



WORLD BANK

Russian Economic Report No. 22

A Bumpy Recovery

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July 8, 2010



I. Recent Economic Developments

II. Economic and social Outlook for
2010-2011

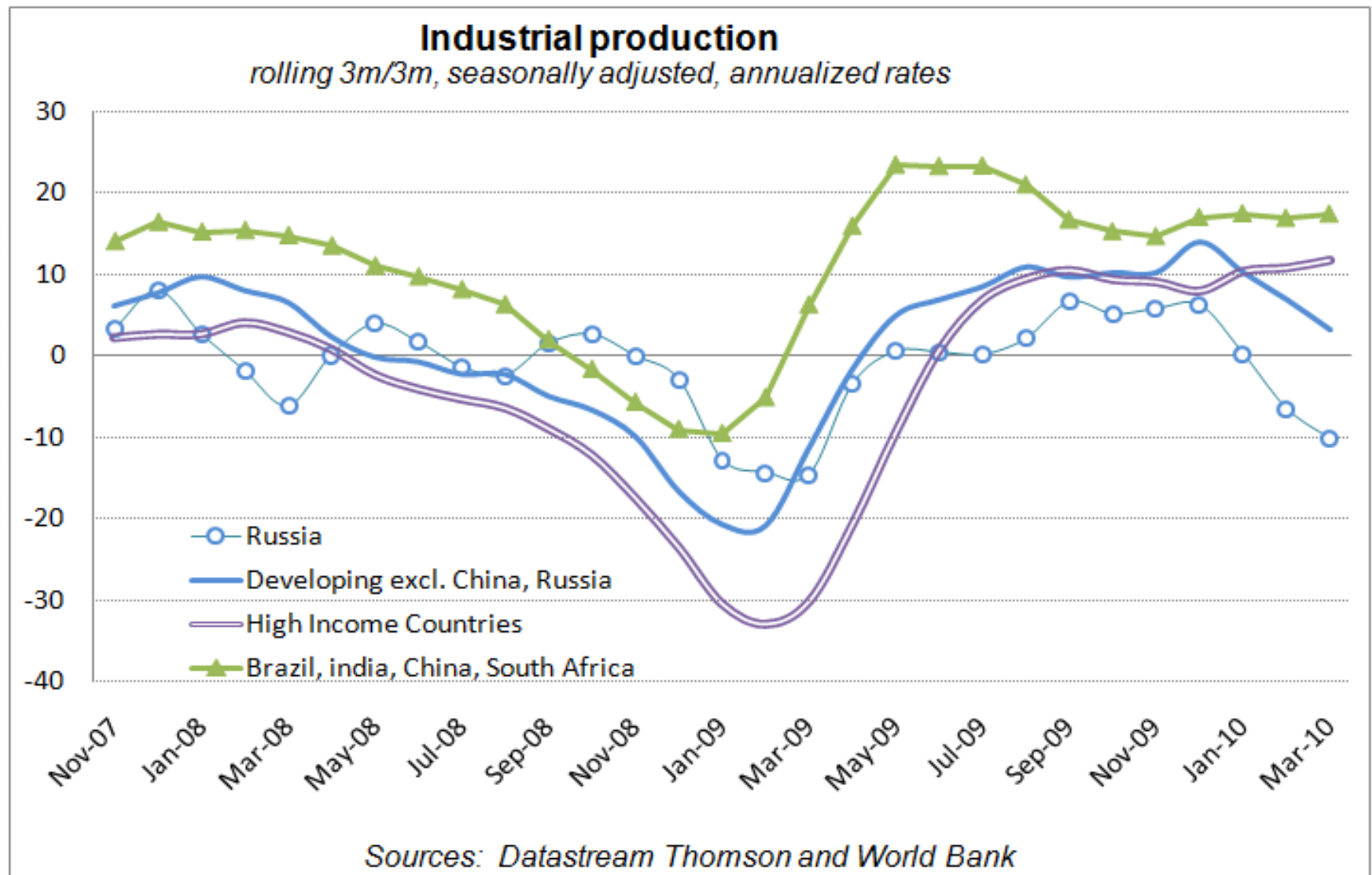
III. Special Topic: The Challenge of
Monotowns

I. The global environment: Key messages

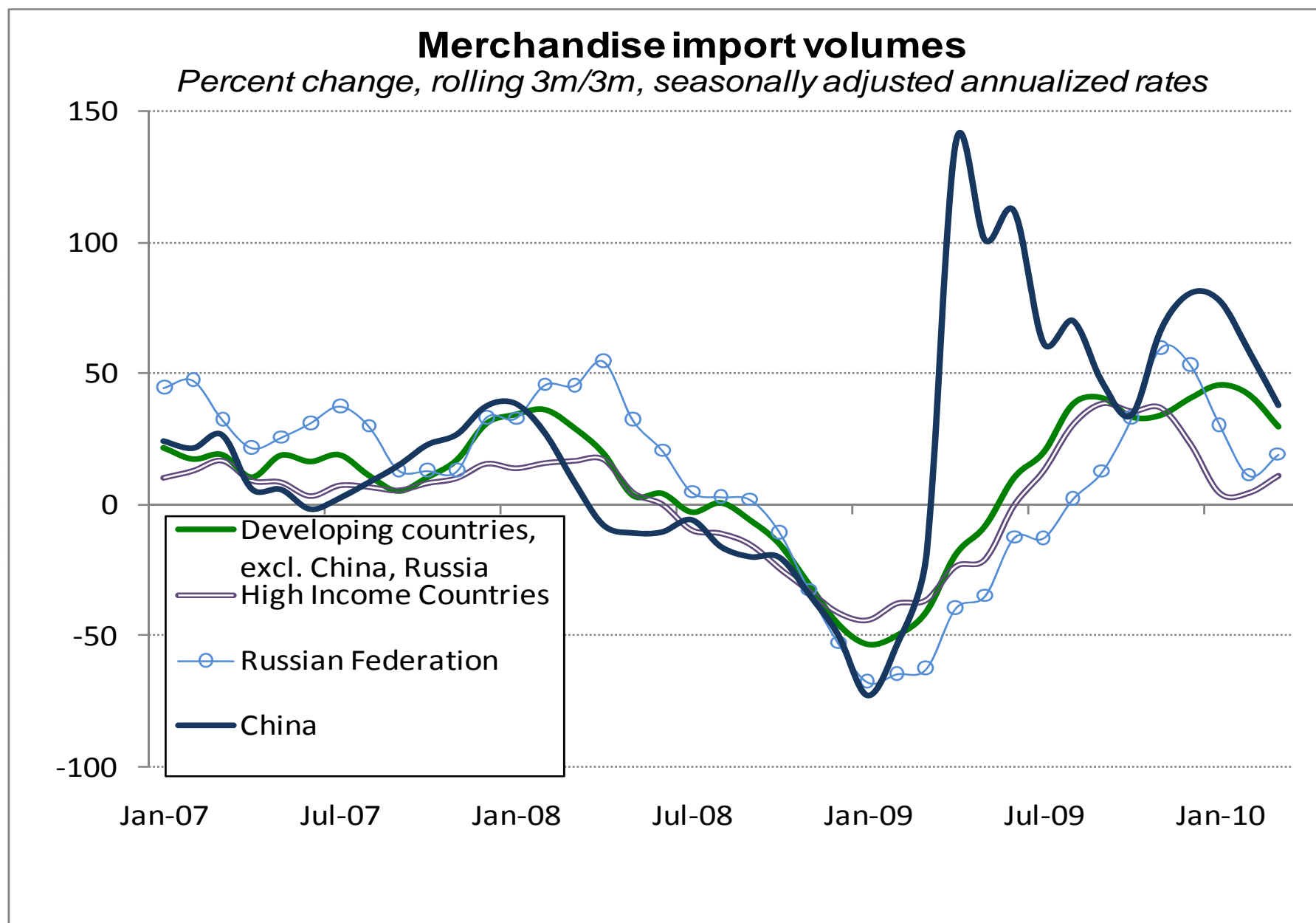
- ***Global recovery is led by the US and large emerging markets (China, India, Brazil, South Africa)***
- ***The growth in import volumes in emerging economies continued at a brisk pace in the first quarter of 2010***
- ***After a surge in the first quarter, capital flows remained steady in April 2010, but faltered in May***
- ***The debt crisis in Europe raises risks to global recovery and oil prices but risks to Russia are limited***



