

Russian economy in crisis and its future: Policies to overcome crisis and official forecast

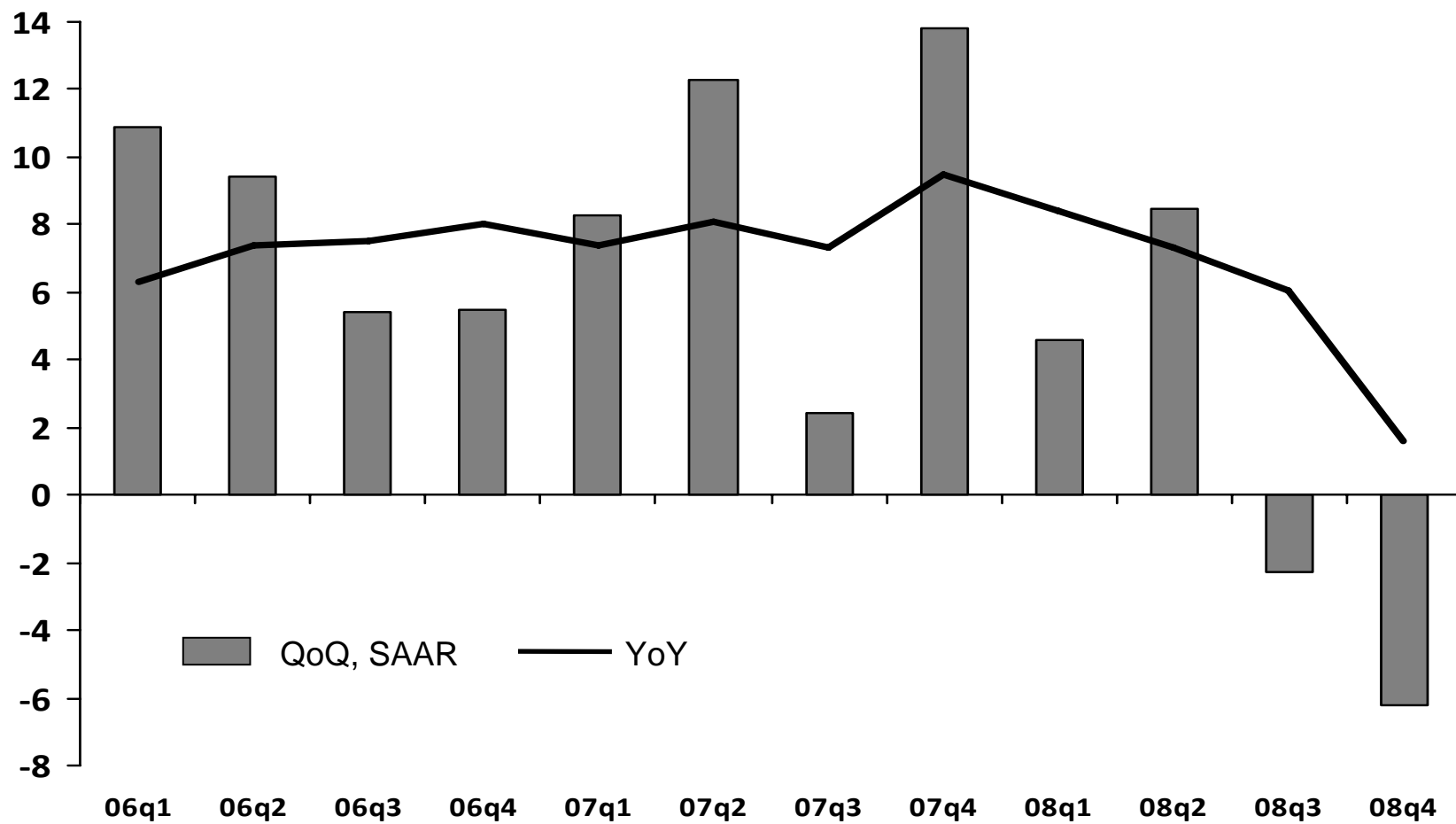
Oleg Zasov

Ministry of Economic Development

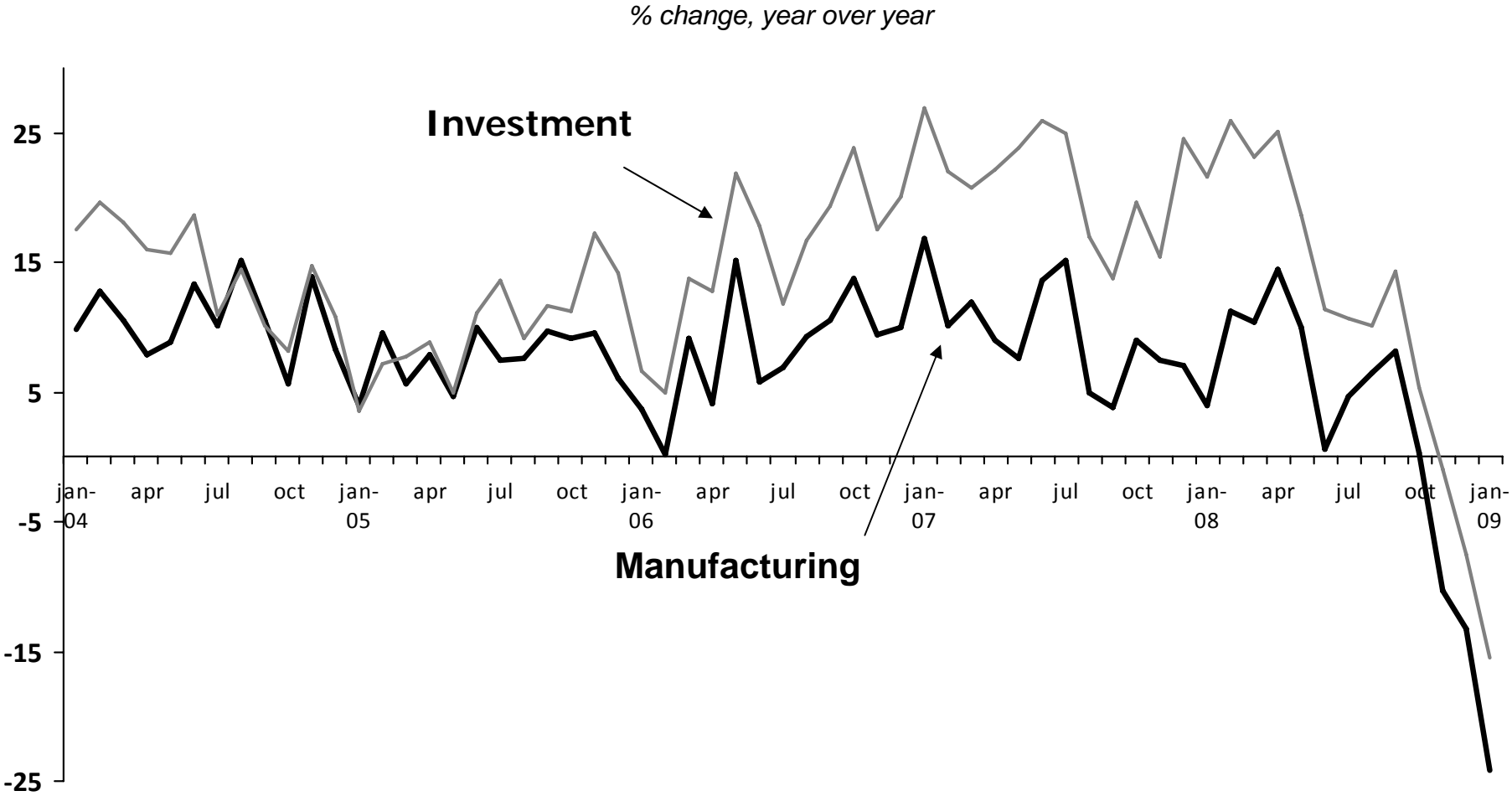
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GDP growth has turned negative

