“THE PROPERTY HAS BEEN FIERCELY DIVIDED”
BETWEEN THE AUTHORITIES IN RUSSIA
AND THE CAPITAL IS A “TASTY MORSEL”
FOR THE PEOPLE WHO GOVERN IT –
THE CURRENT ECONOMIC SITUATION IN MOSCOW

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The Russian economy in the 70s of the twentieth century entered a stagnation period. It was the opinion of many experts in the field of economy and also it was repeatedly stated by Yegor Gaidar – the Russian Deputy Prime Minister that the 90s was responsible for economic reforms. One of the main causes of this situation was actions taken by the government. In the early 70s a barrel of crude oil cost a little over 2 dollars after 3 years the price rose by 600%. This was due to the fact that OPEC\(^1\) rapidly reduced gas production and imposed an embargo on countries supporting Israel in the Yom Kippur War. In this situation, the Soviet authorities discerned the possibility of huge profits after OPEC’s reaction, the Soviet Union became

\(^{1}\) Ang. Organization of the Petroleum Exporting Countries – OPEC headquarters is in Vienna The main purpose of the organization is to control the world’s oil output and the price of this resource.
one of the largest exporters of crude oil, and billions of dollars have been used to boost the weak economy.  

It is worth noting that in 1999 the Russian Federation budget was smaller than the budget of New York City. In the same year Vladimir Putin became the head of government. In the beginning Putin was ruling as acting president and later he became the independent leader of the country. The 90s in the Russian Federation was a time of great changes in both Russia politics and the mentality of the citizens. After the collapse of the Soviet Union the country had to tackle a variety of issues and conduct many reforms. An unreformed export system which remained in that form for the next few years became the legacy of the collapsed Soviet Union system. Following T. A. Kisielewski: “there is no difference between the economic structure of the USSR and the Russian Federation (…) If the crude oil price per barrel is reduced from 60 dollars to 40 dollars which is not impossible, then the export value will decrease by ten percent. Such a decline of income would have unsettled the Russian economy and triggered strong social conflicts.”

The Russian economy is based on the extraction of raw materials. The late 90s and the following years proved to be beneficial for the Russian economy. In autumn 2005, oil prices reached their peak. The Russian National Bank announced that its provisions are at the level of 156 billion dollars, when a few years earlier, they were only at the level of 55 billion dollars. Enormous profits from export of the raw materials resulted a year later when Russia prematurely repaid almost the entire foreign debt, which in 2004 reached 197.3 billion dollars.

Based on data collected in Andrew Falk’s report which was prepared on behalf of the Polish Embassy in Moscow, some basic conclusions about the Russian economy in the past few years can be presented. First of all, “the Russian economy is highly dependent on the situation of the market

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3 Ibidem, p. 49–51.
4 T.A. Kisielewski, Schyłek..., p. 52.
5 A. Falek, Analiza sytuacji gospodarczej Rosji, Moskwa 2010.
of raw materials”\(^6\). Taking into account that in 2009–2010 the oil prices were high and the economy was able to expand in the country.

Furthermore, oil prices contributed to the improvements in the macro-economic situation of Russia and they boosted the statistics related to the foreign trade. They caused the reported profit growth of exports of goods to 27.8 billion during the year (from 34.9 billion in the first quarter of 2009 to 62.7 billion in the first quarter of 2010). In addition, there was an increase in import by 21%, when comparing the corresponding quarters of the years 2009–2010\(^7\).

It is worth mentioning that households also experienced economic improvement. Salaries rose as the income of individual households improved. This contributed to an increase in consumption and improved the level of demand and the domestic economy. However, in 2009 the decrease in investment activity mainly due to the uncertain situation on foreign markets and hindered ability to acquire a loan was noted\(^8\).

The financial situation of the country in 2010 provided optimistic forecasts by the economists as the state debt fluctuated around 7.7% of GDP\(^9\). According to Russia’s Ministry of Finance, the country’s foreign debt for the first 6 days of 2010 reached 41.8 billion USD, while the internal debt stood at around 52 billion Euro (as of 01.01.2010)\(^10\).

