



Russia: Economic Policies for Stability and Growth

Odd Per Brekk

Senior Resident Representative

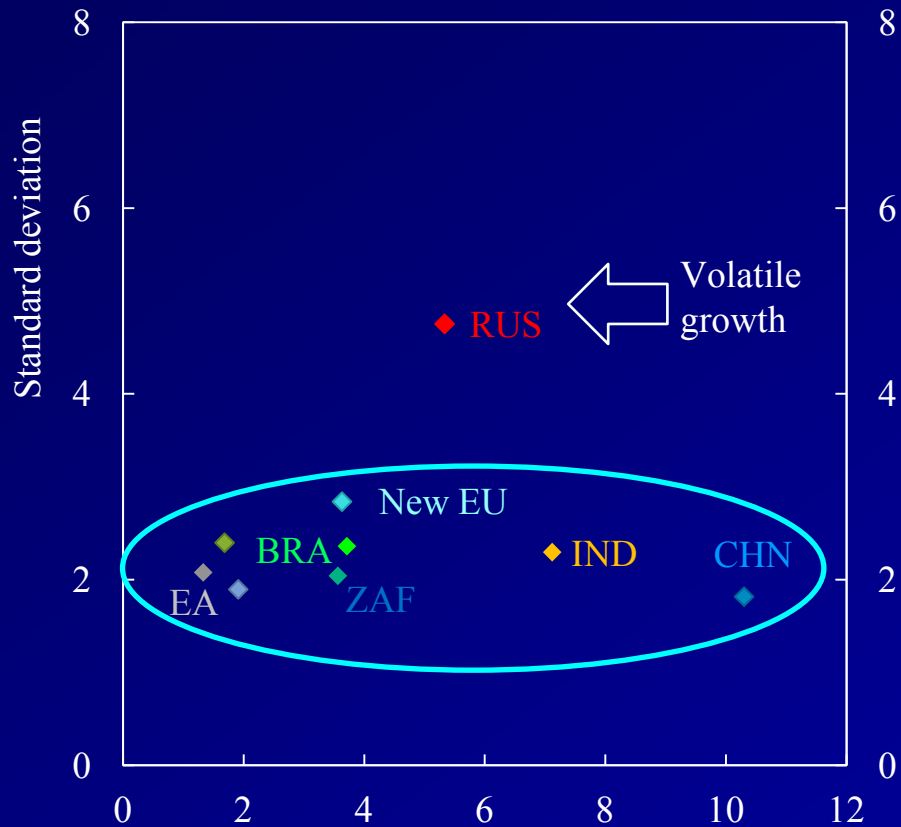
September 17, 2012

Outline of Presentation

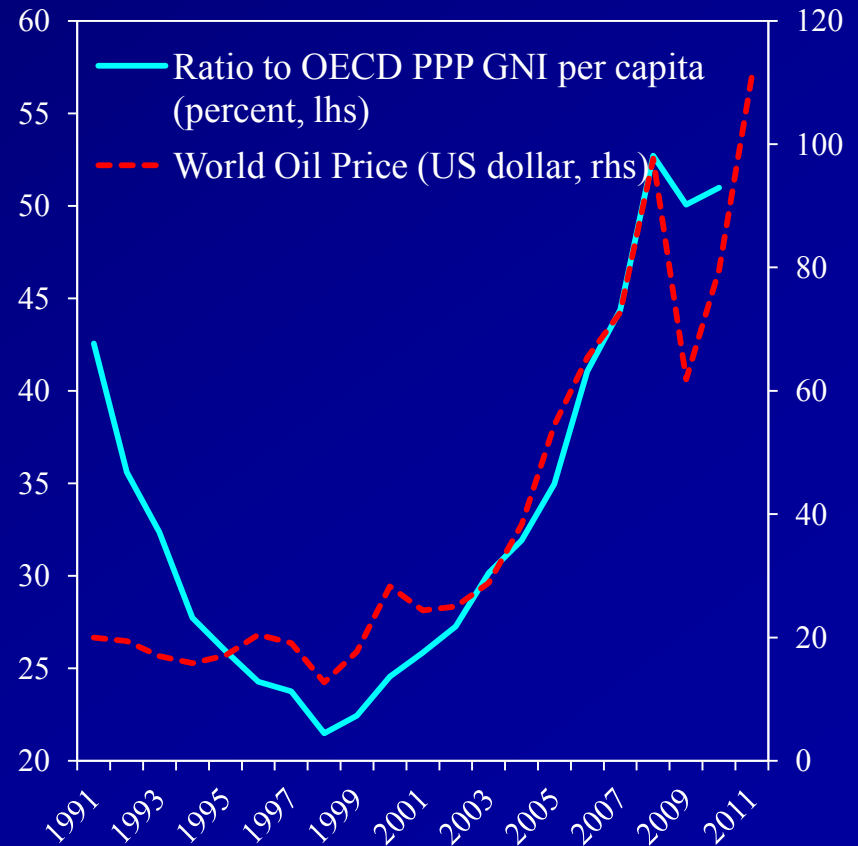
- Main economic challenges and goals
- Short-term economic policies
 - Maintaining macroeconomic stability
 - Preparing for possible spillovers from global events
- Longer-term economic policies
 - Strengthening institutions and anchoring stability as a basis for investment and growth

The Russian Economy in Perspective

Average growth (2000–10)



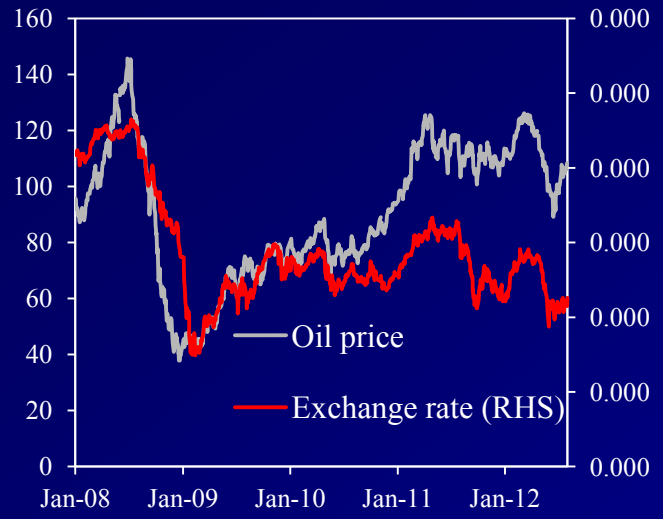
Russia: Relative GNI per capita (PPP), 1991-2010



