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Economy of Russia in 2017: Problems and Perspectives

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ABSTRACT

The economic situation in the Russian Federation has always been far from ideal. The article examines the main current problems of the Russian economy and analyzes the ways of their solution.

Keywords: Economy, development, trend, import, substitution, Russia, inflation.

Currently, Russia has a number of economic, political and social problems influencing Russia's development. The economic situation in the Russian Federation has always been far from ideal. Over the centuries of its existence, Russia (originally - the Empire, then - the Soviet Union and the modern Russian Federation) almost always faced a variety of problems. However, every stage of the crisis had its own nuances [1]. In Russia, we can now identify such major economic difficulties:

1. Strongly expressed raw material orientation.
2. Monopolization of the economy.
3. Economic centralization.
4. Low level of state control in the economy.

5. Irrelevant and unstable legislation in economic and other spheres.
6. High level of offenses in the field of economy (corruption, bribery, embezzlement, influence of family ties in employment).
7. Strongly expressed mix of state and commercial economies.
8. The inflated banking sector, which is filled with a large number of funds.
9. Unbalanced financing of workers.
10. The problems of education (including the lack of strict control over the training of specialists).
11. Weak state interest in social and social development.
12. Weak (almost absent) state control over the work of the state apparatus.
13. Low level of medical care.
14. Low level of attention to science.

The above reasons for economic difficulties do not exist for the first decade. They closely intertwine with each other, and together they worsen the state of the state itself, and the quality of life of each citizen individually [1]. In details, the most significant problems are as follows:

- excessive emphasis on the sale of raw materials. This, on the one hand, suppresses the development of other branches of the economy, while the other does not provide its citizens with affordable energy resources, since most of the fuel goes abroad;
- a monopolized market, which leads to higher prices in all sectors of the economy. Life under the “dictation” of monopolies inevitably leads to a decline in the quality of services and a high level of inflation;
- centralization of the Russian economy. In this case, some earn their capital, while others redistribute it. Thus, entrepreneurs are not interested in improving the quality of products and increasing production;
- insufficient pace of development and weak protection of the country’s monetary and settlement system. Particularly affected is the budgetary sphere related to the servicing of individuals;
- lack of stability in the legislative sphere, the possibility of a dual interpretation of many laws;
- excessive outflow of capital abroad, which is carried out under a variety of pretexts;
- insufficient influence of the economic sector on the country’s development;
- high level of corruption of officials, as well as regular violations in all areas of activity (including at the highest level);
- mixing of commercial and public economy;
- problems with employment of young specialists and people 50 years old and older.
- irrational use of funds by businessmen and commercial entities;
- Low level of training of specialists, both working professions and specialists;

- insufficient level of development of public health services in the country;
- low control by the state at work or inactivity of civil servants (including major officials).

The most urgent problem for the Russian economy today is the high rate of inflation. The main reasons for inflation in Russia is the monopoly of the Russian economy, an increase in world prices for goods, as well as an increase in budget expenditures. Russia requires comprehensive anti-inflationary policy.

1. IMPORT SUBSTITUTION

Import substitution in Russia is an active process of import substitution by domestic goods or services, that is, produced domestically.

More often the term is applied to states or economic entities that, for various reasons, decide to reduce the share of imported goods and services in the country's turnover in a short period of time. As a rule, import substitution occurs due to an increase in the volume of own production, development of focus industries and tariff customs regulation of import purchases. More rarely the term is applicable to enterprises, individual sectors of the economy [2].

The active policy of import substitution in Russia was taken by the government in 2014, when a number of trade and economic sanctions were imposed by Western countries against Russia. On August 4, 2015, government commissions for import substitution were established, and a process was initiated to create a package of normative acts to support the domestic producer from the state.

A significant part of the existing countries of the world on their way of development have already passed the process of import restriction in order to stimulate demand for domestic goods, however experts differ in assessing the effectiveness of this measure [2].

The positive side is that at a time when there are weighty restrictions on the constant flow of imports (low incomes of the population, weak positions of the national currency), the banking system more actively supports national production, the number of jobs increases, and product exports increase. Thus, internally production increases the volume of output, which gradually replaces imported analogues [2].

The other side of the coin shows that all the above pluses are temporary. Years show that the peak in the efficiency of domestic production is already in a decade, as happened in Latin America. Countries quickly lost touch with external technology markets, which could not but affect the competitiveness of products outside these countries [2].

2. IMPORT SUBSTITUTION PROGRAMS IN THE ECONOMIC SEGMENTS

Agriculture

Success in implementing the program of import substitution in agriculture is positioned by the state as a matter of special importance, as a result we can ensure the country's food security, give a powerful impetus to the development of both large-scale agriculture and medium and small-scale farming. As a result, by 2020 we should see Russia, which feeds 90% of itself, and maybe even a neighbor [2]. It should be noted that the task of minimizing imports in the agrarian sector was set in 2010, long before the appearance of bilateral sanctions lists, which, in fact, enabled domestic producers to quickly fill the gap in the market, and the

state to reconsider its views on the timing of the program and on level of financial and legislative support for the entire import substitution process. The “Food Security Doctrine” provides for self-sufficiency of key food products by 80-95% by 2020 [2]:

- Grain - by 95%,
- Potatoes - by 95%,
- Milk and dairy products - by 90%,
- Meat and meat products - by 85%,
- Food salt by 85%,
- Fish products - by 80%,
- Sugar - by 80%,
- Vegetable oil - by 80%.

