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Russia's economy: Before the long transition ☆

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Abstract

This article explains the main stages and results of economic development in Russia since the early 1990s. It describes the process of the formation and the basic features of a three-sector economic model, as well as the reasons for its stability and existing constraints on economic growth. The authors consider the most likely scenario for the evolution of the current economic model under steadily declining export revenues. They also investigate fiscal and social risks and alternatives in economic policy.

JEL: E20, E22, E24.
Keywords: three-sector economic model, economic development scenarios, fiscal policy, social policy, middle class.

1. Russia on the economic world map: Achievements and failures

Since the early 1990s, Russia's average GDP per capita, measured based on purchasing power parity (PPP), has increased by 2.5 times, reaching approximately $24,000 (according to IMF estimates), which places it among *middle-income countries* (Fig. 1). Judging by this indicator, Russia has developed at a similar rate as Central and Eastern European (CEE) countries, undergoing a market transformation over the same period. Whereas high growth rates during the 2000s helped to narrow the gap between Russia and developed countries, this growth was checked in 2014 and 2015, and the gap widened. The change in tra-

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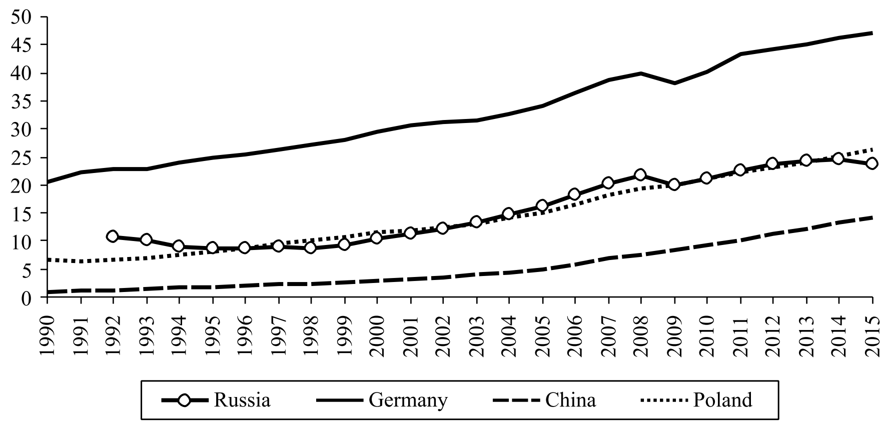

Fig. 1. GDP in terms of PPP per capita (thousand international dollars).

Source: IMF.

jectory does not seem critical at the moment, but if Russia continues to lag behind "Europeans," it will soon be overtaken in terms of GDP per capita by rapidly developing emerging economies such as China.

Although Russia is now in line with CEE countries on the key GDP per capita parameter, it is still subjectively perceived as a poorer country. This is because Russia has a higher level of social inequality, which has not decreased but increased, even during periods of rapid economic growth (Fig. 2). As of the beginning of 2016, Russia's population could be divided into two large groups based on their economic status. The first, accounting for 40% of the population, can be conventionally attributed to the middle class (according to the Social Policy Institute of the National Research University Higher School of Economics).

The middle class spends less than half of their income on necessities, has the opportunity to accumulate savings, and can make consumer choices, including the purchase of paid education, healthcare, cultural, and private pension services. The remainder (60%) of the households (Group 2) are essentially deprived

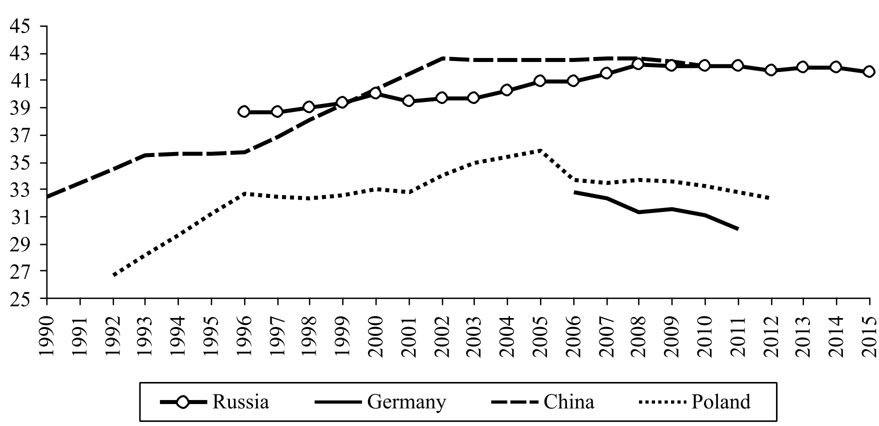

Fig. 2. Household income concentration index (the Gini coefficient; 0–100).

Sources: World Bank; Rosstat; calculations by HSE.