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ARTICLE

The Essence of Optimism of The Economists and Investors with Regard to the Economy of Russia

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ABSTRACT

The gross domestic product of Russia, expressed in US dollars, indicates problems in the Russian economy associated with the decline in oil prices on the world energy market and the consequences of the sanctions of the United States and the European Union against Russia. The crisis situation of the Russian economy has a negative impact on the income of the population of country, represented mainly by wages. However, an economist or investor may be optimistic about Russian economic development in the medium term. This optimism is related to the economic policy of the United States. The expansion of the United States economy within the global space, based on economic growth, requires maintaining inflation within the target level and weakening the US dollar. These tasks are solved with the help of soft monetary policy of the US Federal Reserve System. The reduction of interest rates by the US Federal Reserve System against the background of inflation of the target level and the devaluation of the US dollar will contribute to economic growth in the United States, because it will lead to the depreciation of public debt, lower consumption of imports, increase in exports and trade balance, growth of production, income, consumption. The economic policy of the United States, which contributes to the devaluation of the US dollar, will also reduce the US dollar against the ruble. The optimistic view of investors-economists on the Russian economy is due to a significant strengthening of the ruble against the US dollar. Consequently, in the medium term, the gross domestic product and wages of citizens of Russia, expressed in US dollars, will significantly increase, and the purchasing power of the national currency of the country will also increase. This growth may continue until the next election of a new President of the United States in november 2020. After the election of the new President of the United States, there is a high probability of sanctions against Russia and of decline in oil prices in the world energy market in accordance with the future economic policy of the United States – two main reasons for the sharp strengthening of the US dollar against the ruble, which will cause a deeper economic crisis in Russia in the medium and long term.

1. Introduction

The Russian economy is uncompetitive compared with the economy of the United States. Low efficiency and small scale of the Russian economy have a bad impact on the incomes of the population of the country. However, in the short and medium term, we can hope for small improvements in the Russian economy, which are associated with the implementation of economic policy by the United

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States. It is established that measures to stimulate economic growth in the United States can strengthen the ruble against the US dollar and improve the economic effectiveness of Russia. This regularity is revealed on the basis of studying of interrelations of economic indicators: (1) the relationship between the core price index of personal consumption expenditures and interest rates of the US Federal Reserve System has been studied for a long-term period; (2) during the period of soft monetary policy, the relationship between the falling interest rates of the US Federal Reserve System and the US dollar index reflecting the international value of the US dollar was studied; (3) during the last economic cycle, which showed the strength of the United States economy and the US dollar, the relationship between the US dollar index and the USD/RUB currency pair was established. The study of the interrelations of the presented economic indicators led to the following judgments. (1) The core price index of personal consumption expenditure in the United States is growing at a decelerating rate, which is often below target. This requires the US Federal Reserve System to continuously pursue soft monetary policy to stimulate economic growth and expand the economy in the United States. (2) The soft monetary policy of the US Federal Reserve System does not pass without a trace, but directs the international value of the US dollar downward. Reducing the international value of the US dollar, as a rule, also brings great benefits to the economy of the United States mainly through increasing competitiveness to gain additional markets for products. Currently, this policy is very relevant in the context of automation of production, the use of robotics and the release of jobs. (3) The decrease in the international value of the US dollar may affect the strengthening of the national currencies of other countries, for example, developing countries such as Russia. Of course, the strengthening of the Russian ruble will bring a lot of positive to the Russian economy. This positive will be manifested in the growth of the main economic indicators of the country – income. However, this positive will be used by the United States in the future for its own benefit. But so far, the revealed regularities help to form an optimistic view of economists and investors on the Russian economy in the short and medium term.

2. Literature Review

The necessity and methods of government regulation of a market economy were substantiated by John Maynard Keynes in his book "The General Theory of Employment, Interest, and Money". John Maynard Keynes believed that a market economy does not have a permanent functioning self-regulatory mechanism. Under certain conditions, a market economy may find itself in deep crisis stagnation, from which the spontaneous forces of the market alone cannot pull it out. In such a situation, government regulation of the market economy is required by stimulating effective demand through a soft monetary policy aimed at useful low inflation [9]. The above studies of John Maynard Keynes allowed us to generate ideas that public policy plays an important role in a market economy; public policy is based on target values of key economic indicators, such as inflation; a market economy periodically needs to be stimulated through the application of soft monetary policy.