The goals are very specific and understandable. The ways of realization, however, have not yet been fully thought out, there are still many barriers to the movement to lose the squeak and gained momentum, which will lead to success in the 2020s. Moreover, these problems are present at all levels: from legislative and even political, to small decisions on the ground. For example, due to a lack of understanding of the duration of the embargo, the domestic farmer will never invest in a long-term project on import substitution, because lifting the import ban will instantly reduce the demand for the Russian product.

The government’s initiative to allocate large amounts of money at low interest for the development of agriculture - at first glance it seems to be practically a panacea for accomplishing the task, but even very few existing enterprises can afford even such loans: either there is no collateral or everything has already been pledged for previous loans. Examples of such difficulties are many, and in this section we will observe the entire process of implementing the program of import substitution in agriculture. Any events are important for us: changes in the legislative process skeleton, information background of the program implementation, as well as successes of any level on the way to the final goal, whether it is a local victory of an individual farm or a major success of a subject of the Russian Federation.

Information Technology

Achieving success in import substitution of software, in our opinion, is one of the most interesting and non-trivial tasks set within the general trend of import substitution by the state. On the one hand, dependence on imported software in Russia is extremely high: Windows, iOS, and Android operating systems are unlikely to give any other Russian counterparts a chance to get at least 10% of the market. The IT base of many enterprises was purchased in due time from Western suppliers. What can we say: almost all of Russia’s banking system is serviced by Western programs and systems for storing and protecting data [2].

On the other hand, the tasks of developing Russian analogues of these products were simply not put before the major Russian players of the IT market. But we have enough of them: Acronis, Veeam, Parallels, Jetbrains, Nginx, 1C, Kaspersky, Abbyy, CFT, Prognoz, Yandex, Mail.Ru, Ecwid, Acumatica, Drweb, Spirit, MightyCal, all of which cover a very large layer IT solutions. Also, Russia’s strength is that

not mass software (defense industry, state corporations, heavy industry), which was developed with the support of the state, today can maintain full independence from the West [2].

On November 3, following the results of the Russian Interactive Week conference, the representatives of the Ministry of Communications announced new theses of the law on import substitution in IT. Here are the main ones [2]:

- Create a register of Russian IT products. The main criteria for entering it - the exclusive right to the software must belong to the Russian Federation, the Russian region, the municipal entity or a commercial organization;
- The total share of direct or indirect participation of such a subject should be more than 50%;
- The total amount of its license fees in favor of foreign organizations cannot exceed 30% of the total revenue.

The main task of import substitution in IT is not the expulsion of the Western PO beyond Russia and the refusal to pay royalties for it. It is important for Russia to create conditions under which:

- The software will be created on the territory of our country;
- Intellectual property of the product will belong to Russian legal entities;
- Teams by the developer can consist of citizens of any country, however not less than half of them should be citizens of the Russian Federation. Thus, our citizens will have an opportunity to take key positions in companies.

Mechanical Engineering

The import substitution in the Russian machine-building industry began in 2005-2006, and the best time to start the campaign was difficult to come up: the economy is on the rise, the demand for cars is growing, Russia was not a WTO member by that time. Measures taken in these years on import substitution contributed to the development of competition in the market, and not to strengthening the positions of AvtoVAZ alone on it. The result was a two-fold increase in the production of cars by 2010 [2].

Thanks to these measures, the automotive industry today is one of the best examples of implementing the import substitution policy in practice, showing concrete results in a relatively short period of time. The localization of automotive production on the territory of the country was carried out centrally and consistently, which led to a real investment tsunami in the industry: by 2010, most of the leaders in the world automotive industry had opened assembly plants in Russia: Toyota, Peugeot-Citroen Volkswagen, Renault-Nissan, Ford, PSA, Mitsubishi, General Motors, Hyundai-Kia and others.

In February 2011, the grip of import substitution for foreign automakers continued to contract: new rules for the work of foreign automakers in Russia (Promsbork-2), which to this day push the auto giant to expand its production capacity to 300,000-350,000 vehicles a year, localization level up to 60% and invest in research and development.

With all the tasks you need to manage until 2018. By this method, a certain “critical mass” of the market was formed, and simple laws of the economy began to work on their own - suppliers were more profitable not to transport the components through the three seas to the country, but invest in their

manufacture here and now to quickly integrate into the technological chain of Russian engineering, as we know, after the weakening of the ruble was not all. At present, “Autostat” reported about one hundred models (27 brands) of cars that are assembled in the territory of the Russian Federation. The average level of localization in this case is 45% [2].

The Central Bank Noted the Role of Import Substitution in Slowing Inflation

The Central Bank in the bulletin “What the Trends Say” noted a reduction in inflation in the food sector. The bulletin shows the Rosstat data showing the dynamics of food prices in comparison with non-food goods and services. The figures for December-February decreased significantly in comparison with the previous three-month period of September-November and amounted 1,1%. According to the regulator, the three main factors that contributed to the slowing of inflation were a decline in food prices in the world, a good harvest in Russia and an increase in the output of certain types of products against the backdrop of a weaker population demand, which contributed to the saturation of the Russian market. Decrease in the cost of food on stock exchanges and the strengthening of the ruble led to a compensatory effect of redirecting sales flows from external to domestic markets. The decrease is caused by correction after a significant increase in late 2014 - early 2015 [2].

As for production, agriculture is one of the industries that showed growth in 2015. According to the statistics available to the Central Bank, in the past 14 years there has been a steady trend towards a reduction in food inflation in the year following the harvest. Thanks to a good harvest and the level of stocks, the seasonal increase was less pronounced.

The increase in production occurred not only in the field of crop production. The active policy of import substitution of cheeses and chicken meat made it possible to fill in the prohibited imports and even exceed it. The cheese making, in conditions of falling demand, increased by 20%. This could lead the industry into a situation of overproduction, so inflation in this category is almost zero.

