



The Global Economic Outlook and Implications for Russia

Association of Regional Banks of Russia

Xth International Banking Forum

September 6, 2012

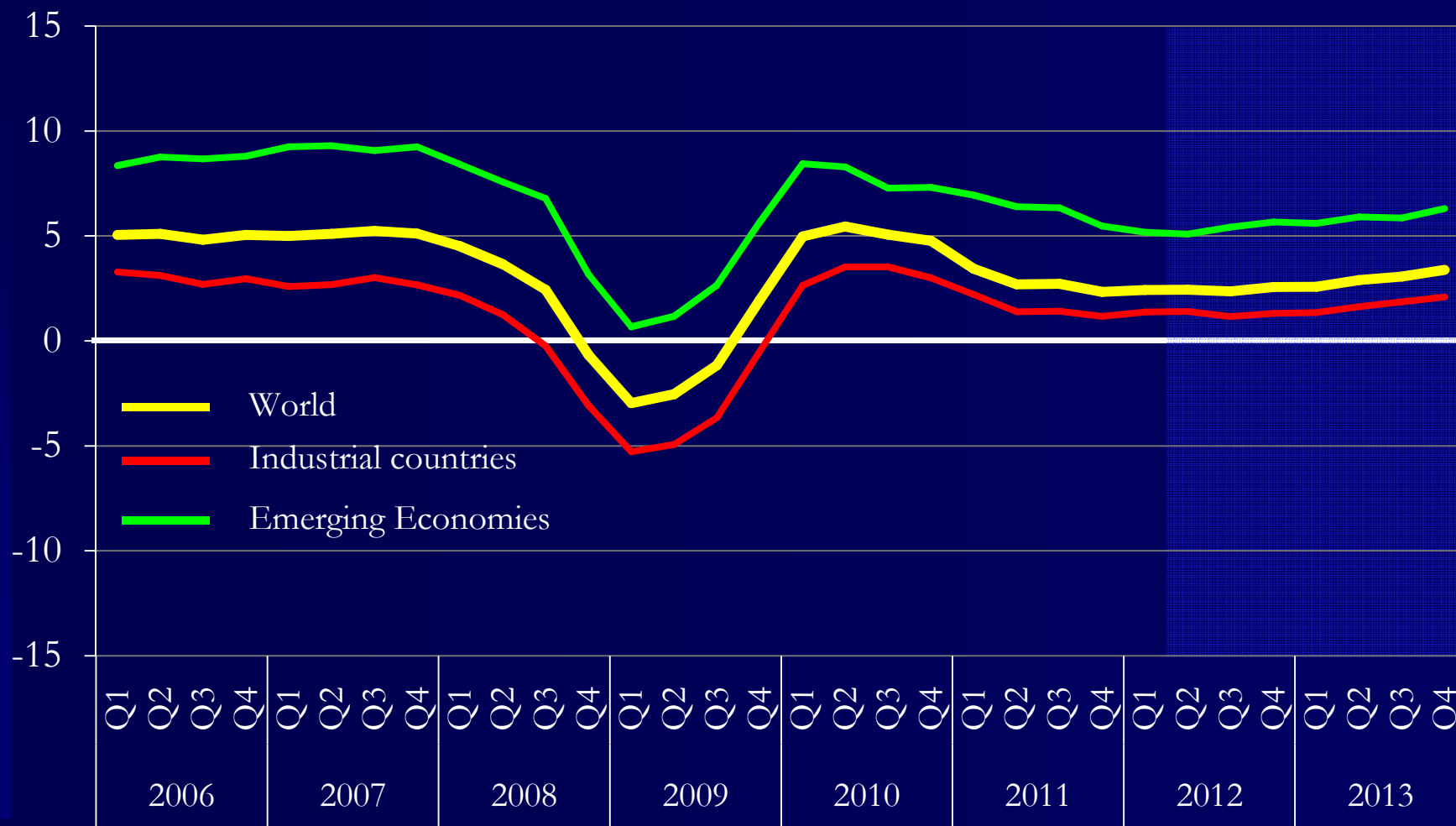
Odd Per Brekk

Senior Resident Representative

The Global Economic Outlook

The Economic Recovery is Slowing...

GDP Growth
(percent)



Source: IMF, World Economic Outlook.

