At a Glance

• Supported by higher oil prices and macro stabilization, the Russian economy returned to modest growth in 2017. The medium-term growth forecast for Russia has been slightly increased following a somewhat stronger than expected recovery of domestic demand and higher exports. Nevertheless, structural reforms will be required to raise the country’s long-term growth trajectory.

• The Government plans to stay the course on fiscal consolidation. A new fiscal rule—to come into effect in 2019—is expected to smooth the impact of oil price volatility on the real exchange rate, the budget system, and domestic demand. The rule mandates that oil revenues be spent or saved based on a threshold price of US$40 per barrel (in real terms, based on 2017 prices).

• Through a combination of Advisory Services and Analytics and a portfolio of ongoing projects, the World Bank collaborates with the Russian Federation in key areas to increase productivity, expand human potential, and improve governance and transparency.

Country Context

Russia is a vast, resource-rich country, with immense diversity. It has coped with the dual shocks of low oil prices and sanctions, but after a protracted recession, the economy returned to growth in 2017 following a 3.1% contraction in 2015–2016. This upward trend is expected to continue, with growth projected at 1.7% in 2017 and 2018 and 1.8% in 2019.

Maintaining and accelerating this growth over a longer term call for a concerted effort to implement structural reforms.

According to the World Bank Group’s Country Systematic Diagnostic for the Russian Federation: Pathways to Inclusive Growth, Russia needs to address key constraints to productivity growth, such as the remaining weaknesses in the investment climate, the lack of sufficient competition, physical and non-physical barriers to infrastructure connectivity, the relatively low innovation capacity of firms, and the mismatch between available skills and those demanded by the labor market.

Improving the health of the population and the access to and quality of education are also essential. Strengthening governance at all levels and ensuring fiscal and environmental sustainability will have to underpin these efforts.

Progress is critical for Russia to get back on the path toward sustainable growth and the expansion of shared prosperity across this vast and diverse country.
The World Bank and The Russian Federation

The World Bank program includes ongoing projects and Advisory Services and Analytics (ASA). There are currently nine projects under implementation, focusing on public financial management, financial literacy, statistics, judicial reform, municipal infrastructure, cultural heritage preservation, hydrometeorology, and forestry.

Under the ASA program, the World Bank conducts research and analysis and also provides policy advice, technical assistance, and capacity development on critical topics for Russia’s economic and social development at the federal and regional levels.

The World Bank also engages with Russia as a development partner. Russia is an International Development Association (IDA) donor, with over US$823 million pledged since 1997 and contributions of more than US$267 million for 22 World Bank–administered trust funds in support of education, small and medium enterprise development, public financial management, and other development areas in countries across Europe and Central Asia, Africa, and the Middle East.

Moreover, Russia has contributed to six Financial Intermediary Funds in the World Bank Group with a total pledge of US$457 million.

Key Engagement

The World Bank’s knowledge program addresses key development challenges under two broad themes:

1. growth and competitiveness, which focuses on macroeconomic and fiscal management, the investment climate, connectivity, and financial inclusion, and
2. human capital, poverty, and shared prosperity, which addresses education equity and quality, skills, integrated health care, demographics, and regional equity.

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<th>WORLD BANK PORTFOLIO</th>
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<td>No. of Projects: 9</td>
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<td>IBRD Commitments: $636 Million</td>
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Many activities are delivered as Reimbursable Advisory Services (RASs).

The current RAS portfolio includes activities in such areas as the investment climate, health care, education, including early childhood development and skills, and community-driven development and participatory budgeting.

The knowledge program is contributing to results.

The Local Initiatives Support Program (LISP) helps address the limited participation of citizens in municipal decision-making processes—which leads to the ineffective use of local budgets and slow overall progress—by assisting selected regional governments in identifying, prioritizing, and addressing specific community needs with direct input from local citizens.

Over the past nine years, more than 4,000 projects based on local initiatives have been implemented in Russia, benefiting over 1.5 million people per annum.

These have been financed from a combination of regional budgets and local community resources. In 2016, the approach was scaled up at the national level and now covers 43 participating regions.
**Recent Economic Developments**

In 2017, supported by growth in real wages, the ruble’s appreciation, and improving consumer credit, consumer demand became the main driver of moderate economic growth in Russia.

