



# Russian Federation

## Recent Economic Developments and Challenges

IMF MOSCOW OFFICE

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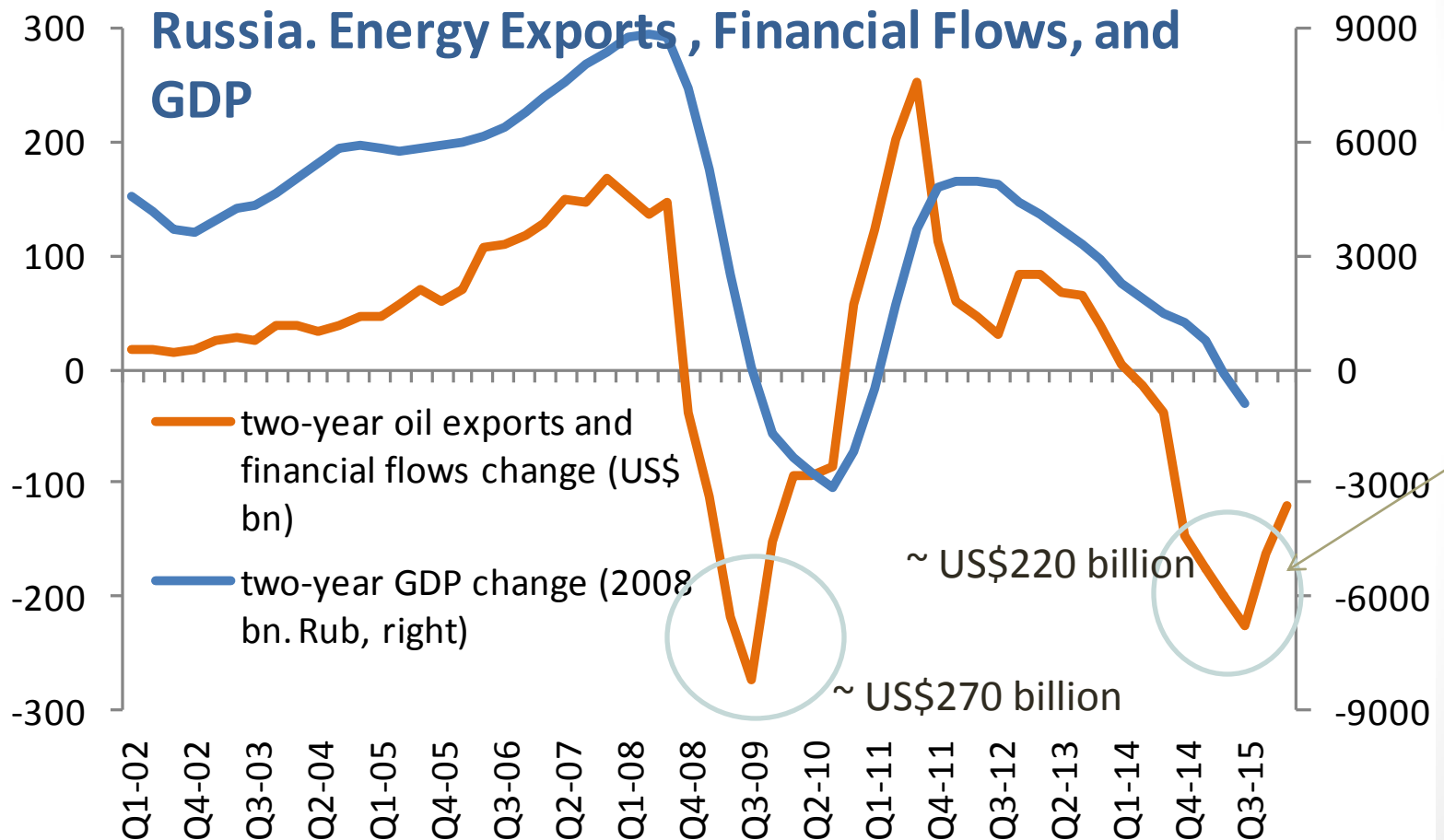
# Summary

- Lower oil prices and sanctions hit the economy in 2014-2015: Strong change in Relative Prices (the Real Exchange Rate).
- A timely and appropriate policy response contributed to avoiding a stronger GDP downturn in 2015 (3.7 percent).
- A second-round of oil price decreases will postpone the recovery for late 2016 and 2017, which will be gradual. Increasing long-term growth requires further structural reforms.
- Risks: Lower oil prices and geopolitical tensions, though a number of mitigating factors are in place.



# Shocks: Lower Oil Prices and Sanctions...

Lower oil prices represent 2/3 of the shock. Combined shocks of a size similar to that in 2008-2009.



