



Global Financial Tsunami Impacts Russian Economy

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Abstract

Russian economy depends on energy resources highly. Due to impacts of the financial crisis and the sharp decrease of oil price, Russian economy driven by “Petro-dollar” tends to develop slowly. The overwhelming financial tsunami not only impacts Russian financial system but also influences Russian substantial economy. Russian government adopts relevant financial policies in time, keeping the stability of domestic currency, depressing the inflation, and enhancing the support for SMEs and substantial economy. In 2009, Russian economy recovers its vitality, stepping forward steadily.

Keywords: Financial tsunami, Russian economy

As American sub-prime mortgage crisis make western countries in panic, Russia is like a silent port. Nobody believes there is certain relationship between the sub-prime mortgage crisis and Russia. However, American financial crisis come Russia overnight, which not only impacts Russian financial system but also influences Russian substantial economy.

1. The present situation of Russian economy is not optimistic

Russian economy depends on energy resources highly. Due to the financial crisis, the crude oil price goes down sharply from 147 US dollars per barrel to about 40 US dollars per barrel in 2008. Russian economy driven by “Petro-dollar” tends to develop slowly. Although Russian economy has developed fast during past ten years, it slows down now. In Dec. 2008, Russian economy shrunk by 1.1%. Surely, the slow down of economy is popular in the world, but this phenomenon is especially surprising in Russia.

Statistical data show that in Nov. 2008 Russian industrial enterprises’ production shrunk quickly. In this month the domestic industrial added value decreases by 10.8% compared with that of Oct, and decreases by 8.7% compared with that of the same period in 2007. This decrease almost covers Russian all industrial production filed. And in Dec. the industrial production shrunk further. According to a report issued by an international grading institution, it is predicted that in 2009 the export of Russia will shrink by 25% and the GDP will decrease by 2.2%. Besides, the house price that has kept rising before Oct. 2008 tends to decline. The house price in Moscow decreases by 25%. Similar to the house market, the stock indexes decrease by more than 70%. According to Russian official data, during the recent months, more than 300 thousand people lost jobs and total unemployment number exceeds 5 million. In addition, the outflow of Russian capitals tends to be faster, which will continue in 2009. It is predicted that in 2009 the net outflow of Russian capitals will reach 100-110 billion US dollars.

Declining industry, house market and stock market, serious unemployment, and outflow of capitals have already turned into a vivid description of Russian economy. Russian economy is “extremely weak” in facing the global financial crisis. The situation is not optimistic.

2. Serious shock of financial market

In Russian, the exchange fluctuates freely. Therefore, American financial crisis exerts a significant impact on Russian financial system.

2.1 Stock market slumps seriously

Since American sub-prime mortgage crisis, global stock markets have slumped seriously. Russian has even turned into the “safely island” of world economy. Amounts of foreign capitals rush in and the stock market rises quickly. On June 3rd, 2008, the index “Russian trading system” rises to the historical top 2451 point. Afterwards, it declines slowly. On Aug. 8th, a military conflict happens between Russia and Georgia. The geopolitical contradiction between Russia and America is intensified. Russian stock index slumps from 1839 to 1722. On Sep. 15th, Lehman Brothers Holdings goes bankruptcy. Russian stock market slumps sharply. On Sep. 16th, the index Russian trading system (RTS) slumps by 11.47%. Moscow Inter-bank Currency Exchange Index (MICEX) slumps by 17.75%. On Sep. 17th, RTS and MICEX stop normal trade. Index MICEX falls by 10% above. Russian savings bank stock falls by 26% on the same day. On Oct. 6th, Russia PTC pay system stock slumps by 19.1%, reaching at 866.39 point, the largest decline since Sep. 1st, 1995. On the same day, MICEX index slumps by 18.66%, reaching at 752 point. Due to the sharp decline, PTC stops two times and MICEX stops three times on the same day. Although Russian government inputs capitals in banking system

for many times in order to save the stock market, it can not strengthen investors' confidence.

