



# Russia's Crony Capitalism: Stagnant But Stable

148th mBank-CASE Seminar

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CASE, Warsaw, March 13, 2017

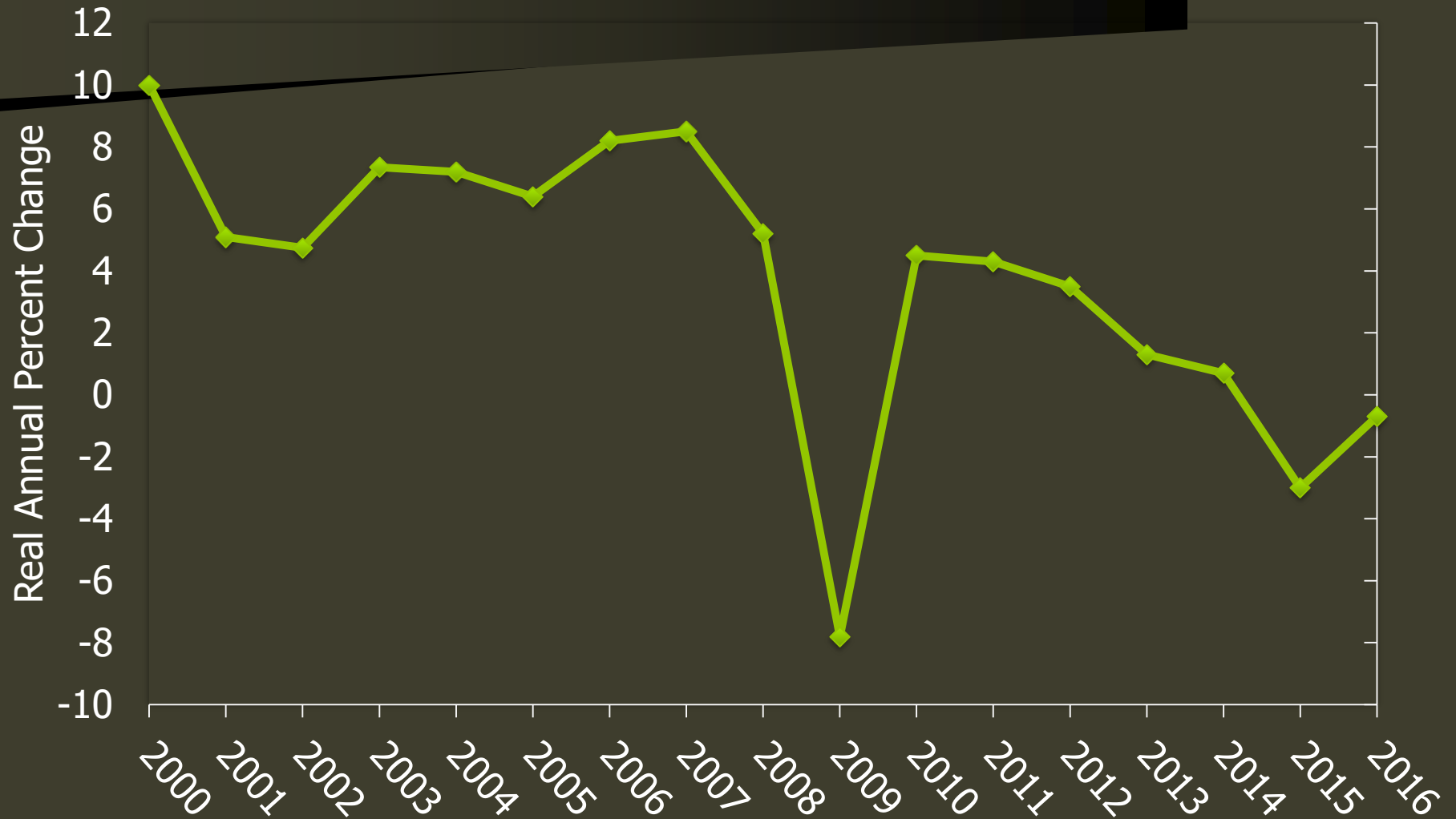
# Putin's Model

1. Conservative macroeconomic policy: Lesson from the crash of 1998
2. State & crony capitalism
3. Protectionism: Eurasian Economic Union
4. Efficient authoritarianism

# Putin's 4 Terms

1. 2000-2004: Market reform
2. 2004-2008: State capitalism
3. 2008-2012: Crony capitalism, massive asset stripping from Gazprom
4. 2012- Manual management with state & crony capitalism, increasing repression

