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## ECONOMIC CRISIS



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ANALYSIS

# Back to the Future: Economic Retrenchment in Russia

By Peter Rutland, Middletown, CT, USA

**Abstract:**
This article provides an overview of the economic situation in Russia at the beginning of 2016. While Russia is experiencing negative growth and faces numerous international difficulties, the problems are not likely to lead to political change in the country.

## A Shrinking Economy

As 2015 drew to a close, Vladimir Putin seemed to be riding high. His assertive foreign policy led to a surge in popular support at home and new attention from other leading powers. The Russian-backed insurgency in Ukraine plunged that country into chaos, casting doubt over plans for closer integration with European institutions. Putin's dispatch of the Russian military to Syria in September won Russia a seat at the table in New York on 18 December where the international community tried to come up with a common strategy to end the civil war and defeat ISIS.

However, these achievements may well be short-lived. It is not clear that the Russian military, while much improved, has the capacity to escalate its intervention in Ukraine and Syria should that be needed. Russia remains a lonely player on the international stage. Its closest allies—Belarus and Kazakhstan—were alarmed by the annexation of Crimea; while China's "One belt, one road" project is carving a swathe through Russia's traditional sphere of influence in Central Asia.

The main cloud on Russia's horizon, however, is the economy. Putin issued a stark warning to the Federal Assembly on 3 December 2015: "We must be ready that the period of low commodity prices and, possibly, external sanctions may stretch out for an extended period. If we change nothing, we will just eat through our reserves as economic growth hovers near the zero mark."[1]

This situation is strangely reminiscent of the trajectory of the former Soviet Union, which was able to challenge the United States in military power, but unable to provide Russian consumers with the food and consumer goods they wanted.

## Economics and Nationalism in Tension

For the most part, Putin has pursued neoliberal economic policies at home while at the same time burnishing his image as a strong nationalist who had restored Russia's prestige in the world. The Ukraine crisis of 2014 would push this awkward balancing act to breaking point.

After ascending to the presidency in 2000, Putin did not dismantle Boris Yeltsin's market reforms, since he understood that Russia would only survive and prosper if it embraced capitalism and integrated with the global economy. He took steps to prevent the oligarchs from interfering in the exercise of political power, and restored tighter state control over strategic sectors such as energy and military industry. But otherwise, the capitalist elite were encouraged to enrich themselves. On Putin's watch, the number of billionaires swelled from a dozen to a hundred.[2] Capital controls were lifted, the bulk of Russia's foreign debts were repaid, and the ruble became a fully convertible currency.

However, Russian nationalists such as Sergei Glaz'ev complain that international economic integration is eroding the political institutions and cultural norms that are central to Russian identity. Western affluence is corrupting the Russian elite and undermining its commitment to the country's development. Glaz'ev wants to erect barriers to Western economic influence, to invest the petrodollars in Russian manufacturing and infrastructure, and to create an alternate Eurasian trading bloc.

Cognizant of the challenge from the nationalist right, Putin has tried to break out of the U.S.-led global economic order by promoting alternative institutions, such as the BRICS alliance of emerging economies, and an economic union in post-Soviet Eurasia.

## The BRICS Project

The term "BRICs" was coined by Goldman Sachs economist Jim O'Neill in 2001 to describe the rising economies of Brazil, Russia, India and China (joined later by South Africa). In the 2000s the BRICS experienced rapid growth, riding the wave of deep globalization. Russian leaders enthusiastically seized on the notion that these countries, with a rapidly rising share of the global economy (30% by 2014, in PPP terms), would be able to counter U.S. hegemony and draw up new rules of the

1 <http://en.kremlin.ru/events/president/news/50864>

2 There were 89 billionaires in Russia in 2014, down from 117 the year before due to the sanctions, the oil price slump, and the depreciation of the ruble. "The World's Billionaires," *Forbes*, 15 March 2015. <http://www.forbes.com/billionaires/list/>

global economic game. A series of annual diplomatic summits were instituted, starting with one in Yekaterinburg, Russia in 2009. Unlike Russia, the other members of the group were less interested in picking a fight with the U.S., but did see areas of common interest. The other four BRICS abstained in the 27 March 2014 U.N, General Assembly resolution which condemned Russia's actions in Crimea. At that time Russia was expelled from the G8 group of industrial countries, which made its membership of the BRICS even more valuable.

Skeptics suggest that the disparate interests of the BRICS members (energy exporters vs. importers, democracies vs. autocracies) make it hard for them to come up with a common agenda. Advocates for BRICS argue that it can help the international community coordinate to promote stimulus packages (e.g. at the G20 summit in Pittsburgh in 2009) and avoid competitive devaluations.[3] Aleksei Mozhin, the Russian representative to the IMF, reports that since the 2009 G20 meeting the BRICS have engaged in "very intense" cooperation, caucusing in advance of IMF board meetings to develop common positions.[4] One of the main complaints is that the BRICS lack influence in institutions such as the IMF—where they held 11.5% of the voting quota. In 2010 they persuaded the U.S. to increase their share—but the U.S. Congress refused to ratify the changes, relenting only in December 2015.

The sixth BRICS summit in Fortaleza, Brazil in July 2014 agreed to create a New Development Bank (NDB—headquartered in Shanghai) and a Contingent Reserves Arrangement (CRA) for use in the event of financial crises—each with authorized capital of $100 billion.[5] In October 2014 China launched its own Asian Infrastructure Investment Bank (AIIB), with $100 billion capital. The U.S. boycotted the bank, but other developed economies were among the 57 nations that eagerly signed up. Together these new institutions will have greater lending capacity than the World Bank—and with fewer financial conditions attached. On the other hand, they may have strings of their own, such as mandating imports of equipment and even workers from China. China holds 26% of the votes in the AIIB, and most of its projects will likely serve Chinese interests—to secure the supply of resources in distant countries and to build infrastructure for their transport to China. These initiatives suggest that the BRICS have some real potential beyond just summit declarations. However, given Russia's ostensible goal of diversifying away from resource exports, it is not clear how much Russia stands to benefit economically from these BRICS initiatives.

At the BRICS summit in Ufa, Bashkortostan in July 2015 Russia persuaded the others to sign a resolution condemning "unilateral military interventions and economic sanctions,"[6] but in practice, China seems more interested in promoting the Shanghai Cooperation Organization as a vehicle for economic partnership.

There are several clouds on the BRICS horizon. With slowing growth in China, that country is importing less as growth shifts towards domestic consumption. This will be good for China but bad for the global economy, including Brazil and Russia, whose exports increasingly depend on the Chinese market. More broadly, there is a sense that the deep globalization of the 2000s (from which all the BRICS benefited) has been replaced by a period of retrenchment and regionalization—a world in which the globe-spanning BRICS make less sense. The BRICS countries have increasingly resorting to protectionist measures—including barriers against fellow-BRICS members.[7]

## Regional Integration in the Post-Soviet Space

The European Union is Russia's largest trading partner, but Russia's exports consist overwhelmingly of commodities—oil, gas, metals and chemicals. Putin wanted to boost the prospects for Russian manufacturing by promoting free trade amongst the post-soviet countries. A regional trading bloc under Russia's control would also have some strategic advantages, serving as an alternative to the European Union and affording a degree of insulation from the global economic institutions dominated by the U.S.[8] Putin redoubled these integration efforts in the wake of the 2008 financial crash, which saw sluggish growth in Europe.

Putin cajoled Belarus and Kazakhstan into joining the Eurasian Customs Union that was launched in 2010, which expanded into the Common Economic Space in 2012, and became the Eurasian Economic Union (EEU) in 2015. By 2014 Russia only accounted for 10% of Kazakhstan's trade, so President Nursultan Nazarbaev's motivation was largely political: to remain on good terms with Moscow. Belarus in contrast remains heavily dependent on Moscow: Russia still accounts for 45% of Belarus' trade. In 2014 Kyrgyzstan and Armenia

3 Oliver Stuenkel, *The BRICS and the Future of Global Order* (Lanham, MD: Lexington Books, 2015).

4 Remarks at the panel "BRICS 2.0," Russia Direct, Washington, DC, 12 November 2015.

5 <http://brics.itamaraty.gov.br/>

6 <www.en.brics2015.ru/documents>

7 Simon Evenett, *The BRICS Trade Strategy: Time for Rethink* (London: Global Trade Alert, 2015).

8 Mikhail Molchanov, "Russia's leadership of regional integration in Eurasia," ch. 7 in Stephen Kingah and Cinita Quilicone (eds.), *Global and Regional Leadership of BRICS Countries* (Springer 2016).

were arm-twisted into joining the EEU, but the organization's viability hinges on Kyiv's participation. Belarus, Kazakhstan, Armenia and Kyrgyzstan add just 15% to Russia's GDP (and 20% to its population). Ukraine would contribute another 10% to GDP and 30% to population.

This helps explain Putin's willingness to do everything in his power to prevent Ukraine from signing an Association Agreement with the EU in 2013—which would have prevented that country from joining the Russia-led EEU.

## The Ukraine Crisis

The ostensibly pro-Russia President Viktor Yanukovych, who came to power in 2010, dragged his feet over committing to the EEU, and instead negotiated an Association Agreement with the European Union. Russia insisted that the harmonization of standards and zero tariffs that the EU agreement entailed were incompatible with Ukraine's membership in its own customs union.

It is not clear whether Yanukovich ever seriously intended to sign the EU agreement, or was just using it as leverage to extract more financial concessions from Russia. Either way, at the eleventh hour, Yanukovich walked away from the deal with Brussels at the November 2013 Vilnius summit. Politics also played a role: the Ukrainian parliament refused to go along with Brussels' insistence that former prime minister Yulia Tymoshenko be released from prison. Moscow was jubilant: on 17 December 2013, Russia rewarded Yanukovych with a $15 billion loan and a cut in the price of natural gas from $400 to $268 per 1,000 cubic meters.

However, Yanukovych's decision to abandon the EU deal triggered street protests which culminated in the Euromaidan revolution in February 2014 and Yanukovych's flight from office. Putin retaliated by annexing Crimea and supporting separatists in Eastern Ukraine, triggering fighting that would kill over 9,000 people over the next two years. Russia suspended its loan, having disbursed just one $3 billion tranche, and Russia–Ukraine trade fell precipitously. The U.S., EU and several other countries imposed sanctions on Russian individuals and organizations involved in the annexation of Crimea.

Ukraine's new transitional government went ahead and signed the EU agreement on 27 June 2014, though they postponed implementation of the free trade agreement for a year, until January 2016. Russia immediately imposed higher tariffs on Ukrainian imports: Kazakhstan and Belarus declined to follow suit.[9]

In response to the shoot down of Malaysian Airlines MH17 on 17 July, on 30 July the EU and U.S, announced tough new sectoral sanctions against Russia, targeting oil and defense firms and bank transactions. Putin retaliated on 6 August by banning food imports from countries that had sanctioned Russia, and sent more military support to prevent the separatists in East Ukraine from being overrun. Putin and Ukrainian President Petro Poroshenko agreed the terms for a ceasefire in Minsk on 26 August 2014, but the fighting continued. Nevertheless, on 31 October 2014 Ukraine secured its winter gas supplies by agreeing to pay Russia $3 billion in arrears and a $1.5 billion prepayment for future gas supplies at $378/bcm. In November 2014 the Kyiv government stopped pension and welfare payments to the separatist regions (amounting to $2.6 billion a year. Russia started paying pensions in Crimea, but the residents of the separatist regions of Donetsk and Luhansk were out of luck).

A reaffirmation of the Minsk ceasefire in September 2015 finally saw an end to most of the fighting, although there was still no progress on implementing other terms of the deal, such as Kyiv granting autonomy to the separatist regions, or Russia allowing the Ukrainian government to regain control over the eastern border. Hence on 14 September 2015 the EU extended sanctions against 149 Russian individuals and 37 entities for an additional six months. The same month Ukraine managed to restructure $18 billion of international debts, with IMF assistance. Private lenders accepted a 20% haircut and linked repayments to future GDP growth, starting in 2021. (Ukraine's debt was selling at 75 cents on the dollar at the time.) Russia insisted on treating its $3 billion loan as sovereign debt, and refused to accept any reduction in the principal. In September the two sides did agree on a price for winter deliveries of gas ($230/bcm), though the next month all direct flights between the two countries were banned. But by the end of 2015, Russia accounted for just 12% of Ukraine's trade. In November Ukrainian and Tatar activists blew up power lines to Crimea, triggering extensive blackouts in Crimea. Moscow scrambled to lay undersea cables to replace some of the lost power. With Ukraine's free trade agreement with the EU entering force on 1 January 2016, Putin announced that Russia would suspend its free trade agreement with Ukraine, and tariffs averaging 6% would be imposed on Ukrainian imports.[10] Russia claimed that it was concerned about the re-export of goods imported from Europe.

