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Not an Exceptional Country: Russia and the Global Financial Crisis of 2008–2009

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Abstract
What began as a downturn in the US housing sector in summer 2007 mushroomed into a global financial crisis by September 2008—the most severe since the Great Depression of the 1930s. Initially, Western European governments, including the Russian government, blamed the crisis on US financial excesses and felt that their economies would remain immune from the contagion. However, this proved to be a false comfort. The subprime-induced contagion spread to Europe with unprecedented ferocity, rapidly engulfing the entire continent. This essay explains why Russia, deemed to be the most immune, succumbed so quickly to the contagion, and includes lessons policymakers can learn from the Russian experience to better insulate their economies from the vagaries of the global financial markets.

During the first and second quarters of 2008, as the subprime-induced financial crisis began to spread throughout the US financial system, Europeans remained confident that their economy would remain immune. German finance minister Peer Steinbruck boldly asserted that the financial crisis was an "American problem" — the fruit of Anglo-Saxon greed and inept regulation — that may very well cost the United States its "superpower status." Similar sentiments were echoed in other major European capitals.1 Italy's prime minister, Silvio Berlusconi, blamed the spreading crisis on the "speculative capitalism" of the United States; Gordon Brown, the British prime minister, noted that the crisis "has come from America"; the French leaders blamed the le capitalism sauvage of the Anglo-Saxons, especially its worship of the markets and the lack of business ethics and moral discipline; and the Kremlin simply dismissed the economic crisis as a Western problem that would leave Russia unscathed.2 In fact, in June 2008 Russian president Dmitry Medvedev even boasted that the Russian ruble would be the future reserve currency of Eurasia.3 Given this self-confidence, it is not surprising that when on 19 September 2008 the Bush administration led by Treasury secretary Hank Paulson finally cobbled together an unprecedented $700 billion "rescue plan" (to critics a "bailout plan") to help distressed US financial companies, the Europeans politely rebuffed pleas from the Americans for a joint US-European rescue effort to halt the downward economic spiral.

Despite the bravado, the fact was that Europe was extremely vulnerable to the financial contagion. Indeed, Europe's smugness and complacency was painfully shattered, as beginning in the third quarter of 2008, country after country began to scramble to prevent a fast-moving credit crisis from bring- ing down major banks, wrecking financial markets, and negatively impacting national

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economies.4 Even Russia, the country deemed to be decoupled from the advanced Western economies and most immune from the financial contagion (hence the term "Russian exceptionalism"), by early October 2008 had succumbed to the crisis. What were the assumptions behind the notion of "Russian exceptionalism," and why did the Russian economy succumb so quickly to the financial contagion? What does it tell us about the contemporary Russian economy — despite decades of market reforms? How can Russia better insulate itself from the vagaries of the global financial markets? The following sections address these interrelated questions.

Russia Is Not Like the Rest of Eastern Europe

Much of Eastern Europe began to feel the effects of the subprime-induced financial contagion long before Russia.5 However, these early effects were just the beginning of the storm as Eastern Europe — like Iceland, Europe's first victim of the crisis — was also living beyond its means. Like Iceland, Eastern Europe's problems began with easy access to credit — the result of many countries, including Belarus, Bulgaria, Estonia, Latvia, Lithuania, and Ukraine, having pegged exchange rates. This attracted large inflows of short-term lending from European banks — which began to flood the region starting in 2004.6 By 2008, the thirteen former Soviet-bloc countries had accumulated a collective debt to foreign banks or in foreign currencies of more than $1 trillion.7 The biggest lenders were Western European banks, in particular, Austrian and Italian banks.8

However, since much of these borrowed funds went into consumption, including speculative ventures such as real estate, Eastern Europe soon had its own home-grown bubble problem. Here it is important to underscore that both domestic policy and Western European banks are equally responsible for the problem. The foreign banks not only engaged in reckless lending — the loans by Austrian banks to Eastern European countries are almost equivalent to 70 percent of Austria's gross domestic product (GDP) — they also failed to assess the credit worthiness of their borrowers while actively encouraging borrowing in foreign currencies. Both Eastern European governments and the private sector obliged, because in addition to borrowing at lower rates, with local currencies appreciating, their payments would actually go down over time. Not surprisingly, more than two-thirds of mortgages in Hungary and Poland were denominated in Swiss francs.9 However, when the global credit crunch hit, countries with much of their debt denominated in foreign currencies simply could not meet their obligations.

