



**WORLD BANK**

# Russian Economic Report No. 21

*Jobless recovery?*

.....  
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In the Russian Federation  
Moscow*

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- I. The global environment and recent developments in Russia
  - II. Russia's economic and social outlook for 2010-2011
  - III. What have we learned from this Crisis?

# ***I. The global environment: Key messages***

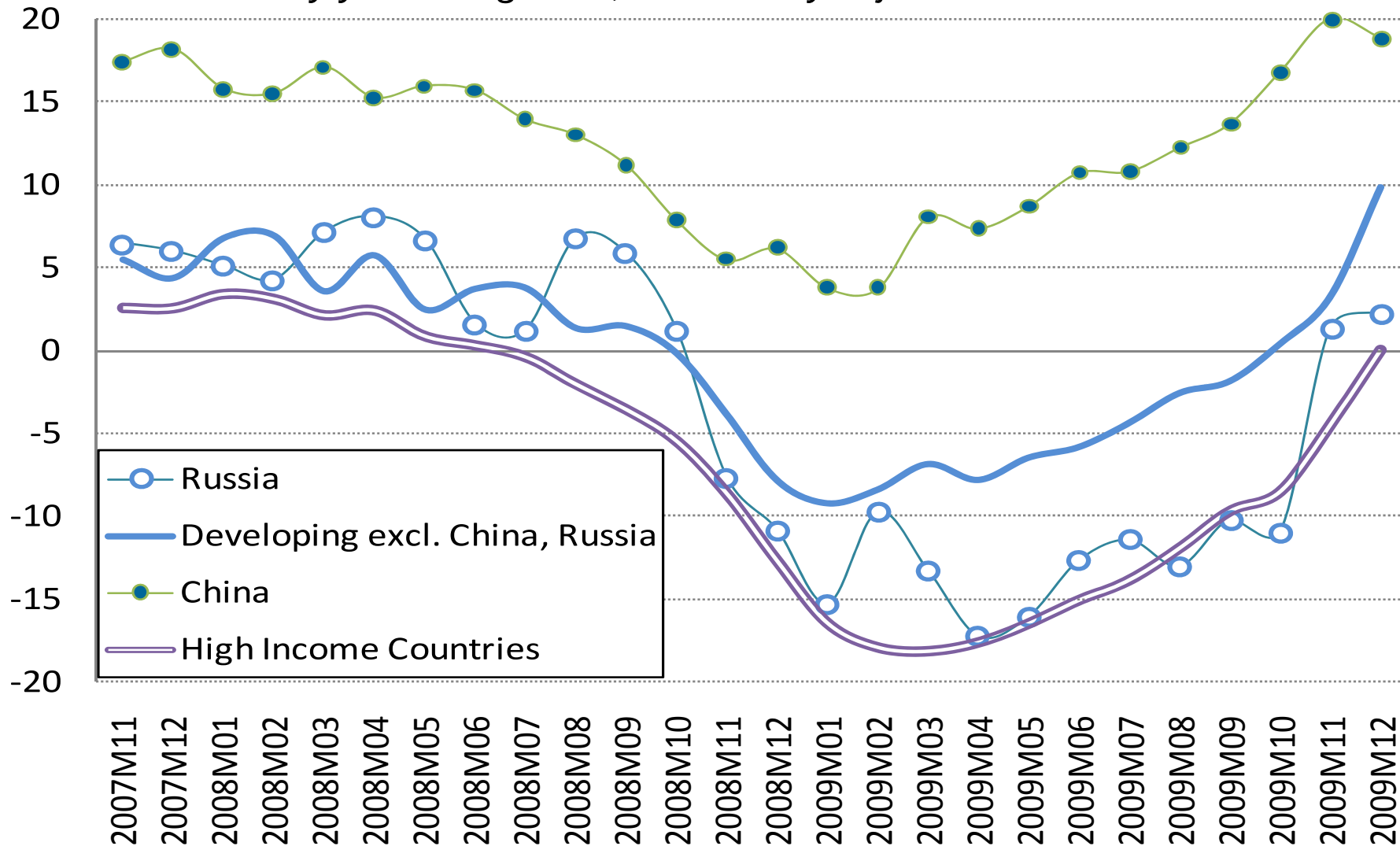
- *The global economy recovery led by strong growth in emerging and developing countries*
- *The global growth momentum reflects mainly a rebound of external trade.*
- *Capital flows to emerging markets have gradually recovered.*
- *Oil prices in the \$76-77 range.*