# GDP Growth: 7%/Year 2000-2008, Stagnation 2009-2016

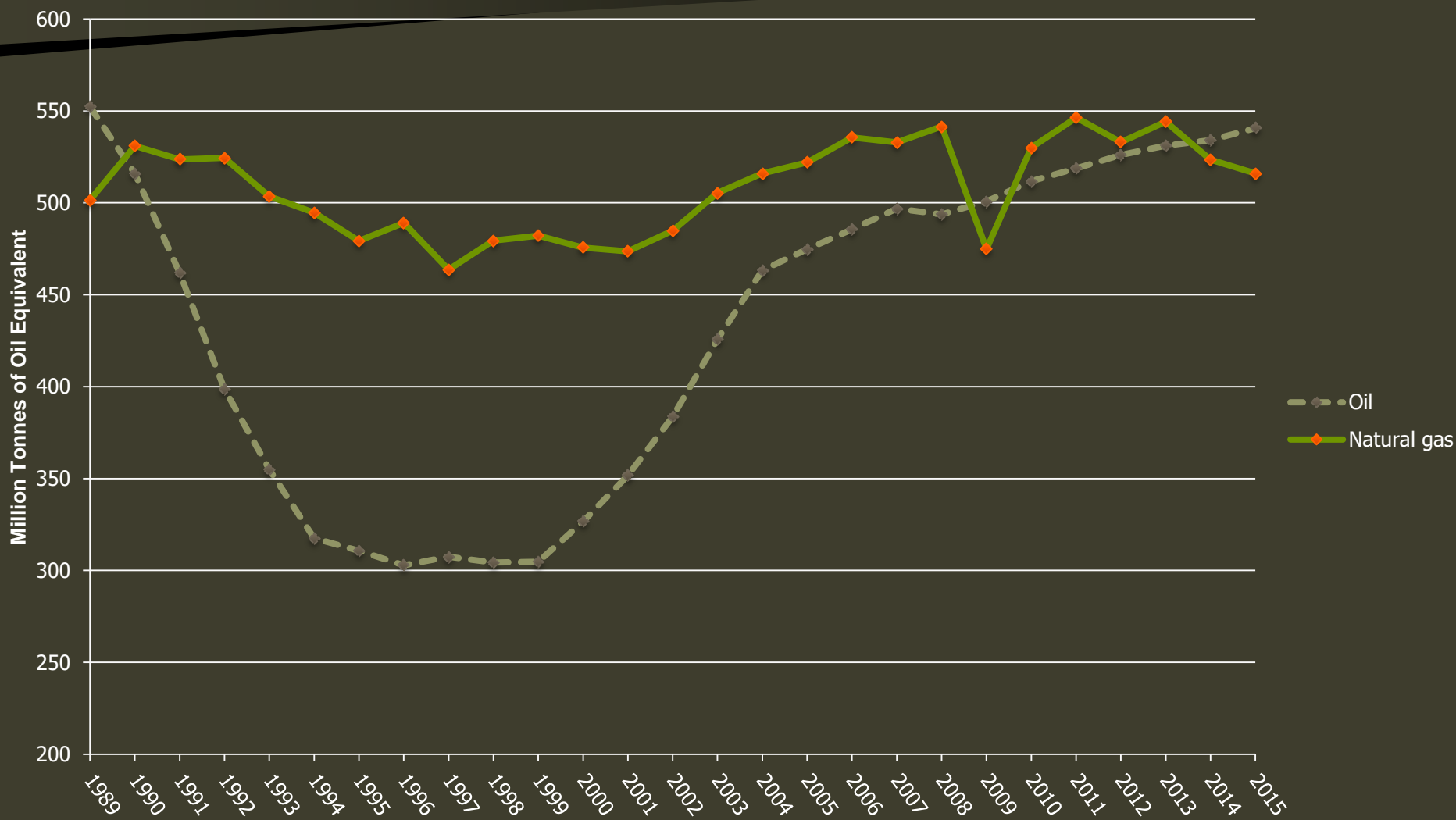


# Petrostate

1. Oil production increased 50% between 1999 and 2004 thanks to new private owners
2. Oil prices surged from 2003-2014

Conclusion: Good governance was no longer needed

