forced to raise taxes at the expense of business.

In the midst of a serious crisis, rulers have made the political choice to continue indulging the appetites of the military-industrial complex, security services, state-owned banks and state corporations.

The government will protect their interests at the expense of living standards, investments in human capital, social welfare, the well-being of regions and municipalities and the viability of Russian businesses.

That decision will, in turn, make this crisis even deeper and more protracted.

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The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.