... and The Baseline Outlook is Critically Dependent on Policy Action

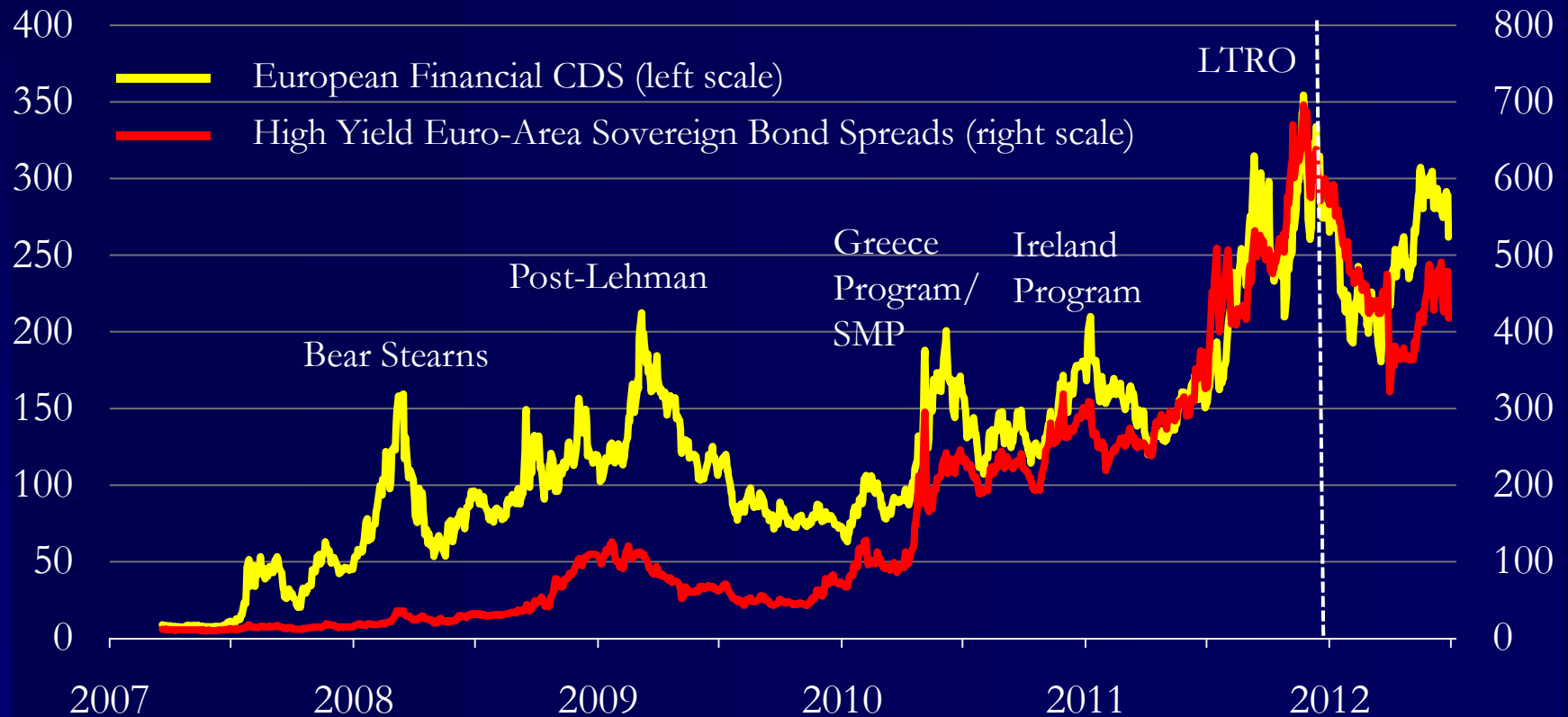
- ✓ Eurozone to overcome crisis
- ✓ US to deal with the “fiscal cliff”
- ✓ Emerging markets to cope with slowdown

The Euro Area

The Euro Area Crisis Continues ...

Sovereign and Bank Spreads

(basis points)



Source: Bloomberg

Three Interrelated Crises of the Eurozone

- ✓ Fiscal crisis
- ✓ Banking crisis
- ✓ Growth and competitiveness crisis

Action to Resolve Fiscal Problems

- ✓ Fiscal adjustment in crisis countries
- ✓ Firewall to contain borrowing costs
 - ESM and EFSF capacity (and IMF)
- ✓ Euro Area Bonds
 - Joint liability, for new or existing debt
- ✓ ECB financing
 - Revival of Securities Market Program (SMP)?

