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By Mark Nuckols

Russia's Economic Troubles Could Be Catalyst For Change

Економічні проблеми Росії можуть стати каталізатором змін

Коли становище в економіці стане критичним і запаси грошей, накопичені в гладкі роки, вичерпаються, пересічні росіяни неодмінно почнуть ставити важкі питання. У підсумку Путіна притягнуть до відповідальності за створений ним хаос, вважає автор.

<http://www.forbes.com/sites/realspin/2015/01/09/russias-economic-troubles-could-be-the-catalyst-for-change/>

The biggest questions facing Russia today are whether Kiev's Maidan (both the Independence Square of Ukraine's capital city, and the central stage of a popular revolt against Viktor Yanukovich's kleptocratic regime) will be repeated in Moscow, or whether Vladimir Putin will be voted out of office when his term ends in 2018.

Putin and his cronies in the Kremlin consider either scenario to be dangerous to their securely entrenched power and wealth. And until now, they've been confident in their ability to remain ensconced in control. Putin and his lieutenants believe they can count on a fiercely loyal security apparatus and massive state bureaucracy, as well as grateful pensioners and a general populace who appreciate that their incomes have increased multi-fold since Putin came rose to power in 2000.

Putin's steely grip on authority is based on an implicit social contract: He provides the public with rising incomes and social stability; in turn, the public quiescently accepts his indefinite rule and the grotesque enrichment of his inner circle. And, his ratings soared following the outburst of national pride after his annexation of Crimea, assuaging the deep feelings of wounded honor caused by the ignominious collapse of the Soviet Union.

The key to Russia's seeming renaissance, of course, has been the generous flow of dollars from oil and gas exports into the Kremlin's coffers. But, as an old adage states, it's easy to be a genius in a bull market. Both Putin & Co. and the Russian public have conflated the long run of energy prices with capable economic stewardship. And the

relatively easy wresting away of a small peninsula from a militarily-weak neighbor has been confused with geo-political genius.

But now the chickens are coming home to roost, and it's becoming increasingly clear that Putin is not the brilliant grand chess master that he and many others believed him to be. Hovering just above \$50, benchmark Brent is down more than 50% from its highs earlier this year. But considering Russia's average production cost of \$35 a barrel, the net decline is closer to 75%. And gas prices are following suit.

Russia's illegal annexation of Crimea and its covert war in the east of Ukraine led the U.S. and the E.U to impose financial and other sanctions on Russia. The most biting of them have cut off access to Western financing for major state-owned enterprises. And now Russia is facing a serious economic and financial crisis that can be best seen in the precipitous 50% fall in the value of the ruble. And 2015 promises both rapidly rising inflation and declining GDP.

So Putin faces a real dilemma. Unless he escalates the conflict in Ukraine and sends in the tanks, there are no more small and glorious wars to win. Crimea euphoria is already wearing off, as Russians look nervously at the dollar-ruble rates. And, the costs and lost opportunities of the Kremlin's gross mismanagement and corruption are suddenly becoming more obvious. Putin could afford obscenely expensive prestige projects (\$50 billion for the Olympics, \$20 billion for the World Cup) and increased social expenditures when oil was \$100—but not now.

Still, he is proposing more increases in military spending as well as a massive investment program in impoverished Crimea. Aren't his energy revenues evaporating? Russia's foreign exchange reserves and its sovereign wealth funds are dwindling as the Kremlin continues a hopeless defense of the ruble while bailing out heavily-indebted, state-controlled giants like Rosneft and Gazprom Bank.

When push comes to shove and the stockpile of cash from the flush times runs out, ordinary citizens are inevitably going to start asking hard questions. Why has so much of Russia's wealth been stolen and squandered? What happened to the long promised modernization and diversification of Russia's economy? Putin's famed "power vertical" will come back to haunt him, as he can only so long blame Russia's increasing woes on foreign adversaries and internal traitors. He will ultimately be held accountable for the mess he's created.

Historically, Russians have passively endured bad governance under tsars, commissars and elected presidents. But Russia is no longer the isolated peasant country it once was. There is now a broad and politically powerful middle class that may not be so inclined to be eternally submissive. They've gotten used to year-end bonuses and vacations in Europe—and as those bonuses turn to pink slips and London becomes a distant dream, once rising but now dashed expectations could well become the catalyst for Russians to conclude that their contract with the Kremlin has been abrogated, that they are no longer bound to unquestioned fealty to the regime. Whether and when that happens truly is the biggest question in Russia today. We must be prepared to deal with the momentous consequences of how it is answered.