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The review provides a detailed analysis of main trends in Russian economy in 2016. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and budget spheres; financial markets; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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## The lessons of stabilization and prospects of growth: Russia's economic policy in 2016<sup>1</sup>

The world is searching for a new socioeconomic development paradigm, which is sometimes referred to as the “new reality.” Judging by the previous structural crises (in the 1930s and 1970s), this search takes about a decade characterized by volatile economic trends, political crises, and social instability. Past experience should by no means be applied bluntly to the future, and the actual duration of the “turbulent decade” can only be determined by future economic historians. However, it is now evident that the key issue on the political and intellectual agenda is a new economic growth model, its potential rates and sources.

### 1.1. Discussing the prospects for economic growth

The prospects of economic growth present the biggest challenge, which will define the development of other vital structural processes during the 21st century, in other words, the trend towards globalization (or de-globalization), the new industrialization (structural modernization), and the development of human capital.

We have seen economic growth rates decelerating since the beginning of the global crisis, i.e. roughly since 2008. Whereas this trend seemed to be temporary at first, and was expected to pass in the foreseeable future, it became clear after almost ten years that the situation is far more complicated. Economists talk about an approaching long secular stagnation; politicians have started to adapt to the new reality, resulting in a sharp and explosive rise in populist sentiment. In fact, these were the two main aspects of 2016: *low (and decelerating) economic growth rates and rising political populism*. Clearly, they are related: economic hardships always encourage politicians to adopt populist slogans – if not populist actions.

The ongoing economic deceleration had multiple causes. Economists are already focused on analyzing them. Modern growth is certain to be one of the highlights of future discussions on economics, political science, and political economy.

One of the reasons behind this decelerating global development is the lower growth rate in China and India, which they are – quite naturally – experiencing as they achieve economic maturity and near a more stable condition as developed countries. The deceleration could have been counterbalanced by emerging new opportunities for an accelerated technology transfer to

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<sup>1</sup> Author of chapter: V. Mau – RANEP. The author thanks S. Drobyshevsky, G. Idrisov, and M. Khromov for their assistance in writing this article.

other countries and regions of the world (for example, to Africa), but this is more of a political and institutional matter than an economic one so far.

The deceleration may be partly attributable to cyclical factors, for instance, the low investment activity reflected in the excess of savings over investment that is characteristic of most developed countries. This is seemingly associated with a high level of uncertainty, which is natural during technology upgrades and anticipated structural reforms.<sup>1</sup>

*However, the problem of economic growth does not come down to decelerating global trends or to the specifics of the modern business cycle. In the traditional economic development model involving recessions and recoveries, the main question following a crisis is concerned with the actual level at which the recession will stop and economic growth will begin. The events after 2008 clearly demonstrated: a downturn may be followed by stagnation or low growth rates, i.e. recovery is not automatic. This calls for changing the substance of anti-crisis policies, which can no longer be limited to fighting recession, but should propose measures for ensuring acceptable growth rates (or accelerating potential growth). This is the greatest challenge of the current global crisis and the essence of what has come to be called the “new economic reality” lately.*

Lengthy stagnation in a developed country is not a brand new problem. It has been happening in Japan for a quarter of a century. It has been demonstrated that a developed economy may stagnate over a long period while maintaining a high level of well-being and avoiding grave social problems. This phenomenon seemed to be specific just to Japan. However, it is now evident that we are facing a new phenomenon which calls for research and an adequate policy. The European Union has been in a similar situation for about five years. The risk of long-term stagnation also faces modern Russia, for which “reaching the bottom” (which was discussed vigorously in 2015 and 2016) does not mean returning to sustainable growth. This may be regarded as an intellectual challenge of sorts, similar to the Keynesian revolution. At the time of Keynes, however, certain automatic anti-crisis regulators had to be activated (to mitigate the consequences of the crises); now, a dedicated policy needs to be developed to ensure growth.

Several *cyclical, technological, political, and statistical* hypotheses have emerged in an attempt to explain this phenomenon. In fact, there are four possible explanations of the growth situation. Despite all their differences, they are not absolute alternatives, and the actual situation is the result of a certain combination of them.

*Cyclical factors.* This view attributes deceleration to insufficient aggregate demand, which is reflected in a negative gap between investments and savings. The historically insufficient demand will hold back growth in GDP and productivity and even near-zero interest rates will not stimulate economic growth.<sup>2</sup> Inequality seems to be a contributing factor to the problem, as the majority of the population are not experiencing income growth and the excessive concentration of income in the hands of a minority is causing an increase in savings.

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<sup>1</sup> Robert Shiller, Nobel Prize winner in economic science (2013), attributes the deceleration to a “loss of economic confidence” (expected business activity by companies, and income and employment by households) and “economic policy uncertainty” (regulations, taxes, etc.). (Shiller Robert J. *The Global Economy Hesitation Blues*. Project Syndicate. July 21, 2016).

<sup>2</sup> Summers L. Reflections on the ‘New Secular Stagnation Hypothesis’ // Teulings C., Baldwin R. (eds.). *Secular Stagnation: Facts, Causes and Cures*. A VoxEU.org eBook. London: CEPR Press: 2014; “The global glut of savings against the backdrop of low inflation leads to low aggregate demand in high-income regions. This syndrome is consistent with zero or negative interest rates in Europe and Japan.” Nordhaus William D. *Why Growth Will Fall* // *The New York Review of Books*. August 18, 2016.

*Technological features.* The other approach attributes the deceleration to limited supply, first of all the supply of innovation.<sup>1</sup> This means the potential deceleration of technical progress, a lesser impact on productivity by technical innovation, especially compared with the technical revolution at the turn of the 20th century. In fact, this approach points to the exhaustion of modern economic growth as we have known it since the mid-18th century, which is becoming one of the key mysteries for economic science (and especially economic history).

However, certain advocates of attributing the deceleration to technological factors are holding onto an optimistic interpretation of the problem: technological deceleration is a temporary phenomenon, as there are lags between the introduction of advanced technology and the spread of its effects to other industries and, accordingly, to the growth in GDP and productivity.<sup>2</sup> This point of view relies on recent economic experience. For example, in 1987, R. Solow noticed that the “computer era is visible everywhere except for productivity statistics.”<sup>3</sup> About 15 years later, the effect was reflected in statistics and required no separate proof. However, prior to that, business models had to be seriously transformed beyond the comprehensive implementation of computer technology in industrial processes.<sup>4</sup> Thus, we can presume that over time, the effect of innovations will be reflected in economic growth statistics, especially as brand new models of governance and business forms are emerging.<sup>5</sup>

*Political factors.* The third alternative explanation for the deceleration is related to specific features of political processes and their influence on the economy. It has to do with the actual priority of short-term political goals over long-term structural objectives. To prevent grave social and political implications from the crisis (and taking into account the experience of the Great Depression of the 1930s), the governments of developed countries have taken unprecedented steps to rescue existing companies and banks, thereby destroying the opportunity for Schumpeter’s “creative destruction.” (The Japanese government acted in a similar manner during the 1990s, causing the problem of zombie banks and companies). A soft monetary policy (extremely low or negative interest rates) does not so much stimulate economic activity as it alleviates the debt burden on the state and corporations by improving the position of debtors relative to the prejudice of creditor interests.<sup>6,7</sup> In that way, this policy prevents a potential wave of bankruptcies.

