

RUSSIA

The income gap with OECD countries narrowed rapidly until 2008, but remained large and widened in 2009, as Russia was relatively hard-hit by the economic and financial crisis. This income gap is almost entirely attributable to a labour productivity shortfall, making productivity-enhancing reforms a priority.

Priorities supported by indicators

Lower barriers to trade and foreign direct investment

Barriers to international trade and FDI are high compared to OECD countries, undermining competition and technology diffusion.

Actions taken: The Law on Strategic Industries came into force in 2008, defining 42 sectors in which foreign acquisitions require prior government approval. Several discriminatory trade measures were introduced during the crisis, and some have been extended.

Recommendations: Discontinue discriminatory trade measures introduced during the crisis. Reduce tariff levels and dispersion. Shorten the list of strategic sectors.

Reduce state control over economic activity

State control remains significant due to a high degree of public ownership and influence on economic activity, which depresses competition and thereby hinders innovation and productivity growth.

Actions taken: The government stepped up privatisation efforts in 2010. The list of strategic enterprises for which privatisation requires presidential approval has been reduced. The government has promoted the appointment of independent directors to the boards of state-owned enterprises.

Recommendations: Further reduce the list of strategic enterprises. Increase the use of regulatory alternatives to direct interventions.

Raise the effectiveness of innovation policy

Innovation potential is substantial, reflecting a well-developed science base, the high quality of science and engineering education and significant public resources spent on research and development; however, incentives for private research and development are overly weak, limiting productivity gains.

Actions taken: Five modernisation priorities were chosen by the President: energy, IT, telecommunications, biotechnology and nuclear technology. Plans were announced to build an “innovation city” near Moscow with a special legal and tax regime. Immigration procedures for highly qualified foreign specialists were simplified.

Recommendations: Continue the reforms in the state science sector. Monitor and regularly review the outcomes of the special projects. Support private-sector innovation activities through universally applied fiscal incentives and legislative framework, avoiding “picking winners”.

Other key priorities

Raise the quality of public administration

The inefficient and often corrupt practices on the part of government officials impose a significant burden on ordinary citizens and create obstacles for entrepreneurship and, ultimately, productivity gains.

Actions taken: A series of laws have been adopted within the framework of the Concept of Administrative Reform approved in 2005 and the anti-corruption initiative. A five-year programme of reform and development of the civil service was launched in 2009.

Recommendations: Continue with efforts to simplify regulations and procedures and reduce the bureaucratic interference in private sector activities. Reduce potential for corruption by minimising the need for subjective decision-making by bureaucrats.

Reform the health care system

Efforts to reform health care provision need to be stepped up to make significant progress in improving poor health outcomes, which harm productivity and wellbeing more broadly.

Actions taken: Some reforms have been undertaken within the framework of the National Priority Programme “Health” launched in 2005. The financing of the health care system has been increased and a range of measures to improve prevention are being put in place. A law was adopted in November 2010, reforming the framework for operation of the mandatory health insurance system.

Recommendations: Further increase public funding of health care and enhance the efficiency of the health care system. Focus prevention efforts on changing lifestyles. Encourage a shift from hospital to primary care. Improve the incentives for providers to deliver high-quality care.