In fact, Iceland's rapid meltdown heightened concerns about other countries with similar problems. What many Eastern European countries had in common with Iceland was high credit, large and rising current account deficits, and businesses and households that borrowed heavily in foreign currency. These problems were most pronounced in the Baltic countries but also felt in Bulgaria, Hungary, Romania, and Ukraine. For their part, Western European banks, reminiscent of their operations in Iceland, by deepening links with the emerging Eastern European economies had built huge exposures to these economies — either directly or through local subsidiaries. Perhaps the most

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notorious, the Austrian banks, namely the Erste Bank and Raiffeisen International, have more than $295 billion exposure to Eastern Europe, or roughly 68 percent of the Austrian gross domestic product (GDP), while Swedish banks and their subsidiaries lent recklessly to Latvia's construction industry, including to Latvian banks involved in not much else but financing consumer loans. As the troubles mounted it did not take long for the transition economies in Eastern Europe (and Central Asia) to feel the heat of the growing financial turbulence.10

As economic difficulties in advanced Western European economies led to a decline in global liquidity and an increase in risk aversion, investors began to quickly abandon emerging markets. Ukraine and Hungary were among the first countries to suffer the fallout of the growing crisis. The Ukrainian economy was hit particularly hard. It was already vulnerable, given its high short-term external debt relative to reserves, the high exposure of banks to foreign funding, including balance sheet mismatches, and a weak underlying fiscal position.11 Similarly, Hungary's high external debt levels (which amounted to 97 percent of GDP at the end of 2007) and significant balance sheet mismatches negatively affected investor interest in Hungarian assets. As a result, Hungary was also hit hard by the global deleveraging.12 However, this was just the beginning of the maelstrom. Next in line were countries whose recent economic booms had been fueled, in part, by large-scale public and private borrowing from Western European banks and easy access to foreign-currency-denominated loans. As it turned out, these included most of the transition economies in Eastern Europe and Central Asia, which "received shocks through several channels simultaneously. In the capital markets, external financing continued to decline, with total gross capital inflows (syndicated bank lending, bond issuance, and equity initial public offerings) plummeting from $56.6 billion in the second quarter of 2008 to a meager $3.9 billion in the first quarter of 2009. At the same time, spreads for government borrowing on international markets, a key measure of credit risk, widened to unprecedented levels. Between September 2008 and March 2009, spreads on sovereign five-year credit- default swaps increased from a range of 68 to 270 basis points to 381 to 1,100 basis points."13

On the eve of the crisis, the transition economies of Eastern Europe and Central Asia were burdened not only with high levels of public debt in euros but with low levels of savings. For example, in mid-2008 Eastern European borrowers owed about $400 billion to Western banks — equivalent to about one-third of the region's GDP. As credit dried up, and with huge debt loads to pay, but their currencies in free fall against the euro, it was soon clear that many had little ability to meet their payment obligations. By the end of October 2008, the Polish zloty had lost 48 percent against the euro, the Hungarian forint 30 percent, and the Czech krona about 23 percent — making payment of euro-denominated debt exceedingly difficult for Eastern European countries, if not impossible. In fact, there was recognition that, if pushed, most emerging governments and their financial institutions would default on loans with- out outside assistance. Exacerbating this, the economic slowdown in Western Europe sharply reduced demand for exports from these transition economies, particularly those with growing trade with the fifteen original European Union member countries. Ukraine, for example, highly dependent on steel exports, was negatively impacted as the price for

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steel literally plummeted overnight. By mid-January 2009, the International Monetary Fund (IMF) had approved emergency loans for Belarus, Iceland, Hungary, Latvia, and Ukraine totaling over $39 billion — with requests for more assistance from a number of other countries.

Is Russia Like Eastern Europe?

