IMF Country Report No. 12/217

RUSSIAN FEDERATION

2012 ARTICLE IV CONSULTATION

August 2012

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 2012 Article IV consultation with Russian Federation, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 13, 2012, with the officials of Russian Federation on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 11, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its July 27, 2012 discussion of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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RUSSIAN FEDERATION

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

July 11, 2012

KEY ISSUES

Context: Russia has recovered from the 2008–09 crisis and the output gap is closed. Inflation has fallen due to temporary factors, and is projected to pick up by end-2012. Anti-crisis fiscal stimulus has been only partially withdrawn and a procyclical fiscal expansion is planned this year. Monetary policy has improved—notably by allowing greater exchange rate flexibility, which is providing an effective way of absorbing external shocks —but the policy stance has become too loose. While the banking system has improved with higher profitability and lower NPL ratio, progress on FSAP recommendations has been slow and vulnerabilities persist. The investment climate is weak and the outlook for reforms uncertain.

Challenges: In the short-term, managing domestic demand to avoid overheating. In the medium-term, maintaining macroeconomic stability, strengthening macroeconomic policy frameworks, and improving the investment climate to boost potential growth and realize Russia's large remaining catch-up potential.

Policy recommendations:

- Ambitious fiscal consolidation, and reinstatement of a fiscal anchor;
- Monetary tightening to keep underlying inflation on a declining path, and continued progress on the flexible exchange rate and the monetary framework;
- Expedited implementation of FSAP recommendations, including the adoption of pending legislation on consolidated supervision and connected lending, and the expansion of the CBR's powers to exercise discretion based on professional judgment in applying regulations to individual banks;
- Delivering on long-awaited structural reforms to help boost investment.

Approved By
Aasim Husain and Vivek Arora

Discussions for the 2012 Article IV consultation were held in Moscow during May 31–June 13. The mission comprised Mr. Spilimbergo (head), Ms. Gust, Messrs. Hofman and Kim (all EUR), Ms. Oura (MCM), Mr. Brekk (senior resident representative), Ms. Dynnikova and Ms. Chebotareva (both local staff). Mr. Mozhin, Executive Director participated in the discussions. The mission met with Minister of Finance Siluanov, Central Bank of Russia Governor Ignatiev, other senior officials, and representatives of financial institutions, corporations, academia, and think tanks.

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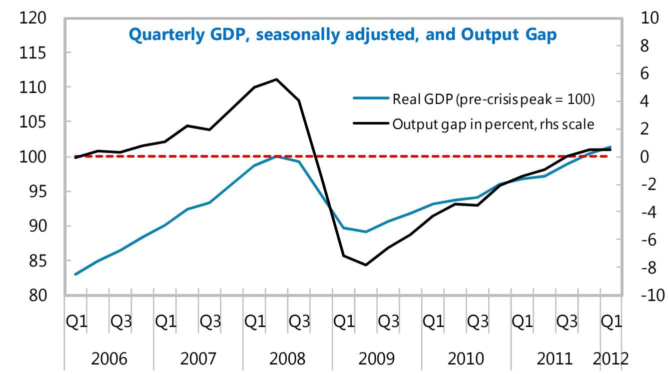
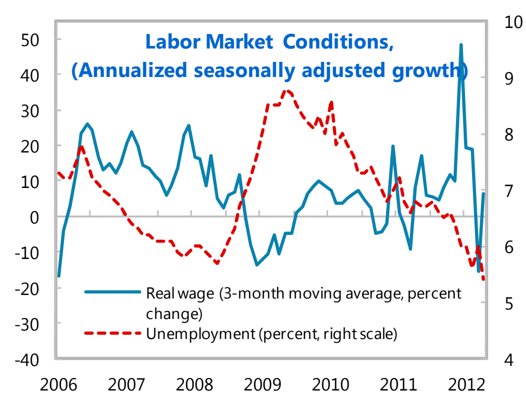
RECENT DEVELOPMENTS

The Russian economy has recovered from the 2008–09 crisis and the output gap is estimated to now be closed.

1. **Russia's recovery continued in 2011 and the momentum continued in the first quarter of 2012.** Russia recorded growth of 4.3 percent in 2011, the same as in 2010. Economic activity rebounded in the second half of the year on the back of a favorable harvest and high oil prices (Figure 1) and the momentum continued in the first quarter of 2012. Strong real wage and consumption growth have supported demand. Unemployment has continued to decline, reaching pre-crisis lows, and the capacity utilization of the manufacturing sector has recovered its 2007–08 level. While short-term economic indicators suggest some moderation of activity in recent months, the output gap is estimated to have been closed since 2011:Q4.

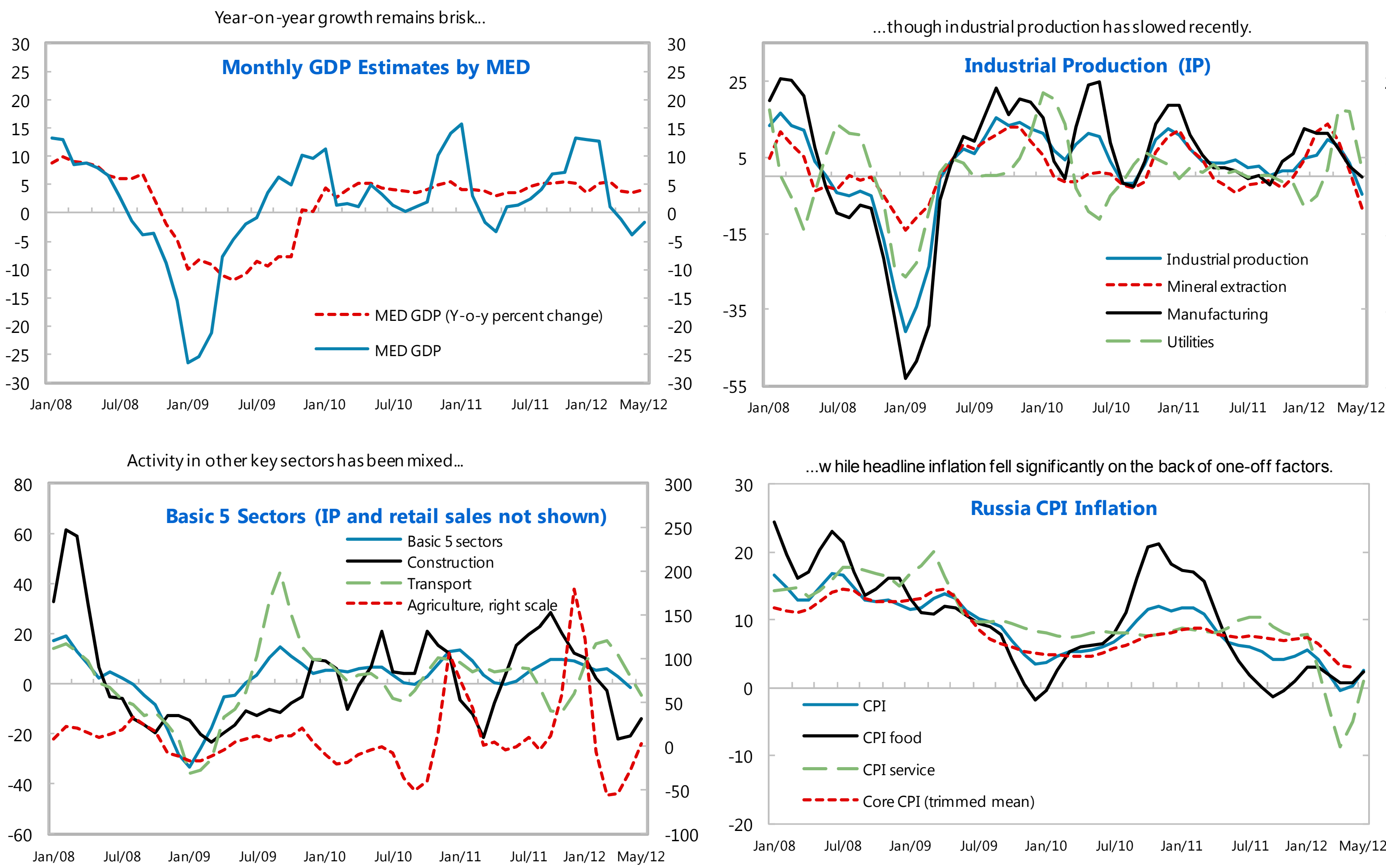


2. **Inflation has declined significantly recently, largely due to one-off factors.** Aided by the moderation of food price inflation, the base effect, and a 6-month delay of the usual annual increase in administered prices in January, headline inflation has fallen from 9.6 percent (y-o-y) in mid-2011 to a historic low of 3.6 percent in May 2012. However, staff's measure of core inflation—a good proxy for trend inflation—remains high at around 6 percent, indicating that inflationary pressures in the second half of this year will be considerable as the temporary factors disappear.



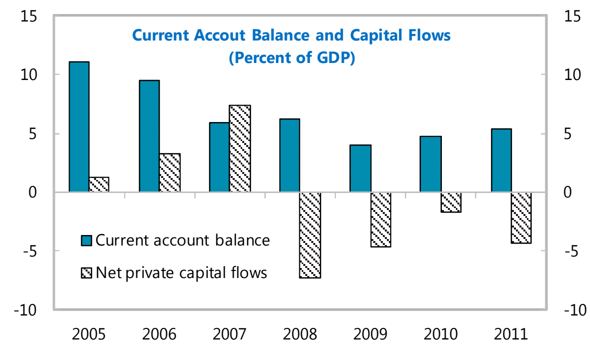
Sources: Rosstat; and IMF staff calculations.

Figure 1. Russian Federation: Production Indicators and Inflation Developments, 2008–12
(Annualized quarter-on-quarter growth rate of seasonally adjusted 3-month moving average, unless otherwise indicated)

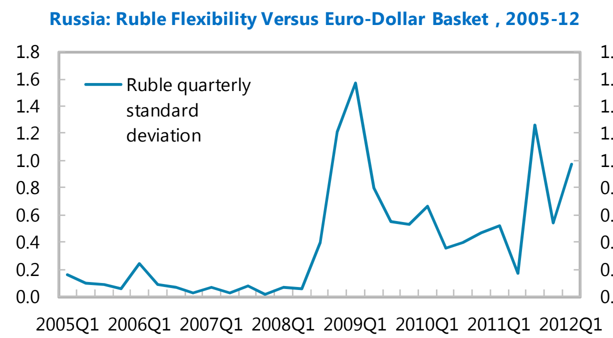


Sources: Rosstat; Ministry of Economic Development (MED); and IMF staff estimates.

3. **While the current account has been strengthening, net capital outflows persist.** The current account surplus increased from 4.7 percent of GDP in 2010 to 5.3 percent in 2011. On the export side, rising oil prices contributed to a 31 percent increase in export values in 2011. However, strong oil export receipts were partly offset by high import growth. Net capital outflows intensified significantly in the second half of the year, reflecting a global flight to safety related to the turbulence in the euro area as well as the uncertainties surrounding the elections. At the same time, with the Central Bank of Russia (CBR) largely refraining from intervening in the foreign exchange market, the large net private capital outflows broadly mirrored the current account surplus in 2011.



Source: Central Bank of Russia.



Source: Bloomberg.

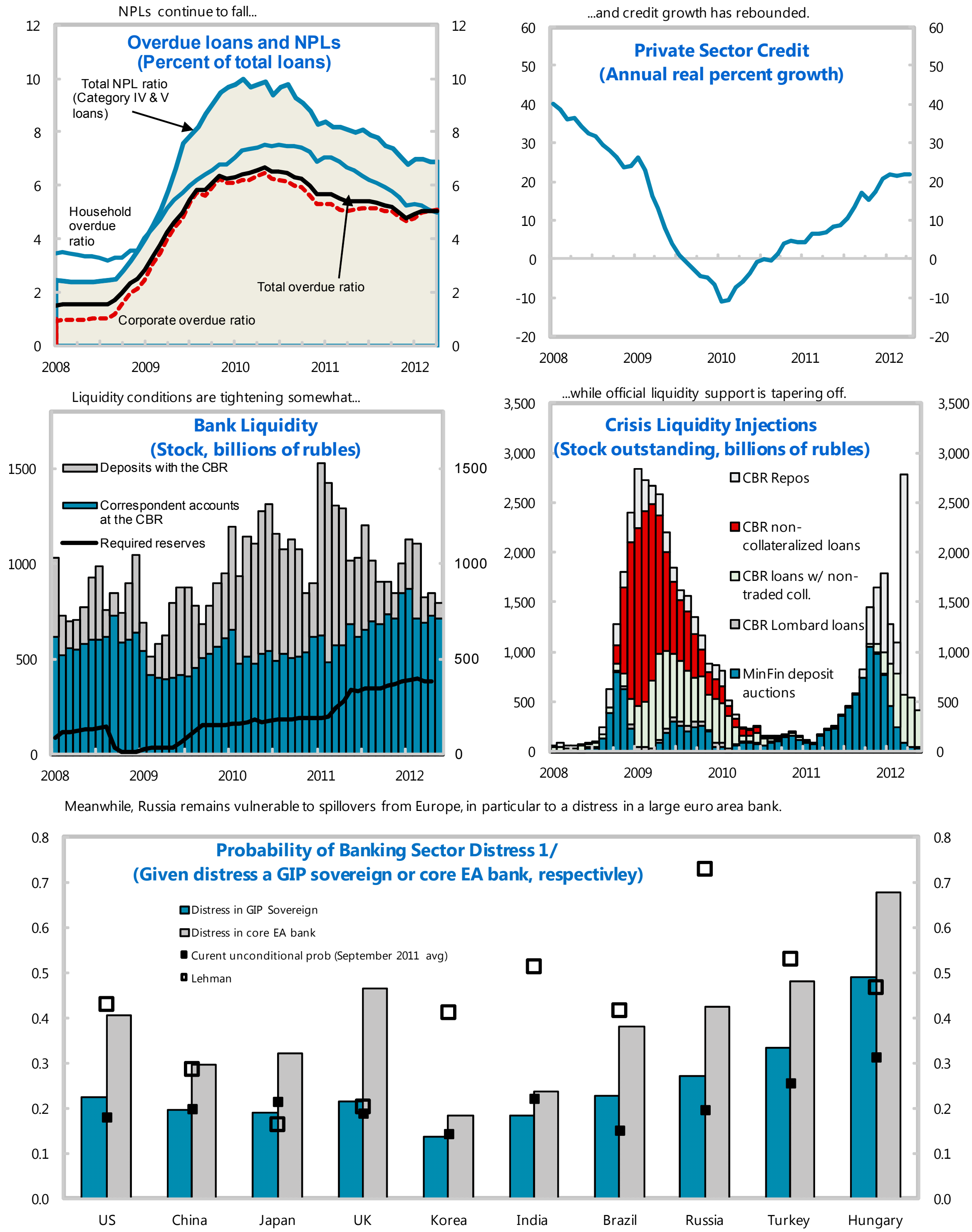
4. **The exchange rate has become more flexible.** During the international market turmoil in the late summer of 2011, and again during May-June 2012, the ruble depreciated by over 10 percent on each occasion (both times followed by a swift rebound of comparable magnitude). Since the summer of 2011, the authorities adhered to their new, more flexible framework and interventions were relatively modest. International reserves increased by $19bn in 2011, partly due to evaluation effects. The staff's external sector assessment found that in 2011 the external position was moderately weaker than one consistent with medium-term fundamentals and appropriate policy settings (Box 1).

5. **Recent global turmoil heavily impacted Russia's markets**. The MICEX stock market fell 17 percent in 2011, reaching a nadir in October as euro-area tensions peaked. In 2012, however, the stock market added 16 percent in Q1 but lost all the gains during May's global flight to quality episode. Similarly, Russia's EMBI+ sovereign spreads rose to a peak of 410 bps in October 2011, and stood at about 275 bps in June 2012.

6. **Credit growth has rebounded strongly.** This growth partly reflected a switch by the corporate sector from external to domestic funding. At the same time, consumer credit grew strongly. On the credit supply side, improving bank balance sheets (with declining nonperforming loan (NPL) ratios and improving profitability) and funding (reflecting solid deposit growth and the CBR's liquidity provision) allowed an expansion of lending (Figure 2).

7. **Fiscal policy tightened.** The federal nonoil deficit declined from 12.7 percent of GDP in 2010 to 9.8 percent of GDP in 2011. This improvement was due to both nonoil revenue overperformance and expenditure cuts. Some of the windfall oil revenues from 2011 were deposited in the Reserve Fund in early 2012 (Figure 3).

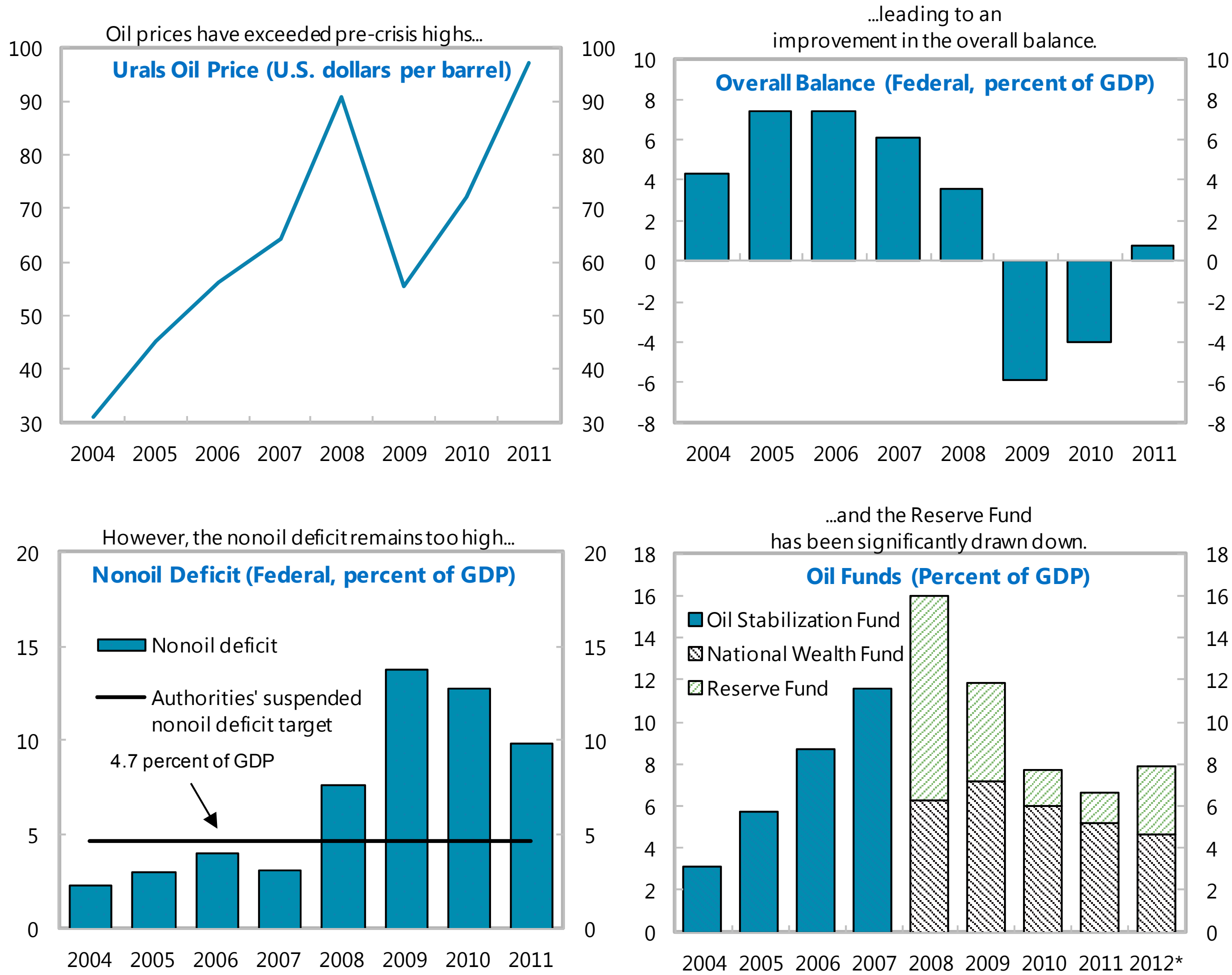
Figure 2. Russian Federation: Banking Sector Developments, 2008–12