# Gas Output Constant, Oil Output Nearly Doubled, 1998-2015

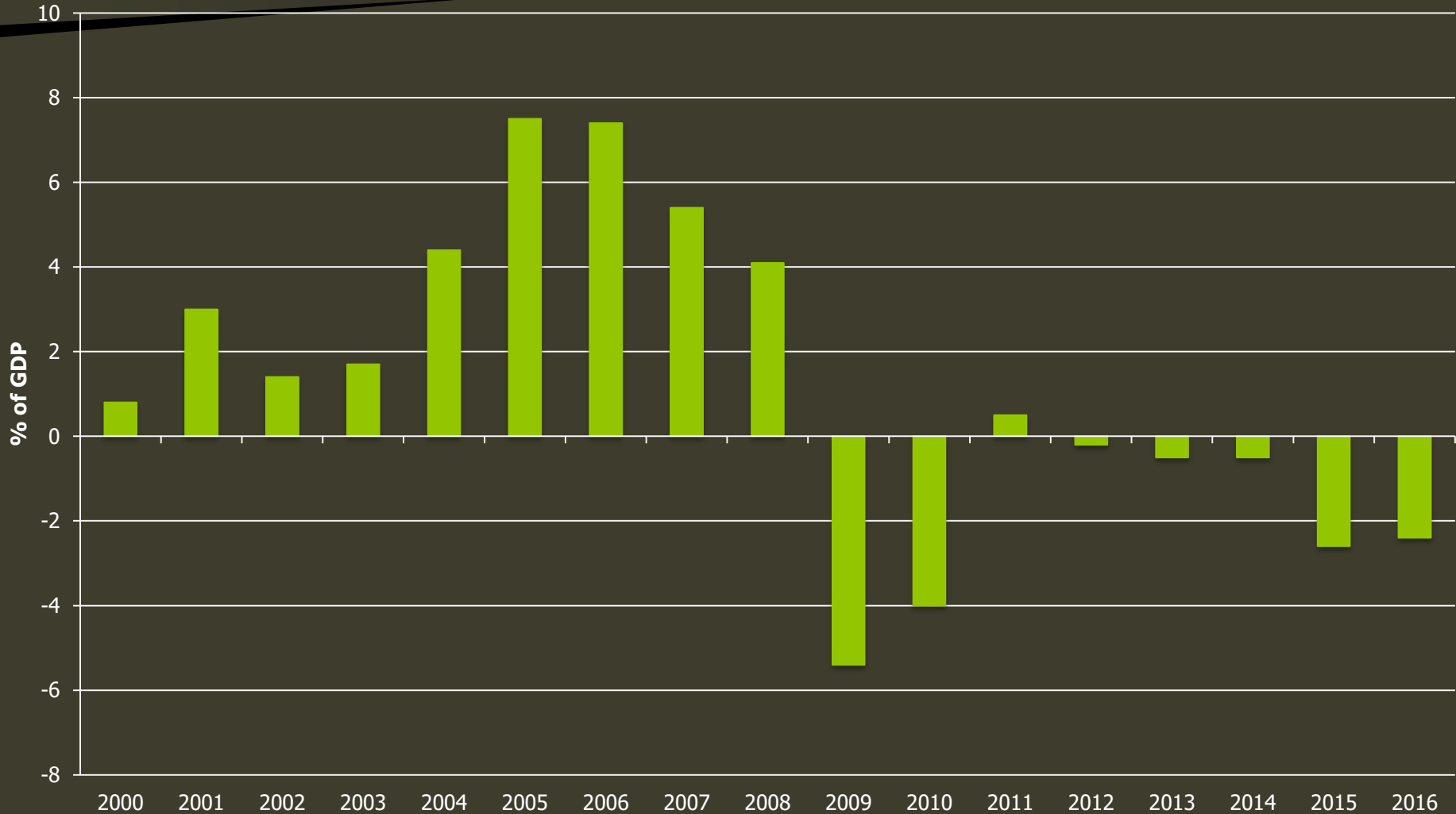


# Conservative Macro

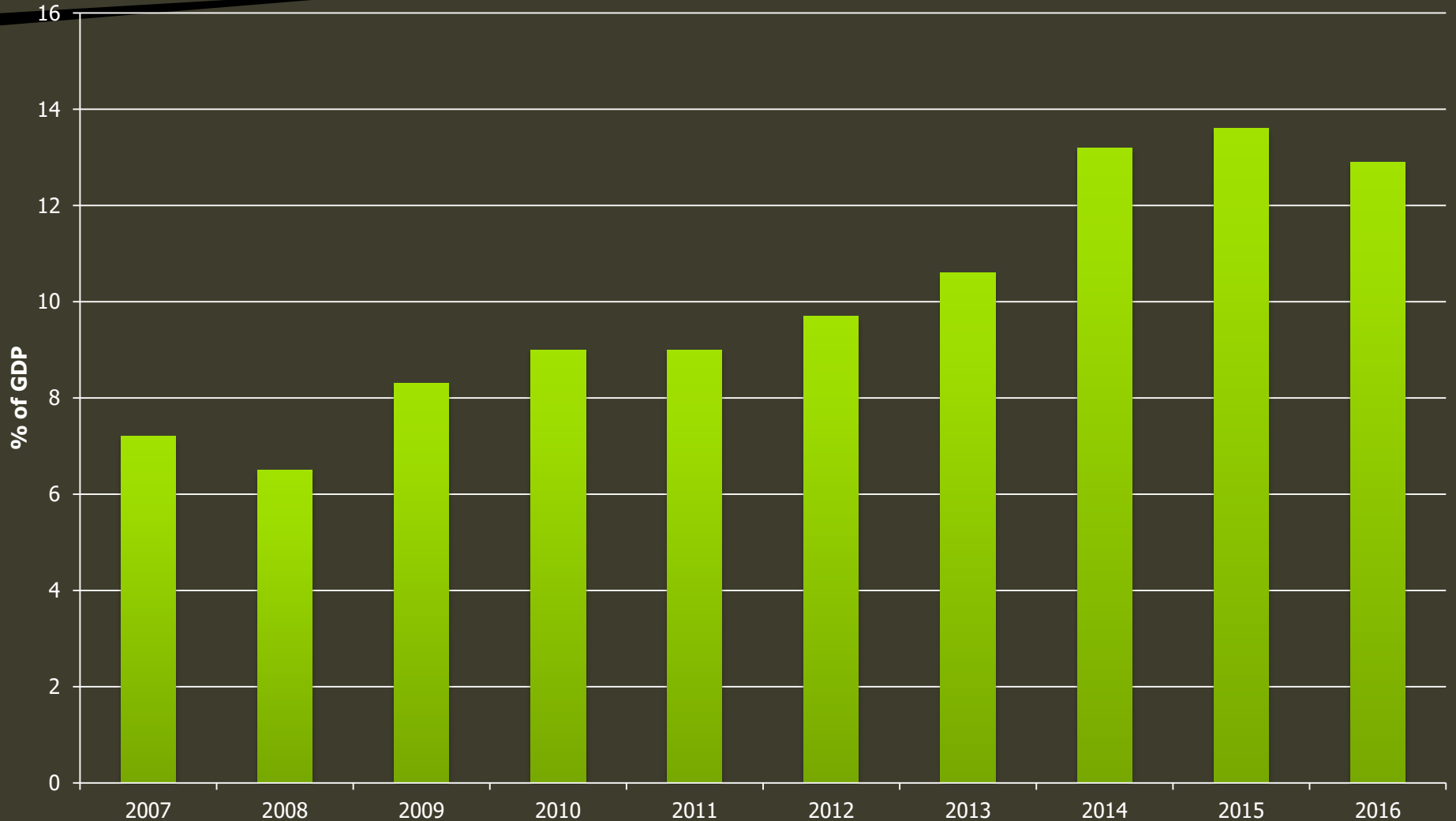
1. Small budget deficit & public debt
2. Maintaining large reserves
3. Large trade surplus
4. Low unemployment
5. Low inflation



