World Bank Annexes: Appendix 1

World Bank Macro-Economic and Fiscal Overview for the Russian Federation

1. The following has been taken from the World Bank <u>Country Brief</u> on the Russian Federation dated April, 1995.

Recent developments

2. Economic developments during 1994 were dominated by the continuing decline in official GDP and changing inflationary expectations as single digit inflation mid-year gave way to a sharp increase in prices by year's end. GDP registered a further 15 percent decline in 1994, bringing the total fall in production to almost 40 percent since 1991. However, other indicators suggest that the fall in output has not been as sharp or impacted so severely on living standards as the GDP estimates suggest. Unregistered economic activity appears to be expanding at a robust pace, both in services such as retail trade and banking, and also through informal manufacturing activity. Real industrial output has shown modest gains since mid-1994. Personal incomes and consumption increased during 1994 as relative price changes and restructuring continued the shift in GDP share towards private consumption at the expense of investment.

3. Monthly inflation averaged just under 10 percent during 1994, well below the 21 percent average monthly rate of 1993 but far above official inflation targets. Early tightening of monetary policy helped reduce monthly inflation to 4.6 percent by August, but political pressure to expand credit led to a resurgence of double-digit monthly inflation during the last quarter. Financing of the fiscal deficit and credit to agriculture and the Northern territories were sources of growth in the broad money supply. The consolidated government deficit (including extra-budgetary funds and interest due) for the year was near 12 percent, a dramatic reduction from 30 percent experienced two years earlier. However, with limited recourse to foreign or domestic borrowing, the government resorted to monetization of the deficit, in turn fuelling inflationary expectations and reducing willingness to hold