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Special Commentary

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Russian Election Spurs More Controversy

Heading into Sunday's presidential election in Russia, two things were almost certain: Vladimir Putin would win the election and the opposition would protest the results. This is exactly what happened, as Putin won about 64 percent of the votes, while Communist leader Gennady Zyuganov took 17.2 percent, billionaire Mikhail Prokhorov grabbed 7.9 percent, Vladimir Zhirinovskiy garnered 6.2 percent and Sergei Mironov tallied 3.9 percent. However, the results were immediately called into question by the opposition amid more allegations of ballot stuffing, carousel voting and irregularities in vote counting. Zyuganov, who came in a distant second, refused to acknowledge the legitimacy of the vote and did not congratulate Putin on his victory, which Putin claims was "open and honest." But there were actually more reports of fraud this time around compared to the parliamentary elections in December, in which the United Russia Party won about 50 percent of the vote, even though opposition parties believed it was closer to 30 percent. Polls heading into Sunday's election suggested Putin might win 40 percent of the vote, which would have been less than needed to avoid a run-off vote.

Vladimir Putin won 64 percent of the votes, but the results were immediately called into question amid more allegations of fraud.

International observers also called the election illegitimate. The Organization for Security and Cooperation in Europe (OSCE) said there was no real competition in the election and that it was not a level playing field for all the candidates. The OSCE said Putin abused administrative power and resources and that the media was biased toward Putin and gave him much more airtime than the other candidates received. In addition, one candidate, Grigory Yavlinsky, a liberal economist, was removed from contention at the last minute when the government said he did not have enough signatures of support for his application, leading some to question whether the Putin political machine was behind Yavlinsky's disqualification. Furthermore, despite the installation of web cameras at thousands of polling stations, the cameras still caught some instances of ballot stuffing. Of course, the Putin camp disputes these videos, claiming they were staged by the opposition in order to accuse Putin of fraud.

The day after the election, about 20,000 Russians rallied in downtown Moscow to protest the election. Meanwhile, opposition leader Alexei Navalny called for civil disobedience and sit-ins, and Yabloko party leader Sergei Mitrokhin exclaimed, "From this moment on, the real battle starts." Navalny was later among 200 people detained by police after refusing to leave the protest rally. At the same time, a similar number of people gathered near the Kremlin to celebrate Putin's victory, which followed the previous night's celebration estimated at 100,000 people.

Following the claims of fraud in December's parliamentary elections, the ruble and the stock market plunged. However, both have regained lost ground. From December 12 through March 5, the stock market rose 28 percent while the ruble appreciated about 7 percent. Putin's pledges to raise wages for doctors and teachers, increase child benefits, expand student grants and ramp up defense spending have raised economic growth projections, at least in the short-term. Rising oil prices and increasing global risk appetite have also lent support to stocks and the currency. Still, controversy surrounding the elections will keep political uncertainty elevated. Indeed, on March 6 the ruble fell while stocks plunged over 4.0 percent. This, along with more important long-term challenges, means investors need to remain cautious on the outlook for Russia.

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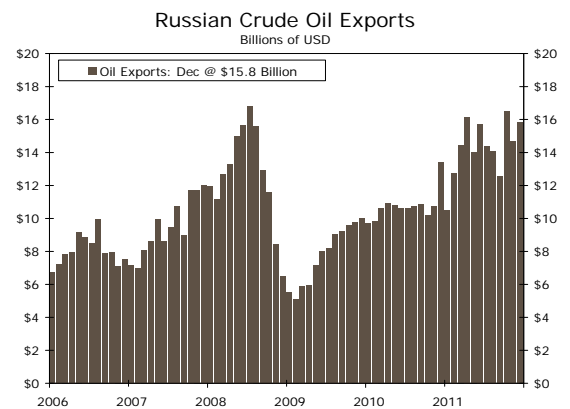
Since the recession, Russian economic growth has averaged less than prior to the recession and trails its emerging market peers.

Russian economic growth came in at 5.0 percent year over year in the fourth quarter and registered 4.3 percent growth for all of 2011 (Figure 1). Still, this is much less than the 7 percent average from 2000-2008 and is lower than growth rates seen in China and India. Growth was bolstered by a jump in oil exports in the last quarter of the year (Figure 2). The good news for Russia is that oil prices have risen even further since then. The bad news is that the economy must become more diversified if it is to compete with the likes of China and India in the 21st century. Unfortunately, despite Putin's pledge for reforms, higher oil prices will not give him much incentive to follow through, while vested interests will make the path to reform difficult. However, rising social unrest could force Putin's hand. Furthermore, the more Putin promises in government spending, the higher the oil price needs to be to balance the budget, leaving the economy increasingly vulnerable to an oil price shock, the impact of which was clear during the global financial meltdown and collapse in oil prices in 2008.

Figure 1



Figure 2



Source: Federal Service of State Statistics and Wells Fargo Securities, LLC

A greater fear of the unknown than of the known may have carried Putin to victory.

The increase in government spending as a result of higher oil prices supported strong growth in real wages and household consumption in the years before the recession (Figure 3). Recently, real wage growth has returned to near double-digits, aided in part by the sharp slowdown in inflation to a post-Soviet record-low of 3.8 percent in February (Figure 4). With inflation slowing and real wage growth improving, some may wonder why there is so much angst about another Putin presidency. But Putin's heavy-handedness in the political sphere, an unfriendly business environment and rampant corruption have many clamoring for change. Yet, in the end, a greater fear of the unknown than of the known may have carried Putin to victory.

Figure 3



Figure 4



Source: Federal Service of State Statistics, Bloomberg LP and Wells Fargo Securities, LLC

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