Unlike its neighbors, Russia had strong economic fundamentals that were widely perceived as making it relatively immune from the crisis swirling around it. Between 2000 and 2007, Russia's real GDP per capita grew on average by about 7 percent a year, and Russia's nominal GDP had increased five-fold since 2002, with GDP per capita increasing to $12,000 in 2008.14 Russia had huge external surpluses, thanks to its export revenues based on oil and gas and vital precious metals such as titanium, platinum, and other raw materials used in aerospace industries, electronics, and automotive production. It was predicted to ride out the storm relatively unscathed.15 Although Russia was a major holder of fixed income securities issued by government-backed mortgage lenders in the United States, its banking sys- tem did not have direct exposure to subprime mortgage-backed securities, and its banking sector was better supervised, with healthy fiscal and external account surpluses. Russia's financial system is not only small by international standards, it is dominated by domestic banks. "Total assets of banks were 54 percent of GDP at the end of 2007, compared with over 200 per- cent in France, Germany, and Japan. . . . The banking system is dominated by state-owned banks. State-owned banks — accounting for over one-third of total banking assets and nearly 60 percent of household deposits — are dominated by six large banks. . . . Foreign-controlled banks account for about 17 percent of banking assets and have a low share of deposits and finance their credit expansion with foreign borrowing."16

Moreover, on the eve of the crisis, the Russian government's Reserve Fund and National Welfare Fund held the equivalent of $162 billion, and its hard currency and gold reserves totaled between $597 billion and $600 billion — the third-largest reserves in the world after China and Japan.17 To its credit, Russia had prudently saved its oil and gas revenues in the Oil Stabilization Fund and had created a sovereign wealth fund to invest the sur- pluses abroad.18 Russia's large and robust stock of foreign reserves was seen as a bulwark against any currency or financial crisis, as the central bank could easily withstand even a run on ruble-denominated deposits in the banks, while in terms of coverage of foreign refinancing or repayments, international reserves were quite robust and healthy. With the price of hydrocarbons at an all-time high, coupled with important post-1998-era reforms in the banking and financial sector (which helped Russia achieve large fiscal and external account surpluses and low levels of debt),19 investors viewed Russia as a safe haven in troubled economic times. Yet despite these cushions, Russia could not escape the financial contagion. In fact, by October 2008, the contagion's fearsome waves had reached Russia and soon engulfed its economy.

What explains this? For starters, the tightening global credit markets resulted in an acute liquidity crisis around the world, with a particularly negative impact on all emerging markets, such as Russia.

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In the case of Russia, total gross capital inflows declined to $75 billion in the third quarter of 2008, down 40 percent from the same period in 2007.20 Russia's problems were further exacerbated by the fact that the global recession led to a sharp decline in the demand of raw materials. Russia's oil and gas export revenues (key drivers of the economy) fell to less than one-third of their peak value by September 2008.21 To the markets these twin shocks may have mistakenly seemed like a repeat of the crisis Russia faced in August 1998. After all, the common denominator for 1998 and 2008 was a global economic slowdown and the sharp decline in the price of the country's export commodities: oil and gas.22 If in 1998 Russia was burdened with a fiscal deficit, high levels of public debt, low reserves, and mounting interest payments, in 2008 Russia's macroeconomic vulnerability was much lower and its huge foreign currency reserves made it well prepared to deal with the shocks arising from the global markets — or so it seemed.

However, two big differences between 1998 and 2008 account for Russia's vulnerability to the second crisis. First, despite a decade of impressive growth rates, the Russian economy not only had failed to diversify away from hydro- carbons, it had actually become even more resource dependent. Before the 1998 crisis, "oil and gas accounted for almost half of Russia's export revenues and directly for one-fifth of federal government revenues. By 2008 the share of oil and gas in export receipts had reached 68 percent, and natural resources directly accounted for half of federal government revenues. Extraction industries accounted for more than 10 percent of the total value added, and their true contribution to GDP was much higher, because about 60 percent of industrial production was concentrated in closely related sectors such as oil refining and fertilizer and metal production."23 The sharp drop in commodity prices, especially hydrocarbons, severely eroded Russia's fiscal and external account surpluses and its international reserve. This eventually impacted Russia's GDP, which experienced a 10 percent drop between mid-2008 and mid-2009.24 Overall, the Russian economy contracted by 7.9 percent in 2009.25

