RUSSIAN FEDERATION

Higher oil prices and the easing of euro area tensions will allow economic growth to continue at above 4 per cent in 2012 and 2013. Inflation will rebound from record-low levels in the second half of this year as temporary favourable factors fade, before resuming a gradual downward trend. The budget is projected to remain in surplus in 2012-13, but the non-oil deficit will remain wide.

The government should use high oil prices to accelerate fiscal consolidation and restore the fiscal rules suspended during the 2008-09 global crisis. Given subdued inflation, the central bank can afford to wait for confirmation that the economy is continuing to grow at least in line with potential before beginning to tighten. The formation of a new government is a propitious moment to set out an ambitious programme of market-oriented structural reforms, which is needed to improve the business environment.

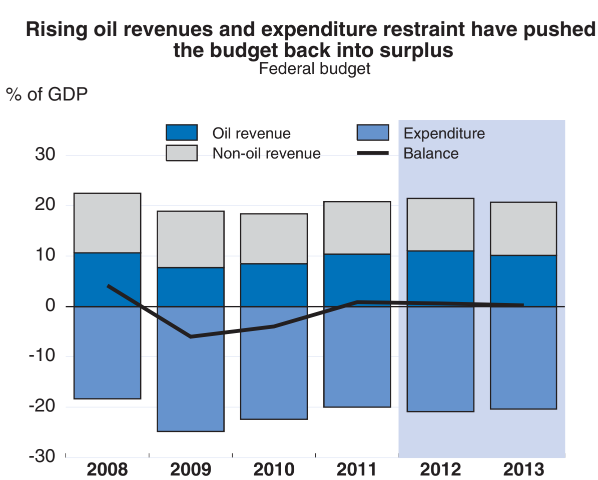
Output growth is broadly in line with potential

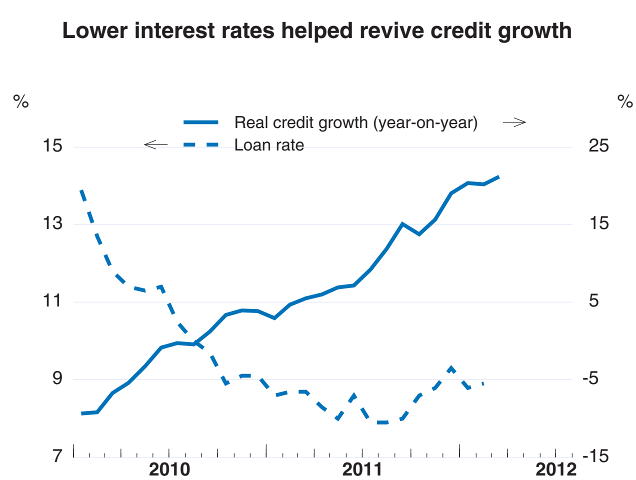
In recent quarters, a number of headwinds – intensification of the euro area crisis in mid-2011, the associated turmoil in international capital markets, and political uncertainty in Russia surrounding the parliamentary and presidential elections – have been roughly offset by the tailwinds provided by rising oil and gas prices and a strong harvest, leaving annual growth in 2011 close to potential. Real wage gains, employment growth and terms-of-trade improvements are underpinning increases in consumption, while fixed investment has also been boosted by easier credit conditions. However, the economy has not been ready to absorb the surge in export receipts associated with the rise in oil prices and capital outflows have picked up.

Inflation is likely to rise temporarily

Inflation has fallen to a post-Soviet-era low of 3.6%, but, abstracting from temporary favourable factors, underlying consumer price inflation is estimated to be around 6% and following a gradual downtrend. Inflation has been temporarily reduced below the underlying rate mainly by food

Russian Federation





Source: OECD calculations and estimates based on Central Bank of Russia, Rosstat and Economic Expert Group.

StatLink http://dx.doi.org/10.1787/888932609247

Russian Federation: **Macroeconomic indicators**

	2009	2010	2011	2012	2013
Real GDP growth	-7.8	4.3	4.3	4.5	4.1
Inflation (CPI), period average	11.7	6.9	8.4	4.6	5.8
Fiscal balance (per cent of GDP)[1]	-4.3	-3.5	1.6	1.0	0.7
Current account balance (per cent of GDP)	3.9	4.7	5.4	6.3	4.4

1. Consolidated budget.

Source: OECD Economic Outlook 91 database.

StatLink http://dx.doi.org/10.1787/888932610729

price moderation following the strong 2011 harvest, the delay of administered price increases this year from January to July and the strengthening of the rouble since October 2011. Year-on-year producer price inflation fell from above 20% to 7.4% between March 2011 and March 2012.

