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Russian Journal of Economics 2 (2016) 1–22

Russian Journal of Economics

www.rujec.org

Anti-crisis measures or structural reforms: Russian economic policy in 2015 ☆

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Abstract

This paper addresses the trends and challenges of 2015 for social and economic policy in the near future. The analysis of the global crisis includes uneven developments between the leading advanced and emerging economies, new models of economic growth that look differently across different countries, the prospects of globalization and the challenges of "regional globalization," currency configurations of the future, and energy price trends and their influence on the political and economic prospects of particular states. The current challenges are discussed in the context of the previous 30 years. Among the main topics on Russia, there are approaches to a new growth model, structural transformation (including import-substitution issues), economic trends, budget and monetary outlines, and social issues. Priorities for economic policy are also a topic of discussion.

JEL classification: O52, P67.
Keywords: economic policy, crisis, structural reforms, global trends, Russia.

1. Global trends — the general and the specific

Today, the world is looking for the new equilibrium that should occur after the global structural (systemic) crisis that began in 2008 and still more or less continues. We are witnessing the formation of a new macroeconomic (including the nature of monetary policy and economic growth potential) and institutional growth model, a change in the roles of certain economic sectors, the emergence of a new model for globalization and international trade, and a re-thinking of the role of inequality in the economic and social development of the leading

☆ The updated English version of the article published in Russian in *Voprosy Ekonomiki*, 2016, No. 2, pp. 5–33.
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Peer review under responsibility of Voprosy Ekonomiki.

http://dx.doi.org/10.1016/j.ruje.2016.04.001

states.[1] The situation remains unstable, although the global crisis itself is nearing completion.

Nevertheless, the end of the *global* crisis will not necessarily mean that the situation in all affected countries and regions will improve. It will depend on the ability of countries to "exploit the crisis," i.e., to find institutional solutions to help them adapt to the new reality—technological, economic, social, and even ideological. Some countries may come out of the crisis renewed and more competitive, but others will continue trying to overcome the negative trends. However, this will no longer be a global crisis, but rather a crisis of specific national models.[2]

We can identify a number of features that were characteristic of the global crisis during the past year and that will remain relevant in 2016.

The first is the staged nature and lack of geographical synchrony to the global crisis. Although the crisis affected almost all developed and leading emerging economies, its progress was asynchronous across the countries and regions of the world. At first, it seemed that the crisis might engulf the majority of the leading countries, and therefore, global economic coordination institutions were created in 2008: the G20 was formed, and the mandate of the Financial Stability Board was expanded.

The decoupling hypothesis appeared, arguing that the leading developing countries were, to a certain degree, independent of the trends in developed countries. This provided a basis for the idea that emerging economies would drive the world out of the crisis. The highest hopes lay with the BRICS countries. However, the crisis soon began to accelerate in Brazil and Russia, and then in other major developing countries. In 2015, it became clear that even China was affected by the crisis, as its growth rate dropped below 7% for the first time in 35 years (since 1981). Although China demonstrates a high rate of growth relative to other countries and that growth contributes much more to the global GDP than it did in the early 1980s, the impact of a slowdown will be felt globally. We should also note the unprecedented volatility of the Chinese stock market, the USD 513 billion contraction in international reserves, and the aggressive (on the Chinese scale) movements of the yuan. The Brazilian economy is also declining, and only India managed to keep growth at approximately 7.3%.

The BRICS countries showed more political unity last year, and provided increasingly fewer reasons for economic positivism. The unity turned out to be more political than economic (as observed 15 years ago, when it was "invented" by J. O'Neil, chief economist at Goldman Sachs).

The second is overcoming the crisis by developed economies. The crisis is aggravated in developing countries, whereas developed economies are recovering. First of all, we can point to the United States, where macroeconomic conditions (growth rates and low unemployment) enabled the Federal Reserve to increase interest rates for the first time in nine years. Undoubtedly, the crisis is not yet over: past experience has proven that such large-scale transformations could

[1] These issues are discussed in detail in Mau and Ulyukaev (2014).

[2] In fact, the crisis with the Soviet system during the 1980s and 1990s represented this particular kind of deferred crisis. It was a result of the failure of the Soviet elite to adapt to the new reality that emerged during the crisis in the 1970s. Thus, the crisis in the Soviet system was not part of the structural crisis in developed countries but undoubtedly arose as its consequence.

quite possibly lead to renewed deterioration in economic trends. This, however, does not change the general trend.

The Federal Reserve acted with caution because of the domestic situation (GDP and unemployment trends) and not as a result of evaluating this factor's impact on other countries, which is tolerably in line with the point voiced by J. Connelly, US Secretary of the Treasury, during the dismantling of the Bretton-Woods system in 1971, "the dollar is our currency and your problem." The turnaround in US monetary policy supports the "escape to quality" trend (capital flight from emerging markets) and seems to herald the beginning of a long period of an expensive dollar. The latter will factor into amortizing one of the global imbalances that had formed before the outbreak of the global crisis.

The situation in the EU is improving gradually, which is caused, to a lesser extent, by general macroeconomic success and, to a greater extent, by the manifested ability to resolve acute issues with the single currency system. On the whole, the crisis with the single European currency (related to the situation in Greece) is resolved. The euro has persevered under the conditions of, and according to, the paradigm of fiscal austerity (the German approach) and not on the exotics of unfettered budget stimulation, as was advocated by the leftist Greek government and the governments of some southern European countries. At the same time, the European Central Bank (ECB) is continuing its policy of strong quantitative easing, which now turns out to be just the opposite of the course taken by the Federal Reserve in 2015. The euro's weakening against the dollar may become an additional incentive for the European economy (if the inflation trap can be avoided).

Ireland's success was less noticeable, but still important: for three quarters in 2015, economic growth was 7%, the best performance in the Eurozone. This is the more important because in 2008 and 2009, Ireland suffered a deep crisis that brought it to the verge of economic disaster. The country's experience over the past seven years shows that a responsible policy may resolve complicated issues, even within a currency union and with a lack of monetary tools at the disposal of the national government.

However, an overestimation of the recuperation in the Eurozone would be a mistake. It still requires a number of institutions to ensure its stable functioning, including banking regulations and budget system coordination. The results of the referendum in Great Britain concerning its membership in the EU are still open. Europe has not overcome the crisis for economic and political reasons.

The medium-term prospects for the unprecedented monetary expansionism of recent years is still an open issue. Although deflation remains the primary threat for developed countries, the risks of accelerated inflation processes cannot be ignored.

The prospects for overcoming the immigration crisis in Europe are closely related to this matter. The wave of migrants into the EU raises serious short-term issues. The same wave, however, can offer additional possibilities to neutralize the negative demographic trends and increase productivity.

The third is the search for and development of new economic growth models. We should seek multiple new models, rather than a single, one-size-fits-all approach. Even with some convergence between developed and leading developing countries during the pre-crisis period (the 1990s and 2000s), the challenges facing them now differ significantly. The difference between the ongoing structural crisis and those of the 1930s and 1970s is the different scope of macroeconomic and institutional reforms needed to achieve a sustainable growth trajectory.[3]

For some countries, it should be about the economy's greater focus on domestic demand (this pertains to quite different countries such as Germany and China). For others, the focus should be on enhancing and diversifying foreign demand (this also pertains to Russia). A number of countries need serious institutional reforms. Some countries need to raise prices to achieve the required inflation targets, whereas others need to suppress them. Nevertheless, all countries need to take measures to enhance economic growth potential given a new technological base. In virtually all of the growth models, human capital development is one of the key priorities.

