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Structure and dynamics of the economy (Russia's case).

Evaluation of the economic forecast

Abstract

The research of this article is reinterpretation of the role of the Russian federal budget in the implementation of socio-economic policy of the country. Research question is based on the premise that a key moment of political and intellectual agenda is the future economic growth of the country, its quality, its sources and its progress rate. This article analysis the forecast of Ministry of Economic Development of Russia in the 2017-2019 (three scenarios – a basic, basic+ and target). The main idea is that the GDP growth rate (from the basic scenario) is too high and too optimistic: 2%. Neither the Economic Development Ministry, nor the Ministry of Finance of the Russian Federation explain such high rate. According to Rosstat, the 1Q 2017 GDP growth rate was only 0.5%. Current budgetary policy of cuts and accumulation of reserves leads to stagnation. The correlation analysis of the main components of the GDP were conducted (for the period 2006-2019). It turned out that the most important factor determining growth is internal consumption. The decline in real disposable income leads directly to the decrease in food and nonfood products sales. The reducing of income goes along with increasing of socio-economic differentiation. According to the data of Russia's budget for 2017-2019 years, there has been a decline in the share of spending on public administration, defense and public order in favor of the sectors that form the preconditions of growth. Russia falls into the trap of „long crisis". At low rates of economic growth, the state and society's resources are not enough to solve important social problems, to reduce poverty and to develop the infrastructure. There is not enough resources for technological production modernization. It influence a gradual loss of technological capacity, human capital, competitiveness decline, the ruble's exchange rate, and the destabilization of the payments' balance.

Keywords: GDP, forecast, development.

JEL COES: M1, M2.

Struktura i dynamika gospodarki (przypadek Rosji). Ocena prognoz gospodarczych

Abstrakt

Artykułu koncentruje się na reinterpretacji roli rosyjskiego budżetu federalnego w realizacji polityki społeczno-gospodarczej kraju. Przyjęto założenie, że kluczowym aspektem agendy politycznej i intelektualnej jest przyszły wzrost gospodarczy kraju, jego jakość, źródła i stopień postępu. W artykule analizuje się prognozę Ministerstwa Rozwoju Gospodarczego Rosji na lata 2017-2019 (trzy scenariusze – podstawowy, podstawowy+ i docelowy). Główną ideą jest, że tempo wzrostu PKB (z podstawowego scenariusza) jest zbyt wysokie i zbyt optymistyczne: 2%. Ani Ministerstwo Rozwoju Gospodarczego, ani Ministerstwo Finansów Federacji Rosyjskiej nie wyjaśniają tak wysokiego tempa. Według Rosstat, tempo wzrostu PKB w I kwartale 2017 wyniosło jedynie 0,5%. Obecna polityka budżetowa cięć i akumulacja rezerw prowadzą do stagnacji. Przeprowadzono analizę korelacji głównych składników PKB (w latach 2006-2019). Okazało się, że najważniejszym czynnikiem decydującym o wzroście jest konsumpcja wewnętrzna. Spadek realnych dochodów do dyspozycji prowadzi bezpośrednio do spadku sprzedaży artykułów spożywczych i artykułów nieżywnościowych. Zmniejszenie dochodów sprzyja zróżnicowaniu społeczno-ekonomicznemu. Zgodnie z danymi rosyjskiego budżetu na lata 2017-2019, nastąpił spadek udziału wydatków na administrację publiczną, obronę i porządek publiczny na rzecz sektorów, które stanowią wstępne warunki wzrostu. Rosja wpada w pułapkę „długiego kryzysu". Przy niskim tempie wzrostu gospodarczego zasoby państwa i społeczeństwa nie wystarczają do rozwiązania ważnych problemów społecznych, zmniejszenia ubóstwa i rozwoju infrastruktury. Nie ma wystarczających zasobów na modernizację produkcji technologicznej. Wpływa to na stopniową utratę zdolności technologicznych, kapitału ludzkiego, spadek konkurencyjności, spadek kursu rubla i destabilizację bilansu płatniczego.

Słowa kluczowe: PKB, prognozy, rozwój.

Introduction

We can observe recession in the Russian economy and this is the problem presented in this article. The dynamics of Russia's GDP is half-lower than the world's average rate that leads to an increase in the technological gap with rich countries (and as a consequence to the

gap in the living standard). The problem is exacerbated by the fact that in Russia the investment has been reducing for three consecutive years from 2014 to 2016. The paper discusses the main causes of the economic growth drivers' exhaustion. The first is the immense growth of the public sector. The second reason is the Ministry of Finance actions according to which investment support is not of the highest priority. Let it also be noted that the concern about the population income is not on the list of core values, discussed by senior management.

The aim of the study is to analyze the process of socio-economic and financial orders formation based on officially reported data in the context of power-oriented and political-cultural approaches. The hypothesis of the study includes several related statements. In Russia, there still exist discrepancies between the declared goals of overcoming the crisis and achieving the desired economic growth. On the one hand, the basic projections of the Russian government do not correspond to the tasks of achieving the required economic growth and of exit from the structural crisis. On the other hand, the declared goals of the Russian government do not correspond to the real data presented in the official projections. Contrary to the dominant point of view, the main risks of not achieving the basic projected parameters of Russia's social-economic development are not external (sanctions, oil price) but internal (institutions, priorities and the executive authorities' goals). Modern principles of the state economy support in Russia preserve its backwardness; the state representatives are not able to do anything productive to turn the emerging negative trend into a constructive direction.

In the article, the following methods and approaches were used to solve the problem: the analysis of statistical information, Russia's Ministry of Finance data, Russia's Ministry of Economic Development, Russia's Accounts Chamber. There were also used the methods of correlation, with the help of SPSS STATISTIC program (V23).

The article is devoted to the analysis of the Russian economy problems. The methodological base is the combination of political-cultural and power-oriented approaches. The discrepancies between the declared and real government priorities are shown on the examples of statistical data, analytical materials, structural analysis, Russia's budget dynamics and official forecasts. There was conducted the analysis of the state role in forming socio-economic and financial-monetary societal orders.

Bibliography review

The problem of the state's role in forming socio-economic and financial-monetary orders is studied according to different approaches. New institutional economic theory offers several mechanisms thankful to which the state's expenses and politics can have either positive or negative effect on economic growth. For example, according to the theory of endogenous growth, expenses on education, health, communication, housing, economic and transport infrastructures have a positive effect on economic growth (Aschauer 1990; Barro 1990; Romer 1990; Block 1990; Block 2010). Economic sociologists P. Evans and G. Rauch proved that the bureaucracy representatives „competence" has a positive effect on economic growth (Evans 1995). Basing on the idea that economic growth depends mainly on the quality of institutions ensuring the markets existence, property rights and low transaction costs D. North suggested a new approach to understand the process of economic change. He presented the way different societies come to different institutional infrastructure, which largely determines the trajectory of their economic development. According to A. Maddison, D. North, D. Wallis and B. Weingast the state also provides political stability, legal institutions, stable monetary system and secure reliable management (Maddison 1995; North, Wallis, Weingast 2011). Without these institutions economic actors will not make investment (Chandler, Amatori, Hikino 1997). Without the enumerated institutions, economic subjects will not make investment (Chandler, Amatori, Hikino 1997). Some economists suppose that investment in scientific research and development, support of high-risk projects and implementation of military expenses are effective. Moreover, the choice is not simply between „for" or „against" the state, but between „for" or „against" individual economic policy options that can support economic growth (Tyson 1992).

There is another opinion that do not accept the state intervention in the economics. It is noted that the state's activity in economics is illegitimate, that is the authorities try to maximize their share of the national income and thereby they take resources from the private sector (Buchanan 1997). These theories involve the question of how nations can achieve competitive advantages in the markets for their businesses (Dobbin, 2012, 2016; Kolodko, 2014; Cowen 2013; Ritchie, Lewis, Nicholls, Ormston 2013; March 2015; Temin, Vines 2015; Fligstein 2007, 2013).

Politico-cultural and power-oriented approaches offer a relatively new look at forms of stability and instability in modern market economies. Political and institutional stability in societies plays a huge role in their economic stability. In modern societies states are involved in both investing and in class conflict regulation. The state intervenes not only on the side of

the capitalists, as suggested by the Marxists and Postmarxists (Burawoy 2001; Burawoy, Lukács 1992; Wright 2005). The state protects not only privileged groups of workers, according to institutional economists (Polanyi's 2002; Nureev 2015; Jessop 1990). Polanyi's tradition is valuable because it keeps our attention on the relations between states, their political structure and economy. Embedded autonomy factors are also significant as they re-contour the attitude of the state's representatives to economic development (Herschenkron 1962; Hannan, Freeman 1984; Evans 1995), when authority elite gets special significance (Voslensky 1991; Higley, Lengyel 2000). Their actual behavior allows to understand how there is solved the dualism whether the state is uniquely predatory in relation to the economy, or it is rational and benefits the people. Any analysis of the economics structure and dynamics performed in terms of politico-cultural and power-oriented approaches starts with the definition of conditions under which the relationship between the state and economics are mutually beneficial and productive. The initial path dependence (Hedlund 2015, p. 26), and structural inertia, influencing the change are also of importance (Hannan, Freeman 1984).

Institutional mechanisms as structural and cultural forms represent a codification of social relations and constitute a method of social regulation which serves to reproduce socio-economic relations and to stabilize the processes of societal savings. The economic system level captures the social mode of economic regulation, which is used by B. Jessop, and which is comfortable because it reflects the nature and the object of regulation (Jessop 1990; Jessop 1995). This important point also draws the attention of J. Kaźmierczyk (2015). The mode of societalization at the level of societal paradigm (Lapin 2005; Tickell, Peck 1992) relates to the processes of societal regulation that go beyond the economic system. There are meant the models of mass integration and social cohesion based on the universality of ideologies, values, life styles and mentality. The regime of societal accumulation and the method of societal regulation shape the way of this society's development. The basis of the institutional order is the active role of the state and comprehensive social compromise. Historical examples of national governments of different ideological orientation are de Gaulle in France, the Labour party in England, Christian Democrats in Germany who made great efforts to compromise and provide economic growth and rising living standards through the implementation of the "welfare state", the Keynesian model of demand management and control over the employment relationships (Harvey 1989; Lash, Urry 1987; Stevenson, Burawoy, Skocpol 1985). Neo-institutional realism explains the continuity of the politics by the organizational characteristics of the state. It is assumed that economic actions, social

norms related with them and institutions are immersed in the broad contexts of predictable relationships between economic agents, among which the most important role is performed by cultural and authority relations. Production, exchange, distribution, consumption of a product are associated with the development of information, production estimates, formation of identities, the generation and decoding of meanings. People borrow ready cultural scenarios prescribed scripts, develop conceptions of control to interpret what is happening and to explain their own actions (Radaev 2008, p. 76). Authority relations go through any economic system, and the essential character is "the inclusion of the criterion of authority control and disposal (Verfugungsgewalt) in the sociological concept of economic action" (Weber 1978, p. 67). The applied political-cultural and authority-focused approaches accept all the provisions.

The trajectory of Russia's development in the context of the world's economics

Power-oriented and political-cultural approaches reveal a broad range of key motives. In addition to economic interests, the agents' actions are structured by sociocultural and cultural-normative schemes, including ideal and practical standards of economic behavior, shared by customers, competitors and other subjects, and mandated by local and regional communities. There is also revealed the state's role, represented by bureaucrats, politicians and officials in the formation of socio-economic and financial-monetary societal orders. Figure 1 demonstrates the trajectory of the Russian economics' development, the economics of developed and developing countries and the economics of the whole world for the period of 2005-2016. The world economic growth rate began to fall simultaneously in 2010. In the same period Russia's economic trajectory also decreased. By 2016 over the past 10 years, the average annual growth rate of Russia's economics was 1.6% (Figure 1).

Figure 1. GDP growth rates in Russia and some chosen countries in 2005-2016 (%)
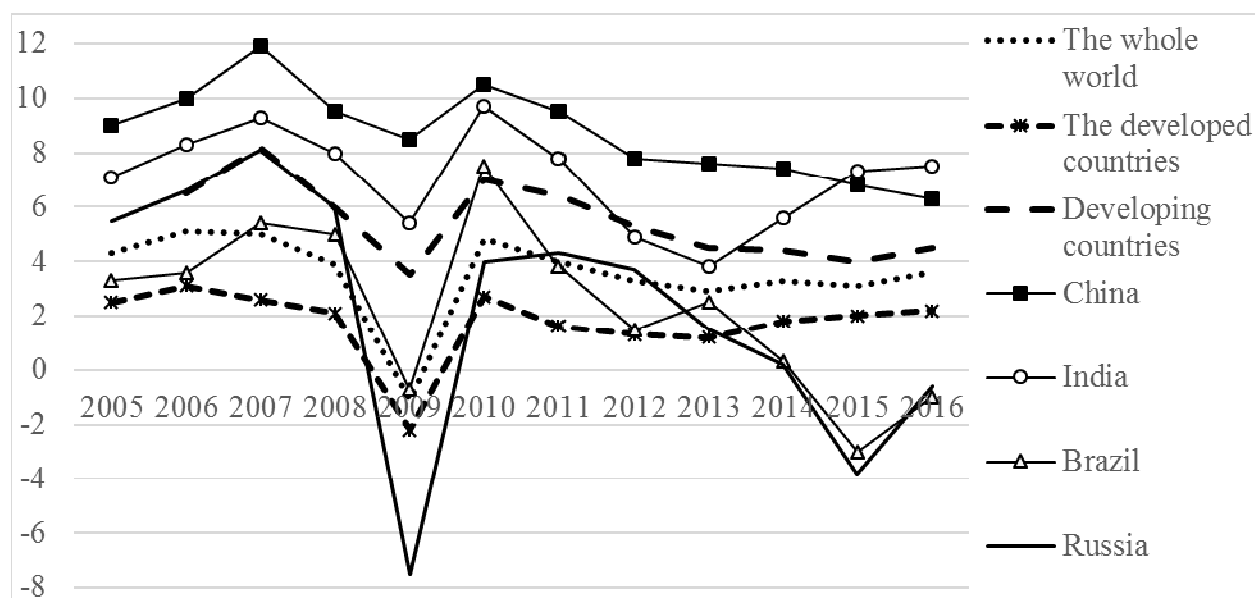
Sources: Russia and the World, 2016, pp. 14-18; Russia and the World, 2010, pp. 14-19.

As it follows from the projection for the 2017-2019 that is considered to be more realistic by the Ministry of Economic Development of the Russian Federation (the base variant of the projection) by the beginning of 2020, the stagnation will have been continuing for 13 years (Official statements from the Russian Finance Ministry's website, 2016). In this projection by 2019 the oil price will grow to $55 per barrel, and will not be set at $40 for another three years, as it is noted in another version of the scrip (Table 1). The Russian economics' trajectory over the past decade was not entirely smooth. In different periods, it covers from the rise of oil prices to its collapse then the subsequent recovery and a new drop. But the average annual rate of the economics amounted to 1.6%, and its aggregate growth over the years is behind the world's one in 2.3 times. If we take 2010 as a starting point, eliminating the failure of 2009, then we can state that for all the second decade of the XXI century stagnation has been continuing. As the Russian economics rate of growth is below the world's average, the technological gap and the gap in living standards will at best be stable. Poorer but rapidly developing countries will try to reduce the gap from the leaders (Figure 1). If Russia doesn't change the economic development trajectory will shift closer to poor countries. There was conducted the analysis of the Russian elite actions. The highest level of the state's management is represented at meetings of the Russian government, which form key solutions to the country's development. The draft law „On the Federal budget for 2017, 2018 and 2019" was discussed on the 13th of October 2016 (Table l) and was adopted as the basic variant of

Russia's socio-economic development projection. The parameters of it are presented in Table 1 and 2.

Table 1. The basic parameters of Russia's socio-economic development projection (year 2015 – fact, 2016-2019 – plan)

	2015	2016	2017	2018	2019
GDP, billion rubles	80804,0	82815,0	86806,0	92296,0	98860,0
The rate of GDP growth, % to the previous year	-3,7	-0,6	0,6	1,7	2,1
The average price of Urals oil, $/bbl.	51,2	41,0	40,0	40,0	40,0
The average annual exchange rate of the ruble to the US dollar, rubles per $	60,7	67,5	67,5	68,7	71,1
The consumer price index in annual terms, %	12,9	5,8	4,0	4,0	4,0

Source: The explanatory note to the…, 2016.

According to 2015 and 2016, the Russia's GDP pace decreased by 3.7% and 0.7%. According to the basic variant of Russia's GDP projection in 2017-2019 there would be the growth of Russia's GDP rate at +0.6%, +1.7% and +2.1% correspondingly. However, the reasons for such dramatic change in the dynamics are not obvious. There continues the tendency of the ruble's weakening from 60.7 to 71.1 ones per dollar, which will positively affect the competitiveness of Russian goods. The decline in the average oil price comes along with the decline in the rate of inflation in Russia (Table 1). As noted by V. Gurevich, „the sudden weakening of the ruble amid moderated inflation in 2017-2019, reduced capital flows and stable oil prices is not quite well understood (among other projective innovations)" (Gurevich 2016, p. 3). There comes the conclusion that the Ministry of Economic Development assesses the current situation and immediate prospects of Russia in all respects much more optimistic than the independent experts (Akindinova, Kondrashov, Cherniavsky 2016; Aleksashenko 2016; Dmitriev 2016). The main characteristics of the Federal budget, which are formed in accordance with the basic variant of socio-economic development projection, are presented in Table 2.

Table 2. The main characteristics of the federal budget (year 2015 – fact, 2016-2019 – plan)

	Billion rubles					In % of GDP				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Revenues	13659	13369	13437	13989	14825	16,9	16,1	15,5	15,2	15,0
Including										
Oil and gas	5863	4778	5029	5133	5370	7,3	5,8	5,8	5,5	5,4
Non-oil and gas	7797	8591	8408	8856	9455	9,6	10,4	9,6	9,6	9,6
Expenses	15620	16403	16181	15978	15964	19,3	19,8	18,6	17,3	16,1

Deficit (-/) Surplus (+)	-1961	-3034	-2744	-1989	-1139	-2,4	-3,7	-3,02	-2,2	-1,2
Non-oil and gas deficit	-7823	-7812	-7773	-7122	-6509	-9,7	-9,4	-9,0	-7,7	-6,5

Source: Explanatory note to the draft…, 2016.

In 2017-2019 there is projected the decrease of federal budget revenues from 16.1% of GDP in 2016 to 15.0% of GDP by 2019. That will happen due primarily to the dynamics of oil and gas revenues, which will be reduced from 5.8% of GDP in 2016-2017 to 5.4% of GDP by 2019 (http://minfin.ru/ru/perfomance/budget/federal_budget/budj_rosp, (access: 25.10.2016)). There is projected a steady volume of non-oil and gas revenues not below 9.6% of GDP, which corresponds to 2015. The notable increase of non-oil and gas revenues in 2016 (up to 10.4% of GDP) is a consequence of the expected additional revenues from the partial privatization of JSC „Rosneft". According to the draft of the federal budget (Table 2) in 2017 the revenues of the federal budget will be reduced to 15.5% of GDP compared to 16.1% of GDP, expected by the end of 2016, and then by 2019 it will be reduced to 15.0% of GDP (Figure 2). In the medium term, despite the low forecast oil prices, oil and gas revenues will continue to provide more than a third of Federal revenues. In conditions of low oil prices, a key issue is the replenishment of budget revenues. Reduction of Federal budget revenues becomes the factor of decrease in federal budget revenues in general, expected from 33.3% of GDP in 2016 to 32.7% of GDP in 2017 and 32.3% of GDP in 2019. The draft budget projects the increase of non-oil and gas revenues in 2017-2019; this will be based on the growth of domestic production and import (primarily from value added tax, that is about one third of the Federal budget revenues).

Figure 2. The dynamics of the Federal budget revenues, % of GDP
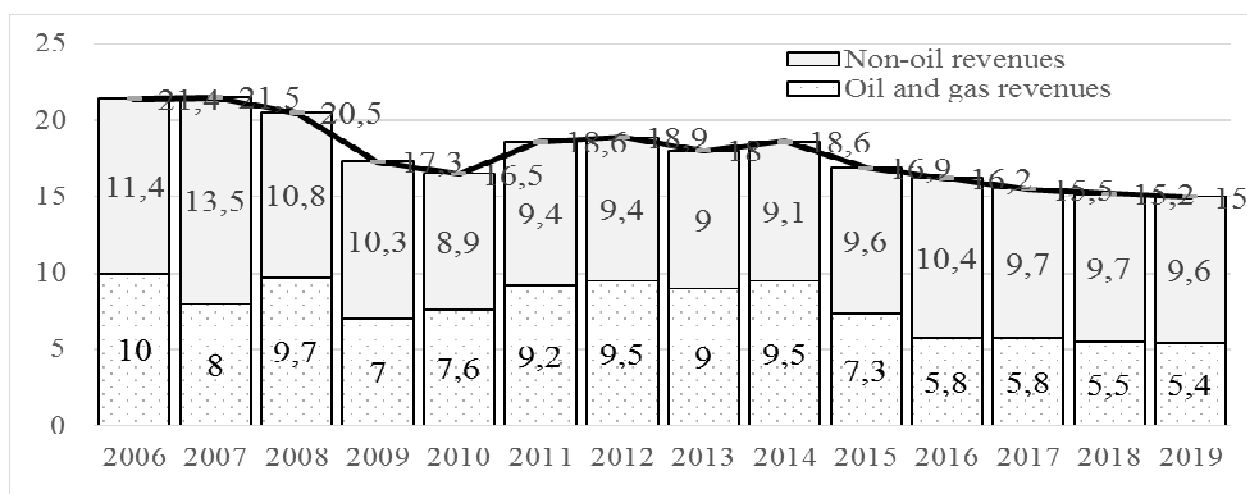
Source: Explanatory note to the draft…, 2016; The project of the main characteristics…, 2016.

The analysis of the Russia's economic development scenario parameters

Component analysis of the basic economic development scenario parameters shows that the oil and gas portion of the revenues is at great risk. The structure of GDP growth in 2018-2019, contains significant contradictions, which lead to overestimation of GDP. The dynamics of more GDP components corresponds to lower growth rates. In 2018 the basic scenario projects the contribution of final consumption expenditure in the amount of 0.3 p.p., of gross fixed capital formation in the amount of 0.3 p.p., of goods and services exports in the amount of 0.6 p.p., of goods and services imports in the amount of minus 0.5 percentage points. These factors in sum are explained by the economics growth in 2018 by 0.6-0.7% versus 1.7% as projected in the basic scenario by the Russian Ministry of Economic Development (Table 3). In the official projection of the Ministry of Economic Development in 2018-2019, higher GDP growth is mainly explained by the positive contribution of the factor „changes in reserves" (Table 3, Figure 2). It is meant that the production growth in the framework of the business cycle theory reflects economic agents' expectations about future demand. The Ministry of Economic Development projects poor correlation between the dynamics of reserves and the economic logics, and this dynamics is too optimistic that it is best seen from the indicator „The share of reserves changes in GDP", which is the derivative to the indicator „Contribution of reserves to GDP growth". In the basic projection scenario by the Russian Ministry of Economic Development the share of reserves changes in GDP is rising from 1.2% in 2017 to 2.6% in 2018 and 4.2% in 2019 (Figure 2).

Table 3. Federal budget revenues and GDP growth structure in the basic projection scenario by the Russian Ministry of Economic Development, the parameters of revenue growth (year 2015 – fact, 2016-2019 – plan)

		2015	2016	2017	2018	2019
Total revenues, (1)+(2)		16,9	16,2	15,5	15,2	15
Oil and gas revenues	(1) Oil and gas	7,3	5,8	5,8	5,5	5,4
	Tax on extraction of mineral resources	3,9	3,4	3,8	3,7	3,6
	Export duties	3,3	2,4	2	1,9	1,9
Non-oil and gas revenues	(2) Non-oil and gas	9,6	10,4	9,7	9,7	9,6
	Tax on organizations' income	0,6	0,6	0,7	0,7	0,7
	VAT on goods sold in Russia	3	3,2	3,3	3,5	3,6
	VAT on goods imported into the Russian territory	2,2	2,3	2,3	2,3	2,3
	Excise duties on goods manufactured in the Russian territory	0,7	0,8	0,9	0,9	0,9
	Excise duties on goods imported into the Russian territory	0,1	0,1	0,1	0,1	0,1
	Import duties	0,7	0,7	0,6	0,6	0,6
GDP growth, % from the previous year		-3,7	-0,6	0,6	1,7	2,1
Contribution to GDP growth, PP	The final consumption expenditure	-5,4	-2,3	0	0,3	0,7
	Gross fixed capital formation	-1,6	-0,8	-0,1	0,3	0,4
	Change of reserves	-1,8	1,3	0,9	1,1	1,2
	Export of goods and services	1	-0,1	0,5	0,6	0,2
	Import of goods and services	5,4	1,2	-0,7	-0,5	-0,5
Change of reserves, % of GDP		-1,1	0,4	1,2	2,6	4,2
Parameters of revenue growth, % to the previous year	Retail trade turnover, %	-10	-4,6	0,6	1,1	1,8
	The volume of paid services, %	-2	-0,5	0,7	1,3	2
	Real disposable revenues	-4,3	-5,6	0,2	0,5	0,8

Source: Explanatory note to the draft…, 2016; The project of the main characteristics…, 2016.

In the end there appear two serious problems. First, the value of reserves change shares in GDP for 2019 is the highest since 2001, that is higher than in the periods of rising and high oil prices and high economic growth. Second, an unprecedented large share of reserves changes in GDP in 2018-2019, does not correspond with the current economic dynamics. From the data of 2001 and further it becomes evident that the reserves changes share in GDP is usually about half the rate of GDP growth for the same year (Figure 2). That means that in the basic projection, the share of reserves changes in GDP is 3 times exaggerated in 2018, and 4 times in 2019.

Figure 3. GDP growth and the reserves changes in the basic projection scenario by the Russian Ministry of Economic Development
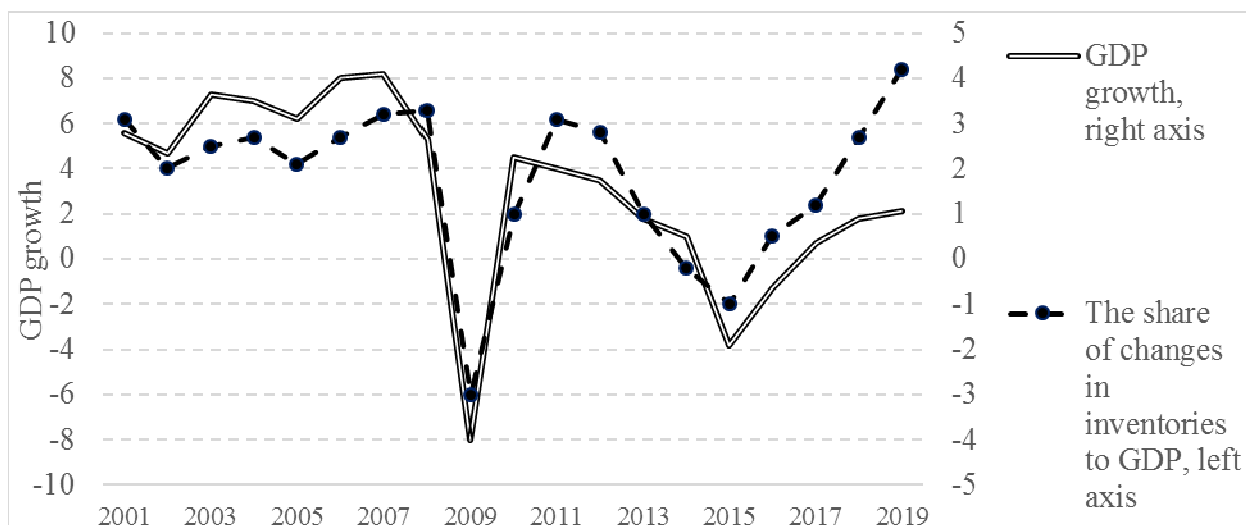
Source: Explanatory note to the draft… 2016; The project of the main characteristics… 2016.

Thus, we need to substantially reconsider and understand in details what positive effect the „reserves changes" factor has on the „reserves" of economic growth in the framework of the business cycle theory. Apparently, this is the key conclusion from the basic projection of the Ministry of Economic Development, which is to be verified both theoretically and empirically basing on the preceding dynamics of the time series. Moreover, it is necessary to pay attention to the incorporated in the projection pace of recovery in consumer demand (retail trade turnover and the dynamics of paid services) that rely on a much more moderate pace of recovery in real disposable population revenues (the last section of the Table 3). After a sharp decline of retail trade turnover it is not clear how to plan its growth when that the majority of Russian people do not have savings and any opportunities to increase consumption.

The main points of the Russia's budget expenditure are shown in Figure 4. This projection on the growth of incomes and consumer expenses in the Ministry of Economic Development basic scenario along with the expected production increase in reserves implies the growth in consumer optimism and activity in conditions of protracted real incomes stagnation. This assumption is too optimistic considering the fact that many Russians do not have savings and, hence, are not able to increase consumption, without relying on revenue growth.

Federal budget expenses in the 2017-2019 are formed in the framework of the budget rules. In the medium term, it is expected to resume the implementation of budget rules to weaken the budget system sensitivity to the volatility of world oil prices. According to preliminary estimates, the new edition of the budget rules will become fully effective from

2020, while the years 2017-2019 are announced as a transition period because of the need to avoid too rapid compression of expenses to the level envisaged by the concept of new budget rules.

Figure 4. The Federal budget expenses, % GDP
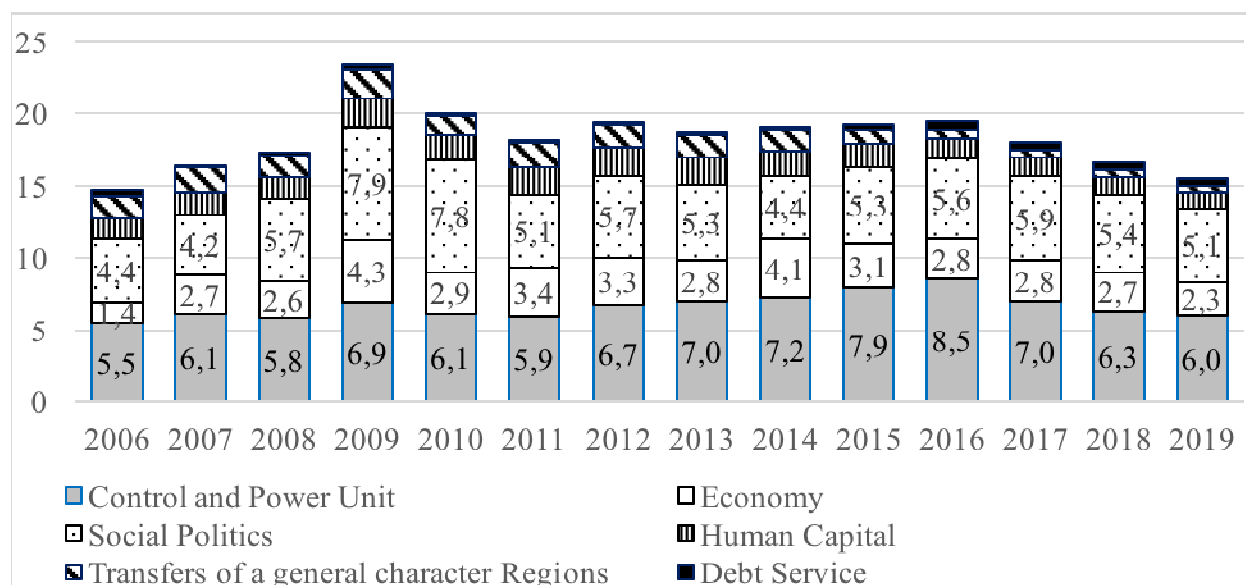
Source: The project of the main characteristics…, 2016.

The Russian Ministry of Finance suggested to determine the highest volume of the Federal budget expenses in 2020 as the sum of three components. They are: (1) the basic volume of oil and gas revenues calculated at the basic price of „Urals" oil $40/bbl. and the basic ruble exchange rate; (2) the volume of non-oil and gas revenues, calculated in accordance with the basic medium-term projection of the Russian Ministry of Economic Development; (3) debt servicing costs. Moreover, in case the estimated contingency fund amount on January, 1 of the first planned year falls below the level of 5% of GDP, the highest volume of the reserve budget use for the next budget year may not exceed 1% of GDP and, on this basis, the maximum amount of the cost is adjusted. Such rules are focused on reducing the impact of oil prices fluctuations on domestic prices and exchange rate, and budget policy deals with the objectives of monetary regulation. In conditions when the first and the third components of the formula are acyclic, the second is procyclic and there is no deficit, the active budget policy is impossible (Sokolov 2016, p.p. 9-10). The draft main directions of budget policy as well as the draft Federal budget suggest the reduction of the budget expenses in 2017 to 36.2% of GDP, versus 37.3% of GDP in 2016 and 33.5% of GDP in 2019 spending policy of the Russian Federal budget assumes a continued reduction of its participation in the financing of health care. Relative to GDP there will continue the reduce of overall expenses on education from 3.7% of GDP in 2016 to 3.6% in 2017 and 3.5% in 2019. Therefore, their

level will further shift from the levels typical for developed countries (4.5% of GDP on average in the OECD), to the levels characteristic to developing countries.

The cost of human capital in 2017-2019 will be connected with the capacity of regional budgets and mandatory health insurance (MHI). The total volume of health care financing in 2016 is expected to reach about 2 950 billion rubles, or 3.6% of GDP, against 3.9% of GDP given in the Main directions of the budget policy. Keeping in mind that in 2015 the regions were given 706 billion rubles for health expenses, it is difficult to expect that in 2017-2019 there will be the possibility to fund these expenses at the level of 1.3-1.4 trillion rubles required to bring the total amount of health expenses to 3.9-4.1% of GDP per year. Thus it follows that at the level of the budget system there will not be any move to the sectors that form human capital (Akindinova, Kondrashov, Cherniavsky 2016, pp. 25-26).

Ways of going out of economic stagnation are known. For long-term growth support there is need to move into the real sector (investments in infrastructure, technology development) and into the public sector, implying the expenses shift in in favor of health, education, and science. But it seems unlikely that this task is on the agenda of modern Russia. Let it be noted that on the 1st of December 2016 the president of Russia has addressed to the Federal Assembly with the annual message (The Message of the Russian President, Vladimir Putin to the Federal Assembly December 1, 2016), which instructed the government to develop a set of measures to accelerate economic growth. There were reviewed the planned expenses of the Russian federal budget according with the functional classification of 2015-2019. These plans contain some positive changes in the structure of expenses. In particular, it is planned to reduce defense and social spending. However, expenses on health and education are also reduced as a share of GDP (http://minfin.ru/ru/perfomance/budget/federal_budget/budj_rosp, (access: 25.10.2016)).

There was conducted the correlation analysis, and the results are shown in Table 4. The dataset was formed according to the Table 3 (2006-2019). Indicators that didn't have significant effect on the parameters of the projection are not mentioned in the table. In the columns of Table 4 there are shown the numbers of variables corresponding to the rows. In Russia the situation with budget revenues and GDP growth is such that these projections are not connected with such crucial parameters as „Goods and services export", „Real disposable income", „Mineral extraction Tax (MET)". Moreover, the policy of raising export duties negatively affects the economic dynamics (Table 4, line 14). But, there may be an inverse relationship, when the government responds to the income reduction by raising export duties.

The Russian government actually continues to base their projection on „pumping" the population's purchasing abilities, starting by this the flywheel of hyperinflation again. This is confirmed by the fact that the most important factor determining growth, is the population's expenses. The population's expenses in total are reflected in the indicators: retail trade turnover (0,761**), the volume of paid services to the population (0,764**) and final consumption expenses (0,766**) (in brackets there is shown the Pearson correlation coefficient with the index „1". The rate of GDP growth, % to the previous year"). The reserves dynamics is most closely connected with the parameters "the volume of paid services and VAT on goods imported into the Russian territory, % of GDP" (0,756**). In turn, the annual consumer price index is negatively related to the GDP growth (Table 4, line 4).

Table 4. Fragments of the Pearson Correlation matrix between the main components of the Ministry of Economic Development basic projection (2006-2019)

Pearson Correlation	1.	4.	5.	6.	8.
1. The rate of GDP growth, % to the previous year	1	-0.742[*]	**0.761**[**]	**0.764**[**]	**0.766**[**]
2. The average price of Urals oil, $/bbl.	-0.723[*]	**0.773**[**]	-0.704[*]		-0.724[*]
3. The average annual exchange rate of the ruble to US dollar, rubles/$.		-0.742[*]	0.715[*]	0.740[*]	0.734[*]
4. The annual consumer price index, %	-0.742[*]	1	-0.746[*]	-0.677[*]	
5. Retail trade turnover, %	**0.761**[**]	-0.746[*]	1	**0.766**[**]	
6. The volume of paid services, %	**0.764**[**]	-0.677[*]	0.766[**]	1	
8. The final consumption expenses, %	**0.766**[**]				1
11. Goods and services import, %	-0.747[*]	0.774[**]	-0.760[**]	-0.716[*]	**-0.767**[**]
12. Reserves changes, % of GDP	0.731[*]		0.671[*]	0.756[**]	0.672[*]
14. Export duties, % of GDP	**-0.763**[**]	0.766[**]	-0.764[**]	-0.741[*]	-0.771[**]
15. Tax on organizations' profit, % of GDP			0.721[*]	0.675[*]	0.676[*]
16. VAT on goods sold on the Russian territory, % of GDP	**0.751**[**]		0.724[*]	**0.761**[**]	0.724[*]
17. VAT on goods imported into the Russian territory, % of GDP	0.673[*]	**-0.767**[**]			0.667[*]
18. Excise duties on goods manufactured in the Russian territory, % of GDP	**0.756**[**]	-0.744[*]	**0.775**[**]	0.745[*]	**0.774**[**]

Note: In Table 4 there are suppressed cell values which do not have significant correlation, that is, Sig. (2-tailed) > 0,1. The high significance of correlation (**) is when Sig. (2-tailed) < 0,01. If the latter is not performed, the low significance of correlation (*) includes cases for which Sig. (2-tailed) < 0.1.
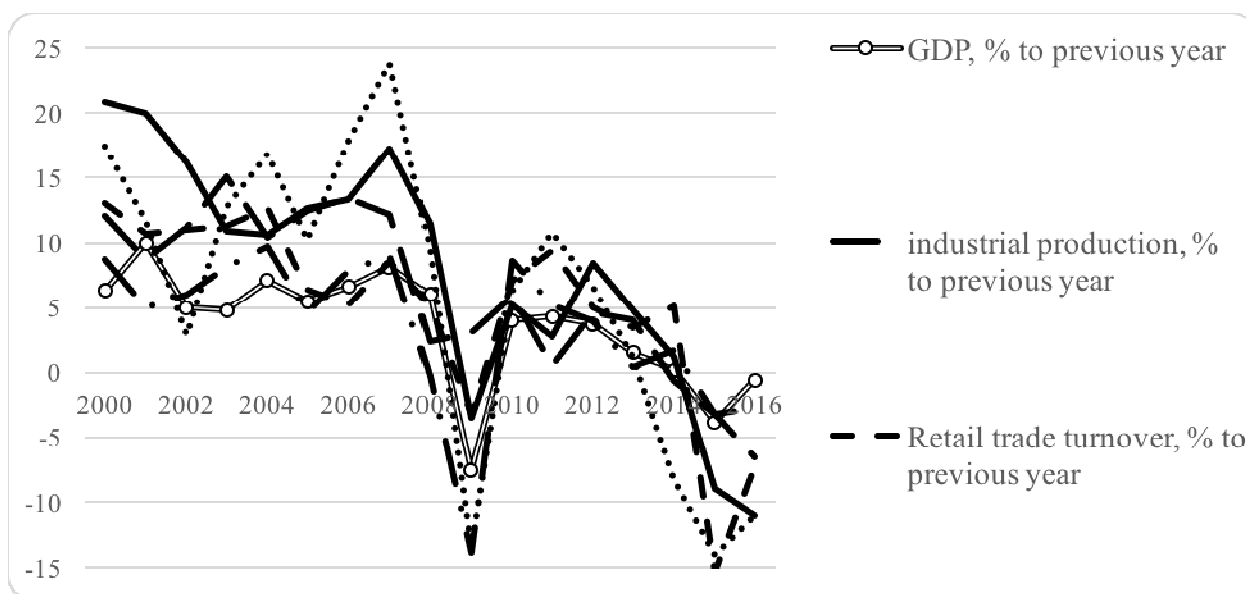
Source: The materials of the Russian State Committee of Statistics (2016).

Thus, as it was expected, the crucial for economic growth is the population income dynamics (Figure 5). In Russia, the decline in real disposable income leads directly to the decrease in food and nonfood products sales, as the population's cash savings are very small.

The reducing of absolute income goes along with increasing socio-economic differentiation. There grows the layer of low-income and poor people. Rich Russians are about 20% of the total, and they prefer to accumulate funds in financial assets mainly in bank deposits. The growth of inequality causes dangerous problems of social polarization. In limited financial conditions and slow economic recovery, only minimal social obligations are provided, according to the Ministry of Economic Development projections for the next three years (On the Federal budget for 2017, 2018 and 2019).

After a long recession the Russian economics returns to long-term stagnation, fully shown in 2014, and it seems like the population gets used to life „at the bottom" (Figure 5). Thus, Russia falls into the trap of „long crisis". At low rates of economic growth, the state and society's resources are not enough to solve important social problems, to reduce poverty, to develop the infrastructure. There is not enough resources for technological production modernization, which may lead to a gradual loss of technological capacity, human capital, competitiveness decline, the ruble's exchange rate, and the destabilization of the payments' balance. Based on the data from the Ministry of Economic Development basic projections, the majority of the Russian economics main indicators remain below the levels of 2013.

Figure 5. The dynamics of the Russian population's income in 2000-2016, in % to the previous year in comparable prices

Source: The materials of the Russian State Committee of Statistics (2016).

The growth potential for the Russian economics today is 3.5-4% per year, and, therefore, the key question about the prospects for 2017 is: whether the Russian government will be able to release this potential or at least its significant part or not (Aleksashenko 2016). It should be emphasized that the state was not only able to protect the rights proclaimed by itself, but also

it stepped on the path of their systematic violation. The lack of reliable institutional guarantees of civil society led to the growth of all levels of authorities' arbitrariness. The deviation from legal norms became a kind of behavior norm itself. There increased the gap between the declared, desired and implemented freedom. All these events created the preconditions for the society's criminalization, and for the establishment and development of unlawful liberty. Today, the Russian society is farther from the Western institutional legal freedom than it was even before the reforms in 1990-ies.

Insights

By the end of 2016, the Russian economics was able to reach an equilibrium state, adapting to the decline in oil prices and financial sanctions. The new market equilibrium costed the Russian economics high price. Private consumption in the last two years has fallen by approximately 15%, while investment – by more than 10%. Russian economics has avoided the Venezuelan scenario, and, if there is no political alteration, the growth direction is of great probability. For this there is need to restore private consumption and investment. The official data analysis of the Russian budget showed that the current structure and the current trends do not correspond to the requirements for long-term sustainable economic growth.

The Ministry of Economic Development, expressing the overcoming of investment recession and being interested in the redirection of these development funds, prefers not to discuss the real issues that hamper investment activity in Russia. Among the main obstacles, there are distrust to the judicial and law enforcement system, which is unable to provide businessmen with the protection of property rights, and continuing economic sanctions from the Western countries. Russia's economics is suppressed by high percentage of the Central Bank refinancing rate, hard budget, high tax burden, increasing administrative costs. Sharply increasing concentration of subjective decisions risks also closes growth opportunities. Another reason for stopping the Russian economic growth is the deadlock development model of 2000-s, when its basis was raw material orientation and dominance of state companies headed by people close to the highest level of government. Modern economic situation in Russia on the world map has changed, and the subsequent stagnation will continue to reduce the Russian share in the world economics and to increase the gap in living standards with developed countries. If there wouldn't be any reforms by 2020 Russia will have a chance to get into the group of countries that are characterized by three features: the technology of the

previous generation; low human capital; low life expectancy; along with ineffective „privatized from the inside" state.

Ahead of elections in 2018, the Russian President instructed to prepare a plan of actions to increase economic growth rates above the world average. The new strategy, which is being prepared by the group chaired by A. Kudrin, should be ready by the summer of 2017. The government did not adopt the previous version, the „Strategy-2020", officially. However, informally "Strategy-2020" is a kind of a benchmark, and by 2016 it was executed at less than 30% (Dmitriev 2016). It seems that if the task for implementation of a cardinal institutional program of economic action would not be set, the recovery prospects of Russia's economic growth may be doubtful.

The work confirmed the hypothesis of the study, that in Russia there still exist discrepancies between the declared goals of achieving the desired economic growth and the real actions of authorities. The objectives stated by authorities do not correspond to the real data presented in the official forecasts. It is shown that the main risks for not achieving the basic parameters of the forecast of social and economic development submitted by the Russian government until 2020, are internal, reproduced at the level of institutions, priorities and objectives of the executive authorities.

Discussion of results and conclusions

The complexity of the socio-economic tasks means that economic decisions must be complexity. The baseline scenario of the forecast shows that the development of the Russian economy is under pressure of external factors. The baseline scenario has the status of a conservative and does not provide a radical change of model of economic development. This restoration should occur at a fairly low level of oil prices.

The target scenario is focused on a favorable transition of the Russian economy to the investment model of development, which involves reducing costs for business and restrained growth in consumer spending in the first years of the forecast period. Economic growth in the target scenario should contribute to improving the business climate; an active investment policy should also lead to higher annual average growth rate of investment to 5.2% per year in 2017-2019, what should happen due to the rapid growth of private and infrastructure investment.

The analysis of the real implementation of the budget of the Russian Federation and the awareness of possible inertial trend leads to the following conclusions:

1) hypotheses are clearly confirmed; in particular, the Russian budget bypasses key investments in human capital: government spending (2012-2016) on education in real terms has decreased by 22.6%, health decreased by 25.3%;

2) the basic idea of this article is that the planned budget was formed on assumptions which do not adequately reflect an objective Russian reality. The Russian government currently has the ability to improve them, that is, to bring the budget in line with the real economic situation. The Ministry of Finance revised the revenue plan of 2017 and proposed increase of budget expenditures. The cost structure worsens;

3) the revival of investment activity, which was based on the Ministry of Economic Development budgeting in the 2017-2019 is impossible. The companies are left a small number with investment resources due to high interest rates, low profitability of their own activities and low solvent demand of the population;

4) at the present time, it is common that the strategic objectives of development of Russia could be realized only with the comprehensive modernization of the economy, government social policy and law enforcement. Part of these problems is beyond the competence of the government. Key factors of the main problems of the Russian economy are political competition, freedom of media, independent, honest and fair courts. However, it is not so much economic as political issue in Russia.

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