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Session:
Surveys Amongst Experts

The Survey of Professional Forecasters for Russia: Is It Useful to Predict Cyclical Turning Points?

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Abstract

The survey of Professional Forecasters (SPF) for Russia is a “double” of American SPF by FRB of Philadelphia and European SPF by ECB. It has been conducted for more than 10 years. A large set of main macroeconomic indicators' forecasts made by leading experts has been accumulated up to this point. This makes it possible to analyse the ins and outs of macroeconomic forecasting as well as its quality and usefulness for practical purposes.

One of the most interesting topics in this field is an ability or inability of professional forecasters to predict turning points of business cycles, especially peaks. We analysed this concern for Russia and found that forecasts of real GDP are probably too inertial and simultaneously too much based on emotions to be able to give important signals of cyclical turning points in advance. To test the universality of these results we tried some tests for the SPF by FRB of Philadelphia and found that American forecasters are definitely more successful in predicting cyclical troughs. However, their ability to predict cyclical peaks is also under serious doubts. This gives some additional grounds for the hypothesis of a “wishful bias”: possibly the majority of professional forecasters avoids predicting such annoying and undesirable events like recessions.

Key Words: Business cycles, Forecasting, Turning points, Recessions, Biased Forecasts, Russia

Novelty of the contribution: First systematic description of the SPF for Russia. A hypothesis of “wishful bias” in predicting cyclical turning points. Comparisons with American SPF by PhilFed.

Data set: Surveys of experts on Russian and American economies.

Methods: Analysis of turning points.

The Survey of Professional Forecasters for Russia

Most relevant references: Survey of Professional Forecasters, consensus forecasts, forecasting of recessions, wishful bias.

JEL Classification: C82 - Methodology for Collecting, Estimating, and Organizing Macroeconomic Data; Data Analysis; E32 - Business Fluctuations; Cycles; E37 - Forecasting and Simulation: Models and Applications; E66 - General Outlook and Conditions

1 Introduction

The survey of Professional Forecasters (hereafter SPF) for Russia is a more or less ordinary quarterly poll of experts which concern macroeconomic forecasts. Since at the moment it has a history of more than ten years, it may be used for testing different traits of macroeconomic forecasting. There could be quite a few interesting issues in this field, e.g.:

- Does any consensus (common view) exist among various forecasters?
- Do only a few individual forecasters really have a better track record than that of an average Consensus forecast?
- Do the new vintages of statistical indicators always change experts' expectations for the remaining part of the current year?
- Does personal preference of experts, or institutional type of their employers, or some other psychological factors plays any important role in forecasting process?

Et cetera. Some papers on these issues based on data for the USA, Europe and Japan were published in previous years.¹ Also, it would be of interest to investigate them on grounds of Russia as well. In this paper, however, we will focus on a question which is not perfectly clear even for the USA. This question is: are macroeconomic Consensus forecasts helpful to any extent in predicting cyclical turning points?

The second part of the article describes the design of SPF for Russia: its time-schedule, panel of forecasters, forms of questionnaires. The usefulness of Russian GDP consensus forecasts and some other indicators extracted from this source for forecasting cyclical turning point is discussed afterwards. In the next section some preliminary estimates for the American SPF are described; they are necessary to understand if the results for Russia are only of local importance or they have more general significance. In conclusion, we discuss the reasons for poorly predictive power of SPFs in forecasting cyclical turning point, especially of peaks. In this context, we remind of the hypothesis of "wishful bias" in forecasting recessions.²

2 The Design of the SPF for Russia

2.1 Time-Schedule

"Development Center" has been conducting the SPF for Russia since the end of 1999. However, the first poll was a pilot one and regular quarterly surveys started only in January 2000. As a general rule, polls take place at the last week of January, April, July and October – just after publication of the first official quarterly estimates of the main macroeconomic indicators. A news-release with results of the poll is usually placed on the website of "Development Center" after five business days. This news-release contains only averaged "consensus" forecasts. The full table with all individual estimates is available for participants of the survey only; we have no public subscription to it.

¹ See: Bowles et al (2007), Stark (2007), Komine et al (2009) for surveys of different countries. Various important issues were analyzed in Kolb and Steckler (1996), Loungani (2001), Lamont (2002), Asihya (2009), Clements (2012) and many others.

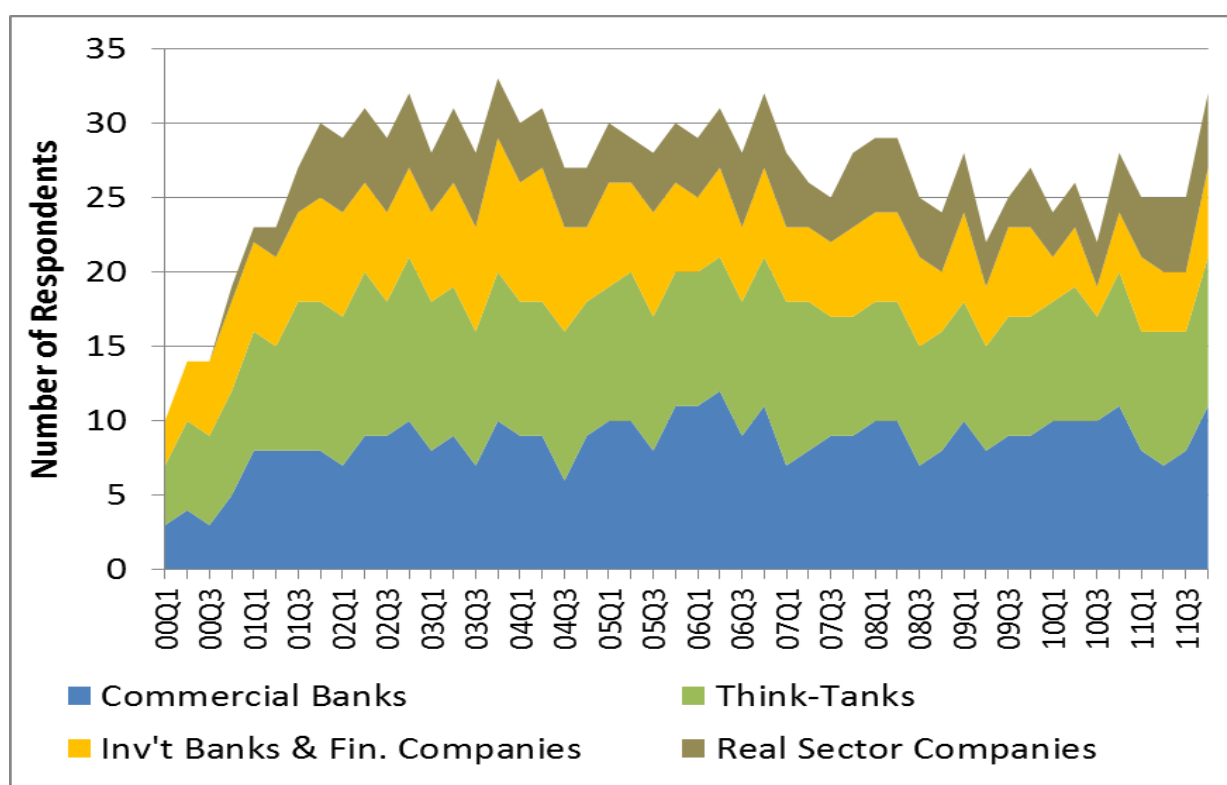
² As far as we know, Ito (1990) was the first who proved the existence of wishful bias in forecasting by statistical methods. In Smirnov (2011) this idea was applied to analyses of cyclical turning point in the USA.

