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The World of Finance in Russia

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Мир Финансов России

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Executive Summary

Russia is currently in an economic crisis the likes of which the Russian people are unfortunately familiar with in their turbulent past. Economic sanctions, paired with a global downturn in oil prices, have stalled any progress that had been occurring after the 2008 global economic meltdown. The Central Bank of Russia, which was founded after the fall of the USSR in the early 1990s, was quick to respond to the sanctions and domestic economic issues by laying out an Anti-Crisis plan along with the aid of the rest of the government. They raised interest rates to over 20%, passed legislation to bolster citizens' trust in their rubles, and allowed banks to draw more capital from the Reserve Fund, among other things. There was no coherent strategy, but the overall goal to strengthen the economy from its lowest points has appeared to have worked, although there is still much more to work on for Russia's future.

Beyond the government's monetary policy and responses to the crisis, the financial markets of Russia also play an important role in the recovery of the nation. The Moscow Exchange is the financial center for stock trading in Russia. The two most well-known indexes are the MICEX (ruble-denominated) and the RTS (U.S. dollar-denominated). Through 2016, the Russian MICEX stock market has proven to be quite robust, proving yet again that Russia can seemingly always adapt to their situation. In fact, the MICEX index has increased 22.72% this year so far, as of September 22, 2016, with some stocks such as Aeroflot trading at a staggering 217.75% increase over its price at the beginning of this year. However, it is not quite as rosy as it seems, with some underlying problems which may erase the gains of this year at any time.

The situation in Russia is something that Americans should be paying attention to. There is a fine line between damaging our relationship so much that we enter a new "Cold War" era, and being able to reconcile differences and resume more friendly relations. Americans need to do what they can to prove that as a nation, America would much rather be an ally and work with Russia than be their enemy, because this is a better outcome for all involved. Russian leaders need to also realize that they must compromise with the West if they wish to be a true economic superpower.

Lastly, it has been proven over and over in history that Russians are tough people. Normal Russian citizens may seem to be in a very bad situation with the decrease of the ruble's value and more expensive goods and services; however, there are three examples compiled with help from a Russian professor at Western Michigan University, Liliya Vansovich, showing that Russians are actually quite optimistic about the future and do not notice a huge change in their daily lives. Given their turbulent past, this should really come as no surprise but it is a powerful insight nonetheless. In the end, the Russian people will overcome the current challenges and their best is yet to come.

1. Introduction

Russia: for most the name conjures up vivid imagery of the Soviet Union, vodka, incredible nature, and a rich cultural history. Russia is by *far* the largest country in the world, and is also one of the most misunderstood by those who live within the Western worldview. The aim of this paper is to shed light on how the financial system is working in Russia; from the Central Bank of Russia's history and its current policies (along with some other government policies), to an explanation of why the economy is in so much trouble, to an insight into the biggest financial markets that exist in Russia. Then, the ramifications for the U.S. will be explored regarding the financial situation in Russia. The other goal of this paper is to show how the Russian culture is reflected in their financial situation, and lastly to provide an insight into how normal Russians have dealt with the sharp economic downturn.