Due to the fact that in some periods Russian economic development was strong, the country became a member of the BRICS group\(^11\). It contributed to perceptions that the Russian economy entered an era of development. In 2013, the situation declined. In an article from “The Telegraph” the British economist- Roger Bootle said that the Russian economy is in a dangerous situation and is balancing on the edge of risk. He added that unless the government takes appropriate measures, the country will fall

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\(^6\) Ibidem, p. 3  
\(^7\) A. Falek, *Analiza sytuacji …*, s. 3.  
\(^8\) Ibidem, p. 8.  
\(^9\) It is the total value of the goods and services produced by the people of a nation during a year not including the value of income earned in foreign countries.  
\(^10\) Ibidem, p. 12.  
\(^11\) The name of the group of the developing countries: (Brazil, Russia, India, China, Republic of South Africa).
into recession. According to his forecasts, in order to improve the situation conducting rapid changes are crucial, especially the economy branches such as investment and production, need to become more extensive\textsuperscript{12}.

One of the issues in the Russian economy was the backing of the old system as most of the investments focused on the energy sector, while in the public sector, the changes were small. The contribution of small and medium-sized enterprises in the GDP was scarce. The causes of such a situation can not only be found in non-transparent regulations, but also in a restrictive banking system. Moreover, the banking sector was reluctant to grant loans to owners of small businesses. In the third quarter of 2013, economic growth reached only 1.2\%\textsuperscript{13}.

Reforms and new investments are necessary to increase revenues and funds. Therefore, it became vital to improve the judiciary laws, provide opportunity for fair competition in the market and grant loans for small and medium-sized businesses. Moreover, the reasons for this poor condition of the Russian economy are found in the rapid decline in retail sales and increasing unemployment. The International Monetary Fund suggested that the Russian Federation should begin to reform the obsolete pension system in order to protect investment spending\textsuperscript{14}.

On the other hand, there were voices that the Russian economic system is not as inefficient as it may seem. In one of the articles of the “Forbes” magazine Mark Adomanis stated that of course, the change in the government's system could contributed to the improvement of the economic situation. At the same time he pointed that the root of the issues, are not only government policy. In his view, the countries in the region, whose governments are 100\% democratic and their economy has been thoroughly reformed, reported a bigger economic slowdown than Russia. Poland became an example of such a situation, when in both 2012 and 2013 reported economic growth at a lower level than the Russian Federation. The author inclined to the theory that in comparison with other countries

\textsuperscript{13} M. Kośka, Nikt już nie udaje... [access: 11.01.2014].
\textsuperscript{14} Ibidem [access: 11.01.2014].
in the region, Russia is developing quite well, but structural reforms are needed in the near future.\textsuperscript{15}

In 2012, the Russian government described the economic foundation for the coming years, including the level of GDP growth that was forecasted at 3.7%. Already after the first quarter the reported indexes forced to reduce the GDP level to 2.4% in 2013 and from 4.3% to 3.7% in 2014. The Minister of Economic Development of Russia stated that the most important reason for this situation is the insufficient growth of the world’s economies, including the Euro zone countries. Moreover, the monetary policy of the Russian Federation which is focused on loans with high interest rate also contributes to the decline in the competitiveness of companies and a reduction in their economic activities.\textsuperscript{16}

In 2012 in Russia, many companies were forced to reduce their investments – including Gazprom which had to perform the biggest reduction (over 27% of investment). The forecasts presented that in the years 2014–2015 the company will be forced to perform further cuts, reaching even 30%. Taking into account all the risks for the economy of the state in early 2013, the Ministry of Economic Development proposed several ways to stimulate the economy. One of them was to moderate the monetary policy, which, according to the ministers could reduce the interest rates and the availability of loans. Another proposal was to reduce tariffs for heat and electricity.\textsuperscript{17}

In the face of the Ukraine crisis growing stronger, the Russian economy lost its stability and recorded declines in index rates. In April 2014, Russia’s Economy Minister said that the economic growth in the first quarter fell to 0.8%. The decline was triggered by a difficult international situation, the uncertainty of the global market and a constant outflow of capital from the


