



# Russia in 2012: The Challenge of Reforming the Economy without A Political Reform

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CEEI 2012

# Road Map

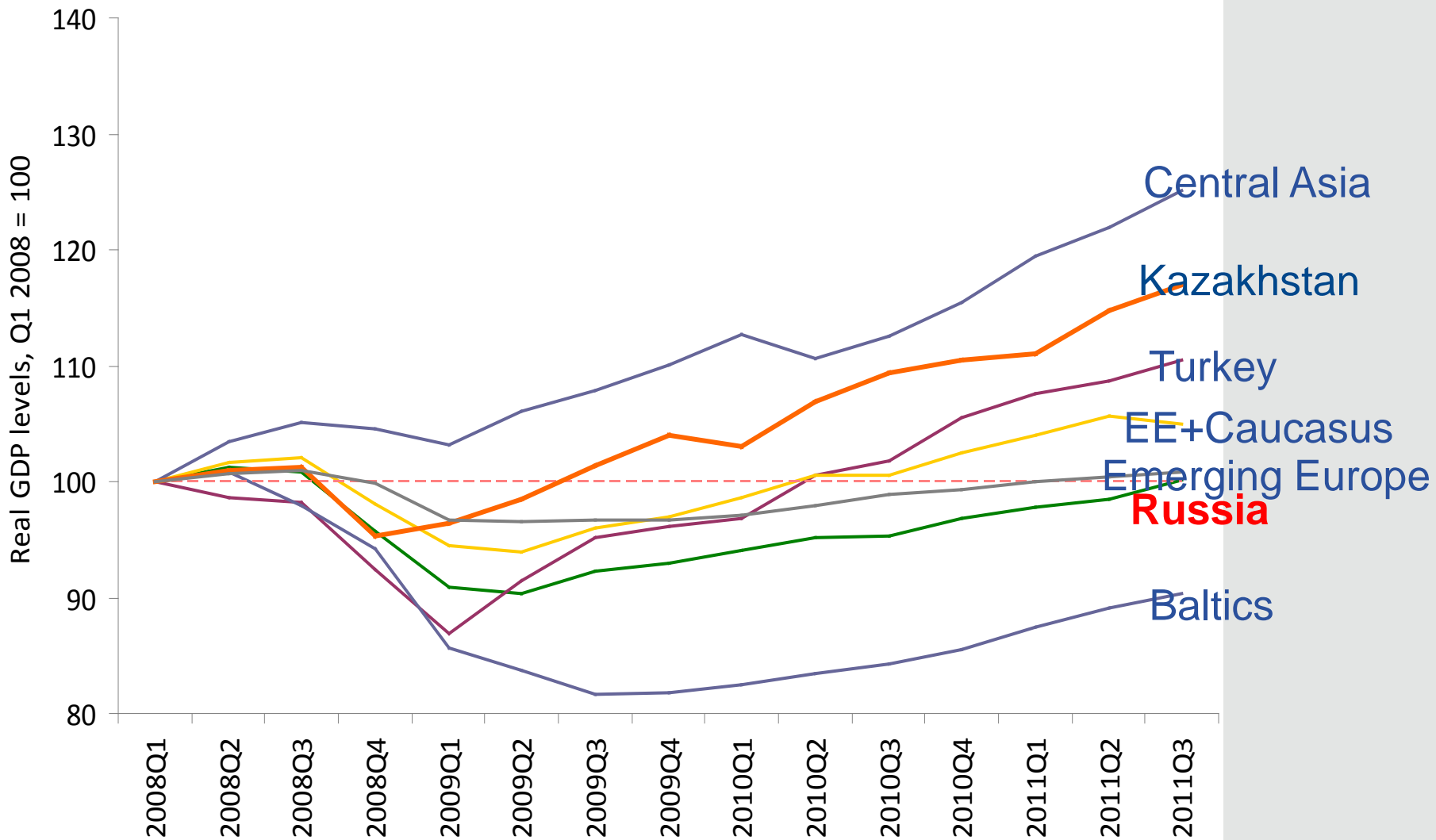
- ❑ Short-term
- ❑ How good are Russian institutions today?
- ❑ Some politics
- ❑ Moving forward

# Short-term Outlook

# Short-term Looks OK

- ❑ Russian economy is recovering in 2010-12:
- ❑ 4% GDP growth in 2010 and 2011
- ❑ Consensus forecast for 2012 and afterwards: 3-4%
  