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

1/ For methodology regarding the calculation of the probability of banking sector distress, please see *Euro Area Policies: Spillover Report for the 2011 Article IV Consultation (IMF Country Report No. 11/185).*

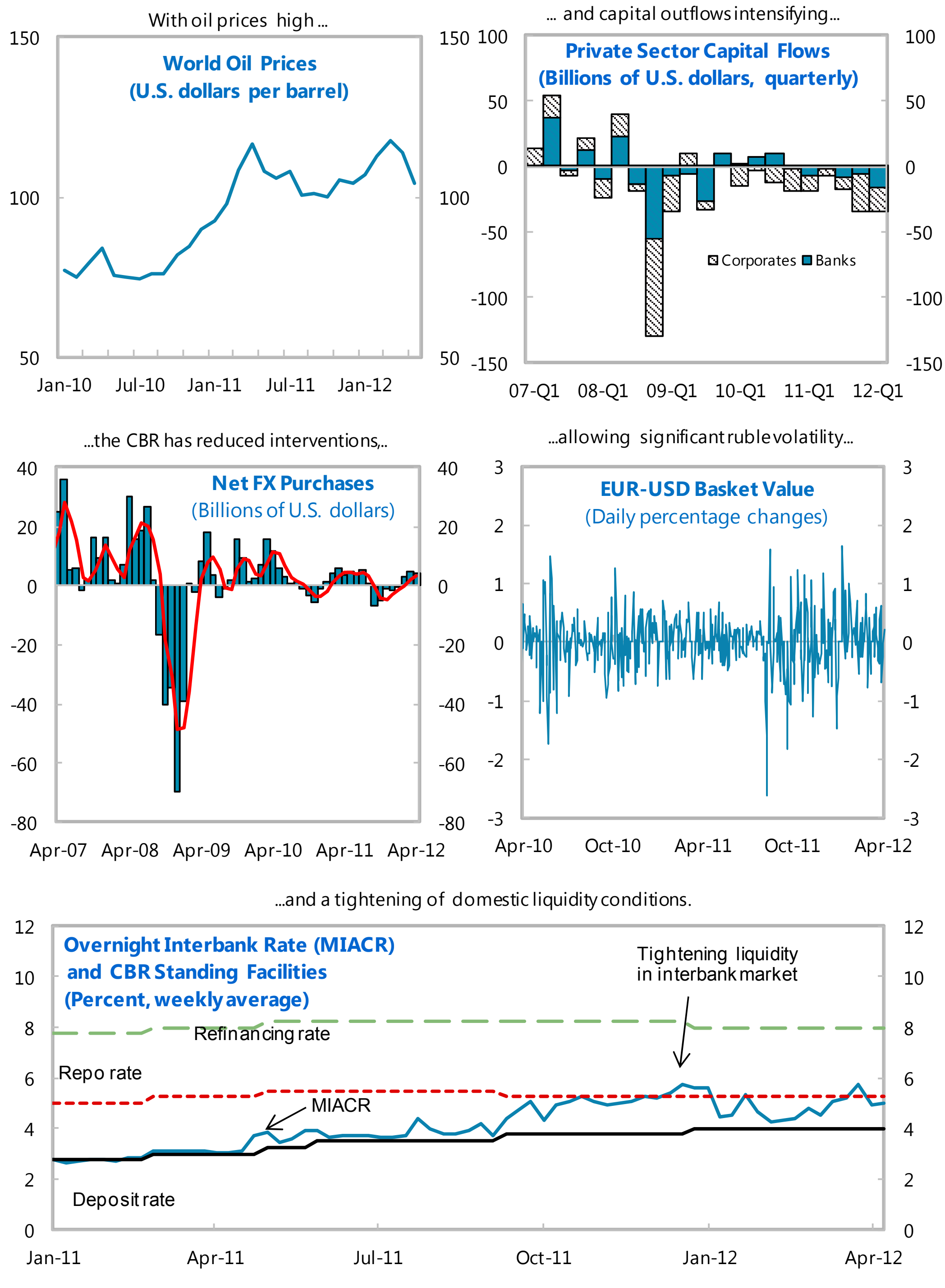
Figure 3. Russian Federation: Fiscal Policy, 2004–12



Sources: Russian authorities; and IMF, *World Economic Outlook*.

* As of June 1, 2012.

Figure 4. Russian Federation: Monetary Policy, 2008–12



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

OUTLOOK

A. Near-Term Outlook and Risks

8. **The outlook is for continued moderate growth; inflation will rebound under unchanged policies.** Staff projects real growth at around 4 percent in 2012 and 2013, with potential GDP growing at a slightly lower rate, leading to moderate overheating. The unimpressive growth rate of potential GDP reflects the slow progress with productivity-enhancing structural reforms and the weak investment climate. Inflation is projected to rebound to 6½ percent by end-2012, reflecting the economy running above potential, the base effect, and the delayed increases in administered prices in mid-2012. The external current account surplus is projected to decline, amid weaker oil prices and continuing strong import demand. Capital outflows will likely continue, albeit at a moderating pace.

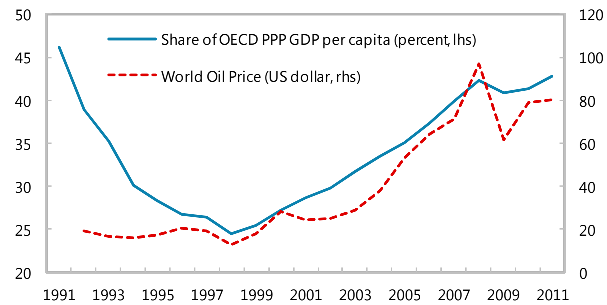
9. **Near-term risks are balanced but remain considerable.** On the upside, higher oil prices could push growth higher. Further, some reversal of capital outflows is also possible, in the event of higher oil prices, diminished political uncertainty, and a quick start on implementing credible structural reforms, adding more pressures to domestic demand and inflation. Finally, fiscal policy could become looser, following pre-electoral promises. On the downside, external shocks—for example, a further decline in oil prices, weaker investment sentiment, and lower external demand—or domestic complacency and a lack of reform could weaken the growth outlook as discussed in the Risk Assessment Matrix (Annex I). A strong intensification of financial turmoil in the euro area accompanied by lower growth would affect Russia mostly through the oil channel. While the Russian economy is also exposed to risks of accelerated capital outflows and sudden stop of external funding, the more flexible exchange rate, the improved crisis management capacity, and large international reserves would help Russia better handle an intensification of external shocks. A weaker growth outcome in Russia would have knock-on effects throughout the region, mainly through remittances and trade (Box 2).

10. **Policy actions could cushion the impact of adverse spillovers if downside external shocks materialize.** The exchange rate should be allowed to operate as the main shock absorber. Sufficient liquidity should be provided to banks, with the CBR making emergency liquidity facilities available as needed to mitigate the impact on banks (while providing for adequate safeguard of funds). Monetary policy could become more accommodative, provided inflation is in check. Since the nonoil fiscal deficit is already high and the multiplier is low, another massive fiscal stimulus is imprudent. Instead, adjustment in the nonoil deficit should be postponed and automatic stabilizers should be allowed to operate.

B. Medium-Term Outlook

11. **Russia still has significant unrealized growth potential.** Twenty years after the collapse of the Soviet Union, Russia's per capita income level stands at only about 40 percent of the OECD average. While growth averaged 5¼ percent during 2000–11, this performance was less than impressive against the background of the output collapse of the 1990s and considering that the price of oil—Russia's main export—quadrupled over this period.[1] The relatively poor performance is closely linked to economic instability, weak policy frameworks, and a difficult investment climate. Large scope for catching up remains.

Russia: Relative GDP per capita (PPP), 1991-2011



Source: *World Economic Outlook*.

12. **Current policy plans do not go sufficiently far in reversing the crisis-related stimulus and ensuring economic stability and growth.** Unless these weaknesses are forcefully addressed, growth prospects will remain subdued, with real growth projected to fall to 3¾ percent by 2017 in the baseline scenario (Figure 5). Long-term potential growth will be modest—below 4 percent. Inflation will remain elevated at around 6½ percent under unchanged policies. The current account surplus will gradually decline as oil prices stabilize and robust import growth continues.

13. **A continuation of current policies would amplify Russia's vulnerability to external shocks.** In an adverse scenario, a sharp and permanent decline in commodity prices—following, for example, a significant drop in global growth—would put considerable pressure on Russia's external and fiscal accounts as the economy slows. Over the medium term, investor confidence would be slow to return and capital outflows would continue putting a drag on growth.

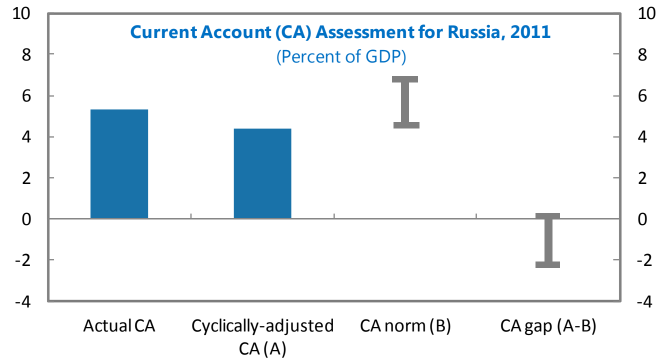
14. **A strengthening of policy frameworks and decisive progress on structural reforms could lift the medium-term growth rate considerably.** The reform scenario envisages higher medium-term growth—around 6 percent—supported by a stronger and more credible fiscal retrenchment, monetary policy taking full control of inflation, a stronger and more competitive financial system, and effective implementation of structural reforms. In this scenario, the short-term drag on growth from fiscal retrenchment would be offset by a more stable and business-friendly economic environment. This would boost investor confidence and support an early return of productive capital inflows. More ambitious policy adjustment would also help build policy space to respond to possible shocks.

[1] Comparing Russia's output level today with that of the early 1990s is subject to several measurement problems. For a summary, see e.g. A. Shleifer and D. Treisman "A Normal Country: Russia After Communism," *Journal of Economic Perspectives*, Vol. 19 (1)—Winter 2005—Page 151-174.

Box 1. External Sector Assessment for Russia[1]

Staff's assessment indicates that Russia's external position in 2011 was moderately weaker than one consistent with medium-term fundamentals and desirable policy settings. The authorities broadly agreed with this assessment but expressed reservations about the methodology.

Regression-based assessment of current accounts as discussed in the *External Sector Report* suggests that the cyclically-adjusted current account surplus in Russia was 0 to 2 percent of GDP weaker than the level implied by fundamentals and desirable policy settings (current account norm). In addition, model-based approaches point to a modest real exchange rate overvaluation of 0–10 percent.



Source: IMF staff estimates based on the External Balances Assessment.

These results are broadly in line with the findings of staff's cross-country dollar-wage regression, which was introduced in the 2009 Russia staff report to supplement the standard exchange rate regressions by directly comparing the competitiveness of the manufacturing sector across a broad set of countries. For 2011, this fundamentals-based wage approach indicates that the ruble was about 9 percent overvalued.

Fundamentals-based Dollar Wage, 2006-11

	2006	2007	2008	2009	2010	2011
Actual Wage (U.S. dollars)	375	503	646	522	628	739
Fundamentals-based Wage (U.S. dollars)	583	622	648	618	647	679
Ratio (in percent)	64	81	100	85	97	109

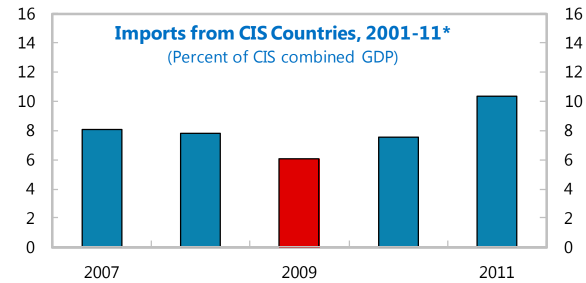
Source: IMF staff estimates.

In addition to Russia's structural factors such as expected population aging and the high dependence on nonrenewable resources, the assessment of the current account and real exchange rate also reflect an important policy gap in Russia. The nonoil fiscal deficit remains significantly higher than its long-term sustainable level (estimated at around 5 percent of GDP). More prudent fiscal policy, as recommended by staff, would result in a larger current account surplus (by about ¾ percentage points of GDP, which is about the half of the estimated current account gap). The increased flexibility of the exchange rate also is appropriate and should help address imbalances.

[1] Prepared by Daehaeng Kim

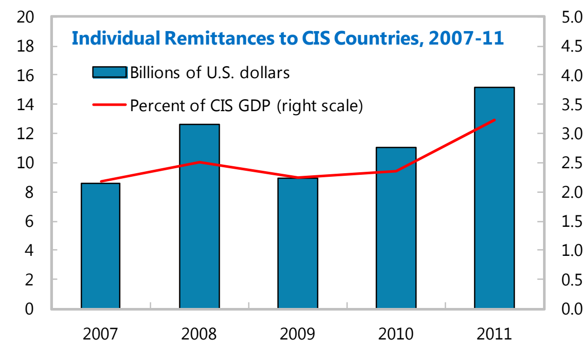
Box 2. Regional Spillovers from Russia[1]

The Russian economy is closely interconnected with the CIS region, mainly via trade, remittances, and policy channels. The sharp contraction of the Russian economy during the 2008/09 crisis affected the region severely, with a significant drop in Russia's imports from and remittances to the region. A large depreciation of the ruble during the crisis also triggered sharp currency devaluations in most CIS countries, weakening banks' balance sheets and credit. While Russia's subsequent recovery has been benefiting the region, Russia's export ban on cereals during August 2010–June 2011 and the increase in the gasoline export duty to a prohibitive level in May 2011 added to inflationary pressures in the region.



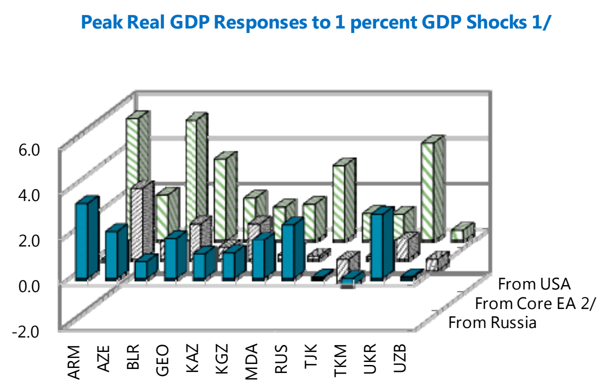
Sources: Central Bank of Russia; and IMF staff calculations.

* CIS countries include Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.



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

Imports and remittances have recovered fully from the 2008/09 crisis. Russia's imports from CIS countries rebounded beyond the 2007–08 levels (over 8 percent of the combined GDP of the region). The Russian markets are particularly important for Belarus, Kyrgyz Republic, and Ukraine—Russia's imports account for 23–32 percent of these countries' total exports. Remittances also surpassed the pre-crisis peak, and they remain particularly important for Moldova, Kyrgyz Republic, and Tajikistan, where remittances from Russia are a key source of foreign exchange earnings (15-40 percent of GDP). Given the strong linkages between Russia and other CIS countries, new shocks to the Russian economy would continue to reverberate throughout the region.



Sources: *World Economic Outlook*; and IMF staff estimates.

1/ Peak response of real GDP in percent in a given country to an one percent positive shock to real GDP in Russia, Core EA, and the United States, respectively.

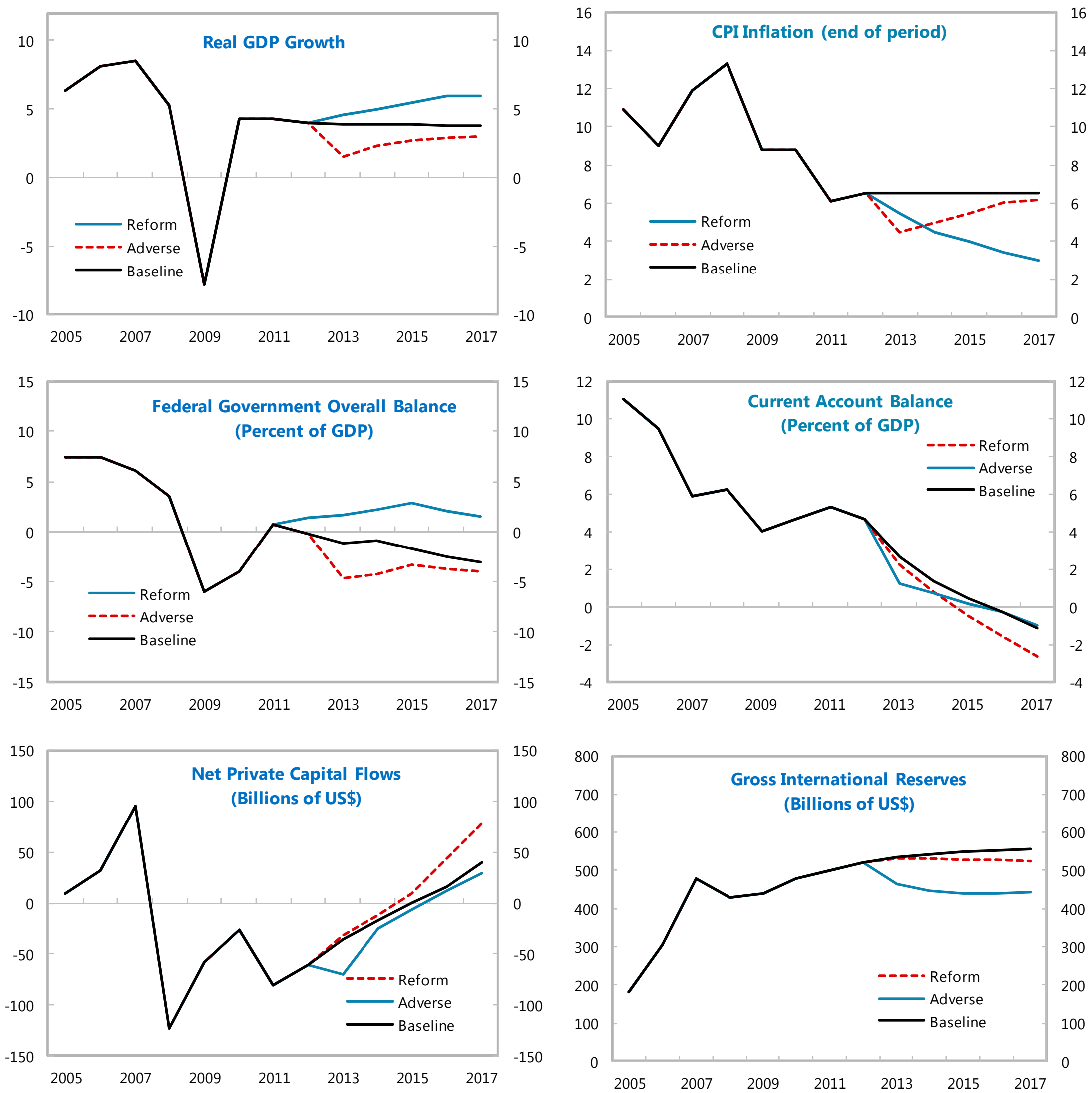
2/ Combined shock to Germany, France, and Netherlands.

A global vector auto-regression (GVAR) confirms considerable growth spillovers from Russia to the region.[2] The GDP elasticity to Russia's GDP is around 3 in Armenia and Ukraine, much higher than the elasticity of a combined GDP shock to France, Germany, and the Netherlands. Given the significantly higher volatility of Russia's growth, Russia will remain the key spillover risk to the region with the "overall spillover risk" from Russia—the estimated GDP elasticity times standard deviation of the growth rates—far higher than that from core EA and comparable to that from the U.S.

[1] Prepared by Daehaeng Kim

[2] For more details, see EUR/MCD Spillover Report-Output Spillovers to the CIS and Baltic Countries, forthcoming.

Figure 5. Russian Federation: Selected Economic Indicators Under Three Scenarios, 2005-17 [1/]



Sources: Russian authorities; and IMF staff projections.

1/ Assumptions for the three scenarios are as follows:

▪ **Baseline scenario** assumes a continuation of current policies. Monetary policy will allow greater exchange-rate flexibility but remain too loose resulting in inflation above the medium-term target. Fiscal policy will implement the 2012-14 medium-term budget, with an unchanged nonoil deficit after 2014. There will be no major changes in banking sector policies. Policy frameworks will remain largely unreformed.

