

# Russia

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## Quick Facts

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### Official Name:

Russia or Russian Federation

### Cities:

Moscow - Capital

### Other major cities:

St. Petersburg (4.6 million)  
Novosibirsk (1.4 million)  
Nizhniy Novgorod (1.3 million)

### Nationality:

Russian(s)

### Population: (January 2010):

141.9 million.

### Population Growth Rate: (2009 est.)

0.002%.

### Ethnic groups:

Russian 79.8%,  
Tatar 3.8%,  
Ukrainian 2%,  
other 14.4%.

### Religion:

Russian Orthodox, Islam, Judaism,  
Roman Catholicism, Protestant,  
Buddhist, other.

### Language:

Russian (official); more than 140  
other languages and dialects.

### Education (total pop.):

Literacy--99.4%.

### Health:

Life expectancy (2009 est.)  
66.0 average; 59.3 yrs. men,  
73.14 yrs. women.

### Work force: (75.81 million, 2009 est.)

Services--58.1%,  
industry--31.9%,  
agriculture--10%.

### Government Type:

Federation

### GDP: (2009)

\$1.231 trillion.

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## People

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Annual population growth rate (2009 est.): 0.002%.

Ethnic groups: Russian 79.8%, Tatar 3.8%, Ukrainian 2%, other 14.4%.

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Education (total pop.): Literacy--99.4%.

Health: Life expectancy (2009 est.)--66.0 average; 59.3 yrs. men, 73.14 yrs. women.

Work force (75.81 million, 2009 est.): Services--58.1%, industry--31.9%, agriculture--10%.

## Government

Type: Federation.

President: Dmitry Medvedev

Prime Minister: Vladimir Putin

Branches: Executive--president, prime minister (chairman of the government). Legislative--Federal Assembly (Federation Council, State Duma). Judicial--Constitutional Court, Supreme Court, Supreme Court of Arbitration, Office of Procurator General.

Political parties: After a shakeup in late 2008 dissolved and combined several parties, seven registered parties remain: United Russia, the Communist Party (KPRF), the Liberal Democratic Party (LDPR), Just Russia, Yabloko, Patriots of Russia, and the new Right Cause party. Yabloko, which favors liberal reforms, and Patriots of Russia failed to clear the 7%

threshold in 2007 to enter the Duma.

Subdivisions: 83 federal subjects (members of the Federation), including 21 republics, 9 krais, 46 oblasts, 2 federal cities, 1 autonomous oblast, and 4 autonomous okrugs.

Suffrage: Universal at 18 years.

## **Economy**

GDP (2009): \$1.231 trillion. (Russian Government statistics--RosStat)

Growth rate (2009): -7.9%.

Natural resources: Petroleum, natural gas, timber, furs, precious and nonferrous metals.

Agriculture: Products--Grain, sugar beets, sunflower seeds, meat, dairy products.

Industry: Types--Complete range of manufactures: automobiles, trucks, trains, agricultural equipment, advanced aircraft, aerospace, machine and equipment products; mining and extractive industry; medical and scientific instruments; construction equipment.

Trade (2009): Exports--\$301.6 billion: petroleum and petroleum products, natural gas, woods and wood products, metals, chemicals. Major markets--EU, CIS, China, Japan. Imports--\$167.4 billion: machinery and equipment, chemicals, consumer goods, medicines, meat, sugar, semi-finished metal products. Major partners--EU, CIS, Japan, China, U.S. U.S. exports--\$5.4 billion. Principal U.S. exports (2009)--oil/gas equipment, autos/parts, meat, aircraft, electrical machinery, medical equipment, plastics, cosmetics, and chemicals. U.S. imports--\$18.2 billion. Principal U.S. imports (2009)--oil, chemicals, aluminum, iron/steel, precious stones, nickel, fish and crustaceans, copper, base metals, and wood.

## **PEOPLE**

Russia's 141.9 million citizens descend from more than 100 ethnic groups. Russian is the official language of Russia and is one of the six official languages of the United Nations. Russian is also the language of such giants of world literature as Pushkin, Tolstoy, Dostoevsky, Chekhov, Pasternak, and Solzhenitsyn.

