Globally, the number of confirmed COVID-19 cases now exceeds 20 million, with more than 750,000 deaths. Despite the continuing spread of the virus, recent data suggest that global activity is slowly firming from its low base. The composite PMI returned to expansion in July, rising to 50.8, above its trough of 26.2 in April. Crude oil prices also continued to increase, rising by 7 percent in July and 30 percent in June. The recovery in the oil market has been supported by a modest recovery in demand and production restraint, particularly among OPEC+ countries. In July, despite a continued increase in oil prices, the ruble weakened by 3.0 percent, m/m, against the U.S. dollar. Russia’s GDP contracted less than expected, by 8.5 percent, y/y, in the second quarter of 2020. In July, headline inflation accelerated, with the consumer price index (CPI) rising by 3.4 percent, compared to 3.2 percent increase in June, partly due to the base effect in food inflation. On June 19th and July 24th, the CBR cut the key policy rate by 100 and 25 basis points, respectively, to a record low of 4.25 percent. Labor market dynamics deteriorated in June, with unemployment increasing to 6.4 percent, up from 6.2 percent in May. In the second quarter of 2020, real disposable incomes decreased significantly, by 8 percent, y/y, compared to 1.2 percent growth, y/y, in the first quarter. On the back of higher spending and lower oil/gas revenues, in the first seven months of 2020, the federal budget registered a deficit of Rub1,519.6 billion, compared to a surplus of Rub2,028 billion in the same period last year. After a slowdown in April - May, credit growth accelerated in June. On the back of the gradual stabilization of the economic situation, the demand from borrowers, both households and corporates, for restructuring of their loans, as well as for payment holidays, showed signs of decreasing.

The Global Context

The number of globally confirmed cases of COVID-19 now exceeds 20 million, with more than 750,000 deaths. New cases are accumulating at a rate of more than 250,000 per day, with particular concentrations in the United States, India, Brazil, Columbia, South Africa, and Mexico. Despite the continuing spread of the virus, recent data suggests that global activity is slowly firming from its low base. The composite PMI returned to expansion in July, rising to 50.8, above its trough of 26.2 in April. The contraction in the Sentix global economic sentiment index eased in August to -9.7, up from its trough of -32.2 in April. Meanwhile, global trade fell 17.7 percent, y/y, in May. The composite new export orders PMI rose to 46.4 in July, still below 50 but well above its trough of 25.9 in April. While a few countries saw modest upticks in tourism in June, in most places, international tourist arrivals were down by an average of 90 percent, y/y. The number of global commercial flights doubled between April and June but has plateaued since July at about 60 percent of its pre-crisis level. Following substantial losses in the first quarter of 2020, global equity markets posted one of the largest quarterly gains on record in the second quarter of 2020, fuelled by central bank easing and the gradual reopening of some economies following lockdowns. More recently, continuing COVID-19 outbreaks in many countries have led to falling valuations in the sectors most closely linked to reopening such as travel and energy. Improving investor sentiment and central bank support have contributed to an easing in emerging markets and developing economies’ (EMDE) financing conditions since March. Similarly, EMDE borrowing costs have trended down after reaching their highest level since the global financial crisis in March; however, the emerging markets bond index (EMBI) spread remains 110 basis points higher than at the start of the year.

Crude oil prices continued to increase, rising by 7 percent in July following a 30 percent jump in June. Brent crude oil averaged US$42.8/bbl in July, more than 80 percent higher than its trough in April. The recovery in the oil market has been supported by a modest recovery in demand as well as production restraint,
particularly among OPEC+ countries. China’s oil demand rose by 750 thousand barrels per day in June, while demand in Europe has also been recovering as lockdown measures are eased. However, in its August Oil Market Outlook report, the International Energy Agency (IEA) revised down its forecast for oil demand in 2020 and 2021 citing the ongoing high number of new COVID-19 cases, as well as continued weakness in the aviation sector, which is expected to persist into next year (Figure 1). In addition, production is likely to rise in the second half of 2020 as the OPEC+ cuts taper, and production in the United States and Canada has started to see a modest recovery amid higher prices.

**Figure 1: The IEA revised down its forecast for oil demand in 2020 and 2021**

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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<td>Demand (Million barrels per day)</td>
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<td>95.5</td>
<td>94.0</td>
<td>95.0</td>
<td>90.0</td>
<td>85.0</td>
</tr>
</tbody>
</table>

Source: IEA. Note: 2020 and 2021 show IEA forecasts.

