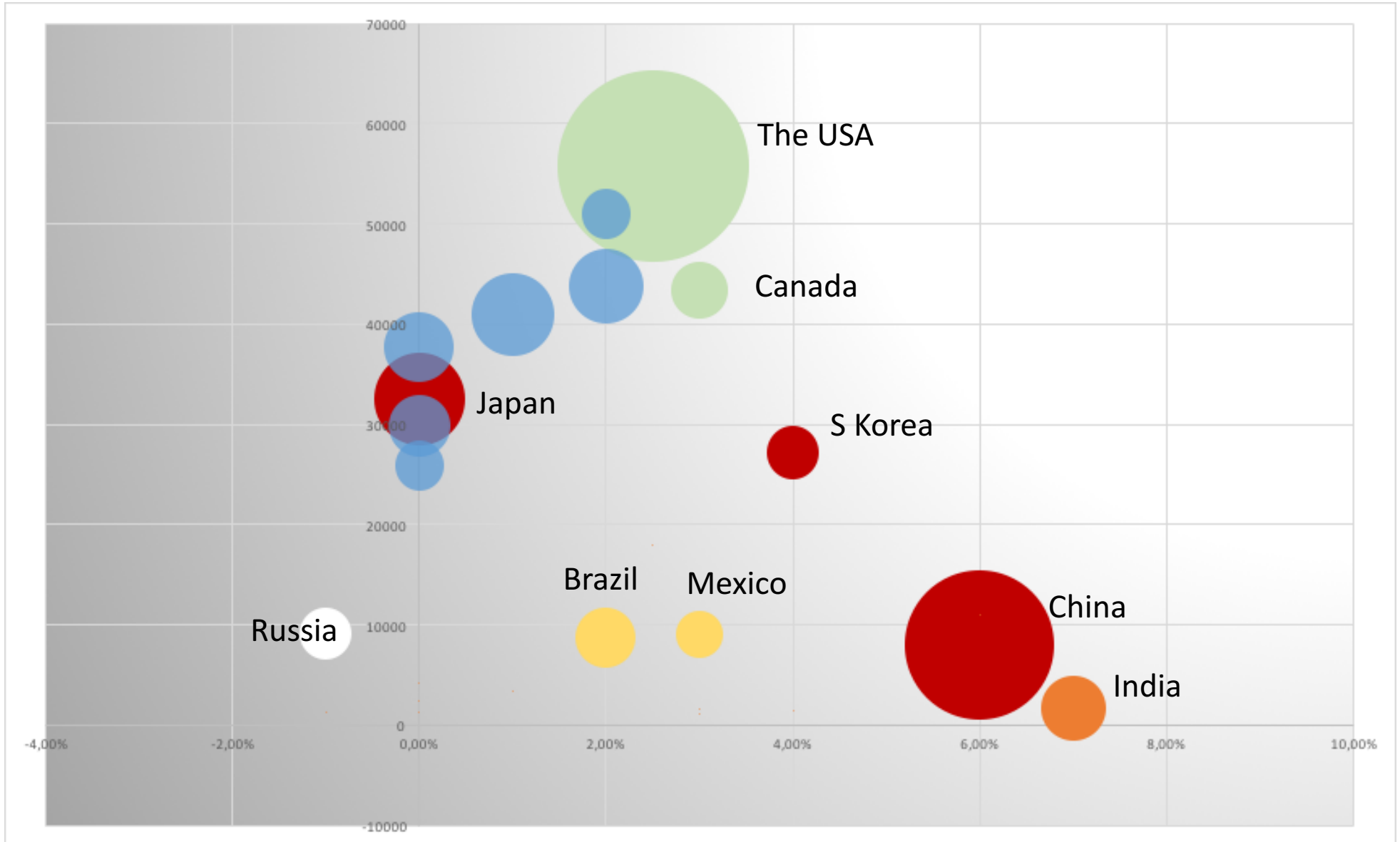
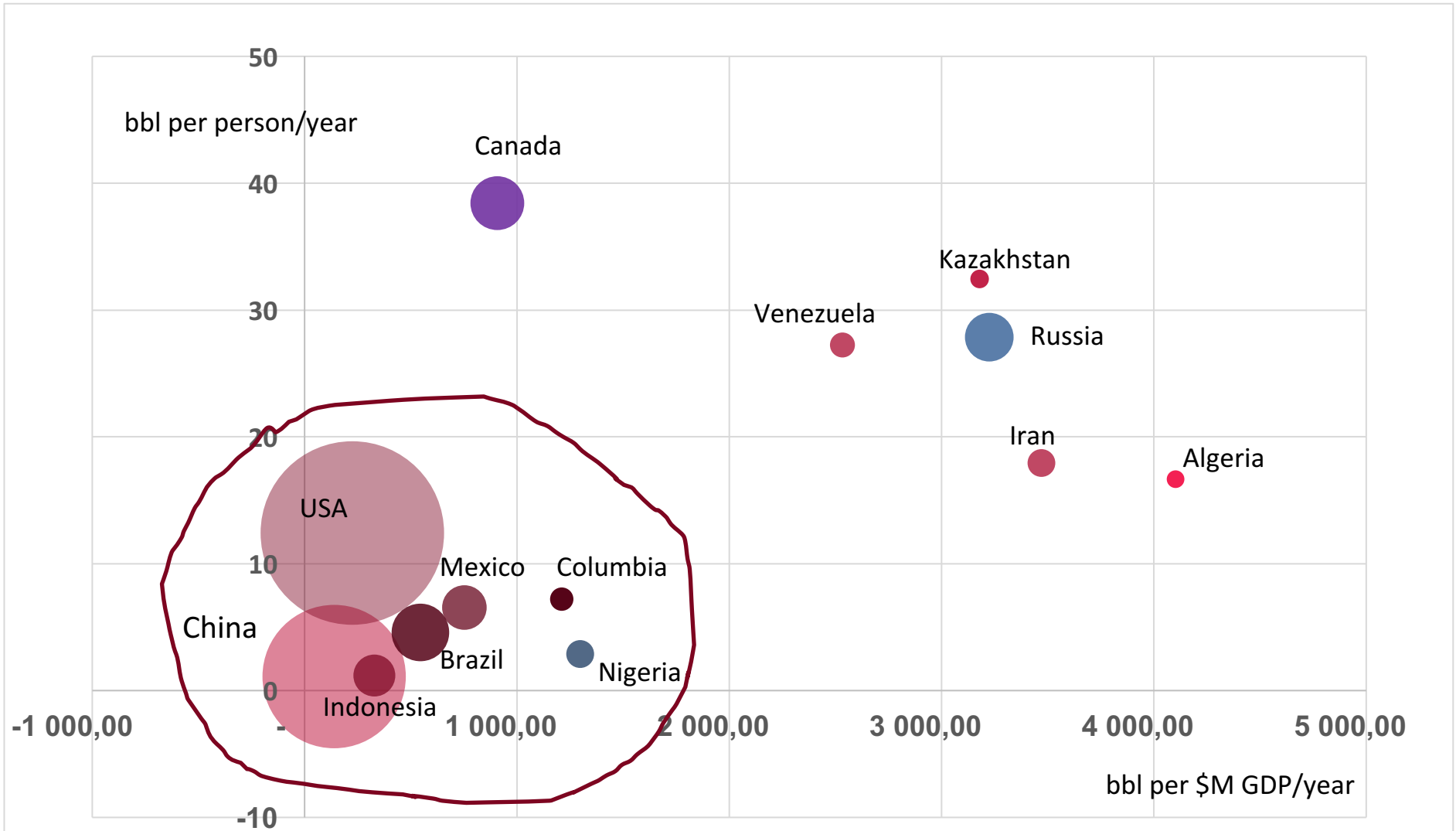
