# 38. RUSSIAN FEDERATION

*Despite a low vaccination rate and a high mortality from COVID-19 in the autumn of 2021, real GDP in Russia has by now surpassed the pre-pandemic level. Going forward, growth is likely to benefit from a decisive improvement of its terms-of-trade and rising fiscal revenues, which provide room for additional transfers and spending, pushing consumption up.*

## Swift recovery from the crisis already in 2021

In 2021, in a mirror image of 2020, consumption is set to recover strongly and imports are forecast to bounce back. Public transfers, rising real wages and spending out of savings accumulated in 2020 are expected to drive private consumption up, which however is projected to remain below 2019 levels. Public consumption is likely to continue growing as well, though rising oil and gas revenues are not expected to lift public spending this year as they are forecast to further increase fiscal buffers. Imports are projected to grow relatively strongly in 2021, as a slightly stronger rouble and much better terms-of-trade raise their affordability, but will likely remain significantly below 2019 levels. Relatively strong non-oil exports limited the export decline in 2020. They will continue to grow in 2021, while the OPEC+ agreement still implies lower oil exports in 2021. Investment is expected to bounce back only moderately in 2021, reflecting long-standing weaknesses in the business climate, some reprioritisation of national infrastructure projects resulting in further delays and some restraint regarding new investment in fossil fuel projects given the long-term muted price outlook.

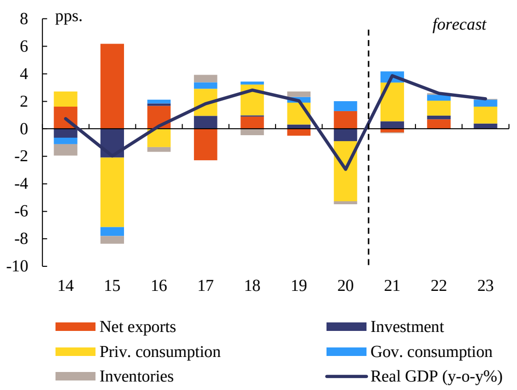
## The recovery is likely to lose steam going forward

The purely compensatory element of the bounce-back is likely to evaporate by late 2021. While exports are set to benefit from the phasing out of the OPEC+ production cut over 2022, imports of goods are expected to grow more moderately as purchasing power is likely to be negatively affected by elevated inflation and investment is set to grow only slowly. Services imports are forecast to grow more strongly benefitting from less COVID-19 related restrictions affecting outbound tourism. As inflation is high and food price inflation is approaching double-digit levels, household purchasing power is expected to be negatively affected, dampening the outlook for consumption. Over the forecast horizon, household income is projected to be hit by higher personal income taxes. Higher income tax rates introduced in late 2020 and strong nominal wage rises conspire to increase the tax burden of households.

The outlook for capital expenditure remains moderate as the business sentiment continues to be negatively affected by the unfriendly investment environment including property rights issues. It is possible that public investments will rise somewhat due to high commodity prices and rising fiscal revenues. However, volatile commodity prices, the uncertain long-term outlook for fossil fuels and lack of access to credit among SMEs, in particular in service sectors, hamper the outlook for private investments.

For 2023, catch-up consumption and increased public spending are expected to be less relevant as a growth driver. Instead, the underlying lack of dynamism and the limited growth potential are expected to be again a more decisive factor limiting growth.

*Graph II.38.1:* **Russia - Real GDP growth and contributions**




## Monetary policy has become more restrictive

Following a decline by a cumulative 500 basis points to 4.25% in July 2020 amid contained inflation, headline interest rates were raised by 325 basis points in incremental steps from March to October 2021 as inflationary pressures intensified. In September 2021, inflation hit 7.4% y-o-y and is forecast to reach an average 6.2% in 2021, before receding to 4.8% in 2022, still above the central bank's 4% target. Notably, food inflation has skyrocketed, reflecting a rapid transmission of global food prices into domestic prices. Overall, monetary policy might be tightened further if global inflationary pressures persist and rising food price inflation undermines real disposable incomes, especially in the informal sector.

### Fiscal policy continues to focus on stability.

The fiscal deficit is expected to improve significantly from 5.4% in 2020 to 0.7% in 2021, as growth in non-oil revenues is projected to significantly exceed expenditure growth. Going forward, the budget is expected to be roughly balanced in 2022 and 2023, respectively, on the back of higher non-oil revenues, notably dividends, while spending is set to grow only moderately. Oil and gas windfall profits are expected to continue filling fiscal buffers outside the budget, which have already increased to 12% of GDP in Q3-2021, particularly if changes to the fiscal rule proposed by the president are accepted. The public debt to GDP ratio, which was seen to worsen significantly in 2020, is now expected to stabilise below 20% over the forecast horizon, making Russia stand out among emerging markets and reducing vulnerabilities.

