

The World Bank in the Russian Federation

Country Snapshot



An overview of the World Bank's work in the Russian Federation

April 2019

THE RUSSIAN FEDERATION	2018
Population, million	144.3
GDP, current US\$ billion	1,657
GNI per capita, US\$ (2017)	9,230
Life Expectancy at birth, years (2016)	71.6

At a Glance

- Russia's economy continues to grow at a moderate pace, supported by global growth and an improved macro policy framework. Real GDP growth in the Russian Federation surpassed expectations in 2018, reaching 2.3 percent. This was mostly due to robust global growth, higher oil prices, one-off construction projects, and Russia's hosting of the 2018 FIFA World Cup.
- However, the medium-term outlook remains modest at between 1.4 and 1.8 percent for the period 2019–21, reflecting lower oil prices and Russia's growth potential more broadly.
- Through a combination of analytical and advisory work and the continued implementation of a modest portfolio of ongoing projects, the World Bank collaborates with Russia in areas such as the investment climate, green finance, health care, education, including early childhood development and skills, social protection, and community-driven development and participatory budgeting.

Country Context

In May 2018, Russia set ambitious economic targets that include doubling Russia's growth to about 3 percent and halving the poverty rate to 6.6 percent by 2024.

Doubling growth will require implementing reforms that increase inward migration, boosting investment, and increasing total factor productivity (TFP) growth, in addition to expanding the labor force and raising the retirement age, measures that have already been enacted.

Government initiatives to increase spending on education, health, and infrastructure could lift potential growth. Intensifying competition in the domestic market remains essential to achieving higher productivity.

Although the current forecast of average annual GDP growth of about 1.7 percent by itself will not lead to halving poverty by 2024, this goal could be achieved by an additional redistribution of about 0.4 percent of GDP annually through social assistance and transfers.

This assumes a significant improvement in coverage of the poor compared to the current social assistance system, with some of these additional funds to be replaced by savings through efficiency improvements in the current system.

The World Bank and The Russian Federation

The World Bank conducts research and analysis and provides policy advice and capacity development for Russia's economic and social development at the federal and regional levels in such areas as the investment climate, green finance, health care, education, including early childhood development and skills, social protection, and community-driven development and participatory budgeting.

Ongoing projects support the improvement of basic service delivery at the local level, increased financial literacy, and the protection of the environment.

Russia is an important donor partner for the World Bank Group. The Bank's partnership with the Russian Government helps bring the country's knowledge and financial resources to benefit other countries around the world.

Russia is an International Development Association (IDA) donor, with over US\$823 million pledged during the period of 1997–2016.

Russia has also contributed a total of US\$267 million to 22 World Bank-administered trust funds in support of education, small and medium enterprise (SME) development, public finance management, and other development areas in countries across Europe and Central Asia, Africa, and the Middle East.

Moreover, Russia has pledged US\$438 million to eight Financial Intermediary Funds that tackle global development challenges, such as HIV/AIDS; tuberculosis and malaria; debt relief; environmental protection; women entrepreneurship, and governance and public institutions in Middle East and North Africa countries in transition. Most recently, Russia pledged US\$3 million to the Green Climate Fund.

WORLD BANK PORTFOLIO

No. of Projects: 6

IBRD Commitments: \$496 Million

Key Engagement

The World Bank's Advisory Services and Analytics program is organized under two broad themes:

- i) growth and competitiveness, which focuses on macroeconomic and fiscal management, labor market informality, productivity, the investment climate, SME development, and the digital economy, and;
- ii) human capital, poverty, and shared prosperity, which focuses on education equity and quality, skills, integrated health care, and social protection.

Many activities are delivered as Reimbursable Advisory Services (RASs). The RAS portfolio includes activities on the investment climate, statistics, health care, education and skills, social protection, and community-driven development and participatory budgeting.

The knowledge program is delivering results. The Local Initiatives Support Program (LISP) has helped boost citizen participation in municipal decision making. Citizens, working together with municipal authorities, identify and prioritize small-scale infrastructure projects that address specific community needs. This has led to the more effective use of local budgets and a more rapid implementation of projects.

The LISP started in the region of Stavropol krai 14 years ago. Today, LISP is a national program, covering about one-third of Russia's 80-plus regions. More than 12,000 participatory projects have been implemented, benefiting over 7.5 million people.

Recent Economic Developments

In 2018, GDP growth accelerated above expectations to 2.3 percent from 1.6 percent in 2017. This was largely due to robust global growth, higher oil prices, one-off construction projects, and Russia's hosting of the FIFA World Cup. However, the medium-term outlook remains modest at between 1.4 and 1.8 percent for the period 2019–21, reflecting lower oil prices and Russia's growth potential more broadly.

