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Financial policy in the regime under sanctions - case of Russia

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Declaration:

I hereby declare that I am the sole author of the thesis entitled "Financial policy in the regime under sanctions - case of Russia". I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on

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List of Abbreviations

Abbreviations:

BRICS – an informal group of states comprising the Federative Republic of Brazil, the Russian Federation, the Republic of India, the People's Republic of China and the Republic of South Africa

CIS – The Commonwealth of Independent States (a regional intergovernmental organization of originally ten post-Soviet republics in Eurasia)

FAC – Financial and accounting consultants

FLB – federal loan bonds: ruble bonds issued by the Ministry of Finance of the Russian Federation

GDP – Gross Domestic Product

HSE – Higher School of Economics

IBRD – International Bank for Reconstruction and Development

IMF – International Monetary Fund

NPCS – National Payment Card System

NSR – Northern Sea Route (Bank): a large universal commercial private bank of Russia, offering customers a wide range of modern banking products and services

OECD – Organization for Economic Co-operation and Development

OPEC – Organization of the Petroleum Exporting Countries

POS – Point Of Sale – the direction of the retail business of banks, which provides for the issuance of loans for certain goods directly at points of sale. This business is considered highly profitable, but at the same time highly risky

RANEPA – The Russian Presidential Academy of National Economy and Public Administration under the President of the Russian Federation

RBC – RossBusinessConsulting (rbc.ru): Russian media holding, including the same-name channel, news agency, newspaper and magazine

RTS index – Russia Trading System index

SMEs – small and medium-sized enterprises

VAT – Value Added Tax

WTO – World Trade Organization

Introduction.

The essence of financial problems in the Russian Federation at present.

Finance is a system of economic relations arising in the process of formation, distribution and use of funds of the state's resources, its territorial units, as well as organizations and institutions necessary to ensure expanded reproduction of the state and its social needs. The implementation of which involves distribution and redistribution of the public product and control over the satisfaction of the needs of society.

The state uses finance to achieve its objectives and goals in the social, economic, environmental, defense, law enforcement, etc. areas. An important place in this process is occupied by financial policy. It is an integral part, a segment of social and economic policy of the country.

Depending on the period and the nature of the tasks to be solved, financial policy is divided into *financial strategy* and *financial tactics*. Financial strategy is a long-term financial policy course that is designed for the future and involves solving large-scale tasks. Financial tactics is the development of measures that are aimed at solving the problems of a specific (current) stage of development of a society, through the development of financial ties, the regrouping of financial resources. If financial strategy of the state is relatively stable, its financial tactics should be flexible enough to settle various problems that might arise (Drozdova, 2015).

Financial policy aims at increasing the volume and efficiency of use of financial resources. The growth of financial returns can be compared with the litmus test, which serves to verify the effectiveness of financial policies. Refusal to take into account the increase in the effective use of financial resources during the development and implementation of financial policies is fatal for the economy. It can possibly lead to dispersing funds and reducing the sources of satisfaction of the constantly growing economic and social needs of society.

When developing the financial policy of the state, specific historical conditions should be also taken into account. Since, at each stage of the development of society, a certain specificity of the features of both the domestic and international situation, the real economic and financial capabilities of the state are applied. From the point of view of the peculiarities of the moments, it is also necessary to study the experience of previous economic and financial construction, new trends and progressive phenomena, and world experience carefully. Timely changes in financial policy based on the characteristics of the current

moment, as well as the pressing needs of economic development, make it possible to solve the tasks facing the state in the shortest possible time and at the lowest cost.

Financial policy involves the strengthening and development of international economic relations, while ensuring the conditions for the implementation of joint activities. The evolution of productive forces, scientific and technological progress today has reached such a level that one state is not able to carry out individual programs. On this basis, countries together performing some functions help save money. Besides, only international partnerships can provide effective assistance to developing countries.

At the present stage, the Russian Federation faces the problem of sanctions, which have significantly influenced the nature and standard of living of the country and its citizens. The United States and other Western countries applied sanctions against Russia for the first time in 2014. The first wave of sanctions was more symbolic, an act of hostility towards Russia, and did not have a real impact on the economy. Subsequent restrictions have become much more serious. Under their action there were specific persons, banks and enterprises. In addition, restrictions were placed on the supply of technology, weapons and other goods to the Russian market by American, European, Canadian, Australian and Japanese companies. The Russian Federation is facing the Western sanction in connection with its actions in the Crimea and in eastern Ukraine. Its international policy is regarded as unprecedented violation of international law, which could not be left without response, and so the European Union, together with its partners (US, Canada, Japan, Norway, Australia, Switzerland) forced the adoption of a series of restrictive measures which were supposed to make Russia stop interfering into the internal politics of a sovereign state (Tyll, Pernica and Arltová, 2018). Currently, 37 states have imposed sanctions against Russia (Timopheev and Morozov, 2019).

Sanctions have limited access to cheap loans for domestic banks that fell under them, reduced funding for Russian companies by foreign banks, and interrupted the flow of investment of most EU countries into Russian domestic production (Pavlova, 2019).

The main objective of the problem and its topical importance.

The main purpose of the current thesis is a comprehensive description of Russia's financial policy at the chosen stage of sanctions against Russia. It includes a preliminary assessment and forecast of the country's economic development in the current circumstances and the

development of strategies and tactics to overcome the negative consequences of the sanctions of leading countries towards the Russian Federation.

This area of research seems relevant and promising, as modern financial policy plays a significant role in the socio-economic development of any country. Particular attention has now been drawn to the Russian Federation, whose socio-economic development is being restrained by sanctions from the United States and Western Europe.

It is common knowledge that industry development is determined by the level of its rationality. Therefore, financial policy calls for answers to important questions, including achievement of the set goals and objectives in specific economic and socio-political conditions; changing the economic structure of society in the framework of existing financial mechanisms; necessity to imply changes into financial mechanisms; development of financial construction and so on.

In addition, among the main problems of Russia's financial policy, it is necessary to single out the following: unbalanced budgets of all levels and state extra-budgetary funds; imperfection of the tax system; low rates of investment financing; lack of unity of monetary and financial policies; instability of the ruble exchange rate; inefficient use of state property. Consequently, the goal of the financial policy of the state and, in particular, of the subjects of the state, is to increase or maintain the same level of real income per capita and on this basis to ensure the provision of social standards of living mode in the country, including those at the level of each region separately. At the same time, the role and importance of the development and adoption of such standards at the level of the Russian Federation is growing. Nowadays many of Russia's subjects develop strategies to solve the situation. However, it is necessary to point out that it is only possible to develop them in a centralized manner, since the standards of living in such a big country as the Russian Federation are different. For example, filling of school classes in cities and villages and the standards for allocating funds for the construction of roads in Central Russia and the Far East cannot be the same. Thus, development and adoption of standards at the state level is indispensable.

Existence of significant imbalances in the domestic Russian economy is evident. We can mention only a few of them: catastrophic decline in the efficiency of production, lack of competitiveness of most of the products, a sharp drop in investments in the real sector of the economy, the threat of strong inflation, reduced consumption, low standard of living of the population, a large-scale growth of the external and internal public debt and so on and so forth. All these necessitate revision of the reform of organizational methods and improve

the country's economy forms of governance. The mechanism of state regulation of socio-economic processes should be aimed at maintaining market equilibrium and to make possible the production of goods and services required for sustained development of the country. Implementation of the needs to centrally impact the economy and social sphere of the country is largely dependent on the degree of availability of resources of the activities. The important role played by the process of formation and use of monetary funds of the state have a significant impact on the course of reproduction. Hence, the need for sound financial policy is a very important element of the economic governance of the state.

Tasks of the thesis and methodology.

The process of the upcoming study involves very important understanding of what the current financial situation in the Russian Federation depends on and what can serve as reserves for improving financial policy in the current state of the country in conditions of sanctions. It is not entirely correct to consider that those reserves are only the tax duties and taxes received by the treasury. Indeed, in the case of the availability of reserves of proven natural resources, developed industrial production and other favorable factors, it is possible to attract additional finance in the form of bank loans, bond loans and other borrowed funds. Financial policy is a combination of methodological principles of organization forms and methods of using finances, which are implemented on the basis of the adoption of a system of government measures developed for a certain period of time (whether it is a year, three years or any other period).

Based on this, we come to understanding of the idea that financial policy, firstly, defines the main goals, specifies the promising and immediate tasks that need to be addressed in order to achieve the results set for a certain period of time. Secondly, it develops methods, tools and forms of relationships that will help achieve the set goals in the shortest possible time, and immediate and future tasks are solved in an optimal way. Thirdly, it selects highly-qualified personnel who are able to solve the tasks, as well as monitor the organization of their implementation.

Conditions such as highlighting the interests of the whole society and individual population groups, characterizing promising and close tasks with determining the timing and methods for solving them will help to develop a mechanism for implementing financial policy and give an objective assessment of the financial policy of the government and recommendations for its adjustment.

As for the policy in the field of international finance, first of all, it is aimed at integrating Russia into the global financial system; reduction of external debt; cooperation with the countries of central and southeast Asia, strengthening the position in the IMF (International Monetary and Financial Committee) and the IBRD (International Bank for Reconstruction and Development); increasing the stability of the ruble against foreign currencies and joining the WTO (World Trade Organization).

Currently, the Russian Federation actively supports the containment policy, which has been applied to financial policy for many years, nearly for centuries, but presently it has been carried out especially intensively, since the EU countries imposed sanctions against Russia. Some of the experts claim that undertaken measures only strengthened the Russian economy. At the same time, there is talk of revocating the sanctions, since the Western sanctions against Russia do not work, but only cause mutual harm. Inside EU, the disagreement about the sanctions have weakened the political system in Europe. Italy and Hungary still show different view and EU should consider their opinion instead of making decisions of automatic renewal of the sanctions. The most affected European economies cannot continue to 'wander between the sanctions', because the negative impact is becoming a real issue (Boev, 2017).

Theoretical and methodological basis of research include works of domestic and foreign scientists, economists, experts in financial policy, foreign trade, banking, taxes, methodological data from statistic organizations, scientific-practical conferences and articles on the topic of the research. During the research, the following methods were applied: economic, systemic and comparative analysis.

The thesis is aimed at setting and solving a number of tasks that contribute to a comprehensive description of the financial situation in Russia at the present stage during the period of sanctions. Besides, there is a need for the formulation of a preliminary assessment and forecast of the country's economic development in the current circumstances and the development of some strategic and tactical tips to overcome the negative consequences of the sanctions policy of leading countries regarding the Russian Federation.

These tasks are as follows:

- to describe sanction's policy against Russia;
- to study the impact of the Western sanctions (and anti-sanctions) and oil prices on economic growth in Russia;

- to assess a current status and development prospects of the financial system of Russia in the period of sanctions;
- to examine the key directions of the monetary policy in Russia used to mitigate the impact of sanctions on the stability of the Russian banking system;
- to try to suggest important steps aimed at stabilizing the situation.

In the thesis, we consider the role of the financial system of Russia in ensuring the financial security of the state in the period of sanctions. The conclusions are based on the analysis of static data, taking into account the assessment of the main threats to the financial security of the country in the period of sanctions. The analysis of advanced approaches to ensuring financial security is carried out, the impact of Western sanctions and “anti-sanctions” on the Russian economy is assessed.

In the context of globalization, the global economy is controlled by financial mechanisms, creating appropriate incentives to subjects of financial interests. At the same time, a special financial power was formed, which, through the management of global financial flows, exerts influence on a global basis and on each individual state.

It is noted that the conditions of the country's economic security are the stability of the financial system, determined by the level of the budget deficit, inflation rate, the volume of gold and foreign exchange reserves, and the state of the banking system. In the global economy, financial relations formed within financial systems permeate and mediate all economic relations that take shape in the state.

Based on the analysis of the static data, the role of the financial system in ensuring the financial security of the state will be considered, taking into account the assessment of the main threats to Russia's financial security. The analysis of advanced approaches to ensuring financial security is also carried out, the impact of sanctions of Western states and “anti-sanctions” on the Russian economy is assessed. Based on the analysis, we must come to important conclusions about the necessity to carry out a number of important events in the current financial and economic conditions of Russia.

Literary review

The problem of the Russian state of economy under the conditions of sanctions is widely discussed in modern economic literature in the works of domestic and foreign researchers, economists and analysts. The work of scholars studying issues of the Russian financial policy and its financial warfare can be attributed to the papers by Frances Coppola, Natalia

Giblova, M. A. Abramova, L. I. Goncharenko, S. M. Tkhamokova, A. A. Frenkel, Y. V. Sergienko, B. I. Tikhomirov, A. A. Surkov and others.

Frances Coppola, who used to work for banks, for example, underlines that anti-Russian sanctions appear difficult to evade. She particularly marks out, that “when they were announced, the ruble and the Russian stock market both fell and share prices for the sanctioned companies slid: it seems the financial world thinks the sanctions could hurt Russia considerably” (Coppola, 2014). The author of the research warns that the US has already prepared the ground for more extensive attacks on Russia's fragile economy, which indicates financial warfare.

Researches with regard to the Russian financial activity and further perspectives and prognosis of development belong to writers such as A. A. Akayev, N. S. Ziyadullaev, A. I. Sarygulov, V. N. Sokolov, A. O. Baranov, V. N. Pavlov, T. O. Tagaeva, whose works have made a significant contribution to the development of this area. The authors describe the state of the Russian economy, which is “in a deep crisis situation that has been going on for several years”. The researchers are concerned about poor economic situation in Russia. They point out that “sustainability” and “reliability” are not the words that can describe the current state of the Russian economy (Akaev et al., 2016).

Currency rates jump from time to time, financial risks are exacerbated, and therefore, even the most qualified and experienced experts speak with great caution about the near future of the Russian Federation. The residents of the Russian Federation desire to be appraised of exact information about the near future, but no one can guarantee positive outcome soon.

Authors like I. Timopheev, V. Morozov, L. Tyll, K. Pernica, M. Arltová and others focused their attention on investigating the impact of economic sanctions on Russian economy and the RUB/USD exchange rate. The authors describe Russian government's steps to adapt to sanctions against the Russian Federation. Russian authorities retain opportunities for foreign companies to work in the Russian market, create new mechanisms for international economic relations, bypassing sanctions, and allow the use of targeted counter sanctions. The authors admit that nowadays “preventing the impact of sanctions on Russia remains an extremely difficult task due to the significant asymmetry of economies in comparison with the initiator states, as well as to the U.S. dominance in the global financial system” (Timopheev and Morozov, 2019).

The monograph by M. A. Abramova, L. S. Aleksandrova, S. V. Krivoruchko, et al., entitled as «Status, trends and development prospects of cash circulation in Russia» is devoted to

identification of trends in the development of cash circulation and development of recommendations, including the introduction of additions and changes to regulatory legal acts regarding the functioning of cash and the regulation of cash circulation based on international experience and in order to improve the organization of cash circulation (Abramova et al., 2016).

M. A. Abramova and co-authors come to the conclusion, that the new reality of the next decade should become the subordination of the interests of the financial sector to the development of the real sector of the economy, especially its segments, focused on production for domestic consumption and non-primary exports. This step requires coordination of all components of the financial and economic policy of the country, including monetary, fiscal, banking and its other elements. The authors underline the idea that internal potential for self-regulation of the Russian economy is really very limited and it is impossible to effectively manage such a non-market economy using exclusively market methods. In this regard, the economists advise to solve those questions keeping in mind that before the formation of the market structure of the economy, its management will be forcedly combined: each of its segments must have its own set of regulatory tools. However, the process of strengthening the state administration of state-owned companies should be accompanied by a gradual decrease in the state's share in the Russian economy and the creation of real conditions for the development of the private sector (Abramova et al., 2016). Economists D.A. Sazonov and T.N. Afanasyeva analyze the exchange rate as an indicator of the state of the Russian economy. They describe devaluation as a method of stimulating the economy, but since it leads to deflation, they admit that it adversely affects the domestic economy. The negative consequences of deflation include a decrease in demand for goods, the occurrence of deferred demand; salary reduction; decrease in bank lending; decrease in profitability of companies and the cost of securities. As a result of deflation and currency war, the population of the country suffers greatly, because people are forced to cut their expenses due to a decrease in the value of accumulated cash and the need to pay loans. The authors, however, come to the conclusion that for Russia, the problem of currency wars is not paramount. Since the Central Bank of the Russian Federation ties the ruble exchange rate to a dual-currency basket and purposefully keeps it within a reasonable range, the probability of ruble devaluation is rather small. There are many other methods of stimulating the economy that may be less effective, but also less shocking. The socio-economic situation

in Russia does not allow in the near future to untie the ruble from the euro and the dollar, and put it into a “free float” (Sazanov and Afanasieva, 2013).

In spite of a wide range of works, devoted to the problem of the financial behavior of Russia in condition of sanctions, the degree of elaboration of these issues does not fully meet the needs of knowledge in this sphere. Besides, the situation constantly changes. In this regard, it is necessary to improve methodical support of strategic management of financial policy of the Russian Federation on the basis of domestic and foreign study of modern theories of strategic management and its further perspectives.