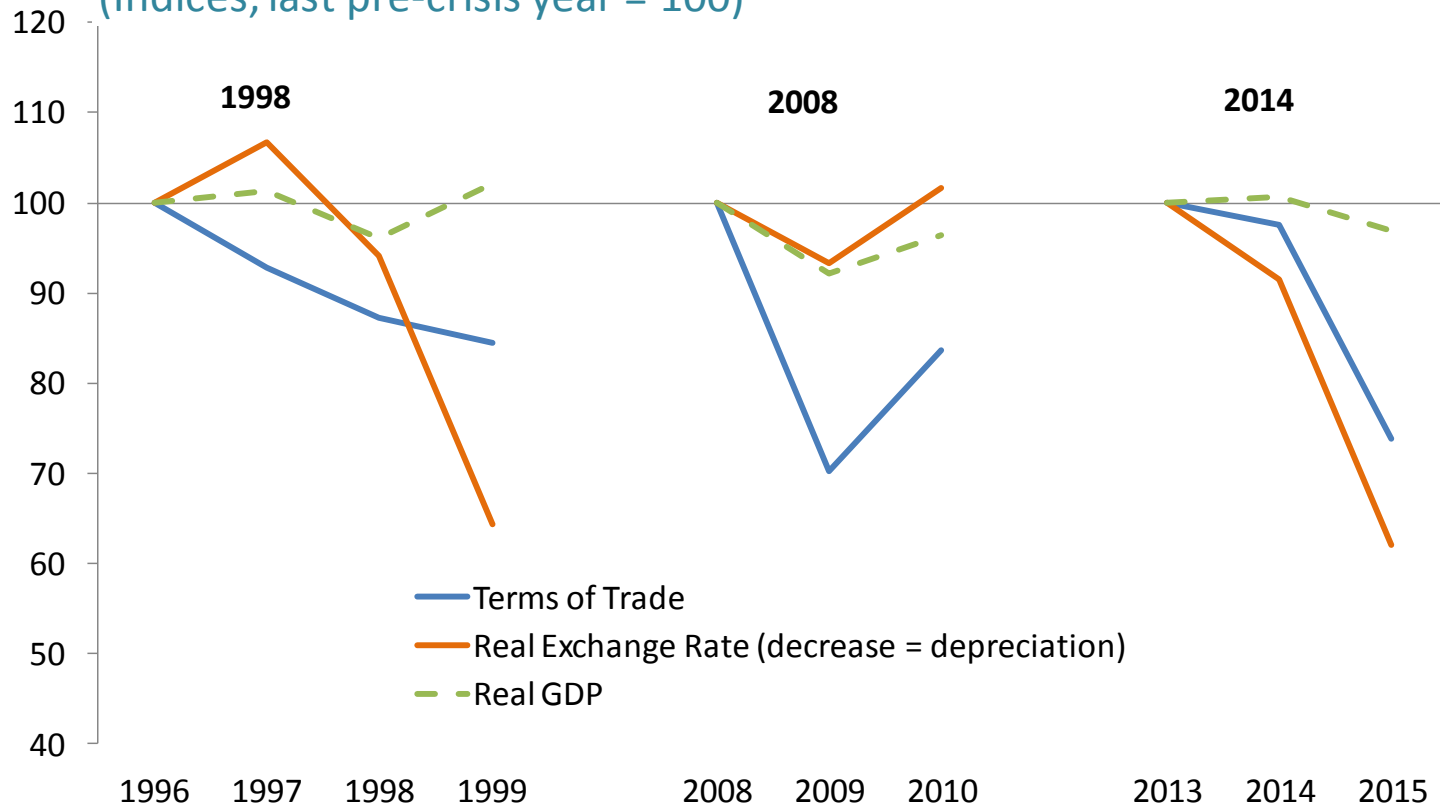


# ...prompted a change in nominal anchor and RER depreciation...

The floating Ruble facilitated the adjustment to external shocks in 2014-15, in contrast with 2008-09...