# *In 2009, global recovery led by strong growth in emerging and developing countries*

## **Industrial production**

*y/y annual growth, seasonally adjusted volumes*

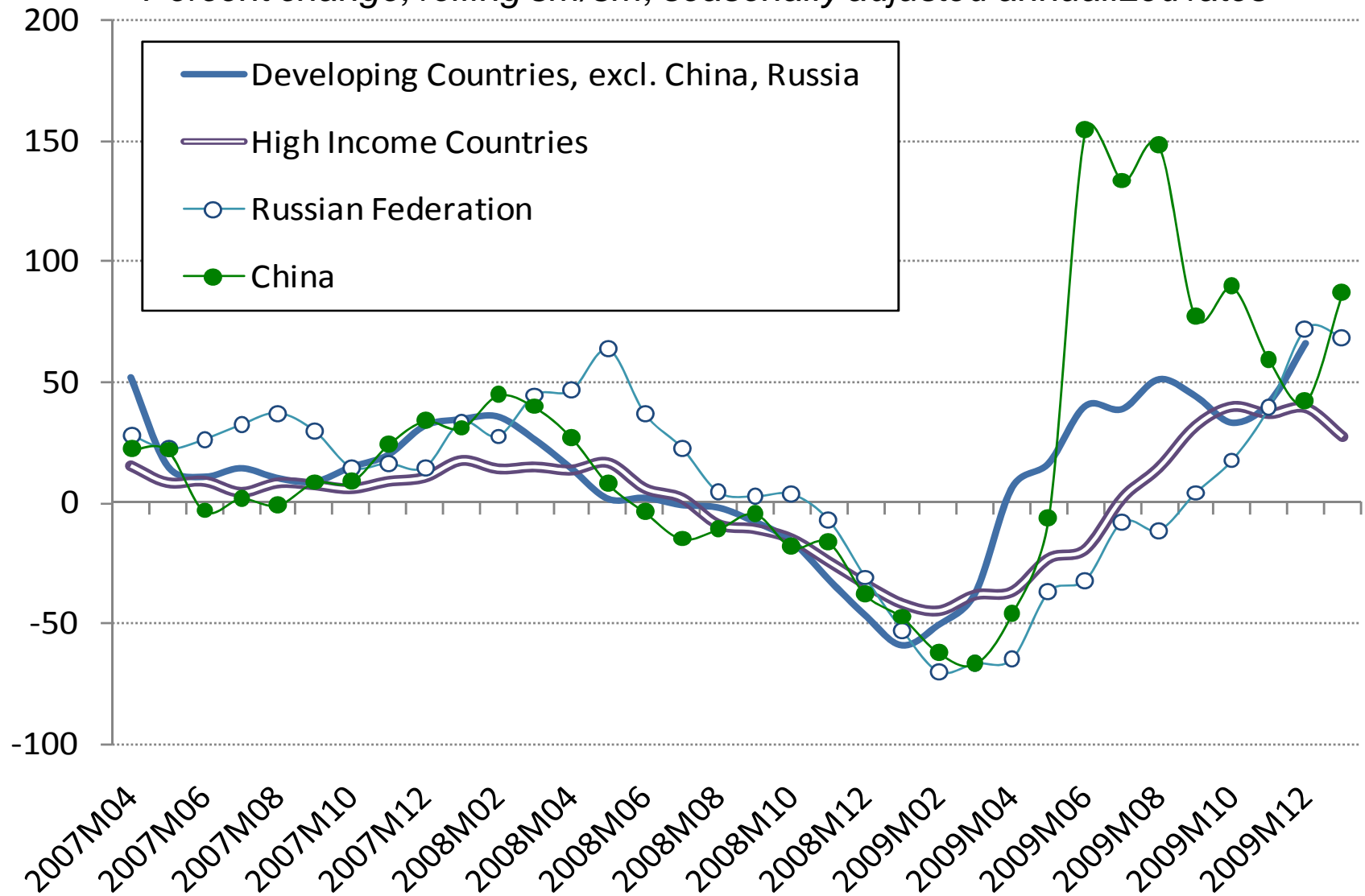


*Sources: Thomson Datastream and World Bank*

# Global growth momentum is reflected in the rebound of external trade

## Merchandise import volumes

*Percent change, rolling 3m/3m, seasonally adjusted annualized rates*



## ***Capital flows started 2010 on a firm note, boosted by a surge in bond issuance***

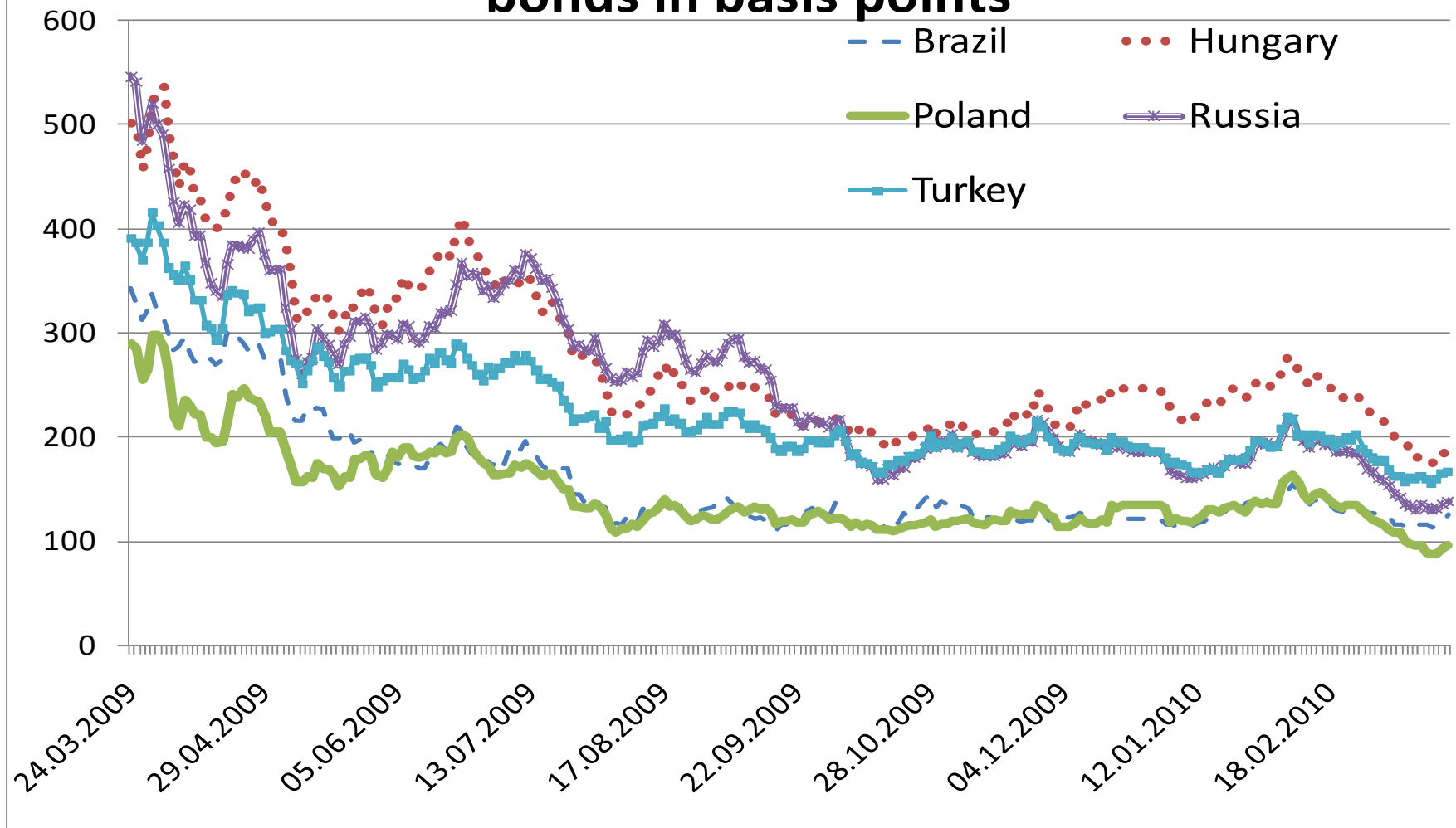
### **Gross capital flows to developing countries**

<i>\$ billion</i>	2008			2009					2010
	<u>H1</u>	<u>H2</u>	<u>Total</u>	<u>Jan</u>	<u>H1</u>	<u>H2</u>	<u>Dec</u>	<u>Total</u>	<u>Jan</u>
Total	258	132	390	24	110	243	47	353	33
Bonds	53	12	65	9	36	80	7	115	21
Banks	151	106	257	9	43	86	29	128	5
Equity	54	14	68	6	32	77	11	109	7
Lat. America	61	29	90	10	37	100	21	137	8
Bonds	17	3	20	5	15	47	5	62	7
E. Europe	99	57	157	4	22	50	8	72	13
Bonds	27	7.7	35	2	13	20	1	33	7
Asia	69	29	98	9	44	78	15	122	11
Bonds	7	0	7	2	6	10	0.1	16	7
Others	28	17	45	1	7	14	2	21	0.2

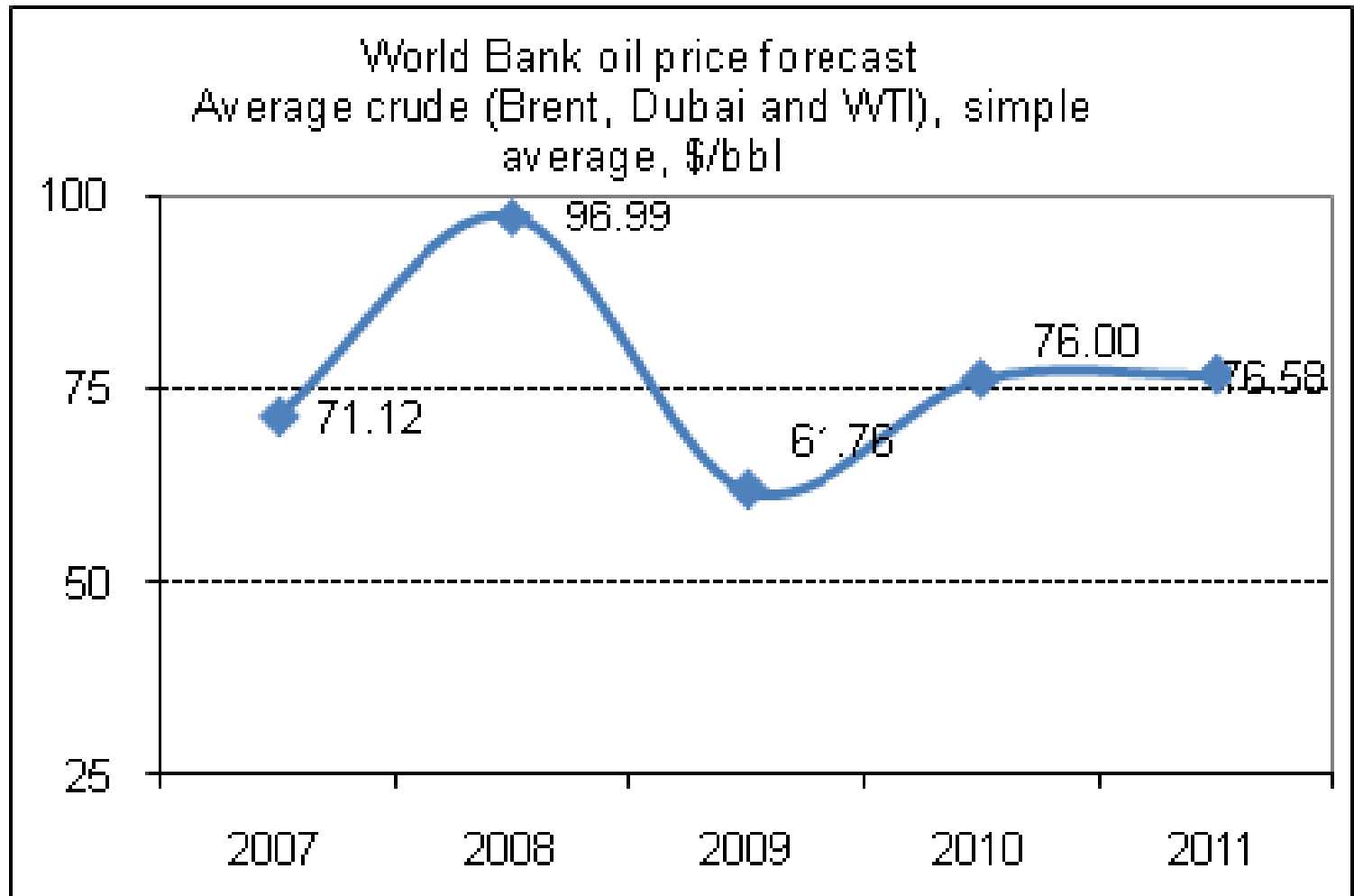


# *Sovereign CDS spreads have come down significantly*

## **Sovereign CDS spreads on a 5 year sovereign bonds in basis points**



***Oil market fundamentals are tightening but oil prices expected to remain stable.***



## ***Policy challenges at the global level***

- *The outlook remains clouded by uncertainties and the challenge of unwinding the stimulus*
- *Tighter financial conditions, lower levels of finance than before the crisis*
- *Countries may seek to insulate themselves from global financial markets and increase the role of domestic and regional alternatives*



# RUSSIA'S RECENT ECONOMIC DEVELOPMENTS

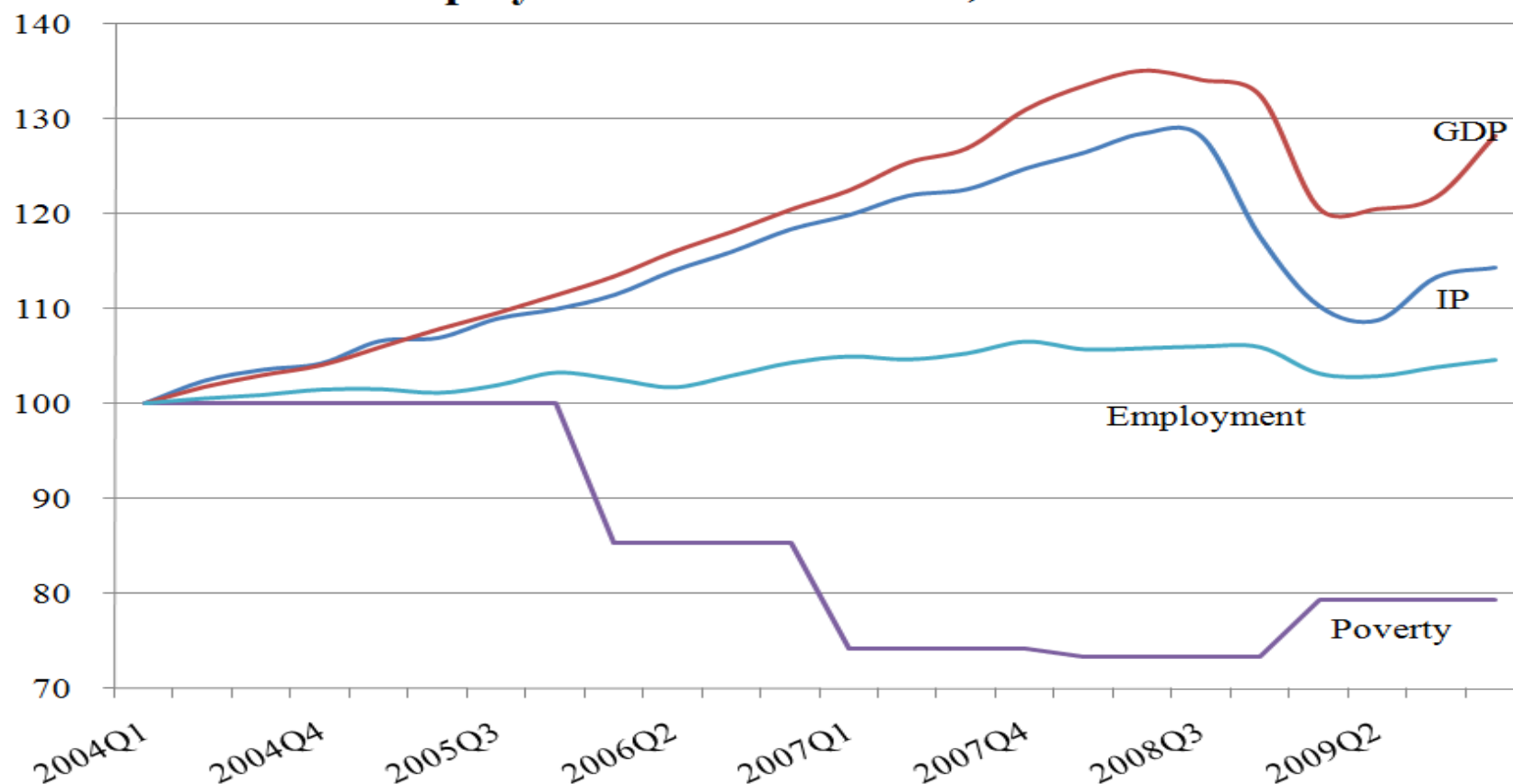
- *Russia's output—After sharp contraction recovery under way*
- *Labor markets—moderating adjustment*
- *Balance of payments—improvements with more favorable external environment*
- *Monetary policy – Easing of monetary conditions, but no significant lending*
- *Fiscal policy—benefitting from the oil price recovery and buoyancy of VAT revenues*



## Russia's output

*After a 7.9 percent contraction in 2009, recovery under way.  
The industrial production, however, is lagging behind the  
recovery in GDP*

**Dynamics of real GDP, industrial production, poverty and employment levels in Russia, 2004-2009**



## *Tradables contracted most in 2009*

**Table 1.2: GDP growth by main sectors (value added): 2006-2009**

	2006	2007	2008	2009
<b>GDP growth</b>	<b>7.7</b>	<b>8.1</b>	<b>5.6</b>	<b>-7.9</b>
<b>Tradable sector</b>	<b>3.4</b>	<b>3.8</b>	<b>2.0</b>	<b>-8.7</b>
Agriculture, forestry	3.8	2.6	8.5	-1.7
Extraction industries	-3.3	-2.7	0.4	-1.9
Manufacturing	7.3	8.1	1.2	-13.9
<b>Non-tradable sector</b>	<b>10.1</b>	<b>10.4</b>	<b>7.8</b>	<b>-7.4</b>
Electricity, gas, water production and distribution	5.7	0.4	1.0	-6.0
Construction	11.8	13.7	13.2	-16.4
Whole sale and retail trade	14.1	12.5	8.4	-8.3
Transport and communication	9.7	3.4	7.4	-2.3
Financial services	10.3	12.5	6.6	-5.7



## ***Labor markets—moderating adjustment***

*Labor hoarding moderated the rise in unemployment*

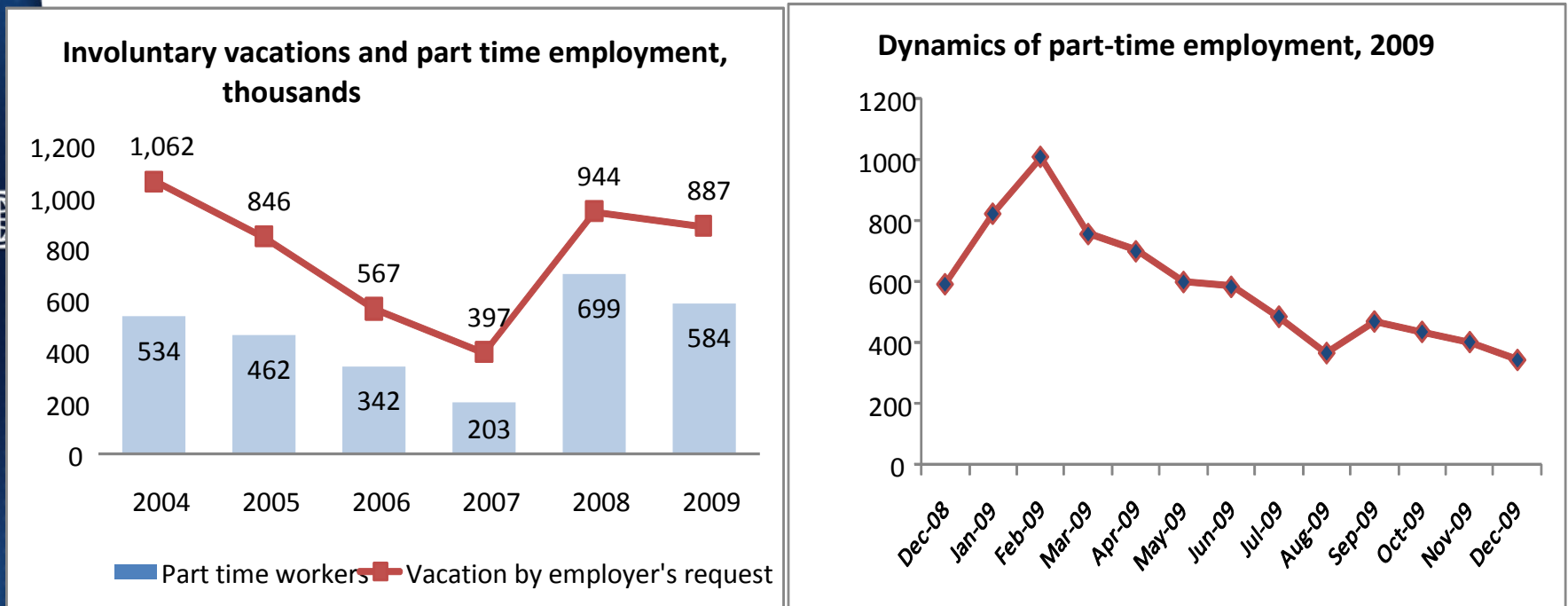
**Table 1.3: Labor productivity, disposable income, wages, and unemployment**