Second, although government debt was negligible in 2008, the private sector had accumulated a substantial volume of short-term debt — in part because the policy of controlled appreciation of the ruble contributed to excessive foreign currency borrowing.26 Given that private capital inflows were mostly in the form of loans to firms and commercial banks, many of the commercial banks were heavily indebted, as they had borrowed from abroad at low interest rates. Therefore, even as the Russian government (in particular, Gazprom, the state-owned gas monopoly) was accumulating an impressive volume of foreign exchange, both state-owned corporations and private companies (in particular, the big-four of Gazprom, Rosneft, LUKoil, and Rostekhnologii) and banks were borrowing lavishly from abroad because dollar interest rates were much lower than ruble rates.27 As Edward L. Morse notes, "While prices were rising, Russian firms used their unfettered access to Western credit markets to borrow capital with few strings attached. This was particularly the case for the state-owned energy giant Gazprom, which has borrowed tens of billions of US dollars in Western markets since 2004 without any requirements that it reinvest in new energy supplies — or any other conditions. Gazprom used the money to buy assets in the very countries where the credits

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were issued, and without any monitoring."28 Yet this was not the worst. The most reckless borrowers were the powerful oligarchs who, with the explicit support of the Russian government, used their company shares in oil and gas as collateral for foreign loans. In the process they accumulated an equally impressive foreign debt, in particular, a potential short-term debt problem. According to an IMF study, Russian banks' external borrowing totaled some $200 billion as of the end of September 2008, "largely in the form of syndicated loans or credit lines from foreign parent banks. Large firms had also been actively tapping into international financial markets and accumulated about $300 billion in external debt. Between end-2000 and the third quarter of 2008, banks' loan books grew at an average annualized rate of more than 50 percent, almost as fast as in Ukraine."29 This meant that despite Russia's huge reserves, its external (mostly corporate) debt was much higher. As refinancing external liabilities became extremely difficult due to the global credit crunch, Russian corporate borrowers found it exceedingly difficult to meet their obligations.30 Although the government dipped generously into the accumulated reserves to meet public debt obligations and bail out well-connected oligarchs, the many medium and small firms that relied on easy bank credit found it impossible to continue operations.31

As the impact of the twin shocks spread through the financial sector and the real economy, Russia simultaneously faced a host of related problems, including sharply declining export earnings, over-leveraged corporate balance sheets, a deep credit crunch and banking failures, mortgage defaults from the collapse of the real-estate sector, and capital flight.32 Russia's invasion of Georgia on 8 August 2008 further exacerbated these problems. In particular, the fear of instability and prolonged conflict made the jittery and risk-averse market participants pull out of Russia — putting tremendous pressure on the stock market and its currency, the ruble.33 Russia's stock market declined by nearly 70 percent in 2008, losing two-thirds of value in less than five months to mid-November 2008,34 and "the country spent one- third of its gold and foreign currency reserves — or $216 billion — defending the ruble."35 Although the Kremlin's gradual devaluation (rather than a sudden one-time devaluation) of the ruble gave banks and businesses more time to adjust and prevented a financial panic, it also proved very costly, as the authorities were forced to pump billions in order to instill confidence in the ruble and stabilize the banking system.36 However, these measures had little effect — after all, Russia's reserves were designed to offset temporary declines in oil prices rather than maintain the ruble at an artificial level. Not surprisingly, since the onset of the crisis, the ruble has depreciated by around 15 percent against the dollar-euro basket. Michael Stott aptly notes, "In a country where few hold shares but most watch the price of dollars, the fate of the ruble was of huge significance. Ordinary Russians, who [had] suspected for some weeks that the real economic picture may be less rosy than the official one painted by state-controlled television, [had] been quietly with- drawing large amounts of rubles from banks to buy dollars. The central bank announced . . . it had spent $57.5 billion of reserves in the past two months selling dollars to prop up the ruble and . . . over the same period savers had withdrawn a quarter of all their deposits."37 By 5 December 2008, Russia's foreign currency and gold reserves were down to $437