Global growth picking up, but Russia lagged behind in Q1 2010



Imports continuing to surge in developing economies, but moderating in Russia



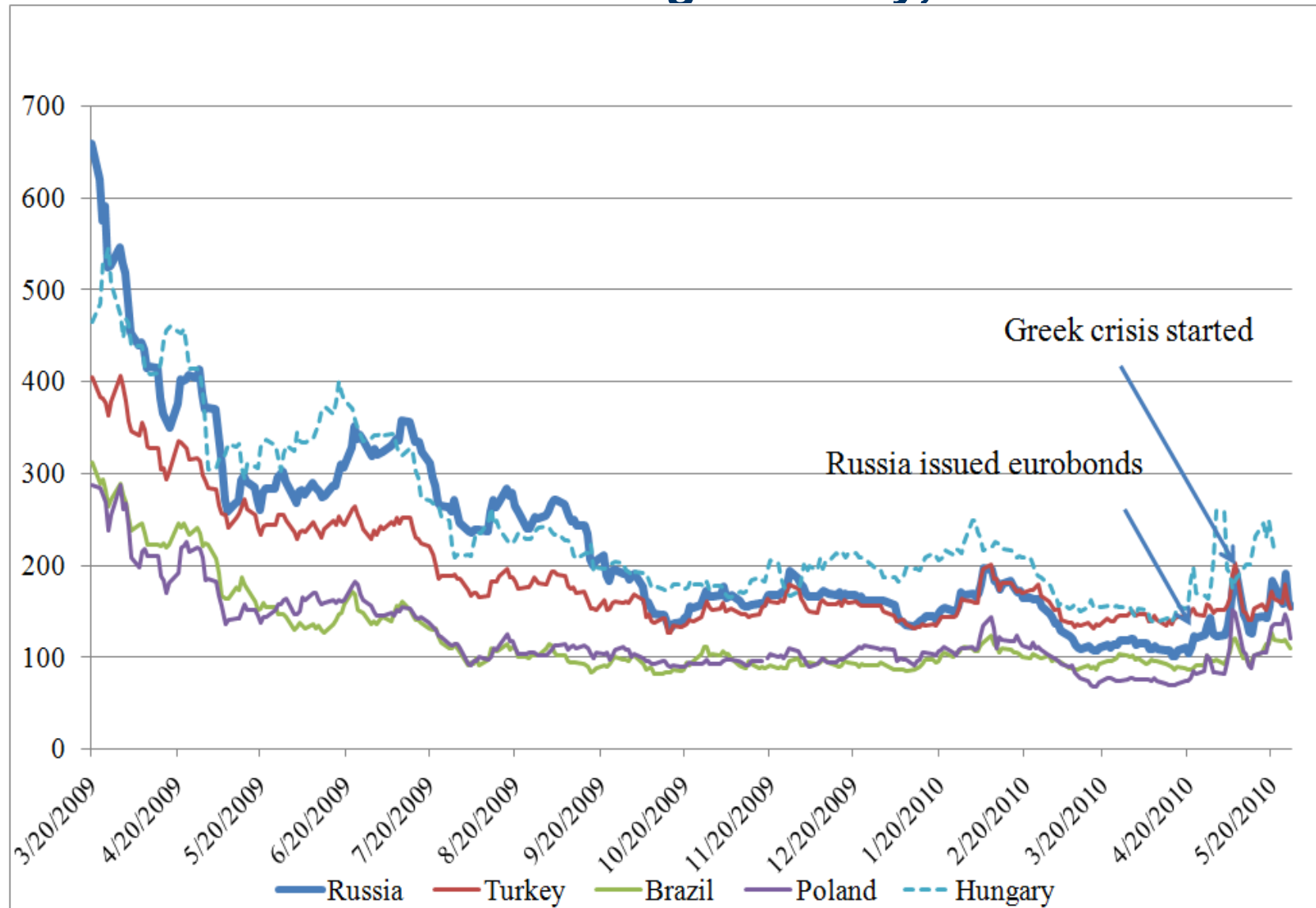
***After a surge in the first quarter and steady April,
capital flows fell in May, 2010***

Capital flows to emerging markets

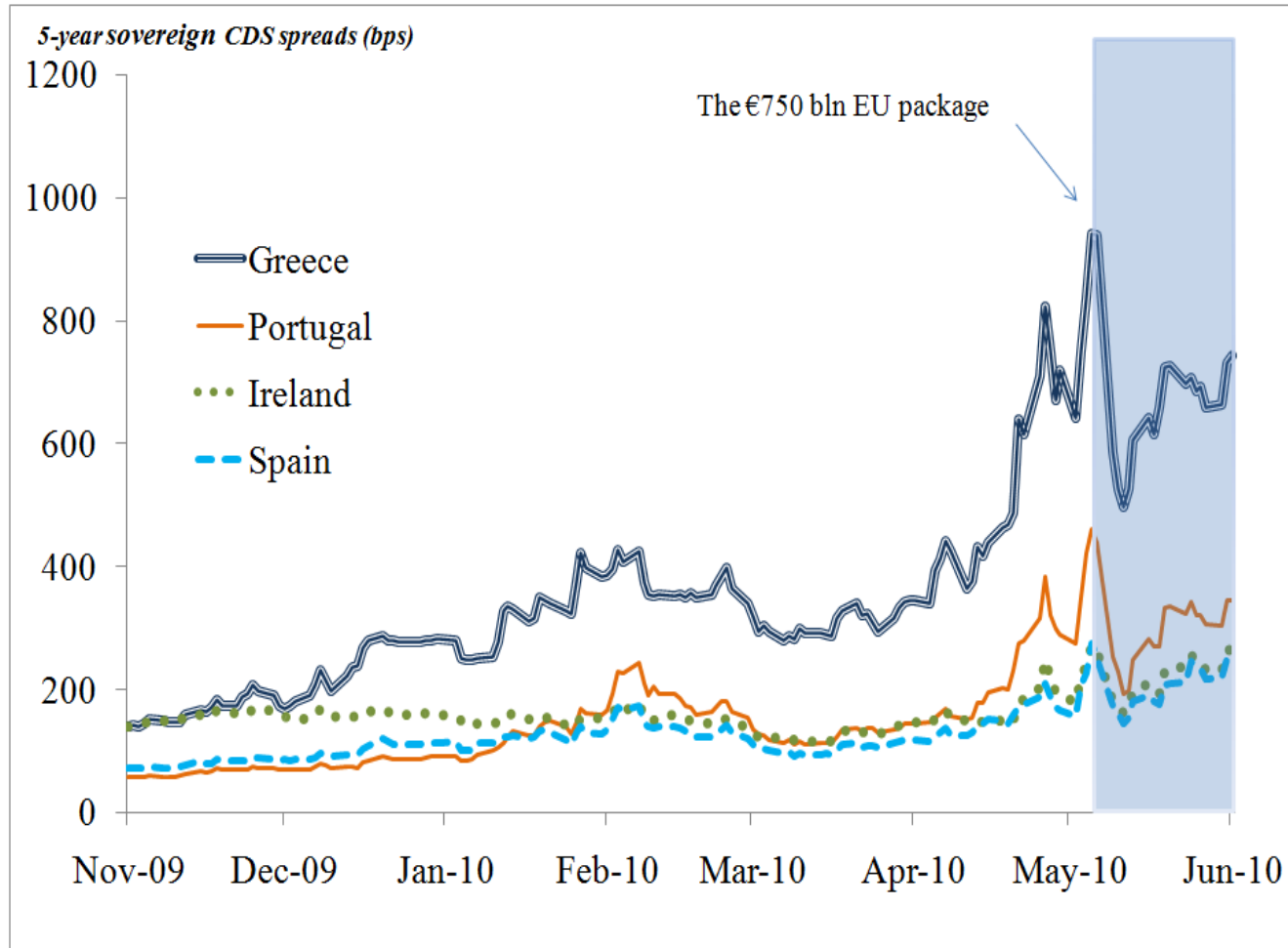
\$ billion	2008		2009		2010					
	Q1 Total		Q1 Total		Q1	Jan	Feb	Mar	Apr	May
Total	103	390	48	353	104	41	17	47	45	15
Bonds	12	65	18	115	48	21	5	21	26	3
Banks	71	257	22	129	30	12	5	13	8	6
Equity	20	68	8	109	26	7	7	12	11	6
Lat. America	19	90	21	137	31	9	4	17	15	3
Bonds	5	20	10	62	19	8	2	10	9	0
E. Europe	36	157	6	72	26	13	2	10	14	2
Bonds	2	35	4	33	17	7	1	8	11	1
Asia	38	98	18	122	38	16	7	15	11	10
Bonds	3	7	5	16	9	7	2	0.3	3	2
Others	11	45	3	22	10	2	3	5	4	1



