RUSSIA

Russia’s economic freedom score is 58.2, making its economy the 107th freest in the 2018 Index. Its overall score has increased by 1.1 points, with higher scores for the trade freedom and tax burden indicators outpacing declines in fiscal health and government integrity. Russia is ranked 41st among 44 countries in the Europe region, and its overall score is below the regional and world averages.

Russia’s transition from a centrally planned economy to a more market-based system has stalled, and the country remains predominantly statist. Further economic reforms have been subordinated to the imperatives of political stability and government longevity. The private sector has been marginalized by structural and institutional constraints caused by ever-growing government encroachment into the marketplace. Large state-owned institutions and an inefficient public sector dominate the economy. The judiciary is vulnerable to corruption, and weak protection of property rights undermines prospects for optimal long-term economic development.

BACKGROUND: After decades of Soviet economic and social stagnation, poorly implemented reforms in the 1990s that failed to address a rigidly controlled financial system and antibusiness regulatory regime caused GDP to plummet. In this century, Russia has shifted to an authoritarian governance model led by President Vladimir Putin. His regime seeks legitimacy through managed elections, populist appeals, and a foreign policy focused on enhancing Russia’s geopolitical influence. Commodity-based growth arrested the economic decline for a period, but growth has again stagnated with the decline in energy prices. Russia’s illegal annexation of Crimea and occupation of eastern Ukraine have led to ongoing Western economic sanctions and capital flight.

ECONOMIC FREEDOM SCORE

WORLD AVERAGE 61.1
REGIONAL AVERAGE (EUROPE REGION) 68.8

OVERALL SCORE CHANGE SINCE 2014: +6.3

NOTABLE SUCCESSES:
Tax Policy

CONCERNS:
Rule of Law, Investment Freedom, and Financial Freedom

QUICK FACTS

POPULATION: 143.4 million
GDP (PPP): $3.8 trillion
-0.2% growth in 2016
5-year compound annual growth 0.5%
$26,490 per capita

UNEMPLOYMENT: 5.7%
INFLATION (CPI): 7.0%
FDI INFLOW: $37.7 billion
PUBLIC DEBT: 17.0% of GDP

2016 data unless otherwise noted. Data compiled as of September 2017.
Arbitrary expropriations for political reasons highlight the precarious nature of property rights in Russia. The rule of law is not maintained uniformly across the country, and the judiciary is vulnerable to political pressure and inconsistent in applying the law. Corruption is pervasive throughout Russia, and a growing lack of accountability enables bureaucrats to act with impunity.

The personal income tax rate is a flat 13 percent, and the top corporate tax rate is 20 percent. The overall tax burden equals 29.2 percent of total domestic income. Over the past three years, government spending has amounted to 35.3 percent of total output (GDP), and budget deficits have averaged 2.7 percent of GDP. Public debt is equivalent to 17.0 percent of GDP.

Lack of regulatory transparency introduces significant uncertainty into the process of running a business. The rigid and outmoded labor code continues to limit employment and productivity growth. Most prices in Russia have been liberalized, but the government increased subsidies to farmers after the U.S. and EU imposed sanctions. The government also subsidizes some imports from China and some gas exports.

Trade is moderately important to Russia’s economy; the combined value of exports and imports equals 46 percent of GDP. The average applied tariff rate is 2.8 percent. Nontariff barriers impede trade. Sectoral restrictions and the prevalence of state-owned enterprises limit foreign investment. Public-sector financial institutions have further solidified their position by taking market share from domestic private banks and increasing their control of lending.