Executive Board Minutes 21/13-1

February 3, 2021–11:35 a.m.

Russian Federation—2020 Article IV Consultation

Documents: SM/21/4 and Cor.1 and Sup.1 and Sup.2 and Sup.3

Staff: Miniane, EUR; Gonzalez Miranda, SPR

Length: 1 hour 34 minutes

ISSUED: September 20, 2022
APPROVAL: September 27, 2022

CEDA OGADA
Secretary

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[1] Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary "gray" or "buff" statements by Executive Directors and staff's responses to Directors' technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair's "sense of the meeting" or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF's Transparency Policy and Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors agreed with the thrust of the staff appraisal. They 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.

It is expected that the next Article IV consultation with the Russian Federation will be held on the standard 12-month cycle.

EXECUTIVE BOARD ATTENDANCE[1]

G. Okamoto, Acting Chair

Executive Directors	Alternate Executive Directors
I. Mannathoko (AE)	
A. Andrianarivelo (AF)	
S. Chodos (AG)	
C. Huh (AP)	
A. Bevilaqua (BR)	
Z. Jin (CC)	
	A. Guerra (CE)
L. Levonian (CO)	
D. Palotai (EC)	
	P. Rozan (FF)
	K. Merk (GR)
S. Bhalla (IN)	
	M. Massourakis (IT)
T. Tanaka (JA)	
H. Hosseini (MD)	
	A. Alhosani (MI)
	V. Rashkovan (NE)
M. Poso (NO)	
A. Mozhin (RU)	
	B. Alhomaly (SA)
A. Mahasandana (ST)	
	M. Peter (SZ)
S. Riach (UK)	
	P. Robitaille (US), Temporary

G. Bauche, Acting Secretary
S. Kalra, Summing Up Officer
D. Jiang, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
Communications Department: W. Amr, O. Stankova, G. Starovoits. European Department: M. Arena Duffoo, J. Decressin, A. Kibuuka Kyobe, M. Maneely Ramos, J. Miniane, M. Saxegaard, Y. Shi. Legal Department: K. Kwak. Monetary and Capital Markets

[1] For countries in each constituency, please see the Constituency Codes in the annex.

Department: U. Das, K. Eckhold, N. Griffin, P. Kongsamut, A. Marina. Strategy, Policy, and Review Department: N. Budina, M. Gonzalez Miranda. World Bank Group: D. Nowak. Executive Director: A. Buisse (FF), M. Mahmoud (MI), P. Moreno (CE), M. Mouminah (SA), P. Trabinski (SZ), R. von Kleist (GR). Alternate Executive Director: H. Azal (EC), K. Chikada (JA), M. El Qorchi (MD), F. Fuentes (BR), S. Geadah (MI), A. Grant (AP), L. Herrera (AG), C. Just (EC), F. Mochtar (ST), W. Nakunyada (AE), R. N'Sonde (AF), F. O'Brolchain (CO), O. Odonye (AE), L. Palei (RU), B. Saraiva (BR), J. Sigurgeirsson (NO), F. Sylla (AF), C. White (AP). Senior Advisors to Executive Directors: W. Abdelati (MI), H. Andrianometiana (AF), K. Badsi (MD), E. Cartagena Guardado (CE), M. Choueiri (MI), B. Jappah (AE), L. Johnson (AP), B. Lischinsky (AG), T. Nguema-Affane (AF), S. Potapov (RU), C. Quaglierini (IT), F. Rivera Molina (CE), C. Sassanpour (MD), N. Thiruvenkadam (IN), A. Tolstikov (RU), B. Yoo (AP), M. Zhunusbekova (SZ). Advisors to Executive Directors: P. Al-Riffai (MI), A. Arevalo Arroyo (CE), S. Belhaj (MD), A. Biriukv (RU), Campbell (UK), E. Cartagena Guardado (CE), K. Carvalho da Silveira (AF), S. Chea (ST), J. Corvalan (AG), J. Essuvi (AE), D. Fadhel (MI), K. Florestal (BR), T. Krahnke (GR), M. Merhi (MI), P. Mooney (CO), R. Moral Betere (CE), A. Muradov (SZ), L. Nankunda (AF), B. Piasecki (SZ), B. Rankin (CO), F. Rawah (SA), A. Ribeiro Mateus (IT), M. Shimada (JA), N. Vaikla (NO), I. Valdes Fernandez (NO), Y. Yang (CC), J. Yoo (AP), A. Zaborovskiy (EC), Z. Zedginidze (NE), J. Barroso (BR), F. Lopez (CE), D. Coelho (BR), D. de Waziers (FF).

DISCUSSION RECORD[2]

The Acting Chair (Mr. Okamoto):

We have a very important item on the Russian Federation. Just to note for the record, we do have Bank staff also in attendance at this meeting. We have also had the benefit of reading 20 gray statements, issued by 22 Directors.

Like every other country, Russia entered the COVID crisis with very strong macroeconomic policy frameworks and significant buffers. The authorities have used their ample policy space to deliver a sizable public health and countercyclical response. This has helped to limit the extent of the economic downturn.

The Article IV consultation focused on policies to mitigate the impact of the crisis and strengthen the recovery. While we can take heart that the number of new infections is trending down, a clear priority remains to limit the spread of the disease, saving lives, while mitigating the economic cost of the pandemic. The government should also stand ready to provide further fiscal support if the economy was to weaken, while monetary policy aims to keep inflation on target.

The crisis will likely leave some long-term scars, adding even more to the need to bolster potential growth. So this morning, I hope that our discussion focuses on hearing views of all Directors on how the authorities can meet the challenges ahead, including sustaining the pandemic response, preserving financial stability, and generating stronger private sector dynamism down the road.

The staff representative from the European Department (Mr. Miniane):

We answered most of Directors' questions in writing, but there were a few policy items that were common and that we wanted to discuss.

Many Directors have asked questions on the vaccine rollout. First, let me say that there is not one single official aggregate that we can quote, and that is why we have not quoted it. Now, there is a variety of indicators. For example, cities and regions are providing data on vaccine rollout, which is then compiled by independent aggregators. There have been some estimates

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[2] Edited for clarity.

from the Gamaleya Institute, the developers of the Sputnik vaccine; but for each of these indicators, there are questions on coverage that the staff are not in a good position to answer. And because there is not one single official aggregate for the country as a whole, and that is why we did not provide it.

This being said, whatever the exact count on vaccines administered is, it is fair to say that the authorities need to accelerate the rollout significantly if they are to meet their own target of vaccinating 60 percent of the adult population by July.

Now, the authorities are aware of the need to accelerate the rollout. To this effect, they have recently announced that they will increase the number of vaccine outlets. They are going to step up production. They are going to step up distribution to the regions because it looks that it is in the regions that distribution is lacking. And they have just set up an online system for people to register for vaccination.

Let me say that in Russia, like many countries, vaccinations right now are not limited to specific at-risk populations.

Finally, let me add that there are new Russian vaccines coming on-stream very soon, following the Sputnik vaccine; so, this should, in turn, boost availability even further.

There were several questions on unemployment benefits and where we stand, and particularly in response to some of the authorities' concerns around these benefits.

First, let me say that the staff very much agrees with Executive Directors, that benefits should not create large disincentives to labor supply. We are also aware of the fact that many informal workers, who did not contribute to the system in the past, are now eligible for the minimum unemployment benefits, and that may raise some fairness questions.

Now, against this, what the staff is saying is that the crisis has hit many people really hard. Moreover, when one looks at the unemployment benefits before March, they were very low, relative to the cost of living. For example, the lowest unemployment benefit is only $20, or 1,500 rubles per month, which is the equivalent of $20. That is extremely low, relative to the cost of living. Because of this, we have asked that the benefits be kept at their post-March levels, which is not excessive. It is not overly generous. And we have asked that they be kept at this level not forever but in a time-bound manner. We think that this will strike a better balance between providing income support at a time of need and not creating large disincentives to the labor supply.

There were also many questions and comments on the monetary policy and where we stood and if our recommendations are still valid, so I would like to speak to this.

First, as we said in the supplement, it is true that inflation continues to surprise on the upside. And I think it is fair to say at this stage that the risks, the balance of risks on the inflation forecast have shifted upwards somewhat. Despite this, we continue to be of the view that some easing in the coming months is appropriate. Because, barring surprises, the ruble depreciation and food prices are, in our view, one-off price level effects that will soon dissipate. Moreover, it is true, as we said in the supplement, that GDP, the outturn was better than projected in 2020, but this should not hide the fact that the output gap remains very large and negative still, and there is still a large amount of slack in the economy.

Let me also say that, unlike household expectations, which we have not found very useful in predicting inflation in the past, market-based inflation expectations remain significantly more benign.

Finally, I recognize, as many Executive Directors said, that there are costs to policy credibility from inflation overshooting the target, but the staff also want to emphasize that there are also costs to undershooting the target in a context where aggregate demand is very weak, both domestically and globally. And we have always been very careful in our communication with the central bank in saying that it is important to preserve the room to respond to future shocks. Russia has that room right now. Many regions and countries do not.. And that is why it is important to prevent inflation from sliding below target.

Finally, many Directors made comments about the lack of coverage on issues related to climate change, green policies, and specifically, the risks to Russia's economy model coming from green policies abroad. Let me reassure Directors that we are fully aware of these issues, and very specifically in the Russia context. As a matter of fact, we had, in fact, prepared a selected issues paper on climate change, which we planned to present in the Article IV that was going to take place in May. We had already started preparing this. But then the crisis hit, and we decided to focus on the immediate priorities. But let me reassure the Board we plan to make these issues, and specifically the risks to Russia's economic model, a prominent feature of the next consultation.

We also understand that the authorities are also starting to think about these issues deeply, so we think the timing will be propitious.

Mr. Hosseini:

We have issued a comprehensive gray statement, but I would like to make a few brief comments for emphasis and follow up on the staff's answer to one of our questions.

I would like to begin by commending the Russian authorities, again, for their forceful response to the crisis that limited employment and output losses and was seemingly successful in protecting the vulnerable population. As borne out by the more recent economic data and the promising vaccine rollout, the recovery appears to be firmly on track but is still prone to downside risks.

While the output contraction in Russia has been milder than in many advanced economies and emerging markets, combined with permanent output losses from the earlier crisis, the growth trajectory has fallen well below its earlier long-term trend. The potential output growth has also been consistently revised down for a number of reasons, including delays in investment, loss of human capital, and sharp oil market fluctuations. Lifting the potential growth rate is probably the most important challenge facing the Russian authorities over the medium-term. The structural reforms and large-scale investments, with active private sector participation, are key.

As regards investment, the successful and timely completion of the 13 national projects, comprising around 70 federal projects, is critical to upgrading the infrastructure, increasing growth, and lowering poverty, in line with national objectives. From the staff's written answers, it appears that there is a comprehensive monitoring framework in place to facilitate operational coordination between the projects. The national projects are expected to be completed by 2030. Could the staff please comment on the nature of leads and lags and the degree of complementarity between the projects and whether delays in a few projects are likely to slow down the completion of other projects?

Mr. Bevilaqua:

We issued a comprehensive gray statement, so I will make the following three points for emphasis.

First, let me commend the Russian authorities for their strong policy framework that enabled a robust counter-cyclical policy response to the twin shocks – one caused by the pandemic and another one caused by the falling oil prices. Russia's sizable buffers built over the years have been crucial to help navigate this unprecedented crisis. Furthermore, the economy has shown great resilience, and preliminary indicators suggest that economic activity has started to respond positively to the policy stimulus.

Second, we take note of Mr. Miniane's comments this morning, but as reflected by Mr. Mozhin in his statement, recent inflation performance fully justifies a more patient approach. In view of this, we expressed our concern about the explicit recommendation by staff to reduce their policy rate by another 50 basis points, which to us seems to be at odds with the prospective scenario for inflation.

As on previous occasions, I stress that we should always make an effort to avoid generalizing top-down multilateral policy recommendations and insist that it is crucial that our policy advice remains as country specific as possible. We believe the Bank of Russia (BoR) has managed its monetary policy prudently in this very complex environment, with a forward-looking approach. Moreover, as the significant exchange rate pass through continues to drive the recent spike in inflation, the BoR's timely interventions have helped it to prevent disorderly market conditions in the foreign exchange (FX) market.

Finally, despite the strong initial pre-pandemic position, the Russian banking sector remains under pressure as the economy regains its footing. While capital adequacy in the system remained largely stable, supported by large-scale regulatory forbearance, we share staff's concern regarding the impact on banks' balance sheets of extending these measures further. In addition, the rising levels of non-performing loans (NPLs), amid the uncertainty related to the length of the second wave of the pandemic and its associated economic costs, could put further pressure on banks' health and amplify macro-financial risks when the remaining regulatory forbearance measures are lifted by mid-2021. Under these circumstances, we encourage authorities to continue monitoring restructured loans closely.

Mr. Rashkovan:

We issued a gray statement, which highlighted several issues, but let me use this occasion to briefly emphasize the following points.

First, the COVID situation in Russia is taking a toll on the people's lives and the economy. And thanks to Mr. Miniane for his introductory remarks on the issue of vaccination, but the difference between the official reported COVID fatalities and the excess deaths estimated by the staff is still striking. As we learned from the report, actual deaths from COVID-19 can be as much as five times more than reported. In fact, Russia stands as the most extreme among European countries. Our sympathies go to the Russian people in this struggle; yet it is unfortunate to see that the first-ever COVID vaccine invented in Russia does not work, as intended. We hope the new coming vaccine will be more efficient. It would be interesting to hear the staff's comments on the expectations of the rollout of western vaccines in Russia and a speed up of vaccinations.

Second, Russia entered the crisis with ample fiscal and reserve buffers. The policy response on the fiscal and monetary fronts has been broadly adequate. Nevertheless, employment losses and the rising poverty rates weigh heavily on the socioeconomic situation in Russia. Here, we emphasize the importance of targeted social benefits and the need to improve social spending efficiency. We welcome the staff's assessment that regional inequality decreased; yet overall inequality, which is a longstanding problem, remains a concern. And data limitations on this issue is also notable, especially related to the reporting of ultra-wealthy officials. We believe the true picture could be much worse.

This brings me to the third point, which is the need to focus on governance and corruption vulnerabilities. We are encouraged by the authorities' ambitious plan to simplify regulations, so-called "the regulatory guillotine;" yet turning around an embedded culture of corruption remains a main challenge. One factor in favor of Russia is that the public consensus to fight corruption is gaining strength as the recent days' developments in Russia show. Therefore, it is probably needed to use this consensus to leverage support for the reform agenda.

My fourth point is related to financial sector developments. We welcome the progress in banking sector consolidation, as it was also mentioned in Mr. Mozhin's buff statement. The authorities' prudential response was also helpful to maintain credit growth and to support economic activity in 2020. Yet financial stability risks warrant close monitoring. At present, banks are well capitalized, but losses may accelerate, as the full impact may take more time to materialize, in particular, given the regulatory forbearance measures. Going forward, the phasing out of forbearance measures, timely recognizing losses, and, if needed, use of the resolution framework should support financial stability. Here, we would also be interested in the potential spillover effects from Russia to other countries in the region. The staff's comments are welcome.

Last, but definitely not the least--even maybe of the utmost importance, together with the issue of governance--is the issue of climate. We mentioned in our gray statement that medium- and long-term risks are stemming from Russia's reliance on finite fossil resources. Russia is a large emitter of greenhouse gases (GHGs), and we call for a greater analysis of the Russian authorities' plan to reduce emissions. Like Mr. Buissé in his gray statement, we found it quite surprising that the climate issue has not been properly addressed in this staff report, like it has been done in all the recent large countries' Article IV reports. I saw the staff's written response to our question, that this issue will be tackled in the next Article IV. This is good. The world needs multilateral efforts to fight climate change, and time plays against all of us. Therefore, we would be better off if the Russian authorities stay at the right side of this fight.

Mr. Tanaka:

As we issued a gray statement, we will comment on four points for emphasis.

Firstly, we positively note the authorities' policy actions, which are underpinned by the flexible exchange rate and inflation-targeting regime, as well as the sizable fiscal space, have mitigated the economic impact.

Secondly, on the other hand, the delay of the vaccine rollout is the main downside risk. We appreciate Mr. Miniane's explanation of the further efforts for the acceleration of the vaccine rollout. If downside risks materialize, the authorities should be expected to expand fiscal support to the economy.

Thirdly, as noted in our gray statement, we would see it reasonable for the Bank of Russia's wait-and-see stance at this juncture, considering the concerns on rising household inflation expectations and the rapid increase in credit. We encourage the BoR to closely monitor the movements in inflation and to cut the policy rate further if the inflation goes below the target. Also, macroprudential measures should be developed to address financial vulnerabilities, which could also increase the flexibility of monetary policy.

