INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Anton Siluanov
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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, April 16, 2020)

Let me, first, wish everybody health and safety and express my deep regret about the tremendous loss of life worldwide.

Global Economic Outlook

The world is confronting an unprecedented healthcare and economic crisis like no other since the Second World War. On top of that, we are facing extreme uncertainty regarding the future developments.

There is a big uncertainty about the duration and intensity of the pandemic and the degree of resilience of our economies in the face of a disruption of established business practices and supply chains. Sudden stops in movements of people, as well as the collapse of demand in services and transportation sectors resulting from social distancing have already led to soaring unemployment. The next hit will come when the full effect of company closures will spread along the supply chains. All our economies rely on complex supply chains, both within and between countries, and it is impossible to predict the domino effect of any individual company closure.

Due to disruptions in the real economy, pressures in the financial sector are increasing as well. The pandemic has quickly become a trigger for the destabilization in global financial and capital markets against the backdrop of financial vulnerabilities accumulated over the prolonged period of time. This resulted in a dramatic tightening in financial conditions. High uncertainty and increased volatility provoked a flight to safety and liquidity, with yields on safe-haven bonds reaching record low levels. The emerging market economies have been hit especially hard, as capital outflows from these countries have already exceeded $100 billion.

The healthcare crisis, output decline, and destabilization of the financial sector are creating conditions for a perfect storm. Against this background, the WEO baseline projection of global GDP contraction of 2.9 percent in 2020 looks somewhat optimistic. We would be happy to be wrong, but unfortunately, even the illustrative “protracted recovery” scenario with global contraction approaching 6 percent in 2020 may not be the worst-case scenario. It would be prudent to hope for the best but prepare for the worst.

A lot has already been done to slow down the pandemic and strengthen healthcare systems. In addition to quarantine measures, the healthcare providers received large-scale additional resources, including additional funding for medical equipment, testing devices, and expansion of hospitals and isolation wards. We welcome ongoing international cooperation on developing the vaccine. At the same time, it is critically important to develop a mechanism to ensure rapid and unobstructed flow of these resources, especially to developing countries. If the pandemic spreads to countries that lack such necessary resources, it will come back to countries that managed to contain it, further delaying their recovery.

The unprecedented fiscal stimulus has been deployed by most advanced economies in response to disruptions caused by the pandemic. Both automatic stabilizers and legislated discretionary measures to support the vulnerable groups of population and the most affected sectors of the economy will cause a dramatic increase in fiscal deficits. On top of that, in many countries large-scale loan guaranty programs and other forms of indirect support have been announced. Massive and expeditious use of fiscal power was entirely appropriate as events were unfolding rapidly. At the same time, it is important to make these support measures well-targeted as well as timely and effective.

In many countries the massive fiscal expansion will stretch public debt sustainability to the limits. The dramatic increase of fiscal deficits in 2020 will be followed by several years of very high deficits, as fiscal consolidation will unavoidably take time. Extremely low interest rates may provide some help. However, not all advanced economies may afford much higher debt levels. Fiscal risks are also high in many EMDEs, where capital outflows, currency depreciations and much tighter financial conditions may undermine debt sustainability. The absence of a fiscal space may also suffocate future economic recovery.

Central banks in the advanced economies have already reintroduced unconventional monetary policy tools. Asset purchases, forward guidance, and negative interest rates can still play a role in countering the weak demand and mitigating negative feedback loops. Another important task of monetary policy in advanced economies is to prevent a deflationary spiral during the recession. At the same time, faced with sizeable capital outflows and depreciation pressures, many emerging market economies may be forced to tighten their monetary policies or even introduce capital flows management measures. In order to avoid pro-cyclical policies as well as to address liquidity and solvency issues they may need a substantial external financial assistance, including from multilateral institutions.

Together with support measures, central banks and other regulators need to strengthen monitoring of banks and non-bank financial institutions. The uninterrupted flow of credit to the economy is critical to avoid deeper recession. Over the past decade, banks have built up capital and liquidity buffers, but the unprecedented economic shock will test their resilience. Banks are facing large decline in their equity prices, surging wholesale funding costs, and growing risks of credit losses. Timely identification and resolution of problematic financial institutions will reduce risks to the broader financial system.