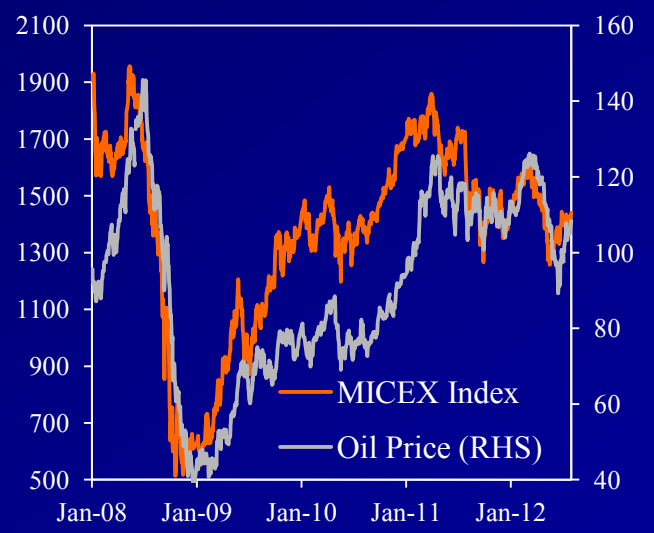
Short-Term Instability

Short-Term Instability: Oil Dependence

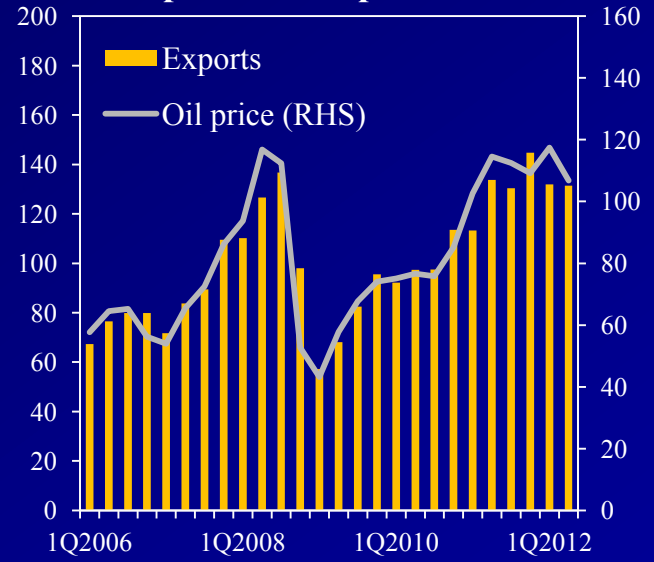
Oil price and exchange rate



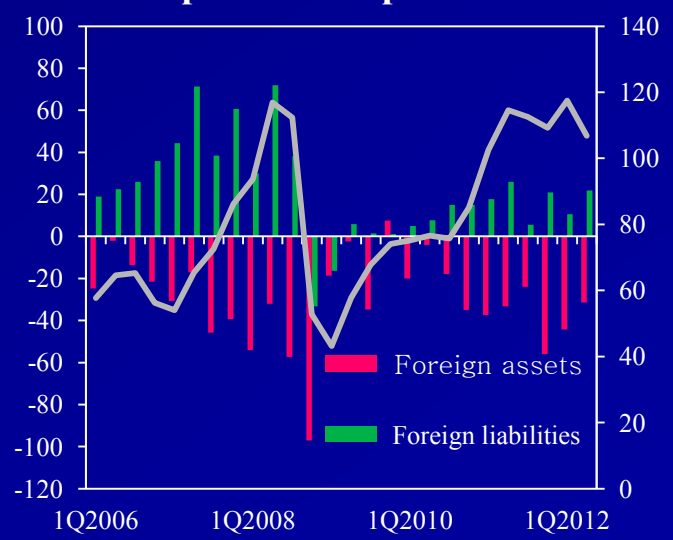
Oil price and stock prices



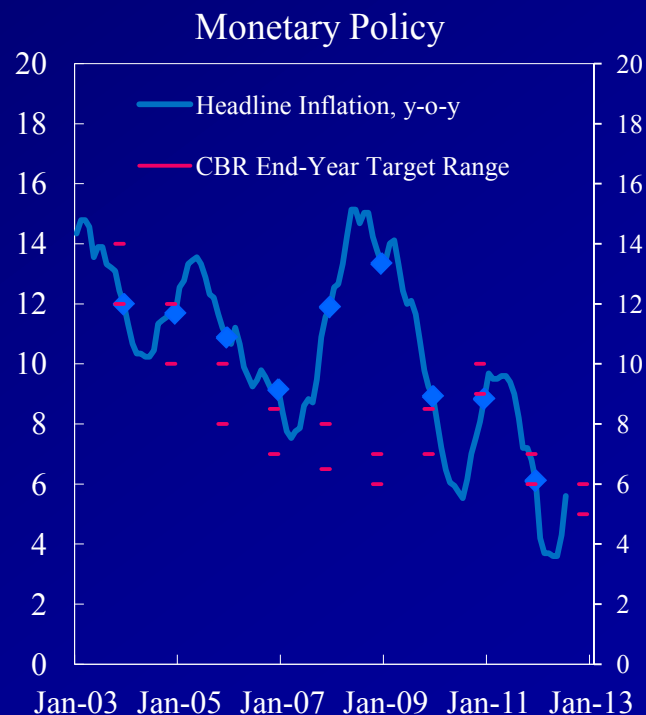
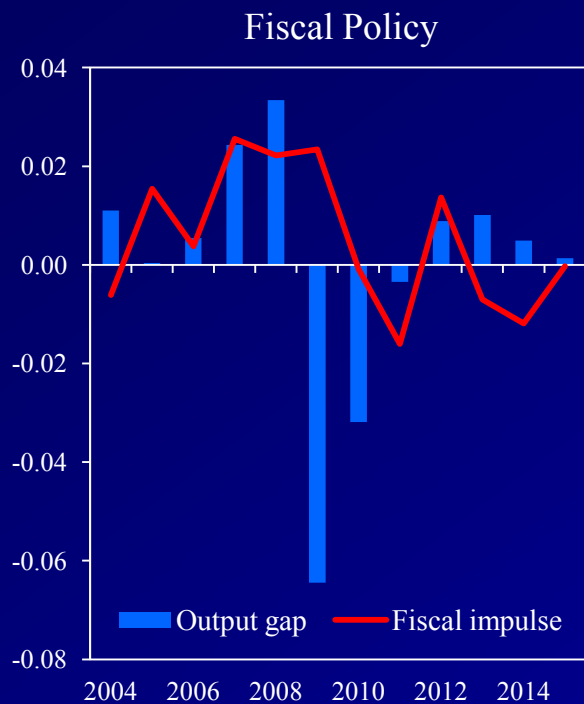
Oil price and exports value



