

The Russian Economy amid the Global Financial Crisis

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This piece analyzes, from the macroeconomic perspective, the influence on the Russian economy of the global financial crisis which emerged in September 2008. Since the fourth quarter of 2008, the growth rate of Russian GDP has declined significantly. In the first half of 2009, GDP decreased by 10.4 percent in comparison with the corresponding period of 2008. In particular, in some branches of manufacturing industry, such as the manufacturing of machinery, decreases in production exceeded 30 percent in the first half of 2009.

These production decreases were caused mainly by the liquidity problems of enterprises, which were, in turn, brought about by decreases in the money supply, increases in the capital outflow abroad, and the increasing preference of banks and enterprises for foreign currencies. The money supply, which increased by 30-50 percent annually in the preceding years, stopped increasing and began to decrease in the latter half of 2008. This was due to the intervention of the Central Bank of the Russian Federation in exchange markets. When the ruble began to depreciate suddenly in September 2008, the Central Bank defended the ruble by selling its foreign reserves, causing a decrease in the money supply. The huge outflow of private capital from Russia, which erupted in the fourth quarter of 2008, implied a complete change from the situation in 2006-2007, when a great amount of foreign capital entered the

Russian economy in the form of bank loans and foreign investment, increasing the circulation of the ruble. The Russian government, in the same way as the governments of other countries, injected considerable amounts of public money into the banks in order to promote the financing of the real sector. The banks, however, converted the money into foreign currencies and assets with the expectation of a further depreciation of the ruble.

In July 2009, the Ministry for Economic Development of the Russian Federation revised downwards its economic forecast for 2009, according to which Russian GDP is to decrease by 8.5 percent in 2009. This revision seems to have been made taking into consideration the bad GDP performance of the first half of 2009, caused by a sharp decline in inventories, and the continuing shortage of liquidity. Good news for the Russian economy is that: in March 2009 oil prices began to increase; the depreciation of the ruble and the decrease in foreign reserves subsequently ceased; and in the second quarter of 2009, the net inflow of private capital became positive. Moreover, the federal budget for 2009 was revised in April with considerable increases in expenditure. This good news, together with the possibility of import substitution due to the depreciation of the ruble, seems to suggest that the Russian economy would fare somewhat better in 2009 than was anticipated in the forecast of the Ministry for Economic Development.