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SCENARIOS AND CHALLENGES OF MACROECONOMIC POLICY

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Introduction

The crisis of 2008–2009 for Russia, resulted not only in considerable economic downturn, which threw it back by three years, but also in the obvious destruction of the old economic model. Enormous financial resources spent within the framework of anti-crisis program failed to put the economy back on growth track. Slow and unsustainable post-crisis recovery, problems in a number of sectors of the economy, which obviously became more acute, a conspicuous decrease in the investment activities, the threat of a long-term structural deficit in the federal budget and inconsistency of the balance of payments — this is by far not a complete list of problems the Russian authorities and the Russian society are facing.

What could and what should be done, in order to make the Russian economy grow again at the rate at least not lower than that of the world economy. What challenges are Russian authorities facing, what threats they cannot disregard? Is it possible to develop and implement a strategy of long-term sustainable growth for Russia? What can become a new driving force for the economic growth? Is it possible to define the set of the necessary prerequisites and conditions without which the sustainable growth is impossible? Or the current situation is not so bad, and the modern Russian economy possesses enough spare capacity, which will provide for its progressive advance during the next couple of decades?

These questions are of interest not only to us, many experts are writing and elaborating on them. The government has started its work on the revision of the Concept — 2020 and, possibly, when the election campaigns are over we shall hear about its more or less radical aspirations. In any event, the theme of a long term economic development for the nearest future will be in the focus of public attention, prompting the contemplation of many experts.

We tried to give answers to many of the raised questions. Probably, these answers sometimes are not enough substantiated. Some questions, possibly, remained unanswered. New ones possibly popped up. Not everything is clear to us. The analysis of the state of affairs in the Russian economy will be continued, and we hope it will lead to new interesting results.

In this work we start with the analysis of the current situation and with the answer to the question: why Russian economic downturn was so dramatic in the course of the global crisis? What domestic and external factors determined such a negative development of events? Further we shall present our understanding of how and to what extent the recovery plan of the Russian government has been implemented. Which industries have received the maximum support, and how efficient it has been? In the course of the analysis we have arrived at two important conclusions, which help us to understand the logic of the developments in the Russian economy during the period of crisis and the reasons of its slow and uncertain recovery after the global crisis was over. First of all, in terms of the amount of the rescue package Russia is on a par with many developed and major developing countries, moreover, the major resources have been channeled to the solution of problems of the financial sector, including rescue of the failed banks. Secondly, Russian rescue package envisaged rather insignificant funds directed for substitution of the lost private demand; more than that, within the framework of the anti-crisis program the government agreed to the reduction of the state demand and investments for the sake of supporting inefficient producers and of the same financial sector. And thus, the opportunities that the crisis offered for modernization were wasted.

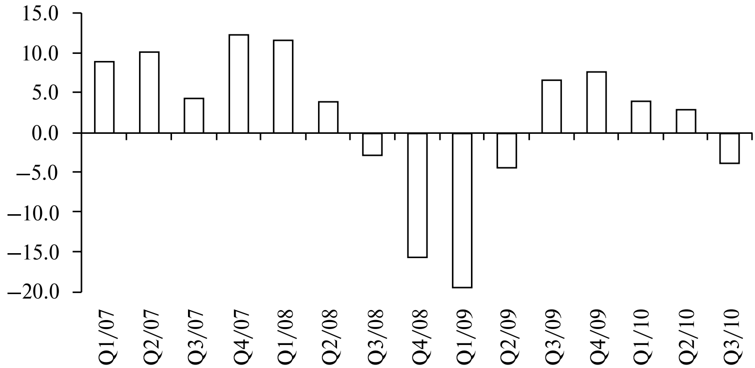
After that we shall shift to the analysis of possible strategies of growth for Russia. At this point, we find out, that one cannot rely on any generators of economic growth, which pushed forward the Russian economy during the period of 1999–2008 (such as weak ruble or permanent growth of oil prices). At present, the Russian economy quite obviously is in need of a new mechanism of growth, and, as it often happens, the authorities are facing a dilemma. On the one hand, the condition of the Russian economy today is not so bad, and there are grounds to believe, that in the mid-term perspective a "business as usual" scenario may be implemented, which envisages the growth based on the raw materials sector. Yes, such a scenario does not promise superfast growth rates, but its implementation doesn't require reforms, which will inevitably raise risks, violate existing balance of forces. It's not less clear, that in the long-term perspective a "business as usual" scenario is bound to bring fading of rates of growth and an increase of macroeconomic instability.

On the other hand, there is quite evident other logic of the development, based on the involvement of Russia in the world economic networks, on the wide attraction of direct foreign investments, on the basis of which a full-scale modernization of the economic potential of the country is possible. But such scenario is impossible without setting up working institutions, which will defend private property, fair competition and personal freedoms of citizens, which will limit the red-tape routine and the scale of corruption. Within the framework of our research we have carried out cross-country comparison of the quality of the development of institutions and the rates of economic growth in more than 50 countries, and we can say with confidence, that the economic growth is influenced by both the quality of institutions, and the dynamics of their transformation. It means that Russia has a huge spare capacity for the growth, which can still be used. But the use of this potential and creation of efficient institutions is possible only provided there is a system of checks and balances in the political system. And this means political reforms, connected with risks, but opening new sources for the development.

We didn't intend to give all the recipes for all of life's emergencies for the Russian authorities, which will hopefully sooner or later become preoccupied with the decreasing role of Russia in the world economy. We just want to show problems, which they will have to resolve, and to say, that our country is not the first one to face them. And that means that such problems are possible to resolve. But it requires political will.

1. Russia and crisis

Russia is referred to a group of countries, which suffered to the greatest extent during the global economic crisis of 2008–2009. In the IV quarter of 2008 and the I quarter of 2009 GDP decreased by 15.8 and 19.8% (qoq annualised) (picture 1); in total the drop in GDP from the peak pre-crisis level to the minimal mark in May 2009 exceeded 11%. It means, that the Russian economy turned out to be much more vulnerable to the external shocks than the economies of other major countries.



The sources: Rosstat, calculations performed by the Development Center.

Picture 1. Dynamics of Russian GDP (quarter to quarter, seasonally leveled growth in annual expression, %)

Even though it is not the first time when the Russian economy bumped into a situation when in the dynamics of its development to a great extent was determined by external factors, its structural problems (such as raw materials dependency, excessive share of the state in the economy) possibly, became even more aggravated under the impact of the crisis. And of course it is important to find out to what extent the implemented rescue package was adequate to the existing situation.

1.1. Why the economic downturn in Russia was so deep?

The factors which determined the depth of the crisis downturn in Russia may be divided into external and domestic. The external ones are the drop in demand of the world economy for the Russian export products (mainly raw materials) and the radical change of the situation on the world capital markets which practically deprived Russian banks and companies of the opportunities to raise external financing. Among domestic factors we shall name: the economic overheating, failure of banking supervision, weakness of institutions and incompleteness of many structural reforms, a low level of direct foreign investments and existence of surplus stock in the economy.

Since the basis of the Russian economy is made up of the raw material resources[1] our country to a full extent perceived the drop in external demand under conditions of the commencing recession, which had a serious impact on the situation in the real sector of the economy. A downturn in the world GDP and ending global slowdown of the investment activities as such determined a decline of the aggregate demand. However, bankruptcy of Lehman Brothers and practically a full stop of interbank and commercial crediting that followed it, led to a still deeper decline in the world trade and the world GDP, than could be expected. It, by the way, testifies to the fact, that stimulation of the economic activities by monetary easing (reduction in the bank rate by the US Federal Reserve from 6% in 2001 to 1% in autumn 2008) entails negative consequences. Six years of the world prosperity due to the abundance of "cheap" money may turn into stagnation twice as long, which is something the world analysts are pondering over now.

According to our estimates, the physical volume of the Russian export excluding oil and oil products (during the crisis their export has not decreased, the Russian oil companies shifted over the burden of balancing demand and supply of oil on the world market on OPEC countries) declined by 17%, what can manifest the scale of drop in external demand. A sweeping decline of volumes of production and the majority of export and raw materials industries and in closely

[1] The share of oil, oil products, gas, ferrous and non-ferrous metals, chemical products and timber in value of the Russian export in 2007 — first half of 2008 made up about 86%.

connected with them railroads transportation started in August—September of 2008 and by the end of the year amounted from 30 to 50% year over year.

An important role in the development of the situation in the Russian economy was played by *the crisis of the corporate foreign debt*. From January 1, 2005 to June 30, 2008 the Russian corporate foreign debt grew five-fold or by $400 billion, that is roughly by $115 billion per year.

At first sight, the volume of debt was not so large to become the main reason of unprecedented crisis in Russia. In fact, before crisis — in IV quarter of 2007 — the level of the aggregate foreign debt burden (both general and short-term) with respect to GDP and to the export (table 1) was rather low in our country.

Table 1. Indebtedness during crisis in different countries

Country	Banking credit corporate borrowers, % GDP	The volume of external debt, % GDP	The volume of domestic corporate debt (not to the banks), % GDP	The share of external debt in total corporate debt (2 / (1 + 2 + 3) × 100), %	Total corporate debt, % GDP
Malaysia, 1997	149	23	26	12	198
Philippines, 1997	65	15	1	19	81
Thailand, 1997	122	40	4	24	166
Indonesia, 1997	60	41	2	40	103
Korea, 1997	103	9	23	7	135
Mexico, 1994	no data	no data	no data	no data	40
Sweden, 1991	no data	no data	no data	no data	140
Russia, 2009	*33*	*23*	*9*	*36*	*65*

Footnote. The data on Russia: banking credits to GDP — on average in 2009. External (foreign) debt — as of 01.10.2009 including liabilities to direct investors; domestic corporate non-bank debt — corporate bonds circulated at MICEX as of the beginning of February 2010.

The sources: Rosstat, Bank of Russia, The World Bank, Alfa-bank; calculations performed by the Development Center.

What is the fault of oil prices?

Reduction of the production in the Russian oil industry during the crisis has not been recorded which helped to prevent a deeper recession of the Russian economy. But it was impossible to avoid the impact of the world oil prices decline altogether.

First of all, their permanent increase starting from 2003 was warming up optimistic hopes and forming expectations of further rapid economic growth[2].

Secondly, decline of the world oil prices, undoubtfully, influenced the financial state of oil companies, their possibilities and intentions to finance investment programs. However this influence was not as strong as the decline of oil prices. Specific system of taxation of oil export (tying in MET (Mineral Extraction Tax) to the level of the world oil prices and the increase of the export duty for oil in case of the world oil prices growth) led to the situation, when 85–90% of the incremental export price for the Russian oil went to the budget and just 10–15% — to the Russian oil companies. In total the oil price increase from $40/barrel in 2004 to $140/barrel in the middle of 2008 brought to the Russian oil companies $10–15/barrel of export oil.

Thirdly, if oil and gas profits had not been accumulating in pre-crisis years in the reserve funds then the slow increase in profits of oil companies under conditions of plentiful growth of the world oil prices would have been compensated by the growing expenditure of the federal budget. But that didn't happen. Even the fast buildup of the federal budget expenditure in 2007–2008

[2] The record share of reserves in GDP at the beginning of the second half of 2008, apart from expectations of the growth of consumption, was determined by the seasonal character of their formation. Since the ultimate consumption in Russia in the second half of the year is greater than in the first one, then in the first half of the year traditionally accumulation of reserves for realization of products in the second half takes place. This tendency is reinforced by the fact that incompleted construction which is recorded as reserves increment is shifted to the category of end products (finished real estate) which happens closer to the year end. By the end of the first half of the year 2008 the level of reserves in GDP reached its peak — about 33% GDP (according to the estimates of the Development Center), while the normal value of this indicator before the consumer boom of 2006–2008 made up less than 25%. More than 1/4 (!) of the GDP's increment during the period from the beginning of 2006 till II quarter of 2008 was due to the accumulation of reserves.

couldn't absorb all budget incomes from the export of hydrocarbons. In practice in 2007–2008 the federal budget has "cut down" about 70% of oil and gas incomes, i.e. the volume of expenditures at that time corresponded to the oil price at the level of approximately $50–60/barrel.

Setting up the system of reserve funds and allocation to them of a considerable part of income from the export of hydrocarbons created a situation when the decline of the world oil prices has not affected the volume of financing the expenditures of the federal budget. Existence of considerable accumulated reserves[3] and automatic mechanisms of their use in cases of drastic decline of the world oil prices enabled the Ministry of finance of Russia to uninterruptedly finance the planned expenditures of the budget.

Thus, direct financial impact of the decline of the world oil prices on the Russian economy during the crisis was insignificant. The main negative effects manifested themselves in the downturn of investment activities of oil companies and in altered expectations of the economic agents.

However by the middle of 2008 the Russian economy (both financial and oil-and-gas sectors) turned out to be in heavy dependence on the permanent inflow of capital due to the following reasons:

— for a considerable part of the banking system foreign loans became the biggest *source of their liabilities* (only permanent increase in foreign loans made it possible for many banks to build up assets);

— *the necessary reserve of liquidity was lacking*. Many companies from the real sector actively attracted foreign loans, significant part of which was used not for the financing of investment projects, but on mergers and acquisition (quite often the assets, including those outside of Russia, were acquired at the excessive prices; synergy effects of such deals were not obvious, and their economic efficiency could manifest itself only in case of further growth of the raw materials prices);

[3] As of October 1, 2008 the volume of the Reserve Fund amounted to $141 billion, and that of the National Welfare Fund amounted to $49 billion.

— *currency risks have not been hedged.* Both banking and real sectors, by raising external loans in foreign currency were building assets nominated in Russian rubles not using currency hedging (by the beginning of the crisis, according to the Bank of Russia, Russian banks and companies kept in their balances the aggregated unhedged currency position exceeding $100 billion, about 6% of GDP). It was fostered by the policy of the Bank of Russia, which persistently strengthened ruble not only in real terms, but also in nominal terms against major currencies having rather high domestic inflation. However, we do not exclude, that the level of inflation to a great extent was determined by a relatively low business activity, and the cost of disinflation could be higher than the cost of the crawling peg.

Besides, we should note a high share (nearly 40%) of the short-term credits (with maturity period less than 18 months) and a large number of credits with formally longer repayment periods, which were collaterized by Russian equities. When the value of collaterals started to decline the creditors began to send to their clients margin calls — or to make an early redemption of the loan, otherwise the title for the collateral was to be transferred to the creditors.

When in autumn 2008 domestic banks, companies and private investors faced the closure of global credit markets and a sharp decline in Russian stock market, they were deprived not only of the opportunity to raise new external loans, but they had to repay earlier assumed obligations. The scale of the external credit contraction turned out to be enormous.

According to the experts' estimations, roughly half of the increment of the foreign debt of the companies of the real sector was spent on the financing of M&As. That means without this component the growth of the Russian economy was annually co-financed by international financial markets by approximately $55–60 billion (4.3% GDP on average during 2006–2008). Thus, even mere cessation of foreign credit inflow reduced customary financial feeding of the Russian economy and had to hinder the economic growth. If one adds to this value the sum of the gross repayment of corporate foreign debt in the IV quarter of 2008 in the amount of $26.3 billion, then the Russian economy had to immediately adjust itself to the situation of transition from inflow of capital amounting almost 4.5% GDP to its outflow in the amount of 6.5% GDP. Of course it could not but cause an abrupt deceleration of the economy.

