

The Dawn of a New Economic Era?



Russia Economic Report
April 2015 | Edition No. 33



Main messages

1

Russia's economy experienced two shocks in 2014, but avoided a recession

- A steep drop in oil prices, geopolitical tensions with sanctions shocked an economy already impacted by lingering structural problems.
- The economy was successfully stabilized. The shocks hit the economy late in the year. Growth was 0.6 percent.
- Weaker Ruble and trade restrictions revived manufacturing activity.

2

Growth prospects for 2015-2016 are negative

- The full effects of the two shocks will become evident in 2015 and likely push the Russian economy into recession.
- The World Bank baseline scenario projects a contraction of 3.8 percent in 2015 and a contraction of 0.3 percent in 2016.
- Two alternative scenarios with a lower- and upper-bound oil price.

3

Achievements in shared prosperity are under threat

- The World Bank baseline outlook sees the poverty rate increasing from 10.8 percent in 2013 to 14.2 percent in 2015 and in 2016.
- This would be the first significant increase since the 1998-1999 crisis due to declining income and consumption and high inflation.

4

The impact of sanctions is likely to linger for a long time

- New realities will have the potential to alter the structure of the economy and the ways Russia integrates with the rest of the world.
- Strategic policies needed to balance old and new risks to the economy: (1) manage adjustment to the lower oil price and sanctions; (2) lessen structural growth constraints.