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billion — Russia lost $31 billion in one week (17 to 24 October) and $17.9 billion in the week of December 5.38

Russia's dramatic reversal of fortune further heightened the country's political and social tensions. Rising inflation and unemployment at over 10 percent (although unofficial figures claim a much higher level), and the fact that many unemployed lack access to formal safety nets that could mitigate the adverse socioeconomic impact, have severely impacted living standards.39 Economic contraction in 2009 resulted in an increase in the number of poor and the shrinking of the middle class. The World Bank estimates that "the number of poor people in Russia will likely reach 24.6 million, an increase by 7.45 million." Moreover, the "crisis has significantly worsened not only poverty but also income distribution in Russia. . . . The share of vulnerable population has increased to 20.9 percent in comparison to 18.3 percent previously (an increase of 3.6 million people). And the Russian middle class is likely to shrink — by about 10 percent — from 55.6 to 51.2 percent (a decline of 6.2 million people)."40 Rising unemployment and social dislocation also fueled widespread protest and civil unrest in Russia, including attacks on the gastarbeiters, or guest workers. Millions of these workers, who come from the Caucasus and Central Asia and who provided labor during the boom years, were now being sent to their place of origin — exacerbating the problems in their home countries.41

Central Asian countries, namely Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan, with a collective population of around 60 million, are deeply linked to Russia through trade, financial flows, and remittances.42 Each has been affected negatively by the slowdown in the Russian economy — albeit differently. For example, significantly depreciating of the Russian ruble vis-à-vis the dollar during 2008 – 09 forced many of Russia's trading partners to do the same. During the height of the crisis, Armenia, Kazakhstan, the Kyrgyz Republic, and Tajikistan devalued their currencies by some 25 percent — leaving these countries' financial sectors vulnerable to volatile exchange-rate movements and severe "haircuts" for unhedged borrow- ers.43 Kazakhstan, a major oil exporter, has seen a sharp drop in the revenue from its oil exports. (The drop, however, has helped the Kyrgyz Republic and Tajikistan — both energy importers.) On the other hand, over the past decade, several Central Asian countries, in particular the Kyrgyz Republic and Tajikistan, have become increasingly dependent on money sent home by their citizens working abroad. For example, in 2008 remittances accounted for 47 percent of Tajikistan's GDP. However, as noted, growing unemployment in host countries like Russia has forced many migrants to return, putting added pressure on already stretched domestic social services. All the countries have been negatively impacted by the decline in capital inflows. This has translated into a virtual halt in credit availability, a collapse of property prices, and overall contraction of the economy.

Lessons for Russia

The crises of both 1998 and 2008 underscore that Russia has to do much more to diversify its

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economy away from oil and gas.44 Clearly, previous efforts have not produced the desired results and, as noted, Russia depends more on oil and gas revenue now than it did a decade ago — hence, it still remains a petro-state. In addition, the Russian authorities must strengthen the country's legal, economic and political infrastructure to support business and enterprise.45 More specifically, Russia's banking and financial sector needs to be modernized to better intermediate capital and investments and to stimulate new lending.46 Similarly, the business environment needs significant improvement in areas like property rights and the rule of law.47 Among the 181 countries surveyed by the World Bank for ease of doing business, Russia occupies 120th place — below Nigeria.
Clearly, this is not conducive to domestic entrepreneurship, especially the expansion of small and medium-sized businesses so essential to sustained economic growth and diversification, nor to Russia's hopes and ambition to function as the economic hub for the region. This weakness explains why, despite its oil wealth, the bulk of investments in Russia have come in the form of short-term loans rather than long-term foreign direct investment. Finally, to mitigate the social and economic impact, especially on the weak and vulnerable, it is essential for the government to increase its social safety outlays. Unlike Western Europe's expansive welfare state (guaranteed health insurance and generous unemployment benefits), which has helped to mitigate the negative effects of the crisis, Russia does not have these "automatic stabilizers." Over the longer-term, Russia needs to raise its productivity growth. Despite gains in productivity growth following the 1998 crisis, the absolute level of productivity is still below the average productivity level in the manufacturing sector in Organization for Economic Cooperation and Development countries. This makes Russia less competitive in global markets. Of course, it is hard to improve productivity without commensurate improvements in human capital. Therefore, Russia, and indeed Eastern Europe, must invest more in human capital via the provision of better education and health services to be competitive in the global economy.