<sup>1</sup> Cowen, Tyler. *The Great Stagnation: How America Ate All the Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better.* New York: Dutton, 2011; Gordon Robert J. *The Rise and Fall of American Growth. The US Standard of Living Since the Civil War.* Princeton, N.J.: Princeton University Press, 2016.

<sup>2</sup> Mokyr, Joel. *Secular Stagnation? Not in Your Life*, in Coen Teulings and Richard Baldwin (eds.), *Secular Stagnation: Facts, Causes, and Cures.* A VoxEU.org eBook. London: CEPR Press: 2014.

<sup>3</sup> Solow Robert. *We’d Better Watch Out* // *New York Times Book Review.* July 12, 1987.

<sup>4</sup> Brynjolfsson E. and Hitt L.M. *Beyond Computation: Information Technology, Organizational Transformation and Business Performance* // *Journal of Economic Perspectives.* Vol. 14. No 4, 2000, pp. 23–48.

<sup>5</sup> Zia Qureshi called the advocates of these approaches to estimating the impact of innovations on growth “techno-pessimists” and “techno-optimists”: “In the dispute between the ‘pessimists’ and ‘optimists’ about the future of productivity, the important thing is not about who is right, but how we should respond to future challenges identified by the ‘pessimists’ to leverage the opportunities foreseen by the ‘optimists.’ The future can be optimistic if the realization of technological opportunities is supported by a corresponding policy and institutional changes,” (Qureshi Zia. *The Productivity Outlook: Pessimists versus Optimists.* Washington D.C. Brookings Institution, 2016).

<sup>6</sup> Wolf Martin. *Negative rates are not the fault of central banks.* // *The Financial Times.* April 12, 2016.

<sup>7</sup> According to Carmen Reinhart, this policy actually means taxing creditors: “As in the past, during and after financial crises and wars, central banks are more and more inclined towards a form of ‘taxation’ which helps eliminate the enormous government and private debt burden and alleviates the debt servicing burden... Currently, this means maintaining negative real interest rates, which are the equivalent of a non-transparent tax on bond

In a more severe interpretation, central banks have taken on similar functions as those performed by Soviet-type central planning agencies which were tasked with preventing crises and bankruptcies. The steps they took “arrested falling asset prices, thereby saving enormous fortunes. However, this also prevented a great number of young businessmen and investors from taking risks on new ventures.”<sup>1</sup> All this is hindering recovery from the crisis for years, if not for decades. Without creative destruction – and all the related political and social problems – we cannot escape the stagnation trap.

In fact, political interests are beginning to dominate economic interests in this situation, i.e. ensuring current political and social stability and securing the results of the next elections has become more important than improving efficiency and productivity. An emphasis on narrowly interpreted political goals and group interests slows down institutional and structural modernization and, consequently, decelerates growth. The desire to prevent a surge of unemployment, which is understandable from a political perspective, may cause losses in efficiency and competitiveness. All this is synonymous with the domination of short-term over long-term interests, which has been typical of many developed and developing countries in recent decades.<sup>2</sup> Moreover, more often than not, policies leading to rapid positive shifts in economic trends turn out to be inefficient and even harmful in the medium term.

The aforementioned means that monetary policy measures can stop the crisis and prevent it from rampaging, but cannot lead to sustainable growth on their own. Sustainable growth is known to require structural and institutional reforms, especially when the technological framework of the national economy is undergoing a qualitative upgrade.

*Aspects of statistical measurements.* Discussions on economic growth particularly focus on the issue of adequately assessing it. A number of researchers point out that GDP statistics understate the actual level of production and well-being. The GDP indicator was invented during the 1930s and 1940s, and was later called “one of the greatest inventions of the 20th century,”<sup>3</sup> However, the fundamental technology shifts in recent years and the emergence of new governance models reflecting this new technological reality are creating a completely new situation in the economy which eludes traditional statistics for the most part. The measurement of real GDP, which should cover all goods and services produced (sold), do not take into account a significant portion of the value (of the product, not necessarily tangible) which has been produced, but cannot be measured using existing methods. The key here is the penetration of information and communication technology (ICT) into all areas of social life, transforming the very concept of well-being and, accordingly, the ability to measure it. Radical improvement

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holders and, in a broader sense, on all who save.” Reinhart Carmen. What’s New About Today’s Low Interest Rates? Project Syndicate. July 28. <https://www.project-syndicate.org/commentary/explaining-persistent-low-interest-rates-by-carmen-reinhart-2016-07>.

<sup>1</sup> Sinn Hans-Werner. Secular Stagnation or Self-Inflicted Malaise? Project Syndicate. September 27, 2016.

<sup>2</sup> Examples of the dominance of short-term over long-term interests can be found in the practices of many developed and developing countries. They include the USSR between 1986 and 1990, where the government preferred to accelerate growth, causing a decade-long recession. They include China in recent years, where growth rates are maintained by injecting budget funds into the economy. In our opinion, the dominance of short-term business interests (current capitalization) over long-term ones (increasing productivity) is one of the main causes of the current global crisis. Mau V. A. *Crises and lessons. Russian economy in a turbulent epoch*. Moscow: Gaidar Institute Publishers, 2016, p. 174.

<sup>3</sup> BEA. GDP: One of the great innovations of the 20th century. Survey of Current Business, Bureau of Economic Analysis. 2000, January, pp. 6–9; Masood E. The great invention. The story of GDP and the making and unmaking of the modern World. New York: Pegasus Books, 2016.

in business and staff efficiency satisfies needs and ensures improved well-being by utilizing far lower amounts of labor and material resources.

*This can be illustrated by a number of examples. First, there is an unprecedented increase in the number of free goods and services associated with information technology, let alone the rapid cheapening (at rates surpassing inflation rates) of new products entering the market. They include the obvious benefits gained from social networks for the economy and consumers. People spend a lot of time communicating with IT systems, and this contributes to improving their well-being (including business development). However, this is only reflected in the growth statistics, at best, as advertising income. Second, some advanced technologies (for example, 3D printing) can make products substantially cheaper. Third, new products (goods) are emerging, combining various functions at a much lower price than several devices performing the same functions (the iPhone being the most evident example). Fourth, a number of goods and services have been converted into digital form, for instance, e-books which, being several times cheaper, actually provide the same service as traditional books. Fifth, brand-new, IT-based business models are emerging, as embodied (and exemplified) by Uber.<sup>1</sup> Uber is reducing the demand for cars, while considerably increasing their utilization as compared to taxi services, let alone personal cars, subsequently reducing demand for the production of related goods and services. Thus, while improving well-being (and increasing consumption), all of the above technological, industrial, and management innovations may result in the traditional GDP indicators declining.*

The discussion of the problems of economic trends is far from over. These themes will remain at the forefront of economic discourse and political struggle for the foreseeable future, attracting both theorists of political science and practitioners of economic policy.