2. The Central Bank of Russia (CBR)

2.1 BRIEF HISTORY

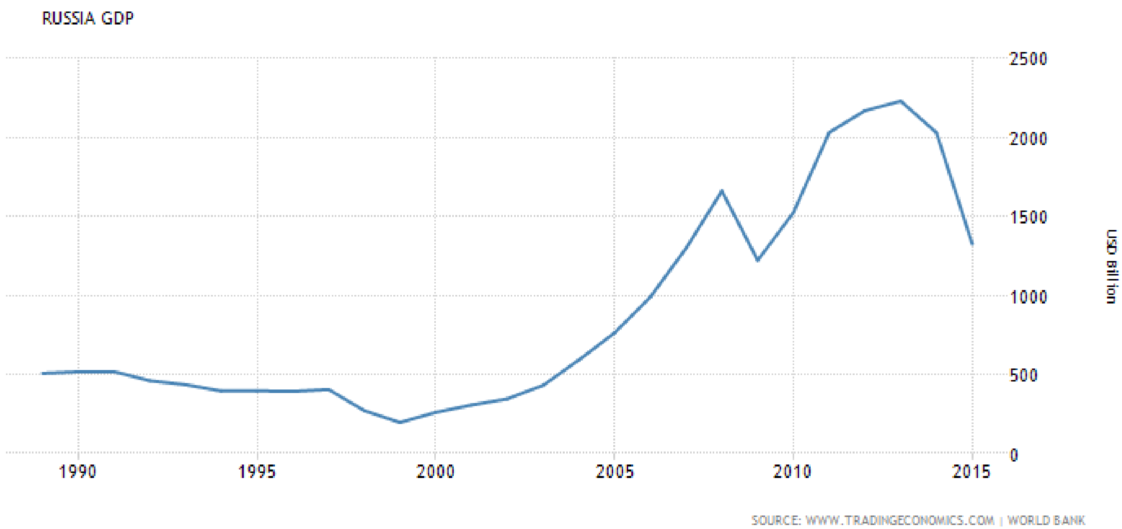
The Central Bank of Russia (CBR) is the direct equivalent of the U.S.'s Federal Reserve, in that it sets monetary policy for the nation, as well as having the responsibility of issuing currency (just the issuing, not the actual printing). From the bank's official website, it states that its main goal is to "protect the ruble and ensure its stability." The bank also aims to "promote the development of and strengthen the Russian banking system, ensure the stability and development of the national payment system, and develop the financial market of the Russian Federation and ensure its stability." It is intended to operate independently from federal, regional, and local government structures under the Constitution of the Russian Federation to avoid the pressures of politics in its decision making. The bank's leaders are appointed rather than elected, also similar to the U.S. Federal Reserve.

The Central Bank of Russia was founded on July 13, 1990. The foundation for a central bank was already in place thanks to the existing structures of the State Bank of the USSR, so the CBR morphed out of this. The website says that the CBR was "declared…to be the only body of state monetary and foreign exchange regulation" and was also given the functions of issuing currency and setting the ruble exchange rate, which it did not have when it was still known as the State Bank of the USSR. From 1991-1992, the CBR commercialized existing specialized banks' branches in order to create the network of commercial banks needed for the transition to a capitalistic-style system. In this time the CBR also "began to buy and sell foreign exchange in the currency market that it established, as well as setting and publishing official exchange rates of foreign currencies against the ruble."

Moving along to 1998, the bank leaders saw the developing economy in a crisis (technically the 2nd major crisis, after the hyperinflation of the early 1990s), in which several strategies were employed by the bank. They worked on restructuring the banking system to improve the performance of commercial banks while also increasing their liquidity, in order to make it easier for the commercial banks to respond to problems quickly. By the middle of 2001 these efforts were largely successful in helping Russia's banking sector overcome this crisis, according to the CBR.

After the recovery, the CBR shifted its monetary policy focus to maintaining financial stability. The goal in any nation is to create an environment that can foster sustainable economic growth. Many policies were put into place by the CBR, but to summarize, the main points of the plan included the cutting of interest rates, the lowering of inflation expectations, and lastly, the lowering of the actual inflation rate. The inflation had been an issue throughout the 1990s simply because of the fact that Russia was in the process of a large shift in philosophy and government (Also as an emerging market, such countries generally have high inflation, especially in their infancy). The measures taken by the CBR allowed the ruble to gain against other currencies and financial market stability was increased. No drastic or market-crushing fluctuations occurred in the exchange rate following these policies. This graph from tradingeconomics.com illustrates the relative stability of the ruble between 2000 and 2008, where it traded mostly between 25-30 rubles per dollar.

In 2003, the CBR was able to introduce international financial reporting standards (IFRS). The CBR claims this "improved banking supervision and prudential reporting" and was undoubtedly put into place to help Russia's image on the international level; this is key for attracting international investments. The period from 2001-2003 was considered successful in establishing sound policies and a better reputation which helped the Russian economy grow steadily. Below is a graph from the World Bank (via tradingeconomics.com) showing the effects of the policies put into place at this time: the Russian GDP grew at a steady pace up until the world financial crisis in 2008. The GDP growth rate was also fairly stable from 2000-2008, with an average growth rate between these years of 6.96%, much stronger than the U.S.'s average in the same period of 2.33%.