Sovereign CDS spreads have come down significantly, but volatile in May



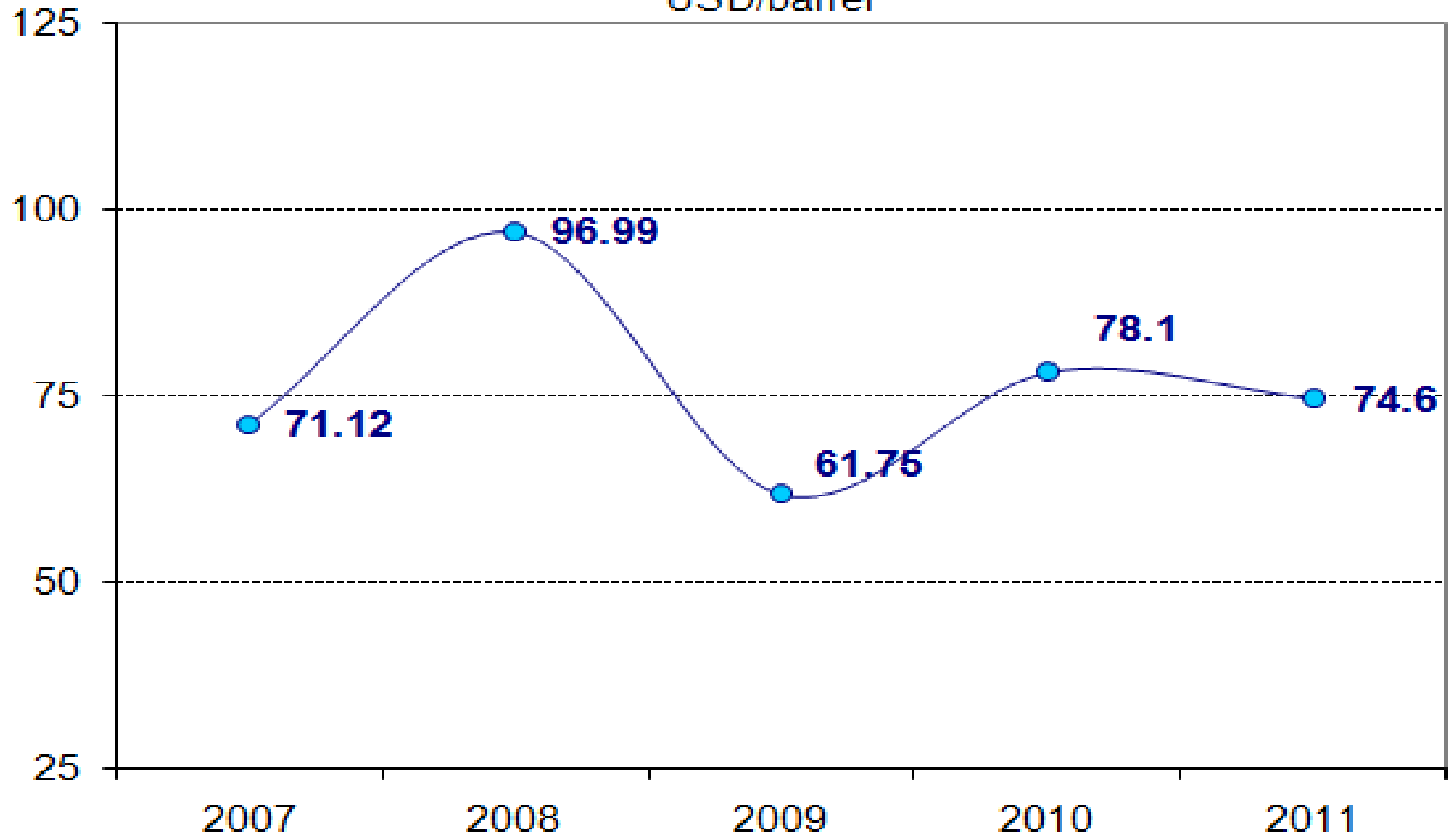
CDS spreads in select countries of Western Europe



