accompanied by low public debt and robust international reserves, can perversely end up attracting even greater inflows.

In such an environment, capital controls may be a legitimate component of a broader package of policies responding to surges in capital inflows. However, controls are not a panacea—they can be difficult to enforce (especially outside the banking system), they can be circumvented, and their effectiveness is unclear. Moreover, they cannot serve as a substitute for reforms that allow the economy to respond more flexibly to the macroeconomic impacts of sustained capital inflows.

INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

Staff Report for the 2010 Article IV Consultation—Informational Annex

Prepared by the European Department
(In consultation with other departments and the World Bank)

June 09, 2010

ANNEX I. RUSSIAN FEDERATION: FUND RELATIONS
(As of May 31, 2010)

I. **Membership Status**: Joined 06/01/1992; Article VIII.

II. **General Resources Account**:

	SDR Million	Percent of Quota
Quota	5,945.40	100.00
Fund holdings of currency	4,716.1	79.32
Reserve position	1229.36	20.68

III. **SDR Department**:

	SDR Million	Percent of Allocation
Net cumulative allocation	5671.80	100.00
Holdings	5676.32	100.08

IV. **Outstanding Purchases and Loans:** None

V. **Latest Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	07/28/99	12/27/00	3,300.00	471.43
EFF	03/26/96	03/26/99	6,305.57	1,443.45
Of which SRF	07/20/98	03/26/99	3,992.47	675.02
EFF	03/26/96	03/26/99	6,901.00	4,336.26

VI. **Projected Payments to Fund** (SDR Million; based on existing use of resources and present holdings of SDRs)**:**

	Forthcoming 2010	 2011	 2012	 2013	 2014	
Principal						
Charges/Interest			0.05	0.05	0.05	0.05
Total			0.05	0.05	0.05	0.05

VII. **Implementation of HIPC Initiative:** Not Applicable

VIII. **Implementation of MDRI Assistance:** Not Applicable

IX. **Exchange Arrangements**: The de jure arrangement is other managed arrangement—namely, a controlled floating exchange rate arrangement. The ruble value of a bi-currency basket is used as the operating benchmark for transactions on the internal currency market. The basket is currently composed of €0.45 and $0.55. The target boundaries of its permissible fluctuations were revised based on changes in fundamental factors governing formation of the country's balance of payments in accordance with the Uniform State Monetary Policy Guidelines for 2008, in response to a gradual transition to a more flexible exchange-rate-setting policy. Following a period of significant controlled depreciation of the ruble, on January 23 2009, the CBR announced that the upper boundary of permissible fluctuation in the market value of the bi-currency basket would be set at Rub 41 and the lower boundary at Rub 26. The actual value of the bi-currency basket is determined within this band under the influence of both market factors and exchange interventions by the CBR. The CBR intervenes both in interbank currency exchanges and on the over-the-counter interbank market to limit daily fluctuations. The permissible fluctuations may be revised in response to changes in macroeconomic indicators. As a result of these policy changes and the continued control of the CBR over the exchange rate determination, the de facto exchange rate arrangement is other managed arrangement. The Russian Federation accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement with effect from June 1, 1996, *and maintains an exchange system free of restrictions on the making of payments and transfers for currents international transactions*.

X. **Article IV Consultation**: Russia is on the standard 12-month consultation cycle. The last consultation was concluded on July 27, 2009.

XI. **FSAP Participation and ROSCs**

Russia participated in the Financial Sector Assessment Program during 2002, and the FSSA report was discussed by the Board in May 2003, at the time of the 2003 Article IV discussion (IMF Country Report No. 03/147). An FSAP update took place in the fall of 2007, and the FSSA report was discussed by the Board in August 2008, at the time of the 2008 Article IV discussion.

A Fiscal Transparency ROSC mission, headed by Peter Heller (FAD), visited Moscow in July 2003, and a new Data ROSC module was undertaken by a mission in October 2003, led by Armida San Jose (STA). A mission led by Ms. San Jose undertook a reassessment of Data ROSC module in July 2010.

