

Russian Federation

Macroeconomic Briefing

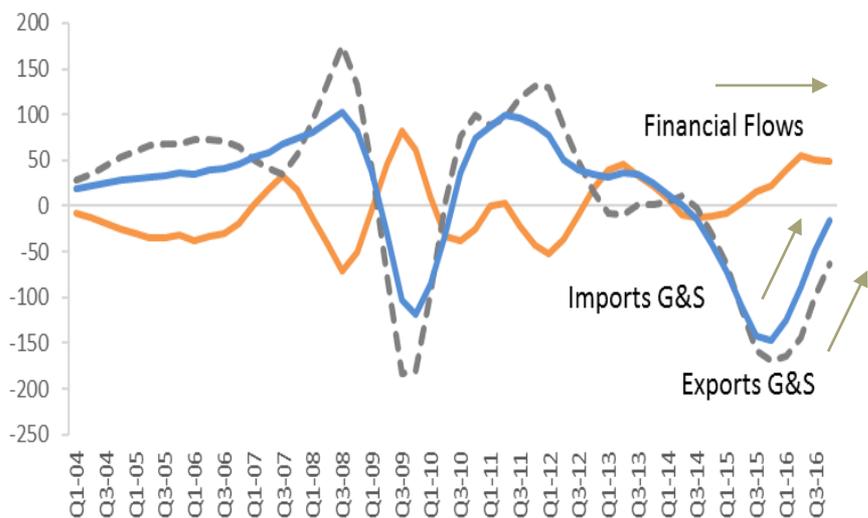
IMF MOSCOW OFFICE

April 2017

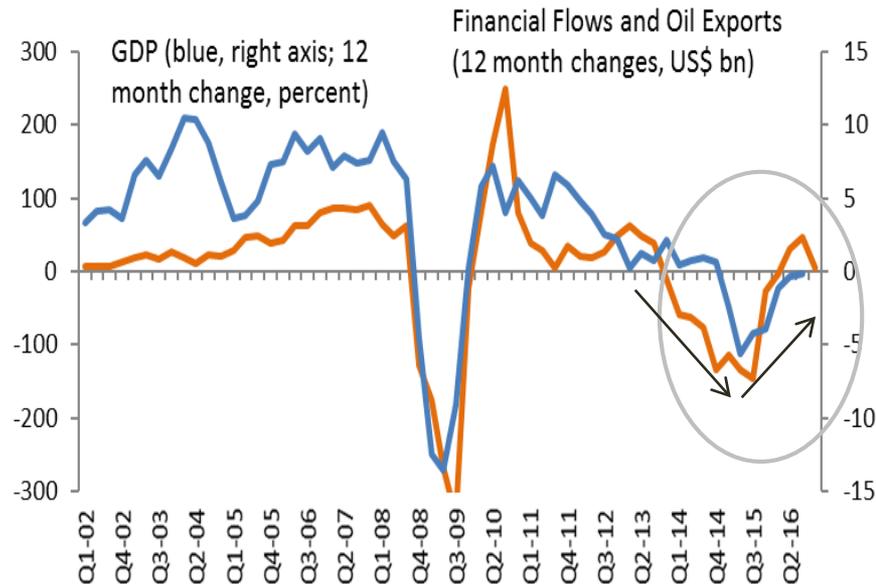
Russia stabilized in 2016 after External Shocks...

Lower net financial outflows together with higher oil prices have allowed economic activity to stabilize

Russia. Exports, Imports and Financial Flows
(12-month changes, US\$ billion)



