

Russia 2016



Total: 40.46

Quick facts

Population:	143.457 million
Unemployment rate:	5.6 %
GDP:	1 242 480.740 billion EMU
GDP growth rate:	-3.7 %
GDP per capita:	8 660 EMU

Political Freedom

Free and Fair Elections : 1.43

Political environment in Russia is far from democratic, and elections in this country are far from being free and fair. Spark with violent incidents and irregularities and frauds such as carousel voting, vote buying and inflated number of voters are abundant. The situation in political life in Russia became even darker after opposition leader Boris Nemtsov was killed in Moscow, in February 2015. Ruslan Mukhudinov, a member of battalion formed by Ramzan Kadyrov – the head of the Chechen Republic - was accused to be behind the assassination. The practice of preventing opposition parties and candidates to run at elections remained throughout the year. At local, regional and gubernatorial elections held in September 2015, registration was denied to opposition, which led to victory by the Vladimir Putin's United Russia at 19 out of 21 gubernatorial elections. Alexei Navalny, who became the most important opposition figure and whose brother is kept in jail due to the former's political activity, managed to enter the ballot in rural Kostroma region under an already registered party Parnas, however with no success.

Absence of Unconstitutional Veto Players : 2.5

The biggest threat to democracy in Russia doesn't come from potential veto players like oligarchs or the Russian Orthodox Church, whose influence, however, can't be neglected. It comes from the elected and appointed officials, associates and former secret service colleagues of President Putin, who run state corporations and abuse their position for personal benefits. In such environment, corruption prevails among the high ranking officials. Navalny's Anti-corruption

Foundation presented evidence that the son of the Prosecutor General Yuri Chaika and the wife of his deputy are deeply embedded in corruption. Lawsuits against Chaika were rejected at the court.

Freedom of Press : 1.7

Press is not free in Russia. All the most important traditional media outlets are firmly controlled by the government or their allies from business sector, using them to broadcast pro-government propaganda and highly influence public opinion. Additionally, opposition outlets and journalist who have been critical towards political and business elites operated in hostile surroundings, whereby physical attacks and imprisonment were often used to silence them. According to a Freedom House resource, in 2015 there were 70 attacks on journalists reported. Popular independent television channel TV-2 became available only online, after their contract was canceled and license revoked by the state-controlled bodies. Due to a law adopted in 2014, which prohibited foreign companies of holding more than 20% of shares in Russian media, the reshaping of media ownership took place throughout the year 2015. Some important media outlets were sold to Russian media groups. It led to reduction or redirection of their content.

Rule of Law

Independence of the Judiciary : 3.42

Ruling ideologies and political and religious elites of Russia openly reject the concept of rule of law as allegedly “alien” and replace it with less clear “justice”. Yet another liberal principle, the separation of power, openly rejected in Soviet era while reinstated by the 1993 Constitution, has been under threat during the last 16 years of autocratic rule of Vladimir Putin. The autonomy of the judiciary is shrinking. In numerous civic or criminal cases in 2015-2016, Russian courts acted as mere instrument of political showdown. On the top of it, Constitutional Court of Russia decided in July 2015 that it could selectively over-rule the decisions of the Council of Europe’s European Court of Human Rights, where after an important part of the international law was de facto suspended in Russia. The decision was reiterated in December 2015 by the law which enabled government to propose such exemptions to the CC.

Corruption : 2.9

There was a small improvement in an otherwise murky situation in Russia. Transparency International’s Corruption Perception Index 2015 showed a rise by 2 points, to 29, and to the place 119 of 168 countries (shared with Azerbaijan, Guyana and Sierra Leone). A few new anti-corruption laws started being implemented, less selectively than before, thus affecting not just politically disloyal public officers but also those who truly lacked integrity on a large scale. Yet the degree of merger of political and economic oligarchies, as well as political influence on state bodies or courts, is so high that only tips of the corruption iceberg are dealt with. Ideological reservations towards the very idea of the rule of law, over-regulation of the economy and serious limitations to civil society activities all hinder the anti-corruption struggle. On the other hand, financial crisis requires the government to not only score propaganda points, but to seriously limit

the amounts circulated through bribery on all levels (from the highest to petty), which are in total so huge that they change the social fabric and create grand scale social inequalities.

Protection of Human Rights : 3.74

Human rights` situation in Russia is worse than in any other European country. Arbitrary detentions, kidnappings (including of foreign nationals), torture in custody or extradition to countries that use to torture, and lack of civilian democratic control over security sector, create a climate of fear. Most of the suspicious cases of assassinations of opposition politicians, journalists, NGO activists, dissident businesspeople, disobedient public officials or other perceived opponents of the regime, which had occurred during the last 16 years, were not explained and prosecuted. Numerous people have been arrested (and some convicted) for expressing their views on the Internet, on the political situation in the country, or on the military engagement abroad (in Ukraine or Syria), or on world-view issues (such as for expressing atheism). Regarding death penalty, Russia is merely de facto abolitionist. Women are under-represented in politics. According to the latest Inter-Parliamentary Union`s world classification, Russia was ranked as 135th of 193 countries, with just 13.6% of women in the lower house of parliament. Aside of mere decriminalization of homosexuality as such, LGBT people enjoy almost no other protection against societal pressure or frivolous application of “anti-gay laws”. Russia did not join UN declarations on the protection of discrimination due to sexual orientation. Human rights` situation is even more alarming in the occupied and annexed Crimea, where local Tatars or other minorities are discriminated by the new Russian authorities, while civil liberties for all are more restricted than elsewhere in Russia. In Northern Caucasus, under the pretext of fighting terrorism, usual NGO activities are halted, human rights` monitors and reporters attacked and overall situation even hard to assess.

