INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/36

RUSSIAN FEDERATION

2020 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT

February 2021

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 2020 Article IV consultation with Russian Federation, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 3, 2021 consideration of the staff report that concluded the Article IV consultation with Russian Federation.
- A **Staff Supplement** updating information on recent developments.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 3, 2021, following discussions that ended on November 20, 2020, with the officials of Russian Federation on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 19, 2021.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PR21/36

IMF Executive Board Concludes 2020 Article IV Consultation with the Russian Federation

FOR IMMEDIATE RELEASE

Washington, DC – **February 9, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Russian Federation.

Russia entered the COVID-19 crisis with low growth but strong policy frameworks and significant buffers. Since 2014, a disciplined fiscal policy has resulted in low public debt and reserve accumulation, while the introduction of inflation targeting has brought inflation down and contributed to significant de-dollarization. However, the combination of low oil prices, tight policies, sanctions, and long-standing structural constraints, led to lackluster growth, insufficient to ensure income convergence with advanced economies.

The COVID-19 pandemic has taken a heavy toll on lives and livelihoods. Measures to contain the spread of the virus combined with the disruption to global oil markets triggered a significant economic contraction in the first half of 2020. The Russian economy, which contracted by 3.1 percent last year (less than the 3.6 percent contraction projected in the Staff Report), has proven more resilient than many other emerging economies however. This partly reflects a relatively small service sector, a large share of protected public employment, and COVID-related restrictions which excluded much of the industrial sector. Not least, the authorities took advantage of ample policy space to mount a forceful and coordinated fiscal, monetary, and macroprudential response to the crisis. Around 4.5 percent of GDP in fiscal support was targeted at the health sector, vulnerable households and the unemployed, and systemically important firms and firms in the most affected sectors. The policy rate was cut by 200bps to a record-low 4.25 percent, while liquidity support was provided to banks, capital buffers were released, and banks were granted regulatory forbearance on loan classification and provisioning. Low oil prices combined with geopolitical tensions have triggered a depreciation of the exchange rate and some increase in inflation, while the current account surplus has narrowed on low oil prices and weak oil demand.

The ongoing recovery is projected to accelerate towards the middle of 2021 as the second wave of the pandemic recedes, COVID-19 vaccines become widely available, and oil production cuts are tapered in line with the OPEC+ agreement. The authorities intend to take advantage of this improvement in economic conditions to withdraw fiscal stimulus. The outlook is subject to significant uncertainty, including from the risk of spillovers from strict containment measures in key trading partners to combat the sharp rise in infections. Geopolitical risks also cloud the outlook. On the upside, the availability of an effective vaccine has reduced the risk of a protracted pandemic, and it is possible that confidence effects and pent-up demand will result in a stronger-than-projected recovery once the pandemic subsides. In all of this, an effective vaccine rollout will be key.

[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.

Executive Board Assessment[2]

Executive Directors commended the authorities for a sizeable response to the crisis which should help put a floor on the downturn and limit scarring. While a recovery is expected to take hold in the second half of 2021 as vaccines become more widely available, short term risks remain tilted to the downside given the global pandemic situation and geopolitical tensions.

While the economic recovery later in the year would allow for withdrawal of fiscal support, Directors called on the authorities to remain vigilant for as long as the situation remains fragile, and to stand ready to extend support if needed. They welcomed the recent decision to keep the maximum unemployment benefit at its post-March level and generally suggested considering to do likewise for all unemployment benefits until the employment situation improves, while removing disincentives for workers to join the formal sector. Should downside risks materialize, Russia should use its substantial fiscal space to deploy stronger support.

Directors commended the authorities for growth-friendly tax reforms, such as the permanent reduction of the payroll tax for SMEs, and for better targeting of social assistance spending. They recommended that domestic fuel consumption subsidies be gradually phased out, while cushioning the impact on vulnerable groups.

Directors welcomed monetary policy loosening in 2020 and the introduction of new liquidity instruments. While they saw room for additional monetary accommodation amid significant economic slack to prevent inflation from sliding below target as one-off shocks dissipate, Directors generally saw merit in the authorities' current wait and see approach. Directors underscored the appropriateness of foreign exchange operations to address disorderly market conditions, and recommended that these be clearly separated from operations under the fiscal rule.

Directors welcomed banks' significant buffers and agreed that crisis-related losses should not pose a threat to system-wide capital. Nevertheless, they called on supervisors to track restructured loans closely while forbearance on loan classification and provisioning remains in place. Forbearance should not be extended as it obscures the true health of the banks. Should provisioning push banks' capital below regulatory minima, sound and solvent banks could be allowed an extended timeframe to restore capital. Directors welcomed legislative efforts to expand the Bank of Russia's macroprudential toolkit. They noted progress in Russia's AML/CFT framework, but called for further effective steps to address remaining risks.

Directors noted that increasing potential growth and reigniting income convergence with the advanced economies requires far-reaching structural reforms. They underscored the continued need to reduce the footprint of the state, improve the business climate, increase competition, address governance shortcomings and take steps to reduce the regulatory burden. Directors emphasized that the national projects be used as an opportunity to tackle structural bottlenecks.

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[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 summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Russian Federation: Selected Macroeconomic Indicators, 2017–26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
								Projection		
Production and prices					(Annual percent change)					
Real GDP	1.8	2.5	1.3	-3.6	3.0	3.9	2.1	1.8	1.8	1.8
Real domestic demand	4.1	2.2	3.0	-5.8	5.1	3.8	2.1	2.1	1.9	1.8
Consumption	3.4	3.5	2.9	-6.2	5.6	3.9	2.1	2.1	1.9	1.8
Investment	6.4	-1.6	3.2	-5.0	3.5	3.4	2.0	2.0	1.9	1.7
Exports	5.0	5.6	0.9	-6.0	-2.8	6.4	3.8	2.3	2.4	2.6
Imports	17.3	2.7	3.5	-16.2	4.8	6.4	3.2	3.6	2.8	2.4
Consumer prices										
Period average	3.7	2.9	4.5	3.4	4.3	3.6	3.8	4.0	4.0	4.0
End of period	2.5	4.3	3.0	4.9	3.6	3.6	4.0	4.0	4.0	4.0
Output gap (percent of potential GDP)	-0.9	-0.1	-0.2	-2.8	-3.0	-1.4	-0.9	-0.7	-0.5	-0.3
Wages	6.6	10.9	9.2	…	…	…	…	…	…	…
Unemployment rate	5.2	4.8	4.6	5.8	5.5	5.0	4.9	4.8	4.8	4.7
Public sector 1/					(Percent of GDP)					
General government										
Net lending/borrowing (overall balance)	-1.5	2.9	1.9	-4.6	-2.3	-1.2	-1.0	-1.0	-0.8	-0.8
Revenue	33.4	35.5	35.8	34.6	34.4	34.1	34.0	34.1	33.9	33.6
Expenditures	34.8	32.6	33.9	39.2	36.7	35.3	35.0	35.1	34.7	34.4
Primary balance	-1.0	3.4	2.2	-4.1	-1.8	-0.8	-0.6	-0.5	-0.4	-0.4
Non-oil primary balance	-8.4	-6.6	-6.0	-10.3	-8.4	-7.1	-7.0	-7.0	-6.6	-6.5
Cyclically-adjusted non-oil primary balance 2/	-8.1	-6.6	-5.9	-10.3	-7.5	-6.6	-6.7	-6.8	-6.4	-6.4
Fiscal impulse 3/	-1.7	-1.5	-0.7	4.4	-2.8	-0.9	0.1	0.1	-0.3	0.0
Federal government										
Primary balance at benchmark oil price (PBBOP) 4/	-1.6	-0.7	-0.2	-3.1	-1.3	-0.5	-0.5	-0.5	0.0	0.0
Money					(Annual percent change)					
Base money	8.6	8.0	3.1	27.0	7.6	5.4	6.0	5.7	5.8	5.9
Ruble broad money	10.5	11.0	9.7	15.1	12.5	6.7	6.5	6.2	6.2	6.2
Real credit to the economy	5.2	8.0	6.2	8.1	9.1	6.9	7.3	7.6	5.4	5.0
External sector					(Percent of GDP)					
External current account	2.0	7.0	3.8	2.0	2.8	2.3	2.2	1.8	1.6	1.6
Export of goods and services	26.1	30.8	28.5	25.7	26.8	26.4	26.3	26.0	25.7	25.5
Energy (oil and gas)	12.3	15.8	14.1	10.1	11.3	11.2	11.2	10.8	10.4	10.1
Non-energy	10.1	11.0	10.7	12.3	12.5	12.1	12.1	12.0	12.0	12.0
Import of goods and services	20.8	20.8	20.9	20.6	21.1	21.3	21.4	21.7	21.7	21.7
Gross international reserves										
Billions of U.S. dollars	432.7	468.5	554.4	583.4	593.5	603.8	611.8	617.8	621.8	624.0
Percent of ARA metric	258.7	296.8	309.9	…	…	…	…	…	…	…
Memorandum items:										
Nominal GDP (billions of rubles)	91,843	103,862	109,193	103,524	114,227	122,004	129,182	136,550	144,414	152,780
Nominal GDP (billions of U.S. dollars)	1,575	1,653	1,689	1,431	1,571	1,642	1,702	1,761	1,824	1,893
Real per capita GDP, PPP dollars	25,999	26,677	27,041	25,978	26,623	27,388	28,107	28,742	29,313	30,324
Population (millions)	146.9	146.8	146.7	146.8	146.8	146.7	146.5	146.3	146.0	145.7
Exchange rate (rubles per U.S. dollar, period average)	58.3	62.8	64.6	72.3	72.7	74.3	75.9	77.5	79.2	80.7
Real effective exchange rate (average percent change)	14.3	-9.9	4.2	-15.8	…	…	…	…	…	…
Brent oil price (U.S. dollars per barrel)	54.4	71.1	64.0	42.3	51.1	50.2	49.7	49.5	49.4	49.5
Urals oil price (U.S. dollars per barrel)	53.5	70.1	63.7	42.3	50.4	49.4	49.0	48.8	48.6	48.7

Sources: Russian authorities; and IMF staff estimates.

1/ Cash basis.

2/ Adjusted by the economic cycle and one-off revenues and expenditures not related to anti-crisis (COVID-19-related) measures.

3/ Change in the cyclically-adjusted non-oil primary balance.

4/ This is the balance used for fiscal rule purposes. Under the fiscal rule, the primary balance is calculated at the benchmark oil price.

INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION–SUPPLEMENTARY INFORMATION

February 2, 2021

Prepared By	The European Department (In consultation with other departments)

This supplement provides information that became available since the issuance of the Staff Report (SM/21/4) on January 21. The thrust of the staff appraisal remains unchanged.

1. **The number of new infections continues to trend down.** Daily infections as of January 28 (19,710) were about 30 percent below their end-December value. In light of this decline, the authorities have announced that restrictions could be gradually lifted in the coming weeks. Mass vaccination of the population is ongoing, and the authorities have vowed to accelerate the pace.

2. **Economic outturns for 2020 have been better than expected.** Flash annual GDP indicates that the economy contracted by 3.1 percent last year, compared with staff's -3.6 percent forecast[1]. The quarterly breakdown is not yet available. Strong industrial production data for December, particularly in manufacturing, suggests that the economy might not have contracted in the fourth quarter, unlike what staff had projected. On its own, the flash release points to upside risks to the 2021 growth forecast. While these are undeniably positive news, staff still see a tangible risk that the rise in infections globally and concomitant tight lockdowns in several key trading partners may put a brake on the recovery before mass vaccinations take hold.

3. **Preliminary data indicate budget outturns have been slightly stronger than projected.** Consistent with the better-than-envisaged economic outturns, the 2020 fiscal deficit at the federal level was some 0.5 percent of GDP lower than projected in the Staff Report, mostly on account of stronger revenues such as VAT. This again signals that the economy has been more resilient in the latter part of the year than projected by staff.

4. **Inflation continues to surprise on the upside.** Weekly data suggests inflation remains high on a sequential basis, and it could increase to about 5¼ percent y/y in

[1] Note that 2019 GDP has been revised up as well, by 0.9 percentage points.

January from 4.9 percent in December. The preliminary January data indicate that inflation is relatively broad-based. Staff continue to believe that the drivers pushing inflation up are mostly one-off, price level effects, and hence that inflation will soon trend downwards in the presence of significant slack in the economy. In this context, some policy easing still appears warranted on a forward-looking basis. Nevertheless, the latest data do suggest that the balance of risks surrounding the inflation forecast has tilted upwards.

INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION

January 19, 2021

KEY ISSUES

Context: Russia entered the crisis with low potential growth but strong macroeconomic policy frameworks and significant buffers. Policy space allowed the authorities to mount a sizeable public health and countercyclical response to the crisis, which has helped limit the economic downturn. Nevertheless, the crisis is likely to leave some long-term scars.

Policy Recommendations:

Fiscal Policy: All unemployment benefits should be kept at their post-March levels until there has been a meaningful recovery in employment. Given that the reintroduction of containment measures in Russia and abroad is putting new brakes on activity, the government should stand ready to extend and broaden access to support measures if needed. Russia has substantial fiscal space to mount an even larger response were downside risks to materialize.

Monetary Policy: Further loosening of the monetary stance is warranted in the coming months to prevent inflation from sliding under target over 2021. FX operations to address disorderly market conditions if and when they arise should be clearly separated from FX purchases under the fiscal rule.

Financial Sector: While regulatory forbearance on provisioning remains in place, supervisors should track the health of restructured loans closely. Forbearance should not be extended when it expires as it undermines transparency and does little to improve banks' balance sheets. This being said, banks entered the crisis with significant buffers and crisis-related losses do not appear to pose significant risks to system-wide bank capitalization. The acceleration of house prices warrants careful monitoring and a reassessment of recent measures to stimulate mortgage lending.

Structural Reforms: The national projects present an opportunity to bolster potential growth. But they should be used to catalyze stronger private activity and not contribute to enlarging the already large footprint of the state on the economy.

Approved By
Jörg Decressin (EUR) and Maria Gonzalez (SPR)

Discussions for the 2020 Article IV consultation were held virtually during November 9–20. The mission comprised Mr. Arena, Mr. Miniane (Head), Mr. Saxegaard, and Ms. Shi (all EUR), Ms. Budina (SPR), and Ms. Kyobe, (Res. Rep). Ms. Dynnikova (local senior economist) and Ms. Chebotareva (local economist) assisted the mission. Mr. Mozhin, Executive Director, participated in the discussions. The mission met with Minister of Finance Siluanov, Central Bank Governor Nabiullina, other senior officials, and representatives of financial and business institutions. Support was provided by Ms. Tenali and Ms. Maneely (both EUR), and Ms. Rubina and Ms. Chernisheva (Moscow office).

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ANNEXES

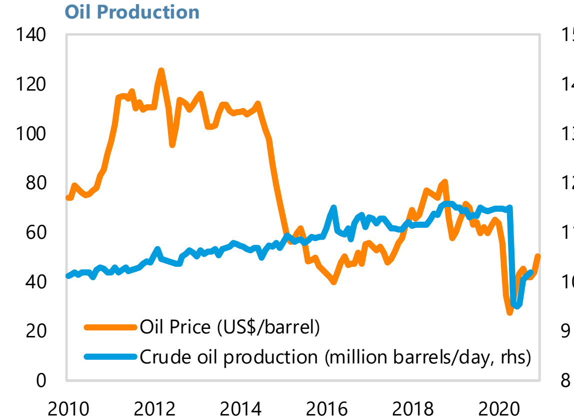
CONTEXT: A SOUND POLICY FRAMEWORK TESTED BY COVID-19 AND THE OIL SHOCK

1. **Russia entered the COVID-19 crisis with a sound policy framework, significant buffers, but low growth.** Fiscal consolidation in response to a post-2014 reality of lower oil prices and international sanctions has resulted in public debt below 20 percent of GDP, as well as in significant savings (National Welfare Fund) and reserve accumulation. The introduction of inflation targeting in late 2014 brought inflation down from double-digit levels to the 4 percent target, and contributed to significant de-dollarization. However, the combination of lower oil prices, tight policies, and sanctions, all coupled with long-standing structural constraints (see structural section), meant Russia experienced low growth in recent years. Growth averaged 1½ percent over 2016–19, low for an economy with Russia's per capita income and insufficient to ensure income convergence with advanced economy income levels.

2. **Despite stringent containment measures, the COVID-19 pandemic has taken a heavy toll on lives and livelihoods (Figure 1).**

- As of early January, more than 3.3 million people (about 22,600 per million people) are reported to have been infected, the fourth highest total number in the world, and close to 60,000 deaths (about 400 per million) have been attributed to the virus. While Russia's COVID-19 fatality rate is lower than in many countries, this is less so when looking at total excess deaths.[1] After a decline during the summer, Russia is now experiencing a resurgence in infections far exceeding May peaks.
- Much of the country was placed under lockdown in the spring. After gradually being lifted during the summer, restrictions are progressively being reintroduced in response to the surge in new cases and hospitalizations. Restrictions are less severe than during the spring, however, and the decline in mobility indicators is less dramatic so far.[2]

Oil Production



Sources: Financial Times; and JODI.

3. **The impact of the pandemic was compounded by the disruption to global oil markets.** Oil prices collapsed in March and April, at one point falling as low as US$20 per barrel. They have rebounded to some US$50–55 per barrel in January. Oil price movements, even of this magnitude, typically have a limited impact on

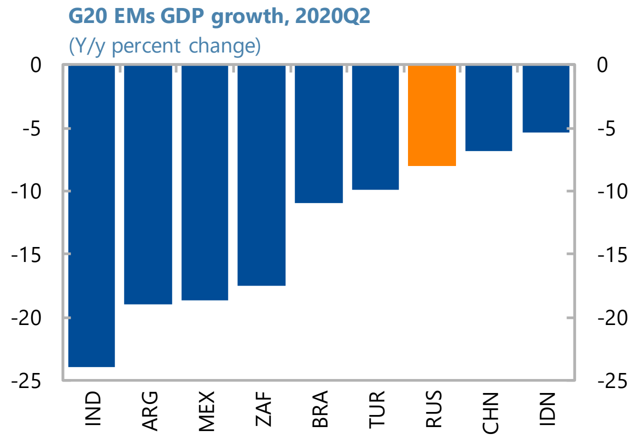
[1] Excess deaths are calculated as the difference between deaths in March-November 2020 and deaths in March-November of the preceding three years (average). Excess deaths in Russia have been 1.9 to 3.8 times higher than reported COVID deaths over March-November 2020. Based on data from ROSSTAT.

[2] Unlike during the lockdown in the spring, non-essential businesses and restaurants, as well as daycare centers and elementary schools remain open.

oil production in Russia (Annex I); oil production did, however, fall by around 18 percent in May 2020, bringing production to levels last seen in 2004, as Russia and other OPEC+ countries agreed on cuts to stabilize oil markets.

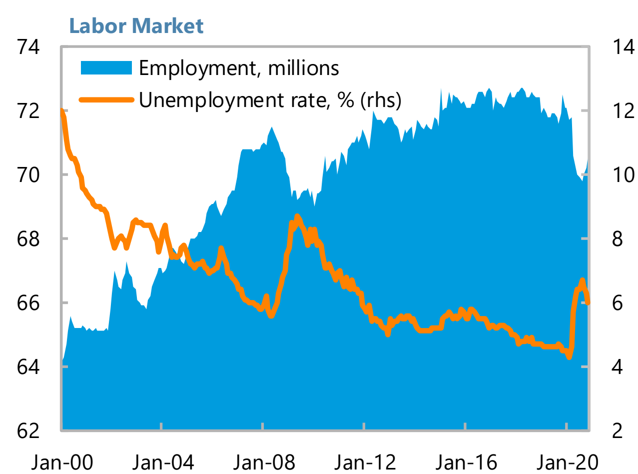
RECENT DEVELOPMENTS AND POLICY RESPONSE

4. The economic impact of the combined shocks was severe, but not as large as in other emerging markets (Figure 3). Real GDP dropped 8.0 percent y/y in 2020Q2 (- 8.5 q/q SA) at the peak of the lockdowns. Although significant, the contraction was less severe than in many other G20 countries due to a relatively small service sector, the large share of protected public employment, COVID-related restrictions which excluded much of the industrial sector and, last but not least, a significant policy response.



Sources: Haver Analytics; IMF *WEO*; IMF staff calculations.
Note: CHN is 2020Q1.

5. The economic contraction has triggered job losses and increased poverty. Employment declined 2.2 percent in Q2 on a seasonally adjusted basis, wiping out employment gains over the last decade, and increasing unemployment. Poverty rates increased to 13.5 percent in 2020Q2 from 12.7 percent in 2019Q2. There is no data yet to assess the impact on income inequality, though regional inequality is presumed to have fallen as the crisis has had a disproportionate impact on relatively wealthy regions that are more reliant on oil and gas, and where the service sector plays a greater role.[3]



Source: Rosstat.

[3] See Dynnikova, O., A. Kyobe, and S. Slavov, "Regional Disparities and Fiscal Federalism in Russia in the Context of the COVID-19 Pandemic", Forthcoming IMF Working Paper.

6. A forceful policy response helped cushion the impact of the crisis (Annex II).

- About 3½ percent of GDP in fiscal support—4½ percent if debt guarantees and capital injections are also included—was targeted at the health sector, vulnerable households and the unemployed, and firm support mainly focused on supporting SMEs and preventing large-scale layoffs. In addition, the government introduced a subsidized mortgage program to support the construction sector and households. The significant amount of fiscal support is in line with the average for G20 emerging markets. Crisis-related spending combined with weaker revenues will push the general government deficit to 4.6 percent of GDP in 2020 compared to a surplus of almost 2 percent of GDP last year.
- The Bank of Russia (BoR) responded by cutting its policy rate by 200 bps to 4.25 percent (a record low), increased liquidity support to banks and reduced interest rates on on-lending facilities for SMEs. Support to the financial sector was provided by releasing capital buffers and temporary regulatory forbearance, not least on loan classification and provisioning.

Fiscal Support Measures
(% of GDP)

Spending measures	**2.4**
Healthcare	0.6
Non-healthcare	1.8
Income support	0.8
Firm support	0.7
Local governments	0.3
Revenue measures [1/]	**0.9**
Spending and revenue measures	**3.3**
Below-the-line measures	**1.0**
Measures to boost capital base	0.5
Guarantees for bank loans	0.5
Other	0.1

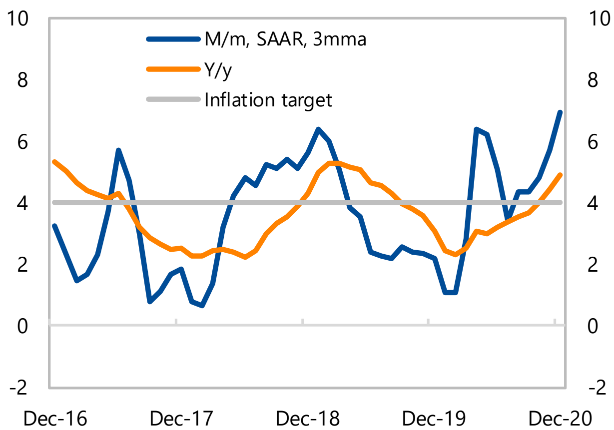
[1/]Includes the cut in social security contributions for SMEs, tax credits, reimbursements of taxes and the postponement of social security and tax payments.

7. Relying on sector activity codes to identify firms eligible for assistance allowed the authorities to deliver support quickly and to limit fraud. Although a full assessment from the Accounts Chamber won't be submitted to parliament till next year, relying on these sector activity OKVED codes provided a more transparent and faster way to deliver support than relying on financial information. The latter can be easily falsified by the firms, and auditing this information for such a large pool of firms would have overwhelmed the authorities. However, while most affected firms appear to have received support, the targeting was not perfect: some firms that needed support did not receive it, either because their OKVED codes were not up to date or because they were not in a sector deemed to be affected by the pandemic. Support to the larger systemically important enterprises was granted on a case-by-case basis, which allowed for careful verification to limit abuse.

8. The lifting of restrictions, coupled with the policy response, fostered a robust rebound during the summer. GDP increased by 5.8 percent q/q SA in the third quarter, led by a recovery in manufacturing and retail sales. With this, third quarter GDP stood 3.5 percent below its level in 2019Q3. However, thus far only a quarter of the jobs lost during the second quarter have returned and the unemployment rate stood at 6.0 percent in November, only marginally below the August high-water mark of 6.4 percent. Moreover, high-frequency indicators including industrial production and PMIs suggest output had already started decelerating towards the end of the third quarter as Russia entered the second wave.

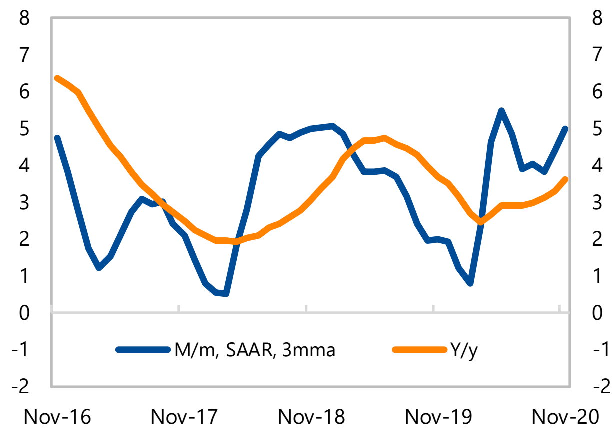
9. Inflation had been mostly below the 4 percent target before the crisis, but it has risen recently due to the depreciation of the ruble as well as high food prices (Figure 4). Headline inflation had been below 4 percent since mid-2017, except around the first half of 2019 when the government hiked the VAT. More recently, annual inflation has risen to 4.9 percent y/y in December from 2.3 percent y/y in February despite weak demand, reflecting mostly the pass-through from the significant ruble depreciation this year as well as high food price inflation. The latter has increased from less than 2 percent y/y in February to more than 6 percent y/y now. The pass-through from depreciation is also boosting core inflation, which has risen by about 1½ percentage point since February to 3.9 percent y/y in November. Note, though, that services inflation (less sensitive to the exchange rate) remains weak at about 2.7 percent y/y, versus some 3¾ percent at end-2019.

Headline Inflation Rates



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

Core Inflation Rates

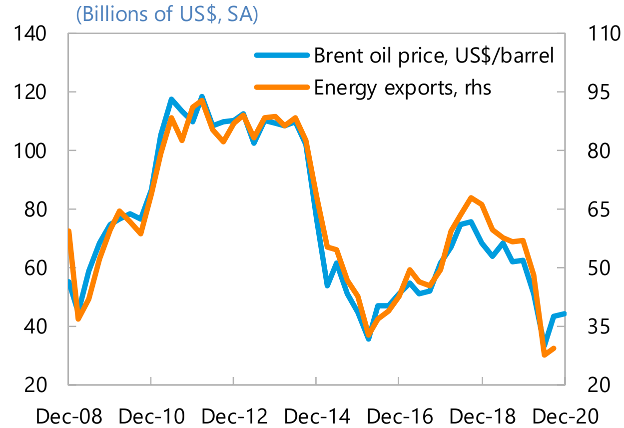


Sources: Haver Analytics; Rosstat; and IMF staff calculations.