Real GDP growth

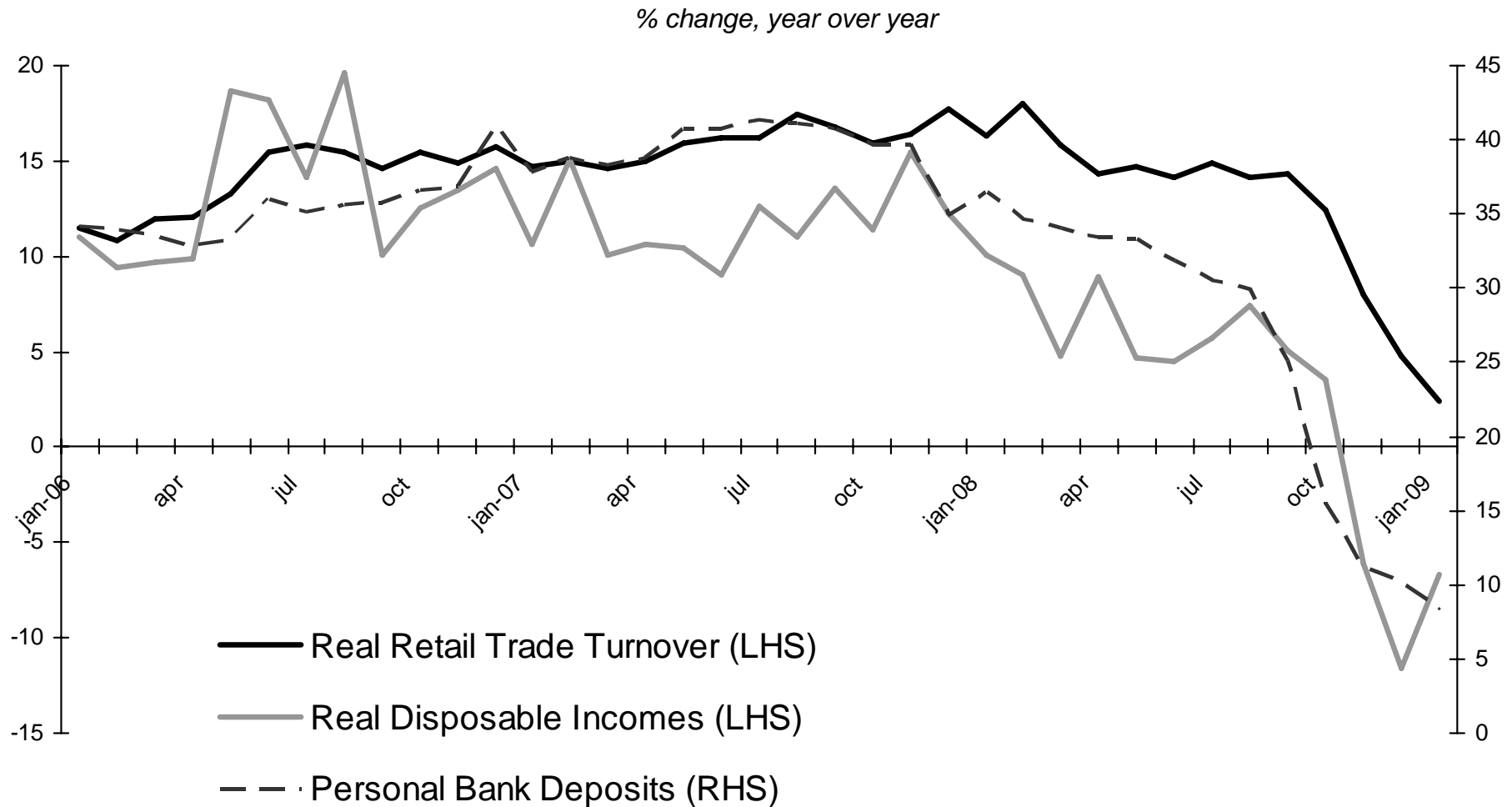


Falling investment and external demand brought manufacturing growth to negative values



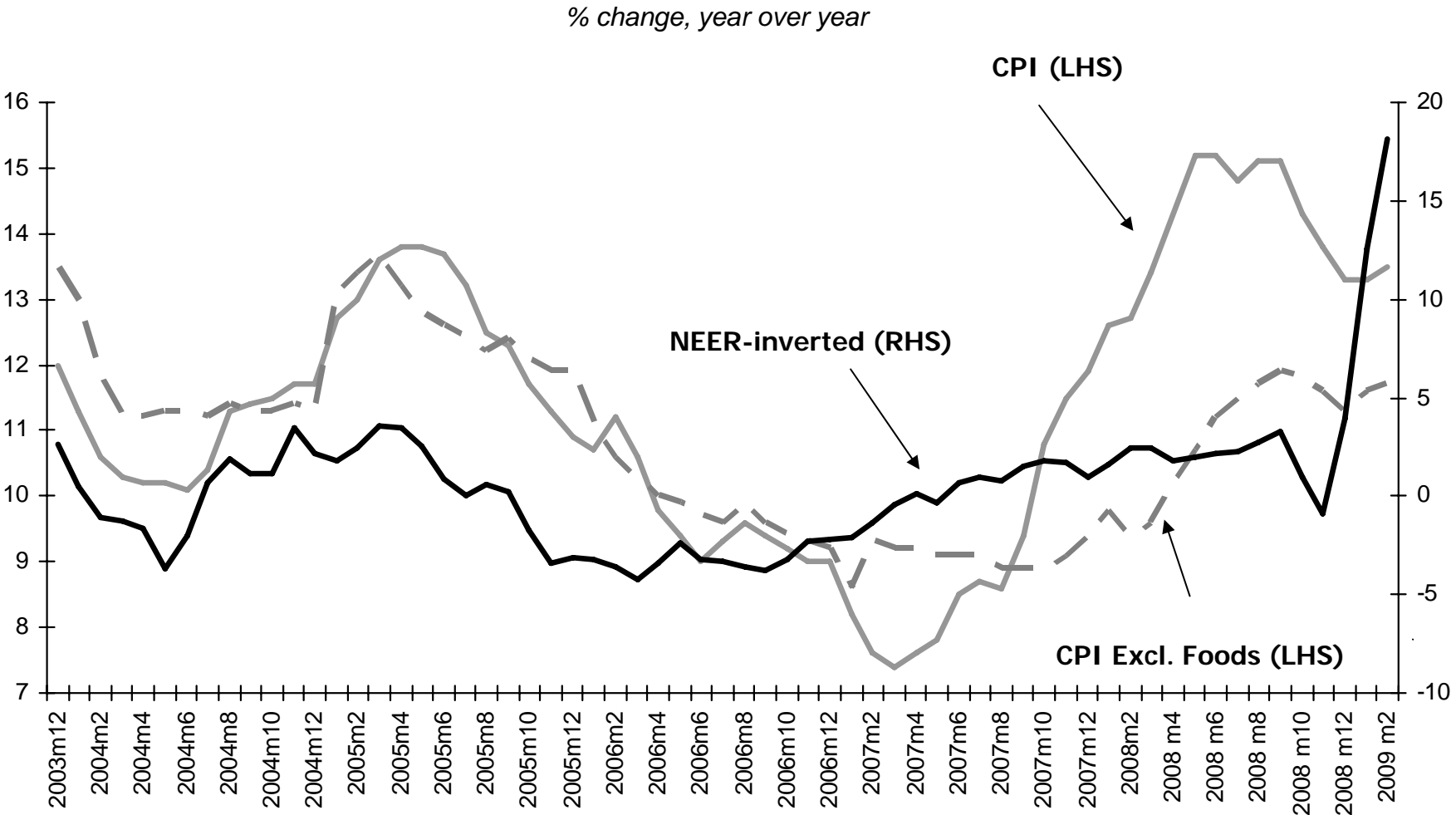
Source: Rosstat

Consumption growth still positive in spite of a decline in disposable income



Source: Rosstat, BoR, MED calculations

Upward price pressure likely to come back following weaker ruble



Source: Rosstat, BoR

Three transmission mechanisms

- The terms of trade channel

Commodity prices have shrunken several times in recent months while commodities accounted for about 80% of goods export