Robert Alexander Mundell made a great contribution to the development of scientific economic thought in the application of monetary policy in the international economy. He showed that the most effective policy of the state in conditions of floating exchange rates is monetary policy. Soft monetary policy contributes to the weakening of the national currency and the growth of exports of the country [11]. The patterns identified by Robert Alexander Mundell made it possible to formulate a number of judgments regarding the economy of the United States: the United States economy is focused not only on domestic demand but also on foreign trade; the importance of foreign trade for the United States is growing; monetary policy of the US Federal Reserve System can have a good impact on the competitiveness of economic entities and increase the exports of the country; economic growth in the United States can be stimulated by reducing the international value of the US dollar.

Export growth is not the only reason for the application of a soft monetary policy. A strong United States economy is not always competitive even with a weak US dollar. The United States has economic competitors, such as China and other countries. Therefore, the economy of the United States requires protection from foreign producers who become strong in the production of products. Such notes of protectionism appeared thanks to the teachings of Friedrich List, who believed that from strong foreign competitors need to be protected by high tariffs on imports [10]. Economic growth of the country in the global space can be enhanced due to the restriction of imports through protectionism.

Thus, there are strong factors of devaluation of the US dollar in terms of foreign trade – protectionism and soft monetary policy, which can strengthen each other. In such circumstances, the devaluation of the US dollar becomes inevitable and can have an impact on the significant strengthening of the national currencies of other countries. The strengthening of national currencies for some countries is a boon in connection with low incomes.

The influence of economic factors on each other is often investigated through correlation and regression analysis. Correlation and regression analysis allows to determine the strength of the relationship between the factors and build regression equations, which serve as a basis for predicting

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the values of the studied economic factors. In this case, the significance of the parameters of the regression equations is checked [4,5]. Economic phenomena develop in accordance with a linear trend, especially over long time intervals [6]. Therefore, when studying the impact of monetary policy of the US Federal Reserve System on inflation and the international value of the US dollar, when studying the impact of the international value of the US dollar on foreign exchange rates, it is advisable to use the linear regression equations.

3. Methods

To determine the impact of the economic policy of the United States on the Russian economy, the following methods were used: analysis, synthesis, monographic, correlation and regression analysis, trend detection, forecasting, graphical, tabular.

4. Results

It is possible to talk about the level of economic development of a country on the basis of statistical data on the size of its gross domestic product. The study of the gross domestic product of Russia, represented in the national currency of the country, for the long time period I quarter of 1995 - I quarter of 2019 showed that the Russian economy is in a growth phase (figure 1).

However, it is not. The gross domestic product of Russia, presented in US dollars for the same time period, indicates the economic crisis in the country. To date, the indicator has not recovered from the global financial crisis of 2008 and demonstrates the development of the economic crisis type W (double bottom) associated with the deterioration of global financial markets, the fall in energy prices, the sanctions of the United States and the European Union against Russia (figure 2).

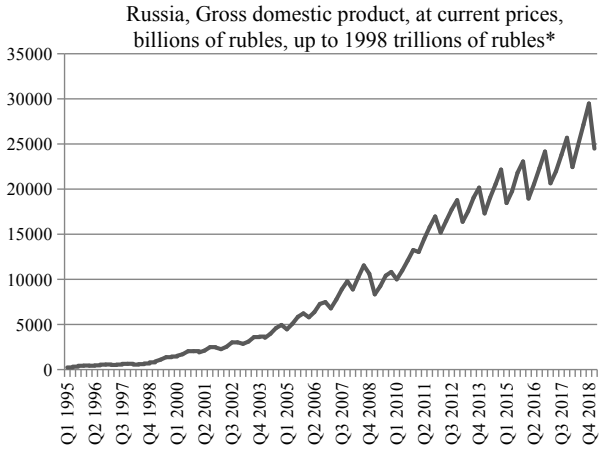

Figure 1. Dynamics of gross domestic product of Russia, expressed in the national currency of the country * Russian Federation Federal State Statistics Service [7]

Figure 2. Dynamics of the gross domestic product of Russia, expressed in US dollars *Calculated by the author according to the Russian Federation Federal State Statistics Service, investing.com [3, 7]

The income of the population of the country depends on the size of its gross domestic product. The main part of the income of the population of the country is represented by wages. In this regard, for the period I quarter 1995 - I quarter 2019 studied the size of the average monthly nominal wage in Russia, calculated for all regions and sectors of the economy. Statistical data on the average monthly nominal wage, expressed in rubles, showed the growth of the analyzed indicator throughout the study period, including after the global financial crisis of 2008 (figure 3).

