



Russia. Recent Developments and Long-Term Challenges

IMF Office in the Russian Federation

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Recent Developments & Short-Term Outlook

*High Global Growth and Policy Normalization in Advanced Economies.
Sustained Geopolitical and Inward Trade Policy Tensions. Higher Oil Prices.*

2017: A Solid Macro

- Growth resumed amid low Inflation.
- Prudent Fiscal Policy and increasing buffers.
- Monetary Policy normalization continued.

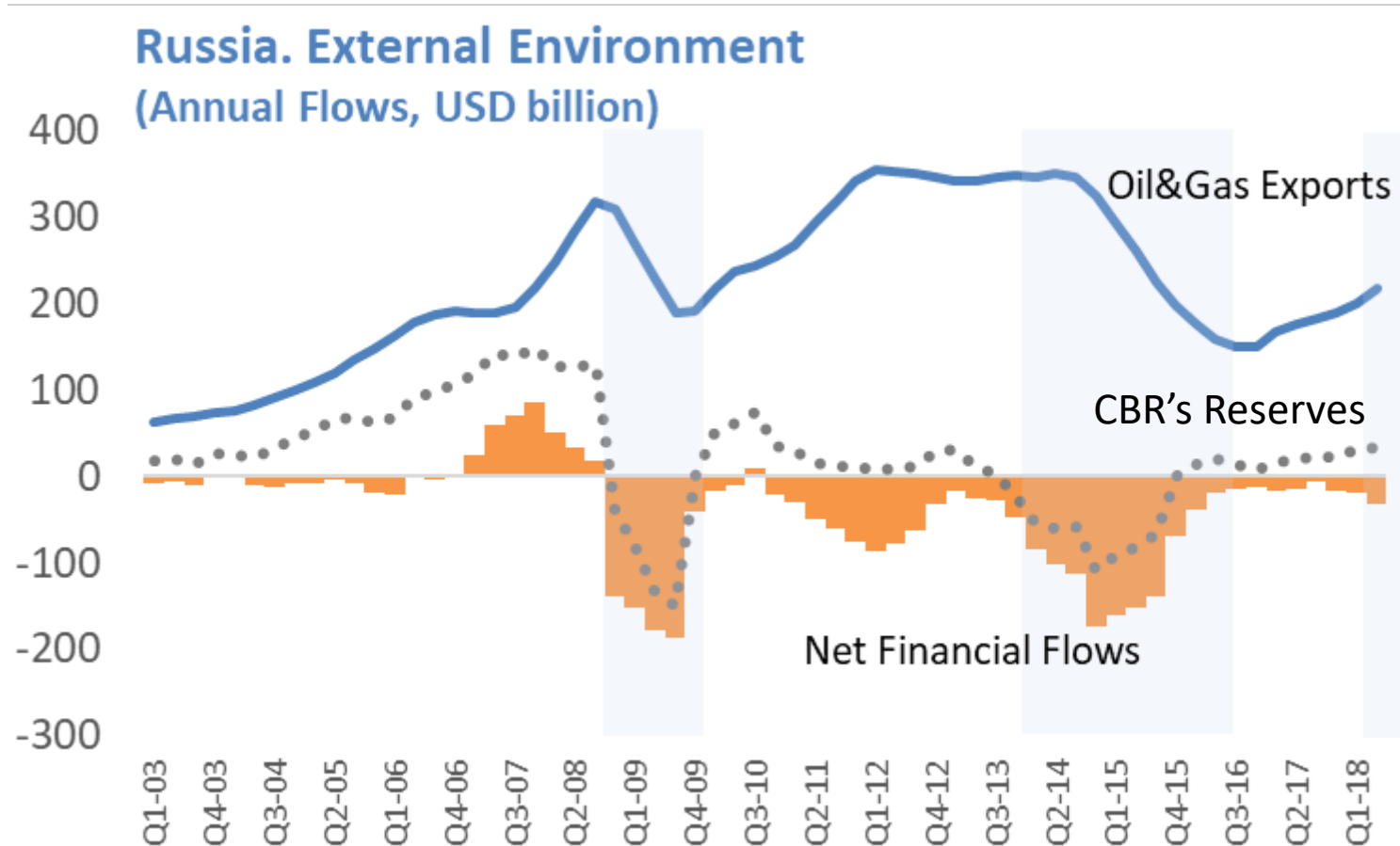
2018: Cyclical Recovery to Complete

- Moderate growth to continue, output gap to close.
- Inflation to remain at or below target.



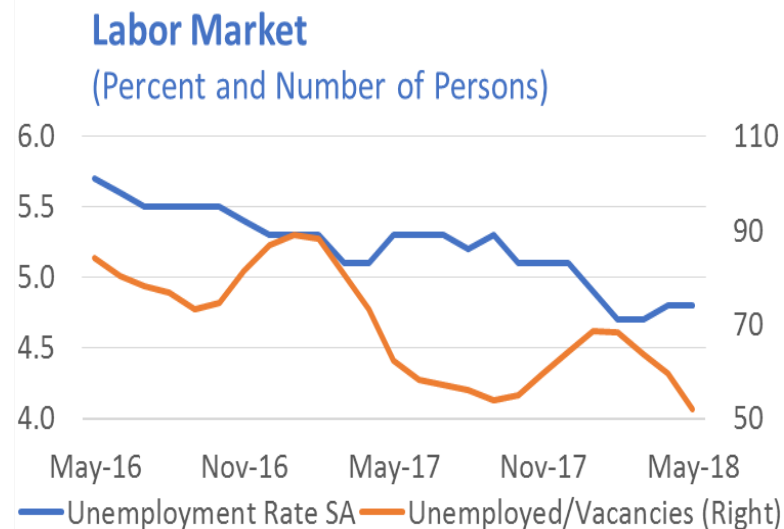
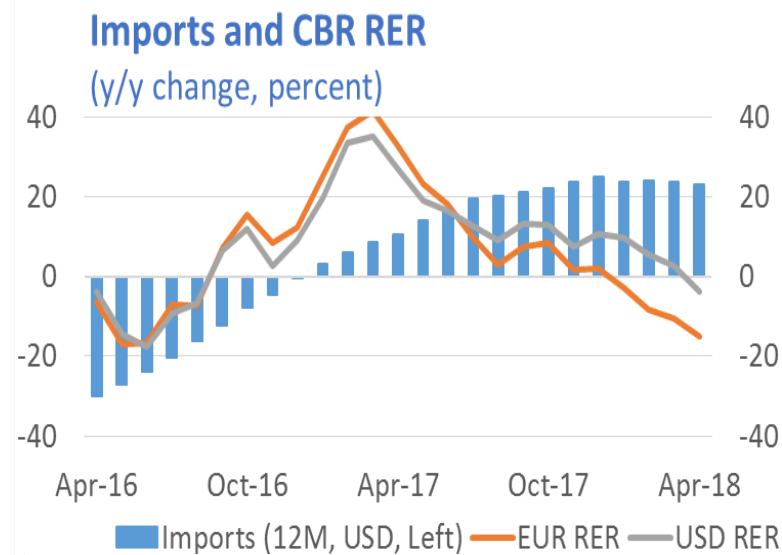
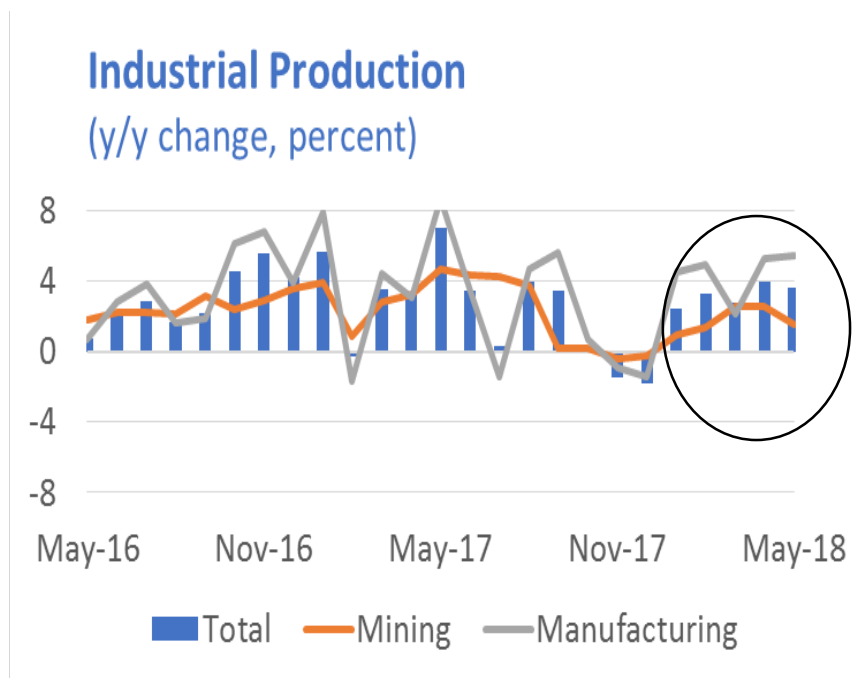
Higher Oil Prices but Geopolitical Tensions

Higher oil prices and the floating exchange rate helped as geopolitical tensions increased, but risks remain.



Cyclical Recovery to Complete in 2018

Despite some weakness at end-2017, high frequency indicators show moderate demand & supply expansion, supported by stable employment

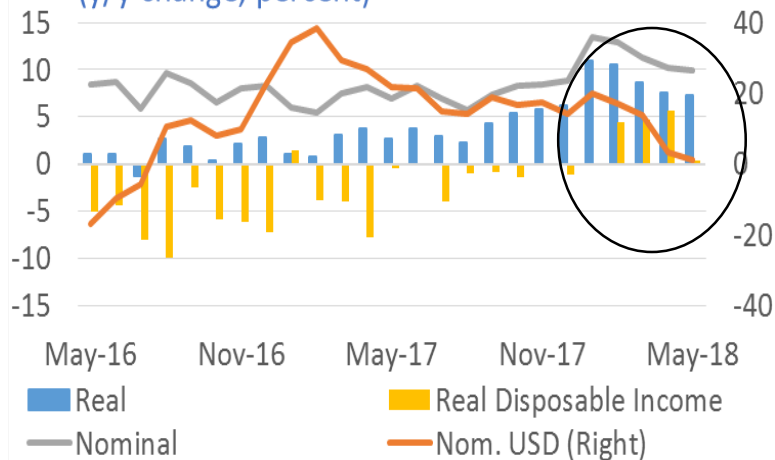


Cyclical Recovery to Complete in 2018

Real wages are growing, and real disposable income is stabilizing, amid decreases in inflation

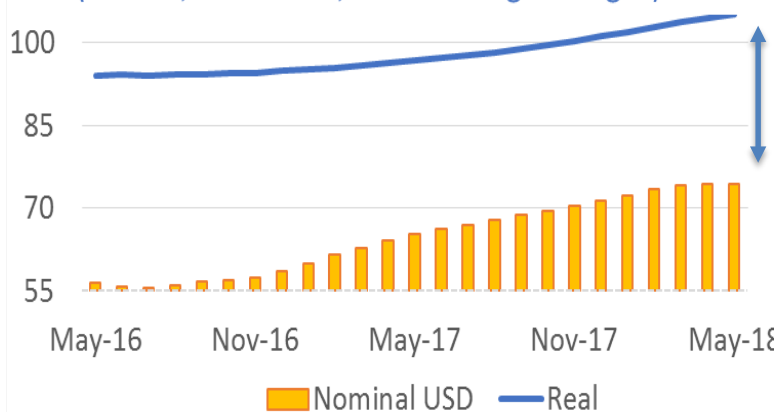
Average Wages

(y/y change, percent)



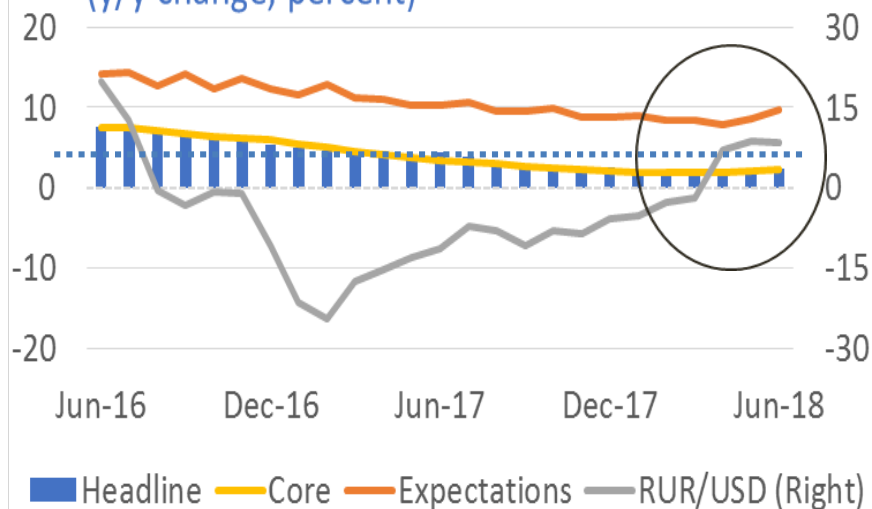
Average Wages

(Indices, 2013=100, 12-M rolling averages)



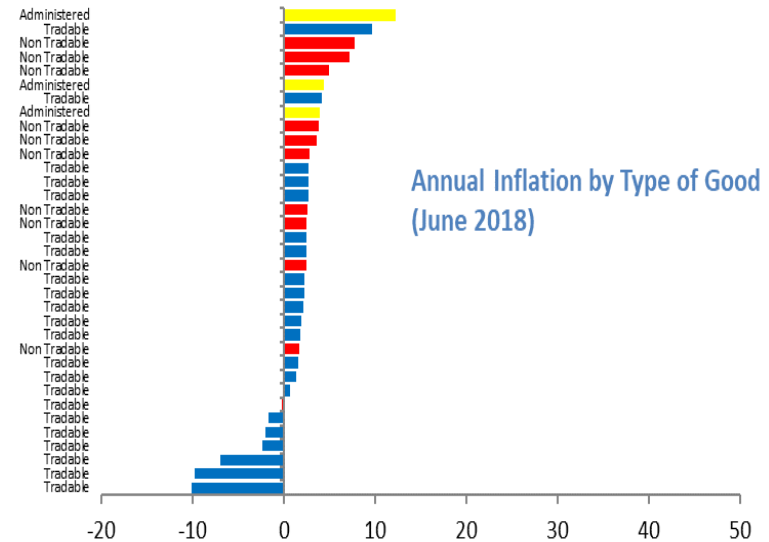
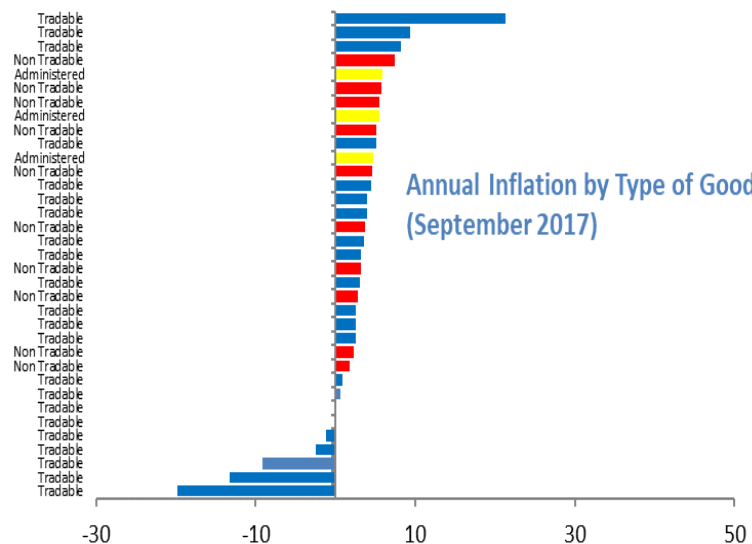
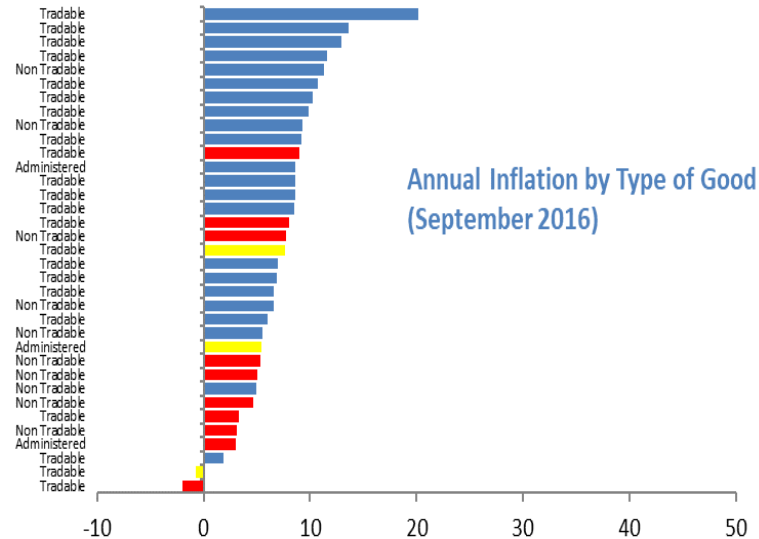
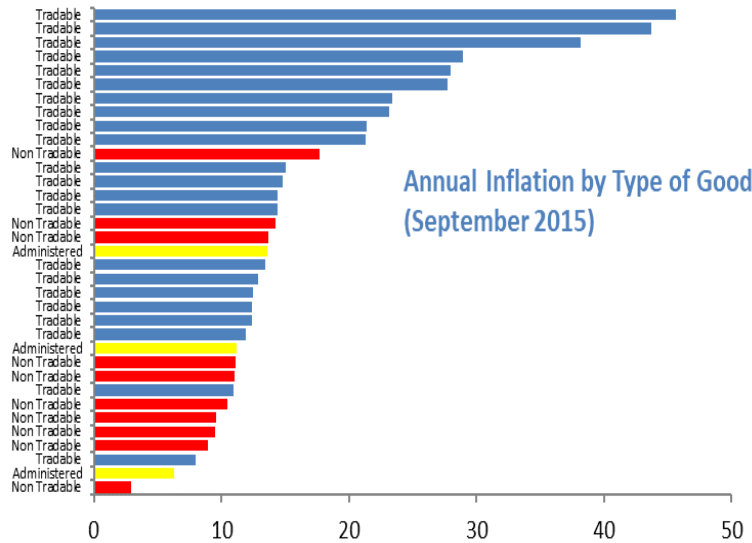
CPI Inflation

(y/y change, percent)



Cyclical Recovery to Complete in 2018

Relative Prices are stabilizing at more competitive levels than before the dual shocks at end-2014





Policies for 2019-24 to Unveil in 2018

Objectives include accelerating growth, reducing poverty, strengthening public infrastructure, improving sustainability of fiscal policy among other...

What We Know...

- Infrastructure Fund of RUR3.5 Trillion through 2024
- VAT increase to 20 percent from 2019
- Tax “Maneuver” for the Oil Sector
- Pension Reform to increase retirement age
- Increase/Refocus federal spending

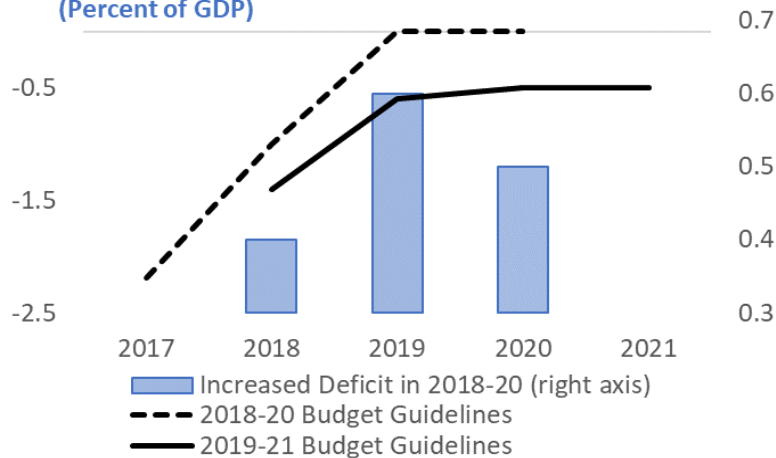
...Further Details with Budget for 2019-21

- Full evaluation possible when further details are unveiled in Q3.

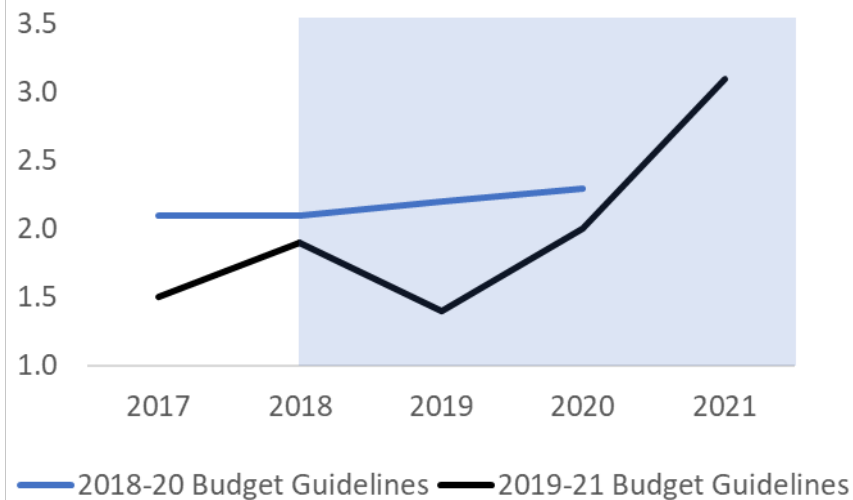
Policies for 2019-24 to Unveil in 2018

...new budgetary guidelines envisage a temporary relaxation of primary balance target, increased domestic debt financing and a pick-up in GDP growth

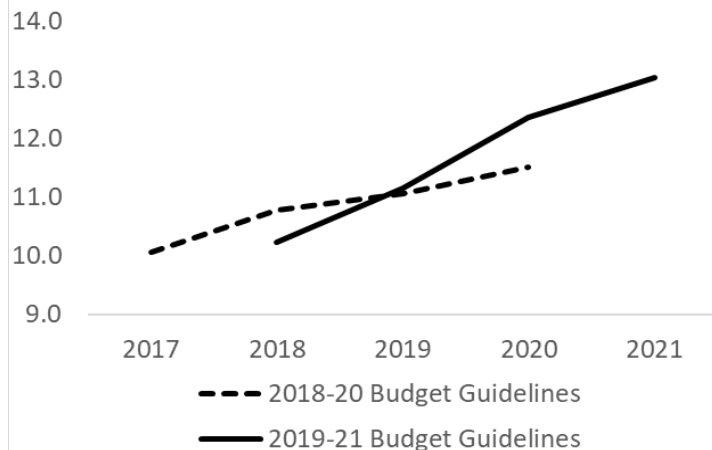
Russia. Primary Structural Balance Federal Budget
(Percent of GDP)



Russia. Real GDP Growth Projections
(Percent)

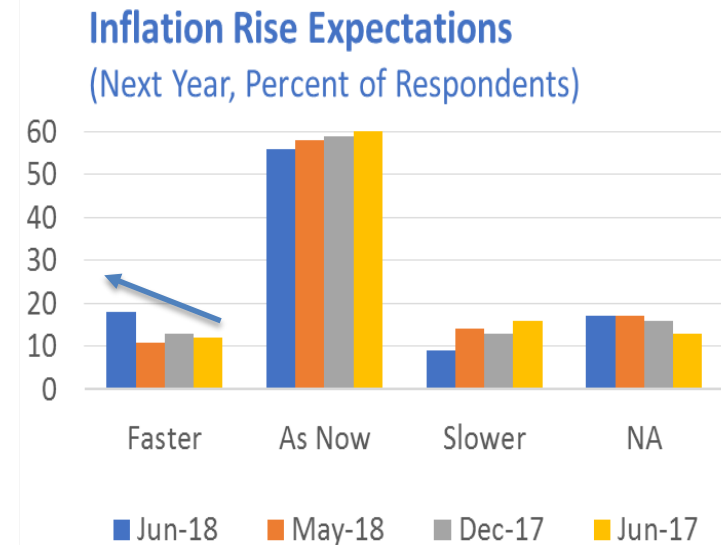
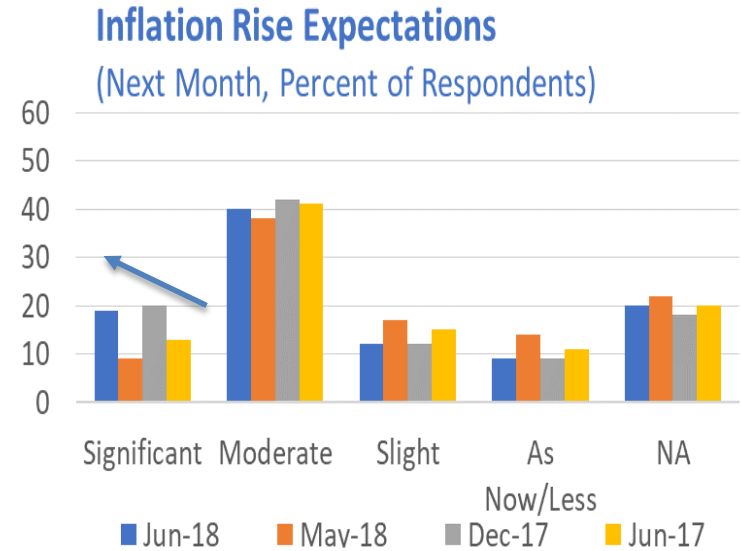
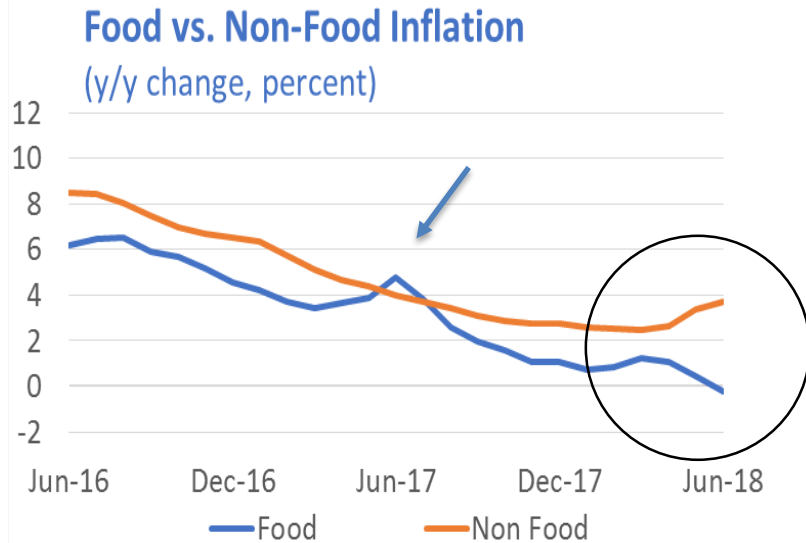


Russia. Domestic Debt Federal Government
(Percent of GDP)



Macro Policies in 2019-21: A Balancing Act

Looser fiscal policy in 2019-21 will likely provide a reflationary push. Monetary policy needs to remain vigilant that expectations remain anchored at 4 percent.





Risks, Vulnerabilities, and Resiliency

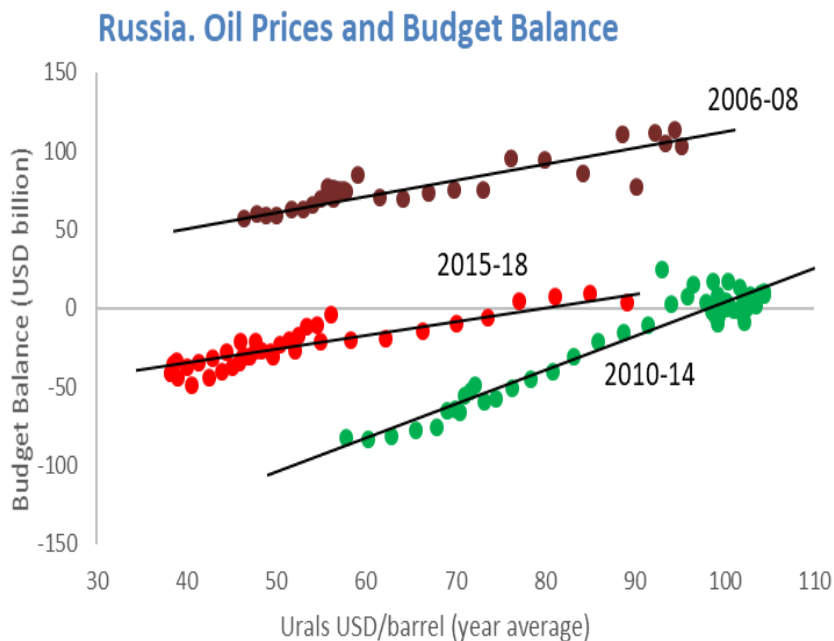
- Policy normalization in AEs – Financial Flows to Emerging Markets more volatile
- Global growth high but downside risks prevail in the medium term.
- Escalation of Geopolitical Tensions
- On Domestic Front: Oil Price weakening reform resolve
- ***Russia better prepared:*** Twin current and fiscal surpluses, low public debt, floating exchange rate, adequate external buffers, Positive Net External Position.

Long-Term Challenges

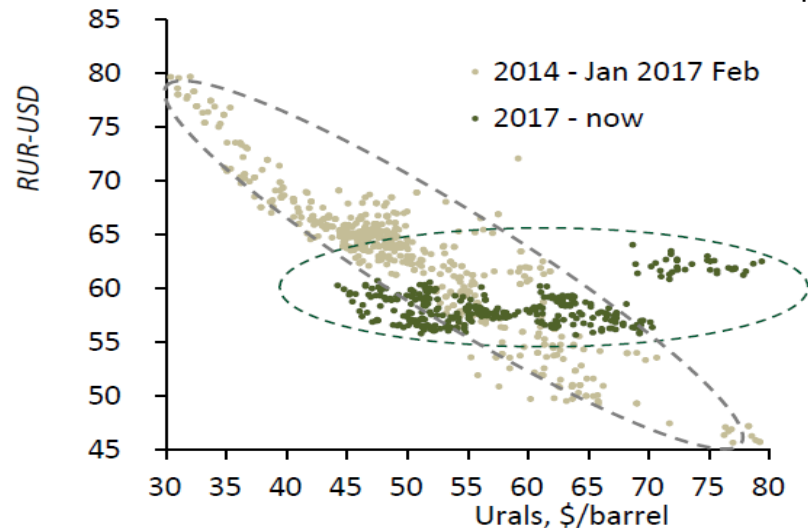


Need for a Continuation of Strong Macro Policies

*Fiscal Rule, Inflation Targeting and a Floating Ruble are working.
Need to strengthen these policies, avoid tampering.*



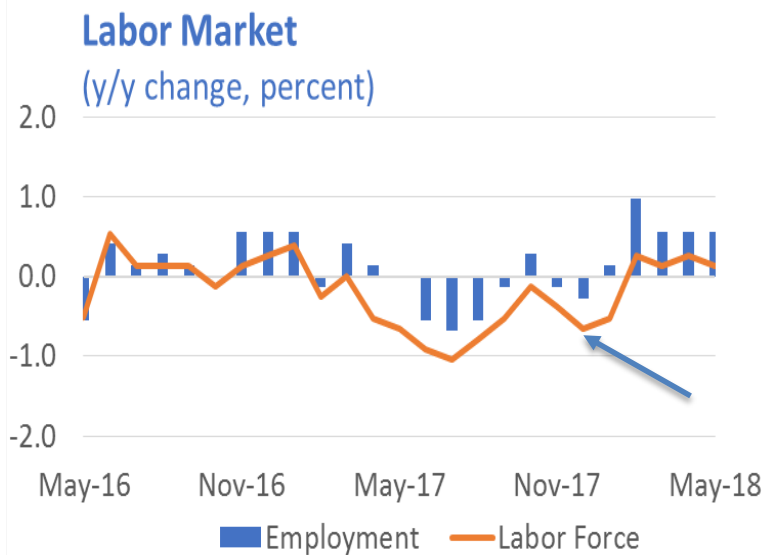
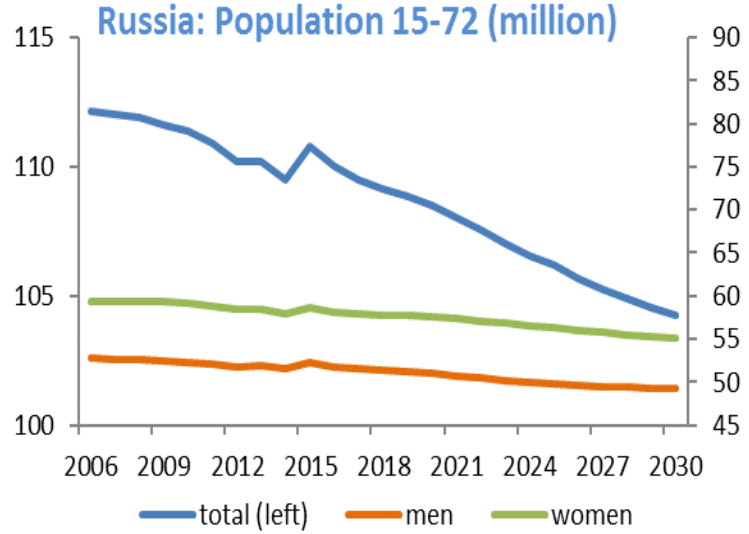
Russia. Oil Prices and Exchange Rates (Before and after the Fiscal Rule)





L-T Growth, Productivity and Demographics

Growth in output per worker has steadily decreased, and working age population to decrease too in the next few years





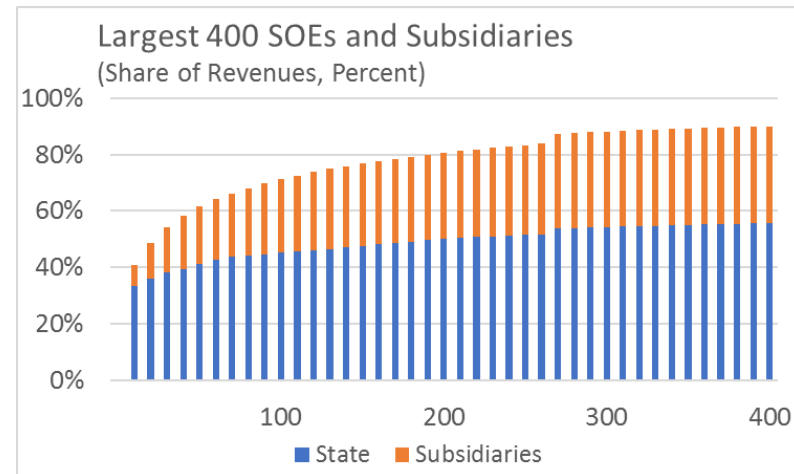
The State's Footprint...

The Number of State-Owned Legal Entities: Official and Adjusted Figures

	State	Subs.	State + Subs.
Market Activities	28,125	445	28,570
Mining	131	60	191
Manufacturing	2,015	43	2,058
Electricity, Gas, Hot Water	2,774	54	2,828
Water Supply and Sanitation	2,779	1	2,780
Construction	1,066	12	1,078
Trade and Repairs	2,119	72	2,191
Transportation & Storage	1,973	49	2,022
Hotels and Restaurants	697	6	703
Information & Communication	1,455	47	1,502
Financial & Insurance	490	13	503
Real Estate	5,026	16	5,042
Professional, Scientific & Technical Profession	5,095	67	5,162
Administrative & Related Services	813	5	818
Non-Market Activities	4,012	4	4,016
Total	32,137	449	32,586