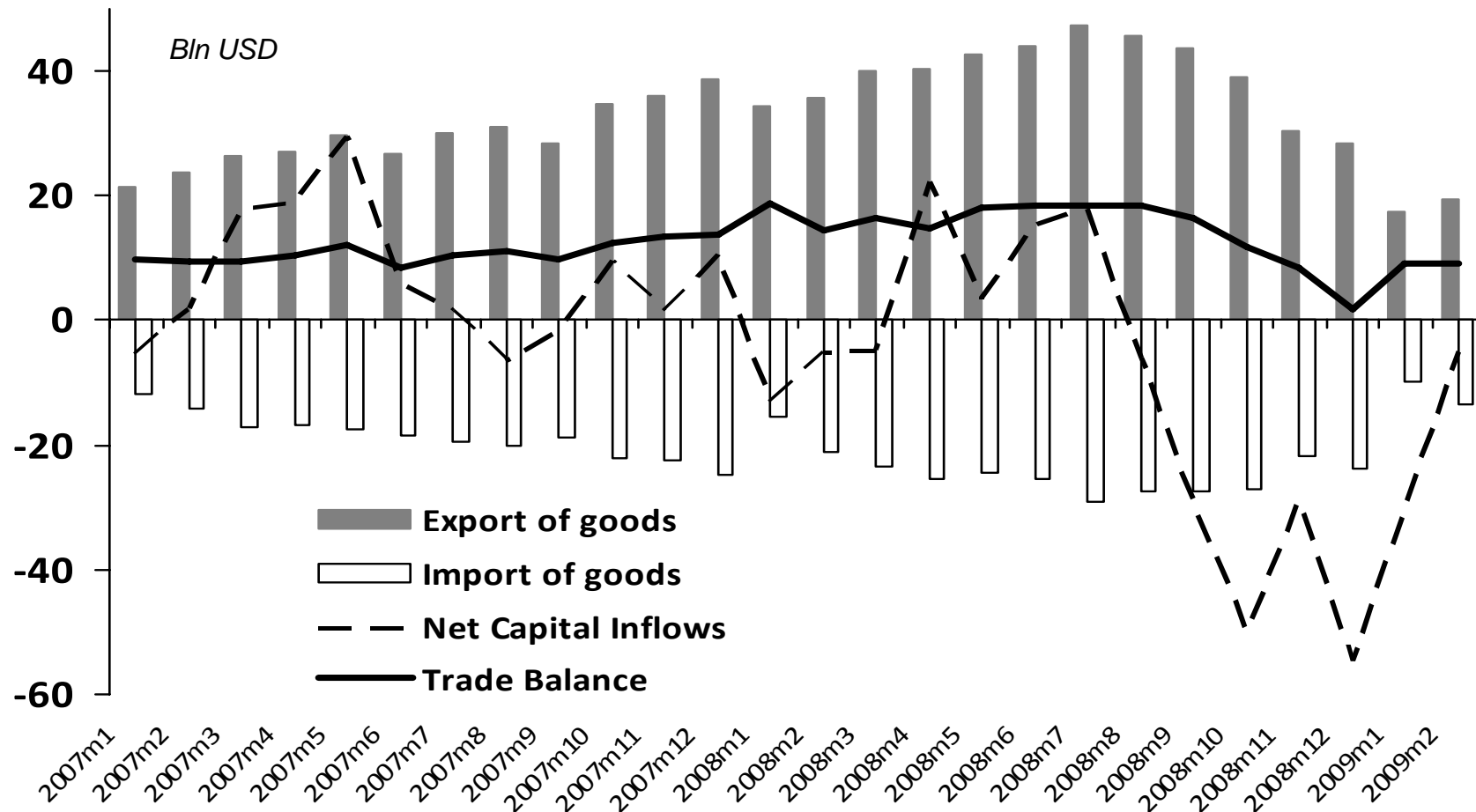
- The credit channel

Global credit crunch and stock market collapse depleted main sources of borrowings, leaving banks and corporations with massive short-term due debt payments

- The confidence channel

- Whether ruble will continue to devalue
- How sound real sector positions for further development and when/whether commodity prices will start to support them?
- Can we talk ourselves into a long recessions?
- Whether the fiscal positions are strong for mid-term

Terms of trade losses have reduced trade surplus, but 2009 have brought some signs of stability

