



**EUROPEAN
DEPARTMENT**

Economic Outlook for Russia in the European Context

**ASSOCIATION OF EUROPEAN BUSINESSES
DECEMBER 4, 2019**

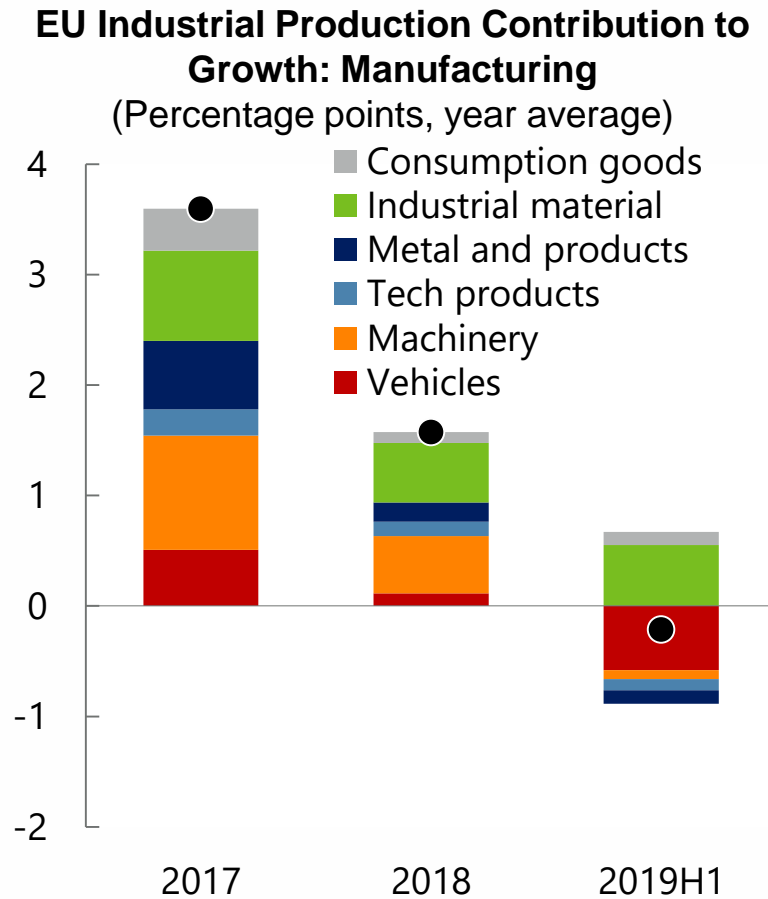
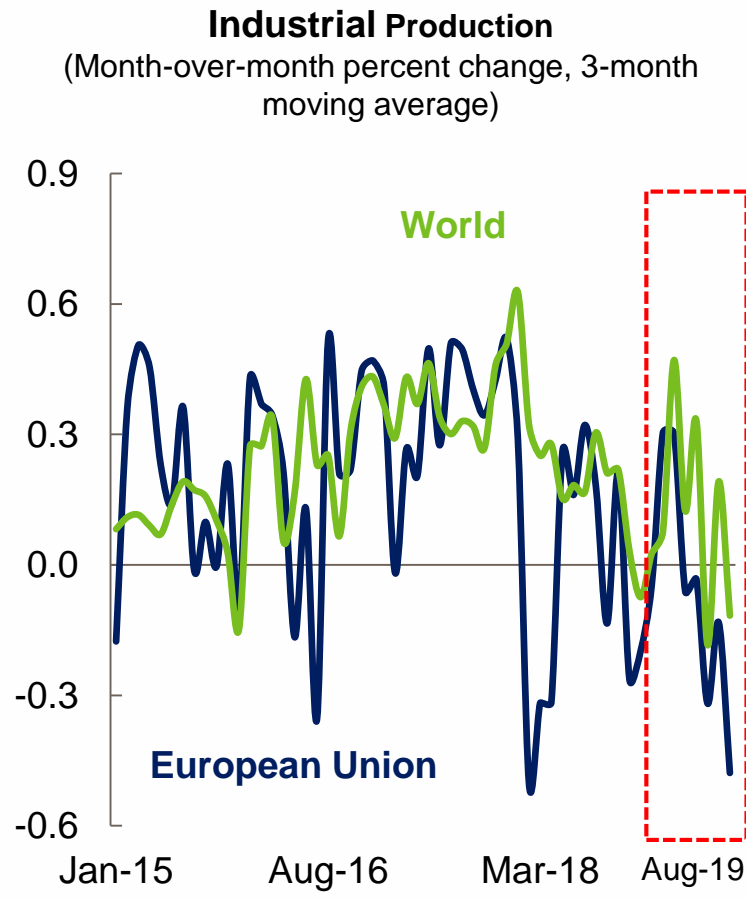
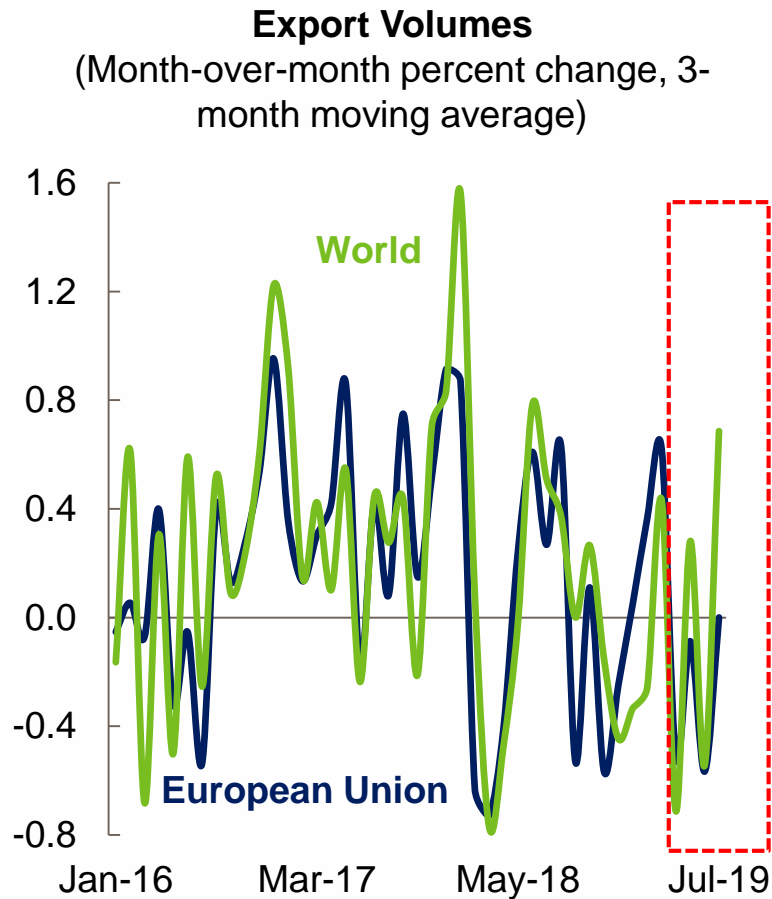
Annette Kyobe
Resident Representative – Russian Federation



Key points

- ❑ As in the rest of the world, Europe's manufacturing and trade have weakened considerably
- ❑ Europe's slowdown is mostly externally driven. But signs of softness in investment have started to appear
- ❑ Growth has been weaker in advanced Europe, while it has been robust in emerging Europe excluding Russia and Turkey.
- ❑ A modest recovery is expected for 2020. Risks are on the downside

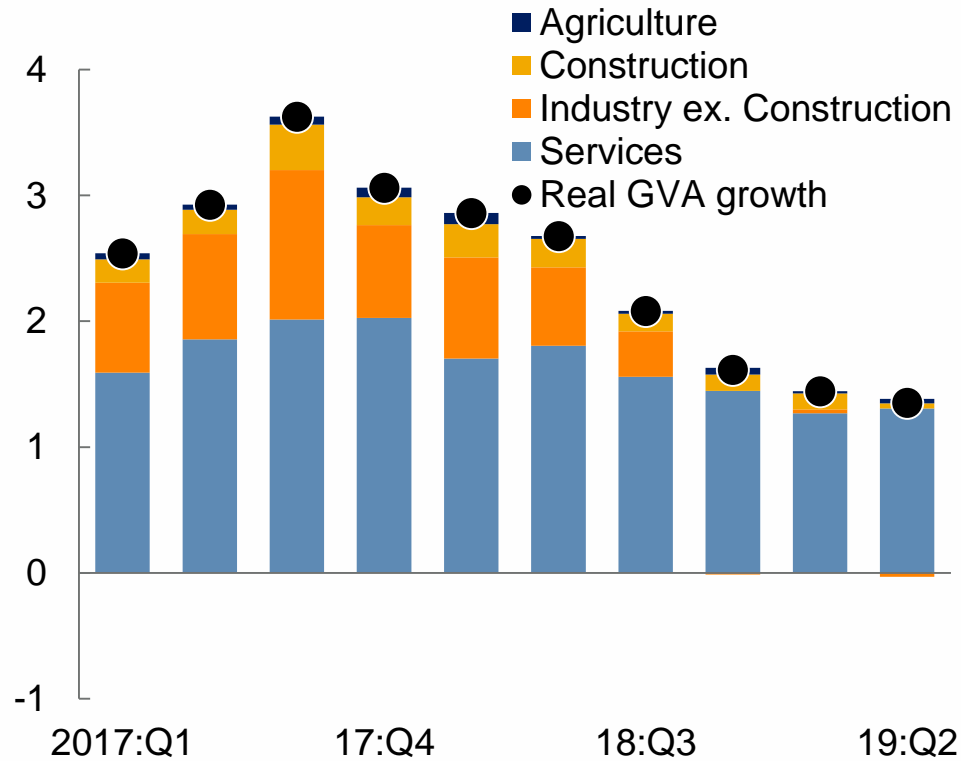
As in the rest of the world, manufacturing and export sectors in the EU have weakened driven by vehicles and machinery



