

**The Russian economy:
growth under sanctions, top long-
term trends, scenarios for the
future**

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The world oil / gas prices fell, the dollar strengthened against the euro



Russia: Economic Chronicle 2013 - 2018

	2013	2014	2015	2016	2015
Oil Price (Brent, Nymex, end of year)	112	56	37	57	67
Euro / USD	1,37	1,20	1,09	1,05	1,20
Gross domestic product, constant prices	1,8	0,7	-2,8	-0,2	1,8
USD/RUB	32,6	53,5	72,5	61,5	57,7
Gross domestic product, current prices, USD	2297	2064	1366	1283	1469

What happened in 2014 - 2017

The **growth of production and exports** for almost all types of **commodities (oil, natural gas, metals, fertilizers)**. The **cornerstones of Russian economy** are completely the same

The **devaluation of the ruble** helped **the economy to survive** during the fall of world oil prices.

The **positive trade balance** and **low public debt** have been preserved

The economy relied more on **self-financing**. On the one hand, official international reserves have been reduced, fewer Russian financial assets are placed on Western financial markets, on the other hand, external corporate debt has fallen

What happened in 2014 - 2017

The **economic miracle** in certain areas in which the state created artificially normal market conditions—a low interest rate, easier access to credit, strong tax incentives, co-financing from the state budget.

Growth rates - from 4% to 10%

Grain industry

Food production

Pharmaceuticals

Military-industrial complex

Regional clusters, etc.

Import substitution, “sanctions” against the West

What happened in 2014 - 2017

The slow process of **economic integration of Russia and the EU**, which was observed until 2014, began to **collapse**

Share in Russian exports - imports of goods, %	2013	2016
European Union	49,5	42,7
Germany	8,9	8,5
Netherlands	9,1	7,0
United Kingdom	2,9	2,2
Austria	0,6	0,6
China	10,5	14,8
United States	3,3	4,0

Russia



EU



Russia



China



Challenges & Trends

Life expectancy – 72,6 years. This is the **96th place** in the world. Austria – 81,5 years, the **18th** place in the world

GDP per capita, current prices, USD:
2013 – 16022, 2017 – 10248, China – 8583, Austria – 46436.
Real incomes per capita fall for 4 years

Smaller size of economy – 1,8% world GDP (2,8% – 2013),
0,4 – 0,5% global financial assets (1% – 2013)

The lost decade of 2008 – 2017. Lower growth rates –
Russia is growing at a rate of 1.8%, the world economy is
faster than 3.5% per year, the EU and the US - above 2%,
China and India – more than 6-7%. Insufficient investment
rate – 20-22% of GDP

Challenges & Trends

But this is still a very large economy.

It ranks 6th in the world in terms of purchasing power parity. 12th in the world in terms of GDP, at current prices, in US dollars.

Russia occupies

2 - 3 places in the world for oil production;

diamonds – 1st;

natural gas – 2nd ; barley - 1st;

aluminum – 2nd ; titanium - 2nd gold – 3rd;

platinum – 2nd; silver – 4th; uranium – 6th;

steel - 5th; wheat - 4th; rye - 2nd;

timber products - 6th; copper - 7th; zinc - 11th;

2nd place in the export of weapons;

one of the largest producers of mineral fertilizers

Challenges & Trends

Supervolatility of economy - functional dependence on ultra-volatile world oil / natural gas / metals prices, on dollar-euro exchange rate, on world demand for raw materials

At the heart of the economy is the model of "the exchange of raw materials for equipment, technology and consumer goods».

Relations with the EU and China are built precisely on this model. "We'll buy everything for oil." "Our place in the world division of labor is to extract oil"

In 2013, the dependence on imports of technology and equipment - 70 -90% for individual items (non in military – industrial complex) (official publications). Today – much less

The highest risks from sanctions are technological risks, on long time horizons.

Challenges & Trends

25 years of distorted financial sector - low monetization (60th-70th in the world), weak access to credit, high interest rates, high inflation, overvalued ruble, weak financial markets, predominance of speculative investments, shortage of foreign direct investment, large net outflow of private capitals for 25 years. Bankruptcy of more than 40% of banks in 2014 – 2017

Tight monetary policy and fiscal consolidation (financial freezing of economy) as a response to the crisis instead of a policy to stimulate growth

Excessive tax burden is about 38 - 40% of GDP, a lack of strong tax incentives. With such taxes, the economy is difficult to grow

But...