But the CBR did not sit idle after putting in these policies in place. From the CBR's official website, they state, "In April 2005, the Russian Government and the Bank of Russia adopted the Banking Sector Development Strategy for the period up to 2008." This document had the goal of "[the] enhancement of the banking sector's stability and efficiency." These banking sector reforms of 2005-2008 had hoped to accomplish, but did not fully meet, the Russian government's objective to end the overwhelming reliance on raw materials of the Russian economy. In the most current stage of reforms (2009-2015), the Russian Government and CBR wanted to focus on improving the Russian banking sector's positioning in, and attractiveness to, international financial markets. However, the leaders of the country still had to deal with the challenges of the previous period, along with the sanctions put into place after the Crimean annexation on February 23, 2014. Because of the policies of Russia's leaders in the government and because oligarchs still have incredible power in affecting the economy, it has been incredibly hard for Russia to move beyond the relatively easy money of natural resources. With such a well-qualified and educated workforce, this is really a shame because Russia has massive potential if it could be fully utilized the way that the CBR had hoped it could be.

2.2 CURRENT ECONOMIC SITUATION AND POLICIES (2014-2016)

To fully understand what the CBR is contending with in regards to its current policies, it is necessary to understand what happened initially in 2014 after the Crimean annexation. The CBR, as talked about in the previous section, had a plan put in place for 2009-2015 which, in part, would work towards the end of the raw materials bias on the Russian economy, Russia's persistent problem for years. The Central Bank hoped to accomplish the task by diversifying the economy and exploiting Russia's competitive advantages, the basic rules to maximize the effectiveness of international trade. This may be a great strategic plan on paper, but the Crimean annexation in early 2014 and the massive market downturn which followed after oil prices dropped threw a wrench in the works for the leaders of the bank. By the time the downturn arrived, the government did not yet accomplish the task of diversification, and even in 2015 a staggering 70% of export revenues and 20% of the GDP was still directly linked to energy and raw material resources. The financial sanctions in particular have restricted foreign capital for Russian banks and businesses, which they have come to heavily depend on. For a supporting example, 80% of total investments in Russia in 2013 could be traced to Europe. To get foreign capital, the only real direction that Russia can currently look is East: to markets in Asia, with higher costs for foreign investors and much more difficult access when compared to Europe. The current government does not seem to be willing to make all the changes that would free up businesses to fully thrive in Russia's quasi-capitalistic system. There is still a feeling of an over-reaching bureaucracy stemming growth. Thus, the CBR is faced with challenges seemingly insurmountable in the current political environment.

One of the first tasks early in the crisis was to raise interest rates considerably, up to over 20%. The reasoning for a steep increase was to stem inflation, stem the money supply through more expensive lending, and for citizens to trust their ruble deposits in the banks. High interest rates favor those who save money in banks. Initially there was a scramble from Russians to buy up foreign currencies to hedge against the falling ruble, and the mass selling of rubles did nothing to help its drastic fall from the sanctions and oil price decline. If Russians could trust their bank deposits and see them grow with high interest rates, they would be at least a little less likely to attempt switching their holdings to foreign currencies. As prices in Russia have increased due to the less valuable ruble, one can only imagine how bad it could have been had the CBR not taken action immediately; if rubles are earning a large enough percentage to keep up with the price increases, the damage would be minimized.

