



Russia – The Way Out of The Economic Downturn

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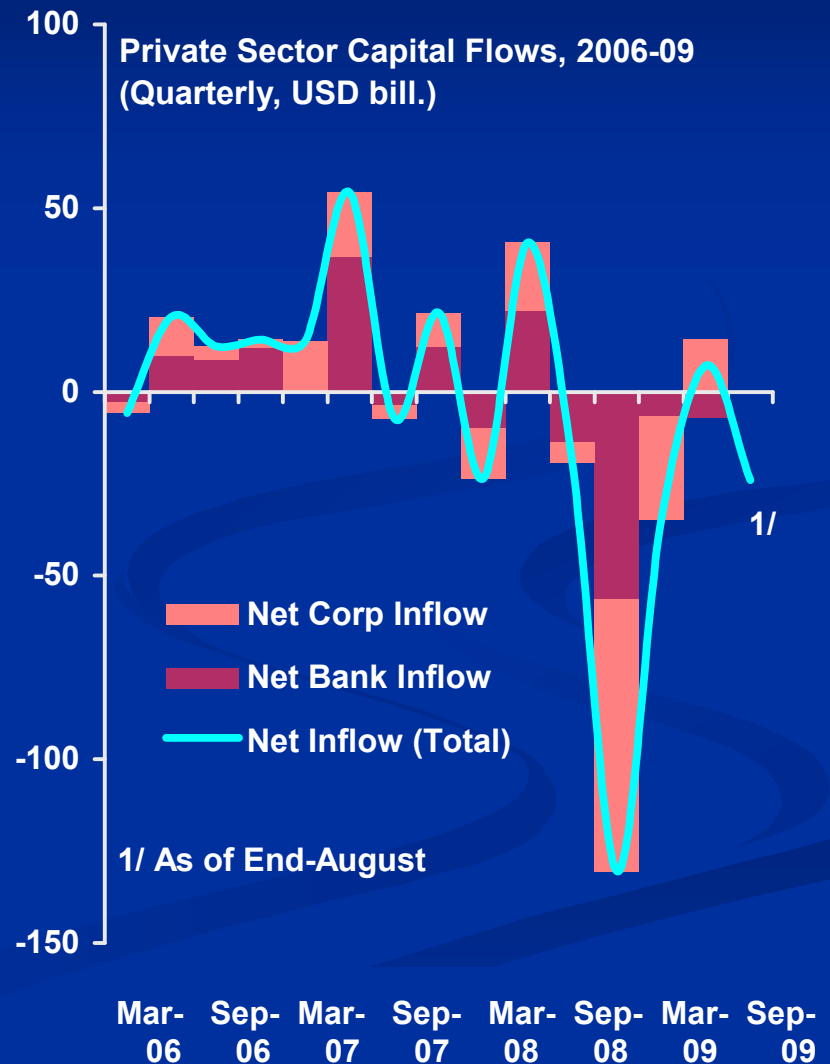
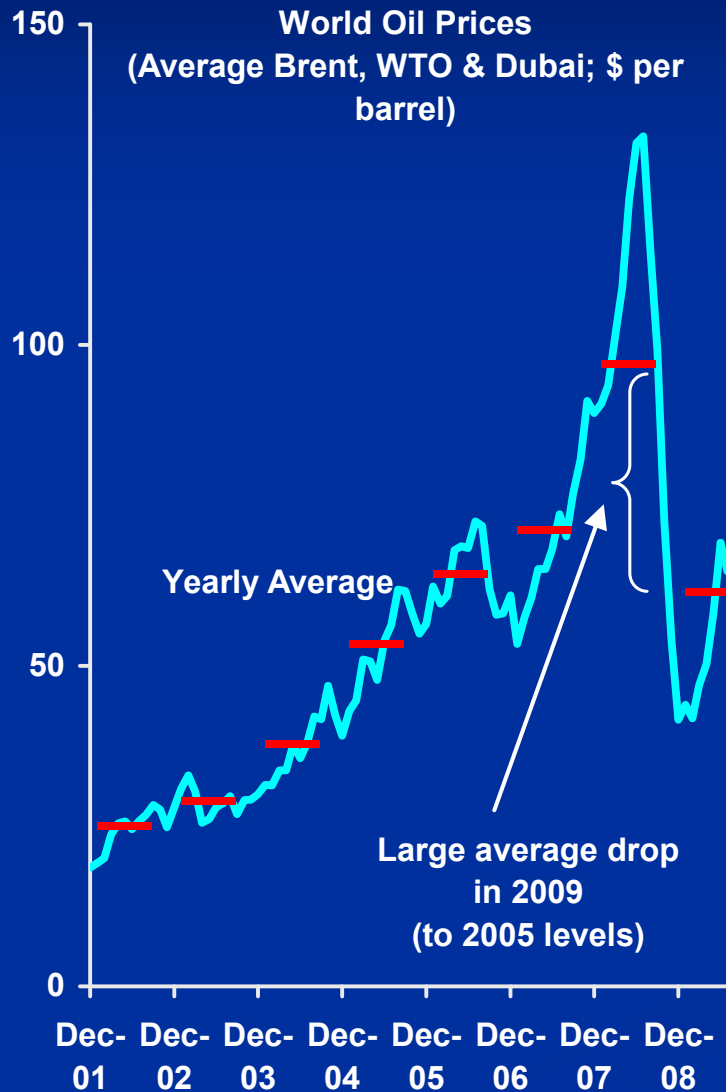
Presentation at the Association of European Businesses