Figure 3. Dynamics of average monthly nominal wages in Russia, expressed in rubles *Russian Federation Federal State Statistics Service [1]

Statistical data on the average monthly nominal wage, expressed in US dollars, indicate that currently the analyzed indicator has not recovered after the global financial crisis of 2008 and is below pre-crisis levels (figure 4).

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Figure 4. Dynamics of average monthly nominal wages in Russia, expressed in US dollars *Calculated by the author according to the Russian Federation Federal State Statistics Service, investing.com [1,3]

Consequently, the Russian economy is still in a state of crisis.

The United States economy signals a recession when the core price index of personal consumption expenditure has an annual growth rate below target 2%. The core price index of personal consumption expenditure measures inflation, reflects the dynamics of prices of goods and services for personal consumption of Americans, is calculated without the volatile cost of food and energy, is used by the US Federal Reserve System in making decisions on changes in interest rates.

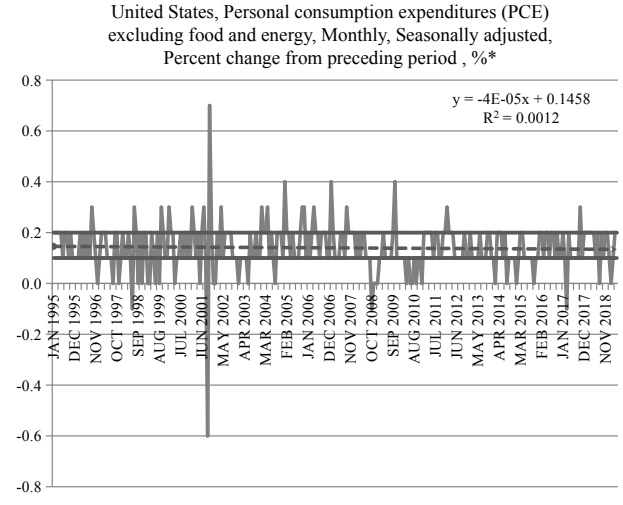

Figure 5. Dynamics of the growth rate of personal consumption expenditures, excluding food and energy, % * Calculated by the author according to the US Bureau of Economic Analysis [2]

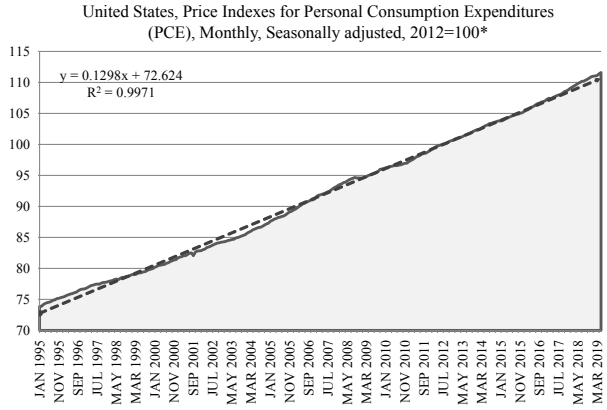

Figure 6. Dynamics of price index for personal consumption expenditures, excluding food and energy * Calculated by the author according to US Bureau of Economic Analysis [2]

The core price index of personal consumption expenditure in the United States was studied for the period january 1995 – may 2019: the monthly growth rate of the indicator is mainly at the levels of 0,1% – 0,2%; during 2019, the growth rate of the indicator is below the target level; the price index for personal consumer spending tends to grow at an insufficiently rapid rate (figures 5, 6).

The main reason for the slowdown in inflation in the United States is protectionism, which worsens the economic performance of countries. In such circumstances, the main task of the US Federal Reserve System is to stimulate inflation for economic growth in the United States by reducing interest rates.

