

RUSSIAN FEDERATION

- While the GDP per capita gap relative to the most advanced OECD countries narrowed rapidly until the 2009 crisis, the convergence process slowed down afterwards, due both to a decline in potential growth and cyclical factors. GDP per capita fell further behind after 2014 when declining oil prices and sanctions affected revenues from external trade, although depreciation of the rouble helped partially smooth these shocks. The per capita GDP gap is mainly driven by the productivity gap while the employment rate remains above the OECD average.
- Income inequality is higher than in most OECD member countries, and it increased further in the years after the crisis. Between 2008 and 2012, four-fifths of all households experienced no real income growth or even suffered a decline. Targeting policies to achieve higher market and disposable incomes at the bottom of the distribution could help reduce inequality and make growth more inclusive.
- Efforts have been made in reducing red tape and administrative control, fighting corruption and supporting private sector innovation, but more efforts are needed in these areas. Reducing the role of state-owned enterprises could help spur innovation and productivity. Better enforcement of property rights would improve trust in institutions.
- Improving the quality of the public finances is key for inclusive growth. More spending on education and infrastructure could lift productivity and help reduce the sharp income inequality. Shifting the tax burden from businesses to immovable property, making personal income taxes progressive and improving tax collection would also underpin inclusiveness. Strengthening intergovernmental frameworks and fiscal autonomy of sub-national governments could make public spending more effective. Innovation policies are critical to ensure a transition towards domestically-driven and resource-independent growth. Strengthening the links between the many research institutes at both federal and regional level and the corporate sector could spur innovation. In particular, improving the framework for SMEs would boost entrepreneurship and productivity.

Going for Growth 2017 priorities

Reduce state control over economic activity and other barriers to competition. Restrictive product market regulation, especially via the pervasive role of the state in the economy, holds down innovation and productivity growth.

Actions taken: Regulatory impact assessment (RIA) has been extended to actual impact. Several oil and mining companies were fully or partially privatised, yet ownership remains opaque at instances. Bashneft, an oil company privatised in 2016, was bought by state-controlled Rosneft. The ambitious privatisation plans for 2014-16 were substantially scaled down and not reinvigorated since.

Recommendations: Continue reducing administrative barriers and widen federal initiatives to regional and local levels. Accelerate proper privatisation of state-owned banks and enterprises (SOEs). Further improve governance of SOEs and foster a level playing-field between public and private companies. Extend regulatory impact assessments to legislative draft considered by the State Duma

Lower barriers to foreign direct investment. A more liberal foreign direct investment regime would enhance competition and innovation, and thereby productivity.

Actions taken: No action taken.

Recommendations: Remove administrative entry barriers and refrain from introducing new ones. Shorten the list of strategic sectors with prior approval required for foreign investment and streamline the approval process.

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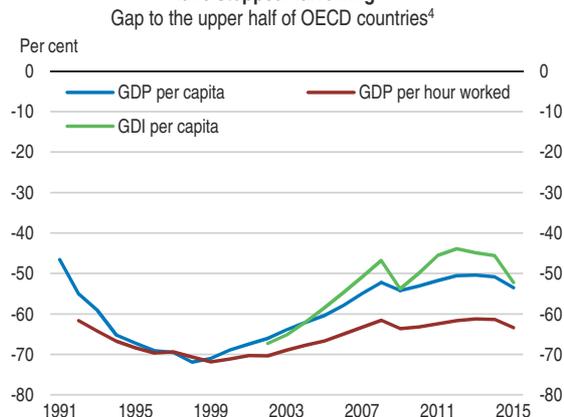
Growth performance and inequality indicators

A. Growth		
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	4.7	1.3
Labour utilisation	0.6	1.4
of which: Labour force participation rate	0.7	0.8
Employment rate ¹	0.0	0.5
Employment coefficient ²	0.0	0.0
Labour productivity	3.7	1.0
of which: Capital deepening	0.5	1.6
Total factor productivity	3.2	-0.5
Dependency ratio	0.3	-1.0