XII. **Resident Representatives**:

Mr. Odd Per Brekk, Senior Resident Representative, since March 1, 2009.

ANNEX II. RUSSIAN FEDERATION: RELATIONS WITH THE WORLD BANK GROUP

World Bank Group activities are guided by the Country Partnership Strategy (CPS) Progress Report endorsed by the Board of Directors on September 8, 2009. It extended the CPS period (2007–2009) to 2011 and reiterated the relevance of four guiding objectives: i) diversify the economy for sustainable development and growth; ii) improve public sector management and performance; iii) improve the delivery of communal and social services; and iv) enhance Russia's global role as a donor.

Relations between the Russian Federation and World Bank Group are evolving in line with socio-economic conditions. Given Russia's strong fiscal position up until the global financial crisis, traditional cooperation activities shifted from financing to knowledge services. The portfolio declined from 22 to 13 projects ($1.3 billion), while fee-based services (21 contracts valued at $9.5 million) and sub-national lending through the WBG facility (8 loans for $154 million to date) emerged as new business lines.

With the emergence of pressure on Russia's fiscal reserves and external position in 2009, Russia initiated discussions on new financing from the World Bank in FY11-12. The Government aims to leverage international knowledge to help modernize the economy, increase the efficiency of public expenditures, deepen the financial sector, and strengthen the position of Russia in the post-crisis period. Given substantial developmental challenges at the sub-national level, the federal government has encouraged the Bank Group to continue its direct involvement with regions. A central theme of the extended CPS will thus be to undertake more in-depth operations in selected regions in line with demand and the partnership strategy.

IFC and MIGA operations are in very high demand and they must carefully manage large exposures (Russia is IFC's third largest and MIGA's largest exposure). The Bank cooperates actively with IFC, not only in subnational lending but also on key development priorities such as energy efficiency and renewable energy.

Major areas of Bank Group activities by CPS strategic pillars

(a) Diversifying the economy for sustainable development and growth

1. The World Bank Group is assisting Russia in various ways in meeting the challenges of sustaining rapid growth, including participation in macro-policy debates, monitoring the investment climate, supporting public investment and PPPs for growth and diversification, working with regions to identify and overcome barriers to growth, supporting investments in priority areas at the regional level, and providing direct assistance to the private sector:

- *Macroeconomic policy, long-term fiscal sustainability, and the effective management of Russia's large external inflows:* The Bank contributes to the macro-policy debate in Russia through the periodic Russian Economic Reports, on-demand policy notes and knowledge sharing. In addition, there is strong interest in the Bank's technical assistance in advising on the fiscal and broader economic implications of oil price volatility. The Bank has finished a study on long-term fiscal risks and fiscal sustainability for the Ministry of Finance highlighting alternative fiscal scenarios, associated risks and strategies for achieving long-term fiscal sustainability. In April 2008, the Bank of Russia and World Bank Treasury formally signed a fee-based services agreement whereby Treasury will provide technical support in internal investment management capacity for a period of 3 to 4 years.

- *Financial sector strengthening.* In addition, the Bank helped strengthen the financial sector through lending and TA for securities market regulation, development of the Government's financial sector strategy, development of new institutional arrangements for management of government assets and liabilities, (including reserves and stabilization funds), insurance and banking sector supervision, assessment of the sustainability of the 2nd pillar pension system, management of the increasing share of nonperforming loans (NPLs) accumulated through the system during the crisis, strengthening of banking supervision, and assessment of their resolution framework (notably insolvency and creditors' rights system). On a fee basis, the Bank provided TA to the Central Bank to support payments system development and monitoring. In addition, the Bank is currently developing two new investment operations with financial sector content—the Financial Literacy and Education Project designed to strengthen financial literacy and enhance protection of financial services' consumers, and the Microfinance Project designed to strengthen financial cooperatives and facilitate their integration into the country's financial system. IFC responded to the crisis-related needs of client banks through a rebalanced product mix, combining short term liquidity (particularly trade finance) and risk management instruments with financial support in the form of guarantees, quasi-equity and subordinated debt to strengthen the capital bases of client banks, contribute to the stability of the financial system and mobilize additional private investment into the sector. IFC's Russia Banking Advisory Program worked closely with investment services and the IBRD to develop new crisis response tools to address rising levels of NPLs and assist banks with risk management. IFC's Housing Advisory Program was refocused to help client banks manage exposure to real estate and mortgage markets, and conducted seminars on mortgage portfolio management and analytics for banks and financial regulators. IFC has also committed its first regional investments in factoring and distressed asset management to support corporate restructurings and single asset recovery situations. IFC's longer term priorities in the financial sector include increasing access to finance for SMEs, particularly in the regions, promoting financial sector stability and environmental sustainability, and leveraging IFC capital through mobilization and cooperation with partners. In May 2010, IFC's board approved IFC's investment alongside the

Government of Russia in the Russia Bank Capitalization Fund (RBCF), which would make equity and/or equity related investments to support private, mainly second-tier banks, with an emphasis on regional banks.

- *Investment climate monitoring and policy advice*: The Bank continues periodic business environment and enterprise performance (BEEPS) surveys, regional investment climate assessments (through sub-national Doing Business assessments), and administrative barriers studies undertaken by FIAS for interested regions. The Bank can work at the regional level on capacity building and the development of investment promotion programs for attracting FDI, similar to the initiative currently underway in Rostov Region. WBI will continue capacity-building activities related to investment climate assessments.

- *Contributing to climate change mitigation.* At present, the World Bank is discussing an energy efficiency investment project with the Ministry of Energy, Russian Energy Agency and systemic banks. The project would assist the Ministry and Agency in building capacity on energy efficiency matters and provide funding to energy efficiency credit lines at banks. IFC and the IBRD worked closely with Russian policymakers to calculate the country's energy efficiency potential and subsequently to develop the federal law *On Energy Efficiency Improvement and Energy Saving*, signed by President Medvedev in December 2009. IFC and IBRD are currently advising the government on secondary legislation and related by-laws and institutions (including at the sub-national level). IFC is currently implementing four integrated advisory and investment projects to develop the market for investment in energy efficiency, renewable energy and cleaner production in Russia. The Russia Sustainable Energy Finance Program provides advisory services and financing to partner banks to promote investment in energy efficiency and renewable energy. IFC's Russia Cleaner Production Program is focused on stimulating investments in cleaner technologies to increase resource efficiency and reduce environmental and social impacts in the real sectors. IFC is cooperating actively with IBRD and EBRD on the Russia Residential Energy Efficiency Program, which aims to stimulate investment in the energy-efficient renovation of multi-family residential buildings. In April 2010, in conjunction with the IBRD, IFC launched the Russia Renewable Energy Program, with a $10 million an advisory component funded by the GEF; IFC expects to facilitate at least $360 million in renewable energy investment over five years.

- *Supporting Government investment and public-private partnerships (PPPs) for growth and diversification:* On-going investment projects support land registration and the development of a national cadastre for securing property rights and the development of land markets. The Bank has provided technical assistance on a reimbursable basis to support the development of PPPs, particularly in St. Petersburg for transaction and strategic advice on large-scale infrastructure projects, including

Western High Speed Diameter, Orlovsky tunnel, and Pulkovo airport. Despite the adverse investment environment caused by the global financial crisis, Pulkovo reached financial close in April 2010, with IFC committing over $94 million to the overall financing package for its own account. IFC and EBRD are currently arranging an additional $220 million in syndicated loans. The Bank is cooperating with Russia's Development Bank (VneshEconomBank - VEB) on both PPP joint activities and on developing a partial credit guarantee of the Bank to VEB in support of its efforts to raise funding for infrastructure investments. In addition, the Bank supported efforts of the Higher School of Economics of Moscow to develop an e-learning program on PPPs for federal and regional decision makers in Russia, as well as in other Russian-speaking countries in the region.