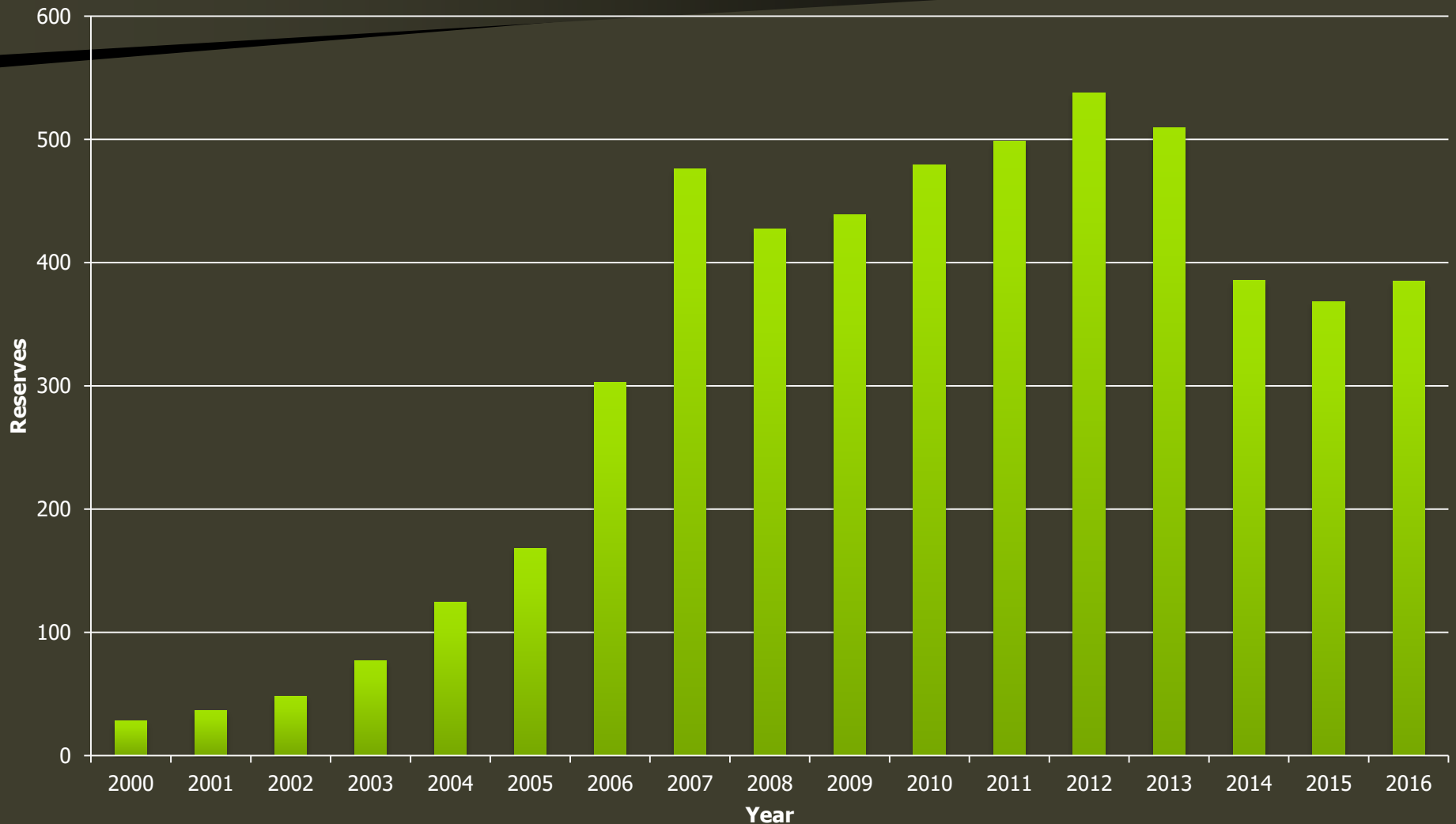
# 1. Big Budget Surpluses 2000-2008, Moderate Deficits during Bad Years



