

# The World Bank in the Russian Federation

## Country Snapshot



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

April 2018

THE RUSSIAN FEDERATION	2017
GDP, current US\$ billion	1,578.6
GDP per capita, current US\$	10,771
Life Expectancy at birth, years (2015)	70.9

### At a Glance

- Russia's economy emerged from recession to recovery in 2017, and GDP expanded by 1.5% year-on-year. Deepening macroeconomic stability, firming energy prices, and a recovering global economy contributed to the return to growth. However, a renewal of solid growth will need private investment and a lift in consumer sentiment. Structural reforms designed to bolster investor confidence could greatly enhance long-term growth prospects.
- The Russian Government plans to stay the course on fiscal consolidation. The country's new fiscal rule—a major structural reform—is expected to reduce the influence of external volatility on the budget and the real exchange rate. Coming into effect formally in 2019, the new rule requires fiscal consolidation in 2018–20 and underscores, together with inflation targeting, the Russian authorities' commitment to enhancing macro-stability.
- Through a combination of Advisory Services and Analytics and a portfolio of ongoing projects, the World Bank collaborates with the Russian Federation in areas to increase productivity and investments, improve social protection and skills, and expand human capital.

### Country Context

Amid recovered oil prices, macro stabilization, and improved business and consumer confidence, Russia's economy is expected to keep growing, with growth projections between 1.7 and 1.8% in 2018–20 (according to Global Economic Prospects 2018).

However, a return to solid growth will need private investment and a lift in consumer sentiment. Structural reforms designed to bolster investor confidence could greatly enhance long-term growth prospects.

These reforms will need to address key constraints to productivity growth, such as the remaining weaknesses in the investment climate, the lack of sufficient competition, the 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.

Addressing the implications of Russia's unfavorable demographics, improving the health conditions of the population, and enhancing access to and quality of education are also essential. Finally, strengthening governance at all levels and ensuring fiscal and environmental sustainability will have to underpin these efforts.

## The World Bank and The Russian Federation

The World Bank program includes ongoing projects and Advisory Services and Analytics (ASA). There are currently seven projects under implementation, focusing on improving basic service delivery and economic development at the local level, increasing financial literacy, and protecting the environment.

Under the ASA program, the World Bank conducts research and analysis and provides policy advice, technical assistance, and capacity development on critical topics for Russia's economic and social development at the federal and regional levels.

The World Bank also engages with Russia as a development partner. Russia is an International Development Association (IDA) donor, with over US\$823 million pledged since 1997. Russia has also contributed a total of US\$267 million for 22 World Bank-administered trust funds in support of education, small and medium enterprise development, public finance management, and other development areas in countries across Europe and Central Asia (ECA) and the Middle East and North Africa (MENA).

Moreover, Russia has pledged approximately US\$435 million to seven World Bank Group Financial Intermediary Funds that tackle global development challenges, including HIV/AIDS, tuberculosis and malaria, debt relief, environment protection, governance and public institutions in MENA countries under transition, and women's empowerment through the new Women Entrepreneurship Finance Initiative (We-Fi).

### WORLD BANK PORTFOLIO

No. of Projects: 7

IBRD Commitments: \$536 Million

### Key Engagement

The World Bank's knowledge program is well-aligned with the Systematic Country Diagnostic for the Russian Federation.

The program addresses key development challenges under two broad themes: 1) growth and competitiveness, which focuses on productivity growth, the investment climate, competition, the labor market and informality, regional equality, and the digital economy; and 2) human capital, poverty, and shared prosperity, which addresses education equity and quality, available skills and those demanded by the labor market, and social protection.

Many activities are delivered as Reimbursable Advisory Services (RASs). The current RAS portfolio includes activities that focus, for example, on the investment climate, export promotion, agriculture, local development, education (including early childhood development) and skills, community-driven development and participatory budgeting, social protection, and the dividends of the digital economy.

## Recent Economic Developments

Russia's economy emerged from recession to recovery in 2017, with GDP expanding by 1.5% year-on-year. Deepening macroeconomic stability, firming energy prices, and a recovering global economy contributed to the return to growth. Domestic demand was the main engine of growth. Both household and investment demand expanded.

The Russian Government plans to stay the course on fiscal consolidation. Russia's new fiscal rule—a major structural reform—is expected to reduce the influence of external volatility on the budget and the real exchange rate. Coming into effect in 2019, the new rule requires fiscal consolidation in 2018–20 and underscores, together with inflation targeting, the Russian authorities' commitment to enhancing macro-stability.

