



# Russian Federation

## Economic Outlook and Policy Challenges

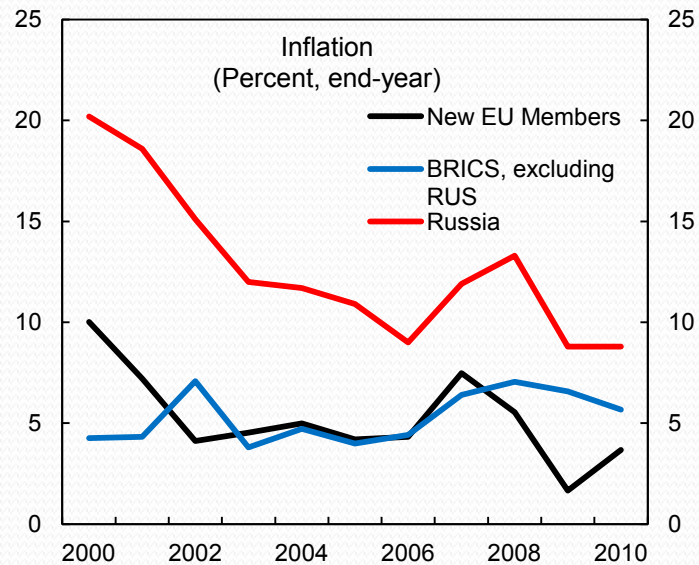
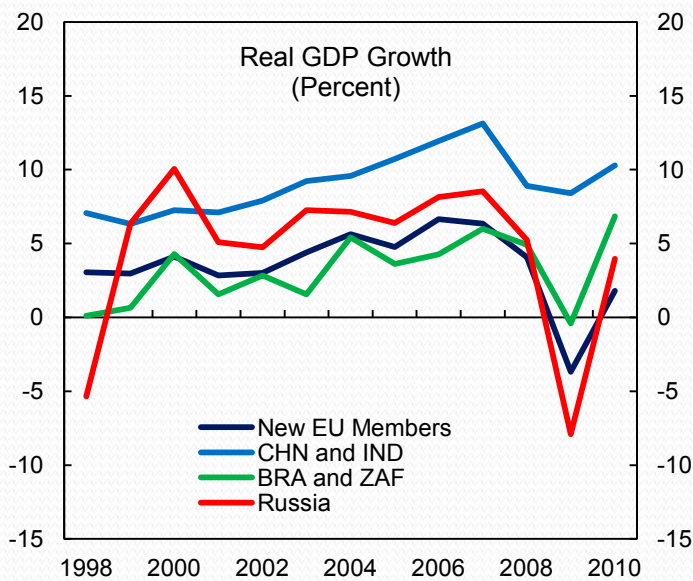
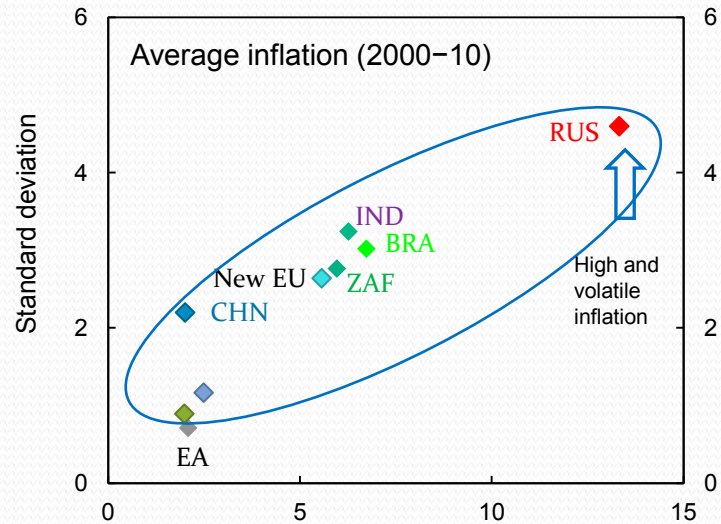
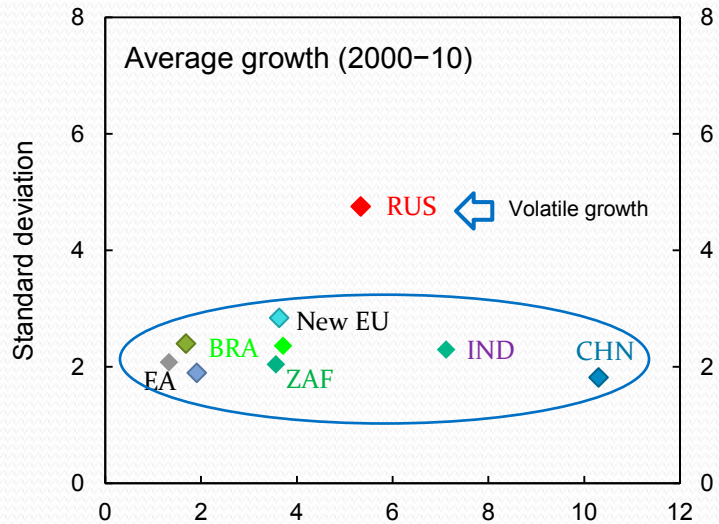
Odd Per Brekk  
Senior Resident Representative  
Spring 2012

