INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**Statement by Mr. Siluanov**
**Russian Federation**

On behalf of
Russian Federation and Syrian Arab Republic

**STATEMENT**
**by the Minister of Finance of the Russian Federation,**
**IMF Governor for the Russian Federation**
**Anton Siluanov**
*at the IMFC Meeting of the Board of Governors of the IMF*
*(Washington, October 15, 2020)*

**The world has been confronting an unprecedented health and economic crisis caused by the COVID-19 pandemic for more than eight months.** The initial shock has been replaced by a better understanding of the scale of the threat and its possible consequences. The experience accumulated in containing the pandemic has allowed moving from indiscriminate lockdowns to better-targeted measures. Economic activity is recovering in many parts of the world amidst a partial re-opening of the economies. The immediate priorities are still mostly related to strengthening the health systems, supporting economic activity, and protecting the vulnerable groups. However, although the outlook remains highly uncertain, it may be the right time to start thinking about the world economy after the pandemic.

**COVID-19 hit the world at the time when many large economies were not in good shape**. A decade of low output growth, even lower productivity growth and mounting trade tensions did not allow reducing high public and private debt levels, while in many countries accumulation of public and private indebtedness continued full speed. Additionally, unconventional monetary policies introduced by the major central banks to support economic activity had remained in place throughout the whole decade. This implied extremely low interest rates, which stimulated increased borrowing by both the public and private sectors. As a result, the accumulated critical debt levels may threaten global financial stability and post-pandemic recovery.

**Global economy**

**According to the health statistics, the COVID-19 pandemic is continuing unabated in many parts of the world.** The global number of infection cases is rising, although the fatality rates are lower than in spring. Beginning from late summer the second wave of infections has hit many countries, large and small. And this is in a situation where the cold season in the Northern Hemisphere is only beginning. The best hope is that safe and effective vaccines will become available soon, so that mass vaccinations could begin in 2021.

**Policy response to the COVID-19 crisis by the major economies has been strong.** Massive fiscal stimulus and monetary accommodation measures played a crucial role in stabilizing the global economy. We note that the outlook for full year 2020 is now substantially better compared to the June projections. The global output decline is now estimated at -4.4% against -4.9% in June. The outlook for advanced economies, including the US and the euro area, has noticeably improved, so that a less severe output decline in 2020 (-5.8% against -8.0% in June) is now expected. The situation in EMDEs is diverse; there are signs of recovery in some countries, including Brazil and Russia, while in other countries (India, Argentina) the output is now projected to drop even stronger than was expected in June. China, which was the first country to contain the pandemic, once again will lead the way and play the role of an engine of global recovery.

**Withdrawal of policy accommodation measures must be very well calibrated.** The macroeconomic response should be tailored to country-specific circumstances, and fiscal stimulus should not be removed too quickly. In those countries where there is no more space for additional fiscal and monetary stimulus, the emphasis should be placed on implementing the necessary country-specific structural reforms.

**A decade of implementing financial sector reforms aimed at improving the resilience and reducing vulnerabilities of the financial institutions has paid off**. Notwithstanding the unprecedented crisis, regulated banks are not in bad shape -- at least, not yet. However, close to zero or even negative interest rates will continue to take toll on the formal banking system, along with deterioration of credit quality and rising bankruptcies. On top of that, a substantial part of the risky financial operations migrated to non-banks and the shadow banking system, especially to asset management companies. As little is known about their conditions, the monitoring by the regulatory authorities of this sector should be strengthened.

**The disconnect between equity markets and the real economy in advanced economies has become strikingly evident during this crisis.** The developments in the equity markets are mainly determined by the prospects of new stimulus measures. They rise and fall with the rise and fall of such expectations. This is not a very healthy relationship between the public and private sectors from the point of view of policy formulation and moral hazard. Overall, the huge injections of liquidity along with negative or close to zero interest rates in the advanced economies are behind the significant increase in the asset price inflation.

**Important changes have happened on the way to digital economy.** Distance learning, tele-medicine, digital financial services, online shopping, and all kinds of communications witnessed a tremendous expansion. However, all benefits and drawbacks from digitalization will need to be thoroughly addressed in post-pandemic time.

