

RUSSIAN FEDERATION

Table 1 **2023**

Population, million ^a	143.7
GDP, current US\$ billion	2020.3
GNI per capita, Atlas method, current US\$ ^a	11610.0
Lower middle-income poverty rate (\$3.65) ^a	0.4
Upper middle-income poverty rate (\$6.85) ^a	2.0
Gini index ^b	35.1
School enrollment, primary (% gross) ^c	101.9
Life expectancy at birth, years ^c	72.5
Total GHG emissions (mtCO2e)	1580.9

Sources: WDI, MPO, Rosstat.

a/ Most recent value (2021).

b/ Most recent value (2020).

c/ Most recent WDI value (2019).

Economic growth is projected at 3.2 percent in 2024, with robust growth supported by strong consumption from higher wages, fiscal stimulus, and import substitution. Inflation has remained above the central bank target, as domestic production and labor market tightness pushes prices higher. Medium term growth is expected to decelerate to 1.1 percent by 2026 as tight monetary policy tempers domestic demand. Poverty is projected to decline modestly between 2024 and 2026.

Key conditions and challenges

The evolution of Russia's economy continues to be shaped by the country's invasion of Ukraine and sanctions. The policy response to sanctions includes sizable fiscal support, a drive toward significant industrial import substitution, and measures to seek alternative export markets. These responses, as well as expanded military-related economic activity, have effectively raised economic growth, although they also are generating high inflation and labor market shortages.

In the short to medium term, the main policy challenge is to gradually narrow the positive output gap and bring inflation down to the central bank's target while minimizing the slowdown in growth. In the medium to long term, the growth potential is limited due to adverse labor market dynamics, market and technological access restrictions, as well as tightening of the cross-border transactions.

Recent developments

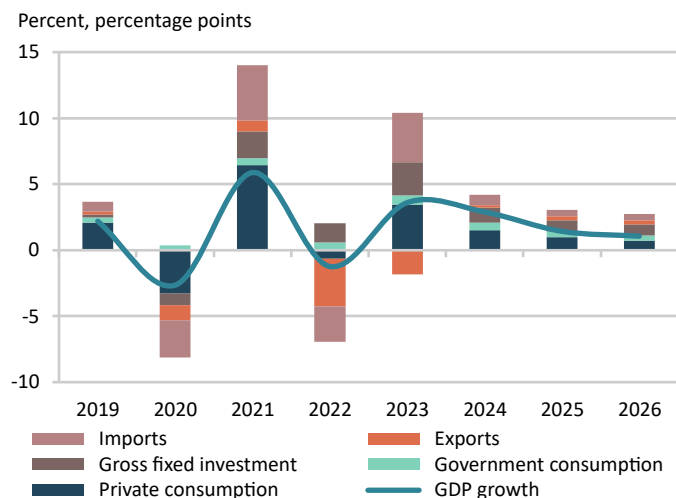
Economic growth of 5 percent in the first half (H1) of 2024 was supported by momentum built up in late 2023; however, the economy has started to show signs of slowing down in mid-2024.

Growth in H1 was supported by manufacturing (+6.7 percent) due to import substitution and military-led activity, as well as by trade services (+5.3 percent) supported by strong domestic demand. Nevertheless, retail trade turnover growth continued to soften compared to Q1 2024. Mining sector output fell by 2.4 percent, largely dragged by coal and iron ore extraction, while natural gas and oil production growth rebounded. On the demand side, growth has been driven by private consumption, propelled by high wage growth stemming from tight labor market conditions and continuing fiscal stimulus. Investment growth was supported by the subsidized mortgage program and strong corporate lending.

Labor market conditions remain tight as unemployment reached a historic low of 2.5 percent by end-June, driving up real wages by 7 percent year on year (y-o-y), albeit real wage growth slowed compared to Q1 2024, when it reached 14 percent. Inflation remained high in H1 2024, with annual inflation (core inflation) reaching 8.6 percent (8.7 percent), well above the central bank's target, prompting it to raise the policy rate to 19 percent in September 2024, from its mid-2023 low of 7.5 percent. The main factor driving inflation is strong growth in domestic demand, outstripping the capacity of the economy to supply sufficient goods and services.