## Terms-of-trade, Real Exchange Rate and GDP Dynamics

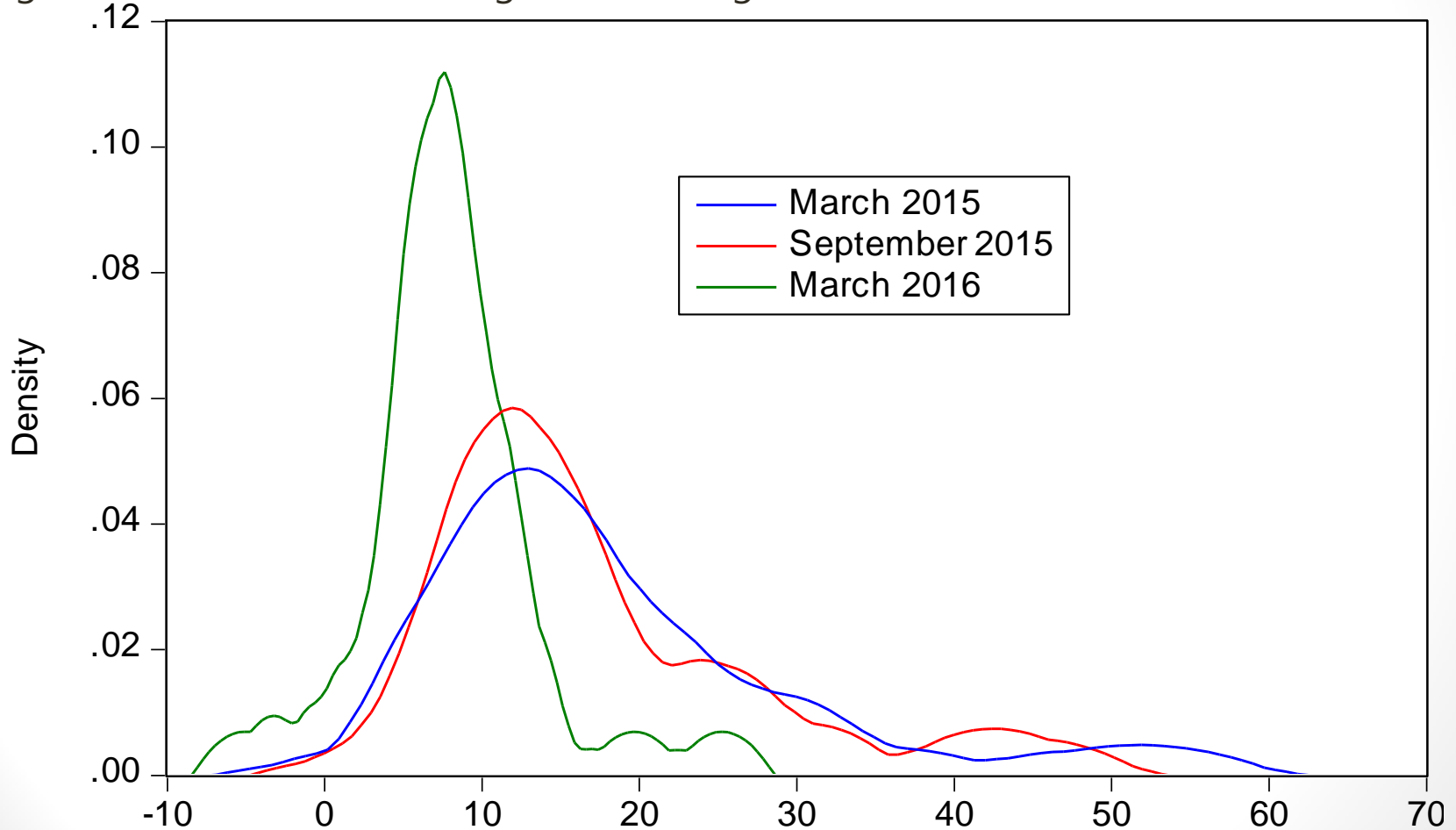
(Indices, last pre-crisis year = 100)





# ...inflation dispersion is decreasing...

As the relative price change subsides, y/y price increases of different types of goods become more homogenous in magnitude

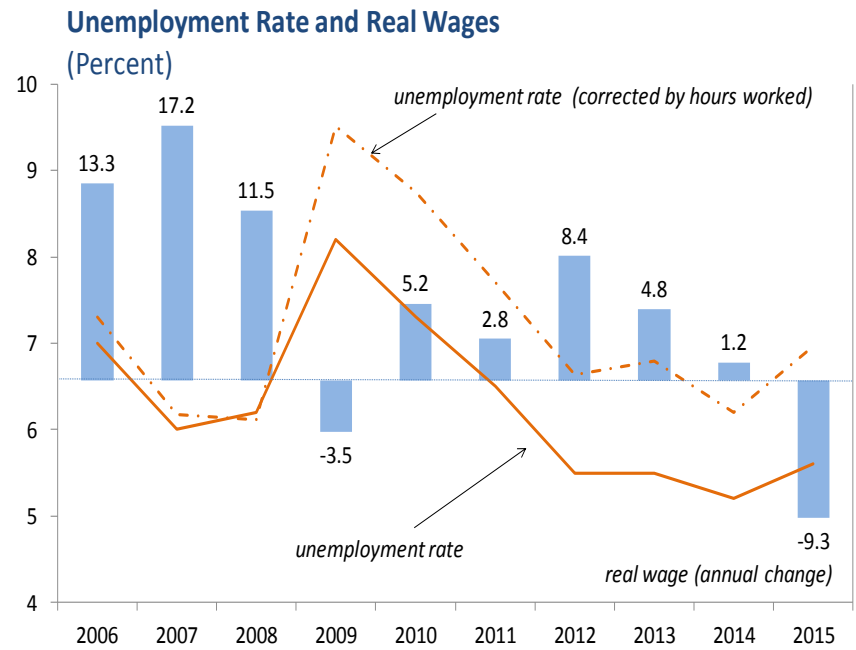
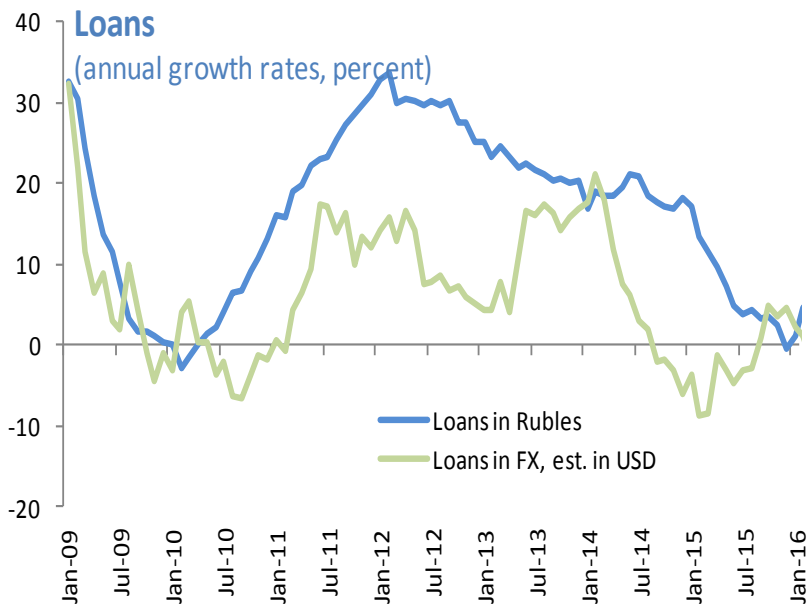