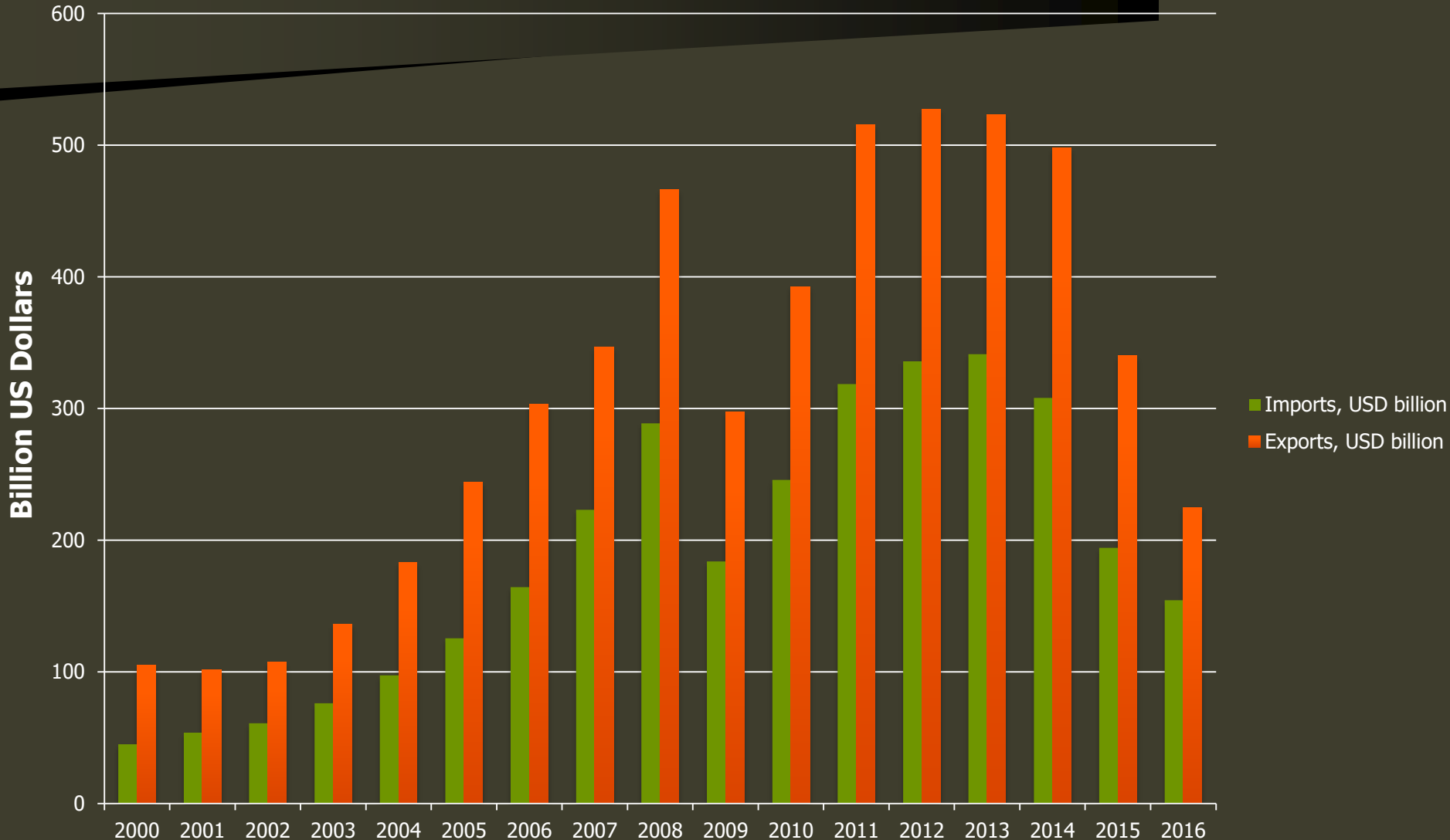
# Extremely Low Public Debt: 13% of GDP



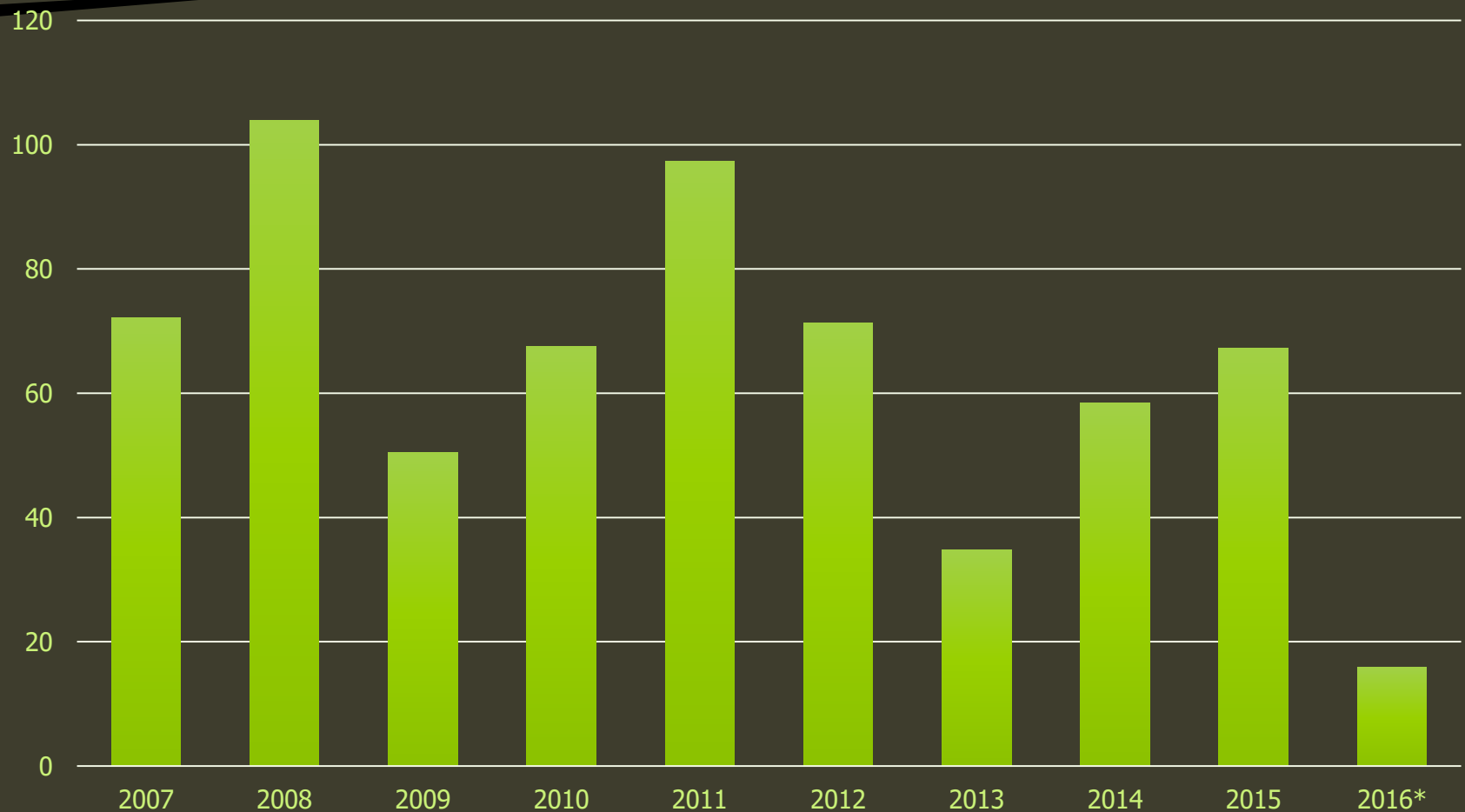
# 2. Currency & Gold Reserves ca \$400 billion



