

**PEDTR 2019****18<sup>th</sup> International Scientific Conference “Problems of Enterprise Development:  
Theory and Practice”****CONTRADICTIONS OF THE RUSSIAN ECONOMY IN THE  
CONTEXT OF ECONOMIC SECURITY THEORY**

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nesterovoleg1980@yandex.ru***Abstract***

The authors substantiate the expediency of fixing a new direction of the economic science, which can be identified as the theory of economic security. Various points of view available in the scientific literature on the issues of ensuring economic security are often very contradictory. Moreover, the conceptual and categorical apparatus of researchers is very unstable. The authors propose to eliminate the above-mentioned contradictions by applying a conceptual spatial approach, since the research objects can be both economic entities (individuals, enterprises, firms, regions, countries) and economic objects (phenomena and processes). Using information posted on the websites of federal agencies, central and foreign publications, the authors try to identify factors of instability affecting the modern Russian economy. Possible ways of resolving the contradictions of the Russian economy are considered in the context of the economic security theory. At the same time, it is proposed to use new political economy methods as a methodological basis for the study taking into account the multidirectional nature of the bearers, representation and expression of economic interests of various subjects of economic relations. On this basis, the authors carried out the identification of socio-political and economic factors of instability and proposed to take into account the socio-political factors, not just purely economic threats and risks. The authors conclude that only a comprehensive identification of socio-political and economic factors of instability will enable to form the economic security theory in detail.

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**Keywords:** Economic security, socio-political factors of economic instability, economic security theory, methodology of economic science.

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## 1. Introduction

Facts of social and political life are often ignored in the scientific literature (Noskov & Chekmarev, 2017). However, the problem of ensuring the country's economic security without addressing contradictory facts cannot be fully considered and understood in its essence. Despite the success of the Russian economy fixed by the Russian federal statistics agency Rosstat, external experts continue to worsen forecasts for the Russian economy. For example, the IMF lowered its estimate of the Russian GDP growth for 2019 for the third time in the last 9 months. Initially, in October 2018, the IMF predicted that the Russian economy would "accelerate" to 1.8% in 2019. In January, the Fund decided that the Russian economy would not rise above 1.6% that year. And in May, the IMF's optimism about Russia fell to 1.4%, and the Fund's latest calculations gave already a GDP growth rate of 1.2 percent. The majority of surveyed business representatives complained about insufficient demand in the domestic and foreign markets (Central Bank of the Russian Federation, 2019).

The incident with the oil pipeline "Druzhba" forced the company "Rosneft" to reduce production by almost 11 percent in June 2019. At the same time, Rosstat data contradict not only the most important indirect indicators, but also themselves: experts note that the recalculation of the data (which Rosstat took as a basis) gives other figures. The IMF believes that the implementation of infrastructure projects will not be able to accelerate the economy to a pace at least comparable to the world's one.

For business, the problems of the Russian economy do not look like a one-time phenomenon. In particular, 31% of entrepreneurs are confident that the decline in the business activity is a long-term prospect. This pessimism is almost twice as high as the average for developing economies (18%).

## 2. Problem Statement

Such facts indicate that the problem of slow growth is rooted not only in the high cost of capital and tight financial conditions, but it is also related to other structural components of the economic policy, which continues to limit the activity of economic entities and divide various sectors of the economic activity with barriers. Thus, the Central Bank decided to make banks to refuse investing in equity securities of non-financial organizations, i.e. in the assets of real sector companies because of the low liquidity of such assets (for example, transactions of the bank "VTB", which in recent years has acquired shares in companies operating in the retail, media and grain markets). In the comments to this decision of the Central Bank, some analysts believe that taking care of problems of the banking sector, the regulator does not think about the fact that the real sector of the economy is being hit by this decision: banks are banned from investing in companies shares.

## 3. Research Questions

Based on the use of information posted on the websites of a number of federal agencies, central and foreign publications, it seems appropriate to make an attempt to identify factors determining the instability of the modern Russian economy and to consider possible ways of solving contradictions of the Russian economy in the context of the economic security theory. The authors believe that taking into account such factors (and not only threats and risks that are traditional objects of scientific research) enables to form the

economic security theory in a more close continuity of the economic theory and the social and political practice.

