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Statement by Mr. Siluanov
Russian Federation

STATEMENT
by Mr. Anton Siluanov
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of the Board of Governors of the IMF
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The Russian Federation, like many other emerging market economies, is implementing the necessary measures to benefit from favorable conditions in the world economy. In this context, we are pleased that, after a long period of subdued growth of the global economy, we observe its steady recovery. At the same time, we believe that there are significant risks that require our close attention and precautionary measures.
In my speech I will outline the most significant risks, discuss how the Russian economy is developing in the context of the global environment, and describe the vision of the IMF role in the global financial architecture.

Risks for the global economy

We welcome the strengthening growth of the global economy, supported by the revival of investment and international trade. Recovery is broad based and growth projections have been revised upward again, primarily for the advanced economies (AE).

At the same time, we observe signs of overheating in the financial markets. Stock indices are rising everywhere, risk premiums for emerging markets are falling, reflecting high speculative capital inflows. There is a divergence in the growth rates of stock indices in advanced economies and the dynamics of returns in the real sector, which increases the likelihood of a sharp and deep correction of financial markets in the short term.

The strengthening of the global growth momentum is supported by procyclical fiscal policies in the U.S. and trade and investment growth in a wide range of AEs and Emerging Markets and Developing Countries (EMDCs). However, it will inevitably wane over time, as procyclical factors will be reversed. The slowdown of growth against a backdrop of accumulated vulnerabilities and insufficient policy buffers may cause serious problems.

The process of monetary policy tightening will be accompanied by the retraction of the previously introduced stimulus measures, and may lead to certain side effects, especially in the EMDCs. In that context, the problem of excessive levels of public and private debt for both EDMCs and AEs is especially acute.

Resilience of the banking systems has improved, due to multi-year efforts to strengthen them, but serious challenges are still in place, to a large extent related to new business models and tools of the digital economy, for example, robotic trading in financial markets, the transformation of banking institutions into companies based on information technology, "big data", artificial intelligence, interacting with customers remotely. Policymakers should further strengthen their macro- and micro-prudential toolkit to address vulnerabilities and monitor risks more efficiently. We welcome the analysis of growing synchronization of *housing market prices* across major urban centers, as well as the related risks.

We agree with the Managing Director that the *multilateral trade system* is now in danger of being severely damaged. The recent escalation of protectionist measures undermines its fundamental principles. Participants in the global trade system should make every effort to reduce barriers to trade while resolving disputes without applying measures that contravene the rules and procedures of the multilateral trading system. We urgently need a revival of constructive cooperation to modernize the integrated global trading system.

Russia

The pickup in economic activity that started in the middle of 2016 has gained further momentum in 2017-18. Last year, after two years of recession, the Russian economy moved to a recovery stage. GDP increased by 1.5 percent in 2017. Economic growth was mainly driven by increased domestic demand. Reducing uncertainty and improving business sentiment helped to restore investment demand, which in turn supported the recovery of industrial production. In particular, in 2017 the robust performance of export-oriented sectors was supported by stronger performance of domestically-oriented sectors.

At this point the Russian economy is developing without serious imbalances, competitiveness of the Russian companies is improving, and the stability of the financial sector has strengthened. We expect that in 2018-19 GDP growth will be about 2 percent. The inflation rate of 2.4 percent in the first quarter is below the Bank of Russia's target, which continues to gradually normalize monetary policy in accordance with the evolving conditions. Thus, in mid-March, the key rate was reduced to 7.25 percent. In end-February, S&P raised Russia's sovereign credit ratings to investment grade, which we see as a recognition of the success of our efforts.

We remain strongly committed to fiscal prudence. Expenditure optimization and strong revenue performance allowed to reduce the 2017 federal budget deficit to about 1.5 percent of GDP, which is substantially lower than the initially envisaged 3.2 percent of GDP level.

Starting 2019, we intend to reach a zero structural primary deficit[1]. Public debt is low and we intend to keep it below 20 percent of GDP over the medium term.

The role of the IMF

We support the efforts to further strengthen the global financial safety net (GFSN), with strong, quota-based and adequately resourced IMF at the center of the system, with a more effective set of instruments, as well as more effective interaction with regional financial arrangements, in accordance with their mandates.

In this regard, we reiterate the importance of the completion of the 15th General Review of Quotas as scheduled, and we are concerned about the risks of a delay. Comprehensive technical work has already been done, and further progress will depend on the ability to find a compromise. It should be based on two principal requirements. First, a substantial quota increase, allowing at least to maintain the current lending capacity even after the bilateral borrowing agreements expire, is necessary. Second, in order to restore legitimacy and credibility of the IMF, the gap in proportion between AEs and EMDCs in terms of calculated quota shares should be decisively reduced.

We welcome the Fund's efforts aimed at strengthening its engagement in governance issues, including all forms of corruption. We agree that the Fund's work in this area should continue to be guided by its' overall mandate. The Fund has accumulated vast expertise and experience assisting its members in promoting good governance. In this regard, we broadly support the focus on the six key state functions presented in the Framework for Enhanced Fund Engagement. The Fund's own knowledge of individual country circumstances should remain the key input. We urge to avoid the reliance on dubious indicators produced by certain private third parties.

[1] Primary deficit under the assumption of the Urals oil price of $40 per barrel