2.2 Panel of Forecasters

All of our respondents are professional macro-forecasters. They are obliged to produce forecasts in accord with their job responsibilities. Experts fill out questionnaires anonymously (in an excel format by e-mail) as representatives of their companies (i. e. employers). Their personal names are never disclosed; we publish only the names of their companies. From time to time, experts – each with his own experience and personal forecasting style - move from one employer to another. These transfers may seriously change employer’s macroeconomic outlooks, but we don’t keep track of those interconnections.

Since the second year of our survey (since 2001) 25-30 experts took part in each of our polls (see Figure 1). There is some seasonality in the number of respondents (for example, there are usually less participants in July since this month is a typical time for summer vacations). But we are not worried about this; as the law of large numbers begins to act at this size of a sample there are no causes to believe that an average consensus forecast depends on this factor. The only interesting exclusion are two polls at the very beginning of the last Russian recession (October 2008 and January 2009). We observed that some experts definitely didn’t want to take the risk of public forecasting in highly uncertain economic situation and therefore avoided participation in our surveys. Unfortunately, the history of our SPF is too short and the number of recessions endured is too small to verify such an effect by statistical methods.

Figure 1 SPF for Russia: Number of Participants



Source: Development Center

As the authority of consensus forecast is crucially dependent upon general authority of employers (we suppose that such an employer has an ability and a desire to hire a highly professional

experts) we chose the participants for our polls with great care. We tried to choose only well known partners – the largest Russian and international financial and non-financial companies as well as think-tanks specialized in analyzing and forecasting Russian economy. On the whole, 67 respondents took part in at least one of our 48 surveys during 2000-2011 period (for the full list, see Appendix 1). As one can infer from Table 1, almost 50% out of the whole number were from Russia (we consider Russian daughters of international companies as foreign companies); 30% from all Russian respondents were think-tanks. We are considering a broad presence of such a category as a comparative advantage to our survey: those forecasters have the most sophisticated models of Russian economy and the greatest everyday experience in the analyses of all its aspects.

Table 1 Entire amount of Unique Participants of the SPF for Russia: 48 Polls During 2000-2011

Type of Company	Russian	Foreign / International	Total
Commercial Bank	10	16	26
Investment Bank or Financial Company	8	10	18
Real Sector Company	5	1	6
Think-Tank	10	7	17
Total	33	34	67

