

**FOR
AGENDA**

SM/10/185
Supplement 1

July 9, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Russian Federation—Staff Report for the 2010 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2010 Article IV consultation with the Russian Federation (SM/10/185, 7/9/10), which is tentatively scheduled for discussion on **Friday, July 23, 2010**. At the time of circulation of this paper to the Board, the authorities of the Russian Federation have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Thomsen (ext. 34847) and Ms. Kozack (ext. 38968) in EUR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, July 19, 2010; and to the European Bank for Reconstruction and Development, the European Commission, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

Staff Report for the 2010 Article IV Consultation—Informational Annex

Prepared by the European Department
(In consultation with other departments and the World Bank)

July 9, 2010

| | | |
|------|--|----|
| I. | Fund Relations | 2 |
| II. | Relations with the World Bank Group..... | 4 |
| III. | Statistical Issues | 15 |

ANNEX I. RUSSIAN FEDERATION: FUND RELATIONS

(As of May 31, 2010)

I. **Membership Status:** Joined 06/01/1992; Article VIII.

| II. General Resources Account: | SDR Million | Percent of Quota |
|---------------------------------------|--------------------|-------------------------|
| Quota | 5,945.40 | 100.00 |
| Fund holdings of currency | 4,716.1 | 79.32 |
| Reserve position | 1229.36 | 20.68 |

| III. SDR Department: | SDR Million | Percent of Allocation |
|-----------------------------|--------------------|------------------------------|
| Net cumulative allocation | 5671.80 | 100.00 |
| Holdings | 5676.32 | 100.08 |

IV. **Outstanding Purchases and Loans:** None

V. **Latest Financial Arrangements:**

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

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

| | <u>Forthcoming</u> | | | | |
|------------------|--------------------|------|------|------|------|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| Principal | | | | | |
| Charges/Interest | | 0.05 | 0.05 | 0.05 | 0.05 |
| Total | | 0.05 | 0.05 | 0.05 | 0.05 |

VII. **Implementation of HIPC Initiative:** Not Applicable

VIII. **Implementation of MDRI Assistance:** Not Applicable

IX. **Exchange Arrangements:** The de jure arrangement is other managed arrangement—namely, a controlled floating exchange rate arrangement. The ruble value of a bi-currency basket is used as the operating benchmark for transactions on the internal currency market. The basket is currently composed of €0.45 and \$0.55. The target boundaries of its permissible fluctuations were revised based on

changes in fundamental factors governing formation of the country's balance of payments in accordance with the Uniform State Monetary Policy Guidelines for 2008, in response to a gradual transition to a more flexible exchange-rate-setting policy. Following a period of significant controlled depreciation of the ruble, on January 23 2009, the CBR announced that the upper boundary of permissible fluctuation in the market value of the bi-currency basket would be set at Rub 41 and the lower boundary at Rub 26. The actual value of the bi-currency basket is determined within this band under the influence of both market factors and exchange interventions by the CBR. The CBR intervenes both in interbank currency exchanges and on the over-the-counter interbank market to limit daily fluctuations. The permissible fluctuations may be revised in response to changes in macroeconomic indicators. As a result of these policy changes and the continued control of the CBR over the exchange rate determination, the de facto exchange rate arrangement is other managed arrangement. The Russian Federation accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement with effect from June 1, 1996, *and maintains an exchange system free of restrictions on the making of payments and transfers for currents international transactions.*

- X. **Article IV Consultation:** Russia is on the standard 12-month consultation cycle. The last consultation was concluded on July 27, 2009.

XI. **FSAP Participation and ROSCs**

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

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

XII. **Resident Representatives:**

Mr. Odd Per Brekk, Senior Resident Representative, since March 1, 2009.

ANNEX II. RUSSIAN FEDERATION: RELATIONS WITH THE WORLD BANK GROUP

World Bank Group activities are guided by the Country Partnership Strategy (CPS) Progress Report endorsed by the Board of Directors on September 8, 2009. It extended the CPS period (2007-2009) to 2011 and reiterated the relevance of four guiding objectives: i) diversify the economy for sustainable development and growth; ii) improve public sector management and performance; iii) improve the delivery of communal and social services; and iv) enhance Russia's global role as a donor.

Relations between the Russian Federation and World Bank Group are evolving in line with socio-economic conditions. Given Russia's strong fiscal position up until the global financial crisis, traditional cooperation activities shifted from financing to knowledge services. The portfolio declined from 22 to 13 projects (\$1.3 billion), while fee-based services (21 contracts valued at \$9.5 million) and sub-national lending through the WBG facility (8 loans for \$154 million to date) emerged as new business lines.

