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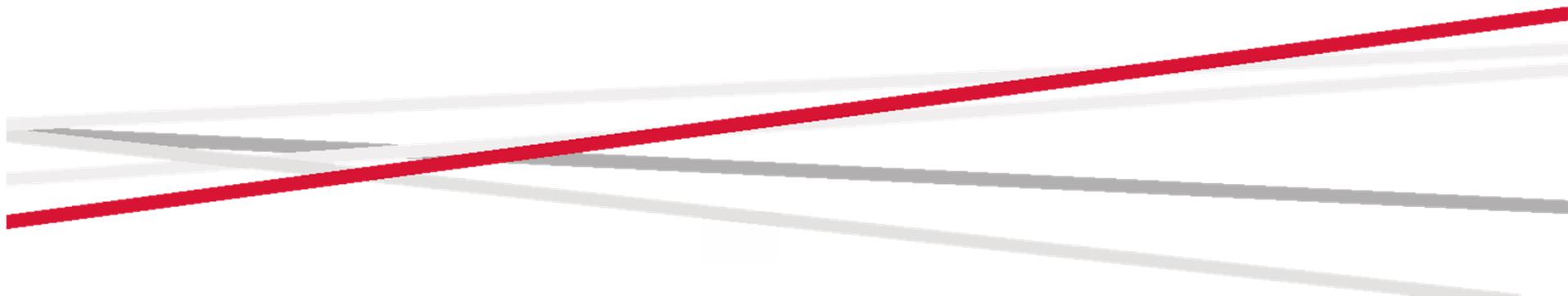
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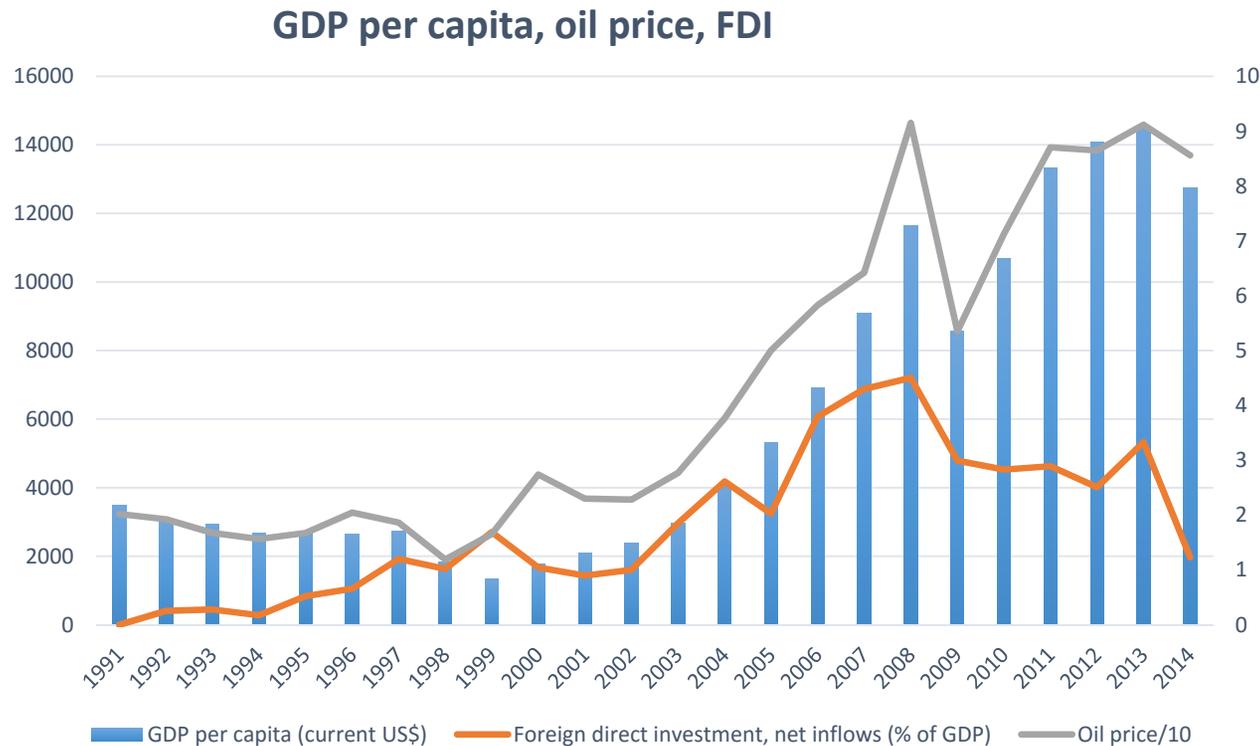
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Russian transition: from common property to state economy

