

Russian Federation

Recent Economic Developments and Challenges

IMF MOSCOW OFFICE

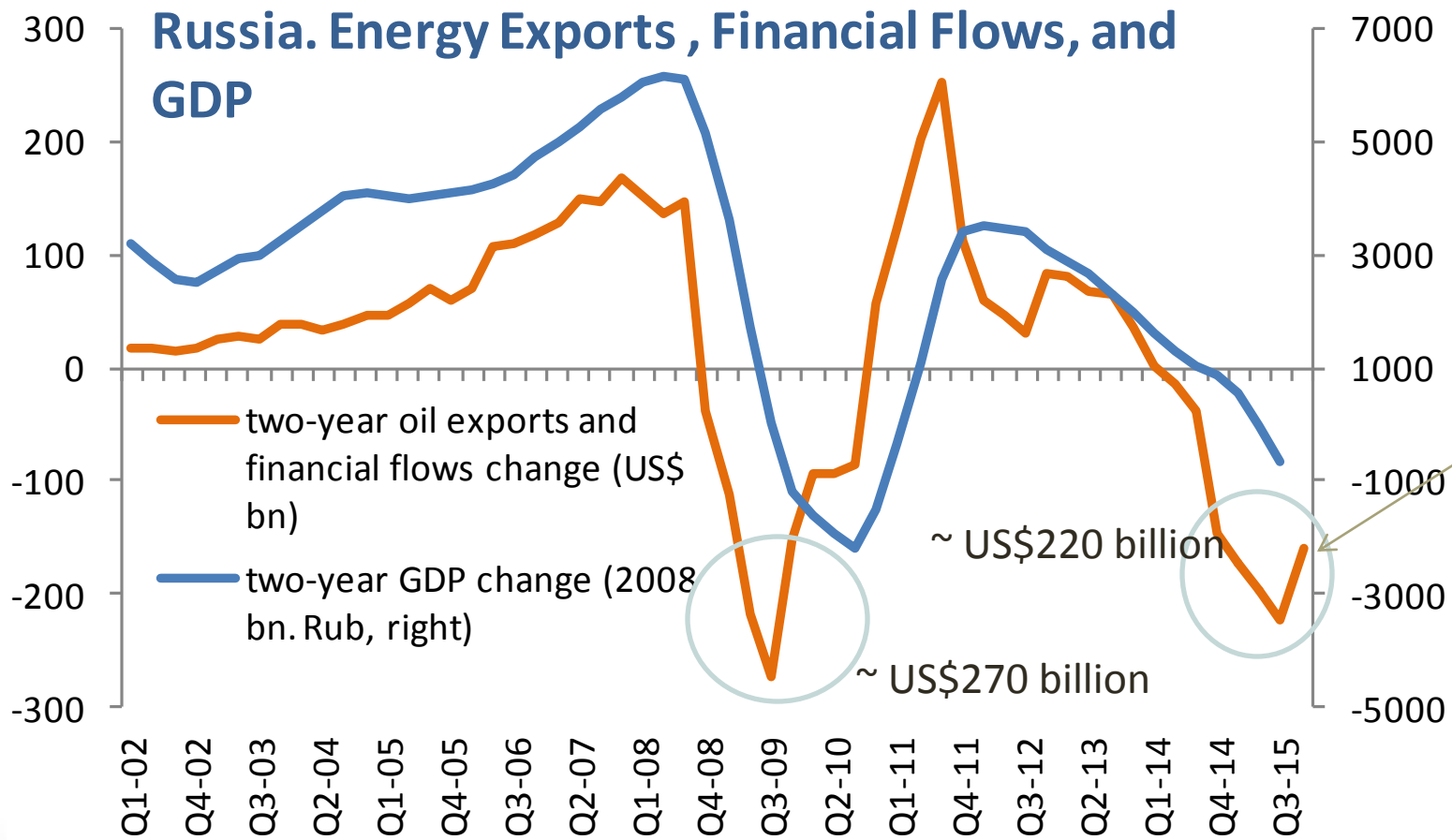
February 2016

Summary

- Lower oil prices and sanctions hit the economy in 2014-2015: Strong change in Relative Prices (the Real Exchange Rate).
- A timely and appropriate policy response contributed to avoiding a stronger GDP downturn in 2015 (3.7 percent).
- A second-round of oil price decreases will postpone the recovery for late 2016 and 2017, which will be gradual. Increasing long-term growth requires further structural reforms.
- Risks: Lower oil prices and geopolitical tensions, though a number of mitigating factors are in place.

