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Joint Statement by Mr. Mohieldin, Mr. Mouminah, Ms. Fadhel, and Mr. Rawah on Russian Federation
(Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the comprehensive report and Mr. Mozhin for the helpful Buff statement. Notwithstanding its contraction in 2020 due to the dual Covid-19 and oil price shocks, the Russian economy is expected to bounce back this year in light of anticipated oil and gas exports rebound and the continued rollout of vaccines. We commend the Russian authorities for the prudent use of policy mix that comprised counter-cyclical fiscal, monetary and macroprudential response to weather the crises. We take note that the COVID-19 economic scarring is relatively small compared to other countries and even when compared to past crises due to stronger corporates and banks' positions, among other factors. However, we note that estimates of the medium-term growth potential have been reduced on account of delays in the implementation of previously announced national projects. Therefore, policies to reduce economic scarring should be prioritized. We are in broad agreement with staff's analysis and policy recommendations and would like to emphasize the following points.

Low public debt and large fiscal buffers created ample fiscal space, which can be utilized should downside risks materialize. The emergency fiscal measures have helped lessen the impact of the crisis, particularly on the most affected sectors. Therefore, we welcome the authorities' readiness to extend and broaden access to existing measures as needed. We note the divergence in views between the authorities and staff on retaining the higher unemployment benefits provided after March. Here, we are of the view that a gradual phase-out is appropriate once conditions allow. *We would be interested to learn from staff if other forms of targeted social assistance spending would provide more effective support to the eligible unemployed.* Separately, we encourage the authorities to continue their efforts to broaden the tax base and eliminate inefficient tax expenditures in line with past IMF recommendations. At the same time, phasing out subsidies to domestic oil refineries should be complemented by targeted support programs to protect the most vulnerable.

Accommodative monetary policy stance has helped support liquidity conditions, but proper consideration of inflation upside risks is warranted. While staff expects inflationary pressures to subside as the effect of currency deprecation fades along with a possible widening of the output gap, the authorities anticipate inflation to remain well above the 4 percent target, as they believe that the recent spike in inflation is largely due to restrictive measures, supply-side factors in a handful of food items as well as the exchange rate pass-through. Due to the heightened uncertainty, we see merit in the authorities' wait and see approach and emphasize that policy response should remain data-driven.

We positively note that the banking sector entered the crisis in a healthy shape but would underscore the importance of continued monitoring. Banks remain well-capitalized and highly liquid, with adequately provisioned NPLs. The policy measures adopted by the Bank of Russia, including banks' use of capital buffers and regulatory forbearance on loan provisioning and asset valuation, have supported banks during the crisis. We welcome the authorities' consideration of not extending the regulatory forbearance on loan classification and provisioning, as it could potentially obscure the true quality of assets. We also note the progress in cleaning up the banking sector, including the reduction of the number of credit institutions, which should help reduce inefficiencies in the sector.

Structural reforms should be prioritized to promote productivity and close the widening output gap. We welcome the progress in reviewing existing rules and regulations with a view to further enhancing the business environment. Reforms should also aim at increasing competition and promoting the role of the private sector in the economy. We look forward to the updated list of national projects consistent with the revised policy objectives. *Could staff elaborate on whether they expect significant changes in the scope or targeted sectors in view of the losses caused by the pandemic?*