Last, but not least, it is essential to accelerate structural reforms to lift the potential growth rate. In this regard, while we welcome "the regulatory guillotine" and the implementation of the national projects, it should be warranted that the authorities secure a level playing field between state-owned enterprises and private firms, as well as strong governance on national projects. We believe that the structural reforms would also minimize the scarring effect of the pandemic.

Mr. Rozan:

We agree, basically, with the key messages in the report, but I just wanted to highlight a few key points.

First, we commend the Russian authorities for their swift response to mitigate the negative impact of both the pandemic and the sharp decline in oil prices. This decisive countercyclical fiscal response was enabled by their past efforts in strengthening the macro framework and building significant buffers. We welcome the authorities' commitment to continue to expand support to the economy, if necessary, and to target social spending through the most vulnerable, as significant uncertainty related to the pandemic and to durable economic development could delay the recovery and trigger social and economic scarring.

Second, on balance, I must say, we welcome the Bank of Russia's cautious approach toward additional monetary easing and their commitment to closely monitor inflation drivers to preserve the longer-term credibility of the monetary policy targeting.

Third, we concur with the staff on the importance of reducing the dependence on oil income through tax reform. And we encourage the staff to further analyze the structural challenges for Russia of both domestic and global climate mitigation action. We support the staff's call that the authorities should move toward a more profit-based system of taxation and phase out subsidies to refineries to enhance economic efficiency, remove distortion, and support investment. In particular, it will be important for the authorities to adopt measures to diversify their economy, including by incentivizing investment in renewable energy. As others have said, going forward, we would appreciate deeper analyses of Russia's climate change and environmental challenge, a point that we have emphasized in our gray statement. And, I must say, I am very happy with the comments made this morning by the staff, which goes in the right direction on this important topic.

Finally, we strongly support the staff's view that addressing low potential growth in Russia remains a priority and that previous Fund advice remains relevant as Russia moves into the recovery phase of the crisis. Ambitious structural reforms are required, including to reduce the footprint of the state, improve the business climate, ensure fair competition, address governance shortcomings, diversify exports, and, as I said, mitigate climate change.

The Acting Chair (Mr. Okamoto):

To the comments that Mr. Rozan and Mr. Rashkovan, and others have raised on climate and green transformation, this is something that our team is going to be laser-focused on and have already kind of had an initial dialogue with the authorities on how to tee that up for the next consultation. So that will be featured robustly in the next round which is always right around the corner.

Ms. Levonian:

The Russian economy has demonstrated resilience, thanks, in part, to the authorities' efforts in the recent years to build buffers and strengthen the macro framework. Looking forward, we broadly agree with the staff's outlook, although we do see risks tilted to the downside. However, on the upside, the Sputnik V vaccine study, published in "The Lancet" yesterday, is a source of renewed optimism.

We issued a gray statement, so I am going to be very brief, just raising two points raised by colleagues.

First, we join other Directors in stressing the need for an ambitious structural reform agenda to achieve robust and inclusive growth. Pre-pandemic Russia struggled with a sluggish economy that was weighed down by international sanctions, low oil prices, and an inefficient state sector. As the staff highlighted, on its current trajectory, Russia will not converge with advanced economies. This underscores the need for action.

Like Ms. Riach, Mr. Palotai, Mr. Jin, and many others, we encourage the authorities to reduce the footprint of the state, improve the business climate, and address governance shortcomings, including those related to corruption. We would add that the urgent need to strengthen the rule of law in Russia could have been better underscored in the report.

Secondly, I could not raise climate change, but I think I will anyway. I have to echo Directors' surprise that there was no discussion in the report on climate change. I appreciate the staff's opening remarks and Chair's remarks just now in this respect. But I would underscore that, in the lead-up to COP26 this year, it is critical that the Fund support our membership's efforts to transition to a low-carbon economy. And, like Mr. Pösö raised, the transition to a low-carbon economy is a key structural challenge for the Russian economy and should have featured more prominently in the report at this time. Moreover, as Mr. Buissé pointed out, all other recent large emitters' Article IVs have tackled this issue, in line with our informal Board on climate change in surveillance.

Mr. Palotai:

We have issued a detailed gray statement; but in view of the recently available information, and staff's responses to that, we would like to emphasize a few more points.

We do welcome the authorities' strong policy response to the pandemic. The newly available data suggests a stronger recovery in the fourth quarter of last year, a better fiscal outturn, and we are encouraged to learn that the mass vaccination of the population is taking off. Supporting these positive developments and mitigating the significant downside risks to the outlook require a carefully calibrated macroeconomic policy mix. In the short run, we see merit for the authorities to be cautious with withdrawing fiscal support and not rush with further monetary loosening. Actively using the available fiscal space, including supporting the most vulnerable and the healthcare system is critical, in our view, to facilitate the recovery and limit scarring.

The report and the follow-up information contains a pretty good and detailed discussion on inflation. We understand the staff's points about the one-off factors and opportunity cost to the wait-and-see approach. Nevertheless, the cost of stop-and-go policies in the countries where monetary policy frameworks are still entrenching may turn out to be very high, which justifies a cautious approach.

Regarding the medium-term challenges, the macro-criticality of lifting growth potential is obvious, and we will not repeat the many relevant points made by Directors on this in their gray statements. I would just highlight that mechanical estimations of scarring, as a difference between the pre- and post-crisis growth trends, may be misleading, and the staff should consider the results of this exercise with a grain of salt.

Finally, given the importance of the Russian economy in the region, going forward, we encourage the staff to pay more attention to possible outward spillovers from the implemented and envisaged economic policies to Russia's neighbors and main trading partners, as is suggested by the guidance note for surveillance.

Mr. Pösö:

We broadly agree with the staff appraisal and have issued a comprehensive gray statement, but I would like to highlight a few points.

First, ample fiscal space, a strong macroeconomic framework, and the authorities' decisive support measures have cushioned the economic impact of the pandemic. These elements provide a buffer against downside risks and help in facing the uncertainty, which remains very high also in the nearest future.

Like Mr. Buissé and Mr. Rozan in their gray statement, we paid attention to the high growth figure for 2022, which is strongly revised upwards from October. Based on the useful information in the staff responses to technical questions, this seems to imply quite exceptional growth dynamics, with a strong acceleration in growth during this year, which then stops in early 2022. The staff may comment further on this.

The low growth potential remains a key barrier to the recovery and to the growth prospects over the medium to long term. This calls for addressing the structural bottlenecks in the economy by investing more, improving trade and foreign direct investment, but also by strengthening the rule of law.

On inflation, we noted that, as part of the response to the acceleration of consumer price inflation in late last year, Russia quickly introduced selective price restriction measures, focusing on certain basic food items and agricultural products. We understand that these measures are intended to be temporary but would encourage the staff to monitor these measures and their duration closely going forward.

Finally, I share the remarks made by Ms. Levonian in her gray statement regarding the importance of shifting toward non-oil-based revenue.

I welcome Mr. Miniane and the Chair's comments, that this issue will be addressed more prominently in the next Article IV consultation.

Mr. Chodos:

We issued a gray statement, so we wanted to just highlight a couple of points for emphasis. One is on the public health issue. We were very happy to see the strength of the response of the Russian Federation to the COVID crisis with simultaneous countercyclical policies, but also in the development of the vaccine and in the run-up to the crafting of the vaccines and their development and their deployment. We take note that these kinds of endeavors are more efficiently done when they are focused from a public health perspective, rather than very disseminated private companies.

Also, we take note that, for 2020, the prospect of the decline in growth is going to be less than predicted. And in this, we see a very positive sign. It is important that we view them in comparison. So minus 3.1 is, frankly, at this stage, very good news, comparatively speaking.

In terms of resilience, the most important issue here is the assessment that Russia's external position in 2020 was broadly in line with fundamentals and desirable policies. And this comes from both the staff and the Bank of Russia. We think that that is the key element for being hopeful for the recovery, that there are very strong fundamentals, and there is especially an alignment on the external position.

Mr. Merk:

Against the background of sound budget policy, Russia has retained fiscal space, despite the pandemic. Given the decline in GDP and the continued uncertainties, its active use seems warranted. An eventual withdrawal of temporary support measures should be exercised with caution to avoid derailing the recovery.

Policies to address structural weaknesses in the Russian economy should not be neglected, despite the pandemic. In that vein, we welcome the authorities' initiative to reduce regulatory burdens and red tape to entrepreneurs. Similarly, the national projects offer the potential to boost potential growth and catalyze private sector activity.

At the same time, we join the staff in highlighting the importance of avoiding a further expansion of the already large footprint of the state in the economy.

Finally, efforts to combat corruption and improve legal certainty remain of the essence to improve the business climate.

Ms. Riach:

As we set out in our gray statement, we agree with the key messages in the report, so there are just three points that I would like to follow up on today.

Firstly, like other Directors, we felt that the risk of a slow vaccine rollout was understated in the main text of the report. We note that underlying the forecasts for 2020 and 2021 is an assumption that a COVID vaccine becomes widely available in the second half of this year. So I hear Mr. Miniane's comments this morning on the challenges of finding a single reliable data source, but I do think the report should have included more detail on the authorities' plans and the downside risks.

As all of our authorities are experiencing, vaccinating large portions of the population is not straightforward and will have a significant impact on the outlook for 2021. We, therefore, support Mr. Massourakis's request in his gray statement that the staff cover vaccination plans and their rollout in Article IV consultations and that we use these opportunities to emphasize the economic benefits of controlling the healthcare crisis, including through vaccinations.

On climate, we fully support the view, set out by Mr. Buissé and Mr. Rozan in their gray statement and by Mr. Rashkovan and Ms. Levonian this morning, that it was surprising that there was no analysis or mention of the risks associated with climate change. As Mr. Buissé identifies, Russia is a large emitter of GHG emissions, and the complete lack of any mention of climate change risks is problematic. We will, obviously, return to the issue of climate change in Article IVs as part of the Comprehensive Surveillance Review (CSR); but to be clear, our expectation is that for big emitters, like Russia, where climate impacts have significant rollover effects and where both domestic and international climate actions could be macro significant, we would expect to see climate issues to be routinely covered in Article IV assessments. I am pleased to hear Mr. Miniane's assurance that this will be covered fully in the next Article IV.

I would note that the United Kingdom was in a similar position, in that we had a staff issues note on climate under preparation when the COVID crisis hit, and the staff converted it into a working paper in order to ensure that it was published this year. So that might have been a better approach here.

Finally, it is clear, from written statements and from comments this morning, that there are different views on the right approach to monetary policy in Russia at this moment. Some Directors support the authorities with the wait-and-see approach, and others are more sympathetic to the staff's advice to take action now. As Mr. Hosseini puts it in his gray statement, the Bank of Russia is well placed to judge the balance of risks. We agree that if the increased inflation is expected to be persistent, this does make it more difficult to lower interest rates, as inflation is currently above target and still rising. We are sympathetic to the authorities' concern that they see other upside risks to inflation in the future.

As ever, a lot is dependent on the economic outlook and, therefore, the pandemic. If the recovery is disrupted, if virus cases do not continue to fall, there will be much less reason not to support the economy with looser monetary policy.

The Acting Chair (Mr. Okamoto):

I think there was a robust discussion on the future path of monetary policy. This is a healthy discussion that we are having in terms of where policies should head, even if there is some difference in views, both among Directors and the staff and the authorities. I think that helps us focus on the trade-offs that are inherent in that.

Mr. Guerra:

I will be very brief since I only want to make two points.

The first one, we want very much to welcome the staff's comments related to climate change issues to be addressed in the next Article IV consultation, a point that we actually requested in our gray statement and has been expressed by many Directors.

Second, we welcome Mr. Miniane's clarification regarding monetary policy. Nevertheless, we still have some questions regarding the staff appraisal that indicate that further monetary loosening is warranted in the coming months, as weak domestic demand is likely to push inflation below target in 2021. It would be useful if the staff could clarify if it is still the case that inflation is assessed to be expected to be below target in 2021.

The rationale for my question is because the staff is adding new information on two fronts. First, the balance of risks surrounding the inflation forecast has tilted upwards, as observed inflation has been higher than expected. Second, the most recent data suggests upside risks to the 2021 growth forecasts.

We understand that the factors not enumerated by Mr. Miniane that still call for a downside risk to inflation but regard those as pre-existing and not changed from previous assessments. So, on balance, considering all factors, we believe that the new information calls for a change of assessments of risks for inflation in 2021, and this should be recognized in our discussion today. In any case, it will be important also to recognize that the authorities' prudent strategy has been proven adequate by the most recent data developments.

Mr. Massourakis:

We issued a gray statement, touching upon several policy areas, so I will refrain from revisiting those today. Instead, I would like to focus on a couple of issues only.

First, of course, I would like to congratulate the staff for the very well-focused Article IV report, zeroing in on the current crisis, but not neglecting that a strong recovery requires addressing some structural issues. At the same time, as we wrote in our gray statement and several other Directors also mentioned, it would have been appropriate to add more information on the vaccination plans. This would provide useful information to consider the outlook and the recovery. Of course, this comment is relevant for all Article IV consultations at this juncture and not just for Russia.

Second, let me say that, like Mr. Tanaka and colleagues, I also appreciated Annex I of the report because the oil sector plays such a very large role in the Russian economy and the oil price developments in this past year were very challenging for producers. The annex contributed with useful insights into the resilience of the sector. In addition, I share the view that transitioning to a profit-based tax regime for the oil and gas sector will be a welcome development.

Finally, I think that our future Article IV consultations would benefit much from analyzing climate change. On the one hand, the future resilience and profitability of the oil sector is predicated on a certain price pickup and enough capital expenditures. On the other hand, Russia needs to prepare for a future in which the world aims at decreasing its oil dependency. This is a complex environment to navigate and points to the need to diversify exports, finding other competitive economic areas. But this could also be an opportunity because many business opportunities lie in climate change mitigation. In addition, despite the country specificities that should be taken into account, this work would be useful for other oil-exporting countries.

Mr. Jin:

The Russian economy has shown great resilience to the challenges of the pandemic shock and the oil market volatility. The resilience is a reflection of the country's very strong macroeconomic fundamentals and significant buffers. The macroeconomic indicators of Russia are exceptionally sound, compared to all the other major economies.

The major challenges are external economic sanctions, a relatively low growth rate, compared to some emerging market economies, and the negative population growth. There may be some additional factors on the microeconomic level and from a structural perspective that can explain this contradiction between macroeconomic soundness and low growth. I would encourage the staff to suggest the appropriate ways to solve these contradictions. From my limited observation, we underscore the importance of incentivizing the corporate sector and the local governments, and economic diversification.

I have noticed the different views regarding the level of unemployment benefits during and beyond the pandemic period. Whether the unemployment benefit is relatively high or low is an issue that needs to be evaluated from a multiangle perspective. My impression is that Russia has almost free education, free medical insurance, and a highly subsidized winter heating system/assistance. I do not know if the low-income Russians can enjoy free housing. So, if the unemployed workers can still enjoy the above-mentioned welfare, their real unemployment benefit could be much higher than the cash benefit provided by the government. Staff's comments would be welcome.

Mr. Alhomaly:

We have issued a joint gray statement with Mr. Mohieldin, so I can be brief.

Before touching on a few specific issues, I would like to join the other Directors who commended the Russian authorities for their decisive and swift policy response to the pandemic, both the strong macroeconomic policy frameworks, as well as the significant buffers that have been important to preserve macroeconomic stability and help with a deeper downturn during difficult times, as alluded to by a few Directors today.

However, as downside risks dominate in the short run, we underscore the importance of using the available policy space to support vulnerable households and firms, promote recovery, and help limit the scarring effects due to the pandemic.

On the financial sector front, the progress made on the banking sector cleanup is welcome and should be completed, but developments in the real estate sector warrant close monitoring. We also take positive note of the staff's assessment that significant progress on strengthening the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework has been achieved; therefore, we look forward to further advancements in this regard.

Looking ahead, we hope for continued efforts and comprehensive structural reforms to accelerate potential growth and create a vibrant private sector, including through further enhancing the business climate, promoting competitiveness, addressing governance issues, which was highlighted by many Directors today, and lifting productivity.

Ms. Mannathoko:

We issued a detailed gray statement, commending the authorities for the swift response to the pandemic, and agree, for the most part, with the main messages in the staff report. So, I just wanted to highlight a few issues.

First, while we do note the authorities' reasoning on the adequacy of social spending, like others, we just really wanted to encourage the authorities, nevertheless, to ensure that social protection really does adequately address especially the large poverty impacts, the welfare effects from the pandemic, and is able to sustain welfare beyond the pandemic.

Second, we also just wanted to encourage the efforts that are underway, a ramping up of efforts to reduce the government's footprint in the economy.

Third, like others, we had also wished for some climate coverage in the report. We are just wondering here if the staff could maybe--whether there would be scope to perhaps provide a brief to the Board in the context of the periodic regional reports which happen to the Board, before the broader coverage in the next Article IV.

Finally, let me just close by encouraging the authorities as they work on a successful rollout of the vaccine, and we wish them an effective outcome with the new vaccine.

The staff representative from the European Department (Mr. Miniane):

There was a question on the leads and lags of various national projects and whether the delays of some may delay others.

First, let me say that a revised list will be published before the end of the first half of the year, so some details are still being worked out. But, in general, there is not that cross-dependency across projects. Moreover, I think it has to be pointed out that some projects were delayed because the targets in the projects have become more ambitious. And that, in part as a result of the crisis, the understanding from the authorities is that the effect of the crisis necessitates more ambitious targets through the national projects. From this perspective, if the delay reflects a more ambitious target, that can only be good for that project and not the others.

There were some follow-up questions on monetary policy.

First, let me say something that I did not mention but which I think is important for context. I mentioned before the importance of not undershooting the target in the global context that we are in. And it is important to note that, in most of the two years that preceded the crisis, the central bank had undershot the target. Now, we can have a discussion of how important that was to entrench credibility, but it remains a fact that the central bank had significantly undershot the target for most of the two years.

Related to this, there was a question on whether our inflation forecast remains valid. And the answer is yes. We have not redone our forecast in the last few days, following the latest data releases. But the fact is that in our baseline forecast, Q4 2021 to Q4 2020 is nontrivially below target. And one thing that I did not mention is that if one goes into 2022, there is nothing that pushes inflation back up in 2022 because, despite the strong recovery then, the output gap remains significantly negative. So, we have an inflation forecast that is negative or below target, so to speak, for a nontrivial period of time. Of course, the further out one goes, the bigger the uncertainty on the forecast, but that is what our forecast shows.

There were also comments on the efficacy of the vaccine and on excess deaths. Of course, we are not experts on the efficacy of the vaccine; but, of course, I will point out the peer-reviewed paper in "The Lancet" published yesterday, cross-validating a high efficacy of the vaccine.

Let me also say that the ratio of excess deaths to COVID deaths is not over five times, as we said originally, because that was based on final data for total deaths but preliminary data on COVID deaths. The correct ratio--and we issued a correction on this--is between 1.9 and 3.8. So, I wanted to clarify that.

There was a question on the spillovers from Russian banks to other countries. Indeed, if the banks were to be in a real pinch, that would impact the Russian economy and have spillovers through that. But let me say that we think the capital buffers are significant in the aggregate, and we think that the large systemic banks can withstand not just this shock but a bigger shock. And this is at least confirmed by the stress test done by the central bank. Further stress tests by the IMF/World Bank's Financial Sector Assessment Program (FSAP) will be performed in the coming months, so we are going to have more detailed answers there.

There was a question on 2022 and the shape of recovery. Let me say that I have never seen such strong carryovers myself. In our forecast, Q4 2020 was negative. Q1 was weak because of the ongoing containment in Russia and abroad. But then the pickup in the second half was significant because of catchup, because of normalization, and also because we were starting from a weak quarterly base. So, that generates very strong carryovers.

The quarterly profile is not that dramatic. One does not have a dramatic slowdown from 2021 to 2022. We go from something like 1 percent Q-on-Q at the end of 2021 to something like 0.6 in 2022. Let me say that 0.6 Q-on-Q in nonannualized is still significantly above potential.

I answered the question on the validity of the inflation forecast.

There was a comment with respect to the fact that unemployment benefits should be considered in the context of the broader social spending and social benefits. And that is fair, and it is true that social benefits are relatively high in Russia. But it is also important to note that social benefits are relatively high but pretty poorly targeted and in big part because a lot of social benefits in Russia are categorical, like special pensions for certain groups, early retirements for certain groups, certain privileges for certain groups, et al.

Unemployment is a better targeted benefit. The recent transfer to families with kids, that is better targeted; so that is good. But, overall, we do not think that, just because we have generous but untargeted benefits, that that should undo the recommendation to expand benefits which are better targeted, such as unemployment benefits.

Regarding the question on whether the staff can update climate change before the next Article IV, I think that is something that we can assess and discuss. But let me say, of course, that while we, staff, have done some preliminary calculations--for example, Russia's emissions, where it stands, and where it stands in relation to its Paris commitments. We would not have had discussions with the authorities in this field. And I think that is an important component of any update to the Board, for us to hear what the authorities are thinking in terms of diversification, risks from de-carbonification abroad, et al.

Mr. Mozhin:

I would want to underline that my authorities continue to value very much the very constructive, productive, highly professional engagement with the Fund's team, and this is very much appreciated by the authorities.

Now, I will try to avoid repeating anything that I wrote in my written statement and only focus on a few issues; but still, I have a list of such issues.

First, excess mortality, which is something that has confused many. Second, on the vaccination program and plan. A few words on unemployment benefits. Then growth potential and structural reforms. And finally, on climate.

On excess mortality and the level of fatalities from COVID-19, there has been quite a bit of confusion, so I want to address this. And I thank

Ms. Levonian for raising this issue in her written statement because this gives me an opportunity to respond.

The confusion comes from the fact that we have two sources of data on fatalities from COVID-19. One source is the daily flash estimates. These are estimates which are reported daily on how many people died today from COVID-19. This data is, of course, tentative, not necessarily very accurate, and open to further revision.

And then the second source is what is reported by the ROSSTAT, which is our statistical agency. They report monthly data, with some lag, normally 40 days after the end of each month. This is very detailed data on COVID-related fatalities. They report four categories of such COVID-related fatalities:

Category No. 1, those who died directly from COVID.

Category No. 2, those who likely died from COVID, but COVID has not been confirmed or is yet to be confirmed. And there are quite a few such cases, including very prominent people passing away recently, like a prominent actor or a prominent playwright. They clearly died from COVID, but the virus has not been detected. Such is the peculiarity of this virus, that sometimes the testing is not capable of detecting it.

Category No. 3, those who died from pre-existing illnesses, but these illnesses were aggravated by COVID. There are many such cases.

And then finally, category No. 4, those who died not from COVID but, at the same time, COVID was registered and confirmed. A simple example of that would be, for example, imagine somebody died in a car crash but also happened to have COVID.

So, this is what is behind the correction issued by the staff yesterday in the footnote on page 4. Depending on which category or sum of categories one takes as the basis for comparison with excess mortality numbers, it will give you different numbers. The numbers now given in footnote 4 are from 1.9 to 3.8. Again, 3.8 is if one takes only category No. 1; 1.9 is if one takes the sum of the four categories. So, I would certainly invite Mr. Rashkovan to have a look at the corrections issued yesterday and see the new numbers quoted there. So, this is the issue of excess mortality reporting and data.

Now, on vaccination, on the vaccination process, we are in the early stage. The campaign on vaccinations started two weeks ago, on February 18. As far as I understand, at the moment, the main focus is on rolling out vaccination sites. The country is large. The focus is on making sure that those who administer these vaccinations are qualified. We do not want unqualified personnel administering these vaccinations, so there is a lot of emphasis on this, that the authorities want to make sure that no mistakes are made.

I am expecting the vaccination process to speed up a little bit; but at the same time, I am not expecting it to be too rapid. There are a number of reasons. Of course, production constraints are important, although many efforts are made to increase the production capacity for the vaccines.

Another matter is that vaccination is entirely voluntary. Many people may prefer to have a wait-and-see approach, especially as we already have several vaccines available.

The first vaccine, which is called Sputnik V, has demonstrated its very high effectiveness and safety. This was yesterday confirmed by "The Lancet" magazine. I am checking that. I am asking everybody I know from countries where Sputnik V is already used to vaccinate people. Instead of discussing, monetary policy with Mr. Miniane, my preference is always, tell me how the Russian vaccine is performing in Argentina. And what I hear from them is very encouraging on that.

But then we also have the second vaccine, developed by a highly reputable lab in the city of Novosibirsk, called Vector. Vector is the name of the lab, not the name of the vaccine. And unlike Sputnik V--the effectiveness of Sputnik V is estimated and confirmed by "The Lancet" magazine at 91.6 percent--they say that the effectiveness of this second vaccine is 100 percent. And it is also milder in terms of the immediate side effects, even if small, like fever or headache. So, this second vaccine is already available, and I know quite a few friends who have already been vaccinated by this Vector lab vaccine, but it is much less available than the first one.

And then the third vaccine is about to be registered. The vaccine from the Chumakov lab is expected to be registered already in February and then rolled out, or the testing starting in March.

So, it would be rational for people to take a wait-and-see approach, as long as vaccination is voluntary, and see how the different vaccines perform.

By the way, the third vaccine is more like the Pfizer, Moderna type. The first two are completely different.

In terms of the logistics, of course, this is also another constraint on the vaccination process. We are a very big country. There are sort of far-away corners. But the advantage is that, for the logistics, Sputnik V does not require too difficult storage conditions. It can be stored in a regular refrigerator. It does not require minus 70 degrees Centigrade to be stored like, for example, the Pfizer and Moderna vaccines. So, in that respect, this is a factor which will help to accelerate vaccinations.

I am very proud of our achievements in the development of effective and safe vaccines. Of course, this is entirely the product of what is called here "footprint of the state." This is an example of where the footprint of the state is enormously beneficial for Russia, for the Russian citizens, and for the Russian economy. So, I am now moving to this point of the footprint of the state.

I emphasized in my buff statement that the approach to this should be pragmatic, rather than ideological. I would like the footprint of the state to continue in many areas. I like streetlights to work. I would like the public transportation to be efficient. I would like the state to provide inexpensive housing, and sometimes for free, so that we do not have people sleeping in the streets. This is the type of footprint of the state which I welcome and hope should continue.

There are areas where we do not have enough footprint of the state. For example, I see the main deficiency of our judicial system--that justice is practically unavailable to the great majority of the population, because it is unaffordable. It is too expensive. We were silly in the 1990s to uncritically borrow the elements of the judicial system from abroad. And now we also have--like in so many other countries, we have those high-flying lawyers driving around in their Bentleys, Maybachs and Ferraris. And I think this is wrong. We need more footprint of the state in this area, rather than less.

Let me finish on this topic by saying that, of course, I do not disagree that there is room to reduce the footprint of the state in many areas. The question is really, how does one make it pragmatic, rather than ideological?

One word on unemployment benefits. As I indicated in my written statement, it is a very sensitive political and social topic in every country. This is widely discussed, of course. There are big pressures on the government, a never-ending pressure to increase unemployment benefits, as well as all types of other social assistance. The government has to hold the line and is in a defensive position on that.

I wanted to make a point that $20 per month is very misleading. I mean, this is1,500 rubles. One multiplies or divides by the official exchange rate or market exchange rate, and one gets $20. Of course, in terms of purchasing power--I mean, one cannot survive on $20 anywhere. But the purchasing power of 1,500 rubles is much higher than $20. I mean, it is a well-known difference between market exchange rate and purchasing power parity exchange rate.

Growth potential and structural reforms are a very complex issue. Of course, when talking about growth potential, one has to keep in mind the scale of the shocks Russia has experienced in the last five or seven years. In 2014, oil prices collapsed by four times at the peak. The new exchange rate, the new level of the exchange rate became a permanent feature. The Russian economy is, obviously, still adjusting to these changes and to the new level of--the permanent level of the exchange rate after this. And then, of course, there were other shocks, including the latest one associated with the pandemic.

We have quite a difficult demographic situation. It is not unique, like in quite a few other countries. The population is declining. So, it is a very complex matter. And, of course, structural reforms could help. In my written statement, I mentioned quite a few of such reforms. However, as I say, it is a complex issue. There are many factors--shocks, demography, and other factors.

On climate, I will immediately accept that we have been too slow on addressing these climate change issues. To a large extent, this is related to the fact that Russia is still substantially below the targets on carbon emissions, as stipulated in the Paris climate agreement. This is a result of the industrial collapse Russia experienced in the 1990s. So, our carbon emissions after 1990, 1991 went strongly down. So, this could be one of the reasons. Another reason must have been all these shocks we have experienced. Nonetheless, I recognize this and admit that we have been slow; but in the recent period, there has been an acceleration of these efforts.

A special assistant to the president on climate matters was appointed. The government is now implementing a presidential decree to put together a comprehensive strategy on addressing climate matters. This strategy is expected to be issued shortly, which will cover the overall strategy but also region-by-region objectives. So, I can be more frank on this matter than the staff. As the staff promised, I believe that in the next Article IV, this whole topic will be covered more extensively.

Finally, what is left is for me to thank Board members for their interest, for their comprehensive written statements, as well as oral statements. I will not fail to convey the thoughts and suggestions raised by the members of this Board.

The Acting Chair (Mr. Okamoto) noted that the Russian Federation is an Article VIII member, and no decision thereunder is proposed.

The Acting Chair (Mr. Okamoto) adjourned the discussion.

ANNEX

- Gray Statements
- Staff's Responses to Executive Director's Technical Questions
- Constituency Codes

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BUFF/ED/21/16

January 31, 2021

Statement by Mr. Mozhin on Russian Federation
Executive Board Meeting
February 3, 2021

My Russian authorities continue to highly appreciate the professional and constructive dialogue with the Fund's staff. This round of Article IV consultations took place virtually in November 2020.

I need to immediately clarify that I am writing this statement before I have seen the anticipated supplement to the staff report. What is behind this situation is that it took somewhat longer for my authorities to provide their written comments to the staff report due to the rapidly evolving developments in the Russian economy.

Outlook. It has now become clear that output performance in Q4 2020 turned out to be somewhat stronger than was previously anticipated. This stronger recovery of demand was one of the factors behind the spike in inflation in the end of 2020. I am expecting staff to address these changes in the forthcoming supplement to the staff report.

Overall, the Russian economy has demonstrated quite a remarkable resilience in the face of the COVID-19 shock, which was aggravated by the fall in oil prices. The output contraction in 2020 turned out to be much less severe than in many other countries and regions, even despite a much more moderate fiscal support. Strong frameworks and fundamentals in Russia are well described in the staff report.

Fiscal Policy. Responsible fiscal policy over quite a long period has played a critical role in allowing the authorities to appropriately respond to challenges associated with the COVID-19 shock. Low public debt and significant fiscal buffers created ample fiscal space, which remains quite large even after the fall in revenue and spending increase in 2020. Public debt-to-GDP ratio is now at about 20 percent of GDP.

The authorities intend to begin the gradual withdrawal of fiscal stimulus already in 2021 with the objective to fully resume the implementation of the currently suspended fiscal rule in 2022. However, should circumstances require, the authorities will be prepared to adjust their fiscal policy accordingly.

The authorities (Ministry of Finance) disagree with the prominence given in the staff report to the level of unemployment benefits. By the way, spending on unemployment benefits is only a small fraction in overall spending: less than 0.5 percent of total spending at the federal level and about 0.2 percent of total spending at the general government level.

The level of unemployment benefits is a sensitive political and social topic everywhere. The authorities' concern is that the explicit recommendation by staff to maintain unemployment benefits at the current elevated level is likely to increase social pressures on the government.

Also, the system can be easily abused, as those Russians, who are employed in the informal sector, simply pocket these benefits as a supplement to their informal sector incomes. And, by the way, the meaningful recovery in employment has already taken place, as the unemployment rate declined from its peak of 6.6 percent in August 2020 to 5.9 percent in December 2020 (seasonally adjusted), thus shaving off more than a third of the post-COVID-19 spike.

Monetary Policy. In November, at the time of the consultations, the authorities (Bank of Russia) were much less confident than staff that disinflationary factors in 2021 will prevail, as they could already see signs of mounting inflationary pressures. For that reason, they were concerned about the explicit recommendation by staff to reduce their key rate by another 50 basis points.

The latest developments on the inflation front made it clear that the authorities' concerns were entirely reasonable. In the last three months the monthly seasonally adjusted annualized inflation rate printed at 5.8-7.3 percent, pushing the headline annual rate of inflation to 4.9 percent for 2020 as a whole (against the target of 4 percent). In January, the annual rate of inflation is expected to exceed 5 percent.

This spike in inflation is largely driven by the pass-through from the exchange rate depreciation, as well as some non-monetary factors, such as supply-side factors in a handful of food categories and the effects of government restrictive measures. The rapid growth of credit and accelerating buoyancy of the recovery also have an impact on prices.

In December, the Central Bank Board made the decision to keep the key rate unchanged at 4.25 percent. In other words, the signal from the Bank of Russia has already become less dovish. At the same time, the Bank of Russia will continue to closely monitor the developments on the inflation front and to assess the potential for further key rate reduction.

Financial Sector. As it is described in the staff report, the Russian banking sector entered the COVID-19 shock in a position of strength. This was the outcome of many years of efforts by the Bank of Russia to strengthen the banking system and clean it up from non-viable and fraudulent banks.

Nonetheless, the Bank of Russia was quick to introduce regulatory forbearance measures in response to the COVOD-19 shock. These measures proved to be helpful to allow the banking sector to get through the most acute phase of the shock and to remain almost intact.