Source: Appendix 1

2.3 Questionnaires

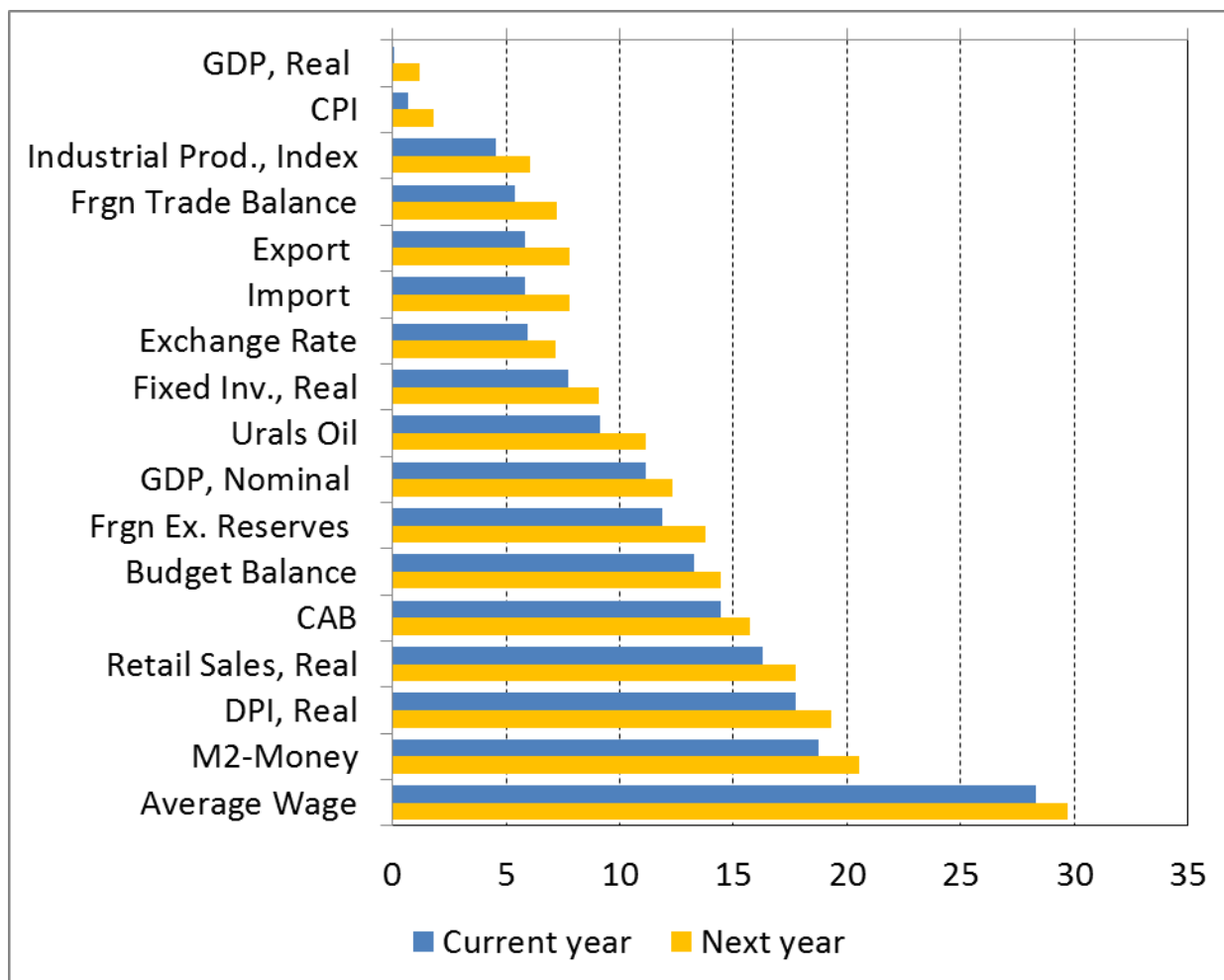
Our main questionnaire is a table with some historical figures and two empty cells for each of 17 macro-indicators such as GDP, industrial production, retail sales, fixed investments, CPI, exchange rate, oil prices, merchandise exports and imports, current account balance, etc. (see Appendix 2.1 for details).³ We ask our respondents to fill in the blanks with their forecasts for the “current” and the “next” year. If an expert does not produce forecasts for any indicator, he may leave the corresponding cells blank. As forecasts by quarters are not too widespread in Russia, we don’t ask for them.

Different indicators are not equally popular between forecasters. Although all 100% of respondents makes estimates for real GDP in the “current” year, only around 70% of all experts makes forecasts for average wage in the “next” year (see Figure 2). The most popular indicators among professional forecasters are real GDP growth and CPI; the least popular being average wage and M2 money aggregate.

Since the 3rd quarter 2004, we began to ask for a wider span of real GDP and CPI forecasts (for seven years, including the “current” one, to be more precise). And in the 1st quarter 2007 we added questions concerning seven years span for nominal exchange rate and for Urals’ oil price.

³ We have not asked for nominal GDP, average wage and oil prices before the 2nd quarter 2002.

Figure 2 Average Frequency of Non-Responding, % of Number of Participants



Source: Development Center

We also use some qualitative questions in our polls. Since the 4th quarter 2004, we have put the following three (all of them assume one of three alternatives: Better – Same - Worse):

- During the last 4 quarters, the competitiveness of Russian economy has become...
- During the last 4 quarters, the investment climate in Russia has become...
- During the last 4 quarters, the effectiveness of the government's economic policy in Russia has become...

Since the 1st quarter 2007 we have asked a question about probability of a recession, which is understood as a decline of annual real GDP (for the form of this question see Appendix 2.2).

Finally, twice since the beginning of our survey we conducted “Ad Hoc” polls, both concerned with business and investment climate and general perspectives of Russian economy. In 2003, this was a common project with Aton Capital (one of the largest Russian investment banks). The following four questions were used in this poll:

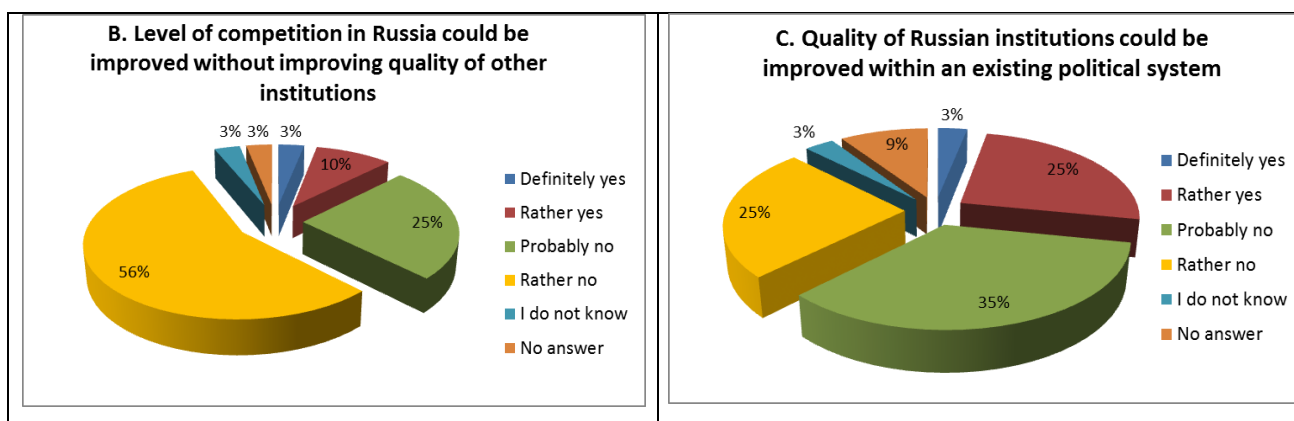
- What do you consider to be the main improvement(s) in Russia’s business and investment climate over the last couple of years?
- What remains the main obstacle(s) to business and investment in Russia?
- In your opinion, do the numbers of obstacles for running a business in Russia differ between companies in terms of size?
- Do the number of obstacles for running a business differ between sectors? If YES, which sectors of enterprises in face more obstacles (select one or more of the options below)

Experts could choose several suitable options from a list of 8-9 answers (not shown here).

