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Economic growth in Russia Tomsk Polytechnic University

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Abstract

This article is about the economic growth in Russia in 2014. The article reflects the relevance of this topic to the present situation in the world. The theoretical foundations of economic growth, as well as optimistic, pessimistic and baseline scenarios for further economic development have been considered in the article. The policy of the Russian Federation Government depends on the baseline scenario which takes into account many factors affecting the Russian economy at the moment. The article highlights the fact that the World Bank considers these scenarios, describes the reasons for the decline in economic growth and provides the outlook of economic perspectives in the coming years. The article presents opinions of the head of the Central Bank of the Russian Federation, World Bank economists of largest Russian and foreign banks and other experts.

Keywords: economic growth, forecast, the World Bank, the Bank of Russia;

1. Introduction

Economic growth is characterized by increasing of economic prosperity and standard of living of the population and increasing in the volume of creating utilities.

Information about economic growth is used to characterize the development of the national economy and state regulation of the economy. The effectiveness of economic growth is determined to improve the quality of goods and services. It implies increased competitiveness, deepening specialization and cooperation; overcoming inefficiency that occurs with increasing management skills and the use of effective motivation to spur productivity growth within firms, the development of new products; development of new technologies. [2]

Achieving of economic growth is possible in two ways. There is extensive and intensive path of economic growth.

GDP grows due to the increased use of resources in the extensive type of economic growth. In intensive growth path GDP grows due to a qualitative improvement of production factors and increasing their efficiency.

Scaling up of production is a characteristic of intensive type of economic growth. It is based on the extensive use of more advanced and efficient production factors [4]

2. Author Artwork

At present problems of financial planning, which is the definition of adequate resources from different sources and their rational allocation over time and structural subdivisions of the enterprise, are particularly relevant. Competition and instability necessitate the introduction of planning, monitoring and analysis of results in terms of budgeting as a primary management tool providing leading of accurate, complete and timely financial information[6]

In September 2014, the World Bank lowered baseline forecast of economic growth in Russia from 1.1% expected in March to 0.5%. It is the level of stagnation. In addition, the World Bank has prepared two alternative scenarios for further economic development in the report on Russia's economy named "The Uncertainty of Economic Policy Restricts the Horizon of Growth." Optimistic and pessimistic WB forecasts assume GDP growth in 2014 at a level of 0.4-0.5%.

The World Bank thinks that the baseline scenario is the most possible. It takes into account the tensions between Russia and Ukraine, the preservation of the sanctions, the lack of structural reforms and at the same time maintaining a sufficiently high level of stability in the Russian economy. As a result, in 2015 the economic growth rate will drop to 0.3%, and in 2016 it will make up 0.4%. The main factors that affect the baseline forecast are Russian inertia in implementing structural reforms and uncertainty of economic policy due to political decisions. WB forecasts that in 2014 the impact of imposed sanctions on trade and a ban on imports from Russia will be relatively small. In the baseline scenario, in 2014 the surplus of the current account balance will grow to \$ 62.8 due to the reduction in imports and an increase in net income. In addition, according to the World Bank, in the baseline scenario, banks and enterprises will be able to refinance foreign debt even with the limited access to international capital markets. However, in 2015, the access to them will be still limited, which will adversely affect the parameters of refinancing debt and lead to a shortage of capital account and financial instruments of \$ 60.1 billion.

The pessimistic scenario assumes an increase of geopolitical tensions and the imposition of new sanctions, resulting in the economy comes a deep recession

The pessimistic scenario of economic development will be reproduced in the case of geopolitical tensions and the introduction of new sanctions. Because of the scenario GDP in 2014 will grow by 0.4%, in 2015 it will decrease by 0.9%, in 2016 there will be less dramatic increase of 0.4%.

In this scenario, Russian companies and banks will find increasingly limited access to international capital markets, and the imposition of additional sanctions (including short-term restrictions on trade in natural gas) may increase the uncertainty of economic policy, capital flight, high exchange rate volatility and weakening ruble. But even in this scenario, the World Bank assumes that the international community will refrain from the use of sanctions in the oil trade.

The main engine of economic growth is a growth in consumption that can come to a standstill in the coming years because of low rates of income growth, high inflation, increase in default on loans and pessimism. So, in 2014, it will slow down to 2%, and in 2015 consumption will start to fall by 0.3% annually according to the World Bank. Gross capital formation will continue to fall although its rate will decline by 8.5% in 2014, by 4.3% in 2015, by 1.2% in 2016.

The deficit of the consolidated budget of the Russian Federation Bank is expected to reach 0.7% of GDP this year, 2.8% of GDP in 2015 and 1.2% of GDP in 2016.

In the pessimistic scenario, the World Bank takes into account the further weakening of the ruble and the introduction of additional trade sanctions, which will lead to an even stronger decrease in imports in 2014 and 2015 and, as a consequence, the growth of the current account surplus to \$ 69.3 billion and \$ 82.2 billion respectively.

