Russian Economic Report #27, Spring 2012

Moderating risks, bolstering growth

WORLD BANK

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CASE, Warsaw

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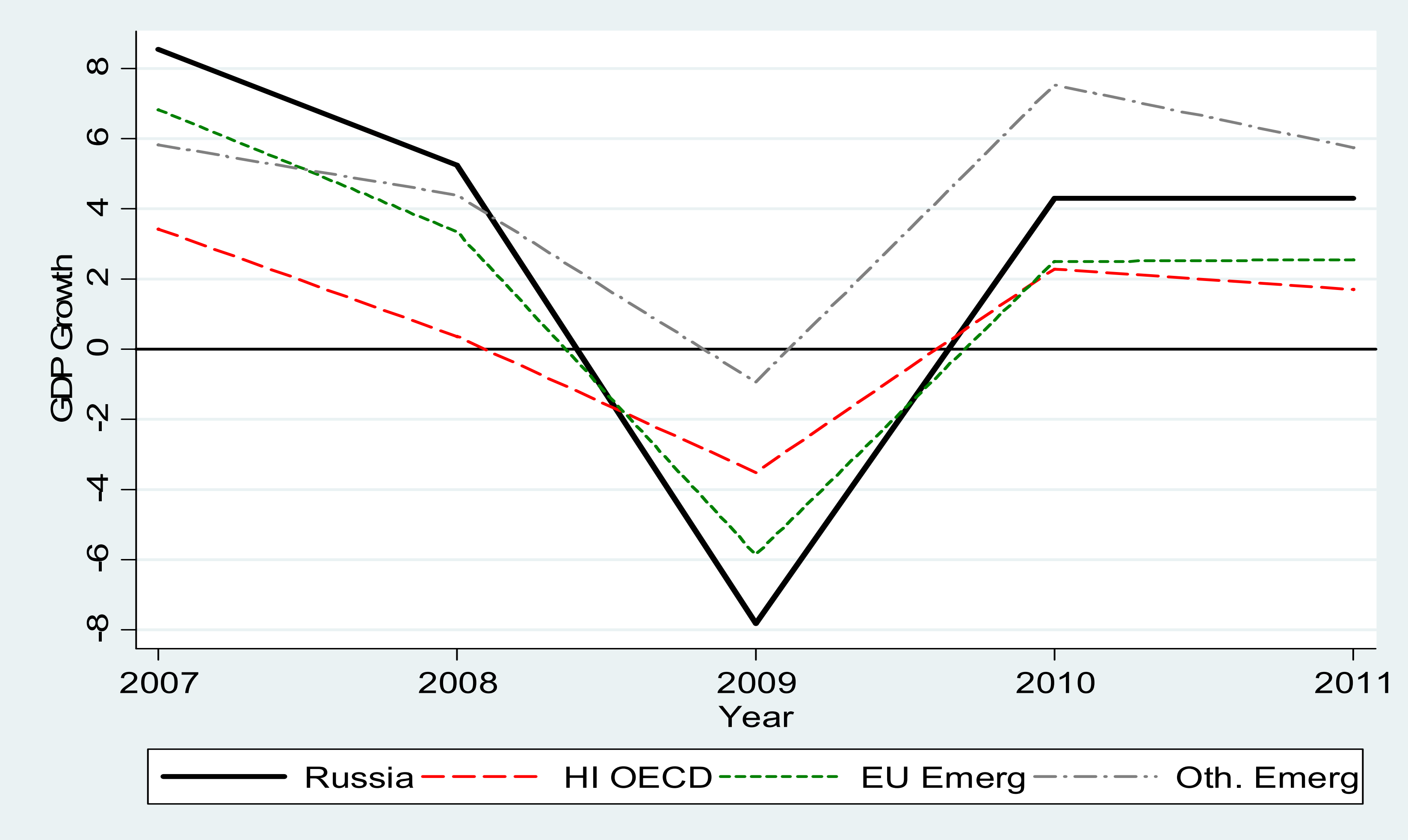
MESSAGES

- The recovery in Russia remained steady during the last year in spite of stalling global growth.
- Russia’s growth rate is volatile due to its dependence on oil.
- The rebound since the 2008 crisis is weak.
- And growth is set to moderate in 2012.
- Economic policies can moderate risks by shoring up macroeconomic stability, and bolster growth by lifting structural barriers.

RECOVERY STEADY

Growth steady in Russia as recovery slows in high income OECD and other emerging economies

