

“~~Love~~ Money Makes the World Go Round”

“We have always known that heedless self interest was bad morals, we now know that it is bad economics.”

Franklin Delano Roosevelt

# Russia's Troubled Economy

How it got here and where it's going

By Bob Srenaski



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1 RUSSIA

5 BELARUS

9 ARMENIA

13 TURKMENISTAN

2 ESTONIA

6 UKRAINE

10 AZERBAIJAN

14 KYRGYZSTAN

3 LATVIA

7 MOLDOVA

11 KAZAKHSTAN

15 TAJIKISTAN

4 LITHUANIA

8 GEORGIA

12 UZBEKISTAN





# Russia has 1/6<sup>th</sup> of World's Natural Resources

- Natural gas – world's largest reserves, 1<sup>st</sup> in export, 2<sup>nd</sup> in production
- Oil – 8<sup>th</sup> in world reserves, 2<sup>nd</sup> largest supplier after Saudi Arabia
- Uranium – 3<sup>rd</sup> largest reserves
- Iron Ore – 1<sup>st</sup>, 1/6<sup>th</sup> of the world's reserves
- Timber – 1/6<sup>th</sup> of world's reserves
- Gold – Tied with Australia for 1<sup>st</sup>
- Coal – 2<sup>nd</sup> in reserves, 6<sup>th</sup> in production
- Also, manganese, chromium, nickel, platinum, titanium tungsten, copper, tin, lead, phosphates, diamonds,

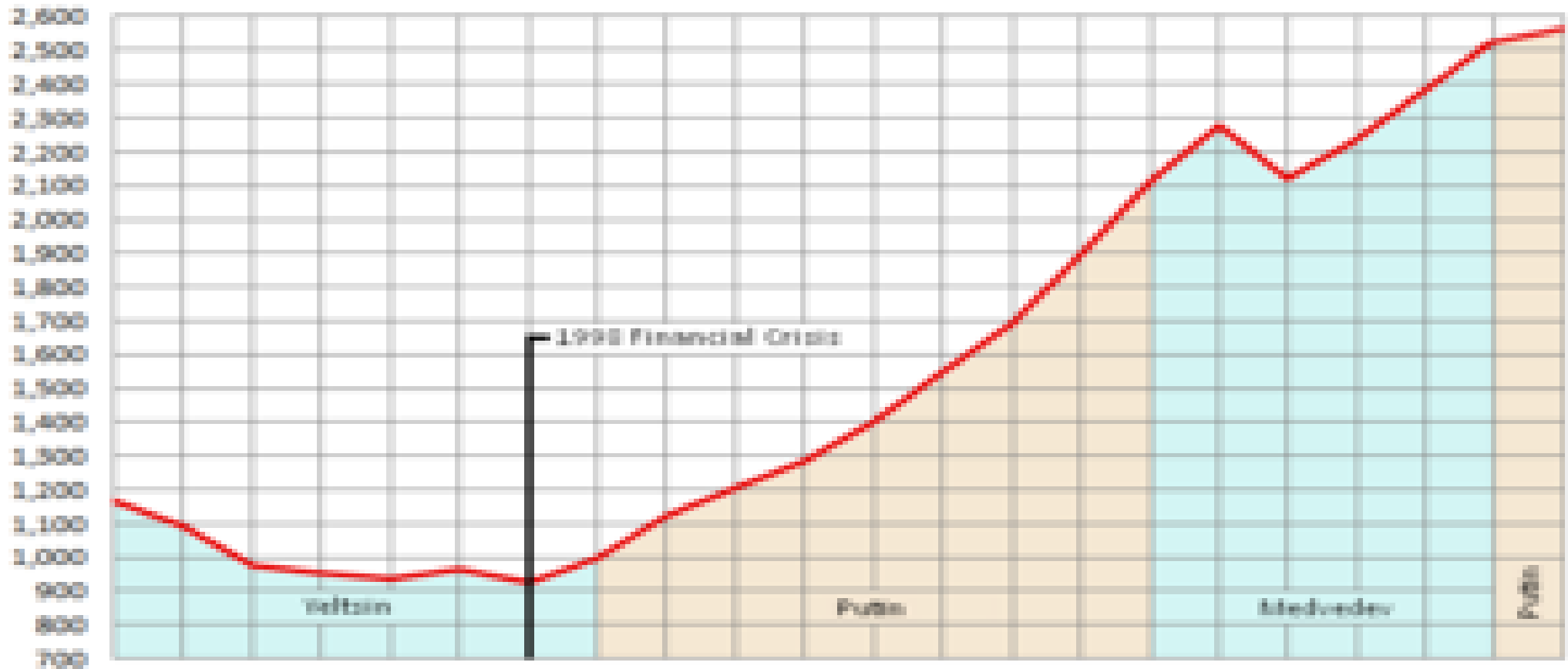
# 2013 – 8<sup>th</sup> Largest World Economy

|      |                    |          |
|------|--------------------|----------|
| • 1  | U.S.A.             | \$16.2 T |
| • 2  | China              | \$9.0 T  |
| • 3  | Japan              | \$5.1 T  |
| • 4  | Germany            | \$3.6 T  |
| • 5  | France             | \$2.7 T  |
| • 6  | Brazil             | \$2.5 T  |
| • 7  | United Kingdom     | \$2.4 T  |
| • 8  | Russian Federation | \$2.2 T  |
| • 9  | Italy              | \$2.1 T  |
| • 10 | India              | \$2.0 T  |