# ...bank credit growth decelerated and real wages decreased....

Bank credit decelerated given tighter lending conditions...

...and real wages decreased as economic slack increased.

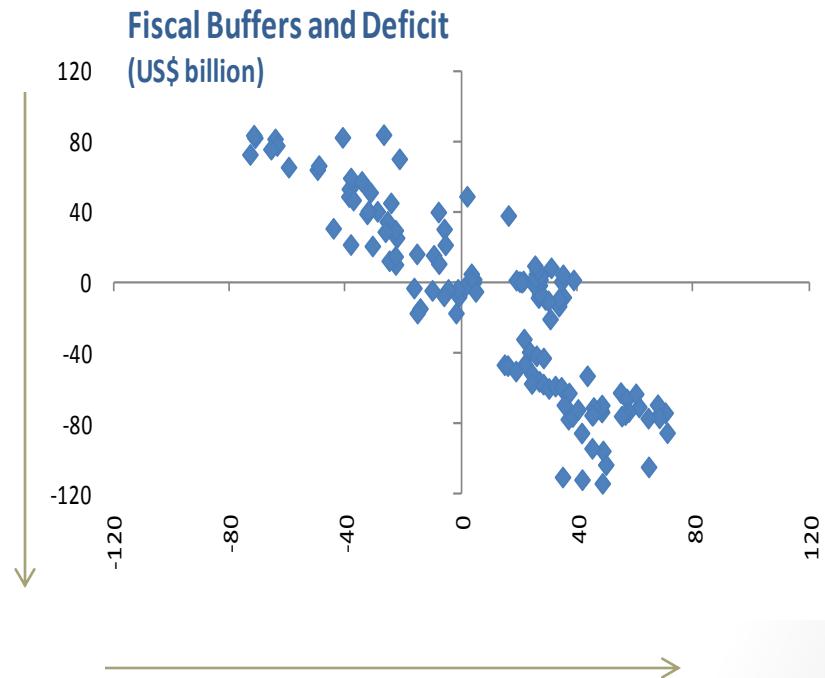
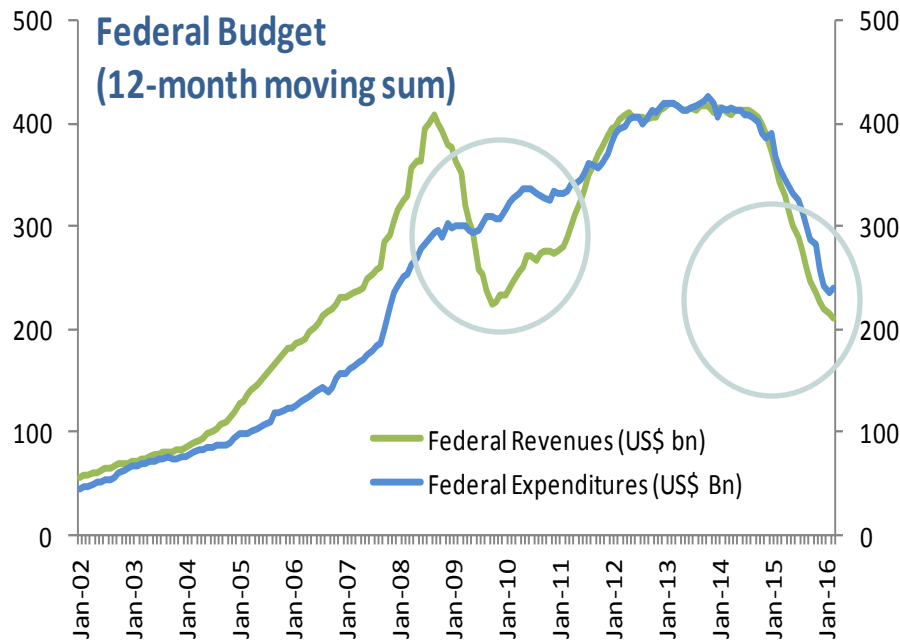




# ...the change in relative prices contributed to fiscal adjustment in US\$-terms...

Government expenditure decreased in US\$-terms

...and the deficit kept being financed by decreases of US\$-denominated Fiscal Buffers...