Notes

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3. Dimtri Trenin, "Russia Reborn: Reimagining Moscow's Foreign Policy," Foreign Affairs 88, no. 6 (November/December 2009): 64 – 78.
4. Franklin Allen and Douglas Gale, Understanding Financial Crises (New York: Oxford University Press, 2009); Collin Read, Global Financial Meltdown: How We Can Avoid the Next Economic Crisis (New York: Palgrave Macmillan, 2009).
5. For a good overview on Eastern Europe, see Erik Berglöf, Yevgeniya Korniyenko, Alexander Plekhanov, and Jeromin Zettelmeyer, "Understanding the Crisis in Emerging Europe" (working paper, no. 109, European Bank for Reconstruction and Development, November 2009).

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7. International Monetary Fund (IMF), World Economic Outlook (Washington, DC: IMF, 2009); IMF, International Financial Statistics, CD-ROM version (Washington, DC: IMF, 2009).

8. IMF, "Austria: Financial System Stability Assessment — Update," IMF Country Report No. 08/190 (Washington, DC: IMF, June 2008).

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10. Pradeep Mitra, "The Impact of Global Financial Crisis and Policy Responses: The Caucasus, Central Asia and Mongolia," Global Journal of Emerging Market Economies 2, no. 2 (2010): 189 – 230.

11. Jeromin Zettelmeyer, Piroska M. Nagy, and Stephen Jeffrey, "Addressing Private Sector Currency Mismatches in Emerging Europe," working paper, no. 115 (London: European Bank for Reconstruction and Development, June 2010).

12. IMF, International Financial Statistics.

13. World Bank, Global Development Finance: Charting a Global Recovery (Washington, DC: World Bank, 2009), 111.

14. World Bank in Russia, Russian Economic Report, no. 17, November 2008, www.worldbank.org.ru; and Organization for Economic Co-operation and Development (OECD), Economic Survey of Russia 2009: Stabilization and Renewed Growth; Key Challenges (Paris: OECD, 2009).

15. For Russia, oil and gas revenues are a significant source of foreign exchange and government revenue. "In 2008, oil and gas exports accounted for two-thirds of all Russian exports by value, while oil and gas revenue amounted to a third of general government revenue." See Brenton Goldsworthy and Daria Zakharova, "Evaluation of the Oil Fiscal Regime in Russia and Proposals for Reform" (IMF working paper WP/10/33, Washington, DC, February 2010), 3.

16. IMF, "Russian Federation: Financial Sector Stability Assessment Update," IMF Country Report no. 10/96 (Washington, DC: IMF, 2010), 11.

17. IMF, Regional Economic Outlook: Europe — Fostering Sustainability (Washington, DC: IMF, 2010), 48 – 50; Ariel Cohen and Lajos F. Szaszdi, "Russia's Drive for Global Economic Power: A Challenge for the Obama Administration" (backgrounder no. 2235, Washington, DC: Heritage Foundation, 30 January 2009). Gaddy and Ickes note that "Russia's currency reserves grew by $55 billion in 2005, $120 billion in 2006, and $170 billion in 2007, bringing the total to nearly $600 billion by mid-2008." Clifford G. Gaddy and Barry W. Ickes, "Russia after the Global Financial Crisis," Eurasian Geography and Economics 51, no. 3 (2010): 288.

18. In 2004 Russia set up the Oil Stabilization Fund to set aside part of the country's oil revenues. This was later split into the Reserve Fund and the National Wealth Fund. By early 2009, the Oil

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Stabilization Fund had accumulated $225 billion, amounting to 17 percent of GDP. See Goldsworthy and Zakharova.