The staff position is that now is the time to begin curtailing regulatory forbearance measures, especially those on loan loss classification and provisioning. The authorities agreed and indicated that they are now considering not extending these forbearance measures.

The big event last year was the sale of the Bank of Russia's majority stake in Sber-bank, by far the largest Russian bank, to the government. This was the end of a long-lasting saga. The Bank of Russia also intends to divest its stakes in several commercial banks, which are now under the open resolution procedure, as soon as market conditions allow.

Structural Reforms. Even under the most difficult circumstances of the last couple of years the authorities have continued the implementation of their structural reform agenda. Apart from the parametric pension system reform and other undertakings, among the more recent initiatives well-described in the staff report are "the tax maneuver", "the regulatory guillotine", and 13 far-reaching national projects.

Among other structural reform initiatives not mentioned in the staff report I would single out the decision to consolidate the long list of development institutions, which have mushroomed over the last decade or so. It is expected that 12 such institutions and agencies will be merged with Vnesheconombank, the main government development institution, already by mid-2021.

Finally, on footprint of the state. There must be significant room in the Russian economy for divesting assets of the state. However, such a divestment will have to wait until more appropriate market conditions are in place. It is also important that the approach to such a divestment is pragmatic rather than ideological.

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GRAY/21/301

February 1, 2021

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

We thank staff for the well written report and Mr. Mozhin for his informative Buff Statement. Russia continues to tackle the health and economic effects imposed by the COVID-19 shock, which comes against the backdrop of anemic growth performance realized in recent years. We commend the authorities for the decisive and coordinated fiscal and monetary policy response which moderated the impact of the pandemic on firms and households. Looking ahead, the effectiveness of the vaccine rollout in overcoming the delay caused by the second wave, alongside improved consumer and business confidence will be important in paving the way to a recovery in 2021. The outlook is also susceptible to significant risks stemming from geo-political tensions and an overheated mortgage market. We broadly concur with staffs' appraisal and offer the following comments.

Fiscal policy: While we commend the authorities for the strong countercyclical fiscal policy response to the crisis, we see scope to further support vulnerable populations through increased means-tested social spending and unemployment benefits. While noting the authorities' intention to phase out the stimulus and return to the fiscal rule, as stated in Mr. Mozhin's Buff statement, we consider that low public debt and sizeable buffers, including the sovereign wealth fund (National Welfare Fund) and international reserves afford fiscal space that can be used to relieve declines in welfare and associated social tension. We welcome measures taken to counter the increase in poverty in the wake of the pandemic; but given the rise in unemployment and its poverty effects, we encourage the authorities to stand ready to intervene if poverty levels are elevated by further income shocks. We note World Bank reporting that the goal of halving the 2018 baseline poverty rate has now been deferred six years to 2030; however, given ongoing impacts on various populations, we would encourage doing more sooner rather than later. With this in mind, among other things, we support staff's call to retain unemployment benefits at post-March 2020 levels until a meaningful employment recovery takes hold. We also note that the World Bank (Russia Economic Report, December 2020) reports that while the federal budget increased its transfers to regions in response to the crisis, some regions were unable to augment this as they face borrowing restrictions under state debt restructuring regulations. *Could staff elaborate on measures used by these regions to cope, relative to those that don't have borrowing restrictions?*

Monetary policy: We consider a sustained accommodative monetary policy stance appropriate within the context of weak aggregate demand. While we understand the authorities' emphasis on a data driven policy stance, we concur with staff that inflation may well subside as the pass-through from exchange rate depreciation abates and encourage the authorities to monitor inflationary drivers and expectations closely before deciding to reverse the accommodative stance. We also encourage the authorities' intention to only use foreign exchange operations in exceptional circumstances. This is appropriate to allow the exchange rate flexibility needed in response to current shocks. *Could staff elaborate on authorities' views regarding staffs' inflation forecast on page 14?*

Financial sector policies: Though capital remains largely adequate across the banking sector, we agree that balance sheet stress may be currently masked and could become more evident once regulatory forbearance especially on impairment recognition, is rolled back. High NPLs may be exacerbated beyond current expectations once support to firms is rolled back. Given the potential for masked weaknesses, we encourage the continued delay of dividend payments to allow banks to strengthen their balance sheets. We also urge the authorities to monitor the volume and treatment of restructured loans closely.

Structural reforms: We welcome progress in implementing structural reforms, including the approval of two bills aimed to improve the business climate, the ongoing review of all existing rules and regulations for business, the new Investment Protection and Encouragement Law, and the 2020/21 Economic Recovery Plan which aims to promote exports and expedite customs procedures through digitalization. At the same time, we encourage the authorities to foster competition by instituting reforms to engender a level playing field for new entrants by removing restrictive barriers. In addition, timely reform of SOEs would help limit their heavy fiscal burden on the national treasury. We commend the authorities for establishing policies and laws to address AML/CFT deficiencies identified in the 2019 mutual evaluation report. This notwithstanding, we encourage the timely implementation of recommendations of the Interagency Action Plan on the AML/CFT framework.

GRAY/21/304

February 1, 2021

Statement by Mr. Bevilaqua, Mr. Fuentes, and Mr. Coelho on Russian Federation (Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for their insightful report and Mr. Mozhin for his informative statement. Russia entered the COVID-19 pandemic in a position a strength buttressed by a sound policy framework and sizeable buffers that have helped the country navigate the crisis. We agree with staff's appraisal that authorities are in robust fiscal position to use the available space and extend the support for firms and families in the event of further economic disruptions. Once the recovery is properly entrenched, the economy could benefit from addressing deep-seated structural bottlenecks that have long constrained potential growth.

Given the significant fiscal space, Russia can afford a more gradual consolidation to combat scarring from the crisis and support the recovery. We commend authorities for the ample and timely response to the pandemic targeted at the health sector, vulnerable households and the unemployed, and the imposed restrictions aimed at limiting the spread of the virus. Furthermore, the low GDP/debt ratio, the significant savings in the National Welfare Fund and the levels of reserve accumulation could allow for extended support, if downside risks related to the pandemic materialize. In rolling out further spending, we see merit in broadening the set of supported sectors and firms and improving the targeting of social protection.

We see merit in the authorities' "wait and see approach" to monetary policymaking. The Bank of Russia (BoR) implementation of a credible inflation targeting regime with a flexible exchange rate has underpinned monetary stability in recent years. The ongoing interaction of deflationary factors brought by the pandemic (including containment measures and sluggish economic activity) and the recent acceleration of the pace of depreciation amid high food prices and rising household inflation expectations, fully justify a more patient approach to ease policy rates further. Moreover, higher volatility in commodity and financial markets, coupled with increased geopolitical risks, could further depreciate the ruble, adding additional pressure on domestic prices. As the authorities, we are concerned about the explicit recommendation by staff to reduce their policy rate by another 50 basis points.

The strong pre-pandemic position of the financial system has helped the sector weather the crisis. Banks continue to exhibit adequate capital levels with a strong liquidity position and positive profitability, vis-à-vis a sustained process of deleveraging and de-dollarization since 2014. That said, we share staff's concerns regarding the impact of extending regulatory forbearance on banks' balance sheets and urge supervisors to closely monitor the health of restructured loans. In addition, pre-existing vulnerabilities, such as a high share of non-performing loans and weakening asset quality across the corporate, SMEs and retail segments, could amplify macro-financial risks. For the medium term, we encourage the authorities to continue reducing lending concentration, strengthening the AML/CFT regime, and promoting more competition in the financial sector.

Beyond the pressing efforts to abate the crisis, growth-enhancing reforms remain crucial. Potential growth has been on a declining trend even prior to the current crisis, mostly driven by a slowdown of productivity growth and a shrinking labor force participation. Thus, promoting more private sector participation and a more limited role of the state in the economy is warranted to intensify competition in the domestic market and achieve higher productivity. While the adjustment to new growth drivers can be challenging, especially when the economy still needs to combat scarring from the crisis, Russia's sizeable fiscal space put the country in prime position to support structural transformation with higher infrastructure and human capital investment.

The authorities can foster more competition by leveling the playing field and strengthening SOE governance. Aligning public companies to an increasingly competitive environment and improving transparency would also enhance the business climate. In this regard, we welcome the authorities' efforts to reduce the regulatory burden for private firms and take positive note of their actions to expand digitalization, especially with e-government infrastructure. We also note that further integration into global value chains and diversifying exports are key components of reforms going forward. With these remarks, we wish the authorities every success in their endeavors.

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GRAY/21/309

February 1, 2021

Statement by Mr. Andrianarivelo, Mr. Sylla, and Mr. Nguema-Affane on Russian Federation
(Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the set of interesting papers and Mr. Mozhin for the insightful Buff statement.

We commend Russia for its strong policy response to the COVID-19 pandemic and oil price shocks which have severely battered the country. The authorities ought to be praised for strengthening their policy frameworks and implementing prudent policies over the past years. This has contributed to build up large policy space and buffers and enabled Russia to enter this crisis on a stronger position compared to previous ones. Policies have been appropriately steered towards an accommodative stance to mitigate the impact of the pandemic and limit economic contraction in 2020. Maintaining that stance in the near term is warranted to support the economy in the face of a resurgent pandemic. While the availability of COVID-19 vaccines and positive developments in the international oil market bode well for Russia's economic outlook, the reintroduction of containment measures to stymie the resurgence of the pandemic could dent the economic recovery expected in 2021. Over the medium-term, the authorities are faced with the challenge of boosting an economic growth already low prior to the crisis. The envisaged national projects present an opportunity in this regard and we encourage the authorities to press ahead with their implementation.

Fiscal policy has been appropriately loosened and should remain supportive of the economy during the second wave of the pandemic. The gradual resumption of fiscal consolidation consistent with the fiscal rule as envisaged in the 2021-2023 is welcome. That said, we agree that, given Russia's sizable fiscal space, fiscal support to the economy should be expanded if warranted by deteriorating health and economic conditions. We therefore find appropriate the recent decisions to extend some social benefits beyond their initial expiry date considering the resurgent pandemic. On unemployment benefits, we share the authorities' concern about potential abuse by maintaining those benefits at their current high level. *We would like staff to comment on this concern*. We appreciate the authorities' commitment to improve targeting of social assistance spending which will be particularly useful in case they decide to move ahead with the phasing out of tax expenditures or refinery subsidies. We note the planned elimination of tax breaks for the oil and gas sector in the context of the 'tax maneuver'. *Could staff indicate how much revenue is expected from this move and how those tax breaks fare with those provided in the other large oil-producing countries?*

The current inflation outlook supports pausing monetary easing for the time being. The Bank of Russia's (BoR) decision to hold the policy rate unchanged in December 2020 was appropriate given the inflationary pressures stemming from the depreciation of the ruble and higher international food prices that have kept inflation above the 4-percent target in fourth quarter of 2020. Going forward, monetary policy should continue to remain data-dependent. We note the difference of views between the authorities and staff on whether the inflation projection of 3.5 percent at end-2021 calls for further monetary policy easing. In our view, the authorities' wait-and-see approach appears reasonable as the projection is close to the target. *Could staff indicate whether BoR ever considered adopting a fluctuation band around its inflation target*.

The relaxation of prudential and regulatory policies has helped support banks and their clients, but close monitoring of emerging vulnerabilities is needed. We welcome the findings that the banking system is sound and can weather extreme shocks, according to the central bank's stress tests. We note the central bank's consideration to not extend the regulatory forbearance measures on loan classification and provisioning as they might help mask vulnerabilities in the asset quality. *As an FSAP for Russia is scheduled for this year, will the report be available by the time of the next Article IV consultations?* Heightened vigilance is needed regarding the development of the mortgage market in light of booming housing prices. The envisaged addition of borrower-based macroprudential measures to the central bank's toolkit will be critical to regulate the mortgage market. *Could staff indicate whether the authorities consider ending the mortgage subsidy program that has fueled housing price inflation?* We welcome the advances made in strengthening the AML/CFT regime and encourage further progress by pursuing the implementations of recommendations of the 2019 AML/CFT mutual evaluation report.

Implementation of structural reforms should be stepped up to improve business climate, foster private sector development, enhance governance and increase potential growth. The authorities' commitment to improve business through the regulatory guillotine which helped chop off some obstacles to growth is well appreciated. We agree that national projects have the potential to ensure strong private sector participation and increase potential growth. Notwithstanding, it is essential that these projects do not contribute further to increasing the State's size and footprint on the economy, as emphasized by staff. *Could staff elaborate on the main business climate areas where further improvements are needed?*

With these remarks, we wish Russia and its population well in these challenging times.

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GRAY/21/310

February 1, 2021

Statement by Mr. Chodos, Mr. Lischinsky, and Mr. Corvalan Mendoza on Russian Federation (Preliminary) Executive Board Meeting February 3, 2021

We thank staff for the set of reports on the Russian Federation and Mr. Mozhin for his informative Buff statement. We broadly agree with the staff report and on the focus of the consultation to mitigate the impact of the crisis and enhance the recovery. We also acknowledge the authorities' views, intentions, discrepancies, and commitments.

A second wave of Covid-19, like in several advanced and emerging market economies, has impacted heavily on the Russian Federation with its heavy toll on lives and livelihoods, with new restrictions, while not as severe as in spring, being imposed. Before the crisis, the real growth rate average of 2017-2019 was around 1.9 percent due to lower oil prices, tight policies, which since 2014 have reduced double-digit inflation to a single digit, and sanctions plus age-old structural constraints remain. However, the Russian Federation has strong macroeconomic policy frameworks, a public debt below 20 percent of GDP, and substantial buffers, which has allowed the country to deal with the pandemic from a strong position and show a vigorous resilience despite the drop in oil prices.

The swift response to Covid-19 supported public health and with simultaneous countercyclical fiscal, monetary, and macroprudential policies, the economic downturn was more limited than in other similar countries. For this reason, at the peak of the downturn in the second quarter of 2020, job losses and poverty only slightly increased. We commend the authorities' support to firms relying on sector activity codes, which was swift and helped to avoid fraud. A strong recovery of demand in the last quarter 2020 improved the output performance more than anticipated and with that, the unemployment rate improved. The economy is projected to grow by 3 percent in 2021 if the vaccination against Covid-19 is widespread, and the increase in domestic demand and exports, particularly oil and gas exports, continues.

We take positive note that staff, as well as the Bank of Russia (BoR), assess that Russia's external position in 2020 was broadly in line with fundamentals and desirable policies. Furthermore, medium-term risks are balanced even though in the short term, within a highly uncertain environment, downside risks prevail. The authorities have prepared contingency policy measures if needed but we welcome their wait and see approach to implement them.

Fiscal policy managed in a responsible way helped the country to deal with Covid-19 requirements. In this regard, the authorities still have fiscal space. However, the 2021-23 budget projects a reduction in the fiscal stimulus, if the pandemic subsides, to resume the fiscal rule in 2022. If the pandemic continues, we learned from the Buff statement that the authorities will manage their fiscal policy accordingly. With regards to the importance given to unemployment benefits in the staff report, the authorities point out that these benefits are a small part of total spending and a sensitive issue everywhere, and the authorities do not want the system to be abused.

With regards to monetary policy, the authorities are not overly confident that inflation will fall under the lower targeted band; thus, they don´t see it's necessary to loosen the monetary stance and reduce the policy rate. Annualized inflation during 4Q 2020 has increased over the higher band and, as Mr. Mozhin highlights in his Buff statement, in January the annualized rate of inflation is projected to surpass 5 percent. Several inflationary pressures are thought to be the cause of this increase, including the pass-through from the FX depreciation, rapid credit growth, supply side issues in certain foods, and the effects of the government's restrictive measures.

Staff and the authorities agree that the Russian financial sector entered the pandemic from a position of strength. Measures taken over the years to clean up the system are bearing fruits, and the country has swiftly introduced regulatory forbearance measures in response to the shock and the system's broad bank capitalization has not been jeopardized. BoR authorities are considering not extending these measures, as also suggested by staff, particularly those related to loan loss classification and provisioning, and because bank losses due to loan restructuring seem manageable. We welcome the BoR's intention to divest its shares in several commercial banks as market conditions permit. We believe that while there is no evidence that house prices are misaligned, the staff's recommendation to monitor house prices must be centered in those cities and neighborhoods where the issue is more relevant, as nationally, not all house price increases are equal and sometimes certain areas are subject to higher increases.

As noted in the Buff statement, the authorities have continued their structural policy agenda under difficult circumstances to broadly increase capital accumulation and productivity. In this regard, we welcome the authorities´ commitment to address structural barriers to growth. Not only by undertaking a major pension system reform, but we also commend several initiatives related to the tax system, regulatory measures, and 13 national projects. Furthermore, by mid-2021, 12 development agencies will be merged with the main government development institution.

With these comments, we wish the authorities and people of the Russian Federation all the best in their endeavors in these difficult times.

