



## Russia's Economy: Challenges Amid the Boom, Part I

*Anders Åslund says the Russian economy is growing briskly but remains hobbled by high-level corruption and expanding state control and ownership.*

*Transcript of interview recorded December 18, 2012. © Peterson Institute for International Economics.*

Steve Weisman: The Russian economy is growing at a brisk pace, but many problems are shadowing the future for Russia, according to Anders Aslund, senior fellow at the Peterson Institute, who has just returned from Moscow. This is Steve Weisman. Anders, what is the outlook for the Russian economy?

Anders Aslund: To begin with, things look very good. Russia has close to a perfect macro economy. The growth rate is pretty brisk at 3.5 percent. The budget is in slight surplus. Russia has a public debt of 10 percent of GDP. Inflation that has been high previously has finally come down to 6 percent. Russia has a big international surplus and the third largest international reserves in the world. In the short term, things actually look very good.

Steve Weisman: But you have identified a couple of major problems -- among them, the increasing state control of the economy and along with it, the problem of corruption. Let's talk first about the state role in the economy especially with Gazprom. What do you see on the horizon?

Anders Aslund: The big problem today in Russia is that state companies are expanding and they are very bad companies.

Steve Weisman: What do you mean by bad?

Anders Aslund: I mean that they are very corrupt. The corruption comes very much from loose control over state properties. The consequence is that they are taking over more and more of economy that is financially worse and worse.

Steve Weisman: What percentage -- is it shockingly high now?

Anders Aslund: The general assessment is about half of the economy is now state controlled, while the perhaps not very accurate judgment before was that it was 70 percent of GDP that came from the private sector. Most strikingly, the private sector in oil has decreased sharply. It used to be 90 percent and now it's down to 40 percent.

Steve Weisman: This breeds a morale problem and a corruption problem?

Anders Aslund: You can say that the problem in Russia with corruption is very much concentrated to the top. We know that the top officials in Russia, on a grand scale, steal by the billions. And one Russian friend of mine said, "Russia's problem is not corruption. It is extortion. Certain people get large amounts, simply because of who they are. Not because they deliver a service." Corruption is usually defined as the sale of public goods at private gain, but here nothing is being sold.

Steve Weisman: How long can such a thing go on?

Anders Aslund: It has gone on for a long time and now it's clearly getting worse. The striking observation now is that people in general are saying if they steal for billions at the top, why should I not steal for a few thousands at least?

Steve Weisman: Gazprom faces difficulties, which you've identified in previous conversations, in large measure from the increase in natural gas production around the world, including the United States. Do you still have a pessimistic outlook for the solvency of Gazprom?

Anders Aslund: Yes, absolutely. I think that the gas prices in Europe are likely to fall by one third and that would wipe out Gazprom's complete profit. At the same time, President Putin himself is pressing Gazprom to undertake massive new construction, which is totally unjustified. Building pipelines, south stream and also a north stream -- and this at no value whatsoever. This is a sheer value detraction.

Steve Weisman: Anders, we're going to stop there. In the second part of this interview I want to talk to you about US-Russian relations after the enactment of the most favored nation status for Russia.

