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TRENDS AND OUTLOOKS**

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The review “Russian economy in 2017. Trends and outlooks” has been published by the Gaidar Institute since 1991. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the socio-political issues and challenges; the monetary and budget spheres; financial markets and institutions; the real sector; social services; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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□ Gaidar Institute,

At the end of a global crisis: economic problems of 2017–2019¹

1.1. Global trends and challenges

For ten years now the world has been living under the conditions of a structural crisis. This crisis cannot be described merely by fluctuating production rates, macroeconomic unbalance, or political instability. Its essence lies in the deep transformation that has taken over multiple aspects of life in the world’s leading countries, both developed and developing ones. One could say that it is a crisis of socioeconomic and political identity that has led to the formation of new realities (trends) that are likely to dominate the world for the next few decades to come. Over the decade-long duration of the crisis we have seen episodes of both expansion and contraction, of both acceleration and deceleration. But the key feature of this period is the general instability of all trends, especially economic growth, and the drastic increase in uncertainty around the consequences of both technological innovations and economic policy.

Analogous crises of the past, in the 1930s and 1970s, each lasted roughly ten years, although their beginning and end points are difficult to precisely determine. It seems that the current crisis is also coming to a close after a decade. The positive trends observed in the world economy testify to its closure, but serious risk factors could still pose obstacles to stability in the short term. (*Tables 1 and 2*).

Table 1

Economic growth, 2008–2017

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 (est.)
1	2	3	4	5	6	7	8	9	10	11
GDP % change relative to previous year										
The World	3.0	-0.1	5.4	4.3	3.5	3.5	3.6	3.4	3.2	3.7
Russia	5.2	-7.8	4.5	5.1	3.7	1.8	0.7	-2.8	-0.2	1.8
EU (Eurozone)	0.4	-4.5	2.1	1.6	-0.9	-0.2	1.3	2.0	1.8	2.1
Great Britain	-0.6	-4.3	1.9	1.5	1.3	1.9	3.1	2.2	1.8	1.7
USA	-0.3	-2.8	2.5	1.6	2.2	1.7	2.6	2.9	1.5	2.3
Germany	0.8	-5.6	3.9	3.7	0.7	0.6	1.9	1.5	1.9	2.5
France	0.2	-2.9	2.0	2.1	0.2	0.6	0.9	1.1	1.2	1.8

¹ This section is written by Vladimir Mau, Russian Presidential Academy of National Economy and Public Administration (RANEPA).

Italy	-1.1	-5.5	1.7	0.6	-2.8	-1.7	0.1	0.8	0.9	1.5
Spain	1.1	-3.6	0.0	-1.0	-2.9	-1.7	1.4	3.2	3.2	3.1
Greece	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.4	-0.2	0.0	1.8

Cont'd

1	2	3	4	5	6	7	8	9	10	11
China	9.6	9.2	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.8
India	3.9	8.5	10.3	6.6	5.5	6.4	7.5	8.0	7.1	6.7
Brazil	5.1	-0.1	7.5	4.0	1.9	3.0	0.5	-3.8	-3.6	1.1
South Africa	3.2	-1.5	3.0	3.3	2.2	2.5	1.7	1.3	0.3	0.7

Source: IMF data from the World Economic Outlook Database URL: <http://www.imf.org/ru/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018>

Table 2

Economic performance in various countries of the world

	Current account balance as % of GDP		Key interest rate (end of year), % per annum		Inflation, %		Budget deficit (% of GDP)		Public debt (% of GDP)		Savings, % of GDP		Investments, % of GDP		Unemployment level, yearly average, %	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
World											25.8	25.8				
Russia	2.0	2.8	10.0	7.75	5.4	2.5	-3.7	-2.1	15.6	17.4	27.3	26.6	25.3	23.8	5.5	5.5
EU (Eurozone)			0.0	0.0	1.1	1.1	-1.5	-1.3	89.0	87.4	23.8	24.2				
Great Britain	-4.4	-3.6	0.25	0.50	1.2	2.8	-2.9	-2.9	89.3	89.5	12.6	13.4	17.0	17.0	4.9	4.4
USA	-2.4	-2.4	0.5-0.75	1.25-1.5	2.2	1.8	-4.4	-4.3	107.1	108.1	18.0	17.5	19.7	19.8	4.9	4.4
Germany	8.3	8.1	0.0	0.0	1.7	1.1	0.8	0.7	68.1	65.0	27.5	27.6	19.2	19.4	4.2	3.8
France	-1.0	-1.1	0.0	0.0	0.6	1.1	-3.4	-3.0	96.3	96.8	22.0	22.1	23.0	23.3	10.0	9.5
Italy	2.6	2.8	0.0	0.0	0.5	0.9	-2.4	-2.2	132.6	133.0	19.6	19.6	17.0	16.9	11.7	11.4
Spain	1.9	1.9	0.0	0.0	1.6	1.2	-4.5	-3.2	99.4	98.7	22.3	22.5	20.4	20.6	19.6	17.1
Greece	-0.6	-0.2	0.0	0.0	0.3	1.0	1.0	-1.7	181.6	180.2	9.9	10.5	10.5	10.8	23.6	22.3
China	1.7	1.4	4.35	4.35	2.1	2.3	-3.7	-3.7	44.3	47.6	45.9	45.4	44.2	44.0	4.0	4.0
India	-0.7	-1.4	6.50	6.0	3.6	4.5	-6.6	-6.4	69.6	68.7	29.7	28.6	30.4	29.9	3.5	3.4
Brazil	-1.3	-1.4	13.75	7.0	6.3	3.6	-9.0	-9.2	78.3	83.4	16.2	16.2	17.5	17.6	11.3	13.1
South Africa	-3.3	-2.9	7.0	6.75	6.7	5.2	-4.0	-4.5	51.7	53.0	16.1	16.2	19.4	19.1	26.7	27.6

Source: IMF data from the World Economic Outlook Database. URL: <http://www.imf.org/ru/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018>

By the end of 2017, experts were taking an optimistic attitude toward the short-term outlook for socioeconomic trends. Worldwide growth is estimated to be quite high despite the lack of inflation. The IMF predicts a growth rate of 3.7% for the world economy in 2017–2018 (as opposed to 3.3% in the previous two years), which corresponds to the expert consensus.¹

Our analysis of global growth in 2017 has led us to draw *five general conclusions* about the current problems of the world economy.

First, in 2008–2010 experts predicted that this time developing economies (primarily China) would be the engine driving the world out of the crisis. These expectations turned out to be incorrect. Once again, the main driver was the US economy. In terms of economic growth, inflation, and employment, 2017 was one of the best years of the last decade for the US.

¹ Nouriel Roubini gave quite a successful complex explanation for the increased growth rates in leading countries: "... The current acceleration of economic growth rates is caused by the increase in overall demand, which is a result of continued expansionist monetary and budgetary policy, as well as an increase in the level of business and consumer confidence. This confidence is growing thanks to the decrease of financial and economic risks, as well as the suppression of geopolitical risks, which still exert an insignificant influence on the economy and the market." (Nouriel Roubini, "The Mystery of Missing Inflation," *Project Syndicate*, Sept. 13, 2017. URL: <https://www.project-syndicate.org/commentary/monetary-policy-missing-inflation-by-nouriel-roubini-2017-09?barrier=accessreg>).

Economic growth has led to increased income and demand, thus helping clear bank balances and improve national budgets.¹

Second, the observed growth roughly corresponds to the moderate rates of the last fifty years (after 1965), which indicates that it has shifted to a stable trajectory. For the same reason, we can consider the discussion about “long-term stagnation” to be moot, at least, until new data about the trend of the next two to three years becomes available.

