

# Russia 2018



**Total: 41.79**

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## Political Freedom

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### **Free and Fair Elections : 1.07**

With an electoral system designed so as to favor the ruling party United Russia and president of the country Vladimir Putin, the authoritarian regime used its control over the state to continuously reduce democratic and civic rights. Political parties operate in a restrictive environment and compete in an unfair electoral process, whereby in many cases its outcome is known in advance. The presidential elections as of 18th March 2018 have become yet another example of such an unfair process. After preventing the main opposition leader, Alexei Navalny, from participating in the elections, on the basis of corruption charges, in a move widely perceived and criticized as politically motivated, the incumbent president Putin had no real competition, winning almost 77% of vote. He was elected for the fourth time as the President of Russia. According to OSCE, the vote took place in an environment with no genuine competition, with pressure on voters and opposition candidates, and with favorable media coverage for the incumbent president. Earlier during the period under review, in September 2017, regional elections were held, with independent observers registering irregularities during campaign and on the election-day, including during vote count. Besides, there was also a misuse of state resources.

### **Absence of Unconstitutional Veto Players : 1.67**

Political decision making in the Russian presidential system is completely in the hands of president Vladimir Putin and a close circle of his aides. With tight control over all three branches of power, there are no institutions able to hold them accountable for their actions, thus the proclaimed "vertical of power" is the most important factor undermining democracy. Through this vertical control of the system they are able to sustain various interests of other influential players, such as oligarchs, clergy or the security apparatus. Moreover, corruption is widespread in Russia. Close ties between wealthy business people and politicians in power are used to manipulate institutions and ensure personal gains. The country is ranked as 135th at the Transparency International 2017 Corruption Perception Index. Russian Orthodox Church has significant influence on public opinion. Also, there are influential players in the Russian secret service and military, but they are all, ultimately, even when mutually competing for influence, rather subordinates to the president and to current regime than actors who could independently interfere into Kremlin's decisions.

### **Freedom of Press : 1.7**

Freedom of the press is granted by the constitution; however, extensive legal and extralegal

pressure prevents broadcast, print and online media outlets from free and independent reporting. Journalists work in an environment of fear, maintained by physical and verbal violence, imprisonment, censorship, economic and political pressure. Two journalists were murdered in 2017 as a result. There is a broad media landscape, however lacking political diversity, since most media are in the hands of people close to Kremlin or are supporting the regime on most important issues in order to avoid conflict. The RBK media group, which had provided critical coverage of the ruling political elite, was sold under strong pressure. Through partisan reporting by state-owned media outlets which are favoring the regime, citizens are generally provided with a controlled and one-sided point of view. The parliament adopted a law at the end of 2017, allowing authorities to label media outlets as “foreign agents”. Independent reporting could mostly be found online. But, that has attracted a lot of government attention recently, where after notable efforts were put to take control over Internet. A number of amendments were passed, allowing authorities to filter and block online contents, thus provoking civic protests in April 2018.

\* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

## Rule of Law

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### **Independence of the Judiciary : 4.25**

The political regime has a contradictory relation with international law, through its attitude towards international courts, by formal support to them but selective acceptance of their, e.g. ECHR's, decisions, or non-cooperation with the ICC, or smearing of the ICTY or praising some of its inmates in government-sponsored media. Meanwhile, some state ideologues and political and religious leaders of the country reject the very idea of the rule of law, as “alien” to Russian tradition, national identity and desired way of life. As Freedom House notes in 2018, the judicial framework has also “remained inconsistent with its constitutional basis”. High profile cases are tightly controlled by political factors, while other cases are influenced by bribery or other non-legal factors. Amnesty International reports on a number of violations of the right to fair trial. Detentions are too long while sentences and fines, especially in administrative courts, are decided swiftly, mainly based on police reports. In autonomous regions such as Chechnya the situation is far worse in terms of total political control over judiciary, while in occupied and annexed Crimea there is an additional legal uncertainty due to the transition from Ukrainian to Russian laws.