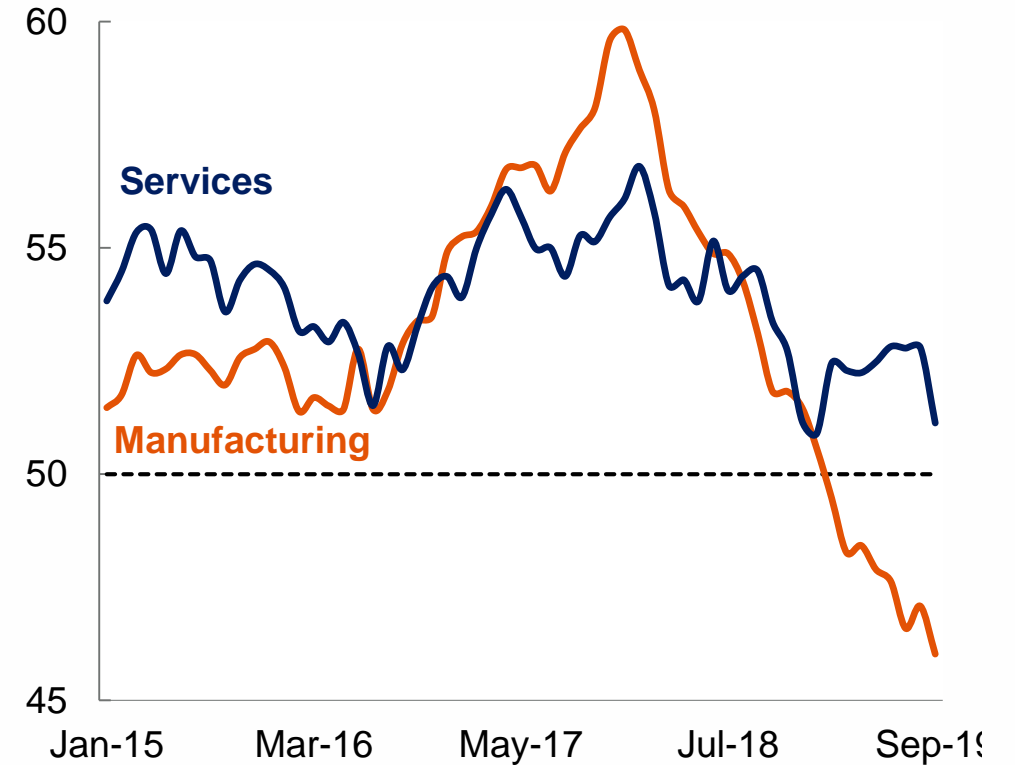
Sources: Eurostat; IMF, GDS; and IMF staff calculations.
 Note: EU exports are based on seasonally and working data adjusted data.

Europe's slowdown is mainly due to industry, but services have started to soften

Europe: Real Gross Value Added by Sector
(Percentage points; growth in year-over-year percent change)



European Union: Purchasing Managers; Index (PMI)
(Index, seasonally adjusted, 50 += expansion)

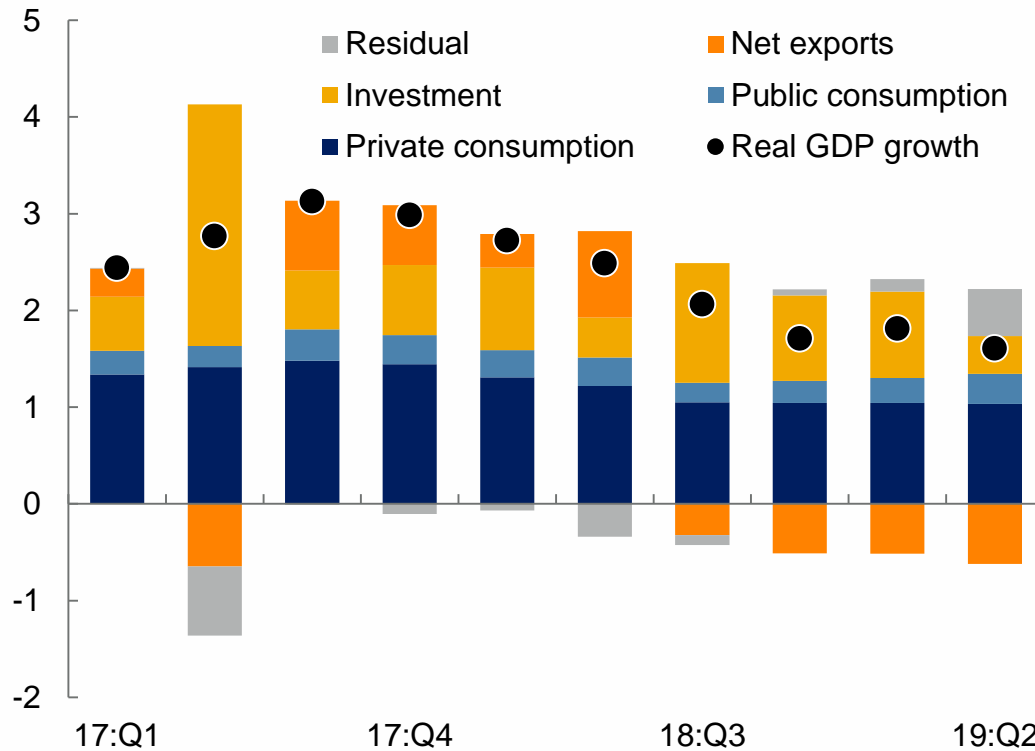


Sources: Eurostat; Haver Analytics; IHS Markit Purchasing Managers Survey; IMF, *World Economic Outlook*; and IMF staff calculations.

Net exports are driving the slowdown, but investment has also started to weaken

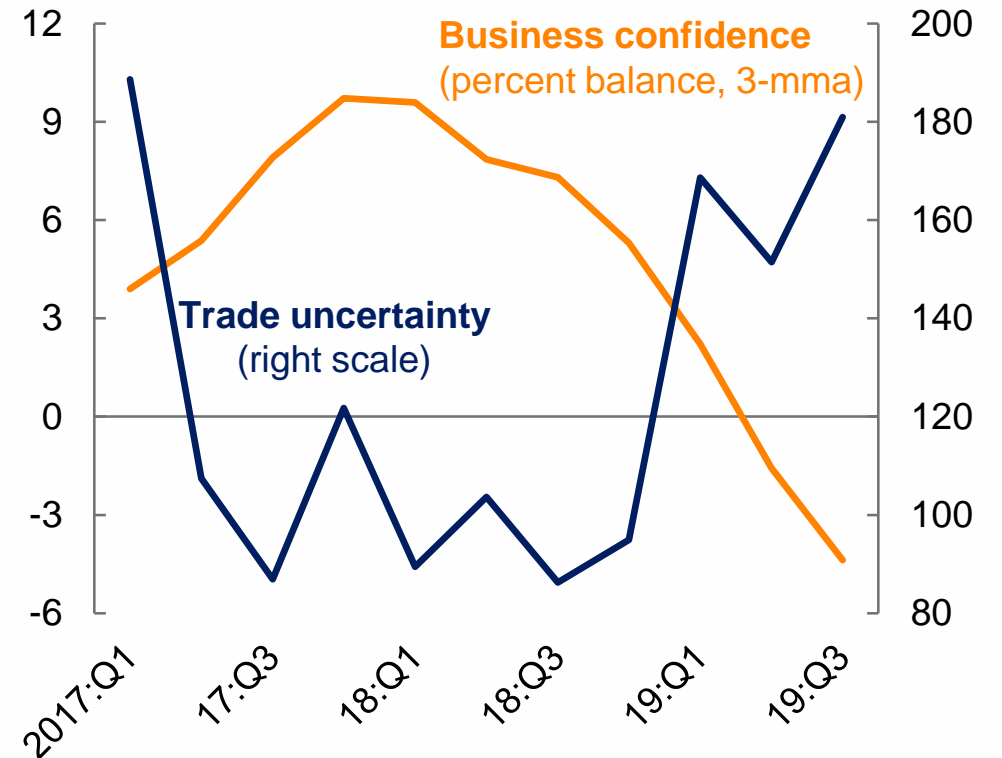
Europe ex. Russia & Turkey: Contributions to Real GDP Growth

(Percentage points; growth in percent change)



Europe: Trade Uncertainty Index and Business Confidence

(Index, 2014Q1=100)

