RUSSIAN FEDERATION

Table 1	2020
Population, million[a]	144.5
GDP, current US$ billion	1481.9
GNI per capita, US$ (Atlas method)[a]	11260
International poverty rate ($1.9)[b]	0.0
Lower middle-income poverty rate ($3.2)[b]	0.4
Upper middle-income poverty rate ($5.5)[b]	3.7
Gini index[c]	37.5
School enrollment, primary (% gross)[c]	104.7
Life expectancy at birth, years[c]	72.7

Sources: WDI, MPO, Rosstat.
Notes:
(a) Most recent value (2019).
(b) Most recent value (2018), 2011PPPs.
(c) Most recent value (2018).

A lower-than-expected GDP contraction in 2020 and a rapid easing of COVID-19–related restrictions have improved growth momentum, spurring an upgrade in the Russian Federation's economic growth forecast to 2.9 percent in 2021 and 3.2 percent in 2022 (from a December forecast of 2.6 percent and 3.0 percent, respectively). However, this outlook remains subject to substantial uncertainty and downside risks. Following an uptick in 2020, the poverty rate is expected to decline in 2021 but remain above pre-pandemic levels until 2022.

Key conditions and challenges

In recent years, Russia undertook significant macro-fiscal stabilization efforts, resulting in an improved fiscal position—including a sizeable accumulation of fiscal and reserve buffers—reduced exposure to oil price volatility and a lower public debt burden. A massive banking sector cleanup, together with enhanced regulation and supervision, fortified capital and liquidity buffers. These efforts strengthened Russia's ability to respond to the pandemic's adverse economic shocks. They allowed the government to provide a substantial countercyclical fiscal stimulus (about 4.5 percent of GDP) and an accommodative monetary policy (the key rate was lowered by 200 basis points between February–July 2020).

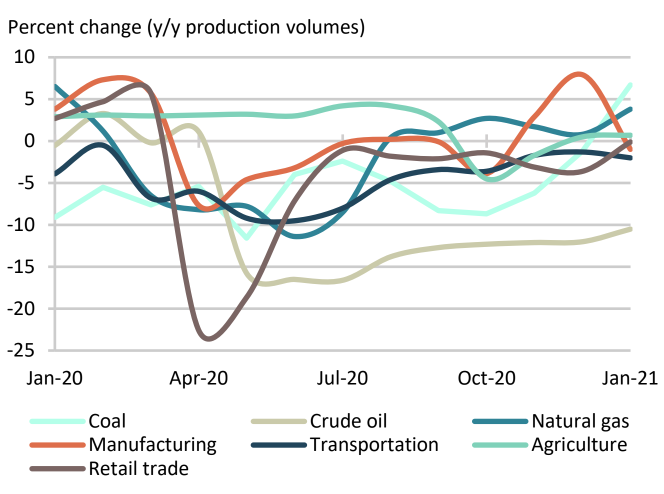
Russia's potential growth has been trending downward since the global financial crisis. While near-term recovery will be contingent on the stemming of the pandemic, longer-term economic prospects will depend on boosting potential growth through promoting economic diversification, reducing the state's economic footprint, leveling the playing field for the private sector, improving governance—particularly of state-owned enterprises—and taking advantage of shifting global value chains. A green transition could pose significant challenges for the Russian economy unless the government undertakes preemptive steps toward decarbonization.

The downward trajectory in poverty rates since 2010 was interrupted by the shocks of 2014–15. Since then, poverty has again declined, reaching 12.3 percent in 2019 (using the national measure). The official poverty rate jumped to 13.3 percent in the third quarter of 2020, reflecting the coronavirus pandemic's impact. Emergency social protection measures prevented an even greater increase in the poverty rate.

Recent developments

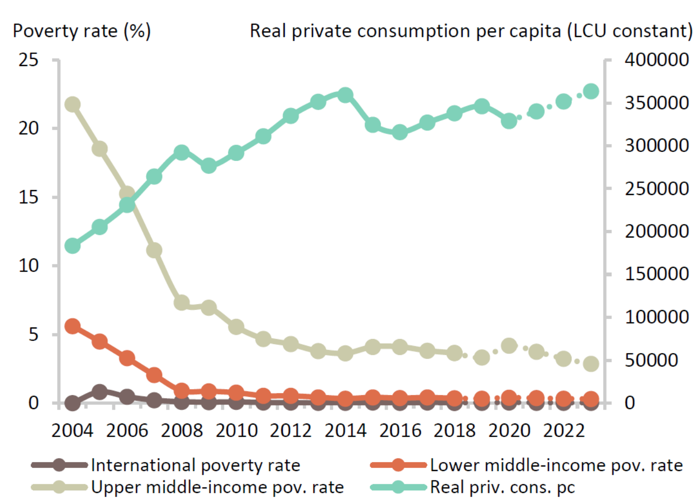
GDP contracted sharply in the second quarter of 2020, declining by 10.9 percent quarter on quarter, saar. Economic activity only partly recovered in the third quarter (rising by 2.8 percent quarter on quarter, saar) as mobility restrictions eased following a decline in COVID-19 cases and households and companies benefited from government support, including countercyclical fiscal, monetary, macroprudential, and regulatory measures. Momentum slowed again in the fourth quarter as the pandemic's second wave swept across Russia and the globe. Pandemic mitigation measures heavily impacted the services sectors, with the transportation and hotels and catering sectors registering double-digit contractions. The 2020 extension of the OPEC+ agreement weighed on mineral resource extraction, which contributed -1 percentage point to GDP growth. Lower energy export receipts, financial market volatility, and increased geopolitical risks fueled a sharp increase in capital outflows in 2020 ($47.8 billion,

FIGURE 1 Russian Federation / High frequency economic indicators



Sources: Russian Statistical Authorities.