Oil prices expected to remain around \$74-78 per barrel

World Bank oil price forecast

Average crude (Brent, Dubai and WTI), simple average,
USD/barrel



Source: World Bank Staff

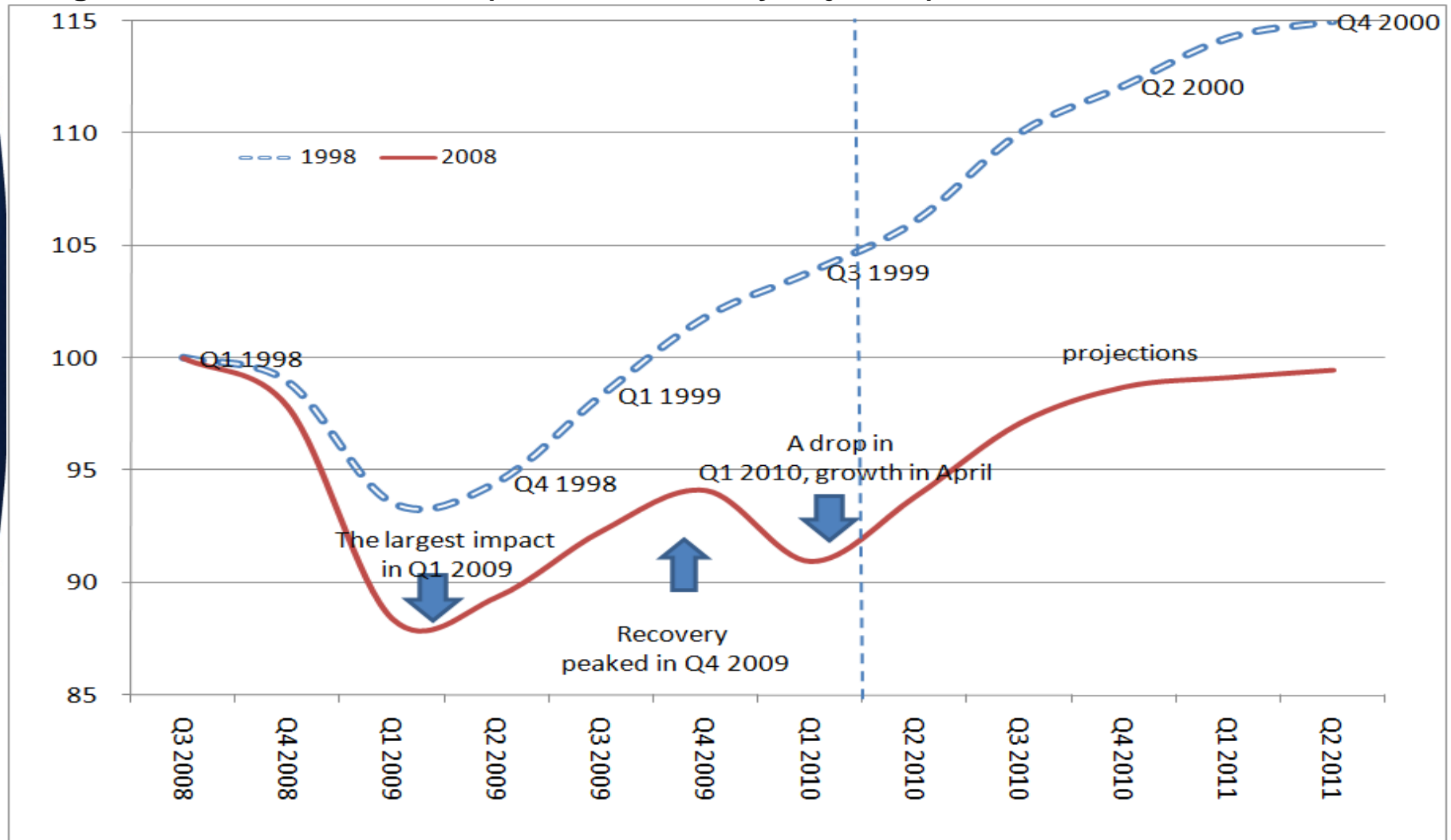
RUSSIA'S RECENT ECONOMIC DEVELOPMENTS

- *Domestic demand—recovering slowly*
- *Labor markets—weak first quarter but strong April*
- *Balance of payments—strengthening on the back of higher oil and gas prices*
- *Monetary policy— inflation continues to decline, monetary conditions ease*
- *Fiscal policy— withdrawing the stimulus, against higher oil revenues, and expenditure pressures*



Russia's output: a bumpy recovery Economic activity in Q1 2010 weaker than expected but recovery continues in April

Figure 1.3: Real GDP Level (Index, seasonally adjusted): 1998 vs 2008-09 crises



Source: World Bank staff calculations based on Rosstat data.

The tradable sector and manufacturing, in particular, performed well in the first quarter of 2010

Table 1.2: GDP growth by main sectors (value added): 2006-2010

	2006	2007	2008	2009	Q1- 2010
GDP growth	7.7	8.1	5.6	-7.9	2.9
Tradable sector	3.4	3.7	0.9	-9.4	10.9
Agriculture, forestry	3.8	2.5	7.2	0.3	2.7
Extraction industries	-3.3	-2.8	1.3	-3.1	11.5
Manufacturing	7.3	7.9	-0.7	-15.3	11.8
Non-tradable sector	10.1	11.8	9.4	-6.8	-0.4
Electricity, gas, water production and distribution	5.7	0.1	0.5	-7.9	8.5
Construction	11.8	13.7	11.2	-17.0	-9.0
Whole sale and retail trade	14.1	12.1	9.6	-8.6	0.0
Transport and communication	9.7	5.4	6.0	-3.0	9.3
Financial services	10.3	12.5	14.1	2.4	-7.3

Source: Rosstat, World Bank staff estimates.

Labor markets

Unemployment remained high in Q1 2010, followed by a drop in April, reflecting seasonal gains

Table 1.3: Labor productivity, disposable income, wages, and unemployment

	2006	2007	2008	2009	2010	
	Jan- Dec	Jan-Dec	Jan- Dec	Jan-Dec	Jan - Apr	Apr
GDP growth, percent, year on year	7.7	8.1	5.6	-7.9	2.9 ^a	n/a
Total employment, million people	68.8	70.5	70.9	69.4	68 ^a	68.9
Employment growth, percent, year on year	0.8	2.4	0.5	-2.1	-0.3 ^a	n/a
Labor productivity growth, percent, year on year	6.9	5.5	5.0	-5.9	3.2 ^a	n/a
Real disposable income growth, percent, year on year	13.5	12.1	1.9	1.9	6.5	3.7
Real wage growth, percent, year on year	13.3	17.2	11.5	-2.8	3.8	6.0
Average monthly wage, USD	392.5	533.2	692.1	593.0	659.9	695.9
Unemployment (percent, ILO definition, e-o-p)	6.9	6.1	7.8	8.2	8.2	8.2

Source: Rosstat.

^a Data for the first quarter of 2010.



Unemployment high but declining, vacancies rising

Figure 1.6: Unemployment rate (%)

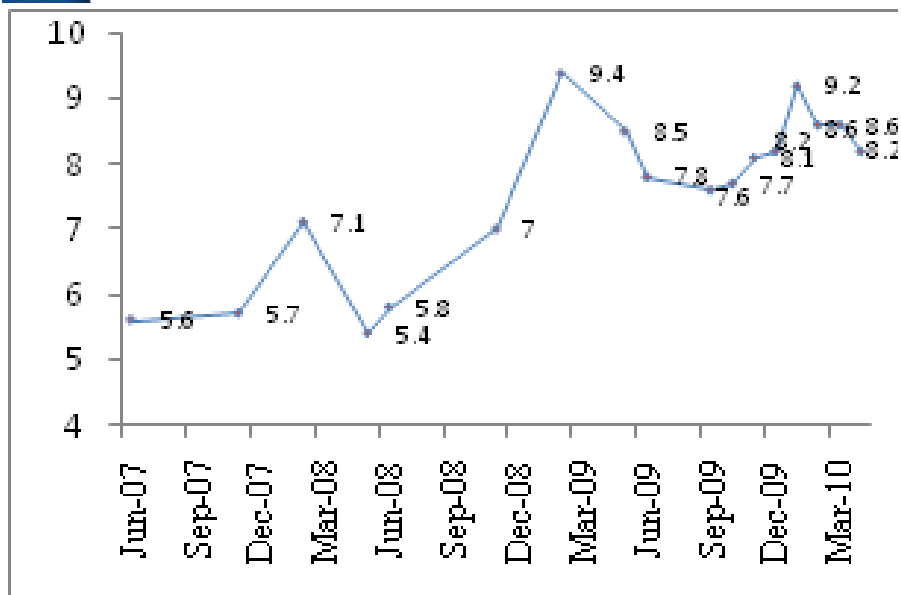
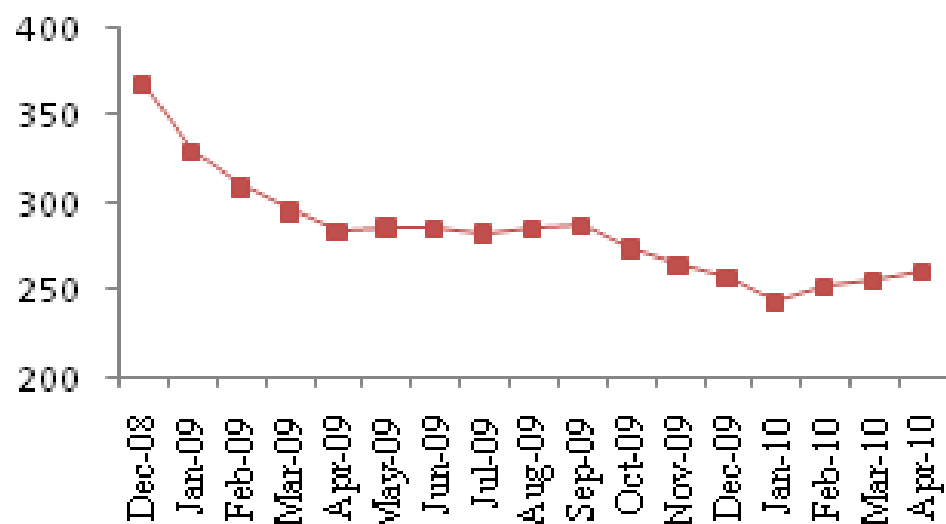



