Russian Federation

Recent Economic Developments and Challenges

IMF MOSCOW OFFICE

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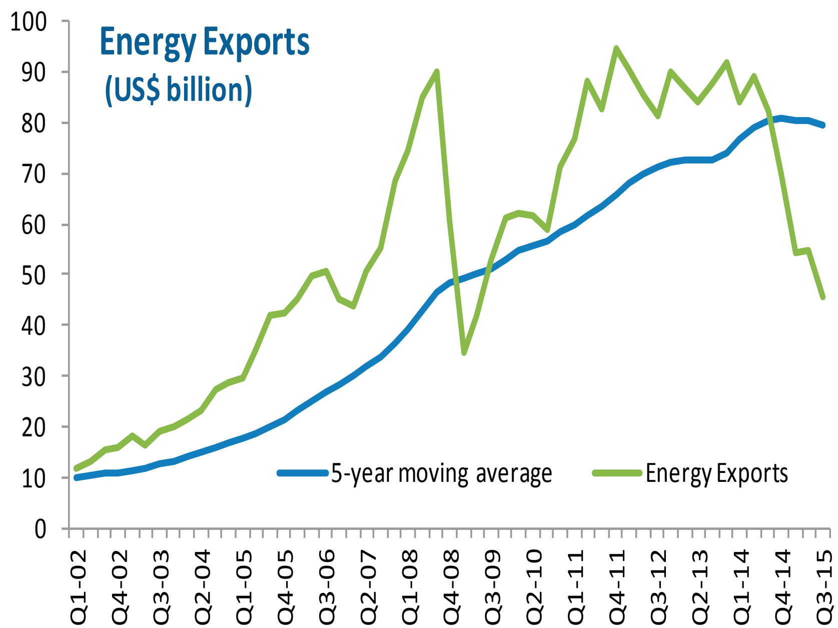
Outline

- Shocks affecting Russia's economy
- Policy Reaction: Monetary and Fiscal Policy Responses
- Current economic situation, impact in the region, and medium-term challenges
- Risks and Mitigating Factors