1. Chapter 1. Russian Economy in 2017-2019

1.1. General Description of the Current Situation of the Russian Economy and its Further Prognosis

At present, the state of the Russian economy cannot be called stable and reliable. This is due to currency fluctuations, aggravation of financial risks, deterioration of relations with other countries of the world and other factors. The future of the country's economy excites not only entrepreneurs, but also ordinary citizens, because economic leaps affect various spheres of life and carrying out business in Russia. That is why people thoroughly study the opinions of experts on the economic situation in Russia in 2019. The economic leaps predicted by analysts will entail changes in the current tax system, affect social guarantees and affect the standard of living in the country.

This issue becomes even more urgent in conditions when the country's economy is in a state of recession - today the crisis and sanctions in Russia are too strong to ignore them (Akaev et al., 2016).

Analysis of the forecasts of leading Russian and international experts in the field of the Russian economy in the near future shows the possibility of two options for the development of the current situation, although even the most accurate forecasts do not give absolute guarantees.

Some departments publish extremely positive forecasts. According to them, as early as 2020 Russia is expecting a period of economic recovery and stability. There are several reasons for such a forecast: if governing is correct, an import substitution program might be implemented soon, and special adaptation measures will make the country independent of commodity market changes (Alyabyev, 2017).

However, when positive forecasts refer to specific figures, government experts speak more carefully - an incredible GDP (Gross Domestic Product) growth in 2019-2020 is not forecasted; the only thing that the Russian analysts promise is that the recession will finally give way to stagnation with a positive trend. Independent companies and world organizations say that if we compare economic indicators in Russia with previous years, then we can talk about the emerging positive trend (Baranov, Pavlov and Tagaeva, 2015).

The situation may develop negatively for the Russian Federation for various reasons - inflation is pressing harder, commodity markets (especially oil) are constantly in danger of falling, the structure of the state's branches has remained unchanged, and the foreign policy

factor does not play into the hands of the government. There are also supporters of the negative scenario. According to them, in 2020 Russia will face another crisis.

For instance, according to experts from the HSE (Higher School of Economics), in 2020 the Russian Federation will remain a “raw pipe”. The growth of the economy in 2020 will not exceed 0.5%, and that, provided that oil prices are stable. In connection with a decrease in the profitability of all sectors of the economy (excluding the extraction and export of oil and oil products) and a decrease in household incomes due to a reduction in the number of employed people and the constant closure of enterprises, experts predict a further economic downturn. Among the main negative factors are a decrease in oil prices, a slowdown in export growth, adaptation to sanctions, the transition to a constant budget rule and an increase in the tax burden (Ageeva, 2018).

As S.V. Golenkova points out, Russian government services based on analytical calculations made by specialists of the Ministry of Economic Development for a three-year period, develop and adjust budget indicators. These indicators influence not only strategic guidelines of the Russian Federation, but also the welfare of ordinary Russian citizens. The latest forecast published by the Ministry of Economic Development said that economic policy should be developed taking into account the preservation of Western sanctions restrictions. The main forecasts of the department are as follows:

- the budget is facing an acute deficit, therefore, its decrease is forecasted for 2019 - approximately by 5%;
- oil production by the beginning of 2019 decrease by 52 million tons and amount to approximately 675 billion tons. At the same time, export figures are fixed at around 140 billion tons;
- supplies of energy resources abroad increase: in 2018-2019, they increase to 243 and 247.2 million tons, respectively;
- the country's economy can reach a pre-crisis level by the beginning of 2020 if the price of black gold stabilizes and amounts to \$ 70 per unit volume;
- while maintaining the trend for low oil prices, it will be necessary to revise gas tariffs. For the industrial sector, these figures will increase by 2% per year, for ordinary Russians - by 3%;
- it is assumed that tariffs for the carriage of goods and passengers will be increased by 4.5-4.2% per year;

- the energy tariff for the industrial sector and the population will increase by 5.1-5.6% (Golenkova, 2016).

Ministry officials recently adjusted their long-term outlook on Russia's present state of economy. Recent trends have shown that a slowdown has resumed in the Russian economy, so an increase of more than 2% is hardly possible. GDP in recent months has fallen by 0.3%, which has become one of the most negative results for several years. At the same time, the Ministry of Economic Development is trying to reassure citizens, calling this recession local: so far it has occurred in a limited number of industries, primarily in metallurgy and the production of industrial equipment and machinery (Thamokova, 2019).

Based on forecasts received from the Central Bank of the Russian Federation, economic indicators of the state will grow by about 2.3-2.5% by the end of 2019. According to representatives of the Central Bank, the main factor affecting the financial situation of Russia is the growth of domestic demand, which will lead to increased consumption by households and increased investment in the business sector. The forecast contains two probabilistic scenarios:

- 1) optimistic: oil prices will rise to 79-80 dollars per unit volume by the end of 2019;
- 2) conservative: the price of a barrel of oil will be approximately 58-60 dollars.

It is assumed that inflationary manifestations will be able to keep at around 4%. At the same time, GDP growth in 2019 will reach from 1.5 to 2%, and in 2020 it will slow down to 1-1.5%.

Specialists from the Higher School of Economics (HSE) do not agree with government departments. They directly say that the opinion about the country's entry into the phase of full-fledged economic growth does not correspond to reality (Zavalko, 2015). Representatives of the HSE called the jump of prices in the oil industry a "gift" that allowed Russia to rise for a short while, pushing itself from the economic bottom. Already in 2019-2020, the country expects stagnation processes, because of which the Russian Federation will lag 7 times behind world indicators.

Despite the fact that the government is talking about reorienting industries and developing innovations, the concentration of revenues in the extraction of resources and their export abroad only increases (Kulikov, 2016). Independent experts voiced a forecast according to which by the beginning of 2020, growth of no more than 0.5% can be expected. Moreover, this prognosis might be valid even if oil prices remain stable, because it is oil that provides more than 60% of the state's foreign exchange earnings.

According to experts from the Higher School of Economics, current government policy will lead to a deepening economic crisis, the profitability of all economic sectors, excluding oil production and export of commodities abroad, continues to decline (Mitsek and Mitsek, 2016). An increase in the salary fund by 5% was achieved in a simple way - by reducing the number of employed population by 2%, and if we take into account the constant closure of small businesses, the incomes of citizens decreased markedly.

According to analysts, this economic downturn can be called a record one - in recent years, the retail trade indicator fell by 13.1% (compared with 2014, that is, before the onset of the crisis). Indicators in the construction sector decreased by 7.8%, and manufacturing - by 0.5%, and demand from households fell by 10%, which corresponds to the indicator of eight years ago.

More than 90% of the investment is provided not by business, but by the state - for example, there are injections into high-budget projects such as the Kerch Bridge or the 2018 World Cup, which are not supposed to bring tangible income in the future. Experts call such an economy “crutch” - it continues to rely on state investments and state-owned commodity corporations.

Experts from three reputable institutions have joined forces to predict the Russian economic future. The updated vision of the post-crisis situation from the RANEPA (The Russian Presidential Academy of National Economy and Public Administration under the President of the Russian Federation), the Gaidar Center and the Academy of Foreign Trade looks less rosy than the version of last year, and differs significantly from what was voiced at the Ministry of Economic Development.

The authors of the forecast expressed the opinion that the trend to strengthen the economy, which was fixed in 2017, can hardly be called long-term - it is not able to provide Russia with even two percent growth, if we talk about the period from 2018 to 2020. Such a strong discrepancy with the forecast from the Ministry of Economic Development is due, first of all, to the fact that earlier experts proceeded from the fact that US sanctions restrictions will be maintained, but not strengthened. Unfortunately, the adoption of new sanctions packages continues, and this cannot but affect the current situation (Mitsek and Mitsek, 2016).

As a result, two scenarios were developed:

1) **inertial**: in its conditions, the price of Urals brand oil is set at 55-56 dollars per unit volume in 2019 and 2020. The GDP indicator in this case will grow by 1.4-1.2%. In the case

of the implementation of this scenario, citizens can count on a certain increase in income (about 1.4-1.3% per year);

2) **conservative**: a drop in oil prices to the level of 40.8-41.7 dollars per barrel will lead to an increase in GDP of only 0.8-0.7%. Interest rates on loans in this case may increase to 16.4% per annum, so the Central Bank's opinion on a further decrease in this indicator is unlikely to be true. At the same time, household incomes will increase by only 1-0.4% in 2019 and 2020.

Both scenarios suggest that the Central Bank will be able to maintain inflationary manifestations at a level of no more than 4-5% per year. However, the experts themselves are rather skeptical about this. Due to the sanctions restrictions adopted by the USA, one can expect losses in the stock market, jumps in the exchange rate and another outflow of capital. In addition, enterprises and corporations that have credit obligations to Western banks are facing problems: they may now require early repayment of debts.

However, some government experts have already entered into discussion: they deny the calculations of the RANEP, believing that the country will experience the effect of new sanctions only in the short term. The Russian economy, they said, has adapted perfectly to Western restrictions, and the state has many more internal sources of development.

The experts of the Institute for Strategic Analysis of FAC (Financial and accounting consultants) of Russia adhere to the same opinion. They argue that there is no right to consider the crisis as a resolved problem. (Nekipelov, Ivanter and Komkov, 2015).

Such sad phenomena of stagnation in the economy can be restrained in only one way - by identifying and eliminating the causes of their manifestation. But today sanctions restrictions still apply to the Russian Federation, and oil prices cannot be called stable in the long run. Even with the growth of oil prices from 40 to 60 at. e. per barrel, the Russian economy will not cease to be a commodity country.

Small businesses in the country are still few, the decline in agricultural indicators over the past year was 2%, and construction - more than 3%. The industrial sector also does not show any improvement. Despite statements by government departments about the fall in inflation, real incomes of citizens continue to decline. For instance, in 2019-2020 Russia can not overtake or even catch up with the world economic indicators.

As additional risks, experts at the Institute for Strategic Analysis of FAC called the deterioration of the political situation around the Russian Federation, the possibility of prolonging the agreement of OPEC (Organization of the Petroleum Exporting Countries)

countries to reduce oil production, as well as increasing shale production in the United States.

The growth of social guarantees is an exclusively pre-election event in the country. The Russian Federation did not come out of the crisis, but only slightly adapted to it. Current problems have not been resolved, and it is a positive prognosis if GDP in 2020 does not show an increase of 0%, which might turn out to be true.

According to experts from the World Bank, the main indicators that characterize the state of the Russian economy will be low:

- in 2019, the country's economic growth may reach 1.7%;
- In 2020, we can expect an increase in indicators by another 1.5%.

As a reason for slight improving forecast calculations, oil quotations were called, which so far demonstrate steady growth (Yurkova and Shaikhislamova, 2015). In 2019, the Bank predicts the establishment of average annual oil prices at around 50-63 dollars per unit volume. It was separately noted that the general condition of the world economy and trade has a positive effect on the Russian Federation: the volumes of export-import operations have increased again, and investors have noticeably revived.

At the same time, representatives of the analytical agency Goldman Sachs (Global Investment Research) believe that Russia can reach the economic growth rate of 2.9%. They call the reason for the positive dynamics the stabilization of oil prices, but other foreign policy and foreign economic factors have a negative orientation, so that Russia still will not reach the pre-crisis level (Global Economics Analyst, 2019).

Of particular concern in the context of an unfavorable demographic situation is the ongoing decline in the country's population (to 146.8 million people as of July 1, 2018) due to an increase in its natural decline: by 88.7 thousand people in the first six months of 2018, despite mortality reduction. This occurs both due to a significant drop in the birth rate, and due to the tightening of migration legislation.

Corruption and the shadow economy continue to grow, which IMF (International Monetary Fund) experts estimate at one third of GDP. According to the Audit Chamber, in the public sector alone, violations in the amount of 1.9 trillion rubles were detected in 2017. This is twice as much as in 2016, and almost twice as much as the Federal Budget deficit for 2017. At the same time, less than 1% of budget funds used for misappropriation were returned to the budget.

Meanwhile, the pressure of the sanctions press is increasing, which creates ever-increasing threats leading to political isolation and military blockade of the Cold War. The introduction of new US sanctions, including trade wars, in addition to the sanctions of past years, which, according to the American administration, did not give the desired effect, can become very tangible. For example, as Frenkel, Sergienko, Tikhomirov and Surkov point out, a ban on US businessmen from direct and portfolio investments in Russia, including the acquisition of federal loan bonds, new issues and shares of Russian companies, may slow down Russia's economic growth by at least 1% (Frenkel et al., 2018).

Summing up the description of the current state of the Russian economy at present, experts believe that it is necessary to adapt the country to the next realities, when in 2018 the exhaustion of the resources of the Reserve Fund comes to an end, and in 2020 all the money from the National Welfare Fund will be all used up. After that, as independent analyst R. Yuryev supposes, the country will have four main areas that will help the Russian government fight the crisis and fill the budget:

- 1) authorities may decide to launch a "printing press";
- 2) fiscal policy may be revised upward;
- 3) the next wave of privatization will begin;
- 4) expenses will be reduced, primarily - on the social sphere, educational sphere and medical care.

Independent experts consider privatization measures the most painless measure to stabilize the economy - it will give Russia the opportunity to raise capital in the amount of 0.5 trillion rubles in just one year (Yuriev, 2016). In this case, the country could preserve sovereign funds, creating conditions for market competition and activating the inflow of capital to manufacturing sectors.

Raising taxes is considered to be not the most successful measure, especially during periods when the economy is in recession. Many owners of small and medium-sized businesses simply cannot stand the additional fiscal burden - despite the fact that today, Russian business is already paying considerable interest.

VAT (Value Added Tax) is a rather complicated tax: it applies not only to consumers, but also to manufacturers who are forced to either reduce the rate of profit or revise the remuneration mechanisms of their employees. But since the tax has recently grown by only 2%, it is more likely to talk about a slowdown in wage growth and profit growth, in addition,

part of the burden of increased VAT will be borne not by Russians, but also by importers, who will also have to moderate their appetites, as far as profits are concerned.

Of course, the increase in VAT cannot be called a positive factor: the additional tax burden negatively affects the income of Russians and the rate of economic growth. But the negative effect will be noticeable only in the first months of the year, and then it will be partially offset by an increase in budget expenditures for the same pensions in other areas.

Speculating on the economical situation in Russia in 2019, economist Tkhamokova points out: ss for social spending, the population is almost used to reducing them, but there is a limit to all patience. The inclusion of the "printing press", of course, ends in sharp inflation, and it can reach the level of 10% or more (Thamokova, 2019). The result is an outflow of capital and a drop in the level of savings among households, which today are already in a rather difficult situation.

Many independent experts say that in 2019, the government will have to make a difficult choice between citizens and corporations. The situation can be stabilized only by reducing the financing of state contractors, mining state corporations, the defense sector and security forces. It's time to bet on small and medium-sized businesses, so that the economy has a chance to level out over the next five years.

1.2. Comparison of the development trends of the Russian and world economies in terms of the dynamics of gross domestic product, industrial production, inflation and other significant macroeconomic indicators.

In this section we will try to understand what the state of world development at the present stage is, what trends in the world are leading on the planet and what position the Russian Federation occupies in terms of the dynamics of gross domestic product, industrial production, inflation and other significant macroeconomic indicators.

Both the global and Russian economies are developing extremely unevenly. The development of the Russian economy and social sphere is taking place against the background of generally more positive changes in the world economy. According to estimates by the Federal State Statistics Service (Rosstat), the IMF, the World Bank and other reputable organizations, the global economic growth rate in recent years has been significantly higher in comparison with the Russian economic achievements.

Global GDP as the main macroeconomic indicator, according to the updated February forecast of the European Union, grew by 3.8%. For Russia, these global average rates were unattainable.

According to the updated OECD (Organization for Economic Co-operation and Development) forecast, the growth of the Russian economy in 2018 due to tougher sanctions does not exceed 1.8%. As in previous years, these rates are far from the global average, which leads to a further drop in Russia's share in the global economy. According to the forecast of the Institute of Economics of the Russian Academy of Sciences, the growth of Russia's GDP in 2018-2019 is also expected to be rather modest: if current trends continue, these rates do not exceed 1.7-1.8% (See Table 1 and Fig. 1). The data given in Table 1 and Fig. 1 are taken from official sources of Russian statistics of the Federal State Statistics Service: (Russian statistics of the Federal State Statistics Service, 2018), (sections that were analyzed: national accounts, entrepreneurship, prices, finance, foreign trade). All the forecasts for the coming period are formulated by leading economists of Russia from the Institute of Economics (Frenkel et al., 2018).

During the last economic crisis in Russia, a very high correlation was observed between the dynamics of GDP and the growth of industrial production. Moreover, until 2017, GDP growth significantly lagged behind industrial production growth. So, according to Rosstat, industry in 2016 and 2017 grew by 1.1 and 2.1%, respectively. At the same time, GDP in 2016 decreased by 0.2%, and in 2017 increased by 1.5%.