9 Margarita Liutova, "Ukraina razdelila tamozhennyi soiuz," *Vedomosti*, 30 June 2015. <http://www.vedomosti.ru/newspaper/articles/2014/06/30/ukraina-razdelila-tamozhennyj-soyuz>

10 Vladimir Putin, Annual news conference, 17 December 2015. <http://en.kremlin.ru/events/president/news/50971>

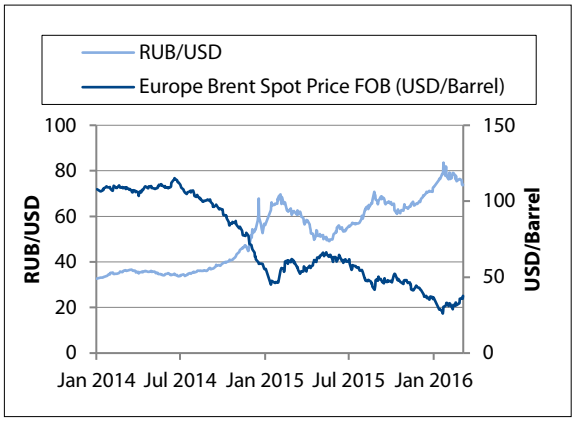
Meanwhile, Putin's intervention in Syria in September 2015 added an additional burden to the military budget, and soured relations with Turkey. After Turkey shot down a Russian bomber on 24 November an angry Putin announced sanctions on Turkey—a ban on charter flights and tour groups, an end to visa-free travel, and suspension of work on the Turkstream gas pipeline and Akkuyu nuclear reactor. Turkey was Russia's seventh largest trading partner, with $44 billion in turnover in 2014, and had not joined the sanctions regime against Russia. Turkey accounted for a large proportion of the fresh fruits imported into Russia in 2014—including grapes (48%), tomatoes (42%), citrus fruits (31%).[11] So any further deepening of sanctions on Turkish products would be a blow to Russian consumers.

## The Elusive Pursuit of Diversification

The key danger is Russia's heavy dependence on oil and gas exports, which account for 70% of exports and 50% of government revenues. Putin and Medvedev have tried to insulate Russia from the "Dutch disease" (an overvalued currency making Russian producers uncompetitive), by building up large reserve funds during the boom years and trying to prevent the over-valuation of the ruble. But they have little to show for their efforts to promote the modernization of the Russian economy through substantial investments in R&D.

The chronic problem of oil dependency has become more acute in the past two years. The global market is saturated with oil due to the shale gas/tight oil revolution in the United States and Saudi Arabia's determination to drive the price down and make those unconventional methods uncompetitive. After hitting a peak of $115 in June 2014, the oil price fell to an average of $38 in 2015. This caused the ruble to fall from 35 to the dollar in 2013 to 70 to the dollar in December 2015 (compared to an average of 26/$ over the past two decades) and 77 to the dollar in January 2016. This cost Russia $125 billion in lost revenues in the course of 2015, leading in turn to a contraction in imports and a slump in government revenues. In the first 10 months of 2015 imports were 38% down on the same period in 2014, and exports 34% down.[12]

*Figure 1: Brent Oil Price in Dollars Per Barrel and the Ruble/Dollar Exchange Rate 1 January 2014–7 March 2016*




*Sources: Central Bank of the Russian Federation* <http://www.cbr.ru/currency_base/dynamics.aspx> *for exchange rate;* <http://www.eia.gov/dnav/pet/hist_xls/RBRTEd.xls>*; web site:* <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RBRTE&f=D> *for oil price; accessed 15 March 2016*

The falling oil price was compounded by the economic fall-out from Putin's intervention in Crimea. Western countries imposed sanctions on selected Russian individuals and firms involved in Crimea in March 2014, and these were expanded in July to include sectoral sanctions on bank transactions and oil and gas technology imports.

Analysts disagree over how much impact the sanctions are having, with some arguing that the impact of falling oil prices and a depreciating ruble swamp the sanctions effect. The sanctions forced the suspension of offshore Artic oil projects by ExxonMobil (with Rosneft), Shell (with Gazprom Neft), and Total (with Lukoil). These projects might have been cancelled anyway due to the low oil price – witness Putin's surprise decision to abandon the South Stream gas pipeline across the Black Sea in December 2014.

## Austerity Economics Comes to Russia

The government deficit was 1.3% in the first 11 months of 2015 and is expected to run at 3–5% of GDP in 2016. The 2016 budget initially assumed an oil price of $50 a barrel, though by January 2016 Brent crude was trading at $30 and Urals blend at $27.13 ($82 would be required for the government budget to break even). Gazprom's average export price in 2015 was $252 per 1000 cubic meters, down from $352 in 2014.[14] The Ministry of Economics revised the 2016 projection to $40, and projected GDP growth of 0.7% in 2016 was revised to an 0.8% decline. Given the uncertainty over the oil price, in January finance minister Anatoly Siluanov announced that the 2016 budget will be revisited in April. A government

11 Regnum.ru, 27 November 2015. <http://regnum.ru/news/economy/2022552.html>

12 <http://www.gks.ru/bgd/free/b04_03/IssWWW.exe/Stg/d06/260.htm>

13 Aleksandra Prokopenko, "Rossiiane budut bednet' bystree," *Vedomosti*, 15 January 2016. <http://www.vedomosti.ru/economics/articles/2016/01/15/624101-rossiyu-zhdet-esche-god-retsessii>

14 Sergei Minaev, "Neft'; podskachala," *Kommersant*, 21 December 2015. <http://kommersant.ru/doc/2877403>

meeting on 21–24 December asked ministers to begin drawing up across-the-board spending cuts of 10%, with exemptions for wages, pensions, and military spending.

In contrast to the 2008 crisis, this time around the government has been unable to shield the Russian public from the impact of the economic turbulence. GDP fell by 3.8% in 2015 and few analysts expected growth of more than 1–2% in 2016.[15] Living standards fell 9% in 2015—the first time that real incomes have fallen since Putin took office in 1999.[16] Despite the negative growth, inflation ran at 15.5% in 2015 (up from 11.4% in 2014 and 6.5% in 2013). This despite the Central Bank sticking to a tight monetary policy, with the refinance rate pushed to 17% in November 2014, in an effort to stabilize the ruble (falling to 14% in March 2015). 22 million people (15% of the population) were below the poverty line by the end of 2015, with 2.8 million added in 2015.[17] In response to the pressures of the 2008 crisis, social spending as a share of the budget went from 9.1% of GDP in 2008 to 14.3% in 2015.[18] But the government no longer has the financial cushion to maintain that social safety net.

Despite these bleak results, at the June 2015 St. Petersburg Economic forum most government officials were avoiding talk of crisis, instead emphasizing that Russia was following its own "special path."[19] In December 2015 Leonid Grigoriev, head of the government's Analytical Center, went on TV to reassure the Russian public that the global oil price will bounce back to $80 in 2016, and urged "patience." [20] In contrast finance minister Siluanov, speaking at the Gaidar Forum, warned of the potential for a catastrophic financial collapse on the scale of 1998;[21] while Sberbank head German Gref warned that "the oil century is at an end" and "all state institutions have to be reformed."[22] Notwithstanding the "anti-crisis plan" launched in January 2015, Dmitrii Butin argues that the government really has no plan to deal with the current crisis, and has exhibited "strange passivity," with the liberal-inclined bloc of economics ministers resisting calls for deficit spending.[23]

The potential silver living to this particular cloud is that with the ruble at 70/$, Russian manufacturing and farming may be able to compete with Western imports. The government has been making some serious efforts to promote re-industrialization and reduce Russia's dependence on imports. Government directive no. 98 of 27 January 2015 made import substitution a top priority, and on 31 March 2015 the Ministry of Industry and Trade published 18 import-substitution projects. Imports fell as a proportion of domestic spending from 26% 3/2013 to 19% in the third quarter of 2015. According to a new report from the Higher School of Economics, Russia did see some improvement in non-oil exports in the 2000s, rising from $10 billion to $50 billion 2000–2013, but they fell back to $30 billion in 2015.[24]

However, with stagnation in global markets, and continuing political uncertainties surrounding Russian sanctions, this is not a good time for entrepreneurs to be investing in new capacity. Despite the stimulus effect of the food counter-sanctions, by the end of 2015 agricultural output rose just 3.5%. Food production cannot be turned around overnight. Farmers were afraid of investing in new capacity in light of the fact that that the sanctions could be lifted at any moment, leading to a return of imported produce. In the short run, the decrease in food imports from the EU was partly offset by imports from Latin America, Turkey, Iran and China. There were also reports of European foodstuffs transiting Belarus and being relabeled for sale to Russia.

Russia's competiveness has been harmed by rising real wages, and a shortage of skilled workers. Manufacturing wage costs per hour (controlling for productivity) rose from an estimated $5 in 2000 to $11 in 2015—50% of the US level, but above Mexico ($9.33) or Taiwan ($8.45).[25]

## Conclusion

Despite these mounting economic problems, it would be a reckless analyst who would suggest that they will lead to any significant political changes. The political

15 Ol'ga Kuvshinova, "Rossiiskaia ekonomika iz retsessiia vozvrashchaetsia v zastoi," *VedomostiI*,24 December 2015. <http://www.vedomosti.ru/economics/articles/2015/12/24/622381-rossiiskaya-ekonomika-vozvraschaetsya-v-zastoi>

16 Economics Minister Aleksei Ulyukaev, cited in *Kommersant*, 29 December 2015. <http://kommersant.ru/doc/2887949>

17 Kuvshinova, *op. cit.*

18 Andrei Sinitsyn, "Modernizatsia—ot zabora i do obeda," *Vedomosti*, 13 January 2016.

19 Grigorii Yavlinskii, "Reforma nevypolnyma," *Vedomosti*, 29 November 2015.

20 Leonid Grigoriev, ORT, 30 December 2015. <http://ac.gov.ru/commentary/07459.html>

21 Aleksandra Prokopova, "Minfin i Minekonravitiia ishchut sposobu kak perezhit' 2016 god," *Vedomosti*, 13 January 2016. <http://www.vedomosti.ru/economics/articles/2016/01/14/623922-minfin-minekonomrazvitiya-ischut-sposobi-kak-perezhit-2016-god>

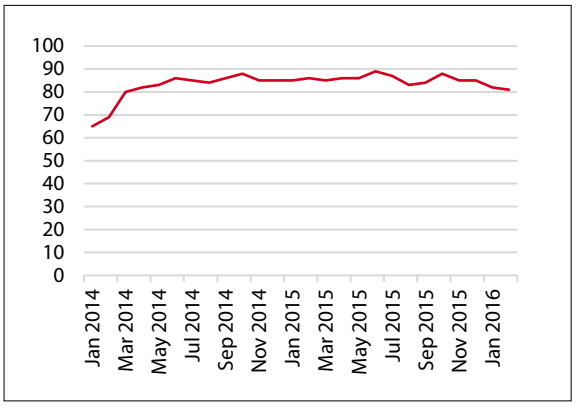
22 Sergei Smirnov, "Rossia—proigravshaia strana," *Vedomosti*, 14 January 2016 <http://www.vedomosti.ru/economics/articles/2016/01/15/624167-gref-rossiya>

23 Dmitrii Butin, "Spokoistvo po bednosti," *Kommersant*, 25 December 2015. <http://kommersant.ru/doc/2884746>

24 Aleksei Shapovalov, "Ni eksport, ni import," *Kommersant*, 15 January 2016. <http://kommersant.ru/doc/2891421>

25 Kathy Chu, "As China's workforce dwindles," *Wall Street Journal*, 23 November 2015.

*Figure 2: Putin's Approval Rating (Answer "I Approve" to the Question "Do You Approve of the Work of Vladimir Putin as President?"), January 2014–February 2016*




*Source: representative opinion polls by Levada Center January 2014 – February 2016,* <http://www.levada.ru/indikatory/odobrenie-organov-vlasti/>, *accessed 16 March 2016*

system that Putin has engineered seems capable of riding out the storm.

Putin's approval rating jumped from 69% to 81% a month after the annexation of Crimea. The imposition of Western sanctions and Russian counter-sanctions did not dent his popularity—on the contrary, his approval rating rose to 88% by October 2014.[26] This was helped by the fact that most Russians apparently believe that the food embargo was imposed by the Western powers, not by Putin. But no one can say whether the popularity boost that Putin enjoyed after the annexation of Crimea can be sustained in the face of protracted economic hardship.

*About the Author*

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26 Levada Center. <http://www.levada.ru/old/26-03-2014/martovskie-reitingi-odobreniya-i-doveriya>

ANALYSIS

# Will Putin Survive 2016? Oil Price Collapse and Russia's Stability

By Jeronim Perović, Zurich

## Abstract

2016 will be a difficult year for Russia. The low oil prices have torn a hole in the state's finances. Not just the energy sector, but many industrial enterprises in related sectors, too, are suffering from the turbulence in the world oil market. The Russian economy remains dependent on commodity exports, and will now have to pay the price of failing to diversify more intensively during the period of surplus. The crisis has already noticeably impacted the population's standard of living. The distribution of earnings from the oil industry remains a key instrument for the Kremlin leadership in ensuring the continuing loyalty of the elite. But petrodollars are now going to be in short supply. Is the "Putin system" starting to falter?