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GRAY/21/312

February 1, 2021

Statement by Mr. Merk and Mr. Krahnke on Russian Federation
(Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for its well-written report and Mr. Mozhin for his helpful Buff statement. **We concur with the thrust of the analysis. Against the background of sound budget policy, Russia has retained fiscal space despite a drop in oil prices and the pandemic**. Given the decline in GDP and continued uncertainties, an active use of fiscal space seems warranted. We welcome that some pandemic support measures aiming at promoting job creation have already been introduced, such as the reduction of social contribution of SMEs. The withdrawal of temporary support measures and premature consolidation of the budget should be exercised with caution to avoid derailing the recovery. In particular, prematurely reducing unemployment benefits to pre-March 2020 levels could lead to further loss of purchasing power and lower demand given that real incomes have decreased generally. We support staff's view that further contingency measures should be prepared in case downside risks stemming from the pandemic should materialize. At the same time, we encourage the authorities to adopt further measures with a view to reduce the size of the informal economy and to efficiently target social support measures.

Accommodative monetary policy has supported lending conditions and thereby partially dampened the disinflationary effects of the crisis. We agree with staff that cuts in key policy rates by 2 percentage points in total were appropriate given undershooting inflation as well as the effects of the crisis. Further monetary policy decisions should weigh carefully both potential downward and upward pressures on inflation (including ruble depreciation or increased food prices) and be geared towards strengthening the credibility of the inflation targeting framework in view of its short history. We also encourage the authorities to duly consider that inflation expectations are yet to be firmly anchored to the relatively new inflation target. In this context, it appears to us that overshooting inflation is likely to pose a greater risk than undershooting inflation.

We are encouraged to learn that the banking sector seems adequately capitalized and resilient to the crisis. While regulatory forbearance has enabled loan restructuring, it has also decreased transparency in banks' balance sheets. We thus urge the authorities to closely monitor balance sheets, while phasing-out forbearance gradually when economic developments allow. This would provide more vulnerable banks with time to adjust, for instance by retaining earnings to bolster capital. Banks should also make full use of the resolution framework to expedite the disposal of non-performing loans.

Policies to address structural weaknesses in the Russian economy such as a low diversification of exports, an oversized public sector, suboptimal investment climate, or high inequality should not be neglected in the face of the COVID-19 crisis. We welcome the authorities' initiative to reduce regulatory burdens and red-tape to entrepreneurs. Similarly, the National Projects offer the potential to boost potential growth and catalyze private sector activity. To this end, however, we join staff in highlighting the importance of avoiding a further expansion of the already large footprint of the state in the economy as well as ensuring a level playing field and fair and transparent governance frameworks of the projects concerned. Beyond these two flagship initiatives, we emphasize that efforts to combat corruption and improve legal certainty remain of the essence to improve the business climate.

GRAY/21/313

February 1, 2021

Statement by Mr. Massourakis, Ms. Quaglierini, and Ms. Mateus on Russian Federation (Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the clear and succinct report and Mr. Mozhin for the informative Buff statement. Russia implemented a properly counter-cyclical set of policies in the face of the COVID-19 shock, with the benefit of important adjustments achieved in previous crises. Considering the significant policy space, the authorities should continue to support livelihoods and the economy in a way that minimizes possible scarring and helps growth. We offer the following additional comments:

- **We would have appreciated more information on vaccination plans.** Considering that the recovery hinges decisively on overcoming the pandemic, for which vaccination is key, we urge staff to cover vaccination plans and their rollout in Article IV consultations. Similarly, given the disproportionate impact of the COVID crisis on some workers, namely women, youth, and elderly in several countries, we also encourage elaborations on this in future surveillance reports on Russia.

- **We welcome the authorities' shift in fiscal stance to deal with the pandemic**. While we note that scarring may be lower than in previous crises, we consider that a stronger fiscal response can help both the recovery in the short run and the path to higher growth. We agree with staff that higher unemployment benefits should continue, at least until uncertainty over the pandemic subsides. However, better targeting is required, together with reducing disincentives for workers to join the formal sector. This fiscal response should be coupled with continued structural reforms and an effective implementation of the national projects to improve the business climate, increase private sector participation and foster competition.

- **We strongly support staff's advice to phase out subsidies to domestic refineries**. We agree that negative impacts from the removal of these subsidies should be counteracted by direct and targeted support to vulnerable households. This step could be the beginning toward the development of a decarbonization strategy. We expect future Article IV consultations to devote more attention to risks and policy recommendations related to climate change.

- **We agree that loosening monetary conditions was appropriate**. Moving forward, the authorities should continue to pursue their inflation target, based on all available information, considering inflation expectations, exchange rate and credit developments.

- **We support the authorities' countercyclical approach to financial policies, aimed at facilitating intermediation**. The loosening of capital buffers to deal with the crisis was warranted. While we agree that loans benefiting from well-agreed payment holidays should not automatically trigger loan reclassification and additional provisioning, we consider that this should be done based on clear and transparent criteria. Banks should continue to monitor creditors' capacity to pay and inform supervisors of relevant developments.

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GRAY/21/314

February 1, 2021

Statement by Mr. Tanaka, Mr. Chikada, and Mr. Shimada on Russian Federation (Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the informative report and Mr. Mozhin for his insightful Buff statement. While Russia is hard hit by the pandemic, the authorities' policy actions, which are underpinned by the flexible exchange rate and inflation targeting regime as well as sizable fiscal space, have mitigated the economic impact. However, the pandemic is still not under control and the downside risks remain high in the short term, hence the authorities should stand ready for the additional policy support. Also, given that the country has been suffering from the low growth even before the pandemic, it is essential to accelerate structural reforms to lift the potential growth rates, which also would minimize the scarring effect of the pandemic. Here, we will provide the following comments.

The authorities should continue to provide the fiscal support to mitigate the impact from the pandemic, if necessary. Given significant downside risks stemming from the pandemic, we welcome the authorities' commitment to expand support to the economy, both in terms of measures considered and sectors covered, if conditions so warrant. *Related to the downside risks, could staff elaborate on the authorities' vaccine strategy and where Russia stands in vaccine roll out?* Regarding the unemployment benefits, we take note of the disagreement between staff and the authorities as well as the authorities' concern that higher unemployment benefits could disincentivize labor supply. *On this point, could staff comment on the extent of the informal employment and the authorities' assessment that the benefits supplement the informal sector incomes?*

In order to promote the necessary capital expenditures in the oil and gas sector, tax reforms are indispensable. We welcome staff's analysis on Annex I regarding the Russian oil and gas sector. While it is encouraging that the cash breakeven price is around 10 to 15 dollars therefore Russia has resilience to the current low prices, we note that the full-cost breakeven price, including the necessary capital expenditures, is much higher, and the capital expenditure is actually declining due to the low prices. In this regard, we welcome that the authorities adopted a profit tax (the AIT) and encourage the authorities to expand the AIT while reducing the royalty tax (the MET).

The inflation targeting regime with the flexible exchange rate regime have worked well to address the current crisis, including the policy rate cuts. We welcome that the scarring effect of the pandemic have been limited to the lesser extent than the past crisis, as explained in BOX1. On the necessity for the further policy rate cuts at the current juncture, we note the divergent views between staff's and the BoR. Considering the BoR's concerns on rising household inflation expectations and the rapid increase in credit, while macro prudential measures, namely borrower-based toolkits are under development, we see the BoR's "wait and see" stance reasonable at this juncture. *In this regard, could staff elaborate more on why staff empathizes the cost to waiting due to the policy lags?*

While we welcome that financial sector seems to remain sound, the pandemic impact on the banking sector as well as the mortgage and housing markets should be monitored closely. We welcome that the Russia's banking sector entered the current crisis with adequate capital and liquidity, and bank losses appear manageable according to loan restructuring trends so far. However, considering the uncertainty around the pandemic as well as the regulatory forbearance on loan provisioning and asset, the authorities should monitor the situation closely. On the mortgage and housing markets, we encourage the authorities to develop macro prudential policy measures, which could also increase the flexibility of monetary policy. In addition to that, we welcome the progress on ALM/CFT issues, and encourage further efforts, in light of outstanding money laundering risks stemming from proceeds of crimes committed within the country.

The authorities need to take further effort for the structural reforms to lift its potential growth. We encourage the authorities to strengthen competition and reduce the role of the state. Especially, it is important to facilitate the entry and exit of firms, strengthen the corporate governance of state-owned enterprises and private enterprises, and improve business climate. In this regard, while we welcome the "regulatory guillotine" and the implementation of the national projects, the level playing field between state-owned enterprises and private firms as well as strong governance on the national projects should be warranted.

GRAY/21/315

February 1, 2021

Statement by Mr. Rashkovan and Mr. Zedginidze 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. The COVID-19 crisis is having a negative impact on the Russian economy, adding to the structural challenges the Russian economy faces. While fiscal and monetary policy response can cushion the impact of the crisis, tackling structural challenges calls for continued and deeper efforts to address governance issues, strengthen the rule of law, and address institutional weaknesses. The downside risks from reliance on finite fossil resources as well as sustained geopolitical tensions and sanctions weigh on medium-term growth. We would like to emphasize the following:

We share staff's assessment that structural reforms from the previous Art. IV remains current, although the need to strengthen the rule of law could have been underscored more clearly in the report. Potential growth in Russia has slowed down, halting the pace of income convergence with advanced-country levels. Moreover, the high reliance on oil resources, prices of which have been volatile and most likely will stay so, are a drag on the growth. Lower potential growth and the need to diversify the economy call for deeper and comprehensive reforms to improve the business environment. We agree that the "regulatory guillotine" is a promising tool to rationalize the administrative burden but does not replace the need to strengthen the rule of law, property rights, and to combat corruption. We support staff's view that the private sector should be involved in national projects to the largest extent possible to improve their efficiency and limit the outsized state footprint in the economy.

Growth risks are large and mostly to the downside. The build-up of fiscal and official reserve buffers prior to the pandemic serves the country well amidst the risks. We note staff's assessment that risks are tilted to the downside in the short-term but are more balanced in the medium-term. We note a word of caution against underestimating medium and long-term risks. While the risks stemming from the protected pandemic might be visible and immediate, long-standing structural problems in the Russian economy weigh heavily on its medium and long-term outlook. The acknowledged lack of investments, limited diversification, and exposure to commodity price volatility combined with the demographic changes and the risk of additional international sanctions could have a significant effect on potential growth. Thus, the expectation of a 1.8 percent output growth rate from

2024 onward can be somewhat optimistic. In addition, we note that lower energy prices are not mentioned in the Risk Assessment Matrix. *How does staff assess the medium and long-term risks from the reliance on oil revenues?*

In the previous Art. IV staff assessed that the negative impact of the international sanctions is 0.2 pp on the annual growth of the economy*. We wonder whether this assessment is current and how does staff assess the likelihood and impact of potential additional sanctions?*

We agree with staff's view that the appropriately loosened monetary policy cushioned the crisis's impact on the economy. The policy rate cut of 200 bps in 2020 brought the real interest rate to a historic low, supporting credit growth. We note, however, somewhat divergent views between staff and the authorities on the monetary policy space. As outlined in the Buff statement, the Bank of Russia's prudent approach to remain vigilant about further easing is welcomed. While more easing can raise the 2021 inflation to 4%, its impact on growth can be nullified if long-term inflation expectations and thus long-term yields rise. The continued pressure on the foreign exchange rate of the Ruble calls for prudence when providing further guidance. The monetary policy needs substantial exchange rate pass-through and continued strengthening of the credibility of the inflation-targeting framework given its short history.

Strengthening financial sector resilience is key for recovery. We share staff's view that financial soundness indicators remain robust and bank losses overall appear manageable. The authorities' fiscal, monetary and prudential responses to the crisis helped limit credit losses. At the same time, the full impact of the crisis may take time to materialize, in particular given the regulatory forbearance measures. Going forward, we agree with staff that strengthening the monitoring of banks' asset quality as well as phasing out forbearance measures are important to safeguard financial stability.

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GRAY/21/317

February 1, 2021

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

We thank staff for the insightful report and Mr. Mozhin for his helpful Buff statement. Pre-pandemic, Russia struggled with a sluggish economy that was weighed down by international sanctions, low oil prices, and an inefficient state sector. The COVID-19 pandemic compounded these challenges. However, the Russian economy has demonstrated resilience, thanks in part to the authorities' efforts to build buffers and strengthen the macroeconomic framework. Significant fiscal and monetary easing in 2020 helped further cushion the impact of the pandemic. We agree with staff's broad outlook, though risks remain tilted to the downside. In particular, worse-than-anticipated COVID-19 outbreaks could necessitate stricter lockdowns and rising geopolitical tensions raise the threat of further sanctions. *Could staff clarify whether their outlook is based on the authorities' official COVID-19 statistics or their own analysis of excess mortality?*

The authorities' strong fiscal response to the pandemic was appropriate, saving lives and livelihoods. Looking forward, we agree that Russia continues to have ample fiscal space, particularly relative to other emerging markets. Still, the authorities´ caution in using it is understandable given subdued prospects for oil prices and other downside risks. We welcome the authorities' aim to better target social assistance to the most vulnerable. We also encourage the authorities to move forward with growth-friendly tax reforms, including transitioning to a profit-based tax for the oil and gas sector and phasing out subsidies to oil refineries. More broadly, we emphasize the importance of increasing reliance on non-oil-based revenue as the world shifts towards a low-carbon economy.

The Bank of Russia's significant monetary easing helped support credit growth through the crisis. We agree with staff that with a negative output gap and medium-term inflation projected below target, there is scope for further easing. At the same time, the authorities' cautious "wait-and-see" approach has the benefit of maintaining buffers should downside risks materialize or if there is an unanticipated uptick in inflation. Given exceptional uncertainty in Russia's economic outlook, the authorities' cautious approach is understandable. We agree with staff that, for the sake of transparency, FX operations to address disorderly market conditions should be clearly separated from regular FX interventions under the fiscal rule.

We caution that regulatory forbearance on loan classification and provisioning obscures the underlying strength of banks' balance sheets. As staff stress, delaying provisioning may delay recognition of loan losses, but does not improve the actual strength of banks' balance sheets and their ability to extend credit. We encourage the authorities to not extend forbearance further, and banks that can afford to provision accurately, should do so without delay.

Ambitious structural reforms are required to raise growth and living standards. On its current trajectory, Russia will not converge with advanced economies. Priority should be given to reducing the footprint of the state, improving the business climate, increasing competition, and addressing deep governance shortcomings. The urgent need to strengthen rule of law could have been underscored more clearly in the report. We would add that the crisis has almost universally disproportionately impacted women, yet we missed any reference to gender gaps and relevant policies under the recovery plan. *Can staff comment on whether the crisis has exacerbated pre-existing female labor force participation gaps?*

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GRAY/21/318

February 1, 2021

Statement by Mr. Pösö and Mr. Vaikla on Russian Federation
(Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the comprehensive report and Mr. Mozhin for his informative buff statement. Russia's strong macroeconomic policy framework and ample policy space has softened the impact of the economic downturn. However, the uncertainties regarding the COVID-19 pandemic and geopolitical tensions weigh on the short-term economic outlook, while scarring effects from the crisis, insufficient investments, and demographic changes significantly limit growth prospects over a medium- to long-term. We broadly agree with staff's appraisal and make the following comments for emphasis.

With low debt and financing needs, Russia has ample fiscal space that enables to cushion against downside risks. Overall, we believe that the current fiscal policy stance is appropriate, foreseeing a meaningful fiscal consolidation over the coming years if the economic conditions start to improve. We welcome the authorities' intention to fully resume the implementation of the currently suspended fiscal rule in 2022, if the circumstances allow. At the same time, the authorities must remain vigilant and offer counter-cyclical fiscal policy response in case downside risks materialize. We welcome the authorities' aim to improve the targeting of social spending to help the most vulnerable. We note the authorities' concern regarding keeping the unemployment benefits at the increased post-March level. We would rather recommend to focus on removing existing disincentives for workers to join the formal sector. We support staff's call that the authorities should transition to a profit-based tax regime for the oil and gas sector and phase out subsidies to domestic oil refineries to enhance economic efficiency, remove distortions, and support much-needed investments.

We broadly agree with staff that the BoR responded appropriately to the Covid-19 shock. We concur with staff's view that given weak domestic demand, there is risk of a below target inflation rate in 2021. However, in light of rising household inflation expectations and the recent increase in core inflation, the authorities' cautious approach towards further monetary accommodation is warranted. We agree with staff that the BoR should continue refining its policy framework and communications strategy with regarding the use of FX operations in the event of disorderly market conditions.

We are encouraged by the progress on building up financial sector resilience. The banking system is adequately capitalized, profitable, and in a strong liquidity position. While the NPLs are high, banks have adequate buffers to weather any plausible loan losses on restructured loans. We share staff's view that strengthening the monitoring of banks' asset quality and of banks with weak loss-absorption capacity are needed. Regulatory forbearance on loan classification and provisioning obscures the underlying strength of banks' balance sheets and should not be extended. Banks should gradually increase provisioning and use the resolution framework to speed up the disposal of non-performing loans.