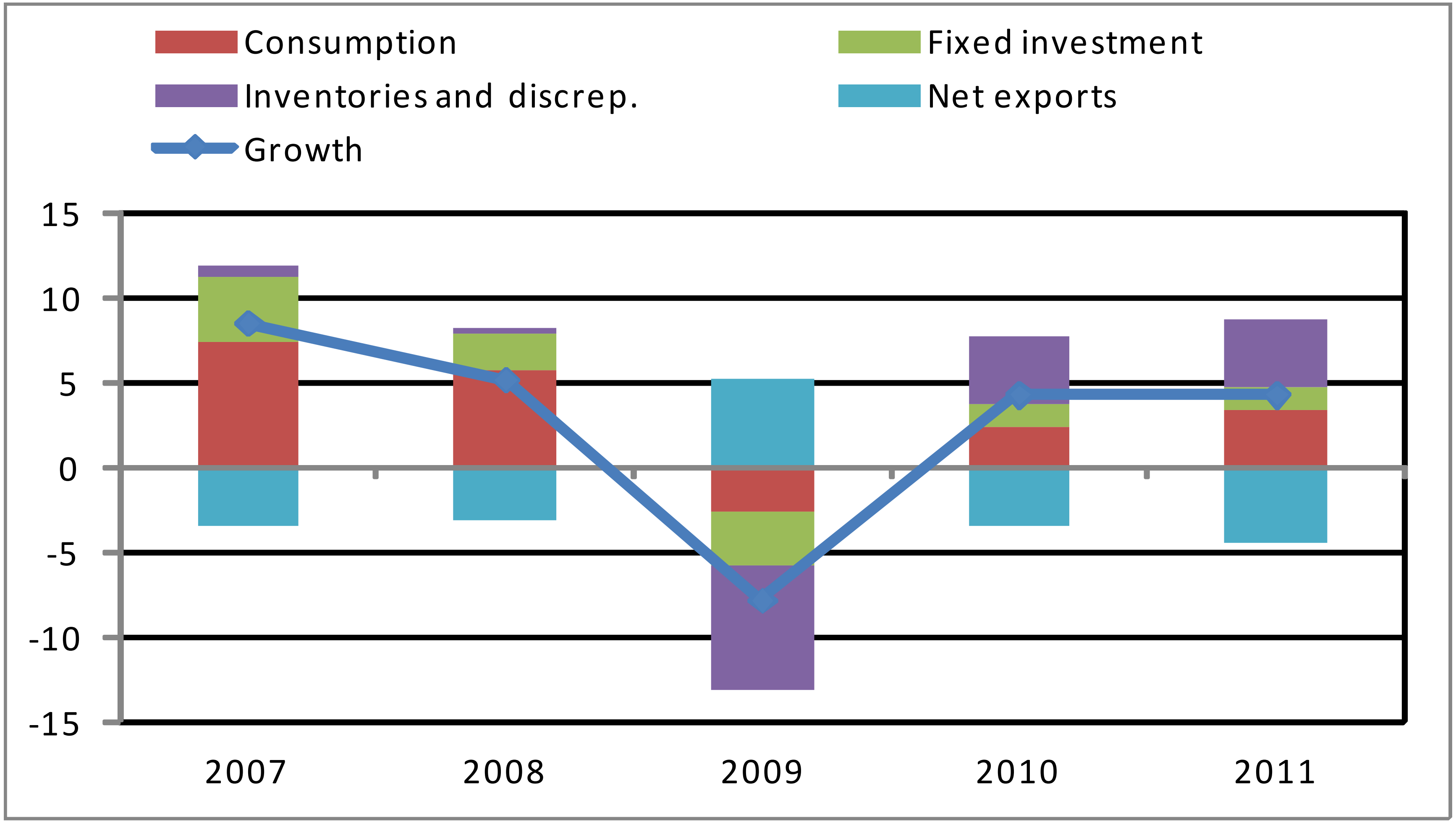
GDP growth, percent



Source: OECD, IMF, World Bank staff calculations

Growth driven by domestic demand

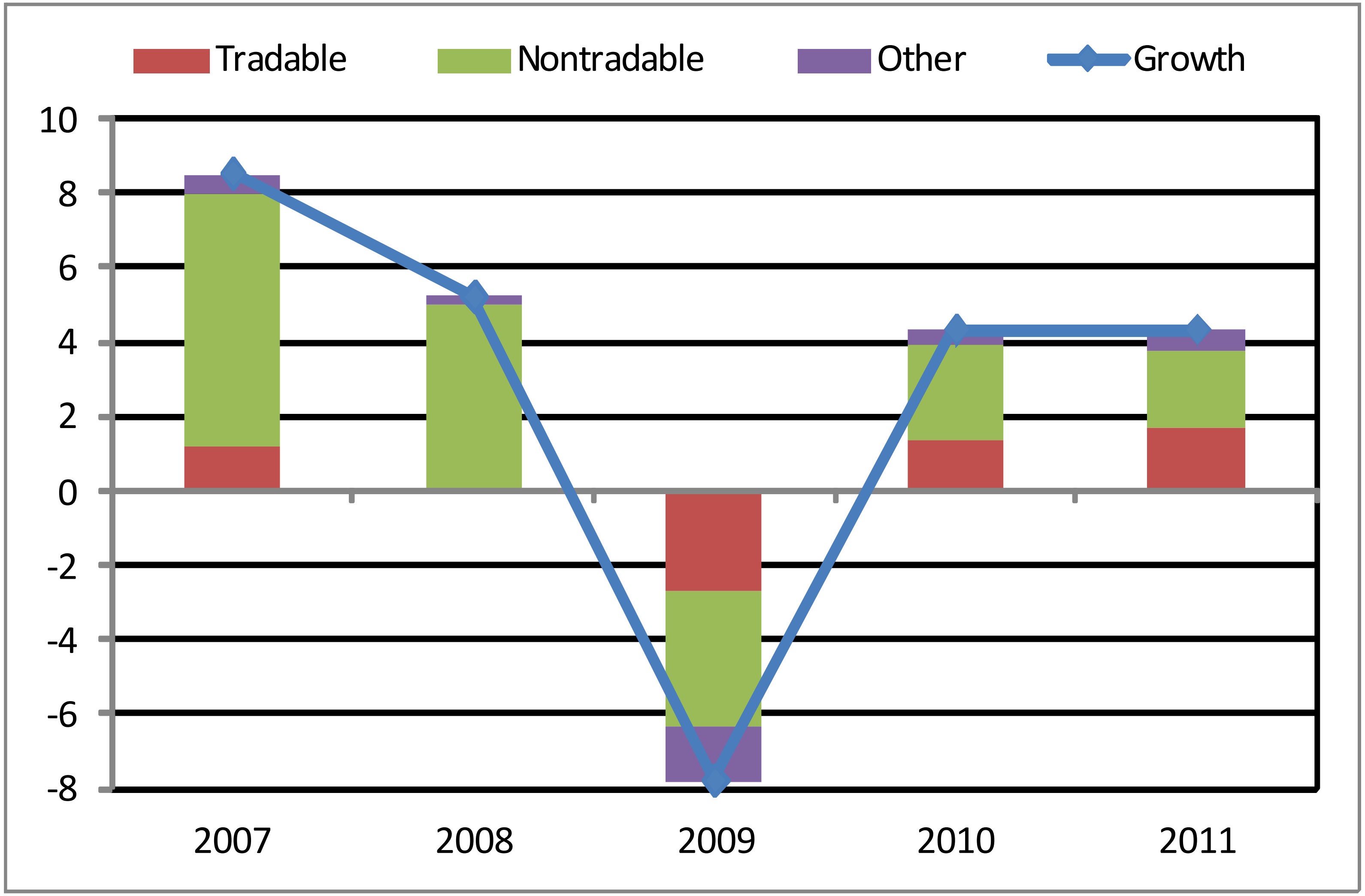
Contributions to growth, percent



Source: Rosstat, World Bank staff calculations

Growth driven by non-tradables and tradables

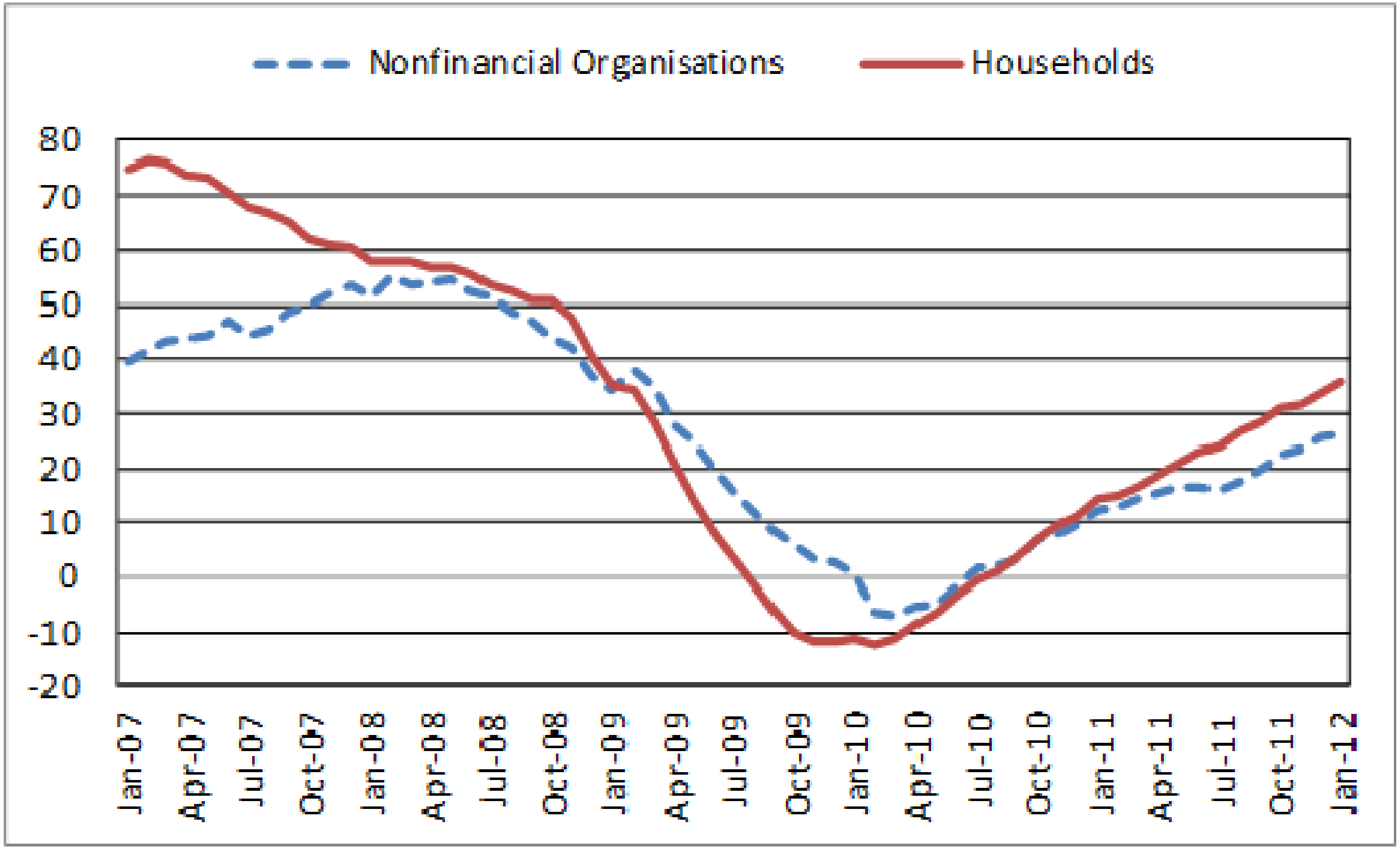
Contributions to growth, percent



Source: Rosstat, World Bank staff calculations

Credit growth picking up

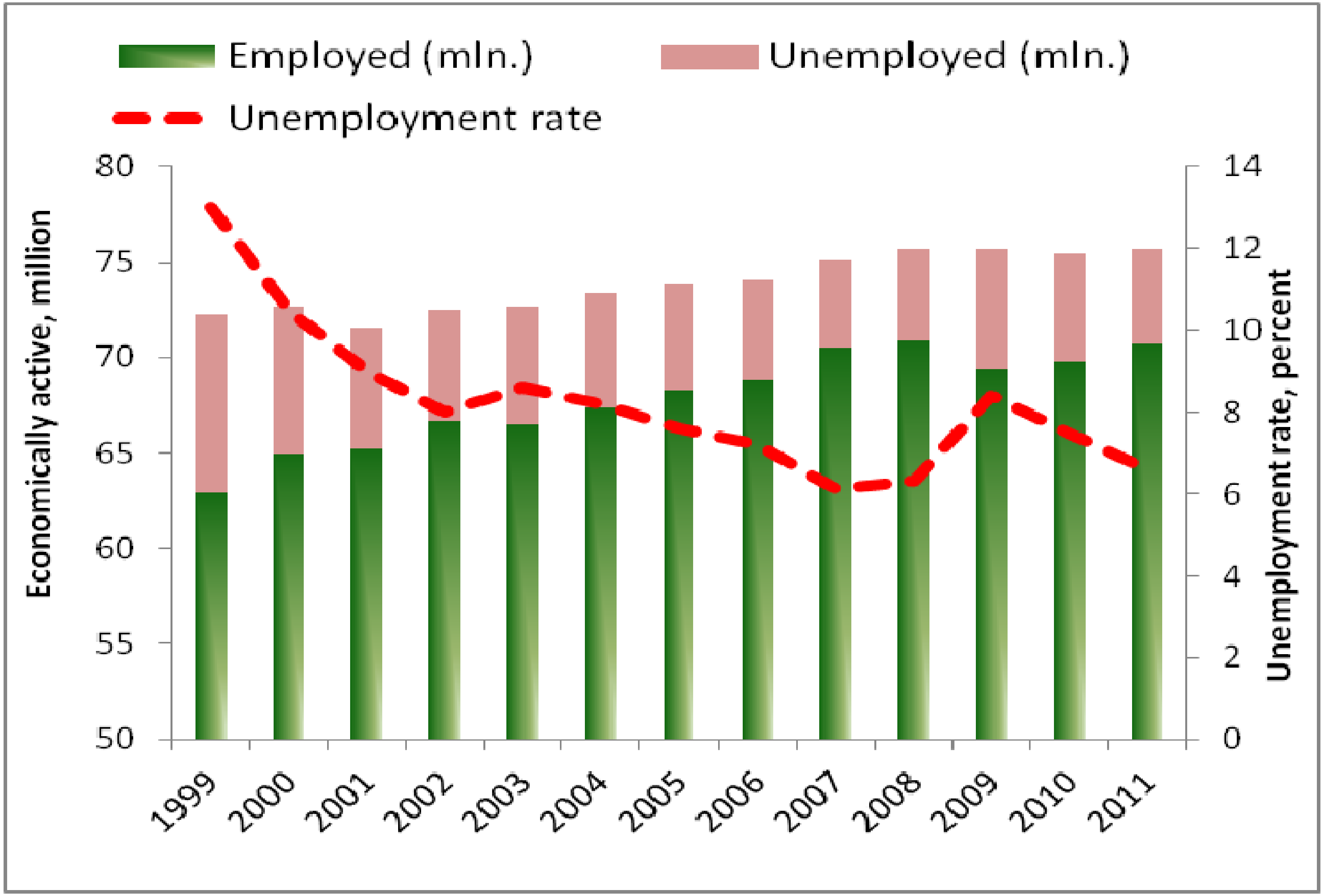
Credit growth, percent, yoy



Source: CBR, World Bank staff calculations

Labor market back to pre-crisis

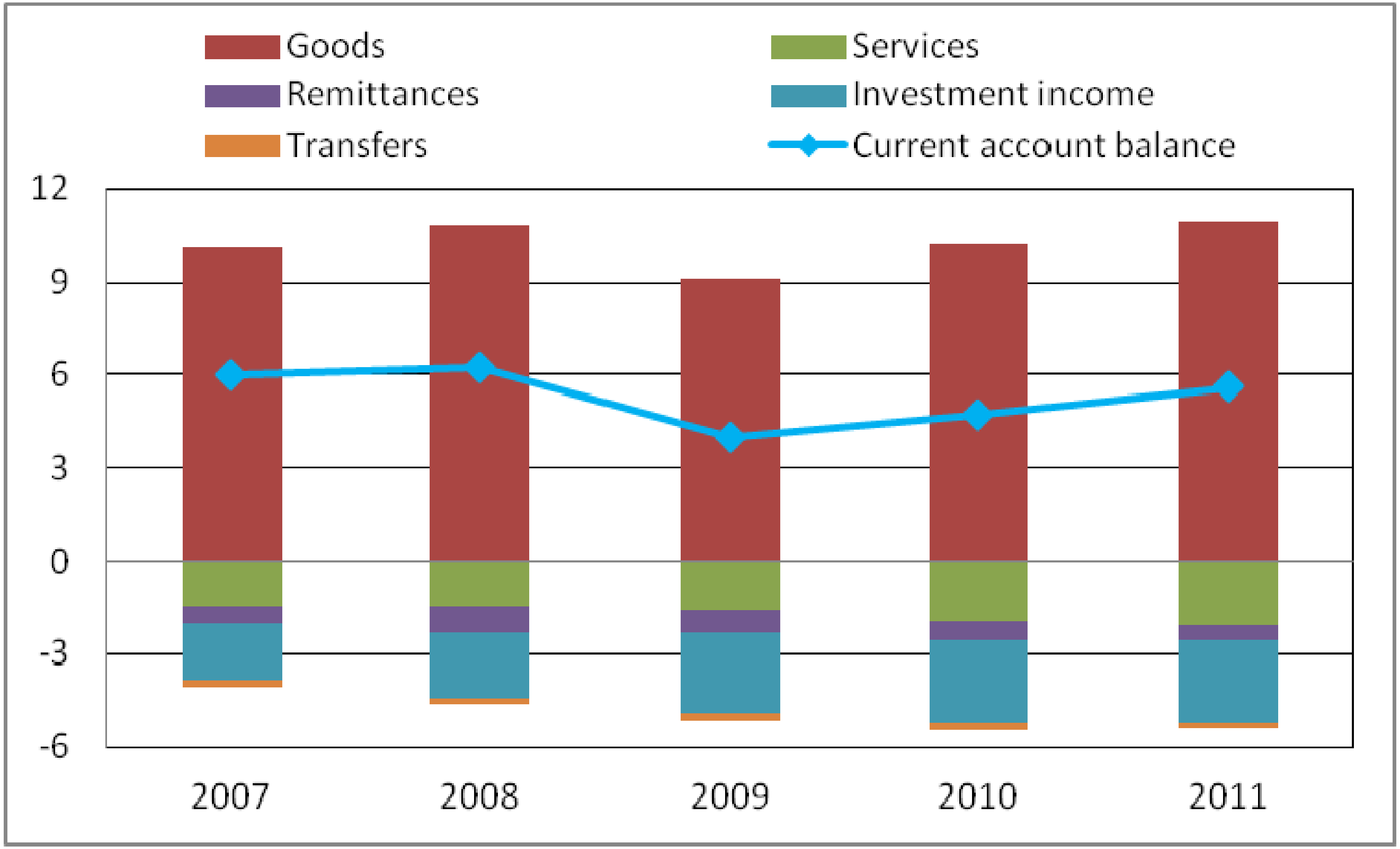
Labor market, million and percent



Source: Rosstat, World Bank staff calculations

