



DEBT AND DISCONTENT

THE COLLAPSE OF THE PUTIN CONSENSUS?

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For the vast majority of Russians, the *vlast'*—regime—they encounter is neither the Kremlin nor the Duma. It is considerably more local: regional governors, mayors, municipal bureaucrats, local ministry representatives, and their proxies. Although the Kremlin projects a centralized vision of the Russian Federation, in which Moscow's writ is executed evenly throughout the country, this image is not the reality of center-periphery politics in Russia. This report analyzes the Kremlin's handling of a subnational debt crisis, which its own policies sparked in 2012. Rather than managing the situation on a technocratic basis, the Kremlin has prioritized politically or strategically sensitive regions, while allowing fiscal problems to mount in others. The result is a paradox well known to observers of Russian politics: although the formal institutions that codify the center's relations with its periphery treat the regions on an equal basis, informal power dynamics play a much greater role. The Kremlin has also opted at each turn to delay painful repayments of subnational debts, pursuing an ad-hoc policy of immediate survival rather than a long-term strategy.

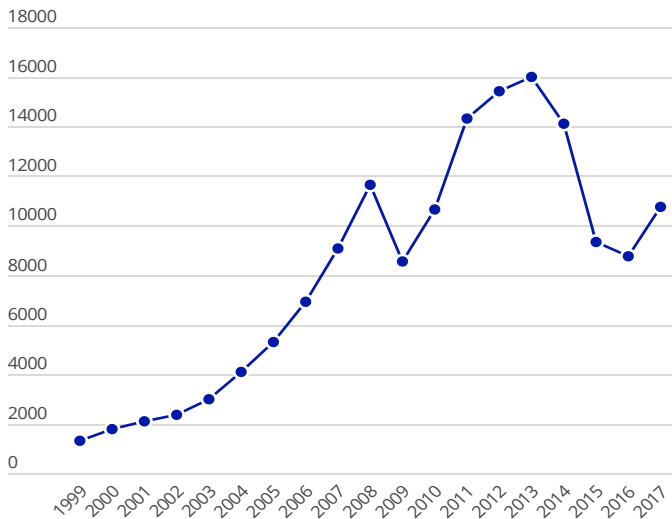
When a financial crisis crippled the Russian economy in 1998, it surprised many foreign investors and even Russia watchers. Conditions in the regions beyond Moscow and Saint Petersburg, however, would have made clear that the status quo was not sustainable. Today, Russia watchers are again walking blindly. Center-periphery politics in Russia are not dead, but hidden. If the "Putin consensus" begins to break down in Vladimir Putin's fourth term, its cracks will not initially form in the country's formal institutions; they will appear first in the informal relationships that define Moscow's interactions with its periphery.

KEY INSIGHTS

- The formal structure of Russian fiscal federalism hardly reflects reality.
- Beyond the Kremlin's self-serving narrative, center-periphery politics in today's Russia remain grounded in informal calculations and favor short-term stability over long-term viability.
- If regions are tasked with fulfilling significant parts of the May 2018 decrees, particularly those concerning boosting investment for the modernization of Russia's economy, the Kremlin risks once again breaking the backs of the regions.
- If the "Putin consensus" begins to break down in Putin's fourth term, its cracks will first appear in the informal relationships that continue to govern Moscow's relations with the periphery, rather than in formal institutions.

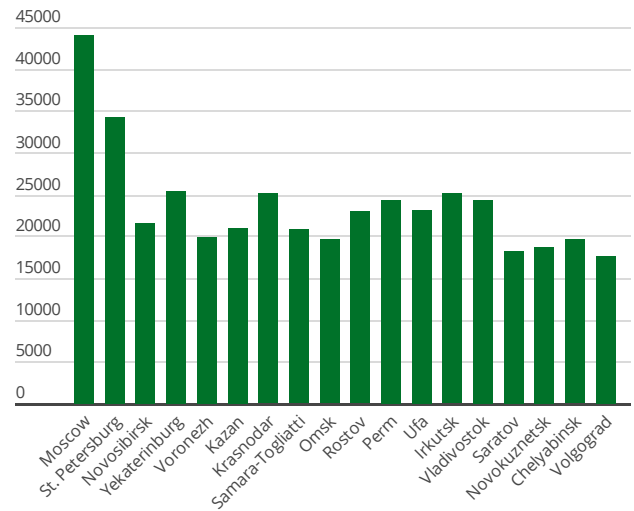


Russia: GDP per capita (USD)



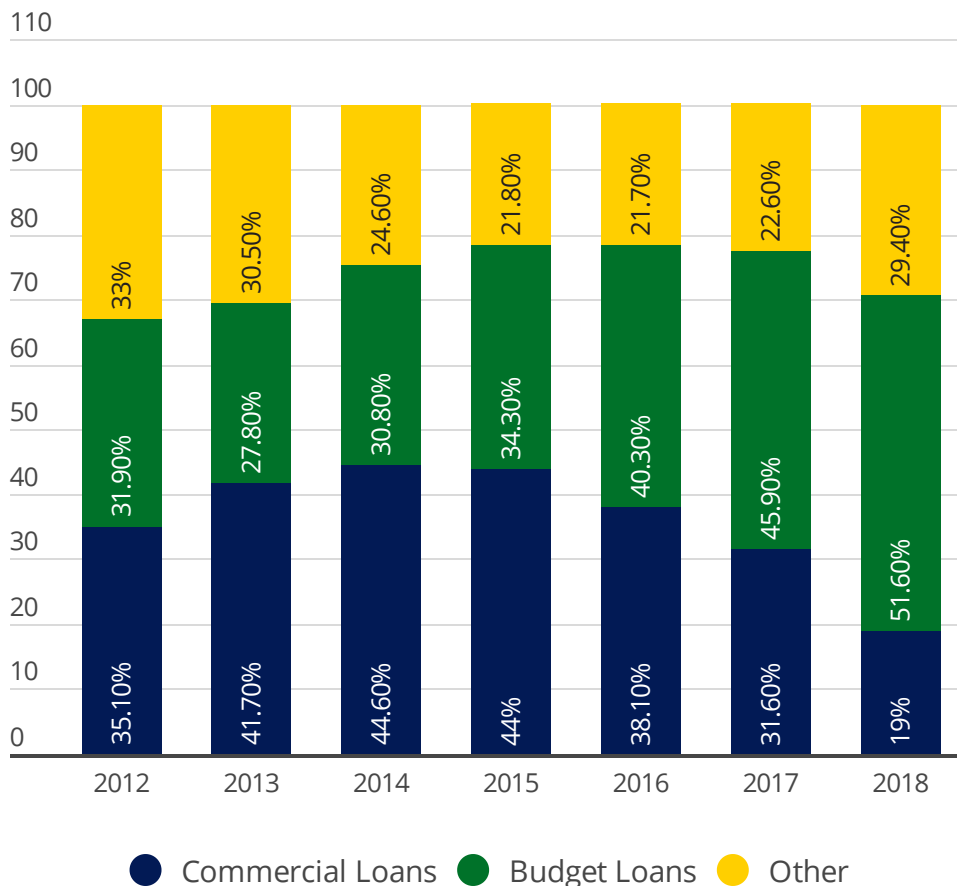
Source: World Bank

2017 Gross Metropolitan Product of Russia's cities in international dollars



Source: The Institute for Urban Economics

Consolidated Regional Debt Structure 2012- 2018



Source: Ministry of Finance