	2006	2007	2008	2009	2009			
	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Q1	Q2	Q3	Q4
GDP growth, %, y-o-y	7.7	8.1	5.6	-7.9	-9.8	-10.9	-8.9	-3.2
Total employment, million people	68.8	70.5	70.9	69.4	68.2	69.4	70.4	69.5
Employment growth, %, y-o-y	0.8	2.4	0.5	-2.1	-2.3	-2.9	-2.1	-1.3
Labor productivity growth, %, y-o-y	6.9	5.5	5.0	-5.9	-7.6	-7.8	-6.9	-1.9
Real disposable income growth, %, y-o-y	13.5	12.1	1.9	1.9	0.4	3.1	-2.9	7.0
Real wage growth, %, y-o-y	13.3	17.2	11.5	-2.8	-0.8	-3.9	-5.2	-0.7
Average monthly wage, USD	392.5	533.2	692.1	593.0	514.2	572.0	596.2	700.1
Unemployment (%, ILO definition, e-o-p)	6.9	6.1	7.8	8.2	9.2	8.3	7.6	8.2

## Labor hoarding during the crisis

An increase in part-time employment and involuntary vacations as a temporary adjustment.

**Figure 1.4: Involuntary vacations and part-time employment, thousands**

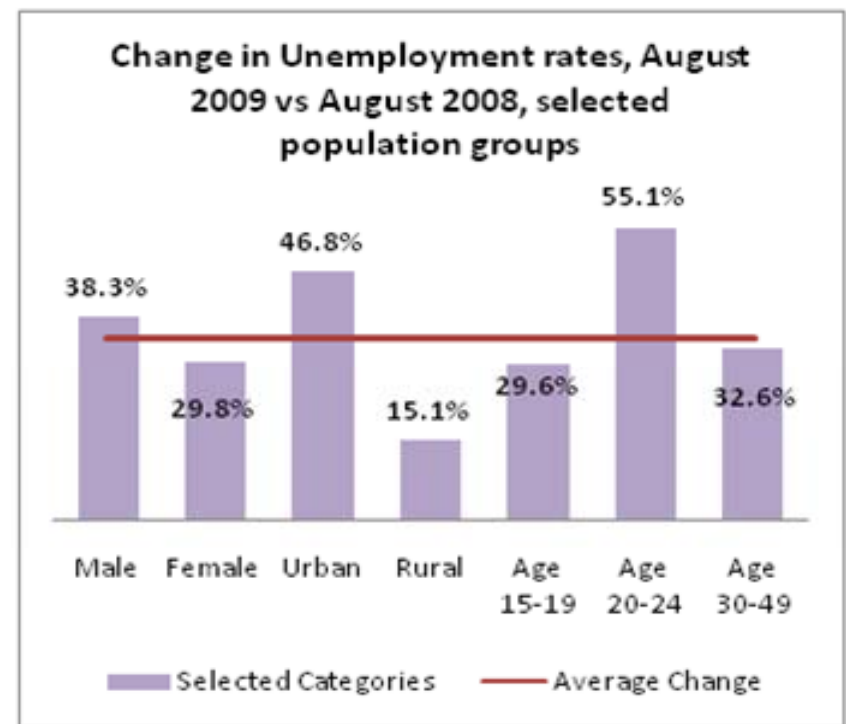
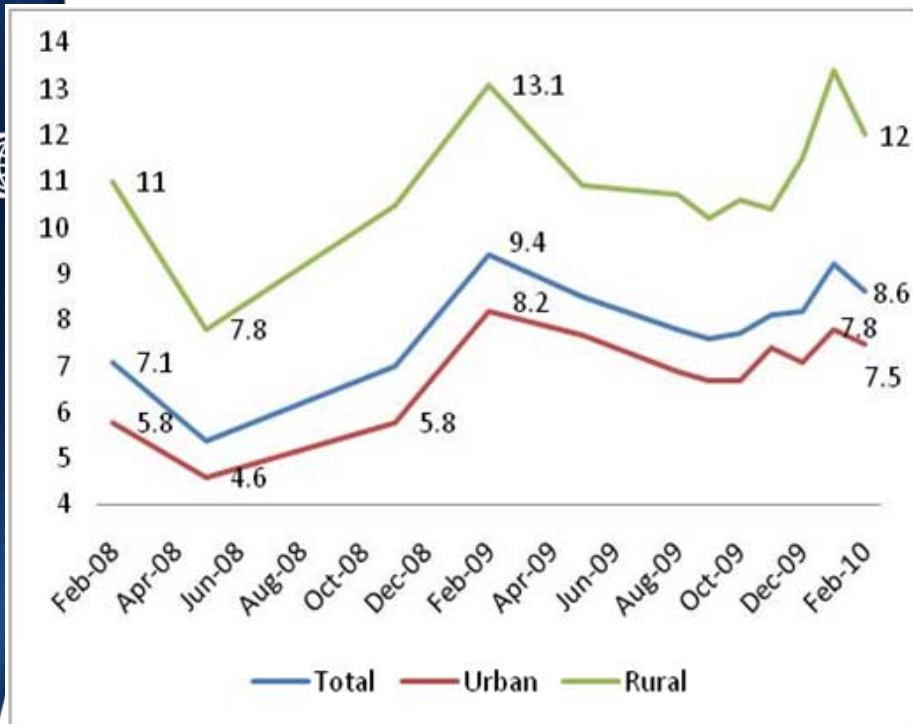


## Unemployment remains high

*The tenure structure of the unemployed indicates a shift toward long-term unemployment.*

*Young males in cities were most at risk of unemployment.*

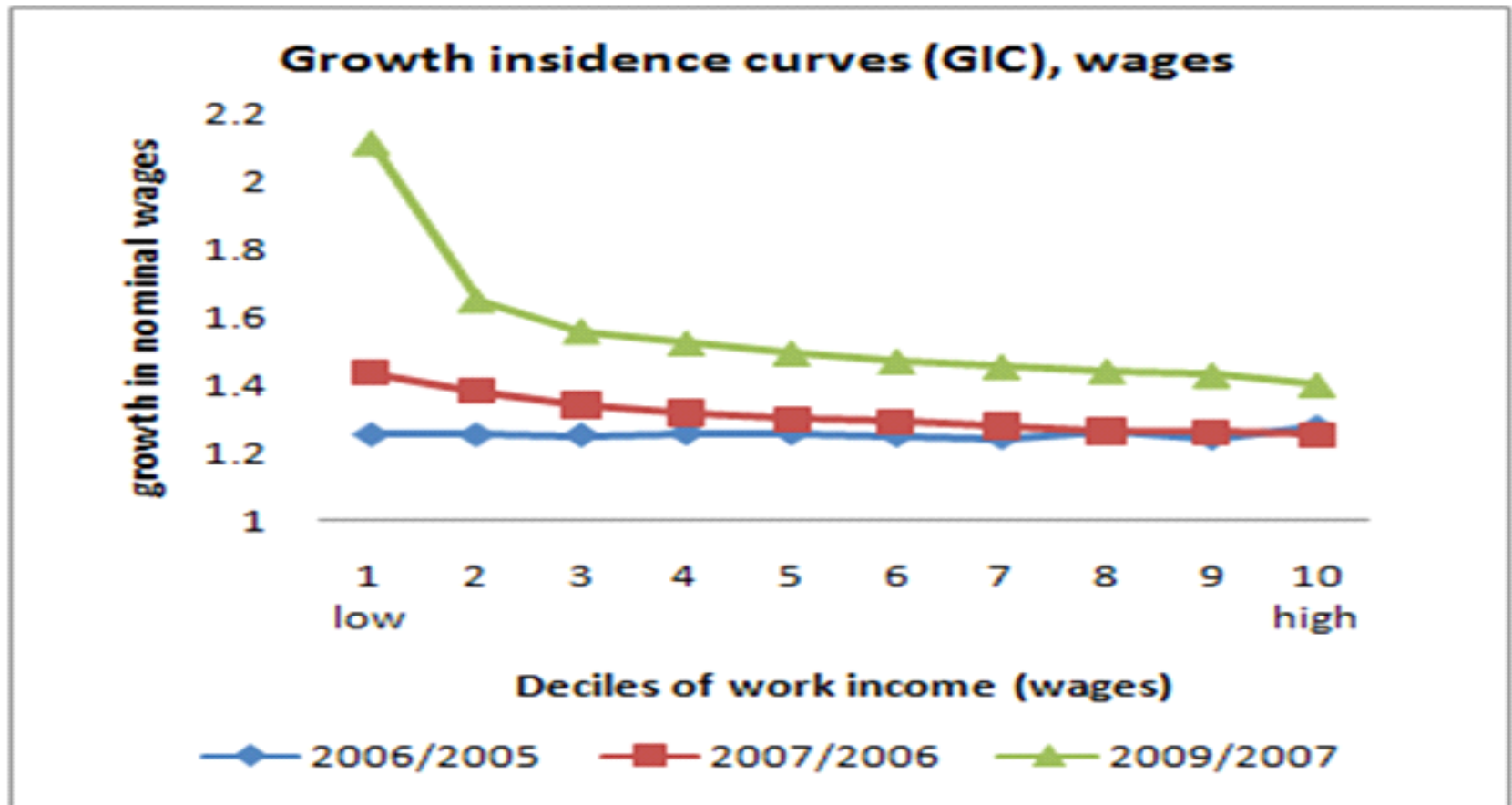
**Figure 1.5: Dynamics and structure of unemployment**