## Oil Addiction

As recently as December last year, in his State of the Union Address, Russian President Vladimir Putin said that the peak of the recession had now passed, and the country's GDP, which, according to official statistics, contracted by 3.7 percent in 2015, would return to moderate growth in 2016.[1] As the main reason for the cri-

1 This is a revised and extended version of an essay published originally in German language in the online-journal *Geschichte der Gegenwart*, 1 March 2016, <http://geschichtedergegenwart.ch/wird-putin-das-jahr-2016-ueberleben/> (accessed 1 March 2016).

sis, Putin cited the low oil price on the world market and Russia's credit institutions' difficulties in refinancing their operations with international capital because of Western sanctions.[2]

At the time of Putin's address, the price of a barrel of petroleum was slightly over US$40, which was still US$70 less than one-and-a-half years before. But the situation became even worse: at the beginning of 2016, the price again slumped drastically, and in January 2016 the oil price at times fell to less than US$30. Suddenly, the prospects were less rosy, and the Russian leadership stopped trying to gloss over the situation: "If oil prices fall any further, then the budget's parameters will have to be adjusted", Prime Minister Dmitry Medvedev said at an economic forum in Moscow in mid-January. "We have to understand this and prepare for the worst-case scenario".[3]

Medvedev did not describe what that "worst-case scenario" might look like. But Russia is clearly readying itself for a long period of crisis. If the analysts' forecasts are correct, oil prices will remain low for months to come, maybe even years. And there is a considerable risk that the whole Russian economy will be dragged down as a result. This is because Russia has recently become not just dependent on oil, but addicted to it. Admittedly, the oil and gas sector contributes only one-quarter of GDP, with exports of fossil fuels accounting for just under 15 percent. But those who argue on this basis that the Russian economy is on a firm footing overlook the fact that other sectors of the economy are also directly or indirectly dependent on the oil and gas sector.

According to economic expert Andrey Movchan from the Carnegie Moscow Center, in an analysis published in September 2015, this dependency extends to more than two-thirds of GDP: Over half of Russia's government expenditure, which contributes 20 percent to GDP, is being funded from a range of direct and indirect taxes on the petroleum and natural gas sectors. Russia imports some 60 percent of its consumption, and carries out these purchase transactions mainly with funds from commodity exports. And the petrodollars earned abroad also flow back into the Russian economy in the form of capital investment and consumption. Accordingly, the impact of any change in the world market price for oil radiates out to far-flung areas of the economy.[4]

## The "Putin System"

Russia's political leaders are, of course, well aware of the dangers of their country's dependence on commodities. Already in his first State of the Union Address in 2001, Putin warned that "if we do not start taking action today, including by carrying out structural reforms, we could end up going into a lengthy period of economic stagnation tomorrow". And he added: "Our economy is still based primarily on natural resources rather than on manufacturing. (…) [O]ur economy is not modernising (…) and is even coming to rely even more on raw materials exports, and thus is even more dependent on cyclical factors".[5] These and other similar exhortations towards increased diversification have subsequently become something of a litany in many of Putin's addresses and annual messages. So why has diversification not been achieved?

The short answer is that the political leadership has at no time taken any serious steps in this direction. Instead of tackling structural reforms, the state has effectively continued to subsidise entire sectors of the domestic economy over a period of many years by means of low taxes, low energy prices and social welfare benefits, presumably partly with the aim of retaining popular support and warding off the possibility of social protest. A stream of roubles has also flowed into costly prestige projects such as the Winter Olympics in Sochi, or disappeared *en route* into the pockets of corrupt politicians and officials. But above all, over the last few years, Russia has invested enormous amounts in modernising the armed forces, thereby depriving other sectors of the economy of important capital investments. Russia spent a total of US$54.1 billion on defence in 2015, which in nominal terms is around three times more than in 2007.[6] The country's defence spending now represents around 4.5 percent of GDP, but if all categories regarding national defence and expenditures for

2 Vladimir Putin, "Presidential Address to the Federal Assembly", Moscow, Kremlin, 3 December 2015, <http://en.kremlin.ru/events/president/news/50864> (accessed 22 February 2016).

3 Medvedev quoted from: "Russia Set for Grim 2016 Due to Plunging Oil Prices", *The Independent*, 15 January 2016, <http://www.independent.co.uk/news/world/europe/russia-set-for-grim-2016-due-to-plunging-oil-prices-a6814066.html> (accessed 22 February 2016).

4 Andrey Movchan, "Just an Oil Company? The True Extent of Russia's Dependency on Oil and Gas", *Carnegie.ru Commentary*, 14 September 2015, <http://carnegieendowment.org/2015/09/14/just-oil-company-true-extent-of-russia-s-dependency-on-oil-and-gas/ihtg> (accessed 22 February 2016).

5 Vladimir Putin, "Annual Address to the Federal Assembly of the Russian Federation", Moscow, Kremlin, 3 April 2001, <http://www.themoscowtimes.com/sitemap/free/2001/4/article/putin-delivers-annual-state-of-the-union-address/254222.html> (accessed 22 February 2016).

6 Kalyeena Makortoff, "Russia Defense Spending Hits 10-Year High", *CNBC.com*, 16 December 2015, <http://www.cnbc.com/2015/12/16/russia-defense-spending-hits-10-year-high.html> (accessed 22 February 2016).

security are added, the figure amounts to well over 20 percent, according to Julian Cooper, a specialist on the Russian economy.[7]

Russia's behavior is not untypical of commodity-exporting nations. But to understand why the Russian leadership is most unlikely to adopt a sudden change of economic course, it is essential to understand the "Putin system", as it has developed over the last 15 years. One of the main reasons for Putin's consolidation of power lies in the fact that, after the partly chaotic privatisation of the 1990s, the Russian state succeeded in rapidly regaining control of the oil and gas sector, the only genuinely profitable sector of the economy from the Soviet period. In so doing, the state did not necessarily have to itself acquire ownership of the enterprises in question. It was merely a matter of setting up state-controlled enterprises in each sector (so called "national champions", that is, Gazprom in the gas sector, Rosneft in the petroleum sector) that would be responsible for most of the country's production. Via the country's vast pipeline system, also owned by state companies (again, Gazprom in the natural gas sector and Transneft in the oil sector), the state controls companies' access to the transport grid. And, finally, it is the state that issues concessions for the extraction of resources, and can withdraw them if it wishes to do so.

If it is indeed the case that oil and gas enterprises generate 97.7 percent of the income of the 500 largest Russian companies, as recently rated by the "RBK" multimedia holding company, then political power in Russia is concentrated in the hands of those who control oil and gas.[8] And the overall rents across the entire petroleum and natural gas sectors (defined as the revenue from resource sales minus production costs) in recent years have been enormous: according to calculations by the US economists Clifford G. Gaddy and Barry W. Ickes, in 2008, when oil was for a time trading on the world market at more than US$130 a barrel, Russian energy enterprises were generating rents of an unprecedented US$650 billion.[9]

From this perspective, Russia can legitimately be viewed as a colossal energy enterprise, with Putin as its CEO. This enterprise has already incurred enormous losses from the combined impact of Western sanctions and low oil prices. In 2015, Russia earned 42 percent less from oil exports than in the previous year, in spite of boosting production.[10] The level of the total potential losses, if oil prices stay low and sanctions remain in place, cannot be estimated with any certainty. A sombre forecast was recently formulated by the economists Evsei Gurvich and Il'ia Prilepskii in the daily newspaper *Vedomosti* of 5 February 2016. They calculate that, in the years 2014–17, Russia will earn US$400 billion less if the average price per barrel is US$50 rather than US$100. They put the cost of Western sanctions over the same period at US$170 billion.[11]

## Low Oil Prices as an Opportunity?

If a business enterprise is operating at a loss, the management has to change course, or the manager is fired. In Russia's case, both of these scenarios are unlikely.

In his State of the Union Address in December 2015, Putin expressed the view that low oil prices would actually be a welcome opportunity to reduce the country's dependence on raw materials, by boosting sectors such as high technology and small and medium-size enterprises (SMEs). Stimulating the development of SMEs would indeed be crucial for diversification, since, at present, such businesses represent only 20 percent of GDP—far behind their contribution in Western countries, where their share is well over 50 percent.

However, that path is not without its trials and tribulations. In order to release the latent potential slumbering within Russian society, it would be necessary to significantly increase the level of legal security and take more vigorous measures against corruption, and also to provide the required funds. But the real problem with genuine diversification lies in the fact that, in the "Putin system", in its present form, there seems to be no place for a vigorous, flourishing sector of SMEs. If the overriding priority is to maintain a system that equates political power with control over the economy, then the state has no real interest in promoting a sector whose heterogenous structure makes it inherently

7 Julian Cooper, "Russian Military Expenditure, 2014, 2015 and 2016 Federal Budget", Research Note, February 2016, <http://www.sipri.org/research/armaments/milex/publications/unpubl_milex/russian-military-expenditure-2014-2015-and-2016-federal-budget-a-research-note-research-note-10-february-2016> (accessed 22 February 2016).

8 The ratings can be viewed at: (<http://www.rbc.ru/rbc500/>). See also: Mikhail Krutikhin, "Grab and Share: New Tax Proposals for Russia's Oil Industry", *Carnegie.ru Commentary*, 15 October 2015, <http://carnegie.ru/publications/?fa=61623> (accessed 22 February 2016).

9 Clifford G. Gaddy and Barry W. Ickes, "Russia's Dependence on Resources", in: Michael Alexeev and Shlomo Weber (eds.), *The Oxford Handbook of the Russian Economy* (Oxford: Oxford University Press, 2013), 309–349, at 315.

10 "Dokhody RF ot eksporta nefti v 2015 gody snizilis' na 41,8%", *Tass*, 5 February 2016, <http://tass.ru/ekonomika/2643763> (accessed 22 February 2016).

11 Ol'ga Kuvshinova, "Ekonomika Rossii lishilas' 8,4% rosta", *Vedomosti*, 5 February 2016, <https://www.vedomosti.ru/economics/articles/2016/02/05/626922-ekonomika-lishilas> (accessed 22 February 2016).

more difficult to control than a few dozen large enterprises and oligarchs. In any event, it is easier to cater to the interests of a few large businesses in order to ensure their ongoing loyalty to the state.

## "Refrigerator or Television"

Russia is not facing immediate bankruptcy. Thanks to resources accumulated in recent years in the form of a petroleum fund of billions of dollars and large foreign currency reserves, the state can survive for some time yet. Still the crisis has long since begun to impact on people's lives. Shops are closing every day, and employees are losing their jobs. The number of Russians living below the poverty line is rising. At the beginning of 2016, the political leadership decided to cut state expenditure by 10 percent, while undertaking to leave pension payments and salaries of state public servants and soldiers unchanged.[12] In spite of the crisis, the popularity of the Russian president remains at a historical high, and there are no mass protests against the government. How can this be explained?

The current relatively high threshold for public protest in Russia is not merely attributable to fears of harsh reprisals by the security forces. Protest is also made less likely by the widespread perception that the state does in fact have a central role to play within society. This is why voters have repeatedly given their support to Putin and the United Russia party closely associated with him. It is for this reason, and not just because of state repression and the manipulation of elections, that opposition parties have virtually no chance of success. The unmitigated disaster of the 1990s reforms, which for many people led to a loss of social status and impoverishment, remains an ever-present memory. The population has no wish to repeat that experience, even at the cost of some curbs to their personal freedom. To many people, Putin embodies state power and stands as a guarantee of stability. Unlike the officials in the state bureaucracy, he is widely seen as incorruptible and competent, as someone who truly cares about the country's and the people's welfare. In spite of the crisis, many simply see no alternative to Putin.

Most people are happy to ignore the fact that Russia's economic recovery started after the collapse of the rouble in 1998, that is, before Putin took office as President in 2000. It was the energetic measures taken against inflation, the creation of the minimum conditions for the emergence of a market economy and the devaluation of the rouble that laid the foundations for the growth that then ensued. Putin was able to ride the wave of those favourable developments, and also had the good fortune of such steep rises in oil prices on the world market in the early 2000s, particularly after the US invasion of Iraq from the end of 2003, that the state again had enough money in its coffers to start paying teachers' salaries, and to make some progress towards improving the parlous state of the country's infrastructure.

This did not stop Russian state propaganda from creating the myth of Putin as "Russia's saviour", and the perception of a "humiliated" Russia that had regained its self-respect thanks to Putin's strong leadership, and was again resolutely asserting "legitimate" national interests in the world, whether this involved protecting supposedly threatened Russians living in neighbouring states, or stemming an eastward expansion of NATO and the EU, or the global advance of American "imperialism". If the population was won over by this narrative, this was not just because of the manipulative effect of the propaganda, but also because these views did indeed strike a nerve in many people, and they bought into the narrative out of genuine conviction.

So it would appear, as a Russian expression has it, that, for the moment, "the television won against the refrigerator".[13] In other words, state propaganda disseminated on television still outweighs people's fear of the crisis or anxieties regarding the falling material standard of living.

## Tightening the Screws at Home, Aggressive Attitude Towards the Outside

If the economic decline continues, however, the possibility of growing discontent among the population and an increase in protest actions cannot be excluded. These would initially be relatively localised and limited in scope, as in the case of the truck drivers' protest over a new toll in December 2015. However, even in Russia, it is quite possible for the masses to become mobilised, as shown by the large anti-government demonstrations in Moscow and other Russian cities in 2011 and 2012, when suspected electoral fraud brought people out onto the streets.

Even if the television is mightier than the refrigerator, Russia's leadership is arming itself for all contingencies—because it did not require the Maidan revolution in Ukraine to make the Kremlin leadership aware that crises always have the potential to spawn social unrest, and sometimes develop their own momentum, with

12 Kathrin Hille, "Russia to Cut Expenditure by 10%", *The Financial Times*, 12 January 2016, <http://www.ft.com/intl/cms/s/0/e16a0118-b940-11e5-b151-8e15c9a029fb.html#axzz40uWoUcjT> (accessed 22 February 2016).