- ❑ Unless there is a major global financial crisis, Russia will be able to cope

# Russia vs. "Neighbors"



EBRD Transition Report 2011

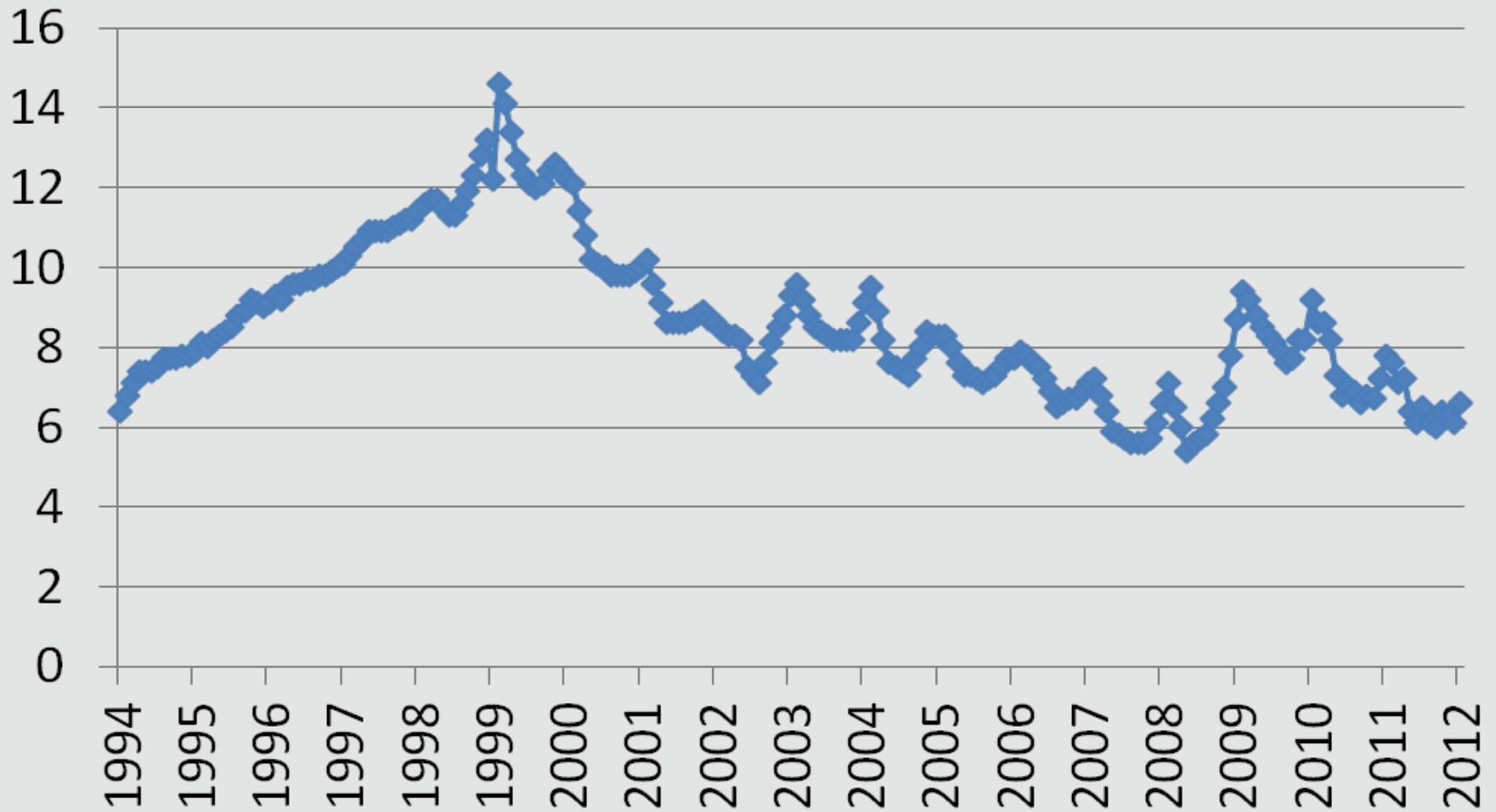
# Russia vs. Emerging Economies



Growth of GDP in constant prices, % per year.

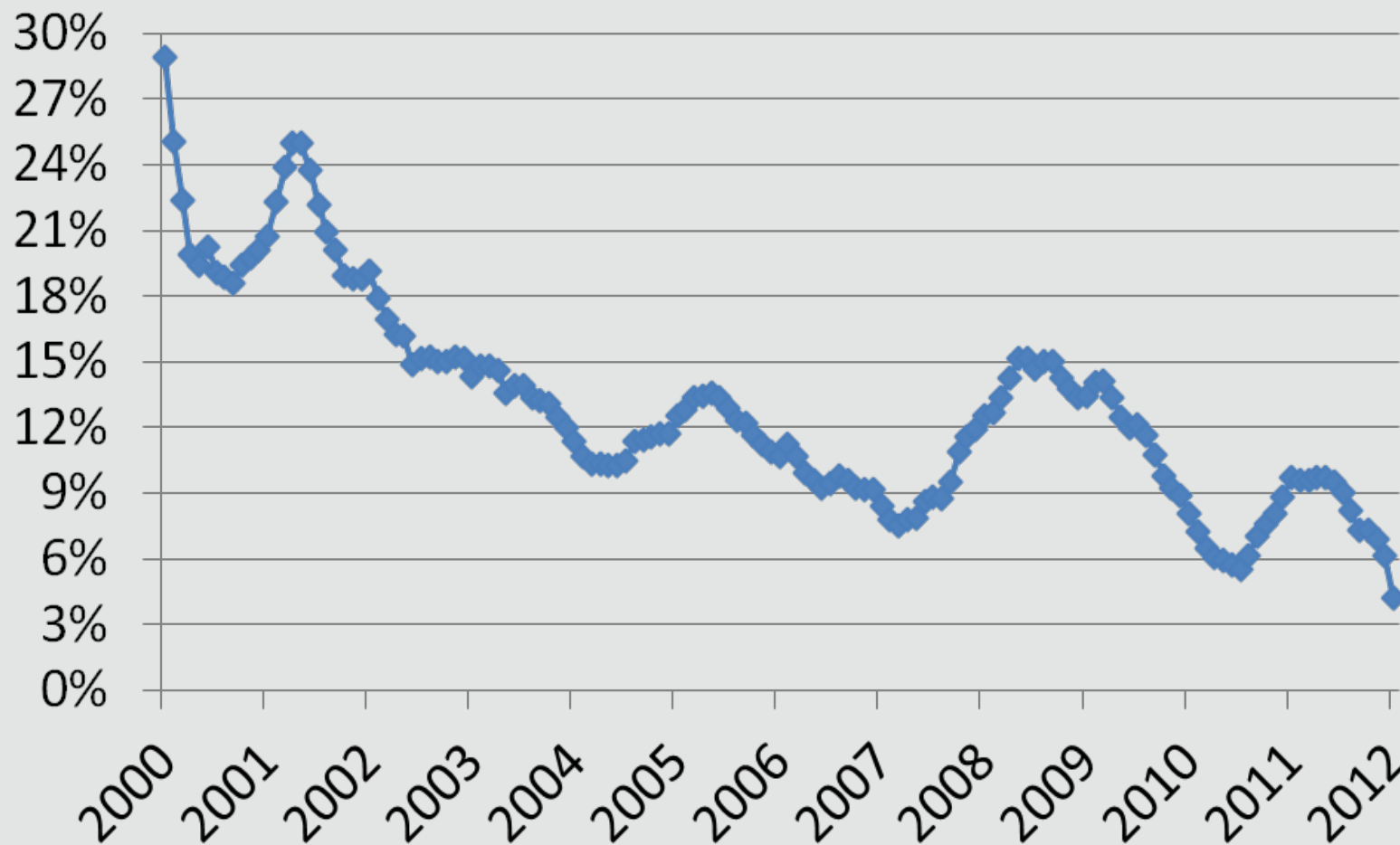
Source: IMF (World Economic Outlook, April 2011).