Current account surplus back to pre-crisis level

Composition of current account balance, percent of GDP

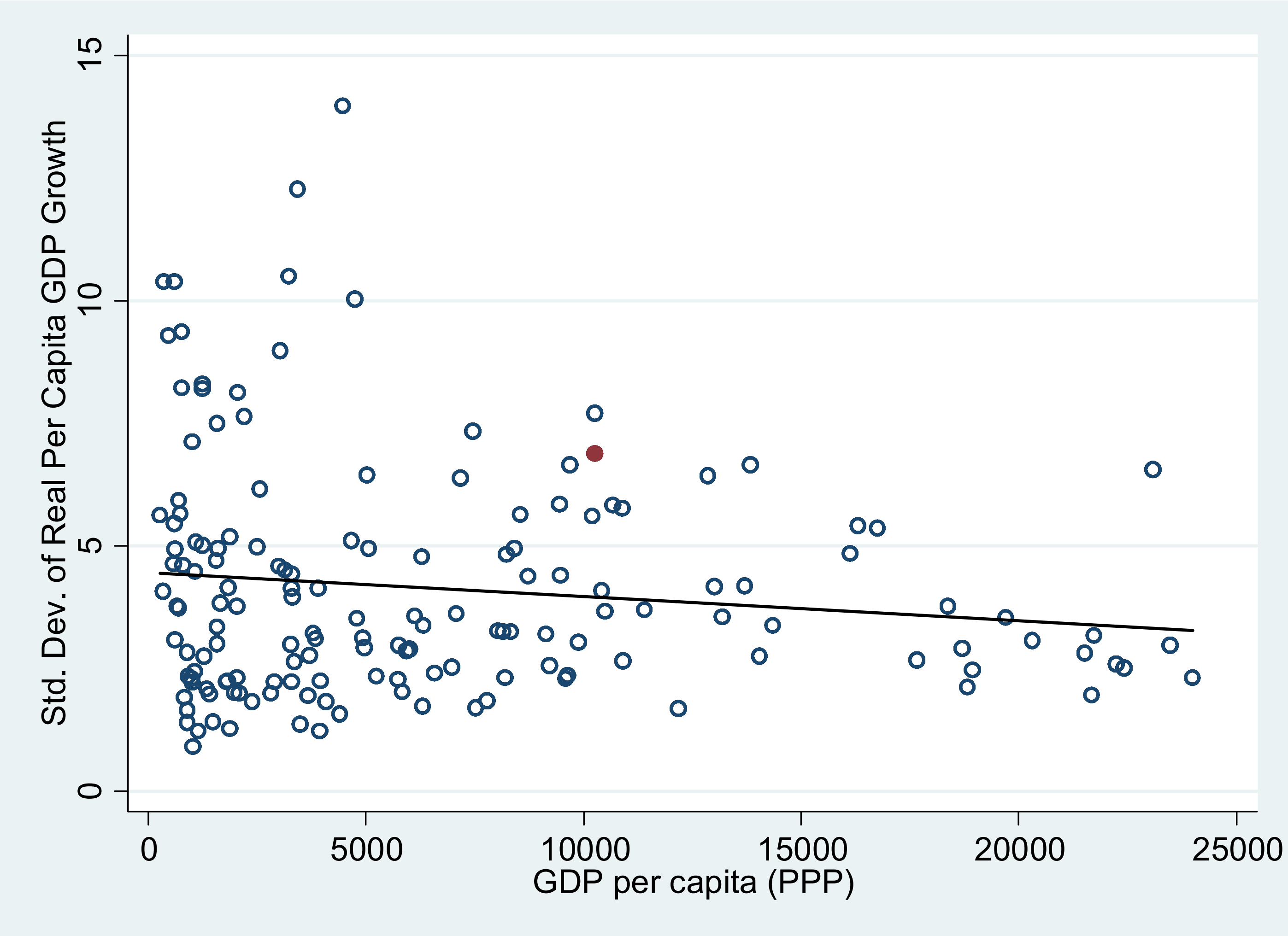


Source: CBR, World Bank staff calculations

GROWTH VOLATILE
DUE TO OIL DEPENDENCE

Growth is more volatile in developing countries

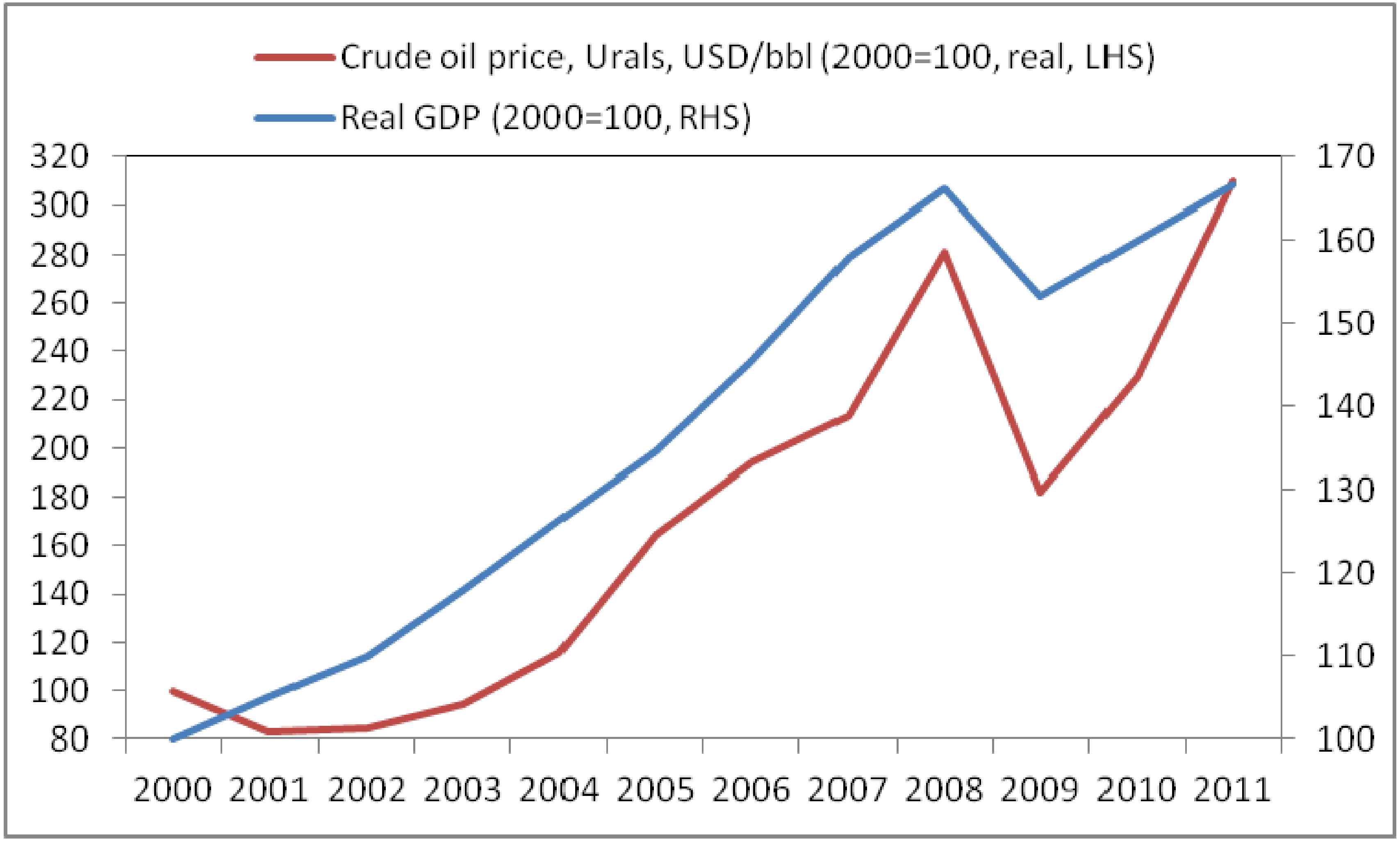
Volatility and development, averages from 1993 to 2011



Source: IMF WEO, World Bank staff calculations

GDP changes driven by oil price changes

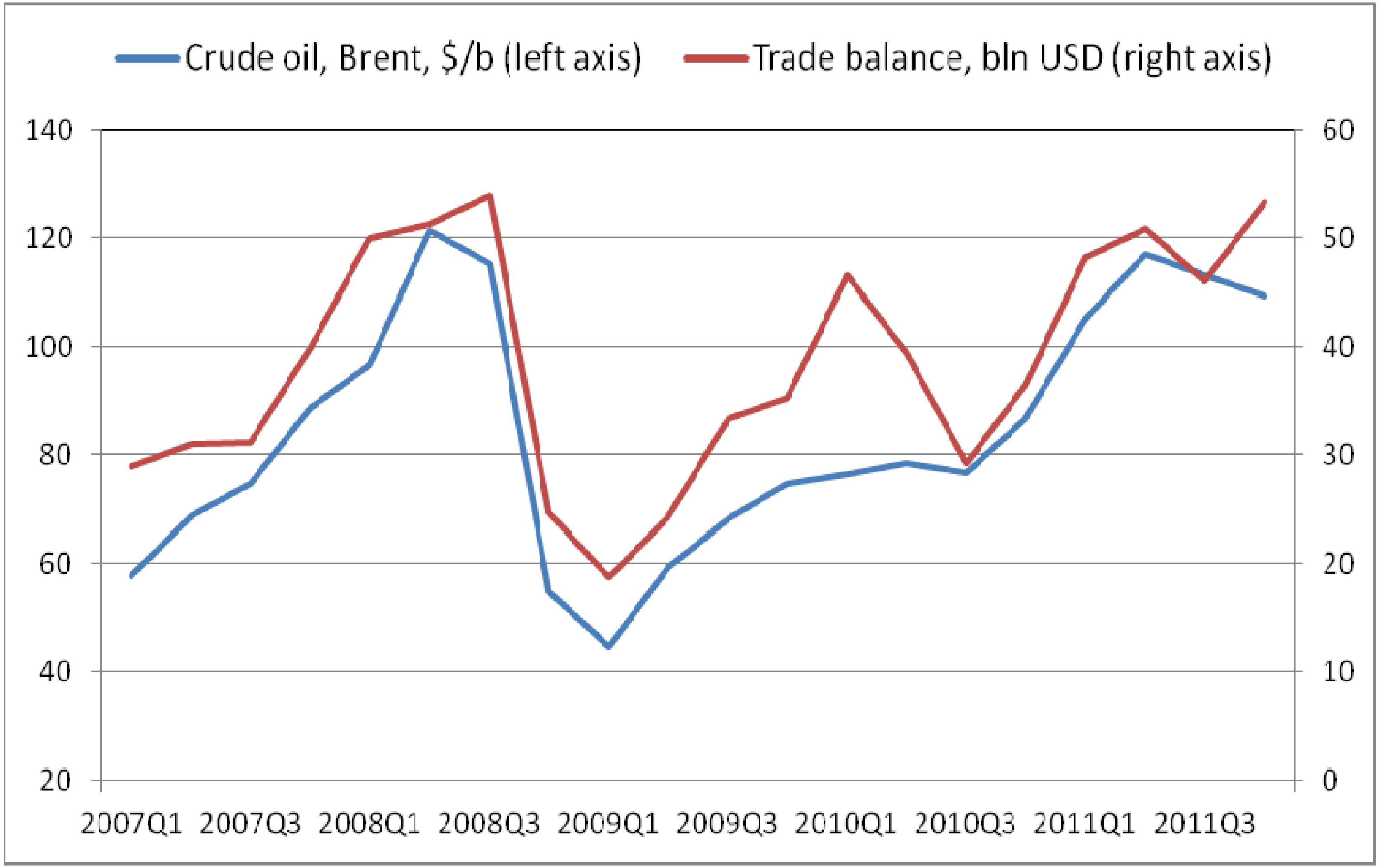
GDP and oil prices



Source: Rosstat, World Bank staff calculations

Strong trade balance due to high oil prices

Oil prices and trade balance, US$ per barrel and US$ billion



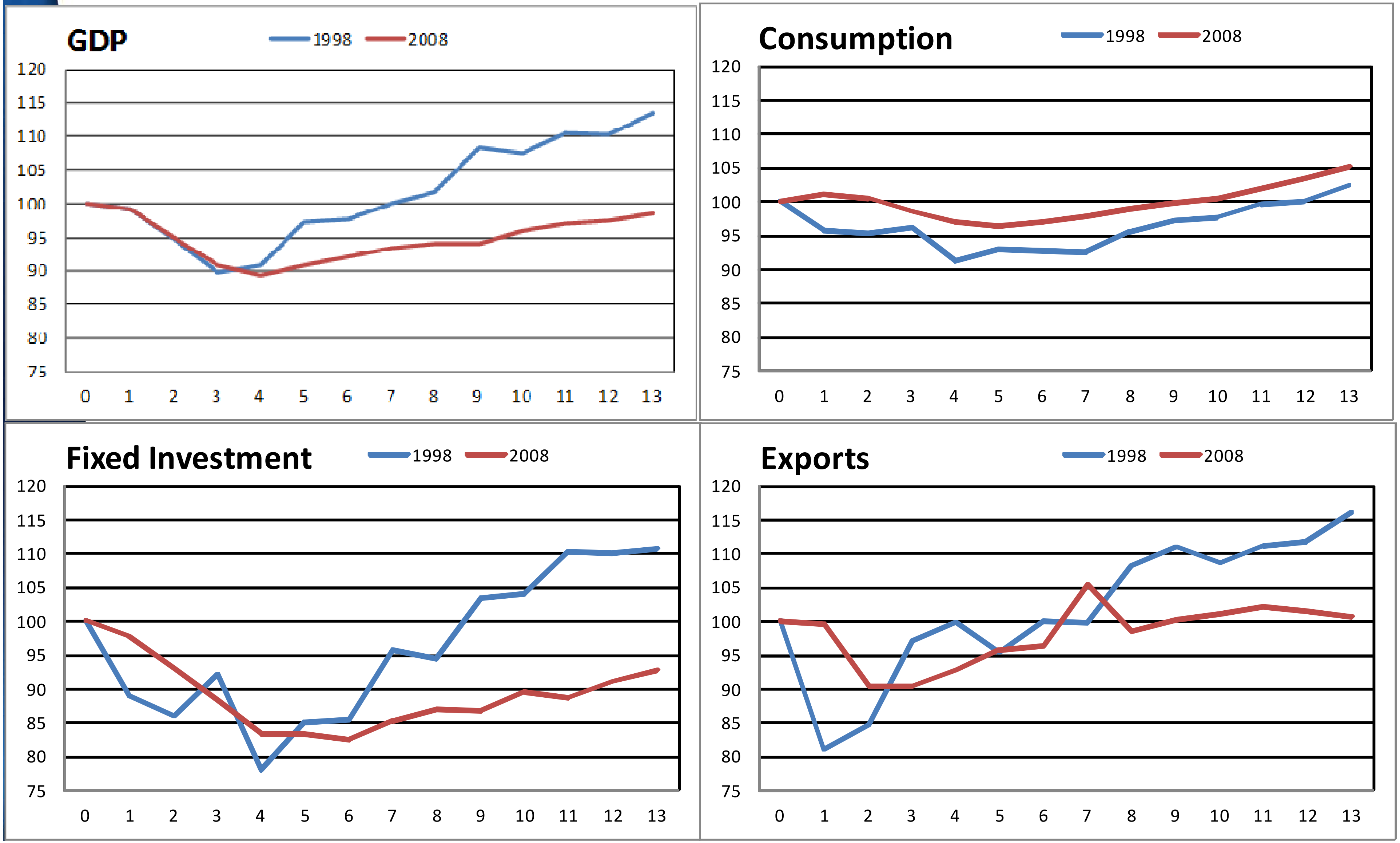
Source: CBR, World Bank staff calculations