Russia Economic Report No. 33

1. Recent Economic Developments
2. Outlook and Risks
3. The Economic Impact of Sanctions

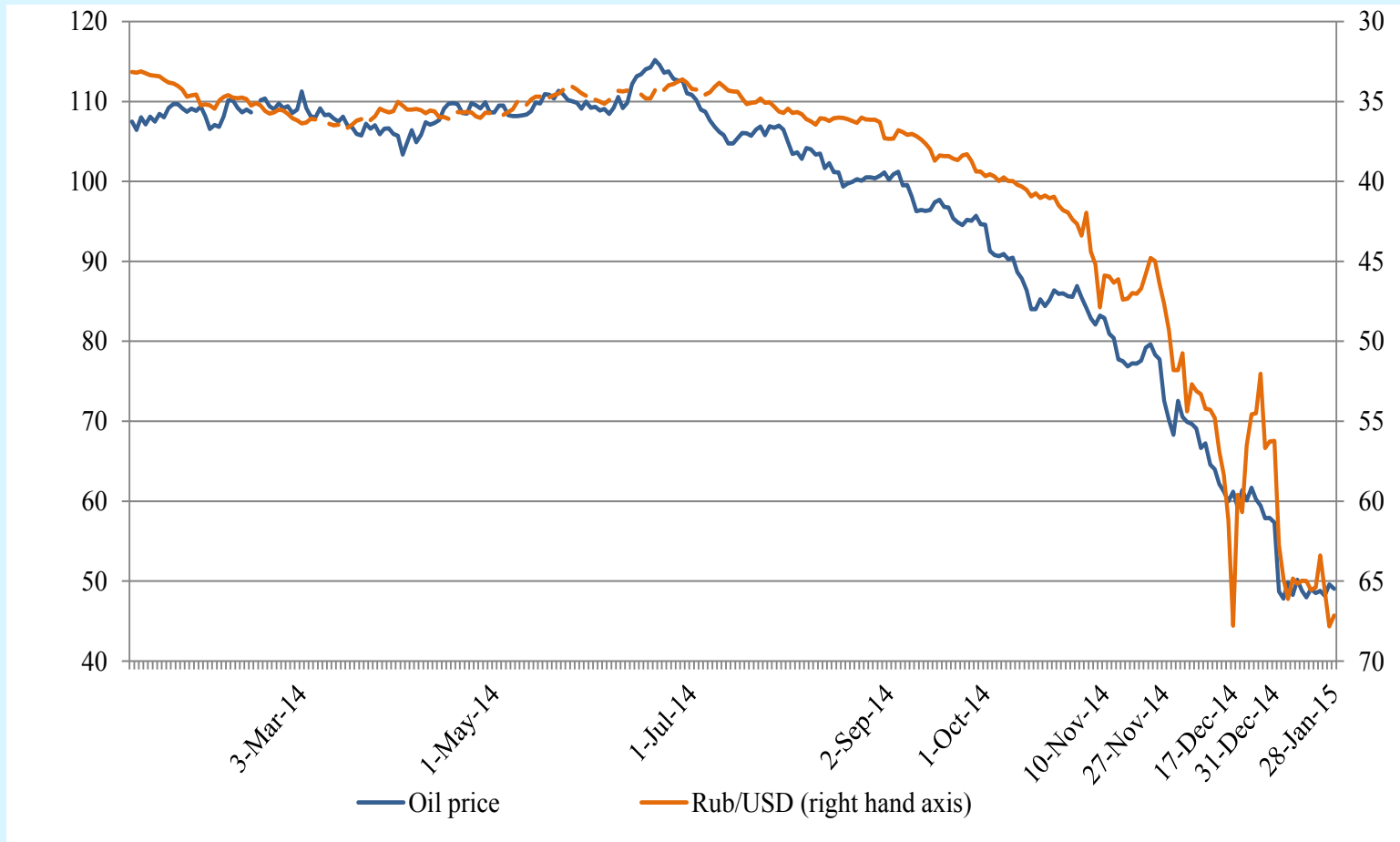


Recent Economic Developments: A Year of Economic Turmoil



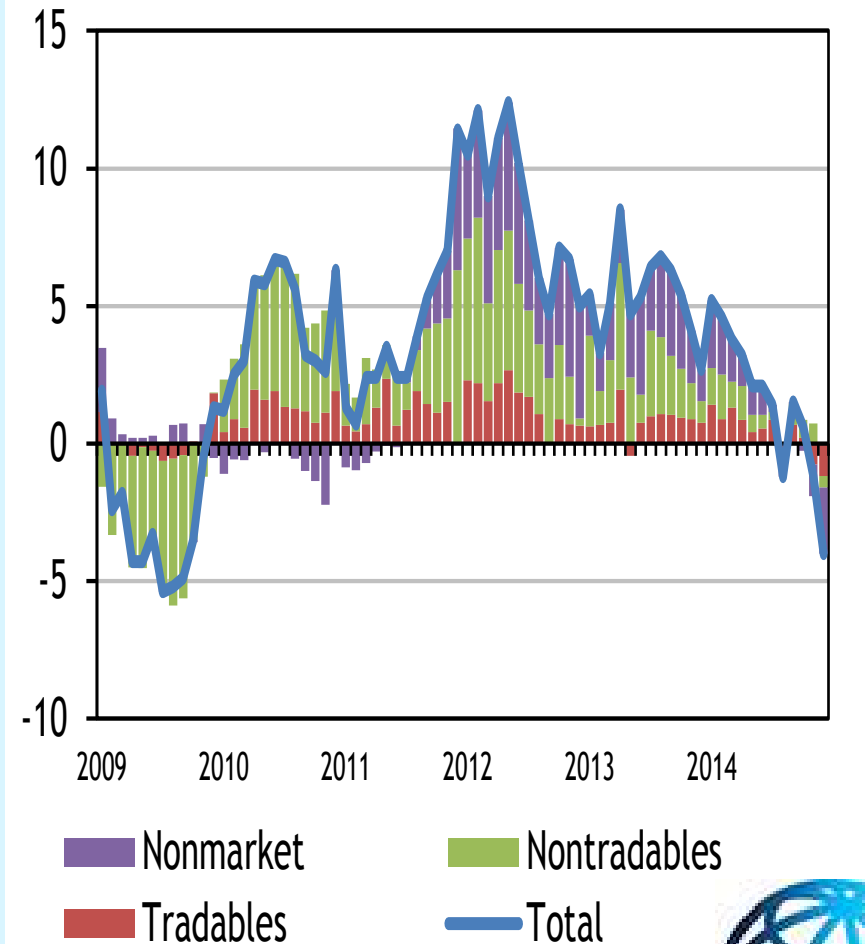
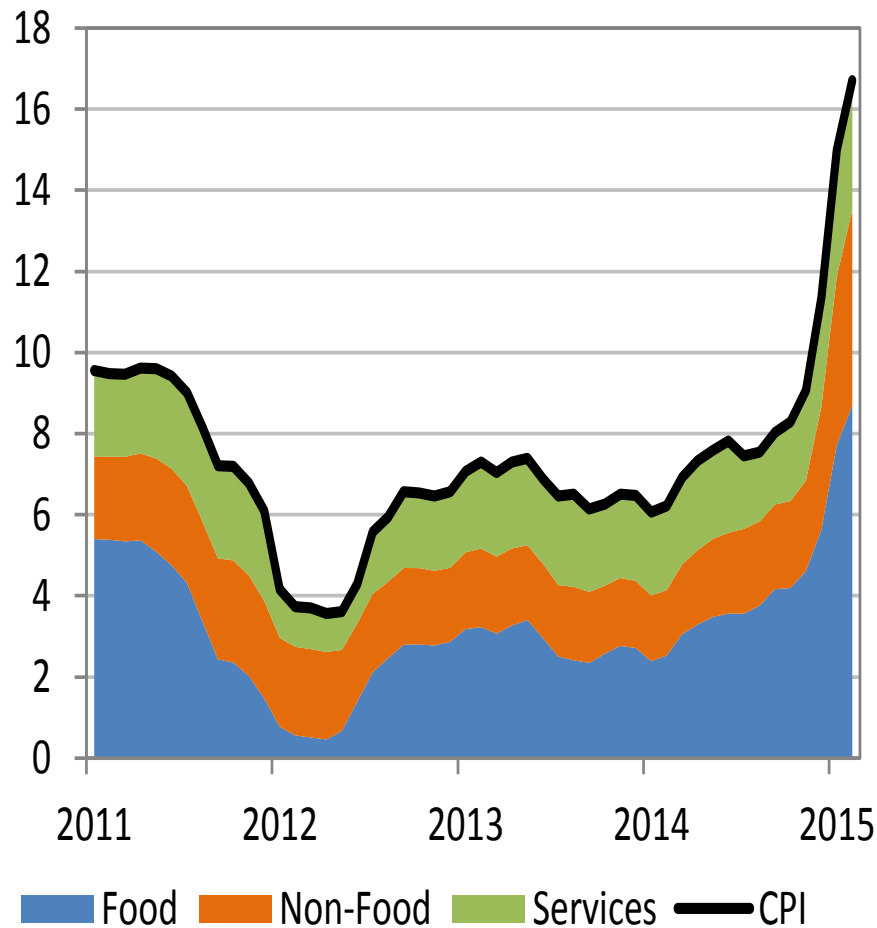
The Tale of Two Shocks: Oil Prices and Impact of Economic Sanctions

Oil Prices and Ruble Exchange Rate in 2014



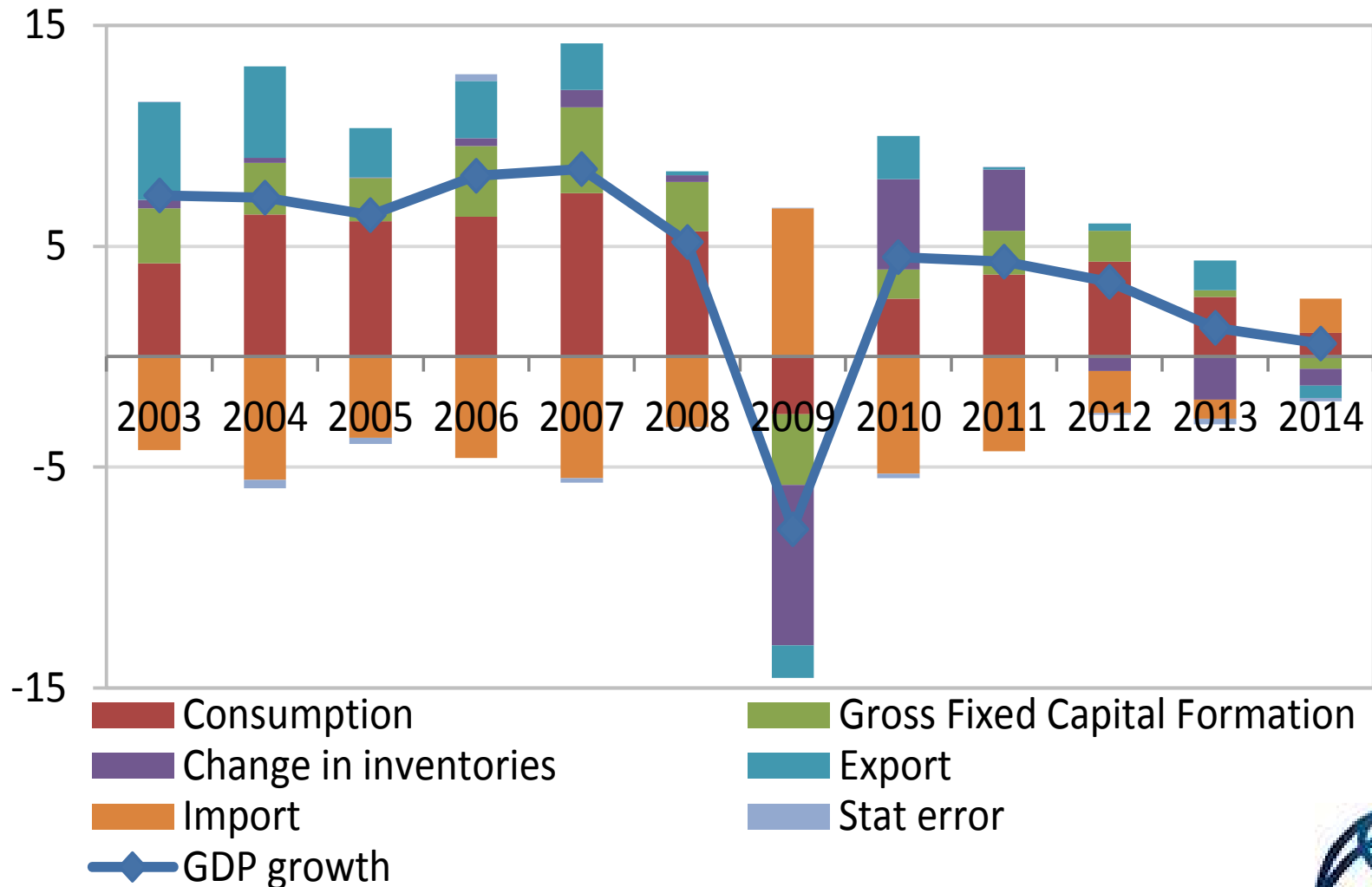
→ High Inflation and Declining Real Wages Dampen Consumption

