

# Clock Is Ticking on Putin's Economic Pledges

By [Sergey Guriyev](#)

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This year will be decisive in determining if President Vladimir Putin can fulfill his campaign promises regarding economic policy. The most important is his promise to put Russia in the top 20 countries with the best business climate. It might seem that 2018 is still far off, but if significant process is not made in 2013, it is unlikely Russia can meet that goal five years down the road.

Why is this promise the most important? First, progress toward this goal is easily measured and can be determined irrespective of the state apparatus. Second, the promise cannot be implemented without improving the quality of institutions. In other words, improving the business climate is not as simple as throwing money at a project to build a bridge to nowhere. Third, improving the business climate will have a significant impact on economic growth.

A year ago, on Jan. 30, 2012, Putin published an article in *Vedomosti* titled "We Need a New Economy." The priorities he set forth in that piece were formalized by the decree "On Long-

Term State Economic Policy" on May 7, immediately after his inauguration. In that decree, the government is instructed to "take measures toward achieving primarily the following indicators: raising Russia's position in the World Bank rating of business conditions from 120th place in 2011 to 50th in 2015 and to 20th in 2018."

Very little time remains. The World Bank published its Doing Business in 2013 report in the fall of 2012. Russia was listed at No. 112 among 185 economies. That is better than the 120th place that Russia occupied the previous year, but it is still a long way from 50th place. Judging by Order No. 2096-r issued in November, the government plans to span the gap between 112th and 50th place in two leaps, beginning with a giant stride in 2014 to 81st place.

However, the Doing Business in 2014 report will be published in the fall of this year, and the data for that assessment is being gathered right now. That means, Russia's ability to make the leap to 81st place in 2014 is being determined as you read this. The legal framework for 2013 is already under consideration. Unfortunately, Russia did not pass any laws in 2012 that improve the business climate. The State Duma was busy with other important matters, placing restrictions on the Internet and nongovernmental organizations, raising fines for rallies and libel and retaliating against the U.S. Magnitsky Act. It is unlikely that Order No. 2096-r will be carried out, and it is no surprise that massive capital flight continued in 2012. What's more, despite the long-awaited advent of a period of "political stability," investors continue to prefer placing their money in other countries.

Of course, this is not to say that nothing was accomplished last year. The government and the Agency for Strategic Initiatives did a great deal of work preparing "roadmaps" for improving the business climate in specific sectors. These "roadmaps" must now be implemented in the form of new laws and regulations in order to raise Russia's rating in the Doing Business in 2015 report.

In fact, the government gave itself two extra years to meet its criteria, specifying in a separate document that success in reaching the target indicators should be reflected in ratings published after the period in question. That means, for example, that Russia should be listed in 50th place in the ratings published not in 2015, but in 2017 because that report will be published in the fall of 2016 and will be based largely on data concerning 2015. Nonetheless, the task remains formidable — after all, other countries will not be standing idly by during the next two years either.

In our view, another key point included in the president's decree of May 7 is the mention of very specific dates for privatizing state property. Putin ordered the government to develop a privatization plan by Nov. 1, 2012, that would enable "the government to withdraw by 2016 from the capital ownership of companies in the 'non-raw materials sector' and that are unrelated to natural monopolies and the defense industry." In particular, this means the full privatization of bank assets such as Sberbank, VTB and Rosselkhozbank and such assets in the transportation sector as Aeroflot and Sovkomflot. Implementing that ambitious plan and privatizing those assets would improve their efficiency and increase their competitiveness. However, the real question is whether the plan will even be carried out: after all, previous privatization plans were systematically forgotten.

In contrast to progress toward improving Russia's rating in the Doing Business reports, even

preliminary preparations have been slow in coming toward implementing the privatization plan. The November deadline passed without the appearance of the preliminary privatization plan for 2014-16. Last year's privatization of a 7 percent stake in Sberbank showed that even such a successful sale requires a significant investment of time. Therefore, if the government plans to carry out Putin's May 7 decree to privatize a 51 percent stake in Sberbank and a 77 percent stake in VTB, the process must be started immediately. If the privatization plan for 2014-16 — that will announce the sale of those assets, among others — is not published in 2013, it would be impossible to fulfill Putin's plan on schedule.

Is it possible to fulfill Putin's campaign promises to improve the business climate and privatize state assets? Yes, very much so. But it will require not just words, but deeds this year.

Sergei Guriev is a professor and rector at the New Economic School in Moscow, and Oleg Tsyvinsky is a professor at Yale University. This comment appeared in *Vedomosti*.

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