The decline in interest rates by the US Federal Reserve System leads to a devaluation of the US dollar. This measure is useful for the depreciation of public debt, reducing the level of consumption of imports, increasing exports and trade balance, income growth, increasing consumption. All this stimulates economic growth in the country. Based on statistical data, it was found that before the global financial crisis of 2008, the devaluation of the US dollar lasted for 6 years from january 2002 to march 2008. By lowering interest rates, the US Federal Reserve System supported an 8-year increase in the price index of personal consumption expenditure from january 2001 to december 2008. To predict the growth of the core price index of personal consumption expenditure during the future period until may 2025, also spanning 6 years, the equation of the linear growth trend of this indicator is used (figure 6):

$$y=0,1298 \cdot x+72,624, \quad (1)$$

where y is the core price index of personal consumption expenditure, x is the number of the period in the time series.

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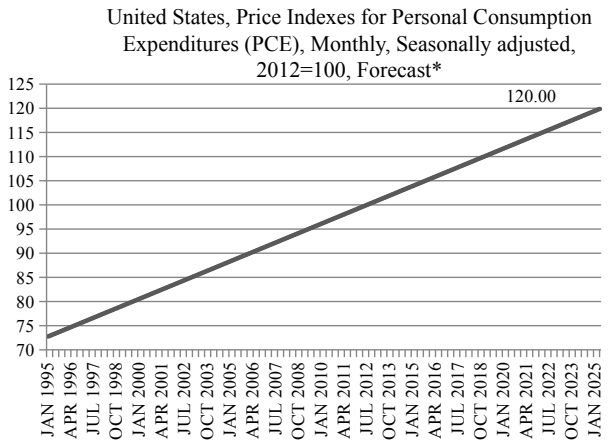

Figure 7. Forecast core price index of personal consumption expenditure in the United States * Calculated by the author according to US Bureau of Economic Analysis [2]

The forecast showed that in order to stimulate economic growth, the price index of personal consumption expenditure in the United States should grow to 120 points over the next 6 years (figure 7).

It is known that the stable growth of the core price index of personal consumption expenditure in the United States can be achieved by changing the interest rates of the US Federal Reserve System. The high growth rates of the core price index of personal consumption expenditures are forcing the US Federal Reserve System to raise interest rates, while the low growth rates of the core price index of personal consumption expenditures are forcing the US Federal Reserve System to lower interest rates. The statistical data for the period from january 1995 to may 2019 showed that inflation in the United States is sustained over the long term by interest rates that tend to decline (figure 8).

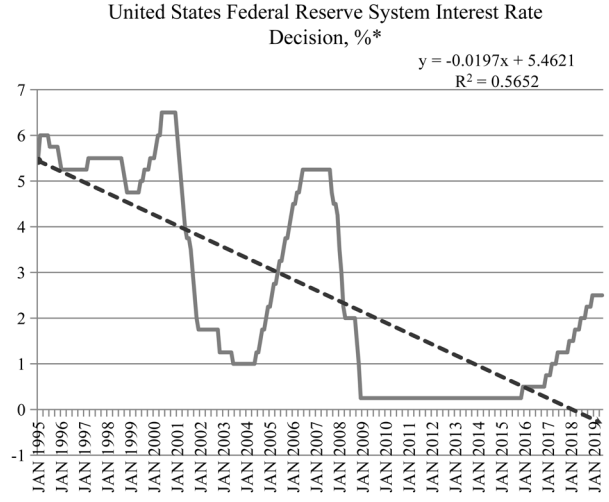

Figure 8. Dynamics of interest rates of the US Federal Reserve System, % *Calculated by the author in accordance with the US Federal Reserve System [8]

To determine the correlation and regression relationship between the interest rates of the US Federal Reserve System and the core price index of personal consumption expenditures in the United States for a specified time period used presents the calculated data on the interest rates changing in accordance with the equation of the linear trend (figures 8, 9):

$$y=-0,0197 \cdot x+5,4621, \quad (2)$$

where y is the interest rate the US Federal Reserve System, %; x is the number of period in the time series.

This is done in order to obtain more adequate scientific results.

The correlation and regression relationship between the interest rates of the US Federal Reserve System and the core price index of personal consumption expenditure in the United States was studied for the long-term period january 1995 – may 2019 (table 1).