The Russian government also announced an "Anti-Crisis" plan to combat the worst of the economic problems. A report titled *The Economic and Financial Crisis in Russia* compiled by the OSW (A Polish acronym for the *Center for Eastern Studies* based in Warsaw) describes the seven-point plan being laid out "which provided for increasing the volume of currency credit available to banks in order to improve their foreign currency liquidity, easing the restrictions on banks with regard to the setting of interest rates on loans and deposits, and easing the requirements concerning mandatory reserves" (OSW, 2015, p. 8). Some of these post-crisis actions were not taken by the CBR, but they were an important part in the response and therefore should be mentioned. The state Duma, which is the lower house of Russia's legislature (similar to America's House of Representatives), set forth legislative amendments which provided "1 billion rubles in extra capital [for] banks [as well as the] doubling of the volume of guarantees for deposits of Russian citizens" (OSW, 2015, p. 8), once again no doubt to entice Russians to keep their rubles. The Reserve Fund could now be drawn up to 70% of its value, and the government has been using this fund liberally to pay for all its programs. Vladimir Putin infamously called oligarchs who owned large businesses and "persuaded" them to sell some of the foreign currency that they were earning. Counter-sanctions on certain agricultural and food products were imposed as retaliation on those certain countries who placed sanctions on Russia (although this measure drove up food prices considerably). There were more counter-measures taken by the government, but this snapshot shows the many multi-layered decisions involved in coping with the crisis. It is important to note that these actions did not add up to a coherent strategy to fix Russia's markets, because the problems with Russia's financial markets go much deeper than just the current instability with the West. These methods were, if nothing more, a haphazard collection of policies aimed at stemming the bleeding. The Russian minister for economic development, Alexei Ulyukayev, went so far as to admit the measures were "largely reactive" to the crisis.

As far as how the situation looks in 2016 from Russia's (i.e. their government's) point of view, there was a perception of slight improvement in the economy in early 2016 due to several developments. There was at least a glimpse of a more stable situation in Ukraine, at least until August of 2016 when tensions increased once more, with troop and materiel movements in Crimea/Eastern Ukraine and the fragile agreements from the Minsk ceasefire now in jeopardy of shattering. Some of the braver foreign investors are, for the most part, believing once again that Russia is worth investing in. One great example of this is German investments in 2015; German investments quadrupled in 2015 compared with 2014 (from $350 million to $1.42 billion, according to the CBR). Assets in Russia are much cheaper than they were several years ago because of the ruble depreciation, which is why if an investor can stomach the risk, Russia is very attractive even with the economic and financial crises. Also, interest rates are much lower from their above-20% highs during the worst of the crisis. The key rate, as of July 29, 2016, is at 10.5%. The lowering of the rate over the last year and a half is a good sign to citizens and investors that the situation is improving. The economy only shrank by 0.6% in the second quarter of 2016, compared with the 1.2% shrinkage in the first quarter. Inflation is also down to around 7% compared to the 16% of 2015. External macroeconomic forces which may influence Russian progress, such as inflation and food prices in developed countries that Russia trades with, are also minimal, due to low global inflation and lowering food prices in these nations. Many of Russia's developed trading partners are also continuing an easy money policy, such as the European Central Bank with their recent quantitative easing policies (these policies increase the money supply, which makes money more available but also hurts the value of the currency). The ruble depreciation was less significant when compared to the oil price volatility of recent months. But do not let this slight improvement fool you; there are still three major issues hampering further recovery:

1. High economic uncertainty in the country
2. Continuing weak consumer demand
3. Difficult lending conditions

So what is the Bank of Russia planning on doing in 2016 to further their goals? First off, the CBR takes into account oil prices and oil price forecasts in any decisions they make, due to the very connected nature of oil and the Russian economy. They will watch oil closely when determining if there should be any rate change decisions. For the time being, they have kept the key interest rate at 10.5%. Compared with the end of 2015, where key rates were at 11%, this is an improvement. The Bank will continue to lower the rate as targets are met; namely, oil prices stabilizing (or increasing), China's economy rebounding from its slowdown, and high inflation expectations relaxing. The CBR believes that the price of oil will stabilize at around $50 per barrel because oil is getting more expensive to get out of the ground, and also because of increasing exports coming out of Iran due to the lifted sanctions. In September 2016, prices are right about $50, so the bank predicted this well in their December 2015 report on monetary policy. The CBR is also continuing a tight monetary policy until inflation moves closer to their medium-term goal of 4%. As of August 2016, the inflation has dropped to 6.9%, a very promising sign for the bank. As inflation lowers and borrowers' (in the real sector of the economy) financial positions improve, the bank will ease its policy in line with lowering the key rate. Lending will grow and the money supply will grow with it. With household incomes and spending thought to be stagnant for the time being, the CBR fully expects some contraction in the GDP in 2016, but believes that in 2017 it will grow at a low, positive number (likely less than 1.5%), and that in 2018 GDP will be able to grow at between 1.5-2.5%.