The practical recommendations during the past year clearly tended towards revising the correlations between monetary and fiscal stimulation. In 2016, the thesis about the need to scale back monetary stimulus while enhancing fiscal stimulation gained increasing popularity.<sup>2</sup> This conclusion has several reasons:

- first, though the policy of extremely low or negative interest rates put obstacles in the way of the crisis, it was unable to ensure the recovery of normal growth;
- second, an understanding has spread that resuming growth does not require macroeconomic manipulation, but rather structural reforms which first of all require dedicated fiscal policy measures;
- third, the debt burden on government budgets has reduced slightly, while a number of developed countries gained more opportunities to borrow financial resources for large-scale projects, thereby using public demand to support growth in both the private and public sectors;
- fourth, the new U.S. administration clearly established a priority on fiscal stimulation, which can be seen as an attempt to repeat the success of R. Reagan, who combined it with the rigorous monetary policy of Paul Volcker.

Raising the FRS interest rates in December 2016 was mostly a step towards fiscal stimulation. The next step should be made by the new administration under Donald Trump.

<sup>1</sup> The Economist. Uber: From zero to seventy (billion) *The Economist*. 2016, September 3.

<sup>2</sup> Of course, not everyone supports the idea of shifting the focus towards fiscal policy. Many economists strongly argued against reducing monetary stimulation, especially in the Eurozone. M. Wolf recommended an active combination of different growth sources, without countermending monetary stimulation with fiscal measures: “The best policy would be a combination of measures aimed at enhancing potential growth and maintaining aggregate demand. This calls for structural reforms and aggressive monetary and fiscal expansion. In this respect, the U.S. pursued a more balanced policy than the Eurozone countries”. (Wolf Martin. Negative rates are not the fault of central banks. // The Financial Times. 2016, April 12).

In 2016, economists were almost unanimous in formulating the structural priorities for developed countries. First of all, they include the development of infrastructure (especially in the U.S.) and the education system (especially in Europe). Other priorities are said to include the development of green energy, healthcare, and everything related to human capital in a broad sense. High-priority structural measures include reducing taxes (fiscal measures) and deregulation.<sup>1</sup>

At the same time, the priorities of structural and institutional reforms differ significantly between countries, especially in a comparison between the developed and leading developing countries. While the majority of the former are focusing on developing human capital, including easier access to the labor market for large social groups, China plans to create physical infrastructure to boost both domestic demand (taking into account the enormous domestic market) and technological exports to developing countries. It is solving these kinds of problems that is the focus of China's policy to build a Silk Road, presumably aimed at developing markets for Chinese products. This is the most important difference in structural priorities between developed countries on the one hand, and China on the other.

China currently (and in the near future) acts primarily as the producer of goods, actually becoming the "world's factory" during the 21st century. Conversely, developed countries, even with the latest re-industrialization trend, produce and consume mostly high-tech ideas and related services, and the quality of human capital is critical for retaining leadership in the production and utilization of high technology.

This means stimulating demand, i.e. a partial return to the Keynesian model, which requires a serious revision subject to 21st-century realities. With respect to most developed countries, no definite conclusion can be drawn at the moment in favor of either a 'demand economy' or a 'supply economy.' Demand factors should be adequate for technology-driven supply, which in turn should be maintained by adequate institutional measures (including deregulation or tax reduction). Only this kind of balance between demand-side interests and those on the supply side will help overcome the deepening polarization between the beneficiaries of globalization and its victims (however conventional these terms may be).<sup>2</sup>

In terms of global processes, much will depend on whether the leading countries (U.S., China, Germany, UK, Japan, EU) manage to coordinate their economic policies, primarily taking into consideration their specific structural reforms. The inability to ensure such coordination will lead to increased protectionism and populism, and, accordingly, to an overall

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<sup>1</sup> "Trump made infrastructural investments, the tax reform, and deregulation the central components of the strategy to accelerate real and potential economic growth rates in the U.S.... As a result, markets are confident that the U.S. will gradually overcome the protracted period of excessive dependence on non-traditional monetary policy, which is to be replaced with structural reforms to stimulate the economy and a milder fiscal policy. This approach is similar in many respects to what Ronald Reagan did... Germany, China, and Japan have strong reasons to agree with this approach: they are not currently seeing sufficient results from the monetary expansion policy; the risks of collateral damage and unforeseen consequences are only growing; structural reforms to encourage economic growth are late,"— wrote M. El-Erian (El-Erian Mohamed. The International Barriers to Trump's Economic Plan. Project Syndicate. <https://www.project-syndicate.org/commentary/international-cooperation-for-trumps-economic-plan-by-mohamed-a-el-erian-2016-12/russian>).

<sup>2</sup> "Macroeconomic governance should ensure consistency between growing demand and the potential supply created by new technology and globalization. This is a fundamental Keynesian concept which was temporarily discarded during the blossoming of monetarism in the early 1980s, began to be successfully applied in the 1990s (at least in the U.S. and UK), but was forgotten again due to the panic caused by the increasing budget deficits following the 2009 crisis," Kaletsky A. The Crisis of Market Fundamentalism. Project Syndicate. December 23. <https://www.project-syndicate.org/commentary/populist-revolt-crisis-of-capitalism-by-anatole-kaletsky-2016-12>



deceleration and the simultaneous intensification of uneven development between certain countries.

*The aforementioned points directly at a second characteristic of the past year and, seemingly, the foreseeable future, i.e. populism.*<sup>1</sup> This term is usually understood as political activity whose slogans are popular in the general public but, as a rule, have no real (material or economic) grounds for practical implementation.<sup>2</sup> The real goals of populist politicians (primarily the struggle for power) are disguised as socially attractive ideas.

Populism is directly associated with the aforementioned conflict between short-term and long-term economic objectives. At best, populist measures yield the promised positive shifts for a short period of time, causing a loss of long-term stability with a dear price to be paid for its recovery. In the political domain, populism often leads to the destruction of democratic institutions: populists can retain power on the wave of short-term achievements, but afterwards, if the situation worsens, they abandon democratic procedures (directly or through manipulation) while promising prosperity after defeating internal and external enemies.

Populism became widely common during the 20th century, and became either a source of degradation for many countries (Argentina) or a roadblock along the path of economic progress (a number of Latin American countries).<sup>3</sup> Two varieties of populism clearly emerged at that time: political and economic (fiscal). The former could exist without the latter, but the latter was always associated with the former. Political populism is a tool in the struggle for power, but its economic implications are ambiguous. A party rising on a wave of populist slogans and retaining power can pursue any economic policy, whether populist or responsible. In some cases throughout the 20th century, political populism was accompanied by economic populism, i.e. irresponsible fiscal and monetary policies, property manipulations, etc. This led to economic crises which took a long time to overcome. Most populist regimes in Latin America combined economic and political populism, from Juan Peron during the mid-20th century to Hugo Chavez and Nicolas Maduro in Venezuela during the early 21st century.<sup>4</sup> At the same time, there have been cases where politicians rose to power backed by populist slogans and reputation but managed to pursue a responsible and well-balanced economic course (e.g., Lula da Silva in Brazil). We are now talking mostly about political populism, associated with attempts to abandon what, until recently, belonged in the domain of “political correctness” or “rules of the game” accepted in the modern world (globalization, political equality, etc.). The influence of populist politicians is growing in Europe and America, and in a number of developing countries.

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<sup>1</sup> In this article, we will use the following political definition of populism: “That which certain scientists call a charismatic way of communication between voters and politicians, and democratic discourse based on the concept of popular will and the struggle of the ‘population’ against the ‘elite’.” Hawkins Kirk. *Populism in Venezuela: the Rise of Chavismo* // *Third World Quarterly*, 24, 2003 pp. 1137–1160.