19. In fact, by early 2005, Russia had paid off its sovereign debt. Gaddy and Ickes note that when Putin came to office, "the first priority . . . was to decease Russia's sovereign debt. They inherited a foreign debt of over $130 billion, which they began to reduce as soon as Putin entered office. But it was the boom in oil prices that began in early 2004 that allowed them to in effect fully retire the government's foreign debt. In January 2005, Russia paid off the entire balance of its debt to the IMF — three-and-one-half years ahead of schedule." Gaddy and Ickes, 288.

20. World Bank in Russia, Russian Economic Report, no. 17, 4.

21. Crude-oil prices fell dramatically from $144 a barrel in July 2008 to less than $55 a barrel in mid-November 2008. For details see IMF, "Russian Federation: 2009 Article IV Consultation," IMF Country Report no. 09/246 (Washington, DC: IMF, 2009).

22. D. R. Belousov, "On the Development of the Crisis of the Russian Economy in 2008 – 2009," Studies on Russian Economic Development 21, no. 1 (2010): 14 – 27.

23. Erik Berglöf, Alexander Plekhanov, and Alan Rousso, "Russia: A Tale of Two Crises," Finance and Development 46, no. 2 (June 2009): 16.

24. World Bank in Russia, Russian Economic Report, no. 20, November 2009, www.worldbank .org.ru.

25. IMF, "Russian Federation: 2010 Article IV Consultation — Staff Report; and Public Information Notice on the Executive Board Discussion," IMF Country Report no. 10/246 (Washington, DC: IMF, 2010); and Central Bank of the Russian Federation, 2009 Annual Report (Moscow: Government of Russia, 2010).

26. Jacques Sapir, "Russia and the World Financial Crisis: Impact, Opportunities and Risks," École des Hautes Études en Sciences Sociales, Paris, 2008, www.iris-france.org/docs/pdf/forum/2008_02_14_russia.pdf.

27. The ruble floated against a basket comprising roughly 55 percent US dollars and 45 percent euros. When world oil prices were rising and the balance of payment surpluses robust, the ruble gained roughly 36 percent against the dollar between 2002 and mid-2008. This encouraged foreign borrowing.

28. Edward L. Morse, "Low and Behold: Making the Most of Cheap Oil," Foreign Affairs 88, no. 5 (September/October 2009): 36 – 52.

29. Berglöf, Plekhanov, and Rousso, 17.

30. The IMF notes that "the increase in global risk aversion since mid-2007 slowed the flow and raised the cost of foreign funding to the banking system, exposing some banks to potential refinancing difficulties. Since mid-2007, access to the eurobond market has remained limited and domestic bond market volume has decreased in late 2007 and early 2008." IMF, "Russian Federation: Financial Sector Stability Assessment Update," 15.

31. William Mauldin, "Russia Providing $200 Billion for Banks, Builders," Bloomberg, 7 October

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2008.

32. Stephen Sestanovich, "Russia and the Global Economic Crisis" (expert brief, Council on Foreign Relations, Washington DC, November 2008).

33. Of course, while capital flight was related to the much-anticipated fall in the value of the ruble, the invasion made the situation worse.

34. World Bank in Russia, Russian Economic Report, no. 17, 4. Also see Kathryn Stoner-Weiss, "Russia and the Global Financial Crisis: The End of 'Putinism'?" Brown Journal of World Affairs 15, no. 2 (Spring 2009): 103 – 15.

35. CNN, "Russia Admits Financial Mistakes," 4 March 2009, edition.cnn.com/2009/BUSINESS/03/02/russia.economy/index.html#cnnSTCText; and Igor Naumov, "The Country Has No Need for Metal," Nezavisimaya Gazeta, 13 March 2009.

36. The policy response in 2008 was in sharp contrast to that in 1998, when the government hast- ily devalued the ruble and defaulted on its debt obligations. In 2008, the government responded quickly by boosting liquidity and providing capital injections to the banking system in addition to ensuring timely repayment of external obligations.

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38. Cohen and Szaszdi.

39. R. G. Gidadhubli, "Russia: Social Impact of Economic Crisis," Economic and Political Weekly, 13 March 2010, 27 – 9.

40. World Bank in Russia, Russian Economic Report, no. 19, June 2009, 13 – 4, www.worldbank.org.ru.

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