RUSSIAN FEDERATION

Table 1	2023
Population, million[a]	143.8
GDP, current US$ billion	2020.3
GNI per capita, Atlas method, current US$[a]	11610.0
Upper middle-income poverty rate ($6.85)[b]	4.1
Gini index[c]	36.0
School enrollment, primary (% gross)[d]	104.1
Life expectancy at birth, years[d]	69.4
Total GHG emissions (mtCO2e)	1565.8

Sources: WDI, MPO, Rosstat.
a/ Most recent value (2021).
b/ Most recent value (2020), 2017 PPPs.
c/ Most recent value (2020).
d/ Most recent WDI value (2019).

Economic growth is expected to decrease to 2.2 in 2024, and 1.1 percent in 2025. Stronger momentum from 2023 and continuation of loose fiscal policy underpin the growth projections. Export volumes are expected to increase in 2024 after two years of contraction. Poverty is projected to experience a modest decline between 2024 and 2026.

Key conditions and challenges

After the initial recessionary impact of sanctions in 2022, the economy has returned to growth in 2023, supported by fiscal stimulus including military spending and credit expansion, and by successfully mitigating the impact of the sanctions. Restrictions on trade and financing from the G7 countries and EU resulted in trade diversion to China, India, Türkiye, Central Asia and the South Caucasus, and investment in new infrastructure and logistics. Matching this process, the share of Russia's external trade transactions in currency of countries which introduced sanctions dropped from about 80 percent in 2021 to below 30 percent in 2023. The medium to long-term economic prospects remains dull, however. Russian businesses and households continue to be affected by great uncertainty, restrictions on export of a wide range of goods, persisting gaps in supply of some technological equipment, and higher trade costs. Restrictions on Russia's exports have put pressure on the external balance, exchange rate, and fiscal receipts. The fiscal position has deteriorated, with energy receipts compressed by the sanctions, and a sharp increase in general government spending on defense and national security, and social transfers. Moreover, there is a scarcity of labor for activities not related to the military, and the labor market has further significantly tightened due to accelerated outmigration, which has contributed to inflationary pressure. Overall, loss of skilled workers, restrictions on imports of technological goods, and loss of productive FDI is expected to depress medium- to long-term growth prospects.

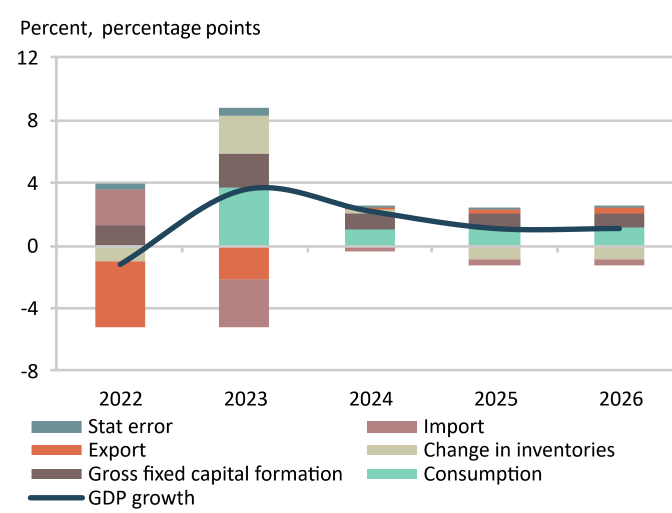
Recent developments

Russia's economy rebounded in 2023 with GDP growth of 3.6 percent. Growth was driven by manufacturing (+ 7 percent), reflecting a large increase in military related activity and import substitution, as well as a rebound in trade related services (+7.3 percent), the financial sector (+8.6 percent) and construction (+7 percent). Despite the sanctions on oil-related exports, extractives output declined by only 2 percent. Household consumption grew by 6.1 percent, and investment rose by 10.5 percent, supported by subsidized mortgages and military spending.

The economic rebound was partly fueled by expansionary fiscal policy, with general government expenditures rising by 1.3 percent of GDP, and investment from the sovereign wealth fund reaching 0.6 percent of GDP. Total revenues increased by 0.4 percent of GDP, as the drop in oil and gas revenues was compensated by an increase in non-oil/gas revenues. As a result, the general government deficit widened from 1.4 percent in 2022 to 2.3 percent of GDP in 2023.

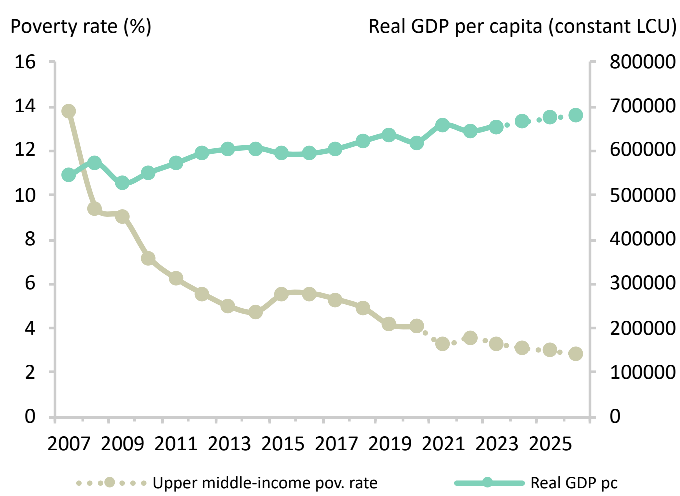
The current account remained in surplus in 2023, but shrank five-fold compared to 2022, as export receipts slumped, and

FIGURE 1 Russian Federation / Real GDP growth and contributions to real GDP growth



Sources: Rosstat and World Bank.