<sup>2</sup> Acemoglu D., Egorov G., Sonin K. A political theory of populism. *Quarterly Journal of Economics*, Vol. 128, No. 2, 2013, pp. 771–805.

<sup>3</sup> Mudde C., Kaltwasser C. R. (2011). *Voices of the Peoples: Populism in Europe and Latin America compared*. Kellogg Institute Working Paper. 2011, No. 378.

<sup>4</sup> A classic analysis of 20th century economic populism is contained in a book edited by R. Dornbusch and S. Edwards, *The Macroeconomics of Populism in Latin America*. In the book, it is defined as an “approach to the economy which focuses on growth and the distribution of income while neglecting inflation risks, budget deficits, external limitations, and the response of economic agents to aggressive non-market policies. Dornbusch R., Edwards S. (eds). (1991). *The Macroeconomics of Populism in Latin America*. Chicago and London: The University of Chicago Press. 1991, p. 9, as well as in: Sachs Jeffrey D. *Social conflict and populist policies in Latin America*, Working paper, no 2897, March. Cambridge, MA: NBER, 1989.

The outcomes of 2016, point towards two specific features in the development of modern populism. First, both rightist and leftist populism is clearly rising. At the same time, the former is mostly peculiar to developed countries in Europe and America, while the latter can be seen in poorer countries (including European countries such as Italy and Spain). However, the positions of rightist and leftist populism may coincide in some provisions of the economic program (particularly with regards to globalization).<sup>1</sup> Second, macroeconomic (fiscal) populism remains quite a rare phenomenon, restricted mostly to the situation in Venezuela. This is important for evaluating the prospects of macroeconomic stability in the world's leading countries.

A populist reaction in the form of anti-globalism may manifest itself in various countries in the near future. Anti-globalism has become an altogether indispensable component of modern populism. In particular, the rise of the U.S. dollar, which looks logical in 2017, may lead to toughening protectionist measures in the U.S., with retaliatory measures in certain countries. Various sanction regimes are also a form of populist response to political and, to a greater extent, economic problems. The list of examples goes on.

The rise of populism seems to be based primarily on economic factors. Decelerating growth and protracted recessions are able to evoke a populist response to the problems. (Though this is not a strict rule, as confirmed by the 25-year stagnation in Japan). Sustainable growth is a natural though insufficient condition for overcoming populism. However, populism thrives under the favorable conditions of no clear present growth prospects. There are also social policy measures which may mitigate the risks of realizing populist slogans: they primarily include assistance for those who incur losses as a result of economic progress in adapting to new conditions, particularly by supporting education and other social spheres, which may be more important than directly handing out money.

In this political dynamic, a new political polarization is more and more clearly taking shape, replacing the confrontation of rightist and leftist forces (in other words, followers of free market or socialism, liberalism or statism). Currently, it is far more important to note the confrontation between populism on the one hand, and traditional models of modernization on the other. Both rightist and leftist forces with a "traditional focus" may concentrate on both sides. It seems unclear how stable or durable this new configuration is, or whether it is of a temporary nature, due to the specific circumstances of the current global crisis.

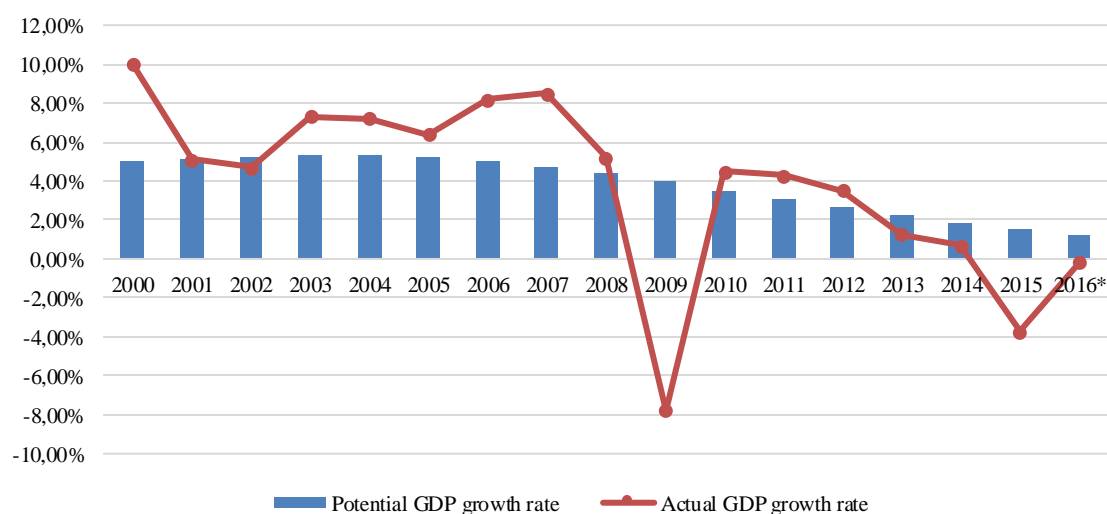
## **1.2. Economic crisis and adaptation to the new reality: 2015 and 2016 outcomes**

Since 2008, Russia and other developed and leading developing countries have been living through a structural crisis, which is gradually shaping a new economic, political, and social reality. Although not without a number of common characteristics, Russia has a number of unique economic and political circumstances that call for a substantially different socioeconomic policy from other countries.

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<sup>1</sup> The results of the referendum in the UK and the U.S. election in 2016 are of interest in terms of the correlation between rightist and leftist populism in developed countries. Bernie Sanders, a leftist critic of the establishment, lost the Democratic Party primaries to Hillary Clinton, who represents the traditional elites. However, the presidential election was won by Donald Trump, who actively utilized rightist populist slogans and had much in common with Bernie Sanders in his anti-globalist agenda. See: Di Tella Rafael, Rotemberg Julio J. Populism and the Return of the 'Paranoid Style': Some Evidence and a Simple Model of Demand for Incompetence as Insurance against Elite Betrayal. Working paper 17-056. Cambridge, Mass.: Harvard Business School, 2016. p. 10. Similarly, in the UK, rightist populism is associated with leaving the EU and confidently dominates the leftist populism of the current Labour Party leadership, Jeremy Corbyn.

From an institutional point of view, the structural crisis in Russia was associated with two sets of circumstances: on one hand, considering the global problems, the need to shape a new economic growth model in lieu of the one formed after the crisis in the 1970s, and, on the other hand, given the specific institutional problems in Russia, where the recovery process had completed by the end of the 2000s: the economy reached the level where it was at the time of the transformational recession between the 1980s and the 1990s. This exhausted the opportunities of the extensive growth model based on utilizing idle production capacity and labor resources and incomes rising faster than growth in GDP and productivity. This was reflected in lower structural growth rates (*Fig. 1*).<sup>1</sup> In other words, the transition to the new growth model was dictated not only by the current situation, but also by Russia's specific institutional dynamics.



*Fig. 1.* Actual and potential GDP growth rates in Russia, %

Sources: Rosstat; baseline scenario for the Ministry of Economic Development forecast as of May 6, 2016.