POST-2008 REBOUND WEAK

2008 recover trailing 1998 recovery

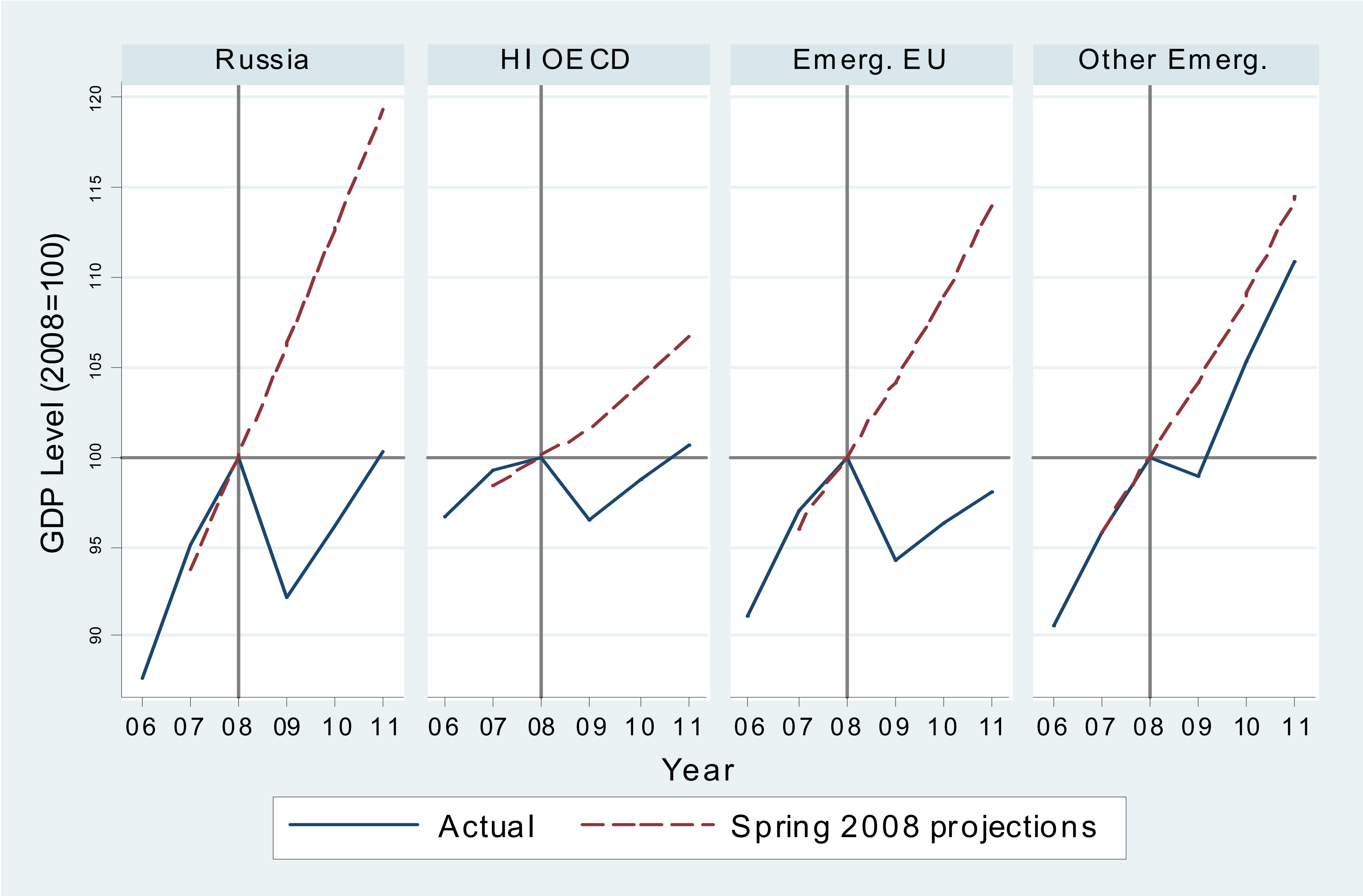
Percent, yoy

Source: Rosstat, World Bank staff calculations



2008 recovery trailing recovery of other countries

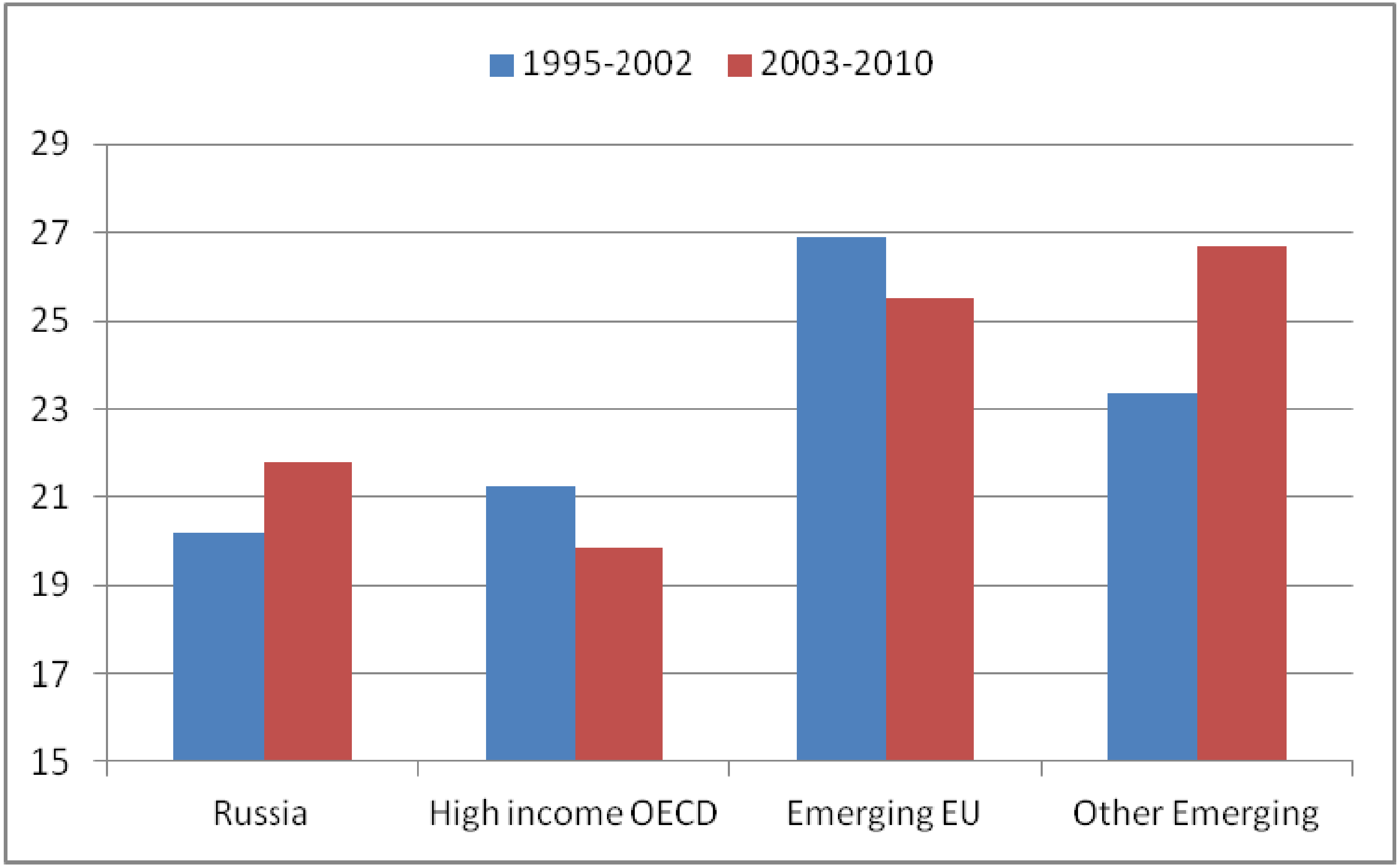
GDP level, 2008=100



Source: IMF, World Bank staff calculations

Investment low

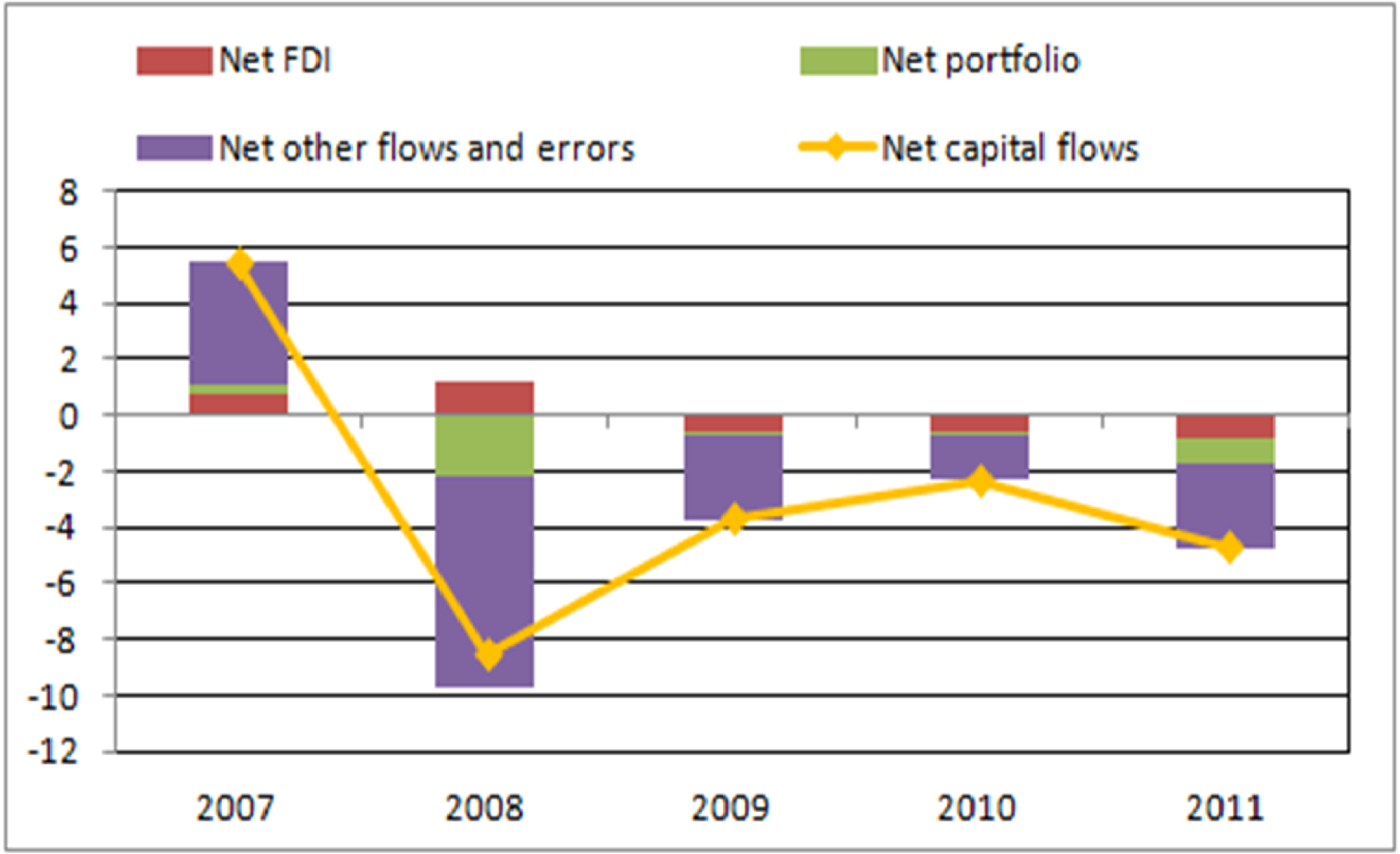
Gross Capital Formation, 1995 to 2010, percent of GDP