Russia's CPI inflation by components and Real wage growth, percent, y-o-y



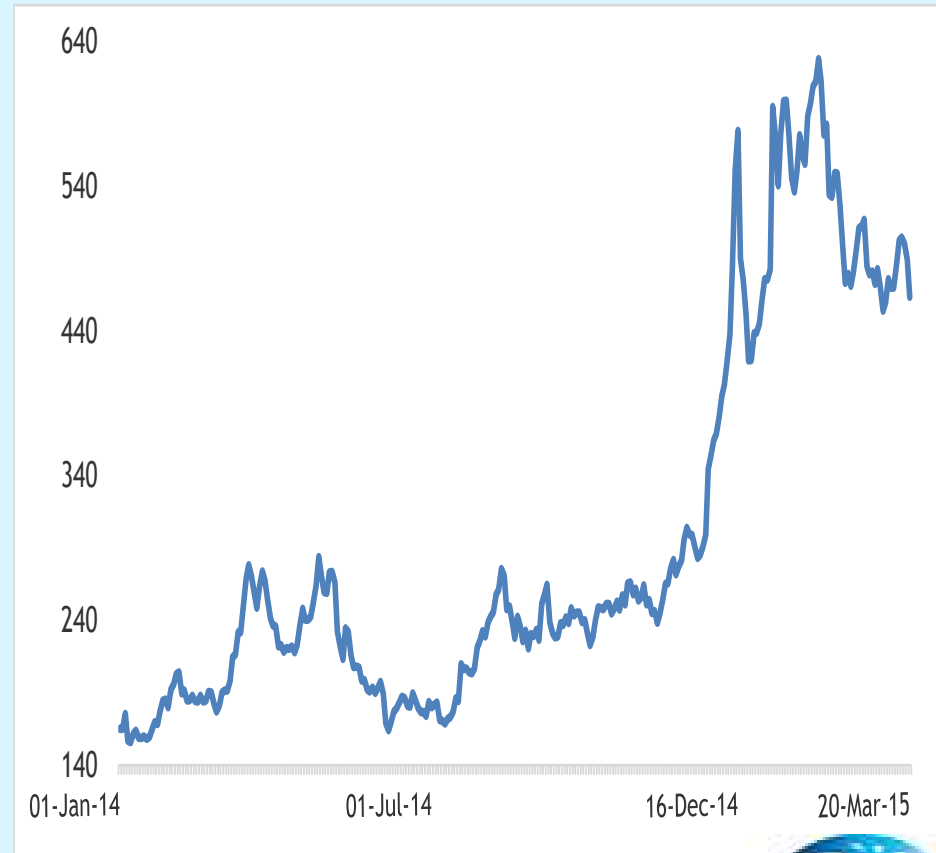
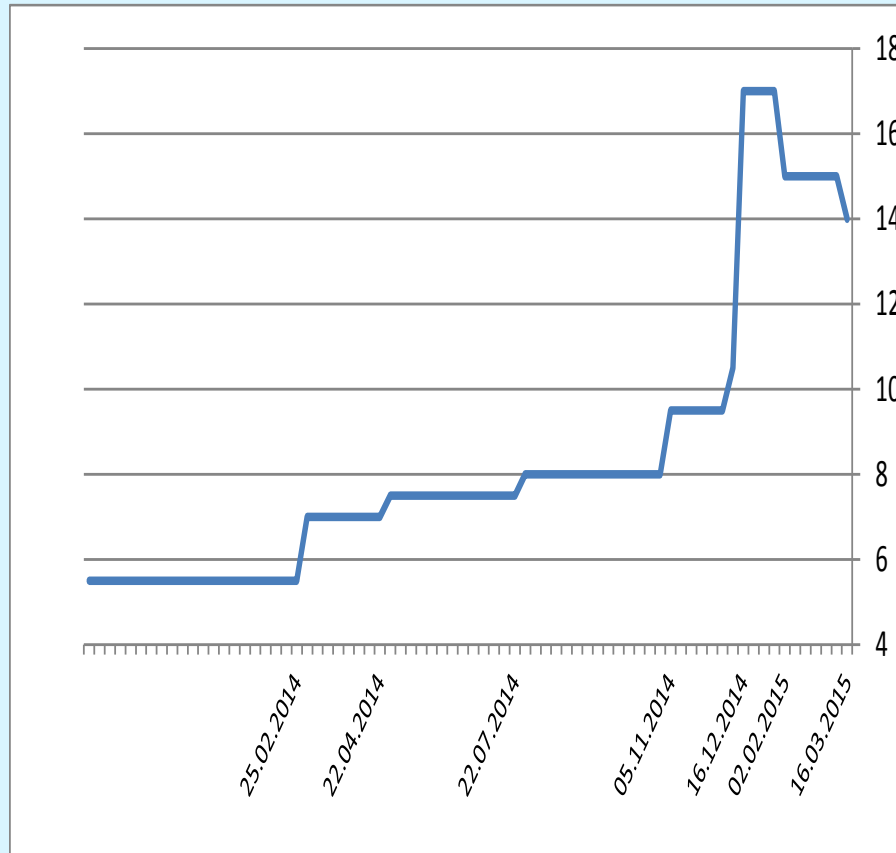
Russia's Economy Avoided A Recession

Growth composition, percent, y-o-y



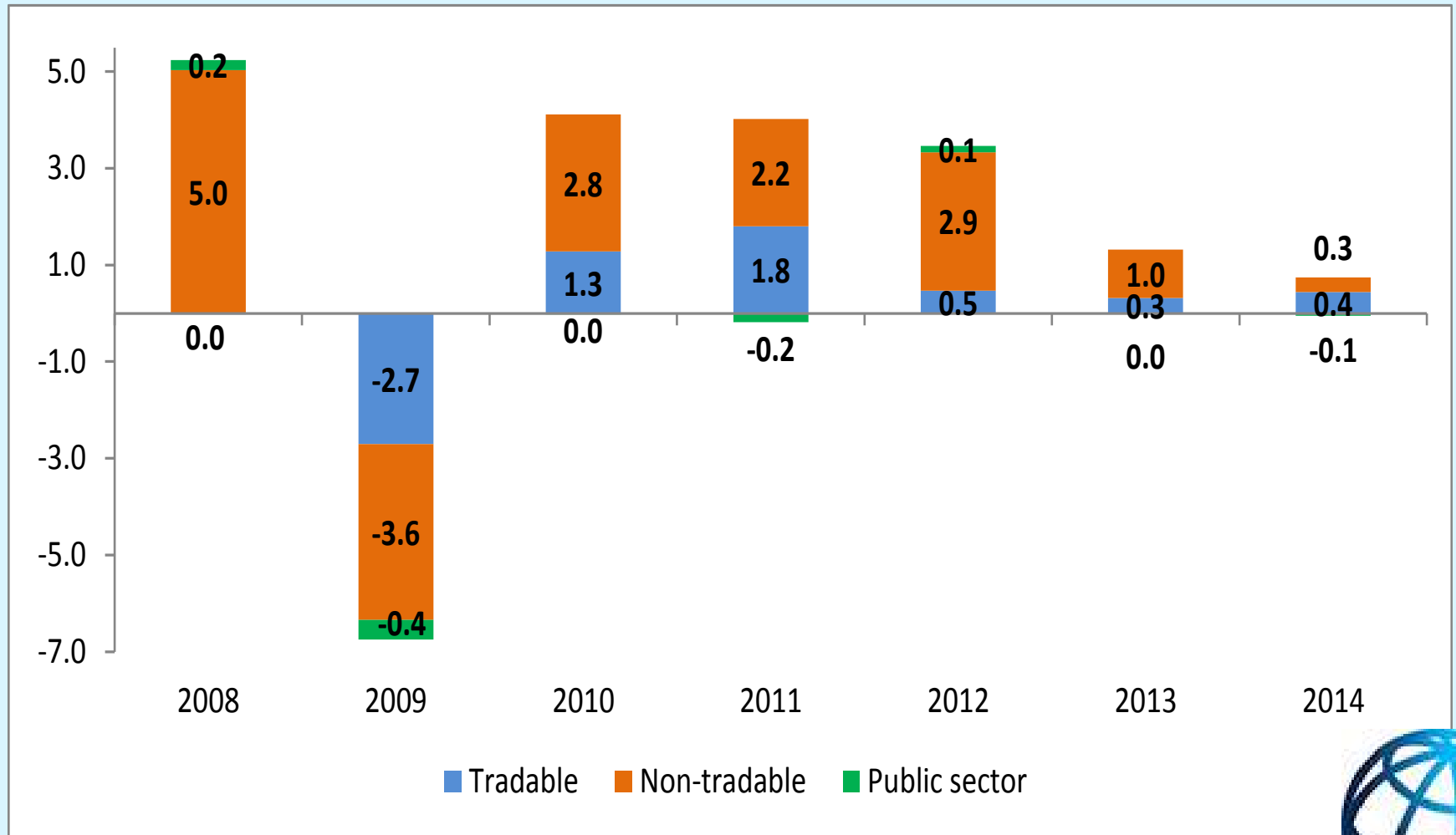
→ Monetary Tightening and High External Borrowing Cost Extinguish Investment

