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World Bank Urges Russia to Cut Spending, Lowers Growth Forecast

By The Moscow Times

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The latest report said Russian authorities had taken steps that appeared to have stabilized the economy, including floating the exchange rate and measures to support the financial sector.

Russia needs to cut government spending in preparation for prolonged low oil prices, the World Bank said Wednesday, predicting an economic contraction would be longer and deeper than previously forecast.

In a biannual report on the Russian economy, the World Bank forecast gross domestic product would contract by 3.8 percent this year and 0.6 percent next year in its baseline scenario.

In June it had forecast a 2.7 percent contraction in 2015 and a 0.7 percent rise next year.

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But the bank was concerned about the state of public finances, which have been hit by the fall in oil prices.

"Maintaining fiscal sustainability will become an especially pressing challenge as low oil prices deplete fiscal buffers, and this will necessitate difficult policy choices," it said.

Fiscal reserves are not sufficient to cover successive budget deficits and prolonged low oil prices "will necessitate a significant expenditure adjustment in 2016 and beyond," the World Bank said.

The report comes as Russia's government is finalizing its budget for next year, with painful expenditure cuts to areas such as pensions facing political obstacles.

The World Bank called for broader economic reforms to boost business confidence and investment.

"A failure to adopt sufficiently deep and sustained structural reforms could leave the country trapped in low-growth equilibrium," it warned.

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