13 Andrei Kolesnikov, "Igra v 'zamri'", *Gazeta.ru*, 13 October 2015, <http://www.gazeta.ru/comments/column/kolesnikov/7817777.shtml> (accessed 22 February 2016).

unpredictable consequences. Accordingly, state propaganda has become ever more martial in tone, constantly reminding citizens to refrain from any rash attempts to overturn the status quo, since, ultimately this only leads to chaos and civil war, as demonstrated by the events in Ukraine, Libya, Iraq and Syria. The government has also further toughened its already strict legislation on demonstrations. Security forces are now even permitted to shoot into crowds at their own discretion, even if women and children are present.

It would almost seem that the regime is more afraid of its own people than a collapse of the rouble, low oil prices or Western sanctions. Accordingly, the ruling United Russia party has already issued strict instructions to its candidates on what to say on specific topics during the campaign for the Parliamentary elections that are not scheduled to take place until September 2016. In particular, candidates are to constantly remind voters that Russia can prosper only under Putin.

And in the meantime, to ward off any impression that the President is not doing anything about the abuses being committed, a few "fall guys" have already been sacrificed to the cause. For example, Vladimir Yakunin, a former close associate of Putin who already in August 2015 resigned from his position at the head of the powerful Russian Railways, probably at the behest of the Kremlin, is now under criminal investigation for suspected corruption. This is an attempt by the Kremlin to signal that no one is beyond being called to account by state authority. Furthermore, the identification of individuals guilty of offences is an attempt by Putin to divert attention from failures of his own policies. If the crisis continues, more heads can be expected to roll.

A tougher stance domestically goes hand in hand with an ever more aggressive attitude towards the outside world. When Medvedev talks of a "new Cold War" and even a "world war", as he did in mid-February 2016 at the 52nd Munich Security Conference, these words are aimed not only at the West, but also at the audience at home. With constant reports in the media on conflicts, violence and the heroic deeds of the Russian military, the state leadership is readying the population for war, but at the same time deliberately kindling a fear of war, designed to mobilise Russian society and secure its support.

## Russia is not the Soviet Union

Some observers might view the present situation with a sense of *déjà vu*. The Soviet economy, too, fell into a dangerous slump when the oil price collapsed in the mid-1980s. The country was simultaneously involved in a costly arms race with the USA, and conducting a war in Afghanistan in which it was incurring heavy losses. This analogy is only partially valid, however. This is because Russia today is much more closely integrated into the world economy than the Soviet Union ever was, and is therefore more exposed to fluctuations in the international economy. It is quite true that, at the beginning of the 1980s, when the oil price had reached a historic high following the Islamic revolution in Iran, over 80 percent of the Soviet Union's foreign currency earnings were from the sale of oil and gas. However, a financial windfall of this magnitude was a relatively new phenomenon for the Soviet Union and, in addition, the Soviet oil and gas sector never reached the same large significance for the economy that it has now for Russia. The collapse in oil prices may have accelerated the demise of the Soviet Union, but did not cause it.

Since Russia's economy is closely integrated in the global economy, and is therefore dependent on good trading relationships and properly functioning markets, calls for Russia to become self-sufficient, or to uncouple itself from the world economy, as proposed for example by the leading economist and Putin adviser Sergei Glaz'ev, are just as unrealistic as the idea that Russia could replace Europe, as by far its most significant customers for raw materials, with the Asian market, and divert its petroleum and natural gas flows from West to East. Such views form part of the anti-West rhetoric that is currently poisoning the domestic political climate in Russia. They are also part and parcel of the idea that, while Russia is open to the formation of alliances and partnerships, it can also go it alone if necessary. Or, as Putin put it in an interview from 12 January 2015 with the German *Bild* newspaper: "[I]t is like in real life: a happy love needs to be reciprocated. If one does not want to cooperate with us, then fine, we will leave it."[14]

## The Role of the West

Russia has marginalised itself with the annexation of Crimea, in breach of international law, and its covert military intervention in Ukraine. Since then, Russia has been adopting an inflexible and belligerent stance towards the outside world. But from reading between the lines, and behind closed doors, a rather different message can be heard. Particularly in view of the economic crisis, the Russian leadership is actually far from reluctant to embark on a normalisation of its relations with the West, and particularly Europe. Putin may be a difficult partner, but he has no interest in making his country a pariah within the international community.

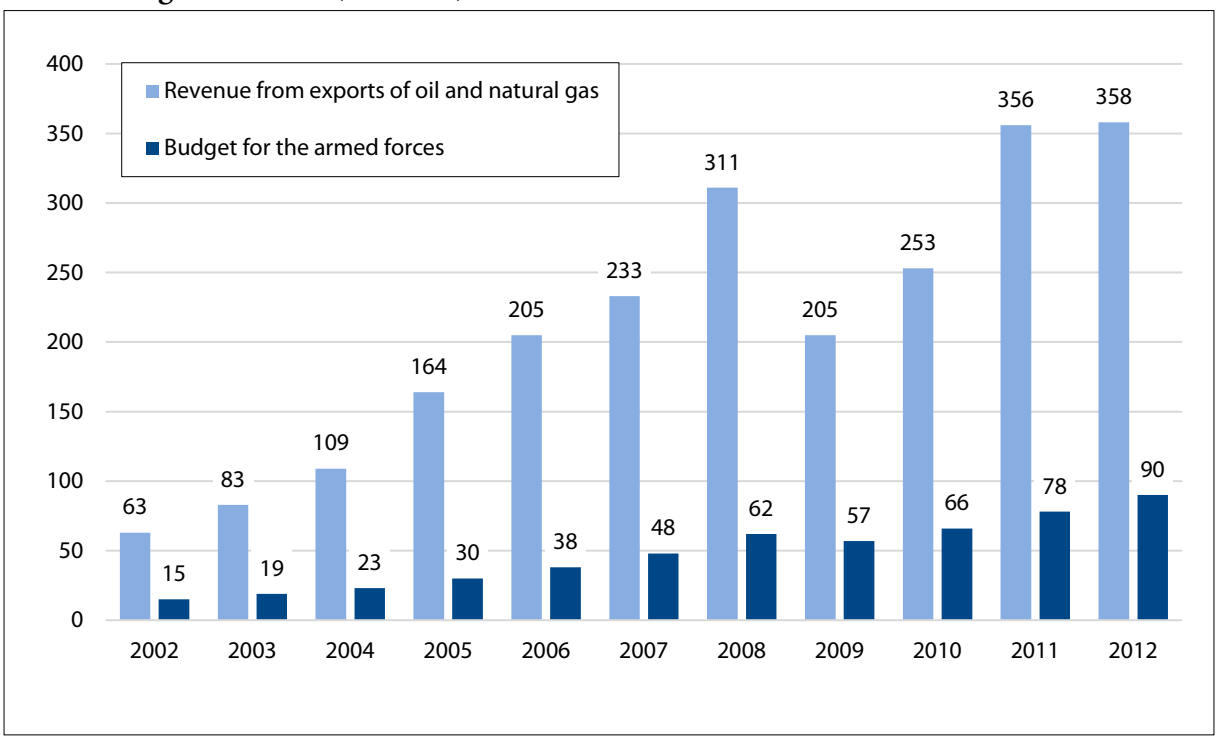
14 "Putin—The Interview (Part 2)", *Bild*, 12 January 2016, <http://www.bild.de/politik/ausland/wladimir-putin/russian-president-vladimir-putin-the-interview-44096428.bild.html> (accessed 22 February 2016).

While the current situation is a tinderbox, it also offers some positive opportunities and, accordingly, the West should not now further force Moscow on to the defensive. The recent decision for a massive build-up in the American military presence in Europe is not the answer. Instead, the West should be looking to avoid any further estrangement on Russia's part—since a Russia that is in a difficult economic situation, and is also forced internationally into a corner, is a Russia that is far too unpredictable. This cannot be in the interests of European security, and is absolutely not in the interests of Russia's neighbouring states. The normalisation of Russia's relations with the West should not, of course, be at the expense of Ukraine and other East European states. A stable Ukraine between East and West is just as important for the security of the whole of Europe as an economically prosperous Russia, which again sees itself as a partner, rather than an opponent, of the West.

Notwithstanding all the tensions, an understanding with Putin is not only possible, but also a vital necessity—particularly given the relatively high likelihood that he will survive as Russia's president not just in 2016, but for some time to come. Accordingly, the West has no alternative but to come to an arrangement with Putin, and would be well advised to intensify efforts towards the normalisation of relations with Russia.

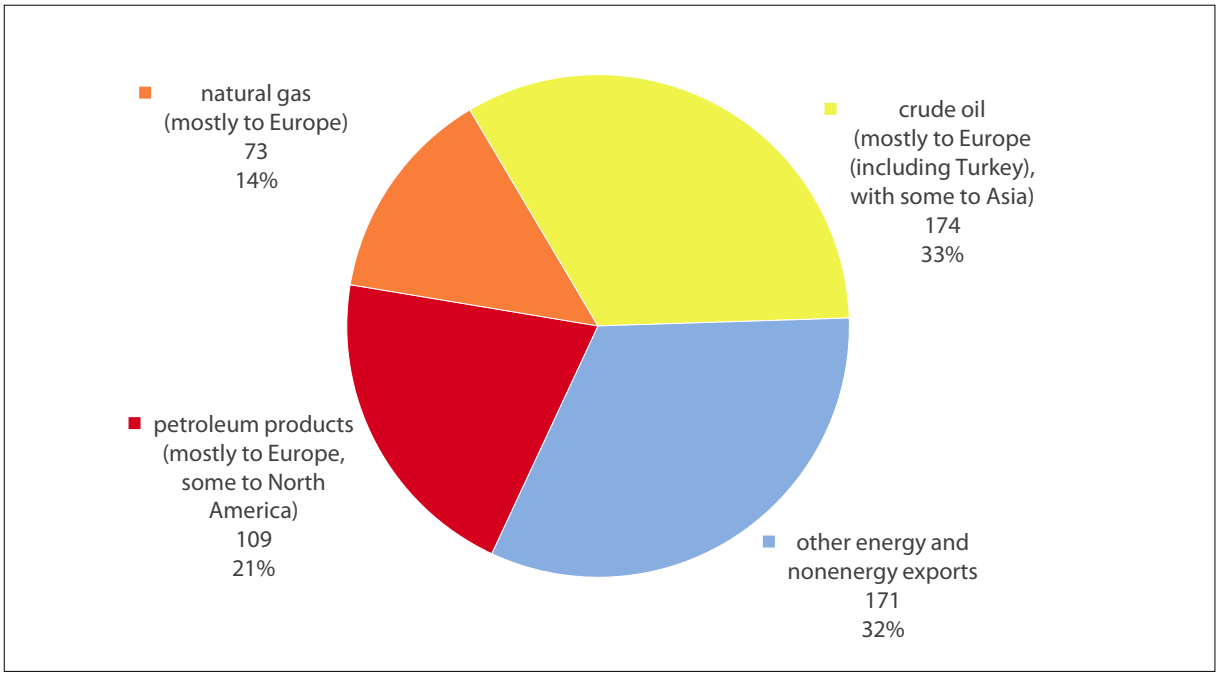
*About the Author*
Jeronim Perović is SNSF professor of Eastern European History at the University of Zurich. He was previously Academic Associate at the Department of History of the University of Basel and a scientific collaborator at the Center for Security Studies at ETH Zurich. He is co-founder and editor of the *Russian Analytical Digest* and the *Caucasus Analytical Digest*.

**Figure 1: Russian Revenue from Exports of Oil and Natural Gas Compared to Military Spending 2002–2012 (bln USD)**



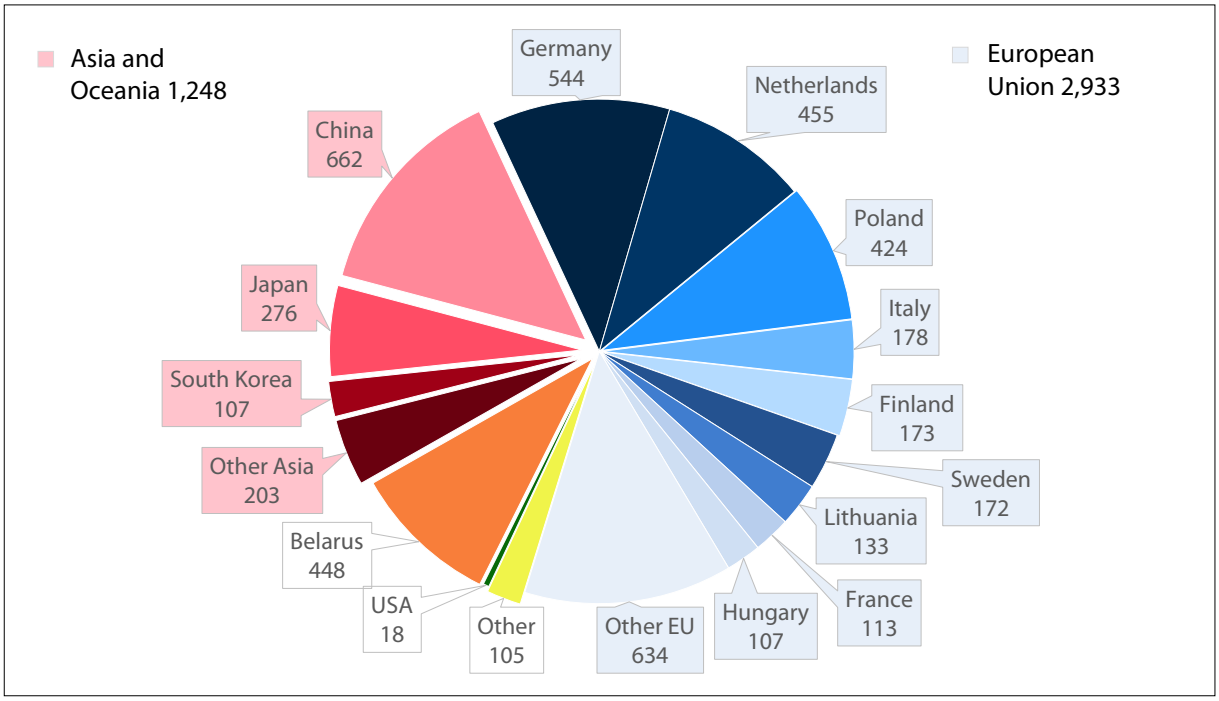

*Source:* <http://de.statista.com/statistik/daten/studie/293351/umfrage/russlands-einnahmen-aus-oel-und-gasexporten-im-vergleich-zum-militaeretat/>

