



RUSSIAN FEDERATION

2013 ARTICLE IV CONSULTATION

October 2013

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2013 Article IV consultation with the Russian Federation, the following documents have been released and are included in this package:

- The **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF for the Executive Board's consideration on September 18, 2013, following discussions that ended on June 18, 2013, with the officials of the Russian Federation on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 5, 2013.
- An **Informational Annex** prepared by the IMF.
- A **Staff Statement** of September 18, 2013 updating information on recent developments.
- A **Press Release** summarizing the views of the Executive Board as expressed during its September 18, 2013 consideration of the staff report that concluded the Article IV consultation with the Russian Federation.

The document listed below has been or will be separately released.

Selected Issues Paper

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RUSSIAN FEDERATION

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

August 5, 2013

KEY ISSUES

Context. Growth has slowed amidst weak investment and external demand, while the output gap appears to be at or near zero and inflation is elevated. Activity is currently weak, but is expected to accelerate somewhat later this year. However, structural factors constrain medium-term prospects. The introduction of a new oil price-based fiscal rule, a more flexible exchange rate, and operational improvements in monetary policy have strengthened the macroeconomic policy framework. Financial sector reform has progressed, though sector indicators are mixed and rapid growth in unsecured retail credit is of some concern. Risks remain tilted to the downside, including on account of possible external (e.g., oil price) and domestic (e.g., investor sentiment) shocks.

Near-term macroeconomic policy mix. Calls for policy stimulus are testing Russia's newly strengthened macroeconomic anchors. But absent a widening output gap, expansionary fiscal and monetary policies would at best provide only a modest and unsustainable increase in GDP, while generating overheating and greater policy uncertainty. So far, the Central Bank of the Russian Federation (CBR) has kept its main policy interest rate on hold. Fiscal policy is appropriately neutral this year but is under threat from off-budget spending plans. To contain inflation and reduce risks, the authorities should keep monetary policy on hold with a tightening bias, resist additional fiscal stimulus, and consider further measures to dampen excessive retail credit growth.

Medium-term policy challenges. To reach higher sustainable growth, Russia needs to further strengthen the macroeconomic policy framework and implement supply-side reforms. The authorities should gradually tighten the fiscal rule to rebuild fiscal buffers and save more of the nation's exhaustible oil income. The CBR should complete its transition to a flexible exchange rate and inflation targeting (IT) by end-2014 as planned, which, combined with fiscal policy changes, would help anchor inflation expectations. To mitigate supply-side growth constraints, Russia should reduce the regulatory burden to facilitate more private sector activity in key sectors, strengthen the financial sector to improve its ability to channel savings into productive investment projects, increase transparency, and enhance the business climate. Further global integration, including completing OECD accession, would support and broaden these efforts.

Approved By
**Aasim M. Husain and
 Kalpana Kochhar**

Discussions for the 2013 Article IV consultation were held in Moscow during June 5–June 18. The mission comprised Messrs. Spilimbergo (head), Dohlman, Floerkemeier, and Kim (all EUR), Mr. Jafarov (MCM), Mr. Brekk (outgoing senior resident representative), Mr. Joshi (incoming resident representative), Ms. Dynnikova (local senior economist) and Ms. Chebotareva (local economist). Mr. Mozhin, Executive Director, participated in the discussions. The mission met with Minister of Finance Siluanov, Central Bank of Russia Governor Ignatiev, other senior officials, and representatives of financial institutions, corporations, academia, and think tanks. Mr. Jovanovic and Ms. Zaffaroni contributed to the preparation of this report.

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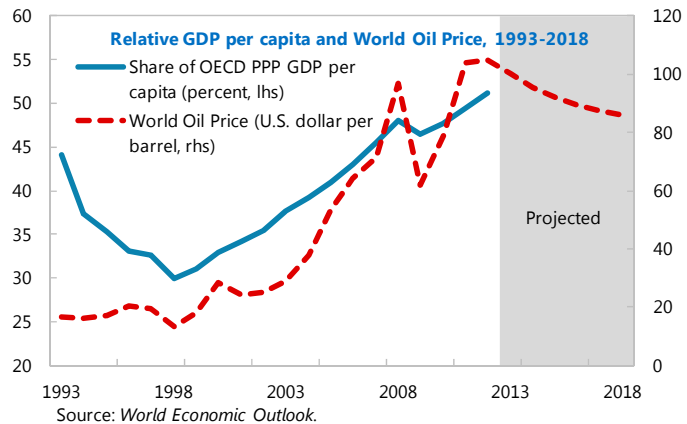
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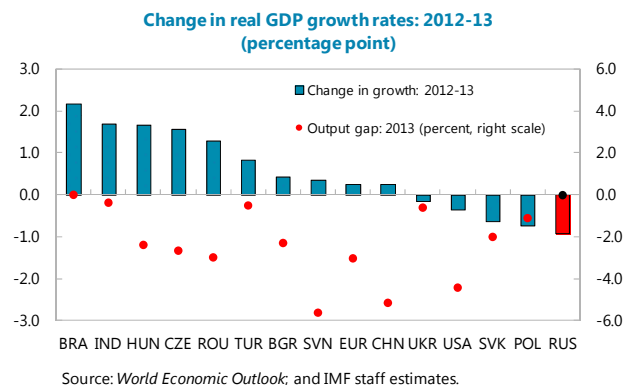
CONTEXT

1. In recent years, Russia has narrowed the income gap, strengthened key macroeconomic policy anchors, and taken some important structural measures. Since 2000, Russia has increased its per capita income from 33 to 51 percent of the OECD average. Fiscal and external buffers are being rebuilt. Unemployment has declined to near historic lows. Inflation has been in single digits since 2009. A new oil price-based fiscal rule, increased exchange rate flexibility, and a shift towards IT have strengthened the macroeconomic framework. WTO accession in 2012 and Russia’s leadership positions in key international fora such as APEC, the G-20 and the G-8 signal Russia’s increasing global integration. Russia’s growth potential remains substantial, given its relatively well-educated labor force, proximity to key markets, and natural resource endowment.



2. However, Russia’s growth is slowing and medium-term prospects are increasingly dampened by supply-side constraints. The activation of spare capacity and rising oil prices that drove a decade of average annual growth in excess of 5 percent are not replicable. The economy is now likely at or near full capacity (Box 1), the 2000s oil price rise is unlikely to be repeated, and negative demographics and a weak business climate present a drag on growth (Figure 1). The government’s increased presence in key sectors such as energy and banking has dampened private investment and competition (Figure 2).

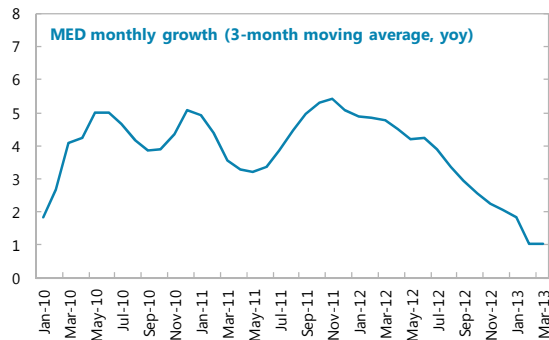
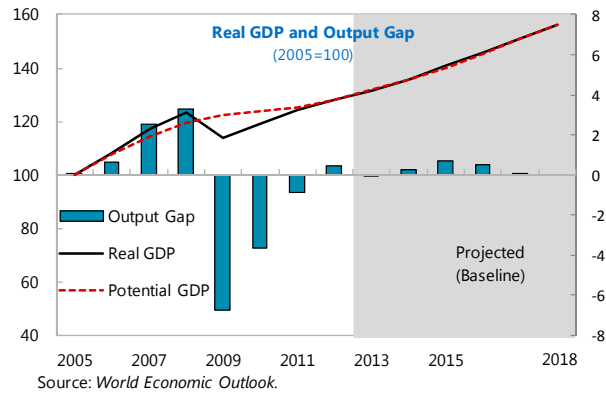
3. A public debate is underway over the merits of policy stimulus. Some senior officials and business leaders have called for easing monetary and fiscal policy. However, in contrast to many emerging market peers, Russia’s output gap is estimated to be at or near zero. Therefore, expansionary monetary or fiscal policies would at best provide a modest and unsustainable increase in growth while bringing adverse consequences that could further weaken the investment climate, including an intensification of inflationary pressures and higher exchange rate volatility.



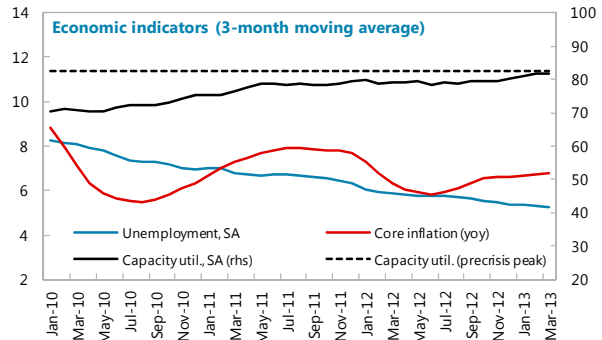
4. Achieving higher sustainable growth hinges on Russia’s ability to adopt a new growth model. The government has emphasized strengthening institutions and overcoming supply side constraints (Box 2), much of which dovetails with past Fund policy advice (Box 3). But implementation has lagged. Given Russia’s regional importance, its progress in tackling these issues also has growth and spillover implications for other CIS countries and the Baltic countries (Box 4).

Box 1. Russian Economy is Close to Full Capacity

Despite a substantial slowdown since early 2012, model-based estimates suggest that the output gap is near zero. These estimates of the output gap use a multivariate filtering method, which incorporates structural relations between potential GDP and key (high frequency) macroeconomic variables.¹ Other indicators also suggest the economy is currently operating at or close to full capacity: core and headline inflation remain above the CBR’s headline inflation target, the unemployment rate (at 5.4 percent) is near historic low levels, and capacity utilization in industrial sectors has returned to its pre-crisis peak of early 2008.



Sources: Haver; Rosstat; Russian Economic Barometer; and IMF staff estimates.



¹ Benes et al., 2010, “Estimating Potential Output with a Multivariate Filter,” IMF Working Paper WP10/285.

Box 2. Government Growth Strategy

Key elements of the authorities' growth strategy include:

Lowering the cost of doing business. The government is targeting a top 20 Doing Business (World Bank) rating by 2018, and has implemented a number of reforms in pursuit of this goal (Russia moved up six places to 112 in the most recent ranking). Public-private action plans for resolving bottlenecks in key areas—such as customs, regulatory environment, construction permits, and access to electricity—are in various stages of preparation and implementation, with frequent updates, specific key performance indicators, and survey-based assessments. Federal and regional ombudsmen for entrepreneur's rights have been appointed and the authorities report that over 80 disputes have been resolved by the federal ombudsman. The government has submitted a draft law to Duma proposing amnesty for individuals who committed economic crimes.

Increasing the financial sector's contribution to growth. The government seeks to reduce the cost of borrowing by reducing administrative burdens on banks, strengthening creditor rights, enhancing competition in the banking sector, and granting limited state guarantees for small and medium-sized enterprises (SMEs). It is also aiming to develop Moscow as an international financial center.

Increasing public sector efficiency and investment. The government wants to improve the efficiency of government spending and increase public and private investment, including through Public Private Partnerships (PPPs). To support this, the government: (1) implemented the new fiscal rule; (2) is drafting new PPP legislation; (3) is taking steps to strengthen the business environment; (4) is shifting to program-based budgeting; (5) plans to introduce compulsory public audits of costs and technologies for all large investment projects with state participation (this had been planned to begin in 2013); (6) is gradually privatizing state corporations; and (7) is planning to support PPP infrastructure projects through loans from the National Wealth Fund (NWF)—the intergenerational oil savings fund.

Box 3. Implementation of Past IMF Recommendations

During the 2012 Article IV consultation, Directors underscored the need to strengthen the fiscal framework, tighten the policy stance, improve monetary operations, implement 2011 FSAP recommendations, and implement structural reforms (including strengthening the business environment). Since then, the authorities have implemented a new fiscal rule, tightened monetary policy, improved monetary operations, and strengthened financial sector supervision. Progress on pension reform and broader structural reforms to improve the business environment has been slow.

Key recommendations

Implemented policies

Fiscal policy

Ambitious medium-term fiscal consolidation; rebuild Reserve Fund.

Non-oil deficit remains high; Reserve Fund is higher but still below the government target.

Anchor public finances with rule to decouple fiscal stance from oil price fluctuations and ensure savings of exhaustible oil revenues.

New oil price-based fiscal rule implemented; delinks fiscal stance from short-run oil price fluctuations but does not allow for sufficient fiscal adjustment and oil revenue savings.

Pension reform in light of adverse demographic trends.

Pension reform is still under consideration.

Monetary policy

Tighten monetary stance to keep underlying inflation on downward path.

Monetary stance tightened in September 2012 but underlying inflation remains elevated.

Formally make the repo rate the primary CBR policy rate; consolidate array of refinancing instruments,

The CBR is gradually aligning refinancing instruments.

Publish inflation expectation surveys and inflation forecasts.

The first inflation expectation survey was published earlier this year.

Financial sector

Monitor rapid household credit growth and possibly take prudential actions.

The CBR implemented prudential measures to moderate household credit growth.

Implement legislative changes to address weaknesses in the supervisory framework in line with the 2011 FSAP.

Amendments to Banking Law consistent with the 2011 FSAP recommendations have been adopted (See Annex II).

Equip the Federal Service for Financial Markets (FSFM) with basic supervisory powers for the nonbank financial sector.

Plan to create mega-supervisor by merging the supervisory functions of the FSFM into the CBR is moving ahead.

Structural policies

Implement broad structural reforms to make the business environment more predictable and rules-based, and implement a broad privatization strategy.

Some improvements in dispute resolution and tax administration. Little progress regarding SMEs; governance; infrastructure bottlenecks. Privatization has been slowed with the focus shifted towards attracting private capital infusions to state-owned enterprises (SOES).

RECENT DEVELOPMENTS

5. Real GDP growth has slowed over the past year, with mixed signs of recovery (Table 1; Figure 3). Growth began slowing around mid-2012 and fell to 3.4 percent for the year—from about 4½ percent in 2010-11—and weakened further in the first quarter of 2013 to 1.6 percent (y-o-y). Strong real wage and retail credit growth in the first half of 2013 has supported consumption, but a weak external environment and faltering investment have been a drag, particularly on manufacturing and construction which fell m/m (sa) in April/May but then partially rebounded in June. The drop in investment reflects significant declines in capital expenditures by large energy companies—several major investment projects ended and cash flows suffered from a retroactive price adjustment for gas shipments to Europe. Staff estimates suggest the growth slowdown has erased what had been a small positive output gap in 2012. Short-term indicators are mixed, but on balance suggest some recovery of activity in recent months and provide a basis for a stronger growth outlook for the remainder of this year.

6. Inflation has started to gradually decline. Inflation was driven up from a low of 3.6 percent in May 2012 to 7.4 percent y-o-y in May 2013, mostly by food price shocks and regulated tariff hikes. With this impact fading, inflation declined to 6.9 percent (y-o-y) in June. Staff's measure of core inflation—a good proxy for trend inflation—has remained slightly below headline inflation since the fourth quarter of 2012, indicating that inflation could ease further in the second half of this year.

7. Recent global financial market turbulence has had an impact on Russian financial markets. The effect of announced possible tapering of unconventional monetary policy in the U.S. and other external developments have put some pressure on the exchange rate, the local bond market, and equities, and may have contributed to some acceleration of capital outflows. Events in Cyprus so far have not had a significant impact on Russia (Box 4). Inward and outward spillover channels remain primarily via remittances, the trade channel, including oil prices, and to a lesser extent the financial channel, with outward spillovers concentrated on CIS and Baltic countries.

8. The exchange rate is increasingly flexible, and Russia's external position is broadly in line with medium-term fundamentals (Box 5). In mid-2013, the ruble basket rate depreciated by 6 percent, the highest among emerging European countries, prompting some modest interventions by the CBR. The ruble subsequently rebounded modestly.¹ The Finance Ministry will begin later this year to purchase foreign exchange in the market on an ongoing basis for deposit into the government oil savings funds managed by the CBR. This will facilitate the CBR's liquidity management by ending the periodic liquidity withdrawal under the previous system of depositing savings in rubles with the CBR.

¹ The CBR currently utilizes an exchange rate band mechanism (see Informational Annex).

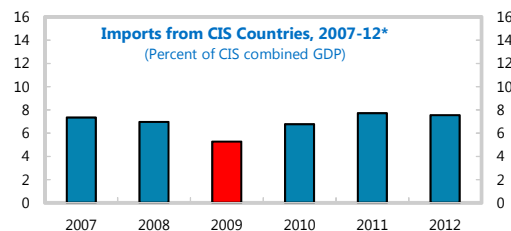
9. The current account surplus remains high but is shrinking (Table 2; Figure 4). The current account surplus declined to \$75 billion in 2012 (3.7 percent of GDP), from \$97 billion in 2011 (5.1 percent of GDP), despite higher oil prices. This trend continued into the first quarter of 2013, with the current account surplus falling by \$11 billion compared to 2012Q1. This reflects still strong import growth on the back of robust private consumption, continuing deterioration of service and income account balances, and more recently a drop in oil prices. Russia's exports remain heavily weighted towards energy (which accounted for two thirds of exports in 2012), and overall export diversification has fallen in recent years. Russia's entry to the WTO in August 2012 has granted foreign access to domestic markets in several sectors but there are long transition periods for important industries, including cars, meat processing, and insurance.

10. Capital flows have broadly mirrored current account developments. Net private capital outflows were \$54 billion (2.7 percent of GDP) in 2012, driven by the nonbank private sector. Outflows continued into early 2013 and increased further in May/June, led by depreciation expectations.

Box 4. Spillovers (and the Cyprus Crisis)

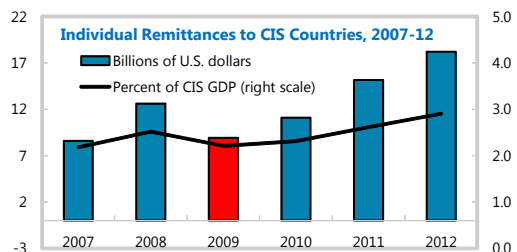
The CIS region is closely interconnected with the Russian economy, mainly through trade and remittances channels. The sharp contraction in the Russian economy during the 2008/09 crisis severely affected the region, with a significant drop in Russia's imports from and individual remittances to the region. A large depreciation of the ruble during the crisis also triggered sharp currency devaluations in most CIS countries, weakening banks' balance sheets and credit.

Imports and remittances have fully recovered from the crisis amid Russia's robust growth in 2010–12. Russia's imports from CIS countries have surpassed the pre-crisis peak. Remittances also continue to increase, and are particularly important for Moldova, Kyrgyz Republic, and Tajikistan, where they are a key source of foreign exchange earnings (15-40 percent of GDP). Given the strong linkages between Russia and other CIS countries, the more recent growth slowdown in Russia has adversely affected the region. The completion of the labor-intensive large Sochi project at the beginning of 2014 may temporarily reduce remittances. A prolonged slowdown of economic activity, especially

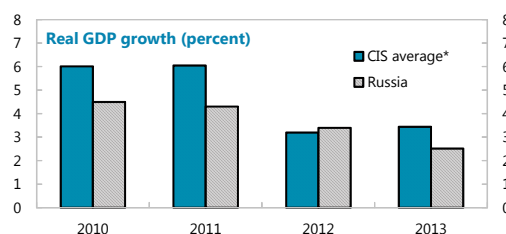


Sources: Central Bank of Russia; and IMF staff calculations.

* CIS countries include Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.



Source: Central Bank of Russia; and IMF staff calculations.



Source: World Economic Outlook; and IMF staff calculations.

* PPP GDP-weighted average growth rate.

Box 4. Spillovers (and the Cyprus Crisis) (Concluded)

in construction, may have a significant impact on remittances from Russia.

Russia is also subject to potential inward spillovers. For example, Russia experienced accelerated outflows following announcements in May of this year on expected changes in U.S. monetary policy. Other possible channels are discussed in the context of risks.

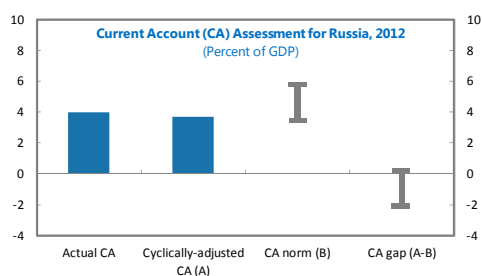
Cyprus. Russia's direct exposure to Cyprus bank restructuring is small relative to the size of the Russian economy and lost deposits of Russian entities are estimated at about 0.1 percent of Russian GDP. Private sector representatives indicated that some financial flows have been diverted to other financial centers but that the crisis and Cypriot capital controls have not been a significant impediment. Cyprus is Russia's largest partner for both inward and outward foreign direct investment, though much of this is round-tripping and covered by netting agreements. Cyprus also continues to be an important financial center for settling various Russian market transactions (e.g., stock market trades). Cyprus has been attractive for both the Russian private and publicly owned corporate and financial sectors as a financial center with favorable tax treatment and a large number of double-taxation treaties with EU countries and other economies. Under the double taxation treaty with Russia, Russian businesses that set up and remit dividends to offshore companies in Cyprus pay a withholding tax of only 5 percent, rather than the Russian tax of 15 percent. Remittances of royalties and interest are tax free, compared to 20% tax rate within Russia. Better property rights protection by the Cypriot legal framework and Russia's shortcomings in the implementation of the anti-money laundering framework may also have contributed to Cyprus' attractiveness. The specific nature and volume of transactions through Cyprus remain unclear, however, and developments in Cyprus may leave some Russian financial activity exposed to possible disruptions in payments flows, or create further incentive for diversion to other financial centers.

Russian Federation FDI 2011 (Billions of U.S. dollars)				Russia-Cyprus FDI Links 2011 (Billions of U.S. dollars)	
	Inward		Outward		
Investment from:	FDI Stock	Investment to:	FDI Stock	FDI stock (Reported by Russia)	
Total Investment	456	Total Investment	362	Russia to Cyprus	122
Cyprus	129	Cyprus	122	Cyprus to Russia	129
Netherlands	60	Netherlands	57	FDI stock (Reported by Cyprus)	
BVI	56	BVI	46	Russia to Cyprus	26
Bermuda	33	Switzerland	13	Cyprus to Russia	19
Bahamas, The	27	Luxembourg	12	Source: IMF, <i>Coordinated Direct Investment Survey</i> ;	
Luxembourg	20	United Kingdom	11		
Germany	19	United States	10		
Sweden	16	St. Kitts and Nevis	7		
France	15	Jersey	7		
Ireland	9	Germany	7		

Box 5. External Sector Assessment for Russia

Staff's assessment indicates that Russia's external position in 2012 was broadly in line with the value consistent with medium-term fundamentals and desirable policy settings. The authorities agreed with this broad assessment. They noted that the IMF's composite reserve adequacy metric for Russia, at 186 percent as of end-2012, was relatively high. This reserve level was, however, appropriate in their view for addressing volatile oil prices and in part also reflects the need for saving exhaustible oil income.

Model-based estimates as well as an analysis of demographics and the exhaustibility of natural resources suggest that the cyclically-adjusted current account surplus in 2012 (estimated at around 3¾ percent of GDP) was 0 to 2 percent of GDP weaker than the value implied by fundamentals and desirable policy settings (current account norm). While the regression analysis in the *External Sector Report* points to a modest real exchange rate undervaluation of 0–10 percent, alternative competitiveness indicators, such as estimates of equilibrium dollar wages of the manufacturing sector suggest that the ruble was about 13 percent overvalued, broadly in line with the current account analysis.



Source: IMF staff estimates based on the External Balances Assessment.

Looking ahead, with oil prices projected to decline gradually, the oil

price-based fiscal rule envisages a medium-term fiscal adjustment. This will be insufficient, however, to improve the current account balance under the baseline scenario. The envisaged increase in flexibility of the exchange rate (supported by the proposed deeper fiscal adjustment) should help secure appropriate external balances.

Equilibrium Dollar Wage, 2006-2012

	2006	2007	2008	2009	2010	2011	2012
Actual Wage (U.S. dollars)	375	503	646	522	628	739	775
Equilibrium Wage (U.S. dollars)	581	621	646	616	649	668	688
Equilibrium Ratio (in percent)	65	81	100	85	97	111	113

Source: Rosstat; and IMF staff estimates.

11. The overall fiscal balance is swinging back into deficit this year, while the non-oil fiscal stance is roughly neutral. (Table 3; Figure 5). The general government balance was in surplus (0.4 percent of GDP) in 2012, but is turning negative in 2013 as oil prices have weakened. Non-oil revenue growth has shown weakness—hurt by slowing growth and tax exemptions related to Sochi Olympics—, notably in VAT and profit taxes, but expenditure restraint has kept the non-oil balance roughly flat so far relative to last year. The Reserve Fund balance has risen from 3 percent of GDP in 2012 to 4.1 percent of GDP as of mid-2013—well short of the government's 7 percent of GDP medium-term target— following the deposit of 2012 oil savings. The NWF stands at 4.0 percent of GDP. The Finance Ministry has ruled out major changes to the tax regime, citing the importance of stability, but a property tax that would boost revenues for regional budgets—and could help pay for higher wage mandates—is under consideration. Projected privatization receipts for 2013–15 have

been scaled back as the government is shifting its focus towards attracting private sector capital infusions. The average duration of government debt has been extended to 4.5 years, up from 3.5 years, last year.

12. The new oil-price based fiscal rule is holding, but spending pressures are emerging.

The fiscal rule approved in December 2012 (Annex I) places strict limits on federal spending levels. However, the government is supporting additional spending via other means, including: (i) a one percent of GDP increase in loan guarantees in 2013—a portion of which initiates spending to be paid out of future budgets; (ii) up to R450 billion (0.7 percent of GDP) in lending from the NWF to support planned PPP infrastructure investments in a high-speed railway between Moscow and Kazan, a new ring road for Moscow, and upgrades to the Trans-Siberian railway; and (iii) Far East investment incentives involving tax exemptions over 2014-2027. Government budgets are also under pressure from mandated wage increases and preparations for the 2014 Sochi Olympics and the 2018 World Cup.

13. The CBR is targeting an end-2013 inflation rate between 5 and 6 percent. The CBR's target range for 2014–15 is 4 to 5 percent. However, the CBR has announced it is considering a move to a point target of 4.5 percent with a symmetric tolerance band of +/- 1.5 percentage points beginning 2014–15. The authorities are continuing preparations for adopting full-fledged IT by end-2014 (Box 6).

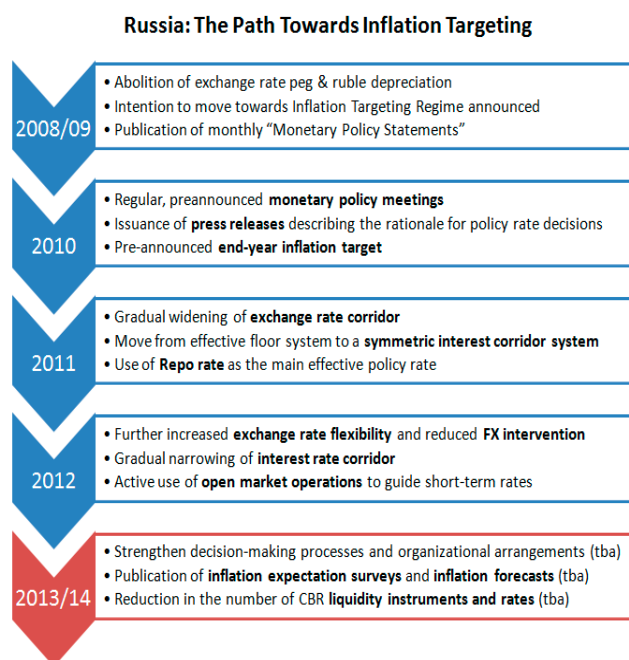
14. Against the backdrop of continued high inflation, the monetary policy stance has remained on hold. (Table 4; Figure 6). The main policy rate has been on hold since September 2012. The CBR has gradually lowered some secondary rates on longer-term facilities in an effort to strengthen monetary policy transmission. Money market rates edged up in 2013:Q2, reflecting limited direct access of second- and third tier banks to central bank refinancing. Liquidity conditions have been volatile, driven by the budget cycle and seasonal factors. In July, the CBR launched a new 12-month floating rate refinancing facility secured by nonmarketable assets and guarantees, with a minimum interest rate of 25 bps above the standard repo facility. Following the initial auction in late July, money market rates fell slightly. The CBR indicated in public communications that this initiative is intended to ease collateral constraints that have hindered banks' access to the interbank market and to help strengthen the transmission mechanism. The CBR now has a dozen facilities for liquidity provision and absorption at its disposal; including fixed-rate standing facilities secured by various collateral classes, and auction-based instruments, both in various maturities, reaching from overnight to one year.

