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Russia Plans Deep Budget Cuts as Revenues Drop

Finance Minister Plans 10% Cuts Across All Sectors, Except Military, After Oil's Drop, Western Sanctions

Росія планує масштабні бюджетні скорочення на тлі зниження доходів

На тлі зниження цін на нафту та західних санкцій російський міністр фінансів планує 10-відсоткове скорочення у всіх секторах, крім військового

Після падіння курсу рубля і значного відтоку капіталу в останні два місяці багато хто чекає, що Росія зануриться в глибоку рецесію, одночасно страждаючи від двозначної інфляції, - йдеться в статті. Західні лідери сподіваються, що економічна криза в Росії змусить Москву припинити підтримувати терористів на Україні. "Проте в середу на форумі високопоставлених російських економічних стратегів в Москві чиновники дали зрозуміти, що Кремль готується до тривалого зниження цін на нафту і економічних санкцій", - зазначають журналісти Алан Куллісон і Андрій Остроух. Прем'єр-міністр Дмитро Медведєв висловив припущення, що Росія може скоро оголосити, що Україна не виконала зобов'язання по кредиту в 3 млрд. доларів, який Москва виділила Києву в 2013 році. "Якщо Росія вимагатиме повернення боргу, то, за словами аналітиків, Захід, швидше за все, припинить збільшувати розмір і без того дорогої фінансової допомоги Україні з боку МВФ, Європи і США", - йдеться у публікації.

http://www.wsj.com/articles/russia-facing-budget-cuts-on-oil-price-western-sanctions-1421223776

Numbers show the drop in the value of the Russian ruble, which has hurt the nation's economy along with sliding oil prices, capital flight and Western sanctions. Agence France-Presse/Getty Images

MOSCOW—Russia is planning steep cuts in spending across all parts of its budget, except defense, as it grapples with Western economic sanctions and a big oil-price drop while digging in for further confrontation with the West over Ukraine, officials said Wednesday.

Moscow's resolve comes amid renewed fighting in eastern Ukraine, and the scrubbing of a proposed summit between the leaders of Russia, Germany, France and Ukraine to discuss ways to end fighting in eastern Ukraine.

German Chancellor Angela Merkel said Wednesday there was no point in holding talks in the Kazakh capital of Astana because a cease-fire agreed upon at earlier talks in Belarus has failed. Germany says Russia must use its influence with Russian-backed rebels to abide by the cease-fire before a resumption of talks.

Western leaders are hoping Russia's deepening economic debacle would force Moscow to end its support for rebels in Ukraine. After a plunge in the ruble and considerable capital flight over the past two months, Russia is widely expected to slide into a deep recession this year while also suffering from double-digit inflation.

But at a conference of Russia's top economic planners in Moscow on Wednesday, officials signaled the Kremlin is girding itself for a prolonged decline in oil prices and economic sanctions.

Prime Minister Dmitry Medvedev said Moscow is hoping for better relations with Europe, its largest trading partner, but added that it might not happen soon. "Sanctions come and go, together with their authors," Mr. Medvedev said.

He suggested Russia may soon declare Ukraine to be in default of a $3 billion loan that Moscow extended to Kiev in 2013 before the country's former pro-Russian president, Viktor Yanukovych, fled Kiev. If Russia demands repayment, analysts say, the West will likely end up driving up the price of an already costly bailout of Ukraine's finances by the International Monetary Fund, Europe and the U.S.

“We don’t want Ukraine to default, to jeopardize an already disastrous condition of the Ukrainian economy,” Mr. Medvedev said at the economic forum. “But one should pay back debts.”

Moscow is counting on an eventual bounce in the price of oil. Its drop, officials said Wednesday, has been far more devastating to the Russian economy than Western sanctions. Russian Finance Minister Anton Siluanov said the budget faces a shortfall of up to $240 billion in revenue, but that most of it—about $180 billion—is due to the oil-price collapse.

He said his ministry plans 10% across-the-board budget cuts, although funding to the military would remain untouched.

To make up for lost revenue, Mr. Siluanov said the finance ministry will uncork a reserve fund, accumulated over years of buoyant oil prices, to deposit 500 billion rubles into the country’s financial system, which has been battered by the central bank’s decision to raise a key interest rate to 17% late last year in a bid to halt a run on the ruble.

But analysts said the sum, about $7.65 billion at today’s exchange rate, is too miserly to make much difference. The injection “will certainly improve the situation, but won’t be able to adequately shore up the currency nor fill the budget gaps,” said Phoenix Kalen of Société Générale in London, who called it “woefully inadequate.”