# Unemployment



Source: Goskomstat, CEFIR

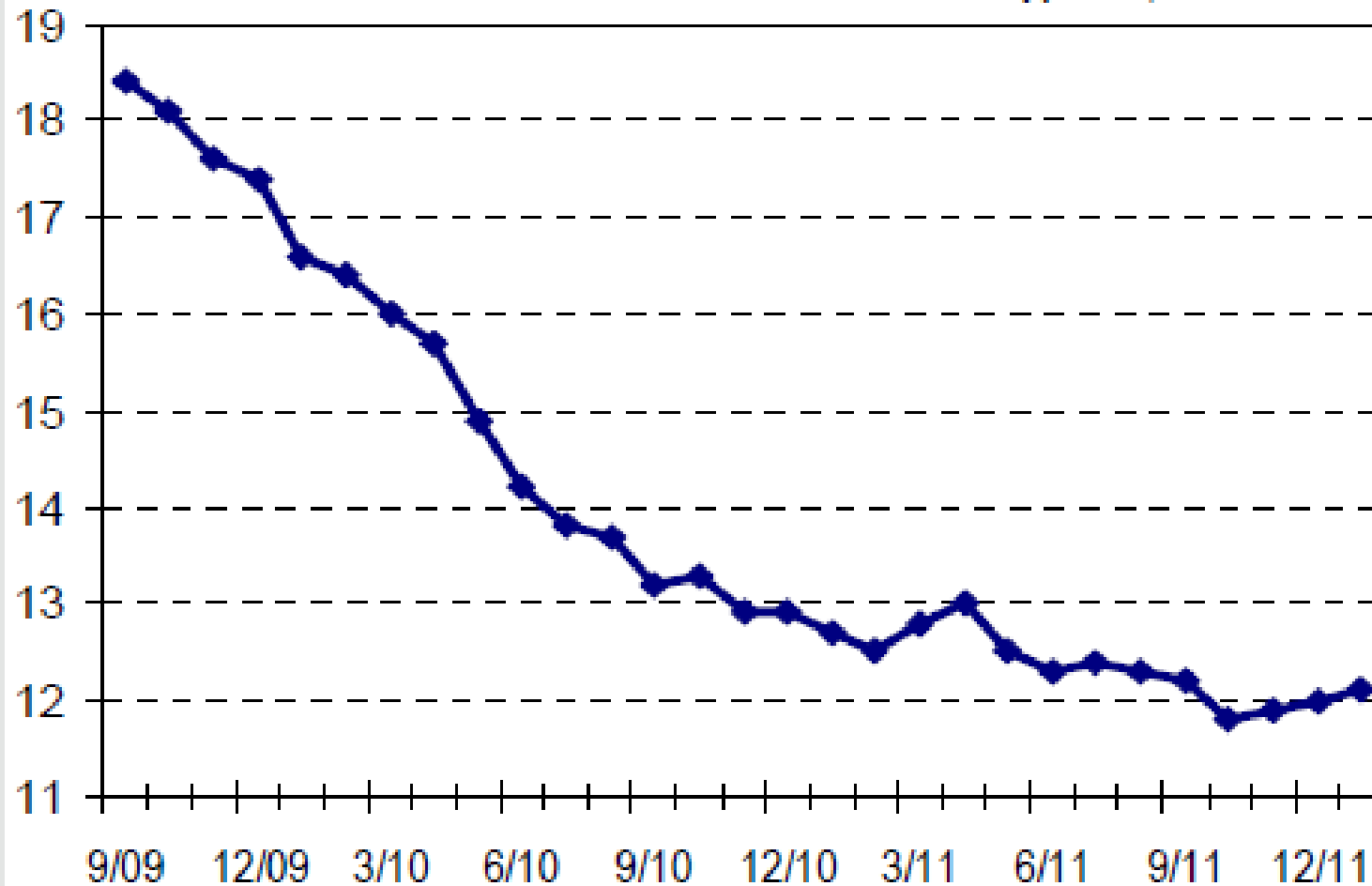
# Inflation



Source: Goskomstat, CEFIR

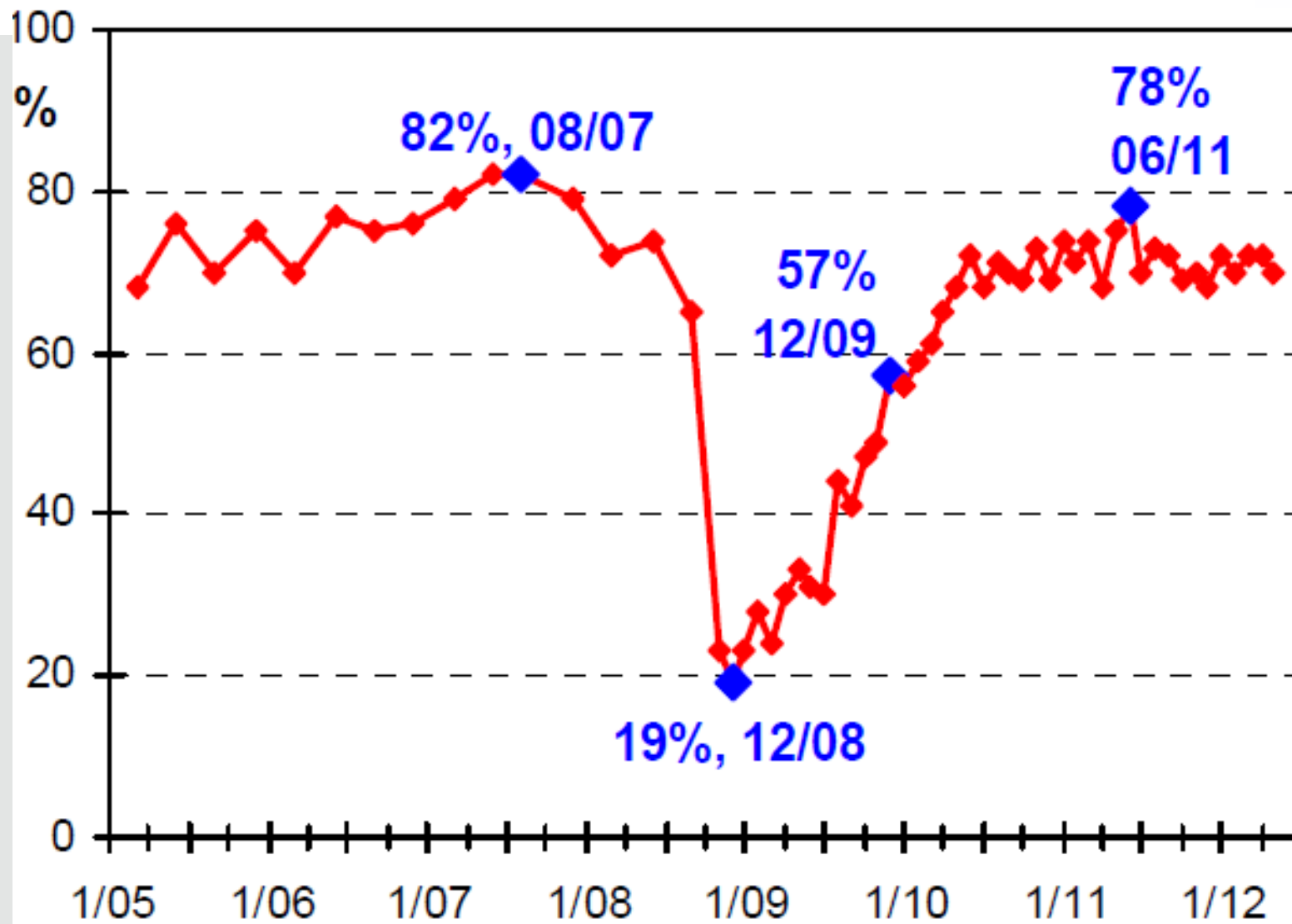


# Access to Credit



Average interest rates on bank loans for industrial firms  
Source: Gaidar Institute Firm Survey.

