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Putin's Economic Record: Is the Oil Boom Sustainable?

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> The economic system of Russia has undergone such rapid changes that it is impossible to obtain a precise and accurate account of it ... Almost everything one can say about the country is true and false at the same time. (Keynes 1925)

WESTERN OBSERVERS ARE DIVIDED OVER HOW TO ASSESS President Vladimir Putin's economic record. Some credit Putin with having engineered a rags-to-riches transformation of the Russian economy. Others condemn him for having squandered an opportunity to complete the transition to a competitive market economy, a job left half-done in the 1990s.

The raw data are impressive (see Table 1). The eight years of Putin's presidency saw a doubling of living standards, a 70% increase in GDP, the settling of nearly all Russia's foreign sovereign debts, and the accumulation of a war chest of $402 billion foreign currency reserves as of March 2008.[1] In current dollar prices, GDP went from $200 billion in 1999 to $1.26 trillion in 2007. Russia moved up from being the twentieth largest economy in the world to the seventh. The World Bank estimates the Gross National Income per capita at $5,780 in 2006, with a GNI of $823 billion (World Bank 2007).

Sceptics argue that this economic boom cannot be sustained, and is a house built on sand. Putin's success is simply the luck of the geological draw: Russia is the world's number two oil producer and number one natural gas producer, and global prices for oil quintupled between 2002 and 2008. The global commodity boom cannot be sustained indefinitely, and will inevitably be followed by a slump. Critics suggest that there is little sign that Russia's political and economic institutions are prepared for such a development. The surge in oil revenue has produced a spike in consumer spending, largely satisfied by imports, but has not stimulated a recovery of Russian manufacturing or agriculture. The lion's share of the wealth has been siphoned off by the new rapacious class of oligarchs who are investing most of it abroad. The second major beneficiary of the oil boom has been the Russian state, which has doubled the ranks of bureaucrats and tripled spending on the military. During the second half of

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[1]Central Bank of Russia, available at: http://www.cbr.ru, accessed 20 April 2008.

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Notes

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Central Bank of Russia, available at: http://www.cbr.ru, accessed 20 April 2008.

The 48% share in part reflects the under-valued exchange rate. The World Bank's purchasing power estimate for 2002 boosted Russian GNI from $306 billion to $1,165 billion. This would accordingly reduce the share of trade in GDP.

The reform also coincided with an increase in enforcement by the tax police, so advocates of the Laffer Curve should be wary of using Russia as an example vindicating their theory. (The Laffer Curve posits that a cut in tax rates will lead to an increase in tax revenue.)

That placed Russia 121 out of 163 countries in 2007, an improvement over 49 out of 52 in 1997, see http://www.transparency.org/policy_research/surveys_indices/cpi/2007, accessed 20 April 2008.

There are 1,125 billionaires on the list, including 439 Americans, 87 Russians and 59 Germans.

By 2004, the largest companies by share of reserves were: Lukoil with 23%, Rosneft (including Yuganskneftegaz) with 14%, TNK-BP with 12%, Yukos with 11%, Surgut with 9%, Gazprom with 9%, Tatneft with 8% and Bashneft with 3% (EIA 2006; Grace 2005; Considine & Kerr 2002).

Vedomosti, 6 February 2008.

AFP, 11 December 2007.

Vedomosti, 13 March 2008.

Central Bank of Russia, available at: http://www.cbr.ru, accessed 20 April 2008.

Available at: http://www.kremlin.ru/eng/speeches/2005/01/11/2349_type82915_82564.shtml, accessed 20 April 2008.

See also Kim (2003) and Ellman (2006). A country which was already a democracy when it discovered hydrocarbons, such as Norway, does not count.

The eight are Bhutan, China, Egypt, South Korea, Singapore, Taiwan, Tunisia and Vietnam.

Whereas in most countries it is the oil producers who build and own the pipelines, in Russia the state retained control over the pipeline system, through the state-owned corporation Transneft, which handles 71% of Russia's crude exports. A total of 14% go by rail, 3% by the Caspian Pipeline Consortium, and the remainder by sea (EIA 2006).

These are Sakhalin-1 and Sakhalin-2 led, respectively, by ExxonMobil and Royal Dutch Shell, and the Kharyaga project in Siberia, led by France's Total. Exxon signed an agreement for Sakhalin-3 in 1993, but it lapsed and the license has been revoked.

Independent gas producers account for 14% of Russia's output, nearly doubling their production from 2000 to 2005, but they are not allowed to export (Moscow Times, 23 June 2005).

Astaf'eva estimates that changes in the oil price alone accounted for an estimated 27% of the growth over 1998–2007 (Astaf'eva 2007, p. 38).

I am grateful to Francisco Rodriguez for this point.

Spilimbergo estimates that without oil windfall revenues (i.e. with oil at $20 a barrel), the budget would have been in surplus in 2000–2001, but sliding into deficit reaching 2.6% of GDP by 2005 (Spilimbergo 2005, Table 3).

Itar Tass, 30 January 2008.

Such funds have been created in Kuwait, Norway, Colombia, Venezuela, Azerbaijan, Chad, Alaska and Alberta (Birdsall & Subramanian 2004).

Federal State Statistics Service (Rosstat), available at: http://www.gks.ru, last accessed 20 April 2008.

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'FSU States Set for Solid Oil Growth', Petroleum Intelligence Weekly, 30 July 2007.

Putin meeting with Gazprom Board Chairman Aleksei Miller, 14 March 2008, available at: http://www.kremlin.ru, accessed 20 April 2008; http://eng.gazpromquestions.ru/index.php?id=5, accessed 20 April 2008.

Presidential Administration, available at: http://www.kremlin.ru, accessed 20 April 2008.