Unlike the rapid reduction of external demand which was difficult to predict and to qualitatively estimate, accumulation of the foreign debt by the Russian corporate sector was proceeding gradually, especially during the years preceding the crisis, the Russian authorities didn't take any measures to limit it. Moreover, this heavy growth of corporate external debt to a certain extent was "fostered" by the disequilibrium of monetary and exchange policy of the Central Bank of Russia.

So what internal factors determined such an intense respond of the Russian economy to the altered external conditions? Already by the middle of 2008 the Russian authorities and IMF experts recognized existence of overheating of the Russian economy. Thus, in the "2008 Article IV Consultation Staff Report" the following characteristic features of the overheating have been noted:

— high inflation which by May 2008 exceeded 15% (during the last 12 months);

— higher than anticipated growth of domestic demand in comparison with the dynamics of domestic production (it could be maintained only at the expense of weakening the budget policy, external borrowings and accelerated growth of import);

— the increase of contribution to the growth of the Russian GDP in 2006 — the first half of 2008 by non-tradable sectors at the background of stagnation of processing and even extracting industries;

— the plentiful growth of share indexes and prices for real estate.

Failures of the banking supervision became a logical continuation of disequilibrium of the macroeconomic policy which determined both the overheating and a heavy buildup of the foreign debt. The Central Bank did not respond to the fact that the banking system was actively building up the open foreign currency position against ruble[4] and was reducing the volume of liquid assets. By the moment the cri-

[4] Making a presentation at XVII Russian banking forum, arranged by the Adam Smith Institution in London in November—December 2010, the first vice chairman of the Bank of Russia A. Ulyukaev estimated the gap between the currency assets and the passives of the banking system in the middle of 2008 at $130 billion, which was approximately equal to the amount of its aggregate capital.

sis was entering its critical phase many major banks found themselves in this situation of insecurity either due to the active game on the financial markets, or to the traditional enthusiasm about long-term investments and/or proprietors financing in default of the long-term liabilities, or due to the commonplace theft.

Loosening of the banking supervision vividly showed *the weakness of the Russian institutions*. A powerful inflow of the proceeds of the export of raw materials completely blocked the institutional reforms in the economy declared in 2000–2001. As a result of political changes, the quality of the main state institutions (loans, machinery of government, and protection of the right of ownership) started to decrease and the degree of their corruption was growing.

As the analysis show, the weak institutions may affect the economic dynamics not only in the long run (as the factor of the long-term competitiveness of the national economy)[5], but also in the short run (as an indicator of the risk of losing investments during the economic crisis, with which the intensity of the outflow of capital may be connected). In practical terms it means that in the course of the crisis in the countries with a less developed institutions a deeper decline in GDP may be registered or a greater slowdown of the economic growth.

During pre-crisis period *the Russian authorities* created attractive conditions for the foreign financial capital in Russia, but at the same time they actually *limited the inflow of foreign direct investments*. The state didn't only fail to determine the priorities of the structural policy and didn't establish efficient incentives for the attraction of the capital to the target sectors, but, on the contrary, it squeezed out the foreign capital not only from the extractive industries, but also from the sectors whose development could foster structural changes in the Russian economy[6]. One of the most demonstrative exam-

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[5] *Guriev S., Plekhanov A., Sonin K.* Economic mechanism of the raw materials model of the development // Perspectives : [site] / The Fund of historic perspectives. 2010. April 7. Access mode: www.perspektivy.info/rus/ekob/ekonomicheskij_mehanizm_syrjevoj_modeli_razvitija_2010-04-07.htm (see also: Voprosy ekonomiki. 2010. No. 3. P. 4–23).

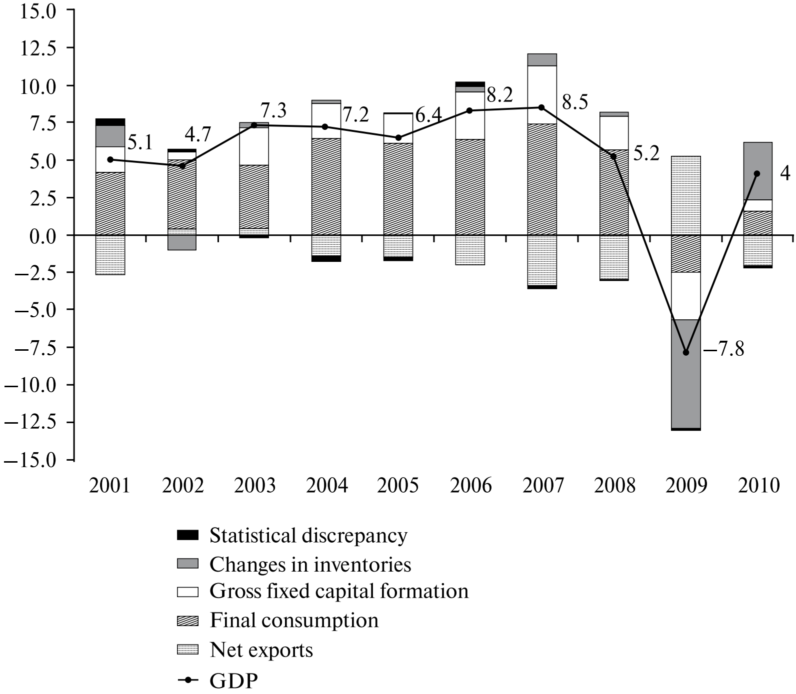
[6] Foreign direct investment are important for Russia not only as such, but as an opportunity to procure modern equipment and technologies, managerial capital, without which it is hardly possible to change the structure of the economy.

ples of such policies became adoption on April 29, 2008 of the law No. 57-FZ "On the procedure of execution of foreign investments into business entities having strategic importance for the provision of defense of the country and security of the state", which practically introduced prohibitive limitations for the direct investments into the Russian economy.

According to our estimates in 2009 the predominant contribution to the decline of GDP was made not by the decrease of the aggregate demand (external and domestic), but by a considerable reduction of surplus inventories accumulated during the period of overheating[7]. On the one hand, sharp drop in inventories during the decline of demand is natural. On the other hand, due to the scale of the problem it would be just to say, that the majority of Russian managers so far are not aware of the importance of correct management of inventories under normal circumstances.

Trying to protect themselves from high inflation during pre-crisis period, the Russian enterprises were creating considerable supplies of raw materials and finished products. With the outbreak of the crisis they faced a drastic decline of demand, limited possibilities of bank credits and they started to slash their stock. The estimates show, that the aggregate demand in the downward phase of the competition in 2009 practically remained the same in comparison with the year 2008, since the negative contribution made by the reduction of investments into the main capital and end consumption was compensated by a positive contribution of the net exports, and about 3/4 of decline of GDP in 2009 (6.8 p.p. from the decline of GDP by 7.8%) could be attributed to the negative contribution made by the multiple reduction of inventories (picture 2).

[7] See more details: Russian economy against the background of the world crisis: current tendencies and perspectives of the development / N. Akindinova and others // Voprosy ekonomiki. 2009. No. 9. P. 71–92.



The sources: Rosstat, calculations performed by the Development Center.

Picture 2. Dynamics of the Russian GDP in 2001–2009 and contribution of separate elements, %

1.2. Composition and focus of the Russian rescue package[8]

The analysis of anti-crisis programs in different countries makes it possible to single out their main blocks:

— *weakening by the central banks of their monetary policies* by reducing interest rates, providing additional liquidity, including the programs of quantitative easening;

[8] *Aleksashenko S., Mironov V., Miroshnichenko D.* Russian crisis and rescue package: objectives, scale, efficiency // Voprosy ekonomiki. 2011. No. 2. P. 23–49.

— support of the financial sector by purchasing distressed assets and offering guarantees and/or additional capital to banks, introducing (raising the limit) of guarantees for private deposits in the banks;

— *the fiscal stimulus*, intended to compensate for the decline of the private demand by the public one (either by reducing tax rates and providing tax deductions, or by increasing budgetary expenditures (aimed at the payments to households, purchasing of goods and services for the public consumption or investments financing);

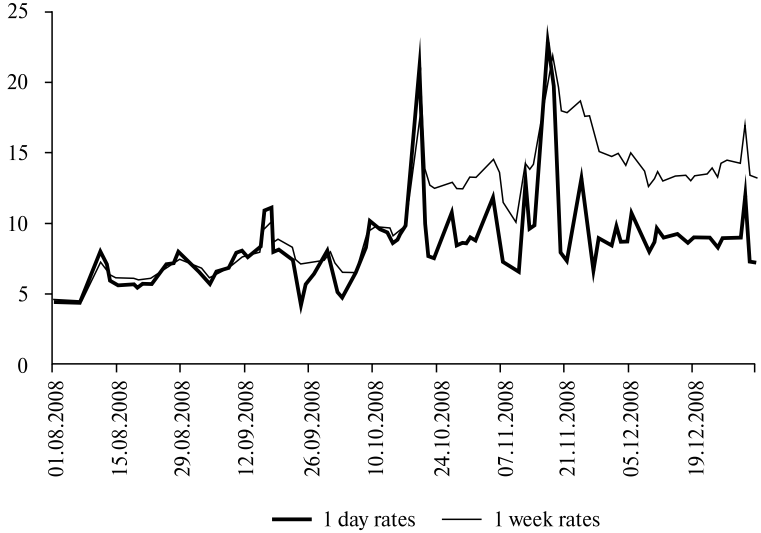
— *support of separate sectors of the economy* (except financial), sustainability of which was recognized as crucially important for the stability of the economy.

The diversity of anti-crisis measures of the Russian government and the Bank of Russia adopted in 2008–2009 aimed to support the economy and households, correspond to the indicated division. For the sake of this report we confine our analysis to the review of measures of monetary and financial policy.

1.2.1. Resolution of the banking sector problems

From the middle of September 2008 Russia entered the real banking crisis which as further developments showed became the most expensive in the modern Russian history. "The driving belts" which transmitted general economic problems to the banking sector became the capital outflow from the country (in the form of net repayment of the corporate foreign debt and dollarization of household and corporate deposits); a huge non-hedged foreign exchange risk accumulated by both, the real and financial sectors; a sharp deterioration of the financial state of the borrowers, which led to a considerable decline of the quality of assets and growing arrears. For many banks, first of all regional ones, an important problem became the outflow of household deposits. In order to overcome the banking crisis the state undertook a number of measures which can be divided into several groups.

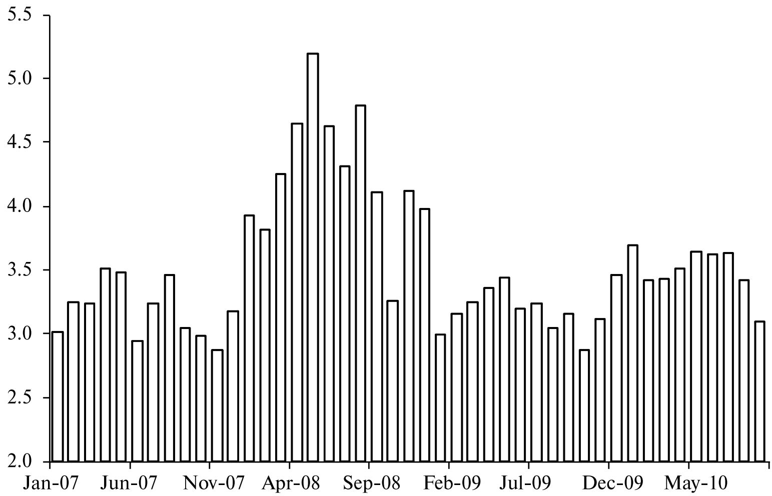
Support of banks' liquidity. In autumn 2008 in the Russian banking sector a crisis of liquidity emerged, which contrary to popular belief did not have an all-out character. According to the Bank of Russia, even during the most tensed days of the middle of September 2008 the number of processed banking payment documents at the Moscow payment center and the amount of executed payments practically has not decreased. Nevertheless Russian banks executed a strong informational pressure on the Bank of Russia and on the government, forcing them to agree to an immediate provision of supplementary liquidity (decreasing the level of reserve requirements and placing deposits with commercial banks by the Ministry of finance of Russia). As a result, the rates of the Moscow interbank credit market for one-day credits grew from 4–5 to 10%, but they remained at this level for only a couple of days, and then they declined to pre-crisis levels (picture 3).



The source: the Bank of Russia.

Picture 3. Mosprime rates — 1 day and 1 week, %

According to our estimates at that moment it was a question of the lack of liquid assets in the banks, especially which were active net-borrowers on interbank credit market and on the market of financial instruments (REPO market). The large magnitude of the liquidity crisis resulted from execution of the system risk on the Moscow financial market, when due to a large amount of interbank operations insolvency of several major players leads to the insolvency of their creditors. The degree of this risk can be assessed according to the ratio of the banks' mutual claims to liabilities of the whole banking system.



The sources: the Bank of Russia, calculations performed by the Development Center.

Picture 4. The ratio of banks' mutual claims to liabilities of the Russian banking system, %

As you can see on the picture 4, starting from December 2007 the risk of proliferation of problems of separate banks on the whole system started to grow significantly and by September 2008 turned out to be potentially very high. Further the situation developed after the domino principle, which was aggravated by the existence of problems in a number of banks which had considerable amount of liabilities in relation to their counter-agents, first of all it was the case with "Svyaz-Bank" and "KIT-Finance" (their liabilities only in terms of interbank credits as of September 1, 2008 amounted to 33 billion rubles). The default of their obligations led to a cross-default and against the background of market disruption — to a sledge-hammer crisis of trust in the banking system. Along with that we should emphasize: in autumn 2008 in Russia there was no full-scale payments crisis as was the case in autumn 1998.

In order to mitigate the tension on the monetary market and to provide additional liquidity to the banking system next day after the bankrupcy of Lehman Brothers the Bank of Russia decided to decrease the rate of reserve reqirements. As a result the banking system received about 250 billion rubles, and in October — another 115 billion rubles. Besides, since the Bank of Russia did not have regulatory framework for providing unsecured credits[9], from the middle of September till the end of October 2008 the Ministry of finance of Russia additionally allocated to commercial banks the deposits amounting of slightly less than 700 billion rubles.

The aforesaid measures relieved the tension in the financial market and banks started to accumulate excess liquidity. Amid fall in oil prices and declining ruble exchange rate towards dollar (under the stable exchange rate of the dual currency basket it happened due to the strengthening of dollar against euro) this liquidity was directed by the banks for purchasing foreign currency to cover their foreign exchange risk. In October—November 2008 the Bank of Russia maintained the exchange rate of ruble against the basket at the same level refusing to limit for the volumes of foreign exchange it was selling, which corresponded to the principles of currency liberalization. However, at the same time it granted to the banking system almost unlimited access to its liquidity facilities[10].