The second “Ad Hoc” poll was developed quite recently, at the end of 2011. It was undertaken while working on a new version of Russian government’s economic program (so-called “Strategy-2020”). The questionnaire consisted of 19 questions with five alternatives each (definitely yes - probably yes - probably no - definitely no - I do not know). These questions dealt with levels of competitiveness, quality of Russian institutes, points of vulnerability, economic role of the government, etc. (see Appendix 2.3 for exact wording).

The results of such a poll were quite intriguing. For instance, 81% of our experts thought that the level of competition in Russia could not be improved without improving quality of other institutions (see Figure 3). And 60% thought that the quality of Russian institutions could not be improved within an existing political system. There is something to think about here! That’s why we are going to conduct an annual poll with all these qualitative questions.

Figure 3 Example: Answers to Two Questions about Possibilities to Improve the Competitiveness of Russian Economy



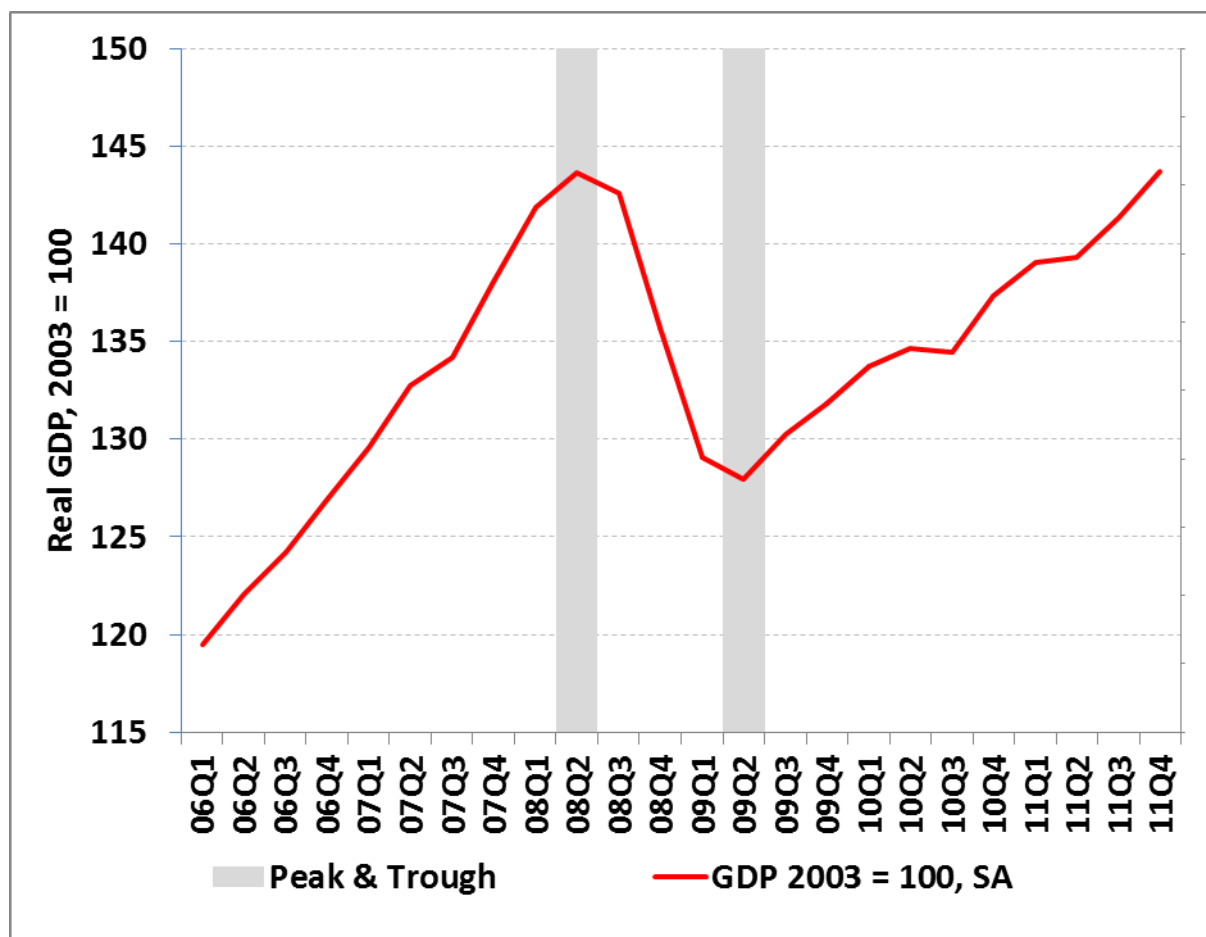
Source: Development Center

3 Were Professional Forecasters Successful at Predicting Cyclical Turning Points in Russia?

SPFs are a very important source of empirical data for investigating and understanding various aspects of macroeconomic forecasting. Among the questions in this field, which may be resolved with SPFs, we chose only one: do SPFs provide any significant signs of approaching turning points? In particular, is there any distinct and timely alarm signal for recessions?

As SPF for Russia has started a year after the previous Russian crises, we can only analyze the last recession of 2008-2009. And as there are no officially announced cyclical turning points in Russia, we had to date them ourselves. Using real quarterly GDP we define the peak (local maximum) and the trough (local minimum) at the 2nd quarter 2008 and the 2nd quarter 2009 correspondingly (see Figure 4).