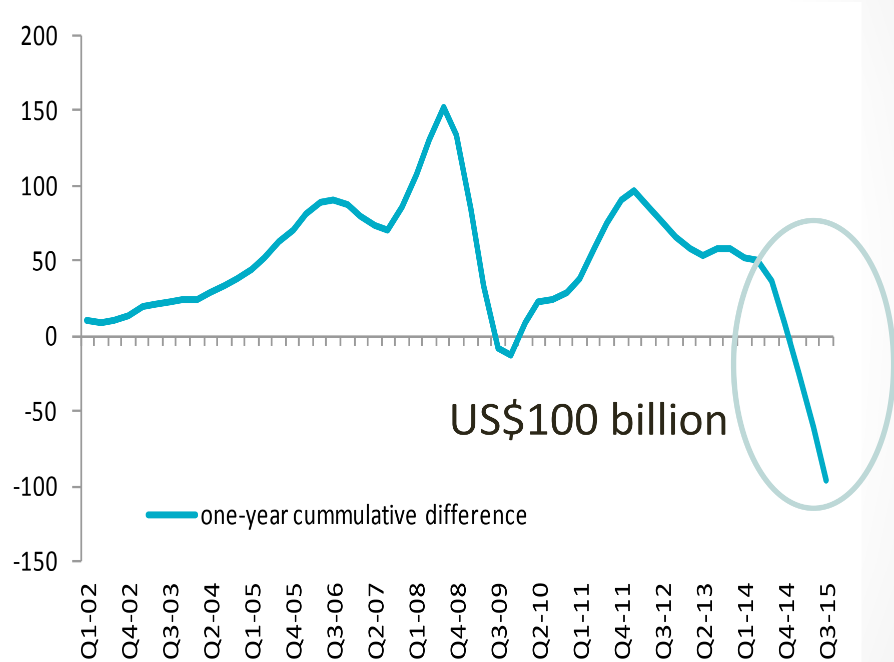
The Shocks

Lower International Energy Prices

Oil prices decreased by about half…

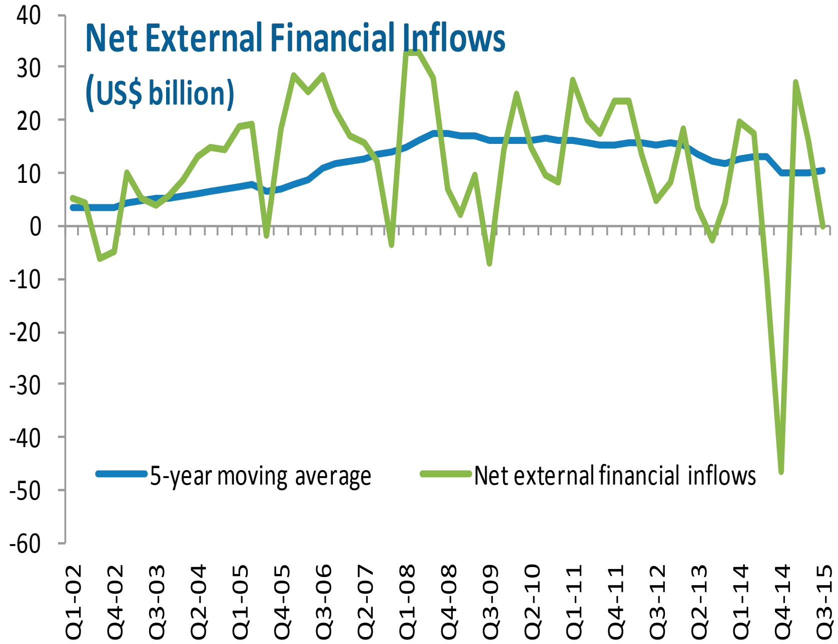


…resulting in a decrease in the US$ value of oil exports

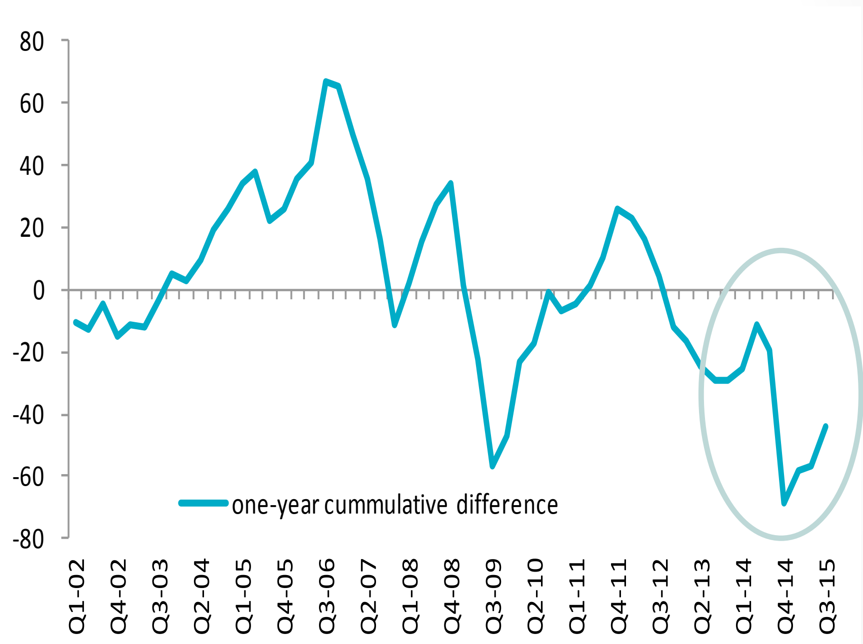


Lower Net External Financial Inflows

Sanctions curtailed access to external financing…

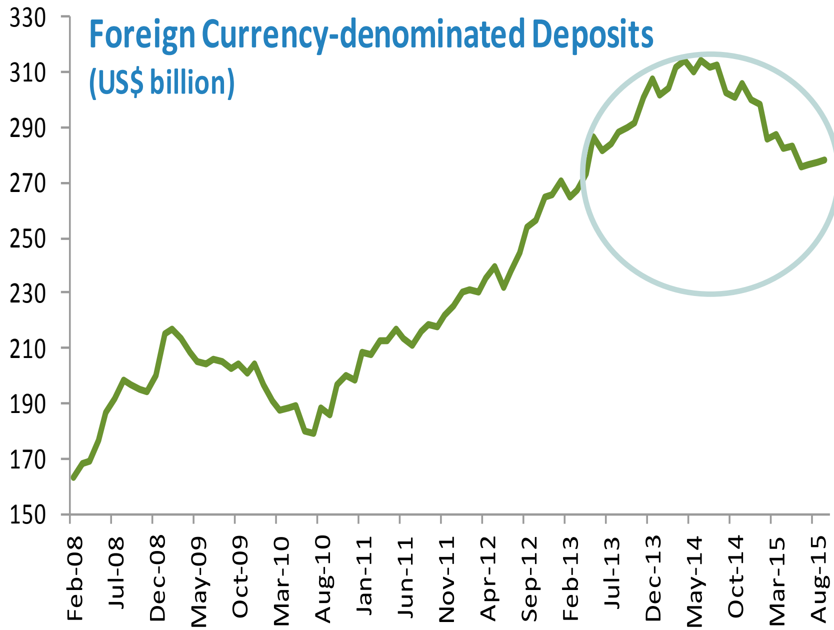


…resulting in net financial outflows during the last 12 months

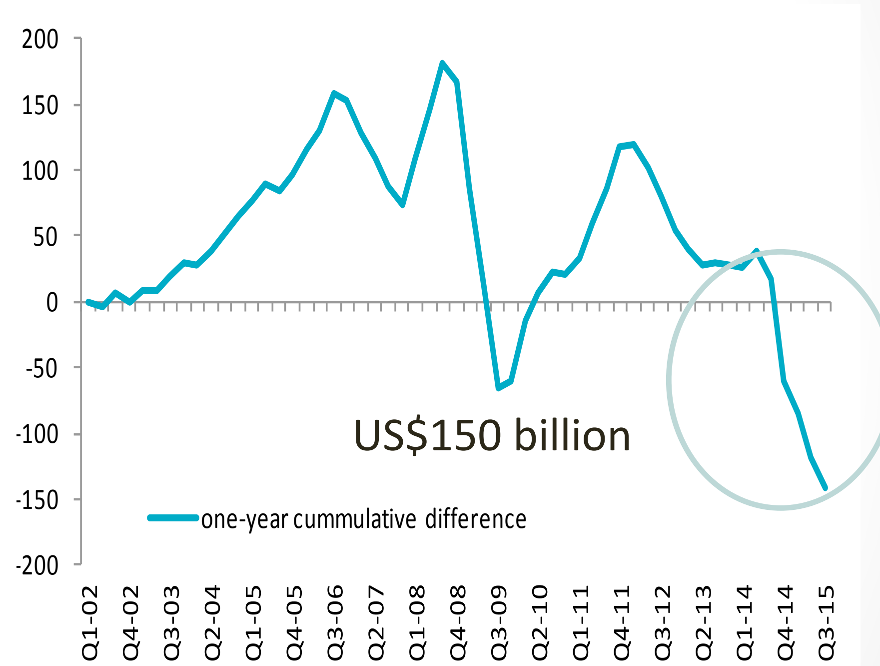


Combined effect of Shocks

External shocks dented confidence and also prompted a short-lived deposit decrease…



..with combined negative effect in the balance of payments stronger than in 2008-09.