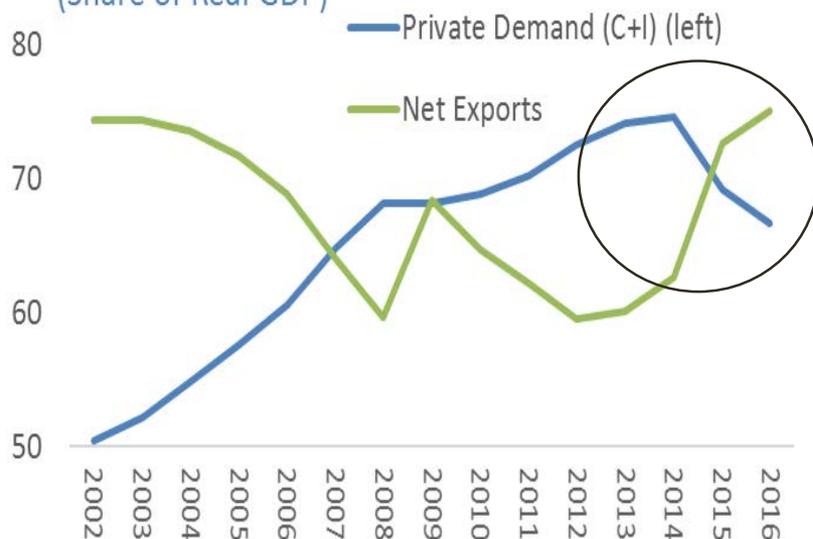
Russia. External Conditions and Activity



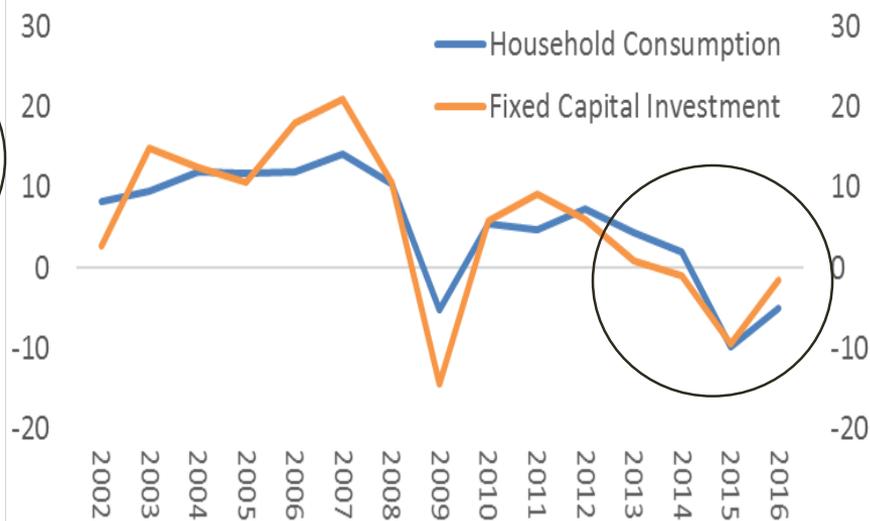
Russia stabilized in 2016 after External Shocks...

Consumption of Households continued adjusting in 2016 while Fixed Capital Investment stabilized

Russia: Aggregate Demand
(Share of Real GDP)



Russia: Aggregate Demand
(annual real change, percent)

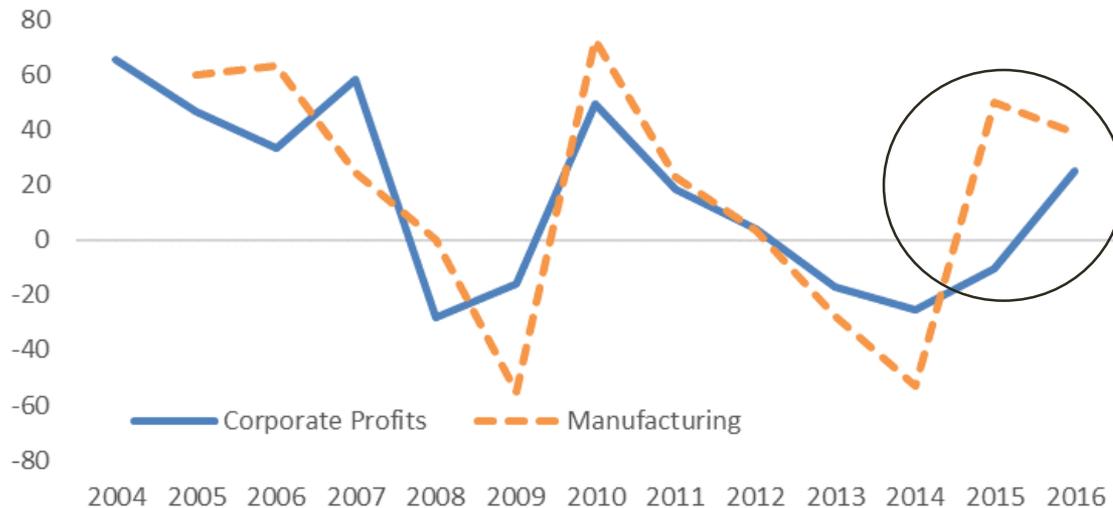


Conditions for a mild cyclical rebound in 2017-18 are in place...