From a macroeconomic point of view, Russia has faced a problem with stagflation rather than deflation, in other words, it should achieve growth recovery by suppressing inflation, rather than by stimulating it. Accordingly, monetary and fiscal stimulation methods play a substantially limited role, notwithstanding the low national debt and significant accumulated reserves.

The phenomenon of combined crises (structural, financial, external shocks) also played a role. These crises required various, often differently directed anti-crisis measures, both stimulating (under structural crisis conditions) and consolidating (under external shocks). This initially made the anti-crisis policy very complicated and not always externally consistent, and thereby susceptible to criticism.

From a political perspective, since 2014, Russia has been in confrontation with a number of leading countries and, in addition to searching for a new economic model (and a “new normality”), is working actively towards political re-positioning on the global stage. The

<sup>1</sup> Sinelnikov-Murylev S., Drobyshevsky S., Kazakova M. Decomposition of Russian GDP growth rates in 1999–2014. *Ekonomicheskaya Politika*, 2014, No. 5, pp. 7–37; Drobyshevsky S., Kazakova M. Decomposition of GDP growth rates in 2016–2019. *Ekonomicheskoe Razvitie Rossii*, 2016, No. 6, pp. 3–7.

financial and technological sanctions act as an additional factor in the structural crisis. Falling prices for core Russian export products have formed a completely new environment for solving urgent economic problems, requiring stringent measures aimed at adapting the country to the new reality. By the beginning of 2017, the economic recession had effectively stopped, while material production sectors (industry and agriculture) and wholesale trade started positive trends back in 2016. This completed the anti-crisis policy period and the objective to ensure economic growth was brought to the fore.

The anti-crisis policies of 2015 and 2016 deserve a separate analysis. Its measures and results are shaping the foundation for the country’s further development, a new economic growth model. The lessons from this recent period are useful in terms of the opportunity to use the accumulated experience in the future, since periodic crises are a natural element of a market economy.

From the start, the government’s anti-crisis policy fell under severe criticism from almost every possible direction. It was criticized for a rigid monetary policy aimed at decisively suppressing inflation, for insufficiently utilizing the U.S. and EU experience with their powerful monetary and fiscal stimulation measures, and for the lack of measures to support various industries or their inefficiency. This was augmented by criticism against the monetary authorities for maintaining high interest rates, insufficient business loans, and tough measures to purge the banking system. All these criticisms were justified to a certain extent, as there can be no popular economic policy under economic crisis conditions (besides, it is not always consistent).

However, one cannot ignore at least two important positive features of the 2014–2016 anti-crisis policy. First, the government and the Bank of Russia managed to avoid populist measures and standard macroeconomic and institutional mistakes usually made by authorities under severe economic and political conditions, although nudged by many influential political and economic players. Populist measures, while ensuring the short-term mitigation of the situation, lead to large long-term losses. At the same time, it is the conflict between short-term results (in the form of economic growth) and medium-term goals (improved efficiency) that has posed the greatest danger for Russia’s policy. The fetish for short-term growth rates could have led to populist measures with grave socioeconomic consequences in the not-too-distant future.<sup>1</sup>

Second, it should be admitted that the actual situation has turned out to be considerably better over the past two years than was expected in late 2014. Moreover, despite the longer recession, it was better than in 2008 and 2009 in terms of most economic indicators, though the political and foreign economic environment was far more adverse (*Table 1*).

*Table 1*

**Main economic indicators for the Russian Federation, 2007–2016**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	2	3	4	5	6	7	8	9	10	11
<b>Macroeconomic indicators (growth in physical volume as a % of the previous year)</b>										
GDP	8.5	5.2	-7.8	4.5	4.3	3.5	1.3	0.7	-2.8	-0.2
Industry	6.8	0.6	-10.7	7.3	5.0	3.4	0.4	1.7	-0.8	1.3
Agriculture	3.3	10.8	1.4	-11.3	23.0	-4.8	5.8	3.5	2.6	4.8

<sup>1</sup> During the “acceleration” policy of 1986-1989, increased growth rates were achieved through macroeconomic destabilization (sharp growth in the national debt and budget deficit), resulting in a decade-long stagnation, followed by another decade to return the economy to the pre-crisis level. See more: Mau V.A. Waiting for a new model of growth: Russia’s social and economic development in 2013. *Voprosy Ekonomiki*, 2014, No. 2, pp. 22–24.

*Cont'd*

1	2	3	4	5	6	7	8	9	10	11
Construction	18.2	12.8	-13.2	5.0	5.1	2.5	0.1	-2.3	-4.8	-4.3
Wholesale trade	9.5	5.4	2.0	3.0	4.4	3.6	0.7	-3.6	-10.0	1.3
Retail trade	16.1	13.7	-5.1	6.5	7.1	6.3	3.9	2.7	-10.0	-5.2
Retail consumption by household	14.3	10.6	-5.1	5.5	6.8	7.4	4.4	2.0	-9.8	-5.0
Business fixed investments	23.8	9.5	-13.5	6.3	10.8	6.8	0.8	-1.5	-10.1	-0.9
Share of wages in GDP (methodology change in 2011.)	46.7	47.4	52.6	49.6	43.9	44.2	46.7	47.2	45.0	46.6
Share of profit and mixed income in GDP (methodology change in 2011), %	34.1	32.6	30.8	32.6	41.5	41.1	39.1	38.9	43.9	42.7
<b>Public finance and international reserves</b>										
Surplus («+»)/deficit («-») of the consolidated budget, % of GDP*	6.0	4.9	-6.3	-3.4	1.4	0.4	-1.2	-1.1	-3.4	-3.7
Surplus («+»)/deficit («-») of the federal budget, % of GDP*	5.4	4.1	-6.0	-3.9	0.8	-0.1	-0.5	-0.4	-2.4	-3.4
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	-10.1	-9.4	-9.1
Russian domestic national, (at year end, RUB billion)	1248.8	1499.8	2094.7	2940.4	4190.6	4977.9	5722.2	7241.2	7307.6	8003.0
Foreign national debt (USD billion)	44.9	40.6	37.6	40.0	35.8	50.8	55.8	54.4	50.0	51.2
Consolidated national debt, % of GDP*	-	6.5	8.3	9.0	9.0	9.7	10.6	13.0	13.2	12.9
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	16.03
National Welfare Fund at year end, USD billion		87.97	91.56	88.44	86.79	88.59	88.63	78.00	71.72	71.87
International reserves at the Bank of Russia, year end, USD billion.	478.8	427.1	439.0	479.4	498.6	537.6	509.6	385.5	368.4	377.7
<b>Prices and interest rates</b>										
Consumer price index, December over December	11.9	13.3	8.8	8.8	6.1	6.6	6.5	11.4	12.9	5.4
Producer Price Index, December over December	25.1	-7.0	13.9	16.7	12.0	5.1	3.7	5.9	10.7	7.4
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	10.6
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	15.7	12.6
Average interest rate on individual deposits (except for demand deposits, % p.a.)	7.2	7.6	10.4	6.8	5.4	6.5	6.5	6.7	9.7	7.3
<b>Labor market</b>										
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	5.5
Average wages (RUB thousand/month)	13.6	17.3	18.6	21.0	23.4	26.6	29.8	32.5	34.0	36.7
Wages in real terms, in % to previous year	17.2	11.5	-3.5	5.2	2.8	8.4	4.8	1.2	-9.0	0.6
Real disposable household income, % to previous year	12.1	2.4	3.0	5.9	0.5	4.6	4.0	-0.7	-3.2	-5.9
Population with cash income below the subsistence level, millions.	18.8	19	18.4	17.7	17.9	15.4	15.5	16.1	19.5	20.3 <sup>1)</sup>
<b>Banking system</b>										
Number of active lending institutions at year end	1136	1108	1058	1012	978	956	923	834	733	623
Number of banking licenses withdrawn during the year	49	33	43	27	18	22	32	86	93	97
Assets, %	46.1	32.7	3.7	14.8	21.4	20.4	14.2	18.6	-1.5	2.1
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	5.0	-0.1
Debt owed by domestic individuals under bank loans, %	58.3	31.2	-11.7	14.4	35.5	39.1	27.7	11.6	-7.3	0.7
Share of past due loans to domestic corporations, excluding banks, %	0.9	2.2	6.0	5.5	4.8	4.6	4.1	4.1	6.0	6.1