**Figure 2: Russian Gross Export Sales, 2013 (bln. USD)**



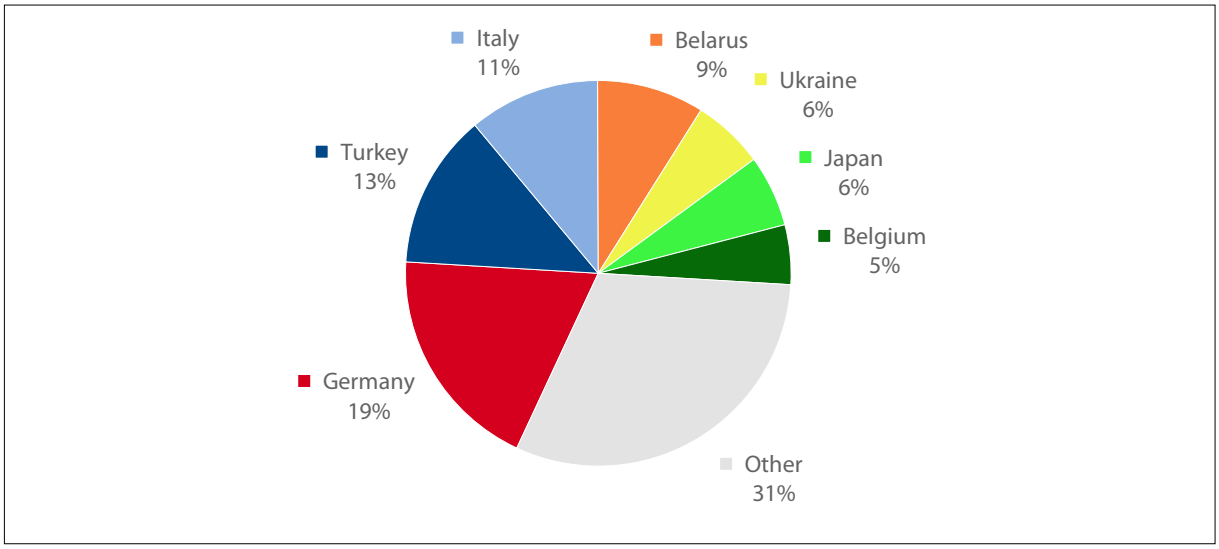

*Source:* <https://www.eia.gov/todayinenergy/detail.cfm?id=17231>

**Figure 3: Russia's Crude Oil and Condensate Exports by Destination, 2014 (1,000 b/d)**




*Source:* <http://www.eia.gov/beta/international/analysis.cfm?iso=RUS>*; originally from U.S. Energy Information based on Federal Customs Service of Russia and reporting countries' import statistics; Global Trade Information Service*

**Figure 4: Russia's Natural Gas Exports by Destination, 2014**

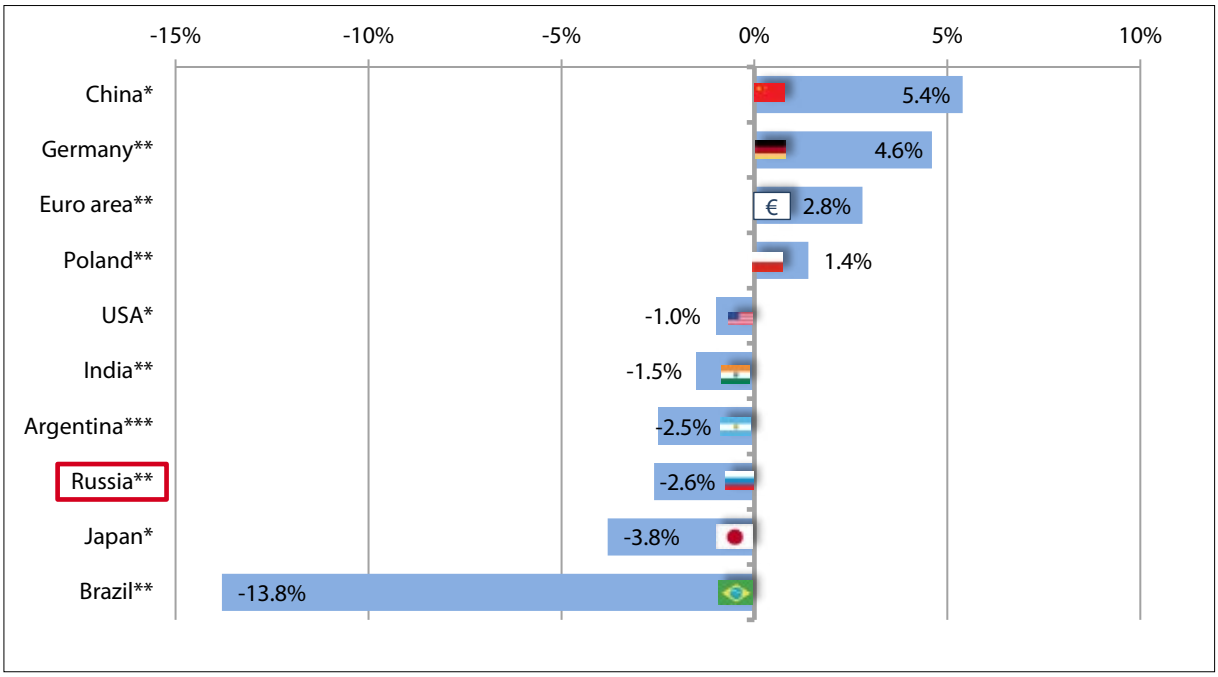



*Source:* <http://www.eia.gov/beta/international/analysis.cfm?iso=RUS>*; originally from BP Statistical Review of World Energy 2015*

STATISTICS

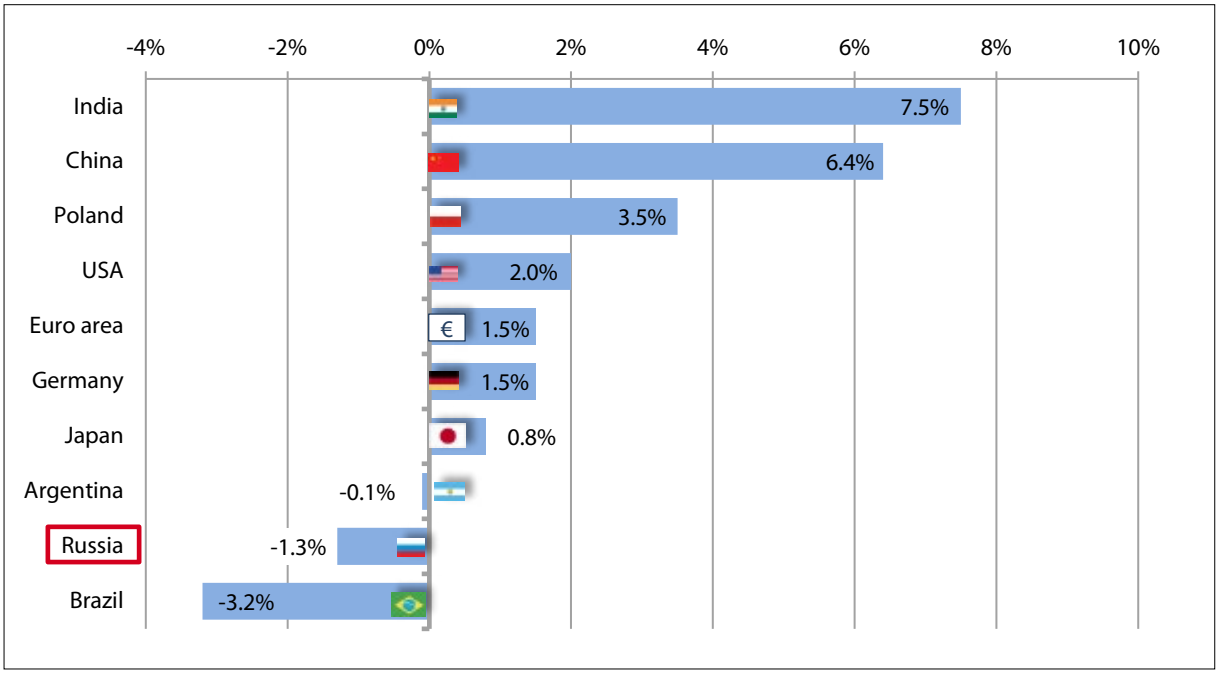
# Russia's Current Economic Indicators in International Comparison

**Figure 1: Industrial Production (Change on year ago in %)**



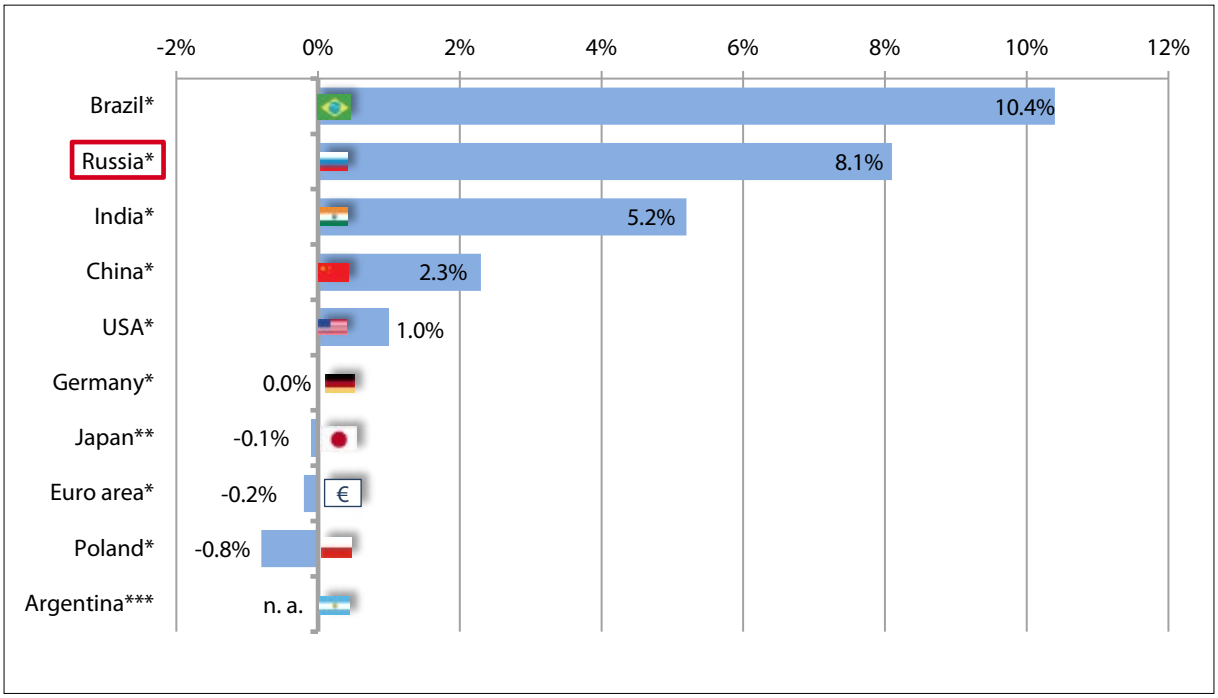

** February 2016, ** January 2016, *** October 2015.*
*Source: The Economist,* <http://www.economist.com/markets/indicators/>