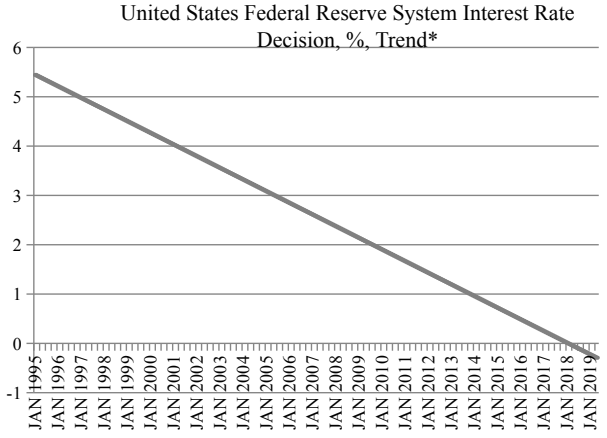

Figure 9. The downward trend in interest rates of the US Federal Reserve System, % *Calculated by the author in accordance with the US Federal Reserve System [8]

Table 1. Projected interest rates of the US Federal Reserve System, %*

a	b	Number of interest rate cuts by the US Federal Reserve System	United States Federal Reserve System Interest Rate Decision, %, x	United States, Price Indexes for Personal Consumption Expenditures (PCE), Monthly, Seasonally adjusted, 2012=100, y
108,6091	-6,5882	0	2,50	92,14
108,6091	-6,5882	1	2,25	93,79
108,6091	-6,5882	2	2,00	95,43
108,6091	-6,5882	3	1,75	97,08
108,6091	-6,5882	4	1,50	98,73

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108,6091	-6,5882	5	1,25	100,37
108,6091	-6,5882	6	1,00	102,02
108,6091	-6,5882	7	0,75	103,67
108,6091	-6,5882	8	0,50	105,32
108,6091	-6,5882	9	0,25	106,96
108,6091	-6,5882	10	0,00	108,61
108,6091	-6,5882	11	-0,25	110,26
108,6091	-6,5882	12	-0,50	111,90
108,6091	-6,5882	13	-0,75	113,55
108,6091	-6,5882	14	-1,00	115,20
108,6091	-6,5882	15	-1,25	116,84
108,6091	-6,5882	16	-1,50	118,49
108,6091	-6,5882	17	-1,75	120,14

Note: *Calculated by the author according to US Bureau of Economic Analysis, US Federal Reserve System [2,8].

The linear regression equation is constructed:

$$y=108,6091-6,5882 \cdot x, \quad (3)$$

where y is the core price index of personal consumption expenditure in the United States (points), x is the interest rate of the US Federal Reserve System, calculated on the basis of the linear trend equation (%) (figures 8, 9). Correlation coefficient rxy=-0,999 – very strong inverse (negative) relationship. The coefficient of elasticity of the Exy =-0,184<1, if x changes by 1%, y changes by less than 1%, x has no significant effect on y. Fisher's criterion Ft=101571,7>Fcrit=3,89 – the equation as a whole is significant. So, in order to stimulate inflation to the level of the core price index of personal consumption expenditure of 120 points, the US Federal Reserve System should reduce the interest rate to -1,75% by may 2025.

The reduction in interest rates by the US Federal Reserve System will have an impact on the US dollar index, an indicator of the purchasing power of the US dollar relative to a basket of foreign currencies (the Euro, the Japanese yen, the British pound, the Canadian dollar, the Swedish krona, the Swiss franc), reflecting the international value of the US dollar. The correlation and regression relationship between the interest rates of the US Federal Reserve System and the US dollar index was studied for the period january 2001 – november 2015 – the period of soft monetary policy in the United States, designed to stimulate the growth of the economy of this country due to the global financial crisis of 2008 (table 2).