A sound macroeconomic framework, with relatively high levels of international reserves (US\$468.5 billion), low external debt levels (about 29 percent of GDP), and comfortable import cover (15.9 months), positions Russia well to absorb external shocks.

Higher oil prices, combined with a weaker ruble, better tax administration, and a conservative fiscal policy, improved fiscal balances at all levels of the budget system in 2018. Also in 2018, the general government posted a surplus of 2.9 percent of GDP compared to a deficit of 1.5 percent of GDP in 2017.

The Central Bank moved to inflation targeting in 2015, which was a welcome step. Monetary policy remained consistent with the inflation-targeting regime of 4 percent in 2018.

Russia's banking sector remains relatively weak, with less of a capital buffer and a higher nonperforming loan ratio than other BRICS countries (referring to Brazil, Russia, India, China, and South Africa). However, the situation is stabilizing, and lending activity is recovering. Public dominance in the banking sector has increased even further: five large banks control 60 percent of the system's assets, up from 52 percent at the end of 2013. State-owned entities account for nearly 70 percent of Russian bank assets. As such, increasing competition in the financial sector is one of the priorities of the Central Bank's financial sector development strategy for 2018–21.

The poverty rate under the national definition fell by 0.5 percentage points (from 13.8 to 13.3 percent) in the first nine months of 2018, as the poverty line grew below the rate of inflation and incomes

rebounded at the bottom of the distribution. Poverty also declined under the World Bank's upper-middle-income country poverty measure (population share with per capita consumption under US\$5.5/day in 2011 purchasing power parity), falling from 2.6 percent in 2017 to 2.4 percent in 2018. Income inequality remained broadly unchanged.

The unemployment rate fell to 4.8 percent in 2018 from 5.2 percent in 2017. Rising real wages in 2018 reflected low average inflation and higher public sector wage growth. Real disposable incomes, however, remained unchanged compared to 2017, suggesting a contraction in real terms of some unobserved components (informal earnings, for example). Nevertheless, incomes at the bottom of the distribution grew slightly faster than at the top, possibly driven by the higher minimum wage and new family benefits.

Priority policy objectives include limiting the role of the state in the economy, increasing investment, and promoting fair competition, as well as measures to improve investments in human capital.

Economic Outlook

Russia's overall growth prospects for 2019–21 are modest. Supported by relatively high oil prices, the general government budget is expected to remain in surplus in 2019–21. Inflation is forecast to accelerate in 2019 on the back of the value added tax rate increase and ruble depreciation pass-through but return to the Central Bank's target of 4 percent in 2020–21.

The forecast of a narrower external surplus reflects lower oil prices and a pickup in import spending. Stable economic growth, wage growth in the private sector, and the indexation of pensions to inflation should support disposable incomes and contribute to a gradual decline in the poverty rate in 2019–21. However, many Russians lack formal employment, and many households will remain close to the poverty line.

Project Spotlight

Accurate Forecasting Can Help Mitigate Russia's Weather-Related Climate Change Challenges



Hydrometeorological observation station in the Volga River basin.

Russia, with its vast geographic territory, is among the many countries around the world facing severe challenges brought about by climate change.

Indeed, economic losses and human casualties resulting from floods in the Far East, Siberia, and the south of Russia have shown how vulnerable the country is to weather-related and climate change disasters.

The World Bank estimates that weather-related disasters cost the Russian economy between US\$1 billion and US\$2 billion each year. Weather forecasts play a critical role in alerting the authorities to potential disasters. Improving hydrometeorological forecasting and early warning systems could also mean significant financial savings for Russia and could boost economic productivity at the same time.

Accurate forecasts and sufficiently early warnings for floods, high winds, and extreme heat save lives and property. Forecasts can also help public and private institutions make more timely and better informed economic decisions to address climate challenges. Reliable weather services help operations run more smoothly in many weather-dependent sectors, such as transport, agriculture, energy, and tourism.

Two World Bank projects have helped Russia's Federal Service on Hydrometeorology and Environmental Monitoring (RosHydromet) to deliver more reliable and timely weather, hydrological, and climate information to citizens, regional and municipal governments, and sectors dependent on weather, water, and climate. The Second National Hydromet System Modernization Project (RosHydromet-2) was launched following the completion of the RosHydromet-1 project in 2013.

RosHydromet has developed a system with nearly 100 centers that foster the regular exchange of weather forecasts and data, including warnings on hazards and severe events. Over the next two years, the hydrological network in the Volga River basin will be modernized to help increase the reliability of forecasts for seasonal water flow into reservoirs.

The RosHydromet-2 project will help the international hydro-meteorological community by providing greater access to reliable observation data from all around Russia, thereby contributing to more accurate global forecasting. RosHydromet will also continue to play its catalytic role of strengthening hydrometeorological services in Central Asia.

The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at <http://www.worldbank.org/russia>



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