Figure 4 Russian Real GDP, 2003 = 100 (seasonally adjusted)



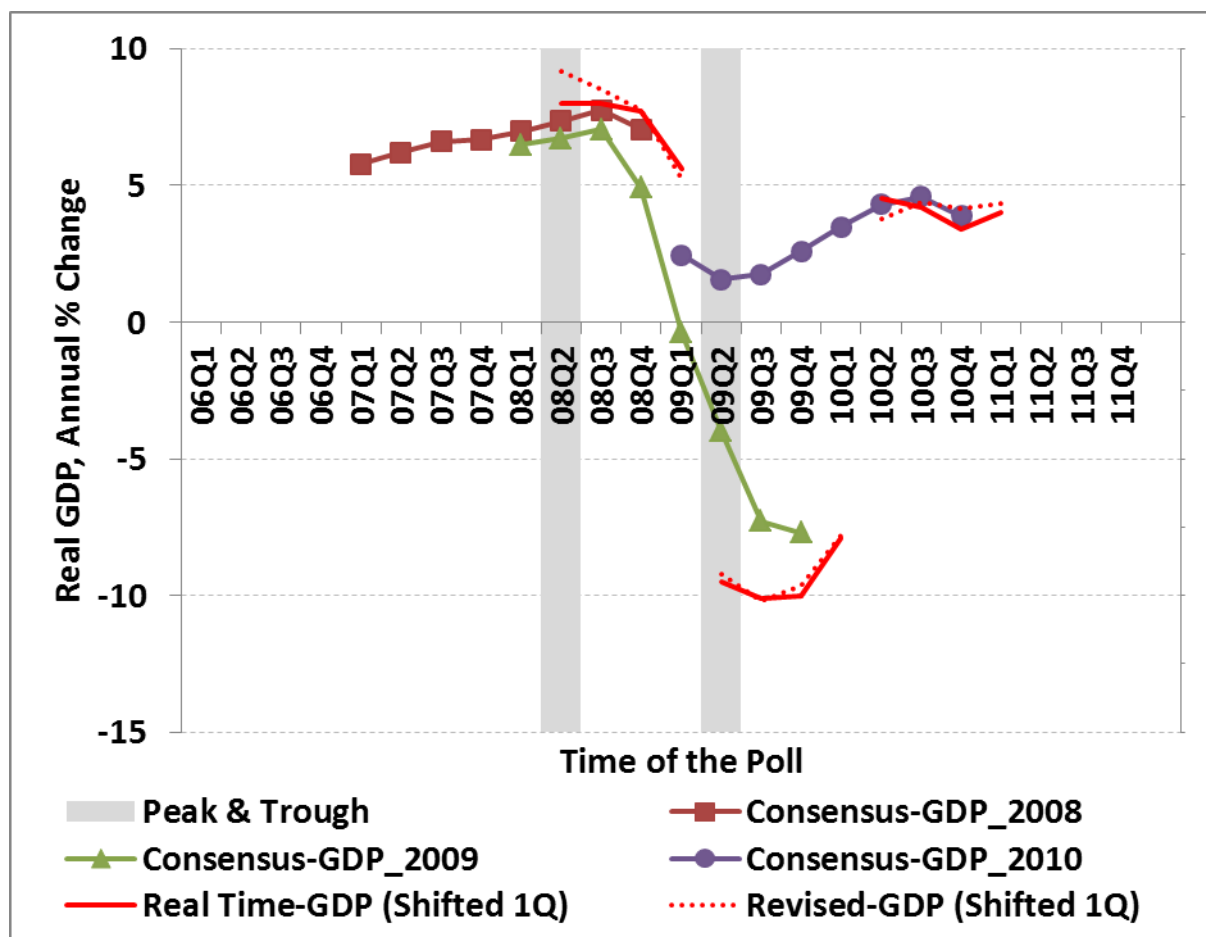
Source: Development Center

Figure 5 pictures the sequence of consensus forecasts for growth rates of real GDP. The brown line corresponds to eight polls – the ones from the 2007 Q1 until the 2008 Q4 - in which the growth rates for 2008 were asked. In the same way, the green line corresponds to consensus forecasts for 2009 and the violet line – for 2010. The red line presents the real-time actual Y-o-Y growth rates for the past periods of each year; they are shifted one quarter to the right to reproduce the information on real GDP which became available at the moment of a more current poll. The dotted red line shows the revised GDP growth rates as they are observed now; these figures have also been shifted one quarter to the right.

One may easily observe that some declines in Consensuses for 2008 and 2009 began two quarters after the peak. And only three quarters after the cyclical peak and a quarter and a half after the Lehman Brothers' bankruptcy, experts started to believe that a very mild recession in 2009 may take place. Therefore, most of professional forecasters couldn't successfully predict the beginning of

the 2008-2009 Russian recession. But they were more optimistic as concerns post-recession expansion: consensus growth rate for 2010 began to increase just after the cyclical trough in the 2009Q2.