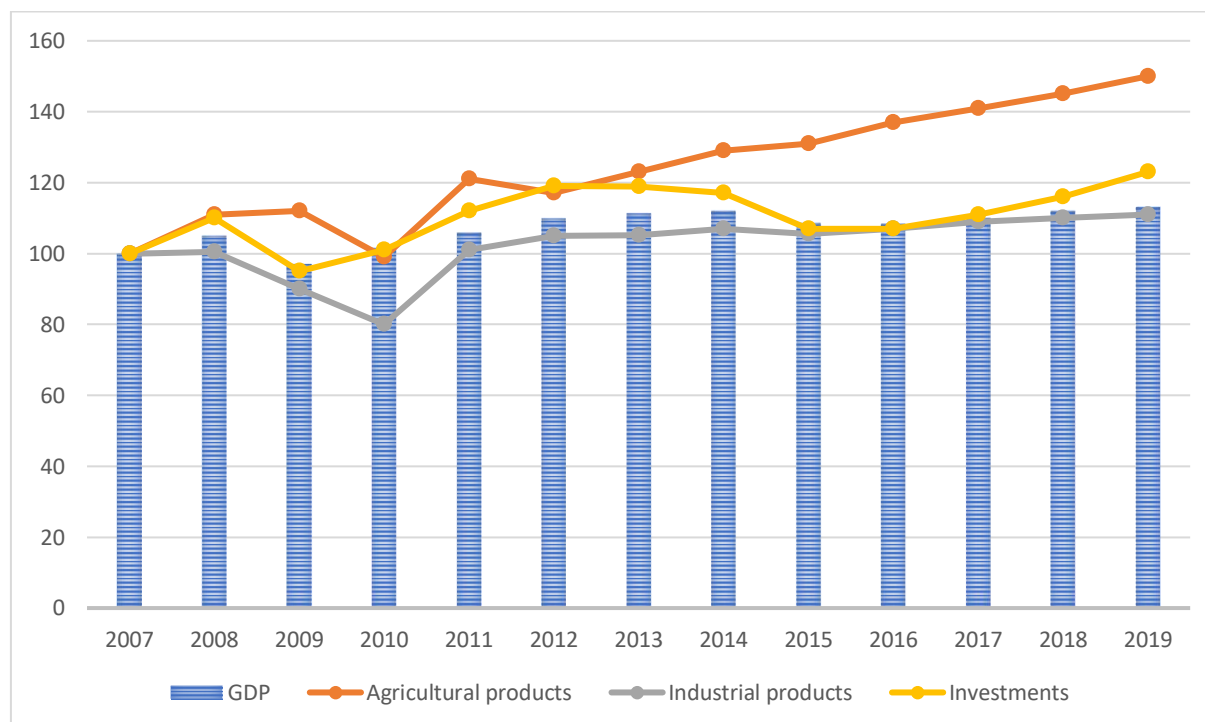
Table 1- Macroeconomic indicators - Annex

Uneven dynamics was recorded in 2014-2017 in developed countries. Negative values of industrial growth in some years were noted in the USA (-1.0 and -1.9% in 2015 and 2016, respectively), Japan (-1.3 and -0.3% in 2015 and 2016), France (-0.9% in 2014), Italy (-0.6% in 2014), Canada (-0.9% in 2015). The transition to sustainable positive dynamics in most countries began in 2017 and consolidated in the first quarter of 2018.

A common characteristic of the development of most countries is the output in 2017 of industry and GDP at positive growth rates. In the group of countries, which in addition to the USA, Canada and Japan also includes the five BRICS countries (Brazil, Russia, India, China, South Africa), the minimum increase in industrial production was observed in Russia (2.1%), the maximum - in Canada and Japan (4.7%). In terms of GDP, Russia with an

increase of 1.5% was ahead of only Brazil (1.0%) and South Africa (1.3%) and significantly inferior to China (6.9%), India (6.7%), Canada (3, 0%), the USA (2.3%) and Germany (2.2%).

Figure 1 - Dynamics of the main macroeconomic indicators (% to 2007)



Source: (Russian statistics of the Federal State Statistics Service, 2019).

An important indicator for international comparisons is population employment, which is characterized by the rate of unemployment. In Russia, the number of unemployed to the economically active population in 2016-2017 was 5.5 and 5.2%, respectively. In Japan - 3.1 and 2.8% with a steady decline trend, in Germany - 4.1 and 3.8% also with a steady decline trend. A similar process was observed in these years in the United States - 4.9 and 4.4%, respectively, and this trend continues (according to the US Department of Labor, unemployment in January 2018 reached 4.1%). A higher unemployment rate, which is almost twice the Russian level, was recorded in 2016-2017 in Italy (11.7 and 11.2% in the corresponding years) and France (11.1 and 9.5%). Thus, in terms of unemployment, Russia occupies an intermediate position among developed countries. The unemployment rate in Russia in 2016-2017 was stable, not lower than 5.2%, while in most developed countries it was declining (Frenkel et al., 2018).

1.3. The description and consequences of ongoing economic policies of Russia

This section is devoted to the description of the consequences of ongoing economic, budgetary, monetary, industrial, investment, and other public policies of the Russian Federation in the period of sanctions and their impact on social progress, including the dynamics of real incomes of the population, consumer activity, domestic and foreign trade. The analysis is done on the material of the Federal State Statistics Service (Rosstat) (Russian statistics of the Federal State Statistics Service, 2018).

1.3.1. The state budget policy and the federal budget of Russia

As is well known, the state budget policy and budgets of all levels in a regulated market economy should be formed on the basis of a single long-term socio-economic policy in the preparation and implementation of optimal development scenarios (Aganbegyan, 2015). Without such scenarios, it is impossible to effectively realize competitive advantages and ensure the economic, industrial, defense, technological and other sovereignty of the country. Researchers acknowledge that at the present stage of the socio-economic life of Russia in the current management system, the development and implementation of optimal development scenarios are not carried out, despite the requirements of the law to formulate them as part of strategic development forecasts. With a positive development, a strategic forecast containing optimal scenarios for overcoming the risks of socio-economic development and threats to national security should become the basis for the formation of an entire system of interconnected strategic planning documents.

In practice, as independent experts find out, a completely different “optimization” is carried out (Frenkel et al., 2018). In fact, it bases on the use of a privileged system of stimulating certain categories of legal entities and individuals and “optimization” of budget revenues and expenses for all other participants in the budget process. This “optimization” is due to strengthening the tax press and financial investigation, on the declarative principle of obtaining statutory benefits and the equalizing principle of annual reduction of the limits for allocated budget funds (up to 10%) to ensure a balanced budget with the required deficit or surplus. To this end, the mechanism of budget adjustment in the process of its execution is also constantly used.

For instance, the federal budget for the next three-year period of 2018–2020 in terms of macroeconomic indicators did not contain any fundamental differences from the budgets of previous years.

The federal budget law of the Russian Federation proceeded from GDP projected for 2018, 2019 and 2020 at 97.462, 103.228 and 110.237 trillion rubles respectively. Moreover, the annual estimated inflation rate was adopted at 4.0%. The government continued to place significant hopes on rising global prices for raw materials, primarily oil and gas, as well as a weakening national currency.

Federal budget revenues in 2018, 2019 and 2020 were set at 15,258, 15,555 and 16,285 trillion rubles accordingly. Expenses - in the amount of 16.5239, 16.374 and 17.155 trillion rubles with a deficit of 1271, 819 and 870 billion rubles respectively. As a result, GDP growth in 2018, 2019 and 2020 was taken at the level of 2.1, 2.2 and 2.3% respectively, industrial production growth - up to 2.5% annually (President of Russia, 2017).

Like all previous laws on the federal budget for a three-year period, the adopted law was amended only for 2018 and taking into account the results of the federal budget for January - April, as well as the expected results of socio-economic development in 2018. As a result of the adjustment, it was assumed that the total volume of federal budget revenues in 2018 is about 17.073 trillion rubles, which is 1.815 trillion rubles more than previously approved by the federal law on the federal budget for this year. The forecasted federal budget expenditures increased slightly (by less than 62.0 billion rubles) to 16.591 trillion rubles, which would ensure a surplus of about 482.0 billion rubles, or 0.5% of GDP.

It was expected that the federal budget for 2018, built on the basis of the methodology used in previous years, would be revised in order to implement the priorities formulated in the president's message. However, these expectations were largely not met, the budget adjustment for 2018 made it possible to finance the implementation of certain measures that were addressed in the message.

The emphasis of the government is again on increasing tax collection, revising and clarifying preferences, tax and other benefits, attracting private funds to co-finance projects, redistributing budget expenditures within industries, earning own funds at the regional and local budgets. In general, according to the Ministry of Finance, the tax burden in 2018 does not increase, which, taking into account the proposed methods for solving budgetary problems, is very doubtful. Obviously, in terms of the implementation of the message, the tasks solved within the framework of the updated federal budget for 2018 is local in nature

and does not turn it into a budget for accelerating development. This is primarily hindered by the extremely limited financial opportunities for economic growth and the desire to achieve the long-awaited budget surplus (Frenkel et al., 2018).

Thus, the achievement of the goals and objectives formulated in the message of the President of Russia V.V. Putin (President of Russia, 2018), and providing for financial support for entering the trajectory of economic growth at a rate higher than the global average and a new quality of this growth due to a technological breakthrough, is again moving back to the distant future.

1.3.2. Industrial policy and industrial production in Russia 2017-2019

Industrial production, as is known, is the basis of the real sector of the economy. Experts note that in 2015-2017, industrial production in the Russian Federation practically did not grow and developed extremely unevenly, despite certain forms of state support. Due to the high percent of bank loans, ruble volatility, as well as an increase in threats and risks associated with the expected increase in foreign sanctions, there was a sharp decrease in production activity (Frenkel et al., 2018).

The adopted federal law did not become the basis for creating a high-tech domestic industry (Efremov, 2015). The law does not provide for the priority of industrial policy over others in the real sector of the economy and does not determine the priorities for the development of industries and industries within industry. It does not spell out specific goals, objectives and parameters for the development of industries and industries, as well as the stages of achieving targets for the future.

Consider the results of industrial development for 2014–2019 (Table 2).

Table 2 - The dynamics of industrial production, 2014-2019 (% to previous year) - Annex

First, industrial production as a whole should be analyzed. In June 2018, Rosstat revised the dynamics of industrial production, increasing the total industrial growth in 2017 from 1.0 to 2.1%. In part, this change can be explained by the adjustment of industrial growth in 2016 from 1.3 to 1.1%: the decrease in the base for calculating growth in 2017 is more than 18%. In the first half of 2018, industrial production grew by 3%, this is a low, but rather stable growth. In general, according to estimates of researchers from HSE, in 2018-2020, the industry growth trend will continue.

Secondly, for Russia an important aspect is mining. This type of activity has developed and in the near future will develop most stably. The growth of mining in the first half of 2018 amounted to 1.9%. Oil production, including gas condensate, in connection with the operation of the OPEC + agreement on the reduction of oil production, adopted at the end of 2016, decreased by 0.4%. Based on the June (2018) OPEC + agreements on the partial removal of production restrictions (in general, by 1.0 million barrels per day), oil production is projected to increase from the second half of the year. In general, in the future, according to HSE scientists' forecast, 548.9 million tons of oil will be produced annually, including gas condensate, or 100.4% compared to 2017. In 2019, the situation in the industry will not change much. Oil production, including gas condensate, amounts to 555.2 million tons, which is 1.1% more than in 2018. The increase in oil production is associated with the commissioning of new and expansion of existing fields. In addition, the increase in oil production will be ensured through the introduction of modern technologies to increase oil recovery.

In 2018, the coal production growth trend strengthened: in the first six months, the increase was 6.9%. For the first time in a long time, there was an increase in domestic consumption in the winter. Export growth continued. According to the Ministry of Energy, in 2017, coal exports increased by 15.2%, to 186.9 million tons, and in the first five months of 2018, Russian coal exports exceeded 77.5 million tons, which is 14.3% more than for the same period last year. In 2018, 442.5 million tons of coal are produced, which is 8.0% more than in the previous year. In 2019, scientists expect an increase in coal production, the volume of which is 471.5 million tons, or 106.5% relative to 2018.

The dynamics of the development of manufacturing industries is the least stable in the structure of the industry, although in 2018 it began to have a positive character. In general, in the first half of 2018, manufacturing increased by 4%.

Thus, food production increased by 3.5%. This is due to the growth of agricultural production, including due to continued state support in the framework of import substitution. The production of pork increased by 10.3%, vegetables and mushrooms - by 9.7%, chocolate - by 9.3%; decreased production of frozen fish, flour and butter by 6.5, 2.4 and 1.5%, respectively. Food production in 2018 grows by 2.8% as a whole compared to 2017, and in 2019 by 4.1% compared to 2018.

A similar situation was observed in the production of coke and petroleum products, which in the first six months of 2018 increased by 2.4%. This year, 2.4% more oil was directed to

Russian refineries (refineries) for refining than in the first half of 2017. The depth of oil refining is supposed to increase to 82.2%, although this is still below the global level of 85-95%.

The production of motor gasoline in January - June 2018 amounted to 104%, diesel fuel - 99.6%, heating oil - 90.1% of the same period last year. In 2018, the production of coke and petroleum products increases by 5.3% compared to 2017, in 2019 - by 3.4% compared to 2018. This year, 299.7 million tons of oil (105.7% of the level of 2017) should be directed to refineries, in 2019 - 309.9 million tons (103.4% of the level of 2018).

The production of chemicals and chemical products in the first half of 2018 increased by 2.8%, which is due to the continued growth in external demand and an increase in domestic consumption of mineral fertilizers and plastics. The production of mineral fertilizers in January - June 2018 increased by 3.5%, soda ash - by 4.3%, sulfuric acid - by 7.5%, anhydrous ammonia - by 7.7%, rubbers - by 5.0%. In 2018, the growth in production of the main types of chemical products slows down and amounts to 1.4% compared to 2017, and in 2019 - 0.3% compared to the level of 2018.

The production of other non-metallic mineral products increased by 1.6% in the first six months of this year. At the same time, cement production decreased by 23.1%, building bricks - by 11.6%, asbestos-cement sheets - by 6.4%. Ceramic facade tile production increased by 29.8%, building gypsum by 26.0%, and cement slabs by 12.7%. In general, the increase in production of other non-metallic mineral products in 2018 is 4.9%, and in 2019 it might decrease by 1.4% compared to the current year.

The metallurgical production in the first half of the year also shows an upward trend: 102.3% relative to the same period in 2017, mainly due to domestic demand. The increase in production volumes of the main types of ferrous metallurgy products is as follows: pig iron production increased by 0.5%, steel - by 5.8%, finished steel - by 2.6%. In connection with the implementation of large gas pipeline projects, the growth in the production of steel pipes continued (an increase of 1.8%). In 2018, production volumes grows by 7.2%, in 2019 - by 8.8% compared with 2018. The increase is achieved primarily by increasing the production of steel pipes, silver and copper.

In the production of machinery and equipment in the first half of 2018, the volume of output decreased by 2.9%. The production of almost all types of machinery and equipment decreased (negative trends in agriculture, as in the chemical industry, led to a decrease in the production of combines and tractors). According to the results of the six months, an increase

was observed only in the production of metal-cutting machine tools and forging and pressing machines - by 11.3 and 10.9%, respectively. In 2018, the production volume in the industry continues to fall and make up 97.6% of the 2017 output, and in 2019 it might decrease by another 3.2% compared to 2018.

Automotive manufacturing remains one of the drivers of manufacturing growth. In January - June 2018, its growth amounted to 17.2%. The most significant increase was achieved in the production of internal combustion engines and the production of cars - by 19.5 and 18.9%, respectively. Passenger cars continued to grow due to increased consumer lending and high domestic demand. In general, according to scientists' forecast, the volume of production in the industry might grow by 11.9% compared to 2017, and in 2019 - by 5.5% compared to the level of 2018.

Electricity, gas and water supply (providing hot water and steam) in the first half of 2018 showed an increase of 1.9%. Electricity production at hydroelectric power stations and thermal power plants increased by 2.4 and 1.9% respectively, at nuclear power plants decreased by 2.6%. Steam and hot water production increased by 3.3%. Production growth was associated with low temperatures in February and March 2018. In general, the growth in the supply of electric energy, gas and steam in 2018, according to the scientific forecast, is 2.3%.

1.3.3. Consumer inflation in Russia in 2017-2019

One of the essential components of development is consumer inflation. At the beginning of 2018, consumer prices in Russia showed rather moderate growth: in January - May they increased by 1.6% (in 2017 - by 1.7%). Acceleration of inflation is associated with higher prices for a number of food and non-food goods and services, as well as gasoline and diesel fuel. The increase in gas prices is identified with accelerated inflation. In January - May, motor gasoline went up by 7.2% (in 2017, by 3.4%). This increase contributed 0.3 percentage points to annual consumer inflation.

It should be noted that low consumer demand amid declining incomes of the population restrained price increases. However, since February of 2018, real disposable cash income, according to Rosstat, began to grow. Their growth by 2% in January - May 2018 stimulated a rise in prices for other consumer goods.

Table 3 contains data taken from Rosstat.

Table 3 - Assessment of the contribution to inflation of certain groups of goods and services, January - May 2018 - Annex

The prices of food products for the five months of 2018 increased by 1.8%, which contributed 0.7 percentage points to consumer inflation. (tab. 3). In May, an insignificant reduction in the price of fruits and vegetables had almost no effect on its overall price increase for the five months of 2018 - 13.1%. This price increase contributed 0.4 pp to annual consumer inflation. Price growth for granulated sugar was noted, which for five months amounted to 9.4% (in January - May 2017, the price decreased by 9.6%), which affected consumer inflation by 0.3 percentage points.

The increase in prices for fish and edible seafood in January - May 2018 amounted to 1.4% (for the same period of 2017 - 1.3%). This contributed 0.1 percentage points to annual consumer inflation.

For the five months of 2018, prices for bread and bakery products increased by 0.9% (in 2017 for the same period - by 2.4%). Prices for milk and dairy products increased by 0.6% (in 2017, the increase in prices was much higher - 3.2%). Butter has risen in price by 0.3% (in 2017 - by 6.8%). Alcoholic beverages became more expensive by 0.7% (in 2017 for the same period - by 2.2%). The change in prices for these products did not affect inflation in 2018, and the decrease in prices for meat and poultry reduced inflation by 0.1 percentage points.

In the dynamics of prices in the non-food segment since mid-2016, a downward trend has formed. However, in April 2018, prices rose by 0.4% compared with March, and in May - by 0.9% compared with April. As a result, in January - May 2018, the indicator of real disposable cash incomes of the population was determined taking into account the lump-sum cash payment to pensioners in January 2017 in the amount of 5 thousand rubles. prices increased by 1.9% against 1.2% in 2017. Change in prices for non-food products added 0.7 percentage points to consumer inflation.

Regular consumption goods (tobacco products, detergents, cleaning products, medicines) with a high import component became the leaders in price growth among non-food products. In January - May 2018, prices for tobacco products increased by 4.2% (in 2017 - by 3.4%). Building materials have become more expensive - by 2.0% (1.2% for the same period of 2017). In 2018, the prices of medicines began to increase and for five months they increased

by 1.7% against a decrease of 0.5% for the same period of the previous year. The increase in their prices contributed 0.1 percentage points to consumer inflation.

For five months of 2018, prices for electrical goods increased by 1.0%, for knitwear, clothes and underwear, and detergents - by 0.5%. Shoes in January - May 2018 increased by 0.4%, which is lower than the price increase a year earlier (0.5%). In general, the increase in prices of this group of goods did not affect inflation.

In the paid services segment, according to the results of five months of 2018, the upward trend in prices affected almost all groups of services. The most significant increase in prices was observed in the foreign tourism sector, where prices for January - May increased by 4.5% (in 2017 they decreased by 1.4%). Over five months, medical services went up by 2.2% (an increase over the same period of 2017 was 2.3%). The increase in prices for these types of services contributed to consumer inflation by 0.1 pp.

Pre-school education services went up by 1.7%, passenger transport services - 1.4%, sanatorium and health services - 1.3%, communication services - 1.1%, services of cultural organizations - 1.0%, services education, as well as utilities, have become more expensive by 0.3%. In 2017, the prices of these services increased by 3.3, 4.9, 0.9, 2.4, 1.3 and 0.6%, respectively. In general, the increase in prices for these services did not affect consumer inflation.

Further dynamics of consumer prices largely depends on the increase in VAT from 2019 to 18% from 20% and the depreciation of the ruble, which might lead to an inevitable increase in inflation, which affect prices already in the second half of 2019. In general, according to the results of the previous years, inflation will be at least 4.1%. In 2019-2020, the price increase will be even higher - 4.6%.

Particular attention should be paid to industrial producer price indicators. Surveys of managers of large and medium-sized industrial enterprises, conducted by the HSE Center for Market Research in May 2018, on the entrepreneurial confidence index of three enlarged industries (mining; manufacturing; provision of electric energy, gas and steam, air conditioning) coincided with the April values, making + 1, -3 and + 1%, respectively.

Table 4 contains data on assessment of the contribution to inflation of selected industries, January - May 2018.

Table 4 - Assessment of the contribution to inflation of selected - Annex

In the mining and manufacturing industries, the number of enterprises that increased prices for shipped products has increased. The share of such enterprises in the manufacturing industry amounted to 13% - this is the highest value since the end of 2016. The proportion of respondents who noted an increase in prices for equipment, raw materials and materials increased to 33%. The rising inflation expectations in manufacturing are also alarming. More than 40% of the survey participants expect an increase in prices for raw materials and materials for enterprises in the near future.

Business leaders are increasingly aware of the uncertainty of the economic situation. In May, 44% of the heads of large and medium-sized manufacturing enterprises reported this. Uncertainty seems to be the most insurmountable factor, among others, limiting economic activity. The rise in producer prices of industrial products in January - May 2018 exceeded the level of inflation in the consumer market. In the first five months, prices rose 5.5%. In 2017, the price increase was much lower and amounted to 1.7%.

Over the five months of 2018, prices in extractive industries increased by 6.9% compared to 5.9% for the same period last year. In the mining sector, coal prices increased by 9.5%, metal ores - by 8.9%, crude oil and natural gas - by 8.2%. An increase in prices in extractive industries contributed 1.6 percentage points to industrial inflation (tab. 4).

The main share in industrial inflation in January-May is accounted for by an increase in prices in manufacturing industries - 3.9 pp. Active growth in prices in these sectors of the economy began in April, when prices rose by 1.8%, and continued in May, amounting to 3.3%. In January - May, the increase reached 6.2%, which is higher (0.7%) in price growth for the same period of 2017.

In manufacturing focused on satisfying consumer demand, since April there has been a tendency to accelerate price increases. Thus, prices in the manufacture of wood products increased by 5.4%, paper and paper products - by 5.0%, clothes - by 1.1% and food products - by 0.6%. The increase in prices in the production of food products and paper and paper products contributed to industrial inflation by 0.1 percentage points.

In January - May, prices for the production of coke and oil products increased even more significantly - by 16.2%, which contributed 2.0 percentage points to industrial inflation. In metallurgical production, the price increase over this period reached 9.0%, in the production of chemicals and chemical products - 4.3%. The contribution to the industrial inflation of the prices of these sectors was 0.7 and 0.1 percentage points respectively.

Since the beginning of 2018, in the production of machinery and equipment not included in other groups, the increase in prices amounted to 6.5% (in 2017 - 3.8%), in the production of other vehicles and equipment, prices rose by 7.0% (for the same period of 2017 decreased by 6.7%). Each of these industries contributed 0.2 pp to industrial inflation.

In the production of other non-metallic mineral products in January - May 2018, prices increased by 3.1% (in 2017, an increase of 4.2%), finished metal products, except machinery and equipment, by 5.8% (in 2017 -m - by 1.7%), electrical equipment - by 5.0% (in 2017 - by 0.5%), which contributed 0.1 pp to industrial inflation

For five months, prices in the production of motor vehicles, trailers and semi-trailers increased by 0.6%, and in the production of rubber and plastic products by 2.3% (in 2017, the price dynamics in these industries amounted to + 2.1 and -1 ,5%). Changes in prices in these industries did not affect industrial inflation.

Prices for electricity, gas and steam, air conditioning in January - May 2018 decreased by 0.4%, and prices for water supply, sanitation, waste collection and disposal decreased by 0.1%. These prices did not affect industrial inflation (in January - May 2017, price increases amounted to 1.0 and 0.3%, respectively).

After increasing the VAT rate in the short term, business activity of enterprises will decrease. How the situation will develop in the medium term (from five years onwards) depends on how effectively the state manages the revenues received from the growth of VAT.

Given the uncertainty of the economic situation and the strengthening of external sanctions, including trade wars, we should expect further growth in producer prices of industrial products.

1.3.4. Russian foreign policy in conditions of sanctions

In this paragraph Russian foreign policy in the period of sanctions is taken into consideration. Consider Rosstat data on foreign trade: data are taken from (Russian statistics of the Federal State Statistics Service, 2018).

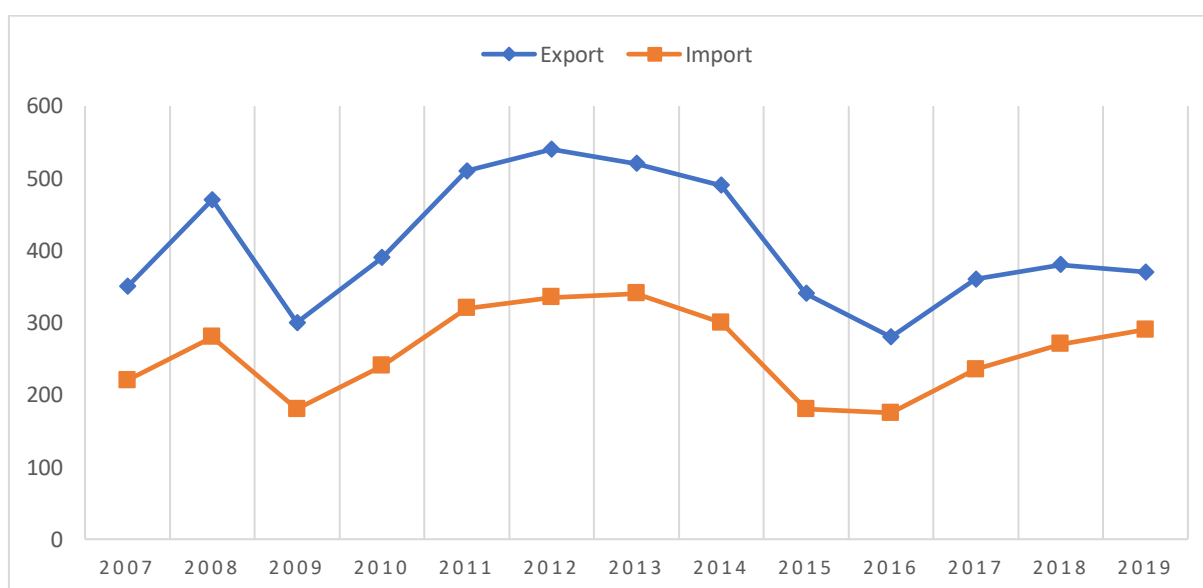
Table 5 - Russian foreign trade performance for the five months of 2017-2018 (according to the balance of payments methodology)

	January - May 2017 (billion dollars)			January - May 2018 (billion dollars)			Growth Rate: 2018 to 2017 (%)		
	total	Foreign n countri es	Countri es CIS	total	Foreign n countri es	Countri es CIS	total	Foreign n countri es	Countri es CIS
Extern al trade turnove r	222. 9	194.8	28.0	274. 2	240.8	33.3	123. 0	123.6	118.9
Export	136. 9	118.5	18.4	174. 6	152.1	22.6	123. 6	128.4	122.3
Import	86.0	76.3	9.6	99. .6	88.7	10.8	115. 8	116.3	122.7
Shoppi ng Balanc e	50.9	42.2	8.8	75. .0	63.4	11.7	147. 3	150.2	133.0

Source: (Russian statistics of the Federal State Statistics Service, 2019).

The growth in foreign trade turnover for the five months of 2018 was observed both in general and in terms of export and import (Table 5 and Fig. 2), although the level of foreign trade turnover in 2013 has not yet been achieved.

Figure 2 - Dynamics of export and import of the Russian Federation (billion dollars)



Source: (Russian statistics of the Federal State Statistics Service, 2019).

Exports in January - May 2018 amounted to 174.6 billion dollars compared to 136.9 billion dollars in 2017 (an increase of 23.6%); import - 99.6 billion dollars against 86.0 billion dollars (an increase of 15.8%). The trade surplus totaled \$ 75.0 billion, compared with \$ 50.9 billion in 2017.

In January - May 2018, the foreign trade turnover of Russia grew with almost all foreign countries. With non-CIS countries, its growth amounted to 23.8% (with Germany - 23.1%, France - 25.1%). A significant increase in foreign trade turnover - by 21.1% - was also noted with the CIS countries (with Uzbekistan - by 39.7%, with Kazakhstan - by 9.8%).

Among the main product groups of foreign trade, the value dynamics of exports of ferrous metals showed a high dynamic - an increase of 28.9%, food products and agricultural raw materials - 26.5%, and exports of machinery, equipment and vehicles - 29.1%.

Over the same period, the volume of imports from non-CIS countries grew by 16.3% (24.5% from Germany, 37.5% from France). Import from the CIS countries increased by 14.9% (from Uzbekistan - by 16.8%, from Kazakhstan - by 3.5%).

In January - May 2018, imports of machinery, equipment and vehicles in the commodity structure of Russian imports in value terms increased by 20.4%. The import of computers increased by 44.8%, tractors - by 93.5%. Imports of food products and agricultural raw materials in value terms grew by 14.5%. The physical volume of chocolate imports increased by 84.3%, coffee - by 13.2%. At the same time, the import of cigarettes and cigars decreased - by 5.7%.

According to scientists' estimates, the export volume in 2018 increases by 8.8% compared to 2017 and amounts to \$ 384.4 billion. Import grows by 11.8% and reaches \$ 266.1 billion. In 2019-2020, exports, on the contrary, predict decrease by 5.9% compared to 2018 and amount to \$ 361.7 billion with an import volume of \$ 291.2 billion (import growth will be 9.4%). As a result, the trade balance is \$ 118.3 billion in 2018, and \$ 70.5 billion in 2019 as a result of the expected expansion of Western sanctions and the intensification of trade wars. The largest contribution to foreign trade turnover in value terms will continue to belong to the export of energy resources, despite the possible reduction of its physical volumes due to the increase in trade wars. In 2018, a slight increase in the export of oil and oil products is not ruled out, but prices fall, as other countries, including those not included in the US OPEC, adhere to this policy.

The macroeconomic dynamics described above may become one of the grounds for the conclusion on the decrease in the effectiveness of public administration in the country. This poses a real threat of a further decline in public and business confidence in government and decision-makers, and ultimately inhibition and further development lag. Considering the existing unsatisfactory state of most macroeconomic indicators of the development of the Russian economy and social sphere, the President of the Russian Federation in his Address to the Federal Assembly identified the most important national goals, strategic objectives and development priorities for 2018-2024.

To do this, the executive branch must prepare and make scientifically sound decisions on financial, material, technical, methodological, regulatory, information, technological, personnel and other types of resource and institutional support of scenarios for achieving goals (“road maps”), as well as create an effective monitoring system for the implementation of these decisions.

2. Chapter 2. Current status of Russia's financial policy in the period of sanctions

2.1. *Financial policy as a complex of tax, budget, monetary institutions and instruments of the financial power of the state*

The financial policy is supposed to cover the whole complex of government measures, concerning the sphere of finance. It can be understood in two connotations – broad and narrow. In the narrow sense, finance means funds of the company with a range of complex economic relations, which might include a certain order of money, rationally and effectively distributed for various needs (such as, education, pensions, culture, science, small business and so on). Finance in the broad sense is the entirety of the cash of a company and related economic relations. Thus, the financial policy is presented as multifaceted structure. It is implemented in two main intertwining trends, allocating budgetary and fiscal policy.

The state budget occupies an important place in the financial system of the state. The state budget is a monetary fund that is used by the government to finance its activities, through which the state influences economic processes. The state budget also interacts with other parts of the financial system, thereby it distributes funds in favor of needy funds. Thus, the state budget represents the intersection of these trends. The state budget is the most important tool of socio-economic macro regulation of the country. In the developed countries, the state budget is redistributed from a quarter to half of a total product of the nation. Consequently, the State Budget is a financial program, which reflects all of its monetary resources (revenues) and their distribution (costs).

The state budget as an economic category is a set of monetary relations that arise in the process of formation, distribution and use of the state centralized fund of funds. Budgetary relations may arise between the state with individuals and legal entities regarding the formation and use of a centralized fund of monetary resources that are intended to finance the national economy, defense needs, material incentives, etc.

The budget system of the Russian Federation consists of three links:

1. The federal budget;
2. The budgets of the constituent entities of the Russian Federation;
3. Local budgets.

The state budget consists of two parts that complement each other, these are the revenue and expenditure parts.

The revenue part of the budget shows where the funds come from to finance the activities of the state and which sections of society allocate more from their income. The income structure is variable and it depends on certain economic conditions of the country's development. Any changes in the structure of budget revenues will reflect changes in economic processes.

The expenditure side of the budget shows for what purpose the accumulated funds will be directed. Budget expenditures are costs that arise in connection with the performance of certain functions by the state. Such costs express economic relations, on the basis of which there is a process of using state funds in different directions. Since the state takes into account economic interests as a whole, the expenditure side covers the entire economy.

Budget expenditures are funds that are aimed at financially supporting the tasks and functions of the state, as well as local self-government. Such costs express economic relations, on the basis of which there is a process of using the funds of the centralized fund of state funds in various directions.

Through budget expenditures, budget recipients are financed. Budget recipients are such non-production and production organizations that are recipients or managers of budget funds. Consequently, the budget determines only the size of budget expenditures by cost items, direct expenditures are already carried out by the budget recipients themselves.

The economic nature of budget expenditures is manifested in different types of expenses. Each type of flow has a quantitative and qualitative characteristic. The structure of budget expenditures is established annually and depends on the economic situation and public priorities.