2.2 Banks operates at loss

Along with the spread of world financial crisis, it tests the stability and adaptability of Russian banking system. Statistical data show that about one third of Russian banks are in business risks. They are confronted with an unprecedented risk for ten years. The loss of Russian banking system reaches 40 billion RUB till Oct. 31st, 2008. Russian professionals say that since 1999 all Russian banks are profitable. According to statistical materials from Central Bank of Russia, the total profits of Russian banking industry reaches 508 billion RUB in 2007. The number is 371.5 billion RUB in 2006, 262.1 billion RUB in 2005, and 177.9 billion RUB in 2004. From Jan. to Aug. 2008, Russian banking industry's average total profits per month reaches 44 billion RUB. However, this condition is sharply changed in two months due to the world financial crisis. In Sep. the total profits of Russian banking industry is 1.3 billion RUB. From Oct. the operation of Russian banking industry turns into "loss" from "profit" in general.

Due to Russian financial industry faces severe crisis. On Oct. 7th, the President Medvedev holds an urgent economic conference. He declares that the state offers a favorable loan 950 billion RUB and the term is no less than five years. Some Russian professionals agree that this measure is not for supporting the liquidity but help banks to pay for debts in case of banks' bankruptcy causing panic among citizens. On Oct. 13th, the President signs an act of Complement Measures for Supporting Financial System and amends relevant laws. Russian government invests in banks by all means in order to solve the liquidity risk. The issue of Russian Act of Complement Measures for Supporting Financial System signals the government saving the market comprehensively. At present, 122 large and medium banks get investments from the government. However, Russia has 1126 banks. Most small banks can not get allowance from the government. Therefore, the government amends the Law of Natural Person Deposit Insurance. The former law regulates that the top limit for a full compensation is 200,000 RUB (about 7565 US dollars) as banks are in bankruptcy. And for a deposit between 200,000 RUB and 700,000 RUB (about 26,457 US dollars), the compensation is 90%. Now the amended law regulates that the top limit for a full compensation rises to 700,000 RUB. By this way, it can ensure small banks' deposits. 98% of depositors can get a full compensation. The government plans to further perfect this law and endows deposit insurance companies with a right of saving banks at the very beginning instead of at bankruptcy.

2.3 RUB keeps in depreciation

Since the year 2003, the crazy rise of world crude oil further stabilizes the advantage position of RUB. The exchange rate from RUB to US dollar rises from 1: 28.5810 (Mar. 22nd, 2005) to 1: 23.4456 (July June 31st, 2008). The appreciation is about 21.93%. However, since American financial crisis, especially the conflict between Russia and Georgia, RUB depreciates sharply. The exchange rate from RUB to US dollars decreases from 1:23.4456 (end of July) to 1:32.9 (Jan. 20th, 2009), being the lowest since 1998. The depreciation surpasses 40%.

Due to the pessimistic economic future, RUB keeps in depreciation recently. In order to support the RUB, Russia sales lots of US dollars. According to news from Reuters Routers, Russia has already spent 200 billion US dollars in order to control the depreciation of RUB, which is equal to one third of Russia's foreign exchange reserve. However, under the double pressures from world financial crisis and decline of world crude oil price, Russian government fails. In order to save RUB, Russia sets the bottom limit for the depreciating RUB. Unfortunately, it makes RUB turn into a striking target. RUB exchange is a sensitive issue in Russia. The memory of a sharp depreciation of RUB in 1998 is still clear. Oil is the main export product of Russia. The sharp decrease of crude oil price and the world financial crisis make amounts of capitals exit from Russia, which makes RUB depreciate seriously in last several months. Russian government has to save the RUB exchange.

According to Russian official statistical data, since 2009, RUB depreciates by 23.1%. From early 2008 to now, the accumulated depreciation of RUB is 50%. Although in Feb. 2009 the Central Bank of Russia continues to increase the repurchase rate and a series of mortgage rates and RUB tends to stop depreciating, the RUB exchange starts a new decrease after five trading days. Apparently, Russian government's exchange interference and rising rates can not stop the depreciation of RUB. As a matter of fact, the real reason for global investors depreciating RUB is the worry of unstable political situation and the uncertainty of high crude oil price.

3. Substantial economy suffers serious damages

American financial crisis brings about significant negative effects on Russian substantial economy by finance, investments, and trade.

In 2008, Russian enterprises and organizations' net profits (subtract losses from profits) calculated by current prices are 3998.6 billion RUB, being equal to 171.9 billion US dollars, decreasing by 30.4%. Presently about 300,000 enterprises submit taxation reports in Moscow. Therein, nearly 59,000 enterprises are in losses and about 60,000 enterprises report zero tax. Along with the development of financial crisis, more and more enterprises will suffer from losses, which will causes a sharp decrease of budget income.

