# Russian Federation

## Recent Economic Developments and Challenges

IMF MOSCOW OFFICE

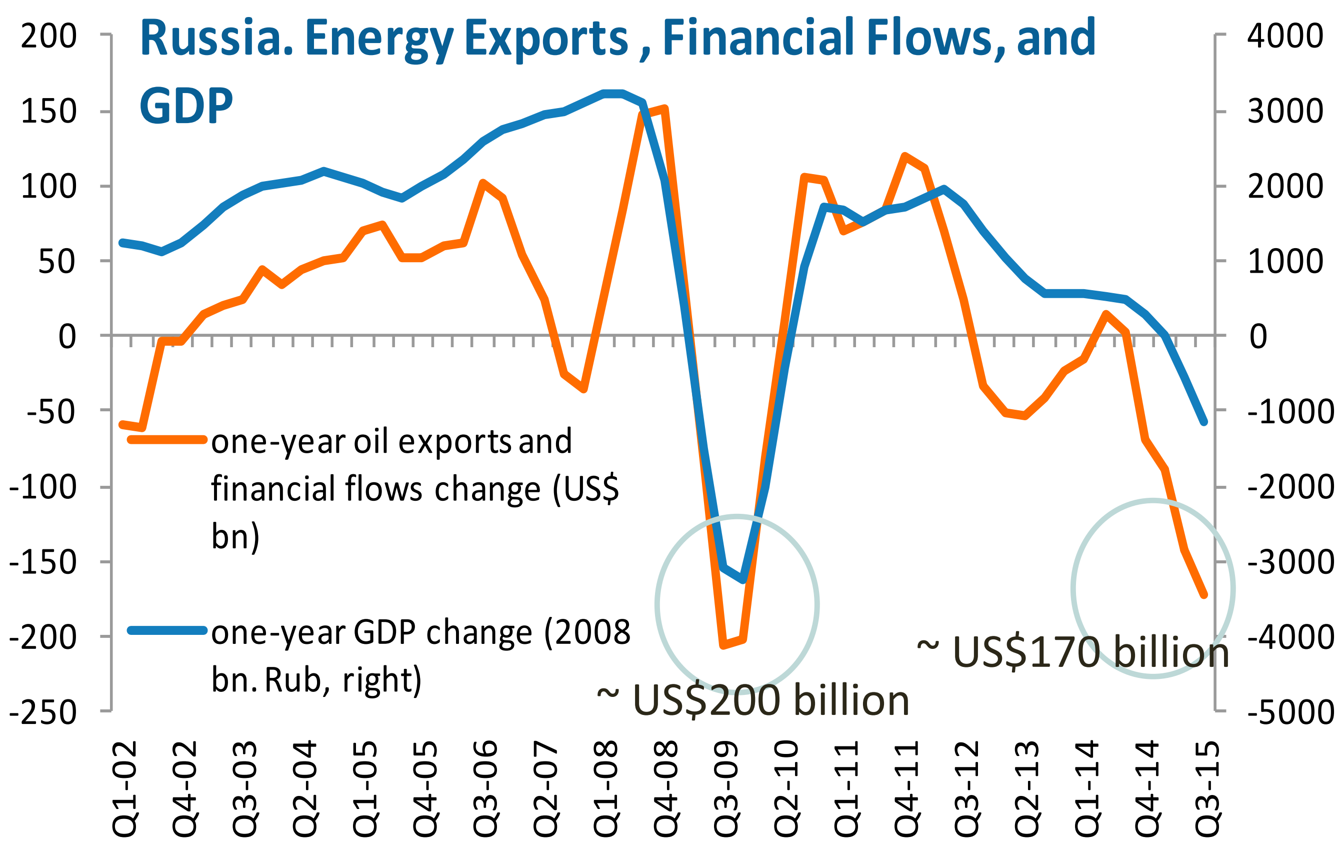
December 2015

# Summary: A 10-minute presentation

- 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 downturn
- Recovery after 2015 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.