The fourth is the prospect for globalization. Globalization faces serious challenges, economic and political alike. International trade value declined by 11% in 2015. This has been a rare occurrence during the past 30 years, nearly unprecedented, overlooking 2008, when the 22.6% decline was fully offset by 2010.

We have seen the evident enhancement of political forces arguing for protecting national values and identity, in contrast to universalism and globalization. All this is happening against a backdrop of greater rigidity in international relations, including crude protectionism, sanctions, aggressive regulation, and even armed conflicts, all of which had been almost unacceptable until recently. A crucial, albeit not entirely clear, question is what will become of the political mainstream. A related question is whether the trend towards nationalism, which was marginalized in recent decades (since the end of World War II in Europe), will prevail during the next quarter of a century.[4]

From an economic point of view, globalization is one of the key phenomena and will remain so in the post-crisis world. However, the recent trend towards adjusting the globalization model is becoming increasingly apparent. We are speaking about the shift of the center of gravity from "global globalization" (which has the WTO as its symbol and quintessence) towards "globalization by interests" or regions. Regionalization of globalization has recently gained fresh momentum.

The expansion of the multilateral (universal) integration agenda in the world will apparently experience long-term stagnation: the WTO can provide only liberalization of global trade to a certain degree and define the acceptable boundaries of protectionism, beyond which the global economy will not move. Basically, the architecture of trade and economic relations will be determined by regional and mega-regional blocs, such as the Transatlantic Trade and Investment Partnership, the Trans-Pacific Partnership (TPP; this treaty was signed in February 2016), the Silk Road Economic Belt (SREB), the Euro-Asian Economic Union (EAEU), and other treaties on free trade.

This is manifested in the development of existing and newly emerging trade and economic alliances as well as increased interest in inter-country free trade zones. In 2015, the movement to form the SREB gained new momentum, and economic

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[3] http://www.mirprognozov.ru/prognosis/economics/neft-skoro-zakonchitsya-syirevyie-tsiklyi/ru.

[4] "We may be entering a world dominated by a new paradigm where politicians, including central banks, have fewer opportunities to reduce risks. This suggests the possible beginning of a process by which a number of earlier assumptions will no longer be relevant," wrote Citi analysts (Citi-GPS, 2016, p. 4).

and political ties also strengthened within the SCO and BRICS. In October, negotiations concluded on formation of the TPP, which involved the United States, Japan, Canada, Mexico, Australia, New Zealand, Singapore, Brunei, Chile, Peru, Malaysia, and Vietnam.

The expansion of the EAEU, joined by Armenia and Kyrgyzstan, should be viewed within the same context. Admittedly, the intensification of post-Soviet integration processes and the trend towards a common economy, which occurred about five years ago, proved to be very well-timed. Further developments showed the error of interpreting this policy as a "look back," i.e., an attempt to restore the Soviet Union. Even recognizing the Soviet nostalgia prevalent in certain parts of the Russian elite, the establishment of the EAEU addressed not the issues of the past but the challenges of the future, reflecting the new trend towards the "regionalization of globalization."

The fifth is the formation of future currency configurations. Expectations of the imminent collapse of the US dollar, popular among journalists for a certain period of time, have not come true, and the dollar apparently will continue to serve as the global reserve currency. The outcome of the 2015 European crisis indicates that the euro is also likely to retain its status as an international currency. This is evidenced by the resolution of the crisis in Greece. However, Eurozone countries will have to make some difficult institutional decisions concerning the budget and other financial matters to enable the euro to become a full-fledged international currency.

Despite — or, perhaps, thanks to — the 2015 devaluation, the yuan is moving in the direction of becoming a reserve currency. This is also facilitated by its inclusion in the IMF "currency basket." A weaker currency provides competitive advantages for an economy, which is important for the sustainable economic development of a country largely focused on exports.

Despite its high volatility, the ruble could still be regarded as a regional reserve currency. By stabilizing the ruble and giving up elements of monetary control, Russian monetary authorities are laying the foundation for improving its international position in the future. It is important for this task to maintain its critical focus, although its practical implementation has been postponed and is inseparable from serious structural and institutional reforms within the country.

The sixth is the decrease in commodity prices, particularly for fuel and energy products. The average annual oil price dropped by 50% compared with 2014. A drop of this magnitude over one year's time has almost no precedent in modern history: in the past 50 years, this only occurred in 1986 and 2009 (Fig. 1 and Fig. 2). In the first case, it foreshadowed the beginning of a long period of low oil prices, though they rose slightly in the short term. The situation in 2008 and 2009 may also have indicated a future change in the trend, which became more apparent in 2014 and 2015. However, this suggests no firm conclusions, as the history of oil price cycles is very short and we cannot build responsible forecasts based on two waves.

Moreover, we still do not know whether fluctuations in the oil market follow a wavelike pattern. Demand for oil as a commodity is influenced by technological progress, and it is far from certain that oil as a fuel will always be in demand during an economic recovery. It is possible that the "oil supercycle" mentioned so often in recent years is only a phenomenon of a certain phase of technologi-

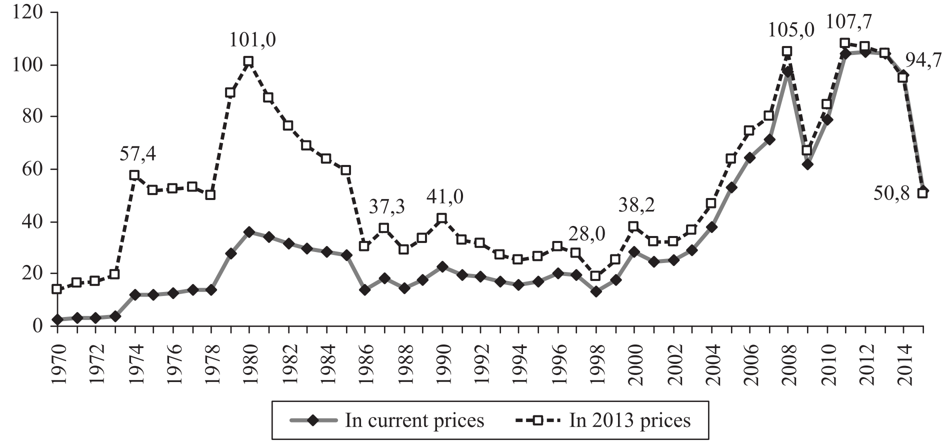

Fig. 1. Global oil price (USD/barrel).

Source: International Monetary Fund.

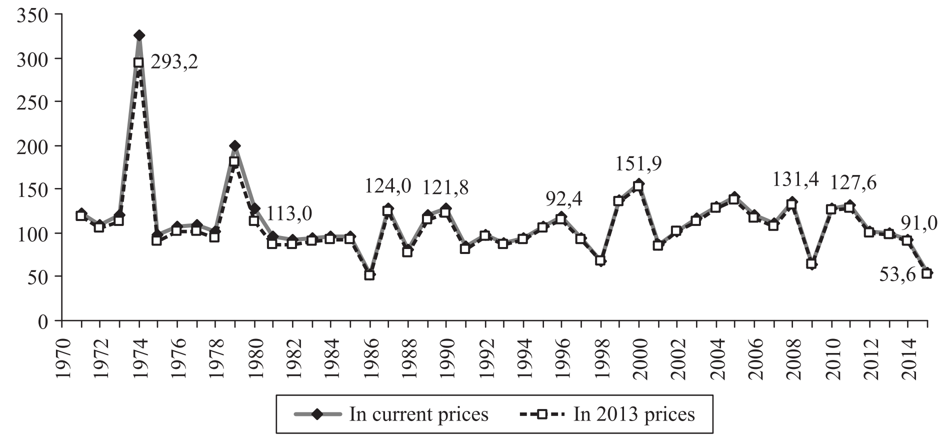

Fig. 2. Changes in the global oil prices (% of the previous year).