▪ **Adverse scenario** assumes a permanent external shock, with oil prices declining to $60 per barrel in 2013 and staying there in real terms for the remainder of the forecast. In 2013, fiscal policy responds by maintaining expenditures unchanged in nominal terms at their 2012 level, while monetary policy becomes more accommodative. During 2014-15, the nonoil deficit of the federal government is reduced at the same pace as envisaged in the current medium-term budget for 2013-14, with no further consolidation after 2015, while monetary policy remains neutral. As in the baseline, no progress is made regarding structural reforms and the strengthening of policy frameworks. In 2013, when oil prices drop by about $40 per barrel, the ruble depreciates significantly, but reserves are used to prevent an overshooting of the exchange rate.

▪ **Reform scenario** assumes full implementation of reforms recommended by the staff. Monetary policy will focus on bringing inflation down to 3 percent over the medium term, amid a flexible exchange rate. Fiscal policy will implement a more ambitious, credible, and growth-friendly consolidation with the nonoil deficit of the federal government declining to the government's suspended long-term target of 4.7 percent of GDP by 2015. The supervisory framework will be strengthened along the lines recommended by the 2011 FSAP. Fundamental structural reforms are put in place to improve the business climate and competitiveness, and policy frameworks will be strengthened in line with IMF staff recommendations.

POST-ELECTION OPPORTUNITIES

15. **The policy discussions focused on how Russia's new government could put in place the reforms needed to lift growth and diversify the economy.** These efforts should focus on reducing fiscal vulnerabilities and limiting the crowding out of private investment, bringing down inflation while allowing a flexible exchange rate, and pushing ahead on structural reforms.

A. Anchoring Fiscal Policy

Russia's public finances should be anchored on a rule that both delinks the economy from oil price fluctuations and ensures equitable sharing of the oil wealth by all generations. In order to return the nonoil deficit to a level consistent with these objectives, an ambitious medium-term plan should be articulated. In light of the low share of discretionary spending, fundamental public sector reforms will be needed, including in pensions, healthcare and education.

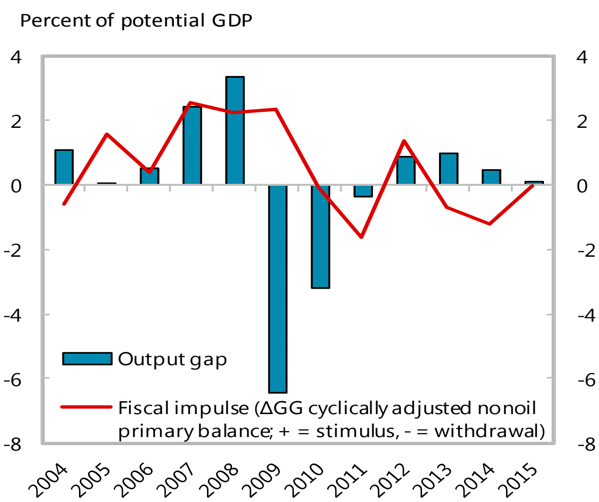
16. **Staff and the authorities agreed that continued high nonoil deficits amplify fiscal vulnerabilities and undermine economic stability.** At nearly 10 percent of GDP in 2011, the federal government nonoil deficit was more than double the authorities' (suspended) long-term target of 4.7 percent of GDP that staff sees as equitable across generations, highlighting the extent to which the stimulus provided during 2009–10 has become entrenched. Debt sustainability is not an immediate concern, given the low public and gross external debt levels (below 15 percent of GDP, and about 30 percent of GDP respectively, in 2011).

Cost of election campaign promises 2012-18
(Percent of GDP)

Measure	Budget cost
Teachers' and doctors' salaries	4.1
Child allowances	0.8
Students' scholarships	1.0
Apartments for veterans	0.1
Total	**5.9**

Source: Sberbank's Center for Macroeconomic Research

17. **Fiscal policy is procyclical again this year.** The 2012 budget implies an increase in the federal nonoil deficit of about 1 percent of GDP, while election campaign promises could add up to another 1½ percent of GDP in 2012 and 6 percent of GDP on a cumulative basis by 2018, on top of an already un-ambitious medium-term budget. At the same time, the Reserve Fund stands at a relatively low level compared to the pre-crisis situation, even after the authorities partially replenished it earlier this year.



Sources: *World Economic Outlook*; and IMF staff estimates.

18. **In this regard, staff views the medium-term budget as falling short of what is needed to reduce fiscal risks and to ensure**

intergenerational equity. The 2012–14 budget envisages that the nonoil deficit by 2014 would still be about 9 percent of GDP—only slightly lower than its 2011 level.

19. **A more ambitious fiscal consolidation than envisaged in the medium-term budget would reduce overheating pressures as well as vulnerabilities to external shocks.** Cutting the deficit by some 1½ percent of GDP in 2012 compared to the 2012 supplemental budget with further consolidation of about 1½ percent of GDP per year through 2015, would reduce demand pressures while rebuilding the Reserve Fund to create a cushion against external shocks. This would require that implementation of campaign promises are offset by fiscal savings elsewhere.

20. **There is scope for ample high-quality fiscal adjustment over time.** The staff has identified up to 12 percent of GDP in possible measures (text table). The immediate priority should be to withdraw existing crisis-related stimulus, particularly subsidies to enterprises, and reduce tax exemptions.

Possible consolidation measures

(Percent of GDP)

Measure	Budget savings
Short-term	4.5
Increase excise taxes	0.7
VAT reform	1.0
Cut subsidies to enterprises 1/	1.3
Cut tax expenditures 2/	1.5
Medium-to-long-term	6.1-7.1
Reduce wage bill	0.9
Better target social transfers	1.0
Increase retirement age	2.0–3.0
Reduce early pensions	0.7
Improve capital budgeting	0.4
Improve regional expenditure efficiency	1.1
Total	10.6-11.6

Source: Ministry of Finance, WB and IMF staff estimates.

1/ Originally part of crisis-related stimulus.

2/ Based on estimtates from the Ministry of Finance for the size of tax expenditures in 2010.

21. **The authorities are planning to adopt a new fiscal rule.** The existing budgetary rule targeting a nonoil deficit of 4.7 percent of GDP was suspended as a consequence of the global financial crisis, and the authorities aim to replace it with an oil-price rule, starting with the 2013 budget. The Ministry of Finance recently submitted to the government a proposal for the oil price rule. The rule would include a ceiling on expenditures (oil revenue at the "base" oil price, plus all nonoil revenues, plus a net borrowing limit of 1 percent of GDP), and oil revenues above the "base" oil price would be saved in the Reserve Fund until it reaches 7 percent of GDP—once the Reserve Fund reaches this threshold, at least half of excess oil revenues should go to the National Wealth Fund, while the remaining resources would be channeled to the budget to finance infrastructure and other priority projects. Starting in 2013, the rule will use a 5-year backward-looking average of oil prices as the base, which will gradually increase to a 10-year average by 2018, to avoid abruptly moving to a very low base oil price. The authorities consider that the planned oil-price rule would be easier to communicate than the nonoil deficit rule and would allow for a more gradual transition to a stronger fiscal position. The authorities also added that a more ambitious rule would be politically very difficult to implement. Staff noted that while the precise form of any rule may be less important than political support and consistent implementation, the proposed rule would leave the Reserve Fund below the authorities' targeted level of 7 percent of GDP—too low to adequately insulate against a large drop in oil prices—and the nonoil deficit in excess of a level consistent with equitable sharing of the oil wealth across

generations by 2020 (Box 4), though it would help delink the budget from short-term oil price fluctuations. Staff also emphasized the importance of avoiding excessive use of supplemental budgets to avoid undermining the rule.

22. **Pension reform will be indispensible to achieve the required fiscal adjustment but other measures will also be needed**. With discretionary expenditures amounting to only about one-third of total expenditures, durable fiscal consolidation will require structural reforms. This will need to include pension reform, especially in light of adverse demographic trends. Staff projects that, absent reforms, maintaining the current replacement rate of about 40 percent would require substantial increases in public pension spending—from 9 percent of GDP in 2010 to 16 percent in 2050. Recent proposals by the Strategy 2020 working group (an expert group which in late 2011 made proposals for Russia's economic and development strategy through 2020) aimed at ensuring the sustainability of the pension system—including increasing the retirement age for both sexes to 63 by 2030—go in the right direction, but not far enough. Staff's advice is to progressively raise the retirement age for both men and women to 63 years by 2030 and 65 years by 2050 (in line with expected advances in longevity), which would allow pension spending to remain broadly unchanged in relation to GDP from its 2010 level while increasing the supply of labor (Box 5). The authorities agreed that pension reform is needed to contain public pension spending and are exploring options, with formal proposals to be put forward in coming months. In addition, the generous eligibility criteria for early retirement should be tightened, while strengthening disability and welfare programs to protect the vulnerable. Means-testing could also help because local governments top up basic pensions to the regional subsistence level and the eligibility criteria are unclear. Other measures, such as better targeting social transfers and improving the efficiency of government expenditures, are also needed to ensure fiscal sustainability.

Box 3. Authorities' Response to Past IMF Policy Recommendations

The authorities' macroeconomic policy adjustment and structural reforms over the past two years have been in the direction recommended by staff, but at a slower pace and a smaller magnitude.

Monetary and financial sector policies

In line with staff advice, the CBR has gradually tightened monetary policy, made important changes to the operational framework to make monetary policy more effective, and prepared for the introduction of inflation targeting. In particular, the CBR started using the repo rate as the main effective policy rate and has taken steps to narrow the policy rate corridor—both measures should strengthen the clarity of the monetary policy signal. In line with long-standing staff advice, the CBR has also continued to make the exchange rate more flexible and interventions have been further reduced. Communications on monetary and exchange rate policy have also improved markedly. On financial sector policies, however, implementation of the recommendations from the 2011 FSAP has been slow as key legislative amendments to expand CBR supervisory authority over bank holding companies and related parties, and the use of discretionally expert judgment (in line with the Basel framework) remain pending before the Duma.

Fiscal policy

The reduction of the federal nonoil deficit back to the authorities' (currently suspended) long-term target of 4.7 percent of GDP has been slow and has come mainly as a result of higher-than-expected nonoil revenues and expenditure under-execution rather than a concerted effort at rapid consolidation. The Reserve Fund was used to finance the budget deficit in 2009, in line with staff's advice, but as the economy started recovering in 2010, the Reserve Fund continued to be drawn down to finance the budget deficit. Despite the suspension of the fiscal rule, the authorities transferred most of the higher-than-anticipated oil revenues in 2011 to the Reserve Fund to rebuild buffers as staff recommended. However, the practice of twice-yearly supplemental budgets undermines the fiscal framework.

Structural policies

While over the past several years there have been several policy proposals aimed at attracting investment, diversifying the economy and raising potential growth, implementation has been limited. Russia's WTO accession, expected to be finalized in mid-2012, is a bright spot which should be leveraged to catalyze the needed domestic structural reforms staff has been recommending such as limiting corruption, strengthening the rule of law, and reducing state interference in the economy.

Box 4. An Example of the Oil Price Rule in Practice[1]

The objectives of a fiscal rule in oil producing countries are two-fold: first to protect the budget—and by extension the economy—from oil price volatility and second to ensure fiscal sustainability by supporting intergenerational equity. Using a nonoil deficit target as derived by a permanent oil income model (POIM) can help ensure that both objectives are met and fiscal reserves are gradually rebuilt—this is discussed in more detail in Strengthening Russia's Fiscal Framework. The planned oil price rule, on the other hand, has to be supplemented with other constraints, such as a ceiling on borrowing or expenditure, to meet the first objective of delinking the budget from oil price fluctuations, and the base oil price should be set to be consistent with the second objective of intergenerational equity.

The Ministry of Finance has put forward a proposal for a new fiscal rule discussed in paragraph 21.

The planned rule implies that the nonoil balance would decline to 6.3 percent of GDP by 2020 but the overall balance would remain in deficit over this horizon, despite oil prices that are generally lower than the WEO projections for oil prices, with the exception of 2016-18. As a result, the Reserve Fund would remain at a low level that could be insufficient to withstand a prolonged period when oil prices are lower than the base price.

If a more restrictive rule were used where expenditures were limited to oil revenues at a base price of $80 plus all nonoil revenues, the overall level of spending could be maintained constant in real terms over the long term, thereby preserving intergenerational equity. Under such a rule, the nonoil deficit would reach the 4.7 percent level recommended by staff (see Strengthening Russia's Fiscal Framework) by 2019, the assets in the RF could be augmented further as this rule would generate fiscal surpluses throughout the period to 2020, and the income from these assets would contribute to maintaining constant overall spending in real terms. Indeed, this rule would increase the RF to nearly 6 percent of GDP by 2014.

The following example compares the rule proposed by the Ministry of Finance and the rule that would ensure intergenerational equity.

Oil-Price Rule Examples (percent of GDP, unless otherwise noted)

	2013	2014	2015	2016	2017	2018	2019	2020
MoF proposed rule 1/								
Nonoil balance	-9.3	-9.0	-8.5	-7.9	-7.4	-7.0	-6.6	-6.3
Overall balance	-0.2	-0.9	-1.2	-1.4	-1.4	-1.3	-1.3	-1.1
Reserve Fund	4.6	4.2	3.6	2.9	2.2	1.7	1.3	1.1
Rule with $80 oil price and no net borrowing 2/								
Nonoil balance	-7.5	-7.0	-6.5	-6.0	-5.5	-5.2	-4.8	-4.6
Overall balance	1.5	1.1	0.8	0.5	0.5	0.5	0.6	0.7
Reserve Fund	5.3	5.9	6.1	6.0	5.9	5.9	6.0	6.2
Memo items:								
GDP (in billions of rubles)	66,561	73,527	81,560	90,503	100,815	109,554	119,507	129,619
Staff Urals oil price (in USD/barrel)	91.97	89.43	87.98	86.00	85.45	86.87	88.31	89.77
MoF Urals oil price (in USD/barrel)	80.71	83.86	85.02	85.57	85.84	85.85	87.47	86.71

Source: IMF staff estimates.

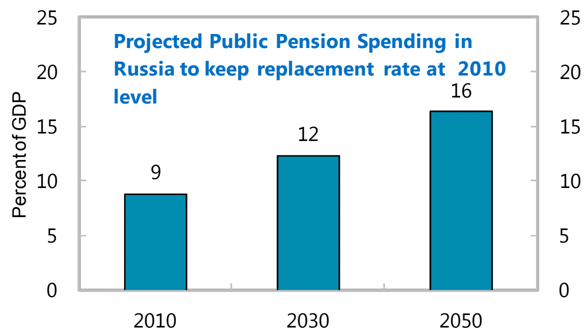
1/ expenditures equal oil revenues at base price, plus nonoil revenues, plus 1 percent of GDP net debt financing

2/ expenditures equal oil revenues at $80, plus nonoil revenues

[1] Prepared by Charleen Gust.

Box 5. Pension Reform in Russia[1]

Staff estimates (see The Challenge of Public Pension Reform in Advanced and Emerging Economies and Reforming the Public Pension System in the Russian Federation, forthcoming WP) suggest that given projected increases in longevity and relatively low fertility rates, keeping the replacement rate for pensions in Russia at current levels would nearly double public pension spending as a share of GDP, from 9 percent of GDP to 16 percent of GDP by 2050.



Sources: Rosstat; and IMF staff estimates.

To contain spending, there are three main dimensions along which pension reform can be undertaken: (i) curtail eligibility, mainly by increasing the retirement age; (ii) reduce the generosity of the system (i.e. the replacement rate); or (iii) increase revenues (i.e. raise the contribution rate).

Curtailing eligibility (mainly by increasing the retirement age) is the recommended option. The statutory retirement ages in Russia of 55 years for women and 60 years for men are low in an international context. Gradually equalizing the retirement ages for both sexes to 63 years by 2030 and 65 years by 2050, in line with projected increases in life expectancy could stabilize pension spending at current levels. At the same time, increases in the retirement age should be accompanied by steps to limit early retirement. In Russia, this would mean phasing out the complex system that allows certain occupations and professions to claim benefits early and reduce benefits claimed prior to retirement age to reflect the longer period over which they will be received.

Increasing retirement ages would have many other advantages such as: increasing employment levels; helping avoid a decrease in the replacement rate thus reducing the impact of reforms on elderly poverty; and being potentially easier for the public to understand in light of increasing life expectancies (see Macroeconomic Effects of Public Pension Reforms). By undertaking reforms to put Russia's pension system on a sustainable footing, pension reform could support the needed fiscal adjustment over the medium to long term in order to ensure an enduring return to a sustainable fiscal position.

Substantial cuts in replacement rates, which are broadly in line with other countries at present, would be undesirable as they would increase old-age poverty. Increasing the payroll tax from its current level of 22 percent of wages to about 30 percent of wages in 2030 and more than 40 percent in 2050, in order to keep pension spending at current levels, would also be undesirable. These levels of contribution are beyond the currently observed payroll rates in other countries—nearly all advanced and emerging economies have pension contribution rates below 30 percent of wages. Such large contribution hikes would have adverse labor market effects and could further promote informality. Such increases would also go against recent efforts of the Russian authorities to reduce the cost of labor.

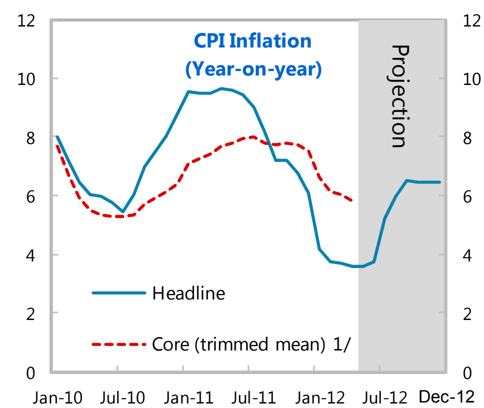
[1] Prepared by Charleen Gust.

B. Tightening the Monetary Policy Stance and Anchoring Low Inflation

After a significant tightening of monetary conditions in 2011, policy has been on hold. Further policy action will be required to keep inflation within the range targeted by the CBR. While recent advances in the operational framework for monetary policy are welcome, further steps are needed to enhance its effectiveness and to anchor inflation at a low level.

23. **The monetary stance has become too loose in view of the cyclical position of the economy and continued high core inflation.** The CBR tightened monetary policy during 2011, including by gradually steering the interbank market rate from the CBR deposit rate of 2¾ percent in January to the CBR repo rate of 5¼ percent by the end of the year (Figure 4). Since then, however, policy has effectively been on hold. Despite the currently low level of headline inflation, with core inflation still above 6 percent, the output gap closed, and real credit growth in double digits, the risks to medium-term inflation have increased. Including some modest pass through from recent ruble depreciation, headline inflation is likely to bounce back to 6½ percent by the end of 2012. Without policy action, this level would likely be sustained in 2013, thus causing the authorities to breach their end-year inflation targets for 2012 (5-6 percent) and 2013 (4½-5½ percent).

24. **At the same time, the CBR has continued to make good progress with the preparations for the adoption of formal inflation targeting.** In particular, in line with staff advice over the past year, the CBR has moved from an effective floor system to a more symmetric interest rate corridor system with the repo rate as the de facto policy rate in the middle of the corridor. This transition was aided by an improved fiscal position and a sharply reduced level of exchange rate interventions which allowed for better control of domestic liquidity conditions and interest rates. The CBR has also begun to narrow the corridor so as to limit interest rate volatility. These changes have strengthened the clarity of the monetary policy signal and should help improve the monetary transmission mechanism, paving the way for the CBR's planned move to formal inflation targeting in 2014.



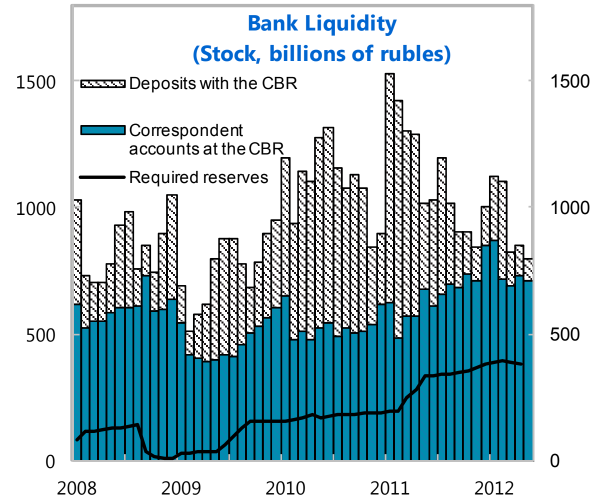
Sources: Rosstat; and IMF staff estimates.

1/ Trimmed-mean core inflation excludes the most extreme price movements on a monthly frequency. It is a good proxy for trend inflation, measured as a centered 24-month moving average inflation rate.

25. **The staff argued for a gradual further tightening of monetary policy to keep underlying inflation on a downward path.** A monetary tightening, effected by a gradual increase in the CBR repo rate, should reduce core inflation and help to keep headline inflation between 3–5 percent over the medium term—a level regarded as appropriate by staff. Timely policy action to contain the expected rebound in inflation would also be essential to bolster the CBR's credibility and help anchor medium-term inflation expectations (see Annex III). The authorities conceded that there was a considerable risk that the inflation targets would be missed in 2012 and 2013, but were reluctant to raise interest rates in light of signs of decelerating credit

growth, low headline inflation, and the large uncertainties stemming from the euro area financial turmoil.

26. **Recent advances in monetary operations are welcome but further steps are needed.** In particular, the staff suggested that formally making the repo rate the primary CBR policy rate, in combination with the completion of the narrowing of the policy rate corridor to reduce interest rate volatility, would further enhance the clarity of the monetary policy signal. In addition, a reduction in the number of CBR liquidity instruments and rates would be useful to simplify the framework and encourage interbank lending. Finally, further improvements in communication policies could greatly enhance the effectiveness of monetary policy. In this regard, an important step would be for the CBR to start publishing inflation forecasts. In the staff's view, timely implementation of these reforms—in combination with enhanced ruble flexibility (see below)—would improve the prospects for a successful move to formal inflation targeting. The authorities had no plans to make the repo rate the primary formal policy rate, and noted that in practice markets were already recognizing it as the key policy rate. With regard to communication policies, they broadly agreed with the staff and noted their intention to strengthen external communications on the inflation outlook, albeit initially without publishing inflation projections.



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

27. **The ongoing steps to further enhance exchange rate flexibility are commendable.** In December 2011, the authorities further widened the moving operational exchange rate band from 5 to 6 rubles (some +/- 8 percent around the center of the current band) while further reducing intervention limits. The staff and the authorities agreed that these steps were helping to make the exchange rate more flexible and allow monetary policy to focus squarely on inflation. The staff supported the authorities' plans to make the ruble even more flexible going forward, noting how ruble flexibility is playing an essential role in absorbing current fluctuations in oil prices.

28. **International reserves are adequate and there is no need for further reserve accumulation for precautionary purposes.** At end-2011, international reserves amounted to about $500 billion, nearly a quarter of which are savings in the Reserve Fund and National Wealth Fund. The staff noted, however, that the accumulation of fiscal savings in the oil funds should continue as long as oil prices are high. Over time, it would be appropriate to invest oil reserve fund assets in a more diversified portfolio of instruments. The staff also noted that the differentiation in reserve requirements according to residence, which was introduced in 2011, was obsolete in the face of continued capital outflows and could be revoked. The authorities agreed but did not consider revoking the differentiation a priority.

C. The Financial Sector: Containing Risks and Promoting Sound Intermediation by Strengthening Supervision

While Russian banks weathered the 2008-09 crisis and the financial market distress in 2011 relatively well, important gaps in the supervisory framework vis-a-vis international standards, as identified by the 2011 Financial Sector Assessment Program (FSAP), remain. Strengthening the supervisory framework is key to promoting sound financial intermediation that would help underpin investment, growth, and stability.

29. **Official liquidity support to banks has shielded the financial system from international financial turmoil.** Banks have managed ruble and foreign exchange liquidity risks well, supported by solid deposit growth and their net foreign creditor position. However, tight global liquidity conditions and capital outflows from Russia have reduced external funding for the corporate sector, while the fiscal position and the change in exchange rate policy affected liquidity conditions in the domestic money market. Stepped-up official liquidity operations helped maintain broadly adequate levels of liquidity in the system, ensuring the continued availability of financing to the private sector (Figure 2).

30. **The financial system is improving but concerns remain about asset quality in the context of rapid credit growth and volatile oil prices** (Table 7). Banks' overall performance has improved, as indicated by higher profitability (over 2 percent return on assets); lower NPL ratios (which declined from about 10 percent in 2009 to below 7 percent in 2012Q1); and stable ratings despite global turbulence. At the same time, credit growth has picked up, reducing the capital adequacy ratio to 14¾ percent in 2012Q1, partly as the government has not expanded the capital base of state-owned banks since the crisis, and raising the loan-to-deposit ratio. Maintaining credit quality of rapidly expanding loans could be a challenge going forward, as the stock of legacy NPLs remains high.[2] Stress tests at the CBR highlight the role of oil prices as a main source of spillovers from global market conditions. The authorities considered nominal credit growth of 20–25 percent per year manageable, especially as part of the growth reflected the corporate sector substituting domestic for external funding. Authorities and staff concurred that rapid growth in household credit warranted vigilant monitoring, notwithstanding the small size of this segment (10 percent of GDP); and, more broadly, saw that strengthening the supervisory framework per the 2011 FSAP recommendations is key to promoting sound financial intermediation.

31. **The authorities are improving financial sector supervision.** The CBR has created a new financial stability department and now organizes regular stress testing for banks. Separately, the authorities are establishing a new high-level financial stability council to strengthen macroprudential oversight, although its relation to the existing Inter-Agency Working Group to Monitor Financial

[2] Potential under-reporting and under-provisioning, as examined by the 2011 FSAP stress testing exercises, remain important.

Market Conditions has yet to be defined.[3] The planned adoption of Basel III capital framework implies tightening minimum capital requirements in line with new global standards with a stricter definition of capital and more prudent risk-weights, while maintaining a 10 percent minimum total capital ratio requirement.

32. **However, critical legislative changes that address the supervisory framework's key weaknesses remain pending.** The 2011 FSAP identified important gaps in the regulatory and supervisory framework vis-à-vis international standards. In particular, the CBR lacks adequate authority to effectively supervise bank holding companies and related entities, and address connected lending. The CBR also does not have sufficient power to exercise discretion based on its professional judgment in applying regulations to individual banks, which is an important component of the Basel framework. Without these powers, the CBR has limited ability to detect vulnerability and to take adequate supervisory actions; for instance, the CBR has no legal power to request banks to recapitalize after a negative stress test result. Legislation addressing these weaknesses was submitted to the Duma in the spring of 2011, but has yet to be passed. Moreover, the current draft introduces professional judgment only for defining related parties. The staff and the authorities agreed that prompt passing of the pending legislation, which is only a first step towards bringing Russia's regulatory system at par with international standards, remains a top priority.

33. **The supervisory framework for non-bank financial institutions also needs further strengthening.** In 2011, the Federal Service for Financial Markets (FSFM) assumed responsibility for insurance and securities market supervision and was given responsibility for supervising cooperatives and microfinance institutions. Staff noted that major legislative changes will be needed to equip the expanded FSFM with basic supervisory powers, including the authority to issue secondary regulation to interpret the law as well as industry-wide binding norms, in line with FSAP recommendations. The authorities indicated that the timeframe for doing so remains uncertain.

D. Improving the Investment Climate

Improving Russia's investment climate is essential for attracting productive investment and capital inflows, diversifying the economy, and promoting sustainable growth.

34. **Russia's weak investment climate remains an important obstacle to economic diversification and growth.** Given adverse demographic trends, productivity improvement—through higher investment and innovation—will have to be the primary source of long-term growth in Russia. This challenge underscores the need for broad reforms to strengthen the business environment which compares unfavorably to peers (Figure 6).

35. **Russia's WTO accession should be a useful platform for further reforms.** Russia's WTO membership will come into force in mid-2012, after a long journey spanning two decades. WTO

[3] This Group, established at end-2010, narrowly focused on defining systemically important financial institutions to be intensively monitored.

membership should be seized upon to strengthen the momentum for domestic reforms to make the business environment more predictable and rules-based, and thereby boost Russia's long-term growth potential. The experience of other countries suggests that the development of sound domestic institutions is the main determinant of the benefits gained from WTO accession in terms of medium-term development and growth.

36. **Expeditious implementation of reform plans already announced will be crucial.** Staff broadly agrees on the current reform proposals to strengthen the business climate, including former President Medvedev's anti-corruption initiatives and "10-point plan," the government's privatization agenda, and the recommendations of the Strategy 2020 advisory group. However, actual progress has been limited. More generally, reform efforts to limit corruption, strengthen the rule of law, and reduce the state's influence in the economy (including through more decisive privatization of state-owned companies) should be prioritized to realize further catch-up gains in productivity and income levels. The authorities confirmed that their long-term economic policy will focus on strengthening the investment climate and regional development, as recently put forward by President Putin's Executive Order (Box 6).

Box 6. Long-Term Economic Policy Priorities of the New Government[1]

On May 7, 2012, the first day of his new presidency, President Putin issued a Decree on long-term economic policy, focused on investment climate improvement. The government is ordered to take measures to increase fixed capital investment from current 21 percent of GDP to 27 percent, to raise labor productivity by 50 percent and the share of high-tech industries in GDP by 30 percent by 2018. The President also called for an improvement of Russia's ranking in the World Bank's Doing Business index from the current 120th place to 20th place by 2018. Among others, the following actions are envisaged by the decree:

I. Submit to the Duma, by October 1, 2012, a draft law on use of oil revenues, including new rules for the Reserve Fund and the National Wealth Fund.

II. Revise by November 1, 2012 privatization plans to include sale by 2016 of all Government stakes in all companies, excluding those in the energy sector, defense enterprises and natural monopolies, and adopt regulations for state-controlled companies to purchase stakes in other companies. By December 1, 2012, companies with more than 50 percent Government share should create and launch programs for selling non-core assets.

III. Analyze by March 1, 2013 the efficiency of state corporations, owing assets in airplane building, ship building, defense and car industries and draft proposals for improving their management.

IV. Significantly reduce by January 1, 2015 the time it takes for businesses to complete procedures (and the costs of such procedures) in some areas of state regulation (construction, connections to utility networks, tax benefits and tax administration, customs).

V. Establish by December 1, 2012 the institution of ombudsman for entrepreneurs' rights at both the federal and regional levels.

VI. Starting from 2013, introduce compulsory public audits of costs and technologies for all large investment projects with state participation

VII. Introduce by November 1, 2012 a new mechanism of issuing state guarantees for investment projects of medium-sized enterprises in sectors other than mineral extraction and processing.

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[1] Prepared by Oksana Dynnikova.

STAFF APPRAISAL

37. **The Russian economy has recovered from the 2008–09 crisis and is now running close to its potential.** High oil prices, strong wage growth, and robust consumption have supported demand. Meanwhile, the unemployment rate and capacity utilization have recovered their pre-crisis levels, suggesting that any remaining slack in the economy is small. The factors recently muting headline inflation are expected to recede in coming months. The external position was moderately weaker in 2011 than one consistent with medium-term fundamentals and appropriate policy settings. The increased flexibility of the exchange rate has been helping absorb external shocks and address imbalances.

38. **Ongoing turbulence in international markets is affecting Russia mostly through oil prices.** Reliance on oil exports exposes Russia to declining oil prices, especially if accompanied by large capital outflows. While the more flexible exchange rate and the private sector's reduced external exposure have improved the economy's resilience to external shocks, significant weaknesses persist. In the event downside risks materialize, the exchange rate should be allowed to operate as the main shock absorber, liquidity should be provided as needed, and the automatic stabilizers should be allowed to operate.

39. **Russia still has significant unrealized growth potential but, under unchanged policies, the outlook is for continued moderate growth and a rebound in inflation.** The new government has the opportunity to realize this potential and put Russia on a sustainable growth path, while reducing vulnerabilities to shocks. An ambitious fiscal adjustment would help contain demand pressures in the short run, while over time laying the basis for balanced economic growth and equitable spending of oil wealth across generations. Adopting a firm medium-term anchor for fiscal policy should be an integral part of the fiscal strategy. Monetary policy should aim for stable and low inflation, with further monetary tightening needed to keep inflation on a declining path. Exchange rate flexibility should help absorb external macroeconomic shocks. Critically, the new government should deliver quickly on long-awaited structural reforms.

40. **The current budget risks overheating the economy and is depleting the wealth of future generations.** The authorities should implement an ambitious fiscal consolidation to return the nonoil deficit to about 5 percent of GDP by 2015, which staff estimates would be consistent with intergenerational equity. At the same time, an adequately ambitious fiscal anchor should be reinstated to guide medium-term fiscal policy, decoupling the fiscal stance from short-term variations in oil prices and ensuring the oil wealth is shared across generations. Given the low share of discretionary expenditures in total expenditures, durable fiscal consolidation will need to be underpinned by structural reforms, including pension reform.

41. **Monetary policy should be aimed at securing low and stable inflation.** Timely tightening of monetary policy is necessary to contain the rebound in inflation and anchor inflation expectations. The greater exchange rate flexibility is welcome as, besides helping absorb external shocks, it allows monetary policy to focus squarely on inflation. For the successful adoption of

inflation targeting, continued steps to strengthen monetary policy tools are necessary. In addition, further enhancing communication policies, including the publication of inflation forecasts, will be important to improve transparency and convey the rationale for the CBR's policy measures to the public. Transparency would also be improved by making the repo rate formally the primary policy interest rate.

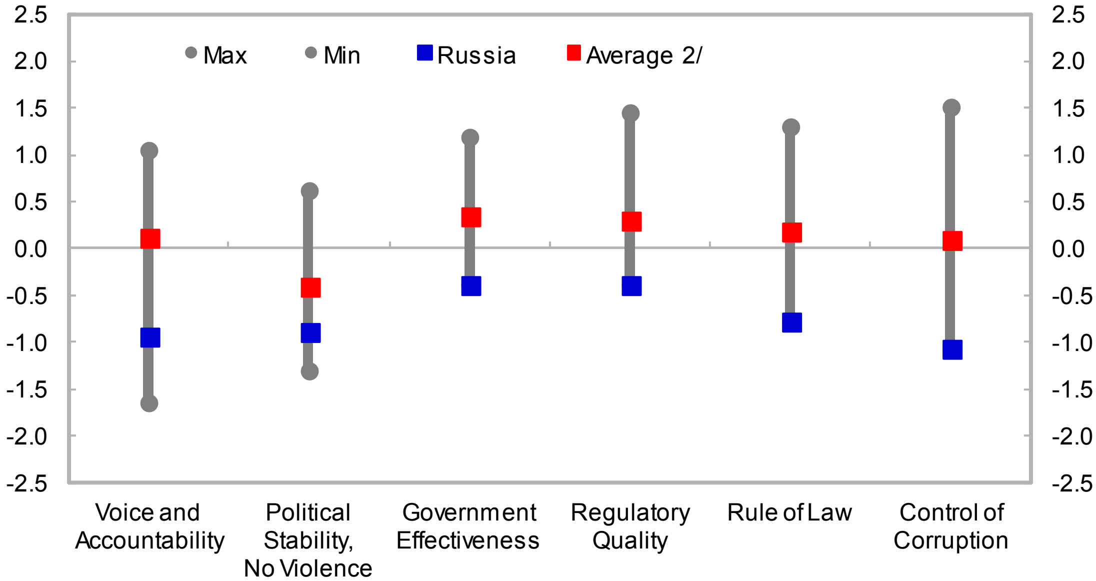
42. **A stronger supervisory framework is key to facilitating sound financial intermediation.** The financial system is improving, but concerns remain about asset quality in the context of rapid credit growth and volatile oil prices. Russia continues to improve its financial stability analyses and macroprudential oversight framework. In this regard, the prompt passing of legislation on consolidated supervision and connected lending, and the expansion of the CBR's powers to use professional judgment remains a top priority.

43. **Delivering on structural reforms will promote economic growth.** Structural reforms are crucial to increase investment, diversify the economy, and raise potential growth. Russia's accession to the WTO should be seized upon to strengthen the momentum for reforms, make the business environment more predictable and rules based, and to resist protectionist pressures. Complementary steps to reduce corruption, strengthen the rule of law, and scale back state involvement in the economy—including through transparent and decisive privatization of state-owned companies—are priorities.

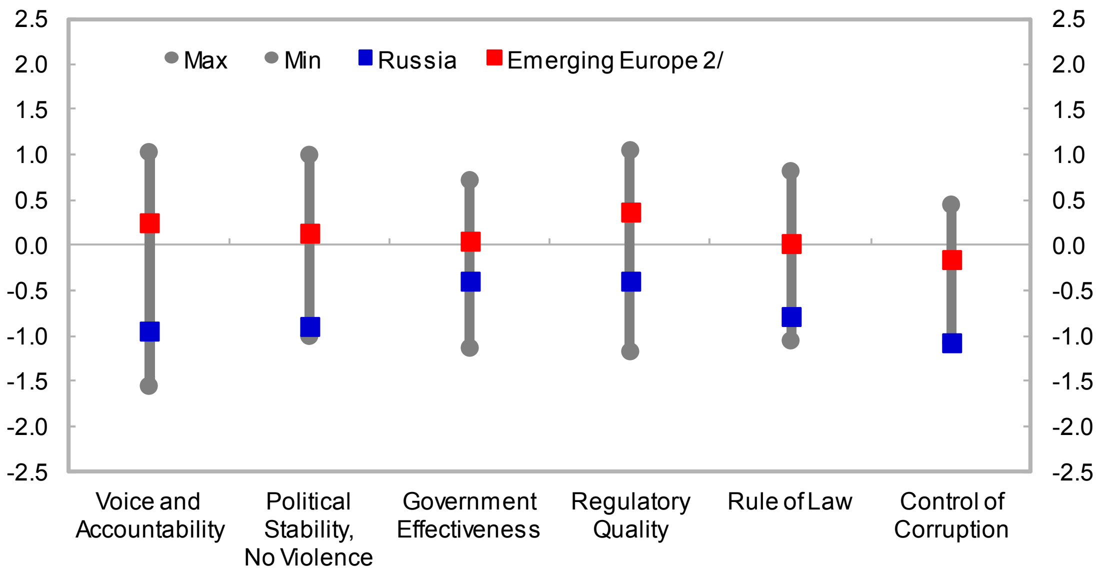
44. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Figure 6. Governance Indicators for Selected Countries 1/

BRICS, Chile, and Turkey



Emerging Europe 3/



Sources: The 2011 World Governance Indicators; and IMF staff calculations.
1/ Higher values mean better governance. Indicators range from +2.5 to -2.5.
2/ Excluding Russia.
3/ For 14 Emerging European Economies.