As we are facing an unprecedented surge in unemployment, there is a scope for active labor market policies to reduce the long-term damage. The global quarantine experience will undoubtedly change working practices and employment patterns. This may include greater teleworking and reduced travel to offices and shopping centers, decline of tourism and other sectors. We can expect attempts to shift supply chains “closer to home”, which will significantly affect the international division of labor. Countries that better address and manage these changes will be able to provide better work opportunities to their citizens.

The pandemic underscores the need for a multilateral, collaborative approach in many policy areas. At the time of global economic distress, it is critical to avoid the breakdown of international trade, and scale back previously imposed tariff and nontariff measures to preserve global supply chains. Any application of external economic and financial pressures, especially on countries, severely affected by the pandemic, should be discontinued. Taking into account the disruptive impact of the pandemic on trade and investments, we call on the IMF members to refrain from introducing any new trade restrictions, economic or financial sanctions or any other measures inconsistent with the WTO rules in the coming months.

The turmoil in the global oil market has amplified the impact of the pandemic-related shock on oil-producing countries. The drastic decline in demand for oil has been very large and severely affected the oil market conditions. Hopefully, the recently achieved agreement between the OPEC+ and other major oil producers will allow to stabilize the oil market.

The role of the IMF

Global actions are required to combat the pandemic outbreak and mitigate its devastating health and economic impact. The firepower of global and regional institutions should be fully utilized to help countries address urgent and unprecedented financing needs. We encourage all international financial institutions (IFIs), multilateral and regional development banks, as well as Regional Financing Arrangements (RFAs) to deploy the full range of instruments and toolkits to assist affected countries and create conditions for a strong recovery.

We welcome the crisis response package expeditiously worked out by the IMF. This package includes rapid and enhanced access to emergency financing on the basis of such new instruments as the Rapid Credit Facility and Rapid Financing Instrument; the creation of the new Short-term Liquidity Line (SLL) to improve liquidity provision; and the debt service relief to the poorest and most vulnerable countries through the reformed Catastrophe Containment and Relief Trust (CCRT).

The pandemic is causing an unprecedented surge in the demand for IMF resources. About 100 countries have already requested emergency financial support from the Fund. It is possible that the Fund's lending capacity of around $1 trillion may turn out to be insufficient to meet the balance of payments' needs of the IMF membership. We find it critical to maintain the adequacy of the Fund's resources. Accordingly, the acceleration of the IMF quota and governance reform under the 16th General Review of Quotas should be a priority.

We also urge the IMF to demonstrate impartiality and evenhandedness in providing financial assistance to all its members. This global crisis is a testing time for the IMF. The way it handles it will have a lasting impact on the Fund's reputation and credibility.

Russia

Russia met the beginning of the pandemic with a very strong macroeconomic position. We had a very low public debt, fiscal and current account surpluses, ample fiscal and foreign exchange reserves. Nonetheless, pressures in the Russian economy are growing. The quarantine measures will significantly affect growth prospects in the near term, while social distancing may have to continue for quite a while. In order to support the economy, we have undertaken a long list of supportive measures.

In the fiscal area, we are not planning to reduce budgetary spending despite an expected significant reduction in fiscal revenue. Moreover, we are undertaking additional spending aimed at strengthening the healthcare system and providing support to vulnerable groups of population and the most affected sectors. We have also introduced tax forbearance measures and even some tax reductions. For example, social taxes have been reduced from 30 percent to 15 percent of the wage bill, while collection of some other taxes has been postponed for 6 months. Additional measures have also been taken to support small and medium-size enterprises.

On the monetary side, inflation is expected to pick up in the near term against the background of recent currency depreciation. However, this pick up will be from a low base of 2.5 percent year-on-year in March, and it is unlikely to exceed the official 4 percent target by a wide margin, taking into account a widening output gap. Key policy rate is at 6 percent and the Central Bank of Russia (CBR) has already signaled that there is room for countercyclical monetary policy over the medium term. Another immediate priority for the CBR is to provide liquidity to the financial system to ensure its stable functioning. Both regulatory forbearance and liquidity supporting measures have already been introduced.