Central Banks Key Policy Rate (percent) and Russia's CDS spreads (bps) for 5 year bonds



→ Tradable Sector Becomes Main Growth Engine

Contribution to GDP Growth By Sector, y-o-y, percent of GDP



World Bank Outlook for Russia: A Protracted Recession



Global Growth Moderately Rising

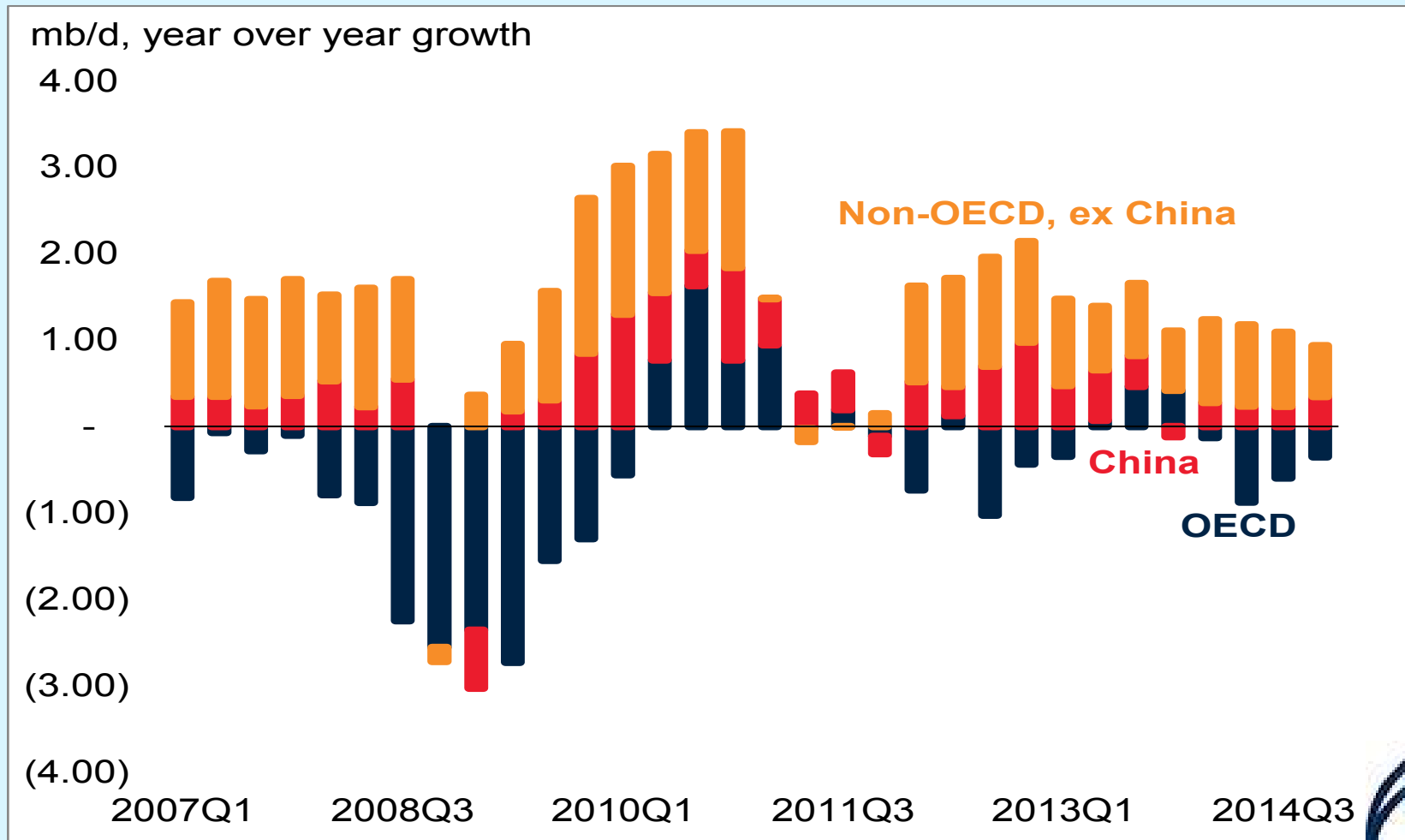
Global real GDP growth, percent, y-o-y

	2009	2010	2011	2012	2013	2014e	2015f	2016f	2017f
World	-1.8	4.3	3.1	2.4	2.5	2.6	2.9	3.2	3.2
High income	-3.5	3.0	1.9	1.4	1.4	1.7	2.1	2.4	2.2
Developing countries	3.0	7.8	6.3	4.7	5.0	4.5	4.5	5.1	5.3
Euro area	-4.5	2.0	1.7	-0.7	-0.4	0.9	1.4	1.7	1.6
Russia	-7.8	4.5	4.3	3.4	1.3	0.6	-3.8	-0.3	2.2