Shocks: Lower Oil Prices and Sanctions

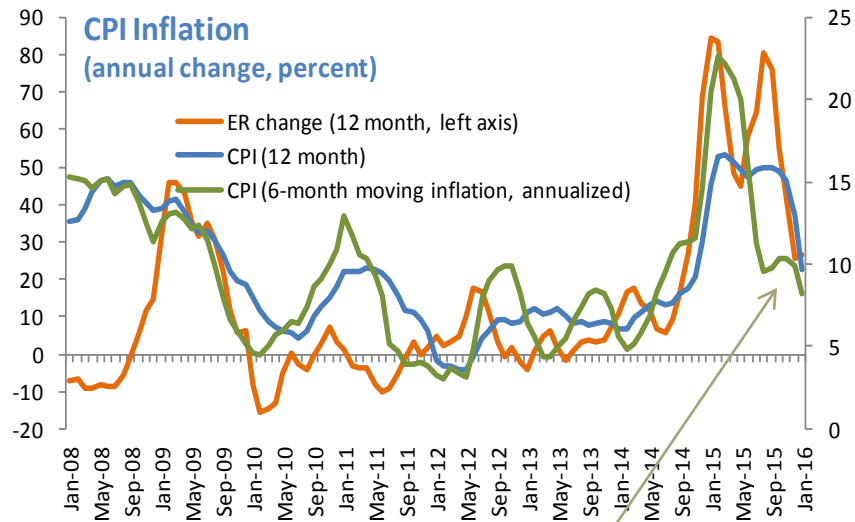
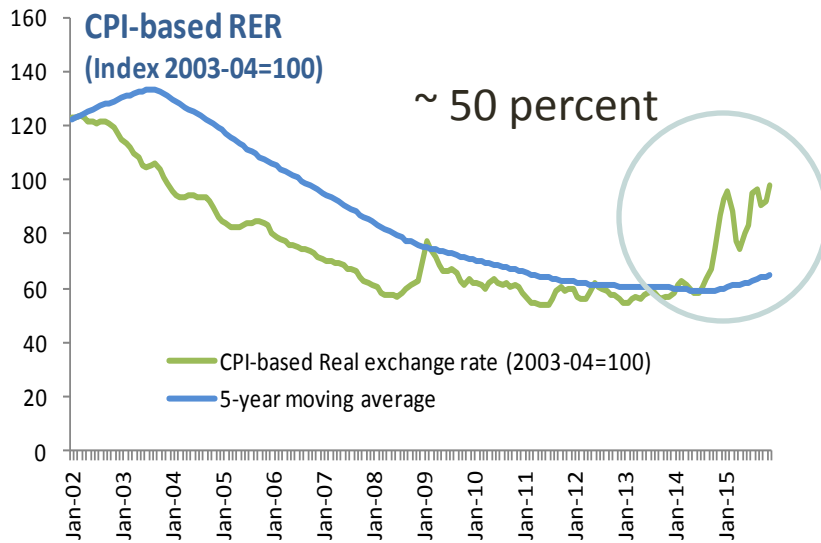
Lower oil prices represent 2/3 of the shock. Combined shocks of a size similar to that in 2008-2009.



The Real Exchange Rate depreciated...

The floating Ruble facilitated the adjustment to external shocks...

