

Russia

Financial Outlook

In its October 2013 report on the Russian Federation the IMF warned that the past decade, which saw an average GDP growth of 5%, is not repeatable. The Russian economy is at full capacity and much work is needed to remove structural constraints if the economy is to resume vigorous growth from current levels. The government is committed to structural and institutional reforms, but the IMF believes that the current pace of reform is far too slow. The unemployment rate of 5.4% is near historic lows, and the industrial sector is producing at a rate comparable to the pre-crisis peak of 2008. However, growth began to slow in 2012 and continued to weaken in 2013, falling to year-on-year GDP growth of 1.6% in the first quarter. Wage increases and retail credit growth kept consumer spending high, but this was offset by a weak external environment. The big threat to the Russian economy going forward is the competition from shale oil and shale gas developments elsewhere, which threaten to erode Russia's pricing capabilities and thus to reduce the value of energy exports. Inflation rose from 3.6% in May 2012 to 7.4% in May 2013. The annexation by Russia in March of the Crimean Peninsula has had a disastrous impact on the Russian economy, despite the fact that EU and US sanctions have so far been targeted only at key individuals around Prime Minister Putin. Capital continues to flee the country. The Russian government anticipates growth to be zero for the first quarter of 2014, which will make achieving the forecast growth of 2.5% for 2014 very challenging.

More Info

Websites:

- Foreign Investment Promotion Center: www.fipc.ru/fipc2001/
- Hoover Institution website on Russian economy: www.hoover.org/research/russianecon
- Ministry of Economic Development: www.economy.gov.ru/wps/wcm/connect/economylib4/en/home

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