Open capital account, floating exchange rate of Russian ruble

New York & London as the key source of portfolio investments in Russia. Strong carry-trade. 50% of domestic stock market, 1/3 of treasury bonds, up to 50 – 80% are covered by foreigners

The Moscow Exchange is the 25th by equity trading globally, 5th largest exchange in derivatives, 2nd largest exchange in fixed income

High volatility in financial sector

Challenges & Trends

In all sociological surveys, **85-90% of the population are "in love" with the state**, wanting to strengthen its role in the economy. **They build political and economic structures.** Low risk tolerance.

And only **10 - 15%** of the population are ready to be independent, fully enjoy market freedoms.

The reason is that the families have never been large owners, accumulating property for several generations. Each generation lost its assets in the 20th century

The growing role of the state (**up to 70% of the economy**). The share of small and medium businesses is small - up to **25%**. Growing **superconcentration of ownership**, vertical structures, big state-owned corporations, oligopolization, concentration of everything in Moscow

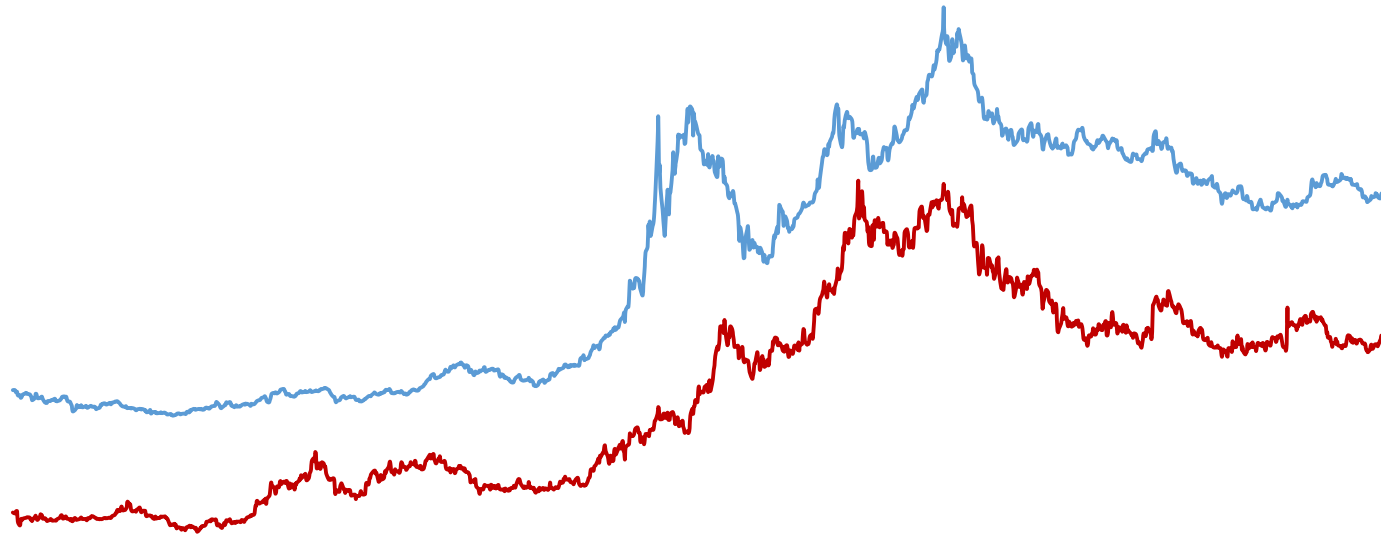
Ultra-high regulatory costs - exponential growth.

