INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/197

RUSSIAN FEDERATION

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT

July 2017

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with the Russian Federation, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 30, 2017 consideration of the staff report that concluded the Article IV consultation with the Russian Federation.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 30, 2017, following discussions that ended on May 20, 2017, with the officials of the Russian Federation on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 15, 2017.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 17/270
FOR IMMEDIATE RELEASE
July 10, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2017 Article IV Consultation with the Russian Federation

On June 30, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Russian Federation.

The Russian economy stabilized in 2016, contracting by just 0.2 percent of GDP, after being hit in 2014 by the dual shocks of lower oil prices and sanctions. The relatively modest reaction to the large external shocks reflects the authorities' effective policy response—floating exchange rate, banking system liquidity support and capital injections, and limited fiscal stimulus coupled with restrictive incomes policies. The policy response was also enabled by robust buffers.

The more stable oil prices and improved financial conditions will support a return to growth in 2017, with an expected increase in real GDP of 1.4 percent. Growth is forecast to continue at 1.4 percent in 2018. The still negative output gap, weak consumption demand, strengthening of the ruble and lower food prices from a bumper harvest are supporting the convergence of CPI inflation to the Central Bank target of 4 percent at end–2017. With adverse demographics, and barring significant structural reforms that lifts productivity, potential growth is likely to stay at around 1½ percent over the medium term. The main risk to the outlook remains a fall in oil prices.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their effective policy response which, drawing on robust buffers, has helped the Russian Federation exit a two-year recession. Looking forward, Directors stressed the need to reduce the economy's dependence on oil and rekindle structural reforms to support new sources of growth, accelerate per capita income convergence to that of advanced economies, and overcome demographic challenges.

Directors commended the authorities for reinstating the three-year fiscal framework in the 2017 budget to reduce policy uncertainty. They emphasized that for the fiscal adjustment to be sustained, it should be underpinned by durable, well-targeted measures and growth-enhancing spending. Directors underlined the need for a credible fiscal rule to anchor the adjustment, allow a smoother response to oil price changes and build adequate savings. A parametric reform of the pension system would also deliver fiscal savings over time.

Directors welcomed the progress towards achieving the inflation objective. They recommended that monetary policy easing continue, but at a gradual pace, given the uncertain size of the output gap and the potential for disinflation reversal. They encouraged the authorities to shift the focus of their communication strategy to cover a longer horizon and clarify the acceptable departures from the inflation target.

Directors welcomed the steps taken to increase the resilience of the financial system, including an improved bank resolution mechanism. They encouraged further efforts to remove obstacles that discourage investors from effectively acquiring assets and liabilities in bank resolutions, replace central bank funding with federal funds, and increase recourse to banking industry capital. Directors also encouraged the authorities to revamp the statutory bail-in legislation while keeping in mind financial stability implications. Directors noted that there is scope for further tightening the limit on related-party lending and accelerating the introduction of explicit early bank intervention procedures.

Directors underscored that accelerated structural reforms and broader trade relations can help promote a diversified export mix. They also urged the authorities to strengthen property rights, advance privatization, improve governance, and invest in innovation and infrastructure to build the foundations for higher potential growth.

---

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm

Russian Federation: Selected Macroeconomic Indicators, 2014–18

	2014	2015	2016	2017	2018
				Projections	
Production and prices					
Real GDP	0.7	-2.8	-0.2	1.4	1.4
Consumer prices					
Period average	7.8	15.5	7.0	4.2	4.0
End of period	11.4	12.9	5.4	4.0	4.0
GDP deflator	10.7	8.2	3.6	5.7	3.8
Public sector[1]			(Percent of GDP)		
General government					
Net lending/borrowing (overall balance)	-1.1	-3.4	-3.7	-1.9	-1.2
Revenue	33.8	31.8	32.8	32.6	31.9
Expenditures	34.9	35.2	36.4	34.5	33.1
Primary balance	-0.4	-2.6	-2.6	-1.0	-0.2
Nonoil balance	-11.4	-11.4	-9.8	-8.4	-7.6
Federal government					
Net lending/borrowing (overall balance)	-0.4	-2.3	-3.4	-1.7	-1.0
Nonoil balance	-9.9	-9.5	-9.0	-7.5	-6.8
			(Annual percent change)		
Base money	6.3	-4.3	3.8	6.3	6.4
Ruble broad money	1.5	11.3	9.2	9.4	9.6
External sector					
Export volumes	-0.2	6.4	0.9	1.4	3.4
Oil	0.1	7.0	-8.5	-2.1	0.7
Gas	-11.3	6.5	1.7	-0.8	0.1
Non-energy	4.1	-7.9	11.2	5.8	6.9
Import volumes	-8.0	-25.2	1.6	2.8	3.8
	(Billions of U.S. dollars: unless otherwise indicated)				
External sector					
Total merchandise exports, fob	496.8	341.5	281.7	330.4	339.1
Total merchandise imports, fob	-307.9	-193.0	-191.7	-203.1	-213.7
External current account	57.5	68.9	25.0	44.0	48.9
External current account (in percent of GDP)	2.8	5.0	1.9	2.9	3.2
Gross international reserves	496.8	341.5	281.7	330.4	339.1
Billions of U.S. dollars	385.5	368.4	377.7	395.3	412.6
Months of imports[2]	10.8	15.7	17.0	16.8	16.7
Percent of short-term debt	302	450	419	391	417
Memorandum items:					
Nominal GDP (billions of U.S.D)	2,064	1,366	1,283	1,498	1,551
Exchange rate (rubles per U.S.D., period average)	38.4	60.9	…	…	…
World oil price (U.S.D. per barrel)	96.2	50.8	42.8	51.9	52.0
Real effective exchange rate (average percent change)	-8.5	-17.4	…	…	…

Sources: Russian authorities; and IMF staff estimates.

1/ Cash basis.

2/ In months of imports of goods and non-factor services.

INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

June 15, 2017

KEY ISSUES

Context. After two years of recession, the economy is recovering due to higher oil prices and improved sentiment, amid tight fiscal and monetary policies. Medium-term prospects are nonetheless subdued given the expected stability of oil prices over the forecasting period and a structurally weak economy. Structural reforms over the past year consisted of a high profile partial privatization and other small measures.

Near-term macroeconomic policy mix. The pace of fiscal consolidation is appropriate, given the recovery and persistently lower oil prices compared to the recent past, but it should be supported with targeted, growth-friendly, durable measures, underpinned by a new fiscal rule. Although the inflation objective is practically met, monetary policy easing should proceed at a gradual pace given the risk that disinflation would reverse. Financial sector policies should continue implementing last year's Financial Sector Assessment Program (FSAP) recommendations to enhance the institutional framework.

Medium-term structural policy challenges. Policies need to harness tailwinds from stable oil prices while seeking to reduce oil dependency. A fiscal rule that would generate sufficient savings while providing flexibility in the face of volatile oil prices is needed, not only to anchor fiscal consolidation but also to contain Dutch disease. Banking sector clean up should continue to support financial deepening and confidence. Finally, rekindling the structural reform agenda to support new sources of growth and develop a broader and more sophisticated product and export mix remains key to improve Russia's growth potential and accelerate convergence towards advanced economy per capita income levels.

Approved By
Philip Gerson and Vikram Haksar

Discussions for the 2017 Article IV consultation were held in Moscow during May 10–20. The mission comprised Mr. Ramirez Rigo (Head), Mses. Kyobe and Taheri Sanjani, and Mr. Belhocine (all EUR), Mr. Culiuc (SPR), Mr. Saiyid (MCM), Mr. El Khoury (LEG) and Mr. Di Bella (Res. Rep.). Mses. Dynnikova (local senior economist) and Chebotareva (local economist) assisted the mission. Mr. Mozhin, Executive Director, participated in the discussions. The mission met with Minister of Finance Siluanov, Minister of Economy Oreshkin, Central Bank Governor Nabiullina, other senior officials and representatives of financial, academic and business institutions. Mses. Meng and Mahadewa contributed to the preparation of this report.

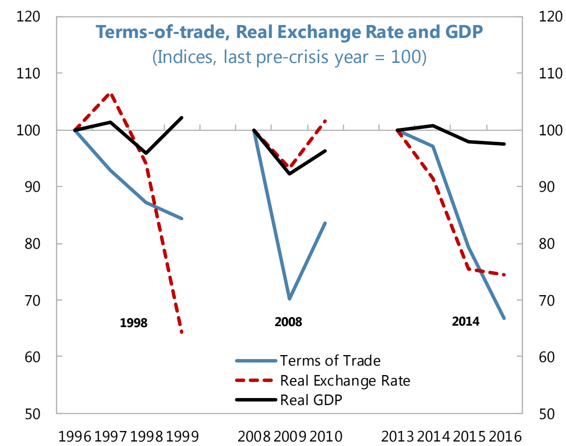
CONTENTS

TABLES

ANNEXES

CONTEXT: LEVERAGING THE TAILWINDS OF HIGHER AND STABLE OIL PRICES

1. **The Russian economy proved to be more resilient than expected to the dual shocks of lower oil prices and sanctions.** Output fell sharply in 2015, by 2.8 percent (revised from an initial estimate of 3.7 percent) but stabilized in 2016, contracting by only 0.2 percent. The relatively modest response to the large external shocks reflects the authorities' effective policy response—floating exchange rate, banking system liquidity support and capital injections, and limited fiscal stimulus coupled with restrictive incomes policies—and was enabled by robust buffers.



2. **The recovery in oil prices is supporting the exit from the recession, but is accompanied by currency appreciation that could dampen prospects for rebalancing the economy.** The doubling of oil prices from a low of US$26 pb in January 2016 to over US$50 pb in May 2017 has laid the foundation for a recovery that is also supported by a 100 bps cut in the policy rate and a less contractionary fiscal stance than originally envisaged. The rebound of the economy gathered further momentum by end-2016 with the PMI reaching historical highs, capacity utilization increasing, unemployment falling, and real wages recovering. However, the non-commodity tradable sectors' response to the near 30 percent depreciation during 2014–2016 has been weak for the most part, and unevenly distributed across sectors, while a robust rebalancing of exports towards the non-energy tradable sector has yet to happen (Text Figure 1).

3. **The need for a new growth model to accelerate income convergence with advanced economies was visible even before external shocks hit Russia.** Slow capital accumulation since 2009, adverse demographics, and weak TFP growth had lowered potential growth in the run up to the 2014 crisis. At the time, there was broad consensus that the pre-2008 crisis growth model—based on rising oil prices and a drawdown of spare capacity—was no longer viable. Despite improvements in the World Bank Doing Business Indicators, weak property rights, poor infrastructure, and governance issues are still major constraints on growth (See Selected Issues Papers of the 2016 Article IV). Thus, convergence of per capita income to advanced economy levels has slowed considerably.

RECENT DEVELOPMENTS

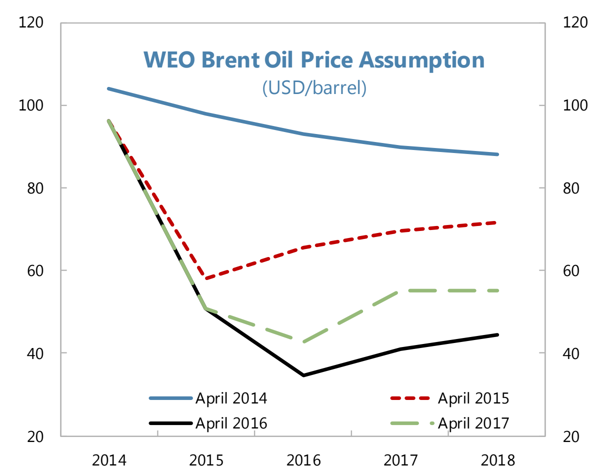
4. **The economic recovery is gaining pace (Figure 1).** In 2017Q1, GDP expanded by 0.5 percent y-o-y (0.3 percent y-o-y in 2016Q4), supported by an acceleration in consumption and

investment. An improvement in credit demand from households, particularly for mortgage loans—benefitting from a combination of a government subsidy program and easing inflation—is supporting credit growth, which reached 2.5 percent y-o-y in March 2017. A negative output gap, ruble appreciation and declining food prices from a strong harvest, have contributed to decreasing inflation, which reached 4.1 percent in April, down from 7.2 percent a year before.

5. The current account surplus declined as the recovery eased import compression, while the financial account strengthened as investor confidence improved (Figure 2). A further drop in oil prices during the first quarter of 2016 led to a strong decline in export receipts in early 2016. With import compression stabilizing, the current account shrank from 5.1 percent of GDP in 2015 to 1.7 percent at end-2016. Accommodative monetary policies in major economies have supported capital inflows into local government debt, while more Russian companies were successful in tapping external markets than before, supporting the shrinking of the capital account deficit. Following the bottoming out of oil prices and the decline in economic uncertainty, the average REER over 2016 appreciated by 24 percent as of February 2017, and is now estimated by staff to be moderately overvalued, implying an external position in 2016 that was moderately weaker than suggested by medium-term fundamentals (see ESR, Annex II).

OUTLOOK AND RISKS

6. Higher oil prices, easier financial conditions and improving confidence will support the economy in 2017. GDP is forecast to grow by 1.4 percent. The recovery should gain steam as oil prices are projected to stabilize and remain relatively high (US$55pb on average over the medium-term, compared to the US$26 low in 2016), real wages are recovering, the banking system has stabilized, and corporate profits have continued to improve. In addition, with financial conditions easing and confidence strengthening, the stage is set for a pick-up in investment and consumption. Thus, domestic demand is expected to support GDP growth while net exports' contribution will diminish due to rapidly recovering imports and a weak response of the non-energy export sector to the 2014–2016 ruble depreciation. Inflation is expected to continue declining, driven by the ruble appreciation and falling inflation expectations in the context of a small negative output gap of about ½ percent.[1]



[1] There remains considerable uncertainty over the size of the output gap, in part due to the difficulty in assessing the structural versus cyclical component of the terms-of-trade shock and the relatively frequent data revisions.

7. However, medium-term prospects are subdued. Unlike in past oil price recoveries, fiscal policy is expected to provide little impetus to domestic demand and is likely to maintain a tight stance on income policies. Thus, the recovery of private consumption will be muted. In addition, the lingering effects of sanctions will dampen the potential for accelerating investment growth. Furthermore, with adverse demographics, and under the assumption of no structural reforms to increase productivity growth, potential growth is likely to linger at about 1½ percent over the medium term.

8. Short-term risks have declined. Risks to the outlook from persistently lower oil prices have diminished as production cuts by OPEC and other major oil producers seem to be sustained (RAM, Annex III). Higher Fed rates are not expected to negatively affect local markets: the interest rate differential that motivates carry trade is large; international financial markets remain relatively closed to Russian private entities; and most corporates have enough foreign exchange to cover their short term external debt obligations.[2] In addition, buffers are large: reserves stood at 206 percent of the Fund's adequacy metric adjusted for the impact of commodities at end-2016, public debt is low, and the current account is in surplus. However, a flare up in geopolitical tensions, a significant slowdown in China, continued drop in investment due to the lack of structural reforms or a slower than expected banking system recovery could negatively affect the pace of the recovery and medium-term prospects.

Authorities' Views

9. The authorities agreed with staff that 2017 will be a recovery year and that risks have declined. The Ministry of Finance and Ministry of Economic Development expect growth to reach 2 percent in 2017 while the Central Bank had a slightly less optimistic outlook with growth in the range of 1-1½ percent. They thought that investment had probably grown in Q1 despite still contracting construction activity. They expect the recovery in consumption to be driven by falling inflation, easing financial conditions and improved confidence. They believe that in the absence of structural reforms, growth prospects would remain subdued. They agreed with staff's estimate of a small negative output gap of about ½ percent, while noting the large uncertainty in measuring the slack in the economy. They also believed that risks to the economy have diminished given that the flexible exchange rate cushions the economy against volatile oil prices, while the recent banking sector external deleveraging and the gradual de-dollarization of the economy would reduce the impact of future external shocks on households and corporates. Finally, the Central Bank estimates that the ruble is overvalued by 5 to 9 percent.

[2] The authorities' requirement on the five large SOEs to maintain the size of their net foreign assets no greater than the level of Q4 2014 (a capital flow management measure) was removed.

POLICY DISCUSSIONS: SOWING THE SEEDS OF A STRONG, DURABLE RECOVERY

The discussions focused on policies needed to harness the tailwinds from higher oil prices and accelerate the necessary reforms to lay the basis for a growth model that is less dependent on oil. There are four priorities: (i) introducing a fiscal rule that anchors consolidation, generates sufficient savings, dampens the impact of oil price volatility on the economy and contains Dutch disease; (ii) reaching the 4 percent inflation target while continuing with gradual monetary policy easing as the inflation objective is within reach; (iii) pursuing the current financial sector reforms to foster financial deepening and support growth; and (iv) advancing decisively on the structural reform agenda to improve potential growth and rebalance the economy toward non-commodity tradable sectors.

A. Fiscal Policy: Underpinning Consolidation with Lasting Measures

10. The authorities approved an ambitious medium term fiscal adjustment program (Figure 3). The 2017–19 federal budget approved in November 2016 marks the revival of the three-year budgeting framework—suspended after the oil price shock—and incorporates conservative spending and revenue assumptions. It assumes an oil price of US$ 40 pb, targets about a 1 percentage point of GDP yearly reduction in the overall budget deficit, and relies mostly on a nominal spending freeze and temporary revenue measures to implement the adjustment. Spending ceilings assume that rising pensions and social payments (indexed to inflation) and higher debt service are offset by cuts to defense and other spending items of 6 and 9 percent, respectively, per year. On the revenue side, measures include increasing dividend payouts of state owned enterprises to 50 percent of their profits and higher excise and mineral extraction taxes, yielding up to 1 percent of GDP per year.

11. The authorities amended the 2017 budget in May to target a lower deficit. The budget deficit has been revised to 2.1 percent of GDP from 3.2 percent in the original budget. Non-oil revenue collections in 2017Q1 were well ahead of budget projections with higher VAT collections from improved tax administration and higher one-off revenues. Three-quarters of the additional non-oil revenues will be spent in 2017. The authorities aim to keep unchanged the annual reduction in the non-oil primary structural deficit over 2017–2019 at around 1 percentage point of GDP.[3]

12. A new mechanism to save oil revenues was announced in February. The Ministry of Finance (MoF) implemented a new mechanism to save the difference between actual oil revenues and those that would have accrued had the budgeted price prevailed. The mechanism is supposed to be symmetric around the benchmark price of US$40 pb. The MoF purchases/sells the corresponding FX amount on the market and deposits/withdraws it in/from the Reserve Fund (RF). The daily purchases have amounted to US$70–100 million in February and March, which is relatively small

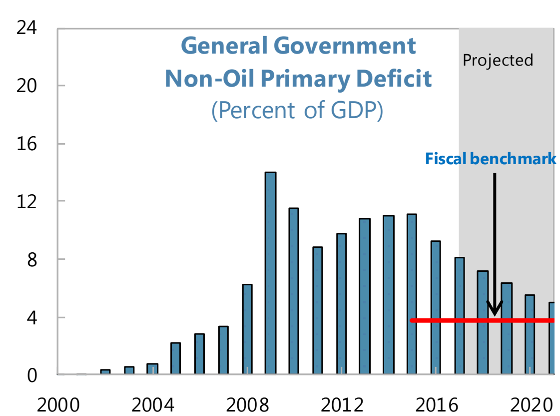
[3] The underlying fiscal adjustment is measured by the change in the non-oil primary structural balance.

compared to the average daily FX turnover in the spot market (US$3–5 billion). The MoF sees this mechanism as a way to preserve, and eventually replenish, the RF—so long as the budgeted oil price is below market prices on average— which would have otherwise been depleted, and thereby smooth the economic impact of swings in oil prices.

13. The authorities are designing a new fiscal rule. The previous rule failed to ensure a sufficiently rapid adjustment to the sharp drop in oil prices and was therefore suspended in 2015. The authorities plan to introduce a new rule, effective in 2019, when the budget will be close to balance. Discussions of a new rule center on a fixed (real) oil price benchmark of US$40 pb—instead of a backward-looking price formula as in the previous rule—and a zero-primary balance target at the benchmark oil price, versus a 1 percent overall deficit under the old rule.[4]

14. Staff agreed with the pace of adjustment but advocated for better quality fiscal measures to protect growth enhancing spending. Because the recovery is gaining momentum, the balanced fiscal adjustment path over the next three years is appropriate; it will allow a steady adjustment to permanently lower oil prices and to rebuild buffers in the face of potentially volatile oil prices, even if some fiscal space exists from the low debt level and the limited financing needs. The authorities' macroeconomic forecast implies reaching a primary surplus by 2019, getting closer to a benchmark fiscal position that staff views as consistent with intergenerational equity (See Selected Issues Paper of the 2015 AIV). Ensuring that the burden of the adjustment is equitably distributed and that it does not impact spending on education, health, and infrastructure requires a comprehensive review of spending priorities. The focus should be placed on subsidies, social programs, pension payments and regional transfers (See Box 2)— as more than half of budget spending is dedicated to these items. Staff reiterated that the fiscal adjustment should be based on more permanent and better targeted measures (e.g., improving the targeting of social assistance programs), ideally with low multipliers in the short-term to limit the impact on growth (e.g., reductions in energy subsidies). Lastly, a parametric reform of the pension system could deliver increased fiscal savings over time.

15. Staff supported a reinstatement of a fiscal rule but encouraged a higher level of savings and argued for an oil benchmark that would adjust to persistent oil price changes. Even though the FX purchase program is pre-announced and predictable, it is short of a fiscal rule. Staff views this mechanism as a short-term tool to replenish fiscal buffers and to improve predictability of fiscal policy by ensuring that excess oil revenues are saved rather than



[4] The choice of US$40 pb is the 50-year average of oil prices. The oil pice benchmark is in real US$ 2016 terms and would nominally increase with U.S. inflation.

spent. Although the broad principles of the fiscal rule under consideration are appropriate, two operational aspects could be revisited (See Box 1): (i) introducing flexibility in the oil price benchmark by including oil future prices to allow for a faster, rule-based adjustment of fiscal policy to persistent oil price developments, thus avoiding the need to suspend the rule when faced with pressures to increase spending during an oil price boom, or when market pressures constrain financing during an oil price downturn (See Macroeconomic Policy Frameworks for Resource-Rich Developing Countries); and (ii) increasing the savings generated by the proposed fiscal rule given that Russia's projected non-oil primary deficits by 2019 will be about 1–2 percent of GDP short of meeting the fiscal benchmark suggested by intergenerational equity. An additional target on expenditure growth could help further limit pro-cyclical fiscal policies, especially with respect to non-oil revenues. As an alternative, once the macroeconomic data are more rich, adjusting non-oil revenues to the economic cycle could be also considered.

Authorities' Views

16. The authorities are committed to fiscal consolidation. They view their amended 2017 budget as a clear signal that consolidation will continue even in the face of higher oil prices. They noted efforts to increase tax collection by reducing informality were yielding dividends. They emphasized their ongoing efforts to find appropriate consolidation measures, including means-testing of social benefits. They viewed that the fiscal rule would not only provide a fiscal anchor, but more importantly would shield the budget from volatile fluctuations in oil prices and dampen their impact on the economy. They believe a fiscal rule with a fixed oil price (in real terms) is simpler, more transparent and easier to communicate. Instead of a flexible oil price benchmark, they are considering escape clauses in the event of persistenly low oil prices—capping withdrawals from the reserve fund when savings reach a certain threshold—to prevent a depletion of savings. They acknowledged, however, that this mechanism might not be strictly binding as it does not include a constraint on borrowing. While confirming pension reform could only happen sometime after presidential elections, they discussed three sets of measures that could be considered: (i) increasing and equalizing statutory retirement ages; (ii) reducing early retirement benefits; and (iii) curtailing pension benefits for pensioners below the mandatory retirement age. They agreed that fiscal policy at the federal level should be designed to support the development of regional tax bases and noted they have started developing incentives to encourage regions to generate higher own revenues.

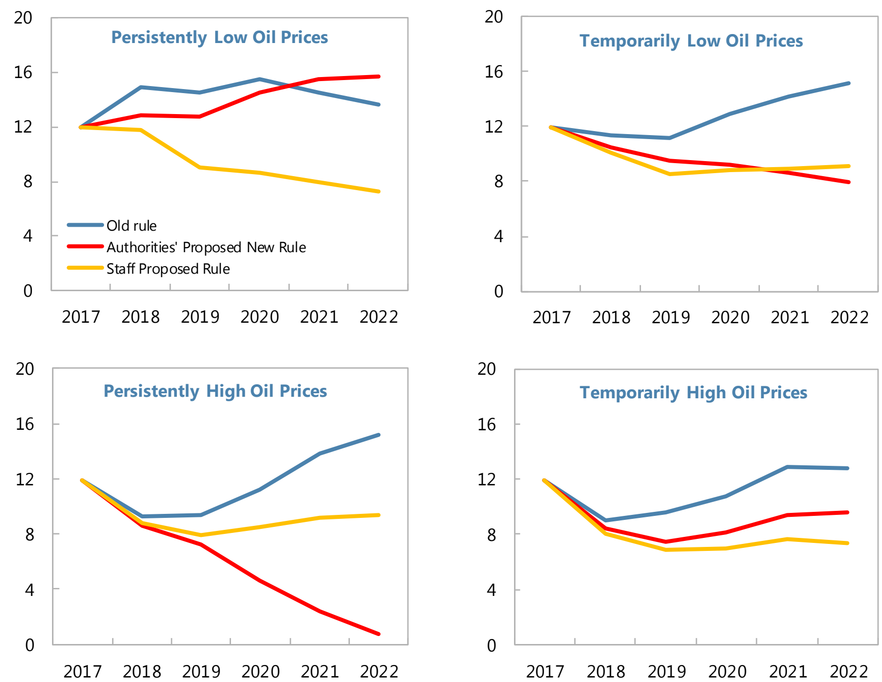
Box 1. Evaluating Russia's New Proposed Fiscal Rule

We evaluate the authorities proposed new fiscal rule against alternative fiscal rules: the authorities' old rule which was abandoned in 2015 as it did not allow for a sufficient or timely adjustment to permanently lower oil prices; and Staff's proposed rule which makes two modifications to the old rule: i) targeting a 1 percent of GDP budget surplus (rather than a primary balance) and ii) allowing the benchmark oil price to adjust to persistent oil price changes using futures prices (instead of a fixed oil price).[1]

The IMF Flexible System of Global Models is used to simulate fiscal and macroeconomic outcomes under the three fiscal rules and different oil price shocks. The simulation shows that the authorities' proposed new rule appropriately builds up the nearly depleted reserve fund under a scenario where oil prices are as in the baseline and where oil prices are persistently higher than the US$40 pb benchmark. However, should oil prices be persistently lower than the US$40 pb benchmark, the new rule results in lower savings compared to Staff's proposed rule. Simulations illustrate that savings can be achieved through a more stringent fiscal target as in Staff's proposal, a more credible option, instead of an inflexible conservative benchmark that risks the fiscal rule being abandoned should oil prices be persistently below or above the benchmark price. Moreover, both staff and authorities' proposed rules perform equally well in shielding the economy from volatile oil prices, with no discernible difference among the rules in their impact on growth and the real effective exchange rate. Finally, the simulation validates the reason for abandoning the old rule, since it would have led to the lowest savings and highest spending in the period of high oil prices and to a large fiscal stimulus in the face of persistent low oil prices, quickly depleting reserve buffers and increasing debt.

Evolution of Net Debt: Oil Shock Scenarios

(In Percent of GDP)



Source: IMF staff estimates.

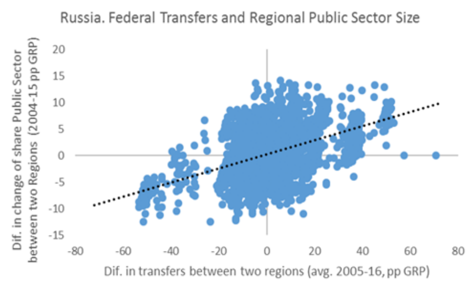
---

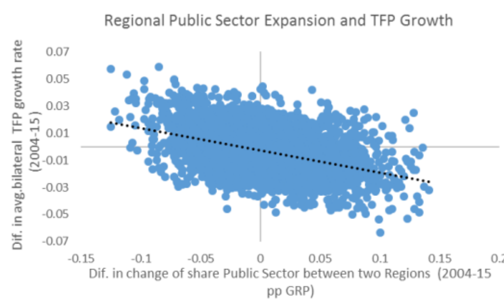
[1] See Selected Issues Paper, "Evaluating Russia's Fiscal Rule."

Box 2. Fiscal Federalism and Regional Economic Performance

Staff analyzed the economic performance of regions in relation to the support provided by the federal government.[1] The main building blocks of Russia's fiscal federalism are a relatively centralized tax authority and a complex system of federal transfers. These transfers aim to reduce large cross-regional dispersion of fiscal revenues. Staff found that transfers have been effective in supporting factor accumulation in lower per capita income regions and in reducing cross regional disparities in real per capita spending in education and health. In addition, regions receiving higher transfers have generally shown larger investment-to-Gross Regional Product (GRP) ratios.

Nonetheless, federal transfers have been less effective in supporting self-sustaining GRP growth and productivity increases. While transfers pushed up regional growth through the expansion of public sector services (which expanded more in regions receiving higher federal transfers), they resulted in lower real per capita growth. This result is supported by an estimation of a system of simultaneous equations that allows for interactions between per capita GRP growth, GRP structure and transfers. Faster growth in physical and human capital together with lower per capita growth suggests lower TFP growth. This is confirmed by growth accounting exercises for 79 regions: productivity grew at lower annual rates in regions receiving relatively high levels of federal transfers. Accordingly, large cross-regional differences in the ratio of own fiscal revenues-to-expenditures have persisted and so have the associated dependence on federal transfers.





Regional dependence on transfers will likely continue, which calls for revisiting strategic objectives considering that regions receiving transfers grew less than others. The solution does not lie, however, in sudden decreases or reallocation of transfers, as these would create disruptions, while complete elimination of regional dispersion is an unrealistic goal. Rather, policies should consider the fiscal sustainability of regions together with the current equalization objective.

Fiscal policy at the federal level should support the development of regional tax bases since open-ended transfers may have weakened regional incentives to enlarge their tax bases, supporting a pattern of dependence. Expanding the use of personal property taxes, which currently represent only 0.4 percent of the consolidated revenues of regions would strengthen regional tax bases and improve regional sustainability and accountability. In addition, a well-designed fiscal rule would dampen the volatility of oil prices on the real exchange rate with positive spillovers for lower per-capita income regions where agriculture represents a larger share of GRP. Finally, rebalancing domestic taxes in favor of lower labor taxes should support decreases in informality that are more predominant in low per-capita income regions.

---

[1] See Selected Issues Paper, "Fiscal Federalism and Regional Economic Performance."

B. Monetary Policy: Gradual Easing

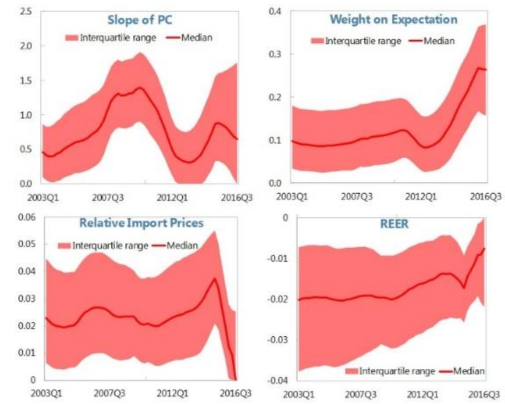
17. Monetary policy easing has resumed (Figure 4). After staying on hold for half-a-year, the Central Bank of Russia (CBR) resumed its easing cycle in March, cutting its policy rate by a cumulative 75bps to 9.25 percent. The inflation target of 4 percent has been practically met as inflation fell to 4.1 percent in April due to weak consumption demand, strengthening of the ruble and lower food prices from a bumper harvest. Even though core inflation has continued to decelerate, the CBR remains concerned that disinflation could unwind quickly, especially in the context of a moderately overvalued exchange rate—jeopardizing the achievement of the 4 percent inflation target by end-year. The authorities have started work on communicating a medium-term inflation target—around the parameters of an acceptable deviation from target and over what horizon—while being mindful of the need to keep inflation expectations anchored.

18. Staff recommended that further monetary easing should continue at a gradual pace given risks to the inflation outlook. Staff estimates that the current stance is tight given that the gap between the current policy rate and the estimated neutral rate is around 2–3.5 percentage points. In addition, conditions for further disinflation remain largely in place due to a negative, albeit small, output gap, and slowly recovering consumption amid a tight fiscal policy stance. Also, sequential inflation points towards a deceleration in core inflation that is consistent with achieving or even undershooting the inflation target. However, staff advised a gradual pace of monetary easing given: the risks that inflation expectations remain above the CBR inflation target; the uncertain pace of the recovery especially in the context of volatile oil prices; the tightening labor market—the slope of the core inflation Philips curve is expected to increase with the economic recovery underway (See Box 3); and importantly, the potential reversal of the ruble overvaluation, which might be in part driven by the current tight monetary stance.

19. Staff recommended that the CBR shift its communication strategy to a horizon beyond end-year. So far, the CBR has put major emphasis on the attainment of a 4 percent inflation target by end-2017 and communication has been mostly focused on this objective. Staff argued that the CBR shifts its communication beyond the attainment of the 4 percent objective by end-year and provide more clarity as to what it means to keep inflation at 4 percent afterward. Staff also pointed out that attempting to keep inflation at the target under all circumstances may cause undesirable volatility in output. Staff recommended that the CBR elaborate on its medium-term target by either defining a horizon over which it plans to hit its target, or referring to its inflation horizon objective as an average over the medium-term.

Box 3. Russia's Core Inflation Philips Curve: A Time-Varying Approach

Since the 2014 crisis, the combination of muted unemployment and volatile inflation has raised questions as to whether the nature of cyclical unemployment and the inflation trade-off has changed in Russia.[1] Particularly, has the Phillps curve (PC) disappeared or has it changed over time? We answer this question by estimating a hybrid New Keynesian Phillips acurve for Russia core inflation with time varying coefficients.



Sources: Haver Analytics; and IMF staff calculations.

The time-varying feature of the model helps policy makers to understand how the importance of various variables that explain core inflation have evolved over time. We employ a multivariate model to explain inflation over the period 2000Q1 to 2016Q3. We compare our findings to bivariate estimations of the relationship between different measures of inflation and slack. We find that a hybrid NK model of the Phillips curve better explains the transmission channels as it explicitly accounts for the role of imported inflation and the exchange rate, whereas a bivariate specification of the relationship can be misleading—with a slope that differs depending on the state of the business cycle, and across different measures of inflation.

The slope of the Philips curve is expected to increase with the economic recovery underway. The impact of cyclical unemployment on core inflation varies over time and its slope tends to increase during normal-times and to decrease in the aftermath of a crisis. The weight on inflation expectations in the Philips curve has increased recently, likely due to the introduction of a credible IT regime. Our results illustrate that while the coefficient of REER have been small and stable overtime, the importance of import price inflation has increased until recently, consistent with rising import penetration and globalization. Since the onset of the sanctions the elasticity of the response of core inflation to import prices inflation has declined.

[1] See Selected Issues Paper, "Putting the Curve back in Russia's Philips Curve: A Time-varying Approach".

Authorities' Views

20. **The authorities agreed with the need for a gradual easing of monetary policy.** They highlighted that faster disinflation than originally forecasted was driven by ruble appreciation, a bumper harvest, and still weak consumer demand. They still viewed the ruble as vulnerable to volatile capital flows and oil prices, including due to uncertainty over the renewal of the OPEC production agreement. Given that these factors are unpredictable and could easily reverse, a cautious monetary policy easing approach was necessary to continue anchoring inflation expectations while the moderately tight monetary stance was being gradually relaxed, even if this meant undershooting slightly the end-year target. As for communicating a medium-term target, the CBR indicated that it aims to lower interest rate volatility—ultimately creating more predictable conditions for less output volatility—by allowing inflation to deviate slightly from target and that it is working on defining

acceptable deviation parameters together with a horizon over which it plans to meet the inflation target. They plan to release these details in September.

C. Macro-Financial: Pursuing Reforms to Foster the Sector's Contribution to Growth

21. The banking sector's performance has been improving over the past year (Figure 5). Banks' deposit funding has experienced healthy growth and the banking system is now in a structural liquidity surplus. Lending activity stopped contracting in Q4 for the retail segment and remained positive, albeit weak and stagnating, for the overall economy, with loan volume growth averaging 2 percent annually since early 2016. Banks' profitability is increasing—although it varies greatly across banks—on the back of higher net interest margins and lower provisioning on stabilized NPLs, which after rising for two years have settled at around 9.5 percent. The Capital Adequacy Ratio remained stable overall and increased moderately in the past few months to around 13 percent, against a regulatory minimum of 8 percent, with a Common Equity Tier 1 (CET1) ratio of 9.2 percent in relation to a phased-in Basel III capital requirement of 4.5 percent. The CBR closed 110 credit institutions in 2016, compared to 101 in 2015, continuing to target mostly small banks that are weak and/or involved in dubious transactions, bringing the number of total credit institutions to 616, from 923 at end-2013.

22. Macro-financial risks declined as the economy has adjusted to lower oil prices (Figure 6). Profitability of the tradable and the non-tradable sectors has picked up on the back of improving economic activity and higher oil prices. Both ruble- and FX-denominated corporate overdue loans have stabilized and are even falling in some corporate sectors that experienced increased credit risks in the past two years, such as construction and retail trade. Corporate and bank FX risks in the short-term remain low as their short-term liabilities are sufficiently covered by their liquid external assets. Corporate deleveraging over the past two years improved balance sheets while borrowing domestically and externally remained relatively stable, although as much as 10 percent of corporates may have less than full coverage of interest servicing costs with earnings.[5]

23. The authorities have taken actions to support financial stability. The CBR has initiated some elements of an Asset Quality Review, through the newly created Risk Assessment Department, for the entire banking system, and the review is expected to be completed by end-2018. The Central Bank also tightened macroprudential requirements to reduce dollarization by setting higher capital risk weights for FX lending by banks to unhedged borrowers; strengthened stress-testing by adjusting for potential misclassification of loans and linked the stress-test results to supervisory action; established a tiered supervisory framework for banks; and defined a capital surcharge for ten domestic systemically important banks. Other measures incorporated elements of FSAP recommendations, including on the AML/CFT. However, the AML/CFT framework needs further strengthening by upgrading the definition of politically exposed persons in line with international

[5]See IMF Global Financial Stability Report, April 2017.

standards and improving the transparency of legal persons by making the beneficial ownership information available (See Annex IV).

24. **The authorities introduced a law amending the current bank resolution framework.** Effective from mid-June, the legislation modifies and replaces the open bank resolution framework operated by the Deposit Insurance Agency (DIA) with one operated by the CBR. It will allow the CBR to provide an equity capital injection but only after wiping out shareholders' equity capital, rather than extending a loan below-market rates via the DIA. A limited amount of bail-in is possible, for subordinated liabilities held by individuals who are managers or/and exercise control over the bank. The new law creates a Bank Consolidation Fund (BCF), financed and managed by the CBR, to provide resolution funding. It BCF does not carry an explicit arrangement for federal government funding and its size would be determined on a case-by-case basis. Finally, the CBR will take majority control of the DIA's board of directors to better oversee the restructuring of the 27 banks that are currently undergoing open bank resolutions.

25. **While CBR-administered open bank resolution framework has some positive features, it is not yet consistent with international standards**. The decision to replace below-market rate loans with direct capital injection should reduce balance sheet encumbrance, remove disincentives to expedite resolution of problem loans and shorten the process of open bank resolution. However, the reform falls short of Russia's G20 commitment to implement the Financial Stability Board's Key Attributes. In addition, there are still some shortcomings in the mechanism. First, the new law does not replace CBR funding by federal government funds while the budget would incur an indirect cost through lower CBR profits—which is not recognized explicitly. Second, the modified bank resolution procedure has no provision for statutory bail-in, increasing the cost of intervention for the state. Third, despite CBR support, purchase and assumption (P&A) transactions likely remain unattractive to investors because the new law requires asset transfers to occur at book value. All assets—good and bad—must be acquired and some of the large banks are already absorbing past acquisitions of problem banks. Staff argued that the removal of impediments to P&A would enable a bridge bank transaction, with temporary government acquisition of the good assets and liabilities of the resolved bank at market value, along with the creation of a run-off entity for bad assets which might increase the chances of P&A transactions in future.

Authorities' Views

26. **The authorities indicated that the new resolution mechanism is an improvement over the previous framework.** The previous mechanism for bank resolution was discontinued for two reasons: (i) it had become expensive as market interest rates declined; and (ii) it created opportunities in P&A transactions of acquiring banks to fraudulently pool their own bad assets with those of the institution being resolved. The authorities argued that P&A transactions are unlikely to occur soon as it is difficult to find buyers within the domestic banking system—some large banks are already in the process of absorbing failed institutions. They also think it is appropriate to continue using CBR funds in resolution for now as it provides a faster mechanism to intervene. They believe that asset transfers from failing institutions to acquiring banks should remain at book value because

of concerns about potential for abuse in assessments of their market valuation. Finally, the authorities agreed that enhancing the AML/CFT framework will help in deterring financial crimes. They noted legislative amendments have been prepared to upgrade the framework in line with international standards.

D. Structural Policies: Re-kindling the Structural Reform Agenda to Lift Potential Growth

27. The authorities have yet to implement far-reaching and long-overdue structural reforms. They have taken some structural measures such as passing a PPP law and continuing for a third year to purge weak banks from the banking system to support financial deepening. In addition, the authorities have successfully privatized a 19.5 percent stake in Rosneft and in other, mostly small, SOEs. However, with fiscal pressures abating, the privatization agenda for 2017–2019 has been scaled back and the initial plans to partially privatize the second largest state owned bank (VTB) and an extra 10 percent of Rosneft have been postponed. The state continues to play a significant role in the economy, with a large portion of the workforce employed by the public administration or state-owned enterprises (SOEs) (See Box 4). Moreover, private firms that rely on public contracts cite burdensome government regulations (see Selected Issues Papers, 2016). Although the authorities have been considering structural reform priorities for a long time and recognize the structural impediments, no major reforms in the product and labor markets have been introduced, while pension reform has yet to be implemented.

Box 4. Footprint of the State

The state plays a significant role in the Russian economy. A large network of corporations (counting about 64,000 at end-2016), falling into several legal definitions of unitary and joint stock companies operate in agriculture, mining and extraction, and in all the range of manufacturing and service activities including real estate and banking. Finally, more than half of total banking system assets are held by state-owned banks. Data constraints do not allow a comprehensive analysis of the potential impact of the large state involvement on the broader economy. There is no consistent time series of employment in the general government sector (at its different levels) nor across the range of enterprises in which the state has a stake.

An analysis using regional data, however, suggests that a larger footprint of the state—proxied by public sector expansions (as a share of Gross Regional Product)—is associated with lower productivity increases. Federal transfers have increased the size of regional public sectors, with a positive impact on factor accumulation but a negative impact on productivity. More generally, real per capita regional income is negatively associated with the footprint of the state (see Box 2).