# Overview

- Natural resource dependence and economic performance
- Implications for economic policy frameworks
- Medium-term outlook – the role of economic reforms

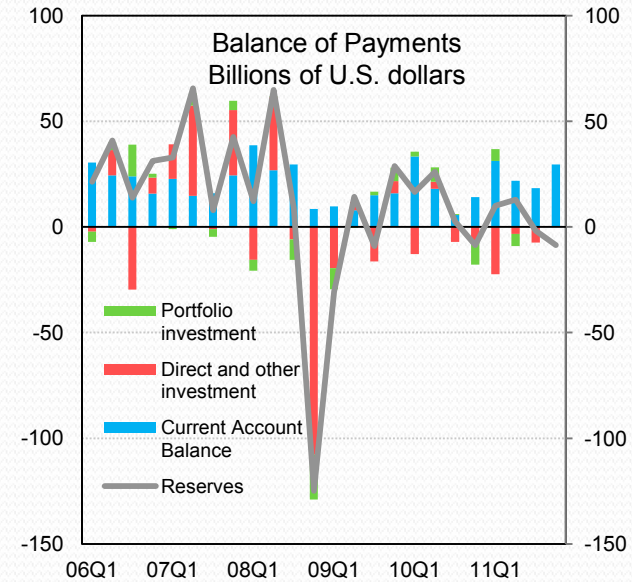
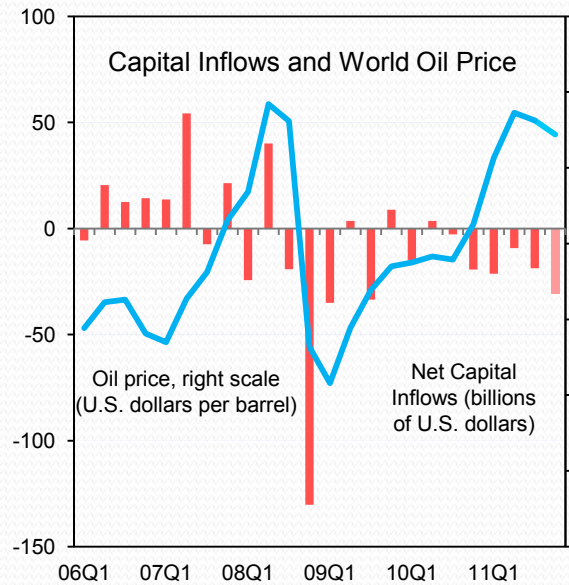
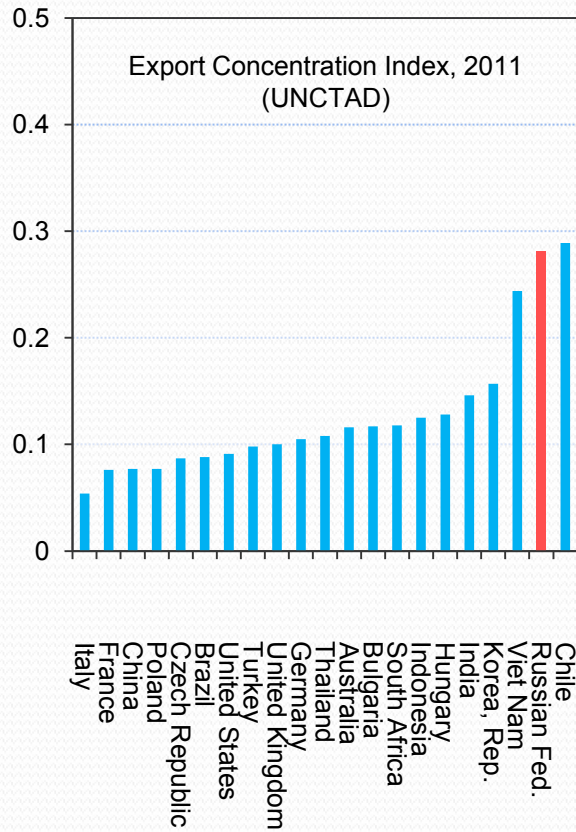