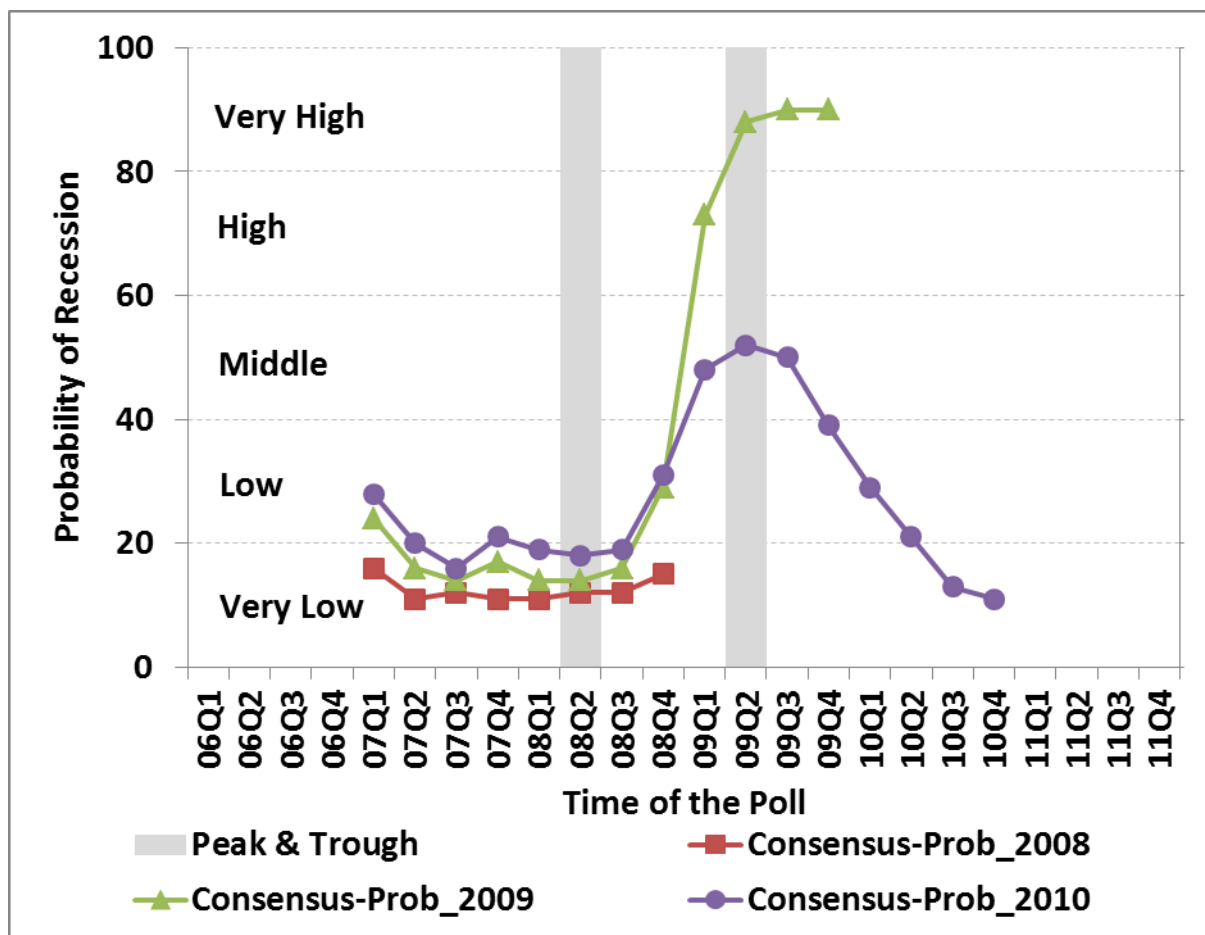
Figure 5 Russian Consensus Forecasts for Annual Real GDP Growth Rates



Source: Development Center

As we wrote earlier, since the 1st quarter 2007 we have asked experts about probability of a recession during a five-years rolling “window”. As one can observe from Figure 6, the majority of professional forecasters agreed that probability of real GDP decline in 2009 became “high” only at the 2009Q1. This moment was three quarters after the peak and only one quarter before the trough. Therefore, for a while, experts had definitely hoped that the threat will dissipate. But when they had fully recognized the imminence of a serious recession in Russia, their high hopes quickly changed to dire pessimism: the estimated probability of recession in 2010 grew towards the mid-level (from “low” or “very low”). Most experts have exhausted their faith that Russian recession would also not be much longer than in other countries (it means, no longer than one year); so, they predicted the extension of the GDP decline to 2010 with 50-50 chances.

Figure 6 Consensuses for Probability of a Recession in 2008-2010



Source: Development Center

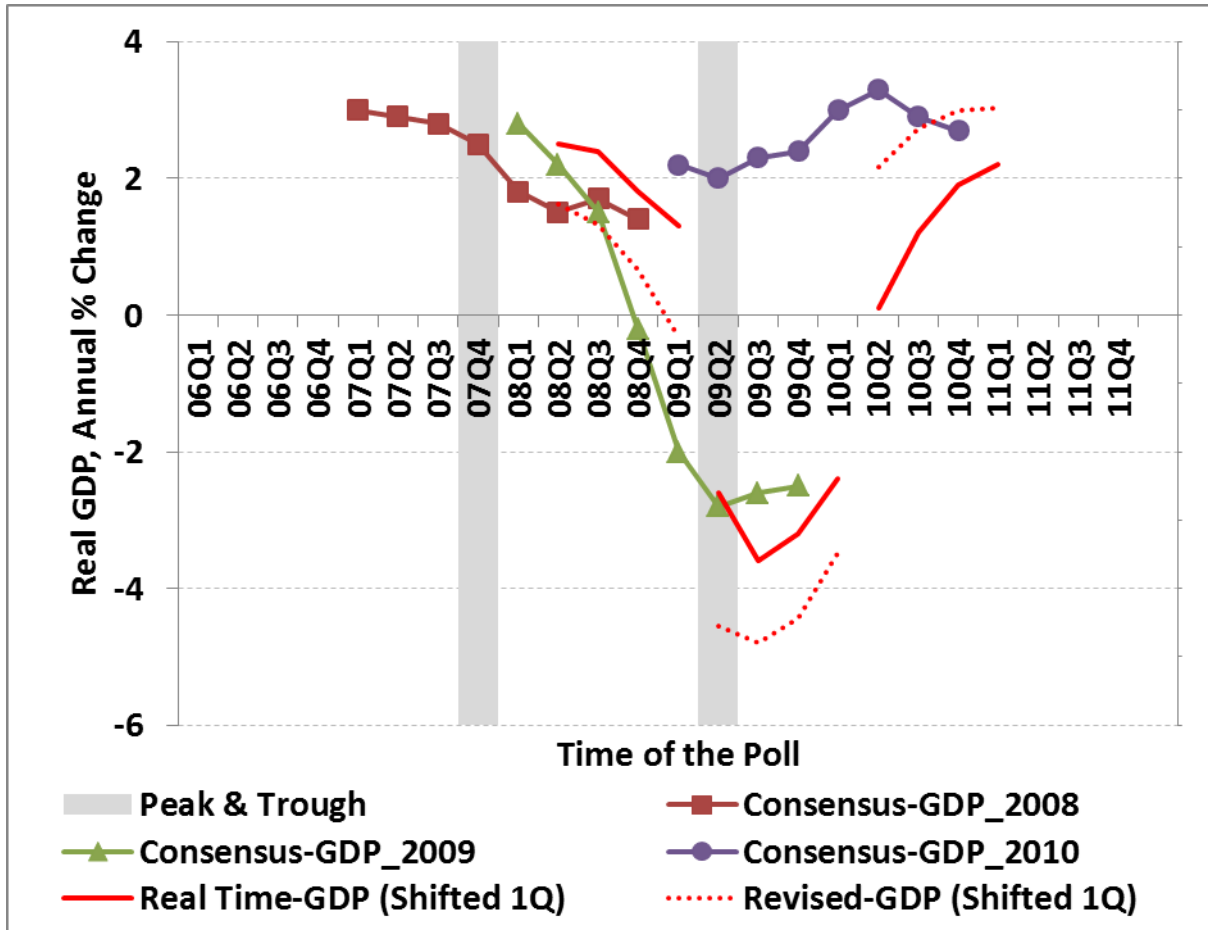
Overall, we can state that the leading experts in Russian economy were not very successful at predicting cyclical turning points for the 2008-2009 recession. In particular, the first “crisis” consensus forecast for 2009 was just slightly negative (-0.4%); it’s much less than the final GDP estimate (-7.8%). As Russian economy had been growing for ten years prior to the shock, the forecasters’ optimism was understandable. The idea of “decoupling”, which was widely accepted on the eve of the Great Recession, also played a role. Many believed at that time, that the obvious problems in American economy will not affect Russian economy. The pessimism, which gripped the experts in the first half of 2009, also shows their excessive adherence to formal or informal extrapolation methods. And of course, it points to the enormous role of psychological factors in forecasting cyclical turning points.