Source: World Development Indicators, World Bank staff calculations

FDI low and capital outflows high

Percent of GDP

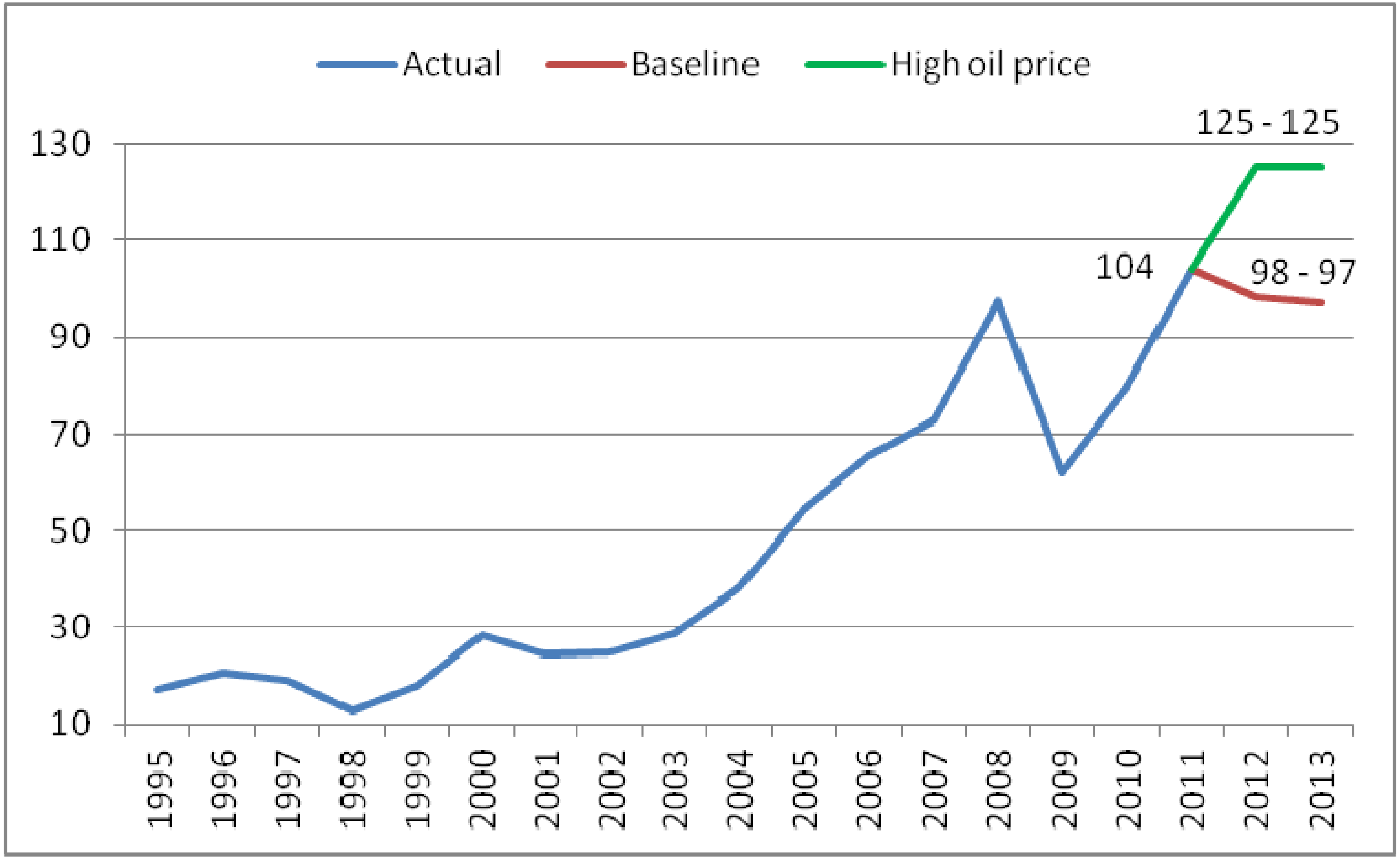


Source: Rosstat, World Bank staff calculations

RECOVERY SLOWING

Two oil price scenarios

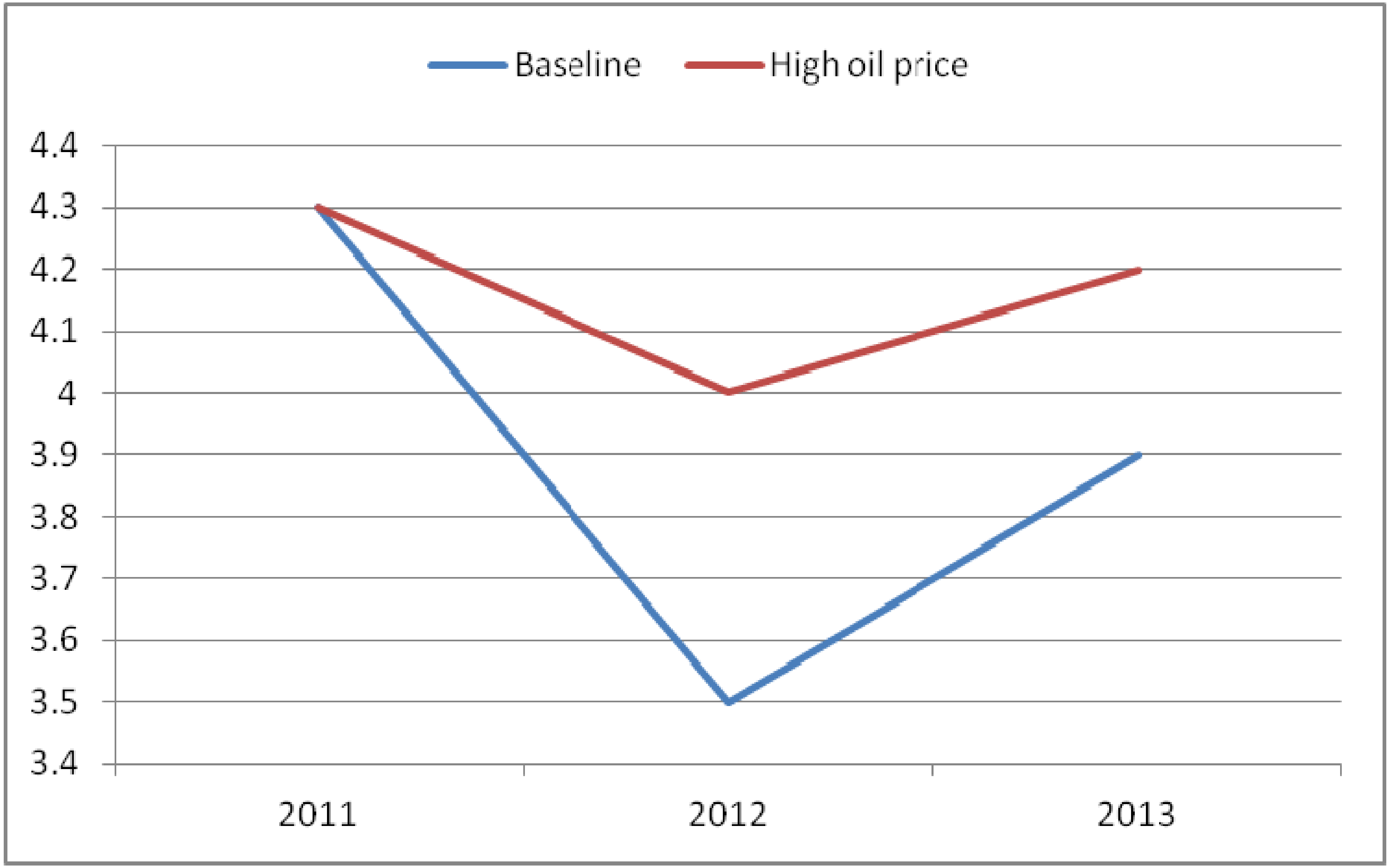
World Bank average oil price, US$ per barrel