# Greater instability in Russia than in peers...

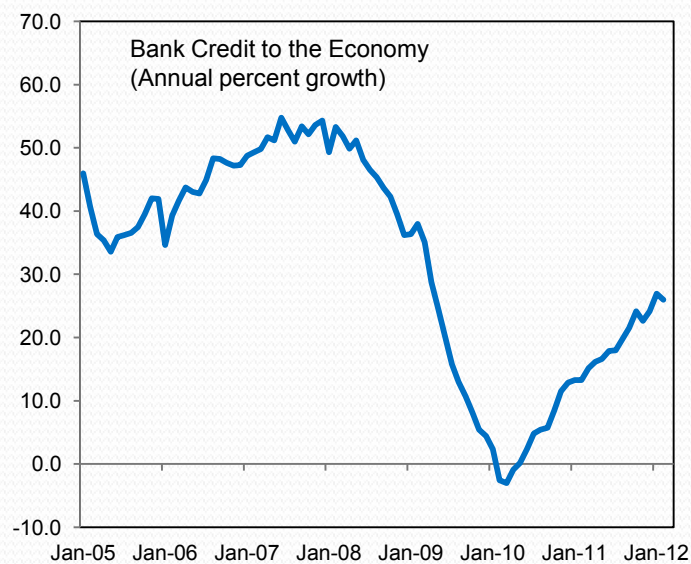
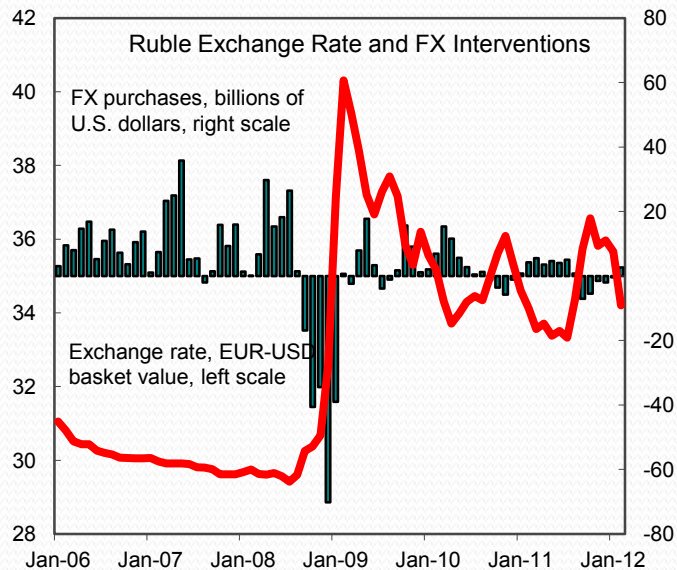
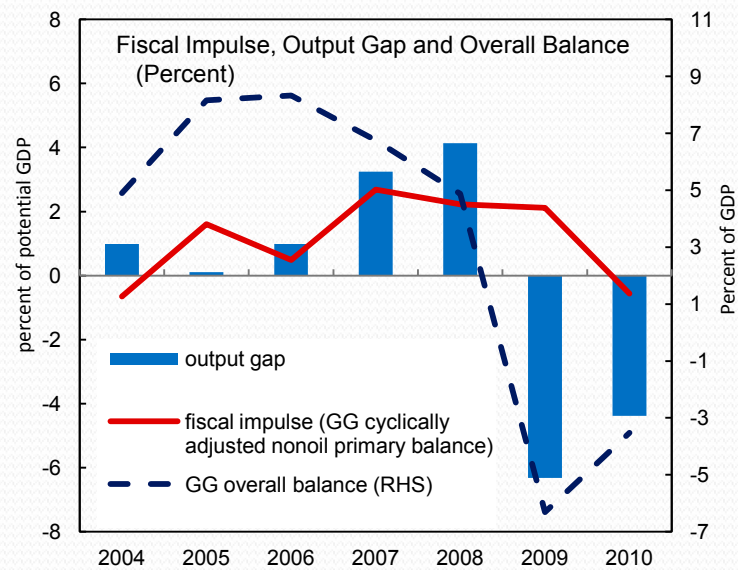
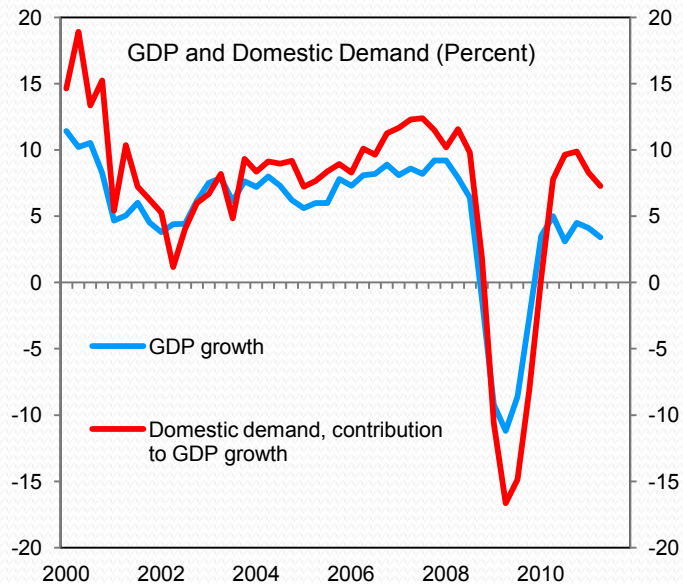




