International Monetary and Financial Committee

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IMFC Statement by Anton Siluanov
First Deputy Prime Minister
Russian Federation

On behalf of
Russian Federation and Syrian Arab Republic

STATEMENT
by First Deputy Prime Minister of the Russian Federation –
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 12-13, 2019)

Dear colleagues,

Global economic growth is losing momentum. Both policymakers and the expert community accept this fact. We agree with the IMF that the main priority now is *to avoid policy missteps*. We emphasize the importance of multilateral cooperation, in particular in the framework of the global financial safety net in order to address the mounting risks and support sustainable growth.

Outlook and risks for the global economy

The *outlook* for the global economy is clouded. The IMF reduced the 2019 global growth forecast to 3.3 percent. The projections for all major advanced economies were revised downwards, including growth slowdown in the U.S. to 2.3 percent and in the euro area to 1.3 percent. The forecast for emerging market and developing economies was also slightly reduced to 4.4 percent.

Growing trade tensions and tightening of financial conditions have had a cooling effect on *global growth* in the second half of 2018. Market volatility has forced central banks in advanced economies to largely postpone the normalization of monetary policy. In the United States the revision of the pace of normalization was a surprise and took place against the background of relatively strong economic activity and tightening labor market. Facing economic slowdown and lingering vulnerabilities in the euro area's banking sector the ECB has had to continue low interest rate policy and asset purchases program. While prolonged policy easing helped to offset market pressures, such policy does not address the entrenched structural impediments and weak fundamentals. As for the emerging markets, the easing of global financial conditions has had some positive effect, reversing previous capital outflows and supporting their currencies.

In the current unsettled economic environment, the *balance of risks* remains on the downside. Even a relatively modest escalation of trade tensions in 2018 has resulted in a noticeable decline in economic activity and sent shock waves across the global production chains. A full-blown tariff war, which is still possible, could have a much stronger effect. Growing financial vulnerabilities may lead to a rapid market tightening and a flight to safety. Uncertainty associated with the forthcoming Brexit remains extremely high and the eventual economic consequences are difficult to predict. Additional risks include continuous deterioration in non-financial corporate balance sheets, the sovereign-bank nexus in the euro area, and high housing and commercial real estate prices.

Facing growing risks of a major economic downturn, the *policymakers should tread carefully*. Policymakers in major advanced economies have much less room for a countercyclical response than at the time of the Global Financial Crisis. Over the past decade public debts have grown much higher in many advanced economies. The lack of fiscal space severely constrains room for the traditional fiscal response. Policy interest rates are low, which allows little room for the traditional monetary response. Postponed monetary policy normalization may be appropriate for now, but it is likely to fuel a continued build-up of vulnerabilities in the corporate and financial sectors, which may make future downturn more pronounced.

The uninterrupted growth of the world economy since the global financial crisis continues for about ten years. Yet, the fruits of this growth have been distributed unevenly, which creates public discontent and erodes trust in national and global institutions. We agree that *making growth more equitable and inclusive* should be among the priorities for economic policies. Fiscal policy measures can play an important role in providing more equitable income distribution at the national level and avoiding unfair cross-border profit reallocation. In this regard, we welcome the recent IMF study on international corporate taxation and encourage further work in this area. We also highlight the need for continued strengthening of the AML frameworks in order to fight money laundering and abusive practices in the offshore financial centers.

Global Policy Agenda

Accumulation of vulnerabilities in the global economy underscores the need for strengthened international cooperation and coordination. While policy space in many countries remains limited and interdependence has grown, the robustness of the global financial safety net (GFSN) is not assured. The strong and adequately resourced IMF should remain the main pillar of the GFSN.

We share the Managing Director's call in the Global Policy Agenda (GPA) for the "*new multilateralism that instills confidence that the costs and rewards of lasting solutions will be shared by all*". The widespread disappointment and increasing resistance to globalization cannot be dismissed as completely unfounded. Globalization and rapid technological changes brought about the enormous growth in trade and wealth. However, it has also led to increasing inequality and instability. We need to better understand and detect the negative side effects of globalization in order to address them. Unfortunately, the current trend is that globalization is accompanied by significant weakening of the global economic and financial institutions – from the WTO to the IMF.

Taking into account the importance of a strong IMF at the center of the global financial safety net, we are deeply disappointed by the outcome of the 15th General Quota Review (GQR). It undermines the fundamental governing principles of the IMF, which should be a quota-based institution. Its governance structure should be broadly aligned with relative weights of its members in the world economy. The under-resourced IMF would not be conducive for maintaining market confidence and global financial stability. At the moment, the only certainty regarding the IMF quota and governance reform is that there will be no quota increase and quota realignment for, at least, another four or five years – and this is after a decade of futile efforts at this critical front. As a result, the legitimacy and credibility of the IMF will continue to decline.

Russia

Russia's financial policy has undergone qualitative changes in recent years. Macroeconomic imbalances have been eliminated, the economy and the budget have become more resilient to external shocks, and financial market institutions have matured.

Last year, economic *growth* accelerated to 2.3 percent. The economic progress, the exchange rate stability and moderation of inflation were observed even at times when the pace of the oil price reduction and capital outflows were comparable to that of 2014.

Adherence to a prudent *fiscal policy* based on the fiscal rules has reduced the oil price threshold that balance the budget and the current account, respectively, to US$ 45 and US$ 35 per barrel. Last year, the headline federal budget surplus reached 2.6 percent of GDP, and the non-energy deficit declined to 6.1 percent of GDP.

At the end of 2018, the federal debt stood at 12.4 percent of GDP and is expected to remain below 17 percent of GDP over the medium term. Fiscal policy over the medium term will be aimed at overcoming the structural constraints on economic growth, including through prioritizing budget spending on the human capital development and infrastructure investment.

Russia's external position remains solid despite the waves of trade and financial sanctions. External debt has further declined to the levels that are now below the level of international reserves. The current account surplus in 2018 has reached almost 7 percent of GDP, including due to the strong growth of non-energy exports. High profitability of export-oriented industries allows to expect continuation of these positive trends.