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Development strategy of the Russian economy in conditions of economic sanctions

Стратегија развоја Руске економије у условима економских санкција

Roman G. Smelik*
The Economic faculty of Omsk state University, named after F. M. Dostoevsky
Omsk, Russia

Сажетак: Стратегија развоја руске економије пре наметања санкција од стране Европске Уније и Сједињених Америчких Држава и увођење руских мера против санкција имале су за циљ постизање одрживог економског раста, решавање низа социо-економских проблема и, на послетку, побољшање животног стандарда становништва.
Кључне речи: стратегија, руска економија, развој.

Abstract: Development strategy of the Russian economy before the imposition of economic sanctions by the European Union and the United States and the introduction of anti-sanction response measures by Russia were both aimed at achieving sustainable economic growth, addressing a range of socio-economic problems and, ultimately, improving the standard of living of the population.
Keywords: strategy, Russian economy, development.

1. Development strategy before the sanctions

Development strategy of the Russian economy before the imposition of economic sanctions by the European Union and the United States and the introduction of anti-sanction response measures by Russia were aimed at achieving sustainable economic growth, addressing a range of socio-economic problems and, ultimately, improving the standard of living of the population.

Russia's accession to the World Trade Organization (WTO) - the event our country sought to reach for 10 years - contributed to the achievement of this goal. As a result, foreign direct investment in 2013 increased by almost 40%.

In a relatively quiet period, before the sanctions' imposition, macroeconomic forecast for 2015 in the Russian economy was based on the following indicators:

- growth of gross domestic product (GDP) - 1.2%;
- inflation rate - 5.5%;

* ✉ Smelik@eco.univer.omsk.su

- US dollar to Russian ruble rate - 37.7 rubles;
- oil price - $ 96 per barrel;
- reserve fund - 5.4 trillion rubles.

During 2014 Russian economy was exposed to a number of factors which caused the need for a serious correction of the development strategy.

2. Reasons for the change of strategy

The reasons for the change of the development strategy of the Russian economy can be grouped into two areas (Fig. 1). There are foreign policy and foreign economic reasons.

Reasons for the strategy change

Foreign policy reasons

Foreign economic reasons

Fall in the world prices for hydrocarbons
Anti-sanction measures
Economic sanctions

Figure 1. *Reasons for the strategy change*

Let's consider the reasons in more detail. We will leave the political nature of the anti-Russian economic sanctions to the politicians. In economic terms, the essence of US and EU sanctions is reduced to a series of measures aimed at undermining the economic development of Russia. The main measures are the following:

- Prohibition for a number of Russian citizens to enter the United States and the EU, and freezing of their foreign assets;
- Limitation of economic ties of several large Russian companies with their foreign partners;
- Restrictions and prohibitions on foreign credit resources;
- Significant reduction of foreign investment;
- Significant reduction of production by foreign companies on the territory of the Russian Federation;
- Disabling Russian banks from international bank payment systems;
- Downgrade of the credit rating of large Russian companies and the Russian economy in general.

Measures introduced by the Russian side as a response to the sanctions are connected with a significant reduction and even prohibition of entry of a wide range of industrial and agricultural products into the territory of the Russian Federation. Thus, an appropriate economic question arises.

What are the consequences of such foreign political factors' influence?

According to the official data of the Ministry of Finance of the Russian Federation, due to the sanctions Russian economy losses are estimated at 40 billion dollars a year.

The losses of the European economy are estimated: in 2014 - at about 40 billion euros, the forecast for 2015 is about 50 billion euros.

We can state the following fact as a typical example: for 2014 the decline of German exports to Russia was about 20%, in monetary terms it's about 8 billion euros.

All these figures prove a complete lack of economic benefits from the sanctions and anti-sanctions once again. By the way, Serbia which did not support sanctions can serve as a good example. Agricultural exports from Serbia to Russia have doubled in 2014.

We can make the following assessments regarding the fall in the world price of hydrocarbons by more than 2 times. According to Russian experts, the loss of the Russian economy due to the reduction of world oil prices is about 100 billion dollars per year. If we consider that about 60% in the structure of Russian exports account for oil and gas, we will understand that this loss is rather significant.

Thus, in early 2015 the government of the Russian Federation made significant changes in the development strategy of the Russian economy. What is the economic nature of these changes? (Fig. 2).

New strategy of the economic development of the Russian Federation

New measures for strategic goals achievement
Adjusted strategic objectives

"New reality" macroeconomic forecast in the Russian Federation

Figure 2. *Changes in the strategy of economic development of the Russian Federation*

Firstly, the developed strategy is based on the macroeconomic forecast of the Ministry of Economic Development for 2015. Its code name is "new reality". This forecast implies:

- decline of the gross domestic product (GDP) - 3%;
- rate of inflation - 12%;
- real wages' fall - 9%;
- oil price - $ 50 per barrel.

For comparison it should be noted that in the crisis year of 2009 the fall in GDP was 7.8%.

Secondly, the strategic goals of sustainable economic development and social stability have been adjusted. The main objectives for 2015 - 2016 are as follows:

1. Structural changes in the Russian economy.
2. Stabilization of work of systemically important organizations in key industries.
3. Achievement of balance in the labour market.
4. Inflation reduction.
5. Mitigation of the impact of rising prices for socially important goods and services for families with low incomes.
6. Achievement of positive growth and macroeconomic stability in the medium term.