## *Adjustments in the labor market were also reflected in real wage losses.*

*But wage adjustments in 2008-09 seem to have reduced inequality in the overall wage distribution.*

Figure 1.6: Growth incidence curve, 2005-2009



# ***Balance of payments—improving with more favorable external environment***

**Table 1.4: Balance of payments (USD billions), 2006–2009**

	2006	2007	2008	2009 <sup>a</sup>	Q1-09	Q2-09	Q3-09	Q4-09 <sup>a</sup>
Current account balance	94.7	77	102.4	47.5	9.3	7.6	15	15.6
<i>Trade balance</i>	139.3	130.9	179.7	110.6	19.1	24.4	33.1	34.0
Capital and financial account	3.3	84.8	-135.8	-45.2	-32.0	3.2	-25.4	9.0
<i>Errors and omissions</i>	9.5	-12.9	-11.9	1.1	-7.7	3.5	1.3	4.1
Change in reserves (+ = increase)	107.5	148.9	-45.3	3.4	-30.5	14.2	-9.1	28.8

Source: CBR. <sup>a</sup> Preliminary estimates.



***Despite improvements, capital flows remained volatile, reflecting shifts in oil prices and market expectations for the ruble***

**Table 1.5: Net capital flows (USD billions), 2006–2009**

	2006	2007	2008	2009	2009			
	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Q1	Q2	Q3	Q4
Total net capital inflows to the private sector	41.4	82.4	-132.8	-52.4	-35.1	4.5	-33.4	11.6
Net capital inflows to the banking sector	27.5	45.8	-56.9	-32.5	-6.8	-5.8	-27.6	7.7
Net capital inflows to the non banking sector	13.9	36.6	-75.8	-19.9	-28.3	10.3	-5.8	3.8

Source: CBR.

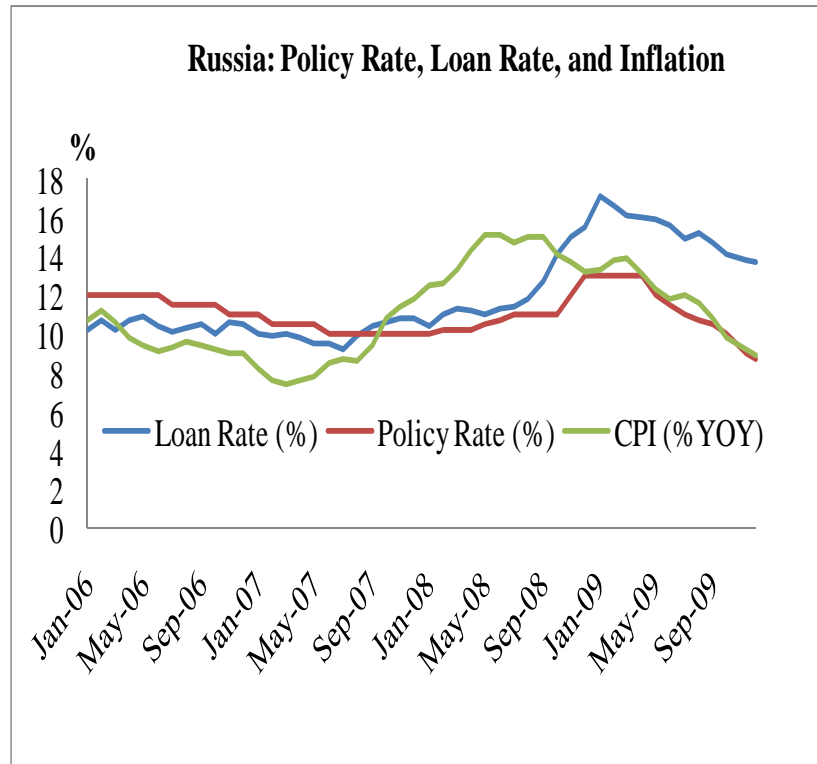
## ***Monetary and exchange rate policy***

- *With depressed demand, tight credit, and remaining liquidity constraints, inflation was less of a challenge for the CBR to manage in 2009.*
- *As inflation decelerated, the CBR has continued loosening monetary conditions in an effort to stimulate credit activity.*
- *Oil prices continued to drive exchange rate dynamics in 2010*
- *Recent changes in exchange rate management suggest that the CBR intends to make its policy less predictable to avoid a possible carry-trade and destabilizing speculation on a new ruble appreciation.*

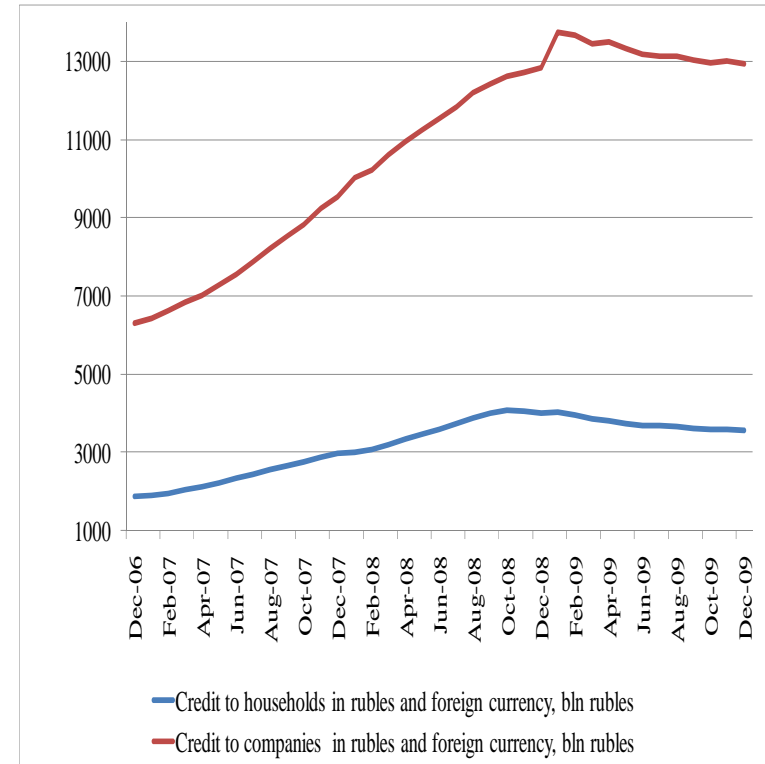


# *Easing of monetary conditions, but no significant lending*

**Figure 1.9: Lending rates and inflation in Russia 2006–09**



**Figure 1.10: Stock of credits to companies and households in 2007–09**



Source: CBR; World Bank staff estimates.

## ***Fiscal policy—benefitting from the oil price recovery and buoyancy of VAT revenues***

**Table 1.6: Consolidated budget:  
revenues, expenditures, and the fiscal surplus, 2007-09**

	2007	2008	2009
<b>Consolidated budget*</b>			
Revenues, % GDP	40.2	38.5	34.4
Expenditure, % GDP	34.1	33.7	40.6
Surplus, % GDP	6.1	4.8	-6.2
Non-oil balance, % GDP	-2.9	-5.8	...
<b>Federal budget</b>			
Revenues, % GDP	23.6	22.3	18.8
Expenditure, % GDP	18.1	18.2	24.7
Surplus, % GDP	5.4	4.1	-5.9
Non-oil balance, % GDP	0.6	-6.4	-13.5

Source: Ministry of Finance, Economic Expert Group .