# Why Did Putin Become So Popular in Russia?

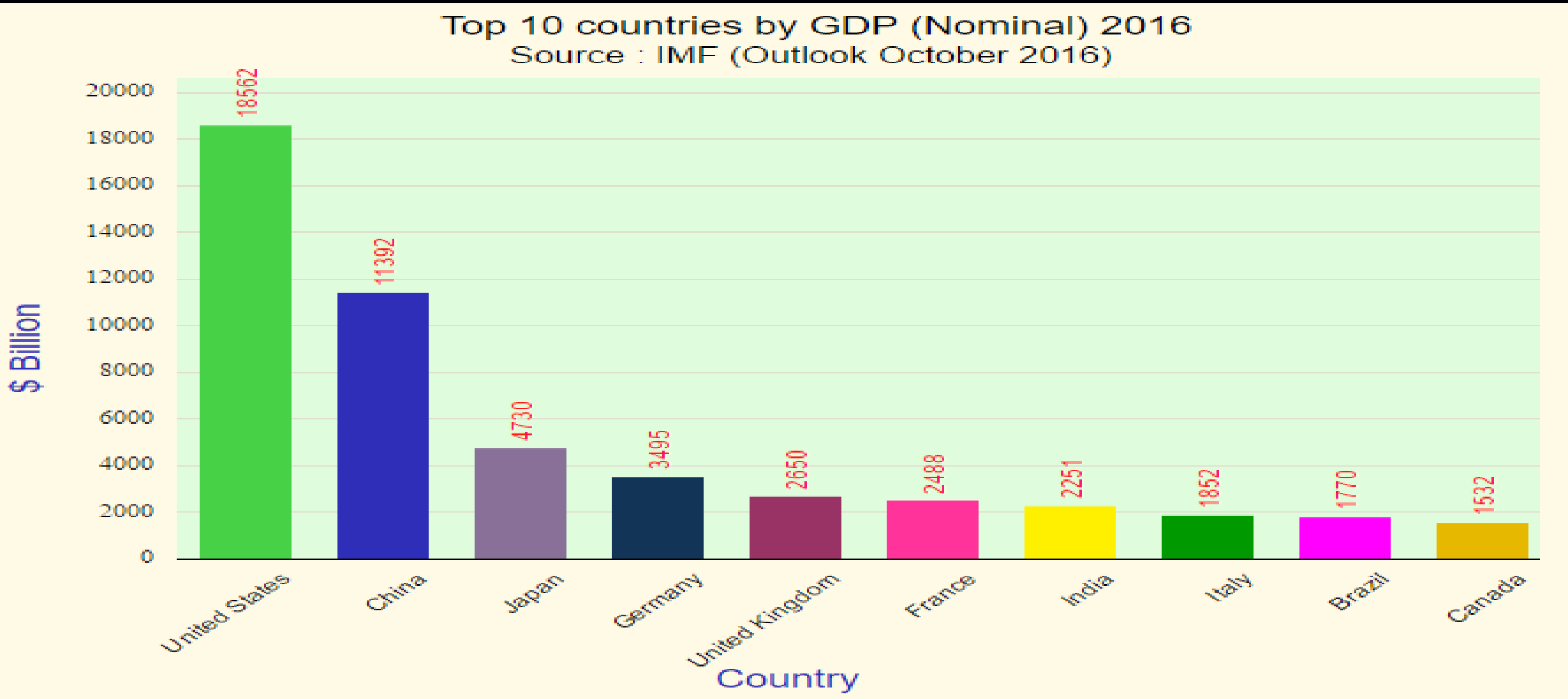
## Russian GDP (PPP) Since Fall of Soviet Union

Billions of International Dollars (2013)

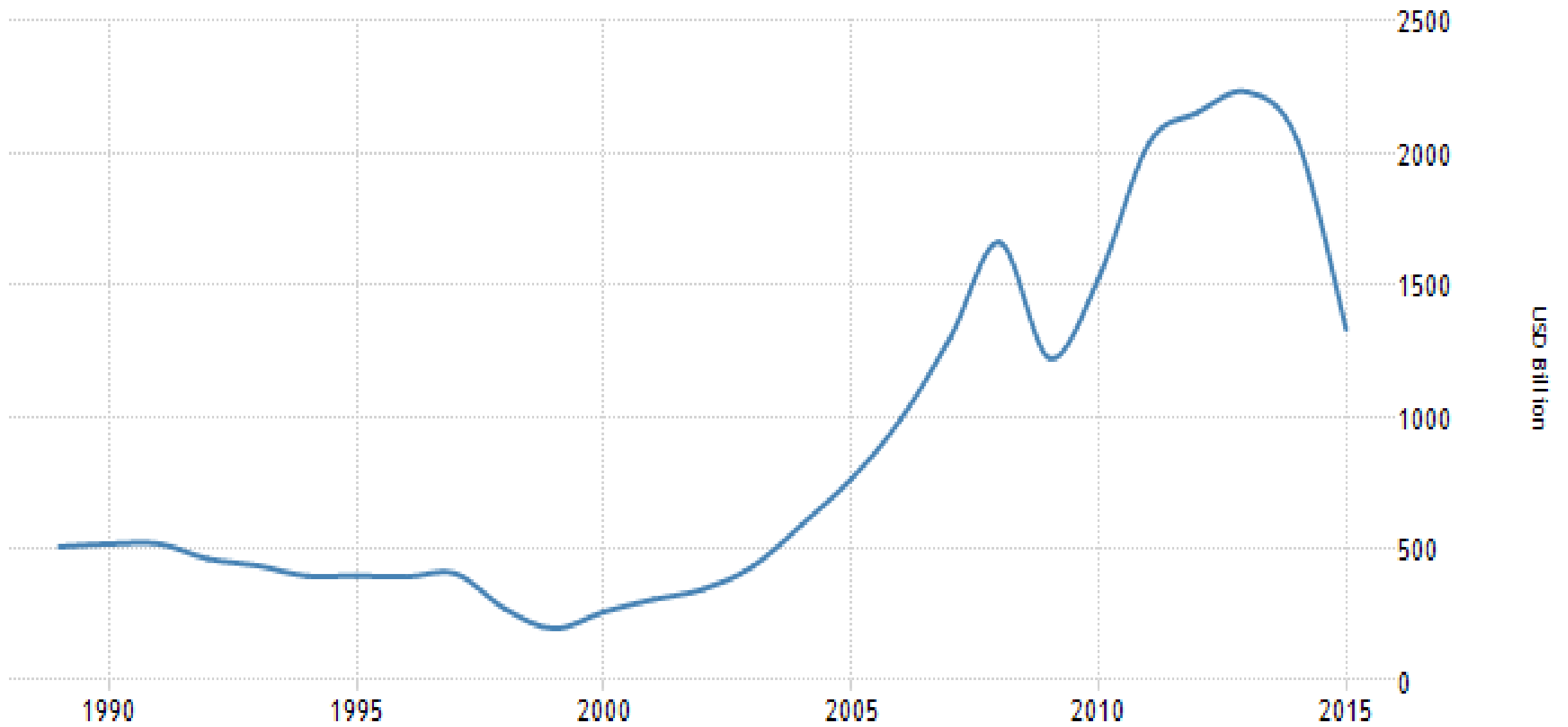


Source: International Monetary Fund (<http://www.imf.org>)

