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Filling Kudrin's Shoes Will Be Hard

By Martin Gilman

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Poor Anton Siluanov, Russia's new acting finance minister. Siluanov, following in the footsteps of Alexei Kudrin, who resigned a week ago, is not to be envied. Without his predecessor's expertise and experience, Siluanov may have been handed the proverbial poisoned chalice.

Without questioning Siluanov's qualifications to head the Finance Ministry, it is only necessary to focus on the man whose shoes he is deigned to fill. Even Kudrin, it should not be forgotten, was not an overnight success. Few people are born with the qualities to be a good finance minister. Most, if they have the luxury of time in the job, acquire the skills, and some, like Kudrin, even develop a vision. But Kudrin's apprenticeship to become a world-class finance minister was long. After a brief stint as a bean counter as head of the Kremlin's control office, Anatoly Chubais brought him to the Finance Ministry in March 1997 as his first deputy. He became the finance minister himself in May 2000 and remained in this post until last Monday.

The learning curve was steep, but Kudrin was an avid student. For example, in his enthusiasm to bring costs under control as a political novice, he embarrassed the government in late

March 1998, when the Financial Times quoted him out of context as trying to eliminate a large number of teachers and health workers in the budget. His earnest steps to impose spending controls on ministries and eliminate wage arrears, conceived in narrow accounting terms, initially complicated the payments situation.

While heeding the lessons of Russia's 1998 government default in his early days as minister, he continued to focus narrowly on budget matters and often felt out of his depth when dealing with broader economic questions. In fact, during the first administration of President Vladimir Putin, he played a relatively minor role in the early economic reforms. Prime Minister Mikhail Kasyanov was more of a driving force until he was forced to resign in early 2004.

But Kudrin grew on the job. Perhaps his singular achievement was his insistence on creating the oil stabilization fund in 2004, which was split into the Reserve Fund and the National Wealth Fund in 2008. Even the International Monetary Fund, at least initially, inveighed against him. Haunted by the lessons of the 1998 crisis, Kudrin persevered and thus prevented a sharp appreciation of the ruble exchange rate as oil prices and capital inflows were offset by the financial wedge he created, which then cushioned the shock of the global contraction in early 2009. He also prepaid foreign public debt to the IMF and Russia's Paris Club creditors, making the country's debt ratio the lowest among major economies before that shock.

His instinct was to be conservative because he learned the hard way that neither high oil prices nor capital inflows could be taken for granted. Indeed, he was often worried that high oil prices would undermine his efforts to bring the non-oil deficit, now running at 6 percent of gross domestic product, under control because of spending pressures within the government. And of course he was right to be worried.

Kudrin was the longest-serving finance minister in the Group of Eight, winning the respect of his international peers and the admiration of Russian and foreign investors for his consistent efforts to pursue macroeconomic stability. His primary focus always remained constraining budgetary spending, since he understood that the private sector, not the state, had to be the engine of productive investment. Until the global financial crisis, his thinking dominated within the government.

These achievements were not obvious, since often he had to compromise against his better instincts in a government where he did not make the final decisions — although his judgment was appreciated and trusted by Putin, even when Kudrin was overruled. The fact, however, that spending nevertheless splurged under Kudrin's watch — fueling inflation rather than growth — reflects the pressures that high oil prices make irresistible. At least Kudrin prevented it from becoming even worse.

The key point is that Kudrin evolved in his 11 years on the job and gained in stature as time went on. This experience cannot be easily replicated. In the case of Kudrin, this experience was built upon a foundation of a strong character that could stand up to pressure. This combination transformed him into a world-class finance minister, as recognized by Euromoney magazine last year.

Despite the almost farcical nature of his departure, Kudrin's reputation stands. Unfortunately, President Dmitry Medvedev comes off looking somewhat churlish and

vindictive. Siluanov is no Kudrin, and since Russia faces extraordinary challenges in both the global and domestic spheres, the economic future of the country seems dimmer than it was a week ago. Despite First Deputy Prime Minister Igor Shuvalov's support on broader fiscal issues, Siluanov will still confront a Sisyphean task, even if his appointment is a temporary measure until a new government is formed.

In the meantime, will Kudrin continue to play a role behind the scenes in the Finance Ministry, acting through his well-honed staff? Maybe, perhaps, but this is still not very reassuring.

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