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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
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at the IMFC Meeting
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Global economic outlook

Unprecedented levels of fiscal deficits and public debts threaten medium-term global growth prospects. Accumulated financial and structural imbalances create risks to financial stability. The prospects of the global economy are also deteriorating as a result of escalating unilateral sanctions and trade wars, which destroy supply chains, slow down the growth of aggregate supply, and have pronounced pro-inflationary effects. Geoeconomic fragmentation and the disruption of international economic ties remain the main factors undermining the outlook for the global economy and the stability of the international monetary and financial system (IMFS).

In addition, significant challenges for the IMFS are: the deficiencies in the international payments system; high concentration of capital markets based on the market infrastructure of high-income countries; the dominance of one reserve currency; as well as the slow development of the Global Financial Safety Net (GFSN) due to the freezing of the IMF quota distribution, insufficient attention to the needs of developing countries, and politicization of lending.

Middle-income economies with responsible macroeconomic policies remain the main engine of global growth, while growth in most high-income countries remains low, with signs of recession in some of them. The global economy is facing multiple risks and a high level of uncertainty.

The decline of inflation in most IMF members, which was achieved while maintaining economic activity at relatively high levels, indicates the possibility of a soft landing for the global economy. The observed disinflation allows central banks to begin recalibrating monetary policies, halting interest rate hikes or starting to reduce them. Nevertheless, inflationary risks remain, including due to the delayed unwinding of fiscal stimuli in high-income countries. These risks manifest themselves in the latest data indicating a more persistent nature of inflation. Under these circumstances, too rapid transition to accommodative monetary policy creates a risk to price stability and can lead to another surge in inflation, which may lead to de-anchoring of inflation expectations. To achieve price stability, monetary policy should maintain its restrictive stance and be better coordinated with fiscal consolidation.

The state of public finances remains precarious in many countries. Despite the acute need to restore fiscal space to maintain long-term fiscal sustainability and respond to the long-term challenges, in most countries the fiscal policy stance turned out to be softer than expected. Given the 2024 electoral cycle and sizeable social commitments, many countries lack the political space to carry out necessary fiscal consolidation. The fiscal consolidation will be especially challenging in high-income countries, where persistently low growth rates will not allow to "grow out of debt". **Accumulated public debt levels pose a risk of a global debt crisis**, which could be mitigated by a return to responsible fiscal policy at individual country levels and the restoration of international economic ties at the global level.

Geoeconomic fragmentation clouds the medium-term prospects of the global economy. The cost of fragmentation could be as high as 12 percent of global GDP. Unilateral sanctions and trade restrictions lead to gains for a few countries at the expense of dividing the global economy into blocs. Politically motivated proposals to confiscate Russian financial assets undermine the fragile foundation of the existing IMFS. Such illegitimate actions will make the main reserve currencies even more toxic for the use in the international payments system and, accordingly, for the use in central banks' currency reserves. Meanwhile, Russia is successfully transitioning to national currencies in its trade with friendly countries.

Expectations of an imminent start of the downward trend in the interest rates in high-income economies have led to a softening of financial conditions and the increase in risk appetite among investors in financial markets. In many large economies, rapid increases in asset prices may be temporary and carry the risk of a sudden correction. To reduce financial risks, it is necessary to improve the quality of banking supervision and enhance macroprudential regulation. It is also necessary to conduct a comprehensive assessment of financial stability risks arising in the technology sector, where there are signs of significant divergence between asset price growth and company profits. A repeat of the 2001 tech bubble burst will have large-scale adverse spillovers.

Developments in Russia

The Russian economy is growing strongly despite unprecedented sanctions. Risks to macroeconomic and financial stability have not materialized. A majority of companies has fully adapted to working under sanctions, restructuring their supply chains towards friendly countries or relying on import substitution. As a result, after a minor decline in economic activity in 2022, economic growth in 2023 was 3.6 percent.

Leading indicators of investment activity are at the highest levels over the past 12 years, which is one of the signs of structural transformation. This strong outcome is explained by virtually full utilization of both production capacity and labor resources. Business activity now continues to grow at a rate higher than previously projected, with expectations in the manufacturing sector beating historical records of optimism. Positive industrial dynamics are supported by high demand – both from consumers (thanks to the accelerated growth of household incomes) and investors. Against the backdrop of growing economic activity, the financial indicators in the corporate sector have improved significantly – profits in large and medium-sized companies in 2023 exceeded the record level of 2021 by almost 20 percent.

Measures undertaken by the Government and the Bank of Russia have led to easing of inflationary pressures. On the fiscal policy side, ensuring the sustainability of public finances remains an ultimate priority. For this purpose, the fiscal policy stance remains in line with long-term objectives, and the public debt remains at a sustainably low level of 15 percent of GDP. On the monetary policy side, maintaining a predictable economic environment requires returning inflation to the target level of 4 percent.

For Russia, the risks to macroeconomic and financial stability have not materialized. At the same time, unilateral sanctions and trade restrictions continue to reduce the economic potential of those countries that have imposed them.

The IMF Issues

We recognize the need for the IMF to adapt to the changing economic landscape and ensure that the interests of its member countries are respected. We broadly support the main priorities of the Fund's work, as presented in the Managing Director's Global Policy Agenda, and urge the Fund to maintain non-politicized approach in its activities. Several complex and comprehensive reviews of the Fund's policies and rules are expected to be completed in the near term. It is important that the changes in the Fund's policies are made in the interests of all the Fund's members and not of a narrow group of countries. Against the background of deepening geoeconomic fragmentation, the Fund must strive to be politically neutral to preserve its central role in the IMFS.

In the area of surveillance, the Fund should focus on assisting countries in their efforts to reduce inflation to target levels, restore fiscal buffers, and maintain financial stability. The Fund should also assist members in advancing structural reforms to support sustainable and inclusive growth. We welcome the work on assessing the risks of fragmentation of the global economy and its consequences for international trade and finance. In preparing recommendations to reduce the risks associated with decarbonization, the Fund should adhere to a flexible and country-specific approach.

The Fund should also play a key role in assisting low-income countries in conducting reforms that enhance economic potential and inclusive growth, as well as improve governance and increase resilience to global shocks. In this regard, we look forward to the review of the Fund's concessional financing. The review of the Low-Income Countries Debt Sustainability Framework should help in resolving debt crises in these countries and streamlining the public debt restructuring processes. Vulnerable countries face an increasingly heavy debt service burden, including to the Fund. In this regard, we welcome the forthcoming review of surcharges and are open to consider the reduction or temporarily suspension of surcharges until the conditions normalize.

The legitimacy and central role of the Fund in the GFSN depend not only on having adequate resources but also on achieving fair representation of countries in the Executive Board. The quota and voice of member countries should be better aligned with their weight and role in the global economy. Unfortunately, this objective was not even addressed under the 16th GRQ. In this regard, after completing the approval process for the 16th GRQ, work should immediately begin on the 17th GRQ. It is necessary to address the accumulated underrepresentation of middle-and low-income economies in the IMF governance.

We also urge the IMF to resume work aimed at reforming the IMFS. The current system is unstable, triggering frequent large-scale financial and economic crises, and is affected by the adverse impact of geoeconomic fragmentation. The ongoing technological changes support digitalization and development of digital payments systems. The global payments infrastructure should become more diversified and support more resilient global trade and economic development.