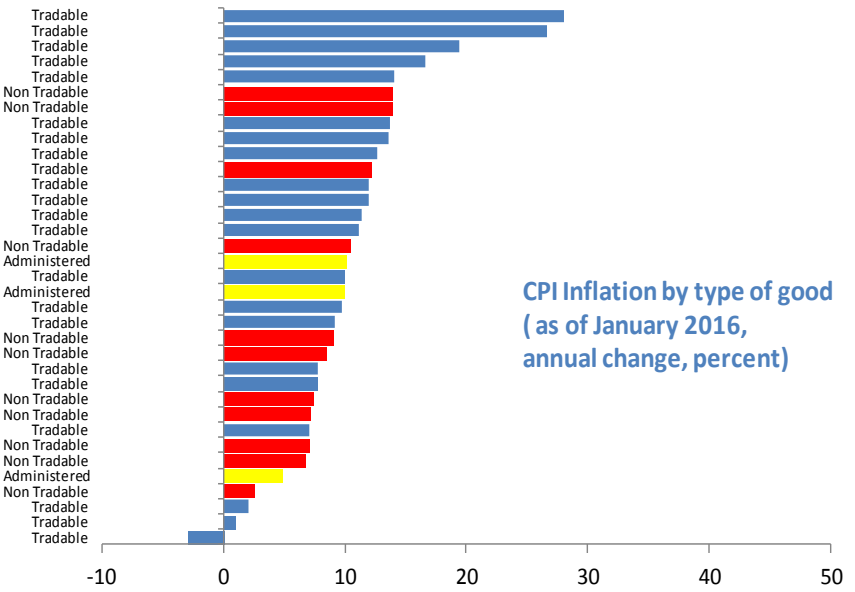
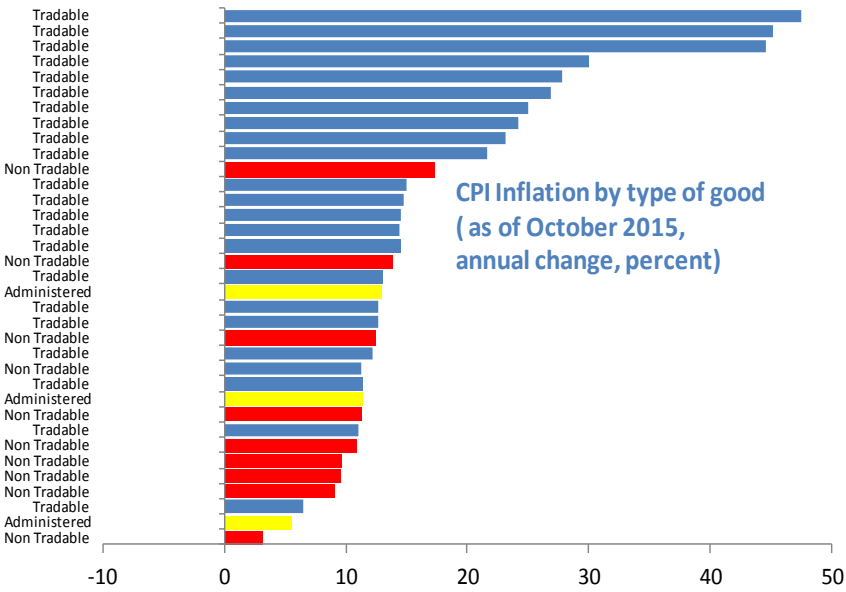
...with 12-month inflation falling to one-digit in January 2016 as first round of relative price adjustment is behind



...the first round of relative price adjustment proceeded and is slowly subsiding...

While the price of tradable goods increased more at the beginning...

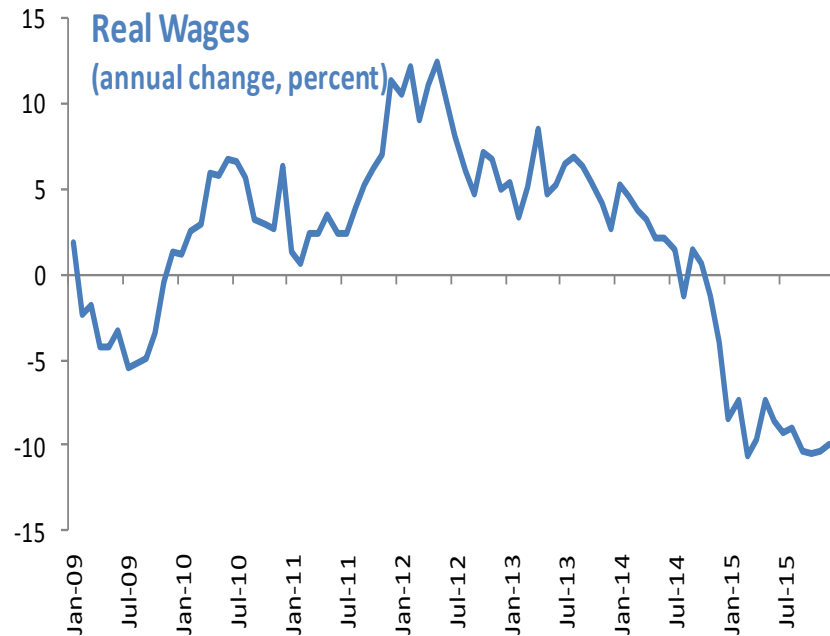
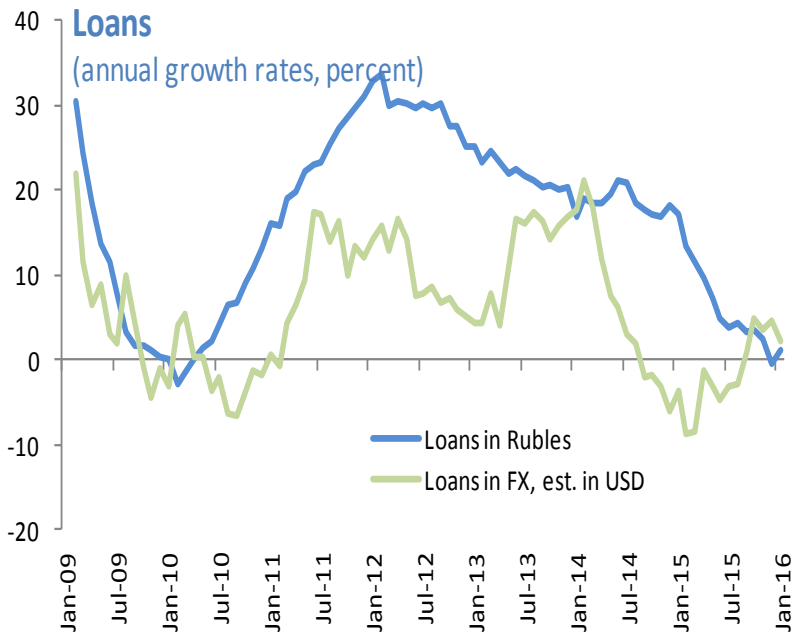
...differences in the 12-month increases between tradable and non-tradable goods are subsiding