# Three-legged Policy Response

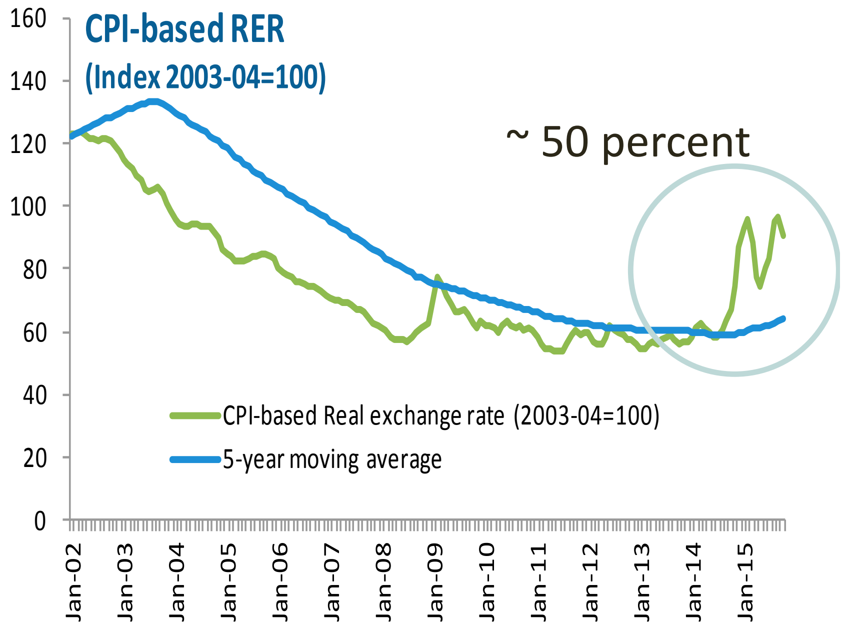
- **Monetary Policy:** Inflation is the new nominal anchor. Interest rate turns into main instrument.

- **Financial Policy:** Recapitalization, regulatory forbearance and increased liquidity provision.

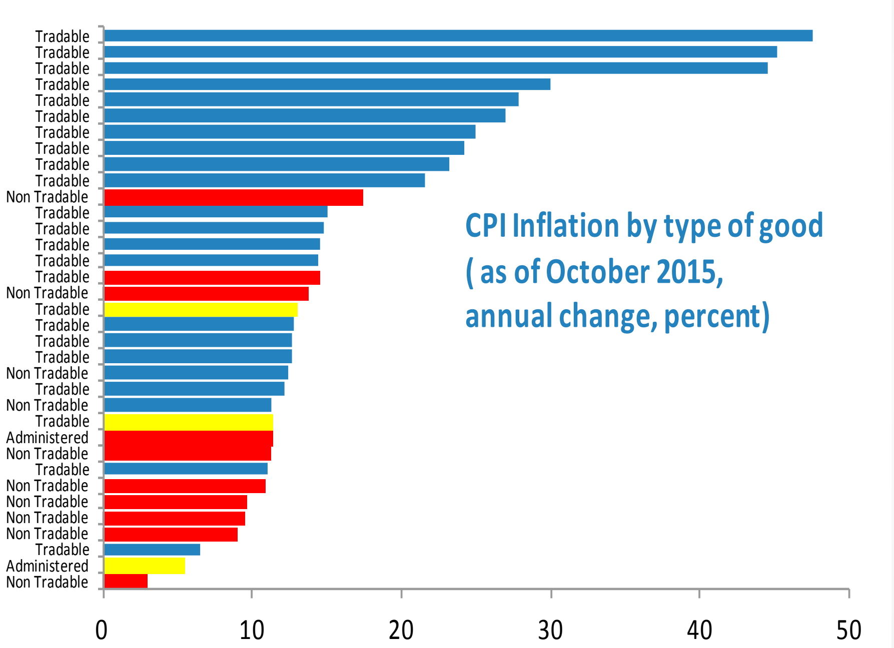
- **Fiscal Policy:** Limited stimulus in 2015 but consolidation beginning in 2016 to preserve buffers.

