

Sergey Glazyev's Report: "About urgent measures to counter threats to the existence of Russia"

Dear friends,

This is "The Report" (all in caps!), the famous and, for some, infamous report presented by Sergei Glaziev to the Russian Security Council. Not an excerpt of a paraphrase – the full thing, appendices and all. To say that our translators did a huge and very hard job would be an understatement. I read the original Russian text, and I can attest that it is hell to translate. So I immense and heartfelt THANK YOU to KA, Elona, Seva and Eugenia – what you guys did is fantastic!!

The Saker

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Translated by **KA, Elona, Seva, Eugenia**

"Business Online» for the first time publishes the full text of the widely discussed analytical document that will be presented today at the Security Council of the Russian Federation. Today, presidential adviser Sergey Glazyev will be presenting at the closed session of the interdepartmental commission of the Security Council the same report, which became widely known thanks to front-page article in the newspaper "Kommersant", where it was named as the most complete presentation of the program outlined by the supporters of the "modernization breakthrough." At the same time, at the disposal of both critics and apologists of these ideas was a biased set of fragments, but not the text itself – "Business Online» fills this gap.

The report "**On urgent measures to strengthen the economic security of Russia**", will be presented today at the inter-ministerial committee of the Security Council, which, after reading will pass it to the "Grand Council" chaired by Russian President **Vladimir Putin**. Proposals for the change of economic policy were prepared under the supervision of the Presidential Adviser **Sergey Glazyev**, although not by him alone, but by a group of about fifteen associates. Most of them belong to the domestic scientific community, moreover, the adviser to the president is a member of the Academy of Sciences.

Meanwhile, last week, the document acquired notoriety because of freestyle exposition of its ideas in the newspaper "Kommersant" – many economists and liberal journalists criticized the report. Yet no one could read the "Pasternak himself", because the report has not been published anywhere. As explained one of our well-known economists, head of the Institute of dynamic conservatism Andrey Kobayakov, the quotes from the report in "Kommersant" were "completely torn out of context," and in this distorted form caused quite a stir in the Internet and in the liberal press. Meanwhile, in his view, the document offers practical measures to prevent the collapse of the Russian economic and public institutions in a standoff with the West.

"Business Online» is the first of the Russian Media to offer its readers the opportunity to to make up their own minds about the report of Sergey Glazyev. For ease of reading, we have divided it into chapters.

“THE US IS TRYING TO KEEP THE LEADERSHIP VIA INITIATION OF A WORLD WAR”

The US aggression against Russia and the seizure of control over Ukraine is an integral part of the global hybrid (chaotic) war waged by Washington to retain world leadership in the growing competition with China. Russia is selected as the direction of the main attack on a combination of *objective* and *subjective* circumstances.

Objectively, the escalation of the international military and political tensions caused by the change of technological orders and historical cycles of accumulation, in which there is a deep restructuring of the economy based on a fundamentally new technology and new mechanisms for the reproduction of capital. At such times, as the five hundred years of experience of capitalism, there is a sharp destabilization of the system of international relations, the destruction of the old and the formation of new world order, which is accompanied by the wars between the old and new leaders for dominance on the global market.

The US aggression against Russia and their takeover of Ukraine are parts of the global hybrid war.

Examples of such periods in the past include: the war of the Netherlands for independence from Spain, which resulted in the center of the development of capitalism been moved from Italy (Genoa) to the Netherlands; Napoleonic Wars, which resulted in the UK becoming the dominant power; First and Second World Wars, which gave the domination over the capitalist world to the United States, and the Cold War between the US and the USSR, which resulted in seizure by United States of the global leadership due to the superiority in the development of new technological structure based on microelectronics, information and communication, and the establishment of a monopoly on emission of the world's money.

In the present period of growth in the wake of new technological advances, China comes ahead, and the accumulation of capital in Japan creates opportunities to move the center of the world accumulation of capital to Southeast Asia. Faced with over-concentration of capital in the financial pyramids and obsolete production facilities, as well as the loss of markets for their products and a drop in the share of the dollar in international transactions, the US is trying to keep the lead by stirring up a world war in order to weaken its competitors and partners. In trying to establish control over Russia, Central Asia and the Middle East, the United States is seeking a strategic advantage in managing the supply of hydrocarbons and other critically important natural resources. The US control over Europe, Japan and Korea ensures its dominance in the creation of the new knowledge and development of advanced technologies.

Subjectively, the anti-Russian aggression is due to irritation of American geo-politicians by independent foreign policy of the President of Russia and his focus on a broad Eurasian integration – from the creation of the EAEC and SCO to initiatives in creating a common economic space from Lisbon to Vladivostok. **The US fears the formation of independent global centers of growth, primarily – the BRICS countries.** The historical role of Russia in the organization of projects of global integration determines the surge of American Russophobia. Furthermore, there is a demonization of the Russian President, who Washington sees as chiefly responsible the US' loss of control over Russia and Central Asia, and Putin's independent foreign policy is seen as a key threat to the American global dominance.

Washington unleashes a world war that differs from the previous one by lack

of front-line clashes of fighting armies. It is based on the use of modern information and cognitive technologies with reliance on “soft power” and the limited use of military force in the form of punitive operations when the enemy is deprived of the possibility to resist. The aim is to destabilize the internal situation in the victim-country by the indoctrination of its social consciousness by subversive ideas, by causing deterioration of the socio-economic situation, cultivation of various opposition forces, bribery of productive elites to weaken government institutions and the overthrow of the legitimate leadership and the subsequent transfer of power to the puppet government.

Such wars are called hybrid: the victim-country’s leadership does not feel threatened by the enemy until the last moment, its political will is constrained by endless negotiations and consultations, the immune system is suppressed by demagogic propaganda, while the enemy is actively working to destroy the structure of its internal and external security. The decisive moment is their military suppression of the emerging pockets of resistance. That was way how the United States have achieved success in the Cold War against the Soviet Union, and is now expanding chaos in the strategically important regions of the Middle East and try to regain control over the post-Soviet space.

The Asistant Secretary of State Victoria Nuland is giving away cookies on Maidan.

“ORGANIZATION OF MILITARY CONFLICT BETWEEN RUSSIA AND EUROPE IS FOR THE US MOST DESIREBLE”

By organizing a coup and establishing full control over the structure of Ukrainian state power, Washington relies on the transformation of this part of the Russian world into a springboard for military, information, humanitarian and political intervention in Russia in order to transfer a chaotic war to its territory, the organization of the revolution and the subsequent dismemberment. The expectation is that the consciousness of Russian public is not immune to the penetration of agents of influence from Ukraine, which is an integral part of the Russian spiritual and cultural root. And also the fact that Russian armed forces would not dare to use weapons of mass destruction against the brotherly people.

Unleashing the Ukrainian-Russian war, the US dragged in NATO against Russia, achieving by anti-Russian economic sanctions both to weaken the EU and consolidate its control over Brussels. The organization of the military conflict between Russia and the European countries of NATO in Ukraine is the most desirable scenario for **the US, for whom the war in Europe has always been “good”**. The unleashing of a war under the slogan of protection against “Russian aggression” is the main objective set by the Americans for the Kiev Russophobic regime. While this regime exists, attempts to provoke a war against Russia will continue, including through the terror against the Russian population of the South-East of Ukraine.

Even if we can stop the US aggression in Ukraine and solve the Ukrainian crisis, there is no doubt the inevitability of a long and significant deterioration of the trade and economic relations between Russia and NATO member states, as well as others dependent on US countries (Japan, South Korea, Canada, Australia). **Given the high external dependence of the Russian economy, it creates a serious threat to national security.** The most urgent of these risks lies in the freezing of foreign currency assets, cutting off the Russian banks from the international payment and information systems, the ban on high-tech products, worsening of the conditions for

Russian export.

Currently, the amount of foreign currency assets of the Russian Federation located in the jurisdiction of the NATO countries, is more than 1.2 trillion USD, including short term- about 0.8 trillion dollars. Their freeze may be partially offset by retaliation against NATO assets in Russia, which amounts to 1.1 trillion USD, including long-term – more than 0.4 trillion dollars. This threat would be neutralized if the monetary authorities organized timely withdrawal of Russian short-term assets in the US and the EU, which would change the balance in their favor. However, despite the threat of sanctions, the placement in the US and European securities of Russian assets continues.

Before it is too late, there is an urgent need to sell the foreign currency assets placed in the obligations the of US, Britain, France, Germany and other countries participating in sanctions against Russia. They should be replaced by investments in gold and other precious metals in stocks of highly liquid commodity, including a crucial imports in the securities of member countries of the EAEC, SCO, BRICS, as well as in the capital of international organizations with Russian participation (including the Eurasian Development Bank, CIS, IIB, New Development Bank, and others.), expansion of infrastructure that supports Russian exports. Among the elements of the latter, the creation of international trade marketplaces of Russian commodities in Russia's jurisdiction for rubles is very important, as is the creation of international sales and service networks of Russian goods with high added value.

With regard to the emerging trend of freezing private assets of Russian legal entities and individuals, with which the monetary authorities of Western countries started to interfere, Russia should consider measures of full or partial moratorium on the servicing of loans and investment from these countries.

The Central bank dragged its feet in the creation of the National Card Payment System.

The Central Bank delayed the creation of the National Payment Card System, as well as the system of international exchange of bank information that could protect the Russian financial system from sanctions of the western jurisdiction of settlement and payment systems VISA, MasterCard, SWIFT, as was discussed three years ago. Now it is necessary to put the agenda of the creation of such systems internationally for the next meeting of the BRICS countries in Ufa to ensure the work of the Russian payment instruments, not only domestically, but also abroad (**Appendix 1**).

As have been repeatedly indicated by Russian President, it is necessary to implement de-offshorization of the Russian economy, to avoid creating supercritical dependence of its reproduction circuits on the Anglo-Saxon legal and financial institutions and prevent systematic loss of the Russian financial system up to 60 billion dollars per year on the difference alone in yields from borrowed and allocated capital. Relevant proposals were repeatedly sent to the Ministry of Finance and the Bank of Russia (**Appendix 2**). Recent legislative initiatives in this regard are limited to issues of tax revenues transferred abroad, which does not eliminate the most important reasons for the export of capital, but also stimulates the transition of tax-payers to a foreign jurisdictions.