# What is missing in this picture?



# RUSSIA GDP



# Russia vs. France

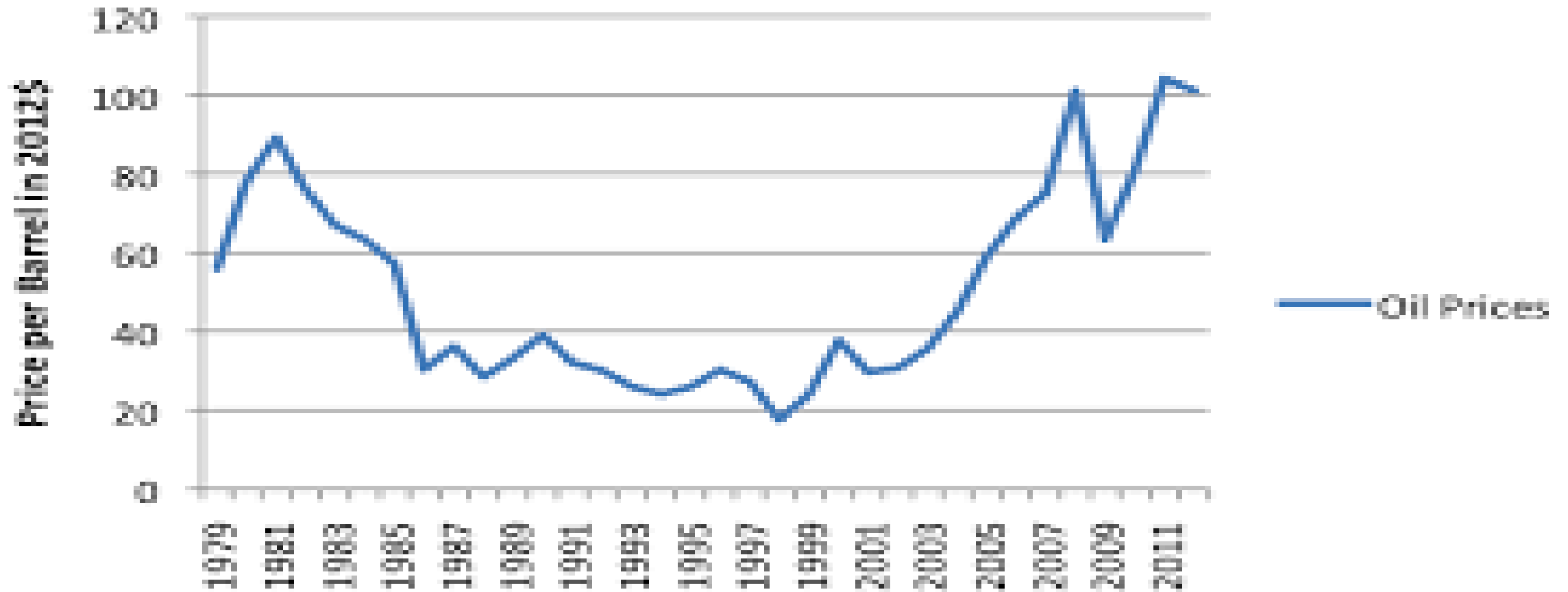
- Russia = 6.6 million sq. miles
- France = 260,558 sq. miles
- France = 1/25 the physical size of Russia
- France = less than half of Russia's 143M Population
  
- Russia GDP = \$1.3 Trillion
- France GDP = \$2.5 Trillion
- France's Economy = 2x size of Russian Economy

# Hooked on Oil & Gas

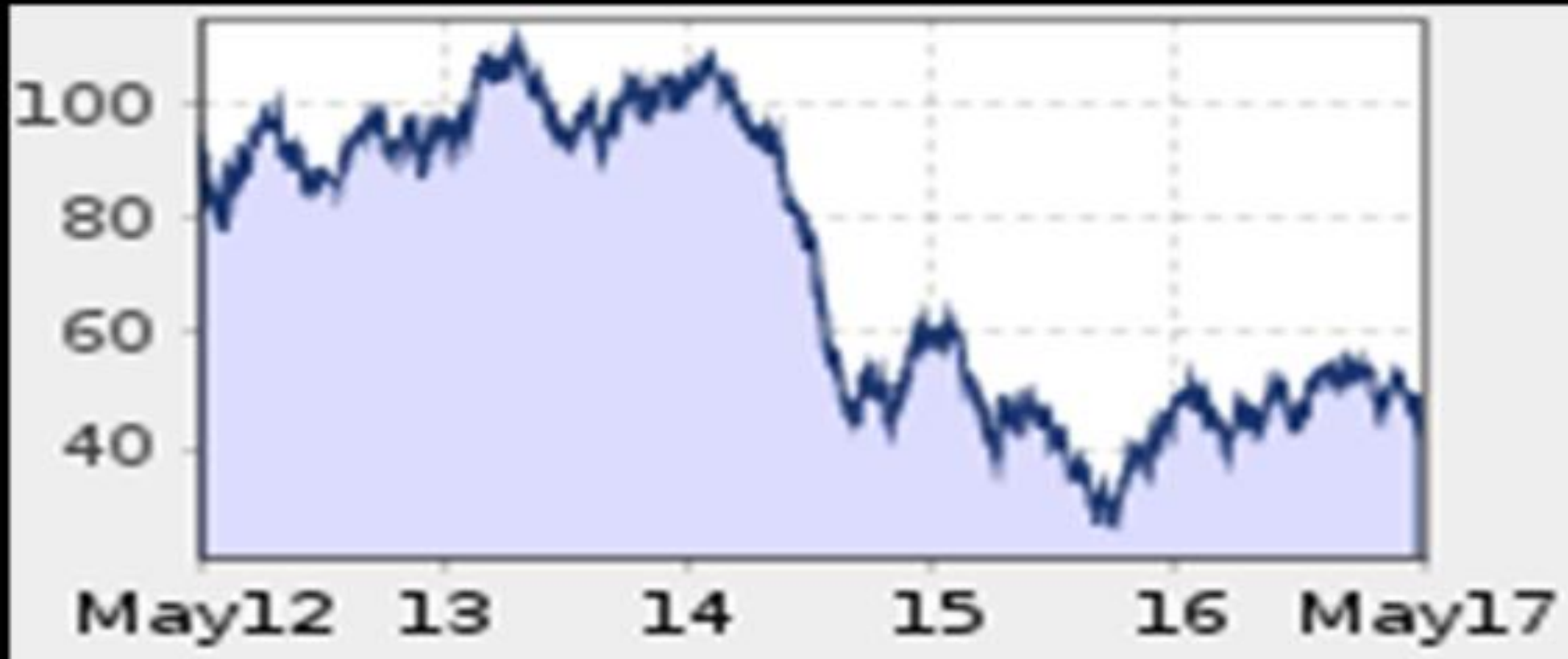
- 52% of Government Revenue (Income)

