

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

February 9, 2021

Washington, DC: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation [1] (file:///Q:/COM/MR/Press%20Releases/2021/PR2136%20-%20Russia%20-%20IMF%20Executive%20Board%20Concludes%202020%20Article%20IV%20Consultation%20with%20the%20Russian%20Federation.docx#_ftn1) 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.

Executive Board Assessment [2] (file:///Q:/COM/MR/Press%20Releases/2021/PR2136%20-%20Russia%20-%20IMF%20Executive%20Board%20Concludes%202020%20Article%20IV%20Consultation%20with%20the%20Russian%20Federation.docx#_ftn2)

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.

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.

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%20IMF%20Executive%20Board%20Concludes%202020%20Article%20IV%20Consultation%20with%20the%20Russian%20Federation.docx#_ftnref1) 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.

[2] (file:///Q:/COM/MR/Press%20Releases/2021/PR2136%20-%20Russia%20-

%20IMF%20Executive%20Board%20Concludes%202020%20Article%20IV%20Consultation%20with%20the%20Russian%20Federation.docx#_ftnref2) 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>

(<http://www.imf.org/external/np/sec/misc/qualifiers.htm>) .

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