Russia's educational system has produced nearly 100% literacy. About 7 million students attended Russia's 1,090 institutions of higher education in 2006, but continued reform is critical to producing students with skills to adapt to a market economy. Because great emphasis is placed on science and technology in education, Russian medical, mathematical, scientific, and space and aviation research is still generally of a high order. The number of doctors in relation to the population is high by American standards, although medical care in Russia, even in major cities, is generally far below Western standards. The unraveling of the Soviet state in its last decades and the physical and psychological traumas of transition during the 1990s resulted in a steady decline in the health of the Russian people. Currently Russia faces a demographic crisis as births lag far behind deaths. While its population is aging, the high number of deaths of working-age males due to cardiovascular disease is a major cause of Russia's demographic woes. A rapid increase in HIV/AIDS infections and tuberculosis, added to rising deaths from cancer, compounds the problem. In 2009, life expectancy at birth was estimated at 59.3 for men and 73.14 for women. The large annual excess of deaths over births, if unabated, could cut Russia's population by 30% over the next 50 years, though inward migration could change this picture.

Moscow is Russia's capital and largest city. Moscow is also increasingly important as an economic and business center; it has become Russia's principal magnet for foreign investment and business presence. Its cultural tradition is rich, and there are many museums devoted to art, literature, music, dance, history, and science, as well as hundreds of churches and dozens of notable cathedrals.

The second-largest city in Russia is St. Petersburg, which was established by Peter the Great in 1703 to be the capital of the Russian Empire as part of his Western-looking reforms. The city was called Petrograd during World War I and

Leningrad after 1924. In 1991, as the result of a city referendum, it was renamed St. Petersburg. Under the tsars, the city was Russia's cultural, intellectual, commercial, financial, and industrial center. After Lenin moved the capital back to Moscow in 1918, the city's political significance declined, but it remained a cultural, scientific, and military-industrial center. The Hermitage, formerly the Winter Palace of the tsars, is one of the world's great fine arts museums.

Russia has an area of about 17 million square kilometers (6.5 million sq. mi.); in geographic terms, this makes Russia the largest country in the world by more than 2.5 million square miles. But with a population density of about 22 persons per square mile (9 per sq. km.), it is sparsely populated, and most of its residents live in urban areas.

## **Economy**

The Russian economy underwent tremendous stress in the 1990s as it moved from a centrally planned economy to a free market system. Difficulties in implementing fiscal reforms aimed at raising government revenues and a dependence on short-term borrowing to finance budget deficits led to a serious financial crisis in 1998. Lower prices for Russia's major export earners (oil and minerals) and a loss of investor confidence due to the Asian financial crisis exacerbated financial problems. The result was a rapid and steep decline (60%) in the value of the ruble, flight of foreign investment, delayed payments on sovereign and private debts, a breakdown of commercial transactions through the banking system, and the threat of runaway inflation.

The Russian economy bounced back quickly from the 1998 crisis and enjoyed over nine years of sustained growth averaging about 7% due to a devalued ruble, implementation of key economic reforms (tax, banking, labor and land codes), tight fiscal policy, and favorable commodities prices. Household consumption and fixed capital investments both grew by about 10% per year during this period and replaced net exports as the main drivers of demand. Inflation and exchange rates stabilized due to a prudent fiscal policy (Russia ran a budget surplus from 2001-2008). Foreign exchange reserves grew to almost \$600 billion by mid-2008, the third-largest in the world, of which more than \$200 billion were classified as stabilization funds designed to shelter the budget from commodity price shocks. The balance of payments experienced twin surpluses until mid-2008 in the current and capital accounts, which accounted for the phenomenal growth of reserves. As of July 1, 2006, the ruble became convertible for both current and capital transactions. Russia prepaid its entire Soviet-era Paris Club debt of \$22 billion in late 2006, but by October 2008 foreign external debt totaled \$540 billion, of which \$500 billion was owed by banks and corporations, including state-owned enterprises.