Implementation of structural reforms remains a priority. The economy continues to be very dependent on global oil price developments and the state's large share in the economy. This, coupled with structural bottlenecks and demographic challenges, significantly limits potential growth in the long run. Therefore, the implementation of structural reforms aimed at decreasing the state's large footprint, improving the business environment, reducing barriers to trade and FDI, modernizing infrastructure, and improving governance are of high importance. We agree that the 'regulatory guillotine' is a helpful measure to unlock growth potential but should not be seen as a substitute for increased competition among firms, combatting corruption and improving the business climate. Environmental issues and the transition to a green economy are additional structural challenges for the Russian economy and could have featured more prominently in the report.

Improving the effectiveness of the AML/CFT framework remains important to address the money laundering, tax evasion, and corruption risks. We are encouraged to read from the report that significant progress has been made in improving the AML/CFT regime and welcome the ongoing efforts towards ensuring an effective implementation of the recommendations arising from the AML/CFT mutual evaluation report. We emphasize the need to fully implement given recommendations to enhance effectiveness of the AML/CFT regime and supervision.

GRAY/21/320

February 1, 2021

Statement by Mr. Hosseini and Mr. Sassanpour on Russian Federation
(Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the well-written report and Mr. Mozhin for his informative Buff statement. We look forward to the supplement to the staff report on developments since mid-November and their implications for staff policy recommendations.

The Russian economy has been hit hard by the double shock of the COVID-19 pandemic and a sizable drop in oil revenue, reflecting a sharp decline in international oil prices and Russia's production cutback as a part of the OPEC+ agreement that subsequently helped to stabilize prices. The negative impact of the pandemic on output and employment would have been larger had it not been for Russia's strong macroeconomic policy framework, sizable buffers and a significant fiscal space built over the years that allowed the authorities to mount a forceful public health and countercyclical policy response. Interestingly, the spike in the unemployment rate in 2020 appears smaller than the rise during the GFC. *We would welcome additional information on the crisis' impact on employment of women and youth, with comparisons to the GFC episode to the extent possible.* The more recent data, including those provided by Mr. Mozhin, suggest that output and employment are on the rebound but, notwithstanding the strong recovery of oil prices, the near term outlook is still subject to uncertainties related to the path of the pandemic.

As the second wave of the pandemic unfolds, speedy vaccine rollout, mass immunization and saving lives remain the highest priorities. *We would welcome staff update on vaccine rollout and the assumption on vaccine coverage underlying staff's growth projections.* At the same time, it is important to protect the nascent economic recovery; and to that end, the withdrawal of temporary support measures would need to be adjusted to the pace of the recovery. *The staff report mentions discrepancies in growth projections between staff and the authorities. Would staff please elaborate?*

Russia has a strong fiscal track record anchored by a firm fiscal rule. We welcome the authorities' intention to calibrate the return to medium-term fiscal consolidation in tandem with the economic recovery, and provide additional support if and when needed, and in the form and duration judged warranted by them. Significant reforms are already in train, including the transition in the taxation of the oil sector that should improve revenue while incentivizing investment to enhance the resilience of the sector. We also welcome the plans to gradually eliminate subsidies on domestic oil refining and consumption, and remove inefficient tax expenditures, in parallel with better targeting of social assistance while fully protecting the most vulnerable.

As regards the monetary policy, we believe the Bank of Russia is the best judge of the balance of risks. In fact, as reflected in Mr. Mozhin's statement, it seems the central bank's reluctance to lower the policy rates has been supported by the recent inflation performance. In our view, it is prudent to err on the side of caution when communicating with markets. *We would welcome staff assessment of the efficiency of the monetary policy transmission mechanism from the policy rates and the nature and duration of lags in the transmission between exchange rate and prices*. The brunt of the external shock has been borne by the sharp depreciation of the *ruble.* We commend the authorities' continued commitment to exchange rate flexibility and their intention to limit interventions to disorderly market conditions and separate from central bank FX auctions under the fiscal rule.

The strength of Russia's financial system pre-crisis and the authorities' liquidity rescue package during the crisis were instrumental in tempering the crisis' short-term impact on the banking sector. We agree with staff that regulatory forbearance on loan classification and provisioning should not be extended when they expire. We further agree that housing market developments warrant close monitoring, also giving serious consideration to expanding the central bank's borrower-based macroprudential toolkit. *We look forward to the findings of the upcoming 2021 FSAP. Could staff elaborate on the time line?*

Addressing Russia's anemic potential growth rate is a key medium-term challenge. Although permanent scarring from the pandemic is expected to be relatively limited, combined with the lingering scars of the GFC and the 2015 crisis, the medium-term growth trajectory has been pushed down decisively. The delays in capital investment and the erosion of the human capital, in conjunction with the limited progress on planned structural and governance reforms, because of the pandemic, are heavy constraints on lifting the potential growth rate. In the circumstances, successful completion of the 13 national projects by the end of the decade, with large private sector participation, should provide a major boost to diversification and exports, and raise the potential output. *We welcome staff comments on the extent of coordination between the various projects.*

Finally, we would recommend refinements and updates in Annex I regarding price information ("The price of Brent…has hovered around US$40-45 per barrel since June") and the structure and the functioning of the international oil market. As regards the latter, the comparison of price sensitivity of conventional oil production in Russia to that of shale oil production in the United States could be misleading. Also, breakeven prices are not strictly comparable across oil producers because of different fiscal and exchange rate regimes. Additionally, comparing Russia's oil sector to those of lowest cost producers might obscure other constraints and rigidities. *Staff may wish to comment.*

GRAY/21/322

February 1, 2021

Statement by Ms. Riach and Ms. Campbell on Russian Federation
(Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the focused report and Mr. Mozhin for his helpful buff statement.

The economic impact of the twin shocks of the Covid-19 crisis and disruption to global oil markets was severe but not as large as in other emerging markets. We commend Russia for its strong policy framework that enabled a strong counter-cyclical fiscal response to these crises. This forceful response helped cushion the macro impact of the crisis. With the second wave of infection ongoing and significant uncertainty ahead, the authorities' priority should continue to be addressing the healthcare crisis and we agree with staff that the authorities should stand ready to extend and broaden access to support measures.

The downside risk of a slow vaccine rollout seems understated in the main text of the report, although is clearly articulated in the Annex. Given the significant impact this could have on GDP growth in 2021 and on Russian citizens, we think this should have a more prominent place in the report. According to data released by each region, Russia had vaccinated 923,000 people as of 28 January. Russia needs to dramatically increase the rate of vaccinations if it wishes to avoid another rise in cases this autumn or the imposition of tight economic restrictions. Making this message more prominent would support the Fund's broader message that the economic effects of speedy vaccinations are enormous.

Fiscal and monetary policy

We agree with the assessment that state support helped cushion the impact of the crisis. We note that the upcoming 2021-23 budget envisages significant fiscal consolidation. We welcome the authorities' willingness to reassess if the economy weakens. We agree that Russia has substantial fiscal space to mount an even larger response were downside risks to materialize. Similarly, the authorities should not act too quickly to withdraw fiscal support particularly given low government debt, modest gross financing needs and low spreads. We also welcome the authorities' commitment to improve targeting of social assistance spending to reach the most vulnerable, and help reduce poverty and inequality.

With regards to monetary policy, we agree with the outlined policy recommendations. However we note that, in line with Mr. Mozhin's comments in his buff statement, further monetary policy easing may not immediately be forthcoming due to rising but transitory inflation drivers. We welcome the confirmation in the buff statement that the Bank of Russia will continue to closely monitor developments on the inflation front and to assess the potential for further key rate reduction.

Scarring and structural reforms

We welcome staff's assessment that whilst the pandemic is likely to leave significant economic scars these are likely to be less severe than in past crises. Non-financial corporates and banks entered this crisis in better shape and buffers are stronger. **However, addressing low potential growth will be a priority as Russia enters into the recovery phase of the crisis.** It is understandable that the authorities immediate focus is on crisis management, but Russia will need to implement structural reforms to enhance long term growth prospects. We agree with staff that previous Fund advice remains relevant as Russia moves into the recovery phases of the crisis. The authorities need to reduce the footprint of the state, improve the business climate, address governance shortcomings, including those related to vulnerabilities to corruption. Russia could also adopt measures to diversify the economy through incentivizing investment in renewable energy and addressing local environmental issues.

We commend the authorities on significant progress made to improve the anti-money laundering and counter financing of terrorism (AML/CFT) regime. We encourage continued efforts to implement all recommendations in the 2019 Financial Action Task Force Mutual Evaluation Report. This includes those related to increasing compliance with preventative obligations in light of outstanding money laundering risks stemming from proceeds of crimes committed in the country.

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GRAY/21/326

February 1, 2021

Statement by Mr. Peter and Mr. Muradov on Russian Federation
(Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the valuable report and Mr. Mozhin for his informative Buff statement. We commend the Russian authorities for the swift and proactive response to contain the combined impact of the Covid-19 pandemic and the drastic decline in oil and gas prices. Thanks to the strong macroeconomic framework and significant economic buffers built over the last years, the Russian economy was able to cushion the negative impacts of the two shocks relatively well compared to peers. This said, growth is expected to remain subdued, as structural challenges continue to weigh on longer-term economic prospects. Uncertainties related to global economic and geopolitical developments also cloud the outlook. In this challenging environment, a premature withdrawal of fiscal and monetary stimuli should be avoided. We broadly concur with the staff's assessment and offer the following comments for the emphasis:

The targeted measures to cushion the impact of the pandemic have proved successful so far. The temporary relaxation of the fiscal rule seems to have helped absorb the economic shock. It allowed the authorities to provide significant support to the economy, the health system and distressed households. In particular, the targeted measures to buffer the negative impact on the non-financial corporate sector appear to work well. We welcome that public debt remains well below most emerging market peers. This provides Russia with significant leeway should the crisis persists. While Russia's fiscal space looks comfortable, rebuilding fiscal buffers and further improving fiscal transparency and governance will remain key for the credibility of fiscal policy. While it may make sense to maintain higher unemployment benefits until the employment situation improves, it will be important to ensure that these measures do not create perverse incentives for the supply of labor.

Continued efforts to reduce the dependence on oil income would be beneficial. The share of the carbon sector in fiscal revenues is still very high. In this regard, we welcome the authorities' plans—once the pandemic abates and supportive measures can be reduced—to provide incentives for investment in new technologies through a growth-friendly tax reform. We concur with staff that this reform would have to be accompanied by a phase-out of subsidies to domestic oil refineries, the elimination of inefficient tax expenditures and better targeting of social assistance spending.

The Bank of Russia's (BoR) cautious approach towards additional monetary easing appears warranted. While there could be some room to further ease monetary policy based on recent inflation outcomes and its projections, we share the BoR's reluctance towards reducing interest rates in view of still elevated inflation expectations and the CBR's focus on the longer-term credibility of the monetary policy target. We concur with staff that the BoR's FX operations should remain consistent with the flexible exchange rate regime and be limited to addressing excess volatility in the market. These FX operations should also be separated from the regular FX purchases/sales under the fiscal rule.

A closer look at the performance of the banking sector seems warranted. The banks seem to be in a strong position to weather loan losses on restructured loans due to their adequate capital and liquidity positions. At the same time, in view of the elevated share of NPLs, a prolonged regulatory easing could reduce the strength of banks' balance sheets. In this context, we recommend keeping track of the performance of restructured loans and accurately assessing the needed provisions. We share the staff's concerns about extending regulatory forbearance on loan classification amidst elevated uncertainty. Further, recent developments in mortgage lending call for a careful monitoring of the housing market. The authorities would also need to swiftly implement the recommendations from the AML/CFT mutual evaluation report. Lastly, we welcome BoR's progress over the past years in applying the Basel III recommendations, including with regard to its macroprudential toolkit and risk assessment matrix.

Structural reforms remain key to address low potential growth. We welcome the authorities' commitment to review existing rules and regulations to eliminate unnecessary burdens on businesses and to improve the business climate. We agree with staff that regulations should reduce the barriers to entry and level the playing field between state-owned corporations and private businesses. While the national projects in the areas of infrastructure, health and education present a good opportunity to boost productivity, careful implementation would be required to ensure the efficiency of these projects. Increasing transparency, ensuring competition and strengthening governance will be key to ensure the effectiveness of these projects and boost potential growth.

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GRAY/21/328

February 1, 2021

Joint Statement by Mr. Huh, Ms. Mahasandana, Mr. Chea, and Mr. Yoo on Russian Federation
(Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for their report and Mr. Mozhin for the informative Buff statement.

Russia's economy was confronted with the dual shocks of the COVID-19 pandemic and the sharp decline in oil prices in 2020, resulting in the significant decline in real GDP projected at 3.6 percent. However, this performance is relatively better than in other emerging market peers and past crises in Russia thanks to buffers accumulated prior to the crisis as well as their forceful pandemic mitigation policy. Strong macroeconomic policy framework, such as the adoption of inflation targeting and fiscal prudence, as well as significant buffers, in the form of low public debt and healthy banking sector, have helped limit the economic downturn. Given that growth outlook remains highly uncertain with risks tilted to the downside, the near-term priority is to mitigate the impact of the crisis and to strengthen recovery while preserving domestic and external stability. That said, the authorities should not lose sight of addressing underlying structural problems as well as minimizing long-term scaring.

Ensuring effective and targeted fiscal support is critical to cushion the impact of the pandemic and to support the recovery. We commend the authorities for their strong counter-cyclical fiscal policy to protect the most vulnerable and affected sectors during this challenging period. We take positive note of staff's analysis in Annex IV which found that Russia's fiscal measures appear to be more effective in keeping corporates viable compared to other European economies. *Can staff elaborate further on the rationale behind the finding, as it could provide important lessons to the membership?* Given the uncertainty surrounding the duration of the pandemic, we concur with staff that the authorities should stand ready to deploy additional stimulus if needed. In view of the substantial fiscal space, higher unemployment benefits should also be maintained until sustained recovery takes hold. To strengthen economic recovery and address near-term impact of the crisis, we encourage the authorities to push ahead with their plans to improve the tax system and enhance the quality of social protection spending. *We are also interested to hear from staff on the authorities' vaccine rollout plan, given the need for lasting social distancing requirements and unclear vaccine efficacy in preventing transmissions.*

We note that staff and the authorities have differing views on monetary policy. While we agree with staff that it is important for inflation expectations to be firmly anchored, we see merit in the authorities' wait and see approach for the following reasons: staff's inflation forecasts for 2021 (both in terms of annual average inflation and end-of-period inflation) appear broadly consistent with the 4 percent target despite the highly uncertain economic environment; rapid increase in credit due to mortgage lending; and the legitimate concern of a surge in global risk aversion that could trigger exchange rate depreciation. On FX operations, we support staff's recommendation that the Bank of Russia (BoR) should keep them separated from the regular FX purchases/sales under fiscal rule to increase transparency.

We welcome staff's assessment that crisis-related losses appear manageable and do not pose significant risks to system-wide bank capitalization. We agree with staff that supervisors should track the performance of restructured loans closely and regulatory forbearance should not be extended when it expires, to ensure the credibility and transparency of the banking system. We commend the authorities for the progress made in strengthening the AML/CFT framework and encourage them to continue these efforts. We also encourage the authorities to remain vigilant of the housing market development and expand the BoR's toolkit with borrower-based macroprudential measures.

Continued efforts are needed to address underlying structural challenges to support post-pandemic recovery once conditions permit. We welcome the authorities' "regulatory guillotine" to sufficiently reduce the unnecessary regulatory burden on the private sector. This will help promote a business-friendly climate, foster investments, and increase economic diversification and competitiveness. We agree with staff that increasing potential growth requires far-reaching reforms that extend beyond the national projects. To end this, we underscore the importance for the authorities to further strengthen the rule of law and governance, which will be crucial to reduce corruption and improve public sector transparency and accountability. *While we take positive note of staff's attempt to estimate potential output during the pandemic presented in Annex VII, we are puzzled by the crucial assumption that the government-imposed lockdown directly reduces potential output. Can staff comment on the mechanism behind the assumption?*

GRAY/21/331

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.

GRAY/21/333

February 1, 2021

Statement by Mr. Palotai, Mr. Azal, Mr. Just, and Mr. Zaborovskiy on Russian Federation
(Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the informative report, and Mr. Mozhin for his helpful Buff statement. Russia faced the COVID-19 shock with a strong macroeconomic policy framework and ample FX-reserves but declining potential growth and eroding real disposable household income which started to recover recently, but is still below the pre-pandemic level. The authorities forcefully responded to the pandemic, using available policy space to mitigate the immediate fallout from the COVID-19-related shock. However, the crisis impact on the medium- and long-term economic potential is yet to be understood. While we broadly concur with staff's appraisal, we note that exceptional uncertainty about the main external factors affecting the outlook, including geopolitical tensions, the second wave of the pandemic, as well as a post-crisis oil price equilibrium, justifies a cautious strategy, especially in the area of monetary policy. We would like to offer the following comments for emphasis.

