At a Glance

- The Russian economy has been coping with low oil prices and restricted access to international financial markets. The economy is recovering gradually, and a moderate growth rate is projected for 2017–19, supported by rising oil prices, macroeconomic stability, and improved investor confidence. Nevertheless, structural reforms will be necessary to boost productivity and raise the country’s long-term growth trajectory.

- Efforts to develop a new strategy to elevate Russia’s economic growth are under way. The key long-term economic challenge is to strike a balance between increasing productivity for diversified growth while simultaneously reducing vulnerability by investing in people—in education, health, social protection—and in the environment.

- Through a combination of Advisory Services and Analytics (ASA) and a portfolio of ongoing projects, the World Bank collaborates with the Russian Federation in strategic areas to increase growth and diversification, expand human potential, and improve governance and transparency—all areas critical to Russia’s long-term sustainable development.

Country Context

Russia is a vast, resource-rich country, with immense diversity. After a period of high and inclusive economic growth in the first decade of the 2000s, growth dynamics in Russia have weakened since 2012, as second generation structural reforms have advanced more slowly.

The end of the global commodity super-cycle, particularly the sharp drop in oil prices, and the impact of the sanctions regime introduced in 2014 caused the economy to slip into a protracted recession, ushering in a period of difficult economic adjustment. Limited economic diversification and heavy reliance on oil have made Russia vulnerable to terms-of-trade shocks.

According to 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 expansion of shared prosperity across this large and diverse country.
The World Bank and The Russian Federation

The World Bank Group program includes ongoing lending projects and 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 Group conducts research and analysis and provides policy advice, technical assistance, and capacity development on critical topics for Russia’s economic and social development.

The World Bank also engages with Russia as a development partner. Since the Ninth Replenishment of the International Development Association (IDA9), Russia has pledged more than US$800 million and contributed about US$260 million for 21 World Bank-administered trust funds in support of education, small and medium enterprise development, public financial management, food crisis response, and social support programs in countries across Europe and Central Asia, Africa, and the Middle East.

Key Engagement

The World Bank’s knowledge program is at the core of its engagement in Russia. The program addresses key development challenges under two broad themes: 1. growth and competitiveness, which focuses on issues around macroeconomic and fiscal management, investment climate, connectivity, and financial inclusion, and 2. human capital, poverty, and shared prosperity, which addresses issues around education equity and quality, skills, integrated health care, demographics, and regional equity.

Many activities are delivered as Reimbursable Advisory Services (RASs). The current RAS portfolio includes activities in such areas as investment climate, early childhood development, higher education, health care, social protection, local development and participatory budgeting, budget literacy, digital economy, and food security.

The knowledge program is contributing to results. Since 2012, the Bank has been supporting ongoing investment climate reforms and providing recommendations on the legislative and procedural changes required to streamline selected areas of the business environment.

As a result and with the Government’s targeted efforts, Russia has significantly improved its investment climate conditions along the dimensions captured by the Doing Business indicators. In Doing Business 2017, Russia was ranked 40th, up from 124th in 2012.

Through the Local Initiatives Support Program (LISP), a community-driven approach, community participation mechanisms have been introduced to improve local-level social infrastructure and social services in Russia’s regions. Annually, around 150,000 people take part in over 1,000 community meetings.

People in participating regions report increased satisfaction with the provision of local social services, self-governance practices, and the transparency of local budget spending. In 2016, the approach was scaled up at the national level and now covers 42 participating regions.
Recent Economic Developments

Russia’s output contraction eased from 2.8% in 2015 to 0.2% in 2016, as the economy adjusted to low oil prices and restricted access to international financial markets. A protracted decline in real incomes has reduced private consumption, but this trend has slowed as consumer confidence has improved.

Monetary policy remains prudent and consistent with inflation targeting. The authorities successfully reduced the inflation rate from 15.5% in 2015 to 7.1% in 2016. Recognizing that several one-off factors supported the reduction in headline inflation, the Central Bank of Russia maintained a moderately tight monetary stance as inflation expectations remained elevated.