# Normal Access to Credit

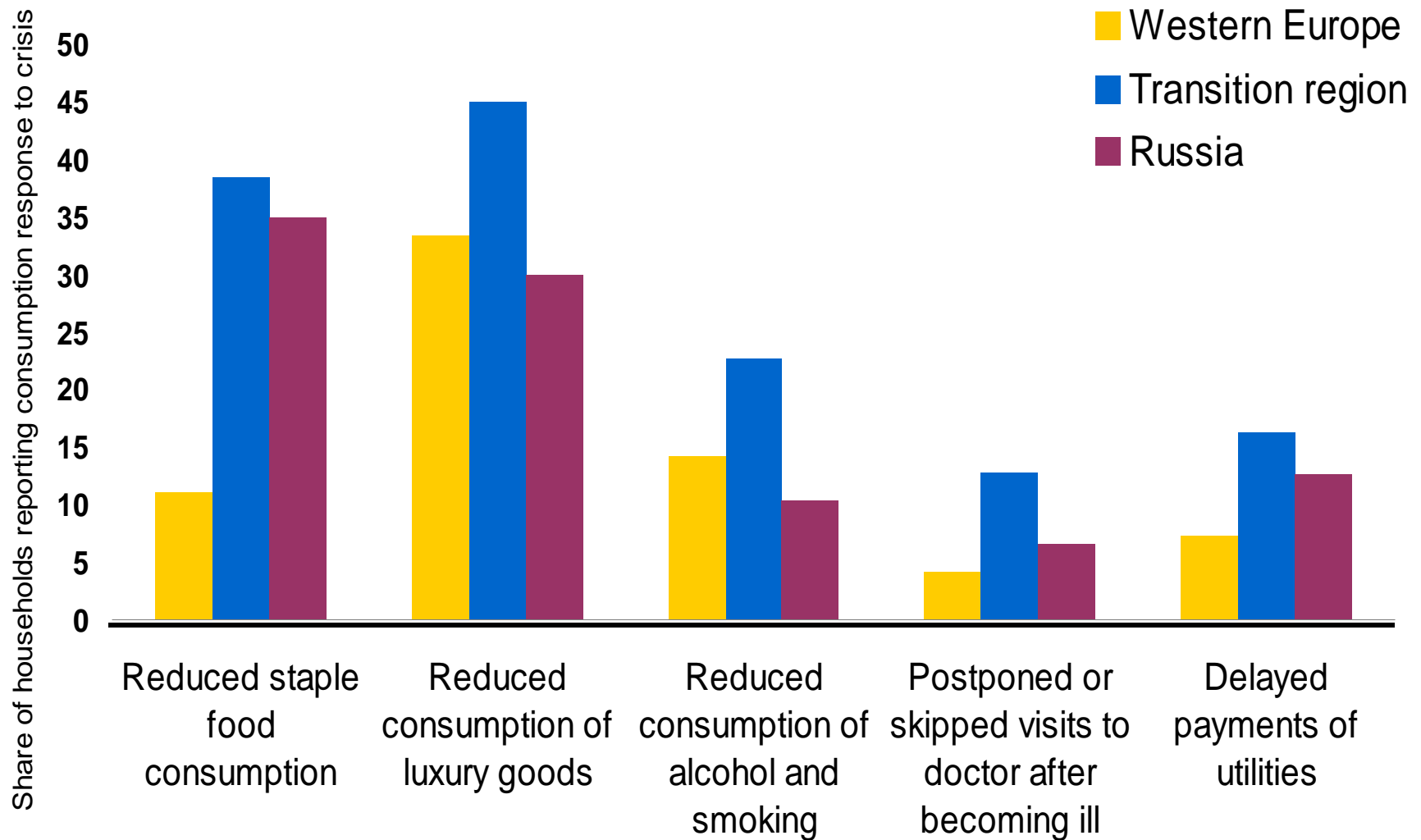


Average interest rates on bank loans for industrial firms

Source: Gaidar Institute Firm Survey.

- Consequences for households: huge
- Reduction in staple food consumption
  - Russia – 35% of households
  - Transition countries – 39%
  - Central Asia – 27%
  - Western Europe – 11%