In the production of chicken meat, due to import substitution, in the last 2 years there has been a steady trend towards growth. Since 2013, it has increased from 3.8 to 4.6 million tons. At the same time, overseas shipments fell from 0.5 to 0.2 million tons. The reason for the growth was the reorientation of the consumer from pork and beef to cheaper chicken meat. In 2015, the increase in chicken consumption amounted to 5% with an increase in production of 8%. This caused an excess of supply, which pulled inflation down, and in early 2016 the index went into negative territory. The prices for chicken meat automatically pulled pork and beef. But if in the production of pork the process of import substitution is already started and its cost has become lower, the share of imports in beef is still high and the growth in prices for it has not so slowed down [2]. Production of the main types of the import substitution products in Russia is presented in Table 1.

Russia is slowly emerging from the crisis, but systemic problems remain unresolved. Without a new development model, the country expects a sluggish annual growth of 1-2 percent of GDP. This opinion is shared by the former deputy head of the Ministry of Economic Development, the director of the Center for Structural Research of the Russian Academy of Science and Technology Alexei Vedev [4]. The solution of the problems of the Russian economy lies solely in the reforms that must take place in three directions [5]:

Table 1

Production of the main types of the import substitution products in Russia, thousands tons, (02.02.2017)

	2010	2011	2012	2013	2014	2015	2016 ¹	2016 in % to 2015
Meat of bovine animals, fresh, chilled	220	190	178	199	183	203	213	106,1
Meat of cattle, frozen, frozen, deep-frozen and thawed	43,0	38,6	36,0	41,6	41,1	51,7	50,3	97,0
Pork steamed, cooled, chilled	755	815	942	1232	1438	1655	1875	113,8
Pork frozen, frozen, deep frozen and thawed	57,6	61,6	58,5	67,5	87,7	108	118	109,7
Meat and offals food for poultry including	2774	3028	3405	3610	3979	4340	4457	102,8
Meat paired, cooled, chilled and by-products food poultry	1669	1777	2097	2230	2458	2715	2857	105,2
Meat, frozen, frozen, deep-frozen and thawed and food by-products of poultry	1061	1240	1293	1368	1507	1604	1575	98,3
Sausage products	2439	2486	2533	2502	2476	2445	2411	98,2
Fish alive, fresh or chilled	1151	1395	1399	1461	1167	1175	902	76,9
Crustaceans are not frozen; oysters; aquatic invertebrates other, live, fresh or chilled	39,8	42,8	44,5	52,7	55,3	67,9	52,2	78,0
Fillet of fish, other fish meat, liver, caviar and milk of fish, fresh or chilled	16,7	16,1	16,1	18,6	21,1	18,8	17,0	94,3
Fish (except herring), frozen, liver, caviar and frozen fish milk	2292	2356	2337	2434	2347	2502	2558	102,1
Filet of fish ice cream	71,7	86,2	94,3	108	110	123	143	116,3
Herring of all kinds of processing	456	470	515	496	475	461	452	97,6
Including frozen	377	392	440	426	401	395	387	97,4
Fish (except herring) salted	33,6	33,8	42,7	46,1	39,2	33,0	30,3	88,3
Fish (except herring), smoked	57,1	59,4	61,4	63,7	61,2	57,2	50,6	89,2
Dried and dried fish	16,5	16,4	16,2	17,7	16,9	16,1	16,8	104,7
Products of balyk	3,3	3,5	3,7	4,2	4,0	3,1	2,9	92,9
Seafood, food	84,2	88,3	97,7	104	120	97,8	118,4	122,2
Fruit and vegetable products, frozen	24,5	38,4	40,2	45,3	45,8	55,4	60,0	109,0
Fruit and vegetable preserves, mln. cans	6729	7011	7473	7635	7851	7248	6766	97,6
Dried fruits, berries and nuts	3,5	3,8	4,1	10,1	12,0	12,2	11,1	84,4
Whole-milk products (in terms of milk), million tons	10,9	10,7	11,3	11,5	11,5	11,7	11,9	101,4
Liquid processed milk	4944	4926	5267	5386	5348	5447	5490	101,2
Cream	80,6	83,4	95,2	103	115	121	125	100,7
Cottage cheese	377	383	396	371	387	416	405	99,0
Butter	210	217	214	225	250	256	247	96,5
Cheeses and cheese products	437	432	451	435	499	589	600	102,5
Condensed milk products, mln. cans	883	855	873	860	833	828	847	102,1
Fermented milk products, except sour cream and cottage cheese	2388	2318	2430	2521	2520	2445	2480	101,4

Source: [3].

- *Economic:* Particular attention should be paid to equalizing the terms of competition, determining licensing procedures, simplifying inspections, and so on;
- *Administrative:* Establishment of the work of the “top” in the management sphere, combating corruption;
- *Social:* Reforms in health care, education.

The next year promises to be hard for Russia. Taking into account the general inaction of the authorities against the backdrop of an aggravating recession in the national economy and the refusal of the country’s top leadership to take decisive action, one can expect the deterioration of the financial and economic state of the state to continue. In addition, the coming year will have to determine the vector of subsequent development for the coming years. The presidential election will be the starting one [8, 9].

Experts already in early 2017 made preliminary forecasts of the development of the Russian economy in 2018. So, rather diverse information was given by experts of financial-analytical, consulting, investment and insurance companies. Despite the significant differences in the options presented by analysts, they have something in common - a permanent linkage of the economic state to the vector of foreign and domestic policy. Also, the economic forecast of foreign experts of rating agencies and financial companies for Russia for the coming year 2018 is “ground” for possible political events, military actions and the resolution of territorial disputes.

