

The World Bank in the Russian Federation

Country Snapshot



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

October 2018

THE RUSSIAN FEDERATION	2017
GDP, current US\$ billion	1,577.9
GNI per capita, US\$	9,230
Life Expectancy at birth, years (2016)	71.6

At a Glance

- Since 2017, the Russian economy has continued on its path of recovery, growing at 1.5% of GDP in 2017 and a projected 1.6% in 2018. Growth in 2018 has been supported by firmer oil prices, stronger growth momentum in the global economy, and a sound macroeconomic policy framework involving a flexible exchange rate, inflation targeting, and a new fiscal rule.
- In the medium term, however, as economic growth prospects remain modest, reforms in the areas of human capital, infrastructure, and pensions are expected. Russia's growth potential is low, and structural reforms are needed to get the Russian economy on a higher and more sustained growth path. Reforms designed to bolster investor confidence could help ensure higher growth in the long term.
- 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 capital potential, and enhance citizen engagement and transparency.

Country Context

After a prolonged recession, Russia's economy has continued to grow since 2017, supported by stronger global growth, higher oil prices, and solid macro fundamentals. Nevertheless, growth was modest at 1.5% of GDP in 2017 but is estimated to be slightly higher in 2018 at 1.6%.

Russia's growth potential is low, and structural reforms are needed to put the country on a higher, more sustainable growth path. A higher level of private investment and a lift in consumer confidence are needed. Structural reforms designed to bolster investor confidence could greatly enhance long-term growth prospects.

Reforms will also need 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.

The May 2018 Decree, "On National Goals and Strategic Development Objectives of the Russian Federation for the Period until 2024," set out ambitious goals to address many of these constraints.

With an overall goal of boosting growth and improving the well-being of all Russian citizens, the May decree targets increasing life expectancy to 80 years by 2030; halving poverty from 13.2% to 6.6% by 2024; and growing the Russian economy so that it is one of the five largest economies in the world.

The World Bank and The Russian Federation

The World Bank program includes seven projects under implementation, focusing on financial literacy, statistics, municipal infrastructure, cultural heritage preservation, hydrometeorology, and forestry.

The Advisory Services and Analytics (ASA) program includes research and analysis, policy advice, technical assistance, and capacity development on topics critical to Russia's economic and social development at the federal and regional levels.

Russia is also an important development partner of the World Bank. It is an International Development Association donor, with US\$823 million pledged since 1997, and has contributed US\$267 million to 22 World Bank-administered Trust Funds focused on education, the development of small and medium enterprises (SMEs), and public financial management in countries across the globe.

Russia has also contributed US\$457 million to the World Bank Group's (WBG) Financial Intermediary Funds, most recently US\$10 million to the Women Entrepreneurs Finance Initiative.

Key Engagement

The World Bank's ASA program is organized under two broad themes:

1. growth and competitiveness, which focuses on macroeconomic and fiscal management, labor market informality, productivity, the investment climate, SME development, and the digital economy, and
2. 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,

WORLD BANK PORTFOLIO

No. of Projects: 7

IBRD Commitments: \$536 Million

education and skills, social protection, and community-driven development and participatory budgeting (PB).

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.

A 2017 evaluation of the LISP/PB program showed that continuous implementation of PB approaches has an impact on people's lives. They are more satisfied with the quality of life in their hometowns and villages and with local self-governance and social services; they also note an increase in trust and an improved dialogue between the population and local authorities.

The LISP program started in the region of Stavropol krai more than 13 years ago. Today, LISP is a national program, covering about a quarter of Russia's 80-plus regions and growing. More than 10,000 projects have been implemented, benefiting over 1.5 million people per year. All projects have been co-financed from regional budgets and local community resources.

Recent Economic Developments

The economy has continued to grow at a moderate pace in 2018, supported by a pickup in global growth, firmer oil prices, and a strong macro policy framework (a flexible exchange rate regime, inflation targeting, and a new fiscal rule). Consumer price inflation remains relatively low at an annual rate of 3.1% in August 2018.

Capitalization of Russia's banking sector (12.2%) exceeds the regulatory minimum of 8%, but the share of nonperforming loans (10.9% of total loans in July 2018) remains high. The lending activity has continued to recover.