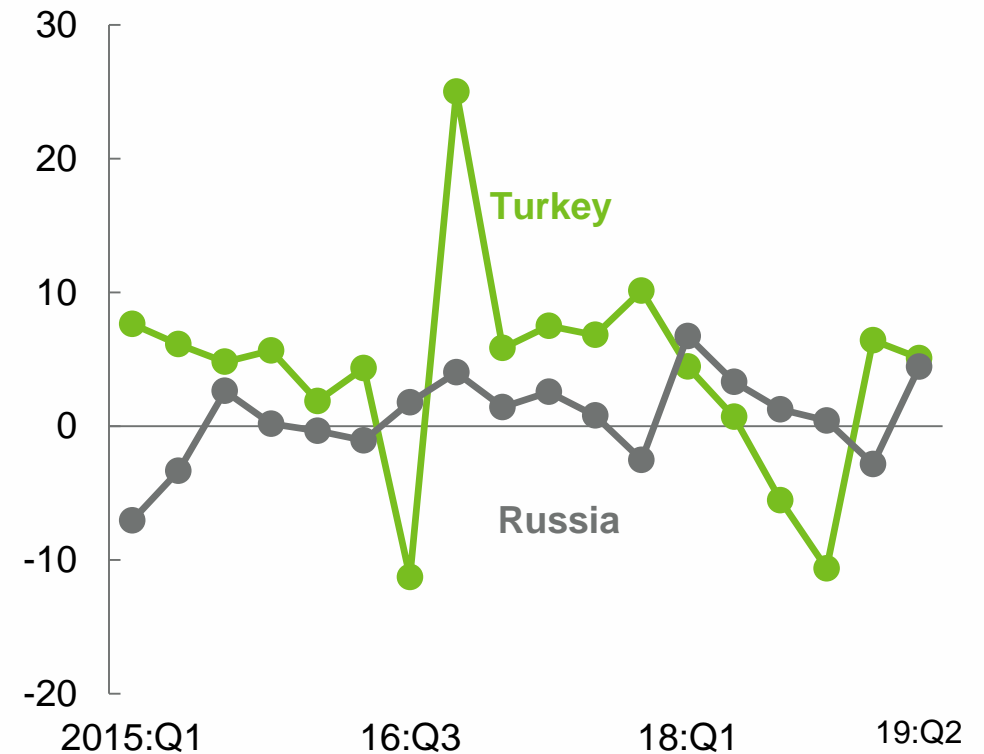
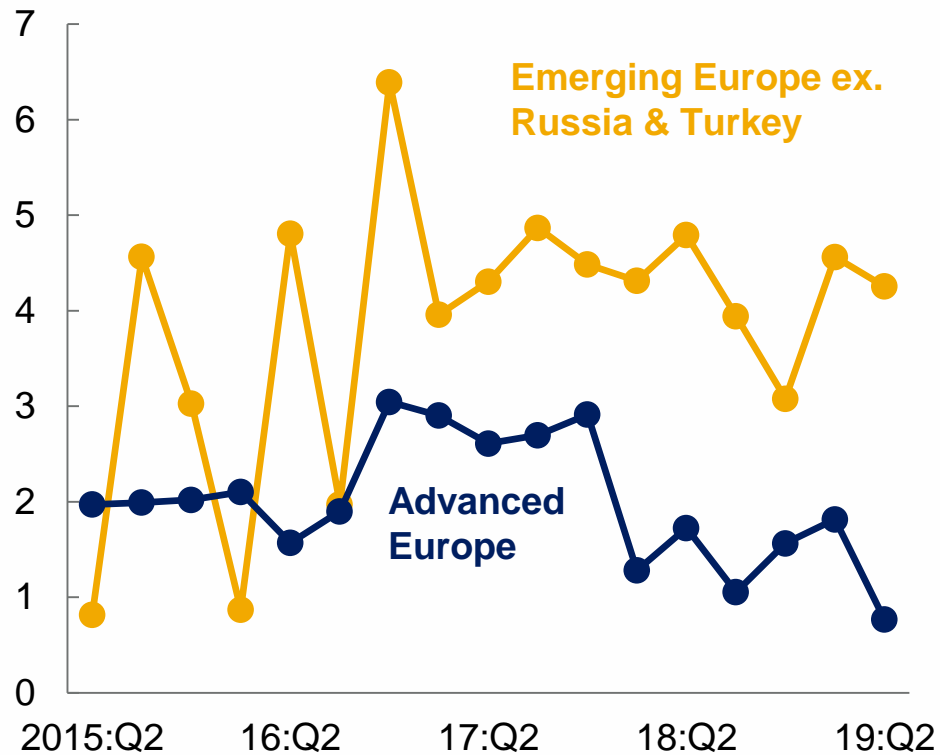


Sources: Eurostat; Haver Analytics; IMF, *World Economic Outlook*; World Uncertainty Index (WUI); and IMF staff calculations.

Note: Europe Trade Uncertainty Index: higher values indicate higher uncertainty.

Slowing growth in Advanced Europe (AE). Generally solid growth in Emerging Europe (EE)

Real GDP Growth
(Quarter-over-quarter percent change, annualized)



Sources: Haver Analytics; and IMF staff calculations.

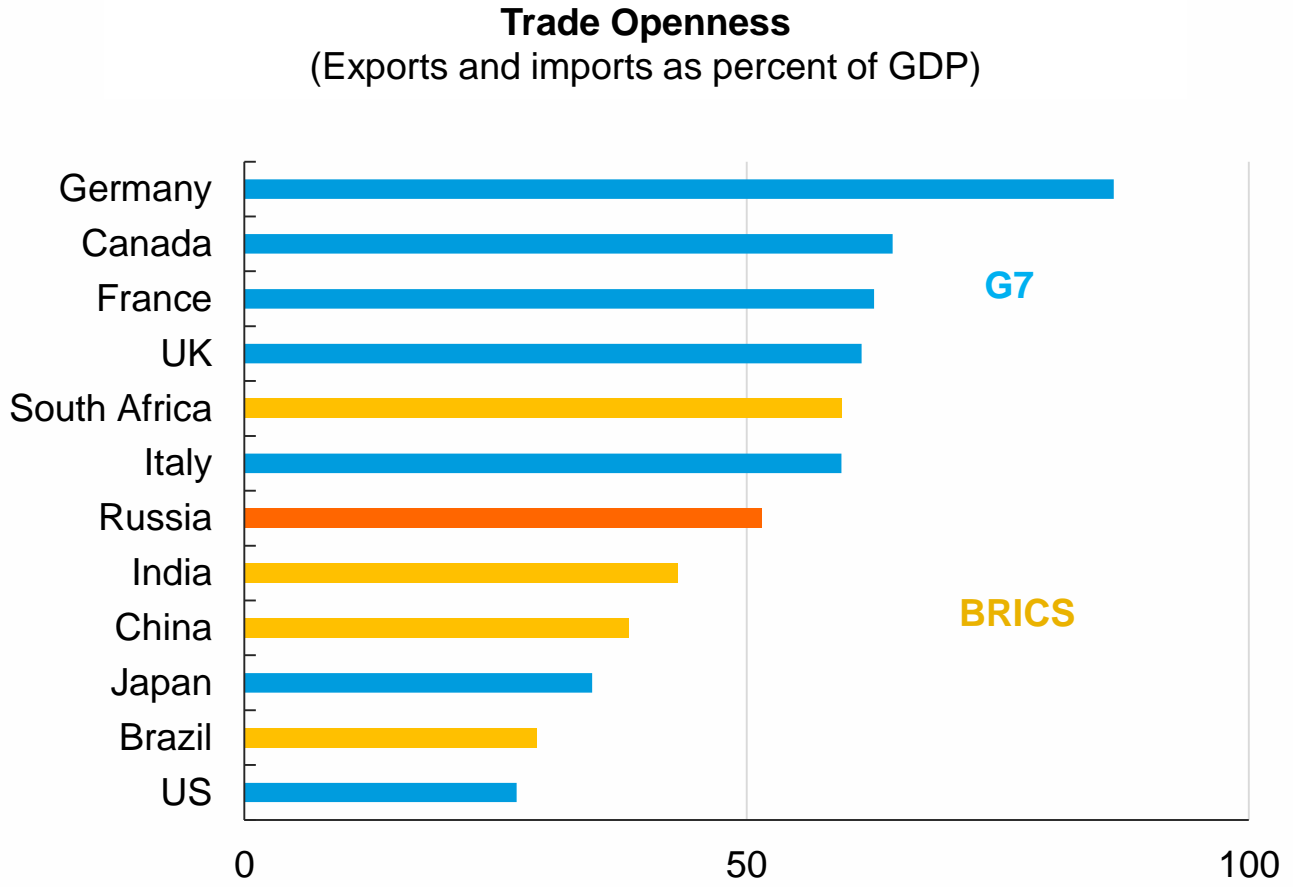
A modest recovery is projected based on improving external demand. **But risks are on the downside**

Real GDP Growth Projections
(Year-over-year percent change)

	Outturn 2018	IMF Forecast 2019	IMF Forecast 2020
World	3.6	3.0	3.4
Europe	2.3	1.4	1.8
Advanced Europe	2.0	1.3	1.5
<i>Euro area</i>	1.9	1.2	1.4
Emerging Europe ex. Russia & Turkey	4.3	3.7	3.1
<i>Russia</i>	2.3	1.1	1.9
<i>Memo: world trade volume (goods and services)</i>	3.6	1.1	3.2

Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

Russia will be affected by the global conjuncture as the economy is fairly open



Sources: World Bank and IMF staff calculations.

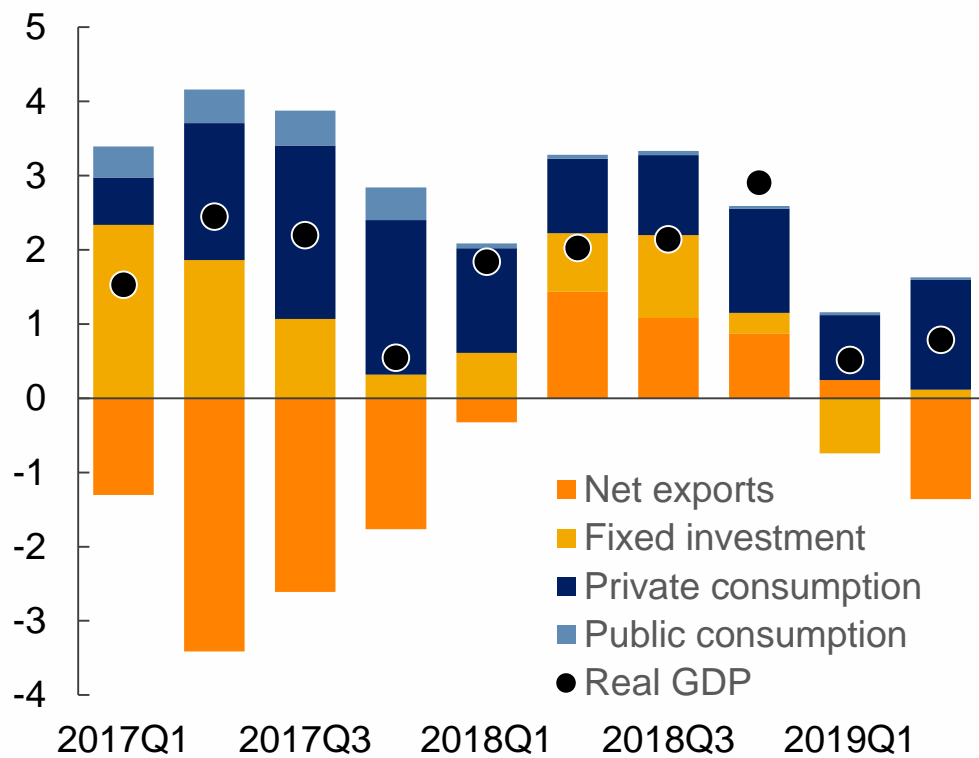
Economic conjuncture

- ❑ **Weak growth in 2019 due to an unfavorable external environment and weak domestic demand**

