RUSSIA

Growth is projected to remain robust, as private consumption will benefit from rising wages, household credit and employment, the latter following a bold pension reform. Large infrastructure projects will boost both public and private investment. The VAT increase in early 2019 will dent growth temporarily as disposable incomes fall. Export growth will decline as foreign demand weakens, while imports will rebound in 2020. A weaker rouble and the VAT increase will raise inflation temporarily above the 4% target. Unemployment will increase as employment demand will only partly match higher labour supply following the rise of the retirement age.

Monetary policy should be tightened in response to upward-trending inflation expectations. Despite a strong increase in public spending, fiscal policy remains tight to rebuild the fiscal position, increasing the room to respond in event of a future shock. More targeted public spending, in particular a rise in minimum pensions, could mitigate the impact of higher VAT on income inequality. Structural reforms to improve the business environment would boost longer-term growth.

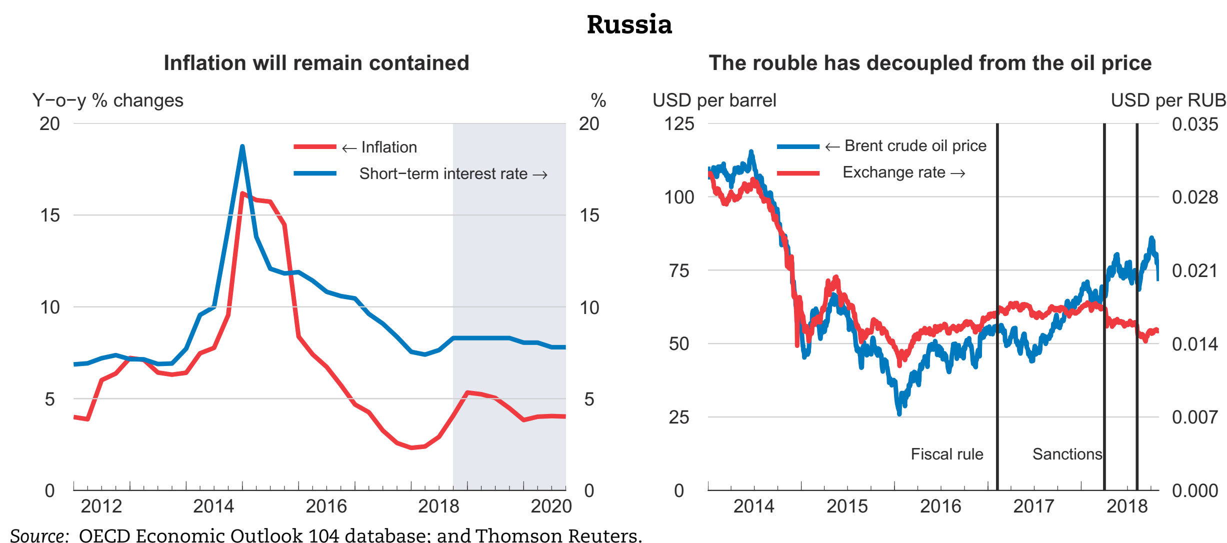
Growth is picking up

Growth is picking up, supported by private consumption, as real disposable incomes are increasing after several years of gradual decline. Rising consumer and mortgage credit also sustain consumption. Higher oil prices are driving export revenues, while growing uncertainty about future sanctions and the higher cost of funding for emerging markets are reducing investment growth and imports of capital goods. The rouble depreciated in April and August amid expectations of potential new sanctions, and capital moved abroad upon turmoil in emerging markets. The depreciation is pushing up inflation, although it remains below the 4% target. The unemployment rate remains low at less than 5%.

Policy remains tight and structural reforms will help raise the economy's potential

The central bank reacted quickly to inflationary pressures by raising its key interest rate in September, and should be ready to raise it further to anchor rising inflation

Russia



Source: OECD Economic Outlook 104 database; and Thomson Reuters.

StatLink http://dx.doi.org/10.1787/888933877164

Russia: **Demand, output and prices**

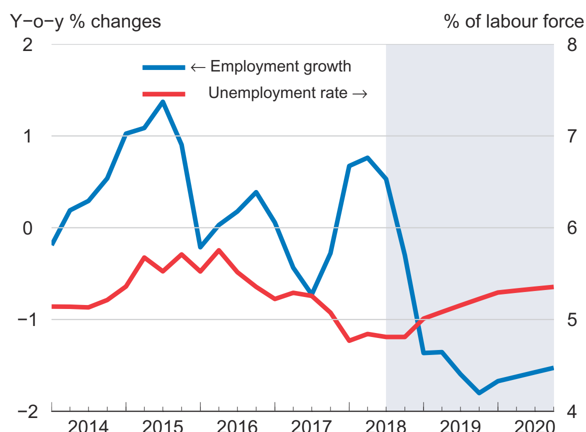
	2015	2016	2017	2018	2019	2020
	Current prices RUB trillion	Percentage changes, volume (2016 prices)				
GDP at market prices	83.4	-0.1	1.5	1.6	1.5	1.8
Private consumption	43.7	-2.3	3.3	2.6	1.3	2.2
Government consumption	14.8	0.8	0.4	-0.9	0.9	1.6
Gross fixed capital formation	16.4	1.7	4.7	2.3	2.4	3.4
Final domestic demand	74.8	-0.8	3.0	1.8	1.5	2.4
Stockbuilding[1]	1.9	-0.5	0.8	-0.7	-0.1	0.0
Total domestic demand	76.7	-1.3	3.8	1.0	1.3	2.3
Exports of goods and services	23.9	3.2	5.1	5.7	2.6	2.2
Imports of goods and services	17.2	-3.8	17.4	5.0	3.0	4.4
Net exports[1]	6.7	1.7	-2.3	0.5	0.2	-0.3
Memorandum items						
GDP deflator	_	3.4	5.2	9.5	5.3	3.4
Consumer price index	_	7.0	3.7	2.9	5.0	4.0
Private consumption deflator	_	6.2	3.0	3.0	4.5	3.5
General government financial balance[2] (% of GDP)	_	-3.6	-1.5	0.5	1.8	1.1
Current account balance (% of GDP)	_	1.9	2.1	5.6	6.3	6.0