It is important to fulfill multiple instructions of the President of Russia on the establishment of a national financial market infrastructure, including the transition to the use of domestic rating agencies, auditing, legal and consulting companies. Slowing down their execution leads to significant losses for the national

financial system due to the systematic understatement of the credit ratings of Russian borrowers and misconduct of Western partners.

The bank of Russia is continuing to the policy of complete openness of the Russian financial market.

“THE BANK OF RUSSIA CONTINUES TO SERVE THE INTERESTS OF THE FOREIGN CAPITAL”.

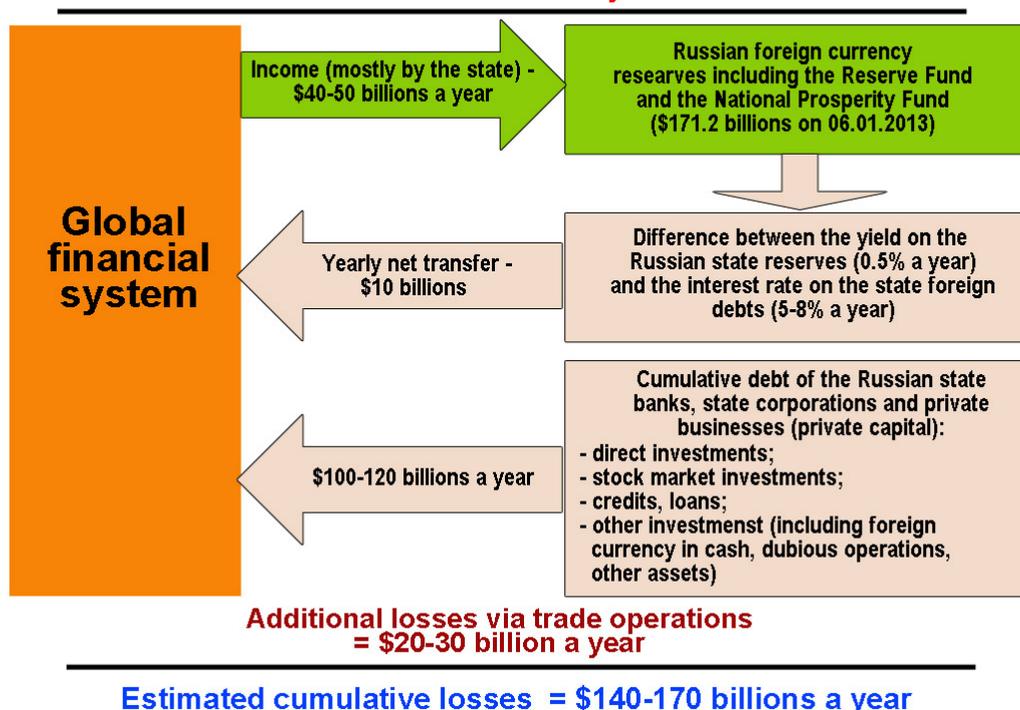
In order to pursue an independent policy, it is essential to manage your own economic development. An adversary who controls the reproductive performance of the national economy can manipulate the behavior of the business community, critically affecting the conditions of the vital functions of society. It is not possible to win a war with him under such circumstances, making it impossible to conduct an independent foreign policy. It follows from this **that the Russian leadership’s course of an independent foreign policy must be supported by the restoration of the national sovereignty and of control of the reproductive performance and development of its own economy.**

The most important condition for neutralization of Western sanctions is **transition from external to domestic sources of credit.** Russian experts and specialists have repeatedly suggested solutions to these problems but these have been categorically rejected by the Bank of Russia management, which continues its policy of focusing on serving the interests of foreign capital.

Thus far, despite the bitter experience of the outflow of foreign speculative capital in 1998, 2008 and 2014, the Bank of Russia continues its policy of full exposure of the Russian financial market, not taking necessary measures both to counteract the ex-port of capital and to create internal sources of credit. As a result of this policy, the money supply in the Russian economy is largely developed under foreign obligations and remains obviously insufficient to finance even a simple reproduction of fixed capital. The result is a profound external dependence of the Russian economy on the foreign market, its commodity specialization, the degradation of the investment sector and the decline of the manufacturing industry, the subordination of the financial systems to the interests of **foreign capital, in whose favor there is an annual transfer of \$120-150 billion** (Appendix 3). The Bank of Russia’s policy of high interest rates and a limited amount of credit against a background of freezing external sources of credit leads to a contraction of the money supply , a decline in production and investment as well as a chain of company bankruptcies with negative social consequences.

NON-EQUIVALENT INTERNATIONAL EXCHANGE ESTIMATED TRANSFER FROM RUSSIA TO THE INTERNATIONAL FINANCIAL SYSTEM

**Net capital loss of the Russian financial system via financial operations
= \$60 billions a year**



Appendix 3

Economic growth, which, according to the objective conditions of the production sector last year, should have been a 3-5 % of GDP, was halted by a step-by-step increase in the key rate of the Central Bank above the average level of profitability for the real sector of the economy. **This increase was based on standard IMF recommendations to reduce inflation by raising interest rates.**

In practice, this policy leads to the economy entering a stagflationary trap. Over the past two decades numerous studies have been conducted showing that raising interest rates and shrinking the money supply does not as a rule lead to lower inflation, but everywhere and always entails a decline in production and investment as well as a banking crisis and a rash of bankruptcies. In addition, in our conditions of demonetization and monopolization of the economy, these are accompanied not by a decrease but by a rise in inflation.

The second blunder of the Central Bank was the transition to a free floating ruble exchange rate. There is no scientific proof of this being needed to target inflation. On the contrary, in the conditions of excessive exposure of the Russian economy, and the dependence of its exports on oil prices and the high share of imports in the consumer market, a free rate mechanism is not compatible with the macroeconomic stability. **Price fluctuations in the world market, an attack by financial speculators or any other change in the external economic environment can overturn plans for achieving the inflation target.**

The Central Bank's transition to a free floating ruble exchange rate proved to be a

major blunder

The combination of these two mistakes led to the fact that while announcing the transition to inflation targeting, the Central Bank achieved the opposite results – inflation doubled, trust in the national currency and the regulator was undermined for a long time. With a potential of 6-8% annual GDP and investment growth, the Russian economy was artificially driven into a stagflationary trap. The monetary authorities target a 5% decrease with a 15% rate of inflation. Meanwhile an even worse scenario, fraught with serious consequences – a default of major Russian borrowers in the event of further capital flight and falling oil prices – is not impossible. In the first quarter of 2015 we can observe a sharp deterioration in the conditions of reproductive performance of the real sector of the Russian economy. The volume of issued credit decreased by almost half a trillion rubles and the share of overdue debt grew by 60%. Since January of this year the economy was generally unprofitable. The total profit of enterprises dropped by half compared to the pre-crisis year 2007.

Continuing against this background the Bank of Russia's policy of further contracting the monetary supply aggravates these processes and causes the disruption of all systems of reproduction and monetary circulation. The decrease in the level of monetization by 10% last year and by 15-20% this year will inevitably lead to a corresponding fall in investment and production, further worsening the financial situation and causing a mass bankruptcy of real sector enterprises.

Deterioration in the conditions of reproduction of the real sector is accompanied by maintenance of an artificial extreme profitability of currency speculation. If last year's currency speculation on the fall of the ruble yielded 30-50% per annum, involving $\frac{3}{4}$ of loans issued by the Bank of Russia in the refinancing of the banking system, now they yield 40% on the appreciation of the ruble. In creating foreign currency Repo transactions, **the Bank of Russia is *de facto* subsidizing currency speculators, who convert currency credits obtained at 2%, acquire federal bonds with a yield of 10% and then again buy currency at a reduced rate.** Through its policy the Bank of Russia stimulates currency speculation to the detriment of the real sector. After an appreciation of the ruble course by a third, the ruble almost completely lost the gain in price competitiveness received as a result of last year's devaluation, which creates the conditions for another wave of devaluation.

“De-offshorization” of the economy could have stopped the systematic outflow of capital

“RUSSIAN BORROWERS’ DEBT TO WESTERN CREDITORS IS 560 BILLON DOLLARS”

As this example shows, the contours of external management of the economic and social life, as they are not perceptible, which means that they are not detected and dismantled, are no less dangerous than other types of “containment” of Russia. Lack of clear realization and gradualness (mundanity) are features of the cognitive weapon by means of which Russia is herded down a path imposed from the outside into institutional and financial traps, **they create exorbitant threats to national security, the risk of damage by hurtling at full speed into a hybrid (economic, informational and other, right up to hot) war.** The infiltration of false targets and unusable methods into the awareness of leaders and the regulators' work methods allows them to be easily manipulated and to be used towards self destruction of their own economy and the subordination of the policy they pursue to foreign interests.

Another dogma of the IMF, the inadmissibility of currency restrictions, adds to the mistakes discussed above (which are, in fact, the framework of external control). Following this dogma spins into gigantic capital flight, encourages corruption, facilitates offshoring of the economy with its extreme vulnerability to external threats. **The untenability of this dogma, which is focused on serving the interests of foreign speculative and offshore capital, of corrupt officials and organized crime, is proven both by scientific research and practical experience.** Selective exchange controls and restrictions on cross-border movement of capital are practiced by the vast majority of countries, including the USA. On a system level, these are carried out by our partners in BRICS, who have been highly successful in attracting direct foreign investments. **The need for exchange controls to repel speculative attacks and to ensure macroeconomic stability is proven.**

If urgent measures are not taken to radically change monetary policy in the direction of establishing domestic sources of long-term credit and ensuring stability of the Russian currency and financial system (Appendix 4), then Western sanctions could halt the reproductive performance of the sectors of the Russian economy focussed on exports and also paralyse the activities of a number of systemically important banks and corporations. **In particular, urgent action is needed to replace the foreign loans of state corporations and banks with targeted loans, granted by the Bank of Russia on similar terms, either through one of the development institutions or as direct liabilities of the loan recipients.** However, like last year, the Bank of Russia ignores the negative impact of Western sanctions, exacerbating their effect with their own tough monetary policy. Meanwhile the monetary authorities of the US and the EU by continuing a policy of credit expansion easily manipulate the Russian stock market, critically affecting the reproductive performance of the Russian economy and creating competitive advantage for its corporations, including absorption of the most valuable assets. Sustainable development of the Russian economy, its remonetisation, modernisation and the organisation of long-term loans available for the real sector cannot be achieved without correction of this error.

