
RUSSIA'S ECONOMIC BATTLES EXPOSE TURMOIL

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A wide-ranging debate over economic policy would be unremarkable in more open countries. In Russia, it reflects a system in big trouble.

Elvira Nabiullina attends a meeting on issues of fuel and energy at the Novo-Ogaryovo state residence outside Moscow on 13 February 2013. Photo by Getty Images. Elvira Nabiullina attends a meeting on issues of fuel and energy at the Novo-Ogaryovo state residence outside Moscow on 13 February 2013. Photo by Getty Images.

Russian economic policy is in disarray. The Central Bank of Russia (CBR) remains a pillar of orthodoxy, with its inflation targets and floating exchange rate. But the government, torn between austerity and stimulus, has been unable to finalize this year's federal budget. Outside the technocratic policy-making circle of the Ministry of Economic Development, the Ministry of Finance and the CBR, there is a cacophony of conflicting policy advice, some of it amounting to mutually incompatible ideological platforms.

Economic policy is of course the subject of loud disagreement in many countries most of the time. But the weakness of government macro-policy and the diversity of publicly-stated policy agendas are out of character for Putin-era Russia. They are instead reminiscent of the USSR in the late 1980s and Yeltsin's Russia of the 1990s.

Monetary prudence, fiscal indecision

Within the policy-making core, even the CBR, headed by former minister of economic development and trade Elvira Nabiullina, has had some internal problems. In January, with Nabiullina's tight monetary policy already being criticized by industrialists and others, Dmitry Tulin, a then-recently-appointed first deputy chairman of the bank, reportedly pushed for the bank to break from orthodoxy and issue targeted and subsidized credits. Nabiullina successfully pushed back, with ostentatious endorsement by President Vladimir Putin, but the critics outside the CBR remain vocal.

The tension between austerity and stimulus, familiar around the world at a time of economic

uncertainty, has presented the government with decisions it can only postpone. This years federal budget has been cut back, with even the defence budget trimmed in real terms, but the final budgetary revision was postponed from January, first to April and now to October. The governments crisis response plan has been announced, but without full funding. Too often, the disagreements over the budget seem to boil down to the Ministry of Finance versus the rest. However, Anton Siluanov, Aleksei Kudrins successor as minister of finance, has often been able to win these arguments.

The fiscal position is indeed tricky. The president has approved a target of a federal-budget deficit limited to 3 per cent of GDP. Many observers question whether this is feasible unless the oil price moves upwards and stays well above \$50/barrel. Meanwhile the budgetary reserve fund was down to 4.3 per cent of GDP on 1 April; confidence, already low, is vulnerable to the erosion of that fund, and borrowing, as an alternative to running down the reserve fund, is more than usually problematic. Some financing by the sale of substantial minority stakes in state companies (including Rosneft) is planned, but for several years now privatization sales targets have been nowhere near achieved.

Russias economic troubles would be more amenable to treatment by monetary and fiscal policy if they were merely cyclical. But the conventional wisdom now is that potential output growth, after the present recession, will be of the order of 2 per cent per annum or less. That means a continuing decline in Russias share of world output. (The IMF, for example, projects global output growth at 3.2 per cent this year, rising to 3.8 per cent in 2020.) That declining share is anathema to the political leadership. It is often described, confusingly, as stagnation. Not surprisingly, there are radical ideas in circulation to prevent it.

Conflicting viewpoints

On the liberal side there is the view, shared by many Western analysts, that institutional reform is a necessary condition of improved growth prospects. It would include cutting state regulation, further privatization, the introduction of rule of law and protection of property rights. Whether the present political and social order can carry through such reforms is doubtful.

The recent appointment of Kudrin to chair the board of the Centre for Strategic Research (CSR), a policy-drafting platform with a reform agenda, is at least a gesture in that direction. Kudrins policy-making experience and closeness to Putin make the appointment news, but the CSR already contains excellent liberal economists: Vladimir Mau (replaced as CSR chairman by Kudrin), Evgeny Gavrilenkov, Yevgeny Yasin and Yaroslav Kuzminov. And one outstanding economist who used to be director of the CSR, Mikhail Dmitriev, was removed from that position, probably because he said too many politically unpalatable things. But the broader significance of Kudrins move remains to be seen.

Meanwhile, Prime Minister Dmitry Medvedev has set up an interdepartmental committee to review a set of ideas that are almost the exact opposite of Kudrins: those of the Stolypin Club, another policy advice platform. This follows the publication of a Stolypin Club report co-edited by Boris Titov and Sergei Glazev. They are not insider technocrats but they are not rank outsiders either. Titov is the presidential ombudsman for business, and has supported businesspeople against oppression by law-enforcement officers. Glazev, a leftist economist, is one of several presidential advisers outside the presidential administration. The view they propound is that a partial return to planning and a large amount of soft credit would lead to a return to rapid growth. Titov has set up a Party of Growth; it is expected to support the Kremlin.

This view might be attractive to some of the statist associated with the law-enforcement agencies. One of them, Aleksandr Bastrykin, head of the Investigations Committee, put out on 18 April what looked like a policy manifesto, which included a diagnosis of Russias economic problems: that they are the result of hybrid warfare by the United States and its allies. He is referring not just to sanctions but also to currency wars and dumping on hydrocarbon markets. In Bastrykins view, or at any rate the view he seeks to propagate, the fall in the rouble and the (very closely linked) fall in international oil prices were engineered by Washington. In other words, the development of North American shale oil and shale gas was organized, presumably by the Pentagon or the CIA or both, in order to damage Russia.

The airing of such a range of views and policy proposals would in more open societies be unremarkable. In Putins Russia it suggests a system under severe strain. This should not be entirely surprising: the problems facing the Russian economy now are more severe and more complex than at any time since the year 2000.

Kaynak/Source: