PUTIN’S PERILOUS PROBLEM

Russia’s Troubled Economy

Bob Srenaski
“Love Money Makes the World Go Round”
GDP  Gross Domestic Product

• The money value of all goods and services produced within a nation’s borders over a specified period of time.

GDP = Consumption + Government + Investment + Exports – Imports

Growth versus Decline = Measures Well-Being of the Economy
Deficits/Surpluses vs National Debt

• Deficits & Surpluses: The amounts by which the national government over or under spends the amount of revenue it receives in a year.

• National Debt: The accumulation of annual deficits – the total amount the government owes its creditors.
A Little History

The Soviet Union vs The Russian Federation
The USSR vs Russia Today
A Little Russian Leadership History

• 1917 - Bolshevik Revolution – end of the monarchy
• 1917 – 1924 Vladimir Lenin  DIO
• 1924 – 1953 Joseph Stalin  DIO
• 1953 – 1955 Georgy Malenkov (forced out by next guy)
• 1955 – 1964 Nakita Krushchev  (forced out by party)
• 1964 – 1982 Leonid Brezhnev  DIO
• 1982 – 1984 Yuri Andropov  DIO
• 1984 – 1985 Konstantin Chernenko  DIO

• Begun by Gorbachev
• Finished by Yeltsin
Mikhail Gorbachev: 1985-1991

• Perestroika = economic, social, and political reorganization
• Glasnost = frankness, transparency, openness
• Ends Afghanistan War, Reduces Soviet Forces by 500,000
• Signs START Treaty with George Bush I
• Nobel Peace Prize Recipient
• Time Magazine “Man of the Decade” and “Man of the Year”
Gorbachev’s Failures

- Glasnost – Open Speech – All the dirty secrets came out
- Perestroika – reorganization with no structure
- No Economic Plan
- USSR starts coming apart
- Chernobyl
- Depressed petroleum prices - Deep recession
- +$100 billion in new debt
- Shortages, black market,
- Rationing – tobacco,, soap, sugar, vodka, etc.
- Total Economic Collapse
Boris Takes His Turn At Bat

• 1985 – 1991 Mikhail Gorbachev (Forced to resign)
• 1991 – 1999 Boris Yeltsin
• Populist – Man of Action
• Deconstructs the USSR – All members are sovereign states
• September 5, 1991, the USSR Congress voted to “close shop”
• 500 day plan for Russia’s economic conversion from communist socialism to free market capitalism
• No structure in place, - capitalist anarchy
Boris Strikes Out

- “Free Market” Fails
- 1992 Retail Prices + 2,520 Percent
- 1993 CPI up 840%
- 1993 – 1996 CPI stays in triple digits
- 1991 Crude Oil - $23.54
- 1993 Crude Oil - $13.56
- 1992 GDP – down 15%
- 1993 GDP – Down 9%
- 1994 GDP – Down 14%
- Depression – general misery
- 1999 Resignation
Russia – Largest Country in the World

- USSR: 8.1 million sq. mi.
- Russia: 6.6
- Canada: 3.8
- U.S.A.: 3.8
- China: 3.7
- Brazil: 3.3

- 6,200 mi. East to West
- 2,800 mi. North to South
- 13,000 mi. Land Borders
- 23,000 mi. Sea Shore

11% of Earth’s Surface
39% of Europe
29% of Asia
Russia has 30% of World’s Natural Resources

- Natural gas – world’s largest reserves, 1st in export, 2nd in production
- Oil – 8th in world reserves, 2nd largest supplier after Saudi Arabia
- Uranium – 3rd largest reserves
- Iron Ore – 1st, 1/6th of the world’s reserves
- Timber – 1/6th of world’s reserves
- Gold – Tied with Australia for 1st
- Coal – 2nd in reserves, 6th in production

- Also, manganese, chromium, nickel, platinum, titanium tungsten, copper, tin, lead, phosphates, diamonds,
Putin as Russian Federation Leader

- August 1999: Appointed Acting Prime Minister by Yeltsen
- Dec 31, 1999: Appointed President
- March 2000: Elected President
- March 2004: Re-elected
- March 2008: Medvedev President, Putin Prime Minister
- Dec 31 2008: Term of President from four to six years
- March 2012: Elected President for six years
- March 2018: Elected for Six More Years
Why Did Putin Become So Popular?
“It’s the economy, stupid!”

Russian GDP (PPP) Since the Fall of the Soviet Union

1998 Financial Crisis

Source: International Monetary Fund
www.wallstreetdaily.com
Putin Gets Lucky

**US Crude Oil Prices in 2012 Dollars**

- **Price per Barrel in 2012$**

**Graph:**
- Blue line represents Oil Prices.
Hooked on Oil & Gas

• 52% of Government Revenue (Income)

• 68% of Total Exports
2013 – 8th Largest World Economy

1. U.S.A. $16.2 T
2. China $9.0 T
3. Japan $5.1 T
4. Germany $3.6 T
5. France $2.7 T
6. Brazil $2.5 T
7. United Kingdom $2.4 T
8. Russian Federation $2.2 T
9. Italy $2.1 T
10. India $2.0 T
What is missing in this picture?
Russia’s Petroleum Dependency Syndrome
Russia vs. France

- Russia = 6.6 million sq. miles
- France = 260,558 sq. miles
- France = 1/25 the physical size of Russia
- France = less than half of Russia’s 143M Population

- Russia GDP = $1.3 Trillion
- France GDP = $2.5 Trillion
- France’s Economy = 2x size of Russian Economy
Non-Oil Economy in Bad Shape

Budget deficit in Russia (% of GDP)

Sources: Ministry of Finance of Russian Federation, gks.ru
No-Growth Industrial Production
Low Labor Productivity

Russian workers’ GDP contribution: $25.90/hr

• Greek Workers’ GDP Contribution: $36.20/hr.

• U.S. Workers’ GDP Contribution: $67.40/hr.
Huge Annual Budget Deficits
2016 Fiscal Budget

- Revenue: $200 Billion
- Spending: $233 Billion
- Deficit: $33 Billion
The United States spends more on defense than the next eight countries combined.

DEFENSE SPENDING (BILLIONS OF DOLLARS)

- China: $595 Billion
- United States: $611 Billion
- Russia
- Saudi Arabia
- India
- France
- United Kingdom
- Japan
- Germany

SOURCE: Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, April 2017. Data are for 2016. Compiled by PGPF.
NOTE: Figures are in U.S. dollars, converted from local currencies using market exchange rates.
Russia’s Unsustainable Military Spending

2016 military spending

- U.S.: $611B
- China: $215B*
- Russia: $69.2B
- Saudi Arabia: $63.7B*
- India: $55.9B

Source: The Stockholm International Peace Research Institute
Total Government Spending

Russia - Government spending, in dollars

[Bar chart showing government spending from 2000 to 2016, with a noticeable increase in spending around 2012 and 2013.]
Military Spending Maintained at High Levels
Military Spending Dominates the Budget

Graph 1: Evolution of defence spending, non-defence spending, and total government revenue, at constant prices (2010=100)

Source: IMF World Economic Outlook Database, October 2016; Russian Ministry of Finance; Russian Federal Treasury; author calculations. Data series deflated using the IMF’s GDP deflator.
Russia’s 2016 Military Budget in Perspective

- Total Government Revenues: $200 Billion
- Total Military Spending: $69.4 Billion

34.7% of 2016 Total Government Revenue

2017 Military Spending Budget: Reduced to $59 Billion
Rampant Corruption at Every Level

Perceived Corruption Around the World, 2014

0 = highly corrupt | 100 = very clean

(Source: Transparency International)
Corruption: Robbing the Country

- 48% of GDP consumed by corruption
- $53 Billion/year lost
- Nearly equal to the entire Military Budget
- 2002 – 2011 Russia lost $880 Billion in illicit money outflows

- Source: International Monetary Fund (IMF)
What is an Oligarch?

- **Oligarchy**: A government in which a small group exercises control especially for corrupt and selfish purposes.

- **Oligarch**: A very rich business leader with a great deal of political influence.
Most Corrupt: Putin and the Oligarchs
Cities with most Billionaires

• 1. Moscow (78)
• 2. New York (62)
• 3. Hong Kong (43)
• 3. London (43)
• 5. Istanbul (37)
• 6. Sao Paulo (26)
• 7. Mumbai (24)
• 8. Seoul (23)
• 9. Beijing (21)
• 10. Dallas (18)
• 10. Paris (18)
Putin’s Wealth

- Says he has:
  - Annual Income: $112,000
  - One small apartment
  - Three Old (Classic) Cars
Who is Natalia Veselnitskaya?
Funding the Budget Deficits
Living off the Past
Living off of Reserve Funds
Russia weighs merging Reserve, Wellbeing funds

Source: Finance Ministry
Sanctions Hurt

Sanctions on state enterprises, Russian businesses, and certain individuals have negative impact on further petroleum and natural resource development, restrict foreign investment, raise the cost of money, and generally increase inflation.
2014 Crimea & Ukraine Invasion Sanctions

• Restricts financial access of state-owned enterprises in energy, banking, and defense sectors

• Stops export to Russia of high-tech oil exploration and production equipment – killed the Exon Mobil $500 Billion investment deal

• Stops exports to Russia of military and dual-use goods
Magnitsky Act – Causes & Consequences

• Sergei Magnitsky
• Bill Browder – Hermitage Capital Partners
• Magnitsky Act 2012 Sanctions vs. Russian Individuals & Institutions for Human Rights abuses
• 2014 U.S. Congress issues additional sanctions on Russia for Crimea annexation
• Global Magnitsky Act 2016 Sanctions vs. Individuals & Institutions in any country
• 2017 U.S. Congress passes bill to prevent President from rolling back sanctions without congressional approval (98 to 2 –veto proof)
• Strangles petroleum development
• Increases country’s financial dependence on China
Putin’s People Problem
Not Enough!
Country Growth Requires Population Growth

Population Data via United Nations WPP (2015 Revision, Medium Variant)
## Russia 9th In Population Size & Declining

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,388,232,693</td>
<td>0.43%</td>
<td>5,909,361</td>
<td>1.55</td>
<td>37</td>
<td>57.60%</td>
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<tr>
<td>India</td>
<td>1,342,512,706</td>
<td>1.18%</td>
<td>15,711,130</td>
<td>2.48</td>
<td>27</td>
<td>32%</td>
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<tr>
<td>U.S.</td>
<td>326,474,013</td>
<td>0.73%</td>
<td>2,355,226</td>
<td>1.89</td>
<td>38</td>
<td>82.10%</td>
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<tr>
<td>Indonesia</td>
<td>263,510,146</td>
<td>1.12%</td>
<td>2,929,046</td>
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<td>28</td>
<td>53.40%</td>
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<td>Brazil</td>
<td>211,243,220</td>
<td>0.80%</td>
<td>1,675,300</td>
<td>1.82</td>
<td>31</td>
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<tr>
<td>Pakistan</td>
<td>196,744,376</td>
<td>2.03%</td>
<td>3,917,874</td>
<td>3.72</td>
<td>23</td>
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<tr>
<td>Nigeria</td>
<td>191,835,936</td>
<td>2.59%</td>
<td>4,848,373</td>
<td>5.74</td>
<td>18</td>
<td>47.80%</td>
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<tr>
<td>Bangladesh</td>
<td>164,827,718</td>
<td>1.18%</td>
<td>1,916,854</td>
<td>2.23</td>
<td>26</td>
<td>34.50%</td>
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<tr>
<td>Russia</td>
<td>143,375,006</td>
<td>-0.05%</td>
<td>-64,826</td>
<td>1.66</td>
<td>39</td>
<td>73.20%</td>
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<td>Mexico</td>
<td>130,222,815</td>
<td>1.24%</td>
<td>1,590,811</td>
<td>2.29</td>
<td>27</td>
<td>77.30%</td>
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<tr>
<td>Japan</td>
<td>126,045,211</td>
<td>-0.22%</td>
<td>-278,504</td>
<td>1.4</td>
<td>47</td>
<td>94.30%</td>
</tr>
</tbody>
</table>
Ratio of Working Age to Above Working Population: Three Scenarios
The 2017 OPEC Deal

Oil Prices Increase
Positive GDP Growth Driven by Oil Price

RUSSIA GDP ANNUAL GROWTH RATE

Jan 2015: -2.8
Jul 2015: -4.5
Jan 2016: -3.7
Jul 2016: -3.8
Jan 2017: 0.3
Jul 2017: 2.5
Jan 2018: 2.2
Jul 2018: 0.9

SOURCE: TRADINGECONOMICS.COM | FEDERAL STATE STATISTICS SERVICE
Russian President Vladimir Putin shakes hands with then Saudi Deputy Crown Prince Mohammed bin Salman during a meeting at the Kremlin on May 30, 2017 [Reuters/Pavel Golovkin]
Russian President Vladimir Putin (R) greets King Salman bin Abdulaziz Al Saud of Saudi Arabia at the Grand Kremlin Palace on October 5, 2017 in Moscow, Russia.
### Major Petroleum Producing Countries

<table>
<thead>
<tr>
<th>Rank</th>
<th>Producers</th>
<th>Mbl/Day</th>
<th>Rank</th>
<th>Reserves</th>
<th>OPEC Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Saudi Arabia</td>
<td>11.75</td>
<td>1</td>
<td>Venezuela</td>
<td>Venezuela</td>
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<tr>
<td>2</td>
<td>United States (I)</td>
<td>10.59</td>
<td>2</td>
<td>Saudi Arabia</td>
<td>Saudi Arabia</td>
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<tr>
<td>3</td>
<td>Russia</td>
<td>10.3</td>
<td>3</td>
<td>Canada</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>China (I)</td>
<td>4.2</td>
<td>4</td>
<td>Iran</td>
<td>Iran</td>
</tr>
<tr>
<td>5</td>
<td>Iran</td>
<td>4.1</td>
<td>5</td>
<td>Iraq</td>
<td>Iraq</td>
</tr>
<tr>
<td>6</td>
<td>Canada</td>
<td>3.9</td>
<td>6</td>
<td>Kuwait</td>
<td>Kuwait</td>
</tr>
<tr>
<td>7</td>
<td>UAE</td>
<td>3.2</td>
<td>7</td>
<td>UAE</td>
<td>UAE</td>
</tr>
<tr>
<td>8</td>
<td>Mexico</td>
<td>3.0</td>
<td>8</td>
<td>Russia</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Brazil</td>
<td>2.8</td>
<td>9</td>
<td>Libya</td>
<td>Libya</td>
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<tr>
<td>10</td>
<td>Kuwait</td>
<td>2.8</td>
<td>10</td>
<td>Nigeria</td>
<td>Nigeria</td>
</tr>
</tbody>
</table>

Indonesia

62.79% of World Petroleum Production

Algeria

Qatar

Ecuador

Angola

Gabon
Russia Needs $75 - $80 Oil to Breakeven
Burden of Ageing and Decreasing Population

- 2010: 3.7 Workers per Senior
- 2050: 1.7 Workers per Senior
Living off its Reserve Funds
Russia’s Economic Future – Steady Decline

• Economy Lacks Diversification
• Industry unproductive
• Large State-Owned Enterprises Dominate
• Not enough SME’s – EU 40% GDP, Russia 15% GDP
• 2008-2012 Loss of 300,00 Private Sector Jobs
• 2008-2012 State added 1.1 million
• Sanctions will continue to hurt
Military Cost Drag on the Economy

Still nearly 1/3 of total government revenues

Cost of War in Syria

Costly Support for “Troops” in Eastern Ukraine

Crimea and Ukraine International Sanctions

Border Protection and National Security Costs
Geographic Challenge – Border Protection
Russia Shares Borders with Fourteen Countries

- Finland
- Norway (NATO)
- Estonia (NATO)
- Latvia (NATO)
- Lithuania (NATO)
- Poland (NATO)
- Belarus
- Ukraine
- Georgia
- Azerbaijan
- Kazakhstan
- Mongolia
- North Korea
- China
Ethnic Challenges

- 12-15% Population (16-20 million) = Tartars, Bashkirs, and Chechins
- Those Ethnic groups are Muslim
- Moscow: One Million Muslim residents + 1.5 million migrant Muslim workers
- Moscow is the largest Muslim city in Europe
- Thousands of ISIS fighters returning home
Russia’s Economic Future – Steady Decline

- Military, too costly, wasteful, and corrupt
- Sanctions hurt
- Soverign Funds Being Depleted
- Corruption Continues – Oligarchs Laundering Money
- Well educated Russians leaving in droves
- Bad Demographics – Population Declining
- Steep decrease in working age population
- No incentive to change – Putin very popular still
What will happen to petroleum prices?

Global leaders in daily oil output

- **Russia**
- **Saudi Arabia**
- **United States**

**Source:** Rystad Energy's Global Oil Market Trends Report

Includes condensate
It’s About the Middle East, Russia & Oil

- U.S. Government International Influence
- U.S. Isolationism
- Russian Expansionism
- Russia’s Growing Mid-East Influence
- Stability of the OPEC – Russia Petroleum Alliance
- The Growth of U.S. Oil Production
- It’s the Price Per Barrel, Stupid!
What can we expect from Russia in the Future?

• Strong influence in the Middle East
• Troublemaking in other places depending upon oil prices
• Possible low level invasive challenge to NATO
• Increasing cooperation and support of authoritarian governments, Hungary, Egypt, Turkey, Poland, Syria, Saudi Arabia,
• Continuous cyber attacks to provoke tribalism
• zzzzzzzzzzzzz
Cyber Warfare - DAMM

- Disruptive
- Antagonistic
- Manipulative
- Media
The Future – What to Expect

• The Russian Bear will continue to be Troublesome and Dangerous – Cyber Warfare, but not Suicidal!

• P.S. Keep your eyes on oil prices & China
• QUESTIONS?
## Comparative Global Firepower

<table>
<thead>
<tr>
<th></th>
<th>USA</th>
<th>Russia</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Aircraft</td>
<td>13,762</td>
<td>3,794</td>
<td>2,955</td>
</tr>
<tr>
<td>Fighters/Inceptors</td>
<td>2,296</td>
<td>806</td>
<td>1,271</td>
</tr>
<tr>
<td>Attack Aircraft</td>
<td>2,785</td>
<td>1,438</td>
<td>1,385</td>
</tr>
<tr>
<td>Helicopters</td>
<td>6,065</td>
<td>1,389</td>
<td>1,385</td>
</tr>
<tr>
<td>Attack Helicopters</td>
<td>947</td>
<td>490</td>
<td>206</td>
</tr>
<tr>
<td>Tank Strength</td>
<td>5,884</td>
<td>20,216</td>
<td>6,457</td>
</tr>
<tr>
<td>Armored Fighting Vehicles</td>
<td>41,062</td>
<td>31,298</td>
<td>4,788</td>
</tr>
<tr>
<td>Aircraft Carriers</td>
<td>19+GFF</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Destroyers</td>
<td>63</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td>Submarines</td>
<td>63</td>
<td>15</td>
<td>35</td>
</tr>
</tbody>
</table>
Russia

- Declining Population
- Declining Life Expectancy
- Few regulations - they’re ignored
- Healthcare is lousy
- Workplace Safety non-existent
- Heavy smokers & Vodka drinkers
- Corrupt government at all levels
Russia: 2010 - 2050

- Population: Down 12%
- Youth: Down 15%
- Workers: Down 29%
- Seniors: Down 12%

- 2010: 3.7 Workers per Senior
- 2050: 1.7 Workers per Senior
Composition Russia’s Economy (GDP)

GDP - composition by sector:

agriculture: 4.4%
industry: 35.8%
services: 59.7% (2015 est.)
Nine Countries Have Nuclear Weapons

2017 ESTIMATED GLOBAL NUCLEAR WARHEAD INVENTORIES

The world's nuclear-armed states possess a combined total of roughly 15,000 nuclear warheads; more than 90 percent belong to Russia and the United States. Approximately 9,600 warheads are in military service, with the rest awaiting dismantlement.

- United States: 6,800
- United Kingdom: 215
- France: 300
- Israel: 80
- Pakistan: 140
- India: 110
- Russia: 7,000
- China: 260
- North Korea: 10

Armaments – USA – Russia – China

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<tr>
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<td>AFV Vehicles</td>
<td>41,062</td>
<td>31,298</td>
<td>4,788</td>
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<tr>
<td>SPG (Guns)</td>
<td>1,934</td>
<td>5,972</td>
<td>1,710</td>
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<tr>
<td>Towed Artillery</td>
<td>1,299</td>
<td>4,625</td>
<td>6,246</td>
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<tr>
<td>ML Rockets</td>
<td>1,331</td>
<td>3,793</td>
<td>1,770</td>
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<tr>
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<tr>
<td><strong>Sea</strong></td>
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<tr>
<td>Total Naval</td>
<td>415</td>
<td>352</td>
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<tr>
<td>Carriers</td>
<td>19</td>
<td>1</td>
<td>1</td>
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<tr>
<td>Destroyers</td>
<td>63</td>
<td>15</td>
<td>35</td>
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<tr>
<td>Subs</td>
<td>70</td>
<td>63</td>
<td>68</td>
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<tr>
<td><strong>Def Budget</strong></td>
<td>$587.8 BN</td>
<td>$44.6 BN</td>
<td>$161.7 BN</td>
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</tbody>
</table>
“Love Money Makes the World Go Round”

Peace - Prosperity - Complacency

Greed – Corruption

Corruption – Corrosion

• Corrosion – Destruction

• Destruction - Authoritarianism
Russia’s Top 15 Export Customers (2015)

- Netherlands: US$38.7 billion (11.6% of total Russian exports)
- China: $27.3 billion (8.2%)
- Germany: $24.6 billion (7.4%)
- Italy: $21.8 billion (6.5%)
- Turkey: $19.1 billion (5.7%)
- Belarus: $15 billion (4.5%)
- Japan: $14.2 billion (4.3%)
- South Korea: $13.1 billion (3.9%)
- Kazakhstan: $10.5 billion (3.1%)
- Poland: $9.5 billion (2.9%)
- United States: $9.4 billion (2.8%)
- Ukraine: $9.1 billion (2.7%)
- United Kingdom: $7.5 billion (2.2%)
- Finland: $7 billion (2.1%)
- Latvia: $6.9 billion (2.1%)
Putin’s Military Spending at Record High

Spending as % of GDP

- Russian Federation
- United States
- European Union

Source: World Bank