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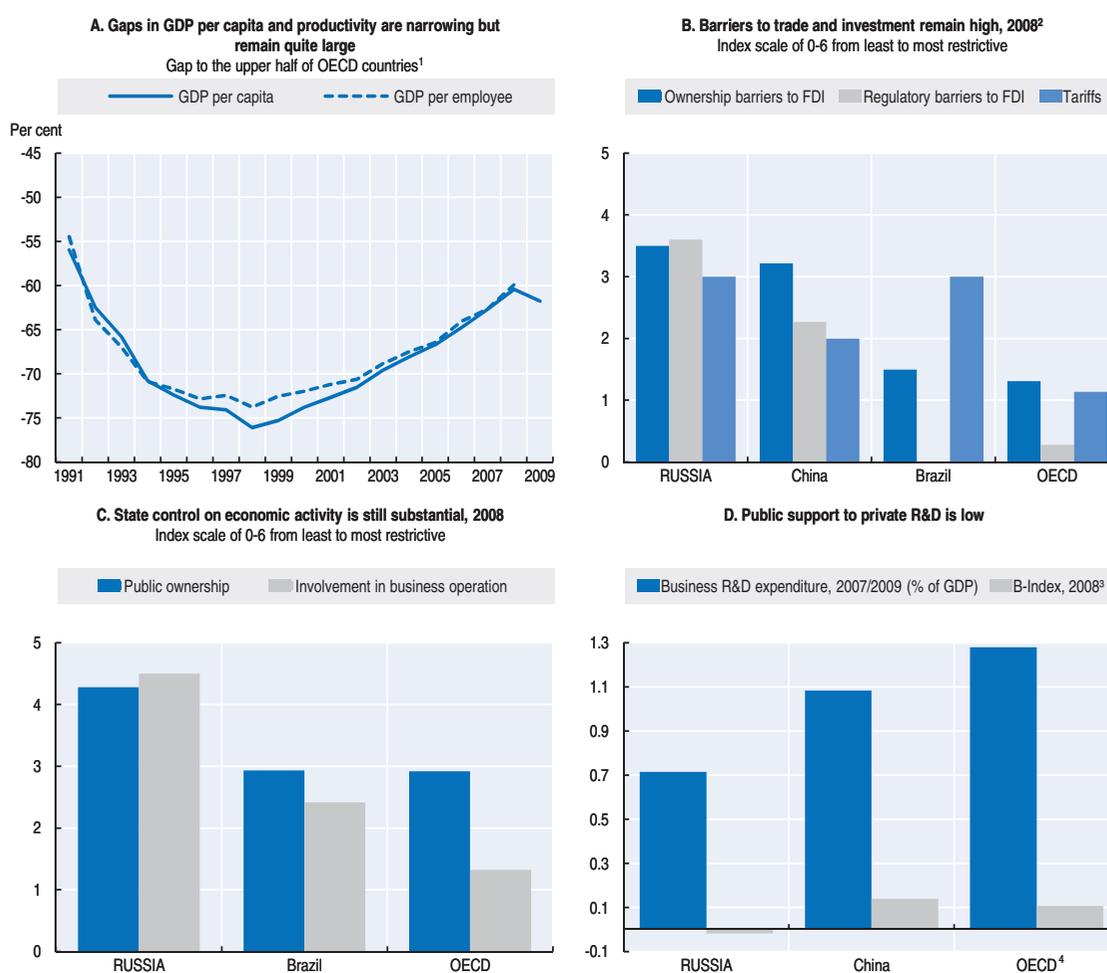
Structural indicators

Average annual trend growth rates, per cent

	1999-2009	1999-2004	2004-09
GDP per capita	7.3	7.0	7.5
Labour utilisation	..	..	..
of which: Employment rate	1.6	2.1	1.1
Average hours	..	..	..
Labour productivity ¹	5.6	4.9	6.3
of which: Capital intensity	..	..	..
Multifactor productivity	..	..	..

1. Labour productivity is measured as GDP per employee.

Source: Estimates based on World Bank (2010), *World Development Indicators (WDI)* and ILO (2010), *Key Indicators of the Labour Market (KILM)* Databases.



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).
2. The FDI regulation index looks only at statutory restrictions and does not assess the manner in which they are implemented.
3. Measures the generosity of tax incentives to invest in R&D, on the basis of the pre-tax income necessary to cover the initial cost of one dollar R&D spending and pay corporate taxes on one dollar of profit (B-index). A value of zero on the chart would mean that the tax concession for R&D spending is just sufficient to offset the impact of the corporate tax rate. Average of small and medium enterprises and large firms.
4. Excluding Chile in the R&D expenditure and excluding Estonia and Slovenia in the B-Index.

Source: Chart A: World Bank (2010), *World Development Indicators (WDI)* and ILO (2010), *Key Indicators of the Labour Market (KILM)* Databases; Charts B and C: *Product Market Regulation Database*; Chart D: OECD, *Main Science and Technology Indicators Database*.

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