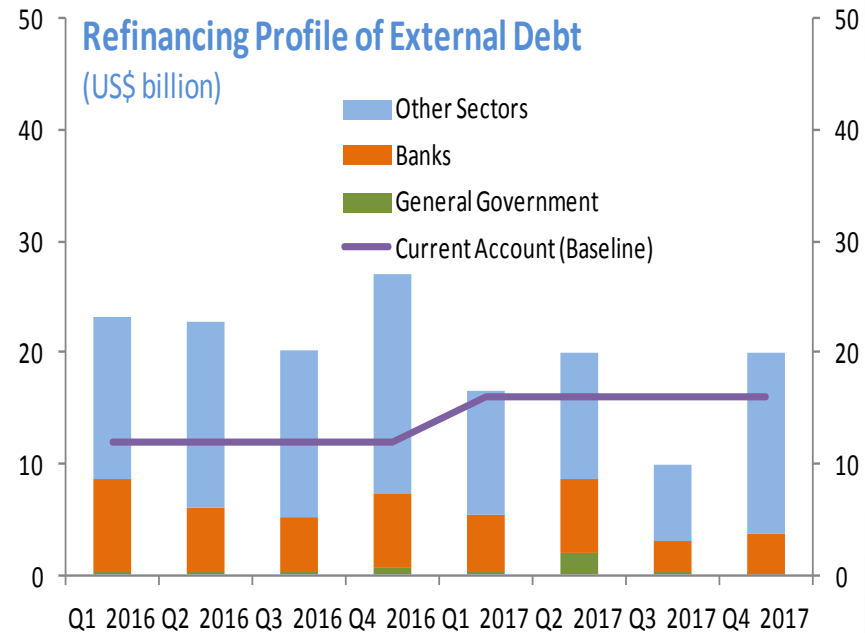
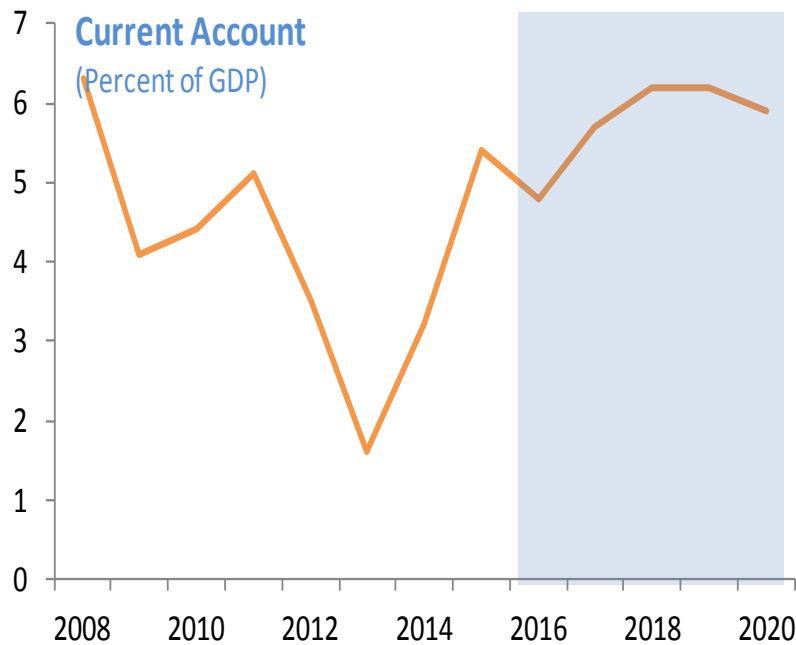




# In 2016, the external surplus should help covering external debt falling due

Lower imports are helping offset lower energy exports...