#### **4. Purpose of the Study**

This study is aimed at the search for new arguments to justify the feasibility of forming a new direction in the economic science, which can be identified as the economic security theory. Various opinions available in the scientific literature on the issues on ensuring the economic security are often very contradictory and incomplete; the conceptual apparatus is very unstable. The authors propose to solve these problems by applying a conceptual spatial approach.

#### **5. Research Methods**

Creating a theory of economic security within the framework of maintaining and developing the national security is an attempt to understand the economic sovereignty in a systematic way. Economic security is not an independent problem, but a dependent part of the overall security of human existence and life of an institutionalized society as a state. It should be emphasized that while the economic sovereignty has been studied by many foreign and domestic scientists, the economic security is not studied abroad markets (Central Bank of the Russian Federation, 2019).

Apparently, the question of creating a theory of economic security is caused by the presence of a variety of near-scientific conversations about types of the industry security (energy, food, etc.), which are similar to conversations about capital types (technological, technical, cultural, organizational, etc.). There are even different methods for determining thresholds values for food security or energy security, which are based on the production indicators (not on the consumption, consumption prices, etc.). This gives rise to the possibility of "pressure" on the population in the form of a pension policy, restrictions on the energy consumption or housing, taxes on buildings in the suburban areas, etc. At the same time, the consumption of water and air is not regulated by social norms.

It seems that the identification and analysis of socio-political factors of social instability, and not only economic threats and risks that are traditionally under consideration of scientists, will allow forming a theory of economic security taking into account interests of various subjects of economic relations.

#### **6. Findings**

Financiers also became more active. The Central Bank, for example, insists that all working Russians should be automatically included in the system of individual pension capital. Elvira Nabiullina would like to control as much as possible pension savings. That's why she insisted on postponing the discussion of the reform of the funded pension to 2020. But what she expects from such a transfer is not entirely clear. The government believes that the sharp movements in the pension field will reanimate passions that flared up on the topic of increasing the retirement age, and so far it is afraid to change anything else in this area, trying to soften the proposed reforms. Interesting questions appeared in connection with the high demand for Russian government bonds, which arose at the beginning of the year, allowing the Ministry of Finance to exceed its borrowing plans for two consecutive quarters. In other words, it seems

that banks bought federal loan bonds for rubles, and then cashed them in dollars and with-drew from the country.

At the same time, there are discussions on the complete abolition of the already flimsy secrecy of banking operations. In particular, in an interview to the "Izvestia" newspaper, the head of the Investigative Committee of the Russian Federation, A. Bastrykin, said that in the interests of the domestic economy development, the Investigation Committee should be able to request information that constitutes the bank secrecy already before the investigation checking stage (Investigative Committee of the Russian Federation, 2020).

Households and unprivileged private businesses were and still are outsiders. Thus, real cash incomes of Russians in the first half of 2019 decreased by 1.3%. A more depressing picture emerges through the prism of the "Ivanov Consumer Index" of Sberbank. On the one hand, this study, fixing the presence of some positive trends (Sberbank, 2020), also notes a negative factor: the share of household spending on food in the second quarter of 2019 increased to 38.9% compared to 38.2% a year earlier. The increase in the share of food expenditures is explained by the accelerated growth of the consumer inflation in comparison with real incomes of the population. On the other hand, almost all other expenses were reduced, and even the share of utility costs, which are the second largest in the Russian spending structure, declined, despite the increase in tariffs. Nowadays, the share of these expenses is 15.2% compared to 15.4% a year ago. The share of expenditures on clothing decreased from 10% to 9.7%, health care – from 7.1% to 6.6%, expenses on household goods changed from 6% to 5.7%, recreation and travel – from 5.8% to 4.8%. Only the share of expenses for paying loans remained unchanged (6.6%), but the total expenses for paying loans are growing (the average amount of debt increased by 10%, amounting to 260 thousand rubles) (RBK, 2019). This can be explained by the additional reduction in "non-food" household spending (on the whole, expenses decreased by 2.3%, except for food spending, which increased by 0.7%). The regions also recorded the curtailment of social support for the population under the pretext of targeted distribution of funds. Optimization of social support in the regions is associated with a decrease in the level of budget revenues.