Box 6. From Targeting Inflation to Inflation Targeting

Progress. Since announcing in 2009 its intention to move from an exchange rate targeting framework to IT, the CBR has made considerable improvements to the monetary policy framework. The CBR has announced formal end-year inflation targets since 2010 and has strengthened its implementation capacity through: (1) narrowing the interest rate corridor; (2) shifting to more active use of open market operations; (3) increasing exchange rate flexibility; and (4) improving policy transparency and communication.

Challenges. Monetary transmission from policy rates to lending rates remains imperfect and interbank markets are shallow and segmented. Inflation volatility remains fairly high owing to the economy's commodity dependence and high share of food products and regulated tariffs in the CPI basket.

Next steps. To complete the move to full-fledged IT by end-2014 as planned, further important measures will have to be taken. Decision-making processes and organizational arrangements in the CBR will have to be adapted, including the creation of a separate forecasting department. To better guide expectations, the CBR should regularly publish: inflation expectation surveys (building on the inaugural survey this year) and its own forecasts for inflation and other key variables such as the output gap. Monetary policy reports should include more forward-looking analysis. Furthermore, the CBR should consolidate its vast array of monetary operations instruments and rates.

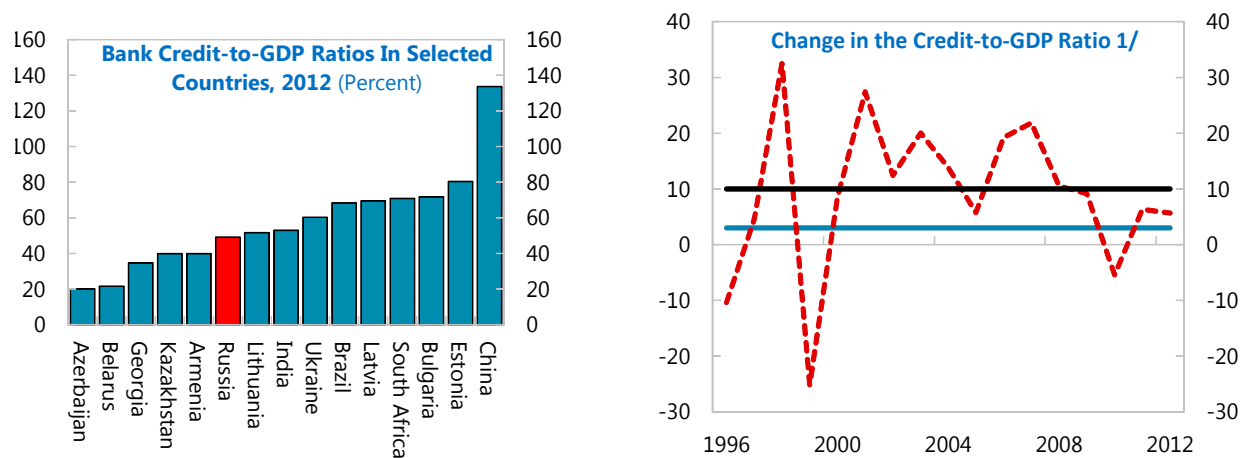


15. Overall credit growth has slowed, but retail lending continues to expand rapidly.

(Figures 7 - 9; Table 5). Real credit growth decelerated to 11.3 percent (y-o-y) in the first quarter of 2013, down from 15 percent per annum average growth rates during 2011–12. Retail lending expanded by around 40 percent and uncollateralized retail lending grew by about 55 percent y-o-y in 2012. Corporate lending was strong in the first half of 2012, but has moderated since then. The slowdown has been mainly demand-driven—reflecting low investment and greater reliance on working capital financing—but with some scaling back on the supply-side from tightened bank capitalization and prudential regulations and widening funding gaps (covered to a large extent by increased CBR financing). The net effect has been an increase in lending rates. The CBR introduced higher provisioning requirements for uncollateralized retail loans effective January 2013 and increased the risk weights for consumer loans effective July 2013, but it is too early to assess the impact on lending. The NPL ratio has been declining due to rapid credit growth, with NPLs growing in nominal terms. The FICO Credit Health Index has been declining since 2012 as a result of the rapid growth in the highest-risk sectors of the credit market (notably unsecured consumer loan and credit cards) and rising delinquencies in these segments. There are indications that overall asset quality has deteriorated in 2013H1, and NPLs may increase quickly once credit growth slows. The reported

average capital adequacy ratio for the banking system as a whole declined from 18.1 percent at end-2010 to 13.4 percent in February 2013. According to CBR estimates, two thirds of this decline was due to the expansion of bank lending, while one third was due to the adoption of more conservative prudential regulations.

16. The depth and efficiency of the financial sector remains low. Russia's credit-to-GDP ratio of 52 percent is below the average of peer countries. Bank competition is hindered by high concentration at the top and excessive fragmentation at the bottom of the banking system. State-owned banks dominate, accounting for more than half of total loans and deposits—due in part to an implicit state deposit guarantee and easy access to CBR and government financing. The growth in recent years of publicly-owned banks has exacerbated this situation. In contrast, even the largest private banks hardly reach retail deposit market shares of 1 to 2 percent. Smaller private banks, numbering more than 700, have difficulties in accessing the interbank market, report weak profitability, have high asset and liability concentration risks, and are difficult to supervise. At the same time, specialized retail banks have driven much of the lending growth.



Sources: IMF, International Financial Statistics database; and IMF staff estimates.

1/ The straight lines represent the 3 percent and 10 percent thresholds as in the IMF's Global Financial Stability Report (GFSR), September 2011 and Dell'Ariccia and others, 2012.

17. The authorities have stepped up their efforts to implement the recommendations of the 2011 FSAP (Annex II). In July, the President approved key amendments to the Banking Law that grant the CBR authority to more adequately supervise bank holding companies and related entities, address connected lending, use professional judgment in applying laws and regulations to individual banks, and share information with other supervisors without restrictions. Later this year, the authorities plan to merge the supervisory functions of the FSFM into the CBR, creating a mega-supervisor with broad supervisory authority. This may enhance the capacity to monitor systemic risks, but current weaknesses in the supervision of nonbanks still need to be addressed. Amendments to the Central Bank Law authorizing the CBR to appoint its inspectors at large banks have been passed in the Duma. The CBR is planning to implement Basel III capital frameworks within

the next six months and the internal ratings-based approach for measuring credit risks (IRB) no earlier than 2015.

OUTLOOK AND RISKS

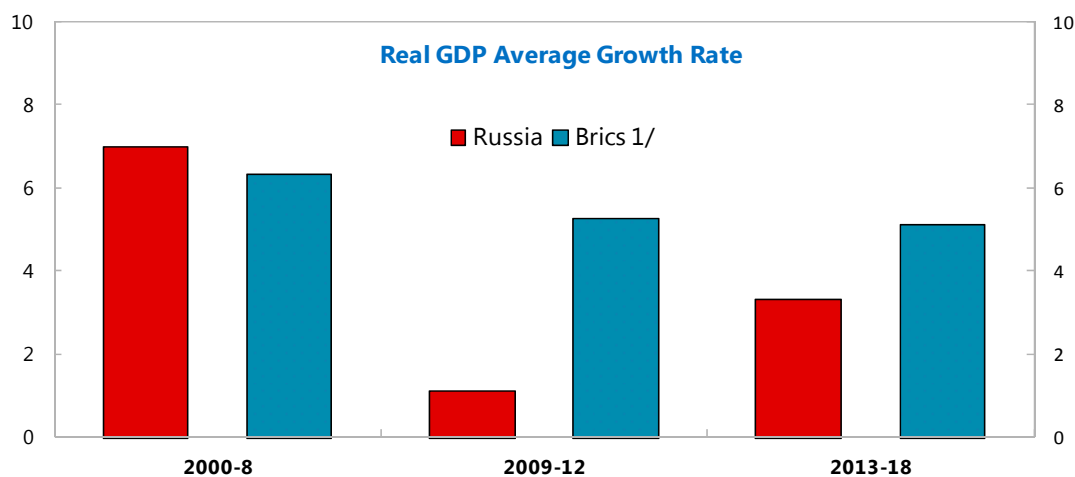
18. **Against a backdrop of elevated uncertainty, staff baseline projections call for moderate growth and inflation close to the upper end of the CBR's target range.** (Table 6).

Staff projects real GDP growth to accelerate in 2H13—helped by base effects and stronger growth in industrial production and agricultural output—and to reach 2½ percent in 2013. This is broadly in line with government and consensus projections. If the global environment improves as expected, and no downside risks are realized, staff projects growth to pick up to 3¼ percent in 2014—against the government's forecast of 3.7 percent. Inflation is projected to come down to about 6 percent (y-o-y) by end-2013, at the upper point of the CBR's target range, as the effects of temporary supply-side shocks fade. However, without further policy adjustment, inflation is expected to be around 5.5 percent in 2014—just outside the CBR's target range (the government expects inflation to drop to 5.3 percent). The current account surplus is projected to continue declining in 2014 amid slightly weaker energy prices. Capital outflows are expected to continue, albeit at a gradually slower pace.

19. **Risks continue to be tilted to the downside** (Annex III). Russia's relatively undiversified economic structure puts it in a vulnerable position to potential external shocks—such as a sharp decline in oil and natural gas prices (Table 7 and Figure 10). In staff's adverse scenario, a sharp and permanent decline in energy prices—for example, due to a shale gas/oil revolution—would cause a significant drop in Russia's growth, putting pressures on external and fiscal accounts. The fiscal buffer (Reserve Fund) would be quickly depleted and growth would return only slowly. Other external risks include an acceleration of capital outflows, and intensified international banking problems. The main domestic risks include a deteriorating domestic investment climate—possibly from heightened political uncertainty and social protests—and slow progress with structural reforms that could undermine domestic demand and growth and lead to higher capital outflows. Political pressures for near-term policy stimulus pose a threat to newly-minted macroeconomic anchors and stability. Materialization of downside risks could have negative spillovers throughout the region, mainly through remittances and trade.

20. **Russia is better equipped to handle adverse shocks than previously.** The more flexible exchange rate can absorb external shocks, and improved crisis management capacity should facilitate timely provision of sufficient liquidity needed to mitigate the impact on banks. Higher international reserves provide a buffer, while reduced balance sheet mismatches should allow for more flexible policy responses. The new oil price-based fiscal rule provides a guidepost for short-term fiscal policy responses to oil price shocks. However, with the Reserve Fund below its target level, the authorities risk procyclical fiscal adjustments in the event of large and lasting oil price declines. Debt sustainability is not an immediate concern given low public and gross external debt levels of about 13 and 29 percent of GDP, respectively, in 2012 (Tables 9–11).

21. Russia’s medium-term economic outlook is limited by supply-side constraints. Unless more is done to address key structural bottlenecks and reforms, baseline projections see potential growth at a modest 3½ percent. This is low compared to peer countries at similar income levels—reflective of Russia’s relatively weak investment climate (Figure 11) and structural barriers to the efficient use of resources. Inflation will remain elevated at 5½ percent, and the external current account surplus would gradually decline as oil prices moderate and robust import growth continues.



Source: *World Economic Outlook*, and IMF staff calculations.
1/ Country group: Brazil, India, China, and South Africa.

22. Under a reform scenario, Russia’s medium-term growth could rise considerably. (Table 8). Russia could achieve medium-term growth of about 5 percent if supported by stronger and more growth-friendly fiscal adjustment (and higher oil savings), monetary policy fully focused on meeting inflation targets, a more competitive financial system, energy sector reform, and more progress with other structural reforms. In this reform scenario, more efficient resource allocation through improved financial intermediation and labor market flexibility would boost Russia’s productivity, while a more favorable business climate and stable macroeconomic environment would raise investment and potential growth.

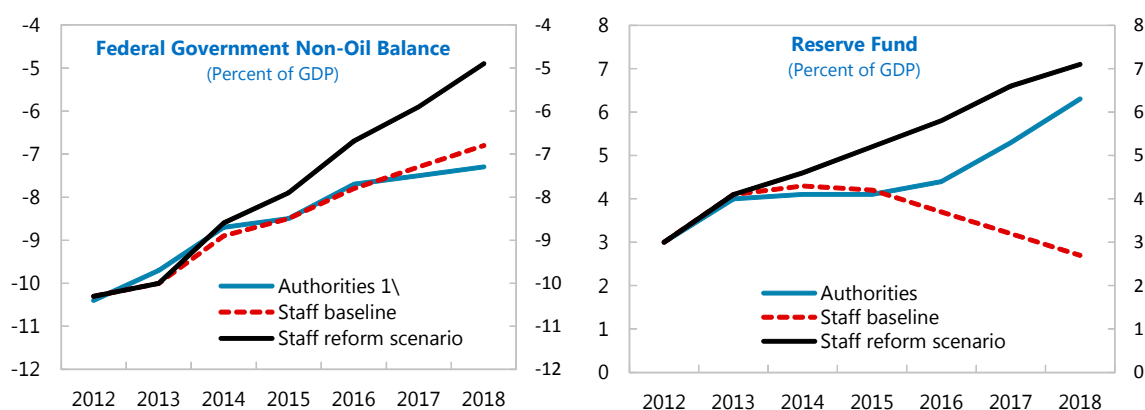
23. The authorities broadly agreed with the risk assessments, but viewed medium-term growth prospects somewhat more favorably. They viewed external risks as centered on exports, particularly energy, but also global food prices (inflation). There was some concern about the potential impact of WTO accession on several sectors, including autos, agriculture, aerospace, medical equipment, and light industry, but they viewed WTO entry as bringing broader benefits as well. The authorities pointed out that Russia’s level of integration to global markets remained lower than many peers’, thus muting external risks. On the domestic side, they viewed inadequate credit and investment as important weaknesses. The Ministry of Economic Development—which is responsible for the government’s macroeconomic projections—is more optimistic about the implementation of reforms and its growth dividends, projecting a medium-term growth rate of about 4½ percent and inflation of around 5 percent.

POLICY DISCUSSIONS

Discussions focused on policies to strengthen the policy framework and boost sustainable growth. They encompassed: the pace of fiscal consolidation and oil revenue savings in the context of the new fiscal rule; the move to full-fledged IT to anchor inflation expectations and achieve the CBR's inflation objectives; financial sector risks and oversight; measures to boost the energy sector; and supporting structural reforms, particularly to strengthen the business climate.

A. Fiscal Policy: Measured Consolidation, Increase Savings

24. The authorities should resist pressures for higher government spending in 2013. Given that Russia's output gap appears to be at or near zero, additional stimulus would provide at best a modest and unsustainable increase in growth, but bring adverse consequences such as intensified inflationary pressures and greater exchange rate volatility. The additional spending implied by lending NWF funds for PPP infrastructure projects and planned loan guarantees to initiate activity to be paid out of future budgets should be offset through cuts in lower priority spending or scaled back to maintain a cyclically neutral fiscal stance this year. More generally, the authorities should pursue policies consistent with the spirit of the fiscal rule, and resist proposals for circumvention (Annex I).



Oil Prices

(U.S. dollars per barrel)

	2012	2013	2014	2015	2016	2017	2018
		Projections					
Authorities (Urals spot)	110.5	105.0	101.0	100.0	100.0	100.0	...
Staff baseline (Urals spot)	110.3	103.5	97.4	93.8	90.0	88.4	87.1
World oil price 2/	112.7	106.0	99.9	96.3	92.5	90.9	89.6

Sources: Russian authorities; and IMF staff estimates.

1/ Authorities' non-oil balance for 2017 is simple average of 2016 and 2018 levels.

2/ Brent crude oil spot and futures prices for 2012-18.

25. More ambitious medium-term fiscal adjustment is needed to generate sufficient saving of oil revenue and build confidence. Under unchanged policies, staff estimates that the Reserve Fund will decline to about 2.7 percent of GDP by 2018. The authorities estimate that the Reserve Fund will reach about 6¼ percent of GDP by that year, with the difference largely attributable to more optimistic oil price assumptions. Staff urged the authorities to gradually tighten fiscal policy by an additional 0.4 percent of GDP per year (against the baseline), beginning 2014. This would rebuild the Reserve Fund to around 7 percent of GDP by 2018—the level that would allow the authorities to maintain spending consistent with the fiscal rule for two years without resorting to additional market borrowing, in the event of a sustained drop in oil prices to US\$60/barrel. The authorities should then direct exhaustible oil income to begin rebuilding the NWF. To lock in savings, these steps should be backed by a strengthening of the fiscal rule—including a lower benchmark oil price and possibly reduced net borrowing. The authorities should also contain pressures to circumvent expenditure limits. They should avoid any new loan guarantees to be paid out of future budgets, and any new spending mandates imposed on regions should be matched with adequate funding. These actions should also facilitate lower long-term lending rates, by easing aggregate demand pressures. Without further adjustment, the overall general government deficit will gradually widen and the Reserve Fund and NWF will gradually erode as a percent of GDP.

26. Structural fiscal reforms are critical for supporting higher oil savings and enhancing productive spending. Adjustment should primarily focus on expenditure reductions and improving the efficiency of spending. The government is facing significant spending pressures that threaten to eat into oil savings and crowd out investment in infrastructure. Promised public sector wage hikes and rising pension and health care costs driven by negative demographics threaten to squeeze out growth-enhancing investment spending. To reconcile competing demands, the government will need to rebalance its mix of spending and enhance its efficiency. This calls for deeper structural reforms, including: (i) parametric pension reform (Box 7); (ii) improved efficiency of budget spending and in publicly-owned enterprises, including better assessments of investment spending and oversight; and (iii) gradual privatization of SOEs, especially those with relatively low price-earnings ratios. Some resources from the NWF could be used to support market-based PPP investment projects if adequate controls are put in place, including: (1) strong assessment procedures for assessing the likelihood of positive investment returns; (2) clear investment guidelines; and (3) an independent investment committee. In any event, the overarching goal of the NWF investment policy should be to preserve the integrity of its funds. The proposed property tax would help fund expanding commitments at the regions level.

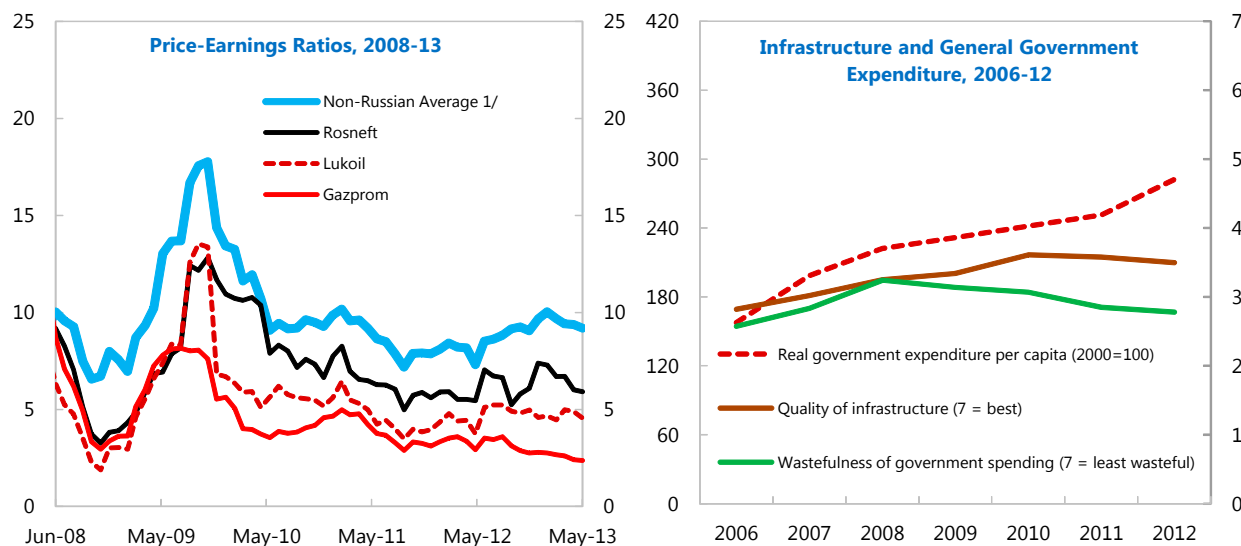
Possible Fiscal Adjustment Measures
(Percent of GDP)

Measure	Budget Savings
Short-term	up to 3.7
Loan guarantees 1/	up to 1.0
Cut tax expenditures 2/	2.0
Increase excise taxes	0.7
Medium-to-long-term	up to 6.0
Reduce wage bill	0.9
Better targeted social transfers	1.0
Increase retirement age	2.0 - 3.0
Reduce early pensions	0.7
Improve capital budgeting	0.4
Total	up to 9.7

Source: Ministry of Finance, WB, IMF staff estimates

1/ For non-revenue generating activity

2/ Based on Ministry of Finance estimates



Sources: Bloomberg; World Economic Forum; and *World Economic Outlook*.

1/ Simple average of 9 top non-Russian oil companies (Exxon, ConocoPhillips, Chevron, British Petroleum, Royal Dutch Shell, Total, Statoil, PetroChina, and Sinopec)

Box 7. Pension Reform in Russia

Pension costs and pension fund shortfalls are expected to rise over the long term as a percent of GDP, and will put an increasing strain on public expenditures. Staff has advised raising the retirement age and lengthening the minimum number of years for eligibility. Without such changes, annual public pension spending is expected to rise by about 3 percent of GDP by 2030.

The authorities have rejected increasing the retirement age in favor of an incentive-based system to encourage later retirement. They suggested this could be done in the context of a shift to a points-based pension system, but details will be announced only later this year, followed by public discussion. They have decided against any changes in social security tax rates for at least the next 2-3 years (the current contribution is 30 percent of wages up to an income threshold of R0.6 million, above which the tax rate drops to 10 percent), but may gradually increase the income threshold.

Beginning 2014, the default contribution rate to the fully-funded (Pillar II) pension plan will fall from 6 to 2 percentage points of wages, which could result in increased contributions to the Pillar I (pay-as-you-go) scheme of up to 0.5 percent of GDP. There are differences of opinion among public and private sector observers about the eventual shift in contributions (workers can opt to stay in Pillar II), but each ruble transferred would reduce one-for-one the need for transfers from the federal budget. This 'space' under the budget would likely be filled by other spending, under the fiscal rule. These changes would increase overall spending, weaken the long-term sustainability of the pension system, and reduce the support for capital market development from Pillar II-related pension funds.

Authorities' Views

27. The government broadly agreed with staff's assessment, but did not see scope nor need for additional fiscal adjustment. They agreed that additional near-term fiscal stimulus most likely would not be very effective and would bring adverse consequences. However, they viewed additional infrastructure spending as important for medium-term growth. In this regard, they viewed PPPs to build infrastructure, backed by lending from the NWF, as important for growth and confidence—and also viewed such longer term investments as consistent with the NWF mandate. They agreed on the importance of rebuilding the oil funds, but noted their own projections show a build-up of the Reserve Fund close to 7 percent by 2018 and viewed the faster pace of fiscal adjustment and oil savings recommended by staff as politically not possible at this time. The authorities viewed pension reform as critical to free up space for other spending, but have for now rejected any increase in the retirement age and instead will focus on incentives to postpone retirement. They recognized risks of circumvention of the fiscal rule, but would take steps to minimize such pressures. They argued that greater spending efficiency, combined with gradual introduction of a property tax over the next five years, will be sufficient to meet medium-term general government spending commitments without squeezing investment. They intend to support these efforts with a shift to program budgeting next year and a 2030 fiscal strategy now under preparation.

B. Monetary Policy: Maintain Stance, Anchor Inflation

28. The current monetary policy stance is consistent with achieving medium-term inflation objectives, if the recommended fiscal adjustment proceeds. Staff views the current monetary policy stance as consistent with bringing inflation down to the CBR's 5 to 6 percent target range this year. Despite the slowdown in growth, staff did not see a case for rate cuts—as some senior government officials have pressed for—as inflation has continued to surprise on the high side throughout 2013H1, and the output gap is likely close to zero. Moreover, with a still-weak monetary transmission mechanism, changes in the policy rate will have a limited effect on long-term lending rates—which are high in real terms for most market segments. Sustainably reducing inflation to the 2014 target range of 4 to 5 percent will necessitate further policy actions—including a tightening of monetary policy in the absence of the recommended fiscal adjustment.

29. Swift adoption of formal IT, and supporting policies, should help anchor inflation expectations and lower long-term lending rates. Staff urged the authorities to focus on consolidating the credibility of monetary policy, backed by a modest fiscal tightening to soften inflationary pressures. Establishing a good track record in the early years of adopting IT will be paramount for boosting credibility of the policy regime. The envisaged IT framework should be buttressed through regular inflation expectation surveys, publication of inflation forecasts, improvements in decision-making and organizational arrangements, and consolidation of the CBR's multiple liquidity instruments. Strengthening the transmission mechanism of monetary policy will require improving the signaling role of the policy rate, including by: (i) deepening the interbank market and reducing its volatility; and (ii) enhancing the CBR's capacity to forecast system liquidity

and analyze forecasting errors. Staff urged closer coordination between monetary and fiscal authorities to improve liquidity forecasts. It will also be important to complete the transition to a fully flexible exchange rate.

30. The CBR's new 12-month refinancing facility may contribute to strengthening the monetary policy transmission mechanism, but should not be used for quantitative easing. The recently launched facility, combined with Finance Ministry purchases of FX for deposit into oil savings funds, should help facilitate liquidity management and the functioning of the interbank market, bringing market rates closer to the CBR's main policy rate (repo). As far as the new refinancing instrument is intended to substitute bank funding via the existing repo facility, it may free up marketable collateral and strengthen monetary transmission. In staff's view, it should not be used to expand the total volume of CBR funding support to banks, which would be tantamount to unwarranted quantitative easing. The CBR should ensure that: (1) eligible collateral is well-specified and appropriately discounted for risk; (2) recipient banks have adequate risk and liquidity management practices in place; and (3) there are no underlying solvency concerns with banks utilizing the facility.

31. The CBR should not change its inflation targets for 2014-15, but a point target with wider bands is justified. Staff cautioned that a weakening of already announced targets—such as that made last year for 2012/13—would be detrimental to credibility. However, the wider band (than the current 1 pp) proposed by the CBR would be appropriate in Russia due to still high inflation volatility, and the switch to a point target could facilitate communication. It will be important that the inflation targets announced for the 2016 to 2018 period do not exceed 4.5 percent, the center of the target band already announced for 2014 and 2015. The medium-term monetary policy guidelines should also clarify whether the inflation target for 2016 to 2018 will be another step in a disinflation path leading subsequently to a lower long-run target or whether it will be the long-run target itself.