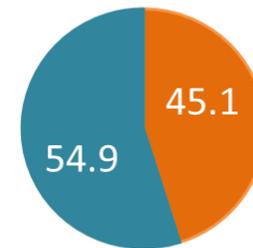
Corporate profits increased, and own cash-flows replaced other sources as main factor in financing investment...

Russia: Corporate Profits

(annual percentage change, over US\$ values)

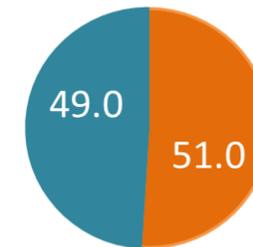


2012-14



Own Funds Other Sources

2015-16



Own Funds Other Sources

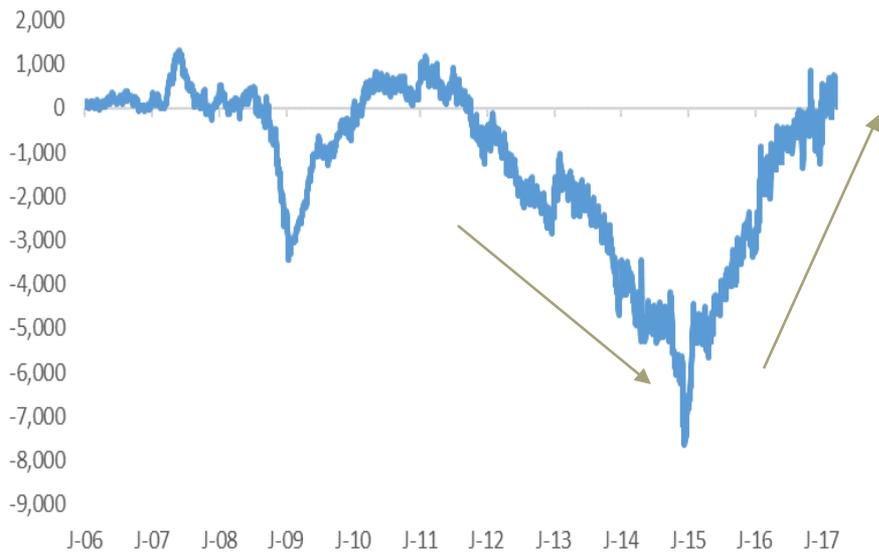


Conditions for a mild cyclical rebound in 2017-18 are in place...

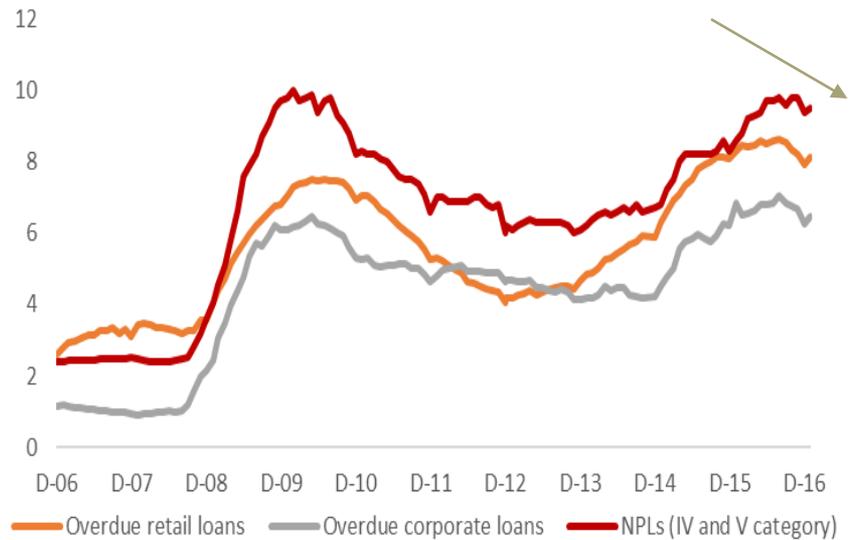
The banking system is moving to structural liquidity...