The Bank of Russia was to make a choice: to declare the stability of the exchange rate of ruble and to continue spending foreign exchange reserve for its maintenance or to accept ruble devaluation. The decision-making was hindered by political considerations, as a result, top-ranking officials made contradictory statements concerning the future of the ruble, which created high devaluation expectations among business community and households thus boosting demand for foreign exchange in the country. As a result, respondings to the world crisis banks were sending practically all ruble resources for purchasing foreign exchange. These operations were becoming more and more attractive for the banks[11], since the Bank of Russia decided

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[9] The Provision of the Bank of Russia about unsecured credits appeared only on October 16, 2008.

[10] In distinction from actions of monetary authorities in other countries which used short-term (one day or a week) credits, the Bank of Russia drastically prolonged the terms (up to one year) of rendering its credit support to the banks, which turned these instruments into mechanisms of supporting paying capacity of the banking system, rather than of liquidity.

[11] According to our estimates the gainings of the Russian banking system from the attraction of ruble credits (deposits) from the Bank of Russia (Ministry of finance of Russia) and simultaneous purchasing of US dollars during the period starting from the beginning of October 2008 till the end of January 2009 amounted to 750—800 billion rubles., i.e. it exceeded 25% of pre-crisis capital of the Russian banking system. This accounts for the fact that very few Russian banks had problems with losses or the lack of capital during the period of the critical phase of the crisis.

not to raise significantly the level of interest rates, which obviously was explained by its desire not to tighten its monetary policy under conditions of the economic recession. As a consequence, foreign exchange reserves of the Bank of Russia declined by one third. In the beginning of January 2009 the monetary authorities had to allow practically a free fall of the ruble, which ended at the beginning of February 2009 as soon as the Bank of Russia stopped to provide new liquidity to the banking system (picture 5).

The sources: the Bank of Russia, calculations performed by the Development Center.

Picture 5. The volume of liquidity provided by the Bank of Russia and the Ministry of finance of Russia and foreign exchange interventions of the Bank of Russia (September 2008 — September 2009), *trillion rubles*

During the crisis the Bank of Russia was trying to weaken its monetary policy that is traditional for periods of economic recession using the methods of quantitative easening (though without defining its principles and without establishing quantitative limits for its operations). However due to the overemphasis on external liabilities of the banking and corporate sectors which were accumulated before the crisis, the Bank of Russia failed to weaken its monetary policy only using interrelations of the Russian economy with the outer world, because all rubles liquidity it provided to the banking system was used for purchasing foreign exchange, redemption of external debt and for building up foreign exchange. Along with that, massive liquidity provided to the banking sector didn't reach the real sector, and, hence, it didn't decrease the scale of decline of the Russian economy. Moreover, the Bank of Russia, though slightly, was raising the level of interest rates, which made bank's credits less accessible for the real sector of the economy.

In spring 2009 the world oil prices started to increase, which was followed by gradual recovery of the world economy and of the demand for the raw materials. That significantly facilitated settlement of problems which the Russian monetary authorities were facing. First of all, due to a sharp devaluation of ruble import to Russia decreased and the current account improved. Secondly, massive increase of the deposit rates that helped banks to solve their liquidity problems, the households' propensity to save increased and enabled the banks to basically substitute in their balances the credits from the Bank of Russia by private deposits by autumn 2009. Thirdly, the government started to spend beginning in spring 2009 cash from the Reserve Fund to finance the budget deficit.That provided the inflow of rubles liquidity needed for the economy and because of that the Bank of Russia could smoothly minimize its active operations.

Stabilization of deposit base. The intensity of the outflow of households' deposits October 2008 was equal to the period after August 17, 1998, when the major private Russian banks couldn't fulfill their obligations. To quench the panic among the population on October 13, 2008 the No. 174-FZ law was adopted which significantly improved the terms of compensation of assets, falling within the scope of legislation regulating the system of insurance of deposits[12].

[12] First of all, the maximum amount compensated by the Deposit Insurance Agency (DIA) in case of recall of the license from the bank was increased from 400 000 rubles to 700 000 rubles. Secondly, if earlier full compensation covered the amount of the depositor's call to the bank only within 100 000 rubles, and the assets exceeding this sum were paid out by DIA in the amount of 90%, then now, the whole sum within 700 000 rubles, including accrued interests was to be compensated. Thirdly, provisions of the law covered the deposits in the banks, with occurrence of loss after October 1, 2008.

In total, according to the Bank of Russia during the period from September 2008 till January 2009 ruble deposits decreased by 1127 billion rubles (21.8%) and the currency deposits grew by $25.7 billion (20%). After that there was a freeze of the inflow of *new* private deposits: the increase of the nominal volume of deposits from March till August 2009 resulted exclusively because of capitalization of the interests accrued by the banks.

The recapitalisation of the banking system. Already in September 2008 it became clear, that because of the deterioration of the quality of the assets the banks had to establish additional reserve to cover potential losses. Consequently, their level of profitability and the capital adequacy ratio will worsen.

In this situation the Bank of Russia starting from December 2008 introduced a privileged regime of formation of provisions connected with non-performing and restructured loans[13] (the banks were allowed not to increase reserves for potential losses related to restructured credits). In fact the “bad” loans artificially were made equal to “good” ones, as a result, with the help of accounting tricks the banks could refrain from decreasing their capital regardless of the real financial position. We believe that this decision had a problematic nature.

A more important measure which made it possible to improve the capital adequacy of the banking system was adopted at the very beginning of the crisis (in October 2008) decision about granting to the major banks subordinated loans in the total amount exceeding 900 billion rubles, 725 billion rubles out of it were given to the state banks (Sberbank, VTB and Rosselkhozbank). Later, the government has injected additional capital to VTB (September 2009), Rosselkhozbank (February 2009) and Bank for Development (Vneshekonombank) (November 2008, June and December 2009) amounting 421 billion rubles. Unlike similar measures on the support of capitalization of the major banks in the USA, conditions of granting the state assets in Russia turned out to be milder. If in the USA by the end of 2010 practically all the banks which received the budget assets started to return them (and some of them returned them in full), in Russia with the exception of Sberbank, which repaid half of the subordinated loan to the Bank of Russia, none of the banks has returned the assets to the budget yet.

Rehabilitation of troubled banks. Practically unlimited access of the banks to the credits of the Bank of Russia and the possibility of

[13] Cancelled only in the middle of 2010.

purchasing of foreign exchange when the devaluation of ruble led to the fact, that the Russian banking system did not incur serious losses in the course of the last crisis. Though during the preceding years the Russian banking regulators accumulated conspicuous experience of rehabilitation and liquidation of banks that have lost their solvency, by the time of the beginning of the crisis in 2008–2009 they failed to work out the basic principles of selection of critically important banking institutions whose salvation would be expedient. As a result the Russian authorities from the start adopted the policy "save whomever you can save" regardless of the size and real state of affairs in a concrete credit organization. Somehow, a number of small banks with serious problems were allowed to go bankrupt (for example the banks "Elektronika", "Moskovsky capital").

Along with that in the course of the crisis the state allocated huge resources (slightly less than 1% of GDP) for keeping afloat (that is to say — for paying the debts) of factually failed banks "Svyaz-Bank", "Globex" and "KIT-Finance"[14], which hardly had any economic sense. These banks were not of strategic importance, their bankruptcy would not lead to any serious consequences for the economy, and on the contrary it would foster refinement of the banking system (table 2).

Have the desired goals been achieved? From the very beginning of the crisis the Russian authorities were worried by possible reduction of credits outstanding that started already in September 2008. That is why the support of the banking system were aimed first of all at the restoration of the credit activity of the banks. However, in practice only in separate periods, mainly due to the administrative pressure, it was possible to attain the increase of crediting of nonfinancial sector by state-owned banks (picture 6*a*). Private Russian banks were reducing their crediting activities for 12 months in a row — from September 2008 till August 2009[15], and sustainable growth of the banks' crediting started only in March 2010 (picture 6*b*).

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[14] In order to preserve "Svyaz-Bank" the state allocated 142 billion rubles, "Globex" bank — 87 billion, and to keep "KIT-Finance" afloat together with connected with it by credit operations Gazprombank — 135 billion rubles. The total: 364 billion rubles, or 0.9% GDP of Russia in 2009.

[15] We shall mention the growth of investments of the banks into corporate debt securities at the background of decline of the volume of commercial credits, which was observed in 2009. Such a situation is accounted for by the fact, that the banks willingly purchased the bonds which were in the Lombard list of the Bank of Russia, i.e. there was a possibility if needed to get free ruble resources against such collateral.

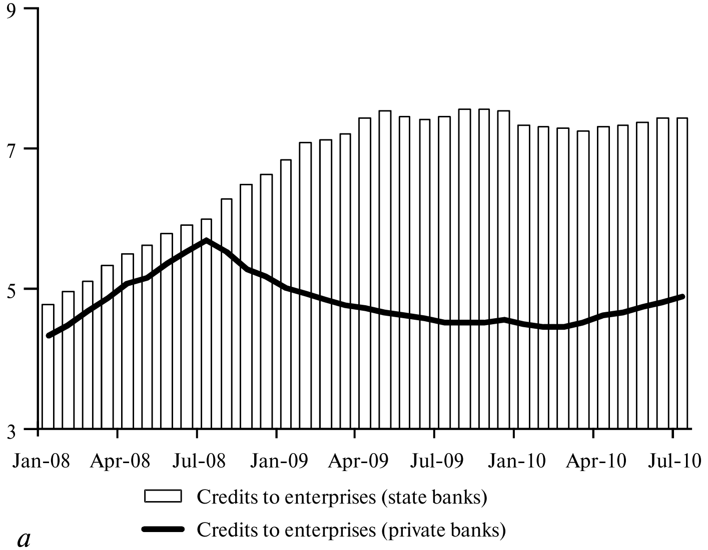
Table 2. Expenditures on the support of the banking sector

Arrangements	Amount of financing, billion rubles	Body executing financing	Source of financing
The program of support of liquidity of the banking system			
1. Lowering the norms of compulsory reserves	365	—	The Bank of Russia
2. Deposits of the Ministry of finance of Russia	691.2 (maximum value, As of the beginning of November 2008)	The Ministry of Finance of Russia	Federal budget
3. Credits of the Bank of Russia (with a deduction of those granted to Sberbank and Vneshekonombank within the program of additional capitalization of the banking system)	3503 (maximum value, as of the beginning of February 2009)	The Bank of Russia	The Bank of Russia
4. Repurchase of shares and bonds of the Russian issuers on the financial market	175	Vneshekonombank	National Welfare Fund
The total volume of assets allocated for the support of liquidity	*4734.2 (11.4% GDP 2008)*		
The Program of additional capitalization of the banking system			
Increase of the authorized capital of the state banks			
1. Increase of the authorized capital OJSC "Rosselkhozbank"	45.8	Russian Federation	Federal budget

Arrangements	Amount of financing, billion rubles	Body executing financing	Source of financing
2. Increase of the authorized capital OJSC “Vneshtorgbank”	180.0	Russian Federation	Federal budget
Granting subordinate credits			
1. In accordance with art. 6 and 6.1 of the law No. 173-FZ	404.0	Vneshekonombank	National Welfare Fund
2. Credit to Sberbank in accordance with art. 5.1 of the law No. 173-FZ	500.0	The Bank of Russia	The Bank of Russia
Procedures of rehabilitation of banks			
1. Arrangements on financial rehabilitation of banks in accordance with the law No. 175-FZ	336.0	SC “ACB”	204.0 — federal budget, 132.0 — the Bank of Russia
2. Arrangements on financial rehabilitation of banks, carried out by Vneshekonombank	212.0	Vneshekonombank	The Bank of Russia
Indirect expenses			
1. Participation in authorized capital of enterprises of the real sector	130.5 (50%)	Russian Federation	Federal budget

Arrangements	Amount of financing, billion rubles	Body executing financing	Source of financing
2. Improvement of the financial state of enterprises of the real sector	150.0 (50%)	Russian Federation	Federal budget
3. The program of granting budget guarantees	300.0 (100%)	Russian Federation	Federal budget
Total amount of financing	*2118.0 (5.4% GDP 2009)*		
Including out of the federal budget assets	1274.0		

The sources: the Bank of Russia, ACB, Vneshekonombank, calculations performed by the Development Center.



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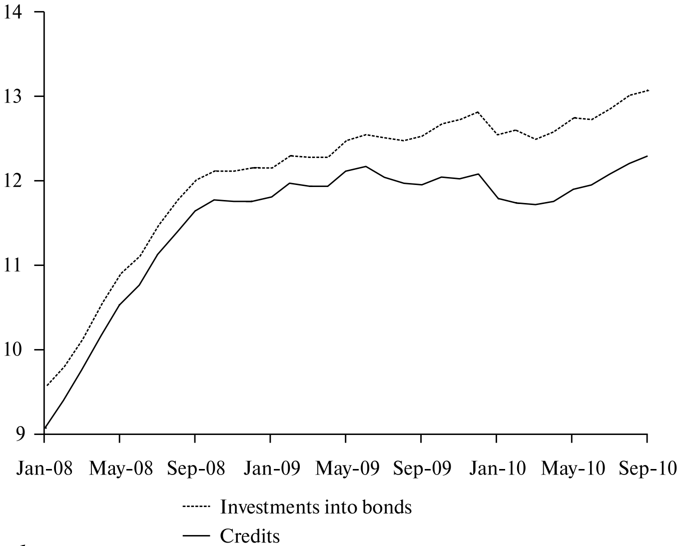


b

The sources: the Bank of Russia, calculations performed by the Development Center.

Picture 6. Credits to nonfinancial sector of the economy (*a*) and credits and investments of banks into bonds of enterprises (*b*), *trillion rubles*

Outwardly the Russian banking crisis resembled the one which was unrolling in the developed countries: a slowdown of the economy led to the deterioration of the quality of assets, which led to the lack of liquidity of some major banks. Under conditions of a sharp decline of activities of the monetary market it caused tension in the whole banking system. However there were differences.

First of all, in Russia the problems of insolvency of the borrowers in the real sector of the economy were combined with the capital outflow, which essentially deprived the monetary authorities of the possibility to exploit the positive aspects of weakening of the monetary policy. Secondly, if American and European banks suffered during the crisis mainly because of the inadequacy of risk management, then the Russian ones suffered due to decisions of their owners were usually the main borrowers. Thirdly, in the developed countries it was agreed to modernize and to improve financial supervision. But while in Russia the failure of banking supervision was so significant that the real agenda is the need to establish a new system of banking supervision.

1.2.2. Fiscal stimulus in Russia

In the economic theory and practice of implementation of anti-crisis programs the most important role is given to the fiscal incentives. The state is trying to compensate the drastic decline of the private demand either by the reduction of the level of taxation, or by the increase of budgetary purchases of goods and services or by implementation of new investment programs. In practice the efficiency of this instrument is determined by numerous additional factors. Among them we shall single out two:

— ability of the government to increase the budget expenditure while tax revenues decline due to the diminished business activity. Sometimes governments are using accumulated reserves but as a rule they have to build up budget deficit and state debt. At this point it is important to establish close coordination of efforts with central banks and accounting of characteristics of the monetary policy;

— availability in the economy of free capacities and mobile labor force so that the growth of supply could respond to the growing state demand.