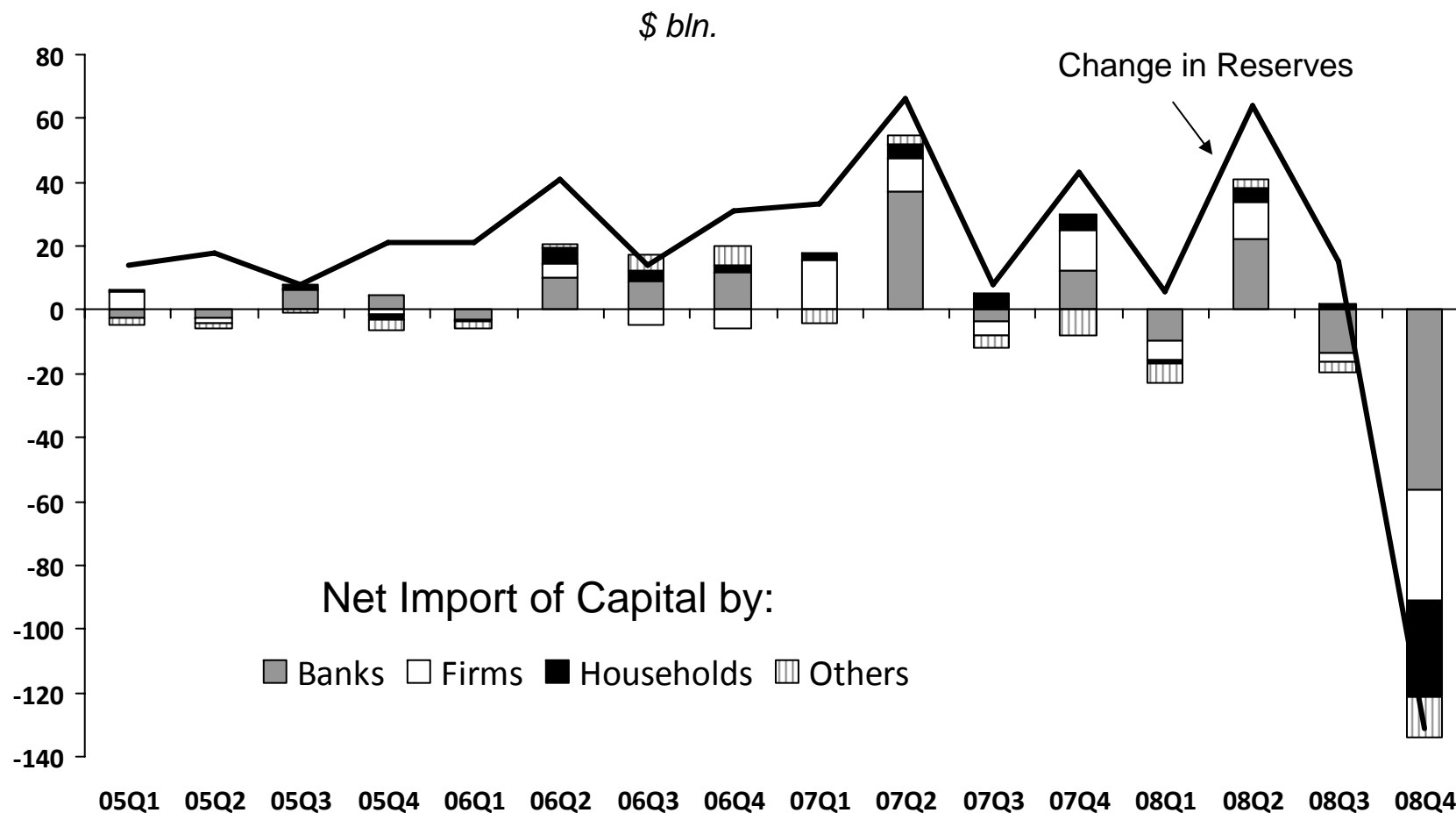


Source: BoR, MED calculations

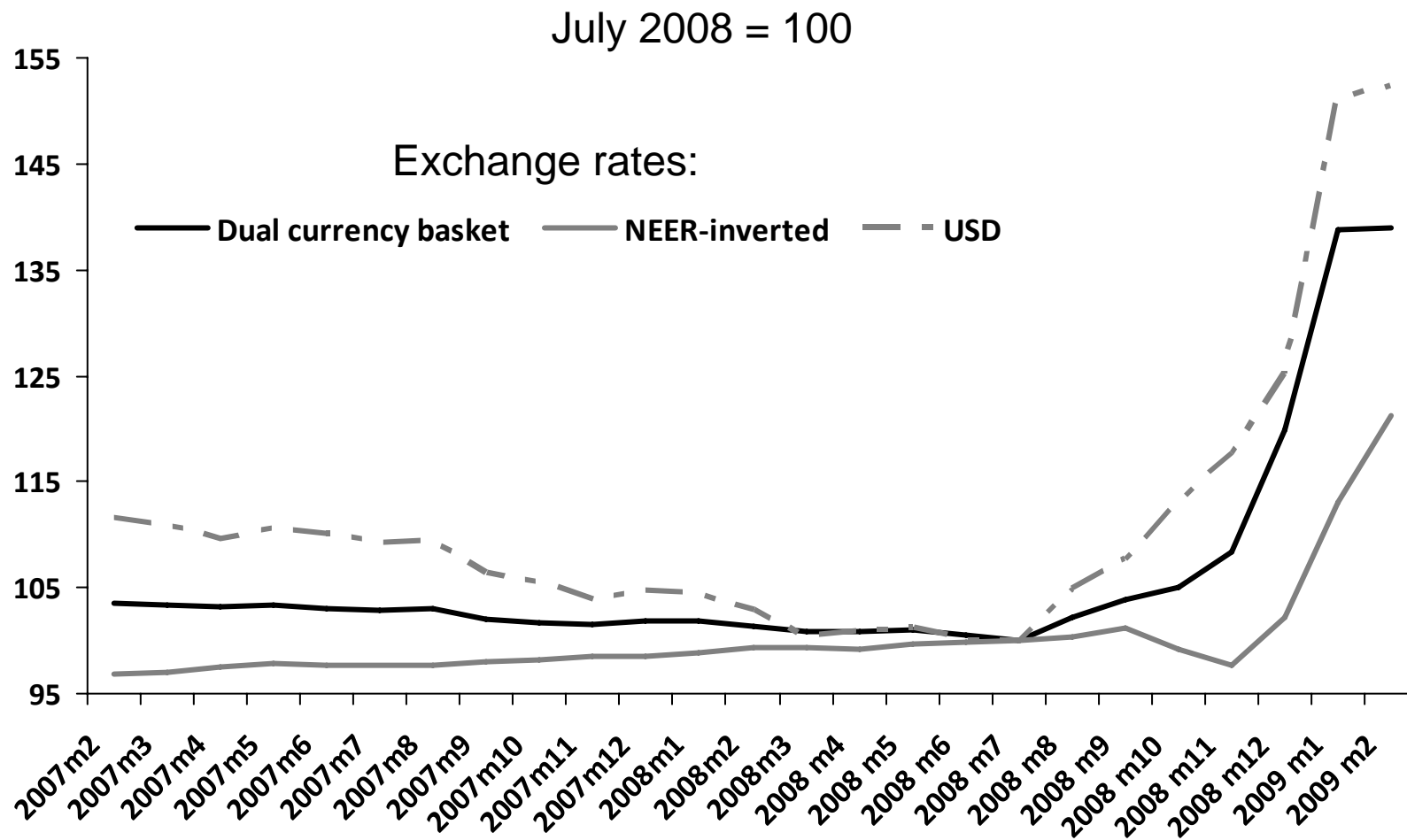
The main policy measures in 2008

- A cut in the reserve requirements rate
- Increasing the amount of fund available through REPO
- BoR provides non-collateral loans to qualifying banks
- BoR and NWF provide subordinated loans (RUB725bln = \$25bln)
- Refinancing of private external debt through BoR FX reserves (\$11.2bln)
- 100% guarantee for retail deposits up to RUB700,000 (\$24,000)
- RUB175bn (\$6bn) from the NWF was used to support stock market
- Agency for Deposit Insurance was recapitalized by RUB200bn (\$7bn) to restructure troubled banks
- Income tax rate was cut from 24% to 20% (from 2009)
- VAT payment rules were changed
- A cut in the oil export duty

Capital flows reversed noticeably due to the tighter global credit conditions and expectations of ruble to be devalued



Ruble devalued mainly to USD, while weakening to currencies of trading partners was more modest