...and will help manage to pay external debt falling due

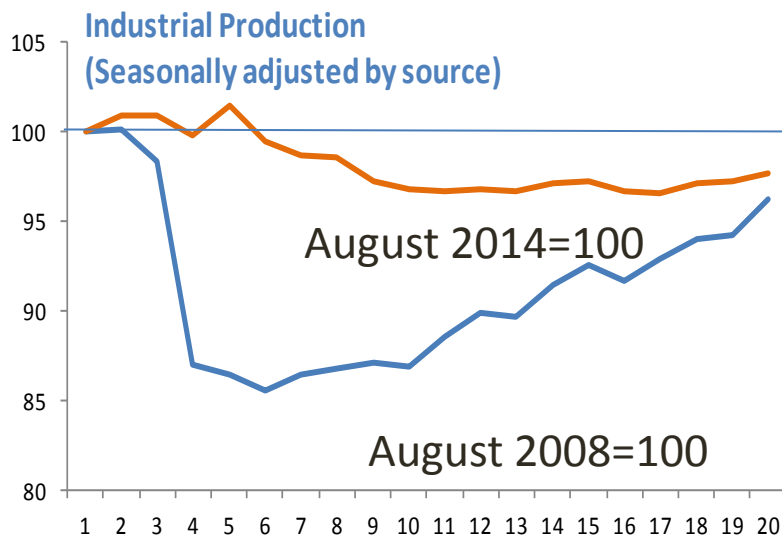




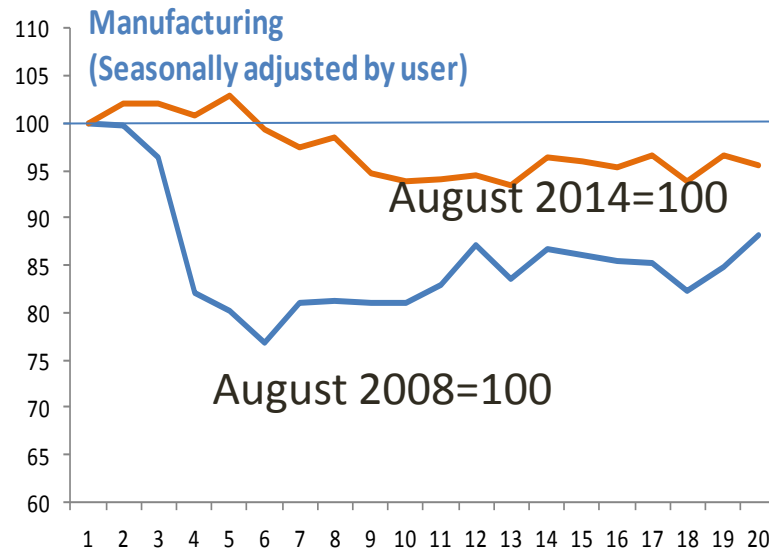


# ...better relative prices should help economic recovery...

Industrial production did not decrease as much as in 2008-2009...



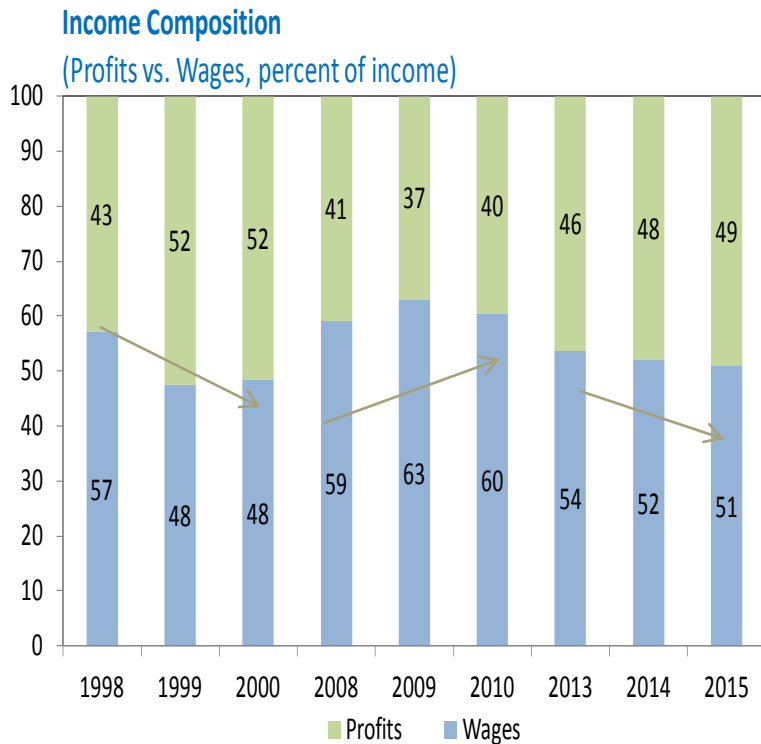
...and performance in manufacturing was better but shock persistence is affecting speed of recovery