# 3. Steady Large Trade Surplus



# & Sizable Current Account Surplus

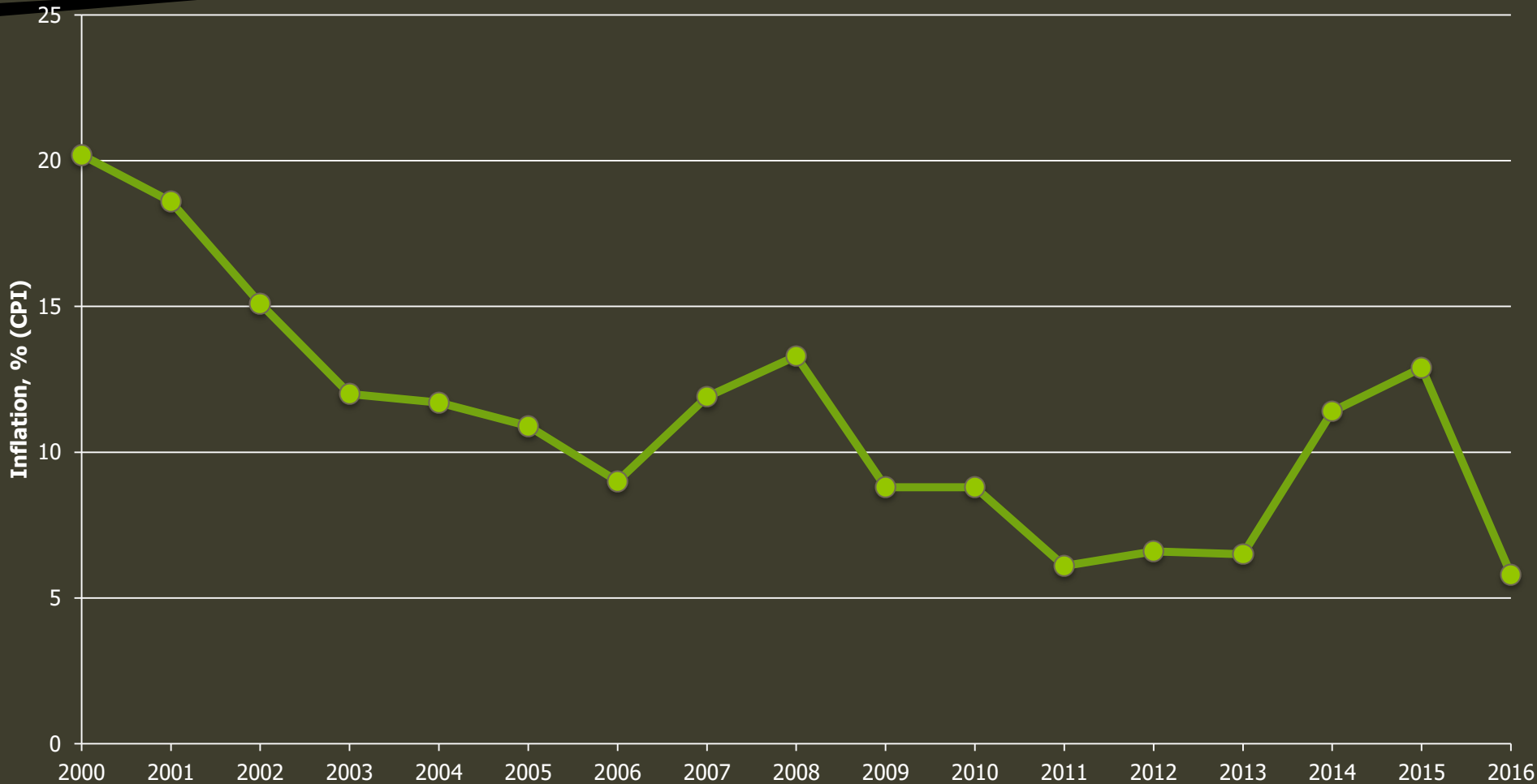


\*As of Q2 2016.  
Source: BOFIT.

# 4. Low & Falling Unemployment



# 5. Inflation Long Too High But Finally 5%



# Putin's Last 8 Years

Three big problems:

1. State & crony capitalism:  
State sector from 35%-70% of GDP, 2005-2015
2. Lower oil price, since mid-2014
3. Financial sanctions, since July 2014



