

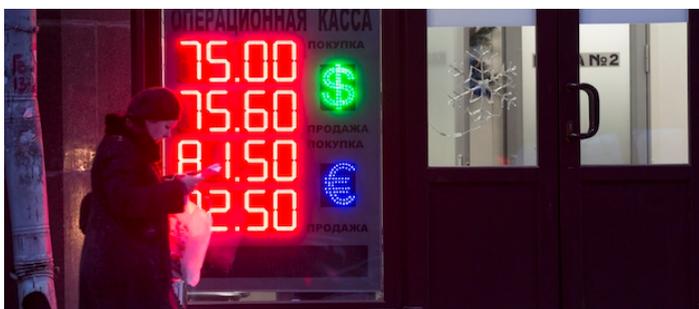
<http://www.russia-direct.org/debates/fall-ruble-russias-economy-trying-find-new-bottom>

With fall of ruble, Russia's economy trying to find a new bottom

Jan 12, 2016

[Pavel Koshkin](#), [Ksenia Zubacheva](#) [Debates 229](#)

Debates: The expectations of Russian officials that the country's economy had reached its lowest point failed to come true in 2016, given the recent fall of the ruble and selloff on Russia's stock exchanges. So what can be done to resolve the economic situation? Russia Direct asked the experts.



A woman walks past at an exchange office sign showing the currency exchange rates of the Russian ruble, U.S. dollar, and euro in Moscow, Russia, Monday, Jan. 11. Photo: AP

2016 has started with bad news for Russia, particularly on the economic front. Regardless of the rosy forecasts of the Russian authorities and their assumption that the economic crisis in the country had reached a bottom, the reality seems to be more gloomy and pessimistic, as indicated by the increasing economic woes exacerbated by the drop in oil prices and the fall of the Russian currency and main stock indexes this week.

Jan. 11-12, the first two days of trading after a winter holiday in Russia, [saw increasing turbulence in Russia's stock exchange market](#), with [the ruble having fallen](#) to about 77 against the U.S. dollar and almost 84 against the euro following the decline of oil prices. Given that German Gref, the head of Russia's major state bank Sberbank, admitted that Russia has to prepare for the worst-case scenario [less than \\$30 per barrel of oil](#), there seems no reason to believe that 2016 will be easier for Russia than 2015, when Russia showed enough flexibility to withstand economic woes.

Last year Russia's economy survived two major shocks: the almost three-fold drop in oil prices and Western sanctions on the Kremlin for its policy in Eastern Ukraine, [said Vladimir Mau](#), the rector of the Russian Presidential Academy (RANEPA), before [the Jan.13-15 Gaidar Economic Forum](#), which brings together leading economists, officials and politicians.

despite the fact that Russia overcame the economic shocks in 2015, it does not mean that it overcame the worst part of the crisis

However, despite the fact that Russia overcame the economic shocks in 2015, it does not mean that it overcame the worst part of the crisis, as indicated by a [recent interview of Russia's former Finance](#)

[Minister Alexei Kudrin](#). To understand why, *Russia Direct* got in touch with the country's leading economists, who give their views on what Russia should do to resolve the economic situation. In addition, the experts give their take on the impact of oil prices on the Russian economy and assess the Kremlin's economic policy.

[Oleg Buklemishev](#), associate professor of Economics at Lomonosov Moscow State University (MGU):

The peak of the crisis is not over and it is not clear when it is going to happen. The problem is that any attempts to find "the bottom" during a crisis is something like pure numerical guesswork and a sort of role-playing. If Kudrin were Prime Minister, he would also claim that the crisis is over. There is nothing bad in such a tactic. It is a quite legitimate aspiration of the authorities to influence expectations, which in certain circumstances, might matter almost more than the real economic processes.

The price of oil is, of course, a very important factor, but it is not dominating. It seems to me that the major driver of the crisis now is the inability of business to believe in the best future. Officials try to influence these expectations, but without any results.

What is to be done to change the situation? The Russian authorities have to undertake real measures, which will clearly demonstrate that there is a shift in the country in the right direction. In particular, they have to stop forbidding [certain activities], or blaming others for their woes and numerous fortuities.

They have to admit their recent political mistakes, contribute to pacifying [the conflict in Donbas](#) and stop [the bloodshed in Syria](#). They have to start fighting with corruption, shift the burden of their expenses from the military-defense sector to public welfare and start an equal dialogue with business.

Should we expect that the Kremlin's policy would change [in that way] — I don't think so. However, the time of abundance is over and the policy will change anyway: It is necessary either tighten the screws and impose total control over every economic activity or vice versa — the authorities could encourage and unchain business initiatives, non-governmental organizations, regions, municipalities and so on.

Today Russia can keep saving money for national wealth reserves, but the question is to what extent it will be reasonable. Because there is a political directive to save the reserves, the authorities will tread water and test the limits of tolerance to decrease expenses in different fields.

[Christopher Hartwell](#), president of the Center for Social and Economic Research in Warsaw (CASE):

That was wishful thinking on the part of state officials who believed [that the lowest point of the economic crisis had been reached], because the Russian economy is intimately tied into the price of oil. So long as oil continues to drop, it will take the Russian mono-economy with it.

A [new research note from German economist Christian Dreger at DIW Berlin](#) and his colleagues around the world shows just how connected the Russian economy is to oil prices in the past two years, and there is no sign of it decoupling in the near future. If oil prices continue to fall, not only will there be problems in the federal budgets, but also regional governments will see an impending economic crisis (given that they rely so much on transfers from the center).