Economic Freedom

Security of Property Rights : 5.28

Private property is not well secured in the Russian Federation. Vested interest groups connected to political factors wield strong influence over the judiciary. Courts are not impartial, and their decisions in similar cases differ, giving advantage to the party with political connections. Judicial system is biased in favor of the state, which is important if a legal dispute is between a government and a private entity. Courts do not use automated processes. Several new laws enacted in 2015 have led to an increase in power of the Constitutional Court to disregard foreign arbitral decisions. Private property can be seized by the state with the level compensation not deemed fair. Extortions committed by state officials, as well as corruption, remain present. On the other side, legal enforcement of contracts incurs low costs compared to the value of the claim. The insolvency process leads to relatively high recovery rate. Foreign nationals still face restrictions regarding the possession of real estate, especially agriculture land. Furthermore, government`s approval is a prerequisite for investments in areas deemed as strategic. For state projects, there is often a requirement that equipment is made in Russia.

Size of Government: Expenditures, Taxes, and Enterprises : 6.92

Government consumption in Russia reached 36,4% of GDP in 2015. Historically low oil and gas prices, which account for two thirds of Russian exports and approximately half of the government revenues, accompanied by the EU trade sanctions, led to economy slowdown and open recession in 2015, envisaged to continue in 2016. High budget deficits are recorded - 3.5% of GDP in 2015 but very low public debt provides fiscal space. However, a fiscal austerity commitment is necessary to ensure stability of public finance without increasing debt. Inflation remains high. Taxation system uses flat rates, with minor progressive methods in determining the level of social contributions: personal income tax is 13%, VAT 18% and corporate tax varies from 15.5 to 20% due to regional tax deductions. Social contributions consist of 30% of the gross wage paid by the employer. Government activity through state-owned enterprises (SOE) is present in many sectors, and not only in those that are legally considered of strategic importance such as public utilities, mining, energy and military equipment. Many of these SOEs enjoy large direct or indirect subsidies to maintain their operation. They are usually inefficient. Subsidies are a protection from international competition on the domestic market. Government procurements are a tool to provide this support. There were considerable plans for privatization of SOEs, in order to boost productivity and spur economic growth, as well as to decrease the amount of subsidies. However, these plans have not yet been materialized: many enterprises were not privatized due to lower asset price than envisaged, but there were also political pressures.

Regulation of Credit, Labour, and Business : 5.33

The Russian business environment is plagued with unnecessary administrative procedures and inefficient government bureaucracy. This situation provides a suitable place for thriving corruption, further exacerbated by vague and ill-defined regulation. Starting a business is both easy and inexpensive, and has been made even more efficient by reducing the number of days necessary to open a corporate bank account. However, obtaining a construction permit and getting the electricity connection remain burdensome procedures. Getting electricity is lengthy in part due to inefficiency of the SOE MOESK in charge of it, but the situation was recently simplified. The number of tax payments annually is low, but tax rules are still complicated. Flexible working hours and low redundancy costs that are not increasing with the number of years in tenure make strong points in labour regulations. On the other hand, firing regulations are complicated due to obligatory trade union (third party) notifications, redundancy rules and reassignment / retraining obligation. Centralized collective bargaining is mostly encompassing public sector employees, while the minimum wage is low as compared to international standards, set at approximately 20% of the average wage. A significant burden is the mandatory 12 months` military service.

Freedom to Trade Internationally : 7.24

Free trade is not placed high on Russian economic policy agenda. For Russia, economic sanctions have been one of the main foreign policy tools in dealing with its neighboring states - with economic conflicts that took place with Georgia, Moldova, or even Belarus, and now with the EU and Ukraine. Russian World Trade Organization (WTO) accession in 2012 liberalized trade, but overall tariffs remained elevated, especially in the agriculture. Technical barriers to trade (TBT), as well as sanitary and phyto-sanitary measures (SPS), further burden trade. Establishment of the Eurasian Economic Union (EEU) in 2015 did not boost trade, due to non-complementarity of

the included economies. Introduction of new labour regulations significantly restricted prospects for foreign migrant workers - inclusion of mandatory language and culture test, and most importantly, very high license fees prove to be a significant barrier to their inclusion into the labour market. Strong devaluation of the national currency led to a sharp drop in imports, for almost a quarter in 2015. Russia still holds its sanctions against the EU food producers, followed by restrictions for transit of Ukrainian goods over its territory. Self-reliance and autarky have become one of the policy goals of the Russian government since the Ukrainian conflict and international sanctions that followed it. They are pursued by policies of increasing trade barriers, providing assistance for uncompetitive local producers (for example, via procurement restrictions) and diversion of trade, encouraging imports from "friendly" countries.