10. Declining oil prices and volumes have weakened the current account (Figure 5):

- The current account surplus through September declined to 1.7 percent of GDP, from 3.2 percent of GDP during the corresponding period in 2019 on low oil prices and weak oil demand. A sharp drop in imports, particularly of services due to less outbound tourism, limited the drop of the current account. Staff assesses, on a preliminary basis, that much of the decline in the current account this year is due to temporary factors and that Russia's external position in 2020 is broadly in line with fundamentals and desirable policies.[4]

Oil Price and Energy Exports
(Billions of US$, SA)



Sources: CBR; Financial Times; and IMF staff calculations.

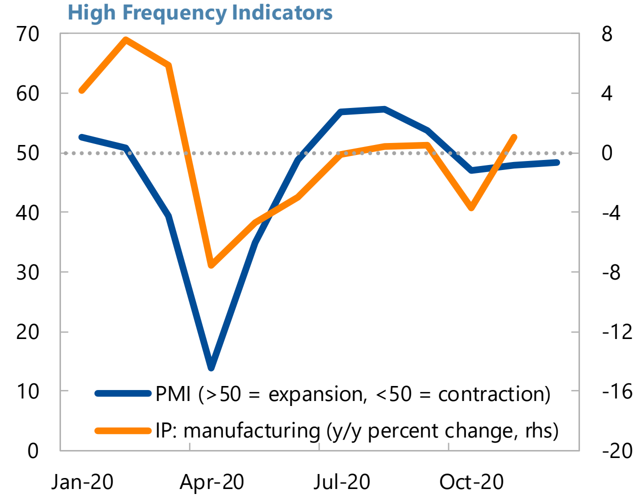
[4] See Annex III. Note that the assessment of Russia's external position is based on projections for 2020 rather than actual data, which is not yet available for the whole year.

- A spike in global risk aversion and falling oil prices triggered about US$28 billion (1.6 percent of 2019 GDP) in private sector capital outflows during the first half of the year, prompting a depreciation of the ruble/US$ exchange rate by as much as 29 percent relative to its end-2019 level. Capital outflows slowed in the second half of last year on monetary stimulus in advanced economies and a recovery in oil prices, and overall have been significantly lower than during the 2014–15 crisis.

OUTLOOK AND RISKS

11. The economy is expected to have contracted in 2020Q4 as restrictions to contain the pandemic were reintroduced, but it should bounce back toward the middle of 2021. The reintroduction of containment measures coinciding with the sharp rise in cases suggests economic activity will remain subdued at best at least through the first quarter of 2021. Already, industrial production and PMI indicators suggest the recovery may be stalling or becoming more erratic. The impact is expected to be less severe than in the second quarter, however, because restrictions have been less intense and more targeted this time around, at least for now. Firms and individuals have also had time to adapt.

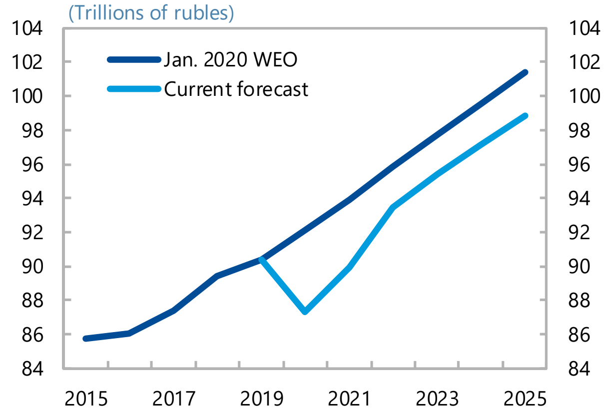
High Frequency Indicators



Sources: IHS Markit; Rosstat; and IMF staff calculations.

12. All in all, the economy is projected to contract by 3.6 percent in 2020, followed by growth of 3 percent in 2021. Underlying this forecast is an assumption that a COVID-19 vaccine becomes widely available in 2021H2 in Russia and its trading partners, allowing for a rebound in domestic demand and exports. The forecast also assumes that oil and gas exports will increase in line with the OPEC+ agreement as it stood in November 2020.[5]

Real GDP
(Trillions of rubles)



Sources: IMF *WEO*; and IMF staff calculations.

13. The COVID-19 pandemic is likely to leave economic scars. Real GDP in 2025 is projected to be 2.5 percent below what was expected pre-crisis due to less capital accumulation, in turn leading to lower labor

[5] The OPEC+ agreement as it stood in November 2020 entailed a tapering of production cuts by participating countries from 7.7 mb/d to 5.8 mb/d, starting on January 1, 2021. The 5.8 mb/d adjustment was scheduled at that time to remain in place till 30 April 2022.

productivity. Though significant, this is less than in several other G20 countries and past crises in Russia (Box 1). This owes, in part, to the fact that the corporate sector in Russia entered this crisis in a stronger position. In addition, analysis done by staff shows that the policy support measures did a good job buffering the impact of the crisis on firms' liquidity and solvency (Annex IV). At the same time, delays to national projects aimed at boosting productivity have resulted in a reduction in the medium-term estimate of potential growth to 1.6 percent from 1.8 percent in the 2019 Article IV Staff Report.[6]

14. The resilience of the oil sector is an important safeguard (Annex I). Cash breakeven prices in Russia are around $10 dollars per barrel thanks to low operating costs, progressive taxes, and the stabilizing effect of the exchange rate. This suggests production will recover quickly once the OPEC+ production cuts are tapered even if oil prices remain low. However, keeping oil production at current levels will require significant investment; the full-cost breakeven price is therefore closer to $30–40 per barrel. A prolonged period of oil prices below these levels could threaten the long-term viability of the oil and gas sector in Russia.

15. Downside risks dominate in the short term in this highly uncertain environment, but they are more balanced in the medium term (Annex V). The increase in infections could necessitate stricter containment measures as is happening in other countries, which could disrupt supply, weaken demand, and trigger new layoffs. Additional risks stem from increasing geopolitical tensions. On the upside, the development of effective vaccines has reduced the risk of a protracted pandemic, though a successful rollout will be key. It is also possible that, once the pandemic subsides, confidence effects and pent-up demand lead to a stronger than projected recovery.

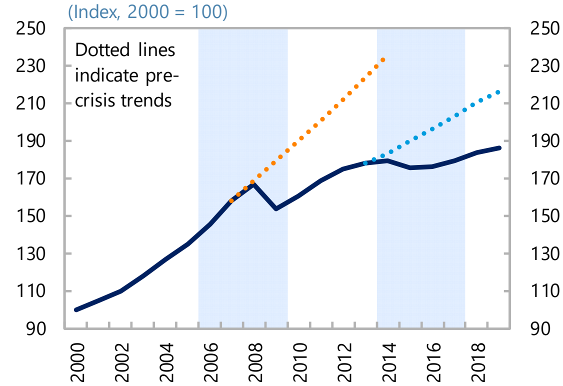
Authorities' Views

16. The authorities broadly shared staff's assessment of the outlook and risks. Differences in growth forecasts are well within the range of uncertainty. They agree that the rapid increase in infections will slow the recovery, but they also expect the impact to be less than in the spring. Like staff, they believe that relatively strong corporate balance sheets and a significant policy response should limit longer-term scarring. There is a broad agreement on the risks to the outlook. Like staff's, the BoR's analysis suggests that the external position is broadly in line with fundamentals.

[6] It should be noted that total factor productivity growth was already at zero or thereabouts even before the crisis. See 2019 Article IV Staff Report.

Box 1. Scarring After Large Crises: Historical Perspective[1]

Real GDP Index vs. Pre-Crisis Trends
(Index, 2000 = 100)

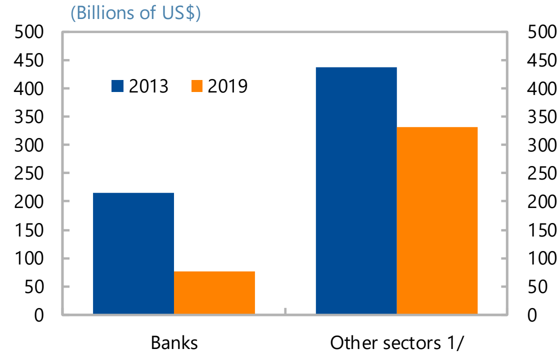


Sources: IMF *WEO*; and IMF staff calculations.

Recent crises have led to large permanent output losses in Russia. Both the global financial crisis (GFC) and the 2015 crisis have seen large scarring, with output never recovering to its pre-crisis trend. In both cases, Russia suffered large initial losses–albeit lower in 2015 thanks to the flexible exchange rate. Moreover, the gap between actual output and pre-crisis trends increased over time after these crises, as growth turned out to be significantly lower than projected before each crisis. As the 2019 Article IV Staff Report showed, the decline in growth post-2015 cannot be fully accounted for–a large residual remains even after accounting for the impact of sanctions, lower oil prices, and tight policies.

There is good reason to believe that scarring could be less this time around. Specifically:

External Debt
(Billions of US$)



Source: CBR.
1/ Mostly non-financial corporates.

- *Non-financial corporates entered the crisis in better shape:* They deleveraged post-2014 sanctions, with their external debt falling by some 25 percent. Debt-to-equity ratios have consequently improved, and aggregate corporate profits have increased from 9 to over 14 percent of GDP over this period.
- *Banks are also in better shape:* Capital ratios have not changed much (and remain above regulatory minima), but external liabilities have fallen by some 65 percent. In addition, the central bank has closed some 500 weak banks in recent years.
- *Buffers are stronger:* Reserves have increased significantly whether as percent of GDP or as percent of the Fund's ARA metric. Public debt ratios remain very low.
- Counter-cyclical response: In 2008/09, the peg precluded a monetary policy response to the crisis. In 2014/15, circumstances forced the authorities to pursue both fiscal consolidation and tight monetary policy. The COVID-19 crisis is the first time that the authorities have mounted a counter-cyclical fiscal, monetary, and macro-prudential response simultaneously.

[1]Prepared by Annette Kyobe and Oksana Dynnikova.

POLICY DISCUSSIONS: MITIGATING THE IMPACT OF THE CRISIS AND STRENGTHENING THE RECOVERY

The consultation focused on policies to mitigate the impact of the crisis and strengthen the recovery. With the virus not yet under control, the government should stand ready to provide further fiscal support if needed. The policy rate should be reduced further in the coming months to prevent inflation from sliding under target over 2021. Regulatory forbearance should not be extended when it expires as it obscures the true asset quality of banks, though loan restructuring trends so far suggest crisis-related losses do not pose a threat to system-wide capital. Past recommendations to improve the business climate, increase competition and address governance remain current and as important as in previous years. The national projects present an opportunity to bolster potential growth, but they should not contribute to expanding the already large footprint of the state on the economy.

A. Fiscal Policy: Support the Economy and Strengthen the Fiscal Framework

General Government Non-Oil Primary Balance (2019–2022)
(% of GDP)

	2019	2020	2021	2022
Headline non-oil primary balance[1/]	-6.0	-10.3	-8.4	-7.1
Cyclically-adjusted non-oil primary balance[2/]	-5.9	-10.3	-7.5	-6.6
Fiscal impulse[3/]		4.4	-2.8	-0.9

[1/] Including 1 percent of GDP in revenues from the sale of Sberbank's shares, which is a one-off not related to the crisis.
[2/] Adjusted by the economic cycle and one-off revenues and expenditures not related to anti-crisis measures.
[3/] Computed as the change in the cyclically-adjusted non-oil primary balance.

17. While the 2021–23 Budget envisages a significant fiscal consolidation, the authorities' willingness to reassess if the economy weakens is welcome. The consolidation is predicated on a sizeable improvement in economic conditions through 2021 and beyond, meaning that support programs will no longer be needed to the same extent as in 2020. However, the authorities are monitoring the situation closely and have already extended the deadline for tax deferrals once (till end-2020) in the most affected sectors. Were the economy to remain weak for some time as predicted by staff or even worsen, the authorities should extend the deferrals further. Separately, it will be important to ensure that the conditions imposed on SMEs to convert subsidized loans into grants (that employment in the firm as of February remains at or above 80–90 percent of the pre-crisis level) are not too stringent in light of renewed stress. Broadening the sectors that receive support could also become necessary if more restrictive lockdowns are instituted or if stress reverberates more widely in the economy. In short, the authorities should allow the 2021 deficit to close as warranted by the economic situation, and reassess later in the year the envisaged return to the fiscal rule's 0.5 percent of GDP deficit limit in 2022.

18. The authorities should retain the higher unemployment benefits provided after March and which recently expired until there is a meaningful recovery in employment, and regardless of whether there is a second dip in activity. The authorities recently announced that they will do so for the maximum unemployment benefit, for another three months. This is a step in the right direction, but lower unemployment benefits should also return to their post-March levels as well, as the pre-crisis benefits were very low by international standards (27 percent of previous income compared to an OECD average of 47 percent).[7]

19. The authorities have substantial fiscal space despite a significant increase in borrowing this year (Annex VI). Government debt is projected to increase to 21 percent of GDP by end-2020, nearly 7½ percent of GDP higher than at end-2019. However, this is well below most emerging market peers and gross financing needs remain low (below 2 percent of GDP per year pre-crisis and projected at some 3 percent of GDP on average over 2020–25). The deficit was comfortably financed through domestic borrowing, especially from large domestic banks. More recently, the government issued a €2 billion Eurobond in two tranches with yields of 1.125 percent for the 7-year tranche and 1.850 percent for the 12-year tranche. Yields on long-term domestic debt are back to pre-crisis levels, while the EMBIG spread for Russia is relatively low at about 165 bps in early January, comparable to mid-2019 levels. The combination of low public debt, modest gross financing needs and low spreads leads staff to believe Russia has substantial fiscal space, fiscal rule limits notwithstanding.

20. Looking beyond the crisis, the authorities should transition to a profit-based tax regime for the oil and gas sector and phase out subsidies to domestic oil refineries.

- The ongoing "tax maneuver" is meant to provide a level playing field between domestic and export markets by gradually replacing export duties on oil and gas with the mineral extraction tax (MET), a royalty tax. However, the reform is undermined by subsidies to domestic refineries, the so-called "reverse excise". This "reverse excise" should be phased out as it subsidizes domestic refining and consumption. While the size of the subsidy is negligible at current oil prices (0.25 percent of GDP per year over the next 3 years), it could increase again in the future. Any adverse effect on vulnerable households from removing the subsidy should be offset by an increase in targeted transfers.

- The MET provides a stable source of revenue but weakens incentives to invest. A profit tax (the AIT) was introduced in 2019 but is not widely used. Reliance on the AIT is expected to increase in 2021, and staff recommends to eventually replace the MET with the AIT once the tax maneuver is completed by 2024, in order to provide incentives for investment in new technologies required to safeguard the long-term viability and reduce the carbon footprint of the sector.

[7] Net replacement rate in unemployment after one year for a single person without children whose previous earnings were 67 percent of the average wage.

21. Russia would benefit from further removing inefficient tax expenditures and better targeting social assistance spending.

- Tax expenditures amounted to 4.2 percent of GDP in 2019, of which 1.6 percent of GDP benefit the oil and gas sector. Staff welcome the intention in the 2021–23 Budget to eliminate many tax breaks for the oil and gas sector as part of the transition from the MET to the AIT. Staff also welcomes the intention to identify inefficient and inequitable tax expenditures in other sectors.

- Social assistance spending in Russia is relatively high but could be better targeted. Staff welcome the fact that new social assistance programs at the federal level are means-tested, and fully support ongoing plans to improve the targeting of older welfare programs as well. Doing so would allow social assistance spending to reach the most vulnerable and help reduce poverty and inequality.

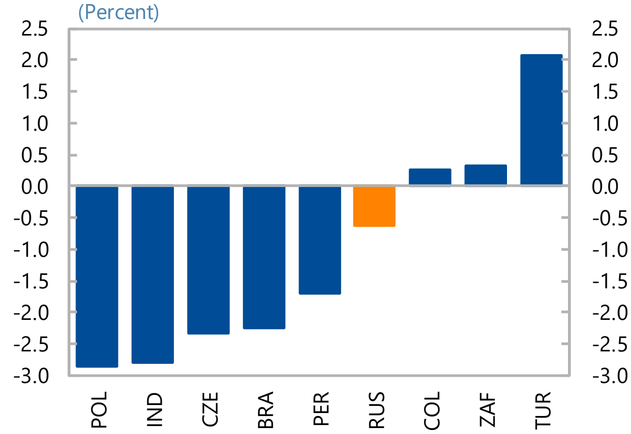
Authorities' Views

22. The authorities emphasized they are monitoring the situation closely and will expand support to the economy as needed, both in terms of measures considered and sectors covered. However, when it comes to unemployment benefits, they noted that a significant part of the increase in unemployment was due to the improved benefits and unrelated to job losses. They expressed concern that this was creating perverse incentives and undermining labor supply not least in the formal labor market. In their view, this argues against keeping all unemployment benefits at their post-March level. Separately, they reiterated their strong commitment to improve the targeting of social assistance spending.

B. Monetary Policy: Easing Should Continue

23. Looser monetary policy has helped ease borrowing conditions. Deposit and lending rates are down by around 150 bps since the start of the year and credit, notably mortgage lending, is growing rapidly. However, the real policy rate, at some -0.6 percent, is above that in several other emerging markets. It is also not that far below the neutral real rate, which the authorities put at 1–2 percent.[8]

Real Policy Rates
(Percent)



Source: Haver Analytics.

24. Absent further policy easing, staff project inflation to be below the target at end-2021 despite the recent run-up. Short-

[8] This estimate is a revision post-crisis (the BoR's pre-crisis estimate was 2–3 percent).

term inflationary pressures from ruble depreciation are currently keeping inflation above the 4- percent target, but IMF staff expect inflation to fall to 3½ percent by end-2021.

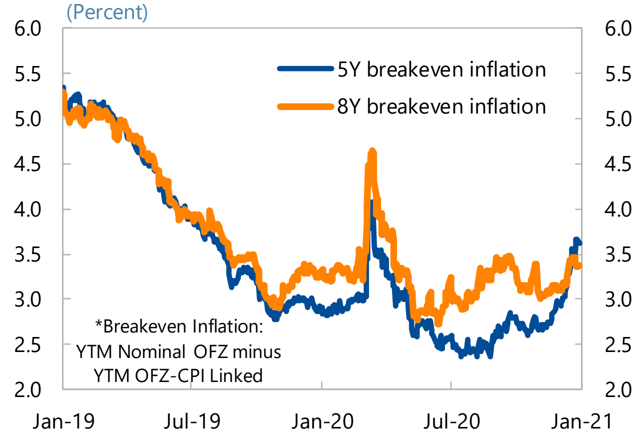
- Inflationary pressures are expected to subside as pass-through from the recent exchange rate depreciation dies down.

- Model estimates, while highly uncertain, suggest at least ½ of the contraction this year relative to the pre-crisis baseline can be attributed to a decline in potential output, implying a negative output gap of 2–3 percent (see Annex VII). The output gap is expected to widen next year as the lifting of restrictions triggers a rebound in potential GDP that outpaces the recovery in demand, putting further downward pressure on prices.

- Households' inflation expectations are elevated and have increased in recent months, but it is unclear to what extent they are a good predictor of future inflation.[9] At the same time, the fact that some market-based inflation expectations have been well below 4 percent for the last 1½ years, except for a short period in March-April, is a source of concern.

Market-Based Long-Term Inflation Expectations*

(Percent)

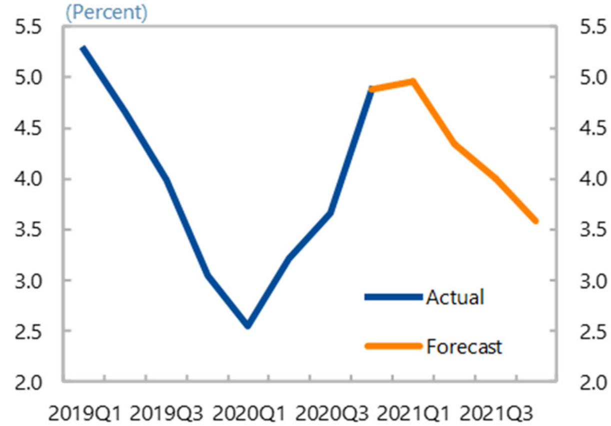


Sources: Bloomberg Financial L.P.; and IMF staff calculations.

25. Given the above, the BoR should lower rates in the coming months to prevent inflation from sliding below target over 2021. Staff estimates that 50bps in rate cuts are necessary under the baseline to avoid this from happening, and thereby help preserve room to respond to future shocks. It is true that some risks, should they materialize, could lead to a further depreciation of the ruble and be inflationary through this channel. Staff believe there is a cost to waiting to see if these risks materialize, given lags to policy. Instead, these shocks can be addressed if and when they happen via a range of policy tools, including policy rate hikes.

Inflation: Baseline Forecast

(Percent)



Source: IMF staff calculations.

[9] Statistical analysis done by staff shows only weak evidence that higher/lower household inflation expectations cause (in the statistical sense of Granger causality) higher/lower future inflation. The fact that inflation was falling rapidly for much of the post-2014 period complicates the analysis.

26. The BoR's decision to engage in FX operations in March-April 2020 to smooth disorderly market conditions was appropriate. Consistent with Russia's flexible exchange rate regime, such FX operations should be limited to addressing excess volatility and should not attempt to influence the level of the exchange rate. To increase transparency, the BoR should keep FX operations aimed at addressing disorderly market conditions clearly separate from the regular monthly FX purchases/sales under the fiscal rule.[10]

Authorities' Views

27. The BoR feels that upside risks to inflation justify a wait and see approach to policymaking. They see inflation at 3½ to 4 percent at end-2021 and view this range as consistent with their inflation target. Because they see inflation close to the target in the baseline, upside risks to inflation weigh heavily on decision making and, in their view, support a wait and see approach. In particular, they attach significant weight to rising household inflation expectations and the rapid increase in credit. Moreover, they argue the impact of the crisis is not evenly distributed and that the amount of slack in sectors driving consumer prices may be relatively small. Regarding FX operations, the BoR firmly believes that they should be used only in exceptional circumstances.

C. Financial Policies: Building Resilience to the Impact of the Crisis

28. The financial sector entered the crisis from a position of strength. Bank profitability has increased with both the return on assets and the return on equity reaching all-time highs at end-2019 (Figure 7). The banking system has adequate capital, with a capital adequacy ratio above 12 percent, and is in a strong liquidity position with liquid assets at more than 130 percent of short-term liabilities. NPLs remain high at some 9½ percent but are adequately provisioned (above 90 percent). Significant deleveraging and de-dollarization in response to the 2014 sanctions has reduced external liabilities and banks' vulnerability to movements in the exchange rate. The BoR has continued to clean up the banking sector, reducing the number of credit institutions to 412 at end-October from over 900 in 2013. A bank for non-core assets (BNA) set up by the BoR to handle some 500 billion rubles in impaired assets of banks in open resolution currently has a recovery rate of around 40 percent. The BoR intends to continue with the divesture of rehabilitated banks once market conditions permit.

29. In response to the crisis the BoR encouraged banks to use available capital buffers and provided regulatory forbearance.

- The BoR encouraged banks to cover losses out of accumulated capital buffers, including the 2.5 percent capital conservation buffer and 1 percent capital surcharge for systemically-

[10] FX purchases and sales under the fiscal rule should remain ex-post and based on the difference between actual and budgeted oil revenues.

important banks.[11] Additionally, the BoR reduced risk weight add-ons on pre-crisis mortgages to zero.[12] The total amount of capital available to cover the potential increase in loan losses, not including new accumulation of profits, is estimated at 6.2 trillion rubles (5.6 percent of GDP).[13]

- The BoR has provided banks with regulatory forbearance on loan provisioning and asset valuation. The forbearance on loan provisioning allows banks to delay reclassifying restructured loans and postpone provisioning for potential loan losses until April 1, 2021 for corporate loans and July 1, 2021 for retail loans and loans to SMEs, in order to incentivize loan restructurings for debtors under stress. The forbearance on asset valuation allowed banks to use pre-crisis exchange rates until September 30, 2020 and pre-crisis bond and equity prices until December 31, 2020.[14]

30. Based on loan restructuring trends so far, bank losses appear manageable. Data reported by banks to the BoR suggest restructurings thus far exceed a notional value of 6.5 trillion rubles. Given the size of capital buffers, banks should be in a strong position to weather any plausible loan losses on these restructured loans. Loss absorption capacity is not evenly distributed, however, and although most large banks will likely be able absorb loan losses through profit generation alone, some smaller banks could struggle. In this context, the BoR should continue to advise against dividend distributions in the weaker banks. The BoR has also conducted stress tests which suggests the banking sector has enough buffers in the aggregate to withstand a significantly worse scenario than is currently projected.[15]

31. Regulatory forbearance on loan classification and provisioning obscures the underlying strength of banks' balance sheets and should not be extended. Delaying provisioning may delay recognition of loan losses but doesn't improve the actual (rather than recorded) strength of banks' balance sheets and their ability to extend credit. While forbearance remains in place, supervisors should track the performance of restructured loans closely, to accurately gauge the needed (instead of actual) provisions. The BoR should continue encouraging banks that can afford to fully provision for loan losses to do so now rather than wait until forbearance expires. Given the situation, an extended timeframe to restore capital may be considered when banks are fundamentally sound and the decline in regulatory capital ratios is expected to be temporary.

[11] Russia also has a countercyclical capital buffer (CCB) which has been set at 0 percent of risk-weighted assets since its inception.

[12] Risk weight add-ons remain in place for new mortgages.

[13] At the onset of the crisis the BoR recommended that banks refrain from paying dividends until August-September, 2020.

[14] Only a few banks have taken advantage of the forbearance on exchange rates. In addition, the expiration of forbearance on asset prices on December 31, 2020 is unlikely to have a significant impact given the recovery in financial markets.

[15] The 2021 FSAP will help shed further light on the resilience of the banking system.

32. Though there is no evidence house prices are misaligned, the mortgage and housing market warrant careful monitoring. Mortgage lending and house prices have accelerated in recent months, albeit from a low base. The reduction in risk weights add-ons on existing mortgages freed up capital to absorb crisis losses; keeping them high for new loans ensured risk on new mortgage lending continues to be correctly priced. Given mortgage lending growth, there is no evidence to suggest a mortgage subsidy program is needed, and it should be terminated when it expires next year. If the mortgage subsidy program is extended the BoR may need to further increase risk weight add-ons on new mortgages. In light of the rapid development of the mortgage market, staff welcomes ongoing legislative efforts by the authorities to expand the BoR's toolkit with borrower-based macroprudential measures (Annex IX).

33. Russia has made significant progress in improving its anti-money laundering and the counter financing of terrorism (AML/CFT) regime, but it should further enhance effectiveness to mitigate remaining risks (Annex VIII). The 2019 AML/CFT mutual evaluation report (MER) recognized that Russia has an in-depth understanding of its money laundering and terrorist financing risks and has established policies and laws to address them.[16] The authorities are currently working towards ensuring a swift and effective implementation of the recommendations arising from the report, with the recent adoption of an Interagency Action plan (August 2020) and a tailored roadmap by the BoR (October 2020). Efforts underway are welcome and should continue in light of outstanding money laundering risks stemming from proceeds of crimes committed within the country. Other areas noted in the report include the need to better comply with the preventive regime, enhance AML/CFT supervision, and prioritize the investigation and prosecution of complex money laundering (ML) cases.