# Putin Gets Lucky

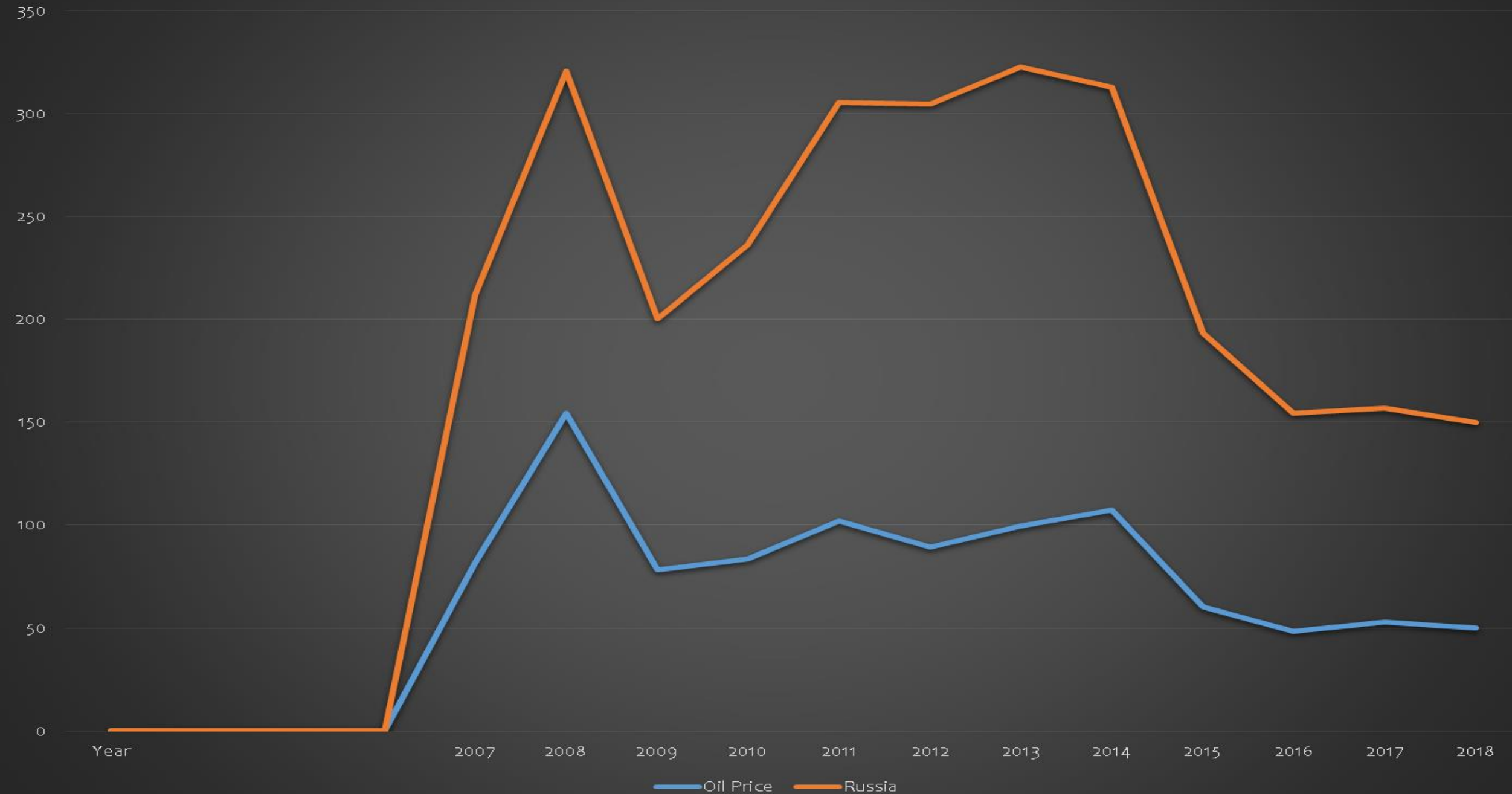
## US Crude Oil Prices in 2012 Dollars



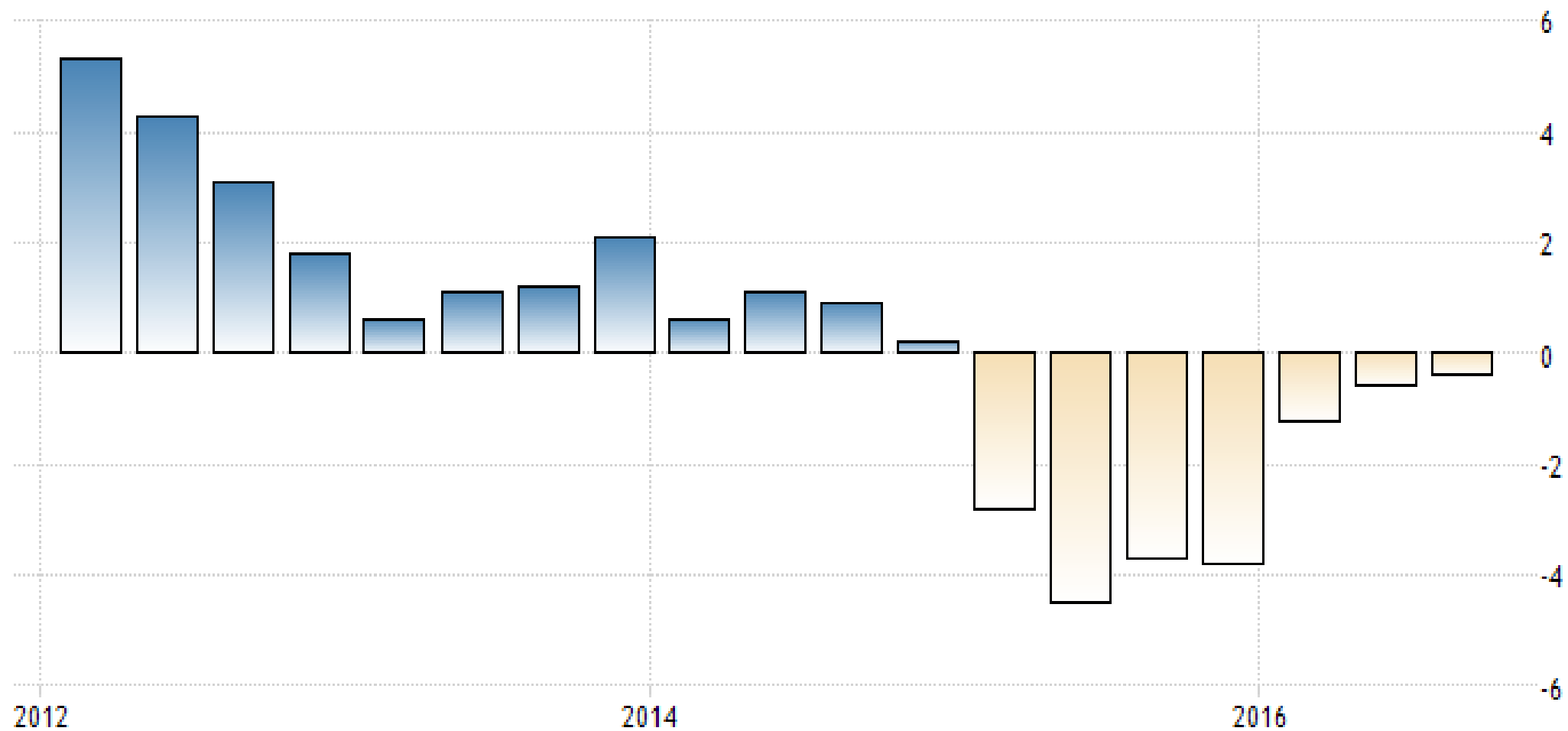
# Crude Oil Price May 2012 – May 2017



# Russian GDP vs. World Oil Prices



# RUSSIA GDP ANNUAL GROWTH RATE



SOURCE: WWW.TRADINGECONOMICS.COM | FEDERAL STATE STATISTICS SERVICE