Moscow, September 22, 2009

Overview

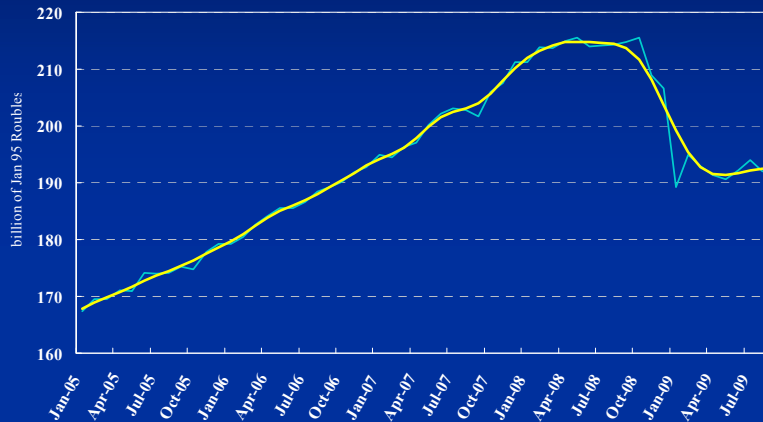
- The current situation in the economy:
How did we get here ? The economic policy response so far.
- Economic policy priorities for the short-term
 - banking sector
 - budget policy
 - monetary policy
- Economic policy priorities for the medium- and long-term

Dual Shocks: Oil Prices and Capital Flows



The Fallout – The Current Situation

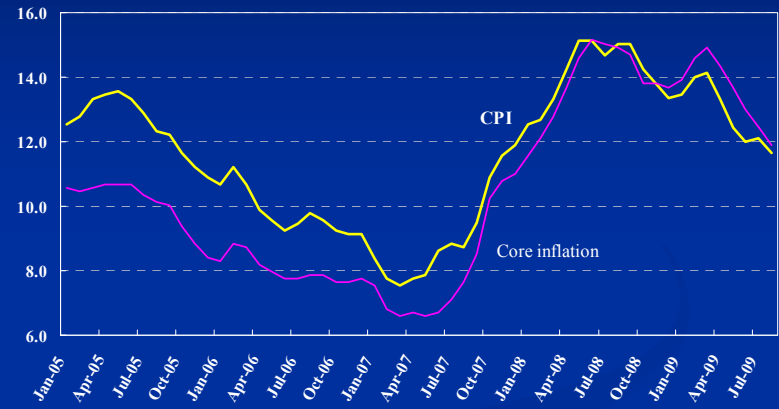
Real GDP



Note: seasonally adjusted and trend.
Source: IMF Moscow Office calculations based on MET