# The Real Exchange Rate depreciated…

The floating Ruble facilitated the adjustment to external shocks…

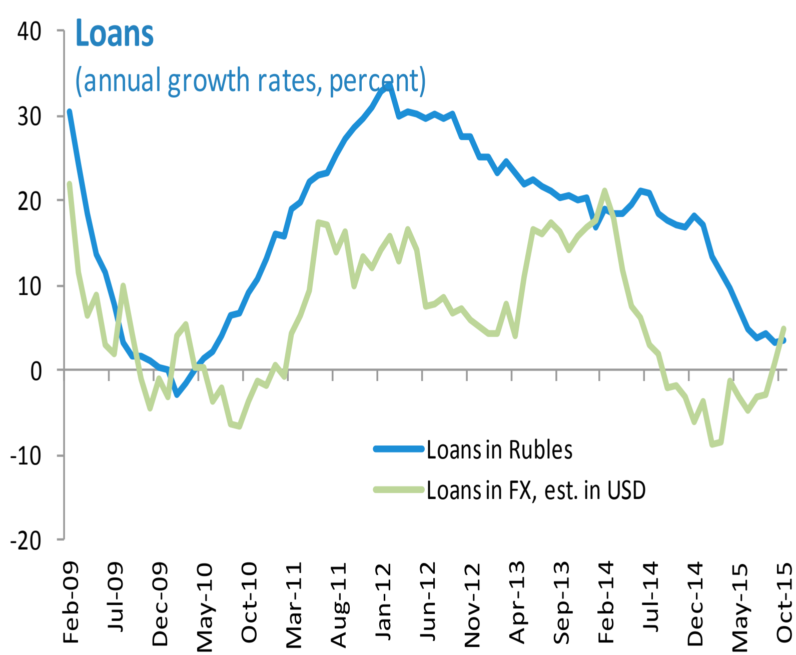



…and a realignment of relative prices with tradable goods increasing more than non-tradable and administered prices

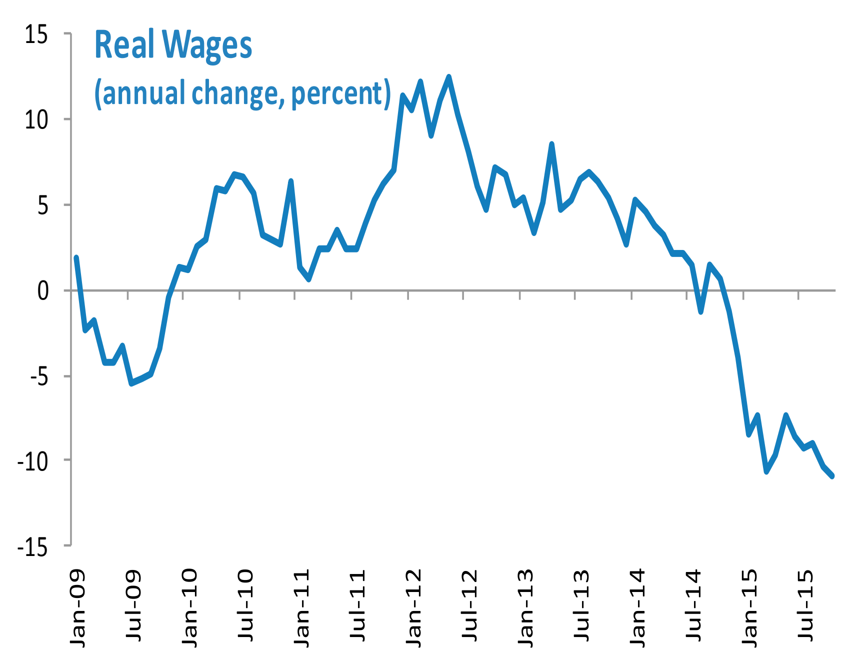


# …bank credit growth decelerated and real wages decreased….

Bank lending decelerated given tighter financial conditions…

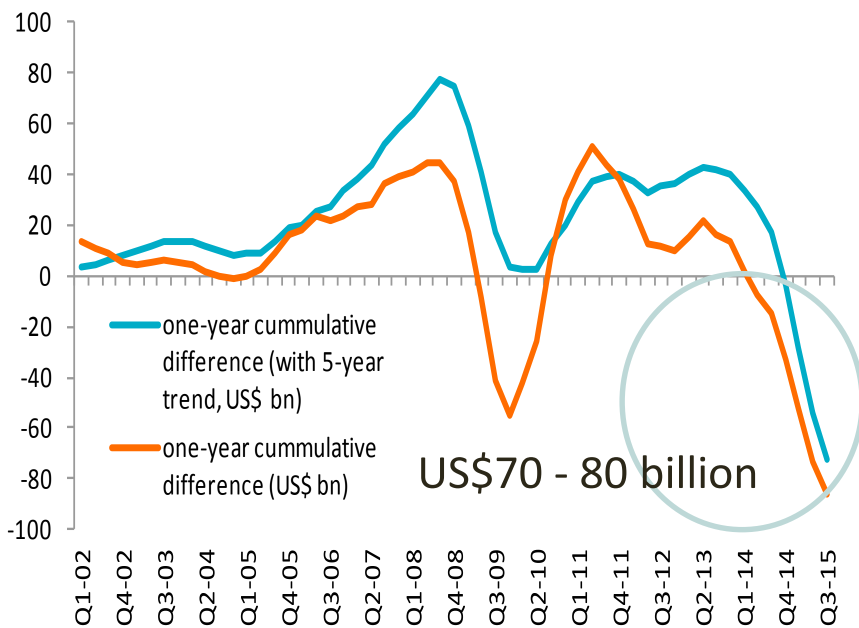



…and real wages decreased as economic slack increased.

