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February 1, 2021

Statement by Mr. Jin and Ms. Yang on Russian Federation
(Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the well-written report and Mr. Mozhin for the informative buff statement. The Russian authorities have established a strong macroeconomic policy framework and significant buffers in recent years, providing enough policy space to mitigate the impact of the pandemic as well as the oil market disruption. Given subdued growth remains, more efforts should be done to unleash Russia's growth potential. We broadly agree with staff's appraisal and would like to limit ourselves to the following comments for emphasis.

We commend the authorities' significant fiscal response to cushion pandemic impact and agree with staff that the authorities should be prepared to provide further fiscal support if downside risk materialized, given Russia's substantial fiscal space. *We note the diverging views between staff and the authorities on unemployment benefits adjustment and Russia's relatively low benefits compared to OECD average was one of the key reasons behind staff's advice to keep all unemployment benefits at elevated level, could staff elaborate on Russia's benefit level compare to other emerging economies?* In addition, we welcome the authorities' planned tax reform to replace the MET with the AIT and their commitment to improve the targeting of social assistance spending.

Monetary policy stance could be data dependent. The looser monetary policy stance is appropriate in crisis management. As Mr. Mozhin stated in his buff statement, the latest data show an upside risk on the inflation outlook, and we see the authorities' monetary policy stance as appropriate. We encourage the authorities to closely monitor market developments and stand ready to adjust policy stance when necessary, including taking a more accommodative approach should inflation fall below the lower band of the inflation target. The authorities' commitment to limit the BOR's FX operation in exceptional market conditions is commendable.

We take positive note of the resilience of the financial sector and the regulatory forbearance provided by the BOR. While forbearance on loan classification and provisioning alleviated stress on banks and helped to prevent a credit contraction, it obscures banks' asset quality and should not be extended. Banks with strong loss absorbing capacity should take provision without delay. The upward trend in mortgage lending and housing price remains a concern and warranted close monitoring.

We encourage the authorities to keep momentum in structural reform to foster growth. Structural constraints have weighed on growth prospects in Russia and more should be done to improve business climate, strengthen governance, and reduce the footprint of the state in the market. In this context, we welcome the implementation of the"regulatory guillotine" and the roll out of national projects and encourage the authorities to ensure those reform initiatives are properly managed and effectively implemented.

With these remarks, we wish the authorities every success in their policy endeavors.