...bank credit growth decelerated and real wages continue to decrease...

Bank lending decelerated given tighter financial conditions...

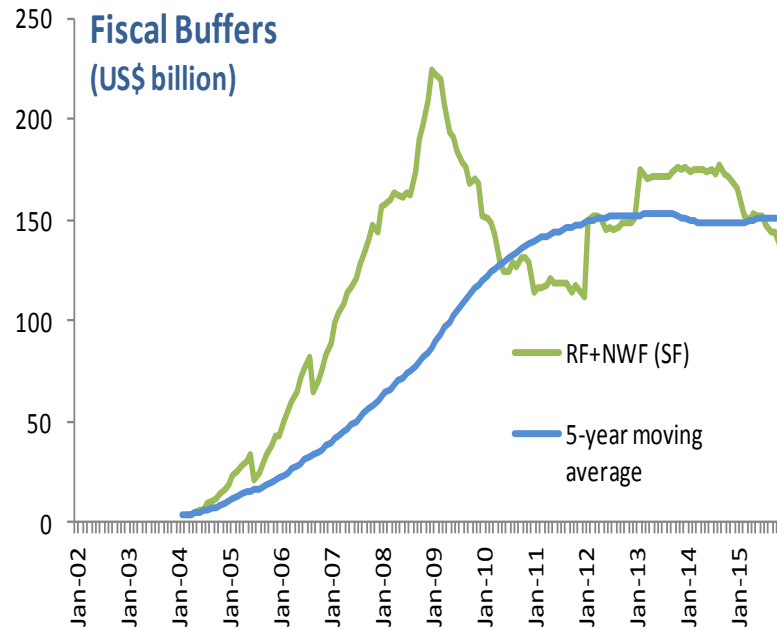
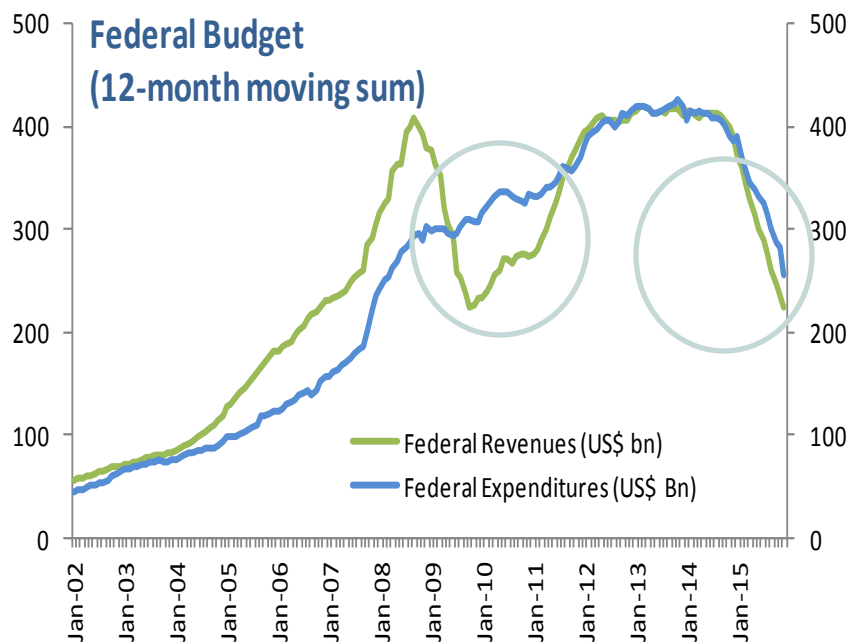
...and real wages decreased as economic slack increased.



