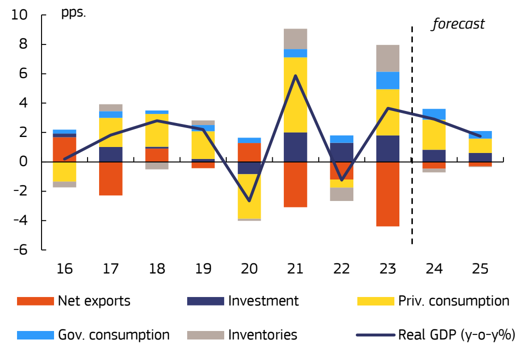
42. RUSSIAN FEDERATION

After a surprisingly strong rebound in 2023, economic growth in Russia is projected to ease in 2024 and 2025, as tight monetary policy gradually weighs on economic activity. Inflation is expected to show persistence, amid sustained fiscal spending and tight labour market pushing up wages. Additional revenue measures are set to help financing war expenditure and keep public finances in check overall, with general government debt projected to remain below 21½% of GDP in 2025.

High real wages and government spending set to continue supporting growth

Russian real GDP expanded by 3.6% in 2023, after having contracted by 1.2% in the previous year. The rebound was mainly driven by private consumption, supported by increased real wages in the context of a tight labour market and improved consumer confidence. Government expenditure also propped up private consumption, through increased payments and transfers to soldiers and their families, in addition to boosting public investment and consumption necessary for the ongoing war of aggression in Ukraine. Private investment picked up too in response to the steady growth in domestic demand for Russian products resulting from the departure of many foreign companies from Russia and the need to create a new transport and logistics infrastructure towards the East. In addition, government-supported measures aimed at substituting earlier imported goods and expanding the military-industrial sector played an important role.

Graph II.42.1: **Russia - Real GDP growth and contributions**



The Russian economy started 2024 on a strong footing. High frequency indicators such as industrial production and business sentiment improved further in the initial months of the year. Retail sales and consumer confidence also increased, with the latter reaching its highest level since 2014. The labour market remained tight and is set to continue that way, as declining net inward migration and increased labour demand from the military sector are expected to persist as long as the war of aggression in Ukraine continues. Consequently, private consumption is forecast to expand this year on the back of the strong real wage growth, although at a slower pace than in 2023. Public consumption and investment are expected to continue to grow driven by war and diversion of trade routes towards Asia. The combination of these factors is projected to drive investment in 2024 before it weakens somewhat in 2025 as the impact of tight monetary conditions settle in.

Over the forecast horizon a limited pick up in exports is projected, as the feasibility of export partner substitution varies by sector. Among the goods facing export substitution challenges is the major item natural gas, which faces currently inadequate pipeline and LNG infrastructure for the reorientation of its export. The re-routing of other exports, such as crude oil, oil products and metals, can be facilitated with less frictions. On the back of sustained household consumption, a relatively strong growth of imports is expected. The contribution of net exports to GDP growth is hence projected to remain negative in 2024 and 2025.

Overall, GDP growth is expected to slow over the forecast horizon to 2.9% in 2024 and 1.7% in 2025.

The risks to Russia's growth outlook are tilted on the downside. Additional sanctions and their stricter enforcement could limit Russia's exports and stymie production in import-dependent domestic sectors. Furthermore, a new wave of mobilisation could further exacerbate labour shortages contributing to protracted high inflation and thus tight monetary policy.

Inflation pressures to persist despite tight monetary policy

Inflation has been back on the rise since summer 2023, fuelled by high real wage growth and a weakening ruble. It averaged 5.9% for the year. In reaction to these developments the Central Bank of Russia hiked its benchmark policy rate by 850 basis points to 16% by December. Despite this effort, inflation remained elevated in the first months of 2024, exceeding 7%, well above the official inflation target of 4%. Given continued wage pressures amid a tight labour market, and ongoing war-driven government spending, inflation is projected to moderate only gradually over the forecast horizon, to reach 6.6% in 2024 and 4.5% in 2025.

