RUSSIAN-GREEK ECONOMIC COOPERATION: IS THERE STILL ROOM FOR OPTIMISM?

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Today the Russian-Greek economic relations are affected by a triple crisis: the ongoing crisis in Greece, the crisis in Russian–EU relations and Russia's economic hardships.

As for the first one, at the beginning of this year Greece's economic prospects looked bright. 2013 was the first year when Greece achieved primary surplus of 1.5 billion euro. In the passing year it showed new signs of recovery. In mid-December Greece's central bank slightly raised its forecast for economic growth this year to 0.7 percent and predicted growth of 2.5 percent in 2015. But it is too early to say that Greece is back on track. The key problem now is the lack of political stability, which can hamper further reforms and postpone the definite exit from the crisis. The governing parties, New Democracy and PASOK, failed to elect their candidate Stavros Dimas as a new Greek president, and Greece will go to snap polls in 25 January 2015. In this case the Coalition of the radical left with Alexis Tsipras at the helm has good chances to win. But even if government-backed candidate wins, the next year promises to be extremely tense, taking into account that Antonis Samaras has already consented to parliamentary elections at the end of 2015.This situation has already sparked a negative reaction on markets and new concerns about Greece's euro membership. Athens stock exchange was down more than 20% last week and the yield on 10-year bonds reached a recent high of more than 9%. ***The political turmoil will discourage foreign investors from choosing Greece when it comes to purchasing property, even those from Russia, who has more risk appetite than investors from other countries.***

Now let us address the crisis in Russian–EU relations, as it is an even bigger challenge for Russian-Greek economic ties. After the EU imposed restrictive measures, Russia announced counter-measures, an embargo on food imports from the EU countries. It is estimated that the damages the Russian food embargo will cause to the Greek economy will be at least 50 million euros. Apart from fruit growers who are suffering great losses, fish farms have also reported damages (before the crisis in Ukraine, Greek fish amounted to 10% of total Russian consumption), as well as the transport companies, carrying out daily routes from Greece to Russia. Of course, the losses of Greek economy due to Russian embargo will be limited, because Russia has never been a major export market for Greece. For example, total Greek exports to Russia in 2013 reached only 611 million dollars. Nevertheless, Russia was considered by Greek producers as an attractive and fast-growing market and now they have to redirect exports to other countries. It is important to mention that Greek government has always said that sanctions are double-edged with repercussions for those who suffer them but also for those who impose them. ***Even if Russia lifts embargo, it will take Greek exporters months or even years to restore their positions on the Russian food market, which will be occupied by other producers.***

Finally, the biggest challenge for economic relations is the current economic slowdown in Russia. Most experts expected that by the end of 2014 Russia will approach recession threshold due to old structural economic problems and sanctions. But the falling oil prices plunged Russia into crisis of a scale that can easily surpass the crisis of 2009, when GDP declined 7.9% percent. The Russian currency has now fallen 49.3 percent against US dollar since January, which makes ruble the worlds' worst performing currency. In a desperate move to boost its currency the Bank of Russia has raised its key interest rate to 17%. By raising rates to try to contain inflation the Bank of Russia risks inflicting further economic damage by making it harder to borrow and spend. And panic is spreading, unfortunately, even within the government and central bank authorities. For example, the Deputy Chairman of Russian Central Bank Sergey Shevtsov has recently said the following: "Even in a nightmare, we could not have imagined a year ago that this would be possible". A few weeks ago it was estimated that in 2015 Russian economy will contract by less than 1%, but now even 4.5% is considered to be an optimistic figure.

What does it mean for Russian-Greek economic cooperation? First of all, it means ***further decline in trade***. Due to ruble devaluation some of Greek luxury products (for example, furskins and artificial fur) will become too expensive. Secondly, and that is more important, ***Greece will attract less Russian tourists***. The number of tourists from Russia declined by about 15-20% in 2014. This trend is likely to continue next year. Thirdly, ***Russian companies have fewer opportunities to invest in Greece***. In spite of the fact that Greek authorities are rather cautious about Russian investments in strategic economy fields (energy, transport, banking sector), the recent years saw a surge of interest to Greek assets among Russian businessmen. There is a long tradition of investment cooperation between Russia and Greece that continued to develop even throughout Greece's crisis-ridden years at the beginning of the 2010s. Good examples of Russian investments are purchases of controlling shares in the Thessaloniki football team PAOK FC and the SEKAP tobacco company. Real estate remains a priority and is aided by the targeted policy of the Greek authorities. At the same time most foreign direct investments from Russia are implemented by Russian transnational corporations, which are heavily indebted and are deprived of access to Western credits due to sanctions. Three weeks ago Russian bank "Kedr", the only one operating in Greece, met serious financial difficulties, and it is a big question whether it will manage to retain its business in Athens or not. Things look a little better in real estate, but only thanks to wealthy Russian citizens, who hurry in panic to make investments abroad.

So, the main question is, are there any opportunities to strengthen Russian-Greek economic ties in these conditions? The answer is yes. But they are very limited.

First of all, there is a certain potential in the energy field. Greece's state-run natural gas distributor DEPA and Russian energy giant Gazprom reached an agreement on gas supply with price cuts backdated to last June. Another important event is Russia's refusal to carry on the South Stream project. This decision does not mean that Russia is turning away from plans to diversify gas supplies to the European Union. On the contrary, the construction of a new pipeline to Turkey with a capacity of 63 billion cubic metres of gas (just 14 billion cubic metres of it is intended for the Turkish market) should create new possibilities for this. In light of the fact that gas will be exported through Greece, the country will have an opportunity to gain a foothold as a major energy hub and become the "gate" for

Russian gas delivery to Europe. But there are considerable doubts that Gazprom has enough money to implement this costly project.

Then, despite the crisis, Greece is still going to be a major destination for Russian tourists. And there are good reasons for this. Greece issues visas faster than other EU countries, and the number of refusals is low. At the same time, it is less expensive as Italy, Spain, Croatia and some other EU countries and some of the tourists, who preferred to have vacations in these countries, will turn their eyes to Greece. So, the decline in tourist visits will certainly take place, but, hopefully, it won't be dramatic. It is also worth mentioning that Greece is promoting new tourism programmes (educational and medical tourism) which would be interesting for Russians. Moreover, the ruble devaluation makes Russia more attractive for European tourists, including Greeks, who express considerable interest in Russian culture, history and traditions. If the Russian-Greek cross-year, which is scheduled for 2016, is properly organized, it can enhance tourism in both directions.

Finally, there is still some room for trade relations. For example, Greece has got a highly developed pharmaceutical industry, based on production of generic drugs, which are cheaper than original ones. Exports of pharmaceutical products hold the fourth biggest share in the total exports of Greek processing and there is potential for improvement. Of course, Greek exporters are searching for new markets, while Russia is interested in importing pharmaceutical products at decent prices.

Summing up this presentation, we have to admit that the future of Russian-Greek economic cooperation is rather murky. At the same time, a certain potential still remains, and this potential has to be fulfilled.