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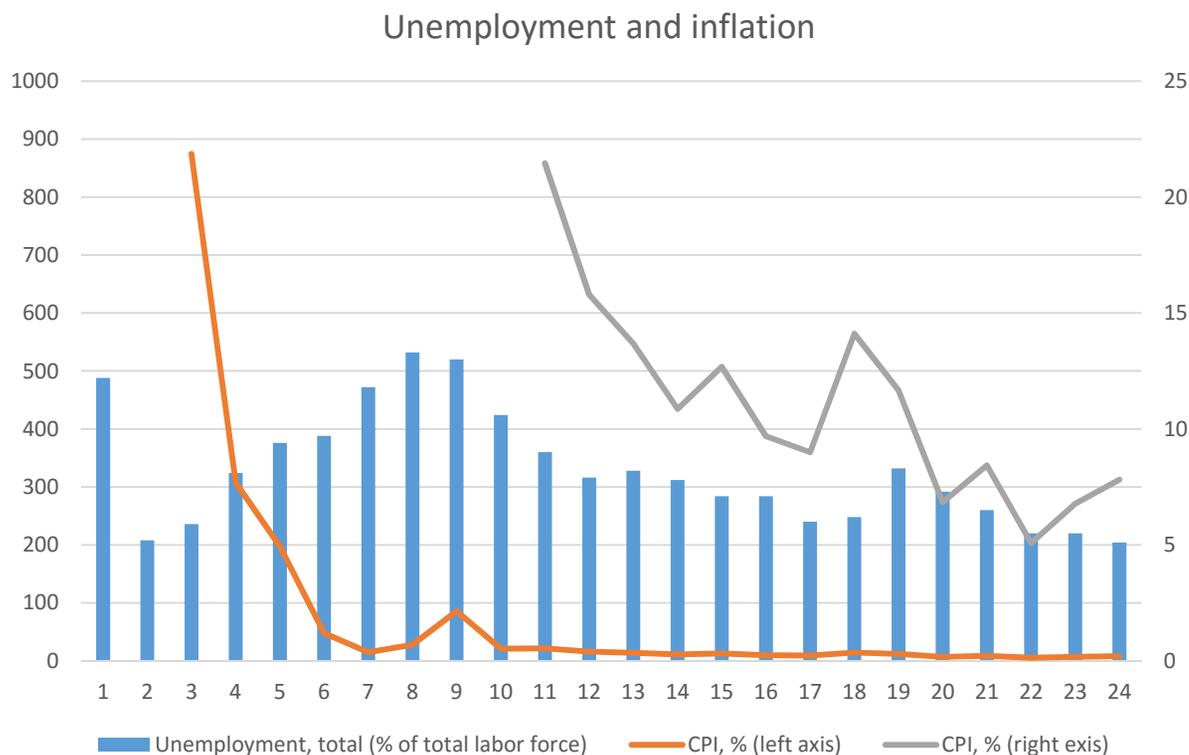


