

# Russia's Crash and Recovery in Motion

By [The Moscow Times](#)

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Google has introduced a really cool new function: moving charts. If a picture is worth a thousand words, then a moving chart is worth a million of them.

This is going to be the emerging markets' century — so everyone says — but at bne, we have been struggling to get across just how dynamic the pace of change in Russia has been. In the space of a decade, this country has been transformed from a basket case and consumer desert to a more-or-less normal country. But commentators can't get past the corruption and the flaws in the political system to see the underling transformation that's going on at street level.

Take a look at the chart below and press the "play" button. You will see an extraordinary chart that is the most graphic illustration I have seen highlighting the dynamism of Russia's change.

Investors are fixated on China's massive population and its ballistic growth of over 10 percent per year. While clearly the world order is shifting, and China together with India will become

the dominate global economic powers sometime in the next 20 to 40 years, this chart shows that the biggest changes are currently occurring in Russia — the unloved BRIC.

Let me walk you through the chart (you have to press play in the bottom left corner). At first, there is the slow growth of the other BRICS in the 1980s. Following the collapse of the Soviet Union in 1991, Russia appears and the relatively high levels of income drop like a stone.

Then the surprises start. While 1998 is generally taken as the point when Russia crashed, actually it is the year when the turnaround began. Also notice that the fall between 1991 and 1998 was vertical, i.e. spending was static.

The reason? The ruble was massively overvalued, the payment system had collapsed, and Russia was a so-called "virtual economy" operating on barter rather than cash. You can't spend anything if you don't have any cash.

But the 75 percent devaluation of the ruble was a godsend. Overnight, the economy was re-monetized, and from 1999 you can see that once real spending of real money started, both incomes and spending start to increase as the cogs of commerce began to turn.

Then in 2000, when oil prices start to recover, the economy takes off and both incomes and spending start to grow strongly. Indeed, all the emerging markets begin to grow strongly from 2000, but what this chart illustrates so well is the speed at which the Russian economy accelerates away from the rest.

The most dramatic change arrives in about 2006 (unfortunately the data only runs to 2008) when income growth begins to slow, but spending accelerates again and flies off to the right after lending reaches critical mass.

The epilogue to this story, not shown on this chart, is that incomes continued to rise throughout the crisis, but both lending and spending stopped. However, the most recent data from the government for the first quarter of this year shows that spending has already recovered to its pre-crisis levels but is growing at a slower pace — on a par with its mid-2000 levels. The problem is that while banks are flush with cash, they haven't started lending again. However, according to the Central Bank, credit is starting to pick up again and should accelerate in the second half of this year as confidence returns.

More to the point, Russia is already accelerating away from the other BRIC again towards normalcy.

*The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.*

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