Third, the postcrisis growth does not exhibit the V-shaped “postcrisis bounce” characteristic of many past crises. This could attest to the instability of these rates. Many experts believe that by absorbing excess capacity, a bounce of this sort can create a safety cushion that softens the inevitable shocks that periodically arise in the world economy.² The lack of a bounce, meanwhile, creates additional risks that could arise in the near future. In this case, the bounce-free recovery is, in our opinion, a direct consequence of successful anticrisis policies of the last decade.³ The world learned to handle crises: lessons have been learned, and despite the exceptional severity and novelty of the problems that trouble the world, the crisis of the early twenty-first century ended up being much milder than the twentieth-century ones. But social stability during the crisis (i.e., successful anticrisis policy) came at the cost of a virtual rejection of “creative destruction” and a consequent negative effect on postcrisis dynamics.⁴

Fourth, the process of globalization continues despite the dark prognoses made regularly over the last decade. In 2017 world trade exhibited growth rates exceeding that of GDP: 4.4% in terms of physical volume and about 10.5% in terms of price, reaching a total of \$17.7 trillion (according to data from the IMF and the WTO).⁵ But the problems and the resistance to globalization are evident. World trade is growing more slowly now than it was a decade ago, while countries are resorting to protectionist measures more often and on a greater scale. This can be explained by a few structural reasons that have long-term impact:

- countries that supply cheap goods are now focusing on domestic markets, which are significant in size both because of the high population in Asia and because of the increased affluence of the local population as a result of accelerated growth in recent decades;

- production is moving closer and closer to areas of consumption and R&D (a trend sometimes called the reindustrialization of developed countries), which is a result of increasing labor costs in major developing countries on the one hand and, on the other, of fundamental technological disruptions that have substantially lowered the role of the cost of labor and natural resources in the production of competitive goods;

- structural shifts and increasing uncertainty about the labor market in the mid-term have pushed governments to limit access to domestic markets. This is also caused by increasing geopolitical tension.

¹ This conclusion is not contradicted even by the significant fluctuations of the US stock market, such as those that were observed in early February 2018.

² For example, Stephen S. Roach, “Complacency will be tested in 2018,” *Project Syndicate*, Dec. 14, 2017. URL: <https://www.project-syndicate.org/commentary/test-for-economic-complacency-in-2018-by-stephen-s--roach-2017-12/russian>

³ Cf.: G. Idrisov, V. Mau, A. Bozhechkova, “In search of a new model of growth,” *Voprosy ekonomiki*. 2017, no. 12, p. 14.

⁴ Cf.: Joseph Schumpeter, *Capitalism, Socialism, and Democracy*, New York: Harper & Bros, 1942. See also R. Caballero and M. Hammour, “On the timing and efficiency of creative destruction,” *Quarterly Journal of Economics* 111, 1996, pp. 805–52.

⁵ <http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018>; https://www.wto.org/english/news_e/pr800_e.htm.

Fifth, the situation remains rather contradictory. On the one hand, global growth is accelerating and the “growth gap” is narrowing while inflation remains unusually low for this economic situation. On the other hand, the growth of productivity remains low, inequality is increasing, and social problems have been exacerbated by the profound influence of technological change on the labor market.

Many experts believe that the renewed growth has not yet been accompanied by an increase in productivity. It is based primarily on demand-side factors, since long-term stable growth is based on supply-side factors (such as increased productivity).¹

This is the foundation for trends in socioeconomic development that will characterize 2018 and 2019 in the major countries of the world.

First, monetary policy is starting to be normalized, a fact that has not yet been reflected in increasing inflation rates. Much will depend on the policy of the Federal Reserve System, which for the first time in a very long while is headed not by an economist but by a lawyer. A key challenge now will be to help monetary authorities find the optimal solution to stimulate growth without allowing a surge in inflation. This task is theoretically simple but politically very complex. The tightening of monetary policy is necessary and inevitable, but it will always meet political opposition—monetary authorities will inevitably be blamed for slowed economic growth. The position of central banks is getting all the more difficult because in recent years they have faced more criticism of their independence, as agencies that cannot be held accountable for economic growth and employment. Economic growth is never fully stable anyway, and any slowing of it will be explained first and foremost by the policy decisions of monetary authorities.

The situation will be further intensified by the fact that for the last four decades (since the early 1980s) inflation has been at the periphery of attention for developing countries as deflation came to be perceived as the main threat. Public opinion and policies of these countries lost their immunity to the inflation disease (whereas the political leadership and economic experts of most postcommunist countries did not). Meanwhile, slowing monetary normalization could lead to a burst of high inflation, however strange that may sound at present.

The normalization of monetary policy carries with it another risk related to the dramatic increase in the importance of financial markets, including the real sector’s dependence on them. Indeed, according to data of the Bank of International Settlements, the cumulative assets of the Federal Reserve System, the European Central Bank, and the Bank of Japan grew by \$10.4 trillion, while the growth of the nominal GDP in those countries was only \$4.9 trillion. Thus the difference of \$5.5 trillion represents the liquidity that makes it possible to appreciate the “financial bubble” of global assets.² The expansion of this “bubble” (whether it is spontaneous or a result of the central banks’ decreased balances) could cause serious shakeups not only in

¹ “But there is another potential obstacle in the path of sustained recovery: the long-term decline in productivity growth has not yet been reversed. Instead, the current boom seems to be demand-led, with private consumption being the biggest driver, though private investment, too, is finally starting to rise. These trends have been accompanied by solid employment growth, which is welcome news, but cannot last forever. In the longer run, economic performance and potential growth will depend on the supply side and, in particular, on a revival of productivity growth.” (Kemal Dervis and Zia Qureshi, “The danger in today’s good economic news,” *Project Syndicate*, Jan. 11, 2018. January 11. URL: <https://www.project-syndicate.org/commentary/economic-growth-forecasts-optimism-inequality-by-kemal-dervis-and-zia-queishi-2018-01>).

² URL: <http://fingfx.thomsonreuters.com/gfx/rngs/GLOBAL-CENTRALBANKS/010041ZQ4B7/index.html>; <http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/download.aspx>

individual companies but also in national economies oriented toward overvalued financial assets.

The budgetary and tax policies of developed countries will be important issues. Sectors of human capital and infrastructures are undoubtedly budget priorities; in recent years, this fact has been reflected in election campaigns in every developed country. But this gives rise to a conflict between the need to increase budget expenditures and the possibility of funding them. There are only three ways out of this conflict: increasing taxes, redistributing resources from other sectors, and increasing government debt. Raising taxes is fraught with the risk of inhibiting growth. The redistribution of spending to benefit high-priority sectors is politically limited by the demands of the defense sectors. A factor in favor of increasing debt is the unprecedentedly low interest rates (i.e. debt is cheap), but the high level of budgetary debt in leading countries and the risk of a full-scale budget crisis as a result of normalized monetary policy and growing interest rates make strong arguments against it.

There is an ongoing discussion about the relationship between monetary and budgetary methods. The former risks missing the onset of an inflation surge. The latter is fraught with a lengthy budgetary crisis for the foreseeable future.

A highly important problem combining both macroeconomic and structural challenges is developing a new model for the welfare state that corresponds to contemporary technological, demographic, and social realities. The crisis of traditional systems of state pensions, health care, education, and labor market regulations (those that were formed by the twentieth-century industrial model) is becoming more and more evident. So far it has not been possible to strike a balance of efficiency, reliability, and financial sustainability. The private models of recent decades have also been unable to provide an adequate solution to this three-pronged problem. Social programs and services are getting more expensive, which leads to either (a) the displacement of financing for other programs (infrastructural ones, for instance), (b) increased taxes, or (c) decreased revenue in these sectors. This gives rise to a conflict between economics and politics: all these options of financing are unacceptable solutions when it comes to steady growth, but these sectors of human capital are presently the key priorities of state policy for ensuring this growth. The quality of education and health care is a focus of election campaigns in all developed countries and will remain so for the foreseeable future. Moreover, the solution to these problems cannot be reduced to purely fiscal means: the problem isn't a matter of money, but a matter of reforming the very principles of how these sectors function. In other words, reforming the welfare state requires coordinated actions in the structural, fiscal, and financial spheres, to say nothing of the political consensus (or political will) needed for these reforms.