Table 1. Russian Federation: Selected Macroeconomic Indicators, 2008–13

	2008	2009	2010	2011	2012	2013
					Proj.	
	(Annual percent change)					
Production and prices						
Real GDP	5.2	-7.8	4.3	4.3	4.0	3.9
Consumer prices						
Period average	14.1	11.7	6.9	8.4	5.0	6.5
End of period	13.3	8.8	8.8	6.1	6.5	6.5
GDP deflator	18.0	2.0	11.6	15.4	6.3	6.6
Unemployment rate	6.4	8.4	7.5	6.5	6.0	6.0
	(Percent of GDP)					
Public sector 1/						
General government						
Net lending/borrowing (overall balance)	4.9	-6.3	-3.5	1.6	0.2	-0.7
Revenue	39.2	35.0	35.5	38.4	37.5	36.3
Expenditures	34.3	41.4	39.0	36.8	37.3	36.9
Primary balance	5.3	-5.7	-2.9	2.2	1.0	0.2
Nonoil balance	-7.7	-15.2	-13.3	-10.2	-11.3	-10.7
Nonoil balance excl. one-off receipts 2/	-7.7	-15.6	-13.3	-10.2	-11.3	-10.7
Federal government						
Net lending/borrowing (overall balance)	3.6	-5.9	-4.0	0.8	-0.2	-1.1
Nonoil balance	-7.6	-13.8	-12.7	-9.8	-10.6	-10.3
Nonoil balance excl. one-off receipts 2/	-7.6	-14.2	-12.7	-9.8	-10.6	-10.3
	(Annual percent change)					
Money						
Base money	2.9	7.4	25.4	20.9	23.9	19.2
Ruble broad money	0.8	17.7	31.1	22.6	23.7	20.7
Credit to the economy	37.2	2.6	12.9	28.0	22.3	18.7
External sector						
Export volumes	-2.6	-9.7	8.5	4.9	2.8	3.2
Oil	-2.6	3.0	5.7	1.5	1.5	1.5
Gas	1.8	-13.8	23.5	-0.9	-0.9	-0.9
Non-energy	-4.4	-17.9	11.2	5.8	6.5	7.2
Import volumes	11.1	-31.3	27.3	16.2	9.7	8.3
	(Billions of U.S. dollars; unless otherwise indicated)					
External sector						
Total merchandise exports, f.o.b	471.6	303.4	400.1	522.0	531.1	523.9
Total merchandise imports, f.o.b	-291.9	-191.8	-248.7	-323.8	-349.5	-376.4
External current account	103.7	49.5	70.0	98.8	89.9	53.8
External current account (percent of GDP)	6.2	4.0	4.7	5.3	4.7	2.6
Gross international reserves						
Billions of U.S. dollars	427.1	439.5	479.4	498.6	521.2	533.4
Months of imports 3/	14.0	20.8	17.8	14.5	14.1	13.4
Percent of short-term debt	288	303	339	328	331	319
Memorandum items:						
Nominal GDP (billions of rubles)	41,277	38,809	45,166	54,369	60,087	66,561
Nominal GDP (billions of U.S. dollars)	1,665	1,232	1,486	1,850	1,919	2,036
Exchange rate (rubles per U.S. dollar, period average)	24.9	31.7	30.4	29.4	...	...
Oil exports (billions of U.S. dollars)	241.0	148.7	206.3	277.5	275.3	257.5
World oil price (U.S. dollars per barrel)	97.0	61.8	79.0	104.0	101.8	94.2
Urals crude oil spot price (U.S. dollars per barrel)	94.4	61.2	76.8	101.8	99.6	92.0
Taxable oil volume (millions of tons)	488.0	494.3	505.0	504.0	504.0	505.0
Real effective exchange rate (average percent change)	6.8	-6.9	9.3	7.0	...	...

Sources: Russian authorities; and IMF staff estimates.

1/ Based on the 2012–14 budget and the 2012 supplemental budget.

2/ Excludes one-off tax receipts from Nanotechnology and Housing Funds in 2009.

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

Table 2. Russian Federation: Balance of Payments, 2008–13

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

	2008	2009	2010	2011	2012	2013
					Proj.	
Current Account	103.7	49.5	70.0	98.8	89.9	53.8
Trade Balance	179.7	111.6	151.4	198.2	181.6	147.5
Exports	471.6	303.4	400.1	522.0	531.1	523.9
Non-energy	161.5	112.7	146.1	180.2	181.1	191.8
Energy	310.1	190.7	254.0	341.8	350.0	332.1
Oil	241.0	148.7	206.3	277.5	275.3	257.5
Gas	69.1	42.0	47.7	64.3	74.8	74.6
Imports	-291.9	-191.8	-248.7	-323.8	-349.5	-376.4
Services	-24.3	-20.1	-29.2	-35.9	-39.1	-43.7
Income	-48.9	-39.6	-48.6	-60.2	-50.7	-48.9
Public sector interest (net)	17.4	6.3	3.6	3.2	5.8	6.3
Other sectors	-66.3	-45.9	-52.2	-63.4	-56.5	-55.3
Current transfers	-3.5	-2.8	-3.6	-3.2	-1.9	-1.0
Capital and financial account	-131.0	-44.3	-26.1	-86.4	-67.3	-41.6
Capital transfers	0.7	-11.4	0.1	-0.1	-5.0	-4.0
Financial accounts						
Federal government	-9.1	24.7	-0.8	-4.6	-0.8	-0.9
Portfolio investment	-6.5	3.8	4.9	1.6	4.4	4.3
Loans	-2.3	-3.4	-1.2	-1.9	-1.2	-1.2
Other investment	-0.3	24.2	-4.6	-4.4	-4.0	-4.0
Local governments	-0.1	0.4	0.5	-1.1	-1.2	-1.2
Private sector capital	-122.6	-58.1	-25.9	-80.5	-60.3	-35.5
Direct investment	19.4	-8.1	-8.6	-14.3	-11.6	-9.8
Portfolio investment	-28.6	-7.3	-7.6	-26.5	-3.0	2.2
Other investment, commercial banks	-55.3	-29.0	13.6	-21.5	-32.0	-26.5
Assets	-57.7	21.8	2.8	-25.6	-26.5	-25.5
Liabilities (loans, deposits, etc.)	2.4	-50.8	10.8	4.2	-5.5	-1.0
Loans, corporations	48.8	2.6	-6.2	20.2	24.7	31.8
Disbursements	170.8	82.6	72.5	80.9	106.0	121.0
Amortizations	-122.0	-80.0	-78.7	-60.7	-81.4	-89.1
Other private sector capital flows	-106.9	-16.3	-17.0	-38.4	-38.3	-33.2
Errors and omissions, net	-11.6	-1.2	-7.5	-0.2	0.0	0.0
Overall balance	-38.9	4.0	36.3	12.2	22.6	12.2
Financing	38.9	-4.0	-36.3	-12.2	-22.6	-12.2
Net international reserves	38.9	-3.4	-36.8	-12.6	-22.6	-12.2
Arrears and rescheduling	-0.1	-0.6	0.4	0.4	0.0	0.0
Memorandum items:						
Current account (percent of GDP)	6.2	4.0	4.7	5.3	4.7	2.6
Non-energy current account (percent of GDP)	-12.4	-11.5	-12.4	-13.1	-13.6	-13.7
Gross reserves 1/	427.1	439.5	479.4	498.6	521.2	533.4
(months of imports of GNFS)	14.0	20.8	17.8	14.5	14.1	13.4
(percent of short-term debt) 2/	288.3	303.2	339.2	328.0	330.8	318.9
Real growth in partner countries (percent change)	2.5	-3.0	4.1	3.3	1.8	2.6
Net private capital flows (percent of exports of GNFS)	-23.4	-16.8	-5.8	-14.0	-10.3	-6.1
Net private capital flows, banks	-56.9	-36.7	12.5	-23.0	-33.1	-25.5
Public external debt service payments 3/	8.4	5.9	6.5	8.9	10.6	10.5
(percent of exports of goods and services)	1.6	1.7	1.5	1.5	1.8	1.8
Public external debt 4/	32.8	45.9	46.6	44.7	44.7	44.6
(percent of GDP)	2.0	3.8	3.1	2.4	2.3	2.2
Private external debt	447.7	421.3	442.4	466.7	487.4	520.8
(percent of GDP)	27.0	34.5	29.7	25.2	25.4	25.6
Total external debt	480.5	467.2	488.9	511.4	532.1	565.4
(percent of GDP)	28.9	38.2	32.9	27.6	27.7	27.8
World oil price (U.S. dollars per barrel)	97.0	61.8	79.0	104.0	101.8	94.2
Urals oil price (U.S. dollars per barrel)	94.4	61.2	76.8	101.8	99.6	92.0

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 3a. Russian Federation: Fiscal Operations, 2009–13 1/

(Percent of GDP, unless otherwise indicated)

	2009	2010	2011	2012	2013
				Proj.	
General government					
Revenue	35.0	35.5	38.4	37.5	36.3
Of which: Oil revenue	8.9	9.8	11.7	11.5	10.1
Of which: Nonoil revenue	26.1	25.7	26.6	26.0	26.2
Taxes	25.9	27.2	29.5	29.7	28.3
Social contributions	5.9	5.5	6.5	5.9	6.1
Grants	0.0	0.0	0.0	0.0	0.0
Other revenue	3.2	2.8	2.3	1.9	1.9
Expenditure	41.4	39.0	36.8	37.3	36.9
Expense	34.5	33.0	31.0	31.4	31.1
Compensation of employees	9.9	8.4	7.5	7.7	7.7
Use of goods and services	5.8	5.0	5.0	5.0	5.0
Interest	0.6	0.6	0.6	0.8	0.9
Subsidies	3.3	2.9	3.1	4.1	3.8
Grants	0.2	0.1	0.2	0.2	0.2
Social benefits	12.8	14.4	12.5	13.0	13.0
Other expense	1.8	1.7	2.1	0.7	0.7
Net acquisition of nonfinancial assets	6.9	6.0	5.8	5.8	5.8
Gross operating balance	0.6	2.5	7.4	6.1	5.1
Net operating balance	...	...	...	...	...
Net lending (+)/borrowing (-) (overall balance)	-6.3	-3.5	1.6	0.2	-0.7
Net financial worth, transactions	6.3	3.5	-1.6	-0.2	0.7
Net acquisition of financial assets	-5.6	-2.7	2.8	1.8	1.3
Domestic	-5.6	-2.7	2.8	1.8	1.3
Foreign	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	0.8	0.8	1.2	1.6	2.0
Domestic	1.1	0.5	1.4	1.5	1.9
Foreign	-0.3	0.3	-0.2	0.1	0.1
Change in arrears and statistical discrepancies	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Federal government					
Revenue	18.9	18.4	20.9	20.4	19.2
Of which: Oil revenue	7.8	8.6	10.6	10.4	9.2
Of which: Nonoil revenue	11.1	9.7	10.4	10.0	10.0
Expenditure	24.8	22.4	20.1	20.6	20.3
Expense	21.4	19.1	17.0	17.7	17.3
Net acquisition of nonfinancial assets	3.5	3.3	3.1	2.9	3.1
Gross operating balance	-2.4	-0.7	3.9	2.7	1.9
Net operating balance	...	...	...	...	...
Net lending (+)/borrowing (-) (overall balance)	-5.9	-4.0	0.8	-0.2	-1.1
Net acquisition of financial assets	-5.2	-3.2	2.0	1.4	0.9
Domestic	-5.2	-3.2	2.0	1.4	0.9
Foreign	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	0.8	0.8	1.2	1.6	2.0
Domestic	1.1	0.5	1.4	1.5	1.9
Foreign	-0.3	0.3	-0.2	0.1	0.1
Memorandum items:					
General government nonoil primary balance	-14.6	-12.7	-9.6	-10.5	-9.8
General government nonoil overall balance	-15.2	-13.3	-10.2	-11.3	-10.7
Federal government nonoil primary balance	-13.3	-12.2	-9.3	-9.9	-9.6
Federal government nonoil overall balance	-13.8	-12.7	-9.8	-10.6	-10.3
World oil price (U.S.dollars per barrel)	61.8	79.0	104.0	101.8	94.2
Urals prices (U.S. dollars per barrel)	61.2	76.8	101.8	99.6	92.0
Oil fund(s)	11.9	7.7	6.6	7.4	7.5
Reserve Fund	4.7	1.7	1.5	3.0	3.5
NWF	7.1	6.0	5.1	4.4	4.0
General government debt	11.3	11.8	12.0	11.5	11.2
GDP (billions of rubles)	38,809	45,166	54,369	60,087	66,561

Sources: Russian authorities; and IMF staff estimates.

1/ Cash basis. Based on draft 2012-14 budget and 2012 supplemental budget.

Table 3b. Russian Federation: General Government Stock Positions

Percent of GDP	2007	2008	2009	2010
Stock positions:				
Net worth	62.9	68.9	82.3	71.6
Nonfinancial assets	42.2	44.7	51.6	47.4
Net financial worth	20.7	24.2	30.7	24.2
Financial assets	29.5	32.3	41.6	35.5
Monetary gold and SDRs	0.0	0.0	0.0	0.0
Currency and deposits	18.6	22.2	19.7	15.1
Debt securities	0.6	0.9	1.0	0.8
Loans	6.1	5.8	5.6	4.8
Equity and investment fund shares	1.4	1.8	12.1	11.1
Insurance, pensions, and standardized guarantee scher	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0
Other accounts receivable	2.8	1.5	3.2	3.7
Liabilities	8.8	8.1	11.0	11.3
Monetary gold and SDRs	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0
Loans	8.2	7.6	9.4	9.8
Equity and investment fund shares	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee scher	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0
Other accounts payable	0.6	0.5	1.5	1.6
Memorandum items:				
Publicly guaranteed debt	n.a.	n.a.	n.a.	n.a.
Debt (at market value)	n.a.	n.a.	n.a.	n.a.
Debt at face value	8.8	8.1	11.0	11.3
Maastricht debt	n.a.	n.a.	n.a.	n.a.
Debt (at nominal value)	n.a.	n.a.	n.a.	n.a.
Other economic flows:				
Change in net worth from other economic flows	-0.6	2.1	0.0	-0.6
Nonfinancial assets	-0.8	0.5	0.0	0.0
Change in net financial worth from other economic flows	0.2	1.7	0.0	-0.6
Financial assets	-0.3	1.8	1.1	-0.4
Monetary gold and SDRs	0.0	0.0	0.0	0.0
Currency and deposits	-0.3	1.8	1.1	-0.4
Debt securities	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0
Equity and investment fund shares	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0
Liabilities	-0.4	0.1	1.1	0.2
Monetary gold and SDRs	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.2
Equity and investment fund shares	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0
Other accounts payable	-0.4	0.1	1.1	0.0

Sources: Government Finance Statistics; and IMF staff estimates.

Table 4. Russian Federation: Monetary Accounts, 2008–13

(Billions of rubles, unless otherwise indicated)

	2008	2009	2010				2011				2012	2013
	Dec	Dec	Mar	June	Sept	Dec	Mar	Jun	Sep	Dec	Dec	Dec
										Proj.	Proj.	Proj.
Monetary authorities												
Base money	4,392	4,716	4,517	4,945	5,147	5,913	5,647	6,017	6,304	7,150	8,855	10,558
Currency issued	4,372	4,623	4,411	4,828	5,024	5,785	5,483	5,788	6,060	6,896	8,521	10,153
Required reserves on ruble deposits	20	93	105	117	123	128	164	229	244	254	334	405
NIR 1/	11,199	12,755	13,529	14,460	14,595	14,304	14,643	15,069	15,045	15,701	16,427	16,818
Gross reserves	12,225	13,195	13,829	14,730	14,864	14,571	14,910	15,336	15,311	15,982	16,707	17,099
Gross liabilities	95	440	301	270	269	267	267	267	267	281	281	281
GIR (billions of U.S. dollars)	*416*	*436*	*457*	*487*	*491*	*478*	489	503	502	496	*519*	*531*
NDA	-6,808	-8,039	-9,012	-9,516	-9,448	-8,392	-8,996	-9,052	-8,741	-8,551	-7,571	-6,260
Net credit to general government	-7,152	-5,515	-5,492	-5,619	-5,645	-3,963	-5,113	-5,698	-6,148	-5,230	-6,061	-6,632
Net credit to federal government 2/	-6,343	-4,614	-4,297	-4,362	-4,241	-2,907	-3,593	-4,142	-4,453	-4,055	-4,885	-5,456
CBR net ruble credit to federal government 1/	-615	-595	-458	-893	-768	-293	-835	-1,371	-1,551	-1,058	-533	-786
Foreign exchange credit	168	147	142	120	119	140	140	124	124	126	126	126
Ruble counterpart 2/	-5,897	-4,166	-3,981	-3,589	-3,592	-2,754	-2,898	-2,896	-3,025	-3,123	-4,479	-4,797
CBR net credit to local government and EBFs	-809	-902	-1,194	-1,257	-1,403	-1,056	-1,520	-1,556	-1,696	-1,175	-1,175	-1,175
CBR net credit to local government	-397	-385	-614	-639	-753	-436	-679	-829	-882	-529	-529	-529
CBR net credit to extrabudgetary funds	-412	-517	-580	-618	-650	-620	-841	-727	-814	-647	-647	-647
Net credit to banks	2,515	-53	-877	-1,444	-1,299	-1,640	-1,219	-720	-236	101	2,022	3,891
Gross credit to banks	3,692	1,640	902	726	589	577	563	563	765	1,471	3,400	5,500
Gross liabilities to banks and deposits	-1,177	-1,693	-1,779	-2,170	-1,888	-2,217	-1,783	-1,283	-1,001	-1,370	-1,378	-1,609
Of which: correspondent account balances	-1,028	-900	-579	-604	-590	-995	-597	-787	-781	-982	-1,131	-1,372
Other items (net) 3/	-2,170	-2,471	-2,644	-2,452	-2,505	-2,789	-2,664	-2,634	-2,357	-3,422	-3,532	-3,520
Monetary survey												
Broad money	16,277	19,096	19,420	20,445	21,300	23,791	23,916	24,772	25,496	28,814	35,828	43,079
Ruble broad money	12,976	15,268	15,639	16,901	17,690	20,012	19,819	20,745	21,497	24,543	30,350	36,643
Currency in circulation	3,795	4,038	3,986	4,368	4,525	5,063	4,918	5,192	5,420	5,939	7,738	9,202
Ruble deposits	9,181	11,230	11,653	12,533	13,166	14,949	14,901	15,553	16,077	18,605	22,613	27,441
Forex deposits 1/	3,301	3,828	3,781	3,544	3,610	3,779	4,097	4,026	3,999	4,271	5,478	6,437
Net foreign assets 1/	10,869	13,674	14,427	15,164	15,082	14,999	15,570	16,107	16,425	17,179	18,971	20,182
NIR of monetary authorities	11,199	12,755	13,529	14,460	14,595	14,304	14,643	15,069	15,045	15,701	16,427	16,818
NFA of commercial banks	-330	919	899	704	487	694	927	1,037	1,380	1,478	2,544	3,364
NFA of commercial banks (billions of U.S. dollars)	-11	30	32	22	16	23	35	40	41	46	79	104
NDA	5,407	5,422	4,993	5,281	6,218	8,793	8,346	8,665	9,071	11,635	16,857	22,897
Domestic credit	11,266	13,297	13,445	13,752	14,877	17,265	17,267	17,612	18,636	21,711	27,103	33,287
Net credit to general government	-6,680	-5,119	-5,080	-5,245	-5,055	-3,522	-4,399	-5,381	-6,111	-4,888	-5,417	-5,330
Credit to the economy	17,945	18,416	18,525	18,997	19,932	20,787	21,666	22,993	24,747	26,599	32,521	38,617
Other items (net)	-5,858	-7,875	-8,452	-8,471	-8,659	-8,472	-8,921	-8,947	-9,565	-10,076	-10,246	-10,390
Memorandum items:												
Accounting exchange rate (ruble per U.S. dollar, eop)	29.4	30.2	30.2	30.2	30.2	30.5	30.5	30.5	30.5	32.2	32.2	32.2
Nominal GDP (billions of rubles)	41,789	38,809	…	…	…	45,166	…	…	…	54,369	60,096	66,578
CPI inflation (12-month change, eop)	13.3	8.8	6.5	5.8	7.0	8.8	9.5	9.4	7.2	6.1	6.5	6.5
Ruble broad money velocity	3.4	2.8	2.5	2.5	2.7	2.5	2.4	2.5	2.7	2.4	2.2	2.0
Ruble broad money velocity (s.a.)	3.5	2.8	2.7	2.6	2.6	2.6	2.6	2.6	2.5	2.4	2.2	2.0
Annual change in velocity	14.2	-17.4	-14.6	-13.4	-15.8	-11.2	-4.2	-0.7	0.1	-3.3	-9.3	-8.2
Real ruble broad money (rel. to CPI, 12-month change)	-11.0	8.1	26.8	26.3	26.2	20.5	15.8	12.2	13.3	15.6	16.1	13.4
Nominal ruble broad money (12-month change)	0.8	17.7	35.0	33.6	35.0	31.1	26.7	22.7	21.5	22.6	23.7	20.7
Base money (12-month change)	2.9	7.4	22.9	25.5	30.2	25.4	25.0	21.7	22.5	20.9	23.9	19.2
Real credit to the economy (12-month change)	21.1	-5.7	-2.5	0.0	1.6	3.8	6.8	10.6	15.8	20.6	14.8	11.5
Ruble broad money multiplier	3.0	3.2	3.5	3.4	3.4	3.4	3.5	3.4	3.4	3.4	3.4	3.5

Sources: Russian authorities; and IMF staff estimates.

1/ Data calculated at accounting exchange rates.
2/ Represents the government's use of NIR resources and calculated in flow ruble terms.
3/ Inclusive of valuation gains and losses on holdings of government securities.