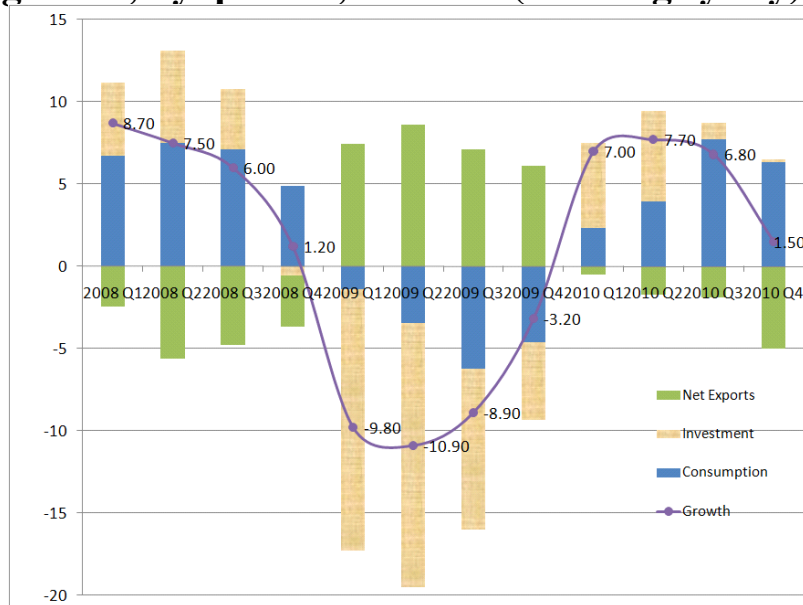
## II. Economic and Social Outlook for Russia, 2010-2011

Table 1.7: Outlook for Russia, 2010-2011

	2010	2011
World growth, %	2.7	3.2
Oil prices, average, USD/bbl	76.0	76.6
<i>Russia</i>		
<i>GDP growth, %</i>	<i>5.0-5.5</i>	<i>3.5</i>
<i>Consolidated government balance, %</i>	<i>-3.0</i>	<i>0.0</i>
<i>Current account, USD bln.</i>	<i>32</i>	<i>19</i>
<i>Capital account, USD bln.</i>	<i>30</i>	<i>50</i>

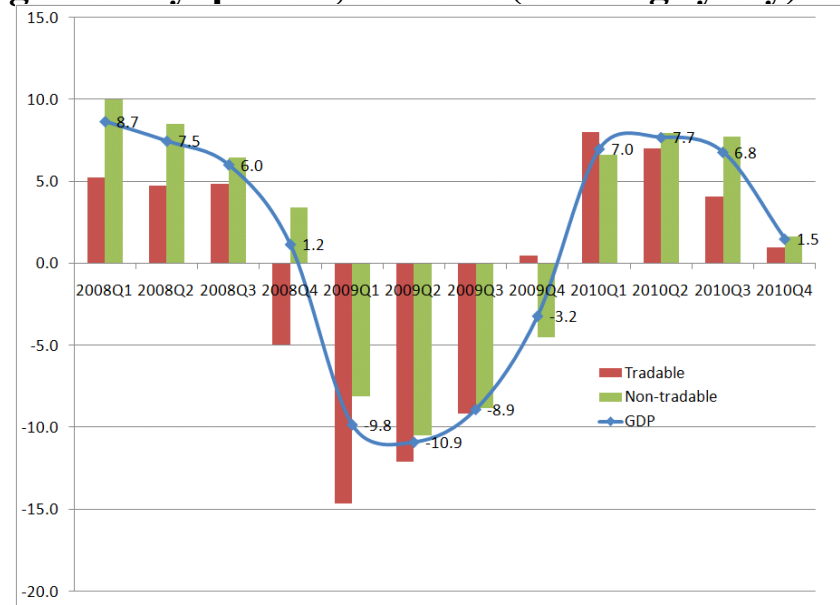
# ***Growth will be predominantly driven by recovery of domestic demand and the base effect, reflecting a very low base of the first two quarters of 2009***

**Figure 1.11: Demand sources of Russia's real growth, by quarter, 2008–10 (%change y-o-y)**



Sources: Rosstat; World Bank staff estimates.

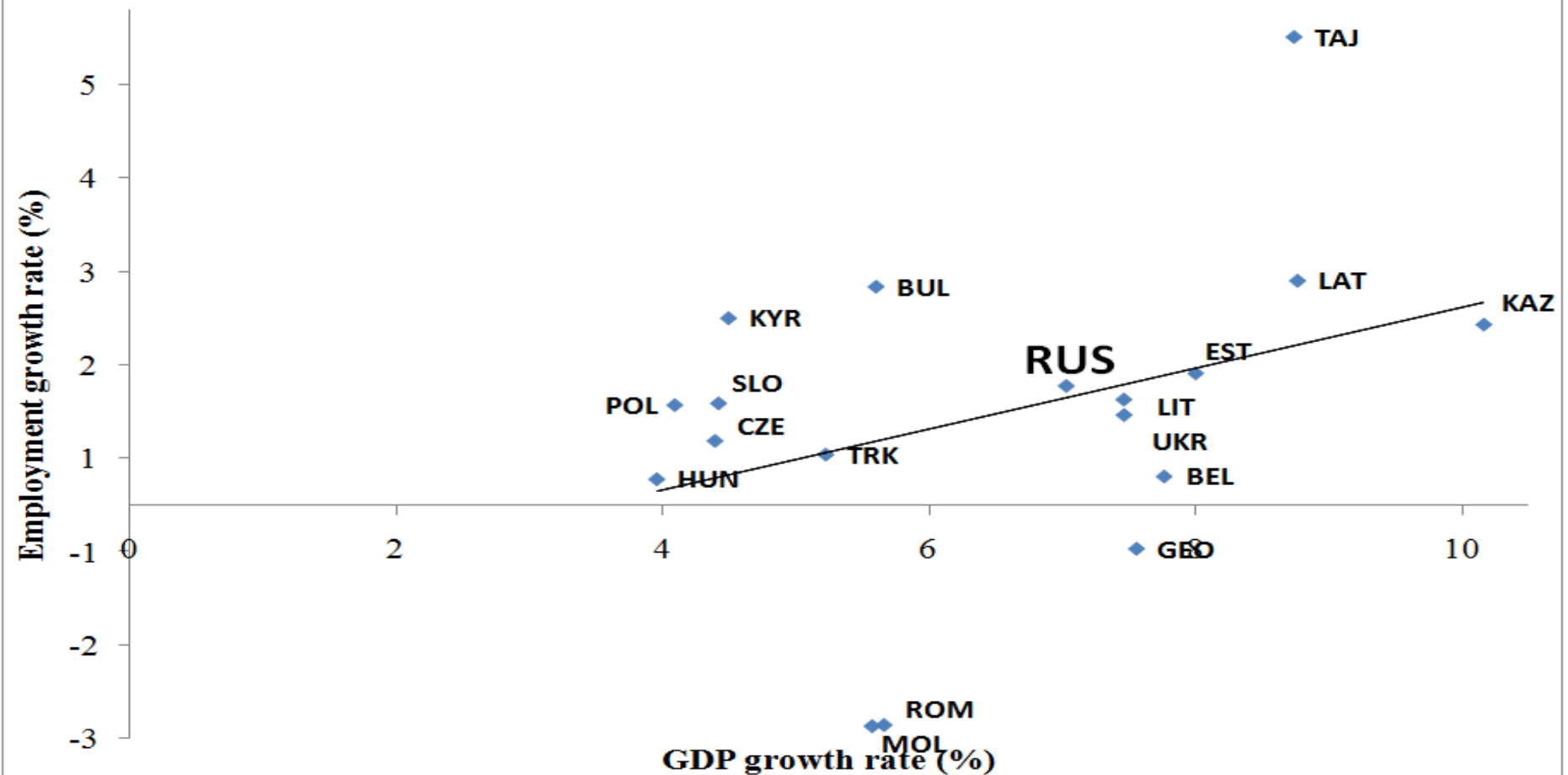
**Figure 1.12: Sectoral sources of Russia's real GDP growth by quarter, 2008–10 (%change y-o-y)**