### **Corruption : 2.9**

Widespread and persistent – both grand and petty - corruption is a consequence of the lack of political and economic freedom and rule of law, and of state capture by political, business, intelligence and organized-crime oligarchy, but, as Freedom House suggests in its Nations in Transit 2018 report, “the main barrier to democratization of Russia”. FH's score suggests a further small worsening thereby, while Transparency International's a stagnation at a very low level. In the TI's CPI 2017 listing, Russia was ranked 135-142 of 180 countries, with 29/100 points. Grand corruption sucks up a huge percentage of national wealth and, together with petty one, changes

the very fabric of society. Portal GAN finds bribery widespread especially in the judicial system and public procurement, while it is also “endemic” in the police. There are high corruption risks in tax and customs administration. Land administration in Russia-proper is somewhat better, but in occupied and annexed Crimea corruptive land grabs are on the way. FH notes that “official anticorruption activity was nothing more than a tool of political struggle within the political and economic establishment.”

## Protection of Human Rights : 3.83

In spite of a (minimal) improvement of its score lately (mainly due to better education and better access to it), respect of human rights in Russia is at a low level, among the worst of all European countries. Human Rights Watch wrote at the end of 2017 that Russia was more repressive than ever in the post-Soviet era. In the way it mistreats political opposition, CSO-based critics, or undesirable worldviews or ways of life, Russia is seen by many already as a role model for a number of illiberal, anti-individualistic, authoritarian regimes or political movements across and beyond Europe. Freedom of thought and expression is limited to a small number of online portals that are not banned or censored. Even in academia, research or approach which contradicts the government-imposed norms of patriotism or morality can be subject to censorship and/or prosecution. Freedom of association is especially curtailed by no less than 11 laws that directly and additional 35 that indirectly limit various aspects of NGOs` work (financing, advocacy, public gathering, publishing, etc.) while the definitions of key terms are either missing or are too flexible, thus allowing authorities to endlessly discriminate. In spite of that, civil society in Russia proved as stubborn and remained an important societal factor. Public gathering is restricted, while occasional mass protests over various issues (e.g. corruption, or pension reform) are followed by mass arrests and fines. The Russian Orthodox Church (and - to a degree - also other “traditional” religious communities) enjoy privileges, to the point of endangering the secular character of the state, while small or new cults are subject to prosecution of imagined (or sometimes real) extremism. While the authorities try to push back racism, anti-immigrant violence and discrimination of non-Slav ethnic groups by ultra-right wingers in mainland Russia, discrimination of ethnic Tatars and Ukrainians in the Russia-occupied and annexed Crimea continues. Moreover, during the world football championships in June-July 2018, state officials used racist and xenophobic argumentation to discourage young Russians of establishing close contacts with foreign visitors. Public display of belonging to sexual minorities is de facto outlawed in Russia. In Chechnya, an autonomous republic within the RF, authorities went even further between spring and autumn 2017, summoning and torturing hundreds of LGBT people in an attempt to black-list as many as possible. Freedom House noted that at least 31 persons were thereby killed.

## Economic Freedom

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### Security of Property Rights : 5.71

Private property in the Russian Federation is not well secured. Improper government influence and corruption in the judiciary are perceived as high, while vested interest groups connected to political factors can also exercise strong influence over the judiciary. Judiciary is strongly biased in favour

of state entities, either state administration or SOEs. Court decisions in similar cases can substantially differ, giving advantage to the party with political connections, leading to unpredictability of verdicts. There are strong claims that authorities often transform civil cases into criminal cases, in order to substantially increase potential penalties, while unfounded lawsuits or arbitrary enforcement are still present. Private property could be seized by the state, while the offered level of compensation is below expectations; this can also be done indirectly, through pressuring a company to sell its assets at sub-market price and using questionable legal proceedings. On the other hand, legal enforcement of contracts seems efficient, incurring low costs as compared to the value of the claim and is settled within a calendar year. There are specialized commercial courts, but they are often overburdened with small and simple cases. Adjournment procedures are not put in place, and courts do not use automated processes. Insolvency processes are long, lasting two years on average, and are mostly terminated via piecemeal sale, contributing to a relatively low recovery rate of slightly above 40%. The July 2017 amendments to these rules expanded the list of persons who might be held liable for debts of the bankrupt company. Registering property is not lengthy, involving few procedures and incurring low costs. However, outside major cities not all land is registered in the cadaster or mapped. Foreign ownership of land in border or other sensitive areas is restricted, while in the case of agricultural land foreign ownership is outright banned, but foreign entities (natural persons and legal entities with more than 50% of foreign ownership) could lease land for up to 49 years. Government approval through Strategic Investment Commission is necessary for investing in 45 specific areas and industries that are considered as having strategic importance; July 2017 amendments tightened control over transactions of companies registered in off-shore jurisdictions.