Table 5. Russian Federation: Medium-Term Framework and Balance of Payments, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
					Projections					
	(Percent of GDP, unless otherwise indicated)									
Macroeconomic framework										
GDP growth at constant prices (percent)	5.2	-7.8	4.3	4.3	4.0	3.9	3.9	3.9	3.8	3.8
Consumer prices (percent change, end of period)	13.3	8.8	8.8	6.1	6.5	6.5	6.5	6.5	6.5	6.5
Gross domestic investment	25.5	18.9	22.8	25.5	25.3	25.7	25.6	25.4	25.2	24.8
Private sector	20.1	14.3	18.4	21.7	21.4	21.9	22.0	21.8	21.6	21.2
Public sector	5.4	4.6	4.4	3.8	3.9	3.7	3.6	3.6	3.6	3.6
Gross national savings	31.7	22.9	27.5	30.8	30.0	28.3	27.0	25.8	24.9	23.6
Private sector	21.5	24.7	26.6	26.6	27.3	26.1	24.9	24.5	24.3	23.5
Public sector	10.3	-1.7	0.9	4.2	2.7	2.2	2.0	1.3	0.6	0.1
External current account balance	6.2	4.0	4.7	5.3	4.7	2.6	1.4	0.4	-0.3	-1.1
Fiscal Operations										
Federal government										
Net lending/borrowing (overall balance)	3.6	-5.9	-4.0	0.8	-0.2	-1.1	-0.9	-1.7	-2.5	-3.0
Nonoil balance	-7.6	-13.8	-12.7	-9.8	-10.6	-10.3	-9.1	-9.1	-9.1	-9.1
General government										
Net lending/borrowing (overall balance)	4.9	-6.3	-3.5	1.6	0.2	-0.7	-1.2	-1.9	-2.7	-3.3
Revenues	39.2	35.0	35.5	38.4	37.5	36.3	35.2	34.4	33.6	33.0
Expenditures	34.3	41.4	39.0	36.8	37.3	36.9	36.3	36.3	36.3	36.3
Nonoil balance	-7.7	-15.2	-13.3	-10.2	-11.3	-10.7	-10.1	-10.0	-9.9	-9.8
Primary balance	5.3	-5.7	-2.9	2.2	1.0	0.2	-0.3	-1.0	-1.8	-2.4
Gross debt	7.9	11.3	11.8	12.0	11.5	11.2	12.6	13.2	14.6	14.3
	(Billions of U.S dollars; unless otherwise indicated)									
Balance of payments										
Current account	103.7	49.5	70.0	98.8	89.9	53.8	30.4	10.5	-6.9	-32.4
Trade balance	179.7	111.6	151.4	198.2	181.6	147.5	125.1	107.8	87.6	73.3
Exports (f.o.b)	471.6	303.4	400.1	522.0	531.1	523.9	531.7	546.0	560.5	583.9
Of which: energy	310.1	190.7	254.0	341.8	350.0	332.1	328.0	325.9	321.8	323.0
Imports (f.o.b)	-291.9	-191.8	-248.7	-323.8	-349.5	-376.4	-406.6	-438.1	-472.9	-510.6
Services and transfers, net	-27.1	-22.5	-32.8	-39.1	-41.1	-44.7	-48.1	-50.8	-53.8	-56.1
Capital and financial account	-131.0	-44.3	-26.1	-86.4	-67.3	-41.6	-22.6	-3.5	11.3	36.0
Capital account	0.7	-11.4	0.1	-0.1	-5.0	-4.0	-3.0	-2.0	-2.0	-2.0
Financial account	-131.7	-32.9	-26.2	-86.3	-62.3	-37.6	-19.6	-1.5	13.3	38.0
Private sector capital	-122.6	-58.1	-25.9	-80.5	-60.3	-35.5	-17.4	0.7	15.5	40.2
Errors and omissions	-11.6	-1.2	-7.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-38.9	4.0	36.3	12.2	22.6	12.2	7.8	7.0	4.4	3.6
Memorandum items:										
Gross reserves (end of period)										
Billions of U.S. dollars	427.1	439.5	479.4	498.6	521.2	533.4	541.3	548.3	552.7	556.3
Percent of short-term debt (residual maturity)	288.3	303.2	339.2	328.0	330.8	318.9	298.9	275.3	250.6	225.2
Months of prospective GNFS imports	14.0	20.8	17.8	14.5	14.1	13.4	12.6	11.9	11.2	10.4
Trade balance (percent of GDP)	10.8	9.1	10.2	10.7	9.5	7.2	5.6	4.4	3.3	2.5
Terms of trade (y-o-y change, percent)	16.2	-25.5	19.3	14.3	0.7	-3.9	-1.4	-0.7	-1.2	0.0
Excluding fuel	5.7	-7.4	17.5	0.7	-4.0	-0.7	-0.9	0.3	0.4	0.8
Export volume, goods (y-o-y change, percent)	-2.6	-9.7	8.5	4.9	2.8	3.2	3.4	3.7	3.9	4.2
Import volume, goods (y-o-y change, percent)	11.1	-31.3	27.3	16.2	9.7	8.3	8.5	8.1	8.0	8.0
World oil price (U.S. dollars per barrel)	97.0	61.8	79.0	104.0	101.8	94.2	91.6	90.2	88.2	87.6

Sources: Russian authorities; and IMF staff estimates.

Table 6. Russian Federation: Medium-Term Framework and Balance of Payments, Reform Scenario, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
					Projections					
					(Percent of GDP, unless otherwise indicated)					
Macroeconomic framework										
GDP growth at constant prices (percent)	5.2	-7.8	4.3	4.3	4.0	4.6	5.0	5.5	6.0	6.0
Consumer prices (percent change, end of period)	13.3	8.8	8.8	6.1	6.5	5.5	4.5	4.0	3.4	3.0
Gross domestic investment	25.5	18.9	22.8	25.5	25.3	25.7	26.3	26.7	26.9	26.9
Private sector	20.1	14.3	18.4	21.7	21.4	22.0	22.7	23.1	23.2	23.2
Public sector	5.4	4.6	4.4	3.8	3.9	3.7	3.6	3.6	3.6	3.7
Gross national savings	31.7	22.9	27.5	30.8	30.0	28.0	27.1	26.2	25.3	24.2
Private sector	21.5	24.7	26.6	26.6	24.5	22.3	21.6	20.1	19.9	19.3
Public sector	10.3	-1.7	0.9	4.2	5.5	5.6	5.5	6.1	5.4	4.9
External current account balance	6.2	4.0	4.7	5.3	4.7	2.2	0.8	-0.5	-1.5	-2.6
Fiscal Operations										
Federal government										
Net lending/borrowing (overall balance)	3.6	-5.9	-4.0	0.8	1.4	1.6	2.2	2.8	2.0	1.5
Nonoil balance	-7.6	-13.8	-12.7	-9.8	-9.0	-7.5	-6.0	-4.7	-4.7	-4.7
General government										
Net lending/borrowing (overall balance)	4.9	-6.3	-3.5	1.6	1.6	1.9	1.9	2.5	1.8	1.2
Revenues	39.2	35.0	35.5	38.4	37.3	36.1	35.2	34.5	33.8	33.3
Expenditures	34.3	41.4	39.0	36.8	35.7	34.2	33.3	32.0	32.0	32.0
Nonoil balance	-7.7	-15.2	-13.3	-10.2	-9.9	-8.2	-7.1	-5.7	-5.6	-5.5
Primary balance	5.3	-5.7	-2.9	2.2	2.4	2.8	2.8	3.4	2.7	2.1
Gross debt	7.9	11.3	11.8	12.0	10.2	9.1	8.8	7.7	7.4	7.5
					(Billions of U.S dollars; unless otherwise indicated)					
Balance of payments										
Current account	103.7	49.5	70.0	98.8	89.8	45.5	18.2	-10.8	-40.4	-74.6
Trade balance	179.7	111.6	151.4	198.2	181.6	141.0	115.7	91.3	62.0	41.2
Exports (f.o.b)	471.6	303.4	400.1	522.0	531.1	523.9	531.7	546.0	560.5	580.7
Of which: energy	310.1	190.7	254.0	341.8	350.0	332.1	328.0	325.9	321.8	319.7
Imports (f.o.b)	-291.9	-191.8	-248.7	-323.8	-349.5	-382.9	-416.0	-454.6	-498.5	-539.5
Services and transfers, net	-27.1	-22.5	-32.8	-39.1	-41.1	-46.5	-50.5	-54.9	-60.0	-63.3
Capital and financial account	-131.0	-44.3	-26.1	-86.4	-67.3	-37.3	-16.5	5.8	40.0	73.6
Capital account	0.7	-11.4	0.1	-0.1	-5.0	-4.0	-3.0	-2.0	-2.0	-2.0
Financial account	-131.7	-32.9	-26.2	-86.3	-62.3	-33.3	-13.5	7.8	42.0	75.6
Private sector capital	-122.6	-58.1	-25.9	-80.5	-60.3	-31.2	-11.4	9.9	44.1	77.8
Errors and omissions	-11.6	-1.2	-7.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-38.9	4.0	36.3	12.2	22.5	8.2	1.7	-5.0	-0.4	-1.0
Memorandum items:										
Gross reserves (end of period)										
Billions of U.S. dollars	427.1	439.5	479.4	498.6	521.2	529.4	531.1	526.1	525.7	524.7
Percent of short-term debt (residual maturity)	288.3	303.2	339.2	328.0	330.8	316.4	293.0	263.4	234.5	206.7
Months of prospective GNFS imports	14.0	20.8	17.8	14.5	14.1	13.1	12.1	11.0	10.1	9.3
Trade balance (percent of GDP)	10.8	9.1	10.2	10.7	9.5	6.9	5.2	3.8	2.4	1.5
Terms of trade (y-o-y change, percent)	16.2	-25.5	19.3	14.3	0.7	-3.9	-1.4	-0.7	-1.2	0.0
Excluding fuel	5.7	-7.4	17.5	0.7	-4.0	-0.7	-0.9	0.3	0.4	0.8
Export volume, goods (y-o-y change, percent)	-2.6	-9.7	8.5	4.9	2.8	3.2	3.4	3.7	3.9	3.7
Import volume, goods (y-o-y change, percent)	11.1	-31.3	27.3	16.2	9.8	10.1	9.1	9.6	9.7	8.3
World oil price (U.S. dollars per barrel)	97.0	61.8	79.0	104.0	101.8	94.2	91.6	90.2	88.2	87.6

Sources: Russian authorities; and IMF staff estimates.

1/ Russia team's working projections, not based on WEO assumptions.

Table 7. Russian Federation: Financial Soundness Indicators, 2007-12

(Percent)

	2007	2008	2009	2010	2011	2012Q1
Financial Soundness Indicators						
Capital adequacy						
Capital to risk-weighted assets	15.5	16.8	20.9	18.1	14.7	14.7
Core capital to risk-weighted assets	11.6	10.6	13.2	11.1	9.3	9.2
Capital to total assets	13.3	13.6	15.7	14.0	12.6	12.9
Risk-weighted assets to total assets	85.6	81.0	75.2	77.4	85.9	87.7
Credit risk						
NPLs to total loans	2.5	3.8	9.6	8.2	6.6	6.8
Loan loss provisions to total loans	3.6	4.5	9.1	8.5	6.9	7.0
Large credit risks to capital	211.9	191.7	147.1	184.6	228.4	222.6
Distribution of loans provided by credit institutions						
Agriculture, hunting and forestry	3.8	4.2	4.9	5.1	4.8	4.8
Mining	3.1	3.3	3.9	3.6	2.9	2.9
Manufacturing	13.5	14.4	15.7	16.0	15.2	15.2
Production and distribution of energy, gas and water	1.7	1.9	2.4	2.6	2.9	3
Construction	6.0	6.1	6.2	5.9	5.6	5.6
Wholesale and retail trade	18.0	17.4	18.4	17.1	15.6	15.8
Transport and communication	3.7	4.3	3.4	3.8	5.4	5.1
Other economic activities	23.3	23.3	21.9	23.7	22.3	21.6
Individuals	24.8	25.1	23.0	23.7	25.3	26.1
Of which: mortgage loans	5.1	6.6	6.5	6.6	6.7	6.9
Geographical distribution of interbank loans and deposits						
Russian Federation	40.0	27.1	29.5	41.1	41.6	38.8
United Kingdom	23.3	29.1	21.7	21.4	20.2	20.8
USA	4.1	7.1	4.1	2.5	3.0	3.2
Germany	6.8	7.5	4.7	6.0	4.2	5.1
Austria	6.1	5.7	8.2	3.7	6.6	7
France	3.5	4.0	5.7	4.0	2.7	2.5
Italy	1.7	1.5	1.8	0.1	2.7	3.1
Cyprus 1/	0.8	0.4	6.2	5.0	6.6	7.1
Netherlands	2.6	4.6	4.6	2.6	3.2	2.7
Other	11.0	13.1	13.4	13.6	9.0	9.7
Liquidity						
Highly liquid assets to total assets		28.0	26.8	0.0	11.8	12
Liquid assets to total assets	24.8	25.9	28.0	0.0	23.9	23.2
Liquid assets to short-term liabilities	72.9	92.1	102.4	94.3	60.1	58.7
Ratio of client's funds to total loans	94.8	84.6	99.9	109.5	105.3	102.2
Return on assets	3.0	1.8	0.7	1.9	2.4	2.4
Return on equity	22.7	13.3	4.9	12.5	17.6	18.2
Balance Sheet Structure, in percent of assets						
Total asset growth rate	44.1	39.2	5.0	14.9	23.1	...
Total customer loans growth rate	53.0	34.5	-2.5	12.6	28.2	...
Asset side						
Total customer loans	61.1	59.0	54.8	53.7	55.9	56.5
Accounts with CBR and other central banks	6.4	7.4	6.0	5.4	4.2	3.2
Interbank lending	7.0	8.9	9.3	8.6	9.5	9.1
Securities holdings	11.2	8.4	14.6	17.2	14.9	15.3
Liability side						
Funds from CBR	0.2	12.0	4.8	1.0	2.9	3.1
Interbank liabilities	13.9	13.0	10.6	11.1	11.0	10.1
Fund raised from organizations	35.0	31.3	32.5	32.9	33.6	32.2
Individual deposits	25.6	21.1	25.4	29.0	28.5	28.9
Bonds, PN and bank acceptance	5.5	4.0	3.9	3.9	3.7	4.3

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

1/ Exposures to Cyprus mostly reflects a state-owned bank's exposure to its subsidiary in the country.

Table 8. Russian Federation: Indicators of External Vulnerability, 2007–11

(Percent of GDP, unless otherwise indicated)

	2007	2008	2009	2010	2011
Financial indicators					
Public sector debt 1/	8.5	7.9	11.3	11.8	12.0
Broad money (12-month basis, percent change)	43.1	0.8	17.7	31.1	22.6
Private sector credit (12-month basis, percent change)	50.0	37.2	2.6	12.9	28.0
InterBank Prime Rate (3-month average, percent)	5.9	9.7	14.1	4.4	4.9
InterBank Prime Rate (3-month average, percent, real)	-3.2	-4.4	2.4	-2.5	-3.5
External Indicators					
Exports (percent change, U.S. dollars)	16.8	33.1	-35.7	31.9	30.5
Imports (percent change, U.S. dollars)	36.0	30.6	-34.3	29.7	26.6
Terms of trade (percent change, 12 month basis)	2.8	16.2	-25.5	19.3	14.0
Current account balance (billions of U.S. dollars)	77.0	103.7	49.5	70.0	98.8
Capital and financial account balance (billions of U.S. dollars)	85.7	-131.0	-44.3	-26.1	-86.4
Inward portfolio investment (debt securities etc.)	16.9	-27.4	7.4	1.8	-7.3
Other investment (loans, trade credits etc.)	79.1	-104.3	-40.3	-28.0	-79.0
Gross official reserves (billions of U.S. dollars)	478.8	427.1	439.5	479.4	498.6
Short-term foreign assets of the financial sector (billions of U.S. dollars) 2/	42.7	n.a.	n.a.	n.a.	n.a.
Short-term foreign liabilities of the financial sector (billions of U.S. dollars) 2/	30.5	n.a.	n.a.	n.a.	n.a.
Foreign currency exposure of the financial sector (billions of U.S. dollars) 2/	-18.9	n.a.	n.a.	n.a.	n.a.
Official reserves (months of imports goods and services)	20.3	14.0	20.8	17.8	14.5
Ruble broad money to gross reserves	1.1	1.3	1.1	1.4	1.7
Total short-term external debt to reserves	30.9	33.9	32.2	31.8	31.1
Total external debt (billions of U.S. dollars)	471.0	480.5	467.2	488.9	511.4
Of which: public sector debt (billions of U.S. dollars)	46.4	32.8	45.9	46.6	44.7
Total external debt to exports of goods and services (percent)	119.6	91.9	135.4	109.8	88.8
External interest payments to exports of goods and services	5.5	5.0	6.4	5.3	2.6
External amortization payments to exports of goods and services	22.8	24.5	24.3	18.7	11.5
Exchange rate (per U. S. dollar, period average)	25.6	24.9	31.7	30.4	29.4
REER depreciation (-) (12-month basis)	5.5	6.8	-6.9	9.3	7.0
Financial Market Indicators					
Stock market index 3/	2290.51	631.9	1444.61	1767.8	1381.87
Foreign currency debt rating 4/	BBB+	BBB	BBB	BBB	BBB
Spread of benchmark bonds (basis points, end of period) 5/	157	805	203	224	364

Sources: Russian authorities; and IMF staff estimates.

1/ Gross debt of general government.
2/ Series discontinued in 2008.
3/ RTS index, end of period.
4/ S&P long-term foreign currency debt rating, end of period.
5/ JPMorgan EMBIG Russia Sovereign Spread.

Table 9. Russian Federation: Public Sector Debt Sustainability Framework, 2009–17

(Percent of GDP, unless otherwise indicated)

	Actual		Est.			Projection						Debt-stabilizing primary balance
	2009	2010	2011			2012	2013	2014	2015	2016	2017	
Baseline: public sector debt 1/	11.3	11.8	12.0			11.5	11.2	12.6	13.2	14.6	14.3	-0.3
Of which: foreign-currency denominated	3.7	3.2	2.7			2.5	2.3	2.1	1.9	1.7	1.6	
Change in public sector debt	2.8	0.5	0.1			-0.5	-0.3	1.4	0.7	1.4	-0.3	
Identified debt-creating flows	0.0	0.9	-1.7			0.4	-0.4	1.4	0.9	1.5	-0.1	
Primary deficit (excluding deposits in oil funds from revenue)	-1.1	-0.2	-0.2			0.3	0.6	1.6	1.0	1.8	0.2	
Revenue (excluding deposits in oil funds)	41.9	38.6	36.4			36.2	35.4	33.9	34.4	33.6	35.2	
Primary (noninterest) expenditure	40.7	38.4	36.2			36.5	36.0	35.4	35.4	35.4	35.4	
Automatic debt dynamics 2/	1.2	1.2	-1.0			-1.2	-0.3	-0.2	-0.1	-0.3	-0.3	
Contribution from interest rate/growth differential 3/	1.1	-1.0	-1.4			-0.3	-0.2	-0.1	-0.3	-0.4	-0.6	
Of which: contribution from real interest rate	0.5	-0.6	-1.0			0.1	0.2	0.3	0.1	0.1	0.0	
Of which: contribution from real GDP growth	0.7	-0.4	-0.4			-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	
Contribution from exchange rate depreciation 4/	0.1	0.0	0.2			0.0	0.0	0.0	0.0	0.0	0.0	
Other identified debt-creating flows	0.0	0.0	-0.6			0.8	-0.7	0.0	0.0	0.0	0.0	
Residual, including asset changes 5/	2.8	-0.5	1.8			-0.9	0.1	0.1	-0.2	-0.1	-0.2	
Public sector debt-to-revenue ratio 1/	27.1	30.6	32.9			31.7	31.5	37.1	38.5	43.6	40.7	
Gross financing need 6/	7.1	3.8	-1.3			0.0	0.9	1.5	2.2	3.1	3.6	
Billions of U.S. dollars	87.3	57.2	-23.7	10-Year	10-Year	0.5	18.8	32.5	54.2	81.1	105.1	
Stress tests for public sector debt												
Scenario with key variables at their historical averages 7/						9.6	7.4	6.2	5.2	4.3	0.0	-1.6
Scenario with no policy change (constant primary balance) in 2010–16						11.9	10.9	10.6	10.2	9.0	0.0	-0.8
Key macroeconomic and fiscal assumptions underlying baseline				Average	Deviation							
Real GDP growth (percent)	-7.8	4.3	4.3	4.9	4.7	4.0	3.9	3.9	3.9	3.8	3.8	
Average nominal interest rate on public debt (percent) 8/	7.3	5.9	6.2	6.1	0.9	7.4	8.6	9.1	8.1	7.8	7.1	
Nominal appreciation (increase in U.S. dollar value of local currency, percent)	-2.9	-0.8	...	-0.5	8.2	...	...	...	...	...	...	
Inflation rate (GDP deflator, percent)	2.0	11.6	15.4	14.6	5.2	6.3	6.6	6.3	6.7	6.9	7.1	
Growth of real primary spending (deflated by GDP deflator, percent)	11.0	-1.6	-1.8	8.4	6.9	4.8	2.6	2.2	3.9	3.8	3.9	
Primary deficit	-1.1	-0.2	-0.2	-2.7	2.0	0.3	0.6	1.6	1.0	1.8	0.2	

1/ General government and government-guaranteed gross debt.
2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = 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).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.