Source: World Bank staff calculations

Growth moderating

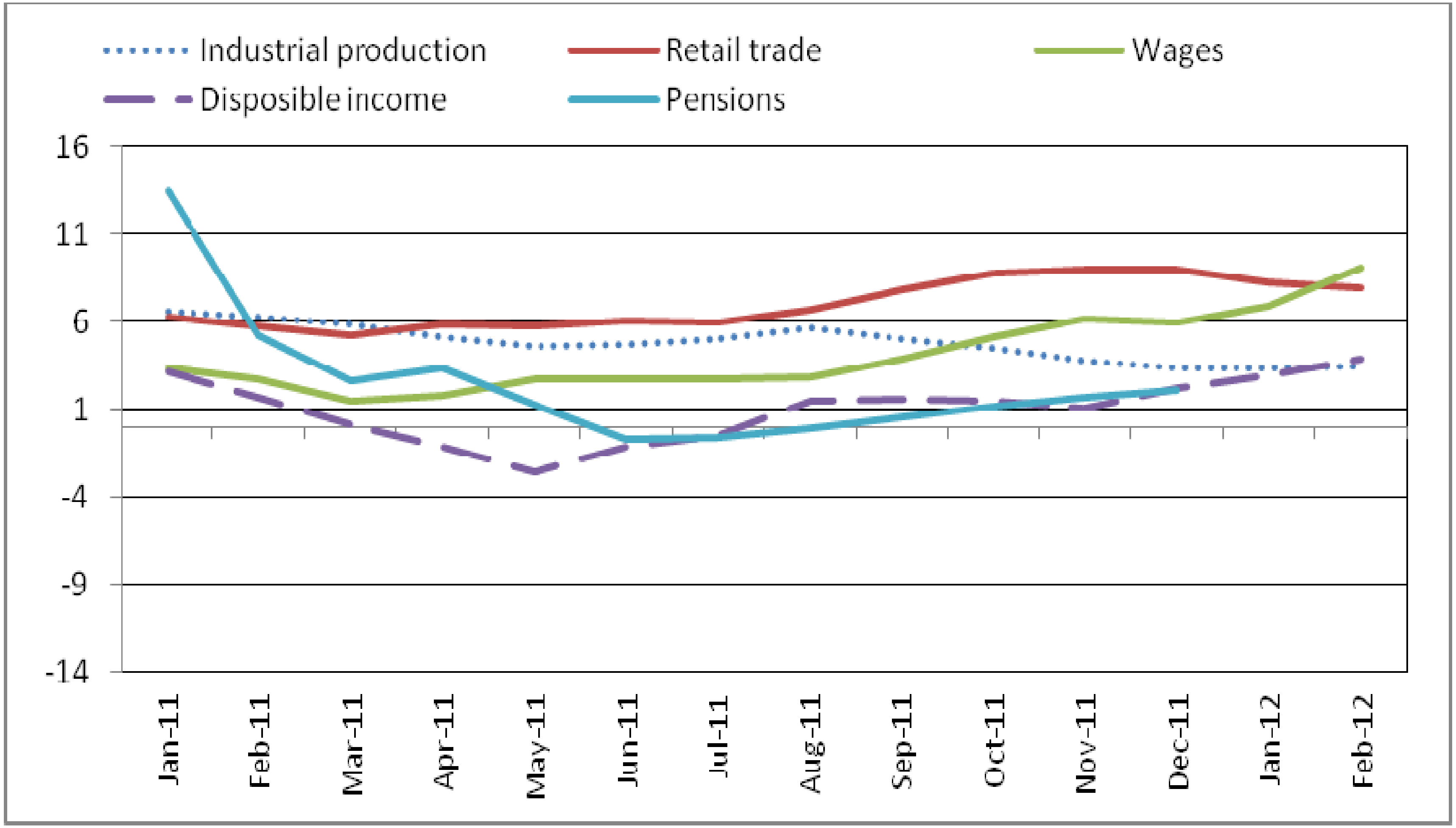
GDP growth, percent



Source: World Bank staff calculations

Industrial production weakening

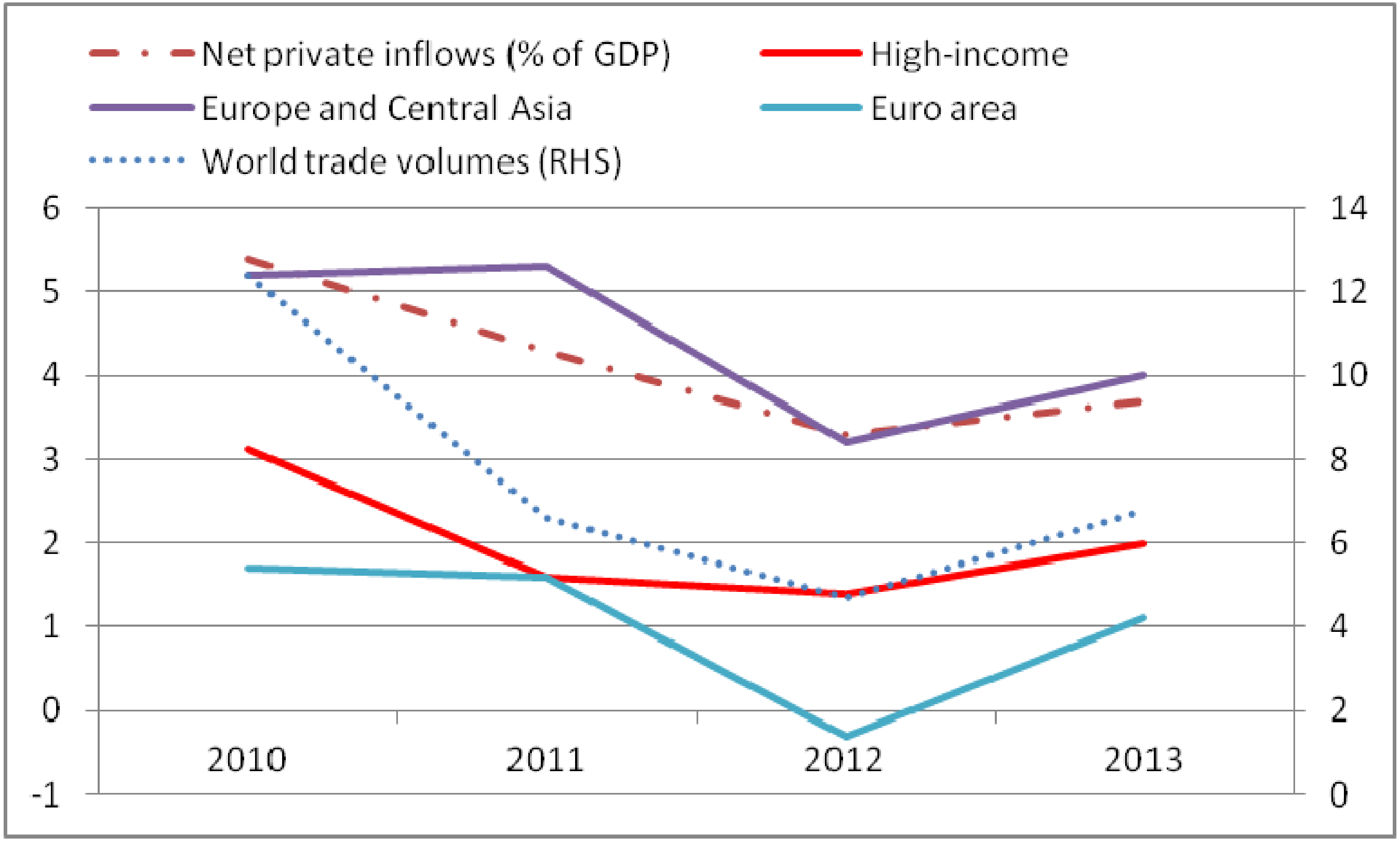
Real growth, percent, 3mma, yoy



Source: Rosstat, World Bank staff calculations

External demand weakening

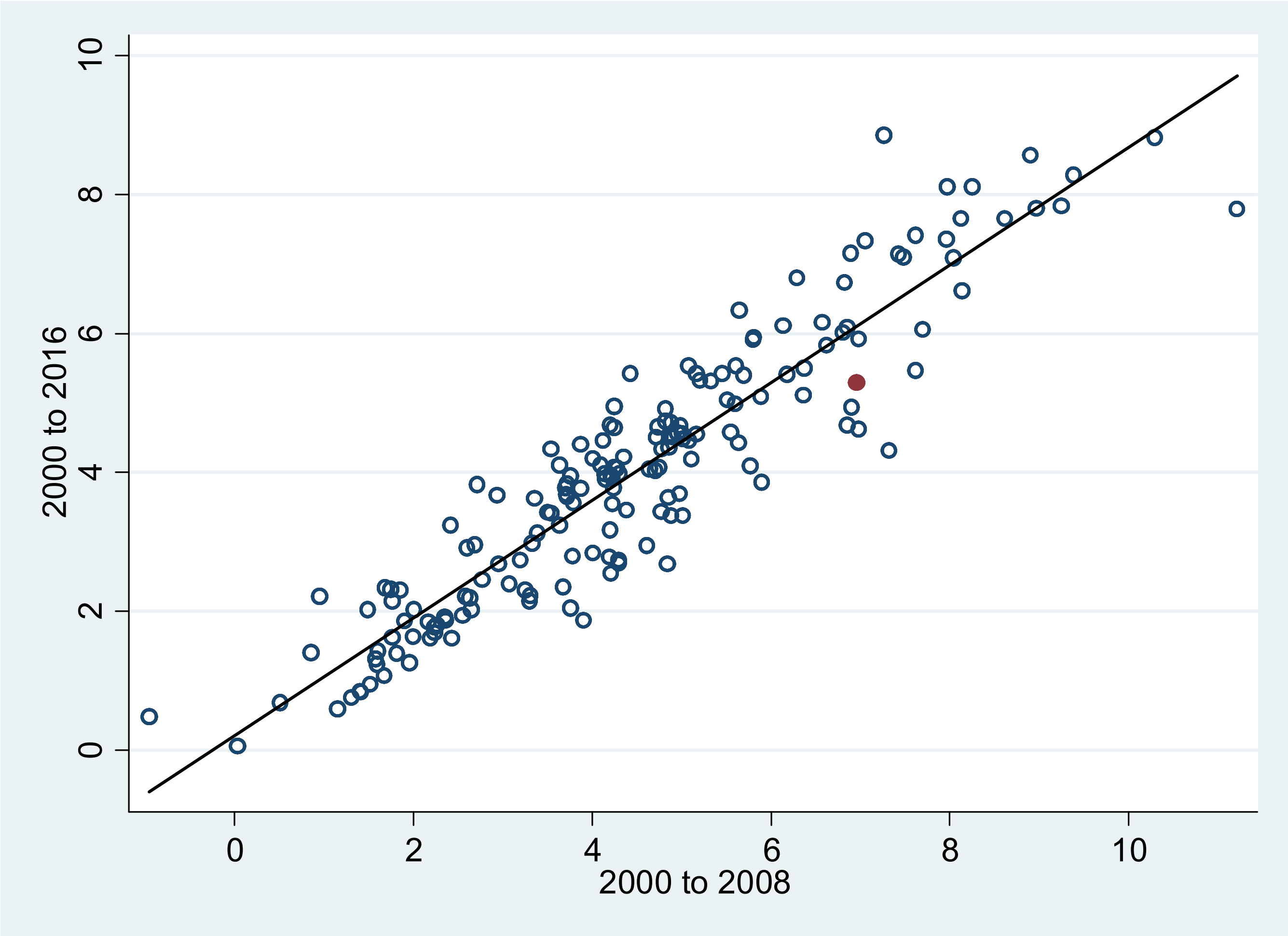
Real growth, percent, 3mma, yoy



Source: Global Economic Prospects, World Bank staff calculations

Losses during bust more than offset gains during boom

GDP growth, percent

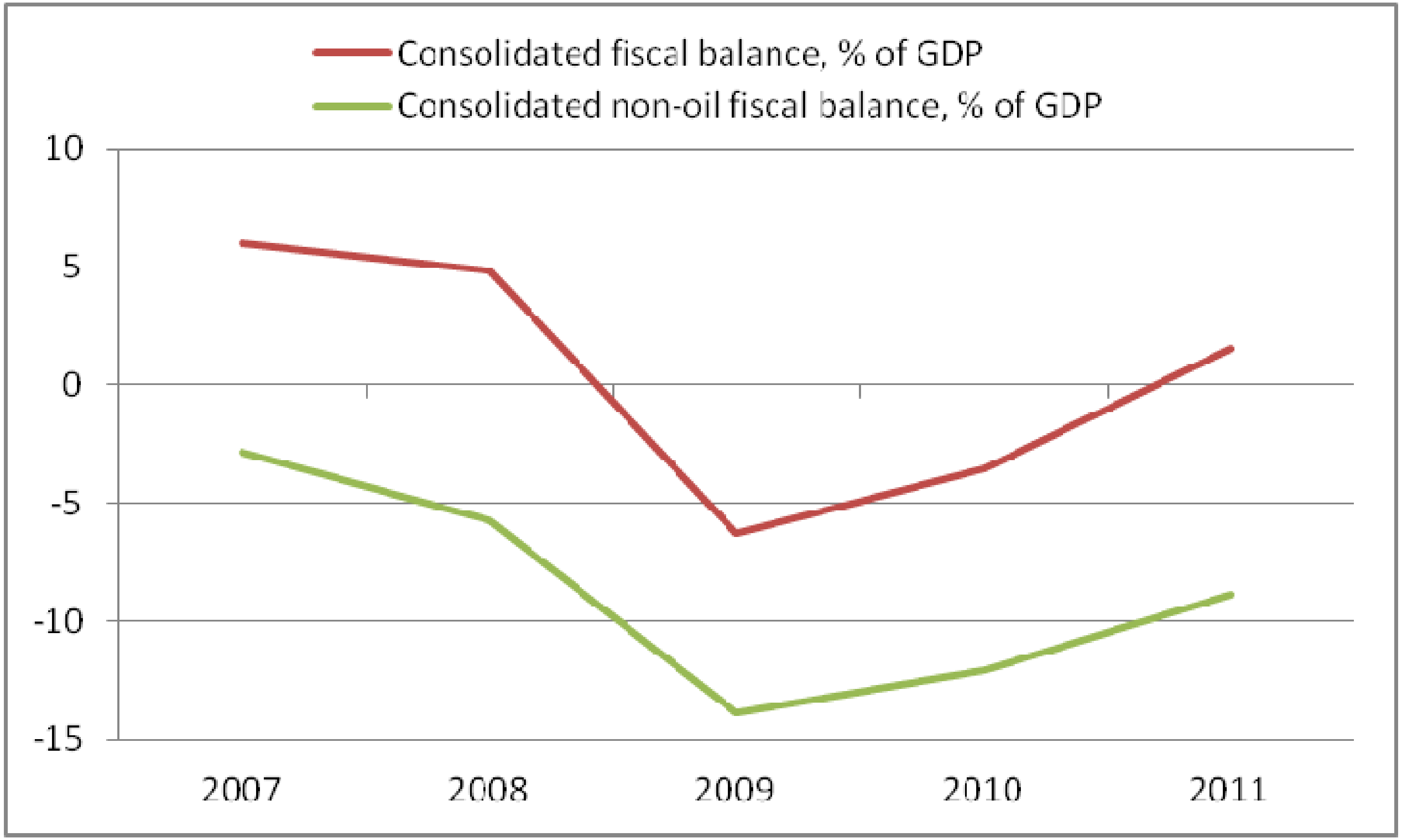


Source: IMF WEO, World Bank staff calculations

Moderating risks, bolstering growth

Fiscal policy – lowering non-oil fiscal deficits

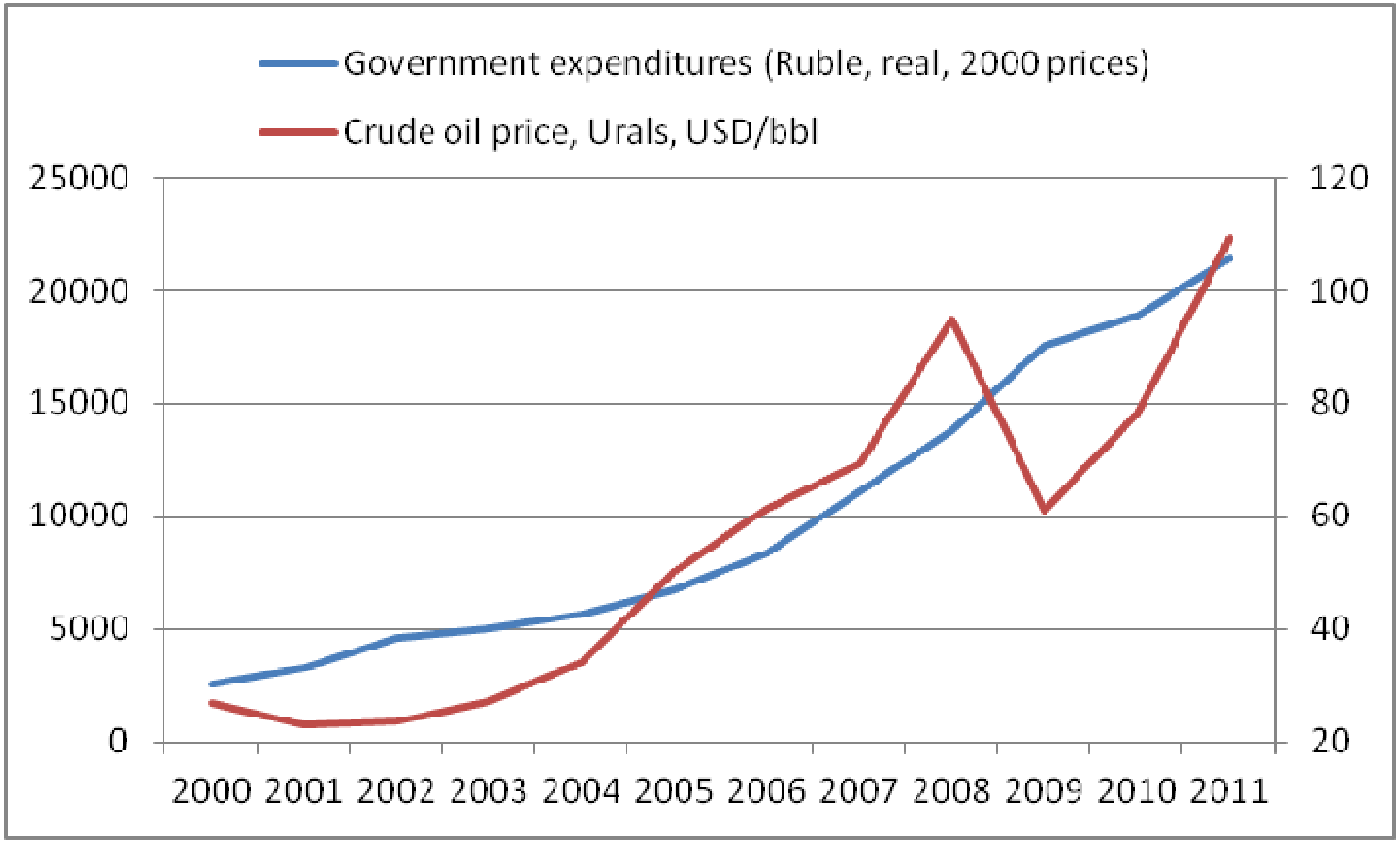
2007 to 2011, overall and non-oil fiscal balances (percent of GDP)



