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February 1, 2021

Statement by Mr. Guerra and Ms. Arevalo Arroyo on Russian Federation
(Preliminary)
Executive Board Meeting
February 3, 2021

We want to thank staff for the detailed report and Mr. Mozhin for the informative Buff statement. The Russian economy has been substantially impacted by the COVID-19 pandemic and the effect of lower oil prices. We broadly agree with the staff's assessment and will provide some comments for emphasis.

The strong macroeconomic framework implemented by the authorities in the past years allowed the Russian economy to confront the COVID-19 crisis from a position of strength. Nevertheless, there are important challenges as well as risks to the outlook brought up by the second wave of the pandemic and the reintroduction of containment measures.

On the fiscal front, we advise staff to carefully communicate their appraisal, particularly regarding the continued use of unemployment benefits. The availability of fiscal space does not imply it should be used as soon as possible. In this regard, we support the authorities' strategy for a gradual withdrawal of fiscal stimulus in 2021 while standing ready to adjust their fiscal policy to further support recovery, if necessary. *Can staff briefly comment on the possible implications of a prolonged use of high unemployment benefits in the labor market?* From a medium-term perspective, a prolonged period of low oil prices can erode the long-term viability of the oil and gas sector. *Can staff indicate how the new AIT will provide incentives for investment in new technologies that could help reduce the carbon footprint of the oil and gas sector?* We encourage staff to provide a deeper analysis of policies to support a more green and inclusive recovery in future Art. IV consultations.

We support the authorities' carefully calibrated monetary stance. The prudent stance of the monetary authorities is warranted given high uncertainty. The authorities should continue closely monitoring developments on the inflation front, given rising inflation expectations, and assessing the potential need for additional monetary policy support as necessary. We also share the authorities' view that the use of FX operations to smooth disorderly market conditions should be done only in exceptional circumstances. Staff's projections show an important and sustained increase in demand for currency over the next years which affects in turn the central bank's balance sheet. *We would appreciate staff's comments on the potential drivers of this substantial increase and how the pandemic may alter the demand for currency and the use of other means of payments.*

On the financial stability front, the authorities should closely monitor the possible effects of the pandemic on the loan portfolio. Given that the Bank of Russia (BoR) was quick to introduce regulatory forbearance measures in response to the COVID-19 shock, these measures should be phased out in a careful manner. Although the stress tests conducted by the BoR suggest that banks have sufficient capital buffers, the impact of regulatory measures and economic scaring to the loan portfolio should be assessed. This is particularly relevant for the mortgage market if the subsidy policy continues. We note that the authorities do not consider necessary to follow the FSAP recommendation on crisis management and resolution. *Can staff comment on the reasons behind the authorities' position?*

We note the authorities' commitment to address structural barriers to growth as they continue to advance the pension system reform and the so-called regulatory guillotine under very difficult circumstances. We also highlight the decision to consolidate development institutions, as mentioned in the Buff. Finally, we agree with staff that the authorities should continue to increase competition and address governance shortcomings, including those related to corruption.