

What Could Russia's Economy Look Like After Putin?

The economy is a key battleground among Putin's deputies jockeying for position ahead of 2024.

By [Konstantin Gaaze](#) and [Alexandra Prokopenko](#)

December 17, 2019



Economic Development Minister Maxim Oreshkin has been vocal in asserting his idea of what Russia's economy should look like. [Kremlin.ru](#)

Economic policy in Russia is directly linked to electoral cycles, and the critical 2021-2024 parliamentary and presidential elections are unlikely to be an exception.

In the next four years, the authorities face a challenging task: on the one hand, they must maintain their own stability without drastically changing the existing power balance. On the other, they must implement the national [goals](#) set out by President Vladimir Putin upon his reelection in 2018 for what is expected to be his final term. Making those goals a reality requires a different model of economic growth, and therefore a different kind of economic

policy.

The precipitous increases in the [retirement age](#) and VAT that the government enacted within three months of the 2018 Presidential Election can be explained in terms of electoral optics: all unpopular decisions are best made at the start of the new term. That way, by the time major new parliamentary or presidential elections come around, that move will be nothing but a distant memory.

The cost of increasing the retirement age and VAT turned out to be extremely high: the approval [ratings](#) of both the president and the United Russia ruling party fell to levels last seen before Russia's annexation of Crimea (a highly popular move at home), while the government's ratings slumped to a historic low. Hiking VAT impacted on inflation (though not as seriously as had been predicted), and this is one of the reasons that the central bank has cautiously [reduced](#) interest rates. None of this has gone unnoticed by investors and the public.

Slow and steady

The good news is that because of the upcoming elections — for the State Duma in 2021 and the presidency in 2024 — the authorities will most likely refrain from making any drastic moves in terms of economic policy.

The bad news is that this means preserving the current [state](#) of the economy for at least another two years. There is a risk that by the time he is obliged by the constitution to step down as president in 2024, Putin will not have implemented all of his promises, while the government will have failed to meet its KPIs, and the population will have become even poorer.

There is no point in hoping that an improved economic situation on global markets will help to lift the Russian economy out of its stagnation in the next few years: on the contrary, external markets are where the main economic risks are coming from. Heightened trade and geopolitical tensions (above all, the trade war between the United States and China) will lead to a [slowdown](#) in global economic growth. For Russia, this will mean reduced demand for its exports, and a consequent impact on its economy.

Related article: [Sanctions Reduced Inequality in Russia – Study](#)

The United States is now entering the active phase of its presidential campaign. President Donald Trump's administration is waging trade wars in the interests of voters in industrial and swing states, not only with China but also with Europe. As things stand, virtually any talks between Russia and the United States risk being interpreted by the media as interference in the 2020 election.

The Europeans, dissatisfied with Trump though they may be, are also unlikely to reach a consensus and initiate their own talks about easing [sanctions](#) against Russia. In other words, there can be no positive external signals for the Russian economy until the end of 2020 at the very earliest.

The situation inside the country is no rosier. The government's economic policy successes are

so far rhetorical, and with parliamentary elections fast approaching, the window of opportunity is closing.

The current economic model, which prioritizes the accumulation of reserves and consolidation of the [budget](#), maintains GDP growth of about 1.5–2 percent a year. Creeping regulation and the actions of the siloviki (the security services) are constricting private investment. The effectiveness of budget spending is also in doubt: the [implementation](#) of the National Projects — Putin’s infrastructure development road map — is proceeding extremely slowly this year, and this is unlikely to change in the future. An economic spurt is, accordingly, impossible.

The Kremlin’s plan to tackle the negative consequences of economic stagnation consists of tightening control over the media. “We need to be able to influence Google, if the first links are going to be to [opposition leader Alexei] Navalny’s tactical voting scheme,” was how one official from First Deputy Chief of Staff Sergei Kiriyenko’s bloc outlined the presidential administration’s strategy for 2021.

Putin’s economic retreat

The President’s withdrawal from economic issues, which is becoming increasingly noticeable, leaves politicians of a certain type with room to maneuver. Their hope is to formulate a new economic path that they may be allowed to put into practice. If they are lucky, they will be doing so from the office of prime minister, and maybe even president (if, of course, Putin decides to vacate the Kremlin in 2024).

This explains why Economic Development Minister Maxim Oreshkin attacks the central bank and Audit Chamber head Alexei Kudrin, and why Kiriyenko plays an active role in meetings exclusively devoted to economic issues.

Oreshkin’s latest proposal for “managing composite demand” is not so much an incursion into the central bank’s territory as an attempt to put forward his own economic path. Under his vision, the financial authorities (the Finance Ministry and central bank) would operate under the supervision of the Economic Development Ministry. In other words, it’s an attempt to broaden his authority.

Related article: [Oreshkin Goads Bank of Russia on Growth as Inflation Slows](#)

Oreshkin needs [GDP growth](#) of 3% at any cost to be able to offer the President the most convenient economic conditions for the transition of power. The minister’s plan is to achieve 7% growth amid an inflation level of 4%. If his plan works, Oreshkin will be sitting pretty. If it doesn’t, well, people don’t get fired for failing to meet the goals set by the President.

Kiriyenko has his own plan for bringing about an economic leap forward. Economists can keep their models, as far as he is concerned. His task is to build a machine that will use technology such as artificial intelligence, smart targeting, and manipulation of big data to manage the behavior of economic agents and voters simultaneously.

Essentially, he wants to equate state management with the management of people’s feelings

and expectations. This machine would focus the functions of the state apparatus on the day-to-day management of people's behavior.

Propaganda or helicopter money

If Oreshkin's transition model could be described as "electoral mobilization," then Kiriyenko's model is closer to "digital esoterica." What Kiriyenko is offering the President is not just a solution to the problems of 2024, but to all problems for the next twenty years.

To enact Kiriyenko's model, a lot would have to be sacrificed: the President would have to clear the way with his own bare hands for a generation of talented new managers to access posts and resources, otherwise Russia's new digital purdah wouldn't have enough new adepts. Something would also have to be done about the siloviki, whose crude actions are at odds with the work of the finely tuned assembly line of a different kind of Russia, young and successful: of volunteers and managers, students and academics, athletes and patriots.

The 2021 State Duma elections can be considered a rehearsal — not so much for the presidential election as a model for building a new majority coalition. In some ways, the choice looks familiar: propaganda or helicopter money. That means that if the economy ends up in decent shape, Putin might agree to both of those options.

This article was originally [published](#) by Carnegie.

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

Original url:

<https://www.themoscowtimes.com/2019/12/17/what-might-russias-post-putin-economy-look-like-a686>