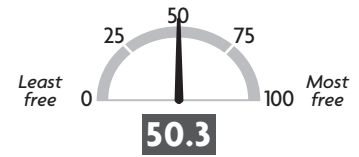




# RUSSIA

## Economic Freedom Score



World Rank: **143**

Regional Rank: **41**

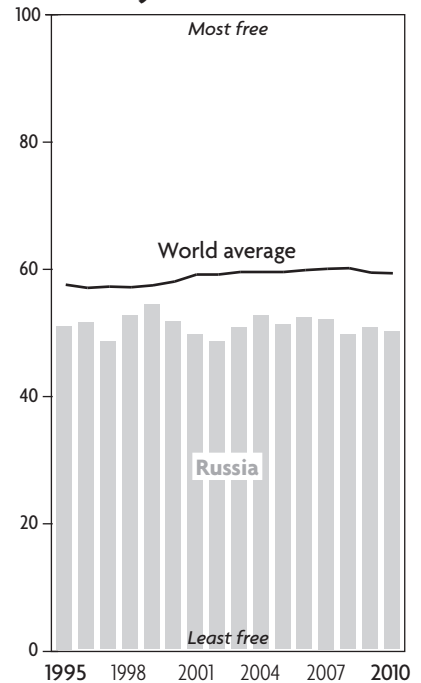
**R**ussia's economic freedom score is 50.3, making its economy the 143rd freest in the 2010 *Index*. Its score is 0.5 point worse than last year, reflecting reduced scores in six of the 10 economic freedoms. Russia is ranked 41st out of 43 countries in the Europe region, and its overall score is below the world and regional averages.

The Russian economy scores above the world average only in fiscal freedom, in part because of a reduced corporate tax rate that became effective in January 2009. Economic growth has averaged better than 6 percent over the past five years, but overdependence on oil and gas increases the risk of a sudden loss of competitiveness.

State involvement in economic activity remains extensive. Non-tariff barriers significantly increase the cost of trade. Monetary stability is weak, and prices are heavily controlled and influenced by the government. Deterrents to foreign investment include bureaucratic inconsistency, corruption, and restrictions in lucrative sectors like energy. Corruption weakens the rule of law and increases the fragility of property rights.

**BACKGROUND:** The Russian Federation was formed in 1992 after the dissolution of the Soviet Union. Dmitry Medvedev won the presidential election in March 2008, but former President Vladimir Putin remains prime minister and de facto supreme leader. The state has reasserted its role in extractive industries and depends heavily on exports of natural resources, especially oil and natural gas. The global financial crisis, government involvement in the economy, and war with Georgia caused significant economic losses in 2008, and GDP was projected to contract by 6.5 percent in 2009. Russia has provided a joint loan program of \$10 billion for countries in Eurasia and is a founding member of the Shanghai Cooperation Organization. Before joining the World Trade Organization, Russia wants a customs union with Belarus and Kazakhstan, as ratified by the Duma in October 2008.

## Country's Score Over Time



## Quick Facts

**Population:** 141.8 million

**GDP (PPP):** \$2.3 trillion

7.3% growth in 2008

6.9% 5-year compound annual growth

\$16,139 per capita

**Unemployment:** 6.4%

**Inflation (CPI):** 14.1%

**FDI Inflow:** \$70.3 billion

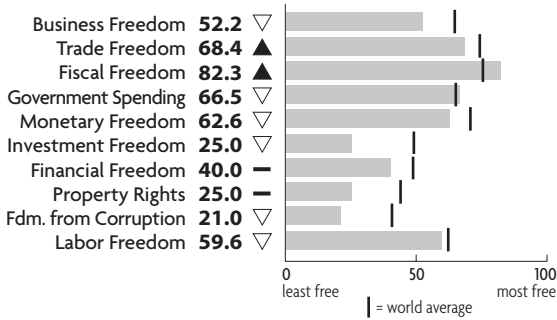
2008 data unless otherwise noted

Data compiled as of September 2009

## How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## RUSSIA'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 52.2

The overall freedom to start, operate, and close a business is limited under Russia's regulatory environment. Bureaucratic obstacles are a particular problem for small businesses. Obtaining a business license takes much more than the world average of 18 procedures and 218 days. Bankruptcy proceedings can be lengthy and difficult.

