



# **International Monetary and Financial Committee**

Thirty-Eighth Meeting  
October 12–13, 2018

Statement No. 38-29

**Statement by Mr. Storchak  
Russian Federation**



**STATEMENT**  
**by the Deputy Minister of Finance of the Russian Federation**  
**Sergei Storchak**  
*at the IMFC meeting of the Board of Governors of the IMF*  
*(Bali, October 12-13, 2018)*

Dear colleagues,

We are meeting in Bali under the bright and clear sky. However, in many countries it is already autumn, which soon will be followed by winter. Thinking about the change of seasons and turning to the economy, we note that although global expansion continues at its strongest pace since 2011, concerns are mounting about its sustainability, accumulation of vulnerabilities, and the ongoing attacks on the foundations of international cooperation. Observing clouds gathering on the economic horizon, we should emphasize the need to work together to address global risks and support continued global growth.

Here I would like to share with you our vision of the recent economic developments and risks, describe the prospects of the Russian economy in the context of current global environment, and discuss the need to strengthen the global financial safety net and the role of the IMF.

***Outlook and risks for the global economy***

We fully agree with the IMF judgement that *global growth*, while still strong, is becoming less synchronized and in many advanced economies (AEs) output gap has closed. Procyclical fiscal policy in the United States has provided stimulus to global expansion, but it is also increasing the risks of reversal going forward. Emerging markets and developing countries (EMDCs) remain the main drivers of global growth, but they are facing a more challenging global financial environment. Some of them, with weaker fundamentals, are already struggling with capital outflows and large currency depreciations.

Several *downside risks* have become more pronounced since our last meeting in April, including the continuing build-up of financial vulnerabilities, the appreciating U.S. dollar, and aggravation of trade disputes. The unsustainable macroeconomic positions in some large economies, declining trust in the mainstream policies, rising income inequality, and steady growth of geopolitical tensions undermine foundations of the global economic system based on close economic integration and interdependence.

The global economy is becoming more vulnerable to a *sudden tightening of global financial conditions*. Unsustainable policy mix in the U.S. is a major concern in this regard. In the environment of low unemployment and continued fiscal stimulus, inflation may eventually surprise on the upside, triggering faster monetary policy adjustment, higher interest rates, and further U.S. dollar appreciation. These developments could be exacerbated by a reappraisal of

elevated asset values in the U.S. Additional risk factors to be monitored are debt sustainability, the continuous deterioration of non-financial corporate balance sheets, high housing and commercial real estate prices in many countries.

Notwithstanding the evolving conditions, the *policy priorities* across the IMF membership remain broadly the same. To avert the looming risks while sustaining growth momentum, AEs should continue gradual monetary normalization. Accommodative monetary policy, however, continues to be appropriate for AEs where inflation remains below target. The task of rebuilding fiscal buffers is of utmost importance, and it is regrettable that many economies continue to underperform on this front. Where necessary, EMDCs need to get prepared to more volatile and unstable times. They should adopt a policy mix, which enhances their resilience to the tightening of global financial conditions and reversals in capital flows. Structural policies in both AEs and EMDCs should bolster sustainable and inclusive growth. It is also paramount to avoid reform fatigue in the area of global financial regulation agenda.

This time the issue of *trade protectionism* has become exceptionally prominent on our agenda. The quantitative evaluation of the possible impact of higher tariffs on the global economy in the World Economic Outlook is highly appreciated. We would also like to draw attention to another issue, which undermines global economic integration. The abuse by the United States of its dominant position in the global financial system for the purpose of disrupting trade and capital flows between other countries through extraterritorial application of the U.S. legislation presents a substantial threat to the normal functioning of the global trade and finance. Sanctions frenzy has already triggered a search for counter-measures by other major economies. Going down this road, we may see substantial changes in the landscape of the global financial system.

### ***Russia***

The Russian economy is steadily recovering from the recession of 2015-16, overcoming the challenging external conditions. It has been growing in the last eight quarters and we expect annual growth in a range of 1.7-1.8 percent in 2018-19. It is important to underscore the higher quality of growth. The new growth model is based on economic diversification and import substitution, driven by more competitive real exchange rate and stable macroeconomic conditions. Implementation of inflation targeting regime and floating exchange rate, as well as large fiscal consolidation effort and introduction of the new fiscal rule have created necessary buffers, and substantially improved macroeconomic stability and resilience of the Russian economy. Large foreign exchange reserves assure uninterrupted access to liquidity in case such a need arises. Both fiscal balance and current account will remain in surplus over the medium term.

Over the last five years we have undertaken a major clean-up of the banking sector, with the number of banks reduced from 923 to 512. The supervision of the financial system has been substantially strengthened. In addition to fiscal consolidation, strong monetary policy framework, and improved resilience of the financial sector, a broad structural reform agenda

has been implemented. The recently approved pension reform is seen as a landmark achievement. Russia has moved to the top quartile of the World Bank Ease of Doing Business ranking. A lot of efforts have been made in the development of e-government, and in the 2018 UN ranking Russia was among the leaders in that area.

The recently approved medium-term strategy of structural reforms (2018-2024) is aimed at boosting growth potential in Russia. Under this strategy, a significant increase in public and private investments in infrastructure is envisaged. The strategy is also strongly focused on further improvements in human capital, including in areas of healthcare and education.

### ***Global Policy Agenda***

Waning support for multilateralism is amplifying the existing and future risks to the global economy. Unfortunately, despite the vocal calls for cooperation, de-facto we witness more and more fragmentation of the global economic system. In addition to the assault on international trade and widespread reliance on unilateral actions, and in the face of growing risks to the global economy and international financial markets, we see little progress in strengthening the global financial safety net (GFSN). We continue to believe that strong, quota-based and adequately resourced IMF should remain in the center of this system.

We reiterate the importance of the completion of the 15th General Review of Quotas as scheduled. Comprehensive technical work has already been done by the IMF staff, its conclusions and recommendations are clear. Further progress will depend on the ability to find a political compromise and the will to protect the legitimacy and effectiveness of the IMF. It should be based on two principal requirements. First, a substantial capital 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 versus actual quota shares should be decisively reduced.

We encourage the IMF to continue strengthening its surveillance, modernizing financing toolkit and policy advice. The Fund should advance its work on improving understanding of emerging issues and trends, and, at the same time, remain focused on its core policy agenda. We support the recent work on a new liquidity instrument, institutional view on capital flows, fiscal space, public sector balance sheet, governance, potential growth, international tax issues, digitalization. But, at the same time, we believe that the right balance between the Fund's core functions and emerging issues should be found, taking into account the Fund's flat budget constraints.

Finally, we would like to welcome the "Bali Fintech Agenda" developed jointly by the IMF and the World Bank. The rapid development of fintech creates new opportunities for consumers and financial markets, but also substantial risks to financial stability. This document, which provides all countries with the framework for consideration of approaches to fintech

implementation and regulation, is timely and appropriate. We look forward to further work and recommendations on more specific aspects of fintech by the international standard-setting bodies. We expect the IMF to provide advice and assistance in the implementation of these recommendations.