

Economic sanctions against Russia: expectations and reality

Rustem Nureev

Financial university the Government of RF, Moscow, Russia
Head of the department of economic theory,

Pavel Petrakov

NRU HSE, Mopscow, Russia

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Abstract

This report is an attempt to assess to which extent sanctions along with the drop in oil prices have hit the consumers in Russia. This article provides an overview of the sanctions imposed on Russia by the European Union, the United States and other countries (including the ban for the largest organizations in Russia to attract foreign capital of the European Union and the United States). The burden of economic sanctions against Russia for the average consumer is connected with the change of prices for food products, electronic products, Russian car market, the dynamics of small and medium-sized businesses in Russia. The report also focuses on the results of import substitution and the balances of trade of consumer goods in Q3 2015 compared to Q3 2014.

The dynamics of demand for electronic goods is illustrated with the help of the example that shows the effect of price changes in some popular Russian companies (Apple, Sony, etc.) on sales. Rising prices for electronic goods by Apple Inc. caused a Giffen's paradox in late 2014, the higher the price is - the more sales there are. Despite the rapid rise in prices for the company's products (price of products rose by 25% in Nov. 25, by 35% in December 22), sales growth comprised 80%. This is due to the fact that Russian consumers feared further rise in prices of goods and were afraid to lose those goods, which had become a necessity for many of them. Car loans in Q1 2015 compared to Q1 2014 decreased by 4 times, car sales fell by 2 times, the import of cars from abroad fell almost 2-fold.

The economic crisis has hit the tourism as well. The cost of trips abroad has increased by 50% or more. The main streams were changed - domestic tourism has risen greatly in general and in the south of Russia in particular. Besides, Russia became more attractive for foreign tourists. As a result, the number of tourists from Asia has significantly grown.

The article analyzes the changes in the overall macroeconomic performance of Russia in 2014-2015; the changes are illustrated with the help of AD-AS and IS-LM models.

The article compares the hypothetical development of the Russian economy without sanctions and the actual development with the penalties for 2015, for this we use the following algorithm. Using Dicky fuller determined that Russia's GDP is integrated near and can be explored using regression; using the regression determined the dependence of GDP of the cost of a barrel of oil for the period from 1995 to 2014, Then the average projected GDP for 2015 Compare the predicted GDP from actual. The difference between the values will be the assessment of the impact of sanctions on the Russian economy.

The article discusses two nearest forecast scenarios from the perspective of an average consumer: optimistic (reduced amount and intensity of sanctions) and pessimistic (the strengthening of sanctions, including the suspension of Visa and MasterCard in the Russian Federation, the Russian banking system cut off from SWIFT, etc.) .

Introduction

The economic sanctions against Russia were introduced in September 2014. The assessment of their effectiveness varies radically according to the president of the USA and the president of Russia. In December 2014 at his annual message to the Federal Assembly President Vladimir Putin said that "these so-called sanctions and external constraints are the motivation for more efficient and rapid achieving of the set goals." USA President, Barack Obama, on the contrary, has estimated them not as incentives for Russia's rapid development, but as a factor of the sharp slowdown. At his annual speech to the US Congress in January 2015 he said "Russia is isolated and its economy is tattered". Everyone at that time thought that the words of the American president were an exaggeration.

One year has passed since that time, now we can estimate if the expectations of the American president have been justified (or not) more carefully and whether the economic sanctions have become the motivation for more efficient use of available resources. If they have been justified, then to what extent, if not, then why? What

reserves has the Russian economy managed to make better use of, and to what extent? Therefore, the topic of this paper is "Economic sanctions against Russia: expectations and reality."

The escalation of economic problems in Russia

At the end of 2014, Russia's economy gained two consistent and strong hits - the introduction of economic sanctions against it and the drop in oil prices. Some kind of synergistic effect occurred. We can't talk about one thing, not mentioning the other, as it would be hard to estimate the whole economic picture.

Economic sanctions against Russia

In March 2014 when the first actions against Russia were taken, and they affected mostly individuals, the main measures against the Russian institutions (banks, the companies of the military-industrial sector, oil and gas companies, etc.) were taken in September 2014.

Economic sanctions against Russia prohibited European companies and EU citizens to perform operations with short-term papers, to place and manage them. Russian companies were banned to operate in European banks. EU companies were forbidden to render services on the development and production of oil in deep water. The supply of European dual-use technologies was banned as well.

Economic sanctions meant the following - Russian banks and companies were banned to take out a loan for more than 30 days, and that, coupled with a decrease in the dollars flow from oil import, has led to a sharp deficit of the national currency, which, in its turn, resulted in the growth of the dollar rate and the weakening of ruble.

In order to deal with the volatility The Central Bank of Russia increased the key rate three times in Q4 2014. That led to a strong increase in the price of loans. The biggest impact on the banking system was the increase of the key rate from 10.5% to 17% at 16.12.2014. Thus, the key rate in 2014 had risen from 5.5% to 17%. That fact led to the higher interest rate levels and necessitated a reduction of GDP. This situation can be illustrated in the IS-LM model: a shift of the LM curve to the left occurred, which has led to the increase in rates and a reduction of GDP from Y_0 to Y_1 (see. Fig. 1).