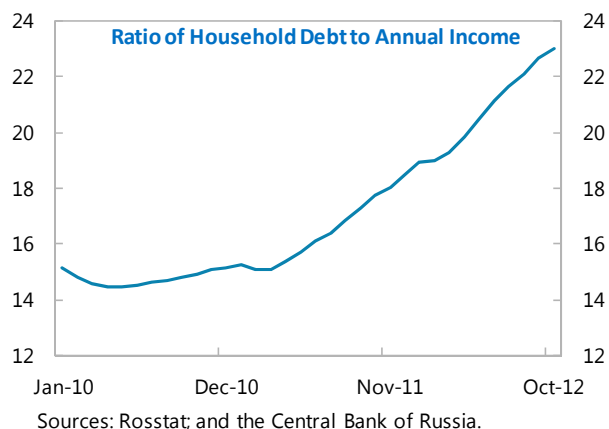
Authorities' Views

32. The authorities shared staff's concerns about inflation pressures and confirmed their commitment to formally adopt IT by end-2014. They specifically pointed to the potential negative impact on economic agents' expectations should inflation remain above the target range for a prolonged period of time. However, the CBR maintained that the observed pace of inflation was mainly explained by food prices and regulated tariffs. It viewed the current monetary policy stance, combined with lower planned utility price hikes and the expected absence of adverse food prices shocks, as sufficient to bring the rate of inflation within the targeted range by September 2013 and later to within the 2014 target range. The authorities expect that this trajectory will provide scope for lower policy rates, although they noted that any policy rate decision will have to take into account other relevant indicators such as capacity utilization, unemployment, and credit growth. Regarding the CBR's announced plan to move from an inflation target range to a point target with a wider tolerance band, some officials expressed concerns about potential adverse effects of a wider band on inflation expectations. Other officials argued that a target inflation

corridor of one percentage point was too narrow for Russia given its volatile headline inflation—with a high share of food and utility tariffs in the CPI basket—and susceptibility to real shocks. They stressed that frequently missing a narrow inflation corridor would be more damaging than switching to a point target with a wider tolerance band. The authorities reiterated their commitment to completing preparations for and adopting formal IT by end-2014, including greater exchange rate flexibility. The CBR stated that the main goal of the new one-year facility is to improve liquidity management and the functioning of the interbank market, and to strengthen the transmission mechanism.

C. Financial Sector: Contain Risks, Strengthen Intermediation

33. Additional measures may be needed to limit vulnerabilities from rapid retail credit growth. Credit growth has reduced capital and liquidity cushions; the quality of the retail loan portfolio is worsening; and the debt burden is increasing and high by international comparison. In this context, the CBR's recent tightening of capitalization and provisioning requirements is welcome. Lending growth should be closely monitored, and further action taken as needed.



34. The recently adopted amendments to the Banking Law are welcome, and remaining FSAP recommendations should be adopted swiftly. The latter includes formally establishing the leading role of the CBR in macro prudential policy, introducing a unified administration regime for all banks, and restricting open bank assistance by the Deposit Insurance Agency (DIA) to systemic situations. In addition, staff recommended maintaining and enhancing the independence of the CBR, including through empowering it to issue regulations on nonbanks; and legislation facilitating the collection and dissemination of borrower information by credit bureaus. Staff also suggested considering further increasing risk weights and provisions for unsecured lending as needed and formally introducing ceilings on debt-service-to-income ratios for household lending and loan-to-value ratios for housing and car loans to limit household debt burdens.

35. Basel III should be adopted without delay, while IRB should only be implemented only when both banks and supervisors are ready. The mission supported plans to introduce new capital requirements exceeding Basel III minimum requirements (e.g., 5.5 percent core capital vs. 4.5 percent under Basel III), given: (i) GDP volatility; (ii) weak creditor rights; and (iii) difficulties in identifying nonperforming assets and provisioning practices. Staff urged the CBR to resist calls to advance implementation of the internal ratings-based (IRB) approach before appropriate supervisory and bank-level internal procedures and controls are in place—as this could result in an undue reduction of risk-weighted assets and undermine the solvency buffers and resilience of the banking sector to shocks. Staff recommended: (1) implementing the IRB framework with at least a

three year implementation period, as advised under the Basel framework, and introduce floors under the new capital requirement; and (2) raising minimum nominal capital requirements.

36. State ownership in banks should be gradually reduced, and banking sector competition, efficiency, and transparency enhanced. In particular, the authorities should

- **Gradually divest from dominant banks.** The CBR's combined role as supervisor, regulator, and main shareholder of Russia's largest bank (Sberbank) generates implicit costs in terms of system efficiency and financial sector development. Further divestiture of Sberbank shares is consistent with the government's *Strategy for Development of the Banking Sector until 2015*.
- **Strengthen corporate governance.** Bolstering corporate governance in government-owned financial institutions could help reduce losses such as those announced earlier this year by the state-owned development corporation that over 75 percent of its loans for Sochi Olympics-related projects (about 0.3 percent of GDP) are unlikely to be repaid. Specific steps could include increasing the number of independent directors.
- **Promote bank consolidation.** This would reduce the burden on supervisory staff and help diversify and strengthen bank balance sheets; larger banks would also be able to better diversify geographically and across sectors. In this respect, staff supports the authorities' plans to raise minimum capital requirements and tighten related-lending and large-exposure limits.
- **Strengthen bank competition.** Increased banking competition will help enhance banking sector efficiency, lower lending rates, and improve the efficiency of investment allocation and funding. Competition could be fostered by reducing banking sector fragmentation through consolidation and reduced public bank ownership; greater pricing transparency and consumer protection; and further strengthening the role of credit bureaus and collateral registries to reduce information asymmetries.
- **Strengthen transparency.** Implementation of anti-money laundering (AML) and fit and proper measures, along with strengthened financial sector supervision, should help prevent "pocket banks" from serving as shadow treasury departments to affiliated corporate clients and as vehicles for capital outflows, including via transfer pricing manipulation.

Authorities' Views

37. The authorities saw no tangible systemic financial sector risks at present. However, they broadly shared staff's concerns about: (1) diminished capital adequacy ratios, including in connection with the implementation of new capital standards in the context of Basel III; and (2) rapid consumer lending growth. They also pointed to systemic liquidity risks, with the demand for CBR refinancing increasing substantially over the past two years. The CBR indicated that its own stress tests suggest that the banking sector is stable and resilient to a variety of potential shocks—

although capitalization in banks representing one-third of banking system assets would drop below regulatory requirements.² The authorities were confident that capital needs related to the implementation of Basel III were not excessive, in line with the view of market analysts that banks would be able to mobilize the bulk of new capital through retained profits. The authorities assume that only a limited number of banks will start using the IRB approach to assess credit risk (8 ‘pilot’ banks), and they concurred with staff that floors under capital should be introduced as established by the Basel framework. They noted that while CBR bank funding was still rising in nominal terms, it had stabilized in percent of banking system assets. The authorities noted that strengthened supervisory powers would help them to more fully identify and address possible operational risks and governance weaknesses in small-to-mid-sized domestic private banks. Furthermore, they were confident that recently adopted prudential measures would curb risks from rapid unsecured consumer lending growth, and did not yet see systemic risks from rising household leverage. Yet, the authorities would consider additional measures such as ceilings on loan-to-value and debt-service-to-income ratios if necessary.

38. The authorities acknowledged potential conflicts of interest related to CBR ownership of Sberbank, but noted important benefits. While aware of the potential distortions in competition and the need to eventually level the playing field for all banks, they emphasized Sberbank’s social functions as well as positive externalities from Sberbank’s high ratings for overall banking system stability. The authorities maintained that Sberbank is well managed, has good corporate governance structures, and has a social function with its vast network of branches in remote areas; and assured that administrative pressures on bank management or operations were absent. They noted that any near-term divestment or break-up of Sberbank could lead to rating downgrades and higher lending rates. They recognized the need to address the causes of fragmentation in Russia’s banking system. In this connection, they agreed that improving corporate governance, access to information, creditor rights, and competition would strengthen the financial sector’s efficiency and contribution to growth.

D. Structural Policies: Better Business Climate, Comparative Advantages

39. Structural reforms are key for unleashing Russia’s growth potential. Russia’s weak business climate remains a key obstacle to investment, diversification, and growth. Staff recognized that improving the investment climate is a government priority and that some progress has been made—for example regarding institutions for dispute resolutions (ombudsman) and tax administration. However, weaknesses remain largely unaddressed in other key areas, including inadequate infrastructure (transportation and electricity), constraints on the availability of financing, and a shortage of skilled labor. Recent improvements in the business environment have focused

² The CBR’s macro stress-testing model suggests that 308 credit institutions (accounting for 1/3 of banking system assets) may have a capital deficit in a ‘severe’ scenario, amounting to rubles 522bn. The average capital adequacy ratio of the banking sector would fall to 10.6 percent. The ‘severe’ scenario envisages a real GDP contraction of 5 percent and a fall in oil prices to US\$60/barrel. This compares to an 8 percent of GDP contraction and US\$62/barrel oil price in 2009.

mostly on large enterprises, with little progress made regarding SMEs. Further deregulation should address customs inefficiencies and other red tape—two areas often cited in business surveys. More decisive implementation of corporate governance reforms and of government privatization plans for SOEs and state-owned banks is needed to reduce the government footprint in the economy. To improve transparency, the corporate governance code should be updated, including financial disclosures and reporting on ultimate owners, and protection of intellectual property rights should be strengthened.

40. Deeper global integration, notably through WTO entry, the G20 presidency, and steps towards OECD accession, present an opportunity to improve the efficiency of the economy.

Reversal of protectionist trade and investment measures (related, among others, to meat and car imports) and broader deregulation will promote competition, reduce rent-seeking behavior, strengthen good corporate practices, facilitate entry of foreign companies, and improve productivity. Large gains could derive from cheaper inputs to businesses because of FDI in the business service sector and lower customs duties, though the benefits for Russian export companies is expected to be initially more limited. Domestic import-substitution sectors could suffer initially because of stronger competition. In this regard, measures to improve cross-regional labor mobility and reallocation are needed, including better urban infrastructure and supply of housing. Better targeted social safety nets would also help. The OECD membership bid is bringing commitments in a range of important areas such as competition policy and governance that are generally consistent with the authorities' priorities. Fighting corruption is one of the top priorities for Russia's G20 presidency, and legal changes recently adopted should contribute to enhancing the business environment if implemented adequately and in an evenhanded manner.

41. Russia's comparative advantages are not sufficiently exploited. Despite Russia's obvious further potential for growth in the energy sector, investment has lagged, weakened by a revenue-based taxation scheme that inhibits more-difficult-to-reach energy reserves. Tax regime changes, together with strengthened property rights and distribution access, are needed to attract foreign technical expertise and nimble domestic players. Without such reforms, oil production will decline. However, diversification is also important. The government has attempted to promote high technology through the Moscow-based Skolkovo business park, but outcomes have been modest so far. Some past efforts at regional diversification have generated significant inefficiencies in the use of capital and labor that need to be gradually unwound.³

- **In the hydrocarbon sector, staff recommended moving from revenue-based to profit-based tax instruments.** A profit-based and stable tax regime would provide incentives to tap higher-cost resources, and would extend the economic life of nearly depleted fields. Firms will also need stronger property right guarantees and access to midstream distribution chains.

³ See "Bear Traps on Russia's Road to Modernization" by Clifford Gaddy and Barry Ickes (Brookings Institution, 2013).

- **Staff urged the authorities to facilitate diversification and reduce the government’s footprint in the economy.** Specific actions should include, for example, gradual divestment from the banking sector and stronger implementation of the government’s privatization agenda—which could also free up labor resources for the private sector and allow higher productivity growth. The government should carefully consider the cost-benefit impact of regional development initiatives, and adopt measures, such as pension reform, to enhance the labor force participation rate.⁴

Authorities’ Views

42. The authorities generally agreed on the importance of the business climate reforms. They shared staff’s concerns about infrastructure bottlenecks and ongoing difficulties in assessing net benefits of large projects, and confirmed plans to step up public investment, including via more private sector participation (e.g., through PPPs). The authorities concurred with the need to reform oil taxation to improve incentives for the development of higher-risk Greenfield projects and investments to improve extraction rates at maturing fields. They expressed concerns about some aspects of WTO commitments, stressing protective measures for domestic import-substitution sectors as one possible growth enhancing measure. The authorities acknowledged the slowdown in privatization, but explained this was designed to garner better returns by attracting and absorbing new capital and technologies before selling larger shares. They emphasized that the primary goal of the privatization agenda remains a reduction in the presence of government in the economy.

STAFF APPRAISAL

43. While growth has slowed, the economy appears to be operating at or near full capacity and inflation remains high. Monetary and fiscal stimuli would at best provide a modest and unsustainable boost to growth while bringing adverse consequences. Structural reforms are necessary to increase potential output growth.

44. The fiscal stance in 2013 is appropriate but a more ambitious medium-term fiscal adjustment is needed to generate sufficient saving of oil revenues. The authorities should tighten the fiscal rule to rebuild fiscal buffers and save more of the exhaustible oil income. Adjustment should focus on expenditure reductions and improving the mix and efficiency of spending. Pension reform, centered on increasing the retirement age, and improvements in the efficiency of publicly-owned enterprises, are key components of fiscal consolidation. The authorities should resist efforts to increase spending outside the confines of the federal fiscal rule. Further strengthening budgetary institutions will support these goals.

⁴ The December 2012 EBRD report on “[Diversifying Russia](#)” emphasizes benefits of exploiting regional diversity. Economic diversification for growth was also highlighted in a study by Hausmann and Hidalgo on “complexity economics”. They found Russia to be on the low end of economic diversification (and getting worse) relative to peers, in turn implying the lowest potential per capita growth rate (of only 2.6 percent) among BRICS.

45. Monetary policy should remain geared towards achieving inflation objectives.

With 2013 inflation projections close to the CBR target range and uncertainty about the near-term economic outlook, the current monetary policy stance is appropriate. But sustainably reducing inflation to the lower 2014 target range calls for a tightening bias. Establishing operational credibility of the monetary policy framework in the context of the move towards formal IT will be critical to anchor inflation expectations. Increased exchange rate flexibility has served Russia well, as the exchange rate is becoming an increasingly effective shock absorber. Further reductions in foreign exchange market interventions should facilitate the planned transition to a floating exchange rate regime by 2015.

46. Recent steps to improve the supervisory framework are welcome. Financial stability risks are still moderate but rising. The authorities should consider introducing additional prudential measures should the measures already implemented fail to moderate rapid retail credit growth. Any push towards earlier adoption of the IRB approach should be resisted. Improving corporate governance, access to information, creditor rights, and competition will strengthen the financial sector's efficiency and contribution to growth. Consolidation of Russia's fragmented banking system, as well as tightened large exposure and related party lending limits should enhance banking sector stability. Further divestiture of state-owned banks should be pursued to enhance competitiveness in the financial sector.

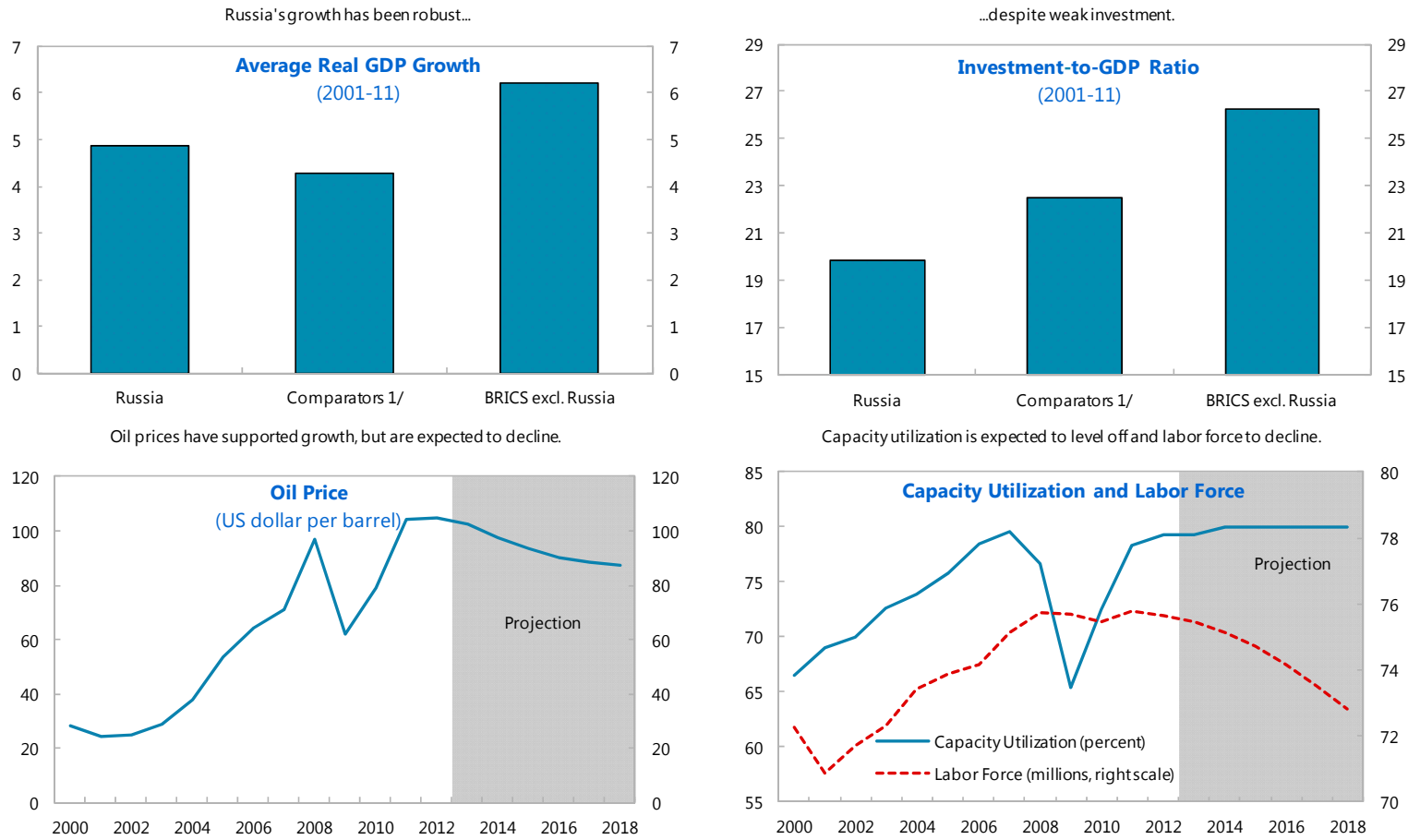
47. Ambitious economic policy reforms are necessary to realize the Russian economy's medium-term potential and reduce its vulnerabilities. The growth model of the pre-crisis years, based on increasing oil prices, rising use of spare capacity, and reducing the large technology gap, is not replicable. Growth in the next decade will need to rely on more efficient use of resources and generating investment.

48. Raising potential growth will require further supply-side structural measures.

Corporate governance should be strengthened to increase transparency and improve the investment climate. Deregulation should continue, including steps to address inefficiencies at customs and other "red tape." The government's goal to reduce its footprint in the economy through privatization is welcome; swift and transparent implementation of plans in this area is of the essence. Following the WTO accession, the government should resist the pressure to use protectionist measures. The OECD accession process provides an appropriate venue for furthering and broadening the reform process. Energy tax regime changes, together with strengthened property rights and distribution access, are needed to attract foreign technical expertise and nimble domestic players in the energy sector. Improvement in the efficiency of publicly-owned companies is also necessary and should help boost productivity.

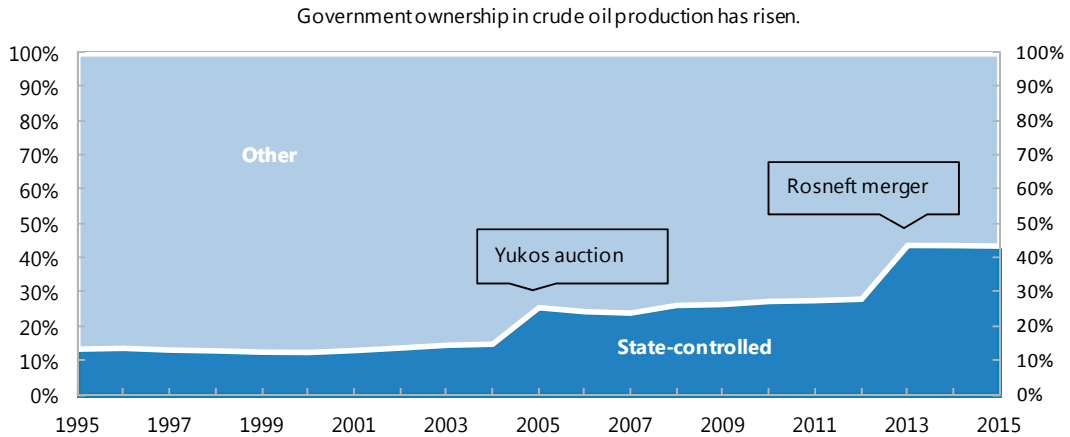
49. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Russian Federation: Easy Growth is Over, 2000–18



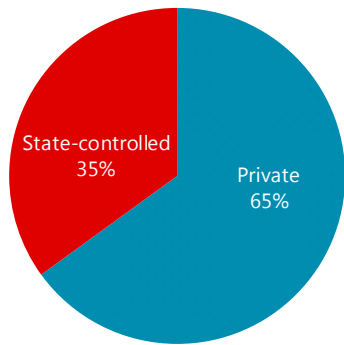
Sources: *World Economic Outlook*; Real Economic Barometer; Haver Analytics; and IMF staff calculations.
 1/ Average of countries with per capita GDP between \$1,500 and \$2,000 and population over 1 million in 2000. Russia's per capita GDP was \$1,775 in 2000.

Figure 2. Russian Federation: Increasing State Presence in the Economy, 1995–2015

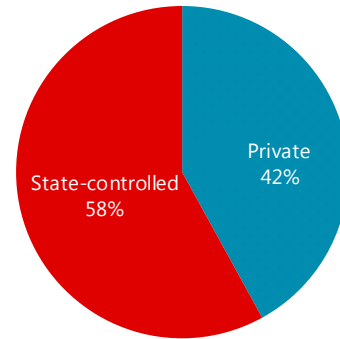


And also in the banking sector.

Banking Sector Assets
(December 2000)

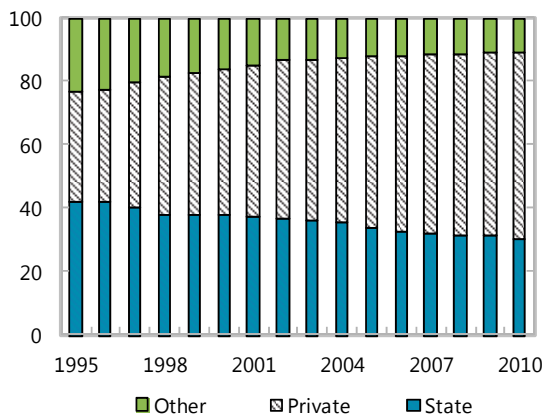


Banking Sector Assets
(January 2012)



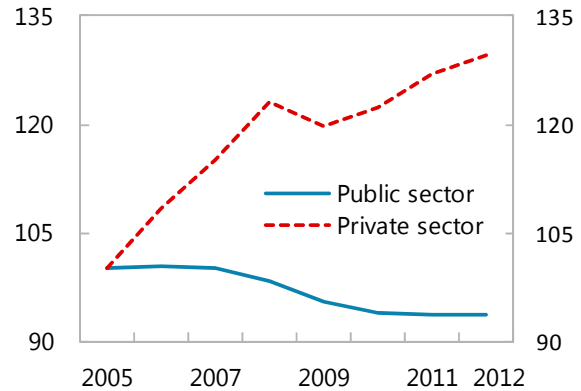
The state remains a significant employer...

Labor Force Breakdown
(Percent)



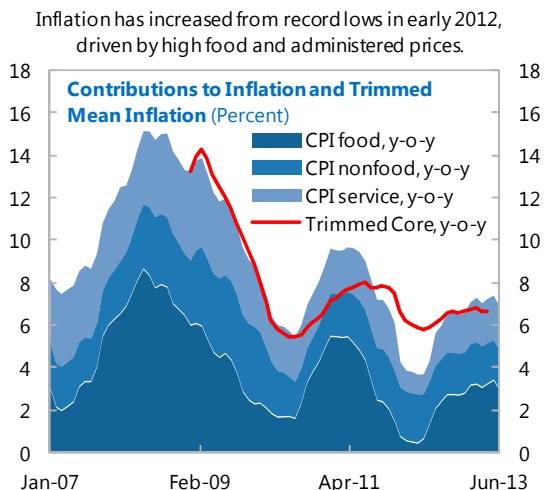
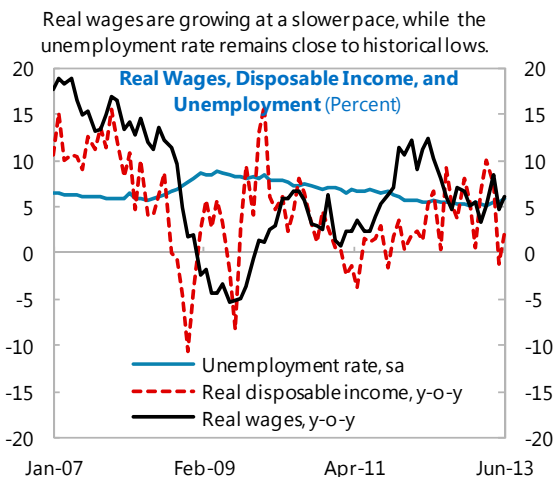
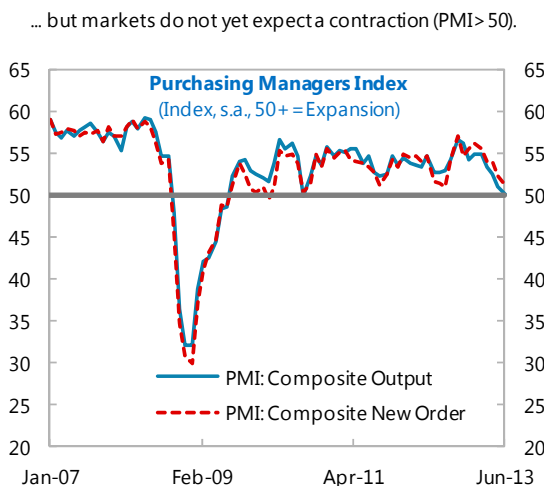
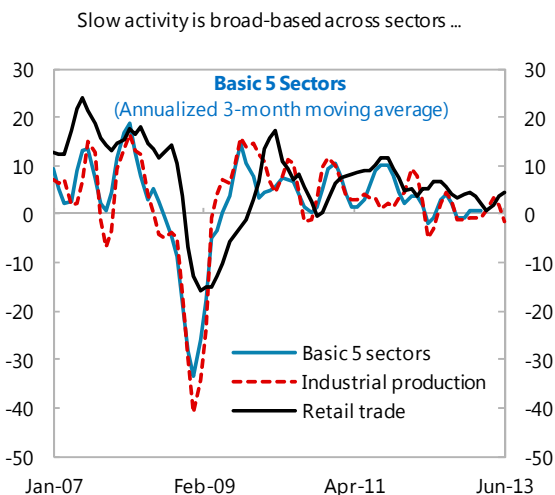
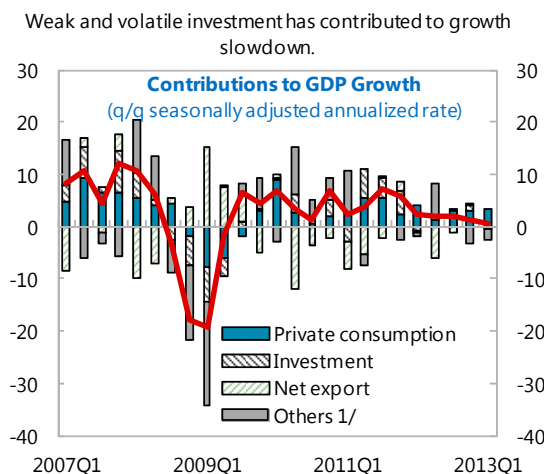
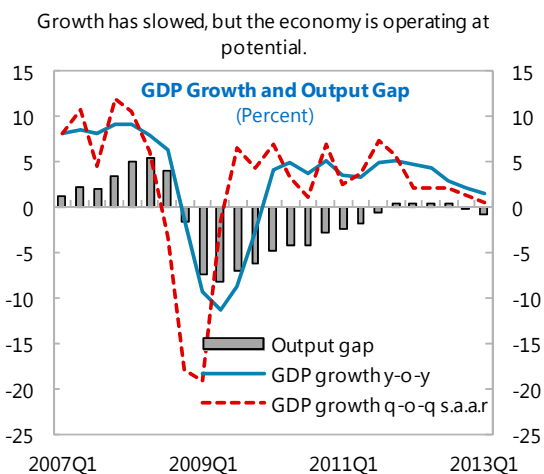
... while public sector productivity is low.