Prudently using available fiscal space and further strengthening the fiscal policy framework remain critical to confront downside risks and support the post-crisis recovery. We note staff's assessment that the amount of fiscal support (around 4.5 percent of GDP), deployed by the authorities, is in line with the average for G20 emerging markets. Nevertheless, *we would like staff to comment on whether the composition of this support significantly deviates from the average, as well as whether direct financial support to affected households is sufficient and well-targeted.* We note Mr. Mozhin's concern about staff's advice on unemployment benefits and would have preferred to consider this policy recommendation within staff's broader assessment of the country's social safety nets. While we broadly agree that the Russian authorities have substantial fiscal space due to low debt and access to the international capital market, we note that on previous occasions staff emphasized significant fiscal risks, stemming from contingent liabilities, as well as the need for preserving intergenerational equity, as main factors, limiting Russia's fiscal space. *Could staff clarify whether their views have changed due to the pension reform and the new budget* *rule implementation?* We support staff's call for removing inefficient tax expenditures and reducing subsidies to domestic refineries (the so-called "reverse excise") which distort relative prices and competition.

Monetary policy should be vigilant, considering the exchange rate pass-through to inflation as well as policy lags. Staff presented a case for further monetary loosening, however recently inflation has accelerated. Given policy lags, uncertainty about underlying price data, likely problems with recording seasonal price patterns, possible effects from monetary loosening may coincide with heightened exchange rate volatility should downside risks materialize, further complicating policy implementation and communication. Echoing Mr. Mozhin on the Bank of Russia's (BoR) less dovish stance due to recent hikes in inflation, we note that the wait-and-see policy on the monetary front has merit. *Could staff comment on whether, in view of the recent developments, their monetary policy recommendation remains valid?* Overall, we commend the Central Bank of Russia for the strong rules-based policy framework and improved communications. We also positively note that the External Sector Assessment concludes that Russia's external position in 2020 remained broadly in line with the level implied by medium-term fundamentals and desirable policies. Further steps, along the lines suggested by staff, to disclose data on FX interventions, delineating those related to the fiscal rule, would be helpful to further boost transparency and the Central Bank's credibility.

Strengthening the monitoring of banks' asset quality as well as timely phasing out forbearance measures would be important to safeguard financial stability. We positively note that, according to staff, Russia's financial system is broadly resilient, even under an adverse scenario, due to the accumulated buffers in the banking sector and relatively strong non-financial corporate (NFC) sector's balance sheets. *While we welcome staff's firm-level analysis (a sample of more than 1 million Russian companies), presented in Annex IV, we wonder how the data comparability between firms has been ensured as the firms' accounts in the Orbis BvD database, used by staff, are presented in different formats (either national or international (GAAP or IFRS)), depending on how they are filed by companies.* Given the significant uncertainty around the impact of the pandemic on the NFC sector and banks, pockets of vulnerabilities, especially in smaller banks and big state-owned companies, should be carefully monitored. From the structural angle, boosting competition and ensuring the level-playing field in the financial sector remain critical to improve credit allocation and reduce borrowing costs. In this regard, we positively note the Bank of Russia's plans to divest its stakes in several commercial banks, following the welcome sale of the majority stake in Sber-bank to the government. We also share staff's views on the careful monitoring of the mortgage market by improving the BoR's MPP toolkit for borrowers.

Structural reforms are paramount to boost growth potential and facilitate economic diversification. The staff report is rightly focused on the short run, going forward we encourage staff to again focus on the significant medium- and long-term challenges the

Russian economy faces. A global post-crisis recovery is expected to be "green", so the medium-term oil price of around 50 dollars per barrel, envisaged by staff in the baseline, may turn out to be overoptimistic. We welcome contingency planning and references to the recommendations on structural reforms, which were discussed in the previous Article IV reports, and broadly remain actual. As real disposable household incomes still struggle to recover to the 2013 level (being about 10 percent lower now than before the 2014-2015 recession), productivity growth and economic diversification become imperatives for ensuring social stability and improving living standards in Russia.

Effective scarring may be lower. We appreciate Box 1 on scarring, but wonder if one should really define scarring as the difference between actual output in post-crisis years and hypothetical output corresponding to a simple linear prolongation of the pre-crisis trend (the latter established over a very limited number of years). As it turned out, the pre-crisis boom was increasingly supported by speculation and bubbles and therefore, proved to be inherently unsustainable (not only in Russia), not to speak of ecological question marks. Moreover, a cyclical economic downturn was to be expected sooner or later. In this light, *we would appreciate staff's comments whether in the case of Russia, somewhat arbitrary linear growth projections should be used as a norm from which to deduce scarring estimates?*

GRAY/21/334

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.

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GRAY/21/336

February 1, 2021

Statement by Mr. Buissé, Mr. Rozan, and Ms. de Waziers on Russian Federation (Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the quality of this comprehensive report. **During this crisis, Russia received the dividends from past efforts to strengthen its macroeconomic and financial frameworks: sound public finances, sound external position and banking system, inflation under control**. We commend the authorities for the decisive public support to the economy during the Covid-19 pandemic that helped limit the economic downturn. However, downside risks to growth projections could delay the recovery, and decisive reforms are needed to enhance a sluggish growth potential. We agree with the main recommendations outlined in the report. We would like to highlight the following points.

While we broadly share staff's assessment of the Russian economy, we note that significant downside risks would make the growth forecast for 2022 (3.9%) somewhat optimistic. *Could staff clarify the factors underpinning this strong acceleration from 2021 and detail their assumption of a successful rapid and large-scale roll-out of vaccines?* Employment losses and rising poverty rates are a concern. We agree that support measures for corporations have been broadly successful in keeping businesses afloat but, as staff rightly points out, these measures have been less successful in supporting SMEs. In addition, the significant scars on household income and demographics, whose trends were already downward before the pandemic, could weigh on medium-term economic dynamism and be further highlighted in the report.

We agree with staff that countercyclical fiscal policy have helped contain the impact of the crisis and that Russia has ample fiscal space, in particular in comparison to other emerging markets, thanks to prudent policy prior to the crisis. We support staff's recommendation and the authorities' pragmatism to maintain targeted support measures to the most vulnerable households and businesses as needed. While the authorities' aim of removing existing disincentives for workers to join the formal sector is welcome, we support staff's view that the higher unemployment benefits should be maintain until a stronger recovery in employment, given unemployment and poverty risks in a still uncertain sanitary context. In addition, the move towards a more profit-based system of taxation for the oil and gas sector, welcomed by staff, can promote economic efficiency, incentivizing investment and removing distortions, and can contribute to decreasing the volatility of global oil prices.

We broadly agree with staff that the Bank of Russia (BoR) has appropriately responded to cushion the Covid-19 crisis impact. We also agree that, with a negative output gap and medium-term inflation projected below the BoR target of 4%, there is scope for further monetary easing. At the same time, the recent increased short-term inflationary factors, that pertain to the weakening of the ruble on the back of increased volatility in global market, call for prudence when providing further accommodation. Monetary policy needs to take into account substantial exchange rate pass-through and the continued need to strengthen the credibility of the inflation targeting framework in view of its short history. We concur with staff's view that, for the sake of transparency, FX operations to address disorderly market conditions should be clearly separated from regular FX interventions under the fiscal rule.

We share staff's view that financial soundness indicators remain robust and bank losses overall appear manageable. The authorities' prudential response to the crisis helped support lending growth to the real economy and a quick asset price recovery. The liquidity support of the central bank and the easing in regulatory framework were welcome to help banks maintaining adequate capital. Going forward, we agree with staff that strengthening the monitoring of banks' asset quality and of banks with weak loss-absorption capacities, as well as phasing out forbearance measures when economic developments allow, are important to safeguard financial stability. We strongly support the ongoing cleaning of the banking sector and highlight the importance to keep the NPL ratio under control. While the NPL ratio remains stable, the gradual elimination of regulatory forbearance measures for banks could give rise to an increasing NPLs ratio, given the significant decline in the debt repayment capacities of businesses, SMEs and households, which should be closely monitored.

We support staff's view that addressing low potential growth remains a priority and that the private sector should be involved in national projects to the largest extent possible to improve their efficiency and effectiveness and limit a further increase in the already large state footprint in the economy. We encourage the authorities to seize the challenges and opportunities of the post-pandemic recovery to speed up the implementation of the needed structural reforms. These include improving governance and the business climate, stimulating competition, creating a level-playing field, combatting corruption, diversifying exports and mitigating climate change.

We did find quite surprising that there was no analysis or mention of the risks associated with climate change. While all recent large emitters' articles IV have tackled this issue in one way or another, in line with our informal board on climate in surveillance, the absence of any analysis of the authorities' climate action is problematic, even more so as Russia is a large emitter of GHG. Beyond domestic mitigation actions, global climate mitigation and adaptation efforts will necessarily have spillover impacts on Russia (in a variety of dimension, including physical and transition risks within the financial sector), given its economic dependence on fossil fuel resources.

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GRAY/21/337

February 1, 2021

Statement by Mr. Bhalla and Mr. Natarajan on Russian Federation
(Preliminary)
Executive Board Meeting
February 3, 2021

1. We thank the staff for the detailed report and Mr. Mozhin for the insightful Buff. The recovery has been affected by surge in new cases and reintroduction of measures to contain them. The sound macroeconomic framework has given the strength to withstand the economic impact of pandemic, fall in oil prices and other challenges. We commend the Russian authorities for the swift policy measures with significant fiscal components to provide substantial support to the health sector, vulnerable households and businesses.

2. The economic impact of the new containment measures is expected to be less severe as the restrictions are less intense and more targeted. Growth is expected to bounce back in 2021 after a moderate contraction in 2020. The oil price forecast is favorable for the near future but the volatility in oil prices may have an impact on long-term economic prospects.

3. The authorities have provided sizable and balanced distribution of direct fiscal support measures of about 3.5 percent of GDP. The deterioration of the fiscal situation from surplus to deficit is understandable in the context of this fiscal support. The 2021-23 budget provides for significant fiscal consolidation, but the authorities are closely monitoring the economic situation and are open to broaden the support measures if the situation demands. The low government debt of about 21 percent provides ample fiscal space to maneuver.

4. We welcome authorities' reiteration of commitment to improve the targeting of social spending. On targeted spending, there is an underlying justification for the case to case basis of verification and support suggested in the report. *While this approach can work in normal times, is it feasible to strictly follow this approach during a crisis of this nature and scale? Can the staff comment on the experience of countries in the region which were placed in similar circumstances?*

5. The paper on Oil Sector Resilience (Annex I) provides useful insights into the country's oil sector prospects. A case is made for the transition from a volume-based royalty tax regime to profit-based tax regime to incentivize investment in new technologies to improve recovery ratio. The authorities' efforts in changing the regime is expected to enhance productivity in the sector and bring benefits to the overall economy.

6. Monetary policy measures have helped to ease the borrowing conditions. The authorities' view that rising household inflation and credit warrants a wait and watch approach towards rate reduction has its merits. Financial sector has remained resilient, anchored by adequate capital adequacy and strong liquidity position. Going forward, the large banks have the capacity to absorb losses whereas smaller banks are expected to struggle and need close supervision. Like Russia, regulatory forbearance on loan classification and provisioning is being adopted in many countries due to elevated uncertainty. *Can the staff comment on the instances or possibility of preparing a shadow balance sheet based on extant pre-crisis norms so as to assess the potential impact on the banks' balance sheet and help gauge the sensitivity and extent of risks?*

7. There is immense scope to advance the level of potential growth by improving business climate and addressing governance issues. The 'regulatory guillotine' to review and cancel rules and regulations which do not meet cost-benefit criteria is a welcome approach. We strongly commend the authorities' progress in advancing policies and laws to strengthen anti-money laundering and counter financing of terrorism (AML/CFT) regime.

8. Finally, we wish the authorities the best in their efforts.

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GRAY/21/339

February 1, 2021

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?*

Russian Federation

Staff's Responses to Technical Questions Posed by Executive Directors in Advance of

EBM/21/13, February 3, 2021

Staff's responses to technical and factual questions are below. Broader policy questions in the areas of vaccination rollout, unemployment benefits, monetary policy, and coverage of climate change risks will be addressed in staff's oral intervention at the Board meeting.[1]

Real Sector/Outlook/Risks

1. ***The staff report mentions discrepancies in growth projections between staff and the authorities. Would staff please elaborate?***

- At the time of the mission (November), staff had projected that growth in 2021 would reach 2½ percent, compared to the BoR's projections of an expansion of around 3 to 4 percent. In the Staff Report, staff have revised up their projections for 2021 to 3 percent, on the low end of the forecast made by the BoR. It is worth noting, however, that these forecasts predate the flash GDP release which showed a 3.1 percent contraction in 2020, significantly better than expected. This positive growth surprise will have carryover effects to 2021 and thus by itself creates upside risks to the current 2021 forecast.

2. ***Could staff clarify the factors underpinning this strong acceleration from 2021 and detail their assumption of a successful rapid and large-scale roll-out of vaccines?***

   While we broadly share staff's assessment of the Russian economy, we note that significant downside risks would make the growth forecast for 2022 (3.9%) somewhat optimistic. Could staff clarify the factors underpinning this strong acceleration from 2021 and detail their assumption of a successful rapid and large-scale roll-out of vaccines?

- The strong acceleration in growth in 2022 is primarily due to carry-over effects from 2021H2. So, although growth in 2022 is strong at 3.9 percent, q/q SA growth in 2022Q1-Q4 is pretty modest at 0.6 percent, limiting the amount of downside risk.
- As Russia is one of a handful of vaccine-producing countries, our assumptions regarding vaccine availability and the recovery thereafter are based on an

[1] EDs have requested that staff indicate those areas for which responses will be provided during staff's oral intervention in the Board. This avoids the need for EDs to repeat their questions during the discussion. In addition, staff may also indicate specifically in this document which questions they intend to address orally.

assumption of widespread availability/vaccination by mid-year. This assumption is consistent with that made for Russia in the WEO/GPM.

- More details on the actual vaccine rollout will be provided orally during the Board meeting.

3. ***Regarding the unemployment benefits, we take note of the disagreement between staff and the authorities as well as the authorities' concern that higher unemployment benefits could disincentivize labor supply. On this point, could staff comment on the extent of the informal employment and the authorities' assessment that the benefits supplement the informal sector incomes?***

- Around 40 percent of employment in Russia is outside formal establishments. Note that this includes sole proprietors and the self-employed, including those that are registered, so it's a higher estimate than the purely "informal". There is no reliable estimate of the share of self-employed/sole proprietors that are undeclared.
- The policy aspect of this question will be answered orally at the Board.

4. ***We agree with staff's broad outlook, though risks remain tilted to the downside. In particular, worse-than-anticipated COVID-19 outbreaks could necessitate stricter lockdowns and rising geopolitical tensions raise the threat of further sanctions. Could staff clarify whether their outlook is based on the authorities' official COVID-19 statistics or their own analysis of excess mortality?***

- As Russia is one of a handful of vaccine-producing countries, our assumptions regarding vaccine availability and the recovery thereafter are based on an assumption of widespread availability/vaccination by mid-year. This assumption is consistent with that made for Russia in the WEO/GPM.
- Regarding the coming few weeks and months, our outlook and risks are based on a variety of inputs including actual containment policies in Russia and abroad, discussions with the authorities and other stakeholders on likely containment policies in the coming weeks/months, trends in infections/deaths, etc. On the latter, it is important to note that the excess deaths quoted in the report are based on official Rosstat data, they are not independent staff estimates.
- More details on the ongoing vaccine rollout will be provided orally during the Board meeting.

5. ***How does staff assess the medium and long-term risks from the reliance on oil revenues?***

- The Russian oil and gas sector is, in a narrow sense, somewhat insulated from the risk of low energy prices due to low breakeven prices. However, low energy prices would put pressure on government revenues and export earnings. Moreover, it is undeniable that the ongoing transition away from fossil fuels poses medium- and long-term risks to the Russian economy due to its reliance on fossil fuel earnings. Staff anticipate that this will be one of the main topics in next year's Article IV consultation.

6. ***In the previous Art. IV staff assessed that the negative impact of the international sanctions is 0.2 pp on the annual growth of the economy. We wonder whether this assessment is current and how does staff assess the likelihood and impact of potential additional sanctions?***

- Staff's analysis in last year's staff report indicate modest effects of the 2014 sanctions on the post-2014 growth slowdown (on average of 0.2 p.p. per year). However, the same estimates also note a large unexplained residual (0.8 p.p. per year on average). This begs the question whether sanctions have not had a bigger effect on growth than the above estimate suggests though their effect on business uncertainty, though this remains a conjecture at this stage.