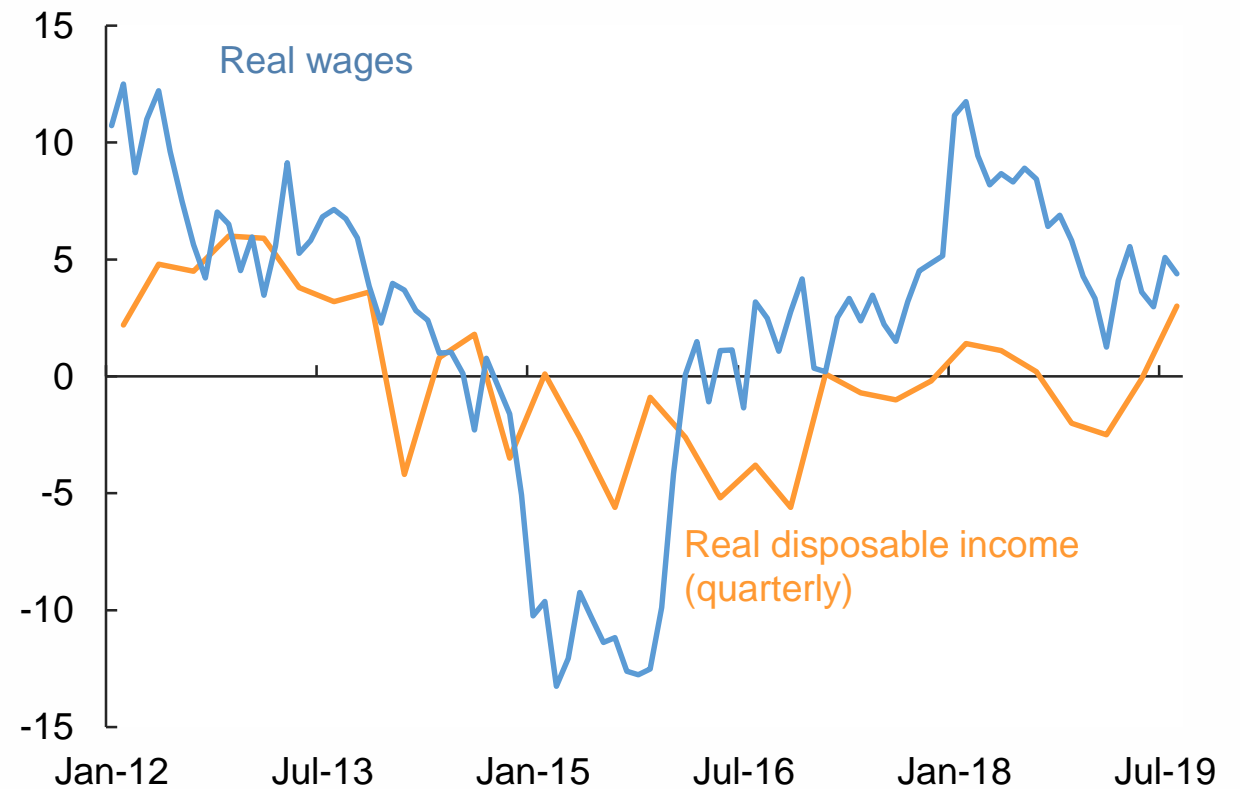
- ❑ **The outlook is expected to improve in 2020 mainly driven by domestic demand**
 - The Bank of Russia may cut rates further
 - The national projects, if selected according to rigorous economic criteria and implemented effectively, are expected to contribute positively to growth

Russia's slowdown is mainly due lower net exports, but domestic demand continues to weaken

Contributions to Real GDP Growth
(Quarter-over-quarter percent change, annualized)

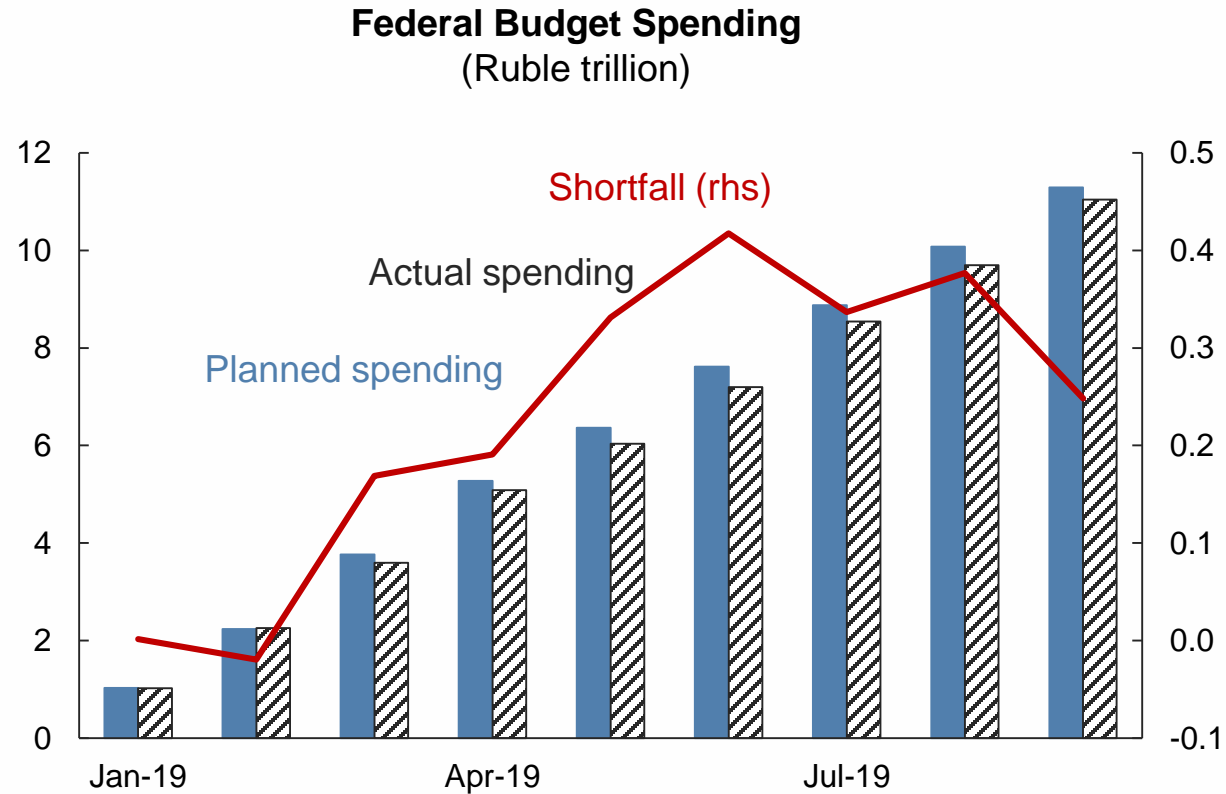


Disposable Income and Wages
(Y/y percent change)



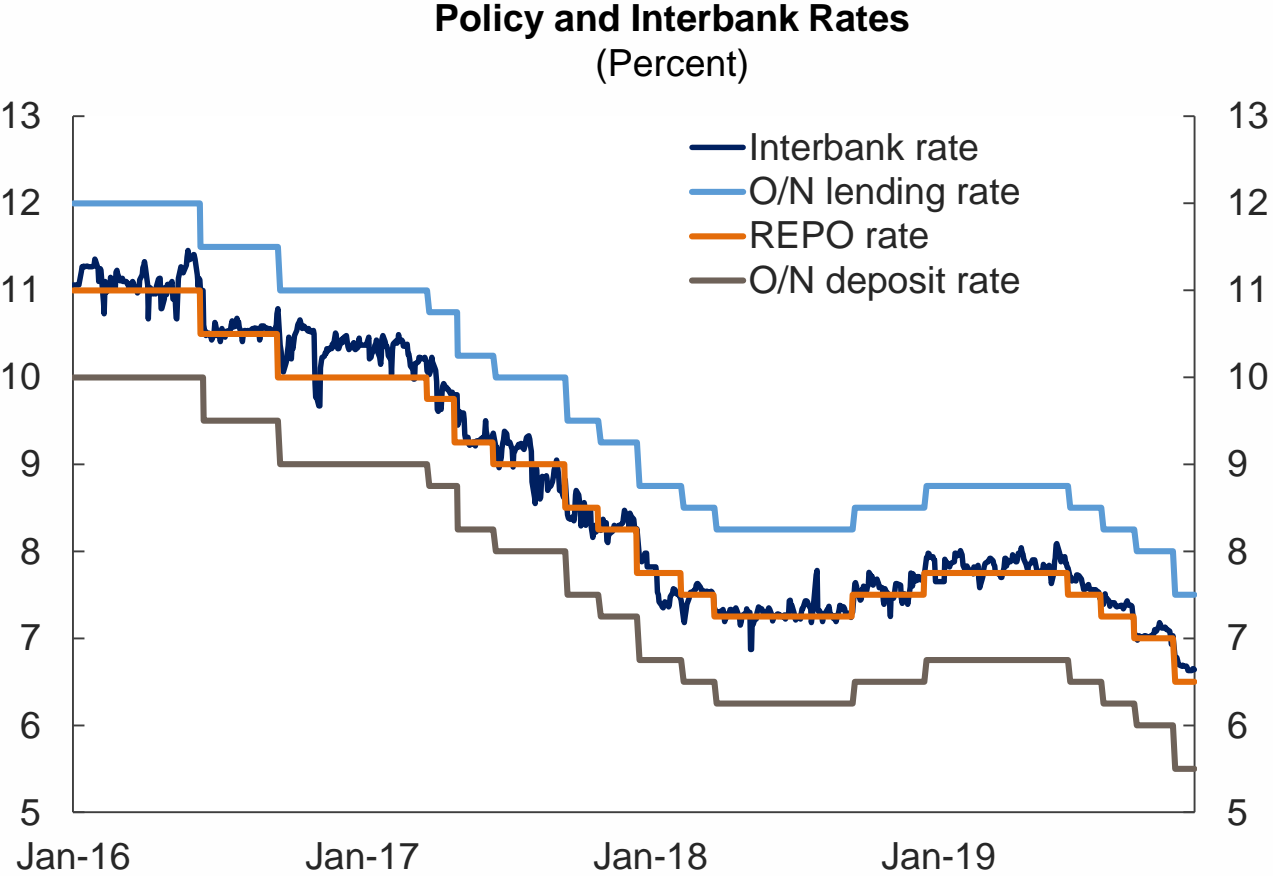
Sources: Rosstat, Haver and IMF staff calculations.

