Economic Crisis in Russia

Anders Åslund analyzes Russia's economic woes and says the only way out is to get sanctions lifted by reversing course on Ukraine.


Steve Weisman: Russia’s economic problems are commanding the attention of the whole world. This is Steve Weisman at the Peterson Institute for International Economics with Anders Aslund, who has analyzed the source of the problems and whether Russia can crawl out of its hole. Anders, first, tell me the dimensions of the crisis.

Anders Aslund: The fundamental problem is bad economic policy, bad structure policy, meaning state and crony capitalists and protectionism that have grown ever worse under President Putin. And therefore we had expected stagnation. On top of that came two big blows this year. One is the financial sanctions from July, which I call Russia’s Lehman moment, because the sanctions effectively have blocked all international financing for Russia. And after that comes the third blow, falling oil prices, which means that the oil prices have fallen by 50 percent and oil and gas are 70 percent of Russia’s exports. So Russia’s lost about 30 percent of its export revenues in short order.

Steve Weisman: What are the prospects for economic growth or even contraction in the next year?

Anders Aslund: I would expect a substantial decline in GDP next year. The Central Bank has come out with the full cost of the decline of four and a half percent and I think that this is only the beginning. I think that we should look at a decline of six percent or more because there are so many blows to the economy now.

Steve Weisman: Are there prospects for a default as occurred in the late 1990s?

Anders Aslund: The big difference now is that Russia has hardly any public debt, just over 10 percent of GDP. It has basically a balanced budget and when the ruble exchange rate falls with the oil price, the budget revenues remain the same in rubles when the expenditures become much higher. But even so, Russia’s fiscal situation is strong and the current account surplus is likely to stay because imports were more than exports. So the big problem for Russia is that the standard of living is falling because import prices are going up.

Steve Weisman: What will that translate into in terms of political pressure on President Putin and the Kremlin?

Anders Aslund: This is what we don’t know. Normally we would expect social unrest with these kinds of economic problems, which have been very much caused by the regime. But Russia has a very efficient repressive system, efficient in a way that it’s more about the information than about the harder pressure.

Steve Weisman: In theory, Putin could institute economic policy changes. What are the prospects for that?
Anders Aslund: I think it’s extremely unlikely because the Putin system is really a system of corrupt clients that are sharing a lot of loot from the government and there will be a mess. So it would be very difficult for him to rein these people in.

Steve Weisman: The second thing he could do is ease the pressure or even reverse policies on Ukraine which have caused the sanctions in the West. What is the likelihood of that?

Anders Aslund: I think that this is the only truly rational choice that President Putin can undertake. And if I were in his place, I would do that because Russia doesn’t seem to have any obvious future in Eastern Ukraine. They don’t have much support and it is really the rust belt of the Ukraine. So this is not an asset that you would like to take over. Unlike the Crimea, which has lots of oil and gas.

Steve Weisman: Will the Russian people demand such a step?

Anders Aslund: The Russian people are not a factor in Russian politics today because the propaganda is massive through very skillful television journalists. People don’t know and they don’t have a voice.

Steve Weisman: But if their standard of living is falling, if prices of imported goods are higher, that is a factor in how they feel towards the government, isn’t it?

Anders Aslund: Sure. We should expect social unrest. The question is where, what forms it takes and in particular how long a protest can become.

Steve Weisman: Finally, what should the West’s attitude be towards Russia right now? Just let them stew in their own juices?

Anders Aslund: Yes. I think that the West can feel pretty confident that its sanction works and maintain the sanctions until we see that there are results. For the last two weeks we have seen a lot of Russian statements suggesting that Russia wants to withdraw from Donbas [Donets Basin in eastern Ukraine] and the West needs to clarify if this is true. The West then needs to make sure that Russia really withdraws. Otherwise, just maintain the old policy.

Steve Weisman: Thank you, Anders.

Anders Aslund: Thank you.