Russian borrowers' total debt to Western creditors is \$560 billion with total currency reserves of \$360 billion. This creates the risk of default of the Russian financial system and the bankruptcy of many borrowers **in the case of simultaneous request to repay loans.** It could be resolved by a swift deoffshoring of the economy, which would stop the systematic outflow of capital and would secure the return of assets of half a trillion dollars to Russian jurisdiction. The threat of nationalisation of strategic corporations in the event of their owners' failure to return their assets to Russian jurisdiction could provide an important incentive to deoffshoring. As a reward for the return you could use the substitution of external credits by domestic ones, granted on the same terms according to the principles of project financing.

“MAINTAINING A DEPENDENT ECONOMY LEADS TO A DEFEAT IN THE HYBRID WAR”

The above listed measures do not nearly exhaust the requirements for the provision of economic security, the status of which is unsatisfactory (Appendix 5). Among the most pressing issues requiring immediate solutions, the following should be highlighted: the dismal state of the investment sector, especially machine-tool construction, instrumentation and the electronic industry; the degradation of scientific and technical potential due to constant underfunding of R&D and the virtual elimination of

industrial science and design institutions during the privatisation crusade; the disruption of basic science owing to an administrative clamp down as a result of the reform of the Russian Academy of Sciences; the growing technological gap in the key areas of growth in the new technological order (nanotechnology, bioengineering and information technology); over-reliance on foreign technology in critically important sectors (aviation, medicine, ICT equipment).

To overcome the extremely critical external dependence on foreign technology imports, we need large scale programs of import substitution, balancing material, financial and human resources. This cannot be done within the existing system of the economic regulation, in which planning methods, including the preparation of balance sheets, goal programming, scientific forecasting and system design are forfeited. It requires the deployment of a strategic planning system with the centralisation of key functions at the level of the President of Russia (Appendix 6).

„The greatest danger of economic sanctions is that they block Russia’s access to new technologies“

The greatest danger of economic sanctions is that they do not allow Russia access to new technologies. If this is not neutralised then in a few years our economy will be in a state of irreversible lag as regards mastering the processes of the new technological order, the output of which will ensure a long wave of growth, the upgrading of both industry and the army to a qualitatively new level of efficiency. In order to prevent this lag it is necessary, on the one hand, to greatly increase allocations for R&D in key areas of growth of the new technological order. But on the other hand, a radical increase of responsibility of the heads of development institutions for the effective use of allocated funds must be ensured. This requires the creation of a modern system for managing the scientific and technical development of the country, covering all stages of research and the scientific-production cycle and focused on the modernisation of the economy on the basis of the new technological order (Appendix 7).

The proposals described above for strengthening the economic security during the unfolding world hybrid war against Russia are focused mainly on improving the efficiency of state institutions. Along with this, favourable conditions for business initiatives and growth of private business activity must be supported. In addition to the proposed measures on the creation of cheap domestic sources of long-term loans, they must include a tax scheme to transfer the tax burden from production to consumption (Appendix 8), as well as measures to reduce costs for the services of infrastructure sectors, especially power, the ill-conceived reform of which led to a multiple increase in the tariffs in the interests of monopolistic intermediaries (Appendix 9).

Implementation of these measures and above all the elimination of the causes of stagflation and the creation of the conditions essential for economic growth (Appendix 10) **must be realised within the next year.** Otherwise the escalation of economic sanctions against Russia will lead to the destruction of reproductive profiles dependent on the foreign market, to a sharp drop in the income level of economic operators, and to a stoppage of many import-dependent industries, as well as to the bankruptcy of many companies dependent on external sources of loans. This will lead to a marked drop in people’s living standards (by the end of 2015 – to the level of 2003, offsetting the positive effect of 10 years of income growth) that will enable our enemies to proceed to the next phase of the chaotic war against Russia.

The stability of the domestic social and economic order cannot be guaranteed

without long-term goal-setting, without the overall systemic work of the state, companies and citizens on implementing the course on the sovereign development in a modern socially and technologically advanced understanding – on the role of Russia in the world.

Clear guidance should be given to all social groups and to the public opinion on the real international and internal situation of the country. Without informational and personal actions, the measures taken to counter the economic threats will not be not effective enough.

Russia has been placed in a position where she is struggling for her very independent existence, where the preservation of the dependent status of the economy on the western core of the world economic and financial system will bring about defeat in the hybrid war unleashed by the United States and the danger of losing the national sovereignty. Neutralisation of this threat is impossible without changing the country's model of "integration" into the world economy, the formation of sovereign sources and mechanisms of development, without building a broad anti-war coalition of countries based on the principles of equal partnership, mutual benefit and respect for national sovereignty.

In any case, it is necessary to give a systemic, long-term response to the imposed long-term credit and technological embargo, since the lack of response provokes the West to impose further embargo packages – trade and payment embargos including the freezing of foreign currency assets, the exclusion of Russian banks from international payment and information systems, the deterioration of Russian export terms.

We are talking about urgent and systemic (interrelated) measures to mobilise the state and society to counter threats to the very existence of Russia as a sovereign state. Moreover such measures must objectively be comprehensive: not just defence and diplomacy (which relate to the field of geopolitics) but also the restoration of control over domestic markets, including currency control and integration with partners, the creation of a layered system of protection of the economic interests of the Russian Federation, with monitoring and rapid response to the growing threat to national security in the economic field.

The Security Council should play the role of "civilian General Staff" creating a suitable strategic plan to counter the threats, the implementation of which involves all the national economic governing bodies.

Dissatisfaction with the current global system of absolute domination by the United States is common to all BRICS countries.

Appendix 1

HOW COULD BRICS COUNTRIES ACQUIRE THE INTERNATIONAL PAYMENT SYSTEM OF THEIR OWN

(this part of the document was prepared shortly before the BRICS summit in Ufa – **the editor's note**)

The dissatisfaction with the current global system with an undivided dominance of the U.S. is characteristic of all BRICS countries and can serve as a cementing base in forming their currency-financial union that's based on a gradual weakening of dependence on a dollar-centric system.

1. The formation of a joint international monetary system of BRICS nations

with consideration of plans to create a Russian national monetary system.

Currently, national monetary systems exist in all BRICS nations, and China's national monetary system China UnionPay has become international.

Reference:

China UnionPay (CUP) is established in 2002 as a national monetary system of China. Its shareholders are 200 plus Chinese financial institutions, the largest of which owns about 6% of stocks. UnionPay (UP) payments cards are accepted in almost 150 countries and are being issued in more than 30 countries. The number of ATMs accepting these has exceeded 1 million, and when it comes to the amount of cards (almost 3.5 billion, or 34% of all world production), CUP is a global leader (VISA receives nearly 25% of the world's card production, and Master Card -19%). CUP was introduced into Russia in 2008, after a joint agreement was signed with the Russian Eurofinance Mosnarbank to issue cards for Russian users.

A currently solving a problem in Russia of forming its own national monetary system has to fit in with the withstanding international monetary systems. It is possible to accomplish this in cooperation with Chinese, which will require a completion of a suitable framework agreement. With the appropriate steps of other BRICS countries, a successful advancement of a new international card monetary system is possible on a global market (with countries with an average population of 3 billion people) that is compatible with all the national monetary systems of BRICS nations. Russia can become a pioneer in releasing this type of a card during the formation of its national monetary system.

In case the theme of collective release of the BRICS payment card is included in the agenda on the day of the Summit in Ufa, in the final document it may be decreed that the central banks and financial ministers work out the question mutually with the BRICS Business Council and introduce the agreed upon practical suggestions for the next BRICS Summit.

2. The establishment of a joint multilateral investment guarantee agency (like MIGA in the World Bank group) will be focusing on the risk assessment of the BRICS nations' rating agencies in determining the amount of insurance premiums.

3. The development of international standards in determining rates and agency performance with the goal of reducing the distortion of system assessment of risks listed on the asset market in favor of this or than country, and also the provision of a unified international regulation of rating agencies. To determine at the level of BRICS nations the appropriate procedures in certifying and licensing rating agencies, whose rating must have international recognition. For those purposes the formed Bank of BRICS development can be used. A similar approach should also be applied in the practice of audit companies and legal advisors.

4. The development of its own global system of international accounts, that is an alternative to the current dominant system of interbank accounts SWIFT, will provide an impulse to expand the use of GLONASS and to develop fiber optic communications.

5. An agreement on the rules of national monetary authorities' actions, if it becomes necessary to protect their currency-financial systems from profiteering attacks and suppression due to their associated turbulence. Despite US and IMF's position, it is advisable to come to an agreement in admitting the need for creating national systems of protection from global risks of financial destabilization, including:

a) a reserve institute for moving currency operations funds; b) a taxing of profits from nonresident asset sales, at rates that depend on the length of asset's ownership; c) the Tobin tax (including, for foreign currency operations – a tax on exporting funds); d) providing countries the ability to impose restrictions on funds movement across borders on operations that pose a threat to national security.

6. A discussion of a joint initiative to create a system of international regulation of the global information infrastructure. With the consideration of a global importance of the Internet, monetary systems, systems of Interbank Settlements, operational computer systems and other communication tools ensuring peace and order, it makes sense to bring up questions about their administration from a national implication to a global one and accept (since this is also important in other global matters such as climate, seafaring and others) international rules and agreements, excluding discriminatory access to these elements of global infrastructure.