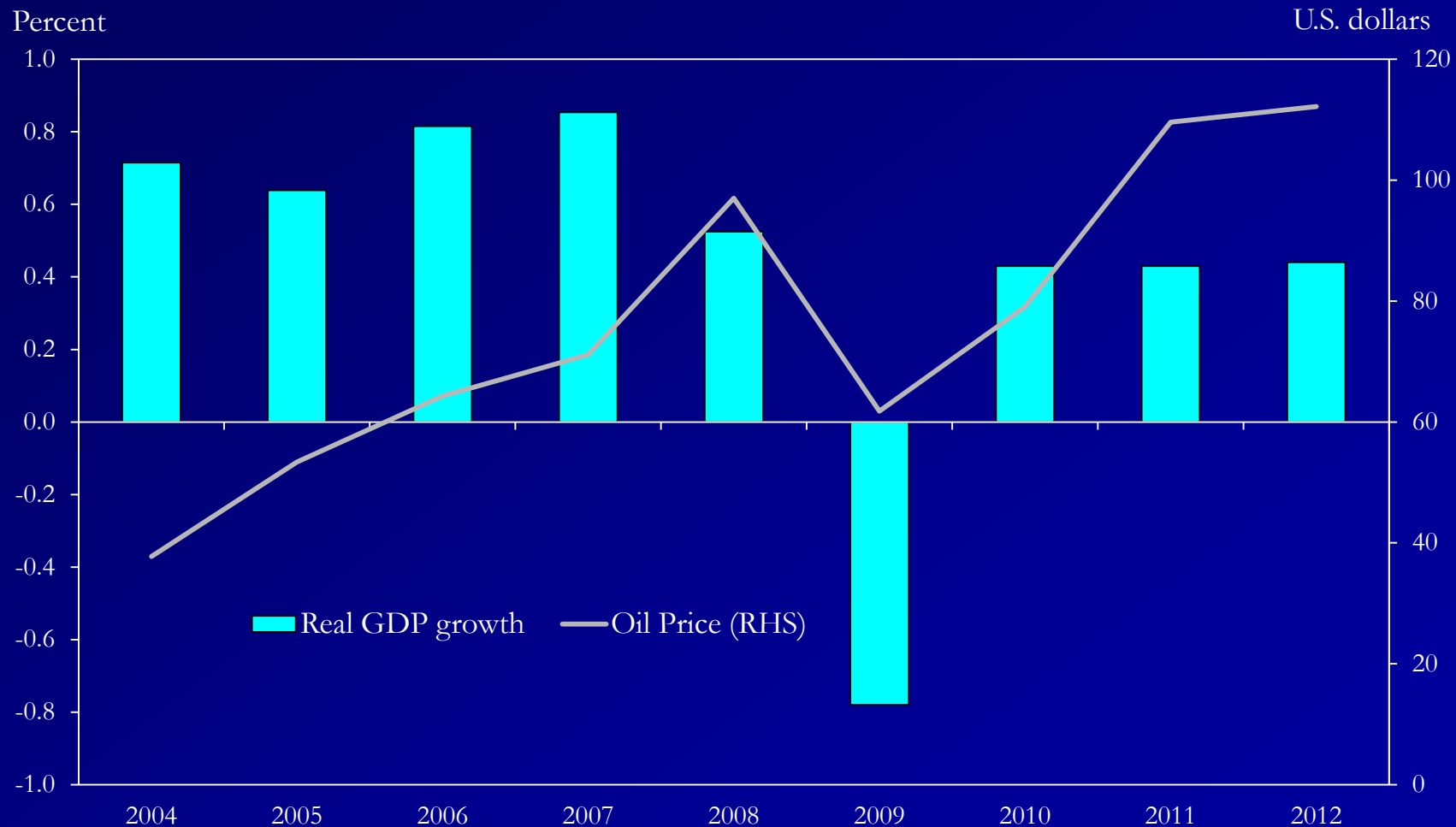
Oil price and capital flows



Short-Term Instability: Weak Economic Policy Frameworks

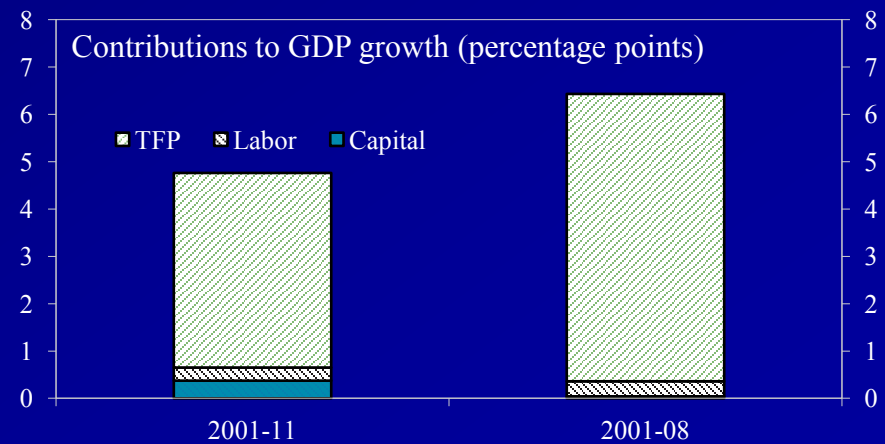
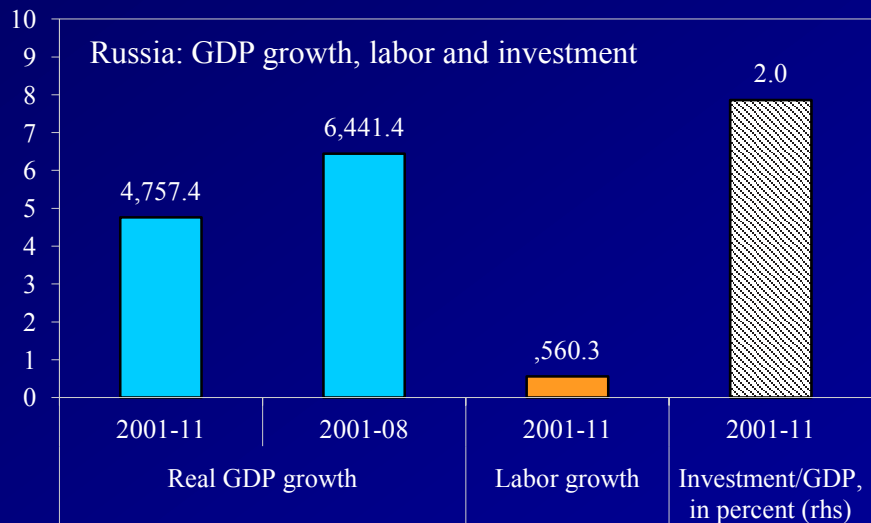
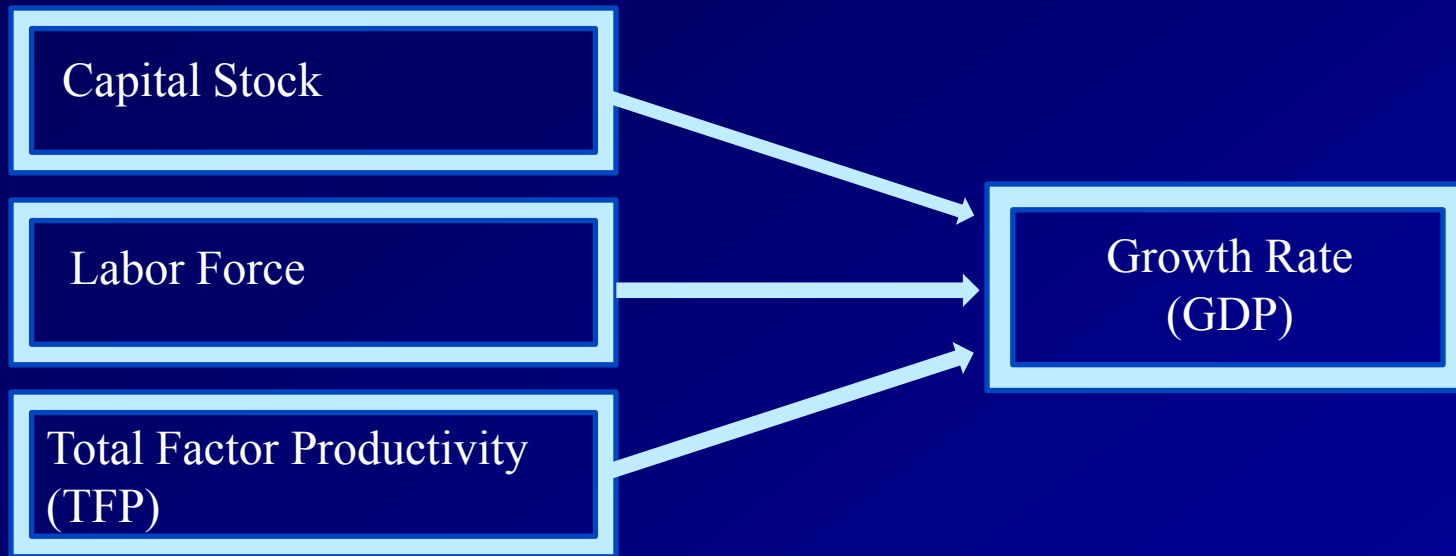


All Told: Short-Run GDP Driven by Oil Price and Policy Response



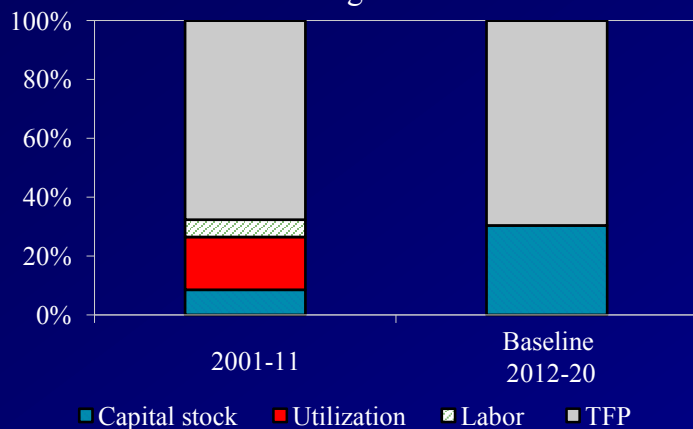
Longer-Term Growth: Russia's Economic Potential

Russia: Accounting for Past Growth

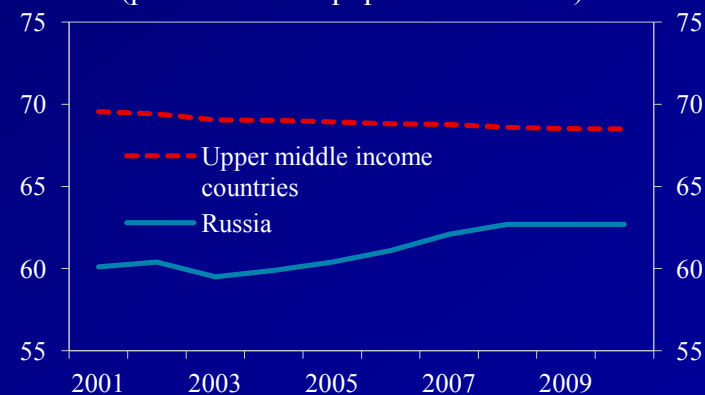


Russia: What Will Drive Future Growth ?