Labor Productivity Index
(2005=100)



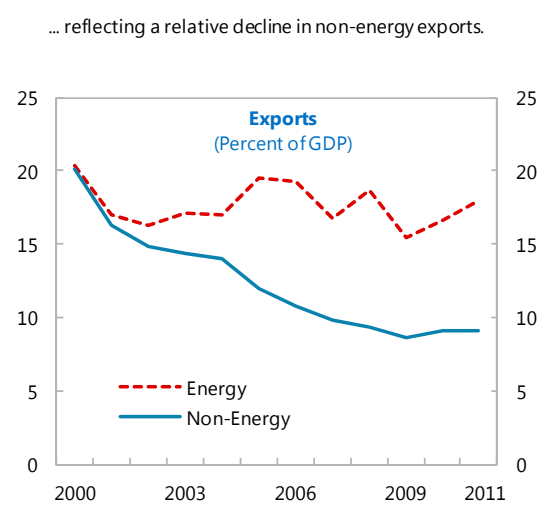
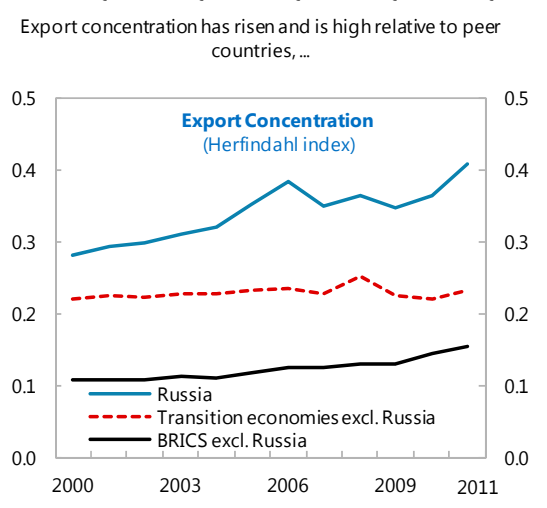
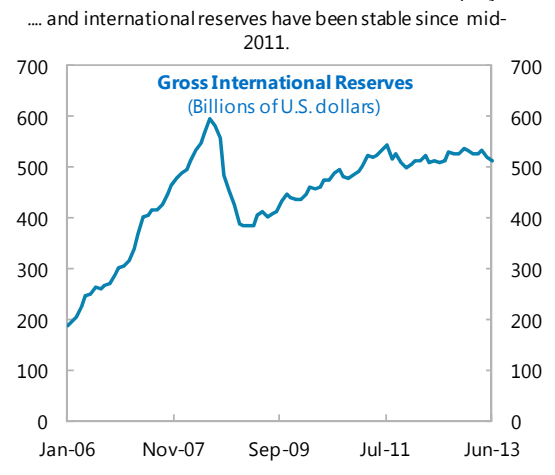
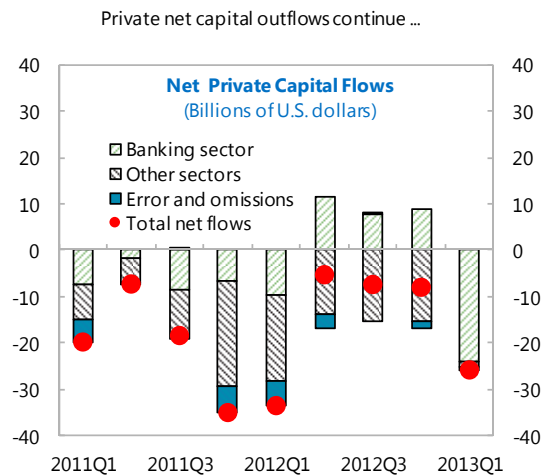
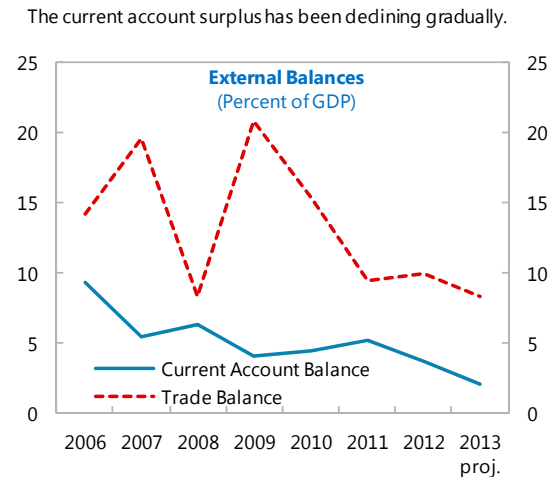
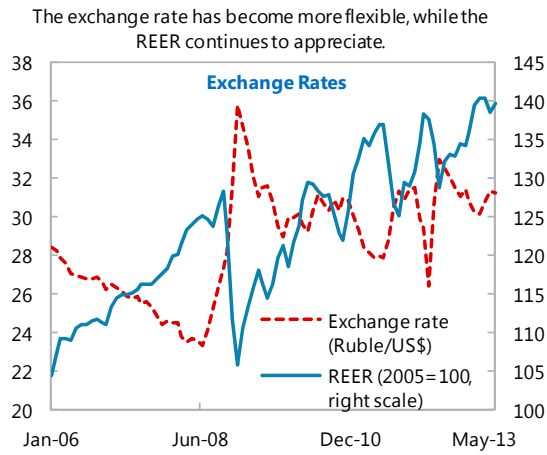
Sources: Deutsche Bank; Moody's; Rosstat; Alfa Research; and IMF staff calculations.

Figure 3. Russian Federation: Production Indicators and Inflation Developments, 2007–13



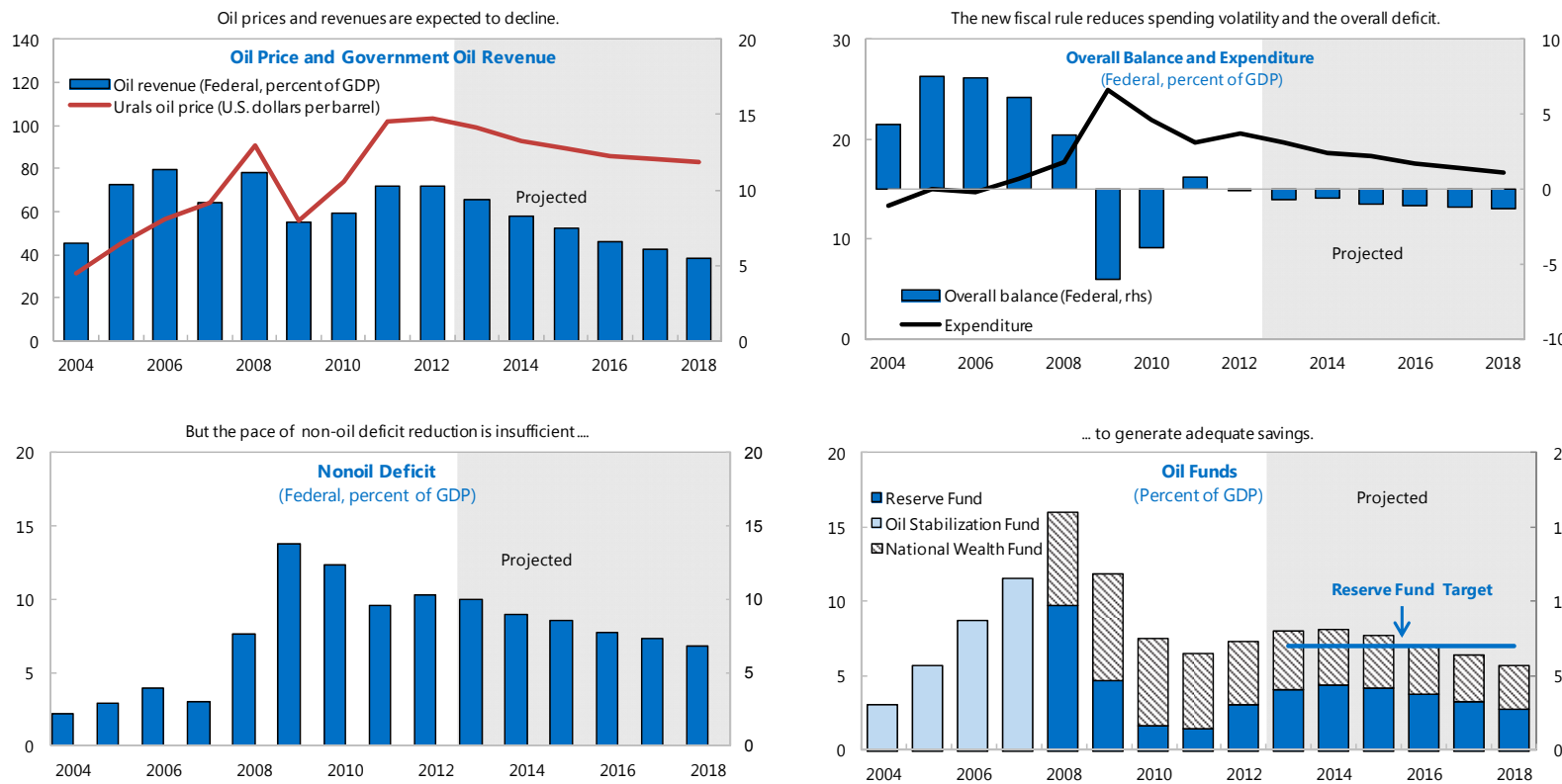
Sources: Rosstat; Haver Analytics; and IMF staff estimates and calculations.

Figure 4. Russian Federation: External Sector, 2000–13



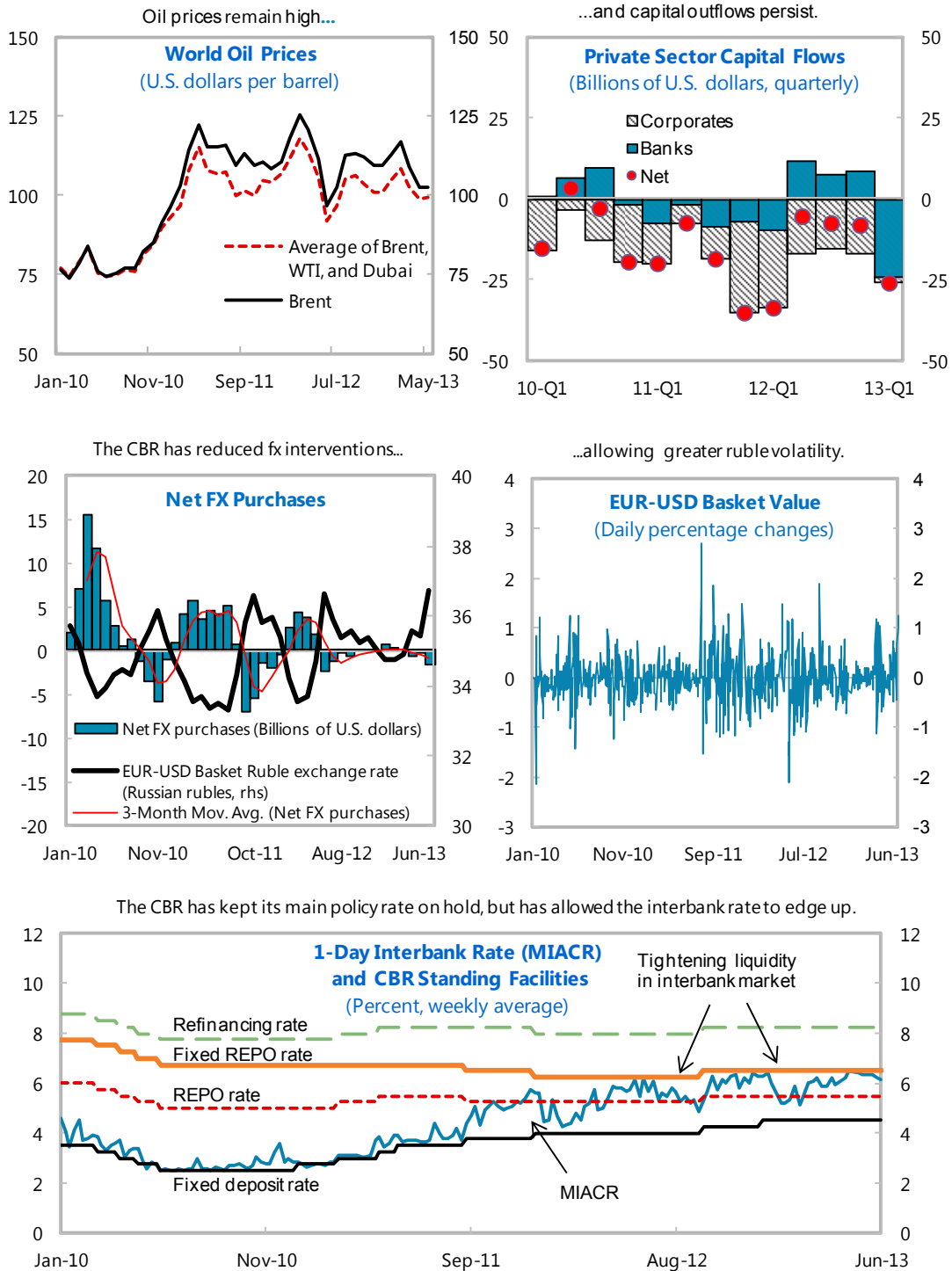
Sources: International Financial Statistics; Central Bank of Russia; UNCTADstat; and IMF staff estimates and calculations.

Figure 5. Russian Federation: Fiscal Policy and Oil Savings, 2004–18



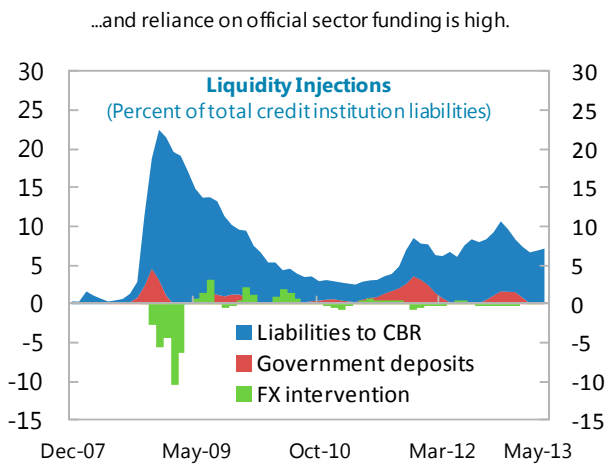
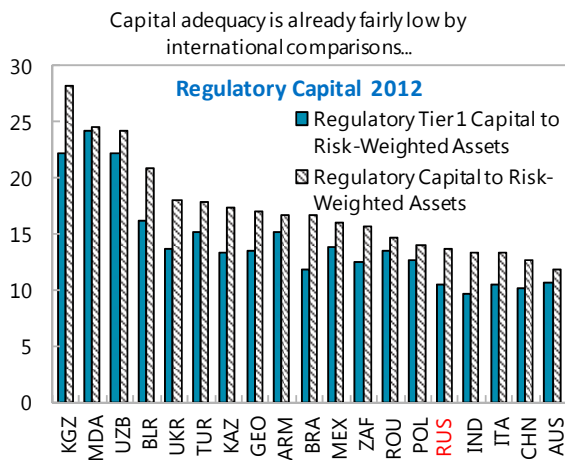
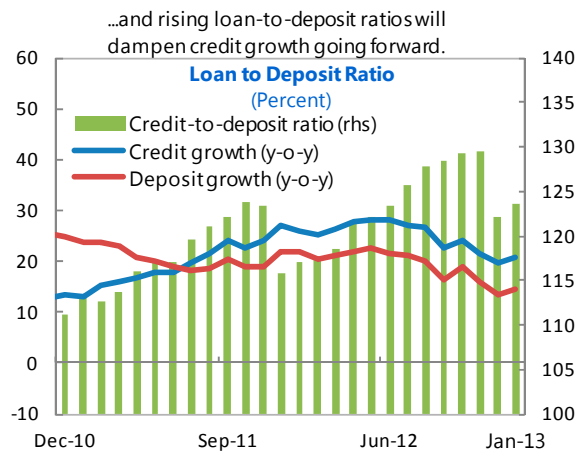
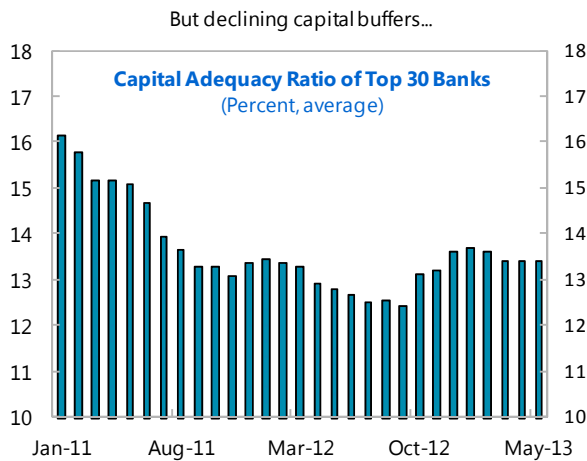
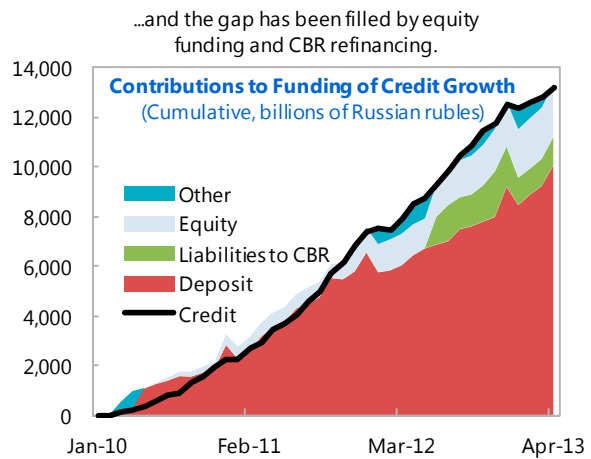
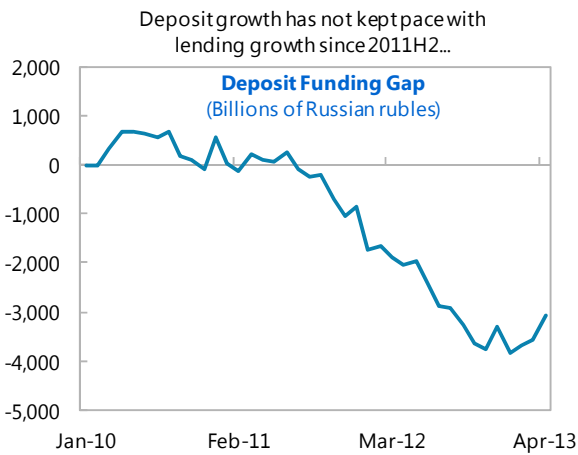
Sources: Russian authorities; and IMF *World Economic Outlook*.

Figure 6. Russian Federation: Monetary Policy, 2010–13



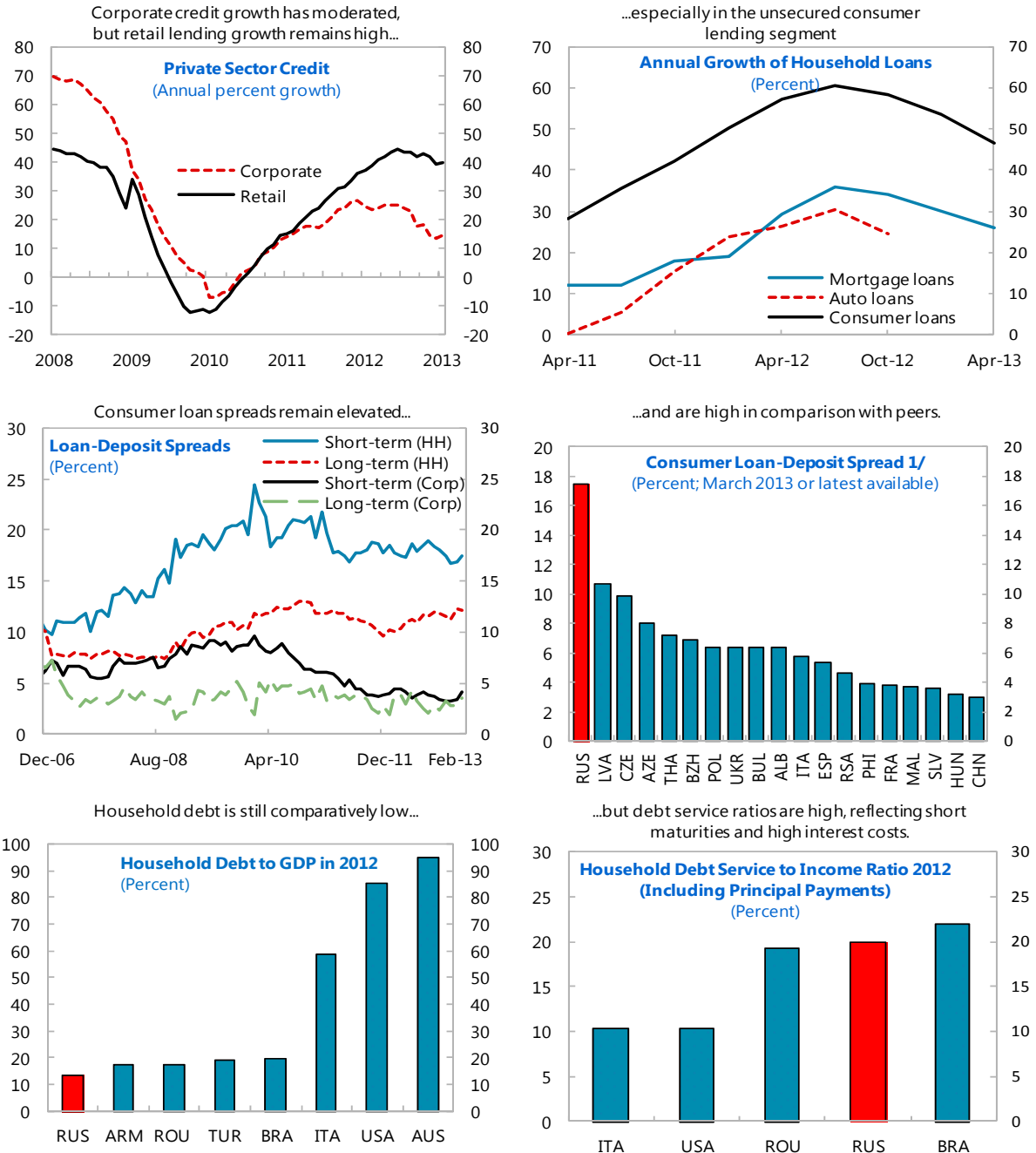
Sources: Central Bank of Russia; and IMF staff estimates.

Figure 7. Russian Federation: Banking Indicators, 2008–13



Sources: Central Bank of Russia; Haver Analytics; and IMF staff calculations.

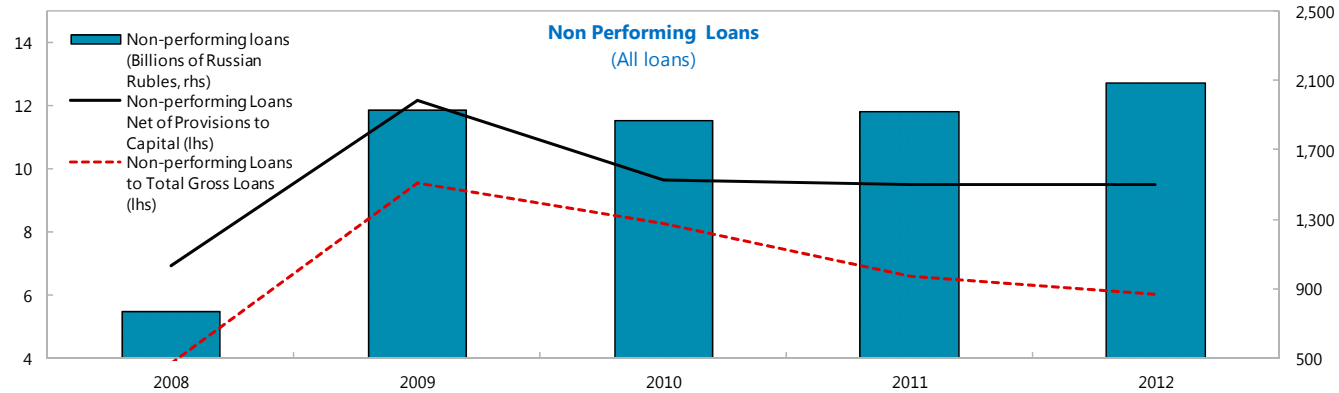
Figure 8. Russian Federation: Private Sector Credit, 2006-13



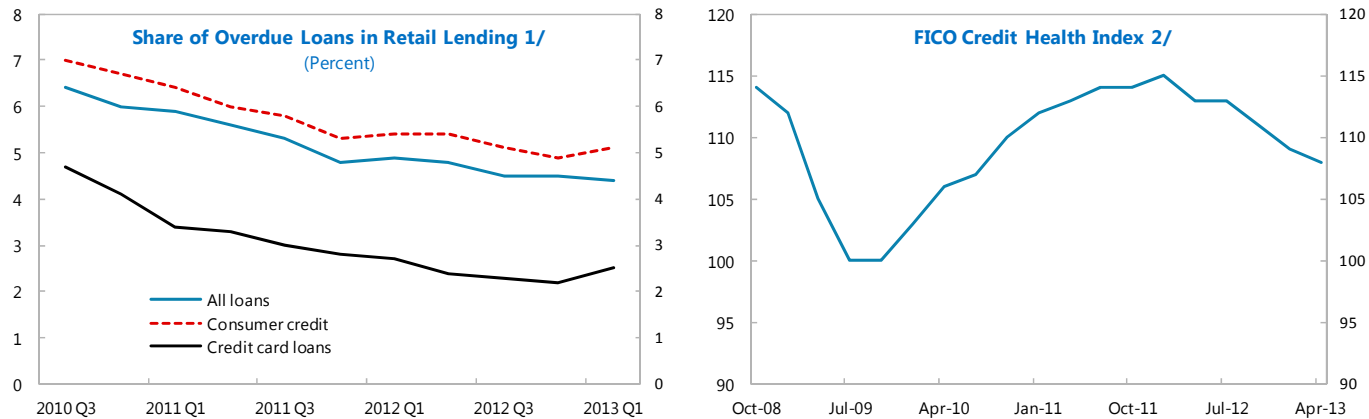
Sources: Central Bank of Russia; Haver Analytics; and IMF staff calculations.
 1/ Short-term consumer loan and time deposit / CD rates (up to 1 year) or closest available substitute.

Figure 9. Russian Federation: Nonperforming Loans of Banks, 2008–13

Non-performing assets have been growing in nominal terms.



There are signs that the quality of the uncollateralized retail loan portfolio started to deteriorate.



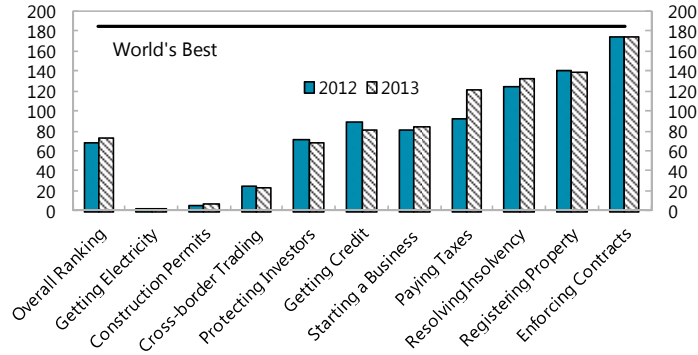
Source: Russian authorities; and National Bureau of Credit Histories.

1/ Loans overdue by more than 90 days.

