

# Russia After the Financial Crisis

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# Economic Strengths

- High economic growth: 7% a year, 1999-2007
- Persistent budget surpluses, 2000-8
- Huge current account surpluses
- Accumulation of \$598 bn of reserves by August 2008, 3<sup>rd</sup> biggest in the world

# Causes of High Growth

1. Market reforms 1991-3 & 1998-2002

2. Large underutilized capacity

3. High oil prices from 2003

No contribution from Putin

# Importance of Energy

- 65% of Russia's exports 2008
- 50% of state revenues
- But "only" 20% of GDP

Russia is highly dependent on energy but not extreme petrostate

# Energy Curse

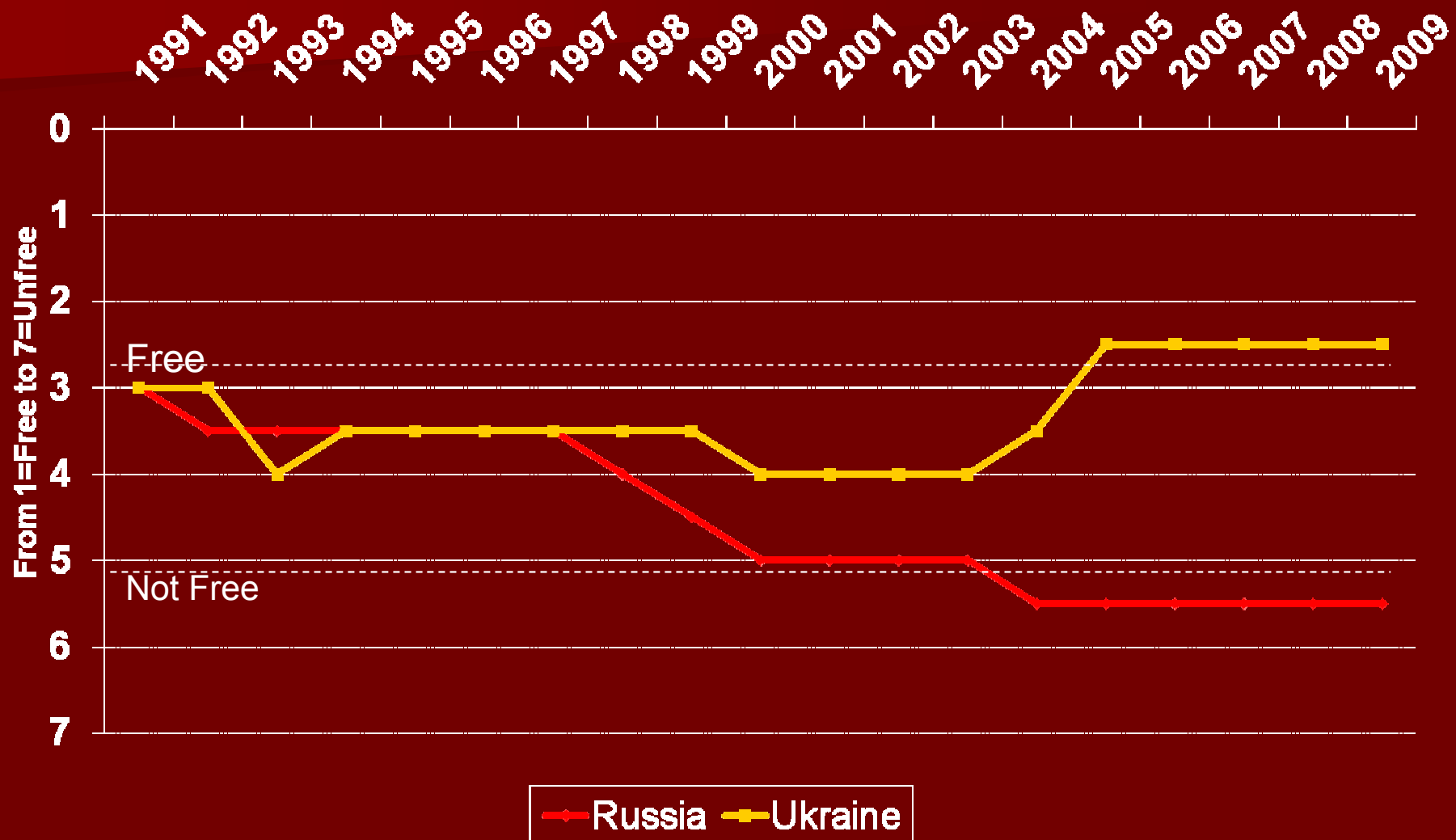
- Energy important for Russia's economy
- Energy rents breed corruption
- ...and authoritarianism
- ...and dysfunctional state

# Corruption



Source: Transparency International (2009)