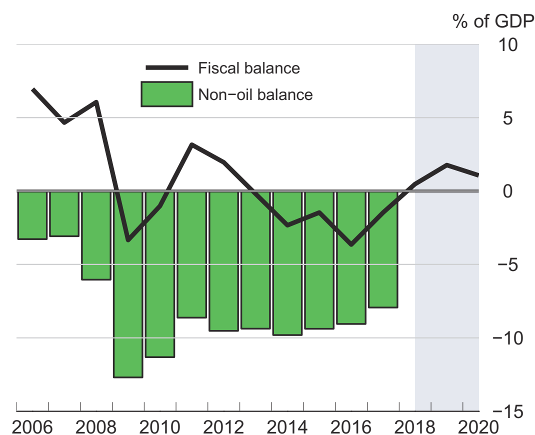
1. Contributions to changes in real GDP, actual amount in the first column.
2. Consolidated budget.
Source: OECD Economic Outlook 104 database.

StatLink http://dx.doi.org/10.1787/888933878095

expectations. The authorities also froze fiscal-rule-related foreign currency purchases to limit further rouble depreciation. While smoothing exchange rate volatility is reasonable, the authorities should refrain from currency interventions aimed at influencing long-term exchange rates. The central bank continued the welcome clean-up of the banking sector by

Russia





Source: Ministry of Finance; and OECD Economic Outlook 104 database.

StatLink http://dx.doi.org/10.1787/888933877183

withdrawing several banking licences, with no discernible effect on financial markets and the wider economy.

The fiscal stance remains tight. The fiscal balance is in surplus for the first time since 2009, following higher oil revenues and prudent government spending in line with the fiscal rule. The recent pension reform and a planned VAT increase will further enhance sustainability of the public finances. Some easing is appropriate to fund the government's planned investment programme.

The pension reform will raise the retirement age to 65 years for men and 60 years for women by 2029. The planned rise in pensions, especially for those on low incomes, will help reduce inequality. The overall positive effect of the pension reform on GDP growth is estimated at around 0.1 percentage point in 2019 and 0.2 to 0.3 percentage point in 2020. The increase of the value-added tax from 18% to 20% at the beginning of 2019 will reduce household consumption temporarily, in particular for low-income earners.

The government has adopted an ambitious investment programme for the years 2019-2024, aimed at increasing the share of investment in GDP from 21% to 25%. The programme should help improve transport infrastructure, accelerate the digitalisation of the economy, deepen financial markets and complement the pay-as-you-go pension system with a system based on capitalisation. Assigning personal responsibility of a government official for outcomes within their control is commendable and should support effective implementation of the programme.

Improving the business environment via better protection of entrepreneurs' rights, more effective competition, less government involvement in the business sector and improved governance of state-owned enterprises would further boost investment and productivity. Fostering entrepreneurship, strengthening collaboration between the business sector and academia and more public spending on research and development would also add to potential growth. Administrative simplifications, such as the planned one-stop-shop for export firms, are a step in the right direction.

Growth will increase somewhat

The economy is projected to grow by 1.5% in 2019 and 1.8% in 2020, driven by a boost to household consumption from higher real wages and by public investment. Exports will slow as oil prices are no longer rising. The current account will remain in surplus. The VAT hike, tighter monetary policy and more moderate household credit growth will dent growth in 2019 temporarily. However, the pension reform and the infrastructure programme will help boost growth in 2020.

Substantial uncertainty remains about future sanctions and counter-sanctions, which could dent exports and trigger a new wave of capital outflows and further rouble depreciation. Also, the authorities remain cautious about adverse oil market developments, expecting a scenario whereby the oil price falls progressively to less than 60 USD per barrel by 2020 owing to rebounding shale gas production and a petering-out of the OPEC+ agreement. However, the growth effect of an oil price decline of this magnitude would likely be small, thanks to the stabilising role of the fiscal rule and a flexible exchange rate.

From:

OECD Economic Outlook, Volume 2018 Issue 2

Access the complete publication at:

https://doi.org/10.1787/eco_outlook-v2018-2-en

Please cite this chapter as:

OECD (2018), "Russia", in *OECD Economic Outlook, Volume 2018 Issue 2*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_outlook-v2018-2-40-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.

OECD