Authorities' Views

34. The BoR agreed with staff's assessment of the resilience of the financial sector and concerns about extending regulatory forbearance. They see no evidence to suggest loan losses will pose a problem for the larger well-capitalized banks, and they feel the long tail of smaller banks is in a stronger position than in the past after the cleanup of the sector in recent years. The BoR defended its decision to provide forbearance on loan provisioning, arguing it was needed to encourage banks to restructure loans amidst elevated uncertainty and to avoid a procyclical contraction in lending. However, they agreed that forbearance on loan loss classification and provisioning obscures banks' asset quality and are considering not extending it.

D. Contingent Policies

35. The authorities should prepare contingency measures should downside risks materialize, such as a need for reintroducing generalized lockdowns. Specifically:

[16] The evaluation was conducted jointly by the Financial Action Task Force (FATF), the Eurasian Group and MONEYVAL's and was adopted by FATF October 2019 Plenary Meetings.

- ***Fiscal policy:*** Russia has substantial fiscal space which it should put to good use in the event of further economic disruptions. In addition to extending the duration or broadening access to existing measures, additional steps that could be considered include: (i) accelerating government payables, including VAT refunds; (ii) extending filing deadlines; (iii) deferring tax liability; (iv) loss-carry back rules; and (v) accelerated depreciation provisions or investment allowances.

- ***Monetary policy:*** The appropriate monetary policy response will depend on how a downside scenario unfolds. A further weakening of demand will create deflationary pressures and warrant additional cuts to the policy rate. However, further loosening of monetary policy may be counterproductive if there is an increase in global risk aversion or a sharp drop in oil prices that trigger exchange rate depreciations with medium run implications for inflation.

- ***Financial sector policies:*** Further weakening of the economy will test the resilience of the banking system. Publicly available data and the BoR's stress tests suggests solvency concerns are limited for larger banks, though smaller banks with less capital could struggle.[17] If necessary, the BoR should rely on its resolution framework, the Banking Sector Consolidated Fund, which has proven effective in closing banks that are assessed as fundamentally non-viable and in rescuing those that need to be rescued.

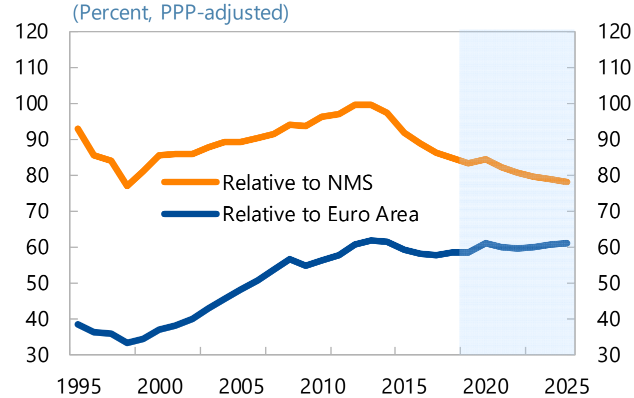
Authorities' Views

36. The authorities agreed that Russia has the ability to mount a stronger policy response if downside risks materialize. They noted they were monitoring the situation closely and would react as appropriate.

E. Structural Reforms to Strengthen the Recovery

37. While the focus on crisis management is understandable, addressing low potential growth remains a priority. Growth in the years preceding the crisis only averaged 1½ percent, low for a country with Russia's per capita GDP and insufficient to ensure convergence to advanced economy income levels. Previous Article IV consultations focused, inter alia, on the need to reduce the footprint of the state, improve the business climate and address governance shortcomings, including

Real Per Capita GDP Relative to Euro Area and New EU Members (NMS)
(Percent, PPP-adjusted)



Sources: IMF *WEO*; World Bank WDI; and IMF staff calculations.

[17] The 2021 FSAP will carry out stress tests of the financial system.

those related to vulnerabilities to corruption. These recommendations remain current and as important as in previous years.[18]

38. In this context, the ongoing review of all existing rules and regulations for businesses, and cancelation of those that do not meet a cost-benefit test (the "regulatory guillotine") is welcome. Forty government agencies are systematically reviewing regulations in their areas, with contributions from business associations, academics and other sectoral experts. Importantly, progress on their work can be publicly monitored. However, while it is important to eliminate many outdated legacy regulations, it will be equally important to have processes in place (public consultations, regulatory impact assessments, ex-post reviews) to ensure that the new regulations replacing them are fit for purpose, without imposing an unnecessary burden on businesses. Moreover, the "regulatory guillotine" should not be seen as a substitute for increased competition among firms, which would require reducing barriers to entry in key product markets and levelling the playing field between state-owned enterprises and private firms.

39. Implementation of the national projects presents opportunities to boost potential growth, but also risks. The 13 national projects envisage a ramp-up of public spending on areas including infrastructure, health and education.[19] An updated list of projects consistent with revised policy objectives will soon be announced. The final deadline for completion has been pushed from 2024 to 2030 due to COVID-19 but also the fact that some ambitious targets required more time to be realized. While the national projects have potential to boost potential growth, it will be important that they do not increase the already-large footprint of the state on the economy. A key litmus test of these projects will thus be fair and transparent procurement processes to encourage strong private sector participation. Moreover, deeper structural reforms aimed at improving the business climate, increase competition, and strengthen governance could amplify the benefits from the national projects and boost potential growth more broadly.

Authorities' Views

40. The authorities reiterated their commitment to address structural barriers to growth. They pointed to the "regulatory guillotine" as evidence of their commitment to improve the business environment. On the national projects, they reiterated their intention to ensure strong private sector participation in areas where the private sector has a comparative advantage.

STAFF APPRAISAL

41. The economy is expected to return to growth toward the middle of 2021, though risks are tilted to the downside. At this stage, the second wave of the pandemic is expected to have less of an impact because restrictions are more targeted, and individuals and firms have had time to adapt. However, the situation remains fluid and could require stricter containment

[18] For further details see Annex VIII and the 2019 Article IV Staff Report.

[19] For further details see the 2019 Article IV Staff Report.

measures as has happened in other countries. Geopolitical risks also cloud the outlook, though on the upside the availability of an effective vaccine has reduced the risk of a protracted pandemic. The crisis is expected to leave long-lasting scars, not least because it held back vital investment. Staff's preliminary assessment is that Russia's external position in 2020 is broadly in line with fundamentals and desirable policies.

42. Fiscal policy should stand ready to provide further support if needed. In a testament to their strong policy framework, the authorities put in place a strong counter-cyclical fiscal policy response to the crisis. The support provided to the corporate sector appears to have been relatively-well targeted, and proper measures were put in place to limit fraud and misuse. The authorities should be prepared to extend and broaden access to existing measures if the economy were to weaken again as projected. Separately, while the crisis persists and until there is a meaningful recovery in employment, the authorities should consider keeping all unemployment benefits at their post-March level and not just the maximum one, as the pre-crisis benefits were very low relative to the cost of living.

43. The authorities should push ahead with growth-friendly tax reforms and their plans to improve targeting of social assistance spending. The planned transition to a profit tax for the oil and gas sector is welcome. In addition, the authorities should start phasing out the "reverse excise" while heeding the impact of rising fuel prices on vulnerable groups. Tax expenditures that are inefficient or increase inequality should be eliminated in all sectors, while the authorities should push ahead with plans to ensure that other social assistance programs are means-tested.

44. Further monetary loosening is warranted in the coming months as weak domestic demand is likely to push inflation below target in 2021. Some external shocks could trigger inflationary pressures, but these can be addressed if they materialize. The BoR should continue to use FX operations in the event of disorderly market conditions, but for transparency reasons these operations should be clearly separated from the regular FX purchases/sales under the fiscal rule.

45. Forbearance on loan classification and provisioning obscures the true asset quality of banks and should not be extended. While forbearance remains in place, supervisors should track the health of restructured loans closely. Banks that can afford to fully provision should do so without delay. This being said, banks entered the crisis with significant capital buffers, and crisis-related losses do not appear to pose significant risks to system-wide bank capitalization. Should needed provisioning bring capital ratio in a given bank under the regulatory minimum, the current situation warrants granting solvent banks additional time to restore capital, conditional on a credible plan and close supervisory follow-up.

46. The housing market warrants careful monitoring. Although there is no evidence yet that prices are misaligned, the acceleration in mortgage lending and house prices suggest it would be prudent to cancel the mortgage subsidy program when it expires next year. At the same time, the rapid development of the mortgage market underlines the importance expanding the BoR's toolkit with borrower-based macroprudential measures.

47. The authorities have the ability to mount an even stronger policy response should downside risks materialize. While Russia has substantial fiscal space, the appropriate monetary policy response will depend on how a downside scenario unfolds.

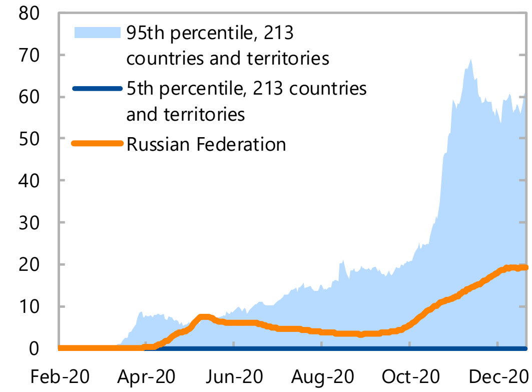
48. Increasing potential growth requires far-reaching structural reforms that extend beyond the national projects. Past recommendations to reduce the footprint of the state, improve the business climate, increase competition, and address governance shortcomings including those related to vulnerabilities to corruption, remain current. The recent "regulatory guillotine" is the type of reform that has the potential to reduce the regulatory burden on the private sector, though its effectiveness remains to be seen. The national projects present both an opportunity to bolster potential growth, as well as some risks. If done well, they could materially improve infrastructure, strengthen skills, and increase diversification and exports.

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

Figure 1. Russian Federation: Evolution of the COVID-19 Pandemic

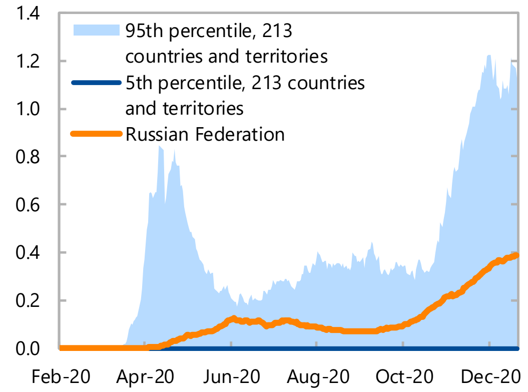
Russia was hit hard by COVID-19, though less than some when adjusting for population.

Daily new COVID-19 cases per 100,000 population
(7-day moving average)



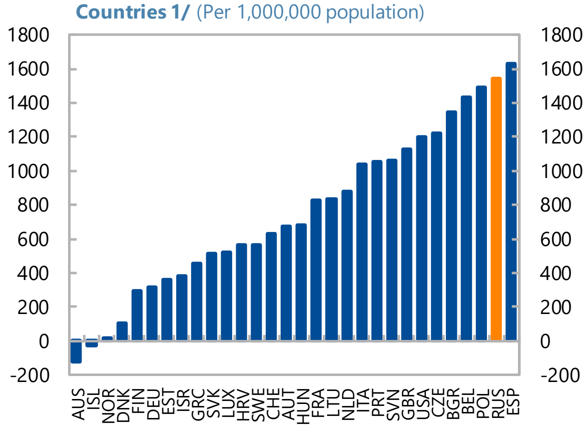
Similarly, it's reported case fatality rate has been high but not as high as some of the worst-hit countries.

Daily death cases per 100,000 population
(7-day moving average)



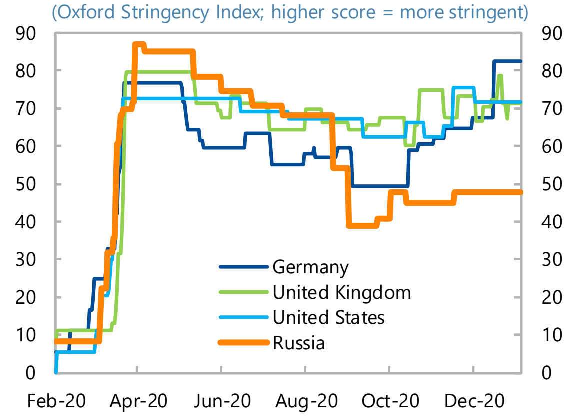
Excess deaths, however, suggest the actual death toll is significantly higher.

Excess Mortality in Select G20 and European Countries 1/ (Per 1,000,000 population)



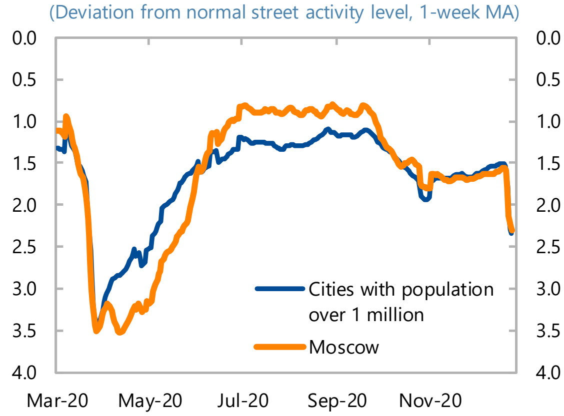
Restrictions during the second wave are thus far less stringent than in other countries.

Stringency of the Lockdown
(Oxford Stringency Index; higher score = more stringent)



Mobility had declined less during the second wave, but things are changing.

Yandex Self-Isolation Index
(Deviation from normal street activity level, 1-week MA)

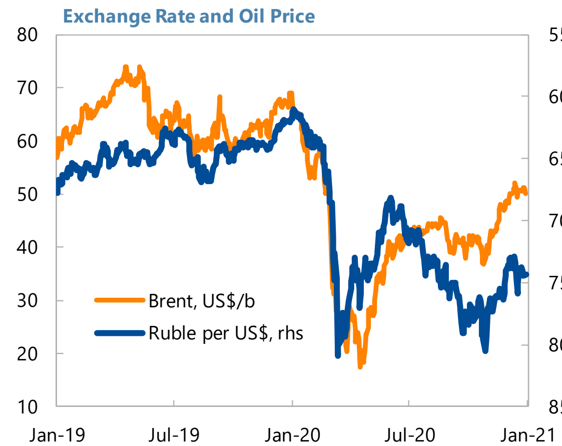


Sources: Human Mortality Database; Rosstat; WHO; Yandex; and IMF staff calculations.

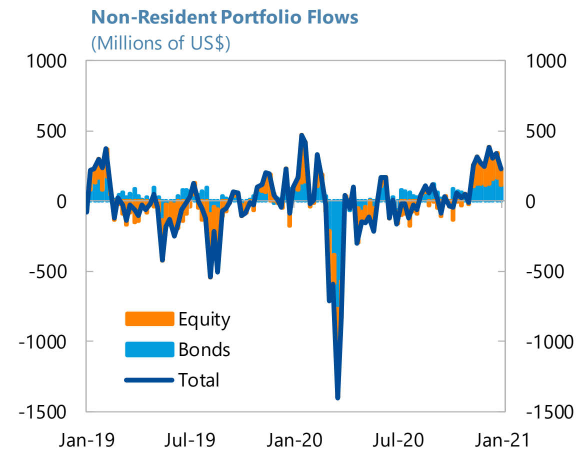
1/ Excess deaths between March-November 2020.

Figure 2. Russian Federation: Market Developments, 2020

The ruble reached its lowest point in mid-March, and is still not far above this level.

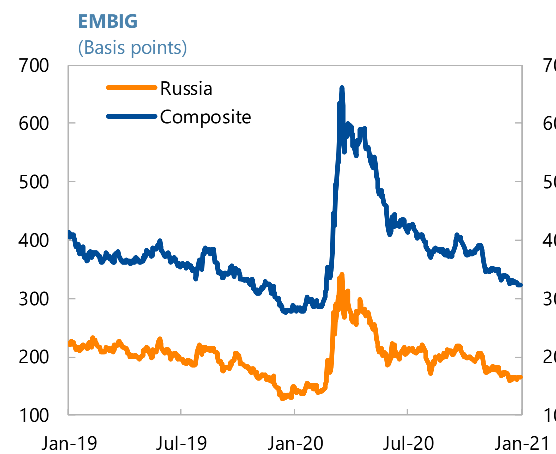


Non-residents reduced their debt and equity holdings between mid-March and April.

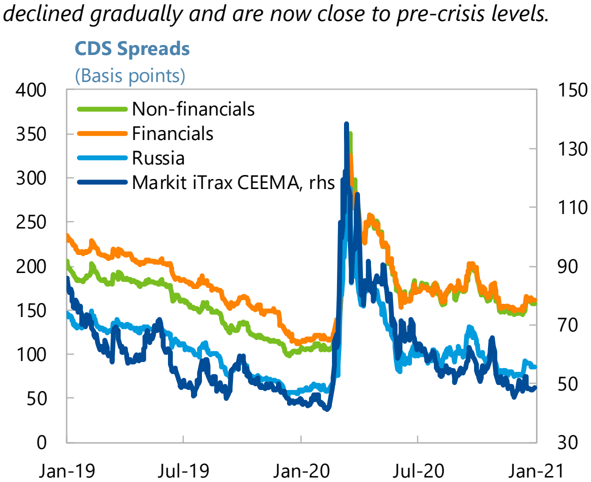


Equity prices declined by 30 percent in mid-March. Since then, equity prices have shown a significant recovery.

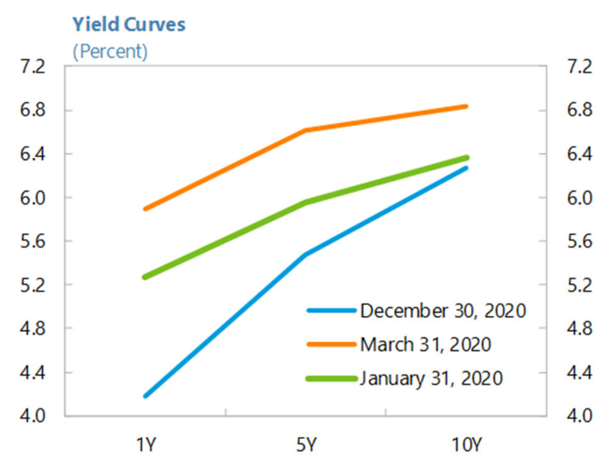
Sovereign debt spreads (country risk premium) increased 200 bps but are now back to or below early-2019 levels.



5-year CDS increased by more than 200 bps. They have declined gradually and are now close to pre-crisis levels.



Long-term yields are now below pre-crisis levels.

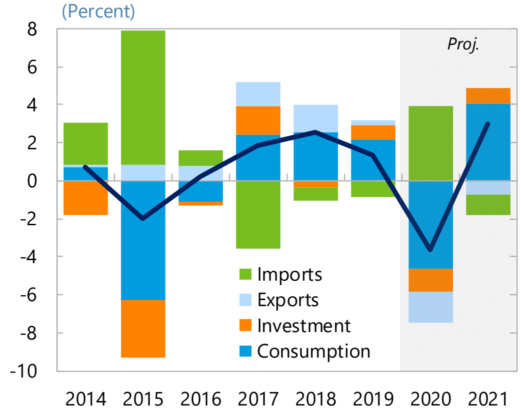


Sources: Bloomberg Financial L.P.; EFPR Global; Haver Analytics; and IMF staff calculations.

Figure 3. Russian Federation: Real Sector Developments, 2014–21

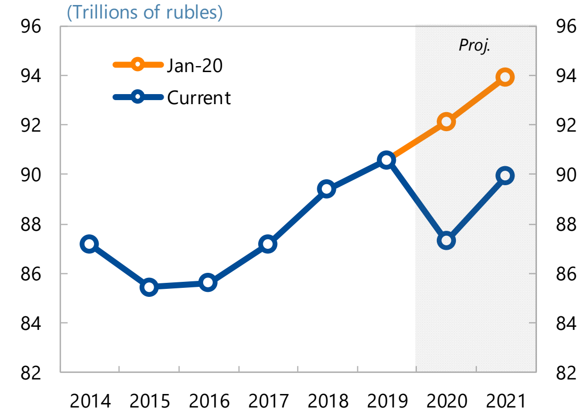
The economy is poised for a sharp contraction in 2020, followed by a modest recovery from the crisis in 2021…

Contributions to Real GDP Growth
(Percent)



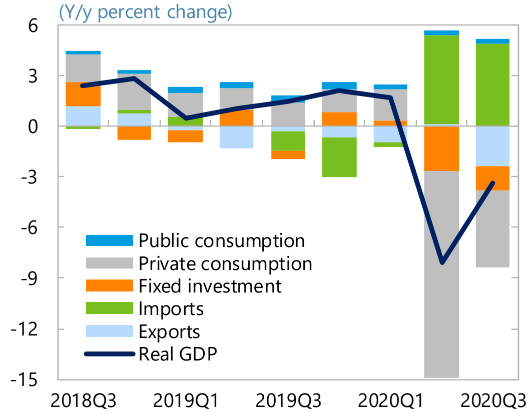
… that will leave output well below its pre-crisis trend.

Real GDP Projections
(Trillions of rubles)



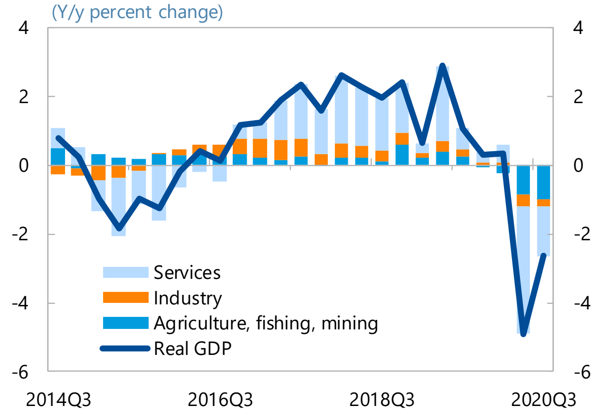
The contraction in 2020Q2 was led by a sharp decline in domestic demand, notably consumption…

Contributions to Quarterly Real GDP Growth
(Y/y percent change)



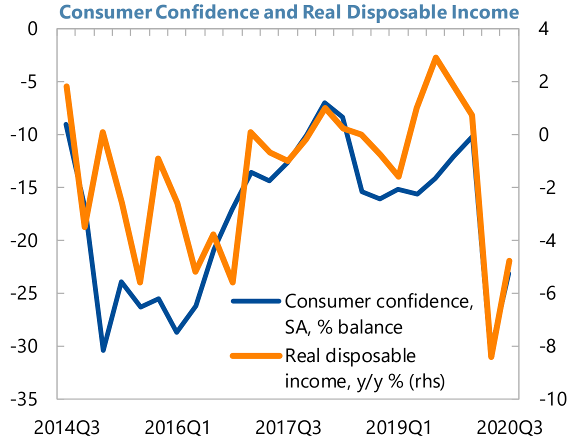
…and services which is the sector most affected by measures put in place to contain the spread of the virus.

Contributions to Real GDP Growth by Production
(Y/y percent change)



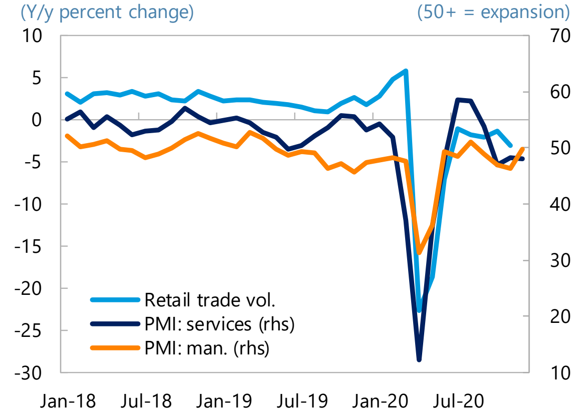
The decline in private consumption was driven by lower disposable income and deteriorating consumer confidence.

Consumer Confidence and Real Disposable Income



After rebounding in June and July, high-frequency indicators suggest the economy is slowing.

PMI and Retail Trade
(Y/y percent change) (50+ = expansion)

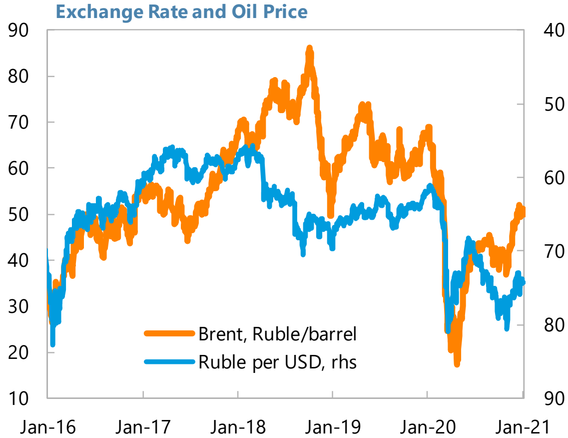


Sources: Bank of Russia; IHS Masrkit; Rosstat; and IMF staff calculations.

Figure 4. Russian Federation: Inflation and Monetary Policy, 2016–20

The drastic decline in oil prices contributed to a depreciation of the ruble…

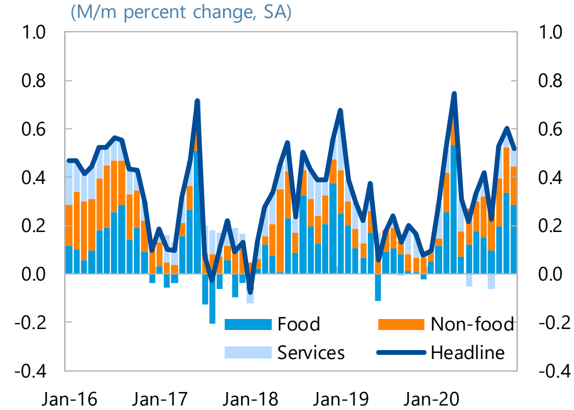
Exchange Rate and Oil Price



…which, together with supply disruptions and high food prices, temporarily boosted inflation.

Contributions to Headline Inflation

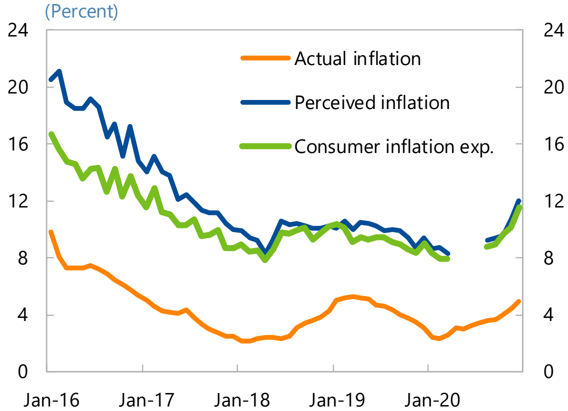
(M/m percent change, SA)



Survey measures of expectations, which track inflation closely, have increased.