Lower Energy Prices and Fiscal Accounts

- Energy-related taxes and duties represented about 50 percent of federal fiscal revenues in 2014

- Lower oil prices resulted in a decrease in the US$ value of energy-related taxes of around US$100 billion

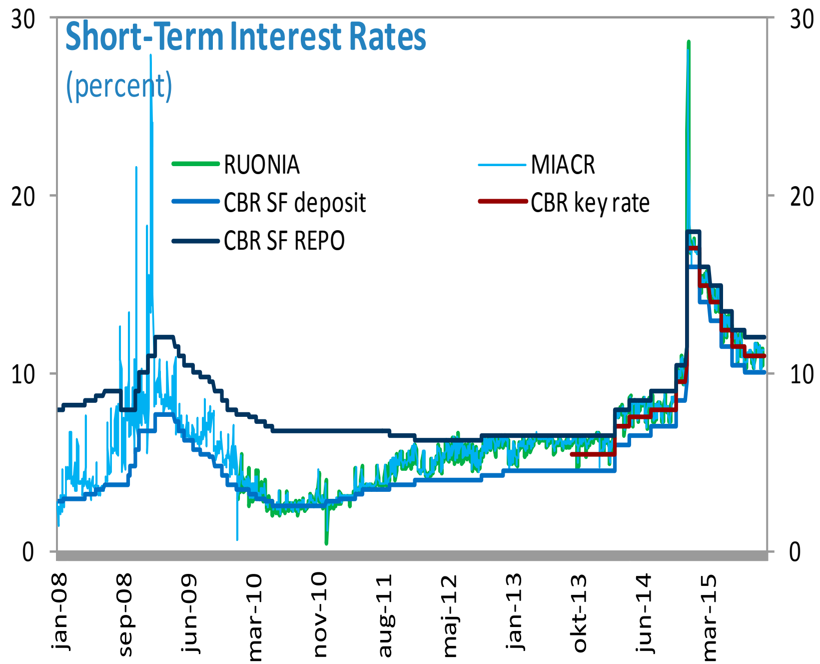
The Policy Response

Monetary Policy: New nominal anchor and temporary liquidity support

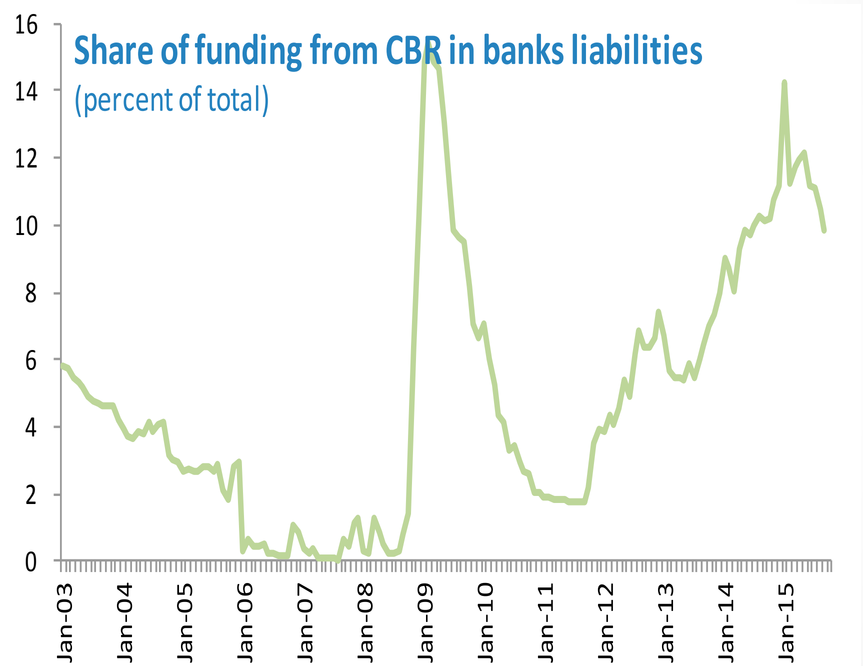
- Inflation targeting : 4 percent headline CPI inflation
- Ruble floats (freely) *vis-à-vis* other currencies
- Interest Rate management becomes the key monetary policy decision
- Liquidity Provision: new and expanded facilities

Monetary Policy: Policy rate and liquidity support

Policy rates increased to re-anchor expectations and stabilize the FX market but were eased thereafter…



…while CBR liquidity support to banks remains higher than the historical norm



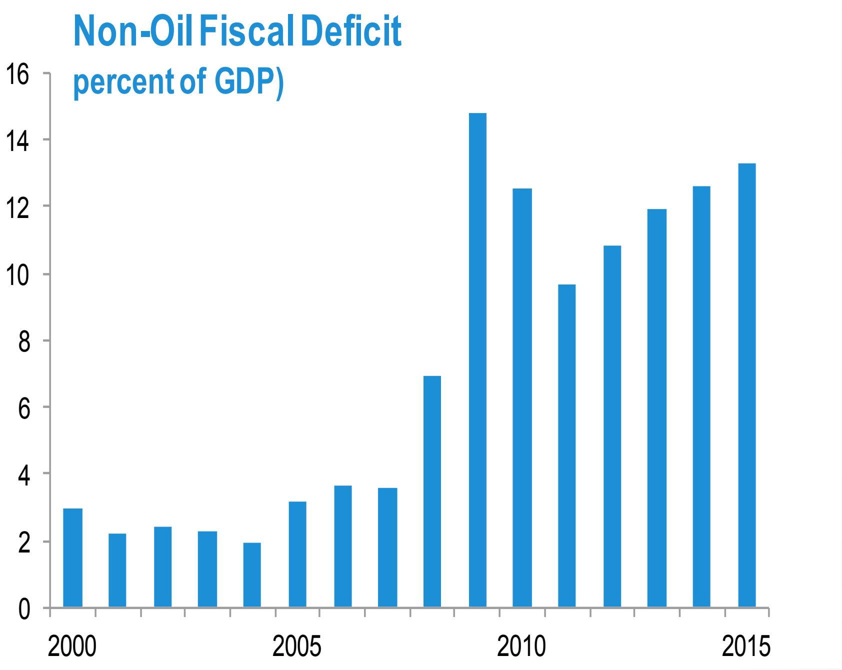
Financial Policies: Appropriate measures taken to stabilize the financial system

- Temporary Regulatory Forbearance (exchange rate, loan classification, negative valuation changes)
- Strengthened Foreign Exchange and Financial Infrastructure Support (expanded collateral and liquidity support options)
- Bank Recapitalization (Rb. 1 trillion program)

Fiscal Policy: Short-term stimulus with an eye in the medium-term

- A modest increase in the non-oil fiscal deficit is expected in 2015 – appropriate given negative output gap and still-ample fiscal buffers

