

Russian Federation

From Stabilization to Growth: Achievements and Challenges

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Summary

Two angles for analyzing Russia's economic performance:

- 1. Short-Term: Adjustment to lower oil prices and sanctions**
 - Timely, appropriate, policy response safeguarded the economy from a stronger downturn in 2015.
 - Stabilization to occur in 2016.
 - Growth to resume in 2017.
- 2. Long-Term: Growth model based on high oil prices is exhausted**
 - Even if oil rebounds, impact on growth temporary
 - Need to diversify outside of oil
 - Need consistent implementation of targeted reforms

Russia: Adjustment to Shocks

Right and Timely Economic Policies smoothed out adjustment in 2015 and lay the ground for more diversified growth going forward

1. **Monetary and Financial Policies:**

- Adoption of inflation targeting - Floating Exchange Rate eases adaptation to external shocks
- Shocks to banks were minimized

2. **Fiscal Policy:**

- Moderately supportive of demand in early 2015
- Has adapted to lower oil prices for longer



Russia: The Economy in the Near Future

Economy to stabilize in 2016 and resume growth in 2017

(barring new shocks).

1. 2016:

- Average growth still negative, but sequentially no contraction is expected in the second half of 2016
- Inflation will continue decreasing to about 6.5 %

2. 2017:

- Average growth positive (around 1 %) and picking up to long-term trend towards end of year
- Inflation to continue convergence to CB target



Russia: Policy Challenges in Near Future

Challenges in all policy areas: appropriate policies essential to sustain growth and to take advantage of competitive wages and prices

1. **Fiscal Policy:**

- Smooth deficit reduction to reach a balanced budget by 2020
- Anchor federal budget to realistic oil prices and delink expenditure from oil price fluctuations
- Measures to restore balance should be growth-friendly

2. **Monetary and Financial Policies:**

- Decrease of key rate in June, adequate. Further decreases should be linked with continuation of current inflation trends
- Continued attention to quality of Bank assets to ensure a healthy sector



Russia: Finding a New Growth Model

Model based in oil prices and high unused capacity is exhausted:

Higher growth requires higher investment, productivity, and efficiency

1. Reforms are not an end in itself but means to an end:

- Anchored fiscal policy should preserve macroeconomic edge
- Safeguarding education, health and infrastructure expenditure needed to sustain competitiveness
- Taking advantage of market size requires less administrative pressures, opening to trade, reducing footprint of state

2. Competitiveness improved but still much to do:

- Some convergence to OECD competitiveness but progress slow
- Need to break Reform 'Cyclicalities'
- Need targeted reforms to leverage better relative prices



Russia: Implications for Regions

Needed actions similar to those at Federal Level

1. Policy actions should aim at:

- Ensuring prudent fiscal management, including efficacious and efficient government expenditure
- Infrastructure essential to reduce large logistic costs, connection of markets, inter-regional trade (PPPs)
- Administration should be business friendly

2. Initiatives to keep track of Regional Business climate are very useful

- Promotes good practices and competitiveness
- Chuvash Republic scores well in a number of them
- Such indicators need to be consistently published and open for external analysis and improvement



Russia: Risks and Mitigating Factors

External risks: Oil price and financial market volatility (Brexit, China) and geopolitical tensions.

Domestic risks: Mainly linked to fiscal policy implementation

1. **Mitigating Factors (Stocks):**

- Low public debt ratios
- Positive External Investment Position
- High levels of External Reserve Buffers
- Relative Prices broadly aligned with fundamentals

2. **Mitigating Factors (Flows):**

- Current Account Surplus
- Manageable Fiscal Deficits
- Floating Exchange Rates

Большое Спасибо