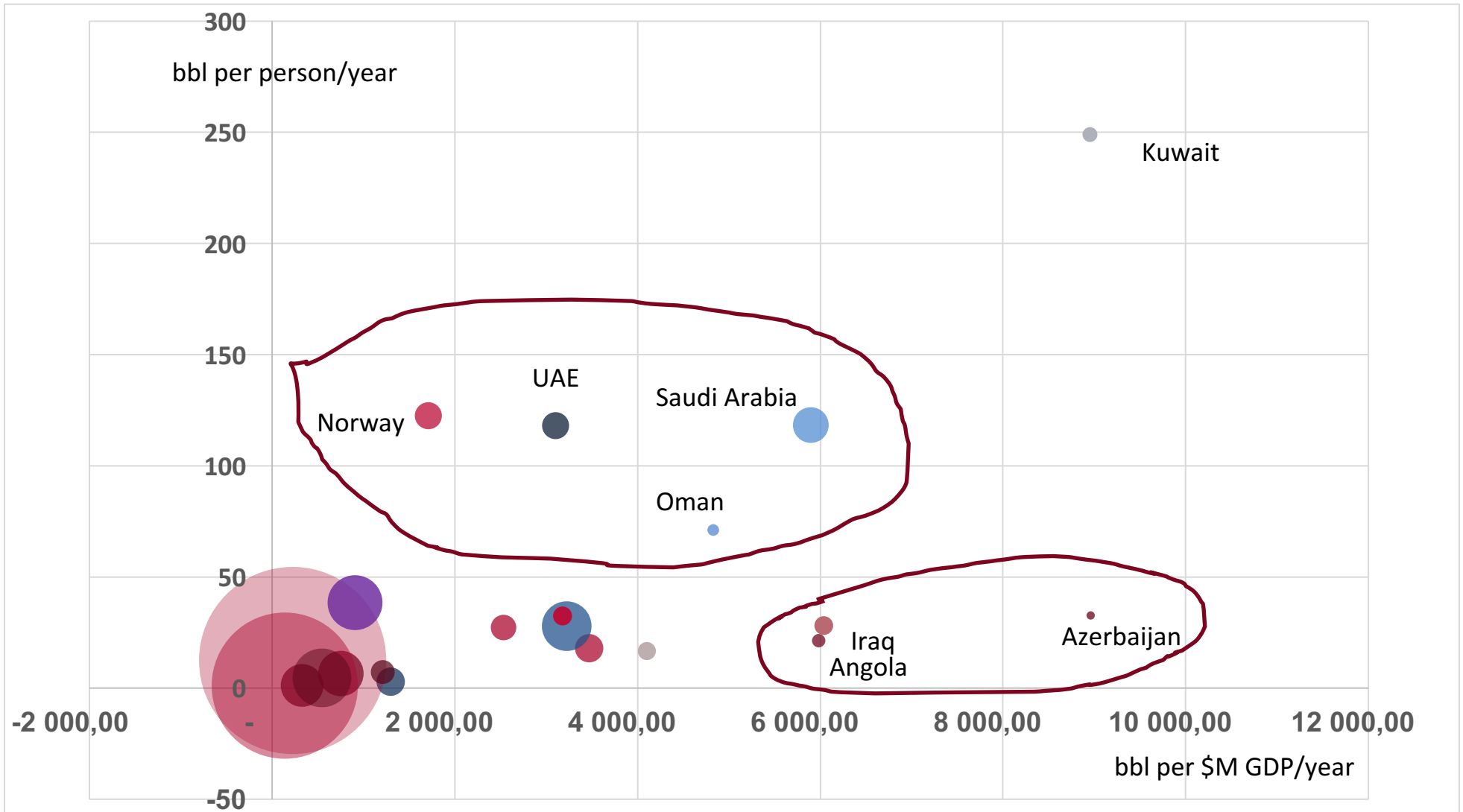