Taking into account opinions of entrepreneurs who consider the decline in the business activity to be a long-term trend with structural roots, the tendency to impoverish the population and reduce the middle class will continue for many years. Trying to maintain the existing consumption level, households reduce their savings. The share of respondents who reported that they did not have any savings increased to 43% compared with 41% a year earlier, and the amount of savings decreased by 13%, being on the average only 152 thousand rubles.

Meanwhile, the Russian economy is in a strange situation: the international rating agency Fitch upgraded Russia's long-term credit ranking in foreign currency at the investment level from "BBB-" to "BBB". There is one more step needed (up to the BBB + ranking), and the quality of Russian short-term liabilities will be considered above average. However, this decision was not taken in the best circumstances for the Russian economy accompanied by the adoption of a new package of sanctions against Russia and data on the situation on the country's stock and financial market.

The Central Bank reported a decrease in the share of non-residents in the Russian government debt market (Central Bank of the Russian Federation, 2019). Their share in federal loan bonds fell to 29.2%

(August 2019) from 30.8% (July 2019). The trend for declining yields of federal loan bonds continued, but the decline rate slowed. This was also affected by the announcement of expanding sanctions against the Russian Federation.

Banks continued to increase their foreign assets. In general, Russian banks have to create large currency reserves, expecting either its large outflows (usually in the second half of the year), or weakening of the national currency (ruble). However, when the ruble strengthens, they lose significant amounts and worsen their performance indicators.

High public debt on bank loans played against hopes for the stability of Russian financial system, which gives grounds for forecasts that a large-scale financial crisis in Russia may occur in the nearest future. Some experts even believe that a financial disaster may occur under the scenario of the American financial and debt crisis of 2008.

In its press release, "Fitch" focused on the impact reduction of oil prices on the stability of the Russian economy, although this effect was noted by almost all analysts, who pointed out that the fall in oil prices in recent months only accelerated the deterioration of the Russian economy, setting it back for decades by a number of indicators (FitchRatings, 2019). The culmination of the oddities that give rise to suspicions that the rating agency Fitch was lobbying the interests of the Russian Federation, was its comment on the situation around the intentions of the USA to expand sanctions against the Russian national debt. This comment was interpreted by some analysts as a defense of Russian interests by the Agency. In this regard, there was speculation that some of the Agency's owners are heavily invested in the debt obligations of the Russian Federation. Accordingly, Fitch's decision to raise the Russian sovereign ranking by one point was met with obvious coolness in the analytical environment. Some Russian sources, for example, point to analysts at the Nordea Bank, who doubt that Fitch's decision will provide significant support to the Russian market and the ruble, and change the status of the Russian assets.

However, in our opinion, Fitch has largely replicated the assessments of IMF experts who believe that in re-cent years the Russian authorities have created a solid foundation for the macroeconomic policy that has reduced the uncertainty and helped to withstand external shocks. The current macroeconomic policy structure combines a moderately tight monetary policy with a neutral fiscal position. At the same time, the IMF predicts that the medium-term growth prospects remain "modest", i.e. insignificant and do not promise to overcome the development lag which differs us from other developing economies.

In order to increase Russian long-term growth prospects and reduce stagnation risks, deeper efforts are needed to overcome significant state influence, power regulation, weak governance, and institutional problems. These estimates suggest that Russia's financial position as a debtor remains strong, but "stagnation risks" are not a very reliable element of the economic foundation of Russian finance. Because of this, the entire structure in the medium-term, and even more so in the long term, can play a cruel joke with both the Russian authorities and their creditors.

However, this is not the only cause. The loss of growth rates and the acceleration of lagging behind the world economy were accompanied by the degradation of the economic structure and strengthening of its commodity tilt. The growth of the extractive industry, transport specializing in the export of extracted goods abroad, financial activity, which is primarily engaged in servicing financial flows from hydrocarbon

rents, as well as the public administration sector – these are obvious signs of an increasing commodity tilt of the economy.

But the growth of the manufacturing industry was only 4.4%, although now some statistic agencies include the production of weapons, massively funded by the state defense order, in this sector. Thus, the trends of structural changes in the Russian economy over the past five years do not promise to accelerate and continue to maintain the notorious and well-known "stagnation risks".

Russian government, meanwhile, continued to search for clues to solving the problem of accelerating the economy development. One of the obstacles to the economic recovery is the deplorable situation of small and medium-sized enterprises (SMEs). A survey of more than 2,300 companies in various regions of Russia, 63% of which are small and medium-sized businesses, showed that 54% of small business segment applications to banks for loans were refused.

