

**GCPMED 2018**  
**International Scientific Conference "Global Challenges and  
Prospects of the Modern Economic Development"**

**ECONOMIC CRISIS IN THE RUSSIAN MACROECONOMY IN  
2014: CAUSES, FINANCIAL CONSEQUENCES, PROSPECTS**

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*Abstract*

Today, the Russian and foreign researchers list numerous causes of economic crisis in Russia in 2014. Most of these assertions are confirmed by expert opinions only. In this regard, the study of key macroeconomic indicators of 2007-2017 allowed comparing the apparent economic crises of 2008 and 2014 (it was found that the economic problems in 2014 were much less grave than those in 2008) and defining the main trends, problems and contradictions present in the studied data. The research allowed decreasing the significance of such causes of 2014 crisis as Western sanctions, low prices for fuel-energy goods, and structural, technological and other long-term problems of the Russian macroeconomy. The main causes of 2014 economic crisis are defined as the USA informational attack at Russia and the unprofessional reaction of the Russian authorities to the crisis. It was proved that the apparent economic crisis which started in 2014 was almost fully overcome by 2017, i.e. the authorities managed to return it to the hidden form. In the coming years, the Russian economy is expected to rise. At the same time, we should get prepared to a new large-scale informational attack at Russia from the USA and start struggling against the unsolved problems of the Russian economy (e.g., an extremely high dependence of the state income on the export of fuel-energy goods, as well as structural, technological and institutional problems).

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**Keywords:** Russian economy, economic crisis, anti-crisis management, Russian macroeconomy.



## 1. Introduction

Today, a lot of various opinions exist concerning the economic problems of the Russian macroeconomy which occurred in 2014. Many researchers consider the situation at that time to be an economic crisis. Also, there is an opinion that it was sanctions of the USA and other countries, after they were imposed in 2014 and in subsequent years, that made a key impact on occurrence of the crisis in the Russian economy. One of the reasons for existing discord was the lack of quantitative indicators (financial, first of all) for the period not less than three years (only such data allow revealing relatively stable trends) after the sanctions started being imposed. In this regard, after the key official data in this sphere appeared, it is necessary to assess the causes and consequences of the economic problems, which occurred in 2014, for the Russian economy and to find out if such problems may occur in future.

## 2. Problem Statement

Before speaking of the 2014 crisis in the Russian economy, its occurrence should be proved, for example, by comparing the financial consequences of some commonly recognized crisis with those after 2014.

The second problem of the research is to define the causes of economic problems which occurred in the Russian economy after 2014. Today, there are three main points of view in this field. First, Veebel & Markus (2016), Di Pace (2017), Zakharova, Soltakhanov, Zhdanova, & Arabyan (2018) assume that the Western sanction of 2014 and other measures had insignificant influence on the Russian economy. Second, Grinberg (2015), Dubinin (2015), Nikolaev (2015), Klepach (2015), Smirnov (2015), Ulyukaev & Mau (2015), Aalto & Forsberg (2016), Davis (2016), Gurvich & Prilepskiy (2016) think that the significant impact on the Russian macroeconomy in 2014 was made by both the combined action of sanctions and decreased oil prices. They contend that the impact of official sanctions alone was insignificant. Ulyukaev & Mau (2015) add to the causes of that crisis such factors as the crisis of structural growth rate and the internal cyclic crisis related to the changes in the level of business conjuncture inside the country. Smirnov (2015) defines the main causes of the crisis in Russia as internal disproportions and exhaustion of the growth model, external shocks and inadequate actions of the authorities. Nikolaev (2015) adds such causes of the crisis as the crisis of public management, disproportions of the regional budgets, and the low level of competition. Grinberg (2015) adds such causes of the crisis in our macroeconomy as: poor motivation of the national business for innovative and investment activities, if they are not associated with rental superprofit; weakness of the national financial system and, consequently, excess dependence of economy on the external sources of financing; low technological competitiveness of industry, aggravated by structural degradation of the industrial potential of the economy. These viewpoints are united in the second group because the decrease of oil prices was actually manifestation of unofficial sanctions of the USA, which they arranged by the sharp drop of purchases of the Russian oil by the western countries and agreement with UAE about their unloading large amounts of oil to the market. As a result, the supply in the oil market exceeded the demand considerably, which led to the drop in oil prices. Besides, the USA launched the relevant informational campaign, which aggravated this trend manifold. The third group includes Pond (2017) who stated that though sanctions hamper some international transactions, they also strengthen the Russian market security

short-term and long-term. Romanova (2016), Borisova, Zamaraev, Kozlova, Nazarova, & Sukhanov (2016), Domańska (2017), on the contrary, mark a short-term deterioration of the Russian economy after 2014 and suppose that the consequences of sanctions will negatively influence the Russian economic development for a long time. All the above determines the need to confirm or refute these viewpoints by analyzing official information (mainly financial).