28. The significant REER depreciation during 2014-2015 has so far not led to a strong rebalancing of exports towards the non-energy tradable sectors. Since Q3 2016, only two non-energy export sectors experienced large jumps—"machinery and equipment" and "other goods"—although a consistent trend is yet to emerge as these two categories tend to see lumpy movements (see Text Figure 1). Structural constraints (poor property rights and business regulation) and a non-diversified export basket weigh on the export response (see 2016 Article IV SIP).

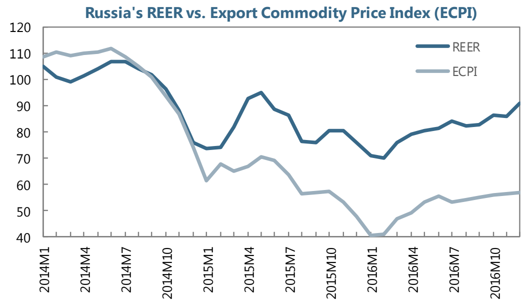
Furthermore, unfavorable compositional changes in the export basket over the past 15 years—Russia's manufactured exports have become on average less sophisticated—may have further muted the response. The Russian industry may also be at a disadvantage given the lack of preferential access to large markets; Russia's only regional trade agreements (RTAs) are with much smaller neighbors whose domestic demand fell together with that of Russia. This contrasts with other emerging markets, which over the last two decades have dramatically expanded the share of global market they can reach through RTAs. Russia's relatively large domestic market compensates in part for this. But, even by the standards of other large countries, Russia's RTAs provide access to a very low share of global GDP.

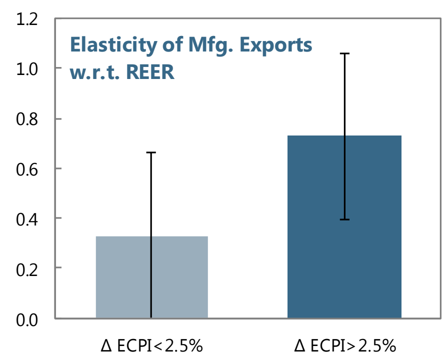
29. Staff argued that the REER depreciation has not spurred the expected pickup in the non-energy tradeable sector due to structural impediments. The non-commodity tradable sector suffers during commodity booms but busts are generally not conducive to a rapid reversal process. Still, the reallocation of resources can be supported by flexible product and labor markets (i.e., reducing regulations and constraints that impede the movement of labor) and a deep and well-capitalized financial system that can shift credit to new sectors. Improvements in customs administrations, for example by increasing automation of processes would reduce the burden of customs procedures improving incentives for export. Additionally, preferential market access beyond the immediate neighborhood can facilitate Russia's integration into global value chains and increase potential gains from future improvements in price competitiveness (See Box 5).

30. Staff advocated rekindling the structural reform agenda and reiterated reform priorities. Now that the economy is emerging from a two-year recession with an upturn in economic cycle, the structural causes of the slowdown that preceded the external shocks need to be addressed. Unless accompanied by structural reforms, the price competitiveness generated by the depreciation might not be sufficient to attract investment and thus develop a broader and more sophisticated product and export mix. Staff reiterated the views expressed in the last Article AIV Consultation and Selected Issues Papers that the priority areas included institutional improvements in property rights and governance, labor market policies, and innovation and infrastructure. Sequencing within reform priorities would favor improvements in the institutional and investment environment, as a pre-requisite to realize dividends from investing in innovation. The investment environment would also benefit from the authorities' ongoing implementation of commitments to fight financial crimes made at the May 2016 London anti-corruption summit. The authorities' ongoing efforts to expand RTAs beyond the neighboring countries are a welcome step to secure access to additional markets.

Box 5. The Muted Response of Non-Commodity Exports to REER Depreciation

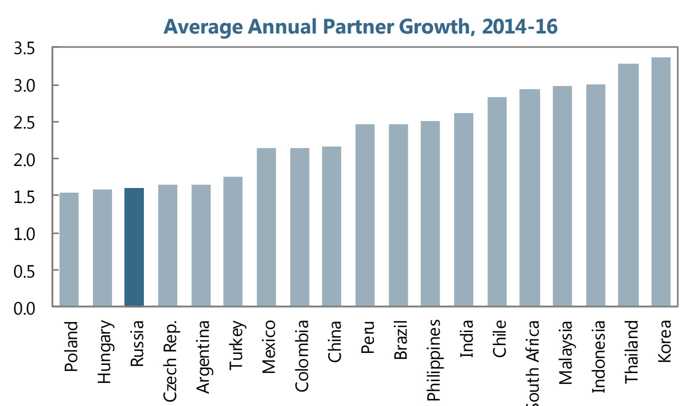
The limited response of Russia's non-commodity tradable sector to the large real depreciation has been puzzling.[1] Cross-country panel regression analysis reveals that, for commodity exporters, the medium-term elasticity of manufactured exports to the REER decreases during periods of falling commodity prices (proxy by the Export Commodity Price Index (ECPI)[2] falling by over 2.5 percent a year) even when controlling for external demand. Thus, a commodity exporter is less likely to respond quickly to a real devaluation that coincides with a commodity price downturn.

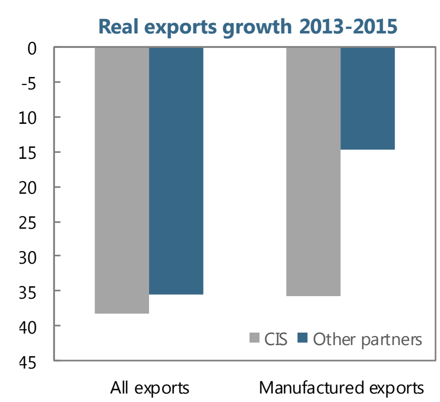




The slower response could be due to the overall stress that the economy faces when a terms of trade shock hits, since the volatility reduces corporates' appetite for investment while the banking system fails to finance tradable sector projects as it undergoes a period of adjustment (e.g., unhedged borrowers in the non-tradable sector slide into NPLs).

Finally, episodes of improved price competitiveness tend to coincide with lower external demand. Indeed, while the recent drop in oil prices has been linked primarily to supply factors, the economic performance of Russia's export trading partners has been relatively poor, limiting demand for Russian exports. Russia's non-commodity exports are concentrated on immediate neighbors: over a quarter of manufacturing exports go to CIS countries representing only 0.6 percent of global GDP. Growth in these countries is strongly correlated with that of Russia, either because some countries are also commodity exporters, or because they are themselves highly dependent on exports to/remittances from Russia.



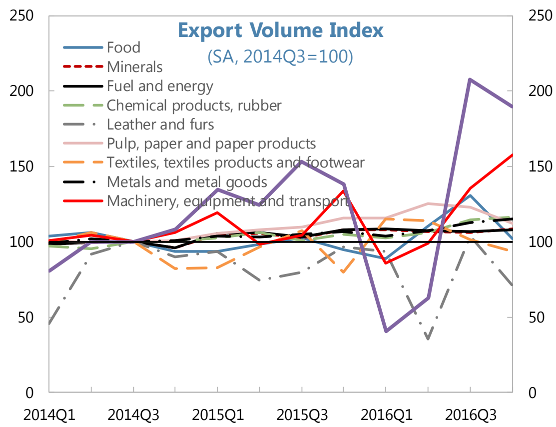


[1] See Selected Issues Paper, "Russia's Non-Commodity Exports: Why The Muted Response to The Recent Devaluation?."

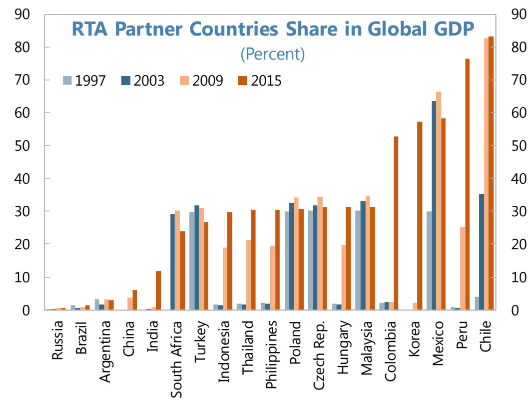
[2] The index is computed in Gruss, B. (2014) "[After the Boom: Commodity Prices and Economic Growth in Latin America and the Caribbean]," IMF Working Paper No. 14/154.

Text Figure 1. Russia: Non-Energy Export Developments

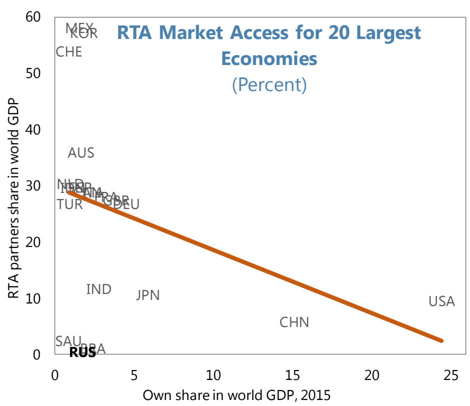
The rebound in non-commodity exports remains volatile....



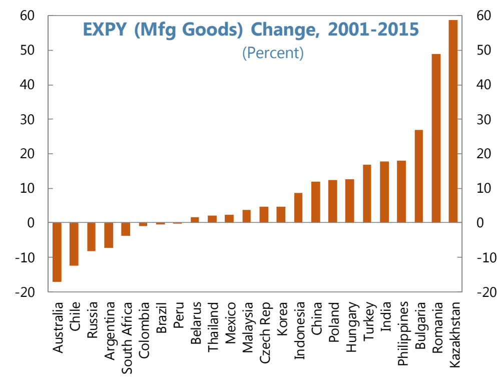
...while Russia continues to have limited access to external markets...



... even when compared to other large economies ...



... amid a worsening in the sophistication of the manufactured export basket.



Sources: Haver Analytics, WTO, CEPI, COMTRADE; and IMF staff calculations.

31. **Staff highlighted fiscal measures that would support non-commodity exports and medium-term growth prospects.** An appropriately designed fiscal-oil price rule would lessen the impact of oil prices on the REER and protect competitiveness from oil price volatility. In addition, there could be room for tax policy changes that would contribute to competitiveness, such as a rebalancing from labor taxes to consumption taxation (reducing social security contributions from 30 percent to 22 percent and increasing the VAT rate from 18 to 22 percent), thereby stimulating exports temporarily and helping to reduce informality in the labor market. The design of fiscal policy interaction between federal and regional governments should insure transfers do not dis-incentivize development of regional tax bases and discourage private sector development. While transfers from the federal government to the regional government have pushed up regional growth, overall they have resulted in less self-sustaining regional growth and in lower increases in productivity. More broadly, given the uncertain prospects for oil prices, a refocus of fiscal policy is needed. The first objective should be to increase non-oil revenues and to improve the balance between current and

capital spending. Shifting the composition of spending to dedicate more resources to public investments should help Russia move away from its low productivity, low investment growth model. Finally, parametric pension reform, such as increasing the statutory retirement age, could help to offset the negative demographic trend on labor markets.

Authorities' Views

32. The authorities are still designing a comprehensive structural transformation strategy. They are considering reforms—which would address many staff-identified bottlenecks to higher potential growth—to improve the investment climate and to support technological progress and productivity gains. The authorities highlighted efforts to reform customs administration, importantly automating clearance of goods and modernizing the risk management framework to speed up customs procedures. They have approved the 2030 economic security strategy and noted a comprehensive reform agenda will be likely be implemented after the upcoming presidential elections. The authorities see early signs that, on the back of the weaker ruble, the economy has started reorienting itself towards the tradable sector, especially in the chemical industry, food processing and agricultural sectors. However, they agree that these green shoots will take some time to translate into a meaningful contribution to growth, including for reasons identified by staff.

STAFF APPRAISAL

33. The economy is exiting a two-year recession that proved shallower than past downturns. The authorities' effective policy response, enabled by the economy's robust buffers, cushioned the shocks. Growth is expected to resume in 2017, supported by higher oil prices and improved sentiment. Short-term risks from volatile financial markets and oil prices have diminished.

34. Medium-term prospects are subdued. The expected stability of oil prices, at lower levels than historical highs, and a structurally weak economy—adverse demographics, lingering effects of sanctions on productivity and investment, and structural constraints—are weighing on potential growth. The depreciation of the exchange rate has so far not ignited a robust response of non-traditional industries and a new growth model that is less dependent on commodities is yet to emerge. Furthermore, the external position in 2016 was moderately weaker than suggested by medium-term fundamentals and desirable policy settings.

35. Fiscal adjustment should be underpinned by quality measures. The reinstatement of the three-year budget framework in the 2017–2019 federal budget is a welcome step to reduce policy uncertainty. In addition, the envisaged pace of fiscal consolidation is appropriate as it allows a steady adjustment to permanently lower oil prices in the context of a recovering economy. However, the consolidation relies on spending reductions that are not targeted. Thus, more permanent and better targeted measures should be envisaged to safeguard growth-enhancing fiscal spending and sustain the significant adjustment. Finally, a parametric reform of the pension system could deliver substantial fiscal savings over time and help ease the negative demographic trend on labor markets.

36. A credible fiscal rule is paramount to support medium-term sustainability and mitigate the effect of oil price volatility. Although the FX purchase program functions as a short-term tool to replenish fiscal buffers, it is short of a fiscal rule. A credible fiscal rule that anchors the deficit at an appropriate level would reduce fiscal policy uncertainty. The authorities' current fiscal rule proposal, while broadly appropriate, could be improved. The rule could be modified to allow for a smoother adjustment of fiscal policy to persistent oil price changes; and to generate more savings as Russia's current and projected non-oil primary deficits are larger than suggested by long-term fiscal benchmarks.

37. Staff commends the CBR for having largely met its inflation target. The monetary policy easing initiated in March was appropriate considering the inflation outlook and the decline in inflation expectations. Monetary policy remains tight and thus interest rate cuts should continue but at a gradual pace given the uncertain size of the output gap and the potential reversal of the exchange rate-driven disinflation.

38. The CBR should shift its communication strategy to a horizon beyond end-2017. They should elaborate on their medium-term inflation targeting framework by providing clarity as to what constitutes acceptable departures from the 4 percent inflation target and over what horizon. The CBR could consider either defining a horizon over which it plans to hit its target or refer to its inflation horizon objective as an average over the medium-term.

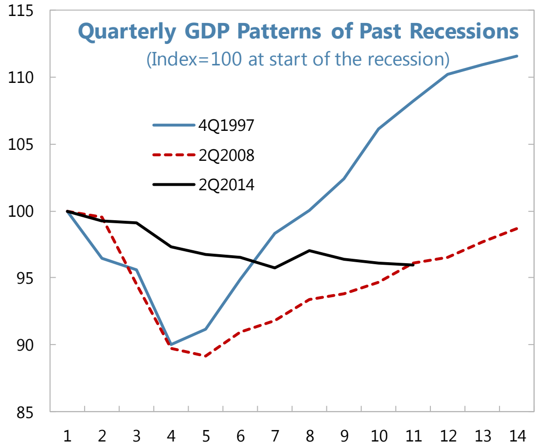
39. The banking system's performance is improving and the authorities should continue with implementing last year's FSAP recommendations. The authorities have increased the resilience of the banking system by setting limits on related-party lending, gradually reducing dollarization through macroprudential measures, and introducing a tiered supervisory framework. There is scope for further tightening the limit on related party lending over time. To enhance the supervisory framework, the authorities should accelerate the introduction of explicit early bank intervention procedures. The new resolution mechanism should shorten the process of open bank resolution and reduce balance sheet encumbrance. However, the authorities should work towards removing obstacles for effective use of P&A transactions, replacing central bank funding by federal funds, and increasing the recourse to banking industry capital. In this regard, the authorities should continue to work on statutory bail-in legislation that would factor in financial stability implications. Further strengthening the effectiveness of the AML/CFT framework, including through measures related to politically exposed persons and entity transparency, will support the authorities' efforts to address financial crimes related to tax evasion and corruption.

40. Structural reforms to lift potential output and accelerate per capita income convergence with advanced economies are needed. The authorities took some welcome steps such as passing a PPP law, privatizing some companies, and purging weak banks from the financial system. However, a wider reform agenda is needed to jump start investment, leverage the impact of the more competitive exchange rate and increase productivity. The priorities remain the areas of property rights, governance, labor market policies, innovation, and infrastructure. In addition, it is urgent to better understand and measure the channels through which the large size of the state may be hampering economic performance. This should allow a focus of state activity in areas with positive spillovers for productivity and competition, including at the regional level. Also, strengthening regional and multilateral trade relations could allow greater penetration of foreign markets by Russian entities. Finally, pension reform, such as increasing the statutory retirement age, could help offset the impact of negative demographic trends on labor markets.

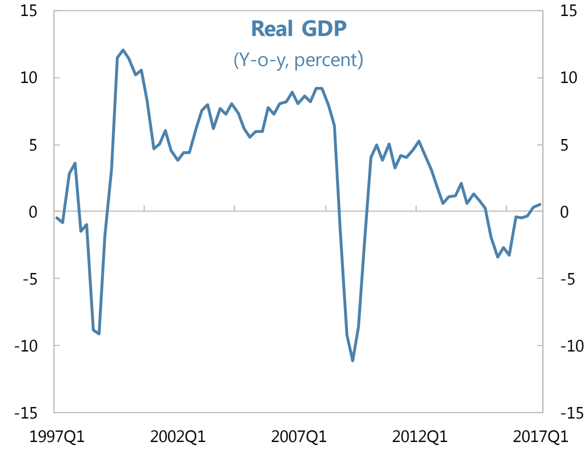
41. The next Article IV consultation should be held on the standard 12-month cycle.

Figure 1. Russian Federation: Real Sector Developments, 1997–2017

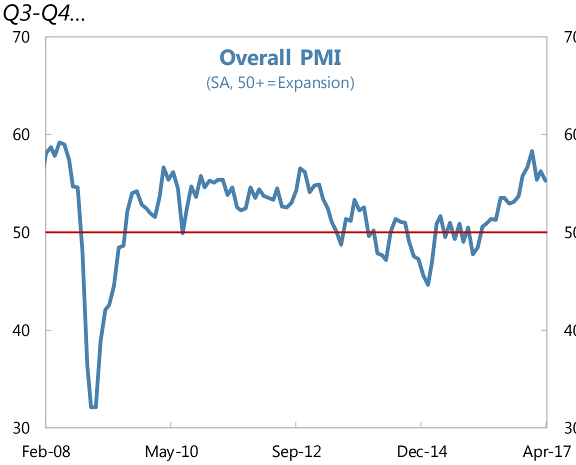
The recession has been shallower compared to previous ones…



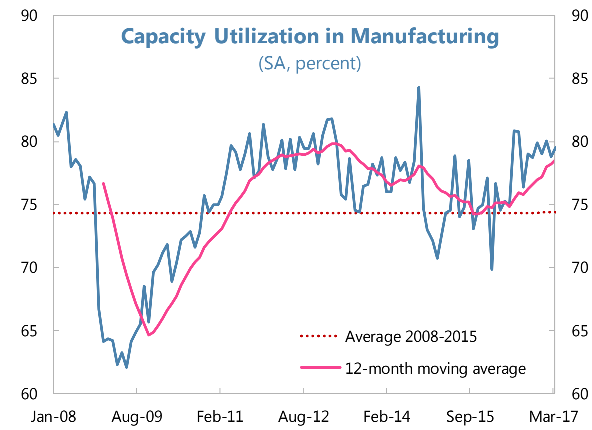
… and the economy is now recovering from its two-year long recession…



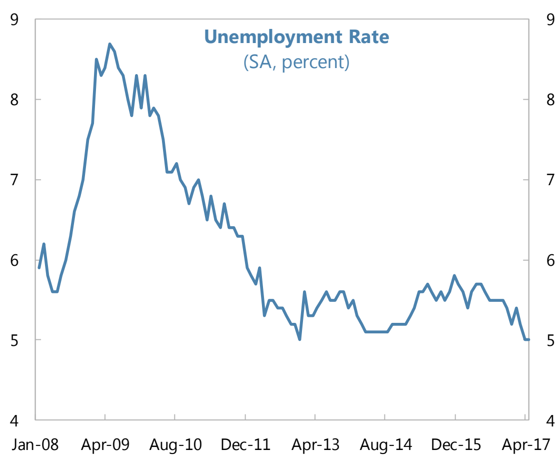
… with high frequency indicators pointing to a recovery in Q3-Q4…



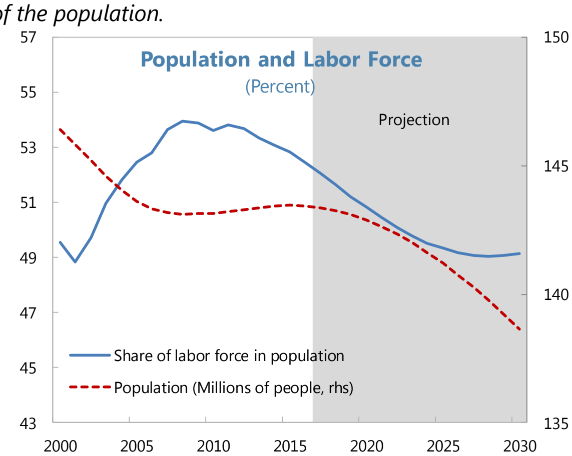
… and reduced slack with an increase in capacity utilization…



… together with a fall in unemployment…



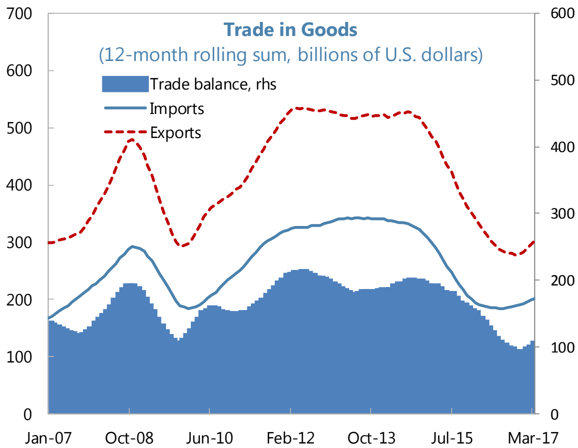
… in part reflecting structural features related to the aging of the population.



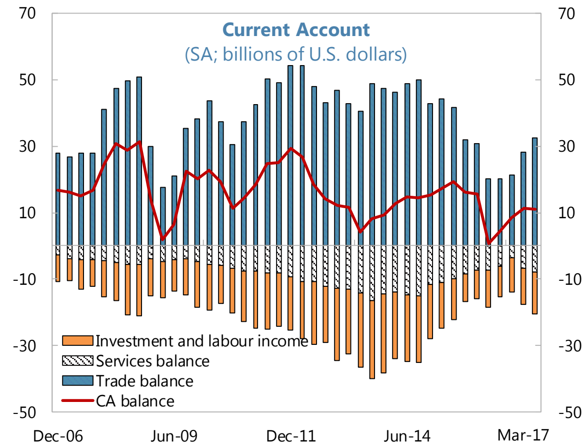
Sources: Rosstat; and IMF Staff calculations.

Figure 2. Russian Federation: External Sector Developments, 1997–2017

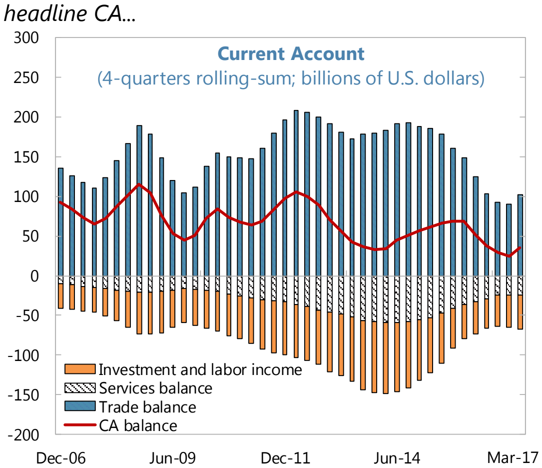
Imports leveled off before exports stopped contracting…



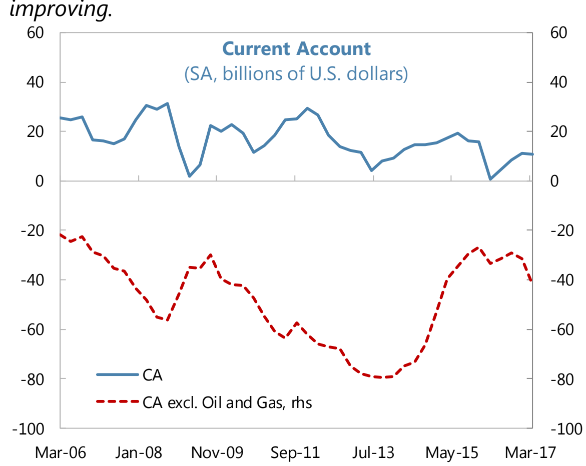
… leading to a deterioration of the current account…



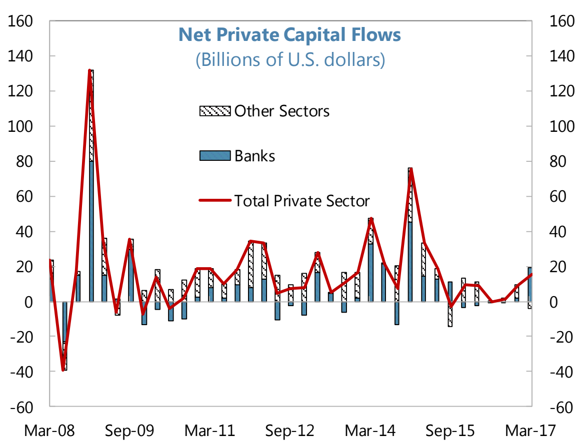
… the trade balance is supporting the improvement in the headline CA…



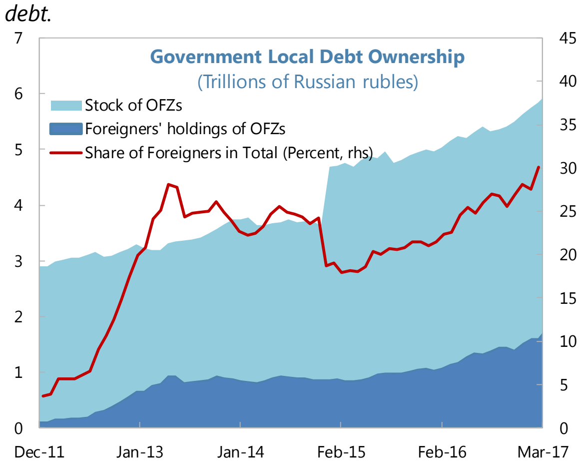
…while the non-energy current account has stopped improving.



Net private capital outflows have declined…



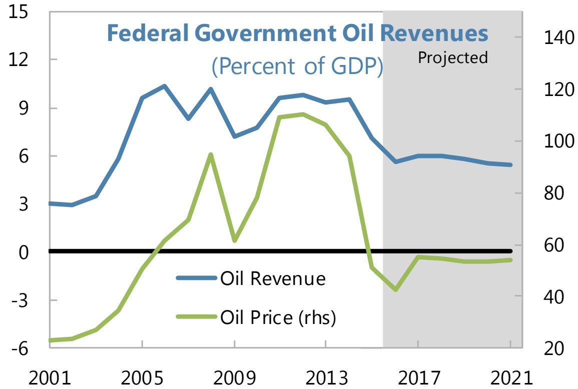
… supported by inflows into the local sovereign public debt.



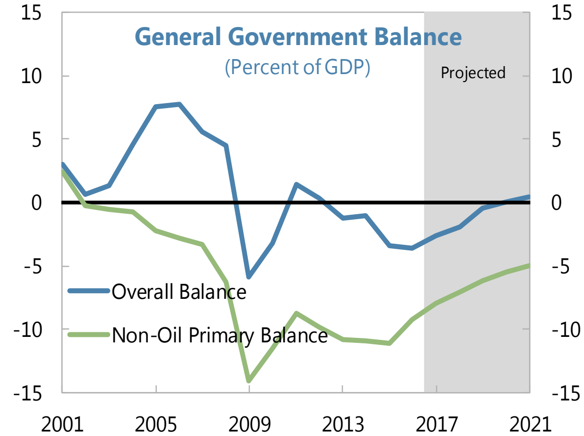
Sources: Rosstat; and IMF Staff calculations.

Figure 3. Russian Federation: Fiscal Policy, 2000–2022

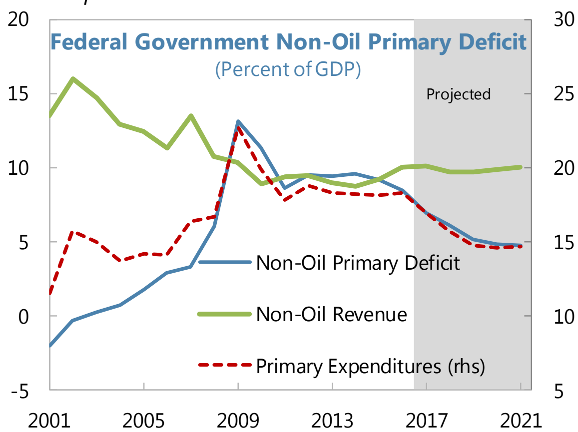
The decline in oil prices led to a large drop in oil revenues...



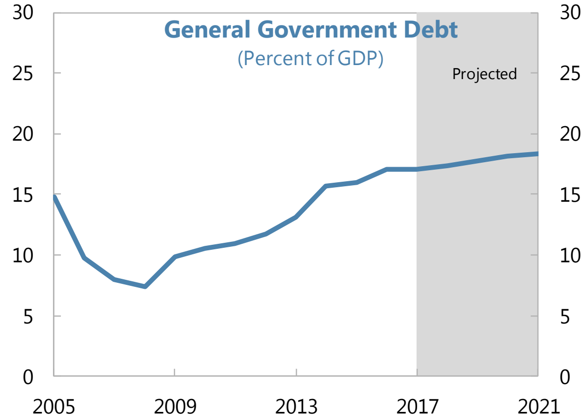
... widening the deficit at a time of an elevated non-oil deficit.



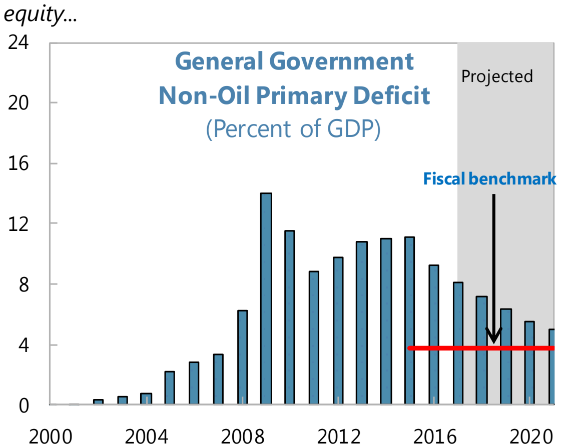
Fiscal consolidation is expected to be achieved through lower expenditures.



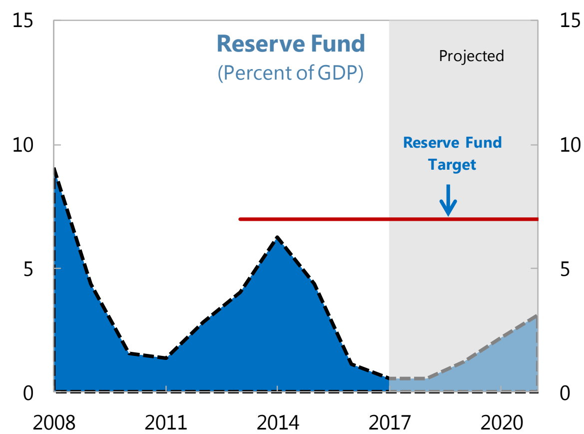
Gross government debt is expected to remain low, due to the use of the RF to partially finance deficits in 2015-17.



Ambitious fiscal consolidation could bring the non-oil deficit close to a level consistent with intergenerational equity...



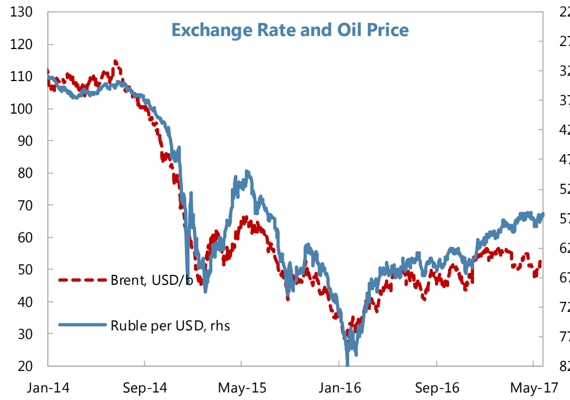
But the Reserve Fund would only gradually increase providing a limited buffer against volatile oil prices.



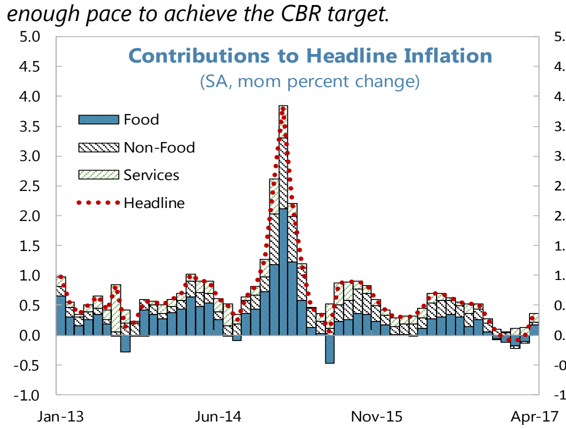
Sources: Russian authorities and IMF Staff calculations.

Figure 4. Russian Federation: Monetary Policy and Inflation, 2013–2017

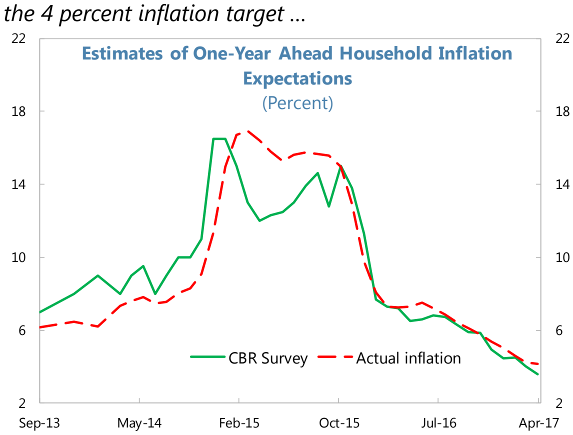
The recovery of oil prices since February 2016 led to a ruble rebound …



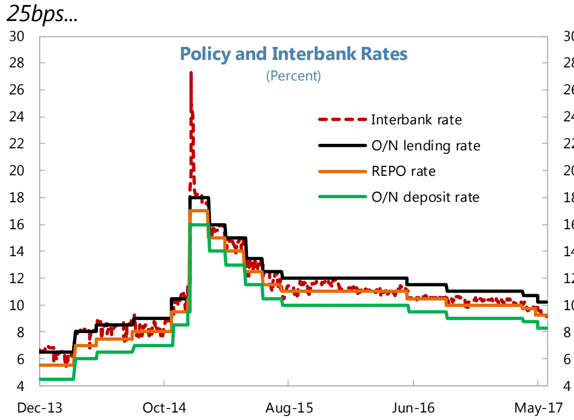
… which is supporting the decline of inflation at a fast enough pace to achieve the CBR target.



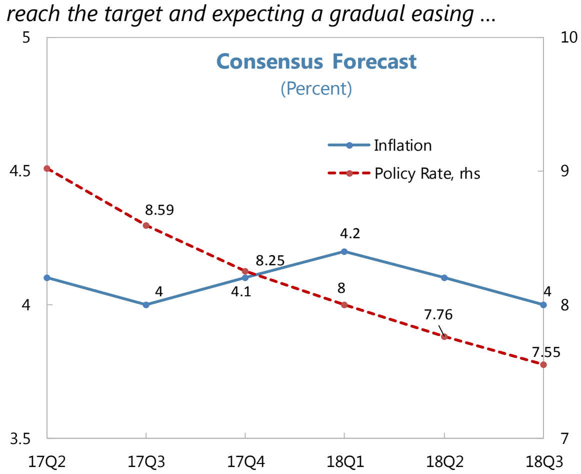
Households' inflation expectations continue to fall towards the 4 percent inflation target …



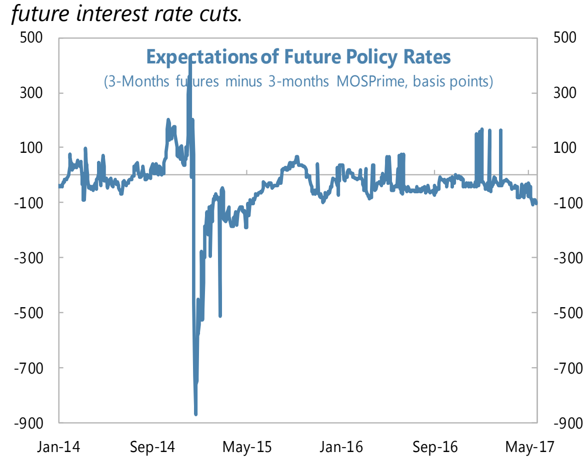
… leading the CBR to start cutting rates in March by 25bps…



… as consensus forecast has yet to show that inflation will reach the target and expecting a gradual easing …



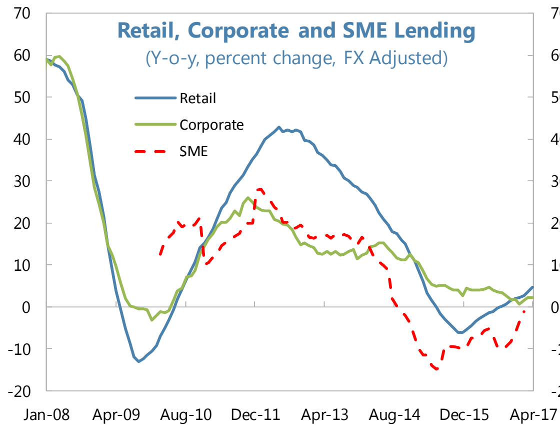
… in line with the market sentiments on the cautious future interest rate cuts.



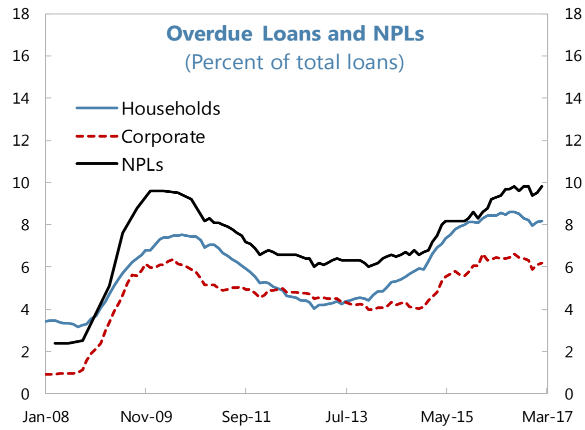
Sources: Central Bank of Russia and Public Opinion Foundation Survey; Russia Economic Barometer; Bloomberg Financial Market L.P., and IMF staff calculations.

Figure 5. Russian Federation: Banking Sector Developments, 2008–2017

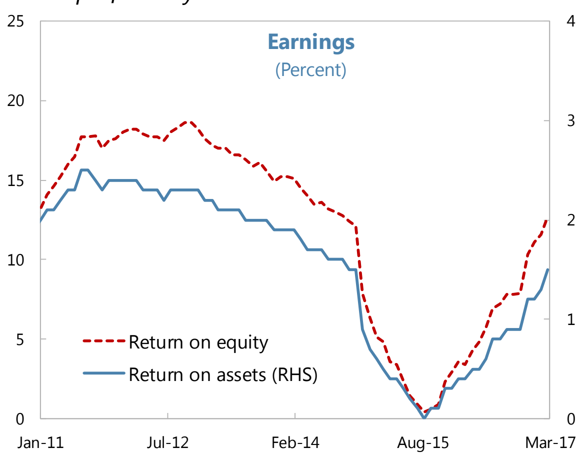
Consumer credit growth continues to recover …



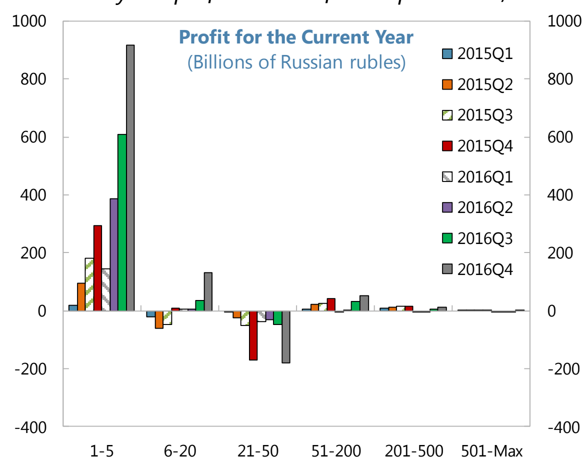
… while NPLs have started falling.



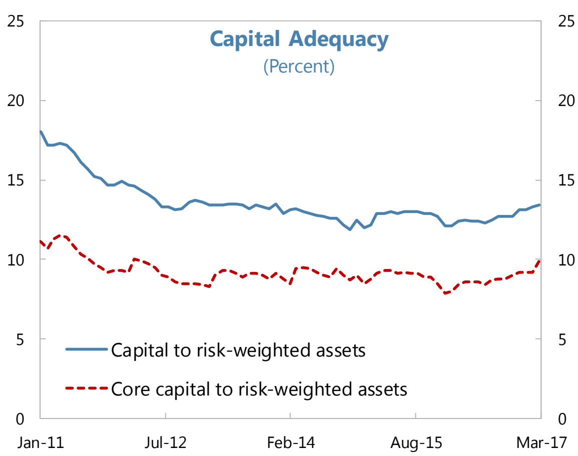
Banks' profitability continues to increase …



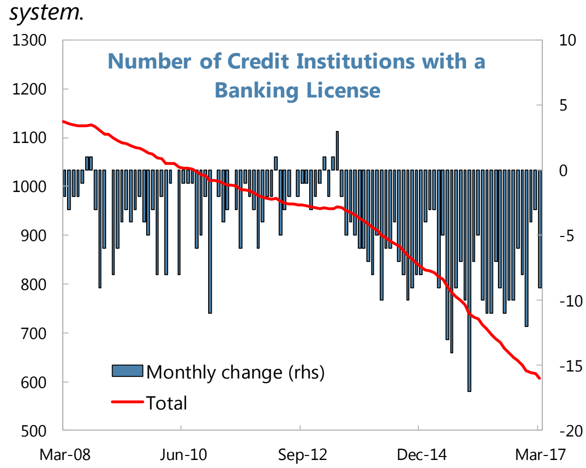
… driven by the performance of the top-5 banks, …



… supporting a slight uptick in capital ratios...