CBR Survey of One-Year Ahead Inflation Expectations

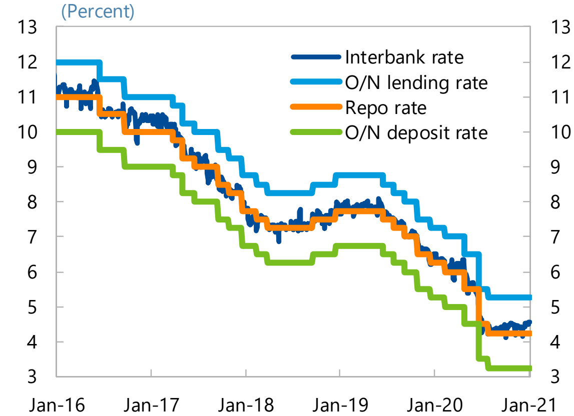
(Percent)



The BoR has cut its key rate by 200 bps since Jan 2020.

Policy and Interbank Rates

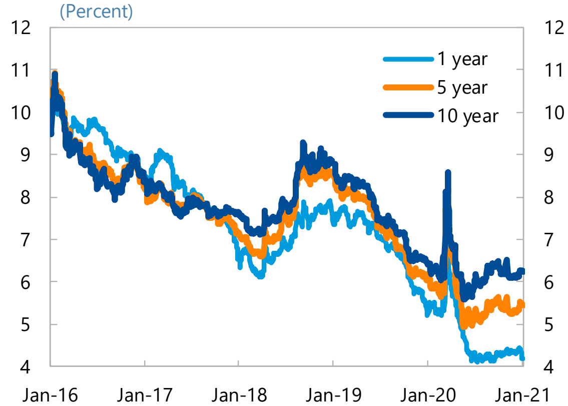
(Percent)



Long-term interest rates remain at or below pre-crisis levels.

Yield Curves

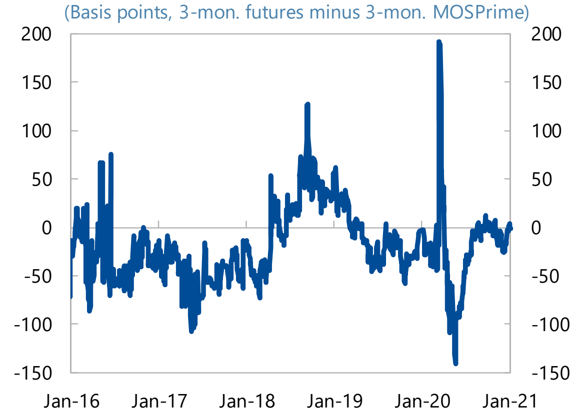
(Percent)



Market expectations for further policy rate cuts are on hold.

Expectations of Future Policy Rates

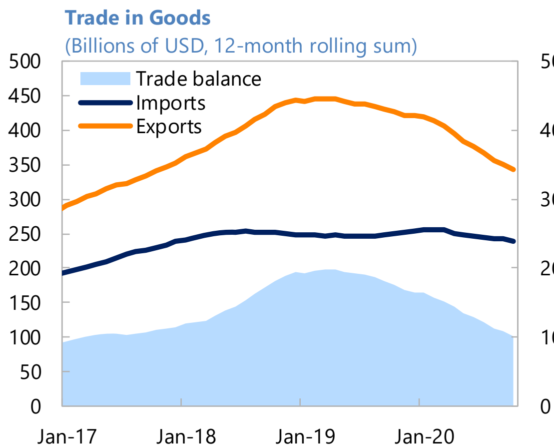
(Basis points, 3-mon. futures minus 3-mon. MOSPrime)



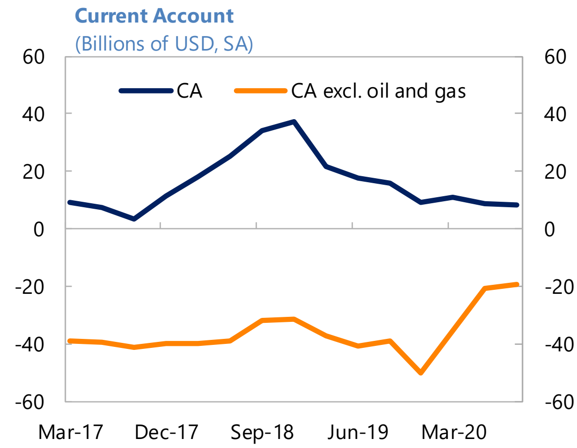
Sources: Bloomberg Financial L.P.; Bank of Russia, and IMF staff calculations.

Figure 5. Russian Federation: External Sector Developments, 2008–20

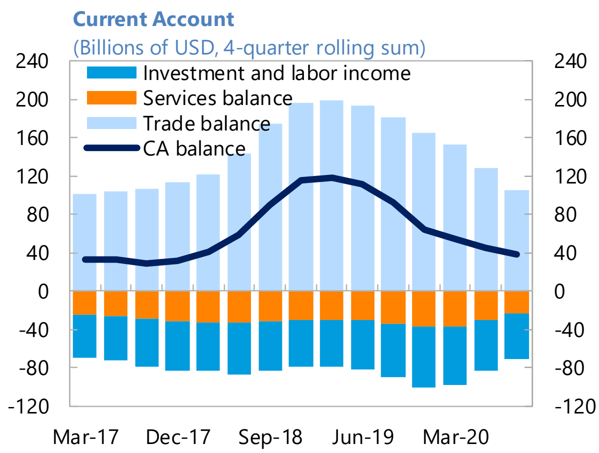
The trade balance has declined sharply through September…



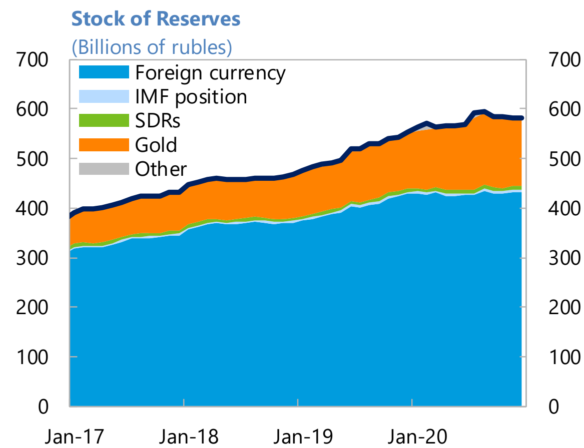
…. as energy exports declined sharply due to plunging oil prices and OPEC + restrictions.



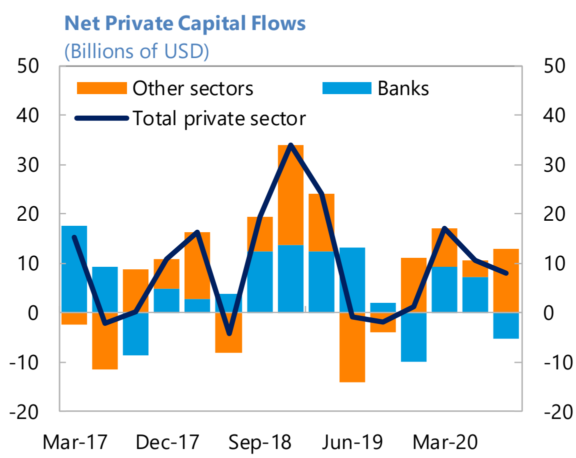
The current account declined but remains in surplus, also reflecting the sharp drop in services imports…



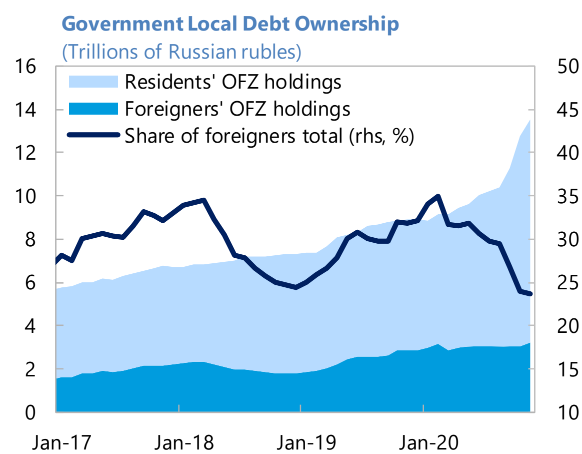
…and official reserves provide ample buffers against shocks.



Net private capital outflows resumed in 2020H1, though stabilized at significantly lower levels than in 2014/15…



… while non-resident inflows into sovereign debt levelled off.

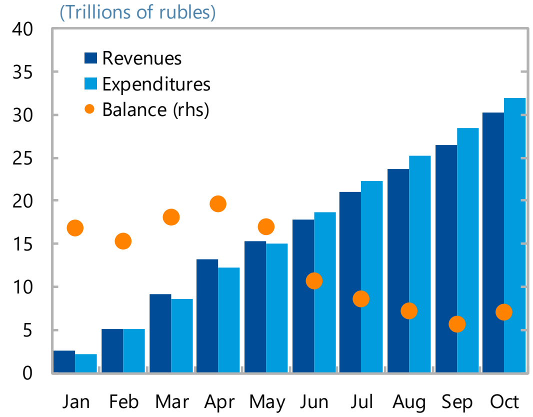


Sources: Bank of Russia; and IMF staff calculations.

Figure 6. Russian Federation: Fiscal Policy, 2020–26

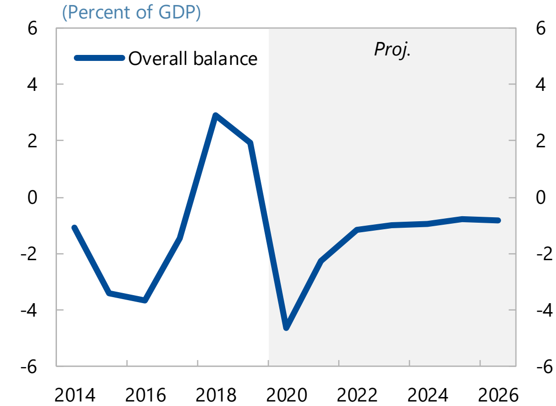
The fiscal balance started to deteriorate in May…

General Government: 2020 Year-to-Date
(Trillions of rubles)



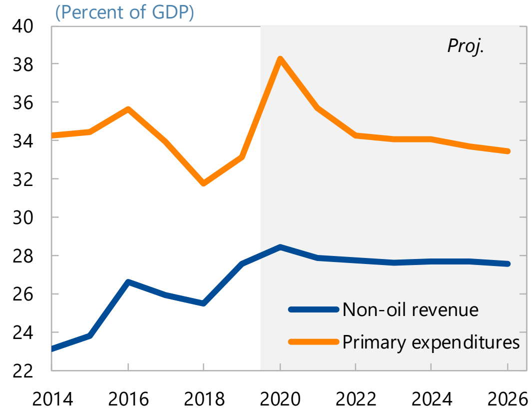
…and it is projected have deteriorated sharply in 2020…

General Government Balance
(Percent of GDP)



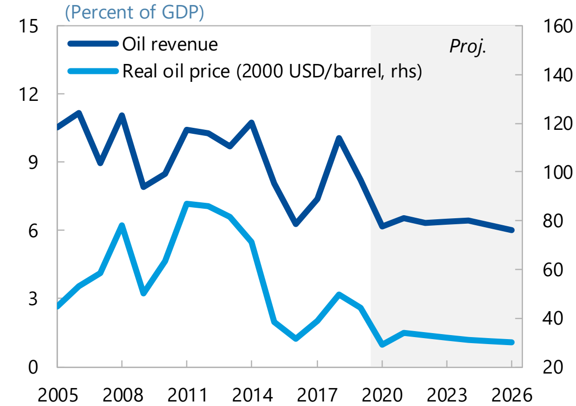
…driven by an increase in expenditures and a decline in non-oil revenues.

General Government
(Percent of GDP)



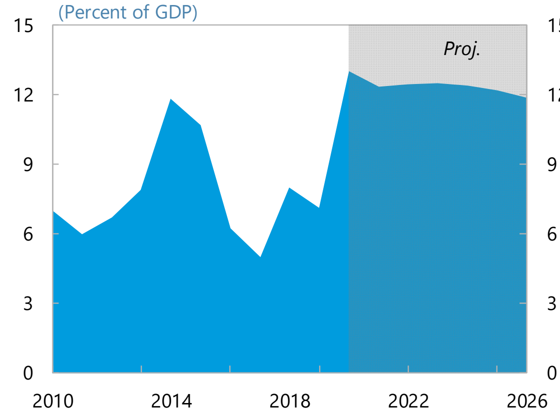
The decline in oil revenues was compensated with resources from the NWF…

General Government Oil Revenues
(Percent of GDP)



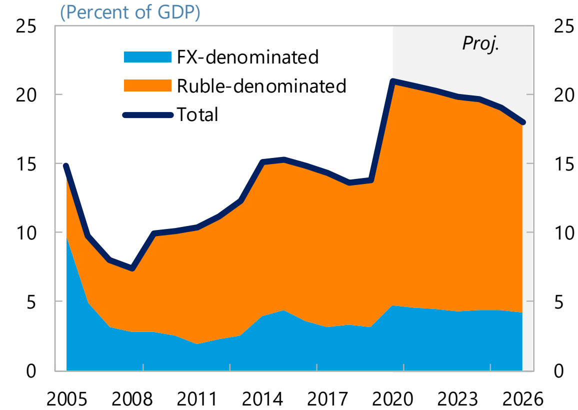
…which will gradually recover in line with the recovery of oil prices.

National Welfare Fund
(Percent of GDP)



Public debt will increase in 2020 and gradually decline in the medium-term if the announced consolidation is followed.

General Government Debt
(Percent of GDP)

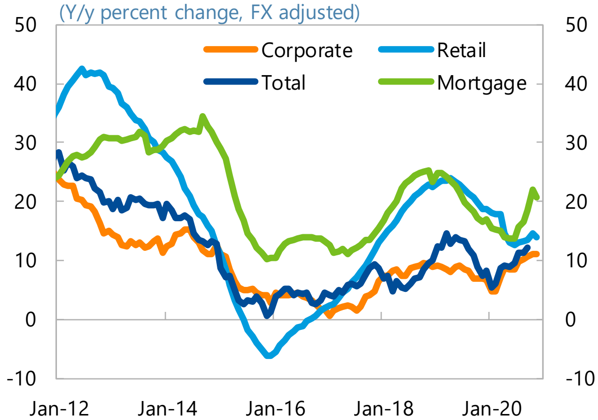


Sources: Russian authorities; and IMF staff calculations.

Figure 7. Russian Federation: Banking Sector Developments, 2008–20Q3

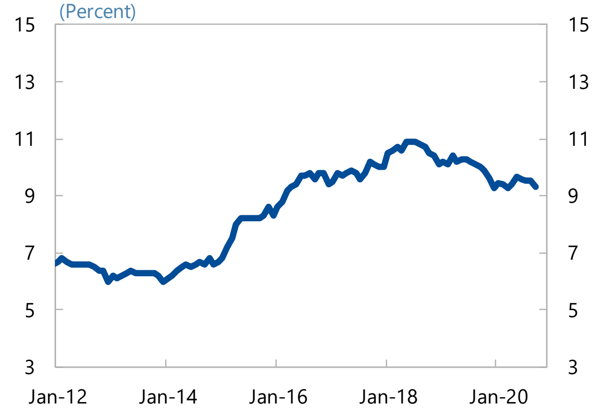
Retail credit growth has slowed, while corporate and mortgage lending has accelerated.

Credit to the Economy
(Y/y percent change, FX adjusted)



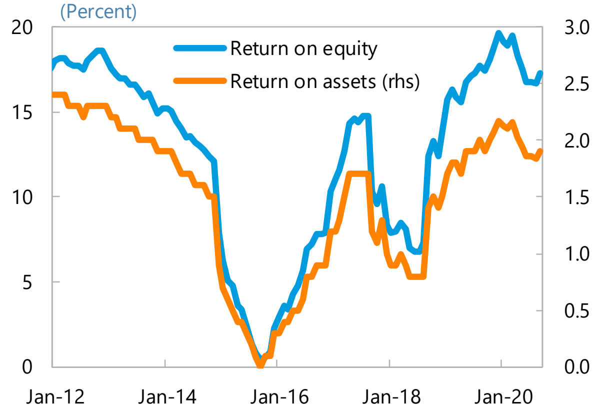
NPLs remain close to pre-crisis levels.

Non-Performing Loans
(Percent)



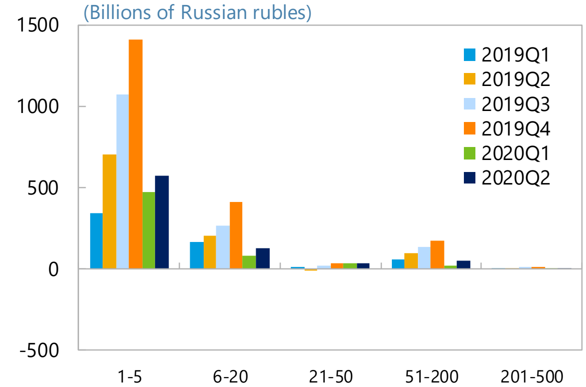
Bank profitability has declined since the beginning of the pandemic, although it remains high…

Earnings
(Percent)



… especially for large banks.

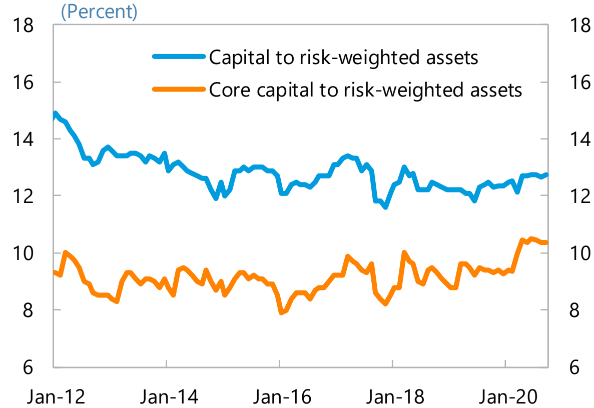
Profit for the Current Year
(Billions of Russian rubles)



Note: Credit institutions ranked by size of assets (descending).

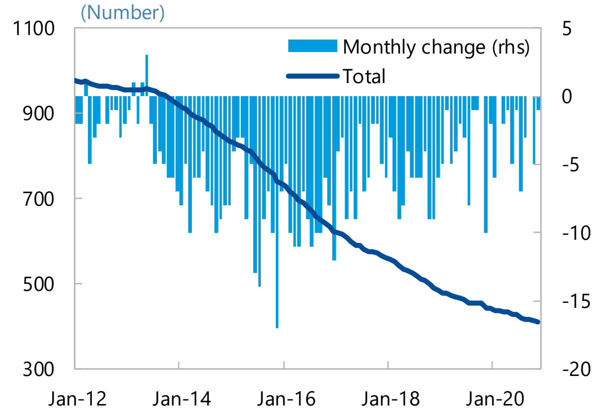
Aggregate capital ratios have remained stable.

Capital Adequacy
(Percent)



The BoR continues to clean up the banking system.

Credit Institutions with a Banking License
(Number)



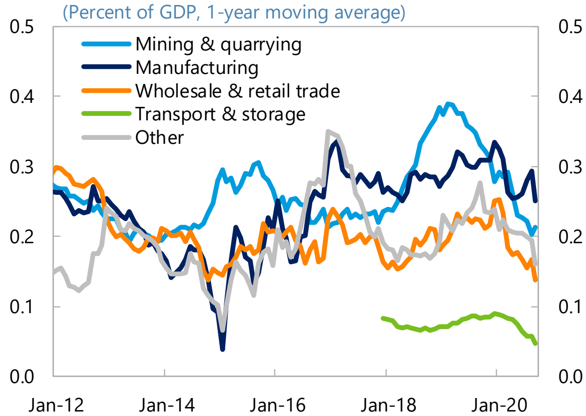
Sources: Bank of Russia; and IMF staff calculations.

Figure 8. Russian Federation: Macro-Financial Developments, 2008–20Q3

Profitability of the tradable and non-tradable sectors has declined since end-2019.

Corporate Profit Levels

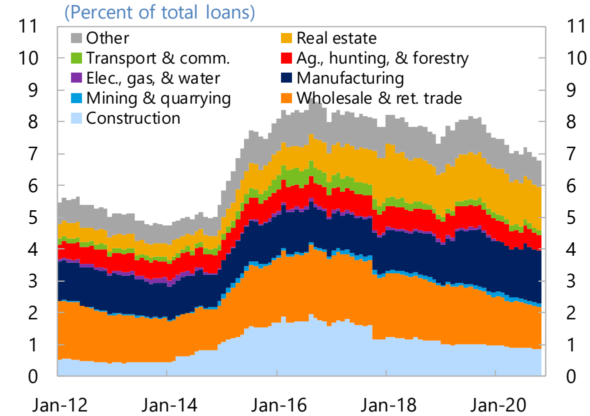
(Percent of GDP, 1-year moving average)



The stock of overdue loans in rubles continues to decline, with many banks working through legacy issues.

Ruble Overdue Loans by Sector

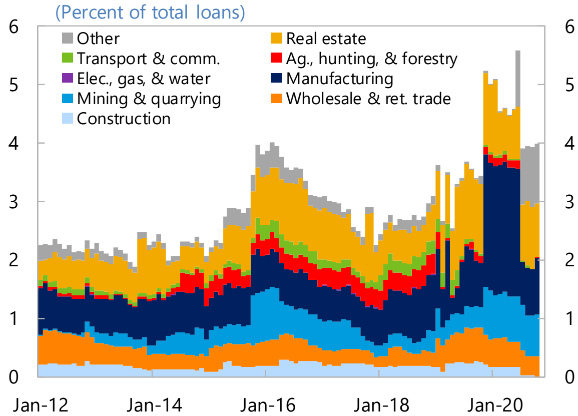
(Percent of total loans)



Overdue loans in FX increased in 2020, particularly in manufacturing.

FX Overdue Loans by Sector

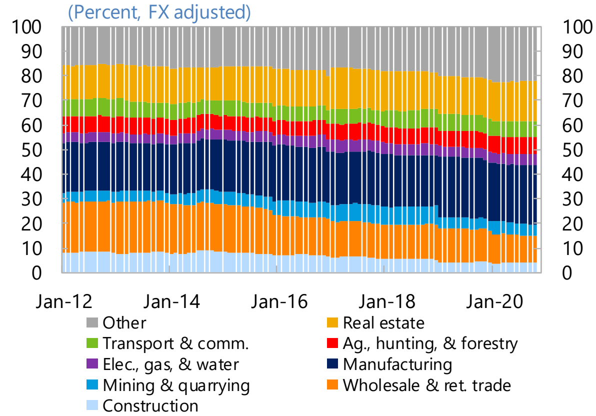
(Percent of total loans)



The share of real estate in total corporate lending has increased since end-2016.

Sectoral Share of Lending

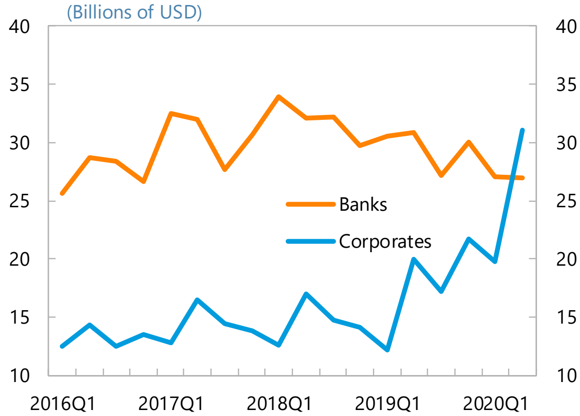
(Percent, FX adjusted)



The corporate sector has increased its external debt since early 2019…

Gross Short-Term External Debt by Sector

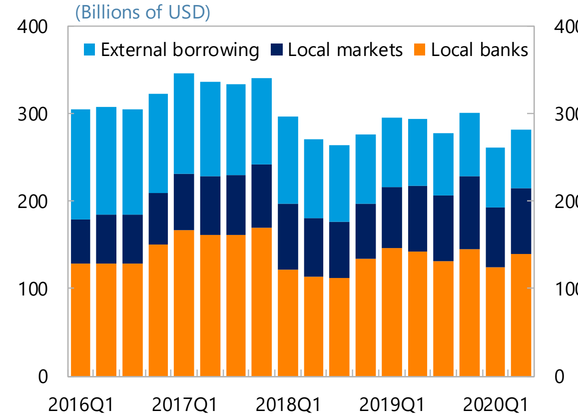
(Billions of USD)



… while banks' external borrowing continued to decline.

Residency Breakdown of Banks' Debt

(Billions of USD)



Sources: Bank of Russia; and IMF staff calculations.

Table 1. Russian Federation: Selected Macroeconomic Indicators, 2017–26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Projection						
Production and prices				(Annual percent change)						
Real GDP	1.8	2.5	1.3	-3.6	3.0	3.9	2.1	1.8	1.8	1.8
Real domestic demand	4.1	2.2	3.0	-5.8	5.1	3.8	2.1	2.1	1.9	1.8
Consumption	3.4	3.5	2.9	-6.2	5.6	3.9	2.1	2.1	1.9	1.8
Investment	6.4	-1.6	3.2	-5.0	3.5	3.4	2.0	2.0	1.9	1.7
Exports	5.0	5.6	0.9	-6.0	-2.8	6.4	3.8	2.3	2.4	2.6
Imports	17.3	2.7	3.5	-16.2	4.8	6.4	3.2	3.6	2.8	2.4
Consumer prices										
Period average	3.7	2.9	4.5	3.4	4.3	3.6	3.8	4.0	4.0	4.0
End of period	2.5	4.3	3.0	4.9	3.6	3.6	4.0	4.0	4.0	4.0
Output gap (percent of potential GDP)	-0.9	-0.1	-0.2	-2.8	-3.0	-1.4	-0.9	-0.7	-0.5	-0.3
Wages	6.6	10.9	9.2	...	...	...	...	...	...	...
Unemployment rate	5.2	4.8	4.6	5.8	5.5	5.0	4.9	4.8	4.8	4.7
Public sector 1/				(Percent of GDP)						
General government										
Net lending/borrowing (overall balance)	-1.5	2.9	1.9	-4.6	-2.3	-1.2	-1.0	-1.0	-0.8	-0.8
Revenue	33.4	35.5	35.8	34.6	34.4	34.1	34.0	34.1	33.9	33.6
Expenditures	34.8	32.6	33.9	39.2	36.7	35.3	35.0	35.1	34.7	34.4
Primary balance	-1.0	3.4	2.2	-4.1	-1.8	-0.8	-0.6	-0.5	-0.4	-0.4
Non-oil primary balance	-8.4	-6.6	-6.0	-10.3	-8.4	-7.1	-7.0	-7.0	-6.6	-6.5
Cyclically-adjusted non-oil primary balance 2/	-8.1	-6.6	-5.9	-10.3	-7.5	-6.6	-6.7	-6.8	-6.4	-6.4
Fiscal impulse 3/	-1.7	-1.5	-0.7	4.4	-2.8	-0.9	0.1	0.1	-0.3	0.0
Federal government										
Primary balance at benchmark oil price (PBBOP) 4/	-1.6	-0.7	-0.2	-3.1	-1.3	-0.5	-0.5	-0.5	0.0	0.0
Money				(Annual percent change)						
Base money	8.6	8.0	3.1	27.0	7.6	5.4	6.0	5.7	5.8	5.9
Ruble broad money	10.5	11.0	9.7	15.1	12.5	6.7	6.5	6.2	6.2	6.2
Real credit to the economy	5.2	8.0	6.2	8.1	9.1	6.9	7.3	7.6	5.4	5.0
External sector				(Percent of GDP)						
External current account	2.0	7.0	3.8	2.0	2.8	2.3	2.2	1.8	1.6	1.6
Export of goods and services	26.1	30.8	28.5	25.7	26.8	26.4	26.3	26.0	25.7	25.5
Energy (oil and gas)	12.3	15.8	14.1	10.1	11.3	11.2	11.2	10.8	10.4	10.1
Non-energy	10.1	11.0	10.7	12.3	12.5	12.1	12.1	12.0	12.0	12.0
Import of goods and services	20.8	20.8	20.9	20.6	21.1	21.3	21.4	21.7	21.7	21.7
Gross international reserves										
Billions of U.S. dollars	432.7	468.5	554.4	583.4	593.5	603.8	611.8	617.8	621.8	624.0
Percent of ARA metric	258.7	296.8	309.9	...	...	...	...	...	...	...
Memorandum items:										
Nominal GDP (billions of rubles)	91,843	103,862	109,193	103,524	114,227	122,004	129,182	136,550	144,414	152,780
Nominal GDP (billions of U.S. dollars)	1,575	1,653	1,689	1,431	1,571	1,642	1,702	1,761	1,824	1,893
Real per capita GDP, PPP dollars	25,999	26,677	27,041	25,978	26,623	27,388	28,107	28,742	29,313	30,324
Population (millions)	146.9	146.8	146.7	146.8	146.8	146.7	146.5	146.3	146.0	145.7
Exchange rate (rubles per U.S. dollar, period average)	58.3	62.8	64.6	72.3	72.7	74.3	75.9	77.5	79.2	80.7
Real effective exchange rate (average percent change)	14.3	-9.9	4.2	-15.8	...	...	...	...	...	...
Brent oil price (U.S. dollars per barrel)	54.4	71.1	64.0	42.3	51.1	50.2	49.7	49.5	49.4	49.5
Urals oil price (U.S. dollars per barrel)	53.5	70.1	63.7	42.3	50.4	49.4	49.0	48.8	48.6	48.7

Sources: Russian authorities; and IMF staff estimates.

