

Is the Worst of the Economic Crisis Over For Russia?

By JOHN WENDLE / MOSCOW Saturday, Mar. 07, 2009

Muscovites have a new way of greeting each other these days: "How's the crisis?" It's a rare person who gives a positive reply.

The global economic meltdown is flattening Russia. In the first week of February alone, some 72,000 jobs vanished, according to Deputy Prime Minister Alexander Zhukov. Some government agencies predict that the number of unemployed may reach 2.8 million by the end of this year, up from 1.5 million at the end of 2008. The ruble has lost a third of its value since last September. Two weeks ago, Deputy Economic Development Minister Andrei Klepach predicted a 2.2% contraction in the economy this year, the first official admission that Russia was facing a recession.

On Sunday, the finance minister is expected to submit a revised budget for 2009 which will assume an average oil price of \$41 per barrel, down from the original \$95. Despite the massive drop in oil revenues that represents, the new budget will boost spending by \$13.99 billion to \$262.8 billion, allowing the government to maintain social and defense spending while bailing out banks and industry.

Many analysts and observers say Kudrin is being massively optimistic. Talk of 2% or 3% growth next year are "the numbers of a public official who is trying not to add fuel to the fire of public fears," says Roland Nash, chief strategist at Renaissance Capital. "There are a lot of politics being played out and a lot of fears. I don't think anybody anywhere trusts any forecasts right now."

But some analysts buy the government line and argue that the worst may be passed. "Generally, there is hope that Russia can come out of the turbulence a lot faster than the rest of the world," says Richard Hainsworth, CEO of RusRating, a Russian credit ratings agency. "There is a light at the end of the tunnel, and whilst severe recession-related problems remain, they appear manageable. In the financial sector, a turn-around is beginning to be seen."

Hainsworth says that Russia is already through the most difficult period — the run on banks at the end of 2008 — and that "now it looks as if the system has sufficient solvency and capital to deal with overdue loans."

Perhaps. But Russia has no chance of recovering until demand for steel and raw commodities increases. **"There will not be a recovery anywhere until demand recovers. The horrible statistics are showing no signs of stopping,"** says Kevin Dougherty, a portfolio manager at Pharos Fund, one of the leading hedge fund groups in Russia. **"All it really comes down to are commodity prices and demand. The government looks at the market price for oil and predicts that it will bottom out now and go up for the rest of the year."**