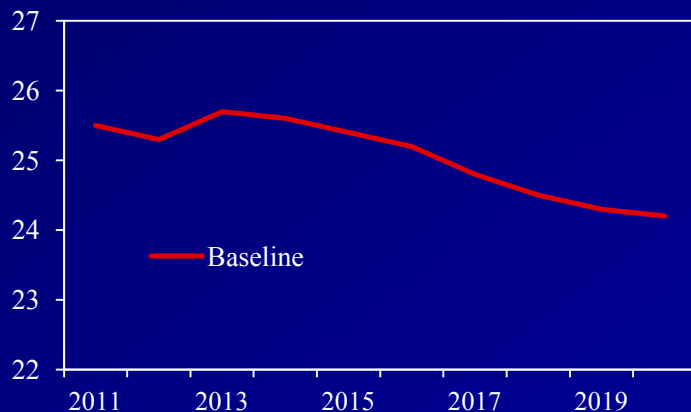
Contributions to GDP growth, percent of GDP growth



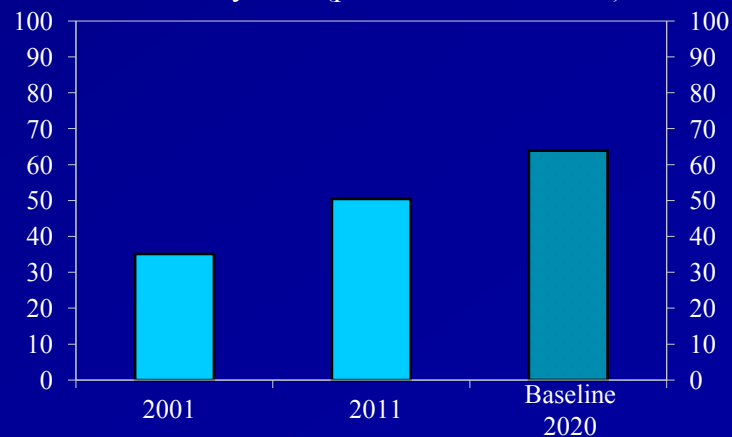
Labor participation rate (percent of total population over 15)



Investment to GDP ratio (percent)



Efficiency ratio (percent of the frontier)



Economic Policy Priorities

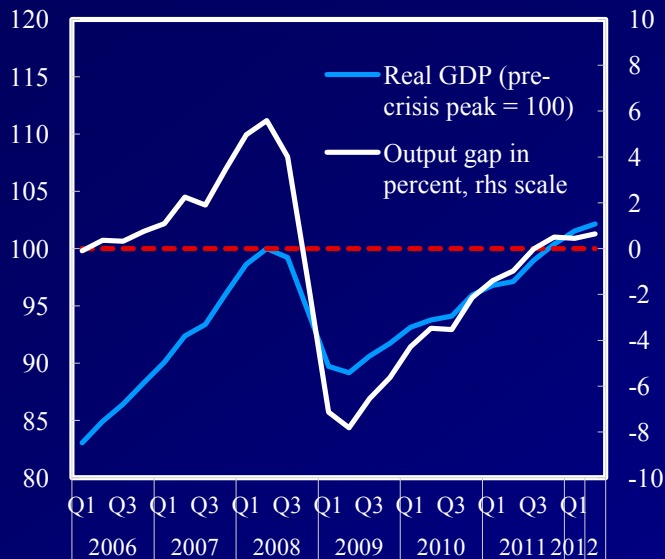
Short-Term Economic Policy Priorities: Maintain Macro and Financial Stability

- Avoid overheating and keep inflation on a downward path
- Stand ready to respond to spillovers from international developments

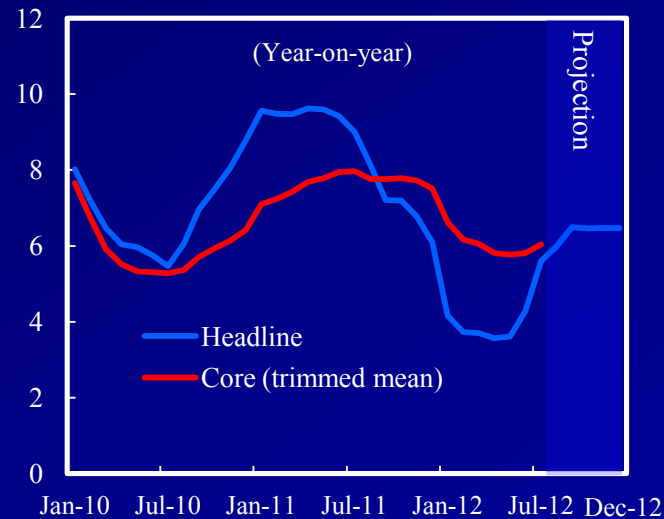
Short-Term Macro Policies:

Gear Fiscal and Monetary Policy Towards Containing Domestic Demand

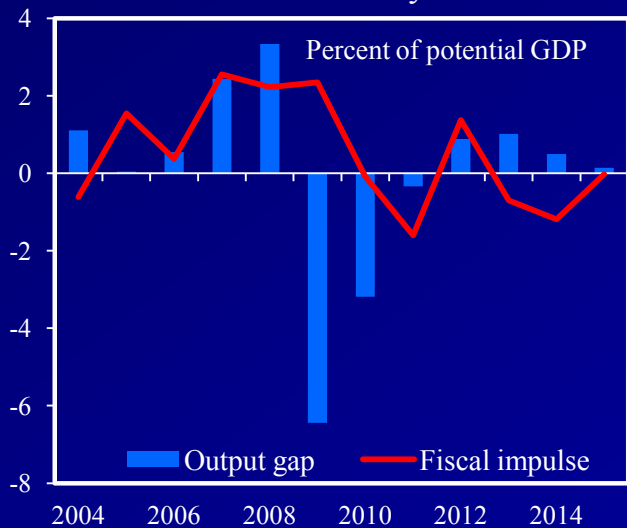
Real GDP and Output Gap



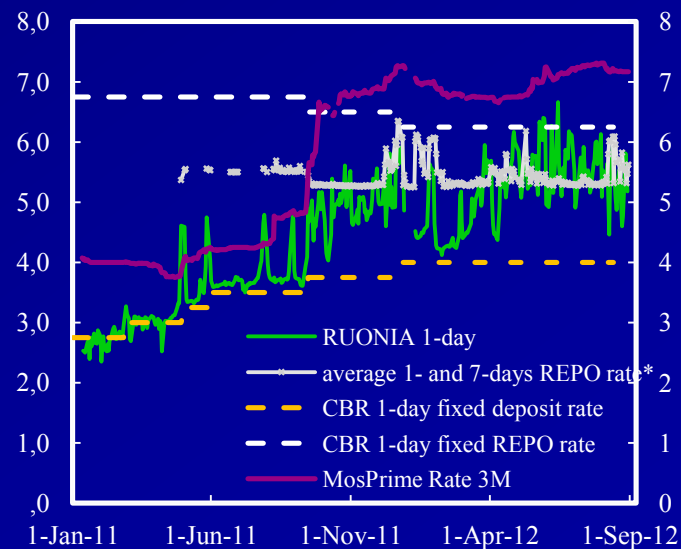
Inflation



Fiscal Policy



Monetary Policy



Global Spillovers to Russia:

How Would it Be Different from 2008/09?

