

RUSSIAN FEDERATION

Table 1 **2022**

Population, million ^a	143.6
GDP, current US\$ billion	2274.5
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	104.2
Life expectancy at birth, years ^d	69.4
Total GHG emissions (mtCO ₂ e)	1494.4

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).

Growth is projected at 1.6 percent in 2023. Fiscal stimulus supported consumer demand and military spending, while the energy sector contracted less than anticipated. Heightened external pressure, with a shrinking current account surplus, and narrowing fiscal space worsen the outlook. Medium-term growth prospects are muted due to constraints on Russia's access to global markets, skilled human capital, and productivity-enhancing technologies. Poverty is expected to fall slightly between 2023 and 2025.

Key conditions and challenges

After the initial recessionary impact of sanctions in 2022, the economy has returned to growth in 2023, supported by credit growth and fiscal stimulus including military spending. However, Russian businesses and households continue to be affected by great uncertainty, restricted access to international markets, and higher trade costs. A shrinking current account surplus is driving exchange rate depreciation. The fiscal position has deteriorated, with energy receipts compressed by the sanctions. Banking sector risks, manageable in the short term, could add further pressure on the budget due to recapitalization needs. 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.

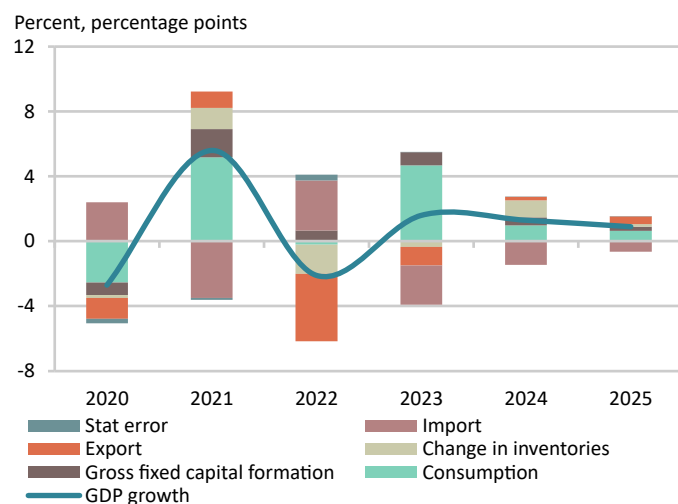
Recent developments

Following an economic contraction of 2.1 percent of GDP in 2022, GDP expanded by 1.6 percent (yoy) in H1 2023. On the demand side, growth was largely driven by consumer demand, boosted by accelerated public spending in H1 2023 (including a 7.1 percent real increase in pensions), and expanding consumer credit, while military spending remained high.

Retail sale volumes grew by 1.1 percent (yoy) in H1 2023 (9 percent yoy in Q2 2023) with real wages 6 percent higher in H1. Investment grew by 7.6 percent in H1 2023. Both services and manufacturing contributed to growth, while the energy sector, affected by sanctions introduced toward the end of 2022, kept growth down. Oil production so far has been relatively resilient to sanctions introduced at the end of 2022 on the export of oil and derivatives, with oil production only 0.9 percent lower (yoy) in H1, although more substantive production cuts are expected in H2. Moreover, Urals prices decreased to USD 52.3/bbl on average in H1 2023, compared to USD 83.9/bbl in 2022, reducing oil sector revenues and export receipts. Gas production decreased by 12.3 percent in H1 2023 (yoy), largely due to a fall in Russian pipeline gas deliveries to the European Union, and prices also fell by 55 percent on average in H1 2023 (yoy).

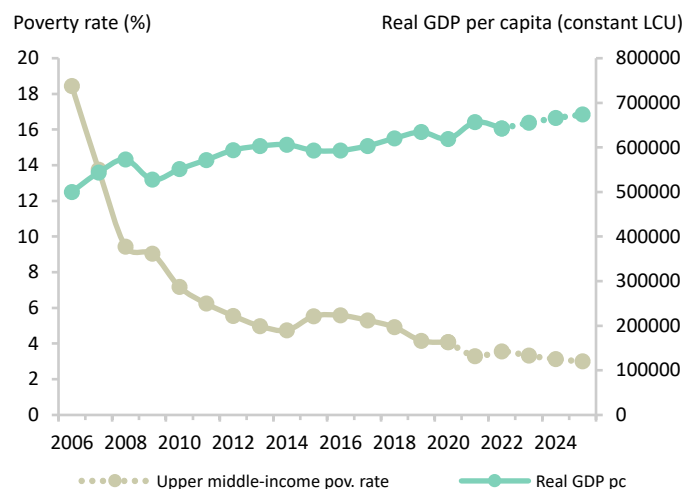
Expansionary fiscal expenditure (social benefits, government consumption, and investment – some directly related to the war – and loan subsidies) was an important factor in economic growth in H1 2023, with expenditure rising by 18.5 percent in H1 2023 (yoy). However, oil and gas revenues fell by 47 percent over the same period. This led to a rapidly expanding general government deficit, which reached 3.3 percent of GDP in H1, compared to a surplus of 4.6 percent of GDP in H1 2022. Public debt issuance (RUB 1.4 trillion, or USD 16.1 billion) and National Welfare Fund drawdown (RUB 0.5 trillion, or USD 5.3 billion at

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.

the end of June) were the main sources of deficit financing.