For the first time in its modern history Russia faced the necessity of using this instrument of economic policy that empowers us to examine the results of its application in more detail.

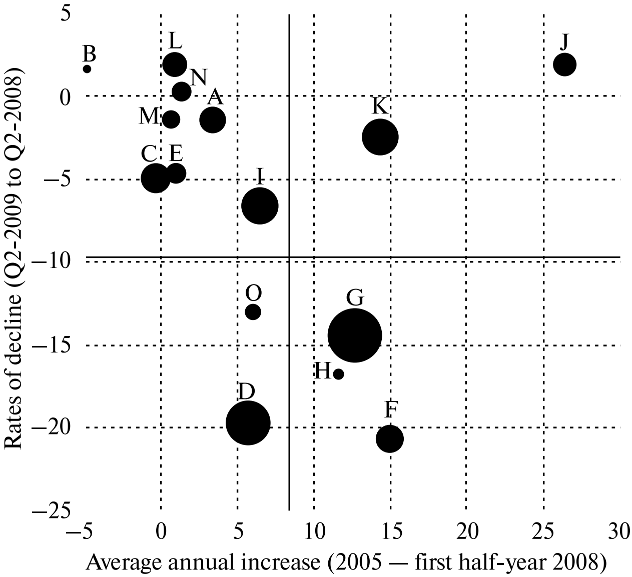
Who was growing, who was falling down? The growth of the Russian economy before the crisis and its fall during the crisis were uneven. Before IV quarter of 2008 the real sector show higher results than during the preceding year. By the end of 2008 drastic decline had taken place: steadily growing industries backtracked to the level of 2007, some of them sank even lower.

Before the crisis the main engine of the economic growth in Russia were the non-tradable sectors (sections F, G, H, J, K according to the classification of Russian National Classifier of Economic Activities (OKVED)), the rate of growth of which conspicuously exceeded the average rates in the economy: they gave more than 90% of GDP increment from the beginning of 2005 till the middle of 2008 (picture 7). At the same time the sectors of tradable goods (sections A, B, C, D) and the sectors of the state and social services (sections L, M, N, O) during this period had medium rates of growth from 0 to 4% annually (the rates of growth of fishery were even getting slower).

Since the growth of non-tradable sectors was supported by the overheating of the economy and intensive external borrowing, during the period of crisis exactly these sectors had experienced the greatest decline[16], which explains more than 90% of the total GDP decline from the middle of 2008 till the middle of 2009. The main contributors to the decline of tradable sectors are metallurgy, automobile industry, production of machinery and equipment (mainly for the extracting industries, construction and agriculture), construction materials industry.

Overall amount of the fiscal incentive. Many experts are inclined to overestimate the scale of support of the Russian fiscal stimulus referring to it the whole growth of expenditures in 2009 (30% to 2008). However such an approach is hardly justified. The main increment of expenditures in the federal budget of 2009 was connected with the increase pensions and implementation of a number of social programs, decisions about which had been adopted well before the discussions about the rescue package. When the crisis came on, the government could revise them (cancel, stretch it in time), but did not use this chance. But even excluding aforesaid expenditures the aggregate package of fiscal stimulus of the Russian government was quite significant.

[16] The exception is the sector of financial services (section J), which during the crisis period grew approximately by 2%, which, as a matter of fact, is not surprising, if you bear in mind the scale of assistance rendered to it by the state.



A — agriculture and forestry
B — fishery, fish-farming
C — mining operations
D — processing industries
E — production and distribution of electric power, gas and water
F — construction
G — wholesale and retail trade, repair of motor vehicles, motorbikes, household goods and personal demand items
H — hotels and restaurants
I — transport and communication
J — financial activity
K — real estate operations, rent and provision of services
L — state management and provision of military security
M — education
N — healthcare and provision of social services
O — provision of other public utilities, social and personal services

Footnote. Areas of circles are proportional to the shares of the sectors in GDP (in seconf halt-year 2005); position of the aggregate GDP corresponds to intersection of axes.

The sources: Rosstat, calculations performed by the Development Center.

Picture 7. The growth and decline of GDP by sectors

Implementing the anti-crisis measures the Russian government actually executed two packages of fiscal incentives: in autumn 2008, when it changed the rules of collecting oil export duties and within the framework of the federal budget for 2009.

In September 2008 the Russian oil industry faced a rapid drop in the world oil prices and suffered as well from the negative consequences of existing practice of fixing the rates of oil export duties[17]. Organized pressure of the oil companies on the government which to a certain extent was of the hinges because of the unexpected outbreak of the crisis, led to the change of rules of calculating the export duty[18], which, according to the estimates of the Ministry of finance of Russia, reduced the tax burden on the Russian oil companies approximately by 500 billion rubles. Along with that the government didn't decide about measures to support other industries either within the framework of the federal budget for 2009, or within the framework of activity of Vneshekonombank which during the crisis had been entrusted with ample powers to administer state funds.

The main decisions within the fiscal stimulus plan (lowering the profit tax rate, changing the depreciation rules, purchasing of housing by the federal agencies, development of leasing activity etc.), which the government discussed during development of the rescue package in autumn 2008[19], were postponed till 2009. Thus, they failed to play any role in supporting the demand in the phase

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[17] This effect was named "Kudrin's scissors". Its essence is in the fact, that the rate of duty was established by the Russian government on the basis of monitoring of the level of oil prices during previous two months, and that rate was valid during the next two months. In the conditions of permanent decline of the world oil prices a situation could occur, when oil export didn't generate any income at all. This being said, in the conditions of the growth of oil prices oil men paid export duty proceeding from the price that was lower than the sales price.

[18] Already on September 18, 2008 the government introduced a one-time change of the procedure of calculation of the amount of export duty, having determined it on the basis of the average oil price which had been observed during the period of September 1–17, 2008, which led to the reduction of the rate of the duty by more than $120/ton. Later the government agreed to another mitigation and reduced the period of monitoring to one month.

[19] "The plan of actions on implementation of the plan of actions aimed at rehabilitation of the situation in the financial sector and in separate branches of the economy" No. 4863p-P13, approved by the Chairman of the Government of the Russian Federation V.V. Putin on November 6, 2008.

of the most drastic downfall of the Russian economy in autumn 2008 — spring 2009[20].

The second part of the fiscal stimulus plan in Russia consisted of two portions: 1) reducing the tax burden from the January 1, 2009[21] in total amount of nearly 345 billion rubles for 2009; 2) direct budget expenditures, determined during the revision of the federal budget for 2009, which entered into force in May 2009. We should note, that the development of this package started at the end of December 2008 and continued till March 2009, only by the end of April the law was signed by the President of Russia[22].

The government of Russia estimates the total amount of fiscal stimulus plan as of 1212.6 billion rubles (about 3.1% GDP 2009), which corresponds to the amendments introduced into the law on the federal budget for 2009, but however expenditures of the budget (with respect to the original plan) grew just by 667 billion rubles (1.7% GDP 2009). The remaining part was a result of redirecting expenses for 2009, mainly investments.

Analysis of the structure of the rescue package, which was financed by federal budget in 2009 (table 3), drives us to a paradox conclusion: amendments introduced into the budget 2009, led to the reduction of the state demand. Indeed, in order to create the rescue package the government reduced the expenditures, included into the original version of the federal budget, by 545.6 billion rubles. Consequently, in order to keep the level of the state demand intact, a part of the rescue package targeted to support the aggregate demand, had to have the same. However the rescue package envisaged just 184 billion

[20] From our point of view in autumn of 2008 the government was uncapable to analyze the information flow and to make assesment of the real state of the economy. We may consider the fact that in the governmental documents and discussions it was prohibited to use the word “crisis” till the beginning of 2009 as an indirect prove of it. Another example is flat refusal of the government to revise the draft federal budget for 2009, which was going through the process of approval in the State duma in October 2008, which made it possible to incorporate anti-crisis decisions into it.

[21] Reduction of the basic rate of profit tax from 24 to 20%, including in the part which is collected by the federal budget — from 6.5 to 2%, change of the rules of depreciation, increase of the maximum level of interests on debenture, which are deemed as expenditure.

[22] Apart from the delay in making decisions about new expenditures, obviously, revision of the approved budget at the very beginning of the year led to the delay in financing of many budget programs, i.e. to the drop (!) of the state demand during the critical period of the crisis.

rubles (slightly more than 15% of its amount) to support the demand. Another part, 1/4 of the fiscal package (275 billion rubles), was spent by the government on granting subsidies to enterprises which were in a difficult financial situation.

Table 3. Scaled-up structure of the rescue package of the government of Russia for 2009, financed using the funds of the federal budget

	Billion rubles	**%**
Participation in authorized capitals of financial organizations	380.0	31.3
Inter-budget transfers, credits and subsidies	334.3	27.6
Improvement of financial situation of organizations	150.1	12.4
Support of the population (including transfers to the Pension Fund) and of the labor market	146.7	12.1
Participation in authorized capitals of enterprises of the real sector	124.5	10.3
Other	39.6	3.2
Stimulation of the demand for the products	37.4	3.1
Total	*1212.6*	*100*

The source: the grouping and calculations of the Development Center of the NRU HSE on the basis of "The Report of the Government of the Russian Federation on implementation of measures of support of the financial market, banking system, labor market, branches of the economy of the Russian Federation, social security services to the population and other measures of the social policy in 2009", supplement 14.

Even if enterprises used all these assets for the payment for products (services), then for the stimulation of demand 459 billion were allocated, that is less than the amount of cancelled investments. However, enterprises were directing received within the framework of these programs assets mainly for the redemption of banks' credits. According to expert information, not less than 50% of assets received from the budget have been spent on this purpose. Consequently the aggregate support of the demand in the rescue package did not exceed 350 billion rubles (29% of the total amount), which is 315 billion rubles less than the volume of reduction of the budget expenditures — 2009.

Almost 28% of anti-crisis fiscal package — 2009 was allocated for the support of the regional budgets, which also cannot be considered as an increase of the budget expenditures, since we can rather speak about compensation of the falling because of crisis revenues of the regional budgets with an aim of preventing the reduction of the budget expenditures at the regional level. If the total amount of expenditures of the original budget was estimated by the Ministry of finance of Russia at the beginning of 2009 at 6746 billion rubles, then their factual amount at year-end was 6256 billion rubles.

The main recipient of the public funds within the anti-crisis program was the financial sector, which (inclusive of Vneshekonombank) was given not less than 514 billion rubles, or 42% of the total amount of the government rescue package[23].

Within the framework of anti-crisis arrangements Russian authorities practically didn't finance investments into the infrastructure, which has a maximum multiplicative effect, more than that, they reduced the volume of investment, included into the original version of the budget — 2009. For comparison: according to IMF[24], the share of expenses for financing investments into the infrastructure in the developing countries members of G20 amounted to 50%.

So, let's sum it up: the aggregate volume of the program of fiscal stimulation in Russia in 2008–2009 amounted to 2.112 trillion rubles

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[23] The use of the guarantees of the federal budget on the credits granted to the so-called strategic enterprises in total amount of 300 billion rubles was, as a matter of fact, aimed at the same purposes. In the majority of cases, such guarantees were granted to enterprises, burdened with considerable debts to banks, in which case when the decision about granting guarantees was prepared, credits of private banks were substituted by credits of the banks with the state capital: all guarantees were written to the addresses of Sberbank, VTB, Rosselkhozbank and Gazprombank (which during the period of crisis was viewed by the authorities on a par with the state banks, though in its management neither the state, nor companies with the state participation were involved, and the bank itself became a subject of considerable financial support on the side of the state). Thus, within the framework of the program of granting guarantees the point at issue was not reduction of debts of enterprises, but redemption of their debts to private banks at the expense of borrowings from the banks with the state participation simultaneously building up the indebtedness.

[24] *Horton M., Kumar M., Mauro P.* The state of public finance: A cross-country fiscal monitor / IMF. 2009. 30 July. SPN/09/21.

(5.4% GDP 2009)[25], almost 41% of which was used for the reduction of taxes and just 9% — to support the aggregate. The major recipients of the budget support (over 1/4) became the oil industry, which practically did not face the drop in demand, and the banking sector, which turned out to be the weakest link in the Russian economy.

1.2.3. Russian rescue compared to other countries

Comparing anti-crisis programs implemented in 2008–2010 in different countries with Russian anti-crisis arrangements we can draw several conclusions.

1. Even though Russian economy severely suffered during the crisis, nevertheless, it was prepared for it to a certain extent. Certainly a positive shift was made by adopting decisions of the accumulation of reserve funds of the Ministry of finance of Russia using deductions made by them from super incomes derived from oil and gas export between 2004–2006. According to IMF estimation, the drop of revenues of the Russian federal budget in 2009 as a result of the reduction of oil prices made up nearly 8% of GDP. Obviously, if the reserve funds had not been there, the situation in the budget sphere and in the Russian economy in general would have been much worse. Russia was in a much better fiscal position than the majority of countries — members of G20, which had to drastically build up their state debt in order to finance their anti-crisis packages.

2. Practically all G20 member countries during the period of the crisis faced the necessity to provide extra liquidity of the financial sector. According to IMF estimations, such assistance in the group on average made up 9.7% of GDP, in particular, for the developing member-countries — 13.5% GDP. At this background, similar measures of the Russian monetary authorities (11.4% GDP) were comparable in terms of the scale, though due to the long maturity of Bank's of Russia credits targeted to support banks' liquidity their considerable part (up to 60%) can be classified as capitalization of the banking sector.

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[25] This sum includes 500 billion rubles (the first fiscal package, autumn 2008) + 345 billion rubles (reducing the tax burden within the framework of the second fiscal package) + 667 billion (the increase of expenditures of the federal budget within the framework of the second fiscal package) + 300 billion (budget guarantees in 2009) + 300 billion rubles (Vneshekonombank's credits to the owners of major pledged packages of shares of the Russian companies).

3. Russia turned out to be the only country with a developing economy out of G20 member countries which had to implement the program of recapitalization of the banking sector, and the amount of assets spent with this purpose (3.2% GDP) was higher than the average one in the group of developed countries — members of G20 (2%). The assistance of Russian authorities to the banking sector has reimbursable, but long-term character (unlike, for instance, USA, where in two years after the launch of TARP (Troubled assets relief program) which became the main instrument of support for the banking system, about 50% of the allocated assets returned to the budget, and another 8% were received in the form of investment incomes). Taking into account the contribution of the Russian financial sector to GDP (about 4%) it should be admitted that the assets spent on its support were excessive. In other words, the Russian banking system entered the crisis being much less stable than banking systems of other G20 member countries, and the volume of inadequately assessed risks turned out to be much higher than in other G20 member countries.

4. The Russian program of support of the financial sector differs in principle from the programs of the developed G20 member countries because the Russian authorities practically didn't use any mechanisms of budget guarantees, whereas the developed countries provided them in the amount of nearly 14% GDP.