# ...caused by an economic structure vulnerable to external shocks...



# ...but Russia's procyclical macro policies have also contributed to the instability

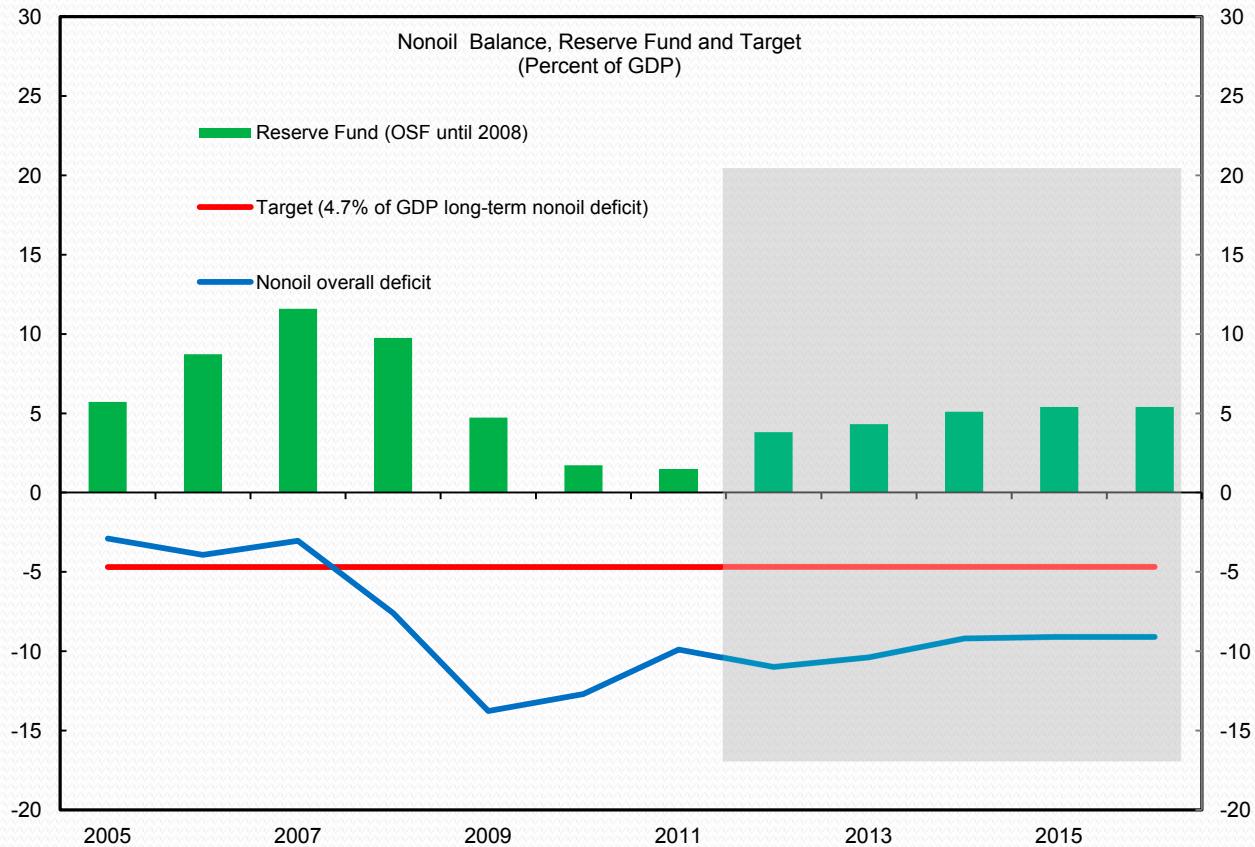


# Economic Policy Goals and Challenges

- Goals: Diversify economy, lift growth, reduce vulnerabilities
- Key challenge: Strengthen policy frameworks
  - Anchor government budget policy
  - Anchor monetary policy and inflation expectations
  - Promote financial sector stability and development
  - Improve the investment environment