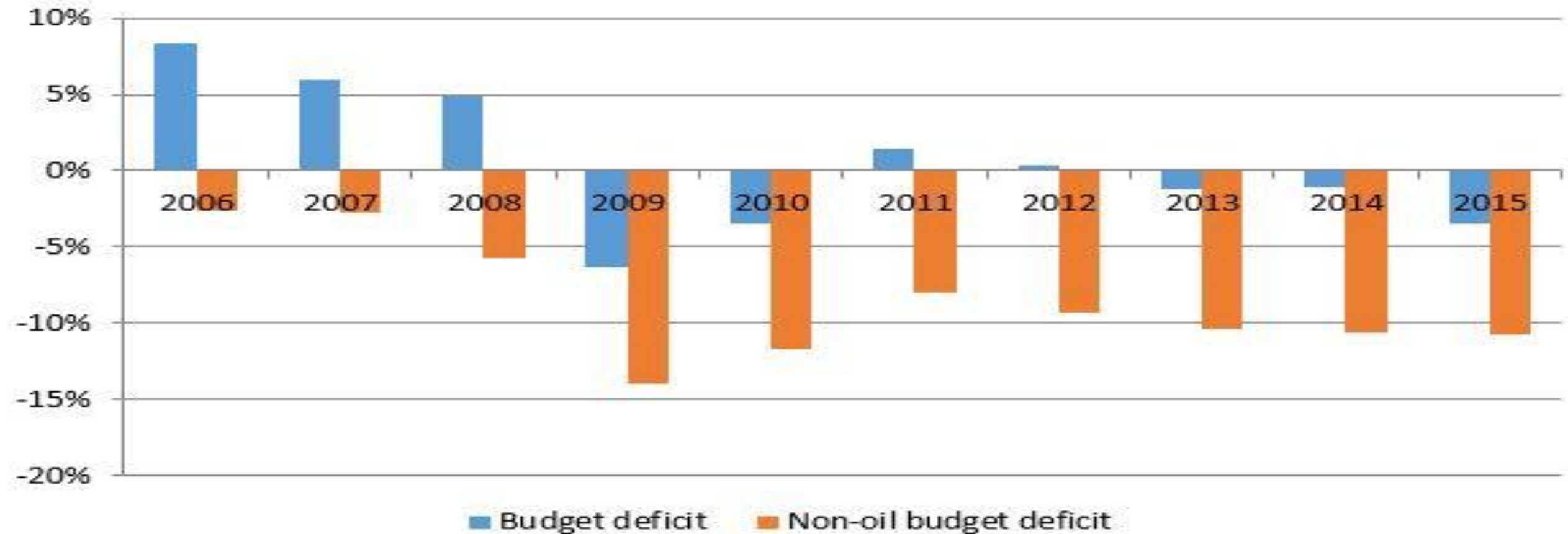
# Huge Annual Budget Deficits

## 2016 Fiscal Budget

- Revenue \$200 Billion
- Spending \$233 Billion
- Deficit \$33 Billion

# Non-Oil Economy in Bad Shape

**Budget deficit in Russia (% of GDP)**



# Low Labor Productivity

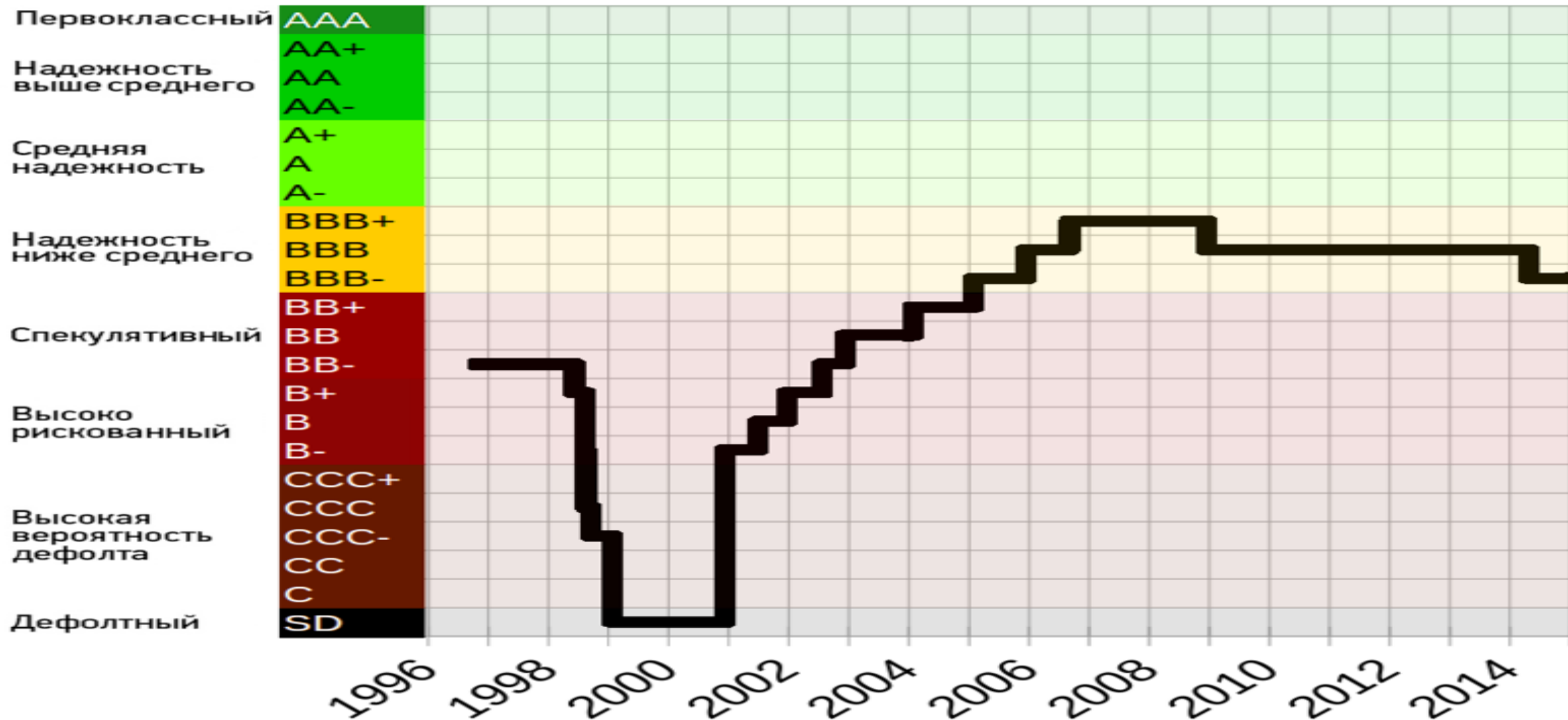
Russian workers' GDP contribution: \$25.90/hr

