<u>IMF Warns Russia Faces ‘Considerable’ Global Contagion Risks</u>

By Henry Meyer on August 03, 2012 (Bloomberg)

Russia faces “considerable” risks of spillover from global economic difficulties even as reduced vulnerabilities will help it avert a downturn similar to 2009, according to the International Monetary Fund.

There’s “much less room for fiscal response to adverse developments than there was in 2008,” with the country’s budget still “heavily dependent” on oil revenue, Odd Per Brekk, the Washington-based lender’s senior representative in Moscow, told reporters in the Russian capital today.

The main channel of contagion would be via oil prices, while strains in the euro area may spur more capital flight and squeeze financing for Russian companies, he said. Russia’s economy, forecast by the IMF to grow 4 percent in 2012 and 2013, contracted 7.8 percent in 2009 after the credit squeeze and global slowdown that followed the collapse of Lehman Brothers Holdings Inc. The downturn crimped demand for commodities, sending Urals, Russia’s chief export oil blend, to as low as $32.34 a barrel on Dec. 24, 2008. The decline was a 77 percent drop from a high of $142.50 in July that year.

In a worst-case scenario following Greece’s exit from the euro area, Russia’s economy would contract 2.1 percent with the potential for $95 billion in capital leaving the country in a year, OAO Sberbank (SBER), the country’s biggest lender, said in May.

‘Less Vulnerable’

“Russia is less vulnerable on balance than it was in 2008-2009,” Brekk said. “We would not expect from -- a similar shock -- a contraction like we had previously.”

Even so, in the case of a sharp decline in oil prices, the government would have to seek borrowing in an “uncertain international environment” because it has “much less cash in reserve” than four years ago, he said.

Russia deployed the largest stimulus package among Group of 20 nations, totaling 9.8 percent of GDP in 2009 and 2010, Goldman Sachs Group Inc. (GS) (GS) estimates.

The central bank’s international currency and gold reserves shrank for a fourth time in five weeks in the seven days ended July 27 to $505.5 billion, bringing the stockpile more than $92 billion below its peak in August 2008. Assets in Russia’s Reserve Fund amount to about 3 percent of gross domestic product, almost two-thirds less as a percentage of economic output than the rainy-day fund held in 2008.

Russia’s non-oil deficit, which excludes revenue and expenses related to the oil and gas industry, is at 10 percent of GDP and without any prospect for improvement under current plans, according to the IMF.

Russia, which relies on oil and gas exports for half of its budget revenue, also faces a widening pension-system deficit, forecast to double from 8 percent of GDP to 16 percent of GDP by 2050, the IMF said.

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