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# The Russian Economy Under Putin (So Far)

Russians are heading to the polling booths on March 18, but where will the economy head after Putin has been elected president again? This brief provides an overview of the economic progress Russia has made since 2000 as well as an economic scorecard of Putin's first three tenures in the Kremlin and uses this to discuss what can be expected for the coming six years. Although significant growth has been achieved since 2000, all of this came in the first two tenures of Putin in the Kremlin on the back of increasing oil prices. In order to generate growth in his upcoming presidential term, Putin and his team will need to address the significant needs for reforms in the institutions that form the basis for modern market economies. Otherwise, Russia will continue to be hostage to the whims of the international oil market and eventually lose most of its exports and government revenues as the world moves towards a carbon free future. Perhaps this is beyond the scope of Putin as president, but not beyond the horizon of young Russians that will be casting their votes on Sunday and in future elections.



Let's assume that Putin will be elected president again on March 18 (for once a very realistic assumption made by an economist). What will this mean for the Russian economy in the coming six years given what happened during his previous and current tenures in the Kremlin? To assess the future as well as to understand Putin's power and popularity, this brief starts by looking back at the economic developments in Russia since Putin first became president.

Although many different factors enter the power and popularity function of Putin, economic developments have a special role in providing the budget constrain within which the president can operate. A higher income level means more resources to devote to any particular sector, project, voting group or power base. This is not unique to Russia, but sometimes forgotten in discussions about Russia, that often instead only focus on military power or control of the security apparatus and media. These are of course highly relevant dimensions to understand power and popularity in Russia, but so is economic development, particularly in the longer run.

## Russia's economy in the world

The economic greatness and progress of a country is usually assessed in terms of the size of the economy, how much growth that has been generated, and how well off the citizens are relative to the citizens of other countries. So, by our common indicator gross domestic product (GDP), has Russia become a greater and more powerful country since Putin first became president? Table 1 shows two things, the absolute level of GDP measured in USD at market exchange rates and the rank this gives a country in a sample of 192 countries in the world that the IMF collects data on (this brief is too short for a long discussion of the most relevant GDP measure, but GDP at market exchange rates makes sense when comparing the economic strength of countries in a global context, Becker 2017 provides a discussion of alternative measures as well). When Putin become president for the first time in

2000, the value of domestic production was estimated at \$279 billion, which implied a 19th place in the world rankings of countries' GDP. In 2016, almost three presidential terms of Putin later, Russia's GDP had increased by 4½ times to \$1281 billion and its ranking improved to 12th place in the world. This clearly is an impressive record by most standards. However, the Russian economy is still the smallest economy of the BRIC countries and corresponds to only 7 percent of the US economy in 2016. In other words, impressive progress by Russia but the country is (still) not a global superpower in the economic arena.

*Table 1. Russia in the world (GDP in USD bn)*

	2000		2016	
	USD	Rank	USD	Rank
USA	10285	1	18569	1
Japan	4887	2	4939	3
Germany	1956	3	3467	4
China	1215	6	11218	2
Brazil	655	10	1799	9
India	477	13	2256	7
<b>Russia</b>	<b>279</b>	<b>19</b>	<b>1281</b>	<b>12</b>

Source: IMF (2017)

For the average Russian, income per capita is a measure more closely connected to consumption and investment opportunities or 'welfare'. Progress in this area is also more likely to affect how individuals assess the performance of its political leaders. Of course, progress in terms of overall GDP and GDP per capita is closely linked unless something unusual is happening to population growth. Therefore, it is not surprising that GDP per capita also increased by around 4½ times between 2000 and 2016 (Table 2). This is the first order effect of the economic development in Russia, but in addition, citizens of Russia moved up from a world income rank of 92nd to 71st. This has implications when Russian's compare themselves with other countries and can in itself provide a boost of national pride.

It also directly affects opportunities and status for Russians visiting other countries. Being at place 71



may not be fully satisfactory to many, but we should remember that due to the rather uneven income distribution in Russia, many of the people that travel abroad are far higher up on the global income ranking than what this table indicate. Nevertheless, Russia is far behind the Western and Asian high-income countries in terms of GDP per capita. And although the picture would look less severe if purchasing power parity measures are used, the basic message is the same; Russia has still a lot of catching up to do before its (average) citizens enjoy the economic standards of high-income countries.