...the change in relative prices contributed to fiscal adjustment in US\$-terms...

Both Government Revenue and Expenditure decreased in US\$-terms...

...while Ruble depreciation is helping to attenuate the decrease of US\$-denominated Fiscal Buffers...



...with these factors leading to an *improvement* in the 2015 Current Account

Russia: Current Account of the Balance of Payments-2015

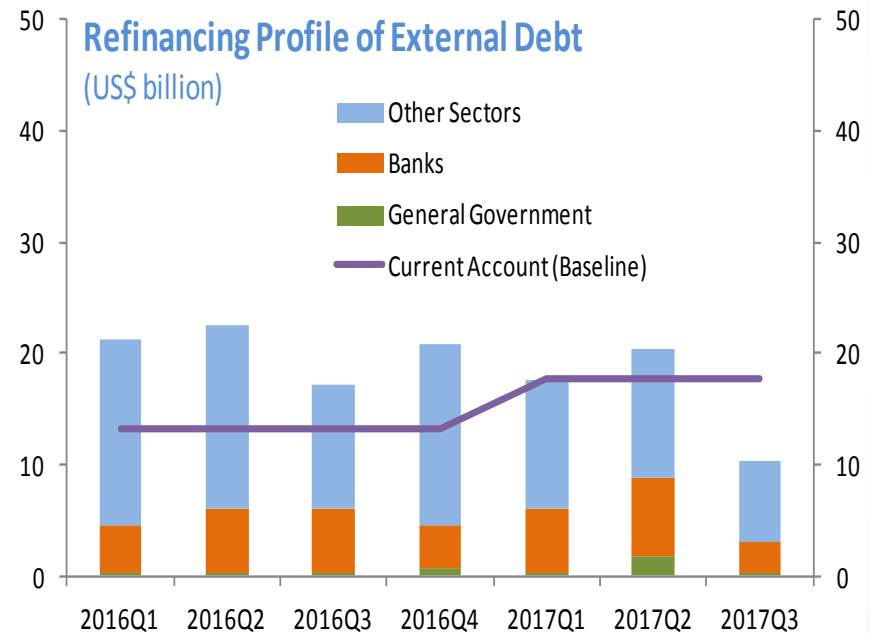
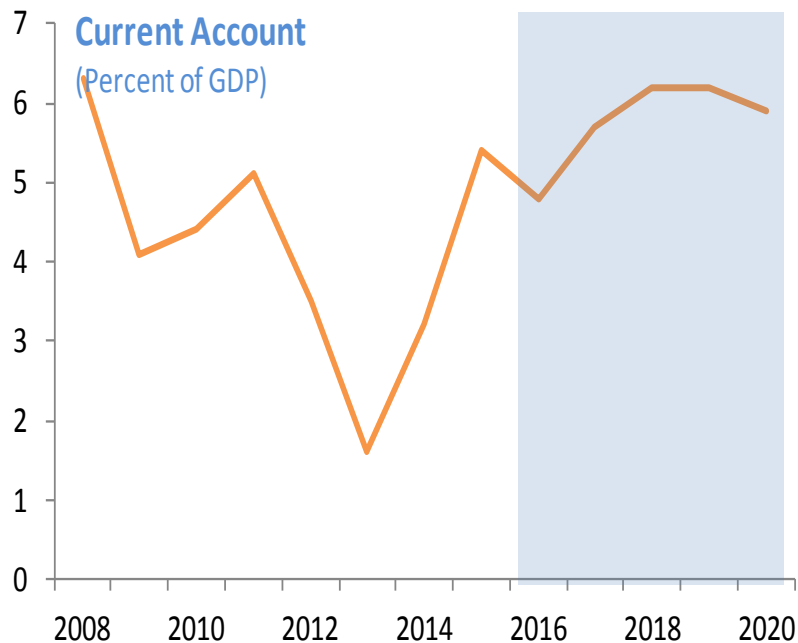
(Change vis-à-vis 2014, in US\$ billion)