Source: International Monetary Fund.

cal progress during the last half of the 20th and early 21st century (a mature industrial society that is becoming post-industrial). It is the high demand for oil that made its price an indicator of not only the economic but also the political well-being of many countries, including both producers and consumers, and the movements of oil prices determined the fate of political regimes and even social systems. When the technological model is changed, oil may once again become an ordinary exchange commodity needed in the energy and chemical industries and could lose the political significance that has been attached to it over the past 40 years.

Low commodity prices can result from powerful technological advances that lower the demand for (specific weight of) metals and fuels in the production of modern products. Demand for new products (advanced metals and fuels) is driven by advanced technologies. If this assumption proves to be reasonable, there may be no new cyclical recovery of prices for traditional commodities.

These are just assumptions, however. The practical conclusion is that an economic policy cannot be based on an expected resumption of high oil prices or on maintaining a consistently low level. The only thing we can assume is that oil prices fluctuate within a varying range depending on the interaction of multiple hard-to-predict parameters. The less a country's economy depends on market fluctuations beyond the control of its national government, the better the prospects for sustainable economic growth over the long term. Norway is the most obvious example of this policy, with its oil rent concentrated in a sovereign fund. At the other end of the spectrum is Venezuela, which spent much of its oil rent proceeds: its GDP fell by 10% in 2015 (Table 1). Generally, economic outcomes during 2015 clearly demonstrate that commodity price movements are not a dominant growth factor, even in countries with a significant share of commodity sectors. The quality of institutions is much more important.

Low commodity prices will contribute to an even greater divergence between leading countries, both developed and developing. For commodity importers, it will become a factor in economic growth; for exporters, it will be a source

Table 1
Macroeconomic indicators for selected countries in 2014 and 2015.

Country/ group of countries	GDP growth rate, %		Inflation rate, %		National debt, % of GDP		Budget balance, % of GDP	
	2014	2015	2014	2015	2014	2015	2014	2015
World total	3.4	3.1	3.2	3.6	79.8	80.7	–3.1	–3.6
Developed economies	1.8	1.9	0.7	0.8	104.6	104.5	–3.4	–3.1
Developing economies	4.6	4.0	5.1	5.7	41.4	44.4	–2.6	–4.3
G7	1.7	1.9	0.8	0.7	118.6	117.4	–4.0	–3.5
EU	1.5	1.9	0.0	0.6	88.1	87.7	–2.9	–2.5
United Kingdom	2.9	2.2	0.9	0.3	89.4	88.9	–5.7	–4.2
France	0.2	1.1	0.0	0.1	95.6	97.1	–4.0	–3.8
Germany	1.6	1.5	0.2	0.2	74.6	70.7	0.3	0.5
Italy	–0.4	0.8	–0.1	1.9	132.1	133.1	–3.0	–2.7
Spain	1.4	3.2	–1.0	0.7	97.7	98.6	–5.8	–4.4
Ireland	5.2	4.8	0.2	0.2	107.6	100.6	–4.0	–2.0
Poland	3.4	3.5	–1.0	0.1	50.1	51.1	–3.2	–2.8
Greece	0.8	–2.3	–2.6	1.5	177.1	197.0	–3.9	–4.2
Norway	2.2	0.9	2.1	2.3	28.1	28.1	8.8	6.0
Switzerland	1.9	1.0	–0.3	–1.2	46.3	46.2	–0.1	–0.2
USA	2.4	2.5	0.6	0.9	104.8	104.9	–4.1	–3.8
Canada	2.5	1.2	1.9	1.1	87.9	90.4	–1.6	–1.7
Australia	2.7	2.4	1.6	2.4	33.9	36.0	–2.8	–2.4
Saudi Arabia	3.6	3.4	2.4	2.1	1.6	6.7	–3.4	–21.6
BRICS	5.7	4.7			44.7	47.3	–2.6	–3.8
Brazil	0.1	–3.8	6.4	9.3	65.2	69.9	–6.2	–7.7
India	7.3	7.3	5.3	5.4	66.1	65.3	–7.0	–7.2
China	7.3	6.9	1.5	1.8	41.1	43.2	–1.2	–1.9
South Africa	1.5	1.3	5.8	5.5	46.0	48.4	–3.8	–4.1
Argentina	0.5	0.4	23.9	19.3	45.3	52.1	–2.7	–4.9
Venezuela	–4.0	–10.0	68.5	190.0	51.8	53.0	–15.0	–24.4
EAEU	1.0	–3.1			18.4	21.2	–0.8	–5.3
Russia	0.6	–3.7	11.4	12.9	17.8	20.4	–1.2	–5.7
Belarus	1.6	–3.6	16.2	16.9	40.5	40.4	0.2	–2.4
Kazakhstan	4.3	1.5	7.4	9.0	14.9	18.3	1.8	–3.2
Ukraine	–6.8	–9.0	24.9	45.8	71.2	94.4	–4.5	–4.2

Source: World economic outlook database, October 2015.

of crisis that will need to be addressed with structural reforms, some of which will be painful, socially as well as politically. They are highly likely to be delayed, but the price of delaying reforms may turn out to be very high in terms of political and economic stability, which was clearly demonstrated by the Soviet experience.

The seventh is the prospects for the social structure of developed countries and the problem of inequality. Studies show the existence of social shifts leading to the polarization of society and an erosion of the middle class. Much has been written about the middle class amid the transformational crisis in Russia. Last year, discussions began regarding the impact of the recession on the middle class in 2014 and 2015. In the broader context, this problem is related to deep structural transformations inherent in the global crisis. Although a powerful middle class is forming in developing countries, developed countries are witnessing a dilution of the middle class and increases in the proportions of more affluent strata, on the one hand, and of poorer people, on the other. This is largely connected with the profound changes in the technological structure, with the division of professions into more advanced and financially attractive areas (finance, ICT, biotechnology) apart from traditional fields, where income is not growing.

At the beginning of the 21st century, and especially in the early years of the global crisis, researchers sought to determine the top 1% of the population who concentrated wealth in their hands.[5] There has been an increasing amount of discussion lately about the formation of considerably large segments of the rich and the poor, with the middle class being diluted. In 2015, J. Furman, Obama's chief economic adviser, said, "You have seen a hollowing out of the middle of the income distribution, and there's neither one cause for it nor a single answer. It's a big problem, it is decades in the making, and it will require a lot of solutions" (Fleming and Donnan, 2015).[6] This shift is partly evidenced by the labor market structure: in the modern United States, it is much easier to find a low-paying job for a person with a low level of education, or a high-paying job for a graduate of a top university, than a mid-level job that would be most in line with the concept of the middle class (Thompson, 2010).