The third problem is to define the consequences of economic problems which occurred in the 2014 and the approximate period of termination of their negative impact on the Russian economy. At that, we plan to estimate, first of all, the prospects of impact minimization of the problems revealed in the present paper, as the commonly known structural, institutional and other problems of the Russian macroeconomy will have approximately the same impact on the prospects of our economy as before 2014.

### 3. Research Questions

The main research question is to determine to what extent the above scholars were right, because if they characterized the current situation correctly, then their predictions are probably correct too. Besides, it is important to make an independent assessment of the prospects of the Russian macroeconomy based on all the revealed consequences and prerequisites.

### 4. Purpose of the Study

In this regard, we plan to compare the consequences of the 2008 and 2014 economic crises and make an unbiased conclusion about whether the problems which occurred in the Russian macroeconomy can be called economic crisis or not. If the unfavorable situation in the Russian economy is recognized as the apparent economic crisis, then we will estimate its influence on the Russian macroeconomy (from financial viewpoint, first of all) and the prospects of its further development or damping.

### 5. Research Methods

To achieve the set goals, we used abstract-logical, monographic, economic-statistical and economic-mathematical methods. For modeling, QSR Eviews econometric package was used.

### 6. Findings

To solve the set tasks, we study the data shown in Table 01.

**Table 01.** Key macroeconomic indicators of the Russian Federation1) from 2007 to 2017, %

no.	Indicator	Years										
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1.	Index of GDP actual volume (% of previous year)	108.5	105.2	92.2	104.5	104.3	103.7	101.8	100.7	97.2	99.8	101.5
2.	Index of labor productivity in the RF economy (% of previous year)	107.5	104.8	95.9	103.2	103.8	103.3	102.2	100.7	98.1	99.7	101.5
3.	Investment into	123.8	109.5	86.5	106.3	110.8	106.8	100.8	98.5	89.9	99.1	104.4 <sup>2)</sup>

	capital assets (% of previous year)											
4.	Share of FEG <sup>3)</sup> export into non-CIS countries	67.7	72.4	69.5	70.8	72.6	73.0	74.5	73.3	66.4	62.0	63.2
5.	Share of FEG export into CIS countries	35.2	40.9	42.2	53.0	56.6	55.4	47.0	43.9	39.5	32.6	33.2
6.	Share of import of machines and equipment from non-CIS countries	54.3	56.0	46.0	47.0	51.0	52.1	50.8	50.5	48.0	50.2	51.8
7.	Share of import of machines and equipment from CIS countries	27.6	28.8	23.7	29.4	34.4	38.1	33.9	25.3	20.2	23.3	22.0
8.	Degree of capital assets depreciation in RF	46.2	45.3	45.3	47.1	47.9	47.7	48.2	49.4	47.7	48.1	48.1 <sup>4)</sup>
9.	Net profit ratio of the RF companies' assets <sup>5)</sup>	10.4	5.4	5.5	6.7	6.5	6.1	4.5	2.5	3.7	5.9	5.3 <sup>6)</sup>
10.	Mean refinancing rate (key rate) of the Russian Central Bank <sup>7)</sup>	10.27	10.87	11.39	8.03	8.12	8.07	8.25	8.77	12.65	10.58	9.14
11.	Weight average rate of ruble credits to non-financial organization for less than a year	10.0	12.2	15.3	10.8	8.5	9.1	9.5	11.1	15.7	12.6	10.17
12.	Index of consumer prices for goods and services in RF	111.9	113.3	108.8	108.8	106.1	106.6	106.5	111.4	112.9	105.4	102.5
13.	Share of internal expenses for research and development in the RF GDP	1.12	1.04	1.25	1.13	1.01	1.03	1.03	1.07	1.1	1.1	1.11

Notes: Source: compiled by the author using the data of Rosstat, Federal Customs Service, and the Russian Central Bank.