Globalization also poses new challenges for the welfare state. In 2016-17, economists came to accept the thesis about the conflict between the economic and sociopolitical consequences of globalization. From an economic perspective, free trade leads to a growth of overall prosperity, and in this regard the findings of classical economics of the eighteenth and nineteenth centuries have been confirmed by the course of history, including in recent decades. But political consequences have been ambivalent, leading at certain stages to growing inequality and consequent social conflicts.

The belief that globalization benefits everyone by guaranteeing growth has been replaced by the understanding that this benefit comes only in the final analysis and applies only to certain people and certain spheres of activity. Globalization has winners and losers. Hence the increase in populism, especially in developed countries. However, this does not mean that a rejection of globalization will bring political stability (reduced conflict) or normalization (a decline in populism). To the contrary, globalization is important as a source of additional growth, which

is especially important in the recession conditions of the last few years (or the last few decades, when speaking of Japan). But at the new stage, when the welfare state is being restructured, it is crucial to also develop means of compensating those who have suffered substantial losses from globalization.¹ Of course, this conclusion should be met with caution: compensation should not disincentivize the efforts of people and companies to adapt to the new realities.

The modernization of the welfare state has a direct effect on the chances of increasing productivity. To a significant degree, its stagnation reflects the state of human capital: professional skills and qualifications lag behind rapid technological changes that are radically transforming demand for labor resources. There are obvious structural imbalances on the labor market: the demand for qualifications does not match the supply. Governments can alleviate this problem in two ways, which are not necessarily mutually exclusive alternatives: they can actively invest in education (retraining personnel) and intensify the redistribution of resources from the more successful to the “victims” of globalization and technical progress. The first path is preferable, but more difficult to enact. The second creates risks of exacerbating a welfare mentality. Though it would alleviate acute social problems, it does not offer long-term solutions.

Finally, 2017 demonstrated how leading countries are adapting to the new realities. A wave of populism struck in 2016, most vividly with the Brexit referendum in the UK and the presidential election in the US. But it did not have a negative effect on economic trends, whether national or global. Despite political complications, economic trends were positive in terms of both growth rates and the state of financial markets. And the populist trends in developed countries did not develop steadily: they certainly manifested in the election results in several European countries but did not decide those votes. But populism apparently will remain a substantial factor influencing political and economic processes for the foreseeable future, especially in developed countries. This will particularly be encouraged by the current high level of inequality.²

Now we can begin to take *stock of the global structural crisis* that began in 2008. It poses several fundamental questions, the answers to which were completely unclear at the beginning. Determining them has taken a rather long period: “a turbulent decade.”³ Now we have a clearer understanding of the contours of the future postcrisis world. Against this background a new intellectual agenda is taking shape, through pointed discussions about the key problems of socioeconomic development in both the world as a whole and in individual countries. We are

¹ “Other means of alleviating the contradictions between globalization and prosperity are the emigration of workers or introducing protectionist measures in trade. But these options are characteristic for earlier phases of industrialization, that is, before the appearance of the modern socialist state. Furthermore, the lesser success of populism in Europe (compared to the US) are related to the EU’s more developed systems of the welfare state that compensate for the losses from globalization.” (Dani Rodrik, “Too late to compensate free trade’s losers,” *Project Syndicate*, Apr. 11, 2017. URL: <https://www.project-syndicate.org/commentary/free-trade-losers-compensation-too-late-by-dani-rodrik-2017-04?barrier=accessreg>).

² According to the data of the World Inequality Report 2018, the share of national income belonging to the wealthiest 1% of the US population grew from 11% in 1980 to 20% in 2014, while the poorest 50% only have 13% of income. The share of the wealthiest 1% for approximately the same period grew from 4% to 20% in Russia, 6% to 14% in India, and 6% to 22% in India. (World Inequality Report 2018. URL: <http://wir2018.wid.world/files/download/wir2018-summary-russian.pdf>).

³ The issues and challenges posed by the global structural crises are examined in further detail in our book V.A. Mau, *Crises and lessons: Russia’s economic in an era of turbulence*, Moscow: Gaidar Institute, 2016, pp. 27–29, 342–347. They are common to all crises of this sort. But the solutions to them, of course, are specific for each crisis.

essentially gaining an understanding of the contours of the “new reality” that we must function in for the duration of the foreseeable period ahead.¹

First. The geopolitical situation has shifted toward a multipolar, multivector world, unlike the bipolar model that took hold after the crisis of the 1930s and the unipolar one that followed the crisis of the 1970s. The coming period will be characterized by a system of complex, diverse, and highly dynamic configurations of various alliances and groupings. In the economic sphere this trend is apparent primarily in the transition of world trade from a unified system based on the principles of the WTO, toward the predominance of variable, multispeed trade agreements.

Second. New concepts about the model of economic growth are taking shape. The situation can no longer be described in terms of “long-term stagnation,” since economic growth is gaining momentum. But this model substantially differs from the previous ones described in detail by mainstream economic science. We must reconceive the relationship between the basic concepts of macroeconomic theory: growth, employment, inflation. The new mystery is inflation-free growth, and science still needs to explain this phenomenon.² Structural and technological changes may lie at its base; these can lead to a substantial decrease in the cost of new products and services, which, in all likelihood, will negatively affect the nominal rates of economic growth. We now have a new term to describe this phenomenon: “technological deflation.” It may not be very precise, but it fully reflects the essence of the phenomenon. There are also more simple explanations for it: the appearance of longer time lags between changes in monetary policy and inflation expectations.

Third. The independent status of the central banks is being questioned. After stagflation of the 1970s and the difficult struggle against inflation in developing countries, and then in postcommunist ones, the independence of monetary authorities was considered an unwavering principle that made it possible to escape the inflation legacy of the better part of the twentieth century. The last significant step in this direction was the Blair government’s 1997 decision to formally separate the Bank of England from the Treasury (though it had already been independent de facto for a long time). The corresponding provisions were introduced to the Constitution of the Russian Federation of 1993. The discussion sharpened considerably when the crisis began in 2008: central banks played a prominent role in preventing an economic catastrophe, demonstrating a power not subject to democratic procedures and going far beyond the reach of constitutional governments.

At present, political efforts are being made to limit the independence of central banks while imputing them with the responsibility to ensure not only the stability of the monetary system but also economic growth. Statements of this sort have been heard in both legislative and executive branches of power of several countries, including the US.

However, these issues are technically legal in nature rather than economic. In conditions of global crisis, the central banks have repeatedly taken critically important actions to prevent recessions and stimulate economic growth, and the basic principles of monetary policy and key solutions to save (or refuse to save) institutions of the financial market have been made in unity with legislative and executive branches of authority, regardless of the independent status of the

¹ Earlier one could say “over the course of several decades,” but now the radical acceleration of technological and socioeconomic processes makes it impossible to define the temporal horizons of the new model.

