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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
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Many of the risks we have warned about in recent years have materialized. Inflation remains persistently high in both developed and developing economies. Despite the fact that central banks of the major economies continue to tighten monetary policy, inflationary pressures do not subside. An adverse side effect of restrictive monetary policy after a multi-year period of ultra-accommodative unconventional monetary policy has been the realization of interest rate risks in the banking sector of the US and Europe, which required significant injections of liquidity to prevent panic in financial markets. The ongoing escalation of the sanction campaign against Russia and the practice of trade restrictions against China undermine global food, energy, and commodity markets, disrupting supply chains built over decades and slowing down the recovery of the global economy, including exerting upward inflationary pressure. The side effects of unilateral sanctions and trade restrictions primarily affect low-income countries, jeopardizing their food and energy security. To reduce global risks, it is important to mitigate the process of geoeconomic fragmentation and ensure the creation of new international economic ties.

The recent crisis episode in the financial sector of the US and Switzerland points to significant problems that have accumulated over a prolonged period of low interest rates. These shocks were caused by shortcomings in the existing practices of banking supervision and stress testing. For all major economies, the priority should be to improve the quality of banking supervision, regulate interest rate risks, and refine macroprudential measures to ensure the stability of the banking systems and prevent a crisis.

We believe that monetary policy of central banks should remain committed to its primary objective of price stability. The belated start of a new tightening cycle, combined with supply chain disruptions, has led to inflation becoming more persistent than expected. The inflationary impact of the delayed winding down of fiscal stimulus in developed economies should also be noted. In the medium term, fiscal sustainability must remain a priority for the fiscal authorities. At the same time, we are confident that budget consolidation can and should be combined with maintaining targeted support for the most vulnerable.

Growing levels of the public debt in both developed and developing economies, combined with tightening global financial conditions, increase the likelihood of a full-scale debt crisis over the medium term. The situation with public debt sustainability remains particularly difficult in many low-income countries, which may face a "perfect storm" scenario. These developments undermine the resilience of the global economy to new crises, as many countries will not have fiscal space to support their national economies in the event of a negative scenario. Restoring fiscal space is also important for addressing long-term challenges, such as population ageing and climate change.

Geoeconomic fragmentation is becoming one of the main risks for the potential rate of growth of the global economy over the medium term. Politically motivated unilateral financial sanctions and trade restrictions introduced under the pretext of protecting national security led to the division of the global economy into trading blocks. At the same time, the increased vulnerability of the current international financial architecture and the rapid spread of shocks related to excessive reliance on the US dollar cannot be ignored. After their blatant weaponization, some major global reserve currencies are becoming toxic for use in international payment transactions. If dollar settlements become impossible, Russian companies will switch to the currencies of friendly countries for transactions with its counterparties. We believe that expanding the use of other reserve currencies, including the Chinese renminbi, will lead to the creation of a new and more stable international monetary system.

The Developments in Russia

Despite unprecedented international sanctions, the Russian economy remains resilient. A growing number of enterprises are adapting to work under the conditions of unilateral sanctions, restructuring production chains. As of today, the Russian economy has successfully restructured without a significant decline in economic activity in 2022. Risks to macroeconomic and financial stability have been avoided. We already expect a return to positive economic growth rates this year. At the same time, unilateral sanctions and trade restrictions have significantly reduced the potential of those economies that have imposed them against Russia. In the current conditions, the main objectives of Russian economic policy are import substitution and reorientation of foreign trade.

Russia continues to pursue responsible fiscal policy to prevent the emergence of risks to macroeconomic stability. From 2023, a new budget rule framework is being implemented. Fiscal policy for the next three years is set to achieve the primary budget balance by 2025. This approach, on the one hand, will support the economy during the adaptation and restructuring of economic ties, and on the other hand, will strengthen confidence in economic policy, ensure the stability of the financial system, and the availability of credit as a source for economic development.

In mid-March this year, the Bank of Russia maintained the key interest rate at an unchanged level of 7.5 percent. Among the stable components of inflation, current price growth rates remain moderate. Inflation expectations of the population have significantly decreased but remain at a somewhat elevated level. In March, due to base effects year-on-year rate of inflation fell to only 3.3 percent. According to the Bank of Russia's forecast, given the current monetary policy stance, annual inflation is expected to be 5.0-7.0 percent in 2023 and return to the 4 percent target in 2024.

The Role of the IMF

In the context of growing uncertainty regarding the trajectory of the global economy, the role of the IMF as the center of the global financial safety net becomes critical. At the same time, the demands on the IMF are also increasing. In particular, the IMF should assist its members based on the principle of even-handedness. The fact that the IMF did not provide support to some of its members during the acute phase of the pandemic creates reputational risks and may, in the future, lead to a weakening of the IMF's role in favor of regional financing mechanisms and development banks, which will contribute to the fragmentation of the global financial safety net and may undermine its resilience. At the same time, significant concerns arise about the recent change in the IMF policies aimed at providing financial assistance under UCT-quality programs to borrowing countries facing exceptionally high uncertainty, which increases the risks to the IMF and its creditor countries.

The timely completion of the 16th general review of quotas should lead to a fair reflection of countries' weights in the global economy, taking into account the interests of the most underrepresented developing countries and vulnerable low-income countries. Without progress in quota realignment and governance reform, confidence in the institution by its members and the legitimacy of its decisions will diminish.

Solving the food crisis requires the immediate lifting of all restrictions on the transportation of food and fertilizers, which will help address a range of problems experienced by poor and fragile countries. We also support the efforts to enhance approaches to sovereign debt restructuring, including through the G20 Common Framework for Debt Treatments beyond the DSSI.

Furthermore, we call on the IMF to intensify its work on international trade issues. The role of the Fund is growing amid intensifying fragmentation of the global economy, worsening conditions for global trade, and weakening international cooperation on trade policy issues. A serious issue is the growing use of trade restrictions to achieve non-trade objectives, including those related to geopolitical conflicts. Achieving climate change and food and energy security objectives is often used as a pretext for protectionist measures. We urge the Fund to assess the damage that protectionist measures and restrictions on trade and capital flows inflict on the global economy.