The growing price of loans has impacted consumers in three ways:

1. Bankruptcy of enterprises and increased credit capacity caused higher unemployment rate.
2. There has been a rise in consumer, mortgage, car and other loans.
3. The weakening ruble has led to a dramatic rise in price of currencies and, therefore, to growing prices of imported products.

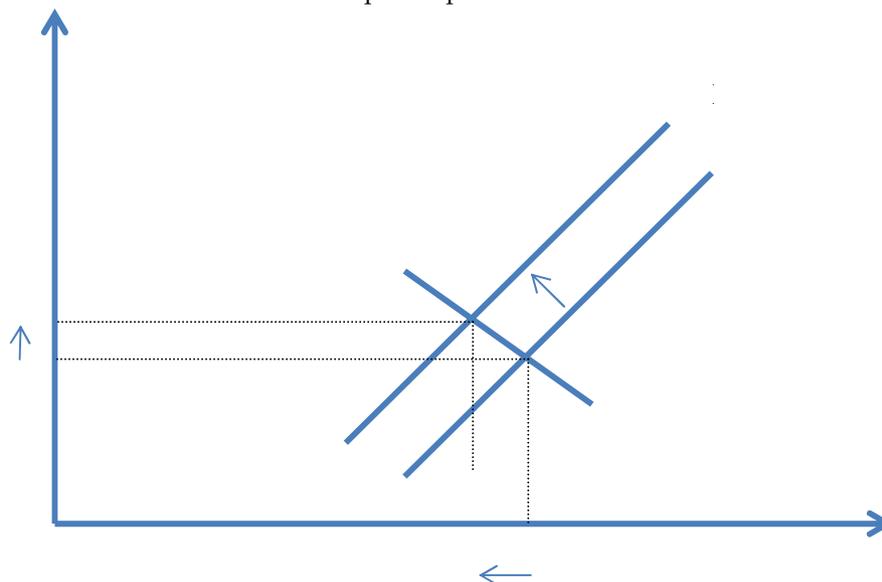


Fig. 1. The consequences of the key rate change of the Central Bank of Russia in 2014-2015 and their impact on Russian GDP in the IS-LM model.

After the economic crisis of 2008-2009 past due debts grew relatively slowly, but the situation changed dramatically as the result of economic sanctions and falling oil prices. The past due debts increased from 861,362 (January 1, 2014) to 1,608,194 (September 1, 2015) mln. of rubles, i.e, almost 2 times (see. Fig. 2), but in September and October this situation stabilized, and there was even a slight tendency in reduction, but still at a

very high level. That was the reason for the degradation of the situation in the banking sector and a sharp decline in the well-being of citizens 2015.

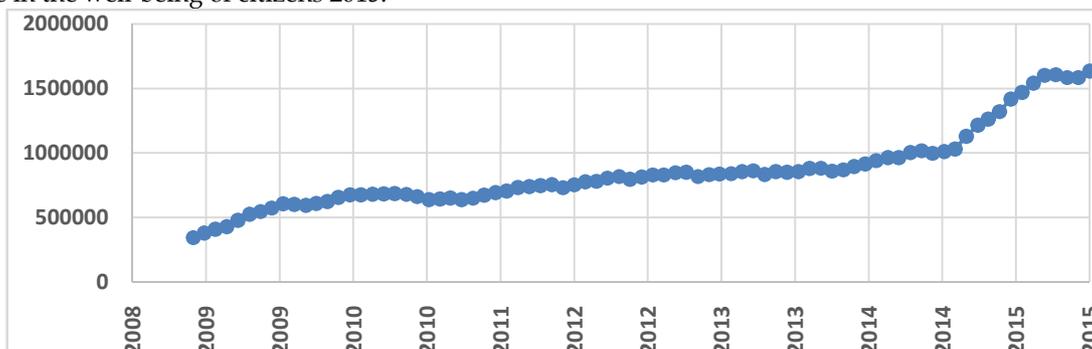


Fig. 2. The growth of past due debt since April 1, 2009 to December 31, 2015 (in millions of rubles). Source: http://www.cbr.ru/statistics/UDStat.aspx?TblID=302-09&pid=sors&sid=ITM_45484

Falling of oil prices

The gradual fall in oil prices began in mid-June of 2014 when the prices were \$110 per barrel of Brent oil and after six months they dropped below \$50 (see. Fig. 3). It was not the first fall of oil prices observed. This drop was very significant in autumn-winter of 2008, but at that time the falling was not accompanied by the sanctions. Besides there was quite a large stabilization fund in Russia⁵.