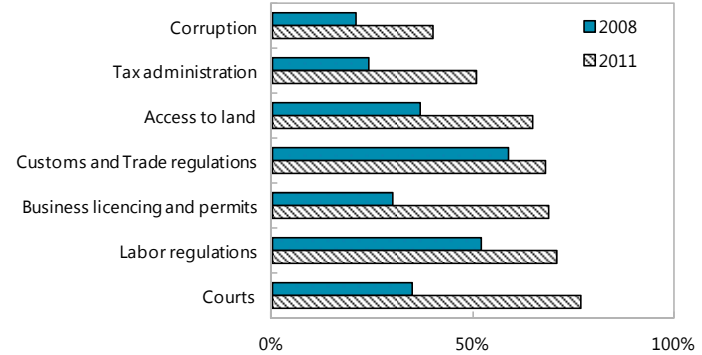
2/ The FICO Credit Health Index measures the overall credit health of the country, based on the percentage of consumer loans and credit cards reported to the National Bureau of Credit Histories (NBKI) that are delinquent by more than 60 days.

Figure 10. Russian Federation: Governance Indicators, 2008–13

World Bank Doing Business Indicators
(Number of countries below Russia)

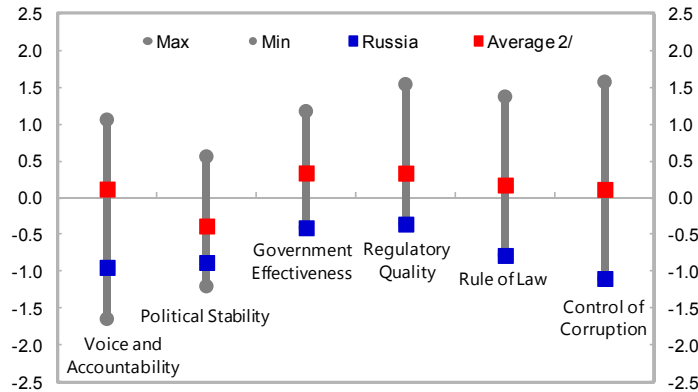


Regulatory obstacles to doing business
(Percent respondents indicating NO obstacle)

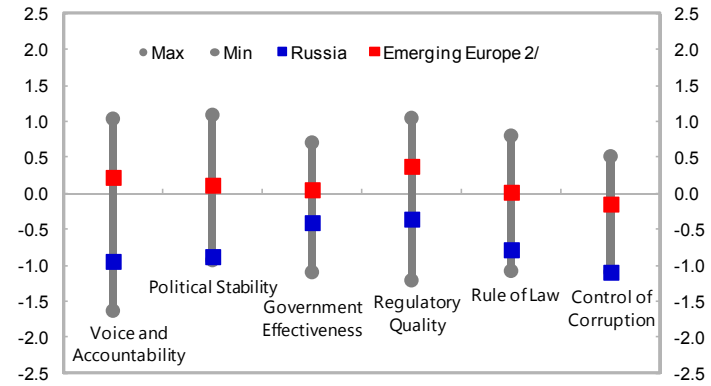


World Bank Governance Indicators 2012 1/

BRICS, Chile, and Turkey

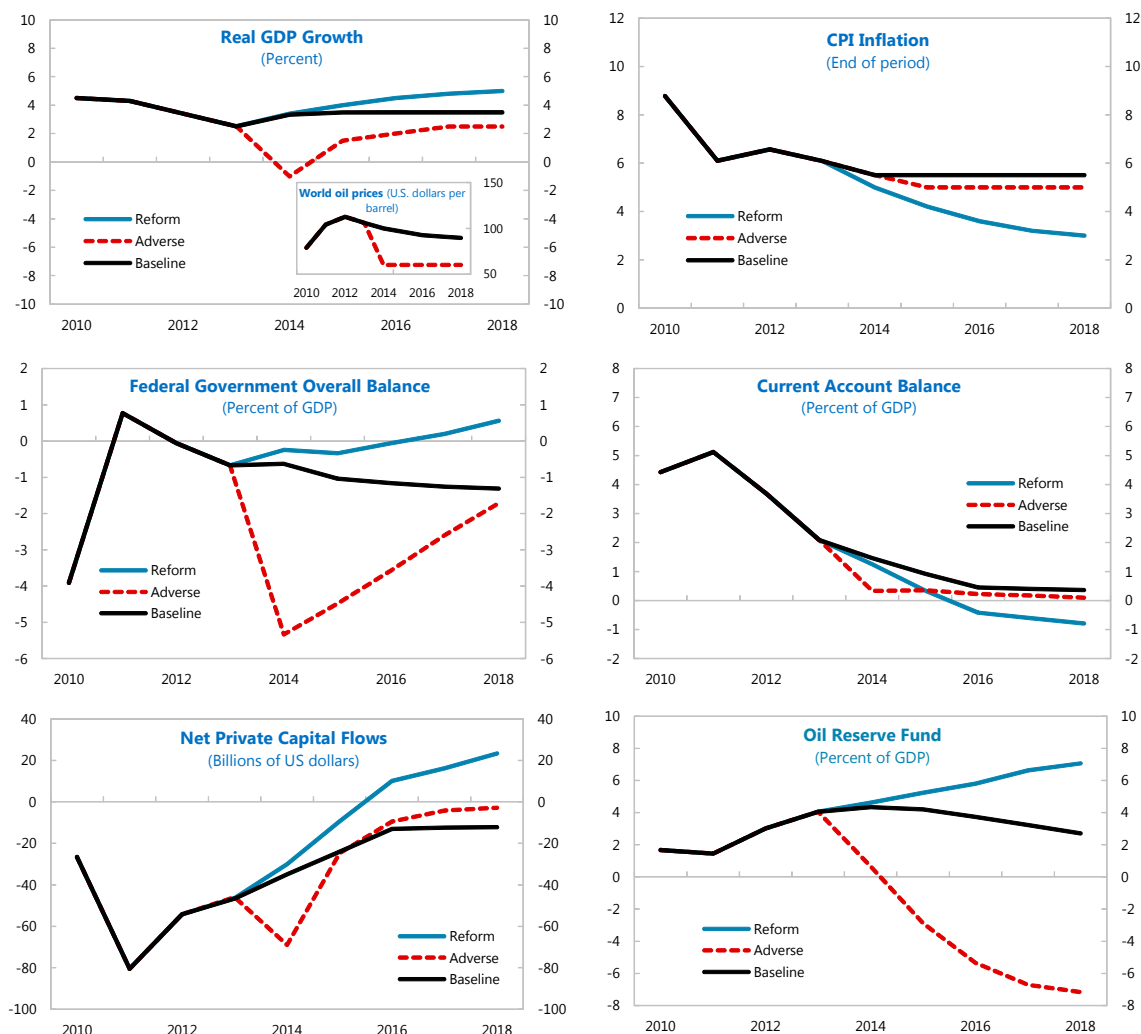


Emerging Europe 3/



Sources: 2011 World Governance Indicators, World Bank; and IMF staff calculations.
 1/ Highervalues mean better governance. Indicators range from +2.5 to -2.5. The World Bank 2012 report includes 2011 data.
 2/ Excluding Russia.
 3/ For 14 Emerging European Economies.

Figure 11. Russian Federation: Selected Economic Indicators Under Three Scenarios, 2010–18



Sources: Russian authorities; and IMF staff projections.

1/ Assumptions for the three scenarios are as follows:

- Baseline scenario** assumes a continuation of current policies. Fiscal policy will implement the 2013-15 medium-term budget minimum expenditure commitments and otherwise follow the new oil price-based fiscal rule (without the tightening recommended by staff). Monetary policy will allow greater exchange-rate flexibility but inflation will remain above the mid-point of the authorities' target range (4 to 5 percent). There will be no major additional changes in banking sector policies. Policy frameworks will remain largely unreformed.
- Adverse scenario** assumes a permanent external shock, with oil prices declining to \$60 per barrel in 2014 and staying there in nominal terms for the remainder of the forecast horizon. In 2014-15, fiscal policy will implement expenditure at levels consistent with the oil price-based fiscal rule, subject to minimum expenditure commitments under the 2013-15 medium-term budget, while monetary policy becomes more accommodative. In the outer years, the authorities will initiate a smoother fiscal adjustment path than that implied under the fiscal rule, while monetary policy remains neutral. As in the baseline, no progress is made regarding structural reforms and the strengthening of policy frameworks. In 2014, when oil prices drop to \$60 per barrel, the ruble depreciates significantly, but reserves are used to prevent an overshooting of the exchange rate.
- Reform scenario** assumes full implementation of reforms recommended by the staff. Monetary policy will focus on bringing inflation down to 3 percent over the medium term, amid a fully flexible exchange rate. Fiscal policy will implement a more ambitious and credible consolidation with the non-oil deficit of the federal government declining to 4.9 percent of GDP by 2018. The supervisory framework will be strengthened along the lines recommended by the 2011 FSAP. Fundamental structural reforms are put in place to improve the business climate and competitiveness, and policy frameworks will be strengthened in line with IMF staff recommendations.

Table 1. Russian Federation: Selected Macroeconomic Indicators, 2009–14

	2009	2010	2011	2012	2013	2014
					Proj.	
(Annual percent change)						
Production and prices						
Real GDP	-7.8	4.5	4.3	3.4	2.5	3.3
Real domestic demand	-14.2	8.5	9.1	5.3	4.3	4.4
Consumption	-3.9	3.5	4.8	4.8	4.6	4.5
Investment	-41.0	28.5	22.6	6.6	3.5	4.2
Consumer prices						
Period average	11.7	6.9	8.4	5.1	6.9	5.8
End of period	8.8	8.8	6.1	6.6	6.1	5.5
GDP deflator	2.0	14.2	15.5	8.5	5.8	5.7
Unemployment rate	8.4	7.3	6.5	6.0	5.5	5.5
(Percent of GDP)						
Public sector 1/						
General government						
Net lending/borrowing (overall balance)	-6.3	-3.4	1.5	0.4	-0.6	-0.7
Revenue	35.0	34.6	37.4	36.9	36.8	36.1
Expenditures	41.4	38.0	35.8	36.5	37.5	36.8
Primary balance	-5.7	-2.9	2.1	1.0	0.1	0.1
Nonoil balance	-15.2	-13.0	-10.0	-10.9	-10.8	-9.7
Nonoil balance excl. one-off receipts 2/	-15.6	-13.0	-10.0	-11.2	-10.8	-9.7
Federal government						
Net lending/borrowing (overall balance)	-6.0	-3.9	0.8	-0.1	-0.7	-0.6
Nonoil balance	-13.8	-12.4	-9.5	-10.3	-10.0	-8.9
Nonoil balance excl. one-off receipts 2/	-14.2	-12.4	-9.5	-10.6	-10.0	-8.9
(Annual percent change)						
Money						
Base money	7.4	25.4	20.9	11.3	11.7	12.5
Ruble broad money	17.7	31.1	22.3	11.9	14.9	13.6
Credit to the economy	2.6	12.9	28.1	20.7	14.6	12.9
External sector						
Export volumes	-10.4	5.4	4.2	3.3	2.4	3.3
Oil	3.0	3.2	-1.9	0.4	1.5	1.5
Gas	-13.8	5.6	6.7	-5.8	0.0	0.0
Non-energy	-23.2	11.3	5.8	6.0	4.4	6.8
Import volumes	-31.4	27.5	16.5	8.6	5.6	6.0
(Billions of U.S. dollars; unless otherwise indicated)						
External sector						
Total merchandise exports, f.o.b	297.2	392.7	515.4	529.1	521.6	520.0
Total merchandise imports, f.o.b	-183.9	-245.7	-318.6	-335.8	-356.4	-376.8
External current account	50.4	67.5	97.3	74.8	45.7	34.0
External current account (percent of GDP)	4.1	4.4	5.1	3.7	2.1	1.5
Gross international reserves						
Billions of U.S. dollars	439.5	479.4	498.6	537.6	537.7	537.7
Months of imports 3/	21.3	17.9	14.6	14.5	13.7	13.0
Percent of short-term debt	303	339	328	338	321	305
Memorandum items:						
Nominal GDP (billions of rubles)	38,807	46,309	55,800	62,599	67,905	74,180
Nominal GDP (billions of U.S. dollars)	1,232	1,523	1,899	2,030	2,186	2,329
Exchange rate (rubles per U.S. dollar, period average)	31.7	30.4	29.4	30.8	...	...
Oil exports (billions of U.S. dollars)	148.7	206.3	277.5	284.5	273.8	261.8
World oil price (U.S. dollars per barrel) 4/	61.8	79.0	104.0	112.7	106.0	99.9
Urals crude oil spot price (U.S. dollars per barrel)	61.3	78.3	109.3	110.3	103.5	97.4
Taxable oil volume (millions of tons)	494.3	505.0	504.0	504.0	505.0	508.7
Real effective exchange rate (average percent change)	-6.9	9.3	4.8	3.7	...	...

Sources: Russian authorities; and IMF staff estimates.

1/ Cash basis. Expenditures based on 2013-15 budget and the fiscal rule.

2/ Excludes one-off tax receipts from Nanotechnology and Housing Funds in 2009; and one-off nontax receipts from Sberbank privatization and Rosneftegaz dividends in 2012.

3/ In months of imports of goods and non-factor services.

4/ WEO through 2011; and Brent crude oil spot and futures prices for 2012-14.

Table 2. Russian Federation: Balance of Payments, 2009–14

(Billions of U.S. dollars, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014
					Proj.	
Current Account	50.4	67.5	97.3	74.8	45.7	34.0
Trade Balance	113.2	147.0	196.9	193.3	165.2	143.2
Exports	297.2	392.7	515.4	529.1	521.6	520.0
Non-energy	106.4	138.7	173.6	181.7	190.1	200.4
Energy	190.7	254.0	341.8	347.5	331.5	319.7
Oil	148.7	206.3	277.5	284.5	273.8	261.8
Gas	42.0	47.7	64.3	63.0	57.7	57.8
Imports	-183.9	-245.7	-318.6	-335.8	-356.4	-376.8
Services	-17.6	-26.1	-33.5	-46.2	-50.0	-52.9
Income	-39.7	-47.1	-60.4	-66.2	-63.9	-51.8
Public sector interest (net)	6.3	3.6	3.1	1.4	4.7	7.7
Other sectors	-46.1	-50.7	-63.5	-67.6	-68.6	-59.6
Current transfers	-5.5	-6.3	-5.7	-6.1	-5.5	-4.5
Capital and financial account	-45.1	-26.9	-86.2	-47.7	-45.6	-34.0
Capital transfers	-12.2	-0.1	0.1	-4.9	-1.0	-1.0
Financial accounts						
Federal government	24.7	-0.8	-4.6	12.6	3.3	3.2
Portfolio investment	3.8	4.9	1.6	15.8	6.4	6.4
Loans	-3.4	-1.2	-1.9	-1.2	-1.2	-1.2
Other investment	24.2	-4.6	-4.4	-2.0	-2.0	-2.0
Local governments	0.4	0.5	-1.1	-1.2	-1.2	-1.2
Private sector capital	-58.1	-26.6	-80.5	-54.2	-46.7	-35.0
Direct investment	-8.1	-8.6	-14.3	-9.0	-7.0	-4.5
Portfolio investment	-7.3	-8.3	-26.5	-5.4	-2.2	2.7
Other investment, commercial banks	-29.0	13.6	-21.5	-28.7	-26.6	-25.2
Assets	21.8	2.8	-25.6	-26.7	-27.6	-29.0
Liabilities (loans, deposits, etc.)	-50.8	10.8	4.2	-2.0	1.0	3.8
Loans, corporations	2.6	-6.2	20.2	24.7	24.0	24.3
Disbursements	82.6	72.5	80.9	106.0	113.1	121.0
Amortizations	-80.0	-78.7	-60.7	-81.4	-89.1	-96.7
Other private sector capital flows	-16.3	-17.0	-38.4	-35.8	-34.9	-32.3
Errors and omissions, net	-1.3	-4.2	1.1	9.2	0.0	0.0
Of which : valuation adjustment	-9.0	-3.2	-2.7	0.0	0.0	0.0
Overall balance	4.0	36.3	12.2	36.3	0.0	0.0
Financing	-4.0	-36.3	-12.2	-36.3	0.0	0.0
Net international reserves	-3.4	-36.8	-12.6	-36.3	0.0	0.0
Arrears and rescheduling	-0.6	0.4	0.4	0.0	0.0	0.0
Memorandum items:						
Current account (percent of GDP)	4.1	4.4	5.1	3.7	2.1	1.5
Non-energy current account (percent of GDP)	-11.4	-12.2	-12.9	-13.4	-13.1	-12.3
Gross reserves 1/	439.5	479.4	498.6	537.6	537.7	537.7
(months of imports of GNFS)	21.3	17.9	14.6	14.5	13.7	13.0
(percent of short-term debt) 2/	303.2	339.2	327.8	337.6	321.5	304.6
Real growth in partner countries (percent change)	-2.8	4.1	3.3	1.4	1.7	2.7
Net private capital flows (percent of exports of GNFS)	-16.9	-6.0	-14.0	-9.2	-8.0	-6.0
Net private capital flows, banks	-36.7	12.2	-23.0	-29.8	-26.5	-23.4
Public external debt service payments 3/	5.9	6.5	9.0	10.2	11.0	8.8
(percent of exports of goods and services)	1.7	1.5	1.6	1.7	1.9	1.5
Public external debt 4/	45.9	46.6	44.4	55.8	57.9	59.8
(percent of GDP)	3.8	3.1	2.3	2.8	2.6	2.6
Private external debt	421.3	442.4	500.7	524.9	552.5	583.9
(percent of GDP)	34.5	29.0	26.4	25.9	25.3	25.1
Total external debt	467.2	488.9	545.2	580.7	610.3	643.7
(percent of GDP)	38.2	32.1	28.7	28.6	27.9	27.6
World oil price (U.S. dollars per barrel) 5/	61.8	79.0	104.0	112.7	106.0	99.9
Urals oil price (U.S. dollars per barrel)	61.3	78.3	109.3	110.3	103.5	97.4
Terms of trade (percent)	-23.4	19.6	13.2	2.4	-4.2	-3.2

Sources: Central Bank of Russia; and IMF staff estimates.

1/ Excluding repos with non-residents to avoid double counting of reserves. Including valuation effects.

2/ Excludes arrears.

3/ Net of rescheduling.

4/ Includes indebtedness of repos by the monetary authorities.

5/ WEO through 2011; Brent crude oil spot and futures prices for 2012-14.

Table 3a. Russian Federation: Fiscal Operations, 2009–14

(Percent of GDP, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014
					Proj.	
General government						
Revenue	35.0	34.6	37.4	36.9	36.8	36.1
<i>a/w Oil revenue</i>	8.9	9.6	11.5	11.3	10.2	9.0
<i>a/w Nonoil revenue</i>	26.1	25.0	25.9	25.6	26.7	27.2
Taxes	25.9	26.5	28.8	28.5	27.8	26.8
Corporate profit tax	3.3	3.8	4.1	3.8	3.6	3.5
Personal income tax	4.3	3.9	3.6	3.6	3.7	3.7
VAT	5.3	5.4	5.8	5.7	5.9	6.1
Excises	0.9	1.0	1.2	1.3	1.5	1.5
Custom tariffs	6.9	7.0	8.4	7.9	7.0	6.3
Resource extraction tax	3.0	3.3	3.9	4.4	4.1	3.6
Other tax revenue	2.3	2.2	1.8	1.8	1.9	2.1
Social contributions	5.9	5.3	6.3	6.2	7.0	7.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	3.2	2.8	2.3	2.2	2.0	2.0
Expenditure	41.4	38.0	35.8	36.5	37.5	36.8
Expense	34.5	32.2	30.2	31.7	32.6	32.0
Compensation of employees	9.9	8.2	7.3	4.9	4.8	4.8
Use of goods and services	5.8	4.8	4.9	4.1	4.2	4.1
Interest	0.6	0.6	0.6	0.6	0.8	0.8
Subsidies	3.3	2.8	3.0	7.6	6.6	6.5
Grants	0.2	0.1	0.2	0.1	0.1	0.1
Social benefits	12.8	14.0	12.2	12.5	12.5	12.5
Other expense	1.8	1.7	2.0	1.9	3.7	3.3
Net acquisition of nonfinancial assets	6.9	5.9	5.6	4.8	4.9	4.8
Gross operating balance	0.6	2.4	7.2	5.2	4.2	4.1
Net lending (+)/borrowing (-) (overall balance)	-6.3	-3.4	1.5	0.4	-0.6	-0.7
Net financial worth, transactions	6.3	3.4	-1.5	-0.4	0.6	0.7
Net acquisition of financial assets	-5.6	-2.6	2.4	2.2	0.5	0.5
Domestic	-5.6	-2.6	2.4	2.2	0.5	0.5
Foreign	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	0.8	0.8	0.9	1.7	1.1	1.2
Domestic	1.1	0.5	1.1	1.5	0.9	1.0
Foreign	-0.3	0.3	-0.2	0.2	0.2	0.2
<i>Change in arrears and statistical discrepancies</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Federal government						
Revenue	18.9	17.9	20.4	20.5	19.0	18.0
<i>a/w Oil revenue</i>	7.8	8.4	10.3	10.2	9.3	8.3
<i>a/w Nonoil revenue</i>	11.1	9.5	10.1	10.3	9.7	9.8
Expenditure	24.9	21.8	19.6	20.6	19.7	18.7
Expense	21.4	18.7	16.5	17.9	16.9	15.7
Net acquisition of nonfinancial assets	3.5	3.2	3.1	2.7	2.8	3.0
Gross operating balance	-2.5	-0.7	3.8	2.7	2.1	2.3
Net lending (+)/borrowing (-) (overall balance)	-6.0	-3.9	0.8	-0.1	-0.7	-0.6
Net acquisition of financial assets	-5.2	-3.1	1.6	1.7	0.2	0.4
Domestic	-5.2	-3.1	1.6	1.7	0.2	0.4
Foreign	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	0.8	0.8	0.9	1.7	0.8	1.0
Domestic	1.1	0.5	1.1	1.5	0.6	0.8
Foreign	-0.3	0.3	-0.2	0.2	0.2	0.2
Memorandum items:						
General government nonoil primary balance	-14.6	-12.5	-9.4	-10.2	-10.1	-8.9
General government nonoil overall balance	-15.2	-13.0	-10.0	-10.9	-10.8	-9.7
Federal government nonoil primary balance	-13.4	-11.9	-9.0	-9.8	-9.4	-8.3
Federal government nonoil overall balance	-13.8	-12.4	-9.5	-10.3	-10.0	-8.9
World oil price (U.S.dollars per barrel) 2/	61.8	79.0	104.0	112.7	106.0	99.9
Urals prices (U.S. dollars per barrel)	61.3	78.3	109.3	110.3	103.5	97.4
Oil funds 3/	11.9	7.5	6.5	7.3	8.0	8.1
Reserve Fund	4.7	1.7	1.5	3.0	4.1	4.3
NWF	7.1	5.8	5.0	4.3	4.0	3.7
General government debt	11.0	11.0	11.7	12.5	13.8	14.7
GDP (billions of rubles)	38,807	46,309	55,800	62,599	67,905	74,180

Sources: Russian authorities; and IMF staff estimates.

1/ Cash basis. Expenditures based on the 2013-15 budget and the fiscal rule.

2/ WEO through 2011; and Brent crude oil spot and futures prices for 2012-14.

3/ Balances reflect staff estimates based on projected oil savings.

Table 3b. Russian Federation: General Government Stock Positions, 2007-11

	(Percent of GDP)				
	2007	2008	2009	2010	2011
Stock positions:					
Net worth	62.9	68.9	82.3	69.8	67.8
Nonfinancial assets	42.2	44.7	51.6	46.2	44.4
Net financial worth	20.7	24.2	30.7	23.6	23.3
Financial assets	29.5	32.3	41.6	34.7	34.3
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0
Currency and deposits	18.6	22.2	19.7	14.8	16.2
Debt securities	0.6	0.9	1.0	0.8	0.4
Loans	6.1	5.8	5.6	4.6	4.0
Equity and investment fund shares	1.4	1.8	12.1	10.8	11.9
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	2.8	1.5	3.2	3.6	1.9
Liabilities	8.8	8.1	11.0	11.0	11.0
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0
Loans	8.2	7.6	9.4	9.5	9.7
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.6	0.5	1.5	1.5	1.2
Memorandum items:					
Publicly guaranteed debt	...	...	...	...	...
Debt (at market value)	...	...	...	...	...
Debt at face value	8.8	8.1	11.0	11.0	11.0
Maastricht debt	...	...	...	...	...
Debt (at nominal value)	...	...	...	...	...
Other economic flows:					
Change in net worth from other economic flows	-0.6	2.1	0.0	-0.6	0.7
Nonfinancial assets	-0.8	0.5	0.0	0.0	0.3
Change in net financial worth from other economic flows	0.2	1.7	0.0	-0.6	0.4
Financial assets	-0.3	1.8	1.1	-0.4	0.4
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-0.3	1.8	1.1	-0.4	0.4
Debt securities	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0
Liabilities	-0.4	0.1	1.1	0.2	0.0
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.2	0.0
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-0.4	0.1	1.1	0.0	0.0

Sources: Government Finance Statistics; and IMF staff estimates.

1/ Accrual basis.

Table 4. Russian Federation: Monetary Accounts, 2009–14

(Billions of Russian rubles, unless otherwise indicated)

	2009	2010	2011	2012				2013	2014
	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Dec	Dec
								Proj.	Proj.
Monetary authorities									
Base money	4,716	5,913	7,150	6,717	7,082	7,108	7,960	8,890	10,000
Currency issued	4,623	5,785	6,896	6,451	6,810	6,827	7,668	8,498	9,552
Required reserves on ruble deposits	93	128	254	266	272	281	292	392	448
NIR 1/	12,755	14,304	15,701	15,878	16,281	16,394	15,767	16,310	16,687
Gross reserves	13,195	14,571	15,982	16,159	16,678	16,722	16,300	16,844	17,221
Gross liabilities	440	267	281	281	398	327	533	533	533
<i>GIR (billions of U.S. dollars)</i>	436	478	496	502	518	519	537	537	537
NDA	-8,039	-8,392	-8,551	-9,161	-9,199	-9,286	-7,807	-7,420	-6,687
Net credit to general government	-5,515	-3,963	-5,230	-6,735	-7,603	-7,615	-6,312	-6,461	-6,787
Net credit to federal government	-4,614	-2,907	-4,055	-4,952	-5,676	-5,663	-4,588	-4,737	-5,063
CBR net ruble credit to federal government 1/	-595	-293	-1,058	-901	-1,608	-1,605	-630	-244	-167
Foreign exchange credit	147	140	126	126	126	126	117	117	117
Ruble counterpart	-4,166	-2,754	-3,123	-4,177	-4,194	-4,184	-4,075	-4,610	-5,013
CBR net credit to local government and EBFs	-902	-1,056	-1,175	-1,782	-1,927	-1,952	-1,724	-1,724	-1,724
CBR net credit to local government	-385	-436	-529	-813	-866	-811	-698	-698	-698
CBR net credit to extrabudgetary funds	-517	-620	-647	-969	-1,061	-1,142	-1,026	-1,026	-1,026
Net credit to banks	-53	-1,640	101	777	1,706	1,877	1,498	2,015	3,058
Gross credit to banks	1,640	577	1,471	1,728	2,633	2,717	3,257	4,000	5,000
Gross liabilities to banks and deposits	-1,693	-2,217	-1,370	-951	-926	-840	-1,760	-1,985	-1,942
<i>Of which: correspondent account balances</i>	-900	-995	-982	-812	-791	-749	-1,356	-1,211	-1,182
Other items (net) 2/	-2,471	-2,789	-3,422	-3,203	-3,302	-3,548	-2,993	-2,975	-2,959
Monetary survey									
Broad money	19,096	23,791	28,754	29,009	29,396	30,229	32,227	37,353	42,249
Ruble broad money	15,268	20,012	24,483	23,975	24,679	24,658	27,405	31,488	35,767
Currency in circulation	4,038	5,063	5,939	5,704	6,004	5,969	6,430	7,274	8,135
Ruble deposits	11,230	14,949	18,545	18,271	18,675	18,688	20,975	24,214	27,632
Forex deposits 1/	3,828	3,779	4,271	4,798	4,573	5,055	4,821	5,865	6,482
Net foreign assets 1/	13,674	14,999	17,289	17,526	17,846	17,775	16,985	18,401	19,576
NIR of monetary authorities	12,755	14,304	15,701	15,878	16,281	16,394	15,767	16,310	16,687
NFA of commercial banks	919	694	1,588	1,648	1,565	1,380	1,218	2,091	2,888
NFA of commercial banks (billions of U.S. dollars)	30	23	49	62	47	46	40	67	90
NDA	5,422	8,793	11,465	11,247	11,407	11,938	15,242	18,952	22,673
Domestic credit	13,297	17,265	20,804	22,353	22,739	23,899	25,846	31,056	36,277
Net credit to general government	-5,119	-3,522	-5,816	-5,397	-6,260	-6,890	-6,291	-5,783	-5,325
Credit to the economy	18,416	20,787	26,620	27,750	28,999	30,789	32,137	36,839	41,602
Other items (net)	-7,875	-8,472	-9,339	-11,106	-11,332	-11,961	-10,604	-12,104	-13,604
Memorandum items:									
Accounting exchange rate (ruble per U.S. dollar, eop)	30.2	30.5	32.2	32.2	32.2	32.2	30.4	...	...
Nominal GDP (billions of rubles)	38,807	46,309	55,800	...	...	...	62,599	67,905	74,180
CPI inflation (12-month change, eop)	8.8	8.8	6.1	3.7	4.3	6.6	6.6	6.1	5.5
Ruble broad money velocity (eop)	2.5	2.3	2.3	2.4	2.4	2.5	2.3	2.2	2.1
Ruble broad money velocity (eop, s.a.)	2.7	2.5	2.4	2.4	2.4	2.4	2.4	2.3	2.2
Annual change in velocity	-21.1	-9.0	-1.5	-2.5	-2.6	-0.7	0.2	-5.6	-3.8
Real ruble broad money (rel. to CPI, 12-month change)	8.1	20.5	15.3	16.8	14.2	7.7	5.0	8.3	7.7
Nominal ruble broad money (12-month change)	17.7	31.1	22.3	21.2	19.1	14.8	11.9	14.9	13.6
Base money (12-month change)	7.4	25.4	20.9	18.9	17.7	12.8	11.3	11.7	12.5
Real credit to the economy (12-month change)	-5.7	3.8	20.7	23.5	20.9	16.7	13.3	8.1	7.0
Ruble broad money multiplier	3.2	3.4	3.4	3.6	3.5	3.5	3.4	3.5	3.6

Sources: Russian authorities; and IMF staff estimates.