\textsuperscript{17} E. Fisher, \textit{Stagnacja rosyjskiej...} [access: 11.01.2014].
country. Pre-crisis forecasts were optimistic and pointed to an increase of a few percent. Reported losses in the first quarter of this year were higher when compared to the previous year. The minister said that the economic situation of the country is the most difficult since 2009. He also informed that Russia was considering making a complaint about the United States to the WTO in connection with the imposition of sanctions on four Russian banks (Bank Rossiya, a subsidiary of the Rossiya – Sobinbank, SMP Bank and Inwestkapitalbank). From the Russian point of view such actions can be understood as restrictions of the WTO rules.

To sum up the economic situation in the Russian market attention should be paid to some basic aspects. First of all, it is essential to determine what should be done to improve the economic situation. One of the options is to focus on greater extraction of raw materials. Another possibility is to move away from a monocultural economy and ensure that the Russian economy resembles the world’s leading economies in the structure. Tadeusz Kisielewski quotes Adam Daniel Rotfeld- former Deputy Minister of Foreign Affairs, who already in 2004 noted that Russia “is the last superpower, which based its strength on energy resources”.

Important in the context of the economic situation are the opinions that the main obstacle preventing them from the achievement of a good economic situation is Russia’s wealth of energy resources. Tadeusz Kisielewski quotes George W. Szeremet, included in the book “The problems of socio-economic and cultural non-European countries” - “those who have wealth, do not have to be rich”.

After the brief analysis of the overall situation in the Russian Federation the situation in Moscow will be presented. In Moscow branches and subsidiaries of major domestic and foreign companies can be distinguished. Moreover, branches of foreign trade and telecommunications services

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20 Ibidem, p 72.
are developing swiftly taking into account the whole Federation. In 2012, unemployment in the capital reached about 1%, the average annual income per person was at about 35 thousand dollars and inflation was little more than 9%. In addition, a statistical citizen of Moscow was commuted to work 42 minutes, and the capital itself generated 20% of tax revenue of the Federation budget\textsuperscript{21}.

According to the portal News Russ Moscow the economy in recent years accounted for approximately 18% of the GDP of the whole country\textsuperscript{22}. Moreover, in the years 2000–2007 the capital development index (ВРИП-the equivalent of the GDP in other countries) was almost doubled, and in 2007 the per capita income was around 650 thousand rubles\textsuperscript{23}. The city’s GDP was regularly increasing. In 2008, the ranking based on GDP presenting a hundred of the world's largest cities was created and Moscow took the high 15\textsuperscript{th} place (just three years before it was 25\textsuperscript{th} in the ranking). According to the experts’ forecasts from PricewaterhouseCoopers (PwC)\textsuperscript{24} by 2025 Russian capital may reach even three points higher than it is now. Currently, in the top ten of the above ranking there are two cities that are considered as representatives of developing countries, to which Russia is also rated among (these are Mexico City and Sao Paulo)\textsuperscript{25}.

A reason for the strong and rapid development of the capital is undoubtedly its location. The fact that Moscow is the “heart” of the country, results in drawing the biggest business tycoons, both from Western Europe, as well as from the United States and China. Another cause of the situation of

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\item[22] Экономика Москвы “newsruss.ru”, http://newsruss.ru/doc/index.php/%D0%AD%D0%BA%D0%BE%D0%BD%D0%BE%D0%BC%D0%B8%D0%BA%D0%B0_%D0%9C%D0%BE%D1%81%D0%BA%D0%B2%D1%8B, [access: 24.01.2014].
\item[24] Global enterprise which specializes in consulting and audit services.
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the strong wealth of the city can be seen in the fact that half of all Russian banks are registered in Moscow. Moreover, most of the large companies have their headquarters in this city and pay taxes there\textsuperscript{26}.

The capital’s economy relies heavily on trade, in particular on foreign trade of the energy resources (37.7\%). The second place is occupied by business activities and related telecommunications services (almost 21\%). Third place in the ranking belongs to industry (16.3\%). These figures pertain to the situation in 2012\textsuperscript{27}.