Figure 1.7: Number of vacancies, thousands



Source: Rosstat.

Balance of payments—strengthening on the back of higher oil and gas prices


Table 1.4: Balance of payments (USD billions), 2006–2010

	2006	2007	2008	2009	Q1-09	Q2-09	Q1-10	Q2-10 ^a
Current account balance	94.7	77	102.4	49.5	9.8	8.2	33.3	16.9
 Trade balance	139	131	179.7	112	18.8	24.2	46.6	37.4
Capital and financial account	3.3	84.8	-136	-44.5	-32.6	2.9	-10.8	14.7
Errors and omissions	9.5	-13	-11.9	-1.6	-7.7	3.1	-5.9	-5.5
Change in reserves (+ = increase)	108	149	-45.3	3.4	-30.5	14.2	16.6	26.1

Source: CBR. ^a Preliminary estimates.

Capital flows remain volatile but balance of payments improved and reserves rose

Table 1.5: Net capital flows (USD billions), 2006–2010

	2006	2007	2008	2009	2009	2009	2010	2010
					Q1	Q2	Q1	Q2
 Total net capital inflows to the private sector	41.4	81.7	-133.9	-57.2	-35.2	3.3	-14.7	4.5
Net capital inflows to the banking sector	27.5	45.8	-56.9	-31.4	-6.9	-5.9	0.1	6.4
Net capital inflows to the non banking sector	13.9	35.9	-77	-25.8	-28.3	9.2	-14.8	-1.9

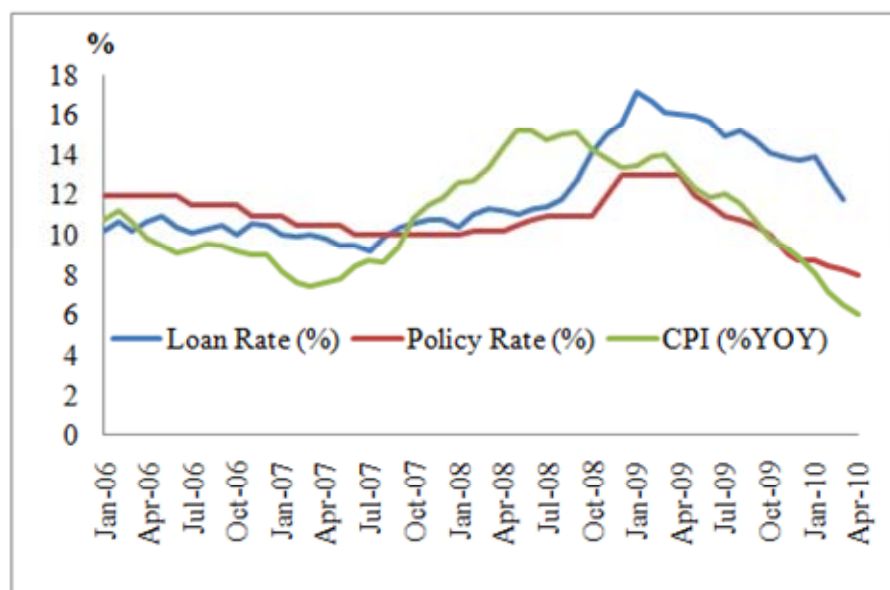
Monetary and exchange rate policy

- ***Monetary conditions continued to loosen in 2010 as the CBR cut its main policy rates four times since December 2009 to facilitate credit recovery.***
- ***Inflation continued slowing down in 2010, affected by limited growth of the money supply, output gap, slow recovery in domestic demand, and stagnant credit.***
- ***The exchange rate remained volatile due to the fluctuations in oil prices and some “flight” to USD associated with the debt crisis in Europe.***



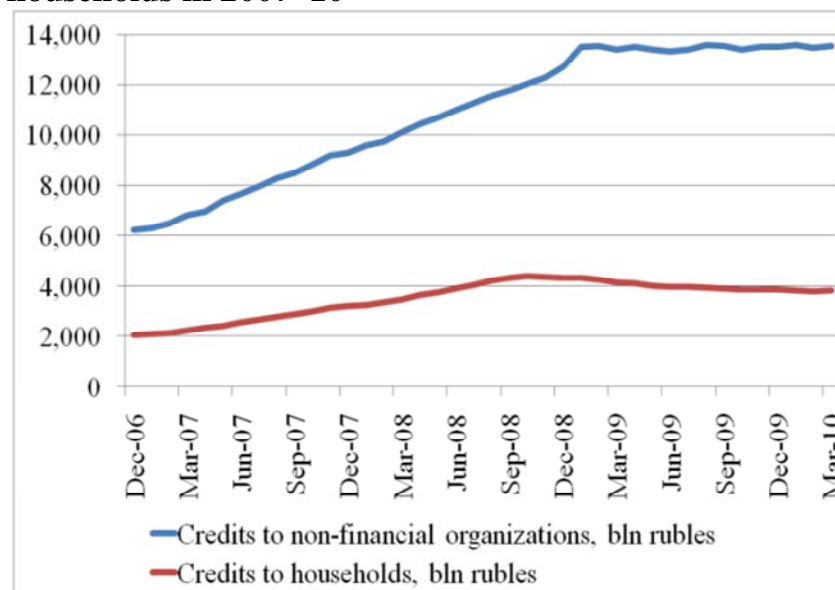
Easing of monetary conditions, but no significant lending

Figure 1.11: Lending rates and inflation in Russia 2006–10



Source: CBR; World Bank staff estimates.