## **Size of Government: Expenditures, Taxes, and Enterprises :**

### **7.42**

Public expenditures in Russia are moderate in international comparison, reaching 35% of GDP in 2017. After the prolonged recession in 2015-2016, due to the fall in oil prices (energy makes two thirds of Russian exports), Russian economy started to expand again in 2017, due to rising oil prices and domestic demand. Non-oil exports are also strongly growing, year and again, supported by the significant ruble depreciation. But the growth remains weak, well below 2% and fragile to international developments. The budget deficit was cut in half, from 3.6% to 1.5% in 2017. Public debt remains low by international comparisons, standing at 17% of GDP, providing substantial fiscal space if necessary. Inflation was put under control and reduced to 2.5%, which is a substantial positive achievement when previous inflation rates are taken into account. State-owned enterprises (SOE) are numerous, including more than 64 000 joint stock companies and 21 000 unitary companies. SOEs are active in many industries, not just in those that are regarded as being of strategic importance, such as public utilities, mining, energy or production of military equipment, but also those in agriculture or services. The SOEs allegedly account for 60 – 70% of GDP. Also, more than half of the banking sector is in the hands of the state-owned banks. Numerous SOEs enjoy large direct or indirect subsidies so as to maintain their operation, posing a drain on the federal budget. Although there is an ambitious privatization plan by the government, it was mostly discarded or postponed, including the minority privatization of the VTB bank. In February 2018, Russia combined its previous two independent wealth sovereign funds. 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, leading to a labour tax wedge of 38% on the average wage, in line with the average of the OECD countries.

## **Regulation of Credit, Labour, and Business : 5.3**

Business environment in Russia is not overly business friendly. There are many unnecessary government procedures, while government bureaucracy is mostly inefficient. The level of corruption attested is high, fueled by often vague or contradictory regulation. On the other hand, the process of starting a new business is both easy and inexpensive, without minimum paid-in capital requirement; getting electricity is also an easy procedure taking a bit more than two months. However, it takes more than 6 months on average to obtain a construction permit, since the process involves a high number of procedures. The number of annual tax payments is low and most procedures are online, but the tax rules are still considered overly complicated. Recent reforms improved access to credit by establishing a modern collateral registry. Labour regulation is mostly flexible. Although fixed term contracts are prohibited for permanent tasks, their duration is limited to a long period of 60 months. Working hours face little restrictions. On the other hand, there are redundancy rules but severance pay and notice periods are not stringent and do not increase with years in tenure. Collective bargaining is not well organized and is mostly concentrated within the public sector. After a series of gradual hikes, the federal minimum wage was substantially increased in May 2018, but its level is still low in international comparison when average wage in the country is taken into account. A significant burden is the mandatory 12 months` military service. The system of comparing business climate on the regional level by the Agency for Strategic Initiatives led to an increased effort to improve business climate in several regions of the country. However, corruption and tax rates remain the most significant obstacles to a more business friendly environment in Russia.

## Freedom to Trade Internationally : 7.94

Free trade in Russia is mostly respected, but many obstacles to international trade remain present. Russia is a recent newcomer to the World Trade Organization (WTO), becoming a member in 2012. The tariffs are moderate, with the average MFN applied tariff rate of 6.7% but tariffs on agriculture products could be much higher. Technical barriers to trade (TBT) are still not fully disclosed to the WTO and are seen as a burden to trade. Establishment of the Eurasian Economic Union (EEU) in 2015 did not significantly boost trade, due to the lack of complementarity of economies included, and due to non-alignment of sanitary and phytosanitary measures which need to be tackled. There are currently plans for free trade deals in the near future with Iran and India, while negotiations with other countries are also in place. However, Russia has frequently used economic sanctions as a tool in dealing with neighbouring countries, in order to promote its foreign policy goals. Such economic conflicts took place with Georgia, Moldova, and even Belarus, while recently also with the EU and Ukraine. The current trade sanctions on EU agriculture products are used to promote a substantial program of import substitution of foodstuffs. This field has also been known to have high technical barriers with sanitary standards. There are also significant product localization requirements, which give preferential treatment to locally produced goods or those with some local component; in cases of state funded projects equipment and machinery used must often be made in Russia. Recent labour regulations significantly restrict prospects for foreign migrant workers - inclusion of mandatory language and culture test, and, most importantly, very high license fees, have proved as a significant barrier to the labour market. Two thirds of Russian exports are fuels and minerals. Bad quality of transport infrastructure outside big cities and transport routes poses a significant burden on the transport of goods.