- **Positive:**

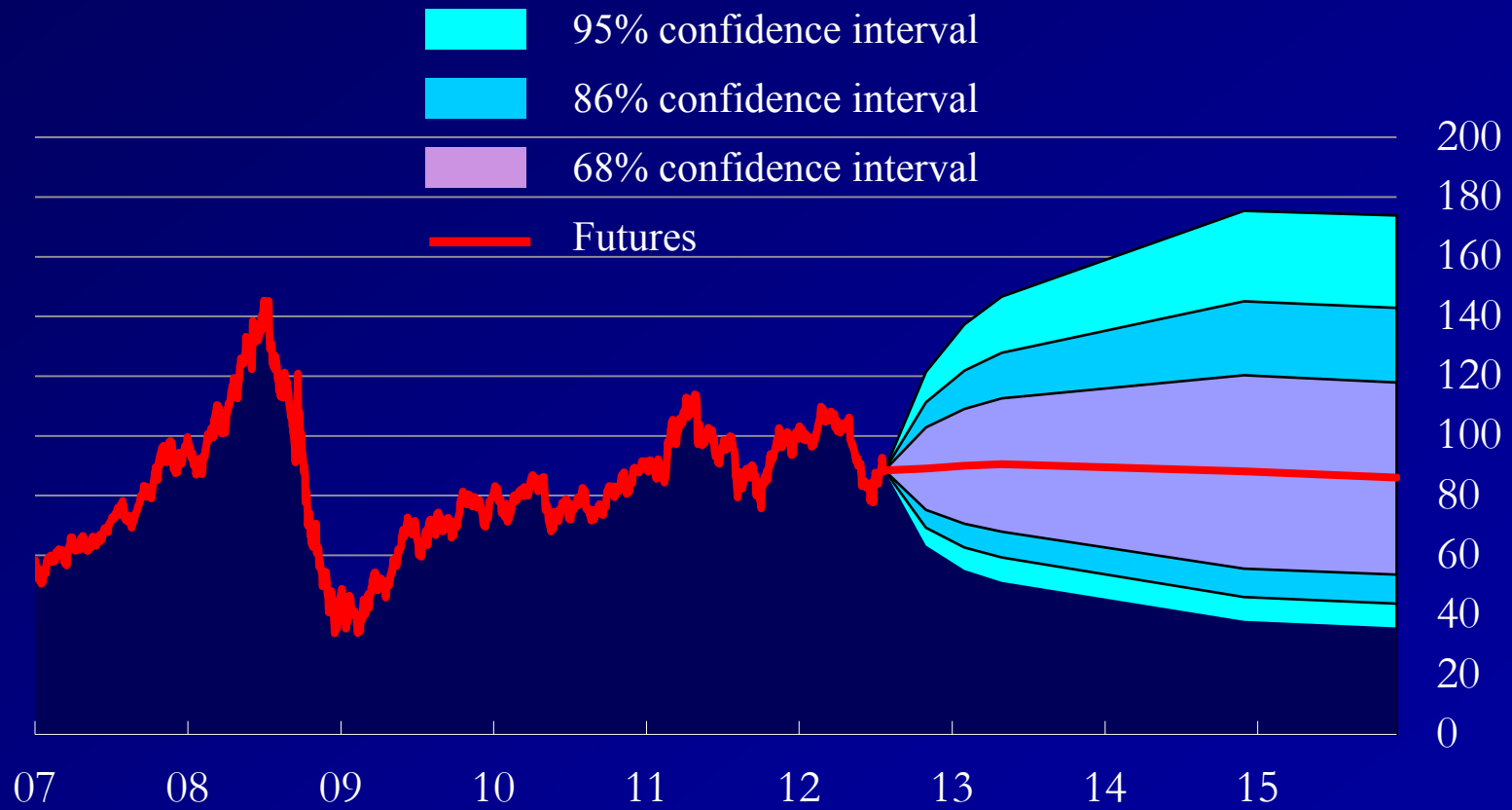
- Less overheating of the economy
- Flexible exchange rate: “shock absorber”
- Banks have positive NFA overall
- The authorities have gained crisis management experience

- **Negative:**

- Substantially less “fiscal space”
- Banks still repairing balance sheets while credit growth is high

Global Spillovers to Russia: Oil Prices the Main Channel

WTI Oil Price Prospects 1/
(USD per barrel)



1/Derived from prices of futures July 25, 2012

Source: Bloomberg; IMF staff calculations.

Global Spillovers to Russia:

Financial Sector Spillovers Could Also Be Important

Source of Risk	Relative Likelihood	Impact if Realized
Acceleration of capital outflows	Medium/High	Low
Funding freeze	Medium	Medium
Failure of a large bank	Medium	Low

Maintaining Stability:

What To do if International Spillovers Worsen

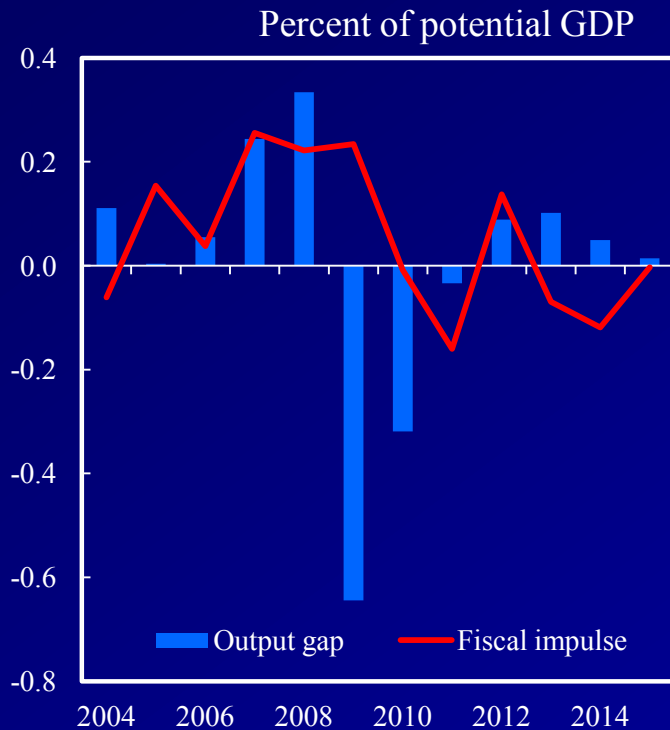
- Allow the flexible exchange rate to act as shock absorber
- Provide emergency liquidity as needed
- Adopt more accommodating monetary stance, provided inflation remains in check
- Postpone fiscal consolidation and allow “automatic stabilizers” to operate