There are a number of factors that determine the specific types of budget expenditures:

- The level of socio-economic development of the country;
- Administrative and territorial structure of the state;
- Forms of budget funds, etc.

The combination of these factors affects a certain system of budget expenditures of any state at a certain stage of economic development.

By their role in social production, expenses are divided into:

1. The costs of the development and maintenance of material production;
2. The costs of maintaining and developing the non-production sphere in the future;
3. The costs of creating state reserves.

With the help of such expenses, the state receives instruments for regulating the distribution of funds between the non-productive sphere and material production with the social and

economic needs of society. Thus, budget spending plays a huge role in government regulation of the economy of social processes. Federal budget expenditures are divided into:

- military expenses;
- management costs;
- spending on the national economy and supporting the economy.

The structure of budget expenditures for these groups in the Russian Federation has been stable for many years.

The expenditures of local budgets are funds that are allocated for financial support of the tasks and functions of local self-government.

The costs of local budgets include:

1. Costs associated with resolving issues of local importance;
2. Associated with the exercise of certain state powers transferred to local governments;
3. Repayment and servicing of municipal debt on loans.

The order of execution of the expenditure part of the local budget is established by the charter of the municipality. The main direction of using the funds of local budgets is the costs that are associated with human life support. More than half of the expenses are expenses for social and cultural events, as well as expenses for housing and communal services.

An important role is played by expenditures of all levels in solving social problems that take on more radical forms in Russia. The increasing role of expenditures contributes to a change in the budget mechanism for financing social institutions. The budgetary funds are used to finance the necessary branches of social services. In the future, the government promises to strengthen the role of the state budget in social processes. This can be explained by the fact that budget funds are the basis of the financial base for the implementation of social transformations, the transition to a new level of social services for the population.

2.2. The impact of Western financial and economic sanctions and “anti-sanctions” on the Russian economy

In the modern world, almost all countries are included in a single system of production and trade in goods, work and services. None of the economies is self-sufficient, able to fully meet the needs of its own population. The economy of the Russian Federation is inextricably integrated into a single global market and is not capable of developing without world economic ties. It is quite clear that the task of the state is not primarily to formulate rules of

conduct for various types of participants in the economic turnover, but to solve more general problems of stabilizing the economic situation in the country under external challenges (financial, economic, currency crises, economic sanctions, etc.) (Pavlyuk, 2017).

The Russian Federation is an important player in the global economy. All the political and economic upheavals in the USA, Europe, and the Middle East undoubtedly have an impact on the Russian economy.

The first wave of sanctions (March 2014) was targeted, providing for the freezing of assets and the introduction of visa restrictions for specific individuals and related organizations. Restriction on medium-term and long-term borrowing for oil and gas enterprises, banks, the ban on imports of certain goods - the main directions of anti-Russian sanctions. The European Union and the United States have imposed sanctions on major commercial banks. Banks lost the opportunity to buy bonds and shares of Russian banks with state participation of more than 50%, their subsidiaries and affiliates, and the purchase of other financial instruments with a maturity of more than 90 days was also prohibited. In this regard, many commercial banks became inaccessible to foreign sources of financing, and existing loans became much more expensive, as the exchange rate of the ruble against the dollar rose from 32, 65 to 80, 57 rubles, amounting to 59, 51 rubles in February 2017.

A large number of external loans ended in 2014-2015, which forced even large banks to turn to the domestic credit market, thereby causing a rise in the cost of credit resources and affected all borrowers. In general, the lack of financial resources was felt by the entire financial sector of the state. Actions in relation to the fiscal sphere could not influence this situation; they could not improve the flow of domestic financial resources into the country's economy to compensate for the insufficient investment.

In 2014, the political and military situation around Russia grew tense. After the introduction of economic sanctions by the United States and the countries of the European Union, as well as the adoption of retaliatory protective measures by the Russian Federation, the search for new ways and mechanisms of development of all sectors of the economy (primarily stabilization of sectors affected by economic sanctions) comes to the forefront of government, reducing dependence Russian economy from imports, improving the quality and competitiveness of Russian goods.

The main restrictive measures were imposed not only on the state as a whole, but also on individual residents: large corporations, politicians, heads of commercial enterprises, as well

as on key sectors of the economy. The economic downturn in the Russian economy occurred primarily in:

- banking;
- food industry;
- trade;
- pharmaceutical industry;
- heavy engineering, etc.

Among the negative trends in the impact of economic sanctions on the Russian economy can be identified:

- restriction of access of most Russian banking organizations to foreign credit products and, as a result, increase in interest rates on loans; rising prices in the domestic market; drop in industrial production; decrease in construction volumes; increase in capital outflows; decrease in product imports;
- a sharp restriction on the access of Russian companies to external capital markets; restriction and termination of scientific cooperation; a significant drop in the ruble exchange rate; reduction in the wage of the population; aggravation of the problem of external corporate debt;
- falling oil prices;
- a sharp decline in foreign investment in the Russian economy; reduction in state budget revenues; decrease in real incomes of a significant part of the population; increase in unemployment; growth of unfair competition, etc.

As a result of the negative impact of economic sanctions, the main indicators of the economy of the Russian Federation showed negative dynamics (see tables 1-5).

From 2014 to 2016 instead of modernizing the economy, we observe the inertia of the state's economic policy in Russia. The most significant normative act aimed at ensuring the sustainable development of the economy and social stability during the period of sanctions is the Decree of the Government of the Russian Federation of January 27, 2015 No. 98-p.5 (Resolution of the RF Government, 2015).

This Government Decree provides for a whole range of stabilization measures for import substitution and support for non-resource exports, support for small and medium enterprises. 2.3 billion rubles were allocated for these events in 2015-2016. For two years of the implementation of this Decree in the Russian economy, there has been no positive dynamics of macroeconomic indicators (Pavlyuk, 2017).

In August 2014 (more than five years ago), the presidential decree banning the entry into Russia of certain types of agricultural products and food (meat, fish, milk, dairy products, vegetables, fruits)) of individuals was adopted. Official statements and comments state that this was a new and serious impetus related to import and movement. In September 2014, a document was adopted substantiating import substitution already in industry: by 2020, the share in certain sectors of engineering, energy, aviation, machine tool construction, oil and gas and in several other industries should be reduced from 100% in 2014. up to 50% by 2020 (Kuznecova and Cedilin, 2019).

Since that time Western sanctions and Russian counter sanctions gain in force and vigor. The foreign economic policy of Russia over the past five years has been largely determined by the policy of sanctions by Western countries and the introduction of retaliatory measures, which besides everything were of a protectionist nature. At the same time, the course towards import substitution was taken several years earlier and was declared by the state as an instrument for reviving the domestic economy. However, as practice has shown, there is no reason to talk about a fundamental reversal to protectionism.

The growth of domestic production of Russia in a number of positions was not always and not fully determined by the restriction introduced in 2014. To a large extent, it is explained by the growth of state support for manufacturers and exporters, as well as the active use of foreign technologies, components and raw materials.

Participation in the global economy in the modern era of the internationalization of production and digital transformation requires mandatory inclusion in global value chains, which to some extent contradicts a literal understanding of the course on import substitution. Rather, it is necessary to talk about stimulating the development of national industry and agriculture in order to increase their competitiveness, while at the same time, the tasks of replacing imported goods with domestic products can also be solved. In any case, market efficiency considerations are known to be crucial in the Russian Federation.

As for the validity of the sanctions themselves, the past five years have again predictably confirmed their economic disadvantage for all parties. The prohibition of freedom of commerce, in the broad sense, affects both producers who miss profits and consumers who are forced to overpay for goods and services.

2.3. *Regression analysis of indicators of the state of the Russian economy under the influence of sanctions.*

For a quantitative forecast of the impact of sanctions, we conducted a regression analysis of indicators of the Russian economy. The following values of variables were used for Russia: ruble exchange rate, oil prices, foreign trade turnover (billion rubles), inflation, trading volume on the Moscow Stock Exchange (billion rubles), RTS index, GDP. Regression models were compiled on the basis of data from January 2014 to the third quarter of 2019 inclusive (since the values of macroeconomic indicators, such as GDP, oil export, at the time of writing, were available only for the 3rd quarter of 2019).

The first step to calculate a regression model is to check indicators mentioned above on multicollinearity. Therefore, we must create a correlation matrix (Table 6). The factors which values of the correlation coefficients are greater than 0.8 indicate to us about the presence of multicollinearity.

Table 6 - Correlation matrix

	<i>Oil</i>	<i>Inflation</i>	<i>GDP</i>	<i>ChangeRate</i>	<i>ForeignTrade</i>	<i>ValueofTradeon</i>	<i>RTS</i>
Oil	1						
Inflation	-0.031	1					
GDP	-0.02522	0.334512	1				
ExChangeRate	-0.65458	0.235691	0.467168	1			
ForeignTrade	0.111907	0.29892	0.529853	0.272994	1		
ValueofTradeonMSC	-0.10595	0.202626	0.781568	0.338147	0.433119	1	
RTS	0.501248	0.290673	0.363783	-0.47445	0.272389	0.53268	1

Source: Author's own table.

According to our results, indicators which were chose for regression analysis do not have multicollinearity. We can continue creating regression models.

In the initial regression models, all indicators were used, some of which were excluded in the process of improving models, guided by the criteria of significance. The choice of models was determined by the following criteria and indicators:

the significance of the variables and the model as a whole, reflected in the P-values of the variables and P-values of the function, respectively;

the adjusted R-square, reflecting the degree to which factor variables explain the dependent and allowing comparison of several models.

The two regression models selected as a result, one for each indicator, are presented in following tables (Table 7 and Table 8):

Table 7 - Regression analysis for GDP

Dependent variable: GDP

	coefficient	std. error	t-ratio	p-value	
const	3674.48	4107.57	0.8946	0.3822	
Oil	58.9631	26.3665	2.236	0.0375	**
ExChangeRate	144.030	50.8549	2.832	0.0106	**
ValueofTradeonMSC	0.920214	0.180101	5.109	6.23e-05	***
Mean dependent var	22731.29	S.D. dependent var	3194.278		
Sum squared resid	60894083	S.E. of regression	1790.238		
R-squared	0.728727	Adjusted R-squared	0.685894		
F(3, 19)	17.01336	P-value(F)	0.000013		
Log-likelihood	-202.7108	Akaike criterion	413.4217		
Schwarz criterion	417.9637	Hannan-Quinn	414.5640		

Test for normality of residual -

Null hypothesis: error is normally distributed

Test statistic: Chi-square(2) = 0.345112

with p-value = 0.841511

White's test for heteroskedasticity -

Null hypothesis: heteroskedasticity not present

Test statistic: LM = 7.49021

with p-value = P(Chi-square(9) > 7.49021) = 0.58622

Source: Author's own table.

The regression analysis for GDP.

The coefficient of determination R-squared = 0.73. It shows that 73% of the variation in the level of GDP (Y) is due to the variation of the factors included in the model, i.e. ruble exchange rate (X1), oil prices(X2), trading volume on the Moscow Stock Exchange (billion rubles) (X3) and the lack of 27% depends on unaccounted factors.

The regression equation is:

$$Y = 3674.48 + 58.96X_2 + 144X_1 + 0.92X_3$$

Table 8 - Regression analysis for RTS

Dependent variable: RTS

	coefficient	std. error	t-ratio	p-value	
const	1378.27	81.8434	16.84	7.07e-013	***
ExChangeRate	-12.7269	1.42643	-8.922	3.20e-08	***
ValueofTradeonMSC	0.0545000	0.00659413	8.265	1.03e-07	***
Inflation	2.77350	0.724905	3.826	0.0011	***
Mean dependent var	1077.060	S.D. dependent var	168.8148		
Sum squared resid	82322.15	S.E. of regression	65.82359		
R-squared	0.868698	Adjusted R-squared	0.847966		
F(3, 19)	41.90135	P-value(F)	1.43e-08		
Log-likelihood	-126.7390	Akaike criterion	261.4779		
Schwarz criterion	266.0199	Hannan-Quinn	262.6202		

White's test for heteroskedasticity -

Null hypothesis: heteroskedasticity not present

Test statistic: LM = 5.72947

with p-value = P(Chi-square(9) > 5.72947) = 0.766659

Test for normality of residual -

Null hypothesis: error is normally distributed

Test statistic: Chi-square(2) = 0.359033

with p-value = 0.835674

Source: Author's own table.

The regression analysis for RTS.

The coefficient of determination R-squared = 0.87. It means that 87% of the variation in the level of Russia Trading System index (R) is due to the variation of the factors included in the model, i.e. ruble exchange rate (X1), inflation (X4), trading volume on the Moscow Stock Exchange (billion rubles) (X3) and the lack of 13% depends on unaccounted factors.

$$R = 1378.27 - 12.72X1 + 0.05X3 + 2.77X4$$

The Fisher's values for all two regressions are greater than F-table value, which is 3.13. As long as $F_{fact.} > F_{table}$, we can conclude that the null hypotheses are rejected, and the regression equations are statistically significant for both models. The significance of the F-test also shows us the probability that the multiple R will be zero. For the regression models we received it is extremely small (significance F less than 0.05), therefore, the regression equations are statistically significant with a probability of 95 %.

Moreover, it is established that the both models meet the general requirements for the normality of residuals, homoscedasticity and lack of autocorrelation.

According to the results of the analysis, it becomes clear that sanctions against Russia aimed at key sectors of the economy such as banking, oil and gas and defense, as well as targeted at large private and state companies, affect the entire economy as a whole, which is reflected in a drop in GDP, inflation and RTS, depreciation of the national currency, etc. Regression analysis showed that while maintaining current trends and, especially, with strengthening sanctions, the development of the Russian economy can be suspended, and macroeconomic indicators may continue to decline. Because now there is no progress towards the immediate lifting of sanctions, it is necessary to continue the actions of the state in particular and the entire economic system as a whole to minimize the negative consequences of sanctions. Separately, it is worth to be noted that the situation with sanctions is seriously aggravated by the relatively low oil prices, which is one of the main export goods of Russia and has the direct influence on GDP.

It is necessary to at least partially compensate for the damage already caused by sanctions, it is expressed primarily in the deplorable situation in the banking sector: a decrease in the volume of attraction and allocation of funds by credit organizations, an increase in interest rates and weak ruble.

2.4. Major directions of financial policy of Russia in the period of sanctions

At present stage, one cannot ignore problems in the financial, and above all, in the banking sector of Russia during the period of sanctions. The dependence of credit institutions on Western financial markets is great, the aggravation of relations with the European Union and the United States negatively affected the functioning of the banking system of the Russian Federation, causing a number of certain problems, the solution of which was possible provided that effective directions and instruments of monetary policy of Russia were implemented.

Firstly, a decrease in the liquidity of the banking system has become a serious problem. As already mentioned, the lack of liquidity cannot be repaid by any actions in the budget and fiscal sphere, only directed actions of the monetary authorities were needed here.

Russian commercial banks felt a blow to asset liquidity in 2014, when the ruble devalued, and the population sought to withdraw their savings from bank deposits as quickly as possible. At that time, the Bank of Russia took measures to stabilize the ruble, raising the key rate immediately by 6.5 percentage points from 10.5 to 17%. The key rate has become the main instrument of monetary policy, which was supposed to stabilize the situation in the

economy. However, this measure had little effect on the fall of the ruble and did not cause an increase in its stability. The devaluation continued, capital outflows increased, the liquidity problem only worsened. The actions of the Bank of Russia seemed to be weakly directed and of little effect.

The effectiveness of the banking system is a consequence not only of the actions of the Bank of Russia, but of the fully coordinated interaction of the entire monetary, fiscal and budgetary sphere.

The next measure to maintain the liquidity of the financial mega-regulator was more directed - the Central Bank allowed small and medium-sized banks to participate in credit auctions conducted by the Bank of Russia, which slightly improved the situation, but not fundamentally: banks continued to feel a lack of liquidity.

The general liquidity problem has aggravated, as commercial banks have become accustomed to lending to foreign financial markets in recent decades, receiving loans at lower interest rates than refinancing from the CBR in rubles. After the sanctions were introduced, access to cheap loans was stopped, and banks and other organizations of the financial sector had to pay off their obligations using liquid rubles, converting them into currency.

This situation led to a reduction in the ruble money supply, therefore, by repaying external liabilities, banks and organizations only increased the outflow of foreign exchange capital from the Russian Federation. The Bank of Russia could not significantly change the situation.

Investors, fearing big risks - profit loss or bankruptcy of organizations, were not ready to invest money in Russian projects.

The largest outflow of capital occurred in 2014 and amounted to \$ 154 billion. In 2016, net capital outflows decreased by 3.7 times (compared with 2015) and amounted to \$ 15 billion. Net outflow in January 2017 amounted to \$ 2.2 billion (Minina and Klimenko, 2017).

Secondly, the situation in the financial and credit sector has worsened due to the depreciation of the assets of commercial banks. Increase in inflation at the end of 2014-2015 caused a significant depreciation of ruble investments of commercial banks. In order to reduce the risk of impairment of assets, banks increased interest rates on loans, thereby reducing the demand for them. Loans became less accessible for many sectors of the economy, the demand for corporate loans mainly created more profitable sectors - oil and gas production, coke production, etc.