# Before the crisis, high GDP growth was accompanied by moderate employment growth

## Weak job growth before crisis, ECA countries, 2000-2007

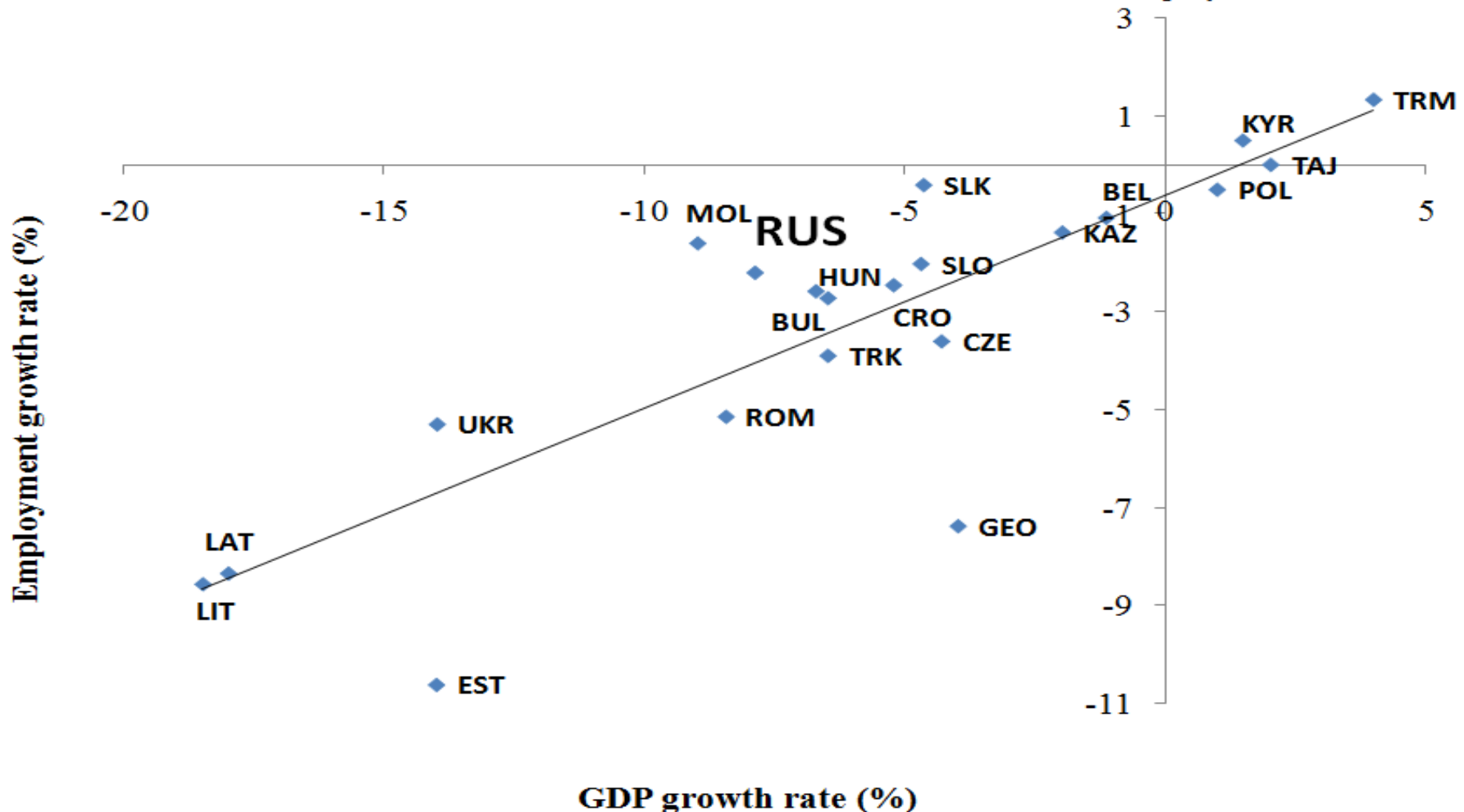
*On average one percent of GDP growth resulted in only 0.32 percent growth in employment*



But, during the crisis, most countries experienced GDP declines and massive employment losses.

## Job losses mount in downturn, ECA countries, 2009

*On average one percent of GDP contraction results in 0.4 percent decline in employment*