1/ Data calculated at accounting exchange rates.

2/ Inclusive of valuation gains and losses on holdings of government securities.

Table 5. Russian Federation: Financial Soundness Indicators, 2007–13

	(Percent)						
	2007	2008	2009	2010	2011	2012	2013 May
Financial Soundness Indicators							
Capital adequacy							
Capital to risk-weighted assets	15.5	16.8	20.9	18.1	14.7	13.7	13.4
Core capital to risk-weighted assets	11.6	10.6	13.2	11.4	9.3	8.5	9.3
Capital to total assets	13.3	13.6	15.7	14.0	12.6	12.3	...
Risk-weighted assets to total assets	85.6	81.0	75.2	77.4	85.9	87.7	...
Credit risk							
NPLs to total loans	2.5	3.8	9.6	8.2	6.6	6.0	6.3
Loan loss provisions to total loans	3.6	4.5	9.1	8.5	6.9	6.1	6.2
Large credit risks to capital	211.9	191.7	147.1	184.6	228.4	209	204.9
Distribution of loans provided by credit institutions							
Agriculture, hunting and forestry	3.8	4.2	4.9	5.1	4.8	4.6	4.6
Mining	3.1	3.3	3.9	3.6	2.9	3.2	3.1
Manufacturing	13.5	14.4	15.7	16.0	15.2	14	13.7
Production and distribution of energy, gas and water	1.7	1.9	2.4	2.6	2.9	2.7	2.5
Construction	6.0	6.1	6.2	5.9	5.6	5.5	5.7
Wholesale and retail trade	18.0	17.4	18.4	17.1	15.6	14.9	14.6
Transport and communication	3.7	4.3	3.4	3.8	5.4	5.4	4.7
Other economic activities	23.3	23.3	21.9	22.2	22.3	20.5	21.0
Individuals	24.8	25.1	23.0	23.7	25.3	29.2	30.1
<i>Of which: mortgage loans</i>	5.1	6.6	6.5	6.6	6.7	7.5	7.8
Geographical distribution of interbank loans and deposits							
Russian Federation	40.0	27.1	29.5	41.1	41.6	47.1	35.0
United Kingdom	23.3	29.1	21.7	21.4	20.2	17.5	24.0
USA	4.1	7.1	4.1	2.5	3.0	3.6	5.3
Germany	6.8	7.5	4.7	6.0	4.2	1.6	2.4
Austria	6.1	5.7	8.2	3.7	6.6	5.9	6.6
France	3.5	4.0	5.7	4.0	2.7	1.6	3.7
Italy	1.7	1.5	1.8	0.1	2.7	2.7	0.7
Cyprus 1/	0.8	0.4	6.2	5.0	6.6	8.7	8.4
Netherlands	2.6	4.6	4.6	2.6	3.2	1.5	2.0
Other	11.0	13.1	13.4	13.6	9.0	9.8	12
Liquidity							
Highly liquid assets to total assets	...	28.0	26.8	13.5	11.8	11.1	10.7
Liquid assets to total assets	24.8	25.9	28.0	26.8	23.9	23.2	21.8
Liquid assets to short-term liabilities	72.9	92.1	102.4	94.3	81.6	82.9	86.9
Ratio of client's funds to total loans	94.8	84.6	99.9	109.5	105.3	101.2	101.7
Return on assets	3.0	1.8	0.7	1.9	2.4	2.3	2.1
Return on equity	22.7	13.3	4.9	12.5	17.6	18.2	17.0
Balance Sheet Structure, in percent of assets							
Total asset growth rate	44.1	39.2	5.0	14.9	23.1	18.9	...
Total customer loans growth rate	53.0	34.5	-2.5	12.6	28.2	...	...
Asset side							
Total customer loans	61.1	59.0	54.8	53.7	55.9	56.0	...
Accounts with CBR and other central banks	6.4	7.4	6.0	5.4	4.2	4.4	3.0
Interbank lending	7.0	8.9	9.3	8.6	9.5	8.5	9.5
Securities holdings	11.2	8.4	14.6	17.2	14.9	14.2	14.4
Liability side							
Funds from CBR	0.2	12.0	4.8	1.0	2.9	5.4	4.4
Interbank liabilities	13.9	13.0	10.6	11.1	11.0	9.6	9.0
Fund raised from organizations	35.0	31.3	32.5	32.9	33.6	31.6	...
Individual deposits	25.6	21.1	25.4	29.0	28.5	28.8	30.0
Bonds, PN and bank acceptance	5.5	4.0	3.9	4.0	3.7	4.4	...

Sources: Central Bank of Russia; and IMF staff calculations.

1/ Exposure to Cyprus mostly reflects a state-owned bank's exposure to its subsidiary in the country.

Table 6. Russian Federation: Medium-Term Framework and Balance of Payments, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
				Projections					
(Percent of GDP, unless otherwise indicated)									
Macroeconomic framework									
GDP growth at constant prices (percent)	4.5	4.3	3.4	2.5	3.3	3.5	3.5	3.5	3.5
Consumer prices (percent change, end of period)	8.8	6.1	6.6	6.1	5.5	5.5	5.5	5.5	5.5
Gross domestic investment	22.6	25.5	26.0	26.3	26.3	26.4	26.4	26.4	26.3
Private sector	18.4	21.6	22.0	22.2	22.3	22.4	22.6	22.6	22.6
Public sector	4.3	3.8	4.0	4.1	4.0	4.0	3.9	3.8	3.7
Gross national savings	27.0	30.6	29.7	28.4	27.8	27.3	26.9	26.8	26.7
Private sector	26.2	25.2	25.2	24.6	24.7	24.7	24.5	24.6	24.6
Public sector	0.8	5.3	4.5	3.8	3.1	2.7	2.4	2.2	2.1
External current account balance	4.4	5.1	3.7	2.1	1.5	0.9	0.5	0.4	0.4
Fiscal Operations 1/									
Federal government									
Net lending/borrowing (overall balance)	-3.9	0.8	-0.1	-0.7	-0.6	-1.0	-1.2	-1.3	-1.3
Nonoil balance	-12.4	-9.5	-10.3	-10.0	-8.9	-8.5	-7.8	-7.3	-6.8
General government									
Net lending/borrowing (overall balance)	-3.4	1.5	0.4	-0.6	-0.7	-1.1	-1.2	-1.3	-1.3
Revenue	34.6	37.4	36.9	36.8	36.1	35.6	34.6	34.0	33.4
Expenditure	38.0	35.8	36.5	37.5	36.8	36.6	35.8	35.2	34.6
Nonoil balance	-13.0	-10.0	-10.9	-10.8	-9.7	-9.1	-8.3	-7.7	-7.1
Primary balance	-2.9	2.1	1.0	0.1	0.1	-0.3	-0.3	-0.3	-0.2
Gross debt	11.0	11.7	12.5	13.8	14.7	15.5	15.4	15.2	15.2
(Billions of U.S. dollars; unless otherwise indicated)									
Balance of payments									
Current account	67.5	97.3	74.8	45.7	34.0	23.1	12.1	11.5	11.3
Trade balance	147.0	196.9	193.3	165.2	143.2	128.1	113.6	101.5	94.3
Exports (f.o.b)	392.7	515.4	529.1	521.6	520.0	527.2	536.2	554.3	574.5
Of which: energy	254.0	341.8	347.5	331.5	319.7	311.9	303.2	301.7	301.1
Imports (f.o.b)	-245.7	-318.6	-335.8	-356.4	-376.8	-399.1	-422.5	-452.8	-480.3
Services and transfers, net	-32.4	-39.2	-52.3	-55.5	-57.3	-58.5	-59.5	-62.2	-63.1
Capital and financial account	-26.9	-86.2	-47.7	-45.6	-34.0	-23.1	-12.1	-11.5	-11.3
Capital account	-0.1	0.1	-4.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Financial account	-26.9	-86.3	-42.8	-44.6	-33.0	-22.1	-11.1	-10.5	-10.3
Private sector capital	-26.6	-80.5	-54.2	-46.7	-35.0	-24.1	-13.0	-12.4	-12.2
Errors and omissions	-4.2	1.1	9.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	36.3	12.2	36.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Gross reserves (end of period)									
Billions of U.S. dollars	479.4	498.6	537.6	537.7	537.7	537.7	537.8	537.8	537.7
Percent of short-term debt (residual maturity)	339.2	327.8	337.6	321.5	304.6	286.6	267.5	250.8	237.2
Months of prospective GNFS imports	17.9	14.6	14.5	13.7	13.0	12.3	11.7	11.0	10.4
Trade balance (percent of GDP)	9.6	10.4	9.5	7.6	6.1	5.1	4.2	3.5	3.0
Terms of trade (y-o-y change, percent)	19.6	13.2	2.4	-4.2	-3.2	-2.1	-2.3	-1.3	-1.2
Excluding fuel	14.2	-1.8	-3.9	-0.2	-1.0	0.3	0.5	0.3	0.2
Export volume, goods (y-o-y change, percent)	5.4	4.2	3.3	2.4	3.3	3.6	3.8	3.9	4.0
Import volume, goods (y-o-y change, percent)	27.5	16.5	8.6	5.6	6.0	5.9	5.6	6.3	5.2
World oil price (U.S. dollars per barrel) 2/	79.0	104.0	112.7	106.0	99.9	96.3	92.5	90.9	89.6

Sources: Russian authorities; and IMF staff estimates.

1/ Cash basis. Expenditures based on 2013-15 budget and the fiscal rule.

2/ WEO through 2011; and Brent crude oil spot and futures prices for 2012-18.

Table 7. Adverse Scenario: Medium-Term Framework and Balance of Payments, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Projections								
	(Percent of GDP, unless otherwise indicated)								
Macroeconomic framework									
GDP growth at constant prices (percent)	4.5	4.3	3.4	2.5	-1.0	1.5	2.0	2.5	2.5
Consumer prices (percent change, end of period)	8.8	6.1	6.6	6.1	5.5	5.0	5.0	5.0	5.0
Gross domestic investment	22.6	25.5	26.0	26.3	25.5	25.5	25.6	25.8	25.8
Private sector	18.4	21.6	22.0	22.2	21.4	21.4	21.7	22.0	22.1
Public sector	4.3	3.8	4.0	4.1	4.2	4.1	4.0	3.8	3.7
Gross national savings	27.0	30.6	29.7	28.3	26.0	25.9	26.0	26.0	25.9
Private sector	26.2	25.2	25.2	24.6	22.7	23.2	23.6	23.9	24.0
Public sector	0.8	5.3	4.5	3.8	3.3	2.7	2.4	2.1	1.9
External current account balance	4.4	5.1	3.7	2.1	0.3	0.4	0.2	0.2	0.1
Fiscal Operations 1/									
Federal government									
Net lending/borrowing (overall balance)	-3.9	0.8	-0.1	-0.7	-5.3	-4.5	-3.6	-2.6	-1.7
Nonoil balance	-12.4	-9.5	-10.3	-10.0	-10.7	-9.5	-8.3	-7.1	-5.9
General government									
Net lending/borrowing (overall balance)	-3.4	1.5	0.4	-0.6	-5.7	-4.7	-3.9	-3.0	-2.2
Revenues	34.6	37.4	36.9	36.8	32.9	33.3	32.9	32.6	32.3
Expenditures	38.0	35.8	36.5	37.5	38.6	37.9	36.8	35.6	34.5
Nonoil balance	-13.0	-10.0	-10.9	-10.8	-11.4	-9.9	-8.8	-7.6	-6.4
Primary balance	-2.9	2.1	1.0	0.1	-4.9	-3.9	-2.8	-1.7	-0.7
Gross debt	11.0	11.7	12.5	13.8	20.7	24.7	26.6	27.0	26.5
	(Billions of U.S. dollars; unless otherwise indicated)								
Balance of payments									
Current account	67.5	97.3	74.8	45.7	5.9	6.7	4.5	3.7	2.3
Trade balance	147.0	196.9	193.3	165.2	96.2	92.7	87.4	76.9	70.3
Exports (f.o.b)	392.7	515.4	529.1	521.6	390.6	407.9	428.0	450.1	473.5
Of which: energy	254.0	341.8	347.5	331.5	190.2	192.6	195.1	197.5	200.1
Imports (f.o.b)	-245.7	-318.6	-335.8	-356.4	-294.4	-315.2	-340.6	-373.3	-403.2
Services and transfers, net	-32.4	-39.2	-52.3	-55.5	-39.1	-39.7	-40.6	-44.1	-45.7
Capital and financial account	-26.9	-86.2	-47.7	-44.9	-68.7	-24.4	-9.0	-3.7	-2.4
Capital account	-0.1	0.1	-4.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Financial account	-26.9	-86.3	-42.8	-43.9	-67.7	-23.4	-8.0	-2.7	-1.4
Private sector capital	-26.6	-80.5	-54.2	-46.0	-69.1	-24.8	-9.5	-4.1	-2.8
Errors and omissions	-4.2	1.1	9.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	36.3	12.2	36.3	0.7	-62.7	-17.6	-4.6	0.0	0.0
Memorandum items:									
Gross reserves (end of period)									
Billions of U.S. dollars	479.4	498.6	537.6	538.3	475.6	458.0	453.4	453.4	453.4
Percent of short-term debt (residual maturity)	339.2	327.8	337.6	324.0	271.5	246.5	226.0	209.8	196.0
Months of prospective GNFS imports	17.9	14.6	14.5	13.7	14.7	13.3	12.2	11.2	10.4
Trade balance (percent of GDP)	9.6	10.4	9.5	7.6	5.5	4.9	4.3	3.6	3.0
Terms of trade (y-o-y change, percent)	19.6	13.2	2.4	-4.2	-27.8	0.1	0.2	-0.2	-0.3
Excluding fuel	14.2	-1.8	-3.9	-0.2	-1.0	0.3	0.5	0.3	0.2
Export volume, goods (y-o-y change, percent)	5.4	4.2	3.3	2.4	4.0	4.3	4.5	4.6	4.6
Import volume, goods (y-o-y change, percent)	27.5	16.5	8.6	5.6	-17.2	7.1	7.8	8.7	7.1
World oil price (U.S. dollars per barrel) 2/	79.0	104.0	112.7	106.0	60.0	60.0	60.0	60.0	60.0

Sources: Russian authorities; and IMF staff estimates.

1/ Cash basis. Expenditures based on 2013-15 budget and the fiscal rule.

2/ WEO through 2011; and Brent crude oil spot and futures prices for 2012-13. For outer years, staff working assumptions.

Table 8. Reform Scenario: Medium-Term Framework and Balance of Payments, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Projections								
	(Percent of GDP, unless otherwise indicated)								
Macroeconomic framework									
GDP growth at constant prices (percent)	4.5	4.3	3.4	2.5	3.4	4.0	4.5	4.8	5.0
Consumer prices (percent change, end of period)	8.8	6.1	6.6	6.1	5.0	4.2	3.6	3.2	3.0
Gross domestic investment	22.6	25.5	26.0	26.3	26.4	26.8	27.1	27.3	27.5
Private sector	18.4	21.6	22.0	22.2	22.4	22.7	23.3	23.7	24.0
Public sector	4.3	3.8	4.0	4.1	4.0	4.0	3.8	3.6	3.5
Gross national savings	27.0	30.6	29.7	28.3	27.6	27.1	26.6	26.7	26.7
Private sector	26.2	25.2	25.2	24.6	24.5	24.4	24.4	24.7	24.9
Public sector	0.8	5.3	4.5	3.8	3.1	2.7	2.2	2.0	1.9
External current account balance	4.4	5.1	3.7	2.1	1.3	0.3	-0.4	-0.6	-0.8
Fiscal Operations 1/									
Federal government									
Net lending/borrowing (overall balance)	-3.9	0.8	-0.1	-0.7	-0.2	-0.3	-0.1	0.2	0.6
Nonoil balance	-12.4	-9.5	-10.3	-10.0	-8.6	-7.9	-6.7	-5.9	-4.9
General government									
Net lending/borrowing (overall balance)	-3.4	1.5	0.4	-0.6	-0.3	-0.4	-0.2	0.1	0.4
Revenues	34.6	37.4	36.9	36.8	36.2	35.7	34.8	34.1	33.5
Expenditures	38.0	35.8	36.5	37.5	36.5	36.1	35.0	34.1	33.1
Nonoil balance	-13.0	-10.0	-10.9	-10.8	-9.3	-8.5	-7.4	-6.4	-5.5
Primary balance	-2.9	2.1	1.0	0.1	0.5	0.4	0.7	0.9	1.3
Gross debt	11.0	11.7	12.5	13.8	14.4	14.5	13.5	12.1	10.5
Balance of payments									
(Billions of U.S. dollars; unless otherwise indicated)									
Current account	67.5	97.3	74.8	45.7	29.1	8.5	-11.1	-17.3	-24.4
Trade balance	147.0	196.9	193.3	165.2	139.4	117.0	96.4	80.8	69.8
Exports (f.o.b)	392.7	515.4	529.1	521.6	520.0	527.2	536.2	554.3	574.5
Of which: energy	254.0	341.8	347.5	331.5	319.7	311.9	303.2	301.7	301.1
Imports (f.o.b)	-245.7	-318.6	-335.8	-356.4	-380.6	-410.2	-439.8	-473.4	-504.7
Services and transfers, net	-32.4	-39.2	-52.3	-55.5	-58.4	-61.7	-64.6	-68.3	-70.2
Capital and financial account	-26.9	-86.2	-47.7	-45.3	-29.1	-8.4	11.1	17.2	24.3
Capital account	-0.1	0.1	-4.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Financial account	-26.9	-86.3	-42.8	-44.3	-28.1	-7.4	12.1	18.2	25.3
Private sector capital	-26.6	-80.5	-54.2	-46.4	-30.1	-9.4	10.2	16.3	23.4
Errors and omissions	-4.2	1.1	9.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	36.3	12.2	36.3	0.3	0.0	0.0	0.0	-0.1	0.0
Memorandum items:									
Gross reserves (end of period)									
Billions of U.S. dollars	479.4	498.6	537.6	537.9	537.9	537.9	537.9	537.9	537.8
Percent of short-term debt (residual maturity)	339.2	327.8	337.6	321.7	302.5	278.6	253.0	230.3	210.5
Months of prospective GNFS imports	17.9	14.6	14.5	13.7	12.9	12.0	11.2	10.5	9.9
Trade balance (percent of GDP)	9.6	10.4	9.5	7.6	6.0	4.7	3.6	2.8	2.3
Terms of trade (y-o-y change, percent)	19.6	13.2	2.4	-4.2	-3.2	-2.1	-2.3	-1.3	-1.2
Excluding fuel	14.2	-1.8	-3.9	-0.2	-1.0	0.3	0.5	0.3	0.2
Export volume, goods (y-o-y change, percent)	5.4	4.2	3.3	2.4	3.3	3.6	3.8	3.9	4.0
Import volume, goods (y-o-y change, percent)	27.5	16.5	8.6	5.6	7.1	7.8	6.9	6.8	5.7
World oil price (U.S. dollars per barrel) 2/	79.0	104.0	112.7	106.0	99.9	96.3	92.5	90.9	89.6

Sources: Russian authorities; and IMF staff estimates.

1/ Cash basis. Expenditures based on 2013-15 budget and the fiscal rule.

2/ WEO through 2011; and Brent crude oil spot and futures prices for 2012-18.

Table 9. Russian Federation: Indicators of External Vulnerability, 2008–12

(Percent of GDP, unless otherwise indicated)

	2008	2009	2010	2011	2012
Financial indicators					
Public sector debt 1/	7.9	11.0	11.0	11.7	12.5
Broad money (12-month basis, percent change)	0.8	17.7	31.1	22.3	11.9
Private sector credit (12-month basis, percent change)	37.2	2.6	12.9	28.1	18.1
InterBank Prime Rate (3-month average, percent)	9.7	14.1	4.6	3.9	6.6
InterBank Prime Rate (3-month average, percent, real)	-4.4	2.4	-2.2	-4.5	1.6
External Indicators					
Exports (percent change, U.S. dollars)	34.6	-36.3	32.1	31.3	2.7
Imports (percent change, U.S. dollars)	29.4	-36.3	33.6	29.7	5.4
Terms of trade (percent change, 12 month basis)	18.6	-23.4	19.6	13.2	2.4
Current account balance (billions of U.S. dollars)	103.9	50.4	67.5	97.3	74.8
Capital and financial account balance (billions of U.S. dollars)	-131.5	-45.1	-26.9	-86.2	-47.7
Inward portfolio investment (debt securities etc.)	-27.4	7.4	1.8	-7.3	0.0
Other investment (loans, trade credits etc.)	-104.3	-40.3	-28.7	-79.0	-42.8
Gross official reserves (billions of U.S. dollars)	427.1	439.5	479.4	498.6	537.6
Liabilities to the Fund (billions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0
Central bank foreign currency exposure (U.S. dollars) 7/					
Short-term foreign assets of the financial sector (billions of U.S. dollars) 2/	...	...	...	...	...
Short-term foreign liabilities of the financial sector (billions of U.S. dollars) 2/	...	...	...	...	...
Foreign currency exposure of the financial sector (billions of U.S. dollars) 2/	...	...	...	...	...
Official reserves (months of imports goods and services)	14.0	21.3	17.9	14.6	14.5
Ruble broad money to gross reserves	1.3	1.1	1.4	1.7	1.7
Total short-term external debt to reserves	33.9	32.2	31.7	31.9	31.1
Total external debt (billions of U.S. dollars)	480.5	467.2	488.9	545.2	580.7
<i>Of which:</i> public sector debt (billions of U.S. dollars)	32.8	45.9	46.6	44.4	55.8
Total external debt to exports of goods and services (percent)	91.8	136.2	110.7	95.1	98.1
External interest payments to exports of goods and services	4.4	6.0	4.8	4.2	3.1
External amortization payments to exports of goods and services	24.5	24.5	18.9	11.6	14.8
Exchange rate (per U. S. dollar, period average)	24.9	31.7	30.4	29.4	30.8
REER depreciation (-) (12-month basis)	6.8	-6.9	9.3	4.8	3.7
Financial Market Indicators					
Stock market index 3/	1,695	997	1,507	1,753	1,483
Foreign currency debt rating 4/	BBB	BBB	BBB	BBB	BBB
Spread of benchmark bonds (basis points, end of period) 5/	805	203	224	364	157

Sources: Russian authorities; and IMF staff estimates.

1/ Gross debt of general government.

2/ Series discontinued in 2008.

3/ RTS index, end of period.

4/ S&P long-term foreign currency debt rating, end of period.

5/ JPMorgan EMBIG Russia Sovereign Spread.

Table 10. Russian Federation: Public Sector Debt Sustainability Framework, 2009–18

(Percent of GDP, unless otherwise indicated)

	Actual		Est.	Projection						Debt-stabilizing primary balance	
	2009	2010	2011	2012	2013	2014	2015	2016	2017		2018
Baseline: public sector debt 1/	11.0	11.0	11.7	12.5	13.8	14.7	15.5	15.4	15.2	15.2	-0.3
Of which: foreign-currency denominated	3.7	3.2	2.6	2.7	3.0	2.9	2.9	2.7	2.6	2.5	
Change in public sector debt	2.4	0.1	0.6	0.8	1.3	1.0	0.7	-0.1	-0.1	-0.1	
Identified debt-creating flows	0.0	-1.4	-3.5	-0.1	-0.3	-0.5	-0.2	-0.1	-0.1	-0.1	
Primary deficit (excluding deposits in oil funds from revenue)	-1.1	-0.2	-2.1	0.6	-0.1	-0.1	0.3	0.3	0.3	0.2	
Revenue (excluding deposits in oil funds)	35.0	34.6	37.4	37.4	36.9	36.8	36.1	35.6	34.6	34.0	
Primary (noninterest) expenditure	40.7	37.5	35.2	35.8	36.7	36.0	35.9	34.9	34.2	34.2	
Automatic debt dynamics 2/	1.2	-1.2	-1.1	-0.8	-0.1	-0.3	-0.4	-0.4	-0.3	-0.2	
Contribution from interest rate/growth differential 3/	1.1	-1.2	-1.3	-0.7	-0.2	-0.4	-0.5	-0.5	-0.4	-0.3	
Of which: contribution from real interest rate	0.5	-0.8	-0.9	-0.3	0.1	0.1	0.0	0.0	0.1	0.2	
Of which: contribution from real GDP growth	0.7	-0.4	-0.4	-0.4	-0.3	-0.4	-0.5	-0.5	-0.5	-0.5	
Contribution from exchange rate depreciation 4/	0.1	0.0	0.2	-0.1	0.1	0.1	0.1	0.1	0.0	0.1	
Denominator = 1+g+p+gp	0.9	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	
Other identified debt-creating flows	0.0	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 5/	2.4	1.5	4.1	0.9	1.6	1.5	0.9	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	26.2	29.3	31.2	35.4	37.4	40.8	43.5	44.4	44.9	45.5	
Gross financing need 6/	7.1	3.8	-1.3	-0.1	1.0	1.0	1.4	1.6	1.6	1.6	
Billions of U.S. dollars	87.3	57.2	-24.1	-2.6	21.2	24.3	35.6	41.6	46.4	50.9	
Stress tests for public sector debt											
Scenario with key variables at their historical averages 7/				12.5	11.5	9.6	7.3	4.5	1.9	0.0	-1.6
Scenario with no policy change (constant primary balance) in 2012–18				12.5	14.5	16.2	17.2	16.4	15.6	14.8	-0.8
Key macroeconomic and fiscal assumptions underlying baseline					Historical Average	Standard Deviation					
Nominal GDP (local currency)	38,807	46,309	55,800	62,599	67,904	74,178	81,174	89,013	97,740	107,616	
Real GDP growth (percent)	-7.8	4.5	4.3	3.4	4.9	4.7	2.5	3.3	3.5	3.5	3.5
Average nominal interest rate on public debt (percent) 8/	7.3	6.1	6.4	5.9	6.1	0.9	6.5	6.3	5.7	6.3	7.1
Average nominal interest rate on forex debt (in percent) 6/	7.3	6.1	6.4	5.9	5.7	0.9	6.5	6.3	5.7	6.3	7.1
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	5.3	-8.1	-9.1	-2.6	-8.5	5.7	0.7	0.6	-0.1	0.4	1.0
Exchange rate (LC per US dollar)	30.2	30.5	32.2	32.2	28.9	2.1	...	...	...	...	...
Nominal depreciation of local currency (LC per dollar)	19.7	2.9	0.8	5.6	1.1	8.7	...	...	...	...	...
Exchange rate (US dollar per LC)	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...
Nominal appreciation (increase in U.S. dollar value of local currency, percent)	-2.9	-0.8	-5.3	6.0	-0.5	8.2	...	...	...	...	...
Inflation rate (GDP deflator, percent)	2.0	14.2	15.5	8.5	14.6	5.2	5.8	5.7	5.9	6.1	6.4
Growth of real primary spending (deflated by GDP deflator, percent)	11.0	-3.9	-1.9	5.2	8.4	6.9	5.0	1.4	3.0	0.8	1.5
Primary deficit	-1.1	-0.2	-2.1	0.6	-2.7	2.0	-0.1	-0.1	0.3	0.3	0.3
Revenue to GDP ratio	41.9		37.4	35.2	36.8	36.1	35.6	34.6	34.0	33.4	

1/ General government and government-guaranteed gross debt.