*Andrey Movchan. 6/04/17.*

# Russia 2017. The economic development







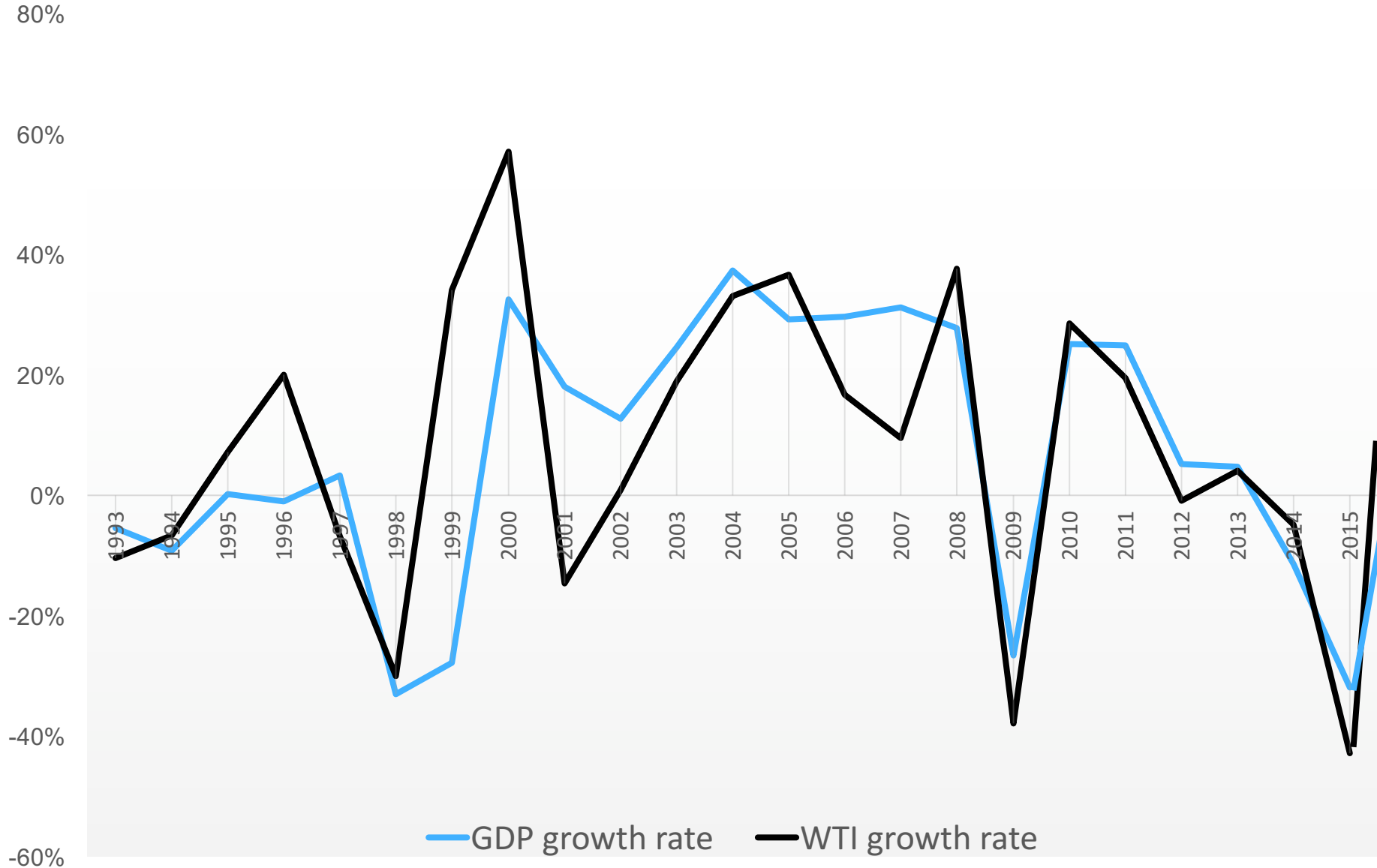
## Resource abundance general consequences:

- It is “mentally” hard to resist the consequences of resource spell.
- Countries with average level of resources are in worst circumstances.
- In almost 100% of cases fighting resource spell starts late and requires reforms.
- Economic openness is necessary for progress in fighting the resource spell. No examples of successful “sovereign economy” and/or “import substitution”.
- Tight monetary policies and rightfully managed sovereign funds help a lot. Liberal economies win; regulated economies lose.
- State spending does not help. State investments help where power institution is strong, and harm where it is not. In all cases they drive low added value businesses and increase inefficiency.

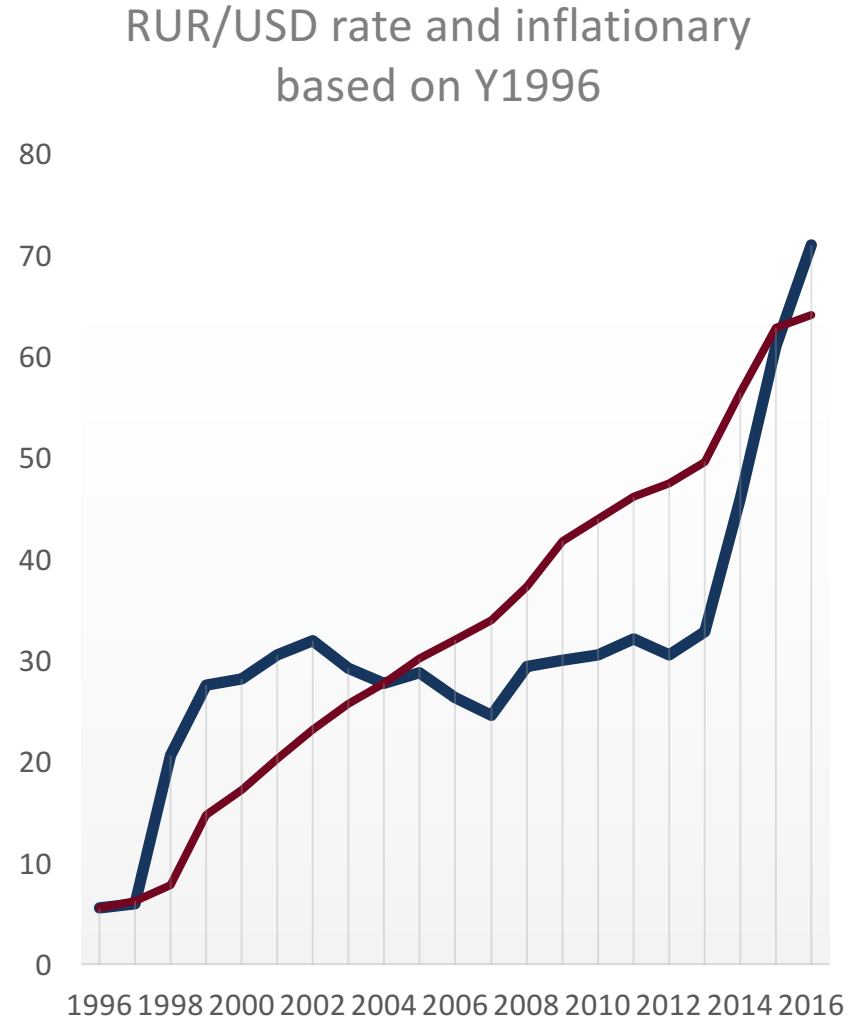
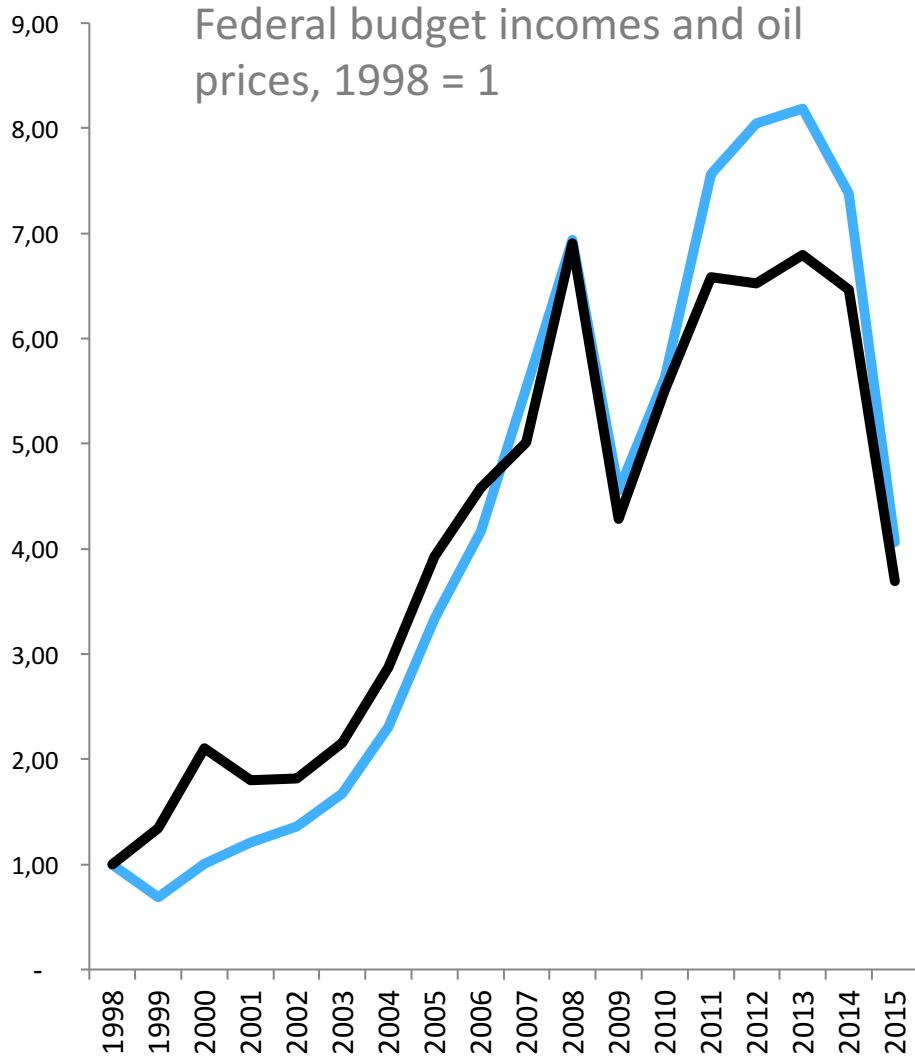
## Other ideas:

- Corruption is a clear consequence of resource abundance; however decrease of corruption levels itself has negligible effect on economic diversification and growth.
- De-monopolization of resource industries helps survive shocks and provides for more efficient economies.
- Implied risks play key role in neutralizing all efforts. Low risks almost certainly provide for success.
- Property rights protection level is one of the very few indicators clearly predicting the success in diversification of a resource-dependent economy and in increasing of its robustness.

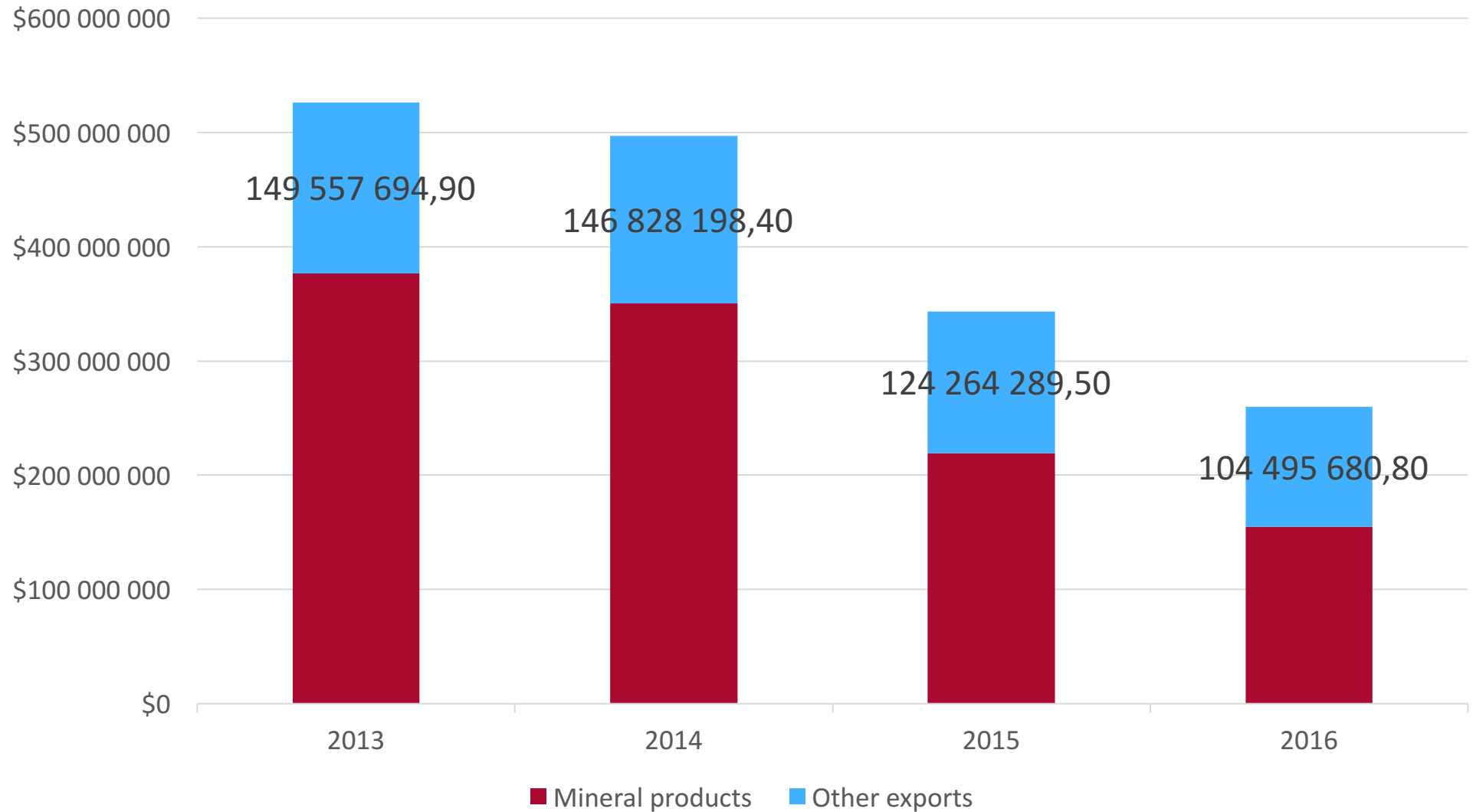
Economic aspect	Best practices	Worst practices	Russian strategy
International markets	Export diversification	Import substitution	Neither
Monetary policies	Tight	Loose	Tight
Government participation in the economy	Average	Excessive	Excessive
Price controls	No price control	Total price control	No price control
Reserves	Collection and investment abroad	Spending inflation	Collection with no investment / domestic investment
Labor market	Open	Closed	Open for low skilled workers
Financial markets and FDI	Open, attractive	Closed	Open, unattractive
Top priorities	Education and medicine	Defense and security	Social spendings