The volatility of ownership, the wars for ownership

**To resume: Extravolatile Economy of
“Latin American Model”
Great Latin American Adventure
2018 - 2025**



Russia as Brazil



Russian Ruble – Brazilian Real

6.1.2012

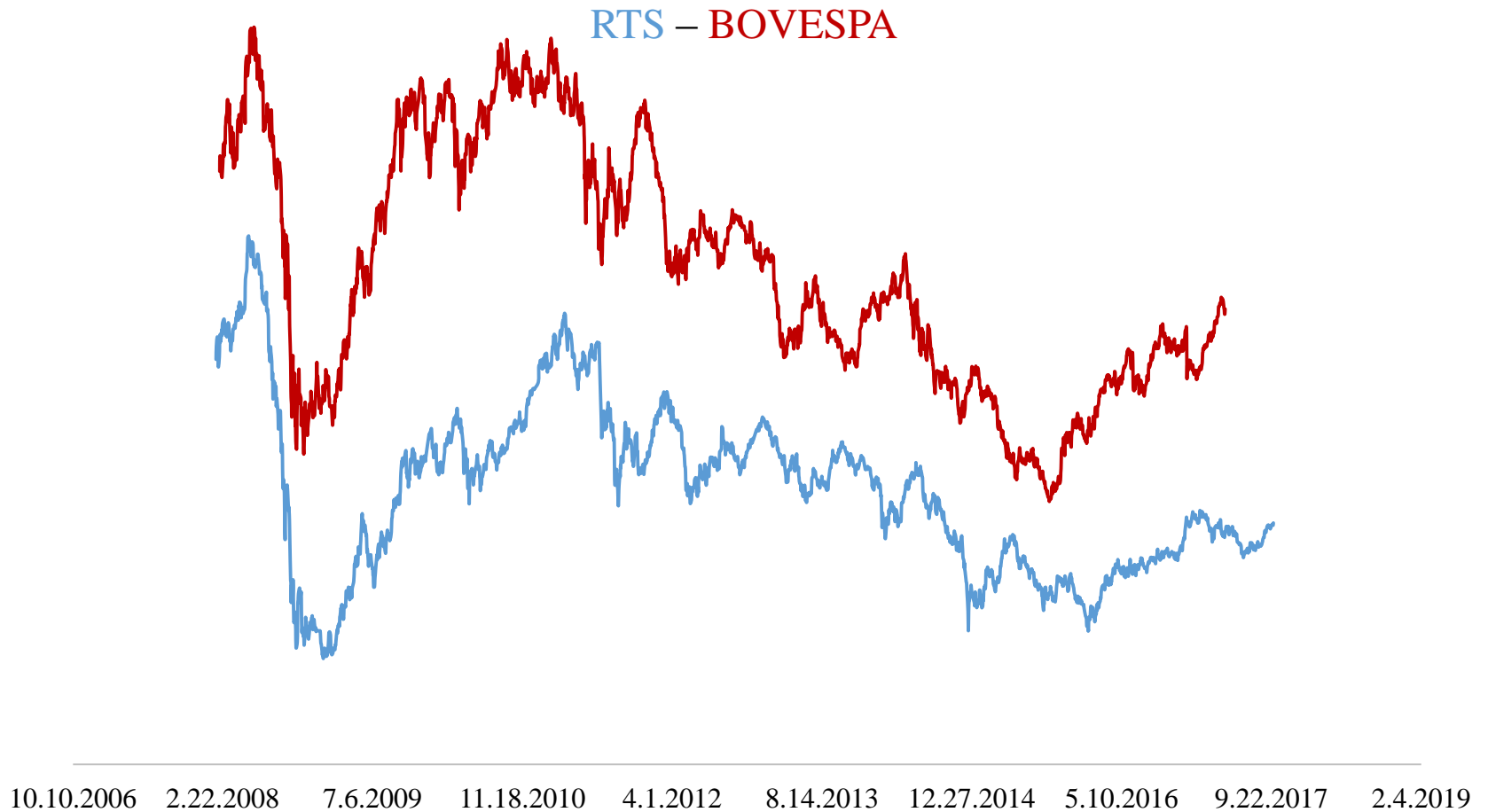
10.14.2013

2.26.2015

7.10.2016

11.22.2017

Russia as Brazil



Russian as Brazilian Stock Market

Russian Economy: 2018 - 2025

Very high volatility with all certainty in all aspects of life

Guns versus butter. New arms race?

Simultaneous challenges:

- quality of life, life expectancy**
- economic growth, ahead of world average rates,**
- technological modernization,**
- restructuring of economy, import substitution, return to a large universal economy**

Scenarios – 2018 - 2025

1 "Tsunami" After a strong internal or external shock.

Probability is **10 - 15%**. The besieged fortress.

"Greater Iran", "Greater Venezuela".

The state share in the economy is above 85%.

Semi-administrative economy

2 "Frozen economy"

Probability is **50 - 55%**.

A semi-closed economy in stagnation, with technologies that are getting older.

From "Big Brazil" to "Greater Colombia"

Scenarios – 2018 - 2025

3 "Managed Cold"

The probability is **30-35%**

Case - "Spain, the late 1950s - early 1960s"

4 "Sudden Turn"

Probability is **5 - 10%**.

Analogues - up to 15 economies after the Second World War

"Economic Liberalization", stimulating economy by all instruments

An open, social market economy, universal, based on the production of high added value, modernized, maintaining high quality and life expectancy at the level of the first 10 economies of the world



*Thank you for
attention*