With the emergence of pressure on Russia's fiscal reserves and external position in 2009, Russia initiated discussions on new financing from the World Bank in FY11-12. The Government aims to leverage international knowledge to help modernize the economy, increase the efficiency of public expenditures, deepen the financial sector, and strengthen the position of Russia in the post-crisis period. Given substantial developmental challenges at the sub-national level, the federal government has encouraged the Bank Group to continue its direct involvement with regions. A central theme of the extended CPS will thus be to undertake more in-depth operations in selected regions in line with demand and the partnership strategy.

IFC and MIGA operations are in very high demand and they must carefully manage large exposures (Russia is IFC's third largest and MIGA's largest exposure). The Bank cooperates actively with IFC, not only in subnational lending but also on key development priorities such as energy efficiency and renewable energy.

Major areas of Bank Group activities by CPS strategic pillars

(a) Diversifying the economy for sustainable development and growth

1. The World Bank Group is assisting Russia in various ways in meeting the challenges of sustaining rapid growth, including participation in macro-policy debates, monitoring the investment climate, supporting public investment and PPPs for growth and diversification, working with regions to identify and overcome barriers to growth, supporting investments in priority areas at the regional level, and providing direct assistance to the private sector:

- *Macroeconomic policy, long-term fiscal sustainability, and the effective management of Russia's large external inflows:* The Bank contributes to the macro-policy debate in Russia through the periodic Russian Economic Reports, on-demand policy notes

and knowledge sharing. In addition, there is strong interest in the Bank's technical assistance in advising on the fiscal and broader economic implications of oil price volatility. The Bank has finished a study on long-term fiscal risks and fiscal sustainability for the Ministry of Finance highlighting alternative fiscal scenarios, associated risks and strategies for achieving long-term fiscal sustainability. In April 2008, the Bank of Russia and World Bank Treasury formally signed a fee-based services agreement whereby Treasury will provide technical support in internal investment management capacity for a period of 3 to 4 years.

- Financial sector strengthening.* In addition, the Bank helped strengthen the financial sector through lending and TA for securities market regulation, development of the Government's financial sector strategy, development of new institutional arrangements for management of government assets and liabilities, (including reserves and stabilization funds), insurance and banking sector supervision, assessment of the sustainability of the 2nd pillar pension system, management of the increasing share of nonperforming loans (NPLs) accumulated through the system during the crisis, strengthening of banking supervision, and assessment of their resolution framework (notably insolvency and creditors' rights system). On a fee basis, the Bank provided TA to the Central Bank to support payments system development and monitoring. In addition, the Bank is currently developing two new investment operations with financial sector content -- the Financial Literacy and Education Project designed to strengthen financial literacy and enhance protection of financial services' consumers, and the Microfinance Project designed to strengthen financial cooperatives and facilitate their integration into the country's financial system. IFC responded to the crisis-related needs of client banks through a rebalanced product mix, combining short term liquidity (particularly trade finance) and risk management instruments with financial support in the form of guarantees, quasi-equity and subordinated debt to strengthen the capital bases of client banks, contribute to the stability of the financial system and mobilize additional private investment into the sector. IFC's Russia Banking Advisory Program worked closely with investment services and the IBRD to develop new crisis response tools to address rising levels of NPLs and assist banks with risk management. IFC's Housing Advisory Program was refocused to help client banks manage exposure to real estate and mortgage markets, and conducted seminars on mortgage portfolio management and analytics for banks and financial regulators. IFC has also committed its first regional investments in factoring and distressed asset management to support corporate restructurings and single asset recovery situations. IFC's longer term priorities in the financial sector include increasing access to finance for SMEs, particularly in the regions, promoting financial sector stability and environmental sustainability, and leveraging IFC capital through mobilization and cooperation with partners. In May 2010, IFC's board approved IFC's investment alongside the Government of Russia in the Russia Bank Capitalization Fund (RBCF), which would

make equity and/or equity related investments to support private, mainly second-tier banks, with an emphasis on regional banks.