FIGURE 2 Russian Federation / Actual and projected poverty rate and real GDP per capita



Source: World Bank. Notes: see Table 2.

imports rebounded. Capital outflows persisted, adding to the pressure on the exchange rate. The ruble depreciated by 20 percent via-a-vis the US dollar in 2023 but stabilized later in 2024, aided by the central bank foreign exchange sales.

Economic output exceeding its potential and ruble depreciation have fueled inflationary pressures. CPI inflation increased to 7.6 percent by December 2023, with average of 6 percent for the year. The central bank raised interest rates by 8.5 percentage points to 16 percent by December 2023, and tightened macro prudential regulations. The authorities tightened new FX surrender requirements for some exporters.

Unemployment reached the historically low rate of 3 percent in 2023, largely associated with the military effort and the emigration abroad of large numbers of young Russian men. In 2023, there was also a reallocation of labor toward sectors engaged in military production and import substitution.

The banking sector recorded a profit of RUB 3, 3 trillion (US$36 billion) in 2023, compared to RUB 0.2 trillion in 2022. Credit to the private sector grew by 17.4 percent in real terms in 2023 (yoy), in part thanks to government support measures, including a RUB 100 billion recapitalization of VTB.

Outlook

It is presently difficult to produce growth forecasts for Russia due to the significant changes to the economy associated with Russia's invasion of Ukraine, and the decision by Russia to limit publication of economic data, notably related to external trade, financial and monetary sectors. Available data limits our ability to assess the economic performance.

This outlook assumes that Russia's invasion of Ukraine and existing sanctions will continue. Growth of 2.2 percent is expected in 2024 before decreasing to 1.1 percent in 2025 and 2026. Fiscal stimulus is expected to maintain the economy above its potential level, with fiscal policy, monetary and quasi-fiscal policy not fully coordinated in this respect. Expansionary fiscal policy aimed at adjustment to sanctions through trade diversion and import substitution, as well as rapid military production will support domestic demand as the main growth driver. Investment growth is expected to moderate, as macro prudential regulations are tightened and subsidized mortgage programs, narrowed. Elevated expenditures are expected to keep the general government balance in deficit of 2.1 percent of GDP this year, and only gradually to decline thereafter. Average annual CPI inflation is expected to increase to 6.9 percent in 2024 and then gradually approach the target of 4 percent by 2026. The current account surplus is expected to decrease to 2.1 percent of GDP in 2024 from 2.5 percent a year before mostly due to import growth. Poverty is expected decline marginally between 2024 and 2026.

Possible further rounds of mobilization and sanctions are negative risk to the baseline growth projections. Stricter compliance to sanctions, particularly that affect inflows of oil and gas revenues, or disrupt nascent trade patterns for commodities, may have a significant impact.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	5.9	-1.2	3.6	2.2	1.1	1.1
Private consumption	11.9	-1.1	6.0	1.4	1.2	1.2
Government consumption	2.9	3.0	3.7	2.8	2.3	2.1
Gross fixed capital investment	9.3	6.7	10.5	4.5	3.2	3.2
Exports, goods and services	3.3	-13.9	-8.2	1.0	1.5	1.5
Imports, goods and services	19.1	-11.0	16.9	3.2	2.0	2.0
Real GDP growth, at constant factor prices	6.5	-0.3	3.4	2.2	1.1	1.1
Agriculture	1.3	7.0	0.5	1.2	1.2	1.2
Industry	4.3	0.4	1.5	2.0	1.4	1.4
Services	8.0	-1.1	4.5	2.3	1.0	0.9
Inflation (consumer price index)	6.7	13.7	6.0	6.9	4.4	4.2
Current account balance (% of GDP)	6.6	10.3	2.4	2.0	1.1	1.0
Net foreign direct investment inflow (% of GDP)	-1.4	-1.2	-1.3	-1.0	-0.9	-0.8
Fiscal balance (% of GDP)[a]	0.8	-1.4	-2.3	-2.1	-1.7	-1.3
Revenues (% of GDP)	35.4	34.2	34.5	36.1	35.3	34.9
Debt (% of GDP)	17.2	16.7	17.1	17.8	18.6	18.7
Primary balance (% of GDP)[a]	1.6	-0.5	-1.2	-0.7	-0.2	0.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	3.3	3.6	3.3	3.1	3.0	2.9
GHG emissions growth (mtCO2e)	4.4	-2.8	2.9	2.0	1.0	1.0
Energy related GHG emissions (% of total)	91.0	90.6	90.5	90.3	90.1	90.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal and Primary Balance refer to general government balances.
b/ Calculations based on ECAPOV harmonization, using 2020-HBS. Actual data: 2020. Nowcast: 2021-2023. Forecasts are from 2024 to 2026.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.