5. The fiscal stimulus package implemented by Russian authorities in its amount (nearly 5.4% GDP 2009) turned out to be approximately 1.5 times higher than the average amount of the fiscal incentive in other G20 countries (3.6% GDP — 3.5% for the developed and 3.8% for the developing countries). According to the amount of fiscal package Russia is comparable to China (5.8%) and South Africa (5.1%), but is conspicuously inferior to South Korea (8.3%) and Saudi Arabia (6.8%).

Despite the active actions of the Russian authorities, and large-scale anti-crisis measures (by standards of the countries with similar level of the development), the rates of reduction of the Russian GDP in 2009 were 4 times higher than the average of 36 major economies of the world[26], and the uncertain growth of Russian economy during 2010 speaks of the fact that the efficiency of anti-crisis measures

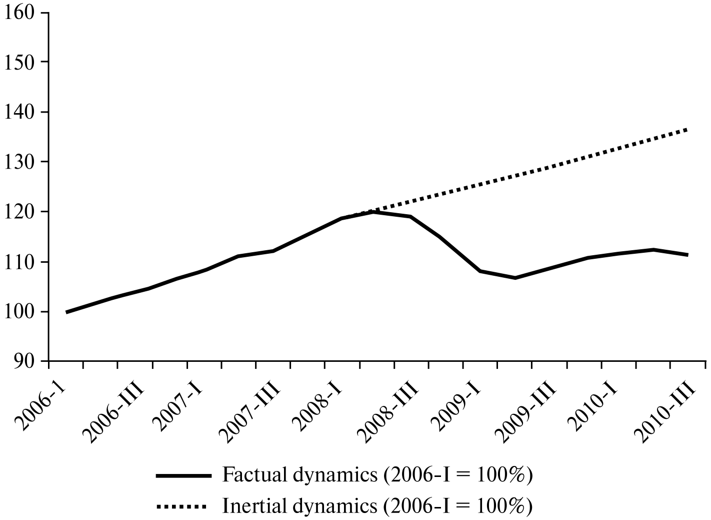
[26] In 2006–2008 Russia in terms of the growth of GDP (7%) occupied the 7th place among the 36 largest countries, and in 2009 — 34th (–8%), i.e. was on the level of developing countries of Europe and Central Asia, including CIS countries (in CIS GDP dropped by 6.2%).

turned out to be extremely low. It's possible to name three reasons for the occurrence of such situation.

First of all, it is the specific structure of the Russian fiscal package, in which 1/4 of assets was allocated to the oil sector, and another nearly 42% to the banking sector (directly or indirectly through the redemption of debts by the enterprises which received the state support), which failed to transmit the received budgetary support to the real sector of the economy. The assets directly allocated from the budget for stimulation/maintenance of the demand were less than the amount by which the investment expenditures were reduced during revision of the federal budget for 2009. Secondly, the composition of the fiscal package was eventually determined in the law on the budget with great delay (only by May 2009 when the Russian economy had already gone through the lowest point of the downfall). Thirdly, the majority of measures of the fiscal package did not imply an automatic usage of the assets on the basis of fixed rules and principles, but the adoption of an individual decision on the side of the authorities ("manual operation"), which seriously slowed down the speed of appropriate procedures and reduced their efficiency.

1.2.4. Slow recovery

Recession of the Russian economy ended in the middle of I quarter of 2009, after the short period of intensive recovery from spring 2010 has entered into the phase of a sluggish growth against the backdrop of weakness of domestic and external demand. At the moment of its maximum downfall (spring 2009) in terms of its GDP the Russian economy was thrown back to the end of 2006 — beginning of 2007. Though in separate moments the recovery of the economy after the crisis was proceeding rather rapidly, in general it is still far not just from the pre-crisis indicators, but also from reaching the trajectory of sustainable growth. Before the crisis, in summer 2008, in their report IMF experts estimated potential rate of the growth of the Russian economy at the level 5.5–6% annually based on results of consultations with Russia within the framework of article IV (picture 8). Since the dynamics of the Russian GDP has not reached these rates, we have to admit that so far the losses from the economic crisis in our country keep growing. And, naturally, a reasonable question is raised: why? Why has the Russian economy failed to reach the pre-crisis rates of growth?



The sources: Rosstat, calculations performed by the Development Center.

Picture 8. Factual and potential growth of Russian economy during the post-crisis period, %

In 1999–2008 the Russian economy was in a state of permanent growth: during 10 years the growth of GDP made up 94%, i.e., on average, almost 6.9% annually. Had it been another 10–15 years of such growth, the world would witness a "Russian economic miracle" — there are very few cases in history, just 13[27], when the economy of any single country was growing at the speed of 7% a year and higher for 25 years in a row (that is during a life-span of the generation). But it didn't happen. The global crisis has occurred as a result of which Russian economy lost the dynamics of its development. Is there hope that the mechanisms of growth that used to work during the previous decade will be turned ? And if so, what should be done to it?

Even at first glance it is clear that the growth of the economy of Russia during the "fat years" was not sufficiently homogeneous and

[27] Support of 7%-growth during 25 years means accumulated growth of the economy by 5.5 times. See: Report on the growth. Strategies of sustainable growth and inclusive development / The World Bank. Commission on the growth and development. M.: Whole World, 2009. Access regime: http://www.growthcommission.org/storage/cgdev/documents/Report/russiangrowthreport.pdf.

even. Indeed, the gap between the minimal and maximum rates of growth (quarter to quarter with removed seasonality in annual expression) was about 10%: from 2.5% of growth in IV quarter of 2004 till 12.3% in IV quarter of 2007. It forces us to assume that in actual fact, this period was internally unhomogeneous and that during this decade the growth of Russian economy was determined by different factors.

Our analysis makes it possible to single out three stages of the 10 years period 1999–2008 — 1999–2000, 2001–2004, 2005–2008, — which differ from each other by factors, determining the rates of growth, and consequently, according to the fact, which sectors of Russian economy were the locomotives of the growth. It is clear that any periodization of this kind is not rigid, the impact of any given factor of growth very seldom starts or ends overnight, and it means that often the factors which we ascribe to different periods are acting in parallel. But nevertheless, analysis makes it possible to single out those the impact of which at a given span of time turns out to be maximally strong.

The first stage, 1999–2000, is a classical period of post transformational growth, which all countries of the Eastern Europe went through upon the end of the downfall, connected with the change of structure of the economy after transition from command economy to the market mechanisms. In Russia the period of transformational decline lasted for practically 6 years, until 1996, and only after 1997 did the economy demonstrate positive dynamics, a 1% growth for the first time. The crisis of 1998 on the one hand, undoubtfully, delivered a sledgehammer blow to the entire economy, especially to the financial system, and on another hand — a sharp devaluation of the ruble which conspicuously raised the price competitiveness of many domestic goods on the domestic and international markets.

It is no coincidence that it were those sectors of the Russian industry which were oriented towards domestic consumer demand and/or towards import substitution (food industry, production of beverages and tobacco products), at the cost which dropped in dollar terms (chemical industry and metallurgical production) that demonstrated the highest rates of growth in the economy during this period. The Russian statistics does not make it possible to reliably single out the influence of these industries on the growth of GDP, but we can confidently say that they secured about one half of the increment of the industrial production in 1999–2000[28], and the industry during those years provided 45–50% of GDP growth.

It wouldn't be fair to say, that the impact of this factor is over, and the stage of the economic growth connected with it ended at a certain moment. Its impact can be registered even today — thus the food industry has ever since been steadily providing about 0.7–0.8%, and metallurgy — 0.6–1% of growth of the industrial production annually (with the exception of the period of the crisis). But already in 2001 its significance started to drop conspicuously, the industries that revived during devaluation ceased to be the main engines of growth, which was reflected in the decline of rates of growth of the economy from 6 and 10% in 1999–2000 accordingly to 4.5–5% in 2001–2002. The rates of growth of the industrial production declined even more: from 8.7–8.9% in 1999–2000 to 2.9–3.1% in 2001–2002.

But already from 2000 a new factor of growth, which we call the "fruits of privatization"[29] started to manifest itself. By that time the period of the initial redistribution of property in Russia was finished, and private owners had survived the time of political and economic perturbations. However, the fundamentals of the new economic system had not undergone restructuring, i.e. the business could assure itself that its ownership and interests are not threatened. Understanding of this led to a jump in quality of management at the privatized enterprises, to the formation of the layer of "efficient owners". Certainly, most of all it was manifested in the export/raw materials sector which at that period provided up to 30% of growth of the gross value added in the Russian economy[30]. The best demonstration of success became a 50% growth of oil extraction during the period between 2000 and 2005[31]. The growth of production of coal, iron ore, steel, aluminum, copper made up 17 to 22% (1999–2005), the production of nickel at "Norilsk nickel" grew by 35% (2000–2007). At this point

[28] Evaluation of contributions made by different sectors and industries to the eventual economic growth in a breakdown according to the stages proposed by us was implemented by V.A. Bessonov, to whom the authors express their sincere gratitude.

[29] The beginning of it is easily tracked by monitoring the contribution of the "extraction of commercial minerals" industry to the growth of industrial production — from 0.3% in 1999 to 1% in 2000.

[30] The evaluation was made without regard to infiltration of some financial streams from the raw materials sector to the sector of services, in which traditionally the Russian statistics reflects activities of management/holding companies, where the income is consolidated.

[31] However, the growth of gas extraction during this period was less than 10%.

it should be clear that a much more important driver of growth for the economy was not the extraction of raw materials as such, but the additional domestic demand, generated by the raw materials industries. It was not a coincidence that the processing industry in the period between 2003 and 2007 was growing at the annual rate of 5–6%.

There is a more distinct moment when the dominating influence of this stage on the economic processes in Russia stops. This was the YUKOS case. Arrest and subsequent conviction of P. Lebedev and M. Khodorkovsky, artificial bankruptcy and subsequent nationalization of YUKOS assets destroyed the confidence of big business in political structures, which was the basis for long-term forecasting and programs of development for the first half of the 2000^{th}. Political lynching of the owners of YUKOS and liquidation of the company itself opened a gate for similar litigations on the entire territory of the country. Businessmen lost opportunity to defend their interests in courts, which led to a sharp decline of the horizon of business interests. And already starting from 2005 the contribution of the raw materials sector to the economic growth started to drop steadily, though exactly at this time the prices for raw materials started to grow rapidly. The share of raw materials businesses dropped both in the total volume of the gross value added (GVA) — from 23–24% in 2004–2005 to less than 20% in 2009 – and in the increment of the gross value added – from 20–30% during the period till 2004 to 3–6% in 2006–2007 — and it even became negative in 2008–2009. Thankfully for the Russian economy the international capital markets opened widely during this time. Investors finally forgot about their losses during the crisis of 1998, and Russian budget became unusually stable, relying on the growing oil prices, which led to a rapid increase of the level of the country rating. From January 1, 2005 until June 30, Russian corporate foreign debt (financial and real sectors together) grew by $400 billion, i.e., roughly by $115 billion annually. Even if you make allowance for the fact that according to experts estimations roughly half of the increment of the foreign debt was spent on financing of deals on mergers and acquisitions, then it turns out that the Russian economy was annually receiving about $55–60 billion for financing of its current growth (4.3% GDP on average during 2006–2008).

As expected, with respect to the experience of other countries against the background of growing raw materials prices, which provoked the development of the "Dutch disease" in the Russian economy, external financing was directed mainly towards the non-tradable sectors – construction, trade, financial sector, market services (without transport and communication). This became the main driving force of the growth at this stage, providing up to 80–90% of GDP in 2005–2007 and even more than 100% in 2008. All that led to the conspicuous increase of the share of this sectors in the general volume of gross value added — from less than 44% in 2003–2004 to more than 54.5% in 2008. However, following the development of the world financial crisis from the middle of 2008 accessibility of external financing for the Russian banks and companies has decreased drastically; moreover, some of the earlier received credits had to be returned (especially in the case of banks), which in a natural way stopped the growth, supported by these credits.

There is no telling, of course, that all mentioned sectors of growth remained far back in the past and that the Russian economy will never be able to rely on them. As we have already said, transformational growth, without doubt, will last for a long time (even though at lower rates), which is explained by inevitable changes in the structure of the economy. However, we're inclined to draw a "sad" conclusion: none of those factors of growth which were pushing the Russian economy upwards during its inter-crisis period do not exist today, i.e. it is impossible today to "re-launch" Russian economy in such a way that the rates of its growth would reach the pre-crisis level, without creating a new driver of growth.

2. Growth scenarios

Before we proceed to the analysis of possible strategies for long-term growth of Russian economy we should elaborate on the issues, which have been raised recently, and without giving answers to which it is impossible to discuss medium and long-term perspectives.

2.1. Objective challenges of time

Russia in the global world. During the last 10 years the word globalization turned from a rather obscure term into the main characteristic of the modern world economy. Today, a businessman may be located in any part of the globe, and production capacities belonging to him may be dispersed around the world. In such a case it is not important where he buys raw materials and component parts and where he sells his products. Still less important is which currencies are used for settlements, and in which time zones his contracting parties are located. For modern business the state boundaries are not an obstacle, and existence of foreign partners, suppliers, consumers, became common practice.

In such a situation the role of *openness* to the national economies has increased sharply, as well as the fact, to what extent their boundaries are transparent for the movement of labor, goods and capital. So did the fact that national companies are tightly integrated into the international production chains and actively cooperate with foreign partners. Today no country in the world may afford to evenly develop all the branches of economy, to be a leader in all technologies, and to put away international cooperation. On the contrary, only active participation in international division of labor, and concentration of efforts on the “breakthrough” directions, as well as a wide use of the best practices and knowledge accumulated in other countries, may guarantee sustainable growth in the modern world. But at the same time it means that competition between countries for the attraction of capital as well as for finding their places under the sun, grows becoming more acute. Closing of the economy in an attempt to develop only on the basis of its own forces lead to a situation where your place is overtaken by others.

The change of balance in the world. Successful economic reform in China led to the appearance of huge, fast-growing economy, which today occupies the 2^{nd} place in the world, but already in just a decade and a half may become the biggest economy on the globe. Following China, India is gradually "waking up" and, without a doubt, the development of the world economy in the first half of the XXI will be to a great extent determined by these two countries that house 40% of the world population. One should not forget about other fast-growing economies of Asia and Latin America, which start to play a role of ever increasing importantance in the world processes. By the virtue of understandable reasons the economic growth in these countries will be conspicuously higher than in the developed ones, which will lead to redistribution of balance of forces in the world. The degree of the development of economy, degree of participation in the international division of labor will determine further on the country's place and role in today's world. Today, it's possible to be a "superpower" if the country has its place in the UN Security Council and possess nuclear arsenal, but already during the life span of today's generation such a situation will evidently change.

Fast-growing economies are widely using their unique advantages — the number, quality, and the relatively low cost of the labor force. It lets them turn into "world factories" more and more, pulling over jobs from the developed countries. The latter in their turn are obviously starting to face the problem of how to oppose this. Even though the innovation and the technological sectors are very important, so far they cannot secure mass employment; the economies of the developed countries need traditional jobs. One of the most obvious responses to this challenge is an aspiration to create products of top quality or transition from selling equipment and technologies to a complex sale of goods and services on their support and maintenance.