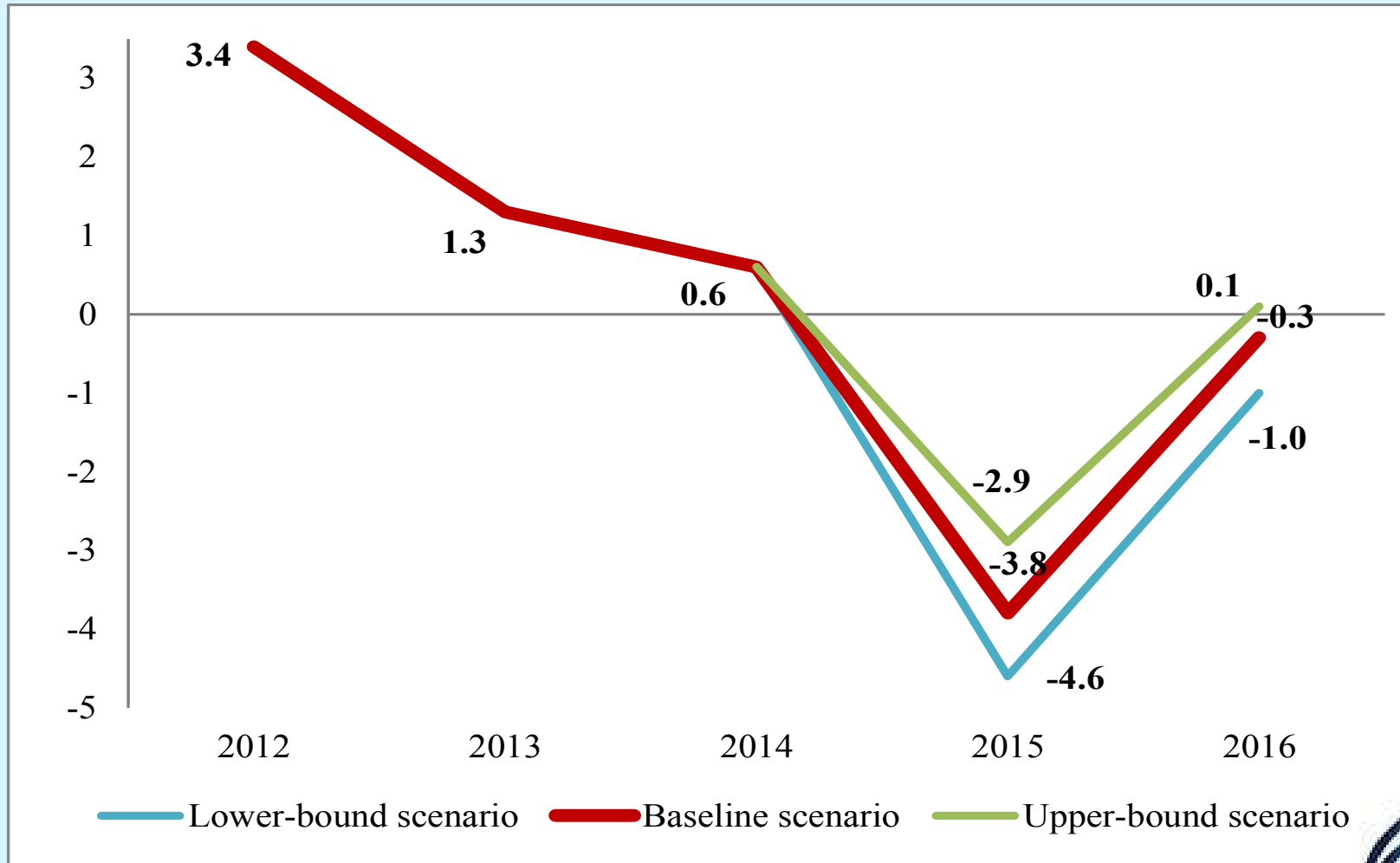
Russia's Outlook Depends on Oil Prices

Growth in Global Oil Demand



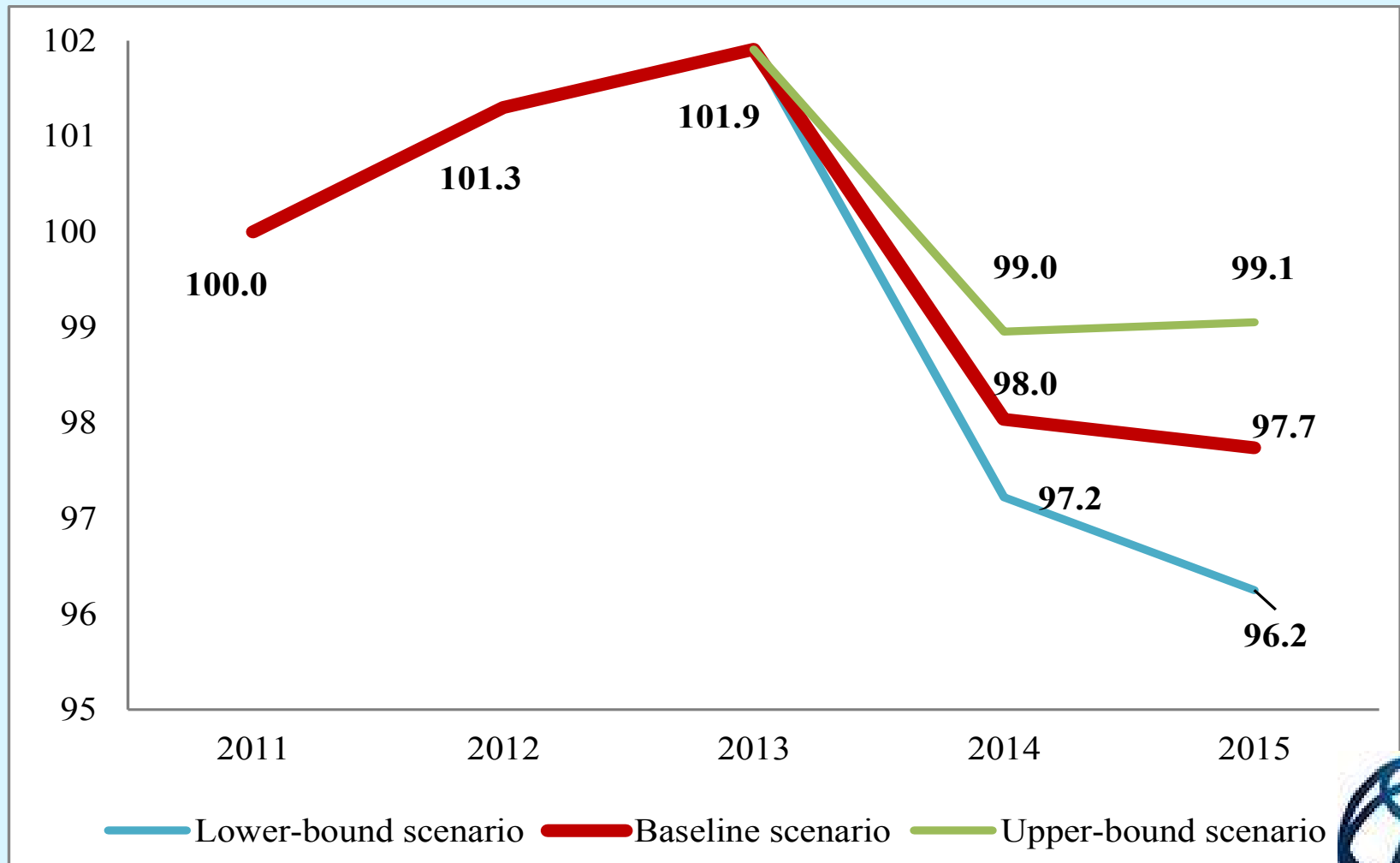
Russia's Growth Outlook is Negative

GDP growth, percent, y-o-y



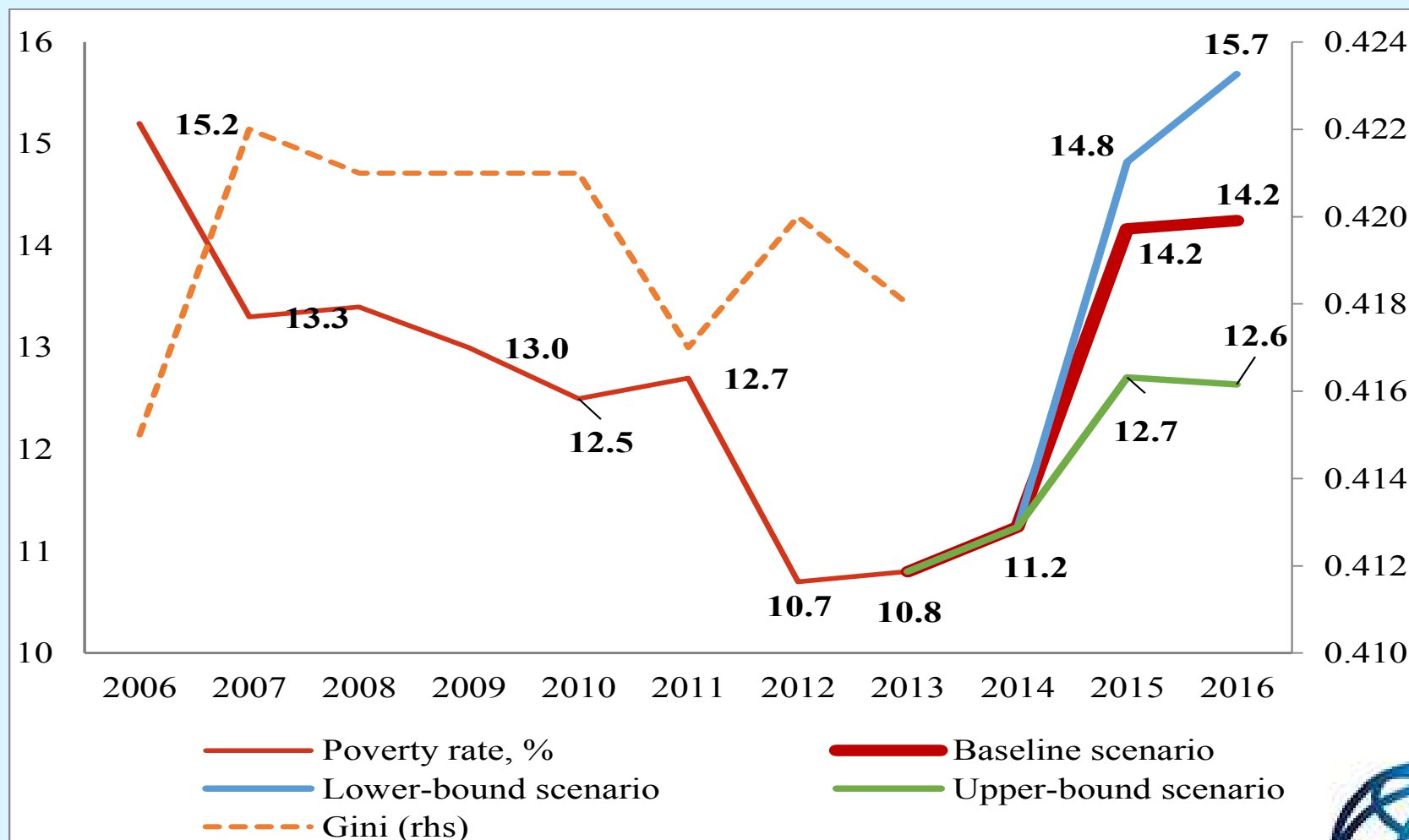
Real GDP Levels Fall Below 2012

Real GDP, percent, 2012=100



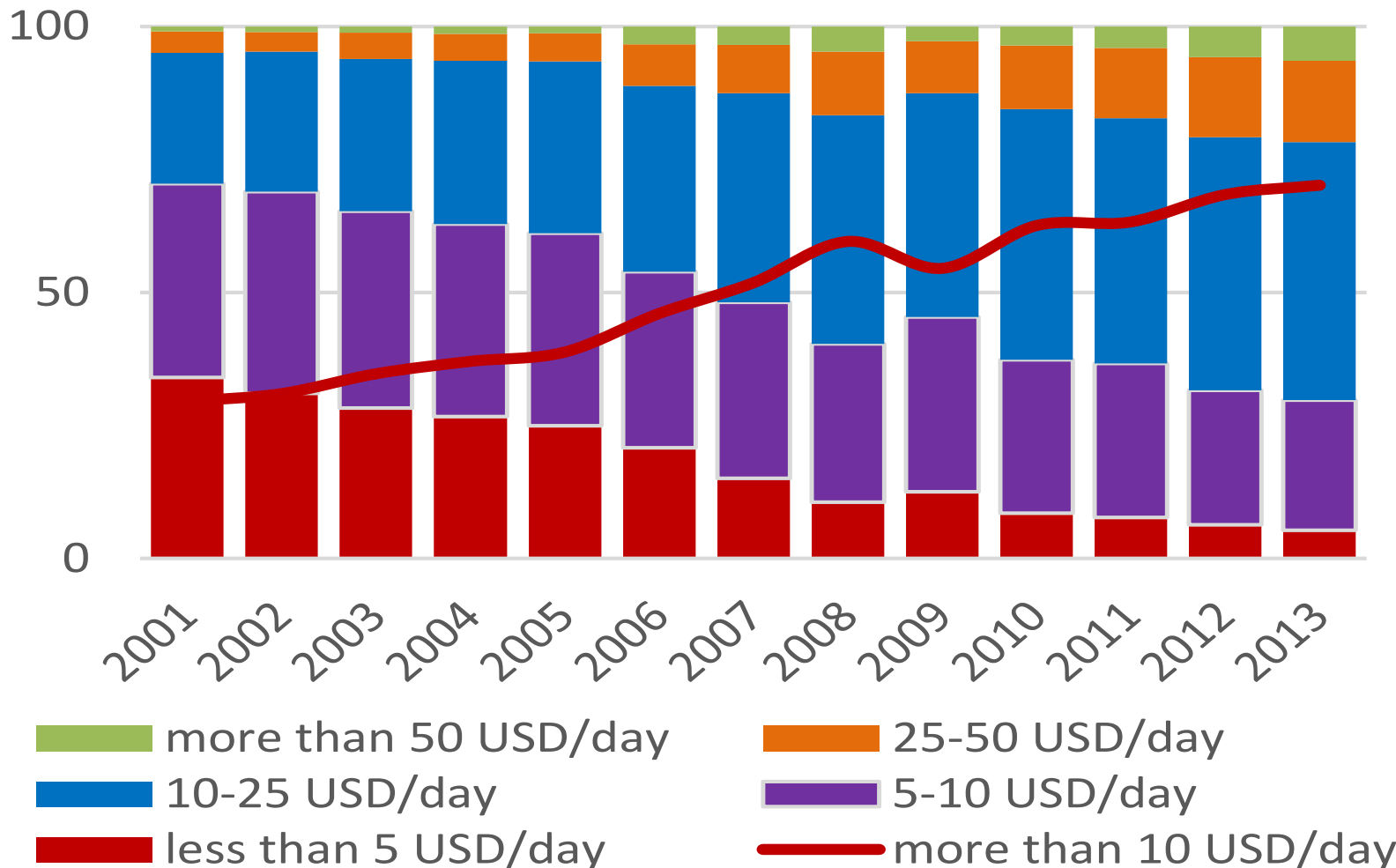
Shared Prosperity Achievements At Risk

Poverty and Shared Prosperity