Strong revenue continues supporting war-driven spending

The budget deficit widened to 2¼% of GDP in 2023, from 1½% in 2022 on the back of increased spending, mainly related to the war, outpacing revenue growth. The higher revenue was driven by increased tax receipts, reflecting booming household consumption and companies' profitability amid strong economic activity, which more than compensated the fall in oil and gas revenues. As the war of aggression against Ukraine is set to continue, thereby pushing up spending, the government balance is expected to remain in deficit, given that defence and national security outlays alone constitute some 40% of the federal budget. Nevertheless, the deficit is projected to decline to 1¾% of GDP in 2024 as the government boosts revenues via measures such as the application of a price floor mechanism when calculating oil taxes to curb the impact of rising discounts on Russian oil to Brent. With sustained economic growth in 2025, the deficit is expected to narrow to 1½% of GDP. A planned hike in income taxes has not yet been adopted by the government and hence constitutes a downward risk to the budget deficit projection.

A fiscal rule, suspended in the aftermath of the invasion and resumed in 2024, is set to limit the government's ability to finance the deficit from the National Wealth Fund as done in 2022 and 2023. Nevertheless, the increase in public debt is projected to be relatively limited, with the debt-to-GDP ratio edging up from 19½% in 2023 to 21½% in 2025.

Table II.42.1:

Main features of country forecast - RUSSIA

		2023			Annual percentage change					
bn RUB		Curr. prices	% GDP	04-19	2020	2021	2022	2023	2024	2025
GDP		172148.3	100.0	2.9	-2.7	5.9	-1.2	**3.6**	**2.9**	**1.7**
Private Consumption		85734.4	49.8	4.9	-5.9	9.9	-1.1	**6.5**	**4.1**	**1.9**
Public Consumption		31801.1	18.5	0.9	1.9	2.9	3.0	**7.0**	**4.0**	**2.8**
Gross fixed capital formation		37635.9	21.9	4.3	-4.0	9.3	6.7	**8.8**	**3.8**	**2.8**
Exports (goods and services)		39737.0	23.1	3.7	-4.2	3.2	-13.8	**-8.9**	**4.5**	**3.0**
Imports (goods and services)		32270.1	18.7	5.9	-11.9	19.1	-14.3	**12.5**	**8.0**	**5.2**
GNI (GDP deflator)		169845.2	98.7	2.9	-1.8	5.9	-1.0	**4.4**	**3.1**	**1.9**
Contribution to GDP growth:	Domestic demand			3.6	-3.5	7.6	1.2	**6.4**	**3.6**	**2.1**
	Inventories			-0.1	-0.1	1.4	-0.9	**1.8**	**-0.2**	**0.0**
	Net exports			-0.4	1.3	-3.1	-1.2	**-4.4**	**-0.5**	**-0.3**
Employment				0.5	-1.9	1.3	0.4	**-0.1**	**0.3**	**0.3**
Unemployment rate (a)				6.2	5.8	4.8	3.9	**3.2**	**3.0**	**3.2**
Compensation of employees / head				:	:	:	:	**:**	**:**	**:**
Unit labour costs whole economy				:	:	:	:	**:**	**:**	**:**
Saving rate of households (b)				:	:	:	:	**:**	**:**	**:**
GDP deflator				10.4	0.9	19.1	15.7	**7.0**	**6.0**	**4.6**
Consumer price index				8.5	3.4	6.7	13.7	**5.9**	**6.6**	**4.5**
Terms of trade goods				1.5	-22.9	36.6	29.5	**-19.0**	**1.9**	**0.6**
Trade balance (goods) (c)				10.0	6.2	10.4	13.8	**6.0**	**6.0**	**5.8**
Current-account balance (c)				5.1	2.4	6.8	10.5	**2.5**	**2.6**	**2.5**
General government balance (c)				1.9	-2.8	0.8	-1.4	**-2.3**	**-1.8**	**-1.5**
Structural budget balance (d)				:	:	:	:	**:**	**:**	**:**
General government gross debt (c)				12.6	19.2	16.4	18.5	**19.5**	**20.2**	**21.4**

(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.