- *Investment climate monitoring and policy advice:* The Bank continues periodic business environment and enterprise performance (BEEPS) surveys, regional investment climate assessments (through sub-national Doing Business assessments), and administrative barriers studies undertaken by FIAS for interested regions. The Bank can work at the regional level on capacity building and the development of investment promotion programs for attracting FDI, similar to the initiative currently underway in Rostov Region. WBI will continue capacity-building activities related to investment climate assessments.
- *Contributing to climate change mitigation.* At present, the World Bank is discussing an energy efficiency investment project with the Ministry of Energy, Russian Energy Agency and systemic banks. The project would assist the Ministry and Agency in building capacity on energy efficiency matters and provide funding to energy efficiency credit lines at banks. IFC and the IBRD worked closely with Russian policymakers to calculate the country's energy efficiency potential and subsequently to develop the federal law *On Energy Efficiency Improvement and Energy Saving*, signed by President Medvedev in December 2009. IFC and IBRD are currently advising the government on secondary legislation and related by-laws and institutions (including at the sub-national level). IFC is currently implementing four integrated advisory and investment projects to develop the market for investment in energy efficiency, renewable energy and cleaner production in Russia. The Russia Sustainable Energy Finance Program provides advisory services and financing to partner banks to promote investment in energy efficiency and renewable energy. IFC's Russia Cleaner Production Program is focused on stimulating investments in cleaner technologies to increase resource efficiency and reduce environmental and social impacts in the real sectors. IFC is cooperating actively with IBRD and EBRD on the Russia Residential Energy Efficiency Program, which aims to stimulate investment in the energy-efficient renovation of multi-family residential buildings. In April 2010, in conjunction with the IBRD, IFC launched the Russia Renewable Energy Program, with a \$10 million an advisory component funded by the GEF; IFC expects to facilitate at least \$360 million in renewable energy investment over five years.
- *Supporting Government investment and public-private partnerships (PPPs) for growth and diversification:* On-going investment projects support land registration and the development of a national cadastre for securing property rights and the development of land markets. The Bank has provided technical assistance on a reimbursable basis to support the development of PPPs, particularly in St. Petersburg for transaction and strategic advice on large-scale infrastructure projects, including Western High Speed Diameter, Orlovsky tunnel, and Pulkovo airport. Despite the adverse investment environment caused by the global financial crisis, Pulkovo

reached financial close in April 2010, with IFC committing over \$94 million to the overall financing package for its own account. IFC and EBRD are currently arranging an additional \$220 million in syndicated loans. The Bank is cooperating with Russia's Development Bank (Vnesheconombank - VEB) on both PPP joint activities and on developing a partial credit guarantee of the Bank to VEB in support of its efforts to raise funding for infrastructure investments. In addition, the Bank supported efforts of the Higher School of Economics of Moscow to develop an e-learning program on PPPs for federal and regional decision makers in Russia, as well as in other Russian-speaking countries in the region.

- *Working with regions to identify engines of growth, develop growth strategies, and remove barriers to growth and labor mobility:* The Bank held two major knowledge events on regional development strategies in early 2008: an early discussion of the World Development Report on regional disparities and its implications for Russia, and Regional Development Strategies workshop for Russia's regional governments and other stakeholders of regional development. In addition, the Bank has finalized a Country Economic Memorandum focused on barriers to growth at the sub-national level and on issues of regional agglomerations. The development of fee-for-service arrangements with the regions would provide another avenue for supporting preparation of regional investment strategies and growth analyses, and provision of other analytical services. As part of its anti-crisis work the Bank has intensified policy advice on labor market monitoring and on the design of the active labor market policies, that also support mobility. Also, the Bank is starting new analytical work on internal migration in Russia as part of a broader, CIS-wide engagement on migration issues and policies.
- *Supporting investments in priority areas at the regional level:* The IFC/Bank Sub-National Development Program is supporting priority public investments at the regional and municipal level. To date, eight such sub-national operations have been completed, including three projects in the Chuvash Republic, two projects in the Republic of Mariy El, and projects in Petropavlovsk municipality (Kamchatka), the city of Mytishchi, and the city of Ufa. IFC and EBRD are working directly with several Russian regions (Oblasts) to develop three to five year regional energy savings programs, using best global practices. MIGA can play a role in supporting foreign direct investment in infrastructure at the sub-sovereign level, including in the transportation, water and solid waste sectors. Regional infrastructure projects supported by the Subnational Program are another area where the Bank and IFC could partner with VEB for joint project preparation and support.
- *Providing direct support to the private sector:* IFC will continue to promote the growth of the private sector and the diversification of the Russian economy through a combination of investment and advisory services. IFC's selective medium to long-term strategy is to: (i) contribute to climate change mitigation and develop the sustainable energy market through financing and provision of advisory services via

the Russia Sustainable Energy Finance Program, the Russia Cleaner Production program, the Russia Renewable Energy Program, the Russia Residential Energy Efficiency Program and through direct investments; (ii) invest in Russia's infrastructure, especially transport and logistics (ports, roads, warehousing) and sub-national infrastructure (especially in Russia's poorer regions), including through the joint IFC/IBRD Sub-National Development Program; (iii) provide ongoing support to the financial sector, in particular by increasing access to finance for SMEs, promoting financial sector stability and environmental sustainability and through development of the insurance, pension and risk management industries; and, across sectors (iv) invest in Russia's less-developed regions where significant developmental challenges remain, and support projects contributing to Russia's economic diversification, including in value-added manufacturing such as machine building, and in hi-tech sectors. IFC also aims to leverage its own capital through mobilization and cooperation with partners, including through participation in jointly financed facilities to target the banking sector and infrastructure development.

- *IFC advisory services will continue to focus on crisis recovery and climate change mitigation:* IFC's advisory programs in Russia are closely integrated with investment activities and address the following objectives: (a) improving the energy efficiency of Russia's economy and reducing its greenhouse gas emissions; (b) building the capacity of private banks to deliver new product lines, such as energy efficiency, residential energy efficiency and renewable energy finance; and (c) responding to the crisis-related needs of the banking and real sectors, including risk and NPL/distressed asset management, and managing exposure to real estate and mortgage markets.
- *MIGA will continue to support foreign investors through the provision of political risk guarantees:* Supporting foreign investment in infrastructure, in close coordination with the Bank, will remain an important area of MIGA's activity in Russia. In the financial sector, the Agency will continue to explore opportunities to support capital markets transactions, including asset-backed securitizations. MIGA may also continue to promote the role and assist in the expansion of foreign banks in the Russian banking sector. Areas for potential further involvement in Russia include manufacturing, agribusiness and services sectors.

(b) Improving public sector management and performance

2. Public sector management has been a particular area of strength of World Bank work in Russia, which will be *further deepened in coming years. The Bank remains engaged in supporting programs for modernizing selected public sector institutions, improving government administration, the judiciary, local self-government, and budgetary management at federal and sub-national levels. The Bank will expand its engagement in regions in these areas, in accordance with the federal priority for improving public sector performance at the sub-national level.*

- *Modernizing selected public sector institutions:* The completion of on-going projects will contribute to the modernization of public institutions and improved public services. These include tax modernization, customs development, cadastre and registration, fiscal federalism, performance-based budgeting, treasury development, and a statistical development project.
- *Supporting the government program in administrative reform:* The Bank will continue its close engagement with the government in the area of administrative reform at the federal and sub-national levels, including the coordination and implementation of substantial donor funds. The primary goal will continue to be bringing Bank and international expertise to bear on the implementation of the government's program for administrative reform, which currently places a strong emphasis on encouraging initiatives at the sub-national level. So far, the Bank has concentrated sub-national work in the Southern Federal Okrug and regions in the North-West. A fee-based advisory service supported Khanti-Mansiysk Okrug-Yugra on administrative streamlining and functional reviews. Similar fee-based advisory services may also be developed with other regions. Support for public administration and governance for selected regions which cannot afford fee-based services is being provided through a DFID Trust Fund which runs from 2007–10.
- *Providing analytical support on effectiveness of public expenditures, transparency and accountability.* At the request of the Ministry of Finance, the Bank has advanced work on a Public Expenditure Review (PER) focusing on the overall structure and efficiency of public expenditures with particular focus on the wage bill and transportation expenditures. The Bank is also providing advisory assistance to the Ministry of Finance on the development of a strategy for increasing the efficiency of public expenditures. The Bank is advising the Ministry of Economic Development on improvements in public procurement legislation. In close coordination, it is pursuing a Social Expenditures Review (SER) focusing on efficiency in use of public resources in health, education and social assistance, with focus on sub-national level.
- *Supporting budgetary reforms:* The Bank will continue to respond to the demands of the federal and some regional governments for assistance in budgetary reform and the development of performance-based budgeting. In particular, the Bank is using the Regional Fiscal Technical Assistance Project to provide support to the MOF in its transition towards program budgeting principles, in transformation of budgetary institutions into autonomous entities, and in the reform of the systems of internal control and external audit.
- *Promoting the reform of local self-government:* The Bank will continue to bring international experience to bear on this vital area of reform in Russia. A study has been completed for monitoring and assisting the development of local-self government in rural areas in the Perm, Penza, and Adygeya regions. On the operational side the Bank is engaging three regions of Russia on practical expansion

of community-based development schemes, providing these regions technical assistance through fee-based arrangements. A federal-level project is under preparation to support and strengthen local self government in the weak regions of the Northern Caucasus. It would also improve the quality of settlement-level social infrastructure.