- 
- Greek Workers' GDP Contribution: \$36.20/hr.
- U.S. Workers' GDP Contribution: \$67.40/hr.

# RUSSIA INFLATION RATE



# Russia's Very Poor Credit Rating



# RUSSIA INTEREST RATE

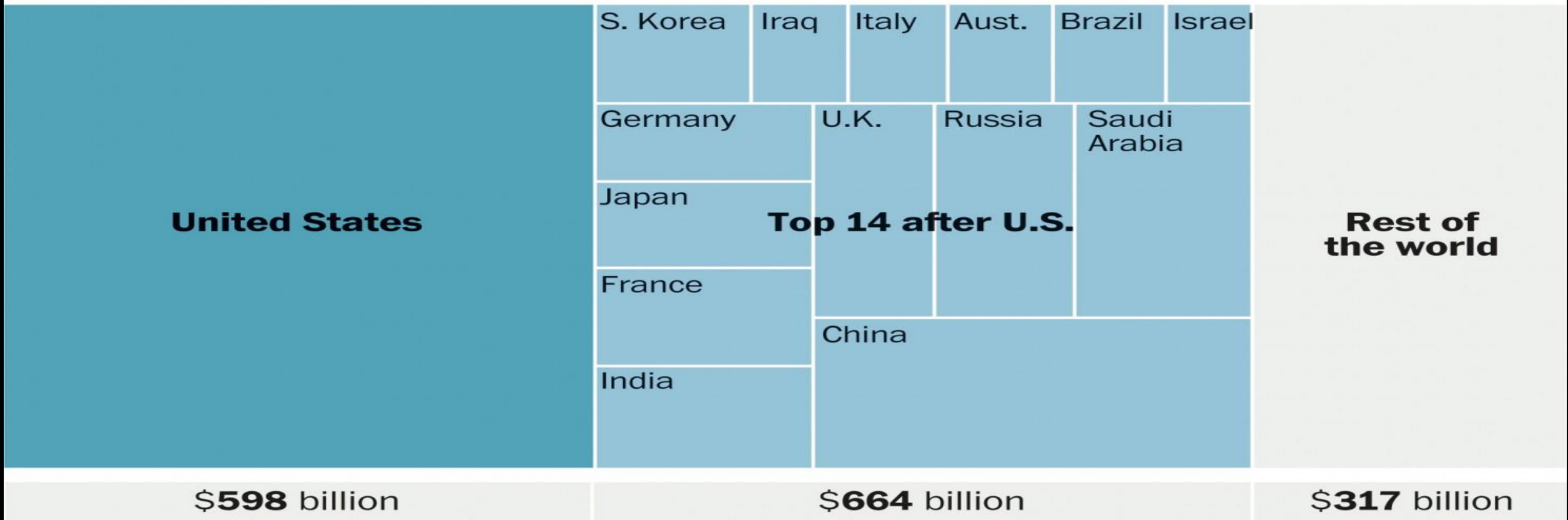


SOURCE: WWW.TRADINGECONOMICS.COM | CENTRAL BANK OF RUSSIA



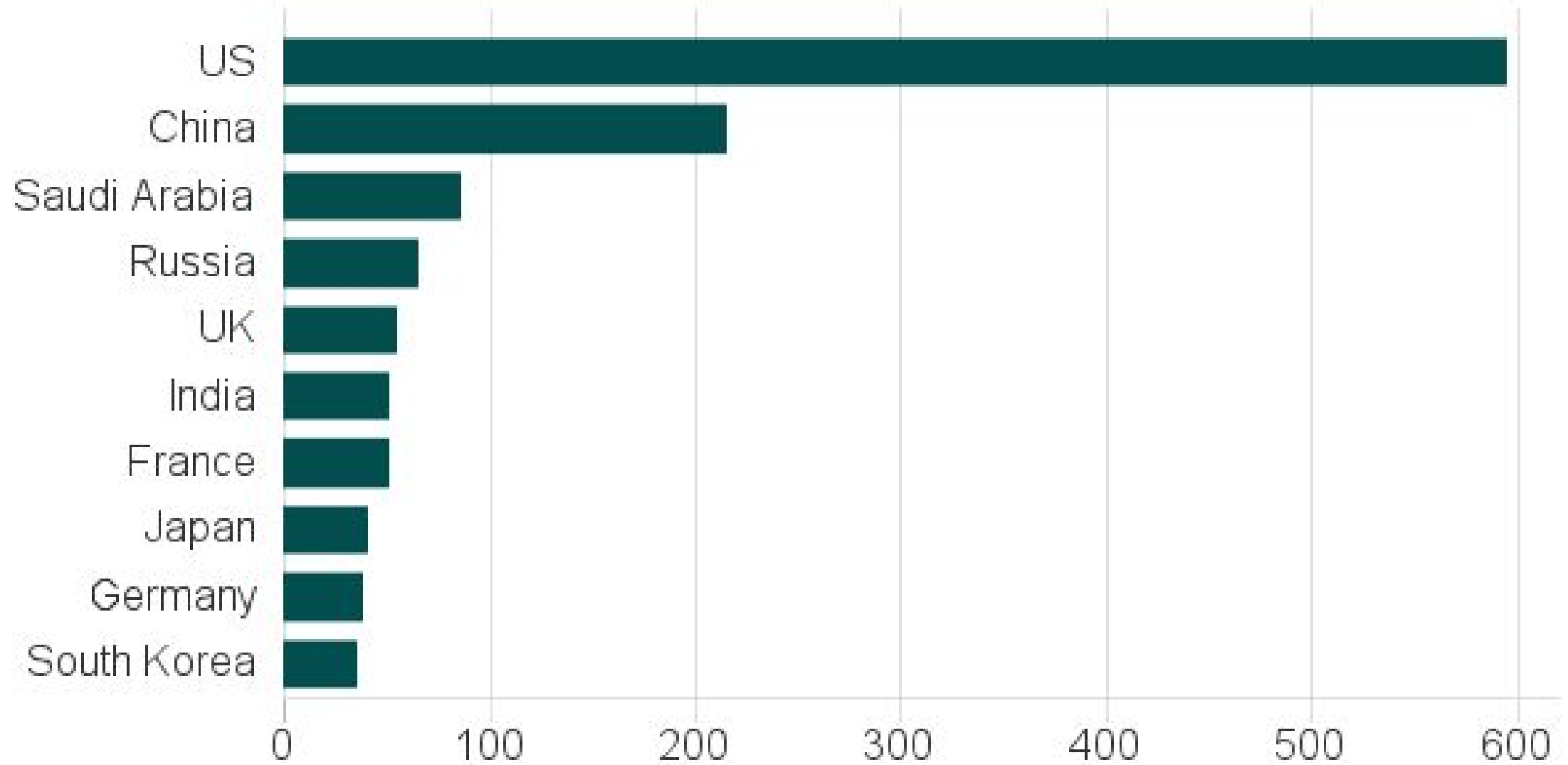
# Russia's Military Budget in Perspective

**U.S. accounts for more than a third of global spending**



Source: International Institute for Strategic Studies  
LARIS KARKLIS/THE WASHINGTON POST

## Top ten countries by military spending in 2015 (\$ billion)



Source: Stockholm International Peace Research Institute

# Russia's 2016 Military Budget in Perspective

- Total Government Revenues      \$200 Billion  
Total Military Spending      \$65.4 Billion

32.7% of 2016 Total Government Revenue