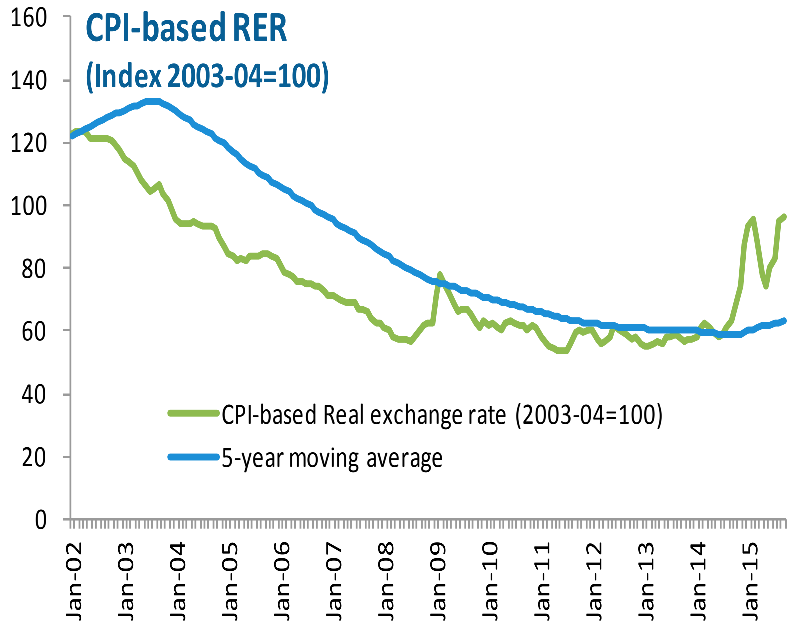
- Ruble depreciation helped adjust to lower US$ value of oil revenues



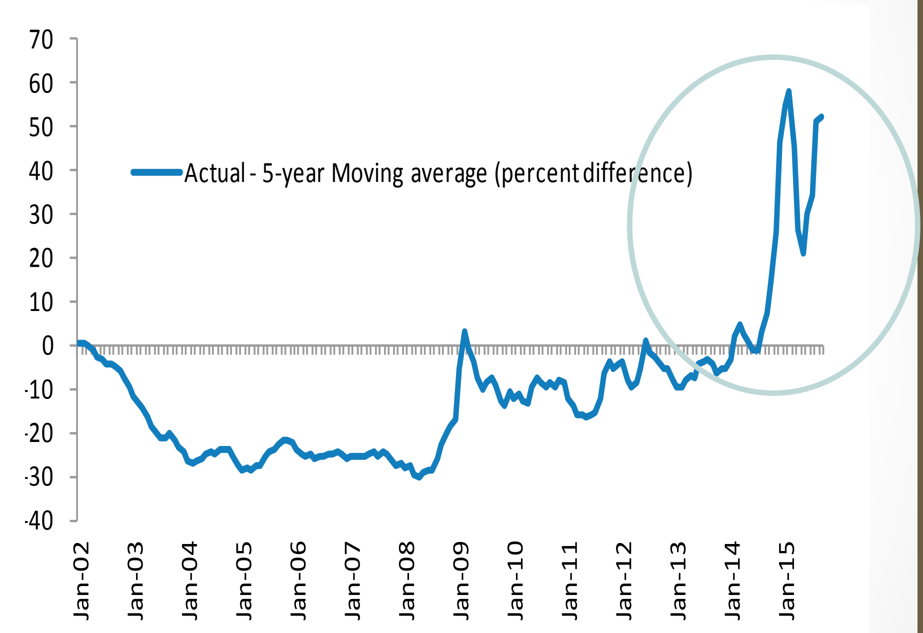
Current Economic Situation and Medium-term Challenges

The Real Exchange Rate depreciated amid lower Oil Prices….