### Risks appear balanced

Upside risks come from commodity prices and its potential effects on investment, income, sentiment and consumption. In addition, should the political situation require it, fiscal buffers could be used to stimulate the economy. Downside risks exist around the low vaccination rate and associated risks for the health system and the workforce. A taste of the risks involved was on display in late October, when an 11-day lockdown for Moscow and a week-long holiday for Russia were introduced, as daily death-numbers spiralled. Solvency risks for SMEs, inflationary pressures souring sentiment and structural issues around property rights are additional downside risks.

*Table II.38.1:*

**Main features of country forecast - RUSSIA**

| | | 2020 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn RUB | Curr. prices | % GDP | 02-17 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| GDP | | 106967.5 | 100.0 | 3.4 | 2.8 | 2.0 | -3.0 | **3.9** | **2.6** | **2.2** |
| Private Consumption | | 52914.2 | 49.5 | 5.4 | 4.2 | 3.1 | -8.5 | **5.7** | **2.2** | **2.5** |
| Public Consumption | | 22148.6 | 20.7 | 1.0 | 1.3 | 2.4 | 4.0 | **3.9** | **2.2** | **2.5** |
| Gross fixed capital formation | | 23272.5 | 21.8 | 5.2 | 0.4 | 1.6 | -4.3 | **2.5** | **1.3** | **1.8** |
| of which: equipment | | 0.0 | : | : | : | : | : | **:** | **:** | **:** |
| Exports (goods and services) | | 27301.5 | 25.5 | 4.7 | 5.6 | 0.7 | -4.3 | **4.9** | **5.8** | **3.0** |
| Imports (goods and services) | | 21992.4 | 20.6 | 7.5 | 2.7 | 3.4 | -12.0 | **7.3** | **4.4** | **4.0** |
| GNI (GDP deflator) | | 104404.7 | 97.6 | 3.3 | 3.0 | 1.3 | -2.2 | **3.8** | **2.8** | **2.3** |
| Contribution to GDP growth: | Domestic demand | | | 4.1 | 2.5 | 2.3 | -4.5 | **4.2** | **1.8** | **2.1** |
| | Inventories | | | -0.2 | -0.5 | 0.4 | -0.2 | **0.0** | **0.1** | **0.1** |
| | Net exports | | | -0.4 | 0.9 | -0.5 | 1.3 | **-0.3** | **0.7** | **0.0** |
| Employment | | | | 0.7 | 0.3 | -0.8 | -1.9 | **1.5** | **0.7** | **0.3** |
| Unemployment rate (a) | | | | 6.6 | 4.8 | 4.6 | 5.8 | **5.3** | **5.2** | **5.1** |
| Compensation of employees / head | | | | : | : | : | : | **:** | **:** | **:** |
| Unit labour costs whole economy | | | | : | : | : | : | **:** | **:** | **:** |
| Real unit labour cost | | | | : | : | : | : | **:** | **:** | **:** |
| Saving rate of households (b) | | | | : | : | : | : | **:** | **:** | **:** |
| GDP deflator | | | | 11.4 | 10.0 | 3.1 | 0.9 | **8.6** | **4.3** | **3.7** |
| Consumer price index | | | | 9.9 | 2.9 | 4.5 | 3.4 | **6.2** | **4.8** | **4.0** |
| Terms of trade goods | | | | 1.3 | 17.5 | -5.7 | -22.7 | **13.6** | **-0.5** | **-0.5** |
| Trade balance (goods) (c) | | | | 10.3 | 11.8 | 9.8 | 6.1 | **8.5** | **8.9** | **8.7** |
| Current-account balance (c) | | | | 5.4 | 7.0 | 3.9 | 2.2 | **4.4** | **4.8** | **4.7** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | 4.9 | 6.9 | 3.8 | 2.2 | **4.3** | **4.8** | **4.7** |
| General government balance (c) | | | | 1.5 | 3.2 | 2.0 | -5.4 | **-0.7** | **-0.4** | **-0.5** |
| Cyclically-adjusted budget balance (d) | | | | : | : | : | : | **:** | **:** | **:** |
| Structural budget balance (d) | | | | : | : | : | : | **:** | **:** | **:** |
| General government gross debt (c) | | | | 15.0 | 13.6 | 13.8 | 19.9 | **17.6** | **16.0** | **14.9** |

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.