Russia's economic freedom score is 50.5, making its economy the 144th freest in the 2012 Index. Its score is unchanged from last year, with a significant increase in business freedom counterbalanced by a significant deterioration in control of government spending. 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 government has demonstrated little if any commitment to economic reform in recent years, and the country’s economic freedom score remains stuck at the lower end of the “mostly unfree” category. While strong returns from hydrocarbons have buoyed the economy, prospects for sustained long-term growth and diversification remain dim. Pervasive corruption and limited respect for property rights undermine the rule of law, increasing uncertainty and investment risk.

Extensive state interference in the economy mutes private-sector dynamism. Layers of complex non-tariff barriers significantly increase the cost of trade. Deterrents to foreign direct investment include bureaucratic inconsistency and regulatory obscurity. The lack of market competition has inflated price levels. Public spending has been expanding, with little transparency or public accountability for expenditures. The budget has become increasingly dependent on oil prices.

BACKGROUND: Russia’s highly centralized government has tightened controls on civil society. Dmitry Medvedev was elected president in March 2008, but former President Vladimir Putin remains prime minister and leader of the ruling United Russia party and the newly created “Popular Front.” The state has reasserted its dominant role in the extractive industries and depends heavily on exports of natural resources, especially hydrocarbons, for revenue. The global financial crisis, overregulation, pervasive corruption, and the war with Georgia sparked capital flight in 2008, and GDP contracted in 2009. The economy began to grow again in 2010, and high oil prices buoyed growth in 2011. Russia’s accession to the World Trade Organization, long delayed by issues of intellectual property rights, the rule of law, and resistance by Georgia, was moving forward at the end of 2011.

Quick Facts

Population: 140.4 million
GDP (PPP): $2.2 trillion
4.0% growth in 2010
5-year compound annual growth 3.4%
$15,837 per capita
Unemployment: 7.6%
Inflation (CPI): 6.9%
FDI Inflow: $41.2 billion
Public Debt: 11.7% of GDP

2010 data unless otherwise noted. Data compiled as of September 2011.
Russia's legal framework is not up to the needs of a modern market economy. The rule of law is not strongly maintained across the country, and the judiciary is neither independent of political pressure nor consistent in applying the law. Protection of private property rights is weak, and contracts are not always secure. Infringements of intellectual property rights continue. Corruption remains a serious concern.

The income tax rate is a flat 13 percent, and the top corporate tax rate is 20 percent. Other taxes include a value-added tax (VAT) and an environmental tax, with the overall tax burden amounting to 34.4 percent of total domestic income. Government spending has increased to a level equivalent to 41 percent of GDP, turning the budget balance to deficit. Public debt has hovered at around 11 percent of total domestic output.

The business environment has improved only marginally, and regulations remain burdensome. Bureaucratic obstacles and inconsistent enforcement of regulations inject considerable uncertainty into entrepreneurial decision-making. The outmoded labor code continues to limit employment and productivity growth. The state influences prices through extensive subsidies and numerous state-owned enterprises.

The trade weighted average tariff rate is 5.9 percent, and layers of bureaucratic non-tariff barriers further distort the flow of goods and services. Except in the oil and gas sector, growth in foreign direct investment has been elusive due to the deficient investment framework. In mid-2011, regulators and the state-controlled VTB Group bailed out the Bank of Moscow with an injection of $14.2 billion.