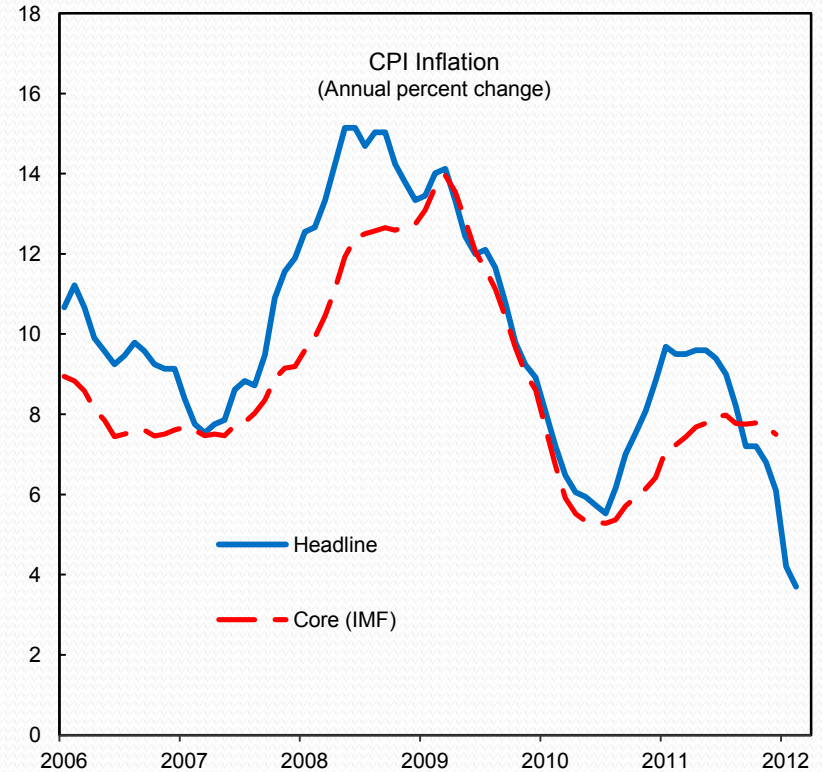
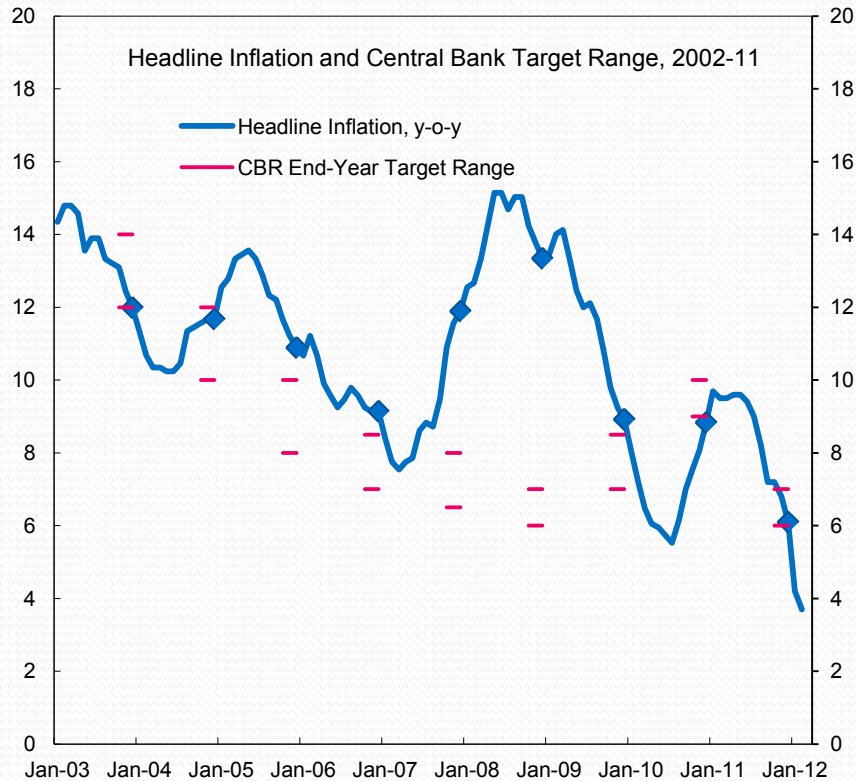


# Policy Challenges: Fiscal Policy



Source: IMF staff estimates.