Fiscal policy has been tighter than intended...



Sources: Russian authorities; and IMF staff estimates and calculations.

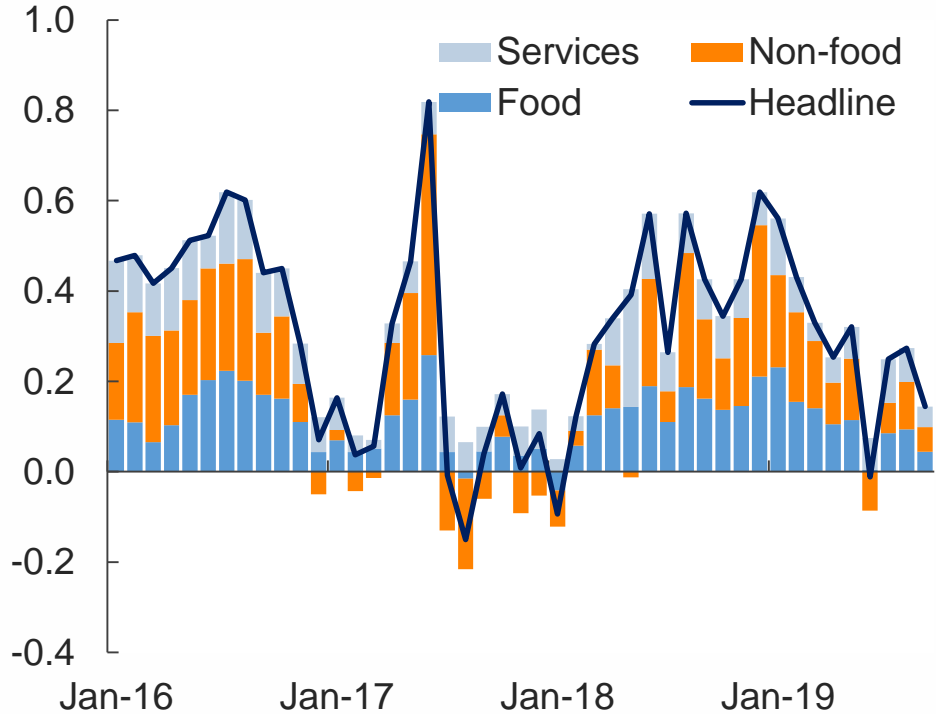
..as has monetary policy. Interest rate cuts have been an appropriate response to weakening inflationary pressures



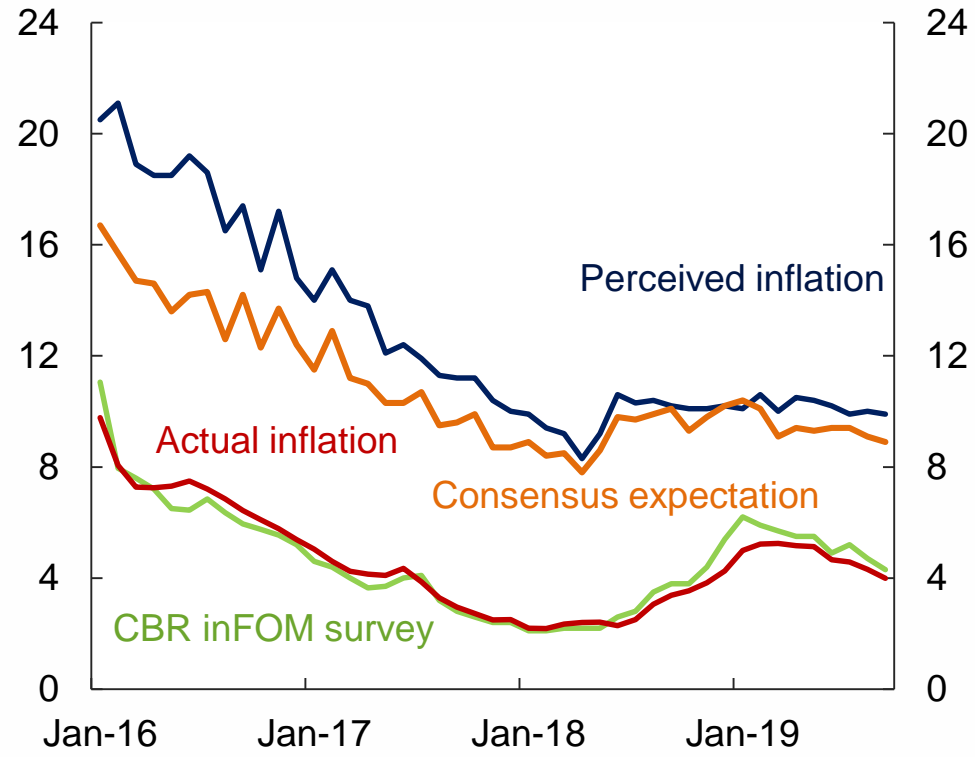
Sources: Central Bank of Russia and IMF staff calculations.

With inflation expected to remain below target, further interest rate cuts are needed

Contributions to Headline Inflation
(M/m percent change, SA)



CBR Survey of One-Year Ahead Inflation Expectations
(Percent)



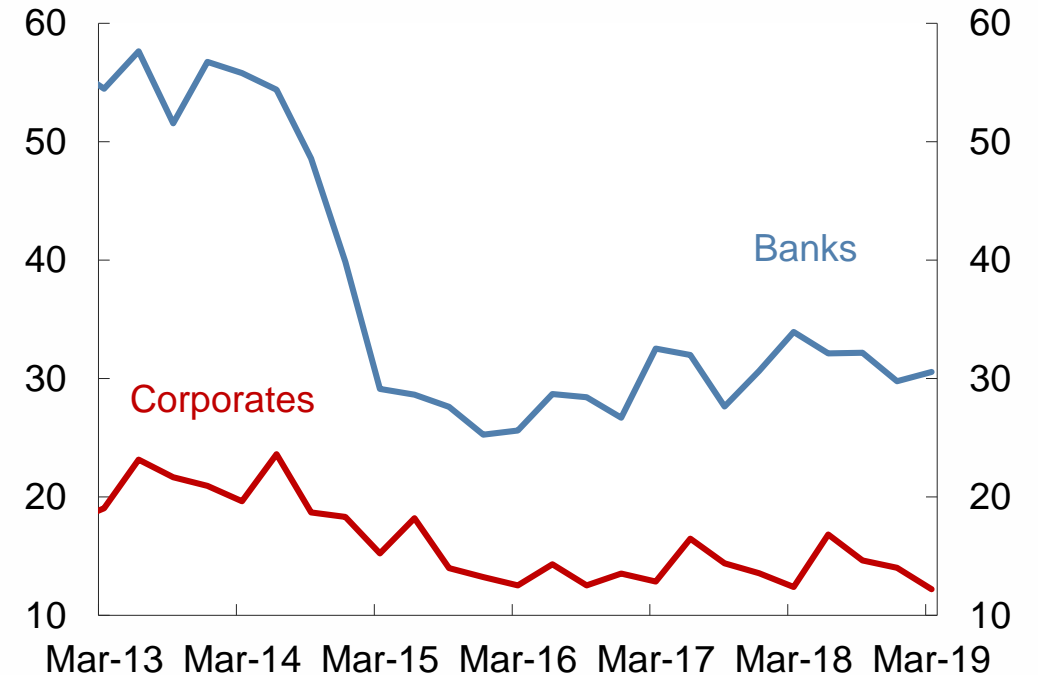
Sources: Rosstat, Central Bank of Russia and IMF staff calculations.