The global economic crisis hit Russia hard, starting with heavy capital flight in September 2008, which caused a crisis in its stock market. Several high-profile business disputes earlier in 2008, such as TNK-BP and Mechel, as well as the Georgian war helped drive capital out of Russia. By mid-September, Russia's stock market had collapsed, as businesses sold shares to raise collateral for margin calls required by international lending institutions. As the global financial crisis gathered steam in the fall of 2008, the accompanying steep fall in global demand, commodity prices, and tightening of credit served to almost grind Russia's economic growth to a halt in the fourth quarter of 2008, to 1.1% down from 9.5% during the same period in 2007. The Central Bank of Russia responded by pumping liquidity into Russian banks, which helped avert a banking crisis. At the same time, the government attempted a managed devaluation, which successfully avoided a run on the ruble and bank deposits but at the cost of a steep decline in foreign exchange reserves to \$387 billion by mid-February 2009. This in turn prompted the S&P and Fitch rating agencies to downgrade Russia's sovereign debt to the lowest investment grade. By late 2009, however, the Russian economy had begun a modest recovery, bolstered by government anti-crisis policies, the global rebound, and the nearly 50% rise in oil prices over the course of the year. Russia's leaders put renewed emphasis on promoting innovation as key to economic modernization as well as on the need to diversify the economy away from oil and gas.

## Gross Domestic Product

Tighter credit, collapsing global demand, global uncertainty, and rising unemployment hurt investment and consumption, the main drivers of GDP growth in recent years, particularly in the first half of 2009. After a decade of growth, estimated GDP growth and industrial production growth for 2009 were -7.9% and -11, respectively--a sharp contrast to the pre-crisis performance of 8.1% and 6.3% in 2007. However, analysts project Russia's GDP growth to exceed 5% in 2010, driven mainly by consumption and inventory restocking, followed by 3.5% growth in 2011

## Population

Russia's population was 141.91 million as of January 2009, a decrease from the previous year according to the government statistics service and the Ministry of Public Health. The birth rate in 2009 was the highest recorded in the last 15 years. The improvements may in part be attributed to the implementation of a National Priority Health Project and financial incentives to mothers having two or more children. Life expectancy remains low compared to developed countries, averaging 59.3 years for men and 73.1 for women in 2009. Cardiovascular diseases, cancer, traffic accidents, and violence continue to be major causes of death among working age men. Many premature deaths are attributed to excessive alcohol consumption and smoking. A truly healthy Russia will require serious improvements in the health sector and some major changes in current cultural norms. To combat the looming demographic crisis, in October 2007 then-President Putin approved the concept of demographic policy for the years 2008-2025. The program aims to increase life expectancy, reduce mortality, increase the birth rate, improve the population's health, and develop a sound migration policy. The government instituted the National Priority Health Project and "mother's capital" in order to slow the population decline. These programs had short-term success; Russia's population declined by 0.25% in 2008, compared to 0.4% in 2007. It is unknown if such programs offer a long-term solution. Russian statistics show a slight increase in the population in 2009; inward migration is the primary cause. In April 2008, the government approved joining the World Health Organization's Framework Convention on Tobacco Control, which is expected eventually to reduce extremely high smoking rates, and the government put significant amounts of money into prevention of smoking and alcohol abuse in the 2009-2011 budget. The economic crisis and resultant budget deficit through at least 2010, however, raise doubts about the future of such spending.

## Industry

Russia is one of the most industrialized of the former Soviet republics. However, years of very low investment have left much of Russian industry antiquated and highly inefficient. Besides its resource-based industries, it has developed large manufacturing capacities, notably in metals, food products, and transport equipment. Russia is now the world's third-largest exporter of steel and primary aluminum. Russia inherited most of the defense industrial base of the Soviet Union, so armaments remain an important export category for Russia. Efforts have been made with varying success over the past few years to convert defense industries to civilian use, and the Russian Government is engaged in an ongoing process to privatize many of the state-owned enterprises

## Investment/Banking

Foreign direct investment (FDI) in 2009 fell to less than \$40 billion after reaching an all-time high of \$75 billion in 2008. Much of the FDI in recent years was Russian capital "returning home," from havens like Cyprus and Gibraltar, and these flows reversed during the economic downturn. Moreover, although the annual flow of FDI into Russia was in line with those of China, India, and Brazil, Russia's per capita cumulative FDI lagged far behind such countries as Hungary, Poland, and the Czech Republic. Most foreign mergers and acquisitions in 2009 were in the politically sensitive energy sector, largely because of the huge capital requirements required relative to other sectors. Analysts note that by late 2009 foreign investment was rebounding, but pre-crisis challenges remain, such as the difficult business climate, lack of transparency, weak rule of law, and corruption.