For financiers attentively watching the state of national economies of European countries and the United States, the position of the incumbent government looks incomprehensible and rather risky. It officially proclaims the end of the financial crisis and the most difficult time for households and enterprises. All this takes place against the background of rather modest indicators of the Russian economy at the end of 2016 and early 2017. For example, for the first quarter of this year, the country’s GDP is characterized by a recession. But this year it was only 1.2%, and not 3.7%, as in the same quarter last year.

The relative heterogeneity of the movement of indicators characterizing the country’s economy creates a false impression of the alignment of the situation and overcoming the crisis. However, it is worth scrutinizing the fresh data and here’s the picture. On the one hand, there is an increase in the export and raw materials sector, which is estimated at an average of 1.5%. The defense industry is also growing, then by 15%, then by 13% per year. And even agriculture forgotten by all has a stable 3% growth per year [8, 9].

And with all this, what to expect from a country in which for already 16 months in a row there has been a steady decline in household incomes? This completely naturally leads to a decline in retail trade, service sector, construction market, automotive industry, tourism and other, other. Stable reduction of investments in the economy also does not appear to be a positive factor that allows us to talk about economic recovery. The experts’ forecast concerning the possibility of equalizing the investment market also remains disappointing against the background of the persistence of heightened relations with the West and the aggressive sanctions policy of Europe.

Although analysts’ opinions differ as to when the rise will begin in Russia, which is reported by official sources, but the physical presence, which it is impossible to find in financial terms, but it is worth counting on the fact that it will be in 2018, at least, what course the state will take. The normal state of the economy, according to all existing theories, is growth and expansion. In general, the turn from a fall

of 0.8% to a growth of 0.5% - is small, overcoming its developed economy is possible for a period equal to the financial year.

Forecasts for Russia depend not so much on the capabilities of its sectors of production and services as on export prices for resources. In particular, if the price of oil increases for only this year to \$ 60, then our country has quite real prospects to start a new trend, to unfold the situation and to direct the economic development progress to growth.

However, all experts predict that even with the price increase to at least \$ 57 per barrel, this trend will not be long-term and will not allow our economy to recover. Examples of such market behavior are already available and their consequences were not positive for Russia.

In connection with the lack of prospects for positive changes in the Russian economy, a dispute about the possibility of using additional money supply in the form of a support tool flares up among specialists with new force. While analysts are only pondering the high risks of launching a printing press and expecting consequences, the country's leadership has long decided that printing money is possible. What is it used for? These are:

- Military expenditures;
- Fulfillment of obligations to employees in the budget sector of the economy;
- Compliance with obligations in the social policy of the state;
- Ensuring the financing needs of targeted programs.

An experiment of this kind has already been carried out, in particular, the largest fact of the money supply launch into the economy was the purchase of the Central Bank from the Ministry of Finance of foreign currency. In this case, it is planned that the Central Bank for a relatively short period of the next year can thus introduce into the economy more than one and a half trillion rubles, including through a program to save banks. What awaits Russia in 2018, if already now an additional mass of money was printed in the volume of 358 billion rubles. This money will be subsequently issued to all depositors whose banks have been revoked by the Central Bank of the Russian Federation [8, 9].

With such a funding policy, it can be expected that the Central Bank will simply determine the permissible volume of emissions for 2018 for Russia. However, this approach will not only hamper the current development, but will also become a problem for the new (if it will be new) leadership of the country, which will begin to perform its duties as early as the first half of 2018. Against the optimistic economic forecast for Russia for 2018 there is yet another significant limiting factor - the refusal of the current government to look into the future. no meaningful decisions regarding the development of the system put the whole future of the state at great risk.

The difficult situation in the Russian economy is a heavy burden on the shoulders of Russians. The factories are shut down, production is halted, workers of some enterprises are being laid off, inflation is increasing, purchasing power is declining - this is an incomplete list of what every citizen of our country sees. If there is a way out of the situation created and when there is an improvement, everyone is interested in everything, without exception. From 2014 to 2017, Russia's economy has changed beyond recognition. Three years ago our country looked quite safe against the background of other states. At the price of the country's main export commodity - oil at \$ 100, the average salary in the Russian economy, according to

statistics, was one thousand dollars. Now, with oil costs of \$ 45 per barrel, the wages of our citizens have fallen more than twofold. Currently, the average Russian can earn no more than \$ 400.

If oil prices do not rise in the coming years, Russia's economy will continue to fall. The reason for this is the short-sighted policy of the country's leadership in the previous decade. The government has done nothing to move the domestic economy to a new track. The country's dependence on energy exports has not been reduced. What this can lead to in the future, can be seen from the current situation in Venezuela, which also lived exclusively due to oil exports.

Social costs were added to purely economic problems. At present, the state is no longer able to maintain a high level of social obligations. The reserve fund is melting before our eyes. If this continues, the issue of payment of pensions and other social payments will become acute. Now it has become obvious that the increase in the territory did not bring the expected dividends. The rise of the depressed Crimea requires all new allocations from the state budget. Providing Crimeans with water, electricity, gas will require fresh injections into the new constituent entity of the Russian Federation. One of the questions for discussion is the construction of the Kerch bridge. All this will increase the tension in Russian society. The protests of truckers of the whole country are a manifestation of growing discontent of Russian citizens by the state policy [8, 9].