The Russian capital holds most of both domestic (Седьмой континент, Копейка) and foreign supermarket chains (e. g. increasingly popular Auchan). In 2012, in the Moscow market appeared more new foreign chains, which offered its products on the Russian market such as the French bakery Paul, shop with Italian menswear- Boggi, and soon the British chain stores with toys for children – Hamley’s will be opened\textsuperscript{28}.

In addition, in Moscow almost half of all foreign brands are running their businesses. This situation allows us to recognize this city among the leaders concerning this factor. According to data for 2011, Moscow took 4\textsuperscript{th} place in the aforementioned ranking. Over the last decade, 50 international networks opened their shops in the Russian capital, not including the chains which opened other branches of their business in Russia. In comparison with St. Petersburg- the second Russian city which holds a considerable number of foreign brands, Moscow is definitely taking the lead (In Moscow chains such as Selgros, Wendy’s, Starbucks, etc. are found but they are not present in St. Petersburg)\textsuperscript{29}.

In 2006, the Russian government passed a law under which states that by 2015 all market places across the country should be replaced with the standard shops or should be fully closed. Therefore, the number of bazaars

\begin{footnotes}
\item A. Madej, Moskwa. Potencjał handlowy… [access: 26.01.2014].
\item I. Fedorow, Москва догоняет Нью-Йорк..., [access: 24.01.2014].
\end{footnotes}
in the Russian capital decreases continuously— in 2001 there were 172, and 11 years later, only 67\(^30\).

Business and financial activities in Moscow are the second strongest factor influencing the development of the city. Location between East and West contributed to the fact that Moscow has become the center of the region as far as business is concerned. The capital focuses approximately 70–80\% of the financial investments of the country. Moreover, in Moscow are located the largest financial companies, as well as the Russian stock market which ranks among the 20 largest stock exchanges of the world. In addition, the city houses almost one third of all Russian insurance agencies, and the amount of payments in respect to insurance fluctuates around two thirds of all payments in the country\(^31\).

The industry is the third factor that strongly influences the development of the capital. The leading role is dedicated to the construction of machines and cars, power industry, as well as light and heavy industry. Moscow is the largest exporter of electricity in the European part of the Russian Federation. In 2000–2007, the interim rate of growth in the industrial field was as high as 116\%, which appeared to be a two-fold increase compared to previous years\(^32\).

In order to consider the role of investment in the economy of Moscow attention should be paid to the fact that the share of Moscow in the total amount of public investment is as high as 11\%. In terms of the level of investment risk, the city occupies 36\(^{th}\) place and in the ranking of its investment potential it is recognized as the leader among the country regions\(^33\).

The capital being considered the richest region in the country is very diverse in terms of the wealth of its citizens. On the streets beautiful lim-

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\(^31\) Экономика Москвы..., [access: 24.01.2014].

\(^32\) ibid, [access: 24.01.2014].

Ousinesses and rich foreign stores can be seen, and at the same time great poverty, beggars and abandoned children are noticeable. On the basis of statistics it can be stated that in 2006 the average monthly per capita income was about 1000 dollars and in 2011 47,3 thousand rubles, while the salary was almost 45 thousand rubles. Both of these indicators are the highest scores in the central region of the country. A major problem in the scale of the city is the constant migration from other areas of the Federation, as well as from the other countries. Most people that come to Moscow are job seekers who come from small towns or villages. People change their place of residence because they are looking for a better life for them and their families. In one day the Moscow police often “catch” more than 1,000 people who do not have a residence permit to stay in Russia. Therefore, in the capital a special camp was opened for people who would soon be deported. In August 2013, this camp held about 500 people, including Vietnamese, Egyptians, Syrians, but also the citizens of the former Soviet republics such as Azerbaijan and Kyrgyzstan. A large manhunt on foreigners in Moscow began in July 2013 when in one of the city’s bazaars the police were beaten by immigrants. In the same year, police discovered an illegal underground town entirely inhabited by immigrants. It was located under the town bazaar, where not only lived the immigrants but also they established places such as a sewing room, a café and a henhouse. The city authorities admitted that in their city lives about 2 million foreigners and mostly these are people that do not have the residence permit.