1. Before analyzing these indicators, one should take into account that they are somewhat disconnected from the actual market situation. All indicators of Table 01 suggest an overoptimistic approach. For example, the actual inflation in 2007-2017 was obviously much higher than the officially declared (as confirmed by a poll of the Russian Central Bank, which revealed that the majority of the Russians had been for a long time subjectively perceiving the inflation differently from the official data). Besides, Chichkin (2011) noted that in 2011 the degree of capital assets depreciation in Russia was estimated as 60-65% minimum, according to the Russian research centers. At the same time, according to the official statistics, the depreciation was estimated as 47.9%. In the BRICS group, the degree of capital assets depreciation did not exceed 35%.

2. By the types of activities: “Extraction of natural resources”, “Processing industries”, “Provision with electric energy, gas and vapor; air conditioning”, “Water supply; water canalization, collection and utilization of wastes, pollution elimination”.
3. Fuel-energy goods.
4. Preliminary data.
5. Without small businesses.
6. By operative statistics data.
7. Mean annual refinancing rate was calculated as mean arithmetic of all days of action of various refinancing rates of the Russian Central Bank in the current year (banking year was applied: 360 days). If the Russian Central Bank key rate exceeded the refinancing rate, the former was used. From January 1, 2016, only key rate was used.

To compare the changes in the Russian economy in 2008 and 2014, we compared the changes of data for 2007 and 2009 with the changes from 2013 till 2015. As a result, one may conclude that the key indicators from Table 01 changed in 2007-2009 and then, respectively, in 2013-2015 as follows: the change in GDP actual volume was -16.3% and -4.6% (in general, in 2013-2015 it decreased about 3.5 times less than in 2007-2009); the change in labor productivity index was -11.6% and -4.1% (in general, 2.8 times less); the change in investment into capital assets compared to the previous year was -37.3% and -10.9% (in general, 3.4 times less); the change in net profit ratio of the RF companies' assets was -4.9% and -0.8% (in general, 6.1 times less); the change in the share of import of machines and equipment from non-CIS countries was -8.3% and -2.8% (in general, 2.9 times less). As a result, the drop of the Russian economy was considered sufficient to recognize the set of economic problems in 2014 as a weak apparent economic crisis. Nevertheless, the studied data indicate that the economic problems which occurred in 2014 were much less substantial than those which occurred in 2008.

At the same time, the changes in a number of indicators contradict to the revealed trend:

- the change in the share of import of machines and equipment from CIS countries was -3.9% and -13.7%, respectively. This is apparently due to the almost complete rupture of economic links with Ukraine;
- the change in the mean refinancing rate (key rate) of the Russian Central Bank was +1.12% and +4.4%; the change in the weight average rate of ruble credits to non-financial organization for less than a year was +5.3% and +6.2%. All this confirms the prevalence of financial causes of the 2014 economic crisis, including the western sanctions, which affected the banking sector of the Russian economy, and the subversive recommendations of IMF (Glazyev, 2015), which led to the sharp increase of the key rate of the Russian Central Bank during the 2014 crisis;
- the change in the share of FEG export into non-CIS countries was +1.8% and -8.1%, and +7% and -7.5% into CIS countries. This means that the majority of the buyers of the Russian oil and gas in 2014 partly switched to the fuel-energy goods markets of other countries. At the same time, the sales of machines and equipment to Russia did not change significantly. This means that the unofficial limitations in the sphere of oil and gas trade significantly exceed the official sanctions imposed on Russia in the sphere of selling machines and equipment to us.

However, the studied dynamics of the fuel-energy goods sales does not allow speaking of the close relationship between the drop of oil prices and the decrease in growth rate of the Russian economy. To determine the closeness of their relationship, it is necessary to build regression models estimating the influence of oil prices on the key indicator of the Russian economy development – index of GDP actual volume (% of the previous year).