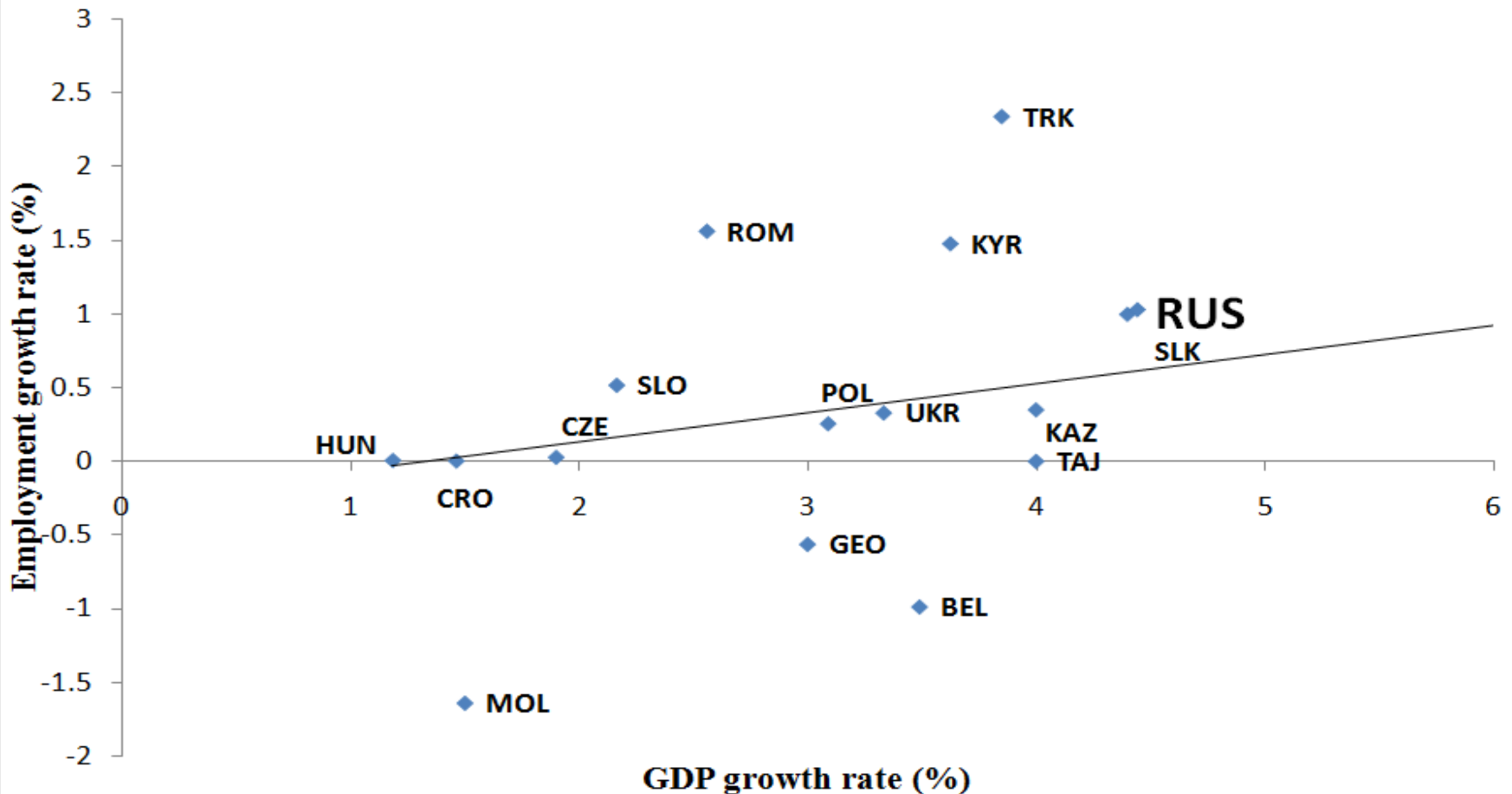


# *The economic recovery in 2010-11 is likely to have a limited impact on employment growth*

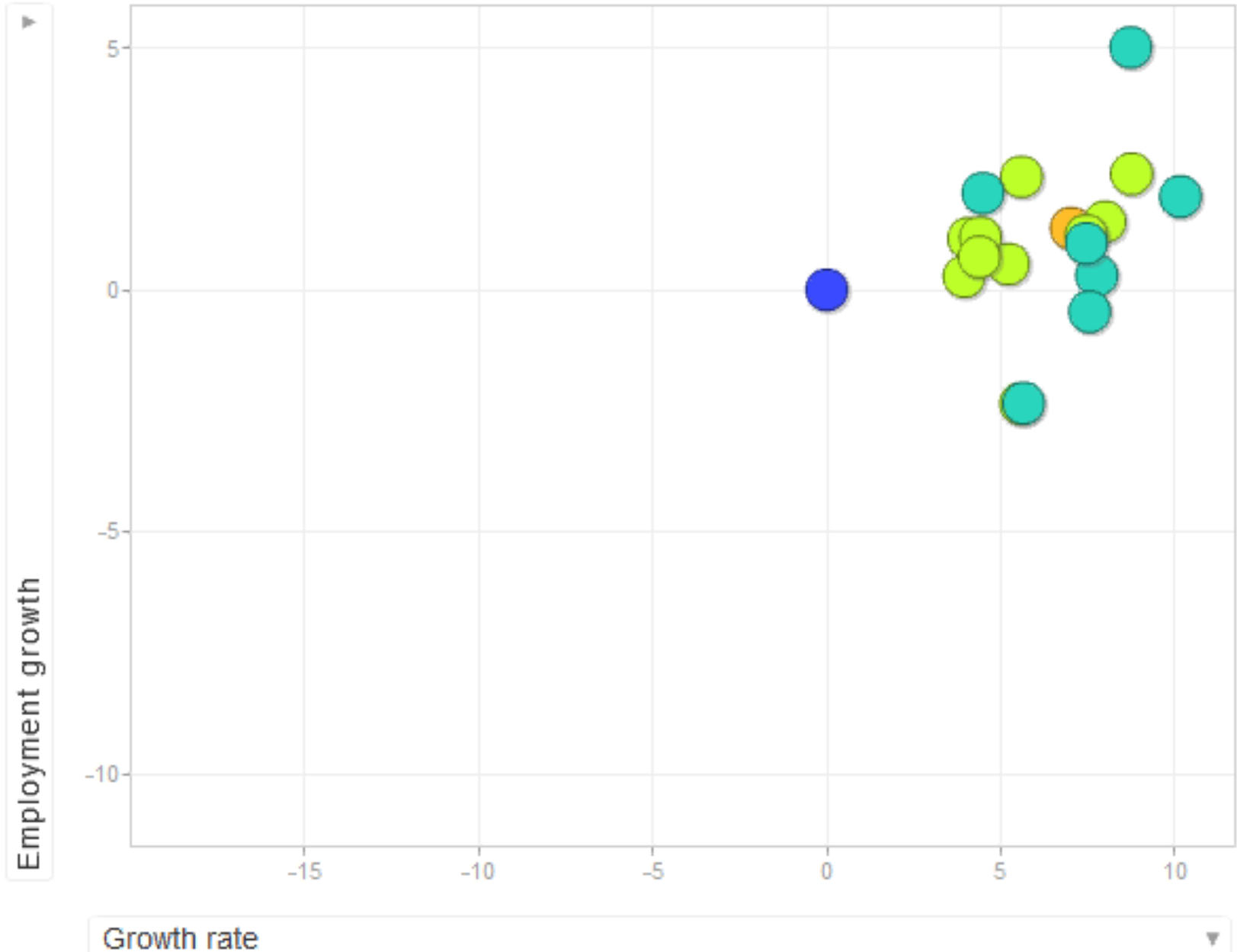
## **Jobless Growth Recovery Likely:**

**Average Annual employment and GDP growth forecast in ECA, 2010-2011**

*On average one percent of GDP growth is expected to be associated with only 0.19 percent increase in employment*

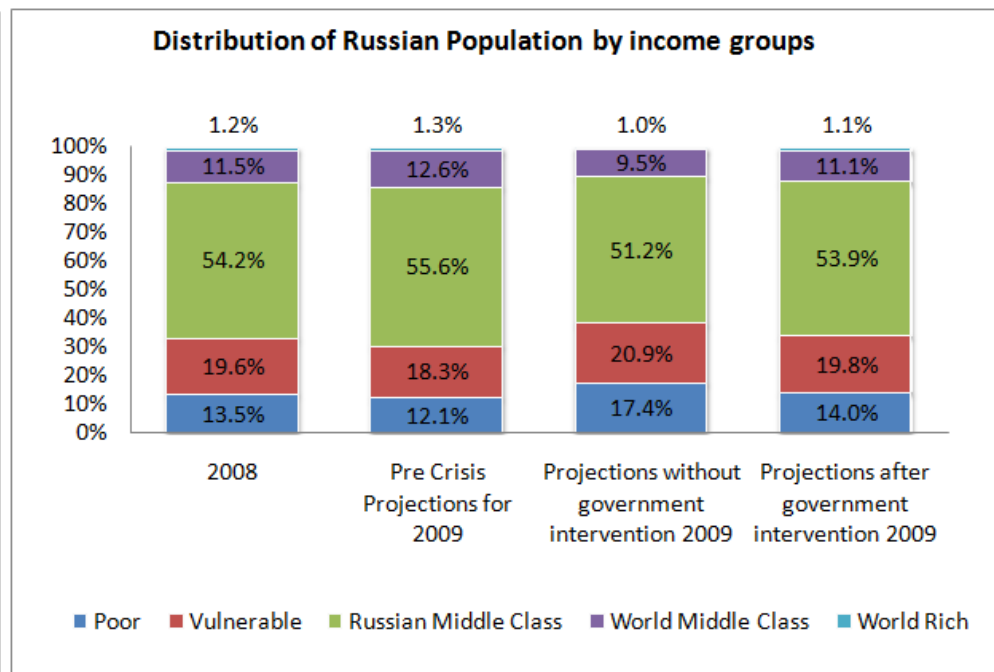
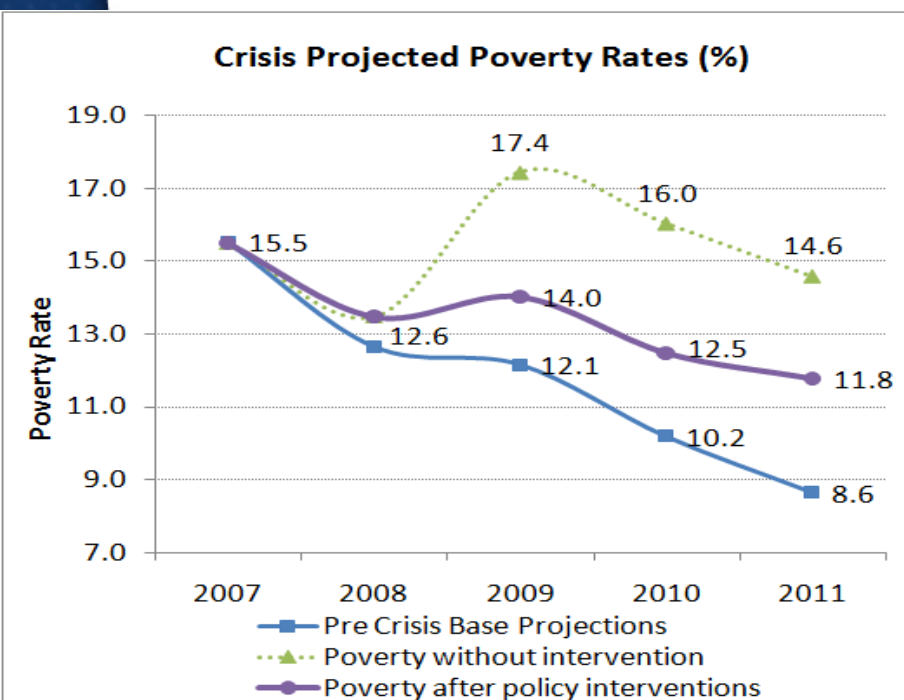


## A relationship between GDP growth and employment growth in ECA countries 2001-2011



## *Government's interventions aimed at a broader middle class, rather than only the poor,*

**Figure 1.14 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.

### III. What we have learned from this crisis?

- *this crisis has returned **fiscal policy** to center stage as a macroeconomic stabilization tool.*
- *most of the precrisis consensus on macroeconomic policy still holds, but the crisis has shown that policy makers should adopt a broader **macro-prudential view of the financial sector**.*
- *the social impact of a sharp slowdown in GDP during the crisis in emerging countries was transmitted mainly through lower employment and wages, hence the importance of **targeted social safety nets and automatic stabilizers**.*
- *the post-crisis world will likely require countries to do more to improve their **investment climates**.*
- *in Russia, the crisis has provided an **opportunity for reform** and impetus to rethink and accelerate public sector, financial sector, and diversification reforms; it is important to see to it that the opportunity is not wasted in the complacency and return to business-as-usual after the crisis*



Thank you!



Saint Basil's Cathedral, Red Square  
by Marky Kastru

