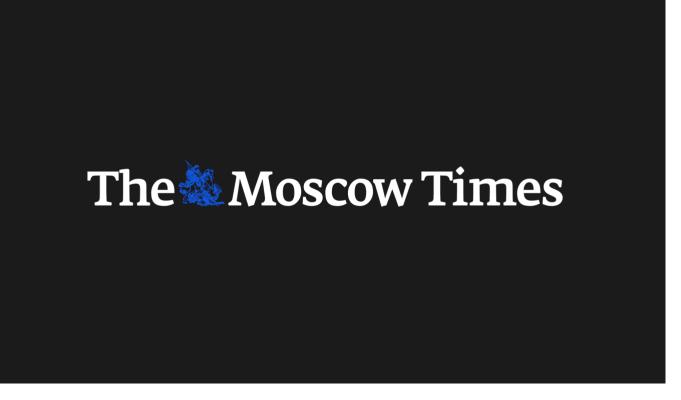


Kudrin Sees Impending Pressures on Economy

By The Moscow Times

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Russia is on the brink of stagnation and has only limited time to brace for an impending global slump, former Finance Minister Alexei Kudrin said.

Kudrin, a widely respected fiscal hawk who quit 12 months ago, said "unprecedented" actions by the U.S. Federal Reserve and other major central banks might delay a debt crisis by "maybe a year."

"As soon as these measures fade, the crisis could resume," Kudrin said in an interview Friday before the Russia Investment Summit, to be held in Moscow from Monday to Thursday.

Kudrin, post-Soviet Russia's longest-serving finance minister, resigned after Vladimir Putin announced he would seek a third Kremlin term and swap roles with Dmitry Medvedev, who is now prime minister.

He remains influential, supporting opposition protests demanding free and fair elections. But Putin has said the two remain friends, and Kudrin could return to government.

Kudrin made it clear that he would not serve under Medvedev. The two have not spoken since their clash over public spending forced his resignation.

He criticized the government for failing to pass reforms that would encourage investment in modernizing and diversifying the economy.

Debt-strapped Western nations have "exhausted" their potential to boost growth through deficit spending, said Kudrin, taking a dim view of the latest round of quantitative easing from the Fed and of the European Central Bank's plan for bond purchases to help struggling sovereign debtors.

"We are on the brink of stagnation. Economic growth in Russia of less than 3 percent is stagnation," Kudrin said.

"Today, reforms are not being carried out on a sufficient scale. ... This causes extreme caution on the part of investors. Russia is not getting the investments it needs, and without these measures it won't get them in the coming years."

Oil Channel

Kudrin is credited with restoring the country's public finances to health after the default and devaluation of 1998, running fiscal surpluses and saving oil revenues in rainy-day funds.

But he grew increasingly disenchanted with the country's policy course after the 2008 financial crash. The economy shrank 8 percent the following year after oil prices tumbled to \$40 per barrel.

In Kudrin's view, the biggest economic risk to Russia, the world's largest oil producer and ninth-largest economy, remains a possible oil price collapse.

He said that with oil at \$110 per barrel, people saw no need to worry about the economy but that complacency was mistaken.

"In an \$80 oil price scenario, the economy would shrink 3 to 4 percent," he said.

The economy grew at a rate of over 4 percent in the first half of the year but is slowing as export demand and investment abate. Kudrin said it would be a mistake to use the country's strong fiscal position to bolster demand now.

"It's not the job of the state to stimulate the economy through spending," he said. "The state should support growth when the economy is shrinking at a rate of more than 2 percent, not when it is growing by 4 percent."

FiscalL Rule

Kudrin did support the government's adherence to a rule designed over time to reduce the oil price at which the federal budget, which relies on oil and gas levies for half of its revenues,

would balance.

In its latest proposed version, the rule would require that oil and gas revenues above a certain cutoff price be saved, while the government would be free to spend nonoil revenues as it considered appropriate.

The government's medium-term fiscal strategy, under which federal outlays will remain flat in inflation-adjusted terms and the budget would be balanced in 2015, is sound policy, said Kudrin.

"The fiscal rule and modest spending growth, those are the right measures," he said. "We don't need to take any extraordinary measures right now. Now, we need to improve the investment climate and make it as easy as possible to invest.

"What is getting in the way? A lack of political competition and political will. The powers don't deny that they want to kick-start modernization and investment. But they aren't listening to the feedback from business."

Looking farther out, Putin's commitment to ramp up spending on Russia's armed forces and social spending have created uncovered commitments that will fall due later in this decade.

The "real hit" will come later, Kudrin said.

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