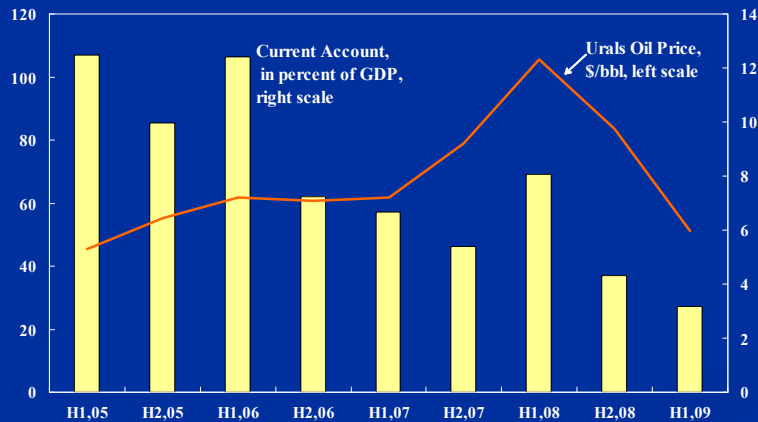
Consumer Price Inflation

(year-on-year growth, in percent)



Source: Rosstat and IMF Moscow Office calculations based on Rosstat data

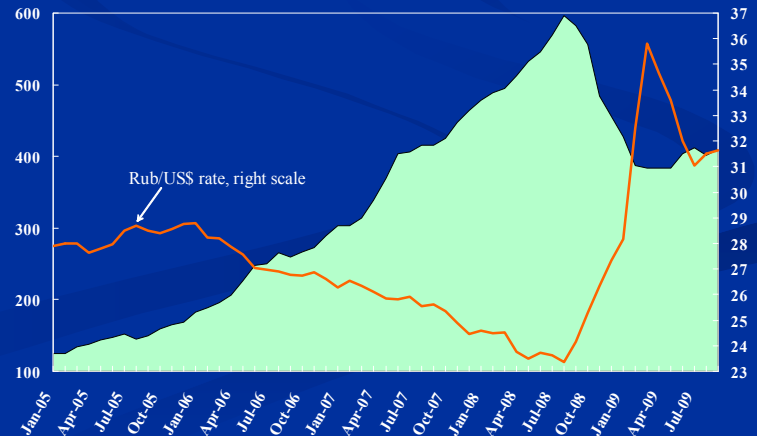
Current Account and Oil Price



Source: IMF Moscow Office calculations based on CBR and MET data

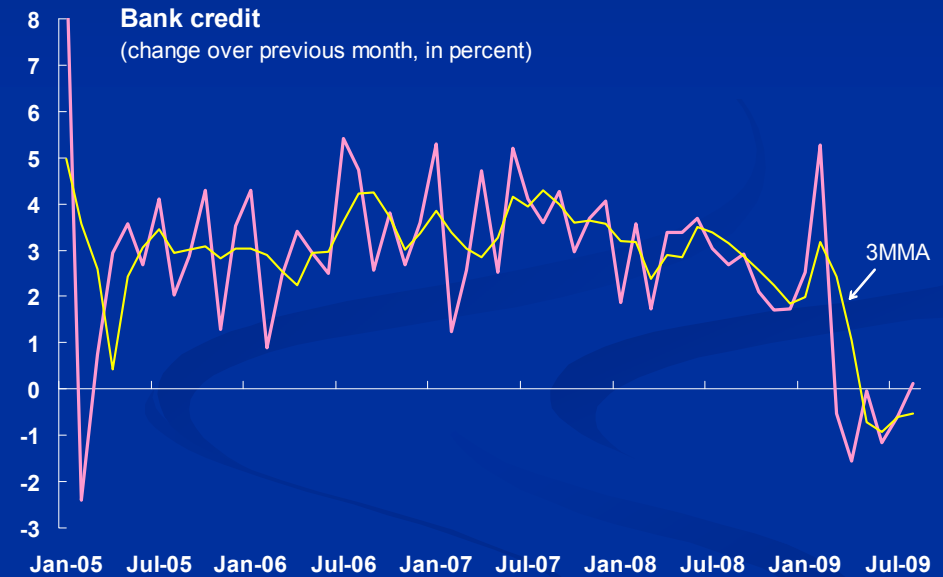
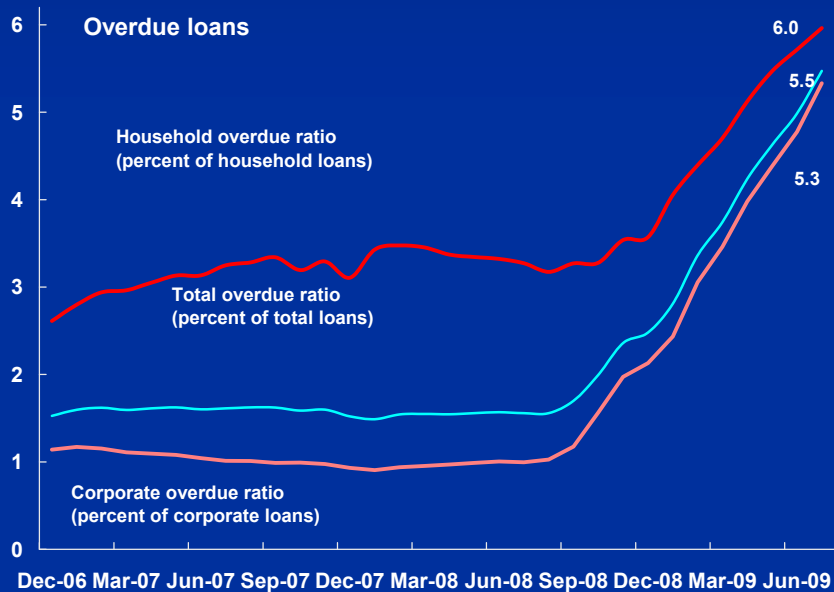
International Reserves

(in billions of U.S. dollars)



Source: CBR data

The Fallout - The Banking Sector



The Economic Policy Response so Far

- Swift and wide-ranging measures taken, relating to:
 - the banking sector
 - budgetary policies
 - monetary and exchange rate policies
- Response so far broadly appropriate – and has helped contain the crisis

The Policy Response so Far: Banking Sector

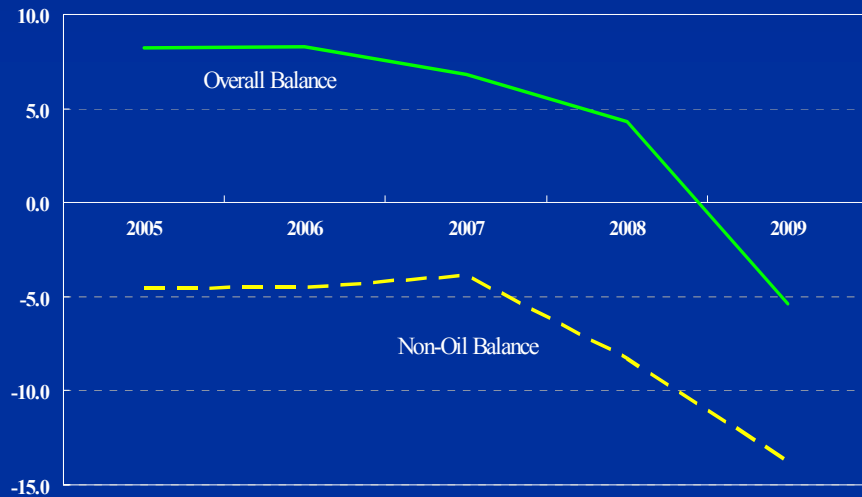
- Liquidity support to banks
 - CBR lending, collateralized and non-collateralized
 - MoF funds with banks
 - Lower reserve requirements

- Dealing with problem banks
 - Via VEB and state banks
 - Via Deposit Insurance Agency

- Provision of long-term financing
 - Subordinated credits (with state banks being the main recipients)
 - Recapitalization through OFZs