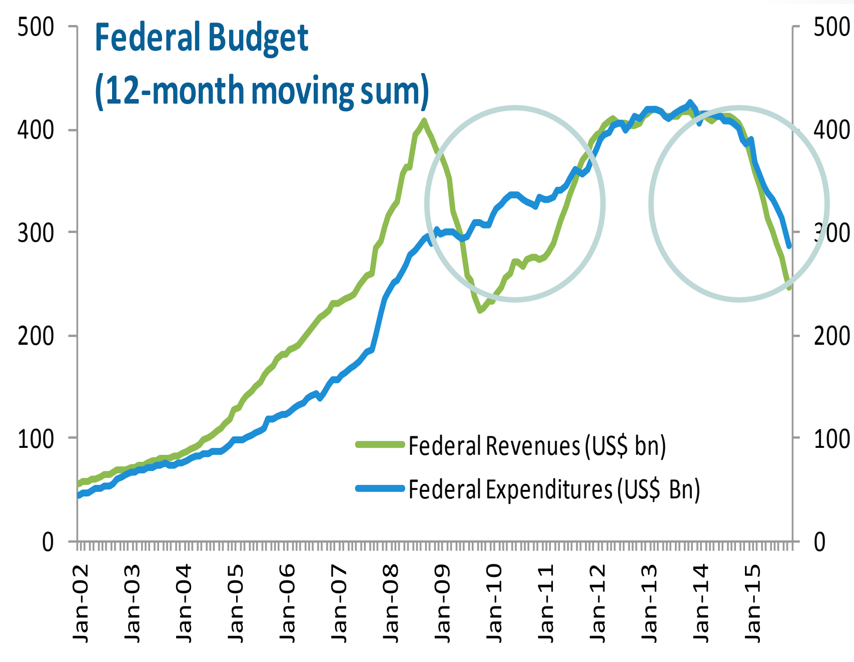


# …prompting a decrease in the non-oil trade deficit and fiscal spending in US$-terms…

Non-oil trade deficit decreased despite lower prices for oil and metals …

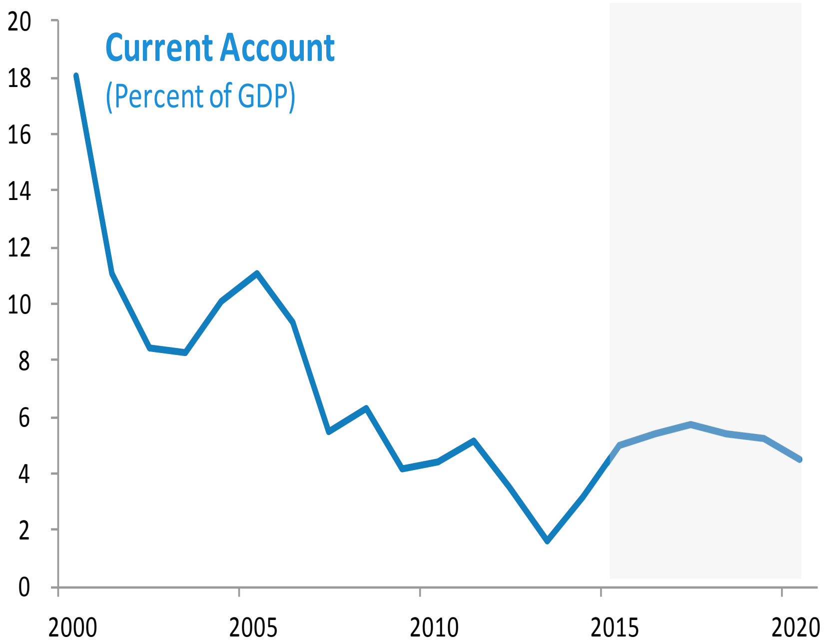



…and fiscal spending meaningfully decreased in US$-terms for the first time since 1998