Table 10. Russian Federation: External Debt Sustainability Framework, 2008–17

(Percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2008	2009	2010	2011			2012	2013	2014	2015	2016	2017	Debt-stabilizing non-interest current account 6/
Baseline: External debt	28.9	38.2	32.9	27.6			27.7	27.8	27.5	27.6	27.9	28.7	-0.9
Change in external debt	-7.3	9.3	-5.3	-5.2			0.1	0.1	-0.2	0.0	0.4	0.8	
Identified external debt-creating flows	-13.8	6.3	-9.3	-9.6			-4.0	-2.2	-1.2	-0.5	0.1	0.7	
Current account deficit, excluding interest payments	-7.8	-5.9	-6.3	-6.2			-5.5	-3.5	-1.8	-1.0	-0.5	0.3	
Deficit in balance of goods and services	-9.4	-7.5	-8.2	-8.8			-7.4	-5.1	-3.5	-2.3	-1.2	-0.5	
Exports	31.5	28.2	29.9	31.1			30.6	28.6	26.6	25.0	23.6	22.7	
Imports	22.1	20.7	21.7	22.4			23.2	23.5	23.2	22.7	22.4	22.1	
Net non-debt creating capital inflows (negative)	0.2	1.5	1.9	2.0			1.7	1.4	1.2	0.9	0.8	0.5	
Automatic debt dynamics 1/	-6.1	10.6	-4.9	-5.5			-0.3	-0.2	-0.5	-0.5	-0.2	-0.1	
Contribution from nominal interest rate	1.6	1.8	1.6	0.8			0.8	0.8	0.5	0.5	0.7	0.9	
Contribution from real GDP growth	-1.5	3.1	-1.4	-1.1			-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	
Contribution from price and exchange rate changes 2/	-6.2	5.7	-5.2	-5.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets 3/	6.5	3.0	4.0	4.4			4.1	2.3	0.9	0.5	0.3	0.1	
External debt-to-exports ratio (in percent)	91.9	135.4	109.8	88.8			90.6	97.2	103.4	110.2	118.2	126.5	
Gross external financing need (in billions of US dollars) 4/	112.4	98.6	75.4	42.5			62.2	103.7	136.9	170.6	206.1	253.1	
in percent of GDP	6.8	8.1	5.1	2.3	10-Year	10-Year	3.2	5.1	6.2	7.0	7.8	8.8	
Scenario with key variables at their historical averages 5/							18.9	10.1	1.7	-5.9	-12.9	-19.1	2.9
Key Macroeconomic Assumptions Underlying Baseline					Historical Average	Standard Deviation							
Real GDP growth (in percent)	5.2	-7.8	4.3	4.3	4.8	4.7	4.0	3.9	3.9	3.9	3.8	3.8	
GDP deflator in US dollars (change in percent)	21.4	-20.2	16.6	19.3	15.1	13.5	-0.3	2.1	5.0	5.5	5.0	4.8	
Nominal external interest rate (in percent)	5.5	4.6	5.1	3.1	5.5	1.0	3.0	3.1	1.8	2.1	2.9	3.3	
Growth of exports (US dollar terms, in percent)	32.7	-34.0	29.0	29.4	19.8	20.6	2.0	-1.0	1.8	3.0	3.0	4.4	
Growth of imports (US dollar terms, in percent)	30.0	-31.0	27.4	28.1	20.5	18.9	7.5	7.4	7.7	7.4	7.6	7.6	
Current account balance, excluding interest payments	7.8	5.9	6.3	6.2	9.1	2.6	5.5	3.5	1.8	1.0	0.5	-0.3	
Net non-debt creating capital inflows	-0.2	-1.5	-1.9	-2.0	-0.4	1.2	-1.7	-1.4	-1.2	-0.9	-0.8	-0.5	

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.

ANNEX I. Russia: Risk Assessment Matrix [1]

Source of Risks	Relative Likelihood	Impact if Realized
1. **Sharp oil price decline**	**Medium** A deepening of the recession in the euro area could result in a slowdown of global demand and a sharp decline in commodity prices.	**High** Given Russia's high dependence on oil, the economy could enter into another recession, with high fiscal deficits, intensified capital outflows, and pressures on the ruble.
2. **Sharp oil price increase**	**Low** Geopolitical risks could lead to a sharp increase in oil prices.	**High** Rising oil prices could tip the economy into overheating territory, while weakening short-term incentives for policy adjustment and reform.
3. **Acceleration of capital outflows**	**Medium/High** Capital outflows have been on an increasing trend during 2010/11. A spike in global risk aversion or renewed political tensions in Russia could cause a further intensification.	**Low** The more flexible ruble will act as a shock absorber, while balance sheet mismatches have been reduced. Still, outflows would be a drag on investment.
4. **Funding freeze**	**Medium** Intensified banking problems in the Euro Area could trigger a further regional or global liquidity squeeze.	**Medium** During the 2008-09 crisis, the CBR was successful in providing large-scale liquidity support and prevented a banking crisis. It could likely manage another funding-squeeze episode.
5. **Failure of a large bank**	**Medium** Persistent weaknesses in regulation and supervision, alongside widespread connected lending, continue to make the banking system vulnerable, as was illustrated by last year's failure of the Bank of Moscow.	**Low** Closure of systematically important banks is unlikely. Large state-owned banks are well capitalized, and large private banks could be rescued. Recent bank failures did not have systemic impact.

[1] The RAM shows events that could materially alter the baseline path—the scenario most likely to materialize in the view of the staff.

ANNEX II. Russia: Key FSAP Recommendations and Implementation

Recommendation	Status
Short term (implementation within 12 months)	
Empower the CBR to use professional judgment in interpreting laws and regulations, issuing enforceable risk management guidance, and applying it to individual banks.	Legislation pending
Approve pending amendments to expand CBR supervisory authority over bank holding companies and related parties, and eliminate restrictions on information-sharing with other domestic and foreign supervisors.	Legislation pending
Allow the CBR to sanction individual directors and managers, raise capital requirements on individual institutions, and impose restrictions on transactions between affiliates.	Legislation pending
Ensure the unified securities and insurance supervisor (FSFM) has the power to issue secondary regulation to interpret the law, as well as industry-wide binding norms.	Under discussion
Empower the FSFM to require insurers to have in place internal controls and risk management systems commensurate with the complexity of their business.	Legislation pending
Apply fit and proper requirements to directors and key management of insurers on an ongoing basis.	No decision
Make home-host notifications and cross-border cooperation in insurance mandatory for the FSFM.	No decision
Adopt pending legislation that empowers the FSFM to appoint a provisional administrator, freeze assets, and wind down distressed securities firms.	Legislation pending
Medium term (implementation in 1–3 years)	
Adopt a prompt remedial action framework for banks.	No decision 1/
Give the chairman and key members of FSFM fixed-term appointments.	No decision
Require government guarantee for all CBR loans that are unsecured or not backed by marketable collateral or guarantees.	No decision
Require repo transactions to take place using central counterparty clearing.	No decision
Set limits on concentration of collateral in the repo market.	No decision
Introduce a unified administration regime for all banks (systemic or otherwise) with broad powers for the administrator.	No decision 1/
Open-bank assistance such as loans, capital injections, nationalization by the Deposit Insurance Agency (DIA) should be restricted to systemic situations.	No decision 1/

1/ The authorities are preparing to upgrade the banking resolution framework in line with "Key Attributes for Effective Resolution" issued by the Financial Stability Board at the end of 2011, rather than taking up specific FSAP recommendations.

ANNEX III. Russia: Sensitivity of Inflation Expectations

The effect of exogenous price shocks on inflation generally depends on how well inflation expectations are anchored. If a central bank's commitment to low and stable inflation is credible, the private sector may expect that it will neutralize the effect of price shocks, so that outer-year inflation projections would likely be less affected than otherwise. In turn, such firmly-anchored inflation expectations would also help the monetary authorities to stabilize inflation with smaller policy adjustments than would otherwise be needed.

The extent to which inflation expectations are anchored can be examined by estimating the response of medium-term inflation expectations to a revision to the near-term inflation forecast, which generally reflects the up-to-date information on factors that affect (or will affect) inflation. Following the methodology used in the October 2011 WEO (Chapter III), we estimate how the consensus views on future inflation ($\Delta E_{it}\pi_{i,t+N}$) respond to the change in the current period inflation expectations ($\Delta E_{it}\pi_{it}$) for each forecasting horizon (N = 1 to 5) in a broad set of countries, including Russia. The regression equation is as follows:

$$\Delta E_{it}\pi_{i,t+N} = \alpha + \beta^N \cdot \Delta E_{it}\pi_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

where i and t represent country and year, respectively. The data for this analysis is based on the consensus forecasts for 21 advanced, and 12 emerging market (EM) inflation targeting economies over the past two decades, which provide the average of medium-term inflation projections by various economic institutions twice a year.[1] Further, the regression allows for different responses of inflation expectations to positive and negative inflation news, respectively, i.e., $\beta^N = \gamma^N + \theta^N \cdot d$, where d is a dummy variable for negative inflation news.

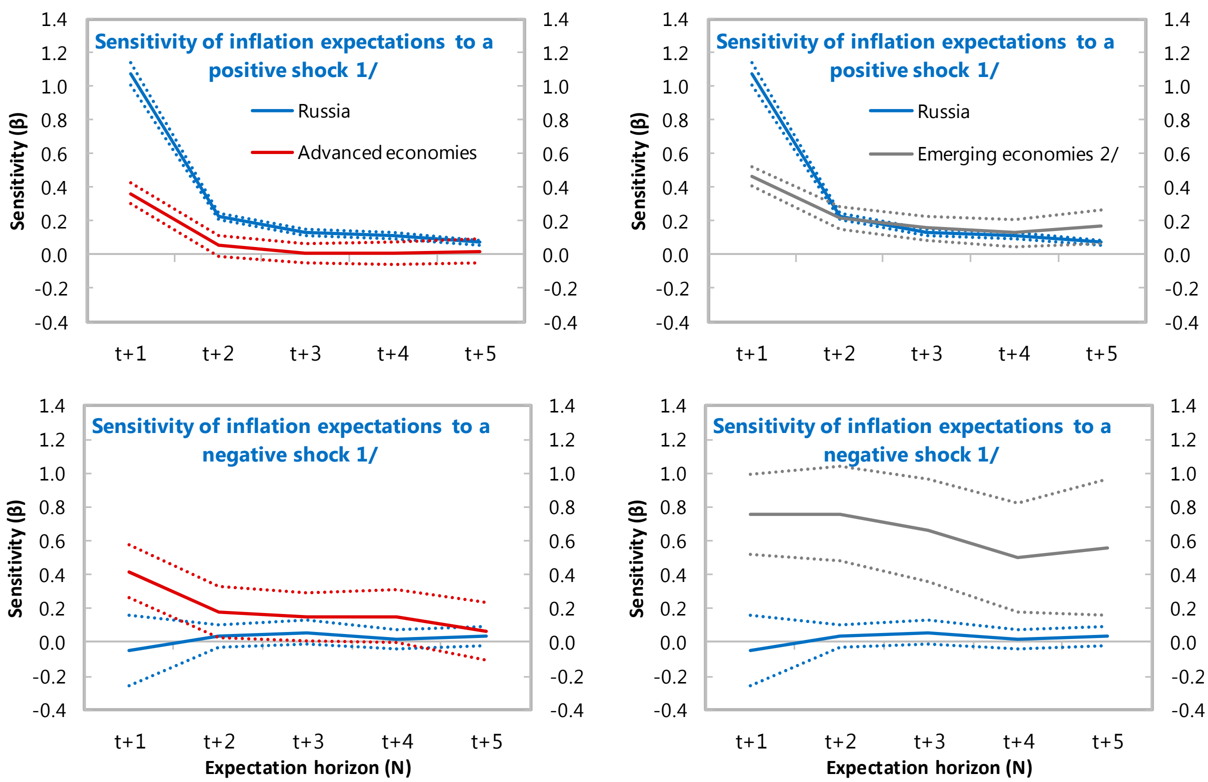
In Russia, short-term inflation expectations are very responsive to upward inflation news. For example, when the current period inflation projection is revised upward by 1 percentage point, next year's inflation projection (t+1) is revised by the same magnitude. The sensitivity of inflation expectations to a positive inflation shock in Russia is significantly higher than that in advanced economies throughout the 5-year expectation horizon, and also higher than that in EM peers in the short term (1 year), though the gap there is much narrower and disappears in the medium-term projections (top panels of text chart).

In contrast, Russia's market expectations on future inflation have hardly responded to downward inflation news suggesting that Russia's private sector regards a downward inflation shock as transitory, and thus does not adjust even short-term inflation expectations in face of downward inflation news. Such an asymmetry between upward and downward shocks does not exist in

[1] Consensus forecasts update the inflation survey twice a year, March and September. The change in the current period inflation expectations is the revision to the nearest end-year inflation projection between these biannual surveys.

advanced economies. And the pattern in Russia is opposite to that found in its inflation targeting EM peers, where forces driving downward revisions to the current period inflation projections are seen as *more* lasting—i.e., structural gains, while the wider confidence interval implies that cross-country variations are considerable (bottom panels of text chart).

More persistent (and asymmetric) inflation expectations in Russia seem to be a reflection of the weak credibility of the central bank's commitment to low and stable inflation in the past, which, in turn, appears to have undermined the effectiveness of the monetary policy. Continuing the recent improvement in the central bank's credibility—and thereby more firmly-anchored inflation expectations—will be key to the success of formal inflation targeting in Russia.



Sources: Consensus Forecasts; and IMF staff estimates.
1/ Dotted lines represent 95 percent confidence intervals.
2/ EM inflation targeting economies include Brazil, Chile, Colombia, Czech Republic, Hungary, Indonesia, Mexico, Peru, the Philippines, Poland, Thailand, and Turkey.

INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

July 11, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	The European Department (In consultation with other departments and the World Bank)

CONTENTS

I. FUND RELATIONS

(As of May 31, 2012)

I. **Membership Status**: Joined 06/01/1992; Article VIII.

		SDR Million	Percent of Quota
II.	**General Resources Account**:	**SDR Million**	**Percent of Quota**
	Quota	5,945.40	100.00
	Fund holdings of currency	3,901.86	65.63
	Reserve Position	2,043.56	34.37
III.	**SDR Department**	**SDR Million**	**Percent of Allocation**
	Net cumulative allocation	5,671.80	100.00
	Holdings	5,685.50	100.24

IV. **Outstanding Purchases and Loans:** None

V. **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	6,305.57	1,443.45
Of which SRF	07/20/98	03/26/99	3,992.47	675.02
EFF	03/26/96	03/26/99	6,901.00	4,336.26

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal					
Charges/Interest		0.07	0.07	0.07	0.07
Total		0.07	0.07	0.07	0.07

VII. **Implementation of HIPC Initiative:** Not Applicable

VIII. **Implementation of MDRI Assistance:** Not Applicable

IX. **Exchange Arrangements**: The de jure arrangement is other managed arrangement—namely, a controlled floating exchange rate arrangement. The ruble value of a bi-currency basket is used as the operating benchmark for transactions on the internal currency market. The basket is currently composed of €0.45 and $0.55. The target boundaries of its permissible fluctuations were revised based on changes in fundamental factors governing formation of the country's balance of payments in accordance with the Uniform State Monetary Policy Guidelines for 2008, in response to a gradual transition to a more flexible exchange-rate-setting policy. The value of the bi-currency basket is determined under the influence of both market factors and exchange interventions by the CBR. The interventions take place both in interbank currency exchanges and on the over-the-counter interbank market to limit daily fluctuations. Effective October 13, 2010, the CBR has eliminated the fixed trading band of Rub 26-41 against the bi-currency basket, in force since January 2009. The CBR has also widened the moving intervention band from 3 to 6 rubles in three installments, with the size of the maximum intervention amount within the band reduced from $700 million to $500 million. The permissible fluctuations may be revised in response to changes in macroeconomic indicators. Owing to the continued control of the CBR over the exchange rate determination, the de facto exchange rate arrangement is other managed arrangement. 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 currents international transactions*.

X. **Article IV Consultation**: Russia is on the standard 12-month consultation cycle. The last consultation was concluded on September 9, 2011.

XI. **FSAP Participation and ROSCs**

Russia participated in the Financial Sector Assessment Program during 2002, and the FSSA report was discussed by the Board in May 2003, at the time of the 2003 Article IV discussion (IMF Country Report No. 03/147). 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 Fiscal Transparency ROSC mission, headed by Peter Heller (FAD), visited Moscow in July 2003, and a new Data ROSC module was undertaken by a mission in October 2003, led by Armida San Jose (STA). A mission led by Ms. San Jose undertook a reassessment of Data ROSC module in July 2010.

XII. **Resident Representatives**:

Mr. Odd Per Brekk, Senior Resident Representative, since March 1, 2009.

II. WORLD BANK-IMF COLLABORATION

1. **The Fund Russia team led by Mr. Spilimbergo (mission chief) met with the World Bank Russia economic policy team led by Mr. Bogetic (lead economist and country sector coordinator)** on May 1, 2012 to discuss and reconfirm macrocritical structural reforms and to coordinate the two teams' work for the period October 2011-September 2012.

2. **The teams agreed that Russia's main macroeconomic challenges are to raise growth prospects and strengthen the banking system.** A reduction of economic vulnerabilities and reinvigoration of structural reforms will be needed to meet these challenges.

3. **Based on this shared assessment, the teams identified five reform areas as macrocritical:**

- **Strengthening the fiscal framework:** Key elements of reform include: (i) focusing on the nonoil balance as the anchor for fiscal policy, (ii) using a Permanent Oil Income Model (POIM) rule to ensure long-term fiscal sustainability; (iii) avoiding excessive use of supplemental budgets; and (iv) replenishing the Reserve Fund (designed as a "rainy day" fund). These reforms are macrocritical as they will help to reduce fiscal (and economic) vulnerabilities, and increase the credibility of fiscal policy, which would support higher growth.

- **Public expenditure reforms:** Key elements of reform include: (i) promoting aggregate fiscal discipline and strengthening public expenditure efficiency and management; (ii) strengthening capital budgeting in the road and rail sectors; and (iii) improving the efficiency of public employment. These reforms are macrocritical as they will help to identify savings to support fiscal consolidation and reduce fiscal vulnerabilities.

- **Reforming the pension system:** Key objectives of reform include bringing down long-run fiscal costs and providing reasonable pension benefits to all pensioners current and future. These reforms are macrocritical as they will help to reduce fiscal vulnerabilities.

- **Strengthening the monetary policy framework:** Key elements of reform include (i) further increasing exchange rate flexibility; (ii) streamlining the set of monetary policy instruments; (iii) establishing a binding policy rate; (iv) gradually narrowing the policy interest rate corridor; and (v) further improving policy communications. These reforms are macrocritical as they will help to improve the effectiveness of the monetary policy efforts to control inflation, which is key for macroeconomic stability and growth.