- *Investing in municipal development:* On-going and possible future regional projects have significance for overall municipal development and the quality of municipal services. This includes the on-going Saint Petersburg Economic Development Project and the Housing and Communal Services project, which became effective in February 2010. Cultural Heritage II, slated for negotiations in June 2010, is aimed at developing cultural heritage tourism as a resource for socio-economic development in the participating regions. Possible regional and municipal subnational projects are under discussion on energy efficiency and water and heating system upgrades.
- *Stepping up engagement on judicial reform:* Assistance on judicial reform also involves the coordination of donor funds and special cooperation at the regional level. A judicial reform project complements the 2007–11 Federal Targeted Program for judicial modernization by improving the efficiency of dispute resolution and the transparency of judicial functioning. A complementary grant from the Government of Japan will provide support to Perm Krai and Leningradskaya Oblast on demand-side justice sector issues such as legal aid to the poor and juvenile justice. In addition, at the request of the Chairman of the Supreme Commercial Court the Bank plans to partner with it and the Ministry of Economic Development to support the drafting of framework legislation to strengthen administrative resolution of disputes and complaints handling, as well as individual bankruptcy law.
- *Supporting anti-corruption initiatives:* As a coherent national-level anti-corruption program may begin to take shape, the Bank may explore avenues of possible constructive contributions to such anti-corruption initiatives.

(c) Improving the delivery of social and communal services

3. The Government has prioritized the social sector and social services in its medium-term program. Given that the primary responsibilities and initiatives for reform in these services will be at the sub-national level, the Bank will concentrate its focus on the regions. Main activities include the continuation of work in the areas of poverty, education, and health. Most recent additional activities include monitoring of labor market developments (at the federal and regional levels), and technical assistance for design and monitoring of active labor market programs. Monitoring of social trends and project design for improvement of quality of social services at the local level will be continued in the Southern Federal Okrug and in other regions under fee-based services arrangements. Another critical area for improving living standards is provision of housing and communal services. The government places high importance on improving the performance of the housing and communal services

(HCS) sector and on the delivery of high quality services by communal enterprises, and closely links service provision with improving the quality of life.

- *Continuation of the poverty work:* In addition to continued cooperation with Rosstat and federal ministries, the emphasis of the Bank poverty work (in cooperation with DFID) has moved to the regional level. The Bank is working, and will continue to work, directly with regions on monitoring poverty and improving social assistance programs aimed at better targeting. Regional social protection strategies were elaborated for several regions. A program for modernization of Moscow city social protection is under preparation. Successful models of cooperation can be scaled up to similar regions.
- *Improving the health of the population:* The Bank will continue its engagement with the government on adult health, and the development of a national strategy to improve the health of the population, with the goal of reversing the strongly negative trends in premature mortality and morbidity and improving efficiency and quality of service delivery. The Bank is engaging federal and regional authorities on important agenda of health financing, health system organization and restructuring. Another priority is to ensure knowledge transfer on modalities of appropriate risk pooling, insurance, and sustainable health financing. The Bank is actively involved in advocacy for public health agenda, including alcohol and tobacco taxation and promotion of healthy life styles. Advice on road safety is supporting critical measures to reduce the rate of fatality and injury on the roads. As a follow up to earlier child welfare efforts and jointly with international donors the Bank will assist in design and implementation of practical mechanisms for family support, preventive social welfare and child care at federal and regional level. Additional advocacy, public awareness and information sharing efforts jointly with government leaders, public figures, private sector and NGOs will be undertaken in support of critically needed government policies in this area. The Bank and IFC financed the first subnational project in the health sector in 2009 in the Chuvash Republic. The development of public-private partnerships in the health sector could be supported jointly by TA from the Bank and direct financing by IFC, which will continue to explore opportunities to finance private sector solutions to health sector challenges.
- *Modernization and improvement of the education system and vocational training:* Having completed several operations in education at the federal level, the Bank continues to be actively involved in advising federal and regional authorities on education policies and efficiency in education sector. The main focus of this work includes early childhood development and all levels of professional education and training. The Bank is actively engaging federal authorities through demand driven knowledge services, and providing advice to regions on their early childhood development policies and vocational education development. In parallel, the Bank is supporting several leading national universities in Tatarstan and Moscow on design of their modernization strategies and expansion of international linkages in research.