An important aspect in terms of describing the economy of the Russian capital is ubiquitous corruption. In 2010, there was only one check done in the city administration. On the basis of the results of the check the head of the Inspection Office of the Russian Federation President Administration- Konstantin Czujczenko, presented the results. It was confirmed that the cost of public procurement in Russia and Moscow

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was regularly overestimated, and at least one fifth of money provided for these expenses were divided between the parties involved in transactions. The audit demonstrated that each year in the corruption of public officials in the whole country is wasting approximately 33 billion dollars. 

In 2010, the mayor of Moscow, Yuri Luzhkov was dismissed from his post. Furthermore, the prosecution office launched an inquiry on corruption of the Muscovite’s officials. Luzhkov had worked in his post continuously since 1993. During this time, he survived three presidential campaigns, 6 parliamentary campaigns and two wars in Chechnya. Mayor's office workers were accused of “corruption crime”, and the mayor was accused of lobbying for a construction company Inteko, which was owned by his wife, Yelena Baturina. Prosecutor’s Office representative Vladimir Markin stressed that all measures have been taken long before the final decision of Luzhkov’s dismissal. The opposition for years accused Vladimir Putin’s central administration and co-workers of nepotism, corruption, and the overall bad situation of the city. It is worth noting, that Luzhkov was widely considered as a loyal Putin associate. However, then the president of Russia- Dmitry Medvedev, announcing his resignation provided only a laconic feedback that the situation was caused by “loss of confidence”. Moreover, Luzhkov announced that in this case he was going to bring this matter to court. He also emphasized that despite exerting pressure on him, he would not leave the political scene. He stressed that many city residents disagree with the decision of his dismissal.

In 2011, the former mayor of the Criminal Investigation Department in the Ministry of Internal Affairs was questioned in court. He was called on to testify as a witness in the case of money removal from the Bank of


Moscow while he held the position of mayor in the capital. The investigation concerned commissioning illegal payments from the city budget, and transferring the money to Premier Estate company account. The company spent the acquired money on a building plot, which previously was owned by the holding company Inteko. After the hearing, as well as repeatedly before, the former mayor of Moscow emphasized that the cities “property has been fiercely divided” and the capital is a “tasty morsel” for the people who govern it, which is the overt cause of subsequent accusations of government corruption. The problem of corruption affects not only the political elite. In 2013, Joy Womack an American graduate of the Moscow Academy of Choreography (schools recognized as the world’s best ballet school) had accused the Moscow Bolshoi Theatre that in order to get the role of soloist in performances, she should pay at least 10 thousand dollars. She emphasized that the role in the Theatre is not granted on the basis of talent, but on money and personal relationships with the management.

The capital authorities boast about the statistics concerning the unemployment in Moscow. The rate in the capital is the lowest when comparing to all regions, however in the Russian Federation unemployment rate varies. In the capital unemployment reaches about 1% (in some months, the level came up to just 0.5%). On the other hand, the highest rate was recorded in January 2012 in Ingushetia- up to 49%. According to data quoted in the materials’ Rossiyskoy Gazeta “in early 2012 in Moscow in the counterpart of the employment agency in Russia (Департамент труда и занятости) about 40 thousand people were registered as unemployed and in September the number decreased to the level of 29 900 people. There-


fore, the authorities boasted that Moscow has tackled the crisis years of 2008–2009. Moreover, the average salary of employees of state institutions increased, including the salary of doctors (1.5 thousand Euros per month) and teachers (1300 Euros per month). What is more, the administration emphasized that, for example in urban transport adequate staff is still wanted and for every unemployed person there are at least 5 vacancies to take\(^{42}\).

