The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Putin Won't Have to Look Far for Darkest View of Russian Economy, Kudrin Says

By Bloomberg

October 24, 2018



Alexei Kudrin / Bloomberg

From his new perch atop a government agency that monitors the budget, one of the few people President Vladimir Putin has publicly called a friend has some blunt words about what's in store for Russia's economy.

Alexei Kudrin, the head of the Audit Chamber since May, warned in an interview that a looming slowdown could be much worse than anticipated. Gross domestic product may expand "considerably" less than 1 percent next year, even as the government sees a downswing to 1.3 percent, according to Kudrin, 58, who was finance minister for over a decade. That's below every forecast in a Bloomberg survey of 42 analysts.

"Unfortunately, a deceleration in growth will be sharper than expected by the government," he said in Moscow.

The architect of Russian fiscal policy during Putin's first two terms, Kudrin failed to get a more powerful role after the president won his fourth stint in the Kremlin this year. As finance minister, he became an investor favorite while helping stabilize public finances and pay down debt but left the government seven years ago because of a public feud with then-President Dmitry Medvedev over military spending.

Faster expansion is now vital for Putin's ability to deliver on his campaign promises to improve living standards and lift Russia into the ranks of the world's top five economies. Instead, the outlook is dimming despite a rally in oil. The threat of further U.S. sanctions is compounding domestic risks to consumer spending as a result of a value-added tax increase and plans to increase the retirement age. The government expects GDP will grow 1.8 percent in 2018.

"Oil prices are having no impact on growth and demand," Kudrin said. "Their effect on the economy is practically exhausted."

The wariness among investors, currency weakness and the VAT hike are all chipping away at the economy, he said. Sanctions are costing Russia about half a percentage point of GDP expansion under the assumption of growth at 1.8 percent to 2 percent, according to Kudrin, who says the drag may be greater if more punishing penalties come into force.

Related article: Putin Is Baiting the West to Bring Russian Money Home (Op-ed)

Further gains in oil will mean little for the economy because the uncertainty is already discouraging companies from investing the resources at their disposal. If their funds grow with an increase in crude prices, they will simply opt to channel them into international assets, Kudrin said.

"An oil gain will just boost capital outflow and won't go toward internal spending," he said. "A shift in investor trust in the economy isn't happening. So far the climate is pessimistic."

For all the damage inflicted by sanctions, Kudrin says most of Russia's troubles are self-inflicted, an "issue of domestic institutional, structural reforms." If inertia prevails, the standoff with the U.S. won't improve for another five years and can only happen under a different leadership in Russia and America, he said.

"But if there's a willingness on both sides, it could be earlier," Kudrin said. "There will be no easing without mutual steps."

Original url:
https://www.themoscowtimes.com/2018/10/24/putin-wont-have-to-look-far-for-darkest-view-of-russian-economy-a63284