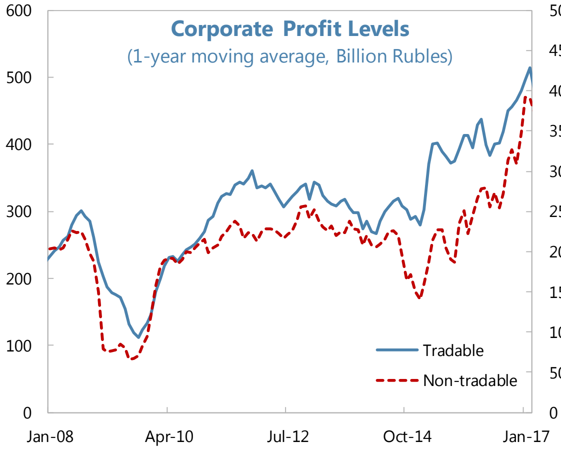
… while the CBR continues cleaning up the banking system.



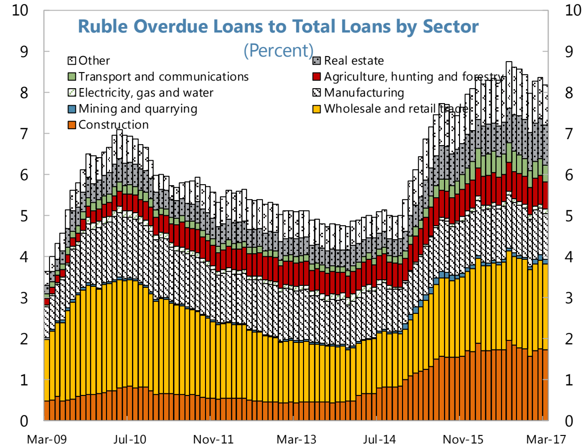
Sources: Central Bank of Russia and IMF staff calculations. 1/ On January 1st, 2016, CBR implemented the stricter Basel III definition of capital.

Figure 6. Russian Federation: Macro-Financial Developments, 2008–2017

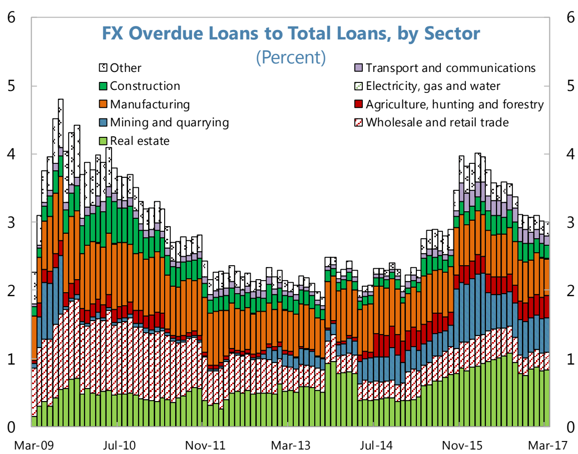
Profitability has been increasing in both the tradable and non-tradable sectors …



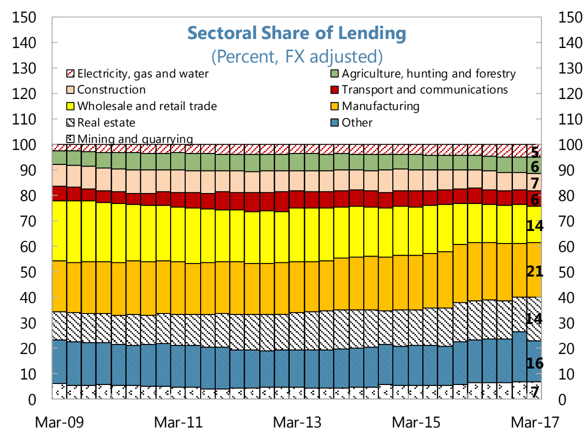
… while overdue loans in ruble are falling across all sectors…



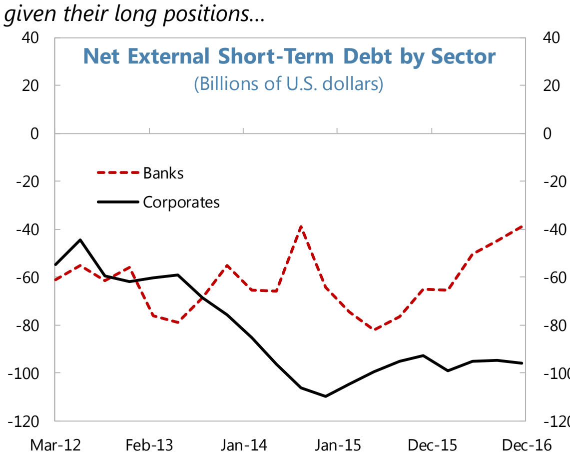
… while those in FX are falling at an even faster pace for construction and retail …



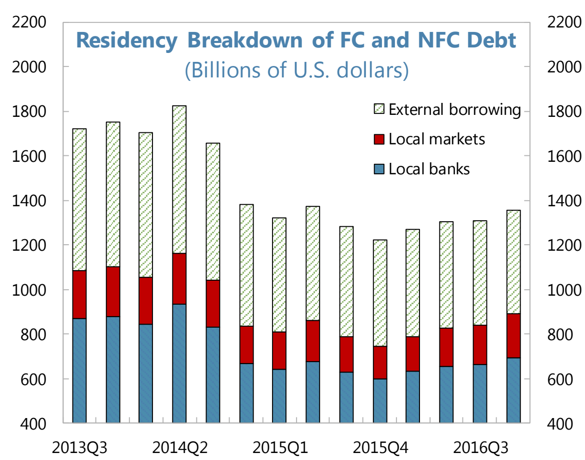
… supporting a higher share of these sectors in banks' portfolios.



FX maturity risks for corporates and banks remain low given their long positions…



… while borrowing has remained relatively stable.



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

Table 1. Russian Federation: Selected Macroeconomic Indicators, 2014–22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.			Projection			
					(Annual percent change)				
Production and prices									
Real GDP	0.7	-2.8	-0.2	1.4	1.4	1.5	1.5	1.5	1.5
Real domestic demand	-0.3	-9.3	-2.3	1.0	1.0	1.1	1.2	1.2	1.2
Consumption	0.9	-8.0	-3.5	0.6	1.0	1.1	1.3	1.3	1.3
Investment	-4.4	-13.4	1.5	2.5	1.0	1.0	1.0	1.0	1.0
Consumer prices									
Period average	7.8	15.5	7.0	4.2	4.0	4.0	4.0	4.0	4.0
End of period	11.4	12.9	5.4	4.0	4.0	4.0	4.0	4.0	4.0
GDP deflator	10.7	8.2	3.6	5.7	3.8	4.0	3.9	4.0	3.9
Unemployment rate	5.2	5.6	5.5	5.5	5.5	5.5	5.5	5.5	5.5
					(Percent of GDP)				
Public sector 1/									
General government									
Net lending/borrowing (overall balance)	-1.1	-3.4	-3.7	-1.9	-1.2	-0.7	0.1	0.5	0.6
Revenue	33.8	31.8	32.8	32.6	31.9	31.7	31.9	32.2	32.3
Expenditures	34.9	35.2	36.4	34.5	33.1	32.3	31.8	31.7	31.7
Primary balance	-0.4	-2.6	-2.6	-1.0	-0.2	0.3	1.1	1.5	1.7
Nonoil balance	-11.4	-11.4	-9.8	-8.4	-7.6	-6.9	-6.0	-5.5	-5.4
Nonoil primary structural balance	-10.2	-10.5	-8.9	-8.1	-7.4	-6.6	-5.7	-5.2	-5.1
Federal government									
Net lending/borrowing (overall balance)	-0.4	-2.3	-3.4	-1.7	-1.0	-0.3	0.0	0.0	0.0
Nonoil balance	-9.9	-9.5	-9.0	-7.5	-6.8	-5.9	-5.5	-5.4	-5.4
					(Annual percent change)				
Money									
Base money	6.3	-4.3	3.8	6.3	6.4	6.4	6.4	6.4	6.4
Ruble broad money	1.5	11.3	9.2	9.4	9.6	9.6	9.6	9.6	9.6
Credit to the economy	29.6	8.4	-1.6	5.4	7.8	9.8	9.8	9.8	9.8
External sector									
Export volumes	-0.2	6.4	0.9	1.4	3.4	3.6	3.6	3.6	4.3
Oil	0.1	7.0	-8.5	-2.1	0.7	0.2	0.5	0.5	2.1
Gas	-11.3	6.5	1.7	-0.8	0.1	0.0	0.0	0.0	2.0
Non-energy	4.1	-7.9	11.2	5.8	6.9	7.6	7.0	6.7	6.4
Import volumes	-8.0	-25.2	1.6	2.8	3.8	2.4	2.4	4.4	5.6
					(Billions of U.S. dollars; unless otherwise indicated)				
External sector									
Total merchandise exports, f.o.b	496.8	341.5	281.7	330.4	339.1	349.7	366.3	385.2	412.6
Total merchandise imports, f.o.b	-307.9	-193.0	-191.7	-203.1	-213.7	-221.9	-229.4	-241.6	-257.6
External current account	57.5	68.9	25.0	44.0	48.9	56.6	63.8	67.9	72.2
External current account (percent of GDP)	2.8	5.0	1.9	2.9	3.2	3.5	3.8	3.9	4.0
Gross international reserves									
Billions of U.S. dollars	385.5	368.4	377.7	395.3	412.6	427.9	442.1	456.4	469.6
Months of imports 2/	10.8	15.7	17.0	16.8	16.7	16.7	16.7	16.3	15.8
Percent of short-term debt	302	450	419	391	417	426	451	470	474
Memorandum items:									
Nominal GDP (billions of rubles)	79,200	83,233	86,044	92,277	97,152	102,598	108,220	114,186	120,452
Nominal GDP (billions of U.S. dollars)	2,064	1,366	1,283	1,498	1,551	1,602	1,660	1,729	1,787
Exchange rate (rubles per U.S. dollar, period average)	38.4	60.9	67.1	...	...	...	...	...	...
Oil exports (billions of U.S. dollars)	269.7	157.0	119.8	141.5	142.9	141.9	144.1	147.4	156.5
Brent oil price (U.S. dollars per barrel)	98.9	52.4	44.0	52.9	53.1	52.8	53.0	53.8	55.0
Urals crude oil spot price (U.S. dollars per barrel)	94.5	51.0	42.7	51.5	51.8	51.4	51.6	52.4	52.3
Oil Extraction (millions of tons)	525.1	525.0	525.0	525.0	525.0	525.0	525.0	525.0	525.0
Real effective exchange rate (average percent change)	-8.5	-17.4	-1.2	...	...	...	...	...	...

Sources: Russian authorities; and IMF staff estimates.

1/ Cash basis.
2/ In months of imports of goods and non-factor services.

Table 2. Russian Federation: Balance of Payments, 2014–22

(Billions of U.S. dollars, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Projection					
Current Account	57.5	68.9	25.0	44.0	48.9	56.6	63.8	67.9	72.2
Trade Balance	188.9	148.5	90.0	127.3	125.4	127.8	136.9	143.6	155.0
Exports	496.8	341.5	281.7	330.4	339.1	349.7	366.3	385.2	412.6
Non-energy	172.4	142.6	130.6	151.3	158.5	170.3	184.6	199.7	215.3
Energy	324.4	198.9	151.1	179.0	180.6	179.3	181.7	185.5	197.3
Oil	269.7	157.0	119.8	141.5	142.9	141.9	144.1	147.4	156.5
Gas	54.7	41.8	31.3	37.5	37.7	37.4	37.6	38.1	40.8
Imports	-307.9	-193.0	-191.7	-203.1	-213.7	-221.9	-229.4	-241.6	-257.6
Services	-55.3	-36.9	-23.9	-20.6	-23.2	-24.4	-24.5	-26.1	-27.5
Income	-68.0	-36.9	-34.7	-56.0	-46.4	-39.6	-41.2	-41.9	-47.3
Public sector interest (net)	-0.6	0.1	-0.3	0.1	1.6	1.8	0.4	0.2	-0.1
Other sectors	-67.4	-37.0	-34.4	-56.2	-48.0	-41.4	-41.6	-42.1	-47.2
Current transfers	-8.2	-5.7	-6.4	-6.7	-6.9	-7.1	-7.4	-7.7	-7.9
Capital and financial account	-173.1	-70.3	-13.9	-26.4	-31.7	-41.3	-49.5	-53.7	-59.0
Capital transfers	-42.0	-0.3	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Financial accounts									
Federal government	30.0	-9.9	3.9	6.5	2.9	4.2	2.7	5.8	3.8
Portfolio investment	-8.7	-6.9	5.2	8.3	4.9	6.1	4.6	7.7	5.6
Loans	33.8	-1.8	-0.3	0.1	0.1	0.1	0.1	0.1	0.1
Other investment	4.9	-1.2	-0.9	-1.8	-2.1	-2.0	-2.0	-2.0	-2.0
Local governments	-0.1	0.1	-0.4	0.1	0.0	0.0	0.0	0.0	0.0
Private sector capital	-158.8	-61.8	-17.3	-33.7	-35.3	-46.1	-52.9	-60.1	-63.4
Direct investment	-35.1	-15.2	10.4	-10.0	-15.5	-15.3	-18.8	-22.9	-23.7
Portfolio investment	-17.8	-7.7	-3.5	-5.7	-6.7	-8.4	-8.7	-7.6	-7.8
Other investment, commercial banks	-88.5	-33.0	1.7	-4.4	-12.7	-9.7	-10.9	-12.2	-13.1
Assets	-46.7	27.5	30.5	0.3	-8.1	-7.5	-9.8	-13.3	-16.4
Liabilities (loans, deposits, etc.)	-41.9	-60.6	-28.8	-4.7	-4.6	-2.2	-1.1	1.1	3.3
Loans, corporations	11.5	22.9	-2.5	-3.6	-0.7	3.4	5.5	5.6	6.9
Disbursements	138.9	103.1	48.1	55.8	67.2	71.2	73.7	74.5	76.0
Amortizations	-127.4	-80.3	-50.5	-59.4	-67.9	-67.8	-68.3	-69.0	-69.0
Other private sector capital flows	-28.8	-28.7	-23.4	-10.0	0.4	-16.1	-19.9	-23.0	-25.7
Errors and omissions, net	8.0	3.1	-2.9	0.0	0.0	0.0	0.0	0.0	0.0
Of which : valuation adjustment	16.6	18.8	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-107.5	1.7	8.2	17.6	17.3	15.3	14.3	14.2	13.2
Financing	107.5	-1.7	-8.2	-17.6	-17.3	-15.3	-14.3	-14.2	-13.2
Net international reserves	107.5	-1.7	-8.2	-17.6	-17.3	-15.3	-14.3	-14.2	-13.2
Arrears and rescheduling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Current account (percent of GDP)	2.8	5.0	1.9	2.9	3.2	3.5	3.8	3.9	4.0
Non-energy current account (percent of GDP)	-12.9	-9.5	-9.8	-9.0	-8.5	-7.7	-7.1	-6.8	-7.0
Gross reserves 1/	385.5	368.4	377.7	395.3	412.6	427.9	442.1	456.4	469.6
(months of imports of GNFS)	10.8	15.7	17.0	16.8	16.7	16.7	16.7	16.3	15.8
(percent of short-term debt) 2/	301.7	449.6	419.1	391.2	416.8	425.8	451.2	469.6	473.7
Real growth in partner countries (percent change)	2.3	2.0	2.2	2.5	2.6	2.6	2.7	2.7	2.7
Net private capital flows (percent of exports of GNFS)	-28.2	-15.7	-5.2	-8.7	-8.8	-11.2	-12.3	-13.3	-13.1
Net private capital flows, banks	-86.6	-30.3	5.5	-0.5	-8.7	-5.6	-6.8	-8.1	-9.0
Public external debt service payments 3/	8.7	5.5	5.0	5.3	5.6	5.3	8.8	6.1	5.6
(percent of exports of goods and services)	1.5	1.4	1.5	1.4	1.4	1.3	2.0	1.3	1.1
Public external debt 4/	52.2	42.3	51.4	59.9	64.9	71.1	75.8	83.5	89.3
(percent of GDP)	2.5	3.1	4.0	4.0	4.2	4.4	4.6	4.8	5.0
Private external debt	547.7	493.6	482.4	478.1	477.4	483.6	493.4	505.3	520.5
(percent of GDP)	26.5	36.1	37.6	31.9	30.8	30.2	29.7	29.2	29.1
Total external debt	599.9	519.1	513.5	538.0	542.3	554.7	569.1	588.8	609.8
(percent of GDP)	29.1	38.0	40.0	35.9	35.0	34.6	34.3	34.0	34.1
Brent oil price (U.S. dollars per barrel)	98.9	52.4	44.0	52.9	53.1	52.8	53.0	53.8	55.0
Urals oil price (U.S. dollars per barrel)	94.5	51.0	42.7	51.5	51.8	51.4	51.6	52.4	52.3
Terms of trade (percent)	-2.9	-18.1	-16.3	12.3	-2.1	-1.9	0.2	0.6	1.7

Sources: Central Bank of Russia; and IMF staff estimates.

1/ Excluding repos with non-residents to avoid double counting of reserves. Including valuation effects.
2/ Excludes arrears.
3/ Net of rescheduling.
4/ Includes indebtedness of repos by the monetary authorities.

Table 3. Russian Federation: External Financing Requirements and Sources, 2014–2022

(Billions of U.S. dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Projection					
Gross financing requirements	-140	-53	-51	-40	-46	-36	-31	-24	-19
Current account balance	58	69	25	44	49	57	64	68	72
Debt amortization	-198	-122	-76	-84	-95	-93	-94	-92	-91
Public sector	-6	-4	-3	-3	-4	-3	-4	-1	0
Central Bank									
General government	-6	-4	-3	-3	-4	-3	-4	-1	0
Banks	-65	-39	-23	-22	-23	-23	-22	-22	-22
Corporates	-127	-80	-51	-59	-68	-68	-68	-69	-69
Sources of financing	33	55	60	58	64	52	45	38	32
Capital account balance (net)	-42	0	-1	0	0	0	0	0	0
Foreign direct investment (net)	-35	-15	10	-10	-16	-15	-19	-23	-24
RUS investment abroad	-57	-22	-23	-32	-39	-41	-47	-53	-57
Foreign investment in RUS	22	7	33	22	24	26	28	30	33
New borrowing and debt rollover	162	111	59	78	89	95	98	101	102
Borrowing	162	111	59	78	89	95	98	101	102
Public sector	0	0	3	5	3	3	3	3	0
Central Bank									
General government	0	0	3	5	3	3	3	3	0
Banks	23	8	8	17	19	20	21	23	25
Corporates	139	103	48	56	67	71	74	75	76
Other	-52	-40	-9	-10	-10	-28	-34	-40	-46
of which: Net errors and omissions	8	3	-3	0	0	0	0	0	0
GIR change	-108	2	8	18	17	15	14	14	13
Financing gap	0	0	0	0	0	0	0	0	0

Sources: Central Bank of Russia; and IMF staff estimates.

