The World Bank in the Russian Federation

Country Snapshot

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

April 2020

THE RUSSIAN FEDERATION	2019
Population, million (2018)	144.5
GDP, current US$ billion	1,689.5
GNI per capita, US$ (2018)	10,230
Life Expectancy at birth, years (2017)	72.1

At a Glance

- Economic growth is projected to slow down in 2020 due to the coronavirus pandemic and falling oil prices. The economy is expected to contract by 1.0 percent in 2020 and then rebound by between 1.6 and 1.8 percent in 2021 and 2022. The pace of recovery will depend on recovering oil prices and the pandemic's residual effects.

- The poverty rate increased slightly to 12.9 percent. However, modest growth rates of GDP and inflation-indexed pensions will support disposable incomes and contribute to a gradual recovery in the poverty rate in 2021–22.

- 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 such areas as the investment climate, green finance, health care, education, social protection, and community-driven development and participatory budgeting.

Country Context

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

Accelerating growth will require, in addition to expanding the labor force through a higher retirement age (which has already been enacted), implementing reforms that increase inward migration, boost investment, and increase total factor productivity growth.

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.

Modest annual GDP growth will not lead to halving poverty by 2024. However, this goal could be achieved by an additional redistribution of approximately 0.4 percent of GDP annually through social assistance and transfers.

This assumes a significant improvement in the coverage of the poor within the current social assistance system, with some of these additional funds to be secured through savings resulting from efficiency enhancements.

The World Bank and The Russian Federation

The World Bank conducts research and analysis and provides policy advice and capacity development on topics critical to Russia's economic and social development at the federal and regional levels. World Bank support focuses on 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 development 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.

Since 2007, Russia has pledged US$896 million to the International Development Association (IDA). Russia has also contributed US$279 million across 24 World Bank–administered trust funds in support of education, small and medium enterprise (SME) development, public financial management, and other development areas in countries across Europe and Central Asia, Africa, and the Middle East.

Russia has also 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's entrepreneurship, and governance and public institutions in Middle East and North African countries in transition. Most recently, Russia pledged US$3 million to the Green Climate Fund.

Key Engagement

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

WORLD BANK PORTFOLIO

No. of Projects: 6

IBRD Commitments: $496 Million

I. Growth and competitiveness, which focuses on macroeconomic and fiscal management, labor market informality, productivity, the investment climate, SME development, trade integration, agriculture, and the digital economy;

II. Human capital, poverty, and shared prosperity, which focuses on education, including early childhood development, 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. On average, 20 percent of all projects has been co-financed from regional business and local community resources.

Recent Economic Developments

In 2019, economic growth decelerated to 1.3 percent year-on-year from 2.5 percent in 2018. Supported by continued retail credit expansion and increased government spending, consumer demand became the main engine of growth.

With national projects getting off to a slow start, investments were sluggish. The 12-month consumer price inflation has been decelerating since April 2019, reaching 2.3 percent in February 2020.

Since June 2019, the Central Bank of Russia (CBR) has continued to loosen monetary conditions, cutting the key policy rate six times to 6 percent in annual terms. The policy rate was unchanged on March 20, 2020, however, as short-term inflationary risks rose due to the coronavirus pandemic and falling oil prices, thereby pausing the easing cycle.

On March 20, the CBR announced a comprehensive package of measures designed to support businesses, consumers, and the financial sector in the face of the coronavirus outbreak. The measures include special refinancing rates, favorable conditions for specific types of loans, and a decision to postpone the introduction of tighter rules for banks. For consumers affected by the pandemic, the CBR has allowed banks and microfinance organizations to restructure their loans, forgo penalties, and avoid foreclosures on collateral.

The unemployment rate declined to 4.6 percent in 2019 from 4.8 percent in 2018, as average real disposable income rose by 0.8 percent. The poverty rate, using the national definition (the share of the population with a monthly income per capita of less than RUB 10,287 in 2018), edged up slightly by 0.2 percentage points in the first half of 2019, on the back of lower real disposable incomes and an increase in the official poverty line by 2 percent in real terms.