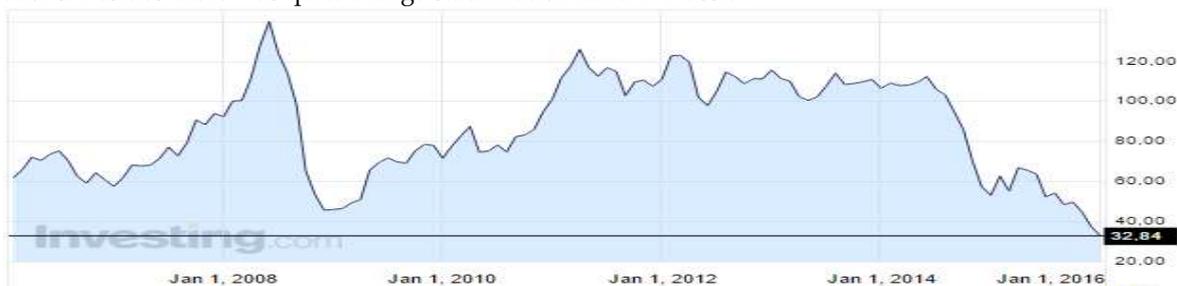


Fig. 3. The oil price dynamics from January 1, 2006 to January 1, 2016.

Source: <http://ru.investing.com/commodities/brent-oil>

The stabilization fund has allowed to absorb sharp drop in prices. As a result, the dollar rate has risen from 23.43 rubles to 35.93 rubles (i.e. by 53%). In 2014, the drop in oil prices was not so deep as in 2008 (see. Fig. 2), but the ruble rate still decreased to a greater extent. The average dollar exchange rate increased from 33.99 (June, 2014) to 69.24 (January, 2015), i.e. by 104%, followed by a temporary decrease to 51.59 (April 2015), then it grew again to 66.37 (November, 2015) against the background of falling oil prices (see. fig. 3).

Table 1. Comparative analysis of the drop in oil prices and the growth of the dollar

Price	2008		2014	
	Absolute value	%	Absolute value	%
Oil in USD (\$)	from 139 to 45	68%	from 112 to 53	53%
Dollar in rubles	from 23,4 to 35,9	53%	from 34 to 64,3	104%

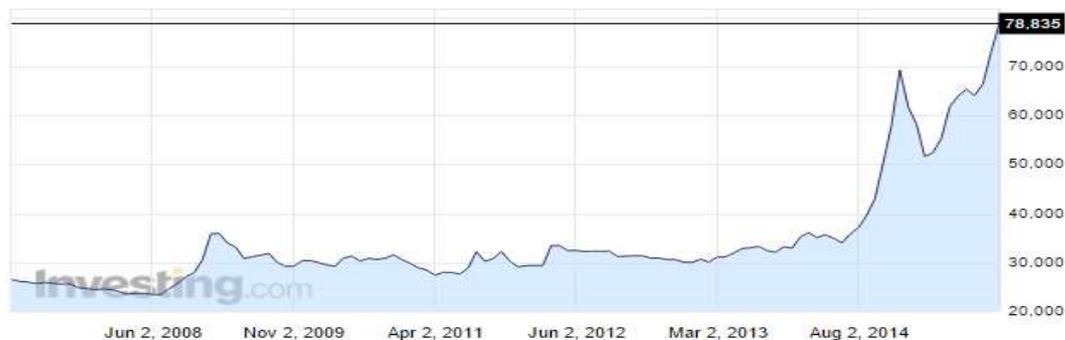


Fig. 4. Dollar rate since September 1, 2006 to January 1, 2016 years.

Source: <http://ru.investing.com/currencies/usd-rub>

The situation with the euro exchange rate is similar. Initially it rose from 46.54 (June 2014) to 78.16 (January 2015), i.e. by 68%, then it decreased to 58.01 (May 2015), however, in August 2015 the rapid growth began again (up to 70.12 in November 2015).

In January 2015 the Minister of Finance of Russia A.G. Siluanov, announced the losses of the Russian economy in recent years calculated by the Ministry of Finance of the Russian Federation, he declared the amount of \$200 billion, of which 40-50 billion were caused by the sanctions imposed by the West and the rest was caused by the falling oil prices.

The falling of oil prices has led to the weakening of ruble.

Falling rates of growth of the Russian economy.

Falling of the oil prices and economic sanctions have led to a deceleration of economic growth of Russia's GDP. According to statistics from the World Bank, the growth of GDP in Russia became negative in 2014. In 2013, Russia's GDP was \$ 2.079 trillion, and in 2014 it reached \$ 1.8606 trillion (see Fig. 5). They could not overcome the economic downturn in 2015.

Валовой внутренний продукт

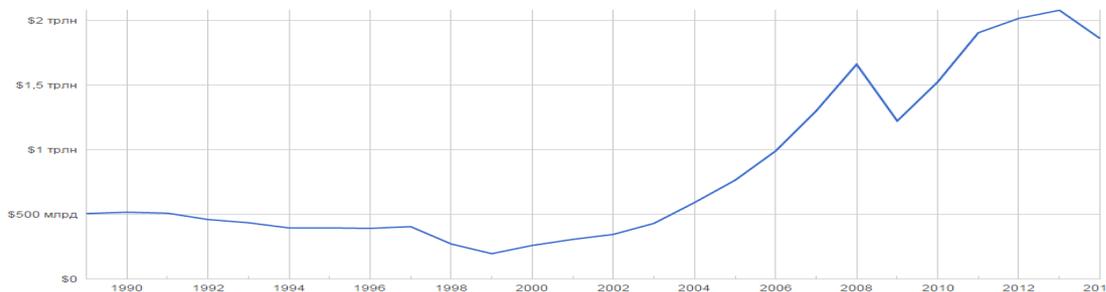


Fig. 5. Gross domestic product of the Russian Federation since 1990 to 2014

Source: https://www.google.ru/publicdata/explore?ds=d5bncppjof8f9_&met_y=ny_gdp_mktpr_cd&idim=country:RUS:GBR:DEU&hl=ru&dl=ru#!ctype=l&strail=false&bcs=d&nselm=h&met_y=ny_gdp_mktpr_cd&scale_y=lin&ind_y=false&rdim=region&idim=country:RUS&ifdim=region&hl=ru&dl=ru&ind=false

Table 2. The subsistence minimum (on average per capita, rubles per month).