2/ Derived as $[(r - p(1+g) - g + ae(1+r)] / (1+g+p+gp)$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

Table 11. Russian Federation: External Debt Sustainability Framework, 2008–18

(Percent of GDP, unless otherwise indicated)

	2008	2009	Actual			Projections						Debt-stabilizing non-interest current account 6/ -2.4
			2010	2011	2012	2013	2014	2015	2016	2017	2018	
Baseline: External debt	28.9	38.2	32.1	28.7	28.6	27.9	27.6	27.3	27.2	26.9	26.5	
Change in external debt	-7.3	9.3	-6.2	-3.4	-0.1	-0.7	-0.3	-0.3	-0.2	-0.3	-0.4	
Identified external debt-creating flows (4+8+9)	-13.8	6.4	-9.9	-9.3	-4.2	-1.3	-1.2	-0.9	-0.6	-0.5	-0.5	
Current account deficit, excluding interest payments	-4.9	-2.4	-3.0	-3.8	-2.8	-1.3	-1.0	-0.5	0.1	0.4	0.7	
Deficit in balance of goods and services	-63.0	-56.1	-57.9	-60.4	-58.3	-53.6	-50.3	-47.8	-45.4	-43.8	-42.2	
Exports	31.5	28.0	29.0	30.2	29.2	26.8	25.1	23.9	22.7	21.9	21.1	
Imports	-31.5	-28.0	-29.0	-30.2	-29.2	-26.8	-25.1	-23.9	-22.7	-21.9	-21.1	
Net non-debt creating capital inflows (negative)	0.2	1.5	1.9	2.0	1.7	1.4	1.1	0.9	0.8	0.8	0.7	
Automatic debt dynamics 1/	-9.1	7.3	-8.7	-7.4	-3.0	-1.4	-1.3	-1.4	-1.4	-1.6	-1.9	
Contribution from nominal interest rate	-1.4	-1.7	-1.4	-1.3	-0.9	-0.8	-0.4	-0.5	-0.5	-0.8	-1.1	
Contribution from real GDP growth	-1.5	3.1	-1.4	-1.1	-0.9	-0.7	-0.9	-0.9	-0.9	-0.9	-0.9	
Contribution from price and exchange rate changes 2/	-6.2	5.9	-6.0	-5.0	-1.2	...	...	...	...	...	...
Residual, incl. change in gross foreign assets 3/	6.5	2.9	3.7	6.0	4.1	0.6	0.9	0.6	0.4	0.3	0.1	
External debt-to-exports ratio (in percent)	91.8	136.2	110.7	95.1	98.1	104.3	109.9	114.5	119.7	122.9	125.5	
Gross external financing need (in billions of US dollars) 4/ in percent of GDP	16.1 1.0	29.7 2.4	31.5 2.1	-12.4 -0.7	8.4 0.4	10-Year 2.9	10-Year 3.4	97.6 3.9	116.0 4.3	125.0 4.3	134.6 4.3	
Scenario with key variables at their historical averages 5/						19.7	12.3	6.2	1.2	-2.9	-6.3	2.0
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation					
Real GDP growth (in percent)	5.2	-7.8	4.5	4.3	3.4	4.7	4.7	2.5	3.3	3.5	3.5	3.5
GDP deflator in US dollars (change in percent)	21.4	-20.2	19.4	19.4	3.4	15.0	13.9	5.0	3.1	3.5	3.8	3.9
Nominal external interest rate (in percent)	-4.9	-4.3	-4.6	-5.0	-3.3	-5.2	0.9	-2.9	-1.6	-1.8	-2.1	-3.0
Growth of exports (US dollar terms, in percent)	34.1	-34.5	28.8	29.8	3.2	19.4	21.1	-1.1	0.1	1.7	2.0	3.7
Growth of imports (US dollar terms, in percent)	34.1	-34.5	28.8	29.8	3.2	19.4	21.1	-1.1	0.1	1.7	2.0	3.7
Current account balance, excluding interest payments	4.9	2.4	3.0	3.8	2.8	5.3	2.5	1.3	1.0	0.5	-0.1	-0.4
Net non-debt creating capital inflows	-0.2	-1.5	-1.9	-2.0	-1.7	-0.6	1.2	-1.4	-1.1	-0.9	-0.8	-0.7

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex I. Assessment of Russia's New Fiscal Rule

Summary. *Russia's new fiscal rule is a welcome development that sets out a clear framework for setting expenditure levels, reducing volatility of spending tied to oil price movements, and the conditions under which oil revenues are saved or spent. Under current parameters, however, the rule does not generate sufficient savings into oil funds. There are also several other potential shortcomings that the authorities should address or guard against.*

Background

A new fiscal rule went into effect this year that ex ante caps federal government expenditures at the ex ante projection of the sum of non-oil revenues, oil and gas ("oil") revenues calculated at a benchmark oil price, and net financing of one percent of GDP. The benchmark price is a backward looking ten-year (initially five-year) average of Urals oil prices (US\$/barrel)—a proxy for the longer term price of oil. For 2013, the benchmark price reflects the five-year (2008-2012) backward looking average of Ural oil prices, equivalent to US\$91/barrel (Table A1).

In principle, when current oil prices are above the benchmark price, the resulting oil savings are deposited in the oil Reserve Fund, which serves as a macroeconomic stabilization fund. Once the Reserve Fund reaches seven percent of GDP, 50 percent of any additional oil-related savings are to be allocated to the National Wealth Fund (NWF)—an intergenerational oil savings fund intended to support the pension system—and the other 50 percent for infrastructure projects or other projects of national importance. When current oil prices are below the benchmark price, the Reserve Fund would be tapped to help maintain expenditures and finance the deficit. To protect against excessive deficits in the event of a prolonged oil price decline, the benchmark oil price calculation changes when actual oil prices remain below the benchmark price for the three previous years. In such case, the benchmark price is reset equal to the 3-year backward-looking average.

At the time of its approval, the authorities indicated that the new rule would be easier to communicate than the nonoil deficit rule and would allow for a more gradual transition to a stronger fiscal position. This rule replaced an existing (but suspended since the global financial crisis) budgetary rule targeting a nonoil deficit of 4.7 percent of GDP.

Assessment

The new rule is a positive step forward. It squarely addresses oil price/revenue-driven volatility in government spending by delinking the budget from short-term oil price fluctuations. It also provides a mechanism for saving and drawing down oil savings as oil prices fluctuate. However, there are a number of important shortcomings.

- *Insufficient oil savings.* The rule generates insufficient savings of oil revenues to rebuild buffers, save receipts from exhaustible resources, or facilitate growth of the nonoil sector. Under baseline

projections, the Reserve Fund will remain below the authorities' targeted level of 7 percent of GDP—too low to adequately insulate against a large drop in oil prices. Intergenerational savings are projected to gradually erode as a percent of GDP. Under the rule, there is little possibility of higher intergenerational savings unless oil prices continue to rise at pace well in excess of nominal GDP. However, both the authorities and staff project a gradual fall in oil revenues as a percent of GDP, though at different paces. The authorities' projections show the Reserve Fund would be replenished by 2019, and the NWF would then gradually begin to rise, based on a significantly higher projected oil price path (relative to staff projections).

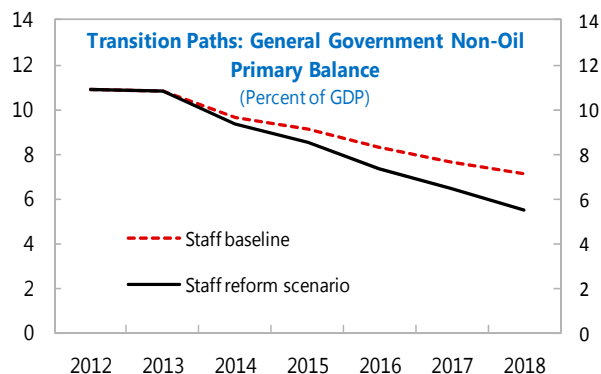
- *Operation of the rule is hindered by minimum expenditure commitments under the medium-term budget rule.* The new rule will not be fully binding until 2016, as Russia's medium-term budget law sets minimum expenditure commitments on a rolling three-year basis (the current budget covers 2013-15). Expenditures in the first year under each three-year budget must be fully honored, and expenditures in the second and third year cannot be lowered by more than 0.5 and 0.8 percent of GDP, respectively. Under current budget parameters and staff estimates, federal government expenditures will remain above the level implied by the fiscal rule through 2015. This inconsistency between the fiscal rule and the medium-term budget law could override implied expenditure caps in 2016 and beyond as well, depending on the oil price path.
- *Diversion of the flow of annual oil savings.* The amount to be deposited or withdrawn from the Reserve Fund is prescribed ex ante in the annual Budget Law. Intuitively, this would be equal to the oil savings (difference in oil revenue calculated at actual and benchmark prices). But even if oil prices evolve as expected, deposits made into the Reserve Fund can be higher (e.g., financed by issuing more debt) or lower (by utilizing oil savings to cover the net borrowing of one percent of GDP under the expenditure rule). 'Savings' can also be diverted to cover shortfalls in privatization or non-oil revenue, should the government elect to do so. For example, the government decided in April 2013 to cover expected privatization shortfalls by reducing the amounts deposited into the Reserve Fund.
- *Non-oil shocks.* The mechanism has a limited ability to address non-oil shocks. The basic structure of the rule is not designed to respond to non-oil shocks, but recent amendments permit the government to divert flow oil savings to cover non-oil revenue shortfalls (any diversion would be limited to the amount of oil savings generated in the same year; i.e., the "principal" of the Reserve Fund cannot be tapped for this purpose).
- *Expenditure limits* under the rule can be circumvented through various on- or off-budget mechanisms.
 - *Off-budget loan guarantees.* Net government loan guarantees are projected to be increased by up to one percent of GDP this year, with additional increases planned for 2014-5. A portion of these are for non-revenue generating spending that will be paid for out of future budgets.

- *Pension changes.* The planned diversion of contributions from Pillar II to Pillar I reduces the required amounts from the budget to support the Pillar I system. Under the fiscal rule, this 'space' is taken by other expenditures while the future payment obligations under the Pillar I PAYG pension system rise (weakening the system's long run viability).
- *Macroeconomic assumptions.* The rule is susceptible to manipulation, for example through overly optimistic non-oil revenue projections or exchange rate assumptions in the context of budget planning. Projected GDP is a key factor that drives both the projected ruble level of non-oil revenues and net financing. The projected exchange rate is also a key element. A more depreciated rate raises the ruble-denominated projection of oil revenues at the benchmark price, which raises the expenditure envelope. It also increases nominal GDP and thus non-oil revenue projections. The exchange rate and nominal GDP are set by the Ministry of Economic Development. In recent years, the authorities' projections do not appear to be systematically biased.
- *Shifting unfunded spending obligations to regions.* A number of large regions have access to market financing and could finance higher deficits for some time.

Recommendations

It is important for credibility that the authorities maintain the spirit of the rule. They need to establish, through actions, that this rule will be more binding and successful than the last one.

- *Tighten the rule to generate more savings.* The authorities should tighten the fiscal rule to reach a minimum of 7 percent of GDP in the Reserve Fund by 2018, and to then begin rebuilding the NWF. Staff views this level for the Reserve Fund as the minimum sufficient level to maintain expenditures consistent with the fiscal rule for two years, without resorting to additional borrowing, in the event of a sustained drop in oil prices to US\$60/barrel. This strategy would be consistent with past recommendations to target a non-oil deficit below 5 percent of GDP.



Sources: Russian authorities; and IMF staff estimates.

- *Protect savings.* The authorities should remove the option to divert oil savings to cover shortfalls in privatization or non-oil revenue.
- *Contain other spending pressures.* The authorities should contain pressures to circumvent expenditure limits. For example, planned loan guarantees to be paid out of future budgets should be scaled back or spread out. They should avoid any new loan guarantees of this type (such spending should be brought on budget) and any new spending mandates imposed on regions should be matched with adequate funding.

- *Sound forecasts.* Maintain independent (realistic) forecasts for key macroeconomic parameters, especially the exchange rate and nominal GDP, used in setting the budget.
- *Revisit commitments.* Remove minimum expenditure commitments in medium-term budgets (this could be accompanied by contingent spending).
- *NWF contributions.* Eliminate the 50/50 distribution rule in favor of framework that takes into consideration infrastructure needs and likely net returns, Dutch Disease considerations, and availability of funding from budget expenditure reforms.

Box A1. How the Oil Savings are Invested and Managed

The two oil savings funds are owned by the government and controlled by the Finance Ministry, which in turn has the authority to designate the CBR as ‘operational manager’. Deposits have been made in rubles, generally on an annual basis, by the Finance Ministry into CBR-managed funds, which are then held largely as foreign exchange deposits. The Finance Ministry recently announced plans to begin purchasing, later in 2013, foreign exchange in the market and then deposit these FX funds (rather than ruble funds) into the oil savings funds at the CBR. However, consistent with current practice, all FX reserves are expected to remain under CBR ownership (with interest on oil fund-related FX deposits linked to a basket of FX assets). The Funds’ management guidelines are published, as are monthly data on the balances in each fund. The accumulation, expenditure, and management of the funds are reviewed quarterly by the Accounts Chamber and reported to parliament.

- *The Reserve Fund* is held in FX-denominated deposits at the CBR. The FX deposits are linked to (or can be directly invested in) low-yield highly rated short-term foreign exchange securities, consistent with the purpose of the (macroeconomic stabilization) Fund. The currency allocation is currently set at: U.S. dollars (45 percent), euro (45 percent), GB pounds (10 percent). For more information, see: <http://www1.minfin.ru/en/reservefund/>
- *The National Wealth Fund.* The NWF is dedicated to support the pension system of the Russian Federation to guarantee long-term sound functioning of the system. The maximum amount of NWF assets that can be invested in foreign currency is 100 percent. FX deposits are linked to (or can be directly invested in) relatively riskier, higher return instruments. The currency composition of these deposits is currently set at U.S. dollars (45 percent), euro (45 percent), and GB pounds (10 percent). Up to 40 percent of NWF assets can be invested in Russian rubles. Currently, NWF holds about 25 percent of its assets (475bn in rubles, and 6.3 billion in U.S. dollars) in medium and long-term deposits at VEB. VEB uses these funds for subordinated loans to Russian banks (R355bn), loans to SMEs (R30bn), loans to the Agency for Housing Mortgage Lending (R40bn) and other purposes. For more information see: <http://www1.minfin.ru/en/nationalwealthfund/>.

Table A1. Russian Federation: Federal Budget, Oil Savings, and Oil Prices, 2012–15

(Percent of GDP unless otherwise indicated)

	2012	2013	2014	2015
		Projections 1/		
Federal Government Non-Oil Balance				
Authorities	-10.4	-9.7	-8.7	-8.5
Staff baseline	-10.3	-10	-8.9	-8.5
Staff reform scenario	-10.3	-10	-8.6	-7.9
Reserve Fund				
Authorities	3.0	4.0	4.1	4.1
Staff baseline	3.0	4.1	4.3	4.2
Staff reform scenario	3.0	4.1	4.6	5.2
NWF				
Authorities	4.3	4.2	3.9	3.6
Staff baseline	4.3	4.0	3.7	3.5
Staff reform scenario	4.3	4.0	3.7	3.5
Oil Prices (U.S. dollars per barrel)				
Authorities (Urals spot)2\	110.5	105.0	101.0	100.0
Staff baseline (Urals spot)	110.3	103.5	97.4	93.8
World oil price 3\	112.7	106.0	99.9	96.3
Oil Benchmark Price (U.S. Dollars per barrel) 4\				
Authorities (budget)	---	91.0	92.0	93.0
Staff baseline	---	90.8	92.9	93.5

Sources: Russian authorities and IMF staff estimates

1\ Projections as of June 2013.

2\ 2013-2015 budget Urals spot price assumptions are 97, 101, and 104 U.S. dollars per barrel, respectively.

3\ WEO oil price through 2011. Brent crude spot and futures prices for 2012-18.

4\ The spot Urals price and related averages (for generating benchmark average prices) are used in communications, including in budget documents. However, for budget revenue and expenditure projections, the authorities use the Urals average contract price. This price reflects discounts for longer term contracts and other factors. The difference between the spot and contract prices is generally 3 to 5 U.S. dollars per barrel. Urals spot, in turn, trades at a 1 to 2 U.S. dollars per barrel discount to world oil prices.

Annex II. Key FSAP Recommendations and Implementation

Recommendation	Status
Short term (implementation within 12 months)	
Empower the CBR to use professional judgment in interpreting laws and regulations, issuing enforceable risk management guidance, and applying it to individual banks.	Ongoing. Relevant amendments to the legislation have been passed by the Duma and are expected to be adopted in July.
Approve pending amendments to expand CBR supervisory authority over bank holding companies and related parties, and eliminate restrictions on information-sharing with other domestic and foreign supervisors.	Ongoing. Relevant amendments to the legislation have been passed by the Duma and are expected to be adopted in July.
Allow the CBR to sanction individual directors and managers, raise capital requirements on individual institutions, and impose restrictions on transactions between affiliates.	Ongoing. Relevant amendments to the legislation have been passed by the Duma and are expected to be adopted in July.
Ensure the unified securities and insurance supervisor (FSFM) has the power to issue secondary regulation to interpret the law, as well as industry-wide binding norms.	No action yet. The power is expected to be granted to the integrated supervisor when the CBR and FSFM are merged (expected to take place in 2013).
Empower the FSFM to require insurers to have in place internal controls and risk management systems commensurate with the complexity of their business.	Legislation pending.
Apply fit and proper requirements to directors and key management of insurers on an ongoing basis.	Legislation pending.
Make home-host notifications and cross-border cooperation in insurance mandatory for the FSFM.	No decision. However, cooperation and information sharing appears to be progressing well: the FSFM has signed MOUs with the supervisory agencies of 16 countries.
Adopt pending legislation that empowers the FSFM to appoint a provisional administrator, freeze assets, and wind down distressed securities firms.	Legislation pending.
Medium term (implementation in 1–3 years)	
Pursue efforts to ensure an effective macro prudential oversight.	Efforts to establish macro prudential oversight have stalled due to the ongoing merger of the CBR and FSFM.

Require government guarantee for all CBR loans that are unsecured or not backed by marketable collateral or guarantees.	CBR has suspended providing unsecured loans. There are no plans to re-introduce this instrument.
Require repo transactions to take place using central counterparty clearing.	No decision. Guidelines for banks conducting repo transactions have been issued by the national Securities Market Association. The CBR has started publishing recommended "haircuts" for certain types of collateral.
Set limits on concentration of collateral in the repo market.	No decision. The CBR argued that a unilateral move by the CBR (bank supervisor) would "discriminate against banks" (since nonbanks would not be subject to the same requirement).
Adopt a prompt remedial action framework for banks.	Ongoing. Relevant amendments to the legislation have been passed by the Duma and are expected to be adopted in 2013. 1/
Introduce a unified administration regime for all banks (systemic or otherwise) with broad powers for the administrator P&A.	No decision 1/
Open-bank assistance such as loans, capital injections, nationalization by the DIA should be restricted to systemic situations.	No decision. The authorities explained that, de facto, such assistance is restricted to systemically important institutions. 1/

1/ The authorities are preparing to upgrade the banking resolution framework in line with "Key Attributes for Effective Resolution" issued by the Financial Stability Board at the end of 2011.

Annex III. Risk Assessment Matrix (RAM) 1/

Risk	Overall Level of Concern		
	Relative Likelihood	Expected Impact if Materialized	Recommended Policy Response
1. Sharp oil price decline	<p>Low</p> <p>A severe international slowdown (or spillovers from the shale oil/gas revolution that could boost global growth but lower oil prices) could lead to a sharp decline in the price of energy.</p>	<p>High</p> <p>Given Russia's dependence on energy exports, the economy would enter into recession. However, exchange rate flexibility and large international reserves provide some cushion.</p>	<p>Rebuild fiscal buffers and oil savings by tightening fiscal rule. Structural reforms to enhance economic efficiency and diversification.</p>
2. Acceleration of capital outflows	<p>Medium</p> <p>A spike in global risk aversion, renewed domestic political and social tensions, or absence of reforms could cause a further intensification.</p>	<p>Medium</p> <p>The macro framework is more robust than in 2008. Russia has experienced capital outflows for many years without major problems. Still, outflows would be a drag on investment and a sign of worsening business climate.</p>	<p>Enhance confidence and resilience by strengthening core institutions and policy frameworks and improve the investment climate.</p>
3. Bank distress	<p>Medium</p> <p>Intensified international banking problems could trigger a further global liquidity squeeze.</p>	<p>Low</p> <p>Foreign funding use is relatively small. Moreover, given that most systemically important banks are publicly-owned, a liquidity crisis would have limited impact.</p>	<p>Provide foreign exchange liquidity as needed. Implement FSAP recommendations. Take prudential measures to reduce financial stability risks.</p>
4. Cyprus	<p>Medium</p> <p>Cyprus is the main source of FDI and a major offshore financial center for Russia.</p>	<p>Low</p> <p>Spillovers from Cyprus have been small, with lost deposits a small fraction of Russia's own banking system and economy. But Cypriot capital controls could complicate financial flows involving Russian-controlled entities via Cyprus.</p>	<p>The CBR, with support of the government, should assess risk factors and possible solutions. Use FATF chairmanship to strengthen the AML regime.</p>

1/ The RAM shows events that could materially alter the baseline path discussed in this report (which is the scenario most likely to materialize in the view of the staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding this baseline. The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities.



RUSSIAN FEDERATION

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 5, 2013

Prepared By

European Department

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FUND RELATIONS

(As of June 30, 2013)

Membership Status: Joined June 1, 1992; Article VIII.

General Resources Account	SDR Million	Percent Quota
Quota	5,945.40	100.00
Fund holdings of currency	4,038.00	67.92
Reserve Position	1,907.42	32.08
Lending to the Fund		
New Arrangements to Borrow	1,116.06	

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	5,671.80	100.00
Holdings	5,687.85	100.28

Outstanding Purchases and Loans: None

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	07/28/99	12/27/00	3,300.00	471.43
EFF	03/26/96	03/26/99	6,305.57	1,443.45
Of which SRF	07/20/98	03/26/99	3,992.47	675.02
EFF	03/26/96	03/26/99	6,901.00	4,336.26

Projected Obligations to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Principal					
Charges/Interest	---	0.03	0.03	0.03	0.03
Total	---	0.03	0.03	0.03	0.03

Implementation of HIPC Initiative: Not Applicable

Implementation of MDRI Assistance: Not Applicable

Exchange Arrangements: The de jure arrangement is other managed arrangement—namely, a controlled floating exchange rate arrangement. The ruble value of a bi-currency basket is used as the operating benchmark for transactions on the domestic foreign exchange market. The basket is currently composed of €0.45 and US\$0.55. The value of the bi-currency basket is determined under the influence of both market factors and exchange interventions by the Central Bank of Russia (CBR). Interventions take place both in interbank currency exchanges and on the over-the-counter interbank market to limit daily fluctuations. The CBR does not set any quantitative limits on the exchange rate level of the national currency, but its exchange rate policy aims at keeping short-term fluctuations within an acceptable range, as determined by a floating operating band. Interventions take place both at the limits of the floating operating band and within it. The CBR distinguishes two types of intervention. “Planned” interventions are daily purchases of an amount set at the start of the month according to a formula that is nonpublic but linked to the CBR’s estimate of the current account and expected transfers to the Reserve Fund. “Unplanned” interventions are triggered once the exchange rate crosses limits set by a nonintervention corridor, with intervention amounts and intervals established in advance. The limits of the operating bands itself shift by 5 kopecks once a predetermined cumulative volume of (unplanned) interventions has been reached. Effective October 13, 2010, the CBR eliminated the fixed trading band of Rub 26-41 against the bi-currency basket, in force since January 2009. Since 2010, the CBR has widened the moving intervention band from 3 to 7 rubles in four installments, and reduced the volume of cumulative interventions triggering a 5 kopeck shift in the operational band from originally \$700 million to now \$450 million. The range of permissible fluctuations may be revised further in response to changes in macroeconomic indicators. The CBR aims at further scaling down its direct interventions and creating conditions for the transition to a floating exchange rate regime by 2015. After the transition to a floating exchange rate regime, the CBR intends to abandon exchange rate-based operational indicators of its exchange rate policy. Owing to the continued control of the CBR over the exchange rate determination, the de facto exchange rate arrangement is classified as other managed arrangement. The Russian Federation accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement with effect from June 1, 1996, *and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.*

Article IV Consultation: Russia is on the standard 12-month consultation cycle. The last consultation was concluded on July 27, 2012.

FSAP Participation and ROSCs: Russia participated in the Financial Sector Assessment Program during 2002, and the FSSA report was discussed by the Board in May 2003, at the time of the 2003 Article IV discussion (IMF Country Report No. 03/147). An FSAP update took place in the fall of 2007, and the FSSA report was discussed by the Board in August 2008, at the time of the 2008 Article IV discussion. An FSAP financial stability assessment took place during April 2011, and the FSSA report was discussed by the Board in September 2011, at the time of 2011 Article IV Consultation.

RUSSIAN FEDERATION

A Fiscal Transparency ROSC mission, headed by Peter Heller (FAD), visited Moscow in July 2003, and a new Data ROSC module was undertaken by a mission in October 2003, led by Armida San Jose (STA). A mission led by Ms. San Jose undertook a reassessment of Data ROSC module in July 2010.

Resident Representative: Mr. Bikas Joshi, Resident Representative, since July 1, 2013 (succeeded Mr. Odd Per Brekk).

IMF-WORLD BANK COLLABORATION

The Fund Russia team led by Mr. Spilimbergo (mission chief) spoke with the World Bank Russia economic policy team led by Mr. Rutkowski (Country Director) on June 17, 2013 to discuss and reconfirm macro-critical structural reforms and to coordinate the two teams' work for the period July 2013–September 2014.

The teams agreed that Russia's key challenges are to maintain macroeconomic stability and to improve growth prospects. To meet these challenges, stronger core institutions and a better regulatory, judicial and administrative environment are needed. This will support private-sector investment and the creation of more and better jobs.