## Figure 2: The Economist's GDP Forecast for 2016



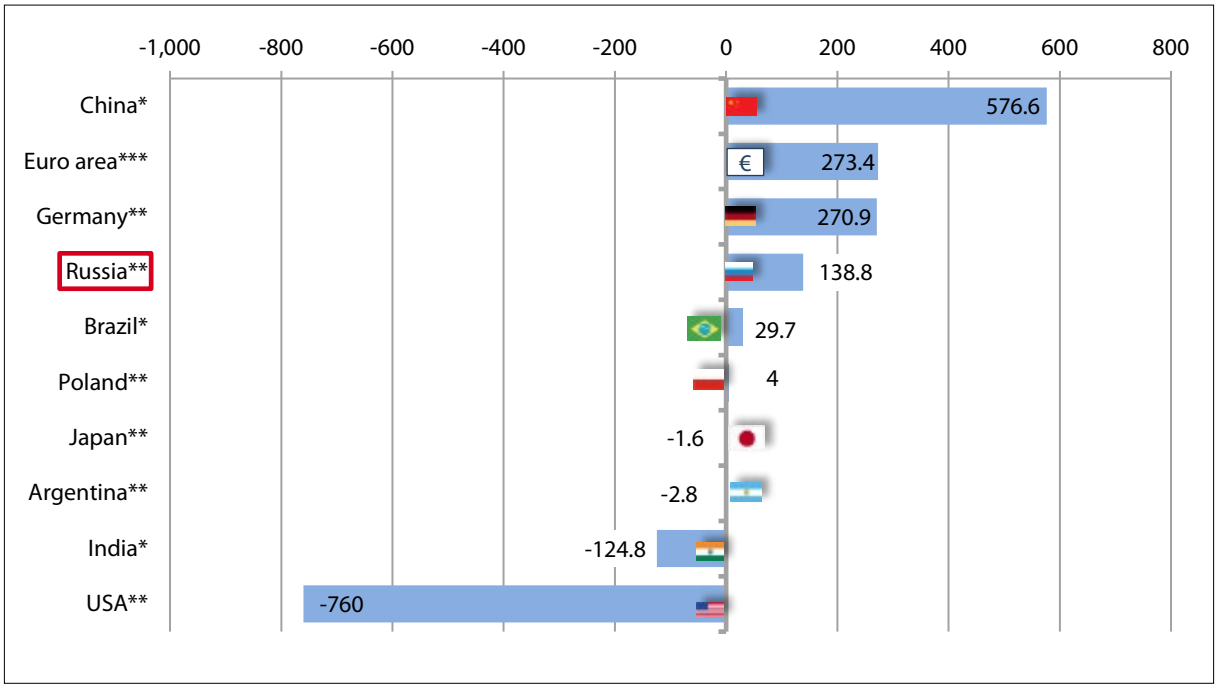

*Source: The Economist,* <http://www.economist.com/markets/indicators/>

## Figure 3: Inflation (January or February 2016, Consumer Prices)



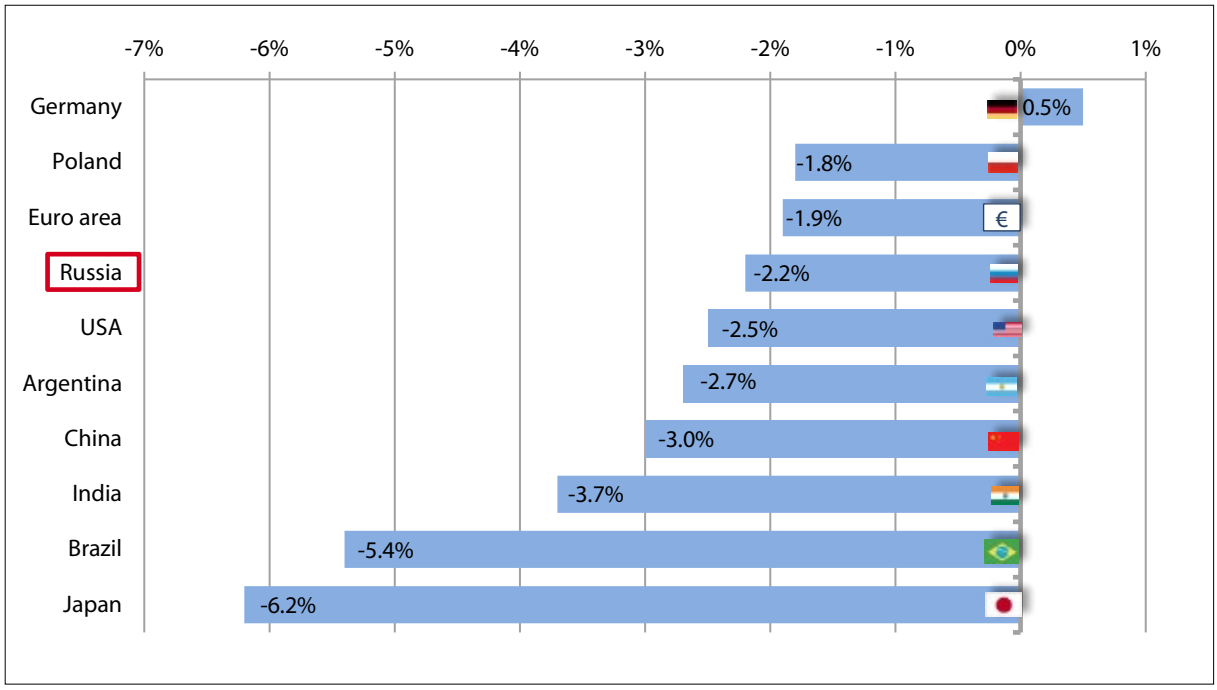

** February 2016, ** January 2016, *** Official number not yet proved to be reliable.*
*Source: The Economist,* <http://www.economist.com/markets/indicators/>

**Figure 4: Trade Balance (Latest 12 Months, bln. US Dollars)**



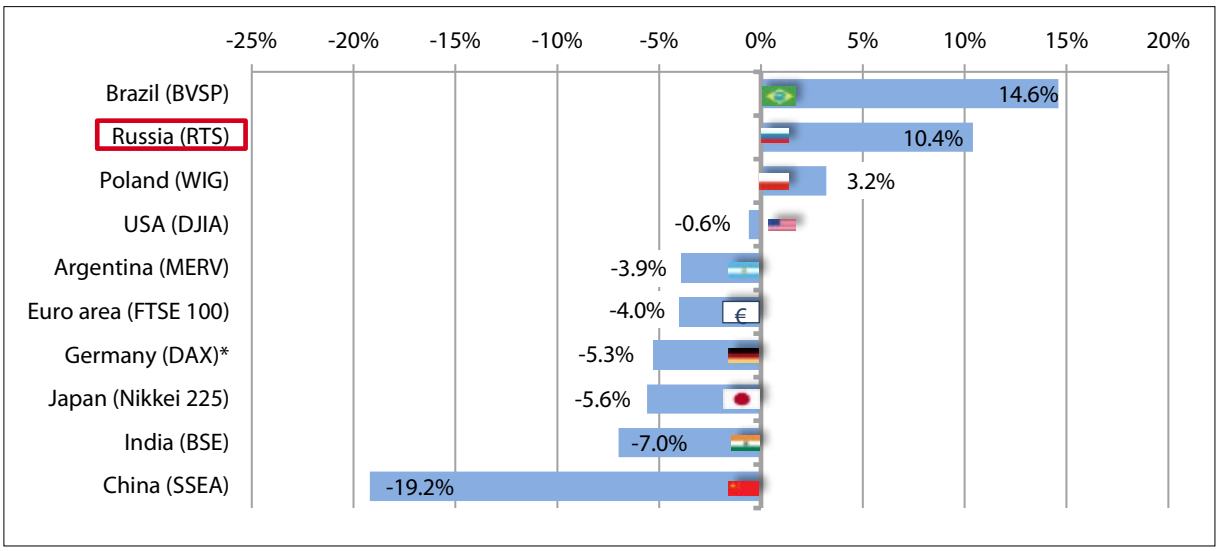

** February 2016, ** January 2016, *** December 2015.*
*Source: The Economist,* <http://www.economist.com/markets/indicators/>

**Figure 5: Budget Balance, the Economist's Forecast for 2016 (% of GDP)**




*Source: The Economist,* <http://www.economist.com/markets/indicators/>

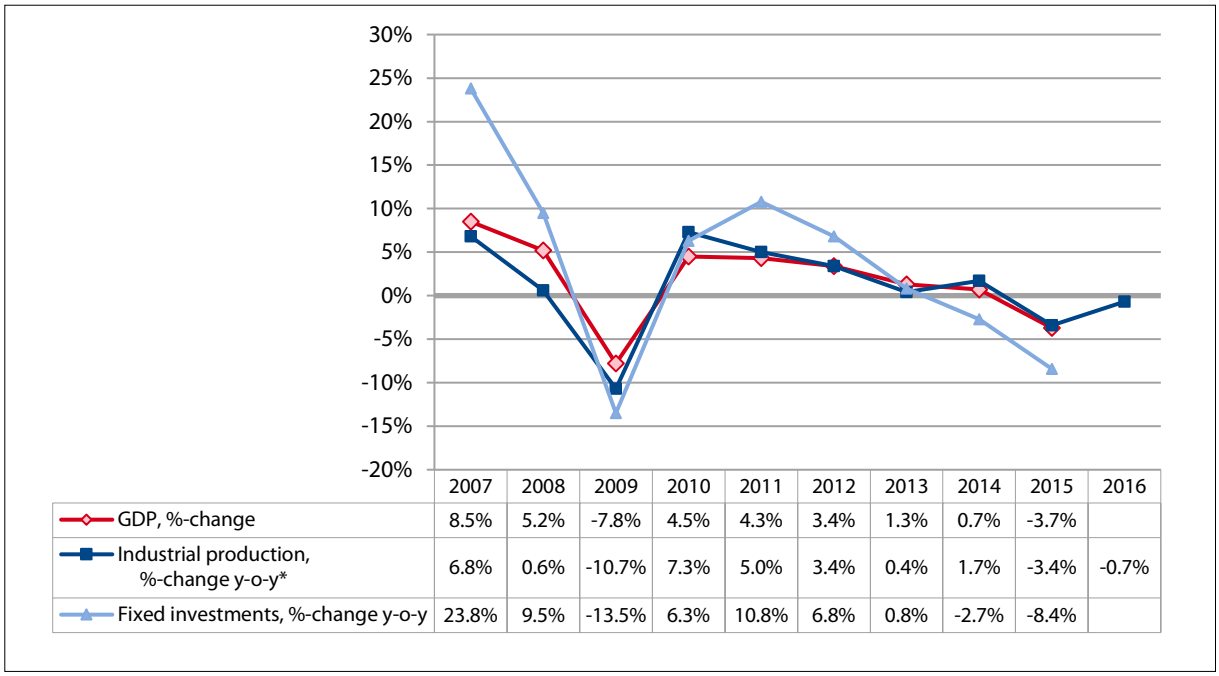
**Figure 6: Stock Exchange Index Change 31 December 2015 to 19 March 2016 (% Change, Main Index in USD Terms)**




** provisional*
*Source: The Economist,* <http://www.economist.com/markets/indicators/>

## Russian Economic Development since 2007

**Figure 1: GDP, Industrial Production, and Fixed Investments 2007–2016 (Change Compared to Previous Year, %)**

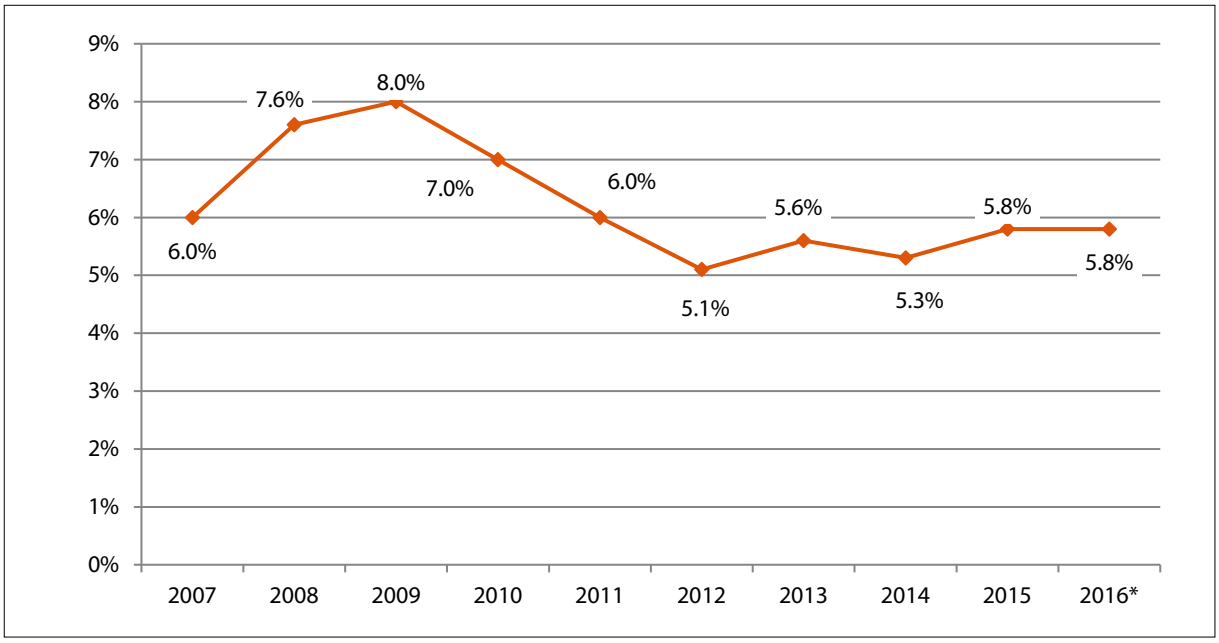



| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| GDP, %-change | 8.5% | 5.2% | -7.8% | 4.5% | 4.3% | 3.4% | 1.3% | 0.7% | -3.7% | |
| Industrial production, %-change y-o-y* | 6.8% | 0.6% | -10.7% | 7.3% | 5.0% | 3.4% | 0.4% | 1.7% | -3.4% | -0.7% |
| Fixed investments, %-change y-o-y | 23.8% | 9.5% | -13.5% | 6.3% | 10.8% | 6.8% | 0.8% | -2.7% | -8.4% | |

