

THE ECONOMIC AND FINANCIAL CRISIS IN RUSSIA: ARE THE SANCTIONS THE ONLY REASON?

Nikolai I. Kulikov¹
Aleksy N. Kulikov²
Natalia P. Nazarchuk³

¹Tambov State Technical University
²CJSC Agrofirma (agroindustrial firm) "Freedom"
³Tambov State Technical University

Corresponding author: Aleksy N. Kulikov
E-mail: kulikov68@inbox.ru

Abstract: In connection with the crisis phenomena in the Russian economy, there is a need to identify key factors, which had negative impact on the economy that resulted in adverse effect. At present, this topic is becoming increasingly important. The main objective of the article is to reveal the main factors, which have caused the crisis developments in economy of the country. The tasks of the research were set in accordance with the objectives: to reveal the key factors and ways to modify the economic downfall in Russia. The research tools include the analysis methods of scientific and information base, as well as synthesis of the obtained data into theoretical conclusions and practical recommendations. The methodological and theoretical approaches of the research are based on scientific works of domestic and foreign scholars in banking theory and practice. The Russian economy in 2014-2015 was in economic downfall, which may last a little longer than currently expected. There are many causes of the economic crisis in Russia, as well as the future consequences, though to understand how to behave in times of crisis, we still need to figure out what has led our economy to this state and is there a threat of further deterioration in economic conditions. It is believed that the main factors of the crisis of the Russian economy are imposed Western sanctions, falling oil prices, and the complicated geopolitical situation, though in reality all of the above mentioned did not give the effect, which was persecuted by western countries. The article describes the Russian government's actions that entail more negative consequences pushing country to deep economic and financial crisis. In the course of working with the article, the authors have made conclusions about the activities of the government in the area of pension reform, an attempt to change social guarantees and benefits of vulnerable segments of the population, to carry out monetary policy and subsequently its negative implications. The authors consider the actions of the financial block of the Government and the Central Bank of the Russian Federation (CB RF), which led to the devaluation of the ruble, rise in inflation and decline in production.

Keywords: economic sanctions, raising the retirement age, retirement savings, social security of vulnerable segments of population, GDP decline, reduction in economic activity, monetary policy.

Introduction

The sanctions imposed against the Russian Federation by the USA, European Union, Australia and Canada did not give the effect that was initially pursued by those states, while the goal was quite simple – to cause dissatisfaction among the citizens of Russia and thus to change the existing regime in Russia. I would say that the sanctions not only have not had the desired effect, they simply did not work, I should say. On the contrary, the population of the country has begun to strongly support the power, the rating of the President V. Putin rose to 86% [1]. Such rating of the President was not reached even in the middle of 2000-ies, when GDP grew annually by 6-7% and real incomes of the population grew, at least, by 15% year on year. However, since sanctions did not work, there has left just one goal - to cause discontent of the population from inside through the government itself. That is, to do what was done in the USSR during perestroika, when Gorbachev and his entourage were actively involved in creating the conditions to cause widespread discontent among the population. We all remember what it led to; this has led to the destruction of the state and mass impoverishment of the population. I do not want to repeat again such experiment over the Russians and therefore decided to put pen to paper, to remind those who forgot, and to show others that by their actions they can lead the country to disaster. Today, speaking under the slogan of increasing labor productivity, the government has already raised the discontent of doctors, teachers, and university professors (in the first quarter protests of doctors, teachers, and academic staff swept from Moscow across the country). However, this does not work either, so now we have to mind the pensioners and waged labor workers against the President. Mr. Siluanov, for some reason, does not increase labor productivity in his Ministry of Finance. I would suggest Mr. Siluanov to leave twenty people assigning salary himself at amount of 20 thousand rubles per month, rather than one million as he gets today, and giving subordinates by 15 thousand rubles per month to let them live on that money a month. Raising the retirement age, why exactly now? There is just one goal - to incur displeasure in the greater mass of people.

Methodological Framework

Pensioners in Russia make up 26% of the total population. What will cause the increase of the retirement age, while reducing the number of employees, while tens of thousands of people switch to part-time employment almost every week? The answer is clear: this will result in increased unemployment and mass discontent of people. At the beginning of June 2015, the number of unemployed exceeded 1 million. Just over the first week of June the number of Russians, who work part-time, became by 20 thousand people more, whereas the total number of such workers is about 500 thousand people. Since the beginning of the year their number increased by 7% [2]. Here is what the Minister of Labor and Social Development of the Russian Federation Maxim Topilin says: "In the past few weeks we have seen the growing number of workers, who are at standstill on the initiative of administration, or are working incomplete working hours, as well as workers, who have been granted leave by agreement of the parties. This situation is observed in all regions of the Russian Federation." [3] More than 1,300 enterprises announced officially about the upcoming slippage. However, most businesses, both public and private, do not officially announce the slippage. Enterprises everywhere are conducting layoffs, or force the employees to resign voluntarily or based on mutual agreement. Recruitment agencies

note that over recent years the number of incoming calls from job seekers has grown by three to four times by contrast to the autumn. It should be noted that there is a large-scale draw down of workers across the whole Russia. The question is whether A. Kudrin and A. Siluanov do not know about it, when suggesting government to rise retirement age. There is just one main purpose – to implant discontent to power. Today, the older generation is voting for the President, for power in the region. Moreover, the European experience shows that rising retirement age in EU countries (Greece, Spain, Portugal, Italy, etc.) resulted in sharp increase in the youth unemployment from 18 to 46%. In Europe, according to labor legislation, the older people remain at their jobs, whereas in Russia, 60-year-old folks will be expelled out the door of the enterprise, and these suppressed, humiliated people will go every week to be checked in the employment centers. In Russia, people living over the average age, are given jobs very reluctantly. The majority of Russian companies indicate that they have young team, in which a person over the age of 40 simply does not fit well. Why Mr. Siluanov does not want to make effort and to calculate that the increase in the retirement age will only increase the workload for the budget rather than reduce the expenditures. Unemployment will grow, and the government will have to pay benefits to people who have lost their jobs. According to Siluanov, the plan is to retrain the unemployed, though this will need billions of funds from the budget of the country. Second question - where these retrained unemployed people will go to work if the number of workers is reduced everywhere. Moreover, the number of full-time employees at employment centers will increase as well, and the state will have to pay salaries to these people and maintain offices. This will truly lead to the profligate spending of budget money.

Such profligate spending of budget money has been already started nowadays. Thus, in the budget of 2015, 42 billion rubles were allocated for the payments of unemployment benefits. In the frameworks of crisis bailout plan, the government has allocated another 30 billion rubles for these purposes; the same plan prescribes additional 52.2 billion rubles for the provision of temporary and seasonal jobs that are not related to the core operations of the company's employees. Based on the results of the first six months, the Ministry of Labour and Social Security believes that temporary employment will need 33.7 billion rubles, and the advanced professional retraining will need 18 billion rubles to be allocated for the next six months. In the government, these issues are currently at the discussion stage. Thus, in 2015, total payment expenditure on unemployment benefits and provision of temporary seasonal employment can reach 175,9 billion rubles. To support small and medium-size enterprises, the budget of 2015 provides a total of 16.9 billion rubles, and another 10 billion rubles are factored in the governmental crisis bailout plan - a total of 26.9 billion rubles or 7 times less than needed for payment of unemployment benefits and create temporary and seasonal jobs. In addition, if it were 7 times more funds directed to the support of small and medium-size enterprises, taking into account that every small business creates from 2 to 10 jobs, most likely, there would not be need to allocate additional funds for the payment of unemployment benefits and creation of temporary and seasonal jobs. Experts estimate that under the current conditions, the laying off in small and medium-sized businesses in 2015 can reach 12% year on year. Let us consider now the financial state of the Pension Fund of Russia (PFR). What exactly should be increased during the crisis - the retirement age to cause widespread dissatisfaction among the people [4]? The PFR has donations of about 1 trillion rubles from the federal budget per year, which amounts to 1.23% of Russia's GDP. Is this quantity large or small? For example, the pension fund of Germany

gets donations from the federal budget at amount of 12%. Germany and Russia have roughly equal GDP. If we finally abandon investment part of the state pension (6%, that is around 1 trillion rubles a year) and terminate to steal the pension money, then the PFR will cease to be subsidized. Nevertheless, the Ministry of Finance headed by A. Siluanov continues misappropriation of pension savings; thus, in the first quarter, 514 billion rubles of pension savings were transferred to the PFR. This money, similarly as previous accumulations have sunk into the abyss. I would like to pay special attention on non-state pension fund NPF, though I have written many times about insolvency and inefficiency of the cumulative part of the pension system in the Russian Federation. Since 2006, when it became possible to evaluate the performance efficiency of NPF, I proved based on specific calculations and examples the consequences of implementing the cumulative part of the pension system.

If the reader is interested, I can refer him to my article published in the "Komsomolskaya Pravda" newspaper of May 2015: "Pension Reform in Russia: Yesterday, Today, Tomorrow", where I prove in detail the inefficiency of the cumulative part of the pension system in Russia, which is being used over the last 12 years [5]. And it would seem that the President and the government have realized the problem and implemented a new formula for calculating pensions since January 1, 2015, which will allow citizens to abandon investment part of their pensions and add this 6% to the insurance part of the pension that will increase their pension by almost 40% as compared to those who did not abandon investment part of pension. There was just one problem that had to be solved during 2015: to abandon investment part of the pension at all or turn to the voluntary use of the investment part of the pension, i.e. to give people opportunity to decide themselves whether or not to transfer 6% to NPF. In addition, it seemed that the issue with the investment part of pensions was resolved and the citizens could forget about it. However, it was far from it. For two years, there was a moratorium on the transfer of 6% of the investment part of the NPF. This measure allowed saving about 2 trillion rubles from misappropriation. Who today seeks the preservation of the investment part of pension and its mandatory transfer to NPF? The answer is – Mr. Kudrin and Mr. Siluanov, since here they have a vested interest. According to the information from Central Bank of Russia, in the first quarter of 2015, the profitability of the largest non-state pension funds amounted to on average about 6.8%, while inflation at the end of the first quarter, according to Rosstat, was 16.9% on a year-on-year basis, i.e. the profitability of the NPF is behind inflation by 2.5 times. The worst result among the largest funds was shown by "OPS Welfare", whose loss amounted to 12.1% per annum, and the profitability of the fund on pension savings for 2014 was close to zero (1.4%). In fact, for two full years, the citizens, whose pensions were held by this NPF, have lost 40 kopecks per each invested ruble. At that, the fund is directed by same old Mr. Kudrin. Experts have many questions arising about some shady financial transactions carried out by the management of this NPF.

I will give just one example. The NPF bought the shares of Promsvyazbank in the amount of 7 billion rubles. According to many experts, the benefit of the transaction was received by the bank, (and, of course, Kudrin did not forget about his own profit), but not the customers of NPF, who can lose their savings. The amount of the transaction is recognized by most experts greatly overestimated [6]. Mr. Kudrin again blames Putin that he (Kudrin) leaves people without pensions, stealing from pension funds. It turned out that no decisions are needed on the lifting of the moratorium on the transfer of the savings to the NPF. In May 2015, the Ministry of Finance transferred 514 billion rubles to the NPF,

because here there was a personal interest. The point is that the NPF is led by people, who are close to Kudrin and Siluanov. At that, nobody cares that the Russian citizens will be left without pensions. They do not care about citizens of Russia. They are trying to carry out monetary policy to force people to leave country. Thus, Prime Minister D. Medvedev was forced to entrust the Audit chamber to check on efficient use of invested part of pensions by the NPF. The Central Bank of Russia, posted on August 3 of the current year, on its official website information about the revocation of licenses of the five NPFs: "Sun.Life.Pension" "Adekta-Pension", "Uraloboronzavodskiy", "Protecting the Future", and "Sunny Time" [7]. The web site contains information that the Central Bank will reimburse lost funds to whose citizens, who has directed their investment part of pensions to these pension funds, though only at face value. In other words, at the average rate of inflation in Russia of 10% over the last 10 years, each ruble delivered to these NPFs in 2002 (since the very beginning of implementation of the investment part of the state pension) has already lost 75% of its value, that is, just 25 kopecks left from each invested ruble.

However, the most exciting is the fact that the founder of all these NPFs, deprived of licenses, is the same person Anatoly Motylev. Mr. Motylev is also the ultimate owner of the "Sberfond", "Sunny Beach" and "Savings" NPFs, in respect of which, since August 3 of the current year, the Central Bank of Russia imposed a ban on signing new agreements on transfer of pension savings to these NPFs and withdrawals from the accounts, containing retirement savings. I think that all pension accruals on these NPF accounts are long gone, although the Central Bank imposed a ban on withdrawals from these accounts. Usually the NPFs, which are deprived licenses by the Central Bank, have accounts not provided by any funds and documents on clients. The judiciary does not find any related property as well, except the seal. At that, a person establishes a dozen NPFs with just one purpose - to do fraud with pension accumulation of citizens. The Central Bank has revoked licenses from five NPFs and forbade another two NPFs to work with pension accumulation of citizens, though there were three pension funds, which the Central Bank did not touch; they can continue swindling. It is still possible to establish new NPFs a couple months later and continue plundering money of future pensioners. Shouldn't it be Kudrin's and Siluanov's job to know about such fraud? Nevertheless, they advocate in favor of the investment part of the pension from morning till night [8]. Even the initiators (Kudrin and Siluanov) recognize that if not today the problems with the pension funds may arise by 2030. It would be logical to talk about raising the retirement age at a time of economic growth when there will be a need for additional employers. I would like to remind everyone that from January 1, 2015, the law allows one not to retire but to work and earn a larger pension. If a person works beyond retirement age during 5 years, his pension can grow in 1.7 times that is a very good incentive [9]. If the employee delays his retirement for 10 years, his pension will grow by more than two times. In addition, to trigger this mechanism, public authorities should carry out broad explanatory work among the population. Today just 15% of citizens are aware of the opportunity to postpone retirement and receive later a much greater pension rewards. Therefore, there still is the potential for replenishment of the budget of the pension fund. Back in 2009 I wrote that in Russia there are 25 million citizens, who are not pensioners, disabled, or students, they are able-bodied population, which is not registered officially anywhere and does not work, though somehow maintain the standard of living [10]. This is the so-called "shadow economy" where salary is paid in "a black cash". I was criticized that this figure is at least not credible – it is too high.

Results

Today the Ministry of Labor and Social Security, in fact, admits this figure. They are talking about 24.5 million citizens of working age, who were never officially registered as employees. So, the task of the government is to find these people, to encourage their business and themselves to discover their income. These people live among us, not on the Moon or the Mars, their activities, as a rule, are well known to the district police officer, the neighbors, and sometimes the tax authorities. The majority of professional specialists are working in Russia without buying any patent. The smallest businesses are often managed by just director, who officially receives salary equal to 10 thousand rubles per month, though produces and sells products by 100 million rubles a year. What is really needed here is political will of the state to take all these entrepreneurs and remove from the shadow. This will increase the income of the Pension Fund by 15-20% per year. Another reserve consists in privileged pensioners. About 10 million retirees out of the 34 million pension holders have retired before reaching retirement age, due to the so-called "service record". I am not advocating, as it is currently discussed, to abolish the exemption for teachers, doctors, other categories of workers, who are now entitled to early retirement. However, once the state passed such a law, it needs to make the next step: the state would have had to pay insurance premiums for these 10 millions. Today these retirees place an additional burden on the pension fund. One does not need to be a finance minister to understand that today in the present circumstances there is no urgent need to rise the retirement age of Russian citizens. Kudrin and Siluanov failed to rise retirement age immediately. Therefore, they approached the problem from the other side submitting a proposal to refuse indexing of pensions, grants, and social benefits. It is easy to predict that this will lead to the impoverishment of this category of citizens and to mass discontent of the population. The Russian population had already experienced such state measures [11]. Many people remember that in the beginning of 2000-ies neither pension, nor benefits, social transfers, incentives, and subsistence minimum were subjected to annual indexation due to inflation. As a result, all these payments were negligible. Thus, for example, pensions were calculated based on salaries of employees charged to them until 2001. Salaries during this period were extremely low (the average salary in 2001 was 2266 rubles). This led to the fact that citizens, who retired after 2002, received a pension, which amounted to 23% of the lost salary. Allowances and social benefits were calculated based on the minimum living wage (MLW), which in 2002 was equal to 300 rubles (at the subsistence level equal to 1893 rubles), or 16% of the subsistence minimum. The average pension amounted to 1600 rubles or 85% of the subsistence minimum. Allowances for children ranged from 70 to 300 rubles, as they did not exceed the minimum living wage. More than 80% of people were officially classified as the poorest segments of the population.

Discussion

At that time, I wrote an article "Pension reform reached an impasse, but there is a way out", where I have proposed the indexation of pensions and the refusal from the investment part of the state pension, as well as the indexation of social payments and benefits [12]. Otherwise, it was not possible to get out of this long period (a whole decade) social impasse. It should be noted that the government heard the opinion of economists,

including myself, who offered a solution and much was done to eradicate poverty in Russia. Now we can say that the poverty in Russia was conquered. Today statistics state that 14% of Russians live below the poverty line, but this is not the kind of poverty that flourished in the early 2000-ies, when the country was just dominated by poverty. Since 2003, the living standards of the nearly 86% of Russians became much higher; over recent 12 years pensions were increased by 11.4 times, while minimum living wage – in almost 20 times, and the subsistence minimum – in 5 times [13]. The calculation of all benefits and social payments became linked to the minimum living wage and the subsistence minimum. Due to annual indexation of pensions and allowances by the amount not lower than inflation, the state managed to pull out of poverty of pensioners and those citizens who scrape a living. If today we refuse from indexation of pensions and benefits, which are so low (2/3 of retired Russians receive pensions at the subsistence level), there is a high risk of rolling back from the life standard achieved to date. The country has established a pretty delicate balance, and it cannot be destroyed. As an example, consider the pensioners, since this is the largest group of the Russian population (26%).

Today the average pension in Russia is 12,464 rubles. It varies considerably in various regions. Thus, in the Tambov region the average value of the pensions a little more than 10,000 rubles, about the same situation in the Ryazan and Bryansk regions. In Kalmykia, average pension is even lower. Of course, in developed industrial regions and in North areas of Russia, the pensions are somewhat higher at the expense of surcharges and additional indexing. If we completely abandon the indexation of pensions and social benefits, where will this lead? The people will consider this solution more or less loyal, given that all categories of Russians will have to "pull in their belts". Actually, exactly retired and disabled people as well as parents with young children will have to cut down their spending. It turns out that the state is emerging from crisis at the expense of low-income and socially vulnerable categories of its citizens, who cannot live and provide for their families without protection and assistance from the state. The reforms implemented at the expense of the part of population incapable for work, are unlikely to be successful, not to mention the fact that they form the mood of protest in society, fraught with social explosions in a certain situation. At the same time, who helps the state in times of crises, which occur in Russia on a regular basis? Recall, one trillion 300 billion rubles were given to support banks and almost 500 billion rubles – to help large business. All the rest population got either pocket change or nothing at all. The argument of Mr. Siluanov that the alleged indexation of pensions and benefits will lead to higher inflation in the country because of increased demand for imported products, sounds unconvincing and far-fetched [14]. If the elderly lady receives 8 thousand rubles of pension, of which five thousand is paid on communal services and medicines, it is hard to believe that the remaining three thousand rubles will allow her to buy the whole import as if she were Roman Abramovich! This cannot even be called cunning; this is a mockery of common sense on the part of Mr. Siluanov.

The officials in the government offices are preparing another draft law, the essence of which is that it is proposed to give four categories of benefits, though only to those citizens who actually need it. The law is referred to the maternity-leave provision, compensation for preschool children's education, the cost of housing to rural teachers and support for health workers and pharmacists. The question immediately arises: who will determine whether or not a citizen really needs the above listed benefits? Today, the parent is entitled to receive maternity-leave provision for a child under the 1.5 years regardless of his/her income level. However, when implementing need criteria, benefits

will be available only to citizens with low income. Children are born usually in young families, who are just starting life together and who, most often, have no apartment, no car, and no household appliances, even if their parents have a fairly high level of income. So, who decided that these families do not need extra money to help pay off the mortgage and organize their life? Today, to get a maternity-leave provision, parents must provide to the relevant bodies just the birth certificate of the child, whereas, in case of restriction of rights to benefits, they will have to collect information on their income and go to the commissions for consideration of their needs for maternity-leave provision. This will be for young parents the road of sorrows! Today, every parent has the right to refuse care benefits for a child and does not get it. I will give just one example from foreign practice. I think that it will be interesting for readers. In England, during the Premiership of Anthony Blair, the fourth baby was born in his family, and the family of Prime Minister has not refused from the maternity-leave provision, though the salary of Mr. Blair at this time was 30 thousand pounds per month, or 3 million rubles if expressed in Russian currency.

It seems like Russia is going to repeat the path traversed by Greece over the past five years. However, Greece had been driven into the economic pit by the cruel economist - the European Union, and Greece has no money. As for Russia, it drives itself into such a pit acting through the efforts of the government represented by its financial block. Many people remember: in Greece, it all began with budget cuts, freezing pensions and allowances. As a result, pensions have decreased by 40%, salaries - on average by 35%, and GDP fell by almost 28%. The country's debt to creditors is 180% of GDP, and the debt will grow. Greece did not experience such widespread discontent of the population over the past 50 years. As a result, the elections were won by Alexis Tsipras, the leader of the radical left party SYRIZA. The government of Tsipras, by its actions, led to the collapse in the economy both in finance and social sphere. At the International Banking Congress held in St. Petersburg on July 5, 2015, the Russian Finance Minister Mr. Siluanov said: "In the current environment we should not pursue a soft budget policy. We should have tight budgetary and financial policies in order to have financial stability of the state and finance in general. That is, in fact, a policy we pursue." [15], adding that exactly such a policy will be carried on in Russia in the near future. Today the "benefits" of this hard policy has felt every Russian citizen himself. According to Rosstat, real disposable household income in June of 2015 fell at an annual rate by 3.5%, while in terms of the first half of 2015 - by 3.1%. At that, for the whole year of 2014, the decline amounted to 0.7% [16]. Real wages decreased by 7.3%. Production in main sectors of the Russian economy fell on average by 6.8% year on year.

The Bloomberg Agency asked the economists to give the forecast for GDP growth at the end of the year for 47 countries. Experts put Russia in second place on the list of leaders in terms of GDP drop with the indicator of 3.5%. First place was given to Ukraine with the forecasted GDP fall of 7%. Ukraine is involved in civil war, whereas in Russia there is no war. According to experts, the best indicators of economic growth have shown Asian countries: India (+7.5%), China (+6.9%), as well as Vietnam (+6.1%), the Philippines (+5.7%) and Indonesia (+5.4% of GDP) [17]. Today, the countries such as France, Germany, and South Africa try to adopt Chinese methods of economic management. Here's how the current situation in Russian industry was described by Mr. Mirkin, Head of the Department of International Capital Markets at the Institute of World Economy and International Relations of the Russian Academy of Sciences, at the Congress of the Russian Banks Association held in April of 2015: "According to Rosstat, great

economy of Russia produces one tram and a little more than 200 lathes per month. In terms of one year it produces one coat per 140 people, one dress per 20 women, and one pair of socks per person. The decline in production by individual types of products reached up to 70-80%. The reduction in real income of the population leads to stagnation of the Russian economy as well.

Conclusion

The economic policy implemented in Russia for the last 25 years, today completely exhausted itself. It is time to move from monetary policy to investment policy, and this should be done today and not put off until "later" at a time when the crisis is over. Otherwise, Russia may have the Russian "Tsipras", and today it is quite hard to predict the possible fallout of this process [18]. While population of Greece is just 10 million people, in Russia there are almost 150 million people. The government needs to adopt real development programs of individual sectors of the economy and encourage the growth of incomes of the population; without this, dynamic development of the country is impossible. China, during the global crisis of 2009, when demand for Chinese goods in world markets dropped, began to actively stimulate the demand in the domestic market. The Chinese government has allocated \$300 interest-free loans to every citizen of the country. Everyone in China had the opportunity to purchase goods in the stores at \$300. Given that the population of China is 1.5 billion people, it turned a huge amount, nearly 0.5 trillion dollars across the whole country. The Chinese government has implemented other programs, such as housing construction, and auto lending. Production of cars and TV sets has increased by almost 15% per year. In addition, the result was not long in coming. China's GDP in 2009 grew by 8.4 % (while Russia's GDP in 2009 lost almost 8%). For the Ministry of Finance and the Ministry of Economic Development, as well as the Central Bank of the Russian Federation, it is high time to realize that the current inflation is caused by non-monetary factors. Nevertheless, government continues pursuing policy of not giving money neither to population nor to economy.

I have reason to believe that inflation in Russia is caused by three main factors: pricing in the market, which is currently formed by monopolists; growth of tariffs of natural monopolies on electricity, gas, rail transport, housing and utilities infrastructure; and higher interest rates on loans (expensive loans). Moreover, the devaluation of the ruble can be called the fourth factor. The Central Bank and the financial block of the Government continue to implement the monetary program of financial stabilization in Russia upon the recommendation of the International Monetary Fund (IMF). The essence of the latter consists in minimizing the state budget deficit and implementing tight monetary policy while maintaining the floating exchange rate of the ruble within a so-called internal conversion. And it is not accidental that the representatives of the IMF and the US Federal Reserve System along with all sorts of rating and valuation companies of the West keep harping on the same string: the President of Russia is bad, the Prime Minister is not so good as well, but the heads of the Ministry of Finance and the Central Bank are almost the best in the world; they stopped inflation and saved the financial system. Just one thing here is unclear: why inflation in 2014 amounted to 11.4%, while in 2015 experts predicted inflation within the limits from 15.8% to 16.9%, and the ruble came down by 40%.

According to estimates of many experts, the dynamics of the main macroeconomic indicators points to further cooling in economic activity. The decline in GDP in the second

quarter with regard to corresponding period of the last year is more substantial. While following the results of the first quarter of 2015, GDP decline was estimated at 3.1%, in the second quarter this rate is about 4% year on year [19]. It is absolutely unclear to me and the most economists of Russia, how to deal with above mentioned prices growth drivers using monetary policy. The main mistake of the Central Bank of the Russian Federation was and remains the following: trying to combat currency speculation, the Bank raised its key interest rate to 17%. After this step, all other actions of the Central Bank are, in fact, struggle with the fallouts of this step. Its effects will be felt for at least two years. Despite the fact that the Central Bank lowered its key interest rate to 11.0%, banks are in no hurry to cut rates on end loans. Unfreezing of lending has not occurred for this reason. The Central Bank policy during the crisis should be based on the following: cheap loans, negative or zero interest on the key rate, credit help to not only the largest but also medium and small enterprises, which support the economy and the population in the regions. The actions of the financial block of the Government and the Central Bank I would call the key driver of the crisis. They gave 1.3 trillion rubles to commercial banks; increased the key interest rate on loans, predetermined shutdown of the industry, and now are trying to take away social guarantees for the most vulnerable people – I would call this sabotage. The depreciation of the ruble at cheap loans could be successfully overcome, but the Central Bank and the Finance Ministry have done all to prevent country against this measure. At the same time we should fight against currency speculators using the mechanisms of currency regulation, which have been successfully implemented by former Prime Minister E.M. Primakov and the Head of the Central Bank of that time V. Gerashchenko during the crisis in Russia in 1998, as well as by the Prime Minister of Turkey Erdogan during the crisis in 2013. I could give many similar examples. Currently Russian government has approved 44 Federal programs, which will be supported from the federal budget in total amount of 1,138 trillion rubles, though at a moment just 10% of this sum has been already allocated [20].

This was announced at a Government session on summarizing the work of the Government for the first half of 2015. Most of the works related to the large objects are not even started. This concerns a number of programs of the Ministry of Agriculture and Ministry of Construction. What here hinders to normal work? There is no need for expensive loans since funds necessary for the program are already allocated. Today, we can say with great confidence that half of the allocated funds for implementation of the programs will not be developed. So much for imports substitution and the struggle with the crisis! We should monitor how budget money is spent on construction, repair of roads, procurement, control the efficiency of budget spending in the regions, and much more rather than cut social expenditures. When Counting Chamber checked the defense procurement, it discovered that 40 billion rubles is "floating" in the middle of nowhere. Similar situation is in roads construction industry: 22 billion rubles is "lost" somewhere. Nothing to say about government procurement: according to many experts, the budget there is losing from 1 to 2 trillion rubles annually. According to some experts, 49% of Russia's economy, employing about 25 million people, is in the shade that allows corruption to thrive. It should be noted that those pitiful crumbs, which can be cut from the social sphere, is miserable amount as compared with what the state loses due to corruption, incompetence of executive bodies, and the lack of control.

Recommendations

Currently, all Russian TV channels several times a day discuss the situation in Ukraine, inviting various experts, politicians, and elected officials. So, why the situation in the economy and finance as well as ways out of the crisis in Russia are not discussed as widely as the events in Ukraine? As a matter of fact, truth is sprout in discussion. These discussions necessarily need to invite the members of the Government, representatives of its financial and economic blocks, leading economists, scientists and politicians, as well as CEOs of enterprises of the country. I think this would be extremely beneficial and will bring successful result. I was surprised by the statement of the Chairman of the State Duma Committee on Science and Education V. Nikonov on the show of V. Solovyov, when the issues concerning the opposition in Russia came on. He said that the most significant opposition in Russia is within the Government financial and economic blocks, and their actions have a greater impact on the crisis than Western sanctions [21]. They are very unhappy with the actions of the President Putin, which led to sanctions against Russia, because before the sanctions, they were safe and all was well in the country. Or does it?