	All citizens	profitbysocial-demographic groups		
		able-bodied population	pensioners	children
013	7306	7871	5998	7022
1	7095	7633	5828	6859
2	7372	7941	6043	7104
3	7429	8014	6097	7105
4	7326	7896	6023	7021
2014	8050	8683	6617	7752
1	7688	8283	6308	7452
2	8192	8834	6717	7920
3	8086	8731	6656	7738

4	8234	8885	6785	7899
2015				
1	9662	10404	7916	9489
2	10017	10792	8210	9806
3	9673	9673	9673	9673

Source: http://www.gks.ru/free_doc/new_site/population/uov/uov_41kv.doc

This made some American political scientists to conclude that the economic sanctions against Russia were successful, "there is a good evidence of the sanctions efficiency - wrote Kathryn Stoner-Weissin December 2015. Russia's economy is already suffering from the low world prices for its number one export product - oil, EU and US sanctions inhibit investments and the availability of imported goods. The Russian economy is in recession, and the budget deficit in 2016 will reach somewhere around 3% according to forecasts. "¹

However, how strong will the impact of economic sanctions on the Russian economy be? Will it be short, medium or long-term? Earlier economic sanctions seemed to be a short-term phenomenon, but the leading political figures changed their minds in 2015. President Vladimir Putin in his speech to the Federal Assembly in 2015 stated without any optimism that "both the period of low prices for raw materials, and the external constraints may be stalled, and stalled for a long time. Without making any changes we will waste our reserves, and rates of economic growth will be somewhere around zero."

However will there be only damage caused by the economic sanctions or will they become an impulse for pervasive structural changes? Let's try to sort this issue out.

The growth of food prices.

For the average consumer in Russia the burden of economic sanctions affects the prices of both the goods of primary necessity and non-essentials. As a result, the level of the subsistence minimum has increased dramatically both for the employable population in general and for pensioners (see. Table 2). If in Q3 2014 the cost of living increased compared to Q3 2013 only by 657 rubles, in Q3 2015 the cost of living increased compared to Q3 2014 by 1587 rubles (i.e. more than 2.4 times). The growth rate of the level of the subsistence minimum accelerated dramatically in 2015 (see. Table 2).

The structure of the market basket in Q1 2015 is shown in Figure 6. 47.2% spent for food, 23.0% - for non-food products, 22.8 - for services and 7% - expenses on obligatory payments and charges. The share of food products was higher for pensioners and children and was over 50% (see. Fig. 6).

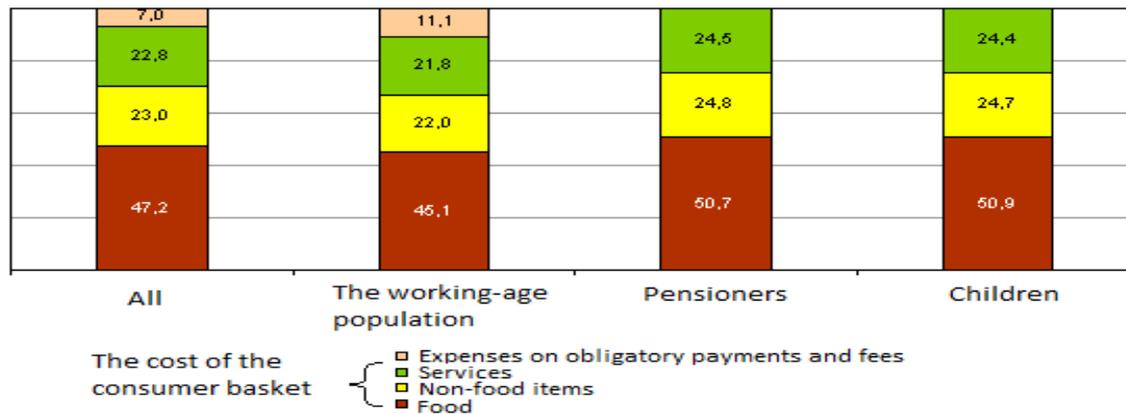
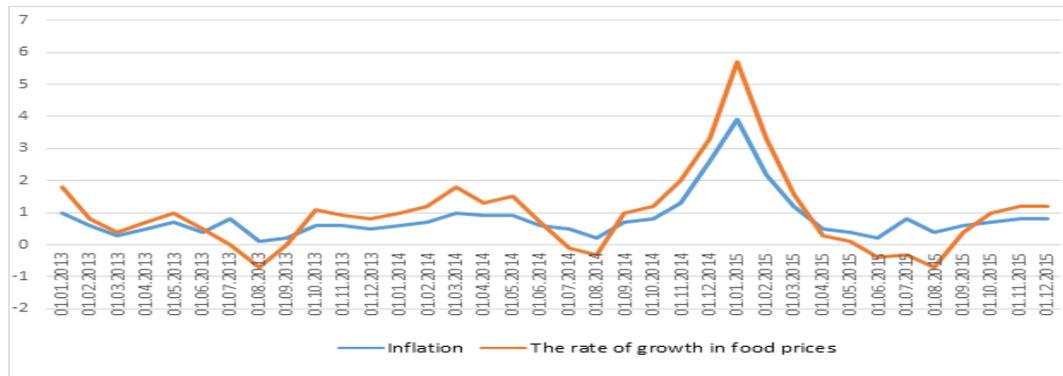