Obviously, Russia neither competes with the developing, nor with the developed countries, since it possess neither adequate labor resources, nor technological skills. This is the most important challenge which Russia is facing today. But it just means that this is the challenge that our country has to find its own distinct answer.

Demographic situation. It is a known fact that Russia fell into a bad demographic trap: the number of its population will be slowly dropping during the next decades, whilst able-bodied population will be declining much faster. According to different estimates, during the next 20 years the Russian economy may lose nearly 20% of labor force. It does not only mean that the demographic factor will "swallow up" about 1% of the growth annually, but also that many branches of industry and regions of Russia will face a grave problem of labor force shortage.

And the solution to this problem is very well-known — it is an active immigration policy. In order to preserve the stable number of labor force the Russian economy needs net inflow of workers in the amount of 500–700 thousand people annually during the next 20 years. It is unclear whether or not an inflow of the labor force on such a scale is possible. Besides, this solution implies just as well known difficulties of psychological, political, cultural nature.

Vulnerable macroeconomics. After the decade of the plentiful growth of raw material prices the Russian economy became... weaker from the macroeconomic point of view than it had been at the beginning of that period. Today, $85.00 per barrel is not enough in order to square the current account of the balance of payments, and $100.00 per barrel is not enough to square the federal budget. Current macroeconomic stability may exist only under condition of permanent growth of oil prices, if the prices stop growing it will inevitably and sharply deteriorate the situation in the Russian economy.

At this point it is evident that the disequilibrium of the budget was not the result of implementation of anti-crisis measures, which could be scaled down along with economic recovery, but the result of purpose-oriented political decisions, which led to the increase of share of irreducible expenses in the budget (pensions, defense expenditures) which distorted its structure. An attempt to square the budget by means of cutting down other items of expenditure will inevitably lead to a reduction of expenses oriented at the development and rise of the quality of human capital (healthcare, education, investments). And implementation of the surface possibility to raise the efficiency of the budget expenditures hits up against the low quality of the Russian bureaucracy and high level of corruption and theft on all of its levels.

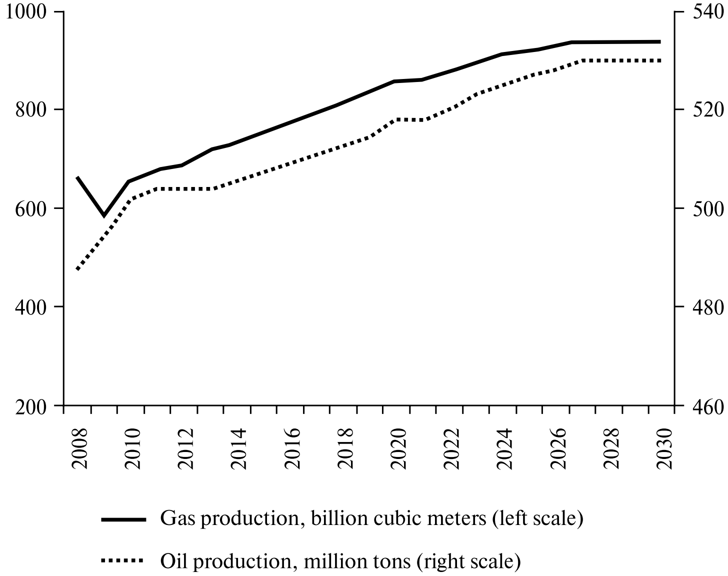
The latter is, in our opinion, neither a short-term, nor a long-term phenomenon in our economy. It assumed especially serious scale from 2003, when growing pressure on business on the side of the bureaucracy, especially power structures acting with total impunity, became a steady factor of the low natural business activity.

Disequilibrium in the balance of payments, one the one hand, has an objective character — all sectors of the Russian economy need new equipment and technologies, which it doesn't produce itself, and it determines practically non-elastic in terms of the ruble exchange rate growth of the technological import. But on the other hand, during the last 10 years the Russian population survived a fantastic growth of personal incomes and acquired imports addiction, since creation of new imports substituting productions in the Russian economy turns out to be unattractive due to the permanently worsening investment climate.

2.2. "Business as usual" scenario

Such a scenario is always there. Practically never do the politicians — and not just Russian, but in other countries of the world as well — agree to reforms, if they believe the situation is trouble-free. Indeed, any reforms upset the existing balance of powers, sharpen contradictions and may lead to the loss of power during elections or as a result of situation getting out of control in countries where the change of power is not connected with elections. In the countries where removability of authorities is a compulsory condition of political life, preservation of the status quo gives politicians a possibility to shuffle off the burden of accumulated problems on the shoulders of those who will replace them. In conditions of authoritarian and semi-authoritarian regimes politicians may only hope that economic problems and disbalances will disappear on their own. But such things seldom happen.

In the conditions of Russia "business as usual" scenario looks quite clear: the raw materials sector reserves dominating positions in the economy, and through the high share of the state in oil and gas sector it attains preservation of favorable tax and regulatory regimes; low level of competition and a high degree of closedness of the economy for foreign investments. The main factors of growth in such a scenario become the slow growth of hydrocarbon production (oil and gas), and the basic condition — a slow but permanent growth of the world oil prices at the rate of 1.5–2% annually in real terms (with a possible short-term downfall by 15–20% once in 8–10 years) (picture 9).



The sources: The Ministry of economic development of Russia, calculations performed by the Development Center.

Picture 9. Predicted dynamics of oil and gas production

The Russian authorities, however, do not dare to carry out real institutional reforms, preserving slightly amended current "rules of the game", extremely low level of bureaucracy, a high level of the corruption and unattractive investments climate. For these reasons the Russian capital actively "emigrates" abroad, and the inflow of the foreign capital to Russia remains at the current level (less than 1% GDP annually) and it concentrates in the raw materials industries or in partnerships with the state companies. It makes it impossible to conspicuously raise the efficiency of business and labor productivity in the economy, and the reduction of budget expenditures oriented at the development leads to the decline of quality of the labor force and to an impossibility to apply modern technologies on a wide scale.

This is not a scenario of an economic disaster. Macroeconomic forecast based on such suppositions says that the economic growth in Russia will continue[32], but its rates will be slowly fading from 3.5–4.5% in 2010–2011 to 0–1% in 2030, making up on average 2% annually during the next 20 years. Thus, in 20 years, Russian GDP will grow approximately by 50%, but due to the fact that the world economy will grow at much higher rates (4–5% annually), the share of Russia in the world GDP will noticeably decline from the current 2.5 to 1.5%. Therefore, Russia will be relatively losing out in economic competition not only to the fast-growing developing countries, but to many developed ones as well.

This scenario of the development doesn't allow for "getting away from humiliating raw materials dependency" — the share of oil and gas incomes in the budget remains at the level exceeding 30%, tradable commodities still dominate in the structure of the Russian export. But such development of events will inevitably lead to a growing macroeconomic instability, to preservation of high inflation, suppression of which will be opposed by the interests of raw materials monopolies and idle institutes. Archaic structure of the production sector of the economy will preserve higher demand for the consumer and technological import, weakening the balance of payments.

Though traditionally forecasts cannot predict the moments of destruction of old trends on which they are based, in this case our calculations show that such disequilibrium cannot last forever — it is enough to have a new strong outer shock (a new world crisis or a downfall of oil prices) to make the situation come out of control, the inflation speed up, and ruble devaluate in a spasmodic way.

The range of stability of "business as usual" scenario is determined by the quality characteristics, which resist digital conversion and objective measurement. Thus, for example, it is a common knowledge how Laffer curve works — raising the taxes sooner or later will lead to a bad slump in business. But from the point of view of the business, corruption and connected to it bureaucratic rent are equal to bite of taxes, since, by raising transaction costs they lead to the decrease of financial resources which are at the disposal of business, making it less attractive. Against this background bureaucratic racket and weakening protection of ownership rights may overweight the natural tendency of business for the development at any moment and lead to a fast fading of the economic growth. It is impossible to predict when this moment will come. But it is just as inevitable as the breakdown of a rusty metal construction.

[32] Given the present level of the labor force is preserved.

2.3. The Russian leopard's leap

Contemplating on the positive scenario of sustainable economic growth in Russia, we tried to find an indicator that would characterize not only quantitative, but also qualitative changes in the economy in the best way. The world experience of the last 50 years vividly shows that all countries which managed to achieve the "economic miracle" necessarily relied on the external demand[33]. None of the attempts to provide long-term growth relying exclusively on the potential of the growth of domestic market were successful. Experts account for this fact by saying that accelerated growth, that is a growth at the rate significantly exceeding the rate of growth of the world economy, is a flying geese pattern, relying on intensive integration of the national economy into the global economic relations, on the active use of ideas, technologies and knowledge, accumulated in other countries of the world. In which case the world economy provides a vast and relatively stable market for the realization of goods, produced in the countries, implementing the "flying geese" strategy. As a rule, the opportunities for the production in a separately taken country are quite insignificant in comparison with the scale of global demand, which opens space for the use of own competitive advantages, raising productivity of labor on the basis of expansion of operations.

An attempt to rely on domestic demand runs into the limited size of domestic market rather quickly, and into impossibility of establishing large-scale industries, making it possible to use modern equipment and cut the costs. Quite often the structure of the production (for many reasons) does not correspond to the structure of the consumption, which hinders the development of the most efficient sectors and makes states to support less efficient productions artificially. The most "stubborn" governments disregard connected with it inevitable slowdown of the rates of growth, creating ideological barriers for the sake of raising the efficiency of the economy. Less "stubborn" ones analyze the reasons and change the strategy. Thus, in the 50th South Korea pursued active import-substitution policy, but somehow the rates of growth gradually lowered to 2–3% annually. At the beginning of the 60th the country shifted to the outwardly

[33] Report on the growth. Strategies of sustainable growth and inclusive development / The World Bank. Commission on the growth and development. M.: The Whole World, 2009. Access regime: http://www.growthcommission.org/storage/cgdev/documents/Report/russiangrowthreport.pdf.

strategy, which raised the rates of growth to more than 7%; and this created the foundation for the economic leap, which helped South Korea to join the ranks of the major economies of the world.

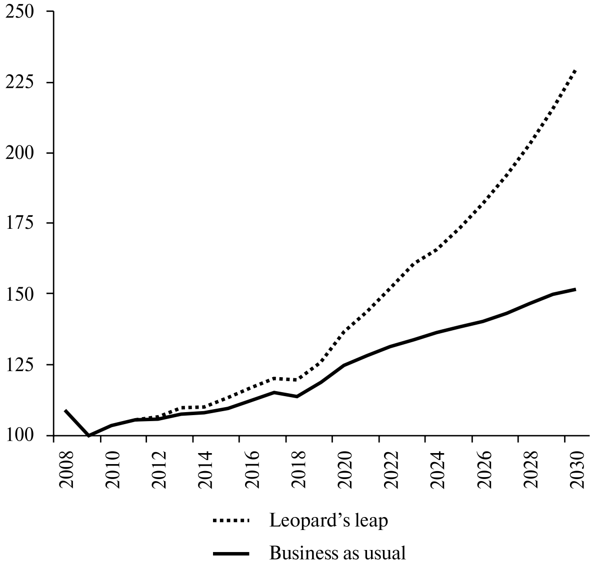
We believe that Russia in this context does not differ from other countries. Having undeniable competitive advantages, connected with huge home market capacity, availability of natural resources and qualified labor force, our country has to spend considerable resources on resolving such problems as high transportation costs and relatively unfavorable climate, which inevitably reduces the efficiency of the economy. You can keep talking about the development of innovations and demand from the state companies to actively finance and implement them, but the lack of competition and demand for innovations will make all state efforts very ineffective.

The ideology of a more active involvement of Russia into international economic relations, of a more active participation in the world trade, of an accelerated development of non-oil and gas export-oriented sectors has no alternative. It seems to us that in this connection the most adequate indicator of quantitative and qualitative successes of the Russian economy, which will testify to its real modernization, may and should be the indicator of the share and rates of growth of non-resource export.

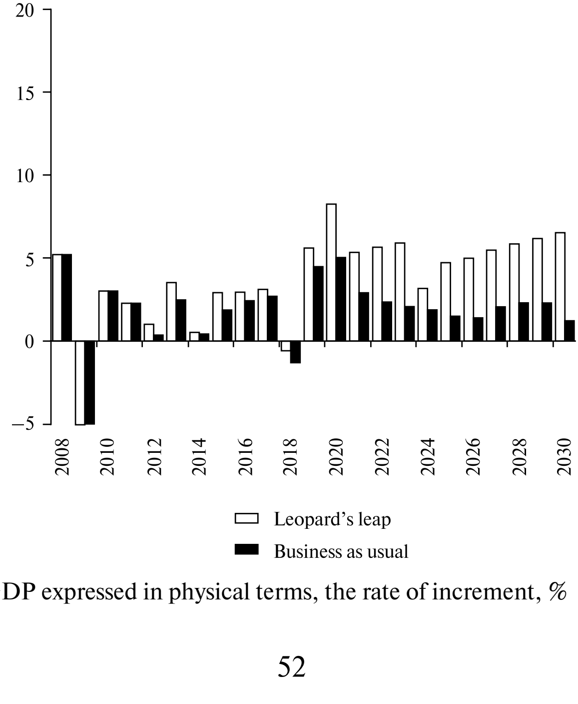
During the last decade non-resource Russian export[34] was growing at a reasonably good rate of 13–15% annually, but it is not sufficient. The share of non-primary goods at present does not exceed 15% of the total volume of the Russian export. In our opinion, the strategic objective for the Russian economy should be achievement at the rate of growth of non-resource export at the level not less than 25% annually. Our calculations show, that implementation of such a strategy[35] gradually raises the rates of economic growth to 5–7% annually. In which case by 2030 subject to the success of institutional reorganization the share of non-resource export may exceed 50% in the total volume of the Russian export, and the share of oil and gas incomes of the federal budget will make up less than 20% (picture 10). It means that we shall be able to talk about departure from raw materials dependency and about significant improvement of sustainability of Russian economy towards external shocks.

[34] Export net of oil, oil products, gas, ferrous, non-ferrous and precious metals, chemical products and fertilizers, timber and wood.

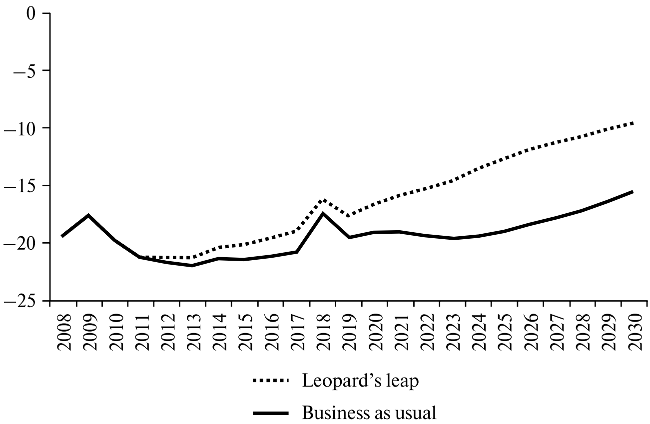
[35] Given the hypothesis about the growth of physical volumes of the primary Russian export by 2% annually and aggregated index of primary prices — by 1.5% in real terms annually.