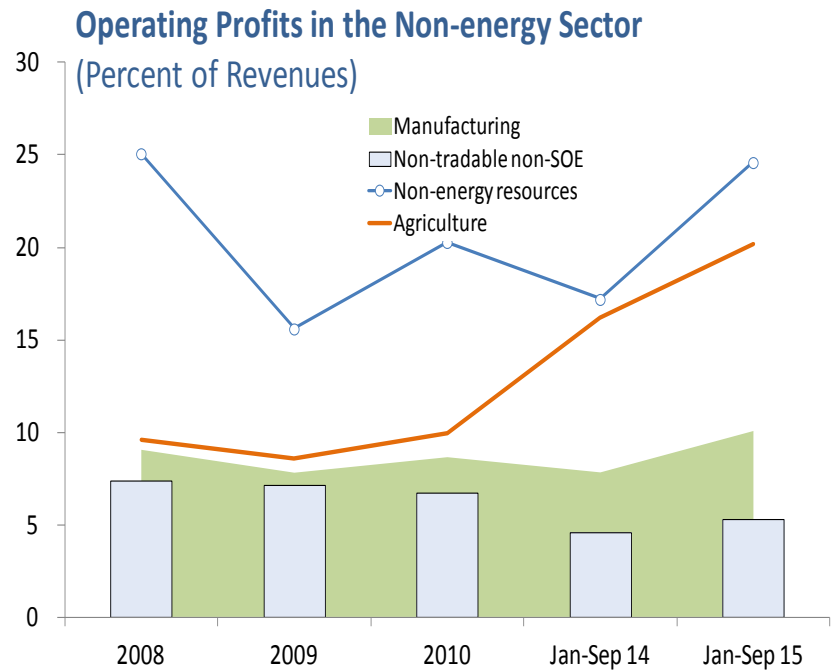


# ...as costs and profits realign to new relative prices...

Wages are decreasing as a share of national income...



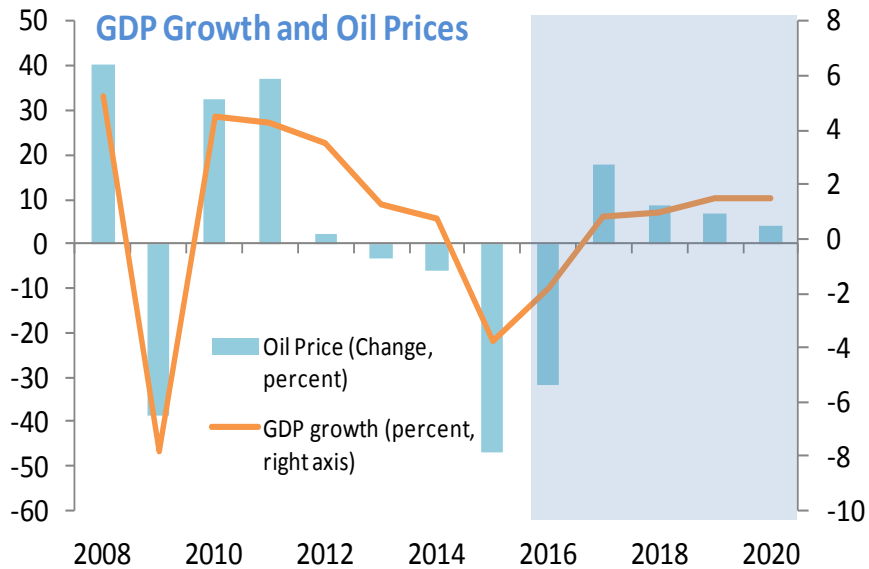
...and operating profits of tradable sector activities are improving...



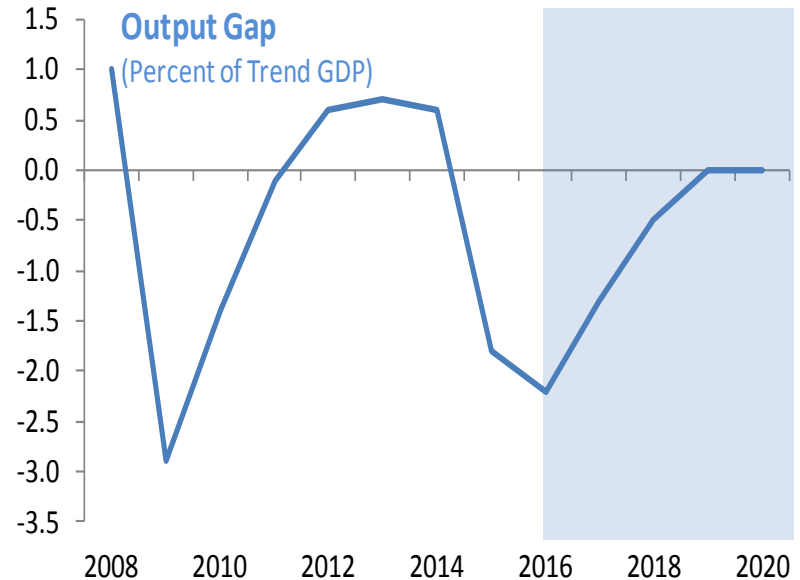


# ...however GDP growth will be negative again in 2016 and recovery will be gradual

Growth is expected to be again negative in 2016 (but better than in 2015)...



... and the economy to continue to operate below full capacity.