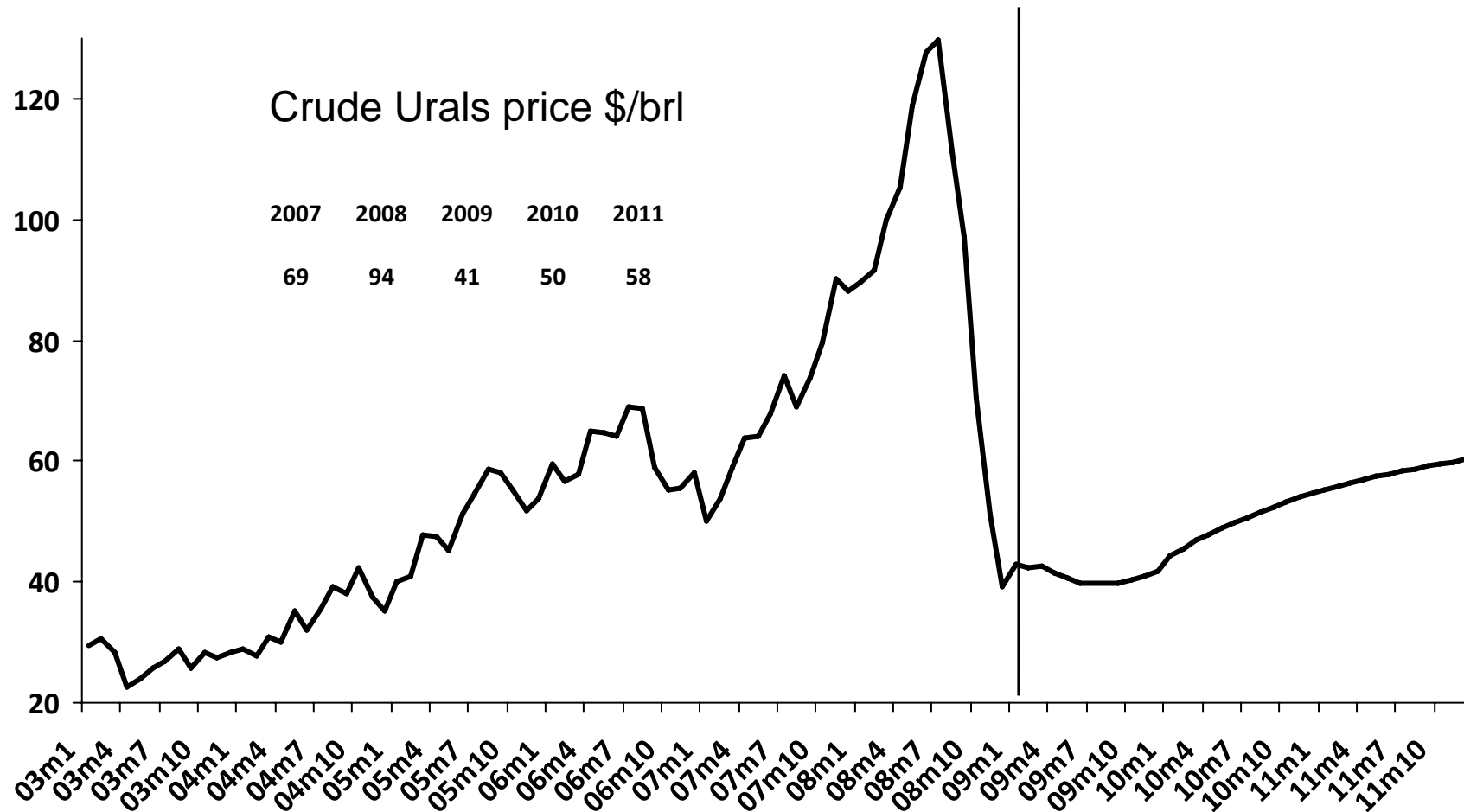
Fiscal stimulus package for 2009

- Further financial support for banks - RUB555bn (\$15.8bn)
 - NWF RUB255bn (\$7.3bn) – subordinated loans
 - RUB300bn (\$8.5bn) – banks recapitalisation
- Social supporting - RUB628bn (\$17.9bn)
 - Supporting of labor market, including increased unemployment benefits
 - Full compensation of imbalances in the pension system, as well as in social and medical insurance systems. Pensions and social payments will be indexed due to revised inflation.
- Regional level supporting – RUB300bn (\$8.5bn)
 - Transfers and budget loans
- Supporting of real sector – RUB343 (\$9.8bn)
 - Subsidies, interest rate subsidies, capital acquisition
 - Priority sectors: motor-car construction, aviation, agriculture, defence industry, construction. Also, support of exports, small and medium enterprises.
- Domestic demand supporting
 - Orientation of Govt demand on the domestically produced goods
 - Growth of import duties on automobiles, some items of metals, chemicals and agriculture production
- Additional guarantees – up to RUB300bn (\$8.5bn)

Assumptions underlying the outlook

- World output will start to gradually recover in 2010
- Commodity prices have reached the bottom recently and will gradually increase
- External borrowing conditions are expected to somewhat ease in 2010 and capital outflows will exhaust

Mid-term assumption: global growth recovery will bring the commodity prices up again



The Federal Budget , % of GDP

	2007	2008	2009				2010	2011
			Budget Law	Estimation	<i>% change to budget law, in current rubles</i>	<i>% change to 2008, in current rubles</i>	F	F
Revenues	23.5	22.3	21.2	16.6	-38.8	-27.8	16.6	16.6
oil&gas	8.7	10.6	9.1	5.1	-56.2	-53.2	5.8	6.2
non oil&gas	14.7	11.8	12.1	11.5	-31.1	-12.1	10.7	10.4
Expenditure	18.1	18.2	17.5	24.6	10.0	31.2	21.6	19.6
Stimulus plan				4.1				
Base expenditure	18.1	18.2	17.5	20.5	-8.6	9.0		
Investment	1.2	1.6	2.0	2.1	-20.0	28.2	2.1	2.0
Overall balance	5.4	4.1	3.7	-8.0			-5.0	-3.0
Oil and Gas Funds (end of period)	11.6	15.8	16.5	15.0	-28.3	-7.0	10.6	7.7

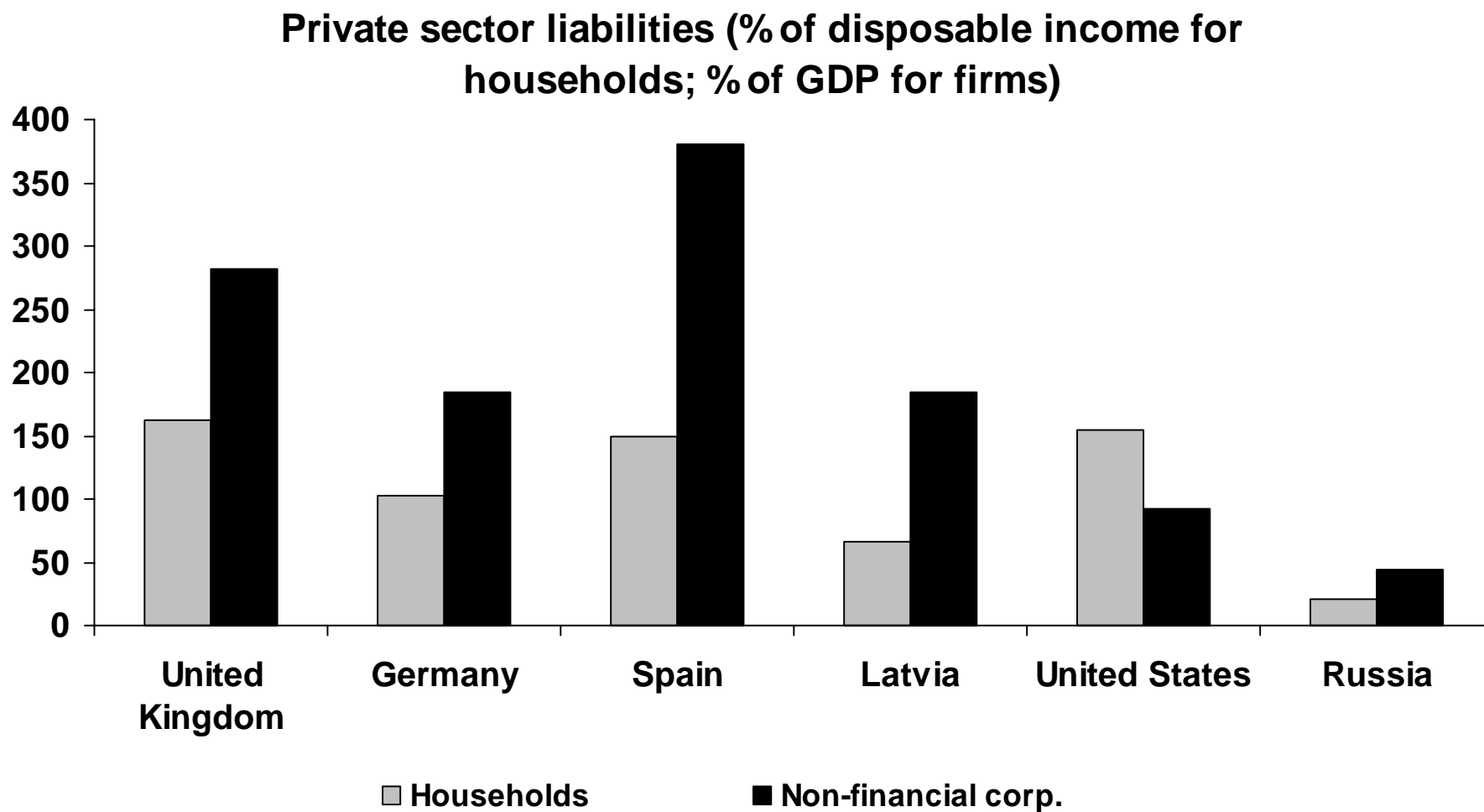
Key factors of mid-term recovery of growth

- Ruble devaluation reduced demand for imports leaving the room for domestically produced goods
- Terms of trade will start to recover sending the positive signs to commodity sectors and restoring the overall confidence
- Fiscal measures are aimed at supporting domestic demand and fragile industry sectors
- From production side, labor market and capacity constrains are not the major concern any more