Oil price is a major force behind Russian GDP growth



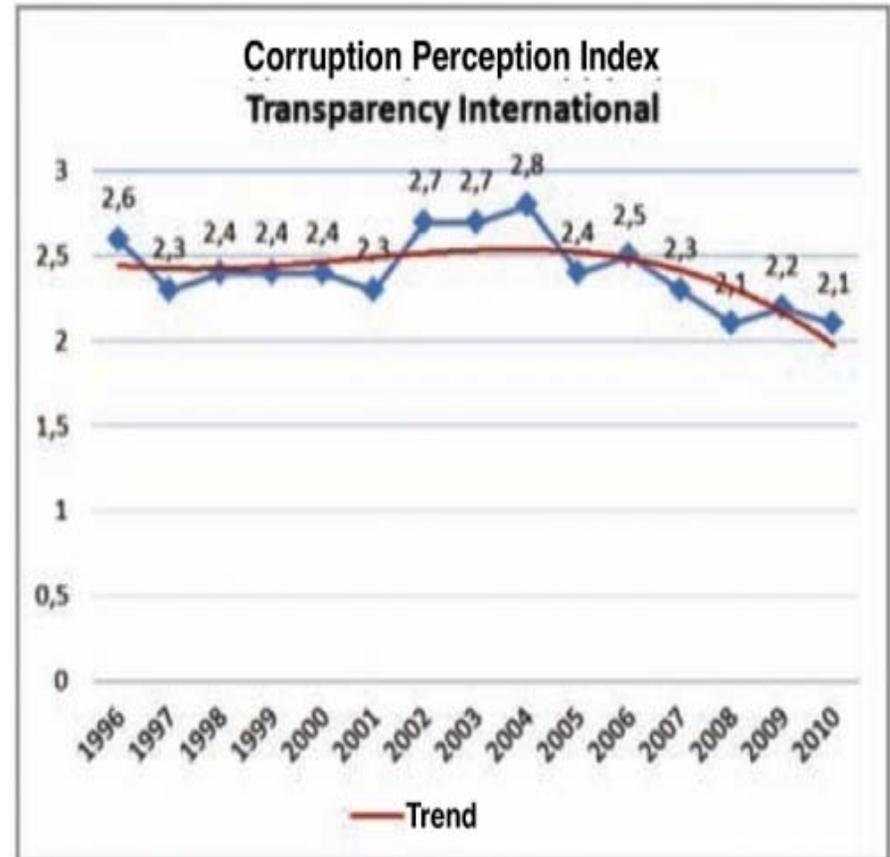
- FDI also followed the path of oil price very closely but starting from 2010 FDI starts diverging from it which might indicate a worsening of investment climate

Macro economically Russia is doing not badly



- Exchange rate switched to floating in December 2014
- Inflation target is 4% around 2017

Institutions deteriorate over time



View on institutional building as of 1990

- Privatization as a mean to allocate a common property to private hands
- New owners will require property right protection
- Entrepreneurs and property owners will demand
 - the adoption and implementation of good laws
 - the establishment of well-functioning institutions, including non-corrupt regulators and efficient law enforcement.

End of 1990-es - institutional divergence

- While some East European countries were fast to adopt modern standards and regulations
 - some former Soviet Union countries lagged behind.
- Russian oligarchs and big businesses did not lobbied for market laws and
 - settled disputes outside court
 - bribed regulators, police and political authorities to get their property protected.
- Still and the end of 1990-es Russian economy was sufficiently privatized which ensured higher efficiency and allowed fast adjustment to currency crises of 1998

2000-2016: lack of political competition and growing oil prices led to reversion of privatization

- Resource curse – no incentives for reforms
- Enormous oil revenues - nationalization of natural resource sectors, and state-enforced “modernization” of manufacturing (state corporations to facilitate production and export of high technology goods as of 2007)
- Global economic crises and a subsequent state intervention made nationalization even more pronounced
- So, after 25 years of transition Russia ended up with
 - no political competition
 - no institutional development
 - no economic growth
 - state economy (instead of common property) in its worst form
 - Bad corporate governance
 - Pervasive politisation of decision making
 - Crony capitalism

Some positives of last 25 years

- Stabilization Fund creation and reasonable management
- WTO accession
- Eurasian Common Economic Space creation
- Process of OECD accession (while not long lasting)
- Macroeconomic stabilization and inflation targeting
- Infrastructure benefitted somewhat from oil windfall but in a very limited and not very productive way without having strong impact on economic development across the country

What lies ahead

- Worsening of international relations over last 3 years undermined few little successes
- Lack of global financial market access for a substantial part of economy forced deleveraging
- Bad demographic situation along with poor management of pension reform requires implementation of unpopular measures which are politically unacceptable right now
- Import substitution activities created more deadweight losses across the economy
- Privatization outlook is gloomy because of sanctions and domestic economic problems
- Current political regime might secure economic stagnation for years



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Thank you