Recent economic developments

The daily number of COVID-19 cases in Russia has gradually decreased since the end of June 2020. As of August 19th, Russia had registered 937,321 cases (15,989 deaths). In terms of the number of cases, Russia now ranks fourth in the world (after the USA, Brazil, and India). The Russian Government and the Central Bank continued to expand and refine their support measures to counter the socio-economic impacts of the COVID-19 pandemic and to lay a foundation for the recovery phase.

In July, despite the continued rise in oil prices, the ruble weakened by 3.0 percent, m/m, against the U.S. dollar (Figure 2). Continued FX sales in the fiscal rule framework supported the ruble. Ruble exchange rate dynamics was contrary to the dynamics registered for other emerging market currencies as the MSCI International Emerging Market Currency Index strengthened by 0.7 percent in July. Investors became more cautious about the ruble in late July as geopolitical risks somewhat increased due to tensions between Russia and Belarus. Discussions of possible new sanctions against Russia in the U.S. Congress were an additional risk factor. Possible increase in imports amidst less restrictive mobility measures could have also weighed on the ruble in July. Increased geopolitical risks related to the mass protests following the elections in Belarus appear to have had a marginal additional effect on the ruble so far: as of August 19th, the ruble exchange rate remained unchanged compared to the end of July.

**Figure 2: In July, the ruble weakened by 3 percent against the U.S. dollar**

Due to a weaker trade balance resulting from the COVID-19 pandemic, Russia’s current account surplus almost halved in the first six months of 2020, down to US$22.3 billion compared to US$43.4 billion in the same period last year. In the January - June 2020 period, the trade balance surplus was US$46.3 billion compared to US$86.4 billion in the first half of 2019, and this was mostly due to a fall in energy exports on the back of lower prices and volumes. Energy exports value dropped by about 35.2 percent (-US$42.7 billion) as the spread of the pandemic negatively affected global demand. Natural gas exports registered the largest drop, declining by about 55 percent. Volumes of natural gas exports
diminished by 23.3 percent, y/y, in the January - May 2020 period. While oil prices slumped by 39.5 percent in the January - June period, crude oil exports decreased by 36 percent as some contracts for deliveries were signed in advance. Imports of goods dropped by 8 percent, supporting the trade balance. A stronger balance of services (with a steep drop in imports outweighing a decline in exports of services) and a stronger investment income account also supported the current account. Net capital outflows in the private sector increased to US$28.7 billion, up from US$23.3 billion in the same period last year. Banks continued to pay off debt amidst economic sanctions and reduced acquisition of net foreign assets. Amidst elevated uncertainty and lower reinvestment of profits, the increase in net capital outflows was entirely due to the non-banking sector, with incoming net FDI turning negative in the first quarter of 2020 compared to the US$10.3 billion inflows in the same period last year. International reserves decreased by US$7.6 billion due to the operations of the Central Bank within the fiscal rule framework and sales of foreign currency in the Sberbank deal under the new facility.

Russia’s GDP contracted less than expected in the second quarter of 2020. Rosstat’s flash estimate of GDP growth in the second quarter of 2020 turned out better than expected: -8.5 percent, y/y, compared to a 9.6 percent contraction expected by the Ministry of Economic Development. According to the flash estimate, Russia performed better than many other countries, which registered a double-digit contraction such as Germany, Portugal, Italy, Austria, Belgium, France, UK, Spain, Hungary and Mexico. Russia’s output decline was cushioned by the macroeconomic policy of the government in accordance with the macroeconomic framework established in the last three years, as well as recent expansionary monetary and fiscal policy measures. While details on GDP growth in the second quarter are not yet available, high frequency statistics reveal that output in five basic economic activities contracted by 9.7 percent, y/y. Agriculture, which expanded at 3.1 percent in the second quarter, prevented a steeper GDP decline, while retail trade, wholesale trade, industrial production, and transportation, which were hit by lower demand and measures aimed at limiting the spread of the pandemic, dragged the economy down (Figure 3). A drop in construction, which was largely exempted from quarantine requirements, appeared to moderate in the second quarter, at -1.7 percent, y/y, as compared to 1.1 percent, y/y, in the first quarter. The slowdown in the financial sector, not reported in the high frequency indicators, could have been less severe given the continued credit growth in the second quarter in annual terms. Economic activity in Russia seems to have passed its bottom point in June. High frequency indicators (electricity consumption, financial flows) reveal that the Russian economy has entered the path of a gradual rebound, supported mainly by domestic demand. In July, industrial production output increased by 1.5 percent, m-o-m, sa. PMI in services rose to 58.5 from 47.8 in June. PMI in manufacturing registered 48.4 and 49.4 in June and July respectively, compared to 36.2 in May 2020.