Source: Ministry of Finance, World Bank staff calculations

Fiscal policy – delinking expenditures from oil price volatility

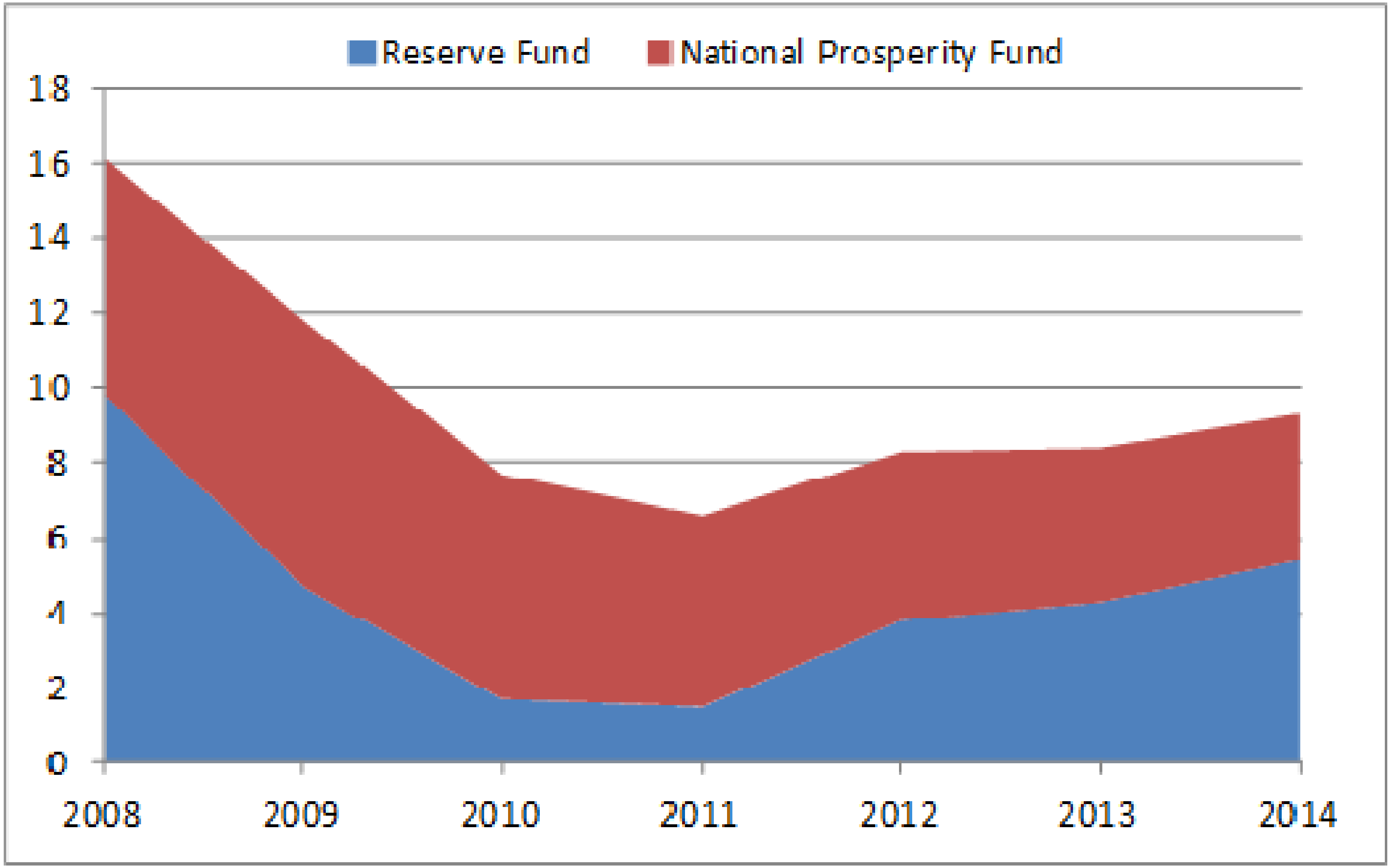
2000 to 2011, real budget expenditures and oil price (US$ per barrel)



