Eurasia’s Boom Continues

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Postcommunist Growth, 1990-98

• Radical & comprehensive reforms: early, strong growth
• Macroeconomic stabilization
• Vigorous deregulation
• Privatization
• Central Europe took the lead

Conclusion: Washington Consensus worked
1999-2005: Losers Turn Winners

- 11 CIS countries’ annual average growth: 7.3 percent
- 4 CE countries: 3.6 percent
- CIS advantage: 3.7 percent a year
GDP Growth Rates in CE-4, Baltic-3, CIS-11
Budget Balance in CE-4, Baltic-3, and CIS-11

![Graph showing budget balances in various regions from 1999 to 2004.](image-url)
Current Account Balance in CE-4, Baltic-3, and CIS-11
Why CIS Advantage?

• Low government spending

• Energy exports: Russia, Kazakhstan, Azerbaijan and Turkmenistan

• Drawback: corruption
Public Expenditure and Growth in CIS-11, CE-4, Baltic-3, 1999-2004

The graph shows the relationship between public expenditure (% of GDP) and GDP growth (%). The data points indicate a negative correlation, suggesting that as public expenditure increases, GDP growth tends to decrease.
Public Expenditure in CE-4, Baltic-3, and CIS-11

The graph illustrates the percentage of GDP spent on public expenditure from 1999 to 2004 for CE-4, Baltic-3, and CIS-11. The lines show a decline in expenditure for Baltic-3, while CE-4 and CIS-11 maintain relatively stable percentages throughout the years.
Oil Price, 1998-2006

The graph shows the average Brent price from 1998 to 2006, with the price increasing steadily over the years.

- The x-axis represents the years from 1998 to 2006.
- The y-axis represents the price in dollars per barrel ($/bbl).

The trend line indicates a consistent increase in oil prices during this period.
Russia: Sound Growth 7% a Year

GDP at prices and PPPs (US) of 2000, growth rate
Explanations of Russian Growth

• Critical mass of market reforms and privatization
• Oil boom
• Minimal Reforms since 2004, but stability
Huge External Surpluses

- Current account balance, US$ billion
- Trade balance, goods, US$ billion
Strong External Account

• External reserves skyrocketing
  – 1999: $13 bn
  – Now: $206 bn

• Public foreign debt falling
  – Spring 1999: 100% of GDP
  – Now: 11% of GDP
Worries about Russia

• Dutch Disease: Dollar wages rising by 30% a year, $62 a month in 1999 to $301 in 2005.
• Energy production: near stagnation after strong growth
• Re-nationalization: Private share of GDP from 70% of GDP in 2004 to 65% in 2005
• Political uncertainty: Presidential elections in March 2008
Oil Output: Up and Down

Crude oil production, % growth
Underinvestment in Energy

- Yukos destroyed & Sibneft stalemated
- State firms acquire companies instead of investing
- Remaining private companies afraid of investing
Greatest Damage: Re-Nationalization
Poor state firms buy well-run private companies

- Rosneft seized Yukos
- Gazprom bought Sibneft & OMZ
- UES bought Power Machines
- Five state banks on buying sprees
- United Aircraft Corporation
- Automotive merger under way
Hungary: Weakest

Forecasts for 2006:

• Acceptable GDP growth: 4.3%
• Patently big budget deficit: 6.8% of GDP
• Steady, excessive current account deficit: 8.9% of GDP
• Populist elections April 9 & 23: No improvement in sight
Conclusions

• Russia looks solid
• Hungary worrisome
• Focus on current account