Figure 6. The structure of the level of subsistence minimum for social groups in Q1 2015 (in %). Source: http://www.gks.ru/bgd/free/b04_03/IssWWW.exe/Stg/d05/image5115.gif

Today Russia's food basket is measured according to the standard established by the federal law № 227-FL "About the consumer's basket on the whole all around the Russian Federation" dated 03 December 2012 which entered into force on 1 January 2013. The subsistence rate was also defined for food and non-food

¹Kathryn Stoner-Weiss "Sanctions Against Russia Are Working, Don't Give Them Up" <http://www.nytimes.com/roomfordebate/2015/12/10/trade-an-end-to-sanctions-for-putins-help-against-isis/sanctions-against-russia-are-working-dont-give-them-up>



products and services, and will remain valid until 2018. The amount of consumption is calculated

on the average for one person that represents one of the major social and demographic groups: able-bodied population, pensioners and children. Monitoring is conducted on a regular basis for 40 major types of food and the prices are monitored regularly at fairs and markets.

The ratio of the average per capita income to the subsistence rate is shown in Table 1. It is clear that this ratio decreases as a result of inflation. Since the structure of the consumer basket contains mostly groceries, first we will consider the dynamics of food prices, followed by electronic goods, cars, real estate, and the cost of holidays within the country and abroad.

The increase in food prices is shown in Fig.7. Food prices went up rapidly in the autumn of 2014, reaching a new peak in 2015. They made the greatest contribution to the increase of inflation, which is clearly seen in Fig. 7. The increase in prices for non-food items lagged behind the average inflation rate.

Figure 7. The rate of growth in food prices and inflation in 2013-2015. (% compared to the previous month)

http://www.cbr.ru/statistics/infl/Infl_01122015.pdf

However, various essential goods had different impact on the inflation. While the rise in prices was characteristic of all consumer goods, its growth is still uneven. While the price of fruits and vegetables went through traditional seasonal fluctuations and its growth was not so noticeable, the price of meat and fish increased significantly.

As a result of the introduction of sanctions and the rise in dollar and euro rates, the import of meat and poultry, including by-products, fell by 30% in 2014 as compared to 2013, pork imports fell by 2 times, imports of cheese decreased by 20%, flour grains and leguminous crops - by 40%.

The trend that emerged in the late 2014 continued in 2015. Let us compare Russian imports of basic goods in January-June of 2015 and January-June of 2014. In value terms, imports declined from \$ 141 603 1 to \$ 87 728.0 million, i.e. by 38%. This was mainly due to the reduction in imports from foreign countries. While during the first 6 months of 2014 goods worth US \$ 125 431 300 000 were imported, in the first half of 2015 the worth comprised only \$ 76 642.7 million. The largest decline related to meat and dairy products. Import of butter fell by 8.9 times. Imports of milk and condensed cream by 6.1 times, poultry imports by 3.7 times, meat and fish for more than 2 times. The reduction did not affect coffee; tea and cocoa.

As a result of economic sanctions, the share of imports from the EU countries decreased from 48.8% in January-October of 2014 to 45.3% in January-October of 2015, the share of APEC increased from 26.6% in January-October of 2014 to 27.9% in January-October of 2015. It is interesting to note that the share of CIS countries remained unchanged during this period of time, it still comprises 12.5%. However, noticeable redistribution took place: the share of Ukraine declined from 3.7% to 2.8%, while the share of other countries and, above all Belarus, has increased remarkably.

Economic sanctions against Russia objectively divided the world into friends and enemies of the state. Shows the changes in the foreign trade of the Russian Federation in January-October 2015 compared to January-October of 2014, taking into account main countries and groups of countries. With a total reduction of foreign trade, the BRICS countries (South Africa, India, Brazil, China) and the CIS countries (Armenia, Tajikistan, Turkmenistan, Kyrgyzstan, Kazakhstan, Belarus, Uzbekistan) increased the rate of foreign trade with the Russian Federation. In Latin America, the dynamics of the growth is especially noticeable in such countries as Peru, Chile, Cuba, Brazil, Mexico, Argentina. As for Asian countries the growth is remarkable in Vietnam, Georgia, Iran, Indonesia, Mongolia, Hong Kong.

Imports from Indonesia, Malaysia, Vietnam, Brazil, Taiwan, India, Belarus, Kazakhstan and China has significantly increased. The EU sanctions affected Spain, Portugal and Italy to a lesser extent.