Based on this shared assessment, the teams identified five reform areas as macro-critical:

- **Strengthening the fiscal framework:** Key elements of reform include: (i) strengthening the new fiscal rule to rebuild fiscal buffers and save more of the exhaustible oil income; (ii) avoid off-budget or other mechanisms for increasing spending outside the federal fiscal rule; (iii) strengthen fiscal risk assessment and transparency; and (iv) avoid excessive use of supplemental budgets. These reforms are macro-critical as they will help to reduce fiscal (and economic) vulnerabilities, and increase the credibility of fiscal policy, which would support higher growth.
- **Public expenditure reforms:** Key elements of reform include: (i) promoting aggregate fiscal discipline and strengthening public expenditure efficiency and management; (ii) strengthening capital budgeting in the road and rail sectors; and (iii) improving the efficiency of public employment. These reforms are macro-critical as they will help to identify savings to support fiscal consolidation and reduce fiscal vulnerabilities.
- **Reforming the pension system:** Key objectives of reform include managing long-run fiscal costs and providing reasonable pension benefits to all pensioners current and future. These reforms are macro-critical as they will help to reduce fiscal vulnerabilities as well as to tackle problems related to shadow employment. Reforms are needed to improve the transparency of the pension system (e.g. the financing of pensions and increased public awareness about pension products and instruments, etc).
- **Strengthening the monetary policy framework:** Key elements of reform include (i) further increasing exchange rate flexibility; (ii) streamlining the set of monetary policy instruments; (iii) establishing a more effective policy rate; (iv) allowing full averaging of reserve requirements; and (v) further improving policy transparency and communication; and (vi) completing other steps necessary to adopt inflation targeting by end-2014. These

reforms are macro-critical as they will help to improve the effectiveness of the monetary policy efforts to control inflation, which is key for macroeconomic stability and growth.

- **Financial sector stability assessment and financial sector development:** The banking sector is stable but regulatory and supervisory deficiencies need to be addressed, specifically: (i) prompt adoption of pending legislation on consolidated supervision and connected lending; (ii) promote banking sector consolidation by raising minimum capital requirements and tightening large-exposure limits; (iii) granting an appropriate degree of supervisory discretion to the CBR; (iv) closer supervision of systemically important banks to contain moral hazard and improve systemic risk monitoring, (v) improve the functioning of credit bureaus and collateral registries to reduce information asymmetries and improve SME access to financing; and (vi) reduce public ownership in the banking sector. These reforms are macro-critical as financial sector stability is key for effective intermediation of savings to promote investment and growth.

The teams agreed the following division of labor:

- **Strengthening the fiscal framework:** The Fund will discuss further reform options with the authorities during staff technical and Article IV consultations. The Fund expects to continue its dialogue with the authorities on the best ways to analyze, manage, and disclose contingent liabilities and fiscal risks, drawing on international best practice in these areas, in the context of a fiscal transparency assessment, as well as provide (in coordination with the Bank as needed) technical support on the proposed shift to program budgeting. The Bank is preparing a new lending project for FY14 to strengthen the fiscal regime to encourage business investment, streamline the intergovernmental fiscal system and increase oversight of financial risks through policy advice and capacity building in the Ministry of Finance and the Federal Tax Service. The Bank is also monitoring fiscal developments, reforms and policies as part of its regular Russian Economic Reports covering macroeconomic and structural issues. In addition, the Bank is providing technical assistance on public finance reforms, including tax policy and administration, inter-budgetary relations, program budgeting and public expenditure efficiency.
- **Public expenditure reforms:** The Fund will discuss government plans for strengthening public efficiency in the context of staff technical and Article IV consultations. The Bank has elaborated reform options in its Public Expenditure Review, which were discussed with the authorities and published in June 2011. The Bank will further explore cooperation with the authorities in the areas of improving the business environment and public administration reform, including in the regions.
- **Reforming the pension system:** The World Bank is actively engaged in the dialogue with the Ministry of Labor and the Pension Fund on pension reforms. The World Bank is involved in activities of the intergovernmental working group on nonstate pension funds under the Ministry of Finance, which supports the preparation of several legislative initiatives to

improve nonstate pension funds, supervision and operations. It supports policies related to balancing sources of pensions from pay-as-you-go and other funded components. The Bank is also providing pension projections and a discussion of pension system reform options as part of analytical work on the growth and fiscal impact of aging. The Fund will continue to consult with the authorities and the Bank regarding progress and the need for additional technical support and analysis in this area.

- **Strengthening the monetary policy framework:** The Fund has elaborated reform options and discussed them with the authorities during the 2013 Article IV consultation. Envisaged follow-up work includes: (i) examining the optimal width of the policy rate corridor; (ii) coordination between monetary policy and government operations that affect liquidity conditions; (iii) foreign exchange intervention policy; and (iv) effective communications policies.
- **Financial sector stability assessment and financial sector development:** The Fund conducted a Financial Sector Assessment Program (FSAP) Update in March/April 2011 and discussed reform options with the authorities, along with participation of Bank staff. An IMF expert at the CBR (resident advisor) is helping the authorities adopt the IRB of Basel II (internal-ratings based approach for measuring credit risks) and Basel III frameworks and implement the recommendations of the FSAP Update. The Bank has appointed a new private sector/financial sector coordinator for Russia, who is stationed in Moscow to coordinate the work on longer-term developmental issues in the private/financial sector. The Bank board approved a Microfinance development project which is currently pending signature. The Bank is also preparing a new lending project to (a) achieve an orderly financial market expansion and development of domestic capital markets to better serve the needs for corporate finance, (b) enhance financial market stability through a modernized state-of-the-art regulatory framework and the implementation of robust supervisory and enforcement mechanisms, and (c) reach global best practice standards in the market infrastructure and regulation, in order to achieve a broader international reach as a center of financing. However, with the recent changes in the supervisory architecture and recent decision to create a Mega-Regulator under the Central Bank of Russia, which will absorb the functions of the FSFM, the project is stalled and may need to be restructured or transformed depending on the needs of the CBR.

The teams have the following requests for information from their counterparts:

- The Fund team requests to be kept informed of progress in the macro-critical reform areas under the Bank's purview and the Bank will provide an assessment of the 2014–16 medium-term budget in the 30th RER edition.
- The Bank team requested that the Fund share on a regular basis with the Bank and invite, as needed, the Bank's comments on policy notes, draft staff reports, and other relevant materials; and that Bank staff be invited to attend policy meetings, as has already been the

case in the context of Article Consultation Discussions. Timing: in the context of the Article IV and other missions (and at least semi-annually).

The table below lists the teams' separate and joint work programs during July 2013 to September 2014.

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual information on relevant work programs			
1. Bank work program	Country Partnership Strategy (CPS)	Delivered	Board discussion Dec. 2011
	CPS Progress Report	July 2013 March 2014	Due in 2014
	Russian Economic Reports (RER)	Ongoing	October 2013, March 2014
	Social Mobility, Poverty and Opportunity Study	Ongoing	Delivery in FY14
	Corporate Governance ROSC	Ongoing	Delivery in FY14
	Microfinance Development Project	Ongoing	Approved January 2013
	Public Financial Management Project	Pipeline	Board discussion August 2013
	Financial market Development Project	Pipeline	Board discussion expected in FY15

Title	Products	Provisional Timing of Missions	Expected Delivery Date
	Other analytical work on diversification, the economic impact of aging, poverty and inequality, social mobility, gender assessment, post WTO developments, financial sector analysis (pensions, banking, capital markets and insurance) and technical assistance on diversification and innovation, investment climate, public procurement, customs, tax administration, statistical system building, judicial reform, health financing, social services modernization, smart cities, agriculture and growth, urban transport and open data, etc.	Ongoing	FY14–15
2. Fund work program	2013 Article IV mission 2013/14 Staff Visit Presentations at Gaidar Forum 2014 Article IV Mission	June 2013 December 2013 January 2014 May/June 2014	September 2013 n.a. n.a. By September 2014
3. Joint products in next 12 months	No joint products planned at this time		

STATISTICAL ISSUES

A. Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for surveillance. However, in the context of emerging data demands for assessing external vulnerabilities, the scope for further data improvements exists.

Russia is an SDDS subscriber, has a range of statistical dissemination formats, and reports data for the Fund's statistical publications. These sources inform surveillance.

National Accounts: Data are broadly adequate for surveillance, but there have been concerns about the reliability and consistency of quarterly GDP estimates among a wide range of users, including Fund staff. Rebasement of GDP estimates to a recent year would close the gap between GDP estimate and its components. The Federal State Statistics Service (Rosstat) started a national account development plan for 2011–17, which will expedite compilation of quarterly GDP estimates consistent with the annual GDP estimates.

Following the introduction of methodological changes in the compilation of important indicators, backward revisions of the series were delayed impairing timely economic analysis. However, a historical revision of the industrial production index (2008=100) was released in July 2010. Consistent with the new series, a historical revision of the annual and quarterly GDP series, which also incorporated the results of the 2006 agriculture census as well as methodological improvements, was made in the third quarter of 2010.

The Rosstat follows the 1993 SNA in general, although scope exists for methodological improvements in the calculations of volume measures of the production-based GDP estimates, including estimates of the output of financial intermediation services indirectly measured (FISIM). The imputed rental services of owner-occupied dwellings are undervalued. Improvements in the coverage of source data are constrained by an inadequate response to business surveys. The unavailability of balance sheet data continues to be an obstacle for analyzing balance sheet vulnerabilities, and work is underway to disseminate the first quarterly sectoral accounts and balance sheets for 2012–14 by 2016.

Price statistics: Data are broadly adequate for surveillance. Monthly CPI and PPI, both compiled using the Two-Stage (Modified) Laspeyres (2000=100), cover all regions of the Russian Federation. In addition to the general CPI index, Rosstat also publishes indices for foodstuffs, nonfood products, and services. Since September 2010, the Rosstat has also published monthly price indices broken down according to the Classification of Individual Consumption According to Purpose (COICOP). Detailed CPI weight data are available on the Rosstat website beginning in 2006 and detailed consumer expenditure data, used as the basis to develop the CPI weights, - are available since the beginning of 1995 in the publication *Prices in Russia*. Weights are updated annually and revisions are introduced in January of each year. The weights reflect expenditures in

the 12 months ended the previous September. Aggregate price indices are compiled for each good and service item for the 89 regions, seven federal regions, and the Russian Federation as a whole. However, population weights, as opposed to expenditure shares are applied to the individual regional indices possibly biasing the CPI downwards if price increases are higher in regions with higher per capita expenditures. Detailed PPI weight data are published on the Rosstat website for 2006–2013; and detailed data on total annual sales, which are used to develop weights for the PPI, are also published by economic activity on the website under the Entrepreneurship section, industrial subsection. However, the detailed weights are available only on the Russian version of the website, making it less accessible by users. Further efforts to improve the treatment of seasonal items in the core inflation index and a new household budget survey—which has been under consideration for some time—could significantly strengthen data quality.

Government finance statistics: Russia participates in the G-20 Data Gap Initiative. The authorities are in the process of promoting timely and cross-country standardized and comparable government finance data based on the *Government Finance Statistics Manual 2001*. The main data gaps are due to the unavailability of quarterly primary data to compile the general government operation statement, financial balance sheet, and gross debt (by instrument, maturity, residency, and currency). Additional gaps remain that affect the data quality for surveillance, for example the lack of historical quarterly data, unexplained data breaks (for instance the reclassification of some wage expenses from the budgetary central government accounts to the regional government accounts (following 2011 reforms), unavailability of monthly data on ruble guarantees prior to 2011, no integrated debt monitoring and reporting system, and the lack of reconciliation between different datasets of fiscal statistics (budget execution, cash flow statement, economic versus functional classification, SDDS fiscal data). The links to website where fiscal statistics are disseminated can be made more user friendly. The authorities are, however, continuing to work on addressing these issues and the recommendations of the 2010 Data Module ROSC update.

Monetary statistics: Since July 2008, the Central Bank of Russia (CBR) has reported to the IMF, in the MFSM-recommended format for the surveys, the summarized data on (i) the Central Bank Survey, (ii) the Other Depository Corporations Survey (covering credit institutions), (iii) the Depository Corporations Survey, (iv) the Other Financial Corporation Survey (covering insurance companies and private pension funds), and (v) the Financial Corporations Survey (data cover the banking system, insurance companies, and private pension funds). In the context of the recent global turmoil, analysis of balance sheet effects has been hindered by a lack of comparable data on the currency and maturity breakdown of banking-sector assets and liabilities. Adoption of data reporting in the full detail of the framework for Standardized Report Forms (SRFs), as recommended by an STA mission in 2007 (and re-affirmed by the ROSC mission in 2010), would provide comprehensive information on the currency and instrument breakdowns of the assets and liabilities of the central bank, credit institutions, and other financial corporations. Since March 2011, the Banking System Survey (which is equivalent to the Depository Corporations/Broad Money Survey) published by the CBR has included a breakdown of positions

by national and foreign currency. However, the publication on the website started in March 2011 only for the banking sector.

External sector statistics: Balance of payments data are broadly adequate for surveillance, and significant improvements have been made to enhance data quality. The CBR has recently published the gross capital flow data for the private sector, which would facilitate the analysis of relatively complex flows. Starting from 2012, the balance of payments is compiled according to the framework of the *Fund's Balance of Payments and International Investment Position Manual*, sixth edition (BPM6) and the CBR has revised historical data (2005–11), consistent with BPM6. However, the historical revision does not provide the same level of details as previously reported on the components of the financial account statistics, which makes it difficult to assess various dimensions of capital flows by sectors.

Partial data from a variety of sources are supplemented by the use of estimates and adjustments to improve data coverage. In particular, the CBR makes adjustments to merchandise import data published by the Federal Customs Service to account for “shuttle trade,” smuggling, and undervaluation. Statistical techniques are also used to estimate transactions and positions of foreign-owned enterprises with production sharing agreements, and these techniques are continuously being improved. At the same time, Russian compilers are seeking to reconcile their data with those of partner countries. Improvements have been made in the coverage and quality of surveys on direct investment, and the CBR is participating in the Fund’s Coordinated Direct Investment Survey.

Headline data on reserves are reported to the Fund and the markets on a weekly basis with a four-business day lag. Comprehensive information is reported in the Reserves Template with a lag of 20 days, exceeding SDDS timeliness requirement of one month.

B. Data Standards and Quality

Subscriber to the Special Data Dissemination Standard (SDDS) since January 31, 2005. SDDS flexibility option used for the timeliness of data on central government operations. A data ROSC prepared in October 2003 was published on the IMF website on May 14, 2004. A data ROSC reassessment in June–July 2010 was published on the IMF website on February 28, 2011 and concluded that Russia’s macroeconomic statistics are generally of high quality. It found that compiling agencies have made significant progress in adopting international statistical methodologies and best practices.

C. Reporting to STA (Optional)

Data are being reported for publication in the *International Financial Statistics (IFS)*, *Government Finance Statistics Yearbook*, *the Direction of Trade Statistics*, and *the Balance of Payments Statistics Yearbook*. Monetary data reported as the basis for publication in *IFS* are in the format of summarized surveys rather than in the full detail of the SRFs that present positions by financial

instrument disaggregated by currency (national and foreign) and the economic sector of counterparty. For the general government, the cash flow statement is published in the IFS, and operation statement (economic and functional classifications) and financial balance sheet are published in the annual *Government Finance Statistics Yearbook*.

Russian Federation: Table of Common Indicators Required for Surveillance

(As of June 30, 2013)

	Date of Latest Observation	Date Received	Frequency of Data ⁸	Frequency of Reporting ⁸	Frequency of Publication ⁸	Memo Items:	
						Data Quality – Methodol. Soundness ⁹	Data Quality Accuracy and Reliability ¹⁰
Exchange Rates	6/28/2013	6/28/13	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	6/24/2013	6/28/13	M	M	M		
Reserve/Base Money (narrow definition)	6/24/2013	6/28/13	D	W	W	O, O, LO, LO	O, O, O, O, O
Reserve/Base Money (broad definition)	6/1/2013	6/15/13	D	M	M	O,O,LO,LO	O,O,O,O,O
Broad Money	6/1/2013	6/15/13	M	M	M	O,O,LO,LO	O,O,O,O,O
Central Bank Balance Sheet ²	6/1/2013	6/28/13	M	M	M	O,O,LO,LO	O,O,O,O,O
Consolidated Balance Sheet of the Banking System	6/1/2013	6/28/13	M	M	M	O,O,LO,LO	O,O,O,O,O
Interest Rates ³	6/30/2013	6/30/13	D/W/M	D/W/M	D/W/M		
Consumer Price Index	May 2013	6/15/13	M	M	M	O, LO, LNO, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing ⁴ – General Government ⁵	Apr. 2013	6/24/13	M	M	M	LO, LNO, LO, O	O, O, LO, O, NA
Revenue, Expenditure, Balance and Composition of Financing ⁴ – Central Government	May. 2013	6/24/13	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	6/1/2013	6/28/13	M	M	M		
External Current Account Balance ⁷	2013:Q1	4/5/13	Q	Q	Q	O, O, O,LO	LO, O, O, O, O
Exports and Imports of Goods and Services	2013: Q1	4/5/13	Q	Q	Q		
GDP/GNP	2013:Q1	6/1/13	Q	Q	Q	O, O, O, O	O, O,LO, O, LO
Gross External Debt	2013:Q1	6/28/13	Q	Q	Q		
International Investment Position	2012	6/29/13	A	A	A		

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Ratings refer to Central Bank Survey.

³ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

⁴ Foreign, domestic bank, and domestic nonbank financing.

⁵ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁶ Including currency and maturity composition.

⁷ Ratings refer to Balance of Payments.

⁸ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

⁹ Based on the findings of the ROSC Data Module (Reassessment) mission in the field as of July 7, 2010 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

¹⁰ Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

**Statement by the IMF Staff Representative on the Russian Federation
September 18, 2013**

- 1. This statement reports on information that has become available since the staff report was issued. This information does not alter the thrust of the staff appraisal.**
- 2. Incoming data on economic activity since the completion of the Article IV consultation in June have surprised on the downside.** Growth in 2013Q2 failed to rebound as expected, dragged down by weak investment and industrial production, possibly due to the completion of large projects in the energy sector. Seasonally-adjusted quarter-on-quarter growth is estimated at only 0.1 percent, just a slight improvement over 2013Q1 growth of 0.0 percent. However, high frequency indicators for July/August, survey data, expectations of higher oil prices, and consensus forecasts point to a pick-up in growth in 2013H2. August inflation was unchanged over July at 6.5 percent y/y, reflecting higher utility prices and some evidence of pass-through from exchange rate movements. The 2013H1 federal and general government nonoil deficit outturns were broadly as expected, but lower spending masked somewhat lower nonoil revenues.
- 3. Financial conditions weakened slightly in Russia during August, and have improved a bit so far in September.** The ruble depreciated about 0.5 percent vis-à-vis the currency basket in August (and by 8 percent since May 22), and the central bank has intervened, selling fx, and repeatedly adjusted the basket exchange rate band upward, consistent with its exchange rate band mechanism. During August, the MICEX stock market index and Russia's EMBI+ spread worsened slightly, but MICEX rebounded markedly in September. Since May 22, spreads have widened by about 55 bps. Despite the worsened global market conditions in recent months, the authorities successfully placed a four-tranche USD 7 billion Eurobond issue on September 9 among strong investor interest.
- 4. Overall, these data and developments have caused staff to revise its near-term growth forecast downward, while the substance of staff's policy advice is broadly unchanged.** Staff is revising down its GDP growth forecast by about 1 percent in 2013 and around ¼ percent in 2014, to around 1½ percent and 3 percent, respectively—which also suggests that a small negative output gap is opening up. Staff is now forecasting a wider federal government nonoil deficit of about 10.6 percent of GDP in 2013, compared with 10.0 percent in the staff report (and a similar shift for general government), to reflect weaker non-oil revenues. The overall deficit is expected remain broadly unchanged due to upward revisions in oil prices for the year as a whole and the impact of the weaker ruble. For 2013, consistent with the fiscal rule, staff advises to maintain expenditures at planned levels, allowing automatic stabilizers to work. Over the medium term, given the probable temporary nature of the slowdown, staff continues to urge a gradual fiscal consolidation to generate higher savings of oil revenues.
- 5. Despite the slowdown in growth, staff has marked up its forecast for 2013 year-end inflation slightly from 6.1 to 6.2 percent.** This reflects recent inflation data and expectations of price pressures from the recent ruble depreciation, and slightly exceeds the central bank's target range of 5 to 6 percent for end-2013. For 2014, staff has slightly

lowered its forecast for year-end inflation from 5.5 to 5.3 percent—to reflect the emerging small negative output gap—which would still be above the central bank’s target range of 4 to 5 percent. On balance, staff continues to advise that monetary policy remain on hold with a tightening bias. This, combined with other policy recommendations in 2014, would help bring inflation firmly on a path toward the mid-point of the CBR’s 4 to 5 percent target range.

6. Financial sector reforms have progressed. As expected, the new mega-regulator became operational on September 1, combining the functions of banking sector oversight and the dissolved Federal Financial Markets Service under the roof of the central bank. Other organizational changes at the central bank include establishment of the Department for Systemic Bank Supervision to oversee Russia’s largest banks.



INTERNATIONAL MONETARY FUND



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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation with Russian Federation

On September 18, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Russian Federation.¹

Real GDP growth in Russia has slowed, amid weak investment and external demand. Yet, the economy remains close to full capacity, with unemployment at historic lows and capacity utilization at pre-crisis highs. Short-term indicators are mixed, but on balance suggest some recovery of activity in recent months, indicating a stronger growth outlook for the second half of this year. Inflation has remained above target on the back of food prices and regulated tariff hikes, but has started to decline gradually since June. Recent global financial market turbulence has put some pressure on the exchange rate, the local bond market, and equities, and may have contributed to an acceleration of capital outflows. The current account surplus has been shrinking, reflecting growing imports and deteriorating service and income account balances.

The near-term outlook is for moderate growth and inflation at the upper end of the target range of the Central Bank of the Russian Federation (CBR). Staff projects real GDP growth at 1.5 percent in 2013 and 3 percent in 2014, assuming that the global environment improves as expected, and no downside risks are realized. Inflation is projected to abate to 6.2 percent (year-on-year) by end-2013 as the effects of temporary supply-side shocks fade, but to remain above the authorities' target range of 4 to 5 percent next year.

The fiscal policy stance has turned roughly neutral. The general government balance was in surplus in 2012, but is turning negative in 2013 as revenue growth has shown some weakness, but expenditure restraint has kept the non-oil balance roughly unchanged from last year. The Reserve Fund balance has increased following deposit of 2012 oil savings, but remains well short of the government's 7 percent of GDP target.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Against the backdrop of continued high inflation, the monetary policy stance has remained on hold throughout the first half of 2013. The CBR has gradually lowered some secondary rates on longer-term facilities in an effort to strengthen monetary transmission. Money market rates edged up in 2013:Q2 and liquidity conditions have been volatile, driven by the budget cycle and seasonal factors. The increased flexibility of the exchange rate should help maintain external balances in line with medium-term fundamentals.

Overall credit growth has slowed, but unsecured consumer lending continues to expand at a rapid pace. The slowdown in corporate credit has been mainly demand-driven, reflecting low investment and working capital financing, due to slower economic activity, while declining bank capitalization and tightened prudential regulations beginning to constrain the supply of credit.

Executive Board Assessment²

Executive Directors noted that Russia's macroeconomic policy framework has strengthened and that the economy appears to be operating at close to full capacity. However, growth is slowing down and risks are tilted to the downside on account of potential external and internal shocks. To address the challenges ahead and to increase potential output growth, Directors saw need for further strengthening of policies and decisive implementation of structural reforms, particularly supply-side reforms.

Directors considered the 2013 fiscal stance to be broadly appropriate and encouraged the authorities to resist pressures for higher government spending so as to avoid intensifying inflationary pressures. Additional spending needed for infrastructure projects should be offset by cuts in lower-priority expenditures. To rebuild fiscal buffers and to generate sufficient saving of oil revenue, Directors called for a gradual tightening of fiscal policy in the medium term. Some Directors saw merit in a cautious approach at the current juncture given the uncertain global environment. To protect growth-enhancing investment spending, adjustment efforts should primarily focus on rebalancing the mix of spending and enhancing its efficiency, and pursuing structural reforms, in particular pension reform. Directors welcomed the introduction of the new oil-price-based fiscal rule and highlighted the importance of strengthening it further. They encouraged the authorities to pursue policies consistent with the spirit of the fiscal rule and resist calls to circumvent expenditure limits.

Directors welcomed the improvements in the monetary policy framework and agreed that the current stance is consistent with achieving medium-term inflation objectives. However, to

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>

secure low and stable inflation, they generally recommended keeping monetary policy on hold with a tightening bias. Directors noted that completing the transition to a flexible exchange rate and inflation targeting by end-2014 should help anchor inflation expectations and long-term lending rates. Taking steps to strengthen the transmission mechanism of monetary policy will also be important.

Directors welcomed recent improvements in the financial sector supervisory framework. Against the backdrop of continued high growth in unsecured retail lending and still moderate but rising financial stability risks, they emphasized the need for additional prudential measures. Implementation of the past Financial Sector Assessment Program (FSAP) recommendations will help address weaknesses in the supervisory framework. To enhance the financial sector's efficiency and its role in supporting economic growth, Directors advised further strengthening of corporate governance, creditor rights, and competition.

Directors stressed that ambitious supply-side structural reforms are necessary to raise Russia's medium-term potential growth and reduce vulnerabilities. Noting that economic growth going forward will have to rely on more efficient use of resources and higher investment rather than increasing oil prices and use of spare capacity, Directors called for policies to boost productivity and improve the investment climate, governance, transparency, and property rights protection. They encouraged the authorities to draw on the OECD accession process for advancing and widening the reform agenda.

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Russian Federation: Selected Macroeconomic Indicators, 2010–14

	2010	2011	2012	2013	2014
			Estimate	Projections	
	(Annual percent change)				
Production and prices ¹					
Real GDP	4.5	4.3	3.4	1.5	3.0
Consumer prices					
Period average	6.9	8.4	5.1	6.7	5.7
End of period	8.8	6.1	6.6	6.2	5.3
GDP deflator	14.2	15.5	8.5	6.8	4.9
Public sector ²	(Percent of GDP)				
General government					
Net lending/borrowing (overall balance)	-3.4	1.5	0.4	-0.6	-0.7
Revenue	34.6	37.4	36.9	36.8	36.1
Expenditures	38.0	35.8	36.5	37.5	36.8
Primary balance	-2.9	2.1	1.0	0.1	0.1
Nonoil balance	-13.0	-10.0	-10.9	-10.8	-9.7
Federal government					
Net lending/borrowing (overall balance)	-3.9	0.8	-0.1	-0.7	-0.6
Nonoil balance	-12.4	-9.5	-10.6	-10.0	-8.9
	(Annual percent change)				
Money					
Base money	25.4	20.9	11.3	11.7	12.5
Ruble broad money	31.1	22.3	11.9	13.0	13.8
External sector					
Export volumes	5.4	4.2	3.3	2.4	3.3
Oil	3.2	-1.9	0.4	1.5	1.5
Gas	5.6	6.7	-5.8	0.0	0.0
Non-energy	11.3	5.8	6.0	4.4	6.8
Import volumes	27.5	16.5	8.6	5.6	6.0
	(Billions of U.S. dollars; unless otherwise indicated)				
External sector					
Total merchandise exports, fob	392.7	515.4	529.1	521.6	520.0
Total merchandise imports, fob	-245.7	-318.6	-335.8	-356.4	-376.8
External current account	67.5	97.3	74.8	45.7	34.0
External current account (in percent of GDP)	4.4	5.1	3.7	2.1	1.5
Gross international reserves					
Billions of U.S. dollars	479.4	498.6	537.6	537.7	537.7
Months of imports ³	17.9	14.6	14.5	13.7	13.0
Percent of short-term debt	339	328	338	321	305
<i>Memorandum items:</i>					
Nominal GDP (billions of U.S.D)	1,523	1,899	2,030	2,186	2,329
Exchange rate (rubles per U.S.D., period average)	30.4	29.4	30.8	...	...
World oil price (U.S.D. per barrel) ⁴	79.0	104.0	112.7	106.0	99.9
Real effective exchange rate (average percent change)	9.3	4.8	3.7	...	...

Sources: Russian authorities; and IMF staff estimates

¹ Real GDP growth and prices for 2013-14 reflect updated staff projections.

² Cash basis. Expenditures based on 2013-15 budget and the fiscal rule.

³ In months of imports of goods and non-factor services.

⁴ WEO through 2011, and Brent crude oil spot and futures prices for 2012-14.