Most analysts believe that the forecast of the former Finance Minister is the most worthwhile and deserves attention. In their opinion, this economist, who headed the financial department for eleven years, is best versed in the economic situation in the country. Thanks to him, a large part of Russia's external debt was paid and a considerable amount of money was raised to the state stabilization fund. He believes that the peak of the crisis in Russia fell for 2015, and now the country has slowly but surely come out of the crisis. It is too early to relax and be idle. For a final exit from the crisis, decisive actions are needed to improve the state administration. At present, this system does not meet the challenges of time and is imperfect. We also need to establish a trusting relationship between the government, business and people. The economist also believes that it is necessary to dare to take an unpopular step and increase the retirement age. Foreign analysts also have different points of view on the economic situation in Russia in 2018: Experts of the International Monetary Fund believe that 2017 will be the beginning of Russia's exit from the recession. At the end of 2017, you can expect a gradual recovery of the economy by 1.3%. Next year, there will be a steady growth in the region of 1.5%. The agency Fitch predicts a decline in oil production in Russia due to a fall in prices for this type of fuel. Sanctions from the European Union not only will not be removed, but will intensify. Russia will remain in a difficult economic condition, at least until 2020. The forecast of the European Commission can be trusted, as it accurately predicted a fall in Russia's GDP in 2015 at a rate of 3.7%. Analysts of this organization believe that the growth of the Russian economy will begin in 2017. In 2018, you can hope for a steady growth of 1%. At the same time, the inflation rate in the country will be 6% [8, 9].

Financier D. Soros assures that the resource of the Russian economy is coming to an end, which will force the authorities to reduce the appropriations from the budget. The implementation of the "contract" between the government of V. Putin and the society on maintaining the financial stability and well-being of the nation in 2018 will be in question. The country can face a severe crisis, the consequences of which are unpredictable. News feed of the last days gives a complete picture of the economic situation in the country. The Bank of Russia reported a disappointing trend: Capital outflow for the first three months of 2017 amounted to \$ 15.4 billion, which is 1.8 times more than in the same period last year. As the latest poll by

Bloomberg shows, the weakening of the ruble could positively affect the situation in the Russian economy. This is due to the fact that many export-oriented companies will receive income in net currency.

Russian oil Urals rose in price in the first quarter of 2017, 1, 6 times compared to last year and amounted to \$ 52.04 per barrel. Letter no D14i-917 of the Ministry of Economic Development of the Russian Federation of April 26, 2017 “On the Development of the Forecast of the Social and Economic Development of the Russian Federation for 2018 and the Planning Period of 2019 and 2020” provides the following data on the economic forecast for 2018 (Table 2, 3, 4).

Table 2
The initial conditions for the formation of economic development options

	<i>Variant</i>	2016	2017	2018	2019	2020
1. External and related conditions	Conservative	41,7	40,0	35,0	35,0	35,0
Urals oil prices (world prices), USD / bbl.	Basic, Trust		45,6	40,8	41,6	42,4
The growth rate of the world economy	Conservative	3,1	3,1	2,9	2,7	2,5
	Basic, Trust	3,1	3,2	3,0	2,9	2,8
Peace	Conservative	1,6	1,5	1,1	1,0	0,8
	Basic, Trust	1,6	1,9	1,4	1,2	1,0
USA	Conservative	1,8	1,2	0,8	0,6	0,2
	Basic, Trust	1,8	1,4	1,2	1,0	0,7
Eurozone	Conservative	6,7	6,1	5,2	4,5	4,0
	Basic, Trust	6,7	6,1	5,4	5,0	4,3
China	Conservative		166,6	137,0	130,5	129,7
	Basic, Trust	157,4	172,3	155,0	153,3	155,2
Gas prices (medium contract, including CIS countries), USD / thous. cu. m	Conservative		172,3	155,0	153,4	155,2
	Basic, Trust		176,7	145,1	138,0	136,9
Prices for gas (non-CIS countries), USD / thous. cu. m	Conservative	167,7	182,6	164,2	162,2	163,8
	Trust		182,6	164,3	162,2	163,8
The euro rate (average annual), US dollars for the euro	Conservative		1,060	1,050	1,050	1,050
	Basic, Trust	1,11	1,060	1,050	1,050	1,050
			1,060	1,050	1,050	1,050
Oil export, million tons	Conservative		257,7	266,7	268,7	270,7
	Basic, Trust	254,8	257,7	266,7	268,7	270,7
			257,7	266,7	266,7	266,7
Export of natural gas, billion cubic meters. m	Conservative		197,3	197,4	202,4	206,4
	Basic, Trust	198,7	197,3	197,4	202,4	206,4
			197,3	200,2	207,7	210,4
LNG exports, mln. tons	Conservative		9,9	13,7	15,7	20,8
	Basic, Trust	10,9	9,9	13,7	15,7	20,8
			9,9	14,4	19,3	25,1

(Contd...)

	Variant	2016	2017	2018	2019	2020
	Report	Forecast				
Export of oil products, mln. tons	Conservative		154,0	157,0	151,0	149,0
	Basic, Trust	156,0	154,0	156,0	150,0	151,0
			154,0	148,0	152,0	152,0
2. Internal conditions Inflation (CPI), price increase%						
At the end of the period	Conservative		3,8	4,0	4,0	4,0
	Basic, Trust	5,4	3,8	4,0	4,0	4,0
On average for the year	Conservative		4,1	4,3	4,0	4,0
	Basic, Trust		4,0	4,0	4,0	4,0
Rate of the dollar (average annual), rubles per US dollar	Conservative	7,1	4,0	4,0	4,0	4,0
	Basic, Trust		4,5	4,2	4,0	4,0
	Conservative		64,2	69,6	71,2	72,7
	Trust	66,9	64,2	69,6	70,7	71,8
Demographic situation on average for the year, million people *			63,6	73,3	74,8	76,4
Population	Conservative	146,7	147,0	147,3	147,6	147,8
	Basic, Trust	146,7	147,0	147,3	147,6	147,8
Population of working age	Conservative	83,7	82,8	81,9	81,2	80,6
	Basic, Trust	83,7	82,6	81,9	82,2	82,6
Population over working age	Conservative	36,4	37,1	37,8	38,4	38,9
	Basic, Trust	36,4	37,1	37,8	37,4	37,0