Since the financial crisis, Russian stock market suffers a series of continuous strikes. Two main stock indexes decrease by 70% from the top in May. Because of credit deflation, amounts of SMEs can not get loans, what makes their operations more difficult. Russian small and medium trading net has been ruined seriously. Therein, most are merged or in bankruptcy. Lots of retailers face problems of short-term loans, rising rates, and decreasing demands. Besides, the financial crisis exerts negative effects on credit loans for agricultural production. Today it is more difficult for farmers getting a new loan or increase present loans. In order to further extend the output, Russia must invest more in the agriculture. Unfortunately, it is hard now getting loans from banks in financial crisis.

As the crisis spreads over the financial market, the oil and gas industry, the greatest backbone of Russian economy, feels threats. After Aug. 2008, the slumping world crude oil price and the shrinking stock prices make Russia's main oil and gas enterprises face debts crisis and reduce of production. According to a report from Russian Business Men, Russian oil and gas enterprises admit the severe problems originated from the financial crisis for the first time. They hope the government to offer helps. On Sep. 24th, the chiefs from Russian Joint-Stock Company Gazprom, OAO Lukoil Holdings, Russian Rosneft Company, and THK-BP Company please Premier Putin to offer official loans for paying off western banks. These companies hope the Premier Putin to ask the Ministry of Finance and the Central Bank of Russia to set up a mechanism of investing in strategic industries. 70% of oils and 91% of gases are from these four companies. Therefore, the four companies are vital for Russian economy. Now Putin promises to offer 50 billion US dollars.

Due to the difficulty of applying for loans and the high expenses, Russian construction enterprises face financial problems now. Some Russian real estate developers fail to get necessary capitals. Certain large developers may stop some new projects or refuse to purchase more lands. Even some developers try to pay loans by selling the projects in construction. Now it is reported that Moscow city government plans to take 2 billion US dollars budget capitals to help the real estate developers in difficulty.

Impacted by the financial crisis, Russian automobile production enterprises and metal manufacturing enterprises have to reduce the output to manage the crisis. An automobile group declares to apply a four-work-day system in order to reduce the output. Another group even stops the production of trucks. Because of the decrease of orders, on Oct. 8th 2008 one of Russia's largest steel companies declares to reduce the production by 15% and employees by 10%. Russia steel pipe company will reduce the investment plan by half in next year. Market analysts agree that by late 2008 all Russian steel companies will reduce the production by 20%-25%. And this state will continue for one or two years because the large consumer of steels, construction industry and oil and gas industry change their production and investment plans.

In order to weaken the impacts of financial crisis on the substantial economy, Russia constitutes and starts to apply a saving plan for some backbone industries, such as agriculture, energy, automobile, aircraft, military, and construction. For example, the government offers loans for large agricultural projects. The national purchase should target at the domestic products firstly. For enterprises that produce for the government's orders, the government should offer national guaranties. The government supplies official allowances for military enterprises paying off loans. Russian government will support 1500 enterprises that are meaningful for the national economy.

4. The future of Russia ----- goes forward difficultly

Russia's vice voice Premier Kudelin has ever said that the year 2009 will be the most difficult one since the World War Two. The budget deficit may reach 3% or 5% of GDP. At the first half of 2009, the RUB exchange will decrease by 10% at least compared with that of last year. Although the effects of financial crisis should not be neglected by all means, it is predicted that the tight supply of energy in the global market will contribute to the sharp rise of crude oil price. OPEC's reduce of production may benefit the rise of crude oil price. Meanwhile, Russian government adopts relevant financial policies, maintains the stability of national currency, and depresses the inflation. As enhancing the supports for SMEs and the substantial economy, the government supervises the use of financial allocation, ensuring that the substantial economy gets funds. To release the liquidity deflation caused by the financial crisis can protect the financial system to certain degree, which can also guarantee the recovery of Russian economy. Russia has ever experienced the most difficult stage in late 90s in last century. Russian now can resist the world financial crisis effectively. In 2009, Russian economy restores former confidence gradually. Although the future is till difficult, Russia will go forward.

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