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ScienceDirect
Russian Journal of Economics 1 (2015) 30–54
Russian Journal of Economics
www.rujec.org

A new growth model for the Russian economy ☆

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Abstract

The problems underlying the current slowdown of the Russian economy are of a persistent nature and cannot be resolved with simple measures such as a softer monetary or fiscal policy. The fundamental reason for these problems is the weak market environment dominated by public and quasi-public companies. A new growth model should be based upon strong incentive for the business, as well as the government regulation system, to improve efficiency. This article defines the main steps to be taken in building such a model.

JEL classification: E6, H11, O1, O4, P4.
Keywords: growth model, oil and gas revenues, soft budget constraints, incentives for growth.

1. Introduction

The Russian economy demonstrated impressive growth between the two financial crises of 1998 and 2009. Between 2000 and 2008, the GDP grew by 83%, productivity grew by 70%, and expenses for accumulating fixed capital doubled in real terms. Whereas in 1999, per capita GDP by purchasing power parity (PPP) was $9,300 (only 25% above the global average), by 2008, this indicator had increased to $21,600 (78% above the global average). Russia's share in the world economy (at the current exchange rate) grew fourfold over the same period, from 0.6% to 2.7%. The welfare of the population increased considerably: real wages increased by 3.4 times, and real pensions increased by 2.8 times.

This exceptionally successful (at least by formal indicators) period of development in the Russian economy that started after the 1998 crisis ended with the next crisis. Whereas in the pre-crisis period from 2000 to 2008, average annual GDP growth was 6.9%, after the crisis (2009–2013) it slowed down to 1.0%. Of course, the growth rate dropped across the globe; however, the slowdown was not as sharp, even in oil producing countries (Table 1). Russia's absolute performance dropped, as did its relative position: from the leaders group

☆ The updated English version of the article published in Russian in *Voprosy Ekonomiki*, 2014, No. 12, pp. 4–36.
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Peer review under responsibility of Voprosy Ekonomiki.

http://dx.doi.org/110.1016/j.ruje.2015.05.002
2405-4739/

Table 1
Average annual pre-crisis and post-crisis growth rates (%).

Country/group of countries	2000–2008	2009–2013
World	4.3	3.2
Developing countries and emerging markets	6.5	5.3
China	10.4	8.9
Russia	**6.9**	**1.0**
India	6.7	7.0
UAE	6.2	2.2
Venezuela	4.4	1.2
South Africa	4.2	1.9
Brazil	3.7	2.7

Source: calculations based on IMF data (IMF, 2014).

(mid-second decile growth rate worldwide), Russia dropped into the outsiders group (top-eighth decile).

The slowdown was unexpected for the Russian government and for analysts. In 2012, the official forecast for GDP growth for 2013–2015 was 13%. Currently, it is –1%.

Other objective signs of deterioration in Russia's economic outlook can be observed as well. Fixed capital investment growth rates dropped dramatically from 13% pre-crisis to 1% post-crisis. The net private capital inflow that existed before the crisis has been replaced by a persistent capital outflow ($285 billion left the country between 2009 and 2013).

The government took measures to boost growth, although it has not provided a clear answer as to the reasons for the slowdown. In our opinion, without finding an answer, it will be impossible to overcome the stagnation of the Russian economy that borders on recession. There is no universal cure, just as there is no panacea for medical diseases. Moreover, measures that are expedient in some situations may have a negative impact in others. In this paper, we attempt to identify the reasons for the slowdown of the Russian economy and ways not only to improve the situation but also to achieve a complete turnaround.

2. Growth of the Russian economy in 2000–2013

What drove growth in the Russian economy before the crisis, and why did the old drivers lose their effect after it? Table 2 presents growth rates of specific components of GDP utilization. First, it should be noted that the growth rate in both investment and consumer domestic demand during the pre-crisis period outstripped that of the GDP. Physical exports generally grew at approximately the same rate as the GDP. In terms of growth drivers, our economy differed dramatically, for example, from China and other fast-growing countries in Southeast Asia where exports are the main growth driver.

Table 2
Average growth rates of final demand components in constant prices (%).

	Change over the period		Average growth rate	
	2000–2008	2009–2013	2000–2008	2009–2013
GDP	82.5	5.3	6.9	1.0
Domestic demand	134.7	7.8	9.9	1.5
final consumption	102.6	16.0	8.2	3.0
including households	145.3	20.9	10.5	3.9
gross investment	343.8	–12.6	18.0	–2.7
including fixed capital	199.9	5.1	13.0	1.0
exports	93.6	8.0	7.6	1.6
imports	433.4	18.8	20.4	3.5

Source: calculations based on Rosstat data.