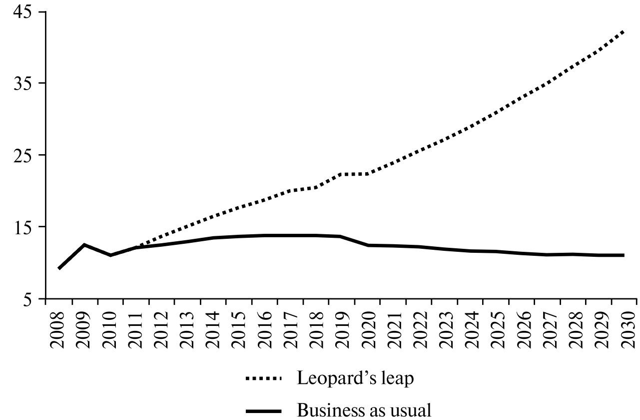
a) GDP expressed in physical terms, 2009 = 100%



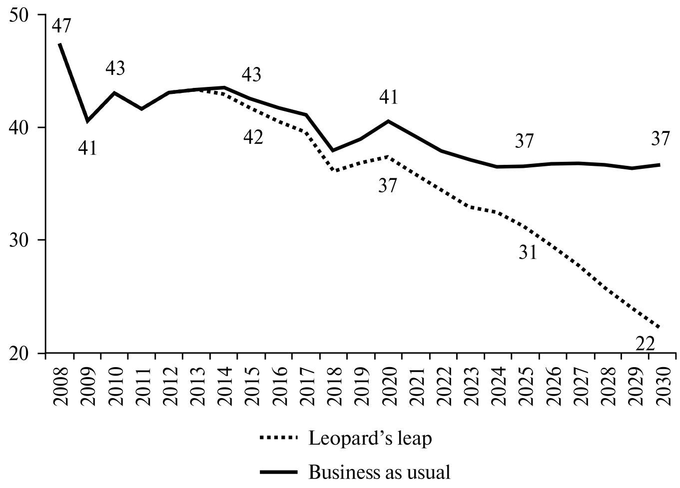
b) GDP expressed in physical terms, the rate of increment, %



c) current account balance (net of fuel and raw materials), *% GDP*



d) share of non-oil and gas export (net of fuel and raw materials), *%*



e) the share of oil and gas component in incomes of the federal budget, %

The source: the Development Center.

Picture 10. Key parameters of growth scenarios

We don't want to give detailed advice about what and how should be done by Russian authorities in order to achieve such a result, but we shall show these limitations, which have been detected in the course of performed macro calculations. Without overcoming these limitations achievement of such a result will be impossible.

First of all it should be a question of rapid and tough defeat of inflation in the Russian economy — up to 3% within 2–3 years. Unfortunately, the Russian authorities are accustomed to living in conditions of a high inflation and they do not consider this a problem. Along with that a high inflation does not allow business to make long-term investment plans, population — to plan long-term savings, and the state — to understand the real state of affairs in the economy, since in the conditions of the existing inflation rates in Russia none of the statistical agencies in the world could guarantee the adequacy of its assessments. Assessment of the inflation processes in Russia shows that the main driver of inflation is an extraordinary high rate of indexation of prices and tariffs carried out annually by the state. The point is not only in the fact that such indexations lead to redistribution of profits in favour of manufacturers of fuel resources and energy, whilst other sectors are trying to oppose it by raising their prices as soon as a chance occurs. The point is also that the declared levels of indexation cause appropriate high inflation expectations of the population and business, with which it is very difficult to fight.

S e c o n d l y, the economic growth is based on the growth of labor productivity, and it is impossible to achieve without an appropriate level and quality of investments. Indeed, without investments it is impossible to create new production capacities which would be able to produce modern products competitive at the world markets. Without investments it is impossible to resolve the problem of creation of adequate production and transportation infrastructure, which is usually missing from the countries of the flying geese pattern.

The world experience shows, that a long-term, sustainable growth with high rates is observed in countries with level of investments not less than 25% GDP. If we take a look at Russian history of the last 15 years, then it becomes clear, that (with the exception of the crisis period of 1998–1999) investments into the capital stock in the Russian economy are in a rather stable corridor — 16–21% GDP (picture 11). And even during the most favorable period, from the point of view of the oil market, conditions and accessibility of the debt financing (2004–2006) the share of investments in GDP practically did not change, and a slight growth of this indicator in 2007 (up to 21% GDP) does not look as something super-significant against the background of the "Asian tigers" for instance. This vividly proves the fact that once again our country has "eaten away" the oil incomes.

Regretfully, a recent widely circulated thesis was given to a possibility of achieving high and sustainable rates of growth with existing level of investments in Russia and even assertions, that a higher level of investments will be hazardous to the economy. We believe that this does not reflect the real picture. It is enough to visit an ordinary hospital or a school, to look at the condition of automobile roads and traffic jams in all major cities of our country, to realize that during the last 20 years the Russian enterprises failed to enter the market with any new goods.

The sources: Rosstat, calculations performed by the Development Center.

Picture 11. Investments into the capital stock in Russia (1995–2010), *% GDP*

Sustainable, fast and continuous growth requires considerable capital investments into the infrastructure and human capital, the main source of which may and should be the state. Thus, in China, Thailand and Vietnam general investments into the infrastructure exceed 7% GDP. Without a doubt, private capital is interested in the state investments into the infrastructure, which broaden the investment possibilities, foster structural reorganization and diversification of export and eventually give more bang for the buck.

Investments into the human capital — health, education, science, and improvement of labor skills, as well as the cultural capital, including development of institutes of democracy and of the civil society — are not less important than investments into the physical capital of the country. Traditionally expenditures for these purposes are not accounted in the composition of investments, but the long-term and sustainable development will be impossible without them.

Thirdly, speaking about *the sources of financing the investments* in the long-term perspective, admitting the importance of the state expenditures for these purposes, we are far from the thought that a desired increase of the share of investments in GDP is possible only at the expense of the budget funds and/or at the expense of the state monopolies or state corporations. Moreover, we don't see any special possibilities of conspicuously changing existing model of consumer behavior for the Russian population and of increasing the rate of saving at the expense of reducing the consumption. The shares of expenditures for private and public consumption in the Russian GDP are rather sustainable, comprising about 50% and about 20% appropriately. It should hardly be expected that the volume of the sector of public services in the Russian economy will considerably drop, in the same way we should not think that the Russian population will "agree" to the reduction of its share, especially taking into consideration the growing deficit of the labor force in the coming decades. It means that the only remaining macro source of financing the growth of investments is the reduction of net export.

Strictly speaking, this method does not surprise — it is exactly the way how direct foreign investments may be reflected in the statistics: the growth of import, and consequently, reduction of net export in the structure of the production of GDP, which, from the point of view of the payments balance, is financed by the inflow of the capital. The assessment of the desirable level for Russia of FDI — 5–7% GDP on average annually for the period of 15–20 years — also follows from this.

Similarly this conclusion does not surprise from the point of view of substance — without a question. Russia has seriously fallen behind many countries with developed and developing economies in terms of production and technological potential. And today it is not a matter of the Russian economy lacking money for the modernization/construction of this or that enterprise, — Russian companies often have a vague idea about modern methods of production, and the employees do not have appropriate professional knowledge. Traditionally the weak link of the Soviet and Russian economy is a feeble ability for the analysis of consumer needs and for introduction of new goods to the market. The majority of these problems are impossible to resolve without enlisting foreign managers, which is an integral part of direct foreign investments.

T h e f o u r t h, during the last decade a plentiful growth of real income of Russia's population led to an intensive growth of specific labor costs in the Russian economy. From 2001 utill 2009 according to the Institute for management development in Geneva (IMD), working on the indicators of competitiveness, they grew by 150%, whereas according to OECD, in Poland their growth made up 4%, in Korea 15%, in Czechia — less than 24%[36]. There is no doubt that continuation of this tendency will be a factor strongly counteracting the growth. Changing the model of consumer behavior is not an easy task, it becomes even more difficult under conditions of the deficit of labor force, but it has to be solved.

And the last but not least. Building a new model of the economic growth in Russia is impossible without building efficient state machinery, creation, practically from scratch, functioning institutes and a drastic increase on the basis of the quality of investment climate in Russia. This thesis became so generally accepted (it is repeated practically by all experts and politicians) that nobody pays serious attention to it. But, alas, no conspicuous changes in this field has happened, and we decided to try and measure the cost of bad institutes in Russia, i.e. "digitize" the impact of Russian institutes on the economic growth.

2.4. How much do idle institutions knock Russia back[37]

We tried to answer this question by identifying the dependency between the level and dynamics of development of national institutes and the rate of growth of GDP country wise during the period from 2001 till 2009. For this purpose, we tried to determine statistically significant influence of the quality of institutes on economic growth and to evaluate the annual losses of the Russian economy (in p.p. of GDP growth) inflicted by inefficient state management and unsatisfactory institutes.

As a bench-mark data, reflecting the quality of the state institutes, we took the rating system of IMD (indicators of competitiveness) which includes 10 positions:

[36] Main Economic Indicators // OECD: statistics portal. Available at: http://stats.oecd.org/mei/default.asp?rev=3.

[37] This chapter presents the results of the work which is being executed at the moment; it has been carried out at the Center for the development of NRU HSE by a group of authors, including: N. Akindinova, S. Aleksashenko, M. Petronevich, A. Petronevich.

1) *legal and regulatory framework* — promoting improvement of competitiveness of enterprises;

2) *adaptability of government policy to economic shocks*;

3) *transparency* — the state policy is sufficiently transparent;

4) *bureaucracy* — does not interfere with entrepreneurial activity;

5) *government decisions* — effectively fulfilled;

6) *competition legislation* — effectively prevents unfair competition;

7) *bribing and corruption* — do not exist;

8) *justice* — fair obeyance of laws;

9) *ease of doing business* — supported by law;

10) *personal security and private property* — are adequately protected.

The choice of this source is explained by the fact that it has long-term records in 58 countries[38] and, besides, it serves as a source for many other works in this field, which makes it possible to presume that an element of subjectivity, inevitably, characteristic of any expert estimation is minimized here. We took macroeconomic indicators from the data banks of IMD and UNCTAD.

Rating indicators of IMD for separate countries are calculated according to the scale from 1 to 10 (10 is "very good") on the basis of expert estimations (picture 12). For our calculations, we used an aggregated indicator of the development of institutes.

For any researcher who tried to resolve a similar task, the first obstacle was an unpleasant paradox — the simplest method of analysis show that the quality of institutes and the rate of growth are negatively proportional. In other words, the higher is the quality of institutes the lower is the rate of economic growth. However, this paradox is easily explained — the quality of institutes is noticeably higher in more developed countries, in which due to the effect of the basis and technological limitations the possibilities for growth are more limited.

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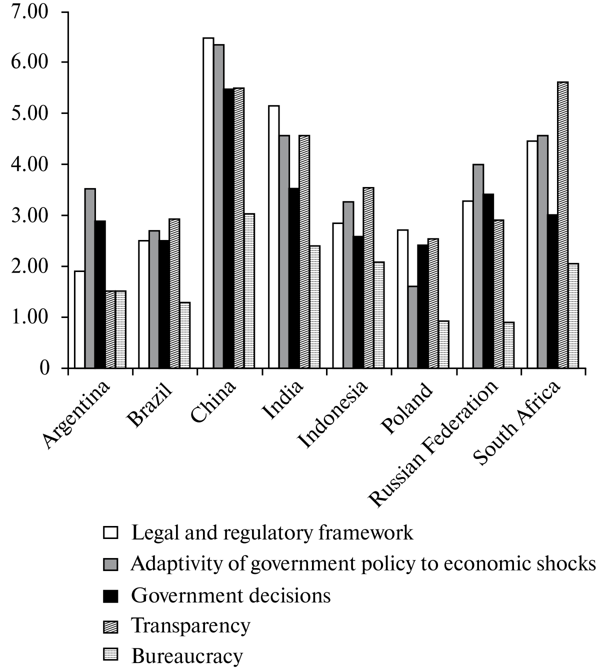
[38] In view of the lack of data from a number of countries for the period in question the original sample (58 countries) was reduced to 51 countries, it includes the following countries: Austria, Belgium, Brazil, Bulgaria, Canada, Chili, Croatia, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Holland, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Korea, Lithuania, Luxemburg, Mexico, New Zeeland, Norway, Peru, Philippines, Poland, Portugal, Republic of South Africa, Rumania, Russia, Singapore, Slovakia, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, Ukraine, United Kingdom, USA, and Venezuela.



The source: IMD data.

Picture 12. The quality of state institutes, estimations of 2007

However, during the comparison of *dynamics* of tranformation of institutes and of the rates of economic growth this paradox is not observed, especially if you come to the level of separate groups of homogeneous countries (table 4). We divided the countries in sample into three groups according to their cultural and historic features:

1) G7 countries and Australia (which are characterized basically by a higher level of the economic development and shaped institutes);

2) European countries, apart from those which are included into the first group (they are predominantly characterized by territorial and cultural proximity, openness for each other). The first two groups are also characterized by a relatively high level of GDP per capita;

Table 4. Correlation of compound annual growth rate of GDP in 2001–2008 and of the increment of institutional indicators by groups of the countries

	Competition legislation	**Justice**	**Bribing and corruption**	**Ease of doing business**	**Government decisions**	**Transparency**	**Bureaucracy**	**Legal and regulatory framework**	**Personal security and private property**
The whole sample	0.270	0.205	0.158	0.252	0.294	–0.188	0.267	0.296	0.061
European countries	0.215	0.226	**0.440**	0.273	0.156	–0.205	0.141	**0.427**	**0.402**
Non-european countries	0.201	**0.370**	0.174	0.055	**0.375**	0.116	**0.549**	–0.022	0.031

Footnote. The significant coefficients of correlation are in boldface type. Calculations on G7 countries and Australia have not been performed because sample of countries was too small.

The source: IMD.

3) non-European countries, apart from those which are included into the first group (they predominantly include the developing countries with a recently formed institutes or institutes under formation). On average, the level of development of institutes in this group is lower than in the other two.

Russia, being a Eurasian state, according to the cultural and historic characteristic could be referred both to the European and to non-European countries. However, according to the average rates of GDP growth and to the level of development of institutes in 2000th it turned out to be much closer to the group of non-European countries.

Such an approach enabled us to identify distinct relations between the rates of growth and the dynamics of changes of different groups of indicators for different groups of countries. In principle, taking into consideration mutual correlation of different institutional indicators, we are inclined to assume that possibly the difference between the groups of countries, lies to a great extent in the peculiarities of terminology, which is being used by experts in different countries in order to evaluate similar processes. In general, our evaluations, lead us to a confident conclusion: improving in quality of the main institutes, characterizing protection of personal security and ownership rights, obeyance of laws and legal framework, effectiveness of bureaucracy are positively connected with the rates of economic growth inside separately taken groups of countries.

