

IMF urges "fundamental" state reforms in Russia

By Jason Bush

MOSCOW, Jan 26 (Reuters) - Russia must implement "fundamental reforms in the public sector" to place government finances on a sustainable footing and encourage private investment, Odd Per Brekk, the International Monetary Fund's representative in Russia, said on Thursday.

"The Russian government needs to carry out a major budget consolidation over time," Brekk said at a briefing where he outlined the IMF's economic outlook and policy recommendations for Russia in 2012.

Brekki called on the Russian government to reinstate its previous 4.7 percent target for the non-oil budget deficit by 2015.

He noted that in 2011 Russia's non-oil deficit - which shows the underlying fiscal position when revenues from oil taxes are excluded - was equivalent to 10 percent of gross domestic product (GDP).

A commitment to reinstate the prudent fiscal target would provide an "anchor" for government policies and also attract private sector investment by improving market confidence, Brekk said.

To achieve the goal by 2015, Russia needs to undertake fundamental measures to reform public expenditures.

Brekki singled out pension reform as an area where Russia needed to change its present policies. The amount Russia spends on pensions, 8 percent of gross domestic product, was high for an emerging economy, and was set to reach 15 percent of GDP by 2050 on present trends.

"Clearly, that is something that is not sustainable, and that requires policy decisions," he said.

As well as urging medium-term budgetary reforms, the IMF called on Russia to make improvements in monetary policy, financial sector reform and the investment environment.

Brekki said he was encouraged by the central bank's progress in moving towards an inflation-targeting regime, which have included allowing greater flexibility of the rouble exchange rate. But more work was still needed to improve the effectiveness of monetary policy instruments, and bring inflation down to 3-5 percent, the IMF's recommended medium-term target.

The IMF forecasts headline inflation in Russia of 6.3-6.4 percent in 2012, and estimates that underlying inflation in Russia is at 7.5-8.0 percent.

Brekki also said that more work was still needed in implementing proposals for strengthening the regulatory powers of the Russian central bank.

Russia also needs to make further progress in improving the investment environment through privatisation, cutting red tape, and protecting property rights.

"This agenda is well known, but progress on the ground has been slow," Brekk said. But he welcomed Russia's recent admission to the World Trade Organisation as "very much an exception".

The IMF representative warned that if "current policy trends continue - meaning in particular a high non-oil deficit and high inflation - then Russia's economic growth will remain subdued in the medium-term at 3.5-4.0 percent, and the economy will remain vulnerable to external shocks."

"In contrast, in a reform scenario, Russia could experience significantly higher economic growth - perhaps as much as 6 percent a year." (Reporting By Jason Bush; Editing by Toby Chopra)

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