According to experts, the situation with SME lending is primarily related to the general crisis of confidence that has affected the Russian economy. In turn, private investors are afraid to get involved in national projects, although the government included them in the scheme of financing these projects a long time ago. The government planned to pour 25.6 trillion rubles into national projects: only 18.1 trillion of this amount should be allocated from federal and regional budgets, and 7.5 trillion rubles are extra-budgetary funds and investors' money. However, neither state-owned companies nor private investors are in a hurry to allocate funds to finance national projects, and state authorities are trying to find administrative levers that can change this situation. Here, too, everything depends on the crisis of confidence and the incompatibility of methods (used to create national project) with the market requirements.

Agricultural holdings actively lobby their interests through the Ministry of agriculture, which rejects the idea of banning the destruction of sanctioned products. Garbage reform, initiated in the interests of federal operators who have the most influential patrons, brings regional operators to bankruptcy. In the interests of the largest banks, the idea of using escrow accounts in the construction business has been hastily implemented to get rid of developers who do not have patrons at the top of the market. In order to avoid escrow accounts at first, developers buy apartments under construction and sell them under assignment agreements. Despite the pessimistic forecasts of Russian financiers, who claim that in the next two years the Russian economy will experience a drop in oil prices to the levels of the beginning of 2017 and a noticeable reduction in export revenues, the last week of 2019 were very favorable for Russia.

Firstly, there were some hints that China was more resilient in the trade war with the United States than one might have imagined. In particular, the Chinese economy has once again started to increase oil consumption, pushing up prices on the hydrocarbon market. If this trend turns out to be stable, then assumptions about the serious losses that threaten the world (and Russian) economy because of the war may turn out to be no more than assumptions. According to sociologists, up to 60% of Americans see this "war" as a threat of a recession and a jump in prices, as well as a reason to change their attitude to the President. His ratings went down again – at the very beginning of the election campaign, which is not a very good symptom (Lanfer, 2019). The President himself began to turn from a "hawk" into a "dove" again, which was very eloquently told to the world by the resignation of an avid neo-conservator and representative of the interests of the American military-industrial complex J.P. Bolton.

Secondly, there was a change of the Minister of energy in Saudi Arabia – instead of Khalid A. Al-Falih, who for three years made active efforts to create a global alliance of oil producers, including Russia, in order to support oil prices. The king's son, Prince Abdulaziz, became the Minister. This happened the very next day after Saudi Arabia actually declared a price war on Russian oil on the European market, dropping prices for grades that are closest to the composition of Russian Urals oil. The new Minister is known for his penchant for finding consensus solutions, and under him, perhaps, the price war will end for the sake of preserving the OPEC-Russia Alliance.

Thirdly, the autumn “rally” 2019 in the global debt market has begun after the traditional summer calm period. The total volume of bond placements, according to experts, is breaking historical records. This may be a symptom of a new global economic growth.

All these circumstances favourably influenced the ruble exchange rate, which regained almost half of its August fall. And although analysts say that long-term risks for the ruble foretell its weakening, for now, however, these risks look far away. In the immediate reality, we are dealing with growing oil and a strengthening ruble.

Supporters of the state economic model had another reason for pride and optimism – information about new achievements and records of the domestic economic policy. Russia's net national debt fell below zero, which was the first time since 2014. In other words, even under sanctions and in the face of falling oil prices, the state managed to create record reserves that fully covered the national debt. Since July 2019, the total state debt is 16.2 trillion. It is less than the liquid assets of federal and regional authorities, as well as extra-budgetary state funds (17.6 trillion rubles). All this, however, was the result of the "economic policy of the miserly knight". The state minimized risks of default, and accumulated reserves "for a rainy day" at the expense of the fiscal press.

Although many experts consider this policy to be a "conscious choice of the government", however, in reality, the main outlines of this policy were formed before 2014, when the country fell under financial sanctions. This course was taken "as a basis" during the second presidential term of Vladimir Putin, when, in particular, the first, and then the second, etc., programs for rearming the Russian Army began to be implemented. Since then, thanks to the "optimization" of budget expenditures and the reduction of the fiscal burden in its most diverse forms (from excise taxes to "fees", fines and "inflation tax"), the crisis of the economy's growth rate begins, leading it to stagnation, in which it is still today.