As a result, there was a growing demand for products made in Russia. There was an increase of essential goods of domestic production in the consumption basket. Natural products began to replace non-natural ones. Figuratively speaking, Russians began to eat more honey and less "Snickers", which significantly improved the quality of food.

Dynamics of demand for non-food products.

The market of electronic goods. Giffen Paradox in Russia at the end of 2014

Rising prices for electronic goods led Apple Inc. to the Giffen Paradox at the end of 2014, the higher the price is - the more sales there are. Despite the rapid rise in prices for the company's products (on November 25 they rose by 25%, on December 22 for another 35%), the sales growth comprised 80%. This is due to the fact that Russian consumers are afraid of further rise of prices and scared to lose the goods, which, for many of them, became a necessity. As a result, despite the rise in prices of household appliances, the demand for them did not decrease to the point Q_2 , on the contrary, it increased to Q_3 . So, there was a shift in the demand curve from D_1 position to D_2 (see Fig. 8) and in the long term the demand curve gained a positive slope (D).

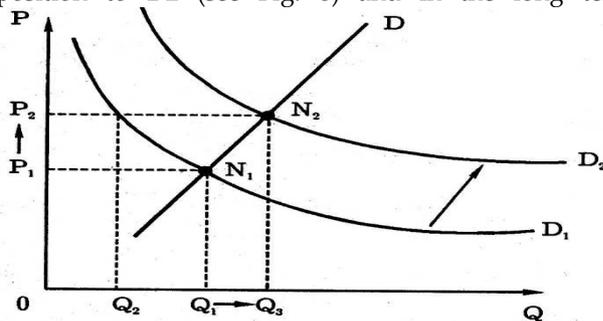


Fig. 8. The dynamics of the demand for products from Apple Inc. in 2014 (compared to 2013).

The drop in demand at the market of non-essential goods

As a result of decrease in imports of goods there was a significant reduction in supply of non-essentials (see Appendix 4). Furniture imports in January-June of 2015 compared to January-June of 2014 decreased by 1.9 times, imports of cotton fabrics by 1.8 times, clothing by 1.5 times, medicine by 1.5 times, footwear by 1.6 times, trucks by 4.9 times, cars by 2.1. Let us discuss the market of cars in more detail.

Cars

The departure of the concern General Motors became a serious blow for the Russian market. March 18, 2015 General Motors decided to close the production of cars in St. Petersburg in mid-year and completely abandoned the sales of Opel cars in Russia in December 2015. Until June 30, they continued SKD assembly; July 1 the plant was mothballed, leaving only a small part of the staff that will ensure the functioning of the plant under conditions of conservation.

Car loans in Q1 of 2015 decreased by 4 times compared to Q1 of 2014, sales fell by 2 times, import cars from abroad amounted only half of the previous level².

Beginning with the first quarter of 2014 the systematic reduction of vehicles purchased on credit can be observed. The greatest changes began in late 2014-early 2015. As a result, the share of sales of new cars on credit in January 2015 amounted to about 8%³.

This is reflected in the Top 10 most imported brands of passenger cars. The largest reduction occurred in such popular brands as Nissan (sales of which fell by 10 times), Daewoo, Volvo, Mitsubishi, the sales of which were reduced by almost 2 times⁴.

The car market in the regions changed as well. In virtually all regions there was the reduction of the market almost by 2 times. In January-February of 2014 339.7 thousand of new cars were sold; in January-February of 2015 this number comprised only 174.9 thousand. (a decline of 48.5%)⁵.

²National Bureau of Credit Histories (NBCH) according to 3000 creditors except for "Sberbank of Russia"

³On the whole at the Russian market, the calculations of NBCH and "AUTOSTAT"

⁴See more <http://www.autostat.ru/news/view/20612/>

⁵<http://avtosreda.ru/news-common/Importlegkovushekupalna45TOP10modeleyizzarubezha/>

Realestate market

The reduction of income of the population is reflected in the estate market. Earlier prices for luxury housing were growing quite rapidly, but now the rise in prices at the secondary apartments market in Russia slowed down dramatically. It was reflected in the cost of one square meter of the housing. In 2014, the cost rose from 60,598 rubles in December of 2013 to 63 635 rubles in December of 2014, i.e. only by 5% .These data for 2014 are presented in Table 3.

Table 3. The dynamics of average prices at the secondary apartment market in Russia, ruble/sq.m in 2014

Month	2.13	1.14	2.14	3.14	4.14	5.14	6.14	7.14	8.14	9.14	10.14	11.14	12.14
Price, rub/sq.m	60598	60847	61159	61576	61994	62327	62406	62477	62709	62858	63192	63538	63635
Changes 2.2013		0,4%	0,9%	0,6%	0,3%	0,9%	0,0%	0,1%	0,5%	0,7%	0,3%	0,9%	0,0%
Changes compared to previous month		0,4%	0,5%	0,7%	0,7%	0,5%	0,1%	0,1%	0,4%	0,2%	0,5%	0,9%	0,2%

Source: <http://www.domofond.ru/pricearchive/downloads/2/price-realty-report-2014>

Although at the beginning of 2015 the prices of apartments at the secondary market rose slightly, in the 2nd quarter of the year there was a decline⁶, which lasted until August 2015 (see. Fig. 9 a). It also influenced the dynamics of the average price and supply at the market of rented apartments (see 9 b). However, here the situation began to improve noticeably faster. In July, there was growth again, and, after a decline in August, it continued in September. Thus the situation in the real estate market has stabilized and created some preconditions for the beginning of growth.