Source: [10]

Table 3
Indices of industrial production in 2017-2020
Conservative option

Type of economic activity	Code for OKVED2	Industrial production index,%					2020 in % to 2016
		Report		Forecast for			
		2016	2017	2018	2019	2020	
Industry		101,2	100,9	101,2	101,6	101,8	
Mining	B	102,6	100,9	100,6	100,9	101,0	103,4
Coal mining	5	106,1	102,0	100,7	102,0	101,0	105,8
Crude oil and natural gas production	6	102,2	100,5	100,4	100,5	100,6	102,0
Extraction of metal ores	7	100,6	101,5	100,1	100,7	101,6	103,9
Extraction of other minerals	8	101,5	102,0	102,5	102,7	102,9	110,5
Provision of services in the field of mining operations	9	106,6	101,2	101,3	101,5	101,6	105,7
Manufacturing Processes	C	100,2	101,0	101,7	102,1	102,4	107,5
Manufacture of food products	10	103,1	103,2	103,5	103,7	103,9	115,1
Beverage production	11	101,3	101,0	101,2	101,4	101,6	105,3
Manufacture of tobacco products	12	97,9	97,1	97,0	96,8	96,5	88,0
Manufacture of textiles	13	104,6	102,1	102,8	103,0	103,1	111,5

(Contd...)

<i>Type of economic activity</i>	<i>Code for OKVED2</i>	<i>Industrial production index,%</i>					<i>2020 in % to 2016</i>
		<i>Report</i>		<i>Forecast for</i>			
		<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	
Manufacture of wearing apparel	14	107,1	102,6	103,0	103,2	103,4	112,8
Manufacture of leather and leather products	15	104,4	101,9	102,2	102,5	102,7	109,6
Wood processing and production of wood and cork products, except furniture, production of straw and plaiting products	16	102,8	102,3	102,9	103,2	103,2	112,1
Manufacture of paper and paper products	17	105,1	102,6	103,3	103,5	103,6	113,5
Polygraphic activity and copying of information carriers	18	92,4	95,8	96,4	96,5	96,6	86,1
Manufacture of coke and refined petroleum products	19	98,3	100,3	100,9	101,4	101,9	104,6
Manufacture of chemicals and chemical products	20	106,3	102,1	102,6	103,0	103,3	111,5
Production of medicines and materials used in medical circuits	21	107,0	108,0	107,8	107,5	107,2	134,2
Manufacture of rubber and plastic products	22	106,3	104,6	104,3	104,8	105,0	120,1
Manufacture of other non-metallic mineral products	23	94,0	100,2	101,2	102,0	102,5	106,0
Metallurgical industry	24	99,0	100,3	101,1	101,4	101,7	104,6
Manufacture of fabricated metal products, except machinery and equipment	25	101,3	98,0	100,4	99,6	100,4	98,4
Manufacture of computers, electronic and optical products	26	100,6	100,3	101,1	101,7	101,7	104,9
Manufacture of electrical equipment	27	100,9	99,5	100,6	101,6	101,6	103,3
Manufacture of machinery and equipment nec	28	99,3	97,9	100,3	101,0	101,2	100,4
Manufacture of motor vehicles, trailers and semitrailers	29	100,5	101,1	102,0	102,8	102,8	109,0
Manufacture of other transport equipment and equipment	30	104,2	100,4	101,7	102,7	102,8	107,8
Furniture manufacture	31	97,3	99,8	100,5	100,6	100,7	101,6
Manufacture of other finished products	32	82,4	100,9	101,6	101,7	101,8	106,1
Repair and installation of machinery and equipment	33	38,6	99,8	101	101	101,5	104,6
Providing with electric energy, gas and steam; air conditioning	D	101,7	100,5	100,9	101,2	101,5	104,2
Water supply; Wastewater treatment, organization of waste collection and disposal, pollution control activities	E	99,2	99,5	100,1	100,2	100,4	100,2

Source: [10]

Table 4
Export structure (Basic variant)

<i>Raw materials export, billion dollars</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
1) TEK (oil and gas N-NP-G)	153,8	171,1	155,1	157,4	162,6
oil and gas (N-D)	107,9	120,3	110,0	113,1	117,4
oil products (NP)	46,0	50,8	45,1	44,2	45,2
For reference: Exports except for the fuel and energy (Nenftegaz)	127,9	138,0	146,1	150,4	155,2

(Contd...)

