

Russian Economy in Turbulent Times. Latin America as a Possibly Ally

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The current state of the Russian economy, in times of the increasing struggle with the West, does not inspire Russian economists. The countries which had rather friendly relations with Russia a year ago, after Ukrainian Crisis became blaming it, and imposing different sanctions. But was there *only negative* impact on Russia? Or was there negative effect *only on Russia*? And does Russia have any options to cope with the current situation? Does it have any allies? Let us try to understand these issues.

Firstly, let us look at some important facts. The first point is the oil prices. World oil prices have been decreasing for the last few months. This aspect is very important, since the Russian budget for 2014 was developing basing on the price at the level of \$93 per barrel, and the state budgets for 2015 and 2016 were based on the price of \$95 per barrel. It is obvious that if oil prices continue falling, the state has to do nothing but to begin to cut spending, or try somehow to find the additional sources of income.

In case of close to \$80 per barrel, Russia gets zero on the current account of the balance of payments, which means neither deficit nor surplus. Now the price of oil is even below \$79 per barrel. The Central Bank is already working on shock scenario of monetary policy at a price of \$60 per barrel.

However, Moscow analysts do not believe in it. The reason is that the budget of Saudi Arabia, one of the world's major regulators of oil prices, cannot afford such low oil prices, and in the U.S., the growth of oil production in the past few years has led to today's lower prices, as rated by Fitch, at a price lower than \$75-80 production will begin to decline.

Thus, the oil most likely will not be expensive in the near future, but the level of prices about \$80 is a reasonably reliable level of support. But by itself, this price will not cause serious trouble to the Russian economy.

The next important point is inflation, which is gradually growing. The inflation growth has increased in August, when Russia imposed restrictions on food import from countries which had supported sanctions against Russia. Another reason, of course, is ruble weakening against US dollar and euro, the purchasing power of ruble is diminishing. The truth is that the level of inflation by the end of the year can exceed 8%, Federal State Statistics Service claims. Unfortunately, this leads to a capital outflow.

The next point is the following. It is also not a secret that European sanctions are, practically, working, despite all proclaims of the Russian officials, that sanctions are nothing for Russia, and they can help some sectors of our economy to develop. Russian Ministry of Finance estimated, that our country has already lost 2% of its GDP because of sanctions. If sanctions on the leading Russian banks are not cancelled, then in 2015 Russia will have very small GDP growth rate, about 1.2%. Some analysts say that it may be even negative. At the same time, the level of unemployment will increase. It is also important to mention, that the growth of the Russian economy will be 0.2% by the IMF forecast and 0.5% by RF Ministry of Economic Development, which is very low.

Let us now return to the falling exchange rates. As on 17 November, \$1 US is worth 47 rubles.

Ministry of Economic Development admits that the average dollar exchange rate will grow over 4 years, which will influence import and export, and not in the best way on the first. Of

course, it could give a boost to Russian production and exports, but development of Russian business needs investments and cheap credits. Unfortunately, we do not have them due to the weakness of the modern Russian economy, high inflation, and sanctions that have significantly limited ability to attract money from abroad.

Russian as well as foreign capital is still outflowing from Russian economy. Ministry of Economic Development RF assumes that the general capital outflow from Russia could reach \$120 billion at the end of 2014, as investors' interest is highly influenced by geopolitical factors. It is important as investments are one of the most prominent drivers of GDP growth, and foreign investments are very important for Russia as source of long-term money to the economy.

It is also not a secret that the government has allowed using up to 60 % of the National Welfare Fund, which was created to co-finance voluntary pension savings, for support of companies damaged by sanctions, and the first such company is Rosneft. The Reserve Fund can also be used the next year for the same purposes. However, if the money invested in the fund does not come back, young generation will suffer.

Next, let us consider the energy sector separately. As all you know, sanctions against this sector of economy restricted importing from and exporting to Russia everything from this category. Nevertheless, this action harmed not only Russian companies, such as Rosneft, but also our partners, who imposed these sanctions. There are hundreds of energy equipment companies in the US and the EU that were receiving more than 5% of their revenue from Russia or which had close relations with Russian companies (BP, ExxonMobil).

Then comes the food sector, and here the situation is also not so joyful for our European partners, however, not for our partners from Latin America. Nowadays Russia, in addition to the geopolitical and ideological interests in Latin America, has long-term interests linked with the search of new food products suppliers because of economic and trade conflict between Russia and the West which followed this crisis.

Immediately after the introduction of sanctions, the Head of Rosselkhoz nadzor Sergei Dankvert held meetings with ambassadors and representatives of Brazil, Argentina, Chile and Ecuador in order to increase and enlarge food imports from these countries.

"Bullets and shells of fruits and vegetables - the tension in relations between Russia and the West about the fate of Ukraine moved to the food sector," - says the Argentine edition "La Nacion". Russia's refusal of products from Kiev's countries-allies will ultimately favor Latin America, which "suddenly will win the battle, in which it has never been involved," - said this agency.

Journalists from "El Comercio" (Peru) refer to the European Commission data on the export volume of food products to the Russian from the EU. During 2013, export volume of agricultural products amounted about 11.8 billion euros (over \$15 billion) from 28 countries in Europe, and only \$1.3 billion from the US. According to the Argentine edition of "P&gina 12" Russia is the fifth-largest importer of food. Share of imported food is 35% in the total Russia's consumption.

Latin Americans hope that the current decision of the Russian authorities is not transitory. According to Ambassador of Ecuador in Moscow Patricio Chavez Zabala issues on the increasing and diversifying exports were discussed at a meeting with the Head of Rosselkhoz nadzor. However, there are no many specific proposals because economists are going to analyze the Russia's export potential to see which goods are the most demanded, writes "La Hora" (Ecuador).

Peruvian media quoted message of Rosselkhoz nadzor on the resumption of fishery products

delivery to Russia from 18 Peruvian fish processing plants. Furthermore, people in Peru believe that they may also increase exports of vegetables and fruits to Russia. According to the executive director of the Association of Agricultural Producers Guild of Peru (AGAP) Deustua Ana Maria, in 2006, there was export to Russia of fresh fruit for \$1.3 million, and last year - already \$53.1 million. Sales in May this year reached \$18.4 million, which is 19% increase in comparison with the same period in 2013. The main export goods are grapes and citrus, reports the words of Ana Maria Deustua Peruvian "El Somercio." According to her, these figures confirm that Russia is a market with high potential for development.

The Secretary of Agrarian Policy Ministry of Agriculture Sener Palud, in his turn, believes that new areas of cooperation with Russia opens for his country big opportunities up to "export revolution". According to him, Brazil, the world's largest exporter of soybeans, beef and chicken, will work to increase the export of corn and soybeans to Russia. "Russia has a huge potential as a consumer of agricultural products," he told reporters. Only for the 1st half of 2014 exports of meat and meat products from Brazil to Russia exceeded 352.8 thousand tons. This year other areas of agricultural exports from Brazil to Russia include sugar, coffee, orange juice and bananas.

Media noted that, despite the difficulties of the Russian market, for example, including forecasts on its development and political situation in the country, Latin America has a chance to provide themselves with long-term contracts. For Russia, according to analysts, it is an additional "trump card" in gas negotiations with the European Commission and Ukraine because Russia will feel more confident by having on hand real and ready offers from the new partners.

While South American economists calculate the prospects of cooperation with Russia, the European suppliers count losses.

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