...and NPLs appeared to have peaked, allowing increases in real credit growth

Liquidity Surplus+ / Deficit-

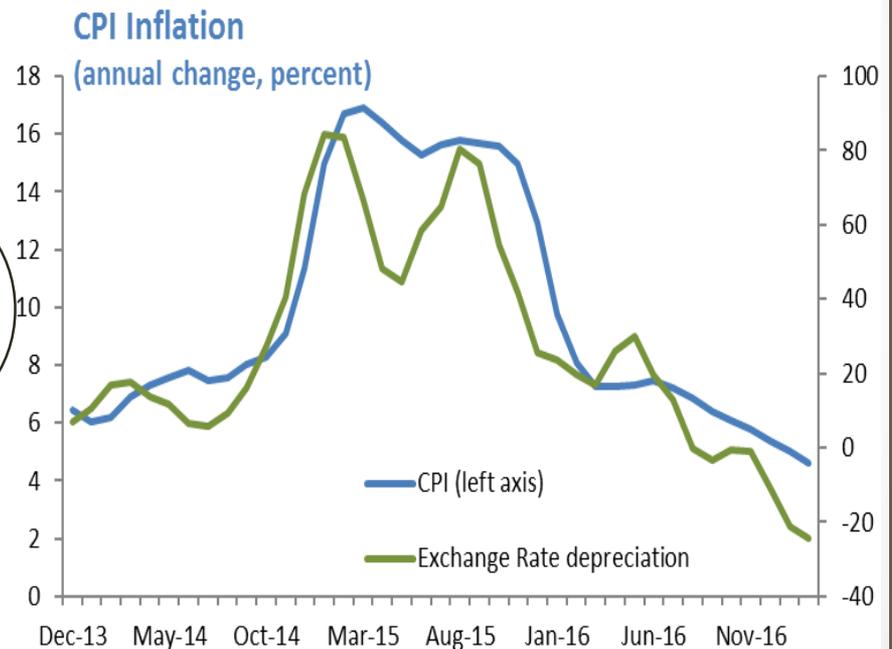
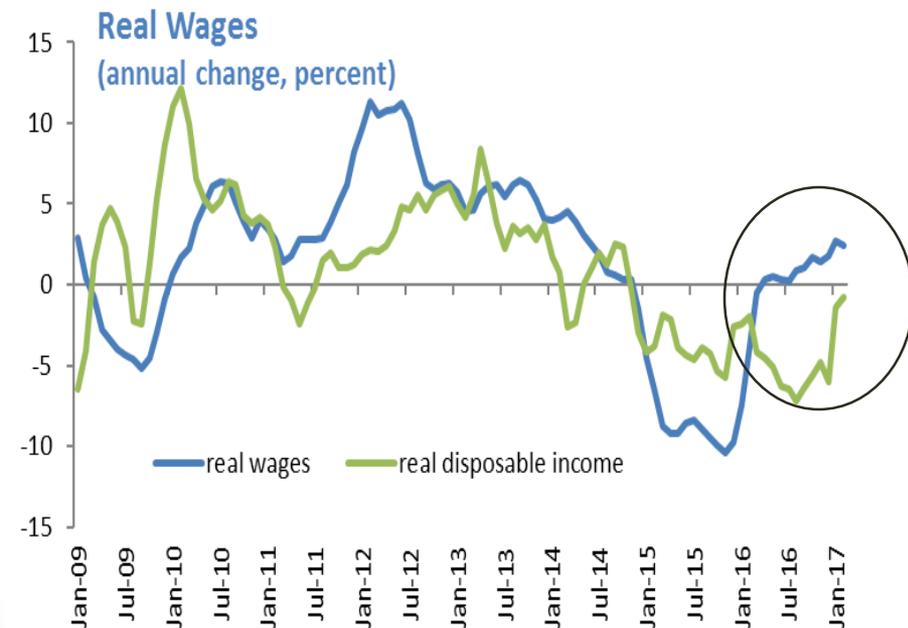


Russia: Share of overdue loans and NPLs



Conditions for a mild cyclical rebound in 2017-18 are in place...