** as of January/February 2016*

*Source:* <http://www.suomenpankki.fi/bofit_en/seuranta/venajatilastot/Pages/default.aspx>

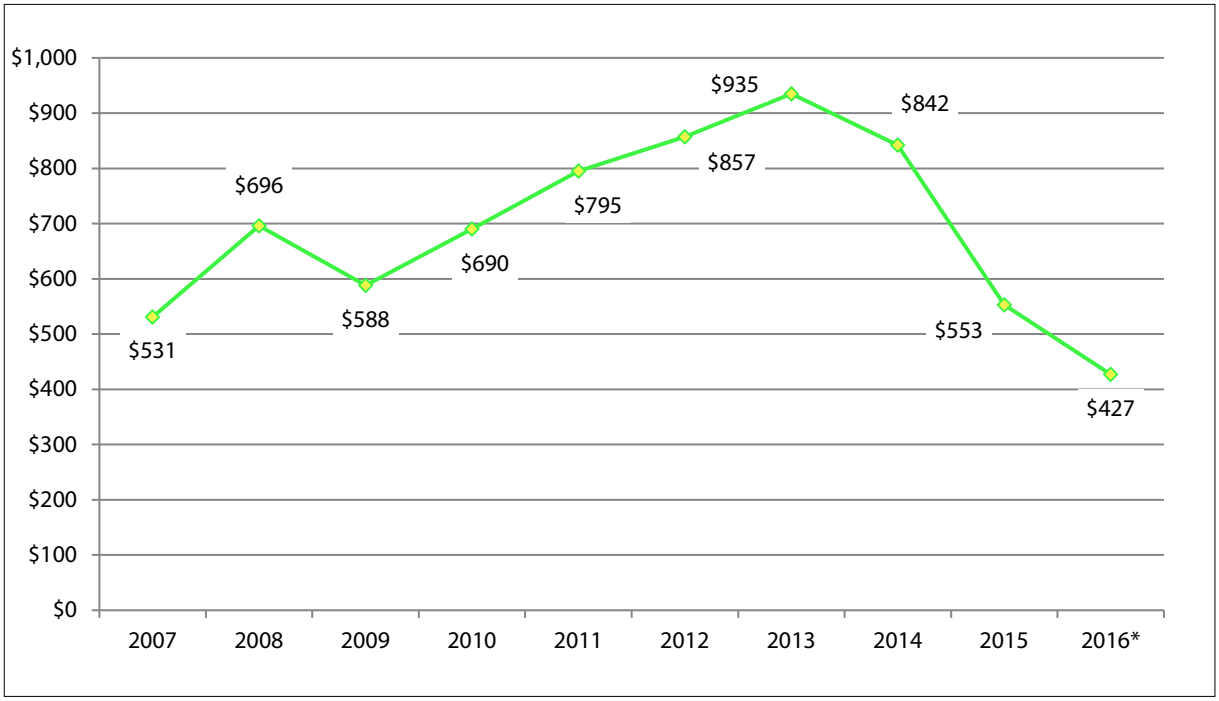
**Figure 2: Russian Unemployment Rates 2007–2016 (%, End of Period)**




** as of February 2016*

*Source:* <http://www.suomenpankki.fi/bofit_en/seuranta/venajatilastot/Pages/default.aspx>

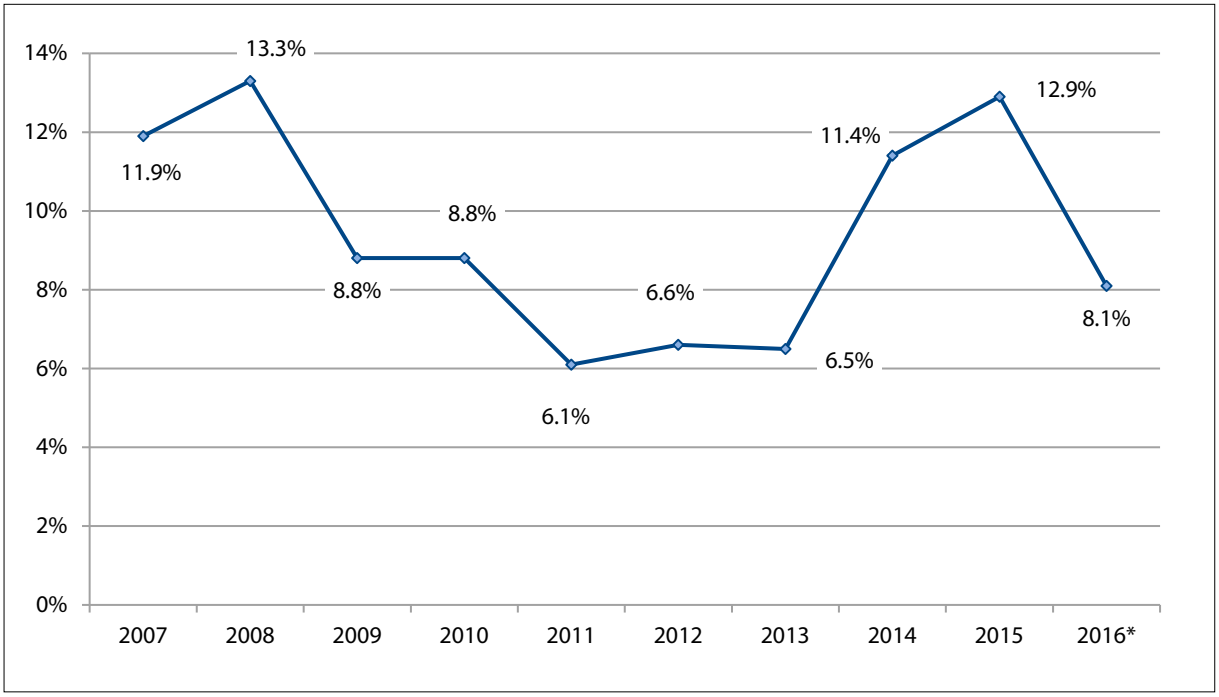
**Figure 3: Russian Average Monthly Wage 2007–2016 (Period Average, in US Dollars)**




** as of February 2016*

*Source:* <http://www.suomenpankki.fi/bofit_en/seuranta/venajatilastot/Pages/default.aspx>

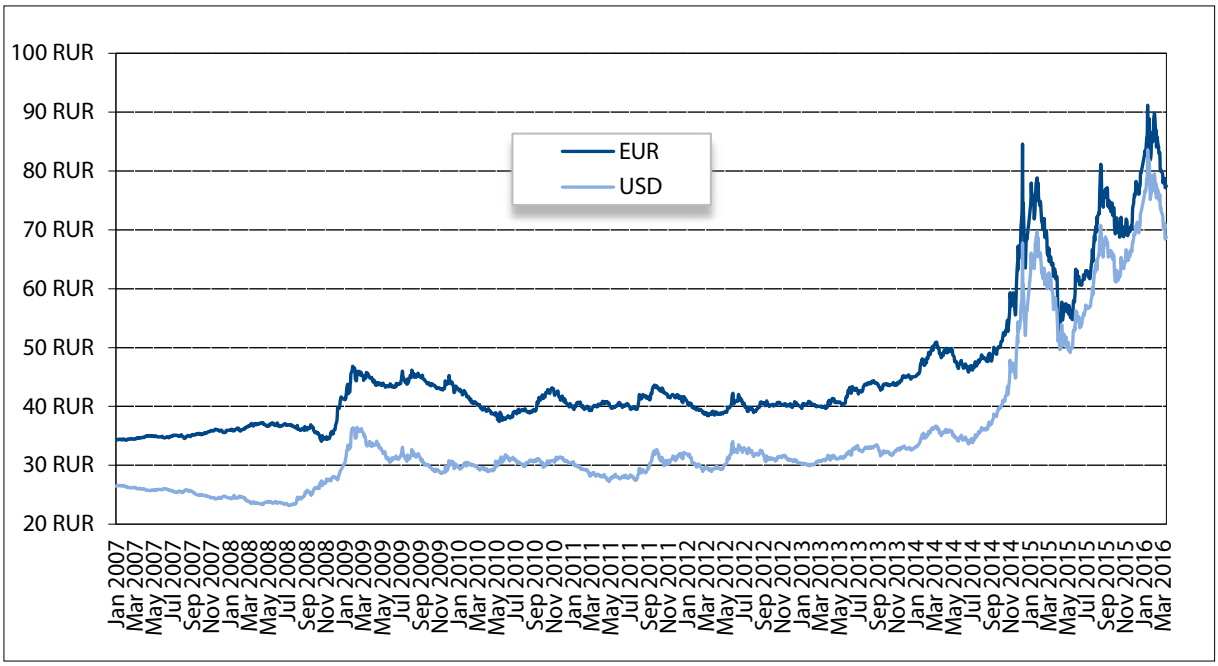
**Figure 4: Russian Inflation Rate 2007–2016 (End of Period)**




** as of February 2016*

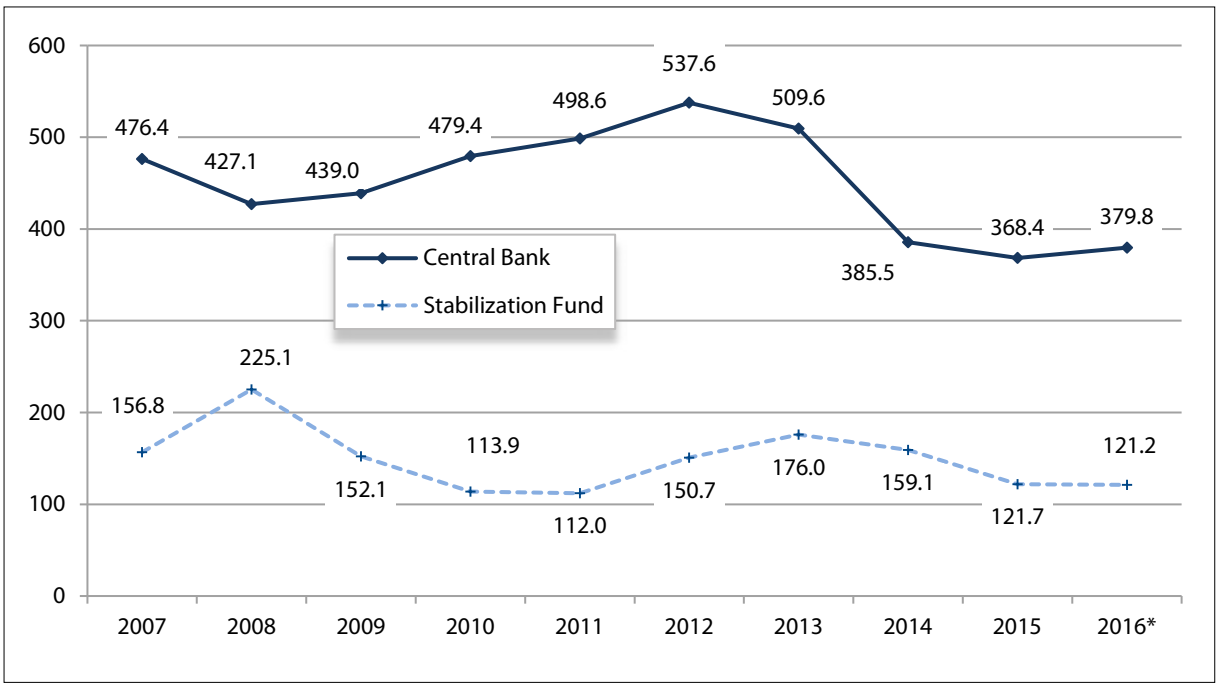
*Source:* <http://www.suomenpankki.fi/bofit_en/seuranta/venajatilastot/Pages/default.aspx>

**Figure 5: Ruble/US Dollar and Ruble/Euro Exchange Rates 2007–2016**




*Source: Central Bank of the Russian Federation* <http://www.cbr.ru/currency_base/dynamics.aspx>

**Figure 6: Foreign Currency Reserves of the Russian Central Bank and Assets of the Oil Funds 2007–2016 (End of Period, in bln. USD)**