In case of new sanctions to Russian banks and companies, it will be increasingly difficult to refinance its external debt in 2015, which also affect the net outflow of capital. With further deterioration in sentiment in the market, reducing the inflow of foreign direct investment and withdrawal of funds from Russian assets will accelerate net capital outflows. As a result is expected to remain a significant deficit of the capital account and financial instruments of \$ 82.3 billion in 2015 year.

In optimistic scenario, it will be a slight revival of the economy by reducing geopolitical tensions and the abolition of all sanctions by the end of 2014. The optimistic scenario implies total elimination of geopolitical tensions and abolition of all sanctions by the end of 2014 and as a result a slight economic recovery. Under these conditions, access to international capital markets will be restored in 2015. There will be a slow recovery in private consumption and in volume of private investment that will also contribute to a renewed interest in structural reforms by the end of 2015. The growth rate will rise from 0.5% in 2014 to 0.9% in 2015 and to 1.3% in 2016. In 2014 Growth in consumption amounted to 2.2%, in 2015 it will make up 0.9%, in 2016 - 1.5%. Gross accumulation after falling by 8.1% in 2014 will start to grow by 1.5% in 2015 and by 2.5% in 2016. In 2014 deficit of the consolidated budget will correspond to the baseline scenario - 1.1% of GDP, in 2015 it will increase to 2.3% of GDP, in 2016 it will drop to 1.2% of GDP. The results of the balance of payments in 2014-2015 under the optimistic scenario are similar to the baseline scenario that reflects the degree of divergence weakening of the ruble and the intensity of capital flows. Abolition of all sanctions by the end of 2014 and more dynamic economic development can accelerate the reduction of the current account surplus to \$ 42.9 billion in 2015, expects the World Bank. Banks and companies of non-financial sector will be able to restore their ability to refinance debt faster which will lead to some reduction in the deficit of the capital account and financial instruments to \$ 45 billion next year in this scenario. [5]

The Bank of Russia expects growth of the Russian economy in 2015 by 0.9%, and its acceleration to 1.9% in 2016. On 16 June The Central Bank lowered its forecast of growth for Russia's GDP in 2014 to 0.4%. E.Nabiullina, CB Head, believes that the recovery in economic growth in the coming years will proceed slowly. This will recover the investment, and the effect of net exports may drop to zero or slightly negative indicators.

Ministry of Economic Development predicts the acceleration of economic growth in Russia in 2015 to 2.5-3% from the expected 0.5% in 2014.

Oleg Fomichev, Deputy Minister of Economic Development, believes that GDP growth in Russia in 2015-2017 years could reach 2-3,2% due to the processing industry.

In April, the International Monetary Fund lowered its forecast for growth of GDP in Russia from 1.3% to 0.2% in 2014 and from 2.3% to 1% in 2015.

According to the Ministry of Economic Development of Russia in the first quarter of 2014 GDP decreased by half a percentage point as compared to the last three months of the 2013th. Previously, the Finance Ministry did not excluded that the country may be in a technical recession in the second and third quarters. The official forecast of Ministry of Economic Development for 2014 envisages GDP growth of 2.5%.

In 2013 the level of Russia's economy grew by 1.3%, the worst index for the last 4 years. In 2014, initially there was expected recovery of previous rates of growth. However, country scores were reduced due to the political crisis in Ukraine, joining of the Crimea and the threat of sanctions by Western countries. [3]

Media company Thomson Reuters carried out a survey of economists from the largest Russian and foreign banks such as Alfa Bank, Bank of St. Petersburg, Renaissance Capital, Uralsib, Bank of America Merrill Lynch, Capital Economics, Credit Suisse, Danske Bank, HSBC, ING Bank,

Informa Global Markets, Nordea, Morgan Stanley, Raiffeisenbank, Unicredit Bank. They concluded that the expansion of the EU sanctions and the US, as well as the tightening of monetary policy by the Central Bank did not change the prospects for economic growth of Russia in 2014. The participants of the survey believe that GDP will remain at the previous level of 0.3%. In this case, expectations of growth of the Russian economy in the third and fourth quarters of 2014 went into negative area, according to the research. The volume of investments this year was expected to be reduced on average by almost 4% while in June it was expected that this number would be about minus 3%.

Economists who were polled began to look at the dynamics of the ruble, investment and the probable outflow of capital from Russia in 2014 more pessimistic. Also, they do not expect rate cuts by the end of the year.

3. Conclusion

A new estimate suggests a further weakening of the ruble from current levels to the end of the year while the results of the previous survey showed relatively stable expectations about the dynamics of the Russian currency.

The forecast assumes slowing inflation to 6.5 %, while the Central Bank expects inflation in the range of 6-6.5 %.

In the third quarter, according to economists, inflation could amount to 7.3%, which is 0.3% more than it was previously forecasted. One of the uncertainties is consequences of the decision of the international court in Hague. The Russian Federation is obliged to pay \$ 50 billion to shareholders of Yukos because of the risk of the arrest of the Russian state-owned assets abroad.

[1]

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