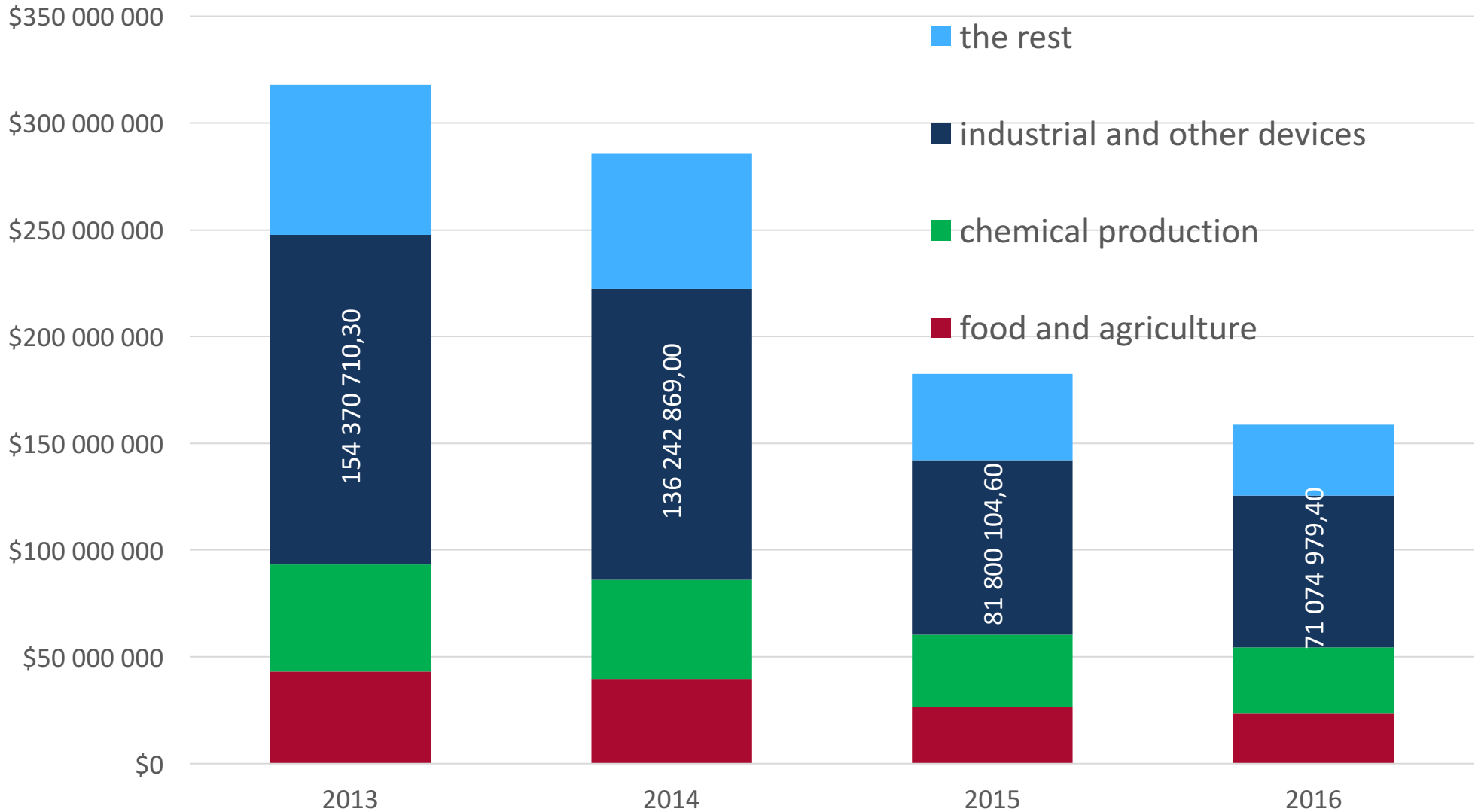




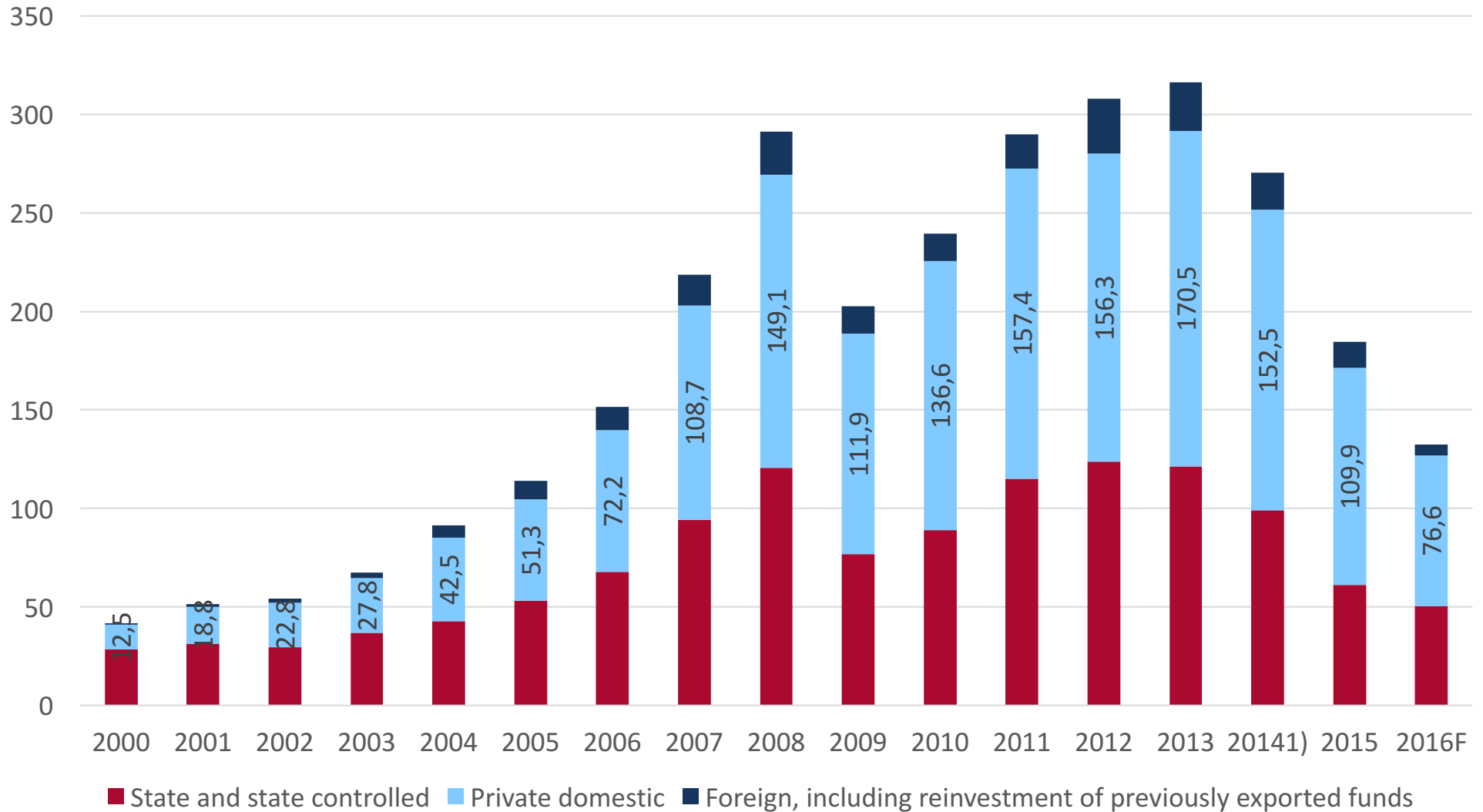
### Russian exports, in USD'000



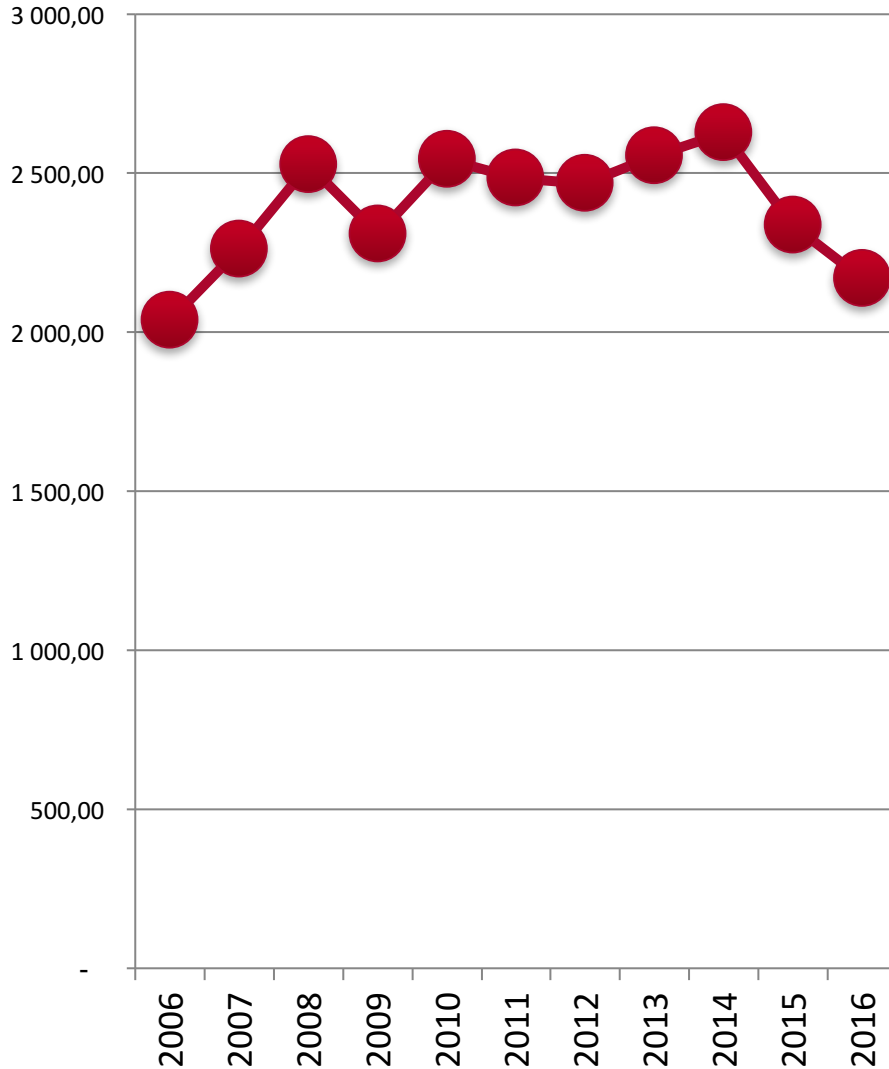