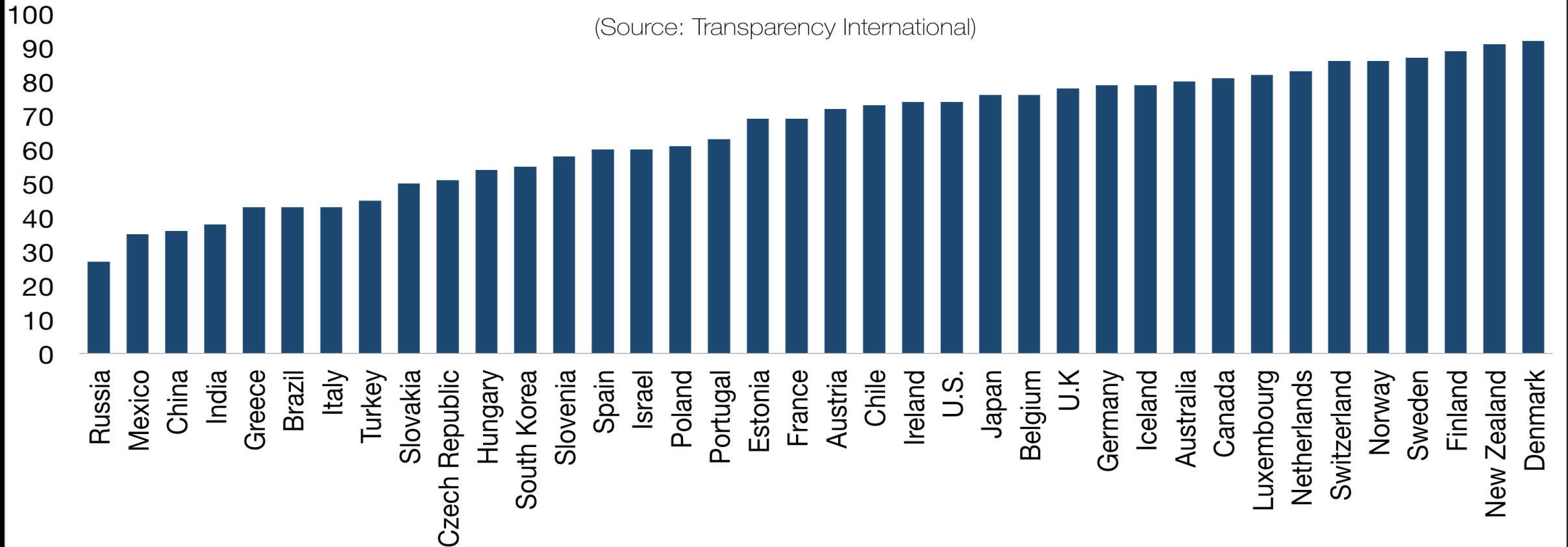
2017 Military Spending Budget: Reduced to \$49 Billion

# Rampant Corruption at Every Level

## Perceived Corruption Around the World, 2014

0 = highly corrupt | 100 = very clean

(Source: Transparency International)



# Most Corrupt: Putin and the Oligarchs

## Cities with most Billionaires

- 1. Moscow (78)
- 2. New York (62)
- 3. Hong Kong (43)
- 3. London (43)
- 5. Istanbul (37)
- 6. Sao Paulo (26)
- 7. Mumbai (24)
- 8. Seoul (23)
- 9. Beijing (21)
- 10. Dallas (18)
- 10. Paris (18)

# Corruption: Robbing the Country

- 48% of GDP consumed by corruption
- \$53 Billion/year lost
- More than the entire Military Budget
- Source: International Monetary Fund (IMF)

# Putin's Wealth

- Says he has:
  - Annual Income: \$178,000
  - One small apartment
  - Three Old Cars