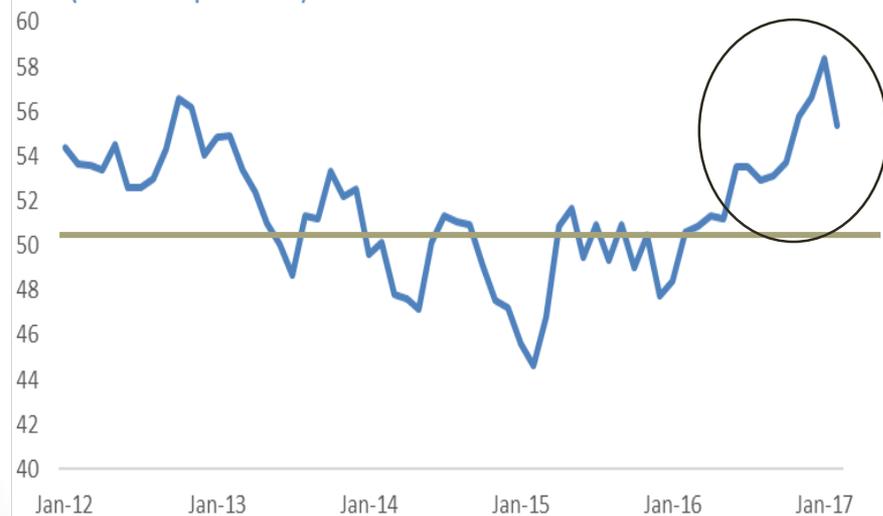
...real wages began growing, and real disposable income is stabilizing, amid decreases in inflation



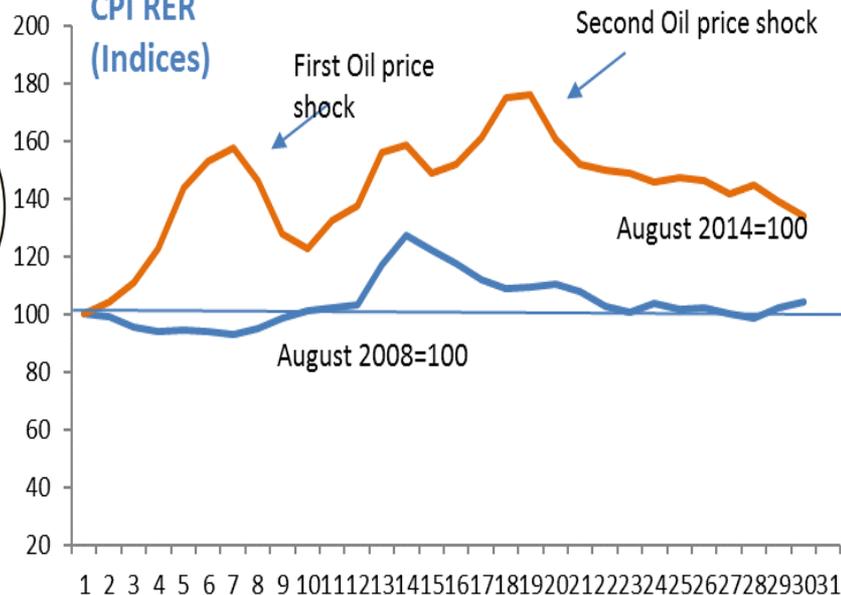
Conditions for a mild cyclical rebound in 2017-18 are in place...

