



UNDER EMBARGO UNTIL 12.00 HRS., BANGKOK TIME, THURSDAY, 28 APRIL 2016

RUSSIAN FEDERATION

GDP (current US\$, billions):	\$1,860.60	Population (thousands):	143,820
Share of GDP in developing Asia-Pacific:	9.2%	GDP per capita (current US\$):	\$12,735.92
Share of GDP in North and Central Asia:	84.2%	Average inflation (2015)	15.5%

- The economy of the Russian Federation shrank by 3.7% in 2015, after having recorded a subdued growth rate of 0.6% in 2014. The steep declines in the prices for crude oil and natural gas and the intensification of international sanctions accounted in the main for the country's economic contraction.
- Domestically, stalled progress on structural reforms and weak fixed investments also weighed down the economy. Outputs in the manufacturing, trade and construction sectors were characterized by notable decreases.
- Amid export declines and sanctions, the domestic currency depreciated by 66% in 2014 and another 13% in 2015. Such steep depreciation contributed to a decade-high inflation rate of 15.5% in 2015, which, together with anaemic economic activity, led to an almost 10% decline in real wages, according to the official estimate.
- Low- and middle-income households were the most adversely affected; the national poverty rate is estimated to have increased by 3 percentage points to 14.2% in 2015. The number of people living in poverty is currently more than 20 million.
- The currency depreciation and high inflation rate resulted in an increase in the dollarization of household deposits, while dollar-denominated corporate debts also increased. The amount of overdue claims rose by 54% in 2015, representing almost 4% of GDP. These developments could undermine financial stability, especially since international sanctions already limit the country's access to global financial markets.
- To ensure financial stability, the central bank accelerated reforms that would facilitate a move towards a free floating exchange rate regime, increased foreign exchange liquidity, tightened banking supervision and doubled the level of insured deposits.
- On the fiscal front, the Government launched an anti-crisis plan, which is aimed at recapitalizing banks; providing guarantees for State-owned companies in the agricultural, manufacturing and transport sectors; and supporting social programmes, such as unemployment benefits. To finance the plan amid lower-than-expected revenue collection, the Government temporarily suspended a budget rule that caps spending, cut spending in some programmes by 10%, introduced a partial indexation of public wages to inflation and froze government pension contributions for a third consecutive year.
- The economy is projected to contract further by 1.5% in 2016, before registering zero growth in 2017. These projections are subject to considerable uncertainty, however, due to volatile geopolitical tensions and future energy prices. Consumption and investment would remain weak in 2016, while fiscal consolidation is expected to move forward.
- The outlook in 2017 is premised on the assumption of greater exchange rate stability, which would ease inflationary pressure, and the country's monetary policy stance. If oil prices rebound more quickly than expected, a recovery in fixed investment could be rapid as several investment projects had been postponed in previous years. A key challenge facing the Russian Federation is the need for a credible medium-term fiscal consolidation programme that is adjusted to lower oil prices. Implementation of delayed structural reforms would help to enhance the country's growth potential.