7. ***We would add that the crisis has almost universally disproportionately impacted women, yet we missed any reference to gender gaps and relevant policies under the recovery plan. Can staff comment on whether the crisis has exacerbated pre-existing female labor force participation gaps?***

- The crisis has not seriously impacted pre-existing female labor force participation gaps. The gender gap in 3Q2020 increased by only 0.1 pp to 5.9 pp compared to 1Q2020.

- However, women have been affected disproportionally through the disproportionate job losses in the services sector where female employment is concentrated. The unemployment rate has increased more for women (1.9pp from 4.4 percent to 6.4 percent) compared to an increase in total unemployment (1.7pp from 4.6 percent to 6.3 percent)

8. ***Interestingly, the spike in the unemployment rate in 2020 appears smaller than the rise during the GFC. We would welcome additional information on the crisis' impact on employment of women and youth, with comparisons to the GFC episode to the extent possible. The more recent data, including those provided by Mr. Mozhin, suggest that output and employment are on the rebound but, notwithstanding the strong recovery of oil prices, the near term outlook is still subject to uncertainties related to the path of the pandemic.***

- The GFC indeed saw a bigger spike in unemployment than the current crisis. First, the GFC saw a bigger hit to GDP than the current crisis. Second, in this crisis the authorities have incentivized employment through labor retention policies including wage subsidies.

- Across demographics, women were less affected during the GFC than men. Total unemployment increased from 5.4 percent to 9.4 percent (by 4.0 pp), unemployment in women - from 5.3 percent to 8.6 percent (by 3.4).

- In comparison, in this crisis women have been affected disproportionately more but not by a large margin. The unemployment rate has increased 1.9pp for women (from 4.4 percent to 6.4 percent) compared to an increase in total unemployment of 1.7pp (from 4.6 percent to 6.3 percent)

9. ***Finally, we would recommend refinements and updates in Annex I regarding price information ("The price of Brent…has hovered around US$40-45 per barrel since June") and the structure and the functioning of the international oil market. As regards the latter, the comparison of price sensitivity of conventional oil production in Russia to that of shale oil production in the United States could be misleading. Also, breakeven prices are not strictly comparable across oil producers because of different fiscal and exchange rate regimes. Additionally, comparing Russia's oil sector to those of lowest cost producers might obscure other constraints and rigidities. Staff may wish to comment.***

- The analysis of breakeven prices in the staff report takes into account Russia's fiscal regime, including its progressive oil sector taxation. The impact of exchange rate regime is also taken into account in the sense that the analysis reflects the close correlation between the oil price and the Ruble/US$ exchange rate. In particular, around 80 percent of operating expenses are denominated in rubles and, measured in U.S. dollars, they tend to be higher when oil prices are high (as the ruble tends to strengthen then) and lower when oil prices are low. This channel would not be present in countries with a fixed exchange rate regime.

10. ***Effective scarring may be lower. Regarding Box 1 on scarring, we wonder if one should really define scarring as the difference between actual output in post-crisis years and hypothetical output corresponding to a simple linear prolongation of the pre-crisis trend (the latter established over a very limited number of years). As it turned out, the pre-crisis boom was increasingly supported by speculation and bubbles and therefore, proved to be inherently unsustainable (not only in Russia), not to speak of ecological question marks. Moreover, a cyclical economic downturn was to be expected sooner or later. In this light, we would appreciate staff's comments whether in the case of Russia, somewhat arbitrary linear growth projections should be used as a norm from which to deduce scarring estimates?***

- The comparison of current growth trajectories against pre-crisis growth projections is done to ensure consistency with the analysis in other countries and previous crises.
- It is true that, when it comes to the GFC, the pre-crisis trend may have been an unfair benchmark given that it reflected an unsustainable growth trajectory, both in Russia and in other countries. In the current crisis however, staff's pre-crisis forecast of medium-term growth (around 1.8 percent) was already low. For this reason, it is more difficult to argue that the pre-crisis growth trend in Russia was unsustainably high, or that a comparison to it grossly exaggerates permanent losses.

11. ***While we take positive note of staff's attempt to estimate potential output during the pandemic presented in Annex VII, we are puzzled by the crucial assumption***

that the government-imposed lockdown directly reduces potential output. Can staff comment on the mechanism behind the assumption?

- The methodology in Annex VII, which has been developed by the IMF's Research Department, assumes that the most severe government-imposed lockdowns prevent firms from producing and workers from going to work. Hence, government lockdowns effectively reduce the economy's productive capacity and thus potential output. More moderate shutdown periods may also reduce potential output, but to a lesser extent that during a severe lockdown. Any decline in output during these periods is therefore likely to reflect a combination of supply and demand factors.
- As explained in Annex VII, the baseline simulation assumes that 100 percent of the decline in activity during severe lockdown periods is due to supply shocks, that 50 percent of the decline in activity during moderate shutdown periods is due to supply shocks, and that the entire decline in activity during post-shutdown periods is due to demand shocks. Sensitivity analysis discussed in the Annex are conducted to explore the robustness of the results to these assumptions.

12. ***We take positive note of staff's analysis in Annex IV which found that Russia's fiscal measures appear to be more effective in keeping corporates viable compared to other European economies. Can staff elaborate further on the rationale behind the finding, as it could provide important lessons to the membership?***

- In the simulation, the policy measure that contributes the most to reducing Russia's NFC equity gap is the permanent reduction in payroll tax (social security contribution) for SMEs from 30 percent to 15 percent (Annex II). Unlike tax deferrals or other transient measures, the permanent reduction in SME payroll tax lowers the total liabilities of the SME sector permanently and thus has a significant effect on their solvency.

13. ***While we welcome staff's firm-level analysis (a sample of more than 1 million Russian companies), presented in Annex IV, we wonder how the data comparability between firms has been ensured as the firms' accounts in the Orbis BvD database, used by staff, are presented in different formats (either national or international (GAAP or IFRS)), depending on how they are filed by companies.***

- Most Russian firms included in the Orbis BvD database reported in local accounting standards. In addition, the focus of the exercise is on the difference of corporate balance sheets between pre- and post-COVID. As long as the accounting standards are consistent at the firm level in the two periods, we don't believe there should be much cross-country bias in the results even if different countries use different reporting standards.

Fiscal Policy

14. ***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?***

- Russia's unemployment benefits are low when compared with the OECD average. Russian unemployment benefit covers 27 percent of previous income compared to an OECD average of 47 percent (the net replacement rate in unemployment after one year for a single person without children whose previous earnings were 67 percent of the average wage.

- We don't have comparable and/or consistent data for many other emerging markets. But as one illustrative data point, Turkey's unemployment benefit covers 53 percent of income (after 6 months of unemployment) compared to Russia's 27 percent (percent after 1 year of unemployment).

15. ***We note the planned elimination of tax breaks for the oil and gas sector in the context of the 'tax maneuver'. Could staff indicate how much revenue is expected from this move and how those tax breaks fare with those provided in the other large oil-producing countries?***

- Under the "tax maneuver," the mineral extraction tax will gradually increase and export duties will gradually been eliminated by 2024. The net effect after accounting for the "reverse excise" would be around RUB 1.6 trillion (1.5 percent of 2020 GDP). The elimination of some tax expenditures in the oil and gas sectors in the context of the 2021-2023 Budget is not part of this tax maneuver, rather it has been done to increase the efficiency of tax incentives for oil production.
- We have checked with colleagues in FAD and we do not have comparative estimates of tax expenditures in the oil sector in large oil-producing countries

16. ***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?***

- Unlike the MET royalty-based tax, the AIT is a profit-based tax. The crucial difference between the two is that the AIT allows oil and gas companies to deduct costs, including costs related to investment in new technologies. The transition to the AIT is therefore likely to speed up adoption of costly new technologies, including those that could help reduce the carbon footprint of the sector.

17. ***We note staff's assessment that the amount of fiscal support (around 4.5 percent of GDP), deployed by the authorities, is in line with the average for G20 emerging markets. Nevertheless, we would like staff to comment on whether the***

composition of this support significantly deviates from the average, as well as whether direct financial support to affected households is sufficient and well-targeted.

- Above the line measures (excluding accelerated spending/deferred revenue) in Russia represent 2.9 percent of GDP, close to the average for G20 EMs. In particular, the amount related to above the line measures in the health sector in Russia is similar to the one in G20 EMs (0.6 percent of GDP). Below the line measures (e.g. equity injections) in Russia are similar to the observed average in G20 EMs (0.5 percent of GDP). However, contingent liabilities (e.g. guarantees), are smaller than the observed average in G20 EMs (0.5 percent of GDP vs 2.5 percent of GDP).
- With respect to financial support to households, staff's initial assessment is that the support measures have been well targeted and have contributed to mitigate the decline in household incomes. The authorities expanded unemployment benefits and allowances, which added to the permanent increase in transfers to households with children that had been announced in January; together, per the authorities estimates, these measures boosted total household incomes in the second quarter by about 5 percent.

18. ***While we broadly agree that the Russian authorities have substantial fiscal space due to low debt and access to the international capital market, we note that on previous occasions staff emphasized significant fiscal risks, stemming from contingent liabilities, as well as the need for preserving intergenerational equity, as main factors, limiting Russia's fiscal space. Could staff clarify whether their views have changed due to the pension reform and the new budget rule implementation?***

- Staff see more fiscal space now relative to the 2017 assessment. This is in part because the initial conditions in the economy have improved. For example, while public debt is not much lower, gross financing needs at the onset of the crisis were well below those in 2016. Also, there has been an accumulation of assets such as savings in the National Wealth Fund (13 percent of GDP as of end-2020 compared to 4 percent as of end-2017. Note that international reserves have also increased from 27 percent of GDP as of end-2017 to an estimated 41 percent of GDP as of end-2020. The building of these buffers in recent years contributes to intergenerational equity by converting resources under the ground into financial assets.

19. ***On targeted spending, there is an underlying justification for the case to case basis of verification and support suggested in the report. While this approach can work in normal times, is it feasible to strictly follow this approach during a crisis of this nature and scale? Can the staff comment on the experience of countries in the region which were placed in similar circumstances?***

- The case-by-case verification approach was limited to systemic companies that are limited in number. For other companies' sectoral activity codes were used to identify firms that qualified for support. This approach reduced the need for time-consuming verification procedures and allowed for a rapid rollout of corporate sector support.

20. ***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.***

- Fiscal support measures for unemployment people were also complemented by targeted measures to support household incomes (e.g. lump-sum welfare payments to households). Also, anti-crisis fiscal support measures to unemployed people/households were provided on top of targeted pre-crisis social spending measures announced in January (e.g. allowances for kids between 3 and 7-year-old for families with income less than subsistence level).

21. ***We also note that the World Bank (Russia Economic Report, December 2020) reports that while the federal budget increased its transfers to regions in response to the crisis, some regions were unable to augment this as they face borrowing restrictions under state debt restructuring regulations. Could staff elaborate on measures used by these regions to cope, relative to those that don't have borrowing restrictions?***

- According to preliminary data from the Ministry of Finance of Russia, regional budgets in 2020 were executed with a deficit of 707 billion rubles (0.7 percent of GDP), of which 570 billion rubles (0.5 percent of GDP) accounted for 17 resource regions, as well as Moscow and St. Petersburg. Regions with limited access to market borrowing have used budget loans, free balances on the accounts of the regions, and borrowing from banks. According to the Ministry of Finance, 31 percent of the deficit was financed at the expense of provided budget loans, and more than 40 percent of the deficit was financed at the expense of free balances on the accounts of the regions.
- In addition, as also indicated in the World Bank report, regions participating in the federal loans restructuring program (73 regions) have benefitted from its extension from 2024 to 2029. These regions can use the funds equivalent to their previously planned debt repayment in 2020, to make up for lost revenues and finance spending on necessary measures to cope with the Covid-19 crisis.

Monetary Policy

22. ***Could staff indicate whether BoR ever considered adopting a fluctuation band around its inflation target.***

- Since the adoption of the inflation targeting regime in 2015, the BoR have not considered having a fluctuation band around its 4-percent target.

23. ***We would welcome staff assessment of the efficiency of the monetary policy transmission mechanism from the policy rates and the nature and duration of lags in the transmission between exchange rate and prices.***

- Staff assess the exchange rate pass-through in Russia at around 0.1: a 10% Ruble depreciation can lead to a 1% increase in headline inflation within 2-4 quarters.

- The credit channel of monetary policy transmission has been working in the crisis: following the cumulative rate cut of 200bps by the Bank of Russia, both average lending rate and average interbank rate have declined by more than 150 bps since the beginning of 2020.

- Separately, internal analysis by staff suggests that the Phillips Curve in Russia has flattened over the past a few years, similar to what has happened in many other countries. The slope of the curve declined from around 1 in 2016 to almost 0 in 2018.

24. ***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.***

- In 2020, the demand for currency increased significantly given the drastic decline in money velocity during the pandemic. Staff expect a gradual return of money velocity to the pre-pandemic level over the next years.

Financial Sector

25. ***Like Russia, regulatory forbearance on loan classification and provisioning is being adopted in many countries due to elevated uncertainty. Can the staff comment on the instances or possibility of preparing a shadow balance sheet based on extant pre-crisis norms so as to assess the potential impact on the banks' balance sheet and help gauge the sensitivity and extent of risks?***

- While requesting banks to submit a complete set of "shadow balance sheets" per se may not be common in practice, some country authorities request banks to report financials (e.g. NPLs, provisioning and capital adequacy) with and without the use of regulatory forbearance measures (Philippines), or to estimate losses based on pre-crisis loan classification and provisioning requirements that have been suspended since the pandemic (El Salvador). These figures however are collected only for supervisory purposes, and not disclosed to the public.

- In Russia, large banks also prepare IFRS accounts and regulatory forbearance does not apply to IFRS accounts. In this sense, IFRS accounts can give a "truer" picture of the situation. However, IFRS interim reports have not been audited yet. Moreover, IFRS gives banks significant discretion on the classification and estimated losses on a given loan. The BoR should therefore work closely with banks at a granular level and push the banks hard on their assumptions on each loan to assess the impact of the Covid-19 crisis.

26. ***We look forward to the findings of the upcoming 2021 FSAP. Could staff elaborate on the timeline? As an FSAP for Russia is scheduled for this year, will the report be available by the time of the next Article IV consultations?***

- It is difficult to predict when the FSSA report will be available due to current uncertainties. However, the IMF FSAP team, together with the World Bank's team, has a scoping mission scheduled for later this month. The ***tentative*** plan is to have the FSSA ready to circulate to the board by early 2022.

27. ***The envisaged addition of borrower-based macroprudential measures to the central bank's toolkit will be critical to regulate the mortgage market. Could staff indicate whether the authorities consider ending the mortgage subsidy program that has fueled housing price inflation?***

- The current subsidized mortgage program is expected to end on July 1, 2021. We understand a decision on whether to extend the program or not will be taken by the end of the first half of the year.

Structural Reforms

28. ***Could staff elaborate on the main business climate areas where further improvements are needed?***

- Long-standing weaknesses include inadequate infrastructure, a large footprint of the state, insufficient competition, excessive regulations, weak protection of property rights, and vulnerabilities to corruption. Also, regrading trade, staff identified that Russia exhibits high localization requirements.

29. ***In the circumstances, successful completion of the 13 national projects by the end of the decade, with large private sector participation, should provide a major boost to diversification and exports, and raise the potential output. We welcome staff comments on the extent of coordination between the various projects.***

- The 13 national projects are broken into more than 70 federal projects which are coordinated into integrated plans to achieve the national goals to halve poverty and increase growth. As an example, a project to modernize and expand transport and energy infrastructure is broken into 11 federal projects: connecting Europe to Western China, seaports, northern waterways, railway transport, logistical centers, communications among centers of economic growth, development of regional airports and air routes, high speed rail, domestic waterways, energy infrastructure, and oil and gas transit infrastructure.

- The authorities have set up a comprehensive monitoring framework which should facilitate operational coordination between the projects. Each national project has been assigned a curator, a manager, and an administrator (typically, a deputy prime minister, a minister, and a deputy minister). The authorities have published detailed key performance indicators for each national project and have set up an online reporting system.

30. ***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?***

- Staff doesn’t expect significant changes to the scope of the national projects. The national goals remain the same, while the deadlines for realizing the goals have been extended from 2024 to 2030. However, on account of the pandemic, the authorities have prioritized some projects, i.e. healthcare related national projects and social focused projects like housing constructions and family support have been accelerated.

CONSTITUENCY CODES

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF
Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC
China

OEDCE
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF
France

OEDGR
Germany

OEDIN
Bangladesh, Bhutan, India, and Sri Lanka

OEDIT
Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA
Japan

OEDMD
Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE
Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU
Russian Federation and Syrian Arab Republic

OEDSA
Saudi Arabia

OEDST
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK
United Kingdom

OEDUS
United States