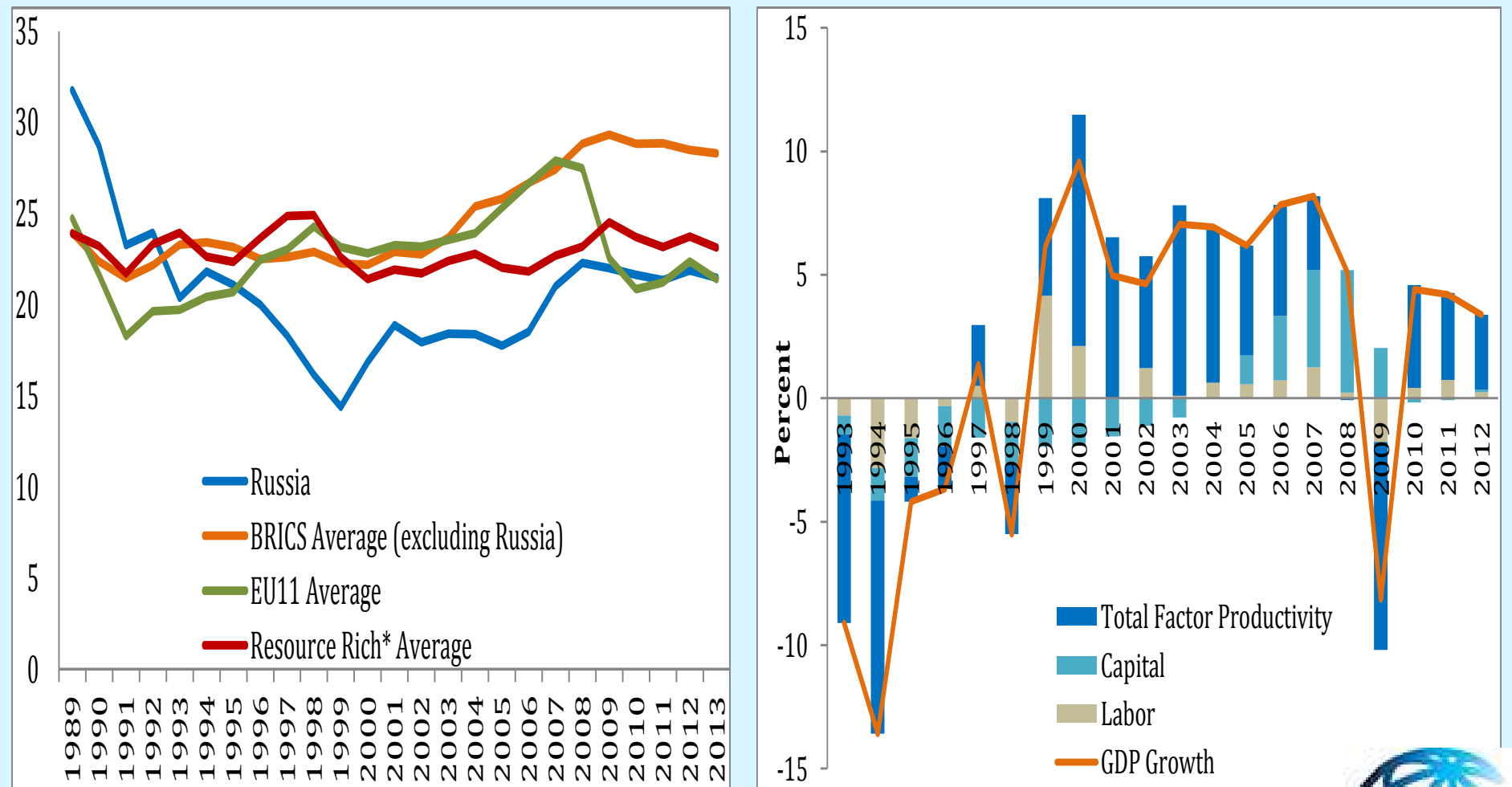
Is the Middle Class Still Growing?

Share of the Population with Per Capita Income in US\$ ppp / day



Russia's Investment and Productivity Challenge

Gross capital formation, percent of GDP, and Total factor productivity growth



How Will Russia Manage the Adjustment to Lower Oil Prices and Sanctions?



Assure technology and innovation transfer, e.g. technology that can support exploration of less accessible oil and gas fields.