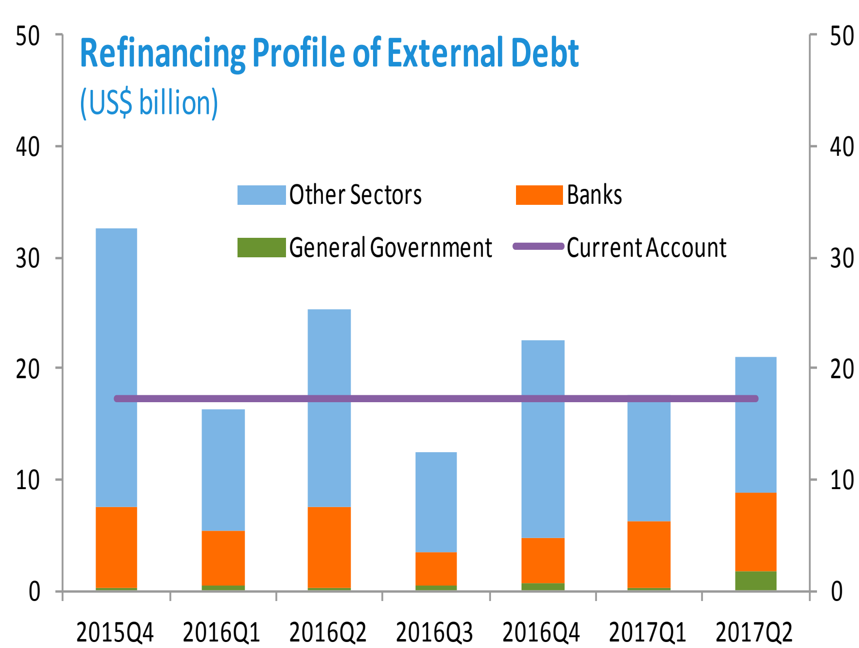


# …and a correction in the Current Account enough to cover external debt falling due

Lower imports are helping offset lower energy exports…

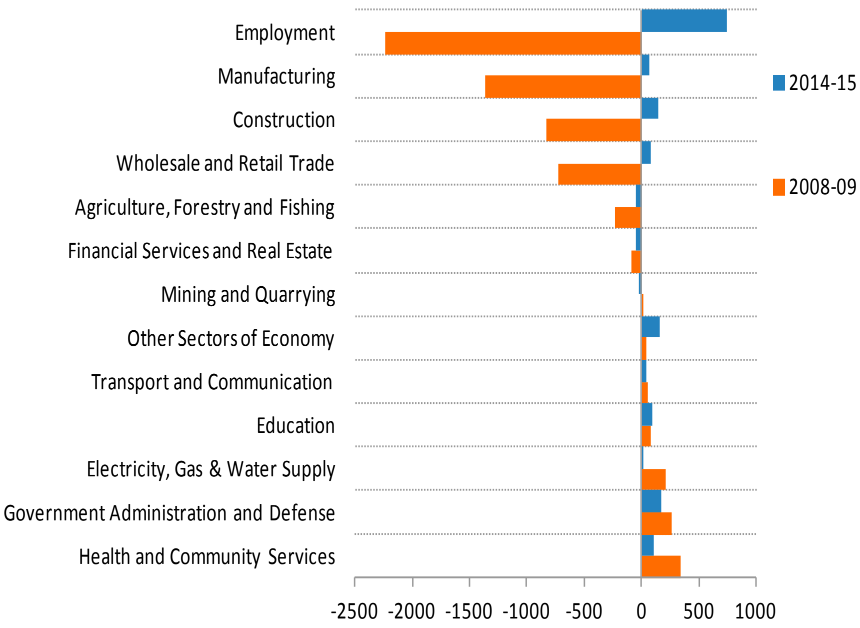



…and will help manage to pay external debt falling due

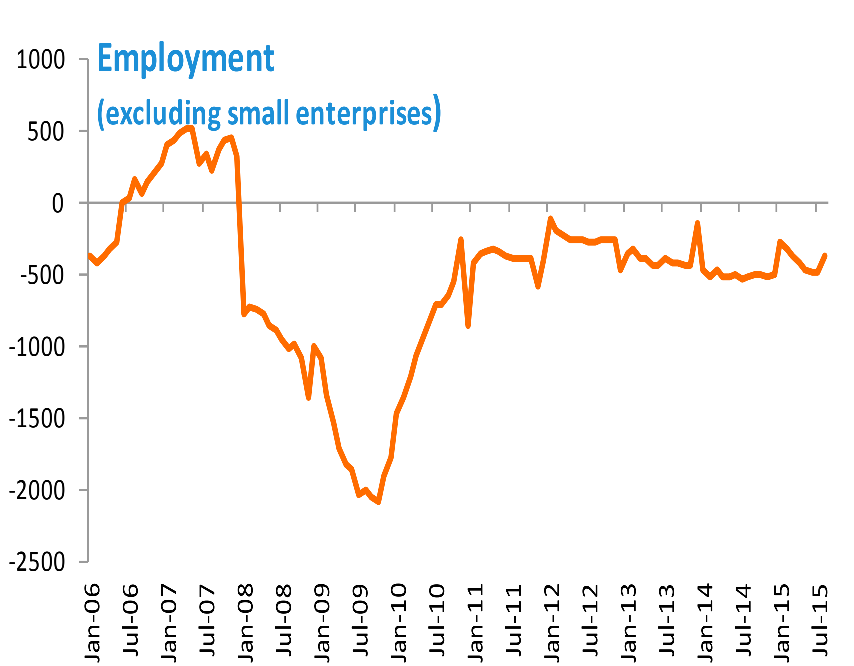


# Shocks were absorbed mostly through relative price change…

Employment trends were more favorable than during 2008-09 crisis, in particular in tradables…