1/ Cash basis.
2/ Adjusted by the economic cycle and one-off revenues and expenditures not related to anti-crisis (COVID-19-related) measures.
3/ Change in the cyclically-adjusted non-oil primary balance
4/ This is the balance used for fiscal rule purposes. Under the fiscal rule, the primary balance is calculated at the benchmark oil price.

Table 2. Russian Federation: Medium-Term Framework, 2017–26
(Percent change, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Projection				
GDP growth at constant prices	1.8	2.5	1.3	-3.6	3.0	3.9	2.1	1.8	1.8	1.8
Domestic demand	4.1	2.2	3.0	-5.8	5.1	3.8	2.1	2.1	1.9	1.8
Consumption	3.4	3.5	2.9	-6.2	5.6	3.9	2.1	2.1	1.9	1.8
Private consumption	3.7	4.2	3.1	-9.0	4.6	3.9	2.0	2.0	1.9	1.8
Public consumption	2.5	1.3	2.4	2.1	8.3	4.0	2.3	2.3	2.0	1.9
Investment	6.4	-1.6	3.2	-5.0	3.5	3.4	2.0	2.0	1.9	1.7
Fixed investment	4.7	0.6	1.5	-5.6	4.8	6.2	2.1	2.1	2.0	1.8
Exports	5.0	5.6	0.9	-6.0	-2.8	6.4	3.8	2.3	2.4	2.6
Imports	17.3	2.7	3.5	-16.2	4.8	6.4	3.2	3.6	2.8	2.4
Contributions to real GDP growth (percentage points)										
Domestic demand	3.9	2.1	2.9	-5.7	4.9	3.7	2.0	2.0	1.9	1.8
Private consumption	2.0	2.3	1.7	-5.0	2.4	2.1	1.1	1.1	1.0	1.0
Public consumption	0.5	0.2	0.4	0.4	1.6	0.8	0.5	0.5	0.4	0.4
Investment	1.5	-0.4	0.7	-1.2	0.8	0.8	0.5	0.5	0.5	0.4
Fixed investment	1.0	0.1	0.3	-1.2	1.0	1.4	0.5	0.5	0.5	0.4
Change in inventories	0.5	-0.5	0.4	0.1	-0.2	-0.6	0.0	0.0	0.0	0.0
Net exports	-2.3	0.8	-0.6	2.3	-1.8	0.2	0.3	-0.2	0.0	0.1
Exports	1.3	1.5	0.2	-1.6	-0.8	1.6	1.0	0.6	0.6	0.7
Imports	-3.6	-0.6	-0.8	3.9	-1.0	-1.4	-0.7	-0.8	-0.6	-0.6
Potential GDP	1.0	1.7	1.5	-1.1	3.3	2.2	1.6	1.6	1.6	1.6
Output gap (percent of potential GDP)	-0.9	-0.1	-0.2	-2.8	-3.0	-1.4	-0.9	-0.7	-0.5	-0.3
Consumer prices										
Period average	3.7	2.9	4.5	3.4	4.3	3.6	3.8	4.0	4.0	4.0
End of period	2.5	4.3	3.0	4.9	3.6	3.6	4.0	4.0	4.0	4.0
Core CPI										
Period average	3.5	2.5	4.2	3.1	3.5	3.1	3.6	4.0	4.0	4.0
End of period	2.5	4.3	3.0	4.0	3.1	3.2	3.7	4.0	4.0	4.0
Wages										
Overall	6.6	10.9	9.2	...	...	...	...	...	...	...
Public	-0.3	10.1	6.5	...	...	...	...	...	...	...
GDP deflator	5.3	10.3	3.7	-1.6	7.1	2.8	3.7	3.8	3.9	3.9
Employment (millions)	72.3	72.5	71.9	70.4	71.1	71.6	72.0	72.3	72.6	73.0
Unemployment rate (percent)	5.2	4.8	4.6	5.8	5.5	5.0	4.9	4.8	4.8	4.7
Savings-investment balances (percent of GDP)										
Gross savings	25.6	28.9	26.6	25.7	25.9	25.5	25.5	25.4	25.3	25.4
Gross investment	23.6	21.9	22.8	23.6	23.1	23.2	23.3	23.5	23.7	23.8
Current account (percent of GDP)	2.0	7.0	3.8	2.0	2.8	2.3	2.2	1.8	1.6	1.6
Federal government (percent of GDP)										
Primary balance at benchmark oil price	-1.6	-0.7	-0.2	-3.1	-1.3	-0.5	-0.5	-0.5	0.0	0.0

Sources: Russian authorities; and IMF staff estimates.

Table 3. Russian Federation: Balance of Payments, 2017–26
(Billions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Projection						
Current account	32.2	115.7	64.8	29.0	44.2	37.4	37.4	32.2	29.2	29.4
Trade balance	114.6	195.1	165.3	89.3	121.5	120.0	122.8	118.1	114.8	114.0
Exports of goods	352.9	443.9	419.9	320.4	374.1	383.0	395.0	401.6	409.0	418.5
Non-energy	159.5	182.1	181.0	175.5	196.1	198.9	205.2	212.0	219.6	227.9
Energy	193.5	261.8	238.9	144.9	178.1	184.1	189.8	189.6	189.4	190.6
Oil	151.6	207.4	189.2	114.9	139.5	145.9	151.6	151.5	151.4	152.6
Gas	41.8	54.4	49.7	30.0	38.6	38.3	38.2	38.1	38.0	38.1
Imports of goods	238.4	248.9	254.6	231.1	252.7	263.0	272.2	283.5	294.2	304.5
Services balance	-31.3	-30.1	-36.7	-16.3	-31.6	-37.2	-39.9	-41.6	-41.7	-41.6
Primary income balance	-42.1	-40.4	-53.5	-33.3	-35.7	-36.1	-36.7	-36.1	-36.2	-35.9
Credit	46.6	52.9	53.9	56.3	55.2	59.0	62.8	66.2	69.9	73.7
Debit	88.6	93.3	107.4	89.6	90.9	95.0	99.5	102.3	106.1	109.7
Secondary income balance	-9.0	-8.9	-10.2	-10.7	-10.0	-9.3	-8.8	-8.2	-7.7	-7.1
Capital account balance	-0.2	-1.1	-0.7	-0.7	-0.8	-0.7	-0.7	-0.8	-0.7	-0.7
Financial account balance	34.6	116.7	62.6	28.3	43.4	36.7	36.7	31.4	28.4	28.7
Direct investment	8.2	22.6	-10.1	-2.4	-8.7	-13.9	-8.2	-10.1	-11.6	-10.9
Portfolio investment	-8.0	7.6	-12.7	23.8	3.4	3.7	10.7	4.1	6.1	7.1
Financial derivatives	0.4	-0.7	2.6	0.4	0.8	1.3	0.8	0.9	1.0	0.9
Other investment	11.4	49.0	16.3	16.6	37.8	35.5	25.4	30.4	29.0	29.3
Change in reserve assets	22.6	38.2	66.5	-10.1	10.1	10.2	8.0	6.1	3.9	2.2
Errors and omissions, net	2.6	2.1	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account (percent of GDP)	2.0	7.0	3.8	2.0	2.8	2.3	2.2	1.8	1.6	1.6
Non-energy current account (percent of GDP)	-10.2	-8.8	-10.3	-8.1	-8.5	-8.9	-9.0	-8.9	-8.8	-8.5
Net international investment position (percent of GDP)	17.8	22.6	21.2	38.8	38.2	38.8	39.6	40.0	40.2	40.2
Gross reserves	432.7	468.5	554.4	583.4	593.5	603.8	611.8	617.8	621.8	624.0
(percent of ARA metric)	258.7	296.8	309.9	...	...	...	...	...	...	...
Public external debt (percent of GDP)	4.5	3.4	3.3	4.7	4.5	4.4	4.3	4.3	4.3	4.1
Private external debt (percent of GDP)	28.5	24.1	25.8	27.8	25.1	24.3	23.4	22.6	21.9	21.5
Total external debt	518.4	455.1	491.4	464.9	465.5	471.6	471.0	474.8	479.2	484.6
(percent of GDP)	32.9	27.5	29.1	32.5	29.6	28.7	27.7	27.0	26.3	25.6
Brent oil price (U.S. dollars per barrel)	54.4	71.1	64.0	42.3	51.1	50.2	49.7	49.5	49.4	49.5
Urals oil price (U.S. dollars per barrel)	53.5	70.1	63.7	42.3	50.4	49.4	49.0	48.8	48.6	48.7
Terms of trade (percent)	16.3	17.1	-6.1	-16.4	14.7	-1.8	-1.2	-1.7	-1.5	-1.1

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

Table 4. Russian Federation: Fiscal Operations, 2017–26/1
(Percent of GDP, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Projection						
General government										
Revenue	33.4	35.5	35.8	34.6	34.4	34.1	34.0	34.1	33.9	33.6
o/w Oil revenue	7.4	10.1	8.2	6.2	6.6	6.3	6.4	6.5	6.2	6.0
o/w Nonoil revenue	26.0	25.5	27.6	28.4	27.9	27.8	27.7	27.7	27.7	27.6
Taxes	24.2	26.7	26.0	24.0	25.3	24.8	24.6	24.7	24.5	24.2
Corporate profit tax	3.6	3.9	4.2	3.5	3.8	3.7	3.6	3.6	3.6	3.6
Personal income tax	3.5	3.5	3.6	3.7	3.8	3.8	3.7	3.7	3.7	3.7
VAT	5.6	5.8	6.5	6.7	6.7	6.6	6.5	6.5	6.5	6.5
Excises	1.7	1.5	1.3	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Custom tariffs	2.8	3.6	2.8	2.0	2.0	1.6	1.4	1.2	1.2	1.2
Resource extraction tax	4.9	6.3	5.8	4.5	5.4	5.5	5.8	6.1	5.8	5.6
Other tax revenue	2.0	2.0	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.9
Social contributions	7.1	6.9	7.2	7.5	6.8	6.8	6.9	6.9	6.9	6.9
Other revenue	2.0	2.0	2.6	3.2	2.4	2.5	2.5	2.5	2.5	2.5
Expenditure	34.8	32.6	33.9	39.2	36.7	35.3	35.0	35.1	34.7	34.4
Current	31.0	29.3	31.1	36.5	33.8	32.3	32.1	32.2	32.3	32.0
Compensation of employees	4.1	3.9	3.9	4.1	4.0	4.0	4.1	4.2	4.2	4.2
Goods and services	3.0	2.8	3.0	3.5	3.2	3.2	3.2	3.2	3.1	3.1
Subsidies	7.5	7.6	8.0	10.2	8.4	8.2	8.2	8.2	8.1	8.0
Grants	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social benefits	13.8	12.8	13.0	16.6	14.6	14.3	14.1	14.0	13.7	13.6
Interest	0.9	0.9	0.8	1.0	1.0	1.0	1.0	1.0	1.0	0.9
Other expense	1.6	1.2	2.2	0.8	2.4	1.6	1.4	1.5	2.0	2.0
Net acquisition of nonfinancial assets	3.8	3.3	2.8	2.8	2.9	2.9	2.9	2.9	2.4	2.4
Net lending (+)/borrowing (-) (overall balance)	-1.5	2.9	1.9	-4.6	-2.3	-1.2	-1.0	-1.0	-0.8	-0.8
Non-oil overall balance	-8.9	-7.1	-6.3	-10.8	-8.8	-7.5	-7.4	-7.4	-7.0	-6.9
Non-oil primary balance	-8.4	-6.6	-6.0	-10.3	-8.4	-7.1	-7.0	-7.0	-6.6	-6.5
Cyclically-adjusted non-oil primary balance 2/	-8.1	-6.6	-5.9	-10.3	-7.5	-6.6	-6.7	-6.8	-6.4	-6.4
Fiscal impulse 3/	-1.7	-1.5	-0.7	4.4	-2.8	-0.9	0.1	0.1	-0.3	0.0
Gross financing requirements	5.8	-0.3	0.2	6.0	3.6	2.5	1.9	2.0	1.4	1.4
Federal government										
Revenue	16.4	18.7	18.5	17.5	17.7	17.4	17.4	17.4	17.1	16.8
o/w Oil revenue	6.7	9.0	7.5	5.4	6.1	5.9	6.0	6.0	5.8	5.5
o/w Nonoil revenue	9.7	9.7	11.0	12.1	11.5	11.5	11.4	11.4	11.4	11.3
Expenditure	17.9	16.1	16.7	21.8	19.2	18.2	18.3	18.5	17.9	17.7
Current	15.3	14.0	15.1	20.4	17.6	16.6	16.7	16.9	16.8	16.5
Net acquisition of nonfinancial assets	2.6	2.1	1.6	1.4	1.6	1.6	1.6	1.6	1.1	1.1
Net lending (+)/borrowing (-) (overall balance)	-1.4	2.6	1.8	-4.3	-1.6	-0.8	-0.9	-1.1	-0.8	-0.8
Non-oil overall balance	-8.2	-6.4	-5.7	-9.7	-7.7	-6.7	-6.9	-7.1	-6.5	-6.4
Primary balance at benchmark oil price (PBBOP) 4/	-1.6	-0.7	-0.2	-3.1	-1.3	-0.5	-0.5	-0.5	0.0	0.0
Memorandum items:										
Urals oil price (U.S. dollars per barrel)	53.5	70.1	63.7	42.3	50.4	49.4	49.0	48.8	48.6	48.7
Oil funds 5/	5.0	8.0	7.1	13.0	12.4	12.5	12.5	12.4	12.2	11.9
General government debt	14.3	13.6	13.8	21.0	20.7	20.2	19.9	19.7	19.1	18.0
GDP (billions of rubles)	91,843	103,862	109,193	103,524	114,227	122,004	129,182	136,550	144,414	152,780

Sources: Russian authorities; and IMF staff estimates.

1/ Cash basis.

2/ Adjusted by the economic cycle and one-off revenues and expenditures not related to anti-crisis (COVID-19-related) measures.

3/ Change in the cyclically-adjusted primary non-oil primary balance

4/ This is the balance used for fiscal rule purposes. Under the fiscal rule, the primary balance is calculated at the benchmark oil price.

5/ Projected balances reflect staff estimates based on projected oil savings.

Table 5. Russian Federation: Monetary Accounts, 2017–26
(Billions of Russian rubles, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Projection				
Monetary authorities										
Base money	9,854	10,647	10,980	13,943	15,000	15,812	16,763	17,719	18,742	19,856
Currency issued	9,539	10,312	10,616	13,537	14,537	15,318	16,237	17,160	18,148	19,226
Required reserves on ruble deposits	315	334	364	406	462	494	526	559	593	630
NIR 1/	24,520	31,935	33,780	39,660	40,204	41,846	43,376	44,787	46,012	47,074
Gross reserves	24,986	32,488	34,279	40,159	40,703	42,345	43,875	45,286	46,511	47,572
Gross liabilities	466	553	499	499	499	499	499	499	499	499
GIR (billions of U.S. dollars)	*434*	*467*	*554*	*544*	*554*	*564*	*572*	*578*	*582*	*584*
NDA	-14,666	-21,288	-22,800	-25,717	-25,205	-26,034	-26,613	-27,068	-27,270	-27,218
Net credit to general government	-5,609	-9,132	-11,729	-11,191	-10,376	-9,902	-9,485	-9,115	-8,790	-8,555
Net credit to federal government	-4,725	-7,940	-10,586	-10,297	-11,038	-11,802	-12,413	-12,887	-13,201	-13,383
CBR net ruble credit to federal government 1/	-1,711	-888	-855	5,118	5,051	5,354	5,683	6,028	6,369	6,703
Foreign exchange credit	202	173	102	102	102	102	102	102	102	102
Ruble counterpart	-3,216	-7,225	-9,833	-15,517	-16,191	-17,258	-18,198	-19,016	-19,673	-20,189
CBR net credit to local government and EBFs	-884	-1,193	-1,143	-894	663	1,900	2,928	3,771	4,412	4,829
CBR net credit to local government	-640	-989	-880	-630	926	2,163	3,191	4,034	4,675	5,092
CBR net credit to extrabudgetary funds	-244	-204	-263	-263	-263	-263	-263	-263	-263	-263
Net credit to banks	-2,283	-1,917	-2,716	-163	1,143	5,021	10,554	17,362	22,631	28,640
Gross credit to banks	2,632	3,258	2,873	2,873	950	952	954	954	954	954
Gross liabilities to banks and deposits	-4,915	-5,176	-5,590	-3,037	193	4,069	9,600	16,408	21,677	27,686
Of which: correspondent account balances	-1,931	-1,898	-2,625	-2,345	-2,671	-2,855	-3,041	-3,228	-3,428	-3,639
Other items (net) 2/	-6,774	-10,238	-8,355	-14,363	-15,973	-21,153	-27,683	-35,315	-41,111	-47,303
Monetary survey										
Broad money	54,667	61,402	64,536	73,442	82,432	87,544	92,804	98,067	103,685	109,620
Ruble broad money	42,442	47,109	51,660	59,439	66,896	71,364	76,010	80,691	85,697	91,005
Currency in circulation	8,446	9,339	9,658	12,543	13,484	14,271	15,200	16,136	17,137	18,227
Ruble deposits	33,996	37,770	42,002	46,897	53,412	57,093	60,810	64,556	68,560	72,778
Forex deposits 1/	12,225	14,292	12,875	14,002	15,536	16,180	16,794	17,376	17,988	18,615
Net foreign assets 1/	29,746	39,797	40,968	46,474	45,089	45,042	44,762	44,264	43,531	42,792
NIR of monetary authorities	24,520	31,935	33,780	39,660	40,204	41,846	43,376	44,787	46,012	47,074
NFA of commercial banks	5,226	7,863	7,188	6,814	4,885	3,197	1,385	-522	-2,481	-4,282
NFA of commercial banks (billions of U.S. dollars)	91	113	116	92	66	43	18	-7	-31	-53
NDA	24,921	21,604	23,568	26,967	37,342	42,502	48,042	53,803	60,154	66,829
Domestic credit	51,548	53,597	55,955	65,393	77,407	87,760	99,841	113,245	125,404	138,283
Net credit to general government	-3,270	-7,968	-11,271	-10,582	-8,167	-6,762	-5,357	-4,149	-3,004	-1,733
Credit to the economy	54,818	61,565	67,227	75,974	85,574	94,522	105,198	117,394	128,409	140,016
Other items (net)	-26,627	-31,993	-32,388	-38,426	-40,064	-45,258	-51,799	-59,442	-65,250	-71,455
Memorandum items:										
Nominal GDP (billions of rubles)	91,843	103,862	109,193	103,524	114,227	122,004	129,182	136,550	144,414	152,780
CPI inflation (12-month change, eop)	2.5	4.3	3.0	4.9	3.6	3.6	4.0	4.0	4.0	4.0
Annual change in velocity	-2.9	1.9	-4.1	-17.6	-2.0	0.1	-0.6	-0.4	-0.4	-0.4
Ruble broad money (percent change)	10.5	11.0	9.7	15.1	12.5	6.7	6.5	6.2	6.2	6.2
Base money (percent change)	8.6	8.0	3.1	27.0	7.6	5.4	6.0	5.7	5.8	5.9
Credit to the economy (percent change)	7.7	12.3	9.2	13.0	12.6	10.5	11.3	11.6	9.4	9.0
Ruble broad money multiplier	4.3	4.4	4.7	4.3	4.5	4.5	4.5	4.6	4.6	4.6

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 6. Russian Federation: Financial Soundness Indicators, 2014–20Q3

(Percent)

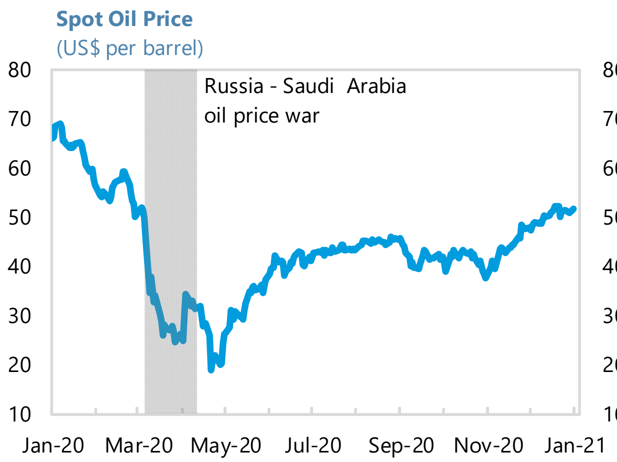
	2014	2015	2016	2017	2018	2019	Q3-2020
Financial Soundness Indicators							
Capital adequacy							
Capital to risk-weighted assets	12.5	12.7	13.1	12.1	12.2	12.3	12.8
Tier 1 capital to risk-weighted assets	9.0	8.5	9.2	8.5	8.9	9.3	10.5
Credit risk							
NPLs to total loans	6.7	8.3	9.4	10.0	10.1	9.3	9.6
Loan loss provisions to total loans	6.5	7.8	8.5	9.3	9.1	8.7	9.0
Large credit risks to capital	245.5	254.4	219.6	226.1	204.7	180.4	166.1
Distribution of loans provided by credit institutions							
Loans to corporates	30.3	13.4	-5.9	2.8	12.4	2.6	15.9
Loans to households	14.4	-5.8	2.1	13.4	23.1	19.0	13.8
Mortgage loans	32.3	10.7	12.1	15.0	23.3	16.8	18.5
Unsecured loans 1/	13.5	-5.7	2.4	13.4	22.6	18.8	13.5
Liquidity							
Highly liquid assets to total assets	10.4	10.6	10.5	11.0	10.6	11.2	11.7
Liquid assets to total assets	22.0	24.6	21.8	23.2	21.1	21.6	21.3
Liquid assets to short-term liabilities	80.4	139.3	144.9	167.4	166.4	180.6	134.3
Ratio of client's funds to total loans	92.8	59.0	107.5	111.1	108.8	109.2	110.4
Return on assets	0.9	0.3	1.2	1.0	1.5	2.2	1.9
Return on equity	7.9	2.3	10.3	8.3	13.8	19.7	16.8
Balance Sheet Structure, in percent of assets							
Total asset growth rate	35.2	6.9	-3.5	6.4	10.4	2.7	11.5
Asset side							
Accounts with CBR and other central banks	4.2	3.0	3.8	5.6	4.6	4.4	5.0
Interbank lending	8.9	10.4	11.4	11.5	9.9	…	…
Securities holdings	12.5	14.2	14.3	14.5	13.9	12.4	12.3
Liability side							
Funds from CBR	12.0	6.5	3.4	2.4	2.8	2.5	2.5
Interbank liabilities	8.5	8.5	10.7	10.9	9.8	8.4	7.9
Individual deposits	23.9	28.0	30.2	30.5	30.2	31.6	30.7

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

1/ Personal loans.

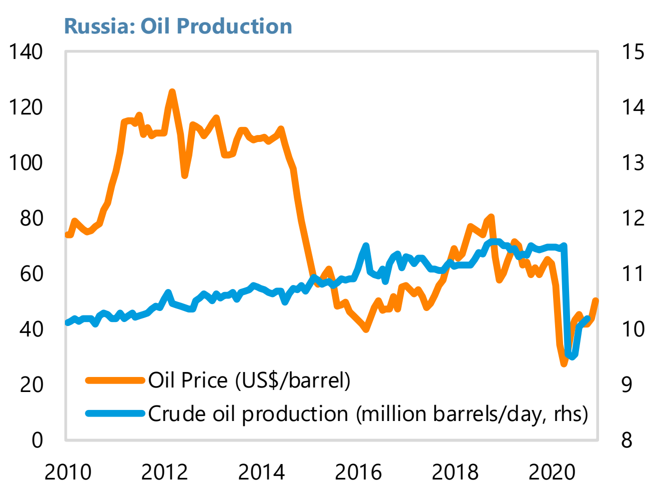
Annex I. Oil Sector Resilience[1]

1. **The economic impact of the COVID-19 pandemic and a price war between Russia and Saudi Arabia has resulted in volatile and historically low oil prices.** The price of Brent crude oil declined from US$66 per barrel at end-2019 to a low of US$19 per barrel on April 21 and has hovered around US$40– 45 dollars per barrel since June. The sharp decline in the oil price reflects a dramatic decline in oil consumption brought about by policy measures and changes in behavioral patterns aimed at stopping the spread of the virus. According to the IEA, global oil demand in April 2020 was down nearly 29 percent compared to its pre-crisis level and is expected to be at least 6½ percent lower for the year. Oil prices have recovered somewhat from their April lows in response to an agreement between OPEC and 10 other oil-exporting countries including Russia (the so-called OPEC+ alliance) to cut oil production, and a modest recovery in oil demand as restrictions to contain the virus have been gradually lifted.



Source: Financial Times.