² “Since the summer of 2016, the global economy has been in a period of moderate expansion, yet inflation has yet to pick up in the advanced economies. The question is why.” (Nouriel Roubini, “The Mystery of Missing Inflation,” *Project Syndicate*, Sept. 13, 2017. URL: <https://www.project-syndicate.org/commentary/monetary-policy-missing-inflation-by-nouriel-roubini-2017-09?barrier=accessreg>).

regulator. However, formal introducing the responsibility for guaranteeing economic growth to the mandate of central banks will become a significant factor in limiting their independence.

The position of money emission centers in the system of administrative authorities (their independence) should not be viewed abstractly, outside the historical context as if they it can remain singularly possible forever. The question cannot be answered with dogma. The role of central banks can change over time. But it still remains unclear whether the time has truly come to change the established model of central banks, and what their place will be in future economic configurations.¹

A new problem in the activity of central banks is their relation to currency emission. And this problem appears in two forms. On the one hand, the appearance of new national currencies relieves national central banks of their right of emission: that was precisely what happened in the Eurozone. On the other hand, the appearance of cryptocurrencies poses new challenges, the volume and character of which are still difficult to grasp. However, in the extreme version, in the case of a full-fledged legalization of cryptocurrency in some country, central banks could find themselves in competition with public and private monetary systems.

Correspondingly, the *fourth* intellectual and political challenge of postcrisis development is the change in currency configurations. Global crises of the past have led to substantial transformations, to the appearance of new reserve currencies. Studies conducted in 2008–2010 on the influence of the structural crisis on currency systems addressed the future of the yuan, artificial currency units (such as SDRs) or the growing role of regional reserve currencies.²

Over the course of the decade, the direction of discussion radically changed: cryptocurrencies and the technologies related to them took a central position. In 2017 cryptocurrencies were an object of booming demand, multifold appreciation, and rapid depreciation. They were also the topic of intense discussions among economists and politicians, and posed fundamentally new questions for legal scholarship for decades to come. Both the basic possibility of using cryptocurrencies in legal monetary circulation, as well as the expediency and possibility of public regulation of them are being discussed. The risks that cryptocurrencies will be used to evade taxes and carry out illegal transactions are objects of particular attention.³

After the initial period of interest in the new technology and the opportunities for its broad use came natural doubts about its future. Around the beginning of 2018, criticism of this tool

¹ Dani Rodrik sees the calls to reject the independence of central banks as a dangerous form of political populism. But at the same time, he develops an argument about the need to move their mandate beyond the guarantee of monetary stability. “Independent central banks played a critical role in bringing inflation down in the 1980s and 1990s. But in the current low-inflation environment, their exclusive focus on price stability imparts a deflationary bias to economic policy and is in tension with employment generation and growth.” (Dani Rodrik, “In defence of economic Populism,” *Project Syndicate*, Jan. 9, 2018. URL: <https://www.project-syndicate.org/commentary/defense-of-economic-populism-by-dani-rodrik-2018-01>)

² The yuan’s potential as a reserve currency was an object of increased attention of researchers after the onset of the global crisis in 2008. See, for example: Melissa Murphy and Wen Jin Yuan, “Is China Ready to Challenge the Dollar. Internationalization of the Renminbi and Its Implications for the United States,” Washington, D.C.: The CSIS Press, 2009; Jeffrey Frankel, “Internationalization of the RMB and Historical Precedents,” *Journal of Economic Integration*, 2012, Vol. 27, September (3), pp. 329-365; Eswar S. Prasad, *Gaining Currency: The Rise of the Renminbi*, Oxford University Press, 2016.

³ An analysis of the problems of blockchain and cryptocurrencies is presented in the IMF’s paper “Fintech and Financial Services: Initial Considerations,” IMF Staff Discussion Note, Washington DC: IMF, 2017. URL: <https://prague.bc.events/ru/news/mvf-predstavil-doklad-o-potentsiale-blokcheyna-i-kriptovalyut-69974>. It is noted here that cryptocurrencies have already been used to avoid the standard of currency control in China, Venezuela, and Cyprus. These are the problems that explain the decision to ban ICOs in China.

(and of all blockchain technologies) came from business and expert communities.¹ But the attitude of governments and monetary regulators toward cryptocurrencies radically differs from country to country: from a willingness to accept them as an independent unit of payment to suggestions to outlaw them as sources of heightened risk (both macroeconomic and sociopolitical).²

Presumably, cryptocurrencies will not become a key payment method, let alone international money, in the coming years. Nevertheless, this phenomenon deserves close attention because of its socioeconomic, judicial, and moral and ethical consequences.

In the meantime, we can express a few preliminary ideas on the topic. First of all, the ideas of mid-twentieth-century right-liberal economists about the preference of private currencies over ones made by the state are being realized in cryptocurrency. As often happens in history, the trend was predicted correctly, but the form in which it happened turned out to be qualitatively different from what was expected. Secondly, it remains an open question whether cryptocurrencies can take on all functions of money or if their role is limited to a means of payment and exchange. Thirdly, specific forms of cryptocurrency are not perfect tools: for the time being the technology standing behind it (blockchain) is more important, and if the demand for these technologies and tools is sustained in the mid-term perspective, then new, much more effective forms of cryptocurrency will emerge.

Thus, the first cryptocurrencies are merely a prototype for the future. On their own they cannot become a reserve currency or international money, but their role will grow rapidly. Even now we must discuss their future relationships with the state, find ways of minimizing the risks connected to them (their use in tax evasion, criminal transactions, etc.)

Fifth. The global crisis poses new demands to state regulation, including in the economic sphere. The crisis of the 1920s led to the formation of “big government” based on the Keynesian model. The crisis of the 1970s resulted in a policy of liberalization and deregulation. The current global crisis posed the question about the need for new regulation – the necessity of supplementing the global market with equally global rules for play. The “Big Twenty” was assigned to the role of this regulator, but we cannot yet confirm whether it worked. It is not excluded that this function will gradually be taken on by the relationship between the US and China, though it is unlikely that it will be any officially recognized mechanism. But systems of regulation, working *de facto* and reflecting real ratios of power, often turn out to be more effective than formally confirmed and approved ones.³

Systems of national regulation are facing even more complex problems. Contemporary technologies lead to a decrease in the role expenditures on labor and natural resources in the functioning of the newest sectors and productions.⁴ Quality (predictability, reliability) of

¹ Kai Stinchcombe, “Ten years in, nobody has come up with a use of blockchain,” *Hacker Noon*, Dec. 22 2017. URL: <https://hackernoon.com/ten-years-in-nobody-has-come-up-with-a-use-case-for-blockchain-ee98c180100>

² The authors of “Monitoring the economic situation in Russia” offer an interesting economic-political observation regarding how the authorities of various countries treat cryptocurrencies: “In the final weeks of 2017, cryptocurrencies– which in a certain sense are an unreal sector of the world economy – were awarded mutually exclusive status. On the one hand, representatives of the Bundesbank virtually rejected the possibility of the legal use of cryptocurrencies in the Eurozone. On the other hand, the head of Belarus, and somewhat earlier the head of Venezuela, announced the broad legalization of them. That is to say, effectively working cryptocurrency markets are mostly feared, while ineffective and destroyed markets are presenting them as a tool of financial healing, as the product of another economic civilization.” *Monitoring the economic situation in Russia: Trends and challenges of socioeconomic development*, 2017, no. 23 (61), December.

³ Zbigniew Brzezinski spoke of the possibility of forming a G-2 instead of a G-7 a decade ago.

⁴ This process lies at the foundation of the so-called reindustrialization of developed countries.

government management is becoming the deciding factor for businesses making decisions about investment – both for the largest companies as well as for small ones. Thus, states are beginning to compete for investors not with the cost of labor or natural resources, but with the quality of public management.