- *Working with regions to identify engines of growth, develop growth strategies, and remove barriers to growth and labor mobility*: The Bank held two major knowledge events on regional development strategies in early 2008: an early discussion of the World Development Report on regional disparities and its implications for Russia, and Regional Development Strategies workshop for Russia's regional governments and other stakeholders of regional development. In addition, the Bank has finalized a Country Economic Memorandum focused on barriers to growth at the sub-national level and on issues of regional agglomerations. The development of fee-for-service arrangements with the regions would provide another avenue for supporting preparation of regional investment strategies and growth analyses, and provision of other analytical services. As part of its anti-crisis work the Bank has intensified policy advice on labor market monitoring and on the design of the active labor market policies, that also support mobility. Also, the Bank is starting new analytical work on internal migration in Russia as part of a broader, CIS-wide engagement on migration issues and policies.

- *Supporting investments in priority areas at the regional level*: The IFC/Bank Sub-National Development Program is supporting priority public investments at the regional and municipal level. To date, eight such sub-national operations have been completed, including three projects in the Chuvash Republic, two projects in the Republic of Mariy El, and projects in Petropavlosk municipality (Kamchatka), the city of Mytischi, and the city of Ufa. IFC and IBRD are working directly with several Russian regions (Oblasts) to develop three to five year regional energy savings programs, using best global practices. MIGA can play a role in supporting foreign direct investment in infrastructure at the sub-sovereign level, including in the transportation, water and solid waste sectors. Regional infrastructure projects supported by the Subnational Program are another area where the Bank and IFC could partner with VEB for joint project preparation and support.

- *Providing direct support to the private sector:* IFC will continue to promote the growth of the private sector and the diversification of the Russian economy through a combination of investment and advisory services. IFC's selective medium to long-term strategy is to: (i) contribute to climate change mitigation and develop the sustainable energy market through financing and provision of advisory services via the Russia Sustainable Energy Finance Program, the Russia Cleaner Production program, the Russia Renewable Energy Program, the Russia Residential Energy Efficiency Program and through direct investments; (ii) invest in Russia's infrastructure, especially transport and logistics (ports, roads, warehousing) and sub-national infrastructure (especially in Russia's poorer regions), including through the joint IFC/IBRD Sub-National Development Program; (iii) provide ongoing support to the financial sector, in particular by increasing access to finance for SMEs, promoting financial sector stability and environmental sustainability and through development of the insurance, pension and risk management industries; and, across sectors (iv) invest in Russia's less-developed regions where significant developmental challenges remain, and support projects contributing to Russia's economic diversification, including in value-added manufacturing such as machine building, and in hi-tech sectors. IFC also aims to leverage its own capital through mobilization and cooperation with partners, including through participation in jointly financed facilities to target the banking sector and infrastructure development.

- *IFC advisory services will continue to focus on crisis recovery and climate change mitigation:* IFC's advisory programs in Russia are closely integrated with investment activities and address the following objectives: (a) improving the energy efficiency of Russia's economy and reducing its greenhouse gas emissions; (b) building the capacity of private banks to deliver new product lines, such as energy efficiency, residential energy efficiency and renewable energy finance; and (c) responding to the crisis-related needs of the banking and real sectors, including risk and NPL/distressed asset management, and managing exposure to real estate and mortgage markets.

- *MIGA will continue to support foreign investors through the provision of political risk guarantees:* Supporting foreign investment in infrastructure, in close coordination with the Bank, will remain an important area of MIGA's activity in Russia. In the financial sector, the Agency will continue to explore opportunities to support capital markets transactions, including asset-backed securitizations. MIGA may also continue to promote the role and assist in the expansion of foreign banks in the Russian banking sector. Areas for potential further involvement in Russia include manufacturing, agribusiness and services sectors.

(b) Improving public sector management and performance

2. Public sector management has been a particular area of strength of World Bank work in Russia, which will be *further deepened in coming years. The Bank remains engaged in supporting programs for modernizing* selected public sector institutions, improving government administration, the judiciary, local self-government, and budgetary management