Table 4. Russian Federation: Fiscal Operations, 2014–22 1/

(Percent of GDP, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.			Projection			
General government									
Revenue	33.8	31.8	32.8	32.6	31.9	31.7	31.9	32.2	32.3
o/w Oil revenue	10.3	8.0	6.1	6.5	6.5	6.2	6.1	6.0	6.0
o/w Nonoil revenue	23.5	23.8	26.6	26.1	25.4	25.4	25.8	26.2	26.3
Taxes	25.4	22.8	22.2	23.2	22.6	22.4	22.6	22.7	22.8
Corporate profit tax	3.0	3.1	3.2	3.4	3.3	3.3	3.4	3.4	3.4
Personal income tax	3.4	3.4	3.5	3.6	3.6	3.6	3.7	3.7	3.7
VAT	5.0	5.1	5.3	5.6	5.1	5.2	5.4	5.4	5.4
Excises	1.4	1.3	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Custom tariffs	6.9	4.0	3.0	2.9	2.7	2.6	2.5	2.6	2.6
Resource extraction tax	4.0	4.1	3.7	4.2	4.3	4.1	4.0	3.9	4.0
Other tax revenue	1.8	1.9	1.8	1.9	1.9	1.9	2.0	2.1	2.1
Social contributions	6.4	6.4	7.0	6.7	6.8	6.7	6.8	6.9	7.0
Other revenue	2.0	2.6	3.5	2.6	2.6	2.6	2.6	2.6	2.6
Expenditure	34.9	35.2	36.4	34.5	33.1	32.3	31.8	31.7	31.7
Expense	30.8	30.6	31.1	30.3	29.1	28.6	28.1	28.0	28.0
Compensation of employees	4.6	4.3	4.7	4.4	4.3	4.2	4.0	3.9	3.9
Use of goods and services	3.5	3.3	3.3	3.2	3.0	2.9	2.9	2.9	2.9
Interest	0.7	0.8	1.0	0.8	0.9	1.0	1.1	1.0	1.1
Subsidies	8.3	6.9	6.9	6.6	6.3	6.1	6.0	6.0	6.1
Grants	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social benefits	12.6	13.2	13.6	13.9	13.5	13.4	13.2	13.0	13.0
Other expense	0.3	1.0	0.4	0.3	0.1	0.1	0.1	0.2	0.3
Net acquisition of nonfinancial assets	4.1	4.6	4.3	4.2	3.9	3.8	3.7	3.7	3.7
Net lending (+)/borrowing (-) (overall balance)	-1.1	-3.4	-3.7	-1.9	-1.2	-0.7	0.1	0.5	0.6
Non-oil primary structural balance	-10.2	-10.5	-8.9	-8.1	-7.4	-6.6	-5.7	-5.2	-5.1
Gross financing requirements	3.8	7.4	5.8	3.6	2.7	2.1	0.9	0.3	0.5
Federal government 3/									
Revenue	18.3	16.4	15.6	16.2	15.5	15.3	15.3	15.4	15.4
o/w Oil revenue	9.5	7.1	5.6	5.8	5.9	5.6	5.5	5.4	5.4
o/w Nonoil revenue	8.8	9.3	10.0	10.5	9.7	9.7	9.8	10.0	10.0
Expenditure	18.7	18.8	19.1	17.9	16.5	15.6	15.3	15.4	15.4
Expense	16.2	15.5	16.0	15.0	13.8	13.0	12.7	28.0	28.0
Net acquisition of nonfinancial assets	2.6	3.2	3.1	3.0	2.7	2.6	2.6	2.6	2.6
Net lending (+)/borrowing (-) (overall balance)	-0.4	-2.3	-3.4	-1.7	-1.0	-0.3	0.0	0.0	0.0
Non-oil primary structural balance	-8.6	-9.2	-8.5	-7.0	-6.2	-5.2	-4.8	-4.8	-4.9
Gross financing requirements	0.9	3.6	4.8	2.8	1.8	1.1	0.8	0.6	1.0
Memorandum items:									
General government nonoil primary balance	-10.7	-10.6	-8.8	-7.5	-6.7	-5.9	-5.0	-4.5	-4.4
General government nonoil overall balance	-11.4	-11.4	-9.8	-8.4	-7.6	-6.9	-6.0	-5.5	-5.4
Federal government nonoil primary balance	-9.6	-9.2	-8.5	-6.9	-6.2	-5.2	-4.7	-4.7	-4.8
Federal government nonoil overall balance	-9.9	-9.5	-9.0	-7.5	-6.8	-5.9	-5.5	-5.4	-5.4
World oil price (U.S.dollars per barrel)	96.2	50.8	42.8	51.9	52.0	51.5	51.7	52.5	53.7
Urals prices (U.S. dollars per barrel)	94.5	51.0	42.7	51.5	51.8	51.4	51.6	52.4	52.3
Oil funds 2/	11.8	10.7	6.2	5.4	5.2	5.8	6.4	7.0	7.5
Reserve Fund	6.2	4.4	1.1	0.6	0.6	1.3	2.1	2.8	3.5
NWF	5.5	6.3	5.0	4.8	4.7	4.5	4.3	4.2	4.0
General government debt	15.6	15.9	15.6	17.4	17.8	18.3	18.3	18.1	18.0
GDP (billions of rubles)	79,200	83,233	86,044	92,277	97,152	102,598	108,220	114,186	120,452

Sources: Russian authorities; and IMF staff estimates.

1/ Cash basis.

2/ Balances reflect staff estimates based on projected oil savings.

3/ Expenditures reflect the authorities budget, oil revenues are Staff's estimates.

Table 5. Russian Federation: Monetary Accounts, 2014–22

(Billions of Russian rubles, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Projection					
Monetary authorities									
Base money	9,140	8,746	9,076	9,647	10,268	10,924	11,622	12,366	13,156
Currency issued	8,841	8,522	8,790	9,331	9,919	10,539	11,197	11,897	12,638
Required reserves on ruble deposits	299	224	286	316	349	385	425	469	518
NIR 1/	20,706	26,255	22,418	24,061	25,633	27,153	28,518	29,950	31,458
Gross reserves	21,665	26,850	22,918	24,562	26,134	27,654	29,018	30,451	31,958
Gross liabilities	960	595	501	501	501	501	501	501	501
GIR (billions of U.S. dollars)	*385*	*368*	*378*	*395*	*413*	*428*	*442*	*456*	*470*
NDA	-11,566	-17,509	-13,341	-14,415	-15,366	-16,229	-16,896	-17,584	-18,302
Net credit to general government	-10,342	-9,182	-6,254	-5,654	-5,521	-5,944	-6,824	-7,994	-9,269
Net credit to federal government	-8,926	-8,019	-5,031	-4,567	-4,579	-5,314	-6,251	-7,199	-8,098
CBR net ruble credit to federal government 1/	-682	-798	-1,373	-1,245	-1,148	-1,044	-953	-837	-677
Foreign exchange credit	207	276	222	222	222	222	222	222	222
Ruble counterpart	-8,452	-7,497	-3,881	-3,545	-3,654	-4,492	-5,521	-6,585	-7,644
CBR net credit to local government and EBFs	-1,415	-1,163	-1,222	-1,086	-942	-630	-573	-795	-1,171
CBR net credit to local government	-701	-759	-864	-728	-583	-271	-214	-436	-812
CBR net credit to extrabudgetary funds	-714	-404	-359	-359	-359	-359	-359	-359	-359
Net credit to banks	6,512	2,289	54	-931	-985	170	1,053	1,382	2,028
Gross credit to banks	8,617	4,441	2,723	800	800	900	950	950	952
Gross liabilities to banks and deposits	-2,106	-2,152	-2,669	-1,731	-1,785	-730	103	432	1,076
Of which: correspondent account balances	-1,216	-1,594	-1,823	-1,693	-1,870	-2,064	-2,278	-2,515	-2,775
Other items (net) 2/	-7,736	-10,617	-7,142	-7,830	-8,860	-10,455	-11,124	-10,972	-11,060
Monetary survey									
Broad money	42,910	51,371	50,903	55,804	61,272	67,257	73,825	81,057	88,992
Ruble broad money	31,616	35,180	38,418	42,033	46,063	50,467	55,295	60,604	66,422
Currency in circulation	7,172	7,239	7,715	8,169	8,661	9,179	9,725	10,305	10,917
Ruble deposits	24,444	27,941	30,703	33,865	37,402	41,289	45,570	50,299	55,505
Forex deposits 1/	11,294	16,191	12,485	13,770	15,209	16,789	18,530	20,453	22,570
Net foreign assets 1/	24,610	32,900	27,443	29,177	30,297	31,548	32,533	33,490	34,455
NIR of monetary authorities	20,706	26,255	22,418	24,061	25,633	27,153	28,518	29,950	31,458
NFA of commercial banks	3,904	6,645	5,025	5,116	4,663	4,395	4,015	3,540	2,997
NFA of commercial banks (billions of U.S. dollars)	69	91	83	82	74	68	61	53	44
NDA	18,299	18,471	23,460	26,627	30,976	35,708	41,293	47,567	54,537
Domestic credit	39,642	46,131	48,459	52,598	58,027	64,410	70,724	76,914	84,046
Net credit to general government	-8,198	-5,720	-2,545	-1,160	77	778	867	211	-180
Credit to the economy	47,841	51,851	51,004	53,758	57,951	63,632	69,857	76,703	84,226
Other items (net)	-21,343	-27,660	-24,999	-25,971	-27,052	-28,702	-29,432	-29,347	-29,509
Memorandum items:									
Accounting exchange rate (ruble per U.S. dollar, eop)	56.3	72.9	60.7	...	...	...	...	...	...
Nominal GDP (billions of rubles)	79,200	83,233	86,044	92,277	97,152	102,598	108,220	114,186	120,452
CPI inflation (12-month change, eop)	11.4	12.9	5.4	4.0	4.0	4.0	4.0	4.0	4.0
Ruble broad money velocity (eop)	2.5	2.3	2.3	2.2	2.1	2.0	2.0	1.9	1.8
Ruble broad money velocity (eop, s.a.)	2.6	2.4	2.4	2.3	2.2	2.1	2.0	1.9	1.9
Annual change in velocity	9.9	-7.0	-1.2	-4.7	-3.9	-3.6	-3.7	-3.7	-3.8
Real ruble broad money (rel. to CPI, 12-month change)	-8.9	-1.4	3.6	5.2	5.4	5.3	5.4	5.4	5.4
Nominal ruble broad money (12-month change)	1.5	11.3	9.2	9.4	9.6	9.6	9.6	9.6	9.6
Base money (12-month change)	6.3	-4.3	3.8	6.3	6.4	6.4	6.4	6.4	6.4
Real credit to the economy (12-month change)	16.3	-4.0	-6.6	1.3	3.7	5.6	5.6	5.6	5.6
Ruble broad money multiplier	3.5	4.0	4.2	4.4	4.5	4.6	4.8	4.9	5.0

Sources: Russian authorities; and IMF staff estimates.

1/ Data calculated at accounting exchange rates.
2/ Inclusive of valuation gains and losses on holdings of government securities.

Table 6. Russian Federation: Medium-Term Framework, 2014–22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.	Projection					
	(Percent of GDP, unless otherwise indicated)								
Macroeconomic framework									
GDP growth at constant prices (percent)	0.7	-2.8	-0.2	1.4	1.4	1.5	1.5	1.5	1.5
Consumer prices (percent change, end of period)	11.4	12.9	5.4	4.0	4.0	4.0	4.0	4.0	4.0
Gross domestic investment	22.2	22.4	23.4	23.0	23.9	23.9	22.6	22.5	22.4
Private sector	18.5	18.5	19.6	19.3	20.4	20.5	19.2	19.2	19.1
Public sector	3.8	3.9	3.8	3.7	3.5	3.4	3.3	3.3	3.3
Gross national savings	25.0	27.4	25.3	26.0	27.0	27.4	26.4	26.4	26.4
Private sector	22.3	26.9	25.2	24.1	24.7	24.7	23.0	22.6	22.5
Public sector	2.7	0.5	0.2	1.8	2.3	2.7	3.4	3.8	3.9
External current account balance	2.8	5.0	1.9	2.9	3.2	3.5	3.8	3.9	4.0
Fiscal Operations									
Federal government									
Net lending/borrowing (overall balance)	-0.4	-2.3	-3.4	-1.7	-1.0	-0.3	0.0	0.0	0.0
Nonoil balance	-9.9	-9.5	-9.0	-7.5	-6.8	-5.9	-5.5	-5.4	-5.4
General government									
Net lending/borrowing (overall balance)	-1.1	-3.4	-3.7	-1.9	-1.2	-0.7	0.1	0.5	0.6
Revenue	33.8	31.8	32.8	32.6	31.9	31.7	31.9	32.2	32.3
Expenditure	34.9	35.2	36.4	34.5	33.1	32.3	31.8	31.7	31.7
Nonoil balance	-11.4	-11.4	-9.8	-8.4	-7.6	-6.9	-6.0	-5.5	-5.4
Primary balance	-0.4	-2.6	-2.6	-1.0	-0.2	0.3	1.1	1.5	1.7
Gross debt	15.6	15.9	15.6	17.4	17.8	18.3	18.3	18.1	18.0
	(Billions of U.S dollars; unless otherwise indicated)								
Balance of payments									
Current account	57.5	68.9	25.0	44.0	48.9	56.6	63.8	67.9	72.2
Trade balance	188.9	148.5	90.0	127.3	125.4	127.8	136.9	143.6	155.0
Exports (f.o.b)	496.8	341.5	281.7	330.4	339.1	349.7	366.3	385.2	412.6
Of which: energy	324.4	198.9	151.1	179.0	180.6	179.3	181.7	185.5	197.3
Imports (f.o.b)	-307.9	-193.0	-191.7	-203.1	-213.7	-221.9	-229.4	-241.6	-257.6
Services and transfers, net	-63.5	-42.6	-30.3	-27.3	-30.1	-31.6	-31.9	-33.7	-35.5
Capital and financial account	-173.1	-70.3	-13.9	-26.4	-31.7	-41.3	-49.5	-53.7	-59.0
Capital account	-42.0	-0.3	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-131.0	-70.0	-13.1	-26.4	-31.7	-41.3	-49.5	-53.7	-59.0
Private sector capital	-158.8	-61.8	-17.3	-33.7	-35.3	-46.1	-52.9	-60.1	-63.4
Errors and omissions	8.0	3.1	-2.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-107.5	1.7	8.2	17.6	17.3	15.3	14.3	14.2	13.2
Memorandum items:									
Gross reserves (end of period)									
Billions of U.S. dollars	385.5	368.4	377.7	395.3	412.6	427.9	442.1	456.4	469.6
Percent of short-term debt (residual maturity)	301.7	449.6	419.1	391.2	416.8	425.8	451.2	469.6	473.7
Months of prospective GNFS imports	10.8	15.7	17.0	16.8	16.7	16.7	16.7	16.3	15.8
Trade balance (percent of GDP)	9.2	10.9	7.0	8.5	8.1	8.0	8.2	8.3	8.7
Terms of trade (y-o-y change, percent)	-2.9	-18.1	-16.3	12.3	-2.1	-1.9	0.2	0.6	1.7
Excluding fuel	-2.2	7.1	-15.7	6.3	-3.3	-1.5	0.4	0.4	0.4
Export volume, goods (y-o-y change, percent)	-0.2	6.4	0.9	1.4	3.4	3.6	3.6	3.6	4.3
Import volume, goods (y-o-y change, percent)	-8.0	-25.2	1.6	2.8	3.8	2.4	2.4	4.4	5.6
Brent oil price (U.S. dollars per barrel)	98.9	52.4	44.0	52.9	53.1	52.8	53.0	53.8	55.0
Output gap	0.6	-1.6	-1.0	-0.4	0.0	0.0	0.0	0.0	0.0

Sources: Russian authorities; and IMF staff estimates.

Table 7. Russian Federation: Financial Soundness Indicators, 2013–2017

(Percent)

	2013	2014	2015	2016	2017 April
Financial Soundness Indicators					
Capital adequacy					
Capital to risk-weighted assets	13.5	12.5	12.7	13.1	13.3
Core capital to risk-weighted assets	9.1	9.0	8.5	9.2	9.7
Credit risk					
NPLs to total loans	6.0	6.7	8.3	9.4	9.8
Loan loss provisions to total loans	5.9	6.5	7.8	8.5	8.5
Large credit risks to capital	204	246	254	220	211
Distribution of loans provided by credit institutions					
Agriculture, hunting and forestry	4.3	3.5	3.5	4.0	4.2
Mining	3.1	4.2	4.9	5.6	5.6
Manufacturing	13.6	15.5	17.1	15.4	15.7
Production and distribution of energy, gas and water	2.5	2.5	2.5	3.1	3.2
Construction	5.6	5.3	4.8	4.5	4.4
Wholesale and retail trade	13.7	13.3	11.3	10.9	10.3
Transport and communication	4.2	4.4	4.2	4.2	4.4
Other economic activities	21.1	21.2	24.1	23.1	22.9
Individuals	32.0	30.1	27.5	29.1	29.3
Of which: mortgage loans	8.5	9.4	10.1	12.1	12.4
Geographical distribution of interbank loans and deposits					
Russian Federation	39.7	53.6	54.0	68.8	63.3
United Kingdom	23.8	13.9	12.3	7.5	10.7
USA	6.8	4.9	4.5	3.2	3.0
Germany	0.6	0.4	0.8	0.3	1.4
Austria	7.3	7.3	4.9	1.1	1.4
France	1.9	1.8	1.8	1.4	2.1
Italy	0.1	0.0	0.0	2.0	1.9
Cyprus	4.7	4.9	9.2	5.3	5.2
Netherlands	1.5	1.3	0.8	0.5	0.7
Other	13.6	11.8	11.8	9.9	10.3
Liquidity					
Highly liquid assets to total assets	9.9	10.4	10.6	10.5	11.5
Liquid assets to total assets	20.5	22.0	24.6	21.8	23.0
Liquid assets to short-term liabilities	78.7	80.4	139.3	144.9	170.1
Ratio of client's funds to total loans	98.7	92.8	59.0	107.5	109.6
Return on assets	1.9	0.9	0.3	1.2	1.7
Return on equity	15.2	7.9	2.3	10.3	14.3
Balance Sheet Structure, in percent of assets					
Total asset growth rate	16.0	35.2	6.9	-3.5	-0.7
Asset side					
Accounts with CBR and other central banks	3.9	4.2	3.0	3.8	3.7
Interbank lending	8.9	8.9	10.4	11.4	11.6
Securities holdings	13.6	12.5	14.2	14.3	14.0
Liability side					
Funds from CBR	7.7	12.0	6.5	3.4	1.8
Interbank liabilities	8.4	8.5	8.5	10.7	10.1
Individual deposits	29.5	23.9	28.0	30.2	30.6

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

Table 8. Russian Federation: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent of GDP unless otherwise indicated)

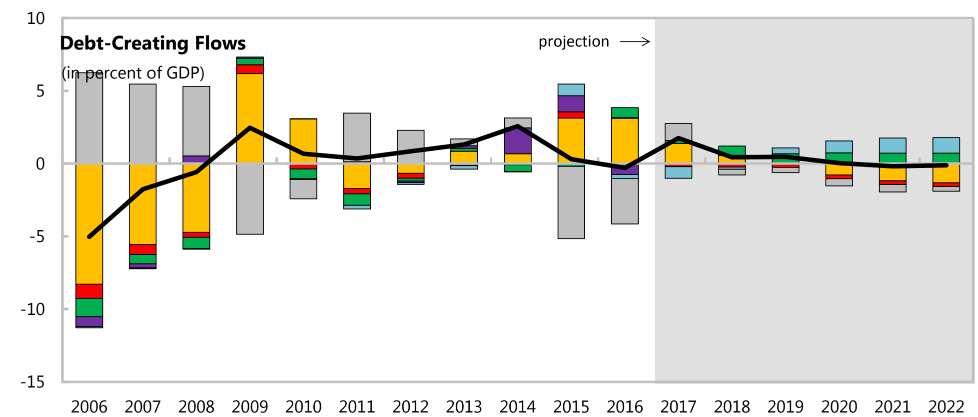
Debt, Economic and Market Indicators [1/]

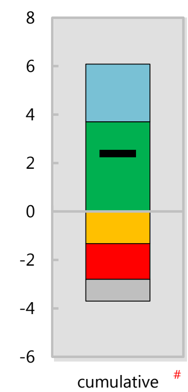
	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	10.8	15.9	15.6	17.4	17.8	18.3	18.3	18.1	18.0
Of which: guarantees	1.2	3.1	3.0	4.7	4.6	4.7	4.6	4.6	4.6
Public gross financing needs	0.8	7.4	6.5	3.6	2.7	2.1	0.8	0.2	0.4
Real GDP growth (in percent)	3.1	-2.8	-0.2	1.4	1.4	1.5	1.5	1.5	1.5
Inflation (GDP deflator, in percent)	11.4	8.2	3.6	5.7	3.8	4.0	3.9	3.9	4.0
Nominal GDP growth (in percent)	15.0	5.1	3.4	7.2	5.3	5.6	5.5	5.4	5.6
Effective interest rate (in percent) [4/]	6.7	6.6	8.1	7.2	7.8	8.1	8.2	8.1	8.3

As of May 31, 2017		
Sovereign Spreads		
EMBIG (bp) 3/		161
5Y CDS (bp)		150
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BB+	BBB-
Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.1	0.3	-0.3	1.8	0.4	0.5	0.0	-0.2	-0.1	2.4	
Identified debt-creating flows	-1.8	5.3	2.8	0.6	0.8	0.8	0.5	0.3	0.2	3.3	
Primary deficit	-1.1	3.1	3.1	1.4	0.6	0.0	-0.8	-1.2	-1.3	-1.3	1.5
Primary (noninterest) revenue and grants	34.5	31.3	32.3	32.2	31.6	31.3	31.5	31.8	32.0	190.4	
Primary (noninterest) expenditure	33.3	34.4	35.4	33.6	32.1	31.3	30.8	30.6	30.6	189.1	
Automatic debt dynamics [5/]	-0.6	1.3	0.0	0.0	0.4	0.4	0.5	0.5	0.5	2.2	
Interest rate/growth differential [6/]	-0.8	0.2	0.7	0.0	0.4	0.4	0.5	0.5	0.5	2.2	
Of which: real interest rate	-0.5	-0.2	0.7	0.2	0.6	0.7	0.7	0.7	0.7	3.7	
Of which: real GDP growth	-0.3	0.4	0.0	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-1.5	
Exchange rate depreciation [7/]	0.2	1.1	-0.8	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	0.8	-0.3	-0.8	-0.2	0.4	0.8	1.0	1.1	2.4	
General Government: Net privatization Proce	-0.1	0.0	-0.5	-0.1	0.0	0.0	0.0	0.0	0.0	-0.2	
Change is cash balance of EBF	0.0	0.8	0.2	-0.1	-0.1	-0.3	0.0	0.2	0.3	-0.1	
Transfers to RF and NWF	0.0	0.0	0.0	-0.5	0.0	0.7	0.9	0.8	0.7	2.7	
Residual, including asset changes [8/]	1.9	-5.0	-3.1	1.2	-0.4	-0.4	-0.5	-0.5	-0.3	-0.9	





Primary deficit | Real GDP growth | Real interest rate | Exchange rate depreciation
Other debt-creating flows | Residual | Change in gross public sector debt

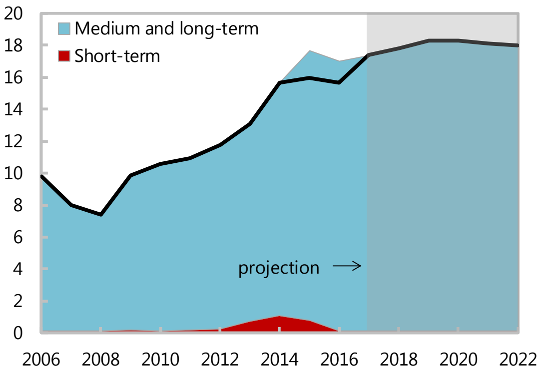
Source: IMF staff.
1/ Public sector is defined as general government and includes federal guarantees.
2/ Based on available data.
3/ EMBIG.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;
a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 9. Russian Federation: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