Demand for retail lending in the economy also decreased, the volume of overdue debt, including debt in foreign currency, increased. First of all, this is due to a fall in real incomes of the population, an increase in unemployment, an increase in the exchange rate, and the uncertainty of the population in the future. Banks were forced to restructure credit debts in order to prevent the emergence of bad assets, which would greatly worsen not only the situation in the monetary market, but also in general in budget relations.

According to statistics from the research company Frank Research Group and the United Credit Bureau on the situation with corporate and retail loans for the period 2014-2016, it is possible to draw conclusions about the following changes. In 2015, the issuance of non-targeted loans decreased by 54%; mortgage lending fell by 35%, although the state introduced a state subsidized mortgage program to maintain its level throughout the country; car loans further reduced their volumes - by 39%; POS loans slowed their growth by 29% (Frank Research Group, 2020).

In 2016, the situation, thanks to the aggregate measures of the mega-regulator, began to stabilize gradually, lending volumes grew by 13% compared to 2015. The average size of loans issued increased from 93 to 111 thousand rubles, in general, the credit market in Russia began to inspire hope recovery. The car loan market grew by 2% in quantitative terms, and their volume - by 16%, amounting to 17.2 billion rubles. The volume of mortgages issued in 2016 amounted to 1,473 billion rubles, an increase of 27% compared to 2015.

In 2015, the corporate loan portfolio growth rate exceeded the retail lending growth rate by 18%, this is due to the revaluation of foreign currency loans. The share of loans to small and medium-sized enterprises (SMEs) in corporate lending has decreased, which indicates a decrease in the number of SMEs, the inability of such organizations to take loans and pay them on time and in full. This significantly strengthened the entire financial sector, creating the basis for further growth.

Thirdly, a decrease in bank profits. In 2014, the profit of commercial banks decreased by 40%, the main reason is an increase in reserves and a decrease in the profitability of banking operations. This was influenced by anti-Russian sanctions, as access to external borrowing was limited. Many commercial, including systemically important, banks began to search for alternative financing markets, "turning to the East", as they were deprived of attracting medium and long-term financing in the US and European financial markets.

Financial authorities have turned their attention to Asian markets. India, China, Japan have become alternative debt markets, but they have not been able to compensate Russian

enterprises and banks for lost sources of financing. The largest Asian market is the Japanese market, but Japan partially joined the anti-Russian sanctions. China is the second largest market, but most Chinese banks do not carry out interbank operations with the participation of Russian financial partners, since commercial banks of Russia for a long time practically did not work in this market and many Asian investors have no experience with them and relate to them with a certain cautious. Correspondent banking relations require a long experience of interaction: such are the global professional banking traditions. Despite this, there are some successes in the overall interaction. So, in March 2016 Gazprom attracted a loan of about 2 billion euros from Bank of China for five years. In 2016, the profit of commercial banks increased almost five times compared to 2015 and amounted to 930 billion rubles.

Fourth, a significant reduction in the number of credit institutions by the financial mega-regulator also contributed to the overall picture of instability. The number of commercial banks in the period 2008-2014 each year decreased gradually, but after 2014 continued even faster.

In general, over the past five years, the number of commercial banks has decreased by 355, or 36.3%. The Bank of Russia over the period has steadily tightened regulatory requirements, which is why many commercial banks have not been able to meet them to the right extent, and therefore there has been a massive public license revocation that is painful for the public. Obviously, it undermined the confidence of the population in banks, which naturally increased the outflow of capital from credit organizations and thereby reduced the liquidity of banks, therefore, commercial banks were not able to meet the Central Bank standards in terms of liquidity. If this trend continues, many regional banks may disappear from the financial sector of the country, which is especially unpleasant for large industrial and agricultural regions, which could not but have consequences for the regions and industries, budget entities and the filling of local budgets.

Fifth, with an increase in external constraints, it is necessary to strengthen the ruble in order to make settlements on exports in national currency in Russia. At the first stages, rubles can be used in settlements with CIS countries, and then with other states, thereby forming the world practice of settlements in rubles. This helps to reduce dependence on foreign currencies (dollar or euro), with the help of which settlements are currently being carried out, gradually the ruble will be considered as an international means of settlement. As a result, all settlements will be carried out in the “ruble zone”: foreign buyers will open ruble

accounts with Russian banks, increasing the liquidity of the Russian economy. Central banks of other countries will form foreign exchange reserves in rubles for large-scale settlements. All this should ensure the entry of the ruble into the global monetary system.

Sixth, blocking payment systems. According to the decision of the US Department of the Treasury, in 2014 there was a temporary blockage of the international payment systems Visa and MasterCard, non-cash payments by customer cards of some banks and their subsidiaries. This measure served as the beginning and incentive to continue creating and improving Russia's own national payment system, in this case, "MIR" payment system. At first payment cards MIR began to be issued at the beginning of 2016 at NSR Bank (North Sea Route Bank), Gazprombank, Rossiya Bank, etc. In the second half of 2016, the Central Bank of the Russian Federation instructed all commercial banks and retail chains to provide the necessary infrastructure for accepting the MIR card in a significant national payment instrument. It was decided to gradually transfer the payroll of employees of state budget organizations to Mir cards to increase the volume of payments on these cards. At present measures are being created to stimulate the use of these cards both for banks and for the general population of the country, and to increase their distribution. Currently, on average, commercial banks receive an interbank commission of 1.3% on international payment systems. For a more dynamic attraction of the population, a loyalty system is being developed. Banks actively and insistently conduct various promotions, offering bonuses for MIR cardholders.

In the context of the imposed sanctions, it is necessary to actively apply budget mechanisms to stimulate economic growth in Russia. Attracting additional financial resources should become the basis for economic growth, the main role should be played by internal sources - mechanisms of budget deficit financing. It is necessary to place government bonds with the participation of the Central Bank of the Russian Federation as a buyer, which will help maintain liquidity in the market and expand the market for government securities.

At the end of April 2017, the Ministry of Finance of Russia issued special three-year federal loan bonds (FLB) for the population. In fact, FLB data is a deposit, but not at the bank, but at the Ministry of Finance, only much more profitable. These bonds differ from the "classic" FLBs in the fact that they cannot be sold, but only presented for redemption to the issuer, but not earlier than in a year and only if a part of the coupon income, which is paid once every six months, is lost. Provided that the key rate is reduced, deposit rates are also reduced, then this bond will be quite profitable. The interest rate on FLB will be about 7-10%, and

since the average market rate on deposits is 4-7% and tends to decrease, this indicates the competitiveness of this bond. The attracted resources from such FLBs will be used to finance the budget deficit; at the moment, a large share of the budget is spent on defense and security, and more appropriate use of these funds in investments in the real economy is necessary to stimulate economic growth.

After identifying and analyzing problems escalated during the period of the imposition of sanctions and influenced the direction of monetary policy in Russia, it is possible to envisage certain directions for overcoming the crisis in the banking system with the indispensable participation of not only monetary but also fiscal authorities in order to coordinate and improving the efficiency and effectiveness of common efforts, namely:

- search and application of new tools for an effective national lending system, which will eliminate the dependence of commercial banks on external borrowing;
- a further reduction in the number of credit institutions can damage the stability of the entire banking system, as the population loses confidence in banks, which will lead to an even worse situation. Therefore, it is necessary to support small regional banks or to consolidate and merge bank capital by combining several credit organizations into one;
- settlements on exports in national currency;
- the establishment and development of the national payment system MIR, which will ensure uninterrupted payments both domestically and abroad and eliminate dependence on international payment systems, increase the volume of settlements in rubles between organizations of the CIS countries.

The introduction of anti-Russian sanctions undoubtedly had a significant impact on the policy of the Central Bank of the Russian Federation and the stability of the national banking system. The main negative consequence is the limited access to sources of external financing for commercial banks, which caused certain problems: a decrease in bank profits, a low level of capitalization, more expensive loans, a deterioration in asset quality and an increase in overdue debt, and an increase in reserves. The introduced sanctions became a kind of indicator, which showed that within the banking system there are a number of internal problems that worsened under adverse environmental financial and credit conditions. Sanctions should serve as an impetus for the further development of not only the banking system, making it more independent from adverse external influences and more resistant to internal and external threats, but also to create a mechanism for a positive reaction of the

entire financial system, some financial positive feedback, including reaction to changes fiscal sphere.

2.5. *Ruble exchange rate dynamics and its dependence on world capital markets*

The logical result of the imposition of Western sanctions as external causes of the crisis in the Russian economy was the massive devaluation of the ruble that happened between December 2014 and January 2016. There was a sharp depreciation in relation to other world currencies. The impact of the shocking depreciation of the ruble on the economic dynamics of the Russian Federation is so significant, controversial and ambiguous that the problem of identifying its underlying causes, mechanisms, socio-economic consequences, as well as the appropriate actions of the monetary authorities to optimize the exchange rate of the Russian currency remains extremely urgent in the foreseeable future.

Of course, the key reasons for the depreciation of the ruble are far from being associated only with sanctions. This process was identified earlier, in 2013 due to the beginning of a reduction in the export of Russian products, which, combined with the temporary need for imported goods to remain at a high level, led to a shortage of foreign currency supply over demand for it. A decrease in foreign currency inflows through current accounts as a result of a large reduction in the price of oil on world markets (from \$ 115 per barrel in July to \$ 60 in December 2014) was also significant. This statement was also proved by regression analysis where independent variables are oil prices, export volumes and foreign trade. The correlation matrix (Table 9) shows us the lack of multicollinearity. Therefore, we can process the regression analysis for exchange rate (Table 10).

Table 9 - Correlation matrix - Exchange Rate

	<i>Exchange_Rate_To_Dollar</i>	<i>Oil</i>	<i>Foreign_Trade</i>	<i>Export</i>
Exchange_Rate_To_Dollar	1			
Oil	0.666284646	1		
Foreign_Trade	-0.272747794	0.111907	1	
Export	0.580214168	0.554735	0.30770797	1

Source: Author's own table.

Table 10 - Regression analysis - Exchange Rate

Dependent variable: Exchange_rate_dollar

	coefficient	std. error	t-ratio	p-value	
const	0.00727298	0.00299390	2.429	0.0252	**
Oilprice	0.000103616	3.39478e-05	3.052	0.0066	***
Foreign_trade	-3.07715e-06	8.60825e-07	-3.575	0.0020	***
Export	1.08345e-07	3.60620e-08	3.004	0.0073	***
Mean dependent var	0.017835	S.D. dependent var	0.004393		
Sum squared resid	0.000125	S.E. of regression	0.002564		
R-squared	0.705838	Adjusted R-squared	0.659392		
F(3, 19)	15.19677	P-value(F)	0.000028		
Log-likelihood	106.7861	Akaike criterion	-205.5721		
Schwarz criterion	-201.0301	Hannan-Quinn	-204.4298		

White's test for heteroskedasticity -

Null hypothesis: heteroskedasticity not present

Test statistic: LM = 10.3524

with p-value = $P(\text{Chi-square}(9) > 10.3524) = 0.322713$

Test for normality of residual -

Null hypothesis: error is normally distributed

Test statistic: Chi-square(2) = 1.34375

with p-value = 0.51075

Source: Author's own table.

The coefficient of determination $R\text{-squared} = 0.70$. It means that 70% of the variation in the level of exchange rate is due to the variation of the factors included in the model. The retain 30% covers by unaccounted factors.

The Fisher's value for the regression is greater than F-table value, which is 3.13. As long as $F_{\text{fact.}} > F_{\text{table}}$, we can conclude that the null hypotheses are rejected, and the regression model is statistically significant. The significance of the F-test also shows us the probability that the multiple R will be zero. For the regression model we received it is extremely small (significance F less than 0.05), therefore, the regression equation is statistically significant with a probability of 95 %. It is established that the model meets the general requirements for the normality of residuals, homoscedasticity and lack of autocorrelation.

A sharp slowdown in the upward dynamics of GDP played its role (a leading indicator of inflation). As practice shows, it usually begins a year before the devaluation and continues until the absolute drop in output in the year when it happens. It is known that the exchange rate is a logical result of not only the deployment of inflationary processes in the national economy, but also the spread of the recession process in it. At that time, as Kapkanschikov

(2018) mention, the weakening of the ruble exchange rate was considered by the authorities as a measure of stimulating the damped growth of the Russian economy (Kapkanschikov, 2018). The return to the Russian financial system at all its levels of the budget deficit, inevitable in the context of a decrease in production and potentially inflationary danger, coupled with increased capital outflows from the country, was also an important factor in the upcoming currency failure.

However, a significant increase in interest in the purchase of dollars and euros in the domestic market by domestic corporations and banks in the context of the announced anti-Russian financial sanctions led to an acceleration of the sluggish process of the ruble depreciation and aggravation of its depth. Being over-loaned in foreign currency, not only due to favorable external conditions, but also as a result of the active unwillingness of the Russian monetary authorities to provide the national economy with sufficient credit resources at affordable interest rates, these subjects of the domestic economy (especially Gazprom and Rosneft) were doomed to excessive borrowing abroad and unsustainable functioning on the hook of debt dependence on non-residents. The post-sanctioned sharp restriction of the access of Russian companies and banks to the global financial markets, the inability to place their debt obligations abroad promptly put forward corporate external debt as a real threat to the financial security of the Russian Federation.

At present, Russia employs a floating exchange rate regime, which means that the ruble exchange rate against foreign currencies is not set by the government or the central bank, it is not fixed, nor there are any targets set for its level or rates of change. It is set by the market. It was aimed at facilitating the economy's adaptation to changes in external conditions by mitigating the impact of external factors.

Some economists regard the decision of the monetary authorities to switch from a regulated ruble exchange rate to a rate that is largely developing spontaneously, based on the balance of supply and demand in the foreign exchange market, to be extremely untimely (Kapkanschikov, 2018). The actual abandonment of the instrument of currency intervention meant that the monetary authorities agreed to a large-scale devaluation of the ruble. Firstly, this course means a rise in ruble terms of payments by the state and the private sector on external debts (which was also facilitated by a decrease in the credit ratings of the Russian Federation). Secondly, it means the inevitable redistribution of income the population from low-income social groups, which are characterized by a high propensity to consume, to high-income groups, whose consumer activity is usually lower. At the same time, income from

employees was redistributed to the owners of factors of production, that is, from labor to capital. This made another blow to the marginal propensity to consume, the increase of which, as opposed to the thrift paradox, is a leading anti-crisis factor. The motivation of investors was seriously deformed, which, in order to obtain an export premium, even more often preferred investments in internally oriented manufacturing sectors and a direction in the extractive industries with their distinct export orientation.

Thus, the growth of the Russian economy is affected by the dynamics of the ruble against major world currencies such as the US dollar and the euro. Until 2016, the ruble exchange rate weakened, and in 2016-2017 it began to grow. At the same time, both the weakening and the growth of the ruble exchange rate have negative and positive consequences. Among them are the impact on the national production and import of foreign goods, the impact on the structure of the economy, on the competition of manufacturers, etc. In this regard, changes in the ruble exchange rate must be monitored and forecasted, adjusting the state policy taking into account the known consequences of the dynamics of exchange rates.

2.6. Advantages and disadvantages of the state monetary policy of the Russian policy at the present stage

It is common knowledge that the income of the budget of any country is formed primarily through various taxes, as well as from other sources, such as the use or sale of state property: land, businesses, buildings, gold, other property. Expenditures of the state budget go in two main directions: The state purchases of goods and services (payment of supplies of arms and uniforms for the "power structures", equipment and food products for schools and hospitals, wages of workers in the budgetary sphere, etc.) and transfer payments (or, in Russian terminology, public payments) from the budget. These include pensions, benefits, subsidies and other cash payments.

For the normal functioning of the country's economy, a balanced financial policy should be pursued within the framework of the state economy. The pace of development of industry, agriculture, transport, communications and other industries depends on the level of its rationality. Therefore, the direction that is quite important and relevant at present is the definition, analysis and study of financial policy problems in Russia at present. Negative economic growth rates indicate an urgent need to improve the organizational forms of managing the state economy.

Initially, there were different views on the degree of influence of the state in a market economy, but now all countries have switched to regulatory financial policy. That is, the state provides social guarantees, supports the competitiveness of business (especially agriculture), regulates the territorial proportions of the distribution of GDP, supporting depressed regions and unprofitable types of business (transport, road construction, etc.). For many years, the Russian Federation was facing a serious systemic crisis. The decline in industrial production, a decrease in the solvent demand of enterprises and the population, a strong decrease in the money supply caused mass impoverishment of a significant part of the population.

To stabilize the economy and solve financial problems, it is necessary to highlight particularly acute problems in the field of financial policy:

1. A high level of concentration of financial resources in the federal budget of the state, this reduces the importance of regional and local budgets. It is necessary to rationally consolidate the ability of the constituent entities of the Russian Federation to independently determine the amount of costs that are incurred through the relevant subventions for each of their specific spending areas.
2. Local budgets do not have the required amount of financial resources. In the future, it is necessary to increase the standards for the shares of taxes that are directed to the formation of local budgets. Another task is to increase the requirements for the procedure for establishing the number of subsidies for equalizing the budgetary provision of municipalities and the proportion of the ratio of subsidies and subsidies provided to local budgets from regional budgets.
3. Federal authorities make decisions addressed to subordinate management structures, but do not accompany them by the necessary financial resources.
4. The leading role of regulatory revenues in the structure of revenues to regional and local budgets and the low share of tax payments assigned to territories.
5. A large number of financial resources are exported every year out of the country and remain in foreign banks.