### Russian imports in USD '000



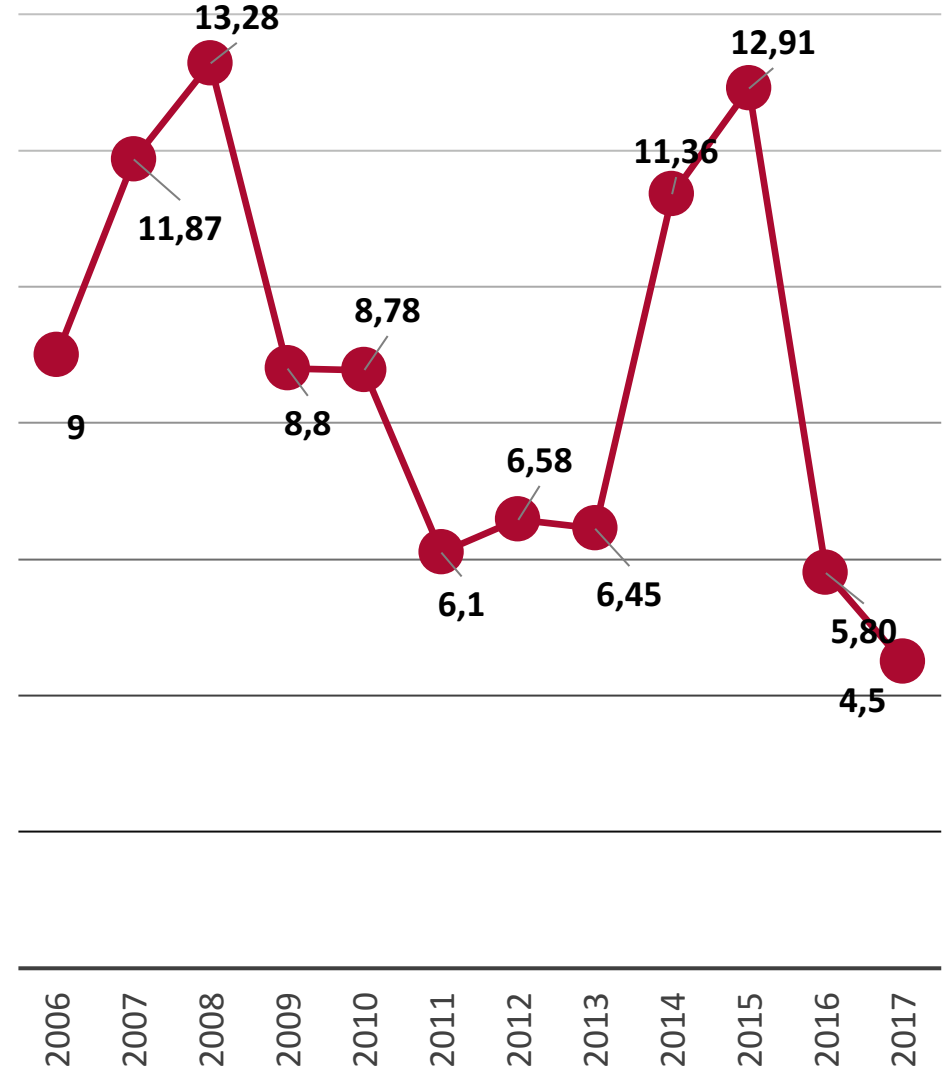
### Russian investments in fixed assets, USD bln, real USD 2000