The floating Ruble facilitated the adjustment to external shocks…

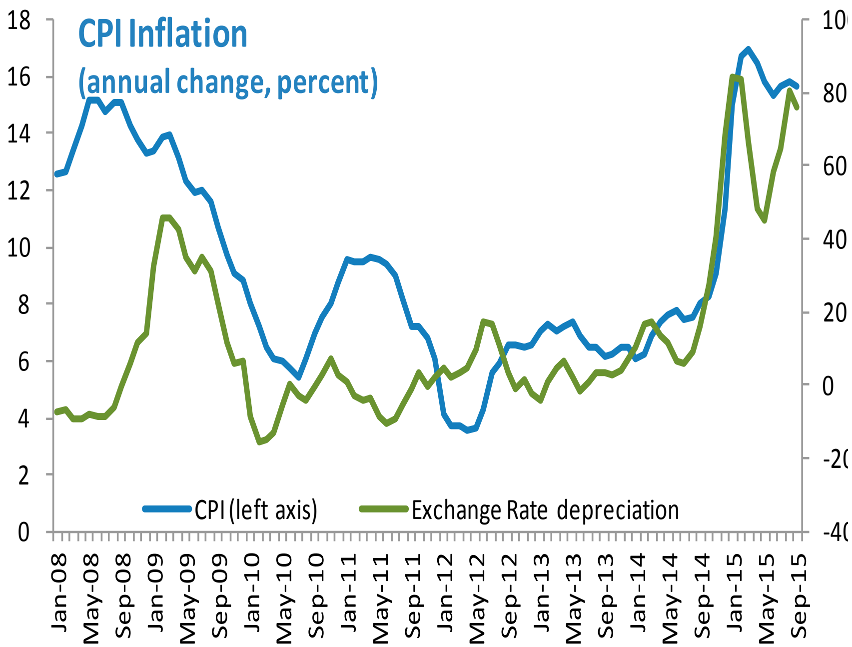


…and a realignment of relative prices

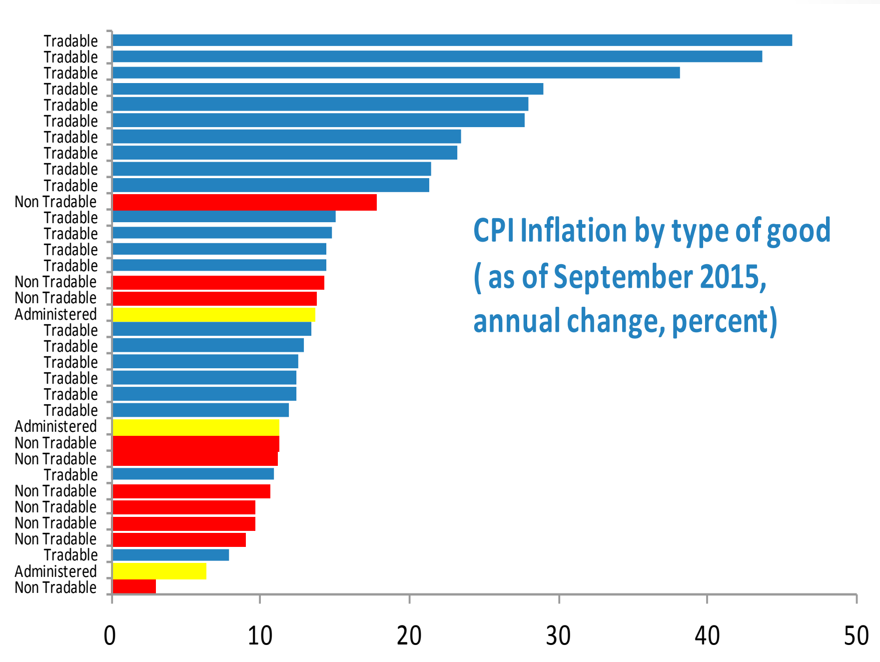


...inflation increased, with prices of tradable goods increasing more...

Exchange rate depreciation passed through to inflation...

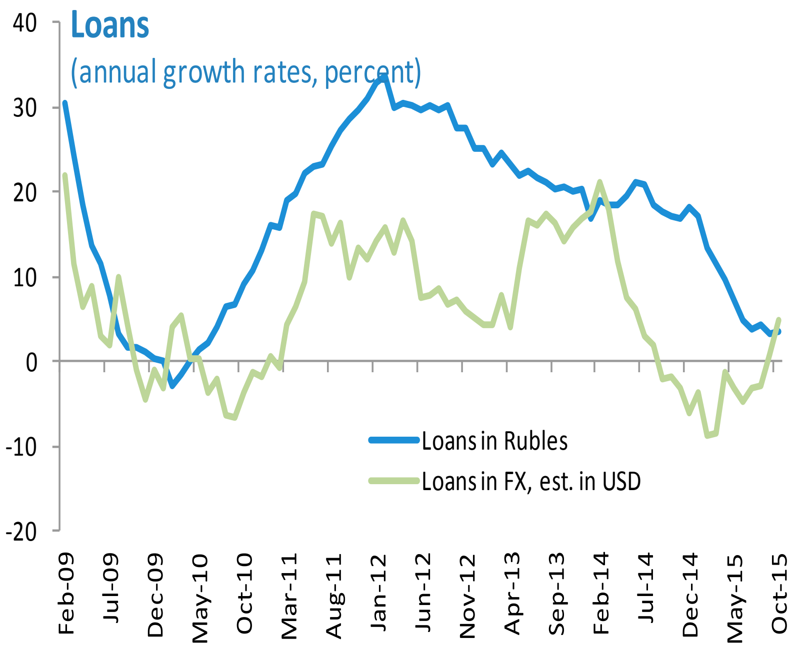


...with tradable good prices increasing more than non-tradable and administered prices

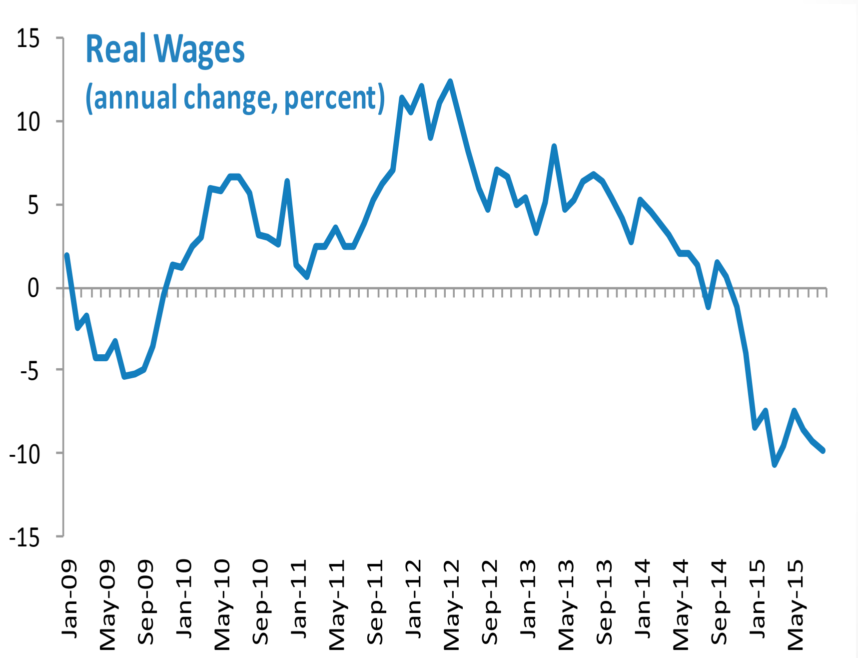


…bank credit growth decelerated and real wages decreased….

Bank lending decelerated given tighter financial conditions…

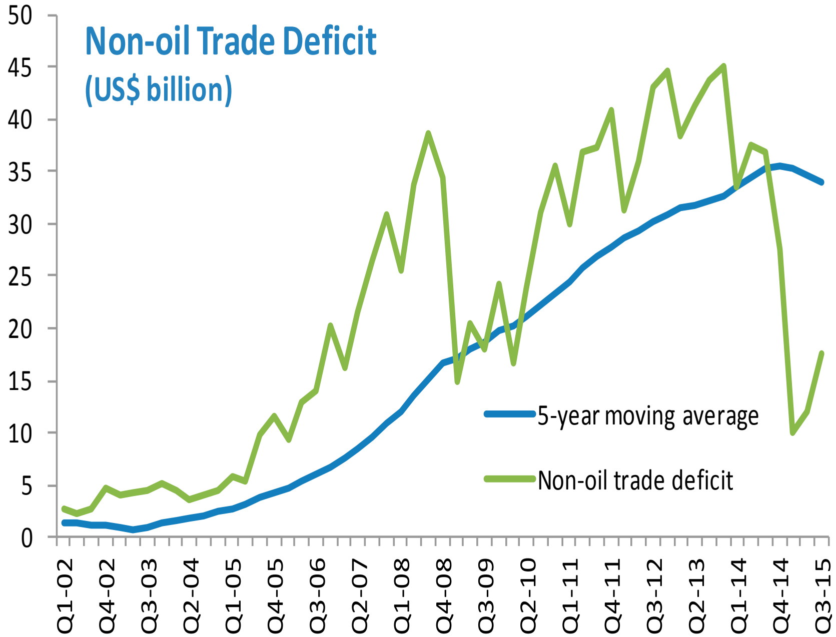


…and real wages decreased as economic slack increased.