The corporate sector is profitable and vulnerabilities have decreased

Corporate Profit Levels
(Billions of rubles, 1-year moving average)

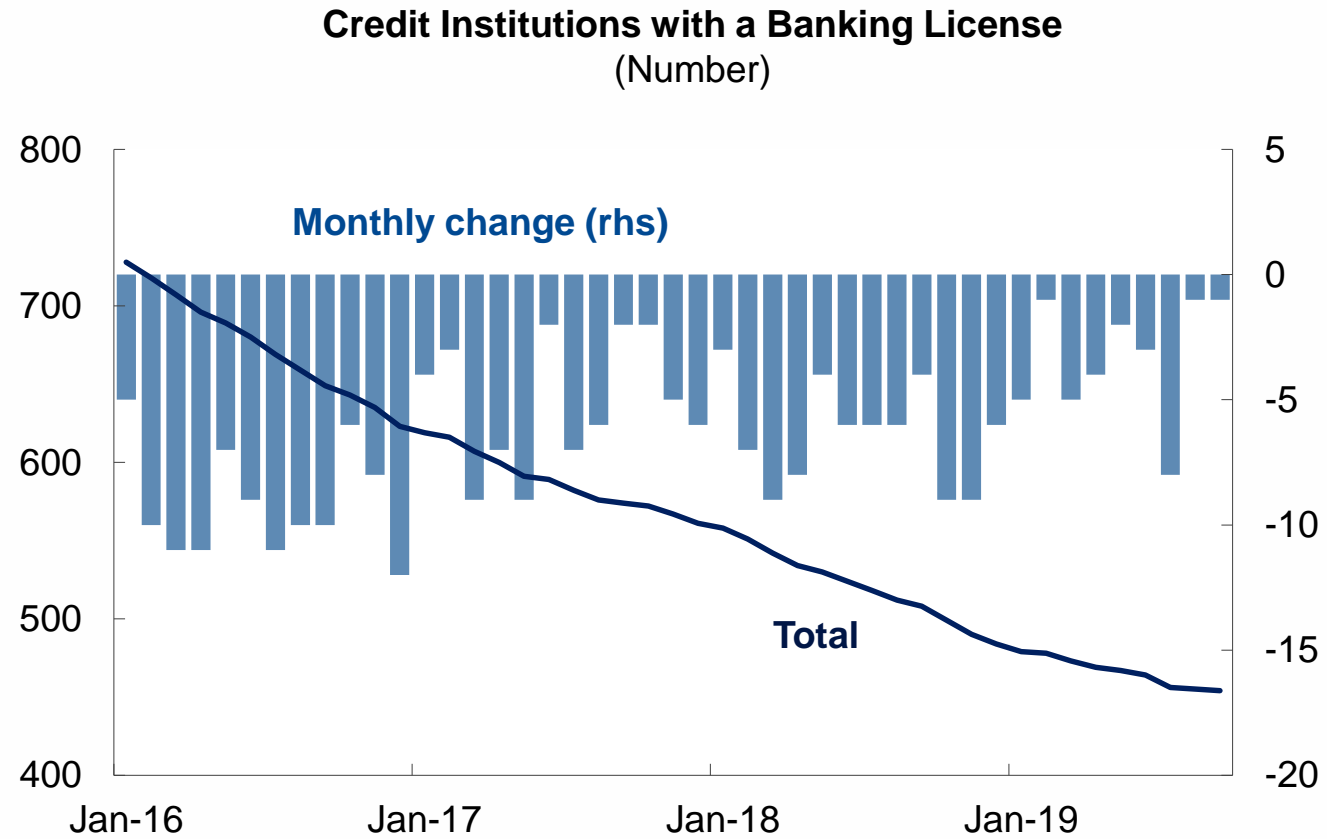


Gross Short-Term External Debt by Sector
(Billions of USD)



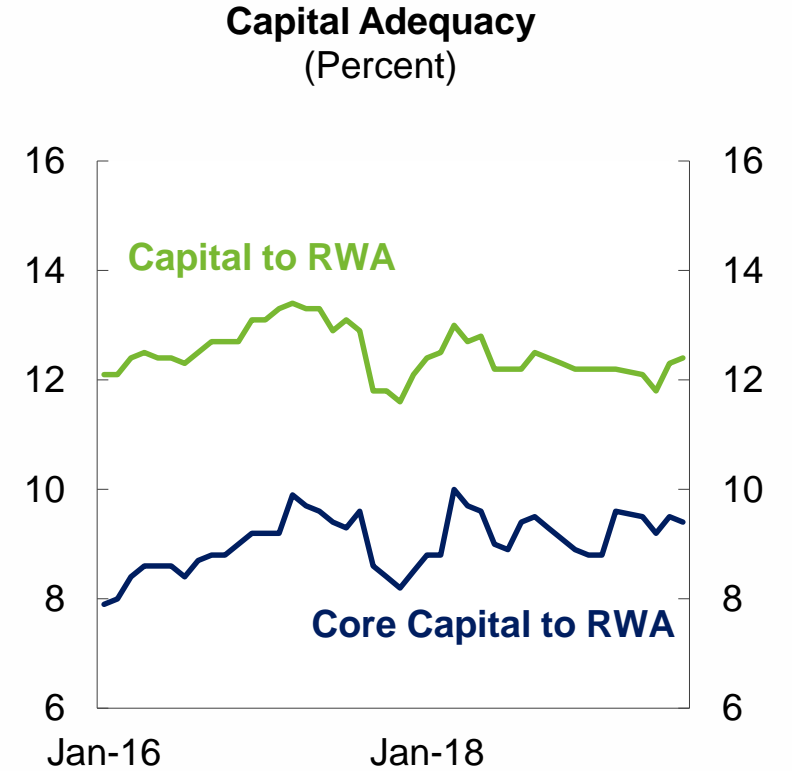
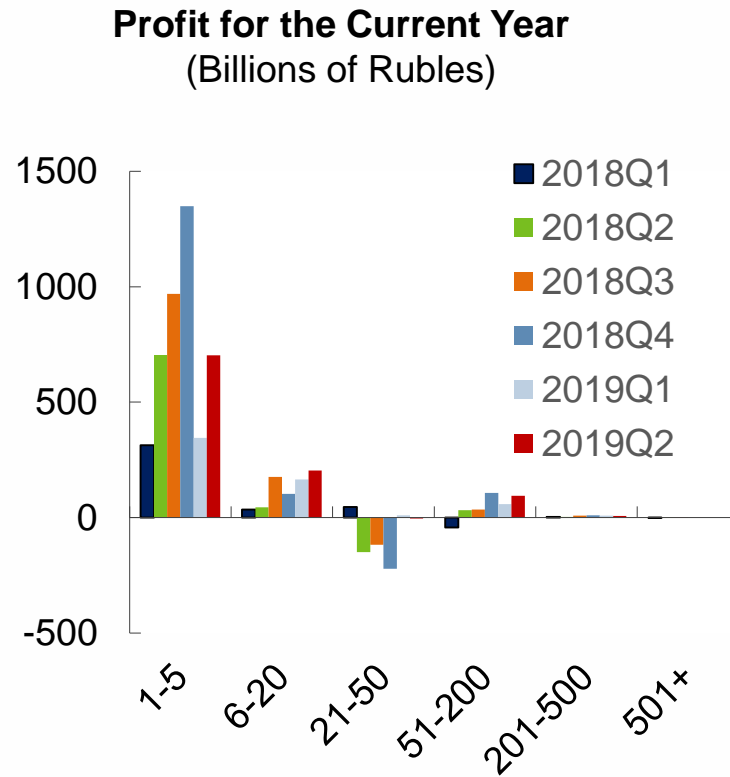
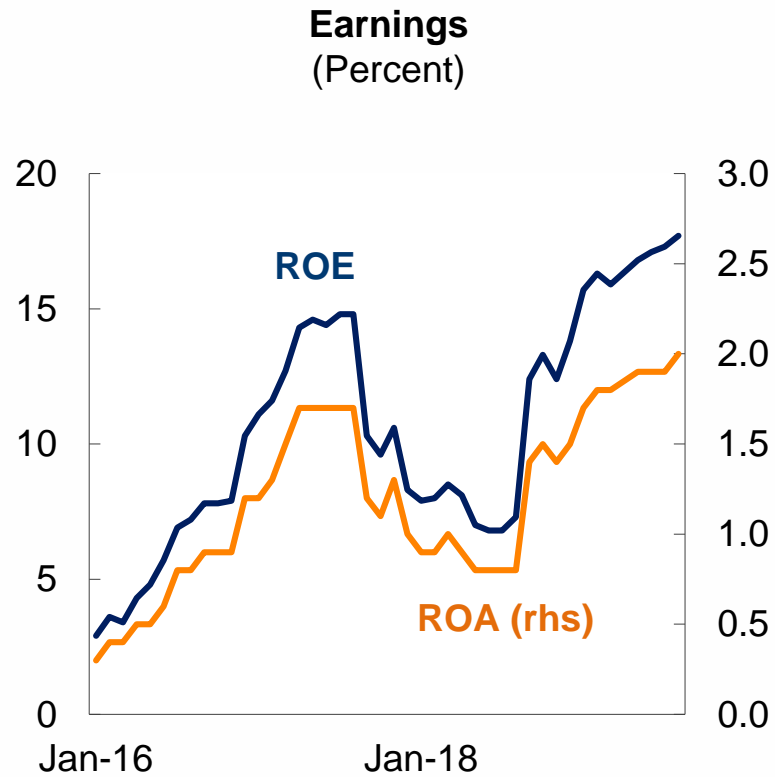
Sources: Rosstat, Central Bank of Russia and IMF staff calculations.

The cleanup of the banking sector is well advanced



Source: Central Bank of Russia; and IMF staff calculations.