2. **Crude oil production in Russia, which historically has been largely unaffected by movements in oil prices, has plunged as a result of the production cut agreement with OPEC.** Crude oil production in Russia has, for many years, grown at a steady pace. Production increased by 2 percent in 2015, when oil prices fell by nearly 40 percent, whilst from mid-2017 to mid-2018, when oil prices increased by nearly 60 percent, crude oil production increased by a modest 0.5 percent. This is in stark contrast to countries with relatively high operating costs, such as the United States, where crude oil production is very sensitive to movements in the oil price. As a result of the OPEC+ agreement however, crude oil production in Russia fell to 8.8 million barrels per day in May, 18 percent below the output level in April, bringing oil production in Russia to levels last seen in 2004. The production cuts are gradually being eased from August onwards, with production not expected to return to baseline until April 2022.



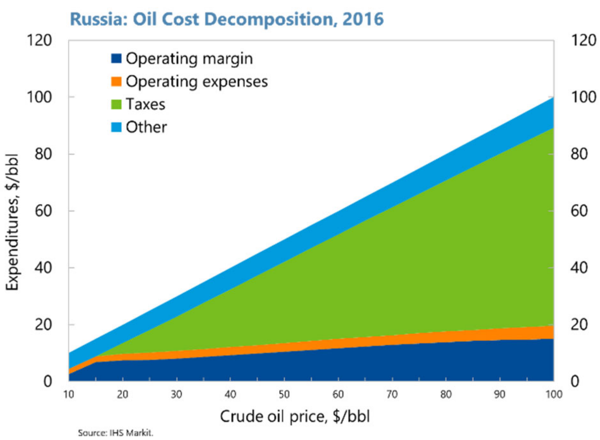
Sources: Financial Times; and JODI.

[1] Prepared by Magnus Saxegaard.

3. A macro-critical question for Russia at the current juncture is the degree of resilience of its oil sector in an environment of low prices for long. Production costs in cash terms (lifting costs, transport costs, and taxes) for Russian oil companies imply a break-even price of around \$10–\$15 per barrel, This is significantly below the \$40–\$50 break-even price for U.S. shale companies and only slightly above Saudi Aramco's reported production costs of just under \$10 per barrel, and suggests that Russia's oil and gas industry would be well-placed to weather a protracted period of low oil prices.

4. The low breakeven price in Russia reflects a combination of low operating expenses, a progressive tax system, and the stabilizing effect of the exchange rate.

- Operating expenses for Russian oil producers are low and have been trending downward in recent years. Analyst estimates put lifting costs in 2020 at around \$3.4 per barrel, only slightly above Saudi Aramco's reported lifting costs of \$2.80 per barrel.



- The progressive tax regime is designed to protect oil producers when oil prices are low while ensuring that the Russian state takes most of the windfall when prices are high. The first \$15 per barrel of any revenue is effectively tax free, with tax rates gradually increasing in line with increasing prices. Estimates suggest the tax burden on a typical Russian oil and gas company can be as low as 19 percent of total revenue if the oil price is \$20 per barrel, rising to 49 percent once the oil price reaches \$50–\$60 per barrel. Changes in the tax burden are estimated to absorb more than 80 percent of the overall change in oil prices.

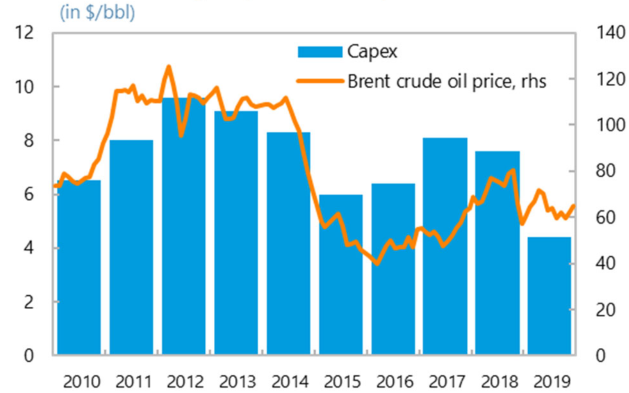
- Movements in the exchange rate are another factor which help keep breakeven prices low. The ruble dollar exchange rate is highly correlated with movements in the oil price.[2] About 80 percent of operating expenses are denominated in rubles and measured in U.S. dollars tend to be high when oil prices are high and low when oil prices are low.

5. While production from existing wells is likely to recover, low oil prices could affect capital expenditure plans and potential future production. The natural decline rate of many mature fields in Russia is estimated to be around 10–25 percent per annum, above the natural decline rate of 8 percent reported by Saudi Aramco on its assets. The observed decline rate is significantly lower due to the extensive use of complex and costly reservoir management techniques. Nevertheless, maintaining oil and gas output in Russia at pre-crisis levels will require significant investment in reservoir management and new wells. These costs, which are not

[2] The correlation is close to 0.9 between January 2010 till August 2020 on monthly data.

included in the cash breakeven prices above, suggest the full-cost breakeven price is closer to $30–40 per barrel, significantly higher than in Saudi Arabia (around $13 per barrel) and Iraq (around $12 per barrel). Some analysts have warned that the decline in the oil price in 2020 has already resulted in a 30–40 percent drop in capital expenditure plans, hence a sustained period of below $40 per barrel oil could therefore have significant consequences for the longer-term outlook for the oil and gas sector in Russia.

Russia: Oil and gas capex and the oil price
(in $/bbl)



Sources: IHS Markit; and Haver

6. A distinct but equally important question is how vulnerable Russia's government is to a prolonged period of low oil prices. Russia's pre-crisis fiscal breakeven oil price—the price required to meet spending needs and balance the budget—is estimated to be around $40 per barrel. This is significantly below other oil producers including Saudi Arabia (around $80 per barrel), Iraq (around $60 per barrel), and the United Arab Emirates (around $70 per barrel). Russia's relatively low fiscal breakeven price reflects a relatively healthy fiscal position, as prescribed by the fiscal rule (Russia's overall fiscal balance was 1.9 percent of GDP in 2019 compared to a deficit of 4.5 percent of GDP in Saudi Arabia). The Ministry of Finance in the 2020 budget reported stress tests suggesting that a one-year long decline in the Urals oil price to $25 per barrel would only reduce oil and gas revenues by 2.4 percent of GDP. If oil prices were to remain at this level for 3 years, the revenue shortfall would reach 7.6 percent of GDP. While large, these revenue shortfalls are relatively small compared to the size of Russia's foreign currency reserves (now at some 40 percent of GDP), suggesting that the government is well-placed to weather a prolonged period of low oil prices.

7. Transitioning to a profit-based tax regime could improve the longer-term outlook for the oil and gas sector in Russia.

- The main tax levied on oil and gas companies, the mineral extraction tax (MET), is a volume-based royalty tax.[3] Royalty-based taxes provide a stable source of revenue for the budget and are easy to administer. However, because companies are unable to deduct costs, such taxes can distort investment and weaken incentives to adopt new technologies. Incentives to invest are further undermined by frequent changes to the MET formula and the granting of ad-hoc tax breaks that contribute to a tax system that is complicated and unpredictable. According to analysts these factors help explain why Russia's recovery ratio (share of known

[3] The other main tax levied on oil exporters, the export duty, is being gradually phased out as part of an ongoing "tax maneuver" and will be completely gone by 2024.

resources that are being extracted) is below 30 percent, well behind countries like Norway where more than 50 percent of oilfield reserves would normally be recovered.

- The Additional Income Tax (AIT) is a profit tax introduced in 2019 to reshape the tax regime and overcome the drawbacks of the existing model. The Ministry of Finance expects that the take up of the AIT, which currently only applies to 5 percent of upstream output, will increase significantly in 2021 as tax breaks that disqualify fields from participating are cancelled. Provided the government is able to handle the additional complexity of administering a profit-based tax, the transition toward the AIT should increase investment and technology adoption, make it possible for oil and gas companies to increase the recovery ratio, and contribute to a sustainable future for the Russian oil and gas industry.

Annex II. COVID-19 Policy Measures

Key actions by the Ministry of Finance

Healthcare	New infection hospitals, additional beds and re-equipment of existing beds, special ambulances and equipment, medicines. Bonus fund for medical staff, R&D in diagnostics and prevention.
Non-health measures	
Expenditure	***Household sector*** Support of temporary unemployed (unemployment and sick leave benefits). e.g. Temporary sickness leave benefit increase. Temporary maximum unemployment benefit increase to RUR 12130 in Mar-Dec 2020. Temporary unemployment benefit increase to the maximum in Apr-Aug 2020 for those who lost a job after Mar 1, 2020. Tripling the minimum unemployment benefit in May-Aug 2020 (to RUR 4500 per month). Expanding the period of unemployment benefit payment for three months (Jun-Sep). Lump-sum welfare payments to households. e.g. RUR 3000 per kid per month in Apr-Sep for unemployed parents. ***Corporate sector*** Subsidized lending programms to affected companies (e.g. SMEs, most-affected industries, systemically-important enterprises) Employment retention programs (grants and quasi-deferred grants for most-affected industries) Industry-specific support and development programs.
Revenue	Permanent reduction in payroll tax (social security contribution) for SMEs (from 30 percent to 15 percent). Tax holidays and payment deferrals (tax holidays for most-affected SMEs and self-employed, deferrals for most-affected industries and in case of significant revenue loss).
Off-balance sheet	Subsidized lending programms to affected companies (SMEs, most-affected industries, systemically-important enterprises). Measures to boost capital base.
Other	Preferential mortgage program of 6.5 percent with purchase of housing in new buildings.

Key actions by the Bank of Russia

1. Monetary support measures

FXI to limit exchange rate volatility	BoR preemptively switched from fiscal rule FX purchases to FX sales in March 2020 and sold part of FX proceeds from the acquisition .of the stake in Sberbank by the NWF. In October 2020, BoR limited FX operations above the fiscal rule by Rub 4 billion a day.
Monetary policy easing	Since the beginning of the COVID-19 outbreak, BoR has cut the key rate by 175 bps from 6.00 percent to 4.25 percent. Year-to-date the key rate was cut by 200 bps.
Liquidity support	BoR held fine tuning Ruble repo auctions in March and April 2020 and launched 1-month and 1-year Ruble repo auctions in May 2020. BoR granted SIBs forbearance on LCR and increased the limit on Irrevocable Credit Lines for SIBs to Rub 5 trillion in March 2020.
BoR loans to banks to finance wage loans and loans to SME	BoR refinanced loans to SME for Rub 475 billlion. Interest rate on these loans for final borrowers was reduced from 6.0 percent to 2.25 percent.

2. Banking sector regulatory responses

Loan restructuring	BoR urged banks not to apply penalties and fines to restructure loans for borrowers whose income declined due to the pandemic. Since the start of the pandemic banks have restructured 15.4 percent of corporate loans, 15.0 percent of SME loans and 4.1 percent of retail loans.
Release of capital buffers	Credit institutions can refrain from complying with the capital conservation buffer and the systemic importance capital buffer under current regulation.
Changes to risk weight add-ons	Add-ons to risk weights for mortgage loans and loans for construction funding were cancelled for loans granted before April 1, 2020. Add-ons for new loans remain and have been transitioned to a matrix more closely aligned with Basel III. Similar measures were applied to unsecured consumer loans.
Forbearance on loan provisioning	Banks are allowed to delay additional provisions for borrowers whose financial situation deteriorated due to the pandemic, or whose loans were restructured. Provisions must be provided fully by Apr 1, 2021 for corporate loans, and by July 1, 2021 for retail loans and SME loans.
Forbearance on asset valuation	Allowed the use of BoR official exchange rate on Mar 1, 2020 for FX operations valuation until Sep 30, 2020; bonds and equity shares purchased before Mar 1, 2020 can be valued at the Mar 1 value until Dec 31, 2020.

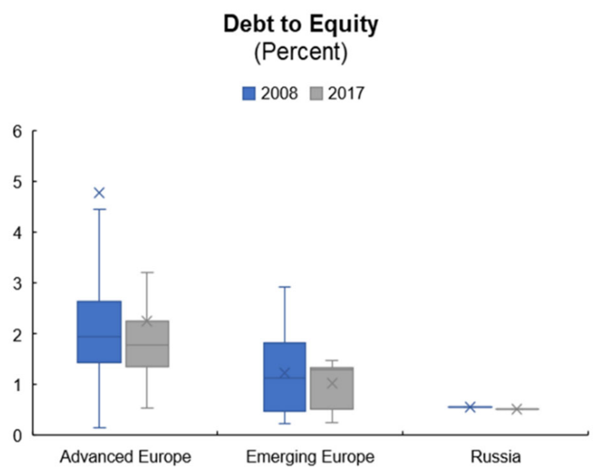
Sources: Bank of Russia; and Ministry of Finance.

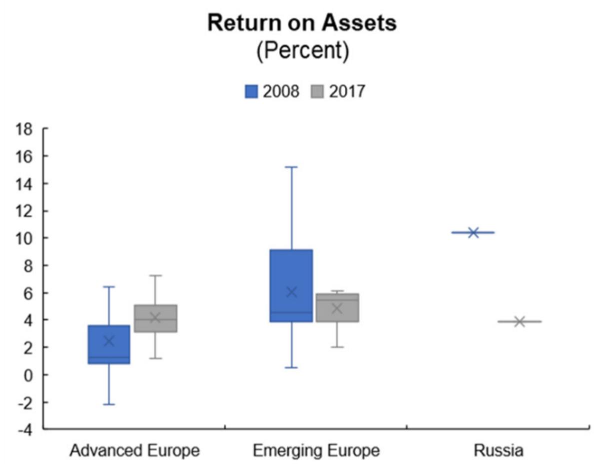
Annex III. External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: On a preliminary basis, and adjusting for transitory factors, recent developments suggest that the external position in 2020 remained broadly in line with the level implied by medium-term fundamentals and desirable policies. However, this assessment is highly uncertain given the lack of full-year data for 2020 and the COVID-19 crisis, and a complete analysis will be provided in the 2021 External Sector Report. Potential Policy Responses: In response to twin health and economic shocks, and the shock to global oil markets, Russia's coordinated policy response is buttressing the recovery. The authorities suspended the fiscal rule to deploy significant fiscal support, both to address the health crisis and support affected firms and individuals. The BoR cut its policy rate, provided liquidity, sold FX, widened SMEs on-lending facilities, and extended regulatory forbearance to banks. In view of large uncertainties surrounding near-term recovery prospects, fiscal support should remain in place until the recovery is firmly underway, and monetary policy should be more accommodative. Over the medium term, fiscal policy should continue to reduce the impact of oil revenue volatility on the non-oil sector. Also, once the crisis abates, focus should return to structural reforms.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. The net international investment position (NIIP) increased to US$556.6 billion in Q3 2020, which at 38.9 percent of GDP is well above the near balance position in 2010. Gross assets rose from 81 percent of GDP in 2018 to 105.9 percent of GDP as of Q3 2020, though liabilities also increased from 58 to 67 percent of GDP over the same period. Debt liabilities to nonresidents amounted to 32.4 percent of GDP in Q3 2020. There are no obvious maturity mismatches between the gross asset and liability positions. The share of non-residents' holdings of domestic government debt declined from 32.2 in December 2019 to 23.7 percent through November. Assessment. The projected current account (CA) surpluses suggest that Russia will be able to maintain its positive NIIP, lowering risks to external stability. Moreover, the accumulated official external assets, which have increased rapidly since the introduction of the new fiscal rule provide an important buffer against the COVID-19 shock to oil production and prices.</td></tr>
<tr><td>Q3 2020 (% GDP)</td><td>NIIP: 38.9</td><td colspan="2">Gross Assets: 105.9</td><td>Res. Assets: 40.8</td><td>Gross Liab.: 67.0</td><td>Debt Liab.: 32.4</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. In spite the sharp fall in oil prices and oil demand, the CA balance is in a surplus of $24.1 billion through September. For 2020, the CA is projected at 2 percent of GDP, reflecting lower oil prices and oil volume demand.
Assessment. The EBA CA model estimates a norm of 3.6 percent of GDP for 2020 and a cyclically and terms of trade adjusted CA surplus of 3.3 percent of GDP. After an adjustment to the underlying current account of 1.1 percent of GDP, to reflect the exceptionally sharp shock to oil prices and oil demand (1.75), as well as a temporary adjustment for tourism service imports (-0.65), the preliminary estimate of the CA gap is about 0.9 percent of GDP in 2020, with a range between -0.7 and 2.3 percent of GDP. Extraordinary uncertainty in the global economy warrants caution with these results. Assuming no change in desirable policy settings for Russia and the world post-COVID, identified policies contributed 2.1 percent of GDP to the gap, a similar contribution as that estimated last year. About half of the total policy gap is due to fiscal policy, reflecting larger consolidation needs in the rest of the world compared to Russia.</td></tr>
<tr><td>Est. 2020 (% GDP)</td><td>Est. CA: 2</td><td>Cycl. Adj. CA: 3.3</td><td>EBA CA Norm: 3.6</td><td>EBA CA Gap: -0.3</td><td>Staff Adj.: 1.1</td><td>Staff CA Gap: 0.8</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. The REER appreciated marginally by 4.2 percent in 2019, despite a weaker current account. Through November 2020, the REER has depreciated by 16 percent from the same period of 2019.
Assessment. EBA Level and Index REER models indicate an undervaluation of 16.4 percent and 10.7 percent, respectively. However, staff prefers to compute the REER gap from the current account gap. Using an estimated elasticity of 0.25 and the staff CA gap, staff assesses the 2020 REER gap to be in the range of -9.2 to 2.8 percent with a midpoint of -3.2 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. Following the decline in net private capital outflows in 2019, Russia experienced a period of high volatility accompanied by moderate outflows by both banking and non-banking private sectors in early 2020. This volatility has now abated somewhat, though external private sector deleveraging has continued through September. Pressures on financial flows could stem from volatility in oil prices and demand as well as geopolitical uncertainty.
Assessment. While Russia is exposed to risks of further outflows, the large FX reserves and the floating exchange rate regime provide substantial buffers to help absorb shocks. The substantial external deleveraging in recent years has also helped reduce susceptibility to external shocks.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6">Background. Since the floating of the ruble in November 2014, FX interventions have been limited and reserve accumulation has been mostly driven by the fiscal rule and oil prices being above the fiscal reference level. In 2020, faced with declining oil prices and capital outflows, the central bank engaged in some reserve sales and halted previously ongoing schedules of FX purchases. International reserves rose to US$554 billion (more than 19 months of imports) by end-2019 and further to US$583.4 billion in 2020Q3, thanks to valuation changes related to higher gold prices, in-spite of FX sales of US$10.1 billion during this period.
Assessment. International reserves in 2020 are estimated at 365 percent of the Fund's reserve adequacy metric. While considerably above the adequacy range of 100–150 percent, the level of reserves remains appropriate, taking into account Russia's vulnerability to oil price shocks and sanctions.</td></tr>
</table>

Annex IV. The Impact of Covid-19 in the Non-Financial Corporate Sector in Russia[1]

1. The non-financial corporate (NFC) sector in Russia entered the crisis from a relative position of strength. By end-2017, the leverage ratio of the NFCs was relatively low at 55 percent, lower than the median leverage ratio of other emerging economies (over 100 percent). A factor that has contributed to this result is the deleveraging process that NFCs started after the 2014– 2015 crisis, reducing external borrowings[2] by 10 percent between end-2014 and early 2017. With respect to profitability, NFCs' return on assets was robust by end-2017 and similar to the one of other advanced European economies.





2. The dual shocks from the Covid-19 pandemic and the sharp decline in oil prices have exposed NFCs to sizable risks, although not as large as in other countries in the region. Pre-crisis, roughly 7.4 percent of NFCs in Russia[3] were illiquid and 14.5 percent were running with negative equity[4]. The dual shocks are expected to significantly worsen the liquidity condition of Russian firms by end-2020. Without rolling over short-term liabilities such as bank loans and trade credits, the share of illiquid NFCs would increase from 7.5 percent to 34 percent[5]. This is a smaller

[1] Prepared by Yu Shi and Marco Arena. We thank Laura Valderrama and Jing Zhou for providing simulation results.

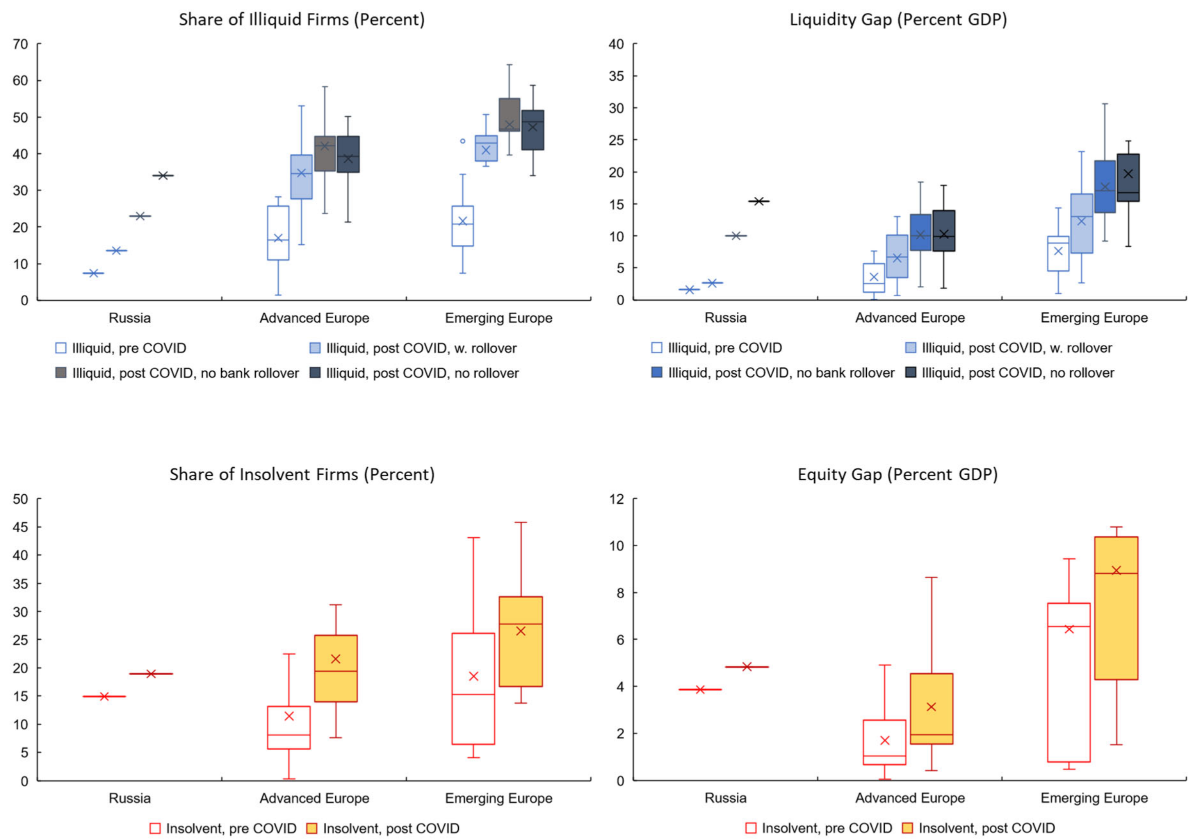
[2] NFC external borrowings were measures as loans received from non-residents and debt securities including bills in non-residents' portfolio.

[3] The statistics in this annex are calculated using a 2017 sample of unconsolidated non-financial corporate balance sheets from the Orbis BvD database. The data sample covers 1,040,430 firms in Russia as of 2017, which accounts for 97% of the total operating turnover registered in the Structural Demographics and Business Statistics of the OECD (official statistics based on administrative data).

[4] Not weighted by firm size. For the definition of illiquid and insolvent firms and the simulation approach, see "IMF, Oct. 2020. "Corporate Liquidity and Solvency in Europe during the Coronavirus Disease Pandemic: The Role of Policies", Regional Economic Outlook: Europe, Chapter 3".

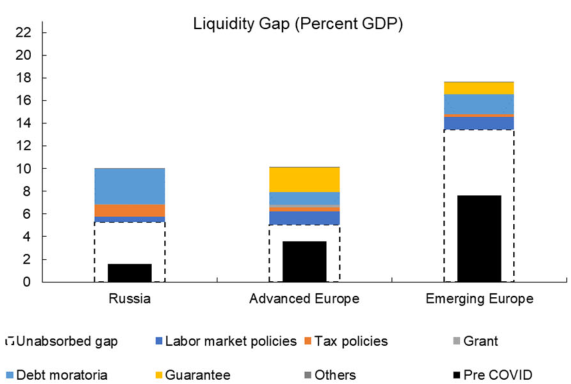
[5] The simulation takes the 2017/2018 balance sheet as pre-COVID status and study the highly uneven effects of the crisis on NFC balance sheet by end-2020.

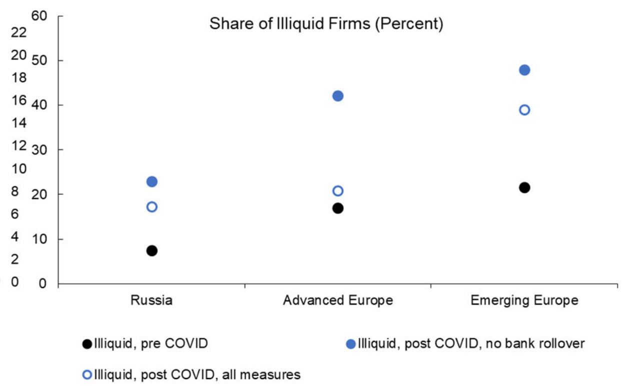
share than the median level of advanced and emerging European countries, hence Russia's NFC sector would still be in a less vulnerable position post-crisis. In terms of GDP, corporate liquidity shortfalls (the "liquidity gap") could be as large as 15.4 percent of GDP post-crisis, indicating the importance of the banking sector and the trade credit market in supporting corporate liquidity conditions. Looking at solvency, the situation is less worrisome. The crisis is expected to increase the share of firms with negative equity by only 4 percentage points, from 15 percent to 19 percent, a smaller increase than in both advanced and emerging European countries. The equity gap would increase from 3.8 percent pre-crisis to 4.8 percent of GDP after, larger relative to many advanced economies but still smaller than most emerging economies in Europe.

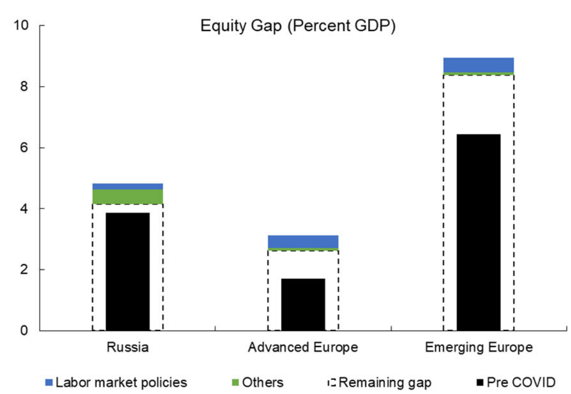


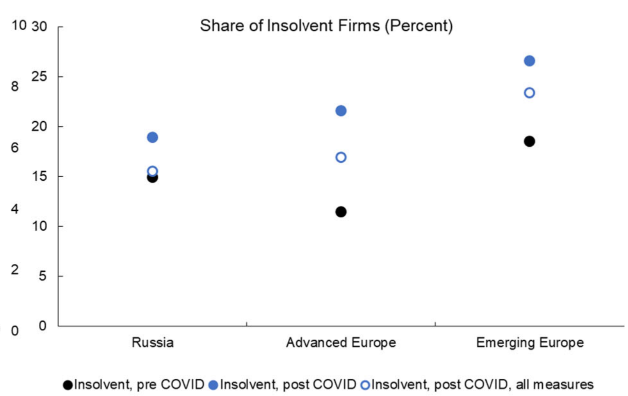
3. Fiscal support measures implemented by the government targeted systemically important enterprises (SIEs), and firms belonging to sectors or industries affected by the pandemic. Support specific to SMEs included measures above the line (e.g. wage subsidies, interest rate subsidies, subsidized credits), and foregone revenue (e.g. permanent reduction in social security contributions). SIEs and firms in affected sectors/industries have benefitted from subsidized credits to retain employment, often transformable into grants ex-post. Below-the-line measures have included guarantees for bank loans.