Table 2. The forecast value of the US dollar Index*

a	b	United States Federal Reserve System Interest Rate Decision, %, x	US dollar index, y
72,5092	6,8037	2,50	89,52
72,5092	6,8037	2,25	87,82
72,5092	6,8037	2,00	86,12
72,5092	6,8037	1,75	84,42
72,5092	6,8037	1,50	82,71
72,5092	6,8037	1,25	81,01
72,5092	6,8037	1,00	79,31
72,5092	6,8037	0,75	77,61
72,5092	6,8037	0,50	75,91
72,5092	6,8037	0,25	74,21
72,5092	6,8037	0,00	72,51
72,5092	6,8037	-0,25	70,81
72,5092	6,8037	-0,50	69,11
72,5092	6,8037	-0,75	67,41
72,5092	6,8037	-1,00	65,71
72,5092	6,8037	-1,25	64,00
72,5092	6,8037	-1,50	62,30
72,5092	6,8037	-1,75	60,60

Note: *Calculated by the author according to investing.com, US Federal Reserve System [8,12]

The linear regression equation is constructed:

$$y=72,5092+6,8037 \cdot x, \quad (4)$$

where y is the US dollar index (points), x is the interest rates of the US Federal Reserve System calculated on the basis of the linear trend equation (%) (figures 8, 9). Correlation coefficient rxy=0,582 – a noticeable direct (positive) relationship. The coefficient of elasticity of the Exy =0,176<1, when changing x by 1%, y will change by less than 1%, x has no significant effect on y. The approximation error A=8,4% is below the norm, so the equation can be used to calculate individual values of factors. Fisher's criterion Ft=90,8>Fcrit=3,9 – the equation as a whole is significant. Thus, the stimulation of inflation by the US Federal Reserve System by lowering the interest rate to -1,75% (to the level of the price index of personal consumption expenditure of 120 points) by may 2025 will lead to a decrease in the US dollar Index to 60,6 points.

Table 3. Forecast values of the USD/RUB currency pair *

a	b	US dollar index, x	USD/RUB, y
-109,1254	1,7697	89,52	49,30
-109,1254	1,7697	87,82	46,29
-109,1254	1,7697	86,12	43,28
-109,1254	1,7697	84,42	40,27

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-109,1254	1,7697	82,71	37,26
-109,1254	1,7697	81,01	34,25
-109,1254	1,7697	79,31	31,24
-109,1254	1,7697	77,61	28,23
-109,1254	1,7697	75,91	25,22
-109,1254	1,7697	74,21	22,21
-109,1254	1,7697	72,51	19,20
-109,1254	1,7697	70,81	16,19
-109,1254	1,7697	69,11	13,17
-109,1254	1,7697	67,41	10,16
-109,1254	1,7697	65,71	7,15
-109,1254	1,7697	64,00	4,14
-109,1254	1,7697	62,30	1,13
-109,1254	1,7697	60,60	-1,88

Note: * Calculated by the author according to investing.com [3,12]

The expected devaluation of the US dollar due to the need to stimulate economic growth in the United States will affect the USD/RUB currency pair, which will lead to an improvement in the main economic indicators of Russia. The correlation and regression relationship between the US dollar index and the USD/RUB currency pair was studied for the period january 2008 – july 2019 – one economic cycle, including the stages of economic development: crisis, recession, recovery, growth. The linear regression equation is constructed:

$$y=-109,1254+1,7697 \cdot x, \quad (5)$$

where y – currency pair USD/RUB (points), x - US dollar index (points). The correlation coefficient rxy = 0,937 shows a very strong direct (positive) relationship due to the relatively high efficiency of the United States economy and the benefits from the acquisition of US dollars. The coefficient of elasticity of the Exy=3,496>1, with a change in x by 1%, y will change by more than 1%, x significantly affects y. Approximation error A=11,1% - within the norm, so the equation can be used to calculate the individual values of the factors. Fisher's criterion Ft=993>Fcrit=3,92 – the equation as a whole is significant. Thus, the stimulation of inflation by the US Federal Reserve System by lowering the interest rate will lead to a decrease in the US dollar index and a weakening of the USD/RUB currency pair. Table 3 shows the great potential of weakening of the USD/RUB currency pair against the background of the US dollar devaluation, which can be used by the United States to fully impose sanctions on Russia and reduction of prices for energy resources.

The United States can have a big impact on the USD/RUB currency pair. Certain actions of the United States may lead to a sharp decline in the ruble against the US dollar: 1) lower prices for energy resources; 2) the introduction of sanctions against Russia. These measures are planned in the future economic policy of the United States (figure 10).