Social stratification, inequality, and the impact on prospects for economic growth in developed countries will apparently be among the key topics of economic and political discourse in the coming years. These issues are important not only in terms of creating a contemporary model of economic growth but also for ascertaining the more general prospects for preserving the socio-economic system currently known as capitalism. Some of the leading modern social scientists consider the erosion of the middle class as a deferred realization of Marx's forecast about the ejection of workers from the labor process, underlying his conclusion about the doom of social relations based on commodity production (see Collins, 2015, p. 61–62).

The eighth is the substantial increase in global tension, particularly the enhanced use of the military to resolve conflicts. The number of conflicts has been

[5] See, e.g., Alvaredo et al. (2013), Mankiw (2013).

[6] Whereas in 1970, US middle-class households accounted for 62% of the total income, in 2014, they only accounted for 43%. However, the share of the upper-middle class rose from 29% to 49% during the same period (Pew Research Center, 2015).

steadily rising over the past three years. In a sense, it has become a political sequel to the global crisis. It is as yet difficult to fully estimate the real prospects for armed conflict as an indispensable factor in socio-economic and political life.

In summarizing the above, we can draw two conclusions about the development of the global situation. From a purely economic point of view, it is developing positively. The global crisis is coming to an end, and the growth rates of the world economy and most of the world's leading regions are recovering, albeit relatively slowly and unevenly across countries and regions. Barring major turmoil in China (those risks are related to both economic and political factors), we will see a gradual return to a normal, non-crisis economic and political agenda. The problems for individual countries (e.g., Russia, Brazil and Venezuela), where the processes of structural modernization will be delayed, will not significantly impede the ability to overcome the structural crisis.

However, these completely peaceful prospects are being overshadowed by destabilizing political and military factors. Governments of the leading countries have become increasingly active in resorting to military force to address the challenges they face. This, in turn, dramatically increases risks, and not just economic ones. In other words, the risk of uncontrollable developments is increasing, which further enhances the role of non-economic factors in the implementation and efficiency of economic policies. In practice, it has no advantage over the resolution of military and occasional foreign policy objectives.

2. Russian anti-crisis policy

In 2015, the economic situation in Russia was driven by two groups of factors. On the one hand, it was the continued effect of the external shocks, including sanctions (especially in the financial sector) and falling prices for key Russian export products. On the other hand, there were apparent and serious structural problems that have reduced growth potential since the middle of the past decade and have caused stagnation in the Russian economy.

Both groups of factors led to the negative trends that appeared as early as 2014, which was reflected in the GDP decline in 2015 (Table 2). Almost all experts acknowledge that as important as the external shocks were, the structural crisis was the key problem. Indeed, a decrease in investment activity has been observed since 2012, when growth rates began to decline. These negative processes started before the sanctions and falling oil prices. The reason behind this slowdown was the decreased economic growth potential, first observed during the second half of the 2000s (Sinelnikov-Murylev et al., 2014; Orlova and Egiev, 2015).

Experience shows that external shocks should be addressed with monetary and fiscal consolidation. Cash injections in such a situation would lead to increasing inflation and undermine — rather than stimulate — investment activity. A healthy expansion of budget funding is also very difficult due to the sharp decline in budget revenues as the demand for military funding is increasing.

In December 2014, the situation seemed to be on the verge of disaster. The ruble fell rapidly following the imposition of external sanctions and the decline of oil prices, and monetary authorities opted to hold the reserves, rather than spending them to maintain the national currency. The budget, which the parliament just adopted, was becoming unrealistic before our very eyes.

Table 2
Main economic indicators of the Russian Federation, 2007—2015.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Macroeconomic indicators (growth of physical volume as % of the previous year)									
GDP	8.5	5.2	–7.8	4.5	4.3	3.5	1.3	0.7	–3.7 [a)]
Industry	6.8	0.6	–10.7	7.3	5.0	3.4	0.4	1.7	–3.3 [b)]
Agriculture	3.3	10.8	1.4	–11.3	23.0	–4.8	5.8	3.5	2.9 [b)]
Construction	18.2	12.8	–13.2	5.0	5.1	2.5	0.1	–2.3	–9.9 [b)]
Wholesale trade	9.5	5.4	2.0	3.0	4.4	3.6	0.7	–3.9	–9.2 [b)]
Retail trade	16.1	13.7	–5.1	6.5	7.1	6.3	3.9	2.7	–9.3 [b)]
Final consumption by households	14.3	10.6	–5.1	5.5	6.8	7.4	3.7	1.7	–9.0 [a)]
Investments in fixed capital	23.8	9.5	–13.5	6.3	10.8	6.8	0.8	–2.7	–5.5 [b)]
Share of wages in GDP	46.7	47.4	52.6	49.6	49.6	50.3	51.7	52.0	52.4 [c)]
Share of profits and mixed income in GDP	34.1	32.6	30.8	32.6	31.1	33.9	33.0	32.3	33.9 [c)]
Public finance and international reserves									
Surplus (+) / deficit (–) of the consolidated budget, % of GDP	6.0	4.9	–6.3	–3.4	1.5	0.4	–1.3	–1.2	–3.5 [d)]
Surplus (+) / deficit (–) of the federal budget, % of GDP	5.4	4.1	–6.0	–3.9	0.8	–0.1	–0.5	–0.5	–2.4 [d)]
Non-oil and gas deficit of the federal budget, % of GDP	–3.3	–6.5	–13.7	–12.2	–9.3	–10.5	–10.4	–10.9	–9.7 [d)]
Russian domestic national debt expressed in securities, RUB billion	1248.8	1421.5	1837.2	2461.6	3546.4	4064.3	4432.4	5475.7	5521.1 [e)]
Foreign national debt (Ministry of Finance data), USD billion	44.9	40.6	37.6	40.0	35.8	50.8	55.8	54.4	50.2 [e)]
Consolidated national debt, % of GDP	7.2	6.5	8.3	9.0	9.5	10.5	11.4	14.4	14.3 [e)]
Reserve Fund (2007—Stabilization Fund), at year end, USD billion	156.81	137.09	60.52	25.44	25.21	62.08	87.38	87.91	49.95
National Welfare Fund, at year end, USD billion.		87.97	91.56	88.44	86.79	88.59	88.63	78.00	71.72
International Reserves of the Russian Federation, at year end, USD billion	478.8	427.1	439.0	479.4	498.6	537.6	509.6	385.5	368.4
Prices and interest rates									
Consumer price index, December to December	11.9	13.3	8.8	8.8	6.1	6.6	6.5	11.4	12.9
Producer price index, December to December	25.1	–7.0	13.9	16.7	12.0	5.1	3.7	5.9	14.2 [f)]
Bank of Russia discount rate (before 2013—the minimum rate on repurchase transactions for 1 day), annual average, % p.a.	6.0	6.9	8.3	5.3	5.3	5.3	5.5	7.9	12.6
Average interest rate on RUB loans to businesses, annual average, % p.a.	10.0	12.2	15.3	10.8	8.5	9.1	9.5	11.1	16.1 [j)]
Average interest rate on individual deposits (except for call deposits)	7.2	7.6	10.4	6.8	5.4	6.5	6.5	6.7	9.9 [j)]

(continued on next page)