In parallel we can observe one more process in the transformation of the state model – a significant portion of functions is leaving the state apparatus and moving to specially developed platforms. The thesis of the “state as platform” was widely circulated in 2017. If cryptocurrency is the realization of the predictions of right-wing economists, then the implementation of platform solutions essentially means the realization of old socialist ideas about the “withering away of the state.”¹

Sixth. The problem of inequality will remain one of the key themes of political and expert discussions for the foreseeable future. Economic, social, and political challenges are all concentrated in it. The discussion requires a more precise definition of observed trends, as well as an analysis of the relationship between inequality and economic growth. To what degree is the growth of inequality a consequence of the contemporary model of economic growth? Is the growth of inequality a factor inhibiting economic growth, or is it neutral in relation to it? Recently, two fundamentally different answers to these questions have been taking shape in the economic discourse. Some economists insist that inequality will destabilize growth and even lead to a recession, while others believe inequality is the price that must be paid for economic growth. When translating the discussion to the practical arena, the key issue is the development of a rate that can guarantee increased quality of life for all members of society regardless of inequality statistics.

Thus, we can speak of the conclusion of the global structural crisis, although several important questions regarding the postcrisis world order are still not fully resolved.

1.2. Russia’s socioeconomic policy

Russia entered the global crisis at the same time as other leading developed and developing countries, but now we can speak of a certain lag of its development in our country. The considerable reserves accumulated by 2008 and the macroeconomic stability (low debt and profitable budget) helped alleviate the sociopolitical consequences of the crisis, and it was most exacerbated in 2014–2015. The successful anticrisis policy of 2015–2016 minimized decline, exerted control over basic macroeconomic parameters, maintained reserves, and suppressed inflation to an extent that had not been seen in a quarter century.

Table 3

Main economic indicators of the Russian Federation, 2007–2017

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	2	3	4	5	6	7	8	9	10	11	12
Macro indicators (rates of addition to physical volume, % change from previous year (unless otherwise indicated))											
GDP	8.5	5.2	-7.8	4.5	4.3	3.7	1.8	0.7	-2.8	-0.2	1.5

¹ The corresponding declaration was formulated at the twenty-first congress of the Communist Party of the Soviet Union, which adopted the Party’s Third Program. (Program of the Communist Party of the Soviet Union. Moscow: Politizdat, 1961.)

Industry	6.8	0.6	-10.7	7.3	5.0	3.4	0.4	1.7	-3.4	1.3	1.0
Agriculture	3.3	10.8	1.4	-11.3	23.0	-4.8	5.8	3.5	2.6	4.8	2.4
Construction	18.2	12.8	-13.2	5.0	5.1	2.5	0.1	-2.3	-3.9	-2.2	-1.4
Wholesale	9.5	5.4	2.0	3.0	4.4	3.6	0.7	3.9	-5.5	2.6	5.9
Retail	16.1	13.7	-5.1	6.5	7.1	6.3	3.9	2.7	-10.0	-4.6	1.2
Household end consumption	14.3	10.6	-5.1	5.5	6.8	7.9	5.2	2.0	-9.4	-2.8	3.4
Investments in fixed assets	23.8	9.5	-13.5	6.3	10.8	6.8	0.8	-1.5	-10.1	-0.2	4.4
Wages as a percentage of GDP*	46.7	47.4	52.6	49.6	43.9	44.2	46.1	46.4	46.8	48.4	47.7
Profit and mixed income as a percentage of GDP*	34.1	32.6	30.8	32.6	41.5	41.1	39.7	39.5	41.8	40.7	41.4
Indicators of public finances and international reserves											
Surplus (+)/ deficit (-) of the consolidated budget as % of GDP	6.0	4.9	-6.3	-3.4	1.4	0.4	-1.2	-1.1	-3.4	-3.7	-1.5
Surplus (+)/ deficit (-) of the federal budget as % of GDP	5.4	4.1	-6.0	-3.9	0.8	-0.1	-0.5	-0.5	-2.4	-3.4	-1.5
Non-oil-and-gas deficit of the federal budget as % of GDP	-3.3	-6.5	-13.7	-12.2	-8.6	-9.5	-9.4	-9.8	-9.4	-9.1	-7.9
Domestic state debt, end of year, in billions of rubles	1248.8	1499.8	2094.7	2940.4	4190.6	4977.9	5722.2	7241.2	7307.6	8003.5	8689.6
Foreign state debt, end of year, in billions of dollars (Finance Ministry data)	44.9	40.6	37.6	40.0	35.8	50.8	55.8	54.4	50.0	51.2	49.8
Total state debt as % of GDP	7.2	6.5	8.3	9.0	9.5	10.5	11.4	14.4	13.6	12.9	12.6
Reserve fund (Stabilization fund in 2007), end of year, in billions of dollars	156.81	137.09	60.52	25.44	25.21	62.08	87.38	87.91	49.95	16.03	0.00
National Welfare Fund, end of year, in billions of dollars		87.97	91.56	88.44	86.79	88.59	88.63	78.00	71.72	71.87	65.15
International reserves of the Bank of Russia, end of year, in billions of dollars	478.8	426.3	439.5	479.4	498.6	537.6	509.6	385.5	368.4	377.7	432.7
Prices and percentage rates											
Consumer price index, December to previous December	11.9	13.3	8.8	8.8	6.1	6.6	6.5	11.4	12.9	5.4	2.5
Producer price index, December to previous December	25.1	-7.0	13.9	16.7	12.0	5.1	3.7	5.9	10.7	7.5	8.4
Key interest rate of the Bank of Russia (until 2013, the minimum rate for 1-day repurchase operations per year), yearly average, % per annum	6.0	6.9	8.3	5.3	5.3	5.3	5.5	7.9	12.6	10.6	9.1
Average interest rate on loans to businesses in rubles, yearly average, % per annum	10.0	12.2	15.3	10.8	8.5	9.1	9.5	11.1	15.7	12.6	10.6
Average interest rate on savings of individuals (except demand deposits), % per annum	7.2	7.6	10.4	6.8	5.4	6.5	6.5	6.7	9.7	7.3	6.0
Labor market											
Overall unemployment (ILO methodology), annual average, % of population	6.0	6.2	8.3	7.3	6.5	5.5	5.5	5.2	5.6	5.5	5.2
Average salary, thousand rubles per month	13.6	17.3	18.6	21.0	23.4	26.6	29.8	32.5	34.0	36.7	39.1

Cont'd

1	2	3	4	5	6	7	8	9	10	11	12
Salary in real terms, % change from previous year	17.2	11.5	-3.5	5.2	2.8	8.4	4.8	1.2	-9.0	0.8	3.4
Real disposable household income, % change from previous year	12.1	2.4	3.0	5.9	0.5	4.6	4.0	-0.7	-3.2	-5.8	-1.7

Population with monetary income below the subsistence level, millions of people	18.8	19	18.4	17.7	17.9	15.4	15.5	16.1	19.5	19.6	20.3**
Banking system											
Number of active credit organizations, end of year, in units	1136	1108	1058	1012	978	956	923	834	733	623	561
Number revoked banking licenses in the course of the year, in units	49	33	43	27	18	22	32	86	93	97	51
Rate of asset growth, % for the year	46.1	32.7	3.7	14.8	21.4	20.4	14.2	18.6	-1.5	2.1	7.8
Indebtedness of resident legal entities except banks in terms of bank loans, % for the year	52.4	28.6	0.0	9.6	22.8	15.5	11.6	12.7	5.0	-0.1	4.6
Indebtedness of resident individuals in terms of bank loans, % for the year	58.3	31.2	-11.7	14.4	35.5	39.1	27.7	11.6	-7.3	0.7	12.3
Share of overdue loans to resident legal entities except banks in total volume of debt, %	0.9	2.2	6.0	5.5	4.8	4.6	4.1	4.1	6.2	6.1	5.9
Share of overdue loans to individuals in total volume of debt, %	3.1	3.6	6.9	7.1	5.3	4.1	4.5	6.0	8.4	8.3	7.3
Profit, in billions of rubles	508	409	205	573	848	1012	994	589	192	930	790

*Figures for percentages and structure of the GDP for 2007–2010 and 2011–2016 cannot be compared due to a change in the methodology of calculating the GDP in 2011.