Labor market has softened

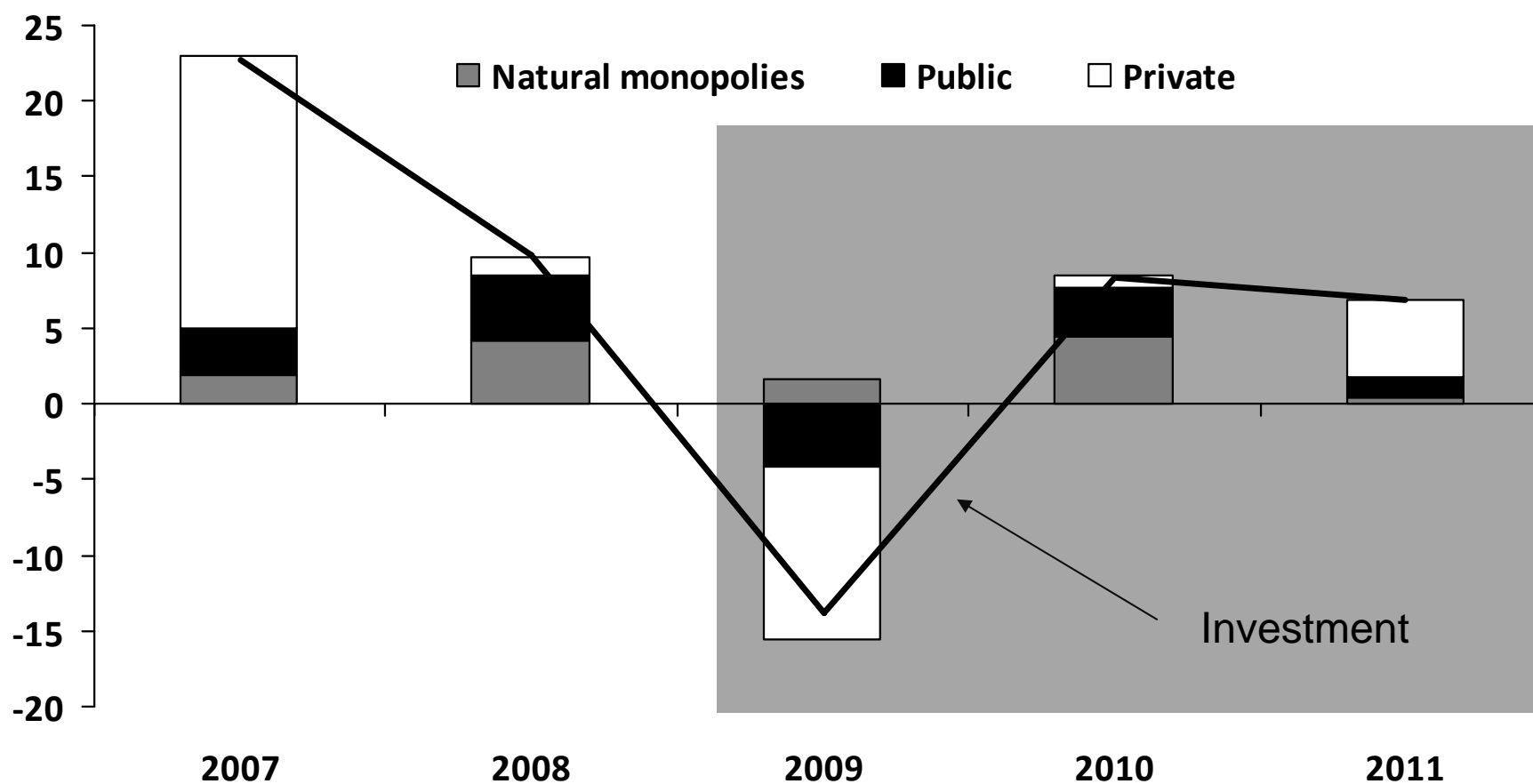


Low levels of private debt in relative terms

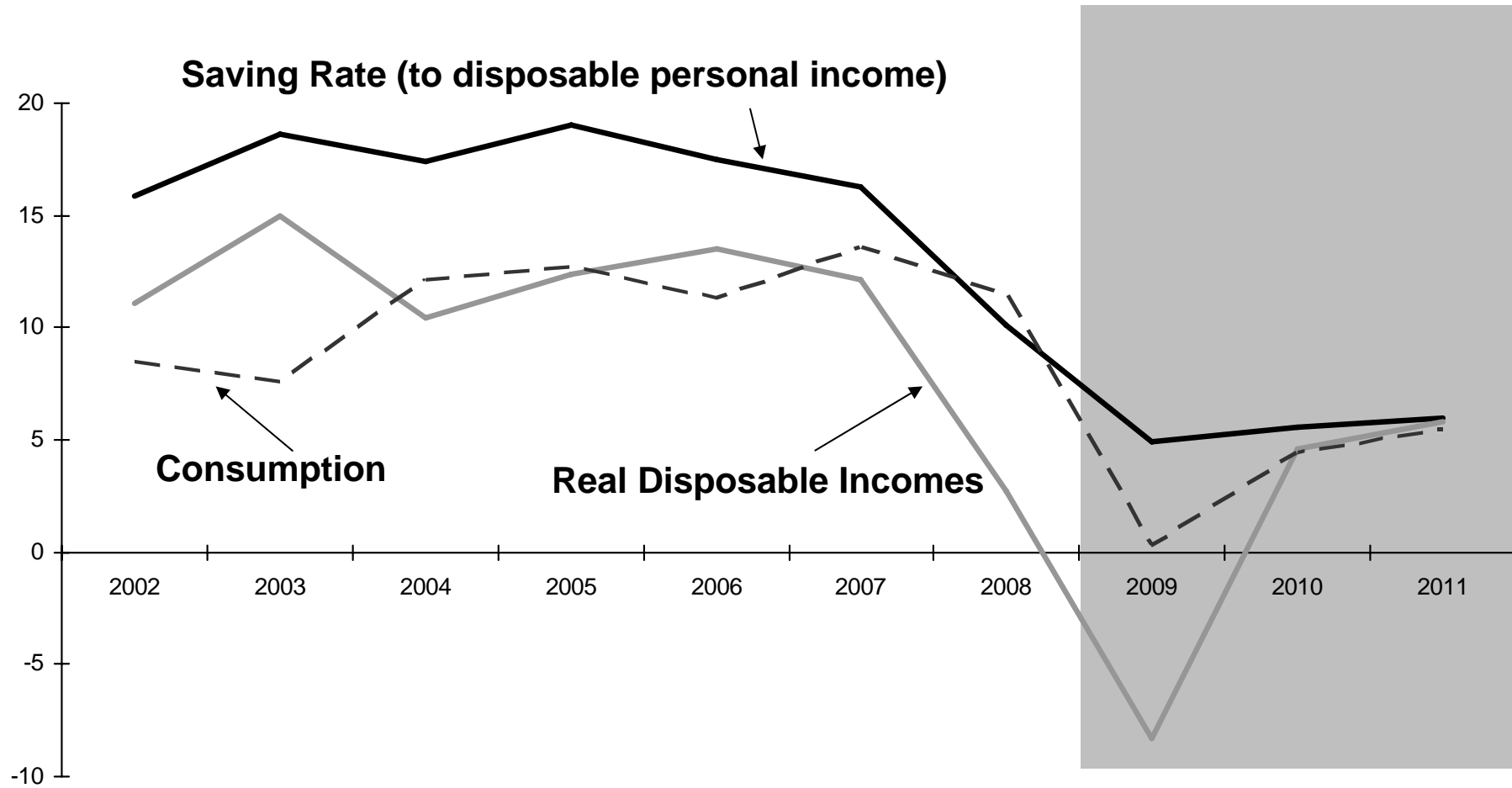


Investment activity sharply cooled, but we expect natural monopolies and public sector will support overall dynamics