Regional TA and university work is focusing on improving the quality of local professional labor supply in order to meet the needs of economic diversification and increased productivity. In FY11, the Bank is delivering an innovative Financial Literacy and Financial Education project (\$110mln) that will strengthen the ability of the population to take responsible financial decisions and reduce financial risks for individual households.

- *Improvement in the provision of housing and communal services:* The Bank's support in the infrastructure sector will largely focus on improving quality of utility services and housing. The Bank has a large portfolio focused on improving heating, water, wastewater, and other municipal services in selected regions. At present, the main intervention of the Bank in this sphere is centered around the Housing and Communal Services project that aims to promote reforms and provide financing in HCS on grant basis allocated to regions competitively. The project is supported by a \$200 million loan that became effective in February 2010. In addition, the Bank and IFC financed two projects in the utility sector through its sub-national lending instrument (namely, wastewater treatment in Ufa and heating system modernization in Mytishi) and there are a number of similar projects in pipeline. IFC helped develop the mortgage market in Russia, providing advisory services and facilitating \$6.8 billion worth of mortgage loans from 2005-2008, and will continue to provide relevant products and services with high developmental impact, including sustainable housing finance and mortgage finance, with a focus on reaching underserved regions.
- *Residential Energy Efficiency Finance and Sustainable Energy Finance through IFC's integrated advisory and investment platforms:* IFC's Residential Energy Efficiency (REE) Program works with partner financial institutions to stimulate investment in the energy-efficient renovation of multi-family residential buildings. To date little investment in REE has occurred in Russia due to regulatory barriers, lack of experience on behalf of financial institutions, and lack of awareness regarding the economic benefits of such investment. IFC is cooperating actively with IBRD and EBRD to maximize the impact on market development. IFC's Sustainable Energy Efficiency Program makes credit lines available to banks for on-lending for energy efficiency projects, and provides technical assistance to banks and private companies in order to raise the lending volumes available for energy-saving projects.

(d) Enhancing Russia's global role

4. The Bank has a strong commitment to support Russia's increasing global role, and assist the country in fulfilling its global commitments. The Bank will continue cooperation with the Russian government in support of its emergence as an international donor and active member of multilateral organizations. In addition, the Bank will assist in establishment of mechanisms and implementation of specific actions arising from Russia's global engagements, such as the Climate Change and Biodiversity Conventions, and pandemic diseases initiatives. Specific areas for Bank's engagement in Russia are:

- *Assistance in the formulation of an ODA system for Russia as emerging donor:* The Bank will continue to assist Russia as an emerging donor, and will cooperate on the establishment of a national ODA system through training/capacity events, information sharing, and advisory services. With support from the Russia as a Donor Initiative DFID TF, the Bank is helping to strengthen statistics of development aid, strategic communications and development aid training programs. An “externally funded staff development program” will build Russian Government capacity for aid policy development and aid management. After supporting an Emerging Donor Meeting hosted by Russia in April 2006, the Bank and OECD contributed to preparation and delivery of a February 2010 international conference in Moscow on “New Partners in International Development Finance” that was attended by thirty-two countries and twelve international organizations.
- *Providing access to the Bank’s instruments for channeling Russian developmental assistance:* The Bank will remain engaged with Russia on international policy initiatives developed under Russia’s G-8 presidency, including on Russia’s priority themes for international assistance—quality of education, improved access to energy by vulnerable groups, and controlling the spread of infectious diseases. The Bank is assisting in preparation of Russian contributions to multilateral TFs such as the Global Emergency Food Facility, the Education-For-All/Fast Track Initiative, Rapid Social Response TF, South-South Experience Exchange TF. The Bank will strengthen cooperation with Russia on a program of joint Russia-Bank aid initiatives in support of economic and human development in Central Asia, including support for labor migrants, agriculture, water and energy. Russia increased its contributions markedly to IDA15.
- *Fulfilling international obligations related to global goods:* The Bank and IFC are committed to help Russia implement its Climate Doctrine, which was adopted in May 2009. It includes a commitment by President Medvedev to cut up to 25% of greenhouse gas emissions from the 1990 level by 2020, including through increasing energy efficiency. The Bank and IFC have both submitted applications to Sberbank as the Designated National Authority for implementation of the Kyoto Protocol mechanisms. The World Bank’s Rosneft Gas Flaring Reduction Project (the largest Bank JI project in ECA) is expected to produce 6.8 million tons of Emission Reduction Units (ERU) for 3 years for an estimated US\$75 million purchase contract with Bank carbon funds, while the joint IFC and Core Carbon Group GHG reduction project under the Netherlands European Carbon Facility would produce 2 to 3 million ERUs. The Bank will continue participation and support for the Ministerial Conference on Forest Law Enforcement and Governance in Europe and North Asia.
- *Linking Russian companies to global markets:* IFC and MIGA activities are also relevant to the expansion of Russia’s global role through facilitation of trade and investment linkages between Russian firms and global markets. In keeping with its global strategic objective to encourage investment across emerging markets (South-