Longer-Term Policies to Realize Growth Potential

- Maintain macroeconomic and financial stability
 - Anchor fiscal policy
 - Adopt formal inflation targeting
 - Further strengthen financial supervision
- Move ahead on structural reforms

Anchor Budget Policy: Adopt Fiscal Rule

To properly anchor
fiscal policy ...

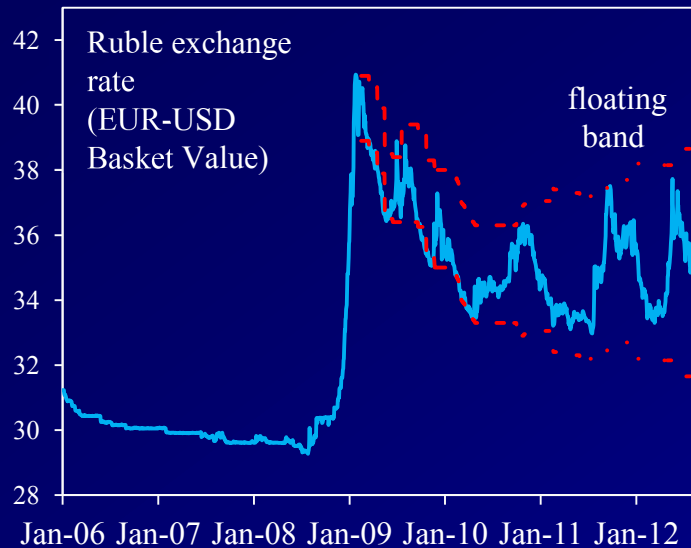


... the fiscal rule should:

- Have political acceptance and be easy to communicate
- Protect budget from short-term oil price volatility
- Help avoid Dutch Disease and ensure inter-generational equity

Anchor Inflation:

Move to Formal Inflation Targeting



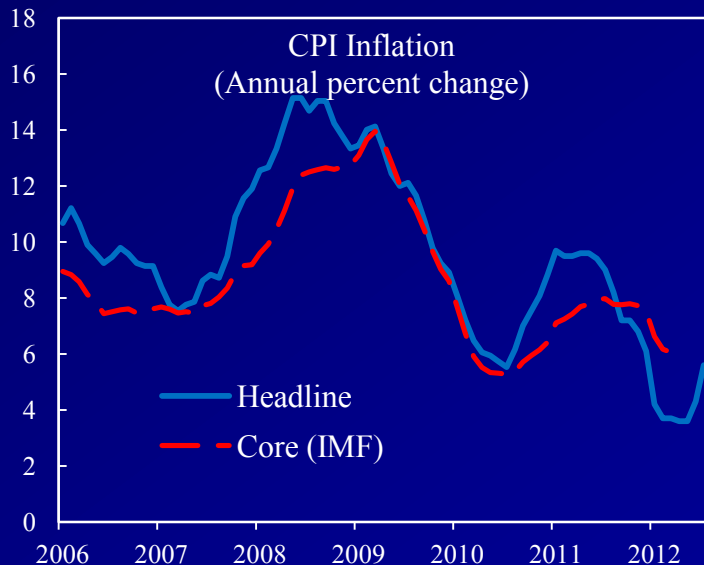
- Give priority of inflation over other goals

- Flexible exchange rate
- Absence of “fiscal dominance”
- Sound financial institutions

- Ensure central bank operational independence and communication

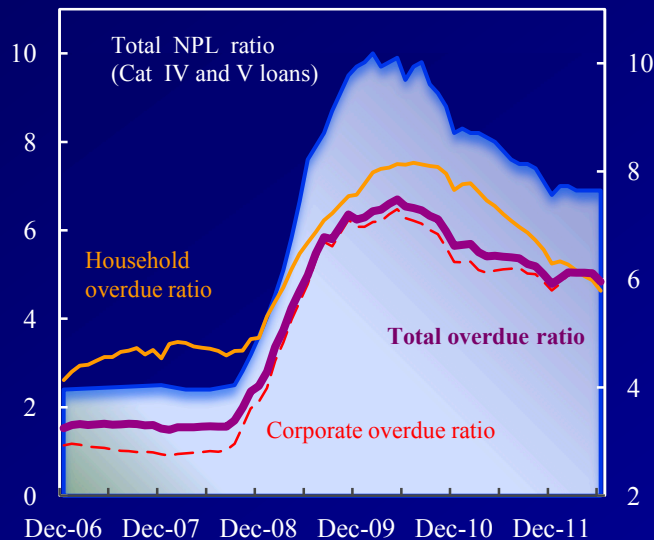
- Preserve control over policy instrument and transmission