4. The authorities' support measures have provided good though not full support to the corporate sector. Based on the simulations, the solvency-support measures currently in place, including wage subsidies and the reduction in social security contributions, could make up almost 80 percent of the increase in the corporate equity gap and leave NFC solvency conditions almost the same as pre-COVID. The measures in Russia appear to have been more effective in keeping corporates viable compared to the ones implemented in advanced and other emerging European economies, who on average are left with an equity gap of 0.9–1.7 percent of GDP higher than pre-COVID. Liquidity-support measures, including debt and tax holidays and labor market policies, have provided an initial support to NFCs but they are expected to be complemented by additional sources. The banking sector[6] can play an important role in improving the liquidity condition of the NFCs: rolling over the bank loans could reduce the share of illiquid firms by 9.4 percent and the liquidity gap by 7.4 percentage points of GDP (see text charts in paragraph 2).





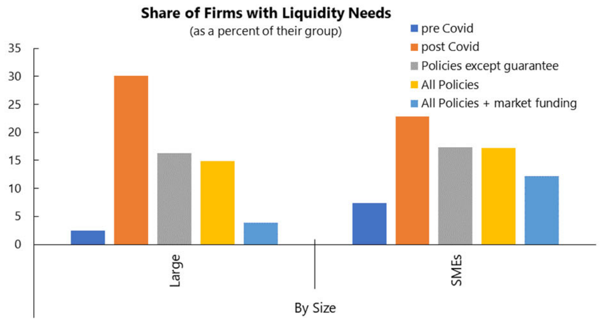


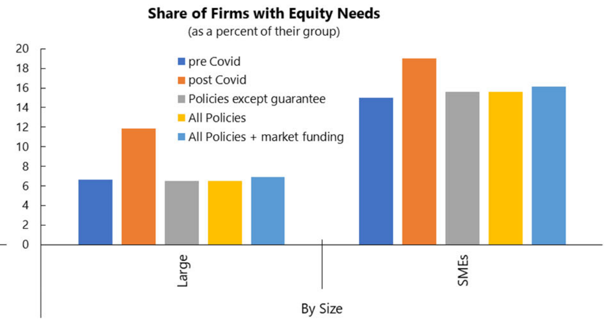


5. **SMEs could be in a weaker position than large corporates after the crisis.** Compared to large corporates, SMEs could suffer more from the crisis given that they rely more on their internal sources of funding than on external sources (bank credit and market debt). After taking into account all policy measures and funding support from the market[7], the share of SMEs with liquidity and equity gaps is around 12.2 percent and 16.2 percent, respectively. In comparison, only 3.9 percent of large corporates end up with liquidity needs and 6.9 percent with equity needs.

[6] Bank credit however does not help address the solvency problem, as it requires to be repaid later.

[7] Including additional bank loans and the market issuance of corporate debt securities and equities.


Share of Firms with Liquidity Needs
(as a percent of their group)
pre Covid
post Covid
Policies except guarantee
All Policies
All Policies + market funding
35
30
25
20
15
10
5
0
Large
SMEs
By Size


Share of Firms with Equity Needs
(as a percent of their group)
pre Covid
post Covid
Policies except guarantee
All Policies
All Policies + market funding
20
18
16
14
12
10
8
6
4
2
0
Large
SMEs
By Size

Annex V. Risk Assessment Matrix (RAM)[1]

Sources of Risks	Overall Level of Concern		Recommended Policy Response
	Relative Likelihood	**Expected Impact if Materialized**	
External Risks			
Downside. The Covid-19 pandemic proves harder to eradicate (e.g., due to difficulties in distributing a vaccine), requiring more containment efforts and impacting economic activity directly and through persistent behavioral changes (prompting costly reallocations of resources).	**High**	**High**	Expand the reach of anti-crisis fiscal measures to support vulnerable households, the unemployed, and distressed firms. If warranted, introduce new measures. Loosen monetary policy further than in the baseline to help support the economic recovery. Disorderly market conditions could be countered with foreign exchange intervention.
Upside. Alternatively, recovery from the pandemic is faster than expected due to the speedier distribution of newly discovered vaccines and/or a faster-than-expected behavioral adjustment to the virus that boosts confidence and economic activity.	**Low**	**High**	The withdrawal of crisis-support measures can be effected faster than in the baseline.
Oversupply and volatility in the oil market. Supply increases following OPEC+ disagreements and lower demand keep energy prices close to historical lows, but uncertainty about possible production cuts and the pace of demand recovery lead to bouts of volatility.	**Medium**	**Medium**	The floating exchange rate should be the main shock absorber. Structural reforms should be advanced to promote private sector growth outside the commodities sector.
Domestic Risks			
Rising geopolitical tensions between Russia and US/Europe trigger further sanctions against Russia.	**Hard to Assess**	**High**	The floating exchange rate should play a key role in cushioning the shock. Disorderly market conditions could be countered with foreign exchange intervention. An increase in policy interest rates might be needed. Fiscal policy could use existing buffers within the framework of the fiscal rule.

[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.

Domestic Risks			
Greater-than-anticipated scarring from the crisis due to lower accumulation of physical capital, the erosion of human capital, decline in labor force participation, and difficulties in reallocating factors of production to the most productive sectors of the economy.	**Medium**	**High**	Avoid the premature withdrawal of fiscal and monetary stimulus and maintain a countercyclical policy stance. Focus on structural and governance reforms to improve the investment climate. Avoid distortive measures and increase trade openness. Monitor closely (through KPIs and other metrics) the implementation of the 13 national projects and other planned structural reforms.

Annex VI. Debt Sustainability Analysis

Figure 1. Russian Federation: Russia Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP unless otherwise indicated)

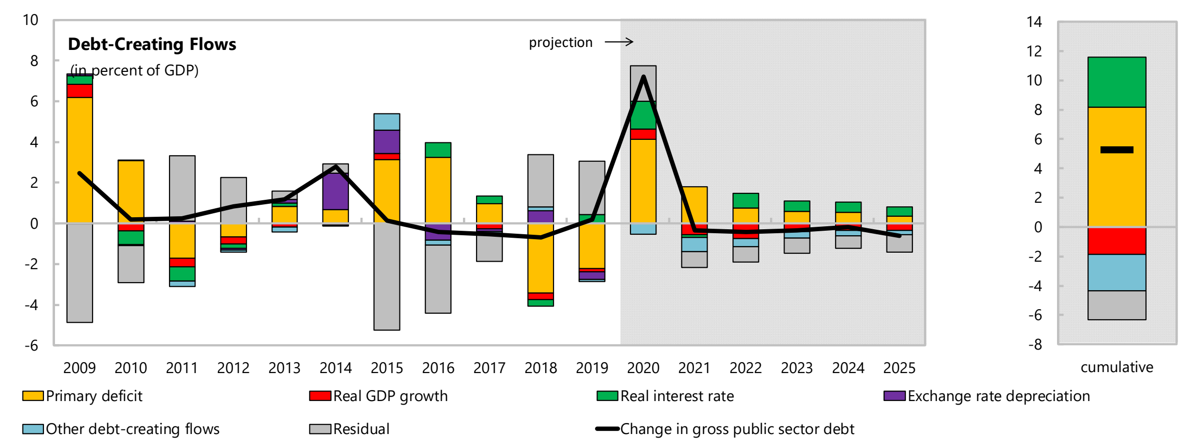
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	12.6	13.6	13.8	21.0	20.7	20.2	19.9	19.7	19.1
Of which: guarantees	2.2	2.2	1.6	3.4	3.2	3.1	3.0	3.0	3.0
Public gross financing needs	4.5	-0.3	0.2	6.0	3.8	2.7	2.1	2.1	1.7
Real GDP growth (in percent)	0.9	2.5	1.3	-3.6	3.0	3.9	2.1	1.8	1.8
Inflation (GDP deflator, in percent)	7.6	10.3	3.7	-1.6	7.1	2.8	3.7	3.8	3.8
Nominal GDP growth (in percent)	8.7	13.1	5.1	-5.2	10.3	6.8	5.9	5.7	5.7
Effective interest rate (in percent) [4/]	7.4	8.1	7.1	7.7	6.8	6.6	6.5	6.5	6.3

As of December 21, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		162
5Y CDS (bp)		93
Ratings	Foreign	Local
Moody's	Baa3	Baa3
S&Ps	BBB-	BBB
Fitch	BBB	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.8	-0.7	0.2	7.2	-0.3	-0.4	-0.4	-0.2	-0.6	5.3	
Identified debt-creating flows	1.9	-3.2	-2.4	5.5	0.4	0.3	0.4	0.4	0.2	7.2	
Primary deficit	1.7	-3.4	-2.2	4.1	1.8	0.8	0.6	0.5	0.4	8.2	-0.1
Primary (noninterest) revenue and grants	32.9	35.2	35.3	34.2	33.9	33.5	33.5	33.6	33.4	202.0	
Primary (noninterest) expenditure	34.6	31.8	33.1	38.3	35.7	34.3	34.1	34.1	33.7	210.2	
Automatic debt dynamics [5/]	0.2	0.0	-0.1	1.9	-0.7	0.0	0.1	0.2	0.1	1.5	
Interest rate/growth differential [6/]	-0.1	-0.6	0.2	1.9	-0.7	0.0	0.1	0.2	0.1	1.5	
Of which: real interest rate	0.0	-0.3	0.4	1.3	-0.1	0.7	0.5	0.5	0.4	3.4	
Of which: real GDP growth	-0.1	-0.3	-0.2	0.5	-0.6	-0.8	-0.4	-0.3	-0.3	-1.9	
Exchange rate depreciation [7/]	0.3	0.6	-0.4	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.2	-0.1	-0.5	-0.7	-0.4	-0.3	-0.3	-0.2	-2.5	
General Government: Net privatization Proceeds (negative)	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in cash balance of EBF	0.1	0.2	-0.1	-0.2	-1.4	-1.0	-0.8	-0.6	-0.4	-4.5	
Transfers to RF and NWF	0.0	0.0	0.0	-0.3	0.6	0.6	0.5	0.3	0.2	2.0	
Residual, including asset changes [8/]	-1.1	2.6	2.6	1.7	-0.8	-0.8	-0.7	-0.6	-0.9	-2.0	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as all levels of government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = 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).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

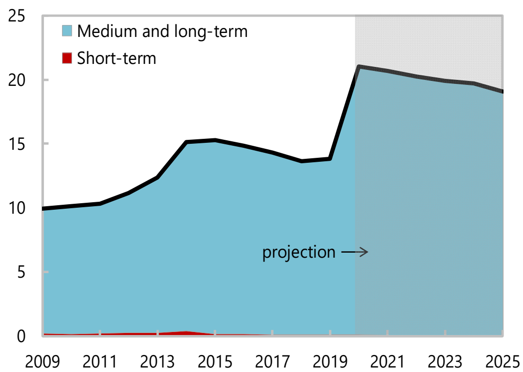
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Russian Federation: Russia Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

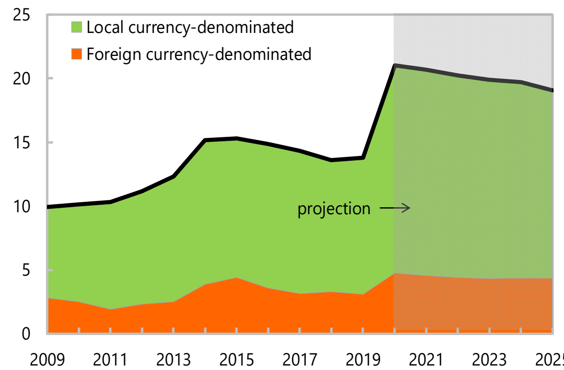
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

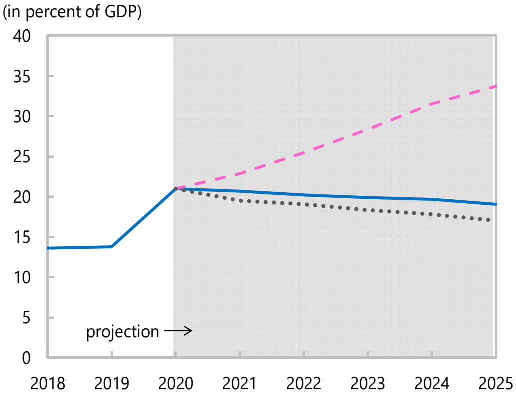


Alternative Scenarios

Baseline Historical Constant Primary Balance

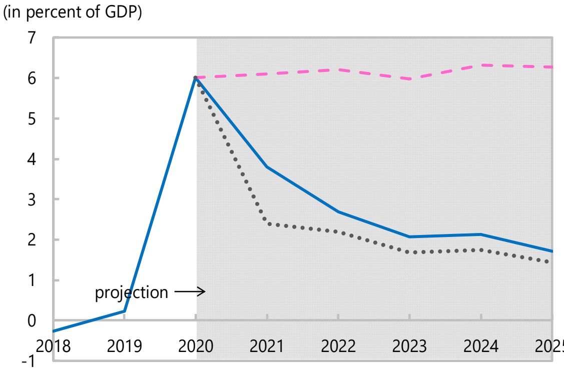
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

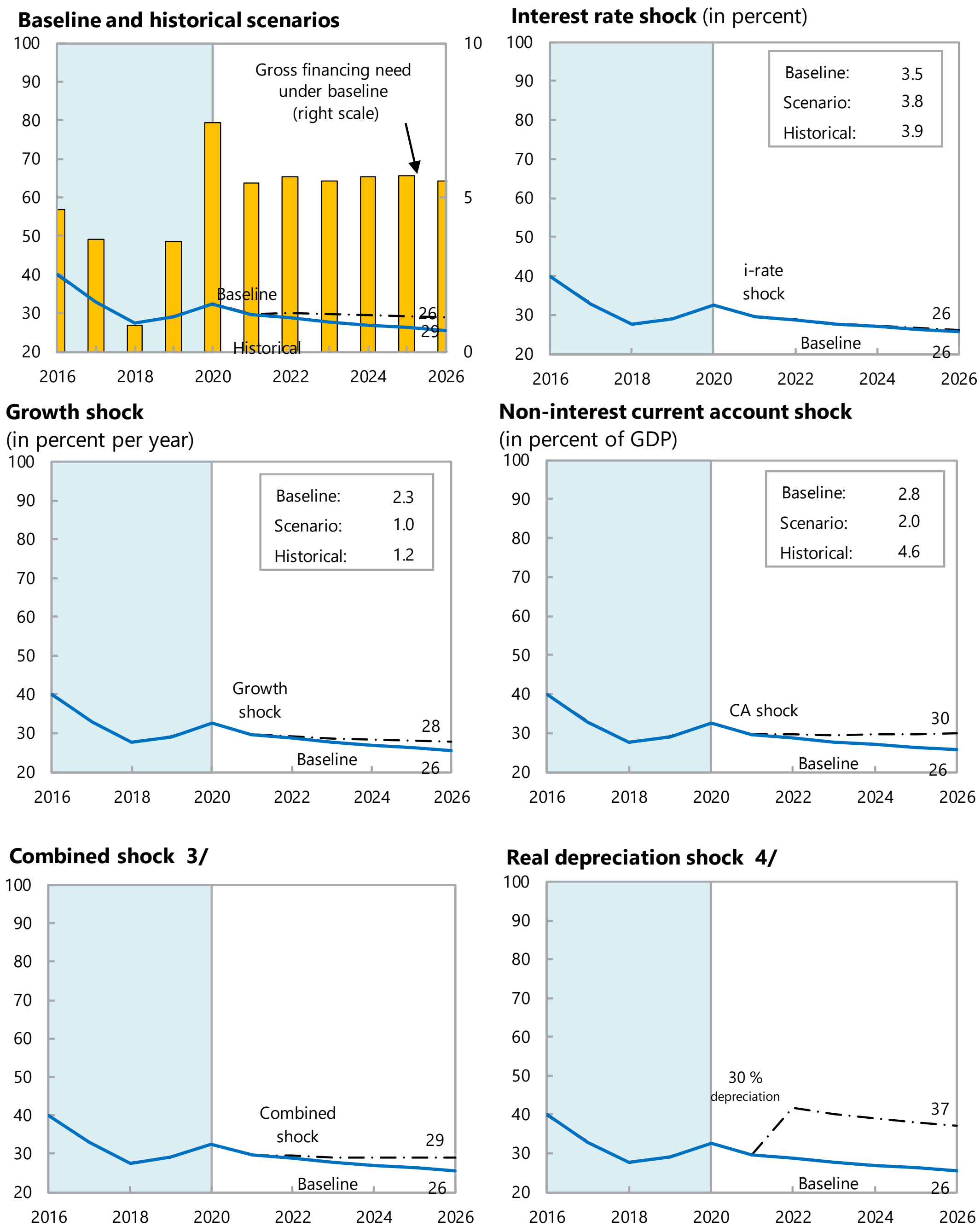
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-3.6	3.0	3.9	2.1	1.8	1.8
Inflation	-1.6	7.1	2.8	3.7	3.8	3.8
Primary Balance	-4.1	-1.8	-0.8	-0.6	-0.5	-0.4
Effective interest rate	7.7	6.8	6.6	6.5	6.5	6.3
Constant Primary Balance Scenario						
Real GDP growth	-3.6	3.0	3.9	2.1	1.8	1.8
Inflation	-1.6	7.1	2.8	3.7	3.8	3.8
Primary Balance	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1
Effective interest rate	7.7	6.8	6.5	6.3	6.3	6.1

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-3.6	2.0	2.0	2.0	2.0	2.0
Inflation	-1.6	7.1	2.8	3.7	3.8	3.8
Primary Balance	-4.1	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	7.7	6.8	6.3	5.8	5.5	5.0

Source: IMF staff.

Figure 3. Russian Federation: External Debt Sustainability: Bound Tests [1/2/]

(External debt in percent if GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Table 1. Russian Federation: External Debt Sustainability Framework, 2016–2026

(in percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 6/
Baseline: External debt	40.0	32.9	27.5	29.1	32.5			**29.6**	**28.7**	**27.7**	**27.0**	**26.3**	**25.6**	**-0.2**
Change in external debt	1.7	-7.0	-5.4	1.6	3.4			-2.9	-0.9	-1.1	-0.7	-0.7	-0.7	
Identified external debt-creating flows (4+8+9)	-0.3	-8.5	-6.9	-4.8	4.0			-3.8	-3.7	-2.7	-2.4	-2.2	-2.1	
Current account deficit, excluding interest payments	-3.5	-2.9	-8.0	-4.8	-3.2			-3.8	-3.3	-3.2	-2.8	-2.5	-2.4	
Deficit in balance of goods and services	-5.2	-5.3	-10.0	-7.6	-5.1			-5.7	-5.0	-4.9	-4.3	-4.0	-3.8	
Exports	26.0	26.1	30.8	28.5	25.7			26.8	26.4	26.3	26.0	25.7	25.5	
Imports	20.8	20.8	20.8	20.9	20.6			21.1	21.3	21.4	21.7	21.7	21.7	
Net non-debt creating capital inflows (negative)	-0.7	1.0	1.6	-0.3	0.7			-0.1	-0.4	0.1	-0.1	-0.2	-0.1	
Automatic debt dynamics 1/	3.9	-6.6	-0.5	0.4	6.4			0.1	-0.1	0.4	0.4	0.4	0.4	
Contribution from nominal interest rate	1.6	0.9	1.0	1.0	1.2			1.0	1.0	1.0	0.9	0.9	0.9	
Contribution from real GDP growth	-0.1	-0.6	-0.8	-0.4	1.2			-0.9	-1.1	-0.6	-0.5	-0.5	-0.5	
Contribution from price and exchange rate changes 2/	2.3	-6.9	-0.8	-0.2	4.0			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.0	1.4	1.5	6.3	-0.6			1.0	2.8	1.7	1.7	1.5	1.4	
External debt-to-exports ratio (in percent)	154.0	126.3	89.5	102.0	126.6			110.5	108.9	105.1	103.7	102.1	100.4	
Gross external financing need (in billions of US dollars) 4/	59.1	57.2	14.3	60.2	106.2			85.8	93.2	94.3	99.8	103.9	105.0	
in percent of GDP	4.6	3.6	0.9	3.6	7.4	10-Year	10-Year	5.5	5.7	5.5	5.7	5.7	5.5	
Scenario with key variables at their historical averages 5/								**29.6**	**30.2**	**29.8**	**29.6**	**29.3**	**29.0**	**2.0**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	0.2	1.8	2.5	1.3	-3.6	1.2	2.6	3.0	3.9	2.1	1.8	1.8	1.8	
Exchange rate appreciation (US dollar value of local currency, change in percent)	-8.4	14.7	-7.2	-2.8	-10.7	-7.3	13.5	-0.5	-2.1	-2.1	-2.1	-2.0	-1.9	
GDP deflator (change in domestic currency)	2.8	5.3	10.3	3.7	-1.6	6.5	4.6	7.1	2.8	3.7	3.8	3.9	3.9	
GDP deflator in US dollars (change in percent)	-5.8	20.8	2.3	0.8	-12.1	-1.3	15.5	6.6	0.7	1.5	1.6	1.8	1.9	
Nominal external interest rate (in percent)	4.0	2.7	3.3	3.6	3.4	3.9	0.7	3.5	3.5	3.5	3.5	3.5	3.5	
Growth of exports (US dollar terms, in percent)	-15.4	23.5	23.9	-5.3	-23.8	0.1	20.5	14.7	2.8	3.5	2.3	2.4	2.9	
Growth of imports (US dollar terms, in percent)	-5.6	23.0	5.0	2.8	-16.7	0.7	18.2	12.6	5.7	4.3	4.5	3.8	3.6	
Current account balance, excluding interest payments	3.5	2.9	8.0	4.8	3.2	4.6	1.7	3.8	3.3	3.2	2.8	2.5	2.4	
Net non-debt creating capital inflows	0.7	-1.0	-1.6	0.3	-0.7	-0.8	0.9	0.1	0.4	-0.1	0.1	0.2	0.1	

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.

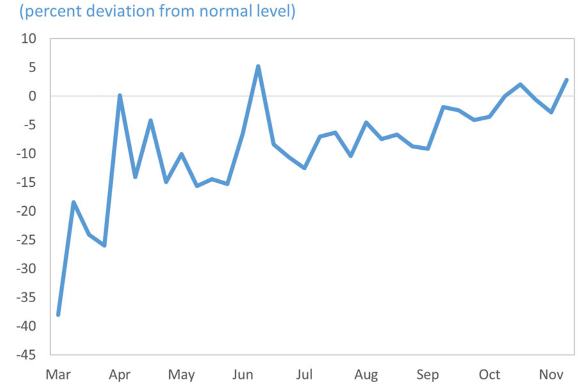
Annex VII. Estimating Potential Real GDP and the Output Gap During the Pandemic[1]

1. **Assessing the amount of spare capacity in the economy is critical for economic policymaking, particularly in a crisis where there is an urgent need for supportive macroeconomic policies.** Spare capacity, as measured by the gap between actual and potential output (the output gap), gives policymakers an indication of the extent to which fiscal policy can used to stimulate the economy without triggering excessive wage growth or inflation. Similarly, actual output below potential (a negative output gap) suggests there is downward pressure on prices and that monetary policy should be loosened, while a positive output gap suggests inflation is likely to increase and thus that monetary policy needs to be tightened.

2. **The impact of the COVID-19 pandemic on potential output and the amount of spare capacity in the economy is highly uncertain.** The sharp decline in economic activity in 2020 is due to a combination of government-imposed restrictions on economic activity and behavioral changes by firms and households in response to the pandemic. The former can intuitively be thought of as a shock to supply that affects both the economy's actual *and* potential level of output: a store that is mandated to close by the government is an example. The latter can intuitively be thought of as a shock to demand that does not affect the potential level of output: a hairdresser that remains open but experiences a loss of customers due to voluntary social distancing is an example. Often, however, a combination of supply and demand factors are at play: a restaurant may be mandated to operate below capacity but is also struggling as customers stay away to reduce their exposure to the virus. In practice it is impossible to know exactly the relative importance of demand and supply factors. The resulting estimates of potential output are therefore highly uncertain.

3. **Financial flows data suggest economic activity was significantly below normal in 2020Q2.** The BoR has since April 2020 published weekly data on the level of financial flows in Russia relative to a "normal" level.[2] The data suggest that economic activity in Russia was some 22 percent below normal in April, at the height of the first wave of the pandemic. The amount of financial flows recovered gradually throughout the summer months and has not shown any signs of declining despite the onset of the second wave of infections. According to the data, financial flows in November are close their normal level.

Russia: Financial flows
(percent deviation from normal level)



[1] Prepared by Magnus Saxegaard

[2] The normal level is the average daily amount of incoming payments from January 20, 2020 to March 13, 2020, seasonally adjusted based on data from 2016-19.

4. The aggregated financial flows data is used to estimate the impact of "mobility events" that hit the Russian economy in 2020. For the purposes of this annex we quantify the impact of three types of "mobility events":

- a *severe shutdown* of the kind that was in effect in Russia from late-March to mid-May, when all non-essential services were closed and/or a shelter-in-place order was in effect. Based on the financial flows data a severe shutdown is estimated to reduce output by some 14 percent.

- a *moderate shutdown* of the kind that was in effect when measures were being loosened up after the first wave (mid-May to late-June) or had become more targeted during the second wave (mid-October till present). Based on the financial flows data a moderate shutdown is estimated to reduce output by around 6¼ percent.

- a *post-shutdown* period of the kind that was in effect from late-June to mid-October when most measures were lifted but social distancing recommendations remained in place. Based on the financial flows data the post-shutdown period is estimated to reduce output by about 4½ percent.

5. The supply component of these mobility events is inserted into the IMF's annual G20 model to assess the impact of the crisis on potential real GDP and the output gap in 2020 and 2021. In the baseline simulation we assume that 100 percent of the severe shutdown period is a shock to supply that results in a decline in potential output, while 50 percent of the moderate shutdown period is a shock to supply and 50 percent is assumed to be a shock to aggregate demand. The post-shutdown period is assumed to be entirely a shock to demand. 25 percent of the resulting supply ("lockdown") shock that hit the economy in 2020 is assumed to persist into the following year in order to capture the likely continuation of some supply restrictions into 2021. In addition to the lockdown shock we include a negative shock to oil production in line with Russia's OPEC+ commitments, a positive government spending shock to capture the fiscal anti-crisis package introduced by the authorities, foreign demand shocks, and a global financial spillover shock.[3, 4] Finally, a stylized domestic demand shock is used to force the model to match staff's real GDP projections.