### TRADE FREEDOM — 68.4

Russia's weighted average tariff rate was 5.8 percent in 2008. Prohibitive tariffs; services market access barriers; import and export restrictions; discriminatory import and export taxes, charges, and fees; non-transparent regulations and standards; discriminatory licensing, registration, and certification; complex and non-transparent customs valuation; non-transparent and arbitrary customs administration; subsidies; corruption; and weak enforcement of intellectual property rights add to the cost of trade. Twenty points were deducted from Russia's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 82.3

Russia has relatively low taxes. The individual income tax rate is a flat 13 percent, and the top corporate tax rate is 20 percent, down from 24 percent as of January 1, 2009. Other taxes include a value-added tax (VAT) and a regional property tax. In the most recent year, overall tax revenue as a percentage of GDP was 34.6 percent.

### GOVERNMENT SPENDING — 66.5

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 33.4 percent of GDP. The state maintains a strong presence in such key sectors as energy and mining.

### MONETARY FREEDOM — 62.6

Inflation has been high, averaging 12.5 percent between 2006 and 2008. The government influences prices through regulation, extensive subsidies, and numerous state-owned enterprises and utilities. Fifteen points were deducted from Russia's monetary freedom score to account for policies that distort domestic prices.

### INVESTMENT FREEDOM — 25

The 1999 Investment Law codifies the principle of national treatment for foreign investors; however, the law goes on to state that federal law may provide for a number of exceptions, including, where necessary, "the protection of the constitution, public morals and health, and the rights and lawful interest of other persons and the defense of the state." Thus, a large number of broadly defined exceptions give the Russian government considerable discretion in prohibiting or inhibiting foreign investment. Additionally, the government enacted the Strategic Sectors Law (SSL) in May 2008, introducing a list of 42 "strategic" sectors in which purchases of controlling interests by foreign investors must be pre-approved by the Russian government. Other deterrents to investment include inconsistent and burdensome government regulation, unreliable contract enforcement, inadequate infrastructure and financial capacity, and corruption. Residents and non-residents may hold foreign exchange accounts, subject to restrictions. Capital payments and transfers are also subject to restrictions. Foreign ownership of non-agricultural land that is not located near international borders is permitted.

### FINANCIAL FREEDOM — 40

Russia's financial sector is not fully developed and is subject to government influence. Bank supervision and transparency are insufficient, although regulation was improved in 2006. The more than 1,000 licensed and registered banks are generally small and undercapitalized, but consolidation is underway. The banking sector is dominated by two state-owned banks that account for more than 30 percent of the sector's total assets. Capital markets are relatively small but growing and are dominated by energy companies. The global financial turmoil has placed increasing pressure on the financial sector.

### PROPERTY RIGHTS — 25

Protection of private property is weak. The judicial system is unpredictable, corrupt, and unable to handle technically sophisticated cases. Contracts are difficult to enforce, and an ancient antipathy to them continues to impede Russian integration into the West. Mortgage lending remains in its initial stages. Violations of intellectual property rights continue to be a serious problem.

### FREEDOM FROM CORRUPTION — 21

Corruption is perceived as pervasive. Russia ranks 147th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, a slight decline from 2007. Corruption is rampant, both in the number of instances and in the size of bribes sought. New anti-corruption legislation requires government employees and their families to declare their income and assets.

### LABOR FREEDOM — 59.6

Russia's labor regulations are relatively rigid. The non-salary cost of employing a worker is high, and dismissing an employee is difficult. Regulations on the number of work hours are rigid.