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**THE WAYS TO OVERCOME THE NEGATIVE PHENOMENA
IN THE RUSSIAN ECONOMY**

R. G. Akhmadeev

O. A. Bykanova

D. A. Tretyakova

*Ph.D., assistant professor
candidate of physical and mathematical
sciences, assistant professor
Plekhanov Russian university of economics
Moscow, Russia
senior teacher
Ulan-Bator branch Plekhanov
Russian university of economics
Ulan-Bator, Mongolia*

Abstract. The article analyzes the slowdown in the industrial sector of the Russian economy. According to preliminary data of Federal State Statistics Service Russian GDP value in 2014 amounted to 70.975 billion rubles. Economic growth was 0.6 %, compared to the same period in 2013 of 1.3 %. The ruble devaluation has revived domestic demand and stabilized the situation in budgetary sphere to some degree. However, the other side of the process is inflation rate accelerating and greater concentration of resources in the fuel-energy sector. The state programs supporting some particular sectors of economics that are in force nowadays do not function in full. A significant drawback is that elaboration and conducting of the programs occur in off-line mode, without taking into account the total demand for financial, material-and-technical, manpower and other limited resources. The uncertainty of the economic environment that promotes business activity decline, leads in its turn to profit decrease. Capital outflow does not encourage investment growth, at that the capital outflow in 2014 was mostly managed by non-banking sector, proving the reluctance of entrepreneurs to invest in the production development. Consequently, this means a reduction of capital investments at the expense of enterprises' own funds.

Keywords: economic crisis; loss-making enterprises; net financial result; manufacturing sector of the economy; investment activity; banking activity.

The total contribution of industry to the dynamics of the Russian economy profits is determinant, as its share in the overall profit of the real sector is over 50 %. The net financial result has decreased in industry due to ruble depreciation and decline in global oil prices. Companies' financial condition also leaves much to be desired 41 % of business leaders indicated the current

lack of financial resources that characterizes the decline in profit. Furthermore, the situation when the cost of credit resources does not allow enterprises of a number of industries to count on profitable activities has become typical in the Russian economy in recent years. The share of the loss-making enterprises in industry is given in the figure 1.

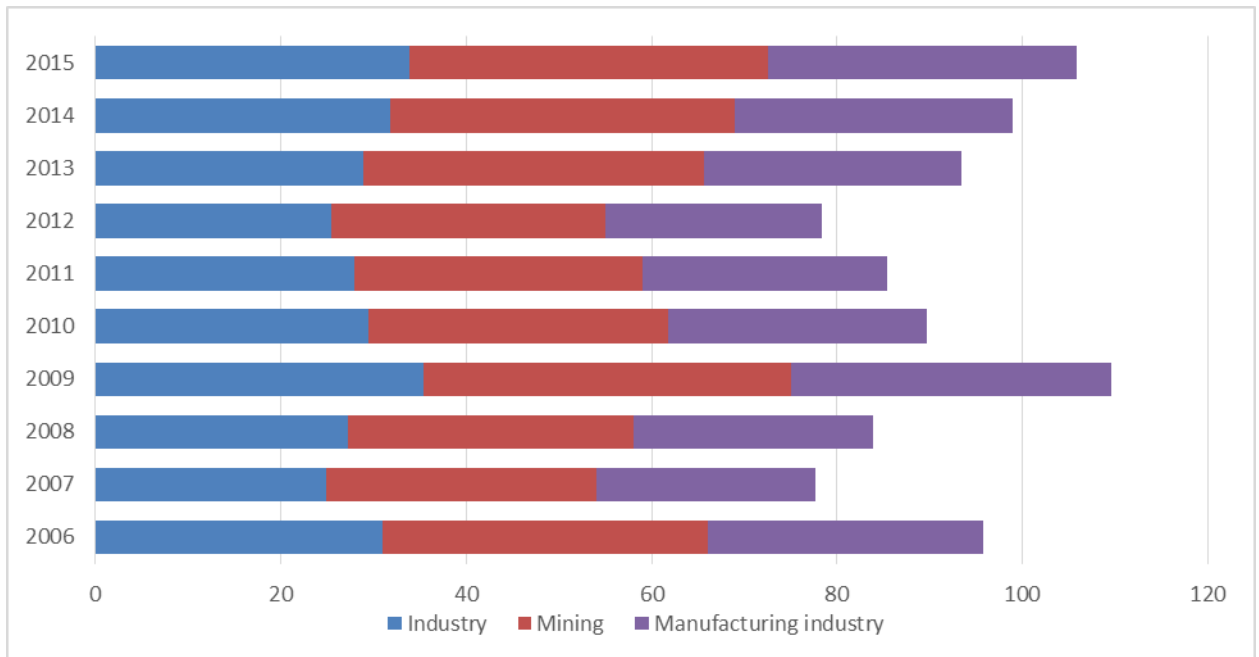


Fig.1 The share of the loss-making industrial enterprises by the type of economic activity
(<http://www.gks.ru/> (Federal State Statistics Service))

The studies have shown that the maximum number of unprofitable enterprises (the share amounted to 54.1 %) for the period January-October 2014 was noted in the economic sectors of production, transmission and distribution of electric power, gas and water. This situation was typical for the entire post-crisis period. In the mining sector, the figure was

37.1 %. The share of loss-making enterprises in manufacturing industries was about 30.0 %. The largest share of unprofitable enterprises is observed in export-oriented enterprises particularly in woodworking and wood products manufacturing (37.0 %).