7. Creating an intelligent and prognostic network of science institutes of BRICS nations in order to develop a new architecture for a global currency-financial system, to work out joint development plans, to identify common measures and interests for their implementation, and recommendations in the area of integrative politics (in contrast to Washington's consensus, the new paradigm of the economic policy could be called the consensus of BRICS).

Appendix 2

HOW TO PREVENT THE LOSS OF 60 BILLION DOLLARS PER YEAR: STOPPING OFFSHORING OF FUNDS AND CAPITAL OUTFLOW

The 2008 financial crisis caused the Russian financial market to become highly vulnerable to the global financial market, the regulation of which happens in ways that are discriminatory to Russia, including the lowering of credit ratings and demanding an uneven openness of the domestic market and complying with financial constraints, imposing mechanisms that are unequal with an external economic exchange, in which Russia annually loses near 100 billion dollars. This includes the near 60 billion dollar that leaves the country as balances on foreign loan and investments income, and near 50 billion is an illegal outflow of capital. The accumulated volume of the last one reached half a trillion dollars, which amounts to 1 trillion dollars of exported capital, when you include foreign direct investments of Russian residents. The loss of budget revenues resulted in a outflow of capital in the amount of 839 billion rubles (1.3% of GDP). The total amount of loss of the budget system due to offshoring, capital outflow and other operations to avoid tax was valued at 5 trillion rubles in 2012.

A particular threat to national security in the context of growing global instability pose the large Russian non-government corporations with their offshore (up to 80%) assets and the current situation of registration of property rights where an integral part of their turnover operations takes place. They account for about 85% of accumulated FDI, into Russia, and out of Russia. This growing issue of unsecured global currencies creates favorable conditions for absorption of Russian assets that have been transported to the offshore jurisdiction by foreign capital, which poses a threat to country's economic sovereignty.

The increase in the above mentioned overly critical threats demands a realization in a short period of time that an implementation of the following set of measures is needed to ensure the economic security of Russia in the case of increasing global

instability.

1. On “de-offshorization” and ending the export of capital:

1.1 The legislation to introduce the concept of “national company”, satisfying the requirements: registration, tax residency and conducting most activities in Russia, belongs to Russian residents, not affiliated with foreign persons and jurisdictions. Only national companies and Russian citizen-residents will be allowed access to natural resources, government orders, government programs, gov. subsidies, credits, concessions, ownership and management of real estate, the construction of homes and other infrastructure, operations to save the population and also other types of activities strategically important for the government and sensitive for the society

1.2 To require shareowners of Russian strategic enterprises to register their rights of ownership of those with the Russian registrars, and coming out of the offshore shadow;

1.3 Sign an agreement on information of tax exchange with offshore companies, and denounce a current agreements regarding double taxation, including Cyprus and Luxemburg, which are transit offshore countries. Establish a single list of offshore places, including ones that are onshore;

1.4 Lawfully ban the transfer of assets in an offshore jurisdiction that does not have an agreement on tax information exchange based on a model of transparency, which was worked out by OECD;

1.5 In respect to offshore companies, implement requirements to comply with Russian laws on presenting information on company’s participants (shareholders, investors, and beneficiaries), and also revealing tax information for the purposes of taxing all Russian income received from Russian sources threatened by a 30% tax on all transactions with uncooperative offshore companies;

1.6 Establish a “black list” of foreign banks participating in dubious financial schemes with Russian companies and banks, grouping such operations as questionable and suspicious;

1.7 Implement a permissive order of offshore operations for Russian companies with state participation;

1.8 Develop a presidential program of de-offshoring of Russian economy, taking into account the message of the president to the Federal Assembly in 2012 and 2013 and the Russian president’s Order from May 7th, 2012, No 596;

1.9 Take measures in reducing tax losses that result from illegal export of capital: 1) VAT exporter refund only after revenues are received; 2) Collection of advance payments from VATS by authorized banks when nonresident-providers list their import advances; 3) Implementing penalties on overdue liabilities accounts of import contracts, failure to export earnings, as well as other kinds of illegal export of capital in the amount of its value;

1.10 Stop the inclusion of non-operating expenses (reducing taxable income) of non-residents’ bad debts to Russian establishments. Filing lawsuits against administrators due to damages caused to the company and the state because of such debts;

1.11 Tighten administrative and criminal responsibility of illegal capital exporting from the territory of member states of the Customs Union, including in the form of scam operations of foreign trade and credit;

1.12 Begin active enforcement of Article 174 of the Criminal Code “Legalization

(laundering) of money or other property acquired by persons by criminal means” for profit, obtained by way of tax evasion and illegal funds export, and also including into these tax crimes the crime of tax evasion in the presence of a taxable base;

1.13 Impose a tax on speculative financial operations (the planned by EU Tobin tax) and net capital outflow;

1.14 Improve information-statistic base of offshore economics counteraction, flight of capital and tax avoidance, including obtaining data on the balance of payments and the country’s international investment position from all offshores.

2. To prevent further losses of the Russian financial system due to unequal economic exchange and the protection of the financial market from threats of destabilization:

2.1 To curb the illegal export of capital that is accompanied by tax evasion, to create a single information system of currency and tax control, including an electronic declarations of passport transactions transferring them to a data base of all currency and tax control, implementation of rules on business leader liability allowing the accumulation of overdue accounts on export-import operations;

2.2 Sort out the financial market, including: strengthen the supervision of financial conditions of professional participants by pricing and leveling of market risks; create a national rating-clearance center; adjust the activities of financial conglomerates and their aggregated risks;

2.3 Stop the discrimination of domestic borrowers and issuers before foreign ones (in case of showing of liquidity, capital adequacy and others, CBR is not to consider non-resident and foreign state commitments more reliable and liquid, than similar commitments of residents and the Russian state). Implement domestic standards for rating agencies and decline using the ratings of foreign agencies in government regulation;

2.4 Impose restrictions on the amount of foreign off-balance assets and liabilities before non-residents on derivatives of Russian organizations, limit the investment of Russian companies into foreign securities, including US government bonds and bonds of other foreign countries that have a high budget deficit and national debt;

2.5 Impose an advance notice of transactions on capital export, raise reserve requirements for those Russian banks that deal with foreign currency transactions, set limits on the increase of currency position of commercial banks;

2.6 Accelerate the establishment of a central depository in which to organize ownership of account for all shares of Russian companies;

2.7 To regulate the security of initial placement of Russian companies on the Russian trading floor.

3. With the goal of increasing the potential and safety of the Russian monetary system and strengthening its position in the global economy, assign the ruble a function of an international reserve currency and the formation of a Moscow financial center:

3.1 To encourage the transition of mutual settlements of CIS to rubles, accounts with EU – rubles and euro, with China – rubles and yuan. Recommend economic subjects

to pay in rubles for export and import goods and services. At the same time, provide for the allocation of related ruble creditors to import nations of Russian products in order to sustain turnover of goods, using in those cases currency-credit SWAPs;

3.2 Radically resolve the accounts service system in national currency between the countries of CIS' enterprises by means of CIS Interstate Bank, with other states or countries – by using the Russia controlled international financial organizations (IBEC, IIB, EDB, etc.);

3.3 Create a payment system in the national currencies of state members of EurAsEC. Develop and implement an independent system of international payments that can eliminate the critical dependence of those properties of the SWIFT system controlled by the U.S. Include in it the Bank of Russia and member states of the Customs Union and CIS, and also, China, Iran, India, Syria, Venezuela and other traditional partners;

3.4 Recommend that Bank of Russia refinance of commercial banks under the ruble loans of export-import operations, and also consider the basic direction of the currency-financial political system's demand for the ruble in connection to widening the turnover of foreign trade in rubles and formation of foreign ruble reserves of foreign states and banks;

3.5 Organize an exchange trade of oil, petroleum, wood, fertilizers, metals and other major commodities in rubles, in order to ensure market pricing and avoid the use of transfer pricing and in order to avoid tax evasion by obliging producers of commodities sell no less than half of their product through registration with the Russian state, including exported product;

3.6 Limit the borrowing of state-controlled corporations abroad, gradually replace foreign currency loans of state-controlled companies with ruble loans from state commercial banks at the expense of complete refinancing from Central Bank with an appropriate percentage;

3.7 Limit for citizens a deposit guarantee as part of the deposit insurance system to ruble deposits only, meanwhile increasing reserve requirements on deposits made in foreign currency;

3.8 Create a reinsurance establishment on the basis of Russian agency export insurance with the use of the guarantee of Vnesheconombank, instead of direct investments for the establishment of company's capital, providing it with a dominant position on the market of reinsurance risks of Russian residents;

3.9 Create a Moscow club of creditors and investors for the coordination of a credit-investment policies of Russian banks and funds abroad, work on returns of bad loans, develop a common position in respect to defaulted borrower-countries.

Appendix 4

HOW TO STABILIZE THE BANKS AND UNTIE OURSELVES FROM THE DOLLAR AND EURO

As the global experience shows, to take advantage of the opportunities for growth based on the new technological achievements it is necessary to provide powerful initial impulse, i.e. the renewal of the basic funds. However, the level of investments and innovations required for that is about two fold higher than the resources available in the Russian financial and investment system.

The policy of the Central Bank (CB) to limit the availability of financial resources and to tie the ruble emission to the growth of the foreign currency reserves has been one of the major roadblocks in the development of the Russian economy during the entire post-Soviet period. The consequences of this policy are: insufficient mechanisms of refinancing the economic activity, insufficient amount of “long-term” money and of internal sources of commercial credit, subordination of the economic growth to the external demands, which has been the main reason for its reliance on the export of natural resources.

The Bank of Russia in the project “Main directions of the unified state monetary and credit policy for 2015 and 2016-2017 years” published on September 12 of this year declared the goal of reducing inflation to 4% in two years, but renounced any responsibility for other measures of the financial market: “The monetary and credit policy does not include objectives to control other economic parameters besides inflation”. Such “antiinflation” mania of the CB already costed Russia “lost decade” of 1990s. Under current circumstances, refusal to target conditions for the economic growth (by planning the amount of money in the economy, which in Russia is 2-3-fold lower than the norm) and the exchange rate will result in the economic stagnation.

