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Abstract of Bachelor Thesis

Economic crises - case study of Russia

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Summary

This bachelor thesis deals with the problem of crisis in Russia. The main goal is to reveal the reasons of the crises in Russia, analyze the current state of the country with a special focus on the last crisis of the years 2014-2015. The theoretical parts give the notion of crises and describe the mechanisms of its occurrence; present basic factors, causing economic crises and considers the violation of economic proportions as a factor of economic crises occurrence. Practical part presents the chronology of crises in Russia, starting from 1992; analyzes the last currency crises of years 2014-2015, taking into account the external political-economic factors, influence of prices for oil (Commodity Exchange), external pressure to Russia and sanctions; gives assessment to the actions of the Russian Government and Central Bank of Russia; discusses the consequence of the crises in Russia. Also the work includes the conclusions under the results of the research.

The methodology involves the study of scientific literature concerning the topic of the thesis, comparative analyses, general analyses and synthesis, collecting and generalizing of statistics data, historical overview.

Keywords: Russian financing crisis, occurrence of crisis, factors causing crisis.

The economic crisis - is the consequence of the shock situations and violations of system balance, striking the economy during various periods and having the consequences steady in time. The understanding of crisis essence in economy is a basis for development of the anti-recessionary program both on macro - and at the micro-level.

This process continues until the compromise solution is defined or one of contradictory elements won't win a victory. This or that scenario of events succession is resulted by uncertainty removal, as is the crisis moment. However, crisis is not only the phase finishing a certain stage in development of organizational system, but also an initial phase of a new stage of its development. In general, crisis represents the aggravation of contradictions in any social and economic system, menacing to its viability in the environment and arising as at a stage of management of functioning of this system (for the purpose of stabilization of economic processes), and at a stage of management of its development (for the purpose of transition to a new qualitative state).

The main goal of this work is to reveal the reasons of the crises in Russia, analyze the current state of the country.

The following objectives are set for the fulfilment of the goal:

- 1.To give notion of crises and describe the mechanisms of their occurrence;
- 2.To present basic factors, causing economic crises;
- 3.To consider violation of economic proportions as a factor of economic crises occurrence;
- 4.To give chronology of crises in Russia
- 5.To analyze the last currency crises of years 2014-2015, taking into account the external political-economic factors, influence of prices for oil (Commodity Exchange), external pressure to Russia and sanctions;
- 6.To give assessment to the actions of the Russian Government and Central Bank of Russia;
- 7.To discuss the consequence of the crises in Russia.
- 8.To make conclusions under the results of the research.

Russian, during its existence, overcame several crises. The first stage was the crises of crises of years 1992-1993 (reforms of Gaidar).

Gaidar's reforms served as the lever, which had created the free market in Russia. The government of that period had carried out liberalization of retail prices, had reorganized tax systems and created a new system of foreign trade. All these sharp changes had been part of the so called "shock therapy". The next stage was the crises of years 1995 -1998 (dollar's corridor). The fight against growth of the dollar exchange rate has led to the introduction in 1995, of "a currency corridor". To

support it, the Government had to limit the volume of the money supply in circulation. This situation heavily influenced the 'real' economy of manufacturing, services and production, since 60 to 80% of money was in the hands of financial institutions by this time. The underestimated dollar exchange rate had made unprofitable, any investment of money in the domestic industry. Inflation, the interest rates decreased, which have become positive in real terms. It became more difficult to delay and use the cash in other operation. The margin decreased. Collapse of the interbank credit market (MBK) became the main manifestation of the crisis. The crises of years 2003-2008 was called "fuel crises". Sellers of fuel have acted as the initiators of this. From June, 2003 to June, 2004 (that is in a year) retail prices for gasoline and diesel fuel have grown in various regions from 40 to 60%. At the end of 2008 when price of oil had fallen almost three times in comparison with the maximum value, the price of gasoline had fallen only by 10–12%. In November-December, 2008 the gasoline liter price in Russia was twice higher, than in the USA. Metallurgists have followed the example of oil industry producers. At first the price of oil from \$70 for ton in 2003 has grown to \$300–400 for ton by May, 2004 (that is for 300% and it at prime cost of ton isn't higher than \$50). Thus, so-called "inflation of expenses", that is the advancing increase in prices for raw materials in comparison with increase in prices for finished goods becomes one of the main problems of domestic manufacturer. The last and the most ruining for the Russian economy was the Currency crises of year 2014-2015. It was caused by different factors. Changes in the prices at Commodity Exchange played an important role. Copper price has fallen from the maximum value by 2,5 times, for aluminium by 2,0 times, and for nickel by 3,5 times. It means, that together with oil, the prices of all raw materials were falling down. Such behaviour in the raw market can be only a result of exchange speculation. The only purpose of such falling of the prices is preservation in appeal of dollar assets. In the second half of 2014 oil prices begun to fall rapidly: in July the price of the Russian oil Urals brand reached 113,7 dollars/barrel, and in January, 2015 it has fallen to 43,3 dollars, the minimum level since March, 2009. In February, in connection with the Ukrainian events and internal political contradictions have occurred an annexation of the Crimea to Russia. Then the western countries in condemnation of Russia for violation of international treaties subject it to economic sanctions. In reply Russia enters countersanctions — embargo on import of a number of goods from these countries. Approximately at the same time depreciation of ruble to dollar and euro, i.e. currency crisis begins. Currency interventions for the purpose of control of devaluation of ruble, still there are already a lot of years applied to regulation of a course, have led to quick reduction of currency reserves of the Central bank. Increase in prices for the goods, which have got under countersanctions, has provided increase in 12-months inflation approximately on 1,5 items (according to Centre of

Development Institute of Higher School of Economics National Research University), and also increase in inflationary expectations. Presumably crisis has arisen around three main problems.

1. The crisis of confidence, which has aggravated in 2012-2013 and expressed first of all in outflow of the capitals. The foreign policy actions taken in 2014 and in connection with events in Ukraine have been anyway generated by the choice of a further political policy. The acute currency crisis has turned out to be the consequence.

2. Problem of recession and restructuring of economy. In 2000th years Russia had a possibility of recovery growth leaning on the first results of market reforms, natural wealth and rapid growth of the world prices for oil and gas. The country could postpone those tasks, which should have been solved in connection with transition to market economy and increase in its efficiency. As a result, restructuring went slowly, the considerable number of the enterprises was reconstructed, but their efficiency remained insufficient. In new circumstances it will become impossible to postpone new problems of restructuring.

3. The income from export of oil and gas for long periods was rather big, in order not to resort to private investments, usually more effective. The Russian conditions of the beginning of the 2000th pushed to an emphasis on the state investments and the choice of the methods of a state administration focused on unpretentious conditions of enterprise climate. As a result, when sources of investments from the export income were reduced, other their sources were inaccessible. From this — three possible stages of crisis. The first is currency crisis.

Overcoming of negative consequences at this stage will be connected with restructuring of economy on the basis of the found competitive advantages, dying off of the impractical enterprises and with transition to growth of perspective productions. The third stage is formation of new sources of private investments and carrying out institutional reforms necessary for this purpose — economic, legal and political. It is the most difficult and long stage connected with obstacles and the conflicts uncertain so far. But without implementation of necessary changes it is difficult to expect renewal of growth of economy in the required scales.

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