Russia's labor market remained tight as outward migration and the military sector reduced the amount of labor available for non-military-related activities. The unemployment rate fell to an unprecedented low of 3 percent in July 2023.

Russia's positive external balances narrowed over the course of 2023. The H1 2023 CAS was USD 29 billion, five times less than in 2022, as exports fell by 26 percent (yoy) and imports grew by 17 percent. As the external balance adjusted, the RUB began to depreciate rapidly, by 36 percent since the end of December 2022 to the end of August 2023.

The shrinking output gap and rising cost of imports fueled inflationary pressures. CPI inflation rose from 2.3 percent in April to 4.3 percent in July, with mom inflation in July more than doubling to 1 percent mom sa. In response, the Central Bank of Russia (CBR) raised interest rates by 550 bps to 13 percent – in three stages, in July, early August, and September – and suspended FX purchases.

The banking sector recorded a profit of RUB 2 trillion (USD 21 billion) in the first 7 months of 2023, compared to RUB 0.2 trillion in the full year 2022. Government support measures, including a RUB

100 billion recapitalization of VTB, and reportedly solid capital buffers allowed banks to continue lending throughout the year. Credit to the private sector grew by 9.7 percent in real terms (yoy) over the same period.

Outlook

It is currently difficult to produce growth forecasts for Russia due to significant changes to the economy associated with the Russian invasion of Ukraine, and Russia's decision to limit publication of economic data related to external trade and to financial and monetary sectors. Available data limit assessment of economic performance.

This outlook assumes that Russia's war on Ukraine and existing sanction will continue. A moderate contraction in crude oil and oil products exports, coupled with a rebound in domestic demand in 2023, mean the economy is expected to grow 1.6 percent this year, with growth moderating to 1.3 percent in 2024. Oil production is expected to contract by 2 percent in 2023. Growth momentum is expected to slow in H2 2023 as monetary and fiscal policy tighten; nevertheless, private

consumption growth is expected to be strong in 2023 at approximately 6 percent. Lower oil revenues and higher expenditure in 2023 are expected to widen the general government deficit to 3.3 percent, a deterioration of approximately 5 percent compared to 2022.

Average annual CPI inflation is expected to be lower in 2023, at 5.6 percent, with RUB depreciation contributing to rising inflation later in the year. Lower prices for commodities exported by Russia, lower export volumes, and growing imports are all expected to reduce CAS to approximately USD 50 billion in 2023 (2.6 percent of GDP), compared to USD 236.1 billion in 2022 (10.1 percent of GDP).

Moderate growth is expected in 2024, with consumer demand slowing and exports gradually recovering. In 2025, GDP is expected to grow by 0.9 percent, in line with lower growth potential.

Poverty is expected to fall slightly, if at all, between 2023 and 2025.

Russia's economic outlook remains closely tied to its ongoing invasion of Ukraine and possible further rounds of mobilization and sanctions. Broadly supported and strengthened sanctions, particularly affecting inflows of oil and gas revenues, and disruptions to evolving trade patterns may have significant impact.

TABLE 2 Russian Federation / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-2.7	5.6	-2.1	1.6	1.3	0.9
Private consumption	-5.9	9.9	-1.4	6.3	1.3	0.7
Government consumption	1.9	2.9	2.8	8.6	1.6	1.4
Gross fixed capital investment	-4.0	9.1	3.3	4.1	2.3	1.2
Exports, goods and services	-4.2	3.3	-13.9	-4.3	0.9	1.9
Imports, goods and services	-11.9	19.1	-15.0	13.5	7.3	3.0
Real GDP growth, at constant factor prices	-2.2	6.1	-1.4	1.6	1.3	0.8
Agriculture	0.2	-0.8	6.7	0.5	1.2	1.2
Industry	-2.7	5.3	-0.2	1.5	2.0	1.4
Services	-2.2	7.0	-2.5	1.8	1.0	0.5
Inflation (consumer price index)	3.4	6.7	13.7	5.6	5.2	4.0
Current account balance (% of GDP)	2.4	6.6	10.4	2.6	2.1	2.0
Net foreign direct investment inflow (% of GDP)	0.2	-1.4	-1.2	-1.4	-1.4	-1.4
Fiscal Balance (% of GDP)^a	-4.0	0.8	-1.4	-3.3	-1.9	-1.8
Revenues (% of GDP)	35.5	35.6	34.6	34.5	35.6	35.3
Debt (% of GDP)	19.9	17.3	16.9	19.4	20.7	21.8
Primary Balance (% of GDP)^a	-3.2	1.6	-0.5	-2.4	-1.0	-0.9
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	4.1	3.3	3.6	3.3	3.1	3.0
GHG emissions growth (mtCO₂e)	-3.5	1.2	-3.4	-0.5	-0.6	-1.5
Energy related GHG emissions (% of total)	91.7	90.8	90.3	90.1	89.5	88.9

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: 2021-2022. Forecasts are from 2023 to 2025.

c/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.