According to the Report on the international competitiveness in 2013-2014, Russia is place at 124 position (out of 148 countries) in the world based on the level of confidence of the business community in the stability of the national financial system. This confidence was reduced even more as a result of revocation of licenses of 81 credit organizations from the beginning of 2013. Half a million people were affected that kept 200 billion rubles in these banks, a quarter of which was lost. Among them, 4 thousand individual entrepreneurs lost parts of their money. Organizations suffered irrecoverable losses of many billions of rubles, which stimulated another bout of the capital drain. An ensuing panic among the population and businessmen led to withdrawals of deposits and dumping of the ruble, which threatened the stability of the financial system of the country.

To ensure its growth and development, the Russian economy requires a significantly larger volume of circulating money, wider availability of commercial credit and the overall larger bank system. Extreme measures to stabilize the bank system are now needed that should include an increase in the amount of available money and activization of the role of the CB as the chief creditor. As opposed to the economy of the countries whose currencies serve as the reserve currencies, the main problems of the Russian economy do not result from the excess of funds and financial bubbles linked to that, but from the chronically insufficient amount of money in the economy, which operated for a long time in the emergency mode due to the acute lack of credits and investments.

The demand for funds from the real sector of the economy as well as from the state institutions for development should determine the necessary volume of money emission, with the refinancing rate serving as the regulatory factor, in order to raise the level of investment and innovations. Targeting inflation should not be accomplished at the expense of other macroeconomic goals, such as stable ruble exchange rate, investment growth, growth of GDP and employment. These goals should be ranked based on priorities and thought of as limits achieved by the flexible use of all instruments of the monetary-credit and currency systems that the state has at its disposal. Under current circumstances, the production growth and increased investments should be the first priorities, while keeping inflation and the ruble exchange rate within reasonable limits. A complex system of measures in the pricing policy, currency and bank regulations, and promotion of competition would be

needed to keep inflation within the set range.

The theory of the economic development and experience of the developed countries teach us that a complex approach is required to optimize the money availability depending on the goals of the economic development and with the reliance on the internal sources of the money emission. The most important resource is the refinancing of the credit institutions ultimately linked to the loans in the real economy and investments into the priority areas of development. This could be done using such well known and extensively tested in the practice of the developed countries tools as indirect (refinancing using the state obligations or a solvent business as a collateral) and direct (co-financing of the state programs, loans guaranteed by the state, financing of the institutes of development) investment programs. The possibility of channeling the money for the state needs should also not be excluded, as it is done in the USA, Japan, and EU via purchase of the state securities by the central banks.

In order to create the modern national financial system adequate for the task of raising the investment activity to modernize and develop the Russian economy, the following measures are proposed:

1. Alinement of the monetary system with the aim of development and enlargement of its capacity to credit the real economy.
 - 1.1. Make a law stating as one of the objectives of the state monetary policy and of the functions of the Bank of Russia the creation of conditions for the economic growth, increased investments and employment.
 - 1.2. Switch to the regulation of the monetary volume via the refinancing rate, with the money emission being made primarily to refinance the commercial banks using commercial bonds, government or bonds of the development institutes. The refinancing rate should not be higher than the average profit margin on investments minus the bank profit (2-3%), and the terms of the credit should correspond to the typical duration of the production cycle in the manufacturing industry (up to 7 years). All commercial banks should have access to the refinancing system on equal terms, and the development banks should have special terms corresponding to the character and objectives of their activity (taking into account, among other things, expected return of investments into infrastructure – up to 20-30 years at 1-2%).
 - 1.3. Radically expand the lombard list of the CB, include into it of bills and bonds of profitable enterprises in the priority areas, of the institutes of development, securities of the Federal Government, Federation subjects and municipalities.
 - 1.4. To avoid stimulating the export of the capital and currency speculations, foreign securities and foreign assets of the Russian banks should no longer be accepted as collaterals for lombard and other credits of the CB.
 - 1.5. To increase significantly the resources of the institutes of development via the financing by the CB of the investment projects approved by the government according to the set priority areas of development.
 - 1.6. To ensure stable credit conditions, commercial bank should be prohibited from unilaterally altering the credit terms.
 - 1.7. When determining the value of deposits, rely on the average weighted market prices over a reasonable period of time and limit the use of margin requirements. The Bank of Russian and banks with the government participation should refrain from margin requirements for their customers.

2. Creation of the conditions necessary to increase the capacity of the Russian financial system.

2.1. Gradually switch to the use of the ruble in the international trade conducted by the state corporations; substitute their foreign currency loans by the ruble credits from the state or commercial banks funded by the CB.

2.1. To ensure the stable ruble exchange rate, expand the instruments to regulate the supply and demand of the foreign currency including the possibility to levy export duties in the foreign currency. The currency should be accumulated on the foreign currency government accounts when the supply exceeds the demand. In case when the supply is insufficient, the Bank of Russia should be able to require the exporters to sell a part or all of their currency revenues on the internal market.

2.3. Quote currencies using the ruble as the base, not the U.S. dollar or euro as it is done today. Fix limits of the ruble exchange rate fluctuations known in advance that are maintained for a long period of time. If there is a threat that the rate might exceed the limits, a new rate with the new limits should be established at once in order to avoid massive capital flight and speculations against the ruble as well as instantly stabilize its exchange rate.

2.4. To prevent the flow of the money issued to refinance the industrial activity and investments into the financial and currency market, it is necessary to ensure that such credits should be used only for the purpose they are given using the appropriate measures of the bank oversight. Restrictions should be implemented for the commercial banks using the CB refinancing on the change of their currency position. To restrict financial speculations, broaden the system of the regulation of the financial leverage that should also apply to non-bank companies.

2.5. On the basis of the Interstate Bank of CIS, create the payment system of EAEC with its own system of the information exchange among banks, evaluation of the credit risks, currency quotes.

3. Stabilization of the banking system.

The following measures are necessary to eliminate the threat of destabilizing the banking system due to the string of bankruptcies of commercial banks upon the loss of their licenses.

3.1. Offer the commercial banks an immediate opportunity to receive a stabilization credit to be used to satisfy the demands of the panic-stricken depositors (up to 25% of the total volume of deposits).

3.2. Resume unsecured credit auctions conducted by the Bank of Russia for the banks lacking liquidity.

3.3. Take urgent measures to support current liquidity of the banks: reduce the payment to the Obligatory Reserve Fund; increase the possibilities for the banks to receive credit secured by the "non-market" assets; increase variety of such assets. If necessary, employ reducing coefficients when calculating the value of assets evaluated with the view of the risks for the Russian enterprises ranked by the Russian ranking agencies. Ensure open and consistent procedures of the financial help.

3.4. Develop the method of determination and compose a list of strategic enterprises that should receive credits on favorable terms.

3.5. Attempts of some commercial banks to create bank panic in order to steal clients should be stopped, and the perpetrators should face criminal prosecution.

3.6. Postpone the implementation of Russia of the Basel III standards for 2-3 years – until credit volume in the real economy is restored to the pre-crisis level of the first half of 2008. Correct the Basel III standards to remove artificial restrictions on the investment activity. Within the framework of Basel III, calculate the credit risks based on the internal ratings of banks instead of the rating of the international agencies that have demonstrated their lack of professionalism and understanding during the crisis of 2007-2008.

While formulating the monetary policy, the Bank of Russia should evaluate the macroeconomic consequences of the ruble emission on different lines: for the purpose of refinancing of the commercial banks on bonds of manufacturing enterprises, for the government and the institutes of development bonds, for the replacement of the foreign currency loans, for the purchase of the foreign currency for the currency reserve, for the external demand for the ruble to finance the foreign trade, capital operations and ruble reserves of the foreign countries and banks. The Russian Academy of Sciences, in cooperation with the research subdivisions of the Bank of Russia, could have taken on the methodological side of this work including the economico-mathematical modeling of the money circulation.

Appendix 5

HOW TO SAFEGUARD THE SOCIO-ECONOMIC SECURITY OF RUSSIA

The measures of the socio-economical conditions in Russia, as compared to the critical values determined by scientific research, indicate that the level of the socio-economical security is unsatisfactory (if a value of a measure exceeds or falls below the *critical value*, it means that there is a threat to the normal functioning of the economy and the life of the society resulted from the disruption of the normal conditions in the process characterised by that measure).

Below there are actual measures characterising the reproduction and the developmental potential of the socio-economical system in Russia in comparison with the critical values. The comparisons marked in red indicate areas that require managerial interference from the government structures.