At the end of 2013 the European Commission and Russia had a dispute on contracts concluded by Gazprom monopoly with seven countries (Austria, Bulgaria, Croatia, Greece, Serbia, Slovenia and Hungary) which are members of the EU and the Energy Community. In December 2013, the European Commission stated that the agreements are invalid because they violate the obligations of these countries towards the EU. Based on these agreements the so-called South Stream was planned to be established. This pipeline would have been the equivalent of the North Stream\(^{43}\) pipeline which is already operating. The EU accused Gazprom that being a gas supplier it cannot be at the same time the owner of the pipeline infrastructure. Another complaint was about the lack of healthy competition, due to the fact that there were no possibilities of access to the pipelines by the external companies. The EU stated that the contracts are not tailored to the requirements of EU tariffs. The Russian Ambassador to the EU, Vladimir Chizhov, refused to adjust the agreement according to EU law. Moreover, he stressed that if the European Commission obtains the consent of the countries involved to conduct the negotiations with Gazprom on their behalf, the discussion had to be focused on the possibilities of adjusting the EU law to Gazprom’s guidelines and not the other way round. So far no countries have decided to decline their right to vote to the European Commission, and if they fail to fulfill the contract, it is most likely to appeal them to the International Court of Justice, and, as many analysts believe, in this case Russia would be in a winning position. The countries that signed


the contract are obliged to pay fines for their actions. The only question is whether they will pay the fine to EU or to Gazprom.\textsuperscript{44}

A big gain for the Moscow economy may be the conflict in Syria. One of the Polish analysts, Maciej Jędrusik, stated that the longer the conflict lasts the better for Moscow as this situation is pushing up commodity prices. The Russian economy is based largely on raw materials therefore a bad situation in Syria suits the capital. Moreover, according to Jędrusik, the danger of a possible war in the Middle East leads to higher prices of raw materials, which is an additional benefit for the Russian budget.\textsuperscript{45}

At the end of 2013, the chairman of the capital of the Department of Trade and Services- A. Niemieriuq, said at a press conference, that Moscow held the largest infrastructure in the field of trade and services. There are more than 19.5 thousand commercial institutions in the capital, 11,000 eating places, as well as over 11,5 thousand daily service points. In 2013, the capital opened 350 new shops and also 162 restaurants and cafes. In the same year there was a further reduction of the capital bazaars- at the end of the year there were only 53 remaining.\textsuperscript{46}

As far as economy is concerned, on the one hand, Moscow fully deserves to be called the capital of the empire. Furthermore, the low level of unemployment, massive foreign investment, new foreign stores and medium income per capita contributed to the superior position of the city. On the other hand, issues with corruption and nepotism of the authorities, inability to take control over the wave of immigration and huge social differentiation suggests that it still has a long way to go before Moscow achieves a superior position in the economy.

\textit{This article is based on a thesis chapter written by Natalia Gburzyńska.}

\textsuperscript{44} \textit{Gaz nadal iskrzy na linii...}, [access: 24.01.2014].
SUMMARY

This article refers to the contemporary situation in the Russian economy and in the Russian capital economy. Economy in Russia is based on the extraction of raw materials. However, in 2010 economic forecasts for the country were optimistic. In this period economic development was strong and the country became a member of the BRICS group.

One of the issues of the Russian Federation economy was the backing of the old system. Most investments were focused on the energy sector when in the public sector the changes were smaller. To increase revenues and funds big reforms are necessary and new investments. One possibility to improve the economic situation is to focus on greater extraction of raw materials. Another option is to resign from a monocultural economy.

The situation in Moscow is better than the general economic situation in the Russian Federation. GDP increased regularly. In 2008 Russia took 15th place in the ranking of the hundred largest cities GDP. The Moscow economy is based especially on the trade of energy resources. Moreover, profit is gained from business activities and industry. The level of unemployment in Moscow is the lowest in comparison to all regions. In the capital city it fluctuates between 0.5% and 1%.

A major problem in the capital city is the constant immigration from other part of the Federation and other foreign countries. In majority, people who come to Moscow are the job seekers. Also the significant problem is ubiquitous corruption.

Keywords: capital, Russia, Moscow, economy, raw materials, trade, industry, unemployment, migration, corruption