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SEVEN QUESTIONS TO KONSTANTIN KHOLODILIN

»The price of oil is having a stronger impact on the ruble's exchange rate than are the sanctions«

1. Mr. Kholodilin, how has the value of the ruble changed over the past few years? The exchange rate of Russian ruble has dropped considerably. In 2013, one euro was worth roughly 40 rubles; now, one euro is worth around 70 rubles. This devaluation is much stronger than it was during the Great Recession of 2008–2009.
2. What caused the ruble to fall? Firstly, the price of oil has fallen since mid-2014, from approximately \$80 to \$40 per barrel. Secondly, a number of Western countries have imposed sanctions against Russia, and Russia likewise imposed sanctions against those countries. Both factors may be negatively impacting the Russian currency. We've found that the oil price, however, is playing a much more important role than are the sanctions.
3. How is the depreciated ruble affecting the Russian economy? Russia is deeply involved in the global economy: It is dependent first and foremost on the export of raw materials, but also on the import of consumer and capital goods. That means that what Russians end up consuming has often come from abroad. Due to the low exchange rate, ruble prices for foreign foodstuffs and consumer products are increasing. Furthermore, Russian companies are dependent on foreign equipment and technologies. Due to the low exchange rate, it is difficult for these companies to carry out their investment plans, and this, of course, has a dampening effect on economic prospects.
4. To what extent can Russian domestic trade compensate for these effects? What the Russian state primarily banned was the import of foodstuffs from the sanctioning countries: That means these goods are not only becoming more expensive, but they are also disappearing from the market. One might expect that Russian companies would fill this niche and replace the foreign products with their own, but Russian products are, for the most part, of lower quality—and to expand production, Russian companies need foreign equipment that is difficult to finance and obtain.
5. What is Russia doing to support the ruble? Russia initially used its foreign exchange reserves to extend the supply of the U.S. dollars and to at least slow down the ruble's devaluation. Then it raised its key interest rate, which also caused the ruble to appreciate. This policy, however, is disadvantageous in the long run, because raising the key interest rate means that other interest rates in Russia will also rise, and this will negatively affect investment. The counter-sanctions that Russia has imposed could also support the ruble somewhat.
6. What does the weak ruble mean for Western countries? For the Western countries, the weak ruble means a reduced competitiveness on the Russian market, because the price of foreign products in rubles has increased significantly. Western companies could expand their production in Russia, but due to the sanctions, these companies are becoming more and more uncertain about future. In fact, some are already considering whether to continue their operations in Russia or just quit.
7. Does it make sense for Western countries to maintain the sanctions against Russia? One of our study's findings is that Western sanctions are having little effect on the Russian ruble in the short run. Due to a lack of investment, however, the sanctions may have a stronger impact on the Russian economy in the long run. But it is a question of whether the West is ready to wait until the sanctions are finally felt on the economic level and, thus, lead to reshaping the course of policy, while taking into account that their own economies are also suffering under these sanctions. From experience, we know that sanctions imposed upon such large states have no major impact on the course of policy in the long run.

Interview by Erich Wittenberg



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