



## **Russian Socio-Economic Development: The Present Situation and Future Directives**

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*Abstract: Markets are increasingly affected by the laws of politics instead of the laws of economics. Nowadays political factor plays larger and larger role in the economic policy making, replacing market competition. Russia is no exception. External shocks such as changing oil prices and trade sanctions which influence on Russian economic development are unequivocal illustration of this trend. In order to respond to the changes and requirements of the world's current socio-economic situation, Russia has to transform its economic system fundamentally*

*What is the current socio-economic situation in Russia? What are the challenges and limitations of the ongoing system? Why is there a need for introducing a new economic model? The article deals with the concept of Russian long-term socio-economic development, analyzes the main socio-economic indicators, and presents the main trends and features of the Russian economy.*

*Keywords: Russia, social development, economic development, socio-economic situation, economic policy*

## **1 Introduction**

The politicization of the economy, especially on the international level, becomes a major feature of the current development stage (as well as the ongoing crisis). Markets are increasingly subordinated to the laws of politics instead of the laws of economics. The current crisis has resulted in growing instability of world markets, which now operate in a way that is considerably different from the past few decades. Russia's economic development has been strongly influenced by external shocks since 2014. These include the changing price of oil and other Russian exports as well as sanctions (primarily financial and technological). Importantly, the problem is not just how much prices have fallen, which has happened periodically over the past few decades, but the speed of their decline. In 2015 oil prices fell by half in roughly half a year, which is unprecedented in modern economic history.

However, the main factor of low economic development rates is the structural problems of the Russian economy, which were caused by two overlapping factors – the global crisis and the exhaustion of the economic growth model of the 2000s. A substantial reduction of growth rates started long before oil prices declined and sanctions were imposed on Russia. According to President Vladimir Putin, the economic policy plays major role in rising living standards [1]. The improved business climate and socio-economic development are vital components of the brighter future.

## **2 Socio-economic development of the Russian Federation**

The concept of long-term socio-economic development of the Russian Federation for the period up to 2020 (hereinafter - the LDC-2020) was developed in compliance with the order of the President after a meeting of the State Council on the 21<sup>st</sup> of July, 2006 and approved by the Federal Government on the 17<sup>th</sup> of November, 2008 № 1662-p. [2]; [3].

The purpose of the LDC is to identify ways and means of ensuring in the long term (2008 - 2020) sustained increases in the well-being of Russian citizens, national security, dynamic development of the economy, strengthening of Russia's positions in the world community.

The strategic goal is to achieve a level of economic and social development corresponding to Russia's status as a leading world power of the 21<sup>st</sup> century, which occupies leading positions in the global-term economic competitiveness and reliably providing national security and the implementation of citizens' constitutional rights. In the period of 2015-2020 Russia is supposed to enter the top five leading countries in terms of gross domestic product (at purchasing power parity).

Table 1 shows the initial conditions and macroeconomic indicators of Russian innovative economic development up to 2020.

Indicator	2008 - 2010	2011 - 2015	2016 - 2020
1. Oil prices (world), USD per barrel	99	91	108
2. The global economy, the average annual growth, %	4,2	4,4	4
3. Population, million people	141,8	142,2	143,4
4. Inflation annual average, the increase in prices, %	10,3	6,4	3,5
5. Gross domestic product, average annual growth, %	6,8	6,4	6,3
6. Industrial production, average annual growth, %	5,7	5,3	5,1
7. Real disposable income, average annual growth, %	10	7	6,7
8. Retail turnover, the average annual growth, %	12,8	7,5	6,4
9. Investments, the average annual growth,%	14-14,8	10,3	10

Table 1

The initial conditions and macroeconomic indicators of Russian innovative economic development.

Source: [4]

Challenges of the forthcoming long-term period, according to developers of LDC-2020, are the following:

- 1) Increased global competition, covering not only the traditional commodity markets of capital, technology and labour, but also the national control system, support for innovation, human potential development.
- 2) The expected new wave of technological changes, reinforcing the role of innovation in economic and social development and reducing the impact of many of the traditional growth factors.
- 3) The increasing role of human capital as a key factor in economic development.
- 4) Exhaustion of potential raw materials export model of economic development, based on the forced export of fuel and raw materials, production of goods for domestic consumption due to the pre-loading of capacities in the conditions of low exchange rate, low cost factors of production - labour, fuel and electricity.

Russian Ministry of Economic Development made the long-term socio-economic development forecast of the Russian Federation for the period up to 2030 on the

basis of the LDC 2020, and it is one of the main documents of strategic planning [2]; [5].

The results of 2001-2012 years were announced in the following document. It was noted that Russia's economic development was extremely uneven, including three periods:

- 1) 2001-2008, a period of economic recovery after the transformation crisis and default of 1998;
- 2) 2009-2011, the period of the global crisis and post-crisis renewal of the economy;
- 3) 2012, a new phase of growth, characterized by the slowdown of both investment and consumer demand together with the weakening of external demand.

It should be noticed that indicators given in Table 1, in fact, are not achieved nowadays [4]; [6]:

- 1) Oil prices. Budget parameters were calculated based on the forecast of the average annual price of Urals oil in 2014 - \$ 101 per barrel, in 2016-2020 - \$ 108 per barrel. In fact, according to Ministry of Finance, the price of Urals oil in the first six months of 2016 was \$ 37.85 per barrel.
- 2) The global economy, the average annual increase. Economic growth was the lowest in the past time and amounted to 2.4% in 2015. The UN report presents a forecast of global economic growth, according to which the world economy in 2016 will grow by only 2.9%, in 2017 - 3.2% [7].

In 2016 the IMF has improved the outlook on the dynamics of Russia's GDP to decline by 1.2%. The forecast for 2017 is saved, the Fund expects that the Russian economy will emerge from recession, and its growth will be 1%. The IMF also confirmed the forecast for the medium term, according to which the Russian economy will grow annually by 1.5% [8].

- 3) The population of Russia. The actual indicators were higher than planned ones. The reasons for this are, firstly, the positive demographic changes associated with population growth (from 2013) and, secondly, Republic of Crimea and the federal city - Sevastopol joined Russia. In 2016, Russia's population totalled 146, 5 million people. The forecasts for this indicator are positive.
- 4) Inflation average, the increase in prices. Inflation in 2015 was 12.9% compared to the forecast - 6.4% - for the period 2011- 2015. In fact, inflation was twice higher in comparison with the planned one. At the moment, inflation is 7.5%. It can be argued that there is a process of stagflation.
- 5) GDP, average annual growth. According to Russian Federal Agency of State Statistics, GDP index was 100.7% in 2014, and decreased by 3.5% in 2015 when economy moved from stagnation to recession [10].

Minister of Economic Development A. Ulyukaev noted that in 2016 GDP growth will return to positive level, and in 2017-2018 Russia can be the same as the pre-crisis one [2]. On the Figure 1, the GDP growth is presented.

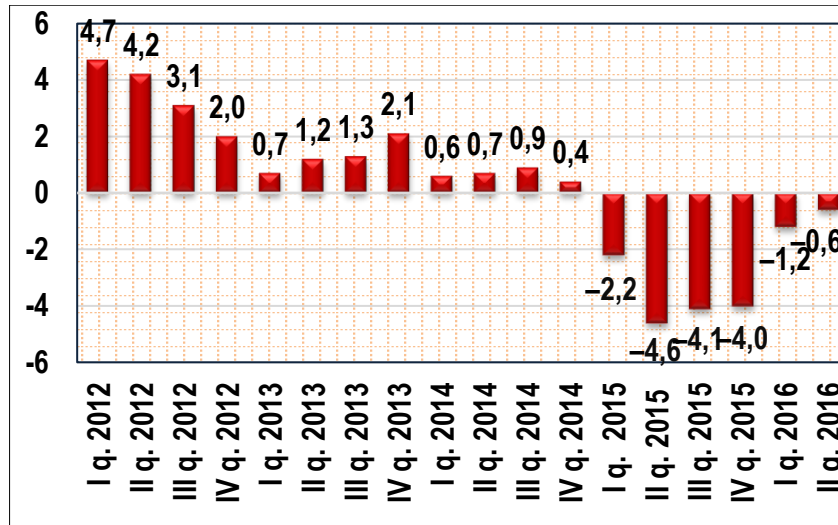


Figure 1

GDP growth of the Russian Federation (2012-2016). Source: [11]

- 6) Industrial production, an average annual increase. The impact of sanctions on Russian industry has delayed effect, the industry reacts to external and internal challenges much more slowly than, for example, the financial market. But, nevertheless, the negative trends are already evident.

Index of industrial production amounted to 96.6% in 2015, which means reduction in production volumes by 3.4%. In January-August 2016 compared with January-August 2015 the volume of industrial production increased by 0.4%. The indicator has improved, but the predicted indicators diverge from the actual ones (according to forecast, growth should be 5.1%).

