

## Russia in Full 'Crisis' to Kudrin Forecasting Longer Recession

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■ Alexei Kudrin, who served as finance minister for more than a decade until 2011, told reporters in Moscow today, Russia failed to make changes to the economy during "quiet years" and now must face the current crisis unprepared. Photographer: Andrey Rudakov/Bloomberg

Russia will endure a longer recession than forecast by the government, former Finance Minister Alexei Kudrin said, urging the central bank to refrain from further interest-rate cuts as economic risks persist.

Gross domestic product may continue shrinking into the first quarter of next year, putting the economy on track for zero growth in 2016 after a slump of about 4 percent in 2015, Kudrin said in Moscow on Wednesday. Kudrin, 54, took issue with the contention by government officials that Russia has put the worst of the economic crisis behind it and warned that companies are only now beginning to feel the pain of collapsing demand.

"We are now in a full-fledged crisis," Kudrin said. "The situation in the real sector is still very bad."

The assessment by the long-time ally of President Vladimir Putin is at odds with government expectations for a quick economic turnaround as the world's biggest energy exporter succumbs to its first recession in six years. While the ruble rebounded this year and GDP shrank less than forecast in the first quarter, consumer demand and investment are reeling and industrial production dropped for a third month.

The ruble retreated to a six-week low as oil declined and Ukraine accused pro-Russian insurgents of starting a large-scale offensive. Russia's currency slid 2.2 percent to 53.9260 versus the dollar at 5:15 p.m. in Moscow, the weakest since April 22. The Micex Index of stocks declined 1.3 percent. The yield on five-year government notes rose three basis points to 10.93 percent.

## **Sanctions, Oil**

U.S. and European penalties enacted over Russia's actions in Ukraine limited access to international financial markets and spurred outflows of capital, stoking the ruble's worst crisis since the government's 1998 default. Russia's budget outlook for 2016 is the "most complicated" in the past 15 years, according to Kudrin, who presided over fiscal surpluses between 2000 and 2008.

As tensions in Ukraine eased and oil prices stabilized, the central bank moved to ease policy with three rate cuts this year after an emergency increase to 17 percent in December. That's brought the benchmark rate to 12.5 percent, with the central bank signaling that easing will continue as inflation risks abate further. Consumer prices grew 16.4 percent from a year earlier in April after accelerating to 16.9 percent in March.

Kudrin, who was a candidate to fill the post of central bank governor in 2013, said it was time to halt the monetary easing.

## **'Stop Now'**

"It's better to stop for now," he said. "Major risks remain in the economy, and I'm afraid they will still put pressure on inflation."

Kudrin left the government in September 2011 after more than a decade as finance minister because of a public feud with then-President Dmitry Medvedev over military spending. Russia remains hobbled by weak institutions, corruption and high administrative hurdles, according to Kudrin. Sanctions imposed on Russia are costing the country as much as 1.5 percentage point of economic growth, he said.

The government predicts a three-quarter slump after growth stalled last year. GDP may contract 2.8 percent this year before expanding 2.3 percent in 2016, according to the Economy Ministry. The economy expanded 0.6 percent in 2014.

While GDP may contract more than 3 percent in the first half, the economy will probably exit recession in the third quarter, Interfax cited Economy Minister Alexei Ulyukayev as saying on Wednesday.