Table 1. Measures characterizing the renewal of human resources of Russia

| Measure | Critical value | Actual value in 2013 | Actual value with the critical value |
|--|----------------|----------------------|--------------------------------------|
| Birth rate (for 1000 people) | 22 | 13.2 | 1.6-fold |
| Mortality rate (for 1000 people) | 12.5 | 13 | 1.04-fold |
| Natural population growth (for 1000 people) | 12.5 | 0.2 | 62-fold |
| Life expectancy (years) | 78 | 70.7 | 1.1-fold |
| Gap between the income of the upper 10% and the lower 10% (fold) | 8 | 16.2 | 2-fold |
| Gini coefficient | 0.3 | 0.4 | 1.3-fold |

| | | | |
|---|------|-------|-----------|
| Percent of the population with the income below the poverty level (%) | 7 | 11 | 1.6-fold |
| Unemployment (%) | 5 | 5.5 | 1.1-fold |
| Crime statistics (crimes per 100 thousand people) | 1000 | 1539 | 1.5-fold |
| Ratio of the average income per capita to the living wage (fold) | 3.5 | 3.4 | Within th |
| Fertility rate (average number of children born to a women over her lifetime) | 2.15 | 1.6 | 1.3-fold |
| Aging coefficient (percent of people 65 years of age and over in the population, %) | 7 | 12.9 | Within th |
| Index of the human potential development | 0.8 | 0.778 | Within th |
| Use of alcohol (litters of absolute alcohol per capita) | 8 | 13.5 | 1.7-fold |
| Percent of the population using narcotics (%) | 7 | 6 | Within th |
| Number of suicides (per 100 thousands of people) | 20 | 19.6 | Within th |

Table 2. Measures characterizing the renewal of the economic potential of Russia

| Measure | Critical value | Actual value in 2013 | Actual with th |
|--|----------------|----------------------|----------------|
| Volume of investments in the fixed assets (% of GDP) | 25 | 19.8 | 1.25-fc |
| Depreciation of fixed assets (%) | 40 | 78 | 1.95-fc |
| Share of mechanical engineering in the industry (%) | 25 | 14 | 1.79-fc |
| Share of manufacturing in the industry (%) | 70 | 64.8 | 1.08-fc |
| Share of the insolvent enterprises (%of the total number of active enterprises) | 25 | 927.3 | 1.1-folc |
| Profitability of the industry (%) | 15 | 9.5 | 1.09-fc |
| Profitability of investments (%) | 12 | 6.8 | 1.8-folc |
| Inflation rate (%) | 15 | 6.5 | Within |
| Social inflation rate (%) | 15 | Around 15 | Within |
| Share of the domestic producers in the internal market of meat and meat products (%) | 70 | 61.3 | 1.14-fc |
| Share of the material production in GDP | 66 | 39 | 1.7-folc |
| Monetization by the end of the year (M2/GDP %) | 75 | 41 | 1.8-folc |

Table 3. Measures characterizing the foreign dependence of the Russian economy

| Measure | Critical value | Actual value in 2013 |
|---------|----------------|----------------------|
|---------|----------------|----------------------|

| | | |
|---|-------|---------|
| Coefficient of sufficiency of the international reserves (% to the 3 month-worth of import of goods and services) | 9 | 40 |
| Nonal external debt by the end of the year (% of GDP) | 25 | 34.8 |
| Share of the imported machinery in the internal market (%) | 30 | 65.6 |
| Share of the imported food in GDP (%) | 25-30 | 32 |
| Share of export in the material production (%) | 25 | 94 |
| Share of foreign capital in investments (%) | 25 | 36 |
| Total foreign debt of banks and other sectors (% of GDP) | 25 | 31 |
| Proportion of overdue and unpaid foreign loans (% of total value of loans) | 25 | 50 |
| Proportion of foreign owners of the freely traded shares (%) | 30 | 60 |
| Share of the foreign loan (% of M2) | 20 | 27 |
| Trade deficit: based on the balance of payments (%) | 15 | surplus |
| Share of GDP in the world economy (%) | 7.5 | 2.7 |
| GDP per capita (%) | 100 | 107 |
| Ratio of the total amount of foreign currency to the total amount of rubles (%) | 10 | 50 |
| Ration of the total amount of foreign currency in cash to rubles in cash (%) | 25 | 100 |
| Proportion of funds spent to service the foreign debt (% of total expences of the federal budget) | 20 | 1.9 |
| Share of the international trade (% of GDP) | 30 | 107 |

Table 4. Estimates of the competitiveness of the Russian economy

| Measure | Critical value | Actual value in 2013 r. | Acco cri |
|---|-----------------------|--------------------------------|-----------------|
| The share of innovative enterprises (%) | 40 | 10,1 | 4 |
| The share of manufactures in exports (%) | 50 | 23 | >2 |
| Shipped innovative products (% to the total industrial output) | 15-20 | 8,9 | >2 |
| The share of new products in the total volume of engineering products (%) | 7 | 2,6 | 3, |
| Expenditure on scientific research (% of GDP) | 3 | 1,5 | 2 t |
| Specific indicators of energy consumption (tonnes of crude oil per thousand. Dollars. GDP): | | | |
| The overall cost of energy | 0,15 | 1,65 | 1' |
| Power consumption | 0,02 | 0,17 | 8. |
| Oil and gas consumption | 0,1 | 1,16 | 11 |

| | | | |
|---|-----|-------|-----|
| The loss of minerals in the process of production (% of total volume) | 3-8 | 10-65 | 3.3 |
| The average annual growth rate of labor productivity (%) | 6 | 3 | 2 |
| The share of Russia's high-tech products on the world market (%) | 3 | 0,3 | 10 |
| The share of intellectual property in business value (%) | 25 | 10 | 2. |
| The share of government spending on the environment in the GDP (%) | 5 | 0,8 | 6. |

Appendix 6

HOW TO RETURN FROM WILD MARKET TO “PLANNED ECONOMY”

Implementation of the policy of import substitution must be carried out within the overall strategy of advancing economic development and begin with the deployment of strategic planning designed to ensure systematic use of existing state resources for modernization and industrialization of a new economy based on a new technological order.

Methodology of strategic planning provides for a system of long-, medium- and short-term forecasts and the choice of priorities of economic development, tools and mechanisms for their implementation, including a system of long-term concepts, medium-term plans and programs, organization of relevant activities, as well as methods of control and responsibility for the achievement of goals.

The recently adopted law “On state strategic planning” provides for the establishment of just some elements of this system, mainly – procedures for the preparation of the relevant documents within the executive branch. Interactive procedures for developing long-term forecasts and concepts of medium-term programs must be implemented, and indicative plans of achievement of the development goals approved. It is advisable to legislatively establish monitoring procedures and mechanisms of responsibility of all the participants of strategic planning on the basis of public-private partnership for the implementation of the agreed measures and targets. Particularly important in the integration of state strategic planning of development institutions, major corporations, companies and state-owned banks, large private financial-industrial groups. Their combined production, financial and managerial capacity must be integrated not only in the choice of strategy, but also in its implementation.

Targets should be set for public institutions of development, corporations and agencies on their activities for the establishment of competitive production in the world market of the new technological order, and implement the actual mechanisms of responsibility for their timely implementation.

The system of forecasting and planning of socio-economic development of the country and its regions should be based on the national legal framework and shall contain a single organizational and legal mechanism of interaction of public authorities at federal and regional levels, local governments, development institutions, research organizations and corporations. This mechanism should ensure the integration of interests and resource capacities of all stakeholders in the development and implementation of federal and regional, municipal, departmental

and corporate strategic plans and programs. Subjects of the Russian Federation and municipalities should be able to participate in the development, financing and implementation of federal targeted programs carried out on their territory.

Strategic planning should focus on faster growth of new technological order. The desirability of developing a 5-year program of economic modernization based on it provides for measures on accelerated development of its component production and technological units, creation of a favorable macroeconomic environment for this and the formation of relevant institutions and the lines of control.

Strategic planning should take into account the transition of modern society to a knowledge economy, the main factor in the growth of which is the scientific and technical progress. The output of the economy on the path of rapid and sustainable growth requires its translation into innovative way of development, which requires a radical increase of the role of science in the economy and in public administration. Given the importance of strategic planning and the fact that the Government of the Russian Federation as a central executive body is busy with current tasks and can not formulate strategic objectives and to monitor their achievement, there is a proposition – to create The State Committee for Strategic Planning under President of the Russian Federation (SKSP RF), giving it the following powers:

- 1). Determination of internal and external conditions, trends, constraints, distortions, imbalances and opportunities, including financial, social and economic development of the Russian Federation;
- 2). Identification of ways and means of implementing the priorities of social and economic policy goals and objectives of social and economic development of the Russian Federation, determined by the President of the Russian Federation;
- 3). Coordination of ways and means of subjects of strategic planning policies to achieve the goals and objectives of social and economic of Russian Federation, to strengthen the national security of the Russian Federation to ensure the most efficient use of available resources;
- 4) Formation, based on the approved by the President of the Russian Federation documents of strategic planning, of set of measures to ensure the achievement of the goals and objectives of social and economic development of the Russian Federation and the strengthening of the national security of the Russian Federation;
- 5) Coordination of actions of participants of the strategic planning and actions prescribed by documents of strategic planning in the field of socio-economic development and national security of the Russian Federation, including the direction of fiscal policy, in terms of their implementation, the expected results and the parameters of resource provision;
- 7) Organization of monitoring and control of the implementation of strategic planning documents; providing scientific and technical, information, resources and staffing for strategic planning.

The Structure of SKSP RF of Russian Federation:

The SKSP is lead by the Chairman at the level of Deputy Prime Minister of Russian Federation and approved by the President of the Russian Federation.

Leadership of SKSP of RF – is the body carrying out peer leadership, chaired by the Chairman. The structure of the College consists of the heads of ministries and

departments of social and economic block of the Government, the President of the Bank of Russia, President of Russian Academy of Sciences, heads of development institutions.

Appendix 7

HOW TO STOP “BRAIN DRAIN” AND RETURN SCIENCE TO STATE SPONSORSHIP

Critical situation has emerged lately in Russian Federation with scientific research and technological modernization of production with the shift to new technologies. The root causes of this situation are chronically insufficient science funding, breakdown in cooperation between science and industry, ageing of the pool of scientists, and “brain drain”. To a large extent this was the result of privatization, which destroyed industry-specific branches of applied science. Current reforms of the Russian Academy of Sciences (RAS) does not address these key problems of scientific and technological development (STD), does not include improvement of organizational forms of applied research, does not aim at the development and use of highly effective science-intensive technologies.

To drive STD and stimulate innovation we need to create a federal entity, which will formulate state policy in science, technology, and innovation and coordinate the activity of different Ministries in its implementation – State Committee for Scientific and Technological Development of Russian Federation (SCSTD RF) reporting directly to the President.

