New Directions Lecture by Alexandra Balod: Country Risk in Russia

On February 25, 2016 Alexandra Balod, associate at Standard & Poor in London, UK, gave a New Directions Lecture entitled “Country Risk in Russia.” Balod’s talk highlighted the current state of Russia’s economy and her outlook on the future this situation with a focus on the area of investment.

Balod began her discussion by setting up the current problem with finance in Russia. She stated that high country risk has always existed in Russia. However, in times where Russia’s oil was more profitable there existed a counterbalance in the common framework which state institutions, businesses, and individuals use to decide whether to invest in a country’s economy. Balod stated that even though economies have become globalized, government sanctions and restrictions highly impact any activity within the territories in a country. With the recent sanctions placed upon the Russian economy for its actions in Ukraine, the country risk is very high which has led to even lower investment within its economy.

Russia’s economy is shaped by its resources, but also the distribution of wealth within the country and other factors. According to Balod, with a huge landmass and ample reserves of natural resources like oil, gas, and metals, Russia is one of the richest countries in the world. In terms of GDP, Russia is in the top ten countries. However, when Balod compared Russia’s GDP to GDP per capita (top 50) one can see the disparity between the wealth of the country and the wealth of its people. Later in her presentation, Balod provided World Bank Data that showed how far Russia lags behind many smaller countries both within the realm of GDP per capita and level of corruption. She described the emerging market in Russia as subject to high volatility. With a low density of population and transport networks, and with economic activity, finance, wealth, and power highly concentrated in a few regions and large cities, the rest of the country does not have the resources they need and what they do receive comes at a high cost.

The key risks Balod identified for Russia are its dependence on the export of commodities (oil, gas, metals), weak institutions of rule of law, high concentration of power, recently escalated geopolitical risks, and dependence on the external world while trying to portray the ability to sustain itself. Balod stated that “Oil and gas provide 10 percent of the GDP directly and up
to 30-50 percent indirectly, 60 percent of export and 45 percent of federal budget revenues.” With a government that she views as inefficient, with weak checks and balances, elite groups, has maintained unreliability, and continues to advance in Ukraine despite sanctions, Balod stated that investors are “turned off” and will remain so until Russia confronts these internal issues. In sum, Balod identified the drop in oil prices between 2009 and 2011 as the largest factor in the slowdown in investment which continues to exacerbate the undermining of future growth within Russia’s economy. She stated that, in order to turn the economy around, Russia must first fix the climate around the investors. She was pessimistic about Russia’s ability to do this as trust among investors is not easily built. She concluded that it is possible for Russia to see a turn around in investment, but it is unlikely.

Bethany Wages is REEES M.A. at UIUC. Her focus of study is history and she is currently writing her thesis on the political evolution of Vera Zasulich. She received her B.A. in Honors/History and English Literature in 2014 at Wright State University and plans to graduate this year. She plans to attend Indiana University at Bloomington to study Information and Library Sciences in the fall of 2016.