With continuing increasing production of exportable intermediate goods and more incentives for producers and consumers to use import substitution, the adaptability of the Russian economy is lowering the risk of the CBR's worst-case scenario, a good sign for Russian citizens. However, *if* there is an increase in the volatility of financial markets along with continuing restricted consumer demand (among other factors), inflation may be higher than what the CBR is predicting, and the bank will have to react accordingly. If the CBR feels that inflation will not be lower than 7% by December 2016, they will take several specific actions. First, they will keep the key rate higher than they would with their baseline or optimistic scenarios. Then, according to their *Monetary Policy Report*, they will "significantly increase the amount of FX (Foreign Exchange Market) refinancing operations and, if necessary…carry out direct sales of foreign currency in the domestic FX market (The Central Bank of Russia, 2015, p. 49).

3. Russia's Financial Markets

3.1 BRIEF HISTORY

On January 9, 1992, the CBR and the largest of the commercial banks that had recently been created jointly established the Moscow Interbank Currency Exchange (MICEX). In July 1995, the Russian Trading System (RTS) established their own exchange, with their calculated index beginning on September 1, 1995, which is denominated in USD. Then on September 22, 1997, the MICEX started calculating an index as well, which is similar to the RTS index except that it is denominated in rubles. In 2009, the MICEX became the first Russian exchange to reach full member status of the World Federation of Exchanges, a great boost to its legitimacy and international status. 2011 saw the RTS and MICEX exchanges merge into the MICEX-RTS. Now both of these indices and exchanges are part of the Moscow Exchange umbrella (MICEX-RTS was re-branded as MOEX, or simply Moscow Exchange, in 2012), which is today the largest exchange in Russia – similar in that respect to America's New York Stock Exchange. The RTS and MICEX indices are both "capitalization-weighted composite indices calculated based on [the] prices of the 50 most liquid Russian stocks of the largest…Russian issuers with economic activities related to the main sectors of the Russian economy presented on the Exchange" (Moscow Exchange, 2016).

3.2 CURRENT MARKET CONDITIONS AND OUTLOOK

In 2016, the Russian stock market is considered by most to be a good place for investors from all over the world. From January 2016 up to now, the index has steadily climbed up, and as of September 30, 2016, was at 1,978.00. The MICEX was actually the 5th best performing stock market in the world in 2015. What has been shown by sanctions is that they actually make stocks, at least those on MICEX that are ruble-denominated, a bargain which can be easily capitalized on. But, according to Matthew Lynn of MarketWatch, the recovery has only been modest and may not sustain growth for a long period of time, meaning that the stock markets going up cannot be something that is expected to keep happening. So for those who are able to brave some risk (a recurring theme with Russia), the markets are a great place to invest currently but if any sign of a slippage occurs, the markets could come crashing down again very quickly. Until technological industries can find a solid, profitable place in the Russian economy to diversify the risk involved with natural resources, Lynn believes that the stock markets will continue to ebb and flow as commodity prices increase or decrease.

As mentioned earlier, the huge rally of the MICEX is largely due to the fact that rubles are so undervalued compared to the dollar. The RTS USD-denominated index has been performing rather poorly in comparison (at 990.88 as of September 30, 2016), when its levels in 2012 were of the magnitude of 1,600. This index really shows that the recovery has not been as strong as Russia needs it to be. Despite this, it does not diminish the fact that conditions in 2016 *are* more favorable than in 2014 and 2015. The MICEX market is strong at the moment and the RTS is doing well in the current year, but the markets alone cannot prop up the Russian people. Continuing progress hinges on what the government does next. This situation is reminiscent to the U.S. stock market in 2016. It is still doing well, can be great to invest in, and is hitting record highs regularly, but this is largely due to the low interest rates. When the Federal Reserve decides to finally raise rates, most experts agree that the markets will drop sharply. It is much the same in Russia, in the sense that the high performance is more of a bubble, propped up artificially almost, and could falter at any time.