Counterbalance restricted access to external finance, e.g. effectively invest natural resource revenues.



Boost investor and consumer confidence, e.g. careful management of financial sector risks and fiscal buffers.



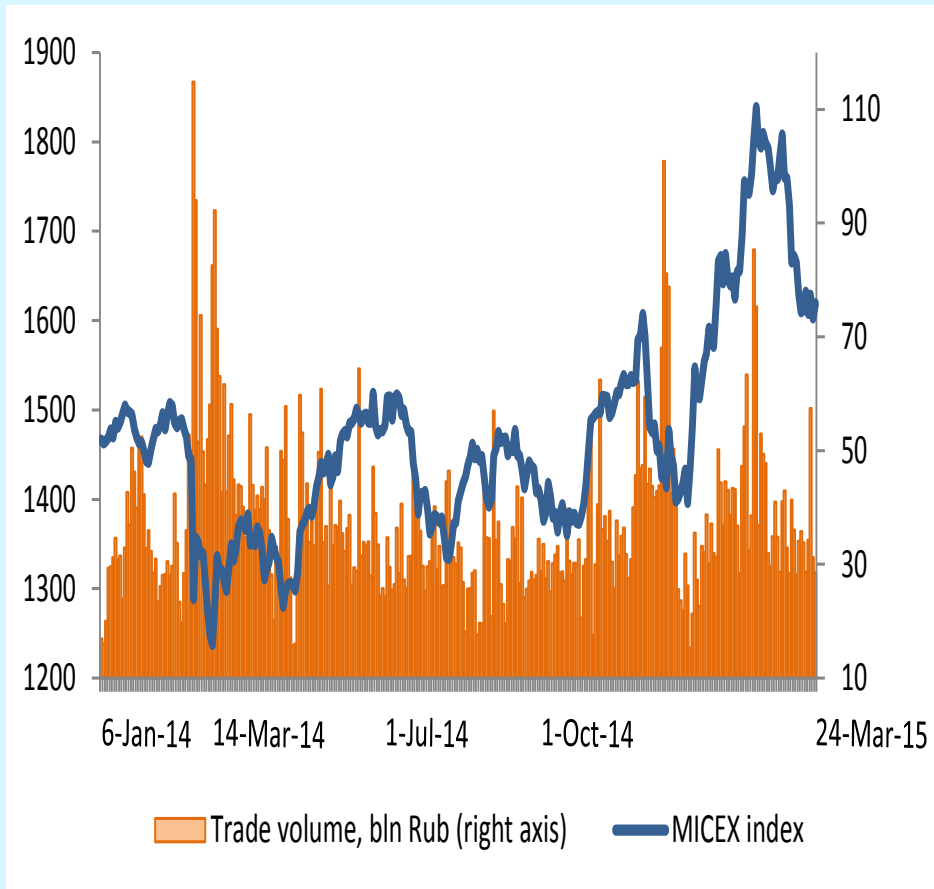
Special Focus Note

The Economic Impact of Sanctions



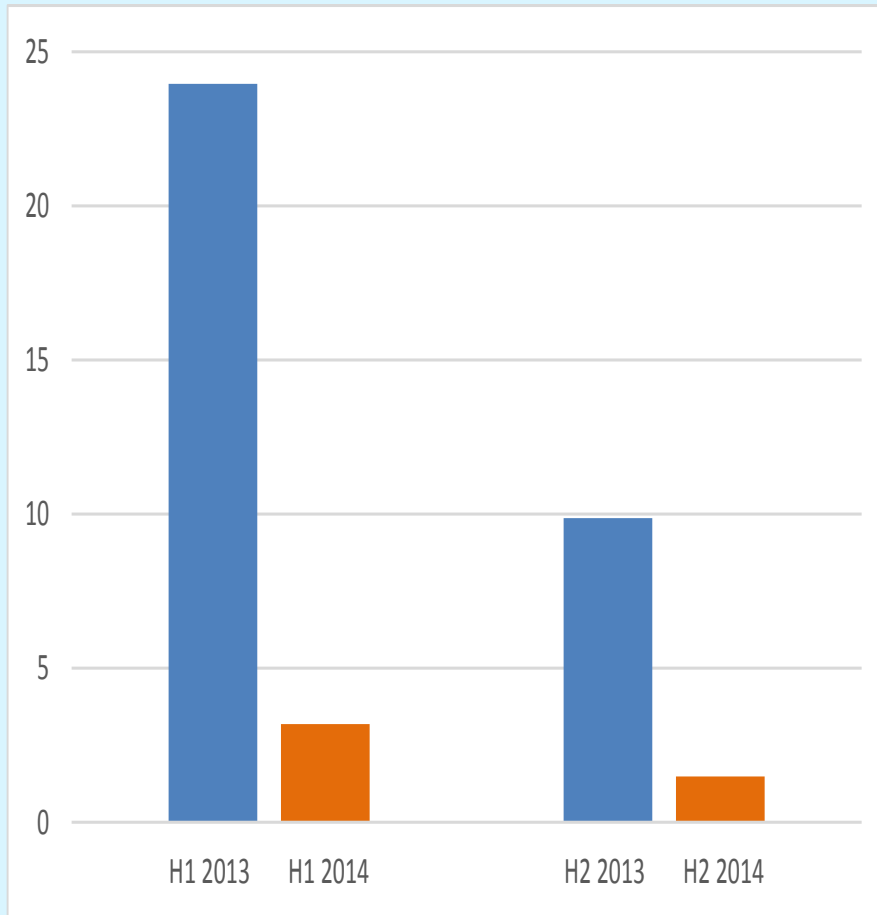
The Economic Impact of Sanctions on Russia