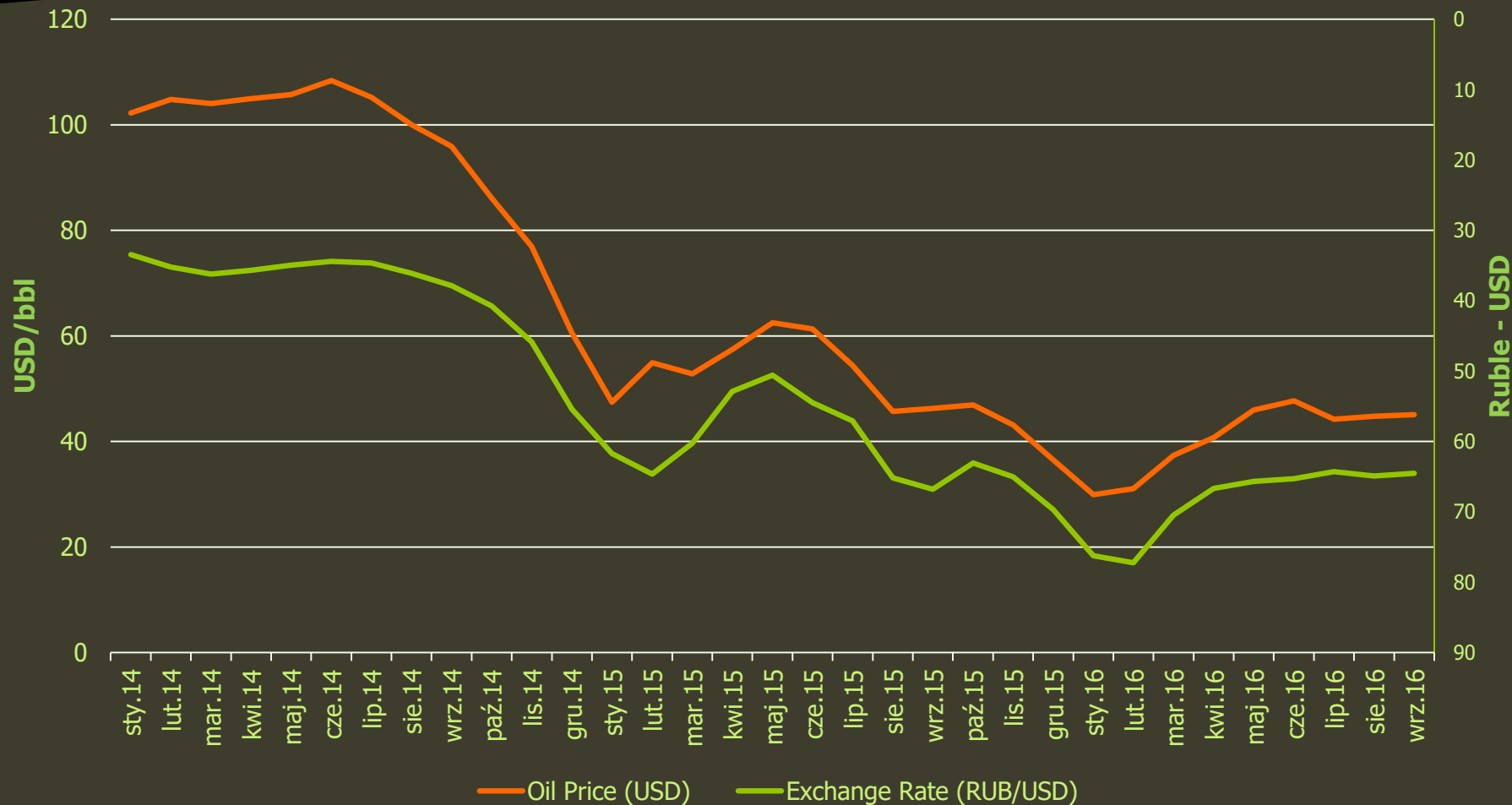
# Response to Lower Oil Prices

- Ruble exchange rate depreciates with oil price
- Strict monetary policy keeps inflation low
- State revenues fall little in ruble terms
- Current account surplus maintained

# Thanks to Floating Ruble Exchange Rate Falls with Oil Price

Brent Crude Oil Price vs. Ruble/Dollar Exchange Rate

January 2014 – September 2016



# Financial Sanctions Are Effective

- Since July 16 and July 31, 2014 US and EU financial sanctions
- Nearly complete because of strict US financial regulators
- Russia is being forced to pay off its foreign debt
- Cost: 1-1 ½% of GDP/year