Banking sector consolidation has deepened, supported by a clean-up of the sector by the Central Bank of Russia (CBR), a transition to the proportionate regulation of banks, and the introduction of a new bank resolution mechanism.

Higher oil prices, improved tax administration, a weaker ruble, and a conservative fiscal policy turned the budget balance into surplus in 2018 (2.5% of GDP in the first seven months of 2018).

The Government plans to increase spending on education, health, and infrastructure starting in 2019. To accommodate higher spending, the Government will mobilize revenue (including by increasing the value-added tax [VAT] rate and completing a tax maneuver in the oil sector) and plans to temporarily relax the fiscal rule. Instead of targeting a zero-federal budget primary deficit at the benchmark oil price (US\$40 per barrel in 2017 prices), the fiscal rule would target a 0.5% of GDP federal budget primary deficit.

Unemployment declined further to 4.7% in July 2018 compared to 5.1% in July 2017, while real wages and pensions increased on the back of low inflation. Real disposable income growth has rebounded since the beginning of 2018 and totaled 2.6% year-on-year in January–July 2018.

The poverty rate, using the national definition (the share of the population with income per capita below the subsistence level of 10,088 rubles per month in 2017), decreased marginally from 13.3% in 2016 to 13.2% in 2017.

Economic Outlook

Relatively high oil prices (averaging US\$70 per barrel) continued the momentum in global economic growth, and macro stabilization is expected to support growth in the medium term. However, the forecast real GDP growth rates of 1.6%, 1.3%, and 1.7% in 2018, 2019, and 2020, respectively, are relatively low due to Russia's slowing potential growth.

Government initiatives to raise the retirement age and increase spending on education, health, and infrastructure could lift potential growth. In addition to announced reforms, the substantial strengthening of market institutions to enhance competition between firms is of paramount importance.

Downside risks mostly emanate from external sources because of a possible expansion of sanctions, heightened global trade tensions, and the volatility of financial markets.

The moderate poverty rate (the share of the population living on less than US\$5.5 per day [2011]) is expected to continue to decline in 2018 and throughout 2019. A rebound in the economy, wage growth in the private sector, and the indexation of pensions to inflation will support disposable incomes and contribute to a gradual decline in the poverty rate.

However, many individuals lack formal employment and many households remain close to the poverty line, suggesting a level of social vulnerability that will continue to require close monitoring.

Project Spotlight

Financial Literacy – Helping Citizens Make Smart Financial Choices



Financial literacy courses have been introduced in schools and universities, with training provided to teachers and tutors across the education system.

The Financial Education and Financial Literacy Project focuses on improving the financial literacy of school-age children and college students.

The project helps young people gain financial knowledge and awareness of the financial instruments needed to participate in a modern economy that they can pass on to their families and the broader community.

Financial literacy has become increasingly important for governments and citizens across the globe, and there is a growing recognition that people need to be financially literate to help ensure a country's good economic health and stability. Russia recognized this early and in 2011 the Government partnered with the World Bank to implement a project on financial literacy and education, the first of its kind in the World Bank.

Financial literacy courses have been introduced in schools and universities, with training provided to teachers and tutors across the education system. By June 2018, over 20,000 university students and teachers from almost two-thirds of Russia's regions had completed training courses in financial literacy. The impact of this training is reflected in the results of the 2017 Program for International Student Assessment (PISA) survey on financial literacy. Russian students exceeded the average international level, ranking 4th (compared to 10th in 2012), which constitutes unprecedented progress and puts Russia well above the Organisation for Economic Co-operation and Development country average.

In February 2016, the Fund for Good Ideas was launched, offering grants on a competitive basis to grassroots initiatives and encouraging innovative ways of promoting financial education. The Fund has supported many creative and innovative projects, including summer camps for teenagers in several of Russia's regions and special editions of popular cartoons called "Smeshariki" on the topic of financial literacy.

Organized with support from the project, the National Savings Week for Adults and the National Week of Financial Literacy for Children and Youth have gained significant traction in 2018, with the latter engaging over 2.5 million children and teenagers who participated in around 25,400 events across Russia. To support these goals, Russia's Ministry of Finance and the CBR in 2017 approved the National Strategy for Financial Literacy for 2017–23 and launched its Implementation Road Map.

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>



CONTACTS

Moscow

+7 (495) 745-7000

36/1 Bolshaya
Molchanovka St.,
121069, Moscow, Russia.

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