Russia and the rouble

As ye sow, so shall ye reap

The collapse in the rouble is caused by Vladimir Putin’s belligerence, greed and paranoia

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VLADIMIR PUTIN has successfully suppressed dissent, squeezed out opposition and clamped down on the media, but he has not been able to control global financial markets. In recent days the rouble has collapsed; it has lost almost 40% of its value over three weeks. This is the biggest crisis of Mr Putin’s reign—and it is entirely his fault.

Mr Putin will no doubt blame all the usual suspects—Western speculators who bet against his currency, Western imperialists who imposed sanctions on his economy, Western economists who failed to forecast that the oil price (down by half over six months) would fall as far as it has and, of course, Western newspapers that told him that his policies would lead to disaster. But the crisis is the inevitable consequence of Putinism—of aggression abroad and a corrupt-and-control economy at home.

Kleptocracy and its consequences

The sanctions were imposed by the West because of his conduct in the Ukraine, where he has, among many things, seized territory, engineered a war and refused to investigate the shooting down of a civilian airliner. Meanwhile, he has failed to reform Russia’s economy, leaving it dependent on the energy industry that he has carved up among his friends. Had he chosen to build an economy based on the rule of law and competition rather than patronage and corruption, things would have
looked very different.

In the short term, there is not a great deal that Mr Putin can do to get his country out of the mess that he has made. A huge interest-rate rise this week, following previous large increases, has not worked. Capital controls are not the answer. They can sometimes be effectively employed against short-term speculation, but in this case investors are rightly worried about an economy that is so reliant on one sector. Anyway, in such a lawless place, capital controls would be porous and could trigger runs on the banks (see article) which the country could ill afford. Russia still has reserves of $370 billion, but it also has foreign-currency debts of more than $600 billion.

To improve the long-term prospects of an economy that is heading into a deep recession, two bigger changes are needed. The first is that Russia should pull back from eastern Ukraine and seek some accommodation with the government in Kiev and the West that could lead to the lifting of sanctions. The second is a change to the country’s economic model. Mr Putin needs to take advantage of the fall in the value of the currency to diversify away from excess dependence on oil and gas, which make up two-thirds of exports; to improve the competitiveness of manufacturing and high-tech industry; to strengthen the rule of law; and to clean up corruption. To implement all this he should replace his pliant prime minister (and previous president), Dmitry Medvedev, with a credible economist such as Alexei Kudrin, who was a respected finance minister for 11 years. His oligarch chums might not like this, but Russians would be better off.

Sadly, none of this is likely to happen. Mr Putin will probably double down, railing against Western iniquity, stifling all dissent at home, destabilising Ukraine still more and interfering further in other neighbouring countries. And he will pursue a course of growing autarky, severing as many of Russia’s economic and financial links to the West as he can.

A brazenly nationalist course will impoverish Russia further, making it impossible for Mr Putin to keep delivering rising living standards. He will gamble that the Russian people are foolish enough to trade prosperity for nationalistic fervour. This newspaper hopes he is wrong.

From the print edition: Leaders