Figure 1.12: Stock of credits to companies and households in 2007–10



Fiscal policy—withdrawing the stimulus against higher oil revenues and expenditure pressures

Table 1.6: Consolidated budget: revenues, expenditures, and the fiscal surplus, 2007-10

	2007	2008	2009			2009Q1	2010Q1
Consolidated budget*							
Revenues, % GDP	40.2	38.5	34.4			36.1	35.8
Expenditure, % GDP	34.1	33.7	40.6			33.4	33.3
Surplus, % GDP	6.1	4.8	-6.2			2.7	2.5
Non-oil balance, % GDP	-2.9	-5.8
Federal budget	2007	2008	2009	2010 budget	2010 budget with proposed amendments**	2009 Jan-Apr	2010 Jan-Apr
Revenues, % GDP	23.6	22.3	18.8	16.1	17.6	19.4	19.9
Expenditure, % GDP	18.1	18.2	24.7	22.9	23.0	22.5	23.3
Surplus, % GDP	5.4	4.1	-5.9	-6.8	-5.4	-3.1	-3.4
Non-oil balance, % GDP	0.6	-6.4	-13.5	-14.2	-13.9	-9.0	-12.1

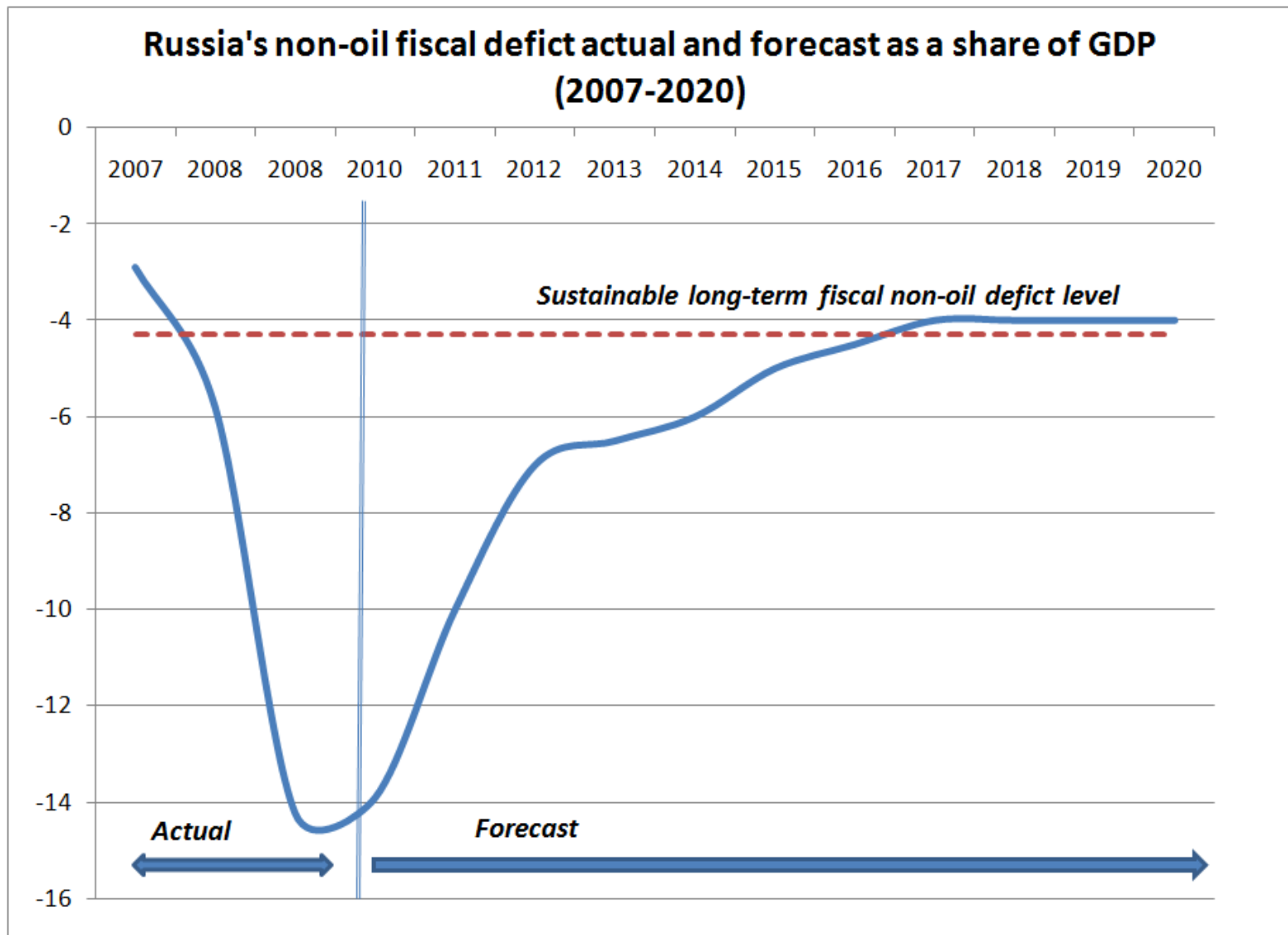
Source: Ministry of Finance, Economic Expert Group .

* Including extrabudgetary funds, transfers of funds from the Reserve and Nation welfare funds, and consolidated sub-national budgets.

** Based on government's proposal approved on June 10, 2010. The proposed budget amendments are based on revised nominal GDP figure (44.4 trillion rubles), slightly higher than the nominal GDP included in the original budget law (43.2 trillion rubles).

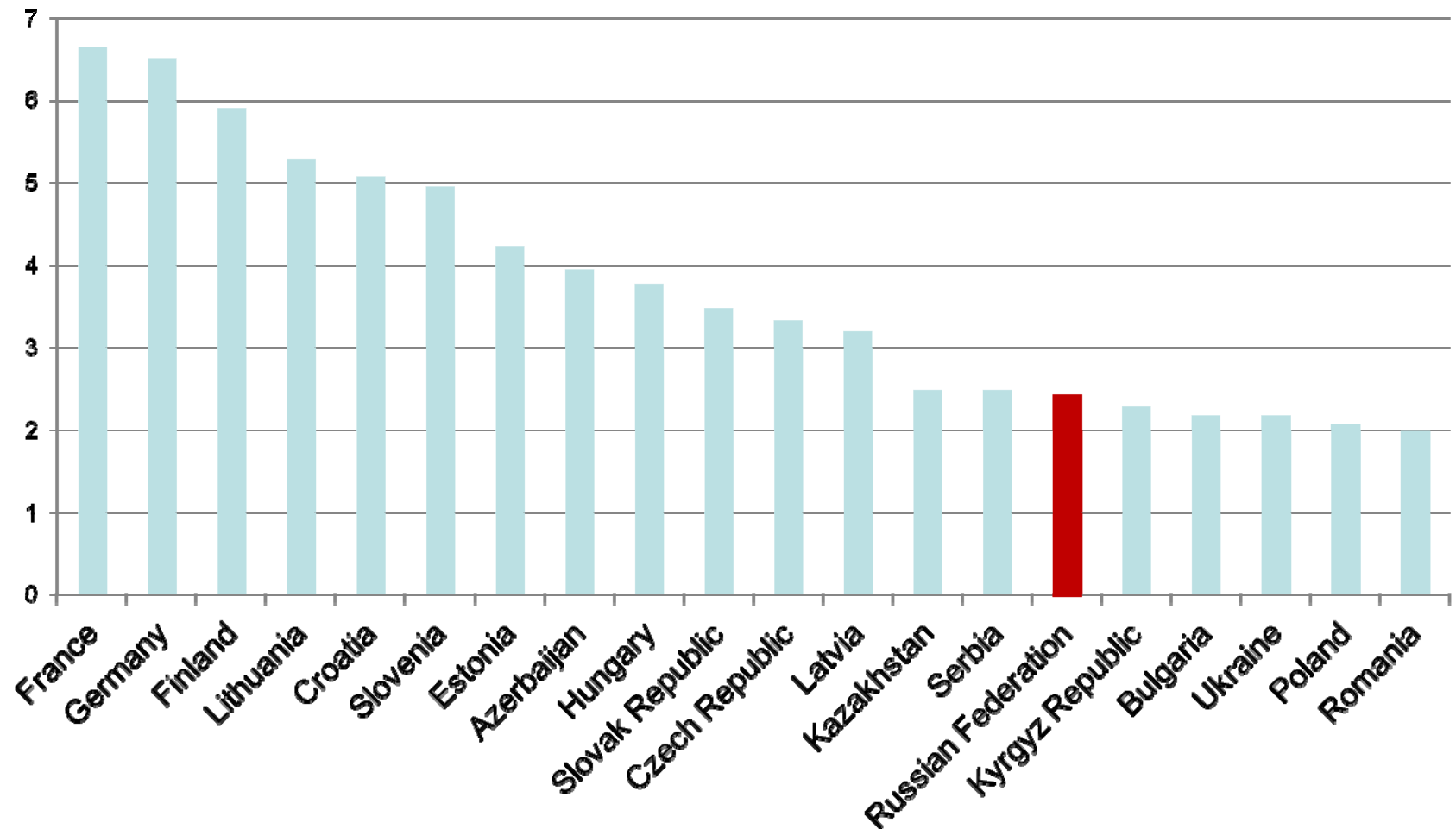


Medium-term fiscal consolidation is needed: the non-oil fiscal deficit should be reduced to the long-term desirable levels



But more spending on roads infrastructure expenditures is needed

Box figure 1: The quality of road infrastructure index (from 0 (worst) to 7 (the best)) in select countries of Europe and Central Asia.