... and in aggregate the banking sector appears to be stable, well-capitalized, and liquid

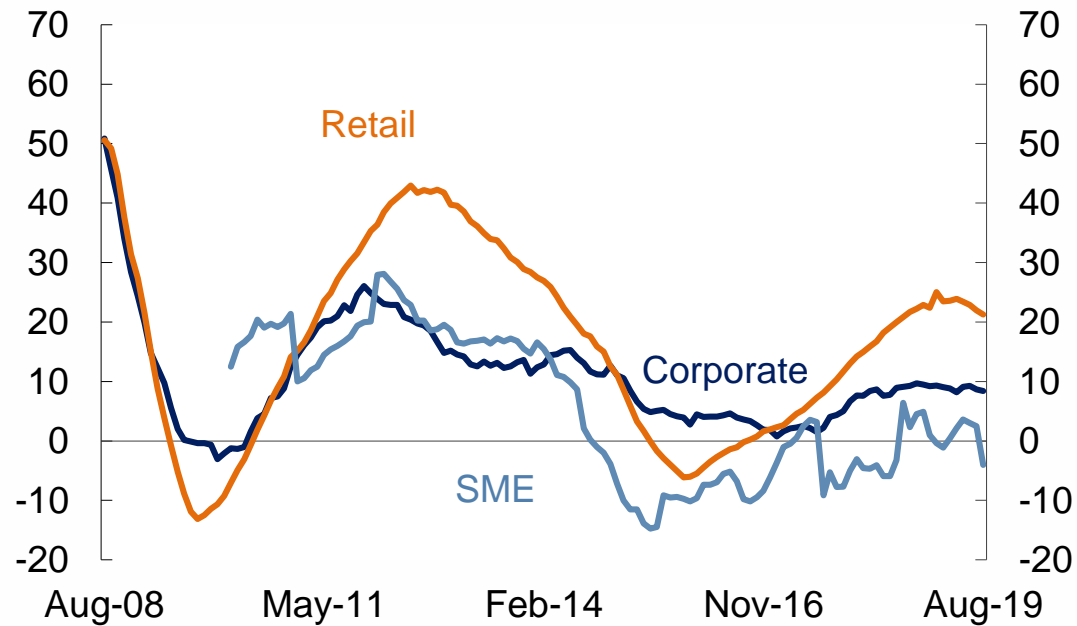


Note: Credit institutions ranked by size of assets (descending)

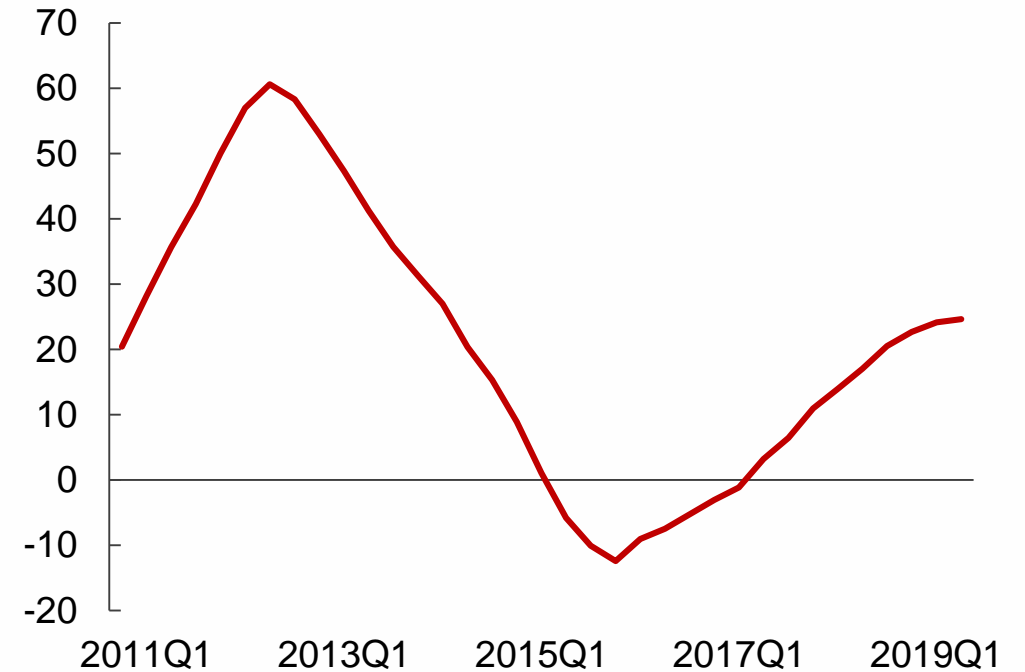
Source: Central Bank of Russia; and IMF staff calculations.

Macprudential measures introduced by the Bank of Russia may suffice to rein in unsecured consumer lending

Corporate, Retail and SME Lending
(Y/y percent change, FX adjusted)



Unsecured Consumer Lending
(Y/y percent change)



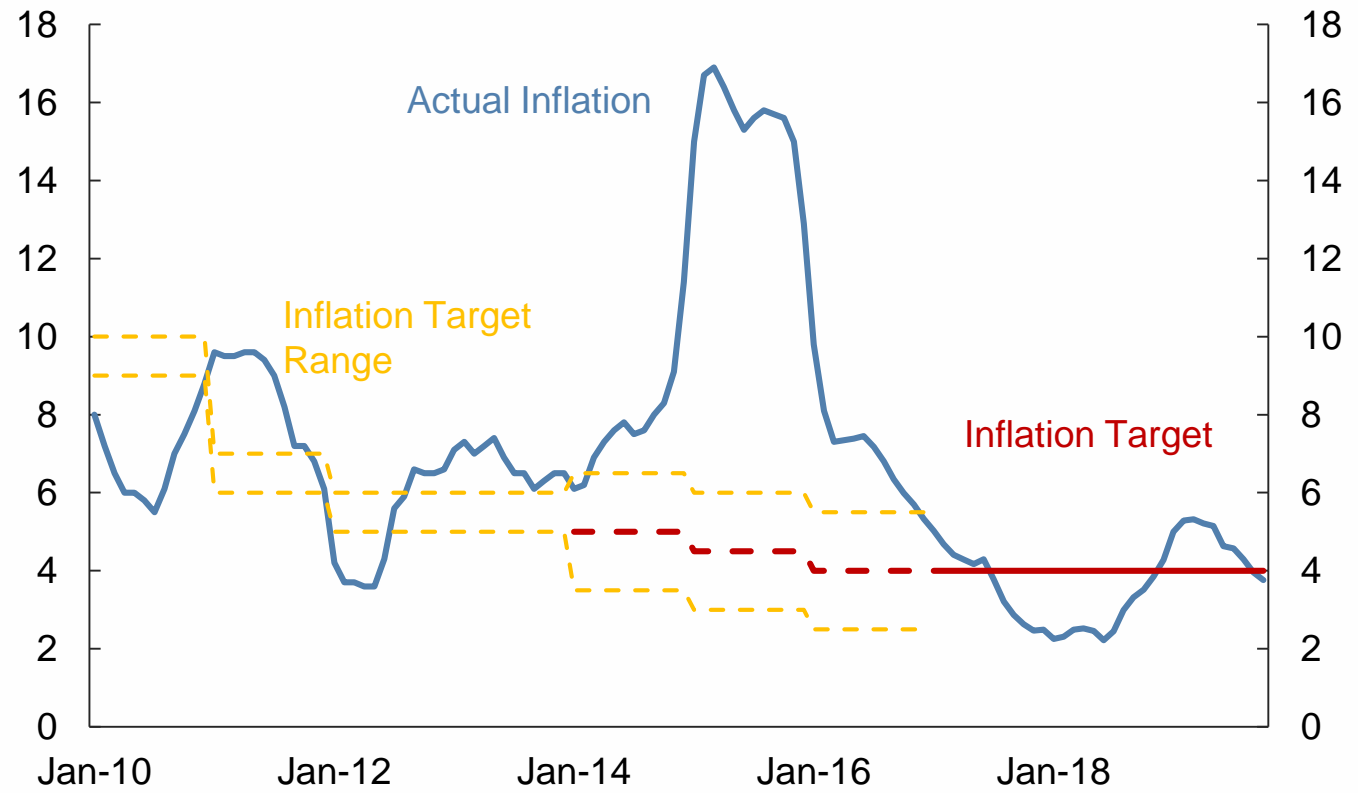
Source: Central Bank of Russia; and IMF staff calculations.

In the medium-term the Russian economy is characterized by three factors

- ❑ Adherence to a sound macro economic framework
- ❑ Sanctions adding to business uncertainty and holding back investment
- ❑ Severe structural rigidities limiting growth