Source: Ministry of Finance, World Bank staff calculations

Fiscal policy – rebuilding buffers

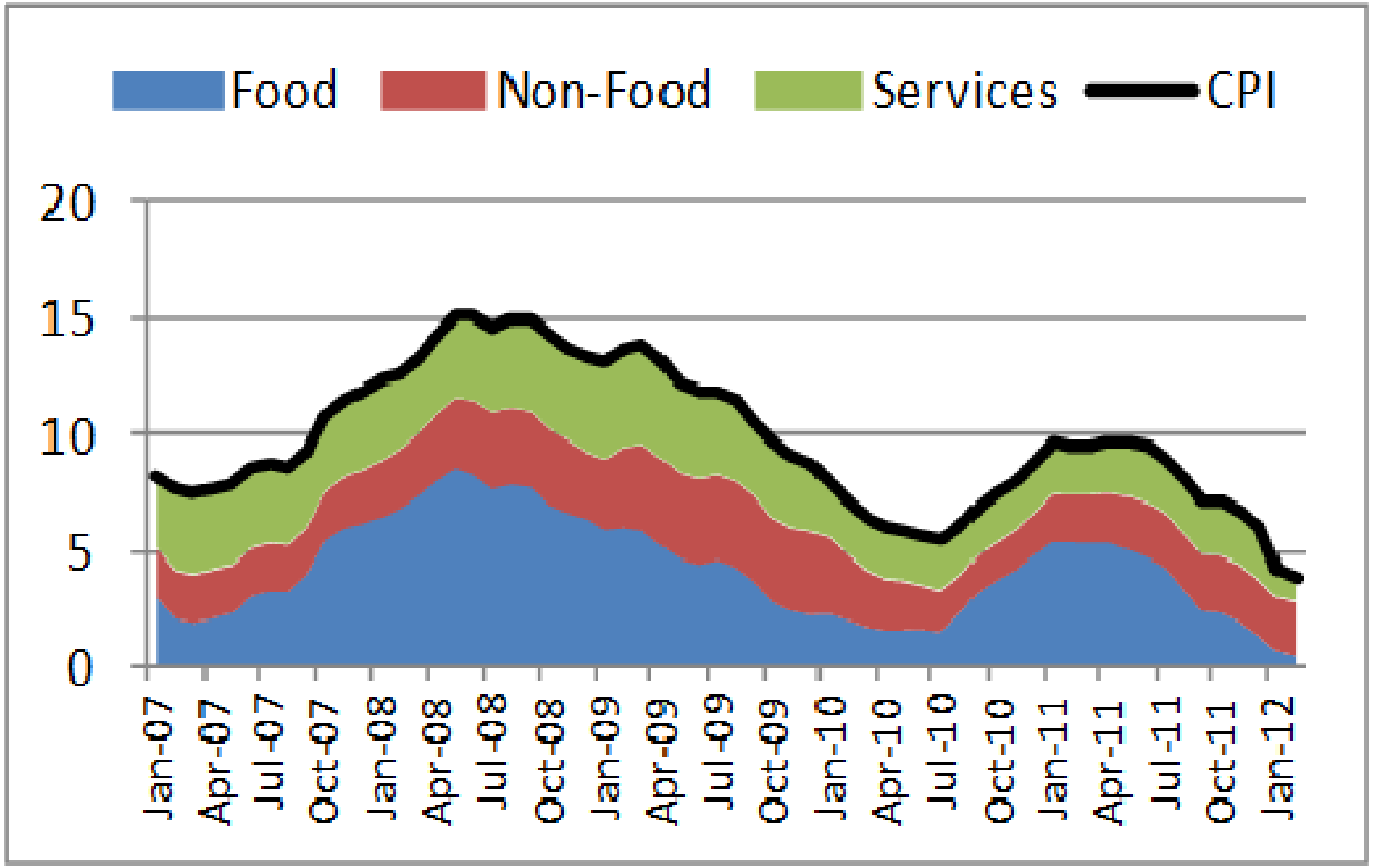
Percent of GDP



Source: Ministry of Finance, World Bank staff calculations

Monetary policy – focusing on low inflation

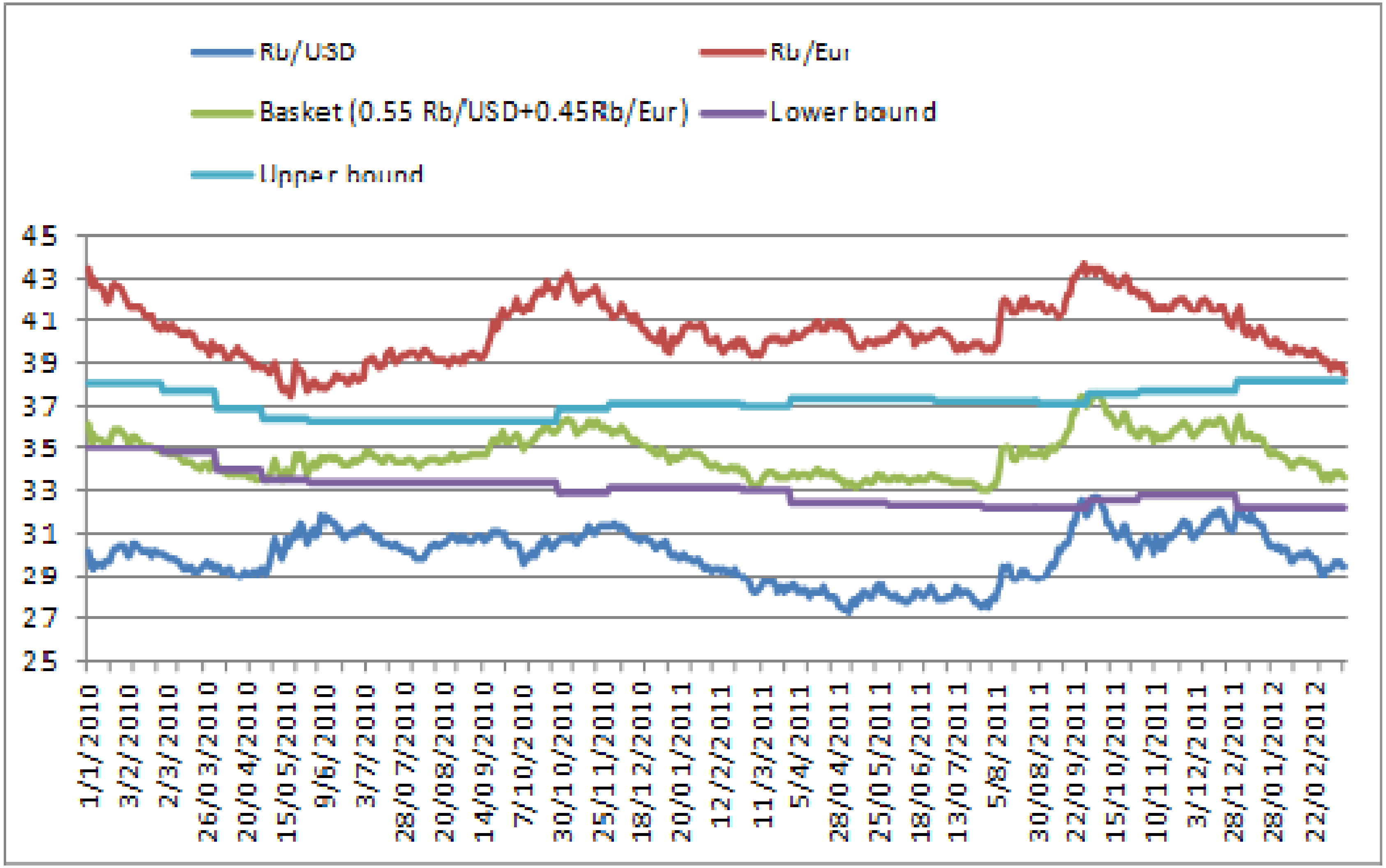
Percent, yoy



Source: CBR, World Bank staff calculations

Monetary policy – allowing greater exchange rate flexibility

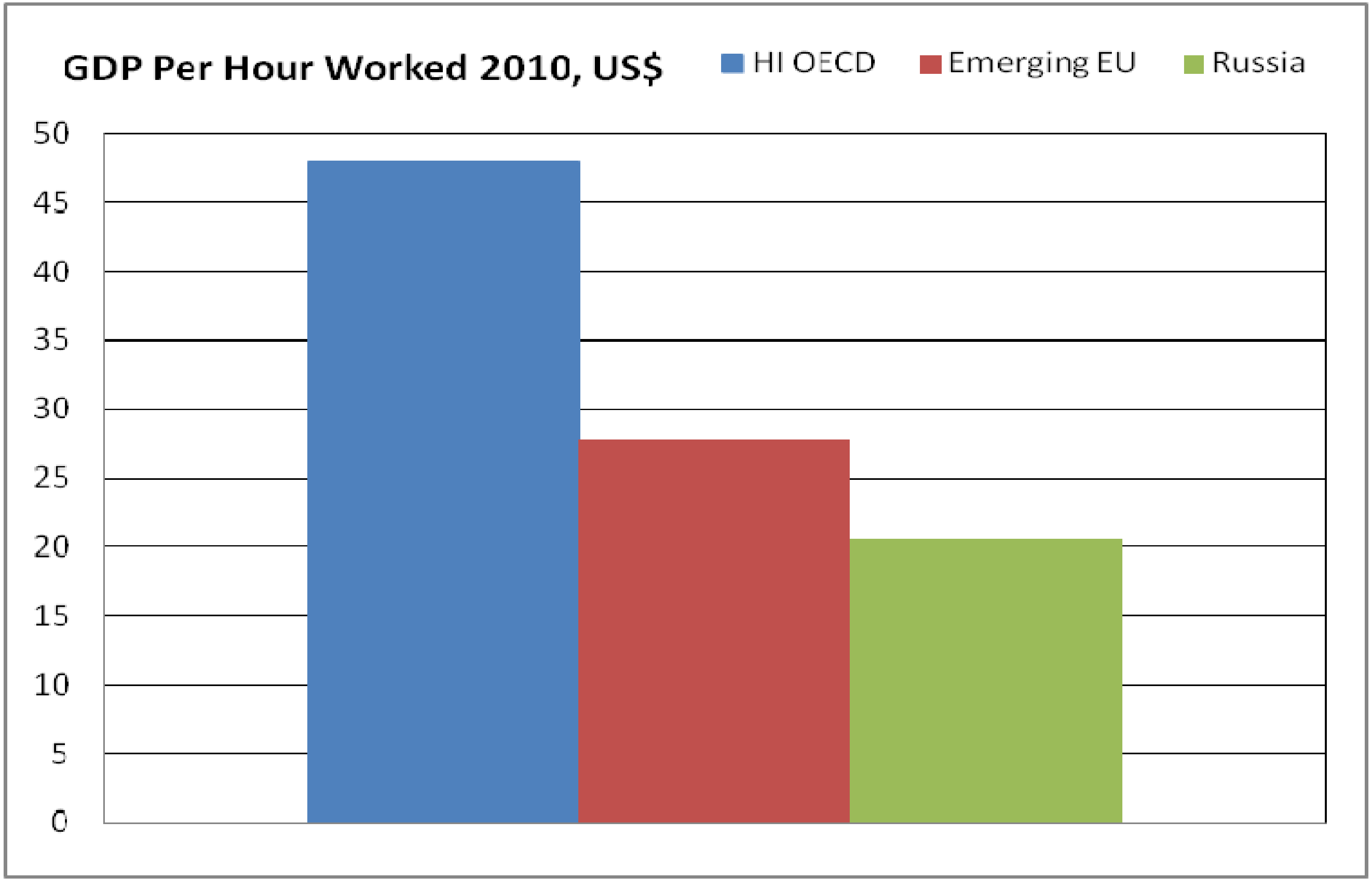
Exchange rates and bilateral band



Source: CBR, World Bank staff calculations

Structural policy – closing the productivity gap

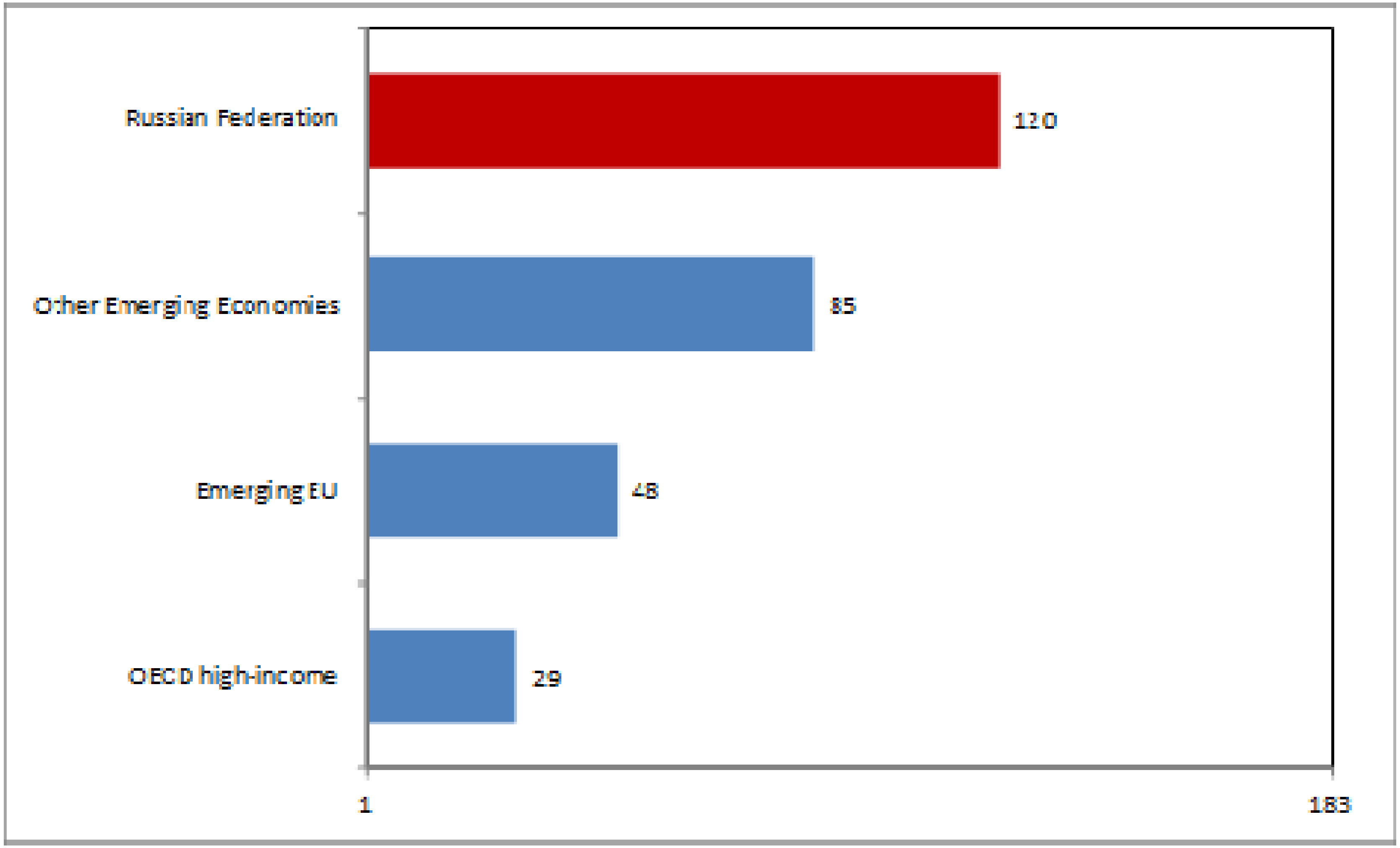
Labor productivity



Source: OECD, World Bank staff calculations

Structural policy – easing doing business

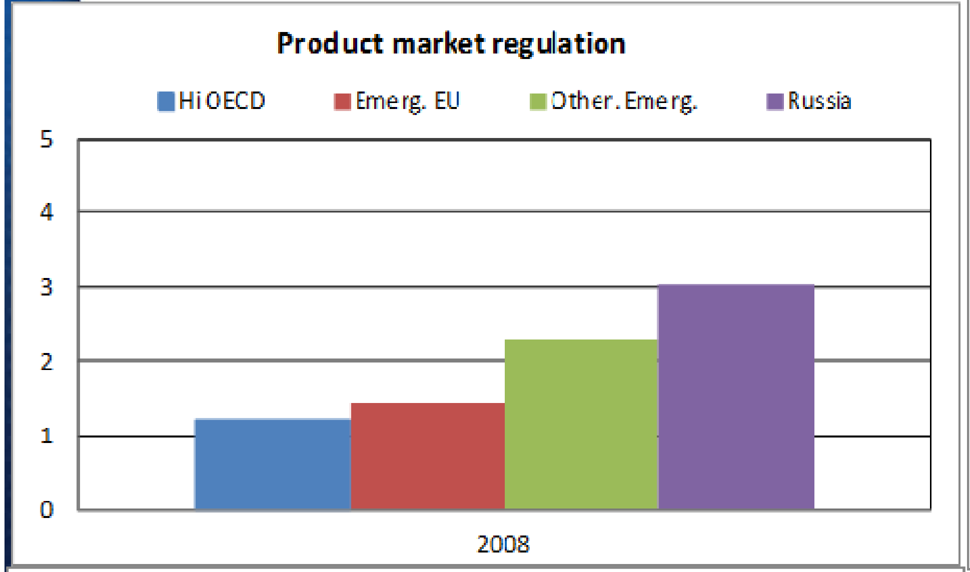
2012 Doing Business rank, 1 (best) to 183 (worst)

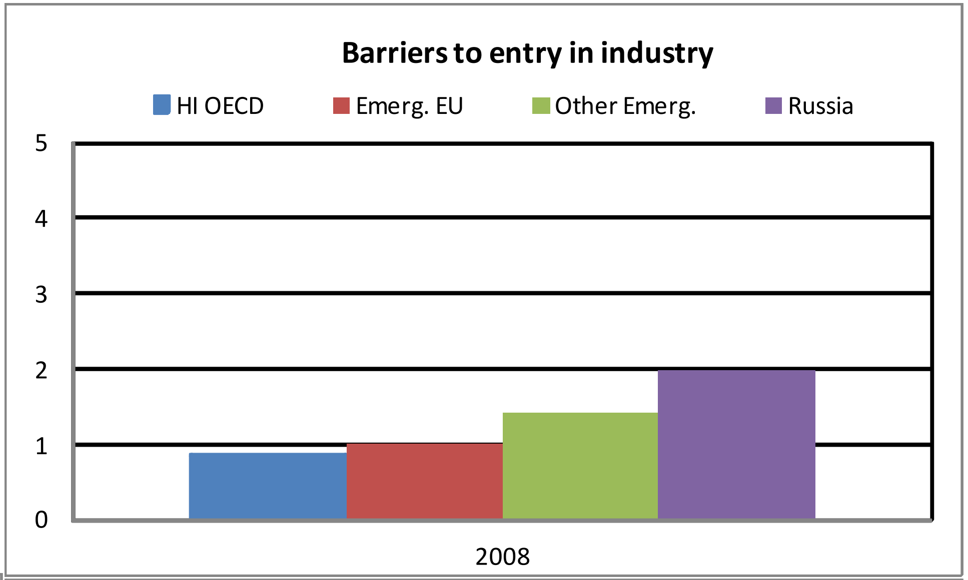


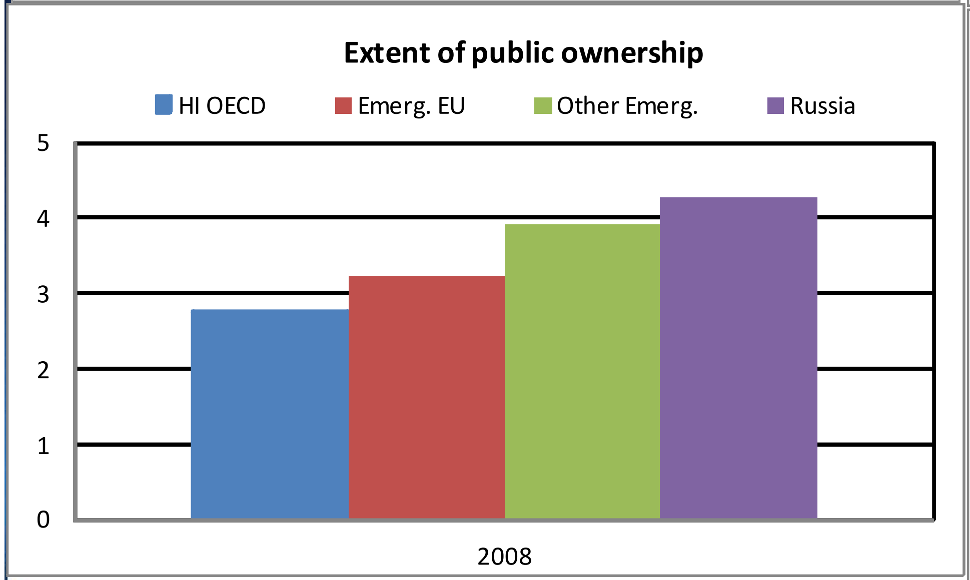
Source: IFC and World Bank, World Bank staff calculations

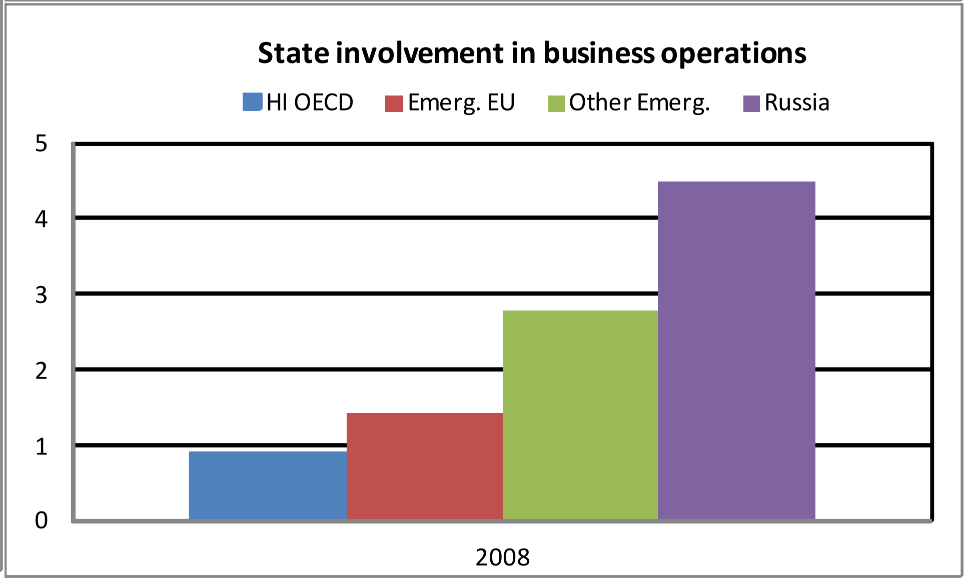
Structural policy – removing barriers for private sector

Structural policy index, 0 (least restrictive) to 6 (most restrictive) Source: OECD 2012









Russia set to join WTO this summer

- Tariffs cuts will be implemented in stages over 8 years
- By the year 2020, applied tariffs will fall from an 11 percent average in 2011 to 7.6 percent on a simple average basis; and from 11.6 percent in 2011 to 5.4 percent in 2020 on trade-weighted basis
- Russia has made significant but typical commitments in services sectors
- Gains: 3.3% of GDP in the medium-term; 11% of GDP in the longer-term

Thank you!

Backup slides

Baseline scenario

	2011	2012 proj.	2013 proj.
GDP growth (%)	4.3	3.5	3.9
Consolidated government balance (% of GDP)	1.6	-1.3	-0.9
Current account (US$ billions)	101	53.8	25
Current account (% of GDP)	5.5	2.7	1.1
Capital account (US$ billions)	-75.3	-48.9	-21.6
Capital account (% of GDP)	-4.1	-2.4	-1.0
Oil price assumption (WB Average, US$ per barrel)	104.0	98.2	97.1

High oil price scenario

	2011	2012 proj.	2013 proj.
GDP growth (%)	4.3	4.0	4.2
Consolidated government balance (% of GDP)	1.6	1.4	2.0
Current account (US$ billions)	101	89.4	47.5
Current account (% of GDP)	5.5	4.1	1.8
Capital account (US$ billions)	-75.3	-39.5	-2.6
Capital account (% of GDP)	-4.1	-1.8	-0.1
Oil price assumption (WB Average, US$ per barrel)	104	125	125