***In Q3 2017.

Sources: Russian Statistics Agency, Russian Ministry of Finance, Bank of Russia

In 2017 Russia's economic performance showed positive trends, but was unstable and contradictory in many parameters.

GDP growth was renewed. In 2017 it reached about 1.5%, which approximately corresponds to potential growth, estimated at 1.5% to 1.8% for the contemporary Russian economy.¹ In the context of accelerating growth of the global economy and leading developed and developing countries, this rate seems low. It does not correspond to the “political target” – to grow at a rate faster than the worldwide average.²

As we noted above, the current crisis is characterized by the lack of a V-bounce. If we add that the crisis in Russia has lagged, then we can assume that growth rates will naturally increase if external economic conditions are favorable and at least some structural and institutional reforms are passed. After all, postcrisis restoration of countries in the Eurozone – the main economic partner of Russia – happened slowly over the last few years, which brought up the question of long-term stagnation.

For all the importance of growth, there remains the risk of it stimulating populism, which would only repeat the sad results of the “acceleration” policy of 1986–1989, when nominal growth rates were accompanied by a radical deregulation of the Soviet economy that led to its collapse.³

¹ For further detail, see: S. Sinelnikov-Murylev, S. Drobyshevskii, M. Kazakova, “Deterioration of GDP growth rates in Russia,” 1999-2014, *Ekonomicheskaja politika*, 2014, no. 5, pp. 7-37.

² Presidential address, Dec. 1, 2016. URL: https://www.wto.org/english/news_e/pres17_e/pr800_e.htm.

³ For more on the policy of “acceleration”, see V. Mau, “Awaiting a new model of growth: socioeconomic development in Russia in 2013,” *Voprosy ekonomiki*, 2014, no. 2, pp. 22–24.

The *anti-inflation policy* of the Bank of Russia has achieved irrefutable success. In 2014, the announcement of a 4% target for inflation by the end of 2017 was seen as propaganda at best. But this goal was consistently pursued, and the growth rate of consumer prices of December 2017 relative to December 2016 was only 2.5%. This low level of inflation, unprecedented for postcommunist Russia, has created new opportunities for investment activity. This result was achieved thanks to the uncompromising anti-inflation position of the leadership of the Central Bank (a rigid monetary-credit policy), supported by the president and the government's pursuit of decreased budgetary spending. Due to the external shocks that Russia encountered in 2014–2015, this was the only possible set of actions, though they were very complex politically. But at the beginning of 2018 the real interest rates in Russia remained some of the highest in the world, exceeding 5%.

Low inflation strengthens the growing trust in the ruble. In 2017, as savings increased overall, the amount of funds held in foreign currency decreased in accounts held both by individuals (from 23.1% to 19.9%) and by organizations (from 36% to 34.7%).

The success of the anti-inflation policy has another result that might be called an intellectual one. We can now say that we have exhausted the discussion about “unmonetary nature” of Russian inflation that has gone on since the beginning of postcommunist reforms, i.e. over the last quarter century. The low growth rate of consumer prices has not yet allowed us to decisively lower the interest rate, which can be explained by the inflation expectations of around 8% (twice as high as the target). This phenomenon is not unique: it reflects the long period of high inflation and the Russian population's psychological adaptation to it. Meanwhile high inflation expectations poorly correspond to the recent trend in saving behavior to de-dollarize mid-term deposits. At present the share of ruble deposits is about 80%. Moreover in 2016–2017 mid-term dollar deposits decreased from 25% to 9%, and an analogous trend has been demonstrated by long-term deposits.

Of course, low inflation is a necessary factor for investment activity, yet an insufficient one, insofar as external economic factors play a significant role here. But this is a problem that must be addressed by actual institutional reforms.

We can observe a weakening of the dependence of the ruble's exchange rate on fluctuating oil prices, which for a long time was its most important feature (*Fig. 1*). To put it more precisely, the increase of oil prices in 2017 had a weaker effect on the ruble's exchange rate than the preceding fall of oil prices. As a result, the end-of-year oil price in rubles matched the record numbers of early 2014 (3800 rubles a barrel), which guaranteed additional revenue both for exporters and for the Russian budget. This does not mean the link between these two factors was fully destroyed: oil and gas remain the most important articles of Russian export and the budget, and the ruble's value will undoubtedly react to a substantial increase (or decrease) of prices.

In these conditions, it is fully natural that the reserves of the Central Bank for 2017 substantially grew from \$377.7 to \$432.7 billion.

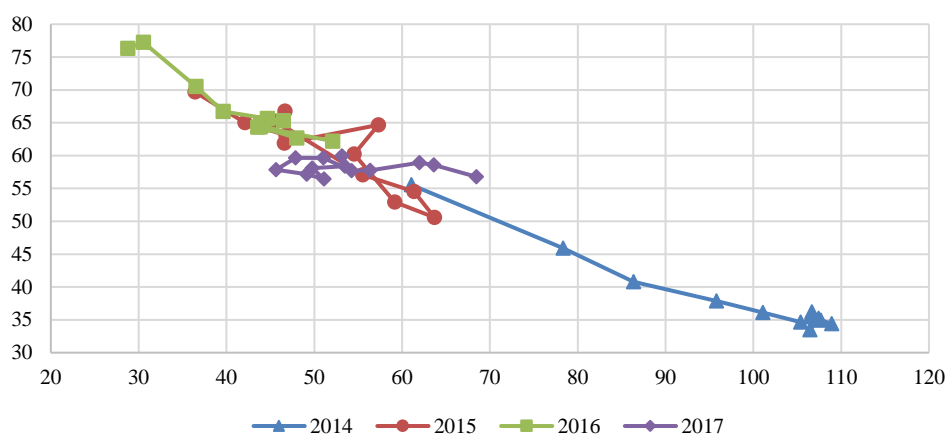


Fig. 1. Correlation of oil prices to the ruble's exchange value, 2014–2017.

Source: Russian Statistics Agency.

Discussions of *budgetary policy* were dominated by questions of maintaining the deficit at an acceptable (controllable) level, lowering the debt burden of Russia's regions, and developing measures to increase the efficacy of budgetary spending. It's no less important that this was the first year after the introduction of a new budgetary rule that limits the budgetary use of revenues from oil and gas export at prices of \$40/barrel.

In 2017, a tight budgetary policy restricting internal demand was consistently implemented: in conditions of slow restoration of economic growth, the deficit of the consolidated budget was 1.5% of the GDP. According to estimates of Russian Ministry of Economic Development, in 2018 there may be a federal budget surplus.

Broader recognition has been given to proposals for a budget maneuver increasing financing of so-called productive sectors, namely those involving human capital (education, healthcare) and infrastructure. However, the key question here is what the source of funds will be.¹ In theory there can be four:

First, a tax increase that directs additional revenue toward priority sectors. Most members of the expert community found this option politically unacceptable.

Second, a redistribution of funds from certain sectors (nonproductive) to others (productive). This redistribution can be either in absolute terms (cutting from some and transferring the balance to others) or in relative terms (directing additional budgetary revenue from economic growth toward priority sectors). Clearly, the second option is politically preferable and more realistic.

Third, an increase of the budgetary deficit and a corresponding increase of loans on the financial market. This option would contradict the course toward budgetary consolidation and would be fraught with macroeconomic destabilization.