6. The simulations, while clearly dependent on the underlying assumptions, suggest around ½ of the contraction in 2020 relative to the pre-crisis baseline is due to a decline in potential output, and that the output gap is likely to widen in 2021. Staff's forecasts entail a decline in real GDP of 5½ percent relative the pre-crisis baseline. Slightly more than 50 percent of this is due to negative supply shocks that depress potential real GDP, with the remainder

[3] Note that the model does not incorporate the monetary and macroprudential measures introduced by the authorities to combat the crisis.

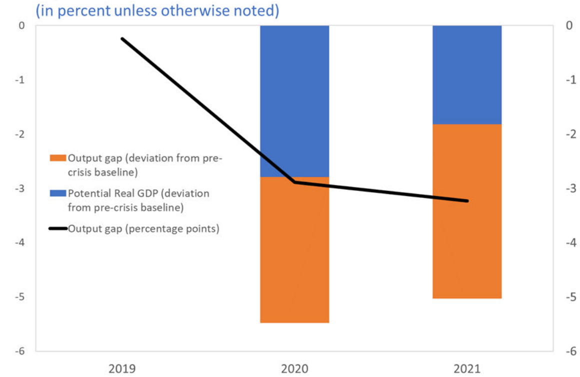
[4] The foreign demand and global financial spillover shocks are calibrated by the IMF's Research Department.

attributable to demand shocks that contribute to a widening of the output gap. The output gap widens in 2021 as the lifting of the restrictions triggers a rebound in potential GDP that outpaces the recovery in aggregate demand.

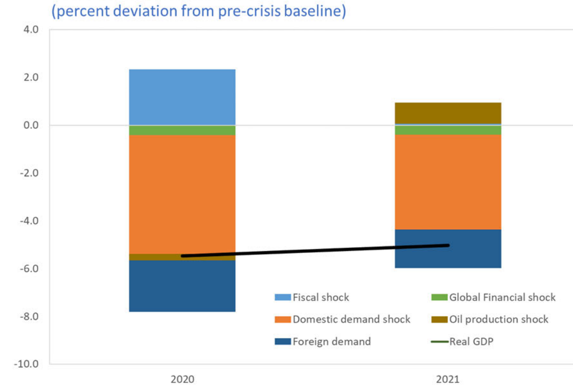
7. The fiscal anti-crisis package was effective in limiting the economic contraction in 2020, while the "lockdown" shock triggered a sharp decline in potential real GDP. Fiscal stimulus is estimated to have reduced the contraction in real GDP in 2020 by around 2¼ percentage points, partly offsetting the drag from a sharp drop in domestic and external demand. At the same time, the "lockdown" supply shock is estimated to have reduced potential GDP by nearly 2¾ percent in 2020. In 2021 potential real GDP rebounds as the lockdown is lifted but is weighed down the impact of the decline in investment during the crisis on the productive capital stock.

8. Sensitivity analysis suggests the finding of a large and persistent output gap is robust to alternative assumptions about the impact of the pandemic. In particular, we analyze the sensitivity of our results to: (i) an increase in the share of supply shocks in the moderate shutdown period to ⅔ from ½ in the baseline: (ii) an increase in the share of the composite "lockdown" shock that is assumed to persist into next year from 25 in the baseline to 50 percent: (iii) the addition of a negative shock to the capital stock triggered, for example, by increased bankruptcies during the crisis; and (iv) the addition of an increase in steady-state unemployment triggered, for example, by labor market hysteresis effects. In each case real GDP growth is assumed to remain unchanged. The alternative assumptions therefore exclusively affect the impact of the pandemic on potential real GDP. The results suggest that the (negative)

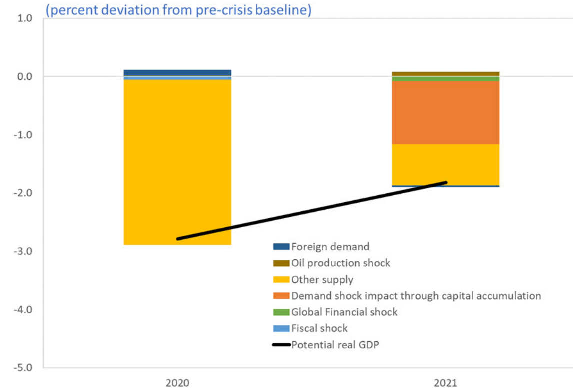
Impact of COVID-19 shock in Russia
(in percent unless otherwise noted)



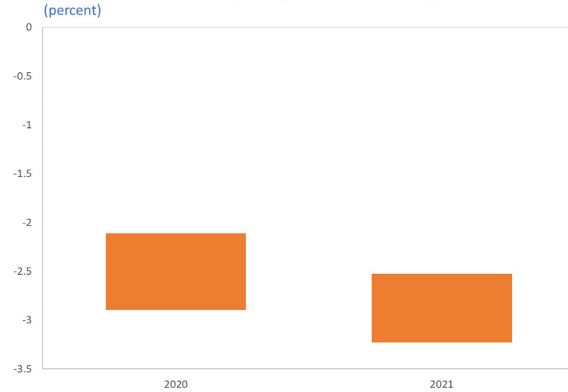
Shock decomposition: Real GDP
(percent deviation from pre-crisis baseline)



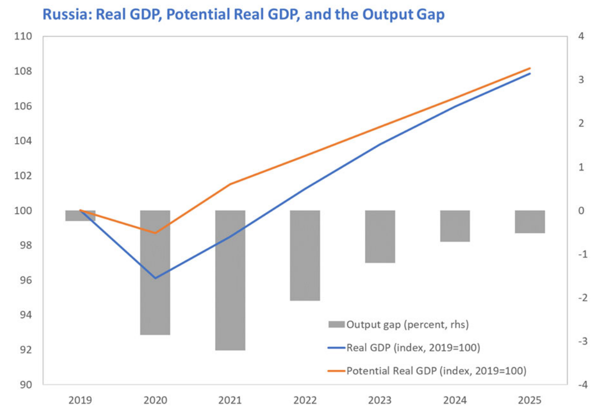
Shock decomposition: Potential Real GDP
(percent deviation from pre-crisis baseline)



Impact of COVID-19 on Output Gap in Russia: Sensitivity Analysis
(percent)



output gap in 2020 is likely to be in the range of 2–3 percent, and is likely to be as large, if not larger, in 2021.



9. Beyond 2021 the output gap is assumed to gradually close. Beyond 2021, projections of potential real GDP and the output gap are guided by a combination of the results from the G20 model and staff's judgement. In particular, after the rebound in 2021 potential growth is assumed to settle at its long-run value of 1.6 percent. Under staff's baseline growth projections this entails a narrowing of the (negative) output gap to around ½ percent of GDP by 2025. In 2025, real GDP is some 2½ percent below what was projected pre-crisis, suggesting that a significant amount of the output losses in 2020 will be permanent.

Annex VIII. Implementation of Past IMF Recommendations

Key Recommendations	Implementation Status
Fiscal Policy	
Avoid further changes to the fiscal rule, in order to firmly establish its credibility. Over the medium term, implement further fiscal consolidation, to reach a nonoil primary balance consistent with sharing equitably Russia's finite resource wealth with future generations. Refrain from quasi-fiscal activities through the NWF and continue to invest NWF funds into high-quality foreign assets even after the liquid part of the fund reaches the 7 percent of GDP target, in order to safeguard resources, avoid procyclicality, and shield the economy from oil price fluctuations.	**Implemented.** Since the 2019 Article IV, there have not been changes to the fiscal rule. The authorities did go to Parliament to request a temporal breach of the fiscal rule in 2020 and 2021, but this was the right thing to do to address the effects of the pandemic. **Less relevant now.** The authorities' priority should to address the healthcare crisis and to support the economy until the recovery is firmly entrenched. Given Russia's low debt and low financing needs, there is no urgency for consolidation. **Not implemented.** The authorities announced plans to invest up to RUB 1 trillion in domestic assets over the next three years using resources from the NWF. However, these plans were not implemented due to the crisis.
Broaden the tax base and implement a further growth-friendly shift in taxation. Consider a shift from direct to indirect taxes (for example, lower social contributions financed by VAT base broadening) to incentivize labor supply and reduce informality. Simplify oil sector taxation and phase out subsidies to domestic fuel consumption, while heeding the impact of rising fuel prices on vulnerable groups.	**Some progress.** The authorities reduced social security contributions for SMEs from 30 percent to 15 percent. Also, there has been an expansion of the application of the special tax regime for the self-employed – tax for professional income (NPA) –to all regions in Russia by the end of 2020 (as of end-September 2020, this program has registered more than 1.1 million people–1.5 percent of the labor force). There is still room to further replace direct taxes with indirect taxes. **Some progress.** In the context of the 2021-2023 Budget, the authorities have eliminated some inefficient tax expenditures associated to oil production. The gradual expansion of a profit tax for the oil sector is also welcome. The reverse excise remains in place.
Implement fully the pension reform. Reform early retirement provisions, which remain overly generous. Better target social assistance toward reducing poverty, for example, by shifting from universal to means-tested benefits.	**Some progress.** The authorities are implementing the pension reform as scheduled. **Some progress.** The authorities' new social assistance programs at the federal level are means-tested, and there are plans to improve the targeting of older welfare programs as well.

Key Recommendations	Implementation Status
Monetary and Financial Sector Policy	
Continue to ease monetary policy	**Substantial progress. Between June 2019 and February 2020, t**he BoR cut the policy rate by 175 bps (from 7.75 percent to 6.00 percent). In the context of the COVID-19 crisis, the BoR has continued easing its policy stance, further cutting the policy rate by 175 bps (4.25 as of end-November).
Refine further the BoR's communication strategy.	**Continued progress.** BoR's communications are reinforcing the message that policy decisions are targeting inflation forecasts rather than current inflation. Further elaboration of what deviations from the inflation target are acceptable and over what time horizons is needed.
Consider the possibility of developing an explicit FX intervention policy to address disorderly market conditions.	**Some progress.** The BoR has stated explicitly that it reserves the right to engage in FX operations to smooth disorderly market conditions (e.g. excess market volatility). However, the BoR should keep FX operations aimed at addressing disorderly market conditions clearly separate from the regular monthly FX purchases/sales under the fiscal rule.
Strengthen bank supervision and regulation. Continue conducting asset quality evaluations and ensure their alignment with best international practices. Bolster further the legal framework for banks' related party exposures and external auditors. Enable the BoR to exercise professional judgment.	**Some progress.** The BoR continues its efforts to improve bank supervision and regulation and the clean-up of the banking sector. All banks have been subjected to enhanced on-site inspections. The BoR has prepared proposals to oblige credit institutions to conduct transactions with related parties on market terms, which were sent to the Ministry of Finance of Russia by a letter in March 2019. With respect to asset quality evaluations, the BoR is conducting evaluations in a continuous manner. Regarding external auditors, the State Duma is considering a draft law which stipulates that an audit firm shall have the right to provide information to the BoR that may be used by the BoR for banking supervision and oversight.
Increase risk weights for unsecured consumer loans based on debt-to-income or payment-to-income ratios. Broaden the macroprudential toolkit by introducing borrower-based tools (based on loan-to-value and debt-to-income ratios.	**Substantial progress.** Surcharges to risk coefficients depending on both the effective interest rate and the PTI ratio are effective since October 2019. The new requirements introduce a matrix of risk weights where the higher the PTI and the APR, the higher risk weights. However, in the context of the COVID-19 crisis, the BoR appropriately cancelled the risk-weight add-ons for unsecured consumer loans issued up to August 31, 2019 (to release capital buffers) while keeping the add-ons on the new flow of loans. The add-ons have also been transitioned to a matrix more in line with Basel III recommendations. **Substantial progress.** The BoR embarked on a consultation process with financial market participants to discuss their views on the potential implementation of direct borrower-based tools. In addition, the BoR has prepared draft legislation to incorporate direct borrower-based tools in its macroprudential toolkit.

Key Recommendations	Implementation Status
Structural Policies	
Reduce the state's footprint over the medium term, while in the short-term efforts should focus on enhancing competition, leveling the playing field in public procurement, and improving efficiency.	**Minor progress.** In line with the National Plan for Promoting Competition for 2018–20, a law banning the creation of new state and municipal unitary enterprises in competitive markets though the liquidation/reorganization of existing unitary enterprises was signed by the President at the end of 2019.
Tackle long-standing institutional and governance issues, including excessive regulation.	**Some progress.** In line with the plan to improve the business climate, the Russian government approved two bills related to the "Regulatory Guillotine," intended to reduce the bureaucratic burden faced by businesses. In April 2020, the President signed into Law the Investment Protection and Encouragement bill, whose main objective is to protect investment projects from unfavorable changes to taxes or other regulations during the span of the project.
Persist with efforts to strengthen competitiveness, promote trade integration, and diversify exports, including by reducing barriers to trade and FDI.	**Some progress.** One of the authorities' announced 13 national projects focuses on increasing non-energy exports, particularly of machinery, agriculture, and services. It also targets further trade integration within the Eurasian Economic Union (EAEU). In 2019, Free Trade Agreements were signed between the EAEU and the Republic Singapore, as well as between the EAEU and the Republic of Serbia. The authorities' plan to improve the business climate (outlined above) and recently adopted 2020-21 Economic Recovery Plan aim to promote exports and expedite customs procedures through digitalization.
To increase fiscal transparency, report the government's obligations under PPPs, reduce the share of classified expenditure in the budget, and strengthen SOE governance.	**Some progress.** The authorities are strengthening their framework for monitoring, disclosing, and managing the fiscal risks from PPPs. They are making progress toward publishing consolidated statistics for the entire public corporate sector, starting with 2022.
Reduce informality to increase the returns on training and R&D spending.	**Some progress.** By mid-2019, real-time online registration is required for all retail sales except by self-employed for which the requirement was postponed until 2021. From October 2020, there has been an expansion of the application of the special tax regime for the self-employed–tax for professional income–to all regions in Russia.
Governance: AML/CFT	
The authorities need to continue to take appropriate mitigating measures to address money laundering threats.	**Significant progress**. The 2019 AML/CFT mutual evaluation report (MER) recognized that Russia has an in-depth understanding of its money laundering and terrorist financing risks and has established policies and laws to address them. The authorities are currently working towards ensuring a swift and effective implementation of the recommendations arising from the report, with the recent adoption of an Interagency Action plan (August 2020) and a tailored roadmap by the BOR (October 2020).

Annex IX. Key FSAP Recommendations

Recommendations	Timing	Progress
Banking Stability		
Conduct an asset quality review (AQR) to ensure adequate bank capitalization (CBR).	ST/MT*	**In progress.** The Bank of Russia is conducting asset quality reviews on a continuous manner. Progress continues in improving the collateral registry to ensure the timeliness and completeness of the valuation of assets and collateral.
Enhance stress testing practices, including on a consolidated basis and by currency (CBR).	ST/MT	**In progress.** Currently, stress tests are performed on a solo basis but stress losses are calculated on a consolidated basis. In 2019, the Bank of Russia performed another macroprudential stress test (MST) of the financial sector. In the MST, the BoR included development institutes and improved the methodology for private pension funds and insurers. Stress-testing of broker's capital and liquidity risk of brokers was also conducted.
Liquidity Management		
Re-establish T-bill program.	ST	**Not done.** The Bank of Russia and the Federal Treasury are using various tools to manage excess liquidity. The authorities do not see a need to use the T-bill program.
Financial Sector Oversight and Regulation		
Require prior approval for banks' domestic investments in nonbank institutions (CBR).	ST	**In progress.** After consultation with the banks, the Bank of Russia decided to drop the draft law requiring banks seeking BoR approval for acquisition of large stakes in non-bank institutions, due to the difficulty in establishing proper criteria, and possible loopholes in the draft law. Provisions regulating BoR's approval for individuals and legal entities to acquire over 10 percent of shares in non-bank institutions is codified in Federal No. 281-FZ of July 29, 2017, which became effective January 1, 2018.
Issue specific requirements for management of banks' country and transfer risks (CBR).	ST	**Not done.** The authorities do not consider this recommendation relevant for Russia.
Upgrade framework for relations with and use of banks' external auditors (CBR).	ST	**In progress.** A draft law that allows the CBR to regulate and supervise audit activities has been prepared, but it has been under consideration by the State Duma for more than a year with no approval yet.

Recommendations	Timing	Progress
Strengthen further the legal framework applicable to related parties (CBR).	ST	**In progress.** The Bank of Russia updated the methodology for calculating related party exposure in November 2019. A new draft Law that requires credit institutions to deal with related parties on an arm's length basis was communicated to the Ministry of Finance in March 2019. No other progress has been made in terms of the legal framework.
Upgrade framework for prudential oversight of banks' operational risk (CBR).	ST	**In progress.** Bank of Russia issued Regulation No.716-P on the requirements for the operational risk management system in a credit institution and a banking group in April 2020. Credit institutions should fully comply with the regulation by January 1, 2022. Another draft regulation related to the calculation of operational risk has been developed, which would require full compliance of all credit institutions by January 1, 2023.
Bring securities and insurance regulation and supervision into line with international standards (CBR).	MT	**In progress.** With respect to IOSCO principles, a total of 112 recommendations were received, of which as of September 1, 2020: 34 were fully implemented; 35 were partially implemented, 22 have been started; 23 were found to be inappropriate, and 1 has not yet started. The Bank of Russia completed a self-assessment of the compliance of Russia's insurance legislation with the principles of the IAIS.
Ensure the effective implementation of the AML/CFT framework (CBR, MoF monitoring).	ST	**In progress.** The 2019 AML/CFT mutual evaluation report (MER) recognized that Russia has an in-depth understanding of its money laundering and terrorist financing risks and has established policies and laws to address them. The authorities are currently working towards ensuring a swift and effective implementation of the recommendations arising from the report, with the recent adoption of an Interagency Action plan (August 2020) and a tailored roadmap by the BoR (October 2020).
Macroprudential Policy		
Adopt legal changes to provide a comprehensive policy toolkit (CBR, MoF).	ST/MT	**In progress.** The Bank of Russia has continued to improve the efficiency of its macroprudential policy. In February 2020, a new methodological recommendation was issued for calculating borrowers' debt burdens. The BoR has embarked on a consultation process with financial market participants to discuss their views on the potential implementation of direct borrower-based tools. In addition, the BoR has prepared a legislative proposal to incorporate direct borrower-based tools in its macroprudential toolkit.

Recommendations	Timing	Progress
Crisis Management and Resolution		
Review the framework for the use of public funds to finance the DIA for resolution purposes to be provided by the federal government. If necessary to use CBR funds, the federal government should provide an indemnity (CBR, MoF).	MT	**Not done.** The authorities consider this recommendation as not relevant for Russia.
Establish a funding mechanism for recovery of the costs of providing temporary public financing through levies on the financial industry (CBR, MoF).	MT	**Not done.** The authorities consider this recommendation as not relevant for Russia.
Introduce the full range of resolution powers and safeguards recommended by the FSB Key Attributes, including by implementing legal and operational changes needed to make purchase and assumption (P&A) an effective resolution tool (CBR, MoF).	ST	**Not done.** The authorities consider this recommendation as not relevant for Russia.
Banking Sector Development		
Promote legal reforms to increase state-owned commercial banks (SOB's) Board effectiveness (MoF, CBR).	MT	**In progress.** A Federal Law was adopted in July 2018 (On Amendments to the federal Law on Joint-Stock Companies), which aims at strengthening the role of the board of directors and ensuring the creation of an effective risk management and internal control system, and internal audit in public companies. No further progress since.
Continue gradual privatization of SOBs (MoF, CBR) as conditions permit.	MT	**Not done.** Market conditions do not seem favorable at this time.
* "ST–short term" is within one year; "MT–medium term" is one to three years.		

INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 19, 2021

Prepared By

The European Department (In Consultation with Other Departments).

CONTENTS

FUND RELATIONS[1]

(As of November 30, 2020)

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

General Resources Account	**SDR Million**	**Percent Quota**
Quota	12,903.70	100.00
Fund holdings of currency	9,499.03	73.61
Reserve Position	3,417.44	26.48
Lending to the Fund		
New Arrangements to Borrow	200.62	

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	5,671.80	100.00
Holdings	4,856.91	85.63

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	13,206.57	5,779.71
of which SRF	07/20/98	03/26/99	3,992.47	675.02
Stand-by	04/11/95	03/26/96	4,313.10	4,313.10

Projected Obligations to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs)**:**

Forthcoming

	2021	2022	2023	2024
Principal				
Charges/Interest	1.12	1.13	1.13	1.14
Total	1.12	1.13	1.13	1.14

[1] https://www.imf.org/en/Countries/RUS

Exchange Arrangements: The *de jure* and *de facto* exchange rate arrangements are free floating. Under this arrangement, the exchange rate of the ruble is determined by market factors. The CBR may intervene in the domestic foreign exchange market in the event of threats to financial stability. 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 12 , 2019.

FSAP Participation, FTE and ROSCs: Russia participated in the Financial Sector Assessment Program during 2016, and the FSSA report was discussed by the Board in July 2016 at the time of the 2016 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. 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.

IMF's Fiscal Transparency Evaluation (FTE) was undertaken in October 2013 and published in May 2014. It assessed the Russian government's fiscal reporting, forecasting, and risk management practices against the IMF's revised Fiscal Transparency Code. An FTE update was undertaken in May 2019, at the time of the 2019 Article IV Consultation.

Resident Representative: Mrs. Annette Kyobe, Resident Representative since September 2019.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

World Bank

http://www.worldbank.org/en/country/russia

STATISTICAL ISSUES

(As of December 1, 2020)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance.
National Accounts: Data are broadly adequate for surveillance, though there are often significant revisions to early quarterly GDP estimates. The methodology for seasonally adjusting quarterly GDP data could be explained better. Real GDP data rebased to 2016 prices are available from 2011. In April 2016, Rosstat released GDP estimates compiled according to the 2008 SNA. Estimates before 2011 are not revised and not comparable with data for later periods. The main changes introduced in the revised series include improvements in the estimation of the imputed rental services of owner-occupied dwellings and the use of the market value of assets to estimate consumption of fixed capital. The Central Bank of Russia compiles quarterly sectoral financial accounts and financial balance sheets, as well as from-whom-to-whom tables of selected instruments. Starting April 2020 the Central Bank of Russia started releasing sectoral-level data on incoming financial flows on a weekly basis.
Price Statistics: Monthly CPI and PPI, both compiled using the Two-Stage (Modified) Laspeyres (Dec. previous year =100), cover all regions of the Russian Federation. The weights reflect expenditures in the 24 months ending in the most recent September. Aggregate price indices are compiled for each good and service item for all the regions and the Russian Federation as a whole. Detailed data on total annual sales by economic activity, which are used to develop weights for the PPI, are published on the Rosstat website. Further efforts to improve the treatment of seasonal items and a new household budget survey—which has been under consideration for some time—could significantly strengthen data quality.
Government Finance Statistics: The authorities compile a comprehensive set of the general government accounts based on the *Government Finance Statistics Manual 2014 (GFSM 2014)* on an annual basis. These data comprise the statement of sources and uses of cash as well as the accrual-based government operations (revenue, expenditure and transactions in assets and liabilities), complete balance sheet (including non-financial assets), holding gains and losses and other changes in the volume of assets and liabilities, and outlays by functions of government (COFOG). A monthly statement of sources and uses of cash based on *GFSM 2014* is also compiled for the whole general government sector. In addition, the authorities have recently started reporting quarterly accrual-based general government operation statement as well as a financial balance sheet.
Monetary and Financial Statistics: Russia reports monetary data to STA using the standardized report forms (SRFs), broadly following the methodology of the *Monetary and Financial Statistics Manual and Compilation Guide* (*MFSMCG*). While data for the central bank and other depository corporations are reported on a monthly basis, data for the other financial corporations are reported on a quarterly basis. Russia also reports data on some key series and indicators of the IMF's Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

External sector statistics: Balance of payments data are broadly adequate for surveillance, and significant improvements have been made to enhance data quality. 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 Central Bank of Russia has revised historical data (going back to 1994:Q1 for BOP, and to 2004:Q1 for IIP), consistent with BPM6. It has also been reported supplementary data (currency breakdown and derivatives) covering the period 2015:Q4 to 2020:Q2. Partial data from a variety of sources are supplemented by the use of statistical techniques, estimates and adjustments to improve data coverage. In particular, the Central Bank of Russia 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 as well as the volume of households' investments in real estate abroad and cash in hand and depoists holdings, and these techniques are continuously being improved. At the same time, Russian compilers are working 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 Central Bank of Russia is participating in the Fund's annual Coordinated Direct Investment Survey (CDIS) and Coordinated Portfolio Investment Survey (CPIS). Furthermore, the Central Bank of Russia published further data which facilitate the anaylsis of relatively complex flows such as gross capital flow data for the private sector including geographical and currency breakdown.
Financial sector surveillance: The financial soundness indicators (FSIs) reported by Russia to STA includes all 12 core FSIs, and 8 of the 13 encouraged FSIs for deposit takers on a quarterly basis. Russia also reports 7 of the 15 encouraged FSIs for other sectors including 2 FSIs for households and 3 FSIs for real estate markets.. The FSIs are reported on a quarterly basis for posting on the IMF's FSI website with a lag of one quarter or more.

II. Data Standards and Quality	
Russia is an SDDS subscriber since 2005. Russia plans to revamp the SDDS National Summary Data Page to disseminate data also in machine-readable format (SDMX).	Data ROSC was published in 2011.

Russian Federation: Table of Common Indicators Required for Surveillance
(As of December 1, 2020)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8] Data Quality – Methodological soundness[9]	Memo Items:[8] Data Quality – Accuracy and reliability[10]
Exchange Rates	December 2020	12/01/2020	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	October 2020	11/20/2020	M	M	M		
Reserve/Base Money	November 2020	11/27/2020	W	W	W	O, O, LO, LO	O, O, O, O, O
Broad Money	October 2020	11/06/2020	M	M	M	O,O,LO,LO	O,O,O,O,O
Central Bank Balance Sheet	September 2020	11/03/2020	M	M	M	O,O,LO,LO	O,O,O,O,O
Consolidated Balance Sheet of the Banking System	October 2020	11/30/2020	M	M	M	O,O,LO,LO	O,O,O,O,O
Interest Rates[2]	November 2020	12/01/2020	W	W	W	O,O,LO,LO	O,O,O,O,O
Consumer Price Index	October 2020	11/06/2020	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	September 2020	11/13/2020	M	M	M	O, LO, LNO, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	October 2020	11/13/2020	M	M	M	LO, LNO, LO, O	O, O, LO, O, NA
Stocks of Central Government and Central Government-Guaranteed Debt[5]	October 2020	11/12/2020	M	M	M		
External Current Account Balance	2020:Q2	09/30/2020	Q	Q	Q		
Exports and Imports of Goods and Services	September 2020	11/12/2020	M	M	M	O, O, O,LO	LO, O, O, O, O
GDP/GNP	2020:Q2	09/09/2020	Q	Q	Q		
Gross External Debt	2020:Q3	10/28/2020	Q	Q	Q	O, O, O, O	O, O,LO, O, LO
International Investment Position[6]	2020:Q2	10/02/2020	Q	Q	Q		

[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] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.
[9] This reflects the assessment provided in the data ROSC or the Substantive Update (published in February 2011, and based on the findings of the mission that took place during June-July 2010) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.