<i>Raw materials export, billion dollars</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
2.1) Raw material with petroleum products	174,2	191,5	185,8	185,0	185,9
raw	128,2	140,7	140,7	140,7	140,7
oil products	46,0	50,8	45,1	44,2	45,2
2.2) Raw materials with petroleum products	174,2	191,5	185,8	185,0	185,9
TEK	153,8	171,1	155,1	157,4	162,6
other non-fuel feedstocks	20,4	20,4	30,7	27,6	23,3
Non-raw exports, bln.	2016	2017	2018	2019	2020
1) Non-oil-gas (including oil products)	173,8	188,8	191,1	194,6	200,5
other non-fuel feedstocks	20,4	20,4	30,7	27,6	23,3
non-oil non-oil and gas	157,3	168,4	160,5	167,1	177,2
2) Non-raw non-energy (without oil products)	111,3	121,8	119,5	127,2	136,6
For reference:					
Non-raw exports (excluding LNG and coal)	107,5	117,6	115,4	122,8	131,9

Source: [10]

Forecast of scenario conditions and key macroeconomic parameters of the socio-economic development of the Russian Federation for 2018-2020. It was developed in three main variants - basic, conservative and target. The forecast is based on the premise of a gradual slowdown in world economic growth from 3.2% in 2016 to 2.8% by 2020, which is due to the expectation of a slowdown in economic growth in both developed and developing countries. In developed countries, the level of economic activity will be affected on the one hand by a slowdown in the potential growth (against the background of an unfavorable demographic situation - the aging of the population and an increase in the population above the able-bodied age), and on the other - the exhaustion of post-crisis recovery growth opportunities [10].

In the euro area, recovery growth will continue in the current and next years, but as we approach full employment, growth rates will slow to 0.5% in 2019-2020 due to structural constraints. A significant contribution to the slowdown in world economic growth will be caused by a cooling of economic activity in the Chinese economy, which will be related to the need for structural adjustment due to the exhaustion of the investment-oriented growth model in the context of a significant over accumulation of capital in the infrastructure sector. According to the Ministry of Economic Development of Russia, the growth rate of China's GDP will slow from 6.6% in 2016 to 5.5% by 2020 [10].

In addition, the Ministry of Economic Development of Russia lays the preservation of the action of financial and economic sanctions against the Russian economy, as well as retaliatory measures throughout the forecast period. The forecast of the situation on the energy market is traditionally based on conservative assumptions and is based on the arrangements available at the time of the drafting of the forecast. Thus, in the current forecast of socio-economic development, the agreement on the freezing of oil production in June 2017 is expected to be completed.

The return of OPEC production to the maximum levels after the likely failure to renew the agreement to freeze production by leading producers, the retention of commercial oil and oil products in the US at historical highs, and the increase in production of US shale oil will cause the price of Urals crude to decline to US \$ 40 per barrel by the end of this year. This level of oil prices is estimated by the Ministry

of Economic Development of Russia as an equilibrium (providing a balance of supply and demand) and further it is predicted that the price of Urals oil will remain at \$ 40 per barrel in 2017 prices [10].

In developing the targeted option for the development of the Russian economy, the Ministry of Economic Development of Russia proceeded from similar foreign economic preconditions. In the conservative version of the forecast, the premise for a more substantial slowdown in world economic growth was laid, which will primarily be due to the “hard landing” of China’s economy, triggered by the collapse of bubbles in financial and non-financial assets markets. Under these conditions, the price for Urals crude oil is expected to drop to \$ 35 per barrel by the end of this year and will remain at this level until the end of the forecast period.

The agreement on limiting oil production during the first half of this year, according to the Ministry of Economic Development of Russia, will limit the volume of oil produced by the level of the previous year (549 million tons). In the future, the forecast pawns the volume of oil production at 553 million tons per year in 2018-2020. At the same time, it is forecasted to reduce oil supplies to the domestic market (taking into account the domestic market and the depth of processing) and the growth in oil exports (taking into account the attractiveness of oil exports, the reduction of primary oil refining and the increase in the depth of its processing due to the adopted “tax maneuver”). Similar prerequisites are also laid in the conservative scenario of the development of the Russian economy.

In the targeted version of the forecast for the development of the Russian economy, taking into account the creation of conditions for intensification of investment activities (including in the extractive industry), some increase in oil production is expected due to the introduction of new advanced technologies and the commissioning of new fields located in remote regions with complex conditions. As a result, the volume of oil production in the target scenario will be 556 million tons per year in 2018-2020.

Fundamental principles of budgetary and monetary policy will remain on the forecast horizon as important factors that have an impact on the development of the situation in the Russian economy. In all three forecast scenarios, the budget policy is implemented in accordance with the transitional provisions of the modified budget rules, fixing the base price of Urals oil at \$ 40 per barrel in real terms (in 2017 prices). Thus, the forecast scenarios assume the interconnection of the primary expenditures of the federal budget with the level of oil and gas revenues calculated at the base price for oil [10].

In addition, the implementation of the budget policy in accordance with the transitional provisions of the “modified budget rules” assumes the Ministry of Finance of Russia to purchase foreign currency in the domestic foreign exchange market in the amount of additional oil and gas revenues of the federal budget received as a result of exceeding the actual price of Urals grade oil level 40 US dollars per barrel (in real terms). According to the estimates of the Ministry of Economic Development of Russia, the volume of purchases of foreign currency by the Ministry of Finance of Russia in 2017 will amount to about 13 billion US dollars. In the future, the balance of operations of the Ministry of Finance of Russia is projected to be zero when the forecast price for Urals crude oil is at a basic level.

The Ministry of Finance of Russia’s operations to purchase foreign currency in the amount of additional oil and gas revenues this year will largely offset the impact of higher (compared to baseline) oil prices on the dynamics of the ruble’s exchange rate. At the same time, the Ministry of Economic Development and Trade of the Russian Federation lays in the basic and target scenario of the forecast a weakening of the ruble (to 68.0 rubles per dollar by the end of this year) as the one-off factors of the beginning of the year, acting

on the ruble's exchange rate, strengthen, the "normalization" of capital flows to countries with emerging markets and lower oil prices to \$ 40 per barrel [10].

Further, with the stabilization of terms of trade in the basic version of the forecast, stabilization of the real effective exchange rate of the ruble and, accordingly, the nominal weakening of the ruble by the rates determined by the inflation differential with trading partners is expected. In the target variant, a moderate strengthening of the ruble in real terms is expected, due to the increase in the productivity differential (the Balassa-Samuelson effect).