4 Is the SPF for Russia Unique in Its Inability to Predict Cyclical Turning Points?

One may think that low quality of Consensus forecasts in predicting cyclical turning points is a problem of experts in Russian economy. But our own impression is that this is not the case. For instance, in some important features the situation with the SPF by the Federal Reserve Bank of

Philadelphia is the same; this poll is not very successful at predicting recessions too.⁴ We will not investigate this issue here but will simply present Figure 7, which is an American similarity to the Russian Figure 5.

Figure 8 American Consensus Forecasts for Annual Real GDP Growth Rates



Sources: FRB of Philadelphia; BEA

As can be seen from the chart, American forecasters started to reduce their GDP estimates for 2008 from the very beginning of 2007; this is a year before the cyclical peak. Also, they started to raise their forecasts for 2009 and 2010, immediately after the trough. In this sense, the SPF for the USA gives more adequate forecasts than the SPF for Russia. But the main deficiency is the same: Consensus forecast for GDP 2009 became negative only a year (!) after the peak. In other words, forecasters had still believed in reducing positive growth rates but not in negative growth rate, i.e. in recession. They recognized the inevitability of recession after Lehman Brothers' bankruptcy but their figure for GDP reduction in 2009 (-0.2%) was highly underestimated; the latest vintage for 2009 is equal to -3.5%.

⁴ See, for example: MacNees (1992), Fintzen and Steckler (1999).

5 Conclusions

Quarterly Survey of Professional Forecasters for Russia caused a large set of macroeconomic forecasts produced by leading experts over the last ten years and more. This makes it possible to investigate specifics of macroeconomic forecasting as well as its accuracy and to outline the boards of its applicability in practice. In this paper we have analyzed the ability of forecasters to predict cyclical turning points. The results are hardly comforting: the majority of experts were too optimistic on the eve of the peak in 2008 and too pessimistic on the eve of the trough in 2009.

We strongly believe that low qualification of experts is *not* the reason for such confusion. Emerging economies are usually much less stable than the developed ones; they have much less definite cyclical patterns. Therefore, it's much more difficult to predict their future in general and their cyclical turning points in particular. This is true for Russian economy to the most extent because of its short history as a market oriented economy. So, we don't want to put the blame on specialists of Russian economy.

In any case, there were some reasons to take preliminary tests for the USA - using tell known Survey of Professional Forecasters by FRB of Philadelphia. These tests showed that experts in American economy predicted the end of Great Recession quite well but they were quite late in their recognition of its beginnings. We have no undeniable proofs yet but our hypothesis is that some "wishful bias" in predicting recessions does really exist: even professional forecasters do not like to predict annoying and undesirable events. And definitely a recession is one of these.

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Appendixes

Appendix 1. List of Respondents, 2000-2011

N	Name of Employer	Residence	Type of Company	Number of Polls
1	Center of Macroeconomic Analysis & Short-term Forecasting	R	TT	48
2	Economic Expert Group	R	TT	48
3	Development Center	R	TT	47
4	Economist Intelligence Unit	F	TT	47
5	Troika Dialog	R	FC	45
6	Alfa Bank	R	CB	44
7	Institute of Economy (Russian Academy)	R	TT	43
8	UralSib Finance Corporation	R	FC	42
9	JP Morgan Chase	F	FC	41
10	Sberbank of Russia	R	CB	41
11	KAMAZ	R	RC	40
12	LUKoil	R	RC	40
13	Oxford Economic Forecasting	F	TT	40
14	Renaissance Capital	R	FC	40
15	The Vienna Institute for International Economic Studies (WIIW)	F	TT	40
16	ING Bank (Eurasia)	F	CB	33
17	AvtoVAZ	R	RC	32
18	TRUST Investment Bank	F	CB	32
19	Bureau of Economic Analysis Foundation (Russia)	R	TT	29
20	BDO Unicon	F	TT	28
21	Raiffeisenbank Austria	F	CB	28
22	International Moscow Bank	R	CB	27
23	Gazprombank	R	CB	24
24	UBS	F	FC	24
25	Brunswick UBS Warburg	F	FC	23
26	HSBC Bank (RR)	F	CB	22
27	Vneshtorgbank	R	CB	22
28	Aton Capital Group	R	FC	21
29	Deutsche Bank	F	CB	21
30	Bank of Moscow	R	CB	17
31	Lehman Brothers	F	FC	16
32	Institute of International Finance Inc.	F	TT	15
33	UniCredit Bank	F	CB	15
34	BP	F	RC	13

