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Russia: A Transition Success or Failure? Or Both?

(Introduction to panel discussion)

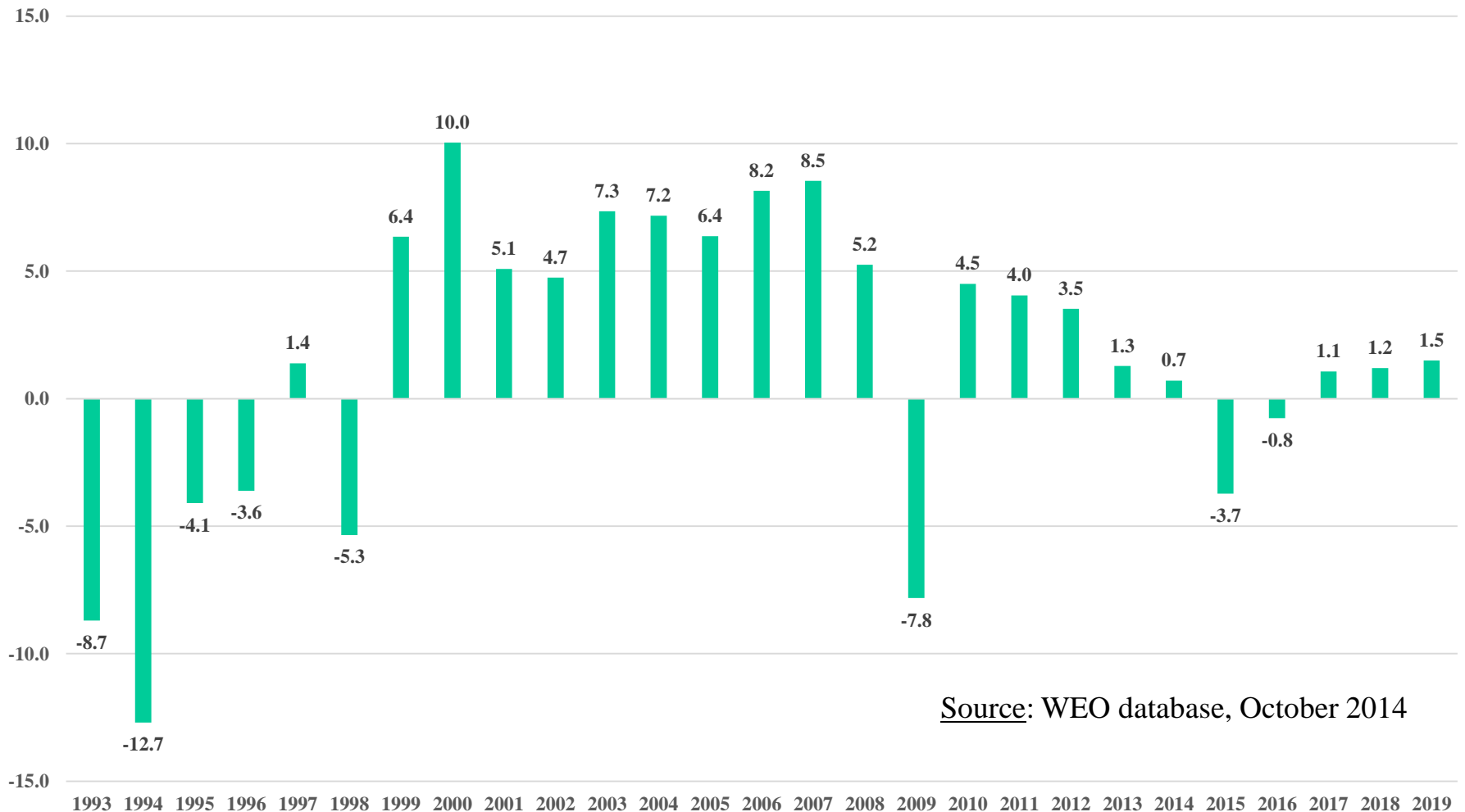
**Presentation at the CASE 25th Anniversary Conference on 'The Future of Europe',
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Is Russia a Transition Success?

- In 2003 the answer would be the qualified YES
- In 2016 – there is more doubts
- Three negative turning points:
 - 2003-2005 nationalization of Yukos
 - 2008-2009 global financial crisis and policy response to this crisis
 - 2014 annexation of Crimea and its consequences for political system, economic policy and external relations
- To be fair: reform stagnation or reversal is also observed in other CEE/FSU countries



Russia: annual change in real GDP, %, 1993-2019



Source: WEO database, October 2014



Macroeconomic fragility and its sources

- Psychological legacy of previous financial crises
- Higher inflation than in advanced and most EM economies
- High level of spontaneous dollarization
- Imperfect CB independence
- Limited trust to banks and other financial institutions
- Dependence on commodity prices
- Microeconomic and institutional factors



Major structural challenges:

- Energy/commodity monoculture: share of energy sector itself in GDP estimated between 10 and 30% of GDP (transfer pricing, structural factors) and over 60% of exports
- High energy intensity
- Insufficient progress in restructuring of manufacturing industries
- Underdevelopment of infrastructure
- Limited contribution of SME to GDP and employment (ca. 20%; comparing to ca. 50% in EU NMS)



Institutional challenges:

- Crawling renationalization
- Increasing restrictions to foreign investors
- Using trade policy as a geopolitical tool
- Administrative concentration of selected sectors
- Increasing administrative and political interference
- Centralization of government power
- Legal instability, weak protection of property rights, poor legal enforcement (weakness of civil service and judiciary) ⇒ expropriation risk
- Corruption, state capture, parasite behavior of law enforcement agencies
- Defense strategies of business: links to off-shores, capital flight



Heritage Foundation Economic Freedom Snapshot

- 2016 Economic Freedom Score: 50.6 (down 1.5 points)
- Economic Freedom Status: Mostly Unfree
- Global Ranking: 153rd
- Regional Ranking: 42nd in Europe
- Notable Successes: Fiscal Freedom
- Concerns: Rule of Law, Labor Freedom, and Investment Freedom
- Overall Score Change Since 2012: +0.1



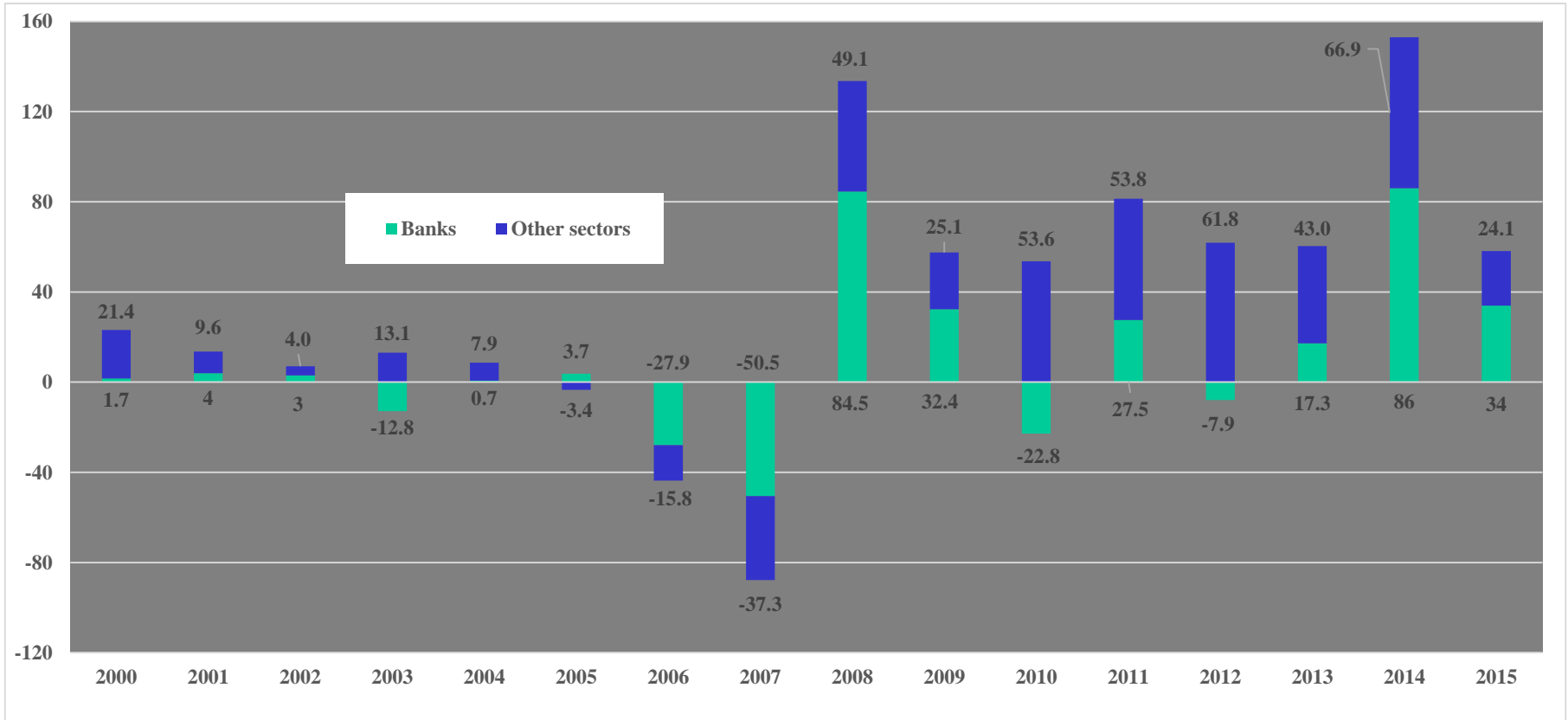
Transparency International Corruption Perception Index 2014, CIS region

Country Rank	Country	CPI 2014 Score
50	Georgia	52
94	Armenia	37
103	Moldova	35
119	Belarus	31
126	Azerbaijan	29
126	Kazakhstan	29
136	Kyrgyzstan	27
136	Russia	27
142	Ukraine	26
152	Tajikistan	23
166	Uzbekistan	18
169	Turkmenistan	17

Source: http://files.transparency.org/content/download/1857/12438/file/CPI2014_DataBundle.zip



Russia: net outflow of private capital in USD bn, 2000-2015 (CBR data)



НАЦИОНАЛЬНЫЙ ИССЛЕДОВАТЕЛЬСКИЙ
УНИВЕРСИТЕТ

Interrelation between economic and political freedoms in transition countries