High Frequency indicators show some moderate signs of expansion, amid some strengthening of the real value of the ruble

Russia: PMI Composite Output Total Economy
(>50 = Expansion)



CPI RER (Indices)





Macroeconomic Policies in 2017-18: A Balancing Act

Policies in 2017-18 should balance the need to support the recovery while laying the ground for more diversified growth in the future

1. Fiscal Policy:

- 3-year budget targets deficit reduction of 1 pp of GDP/year
- Anchors federal budget to realistic oil prices and delinks expenditure from oil price fluctuations: 1st step to new rule
- Measures to restore balance should be growth-friendly

2. Monetary and Financial Policies:

- Further decreases in the key rate provided inflation continues in its current declining trend
- Continued attention to quality of bank assets to ensure a healthy sector



The Bottom line: Moderate pick-up in Activity Given Small Economic Slack

*Barring shocks, activity will pick up moderately in 2017-18.
Relatively small output gap to be closed in 2018.*

1. 2017:

- Growth to increase sequentially in 2017 to above 1 percent
- Negative fiscal impulse to be offset by gradual normalization of CBR rates
- Inflation will continue convergence to CB target

2. 2018:

- Average growth to increase sequentially and stabilize around long-term trend (1.5 %) towards end of year
- Negative fiscal impulse to be offset by stronger credit growth and policy rate normalization
- Inflation to stay around the CB target (4 %)



Sources of Growth after Output Gap Closes?

Given demographics, market size will expand if investment and productivity support per capita growth. In absence of reforms, growth will be low.

1. Reforms needs to be adequately prioritized

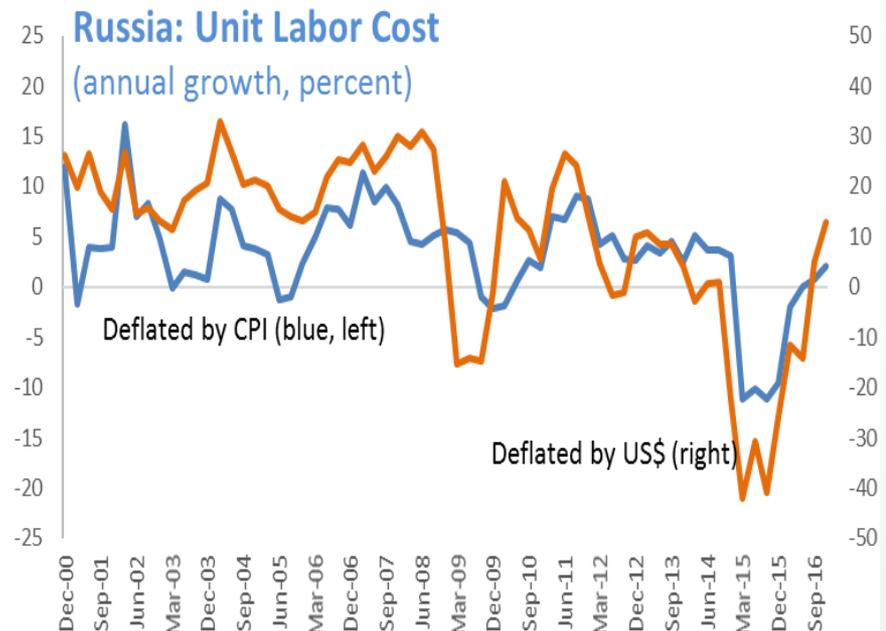
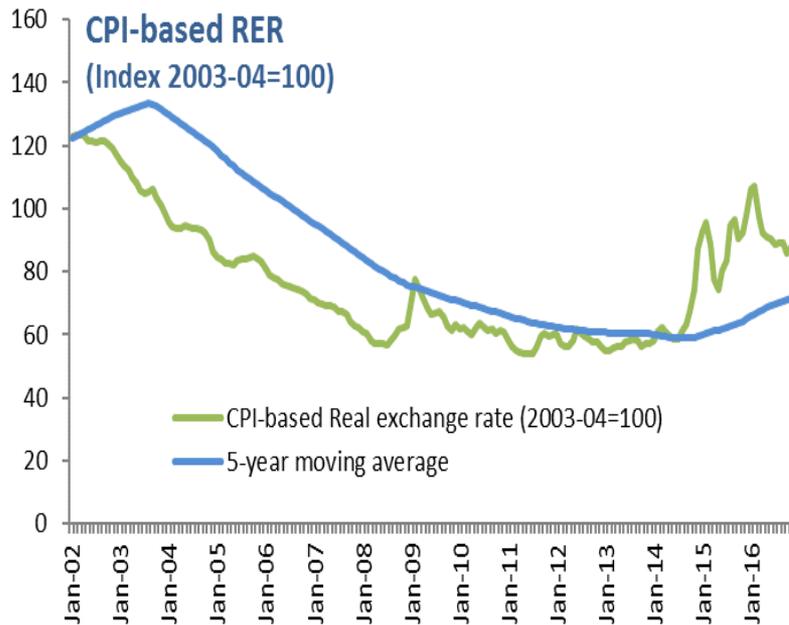
- Fiscal Rule delinks expenditure from oil prices: RER stability
- Education, health and infrastructure expenditure are needed to sustain competitiveness
- Economy needs less administrative pressures, opening to trade, reducing footprint of state