# Consumption Change



Data Source: EBRD Survey, Fall 2011

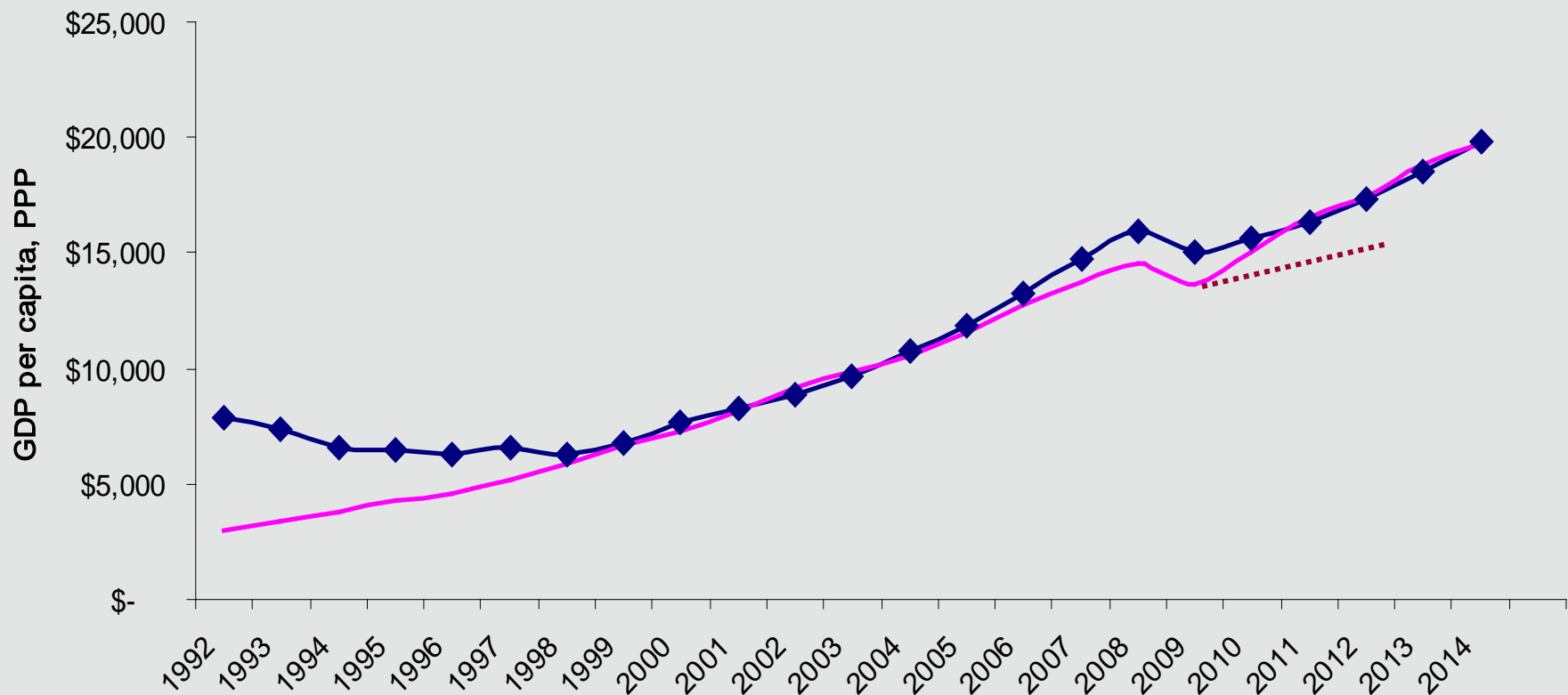
# Long-term and Politics

# Next South Korea? [2-years-old slide]

Income per capita, purchasing power parity.

Source of data and forecast: World Economic Outlook October 2009, IMF.

◆ Russia    — Korea 11 years earlier



Guriev and Zhuravskaya, 2010

- ❑ Emerging economies may grow faster than developed ones
  - accumulation of capital on path to steady state (Solow)
  - ‘advantage of backwardness’: technology adoption on path to technology frontier (Gershenkron)
  
- ❑ Obstacles to fast growth
  - weak institutions that increase cost of investment (North, Acemoglu-Robinson)

# Good Institutions

- politically independent courts
- efficient law enforcement
- non-corrupt regulators



