Russian budget crisis nears breaking point

by Konstantin George

The economic-financial crisis which the Russian government was expecting in autumn, erupted during August. A wave of regional coal miners' strikes that began in the Far East in July, is threatening to become a nationwide general strike of miners. Alongside the threat of a social explosion, is the fifty-fifty possibility that Russian state finances could crash during August. Russia is perched on the brink of chaos, with a regime that, since the July 3 Presidential elections, has said nothing of substance concerning the crisis, let alone taken any measures to counter it.

Ironically, even the headline-grabbing offensive of the Chechen rebels that began Aug. 6 with their attempt to control the center of Grozny, the capital, and their capture of two large towns, Gudermes and Argun, is of minor significance compared to the present crisis that threatens the very fabric of the Russian state.

On Aug. 15, a reported 15 trillion rubles in government short-term treasury bills, known as GKOs, mature and have to be re-financed. On the same date, to cover the huge election campaign period outlays and promises regarding wages and pensions, a further 30 trillion rubles in GKOs will be put up for sale. But even should the rollover succeed, the ability of the state to avoid a crash is not assured. To get by, given the accelerating collapse of tax revenues, which is a function of the collapsing economy, the monthly tranches ($330 million each) of the International Monetary Fund (IMF)'s three-year standby credit are required. During a July inspection, an IMF team in Moscow got a glimpse of how precarious Russia's finances are, and rushed back to Washington, refusing to turn over the July tranche.

Social explosion

The miners' strike illustrates the unbelievable capacity to endure hardship exhibited by Russians through five years of destruction of their living standards under IMF policies. The strike is a yardstick of how close the country is to a social explosion. It began in the Far East in the second week of July, with 11,000 coal miners who hadn't been paid since February. It was a spontaneous action, not initiated by the miners union, triggered by the sight of fellow miners collapsing on the job from hunger. Hunger also triggered a companion hunger strike by employees of the main power plant in the Far East's Primorye region.

By Aug. 1, when, despite government promises, no back pay had been received, miners at 22 mines in the Urals and at 23 mines in the Rostov on the Don region in southern Russia also went on strike. At this juncture, the national Independent Coal Miners Trade Union declared that its leaders would meet on Aug. 6 and decide whether to stage a nationwide general strike of miners.

The trade union's "threat" was in reality a maneuver to contain the strike and halt the further spread of wildcat strikes (which it succeeded in doing), in order to reach a preliminary agreement with the government before Aug. 6, thus giving the bankrupt regime time to set up an operation to pacify the miners. On Aug. 5, the union leadership and government officials met, with one purpose: to postpone a general strike till late August, i.e., after the Aug. 9 Yeltsin inauguration, the Aug. 15 treasury bill rollover, and, above all, in the hope that by late August, the July and August tranches of the IMF three-year standby credit would have been transferred into the coffers of the state budget, giving the government a minimal social pacification capability.

The government succeeded in buying time. On Aug. 6, the chairman of the miners union, Vitaly Budko, announced that a general strike will begin Aug. 25, unless all back wages owed have been paid by then. On the same day, the striking miners in the Far East and southern Russia began to return to work. The Far East miners also received the first installment of back wages, namely, their February and March salaries. On the one hand, the union announcement postponed of the general strike, even though the word postponement was never used. However, to avoid an Aug. 25 general strike, the government must pay off the total of 1.7 trillion rubles ($324 million) owed in back wages. As one can see, the sum involved is almost identical to one IMF tranche ($330 million).

The sums may be more than coincidence. The 1.7 trillion ruble figure as the amount owed that has to be paid to prevent a general strike, was that given by Budko. On Aug. 1, the coal miners union had declared, after the first $45 million had been sent to the Far East miners, that coal miners were still owed $500 million. After the Aug. 5 meeting with the government, somehow $500 million became $324 million. Perhaps somewhat trivial, but nonetheless an illustration of the regime's maxim: "Expend only what is absolutely necessary to avoid a social explosion, and not one kopek more."

Buying time is coming to an end

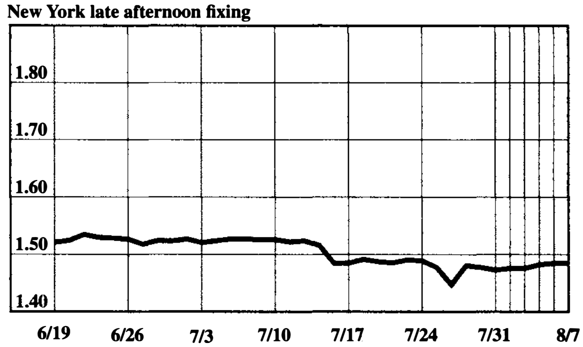
However, the days of financial juggling to scrape through from week to week, including sums from the IMF and other agencies as a way of propping up a comprador regime, are drawing to an end. The recognition of this is coming even from within the government camp. At the beginning of August, Central Bank head Sergei Dubinin said that the "existence of the Russian state is at stake." The July 30 German financial daily *Handelsblatt* cited an adviser to President Boris Yeltsin, Nikolai Malyshev, calling for an urgent change in government policy to promote industrial production and exports. He warned that by continuing the policy of exporting "oil, gas, and metals for food . . . it won't take long before the country is destroyed." Instead, Russia "has to develop its machine building, light industry, and food processing industry," he said.

The same urgent warnings are coming from the opposition. On Aug. 2, Gennadi Zyuganov, the Russian Communist Party leader who had opposed Yeltsin for the Presidency, was quoted in the *Wall Street Journal-Europe:* "Chaos and crisis are growing in the country. The financial-budget sector is on the brink of a crash. Every two days a bank is collapsing." On Aug. 5, the government finally released the data on bank failures, which showed that Zyuganov had understated the gravity of the banking crisis. For the first half of 1996, there were 145 bank failures, i.e., more than three every four days.

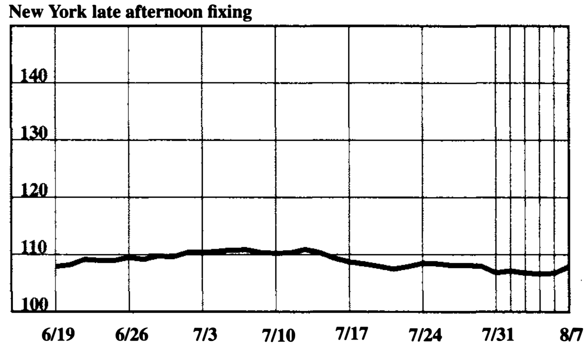
Other statistics for the first half of 1996 were no less gruesome: GDP had fallen by 5%, industrial production by 7%, and capital investment by 14%. The rates for the summer will be even worse, because of the near total stoppage of production in the Far East, as a result of the disruption of fuel supplies that forced power plants to close and shut off electricity to industrial plants.

Currency Rates

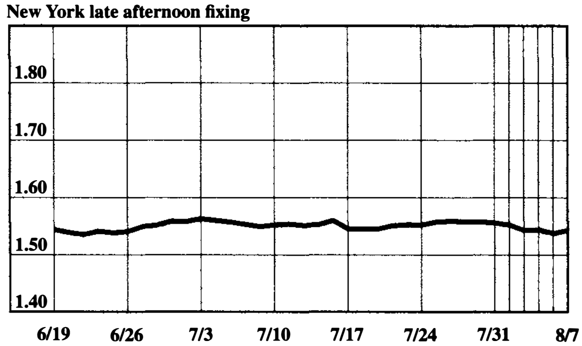
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing