PUBLISHED BY
VOPROSY
EKONOMIKI
N. P.

Russian Journal of Economics 5 (2019) 27–45
DOI 10.32609/j.ruje.5.35234
Publication date: 17 April 2019

Russian
Journal of
Economics

www.rujec.org

Global trends and national goals: Russia approaches a new model of economic growth

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Abstract

This paper deals with global trends and their influence on Russian economic and social performance. A new economic crisis is looming, and the lack of institutional reforms, which were put on the agenda by the crisis of 2008–2009, is a source of current concern. In 2018 Russian authorities announced a set of national goals and projects as the central point of social and economic policy for 2018–2024. The new economic growth policy includes the shift from the demand-side growth model to the supply-side one, broad implementation of project methods in economic policy, and continuation of conservative fiscal and monetary policy.

Keywords: economic policy, economic growth, national projects, global crisis, sanctions, Russia.
JEL classification: E61, E66, F51, H53, H54, O52.

1. Introduction

The years 2018 and 2019 featured a number of anniversaries of sorts: 30 years since the fall of the communist regime; 20 years since the beginning of the Asian financial crisis; 20 years since the introduction of the euro (the currency has been used in non-cash transactions since January 1, 1999); 10 years since the unfolding of the global structural crisis. There is also a specific prominent date in the history of Russia's economy and economic policy: in 1999, the 10-year recession gave way to economic growth, which doubled GDP and restored pre-crisis levels by 2008. These are not just anniversaries of past events, but key socioeconomic development milestones that largely shaped the priorities and phobias of the political elites of the world's leading countries, both developed and developing. These past events still have a substantial impact on modern economic policy.

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2. Global trends and challenges

In 2018, the global economy was growing sustainably, at an acceptable rate of around 3.7% (IMF, 2019, p. 8). Moreover, economic growth has continued for almost 10 years — a rare occurrence in the modern economic history of developed countries. However, the prevailing topics of economic and political discourse among experts and politicians in the leading countries is the instability of this growth and predictions of a new crisis. These sentiments and expectations are partially due to the long-lasting growth itself: it cannot be permanent. However, the main point of the discourse regarding the upcoming crisis is an analysis of the nature of the 2008–2009 crisis and the specific reactions to it during the past decade. Of course, the problem now is not a global structural crisis (these happen once every several decades) but the *next normal-sized recession*, according to Rogoff (2019).

Currently, *the events which occurred ten years ago are usually interpreted as a global structural crisis* comparable to the Great Depression of the 1930s and, by analogy, now called the Great Recession. This entails both the length of the subsequent period of instability (turbulence) and the need for the profound structural and political (including geopolitical) transformations that have determined the development pattern for the leading countries during the past decade.

However, the problem is not only the protracted adaptation of socioeconomic and political systems to the new challenges. The situation is complicated by the fact that the direction of this adaptation has aroused resentment among a significant portion of the traditional economic and political elites, leading to conflicts and uncertainty. Despite economic growth and declining unemployment, there is an evident intensification of social tensions and the associated rise of populism, waning integration trends (globalization), and stronger support for protectionism and "national identity" (mostly in developed countries), as well as the spreading phenomenon of non-liberal democracies against the sustained background trend towards democratization. The scale of these events suggests that what we might be witnessing is not a temporary phenomenon (reaction to the crisis) but a sustainable trend that will remain in place for a long time.

Apart from the remaining sociopolitical problems, the past decade has not brought about any solutions to a number of the actual economic problems that factored into the 2008–2009 crisis and which still pose risks. First of all, we are speaking about the exceptionally high global debt which, instead of decreasing, grew to USD 184 trillion in 2017, and is estimated to have exceeded USD 200 trillion in 2018, whereas sovereign debt is now around USD 63 trillion. Investment activity remains weak, while middle class incomes are stagnating. Developed economies (except the United States) are unable to escape the deflation trap, which imposes strict limitations on anti-crisis policy tools in the event of a cyclical downturn. Political instability is leading either to counter-reforms (with examples observed in the United States, United Kingdom, and Italy) or to the stagnation of reforms (France).[1]

[1] "The West is in crisis — and so is economics. Rates of return on investment are meager. Wages — and incomes generally — are stagnating for most people. Job satisfaction is down, especially among the young, and more working-age people are unwilling or unable to participate in the labor force. Many in France decided to give President Emmanuel Macron a try and now are protesting his policies. Many Americans decided to give Donald Trump a try, and have been similarly disappointed. And many in Britain looked to Brexit to improve their lives" (Phelps, 2019).

A significant remaining macroeconomic problem *is monetary policy*: 10 years since the 2008–2009 crisis, the Federal Reserve System is the only one that managed to escape the zone of ultra-low rates. The monetary regulators of the eurozone, the United Kingdom and Japan failed to give up on monetary easing policies in 2018, for fear of triggering a recession.[2] On the other hand, they are losing a vital tool for fighting the next crisis, i.e. the option of monetary easing. The central banks of developed countries have no leeway for easing monetary policy, whereas fiscal policy will be very difficult to ease due to the huge national debts that are not decreasing.

This situation has political as well as economic ramifications. Monetary policy is technocractic, with decisions made quickly and mostly outside the political process (by a respective body of the central bank), whereas fiscal policy is highly vulnerable to political conditions (a review by parliament is mandatory), and decision-making requires a long time, with ambiguous results. Meanwhile, recessions nowadays usually last for a year, and failure to take quick and adequate steps to fight such an event might precipitate a long-term deterioration in conditions whereby cyclical problems may become structural. This poses a high risk taking into account political instability in most leading democratic countries.[3]

A substantial factor in the instability and uncertainty is the disruption of the traditional international order, including *geopolitical tensions and the abandonment of international coordination*. In 2008 and 2009, an understanding emerged regarding the need for a global system of economic regulation to overcome the deep and painful global crisis, which would become an answer to the emergence of a global financial market capable of moving capital around the world in a matter of seconds. One of the main initial objectives for the G20 was to create an effective global regulatory system (Larionova et al., 2019). In 2018, it became clear that multilateral cooperation in macroeconomic regulation (between central banks and governments) is practically impossible: countries increasingly resort to protectionism, preferring to blame each other rather than coordinating their actions.

The instability is caused by the overall declining confidence in national institutions. Another factor in this is the rapidly intensifying sanction policy, especially with respect to global currency access. The risk of getting cut off from the dollar for sanctioned countries has caused a revaluation of the structure and role of foreign exchange reserves, not just in sanctioned countries, but also in others which, as it may seem, should not be concerned about American sanctions. The early 2019 precedent with Venezuela's gold reserves kept in the Bank of England has added to the uncertainty. As a result, a number of countries began

[2] In early 2018, "central banks had no doubts that they could easily begin to wind down their extraordinary monetary stimuli, while investors in stock markets were almost unanimous in their bullish sentiments. However, 2018 has turned out to be the worst year for investors since the financial crisis. Central banks were forced to give up their initial plans to normalize monetary policy, and economists were forced to reduce their economic growth forecasts, and a lot of businesses began preparing for a recession in 2019 or 2020" (Kaletsky, 2019).

[3] Rogoff suggests a specific institutional response to this risk, i.e. to set up an independent budget council that would be essentially equivalent to a central bank for monetary policy (Rogoff, 2019). Of course, this idea, while being attractive from a technocratic point of view, has no chance politically to be implemented in democratic countries, since it would entail a complete revision of legislative powers, i.e. surrendering their key powers to review and approve the national budget, for which they have fought for nearly a thousand years.

to take steps to diversify their foreign exchange reserves in 2018, to move them between countries and to increase their share of bullion gold. This is happening not only in Russia (see below) but in the EU, which has begun to take measures to augment the role of the euro in international payments.

The sanctions, which have turned into an essential component of modern global policy, are becoming an important factor disrupting the world order, and not just for sanctioned countries. The sanctions are now justified mostly by national security considerations, which may be used in response to any action by any country, company, or individual. This heightens risks for everyone and will inevitably affect the stability of financial markets.

Uncertainty is also maintained by the United States initiating *a revision of existing international trade agreements and threatening trade wars*. At the onset of the global crisis, one of the anticipated geopolitical and geoeconomic consequences was the emergence of the Big Two (USA and China), which largely reflected the growing interdependency of the two countries, especially concerning the ratio between savings (in China) and consumption (in America).[4]

The most significant event in 2018 was the marked aggravation of the confrontation between the two states, including the arrest of Huawei's financial director in Canada, at the request of the United States. This is a confrontation, on the one hand, between China's political and economic ambitions, striving to expand its companies (especially high-tech) and investments around the world, and, on the other hand, the new attitude of the U.S. administration which is reviving the old-fashioned traditions of mercantilism (active trade balance). However, the countries agreed on a truce at the end of 2018, though this does not suggest that global risks have been reduced.

National security considerations are becoming the most vital element in political rhetoric (and practical policies) for leading countries, primarily the United States and China. This exacerbates the problem of correlation between security and economic openness, which China and a number of other countries still regard as the most important factors in their sustainable growth, since they are not very compatible in practice. Naturally, the question arises concerning the prospects for rapport between the public sector and the intensification of market reforms in China. Security arguments require maintaining a strong public sector, limiting the financial market's role in raising investment capital, and strengthening the communist party. However, to maintain sustainable growth, the country needs to expand the private business sector, develop the securities market, continue decentralization efforts, and encourage competition. However, these two approaches are very difficult, if not impossible, to combine in practice.

One should expect an aggravation in the conflict between the statist and the market approach to China's future economic development model. There are two possible courses of events here. First, an escalation of the conflict between government interference and expanding market relations, which would require a new stage of institutional reforms—towards either a stronger role for the government, or its gradual replacement by institutions of market (but not

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4 Niall Ferguson wrote about a hypothetical country called Chimerica (China + America), in which the economies of both parts complement each other and have a substantial impact on global processes (Ferguson, 2008, pp. 335–336). The Big Two phenomenon has been analyzed by Brzezinski (2009).

liberal) democracy. Second, the preservation of the significant role of the government and the communist party, which would assume functions performed by social (non-government) institutions in developed democracies, ensuring that social, environmental, and other public interests are served through presence in the management bodies of large corporations. The second path is more complex and has no convincing precedents in the post-communist transformation experience. However, it should not be ruled out, as in recent decades China has demonstrated its ability to find unconventional solutions for the problems it faces.

The global structural crises of the 20th century shaped *new configurations for global reserve currencies*. In 2008 and 2009, discussions were held in this respect regarding prospects for the yuan, artificial currencies (SDRs, due to the expected enhancement of the role of the G20 and international economic coordination), and regional reserve currencies. In 2016 and 2017, cryptocurrencies began to attract much attention, though their extreme volatility was demonstrated in 2018. The current crisis does not seem to be able to bring about substantial changes in the global currency system, except for the probable strengthening of the euro[5] and the aspirations of a number of countries to diversify their foreign exchange reserves to reduce the role of the US dollar. However, taking past experience into account, in the (medium-term) perspective one may expect an increased role of the yuan (RMB), remembering that the US dollar replaced the British pound roughly 50 years after the American economy surpassed the British one, and following the global war disasters in Europe. Also, one should not ignore the future role of cryptocurrencies which may take their place in the global monetary system as information technology develops.

Despite significant market fluctuations, new steps were taken in 2018 towards developing blockchain technology, which underlies any cryptocurrency, to exploit it in practice, and to legalize it politically. First of all, some central banks that previously rejected this instrument have announced their willingness to experiment with cryptocurrencies. In other words, we are speaking of the emergence of national cryptocurrencies in the foreseeable future. (However, this would contradict their ability, in principle, to act as private money.) Second, political regimes in difficult political and financial positions (primarily Venezuela) have made (failed) attempts to rely on cryptocurrencies (Levashenko et al., 2019, pp. 29–30). Third, a discussion has begun as to how a cryptocurrency could be integrated into the existing fabric of economic relations, particularly with respect to taxation (Levashenko et al., 2019, pp. 33–35). Fourth, critical articles are appearing about cryptocurrencies and the blockchain technology, including the condemnation of it as a "big lie" (Roubini, 2018).

Thus, the emergence of cryptocurrencies is a logical response to market requirements, leading to lower costs and higher payment and transaction efficiency. On the other hand, the full-blown development of the cryptocurrency market will only be worth discussion when it is populated by major institutional investors (insurance companies, pension funds, etc.). This requires a robust institutional infrastructure, which is not in place as of yet.

[5] The European Commission is working on plans to enhance the euro's global position and to increase its role in international payments and in a number of strategic markets, including oil and gas. In this respect, we should note the European Commission's report issued on December 5, 2018 (EU, 2018a, 2018b, 2018c).

3. Russia's national goals and economic growth model

The socioeconomic situation in Russia remains complicated. It allows for no definitive evaluations, while economic policy discussions are abundant with very controversial recommendations. The following key characteristics of the current situation should be identified (see Appendix Table A1).

1. Economic growth is evident, but its rate, which lags far behind the world average, bewilders the elite and the experts. However, in early 2019, Rosstat's revaluation of economic growth rates from 1.6%–1.8% (official forecast) to 2.3% caused equal bewilderment. But the Ministry of Economic Development believes this "acceleration" is temporary and that growth during 2019 will be roughly at the potential level.

2. One should bear in mind that economic growth is not important in itself, but as an indicator of a growing public well-being. Real disposable household income in 2018 continued to decline, and the number of people with incomes below the poverty line remains close to 20 million.

3. However, unemployment fell below 5% in 2018, real wages increased by 6.8%, and end-use consumption by households and retail turnover grew by 2.2% and 2.6%, respectively. Thus, consumption growth surpassed income growth.

4. Under stagnating real income (and, possibly, as a compensatory measure) retail lending increased substantially. Overall loan debt reached RUB 2.7 trillion, and mortgage debt, RUB 1.2 trillion, whereas bank deposits grew by over RUB 2.5 trillion. Borrowing outstripped deposits for the first time since 2014. These data may point either to the insufficiency of internal resources (consumption at the expense of borrowing) or to a stabilized situation, which allows people to take out loans (see Table 1). Another problem is that loan interest growth rates are higher than growth in nominal household income. This results in a rising proportion of payments for servicing debt owed to banks out of total household income.

5. The macroeconomic situation remains favorable. The national debt is very low, while the debt denominated in foreign currencies is close to zero. After six years of deficit financing, the federal budget was balanced with a surplus of 2.6% of the GDP, whereas the oil and gas deficit continued to fall, reflecting a reduced dependence of the budget on hydrocarbon prices. Consumer inflation is hovering around the target

Table 1

Retail loans and deposits (RUB billion).

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Increase in loan debt										
Total	–454.6	499.6	1452.9	2194.2	2197.1	1231.8	–727.2	176.6	1368.8	2703.2
Mortgages	–99.0	113.5	315.7	500.7	644.4	816.6	354.5	519.8	685.4	1206.8
Consumer	–355.6	386.1	1137.1	1693.5	1552.7	415.2	–1081.7	–343.3	683.4	1496.3
Mortgage loans issued	182.2	437.4	765.9	1072.0	1404.5	1819.7	1168.2	1483.1	2028.4	3019.6
% y-o-y		140.1	75.1	40.0	31.0	29.6	–35.8	26.9	36.8	48.9
Deposit growth										
Total	1557.4	2408.9	1945.5	2281.3	2337.3	823.1	3870.5	1318.1	2511.8	2527.9
RUB	1196.3	2445.9	1797.2	1871.2	2129.7	–419.2	2612.4	2283.2	2315.3	2243.0
foreign currencies	361.2	–37.1	148.2	410.1	207.6	1242.4	1258.1	–965.1	196.5	284.9

Source: Bank of Russia.

of 4%. The Bank of Russia's international reserves are growing. The only alarming indicator is perhaps the unprecedentedly high producer price index during the past decade (11.7%), which may be indicative of the risk of future inflation surges.

6. Investment activity remains rather weak, increasing by 4.1% (4.8% in 2017). This is especially relevant with respect to private investments, which must be a vital indicator not only of the stability of economic development itself, but also of the level of confidence in the government's socioeconomic policy. Foreign direct investment in the non-financial sector has hit a new low for the past two decades — USD 1.9 billion (only 1994 was lower at USD 0.6 billion).

7. In 2018, social tensions heightened within the country, largely resulting from discontent with the increase in the retirement age. Although Russia was one of the last in the group of comparable economies to make this decision, it was perceived negatively by the population. This will, for some time, remain a significant factor to take into account when making other economic and political decisions.

In this situation, increasing economic growth rates and ensuring sustainable growth in well-being are becoming key objectives — not just economic but political as well. Their achievement was targeted by the Presidential Executive Order of May 7, 2018,[6] providing for a complex set of macroeconomic, institutional, and structural measures. However, elaborating the set of measures should take into consideration a number of conditions that, when ignored, have led to dire consequences in Russia's economic history (including during the past 30 years).

First, economic growth must be accompanied by technological modernization and improved well-being.

Second, it must not be achieved at the price of macroeconomic destabilization, i.e. uncontrolled increases in the national debt and budget deficit.

Third, growth must continue in the medium- and long-term perspective, and not be limited to a short-lived spike followed by a recession or stagnation. This is especially important, since there are actual discrepancies between the measures ensuring short-term and long-term growth.

Fourth, the institutional changes needed for growth must not lead to social and political destabilization of the country.

All these conditions are interrelated, and a failure to meet any of them would automatically entail failure in all the others. The experience of the USSR between 1986 and 1989 clearly demonstrates how failure to meet these conditions resulted in an economic and political downfall after a short-lived acceleration. In other words, nominal economic growth figures must not be fetishized.

3.1. Economic growth policy

Since the early 1990s, three stages can be identified in trends for the Russian economy.

1. *The 1990–1998 recession* when the structural and institutional transformation from a centrally planned economy into a market economy took place.

2. *The recovery growth between 1999 and 2008*, when the pre-crisis production level was almost reached, while the entire socioeconomic structure of the so-

[6] Executive Order of the President of the Russian Federation "On the national goals and strategic objectives for the Russian Federation through to 2024", dated May 7, 2018.

ciety was reorganized. This growth model utilized idle production capacity and workforce, as well as a strong inflow of financial resources thanks to favorable foreign economic conditions (Sinelnikov-Murylev et al., 2014).

3. *The economic deceleration from 2009 to 2018.* The recovery model had exhausted itself by 2008, as seen from the decelerated economic growth rates during that period. The new global crisis became an important reason, but not the only one, for deteriorating conditions in Russia. More specifically, the global crisis caused the 2009 recession, but not the low growth rates during the subsequent decade. Between 2010 and 2018, against the background of the intertwining global (structural) crisis and the cyclical crisis within Russia, the search continued for a new economic growth model that would be based not on cheap resources (idle capacity and rent income) but on increasing total factor productivity.

The "decade of deceleration" can be divided into several relatively independent but logically correlated periods.

The bouts of negative economic trends in 2009 and 2015, caused in the former case by the global crisis, and in the latter case by the overlapping aggravation of geopolitical conditions and a cyclical investment downturn. The anti-crisis measures taken in response were, in our opinion, exceptionally effective: they mitigated the recession and prevented the macroeconomic situation from destabilizing. However, the downside of the successful anti-crisis policy was the obstruction of "creative destruction," which makes its own contribution to the deceleration of post-crisis trends, i.e. the lack of a V-shaped rebound (see more in Mau, 2018, p. 88).

The periods of positive trends from 2010 to 2014, and from 2016 to 2019, differ substantially, both qualitatively and quantitatively. The first period was characterized by initially high, but subsequently falling, growth rates which dropped below zero by the end of 2014. The second period began with very low growth rates, and it still remains to be seen whether increasing growth rates will be sustainable in the future.

However, the main differences were not in the GDP indicators. The 2010–2014 model relied upon encouraging demand, including compensation for losses from the crisis and subsequent wage increases, especially for employees in the budget-funded sector. This was also made possible by the significant size of the Reserve Fund, accumulated thanks to the high rent income during the previous decade. The Presidential Executive Orders of May 7, 2012, contributed to the demand factor (wages in particular) to a large extent.

The year 2018 marked *a turn towards a supply-side economy*. The Presidential Executive Order of May 7, 2018, is focused primarily on supporting investment activity for developing industrial, transportation and social infrastructure (see Drobyshevsky and Sinelnikov-Murylev, 2018). These are two different growth models mentioned in the Strategy-2020, developed as early as in 2011, which played a significant role in shaping the framework of social and economic policy for the next decade (Mau and Kuzminov, 2013, vol. 1, pp. 10–11; Mau, 2011, pp. 18–21).

Thus, the economic growth model presented in 2018, differs substantially from the approaches that took place during the previous 10 years. Government resources are focused on investments to achieve national goals and priorities, while an increase in consumer demand mostly follows investment demand.[7]

[7] The 2% VAT increase in 2019 does not negate this conclusion, although the model of a demand-side economy usually requires lowering taxes, since VAT is a tax on consumption.

An increase in the retirement age, ensuring higher labor market supply, is quite consistent with this model.

From the macroeconomic point of view, this path may resemble the acceleration policy pursued from 1986 to 1989, when a budget maneuver was made from consumption to investment. Of course, there can be no direct analogy here. First of all, the present Russian economy is entirely different from the Soviet economy: it is far more flexible due to private property and market pricing. Second, the current maneuver contemplates the preservation of the current conservative fiscal policy (low national debt and balanced budget). All this enables a positive evaluation of the current turn towards a supply-side economy. However, the lessons from 30 years ago still should not be ignored, and the main lesson is that an irresponsible macroeconomic policy, while resulting in a short-run acceleration, subsequently turns into a disaster. Or, in other words, stability and severe crisis may only be four years apart, while during two of those years the economy will accelerate and government finances will lose balance (see Mau, 2014, pp. 22–23).

The turn towards a supply-side economy determines *the macroeconomic* framework for the economic growth model. However, this model has *its own institutional* framework, i.e. the dominating role of financial and industrial groups. The discourse (both among experts and among politicians) about a more preferable growth model has been going on throughout the entire three decades of post-communist development, sometimes expressly and sometimes implied. Three distinctively different models have been competing from the very beginning: the development of private entrepreneurship and competitive market institutions; the creation of financial and industrial groups (or "chaebolization" according to the term from the South Korean practice); and the dirigiste model, i.e. the enhancement of direct government influence on economic development, including pricing (see more in Mau, 2002, pp. 14–15, 2003, pp. 10–11). At different stages of the country's development, the discussion of these three models varied in intensity, but, in practice, the trend towards "chaebolization" almost always prevailed. Currently, this institutional model can be regarded as firmly established, whereas the key role in economic development is played by financial and industrial groups with government membership.

This model leads to a number of diverse results. First, these groups supply, to a large extent, Russia's exports of energy, military-industrial equipment, and even agricultural products, thereby facilitating their diversification. Second, these are the groups tasked with import substitution. Moreover, the government also emphasizes the importance of export-oriented import substitution (Medvedev, 2015, p. 121). Third, corporations with government membership often perform vital social functions, which are not usually intrinsic to them. Fourth, "chaebolization" holds back competition, and this is one of the most painful institutional problems in ensuring economic growth, much more so as the level of competition is also declining due to other reasons (geopolitics and the low ruble rate).

3.2. National goals and national projects

The Presidential Executive Order of May 7, 2018, outlined the medium-term socioeconomic policy. We can clearly see the development of the "project management" approach which was first tested from 2004 to 2006 and demonstrated very high effectiveness. However, the nature and effectiveness of project management depend on the circumstances in which they are implemented.

The earlier projects were primarily aimed at intensively developing the human capital sectors and residential construction. They were implemented during the period of sustained growth in budget revenues and the economy. This provided the necessary resources for implementing the projects outlined at that time. The 2008 global crisis limited the available resources, but by this time positive shifts had already occurred in respective sectors, which led to a positive evaluation of the project implementation experience. Moreover, rent income was quite quickly restored, paving the way for developing a system of national priorities in 2012.

Based on the experience gained, a number of Presidential Executive Orders were adopted in May 2012, setting the key objectives for developing various aspects of the country's life, including the economy and public well-being.[8] However, their implementation, unlike previous projects, was affected by unfavorable geopolitical and macroeconomic conditions, aggravated both in the autumn of 2008, and in 2014. The 2018 decree builds upon this experience, which is reflected in a number of specific important features of the document. They include:

- defining human capital and infrastructure as key industries. Digitization is particularly emphasized, but in essence, it is actually a combination of both of the above groups of problems;
- the goals and priorities are consistent with current technological, economic, and social challenges. And all developed and leading developing countries are facing similar challenges;
- as noted above, the 2018 Executive Order shifted emphasis to supply-side economy, i.e. economic growth based on investment. In other words, it is not expenses (increased wages) as in 2012–2017, but investments, which become the driving force of the projects:
- funding of the projects is contemplated almost exclusively at the expense of the federal budget, i.e. without additional burden on regional budgets. The issue of the size and sources of funding was resolved when the federal documents were prepared and was taken into account in the federal budget. Out of the RUB 25.7 trillion earmarked for national projects, regional budgets account for RUB 4.9 trillion (RF Government, 2019);
- the regions must sign agreements with the federal government, containing obligations to achieve national goals by spending the respective budget funds.

At the same time, the development and implementation of particular federal projects have revealed problems and controversies that require serious discussion and adjustment.

1. The correlation between the projects being developed and the national goals is not quite evident. Federal projects often fail to meet national goals and do not ensure their achievement. This, in turn, is transferred to the regional level as the subjects of the Russian Federation must undertake obligations not only to spend the money allocated for national projects, but also to achieve the respective strategic goals.

[8] See Russian Federation Presidential Executive Orders of May 7, 2012, No. 596–601, 606.

2. The issue of the total discounted project costs is still not resolved, i.e. the long-term financial consequences of their successful implementation have not been estimated. It is not clear whether the subjects (or municipalities) of the Russian Federation will have enough funds to operate the new social and transportation infrastructure. There is a risk that investment projects will end in a large number of suspended and unfunded facilities. The proposals to leave them under federal ownership forever make no economic sense and are unacceptable from a political point of view. The lack of an answer to this question would mean that national projects are focused on addressing the current growth tasks as opposed to long-term tasks, entailing severe macroeconomic and political risks.

3. In spite of the high importance of national projects, they only account for around 10.5% of the federal budget and 6.5% of the general government budget. Therefore, the focus on national projects should not be accompanied by less attention being paid to the efficiency of other federal budget items.

4. Macroeconomic conditions and sanctions

Fiscal policy. In 2018, the government continued pursuing an exceptionally conservative fiscal policy, attributing it to the complicated geopolitical situation and the need to avoid risks in case of further deterioration. An additional argument in favor of this course of action was the anticipation of a new cyclical crisis in the world economy. The federal budget was balanced with a surplus again as a result of the measures to reduce costs (by 1.7% of GDP) and increase budget revenues (by 2.4% of GDP) in 2018 (see Appendix Table A1).

The analysis of regional budgets points to their improved condition as compared with previous years. The surplus of regional budgets is evident, while debt of the subjects of the Russian Federation is decreasing (Klimanov et al., 2019, p. 25).

In outlining the fiscal policy, the main issue was ensuring budget stability and finding funds for implementing national projects. We point out a number of important fiscal policy decisions made in 2018.

First of all, the VAT increase from 18% to 20%. This was made possible upon completion of the period subject to the thesis proclaimed in 2012, regarding the permanent nature of the main tax system parameters. Tax increases are always unpleasant, but in the Russian tax system an increase in the VAT rate is the best option compared with other taxes. This decision was justified by the need to find additional resources to fund national projects.

Other ways to increase budget revenues were proposed, i.e. to change the fiscal rule (set the cut-off price of oil revenues at USD 45 per barrel instead of the current USD 40) or to increase budget borrowings. These methods would be more acceptable from a political point of view. However, they posed additional risks to the stability of the macroeconomic system. The government chose a solution that is more complicated from a sociopolitical standpoint, demonstrating that ensuring financial stability and preventing destabilization are its highest priorities. Given the unstable hydrocarbon pricing trend and the extremely volatile international political situation, this solution appears justified.

The new tax on self-employed persons became a politically important, though not very significant, decision from a fiscal point of view. While being administratively unburdensome and low, it provoked a negative reaction of a more sociopsychological than economic nature:

- psychologically, it was perceived as an increase in the tax burden, although in reality it is only a simplified mechanism for fulfilling tax obligations. However, the opportunity for the self-employed not to pay taxes has always been perceived as an aspect of business relations and not as tax evasion. Under current conditions, however, they have become mandatory;
- given low confidence, potential taxpayers are concerned that by registering as self-employed on the Federal Tax Service website and paying the tax, they would run a higher risk of receiving claims from other monitoring and supervisory agencies, as well as tax audits for previous years.

Tax administration requires special mention. In recent years, thanks to the active introduction of information technologies, tax administration actually entered a new stage in its development, producing two different but exceptionally significant results.

First, technology has almost made tax evasion impossible, in addition to the purge in the banking system. The result was unexpected: society perceived it to be an actual increase in the tax burden.

Second, the tax system is now capable of going beyond the resolution of fiscal tasks. Tax service is becoming a center for collecting diverse micro- and macroeconomic information, using Big Data technology to substantially improve the understanding of socioeconomic processes. Thus, new opportunities are emerging for a thorough transformation of the monitoring and supervision system, for improving its efficiency while reducing the burden on business entities.

Monetary policy was quite consistent with fiscal policy, i.e. it remained conservative and focused on achieving a 4% inflation rate target. Following a series of key rate reductions, in the autumn of 2018, as the risk of changes in price trends occurred (due to the increased VAT rate and the reduction in oil prices during late 2018), the Bank of Russia raised the key rate, confirming the consistency and predictability of its actions.

A persistently serious problem is the strong dependence of the ruble exchange rate (and, consequently, price trends) on external factors, i.e. geopolitics and related hydrocarbon pricing trends, the rates of global currencies issuers (Federal Reserve System and European Central Bank), the behavior of international investors, etc. We could even say that the ruble, while losing dependence on oil pricing trends, has become hostage to geopolitical trends.

An important innovation during 2018 was the significant alteration in the composition of gold and foreign exchange reserves at the Bank of Russia, in which the share of the US dollar decreased while the proportion of gold, euro, yuan, and several other currencies increased. Thus, between July 1, 2017 and July 1, 2018, the proportion of US dollar holdings declined from 46.3% to 21.9%, whereas the share of the euro increased from 25.1% to 32.0%, the yuan from 0.1% to 14.7%, other currencies from 12.4% to 14.7%, and gold, from 16.1% to 16.7%.[9] The geographic distribution of assets changed substantially in favor of international organizations, China, France, and Germany (see Figure and Table 2).

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[9] In 2018, the Bank of Russia was the largest gold buyer, having purchased 273 tons. As a result, by the beginning of 2019, Russia's gold reserves exceeded 2100 tons, accounting for around 18.5% of the country's international reserves.

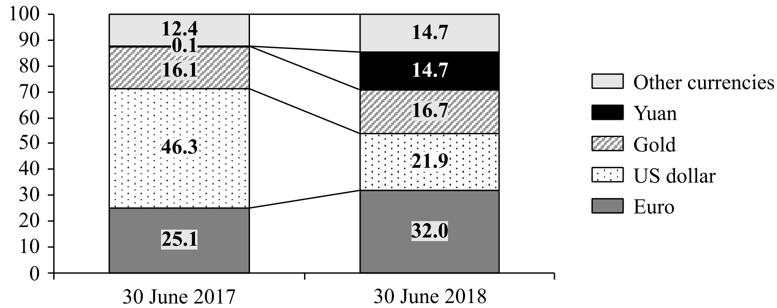

Fig. 1. Distribution of Bank of Russia assets denominated in foreign currencies and gold (as % of their market value).

Note: The distribution of the Bank of Russia's assets is given taking conversion transactions into account where settlements have not been completed.
Source: Bank of Russia (2019, p. 12).

Table 2
Geographic distribution of Bank of Russia assets (%).

Place of custody	30 June 2017	30 June 2018
Gold in Bank of Russia custody	16.3	16.9
France	12.7	15.5
Germany	10.4	12.7
China	0.1	11.7
USA	32.5	9.6
Intergovernmental organizations	4.0	7.3
Japan	1.7	7.0
United Kingdom	6.5	4.5
Canada	3.0	2.9
Hong Kong	1.9	2.3
Other countries	10.7	9.7

Source: Bank of Russia (2019, p. 12).

In 2018, Russian authorities changed their attitude towards cryptocurrencies. Despite their high volatility, the Bank of Russia switched from interpreting their role to be criminal, where all comments on this topic could be boiled down to the formula "surrogates are forbidden," to attempts to regulate this market and even discuss the prospects for issuing Russia's own cryptocurrency.[10] On the other hand, long-term prospects of the development of cryptocurrencies will be determined not only, and even not so much, at the discretion of the regulator as by consumer preferences, i.e. be dependent on the convenience (credibility) of using cryptocurrencies as compared to other means of payment.

The *sanctions* became a significant factor in the discussion about current and future problems in socioeconomic trends and economic policy. In 2018, it seems that a perception took root in the public consciousness that the sanctions are here to stay, and the objective is not to endure them for a short period. The history of sanctions during the second half of the 20th century and the experience gained

[10] "In October 2017, the instructions of the Russian President is issued, identifying the need to adopt laws regulating cryptocurrencies, ICO, mining, smart and contacts. In executing the instructions, the Russian Ministry of Finance, jointly with the Bank of Russia, is preparing a bill titled "On digital financial assets," while the State Duma is working on a bill that amends the Civil Code aimed at creating a framework for regulating the crypto-economy" (Levashenko at al., 2019, p. 38).

since 2014 suggest a few conclusions with respect to the issues and risks associated with this kind of policy.

Sanctions do not usually yield immediate results. More often than not, they encourage the consolidation of forces and the political system within the sanctioned country. In some cases, they even lead to improvements in the economic situation.

The most recent experience with sanctions demonstrates that the associated uncertainty leads to the most serious problems. The nature of the anticipated sanctions and the period over which they will potentially be imposed, while being protracted, destabilize socioeconomic processes and hamper quick adaptation to potential challenges. This entails fluctuations in financial markets, the higher volatility of the ruble, the refusal of foreign investors to partner with Russian companies, and capital flight.

The risk of technological backwardness is another most unpleasant consequence of the sanctions. In the modern world, this problem becomes especially acute, since technical progress is global in nature, and sustainable socioeconomic development requires participation in global value chains (see Kadochnikov et al., 2016). This is most visibly demonstrated by the trend in foreign direct investments, the inflow of which decreased in 2018 to the trifling amount of USD 1.9 billion, as compared with USD 27.1 billion in 2017.

In a situation like this, the risks associated with the sanctions need to be neutralized, and their repeal should be fought for as they represent an inadequate tool for modern political and economic relations. This policy can be called the stabilization of the sanction regime.[11] The following steps are expedient parts of it.

Creating your own agenda, which must be active rather than reactive. It must rely on its own logic within the political process, rather than being just a reaction to imposed sanctions. In other words, counter sanctions may be foregone in favor of the country's own positive agenda.

Building a sanction infrastructure that would consist of elaborating a medium-term policy taking sanctions into account, rather than taking retaliatory actions (counter sanctions). A correct step in this direction has been establishing the Department for External Limitation Control within the RF Ministry of Finance, the equivalent of the U.S. Office of Foreign Assets Control (OFAC), the purpose of which is to develop a corresponding policy.

Liberalization. The experience of a number of countries (including China since the early 1990s) shows that an effective way to neutralize sanctions is economic liberalization combined with political consolidation. This requires creating the most favorable conditions for national business (and business in general): first of all reducing administrative interference and loosening control and supervision. However, this requires not only political will, but also complex institutional decisions.[12]

Intensifying the international integration of the national business. The involvement of Russian companies in global markets is intensifying the mutual dependence from sanctions. The deeper a country or a particular firm is integrated into

[11] "Stabilization of the sanction regime is the most acceptable strategy for foreign political and foreign economic positioning... Therefore, the government's efforts should be focused, in the short-term and in the medium-term, on stabilizing the current level of sanctions to reduce uncertainty, and not on their complete repeal" (Knobel et al., 2019, pp. 65, 68).

[12] A number of deregulation issues in foreign economic activity are reviewed in Balandina et al. (2018), Bozhechkova et al. (2017).

the global market, the more complicated it becomes to impose sanctions on it. The attempt to impose sanctions on Oleg Deripaska's companies in 2018 demonstrated this quite clearly, forcing the U.S. Department of the Treasury to revise its own decisions. Therefore, "it is necessary to identify isolated mutual interests with American and European companies, especially those operating in sectors that are the most vulnerable to sanction pressure" (Knobel et al., 2019, p. 58).[13]

5. Conclusion

The formation of the paradigm for the next stage of socioeconomic development occurred in 2018. It can be described as consisting of several provisions.

First. A key objective for economic policy is to accelerate socioeconomic development. However, it should avoid the errors made in the Soviet past.

Second. Economic growth is ensured through transition to a supply-stimulating policy. This includes a budget maneuver in favor of investments, with predominant emphasis on the human capital and infrastructure (transportation and digital) sectors.

Third. Government administration is restructured based on the project method which was founded on the rigid administration of priority projects to achieve national goals.

Fourth. The sanctions are here to stay. Russian socioeconomic policy should treat them as a long-term factor.

Fifth. The macroeconomic policy will remain conservative, as it has proved itself in the past, and is capable of insuring the country against the risks of geopolitical turmoil.

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[13] Similar arguments are voiced by the authors of a study into the potential for privatization under sanctions: "A significant portion of foreign companies, even in the United States and Germany, where the problem of anti-Russian sanctions is the most acute, are not interested in sanctions since the global market dictates its own rules... In a sense, one could state that a new round of extensive Russian privatization may become an incentive for weakening anti-Russian sanctions" (Radygin et al., 2019, pp. 56–57).

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Appendix A

Table A1
Main economic indicators of the Russian Federation, 2007–2018.

Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Macro indicators (rates of growth in physical volume, % change from previous year, unless otherwise indicated)												
GDP	8.5	5.2	–7.8	4.5	4.3	3.7	1.8	0.7	–2.5	0.3	1.6	2.3
Industry	6.8	0.6	–10.7	7.3	5.0	3.4	0.4	1.7	–0.8	2.2	2.1	2.9
Agriculture	3.3	10.8	1.4	–11.3	23.0	–4.8	5.8	3.5	2.6	4.8	3.1	–0.6
Construction	18.2	12.8	–13.2	5.0	5.1	2.5	0.1	–2.3	–3.9	–2.1	–1.2	5.3
Wholesale trade	9.5	5.4	2.0	3.0	4.4	3.6	0.7	3.9	–5.5	3.1	5.7	2.4
Retail trade	16.1	13.7	–5.1	6.5	7.1	6.3	3.9	2.7	–10.0	–4.6	1.3	2.6
Households final consumption	14.3	10.6	–5.1	5.5	6.8	7.9	5.2	2.0	–9.4	–1.9	3.2	2.2
Investments in fixed assets	23.8	9.5	–13.5	6.3	10.8	6.8	0.8	–1.5	–10.1	–0.2	4.8	4.1[a)]
Wages as a percentage of GDP, %	46.7	47.4	52.6	49.6	43.8	44.3	46.2	47.2	46.5	47.3	47.1	45.7
Share of profits and mixed income in GDP, %	34.1	32.7	30.8	32.6	41.8	41.4	40.0	38.9	42.3	41.7	42.1	42.9
Foreign direct investments in Russia, USD billion	55.9	74.8	36.6	43.2	55.1	50.6	69.2	22.0	6.9	32.5	28.6	4.8
Foreign direct investments in Russia, excluding banks, USD billion	49.4	64.9	29.9	38.0	50.0	42.8	60.1	17.6	6.3	30.9	27.1	1.9
Indicators of public finance and international reserves												
Surplus (+) / deficit (–) of the consolidated budget as % of GDP	6.0	4.9	–6.3	–3.4	1.4	0.4	–1.2	–1.1	–3.4	–3.7	–1.5	0.2[b)]
Surplus (+) / deficit (–) of the federal budget as % of GDP	5.4	4.1	–6.0	–3.9	0.7	–0.1	–0.4	–0.4	–2.4	–3.4	–1.4	2.6
Non-oil and gas deficit of the federal budget as % of GDP	–3.3	–6.5	–13.7	–12.2	–8.6	–9.5	–9.4	–9.8	–9.4	–9.1	–7.9	–6.1
Domestic state debt, end of year, RUB billion	1248.8	1499.8	2094.7	2940.4	4190.6	4977.9	5722.2	7241.2	7307.6	8003.5	8689.6	9169.6

(continued on next page)

Table A1 *(continued)*

Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Foreign state debt (RF Ministry of Finance data, USD billion)	44.9	40.6	37.6	40.0	35.8	50.8	55.8	54.4	50.0	51.2	49.8	49.2
Total state debt as a % of GDP	7.1	6.5	8.3	9.0	8.9	9.9	10.3	13.0	13.2	12.9	12.6	12.1
Reserve Fund (2007 — Stabilization Fund), end of year, USD billion	156.81	137.09	60.52	25.44	25.21	62.08	87.38	87.91	49.95	16.03	0.00	0.00
National Welfare Fund, end of year, USD billion		87.97	91.56	88.44	86.79	88.59	88.63	78.00	71.72	71.87	65.15	58.10
International reserves of the Bank of Russia, end of year, USD billion	478.8	427.1	439.0	479.4	498.6	537.6	509.6	385.5	368.4	377.7	432.7	468.5
Prices and interest rates												
Consumer price index, December to previous December, %	11.9	13.3	8.8	8.8	6.1	6.6	6.5	11.4	12.9	5.4	2.5	4.3
Producer price index, December to previous December, %	25.1	–7.0	13.9	16.7	12.0	5.1	3.7	5.9	10.7	7.5	8.4	11.7
Bank of Russia key rate (until 2013, the minimum rate for 1-day repurchase operations), yearly average, % per annum	6.0	6.9	8.3	5.3	5.3	5.3	5.5	7.9	12.6	10.6	9.1	7.4
Average interest rate on ruble loans to businesses, yearly average, % per annum	10.0	12.2	15.3	10.8	8.5	9.1	9.5	11.1	15.7	12.6	10.6	8.9
Average interest rate on retail ruble deposits (except for demand deposits), yearly average, % per annum	7.2	7.6	10.4	6.8	5.4	6.5	6.5	6.7	9.7	7.3	6.0	5.5
Labor market												
Overall unemployment rate (ILO methodology), annual average, %	6.0	6.2	8.3	7.3	6.5	5.5	5.5	5.2	5.6	5.5	5.2	4.8
Average wages (RUB thousand/month)	13.6	17.3	18.6	21.0	23.4	26.6	29.8	32.5	34.0	36.7	39.2	43.4
Wages in real terms, %	17.2	11.5	–3.5	5.2	2.8	8.4	4.8	1.2	–9.0	0.8	2.9	6.8
Real disposable household income, %	12.1	2.4	3.0	5.9	0.5	4.6	4.0	–0.7	–3.2	–5.8	–1.2	–0.2
Population with money income below the subsistence level, millions	18.8	19.0	18.4	17.7	17.9	15.4	15.5	16.1	19.5	19.5	19.3	19.6[c)]

(continued on next page)

Table A1 *(continued)*

Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Banking system												
Number of active credit organizations, end of year	1136	1108	1058	1012	978	956	923	834	733	623	561	484
Banking licenses revoked during the year	49	33	43	27	18	22.0	32	86	93	97	51	60
Rate of assets growth, % for the year	46.1	32.7	3.7	14.8	21.4	20.4	14.2	18.6	–1.5	2.1	7.8	6.1
Indebtedness of resident legal entities, excluding banks, in terms of bank loans, % for the year	52.4	28.6	0.0	9.6	22.8	15.5	11.6	12.7	5.0	–0.1	4.6	7.8
Indebtedness of resident individuals under bank loans, % for the year	58.3	31.2	–11.7	14.4	35.5	39.1	27.7	11.6	–7.3	0.7	12.3	21.7
Share of overdue loans to resident legal entities, excluding banks, %	0.9	2.5	6.0	5.5	4.8	4.6	4.1	4.1	6.0	6.1	5.9	5.7
Share of overdue loans to resident individuals, %	3.1	3.6	6.9	7.1	5.3	4.1	4.5	6.0	8.4	8.3	7.3	5.3
Profit, RUB billion	508	409	205	573	848	1012	994	589	192	930	790	1345

[a] January–September 2018, in % over January–September 2017.

[b] Estimate for 2018 from the "Main guidelines of budget, tax and customs tariff policy for 2019, and for the 2020 and 2021 planning periods" (https://www.minfin.ru/ru/statistics/docs/budpol_taxpol/).

[c] Q3 2018.

Sources: Rosstat; RF Ministry of Finance; Bank of Russia.