RUSSIAN FEDERATION

Table 1	**2021**
Population, million[a]	144.1
GDP, current US$ billion	1775.9
GNI per capita, Atlas method, current US$[a]	10690.0
Lower middle-income poverty rate ($3.2)[b]	0.3
Upper middle-income poverty rate ($5.5)[b]	2.9
Gini index[b]	36.0
School enrollment, primary (% gross)[c]	104.2
Life expectancy at birth, years[c]	73.1

Sources: WDI, MPO, Rosstat.
a/ Most recent WDI value (2020).
b/ Most recent value (2020), 2011 PPs.
c/ Most recent WDI value (2019).

Due to its invasion of Ukraine Russia faces the largest coordinated economic sanctions ever imposed on a country. Russia's economy will be hit very hard, with a deep recession looming in 2022. GDP is expected to contract by 11.2 percent, with little recovery in the ensuing two years. Households will be deeply impacted by the crisis, with a projected additional 2.6 million people falling below the national poverty line.

Key conditions and challenges

Russia's economic outlook has been rapidly overtaken by the fallout from its invasion of Ukraine. The strongest set of coordinated economic sanctions, swiftly imposed, will severely impact Russia across multiple dimensions. The sanctions amount to coordinated shocks to trade, external financing, financial intermediation, and confidence. The withdrawal of many foreign enterprises from the Russian market and a sharply deteriorated outlook will leave Russia bereft of investment, while pressure on households from fast-rising prices and declining incomes will push consumption lower. A deleterious effect on households will, at best, only be partly offset by domestic policy responses.

Looking further ahead, Russia's pre-existing challenge of raising medium-term growth sufficiently to support improved living standards for its population is now far more daunting. Yet, given the adverse shock it now faces, this challenge is all the more important.

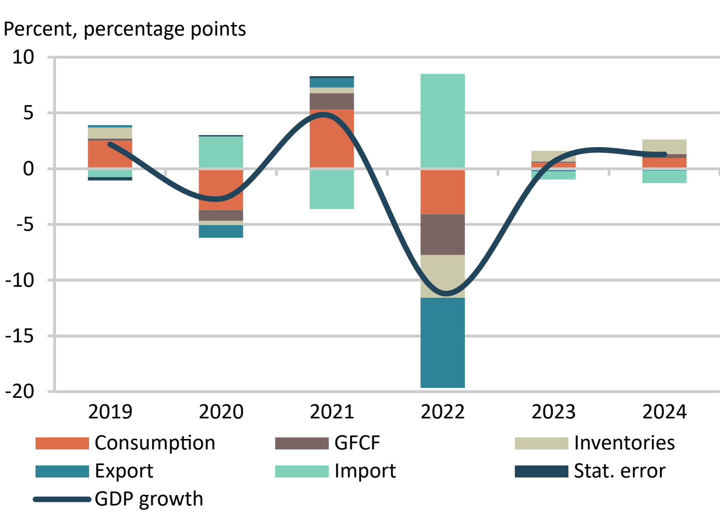
Recent developments

Before the invasion of Ukraine and the ensuing sanctions, Russia's economy was recovering well. Growth in 2021 reached 4.7 per cent, following a 2.7 percent decline in 2020. The general government budget returned to a surplus of 0.8 percent of GDP. The current account surplus expanded to US$120 billion – exceeding its 2019 level – as commodity prices increased and outbound tourism remained muted. By the end of 2021, consumer price inflation had become a central concern, reaching 8.4 percent year-on-year in December. The rise in inflation was broad-based, reflecting a combination of robust demand for goods, increases in energy and food prices, and global supply bottlenecks. The banking sector proved resilient during the COVID-19 pandemic, with economic recovery and credit growth helping to improve balance sheets in 2021. Labor markets strengthened, too, in 2021; the unemployment rate fell to 4.8 percent, close to its pre-pandemic low. The official poverty rate of 11.0 percent by end-2021 was below year-end rates in 2020 and 2019.

However, developments in Russia took a sharp turn for the worse beginning with Russia's invasion of Ukraine. Sanctions imposed on Russia severely restrict access to international capital markets, the capacity to conduct international transactions, the imports of certain goods, and access to international and fiscal reserves. Several large Russian financial organizations were sanctioned. Sanctions have materially increased risks to banks' asset quality, solvency, funding and liquidity profiles, while limiting the CBR's capacity to absorb shocks.

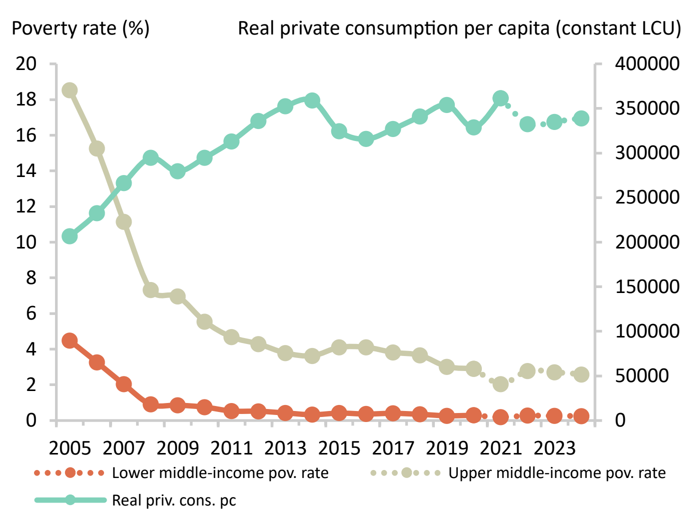
The imposition of sanctions has led to a precipitous drop in Russian asset prices and the ruble, with the latter depreciating by 30 percent against major currencies. In

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



Sources: Rosstat, World Bank.