South investment), IFC will continue to actively support strong, reputable Russian clients in investments elsewhere in emerging markets. Consistent with its strategic objective to support South-South investments through the provision of guarantees, MIGA will continue to proactively engage Russian companies planning to invest in emerging markets.

ANNEX III. RUSSIAN FEDERATION: STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

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

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

National Accounts: Data are broadly adequate for surveillance, but the reliability of recent quarterly GDP estimates (particularly for 2009 and the first quarter of 2010), and inconsistencies between published headline GDP growth rates, level series, and seasonally adjusted data are a concern expressed among a wide range of users, including Fund staff. This may point inter alia to lags in the revision schedule of the various data formats. The introduction of methodological changes in the compilation of important indicators, like the industrial production index, without releasing backward revisions of the series on a timely basis also impairs economic analysis. A historical revision of the industrial production index is due to be released in July 2010. Consistent with the new series, a historical revision of the annual and quarterly GDP series, which will also incorporate the results of the 2006 agriculture census as well as methodological improvements, is planned to be released during the third quarter of 2010.

The Federal State Statistics Service (Rosstat) in general follows the *1993 SNA*, although scope exists for methodological improvements in the calculations of volume measures of the production-based GDP estimates, including estimates of the output of financial intermediation services indirectly measured (FISIM). The imputed rental services of owner-occupied dwellings are undervalued. Improvements in the coverage of source data are constrained by an inadequate response to business surveys. The unavailability of balance sheet data continues to be an obstacle for analyzing balance sheet vulnerabilities.

Price statistics: Data are broadly adequate for surveillance, but time series analyses involving detailed CPI components are a challenge to perform because of limited time series data on CPI weights. Monthly CPI and PPI, both compiled using the Two-State (Modified) Laspeyres (2000=100), cover all regions of the Russian Federation. In addition to the general CPI index, Rosstat also publishes indices for foodstuffs, non-food products, and services. Detailed CPI weight data have been made available on the Rosstat website beginning in 2006 and in the publication *Prices in Russia* beginning in 1995. Since 2009, detailed consumer expenditure data, used as the basis to develop the CPI weights, are posted on Rosstat's website annually. Earlier data on detailed household expenditures have been published in the following publications: *Prices in Russia 2004* and *Prices in Russia 2006*. Detailed PPI weight data are not published, rendering time series analysis difficult; however, detailed data on total annual sales, which are used to develop weights for the PPI, are published by economic activity on the Rosstat website under the Entrepreneurship section, industrial subsection. Like the CPI, detailed PPI weights should be published and easily accessible by users. Further efforts to improve the treatment of seasonal items in the core inflation index

and a new household budget survey—which has been under consideration for some time—could significantly strengthen data quality.

Government finance statistics: For surveillance purposes, the timeliness and level of detail of the data disseminated can be improved. Data on the economic classification of expenditures are available with a considerable lag, while the data on functional classification of expenditure and financing differ from international standards. Historical data on the maturity structure of domestic and external federal debt are not published, except the most recent observation available through SDDS. Monthly data on the size and composition of ruble guarantees are not available prior to 2010. Historical monthly data on foreign currency debt are not available prior to 2009. In addition, there is no integrated debt monitoring and reporting system. Reconciliation of different datasets of fiscal statistics (budget execution, cash flow statement, *GFSM 2001* format, SDDS) is difficult. The website where fiscal statistics are disseminated can be made more user friendly by consolidating all statistical links in a dedicated data dissemination page, available both in Russian and in English, and supplementing the data with relevant definitions, description of compilation methodology, and relevant analytical materials.

Monetary statistics: Since July 2008, the Central Bank of Russia (CBR) provides to the IMF, in the *MFSM*-recommended format for the surveys, summarized data on (i) the Central Bank Survey, (ii) the Other Depository Corporations Survey, (iii) the Depository Corporations Survey, (iv) the Other Financial Corporation Survey, and (v) the Financial Corporations Survey. In the context of the current global turmoil, analysis of balance sheet effects has been hindered by a lack of comparable data on the currency and maturity breakdown of banking-sector assets and liabilities. Adoption of data reporting in full detail of the framework for Standardized Report Forms (SRFs), as recommended by an STA mission in 2007, would provide information on the currency and instrument breakdowns of the banking sector assets and liabilities. Starting in July 2010, the CBR plans to include in the Surveys the breakdown of positions by currency.