# & Authoritarianism

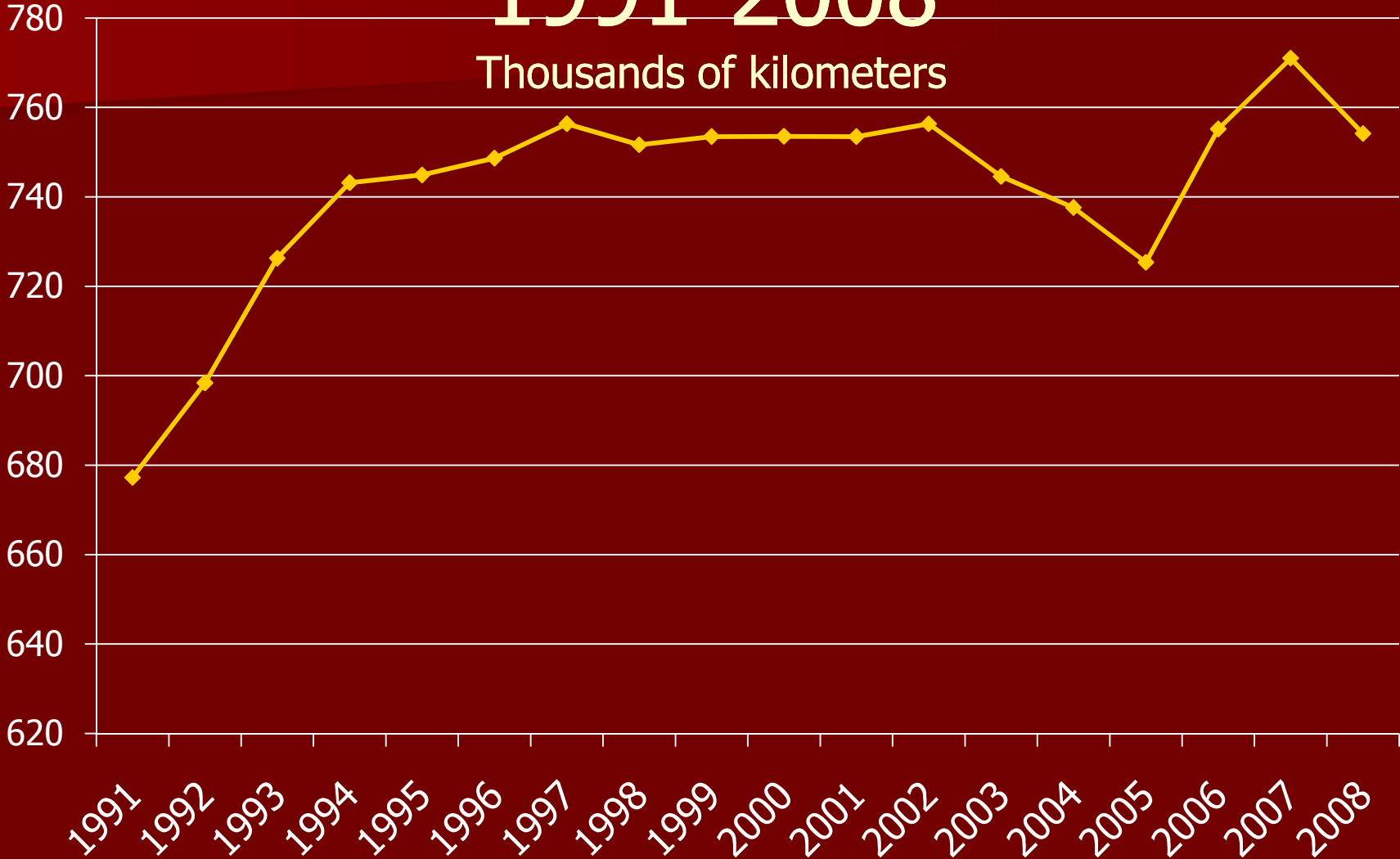


# Corruption out of Control

- Transparency International: Russia 146<sup>th</sup> out of 180 countries in 2009
- Only Equatorial Guinea is richer than Russia and more corrupt
- Russia is so corrupt that it has failed to extend its road net since 2000.



# Russia's Total Paved Roadways 1991-2008



Source: Goskomstat, Central Statistical Database

# Shocking Crisis Outcome

- GDP fell by 7.9% in 2009, likely to recover by 5-6% in 2010, but is that enough in comparison with BRICs?
- State revenues fell by 4.7% of GDP from 2007 to 2009
- Industrial production tumbled: - 10.8% in 2009
- Exports collapsed: - 36% in 2009

# Industrial Production Tumbled But Has Recovered



Source: Russian State Federal Statistics Service

# New Economic Reality

1. Budget revised: -6.0% of GDP 2009, slightly better 2010
2. Exchange rate has bottomed out and stabilized
3. Oil price has risen from \$34/bl to \$85/bl
4. Inflation has fallen to annualized 6.5% in March: best news

Acute crisis is over but shock remains

# Key Concerns

1. State corporations: octopuses and black holes

2. Gazprom in structural crisis

3. Police hated and dysfunctional

4. Only military reform until 2012

Malaise but only the beginning of a debate: Thaw

# Conclusions: Past

- Putin has had luck, but he has done little for Russia
- Severe economic mismanagement

# Conclusions: Future

Status quo is not an option: Russia is at Crossroads

1. Either more authoritarianism, state capitalism and protectionism (Putin: 4% growth)
2. Or political and economic liberalization (Medvedev: 6.5% growth)

# Possibilities

- Renewed liberal economic reforms
  - End to nationalization policy
  - Reform of state corporations
  - Renewed deregulation
  - Privatization
- Disciplining police



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# RUSSIA'S CAPITALIST REVOLUTION

WHY MARKET REFORM  
SUCCEEDED AND  
DEMOCRACY FAILED



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