State entities span all economic activities

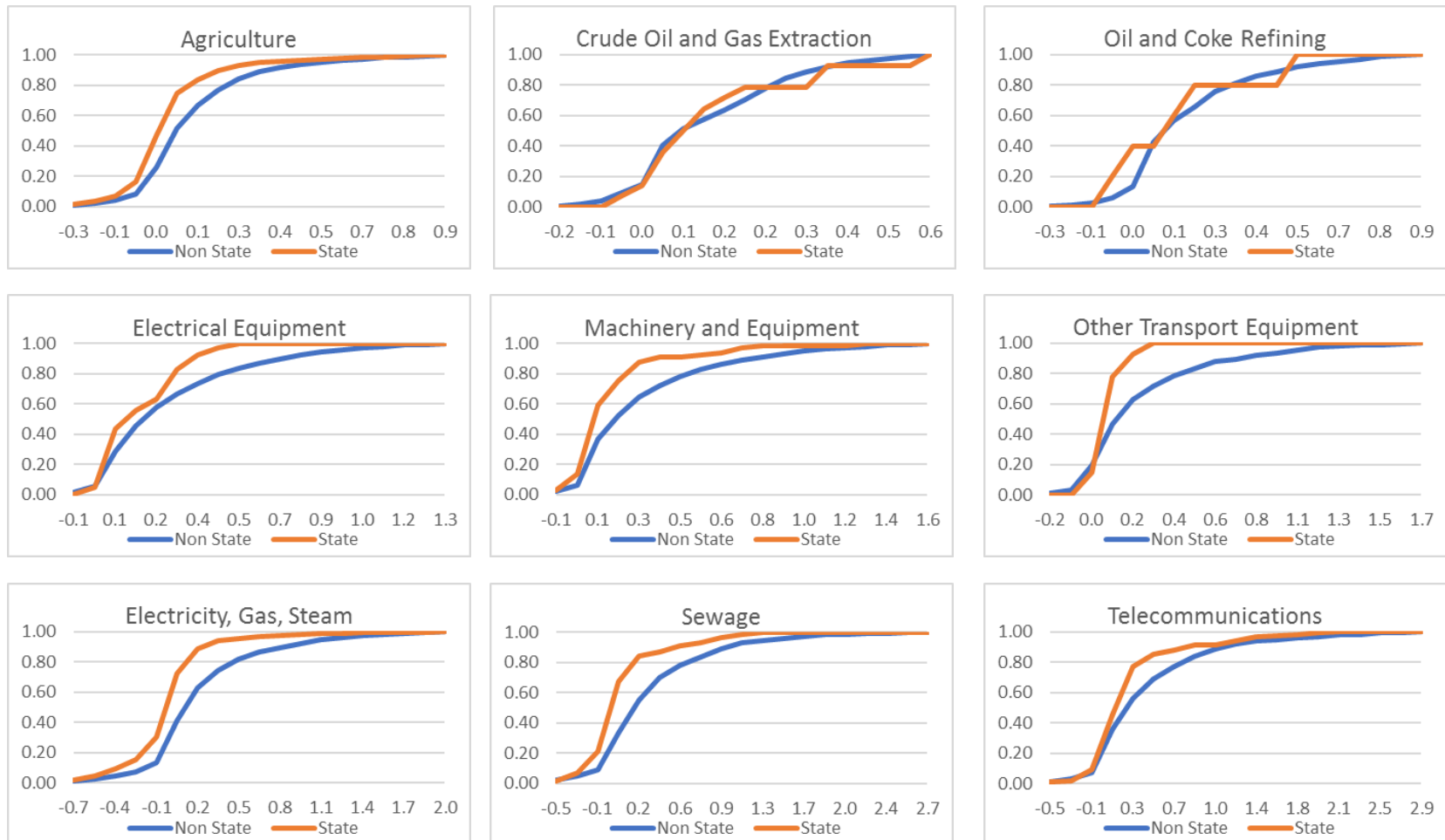
Not all State Entities are equal: Revenues are very concentrated, with 400 state entities concentrating 90 percent of revenues (Gini: 0.98).



The State's Footprint...

Russia. Economic Performance and State Ownership

(Selected Market Activities in 2016 - Cumulative Frequency Distribution of Gross Return over Assets, Percent)



Note: A Curve that is to the left indicates lower cumulative returns

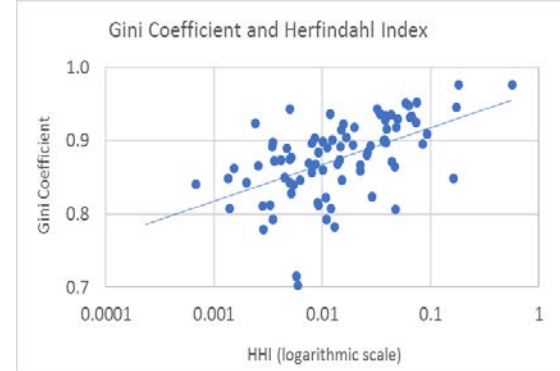
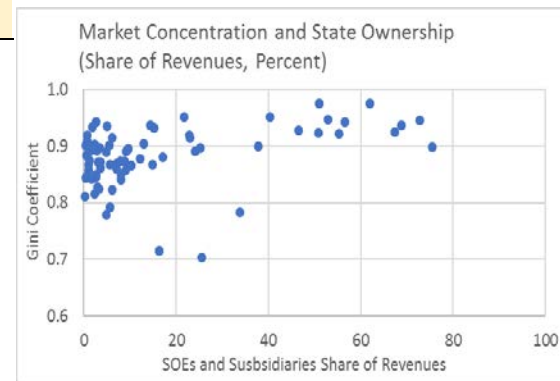
Market Concentration

Russia. Market Concentration and State Ownership

15 Most Concentrated

15 Least Concentrated

Economic Sector (2-digit level)	Gini	State's Share	Economic Sector (2-digit level)	Gini	State's Share
1 Telecommunications	0.95	22	1 Waste Disposal	0.70	26
2 Management Consulting	0.95	40	2 Security and Investigation	0.71	16
3 Insurance-Pension Funds	0.95	53	3 Hotels	0.78	5
4 Postal-Courier Services	0.95	73	4 Sewage	0.78	34
5 Electricity, Gas, Steam	0.94	57	5 Restaurants	0.79	6
6 Metallurgical Production	0.94	3	6 Employment and Recruiting	0.81	0
7 Land-Pipeline Transport	0.94	69	7 Production of TV, Films	0.82	2
8 Chemicals Production	0.94	14	8 Building Maintenance	0.82	6
9 Beverage Production	0.94	5	9 Coal Mining	0.82	3
10 Motor Vehicles	0.93	2	10 Forestry	0.83	3
11 Oil and Coke Refining	0.93	15	11 Real Estate	0.84	8
12 Air Transport	0.93	47	12 Specialized Construction	0.84	2
13 Crude Oil and Gas Extraction	0.93	67	13 Furniture Production	0.84	0
14 Research and Development	0.92	51	14 Polygraphic-Copying Information	0.85	3
15 Other Transport Equipment	0.92	55	15 Veterinary Activity	0.85	1
Median	0.94	46.5	Median	0.82	3.2



In the L-T, Growth to Remain Moderate...

...Unless Reforms, to Address:

- Domestic market growth limited by demographics
- A deep state 'footprint'
- Concentration and unequal income distribution
- Infrastructure bottlenecks and regional disparities
- Relatively low (and concentrated) investment
- Still-low international trade integration

Keeping Good Macro Policies a Precondition



Большое Спасибо