FIGURE 2 Russian Federation / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: see Table 2.

up from $22.1 billion in 2019), driving a real effective exchange rate depreciation. The sharp contraction in imports due to the depreciation, a decline in real income, and impediments to outward tourism failed to fully offset the drop in energy exports.

The general government fiscal deficit widened to 4.0 percent of GDP in 2020 (compared to a surplus of 1.9 percent of GDP in 2019), driven by pandemic response spending and the need for economic support measures amid lower energy revenues. Unemployment rose in all regions, but job losses were concentrated in manufacturing, real estate, and hotels and catering. The unemployment rate stood at 5.8 percent in January 2021, down from its peak of 6.4 percent in August but still above the 4.6 percent rate recorded in December 2019.

Weakening asset quality across the corporate, small and medium enterprise, and retail segments put pressure on bank profitability and amplified macro-financial risks. The extent of problem loans on bank balance sheets will only become clearer in mid-2021 when the authorities lift the remaining regulatory forbearance measures.

Since the end of 2020, 12-month consumer price inflation has exceeded the central bank's target of 4 percent, owing mainly to higher global food prices and ruble deprecation. In February 2021, inflation reached 5.7 percent. Elevated inflationary pressure coupled with domestic demand rebound prompted the Central Bank of Russia (CBR) to raise its key interest rate by 25 bp to 4.5 percent in March.

Outlook

Assuming that no third wave of coronavirus infections occurs in Russia, consumer and business confidence are expected to improve, paving the way for a gradual economic rebound. GDP growth is forecast at 2.9 percent in 2021 and 3.2 percent in 2022. The general government deficit is expected to improve, narrowing to about 2.0 percent of GDP in 2021 and turning into 0.5 percent of GDP surplus in 2022. Deficit financing, mainly through domestic debt issuance, will increase general government debt to a still-manageable 20 percent of GDP in 2023 (from 14 percent in 2019). Following 2020's stronger fiscal impulse, the 2021–22 fiscal consolidation in Russia will be deeper than in other emerging markets and will become a drag on growth. Given its relatively low public debt, sizeable macro-fiscal buffers, and expected persisting negative output gap, Russia has the fiscal space for a more gradual consolidation, allowing further increases in social spending and support to regions. In line with the OPEC+ agreement, oil production restrictions will fall away in 2021-–22, supporting growth of oil output and export volumes. Twelve-month consumer price inflation is projected to average 4.3 percent in 2021 before stabilizing around the central bank's target of 4 percent in 2022–23.

In 2021, the poverty rate (using the upper-middle-income poverty line of US$5.5 per day) is expected to decline to below 2020 levels as the economy rebounds. However, it will remain above pre-pandemic levels until 2022.

The outlook faces substantial downside risks. Lower-than-expected vaccine effectiveness or vaccine hesitancy could delay the economic recovery, as could new sanctions. Banks could face deteriorating asset quality, profitability, and capitalization, including from the country's overheated mortgage market. The CBR extended the forbearance on impairment recognition until mid-2021. Although these measures should allow banks to accumulate profits to increase loan loss provisioning, they will also delay the realization of unavoidable and costly losses.

TABLE 2 Russian Federation / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.8	2.0	-3.1	2.9	3.2	2.5
Private Consumption	4.2	3.1	-8.6	4.7	4.9	3.8
Government Consumption	1.3	2.4	4.0	-1.0	-1.0	1.0
Gross Fixed Capital Investment	0.6	1.5	-6.2	2.8	3.4	3.0
Exports, Goods and Services	5.6	0.9	-5.1	1.9	3.6	3.2
Imports, Goods and Services	2.7	3.5	-13.7	5.9	9.3	4.9
Real GDP growth, at constant factor prices	2.8	2.0	-2.8	2.7	3.2	2.4
Agriculture	1.7	2.7	0.0	1.8	1.8	1.8
Industry	2.9	1.5	-3.5	1.9	2.7	2.5
Services	2.8	2.2	-2.6	3.2	3.6	2.4
Inflation (Consumer Price Index)	2.9	4.5	3.4	4.3	4.0	4.0
Current Account Balance (% of GDP)	7.0	3.8	2.2	3.1	2.7	2.0
Net Foreign Direct Investment (% of GDP)	-1.4	0.6	-0.3	0.2	0.2	0.2
Fiscal Balance (% of GDP)[a]	2.9	1.9	-4.0	-1.8	0.5	0.6
Debt (% of GDP)	13.7	14.0	17.8	19.1	19.6	20.0
Primary Balance (% of GDP)[a]	3.8	2.7	-3.1	-0.8	1.6	1.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.4	0.3	0.4	0.4	0.3	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.7	3.3	4.2	3.7	3.2	2.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Fiscal and Primary Balance refer to general government balances.
(b) Calculations based on ECAPOV harmonization, using 2018-HBS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.
(c) Projection using neutral distribution (2018) with pass-through = 0.7 based on private consumption per capita in constant LCU.