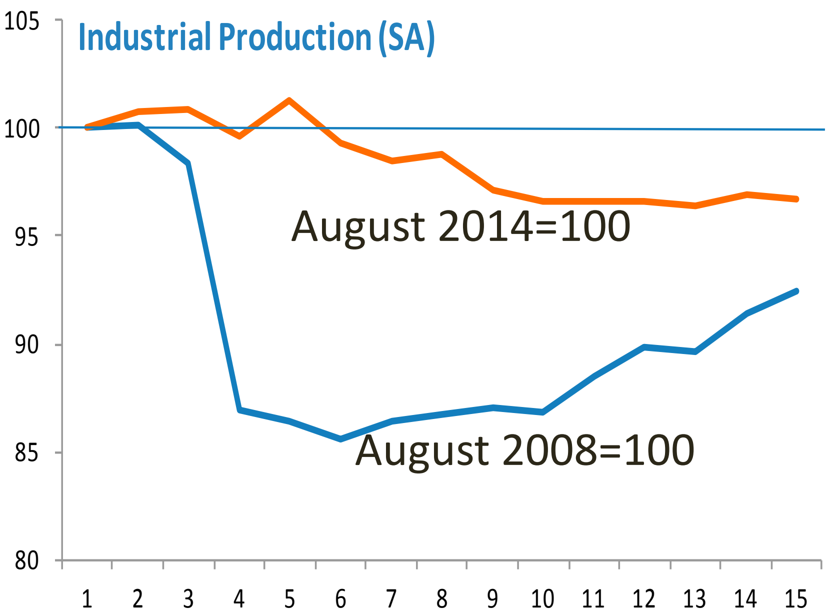



… though jobs in larger corporations continue to decrease

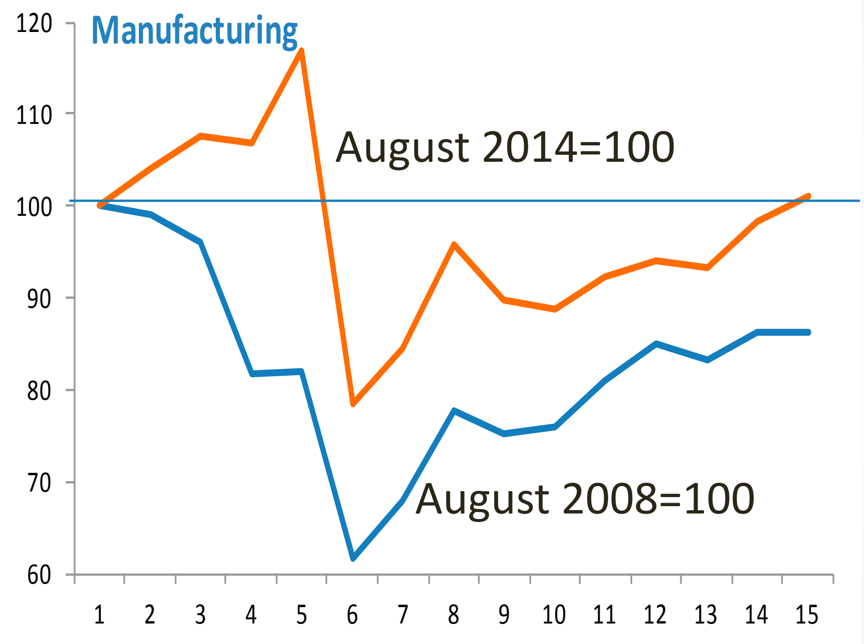


# ...with the economy performing better than after 2008-2009 crisis...

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