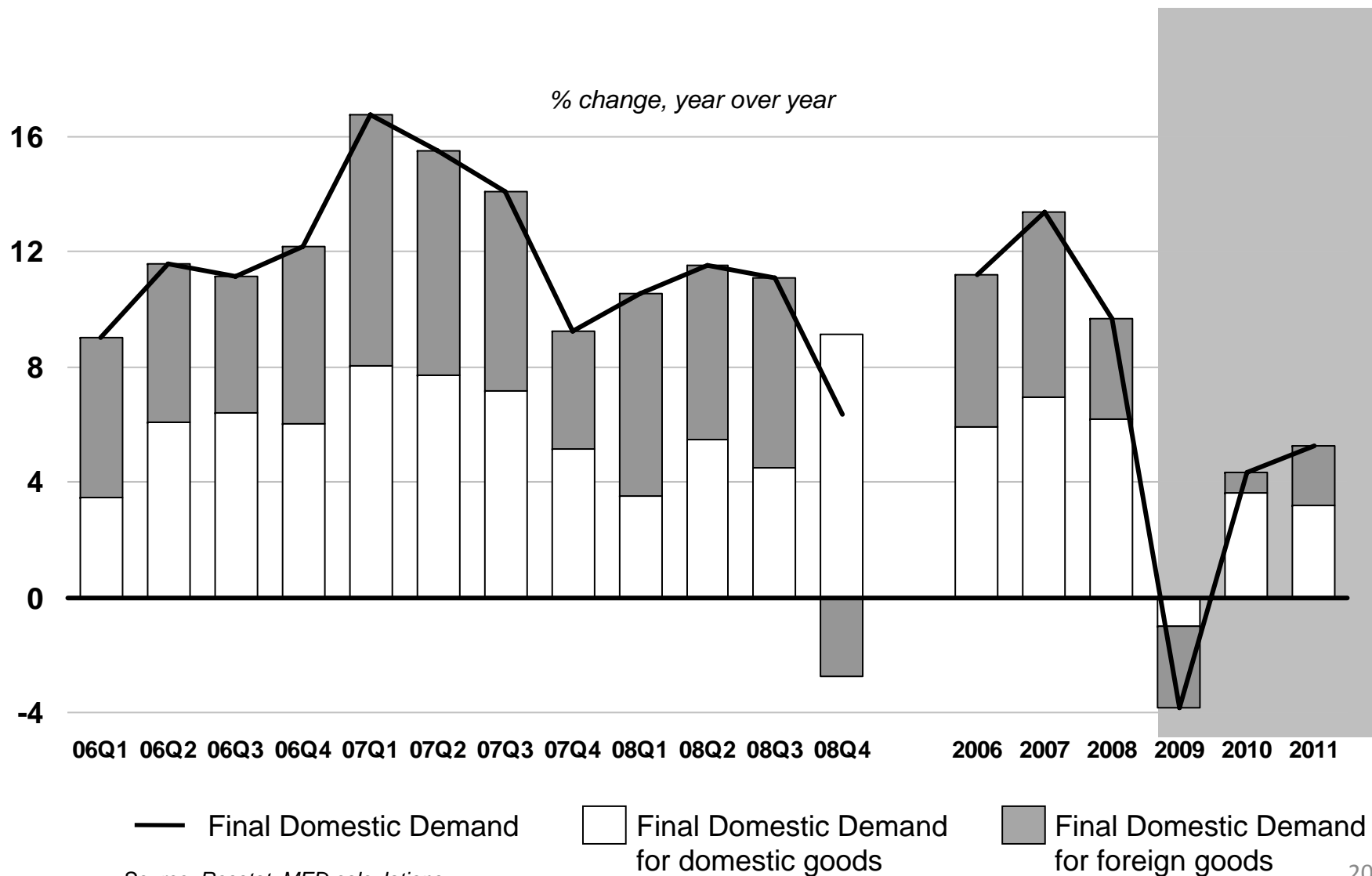
Contributions to real investment growth, y/y%



Consumption is stable but saving rate will decline

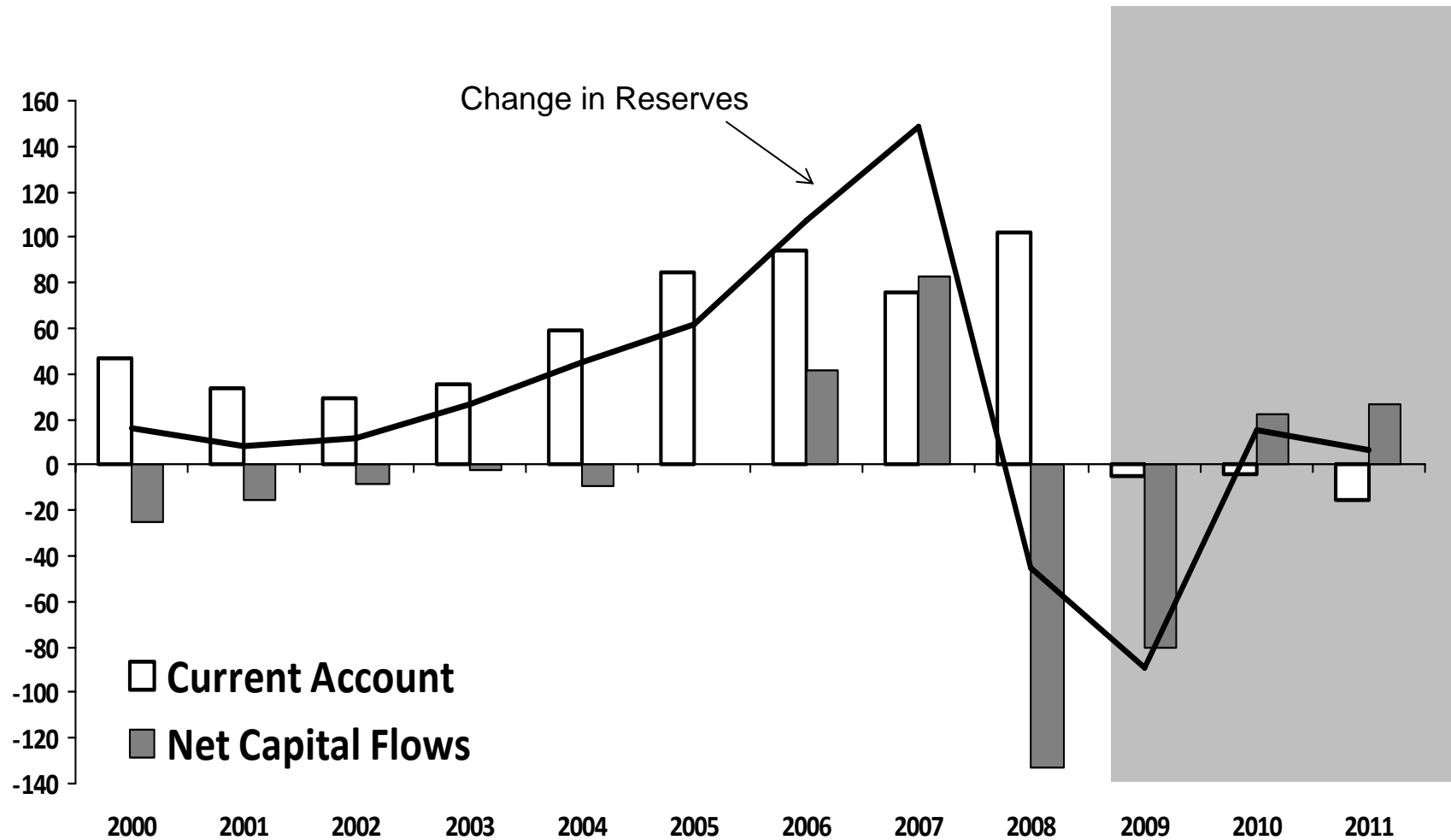


Domestic demand will weaken, but thanks to the weaker ruble, demand for domestic goods is much less affected..