Below are three graphs. The first is the MICEX index over the last 5 years. The second is the RTS index over the same time period. Between these graphs, you can see that the RTS index, being USD-denominated, has not been nearly as strong as the MICEX over the longer-term. The third figure is a comparison between the MICEX, RTS, and the SPY ETF fund's (which mimics the performance of the S&P 500) returns over the last year up to September 30, 2016. Here is where you can really see how the Russian markets are rebounding strong in the current year. Whereas the SPY is normal at around a 13.31% return, the MICEX has returned 22.56% and the RTS has returned an impressive 29.54%. All of these graphs have been sourced from Bloomberg.

Figure 1: MICEX 5-year Performance

Figure 2: RTS 5-year Performance

Figure 3: Comparison in Returns Between RTS (orange), MICEX (blue), and SPY ETF (red)

4. Implications for America

A bad relationship with Russia can be summed up in three words: Cold War Two. Since the fall of communism in the early 1990s, the U.S. has been working towards having a much more positive relationship with Russia compared to the era before. Having Russia as an ally is good for everyone: from trading goods and services to understanding the cultures, the U.S. and Russia can both experience prosperity. However, with Russia's illegal annexation and occupation of Crimea and Eastern Ukraine, America cannot just step aside because it so strongly affects us and our ideals as a country. It would set a dangerous precedent for the future if the collective of Europe and the U.S. turned a blind eye to Putin's actions. The only logical response short of boots on the ground is one of politics, summits, and symbolism of things such as ceasefires. However, as we are moving into the autumn of 2016, it has become clear that most of America's policies have failed to deliver any real change. The sanctions especially have had a negative impact on the relationships with Russia that the U.S. and Great Britain have.

In recent months, Russia has been conducting military exercises over the Baltic Sea and coming dangerously close to NATO forces, which are also gathering near the Russian border in preparation for a worst-case scenario. While there may still be better ways of dealing with the problem non-militarily, pressure from NATO and the U.S. using troops and materiel as deterrents would be likely to produce results when compared to the dismal performance of political policies. The main goal of all parties, of course, is to avoid an all-out war, despite the threats both sides have thrown and the mind-games that are being played. If the U.S. and NATO prove to Russia that they cannot get away with what they are doing, it is likely that they will back down from future moves of a similar fashion.

Moving forward as a country, we always want to improve our global relationships, especially with world powers like Russia. With continuing sanctions, we need to look at it in the economic sense of the law of diminishing returns. At some point, the sanctions will become simply ineffective. In fact, in a recent forum about Russia put on by the Milken Institute, experts on Russia discussed the current situation that the country finds itself in and brought forward some interesting points. Called "Russia: A Riddle Wrapped in a Mystery Inside an Enigma?", Steven Hellman, the former CEO of Credit Suisse for Russia and the Commonwealth of Independent States, said that Russia is now seeing sanctions as being in place indefinitely and country leaders are factoring their effects into new policies, basically rendering them completely redundant. On top of ineffective sanctions, the West's current policies allow for anti-Western leaders in Russia to push their agendas against the West and raise the level of nationalism, which is potentially dangerous. It could lead to the new Cold War scenario mentioned earlier. Our leaders need to be 100% transparent with their intentions and be keenly aware of what direction Russia is turning; they need know when enough is enough and when new ideas are needed.

Also according to the Milken Institute, there are some more consequences we should be aware of from isolating Russia, beyond giving anti-West leaders the power to change the climate of the country as previously mentioned. Isolation will make Russia more unpredictable, while reinforcing their military-industrial complex, still very strong from the USSR era. With isolationism also comes restriction on information, which along with lower levels of tourism and international business for foreigners, allows the next generation of Russians to develop the anti-West feelings we have tried so hard to quell since the fall of communism. As Westerners, we should do our part to look beyond the propaganda of both countries and learn everything possible about Russia and its incredible people. We can do trade with them and interact with them online and by visiting Russia to show that we are not hostile, as their government may want them to believe. In the fragile world we live in it is imperative to realize that governments are not the people. Globalization and trade is the key to the incredible growth in medicine, technology, and overall quality of life that humans have experienced in the 20th and 21st centuries. Hopefully there will be a way to resolve the issues before more permanent rifts and wars occur.