Table 2
(continued)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Labor market									
Overall unemployment rate (ILO methodology), annual average, %	6.0	6.2	8.3	7.3	6.5	5.5	5.5	5.2	5.6[h)]
Average wages, RUB thousand/month	13.6	17.3	18.6	21.0	23.4	26.6	29.8	32.5	33.2[h)]
Wages in real terms	17.2	11.5	–3.5	5.2	2.8	8.4	4.8	1.2	–9.2[b)]
Real disposable household income	12.1	2.4	3.0	5.9	0.5	4.6	4.0	–0.7	–3.5[b)]
Population with cash income below subsistence level, million	18.8	19.0	18.4	17.7	17.9	15.4	15.5	16.1	20.3[j)]
The banking system									
Number of active lending institutions, at year end	1136	1108	1058	1012	978	956	923	834	740[e)]
Number of banking licenses withdrawn during the year	49	33	43	27	18	22	32	86	93
Assets	46.1	32.7	3.7	14.8	21.4	20.4	14.2	18.6	1.4[i)]
Debt owed by domestic corporations (excluding banks) under bank loans	52.4	28.6	0.0	9.6	22.8	15.5	11.6	12.7	6.8[i)]
Debt owed by domestic individuals under bank loans	58.3	31.2	–11.7	14.4	35.5	39.1	27.7	11.6	–7.4[i)]
Share of overdue loans to domestic corporations, excluding banks	0.9	2.2	6.0	5.5	4.8	4.6	4.1	4.1	6.0[e)]
Share of overdue loans to individuals	3.1	3.6	6.9	7.1	5.3	4.1	4.5	6.0	8.4[e)]
Profit, RUB billion	508	409	205	573	848	1012	994	589	265[h)]

[a)] Q1–Q3 2015 against Q1–Q3 2014.
[b)] January-November 2015 against January-November 2014.
[c)] Q4 2014–Q3 2015.
[d)] Federal Treasury (Roskazna) data.
[e)] As of December 1, 2015.
[f)] October 2015 against October 2014.
[j)] Average from January to October 2015.
[h)] January to December 2015.
[i)] December 1, 2015 against December 1, 2014.
[j)] January-September 2015, Rosstat.
Sources: Rosstat; RF Ministry of Finance; Bank of Russia.

Due to the anti-crisis policies implemented throughout 2015, the results for the year look somewhat better than expected at the end of 2014. The worst-case scenarios have not materialized. The timely transition to a floating exchange rate (called a transition to "inflation targeting"), the consolidation of budget expenditures and the implementation of the government's anti-crisis plan prevented the situation from spinning out of control, preserved the international reserves, and significantly slowed the GDP slump.

In the following discussion, we will study the main economic and political problems and solutions from 2015 and their impact on the prospects for the country's socio-economic development.

Economic trends. GDP declined by 3.7% in 2015. This is the second recession since 1999, when the Russian economy shrank by 7.8% in the wake of the global crisis (Fig. 3). However, whereas in 2009, the decline occurred in the majority of developed countries, growth is now accelerating there. Throughout the year, statesmen and experts discussed the "passing of the bottom" of the recession, i.e., the point at which it should stop (Table 3).

Two important factors drove the nature and duration of the downturn in 2015 and made it difficult to predict, i.e., the industry structure and exchange rate trends. The changing terms of trade — and, as a consequence, the devaluation of the national currency[7] — had different effects on particular industries, which showed differing trends over the past year. Export-oriented industries demonstrated growth, whereas those associated primarily with domestic consumption shrank. The hardest blow, however, was dealt to those industries that had previously benefited most from the inflow of rental income, i.e., services, trade, and construction. Indeed, an analysis of the problems associated with the Dutch disease has shown that a powerful inflow of rental income undermines competition in most industries producing tradable goods but contributes to the development of sectors in which there are no imports (trade, construction, financial and non-financial services). Accordingly, there can be no import substitution there. Those sectors grew at an especially rapid pace in

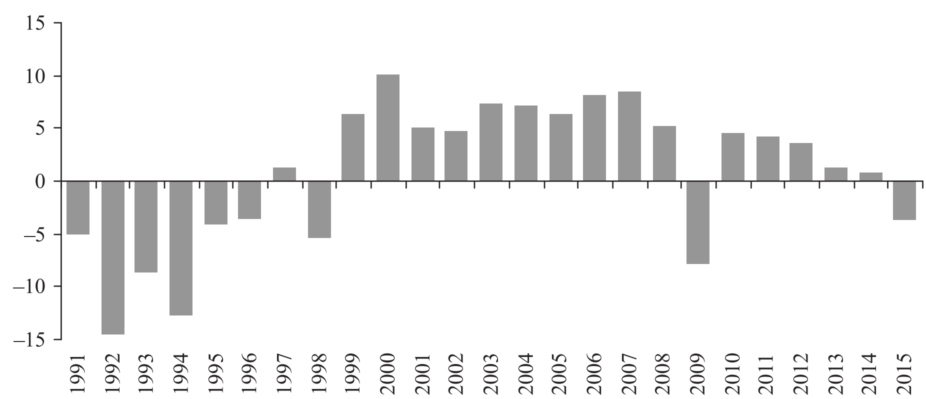

Fig. 3. Russian GDP (%).

Source: Rosstat.

[7] To learn more about the mechanics of those changes, see Idrisov et al. (2015b).

Table 3
Industrial production: passing the low point in 2015 (%).

Industry	Share in the industrial production index	"Bottom" passed	Change in the output index, October 2015 against July 2014
Industrial production index		√ (June)	96.19
Mining and minerals	33.99	√ (May)	101.31
Manufacturing	52.50	√ (July)	93.44
including:			
Food products, beverages and tobacco	17.05		101.65
Textiles and textile products	1.43		83.88
Leather, leather products and footwear	0.32	√ (June)	89.60
Wood processing and wood products	2.20		95.92
Pulp and paper	3.92	√ (May)	96.81
Coke, petroleum products	18.78		100.09
Chemical production	7.46	√ (no reduction)	107.61
Rubber and plastic products	2.26	√ (May)	95.90
Other non-metal mineral products	4.41		86.90
Metallurgy and metal products	17.23		92.39
Machinery and equipment	6.24	√ (July)	86.84
Electrical and optical equipment	6.05		84.04
Transport vehicles and equipment	7.06	√ (July)	81.18
Other production	5.59		87.58
Electricity, gas and water	13.51		98.00

Source: Rosstat.

the past. However, for the same reason, it is these sectors that are most susceptible to decreased demand as a result of the devaluation. Without a doubt, the trend in each particular sector was strongly affected by the share of incoming imported goods and the high proportion of borrowings in foreign currencies within the sector[8].

A combination of those factors drove the GDP trend. When the devaluation processes had stalled by mid-2015, industry began to show signs of recovery. However, a new round of oil price declines, and the further weakening of the ruble that followed, prolonged the recession.

The investment situation evolved similarly, which appeared to be stabilized by the early autumn. However, the uncertainty about the exchange rate, and accordingly, the effectiveness of the business environment, has led to a continued decline in investment.

We can assume that in the absence of political shocks, a new equilibrium will be achieved in several months. In terms of macroeconomic factors, to restore growth, Russia needs neither high nor low, but stable, oil prices to determine clear conditions for businesses to make decisions.

Structural policies and import substitution. In the past (this applies not only to Russia), the consequences of devaluation were deferred, but the main results were already visible during the first year. However, in the context of modern multilateral devaluations and the global contraction of demand, their effect will be uneven across countries and will be deferred, at best, if the devaluation can be enhanced with relevant structural reforms. This has been demonstrated by the ex-

[8] See Idrisov (2015), Idrisov et al. (2015a).

perience of many countries, the most prominent being Japan, which failed to start the growth mechanism in this way.