External sector statistics: While balance of payments data are broadly adequate for surveillance, and significant improvements have been made to enhance data quality, there remains scope for improving the coverage of certain components of the current, capital, and financial accounts. Improving the detail of supplemental data on the financial account would facilitate the analysis of relatively complex flows. For example, supplemental data on gross flows of long-term external debt (i.e., drawings and repayments) have been published for non-financial enterprises and government, but similar data for banks are not available, which have hampered staff efforts to analyze vulnerabilities resulting from external debt. The balance of payments is compiled according to the framework of the Fund's *Balance of Payments Manual*, fifth edition (*BPM5*) and the CBR is actively implementing the recommendations of the *BPM6*. Partial data from a variety of sources are supplemented by the use of estimates and adjustments to improve data coverage. In particular, the CBR makes adjustments to merchandise import data published by the Federal Customs Service to account for “shuttle trade,” smuggling, and undervaluation. Statistical techniques are also used to estimate transactions and positions of foreign-owned enterprises with production sharing agreements, and these techniques are continuously being improved. At the same time, Russian compilers are seeking to reconcile their data with those of partner countries.

Improvements have been made in the coverage and quality of surveys on direct investment, and the CBR is participating in the Fund's Coordinated Direct Investment Survey.

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

II. Data Standards and Quality

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

III. Reporting to STA (Optional)

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

RUSSIAN FEDERATION: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(As of May 31, 2010)

| | Date of latest observation | Date received | Frequency of data ⁸ | Frequency of reporting ⁸ | Frequency of publication ⁸ | Memo Items: | |
|---|----------------------------|---------------|--------------------------------|-------------------------------------|---------------------------------------|--|---|
| | | | | | | Data Quality – Methodological soundness ⁹ | Data Quality Accuracy and reliability ¹⁰ |
| Exchange Rates | 5/31/10 | 5/31/10 | D | D | D | | |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹ | 5/21/10 | 5/27/10 | W | W | W | | |
| Reserve/Base Money (narrow definition) | 5/24/10 | 5/28/10 | W | W | W | O, O, LO, LO | O, O, O, O, O |
| Reserve/Base Money (broad definition) | 5/1/10 | 5/8/10 | D | M | M | O,O,LO,LO | O,O,O,O,O |
| Broad Money | April 2010 | 5/27/10 | M | M | M | O,O,LO,LO | O,O,O,O,O |
| Central Bank Balance Sheet ² | April 2010 | 5/4/10 | M | M | M | O,O,LO,LO | O,O,O,O,O |
| Consolidated Balance Sheet of the Banking System | March 2010 | 5/8/10 | M | M | M | O,O,LO,LO | O,O,O,O,O |
| Interest Rates ³ | 5/31/10 | 5/31/10 | D/W/M | D/W/M | D/W/M | | |
| Consumer Price Index | April 2010 | 5/5/09 | M | M | M | O, LO, LNO, O | O, O, O, O, O |
| Revenue, Expenditure, Balance and Composition of Financing ⁴ – General Government ⁵ | March, 2010 | 5/12/10 | M | M | M | LO, LNO, LO, O | O, O, LO, O, NA |
| Revenue, Expenditure, Balance and Composition of Financing ⁴ – Central Government | April, 2010 | 5/13/10 | M | M | M | | |
| Stocks of Central Government and Central Government-Guaranteed Debt ⁶ | April, 2010 | 5/19/10 | M | M | M | | |
| External Current Account Balance ⁷ | Q1 2010 | 4/2/10 | Q | Q | Q | O, O, O, LO | LO, O, O, O, O |
| Exports and Imports of Goods and Services | Q1 2010 | 4/2/10 | Q | Q | Q | | |
| GDP/GNP | Q1 2010 | 5/14/10 | Q | Q | Q | O, O, O, O | O, O, LO, O, LO |
| Gross External Debt | Q1 2010 | 4/5/10 | Q | Q | NA | | |
| International Investment Position | 2008 | 7/1/09 | A | A | A | | |

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

² Ratings refer to Central Bank Survey.

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

⁴ Foreign, domestic bank, and domestic nonbank financing.

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

⁶ Including currency and maturity composition.

⁷ Ratings refer to Balance of Payments.

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

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

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