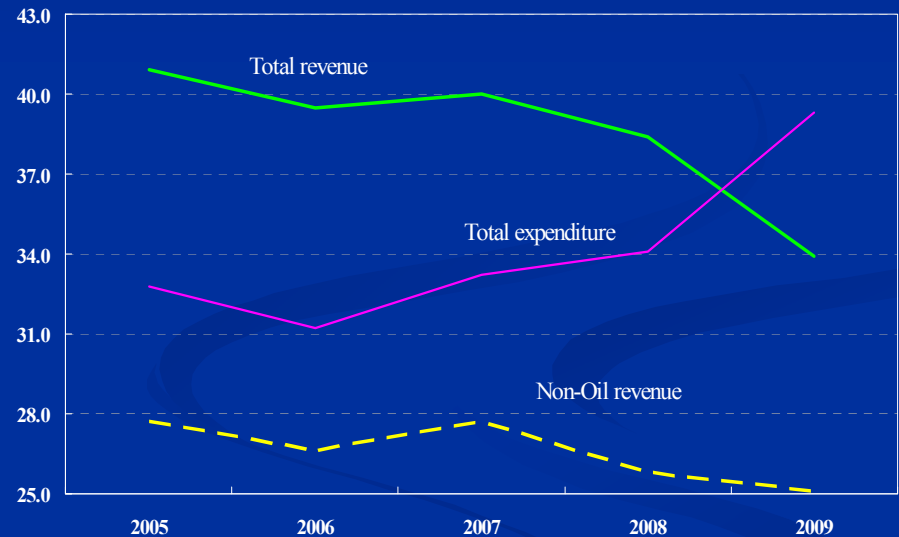
The Policy Response so Far: Budget Policy

Balance of General Government (in percent of GDP)



Source: Federal Treasury data and IMF staff calculations

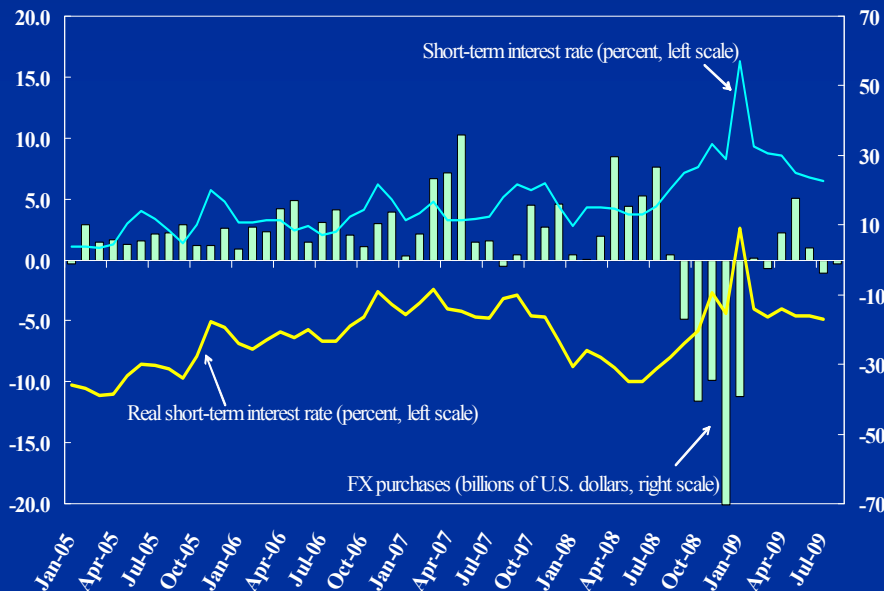
Revenue and Expenditure of General Government (in percent of GDP)