Key tasks of SCSTD RF should be:

- organize the selection of most promising directions of state policy promoting scientific research and technological innovation in the country;
- coordinate the activity of Russian Academy of Sciences, federal and regional legislative and executive powers, investment entities and funds, related to the development and implementation of state policy in scientific research and technological innovation in Russian Federation;
- organizational, legal, and economic regulation of the development of promising directions in science, technology development and innovation, as well as intellectual property legislation;
- the analysis of the subject matter, scientific level, and innovational potential of research and development, as well as suggestions regarding increase in their economic efficiency;
- organizational, legal, and economic regulation of the development of the scientific and technological potential, modernization of production, utilization of the results of scientific research and development in different areas of economy;
- help in development of the system of education of highly qualified engineers and scientists for science-intensive industries;
- development and implementation of state policy in international scientific and technical cooperation;
- development of the infrastructure for national system of innovation in Russia, creation of mechanisms for the support of innovation, promoting the

development of production based on high technology;

- help in acquisition and use in the economy of highly effective foreign technologies;
- stimulation of economic activity aiming at commercialization and the use in industry of scientific and technological achievements;
- control of implementation of the laws of Russian Federation regarding science, technology, and innovation, protection of intellectual property rights, as well as control of the use of state funds earmarked to support science, technology, and innovation;
- control over fulfillment of scientific and technological development programs (at state, industry, and regional levels), scientific and technological support of state economic and social programs, innovational projects, international scientific and technological projects, as well as the use in production of the results of scientific, technical, and technological development;
- preparation of legislative initiatives to stimulate innovation in production, with exclusion of expenditure on research and development and technical modernization from taxation;
- legal support for the acquisition and protection of the status of scientist and engineer-researcher, laboratory, scientific, designing, and engineering organizations, with special rights and privileges that stimulate scientific and technological activity. Scientific community must be self-governed, with leading roles of scientific councils in research and educational organizations;
- promotion of scientific and technological achievements, informing the society about scientific and technical development in the Russian Federation, the activities of SCSTD RF, RAS, federal, regional, and local executive branch, support for the development of scientific and technological potential;
- creating database of high-tech and innovational entities, evaluation of their competitiveness on the national and international markets, creating favorable conditions for the development of science-intensive competitive production;
- organization of state scientific and technological expertise;
- coordination of the activities of organizations reporting to it.

Proposed structure of SCSTD RF:

SCSTD head should be a Chair, who should be vice-prime minister, approved by the President.

The council of SCSTD – the body acting as a collective leader of SCSTD, headed by the Chair. The leaders of Ministries and government organizations responsible for social and economic issues, the President of Russian Academy of Sciences, Director of Russian Agency of scientific institutions, the chair of Rospatent, and directors of research institutes studying development should be counsel members.

Two advisory bodies should be created to assist the council:

Public council (representative of scientists and business community)

Scientific and technical council (state experts)

SCSTD has authority over the following entities:

National scientific centers, science-cities, federal centers of research and high technology.

Russian fund of scientific research, Russian fund of science and technology, State fund for the support of small-cap innovational industry.

Centers that are used collectively, federal laboratories.

Federal agency of scientific organizations.

Technology parks, State public scientific and technical library, Museum of Technology, Center for Research and Science Expertise, Center for research and statistics in science, Supreme Attestation Commission, Rospatent.

SCSTD RF acts collectively with the Russian Academy of Sciences to formulate and implement fundamental research programs, codification of knowledge in technology, implementation of innovational projects associated with the use of research results and development of material and technical foundation of the Russian Academy of Sciences.

Appendix 8

HOW TO FREE BUSINESS FROM EXCESSIVE TAXATION

In December 2011 Russian President stated that a bold tax maneuver is necessary: “carefully analyze the situation in some industry, make calculations to eliminate existing inequality in taxation between different sectors of the economy”.

Indeed, with the same percent of GDP collected as tax in Russia and developed countries, taxes for legal entities in Russia are 1.8 times greater. Since labor costs are greater in manufacturing industries, taxes on profits are 1.5-2-times greater than in raw materials industries.

Reduction in tax on businesses can be compensated by progressive taxation of individuals, which is standard in most developed countries. The bulk of tax revenues there is collected from individuals, primarily wealthy individuals. In contrast, in Russia 70% of taxes are collected from legal entities, which hampers business and investment. At the same time most taxes on individuals are not collected from their earnings, but income from property. In Russia, “unearned” income of the wealthiest 20% of the population equals 65% of their total income, whereas in Moscow the number is 90%.

High taxation of high incomes does not affect consumer demand, which would allow to reduce taxation of investment, which originate mostly from amortization, profits of legal entities, and credit. Giving some of their personal income to the state, business people would gain by increasing investment and their net worth.

Introduction of progressive taxation of individuals, with maximum 40%, would increase state revenues by 5 trillion roubles (taxation of 130 Russian dollar billioners alone at the level of 40% would increase revenues by 1.1 trillion roubles). This would allow exempting some of enterprise profits, used as investments, from taxation, by increasing amortization to the level of developed countries (60-70% in investments).

At the same time legal control of the use of amortization monies should be implemented. About half of amortization in 2012 was used not on business development, but on financial transactions: acquisition of shares, lending, etc. As the

result, investments were reduced by 13.7%. At the same time the state did not receive 400 billion roubles in revenues.

Calculation of amortization not by the valuation of fixed assets, but by the price of restoration, would increase investments into fixed assets by 5 trillion roubles, which would be offset for the state budget by progressive income tax. In this case the investments in 2012 would be 17.8, rather than 12.6 trillion roubles, and their fraction in GDP would increase from 20.1 to 28.7%, and the rate of growth would increase to 5-6%. If in addition to that the time of fixed asset renewal would be shortened, which was done last time in 202, the impact on increase in investment and GDP growth would be even greater.

An additional increase in production can be achieved by taxation of added value, which now favors the production of raw materials and reduces the competitiveness of the economy inside Customs Union relative to Kazakhstan.

To simplify tax system, reduce expense on its implementation, reduce tax evasion, and stimulate business and innovation, it is advisable to replace tax on added value by sales tax, charged only upon sale to the final consumer. Reduction in revenues due to elimination of added value tax would be offset by sales tax of 14%. Elimination of value added tax would save 1 trillion roubles on state purchases, will free up for productive activity about a million accountants, and will free up industrial funds for production increases and investments.

Appendix 9

HOW TO LEARN TO SAVE ON ELECTRICITY

To create conditions for economic development, government decision to freeze the prices charged by natural monopolies should be further improved by the following measures to reduce unnecessary costs in electric generation, which can save almost 1 trillion roubles and reduce the cost of electricity by 20%.

1. Organize electric energy market to fit Russian economic realities, including a switch to "Single buyer" model (savings – up to 100 billion roubles).
2. Finance new power plants by projects. Financing of investments through energy price should be only to preserve the capacity of existing plants (savings – 80 billion roubles).
3. Optimize the combination of heating and electricity generation (separate generation of profits makes the majority of most central heating systems unprofitable, which makes the development of this sector unattractive, even though it has a potential of 37 million tons of standard fuel per year) (savings – 50 billion roubles).
4. Delegation to federation subjects (regional governments) responsibility for planning and development of electric networks below 35 kV (savings – 10 billion roubles).
5. Delegation to the company "Rosseti" (Russian grid) and territorial grid managers of responsibility for the development of electric grid in the regions, with creation of one office for issuing technical conditions and permits to connect to the national grid (savings – 20 billion roubles).
6. Make the demands to electric grid business tougher to stimulate its consolidation in the regions. Stop subsidizing of inefficient grid business

(savings – 10 billion rubles).

7. Introduce norms for unit price of generation power and reduce projected profits for generating units (savings – 30 billion rubles).
8. Reduction of tariffs for new industrial plans by 15% in regions with excess energy capacity in the East and in Siberia (savings – 10 billion rubles).
9. Centralization of control over electric generation in Energy Ministry, joining of commercial and technological operators, as well as regulation of the markets for heat, which is produced along with electricity generation (savings – 30 billion rubles).
10. Switch in all federation subjects (region) to the development of mutually dependent grids and common programs of infrastructure development in fuel and energy industries and in residential housing (savings – 150 billion rubles).
11. Introduce financial guarantees from those who are allowed to connect energy-using machinery to the grid to increase the use of new energy-producing plants (energy use of new consumers does not exceed 20-25%, which means unused investments of more than 1 trillion rubles)(savings – 50 billion rubles).
12. Adopting laws that consumers must pay for their use of electric energy and heat (savings – 25 billion rubles).
13. Introduce state insurance programs to protect investments into energy generating and heat-producing companies and corresponding infrastructure (savings – 30 billion rubles).
14. Transition in commercial agreements to long-term bulk contracts. Introducing norms for profits in industries that serve natural monopolies. Make industries using the equipment have technical service contracts for electric equipment with service branches of manufacturers. This should be included into Unified technical policy developed according to the directive of RF government N 511-p issues April 3, 2013 (savings – 150 billion rubles).
15. Reduce interest and increase credit periods of investments into the development of electricity generation (savings – 70 billion rubles).

It is also necessary to check the efficiency of the use of electricity in different industries to optimize investment and tariff policy. It is also necessary to audit the state of fixed assets to prevent accidents, and to check the power-consuming equipment of connected consumers to estimate reserve power.

We propose to develop a program for replacing old and non-modern equipment in the United Energy System, assuming annual replacement of at least 3% of transformers (33 gigawatts per year) and reduction of average age of equipment in main and distributive grids (additional replacement of 20 gigawatts per year until 2017).

To discuss these and develop additional suggestions it would be good to create working group under the auspices of RF State Council, consisting of specialists, scientists, representatives of regions and consumers.

Appendix 10

HOW TO AVOID THE TRAP OF STAGFLATION AND ENSURE GROWTH

The main root cause of stagflation, which manifests itself in destabilization of rouble exchange rate and increased inflation on the one hand, and reduction in investment and economic activity on the other, is the flight of capital, which is expected to be 100 billion dollars this year, which if the rouble continues to devalue, can reach 120-140 billion dollars (5-7% of GDP). At least a third of this is illegal capital flight, which moves profits out of taxation, causing losses of up to 1 trillion roubles in annual state revenue losses.

Increasing capital flight, which added up to a trillion dollars by now, is possible due to excessive for a large country "offshoring" and openness of Russian economy, which made it vulnerable to external factors. This manifested itself in the crash of stock exchange by 2/3 during crises of 1998 and 2008, the lessons of which have not been learned.