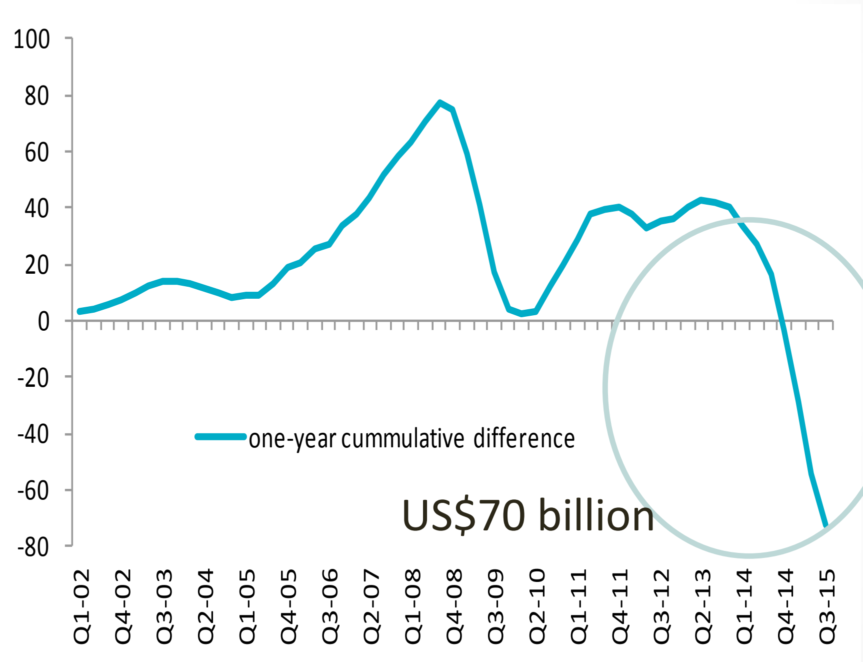


...prompting a decrease in the non-oil trade deficit...

Changing relative prices, lower and expensive credit, and lower real wages...

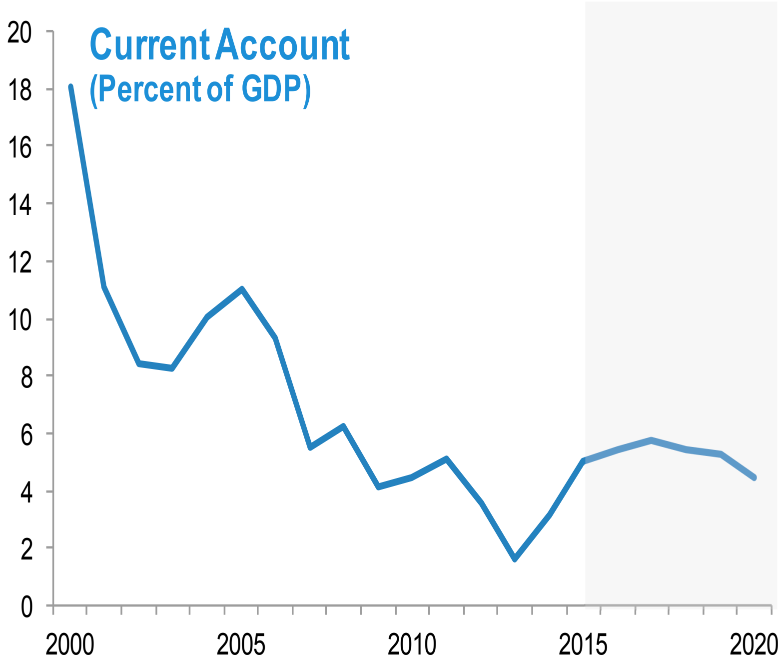


...prompted a decrease in non-oil trade deficit despite lower prices for metals

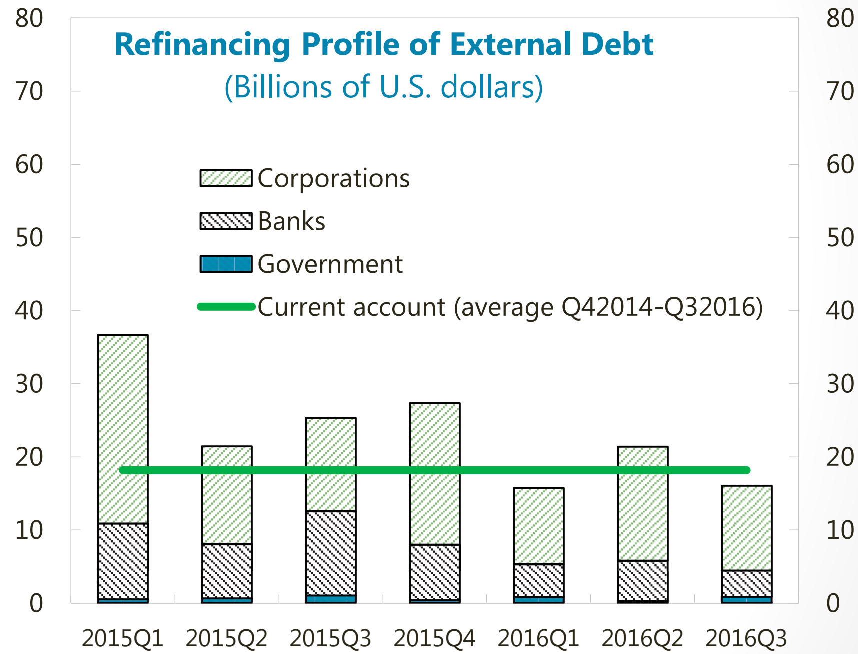


...and a correction in the Current Account enough to cover external debt falling due

Lower imports are helping offset lower energy exports...