The effect of import substitution is important and possible, but it is not straightforward or automatic. The following are the reasons behind the modified impact of devaluation on economic growth:

- the structural effects of a long period of Dutch disease physically degrades manufacturing businesses (and related labor resources), which could become a source of import substitution: they simply cease to exist and cannot recover automatically. Therefore, recovery primarily concerns export sectors that have the ability to expand production without significant investment;
- in the absence of free capacity, import substitution requires investment and, consequently, a healthy investment climate. Devaluation could, to a certain extent, compensate for the poor business climate by reducing the risk-profit ratio. However, when making investment (i.e., long-term) decisions, devaluation is not the most important argument;
- devaluation makes the country more attractive for foreign investment. However, Russia's situation is currently aggravated by the sanctions;
- the country's involvement in international trade (global value chains) also limits the potential benefit from devaluation, as some of the cost components are increasing as a result. Thus, the impact of devaluation on import substitution can be discussed only subject to a correct analysis of specific sectors and products.

As a result, the opportunity to benefit from devaluation arose only within specific sectors in 2015. They are primarily associated with exports. At the same time, the devaluation helped identify weak spots and revealed the excessive dependence on imports for a number of manufacturing businesses and certain areas of the consumer market. The business models based on foreign exchange loans and related purchases of imported equipment began to collapse.

A government commission to support import substitution was established in 2015, as was the Russian Export Center to support non-commodity exports. An understanding of the nature and mechanics of this support formed gradually. President Vladimir Putin and Prime Minister Dmitry Medvedev spoke unambiguously in favor of linking import substitution support with the ability to make products that would be competitive on foreign markets (Medvedev, 2015, p. 120). This means that the government is aware of the risk (known from the experience of a number of countries, particularly in Latin America) that import substitution could actually mean closing off the market to foreign goods and forcing domestic consumers to purchase more expensive and inferior goods produced within the country.

Throughout 2015, attempts were made to limit the exports of goods that benefited from devaluation (e.g., grain, metals, chemicals). This argument was the concern about the physical scarcity of goods for domestic consumption and the idea that exporting those goods would lead to higher domestic prices. (In fact, these are the same argument, only in the former case it acts as the "phantom pain" of the Soviet-era shortages, whereas in the latter, it was embedded in the market economy rhetoric.) However, no tangible action was taken in this area. Only the ban on the exports of hides and skins was extended, and a ban on the export of wastepaper was imposed in December.

Fiscal policy. In the face of external shocks, the government pursued a prudent fiscal policy, although it cannot entirely be called conservative. The federal budget deficit totaled 2.4% of the GDP compared with 0.5% in 2014, and national debt remained at 14.3% — a very low value by all international standards — whereas foreign debt actually decreased slightly (obviously as a result of the sanctions, rather than conscious fiscal conservatism).

With export revenues declining, the Russian government should have adjusted the federal budget to reduce expenditures in February and March 2015. A 10% sequestration was selected as the appropriate tool. Technically, it was the simplest solution, not precluding the possibility of using it in the future. However, it can have adverse implications in the medium term.

The problem is that over the past seven to eight years, the allocation of budget expenditures has deteriorated: the proportion of productive expenditures has diminished, and the proportion of unproductive ones has increased[9]. To address the long-term challenges of the country's socioeconomic development, the economy needs investment in human capital and transportation infrastructure, as these public expenditures increase potential growth. At the same time, it is these sectors that lose the most from sequestration.

Further sequestration of expenditures without structural reforms (including reforms for budget-funded organizations) is posing grave risks for the country's economic, social and political stability in the coming years (2017–2020). Without structural reforms, fiscal policy will lose the leeway that may be needed in 2017 and 2018, and the positive macroeconomic effects of devaluation will be offset.

Under these conditions, the allocation of budgetary expenditures is becoming as important as a well-balanced budget (low deficit). Achieving balance at the expense of productive sectors threatens to start a vicious cycle: reducing spending on productive sectors will undermine economic development, thereby shrinking budget revenues. Consequently, the key objective now is to optimize expenditures, i.e., to look for more sophisticated budget savings methods through structural and institutional solutions, rather than by mere sequestration.

In 2016, the government will have to resort to increasing the federal budget deficit in light of sharply decreasing hydrocarbon prices. It is often noted that low debt creates additional macroeconomic problems, particularly by depriving the monetary system of adequate collateral instruments. Proposals have even been made to set a floor for the national debt rather than a cap ("at least" instead of "not more than" a certain level)[10]. This is hardly possible or feasible. On the one hand, Russia lacks a significant amount of private savings that the state could borrow without prejudice to private investments, let alone the transition to direct funding of the budget deficit through money creation by the Central Bank. On the other hand, given Russia's unfavorable "credit history," a substantial increase in borrowings will lead to their significant appreciation. In our opinion, ensuring macroeconomic stability means a rather long period of low debt for Russia.

The budget situation remains difficult for the subjects of the Russian Federation. Although actual tax revenues have fallen in real terms, the debt situation had not

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[9] For more information, see Idrisov and Sinelnikov-Murylev (2013).

[10] The Stolypin Club's proposals, published in autumn 2015, state that "the share of domestic national debt should not fall below 60% of the GDP in terms of total borrowings" (Stolypin Club, 2015, p. 60).

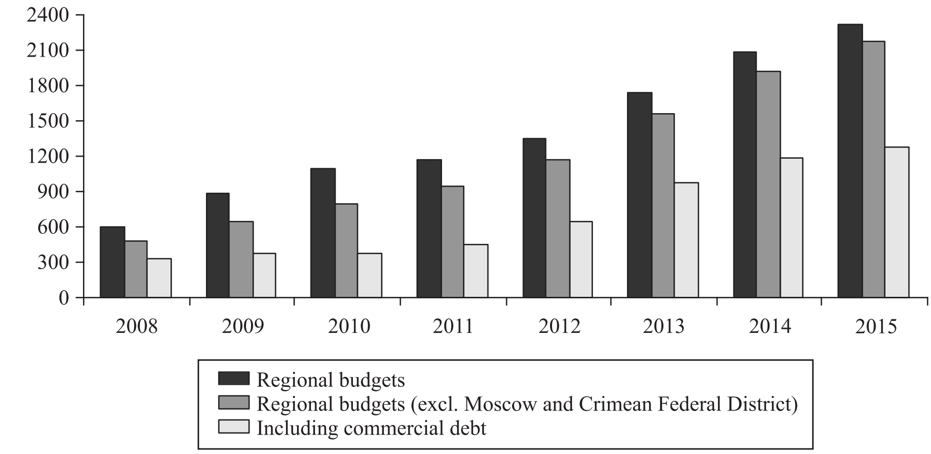

Fig. 4. Debt of the budgets for subjects of the Russian Federation (RUB billion).

Source: Ministry of Finance of the Russian Federation.

Table 4

Main types of tax revenues included in consolidated budgets for subjects of the Russian Federation in 2015 (%).

	Main types of tax revenues		Share in tax and non-tax revenues
	In nominal terms	In real terms*	
Tax and non-tax revenues	6.2	–5.9	100.0
Individual income tax	4.3	–7.6	36.8
Corporate income tax	7.3	–4.9	27.6
Property tax	11.6	–1.1	14.0
Excise duties on excisable goods	1.5	–10.1	6.4
Small business tax	10.4	–2.2	4.6

* Given the CPI for 2015.

