

Russia's Ministry of Economic Development Pins Hopes on Rising Oil Prices

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Denis Abramov / Vedomosti

Russia's Ministry of Economic Development has announced a new "baseline plus" plan for the Russian economy, despite concerns that the country's original economic strategy remains unbalanced, the Vedomosti business daily reported Tuesday.

While the country's current baseline plan is formed on the price of oil remaining stable at \$40 per barrel for the next three years, the "baseline plus" predicts that oil will rise to \$50 a barrel in 2017, and \$55 in 2018-2019.

This more optimistic forecast would see Russia's economy enjoy steadier growth over the coming years, leading to an increase of 5.8 percent by 2020. The original plan would only see growth of 3.8 percent for the same period, Vedomosti reported.

Although the new baseline plan plots a more hopeful course for Russia's economic future, the country's original proposals remains unbalanced, one government source told Vedomosti. The baseline plan will see the country's deficit rise significantly above the 3.2 percent target set out by the Finance Ministry. "This kind of policy means that demand will shrink, funds will become exhausted, and there will be nothing to eat," the source said.

The Finance Ministry is currently aiming to reduce the public deficit by 1 percent every year from 3.2 percent in 2017 to 1.2 percent in 2019. Yet if the price of oil remains at \$40 a barrel, this simply won't be possible, said Natalia Akindinova from Center for Development at Higher School of Economics. If the government hopes to keep their deficit reduction goals, the ruble needs to weaken or economic growth needs to increase, she said.

The baseline economic scenario is based on a strengthening ruble and weaker economic growth. The Ministry of Economic Development even downgraded its overall economic forecast for 2016, suggesting growth at 0.2 percent instead of the 0.6 percent which they predicted last year.

In the government today, there is a group which believes that we must plan for oil at \$40 per barrel, and a group that believes that the price will rise to \$50-\$55, one government officials told Vedomosti. "They pray for oil, and nobody cares about reforms. If oil cost drops - no worries, we will simply adjust our rates."

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