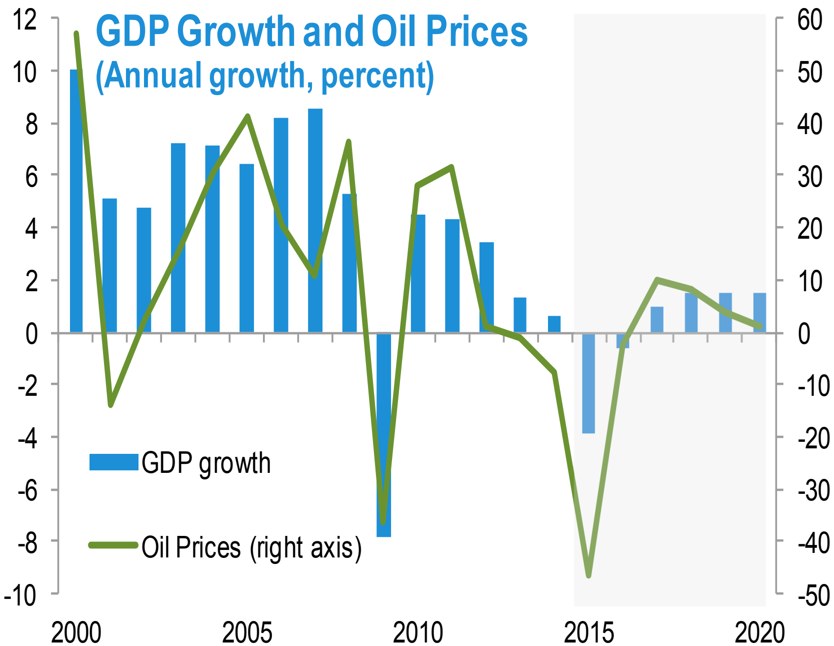


...and will help manage to pay external debt falling due

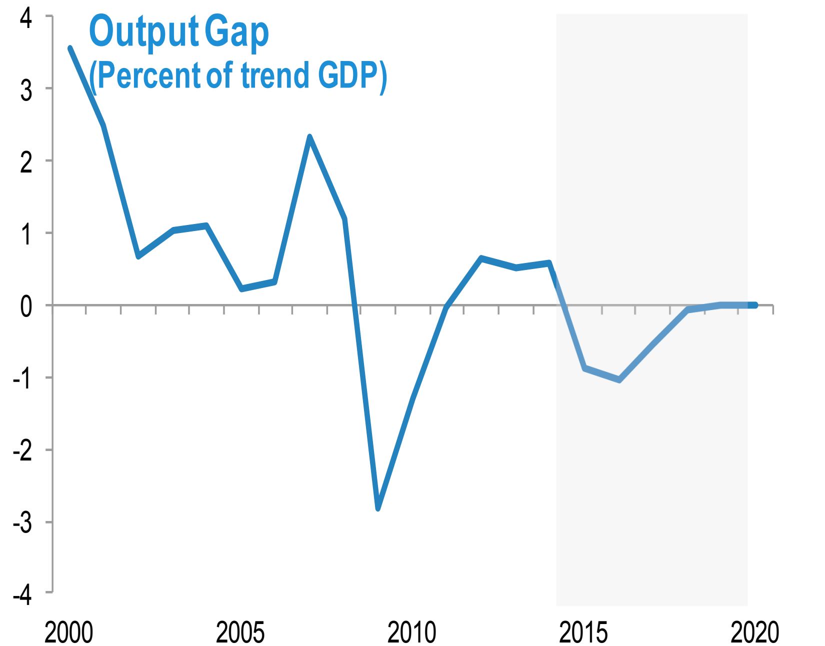


…however GDP growth will be negative in 2015 and recovery will be gradual

Growth is expected to be negative in 2015…

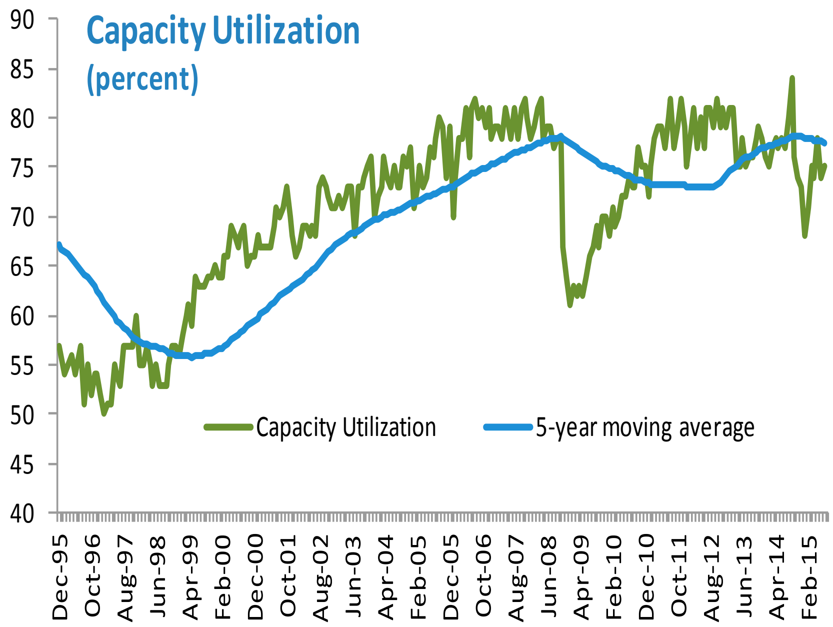


… and the economy to operate below full capacity.

