

Russian Economy Strong Despite Commodity Fallout

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For the past six years, Russia's economy has boomed in large part because of soaring prices for oil and metals. Russia is strong in these areas — too strong, though, for a balanced economy.

Russian shares have bled almost 50 percent of their value since May, but many analysts say Russia still remains a resilient economy. And after the Georgia invasion and weeks of harsh, anti-western rhetoric, both Russian President Dmitri Medvedev and Prime Minister Vladimir Putin have tried to reassure foreign investors.

When those commodities prices dropped, Russia's stock market was hit hard.

"The question is if they fall significantly further," says James Fenkner with Red Star Assets in Moscow.

Fenkner is one of the more cautious voices in Moscow, and other analysts like Roland Nash of Renaissance Capital look at other indicators, like direct foreign investment.

"The level of foreign investment is twice the per capita of Brazil, four times that of China, and six times that of India this year," Nash says. "The market arguments for Russia are still very good and there is still a lot of money coming in."

Too Dependent On Commodities

The Russia government recognizes it is too dependent on commodities, and while their prices were high, it amassed huge reserves as a cushion. The country now has a balanced budget and financial analysts predict its economy will continue to grow at about six percent.

Vladimir Tikhomirov, senior economist at Uralsib Financial Corporation, says this is enough to avoid a crisis, but it is not what the Kremlin hoped for.

"It's not enough to make fundamental changes to the economic structures," Tikhomirov says. "Russia must have to be a more competitive and efficient economy."

Moscow may now be the most expensive, glamorous city in the world, but the rest of the country lags behind. Tikhomirov says the Russia needs to improve basic infrastructure like roads as well as small and mid-size businesses. For this, Russia needs a stable global financial system.

Reforms Needed

"For Russia, it's a very important factor," Tikhomirov says. "Many Russian banks and companies depend significantly on the ability to access capital on the global market."

Moscow needs to kick start reforms. A recent World Bank report said Russia enacted no legislation to ease conditions for doing business in the past year.

Dimitry Medvedev began his presidency earlier this year with a pledge to instill the rule of law, but only three months after the handover of power from Vladimir Putin, he was suddenly talking like a military leader as Russia crushed Georgian attempts to reclaim South Ossetia.

Now he is once again talking about investors concerns: Government interference in business, a politicized legal system and corruption. An aide says there was also a political message contained in Medvedev's most recent statements — that Russia does not want to isolate itself from the rest of the world.

Source: NPR.org