5. Russian Citizens' Viewpoints

The Russian culture is drastically different to the culture that those in the West are used to. Because it is part of Europe and also Asia, an interesting mix has created a truly unique country. Even though the Asian part of Russia far exceeds the European part, the Slavic ethnic group of people makes up around 80% of the population. However, in that remaining 20% there are an estimated 85 groups of native peoples of greatly varying characteristics and origins. There is a Jewish autonomous oblast, Tatar- and Bashkir-dominated Muslim republics, and groups like the Buddhist Buryats in the Republic of Buryatia in Eastern Siberia. However different these groups may seem, there is one underlying trait that they have in common. As Liliya Vansovich (Russian professor at WMU) summarized, "during the communist era of the Soviet Union, a complex culture of subordination developed in which peoples learned to submit to the higher authorities and rely on the government to provide their basic needs." Because of this, there also developed the "stereotypical" characteristics of Russians; they tend to be skilled at deception (mainly in terms of the government) in order to gain advantages for themselves and their loved ones. The capitalist reforms of the last 20 years have greatly challenged the way Russian culture was, because it has been such a drastic shift in society. This is evident in the way Putin treats his inner circle of friends and how the oligarchs came to power during the initial reforms. These generalizations may be true, but it must be kept in mind that they are mainly referring to the older generation of Russians. Those born after the fall of communism are more likely to be influenced by Western ideals and culture.

However bleak this makes Russians look, following are some real perspectives from people who have either visited Russia or have lived in Russia for their entire lives, which show that the Russian spirit is tough to break, no matter how hard economic times may seem. Russians are very emotional people and loyal towards their loved ones. As Maria Johnson, a Western Michigan student, observed when she visited her biological family in Russia, "The Russian people have such big heart and the landscape has such beauty…everywhere I met very kind, hard-working people." She did not witness any of her Russian relatives complaining about their lives, and they all expressed great enthusiasm about the future of their country. If they had one complaint, it is that there is still too much bureaucracy for capitalism to work to its full effectiveness, and bribes (which are a by-product of the communist era culture, as already stated) are still rather common, unfortunately. As far as the sanctions go, Maria's family did not feel that they had adversely affected the small businesses in their city of Stavropol, a city which is located approximately 1400 km south of Moscow.

Anna, an entrepreneur who lives in Moscow, summed up her thoughts in a Skype conversation with Liliya Vansovich (translated from Russian):

"Our country is huge. I don't know how the peoples beyond the Urals deal with economic sanctions against Russia, which I personally consider absolute political nonsense, but the life of the people in Moscow and in nearby regions did not seem to change a lot. I am sure that these economic sanctions also harm those who imposed them (I have business contacts with Germans and Italians, and they complain a lot about that). They certainly impact us, but not as much as it was meant to. Most of my acquaintances and friends do not think that economic sanctions impact them personally, although they now face price increases, inflation, lower wages and pensions. But, again, these domestic economic problems are the result, first of all, of the failed economic programs of our government, and are not the consequences of the imposed sanctions.

"Still, I'd like to emphasize the idea that the finances of my relatives' families are in fair shape and they are sure that their financial situation will improve in coming years. You probably won't believe it, but the sanctions somehow impact us in one positive way: they make us work harder, look for different ways of conducting business, seek and develop the natural and human resources within our country. We need to stop being lazy and [only] rely only on oil and gas. Some of our leading economists cautioned long ago that the country needs to expand production [to things other than natural resources], not simply export fossil fuels to ensure stable growth. Russians are strong, and this situation with sanctions makes people even stronger. You've definitely heard the expression "New Russians". They are different from Russia's mafia. I am a true representative of "New Russians". We are young people with sharp minds (because we survived the horrible period of transition from socialism [and communism] to today's something + ism) and a nose for business, coupled with a taste for conspicuous consumption (thank God this kind of addiction to things is gradually disappearing), foreign real estate (Russians have real estate all over the world) and extravagant holidays abroad.

"I would say, these sanctions did Russians (we might not yet have realized it completely) a big favor: people unite their efforts to overcome these temporary obstacles, and their pride for the country and for themselves keeps growing. There are definitely people in Russia who think differently and feel differently, but these sanctions, no doubt, increased patriotism in general and confirmed our stable cultural values: firm loyalty to the family and boundless generosity towards those we know, our fierce patriotism and resilience that has served us well under Stalin's purges, the "Great Patriotic War" of 1941-1945, and the whirlwind of capitalism (actually a something + ism) with its accompanying hardships that we are facing currently."