(to be continued)

Appendix 1 – Continued

No	Name of Employer	Residence	Type of Company	Number of Polls
35	CentreInvest Securities	R	FC	13
36	Citibank	F	CB	12
37	Dresdner Bank	F	CB	12
38	Interfax Center for Economic Analysis	R	TT	12
39	Morgan Stanley	F	FC	12
40	ABN-AMRO	F	CB	11
41	Bank of America	F	CB	10
42	Goldman Sachs	F	FC	10
43	Merrill Lynch	F	FC	9
44	Vnesheconombank	R	CB	9
45	Siberian Aluminium	R	RC	8
46	Credit Suisse	F	CB	7
47	Institute of Investment Problems	R	TT	7
48	Energopromanalitika	R	TT	6
49	MDM-Bank	R	CB	5
50	United Financial Group	R	FC	5
51	Commerzbank	F	CB	4
52	NOMURA International	F	FC	4
53	BNP Paribas	F	CB	3
54	BOFIT	F	TT	3
55	JSFC Sistema	R	FC	3
56	Russian-European Center for Economic Policy	R	TT	3
57	Bank Societe Generale Vostok	F	CB	2
58	Flemings USB	F	CB	2
59	Jones Lang LaSalle	F	FC	2
60	Rosbank	R	CB	2
61	Antanta-Capital Investment Company	R	FC	1
62	Barclays Bank	F	CB	1
63	Chase Securities	F	FC	1
64	Institute of Economic Forecasting (Russian Academy)	R	TT	1
65	Nomos Bank	R	CB	1
66	Otkritie Capital	R	FC	1
67	Standard & Poor's	F	TT	1

Notes:

Residence: Russian (R) / Foreign (F);

Type of Company: Commercial Bank (CB) / Investment Bank or Financial Company (FC) / Think-Tank (TT) / Real Sector Company (RC)

Appendix 2. The Questionnaires

A 2.1 Short-Term Forecasts

Poll of Professional Forecasters							
Section A. Short-Run Estimates							
(if you don't estimate an indicator leave blank cell)							
Indicators	Historical Data				Your Forecast		Unit
	Annual		Jan.- Sep.		2011	2012	
	2009	2010	2010	2011			
Real GDP ^(p)	-7.8	4.3	3.9	4.2			% change (y-o-y)
Nominal GDP ^(p)	38786	44939	31968	38209			Bln. Rb, Current Prices
Index of Industrial Production	-9.3	8.2	8.9	5.2			% change (y-o-y)
Retail Sales, Real	-5.1	6.3	6.0	6.2			% change (y-o-y)
Fixed Capital Investment, Real	-15.7	6.0	2.9	4.8			% change (y-o-y)
Disposable Personal Income, Real	2.1	4.2	5.0	-0.2			% change (y-o-y)
Average Monthly Wage	576	698	675	775			USD
Consumer Price Index	8.8	8.8	6.2	4.7			% change (eop/Dec)
Exchange Rate	30.2	30.5	30.4	31.9			Rb/USD (eop)
M2-Money (national definition)	17.7	31.1	15.9	5.3*			% change (eop/Dec)
Federal Budget Balance	-6.0	-4.0	-2.2	2.8			% of GDP
Merchandise Export (fob)	303	400	288	380			Bln. USD
Merchandise Import (fob)	192	249	172	232			Bln. USD
Trade Balance (fob-fob)	112	152	115	148			Bln. USD
Current Account Balance	49	70	58	74			Bln. USD
Foreign Currency Reserves (excl. Gold)	417	444	458	472			Bln. USD (eop)
Average Price of Urals Crude Oil	61	78	76	110			USD per barrel

p - Preliminary estimates of real GDP (by Ministry of Economic Development) and of nominal GDP (by Ministry of Finance)

* - For January-August 2011 (14.2% for January-August 2010)

A 2.2 Probability of Recessions in Upcoming Years

Probability of a Decline (Negative % Change) in Real GDP					
(Please, mark your answer by a tick \surd - for each of the following five years)					
Probability	Year				
	t	t+1	t+2	t+3	t+4
Very low (0-20%)					
Low (20-40%)					
Middle (40-60%)					
High (60-80%)					
Very high (80-100%)					

A 2.3 Russian Institutes and Outlooks for Russian Economy

Alternative answers: Definitely yes - Rather yes - Rather no - Definitely no - I do not know

Questions:

Do you agree that:

- A. Competition development may initiate Russian economy modernization
- B. Level of competition in Russia could be improved without improving quality of other institutions
- C. Quality of Russian institutions could be improved within an existing political system

- A. Consequences of global crisis in 2007-2009 may lead to a new decline
- B. World economy until 2020 will grow slower than it did before the crisis in 2007-2009
- C. The next economic crisis in Russia will be caused by the drop in oil prices or by other external reasons

D. The next economic crisis will be caused by internal reasons regardless of the situation of world economy

- E. Intensive oil displacement by other energy resources will begin earlier than the year 2020

A. Government expenditures on education and health care should be reduced in order to balance the budget

B. Up to 2020 Russia can increase expenditures on national defense according to its adopted decisions

C. Russia can increase government debt up to 20-25% of GDP until 2020 (now it is less than 10%)

A. Attendance of government in Russian economy (budget investments, state corporations, companies and banks with state participation) is necessary and its scale should not be lower than now

B. Russian economy can be modernized without it opening and intense foreign capital inflow to all sectors including energetic sector

C. Russian economy can be modernized without improving the quality of Russian institutions

D. Russian economy can be modernized only with leading role of the government which would define most important directions for development

E. Business focused on technological breakthroughs is presented in significant volumes in Russia

F. Economic growth in Russia until 2020 can be supported mainly by growth of internal demand

What prevents modern business in Russia from growing and developing?

A. Direct and indirect economy state regulation

B. Inability to compete in international markets