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



Source: World Bank. Notes: see Table 2.

response, the Russian authorities doubled interest rates, announced a Rub 1 trillion fiscal package, imposed capital controls, and introduced forbearance measures and special regulations for financial markets aimed at stemming the capital flight and easing pressure on the financial system.

Outlook

Uncertainty over the forecasts is unprecedentedly high, conditional on Russia's military actions in Ukraine and the global response. The severe impacts of sanctions already in place are expected to drive Russia's GDP down by 11.2 percent in 2022, largely due to a contraction in domestic demand. High uncertainty, depreciation, disruptions to trade and business closures are expected to result in a 17 percent slump in investment. A decline in employment and real wages, elevated outmigration and rising costs of living will weigh on private consumption, which is expected to fall by 8.5 percent. SWIFT and FX restrictions will impede cross-border transactions, leading to delays and cancellations.

Announced bans and reductions in purchases of Russian oil and gas are expected to lead to a substantial fall in shipments this year, while larger slump in non-energy export volumes is expected. However, the current account balance is expected to strengthen as the fall in exports will be more than offset by a contraction in imports. High levels of capital outflows are expected from Russia this year. In 2023 and 2024, GDP growth is expected to rebound only gradually, at 0.6 and 1.3 percent respectively.

Overall, consumer price inflation is expected to rise from 9 percent in 2021 to 22 percent in 2022, and to stay well above the central bank target in the projection period. A decline in economic activity and higher expenditure needs are expected to turn the general government surplus into a substantial deficit in 2022. The adverse impact of the shock on the financial sector makes a major credit crunch likely, while continued pressure on the corporates and banks, combined with eroded buffers, spells a heightened risk of bank failures and systemic crisis in the sector.

Households are expected to be impacted by the crisis via four channels – limited access to goods and services (either because of inflation, shortages or even rationing), falling labor incomes, asset price falls, and migrant workers likely to be especially affected via falling remittances. The percentage of the population with incomes below the official poverty line (approximately US$ 14/day) is projected to increase to 12.8 percent in 2022 from 11.0 percent in 2021 (an increase of 2.6 million people). The poverty rate using the World Bank poverty line (US$ 5.5/day) is expected to increase from 2.0 in 2021 to 2.8 percent in 2022 (an increase of above one million people) and practically remain there through 2024.

Risks are skewed to the downside, as additional rounds of sanctions could further impact Russia's outlook. A disruption in oil or gas receipts, or more severe dysfunction in domestic financial markets, could push growth lower and poverty rates up. Still-low COVID-19 vaccination rates and the prospect of new variants remains another source of risk.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.2	-2.7	4.7	-11.2	0.6	1.3
Private Consumption	3.8	-7.3	9.5	-8.5	0.5	1.3
Government Consumption	2.4	1.9	1.1	3.6	1.2	1.0
Gross Fixed Capital Investment	1.0	-4.4	7.0	-16.9	0.6	1.7
Exports, Goods and Services	0.7	-4.1	3.2	-30.9	-1.2	-0.9
Imports, Goods and Services	3.1	-12.1	16.7	-35.2	4.1	6.2
Real GDP growth, at constant factor prices	2.2	-2.5	4.6	-11.2	0.6	1.3
Agriculture	3.5	0.2	-1.3	1.0	1.0	1.0
Industry	1.5	-2.4	4.9	-8.8	0.5	0.9
Services	2.4	-2.7	4.8	-13.2	0.7	1.5
Inflation (Consumer Price Index)	4.5	3.4	6.7	22.0	13.0	8.0
Current Account Balance (% of GDP)	3.9	2.4	6.8	9.8	6.4	2.8
Net Foreign Direct Investment (% of GDP)	0.6	-0.2	-1.3	-7.5	-3.5	-2.8
Fiscal Balance (% of GDP)[a]	1.9	-4.0	0.8	-1.9	-1.8	-1.2
Debt (% of GDP)	14.3	20.0	17.9	19.8	20.3	20.6
Primary Balance (% of GDP)[a]	2.7	-3.2	1.7	-0.3	-0.1	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.3	0.3	0.2	0.3	0.3	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.0	2.9	2.0	2.8	2.8	2.6
GHG emissions growth (mtCO2e)	2.4	-3.6	1.1	-11.5	0.3	0.7
Energy related GHG emissions (% of total)	91.6	91.3	90.1	89.8	89.6	89.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
a/ Fiscal and Primary Balance refer to general government balances.
b/ Calculations based on ECAPOV harmonization, using 2020-HBS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 based on private consumption per capita in constant LCU.