# Policy Challenges: Monetary Policy

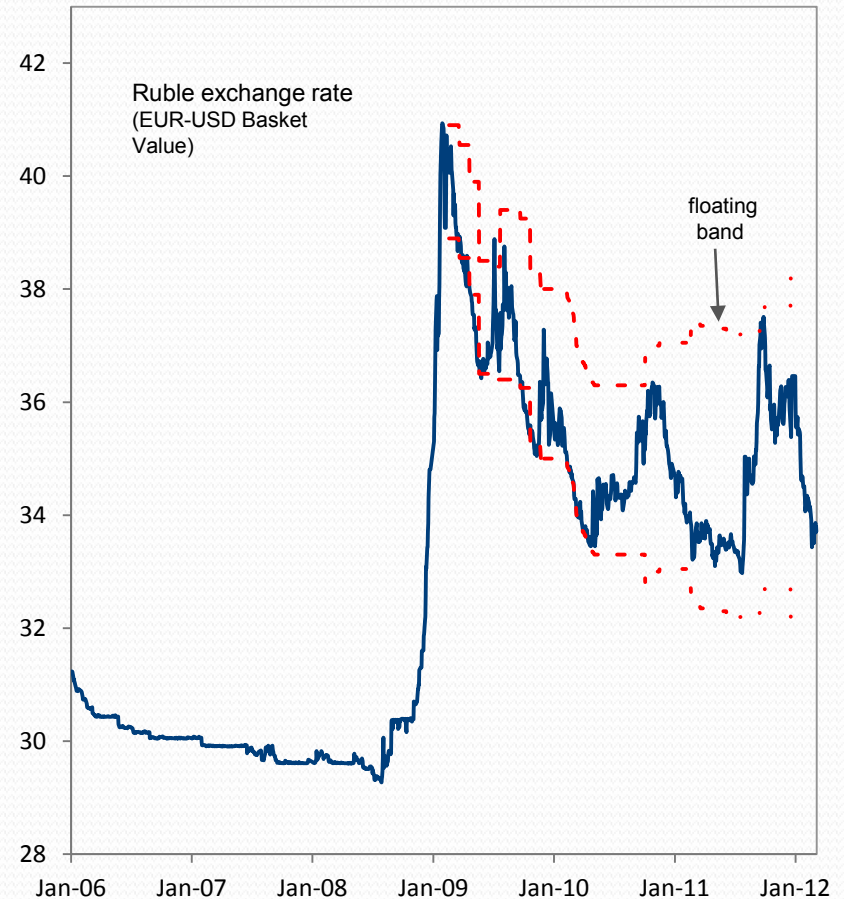




# Formal Inflation Targeting: Underpinnings

- Priority of inflation over other goals
  - Flexible exchange rate
  - Absence of “fiscal dominance”
  - Sound financial institutions
- Central bank operational independence and communication
- Control over policy instrument and transmission
- Forecasting ability

Reference: Freedman and Other-Robe (IMF, 2010)



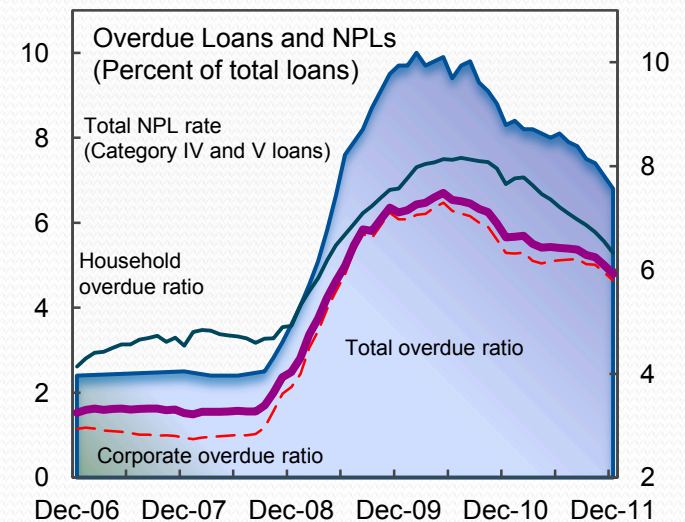