| | |
|--|--------------|
| Current Account | 7.3 |
| Trade Balance | -44.1 |
| Oil and Gas Exports | -127.0 |
| Other Exports | -31.2 |
| Imports | -114.0 |
| Services (net) | 18.2 |
| <i>of which</i> , Tourism (net) | 12.5 |
| Income (net) | 33.4 |
| <i>of which</i> , Remittances (net) | 5.7 |
| <i>of which</i> , Investment Income (net) | 26.0 |
| <i>of which</i> , Investment Income Payments | -34.1 |

In 2016, the external surplus should be enough to cover external debt falling due

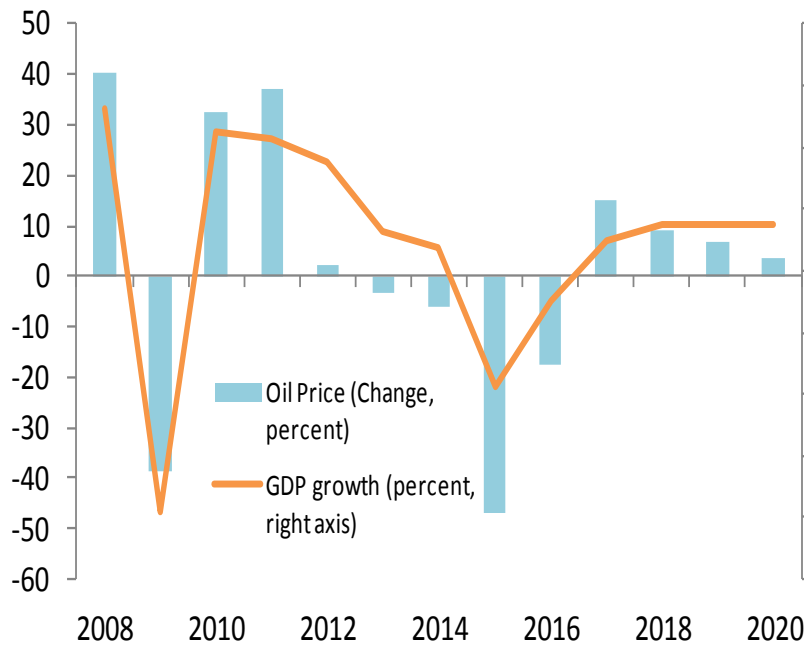
Lower imports are helping offset lower energy exports...

...and will help manage to pay external debt falling due

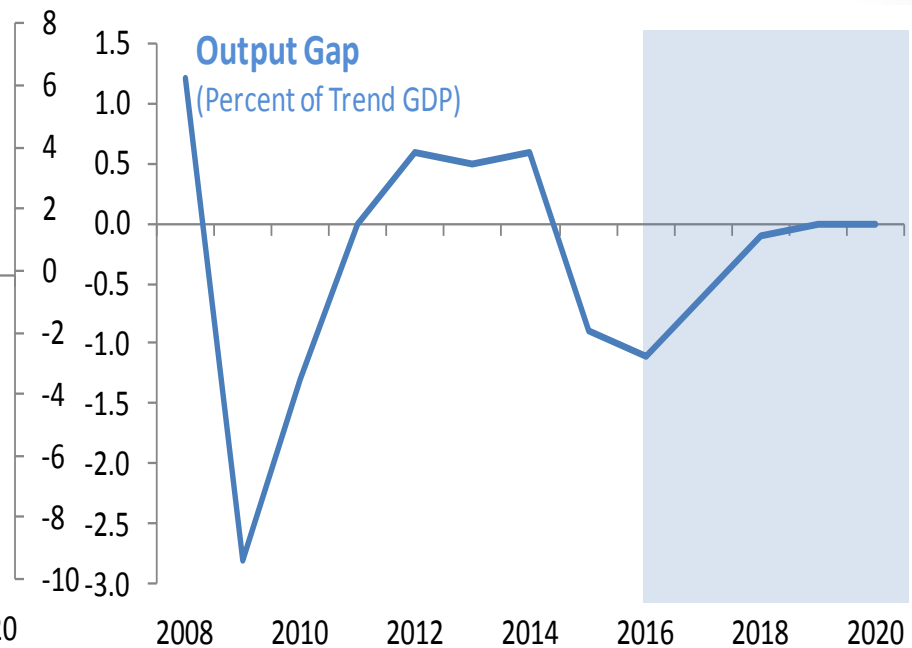


...however GDP growth will be negative again in 2016 and recovery will be gradual

Growth is expected to be again negative in 2016 (but better than in 2015)...