Although government officials, like M. Oreshkin, urge to be proud of the current stability and a new "lesson" that Russia has taught to humanity. However, the growth of dissatisfaction with the situation – first of all, the socio-economic situation – in the country is recorded in all sociological surveys, resulting in indicators such as the level of suicide, according to which Russia is among the three world leaders. Due to the increase in "working poverty" (more than 80% of Russians are dissatisfied with their salary), the demand for paid education has decreased in Russia. Financial restrictions on health and recreation have increased (World Health Organization, 2018; Noskov & Chekmarev, 2020). So, on September 8, 2019, Deputy Prime Minister of the Russian Federation T. Golikova announced a lack of money for equipment for clinics, especially in separate regions.

Meanwhile, explaining the logic of the behavior of the security forces, who seem to ignore V. Putin's statements about the need to soften charges on economic articles and liberalize the judicial and power

system, sources close to the power circles expressed themselves very openly. In their opinion, the increase in the number of criminal economic cases is caused not by the fact that the President is not heard by the system that has gone out of control (the opinion of the head of the accounting chamber A. Kudrin), but by completely different reasons. In reality, the society is fed with rhetoric that inspires hope and contributes to the growth of social optimism, which psychologically sets it against the radicalization. These signals tell the public that the country's leadership knows which direction to lead the country to, not worse than the political opposition. Internal signals sent to security forces solve fundamentally different problems. According to experts, this split corresponds to historical traditions of Russia and is based on the peculiarities of the national psychology, and therefore it is perceived by the public consciousness painlessly.

However, such "double account" systems are hardly acceptable for businesses. This was stated by the Russian billionaire and not at all opposition leader Deripaska (TASS, 2019) at in the Eastern economic forum in Vladivostok. In his speech, he noted that the country does not have an independent banking system. The Central Bank and its branches, banks with state participation, according to him, consistently solve the problem of its destruction – instead of solving the problem of accelerating the economic growth, for which the mega regulator was created once. According to Deripaska (TASS, 2019), since the growth has not accelerated, and the consolidation of the industry has led to an increase in interest rates, we should think about dismantling the mega regulator, destroying the independent banking system. In addition, the Central Bank's refinancing rate should be set at 2-3% for a period of 5-7 years, so that the industry and the entire economy can change from a survival mode to a growth mode. Deripaska (TASS, 2019) also criticized the judicial system. In his opinion, the judicial corps has become a closed elite group: – 60% of the judges came from positions assistant judges and actually secretaries, as well as from people from law enforcement agencies. In his opinion, such a situation, in which less than 2-3% of lawyers come to the judicial community, is abnormal. According to Deripaska (TASS, 2019), today there are no entrepreneurs who are satisfied with the current Russian judicial system, which "not only inadequately assesses what is happening in the economy, but also quite inadequately makes decisions". This system is characterized by a repressive approach to business (TASS, 2019). Regardless of whether Deripaska's proposals have a perspective, his speech shows that the discontent of big business continues to grow, and it is impossible now to call it a reliable ally of the government.

## **7. Conclusion**

On September 12, at the Moscow financial forum, the government, represented by the Prime Minister and first Deputy Prime Minister, announced plans to attract Russian business funds to the economy. They stated that the Russian business has more than 28 trillion rubles in banks. "Why don't they go to the economy?" asked the first Deputy Prime Minister A. Siluanov, as if they do not understand that conditions that deter investors are outside the economy in general, and the government is unable to change the situation, which consists of structural and institutional circumstances.

From the first steps of the new political season, there were signs that the pressure on supply and demand is increasing without any restrictions. For example, there is a rumor that the government is preparing the second stage of the pension reform. Instead of the individual pension capital (that scared many people), it is planned to introduce something similar, but under a different name – a guaranteed



pension product. This stage allegedly involves a new increase in the retirement age. It is not for nothing that on the official level, the information about the increase in the average life expectancy has appeared in the country: women – up to 78.5 years, men – up to 68.5 years. It seems that this course is set by the fact that the government assesses the preliminary results of raising the retirement age as a failure. And this is despite the fact that the consolidated budget surplus is more than 3.6 trillion rubles, and the government keeps about 12 trillion in the form of free balances on the Central Bank accounts.

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