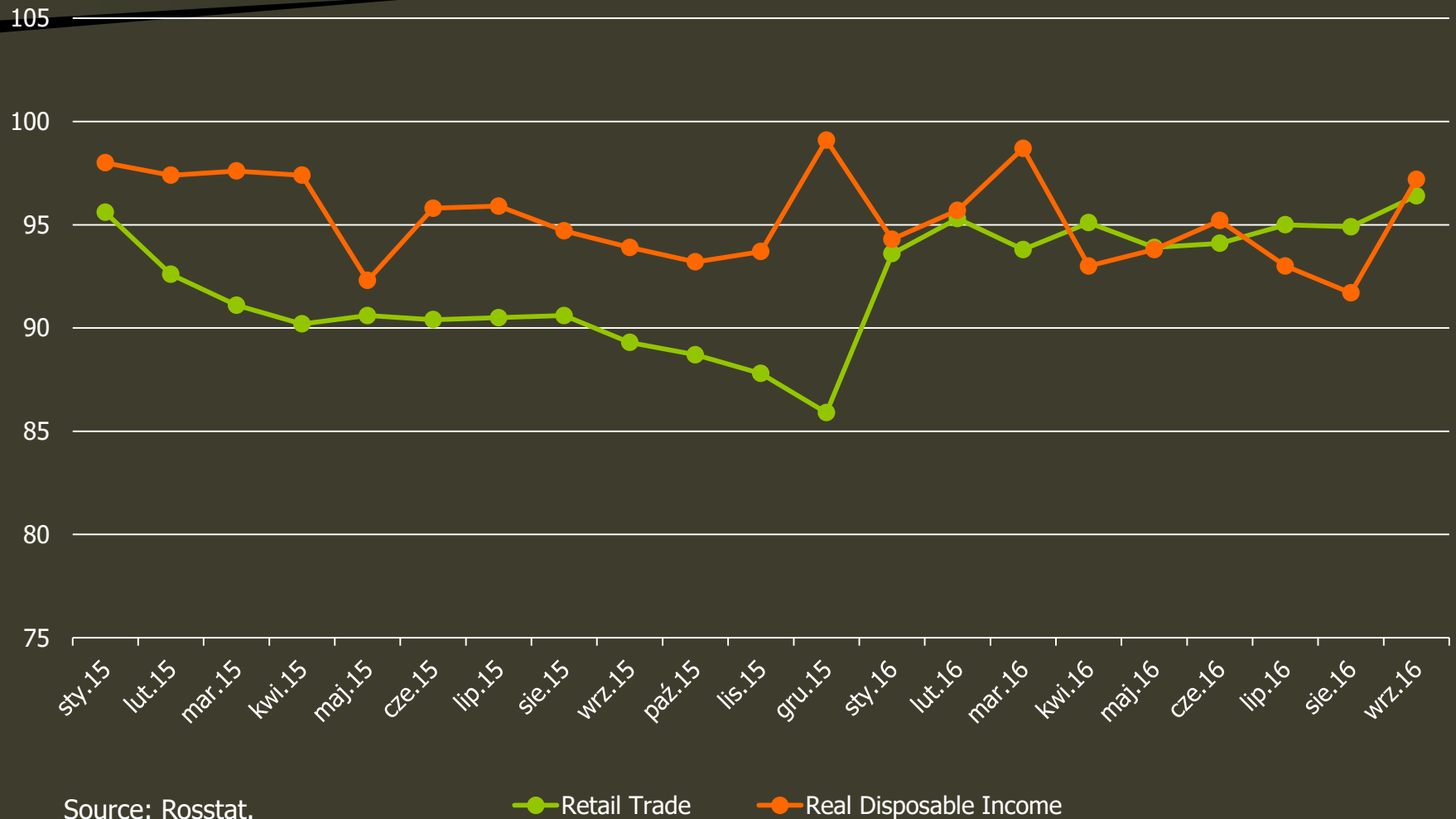
# Something Has to Give

1. Living standard: Real wages - 10% '15, -5% '16
2. Investment -8.4% '15, -2.3 '16
3. GDP -3.7% '15, -1% '16, +1% '17?

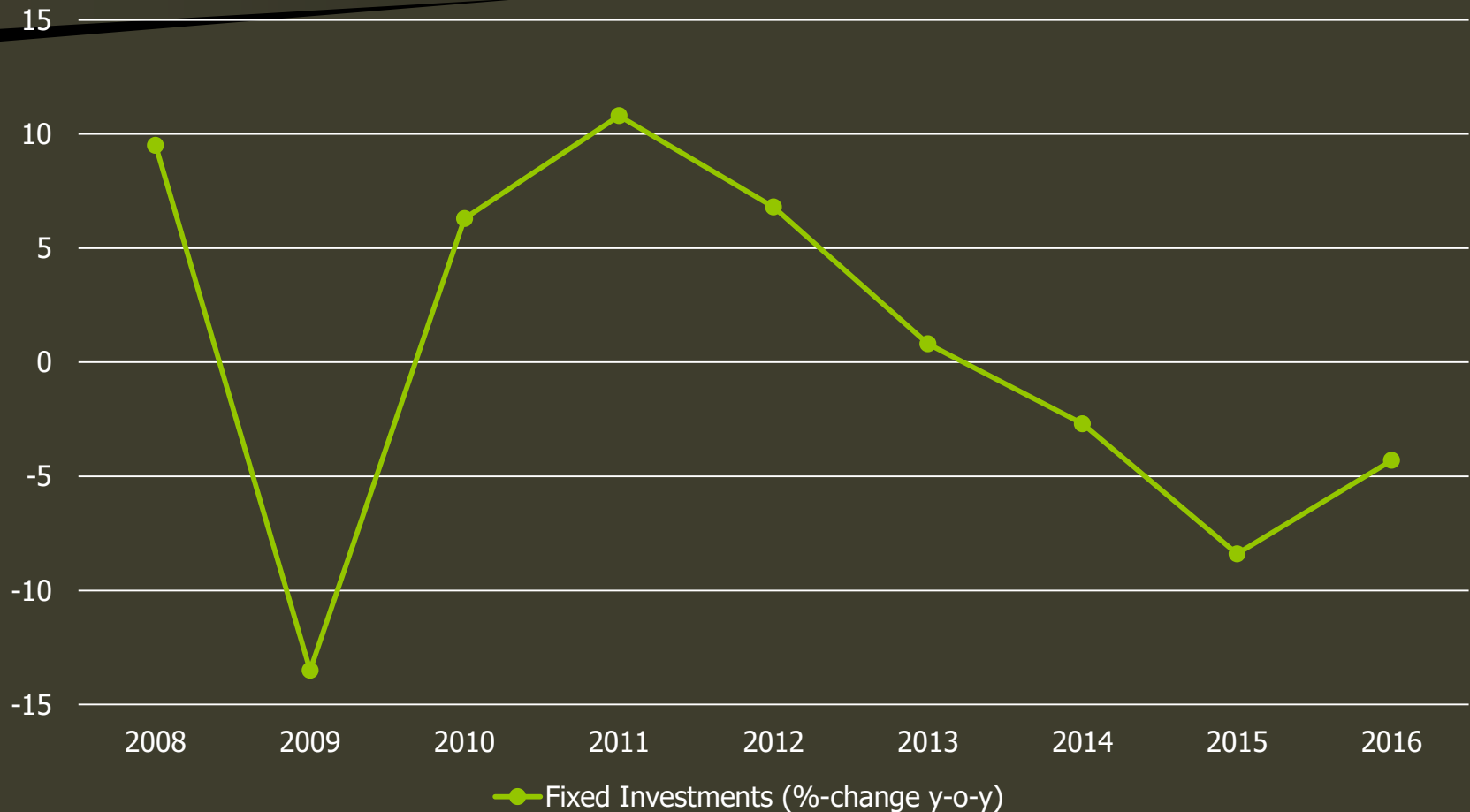
GDP from \$2.1tr 2014 to \$1.2tr now

**Antisocial policies**

# Retail Sales & Real Disposable Incomes Fell By 15% 2014-2015



# Fixed Investments from +11% in 2011 to -8% in 2015



Source: BOFIT Russia Statistics

# Putin Rules

Three Circles of Power:

- Security Services FSB & FSO
- State corporations (Gazprom, Rosneft, Rostec, VTB)
- Cronies (Timchenko, Rotenberg & Kovalchuk)

# Putin Consolidates Power

New appointees in 40s

- Efficient technocrats, or
- Hardcore nationalists
- Kleptocracy is the basis of the system



# Future Outlook

- Maintained stability
- Economic stagnation:  
GDP +1-2%/year
- Standard of living fall more than output
- Reduced investment, also in state corporations

# Future Outlook (2)

- No reforms in sight
- Legitimacy based on circus (=small victorious wars) rather than bread

Not sustainable but may linger on:

Lesson from the USSR

Yegor Gaidar, *Collapse of an Empire*

Russia today feels like 1984