Stock market prices and trends and Exchange rate dynamics, Euro-Dollar basket



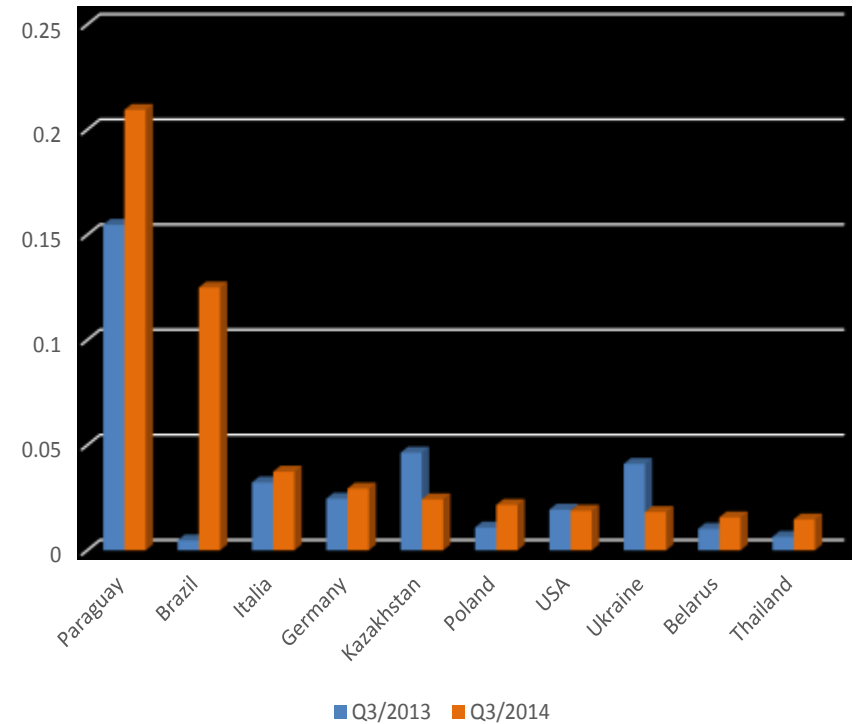
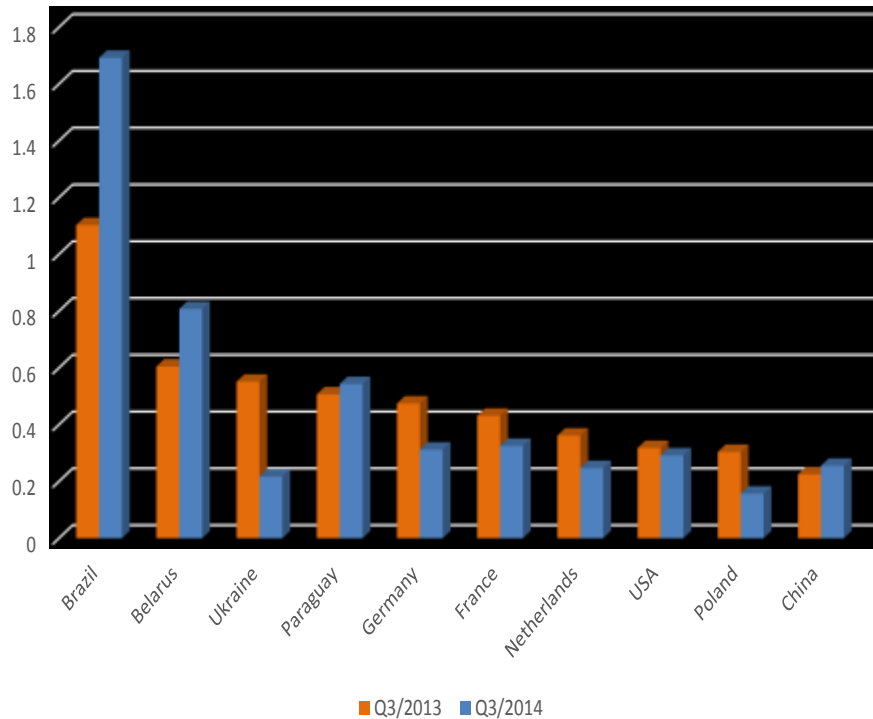
The Economic Impact of Sanctions on Russia

Bond Issuance in US\$ billion and Russia Corporate Emerging Market Bond Index for Russia



The Economic Impact of Sanctions on Russia

Russia's Food and Beverage Imports by Country: Q3, 2013 and 2014 (US\$ billion)
and Russia's Cereal Imports by Country: Q3, 2013 and 2014 (US\$ billion)



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EXTRA SLIDES

Baseline Scenario Projections

Main economic indicators

	2012	2013	2014	2015	2016
Oil price (US\$ per barrel, WB average)	105.0	104.0	97.6	53.2	56.9
GDP growth, percent	3.4	1.3	0.6	-3.8	-0.3
Consumption growth, percent	6.4	3.9	1.5	-5.3	-1.9
Gross capital formation growth, percent	3.0	-6.6	-5.7	-15.3	1.1
General government balance, percent of GDP	0.4	-1.3	-1.2	-3.6	-3.1
Current account (US\$ billions)	71.3	34.1	56.7	73.7	62.9
<i>percent of GDP</i>	3.6	1.6	3.0	6.0	4.4
Capital and financial account (US\$ billions)	-32.3	-56.2	-143.2	-122.1	-60.0
<i>percent of GDP</i>	-1.6	-3.0	-7.7	-10.0	-4.2
CPI inflation (average)	5.1	6.8	7.7	16.5	8.0



Upper-bound Oil Price Scenario

Main economic indicators

	2012	2013	2014	2015	2016
Oil price (US\$ per barrel, WB average)	105.0	104.0	97.6	65.5	68.7
GDP growth, percent	3.4	1.3	0.6	-2.9	0.1
Consumption growth, percent	7.0	3.5	0.9	-3.0	-0.6
Gross capital formation growth, percent	1.5	-5.6	-8.2	-10.8	1.8
General government balance, percent of GDP	0.4	-1.3	-1.2	-2.8	-2.1
Current account (US\$ billions)	71.3	34.1	56.7	61.7	54.0
<i>percent of GDP</i>	3.6	1.6	3.0	4.5	3.5
Capital and financial account (US\$ billions)	-32.3	-62.2	-143.2	-105.5	-48.6
<i>percent of GDP</i>	-1.6	-3.0	-7.6	-7.7	-3.1
CPI inflation (average)	5.1	6.8	7.7	14.0	7.0



Lower-bound Oil Price Scenario

Main economic indicators

	2012	2013	2014	2015	2016
Oil price (US\$ per barrel, WB average)	105.0	104.0	97.6	45.0	50.0
GDP growth, percent	3.4	1.3	0.6	-4.6	-1.0
Consumption growth, percent	6.4	3.9	1.5	-6.6	-2.7
Gross capital formation growth, percent	3.0	-6.6	-5.7	-17.1	-0.4
General government balance, percent of GDP	0.4	-1.3	-1.2	-4.5	-2.6
Current account (US\$ billions)	71.3	34.1	56.7	83.1	79.7
<i>percent of GDP</i>	3.6	1.6	3.0	7.1	5.8
Capital and financial account (US\$ billions)	-32.3	-62.2	-143.2	-130.2	-79.7
<i>percent of GDP</i>	-1.6	-3.0	-7.6	-11.1	-5.8
CPI inflation (average)	5.1	6.8	7.7	17.5	9.0



Russia's Diverging Growth Performance

Quarterly GDP growth, percent, y-o-y