Source: Enabling Trade Index, 2010, The World Economic Forum.

II. Economic and Social Outlook for Russia, 2010-2011

Table 1.7: Outlook for Russia, 2010-2011

	2010	2011
World growth, %	3.3	3.3
Oil prices, average, USD/bbl	78.1	74.6
<i>Russia</i>		
<i>GDP growth, %</i>	4.5	4.8
<i>Consolidated government balance, %</i>	-4.6	-3.8
<i>Current account, USD bln.</i>	58	33
<i>Capital account, USD bln.</i>	31	60

Source: Global Economic Prospects (World and oil prices), and Russian Economic Report, The World Bank.



Sources of growth

Figure 2.3: Demand sources of Russia's real growth, by quarter, 2008–10 (percent change year to year)

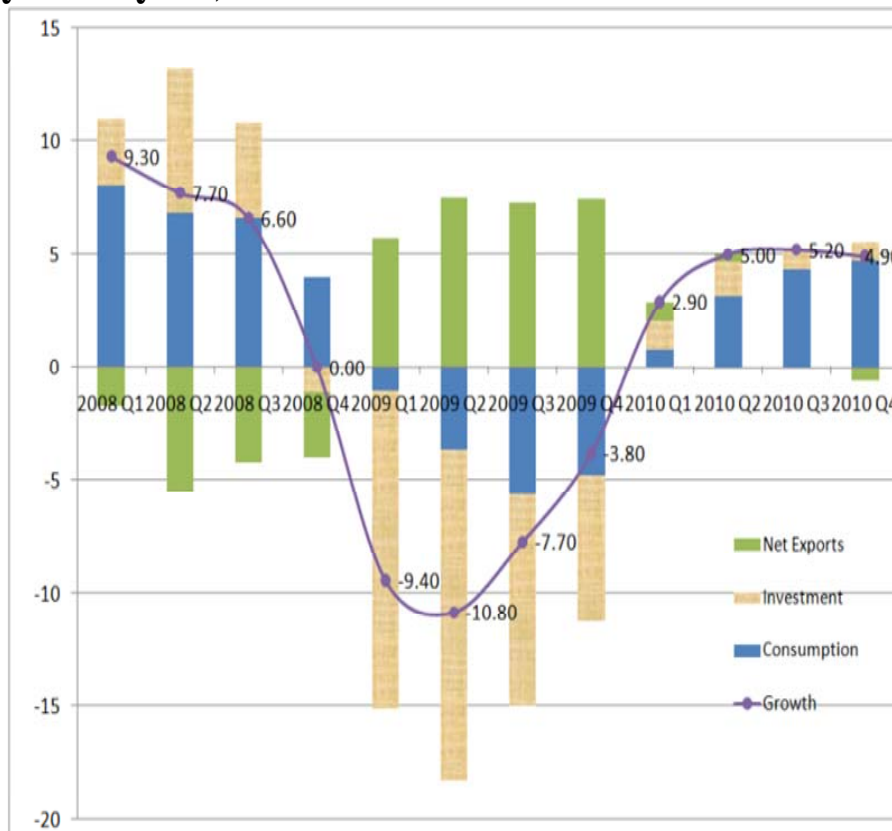
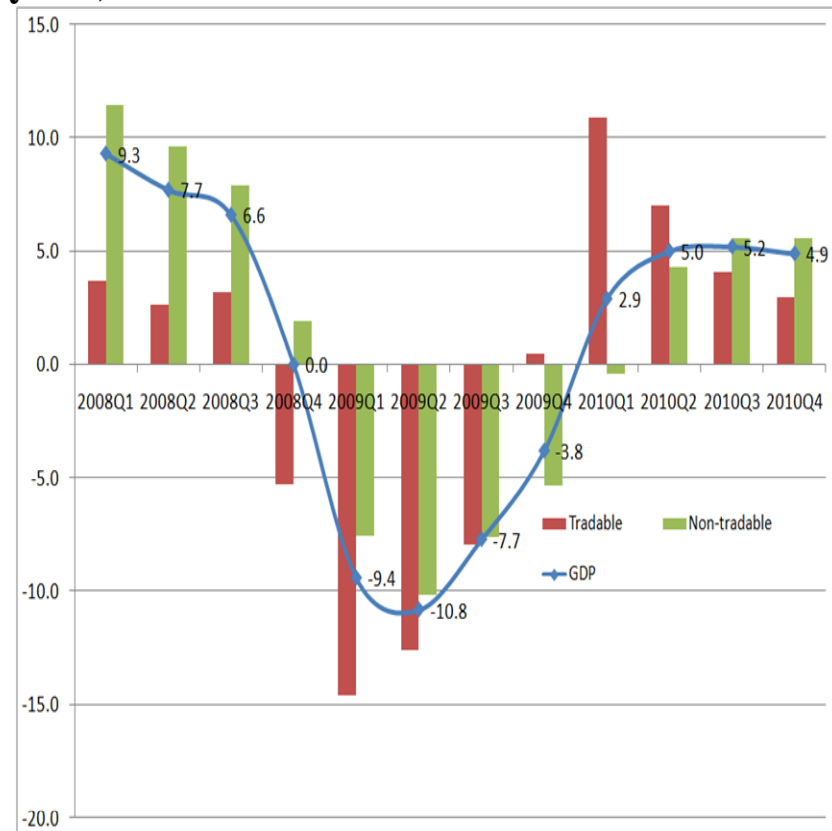