## RUSSIAN ECONOMY IN 2016

trends and outlooks

Cont'd

1	2	3	4	5	6	7	8	9	10	11
Share of past due loans to individuals, %	3.1	3.6	6.9	7.1	5.3	4.1	4.5	6.0	8.4	8.3
Profit, RUB billion	508	409	205	573	848	1012	994	589	192	930

\*Indexes in share of GDP are incomparable in 2007–2010 and 2011–2016 due to change by Rosstat of GDP methodology calculation since 2011

1) January-September 2016

Sources: Rosstat; Ministry of Finance; Bank of Russia

Below is a list of certain vital components and outcomes from the anti-crisis policies of 2015–2016, which, in our opinion, are laying the foundation for future (post-crisis) economic growth.

*The country managed to retain macroeconomic stability*, which is manifested primarily in the budget deficit, national debt, and in the persistently decreasing inflation. In 2016, the government returned to three-year budgeting. Despite the symbolic nature of this step, it appears to be important for securing confidence in the economic policy. Equally important in this respect is the consistent implementation of the course towards reducing inflation to 4% by the end of 2017. In the budget adopted, an attempt was made to loosen the traditional tie between its income basis and changes in oil prices. The government recognized the futility of this connection and budgeted for a flat oil price at USD 40 per barrel. This measure effectively introduced a new budget rule based on invariable expenses relative to oil price fluctuations.

Holding back expenses helps control the federal budget deficit and the extended government budget deficit, despite the substantial drop in income (even in nominal terms). The federal budget deficit was 2.4% of the GDP in 2015, and 3.4% at the end of 2016, compared with around 6% in 2009 or 3.4%, 3.7%, and 6.3% of the extended government budget, respectively). As for the ratio of the deficit to total federal budget expenses, almost 24% of expenses was covered through deficit financing sources in 2009, compared with 12.6% and 18.0% in 2015 and 2016, respectively. At the same time, the increase in the total federal budget deficit in 2015 and 2016 coincided with a decreasing oil and gas deficit (from 9.4% to 9.1% of the GDP). Thus, *the government succeeded in controlling the deficit for both the federal budget and the overall budget system*.

Russia remains a country with an exceptionally low national debt at 12.9% of GDP, and primarily in the national currency, 9.3%. The regional budget situation is more complicated: over the past few years, it remained very tense, because under crisis conditions, regional entities were required to perform their social obligations. Although the debt held against regional budgets is low (2.7% of the GDP), the risk of an acute crisis remained quite real over the past few years. In 2016, the situation improved slightly, at least in three respects. First, a significant portion of commercial debt was restructured into budget debt, on more favorable terms for the regions. Second, almost all of the regional debt is now denominated in the national currency. Third, the debt owed by the regions began to decrease, though insignificantly, by 0.05% of GDP<sup>1</sup> in 2016. The dependency of the government budget on the oil and gas sector is decreasing. The share of oil and gas revenues out of total federal budget revenues is gradually decreasing, from 51% in 2014, and 43% in 2015, to 36% in 2016. Undoubtedly, this was conditioned not so much by the diversification of the Russian economy's structure as by the falling global oil prices, which were not fully compensated for by the fall of the ruble against

<sup>1</sup> In nominal terms, debt non the less increased a bit – by 1.5% or by RUB 35bn.

the dollar. As a result, the share of oil and gas revenues is falling against a backdrop declining total federal budget revenues, even in nominal terms.

The Bank of Russia's transition to an inflation targeting policy and a floating foreign exchange rate was especially criticized by many politicians, business people, and experts. At the same time, these hard decisions made in the autumn of 2014, had significant consequences for macroeconomic stability. By the end of 2016, inflation reached 5.4%, which is unprecedented for modern Russia. The government succeeded in retaining and even increasing international reserves: USD 377.7 billion (+2.5%) as of January 1, 2017.

In the recent years, capital flight decreased substantially from USD 152.1 billion in 2014, to USD 57.5 billion in 2015, and then to USD 15.4 billion in 2016 (estimate by RF Central Bank). The outflow of private capital in 2015 and 2016, was to a greater extent related to the repayment of foreign debt by banks and corporation, i.e. it cannot be characterized as "capital flight" to other jurisdictions. Accordingly, the country's total foreign debt was reduced. In 2015 and 2016, the foreign debt for state corporations decreased. For example, in 2015, the government's foreign debt according to the extended definition<sup>1</sup> decreased by 12.1% to USD 268.1 billion, while the foreign debt of government authorities decreased by 26.6% to USD 30.6 billion. The latter fact, however, is not a definitely positive phenomenon in terms of growth financing, as it resulted from financial sanctions.

Naturally, after the acute crisis and devaluation in 2014, the current account condition improved and its stability increased: the current account remained positive, while the outflow of capital stabilized quickly under a floating foreign exchange rate.<sup>2</sup>

Shaping the institutional framework for future economic growth, the Bank of Russia pursued consistent and stringent measures *to revitalize the banking sector* and to remove lending institutions from the market that did not meet the regulator's supervisory requirements. 97 banking licenses were revoked in 2016, which is slightly more than in the previous years (93 licenses were revoked in 2015, and 86 in 2014). Lending institutions whose licenses were revoked in 2016 held RUB 1.2 trillion in total assets, or 1.4% of the total assets of the banking sector at the beginning of 2016 (RUB 1.1 trillion, or 1.4% in 2015, and RUB 0.4 trillion, or 0.8% in 2014, respectively).

This led to positive shifts in the banks' operations. Following a sharp reduction in profits in 2015, when the banking sector earned RUB 200 billion, profits began to recover: the banking sector earned RUB 930 billion in profits in 2016, in other words nearly as much as in 2013. However, the return on equity (13%) in annual terms in 2016, was significantly lower than in 2013 (17%).

*Deposits by companies and households* are boosting the stability of the banking system and simultaneously laying the foundation for resuming economic growth.

Bank deposits grew in 2015. This is an important indicator, as the main source of investments for companies are their own resources. However, this trend changed in 2016, due to an increase in the exchange rate of the ruble against foreign currencies and a reduction in interest rates on

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<sup>1</sup> The foreign debt of the public sector according to the extended definition covers the foreign debt owed by administrative government agencies, the central bank, banks, and non-banking corporations in which administrative government agencies and the central bank own directly or indirectly 50% or more of the capital, or control them in another way.