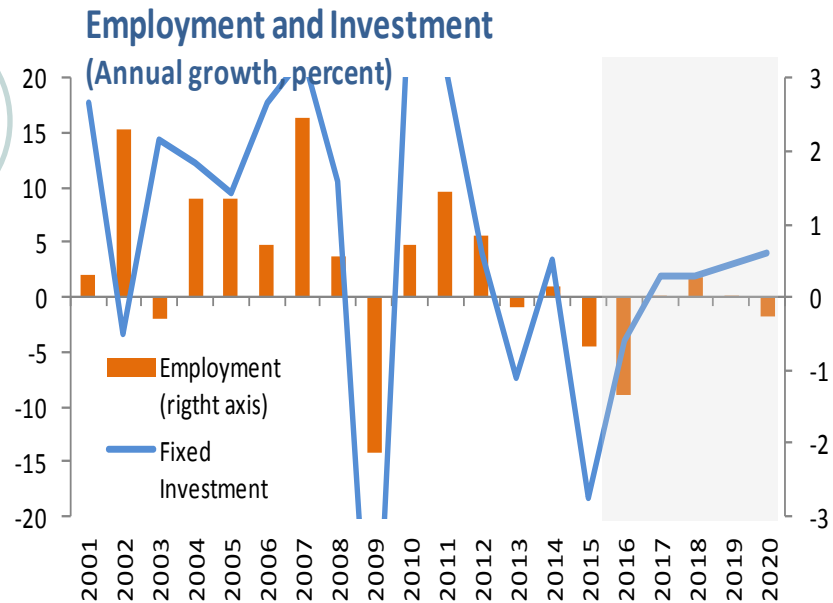
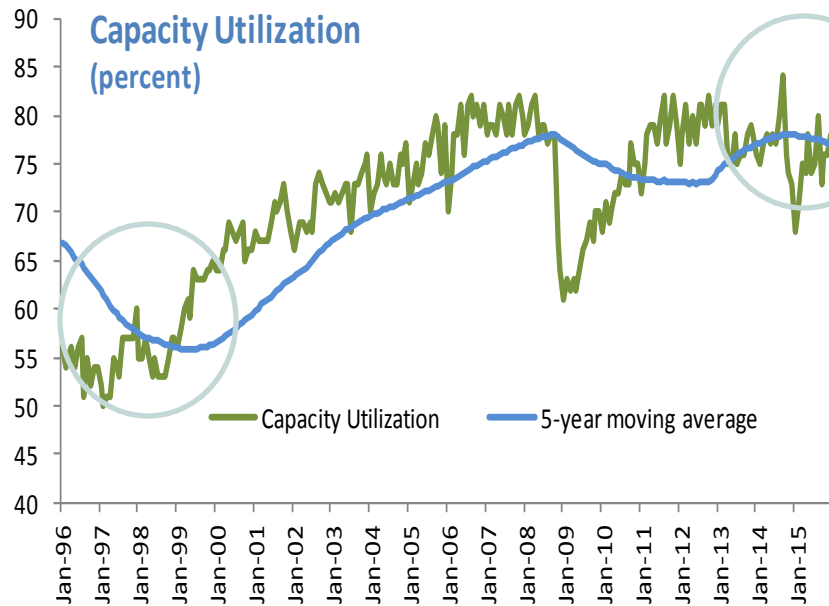




# ...and further structural reforms will be needed to increase long-term growth

The economy operated close to full capacity in 2014-15...

... and long term drivers of growth are expected to remain modest.





# ...there has been some progress but much remains to be done...

There has been progress, but in many indicators Russia still lags the OECD average...

Level in 2015	Change (2015 vis-à-vis 2006)					Grand Total
	Much Better	Better	No Change	Worse	Much Worse	
<b>High</b>	4	4	4	1	3	17
<i>of which , 2015 highest in series</i>	3	3	2	0	0	7
<b>Average</b>	0	0	0	1	0	1
<i>of which , 2015 highest in series</i>	0	0	0	0	0	0
<b>Low</b>	4	5	4	1	1	14
<i>of which , 2015 highest in series</i>	4	2	1	0	0	6
<b>Very Low</b>	15	18	15	18	4	68
<i>of which , 2015 highest in series</i>	9	5	3	0	0	17
<b>Grand Total</b>	23	27	23	20	7	100
<i>of which , 2015 highest in series</i>	15	10	5	0	0	30

Source: Global Competitiveness Index (GCI) Indicators and IMF staff calculations

## With respect to Policy Mix...

- **Monetary policy** normalization should proceed as inflation and inflation expectations are anchored towards the target. **The change in relative prices** needs to be accounted for when evaluating policies.
- **Medium-term fiscal consolidation should continue**, but without compromising the recovery. The budget for 2016 should preserve **public investment** and the social safety net. **Medium-term budgeting** should resume and the **fiscal rule** should be simple and allow to react to oil price swings.
- Latest measures on **Regulatory Forbearance** are appropriate but should be temporary.

# Risks

## Downside Risks

- Lower Oil Prices for longer – A mark down in growth in emerging economies (hard-landing in China)
- Increase in Geopolitical Tensions
- A bout of financial volatility – Disruptive Asset Price shifts

## Upside Risks

- Oil prices rebound
- Geopolitical tensions subside
- **Structural Reforms advance faster**

# Several (and substantial) mitigating factors

1. Low public debt
2. Low (headline) fiscal deficit
3. Large FX reserve buffers
4. Current account surplus
5. Positive IIP
6. Flexible exchange rate regime
7. More competitive real exchange rate level



**Большое Спасибо (Kiitos)**