**In the emerging market economies (EMEs) economic conditions vary substantially, as well as their authorities' ability to respond to the crisis.** Prudent economic policies in the years prior to the crisis allowed many EMEs to demonstrate remarkable economic and financial resilience in the face of the shock. In contrast to many previous crises episodes, the authorities in many EMEs were able to embark on countercyclical monetary and fiscal policies. Several EMEs have been able to contain the pandemic and are successfully recovering.

**However, in general, the EMEs have little policy space of their own.** They could only afford some limited fiscal stimulus, and their monetary policy response was much more cautious. For many of them their financial stability depends on the continuation of fiscal and monetary accommodation in major advanced economies, and on search for yield generated by interest rates differentials. By the end of 2020 the majority of large EMEs will have public debt levels in excess of the 50 percent of GDP threshold. Some EMEs have already resorted to the IMF for emergency financing.

**The situation in the low-income countries (LICs) is even more dramatic.** The pandemic has been a devastating blow for their economies, especially for economies that heavily depend on tourism, remittances, and trade. They are facing the prospect of the crisis wiping out a decade, if not more, of their progress in improving the living standards and reducing poverty. They need strong support from the international community through debt relief, grants, and concessional financing.

**Role of the IMF**

**We appreciate the Fund's strong efforts in providing the anti-crisis financial assistance to its membership.** More than eighty countries have received emergency loans from the Fund in just four months, when the crisis was in its most acute phase. We also welcome the debt relief efforts through the CCRT and the DSSI. While the first round of emergency assistance has been successfully delivered, the crisis is not over, and additional financing may be required going forward. For the near future the Fund's financial resources look sufficient, but a lot will depend on the evolution of the crisis. Therefore, we reiterate the need to accelerate the 16th quota review to substantially increase the Fund's quota resources.

**The Fund's standing as one of the main global institutions to promote multilateralism should be maintained.** We are deeply concerned that, despite the common challenge the mankind is facing, which should unite all Fund members, the rise of international tensions and escalation of trade, financial, technology, and information wars are continuing. At the time of the Global Financial Crisis, we witnessed not just coordinated policy responses among Fund members, but also a major improvement in the international cooperation, including the strengthening of the G-20 and the agreement on the Fund's quota and governance reforms. Today, the international community needs to work hard to address de-globalization and deterioration in the trade system, to implement tax and climate initiatives.

**We broadly support the Managing Director's Global Policy Agenda (GPA).** The GPA delivers the right messages regarding the most critical economic policy priorities and focuses on the most important areas of the Fund's work. We agree with the message that the premature withdrawal of policy support could undermine the recovery. We also support the GPA focus on advising members on how to reduce debt vulnerabilities and strengthen debt management capacity. These efforts should be complemented by the work on sovereign and corporate debt restructuring. We also support the GPA emphasis on the needs of emerging market and developing economies and, in particular, the low-income countries, and welcome the resumption of the Fund's bilateral surveillance after a prolonged break caused by the COVID-19 pandemic. Regarding the new areas of activity, such as climate, governance and corruption, digitalization, the Fund should focus only on those aspects that directly correspond to its mandate and competence.

**Russia**

**The Russian economy has weathered the double shock of the COVID-19 pandemic and oil price collapse relatively well.** Russia maintains substantial policy buffers, which have been accumulated over many years of prudent macroeconomic policies and structural reforms. The introduction of the strong fiscal rule and creating substantial fiscal space, the transition to the credible inflation targeting regime and anchoring inflation at historically low levels, improving banking sector supervision and increasing its resilience -- all these steps have made it possible to mitigate the impact of the crisis and to successfully implement the necessary stabilization measures. The macroprudential measures adopted by the Bank of Russia in previous years allowed banks to build substantial safety margins, which will help sustain flow of credit and absorb losses.

**As a result, the economic contraction turned out to be less deep than expected**. While the decline in GDP in the second quarter was 8.0%, our baseline projection for full year 2020 is estimated at 3.9%.

**The implementation of anti-crisis measures proved to be effective and timely.** These measures have allowed us to prevent the uncontrolled spread of the disease and rapidly remove the initially imposed restrictions without creating risks of increased fatalities. They have also allowed us to avoid the possible stress scenarios in the labor market developments.

**In 2021, our fiscal policy will remain countercyclical commensurate to the gradual recovery in economic activity.** We plan to continue financing some anti-crisis programs related to providing support to severely affected households and sectors of the economy. We envisage to normalize fiscal policy and return to full compliance with the fiscal rule in 2022.