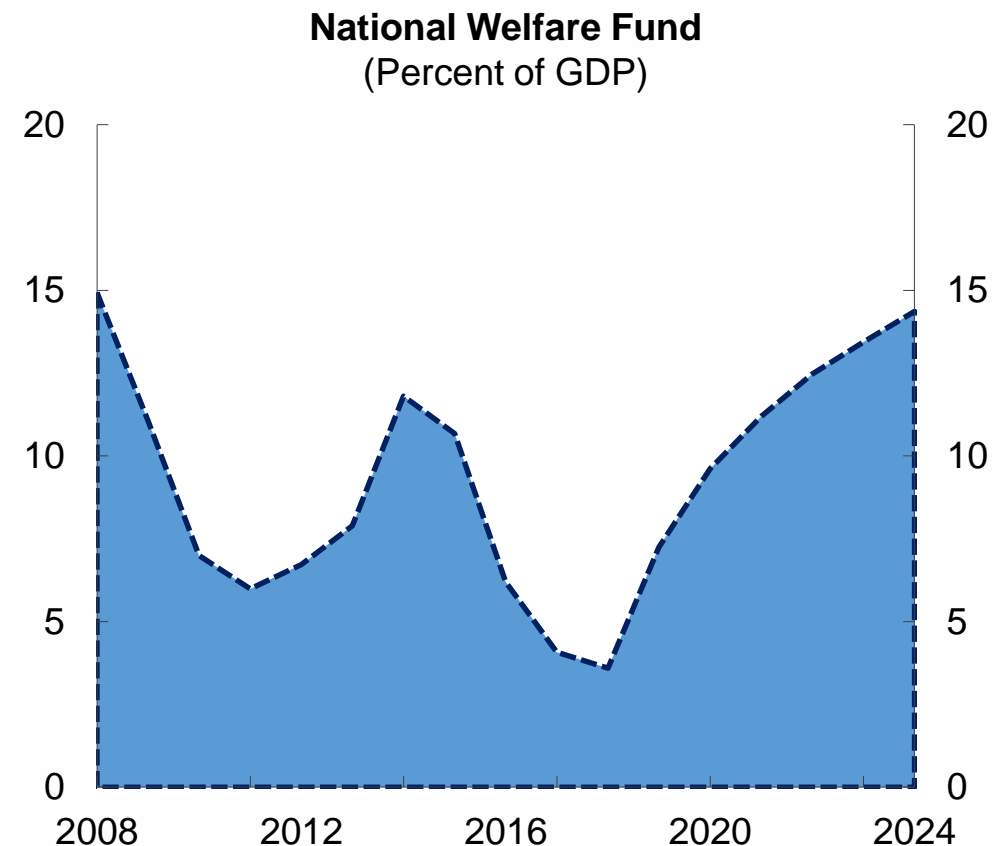
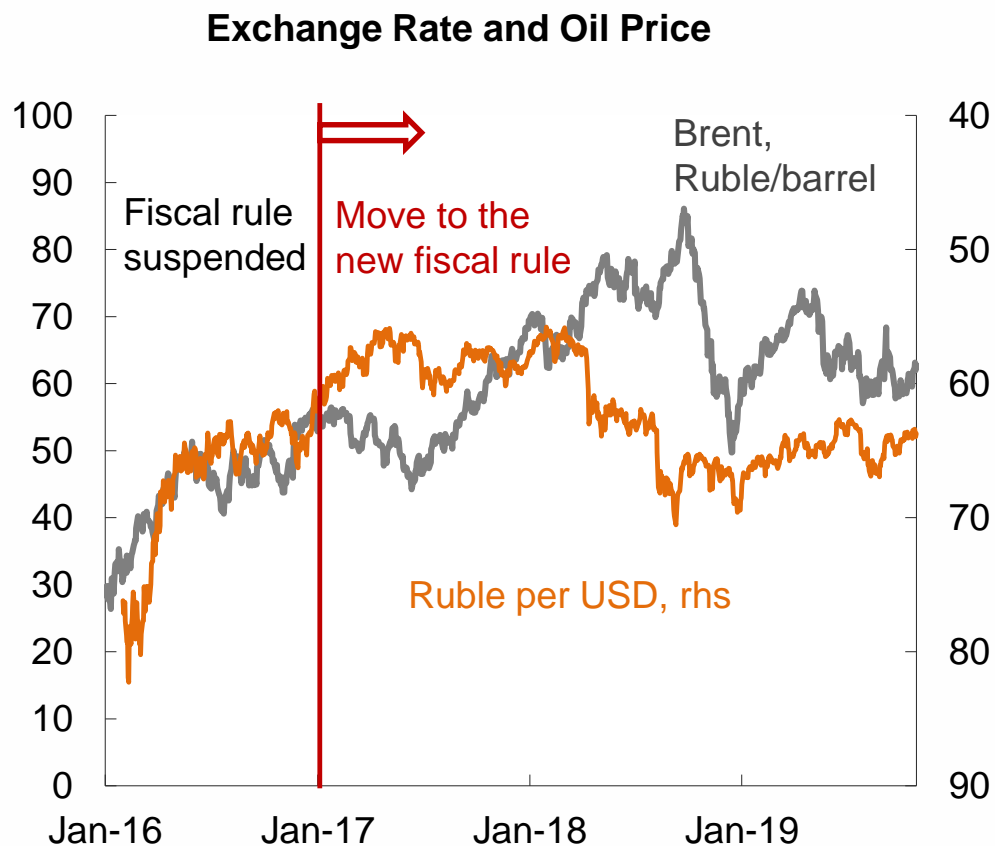
A sound macro framework has kept inflation under control and provided confidence in the exchange rate

Actual Inflation and Inflation Target
(Y/y percent change)



Sources: Rosstat and IMF staff calculations.

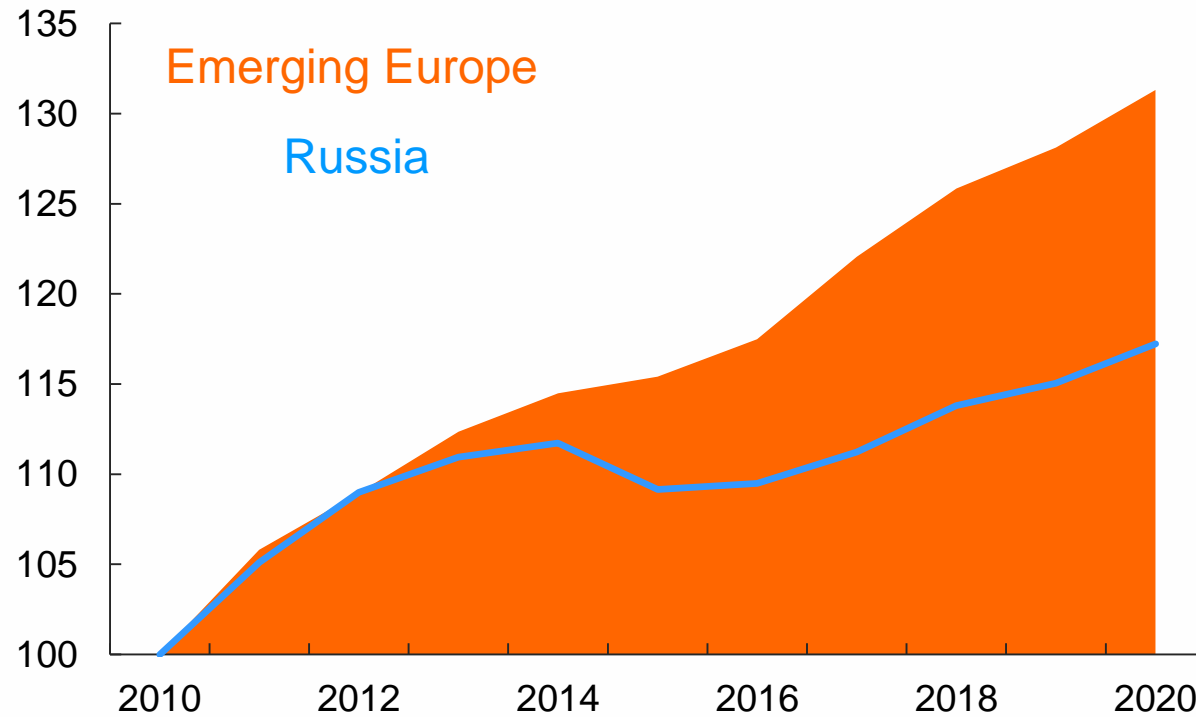
The fiscal rule has insulated the economy from volatile oil prices and built some national wealth



Sources: Russian authorities; and IMF staff estimates and calculations.

But structural rigidities and sanctions-related uncertainties limit growth

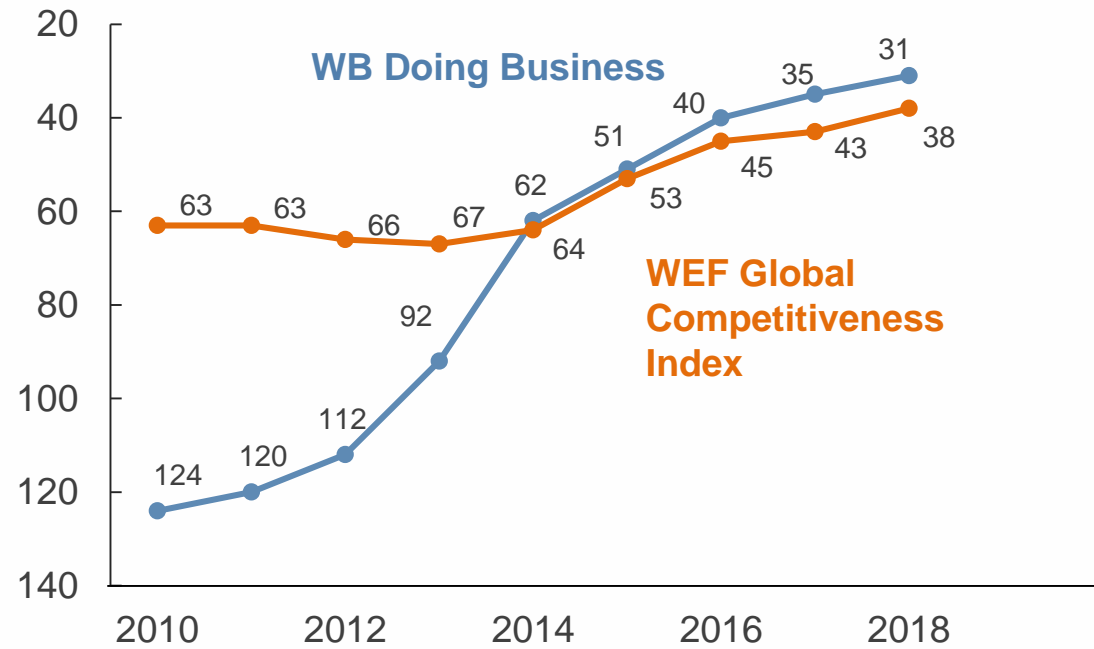
Cumulative GDP growth
(2010 GDP =100 percent)



Sources: WEO and IMF staff calculations.

Efforts to strengthen the business environment reflected in survey results

Russian Federation: Ranking in Doing Business and WEF



Sources: Ministry for Economic Development of the Russian Federation, Doing Business and World Economic Forum.

But to accelerate growth deeper structural reforms are needed

- to facilitate entry and exit of firms
- to ensure competitive public procurement
- to reduce barriers to trade and FDI
- to strengthen SOE governance