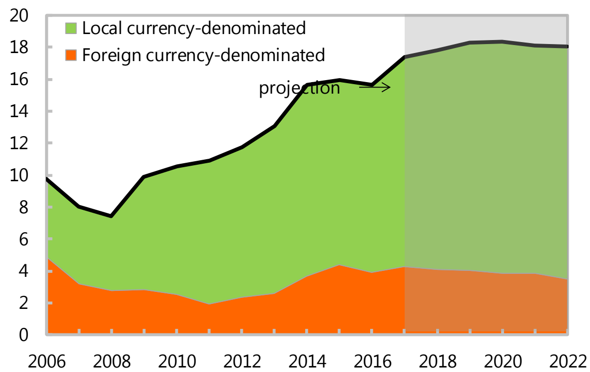
By Maturity

(in percent of GDP)



By Currency

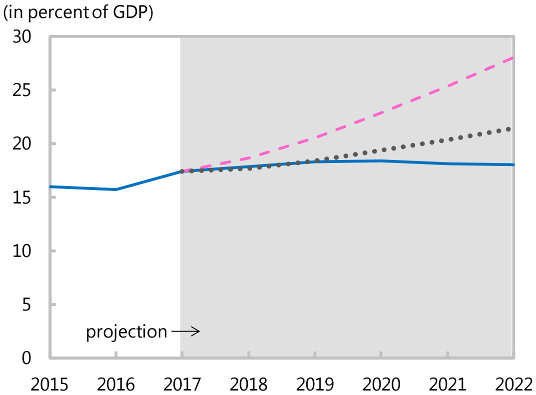
(in percent of GDP)



Alternative Scenarios

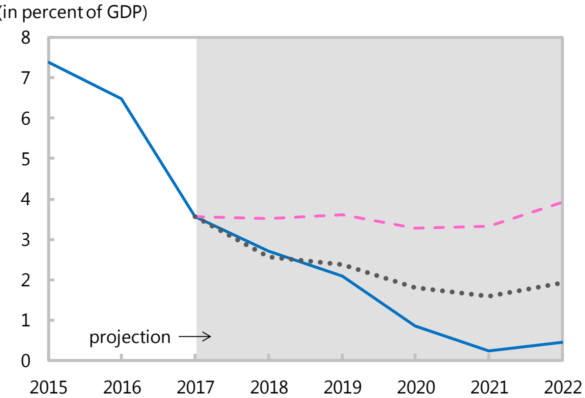
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

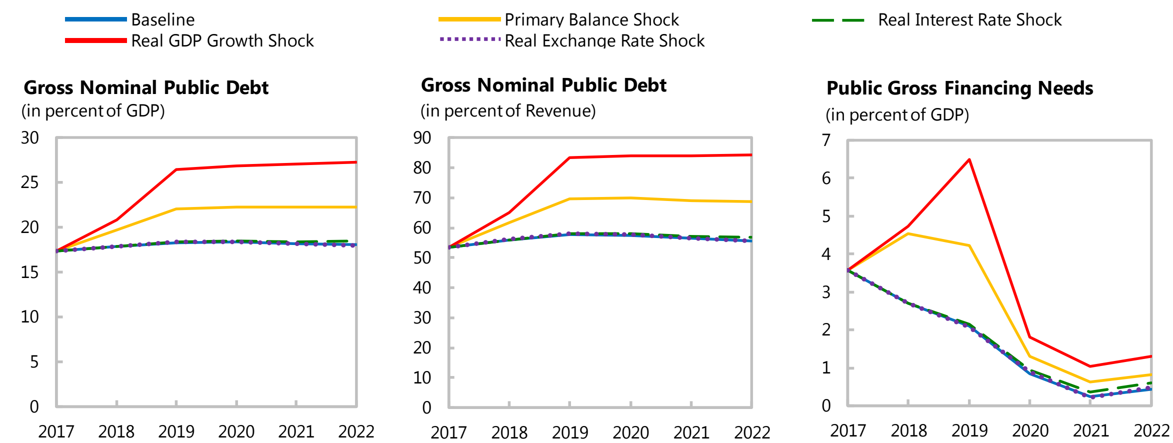
Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	1.4	1.4	1.5	1.5	1.5	1.5
Inflation	5.7	3.8	4.0	3.9	3.9	4.0
Primary Balance	-1.4	-0.6	0.0	0.8	1.2	1.3
Effective interest rate	7.2	7.8	8.1	8.2	8.1	8.3
Constant Primary Balance Scenario						
Real GDP growth	1.4	1.4	1.5	1.5	1.5	1.5
Inflation	5.7	3.8	4.0	3.9	3.9	4.0
Primary Balance	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Effective interest rate	7.2	7.8	8.2	8.2	8.1	7.8

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	1.4	1.7	1.7	1.7	1.7	1.7
Inflation	5.7	3.8	4.0	3.9	3.9	4.0
Primary Balance	-1.4	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	7.2	7.8	7.0	6.1	5.2	4.5

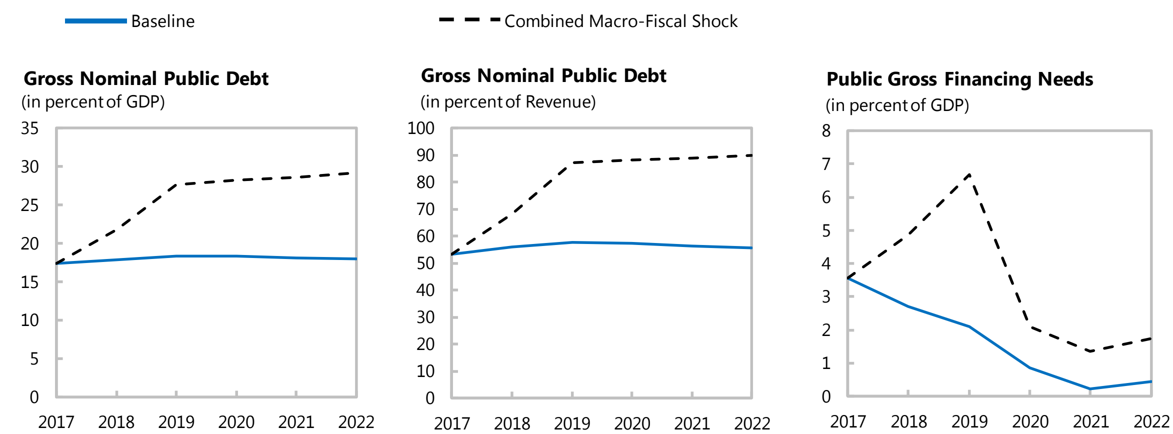
Source: IMF staff.

Table 10. Russian Federation: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	1.4	1.4	1.5	1.5	1.5	1.5
Inflation	5.7	3.8	4.0	3.9	3.9	4.0
Primary balance	-1.4	-2.4	-1.8	0.8	1.2	1.3
Effective interest rate	7.2	7.8	8.4	8.5	8.4	8.5
Real Interest Rate Shock						
Real GDP growth	1.4	1.4	1.5	1.5	1.5	1.5
Inflation	5.7	3.8	4.0	3.9	3.9	4.0
Primary balance	-1.4	-0.6	0.0	0.8	1.2	1.3
Effective interest rate	7.2	7.8	8.5	8.9	9.0	9.3
Combined Shock						
Real GDP growth	1.4	-3.2	-3.1	1.5	1.5	1.5
Inflation	5.7	2.6	2.9	3.9	3.9	4.0
Primary balance	-1.4	-2.5	-3.8	0.8	1.2	1.3
Effective interest rate	7.2	8.1	8.6	9.1	9.2	9.3

Real GDP Growth Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	1.4	-3.2	-3.1	1.5	1.5	1.5
Inflation	5.7	2.6	2.9	3.9	3.9	4.0
Primary balance	-1.4	-2.5	-3.8	0.8	1.2	1.3
Effective interest rate	7.2	7.8	8.4	8.6	8.5	8.5
Real Exchange Rate Shock						
Real GDP growth	1.4	1.4	1.5	1.5	1.5	1.5
Inflation	5.7	9.4	4.0	3.9	3.9	4.0
Primary balance	-1.4	-0.6	0.0	0.8	1.2	1.3
Effective interest rate	7.2	8.0	7.9	8.0	7.9	8.0

Source: IMF staff.

Table 11. Russian Federation: External Debt Sustainability Framework, 2012–2022

(In percent of GDP, unless otherwise indicated)

	Actual							Projections							
	2012	2013	2014	2015	2016	10-Year Historical Average	10-Year Standard Deviation	2017	2018	2019	2020	2021	2022	For debt stabilization	Debt-stabilizing non-interest current account 6/
Baseline: External debt	29.3	32.7	29.1	38.0	40.0			**35.9**	**35.0**	**34.6**	**34.3**	**34.1**	**34.1**		**-0.9**
Change in external debt	2.8	3.3	-3.6	8.9	2.0			-4.1	-1.0	-0.3	-0.3	-0.2	0.1	0.0	
Identified external debt-creating flows (4+8+9)	-3.6	-1.4	-1.6	7.6	2.6			-2.1	-2.5	-2.3	-2.2	-2.4	-2.5	0.0	
Current account deficit, excluding interest payments	-2.5	-0.7	-2.2	-4.3	-1.1			-2.0	-2.1	-2.2	-2.3	-2.3	-2.4	0.9	
Deficit in balance of goods and services	-47.7	-47.6	-48.0	-49.4	-46.6			-44.8	-44.8	-44.9	-45.1	-45.6	-47.1		
Exports	27.2	26.5	27.3	28.8	25.9			25.9	25.7	25.7	26.0	26.2	27.1		
Imports	-20.5	-21.1	-20.8	-20.6	-20.7			-18.8	-19.1	-19.2	-19.2	-19.4	-20.0		
Net non-debt creating capital inflows (negative)	0.0	-0.4	-1.1	-0.7	0.9			-0.5	-0.9	-0.8	-1.0	-1.2	-1.2	-1.2	
Automatic debt dynamics 1/	-1.2	-0.2	1.6	12.6	2.7			0.4	0.5	0.8	1.1	1.1	1.1	0.3	
Contribution from nominal interest rate	0.8	0.8	0.6	0.7	0.9			0.9	1.0	1.3	1.6	1.6	1.6	1.6	
Contribution from real GDP growth	-0.9	-0.4	-0.3	1.2	0.1			-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	
Contribution from price and exchange rate changes 2/	-1.1	-0.7	1.3	10.7	1.8			...	...	...	...	...	...	-0.8	
Residual, incl. change in gross foreign assets (2-3) 3/	6.4	4.7	-2.0	1.4	-0.5			-1.9	1.5	2.0	1.9	2.2	2.6	0.0	
External debt-to-exports ratio (in percent)	107.9	123.1	106.6	132.0	154.6			138.5	136.0	134.9	132.1	130.0	125.7		
Gross external financing need (in billions of US dollars) 4/	109.2	203.9	169.4	78.2	78.9			73.5	83.6	83.6	88.8	85.4	82.4		
in percent of GDP	5.0	9.1	8.2	5.7	6.1			4.9	5.4	5.2	5.3	4.9	4.6		
Scenario with key variables at their historical averages 5/								**35.9**	**35.4**	**35.1**	**34.8**	**35.0**	**35.4**		**-0.2**
Key Macroeconomic Assumptions Underlying Baseline															
Real GDP growth (in percent)	3.5	1.3	0.7	-2.8	-0.2	1.7	4.6	1.4	1.4	1.5	1.5	1.5	1.5	1.5	
GDP deflator in US dollars (change in percent)	3.2	1.5	-8.2	-31.9	-5.8	2.0	18.7	15.1	2.1	1.8	2.1	2.6	1.8	1.8	
Nominal external interest rate (in percent)	3.3	2.9	1.6	1.6	2.1	3.7	1.7	2.7	2.9	3.8	4.7	4.9	4.9	4.9	
Growth of exports (US dollar terms, in percent)	2.8	0.4	-5.0	-30.1	-15.5	2.8	24.6	17.0	2.7	3.1	4.7	5.1	7.1		
Growth of imports (US dollar terms, in percent)	8.4	5.6	-8.7	-34.3	-5.5	5.5	25.6	5.9	5.2	3.8	3.4	5.4	6.6		
Current account balance, excluding interest payments	2.5	0.7	2.2	4.3	1.1	2.8	1.3	2.0	2.1	2.2	2.3	2.3	2.4		
Net non-debt creating capital inflows	0.0	0.4	1.1	0.7	-0.9	0.1	0.9	0.5	0.9	0.8	1.0	1.2	1.2		

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

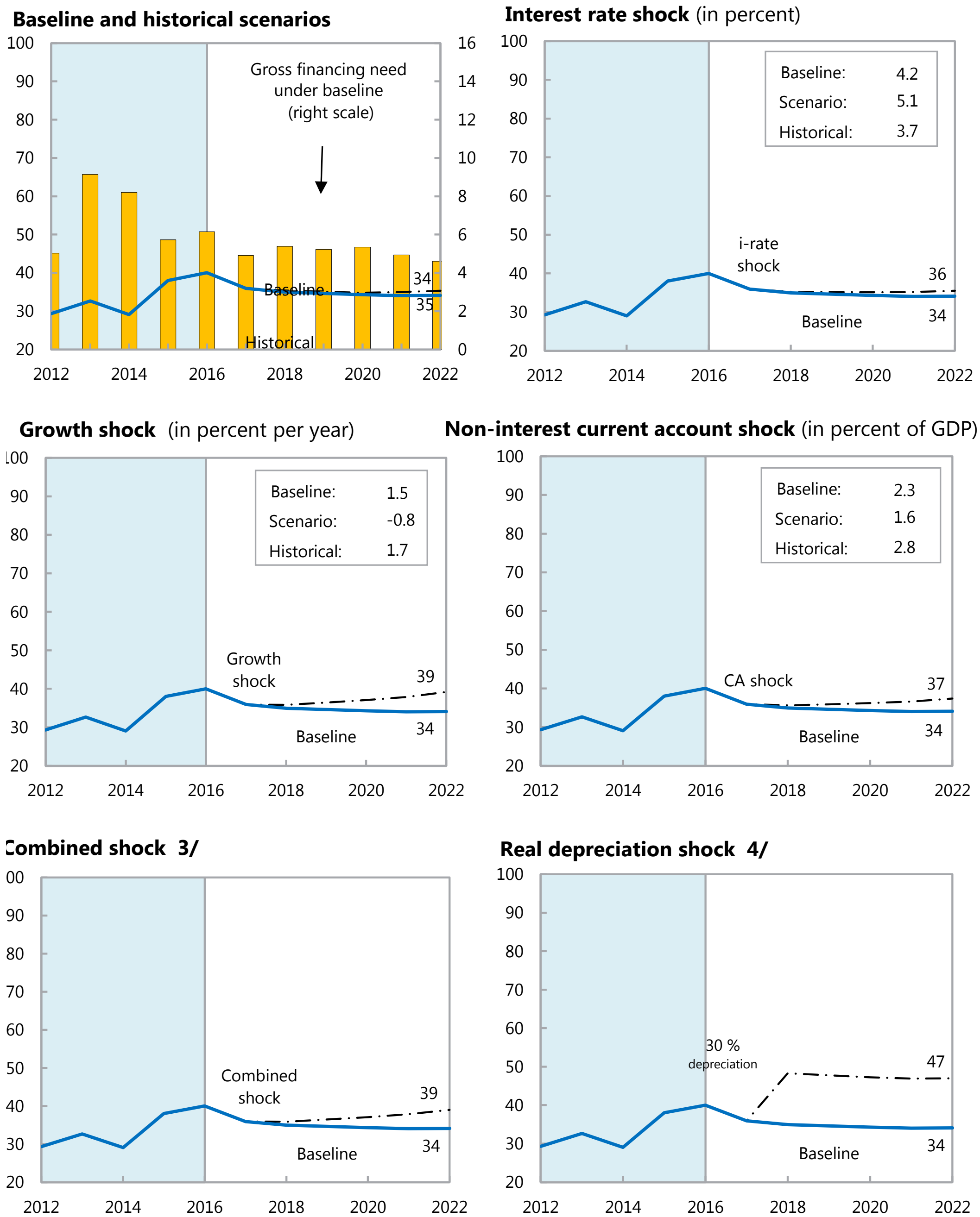
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 12. Russian Federation: External Debt Sustainability: Bound Tests 1/ 2/



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Annex I. Implementation of Past IMF Recommendations

During the 2016 Article IV consultation, Directors observed that the authorities' flexible and effective policy response has cushioned the economy from the dual shocks of lower oil prices and sanctions. They encouraged the authorities to undertake the necessary fiscal adjustment anchored on a credible medium-term plan and commended them for implementing policies that were helpful in bringing down inflation. Directors welcomed the authorities' success in stabilizing the financial system and stressed that structural reforms will be essential to leverage the more competitive exchange rate to boost long-term potential growth.

Key recommendations	**Implemented policies**
Fiscal Policy	
Medium-term fiscal consolidation is required to adjust to lower oil prices and rebuild buffers.	The three-year budgeting framework was reintroduced with measures of about 1 percent of GDP per year over 2017-2019 to adjust to lower oil prices.
The fiscal adjustment should be smooth and based on quality and permanent measures while safeguarding growth-enhancing expenditures.	The three-year budget assumes a balanced adjustment path and is predicated on a nominal freeze of most categories of spending, irrespective of their contributions to growth, while relying on some
A parametric pension reform has become urgent to help support the fiscal adjustment in a timely manner.	The current debate over pension reform has yet to lead to a roadmap of measures.
The reinstatement of the fiscal rule will help anchor the fiscal adjustment over the medium-term.	The new mechanism to save oil revenues helps improve the predictability of fiscal policy by ensuring that excess oil revenues are saved rather than spent. The authorities plan to introduce a new fiscal rule that would be effective in 2019.
Monetary Policy	
Monetary policy normalization could resume cautiously as inflation is on a declining path and inflation expectations continue to fall.	Policy rates were decreased gradually, first in the summer of 2016 by a cumulative 100bps, and then in March-April 2017 by a cumulative 75bps, bringing the key rate to 9.25 percent.
Financial Sector Policy	
Enhanced stress tests and an Asset Quality Review (AQR) would be important steps towards putting the banking system on a sounder footing.	Stress tests of banks have led to supervisory actions with some banks. A Risk Assessment Department was created to focus on asset quality review, supported by a new system-wide database on corporate credit and collaterals and

The authorities should prepare an action plan to address deficiencies in supervision.	Regulations on supervision are being amended with draft laws to improve CBR interaction with external auditors and requirements for CBR approval for major acquisition of financial companies.
Improvements in the bank resolution framework are critical to minimize the use of public funds.	The authorities introduced a new resolution framework that would provide solvency support in open bank resolution by purchasing bank shares at above fair price value.
Structural Policies	
Reduce unwarranted administrative pressures while strengthening contract enforcement and property rights, increase mobility and reduce skills mismatches, support innovation for higher value added sectors, and reduce the footprint of the state in the economy.	The authorities have successfully privatized a 19.5 percent stake in Rosneft together with other, mostly small, divestures from SOEs. Various support programs for SMEs are being implemented to foster competition in the domestic market, improve quality of production and facilitate the increase of localization of manufacturing. Trade integration initiatives are continuing.