REFERENCES

- [1] "The Rating of V. Putin Rose to 86%," Retrieved from <http://www.novoteka.ru/seventexp/12279657>.
- [2] "In Russia the Unemployment Rate Rose by 0.1% over a Month," Retrieved from <http://urbc.ru/1068046052-v-rossii-uroven-bezraborticy-za-mesyac-vyros-na-01.html>.
- [3] Krivoschapko, Yu.A., 2015, "In Russia the Number of Part-time Employees Increased," RG.RU, 13(05).
- [4] Markelova, E., and Poghosyan, A., "In Crisis Bailout Plan the Government Predicted the Unemployment Growth by 68%," Retrieved from <http://izvestia.ru/news/582392#ixzz3jGJFFwBx>.
- [5] Kulikov, N.I., 2015, "Pension Reform in Russia: Yesterday, Today, Tomorrow," Komsomolskaya Pravda of Black Earth Belt, 9, pp. 9-10.
- [6] The Profitability of the NPF for the First Quarter of 2015," Retrieved from http://propfr.ru/zastrahovannim_licam/189-dohodnost-npf-za-9-mesyacev-2014-goda.html.
- [7] "News of the Central Bank of Russia," Retrieved from <http://www.cbr.ru/news.aspx>.
- [8] The Central Bank has not Taken NPF "Sunny Beach Foundation" into the Insurance System. Retrieved from <http://www.banki.ru/news/lenta/?id=7804215>.
- [9] The Finance Ministry Proposed to Keep Pensioners at Work, Retrieved from <http://www.interfax.ru/business/281986>.
- [10] Kulikov, N.I., 2009. «Great potential of small business», Actual problems and prospects of social and economic development of Tambov region: Sat. Sci. Works, 2009.
- [11] "Indexation of Pensions Since 2015 Could Cease to be a Mandatory Article of Social Policy in Russia," Retrieved from <http://livelenta.com/indeksaciya-pensij-s-2015-goda-mozhet-perestat-byt-obyazatelnyim-punktom-socialnoj-politiki-rossii.html#ixzz3jGMcKMDU>.
- [12] Kulikov, N.I., 2007, "Pension Reform Reached an Impasse, but there is a Way Out," Weekly Business and Life, 16, pp.10-11.
- [13] "The Number of People Living Below the Poverty Line in Russia Has Grown,"

- Retrieved from <http://top.rbc.ru/society/27/03/2015/5515731e9a794777d574ea2a>.
- [14] “The Abolition of Indexation of Social Benefits Can Bring Down the Purchasing Power of Russians,” Retrieved from <http://www.mk.ru/economics/2015/02/10/otmena-indeksacii-socvyplat-mozhet-obrushit-pokupatelskuyu-sposobnost-rossiyan.html>.
- [15] “Siluanov Advocates Tight Fiscal and Monetary Policy,” Retrieved from <http://tass.ru/ekonomika/2022705>.
- [16] “Rosstat Recorded a Decline in Income of Russians against the Background of Rising Prices,” Retrieved from <http://www.newsru.com/finance/17apr2015/rosstat.html>.
- [17] “Economists Predicted Russia's Strongest Economic Decline after Ukraine,” Retrieved from <http://quote.rbc.ru/macro/news/2015/07/01/511510.shtml>.
- [18] 18. Paul Roderick Gregory: Russia's Economic Stagnation - <http://www.nationalreview.com/article/427481/russias-economic-stagnation>.
- [19] Mirkin, Ya., “On the Current Situation in the Russia's Industry,” Retrieved from <https://www.facebook.com/yamirkin/posts/971513749534379>.
- [20] Ruchir Sharmajune: How China Fell Off the Miracle Path, - <https://www.nytimes.com/2016/06/05/opinion/sunday/how-china-fell-off-the-miracle-path.html>.
- [21] Polunin, A., “An Invitation into Recession,” Free Press, Retrieved from <http://sp.svpressa.ru/economy/article/128730/>.
- [22] “List of Ongoing Projects as well as Projects of the Federal Target Programs in 2015 and Subsequent Years.”
- [23] Nikonov, V., “Donetsk and Lugansk May not Worry about their Independence,” Retrieved from <http://tehnovar.ru/18869-vyacheslav-nikonov-doneck-i-lugansk-mogut-ne-bespokoitsya-za-svoyu-nezavisimost.html>.