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Kudrin Publishes Manifesto

By Justin Varilek

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Former Finance Minister Alexei Kudrin systematically laid out the potential pitfalls of Russia's economic policy and described his own five-point plan in an open letter Tuesday carried by Kommersant newspaper.

Kudrin labeled the idea of successfully increasing pensions and state employee salaries, rearming the military and modernizing the industrial sector — all at the same time — a "fantasy."

The current 2012 budget will only avoid a deficit when oil is at $117.5 per barrel, contrasted with the forecast of $100 per barrel, he said. While in 2008, the budget was balanced with oil at $57.5 per barrel.

By increasing expenditures to unrealistic targets, Russia will be forced to make cuts of 1.35 trillion rubles ($43 billion) if the price of oil were to once again drop to $60 — its yearly average for the past 10 years.

Should the country seek international loans to fill that gap, it will be faced with high interest rates due to the paralysis of the credit market resulting from a potentially looming global economic crisis.

He also highlighted this as a reason why it is dangerous to rely on foreign investment.

Kudrin called for the government to peg the budget to an expected $90 per barrel in 2015 in order to avoid a deficit. This move should be followed by returning principles to budget laws that define rules for the use of oil and gas revenues.

His third pillar demands a re-evaluation of the buildup of military expenditures and increased soldiers' salaries — the current plan for doubling salaries and pensions is projected to cost 20 trillion rubles over 10 years.

To deal with deficits in the Pension Fund, the government should peg increases in pension payments no higher than the inflation rate. The former minister also said a formula must be made to tie budget obligations to the gross domestic product.

Kudrin believes that Russia must turn toward a new model for economic growth — one no longer based upon growth in demand that is buoyed by revenues from oil reserves. Instead only private investment, strengthened by a stabilized financial system, will provide true expansion of modernization.