Having identified the main problems, it is necessary to determine the following goals and objectives of financial policy:

- reduction of public debt;
- stabilization of the national currency and a decrease in inflation;
- transition to medium-term planning;

- balance of budgets of three levels and state extra-budgetary funds;
- Improving the model of fiscal federalism;
- work on increasing the reliability and reliability of forecasting the economy;
- work on fiscal policy in general.

Using the above goals and objectives, it is necessary to achieve stability and stability of the budget system, increase its importance in stimulating long-term economic growth and improving the living standards of the population, accelerating the innovative development of the state and the formation of a stable pension mechanism in the future.

Of course, the policy pursued by the Government in the field of finance is quite diverse. It includes positive and negative points. Basically, the political aspects of financial decisions have a negative impact on it. Noting the negative trends in Russian financial policy, Russian economists hope that the reforms that are carried out on the territory of the Russian Federation open up broad opportunities for the development of the public and private sectors of the economy.

Most elements of public policy are not yet fully aimed at stimulating the country's innovative development. The formation of conditions for modernizing the economy and changing the model of economic growth has not been completed. One of the priorities of our time is the digitalization of the economy. It has several advantages: it reduces the cost of payments and opens up new sources of income; online, the cost of services is lower than in the traditional economy (primarily due to lower promotion costs), and the services themselves, both public and commercial, are more affordable. In addition, goods and services in the digital world can quickly enter the global market and become accessible to people anywhere in the world. The proposed product can be almost instantly modified to meet new expectations or consumer needs. In order to introduce digitalization into the economy, the state has created the state program Digital Economy. This program defines the goals, objectives, directions and timing of the implementation of the main government policy measures to create the necessary conditions for the development of a digital economy in Russia, in which digital data is a key factor in production in all areas of socio-economic activity (Blochina, 2018).

Drawing a conclusion from the foregoing, it is worth noting that the implementation of a rational and responsible financial policy is a necessary requirement for the proper functioning of the Russian economy and the implementation of strategic priorities for the development of the state.

The positive aspects of the main directions of the monetary policy in Russia include provisions related to indicators and parameters of information transparency of the Bank of Russia. Scientists mention high information openness of the financial authorities in the past few years: quarterly reports on monetary policy, press releases, press conferences of the Chairman of the Bank of Russia following the meeting of the Board of Directors of the Bank of Russia, clarification future inflation and actions of the Central Bank in the field of monetary-credit policy (Abramova et al., 2019). Such management helped the Central Bank of the Russian Federation to achieve an increase in the level of confidence in its actions. This allowed inflationary expectations of participants in the financial market to gain a foothold target level of inflation and the change to more predictably control than before (Abramova, Dubova and Trofimov, 2017). These circumstances made it possible for the regulator to create an effective special channel for the transmission mechanism - the channel for inflation expectations.

Economists note the description of the operational objective of the monetary policy and the channels of its transmission mechanism, presented in the main areas of the monetary policy, reflecting features at the present stage and prospects in the medium term. It is also a positive factor in increasing the information transparency of the Bank of Russia in the field of formation and implementation of monetary policy.

The Bank of Russia, in order to maintain price stability, pays special attention to the inflationary expectations of both the population, organizations, professional market participants, and government bodies. This serves several purposes:

- 1) allows, based on the results of the analysis of inflation expectations by the Bank of Russia, to achieve a situation in which annual inflation is on an ongoing basis near 4%;
- 2) contributes to the formation of so much needed public confidence in the activities of the Bank of Russia;
- 3) correlates with the above approach to the development of monetary policy measures.

Experts of the Financial University of Russia advise to limit the powers Bank of Russia at the forecasting stage. It should be responsible only for the monetary component of inflation. Securing the non-monetary component should be given to the Government of the Russian Federation, which would allow more effective impact on inflationary processes, without prejudice to the interests of the development of industries engaged in the production of non-oil exports and domestic consumption.

3. Chapter 3. Assessment of the forecast of socio-economic development of the Russian Federation for the period until 2024

3.1. *Development prospects of the financial system of Russia in the period of sanctions*

The political and socio-economic situation in Russia is formed under the influence of deteriorating external economic conditions, primarily the constant changes in oil prices, the continuation of economic sanctions, reduced investment activity, large-scale capital outflows. The crisis led to a recession in the economy, a decrease in labor productivity, an increase in the number of unemployed and a drop in incomes. Almost every aspect of society has come under the negative influence of crisis factors, primarily this concerns the state of the country's monetary system. For this reason, it is necessary to analyze the main trends in the development of the Russian monetary system in modern conditions and consider its prospects. Economic sanctions by the United States and the EU have vividly demonstrated the vulnerability of Russia's economic future.

Among the prospects for the development of the financial system of Russia, the following processes are especially significant.

1. Improving the banking system

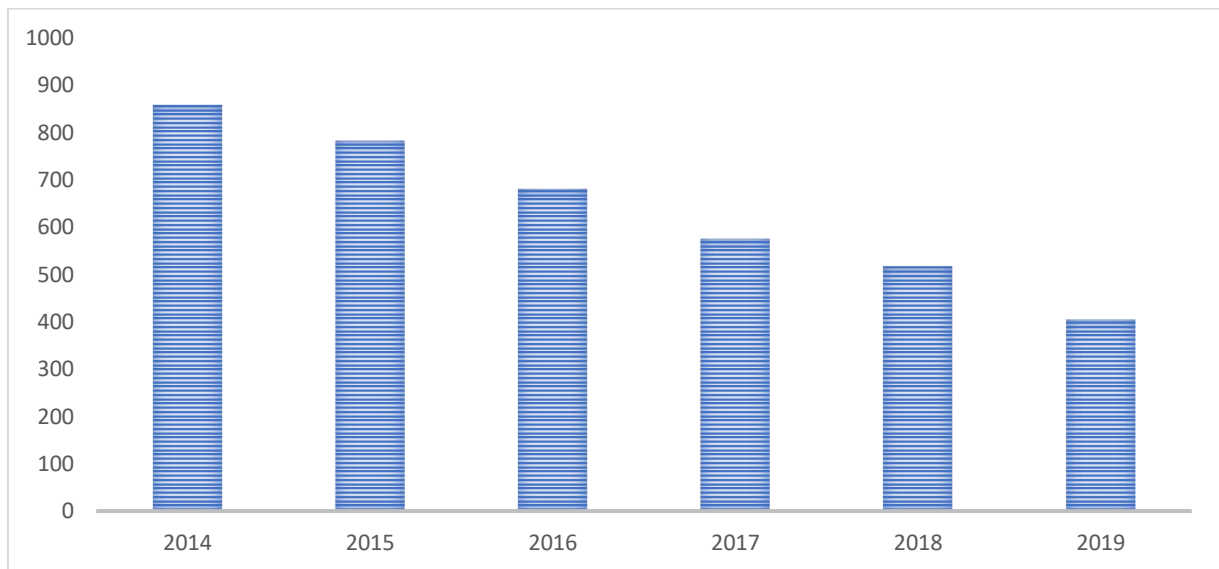
The main objective of increasing the stability of the financial sector of the economy is to improve the banking system of Russia. The country is actively cleaning up those banks that conduct dubious operations, invest in low-quality assets, and falsify reporting. The Bank of Russia is currently analyzing the activities of banks and closing those that have serious problems or are unpromising. Table 11 shows the number of operating banks in the Russian Federation for the period from January 2014 to December 2019, which decreased by more than 50%.

Table 11 - The number of operating banks in Russia 2014-2019.

Year	Number of banks
2014	859
2015	783
2016	681
2017	575
2018	517
2019	405

Source: (The Central Bank of The Russian Federation, 2019)

Figure 3 - Dynamic of Number of Banks.



Source: (The Central Bank of The Russian Federation, 2019)

The main reason for the withdrawal of licenses from banks was their participation in dubious financial transactions and the legalization of illegal income. The liquidation of such banks allowed to significantly reduce the volume of doubtful operations in the balance of payments of the Russian Federation. Filtration of these financial environment entities by the Bank of Russia helps strengthen the banking system and allows better control of the remaining banks in order to reduce corruption schemes in the Russian banking system (Zozulya and Goryunova, 2018).

An undoubted drawback of the program, reducing the number of credit organizations is that the revocation of licenses leads to the loss of funds of individuals and the ruin of small and medium enterprises. Not all depositors manage to return their savings stored in liquidated banks. In addition to the revocation of licenses, the reduction of commercial banks is also due to the highly authorized capital limit set by the Bank of Russia. Currently, it amounts to 1 billion rubles for a bank with a universal license and 300 million rubles for a bank with a basic license, which leads to the absorption of smaller banks by large ones. The consolidation of the banking sector, especially in remote regions, significantly affects the availability of credit resources for small and medium-sized businesses. Regional banks provided loans to enterprises of this sector, for instant, farms. Their closure significantly worsened the condition of such a business. It is more profitable for banks to lend to large enterprises that have real estate as assets.

2. Reduction of cash circulation

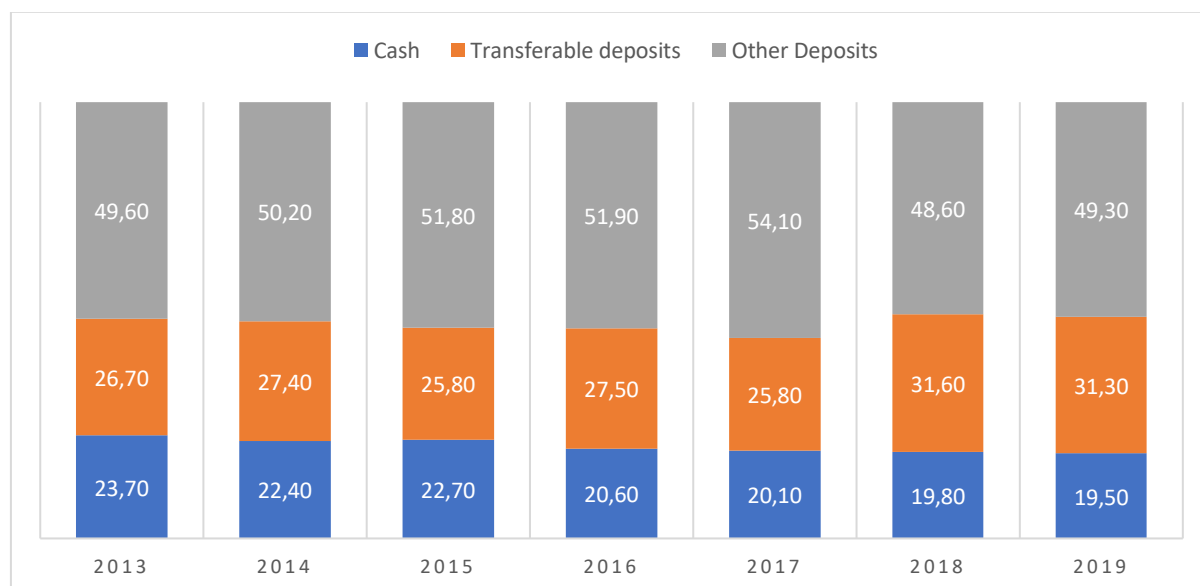
The combination of cash in circulation and non-cash funds forms the money supply of the country. As Table 12 shows, the monetary system of modern Russia is characterized by a significant decrease in cash turnover from 23.7 to 19.5% and an increase in non-cash payments from 76.3 to 80.6% (The Central Bank of The Russian Federation, 2019).

Table 12 - The structure of monetary supply.

Year	Cash	Transferable deposits	Other Deposits
2013	23,7	26,7	49,6
2014	22,4	27,4	50,2
2015	22,7	25,8	51,8
2016	20,6	27,5	51,9
2017	20,1	25,8	54,1
2018	19,8	31,6	48,6
2019	19,5	31,3	49,3

Source: (The Central Bank of The Russian Federation, 2019)

Figure 4 -Dynamics of Monetary Structure's supply.



Source: (The Central Bank of The Russian Federation, 2019)

Statistical data indicate that cash that is outside the banking system still accounts for a rather large percentage of the money. Despite the fact that the share of cash in the money supply continues to decline, citizens of the Russian Federation continue to spend a lot of cash on purchases, neglecting payment tools such as plastic bank cards. At the same time, an increase in deposit funds compared with last year is a positive indicator indicating a successful monetary policy of the state credit apparatus.

This trend allows to reduce the shadow sector of the Russian economy, contributes to lower inflation and prices for goods and services, reduces the cost of producing and transporting cash, and improves tax collection. The reduction in cash held on current and demand accounts is associated with small incomes of the population, which prefers to keep their savings on fixed-term and savings deposits, which have a higher interest rate compared to current and demand deposits. Fixed-term and savings accounts of individuals account for two-thirds of all deposits. A significant part of transferable deposits, despite their lower rate compared to term deposits, is formed by deposits of legal entities. The thing is that transferable deposits can be withdrawn at any time, while time deposits can be withdrawn only after the expiration of the period specified in the contract.

3. Strengthening the role of electronic money

In Russia, in recent years, electronic money has become increasingly widespread in money circulation. An important condition for the use of electronic money is that it takes into account information about the amount of funds provided without opening a bank account, which affects the transparency of the use of currency, as well as the income of both legal entities and individuals. The fundamental difference between e-money and conventional is that electronic money is a means of payment issued by a person, including the state, while ordinary cash and non-cash money are issued only by the central bank of the state.

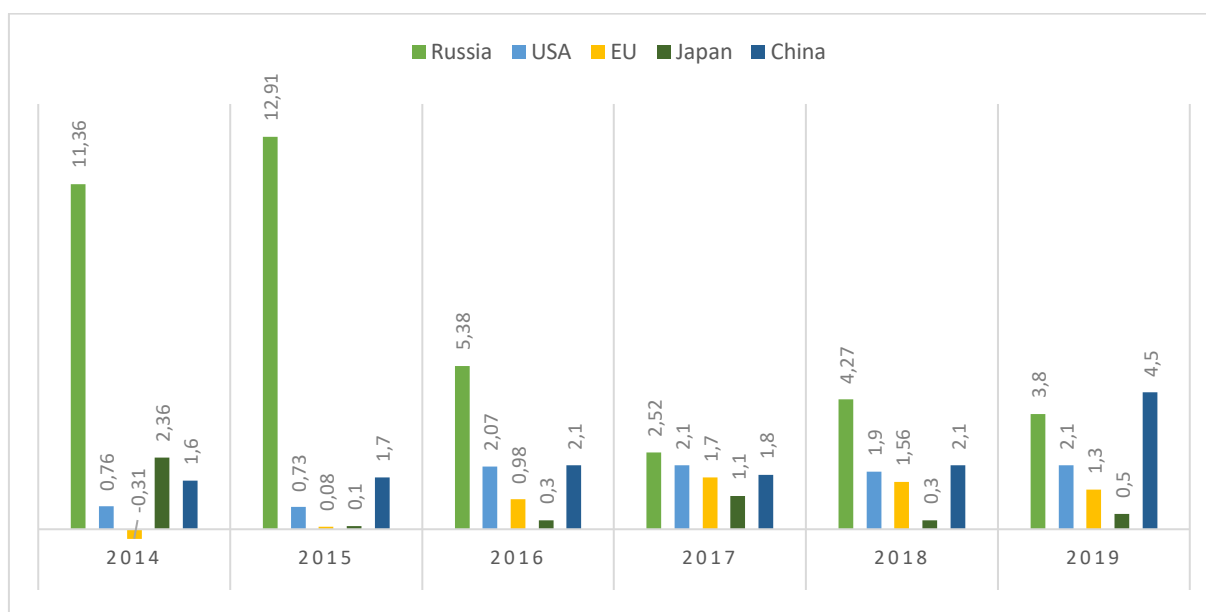
By the method of storage, electronic money is classified as stored on the basis of smart cards or on the basis of networks. Both groups can be either anonymous or personified systems. Anonymous systems allow operations without user identification. Personalized systems require the mandatory registration of a real user in the system. Bank accounts in electronic money settlements are used only when depositing / withdrawing money from the system. When electronic money is put into circulation, traditional money is credited to the issuer's bank account. When repaying electronic money, traditional money is debited from the issuer's bank account.