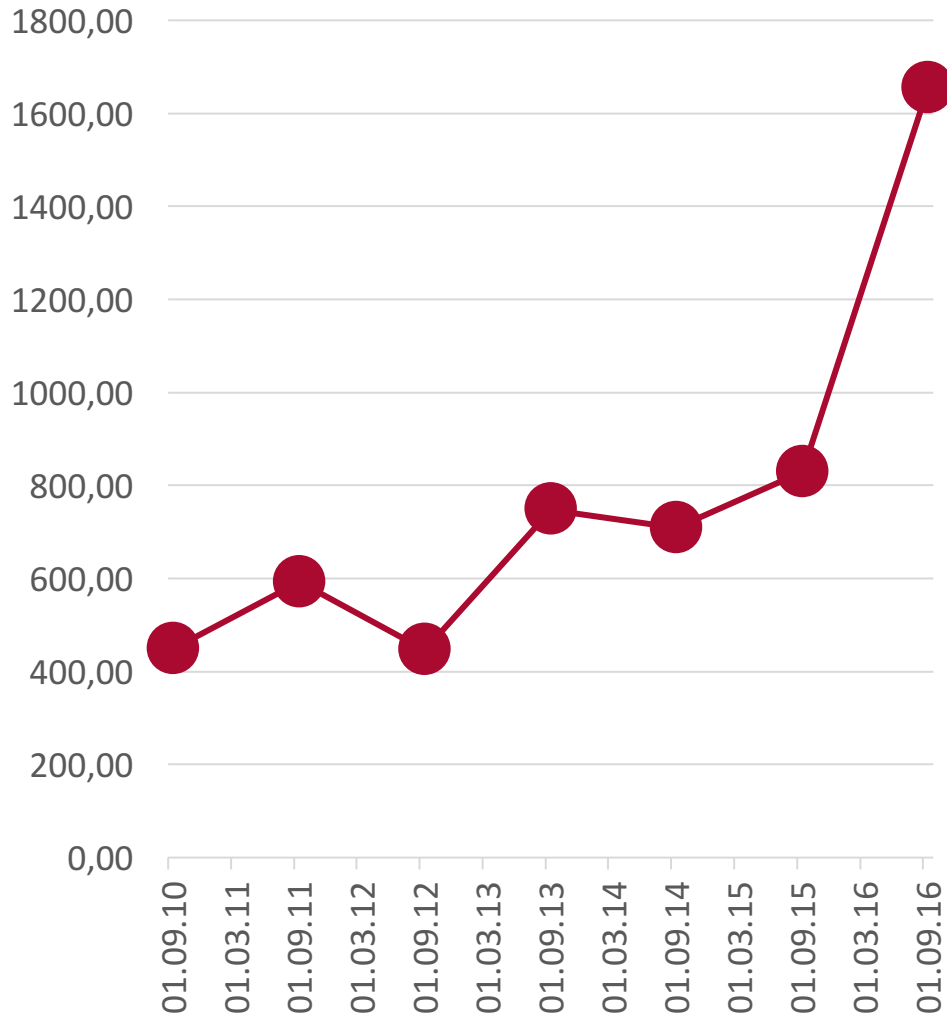
Average salary in 1999 Rubles



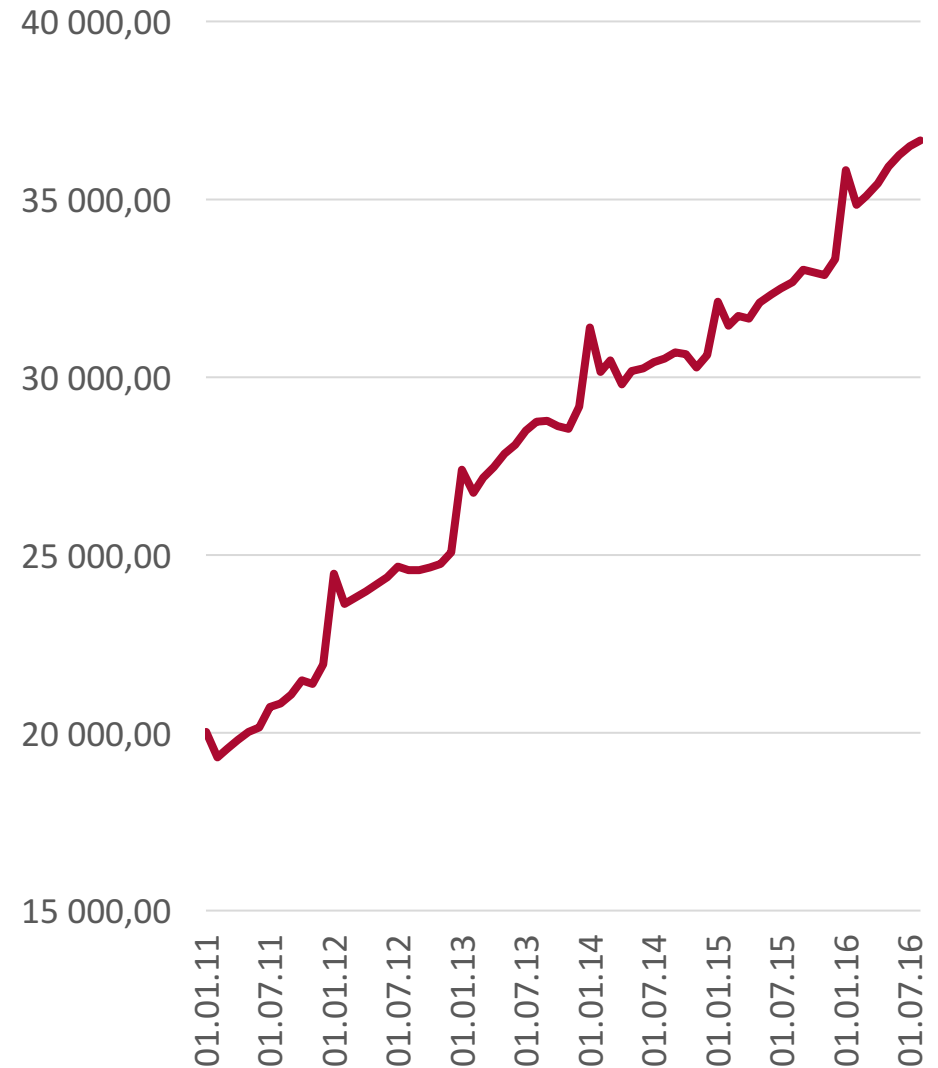
official inflation in Russia, %% ann

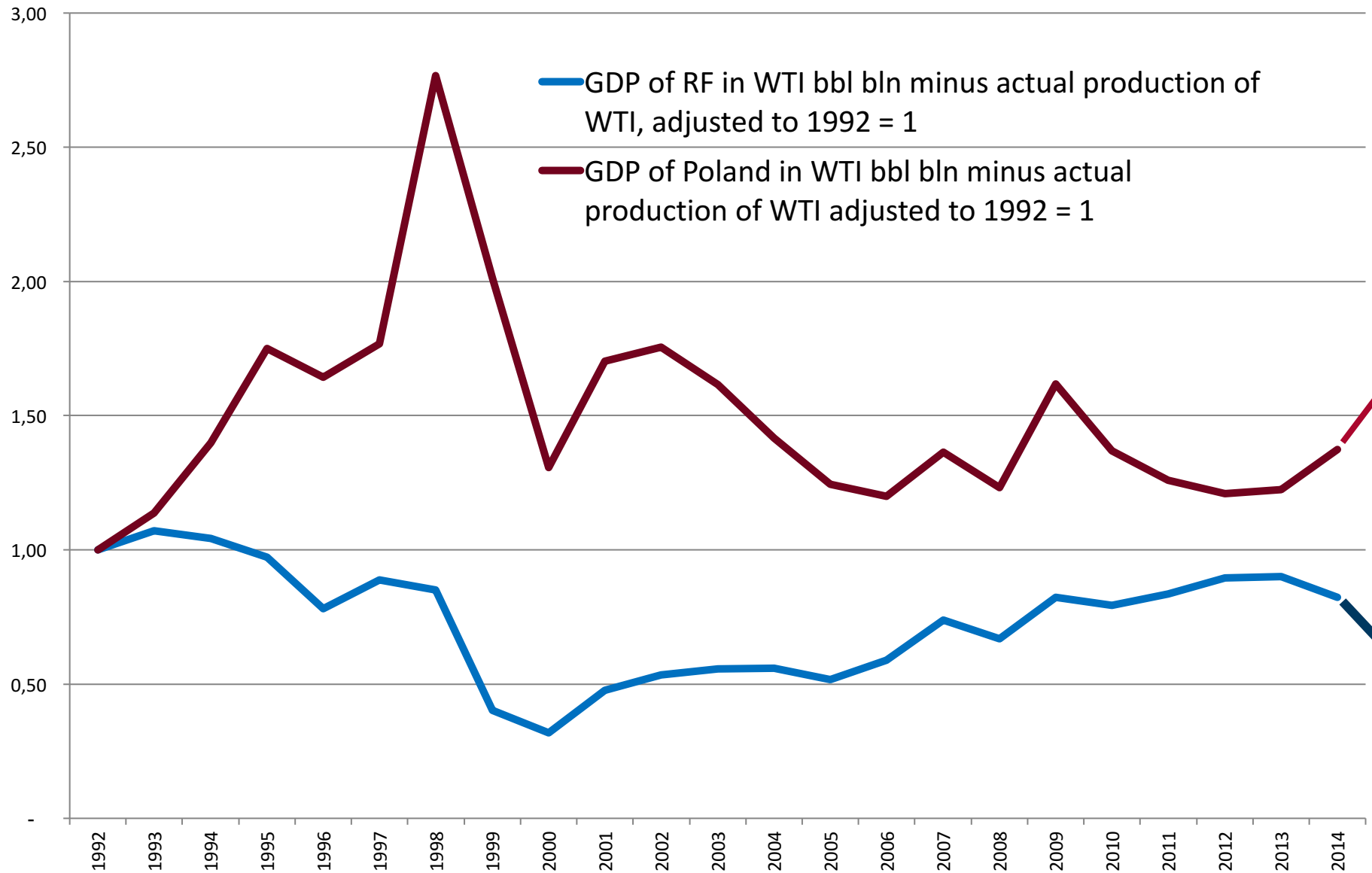


**Cash in the central bank, held by commercial banks, RUR bln**



**M2 in RUR billions**





- Russia is “an average performer” given its level of resources.
- Recent history made the demand for “reforms” hardly probable in the near future.
- Global political positioning of Russia and inefficiency of its internal institutions are the major obstacles to further development. Both are beneficial for the current regime, no changes foreseen.
- The economy is still strong enough to maintain the status quo for years. However all factors are negative.
- Major short-term threats: banking system; further oil shock; a major mistake.
- Not all effects of the oil prices drop are evident. construction is about to fall sharply; underinvestment effects will be seen in 5-7 years.
- We would expect a shift towards “Venezuelan” scenario in 10 years.



## Non-hydrocarbon driven growth and exports – birds' eye view:

- Substantial increase is hardly possible.
- Some areas will slowly grow in response to direct measures and substituting falling out imports. Some areas (like agriculture) will show short-term growth, following the decline due to import dependency and underinvestment.
- Economic rigidity makes further production costs decrease unlikely. Tax burden will slowly grow over time.
- Risks will grow, both political and practical.
- State guarantees become a requirement; though their quality will deteriorate.
- Nonetheless, the market will exist with 145 mio people consuming and certain levels of exports persisting.