- **Financial sector stability assessment and financial sector development:** The banking sector is stable but regulatory and supervisory deficiencies need to be addressed, specifically: (i) prompt adoption of pending legislation on consolidated supervision and connected lending; (ii) granting an appropriate degree of supervisory discretion to the CBR; (iii) closer supervision of systemically important banks to contain moral hazard and improve systemic risk monitoring. These reforms are macrocritical as financial sector stability is key for effective intermediation of savings to promote investment and growth.

4. **The teams agreed the following division of labor:**

- **Strengthening the fiscal framework:** The Fund has elaborated reform options and discussed them with the authorities during the 2011 Article IV consultation. The Fund will also start a dialogue with the authorities on the best ways to analyze, manage, and disclose contingent liabilities and fiscal risks, drawing on international best practice in these areas. The Bank is preparing a new lending project for FY13 to strengthen the fiscal regime to encourage business investment, streamline the intergovernmental fiscal system and increase oversight of financial risks through policy advice and capacity building in the Ministry of Finance and the Federal Tax Service. The Bank is also monitoring fiscal developments, reforms and policies as part of its regular Russian Economic Reports covering macroeconomic and structural issues. In addition, the Bank is providing technical assistance on program budgeting and public expenditure efficiency.

- **Public expenditure reforms:** The Bank has elaborated reform options in its Public Expenditure Review, which were discussed with the authorities and published in June 2011. The Bank will further explore cooperation with the authorities in the areas of improving the business environment and public administration reform, including in the regions.

- **Reforming the pension system:** The Fund has elaborated reform options and presented them at a high-level conference in Moscow in January 2012 which included representatives from the government, academia, private sector, and civil society, and discuss these options in the context of the 2012 Article IV consultation. The Fund also assessed the reform proposals of the Strategy 2020 Working Group on Pensions that were presented to the authorities. The World Bank has completed several recent studies that relate to the pension system, including a study of long-term fiscal risks and a recent paper on the second, private pillar. The Bank team has shared these studies and also participated in the Fund's January 2012 pension reform workshop.

- **Strengthening the monetary policy framework:** The Fund has elaborated reform options and discussed them with the authorities during the 2011 Article IV consultation. Envisaged follow-up work includes: (i) examining the optimal width of the policy rate corridor and strategies for narrowing it; (ii) coordination between monetary policy and government operations that affect liquidity conditions; (iii) foreign exchange intervention policy; and (iv) effective communications policies.

- **Financial sector stability assessment and financial sector development:** The Fund conducted the assessment in March/April 2011 and discussed reform options with the authorities, along with participation of Bank staff. Follow-up work includes more comprehensive recommendations in the macro-prudential policy area, based on recent work carried out by the Fund. The Bank has appointed a new private sector/financial sector coordinator for Russia, who is stationed in Moscow to coordinate the work on longer-term developmental issues in the private/financial sector. The Bank is also preparing a new lending project to (a) achieve an orderly financial market expansion and development of domestic capital markets to better serve the needs for corporate finance, (b) enhance financial market stability through a modernized state-of-the-art regulatory framework and the implementation of robust supervisory and enforcement mechanisms, and (c) reach global best practice standards in the market infrastructure and regulation, in order to achieve a broader international reach as a center of financing.

5. The teams have the following requests for information from their counterparts:

- The Fund team requests to be kept informed of progress in the macrocritical reform areas under the Bank's purview and also to receive an analysis from the WB of the composition of the authorities' 2012–14 medium-term budget, along the lines of the recent Public Expenditure Review.

- The Bank team requested that the Fund share on a regular basis with WB and invite, as needed, Bank's comments on policy notes, draft staff reports, and other relevant materials; and that Bank staff be invited to attend policy meetings, as has already been the case with the 2011 Article Consultation Discussion. Timing: in the context of the Article IV and other missions (and at least semi-annually).

6. The table below lists the teams' separate and joint work programs during October 2011-September 2012.

Title	**Products**	**Provisional timing of missions**	**Expected delivery date**
A. Mutual information on relevant work programs			
1. Bank work program	Country Partnership Strategy	Delivered	Board discussion Dec. 2011, Implementation launch June 2012
	Russian Economic Reports (RER)	Ongoing	Sept. 2011, March 2012, Sept. 2012 June 2011
	Public Expenditure Review	Delivered	July 2011

	Russia: Reshaping Economic Geography Other analytical work on export diversification, growth and jobs, and inequality and economic opportunities, financial sector analysis (pensions, banking, capital markets and insurance) and technical assistance on diversification and innovation, customs, tax administration and judicial reform. Russia energy efficiency project Financial Sector Development Project Fiscal and Financial Development Microfinance Development Project	Delivered Ongoing Ongoing Ongoing Ongoing Ongoing	n.a. Board discussion expected Sept. 2012 Board discussion expected Nov. 2012 Board discussion expected Dec. 2012 Board discussion expected July 2012
2. Fund work program	2011 Staff Visit Pension reform workshop and presentation at Gaidar Forum conference 2011 Article IV mission	December January 2012 June 2012	n.a. Jan. 2012 August 2012
3. Joint products in next 12 months	No joint products planned at this time, though the Bank participated in the Fund's January 2012 pension reform workshop		

III. STATISTICAL ISSUES

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.

Russia is an SDDS subscriber, has a range of statistical dissemination formats, and reports data for the Fund's statistical publications. These sources inform surveillance.

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. This may point inter alia to lags in the revision schedule of the various data formats. The Federal State Statistics Service (Rosstat) started a national account development plan for 2011–17, which will expedite compilation of quarterly GDP estimates consistent with annual GDP estimate. Following the introduction of methodological changes in the compilation of important indicators, backward revisions of the series were delayed impairing timely economic analysis. However, a historical revision of the industrial production index was released in July 2010. Consistent with the new series, a historical revision of the annual and quarterly GDP series, which will also incorporate the results of the 2006 agriculture census as well as methodological improvements, was made in the third quarter of 2010.

The Rosstat follows the *1993 SNA* in general, although scope exists for methodological improvements in the calculations of volume measures of the production-based GDP estimates, including estimates of the output of financial intermediation services indirectly measured (FISIM). The imputed rental services of owner-occupied dwellings are undervalued. Improvements in the coverage of source data are constrained by an inadequate response to business surveys. The unavailability of balance sheet data continues to be an obstacle for analyzing balance sheet vulnerabilities, and work is underway to disseminate the first quarterly sectoral accounts and balance sheets for 2012–14 by 2016.

Price statistics: Data are broadly adequate for surveillance. Monthly CPI and PPI, both compiled using the Two-State (Modified) Laspeyres (2000=100), cover all regions of the Russian Federation. In addition to the general CPI index, Rosstat also publishes indices for foodstuffs, non-food products, and services. Since September 2010, the Rosstat has also published price indices broken down according to the Classification of Individual Consumption According to Purpose (COICOP) on a monthly basis. Detailed CPI weight data have been made available on the Rosstat website beginning in 2006 and in the publication *Prices in Russia* beginning in 1995. Since 2009, detailed consumer expenditure data, used as the basis to develop the CPI weights, are posted on Rosstat's website annually. Earlier data on detailed household expenditures have been published in the following publications: *Prices in Russia 2004* and *Prices in Russia 2006.*

Detailed PPI weight data are published on the Rosstat website for 2006–11: and detailed data on total annual sales, which are used to develop weights for the PPI, are also published by economic activity on the website under the Entrepreneurship section, industrial subsection. However, the detailed weights are available only on the Russian version of the website, making it less accessible by 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: For surveillance purposes, the timeliness and level of detail of the data disseminated can be improved. Since July 2010, data on the economic classification of expenditures have been published on a monthly basis with a lag of about 1½ months, but problems with consistent historical data still remain. The data on functional classification of expenditure and financing differ from international standards. Historical data on the maturity structure of domestic and external federal debt are not published, except the most recent observation available through SDDS. Monthly data on the size and composition of ruble guarantees are not available prior to 2011. Historical monthly data on foreign currency debt are not available prior to 2009, though quarterly data are available since 2006. In addition, there is no integrated debt monitoring and reporting system. Reconciliation of different datasets of fiscal statistics (budget execution, cash flow statement, *GFSM 2001* format, SDDS) is difficult. The website where fiscal statistics are disseminated can be made more user friendly by consolidating all statistical links in a dedicated data dissemination page, available both in Russian and in English, and supplementing the data with relevant definitions, description of compilation methodology, and relevant analytical materials. The authorities are working to address the recommendations of the 2010 ROSC Data Module Update.

Monetary statistics: Since July 2008, the Central Bank of Russia (CBR) has provided the IMF, in the *MFSM*-recommended format for the surveys, with summarized data on (i) the Central Bank Survey, (ii) the Other Depository Corporations Survey, (iii) the Depository Corporations Survey, (iv) the Other Financial Corporation Survey (data cover insurance companies and private pension funds), and (v) the Financial Corporations Survey (data cover the banking system, insurance companies, and private pension funds). In the context of the current global turmoil, analysis of balance sheet effects has been hindered by a lack of comparable data on the currency and maturity breakdown of banking-sector assets and liabilities. Adoption of data reporting in full detail of the framework for Standardized Report Forms (SRFs), as recommended by an STA mission in 2007, would provide information on the currency and instrument breakdowns of the banking sector assets and liabilities. Starting in July 2010, the CBR includes in the Surveys the breakdown of positions by currency.

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. However, there still remains scope for improving the coverage of certain components of the current, capital, and financial accounts. The balance of payments is compiled according to the framework of the Fund's *Balance of Payments Manual,* fifth edition *(BPM5)* and the CBR is actively implementing the recommendations of the *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.

Headline data on reserves are reported to the Fund and the markets on a weekly basis with a four-business day lag. Comprehensive information is reported in the Reserves Template with a lag of 20 days, exceeding SDDS timeliness requirement of one month.

II. Data Standards and Quality

Subscriber to the Special Data Dissemination Standard (SDDS) since January 31, 2005. SDDS flexibility option used for the timeliness of data on central government operations.
A data ROSC prepared in October 2003 was published on the IMF website on May 14, 2004.
A data ROSC reassessment in June-July 2010 was published on the IMF website on February 28, 2011 and concluded that Russia's macroeconomic statistics are generally of high quality. It found that compiling agencies have made significant progress in adopting international statistical methodologies and best practices.

III. Reporting to STA (Optional)

Data are being reported for publication in the *International Financial Statistics (IFS)*, *Government Finance Statistics Yearbook, the Direction of Trade Statistics*, and *the Balance of Payments Statistics Yearbook*. Monetary data reported as the basis for publication in *IFS* are in the format of summarized surveys rather than in the full detail of the SRFs that present positions by financial instrument disaggregated by currency (national and foreign) and the economic sector of counterparty.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(AS OF JUNE 30, 2012)

	Date of latest observation	Date received	Frequency of data[8]	Frequency of reporting[8]	Frequency of publication[8]	Memo Items: Data Quality – Methodological soundness[9]	Memo Items: Data Quality Accuracy and reliability[10]
Exchange Rates	6/30/12	6/30/12	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	6/1/2012	6/6/12	M	M	M		
Reserve/Base Money (narrow definition)	6/20/12	6/24/12	D	W	W	O, O, LO, LO	O, O, O, O, O
Reserve/Base Money (broad definition)	6/1/2012	6/14/12	D	M	M	O,O,LO,LO	O,O,O,O,O
Broad Money	6/1/2012	6/27/12	M	M	M	O,O,LO,LO	O,O,O,O,O
Central Bank Balance Sheet[2]	6/1/2012	6/14/12	M	M	M	O,O,LO,LO	O,O,O,O,O
Consolidated Balance Sheet of the Banking System	6/1/2012	6/30/12	M	M	M	O,O,LO,LO	O,O,O,O,O
Interest Rates[3]	6/30/12	6/30/12	D/W/M	D/W/M	D/W/M		
Consumer Price Index	May 2012	6/6/12	M	M	M	O, LO, LNO, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	April, 2012	6/7/12	M	M	M	LO, LNO, LO, O	O, O, LO, O, NA
Revenue, Expenditure, Balance and Composition of Financing[4]– Central Government	May, 2012	6/10/12	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[6]	6/1/2012	6/27/12	M	M	M		
External Current Account Balance[7]	Q1 2012	4/5/12	Q	Q	Q	O, O, O,L O	LO, O, O, O, O
Exports and Imports of Goods and Services	Q1 2012	4/5/12	Q	Q	Q		
GDP/GNP	Q1 2012	5/16/12	Q	Q	Q	O, O, O, O	O, O,LO, O, LO
Gross External Debt	Q1 2012	6/30/12	Q	Q	Q		
International Investment Position	2010	6/30/12	A	A	A		

[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] Ratings refer to Central Bank Survey.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Including currency and maturity composition.
[7] Ratings refer to Balance of Payments.
[8] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[9] Based on the findings of the ROSC Data Module (Reassessment) mission in the field as of July 7, 2010 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

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IMF Executive Board Concludes 2012 Article IV Consultation with the Russian Federation

On July 27, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Russian Federation.[1]

Background

Russia's economic recovery continued in 2011 with growth of 4.3 percent, the same as in 2010. Economic activity rebounded in the second half of the year on the back of a favorable harvest and high oil prices. The momentum continued in the first quarter of 2012 with strong real wage and consumption growth supporting demand. Unemployment has continued to decline to pre-crisis lows, the capacity utilization in the manufacturing sector has recovered its 2007–08 level, and the output gap is estimated to now be closed. Inflation has come down significantly in recent months, largely due to one-off factors, and staff's measure of core inflation—a good proxy of trend inflation—remains high at around 6 percent. The current account has strengthened in 2011 aided by high oil prices, but net capital outflows persist, broadly mirroring the current account surplus.

Following two years of stagnation, credit growth rebounded strongly in 2011. This partly reflected a switch by the corporate sector from external to domestic funding. Consumer credit also grew strongly. On the credit supply side, improving bank balance sheets (with declining nonperforming loan ratios and improving profitability) and funding conditions

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[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. 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.

(reflecting solid deposit growth and the Central Bank of Russia's liquidity provision) allowed for the expansion of lending.

Fiscal policy tightened in 2011, but it remains procyclical. The federal nonoil deficit declined from 12.7 percent of GDP in 2010 to 9.8 percent of GDP in 2011. This improvement was due to both nonoil revenue overperformance and expenditure underexecution. Some of the windfall oil revenues from 2011 were deposited in the Reserve Fund in early 2012. However, the 2012 budget implies an increase in the federal nonoil deficit of about 1 percent of GDP.

The Central Bank of Russia (CBR) tightened monetary policy significantly during 2011, including by gradually steering the interbank market rate from the CBR deposit rate of 2¾ percent in January to the CBR repo rate of 5¼ percent by the end of the year. Since then, however, monetary policy has effectively been on hold. Meanwhile, the CBR has continued to increase exchange rate flexibility as the intervention band was widened further, and intervention amounts have been relatively modest.

The near-term outlook is for continued moderate growth and a rebound in inflation. Real growth is projected at around 4 percent in 2012 and 2013, with potential GDP growing at a slightly lower rate. Inflation is projected to rebound to 6½ percent by end-2012, reflecting output rising above potential, the base effect, and the delayed increases in administered prices in mid-2012. The external current account surplus is projected to decline, amid slightly weaker oil prices. Capital outflows will likely continue, albeit at a moderating pace.

Executive Board Assessment

Executive Directors welcomed Russia's recovery from the 2008–09 crisis and noted that the output gap is estimated to have been closed. The challenge in the short term is to manage domestic demand in order to avoid overheating and in the medium term to fully realize Russia's significant growth potential by maintaining macroeconomic stability, further strengthening the policy framework, and making decisive progress on structural reforms.

Directors recommended an ambitious fiscal consolidation path to reduce overheating pressures and vulnerabilities and ensure intergenerational equity. Some Directors saw merit in a cautious approach at the current juncture given the uncertain global environment. Directors stressed the importance of a strengthened fiscal framework to anchor medium-term fiscal policy. They welcomed the plan to introduce a new fiscal rule to decouple the fiscal stance from short-term variations in oil prices, but saw scope for further improvements to allow for the effective rebuilding of the Reserve Fund. While the immediate priority would be to unwind crisis-related stimulus, Directors underscored that durable consolidation will need to be underpinned by structural reforms, including pension reform.

Directors welcomed the improvements in the monetary policy framework, especially greater exchange rate flexibility which is helping absorb external shocks and allows monetary policy to focus on inflation. They noted the significant decline in inflation, but generally recommended a gradual further tightening of monetary policy to contain underlying pressures and anchor expectations. Directors also encouraged continued strengthening of monetary policy tools and enhanced communication policies to prepare for the successful adoption of formal inflation targeting by 2014.

Directors welcomed the improvements in the financial system and its resilience to a variety of shocks. They called for continued vigilance with regard to asset quality in the context of rapid credit growth and volatile oil prices, and commended the authorities' ongoing efforts to improve financial stability analyses and the macroprudential oversight framework. Directors called on the authorities to expedite the implementation of FSAP recommendations that strengthen the regulatory and supervisory framework. Important priorities are the prompt passing of legislation on consolidated supervision and connected lending and the expansion of the central bank's powers to use professional judgment.

Directors underscored that structural reforms are crucial to increase investment, diversify the economy, and raise potential growth. Welcoming Russia's accession to the WTO, they encouraged the authorities to seize this opportunity to strengthen the momentum for reforms and make the business environment more predictable by strengthening the rule of law, reducing corruption, and scaling back state involvement in the economy, including through transparent privatization of state-owned companies.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Russian Federation: Selected Macroeconomic Indicators, 2009–13

	2009	2010	2011	2012	2013
			Estimate	Projections	
			(Annual percent change)		
Production and prices					
Real GDP	-7.8	4.3	4.3	4.0	3.9
Consumer prices					
Period average	11.7	6.9	8.4	5.0	6.5
End of period	8.8	8.8	6.1	6.5	6.5
GDP deflator	2.0	11.6	15.4	6.3	6.6
			(Percent of GDP)		
Public sector 1/					
General government					
Net lending/borrowing (overall balance)	-6.3	-3.5	1.6	0.2	-0.7
Revenue	35.0	35.5	38.4	37.5	36.3
Expenditures	41.4	39.0	36.8	37.3	36.9
Primary balance	-5.7	-2.9	2.2	1.0	0.2
Nonoil balance	-15.2	-13.3	-10.2	-11.3	-10.7
Nonoil balance excl. one-off receipts 2/	-15.6	-13.3	-10.2	-11.3	-10.7
Federal government					
Net lending/borrowing (overall balance)	-5.9	-4.0	0.8	-0.2	-1.1
Nonoil balance	-13.8	-12.7	-9.8	-10.6	-10.3
Nonoil balance excl. one-off receipts 2/	-14.2	-12.7	-9.8	-10.6	-10.3
			(Annual percent change)		
Money					
Base money	7.4	25.4	20.9	23.9	19.2
Ruble broad money	17.7	31.1	22.6	23.7	20.7
External sector					
Export volumes	-9.7	8.5	4.9	2.8	3.2
Oil	3.0	5.7	1.5	1.5	1.5
Gas	-13.8	23.5	-0.9	-0.9	-0.9
Non-energy	-17.9	11.2	5.8	6.5	7.2
Import volumes	-31.3	27.3	16.2	9.7	8.3
			(Billions of U.S. dollars; unless otherwise indicated)		
External sector					
Total merchandise exports, fob	303.4	400.1	522.0	531.1	523.9
Total merchandise imports, fob	-191.8	-248.7	-323.8	-349.5	-376.4
External current account	49.5	70.0	98.8	89.9	53.8
External current account (in percent of GDP)	4.0	4.7	5.3	4.7	2.6
Gross international reserves					
Billions of U.S. dollars	439.5	479.4	498.6	521.2	533.4
Months of imports 3/	20.8	17.8	14.5	14.1	13.4
Percent of short-term debt	303	339	328	331	319
Memorandum items:					
Nominal GDP (billions of U.S. dollars)	1,232	1,486	1,850	1,919	2,036
Exchange rate (rubles per U.S. dollar, period average)	31.7	30.4	29.4	…	…
World oil price (U.S. dollars per barrel, WEO)	61.8	79.0	104.0	101.8	94.2
Real effective exchange rate (average percent change)	-6.9	9.3	7.0	…	…

Sources: Russian authorities; and IMF staff estimates.
1/ Based on the 2012–14 budget and the 2012 supplemental budget.
2/ Excludes one-off tax receipts from Nanotechnology and Housing Funds in 2009.
3/ In months of imports of goods and non-factor services.