

RUSSIA: THERE IS A CHANCE

BY GALINA KOVALISHINA, IFS SENIOR ANALYST, December 16, 2008

The government's recent discrepant statements prompt us that it does not have a clear plan for fighting the crisis faced by the Russian economy. Last week, Deputy Minister for Economic Development A. Klepach said in a statement that 'Russia is facing a recession'. The market responded instantaneously, and Russian indexes fell more than 5% within a single trading session. Finance Minister A. Kudrin soothed investors and disproved production decline in Russia. Remarkably, experts fall into two groups by their approaches to defining 'recession'. Some believe that recession is a decline in production within a certain time interval, and others maintain that recession is reduction of production growth rates. According to the first definition, Russia does face a recession, according to the other one – it does not. Nevertheless, this example illustrates that officials do not have any common viewpoint regarding the current state of the economy.

Measures that the government presently undertakes are in large part similar to anti-crisis policies led in the aftermath of the 1998 crisis. Governmental decisions are focused on meeting current needs of the economy, only important in the short run. Short-sighted decisions like this impede fulfilling far-going goals.

The government's reluctance to take more radical measures that could help the economy to recover might aggravate the situation. During the 1998 crisis, a growth in hydrocarbon prices rescued the Russian economy, but this time the government should not rely on external factors. Moreover, the fall in petrol prices amid the world financial crisis immensely increased the Russian economy vulnerability.

In the past years, experts repeatedly forecasted that the period of high prices for energy was going to end and Russia would have to build up its economy without huge inflows from petrol trade. In response, the government set up the Stabilization Fund for 'financing the federal budget deficit if the petrol price falls'. However, it is clear that capital injections alone cannot boost the economy. In the short term, Russia will witness a production slowdown (or even a downfall) amid lack of loans to enterprises and low global prices for petrol and metals.

The crisis has exposed all weak points of the Russian economy, at the same time, it gives wonderful opportunities for conducting large-scale reforms. The budget expenditure, banking and pension systems all need reforming. This is not another lobbyist motto, but a matter of great urgency. Russia will have to learn to live in the conditions of low petrol prices. This will be hard, as everybody - from the government to a street cleaner - is used to having their incomes stably growing without strong efforts from their side. Millions will face a collapse of lifestyles they have been accustomed to. The country can only overcome the crisis without triggering social unrest if it sets totally new objectives for itself.