In 2017, the fiscal stance improved, aided by higher oil prices, a recovering economy, improved tax administration, and lower expenditures. The general government budget primary deficit narrowed to 0.6% of GDP in 2017 from 2.8% in 2016, and general government primary expenditures decreased by 1.7% of GDP compared to 2016.

However, many households remain close to the poverty line, and many individuals lack formal jobs. The poverty rate, under the national definition, increased from 13.3% in 2015 to 13.4% in 2016. The international moderate poverty rate (below US\$5.5/day in 2011 purchasing power parity terms) is estimated to have decreased to 2.9% in 2017 from 3.3% in 2016, mainly due to a growth in wages and pensions. The extreme poverty rate remains marginal at 0.3%.

In 2017, unemployment declined further, to 5.2%, while real wages and pensions increased on the back of low inflation. Wage growth was highest in the tradable sector and above the rate of inflation in the non-tradable and public sectors. However, growth in real disposable incomes

remained negative, driven by a decline in income from other sources, including some not directly registered by statistics.

## Economic Outlook

Amid the recovered oil prices, macro stabilization, and recovering global economy, Russia's economy is expected to keep growing. With the projected price of oil remaining robust at US\$58, \$59, and \$60 per barrel in 2018, 2019, and 2020, respectively, the economy is estimated to grow by 1.7% in 2018, 1.8% in 2019, and 1.8% in 2020. The moderate poverty rate is expected to fall in 2018 and further through 2019.

As public spending is constrained, labor income will become the most important driver of income growth for the bottom 40%. Wage growth and pension indexation at the inflation level will support disposable incomes and contribute to a gradual decline in the poverty rate. However, many households remain close to the poverty line, and many individuals lack formal jobs.

External downside risks stem from the significant drop in oil prices, a sudden tightening of global financial conditions, and an upsurge in geopolitical tension. The performance of the banking sector is expected to remain stable. However, the bailout of three large private banks points to the sector's continued fragility, and the quality of capital and assets and related-party lending will likely remain a concern.

Weak productivity growth and a shrinking labor force will constrain GDP growth.

Priority policy objectives include limiting the role of the state in the economy, increasing investment, and promoting fair competition. Also, measures to improve the quality of and access to health and education services will be needed to promote longer and more productive working lives.

## Project Spotlight

### Local Initiatives Support Program (LISP): Sakha (Yakutia) Republic



Local LISP community meeting in Ust-Aldanskyi Ulus (district), Sakha (Yakutia) Republic.

For more than 10 years, the World Bank has been providing advisory services to Russia's regions under the Local Initiatives Support Program (LISP), primarily in small and remote places.

More than 20 regions have already launched the program, which focuses on the implementation of demand-driven, small-scale projects identified and designed with the broad

participation of the local population. The projects are aimed at improving the access to and quality of the local-level social infrastructure, such as local community centers, cultural and sports facilities, community roads and bridges, and the water supply.

Churapcha village of the Churapchinskiy Ulus in the Sakha (Yakutia) Republic is one of the districts participating in the LISP, with the help of the World Bank's advisory services. The community meeting turned out to be one of the most well-attended in Yakutia: 1,500 people, or 15% of the population, came together and voted for the refurbishment of the community center.

Under the LISP, local citizens are involved not only in the decision-making process by voting for particular projects, but also in the co-financing of the projects selected. In the village of Churapcha, co-financing from the local community reached about 20%, almost half in cash contributions and the other half from the local business community. The refurbished community center has drastically changed the life of the village. People can now engage in hobby groups, watch movies, and enjoy the café and Wi-Fi in the warm community center rooms, while average winter temperature in Yakutia reaches -41°C.

In 2017, over 9,000 citizens participated in close to 70 community meetings held in five pilot districts of Yakutia. Thirty-two projects are now under implementation. In 2018, the LISP was extended to all of Yakutia. Close to 250 meetings have been held and 165,000 citizens have participated in preliminary planning community meetings. It is expected that the number of projects to be implemented in Yakutia by the end of 2018 will increase exponentially to approximately 500.



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#### More about the World Bank in The Russian Federation

Data:

<http://data.worldbank.org/country/russia>

Projects:

<http://www.worldbank.org/en/country/russia/projects>

Research:

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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>