

# RUSSIA: ON THE EVE OF ELECTIONS: CONTINUITY OR CHANGE? THE RUSSIAN ECONOMY

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# THE MACROECONOMIC INDICATORS...

- **ii. ANNUAL INFLATION RATE: 8 – 10 percent**
- **iii. BUDGET SURPLUS: % of GDP, latest at 6**
- **iv. CURRENT ACCOUNT: % of GDP, latest at 6.8**
- **v. FOREIGN EXCHANGE RESERVES: \$400 bln +**
- **vi. FOREIGN CAPITAL INFLOWS: \$59 bln latest**
- **vii. POVERTY RATE: 10 % of population**
- **viii. A STRONG RUBLE**

## ...THE MACROECONOMIC INDICATORS

- ***OVERALL STRONG AND STEADY PERFORMANCE***
- **ENERGY SECTOR LED GROWTH**
- **THE SECTOR DOMINATES IN CONTRIBUTING TO GDP, Budget revenues, Export earnings**

## CAN GROWTH SUDDENLY SLUMP WITH A COLLAPSE IN ENERGY PRICES?

### **UNLIKELY IN THE NEXT THREE TO FIVE YEARS**

- **i. Structural shift in demand for energy by China, India**
- **ii. Continuing heavy demand for steel, nickel**

# IS GROWTH UNBALANCED?

- **i. Production: Led by energy sector + Heavy industry**
- **ii. Consumption: More imported goods than before; Increasing retail activity**
- **iii. Low contribution of light manufacturing sector. Is there a Dutch Disease associated with an appreciating real ruble? NO**

## .....IS THERE A GROWTH STRATEGY? YES

### **The new model in the energy (oil + gas) sector**

- i. No outright nationalization of oil companies although YUKOS was destroyed; plan to build a giant oil cartel led by Rosneft before 2008**
- ii. 51 % state ownership in Gazprom + management control**
- iii. Gazprom has emerged as majority owner in**
  - Sakhalin – 2
  - Kovytko
  - Shtokman
- iv. Gas pipelines fully state owned + controlled via *transneft***
- v. As minority partners, foreigners can bring cash, technology and management expertise**

# .....IS THERE A GROWTH STRATEGY? YES

**Is Gazprom a monopoly?**

**Until it can build alternative pipelines, it must negotiate with trans-pipeline countries about tariff charges; It must negotiate gas prices with European customers for fear they may find alternative energy sources**

**The electric power sector (UES) model totally different. Why? Can Gazprom be run like UES?**

**More relaxed model with extensive foreign participation in auto and aircraft manufacturing**

**Retail consumer goods and the banking sectors even more open for foreign participation.**

.....IS THERE A GROWTH STRATEGY? YES

- **At the apex of this cascading hierarchy with ownership and management control in energy sector is oil + Gazprom. Why?**
- **Because it is contributing to growth via high energy prices. It serves Russia's national interest. It cannot be left to private sector type decision making.**

# NATIONAL INTEREST AND A STRONG STATE

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- **Churchill**
- **The Petrine tradition**

# CAN HIGH ECONOMIC GROWTH LEAD TO THE EMERGENCE OF A LIBERAL ORDER?

## **Constraints:**

- **Russia always will have geopolitical interests**
- **Victim versus aggressor perception**
- **The role of negotiated external engagement in the process**
- **In the midst of political tensions, economic engagement should and will continue**