Source: Federal Treasury (Roskazna); Rosstat; Author's calculations.

deteriorated significantly (Fig. 4, Table 4). Nominal income growth prevents uncontrollable developments. A slowdown was observed in spending growth within the consolidated budgets, which increased by only 1.4% (93% of budgeted expenditures were actually made).

A further deterioration of revenues will most likely lead to the need to raise taxes. The official positions remain intact regarding the impermissibility of raising taxes during times of crisis and maintaining a moratorium on decisions in this area until 2018. However, in certain situations, raising certain taxes may be a more appropriate solution than sequestration or increasing domestic debt.

Monetary policy. The transition to a floating exchange rate for the ruble has saved the foreign exchange reserves, which in itself is important for long-term economic development. Raising the discount rate was also an important and responsible decision, despite fierce criticism from a significant segment of the political and business elite. It is equally important that V. Putin has repeatedly spoken about supporting the Russian Central Bank's policy. Monetary authorities continue to show support for the goal of bringing inflation down to 4% by 2018, thereby creating qualitatively new business conditions.

In addition to maintaining reserves, the Central Bank's policy has contributed to reducing capital flight, although much of the outflow resulted from Russian

Table 5
Capital outflow (USD billion).

Indicator	2014	2015
Net capital outflow from the non-governmental sector	–153.0	–56.9
Liabilities to non-residents (“+” means growth)	–36.7	–64.3
FDI in the non-banking sector	18.5	6.7
Other liabilities	–55.2	–71.0
Including foreign debt repayment according to schedule	–208.3	–126.4
New borrowings	153.1	55.4
Foreign assets (“–” means growth; “+” means reduction)	–116.3	7.4

Source: Bank of Russia.

borrowers paying off foreign debts (Table 5). Thus, in 2015, the net outflow of capital equaled USD 57 billion (USD 153 billion in 2014). The main channel for capital outflows was the net repayment of liabilities to non-residents, which dropped by USD 64 billion compared with USD 37 billion in 2014. However, we can assume that capital flight was also driven by geopolitical factors, as concerns about potentially expanding the sanctions could have made foreign investments less attractive. In particular, this is illustrated by the decline in foreign direct investments from USD 18 billion in 2014 to USD 7 billion in 2015.

The propensity towards the “dollarization” of savings also decreased, as household ruble assets grew significantly faster than foreign exchange savings. Although Russian banks, companies and households (in terms of foreign currencies) increased investments in foreign assets in 2014, foreign assets held by Russian residents declined slightly in 2015 amid the intensive external debt repayment. In 2014, the main channel for capital flight was the growth in foreign assets (by USD 116 billion, including USD 30 billion of investments in foreign currencies in cash), which declined by USD 7 billion in 2015. This decline is almost entirely due to reduced investments in foreign currencies in cash.

The severe criticism of the policy pursued by the Central Bank, which is often blamed for all of the problems with the Russian economy, seems unfair. Paradoxically, those who particularly criticize the “monetarists” turn out to be true monetarists in practice, as they exaggerate the ability of monetary authorities to neutralize negative impacts from the external environment or geopolitical crises.

Banking reform. The banking sector remains a focus for the authorities. On the one hand, the efforts to clean up have continued. Licenses were withdrawn from 93 credit organizations (86 in the previous year). Financial recovery (rehabilitation) procedures were initiated for 15 banks in 2015. The total assets for banks that lost their licenses in 2015 were not very large, as they accounted for approximately 1% of the total assets in the banking sector.

On the other hand, some of the major banks have received strong financial support from the state, as the crisis in the banking sector would have led to dire consequences, not only economic but also social and political. Most of the government support went to state-owned banks, which strengthened their positions in major segments of the banking services market.

Lending to businesses slowed but still showed a positive trend of almost 7%, and the indebtedness of individuals declined by about the same amount, a much milder reaction than in 2009. The quality of bank loans does raise concerns, however. Past due debts held by corporations under ruble loans have already reached the high set in 2009, and the individual debts broke record values. The quality of loans continues to deteriorate in all segments of the market.

The greatest problem is still poor financial results in the banking sector and losses of a large number of banks. In 2015, almost 30% of operating banks recorded losses, compared with only 11% in 2009. In contrast to the situation six years ago, the current decline in banking profit margins was caused not only by deteriorating asset quality and the need to drastically increase spending on provisioning but also by lower profit margins on core banking operations. The latter was due to the high-interest-rate policy. The value of bank liabilities proved to be more sensitive to increases in the discount rate than the returns on loan portfolios, resulting in a significant reduction in overall net interest income.

The social situation and the labor market. In 2015, as in previous post-Soviet crises, incomes decreased against the relative stability in the labor market. Unemployment hovered at approximately 5.5%, which is higher than the US figure, but considerably lower than the European level. In a tense demographic situation, and with the decline in the working-age population, businesses are hesitant to severely reduce employment, instead trimming working hours and payments.

Well-being dropped significantly during the year, with real disposable income decreasing by 3.5% and real wages by more than 9%. This fits into the "Russian labor market model," i.e., reducing wages rather than employment.

At the same time, bank savings have increased, mostly in rubles. This signifies a transition from consumption-driven to savings-driven behavior, which is an additional factor slowing down the economy in the short term, as demand becomes even more limited, but the crisis-related uncertainty does not encourage the transformation of savings into investments. Consequently, retail trade turnover fell by approximately 9%.

As a result, the poor population began to grow rapidly. The share of Russians in the poor category returned to the level of the mid-2000s (20.3% with income below the subsistence level). This is a new phenomenon in recent years. In 2008 and 2009, despite the 7.5% decline in GDP, this figure was 19%, having significantly decreased afterwards (Table 2). At that time, the state possessed considerable budgetary savings (the Reserve Fund), which were allocated to maintain the standard of living. The economy had to pay for this with a budget deficit of 6% of GDP in 2009, with the non-oil deficit reaching a record-breaking 14%. Those resources are no longer available in the budget.

Researchers have begun to note the erosion of the middle class within the country (Maleva, 2015, pp. 12–13), although one needs to distinguish between the problems of cash flows (reduced current income) and reserves (accumulated well-being, behavioral stereotypes). The crisis has led to a certain reduction in inequality, with the Gini coefficient decreasing from 0.141 to 0.399 and the decile funds ratio from 15.8 to 14.2 (Maleva, 2015, pp. 16–17). However, this can hardly be called a positive trend.

3. Priorities for anti-crisis policies

Russia's economic policy is facing two key challenges: starting economic growth and dampening reductions in household well-being. These challenges are correlated, as the first leads to increased well-being and the second generates demand for economic growth.

Solving these tasks is tricky because we are facing a structural crisis rather than a cyclical one. The end of the downturn, which cannot last long (much less forever), in this case does not automatically restore growth. Unless we make special efforts to build a new growth model, the potential for growth will remain low, which means that the economy will hover around zero (or within statistical error). Unlike a recession, this may last long enough for the political elite to form a model suitable for modern challenges, with the respective impact on well-being and social stability.

The most serious challenge facing Russia is not overcoming the recession but achieving economic growth. Of course, we mean sustainable, long-term growth accompanied by structural modernization, rather than achieving good-looking statistics. In the foreseeable future, Russia must strive for growth rates exceeding the world average (or somewhere between those of Germany and China).

This is not a trivial task and has no standard solutions, unlike stabilization. Solutions will be contingent upon the features of the current era and our country. An answer to this challenge requires major institutional reforms in all spheres of society, not exclusively in the economy.

