The World Bank in the Russian Federation

Country Snapshot

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

October 2019

THE RUSSIAN FEDERATION	2018
Population, million	144.5
GDP, current US$ billion	1,660.9
GNI per capita, US$ (2018)	10, 230
Life Expectancy at birth, years (2017)	72.1

At a Glance

- Russia's economy is forecast to grow at 1 percent in 2019, and at 1.7–1.8 percent in 2020–21.
- Real GDP growth slowed to 0.7 percent in the first half of 2019 due to weak domestic and external demand.
- The poverty rate, using the national definition, declined by 0.6 percentage points to 12.6 percent in 2018.
- 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 approximately 3 percent and halving the poverty rate to 6.6 percent by 2024.

Doubling 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 (TFP) 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 in itself lead to halving poverty by 2024. However, this goal could be achieved by an additional redistribution of roughly 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$280 million across 22 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 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 under 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:

1) Growth and competitiveness, which focuses on macroeconomic and fiscal management, labor market informality, productivity, the investment climate, SME development, trade integration, and the digital economy; 2) Human capital, poverty, and shared prosperity, which focuses on education, including early childhood development and 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

Real GDP growth decelerated to 0.7 percent in the first half of 2019 from 2.3 percent in 2018, owing to lackluster domestic and external demand. Economic sanctions continued to weigh on economic performance.

Real disposable incomes fell by 1.3 percent in the first half of 2019, reflecting a hike in value added tax (VAT) rates in January 2019, and inflation accelerated. A decline in public investment, partly related to the slow process of setting up and launching a number of national projects, negatively affected total investment.

Mineral resource extraction, financial services, and the transportation sector led growth, while trade and real estate acted as significant drags.

A sound macroeconomic framework, with relatively high levels of international reserves (US$519.8 billion), low external debt levels (about 30 percent of GDP), and comfortable import cover (18.4 months), positions Russia to absorb external shocks well.

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. To adjust the budget system to the new fiscal rule, the Government conducted fiscal consolidation, bringing the non-oil/gas federal budget deficit to 6 percent of GDP in 2018 from 10.3 percent in 2013.

The Central Bank of Russia (CBR) moved to inflation targeting in 2015, which was a welcome move. Monetary policy remains consistent with the inflation-targeting regime (the target is set at 4 percent).

Russia's banking sector has been relatively stable. The CBR has continued its cleanup of the sector by revoking the licenses of some smaller banks and focusing on the financial rehabilitation of large financial institutions. The state continues to dominate the banking sector, and increasing competition in the financial sector is one of the priorities of the CBR's financial sector development strategy for 2019–21.

The poverty rate, using the national definition (the share of the population with a monthly income per capita of less than RUB 10,088 in 2017), fell in 2018 by 0.6 percentage points to 12.6 percent.

The unemployment rate fell to 4.7 percent in the first half of 2019 (from 4.9 percent in 2018), while real wages rose by 6.8 percent. Wage growth was highest in the public sector.

Pensions increased by 0.8 percent in real terms. Incomes at the bottom of the distribution grew slightly faster than at the top, supported by an increase in the 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

GDP growth, which is expected to accelerate in the second half of 2019 on the back of monetary easing and faster public spending on national projects, will reach 1 percent in 2019. Russia's medium-term prospects remain modest at 1.7 and 1.8 percent in 2020 and 2021.

Domestic demand, supported by several ongoing national projects, can be expected to drive growth in 2020–21. Relatively comfortable oil prices will keep the general government budget in surplus in 2019–21. Inflation is forecast to return to the CBR's target of 4 percent in 2020–21 as the one-off effect of the VAT rate increase dissipates.

Weaker global demand and rising import spending underpin the forecast of a narrower external surplus in 2020–21. The poverty rate is expected to continue to decline through 2021.

Project Spotlight

Boosting Financial Literacy to Improve Livelihoods and Economic Prosperity


To build financial management skills from an early age, financial literacy modules are being imbedded into required classes.

Financial education is critically important for Russians—from children and youth to adults and retirees—to ensure that they are able to receive the full benefits of the financial system, understand financial products and their related risks, plan for a sustainable future, and improve their lives.

To promote financial literacy across the country, the Government of the Russian Federation and the World Bank launched the Financial Education and Financial Literacy (FEFL) project in 2011. The project has focused on boosting the financial literacy of Russian citizens (especially among school-age and college students, and active and potential low- and middle-income users of financial services), and strengthening the foundations for improving consumer protection in financial services. The project started in 9 pilot regions, and has now expanded to reach almost all Russian regions.

To build financial management skills from an early age, financial literacy modules are being imbedded into required classes such as social studies, math, literature, and geography at schools, professional colleges, and universities. Trainers are getting trained too: the national system of financial literacy training for educators has reached about half of all schools in Russia. The OECD has recognized the FEFL project's unique approach involving parents in school education as successful, and as an example of best-practice worldwide.

The project has contributed to measurable outcomes and sustainable results. Russia jumped six places—from 10th place in 2012 to 4th place in 2015—in the OECD's PISA assessment of financial literacy among 15-year-old students. In 2017, the Government approved the Strategy for Financial Literacy Development in Russia (2017–23) - its goal is to create opportunities for financially literate behavior of the population as an essential condition of financial well-being of households and more broadly, of sustainable growth. The successful experience of FEFL in Russia has been shared globally and replicated in a number of countries. CIS countries, which face similar challenges, have found the Russian experience highly useful. High-level conferences and knowledge exchange events have been ogranized with financial literacy experts from Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic, and Tajikistan. The Kyrgyz Republic has replicated the Russian model of organizing regional centers for financial literacy and introducing financial education programs in schools.

In 2018, the OECD-Russia Symposium on Financial Literacy in Moscow gathered more than 250 international experts from 60 countries. The symposium focused on innovative implementation approaches to deliver global progress on financial literacy. Russian experts shared their hands-on experience in providing financial services via digital platforms, reaching vulnerable groups, and strengthening consumer protection.

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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