<sup>2</sup> The mechanism for adapting the Russian economy to the decreasing real exchange rate of the ruble was reviewed in: Drobyshevsky S., Polbin A. On the role of floating ruble in stabilizing business activity under foreign trade shocks. *Problemy Teorii i Praktiki Upravleniya*, 2016, No. 6, pp. 66–71.

deposits. In 2016, the total term deposits held by companies in the banking system decreased by RUB 1.5 trillion, to RUB 12.1 trillion as of January 1, 2017. These funds remain significant despite the reduction from a 35-day cycle as of January 1, 2016, to a 30-day cycle as of January 1, 2017 (prior to 2014, the amount of term deposits did not exceed a 20-day cycle).

Similarly, in 2015 and 2016, a certain amount of growth was observed, followed by *stabilization in the savings held by households with banks*. The deposit growth rate was between 11% and 12% in 2016. Ruble deposits rose by 14% over 12 months, reaching 18.4 trillion (as of January 1, 2017), while foreign exchange deposits barely changed: USD 94.0 billion at the beginning of the year and USD 94.8 billion as of January 1, 2017 (a 0.8% increase). The proportion of deposits held in foreign currencies decreased from 29.8% as of January 1, 2016, to 23.8% as of January 1, 2017. The floating foreign exchange rate apparently served as the means by which no mass transfer of ruble deposits into foreign exchange occurred for the first time in the contemporary Russian history.

*Mortgage loans.* Following the mortgage boom in 2013 and 2014, when the housing loan debt grew by 31-32% annually, and the annual disbursement of new loans reached RUB 1.82 trillion, the amount of mortgage disbursements dropped sharply in 2015 (RUB 1.17 trillion), but demand for mortgage rose by roughly 27% in 2016 to RUB 1.5 trillion. As a result, the total housing loan debt held by individuals reached RUB 4.5 trillion in 2016. Past due debt under those loans remains insignificant at 1.7% of the total debt. At the same time, the NPL share is 1.2% on ruble housing loans and over 30% on foreign currency loans, but the share of total housing loans held in foreign currencies does not exceed 2% of the total housing loans.

*Retail loans.* The total debt under retail loans stopped decreasing at the end of 2016. The annual increase as of the end of 2016 became positive (+0.7%), whereas the debt decreased by 7.3% in 2015. The increase in housing loan debt means a corresponding reduction in consumer loan debt. The proportion of past due debt reached its peak level in August 2016 (9.0% of all loans and 13.5% of consumer loans), after which it began to slowly decline (to 8.6% and 13.2%, respectively).

The accumulated debt owed by Russian households is insignificant compared with developed market economies, slightly more than RUB 11 trillion (13% of GDP). However, taking into account the higher interest rates (the average annual cost of a performing bank loan was 16.4% in 2016) and short maturities (according to the repayment schedule, the average term on retail loans is 44 months; the actual term taking into account early repayments is 18 months), the servicing of bank loans in Russia accounted for 10% of disposable household income in 2016, as opposed to the U.S., where retail loan debt is up to 78% of the GDP. In other words, the debt service burden for the average Russian is the same as that for the average American, while the relative amount of debt in Russia is six times lower. It should be noted that over the past two years, the debt burden relative to income decreased: it peaked around 12% of disposable income in 2014 (*Fig. 2*).

*Employment.* An important factor in ensuring social and political stability was the low level of unemployment, which, during the past two years, was 5%-6% of the working-age population. On the one hand, the working-age population continued to decline due to the retirement of people from quite a sizable generation. On the other hand, the specific aspects of the Russian labor market contributed to the trend: the reduction in economic activity (crisis) was accompanied not by decreased employment, but by a reduction in working hours and payments. Both factors are interrelated because the demographic situation is forcing employers to maintain official employment and not rely on the open labor market (see: *Table 1*).



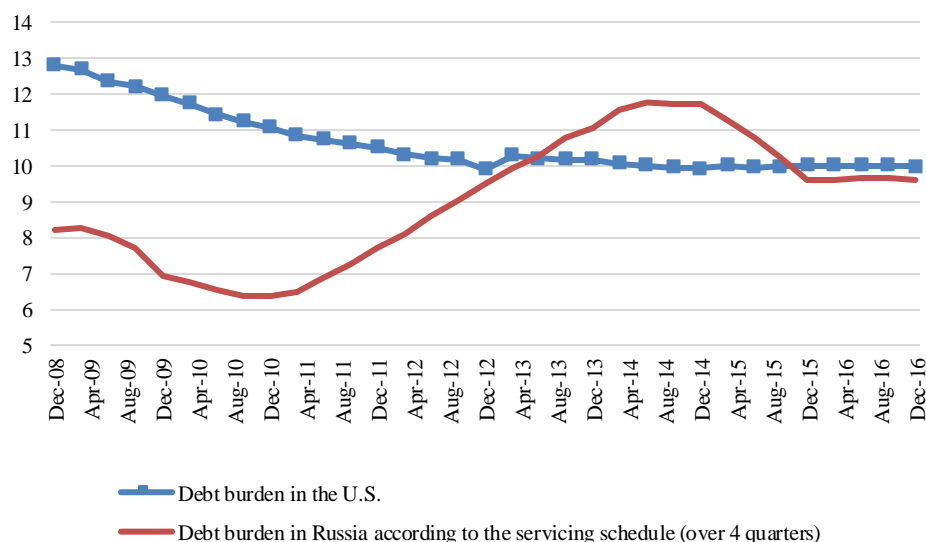


Fig. 2. Debt burden as a percent of disposable household income in Russia and the US, %

Sources: Bank of Russia, Federal State Statistics Service; Federal Reserve; Gaidar Institute estimates.

*Diversification of Russian exports.* In 2015 and 2016, there were controversial and simultaneously important shifts in the trends for Russian exports. The general trend is for declining exports at times when their structure is being diversified. This reduction is understandable given the decelerating global economy and growing geopolitical tension, resulting in declining demand for products and, respectively, declining prices. This also explains the diversification of exports, as the prices for fuel and energy products and metals fell significantly further than other product categories. As a result, beginning from 2014, the proportion of exports from fuel and energy products has decreased continuously (from 72% in 2014 to below 60% in 2016), while the share of other product categories has increased (agriculture, chemicals, light industry, textiles, machinery and equipment). The reduction in the total value of exports in non-energy industries progressed at lower rates, while in some industries growth was observed compared to the same period of the previous year from January through September 2016 (see *Tables 1* and *2*). The volume of agricultural exports caught up with armament exports and even exceeded them. This resulted in the diversification of Russian exports. The export diversification coefficient doubled from 2014 to 2016 (*Fig. 3*).<sup>1</sup>

The export situation reflects a problem typical for modern crises, i.e. an inconsistency between short-term and long-term economic growth objectives. The reduction in exports is undoubtedly an unpleasant phenomenon, which negatively affects current growth and budget opportunities. However, the diversification of exports is laying the foundation for stable economic trends and a stable budget system in the medium term. Of course, provided that the government and businesses can take advantage of the evolving circumstances and ensure the