Annex II. External Sector Assessment

	Russia	Overall Assessment
Foreign asset and liability position and trajectory	**Background**. The net international investment position (NIIP) at end-September 2016 was at 18 percent GDP (up from 10 percent in 2013), with gross assets of 96 percent of GDP and liabilities of 78 percent of GDP. Total external debt was at 41.6 percent of GDP at end-2016. There are no obvious maturity mismatches between the gross asset and liability position. Historically, the NIIP position has not kept pace with the CA surpluses due to unfavorable valuation changes and the treatment of "disguised" capital outflows. 1/ **Assessment**. The projected current account surpluses suggest that Russia will continue to maintain a positive IIP, which minimizes risks to external stability. Moreover, reserve assets should increase further, as accumulation of fiscal savings in the oil funds is resuming. External deleveraging by the private sector since 2014 reduces risks further.	**Overall Assessment**: *The external position in 2016 was moderately weaker than suggested by medium-term fundamentals and desirable policy settings.* Since 2016 the REER has appreciated, sharply as oil prices bottomed out, economic uncertainty declined, and appetite for Russian assets resumed. The structural implications of sanctions create exceptional uncertainty when assessing the external position, although on balance they would suggest the equilibrium REER should be lower. **Potential policy responses**: The weaker external position calls for greater diversification. The non-oil fiscal deficit remains significantly higher than its long-term desirable level and needs to adjust to facilitate a rebalancing from public to private activity, and a re-allocation of government expenditure from current to capital spending. This rebalancing—coupled with a renewed emphasis on structural reforms to invigorate the private sector—would help increase on a net basis savings, and yet create some room for somewhat higher private and public sector investment over the medium-term.
Current account	**Background**. From 2000 to 2013, the current account (CA) surplus fell from 16 to 1.5 percent of GDP, despite rising oil prices, as consumption increased rapidly. The 2014 oil price shock triggered a brief correction: the CA rose to 5 percent of GDP in 2015, as reduced oil export revenues (approximately 7 percent of GDP) were more than offset by falling absorption. However, in 2016, as the decline in absorption stopped amid still-falling energy export revenues, the CA surplus shrunk to 1.7 percent of GDP, although the non-oil current account deficit remained stable. In the medium-term, the projected increase in oil prices and authorities' fiscal consolidation plans should support a gradual improvement in the CA. **Assessment**. The EBA CA model yields a norm for 2016 of 6.3 percent of GDP, compared to a cyclically adjusted CA surplus of 4.2 of GDP, thus yielding a CA gap of -2 percent of GDP. There are particular uncertainties with the external assessment when oil plays such a dominant role in the economy and oil price movements have been very large, which are compounded by the uncertain long-term impact of sanctions on saving-investment decisions and therefore the normative external position. Staff assesses the 2016 CA gap to have been between -2 to 0 percent of GDP, and therefore somewhat less than the EBA CA model. 2/ The identified fiscal gap accounts for almost all of the CA gap. Thus, in the medium term, fiscal policy should be tightened to rebuild buffers and save more of the oil wealth for future generations.	
Real exchange rate	**Background**. The sustained oil price boom and related expansion of domestic demand led to a strong real effective exchange rate (REER) appreciation between 2000 and 2013. Following the dual shocks of oil prices and sanctions, and the floating of the ruble in November 2014, the REER has depreciated over 35 percent between mid-2014 and February 2016. In 2016, the average REER remained largely unchanged compared to 2015. However, from the fourth quarter of 2016, the exchange rate has sustained a significant appreciation, and as of February 2017 the REER was 26.2 percent above the 2016 average due largely to oil price increases. **Assessment**. Consistent with the CA assessment, staff assess that the 2016 REER was between 0 and 10 percent, above its equilibrium, and therefore moderately overvalued. 3/	
Capital and financial accounts: flows and policy measures	**Background**. Net private capital outflows continued in 2016 though the pace has significantly slowed relative to 2014 and 2015, as confidence has resumed. Private sector external deleveraging has continued in the face of limited access to international capital markets. Nonetheless, volatile oil prices will continue to weigh on the outlook. Over the medium term, structural outflows are expected to decline if Russia improves its investment climate. **Assessment**. While Russia is exposed to risks of accelerated capital outflows because of the uncertain geopolitical context, the floating exchange rate regime and large international reserves provide substantial buffers to help absorb these potential shocks.	
FX intervention and reserves level	**Background**. Since adopting a free floating exchange rate regime in November 2014, FX interventions have been limited. International reserves rose to US$378 billion in 2016, up from U$368 billion in 2015, due mostly to valuation effects. **Assessment**. International reserves at end-2016 were equivalent to 235 percent of the Fund's basic reserve adequacy metric, considerably above the adequacy range of 100–150 percent. However, taking into account Russia's	

	vulnerability to commodity shocks, the adjusted adequacy metric falls to 206 percent of the metric, still above the adequacy level. Small regular purchases to replenish reserves could be justified by the high level of uncertainty related to sanctions and oil prices. Large FX interventions should be limited to episodes of market distress.		
Technical Background Notes	1/ Unfavorable valuation changes arise because the Russian stock market has performed very well in the last 15 years as the oil price soared, boosting the valuation of foreign-owned assets. "Disguised" capital outflows include transactions such as pre-payments on import contracts where the goods are not delivered, repeated large transfers abroad that deviate from standard remittances behavior, or securities transactions at inflated prices. The CBR includes estimates of "disguised" capital outflows in the financial account but not in the foreign asset position of the reported NIIP. Hence, the actual NIIP position could be higher than the reported level and this treatment of "disguised" outflows may explain part of the discrepancy between accumulated CA surpluses and the reported NIIP position. 2/ The high EBA estimated CA norm of 6.3 percent of GDP reflects the need to save out of income from non-renewable oil exports. Staff's assessment shares this basic logic, but acknowledges that not all of such saving (i.e., refraining from consumption) would necessarily have to take a financial form and could in part take the form of productive investment spending. This justifies a somewhat lower CA surplus (by about one percent of GDP) than the EBA-estimated norm. Sanctions and geopolitical tensions have introduced an additional level of complexity in the external assessment. 3/ The EBA Level REER model suggests an *under*valuation of 18.1 percent, and the EBA Index REER regression model an undervaluation of 23.6 percent. For commodities exporters, the fit of the REER models tends to be relatively poor, however, hence staff puts more weight on the results implied by the CA model		

Annex III. Risk Assessment Matrix (RAM) 1/

Sources of Risks	Overall Level of Concern		
	Relative Likelihood	Expected Impact if Materialized	Recommended Policy Response
Financial conditions: **Significant further strengthening of the US dollar and/or higher rates.** As investors reassess policy fundamentals, as term premia decompress, or if there is a more rapid Fed normalization, leveraged firms, lower-rated sovereigns and those with un-hedged dollar exposures could come under stress. Could also result in capital account pressures for some economies.	**High**	**Low**	Enhance confidence and resilience by strengthening core institutions and policy frameworks and improve the investment climate. Tighten monetary policy if balance of payment pressures emerges, while allowing the exchange rate to adjust, and intervening only to counter disorderly market conditions.
Policy and geo-political uncertainties: Regional tension flare-ups or intensification could depress business confidence and heighten risk aversion.	**Medium**	**Medium**	The floating exchange rate remains key to cushion the shock. Disorderly market conditions can be countered with foreign exchange intervention. An interest rate increase could be considered. Fiscal policy tightening could be postponed.
Weaker banking system for longer. If undercapitalized banks identified by the FSAP are unable to improve their capital position, credit growth will be even lower with negative implications on growth.	**Medium**	**Medium**	Weak banks should be required to submit time bound plans for recapitalization while bringing their capitalization closer to regulatory minima under an adverse stress scenario. In the case of weak viable government related banks, the government may want to consider precautionary capital injections.
Sharper-than-expected global growth slowdown: **Significant China slowdown**. Key near-term risks are disruptive drying up of liquidity for weaker borrowers in the interbank market and increasing pressure on the Renminbi, which could lead to overcorrection. Weak domestic demand further suppresses commodity prices, roils global financial markets, and reduces global growth.	**Low/Medium**	**Medium**	The exchange rate should be allowed to adjust. Disorderly market conditions can be countered with foreign exchange intervention. Fiscal policy tightening could be temporarily postponed and structural reforms should be advanced to enhance economic efficiency and diversification.
Continued drop in domestic investment. Authorities pursue inward-looking policies. Lack of structural reform could lead to a decline in investment and TFP.	**Medium**	**Medium**	Focus on structural and governance reforms to improve the investment climate. Avoid distortive measures and leverage the real exchange rate depreciation while increasing trade openness.

1/ The RAM shows events that could materially alter the baseline path discussed in this report (which is the scenario most likely to materialize in the view of the staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding this baseline. The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities.

Annex IV. Implementation of FSAP Recommendations

Recommendations	Timing	Progress
Banking Stability		
Conduct an asset quality review (AQR) to ensure adequate bank capitalization (CBR).	ST/MT	**In progress.** The authorities expect to complete an asset quality review of the entire banking system by end-2018. Stress tests of banks make supervisory adjustments for assets and capital for certain banks.
Enhance stress testing practices, including on a consolidated basis and by currency (CBR).	ST/MT	**In progress.** CBR is developing methodologies for stress testing on a consolidated basis, with the help of an external consultant, and by currency, for individual banks.
Liquidity Management		
Review FX repo framework, and formalize lender of last resort (CBR).	ST	**Done.** The FX repo framework takes account of banks' access to FX funding from the interbank market. The CBR strengthened its framework for emergency liquidity assistance (ELA) during 2016 and is in the process of receiving IMF TA in this area.
Re-establish T-bill program and coordinate sterilization of excess liquidity (Ministry of Finance—MoF, CBR).	ST	**Not done.**
Financial Sector Oversight and Regulation		
Require prior approval for banks' domestic investments in nonbank institutions (CBR).	ST	**In progress.** A draft law requires banks to coordinate with the CBR on acquisition of shares representing more than 10 percent ownership in nonbank credit institutions. The draft law has passed public discussion and is at the stage of inter-agency examination.
Issue specific requirements for management of banks' country and transfer risks (CBR).	ST	**In progress.** Under review.
Upgrade framework for relations with and use of banks' external auditors (CBR).	ST	**In progress.** A draft law allows the CBR to regulate and supervise audit activities. The draft is being prepared for a second reading in parliament.
Strengthen further the legal framework applicable to related parties (CBR).	ST	**Done.** Effective from January 2017, the definition of related parties has been

		broadened and a limit set on such exposure at 20 percent of a bank's equity capital.
Upgrade framework for prudential oversight of banks' operational risk (CBR).	ST	**In progress.**
Bring securities and insurance regulation and supervision in line with international standards (CBR).	MT	**In progress.** The CBR is preparing a road map to bring legislation in line with the Core Principles, Standards, Guidance and Assessment Methodology of the International Association of Insurance Supervisors and IOSCO Objectives and Principles of Securities Regulation.
Ensure the effective implementation of the AML/CFT framework (CBR, MoF monitoring).	ST	**In progress.** Work is at an early stage.
Macroprudential Policy		
Adopt legal changes to provide a comprehensive policy toolkit (CBR, MoF).	ST/MT	**In progress.** The CBR is drafting a regulation to consolidate existing macroprudential tools. The authorities have taken measures to reduce dollarization by requiring higher capital risk weights on banks' FX lending not matched by FX earnings.
Crisis Management and Resolution		
Review the framework for the use of public funds to finance the DIA for resolution purposes to be provided by the federal government. If necessary to use CBR funds, the federal government should provide an indemnity (CBR, MoF).	MT	**Not done.** The authorities have identified a new mechanism to finance the costs of banking resolution but it does not explicitly provide for use of public funds.
Establish a funding mechanism for recovery of the costs of providing temporary public financing through levies on the financial industry (CBR, MoF).	MT	**Not done.** The resolution mechanism does not envisage levies on banks other than the premia already collected by the DIA.
Introduce the full range of resolution powers and safeguards recommended by the FSB Key Attributes, including by implementing legal and operational changes needed to make purchase and assumption (P&A) an effective resolution tool (CBR, MoF).	ST	**In progress.** The authorities have introduced a new resolution mechanism. However, there is no provision as yet for asset transfer at market prices to an acquiring institution as part of a P&A transaction.
Banking Sector Development		
Promote legal reforms to increase state-owned commercial banks (SOB's) Board effectiveness (MoF, CBR).	MT	**Not done.**
Continue gradual privatization of SOBs (MoF, CBR) as conditions permit.	MT	**Not done.**
[1]/ "ST–short term" is within one year; "MT–medium term" is one to three years.		

INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

June 15, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The European Department (In Consultation with Other Departments and the World Bank).

CONTENTS

FUND RELATIONS[1]

(As of March 31, 2017)

Membership Status: Joined June 1, 1992; Article VIII.

General Resources Account	**SDR Million**	**Percent Quota**
Quota	12,903.70	100.00
Fund holdings of currency	11,425.27	88.54
Reserve Position	1,478.45	11.46
Lending to the Fund	750.66	
New Arrangements to Borrow		

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	5,671.80	100.00
Holdings	4,823.48	85.04

Outstanding Purchases and Loans: None

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	07/28/99	12/27/00	3,300.00	471.43
EFF	03/26/96	03/26/99	13,206.57	5,779.71
Of which SRF	07/20/98	03/26/99	3,992.47	675.02
Stand-by	04/11/95	03/26/96	4,313.10	4,313.10

Projected Obligations to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs)**:**

	Forthcoming				
	2017	2018	2019	2020	2021
Principal					
Charges/Interest	2.70	3.68	3.68	3.68	3.68
Total	2.70	3.68	3.68	3.68	3.68

Implementation of HIPC Initiative: Not Applicable

[1] http://www.imf.org/external/np/fin/tad/exfin2.aspx?memberkey1=819&date1Key=2999-12

Implementation of MDRI Assistance: Not Applicable

Exchange Arrangements: Effective November 10, 2014, the CBR eliminated its exchange rate corridor and canceled regular FX interventions, adopting a *de jure* and *de facto* floating exchange rate regime, with FX interventions conducted only to safeguard financial stability. The Russian Federation accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement with effect from June 1, 1996, *and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions*.

Article IV Consultation: Russia is on the standard 12-month consultation cycle. The last consultation was concluded on June 29, 2016.

FSAP Participation, FTE and ROSCs: Russia participated in the Financial Sector Assessment Program during 2016, and the FSSA report will be discussed by the Board at the time as the 2016 Article IV discussion. An FSAP update took place in the fall of 2007, and the FSSA report was discussed by the Board in August 2008, at the time of the 2008 Article IV discussion. An FSAP financial stability assessment took place during April 2011, and the FSSA report was discussed by the Board in September 2011, at the time of 2011 Article IV Consultation.

A recent pilot of the IMF's new Fiscal Transparency Evaluation (FTE) was undertaken in October 2013 and published in May 2014. It assessed the Russian government's fiscal reporting, forecasting, and risk management practices against the IMF's revised Fiscal Transparency Code

Resident Representative: Mr. Gabriel Di Bella, Resident Representative since July 15, 2015.

WORLD BANK GROUP RELATIONS[2]

A. International Bank for Reconstruction and Development

The Russian Federation joined the World Bank (IBRD and IDA) in 1992. The Bank has provided financing for 70 projects in different sectors totaling slightly over US$10.5 billion in IBRD loans. **IBRD's current portfolio of projects** amounts to US$636 million in the areas of public sector management, judicial reform, financial literacy, statistics, municipal infrastructure, cultural heritage preservation, hydro-meteorology and forestry. The undisbursed balance is US$195 million as of May 2017. All of the Bank's financing in the portfolio is in the form of investment project financing.

The Bank also has a program of Advisory Services and Analytics (ASA), including reimbursable advisory services (RASs). The ASA program is organized around the priorities identified in the recently completed Systematic Country Diagnostic (SCD), along the following two broad areas: 1.

[2] Prepared by the World Bank.

Growth and Competitiveness (e.g. labor informality and mobility, investment climate, transport connectivity and digital economy) and 2. Human Capital, Poverty and Shared Prosperity (e.g. education quality and equity, skills, integrative health, spatial equity, pensions, and demographic change). In FY17, along with two regular Russia Economic Reports and the SCD, the World Bank is planning to finalize work on transport connectivity, the spatial dimensions of inequality and education.

B. International Finance Corporation

Russia became an IFC member in 1993. Since then, IFC's long-term investments in Russia totaled US$10 billion, of which US$3.5 billion were mobilized from partners, across 263 projects.[3] As of April 2017, IFC's committed investment portfolio in Russia stood at US$800 million of which US$750 million was disbursed.

C. Multilateral Guarantee Agency

MIGA's gross exposure in Russia was US$376 million as of May 2017. MIGA is involved in two projects in the finance and manufacturing sectors. In dollar terms, MIGA's exposure is concentrated in Russia's financial sector (some 85 percent of MIGA's gross exposure), supporting the investment of a French financial institution in its Russian subsidiary. MIGA's exposure in the manufacturing sector is located in the greater Moscow area.

[3] Previously IFC reported the total volume of investments, including short-term and long-term. Due to changes in accounting of short-term instruments, they are no longer included in the total investment volume.

STATISTICAL ISSUES

(As of June 2, 2017)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. However, in the context of emerging data demands for assessing external vulnerabilities, the scope for further data improvements exists.
National Accounts: Data are broadly adequate for surveillance, but there have been concerns about the reliability and consistency of quarterly GDP estimates among a wide range of users, including Fund staff. The Federal State Statistics Service (Rosstat) started a national accounts development plan for 2011–17, which will expedite compilation of quarterly GDP estimates consistent with the annual GDP estimates. In April 2016, Rosstat released GDP estimates compiled according to the 2008 SNA; however, the data are only available from 2014. In addition, the data for 2011 to 2013 have been revised, but are compiled according to the 1993 SNA. The main changes introduced in the latter revised series include improvements in the estimation of the imputed rental services of owner-occupied dwellings and the use of the market value of assets to estimate consumption of fixed capital. The Central Bank of Russia compiles quarterly sectoral financial accounts and financial balance sheets; however, data are only available on the agency's website up to the first quarter of 2016.
Price Statistics: Monthly CPI and PPI, both compiled using the Two-Stage (Modified) Laspeyres (2000=100), cover all regions of the Russian Federation. The weights reflect expenditures in the 12 months ended the previous September. Aggregate price indices are compiled for each good and service item for the 89 regions, seven federal regions, and the Russian Federation as a whole. However, population weights, as opposed to expenditure shares are applied to the individual regional indices possibly biasing the CPI downwards if price increases are higher in regions with higher per capita expenditures. Detailed data on total annual sales, which are used to develop weights for the PPI, are published by economic activity on the Rosstat website. The detailed weights are available only on the Russian version of the website, making it less accessible to some users. Further efforts to improve the treatment of seasonal items in the core inflation index and a new household budget survey—which has been under consideration for some time—could significantly strengthen data quality.
Government Finance Statistics: The authorities compile comprehensive set of the general government accounts based on the *Government Finance Statistics Manual 2001 (GFSM 2001)* on annual basis. These data comprise the statement of sources and uses of cash as well as the accrual based government operations (revenue, expenditure and transactions in assets and liabilities), complete balance sheet (including non-financial assets), holding gains and losses and other changes in volume of assets and liabilities, and outlays by functions of government (COFOG). Monthly statement of sources of uses of cash based on *GFSM 2001* is also compiled for the whole general government sector. In addition, the authorities have recently started reporting quarterly accrual based general government operation statement as well as financial balance sheet. Some gaps remain. To name a few, the lack of historical quarterly data, unexplained data breaks (for instance the reclassification of some wage expenses from the budgetary central government accounts to the regional government accounts (following 2011 reforms), unavailability of monthly

data on ruble guarantees prior to 2011, no integrated debt monitoring and reporting system, and the lack of reconciliation between different datasets of fiscal reporting (budget execution, cash flow statement, economic versus functional classification, fiscal statistics data).
Monetary and Financial Statistics: In the context of the recent global turmoil, analysis of balance sheet effects has been hindered by the lack of comparable data on the currency and maturity breakdown of banking-sector assets and liabilities. Adoption of data reporting in the full detail of the framework for Standardized Report Forms (SRFs), as recommended by an STA mission in 2007 (and re-affirmed by the ROSC mission in 2010), would provide comprehensive information on the currency and instrument breakdowns of the assets and liabilities of the central bank, other depository corporations, and other financial corporations. Since March 2011, the Banking System Survey (which is equivalent to the Depository Corporations/Broad Money Survey) published by the Central Bank of Russia (CBR) has included a breakdown of positions by national and foreign currency. Publication of a similar breakdown of positions by national and foreign currency in the central bank and other depository corporations surveys in the SRF format would be useful for analysis.
External sector statistics: Balance of payments data are broadly adequate for surveillance, and significant improvements have been made to enhance data quality. The CBR has recently published the gross capital flow data for the private sector, which would facilitate the analysis of relatively complex flows. Starting from 2012, the balance of payments is compiled according to the framework of the *Fund's Balance of Payments and International Investment Position Manual*, sixth edition (BPM6) and the CBR has revised historical data (going back to 1998Q1 for BOP, and to 2004Q1 for IIP), consistent with BPM6. Partial data from a variety of sources are supplemented by the use of estimates and adjustments to improve data coverage. In particular, the CBR makes adjustments to merchandise import data published by the Federal Customs Service to account for "shuttle trade," smuggling, and undervaluation. Statistical techniques are also used to estimate transactions and positions of foreign-owned enterprises with production sharing agreements, and these techniques are continuously being improved. At the same time, Russian compilers are seeking to reconcile their data with those of partner countries. Improvements have been made in the coverage and quality of surveys on direct investment, and the CBR is participating in the Fund's Coordinated Direct Investment Survey (CDIS) and Coordinated Portfolio Investment Survey (CPIS).
Financial sector surveillance: Russia reports all 12 core financial soundness indicators (FSIs) and 9 of the 13 encouraged FSIs for deposit takers on a quarterly basis except for FSIs on earnings and profitability that are reported on an annual basis. Also, 2 FSIs for households and 3 FSIs for real estate markets are reported on a quarterly basis. Data are reported for posting on the IMF's FSI website with more than one quarter lag.

II. Data Standards and Quality	
Russia is an SDDS subscriber since 2005. Russia participates in the G-20 Data Gap Initiative. Russia reports data for the Fund's statistical publications.	Data ROSC was published in 2011.

Russian Federation: Table of Common Indicators Required for Surveillance

(As of May, 2017)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality – Methodological soundness[9]	Data Quality – Accuracy and reliability[10]
Exchange Rates	April 2017	5/13/2017	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	April 2017	5/13/2017	M	M	M		
Reserve/Base Money	March 2017	5/15/2017	D	W	W	O, O, LO, LO	O, O, O, O, O
Broad Money	March 2017	5/15/2017	D	M	M	O,O,LO,LO	O,O,O,O,O
Central Bank Balance Sheet	March 2017	5/15/2017	M	M	M	O,O,LO,LO	O,O,O,O,O
Consolidated Balance Sheet of the Banking System	March 2017	5/15/2017	M	M	M	O,O,LO,LO	O,O,O,O,O
Interest Rates[2]	April 2017	5/15/2017	M	M	M	O,O,LO,LO	O,O,O,O,O
Consumer Price Index	February 2017	4/12/2017	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	May 2017	5/18/2017	M	M	M	O, LO, LNO, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	May 2017	5/18/2017	M	M	M	LO, LNO, LO, O	O, O, LO, O, NA
Stocks of Central Government and Central Government-Guaranteed Debt[5]	May 2017	5/18/2017	M	M	M		
External Current Account Balance	2017Q1	4/05/2017	M	M	M		
Exports and Imports of Goods and Services	2017Q1	4/05/2017	Q	Q	Q	O, O, O,LO	LO, O, O, O, O
GDP/GNP	2016Q4	5/13/2017	Q	Q	Q		
Gross External Debt	2017Q1	5/14/2017	Q	Q	Q	O, O, O, O	O, O,LO, O, LO
International Investment Position[6]	2017Q1	5/10/2017	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.
[9] This reflects the assessment provided in the data ROSC or the Substantive Update (published on ..., and based on the findings of the mission that took place during...) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.