OECD Study Calls on Russia to Develop Internal Sources of Economic Growth

The Russian government has taken advantage of economic growth to eliminate budget deficits, increase financial discipline in the economy, and make good progress in a number of structural reforms. A new OECD report indicates that the policies and reforms of the Russian government of the last two years may have already contributed to the recent growth. While Russia’s recent economic revival has been helped by strong oil and gas prices and an exceptionally weak rouble, according to this report, further reform is crucial for establishing internal conditions that could make the growth sustainable.

The OECD’s Economic Survey of the Russian Federation warns in particular of the possibility of a future energy crisis in the country in the absence of fundamental regulatory reform in the oil and natural gas industries. Highly politicised and inefficient regulation, combined with huge energy subsidies, have deprived these sectors of much needed investment, while encouraging the wasteful and irrational consumption of energy. Increasing investment levels in these industries, especially in electricity, is essential in the near future.

The survey calls for a regulatory reform that would involve the creation of a genuine independent body responsible for implementing stable regulatory rules that are fixed in laws or contracts. The huge energy subsidies and cross-subsidies should be eliminated in coming years according to a predetermined schedule, while a major social assistance programme in the federal budget should alleviate the implied burden on the poorest households.

Despite some recent improvements, the OECD survey stresses that the environment for private business, investment, and competition continues to suffer from fundamental weaknesses. This is confirmed in still substantial outflows of capital from the country and relatively low numbers of small private businesses. For entrepreneurs, harassment and extortion, often by state agencies, are rife. The OECD relates these difficulties to financial relations between different levels of government in Russia. Under the current system, regional and local officials commonly have insufficient interest in improving the business environment on their territories. Part of the solution, says the OECD, is to give local government genuine autonomy in setting budgets and taxes within clearly defined bounds.

Barring a major deterioration in world commodity prices, the OECD survey says, the short-term prospects for the Russian economy are favourable. It points to improvements in macroeconomic policy, financial discipline, corporate governance and in reform of the banking sector. Better co-operation between the government and the parliament (Duma) has boosted prospects for achieving key reforms, it adds.
This is the fourth Economic Survey published under the OECD’s programme of co-operation with the Russian Federation. It forms part of the organisation’s continuing dialogue with non-members.

For further information, journalists are invited to contact John Litwack at the OECD’s Non-Member Economies Division (tel: [33] 1 45 24 90 38 or john.litwack@oecd.org), or Stephen Di Biasio at the OECD’s Media Relations Division (tel. [33] 1 45 24 81 03 or steven.dibiasio@oecd.org). A summary of the main findings of the survey is available on the OECD’s website at www.oecd.org.

Journalists may obtain a copy of the survey from the OECD’s Media Relations Division (news.contact@oecd.org or by fax [33] 1 45 24 80 03).

--------------------
"Economic Survey of the Russian Federation"
216 pages, OECD Paris 2002
Available in electronic form (pdf)
€ 32; US$34
ISBN 92-64-19147-X (10 2002 05 1)