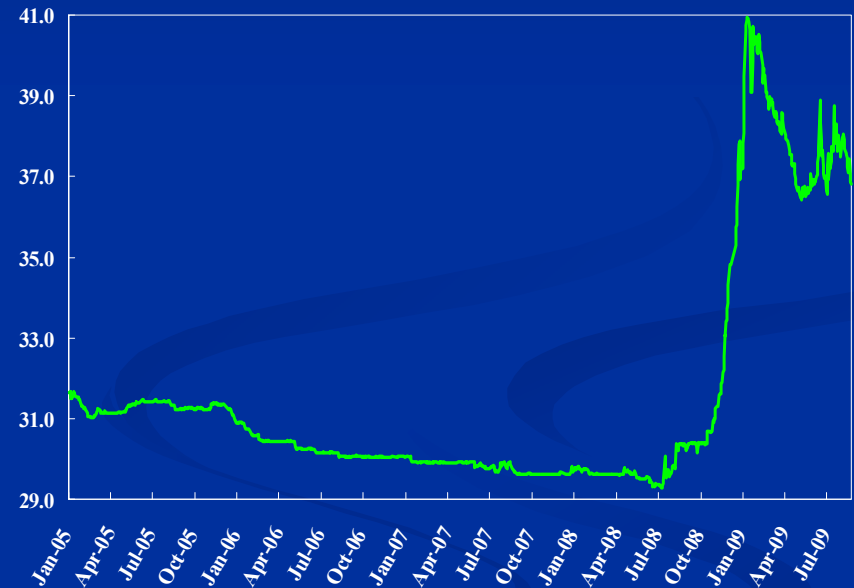
Source: Federal Treasury data and IMF staff calculations

The Policy Response So Far: Monetary Policy

Monetary Policy Indicators



Rub to US Dollar and Euro Basket Exchange Rate*



* Index, calculated by IMF Moscow Office. In 2005 the basket was 0.9*US dollar plus 0.1*Eu from Feb 1 to Mar 15, 0.8*US dollar plus 0.2*Eu from Mar 16 to May 15, 0.7*US dollar plus 0.3*Eu from May 16 to Aug 1, it is 0.65*US plus 0.35*Eu from Aug 1 to Dec 1, and it was 0.6*US plus 0.4*Eu from Dec 2, 2005 to Feb 7, 2007. From Feb 8, 2007 until now it is 0.55*US plus 0.45*Eu.

Looking Ahead: Policy Priorities

- Policy priorities for the short term: get growth going while preserving stability:
 - banking sector
 - budget policy
 - monetary policy
- Policy priorities for the medium- and long-term: lay the basis for sustained growth and diversification through new investment

Policy Priorities: Banking Sector

- Goal: lay foundation for sustainable credit extension
- Need for overarching strategy; key elements:
 - (i) Stress test major banks
 - (ii) Ensure adequate capital levels, from private sector and the government
 - (iii) Draw up and announce roadmap of supervisory/regulatory actions
 - (iv) Strengthen the CBR's supervisory authority, including a broadening of its scope

Policy Priorities: Budget Policy

- An expansionary fiscal policy appropriate in the short run, but some issues:
 - (i) Size of fiscal expansion in 2009
 - (ii) Composition of budgetary spending in 2009
 - (iii) Implications for medium-term fiscal policy

Policy Priorities: Monetary Policy

- Inflation not the main immediate concern
 - gradual monetary easing
- But: the 2009 budget will inject money in a situation where banks already are highly liquid and the ruble exchange rate exposed to variations in oil prices
 - the easing of monetary policy needs to proceed cautiously; the CBR will need to mop up excess liquidity stemming from budget financing

Policy Priorities for the Medium- and Long-Term

- Looking beyond the crisis: policies for diversification and sustained growth

- Key areas:
 - (i) Adopting restrained medium-term budget policies, once the economy recovers

 - (ii) Anchoring inflation through formal inflation targeting

 - (iii) Reinvigorating structural reform to bolster private investment

To sum up:

- The government's policy response so far has helped preserve stability, which is a prerequisite for the resumption of growth. Since mid-2009, there have been signs of stabilization in economic activity.
- Looking to the short run, some adjustment in the strategy on the banking and budget side should help facilitate an early recovery of the economy, while protecting stability. This should help turn the hopeful signs of stabilization into lasting growth.
- Looking further ahead, tackling long-standing structural reforms would help Russia realize its growth potential and make the economy more resilient.

Thank you