« Assessing the effects of economic sanctions imposed on Russian Federation during 2014-2015 years »

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Public Policy and Management
2016

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Introduction

World is faced with the problem when the economy depends on political line and ambitions. But when people faced with big external problems they usually unite and could survive in any other scenario.

For the last two years Russian economy was damaged. In early November 2015 the European Commission (EC) released a forecast stating that 2015 will end for Russia's GDP with the fell by 3.7%, while in 2016 this figure will drop at least another 0.5%. The EC representatives stressed that the deepening recession is an inevitable fact, since the factors influencing the worsening of the economic situation of the country in 2016 will become even more tangible.

For example, Russian officials blame Western sanctions in the current crisis. Sanctions against Russia were a response of the Western world for geopolitical conflict with Ukraine. To date, the conflict has not been solved. Accordingly, there is the reason to believe that sanctions against Russia will continue in 2016.

The second important factor which has already shattered economy of the state is the reduction of oil prices. According to experts, the price of black gold will continue falling, which will necessarily affect the economic condition of Russia.

Russian government tries to look at the circumstances realistically. Nobody expects the lifting of sanctions in the near future, so they are inherently in the scenarios of economic development. In General terms, if the forecast of the European Commission will come true it can be considered a very good result.

But if Russia is more or less ready to European sanctions, a new round of lower oil prices can destroy the fragile economic stability. Alexei Vedev, the Deputy Minister of economic development, stressed that in its conservative scenario in 2016 there will be the lowering cost of oil to 40 USD per barrel and holding the value until 2018. According to his words, this reduction would aggravate the economic shock and the government will take additional time for new adaptation.

The forecasts of Russian government are the following: if the oil cost will be 40 USD per barrel, the country's GDP in 2016 will drop by just 1%, inflation will amount to 8.3%, while the value of the dollar will increase to 73 RUB.

In the baseline forecast from the economists the price of oil in 50 USD is laid. With the price of oil, we can expect GDP growth in the range of 0.7%, inflation at 6.4%, and dollar at the level of 63,3 RUB. It should be noted that both forecasts assume economic growth to 2017-2018 years.
However, independent experts do not exclude that in 2016, the quotation of oil will make not 40, but just 20-30 USD per barrel, and that will be a real shock for Russia.

Economic sanctions against Russia are of diverse origin, structure, mechanisms and objectives. A distinctive feature of these sanctions is their point orientation, i.e., the restriction is not on the state as a whole, as a single geo-economic entity, but on the individual residents of the country: commercial entities and individuals. Also it should be noted that the sanctions do not only come from separate sovereign States and extraterritorial organizations. Full economic isolation of Russia looks doubtful, due to the deep integration of the world capital. For example: the US and the EU are imposing sanctions against "Rosneft" prejudicing the interests of the British company BP, which owns 19,75% stake in the company. Limit supplies of Russian gas to the EU market is not currently possible as they affect the earnings of Bank of New York, which owns 27% of shares of "Gazprom". The situation is similar with other industries. The companies suffering more from the sanctions have the share of foreign capital and higher share of the Russian Federation or its residents.

The purpose of this thesis work is to analyze the main factors that create crises situation in Russian Federation. There will be three chapters complemented each other.

The first chapter contains Literature review on economic sanctions as part of the concept of "soft power" and macroeconomic situation and its structural slowdown.

Accepted for a limited time, sanctions can have a lasting effect, and the state of economy is their immediate effect (Zlotowski, 2014). Many of the negative effects (reduction in GDP growth, the loss of jobs and opportunities for the development of the business sector) appear with a time lag. Furthermore, cancel authorization is not always as fast as it is administered.

It is pointed in the works of Entin (2014) and Kuznetzov (2014), that economic sanctions, along with other factors (inadequate infrastructure, problems in the field of demography, education and skills of the workforce, the dependence on the hydrocarbon sector, the lack of internal and external investments, weak institutions, an unfavorable business climate) have contributed to the decline in long-term sovereign and credit Russian rating. Leading rating agencies have left the country ratings at a level close to a negative outlook. In this situation, the participation of foreign investors in the important project for Russia is possible only under the condition of guarantees and support of the state, on the basis of public-private partnership.

The second Chapter will open several factors of deterioration which have triggered on crisis: Ukraine war, information war against Russia, the Crimean case, the oil prices starting to low down, sanctions from EU, USA and other countries. attempted regime change in Syria (the continuation of a section of the Middle East).
All this factors led to aggravation of the internal economic situation to floating currency exchange rate, increasing quantity of unemployment, growing prices, import products substitution, bank sector crisis, attempts to create a new financial system (like VISA, Master Card); Government Intervention and the unity of society with common problems.

It is undeniable that this crisis scenario was possible, due to the fact that after the world crisis of 2008-2009 Russian economies didn't change and rebuild its main postulates. President Vladimir Putin told about this basic problem several times on his meetings: economical mechanism was not changed at all.

The third chapter will show the internal critical approach. There will be adduced opinion of main figures on Russian economic «chess board», those like German Gref (the president of one of the biggest bank in Russia – Sberbank), Aleksey Kudrin – ex-minister of Finance in Russia and others.

This chapter will be concentrated on Regional economic decline, the reason of which is economic crisis in Russia. In this chapter I’ll try to determine whether the sanctions were successful and whether the reactions symbolized in policy decisions of the RF government according to sanctions were of any use.

Methodological approach.

A within-case analysis, where the two sub-cases are the private sector and state forecasts, will be used as the method of the research.

SWOT analyses as an analytical tool can be carried out for a product, place, industry or country. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective. It will show general view of the government behavior in a risk situation, here the risk management regulation will be discussed concerning its success and fail sides.

The data sources will be: the information and also practical part will be taken from newspaper, journals, TV news, special programs and will be compared and analyzed. Overview of the government institutions which active role was visible through these two years will take place: Central bank, Ministry of Economic development, Ministry of finance as well as bank sector: Sberbank, VTB, AlfaGroup.

Literature review.

As the discussions surrounding sanctions are opened, the main information will be taken and analyzed from journals, news, scientific articles. The topic field is huge and perspective, each day something is changing, so it’s a life topic.

The basic literature which will be used to define the main economical problems is: "Intermediate Microeconomics" (Varian, H. R., 2010). This book will help to determine the
Government approach concerning sanctions. "Police analysis" 5th ed., D.L. Weimer, A.R. Vining discovers the best practices of Police analyses such as market failures that will be useful to discuss in this paper.

Hypothesis.

The hypothesis of this work are the following:

H1: Sanctions do work in Russia.

H2: Sanctions provide new opportunities for Russian companies such as Sberbank, for example.

H3: There are areas of optimization of economic development of Russia in the conditions of sanctions.

The goal of the Thesis is to determine the consequences of the crisis in Russian Federation (2014-2015) as well as sanctions effect on the region economy.

The objectives of the research are the following:

- to study economic sanctions as part of the concept of "soft power";
- to analyze a macroeconomic situation and its structural slowdown;
- to conduct analysis of present economical agenda in Russian Federation;
- to overview sanctions and contra sanctions: to provide an internal critical opinion of experts in order to determine the direction of development of the situation in 2016 in Russia.
1. Literature review

1.1. Economic sanctions as part of the concept of "soft power"

Economic sanctions in the beginning of the XXI century as well as in the twentieth century remain to be an important, although a double-edged, instrument of foreign policy and international diplomacy. Accepted for a limited time, they can have a lasting effect, and the state of economy is their immediate effect (Zlotowski, 2014). Many of the negative effects (reduction in GDP growth, the loss of jobs and opportunities for the development of the business sector) appear with a time lag. Furthermore, cancel authorization is not always as fast as it is administered.

For example, adopted during the Cold War due to the restrictions on emigration of Soviet citizens from the USSR, Jackson-Vanik amendment to the US Trade Act (1974) was abolished in respect of Russia, the successor of the Soviet Union only in 2012, while emigration from USSR was authorized in 1987. Among the measures envisaged by the amendment was a ban on the provision of state loans and loan guarantees.

Researchers at the Peterson Institute for International Economics (USA) in the second edition (1990) of the monograph "Redefining economic sanctions: the economy and modern politics" came to the conclusion that such sanctions reached the goal in more than 100 cases analyzed. Despite the dramatic changes in the world over the past quarter of a century, the main conclusions of the authors are still relevant today.

Economic sanctions in the event of combination with other measures (eg, military-political nature) may be "astonishingly successful" in terms of destabilizing the political management (Kuznetsov, 2014. p. 64). Otherwise, "not backed up by other measures, they rarely lead to destabilization" (Kuznetsov, 2014. p. 64). The growth of Russia's military spending due to concerns with the approach of NATO to its borders can have more devastating consequences on the domestic economy than sanctions. Thus

The costs of sanctions for the country's economy, which will decide on their introduction, are almost never advanced and miscalculated. Firstly, to evaluate their value is very difficult. Secondly, as a rule, the damage to major economies that impose sanctions, is unimportant and usually does not exceed 1% of GDP (Hufbauer et al, 1990. p. 50-51). However, if the annual GDP growth rate is about 1% in both the EU and Russia, the sanctions could lead to negative growth dynamics for both parties.

Economy introducing sanctions tends to be much larger than the one against which they are introduced. For comparison, according to the World Bank data, Russia (based on the current exchange rate) falls 2.8% of the GDP of the world, the EU - 23%, i.e., a difference is nearly an
order of magnitude (IMF, 2014). Objectively, the more vulnerable is the country with less powerful economies.

As for the current exchange of penalties between the EU and Russia, the counter Russian actions in the form of an embargo on imports of certain food products are 12 billion EUR of trade with the Russian Federation, still the producers from these countries may lose less than 1% of total EU GDP (European exports Union, 2014). Compared to the GDP of the EU, this value is small, but for some countries, such as Poland, Hungary, Finland, Lithuania, the negative consequences of Russian sanctions are substantial, and the EU is attempting to prevent the supply to Russia of products from Latin America and Asia (European exports Union, 2014).

The country often applies sanctions when in certain situations inaction leads to loss of confidence in its leadership within the country and abroad. Undermining reputation becomes more expensive than the price of sanctions. Thus, the German Minister of Finance W. Schäuble said: "Economic interests are not a priority. Priority is to maintain stability and peace. If the German Minister of Finance or Economics said "careful, sanctions hurt our economic interests," the Chancellor would have bad ministers. Violation of peace and stability would be the biggest threat to economic development" W. Schäuble about Economic interests. In Information Agency Regnum online. Retrieved from http://www.regnum.ru).

In Russia we proceeded from the fact that the economic interests in Europe, especially in Germany, will take precedence over politics, as business contacts are "often the policy of confrontation" (Kuznetsov, 2014. p. 64). But, unfortunately, the business community did not resist the economic sanctions to the extent that the Russian leadership hoped.

Opinion on the priority interests of transnational companies (TNCs) in the era of globalization. The weakening of the role of the state under the TNC policy is possible, but not in an emergency. Otherwise, the business is forced to obey the policy at the intergovernmental and supranational levels (Khokhlov, Sidorova, 2014. pp. 124 - 188), the negative effects of sanctions on the economy of a country can be mitigated in a sustainable business model and established mechanisms for its implementation. Adequate assessment of economic interests does not mean keeping the short-term benefits and long-term national interests, long-term effects of economic policy.

Economic sanctions are more effective with regard to the countries - the traditional economic partners - than against old rivals. For Russia, the US sanctions are less painful than the part of the countries - members of the EU, recognized by Russian strategic partner. At the end of 2013 the volume of accumulated Russian investments in the US economy were 4.1 billion USD, and, for example, in the Netherlands - 23.3 billion USD, in turn, the US investments were only 10.3 billion USD accumulated in Russia.
However, it should be borne in mind that the products and technology of the United States (for example, in the sphere of oil production) are often unique, have patent protection, which complicates their replacement by similar positions in other markets. And in a globalized world, stimulating the search for alternative suppliers and opening up new possibilities for competitors from other countries is not always possible to find an adequate substitute for business partners.

In the era of globalization, when the Russian "built political order and the global economy in the western world... and in no respect is not self-sufficient" (Entin, 2014, p. 9), the economic effect of sanctions is rather palpable. However, the side effects of the sanctions are possible rallying around their government of the population, against which they are introduced.

Undesirable effects of sanctions can not be excluded: they can deter allied countries, introducing them to lead to a worsening of relations with them.

This happened in 1981 - 1982 between the countries of the European Economic Community (EEC) and the United States regarding the construction of a gas pipeline from the Soviet Union to Western Europe. The Europeans refused to support sanctions imposed by the US against the Soviet Union because of its policy in Afghanistan and in relation to Poland, to suspend implementation of the project, as it was contrary to the interests of the European business community. Sanctions by the United States were not only "beaten" by the Soviet Union, but also threatened to working for the US market to Western European companies supplying the Soviet Union technology and equipment for the oil and gas sector. Economic cooperation with the Soviet Union could lead to the loss of their business in the United States, access to technology, entail significant financial costs. Western European governments counting the probable losses of their companies, decided against whom the economic sanctions were targeted in reality (Entin, 2014, p. 19).

The efficiency of sanctions in achieving foreign policy goals may be limited. According to some researchers, the sanctions targeted at weakening the military capacity or at least to change the policy of the country, were rarely successful if taken outside the brackets damage to the economy as a whole (Entin, 2014; Aslund, 2014). The most unsuccessful sanctions are those that are designed to stop the military intervention: only 21% led to the desired goal. The most productive sanctions were aimed at a moderate change in policy of the country (51% gave the result) (Aslund, 2014).
The imposition of economic sanctions in official EU documents, developed and published in connection with the Russian policy changed with the development of the conflict in Ukraine. First, sanctions have been imposed in connection with the "actions that undermine the territorial integrity, sovereignty and independence of Ukraine, or threatening them» (Council of the European Union, 2014a). It involves changing the status of Crimea.

Then, before the active phase of the conflict in the south-east of Ukraine, sanctions have been imposed "in view of Russia's actions destabilizing the situation in Ukraine» (Council of the European Union, 2014b. p. 21-23; 2014c. p. 1 - 3). This evolution seems was linked to the escalation of the conflict in the Lugansk and Donetsk regions. The table 1.1 shows the EU economic sanctions against Russia and the Russian response.

Table 1.1

Economic sanctions and Russian response, 2014

<table>
<thead>
<tr>
<th>Time of administration</th>
<th>The sanctions by the EU</th>
<th>The response of the Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>European Parliament resolution with a recommendation to abandon the gas pipeline &quot;South Stream&quot;</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>Failure of the official representatives of the EU to participate in the conference &quot;Energy Dialogue Russia-EU: Gas Aspect&quot;</td>
<td></td>
</tr>
</tbody>
</table>
| July                   | - Termination of financing the European Investment Bank (EIB) new projects in Russia in the EU Council recommendation;  
                        | - Suspension of the European Bank for Reconstruction and Development (EBRD) investment in Russia;  
                        | - The restriction of exports of a number of goods and dual-use technology and the provision of related services (including technical assistance, brokering services), supply of arms and military equipment;  
                        | - Sales restrictions, supply, transfer or export, directly or indirectly, certain types of equipment for the oil industry in Russia. Sanctions list includes the Crimean company, a change of ownership by natsionalizatsii. Sectoral policy:  
                        | - Ban the companies from the EU to invest in infrastructure projects (transport, telecommunications and energy) in the oil, gas and minerals; supplying | The ban on the purchase of certain types of foreign engineering products for state and municipal needs |
| August | - Russian government ban the import of certain types of agricultural products, raw materials and food from the EU and the United States, Australia, Canada, Norway, have adopted in relation to Russia's decision to impose economic sanctions; |
| September | - Prevent direct or indirect supply of goods and dual-use technologies to 9 enterprises of the military-industrial complex (MIC). The sanctions list also includes three legal entities, belonging to MIC and energy sphere;  
- A ban on the transfer of technology for the development of deepwater, arctic and shale oil;  
- Extension of the restrictions for 5 Russian state-owned banks;  
- Prohibition of the European institutions to provide, directly or indirectly, investment services; to conduct operations with the new issues of bonds and other securities with maturities of over 30 days, starting from September 12, 2014 |
| October | Accession of the countries - candidates for EU membership to the sanctions against the oil industry, aerospace and defense industry.  
EU Summit upheld the previously imposed sanctions  
"Rosneft" company, banks, Sberbank, VTB, VEB filed a suit in the Court of Justice to invalidate the sanctions against them |
| November | Accession of Switzerland to the economic sanctions(Council of the European Union, 2014b. p. 21-23; 2014c. p. 1 - 3) |

In July 2014 decision of the EU № 2014/145/CFSP (Art. 1) stipulated a ban on technical assistance of Russia in any form. This applies, in particular, in cases where "there are reasonable grounds to believe that the sale, supply, transfer or export of equipment is designed for deepwater exploration and production of oil exploration and extraction of oil in the Arctic or for shale oil development projects in Russia". It is also prohibited to sell, supply, transfer or export, directly or indirectly, the products and technologies of dual use, which "will or may be used for military use" (Council decision of the EU № 2014/145/CFSP).
In Article 2 it is stated that "if the end user is a military structure, any goods delivered to the end user are considered as having a military purpose" (decision of the EU № 2014/145/CFSP). The competent government authorities of EU countries may allow the export to meet the obligations under contracts concluded before August 1, 2014.

Introduced in July, the sectoral restrictions imposed by the EU do not affect exports of goods and dual-use technology (including the aerospace industry), designed "for non-military purposes or for non-military users". In September, it clarified that the sanctions do not affect the nuclear power industry (Council Regulation No 960/2014).

Denying access to the capital markets a number of financial institutions are not touched to international organizations established on the basis of intergovernmental agreements with Russia as one of the shareholders (Council Regulation No 833/2014).

Murmansk fish processing plant - one of the largest high-tech companies in the Russian fish processing - filed a lawsuit to the Supreme Court of the Russian Federation Government for recognition of partially illegal government decree on measures for the introduction of food sanctions. It was forced to stop work as a 100% dependent on the import of Norwegian raw materials. Plaintiff believes that the government resolution does not correspond to the presidential decree of August 6, 2014, violates the rights and legitimate interests of the company in the sphere of entrepreneurial and other economic activities and creates obstacles to doing business not achieving the expected effect of import substitution (for retaliatory sanctions which were introduced).

In September 2014 issue of the "Official Journal of the European Union" published documents to the development of the sanctions policy.

Economic sanctions adversely affect the possibility of Russian banks to credit, provoke an investment slowdown in the country and weaken the ruble. This situation leads to complication and cost of servicing the external debt of domestic companies. According to estimates of the CIS and chief economist at Russian investment bank "Renaissance Capital" O. Kuzmin, in 2014-2015 Russian companies have to repay loans amounting to about 160 billion USD. So the public sector accounted for about 65 billion USD (Tkachev, Sukharevskaya et al., 2014).

According to analysts of Morgan Stanley, in 2016 the Russian state-owned companies of non-financial sector will have to pay $ 41 billion, state-owned banks - 33 billion. In addition, private banks need to repay $ 20 billion on private non-financial companies account for external debt of 67 billion USD (Hille et al., 2014).

According to the Bank of Russia, Russia's foreign debt was 731.2 billion USD in the middle of 2014, which accounted for more than half on the public sector. The most serious
problem is the sanctions against the largest state-controlled banks. According to Bloomberg, VTB, Sberbank, Gazprombank and VEB in the next three years will have redeem bonds approximately of 15 billion USD. But dollar loans from foreign banks declined in the first half of 2014 to 7.9 billion USD compared to 25 billion USD in 2013 (The Economist, 2014).

Russian companies with state participation in the capital (over 50%), including "Gazprom" and "Rosneft", are unable to place securities on European markets. Because of sanctions the head of "Rosneft" appealed to the government to buy back the new "Rosneft" bonds at the expense of the National Welfare Fund at 2.4 trillion RUB. Sberbank, VTB, Gazprombank, Rosselkhozbank and VEB are forbidden to sell to Europeans stocks and bonds with a maturity of 30 days, issued after September 12, 2014.

Russia is credited mainly to EU banks. According to analysts of the London banks, Russian banks have about half of the resources received from Europe in the last three years. In the fall of 2014 they received US 264 billion USD of foreign loans, accounted for 74% to 13% from the United States. The largest obligation belongs to continental banks: France has 54 billion USD, Austria - 52, Italy - 30, Germany - 22.5, the Netherlands - 19 billion USD (Jost, Zschapitz, 2014). It is noteworthy that, unlike loans, the accumulated investment of France in Russia is US 13.3 billion USD.

The EU cut off funding for a number of Russian investment projects implemented in cooperation with the European Bank for Reconstruction and Development (EBRD). Some of the measures in spite of the opposition of Germany and France were affected projects with financial participation of the European Investment Bank (EIB). The suspension of financing of new projects in Russia's public sector by the EIB does not have such consequences, as in the case of the Bank, for which the Russian Federation is the main recipient of funds. EBRD shareholders are 64 countries, including Russia (4% of the share capital), and two intergovernmental organizations (the EU and the EIB).

Since 2003, the EIB has invested 1.6 billion EUR in projects in Russia and the Bank allocated EUR 1.8 billion only in 2013, and the total investment for all countries is amounted to EUR 8.5 billion. During the first half of 2014 19% of the EBRD's investments were in Russia, although the bank lends to 35 countries. As of 2014 the Bank participated in 792 projects in Russia, having invested a total EUR 24.4 billion.

The amount of European funding programs of cooperation with Russia until 2020, according to European Commission data, is about 450 million EUR. Now the European Union is to reduce it to 275 million or even 98 million EUR depending on the hardness of the solution (Tkachev, 2014). Table 1.2 contains data concerning European funding programs in Russia according to sanctions.
Table 1.2

European funding programs in Russia according to sanctions in 2014, million EUR

<table>
<thead>
<tr>
<th>European funding programs</th>
<th>Sum of investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>European funding programs</td>
<td>450</td>
</tr>
<tr>
<td>European funding programs reduction</td>
<td>98</td>
</tr>
<tr>
<td>Total</td>
<td>352</td>
</tr>
</tbody>
</table>

For the Russian economy it will have a negative impact due to restrictions on cooperation in the most important areas - high-tech, finance, strategic industries. Thus, the embargo on the sale of high technology, for example, during the development of the Arctic shelf, in the long term limits state budget revenues from hydrocarbon exports. In 2014, the share of oil and gas revenues of the federal budget exceeded 50% - the maximum for the post-Soviet economy (The Economist, 2014).

The IMF forecasts a 0.2% increase in Russia's GDP in 2016, which could be related to the decline in oil prices. According to the Central Bank of Russia and the Ministry of Economic Development, in the first half of 2014 capital outflows reached $ 80 billion, while for the year they could exceed 100 billion USD. The imposition of sanctions has worsened the investment climate in Russia.

Estimates of the Ministry of Economic state of the Russian economy have changed as tightening sanctions. In June 2014 the Minister of Economic Development A. Ulyukayev noted that "economic growth seriously goes into the negative plane. Even more negative is the pace of investment, reduced revenues, increased inflation, declining government reserves." In October 2014 he assessed the situation in the Russian economy as "explosive" with inflation of 8.1% and GDP growth of 0.8%.

As for the large-scale import-substitution policies of the state, then the entire validity of the long-term intention to diversify the national economy, shock of import substitution is not possible. It will lead to higher transaction costs, prices and a reduction in private consumption due to lower real incomes of the majority of Russians.

Experts of the Accounting Chamber of the Russian Federation doubted that the Russian enterprises in the agriculture and food industry will be able to fully replace Western products. The potential for import substitution "limited accessibility of available capacities in the food industry." The share of imports in the total amount of individual food products and used in production of raw materials is so high that the limitation of deliveries "could have a negative impact on the consumer price index for food products" (Accountung Chamber of the Russian Federation, 2014, p. 29).
Economic sanctions have negative consequences for Russian partners: the EU suffers from a "boomerang effect". According to the estimates of the independent Internet portal EU Observer, it can cost 0.3% of GDP in 2016 and 0.4% in 2016 (Myard, 2014). According to Deutsche Bank (March 2014), the repetition of an 8 per cent decline in production in Russia, as in 2009, will reduce the already unstable German growth of 0.5% (Granville, 2014).

In the EU, a total ban on the supply to Russia of dual-use goods was first discussed. Then, in September 2014, it adopted a more lenient decision became binding and directly enforceable in all countries - EU members. A list of such products was approved in 1996, the Wassenaar Arrangement 33 countries (including EU Member States and Russia) and consists of 10 categories (The Wassenaar Arrangement, 2012). According to EC data, the export of dual-use goods in Russia is 20 billion EUR per year, but about 80% is intended for civilian use. So the dual-use industry was in a serious crisis in the mid-2000s (Pappe, Antonenko, 2014, pp. 28, 32).

- Formally, the sanctions relate to future investments and shall not affect the implemented investment projects, but the supply of goods for them is difficult. Below there are examples of the suspension of investment cooperation after the introduction of economic sanctions: Energy sector. The French company Total has stopped the implementation of the joint project with "LUKOIL" to develop hard-to-hydrocarbons in West Siberia; frozen the purchase of "NOVATEK" shares, the second largest natural gas producer in Russia. Anglo-Dutch Shell changed the plans to expand the cooperation with "Gazprom oil" for the extraction of shale oil. Italian oil refiner Saras has postponed creation a joint venture with "Rosneft" for the sale of oil and petroleum products.

- Production of dual and military use. French manufacturer of civil and military cargo vehicles Renault Trucks Defense, a subsidiary of the Volvo Group of Sweden, suspended together with the Russian company "Petrel" (included in the corporation "Uralvagonzavod") a development project on infantry fighting vehicle (IFV) "Atom". Italian state holding company Fincantieri suspended a joint project with the CDB for Marine Engineering "Rubin" to develop S-1000 small non-nuclear submarines.

Despite the sanctions, the Advisory Council for Foreign Investments of the Russian government continues to approve the transaction on purchase of shares in Russian companies by foreign investors. So, Abbott Dutch companies are allowed to buy Russian pharmaceutical "Veropharm"; German Blitz - the German company Heat Exchangers (HX) Holding, owned by "GEA Mashimpeks" (heat transfer and energy-saving equipment for nuclear power plants).
Economic sanctions, along with other factors (inadequate infrastructure, problems in the field of demography, education and skills of the workforce, the dependence on the hydrocarbon sector, the lack of internal and external investments, weak institutions, an unfavorable business climate) have contributed to the decline in long-term sovereign and credit Russian rating. Leading rating agencies have left the country ratings at a level close to a negative outlook. In this situation, the participation of foreign investors in the important project for Russia is possible only under the condition of guarantees and support of the state, on the basis of public-private partnership.

Analysis of the economic sanctions of the state policy leads to the following conclusions:

- History of the Cold War period is repeated in the more difficult for the Russian conditions of globalization. At the same time the country's economy, as well as a decade ago, preserves raw specialization, which leads to instability of the economy.

- Russia is practically nothing to oppose the EU countries in the war of economic sanctions. And it's not just the size of economies. During the period of high prices for hydrocarbons it has missed the opportunity to modernize the archaic industrial structure, unacceptable for a country that aspires to membership in the OECD (however, the process of making Russia into this international organization is suspended).

- It is wrong to underestimate the cumulative effect of economic sanctions. By this instrument the United States resort policies, Canada, Australia and EU countries are Russian major economic partners. However, the geopolitical economic interests can be determined if the maintenance of the sanctions will lead to a negative growth dynamics.

It should be emphasized that the sanctions that worsen the situation in the Russian economy, do not make the primary cause of its current state. The old economic model has exhausted itself, but a way out of this situation is not in the mobilization, but in market model, using tools of fiscal and monetary policies, mechanisms of partnership of the state and private capital.

1.3. Macroeconomic situation: structural slowdown

After the crisis of 2009, the Russian economy is far deviated from the pace of development, which has been provided for the "Strategy 2020". This framework document is a basic orientation of macroeconomic policy for 2010-2020, it was designed in 2007 by a team of experts commissioned by the Government. It contains three possible scenarios of development of the Russian economy. The most favorable based on the plan of modernization, it is expected a significant increase in investment compared with the average level (30% of GDP, instead of 20%). This was to ensure the growth of factor productivity by 5-10% per year and thus support
GDP growth of 6-7% annually. In these conditions to 2030-2040's Russia would be able to catch up with Western countries in terms of life (www.cbr.ru).

However, it was not possible to implement this scenario. As a result of the global financial crisis, Russia's GDP drop in 2009 was 7.8%, although the fiscal stimulus was equal to 11% of GDP. The ensuing jump, which contributed to the rapid growth of world prices for raw materials, does not allow to return to the planned growth. Growth in 2010 was 4.5%, in 2011 - 4%. In 2012, the first signs of a new slowdown (+ 2.5%), and in 2015 this trend was confirmed at - 1.3% (Figure 1.1).

![Fig. 1.1. Changes in GDP growth of Russia, 2009-2015 (CBR, 2016)](image-url)

By the beginning of 2014 the total backlog from the targets set in the "Strategy 2020" reached 25% of GDP. Growth plans for 2014 have been clearly insufficient to return to the original intent, even with their adjustments to the side of slowdown (Institute of Economic Forecasting, 2014). But most importantly, the fixed trend showed the system slowing down as growth in core resources was clearly exhausted.

Unified explanation of the reasons for this slowdown does not exist. Some analysts speak of it as a temporary phenomenon, while others insist on the structural nature of the problem. First explain the deceleration characteristics of Russian economic policy: in particular, we are talking about the monetary policy of the Central Bank, which is supporting the high base rate and a relatively stable exchange rate, restraining the growth of total demand (Sapir, 2014, p. 106-107). Other studies focus on fiscal policy, which would limit the state budget deficit by over-protection of structural funds by limiting spending, while postponing the realization of large infrastructure projects and thereby limiting the growth of GDP (Shirov, 2014).

Without denying the importance of these factors for the economic situation, we give priority to the structural explanations. Analysis of the exhaustion of extensive growth resources
(economically active population, the fixed capital, the number of hours worked) and what might be called "import growth" (growth caused by the increase in world oil prices), allows to say that the main obstacle is the following: it is extremely difficult to increase productivity on an ongoing, systematic basis. In this case only the specified productivity growth will increase the number of branches, providing both export earnings and tax revenues. Now their number is very limited. This analysis leads to the conclusion that public investment and monetary policy alone can not reverse the steady trend mentioned. The main task is to integrate into the system of relations of production, new technologies and management techniques that will help to modernize the means of production. Hence, the necessity of a coherent policy to stimulate private investment, both domestic and from abroad is obvious (Vercueil, 2014a, 2014b, 2014c).

An important consequence of the insufficient pace of modernization of the Russian economy is that the economic situation is still highly dependent on factors beyond the control of the government. As an example, there are two variables: the price of a barrel of oil and the economy of the European Union, the main economic partner of Russia. Simple econometric analysis of quarterly data for the 2002-2013 shows that the combination of these two variables causes fluctuations in Russia's GDP on the 75% of growth (Vercueil, 2012). Figure 1.2 illustrates deviation of GDP within the period 2002-2013.

![Figure 1.2. Deviation of GDP within the period 2002-2013, billion RUB. (CBR, 2014)](attachment:image.png)

Thus, in early 2014 the prospects for long-term growth of the Russian economy did not look too bright. International organizations estimated the average annual growth of 2-3% instead of 5-6% needed to enter the initially set parameters (IMF, 2013; OECD, 2014; World Bank, 2014). That Ukrainian crisis erupted in that situation.

In itself, the fall of the ruble does not necessarily have a negative impact on the Russian economy. Of course, in the short term, it worsens the situation of economic operators, because it reduces the possibility of purchases abroad and reduces the international assessment of their
assets, calculated in rubles. At the same time, it increases the competitiveness of goods produced in the country, and thus provides the basis for economic growth, as it did in 1998-1999 (IMF, 2014, p. 14).

Finally, economic agents may anticipate some of these changes. Then the uncertainty about the future makes to postpone the most of the income, which contributes to the increase in bank interest rates. In such an economy, like Russia, where consumption is the main growth engine (Vercueil, 2014a), the index of consumer confidence has become an important factor in the economic environment. If it is reduced, it becomes the root cause of slow in growth, which increases the effects of the devaluation. Since March 10 2014, the combination of these "secondary" factors forced the Institute of Economies in Transition at the Bank of Finland (BOFIT) to lower the forecast of Russian economic growth by 1 point (Rautava, 2014, p. 5).

In fact, the main problem is how the country's economy is ready to respond to the devaluation and changes in monetary policy: if the elasticity on imported goods is high, the price increase causes the rise of the national production, and the overall effect is positive. Otherwise, such a price increase will cause an additional blow to the national income, maintaining inflation, but not stimulating the development of production. In addition, the increase in interest rates caused by pressure on the ruble reduces the overall demand in the sphere of consumption and investment. This not only reduces the effects of inflationary factors associated with devaluation, but also reduces the demand for domestic production. Therefore, the overall economic effect at this stage may result.
2. Analysis of present economical agenda in Russian Federation

2.1. The economic consequences of the Crimea annexation

The economic consequences of the annexation of the Crimea can be clearly divided on "primary" effects caused by the immediate reaction of economic agents to changes in the geopolitical situation and "secondary" effects - indirect consequences of this reaction.

The sharp increase in tensions in the region that regional leaders declared according to independence from the Crimea in Ukraine, was the reaction on the accession of Russia, as Vladimir Putin received from Parliament the resolution on the use of the Russian army on the territory of Ukraine – it all significantly increased the level of geopolitical uncertainty. The first obvious consequence has been a fourfold increase in the export of capital from Russia in the first quarter of 2014: the beginning of April it amounted to 51 billion USD, including 20 billion USD in hard currency, which acquired the non-bank agents (IMF, 2014, p. 14). This process was accompanied by a sharp drop in the index of the Moscow stock exchange, which is highly dependent on international capital movements. Only in the March 3, 2014, the MICEX index lost 13.8% (i.e. 60 billion USD) against the background of a threefold increase in the volume of transactions. Trades in many currencies have been suspended since the fall of the day has exceeded 20%. Capital flight and the collapse of the stock exchange warmed stir in the foreign exchange market, and aggressive play against the ruble was stopped only with the help of large-scale interventions of the Central Bank: 11.3 billion USD were sold on March 3, 2014 which was close to the record registered in the midst of the financial crisis five years ago (19.01.2009, 15 billion) (World Bank, 2014, p. 24).

However, these interventions have failed to halt the decline of the ruble: in the first quarter of 2014 the Russian currency has lost 8% of its value against major world currencies. All this is explained the increase in the key rates of the Bank of Russia from 5.5 to 7%, as occurred on March 3, 2014. By the end of April 2014 it rose to 7.5%, and by the end of July - up to 8%. This increase was dictated both by speculation against the ruble (by overvalued sale of foreign currency), and the need to fight against inflationary pressures caused by the rise in price of imported goods (IMF, 2014, p. 14). Figure 1.3 provides information concerning changes of prime rates of Bank of Russia.
At the same time the Central Bank of the Russian Federation hoped that the impact of such an increase on the structure of interest rates on deposits will keep the country's capital.

### Table 2.1

<table>
<thead>
<tr>
<th>Date</th>
<th>Key rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 03.03.2014</td>
<td>5.5%</td>
</tr>
<tr>
<td>03.03.2014</td>
<td>7.0%</td>
</tr>
<tr>
<td>28.04.2014</td>
<td>7.5%</td>
</tr>
<tr>
<td>28.07.2014</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

In the first half of 2014 consumption and investment reacted in the opposite way. Consumption continued to grow, although more slowly than before (according to Rosstat, the average of 2% in the first quarter of 2014), which helped to offset the decline in investment volume (-2.8%) and avoid a recession. At the same time devaluation of the ruble has been alleviated by efforts to replace imports, along with export growth slowing domestic trade provided a positive impact on economic growth.

In general, the economic conditions in the first quarter of 2014 withstood the worsening geopolitical situation and the GDP growth in this period was estimated at 1% per annum (Institute of Economic Forecasting, 2014). At the same time there was an increase in inflationary factors, the growth of consumer prices at an annual rate increased to 8% (the target set by the Central Bank at the end of 2013, equal to 5%) (CBR, 2013). In the context of weak growth the
increase in inflation is a bad sign, as it shows the profound differentiation in relative prices, i.e. the growth of disparities in living standards of different segments of the population.

This disparity is also seen in the difference between the situations in different sectors. While agriculture has demonstrated a positive trend in the automotive industry, which has become a symbol of the strengthening of the Russian economy in the 2000s, in the first quarter showed signs of decline: sales decreased by 7% (Institute of Economic Forecasting, 2014).

Every month the annual forecasts for this market decreased, and its leader, "AvtoVAZ" reduced 11,000 employees from January to July 2014 and announced a reduction of a further 25,000 jobs by 2020. In view of the chain reaction, extending to suppliers of the company, a sharp collapse of automotive production in Russia will inevitably have a negative impact on the most dynamically developing processing industry and soon will cause social problems in the industrial regions (Middle Volga Region, St. Petersburg, Kaluga, a number of districts of the Moscow Region) in the conditions of growing inflation.

After the Crimean crisis, when elected president of Ukraine Petro Poroshenko has not demonstrated an explicit desire to reconquer the peninsula, there was the feeling that the tension beginning to subside (Larks, 2014a). Geopolitical uncertainties diminished and financial markets trends gradually turned to July 2014 (see. Figure 2.1).

Figure 2.1. Periods of uncertainty: MICEX and the ruble exchange rate in 2014 (CBR, 2014)

MICEX index is weighted by the market capitalization of the composite stock index comprising the 50 most liquid stocks of the largest and most dynamically developing Russian issuers, economic activities which are the main sectors represented on the Moscow stock exchange. However, in May 2014 the escalation of armed conflict in the Donbass began, and its impact on the economic situation was the same as that of the March events.
It’s evident form the data listed above that there is a connection between the economy’s situation and Russia’s foreign policy. Crimea crisis as well as sanctions have reduced the Micex index and the ruble exchange rate in 2014 that influenced the economic situation in Russia.

2.2. Sanctions and contra sanctions: slowing growth and stagflation

The chronology of international events related to the Ukrainian crisis is divided into three main periods, each of which can be broken down into many individual steps, depending on their impact on the financial markets: from January to May-June, the main role is played by the uncertainty caused by the situation Crimea (1 cycle). From June until the end of August, the main problem is the situation in the Donbass (2 years). Since September, in the minds of market participants the problem of the economic impact of sanctions begins to dominate (3 years).

First, the financial markets are ruled by the uncertainty caused by the current events. Tension is growing, and the market is ready to respond to sharp throw (1.X steps on the chart 1). The impetus for the implementation of this anxiety becomes a decision or an event, followed by the flight of capital. Such a movement is reflected in the fall of MICEX Index and the depreciation of the ruble (crises X on the chart 1). The third stage is the emergence of positive expectations when participants return to the market, hoping to regain some of the lost positions, which changes the direction of movement in the market (2.X steps on the chart 1).

Chronology of sanctions on Russia, adopted by the OECD countries (as of October 2, 2014) is as follows:

- March 17: Canada, the United States and the European Union (EU) banned a number of Russian politicians and the Crimea to enter its territory. Japan suspends talks on visas, military cooperation and investment. Australia introduces financial sanctions against a number of Russian officials and prohibits them from entering.
- April: Albania, Iceland, Montenegro and Ukraine join the EU sanctions.
- April 28: US banned transactions on its territory 17 Russian companies and a host of Russian officials. EC prohibited the entry of 15 more Russian officials.
- July 17: US banned on funding for more than 3 months for the "Rosneft" and "Novatek" company, Gazprombank and Vnesheconombank.
- July 24: Canada extended sanctions on Russian military-industrial companies, energy and financial sectors.
- July 25: The EU extended its sanctions for another 18 companies and 15 officials.
- July 29: The United States introduced a ban on funding for more than 3 months for the Bank of Moscow and the Russian Agricultural Bank.
- July 30: The EU extended its sanctions for another 8 companies and a number of officials.

- July 31: The EU extended its sanctions on the Russian financial sector. It imposed restrictions on transactions with the military-industrial and energy companies.

- August 5: Japan froze assets of individuals and organizations involved in the separation of Crimea from Ukraine. EBRD froze the funds earmarked for new projects in Russia. Also the European Investment Bank entered.

- August 12: Norway joined EU sanctions against Russia.

- August 14: Switzerland distributed imposed sanctions after the annexation of the Crimea for another 26 persons. Sberbank, VTB, Vnesheconombank, Gazprombank and Rosselkhozbank needed special permission to access long-term financing in Switzerland. Ukraine imposed sanctions on another 172 people and 65 companies and organizations.

- August 28: Switzerland joined EU sanctions against banks.


- September 24: Japan prohibited Sberbank, VTB, Gazprombank, Rosselkhozbank and VEB to place securities in the territory of Japan, as well as tightening restrictions on arms exports to Russia.

The impact on the financial markets is enhanced by the fact that since 2006 Russia has not applied any significant restrictions of capital movements. Taking into account the size and structure of the country's financial markets in the past there was a strong impact on the prevailing mood of the capital market (Vercueil, 2014a; Ministry of Finance of Finland 2014). Capital flight has slowed in the second quarter as a result of some relaxation of tension, as well as seasonal factors, But the expansion of sanctions in the financial sector followed in July led the researchers (Dolgin, Orlova 2014) to ask two questions about the reaction of the financial circles:

- What is the investors' attitude to all Russian companies ("to what did not work"), or whether they will hold the line between fallen under sanctions and all other businesses? At first, the Western banks apparently "sheared one size fits all", but after waiting four weeks, they resumed financing of some Russian companies.

- Will Russian companies be able to quickly and at the same rates access to Asian capital markets or other sources of funding? Although the reorientation of the economy connected with Asia has been declared by the Russian leadership and spur the events in March 2014 no historical ties with the Asian financial markets complicates this task. Except for prepayments received by "Rosneft" from the Chinese partners, such a change requires time and current
financial liabilities of Russian companies do not give such time in the majority of cases. Until this problem is resolved, the company that it affects, in the search for alternative sources of funding will be treated to the state.

After another tightening financial sanctions from Western countries, which took place in September 2014, the risk of a credit crunch that intensified capital flight and triggered a new fall of the ruble has increased (Figure 1, Step 1.3, and crisis 3). The fall has reached 20% compared with the rate at the beginning of the year. Some observers estimate the amount of funds needed to compensate for the gradual isolation of the Russian economy from the western capital markets as 150 billion USD. The scale of capital export in July 2014 exceeded the amount planned for this year (IMF, 2014; Dolgin, Orlov, 2014). Russian private companies have to pay 73 billion USD in repayment of their foreign debts (Zlotowski, 2014, p. 6). The fall of the ruble complicates this problem and leads to a new translation of the assets in currencies, supporting the ruble weakening process. In early October, the Ministry of Economy has confirmed an increase in the export of capital and estimated its volume at the end of 2014 at 120 billion USD. This assessment can be very upbeat, if the trend is observed in the first week of October.

The economic and financial stress, which the largest economic entities in Russia are experiencing, forces the authorities to actively intervene in the economy. In June 2014, Vladimir Putin spoke about the need for additional capitalization of "Gazprom" in the amount of 50 billion USD. That was before "Gazprom" for the first time since 2008, reported a loss for the quarter as a result of non-payment from the Ukrainian side.

In late July 2014, Igor Sechin, the president of "Rosneft", asked the authorities to offer five options in order to help his company in connection with the closing of access to western finance. One of these options is assumed that the company will receive from the National Wealth Fund of 41.6 billion USD to repay its foreign debt, estimated at 72 billion rubles. In late August, "Rosneft" and "Lukoil" received loans in Promsvyazbank, one of the largest private banks of Russia, and in early September, the government announced an increase in capital of VTB and Rosselkhozbank at 6 billion USD. In September 22 the Minister of Economy announced that the National Welfare Fund to buy bonds of "Rosneft" in the amount of 2 to 4 billion USD and bonds of "Novatek" in the amount of 2.5 billion USD. At the same time there was the "case of Evtushenkov".

The uncertainty, which for the first time after the signing of the September ceasefire agreement has given way to the hope of improving the situation, again has an impact on the financial markets under the influence of these events, which indicate that in the power of the party supporters enhanced rigid state control over the economy. At the end of September, against a background of regular violations of the ceasefire in the Donbass and the negative expectations
of the financial markets CBR issued a special statement, refuting rumors of a possible imposition of limitations on the export of capital. During the first three weeks of October to support the ruble it took 13 billion USD of foreign exchange reserves, which corresponds to the income from oil export in one month. Rating agencies downgraded government debt rating of Russia, which caused an increase in the spread of rates on euro bonds.

Mainly from Western countries, sanctions have had an impact on the financial markets and the banking system. At first, the macroeconomic effects of the sanctions were negligible due to the gradual introduction of sanctions, as well as measures taken by the Government to compensate them: in the second quarter of 2014, an increase was 0.25%, although GDP was expected to decline. However, developments seemed to justify the pessimistic forecasts, which in the second half of the year were greater than in September. The growth forecast for 2014 ranged from -1% (Ministry of Finance of Finland, in 2014, p. 12) to + 0.5% (Ministry of Economy, the World Bank). The International Monetary Fund expected the quasi-stagnation (+ 0.2%) and COFACE - zero growth (Zlotowski, 2014, p 9.).

The continuing fall in the ruble and contra sanctions imposed by the decree of Russian President on August 6, 2014, stoked inflation. Products the import of which was banned (the list has changed over the summer), covered 30% of the consumption of meat and vegetables and 40% of the consumption of fresh products in Russia. This means that in the short term to find a replacement in the same amount and at the same prices is not succeed, even with supply from Asia and Latin America (the Finnish Ministry of Finance, 2014, p. 10). Deficiency of these products is undoubtedly a temporary, as imports can be substituted by local production, but it will take more time as it is imposed on the inflationary effect caused by the fall of the ruble, which (if the fall continued) is able to drive the Russian economy in the period of stagflation.

Recently a number of analytical works has been published that offered different scenarios of the geopolitical situation of Ukraine, and their consequences for the economy of Russia and the EU - for the individual sectors (Holz et al, 2014; IMF, 2014; Ministry of Finance of Finland, 2014; Zlotowski,. 2014), and in macroeconomic terms (World Bank 2014). It should be noted that the studies on the financial system do not exclude the occurrence of a systemic crisis, which will lead to the declaration of default on bonds of Russia. This is possible in the event of a sharp deterioration in the geopolitical situation, which will lead to a new tougher sanctions (IMF, 2014; Zlotowski, 2014). Now Russia restricts itself to the analysis of economic conditions on several parameters (loans, exchange rate, inflation, investment, consumption, production, the federal budget, employment) within 2016. For this period, three possible scenarios are considered.
The first scenario ("reducing tensions") implies the cessation of hostilities and the diplomatic conflict between Russia and Ukraine on the one hand and Russia and the West - on the other.

The second scenario ("bogged down") is based on maintaining the current situation: a false cease-fire makes the situation in the Donbass in another low-level conflict in Eastern Europe. The armed conflict becomes a positional phase of the front line that may vary slightly, but a full-scale offensive, neither side has not taken. In these circumstances, there is no improvement in the relations between Russia and Ukraine, but sanctions and contra sanctions remain at the same level (at least at the relevant time).

The third scenario ("explosion") involves deterioration of the situation, strengthening the fighting and the subsequent tightening of sanctions by the Western powers. Periodic interruptions in gas supplies create preconditions for the gas crisis in Europe and at the same time deprived "Gazprom" and the Russian Federation of the income. In this case, the escalation of military conflict also causes escalation of diplomatic tensions and economic confrontation.

In Table 2.2, these scenarios are divided into 4 parts. In the first part assumptions about the development of military-political situation are formulated. In the second part, these assumptions apply sanctions in the relevant time period. The third and the fourth parts of the described scenarios of macroeconomic parameters are considered in this study as a variable, depending on external factors. Variable, depending on internal factors, are considered to change with the surplus / deficit and the growth (by achieving a balance of employment and economic resources).

<table>
<thead>
<tr>
<th></th>
<th>Decrease of tension</th>
<th>Bogged</th>
<th>Explosion</th>
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<tbody>
<tr>
<td>Scenarios for the</td>
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<tr>
<td>development of the</td>
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<tr>
<td>situation in Russia</td>
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<tr>
<td>(the end of 2014 –</td>
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<tr>
<td>the beginning of 2015)</td>
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<tr>
<td>Part 1. Changing the military political situation</td>
<td>Decrease of tension</td>
<td>Bogged</td>
<td>Explosion</td>
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<tr>
<td>-------------------------------------------------</td>
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<tr>
<td>A compromise between the Ukrainian authorities and the separatists</td>
<td>Securing positions of conflicting parties</td>
<td>The resumption of active hostilities in the Donbass</td>
<td></td>
</tr>
<tr>
<td>Agreement on the settlement of the situation in the future with the Crimea</td>
<td>Constant violations of the ceasefire agreement</td>
<td>New alleged involvement of the Russian military in the battles in the Donbass</td>
<td></td>
</tr>
<tr>
<td>Normalization Russian-Ukrainian relations</td>
<td>The lack of progress on resolving the situation with Crimea</td>
<td>Western support for the Ukrainian armed forces</td>
<td></td>
</tr>
<tr>
<td>Reducing tensions between the EU and Russia</td>
<td>Reducing tensions between the EU and Russia</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Part 2. Sanctions and counter measures (2015-2016)</th>
<th>The gradual weakening of the western sanctions against Russia, starting with the sanctions against the financial sector</th>
<th>European sanctions remain the same</th>
<th>Extension of sanctions in the energy sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>The gradual withdrawal of the Russian embargo on the import of food products from Western countries</td>
<td>The gradual withdrawal of the Russian embargo on the import of food products from Western countries</td>
<td>European sanctions remain the same</td>
<td>Periodic interruptions in gas supplies to the European countries from the “Gazprom”</td>
</tr>
<tr>
<td>European sanctions remain the same</td>
<td>Russian counter-measures against imports remain at the same level</td>
<td>European sanctions remain the same</td>
<td>European sanctions remain the same</td>
</tr>
<tr>
<td>Part 3: Implications for individual sectors and the economy as a whole</td>
<td>Decrease of tension</td>
<td>Bogged</td>
<td>Explosion</td>
</tr>
<tr>
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</tr>
<tr>
<td>Reducing systemic uncertainty, consumption recovery</td>
<td>Geopolitical uncertainty continues to negatively affect demand</td>
<td>The apparent drop in consumer spending associated with the expectation of deterioration of the situation in Europe and Russia</td>
<td></td>
</tr>
<tr>
<td>Restoration of international demand for Russian raw materials</td>
<td>In the banking sector in Russia is aggravated by the crisis due to lack of foreign loans</td>
<td>The sharp increase in capital flight, the destabilization of the Russian financial system, the bankruptcy of many major banks and companies</td>
<td></td>
</tr>
<tr>
<td>Renewal of access of Russian companies to international credit</td>
<td>The stagnation of production in the energy sector continues slowdown foreign trade trade</td>
<td>To prevent the devaluation of the ruble and due to the inefficiency of raising rates CBR imposes restrictions convertibility of the ruble</td>
<td></td>
</tr>
<tr>
<td>The gradual resumption of direct investments in Russian companies by foreign companies</td>
<td>Continued capital flight and pressure on the ruble</td>
<td>The strong increase in government spending, financed by the issue</td>
<td></td>
</tr>
<tr>
<td>The resumption of imports of food products from Western countries to Russia</td>
<td>The need for a new state. investments in Crimea</td>
<td>The fall in export revenues of major oil companies</td>
<td></td>
</tr>
</tbody>
</table>
| Part 4:  
Quantification of key performance indicators (estimate for the 1st half of 2016 compared with the 1st half of 2015) | Decrease of tension | Bogged | Explosion |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Consumption: recover (from +2 to +7%)</td>
<td>1. Consumption: reduced (-2%)</td>
<td>1. Consumption: drop (-10%)</td>
<td></td>
</tr>
<tr>
<td>2. The State Budget: the former expenses growth rate (+ 5%), stagnation of incomes</td>
<td>2. The State budget: a strong increase in the expenditure side (+ 15/20%), the reduction in income as a result of Economy slowing down (-10%)</td>
<td>2. The state budget: a strong increase in the costs are covered by the issue (+ 20/30%), a fall in tax revenues (-20 /-30%)</td>
<td></td>
</tr>
<tr>
<td>3. The ruble: vosstanavl ivaetsya (+ 15%)</td>
<td>3. The ruble: reduced at the same rate as in 2015 (-10 / -20%)</td>
<td>3. The ruble: a sharp decline (outflow of capital: 10% and the collapse of foreign direct investment) to impose restrictions on the conversion (-20 / -30%)</td>
<td></td>
</tr>
<tr>
<td>4. Key Rate: Returns to pre-crisis level (+ 5.5%)</td>
<td>4. Key Rate: CBR is still under pressure (8-9%)</td>
<td>4. Key Rate: sharp rise, then the introduction of restrictions on ruble conversion (10-15%)</td>
<td></td>
</tr>
<tr>
<td>5. Investments: stagnation (+ 0%)</td>
<td>5. Investments: Acceleration reduction compared to 2015 (5%)</td>
<td>5. Investments: sharp drop caused by the increased uncertainty (-20%)</td>
<td></td>
</tr>
<tr>
<td>6. Import: a return to pre-crisis growth rates (+ 4%), export remains the same (+ 0%)</td>
<td>6. Import: drop caused by the fall of the ruble and restrictions (-10 / 15%), export: decline (-5%)</td>
<td>6. Import: strong decline due to restrictions (-20 / -30%), the same exports (-20%)</td>
<td></td>
</tr>
<tr>
<td>7. Inflation: 2013-2015 level is maintained, because it supports demand and limited supply (+ 8%).</td>
<td>Inflation: a slight increase caused by limited supply and a drop in the ruble (8 + 10%)</td>
<td>7. Inflation: a sharp increase, despite the partial regulation of prices (from +20 to +25%)</td>
<td></td>
</tr>
</tbody>
</table>

Assumptions about the performance, depending on external factors, allows to model the parameters of GDP and deficit / surplus budget in each of the three scenarios. In this study, it is assumed that export revenues will be provided with the same prices in the international market, which in itself is debatable. The last column in Table 2.3 offers a variant in which a barrel of oil, the average price in 2014-2015 will be 80 USD. Net decrease in export revenues will be in this case, from 65 up to 85 billion USD depending on the scenario. The consequence of this will be further pressure on the exchange rate and financial sector stability.
Table 2.3

Macroeconomic effects of the three scenarios and reduce the price of oil: 2016

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Investment volume</th>
<th>Deficit/Proficit of the budget (% of GDP)</th>
<th>GDP</th>
<th>The loss of export earnings at an oil price of $ 80 / barrel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease</td>
<td>+ 2%</td>
<td>-2%</td>
<td>+ 3%</td>
<td>-80 bln.USD</td>
</tr>
<tr>
<td>Bogged</td>
<td>0%</td>
<td>-5.5%</td>
<td>+ 1%</td>
<td>-75 bln.USD</td>
</tr>
<tr>
<td>Exposition</td>
<td>-6%</td>
<td>-14.5%</td>
<td>-3%</td>
<td>-65 bln.USD</td>
</tr>
</tbody>
</table>

At the moment the government has a enough of money which is available to combat the effects of sanctions and contra sanctions: CBR reserves are still considerable (Figure 2.4), it is possible to use the reserve fund, the public debt is low to support the most vulnerable sectors of the economy.

Figure 2.4. Required reserves and the average size of required reserves (CBR,2015)

These trump cards allow the government to temporarily offset the effects of the growing isolation of the national economy. However, given the structural features of the Russian economy, in whatever form they are expressed, it can be argued that the policy runs counter to the economic cycle, will not have a long-term effect on economic growth in the country, if it is not backed up by restoration of business relations with the Western world.
Today’s agenda shows there is significant need for structural modernization of Russian economic: in the medium term, taking into account the weak demographic growth, high levels of employment and lack of investment over the last twenty-five years, the return to potential growth rates of 5 to 7% per year can be achieved only through a rapid update fixed assets and skills of the workforce.

These two parameters provide productivity gains. Here lies also reserve for a potentially significant growth for Western companies, which could participate in this modernization. Of course, the Russian economy can resume rapid and sustained growth in the medium term, and because of its influence in the region to carry along all neighboring countries in the coming years. But a prerequisite for the realization of these prospects is a peaceful and lasting settlement of the Ukrainian conflict.
3. Areas of optimization of economic development of Russia in the conditions of sanctions

3.1. Internal critical opinion of experts: direction of development of the situation in 2016 in Russia

In this chapter the internal critical approach is overlooked concerning the situation in 2016 in Russia. There will be adduced opinion of the main figures on Russian economic «chess board», those like German Gref (the president of one of the biggest bank in Russia – Sberbank), Aleksey Kudrin – ex-minister of Finance in Russia and others.

In answering the question how sanctions reflected on Sberbank activity, German Gref said that here played a role rather than the sanctions themselves, but the panic they generated among the bank's clients. The news of the sanctions caused panic, millions of messages on the termination of cooperation with Visa and Mastercard. One superimposed on the other: Western sanctions, the fall in oil prices, recession, raising the refinancing rate, the internal problems of the Russian economy (News Agency Inosmi).

In December 2014 investors withdrew 1.3 trillion rubles. Sberbank has survived this crisis. In 2015, the bank's profit was 25-30% lower than in 2014. In 2016, the recession will continue, but it will be significantly less than 4% from the level of 2015. 2017 will be a better profit of Sberbank and it will start to grow again if no other bad news will be provided.

The share of loan debts is 3%, but it is lower than the average market value in the amount of 7%. Sberbank had to increase reserves. Whatever it was, for the first half net profit amounted to 1.5 billion USD. None of the European investors did not give up their capital share in Sberbank. In 2015, German Gref had a meeting with investors in London, because the bank had to be revised downwards objectives presented in the 2014 five-year plan: the bank will not be able to double profits by 2018, as it as expected, but still predicts a growth of at least 80%. Sberbank is waiting for tremendous work for the new reforms, which will be even bigger that have been implemented for eight years.

The main problem in the modernization of Sberbank as a result of the impact of sanctions was the selection of employees. Change in technology is meaningless if the culture of the enterprise remains the same. Sberbank invested 3 billion USD in the technological platform: 80% of used Sberbank technologies are internal product development. The bank branch was upgraded. In July 2015 the Bank completed the centralization of computer systems. Parallel to this, a deep modernization of the management system was carried out. Departments clearance operations have been reduced from 59 000 to 15 000 employees. 40 000 of them were transferred to work with clients. In Sberbank 33 000 accountants worked before the crisis. Now there are 1 600. The volume of bank transactions has increased five times in eight years, and the bank began to work in new areas (News Agency Inosmi).
Thus, the bank did not previously have a risk management system. It made the system and now it meets international standards. Sberbank has developed online services that currently account for 26 million active customers and a monthly draw of at least 800 000 new users. Finally, Sberbank has been partially privatized. The Central Bank still retains control of 50% of the shares, but it is possible to realize a further 25% of shares.

As a result of the impact of sanctions Sberbank moved to modern rules of management: motivation results, continuing education, management of processes and projects, ratings.

The main problem in Russia, according to G. Gref, is that it is not possible to carry out reforms in the economy. But first the management system needs to be changed. Without this reform, others measures simply can not be effective. Russia inherited it from the Soviet system and all that was created in the 1990s after the collapse of the USSR. In Russia, there is still no effective sample of modern government. In France and Germany, the system is better than in Russia, but they are far from perfect. Attention should rather be paid to Singapore, New Zealand, Malaysia, Sweden, Finland, the UK.

After the imposition of sanctions Sberbank froze expansion and investment in Europe. It was a heavy blow for the bank. As a result Sberbank is now working more with Chinese partners. The volume is still small, but is constantly growing. In any case, Europe will be the main partner of Russia and Sberbank.

Sberbank has not stopped international activities and has not given up plans to expand, particularly with new technologies. After the lifting of sanctions Sberbank will return to them.

Today Sberbank is the third-largest bank in Belarus, Kazakhstan (and Ukraine), the sixth in Turkey. Germany, France and Britain are interesting markets for Sberbank. For eight years the regulatory system has changed a lot in Europe, new regulations are constantly introduced. Bank is primarily a trust that Sberbank must be able to manage.

Sanctions generally adversely affect the operation of the Russian economy, they caused the reduction of GDP by about 1.5%, says the head of the Committee of Civil Initiatives (CCI), ex-Finance Minister Alexei Kudrin (www.ria.ru).

He admits that in the manufacture of certain products Russia has made progress in terms of import, while in other areas this does not take place.

"I've always expressed the opinion that the sanctions greatly complicated the work of our economy. GDP is about 1.5% lower than we expected without sanctions. That magnitude of the devaluation that occurred is related to the oil prices and sanctions. Therefore, the sanctions have mainly a negative impact on our economy, they could influence some industries and the actual devaluation of many branches, but so far the results are either absent or rudimentary,"- Kudrin told journalists during the third All-Russian civil forum in November 2015 (www.ria.ru).
He noted that according to government estimations, in the production of weapons Russia has already carried out some import substitution.

"I do not see it in the figures on the economy assuming that in the manufacture of certain products, we have been replacing or are in this state, in other areas this does not take place even, unfortunately, in agriculture. The reasons are not always sanctions, they are the following: the difficulty of access to credit, regulation in this area ", - said ex-finance minister (www.ria.ru).

According to Kudrin, the Russian economy has to adjust to the price of oil at 60-80 USD per barrel, as TASS reports. He noted that the government has allowed itself to form the budget at a price of 100 USD per barrel. According to the forecast of Kudrin, the coming years will be difficult. He noted that the price of oil in the 100 USD and up was a crazy price.

According to him, within the next two years, oil will cost about 60 USD per barrel. The former head of the Ministry of Finance suggests that due to the current situation, imports declined by 40%, and reduced opportunities for economic growth of Russia (www.ria.ru).

A. Kudrin also made a partial lifting of sanctions in late 2016 - early 2017. "I have a feeling that if we consistently fulfill Minsk agreements it can positively affect the Syrian situation. By the end of the year or early next year it will be a partial withdrawal or reduction of sanctions. This is my prediction ", - said Kudrin, speaking to students at the Northern Arctic Federal University in Arkhangelsk on March, 2016 (Information Agency Regnum).

Professor of University of Finance Ilya Buturlin did not agree with the former Finance Minister Alexei Kudrin, who admitted that the economic sanctions against Russia may be partially removed by the end of 2016 - beginning of 2017. "In my opinion, for the lifting of sanctions must be one of the following conditions. First. Return the territory of Crimea Ukraine, which is a priori impossible, since it would be the collapse of the existing political power in Russia. Second. The change of policy in Europe, for example, as a result of new elections the chancellor in Germany. Third. Strengthening of the economic crisis in Europe, in this case, the EU leadership will have to lift the sanctions, because Russia is one of the key partners. For these reasons, at the end of the year should not expect the lifting of sanctions against Russia, "- said the correspondent of IA REGNUM Buturlin (Information Agency Regnum).

Senior analyst at Alpari Vadim Iosub believes that Kudrin's words should not be regarded as a promise of lifting sanctions, but only as a reminder, on which the process is depended (Information Agency Regnum).

"The ex-minister, apparently, pins hopes on facilitating the success of the sanctions regime with the implementation of the Minsk agreements, but recent progress in this regard has been stalled. On the one hand, it was possible to stop the acute phase of the conflict, on the other - there has been a regression in the matter. As for the prospects of elections and the transfer of
control of the border to the Ukrainian authorities - the parties can not understand how this can be done, and in what order, "- said Iosub (Information Agency Regnum).

According to him, expectations of Kudrin should be understood in the following way: "There will be carried out by the Minsk agreement - can be expected to mitigate the sanctions regime that will not be executed - their reduction is not worth waiting. But how much should be expected progress in the implementation of these agreements, does not undertake to predict with certainty any incumbent politician ", - added the analyst (Information Agency Regnum).

As the head of the analytical department of Grand Capital Sergei Kozlovsky supposes, the lifting of sanctions is discussed in the last two quarters, however, beyond words it does not go. Kozlowski doubted that sanctions would be lifted in the near future, as American influence on European foreign policy is still high, and yet the deterioration of Russia's relations with the EU for the benefit of, perhaps, only the US, rapidly shifts in this direction (Information Agency Regnum).

Senior Analytical columnist Robert Novak urged to remember that there are two sets of anti-Russian sanctions - "Crimea" and "Donbas". Yes, they are not very well structured, and in the West, some politicians sometimes call more strictly define which sanctions were imposed for joining the Crimea, and which - in connection with the crisis of Donbass. Nevertheless, there are two causes of sanctions (Information Agency Regnum).

"It is obvious that" the Crimean package "of sanctions is long. Sanctions of this kind can persist for decades. Their quick cancellation is possible only in the case of the return of the Crimea in the Ukraine. As for the "Donbass package", I agree with Kudrin that its abolition depends on the implementation of the Minsk agreements. That is, if in the course of the year on the territory of the self-proclaimed DND and LNR local elections will be hold, which will be recognized by the Ukrainian authorities, the area will be reintegrated into the Ukrainian state and Ukrainian armed forces will regain control of the Russian-Ukrainian border in the Donetsk and Lugansk regions, the "Donbas package" of sanctions, of course, will be canceled. But I doubt very much that the conflicting parties fail to agree on the format of the election - they have very different approaches to this issue. Therefore, I don’t expect the lifting of sanctions by the end of the year ", - said Novak (Information Agency Regnum).

General Director of the analytical community ThetaTrading Dmitry Ederman added that, in the case of the lifting of sanctions, the markets will react to immediate growth. However, he also wonders that sanctions may be removed. "If it is a partial lifting of the embargo of the product or some other less significant limitations, of course, it will be only positive dynamics and economic growth that can not be followed. The most important factor that constrains us is the restriction on funding in foreign markets. After the removal of these barriers there will be the
potential significant economic recovery and this scenario is unlikely, "- concluded Ederman (Information Agency Regnum).

### 3.2. The development of measures to minimize the negative impact of sanctions

In 2015, the economic situation has worsened compared to the year 2014. In January-May 2015 (in relation to January-May 2014) GDP fell by 3.2%, investment in fixed assets - by 4.8%, industrial production - by 2.3%, real disposable income - by 3.0% (www.cbr.ru).

On the base of the conducted analysis SWOT analysis for Russia can be executed (Table 3.1).

<table>
<thead>
<tr>
<th>SWOT analysis for Russia</th>
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<tbody>
<tr>
<td><strong>S</strong> In 2015 - 2018 years the trade balance will remain in the positive zone and grow To minimize unbalanced budgets of the budgetary system of the Russian Federation threats need to continue to use &quot;conservative&quot; variant of socio-economic development of the Russian Federation to identify the main characteristics of the budget high credit growth over 2015 - 2018 years, which allows to support the recovery of investment and reduce the rate of net savings of the population in 2016</td>
</tr>
<tr>
<td><strong>O</strong> High elasticity of prices on imported goods the rise of the national production To prevent the devaluation of the ruble and due to the inefficiency of raising rates CBR imposes restrictions convertibility of the ruble Reducing systemic uncertainty, consumption recovery Restoration of international demand for Russian raw materials Renewal of access of Russian companies to international credit The gradual resumption of direct investments in Russian companies by foreign companies The resumption of imports of food products from Western countries to Russia A compromise between the Ukrainian authorities and the separatists Agreement on the settlement of the situation in</td>
</tr>
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</table>
the future with the Crimea
Normalization of Russian-Ukrainian relations
The gradual weakening of the western sanctions against Russia, starting with the sanctions against the financial sector

Macroeconomic indicators used in the preparation of draft federal budget for 2016 - 2018 years, should differ significantly from the figures underlying the formation of the federal budget for 2015 and the planning period of 2016 and 2017 (Table 3.2), because they do not take into account changes that have occurred in the second half of 2014 (including occurred in the IV quarter 2014 decline in oil prices, the weakening of the ruble, the acceleration of the growth of consumer prices).

Table 3.2

The main macroeconomic indicators for 2016 and the planned between 2017 and 2018

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Forecast</th>
<th>Forecast</th>
<th>Forecast</th>
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<tbody>
<tr>
<td>The price of oil &quot;Urals&quot;</td>
<td>100</td>
<td>50</td>
<td>100</td>
<td>60</td>
<td>65</td>
<td>100</td>
<td>65</td>
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<tr>
<td>USD.</td>
<td></td>
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<tr>
<td>Gas prices (average contract including the CIS countries), USD. / thousand, cu. m</td>
<td>289</td>
<td>208</td>
<td>282</td>
<td>179</td>
<td>278</td>
<td>208</td>
<td>225</td>
</tr>
<tr>
<td>GDP billion rubles</td>
<td>77 498</td>
<td>73 119</td>
<td>83 208</td>
<td>82 689</td>
<td>90 063</td>
<td>91 050</td>
<td>99 572</td>
</tr>
<tr>
<td>GDP growth,%</td>
<td>1,2</td>
<td>-3,0</td>
<td>2,3</td>
<td>2,3</td>
<td>3,0</td>
<td>2,3</td>
<td>2,4</td>
</tr>
<tr>
<td>Investments, billion rubles</td>
<td>14 442</td>
<td>12 650</td>
<td>15 356</td>
<td>14 714</td>
<td>16 526</td>
<td>16 037</td>
<td>17 576</td>
</tr>
<tr>
<td>The volume of imports (circle goods accounted FCS of Russia), in billions of US USD</td>
<td>299,2</td>
<td>182,3</td>
<td>305,5</td>
<td>221,8</td>
<td>316,6</td>
<td>235,5</td>
<td>248,6</td>
</tr>
<tr>
<td>The volume of exports (circle goods accounted FCS of Russia), in billions of US USD</td>
<td>494,2</td>
<td>333,8</td>
<td>498,2</td>
<td>376,5</td>
<td>507,3</td>
<td>402,2</td>
<td>431,0</td>
</tr>
<tr>
<td>Profit profitable organizations, billion rubles</td>
<td>13 955</td>
<td>14 345</td>
<td>14 725</td>
<td>20 245</td>
<td>15 990</td>
<td>22 375</td>
<td>24 675</td>
</tr>
<tr>
<td>Inflation (CPI),% to December of the previous year</td>
<td>5,5</td>
<td>12,2</td>
<td>4,5</td>
<td>7,0</td>
<td>4,0</td>
<td>6,3</td>
<td>5,1</td>
</tr>
<tr>
<td>Dollar, rubles per US dollar</td>
<td>37,7</td>
<td>61,5</td>
<td>38,7</td>
<td>56,8</td>
<td>39,5</td>
<td>54,5</td>
<td>53,2</td>
</tr>
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The macroeconomic forecast baseline scenario assumes a slight acceleration of global growth (from 3.4% in 2015 to 3.6% in 2018).

The US economy will be characterized by an improvement in the labor market and an increase in consumer demand, but the limiting factors will serve the growth of the US Federal Reserve's base rates and the dynamics of demographic processes. So, the US economic growth will decline from 3.1% in 2015 to 2.7% in 2018.

The euro zone economy will grow in the range of 1.3-1.4% annually. The major limiting factor will be the high level of unemployment. This stimulus will have a monetary policy of the European Central Bank.

The Chinese economy will continue to slow down: from 6.8% in 2015 to 6.0% in 2018.

The baseline scenario assumes a continuation of the US sanctions and the European Union with regard to Russia and from Russia contra sanctions throughout the forecast period. Consequently, the Russian economy will develop in conditions of limited access to international capital markets, preservation of capital outflows.

The annual average price of crude oil "Urals", forming the basis for the formation of the federal budget, will be 50 USD in 2015, US per barrel (compared to US 100 USD per barrel in the forecast of 1 December 2014) and by 2018 will grow to US 70 USD per barrel.

Despite the geopolitical tensions and the relatively low level of oil prices, already the resumption of economic growth is projected in 2016 (at the level of 2.3-2.4% per year).

Also restart the growth of industry and real disposable income, which will contribute to increased investment activity and consumer demand. The rate of accumulation will increase from 16.8% of GDP in 2015 to 20.7% of GDP in 2018, as domestic demand for 2016 - 2018 years will grow by 11.1% against a decline of 9.5% in 2015.

Industrial production in 2016 - 2018 years will grow at 1.5-1.9%, after falling in 2015. Manufacturing, as in previous years, will grow faster than the production of fuel and energy complex. The greatest rates of growth in the consumer industry complex of engineering industries - production of vehicles and equipment from the intermediate demand sectors - chemical production.
Consumer price level under the influence of the weakening of the ruble and food contra sanctions accelerated during the I quarter 2015 and amounted to 16.9% year on year at the end of March. However, beginning with the II quarter of 2015 started to slow down price increases, which will occur before the end of the year. According to the current Ministry of Economic Development of Russia in the end of 2015 consumer prices will increase by 11.9%, and inflation will fall to 5.1% by 2018.

The medium-term forecast has slowed the share of retail trade turnover in GDP, that is, it is assumed weakening of the overall economic impact on the dynamics of domestic consumer demand, which is a major factor in sustaining economic growth.

At the same time to reduce the share of retail trade turnover to GDP ratio will affect the fall as real disposable income in 2015 (-7.8%), followed by a moderate increase in 2018 at a rate of 2.8%, and real wages in 2015 year (-9.8%), followed by growth in 2018 (+ 4.2%). Living standards will be characterized as increasing the overall level of unemployment in the face of declining business activity in the economy. At the same time unemployment is unimportant (6.0% in 2015 against 5.4% in 2014) and a decrease in 2018 (5.7%).

External economic conditions in 2015 are characterized by a significant decline in oil prices and a decrease in the consumption possibilities of Russian buyers of imported products.

In 2015 - 2018 years the trade balance will remain in the positive zone and grow. Thus in 2015 the real growth of exports of goods exceeds the real growth of imports of goods, and in 2016 - 2018 the situation will change.

At the same time, the period under consideration carries considerable uncertainty, which can adjust the projected designing. Implementation of any of the risks may result in a loss of federal budget revenues, sources of funding, or the need to improve certain areas of deficit spending.

To minimize unbalanced budgets of the budgetary system of the Russian Federation threats need to continue to use "conservative" variant of socio-economic development of the Russian Federation to identify the main characteristics of the budget. This approach not only helps to improve the accuracy of budget planning, but also to prevent some of the risks associated with the adoption of additional, unfunded financial resources, expenditure commitments.

To a large extent and composition, and the importance of macroeconomic and fiscal risks have undergone a qualitative change compared to last year's budget cycle.

Thus, realized fears associated with a decrease in prices for Russia's main exports, outstripping the planned values rising inflation, the devaluation of the ruble, slowing of the
overall pace of socio-economic development, the preservation of an unfavorable environment caused by the sanctions imposed by some States.

Accordingly, the scenario conditions of socio-economic development of the Russian Federation for 2016 and the planning period of 2017 and 2018 is already based on the respective current situation, a relatively conservative estimates and hypotheses, which greatly minimizes the conditions for the emergence of additional fiscal and macroeconomic risks.

At the same time, a number of other relevant in previous periods remains relevant factors and in the medium term.

Significant risks for the Russian economy continues to bear geopolitical tensions in the world, which can further complicate the access of Russian companies to the international capital market, lead to a weakening of the ruble and a new round of growth in consumer prices, decline in business and consumer activity.

In addition, the risk of violations of gas exports through Ukraine, as well as implementation of restrictions aimed at reducing the energy dependence of Europe on Russian supplies. These factors may reduce the expected GDP dynamics.

Much uncertainty exists around the price of oil. It is difficult to assess the medium-term supply and demand in the oil market. On the one hand, developing new technologies for production, a number of countries increases oil production (increasing the supply of oil).

On the other hand, influenced by the decrease in oil prices, reduced investment plans of oil companies in the sector, which has a negative effect on the supply of oil in the medium term.

With a further drop in oil prices below predicted might happen weakening of the ruble, and inflation accelerate capital outflows, weakening investment activity occurs, decrease incomes, consumer demand.

Another risk is inflation risk - failure to achieve the planned level of inflation. This risk can be realized due to lower-than-expected oil prices and, as a consequence, the weakening of the ruble, and also because of a possible crop failure in Russia and in the world, the growth of prices in the sectors of infrastructure and other factors.

In conditions of high inflation, depending on the exchange rate on inflation forced suppression measures may require a further increase in interest rates and the reduction of bank credit, which has a negative impact on economic activity.

The realization of the base case forecast assumes continued high credit growth over 2015 - 2018 years, which allows to support the recovery of investment and reduce the rate of net savings of the population in 2016. In addition, the risks to the inflation outlook is the continued high inflation expectations, which may contribute to a possible increase in the rate of growth of
tariffs of natural monopolies, accelerating the growth of nominal wages, the rise of communal payments.

Also, Russian industry may not be able to take advantage of the effect of the weakening of the ruble, the action contra sanctions not fully realize the potential of import substitution, diversification of the economy. This may occur in connection with the existing infrastructure constraints and declining investment. The implementation of this risk will lead to slower economic growth relative to the forecast.

In addition, the Russian economy and budget system It will continue to have a significant influence demographic factor that is associated with the reduction of the population of working age, the aging of the population. In addition to the increased load on the budget in terms of social policy expenditures, reducing the number of economically active population (not less than 200 thousand. People annually) has a negative impact on the labor market, there is a need to increase labor supply, including by age workers.

In the prevailing demographic context raises the question of the low age requirements for the granting of the right to insurance retirement pension.

The average life expectancy has increased since 1995 in the Russian Federation by 5.2 years - for women and for 7 years - for men. Average statistical period of receiving pensions men and women after her appointment is also increasing every year (retirement age in the Russian Federation has not changed since 1932 since its establishment). Given the emerging trends, the appropriate response to an aging population may be increasing the retirement age.

These risks may require during their offensive development of additional measures to minimize their negative effects and create an effective risk management system.

At present, formed the fundamental prerequisites for the restructuring of the Russian economy. On the one hand, there is a redistribution of the national income of the population to the corporate sector, which creates a financial basis for potential investment. On the other hand, the adjustment of the exchange rate and the subsequent change in part contribute to the correction of the price level of some of the accumulated structural imbalances, providing the movement of financial and human resources in the traded sectors, where the return on invested capital increased significantly.

At the same time due to tight resource constraints - both on employment, and on the financial resources - to realize the benefits that the weakening of the exchange rate, is only possible through the reallocation of scarce budget resources. In the absence of adaptation in domestic demand on the part of the state increases the risk of further structural crowding out the private sector, which will inevitably lead to a decrease in the efficiency of resource allocation in the economy, and thus its growth prospects.
Thus, the need for restructuring of the economy determines the need to bring the budget spending level in line with the new realities. The budget should not crowd out the private economy in any part of the costs of any part of the competition for resources in the financial markets, so you need to minimize one-time anti-crisis measures, which are implemented in the current year as a reaction to external economic shocks.

The basic tool for ensuring smooth the dynamics of the nominal volume of budget expenditures should continue to be a "fiscal rules".

Based on the principles of responsible fiscal policy, and subject to the provisions of budget legislation proposed total federal spending to cut, compared to the approved in the previous budget cycle parameters only by the amount of conditionally approved expenditure in 2016 and provisionally approved expenses exceeding 2.5% of total expenditures in 2017, and to calculate the amount of expenses for 2018 year "budgetary rules".

This will minimize the fluctuations in the total amount of federal spending in nominal terms over the next three years, against the background of the projected stabilization of oil prices and the recovery in economic activity will ensure a gradual reduction in the federal budget deficit, funding for which in the 2016-2017 years will probably require the use of almost all accumulated in the Reserve fund.

At the same time limiting the growth rate of expenditures in nominal terms in the application provided by the legislation of the Russian Federation, the main approaches to the indexing of social benefits (pensions, benefits, wages) difficult to achieve in a single jump in inflation in late 2014 - early 2015. Saving the current indexation mechanism will require further reductions "unprotected" items of federal spending, which could lead to negative socio-economic consequences (for example, to the need to increase the burden on employers by raising the tariffs of insurance contributions).

Moreover, the current indexation mechanism generates risks strengthening the structural imbalances in the economy: the displacement current savings and investment consumption, private demand. In recent years there has been a steady trend of slowing potential growth of the domestic economy and the deepening of existing structural distortions that, not least was due to this factor.
Discussions

The main result of the Russian policy against sanctions was the fact that Russia and the West were able to avoid a full-blown "cold war". Although the NATO-Russia dialogue is frozen, military exercises acquired demonstrably high intensity, Poland and the Baltic countries are in favor of the placement of additional NATO troops on its territory - the parties as a whole are still reserved and not crossed the red line.

Russia managed to avoid isolation. This is evidenced by the fall began with active contacts with Western leaders (Merkel, F.Hollande, David Cameron et al.).

The main positive result in 2015 was the resumption of Russia-West dialogue. But the dialogue is largely stimulated - the parties appeared to be a "common enemy", but has not increased either trust or mutual understanding. In 2016, the lack of mutual trust with respect to the objectives and intentions of partners in the Middle East region can reduce the effectiveness of cooperation in combating terrorism, mainly in Syria and around it, where neither Russia nor the West are not able to fully predict the development of the situation. They are taking some measures to coordination - since October 20, the Russian Federation and the United States signed a memorandum of safety in Syria, which regulates the activities of all aircraft and drones in the airspace of the country. But the element of unpredictability remains significant - including because of the likely conditions in terrorist activities and warfare incidents and losses. The sharp worsening of Russia's relations with Turkey because of downed Russian bomber, if the conflict is still not resolved at the level of the two presidents, it will affect the geopolitical balance in the region, but will also have implications for the Russian economy, including those affecting energy exports.

Ukrainian crisis has already ceased to be the main pillar of international life, and in 2016 is likely to remain in the background, at least, due to three factors: the severity and priority of the Middle East problems; the apparent failure of the Ukrainian authorities to carry out reforms expected in the West; Russia exhibited restraint. However, Ukraine will remain a "duty theme" geopolitical and ideological differences between Russia and the West.

In an even more explicit in 2016 manifest mutual distrust in the fields of energy policy and security, especially in relations with the European Union, which is particularly concerned about Russia against the background of falling energy prices.

The dominant paradigm of relations between Russia - the West in 2016 with a high probability will be mutual "forced interaction." On the one hand, steps to restore relations with the West, despite the intensity of anti-Western propaganda, forced to Russia. This is due to the economic crisis (followed by the individual manifestations of social protest, as is the case with
the shares of "truck"), the drop in oil prices and sanctions are not compensated, as expected, the deepening of cooperation with China. On the other hand, are not able to effectively cope with the migration crisis of the European Union by the autumn to realize that the only, although extremely difficult and time-consuming way out of the situation is the conflict settlement countries, where the main flow of refugees, particularly in Syria. The West in general was forced to recognize the need for cooperation with Russia in the fight against the existential threat of Islamic fundamentalism and terrorism. "Forcing" the US president to negotiations in the autumn of 2015, the world considered a diplomatic success of Vladimir Putin.

Determining the effect of sanctions on Russian policy it should be noted that the dynamics of the Russian economy was influenced by two factors, the negative impact of which was a gradually gaining momentum. On the one hand, under the influence of increasing sanctions pressure drastically worsened economic conditions of Russia's cooperation with leading partners in trade and cooperation. On the other hand, a steady decline in global commodity prices, especially energy resources, has led to a significant reduction in export earnings and fiscal revenues. Direct and indirect (through the sharp depreciation of the ruble to the leading world currencies) the effect of the relevant factors has been so profound that made talk seriously about the threat of weakening both short-term and medium-term prospects for the country's development.

The negative impact of economic sanctions led to attracting external resources to finance the development of the Russian economy. If in 2013 the volume of new foreign liabilities in the financial account balance of payments amounted to 6.6 billion USD, in 2014 the accumulated foreign liabilities decreased by 48.9 billion USD, and in 2015 a comparable reduction obligations was 46.8 billion USD.

Thus, in the years 2014-2015 Russia's economy did not only receive additional external investment resources, but also lost at an accelerating rate that has been invested in it from abroad earlier. The inflow of foreign direct investment, particularly important for the economic development taking into account their long-term and close connection with the transfer of advanced foreign technologies, in the first half of 2015 declined by more than 5 times compared to the same period of the previous year and almost 11 times for compared with January-June 2013 is significant as the fall of investment attractiveness of the country took place against a background of sustained improvement in its position in the international ranking of Doing Business. In 2015, Russia has risen to 51 th position of the ranking, ahead of not only all the BRICS countries, and Israel (53), Turkey (55) and Luxembourg (61). At the same time, the scale of foreign direct investment in Russia is far behind the respective economies. Thus, Brazil (116th position in the ranking of Doing Business) in the first half of 2015 has attracted foreign direct
investment of almost 31 billion USD, compared with 4.3 billion USD in Russia. This fact inevitably gives rise to serious reflection on the measures to improve the investment climate in the country should be comprehensive, taking into account both economic and administrative, and foreign policy factors that determine the decisions of investors.

Although the greatest damage was caused to the sanctions imposed against the Russian financial sector (which actually deprived Russian banks have access to the financial markets of the US and EU) and the industries of oil and gas complex (where the few exceptions were curtailed projects of investment and technological cooperation with leading foreign companies), a systemic effect of sanctions’ pressure was significantly wider. On the one hand, due to the sanctions reducing the availability of financial resources was a blow to economic sectors, which in itself is not the object of the sanctions pressure. On the other hand, introduced a number of foreign countries, the sanctions had a negative impact on trade and investment relations, not only with those countries but also with other partner countries, whose companies have become more cautious to assess the feasibility of cooperation projects with Russia for fear of accusations of abuse prohibitions sanctions by the EU, and especially the United States, as well as due to the increase of the uncertainty of prospects for the Russian economy.

With a maximum clarity these circumstances emerged in the field of cooperation with China, which in 2014 were placed considerable hopes in terms of "compensation" collapsing economic relations with the leading economically developed countries. However, in early 2015, it became clear that the conditions for the provision of financial resources on the Chinese market were significantly more severe than in Western markets. In fact, it could be almost exclusively on the financing of the leading state-owned banks of China investment projects involving the development of Russian export of raw materials in the Chinese direction or implementation of infrastructure projects, based on the use of Chinese labor, equipment and technology. In turn, the willingness of Chinese companies to develop projects of cooperation with Russia was significantly limited in view of concerns that increased cooperation in the Russian direction may adversely affect the business prospects of the companies in the US market. Regardless of the degree of validity of such concerns, they are widely used in the Chinese business community and have a strong deterrent effect on the development of Russian-Chinese cooperation.

Given these circumstances, we can say that the impact of economic sanctions on the Russian economy turned out to be very significant, although its scope should not be overestimated. A much more significant role played by the deterioration of the pricing environment in the global commodity markets, in particular, the progressive decline in oil prices under the influence of a change in the balance of supply and demand in world markets. As a result of a sharp reduction in Russian export revenues suffered. In January-September 2015, they
fell by almost a third (32.0%) compared to the same period of the previous year, the drop in revenue from the export of crude oil and natural gas was even deeper (by 42.8% and 40.3%, respectively).

In the framework of sanctions in assessing the effectiveness of anti-sanctions policy Russia is in the field of financial regulation shifted from the massive provision of liquidity leading ("backbone") banks towards debt management risk companies and banks that have significant external liabilities (taking into account the impossibility refinance these obligations in the conditions imposed on Russian financial sanctions).

Efforts to minimize currency fluctuations (to the extent that this is possible in the transition from targeting the exchange rate to inflation targeting) and reorganization of the banking system by revoking the licenses of problematic banks take place in modern Russian policy.

In the area of support budget expenditures to replace the massive social transfers, a major program of public investments (primarily for infrastructure projects) and private industry support programs (particularly with regard to the automotive industry) de facto came to the concentration of financial resources on a narrow range for budgetary expenditures - primarily defense and security. Finally, there was a significant hardening of positions in the field of protection of national markets.

In accordance with the approved in late March - early April 2015 plans of the Ministry of Industry and Trade to provide a radical (for some positions - of 50 or more percentage points) reduction in the market share of imports of more than 2,000 types of products, the focus is made on internal production capacities of Russia.

The main objectives of anti-crisis policy of Russia for 2016 are to maintain the stability of the financial and budgetary system, preventing sharp fluctuations in the ruble exchange rate and the implementation of strong measures to stimulate domestic demand. Solving these problems will have to look at the conditions of preservation - and in some cases enhance - a number of acute challenges that have emerged over the past two years. Among them - the low prices of basic commodities commodity exports, the need to repay large external debt of the corporate sector in terms of its inability to refinance because of the sanctions imposed, reduction of trade with leading partner countries. Against the background of negative dynamics of world markets and the destructive influence of geopolitical factors (which in November 2015, added the clotting risks of economic cooperation with Turkey - the fifth largest trade partner of Russia) the possibility of opposition to negative tendencies in the sphere of foreign trade remains limited and are mainly adaptive nature. However, in other respects, despite the reduction in budgetary capacity, capacity management processes occurring in the national economy remains high. The
key focus should be on supporting household income, the dynamics of which is crucial to the recovery of domestic demand.

Failure to active measures in this area should be recognized as a major miscalculation of the anti-crisis policy of the sample in 2015.

From my point of view, Russia's current policy is difficult to be characterized as a long-thought-out strategy. In 2016, in my opinion, there will be four major problems.

The first - the signing of the agreement on the nuclear issue with Iran significantly changes, especially in the medium term, the game on the world energy market, and Russia's military involvement in Syria - the alignment and balance of power in the Middle East, the Persian Gulf and in the global arena.

The second problem - the situation in time trouble and hectic search for a solution of acute problems (terrorism, migration, default) in reality to the fore often leave players a second "regional", even a third "subregional" league.

The third problem - migration "flood" the summer of 2015 can mix the pieces and even turn the board, and then the game begins again.

Finally, the fourth - there is a noisy propaganda background, make rational decisions difficult myself turning into a political factor.

International relations are dominated by geopolitical approaches. However, the intensification of regional processes in the background and / or to compensate for globalization, a sharp aggravation of the security problems (different levels, the nature and scale of pandemics to terrorism, cyber and nuclear safety) dictate the states and their associations need to use flexible and highly reactive approaches to solving international problems. Because of time pressure, in the first place, often decreases of values, the ideological component of the policy, and secondly, the growing tension in the framework of integration associations, even established. The most striking examples - differences regarding the Ukrainian crisis EAEC member states in relation to the problem of migration or a Greek default - in the EU.

In these circumstances, the paradigm of values becomes excessively rigid, it prevents decision-making. What makes the ruling elites in Western democracies more vulnerable to criticism from both left and right. At the same external players appear grounds for accusations of bigotry and hypocrisy, for the alleged failure of the European values. Time trouble does not give time for domestic arrangements and as a result, the popularity of radical, extremist forces is increasing to dangerous for the stability and internal security. Violated traditional, generated by decades balance between domestic and foreign policy.

The current approach, both in Russia and in the West, rather, can be described as a real express - policy conditions, which are called "new normality" (new normal). This approach
reduces the predictability is not conducive to the establishment of trust, but it is more in line interaction "by contradiction" against common threats, forced interaction, goals and guidelines for which are well known.

The risks of such an interaction is high. In this almost ad hoc format, even if there is a "tacit consent", not give away enough details are not provided the full impact and the reaction of the other players, a disproportionately large role played by the personal factor (Putin-Erdogan) and the parties themselves insufficiently complex taken into account, even their own interests.

The most risky in this sense is a military operation in Syria. If on the need to fight against LIH positions of the parties are the same, then the rest of their vision of the situation, and, above all a peaceful settlement, varies considerably. Thus, the Western, and Russian analysts believe that supporting the Assad government, and Syria, Russia has several objectives to strengthen its positions inside Syria, the Middle East, as well as a global actor.

Deepen cooperation with Iran, has moved closer to the United States during the negotiations on the nuclear issue is finished. And to force the United States to engage in dialogue and negotiations. It is obvious that the agenda Russian counterparts in the region and the West are different. Differences in the definition of objectives of the parties in this interaction reduces its value, hamper the expansion and, moreover, a further reorientation of development assistance.

In relations with the West, the basic direction of Russia's strategy in 2016 will attempt to overcome its isolation, the lifting of sanctions and the normalization of relations with key partners.

At the same time, a significant deterioration in financial and economic situation in the country, the fall of the ruble against the dollar and the euro, the negative expectations associated with the lack of Western investment, credit and technology, especially in the perspective of two or three years, the outflow of capital - all this was accompanied by a conscious injection of anti-Western sentiment, actively supported by the media, especially TV. The growth of these sentiments became a factor that the Russian government in 2016 should be taken into account when restoring dialogue with the West, that is also due to the settlement of the Ukrainian crisis.

To predict the process is difficult. On the one hand, Russia at the end of 2015 has made concessions on a number of vital issues - supply of gas to Ukraine in winter. Moscow has offered to restructure the debt of Ukraine.

The entry into force on 1 January of the Agreement on economic association of Ukraine with the EU trade with Russia translates it into a standard most favored nation treatment. On the other hand, it is difficult to imagine that until Kiev is not met the conditions relating to the special status of LNR and DNR, Russia to fully comply with the provisions of the Minsk
agreements of the border. With high probability the conflict in 2016 remains in a semi-frozen state.

The main problem in 2016, and testify to the elections of autumn 2015, will be the actual situation in Ukraine itself, a deep internal political differences and socio-economic crisis. It seems that in Europe, especially in Germany, are beginning to understand it. In the background, in the first place, acute migratory crisis and the strengthening of the terrorist threat, and secondly, the cessation of hostilities clashes in the east of Ukraine, and thirdly, the obvious slipping reforms and the internal political tension in Ukraine itself, Europe is growing "fatigue" of the Ukrainian crisis, Ukraine fatigue. A similar impact has the crisis of the EU neighborhood policy, especially in the "Eastern Partnership" format, called financial problems and severity of the problem of migration in the EU and have become apparent inconsistency of these formats (negatively perceived by Moscow), the situation in the partner countries and in Europe as a whole. If Moscow will maintain restraint and will formally adhere to Minsk-2, can not be excluded that in the summer of 2016 will go to the European Union gradually easing sanctions. Expect such steps by the United States before the elections, it is difficult.

The factor that will seriously complicate the dialogue will remain frozen relations of Russia with NATO. At the same time, in the case of coordinated with the US action in Syria, we can not exclude a gradual recovery working relationship with the alliance. In connection with the successful actions of Russia in Syria, and in the West they are partly interpreted as a deliberate demonstration of Russian military power, some Western analysts have once again started to raise the question of the need for updating the system of treaties on arms limitation and reduction - such as the INF Treaty (1987). It is unlikely that in 2016 there will be a break in this area, but in the case of a gradual normalization of relations with the West arms control issues may once again become a part of their cooperative agenda.

Reserved established relations with Europe in 2016 will remain the largest corporations, primarily German, Italian, interested in the lifting of sanctions and the continuation of an active business in Russia.

In the east in 2016 is difficult to expect significant changes. It will probably be dominated prevailed in 2015 and realistic approach assessing the state and prospects of cooperation with China, especially on energy projects.

On the Eurasian direction of cooperation within the enlarged in 2015. EAEC, on the one hand, it allowed Russia to partially reduce the negative impact of the sanctions regime. At the same time in 2015 he showed obvious lack of capacity and the EAEC, especially the CIS for the implementation of regional and global geopolitical Russia's strategic ambitions. Another thing is that with the full restoration of the partnership between Russia and the European Union and the
EAEC format could be useful and interesting for Europe in terms of further inter-integration. However, such a scenario is far beyond 2016.

It is in the field of energy manifests itself most vividly real practice forced rapid policy. Sharp fluctuations in the political relations with partner countries and their associations put Russia in a position depending on the consumers, transit countries and competitors, which makes the country particularly vulnerable to the situation of falling energy prices. In fact, the beginning of 2016 Russian energy projects offers a la carte. Europe, of course, takes this situation, but there are serious contradictions in the choice of transit routes.

Developments in the energy sector is an additional argument in favor of the need for diversification and structural reforms in the Russian economy, reducing over-dependence on oil and gas revenues.

In 2016, in spite of, but rather, due to the extremely difficult situation in the Middle East, the threat of terrorism and Islamic extremism, forced interaction in the sphere of security and Russia-West dialogue. Their development could lead to the normalization of relations, restoration of cooperation for development and modernization.

So based on the discussions we can come to the conclusion that sanctions do affect Russian policy and policy decisions of the RF government concerning sanctions were of any use since there are the perspectives of further cooperation between Russia and the West, as well as the expansion of the activity occurred in the East, as Russia is part of the successful projects.
Conclusions

The effectiveness of the sanctions in 2015-2016 is largely determined by the leading US position in international finance, providing them control over the commission of transactions between entities in other countries. Theoretically, the entire Russian economy can be insulated from the global financial system, as was the case with Iran, which in 2012 has been disconnected from the system for Worldwide Interbank Financial Telecommunications SWIFT. However, such a move would deprive the West of control over a part of international financial flows, and would lead to the loss of one of the largest economies of the world financial system. Nevertheless, such a threat exists, and it has prompted Moscow to speed up work on the creation of the national payment system.

Although the sanctions were not the main cause of the deterioration of the Russian economy, they have accelerated the onset of recession and have had a negative impact on the attraction of investments for a variety of channels. The sanctions manifested in the acceleration of inflation, reducing real incomes, deterioration of the investment attractiveness of the Russian economy, the outflow of capital. The sanctions have contributed to the collapse of the national currency and the reduction in international reserves, as well as complicate the servicing of external debt.

The deterioration of the current situation of the Russian economy and prospects of its development led to a reduction in the sovereign rating of Russia, is the world's leading agencies. In January 2016 the agency Standard & Poor's (S & P) has established long-term rating on the Russian foreign currency debt below investment grade. Weakening rating leads to a rise in the cost of credit for corporations and banks and the potential investors, it shows a high degree of risk, accompanying investments in the Russian economy. According to Ministry of Economic Development estimates, loss of Russian borrowers due to the investment rating of the loss could reach 20-30 bln. USD. A month later to the S & P, Moody's joined view, specify the impact of sanctions among the reasons for its negative outlook Russia movement ranking.

Russia became the owner of two speculative ratings. In this situation, a number of foreign institutional investors, following the approved rules for them, are forced to sell their Russian securities. However, many of them have done it before, in 2014.

Lowering the rating of Russia is not so much a statement of the situation, as a warning about the possible from the point of view of agencies, scenarios of the future development of the Russian economy. Moreover, the negative outlook of the sovereign rating is a kind of self-fulfilling prophecy.
When planning the investment project, especially with an eye on the global market, the company can not ignore the possibility of borrowing, the need to establish partnerships with firms from other countries, the prospects for sales of products abroad. Negative rating worsens all of these positions and inclines potential foreign and domestic investors to abandon the project, or induces him to demand pay increases risk.

Consequences of the sovereign rating is not limited to an increase in the cost of credit and the deterioration of the investment attractiveness of the Russian economy. They also impact on the development of a crisis situation. The fact is that the lower ratings are generally lower cost securities including embedded loan. In this case, the lender has the right to require an increase in collateral (the so-called margin call). If the debtor is unable to fulfill this requirement, or to repay part of the loan that has lost support, the creditor may initiate bankruptcy proceedings. Such requirements and following the bankruptcy of them may take a mass character, as is the case in various countries during the crisis of 2008-2009. Thus, the reduction of the sovereign rating may not only reduce the investment attractiveness of the country, but also able to bring the economic crisis, and if he has already begun to make its impact more profound.

In the short to medium term, if the situation does not change foreign policy, the impact of negative factors are likely to be more visible and will affect all sectors of the economy. In February 2016 the Economic Development Ministry forecast for 2016 GDP decline of 3%, industrial production – by 1.6, gross fixed capital formation - by 13.8, retail trade turnover - by 8.2, the real disposable income of the population - by 6.3% (www.cbr.ru). In May, the forecast has been slightly adapted. I expected at least a sharp drop in GDP (2.5- 2.8%), but a dramatic decline in real disposable income (in 7.6- 7.8%) (www.cbr.ru).

According to the forecasts of leading international organizations, in 2016 the Russian economy will experience a recession. The values of the targets are constantly being revised, but the overall trend remains the same: if the world's GDP is growing, the Russian reduced. Russia will suffer the greatest losses among producing countries, according to the IMF, which expects Russia's GDP falling by 3.4%. The OECD view, the fall was 3.1%, according to the World Bank - 2.7%. The most optimistic forecast prepared by the Department of Economic and Social Affairs, according to which in 2016 the Russian economy expects zero growth. The high cost of capital will deter private investment.

While maintaining the sanctions restrictions on access to Russian borrowers to foreign loans will continue to encourage the export of capital and discourage investment. At a time when the Russian economy entered into a recession, it was expected that the reduction in investments will not be very strong. So, in October 2015 the HSE Development Center forecast on 2016-2017 continued outflow of capital, decline in investment (up to 5% compared to 3% in 2015), the
ruble devaluation, increased inflation and falling real incomes. According to CMASF made in the same period, the decline in investment will amount to 2.5% in 2016. However, later these relatively soft estimates are revised. Currently, the majority of forecasts expected a sharp decline in investment. According to the HSE, in 2016 it will amount to 15.2%, according to Ministry of Economic Development estimates - 13.7% (www.hse.ru).

The long-term consequence of the deterioration of relations between Russia and the West was the deterioration of the country's perception of the world, which led to a sharp decline in the Russian economy and investment attractiveness created additional obstacles for foreign economic activity of Russian companies and banks. In the context of political confrontation becomes unworkable international financial center in Moscow project creation. Pending the entry into the OECD, which unites the most economically developed countries. Thus, foreign investors have another reason to regard the Russian economy as a high risk area and therefore require high income.

Image losses, as foreign bans on certain transactions with Russian companies, limit the possibility of establishing cooperative relations and participation in the transnational production, whose role in the global economy in recent years is growing rapidly. In all likelihood, the tendency to increase the role of transnational production will increase in the future, and participation in global value chains is growing in extent determine the country's position in the global market. The lag in this area will lead to a deterioration in the long-term prospects for the economic development of Russia.

While western sanctions have had a decisive influence on the current state and prospects of development of the national economy, their impact is quite noticeable. We emphasize that the fundamental causes of the ensuing recession have caused a deep character and persistent deficiencies in the institutional structure of the Russian economy. Nevertheless, the fact that the problems that have accumulated over the years, came to the surface right now, the sanctions have played a role.

The hypotheses of this work are tested:

H1: Sanctions’ policy of the Western countries and retaliatory sanctions policy of Russia put all the countries involved in the overall economic swamp. Still this fact is not appreciated by many politicians who could use the anti sanction policy more concrete and act at the point.

H2: Sanctions provide new opportunities for Russian companies such as Sberbank, for example.

H3: There are areas of optimization of economic development of Russia in the conditions of sanctions.
So in the Thesis we can come to the conclusion that sanctions’ policy of the Western countries and retaliatory sanctions policy of Russia put all the countries involved in the overall economic swamp. Sanctions provide new opportunities for Russian companies such as Sberbank, for example, as it is confirmed by German Gref opinion. There are areas of optimization of economic development of Russia in the conditions of sanctions as it is mentioned in the Thesis.
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