Although still small by international standards, the Russian banking sector before the crisis was growing fast and becoming a larger source of investment funds. To meet a growing demand for loans, which they were unable to cover with domestic deposits, Russian banks borrowed heavily abroad in 2007-2008, accounting for 57% of the private-sector capital inflows in 2007. Ruble lending has increased since the October 1998 financial crisis, and in 2007 loans were 66% of total bank assets, with consumer loans posting the fastest growth at 57% that same year. In 2004, Russia enacted a deposit insurance law to protect deposits up to 100,000 rubles (about \$3,700) per depositor. Amendments to the law in the fall of 2008 increased the Deposit Insurance Agency's 100%-coverage for deposits up to 700,000 rubles. The vast majority of Russians keep their money in the banking sector. The combination of liberalized capital controls and ruble appreciation against the dollar in 2005-2008 persuaded many Russians to keep their money in ruble- or other currency-denominated bank deposits. In 2007, total retail deposits grew by 35%, with foreign currency deposits accounting for 13% of the total. Despite the onset of the crisis, deposits rose by 14% in 2008 and 27% in 2009.

Despite the banking sector's recent growth, financial intermediation in the overall economy remains underdeveloped. Contradictory regulations across the banking and securities markets have hindered efforts to transfer resources from capital-rich sectors, such as energy, to capital-poor sectors, such as agriculture and manufacturing. The sector is dominated by large state banks, and concentrated geographically in Moscow and the Moscow region. Thus financial service providers face little competition for resources and charge relatively high interest rates for favored, large corporate borrowers.

This state of affairs makes it difficult for entrepreneurs to raise capital, and banks generally perceive small and medium commercial lending as risky. Most of the country's financial institutions are inexperienced with assessing credit risk, though the situation is improving. The low level of trust, both between the general public and banks as well as among banks, makes the system highly susceptible to crises. After an uncertain year in 2009, by spring 2010 Russian officials announced an end to anti-crisis bank support, and a World Bank report said that "a systemic banking crisis had been averted, the liquidity crunch eased and depositor confidence reestablished." The report cautioned, however, that systemic weaknesses exposed during the crisis--especially excessive dependence on foreign borrowing and non-performing loans--still needed to be addressed.

## **Trade**

The U.S. exported \$5.4 billion in goods to Russia in 2009, a 42% decrease from the previous year. Corresponding U.S. imports from Russia were \$18.2 billion, down 32%. Russia is currently the 32nd-largest export market for U.S. goods. Russian exports to the U.S. were fuel oil, inorganic chemicals, aluminum, and precious stones. U.S. exports to Russia were machinery, vehicles, meat (mostly poultry), aircraft, electrical equipment, and high-tech products.

Russia's overall trade surplus in 2009 was approximately \$100 billion--compared with \$180 billion in 2008 and \$129 billion in 2007--a reflection of the slower growth in exports and severe contraction of imports. World prices continue to have a major effect on export performance, since commodities--particularly oil, natural gas, metals, and timber--comprise nearly 90% of Russian exports. Russian GDP growth and the surplus/deficit in the Russian Federation state budget are closely linked to world oil prices.

Russia is in the process of negotiating terms of accession to the World Trade Organization (WTO). The U.S. and Russia concluded a bilateral WTO accession agreement in late 2006, and negotiations continue on meeting WTO requirements for accession. Although Russia did reduce or eliminate import tariffs on some products in 2007 and 2008, the prevailing trend in 2009 was to increase import tariffs in key areas in response to the global economic crisis.

According to the 2010 U.S. Trade Representative's National Trade Estimate, Russia continues to maintain a number of barriers with respect to imports, including tariffs and tariff-rate quotas; discriminatory and prohibitive charges and fees; and discriminatory licensing, registration, and certification regimes. Discussions continue within the context of Russia's WTO accession to eliminate these measures or modify them to be consistent with internationally accepted



trade policy practices. Non-tariff barriers are frequently used to restrict foreign access to the market and are also a significant topic in Russia's WTO negotiations. In addition, large losses to U.S. audiovisual and other companies in Russia owing to poor enforcement of intellectual property rights in Russia are an ongoing irritant in U.S.-Russia trade relations. Russia continues to work to bring its technical regulations, including those related to product and food safety, into conformity with international standards.