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IMF Warns Against Looser Policies

By The Moscow Times

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Any further loosening in Russian fiscal or monetary policy would risk fueling imports and driving up the exchange rate rather than boosting growth at home, the International Monetary Fund said Wednesday.

The Central Bank should lean toward tightening monetary policy instead, as the economy is already expanding at close to its potential growth rate, the fund said after a fact-finding visit to Moscow by mission chief Antonio Spilimbergo.

"Fiscal or monetary relaxation would not result in higher growth," Spilimbergo said. "This would probably result in higher imports and appreciation of the exchange rate."

Spilimbergo's message contrasts with that of Russian bankers and government officials, who have urged the Central Bank to cut rates because inflation has stabilized and economic growth is slowing. Russian President Vladimir Putin has also expressed concern that economic growth is losing steam.

The IMF, which lent billions of dollars to Russia during the 1990s, is no longer a creditor, but it keeps tabs on Moscow's fiscal and monetary policy framework and has offered ideas for Moscow's presidency of the Group of 20 this year.

Spilimbergo, concluding a weeklong mission, said the fund expected the Russian economy to grow this year at around the same rate as last year's 3.7 percent, accelerating slightly to 3.8 percent next year.

Russia ran a balanced budget last year, but with the price of oil, its main export, above the level plugged into budget forecasts, there is no room for complacency on the fiscal front.

A fiscal rule passed last year gradually lowers to below $100 per barrel the oil price at which the budget is balanced. That might need to be tightened.

"We believe that [the rule] could be stronger," Spilimbergo said at a news conference.

Monetary policy should stay on hold for now but maintain a tightening bias, the fund said, adding that the Central Bank should be ready to take further action to head off price pressures if no steps toward more fiscal adjustment are taken.

Russia ran a balanced budget last year, but it expects a deficit of 0.8 percent this year and will need to attract money to finance it.

There is concern that the budgetary needs will be filled by inflows of short-term capital, which in the past have driven the ruble higher very quickly.

Inflation is expected to ease slightly this year to around 6 percent. Inflation was 6.6 percent at the end of last year. Nevertheless, inflation will remain above the medium-term target without further policy action, the fund said.

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