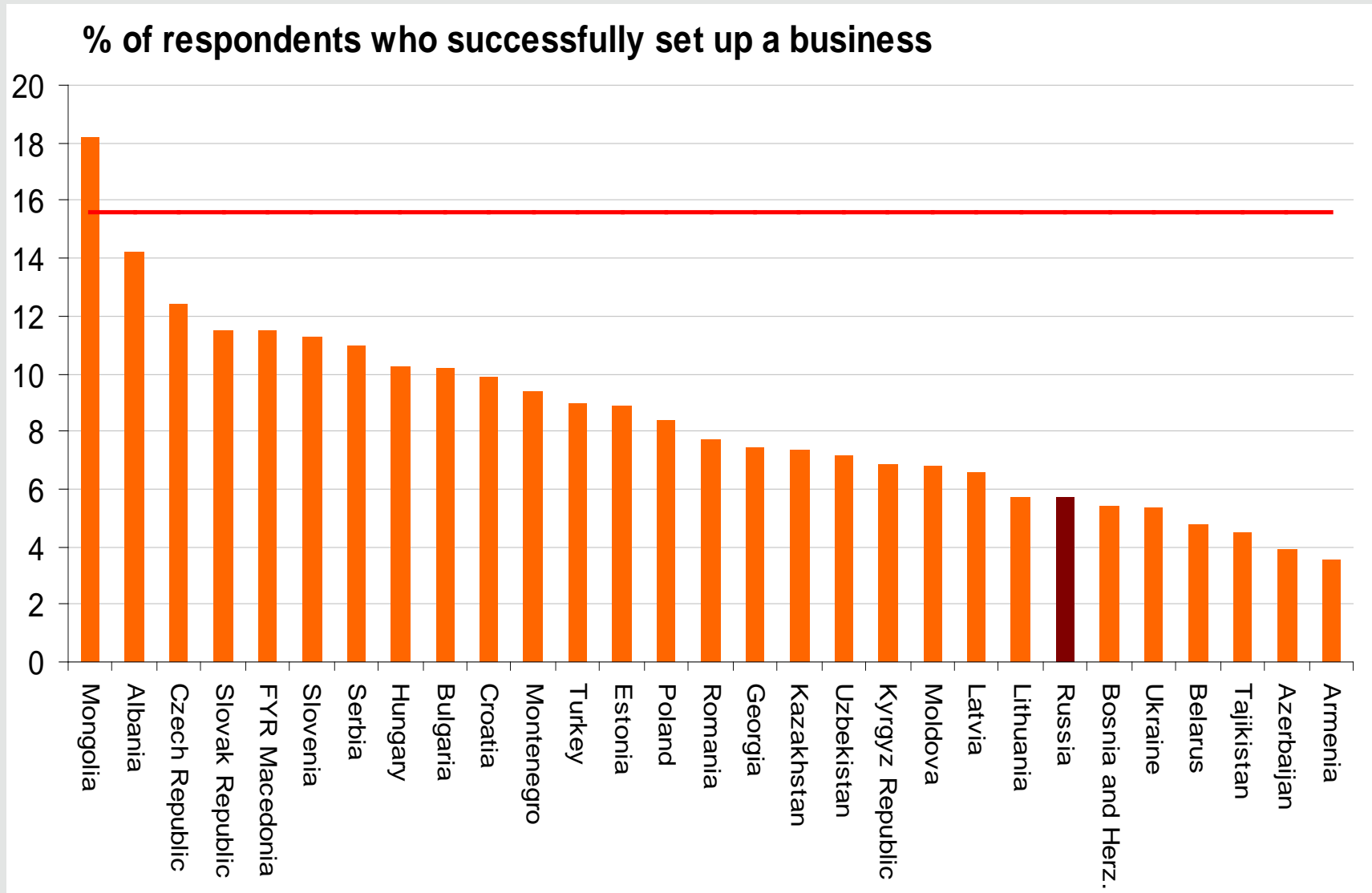
# Institutions Worse in Russia

■ Korea, % rank in 1997   ■ Russia, % rank in 2008





# Start-Up Opportunities

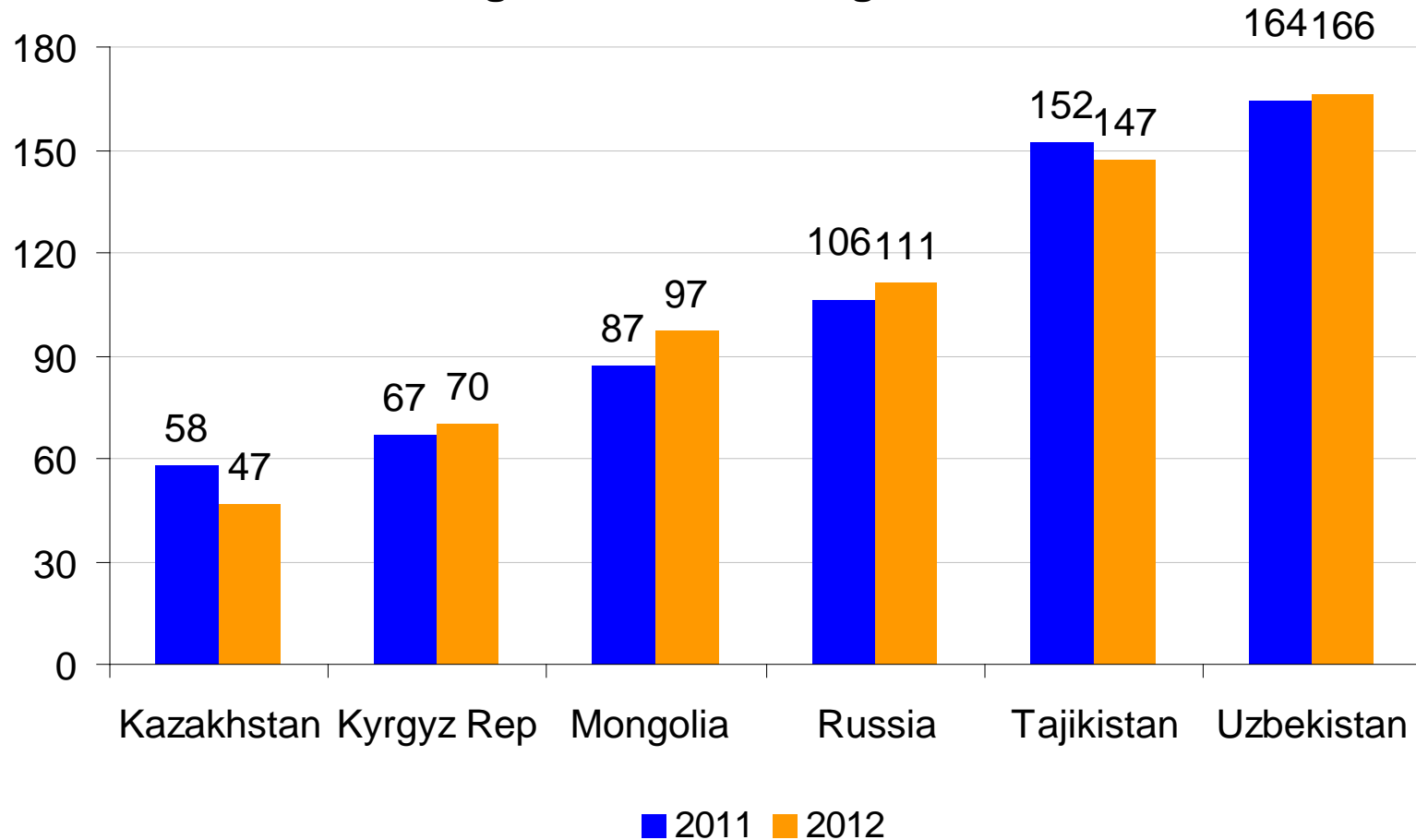


# Index of Economic Freedom 2011

Category	Name	Rank
<b>Mostly free</b>	<b>Estonia, Lithuania, Czech Rep., Georgia</b>	<b>14 - 29</b>
<b>Moderately free</b>	<b>Armenia, Slovakia, Hungary, Macedonia, Latvia, Bulgaria, Romania, Slovenia, Poland, Albania, Montenegro, Kazakhstan, Croatia, Kyrgyzstan</b>	<b>36 - 83</b>
<b>Mostly unfree</b>	<b>Azerbaijan, Serbia, Bosnia &amp; Herzegovina, Moldova, Tajikistan</b>	<b>92 - 128</b>
	<b>Russia</b>	<b>143</b>
<b>Repressed</b>	<b>Belarus, Uzbekistan, Ukraine, Turkmenistan</b>	<b>155 - 169</b>

Hermitage Foundation, 2011

## Doing business ranking 2011-2012



Source: World Bank Doing Business Reports 2011 - 2012

# Institutions

# Where Do Institutions Come From?

- ❑ Economic institutions are designed and put in practice within a political process
- ❑ Good institutions might be based, politically
  - on mature democratic institutions
  - on something else [strong central leadership]

# Alternative Model

- ❑ Institutions that rely on strong, yet non-democratic political authority
- ❑ “Institutionalized ruling party”
  - Mexico, 1930-2000
  - communist regimes
  - China
- ❑ Personalistic non-democratic regimes
  - Russia
  - Kazakhstan
  - Belorussia



- ❑ Personalized weakly autocratic regime
- ❑ Leader in power for a long-time, since 1999
- ❑ 'Real' popularity of leaders is not known
  - United Russia, December 2011: 25-35% in Moscow, 35-45% country-wise (49% official tally)
  - Putin, March 2012: 50+% ?
- ❑ No well-organized opposition
  - large (by Russian standards) protests
  - no succession path

# Is Alternative Model Sustainable?

## ☐ “Institutionalized ruling party”

- Mexico, 1930-2000
- communist regimes
- China (“communist regime 2.0”)