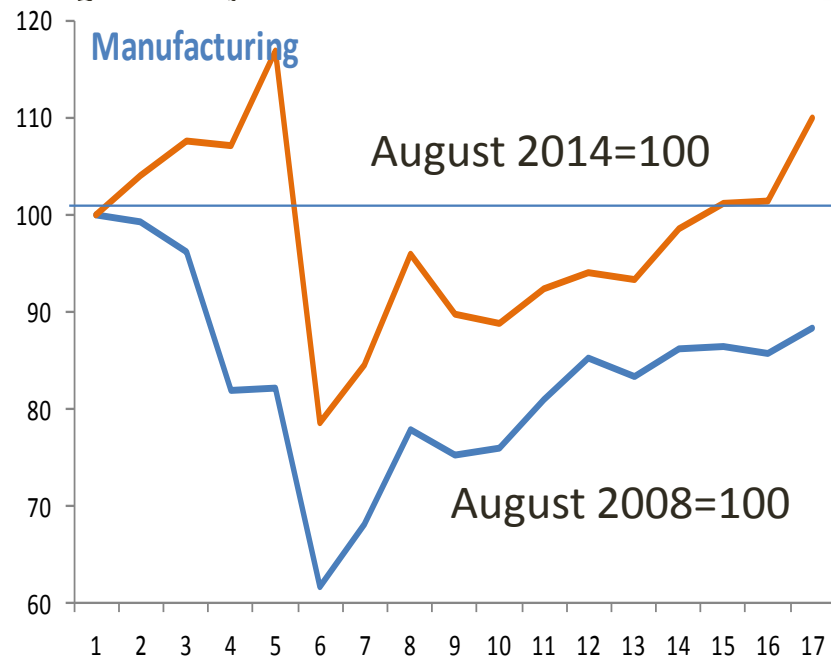
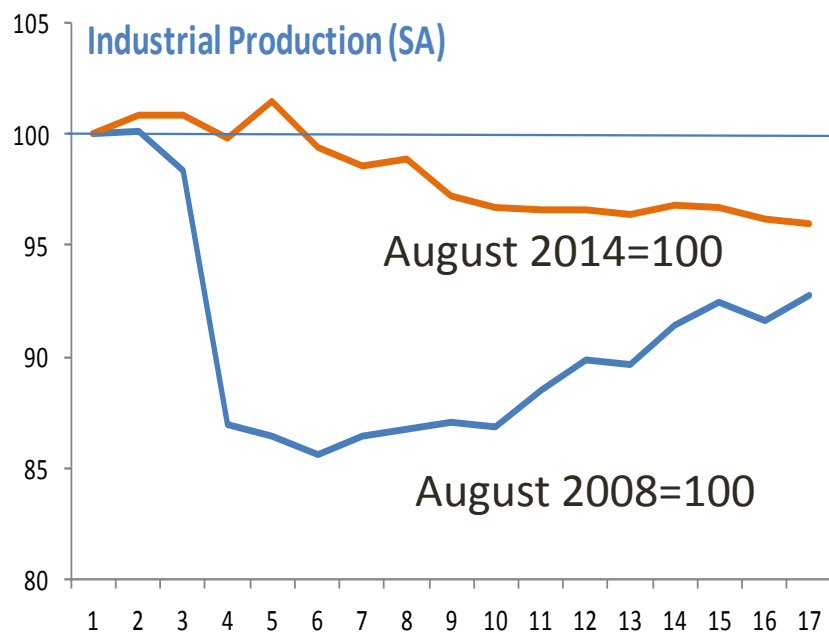
... and the economy to continue to operate below full capacity.



...better relative prices should help economic recovery...