B. Inequality		
	Level	Annual variation (percentage points)
	2012	2009-12
Gini coefficient ³	41.6 (31.7)*	0.6 (0)*
Share of national disposable income held by the poorest 20%	5.9 (7.7)*	-0.2 (0)*

* OECD average

C. The large gaps in GDP per capita and productivity have stopped narrowing

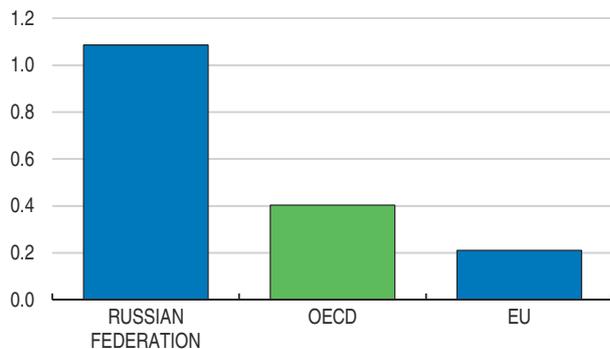
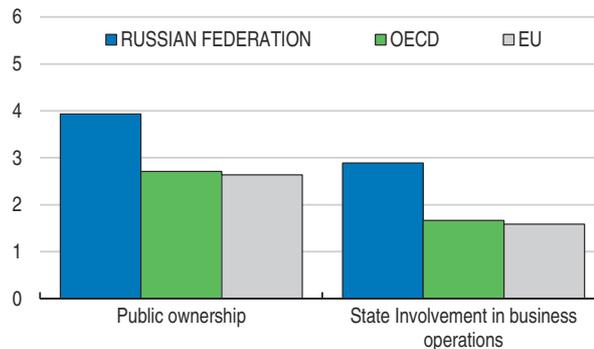


1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: World Bank, *World Development Indicators (WDI) Database*; Panel C: OECD, *National Accounts and Productivity Databases*; World Bank, *World Development Indicators (WDI) Database*; ILO, *Key Indicators of the Labour Market (KILM) Database*.

StatLink  <http://dx.doi.org/10.1787/888933455267>

Policy indicators

A. Barriers to FDI are comparatively high
Index scale of 0-6 from least to most restrictive, 2015B. State control on economic activity is substantial
Index scale of 0-6 from least to most restrictive, 2013

Source: Panel A: OECD, *FDI Regulatory Restrictiveness Index Database*; Panel B: OECD, *Product Market Regulation Database*.

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Raise the effectiveness of innovation policy. Raising innovation capacity would increase productivity growth.

Actions taken: Direct support to innovation – and to investment in infrastructure – by SMEs increased over the 2014-2016 period. The government’s research and development strategy, adopted in 2016, aims at strengthening innovative capacity in leading Russian companies and the links between research institutions and the business sector.

Recommendation: Continue broad-based support for innovation and the adoption of new technologies. Shift more research from the Russian Academy of Sciences (RAS) to universities, increasing the share of competitive grant funding and streamlining state-owned branch research institutes. Strengthen the links between universities and the private sector, especially SMEs, and foster an environment that is conducive for start-ups. Support private-sector innovation activities through universally applied tax credits.

Raise the quality of public administration. More efficient and accountable public administration would contribute to faster economic growth.

Actions taken: No actions taken.

Recommendations: Continue the anti-corruption campaign with stronger focus on transparency and accountability of the public sector. Reduce potential for corruption by minimising the need and the scope for subjective decision-making by officials. Improve legal protection of whistle-blowers and do not restrict the scope for media and NGOs to publicise violation of the law. Strengthen judicial independence through greater transparency in appointment and promotion processes, better pay and rotation of judges.

***Improve the quality of the public finances.*¹** Better quality of the public finances, both on the spending and the revenue side, would foster inclusive growth and help reduce income inequality, which is sharp by international standards.

Recommendations: Increase the share of spending on education and infrastructure and reduce that on defence. Shift the tax burden from business to immovable property and consider making income taxation more progressive. Improve tax collection. Strengthen intergovernmental frameworks and fiscal autonomy of sub-national governments. Scale up spending on ALMPs, in particular on training and job search support.