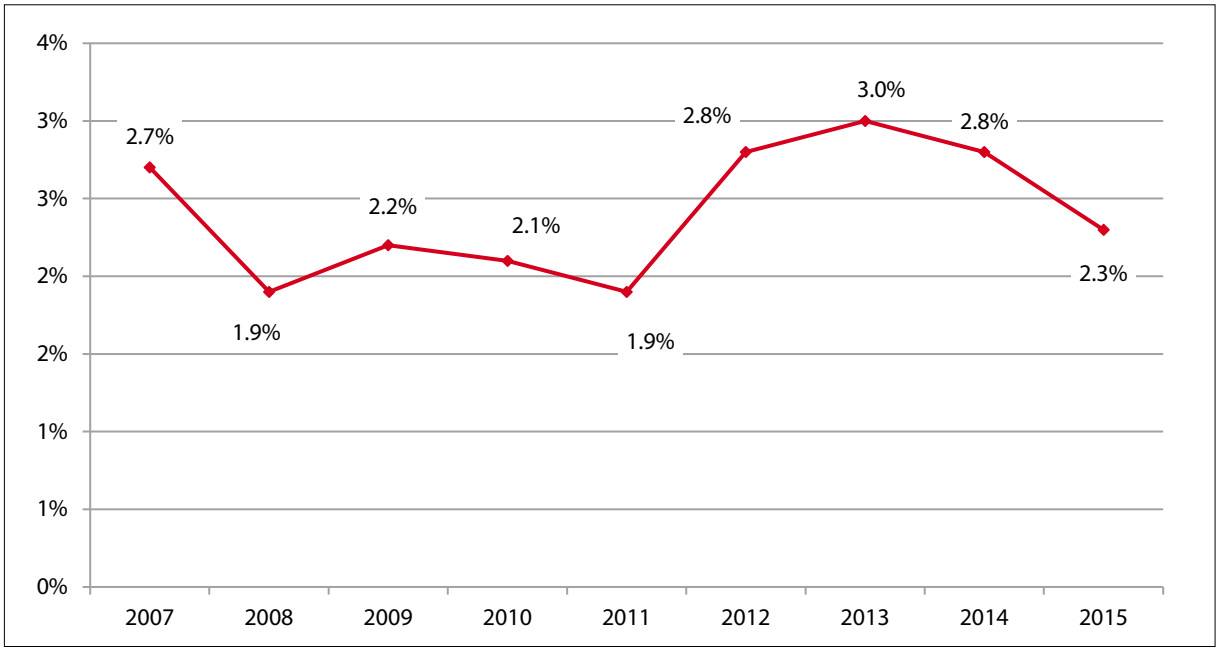



*NB: Oil funds: Until 2008 Stabilization Fund. The Stabilization Fund was split in 2008 into Reserve Fund and National Wealth Fund. The foreign currency reserves of the Central Bank include the gold reserves.*

** as of February 2016*

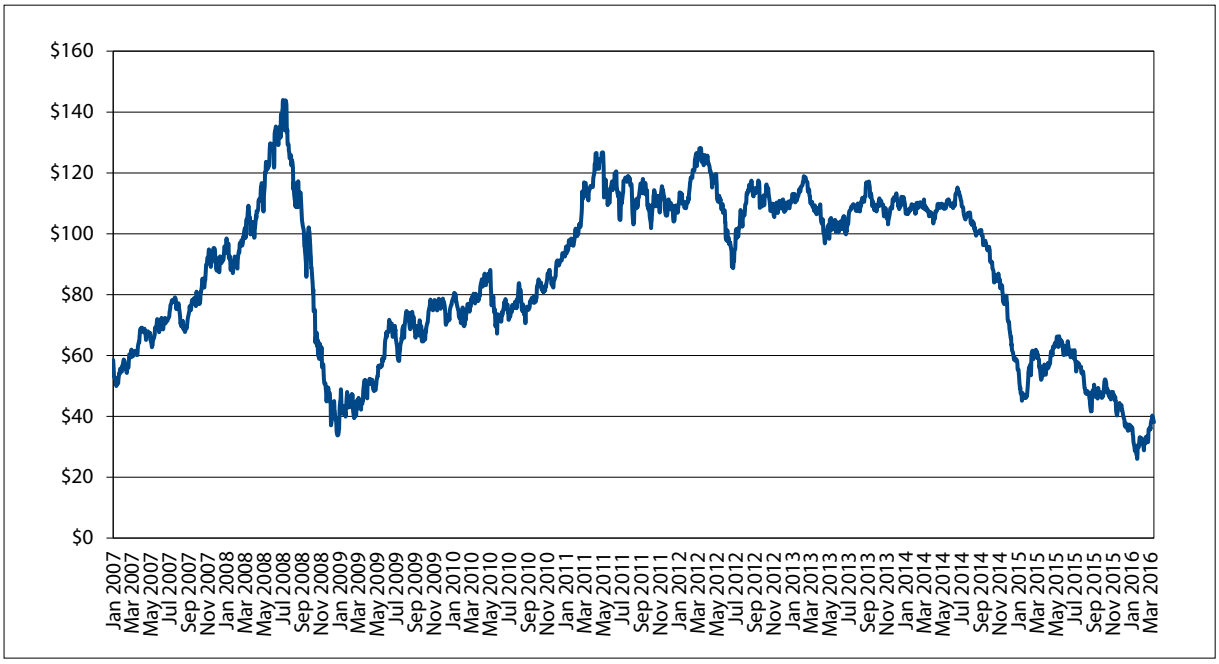
*Source:* <http://www.suomenpankki.fi/bofit_en/seuranta/venajatilastot/Pages/default.aspx>

**Figure 7: Federal State External Debt 2007–2015 (End of Period, in % of GDP)**



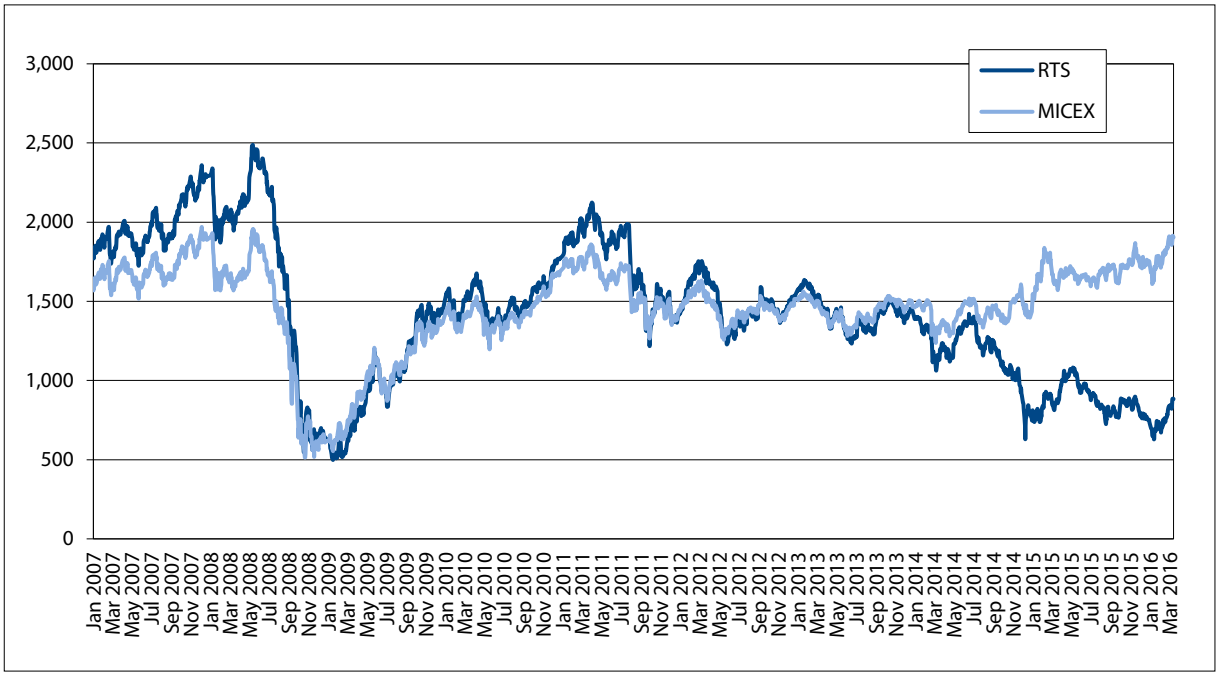

*Source:* <http://www.suomenpankki.fi/bofit_en/seuranta/venajatilastot/Pages/default.aspx>

**Figure 8: Europe Brent Spot Price FOB (Dollars per Barrel)**




*Source:* <http://www.eia.gov/dnav/pet/hist_xls/RBRTEd.xls>*; web site:* <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RBRTE&f=D>*; accessed 21 March 2016*

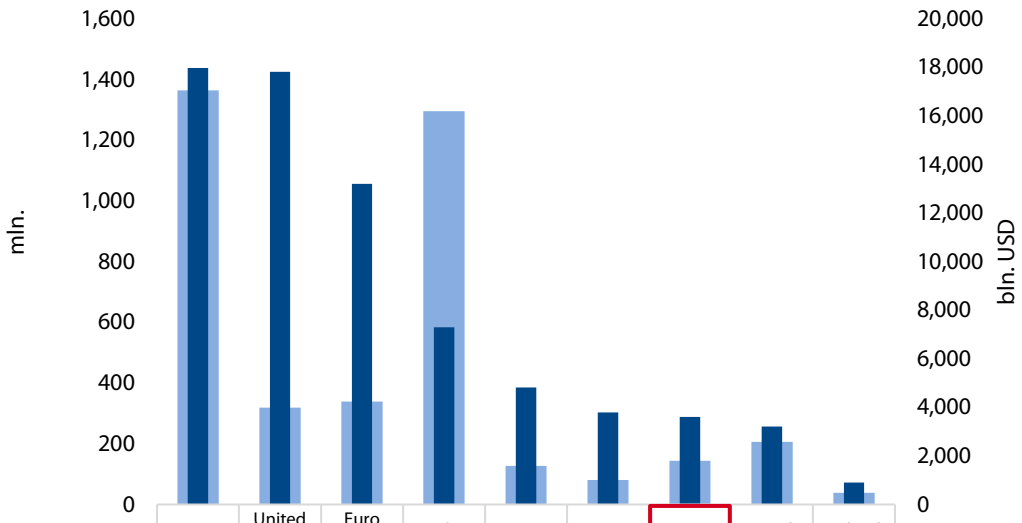
**Figure 9: Russian Stock Exchange Indices 2007–2016**




*Sources:* <http://www.micex.ru/marketdata/indices/shares/composite#&index=MICEXINDEXCF>*;* <http://moex.com/ru/index/RTSI/archive/>*; accessed 21 March 2016*

# World Bank World Development Indicators: Size of the Economy

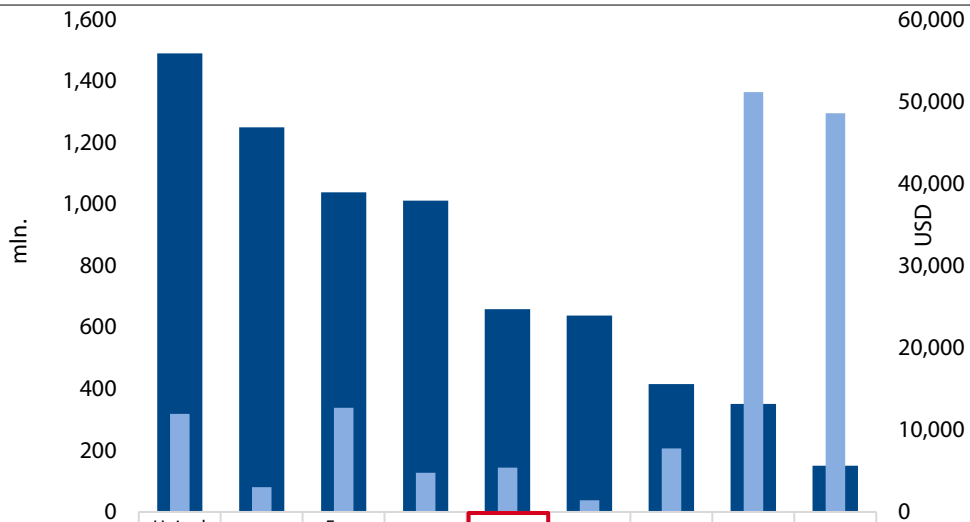
## Figure 1: Purchasing Power Parity Gross National Income (bln. USD) and Population Size (mln.), 2014




| | China | United States | Euro area | India | Japan | Germany | Russia | Brazil | Poland |
|---|---|---|---|---|---|---|---|---|---|
| Population mln. | 1,364.3 | 318.9 | 338.7 | 1,295.3 | 127.1 | 80.9 | 143.8 | 206.1 | 38.0 |
| Purchasing power parity gross national income bln. USD | 17,966.9 | 17,812.7 | 13,196.9 | 7,292.8 | 4,821.1 | 3,789.8 | 3,610.0 | 3,212.8 | 909.0 |

*Source:* <http://wdi.worldbank.org/table/1.1#>

## Figure 2: Purchasing Power Parity Gross National Income Per Capita (USD) and Population Size (mln.), 2014




| | United States | Germany | Euro area | Japan | Russia | Poland | Brazil | China | India |
|---|---|---|---|---|---|---|---|---|---|
| Purchasing power parity gross national income Per capita USD | 55,860 | 46,850 | 38,959 | 37,920 | 24,710 | 23,930 | 15,590 | 13,170 | 5,630 |
| Population mln. | 318.9 | 80.9 | 338.7 | 127.1 | 143.8 | 38.0 | 206.1 | 1,364.3 | 1,295.3 |

*Source:* <http://wdi.worldbank.org/table/1.1#>

## ABOUT THE RUSSIAN ANALYTICAL DIGEST



The Russian Analytical Digest is a bi-weekly internet publication jointly produced by the Research Centre for East European Studies [Forschungsstelle Osteuropa] at the University of Bremen (<www.forschungsstelle.uni-bremen.de>), the Center for Security Studies (CSS) at the Swiss Federal Institute of Technology Zurich (ETH Zurich), the Resource Security Institute, the Institute of History at the University of Zurich (<http://www.hist.uzh.ch/>), the Institute for European, Russian and Eurasian Studies at The George Washington University, and the German Association for East European Studies (DGO). The Digest draws on contributions to the German-language Russland-Analysen (<www.laender-analysen.de/russland>), the CSS analytical network on Russia and Eurasia (<www.css.ethz.ch/en/publications/rad.html>), and the Russian Regional Report. The Russian Analytical Digest covers political, economic, and social developments in Russia and its regions, and looks at Russia's role in international relations.

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