Net financial result of activity also indicates the financial condition of the industrial enterprises (see table 2).

Table 2

**The net financial result by the type of economic activity in industry
(according to operative data of the enterprises in the ruling prices),
% to the previous period**

Type of economic activity	Years									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Industry	163,8	110,3	76,8	66,8	168,3	115,5	117,9	80,1	74,1	91,3
Mining	176,7	106,0	92,0	105,9	151,7	148,7	98,4	94,8	131,4	117,4
Manufacturing industry	167,0	125,3	74,0	58,3	166,6	120,4	112,5	71,3	78,2	90,5
Production, transmission and distribution of electric power, gas, water	95,4	145,8	110,5	167,3	23,3	33,3	197,2	86,1	96,9	119,4

*-A dash means that negative net result has been obtained in one or both of the comparable periods.

Source: <http://www.gks.ru/> (Federal State Statistics Service)

At the beginning of recovery from the economic crisis in 2010, an energetic spurt to improve the financial situation of the companies was undertaken, which subsequently deteriorated and passed on to worsening. In January-October 2013, this figure amounted to 80.1 % [9, c. 30]. In January-October 2014, it decreased and amounted to 74.1 %.

The downshift of net financial result in the manufacturing sector in January-October 2014 amounted to 21.8 % of the m-o-m figure in 2013, and in the production and distribution of electric power, gas and water – 3.1 % respectively according to the data of Federal State Statistics Service. In the mining sector net financial result increased by 31.4 % (compared to reduction to 5.2 % in 2013), mainly

due to high oil prices in the first half of 2014.

Among export-oriented sectors of economy this figure decreased by 51.7% in the chemical industry for the period January-October 2014 (the previous year it decreased by 31.6 %) largely due to lower prices of the products on the world market. Likewise, there was a negative dynamics of net financial result in the industries oriented to consumer's demand. The net financial result decreased by 51.6 % in manufacturing of rubber and plastic goods and by 10.8 % in manufacturing of food products.

The drop of investment demand has worsened the financial condition of the enterprises producing investment goods. Particularly, the net financial result in manufacturing of non-metallic minerals in January-October

2014 was negative (it decreased by 52.1 % versus 32.2 % reduction m-o-m in 2013). The net financial result dropped by 31.7 % (versus fall at 20.1 % m-o-m in 2013) in the machinery and equipment production.

Unlike the dynamics of industrial output, investment activity fell significantly. In particular, the growth of fixed capital investment in 2013 amounted to 99.8 % in the economy as a whole, and 97.2 % in January-November 2014 compared to the same period of the previous year. The main factors of investment activity decrease were as follows: significant profit shrinkage of non-financial organizations, the continuing economic uncertainty, low external and domestic demand, unfavorable domestic investment climate, private capital outflows. Moreover, budget expenditures ceased to stir up economy. Many entrepreneurs avoid doing risky actions in favor of investment, innovation and modernization in current economic and institutional conditions, if their businesses are not included in public programs with guaranteed bonuses.

At the same time, the public programs in force do not operate to the full extent. The most significant drawback is that they are worked out independently without taking into account the total demand for financial, material, human and other limited resources within a specific planning period. There is no methodic basis of public programs planning up to now. As a result, planning often relies on retrospective data of current programs and is not supported by the forward-looking estimates and is based on intuitive or subjective assessments. Therefore,

adopted public programs are constantly being revised; time frames and efficiency of achieving results are adjusted though as a rule not for the better. That is, there is no effective mechanism to support investment projects in Russia.

The studies allow us to conclude the following. The growth in prices of manufactured products will be significantly ahead of the growth in prices of agricultural products and services. However, the growth rate in the short-term will be slower than the rate of the Russian currency decline, as the demand has strongly decreased and there is no pent-up demand for 2015. Reliably, there will be considerable problems in automobile industry, mechanical engineering, building trade and all industries related to construction – construction materials manufacturing, steel industry and production of finishing materials.

Capital outflow is one of the most serious problems of the Russian economy. Every year, Russia invests in the global economy about \$ 100 billion to bring in half as much dear money [7, c. 85]. Our country loses \$ 40–45 billion yearly in favor of the US and European creditors owing to difference in rates of interest. The volume of illegal capital flight is about \$ 80 billion. This figure coincides with the volume of external credits, which is now lost for the Russian economy due to sanctions. Thus, the negative effect of the sanctions could be completely neutralized, if the illegal capital outflow stopped.

One way to solve this problem is a sharp rise in the rate of compulsory foreign-exchange reserves for credit institutions and mandatory sale of

most of the foreign exchange earnings, for instance, 75 % of it [1, c. 430]. It should be sold domestically to the organizations exporting products and services abroad. At that, it is reasonable, in our view, to differentiate the reserve requirements depending on the account currencies and to introduce higher requirements to foreign currency accounts.