2. End to reform cyclicalities to support Competitiveness

- Some convergence to OECD competitiveness but progress slow
- Need to break reform 'cyclicalities' and need targeted reforms to leverage better relative prices

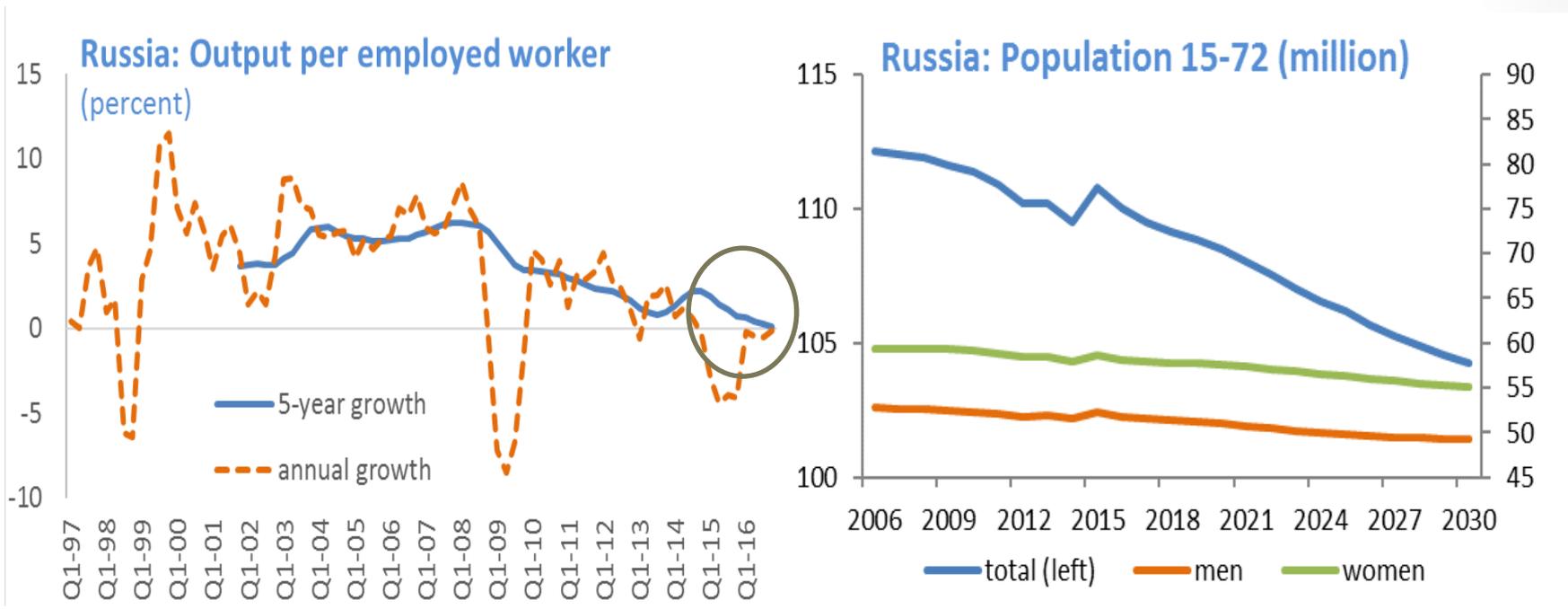
Fiscal Rule and Relative Price Stability

The budget has worked as a propagating mechanism to oil price volatility. A fiscal rule will stop that.