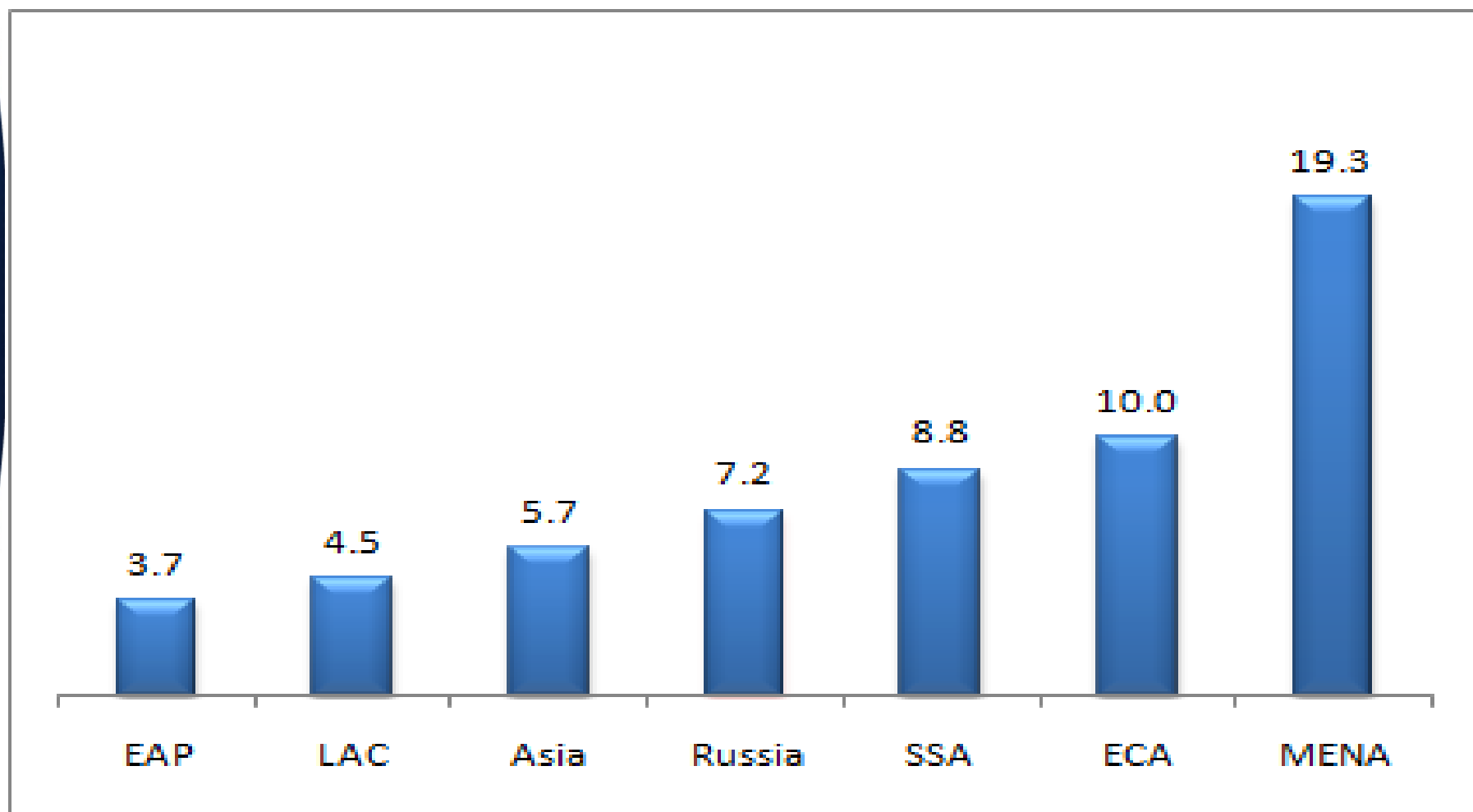
Figure 2.4: Sectoral sources of Russia's real GDP growth by quarter, 2008–10 (percent change year to year)



Source: Rosstat; World Bank staff estimates.

The debt crisis in Europe raises global risks but will likely have limited impact on Russia

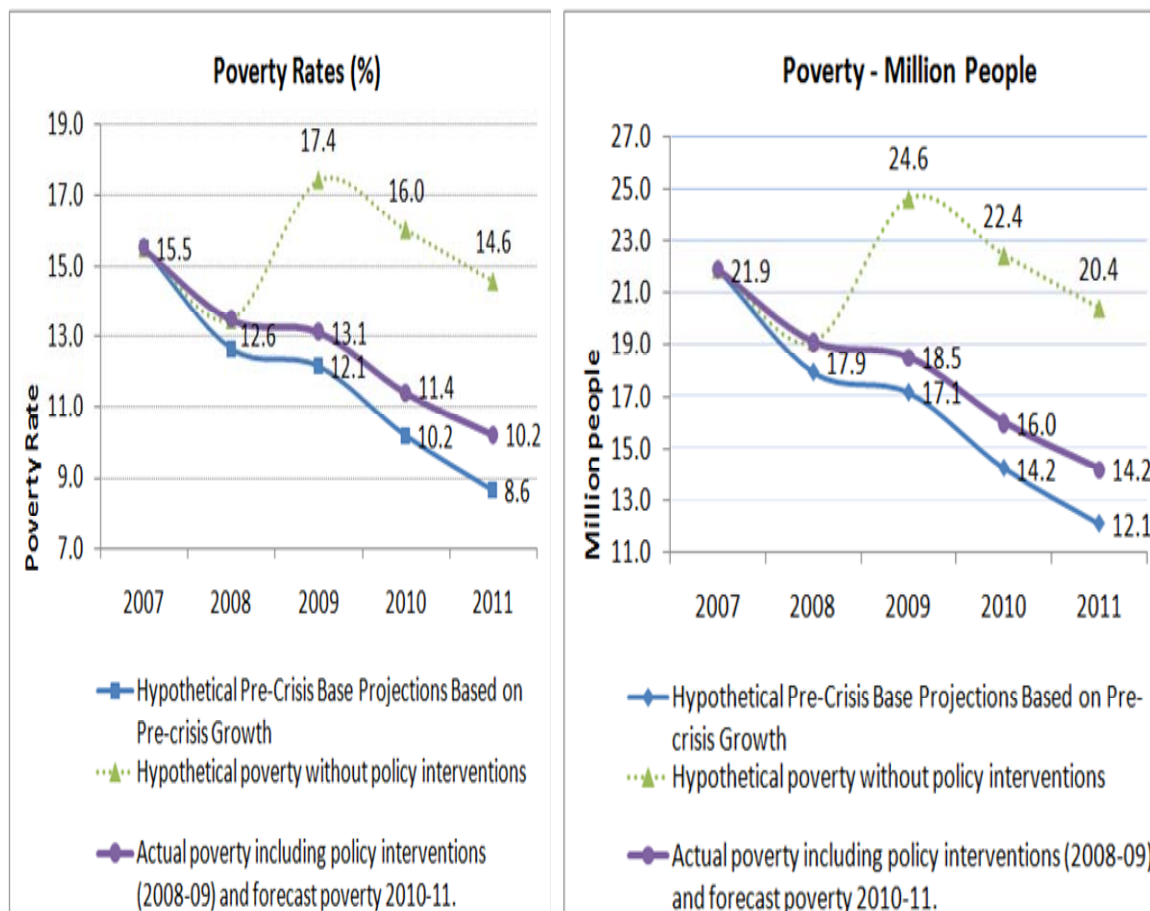
Box Figure 1: Regions with high trade exposure to select European economies
Shares of Greece, Italy, Portugal, and Spain in Exports, percent



Source: World Bank; UN-COMTRADE.

Poverty in Russia, now at 13 percent, will decline further in 2011-11

Figure 2.7: Projected impact of the crisis on the poverty rate, percentage of people with income level below minimum subsistence, 2007–2011



Source: World Bank staff estimates based on aggregate output forecast and household survey data on employment and incomes.

Special Topic: The Challenge of Monotowns

- ***Monotowns are urban settlements with economic bases dominated by a single industry or core enterprise.***
- ***In Russia are about 450 monotowns***
 - roughly two in five of Russia's cities
 - About 900 core enterprises
- ***Most core enterprises are in industries hit by the collapse of global and industrial demand—machinery, metallurgy, chemicals, wood and paper products.***



Special Topic: The Challenge of Monotowns

- ***The crisis in monotowns cannot be boiled down to a single “problem”; in fact, it has multiple dimensions: fiscal, social, and economic.***
- ***A mix of policy approaches might be needed, using good practice examples from international experiences:***
 - fostering innovation and diversification through better investment climate to attract new partners with appropriate technology and market access
 - small and medium-size business development
 - increased mobility
 - more flexible and investment-friendly regulation
 - better functioning of land and housing markets
 - stronger social safety nets and services.



Thank you!