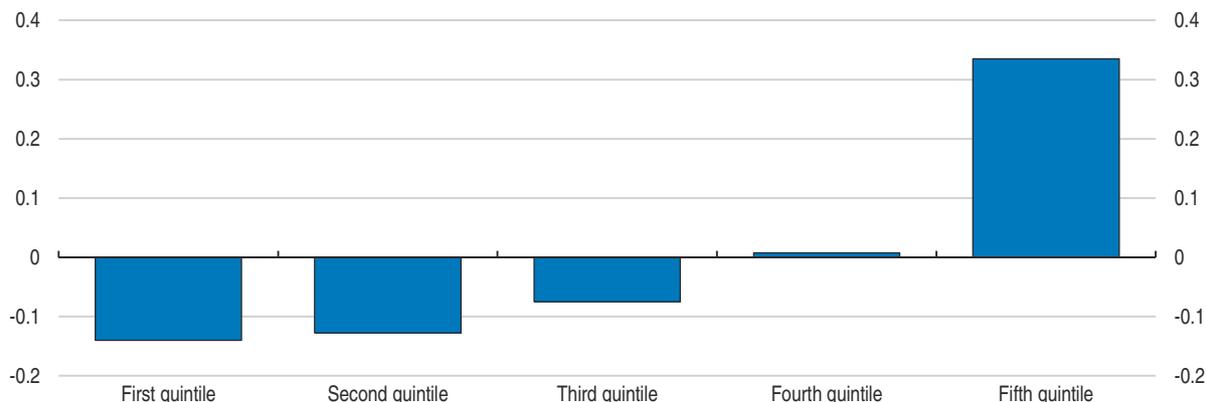
1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an “*”.

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Beyond GDP per capita: Other policy objectives

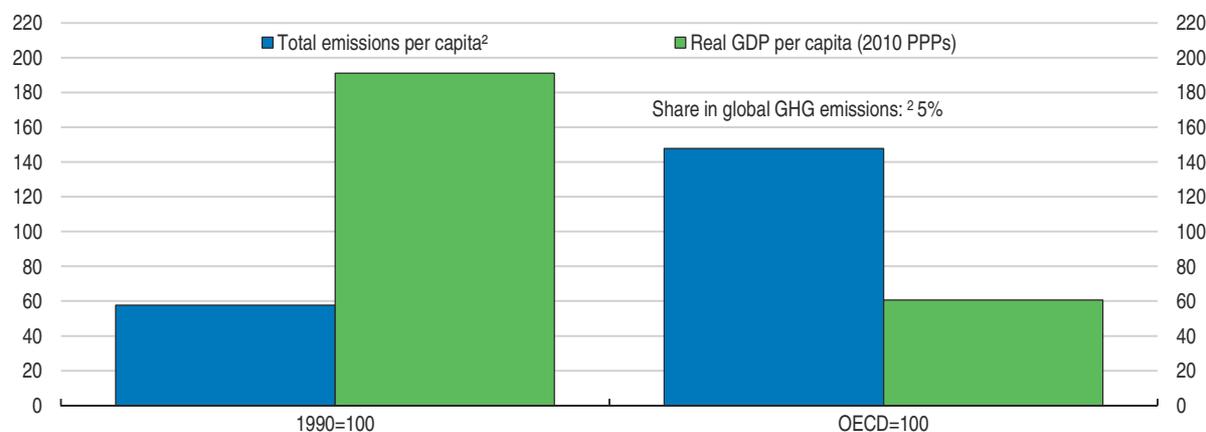
A. Households income at the top of the distribution increased while poor households experienced losses

Annualised percentage points growth in quintile shares between 2008 and 2012



B. Emissions per capita are below the 1990 level but above the OECD average

Average 2010-14



1. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.

2. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: World Bank, *World Development Indicators database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, United Nations Framework Convention on Climate Change (UNFCCC) Database.

StatLink  <http://dx.doi.org/10.1787/888933456184>