Productivity and Demographics

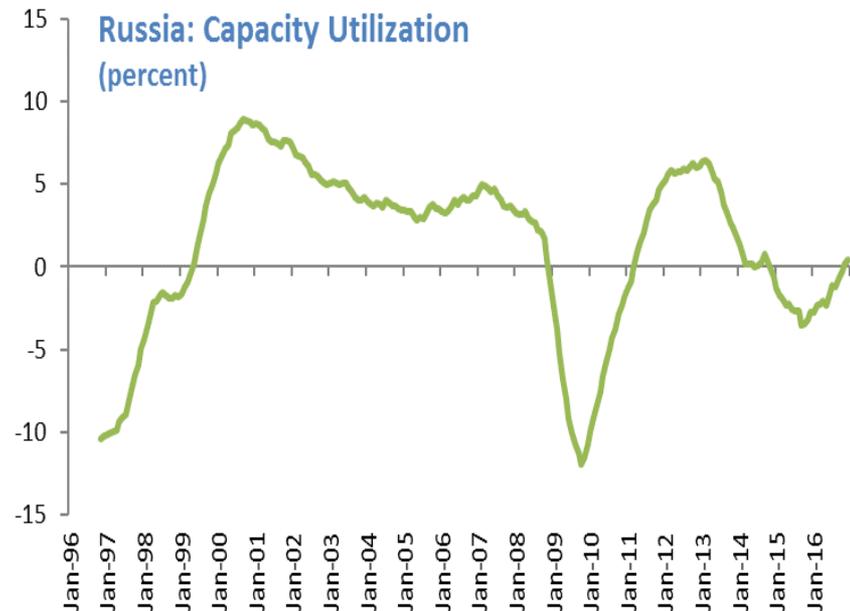
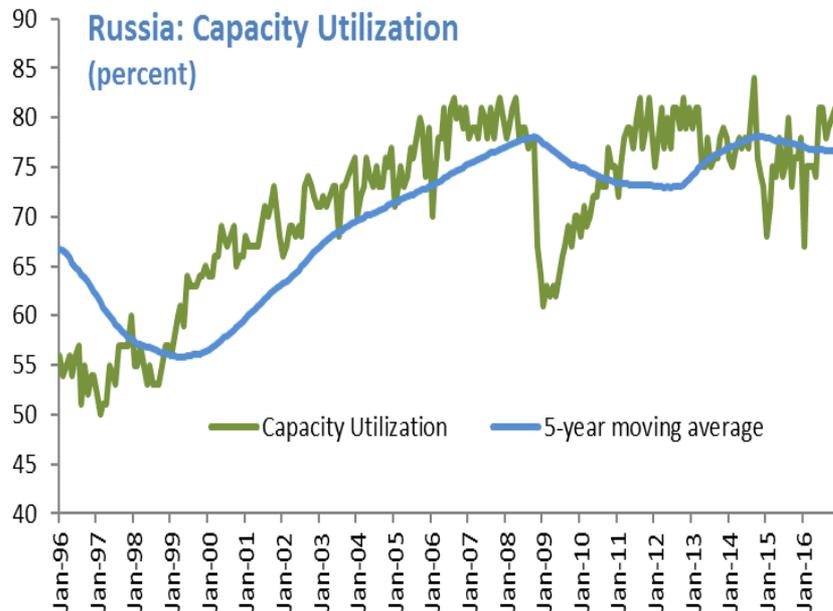
Growth in output per worker has steadily decreased, and working age population to decrease too in the next few years



Capacity utilization increases will not provide a lasting boost

Unlike in the early 2000s capacity utilization is high...

...and thus, its increases will not provide a lasting boost to growth





Russia: Risks and Mitigating Factors

External risks: Oil price and financial market volatility and geopolitical tensions.

Domestic risks: Mainly linked to fiscal policy implementation

1. **Mitigating Factors (Stocks):**

- Low public debt ratios
- Positive External Investment Position
- High levels of External Reserve Buffers
- Relative Prices broadly aligned with fundamentals

2. **Mitigating Factors (Flows):**

- Current Account surplus
- Manageable Fiscal Deficits
- Floating Exchange Rates



Большое Спасибо