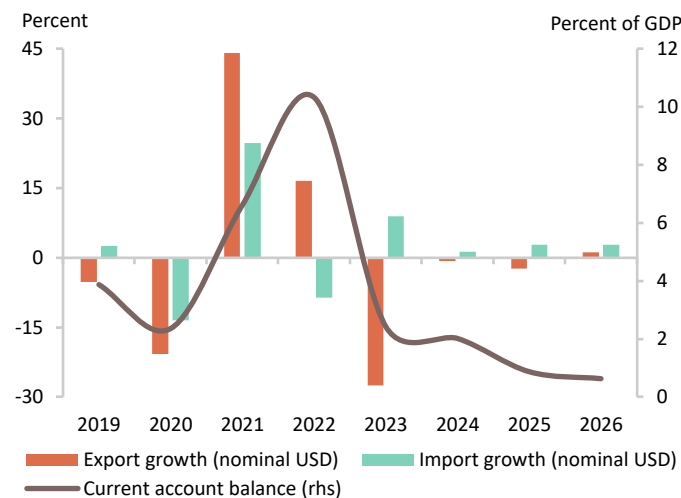
The current account balance remained in surplus in H1 2024. The foreign trade surplus widened due to a marked decline in imports, despite

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



Sources: Russian Federal State Statistics Service and World Bank.

FIGURE 2 Russian Federation / Current account balance and nominal USD growth of exports and imports



Sources: Central Bank of the Russian Federation and World Bank.

strong domestic demand—possibly related to the tightening of sanctions on import payments.

The fiscal balance recorded a small deficit of 0.5 percent of GDP in H1 2024, as the increase in spending slightly outpaced revenues. Revenues stood at 19.5 percent of GDP, bolstered by additional revenues from the mining sector, while spending accelerated to 20 percent of GDP.

Credit to the economy continued to expand at a solid pace, further supporting domestic demand. Consumer and corporate lending exhibited high growth, expanding by 14 percent and 11 percent in real terms, respectively, in H1 2024. High wages were an important factor in sustaining high consumer lending, while robust corporate lending is a result of state-led programs. Mortgage lending has been cooling, given the government's winding down of support programs.

The poverty rate (at the US\$6.85-2017 PPP international line) remained relatively low, at around 2 percent from 2021 to 2023. However, a significant share of the population (around 15 percent) remains at risk of falling into poverty in the event of an economic shock.

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.

The recent deceleration in real wage growth, retail trade turnover, and fiscal spending points to a softening of economic growth and a gradual narrowing of the positive output gap. Growth is projected to slow for the rest of the year, reaching 3.2 percent for 2024. In 2025 and 2026, growth is expected to slow further toward its potential level. Private consumption growth is expected to decrease as the tight monetary stance—including more stringent macroprudential measures—and a lessening of real wage growth temper private demand. Gross fixed capital formation growth is set to ease in the medium term and average 3.4 percent during the

2024–2026 period as rising financing costs weigh on private sector investment.

Inflation is also projected to decline as tight monetary policy is expected to persist, softening domestic demand pressures. Exports are expected to rise in the medium term as major export items (notably crude oil and gas) will gradually recover following a dip in 2023. On the one hand, exports are estimated to grow, on average, by 1.2 percent during the 2024–2025 period; on the other hand, imports are projected to decelerate due to slowing domestic demand and a tightening of sanctions on import payments. The current account surplus is expected to decrease to 2.2 percent of GDP in 2024 and moderate to 0.7 percent by 2026.

Elevated expenditures are expected to keep the general government balance in a deficit of 2.1 percent of GDP in 2024, gradually declining thereafter.

Poverty is expected to continue declining, though marginally, and is expected to reach 1.6 percent in 2026. However, additional conflict-related mobilizations or stricter sanctions pose risks to poverty and vulnerability reduction prospects.

TABLE 2 Russian Federation / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	5.9	-1.2	3.6	3.2	1.6	1.1
Private consumption	11.9	-1.1	6.0	2.8	1.4	1.2
Government consumption	2.9	3.0	3.7	3.4	2.6	2.1
Gross fixed capital investment	9.3	6.7	10.5	4.9	3.0	2.3
Exports, goods and services	3.3	-13.9	-8.2	1.0	1.2	1.5
Imports, goods and services	19.1	-11.0	16.9	2.2	2.0	2.0
Real GDP growth, at constant factor prices	6.5	-0.3	3.4	3.2	1.7	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	3.9	1.8	1.0
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	2.2	1.0	0.7
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	35.9	35.2	34.9
Debt (% of GDP)	17.2	16.7	17.1	17.6	18.4	18.6
Primary balance (% of GDP)^a	1.6	-0.5	-1.2	-0.7	-0.2	0.3
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	0.2	0.2	0.2	0.2	0.2	0.2
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	0.4	0.4	0.4	0.4	0.4	0.4
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	2.0	2.1	1.9	1.7	1.6	1.6
GHG emissions growth (mtCO₂e)	4.8	-2.3	2.9	3.3	1.9	1.5
Energy related GHG emissions (% of total)	90.9	90.5	90.3	90.0	89.7	89.3

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 2022-VNDN. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.

c/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.