⁶ <http://www.domofond.ru/pricearchive/downloads/7/price-realty-report-updated-q2-2015>

Fig. 9. The dynamics of average prices at the secondary apartments market (a) and the dynamics of average prices at the apartment rent market (b) in the 3rd quarter of 2015 in Russia. Source: <http://www.domofond.ru/pricearchive/downloads/13/price-realty-report-q3-2015>

Tourism

The economic crisis has also hit the tourism. The cost of trips abroad increased by 50% or even more. It changed the main streams, namely it greatly increased domestic tourism in general, and in the south of Russia, in particular. It resulted in the reduction of trips abroad and led to the revival of domestic tourism. Taking into account that service on domestic routes significantly falls behind international standards, there was deterioration in the value for money.

Foreign trips of Russian citizens in 2014 decreased by 15% compared to 2013 (from 54.1 million to 45.9 million) and the demand for domestic tourism in 2014 increased by 30-40%, this trend continued in 2015. In 2013, Ukraine was the most popular destination among Russians, but in 2014 it moved from the first place to the sixth (7.3 million or 73.2% less Russians than a year earlier, see table 4). The most popular countries for foreign trips in 2015 were Turkey, Egypt and Greece. However, after a series of political events (the terrorist attack on board of A321 and the military incident with the Su-24) at the end of 2015 the situation changed dramatically, creating preconditions for the development of domestic tourism.

Table 4. Rating of Ukraine among the most popular countries among Russian tourists in 2013 and 2014

Year	Rating	Number of tourists in mln
2013	1	9,97
2014	6	2,67

Source: <http://www.gazeta.ru/business/2015/03/04/6435381.shtml>

According to the study conducted by Citibank during 5 months of 2015 the demand of Russian citizens to do shopping abroad fell sharply, while the demand to make purchases inside the country grew by 21%⁷.

The Russians, according to Citibank, still spend most in the United States, Italy, Great Britain, Finland and France. However, in all of these countries there was a significant decrease in the number of Russian tourists - in Italy by 37% (compared to the same period of 2014), in Finland by 43%, France by 39%, in the UK by 17%, in the US by 26%. The amount of purchases in these countries decreased to an even greater extent. In the CIS countries, by contrast, the number of Russian tourists increased sharply - in Kazakhstan by 99%, in Georgia by 38%, in Armenia by 16%. The amount of purchases in these countries significantly increased⁸.

Table 5. Entry of foreign tourists in Russia in January - September 2015 (thousands of visits).

No	Country	2014	2015	2015 to 2014 in %
1	China	358,2	583,6	162,9
2	Germany	318,7	319,2	100,2
3	USA	150,6	152,9	101,5
4	Turkey	100,2	115,8	115,6
5	Great Britain	120,9	102,9	85,1
6	Israel	86	103,9	120,8
7	South Korea	70,8	100,1	141,4
8	Italy	92,6	94,1	101,6
9	Spain	56,3	73,3	130,2
10	France	82,7	73	88,3
11	Finland	59,9	51,4	85,8
12	Japan	49,5	43,5	87,9
13	Iran	15,9	33,6	211,3
14	Australia	34,4	29,4	85,5
15	Canada	34,2	29	84,8
16	Brasil	23,5	26,4	112,3
17	Latvia	23,5	24,5	104,3
18	India	14	23,3	166,4
19	Switzerland	24	22,4	93,3
20	Estonia	21,3	21,8	102,3

⁷See more. "The study of Citibank showed a record decline in the number of purchases abroad and changed their geography" (<https://www.citibank.ru/russia/News/rus/news.htm>). The results are calculated on the basis of the credit cards usage by customers of Citibank.

⁸The same.

21	Austria	21,2	20,3	95,8
22	Netherlands	25	19,2	76,8
23	Serbia	17,8	19,2	107,9
24	Mexico	13,8	18,3	132,6
25	Thailand	10,3	16,6	161,2
26	Lithuania	16,5	14,9	90,3
27	Belgium	15,2	14,3	94,1
28	Argentina	10,4	13,6	130,8
29	Sweden	11,5	11,9	103,5
30	Poland	15,9	11	69,2
31	Hong Kong	8,6	10,8	125,6
32	Taiwan	8	10,8	135
33	Norway	10,8	10,3	95,4
34	Greece	9,5	10,2	107,4
35	Denmark	12,2	9,6	78,7
	Total amount for 9 months	2244,6	2539,5	113,1

Calculated according to:

http://www.rostourunion.ru/ob_rst/novosti/novosti_2015/vezdnoj_potok_v_rossiyu_ustojchivo_rastet.html