Fourth, a change to the budgetary rule increasing the "cut-off price" to \$45/barrel. This option was supported by the Center of Strategic Reforms as the most acceptable one and the most likely to bring a rapid increase of investment in priority sectors. The Ministry of Finance of the Russian Federation spoke against it and was supported by several experts who

¹ For more detail, see: G. Idrisov, Y. Ponomarev, S. Sinelnikov-Murylev, "Conditions of trade and economic development in contemporary Russia," *Ekonomicheskaja politika*, 2015, no. 3, pp. 7-37; P. Kadochnikov, A. Knobel, S. Sinelnikov-Murylev, "The openness of the Russian economy as a source of economic growth," *Voprosy ekonomiki*, 2016, no. 12, pp. 26-42.

emphasized that changing the budgetary rule just a year after it took effect would discredit a highly important instrument of economic policy in contemporary Russia.

The solution to the issue of the budget maneuver should come out of a discussion of the corresponding sectors' ability to effectively use the additional resources that they would receive.

Macroeconomic stimulation of growth. The low growth rates pose a question of the chances for stimulating growth using methods of budgetary and monetary policy. Discussions of this topic are at the center of attention of Western economists, many of whom insist on the expediency of maintaining powerful budgetary stimuli, especially in the case of curtailing a very relaxed monetary policy. These problems have been discussed in Russia for several years now.

In 2017 insistent arguments were made in favor of an energetic budgetary and monetary stimulus: aggressively lowering interest rates of the Central Bank and simultaneously expanding budgetary injections into the economy, even more so because the low public debt allows increased borrowing. The points made by opponents of these measures were also fairly clear: in Russia the economy is inflationary, not deflationary, and in this situation monetary stimulation would lead not to investments but rather would provoke a flight from money, i.e. increased inflation and higher interest rates. Budgetary stimuli are also limited: both the relatively low efficacy of budgetary spending, and the lack of labor and production reserves, which could take effect if public investments were made. Conservative macroeconomic policy is seen here as a prerequisite for renewing stable growth.

The experience of recent crisis years shows that measures of monetary and budgetary policy do not automatically lead to renewed growth. They can help prevent a more severe crisis but are not nearly enough to drive stagnant economies toward growth.

Evaluating the opportunities for stimulating growth in Russia through budgetary and monetary policy, we must keep in mind the following three conditions. First, the key issue of monetary policy remains inflation, not deflation. Therefore, secondly, for both macroeconomic and institutional reasons the real interest rates remain rather high, which is an obstacle to investments. Thirdly, the external political situation is obviously worsening as sanction pressures intensify, and this factor cannot be compensated by macroeconomic stimulus measures.

These conditions substantially limit the possibility of stimulating growth on the supply side (and especially by budgetary means). External shocks always demand budgetary consolidation, not relaxation. Furthermore, sanctions limit the possibility of global supply responding to a possible increase in Russian demand. Supply factors, especially the supply of Russian companies, are priorities for ensuring the stable performance of the domestic economy.

Budgetary stimulus in such conditions is likely to become an additional factor in inflation, and thus will only restrict opportunities of decreasing interest rates and increasing the availability of credit. Maintaining high interest rates today is the biggest obstacle to the availability of loans, i.e. for increasing the supply of goods and services. And unlike in most countries in the West, continuing the course toward limiting inflation and increasing the availability of loans is the key macroeconomic task for stimulating growth in Russia.

Incidentally, the problem of growth, as the experience of developed countries shows, in principle cannot be resolved exclusively by macroeconomic manipulations. Budgetary and monetary policies must be appropriate to specific circumstances of the given country, but they can only create the conditions for growth or undermine perspectives for growth. For stable

economic growth leading to increased quality of life for society, a multipart complex of institutional and structural measures must be implemented.

Investment activity of business is the most important factor of stable economic growth. Investments in basic capital grew by 4.4%, and for the first time since 2013 they demonstrated a positive trend.

The situation here remained ambiguous. Mortgage loans demonstrate high growth rates. In 2017 the total mortgages issued exceeded 2 trillion rubles, which is 37% higher than the figures for 2016. At the end of 2017, interest rates on ruble mortgages went below 10% annually for the first time in history, which is an important indicator of a recovering economic and social situation. Investments in basic capital began to grow, but this primarily pertains to state investments in buildings and infrastructure, as well as investments in the oil and gas sector. At the same time, construction has decreased, which, strictly speaking, contradicts the other observed parameters.

The government and the expert community have begun to discuss mechanisms of attracting additional investment resources of private business. This pertains to expanding institutions of private-public partnership, and to the opportunities for implementing a new instrument: infrastructural mortgages.

The **banking sector** grew at rapid rates: assets increased almost by 8%, which occurred despite sanctions that were largely directed against the financial sector. At the same time the number of credit organizations continued to decrease: from 623 to 561 over the course of the year, and there were 51 cases of licenses being revoked (as opposed to 97 in 2016). For the most part these were minor banks whose total assets make up less than 1% of the aggregate assets of the banking system.

But qualitative parameters were not the most significant aspect of banking sector's performance. In 2017 the Central Bank introduced a new bailout mechanism that was used on major private banks: FK Otkrytie, Binbank and Promsvyazbank, which were transferred to the direct control of the regulator. This posed a fundamental question about the future of the banking system in Russia. A massive bailout of the banking sector strengthened the state banks. But major private banks (including Otkrytie and Binbank) took part in the bailouts, which made it possible for the private banking sector to grow. The new bailout model signified a decisive step toward nationalization. It is true that the Central Bank has declared its intentions to transfer the two banks it has bailed out to private hands, but the chances and results of such a transfer look uncertain. Promsvyazbank, apparently, will remain public, and is being transformed into a bank serving state defense interests.

Guaranteeing the growth of prosperity is the most important challenge of a country that has undergone an acute crisis. It's all the more important in a situation where economic growth has ceased to be an unambiguous synonym for improved welfare: contemporary technological innovations are capable of maintaining GDP growth on their own while simultaneously increasing quality of life.¹ The recession of 2015-16 had the most negative impact on quality of life, leading to a significant growth in the poverty level and to a decrease in consumption levels. In this regard, economic performance in 2017 is paradoxical.

Real wages have begun to increase (by 2.5% in Q1 to Q3 of 2017, 3.4% for the year), which reflects their share in the relationship to business profitability (*Fig. 2*). However, real revenues continued to decrease (1.2% for Q1 to Q3 of 2017, 1.7% for the year). But then retail began to

¹ For more detail, see: G. Idrisov, V. Mau, A. Bozhechkova, "In search of a new model of growth," *Voprosy ekonomiki*, 2017, no. 12, pp. 15–16.

grow (a growth of 1% for the year) and household consumption grew at an even more rapid rate (3.5%). From January to September of 2017 the poverty rate was 13.8%, which corresponds to the level of the analogous period of 2015-2016 but was higher than the level observed in 2012–2014.