In the conservative variant, in 2017-2020, a more significant ruble depreciation is established with a decrease in oil prices to \$ 35 per barrel by the end of 2017 and the continuing decline in oil prices in real terms during 2018-2020. During 2017, the trend to weaken the ruble as a result of lower oil prices will be somewhat mitigated by the sale of the foreign currency of the Ministry of Finance of Russia, as a result of which the change in foreign exchange reserves in 2017 in this version of the forecast will be zero. In the following years, the Ministry of Finance of Russia does not forecast currency sales.

In all three scenarios of economic development, it is also expected that monetary policy will continue to be implemented within the framework of the inflation targeting regime, which presupposes the Bank of Russia's desire to ensure inflation near the target level of 4%, and adherence to the principles of free exchange rate formation. The "anchoring" of inflation expectations of economic agents at the target level, while reducing the dependence of both the real and nominal exchange rate of the ruble against fluctuations in oil prices, will create opportunities for a gradual reduction of the key rate by the Bank of Russia and fixing long-term interest rates at a low level.

Tariff regulation is also an important part of the overall macroeconomic policy. Limiting the rate of growth in natural monopoly tariffs by the level of inflation in the medium term will remain a structural factor in reducing inflationary pressures, increasing private sector investment activity (due to lower costs and release of resources), and also to stimulate the efficiency of companies in the infrastructure sector.

Thus, the implementation of a coherent and coordinated macroeconomic policy will ensure the stability of the main macroeconomic parameters - output, inflation, real effective ruble rate and long-term interest rates - on the forecast horizon. In the described external and internal economic conditions, in the base and target scenarios, GDP growth is projected at 2% in 2017. This growth will be of a restorative nature and will affect a wide range of sectors of the economy. If in 2015-2016, positive growth rates of output were observed only in traded sectors of the economy, which received competitive advantages from the weakening of the ruble, then in 2017 growth will affect non-tradable sectors due to the restoration of domestic demand. Thus, there will be a convergence of growth rates in traded and non-tradable sectors.

According to the Ministry of Economic Development of Russia, household spending on final consumption will increase by 1.6 percent this year. This will be due to the positive dynamics of household income in real terms. It is expected that the real wage growth that was observed last year will increase (by 1.3% in 2017 after 0.7% in 2016). In addition, social transfers will also support the income of the population - an important role will be played by a lump sum payment to pensioners. Positive dynamics of household incomes, along with the expected revival of consumer lending, will support retail trade turnover (it is projected to grow by 1.9% in 2017 after a 4.6% decrease in 2016) and the services sector [10].

At the same time, an increase in investment activity is expected in 2017: a reduction in the overall level of economic uncertainty in conditions of a significant amount of accumulated own resources (profit

growth in 2015 was 17.6%, in 2016 - 17.3%). According to the Ministry of Economic Development of Russia, investments in fixed assets will grow by 2.0% in 2017. The restoration of investment demand will support output in investment-oriented industries (such as the production of machinery and equipment, the production of vehicles, the production of other non-metallic products).

In the conservative version of the forecast, it is expected that the GDP growth rate will not exceed 0.2% in 2017, but still remain positive. Lower economic growth rates compared with the base and target scenarios will be due not only to a decrease in revenues from export activities, but also to a deterioration in the sentiment of economic agents and the formation of an additional outflow of capital, which will primarily affect investment activity.

As for inflationary dynamics, in the base and target variants of the forecast in 2017, further slowing of the annual inflation rate from the current values (4.3% y / y in March) is forecasted. It is expected that inflation will reach the target level in May-June, and in December 2017 will be 3.8 percent. The projected reduction in inflation below the target is due to a one-time factor - a large-scale strengthening of the ruble in early 2017. In 2018-2020, inflation is projected at the target level - in both the base and target scenarios.

In the conservative version of the forecast, against the backdrop of a more noticeable weakening of the ruble, on the one hand, and lower economic growth, on the other, it is projected that inflation at the end of 2017 will be 4.1%, in 2018 - will rise to 4.3% at the end of the year, and from 2019 - will be fixed at the target level. After the period of restorative economic growth in the basic version of the forecast is expected, the GDP growth rate is expected to fall to a level corresponding to the potential rates of economic growth (about 1.5 percent). In the conservative variant, it is expected that the GDP growth rate will approach the specified level in 2020 [10].

The low growth rates of the potential output are due to constraints on the factors of production existing in the Russian economy, which relate both to labor resources due to unfavorable demographic situation and capital resources (due to the insufficient volume and quality of investments in fixed assets for the necessary modernization).

To address these limitations for economic growth, the measures developed in preparation for the Comprehensive Action Plan of the Government are directed. Thus, the structural measures incorporated in the target variant of the forecast should ensure [10]:

- Growth in the number of employed in the economy (due to an increase in the economic activity of the population, increased mobility in the labor market, a reduction in the level of structural unemployment, an increase in the duration of active life).
- Growth in investment activity:
 - by creating predictable business conditions at the macro and micro levels
 - by improving the business climate, transformation of the tax system, export support system
- Development of a project finance institute that provides project support at all stages
- from development to proper structuring of financing and subsequent implementation process.
- Increase in labor productivity (through the implementation of a priority project to increase labor productivity, improve the quality of human capital through the modernization of the education system and professional development).

The proposed package of structural measures should ensure the acceleration of economic growth to 3.1% in 2020 with a significant increase in the share of investment in fixed assets, which will create the conditions for sustainable economic growth in the future.

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