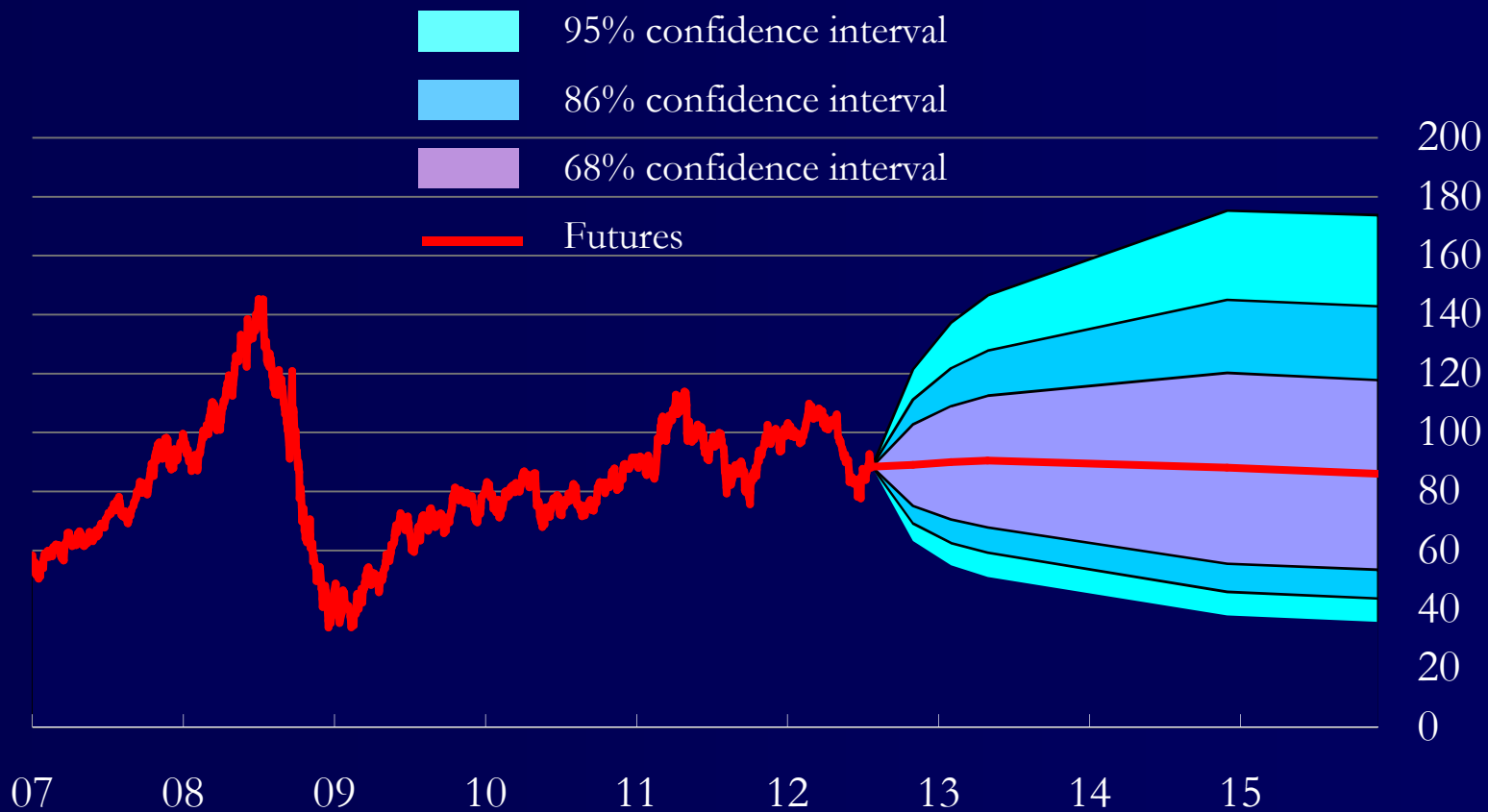
Elements of a Banking Union

- ✓ A single supervisor
- ✓ A common bank resolution authority
- ✓ A joint deposit guarantee scheme

Implications for Russia

Oil Prices are the Main Spillover Channel to Russia...

WTI Oil Price Prospects 1/
(USD per barrel)



1/Derived from prices of futures July 25, 2012

Source: Bloomberg; IMF staff calculations.

... but Financial Sector Spillovers Could Be Important as well ...

Source of Risk	Relative Likelihood	Impact if Realized
Acceleration of capital outflows	Medium/High	Low
Funding freeze	Medium	Medium
Failure of a large bank	Medium	Low

Russia: How Would it Be Different from 2008/09?

✓ Positive:

- Less overheating of the economy
- Flexible exchange rate: “shock absorber”
- Banks have positive NFA overall
- The authorities have gained crisis management experience

✓ Negative:

- Substantially less fiscal policy space
- Banks still repairing balance sheets, and credit growth is high

How Should Russia Respond to the Crisis ?

Economic Policy Priorities

- ✓ Short term—to maintain stability:
 - Avoid overheating and keep inflation on a downward path
 - Stand ready to respond to external spillovers
- ✓ Longer term—to realize growth potential:
 - Maintain macroeconomic and financial stability (fiscal anchor; formal inflation targeting)
 - Move ahead on structural reforms, including in the financial sector



Thank you