<sup>1</sup> Calculation by G. Idrisov (RANEPA). The degree of Russian export diversification was calculated based on the diversification index used by the World Bank (the Herfindahl-Hirschman index) (see: [http://wits.worldbank.org/wits/wits/witshelp/Content/Utilities/e1\\_trade\\_indicators.htm](http://wits.worldbank.org/wits/wits/witshelp/Content/Utilities/e1_trade_indicators.htm)).

increasing competitiveness of non-commodity industries, without relying exclusively on the advantages of a low foreign exchange rate.<sup>1</sup>

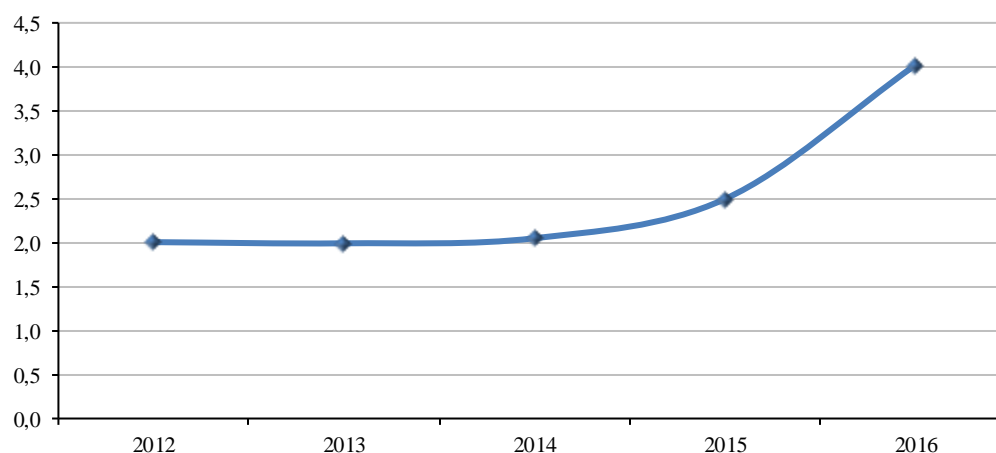


Fig. 3. Russian export diversification coefficient

Source: calculations based on data released by FTS.

Table 2

**Changes in the breakdown of export and import products in Russia from 2014 through 2016 (% of total)**

EAEU TN VED (Commodity Classification for Foreign Economic Activity) code	Product category	Export			Import		
		2014	2015	2016	2014	2015	2016
	Total:	100.0	100.0	100.0	100.0	100.0	100.0
01-24	Food products and agricultural raw materials (except for textiles)	3.8	4.7	6.0	13.9	14.5	13.7
25-27	Mineral products	70.5	63.8	59.2	2.5	2.7	1.8
27	Fuel and mineral products	69.5	62.9	58.1	1.4	1.6	0.8
28-40	Chemical industry products, rubber	5.9	7.4	7.3	16.2	18.6	18.5
41-43	Raw hides, furs, and derivative products	0.1	0.1	0.1	0.4	0.5	0.4
44-49	Wood and paper products	2.3	2.9	3.4	2.1	2.0	1.9
50-67	Textiles, textile products and footwear	0.2	0.2	0.3	5.7	5.9	6.0
71	Precious stones, precious metals, and derivative products	2.4	2.3	3.1	0.4	0.3	0.2
72-83	Metals and derivative products	8.2	9.6	10.2	6.7	6.4	6.2
84-90	Machinery, equipment, and vehicles	5.3	7.4	8.5	47.6	44.8	47.4
68-70, 91-97	Other products	1.4	1.6	1.9	4.4	4.2	3.9

Sources: Russian FTS; calculations by the Russian Academy for Foreign Trade.

\* \* \*

The recession finally ended in Russia around the start of 2017. The initial adaptation of the domestic economy to the new economic and political reality occurred, which will seemingly be of a long-term nature. However, the end of the recession does not equate to the end of the global crisis or the resolution of structural problems in the Russian economy. All of the main negative factors affecting the socioeconomic dynamics remain. The period of the turbulent world

<sup>1</sup> See: Kadochnikov P., Knobel A., Sinelnikov-Murylev S. (2016). Openness of the Russian economy as a source of economic growth. *Voprosy Ekonomiki*, No. 12, pp. 26–42.

economy continues, and it will pose new and challenging objectives for the governments of leading countries, including Russia. Moreover, they are more complex than those which had to be solved during the previous stage of anti-crisis policy and adaptation.

At the same time, the complexity of the objectives does not mean that their solution has to necessarily be more socially painful. Rather, it is the intellectual complexity of developing measures to ensure sustainable economic growth in the medium and long term, as well as the political complexity of consolidating forces (interest groups) for implementing this program.

In a concentrated form, the economic and political objective for the coming period was formulated by President Putin at the end of 2016, in his message to the Federal Assembly: ensure the development of the Russian economy at a rate that exceeds the world average. This is quite a precise definition which allows a departure from indication towards the absolute desirable growth rates: since the Russian economy is deeply integrated into the world economy, its rate of growth cannot be independent from global growth. At the same time, Russia's current level of socioeconomic development allows for focus on this rate for the foreseeable future. The task of developing this type of program was commissioned in December for the Russian government and, primarily, for the Ministry of Economic Development. The outline of this program is well known.<sup>1</sup> However, it needs to be completed with a system of specific measures that go far beyond the economic domain. It is commonly understood today, that achieving Russia's strategic development objectives is only possible if the economy, governmental administration, social policy, and law enforcement activity are comprehensively modernized.

The government determined priority projects around which it began to build a policy to stimulate growth. They include healthcare, education, mortgage and rental housing, international cooperation and exports, labor productivity, small businesses and support for entrepreneurial initiatives, reforming control and supervision activity, free and high-quality roads, single-industry towns, and the environment. To implement them, a special Presidential Council on Strategic Development and Priority Projects was established. If detailed further, these sections should become the industry-specific and institutional basis for the economic growth strategy. However, in developing measures in each of these domains, it is important to overcome the traditional approaches from the pre-crisis period and look at them from the vantage point of the new reality which recently took shape.

Another specific feature of the past year was the work on the long-term socioeconomic development program (strategy) begun by several groups of economists. Respective tasks were assigned to the Presidential Council for Strategic Development and Priority Projects, the Center for Strategic Development, headed by Deputy Chairman of the Russian Presidential Economic Council Alexei Kudrin, and to a group of businessmen and economists headed by Business Ombudsman Boris Titov, united under the aegis of the Stolypin Club. They all must present their proposals in 2017, which, among other things, will become a component of the upcoming presidential campaign. These programs can be benchmarked against each other. We are expecting a difficult period, which will require flexibility from the authorities, and consistency in their course. Flexibility will be needed to meet new challenges, while consistency will be needed to solve the fundamental (if not secular) tasks of comprehensively (not only economic) modernizing Russia.

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<sup>1</sup> Measures of structural modernization have been discussed in detail in the economic literature, including by the author of this article. (see, for example, *Strategy–2020: A new growth model – new social policy*. In 2 volumes / Mau V.A., Kuzminov Ya.I. (eds). Moscow, Delo Publishers, 2013; Mau V. *Anti-crisis measures or structural reforms: Russia's economic policy in 2015*. *Voprosy Ekonomiki*, 2016, No. 2, pp. 29–32.