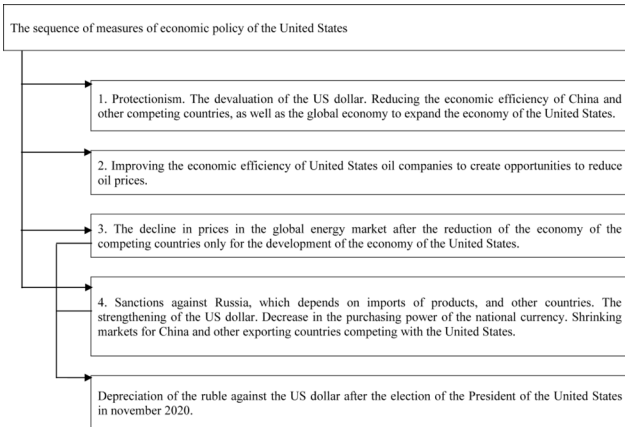

Figure 10. The sequence of measures of economic policy of the United States

The question is when these measures will be introduced.

Currently, the economic policy of the United States is implemented in the following conditions: (1) the international economy uses protectionism provoked by the United States; (2) there is a need to devalue the US dollar in order to improve the economic conditions for the United States in the world economy; (3) factors that depend on the policy of the United States have an impact on the growth of oil prices: stimulating economic growth in the United States creates demand for resources; the need of the United States oil companies for high revenues to cover costs; the devaluation of the US dollar. The implementation of economic policy measures by the United States to reduce oil prices and impose sanctions against Russia may be in the long term for the following reasons: there is not enough time for large-scale reforms before the election of a new President of the United States; first, it is necessary to reduce the efficiency of the economies of the competing countries with the help of sanctions and protectionism so that the planned reduction in prices for energy resources in the future does not have a strong positive impact on their development; it is necessary to change the monetary policy of the US Federal Reserve System in the direction of lowering interest rates to start the mechanism of devaluation of the US dollar; it takes time to improve the economic efficiency of the United States oil companies in order to create opportunities to reduce oil prices. Thus, there is a high probability that the ruble against the US dollar can easily strengthen before the election of the new President of the United States in november 2020, based on the devaluation of the US dollar and the rise in prices for energy resources.

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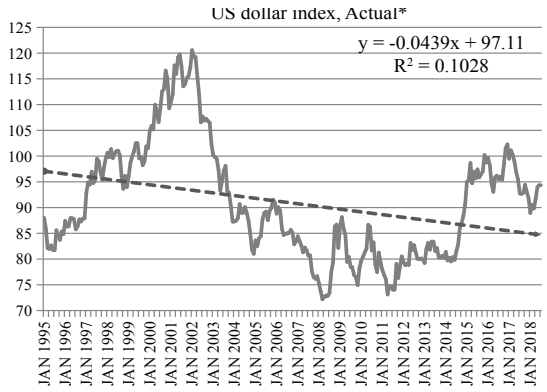

Figure 11. Dynamics of US dollar index * Calculated by the author according investing.com [12]

Since the US dollar index and the USD/RUB currency pair are interconnected, in order to calculate the value of the USD/RUB currency pair in november 2020 (the possible date of the maximum growth of the USD/RUB currency pair), it is necessary to determine the value of the US dollar index in november 2020. Over a long period, the US dollar index has been declining under the influence of the soft monetary policy of the US Federal Reserve System - it is under the control of United States government officials, because the economy and the welfare of the citizens of the country depend on its level, it is a predictable indicator. The forecast of the value of the US dollar index in november 2020 is made on the basis of statistical data on the given indicator for a long period of time january 1995 – july 2019. The equation of the downward trend of the US dollar index is used:

$$y=-0,0439+97,11\cdot x, \quad (6)$$

where y is the US dollar index (points), x is the period number in the time series (figure 11).

Calculations showed that by november 2020, the US dollar index could reach 83,46 points and the USD/RUB currency pair could reach 38,58 points (equation 5, table 3, figure 12).