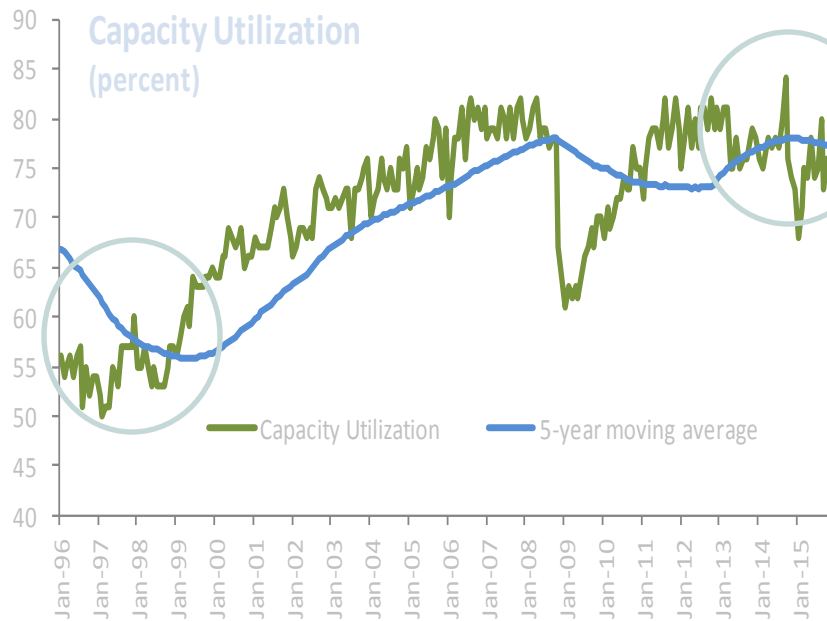
Industrial production did not decrease as much as in 2008-2009...

...and performance in manufacturing was significantly better

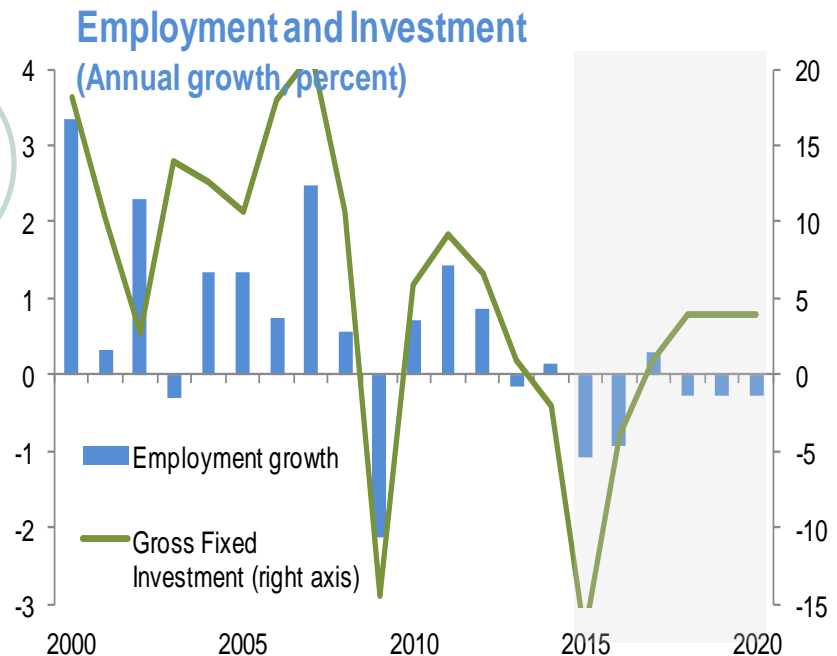


...but further structural reforms are needed to increase long-term growth

The economy operated close to full capacity in 2014-15...



... and long term drivers of growth are expected to remain modest.



With respect to Policy Mix...

- **Monetary policy** normalization should proceed as inflation and inflation expectations are anchored towards the target. **The change in relative prices** needs to be accounted for when evaluating policies.
- **Medium-term fiscal consolidation should continue**, but without compromising the recovery. A revised budget for 2016 should preserve **public investment** and the social safety net. **Medium-term budgeting** should resume and the **fiscal rule** should be simple and allow to react to oil price swings.
- Latest measures on **Regulatory Forbearance** are appropriate but should be temporary.

Risks

Downside Risks

- Lower Oil Prices for longer – A mark down in growth in emerging economies (hard-landing in China)
- Increase in Geopolitical Tensions
- A bout of financial volatility – Disruptive Asset Price shifts

Upside Risks

- Oil prices rebound
- Geopolitical tensions subside
- **Structural Reforms advance faster**

Several (and substantial) mitigating factors

1. Low public debt
2. Low (headline) fiscal deficit
3. Large FX reserve buffers
4. Current account surplus
5. Positive IIP
6. Flexible exchange rate regime
7. More competitive real exchange rate level

Большое Спасибо