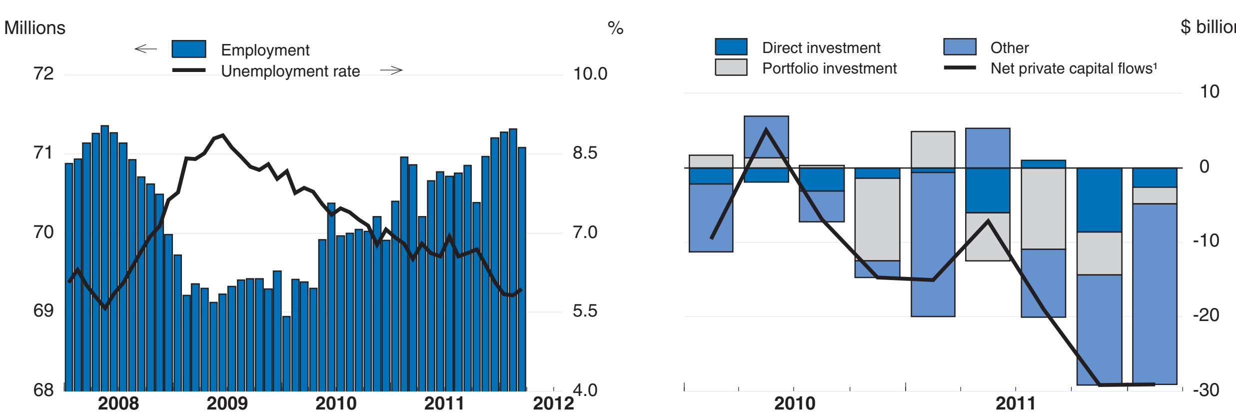
Gradual fiscal consolidation is underway

Strong revenues, including from oil and gas, pushed the budget into surplus in 2011. OECD projections for oil prices and growth imply that surpluses will be maintained in 2012-13, although the non-oil deficit will remain far above the 4.7% of GDP allowed for in the currently suspended fiscal rules. So far the government has resisted the temptation to spend much of the revenue windfall this year, which has come mainly from higher oil prices. Budgetary amendments approved in May raise federal government expenditures by only 0.7%, whereas official projections of federal government revenue are 7.6% higher than originally budgeted. In the absence of binding rules on the saving of such windfalls, however, a further ratcheting up of spending is possible.

Russian Federation

The labour market has returned to pre-crisis conditions Seasonally adjusted

Capital outflows increased in late 2011 and early 2012



1. Excluding errors and omissions.

Source: OECD calculations based on Rosstat and Central Bank of Russia.

StatLink http://dx.doi.org/10.1787/888932609266

Russian Federation: **External indicators**

	2009	2010	2011	2012	2013
			$ billion		
Goods and services exports	343.7	445.3	576.1	669	702
Goods and services imports	251.0	322.0	413.9	477	544
Foreign balance	92.7	123.3	162.2	192	158
Invisibles, net	- 44.0	- 53.0	- 63.3	- 63	- 58
Current account balance	48.6	70.3	98.8	129	100
			Percentage changes		
Goods and services export volumes	- 4.7	7.0	0.4	2.0	2.9
Goods and services import volumes	- 30.4	25.8	20.3	15.0	12.8
Terms of trade	- 29.8	19.2	20.8	13.5	1.0

Source: OECD Economic Outlook 91 database.

StatLink http://dx.doi.org/10.1787/888932610748

Monetary policy is on hold

The central bank is progressing towards its declared objective of implementing an inflation targeting regime by allowing more exchange rate fluctuation and by narrowing the corridor between its lending and borrowing rates to regulate banking system liquidity and achieve low and stable inflation. Despite growing labour market tightness and a strong pick-up in annual credit growth, the main policy lending rate has been held constant since September 2011 owing to the unsettled external environment and the absence of inflationary pressures.

Growth will continue to be driven by domestic demand

Oil prices are assumed to rise gradually over the projection horizon, which should ensure that rapid domestic demand growth continues, as stronger oil prices boost real incomes, wealth and confidence. Russia's high income elasticity of imports and the recent real appreciation of the rouble will mean that the growth of import volumes far outpaces that of export volumes in 2012-13, so that output growth, staying at above 4 per cent in 2012 and 2013, will lag well behind domestic demand. Annual average inflation is projected to hit a new low of 4.6% this year before rising temporarily in 2013 as a number of favourable factors drop out of the numbers. The current account surplus is expected to widen this year due to a large improvement in the terms of trade, but it will fall back again in 2013 as the terms-of-trade improvement ebbs while volume growth of imports continues to outpace that of exports.

The oil price remains the main swing factor

As ever, the oil price is a key factor shaping the scenario. If supply disruptions were to push the oil price much higher than the $121 per barrel (Brent) assumed in 2012, domestic demand would probably increase even more and the fiscal and external surpluses would be larger than projected. Correspondingly, a much weaker oil price than assumed would tend to undermine consumption and investment and could trigger a procyclical fiscal response if worries arose about financing constraints.

From:

OECD Economic Outlook, Volume 2012 Issue 1

Access the complete publication at:

https://doi.org/10.1787/eco_outlook-v2012-1-en

Please cite this chapter as:

OECD (2012), “Russian Federation”, in *OECD Economic Outlook, Volume 2012 Issue 1*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_outlook-v2012-1-42-en