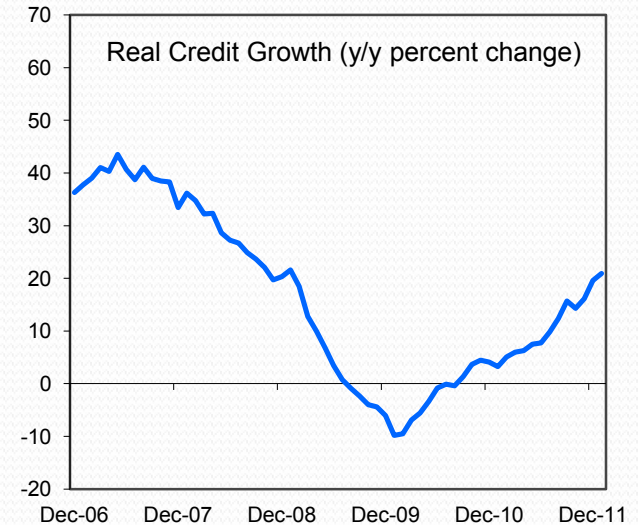
# Policy Challenges: Financial Sector

## Current situation

- Credit extension resuming
- NPLs lower but still high
- Risks
  - Loan quality
  - Provisions

## Recommendations (IMF FSAP)

- Expand Bank of Russia's powers
  - To conduct consolidated supervision
  - To apply "supervisory judgment"



Source: Central Bank of Russia.

# Economic Policies Matter

## Key Indicators Under Three Scenarios, 2004-16