- Enhance forecasting ability

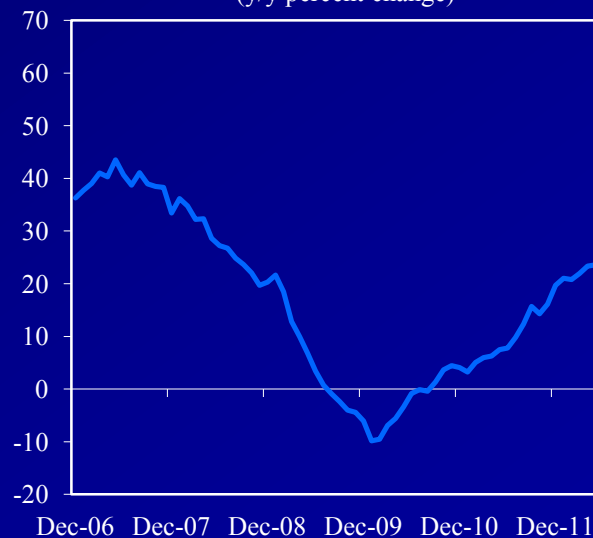


Financial Sector: Careful Supervision to Protect Stability

Non-Performing Loans
Percent of total loans

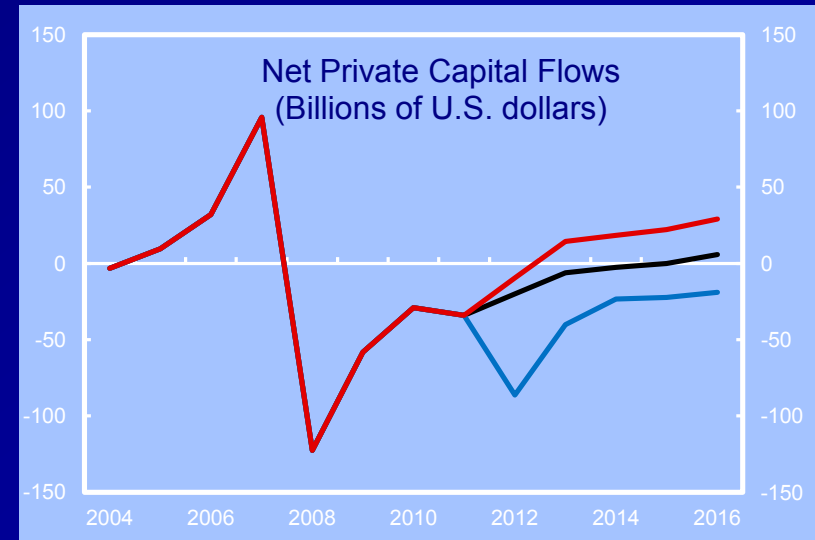
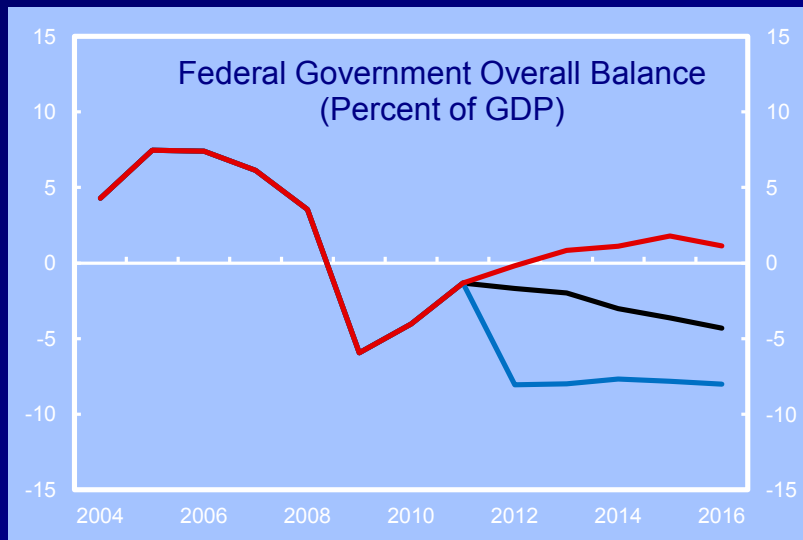
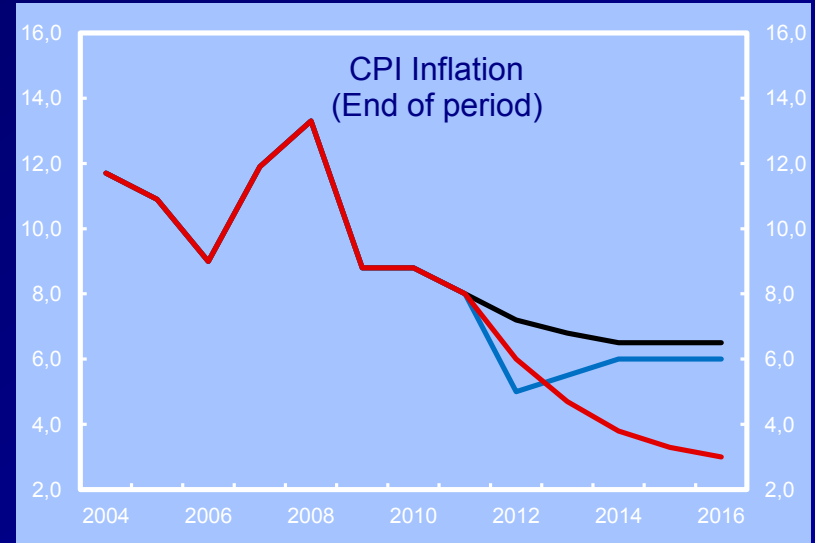
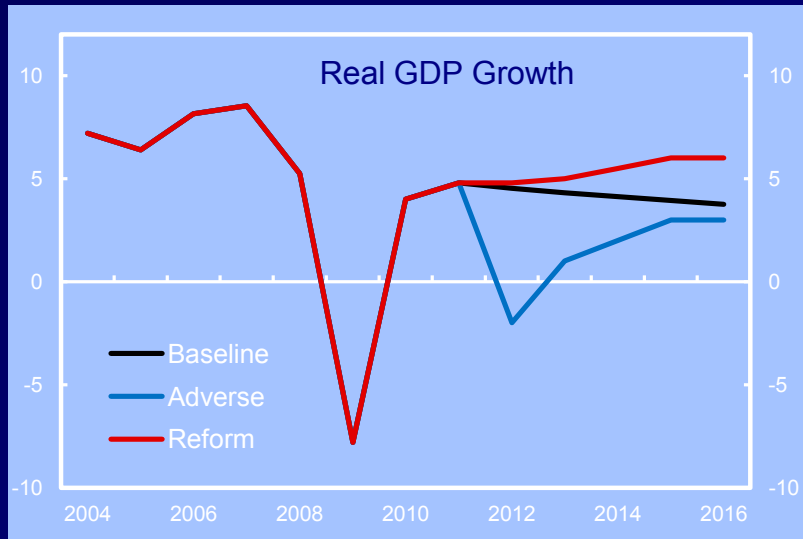


Real Credit Growth
(y/y percent change)



Economic Policies Matter

Key Economic Indicators Under Three Scenarios, 2004–16





Thank you !