Anna was also kind enough to provide her opinion on how Americans think of Russia:

"I visited New York in 2013 as the representative of our tourist agency. It was my first visit to the U.S. Of course I tried to see as much of America as possible. I traveled a lot, met with many representatives of different tourist agencies regarding the possibility of business cooperation in the future, talked to people in restaurants and other public establishments, and was surprised how little common Americans know about Russia and [the] Russian people. And I think it's the biggest barrier in establishing better understanding between our nations. Don't listen to "propaganda". Get on the plane, come to our country, live and work here for a while, immerse yourself in culture, traditions, and language, and then, probably, you'll start getting the sense of the value of Russia and [of] our people for the world."

Professor Vansovich was lastly able to speak to a deputy of the Administration of the Tula District and the city of Tula, which is in the Tulskaya Oblast about 200 km south of Moscow. Liliya describes him and his opinions on the Russian people as such:

"His name is Alexander and he is 29, part of a new breed of consultant apparatchik, young and flush with enthusiasm to make Russia a better place. He admits that the biggest problems of the common Russian people are bureaucracy of all governmental structures, the still unclear taxation system, bribery, and nepotism. These problems for him come first in his work. He is determined to fight them with all possible means, and strongly believes that a new generation of "apparatchiki" (people serving in governmental establishments) is coming, who are honest, disciplined, and ready to serve Russian people, not to be above them.

"At the same time he emphasized that there are many attractive aspects in Russian society today, and the one he is mostly proud of is its supportive and generous social programs. These social programs (free education, health care, etc.) help millions of Russians today manage to get by on what appears to be impossible sums of money according [when compared to] wages in the West."

The following are Alexander's brief thoughts about how he sees himself and the sanctions:

"I consider myself a patriot, since I love my country and want it to prosper. I work in [the] state service. My goal in life is the prosperity of Russia and its people. Imposed economic sanctions bother me. But we have tremendous resources within the country and people's support to minimize the impact of them."

6. Conclusion

As a nation, Russia is facing some serious growing pains that come along with being a fairly new (in political terms) country. The remnants of the Soviet-era culture are still alive today, albeit mostly in the older generation of Russians, and it still affects how Russia's leaders see the world. It should come as no surprise, then, that Russia annexed Crimea on shaky claims and with strong-arm tactics. To the Western world which did not understand the Soviet Union and its culture, this new Russia is much the same way, marred by stereotypes that are unhelpful for seeking out the truth.

Russia's annexation was coupled with a sharp decline of oil prices in the same year, which lead to a huge market downturn for them and renewed hardships. Rubles lost value considerably, going from around 35 RUB-1 USD to highs of around 75 RUB-1 USD. Slapping the sanctions on added insult to injury, but Western leaders could not come up with a better plan for this misunderstood nation. But, 2 years along, Russia is beginning to show the world what it is made of: the CBR and government worked together on policies to combat sanctions (which did increase prices, but for the long-term can be helpful). With "permanent sanction" scenarios in place, the CBR and government can adjust the economy through policies which will allow for prosperity in spite of worsening relationships with the West.

Americans in particular will need to wake up to the reality of Russia and react accordingly. Yes, America cannot and will not stand for people losing their freedoms (like in Ukraine), but we need to remember as a country the need to learn about these other cultures so that our dialogues with them can be more productive. America has been Russia's nemesis for the majority of the 20th century and there is no need for this in the modern age. Working together will be a challenge, because this is a give and take relationship and Russia will need to give on certain things as well, and it will be best for all if we can do so.

Despite the bad foreign relationships, less-valuable rubles, and sanctions stopping Russians from trading effectively with the West, Russians have always proven themselves to be extremely resourceful and positive no matter what the situation. A look through their history will confirm this, what with the tsars, Stalin's purges, and the "Great Patriotic War" (WWII). The shift to capitalism is still a long way from fully realizing its potential in Russia, but the people's strength will no doubt carry them through. In the end, Russia has stood the test of time, and will continue to do so for generations to come.

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