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Analysis of growth rates decline in the Russian economy

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Abstract

The paper examines the main reasons of economic growth and decline, characterized by basic indices recession and suggests the ways out of this situation. Nowadays this problem is actual not only for Russia but for a lot of foreign developing countries. The paper presents the information about the key factors that hinder the growth of the national (Russian) economy. Much attention is given to structural and fundamental problems of the Russian economy that are required for the construction of a new economy model based on a new source of growth. This paper can be interesting for researches who deal with the problems of sustainable economic growth.

Keywords: economic growth, national economy, Russia's economy growth model

1. Introduction

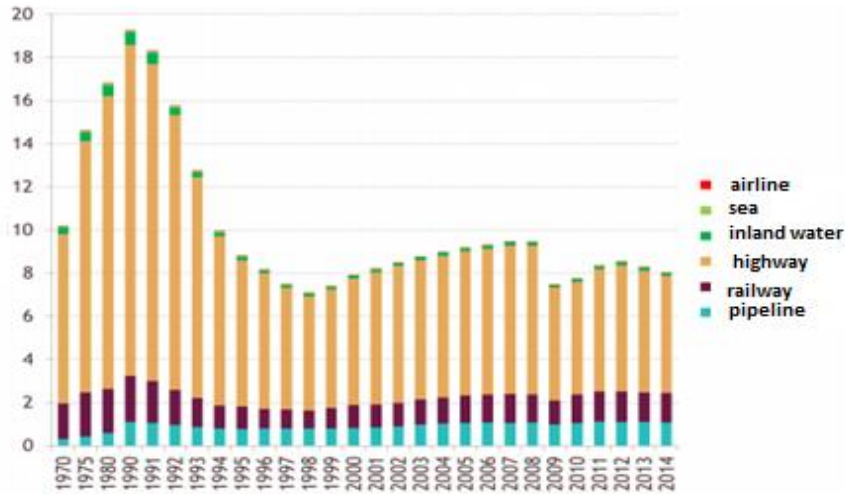
Recently, there has been a growing interest for international and national economy in the sustainable economic growth. The problem of significant growth retardation, life quality deterioration, the market instability is required to choose the effective tools that can stimulate the economy. It remains unclear whether the main factor of Russian economy declines. Thus, this paper explores the key factors that hinder the growth of the national (Russian) economy.

2. Discussion

According to some experts there are several factors of this problem, the most significant one is considered to be the anti-Russian sanctions that reduce prices for hydrocarbons; there is also the depreciation of the ruble. However, unfavorable signals to the market slump are clearly seen from the end of 2012. The first thing that needs to be said is the cargo carriage volume by which the amount of consumption and production can be estimated, and thus the state of the economy can be measured.

The change in the volume of cargo transportation in Russia in the period from 1970 to 2014 can be seen in a bar chart (Fig.1). The chart shows the greatest declines in 1998 (crisis, default, ruble depreciation), in 2008 (global economic crisis), following the decline observed in 2013, which is not due to the oil price sanctions (the price was 100\$ for a barrel) in 2013. It is clear from these observations that the sanctions imposed in 2014 were not the cause of the economic decline [1].

Figure 1. Structure of cargo transportation in Russia, bn. t, 1970 -2014 years



It is obvious that economic and political events of 2014 had a significant impact on the economic situation in Russia, particularly on the amount of investments that has traditionally been a key factor in supporting the economic growth. Disinvestment was the result of the Central Bank Policy, which raised its key rate in December, 2014 to 17% [2] in order to reduce inflation. However, these actions led to the lack of credit availability as the main source of investment.

In addition, many experts and members of scientific communities consider that the reason of Russian economy decline is the "new normal". The concept "New normal" was introduced by analysts of US Investment Company PIMCO in 2008. "New normal" was characterized by the growth rates decline in global economy, high volatility in all monetary markets and the decline in the effectiveness of traditional public policy, referring to the fiscal and monetary instruments [5]. However, the results presented in Figure 2 [6] refutes this hypothesis, as the rate of world GDP growth in 2010-2015 was significantly higher than in 1997-2007.

Figure 2. World GDP growth rate, %

year	value
1995	0.0
1996	0.0
1997	4.2
1998	2.9
1999	3.0
2000	4.8
2001	2.7
2002	1.9
2003	3.8
2004	4.9
2005	4.7
2006	5.3
2007	5.2
2008	3.1
2009	-0.8
2010	5.1
2011	3.8
2012	3.1
2013	3.3
2014	3.5
2015	3.0

From these data, one may conclude that the causes of the Russian economy contraction are structural and fundamental. The current models of economic growth, where the source of economic growth is explained by earnings from primary exports, do not provide the stability of the economic system. According to A.Kudrin, "resource-based view" is completely exhausted, as it has not created the conditions for long-term economy growth. [2]

3. Conclusion

Therefore, it is necessary to change the model of economic growth in Russia, taking into account the following factors:

1. The de-globalization of the Russian economy that can be expressed by the reduction of international trade and cash flow and the growth of trade and currency wars. Therefore, there is a restricting access to foreign investment and capital. It can be confirmed by a significant reduction in Russian foreign trade in 2015, both at the expense of exports (31.8%) and by imports (37.1%) [4].

2. Reduction of the working age population as a result of the demographic crisis in 90s is a serious limitation of the economic growth, as well as impacts on the pension system. This factor must be taken into account during budgeting and social policies.

3. A high degree of capital consumption in Russia. According to Rosstat (authority is responsible for the formation of official statistical information on the social, economic, demographic and environmental situation of the country), at the end of 2014 the degree of all capital consumption was 49%, the greatest deterioration is observed in the following activities:

- Health care - 57.9%
- Transport and communications - 57.4%
- Education - 54.2%
- Mining operations - 54%

Moreover, the dynamics shows that capital consumption increases every year. Overcoming these limitations can be possible with the help of using an integrated approach in the field of investment policy.

4. Unsteady Regional Development of the Russian economy requires greater actions in the implementation of industrial and regional policy.

It should also be emphasized that the increase in the growth rate is not the final cause of public policy and it is more important to have structural changes in economy, high quality of sustainable growth, as well as improvements in the life quality. The construction of a new economy model, based on the non-oil sector, creating products with high added value, can provide high sustainable development of economy.

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