Today it makes no sense to forecast where the bottom might be, the only thing to do is take the price signals that are everywhere and move to diversify the economy

Christopher Hartwell, Center for Social and Economic Research

Today it makes no sense to forecast where the bottom might be, the only thing to do is take the price signals that are everywhere and move to diversify the economy. Oil is becoming a drag rather than a driver, and Russia needs to develop other industries, exports and innovations.

The authorities really need to renew liberalization and get away from state-led development, which has only led to a bloated state and the aforementioned mono-economy. I am not optimistic that policies will change, however, because of the incentives that the oil economy creates. Too many people are vested in the current structure of the economy for it to be changed merely because it is having a very rough patch.

If the situation develops even further in the negative direction, Russia still has enough of a cushion to weather the storm at the federal level, if we're just talking about the government finances (although that cushion might be exhausted by this time next year).

However, when we look at the sub-national level, there is going to be a huge crunch – you cannot have massive public transfers in an environment where the government deficit and debt is ballooning. As for the Russian economy itself, the corporate sector is taking a beating and I don't think there are enough resources to really survive much longer... you need new entrants, new entrepreneurs unconnected with the state, fresh blood to reinvigorate the moribund economy.

But, again, I don't see that happening any time soon, as it doesn't benefit those in power. What is really needed is a change of mindset, the understanding that all trade is good, business is good, and markets need to be unfettered. Without that change, Russia's economy could be entering a fairly dark period, even though there have been the appropriate moves (especially by the Central Bank of Russia) to try and manage the crisis.

Evsey Gurvich, head of the Moscow-based Economic Expert Group in Moscow:

Unfortunately, the addiction of the Russian economy to oil prices has recently increased, while prices are in a zone of unpredictable vacillations. In summer 2015, all started believing that the price per barrel stabilized between \$50 and \$55. However, afterwards, a new wave of the drop in oil prices started, with inevitable implications for the Russian ruble and the country's GDP. So, the economic situation is likely to worsen.

Today the government does not have so many choices [of how to deal with the crisis]. First, the last half of the year showed that one should not overconfidently rule out certain developments of events, which could be seen unbelievable at first glance. After all, comparably recently, many were sure that the oil price would not drop below \$90 per barrel, then they believed that it would not fall below \$70 and so on.

Currently, it is necessary to be ready for any scenarios, even though they seem very fantastic. And this means that we shouldn't rely on the Reserve Fund (like it was in 2009) - that it will help to survive the storm and we'll come back to normal life.

Given a great deal of unpredictability in the global economy, definitely, it is impossible in the near future to return to an easy, fat and comfortable life, like it was the case during high oil prices. Thus, the government should urgently take measures to adjust the budget to \$35-40 per barrel and re-think the plan of what it will do in the case of \$25-30 per barrel. At the least, it will be necessary for this to cut expenses. Ideally, cutting expenses should be not even. It should target least effective fields.

Generally, there might be three scenarios for Russia's economy. First, executive and legislative power will not dare to take tough and unpopular measures of cutting governmental expense. In this case, we will depend primarily on external factors: If we are lucky and the oil prices won't fall below \$40 per barrel, we will keep afloat; if oil will get cheaper to \$30 or below and will be at this level several years, a deep crisis is likely to happen.

Second, the authorities will conduct all necessary measures of cutting expenses, but will conduct them “passively” and gradually. I mean those expenses, which are easier to cut fast. In this case, an intractable crisis will be possible to avoid. However, after the situation will stabilize, stagnation will replace the economic meltdown.

Third, at best there will be a serious invigoration of the economy, which will start with increasing effectiveness of budgeting. In addition, the authorities will conduct pending reforms of non-market sectors of economy (state and quasi-state ones): they will decrease excessive bureaucratic control, reform the system of governmental management and increase guarantees for property protection. Only in this case, we will have the opportunity for sustainable growth and decrease of painful dependence on external factors.

Stanislav Tkachenko, professor in the International Relations Department of St. Petersburg State University:

The scale of the current global economic crisis is becoming obvious only now. For Russia and most developing countries, it will be deeper and longer than the crises in 1998 and 2008. It might lead to imbalances in the financial, industrial, energy and currency markets.

At the same time, one can see the local aspects of the current crisis: Increased efficiency of shale oil production and competitive capability of liquefied natural gas (LNG) and the scale of trading in oil futures. The crisis will intensify during the next several months and then it might end in some countries. It is not ruled out that Russia could see sustainable growth in the middle of 2017. The peak of the crisis is likely to be in summer 2016. So, the Russia government will have to focus on two directions.

First, it should withstand the increasing panic in the domestic market, including capital outflow and, particularly, the possible and likely attempt to sell off the Russian ruble and assets. Second, the authorities will have come up with a long-term strategy of economic reforms, including increasing investment to 28-30 percent, decreasing taxes on small business, introducing tax incentives and so on.

Russia will be able to cope with all economic woes in 2016 and 2017. The problem is to what extent the consequences of the crisis will be damaging for the population's social and economic well-being. This may determine the period of how long it takes the Russian economy to restore itself (by the way, it required almost 15 years for restoration after the collapse of the Soviet Union).

The danger is that decreasing living standards might drive the Russian authorities to reassess their approaches, dismantle all democratic institutions under the guise of stability, and stop fighting with corruption and improving effectiveness of governmental management. If it comes true, the crisis will linger on for three to five years.