The banking system has largely stabilized but has not yet fully recovered, and credit growth remains stalled. The balance of payments remained stable despite adverse terms-of-trade conditions and restricted access to international capital markets. The current account surplus shrank from US$69 billion in 2015 to US$22.2 billion in 2016 as the trade surplus weakened. A decrease in net capital outflows mirrored the decline in the current account surplus.

The fiscal stance deteriorated, but the deficit remained contained. The general government’s primary budget deficit widened from 2.6% of GDP in 2015 to 2.8% in 2016, driven by a slight increase in expenditures, although higher nonoil revenues compensated for falling oil revenues.

Poverty increased in 2015, and estimates indicate a further increase in 2016. Moderate poverty (US$5 per day) rose from 5.8% in 2014 to 6.7% in 2015 as inflation eroded the real value of wages and social benefits, and the middle class contracted for the first time since 2009. The estimated poverty rate for 2016 is 7.9%. In 2016, inflation slowed and real wage growth resumed, but income from other sources, including pensions, contracted again.

Economic Outlook

Given the relatively weak external environment, it is projected that the Russian economy will grow at a rate of 1.3% in 2017 and 1.4% in 2018–19. The terms of trade are expected to moderately improve, with average oil prices rising to US$55 per barrel in 2017, US$60.0 in 2018, and US$61.5 in 2019, driving a recovery in domestic demand.

Supported by the anticipated resumption of real wage and income growth, consumption is projected to reassert its role as an important contributor to growth in 2017–19. A gradual monetary easing and improved investor confidence are expected to support an increase in fixed capital investment in 2017.

The Government is planning further fiscal consolidation measures. A new fiscal rule slated to take effect in 2020 will mandate that oil revenues be saved or spent based on a threshold price of US$40 per barrel. The Ministry of Finance has already started executing daily foreign currency transactions based on this threshold. The approved medium-term fiscal framework, which envisions an expenditure-focused consolidation effort, is also supporting the transition to the new rule.

The moderate poverty rate is expected to fall in 2017 but will remain elevated. During 2010–14, increases in pensions and public sector wages drove income growth among households in the bottom 40% of the income distribution. However, in a context of fiscal consolidation, labor income is expected to become the main contributor to shared prosperity.

As the economy rebounds, wage growth in the private sector and a modest real increase in pension payments in 2017 will support income growth and reduce poverty. However, many households remain very close to the poverty line and without formal jobs.
Project Spotlight

In response to the 2007–08 food crisis and as part of its commitment to the L’Aquila Food Security Initiative—the commitment of global leaders to improve world food security—the Government of the Russian Federation established the Eurasian Center for Food Security (ECFS) in March 2012. Hosted by Lomonosov Moscow State University, the Center offers education programs as well as policy and technical recommendations for improved agricultural performance, sustainable rural development, and natural resources management.

At the request of the Government, the World Bank has been providing technical assistance to ECFS through its RAS. The objective is to enhance the Center’s institutional capacity and develop its Eurasia-focused food and nutrition security research agenda, supporting its ambition to evolve into an internationally recognized center of excellence that delivers modern analytical research and educational products to a broad range of partners and clients.

ECFS collaborates with a number of Russia-based regional and global partners committed to the view that strengthening research and analytical capacity is an important public good that can help countries in the region access a global knowledge base to improve their competence in food policy implementation. Research partners include the International Food Policy Research Institute (IFPRI), International Center for Agriculture Research in Dryland Areas (ICARDA), and other member institutions of the CGIAR system (a global research consortium on agriculture-related issues), all mobilized with support from the World Bank.

The beneficiaries are many, including the Government of the Russian Federation (the Ministries of Agriculture and Finance), governments of the focus countries (Armenia, Kyrgyz Republic, Tajikistan, and Uzbekistan), and the food policy and agriculture development community in the Eurasian region and globally.