The Kremlin hopes that massive reserves in the central bank and finance ministry, now tallied at around $400 billion, will be sufficient to get the country through a slump in oil prices for a year or two. German Gref, who heads the country’s largest lender, Sberbank , said that he doesn’t expect oil to recover to previous highs, though he did hope it would eventually climb back to a range of $60 to $70 a barrel.

Mr. Gref said that with oil at its current level, Russia will spend all of its reserves within two years. He said Russia needs to reform state bureaucracy and improve its business climate to attract investment. Sanctions, he said, are only slowing down reforms by propping up Kremlin’s approval ratings among Russians who like to see Mr. Putin stand up to the West.

But analysts noted that high officials in the Russian government have for years called for economic reforms to little effect. With the ruble plunging and export revenue shrinking, pressure on Russian markets has been growing amid expectations that ratings agency Standard & Poor’s will downgrade Russia’s rating to junk.

Russia’s central bank recently adjusted its worst-case scenario for a fall in oil prices to $40 a barrel, said Ksenia Yudaeva, a deputy chairwoman of Russia’s central bank. Previously, the central bank’s worst-case scenario envisaged a slide in oil prices to $60, down from around the $100 level initially forecast for this year.

On Wednesday, the central bank said its board was shuffled amid criticism of its handling of the ruble last year, when the bank spent $80 billion trying to slow the fall of the currency.

Ms. Yudaeva, who was trained in the U.S. and was appointed in 2013, was replaced as head of monetary policy. While she will remain at the bank, her new portfolio will be economic forecasting and financial stability, she said.

Her replacement is a clear signal the Kremlin doesn’t want the central bank to spend too much on the ruble, said Timothy Ash, head of emerging market research at Standard Bank in London.

The Kremlin, he said, believes that foreign-exchange reserves “had now become strategic because of the difficult geopolitical setting with sanctions over Ukraine.”

Meanwhile, Western sanctions and the European Union’s stance on Russia were debated Wednesday at the European Parliament in Strasbourg. EU foreign policy chief Federica Mogherini defended her approach to Russia, insisting she wasn't “soft” on Moscow but adding that it is crucial the EU engage in real dialogue to solve the crisis in Ukraine.

After facing criticism from a number of EU lawmakers over her approach to the Russian situation during Wednesday's session, Ms. Mogherini told the Parliament that everyone agreed it was important "to keep the pressure on" Moscow.

"Sanctions on Russia are there. Yes, they have worked economically. Have they worked politically? Maybe they are starting to," she said. She insisted there would be no easing of restrictions unless there were a real improvement in the situation in eastern Ukraine.

However, she said there is more the EU could be doing by talking with all sides to promote a political solution. This would allow the bloc "to be less reactive and more proactive," she said.

"I think it is the only way in which we can play our role. This does not mean being soft but even for being hard, you need to talk," she said.

The Wall Street Journal on Tuesday reported on a paper penned by the EU foreign service unit that explores ways to improve ties with Moscow and scale back sanctions. The paper was drafted ahead of next Monday's EU foreign ministers debate on Russia. It made no mention of increased sanctions if the situation in eastern Ukraine deteriorates.

Ms. Mogherini started the EU job in November with some questioning her approach to Russia. Those concerns were one factor in delaying member states' backing of her appointment at a leaders meeting in July.

However, the former Italian foreign minister has repeatedly made clear that Russia's support for the rebels in eastern Ukraine must stop and pledged EU backing to Kiev. In her comments on Wednesday, Ms. Mogherini also said the EU will "never" accept Russia's annexation of Crimea and she warned that the death of 13 civilians in eastern Ukraine, after a rocket hit a bus on Tuesday, must not be the start of another increase in violence in the region.

The EU paper suggested that the European Union could significantly scale back sanctions and resume discussions with Russia—on issues ranging from visa-free travel, cooperation with the Moscow-led Eurasian Economic Union, and the crises in Libya, Syria and Iraq—if Russian President Vladimir Putin moves to end the fighting in eastern Ukraine.

The EU's sanctions on Russia will expire between March and July, and the bloc needs the backing of all 28 member states to renew the measures.

Ms. Mogherini, who met with Russian Foreign Minister Sergei Lavrov last month, has said she plans to travel to Moscow at some point to meet with Russian leaders.

—Chiara Albanese in London and Laurence Norman in Brussels contributed to this article.

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