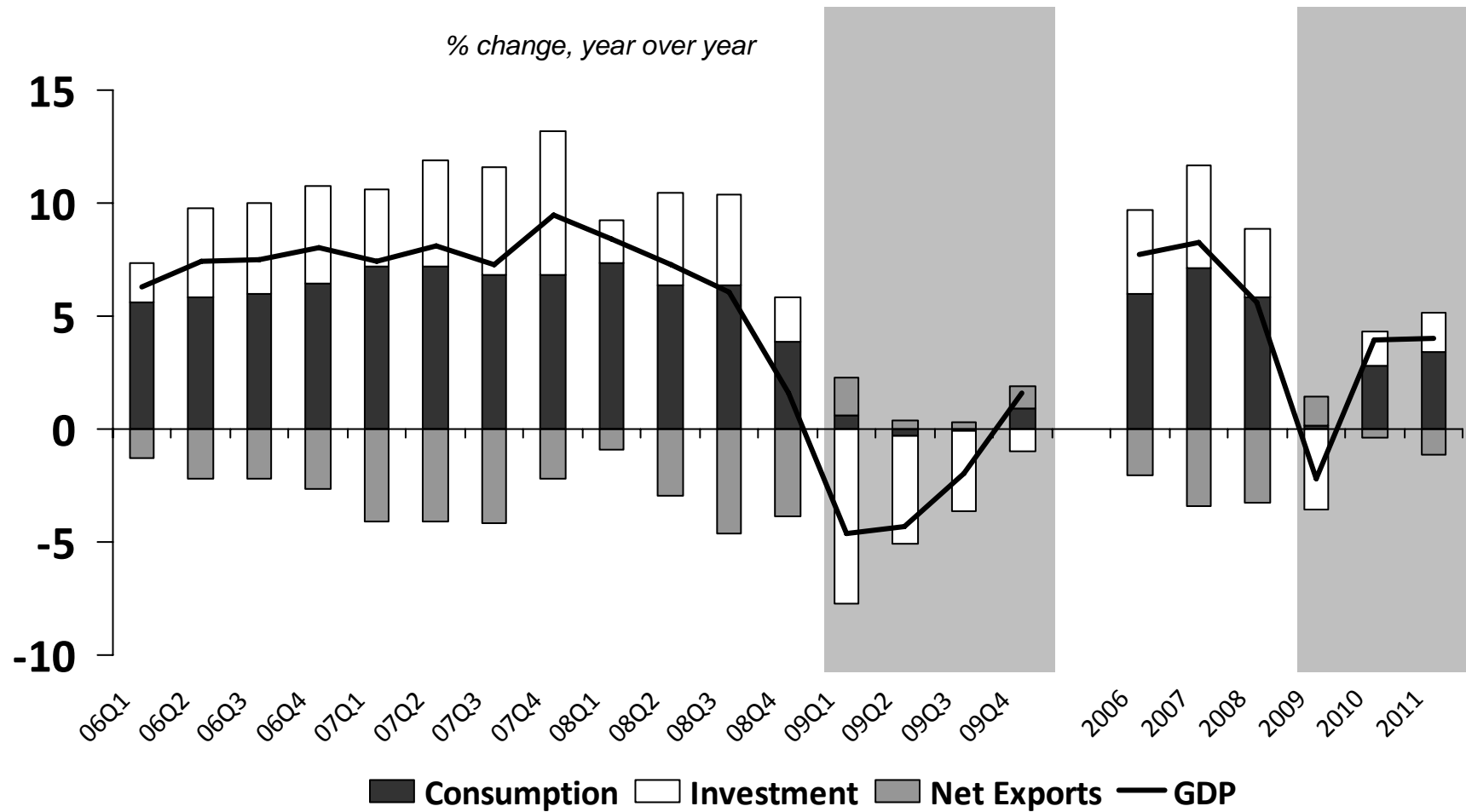
Source: Rosstat, MED calculations

CA will be supported by slowing domestic demand and
for mid-term by terms of trade gain



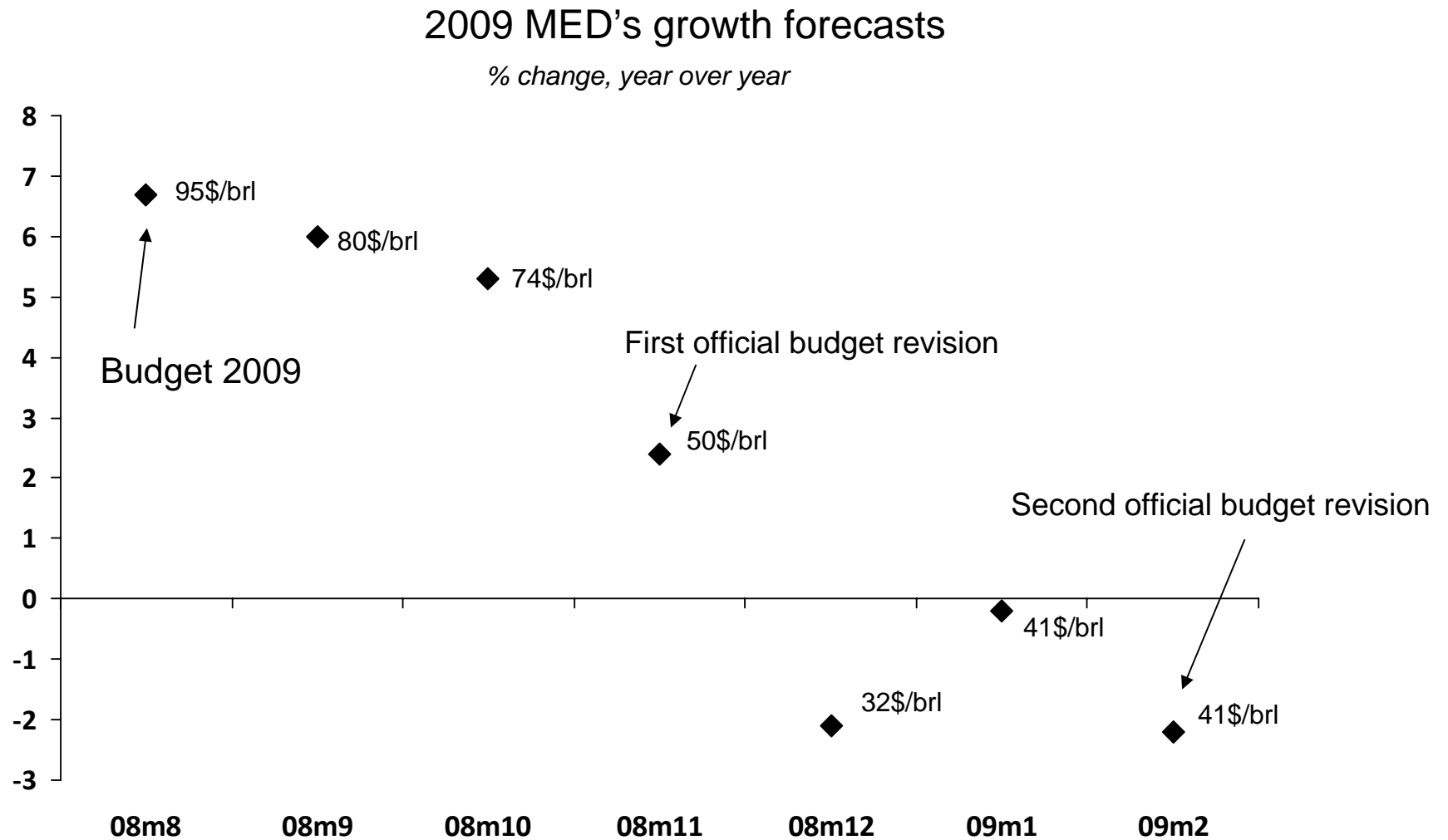
Source: BoR, MED calculations

GDP growth will start to recover to the end of 2009 and net export is going to be the main recovery factor



Source: Rosstat, MED calculations

Forecast of GDP growth has been repeatedly revised downwards



Risks to the outlook

Even on revised forecast risks are skewed to downside in the short-term

- Projected investment activity and stable consumer demand could be achievable only with restoration of domestic credit
- If tax bases continue to shrink fiscal consumption and investment could be cut again
- Expectations of further ruble depreciation can come back if global economy continues to fall
- Commodity price risk is balanced