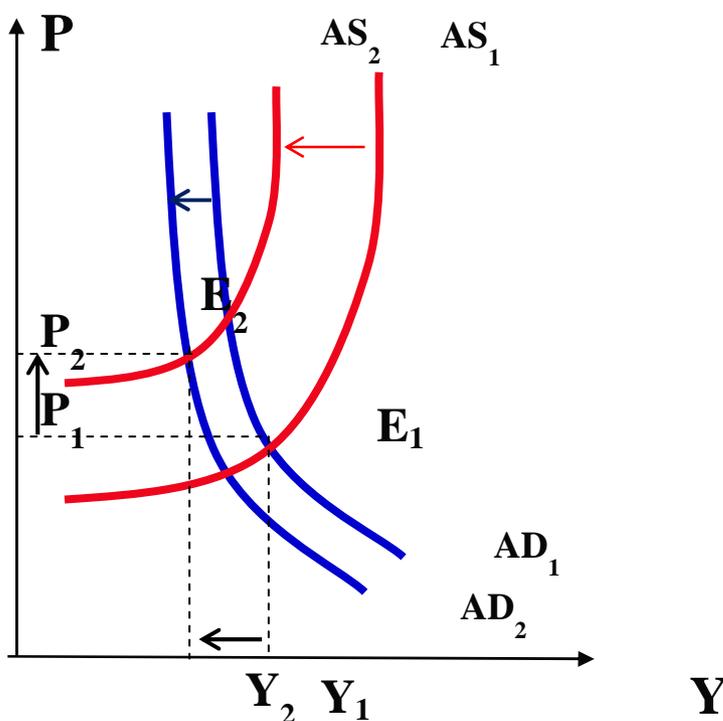


Fig. 10. The economic situation in Russia after economic sanctions from the point of view of AD-AS model.

moved from position AD₁ to AD₂. Since the recession started, aggregate supply has also reduced. The reduction in aggregate supply resulted in the shift of the curve from position AS₁ to AS₂. The balance changed from E₁ to E₂. This means that prices have risen from level P₁ to level P₂, and GDP moved from position Y₁ to Y₂, i.e. there was a simultaneous increase in price and reduction of GDP.

What to expect from the future?

There are two existing forecasts from the point of view of an average consumer: pessimistic and optimistic.

Pessimistic forecast

The depreciation of the ruble has created objective conditions to attract foreign tourists to come on holiday to Russia. The number of foreign tourists who visited Russia increased from 2 244.6 thousand in January-September of 2014 to 2 539.5 thousand in January-September of 2015, i.e. by 13%. The increase of visitors from Asian countries is especially noticeable, namely from China (an increase by 63%), South Korea (an increase by 41%), Iran (an increase by 111%), India (an increase by 66%), Taiwan (an increase by 35%) and Hong Kong (25.5%, see Table. 5). As a result, the countries of Southeast Asia and Israel are ahead of European countries in the number of tourists coming to Russia. The first place is taken by China, which advanced Germany and the United States.

The economic situation in Russia in the context of AD-AS models.

Because of rising prices the aggregate demand has decreased (see. Fig. 10), and the curve has

The prerequisites for the development of a pessimistic forecast are the further strengthening of economic sanctions and the continuing fall in oil prices. In this case, the economic isolation of Russia from the international community will deepen. Sanctions may include the suspension of operation of such systems as Visa and MasterCard in Russia, Russian banks will be switched off from the SWIFT system, etc. Russia will be forced to begin to work on the creation of an alternative system of international payments. Although the work in this direction is already underway, it is difficult to expect considerable results in the near future. Under these circumstances, Russia will look for allies in BRICS countries and, above all, in China. This will create further prerequisites for the transition from a unipolar world to multipolar. Any steps in this direction could lead to consequences which many of the participants of the economic conflict are not even aware of.

Optimistic forecast

The prerequisites for the development of an optimistic forecast are raising oil prices and the weakening of economic sanctions. This will lead to the strengthening of the Russian ruble, which will create great opportunities for the increase of import, as will become cheaper. In fact, this would mean a further weakening of the ties with Western Europe and the strengthening of trade with Asia and Latin America. The weakening of economic sanctions will restore ties with Western Europe, and then there will be a shift from the East to the West, as the share of the Western European goods will increase in Russian imports. It will diversify trade flows and will allow Russia to choose a partner that is the most favorable one. However, even this optimistic forecast has both its pros and cons, because in this case the competition between imported goods and domestic ones will increase. In this case, Russian producers will have to work under the conditions of international competition. Unfortunately, not all of them will be ready for it.

We can assume that if sanctions are banned, Russian banks' access to international capital will gradually recover and economic relations between the countries will be normalized.

Instead of a conclusion we would like to remind the reader of John Donne's (John Donne 1572 - 1631) words taken as an epigraph by Ernest Hemingway (Ernest Hemingway 1899 - 1961) to his novel "For Whom the Bell Tolls":

*No man is an island,
Entire of itself,
Every man is a piece of the continent,
A part of the main.
If a clod be washed away by the sea,
Europe is the less.
As well as if a promontory were.
As well as if a manor of thy friend's
Or of thine own were:
Any man's death diminishes me,
Because I am involved in mankind,
And therefore never send to know for whom the bell tolls;
It tolls for thee.*

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