The ability to access an electronic wallet from anywhere in the world is, on the one hand, an indisputable advantage, since to work with this money you only need a laptop, smartphone or tablet and the ability to access the Internet. On the other hand, if an electronic wallet is hacked by a hacker from another country, it will be very difficult to find an attacker and prove that it was not you who transferred all your money to another account. Electronic money in Russia is quickly gaining popularity, because with their help you can significantly reduce the time and effort spent on transfers and payments. So, relatively recently, it became possible to purchase goods for electronic money in online stores, pay bills for utilities, telephone, and the Internet. Electronic money in Russia is represented by such systems as WebMoney, Yandex.Money, Oiwi Wallet, PayPal and others. The next step in the development of electronic money is the emergence of cryptocurrencies. Today, there are more than 1.800 types of cryptocurrencies, the most popular of which is bitcoin. Bitcoin is a payment system that uses the digital currency unit of the same name and the data transfer protocol of the same name. Unlike traditional electronic money, which must be converted into electronic form through a bank account, cryptocurrency is issued directly to the network by the users themselves, is not provided with anything and is not connected with any currency.

4. Prospects for the formation of the Russian ruble as an international currency

One of the main problems in the development of the monetary system of Russia is the necessity for convertibility of the ruble, that is, the recognition of the Russian ruble in different countries as a reliable means for settlements and accumulation. Today, the Russian national currency is not among the major world currencies. It's all about inflation, or rather, the big difference between the inflation rate in Russia and other countries. Analyzing the data from Figure 5, one can see a huge difference between foreign countries and Russia in terms of inflation.

Figure 5 - Inflation rate in different countries.



Source: (World Bank, 2019)

Inflation for 2017 turned out to be equal to 2.5% - this is the minimum in the history of modern Russia. In 2019, Russia takes the 8th place in terms of inflation in the world. The main merit in the record decline in inflation belongs to the Bank of Russia and its tight monetary policy. A drop in real incomes of the population also played a role, which led to a decrease in demand in the consumer market, and a good harvest in 2017, which allowed to increase the share of exports.

3.2. *Possible measures to be taken to improve the situation*

According to experts, by 2021 GDP growth is expected to grow more than 3%. Investments in fixed assets should become the leading factor in this economic growth. GDP growth will be affected by a gradual increase in the share of exports of goods that are not related to raw materials or energy products (Abramova et al., 2019).

According to the forecast of the Bank of Russia, in 2020 annual inflation will temporarily accelerate to 5.0%. The Bank of Russia is going to maintain a conservative approach to pursuing monetary policy, attaching greater importance to inflationary factors and risks. This implies that the Bank of Russia pursues a tougher monetary policy than in the absence of the influence of the aforementioned one-time factors on inflation.

In 2020–2021 the growth of the Russian economy will accelerate to 1.8–2.3% and 2.0–3.0%, respectively. This will be facilitated by the gradual accumulation of the positive effect of the planned fiscal policy measures and structural reforms during their successful implementation. At the same time, higher growth rates of the Russian economy will not create additional inflationary pressure on the demand side and will prevent inflation at the target, as they will be ensured by the expansion of the production potential of the economy. Credit activity in 2019–2021 will continue to grow at a pace corresponding to an increase in effective demand and not creating risks for price and financial stability. Non-price credit conditions will soften gradually, reflecting the preservation of a conservative approach by banks to assessing borrowers and accepting risks. Credit will remain the main driver of change in money supply (Economic development forecast for 2019-2021 from the Central Bank of the Russian Federation, 2018).

RBC website notes that in the conservative scenario of the Forecast of Economic Development of the Russian Federation from the Central Bank, the Russian budget in 2020–2024 remains without oil excess profits. The average price of Russian Urals oil until 2024 is set at the level that coincides with the budget cut-off price for excess profits (from \$ 42.5 per barrel in 2020 to \$ 45.9 in 2024) (The Ministry of Economic Development described the Russian economy without excess oil revenue, 2019).

A fall in oil prices in a pessimistic scenario will provoke an additional increase in the dollar. The average dollar to ruble exchange rate in the base scenario of the Ministry of Economic Development will increase slightly - from 65.4 rubles in 2019 to 67.4 rubles in the year 2024. The conservative forecast is more pessimistic - around 69 rubles for the dollar in 2020–2021. And in 2023, the nominal dollar exchange rate will exceed 70 rubles and will reach 70.5 rubles in the year 2024.

A conservative forecast by the Ministry of Economic Development also implies a strong drop in export prices for Russian gas. Average contract prices for Russian pipeline gas, including supplies to the CIS, are conservatively forecast at \$ 149.6 per 1,000 cubic meters in 2020, with a subsequent increase to only \$ 155.2 by 2024. For comparison: in the basic version, 1 thousand cubic meters of Russian gas will cost \$ 183.7 in 2020, and by 2024 it will fall in price to \$ 174.1. At the level of dollar exports of Russian gas in 2024, the difference between the base and conservative forecasts is estimated at \$ 5.7 billion - \$ 43.6 billion in annual exports in the base case versus \$ 37.9 billion in the conservative one.

Investments in fixed assets will grow by 5-6% annually, based on the basic forecast of the ministry. After a slowdown to 2% in 2019, the agency predicts an increase in investment by 5% in 2020 and by 6.5% in 2021. But the conservative option suggests investment growth of only 3.6% in 2020, and then their inhibition to 3.1% in 2022.

Consumer demand (retail trade) in both scenarios will sharply slow down in 2020 (from 1.3% in 2019 to 0.5–0.6%). Then the retail turnover will grow slowly - up to 2.7% by 2024 in the basic forecast and up to 2.3% in the conservative one.

The real disposable income of the population in the conservative scenario will grow by 1.1% in 2020, and by 2024 their growth rate will reach only 1.9%. In general, the conservative option involves an increase in real disposable income of 8% over five years, compared with an increase of 11.2% in the base case (The Ministry of Economic Development described the Russian economy without excess oil revenue, 2019).

Conclusion

The thesis is devoted to the analysis of the Russian Federation's financial policy under sanctions. The topic used to seem relevant and urgent before new reality with coronavirus out.

The conducted research includes a preliminary assessment and further forecast of Russia's economic development in the current circumstances and the development of strategies and tactics to overcome the negative consequences of the sanctions of the leading countries of Europe and the USA towards the Russian Federation.

We solve the following tasks:

- to describe sanction's policy against Russia;
- to study the impact of the Western sanctions (and anti-sanctions) and oil prices on economic growth in Russia;
- to assess a current status and development prospects of the financial system of Russia in the period of sanctions;
- to examine the key directions of the monetary policy in Russia used to mitigate the impact of sanctions on the stability of the Russian banking system;
- to try to suggest important steps aimed at stabilizing the situation.

The material of the thesis includes 12 formidable tables and 5 figures, containing all the necessary analysis and data on the macroeconomic indicators, dynamics of production growth, inflation, work of the banks, monetary supply and inflation rank.

Existence of significant imbalances in the domestic Russian economy is evident. We can mention only a few of them: catastrophic decline in the efficiency of production, lack of competitiveness of most of the products, a sharp drop in investments in the real sector of the economy, the threat of strong inflation, reduced consumption, low standard of living of the population, a large-scale growth of the external and internal public debt.

However, the main problem of the RF is poor economic condition, and further economic deterioration. Unlike the USSR, which has always been under sanctions, but created a powerful economic potential, the Russian economy continues to collapse under the influence of sanctions. Sanctions prevent Russia from receiving financial and technological injections from the West. Russian business is losing the opportunity to cooperate with foreign business to create profitable enterprises and startups. This reduces the volume of high-quality goods, increases Russia's dependence on energy exports and raw materials. On this, Russia is losing a lot of the currency necessary to solve various tasks, which, inter alia, were set by the

president. This situation also affects the standard of living of Russians. Enterprises, small and medium-sized businesses are declining, unemployment is increasing, and the social sphere is less well-funded. This includes health care, education, social reforms.

Russia's economy is heavily dependent on the export of natural resources, primarily oil and gas. Therefore, any fluctuations in oil prices have a significant impact on the country's economy. The higher the price of oil, the more the ruble is worth against the US dollar, and vice versa, if oil prices fall, the ruble depreciates. Thus, while oil and gas are sold for US currency, the Russian ruble will depend on the dollar. However, the threat of sanctions by the United States clearly showed that it is necessary to get rid of the dollar both within the country and in settlements between states. Otherwise, both the banking system of Russia and its economy will be directly dependent on the United States. As the main means of dedollarization, it is necessary to switch to ruble operations, including in international payments, thereby strengthening the ruble as a world currency. However, turning the ruble into a truly recognized currency is possible only in a competitive economy with developed exports. The main distinguishing feature of the Russian economy is the lack of competitive products, goods, and services.

Russia needs to develop such competitive sectors as agriculture, the military-industrial complex, space industry, information technology, energy, and production, which will structurally transform and increase the export of products that are in great demand on the world market. Settlements for such trading operations should be carried out with foreign partners in rubles, which will enable the Russian ruble to obtain international status. The Bank of Russia and the Ministry of Finance of the Russian Federation hold huge packages of US government securities, thereby lending to the US economy and risking losing these securities at any time. Such practices must be banned, especially in connection with the exacerbation of US-Russian relations and economic sanctions by the United States. Competent and effective regulation of the economy and the monetary system should rid the country of raw material dependence, establish the financial sector, strengthen the national currency and its position in the international market.

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Annexes

Table 1- Macroeconomic indicators - Annex

Indicators	2007	2012	2013	2014	2015	2016	2017	2018	2019
GDP (%)									
To previous year	108.5	103.5	101.3	100.7	97.5	99.8	101.5	101.7	101.8
To 2007	100.0	109.5	110.9	111.7	108.6	108.4	110.0	111.9	113.9
Industry (%)									
To previous year	106.8	103.4	100.4	101.7	96.6	101.1	102.1	102.6	102.9
To 2007	100.0	104.6	105.0	106.8	103.2	104.3	106.5	109.3	112.4
Agriculture (%)									
To previous year	103.3	95.2	106.2	103.5	102.6	104.8	102.4	102.8	103.1
To 2007	100.0	116.7	123.9	128.2	131.5	137.8	141.1	145.1	149.6
Investments (%)									
To previous year	123.8	106.8	99.8	98.5	91.6	99.8	104.4	103.9	104.1
To 2007	100.0	119.2	119.0	117.2	107.4	107.2	111.7	116.1	120.9
Retail (%)									
To previous year	116.1	106.3	103.9	102.7	90.0	95.4	101.2	102.3	102.6
To 2007	100.0	130.9	136.0	139.7	125.7	119.9	121.3	124.1	127.3
Money supply %									
To previous year	143.5	111.9	114.6	100.5	111.5	109.2	110.5	113.3	111.6
To 2007	100.0	212.8	243.9	245.1	273.3	298.4	329.7	373.6	416.9
Consumer price index (%)									
To previous year	111.9	106.6	106.5	111.4	112.9	105.4	102.5	104.1	104.6
To 2007	100.0	117.5	122.2	121.3	117.4	110.6	108.7	108.1	107.9
Export (bln dollars)	346.5	527.4	521.8	496.8	341.4	281.7	353.5	384.4	361.7
To prev. year (%)	116.5	102.3	98.9	95.2	68.7	82.5	125.5	108.8	94.1
To 2007 (%)	100.0	152.0	150.3	143.1	98.5	81.3	102.0	110.7	104.1
Import (bln dollars)	223.1	335.8	341.3	307.9	193.0	191.4	238.1	266.1	291.2
To prev. year (%)	136.7	105.4	101.6	90.2	62.7	99.2	124.4	111.8	109.4
To 2007 (%)	100.0	150.5	152.9	137.9	86.5	85.8	106.7	119.2	130.4
Oil price URALS (doll/bar)	69.3	110.4	107.9	97.7	51.4	41.9	53.1	62.4	63.1
To prev. year (%)	113.4	101.0	97.7	90.5	52.5	81.5	126.7	117.5	101.1
To 2007 (%)	100.0	159.3	155.6	140.8	74.1	60.4	76.2	89.5	90.5
Index of real effective ruble exchange rate against foreign currencies									
To prev. year (%)	105.1	105.3	97.2	72.6	100.9	120.4	98.9	108.5	107.1
To 2007 (%)	100.0	117.6	114.3	83.0	83.7	100.8	99.7	108.2	115.9

Source: (Russian statistics of the Federal State Statistics Service, 2019), (sections that were analyzed: national accounts, entrepreneurship, prices, finance, foreign trade).

Table 2 - The dynamics of industrial production, 2014-2019 (% to previous year) - Annex

Types of economic activity	Results of the development of industrial production					
	2014	2015	2016	2017	2018	2019
Industry as a whole	101.7	96.6	101.1	102.1	102.5	102.5
Mining	101.4	100.3	102.5	102.1	101.9	102.1
Manufacturing including:	102.1	94.6	100.1	102.5	102.8	102.8
food production	102.5	102.0	102.4	104.2	103.5	103.7
manufacture of wearing apparel	100.5	81.2	107.1	108.5	105.8	109.6
wood processing and the manufacture of wood and cork products, except furniture	94.7	96.6	102.8	103.9	101.9	101.8
production of paper and paper products	103.4	101.6	105.1	106.9	104.5	103.6
production of coke and petroleum products	105.7	100.3	97.6	101.1	101.3	101.2
production of chemicals and chemical products	100.1	106.3	105.3	105.1	104.0	104.8
manufacture of rubber and plastic products	107.5	96.3	105.4	103.8	105.2	105.5

manufacture of other non-metallic mineral products	101.8	92.2	93.4	111.2	102.9	102.9
metallurgical production	107.2	104.0	99.0	100.1	101.7	101.8
manufacture of fabricated metal products, machinery and equipment	104.5	103.5	101.3	103.4	102.2	101.5
manufacture of electrical equipment	99.5	92.1	99.0	104.7	104.2	104.4
manufacture of machinery	92.2	88.9	103.8	106.8	104.2	102.8
manufacture of motor vehicles, trailers and semi-trailers	88.7	76.9	100.5	114.5	107.6	106.7
manufacture of other vehicles and equipment	116.2	105.4	104.2	106.3	100.8	101.2
Providing electric energy, gas and steam; air conditioning	99.9	98.4	101.5	99.6	102.0	101.8

Source: (Russian statistics of the Federal State Statistics Service, 2019), (section: entrepreneurship).

Table 3 - Assessment of the contribution to inflation of certain groups of goods and services, January - May 2018 - Annex

Consumer Price Growth	The proportion of individual components in the index	Price increase (%)	Contribution to inflation (pp)
Foodstuffs	37.5	1.8	0.7
bread and bakery products	1.4	0.9	0.0
cereals and legumes	0.6	-4.3	0.0
pasta	0.6	-0.8	0.0
meat and poultry	9.3	-0.7	-0.1
Fish and seafood	5.8	1.4	0.1
milk and dairy products	7.2	0.6	0.0
butter	1.0	0.3	0.0
sunflower oil	1.0	-1.0	0.0
the eggs	0.5	-1.1	0.0
granulated sugar	2.9	9.4	0.3
fruits and vegetables	3.4	13.1	0.4
alcoholic drinks	3.8	0.7	0.0

Non-food products:	35.2	1.9	0.7
clothes and linen	4.8	0.5	0.0
knitwear	1.2	0.5	0.0
footwear	2.3	0.4	0.0
washing and cleaning products	0.8	0.5	0.0
tobacco products	2.9	4.2	0.1
electrical goods	1.4	1.0	0.0
Construction Materials:	7.1	2.0	0.1
gasoline automobile	4.0	7.2	0.3
medicines	4.6	1.7	0.1
Paid services to the population:	27.3	1.0	0.2
housing and communal services	9.9	0.3	0.0
medical services	3.9	2.2	0.1
passenger transport services	2.5	1.4	0.0

communication services	3.0	1.1	0.0
foreign tourism services	1.4	4.5	0.1
cultural services	0.4	1.0	0.0
spa services	0.4	1.3	0.0
pre-school education services	0.5	1.7	0.0
educational services	1.5	0.3	0.0
Total	100.0	—	1.6

Source: (Russian statistics of the Federal State Statistics Service, 2019), (section: prices).

Table 4 - Assessment of the contribution to inflation of selected - Annex

	The proportion of individual components in the index	Price increase (%)	Contribution to inflation (pp)
Mining	22.7	6.9	1.6
Manufacturing:	64.0	6.2	3.9
food production	10.9	0.6	0.1
manufacture of wearing apparel	0.3	1.1	0.0
wood processing and manufacture of wood products and cork, except furniture	0.6	5.4	0.0
production of paper and paper products	1.2	5.0	0.1

production of coke and petroleum products	12.0	16.2	2.0
production of chemicals and chemical products	3.4	4.3	0.1
manufacture of rubber and plastic products	1.9	2.3	0.0
manufacture of other non-metallic mineral products	2.9	3.1	0.1
metallurgical production	7.4	9.0	0.7
manufacture of fabricated metal products, machinery and equipment	2.5	5.8	0.1

manufacture of electrical equipment	2.2	5.0	0.1
manufacture of machinery and equipment nec	2.6	6.5	0.2
manufacture of motor vehicles, trailers and semi-trailers	3.6	0.6	0.0
manufacture of other vehicles and equipment	2.8	7.0	0.2
Providing electric energy, gas and steam; air conditioning	11.2	-0.4	0.0

Water supply, water disposal, organization of waste collection and disposal, pollution elimination activities	2.1	-0.1	0.0
Total	100.0	—	5.5

Source: (Russian statistics of the Federal State Statistics Service, 2019).