Monetary policy remains prudent and consistent with inflation targeting. Inflation expectations remained elevated but were on a downward trend.

Inflation decreased significantly from 15.5% in 2015 to 7.1% in 2016, and is expected to stay close to the target level of 4 percent in 2017 and 2018.

The banking sector’s performance has improved with the economic recovery. Preserving the stability of the banking system will be key given the recent failures of the largest private bank, Otkritie, and B&N Bank. Through the new resolution mechanism—the Banking Sector Consolidation Fund—the Central Bank is injecting additional capital into these banks to resolve the failures.

Improved terms of trade supported the current account, despite the significant growth in imports that accompanied a stronger ruble and a recovering economy. The current account increased from US$13.9 billion in the first half of 2016 to US$23 billion in the first half of 2017. The higher current account was mirrored by increased net capital outflows.

The Russian Government remains on the path of fiscal consolidation. On the back of lower expenditures and higher revenues, in the first seven months of 2017, the general government registered a surplus of 0.8% of GDP compared to a deficit of 1.8% in the same period last year.

The 2017 general budget deficit is expected to be 1.9% of GDP compared to 3.7% last year. Unemployment declined slightly in the first half of 2017, while low inflation allowed real wages to increase. However, real disposable income growth remained negative, driven by contractions in other income sources, including pensions.

The poverty rate in Russia, under its national definition, rose marginally in 2016 to 13.5% compared to 13.3% in 2015, and it increased in most regions (53). The extreme poverty rate, however, remained marginal, below 1%.

**Economic Outlook**

A new fiscal rule will fully come into effect in 2019. According to this rule, primary expenditures should not exceed oil and gas revenues at a threshold oil price of US$40 per barrel (in real terms, based on 2017 prices) and projected non-oil/gas revenues. Oil/gas revenues from an oil price that exceeds the threshold will be saved in the National Welfare Fund, which would be merged with the Reserve Fund.

In an environment of firming global activity, the Bank expects Russia’s economy to grow at a modest pace of 1.7% in 2017 and 2018 and 1.8% in 2019.

Moderately strengthening oil prices are expected to support the recovery in domestic demand.

Low Total Factor Productivity (TFP) growth and a declining labor force limit the GDP’s growth rate in the medium term. Easing this constraint will require deepening and accelerating structural reforms.

Priority policy objectives include reducing the role of the state in the economy, protecting property rights, improving institutional and regulatory frameworks, and promoting fair competition.
Budget Literacy – What’s in it for Russia?

Budget literacy is broadly defined as the ability to read, decipher, and understand public budgets. In most developed countries, between one-third and one-half of all national income is managed by government entities the national government, even though the average person doesn’t always fully understand the rationale behind government budget decisions and the associated trade-offs made every day.

Raising budget awareness among the general public is becoming a global trend. A review of global movements in budget literacy, undertaken by the World Bank in 2015, revealed that elements of budget literacy are now included in the school curricula of at least 34 countries (mainly members of the Organisation for Economic Co-operation and Development [OECD] and the BRICS countries—Brazil, Russia, India, China, and South Africa). Although still a relatively new topic for Russia, budget literacy currently stands high on the agenda of the Government.

The Russian Ministry of Finance, in cooperation with the World Bank, has piloted an initiative designed to encourage responsible citizenship and greater engagement in the budget process in four of Russia’s regions: Altai Krai, Perm Krai, Moscow, and the Republic of Bashkortostan. As part of this initiative, senior school students have studied and debated budget-related issues using real-life scenarios and information from the regional government budgets.

The budget literacy course focuses on public budgets, government revenues and expenditures, the foundations of fiscal policy, and practical skills for citizen engagement in the budget process. The teaching aids prepared for the course include a textbook and a workbook for students, methodological guidelines for teachers, and an educational booklet for parents. A pilot program for the school course was conducted among students in the 10th grade.

The World Bank and the Ministry of Finance have joined forces to help expand budget literacy in the Russian Federation, starting at the school level by educating young people on the importance of budgets and how to actively and responsibly participate in public life.