Along with that we managed to resolve the paradox itself — to capture and show the positive influence of the level of institutes on the economic growth for the whole sample in general, i.e. to explain the inter-group differences as well. We have been able to bypass the influence of this paradox by exclusion of influence of the factor of salaries[39] (which very well reflects not only the level of development of the economy and institutes, but also the dynamics of the specific labor costs) on the consolidated indicator of development of institutes[40] and the rates of GDP growth. The obtained results demonstrated a stable connection between the level of institute's development and the rates of economic growth (picture 13).

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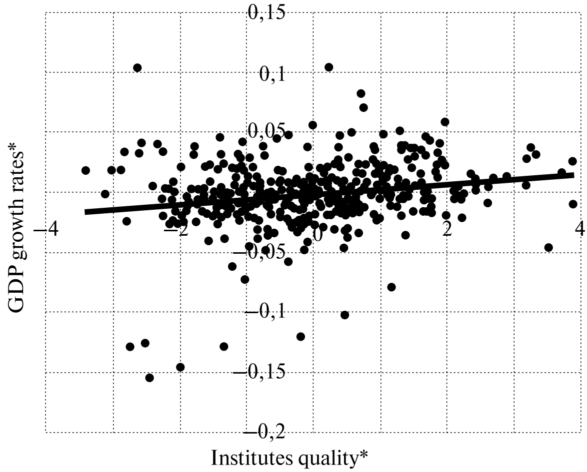
[39] Ratio between salaries in the country and the world average level of salaries.

[40] The first main component, built on the whole sample data of indicators of institutes development. *At random,* it turned out to be practically equal to the simple sample average of all indicators of institutes development and describes 77% of dispersion of this group.



Footnote. * — cleared of the influence of the level of salaries.

The sources: UNCTAD, IMD, the World Bank, calculations performed by the Development Center.

Picture 13. Rates of GDP growth, and the level of development of institutes cleared out the influence of the level of remuneration of labor (51 countries, 2001–2009) with the line of linear regression

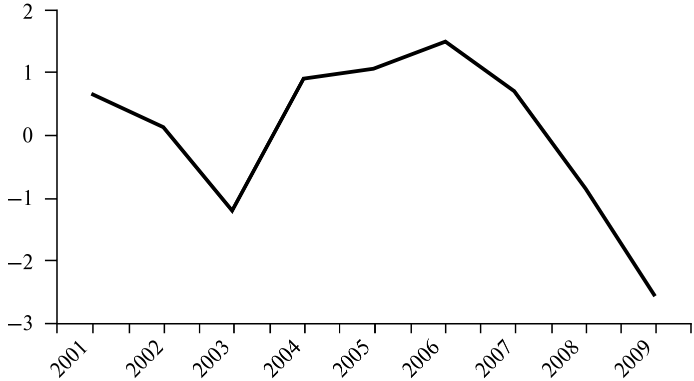
The calculations show that the zero hypothesis about the lack of influence of institutes may be rejected by 99.9% confidence level, — the influence of institutes development is significant and comprises about 0.47 ± 0.02 p.p.[41] of growth on each point of improvement of the level of institutes. This assessment to us a bit overstated in view of a number of factors[42]. As a result, we have built two more comprehensive alternative models, which were evaluating not only the influence of levels of institutes' development but also of the dynamics of institutes' development on GDP dynamics. Both models are using

[41] Here and further a 95% confidence interval is indicated.

[42] And to be more precise — due to the mistakes of underspecification — positive influence of the level of institutes development could be overstated because of the indirect accounting of the influence of other factors, connected with the development of institutes/remuneration of labor — this is also the capital-labor ratio, development of technologies, the quality of the labor force etc.

the elements of classical theory of growth which has been developed since 1970th, with the elements of Keynesian theory and the theory of business-cycles[43].

The elements of Keynesian theory — mean accounting of the dynamics of investment and salaries. These two parts of the equation virtually trigger off the mechanism of the multiplier, when insignificant shocks of various characters may influence the growth of the economy via Keynesian multiplier. In which case in the obtained model the short-term positive effects are divided by the growth of salaries, and the negative long-term ones — from its level.



The sources: UNCTAD, IMD, World Bank, calculations performed by the Development Center.

Picture 14. Dynamics of the factor of the world market trends, *p.p. of GDP growth*

[43] Similar approaches have been implemented earlier by other researchers. Thus, in the work by Coupet (*Coupet E., Jr.* Corruption, Investment and Economic Growth: Theory and Economic Evidence // J. of Business and Econ. Research. 2003. Vol. 1. No. 1. P. 93–107) on the basis of analysis of the function of the general productivity of the economy it is shown, that a high level of corruption negatively influences the level of investments and economic growth of non-OECD countries, as well as of the countries which do not export oil. A similar result was obtained in the work by Mauro (*Mauro P.* Corruption and Growth // The Quart. J. of Economics. 1995 (Aug.). Vol. 110. No. 3. P. 681–712): a more effective bureaucracy, legal system and a low level of corruption promote a higher rate of growth of the economy. Gupta et al. (*Gupta S., Davoodi H., Alonso-Terme R.* Does Corruption Affect Income Inequality and Poverty?: WP/98/76. Wash.: IMF (IMF Working Paper), 1998) showed, that high and increasing corruption reduce the rate of the economic growth, effectiveness of the state expenditure, creation of human capital, which eventually leads to the aggravation of the gap between incomes of the rich and the poor layers of the population.

The elements of the theory of business-cycles are present in this model in the form of an empirical segregate, reflecting the world market trends of the business-cycle, which influences the dynamics of issue in the countries (picture 14), but the dynamics of which cannot be expressed in outperformance dynamics of other macroeconomic indicators of the development of the world market.

The elements of the classical theory — this is an attempt to account for the dynamics of the economy using the fundamental factors of the development — such as the level of institutes, technologies, dynamics of the main volumes of the factors of production — population and capital with the use of the accelerator of investments.

The main differences in models are in the fact, that one of them explains dependence of the rates of GDP growth on the level of institutes' development, whereas the second model connects the medium rates of GDP growth during the last 8 years with changes of the level of institutes' development during the same period. The second model allowed drawing another conclusion: if for the group of non-European countries, generally characterized by a weaker level of institutes development, the increment of the quality of institutes had a positive influence on the rates of GDP growth, then for the European countries possessing on average stronger institutes, the positive connection has not been acknowledged statistically. From our point of view, this result shows that for the countries with originally weak institutes the effect from their reformation may be rather considerable. Insignificant result obtained for the European countries can be explained by the strong control on the side of more institutionally developed countries of the European Union over less developed ones, which partially compensates for the insufficient development of own institutes.

The main conclusion to which we have arrived is: the institutes have a sustainable and significant impact on the economic growth. Despite the fact that three different assessments of the impact of the consolidated index of institutional development on the economic growth have been obtained, all of them statistically differ from zero and at the same time they are found within the confidence interval. And if the original evaluation of the influence of institutes development gave the assessment of $0.47 \pm 0.02\%$ of GDP growth per a point of improvement of institutes (according to the methodology of IMD rating) then the assessments using macro models drifted apart. Assessments using the first model, which included the factor of the level of institutes development, gave 0.31 ± 0.14 p.p., according to the second, which included the factor of the change of quality of institutes, the assessment turned out to be higher and less definite — 1.1 ± 1 p.p. due to less observations. In a sense, the first assessment may be viewed as a permanent long-term impact of the improvement of institutes, and the second — as a payoff from the improvement of institutes in the process of their transformation.

The combination of these causes makes us think that the assessment 0.31 ± 0.14 p.p. is the best out of the three — but along with this, it is the most conservative. We do not exclude the notion that the payoff from improvement of institutes at the moment of their modernization may be several times higher.

The results obtained with the use of our models vividly demonstrate that the rates of the economic growth in the countries with developing economy are conspicuously influenced both by the level of the quality of institutes and by the dynamics of its alteration. More than that, since cross-comparison of the quality of institutes always has a relative character, it is possible to assume with high degree of probability that even the improvement of the quality of institutes, implemented slower than in the countries-competitors, means a relative loss and may lead to the loss of the relative competitiveness of the national economy.

Thus, according to our estimations, the growth of IMD index by 1 point (all other conditions being equal) is accompanied by the increase of rates of growth not less than 0.31 p.p. annually. At first sight, this is not a significant gain. However, even a moderate initial rate of growth of 3% of the gain from the raising of quality of institutes in Russia up to the level of China (from 2.7 to 4.5 points) on average will make up 11.8% GDP in 20 years. In such a manner, the improvement of the quality of institutes, makes it possible to save 3–4 years of the development out of 20, i.e., to *accelerate the development of the economy by 15–20% only due to this factor alone.* If Russia's quality of institutes was at China's level, India or South Africa, then pre-crisis growth of our economy would have been more intensive (up to +0.65%), the recession — not so deep (up to +0.49%), the recovery growth — more active (up to +0.54%).

This conclusion very well tallies with the results of our macroeconomic forecast: in order to depart from the "business as usual" scenario for the Russian economy it is necessary to immediately begin modernization and institutional reforms. Even without a weak but working institutes the economy of Russia is doomed for the preservation of its current condition, for strengthening of stagnation tendencies and as a consequence for a gradual increase of economic disbalance and social and political tension.

Conclusion

1. During the global crisis Russia, turned out to be not only less stable to the external shocks than the economies of other major countries, but it also faced with disappearance of the mechanisms of growth which had been working during 10 pre-crisis years. The main reasons which predetermined the serious nature of the crisis processes in the Russian economy expressed not as much in the deep downfall as in the destruction of the whole model of the economic growth, were external (reduction of the foreign demand, paralysis of the world financial system, which happened after the bankruptcy of Lehman Brothers bank, decline of the world oil prices) and domestic (crisis of the corporate external debt in Russia, which made the growth of the economy very much dependable on the inflow of capital, and overheating of the economy, which became obvious starting from the middle of 2007, failures of bank supervision, a weak inflow of foreign investments and the low quality of the institutional environment) factors. The combination of internal factors makes it possible to state, that Russia approached the moment of crisis' outbreak in a weakened condition.

2. In autumn of 2008 the banking crisis started in Russia which became the most "expensive" in modern Russian history. In order to overcome it the state undertook a number of measures (support of the banking liquidity, stabilization of banking passives, capitalization of the banking system, and rehabilitation of the troubled banks). Russia turned out to be the only country out of the developing economies, G20 members, which had to allocate assets for the support of the financial sector, and the scale of this support in the direct form — over 3% GDP — turned out to be higher than the average amount of assistance to the financial sectors of the developed countries — G20 members. In terms of direct infusion of capital into the banking system Russia, according to IMF, is ahead of all countries — G20 members (2% GDP on average), except Great Britain. Taking into consideration that the contribution of Russian financial sector to GDP is about 4%, it should be admitted that assets spent on its support, turned out to be excessive.

3. Fiscal stimulation is the central element of the classical anti-crisis programs in the conditions of the economic recession. Many experts are inclined to overestimate the scale of support for the Russian economy out of the budget funds, referring to it the whole factual increment of budgetary expenditures in 2009. But such an approach could hardly be justified since the main increment of expenditures was connected with implementation of social programs, decisions about which had been adopted and declared before the beginning of the development of rescue measures. Essentially, the main increment of the budget expenditures in 2009 is connected with concluding elements of the epoch of overheating of Russian economy, which the government in the conditions of the crisis could cut down (cancel, stretch in time), but decided not to.

4. In the course of implementation of the rescue package the Russian government realized two packages of fiscal stimulation, the total amount of which we estimate at 2112 billion rubles (5.4% GDP 2009). The major recipient of fiscal support was the oil industry, which practically didn't face the drop of demand, and hardly needed the measures of state support.

5. After a short period of recovery the Russian economy entered the stage of a weak, unsteady growth; it speaks to the fact that so far the economy of Russia keeps accumulating losses from the economic crisis.

6. The analysis makes it possible to single out inside the 10 years period 1999–2008 three stages — 1999–2000, 2001–2004, 2005–2008, — which differ from each other by the factors, determining the rates of growth, and consequently, according to the fact, which sectors of the Russian economy were the locomotives of the growth. The first stage, 1999–2000, is a classical period of post transformational growth, supported by the devaluation of ruble in the course of the crisis of 1998. It was changed by a new stage of growth which can be called "the fruits of privatization" when effective owner who had been in the state of formation during the 90th rose to prominence. The crackdown of YUKOS put an end to this stage after which the Russian economy tried to develop on the basis of external borrowings and the world market trends in raw materials prices, the logical continuation of which was the overheating and subsequent crisis of foreign debt.

7. In discussing long-term perspectives of development of Russian economy, objective challenges of time should be taken into consideration, to which we refer the accelerating globalization of the world economy and the change of balance of economic powers of the world; demographic trap in which the Russian economy was caught, — the Russian which will be slowly decrease during the next decades, but the number of able-bodied population will still be declining faster; transition to a state of vulnerable macro economy, characterized by disequilibrium of budget and potential instability of the payment balance.

8. "Business as usual" scenario is possible for Russia, and it looks quite understandable: the raw materials sector preserves its dominating positions in the economy, the main factor of growth becomes the slow increase of hydrocarbons production (oil and gas), and the basic condition is slow but permanent growth of the world oil prices. In this scenario, the economic growth in Russia will continue, but its rate will be slowly fading. In 20 years the Russian GDP may grow approximately by 50%, but because of the fact that the world economy will be growing at much higher rates, the share of Russia in the world GDP will conspicuously decrease, i.e. the country will be relatively losing in the economic competition.

9. The dangers of "business as usual" scenario are well-known: an unsteady-state condition cannot last forever — a new powerful external shock (a new world crisis or decline of oil prices) will be enough to make the situation spin out of control.

10. The possibility of long-term sustainable growth is seen exclusively in a more active integration of Russia into the international economic relations, in a more active participation in the international trade, in accelerated development of the non-primary export-oriented sectors. The countries which attempted to implement strategies of growth relying on domestic market, having realized large scale investment programs, pretty soon got stuck at the limits of expansion of the domestic market.

11. Strategic objective for the Russian economy may become achievement of the rate of growth of the non-primary export at the level not less than 25% annually, which will make it possible to raise the rates of economic growth up to 5–7% annually. In such a case by 2030 the share of the non-primary export may exceed 50% in the total volume of the Russian export, and the share of oil and gas incomes of the federal budget will make up less than 20%, which will make it possible to talk about departure from "humiliating raw materials dependency".

12. Positive scenario requires a number of significant elements to which we refer a rapid and drastic suppression of inflation, raising the level of investment by not less than 25% GDP by means of the most active attraction of direct foreign investments, limitations of the rates of growth of specific labor costs.

13. Buildinga new model of economic growth in Russia is impossible without establishing efficient state machinery, creation practically from scratch, institutes destroyed during the recent years and a sharp increase on the basis of quality of the investment climate in Russia. In order to depart from "business as usual" scenario for Russian economy it is necessary to start modernization and institutional reforms immediately. Even without weak, but working institutes the economy of Russia is predestined to fail in preserving of its current state due to the aggravation of stagnation tendencies and, as a consequence of it, to gradual growth of economic disbalance and social and political tension.

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