- 7) The real disposable income of the population, the average annual increase. According to Russian Federal Agency of State Statistics, real disposable income of the Russian population (incomes minus the obligatory payments, corrected by consumer price index), according to preliminary data, in January-April 2016 decreased by 12.7% compared to 2015 [10].

The average monthly salary in April 2016 amounted to 26264.8 rubles (388 EUR) and decreased by 4.4%, compared with April 2015, by 1.3%, compared with March 2016. On Figure 2 the real disposable income growth and inflation growth (2012-2016) are presented.

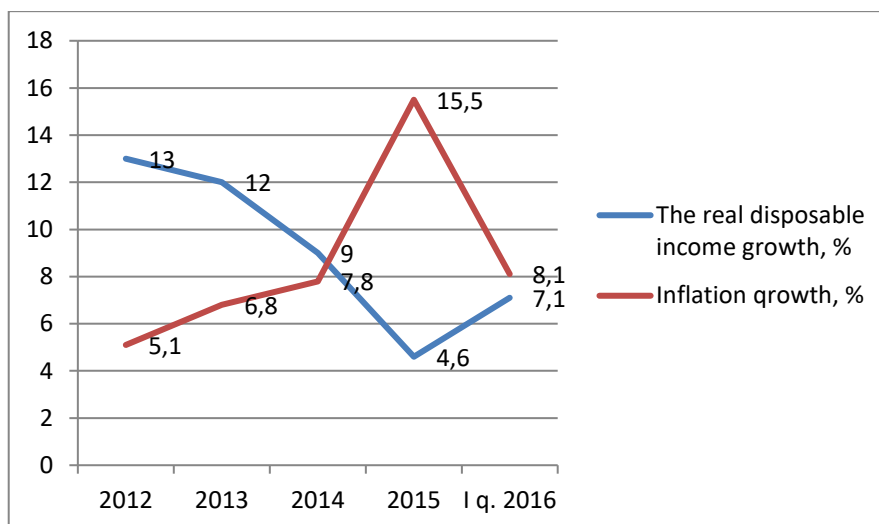


Figure 2

The real disposable income growth and inflation growth (2012-2016)

Source: [11]

- 8) Retail trade turnover, an average annual increase. Retail trade turnover in 2015 decreased in comparison with 2014 by 10% to 27.6 trillion rubles. In 2016 retail turnover continues to decrease.
- 9) Investments, the average annual increase. Investments in non-financial assets in 2014 as compared with 2013 year fell by 2.3%, and in 2013 compared with 2012 increased by 0.8%, the trend was negative.

So, the following conclusions about the achievement of the LDC 2020 objectives can be done. Overall, the forecast was justified only in terms of population. Actual indicators were worse than forecast and even planned tendencies were not realized. Ministry of Economic Development published a variety of forecasts for key socio-economic indicators of Russia. Table 2 shows the number of indicators, stated in the forecast of 2015 for the period 2016-2018.

Indicator	2014	2015	2016	2017	2018
The price of Urals oil (the world), USD / barrel					
1*	97,6	50	60	65	70
2**		60	70	80	90
GDP, %					
1	100,6	97,2	102,3	102,3	102,4
2		97,5	103,1	102,7	103,3
Investments in fixed assets, %					
1	97,3	89,4	103,1	102,3	103,2
2		91,3	104,6	103,6	104,8
Industry, %					
1	101,7	98,7	101,5	101,6	101,9
2		98,9	102,1	102,3	102,6
Real disposable income, %					
1	99,2	92,2	101,1	102,6	102,8
2		92,4	102,1	103,7	103,8
Export, billion USD					
1	497,8	348	376	402	431
2		376	410	454	505

Table 2

The main indicators of Russian socio-economic development in the period of 2015-2018. Source: [2]; [9]

\* Option 1 - basic scenario, \*\* Option 2 - optimistic scenario

Thus, the forecast of main socio-economic indicators in Russia does not reflect current economic realities and trends identified for the main parameters of the Russian Federation.

The undeniable fact is the impact of events that have occurred on the international scene since 2014 on the implementation of the strategic plan of Russian socio-economic development. The important consequence was the negative political and economic impact on Russia from Western countries; Russia is in a difficult situation nowadays, in a position of confrontation with the international community.

New sanctions are continuously introduced against Russia, the capital outflow strengthens, international agencies reduce economic and investment ratings, which do not help, but affect the development of the national economy.

Based on results of 2014, some analysts gave the following assessment: due to sanctions Russia will lose about 23 billion EUR or 1.5% of GDP, and nearly 75 billion EUR (nearly 5% of GDP) in 2015. It is important to note that in such conditions there is significant slowdown of foreign investment inflow in Russia (75% of these investments are from EU) [10].

The first sanctions against Russia were introduced in March 2014, mostly symbolic ones that did not reflect on the socio-economic indicators. The sanctions included

the visa restrictions imposed on some Russian officials, freezing their assets, a ban on the support of business relationships with individuals and entities included in the lists.

Second package of sanctions and, moreover, the third one, of course, influenced on Russian economic development indicators. It was a shock, firstly, for the financial sector, for Russian defence and energy sector enterprises. Several countries have restricted the supply of technologies, weapons, minerals and other goods to the Russian market.

Since the main Russian partners were the EU countries (42.2% of import and 53.8% of total export), Russia was supposed to have a lot of problems because of the sanctions.

US President Barack Obama at the end of January 2015 in his annual address to Congress said that western sanctions "broke Russian economy to pieces".

It should be noted that in recent times uncertainty and turbulence in the world economic development have increased, and eventually they have much more negative impact on Russia:

- 1) there is increased risk of low oil prices;
- 2) the role of reserve currencies always increases and especially USD exchange rate;
- 3) there are risks of "financial bubbles" in the US, Europe and China;
- 4) there is Russian's dependence on Chinese economic development (because of the sanctions there is the reorientation of Russian economy to the East (to China), there is dependence of Russia on Chinese investment in fuel and energy sector of Russian Federation) [11].

Of course, external factors will affect the socio-economic situation in Russia, based not only on global economic issues and trends, but also on the negative impact of international policy-making related to Ukrainian and Syrian situations, as well as Russia's participation in resolving political crises in these countries. The main anxiety is ongoing sanction policy.

Besides external factors, there are several internal difficulties in the Russian economy that arised even before 2014, the incidences in Ukraine and the restrictive measures against Russia. The sanctions did not lead to the emergence of new economic problems, but exacerbated and revealed the already existing structural problems in the Russian economy.

V.M. Holodkov, head of the international economic organizations at Russian Institute of Strategic Research, explained the situation: "Thus, the Western sanctions did not generate the crisis and did not "break" Russian economy "into pieces" but only strengthened negative trend that emerged a few years before Ukrainian crisis... Most important is not a quantitative assessment of the impact of sanctions, but the fact that it is the accumulated structural imbalances in the Russian economy led to its vulnerability to the impact from the outside, created those pain points, which prudently hit the West ". [12]



Modern economic realities in Russia can be treated as a crisis. But any crisis could provide a starting point for the development of the country: update, restructure the economic system, give the vector of development to perspective spheres, especially the real sector of the economy, agriculture, food production, pharmaceutical industry, production of high-tech and other goods, which determine the quality of life and the state's national security. On the other hand, the crisis could turn into a protracted economic recession with an increase of the budget deficit and public debt, a sharp decline of business activity, GDP reduction, etc.

### **Conclusions**

The Russian Federation still has the potential to be among the world's leading economies. The sanctions are certainly capable of hampering the economic development of the country and are able to slow the growth of the most important indicators, however, the main source of all problems are still the domestic economic challenges of Russia [1];[13]. Government programs presented today are not able to solve the problem of structural and systemic reforms in the economy. Therefore, all the negative trends will continue to affect social and economic life in addition to the Russian economy as a whole.

State anti-crisis strategy is needed to be developed, which would be effective and transparent, it is necessary to begin the implementation of effective anti-crisis measures, identify the reserves and to direct them to intensify investment and business activity in the economy. In order to cover the national demand, the agenda should reinforce the agricultural sector and support the development of a high-tech, innovative industry including research programs in priority areas.

There is a need to improve the investment climate in the country, including credit conditions for related projects, SMEs, start-ups and main Russian brands that are serving the domestic economy. Important to reduce inflation to the planned level and also the interest rates set by the Central Bank to its pre-crisis parameters.

These measures will allow the Russian economy to reduce its dependence on oil and gas revenues, and the import of high-tech and innovative products in the future. It will create conditions for GDP growth and lead to the country's exit from the economic crisis.

Previous research shows that Russia has the innovation potential to support itself, especially through the new state supported projects like the Skolkovo Innovation Center is [14]. These techno parks and special zones have considerable economic impact on the regions by supporting start-up business, R&D projects, innovative technical solutions and not least attracting foreign investments. There is the need to create millions of highly productive jobs through effective modernisation of production facilities, as well as the support of SME sector, what is the backbone of the national economy [15]. Development of small and medium-sized enterprises and the possibility of private entrepreneurial initiatives are essential for the successful development of the country [16]; [17].

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