Right now more than half of money base is generated by external credit, whereas offshores are responsible for 30-40% of private investments. Aggregate external debt of Russia exceeds 650 billion dollars (74% denominated in dollars and euro), which exceeds foreign currency reserves, amounting to 420 billion dollars. The bulk of this is the debt of banks and corporations, including ~60% not state-owned. Most of foreign credit comes from NATO member countries. Their sanctions will lead to the withdrawal from Russia of ~11 trillion roubles by the end of next year. Further sanctions can block Russian capital in offshore zones, which provide 50 billion dollars in investments annually.

Because of destabilization of rouble value leads to the switch in peoples' savings to dollar, which is one of the forms of capital flight that amounted to more than 30 billion dollars by now.

Central Bank (CB) does nothing to prevent capital flight and replacement of external credit sources by internal. Despite financial war waged by the US against Russia, CB still sticks to dogmas of Washington consensus, which makes macro-economic policy serve the interests of foreign capital.

The credits of the Bank of Russia to banks do not compensate not only capital withdrawal by Western creditors, but even withdrawals of Russian government to stabilization funds. This results in the reduction of money base, which curbs credit, reducing the investment. Unless the policy of the CB changes, by the end of 2015 shutoff of external credit will reduce money base by 15-20%, which will dramatically reduce money supply, shrink investments by more than 5% and production by 3-4%.

Reduction in money mass creates a danger of the collapse of financial markets, similar to that in 2007-2008. Capital flight will cause defaults of many entities, which will have domino effect. Considering high monopolization of this market by several traders, which have access to credit resources of state banks, this crash can be easily planned to acquire cheaply the assets serving as collateral for bank loans. This creates a danger of redistribution of property rights for the benefit of foreign capital, creating external control of many strategically important industries.

CB policy of increasing rates makes credit more expensive, favors the reduction of money mass, and makes the deficit of money supply even worse, with all the negative consequences listed above. At the same time inflation is not curbed, as the non-monetary factors keep acting, the costs of production increase because of

expensive credit, the production shrinks, and the value of rouble goes down. Because of lack of credit, the latter does not increase exports and replacement of imports with domestic products. Because of worsening conditions of capital growth it continues flying abroad, despite high borrowing rates. The economy is artificially drawn into vicious circle of shrinking demand and production, profits and investments. Attempts to preserve state revenues by increasing taxes further stimulate capital flight and strangles economic activity.

The descent of the economy into a stagflation trap in this scenario is exclusively caused by macro-economic, monetary, and tax policy. The reduction of production and investment proceeds on the background of spare production capacity, which in industry is used only at 30-80% levels, unemployment, excess of savings over investment, and excess of raw materials. The economy works at no more than 2/3 of its capacity, while remaining a donor of world financial system.

To get out of stagflation trap, it is necessary to stop vicious circle “capital flight – reduction in money supply – reduction of demand and credit – increased costs – increased inflation, reduction of production and investment”. To achieve this, the following actions are necessary.

- **To reduce capital flight**
- Des-incentivize capital flight by taxing questionable currency operations across the border at the level of VAT. If it turns out that these operations are legitimate (payments for imported goods, services, payment of interest or principal of foreign loans, dividends or other legitimate income on invested capital), paid VAT will be returned. Before such a tax is introduced, the moneys at VAT level should be reserved for a year or until the legitimacy of these transactions is confirmed. From cash in the amounts of more than 1 million rubles transported out of the country this tax should also be collected.
- VAT to exporters should only be returned after their revenue from export is received.
- Stop counting as expenses hopeless debts of non-residents to Russian companies and demand that CEOs compensate the losses to the company and state if such debts are identified.
- Limit foreign assets and obligations to non-residents via derivatives of Russian companies, prohibit investment by companies into debt obligations of foreign countries that introduced economic sanctions against Russia.
- Introduce the rule that the state should be warned beforehand about capital export and limit increases in currency holdings of commercial banks.
- Introduce a law that makes Russian borrowers first try to get credit in Russia.
- Create unified information system of currency and tax controls, which should include declarations of transactions, which will be entered into databases of tax and currency control agencies.
- Introduce licensing by CB of transfer of foreign currency abroad. Expand the rights and duties of Rosinmonitoring, giving it the right to block any trans-border operations of Russian and foreign entities that might break the rules of currency transactions and money laundering.
- **To prevent internal “capital flight”**, prohibit opening accounts in foreign

currency and accumulation of funds on existing accounts. Limit deposit insurance to the deposits in rubles.

- **To stop capital flight via insurance**, stop insurance in foreign currencies. Create Re-insurance Society on the basis of Russian Export insurance agency; give it dominant position in re-insurance of risks of Russian residents.
- **For de-dollarization of the economy**, establish higher risk estimates for operations in foreign currency and introduce 5% tax on purchase of foreign currency or assets denominated in foreign currency.
- **To reduce capital transfer in the process of external economic activity**, stimulate imports and export denominated in rubles, introduce no limitations on cross-border transactions in rubles, create conditions to make monetary authorities of other countries consider ruble as reserve currency. Start giving credit in rubles to countries importing Russian products to maintain the flow of goods, use credit and currency swaps for this purpose. Expand the system of mutual payments in national currencies between members of the Union of Independent States (UIS) via Mezhhovbank UIS, and with other countries via financial entities under Russian control.
- **To stabilize currency and financial markets**
- **Stop filling financial markets by emission.** Differentiate credit rates for refinancing of commercial banks: to increase liquidity with commercial paper as collateral charge higher rates, whereas for refinancing of credits to industry charge lower rates, but control how these credits are used.
- **To increase supply of foreign currency:** reintroduce obligatory sales of currency revenues by exporters.
- **To prevent currency speculation**, fix ruble exchange rate below market and correct it unexpectedly for market players, based on the state of the balance of payments.
- **To prevent manipulation of financial markets**, prohibit the actions of organized groups of traders, state bank officials, and CB and Finance Ministry officials that direct state credit resources, who try to gain excessive profits in financial speculations using insider information, false trades, and monopoly agreements.
- **To reduce systemic risks**, replace foreign credit rating agencies, auditing and consulting companies with Russian equivalents in all cases of making decisions regarding investments by the state and banks with state ownership.
- **To prevent bankruptcy of strategic enterprises**
- **To replace external credit** of Russian corporations CB must mobilize credit resources and give credit to enterprises on the same conditions as foreign creditors via state-controlled banks, which should control how the funds are used.
- **To minimize negative impact of Ukrainian crisis**, centralize problem assets of Russian creditors in special state credit company, which should emit in exchange for these assets guaranteed long-term state obligations.
- Create Moscow club of investors to coordinate work with problem credit, work out a unified position towards defaulting countries.

- **To prevent defaults of commercial banks** because of their external obligations, conduct their stress-testing and give them stabilization credits on the same conditions as foreign credits.
- **To prevent interruption in equipment leasing** financed by foreign credits, emit credit resources to fund it under the same conditions, and replace foreign equipment with domestic, wherever possible.
- **To de-offshorize the economy.**
- Introduce legal definition of “national company” – registered in Russia and not affiliated with foreign persons and jurisdictions. Only these companies should have access to deposits of oil, gas, and minerals, receive state subsidies, and conduct strategically important activities.
- Make owners of shares in Russian strategic enterprises register their property rights in Russian registries.
- Sign treaties with offshore jurisdictions regarding exchange of tax information and prohibit transfer of assets to jurisdictions that refuse to do so. Denounce existing treaties regarding avoidance of double taxation.
- Tax all income of offshore companies received from Russian sources, under the threat of introducing 30% tax on those that do not cooperate.

These measures will create conditions to expand credit without danger of the use of emitted or returned from offshores funds for currency speculation. Upon introduction of these measures money supply can be increased with causing inflation, and the economy can be re-capitalized to stimulate investment and economic activity.

- **To stop the contraction of commercial activity**
- **To increase working capital of enterprises to achieve optimal use of their production capacity**, we need to create a channel of limitless refinancing by CB of commercial banks, using as collateral obligations of producing enterprises regarding credit they already received, with the interest that does not exceed average profit margin in manufacturing, with the condition that these credit resources will be used exclusively for manufacturing and that bank margin does not exceed 1%.
- **To increase investment into modernization of existing enterprises**, create a channel of refinancing by the Bank of Russia of commercial banks, using as collateral obligations and shares of strategic enterprises, at the interest that does not exceed average profit margin in manufacturing; commercial banks will be responsible for the use of this credit strictly for intended projects.
- **To increase investment into the creation of new manufacturing facilities and the use of new technologies**, create a channel of refinancing by the Bank of Russia of development banks and state-controlled commercial banks, using as a collateral created assets at 2% interest rate, under conditions that this credit is used strictly for intended projects and bank margin does not exceed 1%.
- **To stimulate production and investment into areas with low profitability** (agriculture, machine building), create mechanisms to subsidize rates via special development institutes.

- **To replace imports with domestic products**, create mechanisms of special crediting of projects of expansion of existing and creating new manufacturing facilities by giving them government-guaranteed credits via development institutes and commercial banks with their subsequent refinancing by the Bank of Russia at 2% rate with the bank margin not exceeding 1%.
- **To optimize state participation in the increase of investment activities**, transform Reserve Fund into Development Budget, which must spend its resources on stimulating investment into promising areas of economic growth, by funding development institutes, obligations of state corporations, and infrastructure-backed obligations.
- **To increase the effectiveness of investments**, create an institute to evaluate, select, and develop most promising directions of scientific, technological, and economic development in the system of strategic planning.

Collectively, these measures to prevent capital flight and switch from external to internal sources of credit will enable the policy of rapid development by dramatic increase in investment and innovation in key areas of new technology.

Remonetization of the economy by facilitated increase of credit via state bank system and return of some capital from offshore jurisdictions in the next 2 years would allow to increase GDP by 6-8% annually, investments by 15% annually, R&D expenditures by 20% annually, while capping the inflation within single digits.