We suggest the following key points for economic policy that can solve both issues.

Consistent disinflation, which is a natural basis for lowering interest rates and raising investment activity in Russia, will also guarantee social stability. Inflation must be brought down from 13% in 2015, to a target of 4% by 2017.

The situation is politically complex, and there is a risk of initiating an “inflationary spiral.” As in the 1990s, a powerful pro-inflation group is forming again. As back then, there are three powerful forces interested in preserving high inflation: banks, which get additional opportunities to solve the problems of stability; trade because inflation benefits industries with a short turnaround of capital; and inefficient enterprises, for which cheap money makes it possible to avoid otherwise unavoidable changes in management and owners.

However, starting on the course of disinflation now would benefit both the authorities and the majority of the public—ordinary businesses and citizens. A determination to reach the target of 4% inflation would be very important politically, economically, and socially. Politically, it would make a very important argument in the presidential elections in 2018. Economically, the solution to this problem would allow business (if the authorities can demonstrate the seriousness of their intentions) to make plans, particularly investment ones. And socially, it would be a factor in reducing the social tension that always accompanies high inflation.

Decisive disinflation now is not only necessary but possible. If oil prices stay at the present level, Russia will in fact get rid of the Dutch disease. In previous years, reducing inflation was constrained by the risk of lowered competitiveness due to surplus (that is, not tied to the growth of labor productivity) strengthening of the ruble. Now, however, in the absence of significant increases in oil prices, these risks will not threaten the economy. It presents an additional stimulus for macroeconomic invigoration.

The effectiveness of budgetary policy is frequently brought up by Russian politicians and economists; however, the availability of cheap money over the last ten years has not brought about the realization of these goals. We can see four options here: budgetary maneuvers, improvements in budgetary procedures, increases in the effectiveness of the budget network, and clarifications of the fiscal rules based on experience and current realities. A key here is the question of the influence of separate budget line items on economic growth (IMF, 1995; Moreno-Dodson, 2013).

Over the past few years, the allocation of budget expenditures underwent negative changes. Expenditures that promote increasing reserves and the quality of factors of production (labor and capital) as well as the growth of total factor productivity (the efficiency of factors used in production, primarily investments in infrastructure) have not increased, and in some cases have decreased, relative to GDP. The share of nonproductive expenses has grown — for defense, public administration, and law and order. This structural shift limits the effectiveness of budget stimulation (see Knobel and Sokolov, 2012; Idrisov and Sinelnikov-Murylev, 2013, 2014).

The prospects of fiscal rules are a special problem. As oil prices continue to be on a low trend, the issue may not seem pertinent. However, it makes sense to discuss it. The acting fiscal rules, which call for moving rent income into sovereign funds, were a reaction to the Soviet experience of completely spending all rent income, making the country vulnerable to shocks from changes in economic conditions. The experience of 2009–2012 demonstrated serious drawbacks of this model: the presence of a "safety cushion" is a disincentive for modernization. A crisis is a time that pushes you toward modernization, but a financial reserve allows you to continue in a business-as-usual mode.

We need to reexamine the very concept of using surplus income and, therefore, fiscal rules. Given the reality in Russia, it would be wise to have stricter guidelines defining the cut-off price for market revenues (setting it at a rather low level) and balancing the current budget (that is, the budget of repeating obligations) at the level of revenues that are most protected from the fluctuations of external factors. If there are additional rent revenues, they should be used for a development budget, that is, to finance expenses with a final time horizon. This model would allow more active investment in development when the market is good, and would not create the temptation to pour money on problems when there is a crisis.

Support for non-oil exports is currently another important priority. Today, it is fashionable to speak of import substitution. However, it is not the same as foisting on people low-quality domestic products at a high price, especially when their producers are demanding financial aid from the budget. The Russian economy may benefit from import substitution, but the type that would be competitive in an open market. In other words, it is important to stimulate export-oriented import substitution. The support for non-oil exports and for import substitution must go hand in hand.

Several conditions must be met for this to occur.

First, there should be no obstacles for non-oil exports. Yet, despite calling for stimulating exports, there is more talk about tariff and non-tariff restrictions. Just in the last few months, decisions have been made to limit grain exports, and there is discussion about limiting metal exports as well. These could easily be followed by limits on chemical exports and so on. The problem is understandable: under devaluation, exports become more attractive, which leads to problems of filling the domestic market. However, these complications (only potential in part, as demand within the country is also falling) should not be a reason to reject improvements in the structure of Russian exports. There are enough levers to supply the domestic market without obstructing the foreign expansion of our producers.

Second, one should not create export offsets, artificial barriers to keep foreign competitors out of the Russian market. The present exchange rate is an adequate barrier to protect domestic manufacturers, although imported goods, paradoxically, could help price stability in a number of ways.

Third, it is important not to interfere with the efforts by domestic companies to improve and restructure. This will be accompanied by a rationalization of employment, which for all its pain would be a very important element in modernization. Rationalization is important both for export-oriented companies and for companies that are primarily focused on import substitution.

Attracting private investment (domestic and foreign) once again becomes a priority in economic policy at both the federal and regional levels. When rent revenues were high, this was less important because the budget influx could compensate for gaps in the investment climate. Russia's improved position in the Doing Business ratings is an important benchmark. However, in today's geopolitical situation, its significance is extremely limited and conditional.

Authorities at all levels must orient themselves towards attracting investors, just as the authorities of Novgorod Oblast did in the 1990s and of Kaluga or Ulyanovsk oblasts did within the last fifteen years. This must be one of the key parameters in assessing the effectiveness of regional administration, no less important than salaries in the budget sector.

Deregulation, protecting the rights of entrepreneurs, and developing small and medium business are different but closely connected economic policy priorities. Legislation should be favorable for business, helping to attract entrepreneurs rather than repel them. Yet, even at the level of naming regulations, we can see a worsening attitude toward entrepreneurship. In the past, the law was called "On protecting the rights of companies and individual entrepreneurs when implementing state control (oversight) and municipal control" (December 26, 2008, No. 294-FZ); now the draft law is called "On federal, regional, and municipal control." Naturally, the point is not in the name but in the practice, which is in no way favorable to business activity, despite the improved status of Russia in the Doing Business rating, and the President's direct instructions "to lift restrictions on business maximally, freeing it from obtrusive oversight and control." In this regard, we should return to the approach in the Gref Program, prepared in 1999–2000, which outlined substantial simplifications in licensing and expanded the role of insurance.

A complex of measures stimulating competition must be elaborated. This is of particular importance in the current macroeconomic and geopolitical situation, when devaluation and sanctions limit access to competing goods and services in the domestic market. The policy of stimulating competition should be considered the equivalent of a policy limiting monopolies, which in some cases are in complete contradiction. Today, Russia needs a competitive policy and not a "struggle against monopolies," which is often understood as curtailing those who have achieved market success.

The list of problems has not exhausted the modernization agenda during this crisis. Other important institutional and structural reforms are needed in human capital (education, health, pension system), which involves social, fiscal, and investment factors. Russia needs new approaches to social policy, foreign economic activity, and spatial development.

Thus, a key challenge for the coming period (2017–2019) will be to create a mechanism to recover economic growth while avoiding populist scenarios. The way this issue is resolved will have a huge impact on the life of Russia in the post-crisis world, the contours of which are being shaped as we speak.

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