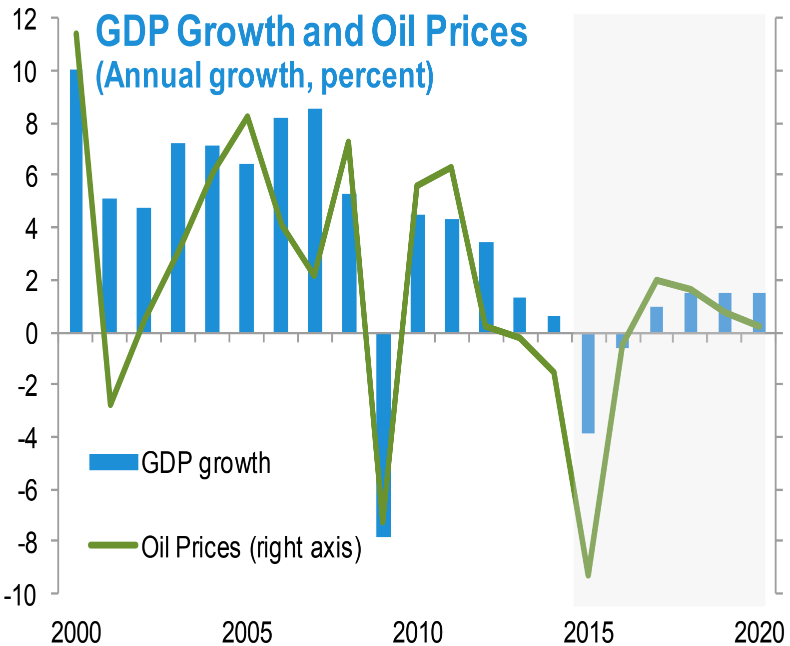



...and performance in manufacturing was significantly better

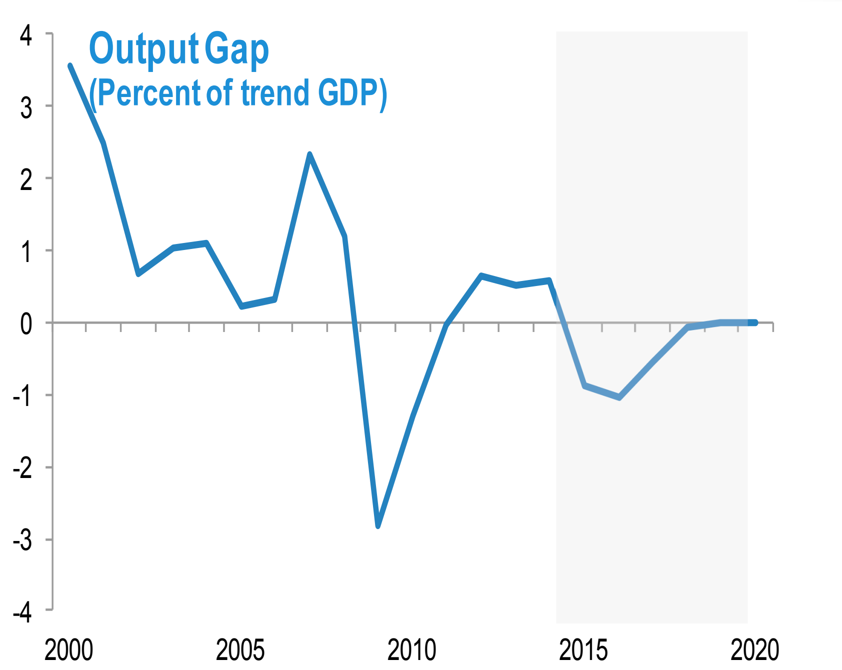


# ...however GDP growth will be negative in 2015 and recovery will be gradual

Growth is expected to be negative in 2015...