It is necessary to increase significantly the volume of money supply in the internal market for domestic business lending. Money supply should be formed in conjunction with the objectives of economic development and relying on internal sources of currency issue. One of the most important sources is a refinancing mechanism aimed precisely at lending the real sector of the economy and investing in priorities for development [2, c. 48]. Emission methods can be different: indirect (refinancing on the security of State commitments and solvent enterprises) and direct (co-financing of public programs, provision of state guarantees, state funding of development institutions). Moreover, under conditions of financial war imposed on Russia by Western countries, the most important channel of money issue shall be the acquisition of government liabilities by the Central Bank of the Russian Federation, as is done in the US, Japan and EU.

As part of modern national monetary system formation, it is necessary to follow the main objectives of the modernization, economy development and external loans substitution. Herat there is a need to implement a set of measures.

Firstly, the monetary system should be set up for the development and expansion of real sector lending. Thereto the creation of conditions for economic growth, increase of investment and employment should be included in the list of the objectives of monetary policy and the Central Bank activity by law.

Secondly, it is essential to turn mainly to domestic sources of financing and lending. To achieve this, the key interest rate should be lowered rather than raised to a level comparable with the level of interest rates in the EU, US and China. The key interest rate should not exceed the average rate of return in the investment complex net of bank margin (2–3 %), and terms of loans should correspond to the production cycle in the manufacturing industry (seven – ten years) [4, c. 30].

Thirdly, the Central Bank of Russia relying on the experience of economically advanced countries should bet on the formation of long money with low interest rates, based on the use of government securities and the refinancing instruments under the enterprises' commitments.

Fourthly, the Central Bank of Russia should significantly increase financial capability of the country's development institutions, which in their turn are intended to finance investment projects and programs adopted by the government.

Fifthly, it is necessary to create conditions for enhancing the capability of the Russian monetary and financial system. So it is advisable to replace credits in the foreign currency issued by Russian banks and corporations with credits in the national currency

granting the appropriate funding from the Central Bank of Russia. The loss of opportunity of lending owing to sanctions should be compensated to the state banks and corporations. Thereto it is necessary to establish a special institute for restructuring and compensation of external liabilities and assets of Russian borrowers and investors, providing it with the necessary resources.

Sixthly, it is necessary to introduce retention mechanism of rate of exchange quotation vis-a-vis the ruble, rather than vice-versa as it occurs nowadays. It is also significant to set in advance the boundaries of ruble rate fluctuation. Under threat of going beyond these boundaries, the exchange rate should be changed and new boundaries ought to be set at a time in order to avoid capital flight and currency speculation against the ruble.

It is necessary to regulate the mechanism of the banking system operation. Therefor commercial banks should have an opportunity to get immediate stabilization loans up to 25 % of the volume of individual's deposits to meet the panic claims of individuals [6, c. 290]. Furthermore, it is necessary to resume non-collateral credit auctions for banks experiencing liquidity shortage conducted by the Central Bank of Russia. It is also necessary to introduce a mechanism for maintaining current liquidity of credit institutions, namely: to reduce the amount of deductions to the fund of required reserves, to increase the opportunity of their lending on the security of "non-market assets", to expand the list of such assets. At that, there is a need to develop forming methodology and to

determine the list of strategic enterprises, whose loans will be refinanced on concessionary terms.

Great attention should be paid to the development of competitiveness, considering the factor of increase in demand by developing the quality of the production itself. This policy should primarily be focused on the development of certain areas that will bind closely local businesses with foreign multinational companies (we are talking about the five BRICS countries). One of the most important considerations is increasing the capacity of the Russian economy with regard to small and medium-sized businesses especially at the local and regional levels.

In this case, it is important to enhance the independence of the executive bodies of constituent entities of the Russian Federation, as well as to reduce the dependence of the consolidated budgets of the RF constituent entities on financial support coming from the federal budget.

However, the modern fiscal centralization is characterized by imperfection of tax management at regional and local levels. Specifically, the constituent entities of Russia and local self-governments are largely restricted in establishing the taxation elements. The tax legislation provides for variation of rates on certain types of taxes and duties (within the limits prescribed by Tax Code of the Russian Federation), the timing and the payment procedure. It should be noted, that tax privileges on the regional and local taxes for different groups of taxpayers were fixed at the federal level.

The current tax regulation at regional and local levels does not provide an appropriate balance between fiscal, redistributing, regulating tax functions. However, fixed tax remissions for certain types of taxes and duties at the regional and local level can significantly increase the investment attractiveness, create better conditions for accelerated development of the priority sectors of the economy in the current macroeconomic conditions. An optimal level of taxation with reasonable distribution among the different levels of budgets can serve as a criterion of justice.

In the current economic conditions in the Russian Federation the foreign experience of stimulating economic activity of small and medium-sized businesses by means of depreciation policy may be of greater interest. An accelerated depreciation of equipment as an incentive to upgrade production facilities is widely used in some highly developed countries. It is also used for priority development of specific industries, R&D promotion or for the overall investment recovery.

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