**Jury is out**

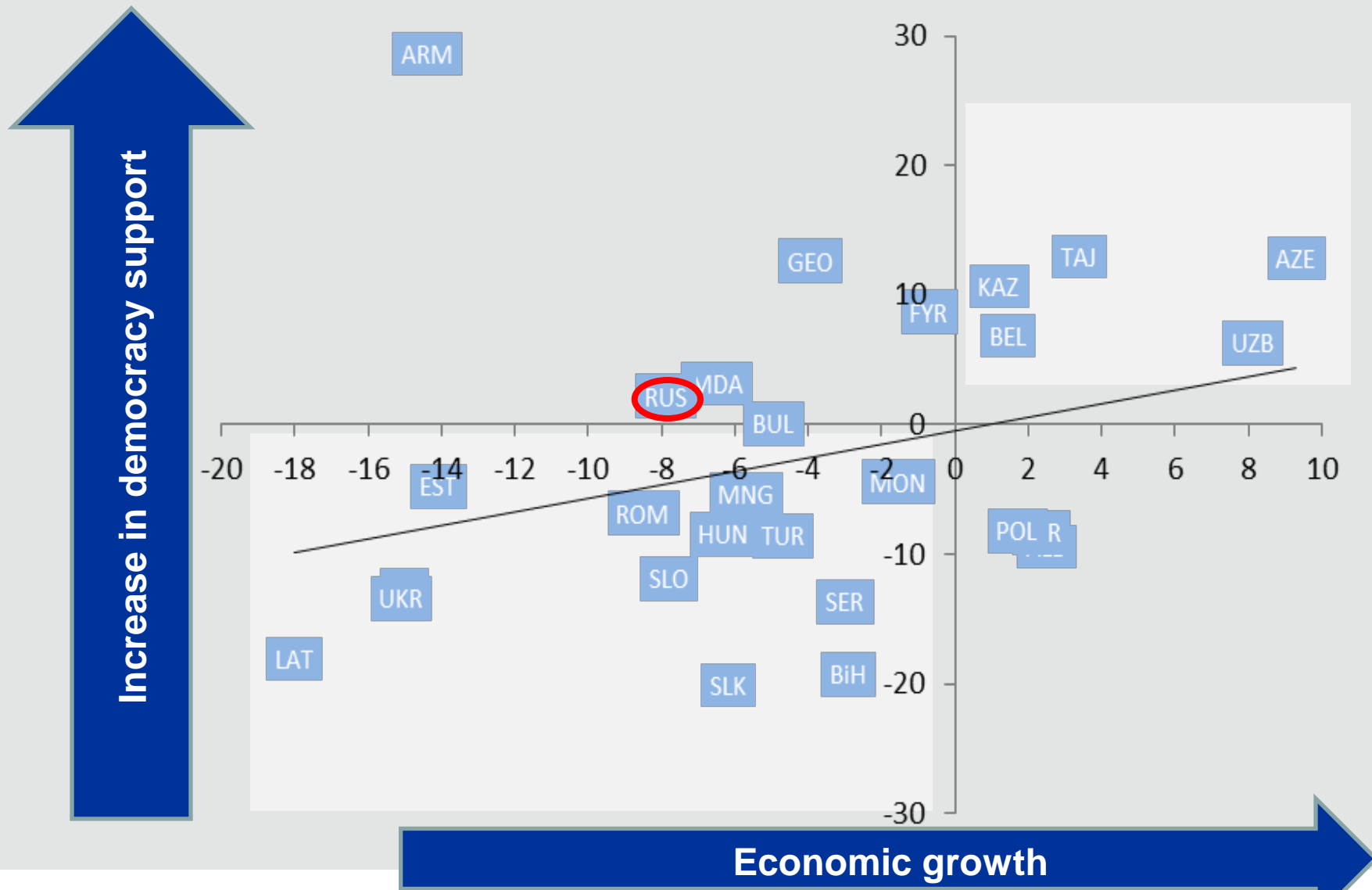
## ☐ Personalistic non-democratic regimes