Thirdly, the measures for achieving strategic goals are formulated clearly. The key ones are as follows (Fig. 3):

Key measures for achieving strategic goals

Import substitution

Targeted investments

Effective employment

Business development

Banking system stability

Fulfillment of public obligations

Support of certain categories of citizens

Figure 3. *Measures for achieving strategic goals*

1. Import substitution and export support for a wide range of non-resources products, including high-tech ones.
2. Promotion of small and medium-sized businesses by reducing the financial and administrative costs.
3. Creating opportunities for attracting current investment resources at affordable costs in the most important sectors of the economy, including the implementation of the state defense order.
4. Compensation of additional inflation costs to the most vulnerable categories of the population (pensioners, families with several children).
5. Tension reduction in the labour market and effective employment support.
6. Optimization of budget expenditures due to the identification and reduction of inefficient costs, concentration of resources on priority development areas and fulfillment of public obligations.
7. Enhancing the stability of the banking system and creating a mechanism for the resolution of troubled systemically important institutions.

The limited time of the report does not allow to reveal all the tools of this strategy implementation. In this regard, let me focus on the most important ones.

In 2015, the majority of the federal budget expense categories are reduced by 10% due to the inefficient costs. At the same time social nature obligations are fully performed. In addition, the costs connected with national defense, agricultural support and fulfillment of international obligations by the Russian Federation are not reduced. Russian defense spending for 2015 is 3.28 trillion rubles, which is 4.2% of gross domestic product. 200 billion rubles will be spent on the support of the agricultural sector in 2015. Investment budget resources are concentrated on the completion of previously started projects while the implementation of new projects is temporarily put off. The costs aimed at the functioning of public authorities are reduced. Annual cost

reduction of the budget expenses by at least 5 percent is expected over the next three years.

Gradual stabilization of the world raw material market and the measures taken by the Bank of Russia will help to normalize the situation in the foreign exchange market and create conditions for a significant reduction of nominal interest rates and increase of lending availability.

The actions of the Central Bank of the Russian Federation in the difficult economic conditions established by the end of 2014 require a separate explanation. The fall in oil prices in the world market resulted in the decrease of the ruble exchange rate, there was a powerful speculative demand in the domestic market. In this situation, the Central Bank made decisions which had not been previously used in Russia. In December 2014 the Central Bank refused direct foreign exchange interventions on the foreign exchange market and moved to a floating exchange rate of the ruble, i.e. to the market exchange rate. The key bank rate was increased from 8% to 17% simultaneously. These measures have helped to balance the foreign exchange market, stop the panic and stabilize the ruble rate. Moreover, now we can see the circumstances for the gradual lowering of the key lending rate. The Central Bank aims at reducing the inflation to 4% by 2017.

The Russian government has identified a number of systemically important organizations which will receive a direct financial support from the reserve fund. Companies of petrochemical industry, machinery, metallurgy and military-industrial complex are included in this list. Large infrastructure projects that require financial support have been identified. 45 state programs that require budgetary financing have been also actualized. In addition, funds for the support of the banking sector have been identified. The total amount of funds which will be spent on the implementation of the anti-crisis plan for two years turns out to be $ 2 trillion rubles. It equals to over 30 billion euros at the current exchange rate. Since the 1st of February 2015 pensions have been indexed by 11.4%. 50 billion rubles are allocated to fight against unemployment in 2015.

3. Expected results

Implementation of the development strategy of the Russian economy implies the achievement of certain results in the medium term.

The main results are the following:

- reduction of inflation rate to 4% in 2017;
- stop the GDP fall and ensure its growth at the level of 1%.

The reality of the proposed strategy implementation is based on two main factors.

Firstly, the public debt of the Russian Federation at the moment is less than 20% of our gross domestic product.

Secondly, the ongoing development of the Russian economy in recent years has created substantial reserves, the so-called "safety cushion". Foreign exchange reserves of the Central Bank of the Russian Federation amounted to about 400 billion dollars at the beginning of 2015. Moreover, the reserve fund of the Russian Government is 5 trillion 865 billion rubles. The National welfare fund is estimated at 4 trillion 388 billion rubles. Some of its funds are placed in financial instruments, including debt obligations of Ukraine in the amount of 169 billion rubles, which is about 3 billion dollars. These obligations reach their maturity in December 2015.

In conclusion, it is necessary to pay attention to the following facts. Russian economy is experiencing hard times. Implementation of the proposed strategy of the economic development will give an opportunity to overcome the crisis situation, even in conditions of economic sanctions. However, in terms of mutually beneficial economic cooperation between Russia and the EU countries, overcoming the consequences of the global economic crisis for all countries would be much more efficient.

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Resume

The paper focuses on Russian economic policy in different stages of this state development but especially after imposing sanctions by the European Union and the United States of America. The paper considers the effects of these sanctions and the proposed goals of the Russian state in order to minimize their negative effects. Apart from presenting the results of such domestic economic policy and its potential futire effects, the author suggests that in terms of mutually beneficial economic cooperation between Russia and the EU countries, overcoming the consequences of the global economic crisis for all countries would be much more efficient.