# Russia's Economic Future – Steady Decline

- Economy Lacks Diversification
- Industry unproductive
- Large State-Owned Enterprises Dominate
- Not enough SME's – EU 40% GDP, Russia 15% GDP
- 2008-2012 Loss of 300,00 Private Sector Jobs
- 2008-2012 State added 1.1 million

# Military Cost Drag on the Economy

Still nearly 1/3 of total government revenues

Cost of War in Syria

Costly Support for “Troops” in Eastern Ukraine

Crimea and Ukraine International Sanctions

Border Protection and National Security Costs

# Geographic Challenge – Border Protection

## Russia Shares Borders with Fourteen Countries

- Finland
- Norway (NATO)
- Estonia (NATO)
- Latvia (NATO)
- Lithuania (NATO)
- Poland (NATO)
- Belarus
- Ukraine
- Georgia
- Azerbaijan
- Kazakhstan
- Mongolia
- North Korea
- China

# Ethnic Challenges

- 12-15% Population (16-20 million)= Tartars, Bashkirs, and Chechins
- Those Ethnic groups are Muslim
- Moscow: One Million Muslim residents + 1.5 million migrant Muslim workers
- Moscow is the largest Muslim city in Europe

# Russia's Economic Future – Steady Decline

- Military, too costly, wasteful, and corrupt
- Sanctions hurt
- Inflation and Interest Rates Restrict Growth and Investment
- Corruption Continues – Oligarchs Laundering Money
- Well educated Russians leaving in droves
- Bad Demographics – Population Declining
- Steep decrease in working age population
- No incentive to change – Putin very popular still

# The Future – What to Expect

- The Russian Bear will continue to be Troublesome and Dangerous – Cyber Warfare, but not Suicidal!

- P.S. Keep your eyes on oil prices

# What can we expect from Russia in the Future ?

“I cannot forecast to you the action of Russia. It is a riddle in a mystery inside an enigma; but perhaps there is a key. The key is Russian national interest.”

Sir Winston Churchill

1 October 1939

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# Putin as Russian Federation Leader

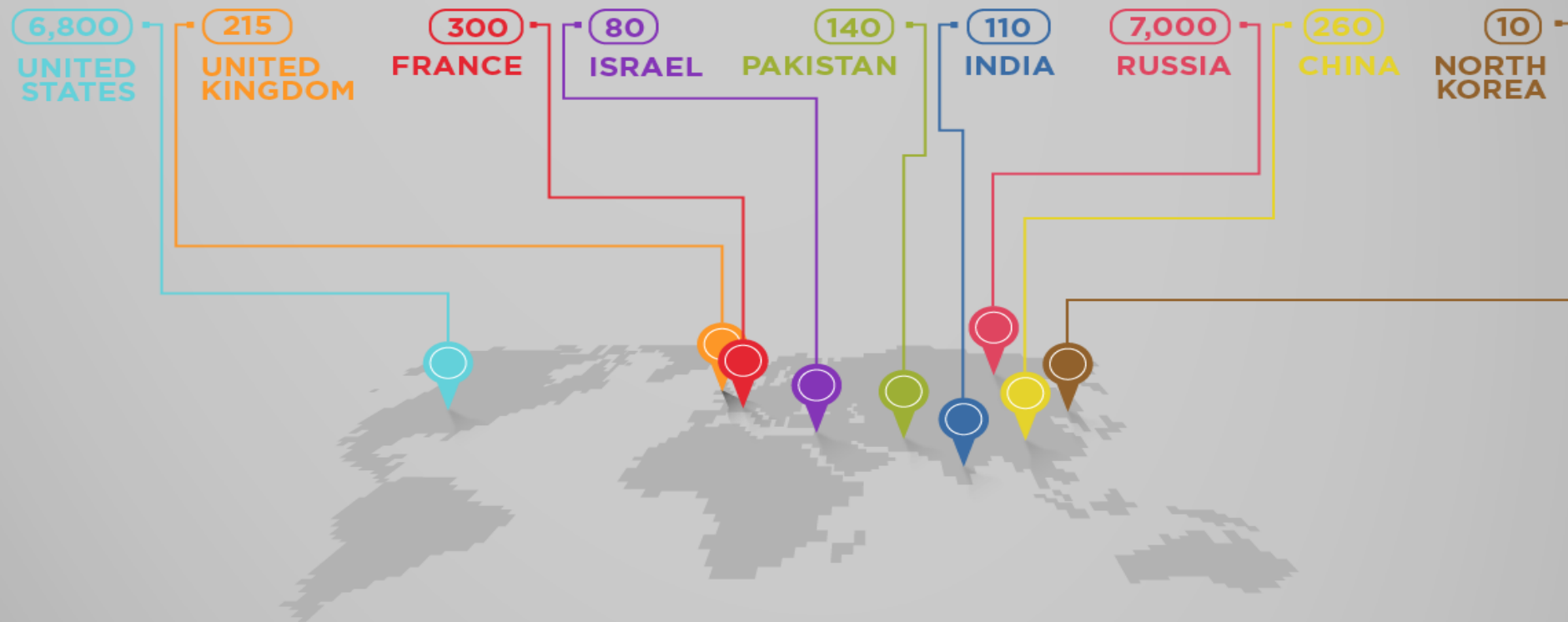
- August 1999      Appointed Acting Prime Minister
- Dec 31, 1999      Appointed President
- March 2000      Elected President
- March 2004      Re-elected
- March 2008      Medvedev President, Putin Prime Minister
- Dec 31 2008      Term of President from two to four years
- March 2012      Elected President for six years
- 2018      Next presidential election

The End

# Nine Countries Have Nuclear Weapons

## 2017 ESTIMATED GLOBAL NUCLEAR WARHEAD INVENTORIES

The world's nuclear-armed states possess a combined total of roughly 15,000 nuclear warheads; more than 90 percent belong to Russia and the United States. Approximately 9,600 warheads are in military service, with the rest awaiting dismantlement.



# THE COMMUNIST WORLD

1959





# THE COMMUNIST WORLD

2017



# GDP Gross Domestic Product

The money value of all goods and services produced within a nation's borders over a specified period of time.

$$\text{GDP} = \text{Consumption} + \text{Government} + \text{Investment} + \text{Exports} - \text{Imports}$$

Consumption = Durable Goods (items expected to last 3 years or more, refrigerators, etc.)

    Nondurable goods (food & clothing)

    Services

Government Expenditures = Social Security, Other Social Programs, Defense, roads, schools, airports, etc.

Investment = Non-residential (plants & equipment)

    Residential

    Business Inventories

Net Exports = Exports minus Imports