The first regression model is built on the basis of quarterly data on Brent oil prices (in US dollars) and the value of GDP actual volume index (% of the previous year) for the period from 1 January 2011 till 1 July 2018 (31 observations), using the data from websites of Rosstat and Worldtable. The explained variable is the value of GDP actual volume index (% of the previous year) (further – GDP AVI), and the explanatory variable is Brent oil prices (further – BOP):

$$\text{GDP AVI} = 96.76 + 0.057 \cdot \text{DOP} + e \quad (1)$$

(111) (5.72)

According to this model, the correlation between the studied indicators is rather strong:  $R^2$  is equal to 0.53; the value of t-statistics is equal to 5.72; F-value is equal to 0.0000, F-statistics is equal to 32. The positive sign in the model indicates the direct correlation between these parameters. Thus, the model shows that if oil prices increase, the GDP actual volume index increases too. The value of  $R^2$  shows that the growth of this index by 53% is explained by the changes in oil price.

The second regression model differs from the first one by the studied period: from 1 July 2014 till 1 July 2018 (17 observations):

$$\text{GDP AVI} = 97.33 + 0.045 \cdot \text{BOP} + e \quad (2)$$

(72) (2.12)

In this model, the correlation between the studied indicators is at the lowest boundary of the acceptable level. In it,  $R^2$  is equal to 0.23; the value of t-statistics is equal to 2.12; F-value is equal to 0.05, F-statistics is equal to 4.52. Still, the model shows that when the oil price increases, the GDP actual volume index increases too. However, the value of  $R^2$  shows that the change of this index by 23% only is explained by the changes in oil price.

As a result, one may conclude that after the apparent economic crisis of 2014 began, the impact of changes in oil prices could to a much less extent explain the changes in the Russian GDP AVI than it was supposed by the Russian and foreign researchers. Also, the structural, competitive, technological and institutional problems of the Russian Federation cannot be called the primary causes of that crisis, as their negative influence was approximately equal both before the beginning of the apparent economic crisis of 2014 and during the struggle against it. In this regard, one should agree with Smirnov (2015) and Nikolaev (2015), who pointed out that the 2014 economic crisis occurred due to inadequate actions of the Russian authorities. However, their viewpoint can be complemented by the opinion that those inadequate actions took place under informational attack of the USA and their vassals at Russia.

To study the prospects of termination of the apparent economic crisis, which occurred in 2014, we consider the data from Table 01 for the period from 2013 till 2017, paying special attention to the period of 2016-2017. Thus, one may conclude that the studied indicators did not achieve the level before the apparent economic crisis, but the situation is significantly better. Besides, during the period of 2016-2017 the values of all indicators improved, except the net profit ratio of the RF companies' assets and the share

of import of machines and equipment from CIS countries. All this indicates that the apparent economic crisis in the Russian macroeconomy finished in 2017, transforming into a hidden economic crisis. Thus, the presence in the Russian economy of such unsolved problems as extremely high dependence of budget income on fuel-energy goods export (as shown in Table 01, their share did not fall lower than 62% for non-CIS countries and 32.6% for CIS countries), the structural, technological and institutional problems indicate the presence of crisis in Russia, of unapparent character so far. These problems are well known to the Russian authorities. For example, Kardashevskiy (2014), adviser of Director General of All-Russian Center of Living Standard Public Corporation, noted that RF yields to developed countries in labor productivity by 2.5-3 times. These problems are aggravated by the high degree of depreciation of the capital assets in Russia. When studying the share of internal expenditures for research and development in the Russian GDP, one should note that, despite its minor increase in 2015-2017, its value during the studied periods remained very low. For instance, according to calculations by Ratay (2016), in 2016 this indicator in Great Britain was 1.70%, in France – 2.22%, in the USA – 2.79%, in Germany – 2.93%, in Denmark – 2.96%, in Japan – 3.29%, in Finland – 2.9%, in Israel – 4.25, in South Korea – 4.23%. Besides, one should remember that Rosstat approach is rather optimistic, while the actual situation is worse.

## 7. Conclusion

As a result of our research, we found that the apparent crisis of the Russian macroeconomy in 2014, caused mainly by the USA informational attack and the unprofessional actions of the Russian authorities, was almost fully overcome in 2017. Thus, in three years our authorities managed to return it to the hidden form. In the years to come, the Russian economy is expected to rise, up to a moment of a new informational attack at Russia from the USA. It is very probable that such attack will be effective again, as during the recent two decades only E. A. Primakov's government (1998-1999) successfully withstood the informational pressure of the USA and implemented effective economic policy in Russia. Besides, the problems of the Russian economy, not being solved for a long time, will aggravate again during apparent crisis and will again impede coming out of the situation of apparent economic crisis.

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