Economic Outlook

The GDP is expected to contract by 1.0 percent in 2020, a five-year low. Most of the negative impact stems from the plunge in commodity prices amid the pandemic-driven drop in external demand and the unwinding of the OPEC+ arrangement. Elevated uncertainty and volatility has driven the ruble down 26 percent against the U.S. dollar since January 1, 2020. With oil prices below their break-even level, the fiscal budget will show a deficit.

The baseline forecast is predicated on several things: the pandemic being contained within 2020; on muted containment measures, fiscal support; and a rebound in commodity prices and economic activity in 2021. However, a more adverse scenario could further weigh on energy prices and economic activity. In such a case, the GDP in 2020 could decline by 2.2 percent, with consumer and investment demand affected more deeply.

Despite this, Russia has sizable macro-fiscal buffers. Oil/gas fiscal revenue shortages arising from the plunge in oil prices below the fiscal rule threshold of US$42.4 are expected to be compensated by the country's National Wealth Fund (US$150 billion or 9 percent of GDP as of March 1).

Additional social support aimed at families with children (higher benefits, higher maternal capital) will support the incomes of the bottom 20 percent of the population. GDP growth is projected to remain firm at between 1.6 and 1.8 percent in 2021–22, as external conditions stabilize and terms of trade improve for Russia.

A contraction of GDP and incomes will lead to an increase in moderate poverty in 2020 by about 0.1 percentage point. However, modest growth rates of GDP and inflation-indexed pensions will support disposable incomes and contribute to a gradual recovery in the poverty rate in 2021–22.

Project Spotlight

A Recipe for Getting Out of Poverty

Thirteen percent of Russia's citizens are poor. In 2018, Russia set itself the ambitious goal of cutting poverty in half by 2024. In addition to essential anti-poverty drivers, such as income growth and improvements in human capital, targeted social assistance is the policy instrument most central to pulling people out of poverty. Strong safety nets help prevent poverty, support households in managing difficult life circumstances, and ultimately provide a foundation for more efficient and equitable economic outcomes.

A recent partnership between the World Bank and the Republic of Tatarstan aims to improve the region's safety net system to better serve the needs of vulnerable people while actively engaging them in the labor market. Moreover, the model designed for Tatarstan is based on good international design principles that could be easily replicated in other regions of the Russian Federation and even outside the country.

The Tatarstan Social Assistance System Development Project was structured around Russia's flagship Social Contract Program. The World Bank and the Ministry of Labor and Social Protection of Tatarstan jointly developed key design and implementation improvements to expand the program and boost its effectiveness in the region starting in 2020.

To launch the project, the Bank and the ministry conducted an in-depth evaluation to assess the weaknesses in the current system. The study consisted of a quantitative analysis of the Survey on Incomes and the Participation in Social Programs (the largest household survey in Russia and the main source of official poverty data) as well as qualitative interviews with representatives of vulnerable populations and front-line social workers. These findings, combined with case studies from middle- to high-income countries (e.g., Brazil, Greece, Italy, Portugal, Romania), informed the following policy recommendations:

1. A means-tested cash benefit, based on income and assets, adequate to relieve poverty and aligned with work incentives for the able bodied.
2. The activation of employment support services designed to minimize dependency by encouraging beneficiaries to improve their earnings potential through labor.
3. Personalized social inclusion services tailored to address each vulnerable family's specific needs.

This integrated approach aims to reduce poverty quickly and sustainably, combining cash assistance with activation conditions and services that reduce barriers to employment. However, even the best policy design will function effectively only when supported by an operating environment that includes clear and streamlined administrative procedures, efficient human resources, reliable supporting documentation, and an effective information and technology system (i.e., management information system) to ensure that all families who need support receive it—but only those families.

Based on the Bank project's recommendations, the Republic of Tatarstan has begun to implement this system and expects to see discernible improvements in the effectiveness of the region's Social Contract Program, thus proving the new system's potential to help the entire country to achieve its poverty reduction goal.

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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