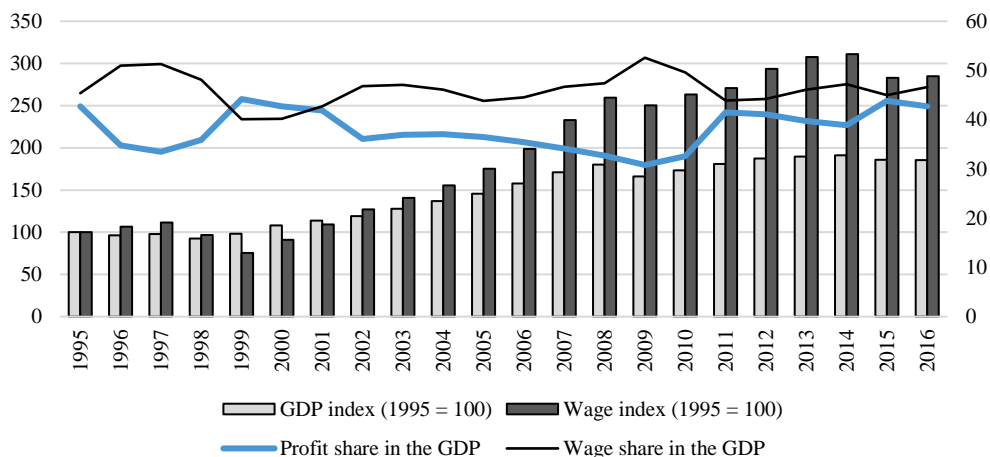


Fig. 2. Gross profit and wages as percentage of the GDP, right scale

Source: Russian Statistics Agency.

There are various explanations for such divergences: the increase in household consumption, the growth of consumer credit (bank loans to the population increased by 9.5%), the growth of online purchases. But overall, we can speak to the gradual retreat of households from the saving model of consumption and an intensifying tendency toward consumption. At this stage, these behavioral shifts can positively affect the country’s economic development by activating market demand.

At the same time, wages began once again to diverge from GDP and productivity. This trend, acceptable for the restorative stage of growth, can be dangerous if it becomes a constant element of the growth model (Fig. 3).

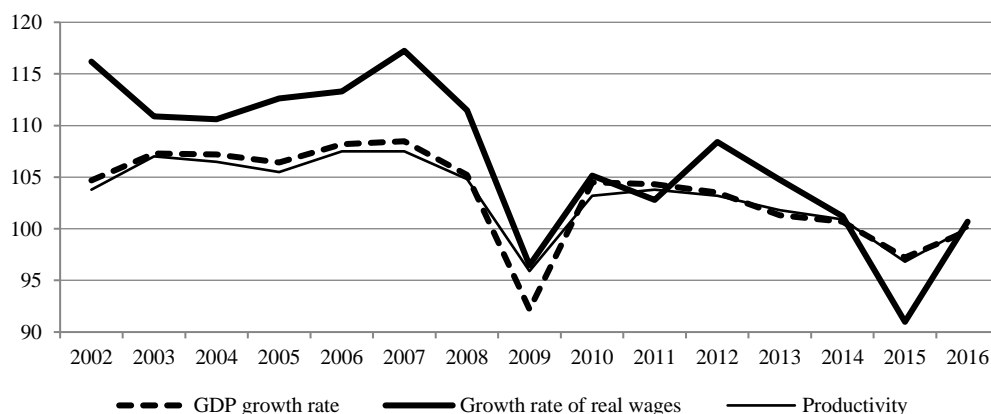


Fig. 3. Growth rates of the real GDP, real wages, and labor productivity

Source: Russian Statistics Agency.

1.3. Conclusions regarding further development

Russia faces a difficult period of consolidating growth and reaching its desired parameters of economic and social performance. The key challenge of the coming period is attaining economic growth at rates exceeding the worldwide average and guaranteeing a stable increase in quality of life.

The Russian economy, at least since its exit from the transitional period of the 1990s, has demonstrated a connection to global trends and challenges. Thus the restoration of a stable and global economic growth creates the foundation for a positive outlook in Russia. Of course, several important institutional decisions must be made to support domestic growth, and they are well known from economic discussions of recent years.¹

We would like to direct attention to several possible *priorities and risks* of forming a contemporary model of economic development.

For stable economic growth, undoubtedly, one needs a strategy. But in the conditions of contemporary technological trends, any strategy becomes obsolete the very moment it is affirmed. The role of strategy is to see alternatives and set priorities without settling into dogma and binding the government's hands. The long-term strategies that were developed in our country in the past were never fully executed. But it would be superficial and erroneous to reduce an explanation of this phenomenon to the low quality of corresponding documents or ineffective executors.

In contemporary conditions, when technology – and with it, our way of life – change not from generation to generation but several times over the course of a single generation, carrying out an approved strategy is the same thing as preserving a lag. For instance, in 2011, when Strategy 2020 was developed, concepts such as cryptocurrency or blockchain did not exist in the minds of the political and expert communities, but now the perspectives for models of state management and monetary systems cannot be seriously discussed without them.² At that time, the perspective of shale oil and gas were unclear, and few knew about 3-D printing. Today, the mastery of these technologies has not only economic consequences but also important political ones. Finally, in 2011 there was none of the geopolitical unrest that erupted three years later. In short, realizing that strategy without considering the realities of the present would be very dangerous.

Two other risks of economic policy are connected to the concept of strategy's limited role.

First, numbers cannot be fetishized. The fetishization of numbers and plans at the mature stage of the Soviet economic system was the key factor of its downfall. Numbers are always imprecise reflections of real socioeconomic processes. They are always subject to manipulation. Keeping up with development trends is far more important than achieving particular numbers.

Secondly, short-term and long-term strategic goals (and criteria) of socioeconomic development are often in conflict. Measures that yield short-term effects tend to be harmful for mid- and long-term goals, including long-term economic growth. And it is virtually impossible to determine what ensures long-term success in the immediate future (which, in terms of political logic, means the nearest election cycle). That contradiction contains a political trap, escaping which requires no small amount of bravery and political responsibility.

¹ For example, S. Drobyshevskii, S. Sinelnikov-Murylev, "Features of growth of the Russian economy in 2017 and 2018: Stimuli and limitations," *Ekonomicheskoe razvitie Rossii*, 2018, no. 2.

² *Strategy 2020: A new model of growth, a new social policy*, 2 vols., ed. V.A. Mau and Y.I. Kuzminov, Moscow, Delo, 2013.

Populism has become a serious problem in the world once more. And one of its characteristics is the predominance of short-term interests over strategic ones. As in the twentieth century, countries at the mid-level of development are especially at risk of economic (budgetary) populism that could undermine organic economic development. Artificial acceleration, i.e. increasing nominal growth rates at the cost of its quality and people's well-being, is one of the forms of populism that led to the collapse of the Soviet Union. Therefore, programs of economic development must be designed to achieve real, high-quality results in the mid-term perspective, rather than attractive returns in the immediate future.

The contemporary world does not have leading sectors, but there are leading technologies that can be present in any sectors. Therefore, sector priorities cannot be set in a centralized fashion. The state should ensure favorable conditions for private interest to identify and execute priority plans using the latest technologies. The key task of the state in this situation is to provide the infrastructure of human capital and transportation.

Maintaining high-quality human capital is a strategic problem. In conditions of a decreasing working-age population and a significant easing of global migration for the educated part of the population, the challenge of maintaining human capital becomes particularly difficult. There is a serious risk of a negative migration balance, i.e. the departure from the country of the most educated and sophisticated people who have a quality demand for goods and services, and the arrival of the less educated poor. This puts increased demands on the quality of state policy, since states begin to compete not only for investments, but also for quality demand in the sectors of education and healthcare. These sectors are exclusively important in the resolution of long-term goals of growth, but developing them effectively requires focusing not only on the supply, but also the demand.

And finally, a separate challenge is increasing the appeal of entrepreneurship. In Russian conditions this is particularly important and particularly difficult, since less than thirty years ago entrepreneurship was a crime punishable by law. Its legalization did not make private business more appealing, even in the eyes of youth. Overcoming this aversion is one of the strategic challenges facing the country.

From the above list it is not difficult to see that the key problems of guaranteeing a socioeconomic performance lie in the extra-economic sphere. And they are exactly what will be the priorities of the postcrisis stage of the country's development.