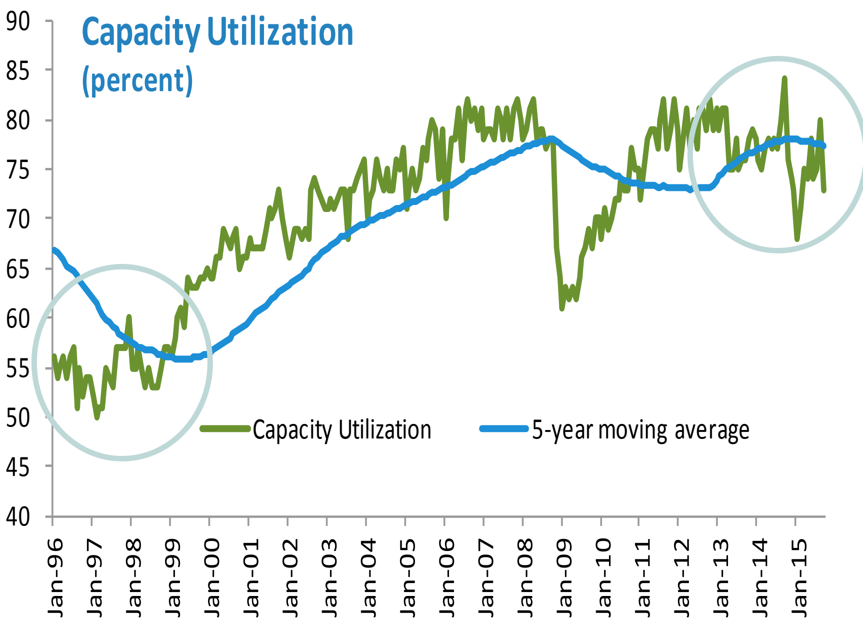



... and the economy to operate below full capacity.

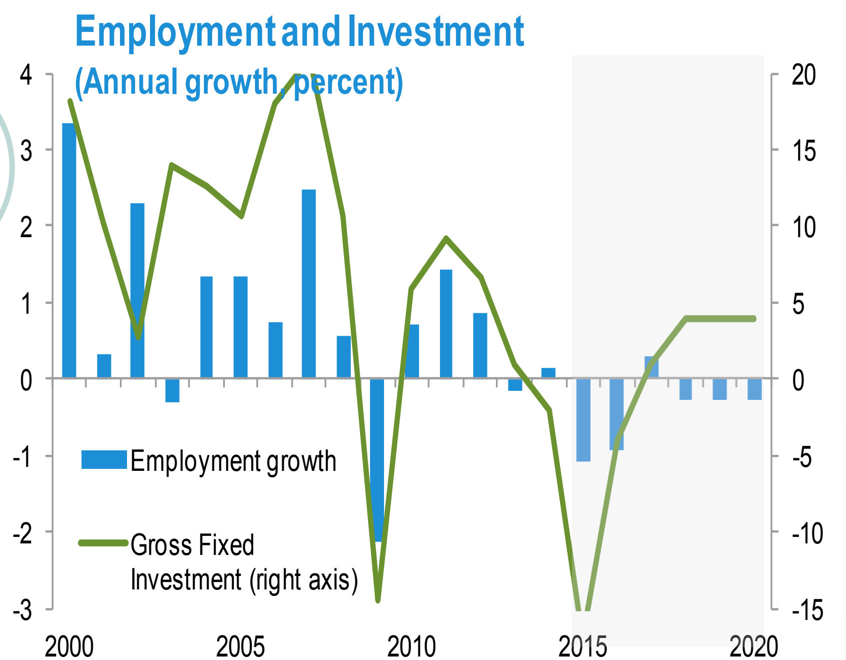


# …and further structural reforms are needed to take advantage of relative prices

The economy operated close to full capacity in 2014…




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



# With respect to 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.

- **Fiscal stimulus** should be limited as the non-oil deficit remains large. **Public investment** and social safety net need to be preserved. **Medium-term budgeting** should resume and the **fiscal rule** should be simple and allow to react to oil price swings

# 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**

# Oil Prices

## Oil Supply

- U.S. Shale is largely behind the increase in global supply since 2010; improved efficiency lowered cut-off prices though rig count is decreasing and profitability deteriorating
- Disruptions in supply from Iran and Libya

## Oil Demand

- China's market share increased to 12 percent in 2015 (from 5 percent in 1995), but growth subsided recently
- Demand from developed world constrained by lower growth and efficiency gains

## High Stocks

- OECD stocks at 63 days of supply (historical range 56 – 59)
- Iran's stocks at a historical peak

# 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