Table 2. Russian's in the world (GDP/capita)

	2000		2016	
	USD	Rank	USD	Rank
Japan	38534	2	38917	22
USA	36433	5	57436	8
Germany	24009	18	41902	19
Brazil	3779	70	8727	72
<b>Russia</b>	<b>1906</b>	<b>92</b>	<b>8929</b>	<b>71</b>
China	959	123	8113	74
India	463	148	1723	145

Source: IMF (2017)

## The macro scorecard of Putin

So what generated the impressive 4½ times increase in income in USD terms from 2000 to 2016 and can we expect high growth during Putin's next six years in office? The short answer to the first question is the rise in international oil prices and to the second question, we don't know. Table 3 provides a comparison of different economic indicators for Putin's two first terms in office compared with his current term (where GDP data ends in 2016 so the sample is cut short by a year). It is evident that the impressive growth over the full period is entirely due to the strong growth performance in the first two presidential tenures. Rather than generating growth in the most recent period, the economy has shrunk. This is explained by the evolution of international oil prices, which quadrupled in the first eight years and instead halved in the more recent period. These swings in

oil prices have also been accompanied by significant shifts in foreign exchange reserves, the exchange rate, and the value of the stock market.

In Becker (2017) I discuss in more detail the importance of international oil prices in understanding the macro economic development in Russia. In particular, it is important to note that it is changes in oil prices that correlate with GDP growth and other macro variables and that the problems with predicting oil prices makes it very hard to make good predictions of Russian growth.

Table 3. A macro scorecard of Putin in office

	Putin I and II		Putin III	
	2000	2008	2012	2016
GDP/cap (USD)	1906	10885	14586	8929
GDP/cap (Real 2008 Ruble)	180814	299443	313479	301591
Real GDP growth (% per year)		7.5		-0.5
Oil price (Brent, USD/barrel)	24	104	110	55
Inflation (% year)		14		9
Exchange rate (RUB/USD)	25	24	30	61
International reserves (USD bn)	13	538	519	376
Stock market (RTS index)	180	2201	1489	1152

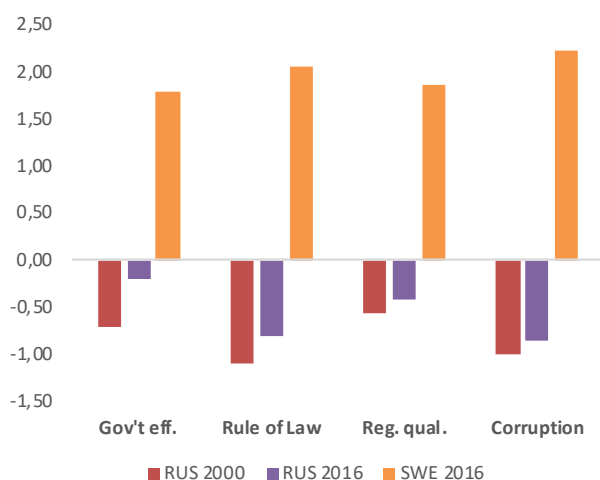
Source: Becker (forthcoming)

## Policy conclusions

To break the oil dependence and take control of the economic future of Russia, the president will need to implement serious institutional reforms that constitute the basis for a modern, well-functioning market economy in his next term. Otherwise, Russia will continue to be hostage to unpredictable swing in international oil prices and nobody—including the president, the central bank, the IMF and financial markets—will be able to predict where the Russian economy is heading in the next couple of years.



Figure 1. Reforms (still) needed



Source: World Bank (2017)

In the longer run, the prediction is much easier. With the world moving towards a green economy, the price of oil will see a structural decline that will rob Russia (and other oil exporters) of most of its export and government revenues. The reforms which basically every economist agree are needed are related to market institutions and Figure 1 provides a clear illustration of key reform areas. The progress during Putin's years in office has been modest at best. Swedish institutions in 2016 have been added to the figure as a comparison and it is clear that the institutional gap between Russia and Sweden is significant. Of course, all countries are different, but Russian policy makers that are interested in reforming its economy are most welcome to Sweden for a discussion of what we have done to build our institutions.

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