Euro concerns to complicate Russian economic outlook

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Sovereign debt woes have seen the Euro slide nearly 20% this year, with analysts saying they will continue to dominate investor concerns, and with a number of implications for Russia – both good and bad.

The Eurozone is Russia's largest trading partner – the biggest buyer of Russia's gas and largest supplier of technology and investment vital to modernizing Russia's economy. The slump in the Euro can't help but affect Russia.

The most immediate thought for global investors is proximity. Russia is so close to the Eurozone that a prolonged period of weak growth, or further contraction, will colour their thoughts about Russia according to Evgeny Nadorshin, Advisor to the Minister of Economic Development .

"People will be keeping sight of European risks – and that means less growth, less certainty for the future for European Union, less investment in the region, and that means our major consumer is not going to grow rapidly within nearest 2-3 years at least, that means our major consumer of oil, gas and other raw resources will be experiencing problems."

Sergey Guriev, Head of the New economic school says that with the slump in the euro taking it from 43 roubles to the euro in January, to as low as 37 in late May, Russian producers competing against imports from Europe are also in the firing line, with exporters getting hit as well.

"Any bad news in the eurozone, which implies a weaker euro, which implies low competitiveness of Russian exporters to eurozone is, of course, a bad sign."

But Oleg Vyugin, Chairman of the Board of directors at MDM Bank is more circumspect, saying the euro slump is part of a global currency realignment which will leave Russia neither better no worse off over the longer term.

"The weakening of the euro to the dollar means that there'll be some appreciation of the yuan, it means that there will be less imported from China and more imported from the euro zone. so it means that actually these changes in currency exchange rates are more or less neutral to the Russian economy."

On the upside, economists say that cheaper EU imports could trim Russian inflationary expectations even further, giving the central bank more room for another rate cut in the short term.

But the worsening outlook for a currency which less than a year ago was seen as a viable alternative to the dollar by most Russians means bracing for changes – for businesses, bankers and economic policy makers alike.