- Russia
- Kazakhstan
- Belorussia
- Uzbekistan

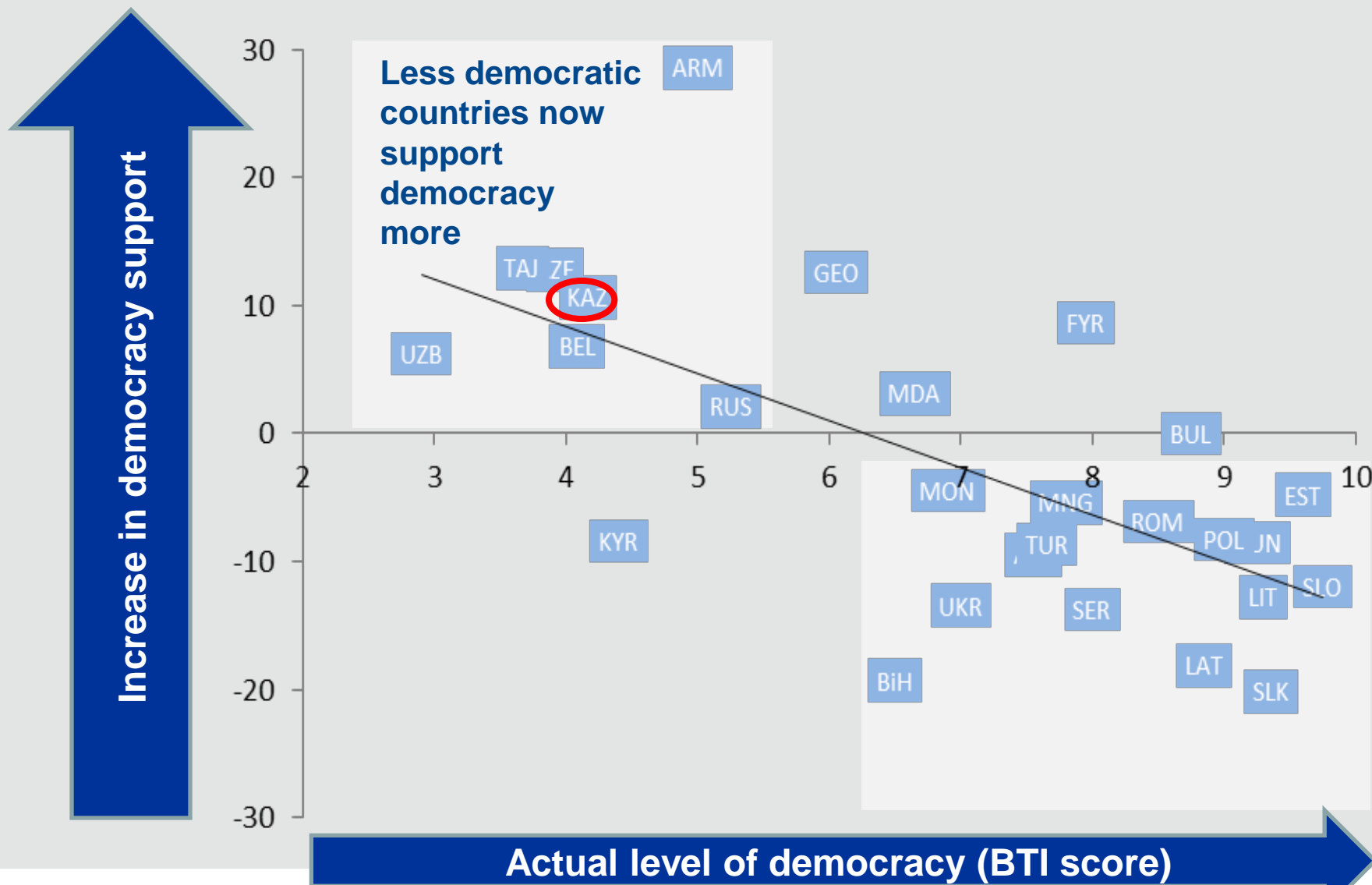
**Not sustainable**

☐ *NB*: Direction of evolution is not easily predicted

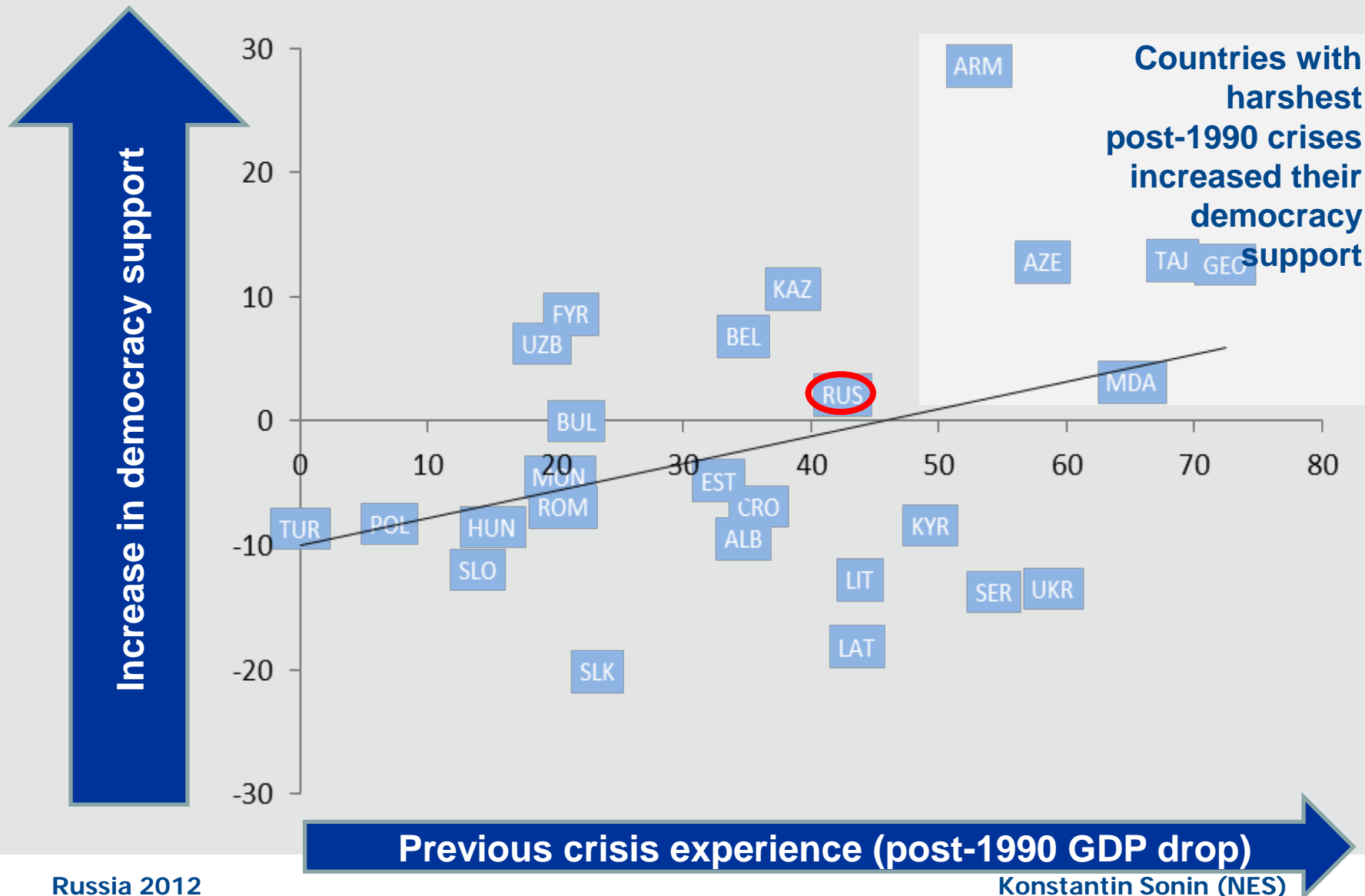
# EBRD Democratic Attitude Survey



# Democratic Attitude Long-Term



# EBRD Democratic Attitude Survey



## Underemployed labour?

- no, labour market will be tight already in 2012
- unemployment is 6.3% - above 5.4% in May 2008, but lower than 9.4% in Feb 2009 (and 14.6% in Feb 1999)

## Spare capacity?

- no, all capacity utilized, need new investment

## Oil price?

- unlikely: to move from 4% GDP growth to 6% growth, need oil price to grow by \$10-20/barrel every year

## Need productivity growth (investment and innovation)

# Key reforms

- ❑ Privatization
  - improve corporate governance in state companies
  - create critical mass of further pro-market reforms
- ❑ Deregulation and business climate
  - Putin: move from 120<sup>th</sup> to 20<sup>th</sup> in Doing Business
- ❑ External anchor
  - WTO and OECD accession
- ❑ Macroeconomics: inflation targeting and floating ruble
  - foster financial development and inflow of long-term savings from households
  - increase growth of non-resource sectors and mobility of Russians.
- ❑ Pension reform

# Reality Check on Key Reforms

- ❑ Privatization
  - a major nationalization (TNK-BP) under way right now
- ❑ Deregulation and business climate
  - not much
- ❑ External anchor
  - significant progress (WTO) and talks (OECD)
- ❑ Macroeconomics: inflation targeting and floating ruble
  - not clear what is going on
- ❑ Pension reform
  - stalled



# Conclusions

- ❑ In short run, Russian economy is growing
- ❑ In longer run, Russia faces serious challenges
  - sources of pre-crisis growth are exhausted
  - need new investment hence need better investment and business climate and better financial sector
- ❑ In order to avoid a slowdown, needs substantial reforms
  - otherwise will grow at 2-4% growth
  - if reforms happen 5-6% growth is not impossible
  - politics makes reforms problematic in the short-run