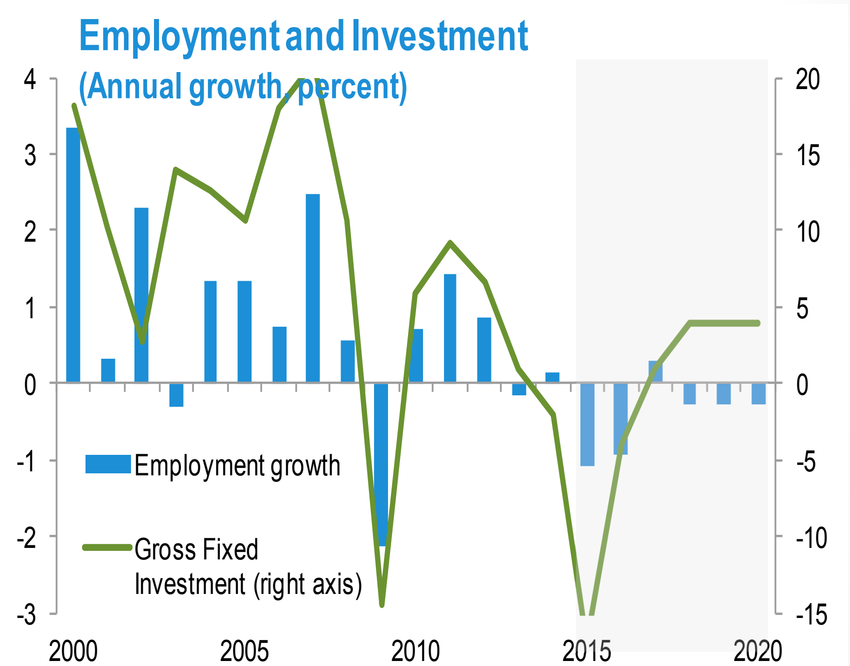


Structural reforms are needed to take advantage of better relative prices

The economy operated close to full capacity in 2014…



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



With respect to Macroeconomic Policies…

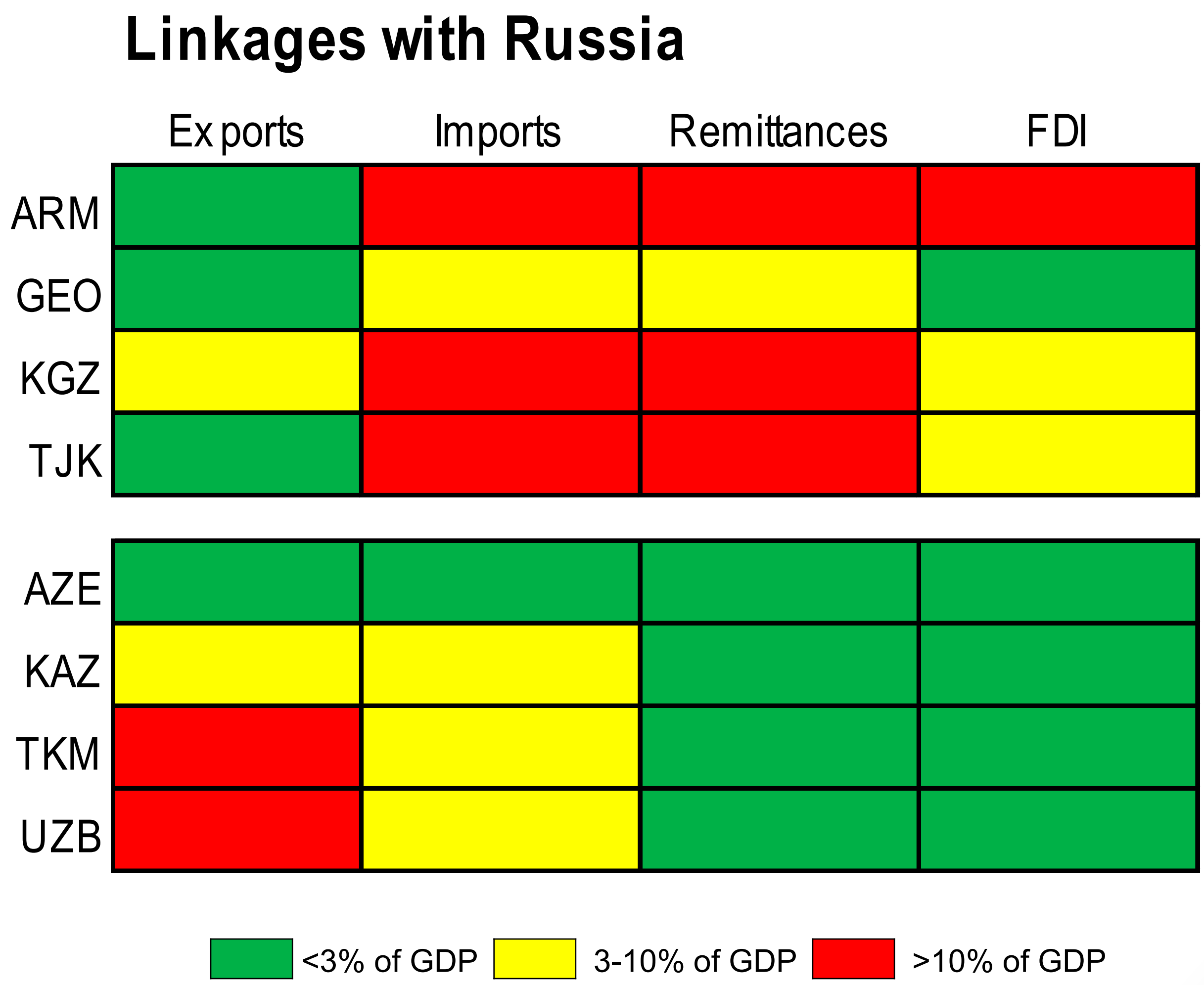
- **Monetary policy** should continue normalizing once inflation and inflation expectations are anchored towards the medium term inflation target.

- Although buffers are ample, **fiscal stimulus** should be limited as the non-oil deficit remains large (fiscal rule in its current is backward looking and results in higher-than-warranted deficits). Consolidation should preserve public investment

Impact on the EEU Countries: Mainly through the Current Account

- Remittances from Russia
- Exports to Russia
- Foreign Direct Investment from Russia
- Ruble volatility may create some further volatility in bilateral exchange rates

Ties With Russia Go Beyond Exports; Include Remittances, FDI And Confidence



Risks and Mitigating Factors

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