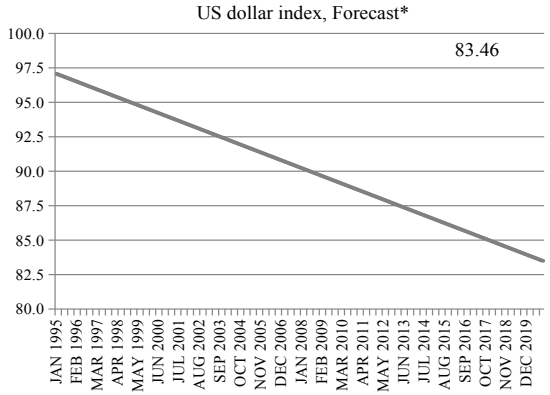

Figure 12. Forecast US dollar index * Calculated by the author according investing.com [12]

Soft monetary policy of the US Federal Reserve System, needed to stimulate inflation and weaken the US dollar, may have an impact on the decline of the currency pair USD/RUB to 38,58 rubles to the US dollar by november of 2020 because of the declining international value of the US dollar, rising oil prices due to the devaluation of the US dollar, holding on high oil prices by United States oil companies by regulating oil production, postponed until the next election of the President of the United States of the full-scale introduction of United States sanctions against Russia. As a result of the strengthening of the ruble against the US dollar, economic indicators of Russia will change for the better. Thus, the average monthly nominal wages calculated for all regions and industries will increase from $669,5 to $1139,0, the gross domestic product will increase from $373,1 billion to $634,7 billion (figure 13).

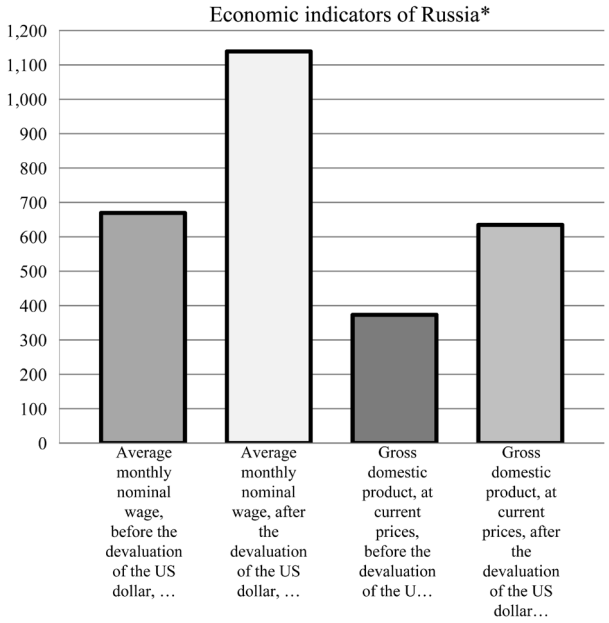

Figure 13. Economic indicators of Russia before and after the devaluation of the US dollar* Calculated by the author according to the Russian Federation Federal State Statistics Service, investing.com [1,3,7]

However, this is where the optimism of economists and investors ends, because the increase in revenues in Russia will expand the markets for imported products, in the medium and long term, sanctions will be fully introduced, oil prices will fall. These actions will introduce the Russian economy into a deeper and longer-lasting crisis.

5. Conclusions

(1) The Russian economy cannot compete with the economies of developed countries, such as the United States, is in a crisis stage and directly depends on the economic

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policy of the United States. The economic policy of the United States has an impact on the more important sectors of the Russian economy – the banking sector, the oil industry, the state budget. At any time, the United States can use its advantage over Russia: to impose sanctions against Russia; to influence the decline in oil prices on the world market of energy resources. Such actions of the United States can collapse the ruble against the US dollar and bring the Russian economy into a deeper and longer-term crisis.

(2) But currently, the United States is not yet profitable strong strengthening of the currency pair USD/RUB due to the need for a weak US dollar. A weak US dollar should contribute to the continuation of economic growth in the United States against the backdrop of the depreciation of public debt, lower consumption of imports, increased exports and trade balance, growth in production, income, consumption. The United States is ready to implement its economic policy, involving sanctions against Russia and lower oil prices, but in the longer term.

(3) Before the sanctions the United States and low oil prices will have a negative impact on the Russian economy, the United States should: reduce the economies of competitor countries, such as China, Japan, and others; to support the growth of economic efficiency of oil companies of the United States; to start the mechanism of the devaluation of the US dollar by reducing interest rates by the US Federal Reserve System. These measures will have an impact on the strengthening of the ruble against the US dollar and the improvement of economic indicators of Russia in the short and medium term.

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