**Figure 3:** In the second quarter of 2020, retail trade registered a decline of 16.6 percent, y/y

In July 2020, the annual headline inflation accelerated to 3.4 percent compared to 3.2 percent in June (Figure 4). The rise in headline CPI inflation was mostly due to the acceleration of the 12-month food price inflation from a low base last year (4.2 percent, y/y, versus 3.9 percent in June). The 12-month non-food inflation slightly accelerated to 3.1 percent, up from 3 percent a month prior, while the 12-month services inflation remained at the same level as in June, at 2.5 percent, y/y.
Core CPI, which excludes food and gasoline, slightly increased by 3.0 percent in July, up from 2.9 percent increase in June. The drop in aggregate demand continues to be a disinflationary factor.

**Figure 4: In July, consumer price inflation accelerated to 3.4 percent, y/y**

![](image)

**Labor market dynamics deteriorated in June 2020.** The unemployment rate (seasonally adjusted) increased to 6.4 percent in June, up from 6.2 percent in May and 4.6 percent in March. (Figure 5). This reflects the labor market’s reaction to declines in the real sector as a result of the COVID-19 crisis and the containment measures. In the second quarter of 2020, real disposable incomes decreased significantly, by 8 percent, y/y, compared to the 1.2 percent growth, y/y, in the first quarter. Overall, in the first half of 2020, real disposable incomes decreased by 3.7 percent compared to the same period in 2019. The real wages growth improved in May, increasing by 1 percent, y/y, compared to a contraction of 2 percent in April, y/y (information on real wages is now being published with one-month lag). The relatively large public sector supports real wages dynamics in Russia.

**Figure 5: In June, the labor market dynamics deteriorated**

In the first seven months of 2020, the federal budget registered a deficit of Rub1,519.6 billion compared to a surplus of Rub2,028 billion in the same period last year. This was on the back of higher spending and lower oil/gas revenues. In January-July, oil/gas revenues dropped by 39.3 percent, y/y. A weaker ruble could not fully compensate for the fall in oil prices and a drop in economic activity. Non-oil tax receipts also declined: VAT receipts dropped by 2.1 percent, y/y, in the first seven months of 2020, and corporate income tax receipts dropped by 9.8 percent, y/y. Total fiscal revenues decreased by 9.3 percent, y/y, in the first seven months of 2020 (18.6 percent, y/y, not accounting for one-off channelling of the receipts from the Sberbank purchase). Primary expenditures increased by 27.6 percent in the January - July 2020 period. Spending on social policy, health, and the national economy were the main drivers of this growth. Higher primary spending led to a deterioration of the non-oil/gas federal budget primary deficit, which reached Rub4.0 trillion compared to a deficit of Rub2.3 trillion in the same period last year. The federal budget deficit was largely financed by means of borrowing in the domestic market and liquid reserves from the previous year. Debt denominated in rubles grew by Rub1.2 trillion. Overall debt of the federal government increased to Rub14.8 billion from Rub13.6 billion (12.3 percent of GDP) in January.

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1 Since May 2020, the Ministry of Economic Development has been not providing estimate of nominal GDP, thus fiscal outcomes are reported in billion rubles.
The consolidated regional budget primary surplus (Rub213.7 billion in January-June 2020) turned into a Rub213.7 billion deficit in January-June 2020 on the back of higher expenditures (+18.9 percent, y/y). Notably, expenditure on healthcare rose by 84.8 percent, y/y, and spending on social policy and national economy also increased significantly (+15.9 percent, y/y, and +22.1 percent, y/y, respectively). Revenues of the consolidated regional budget increased by 2.1 percent, y/y, due to increased support from the federal budget (+57 percent, y/y), while own revenues of consolidated regional budgets dropped by 7 percent, y/y, in the first six months of 2020. Deficits were registered in 47 regions.

Since the introduction of lockdown measures in March, the economic downturn began to influence bank operations, leading to a slowdown in lending, rising non-performing loans (NPLs), and higher provisioning. In order to mitigate the effects of the COVID-19 pandemic and to ensure financial stability, the Central Bank of Russia (CBR) adopted a broad set of measures to support liquidity in the banking sector via targeted interventions and granting of temporary regulatory forbearance to banks and other financial institutions until September 30, 2020. On August 10, 2020, the CBR extended some of the regulatory forbearance measures, including those related to loan loss provisioning till December 31, 2020. In particular, the CBR has (i) extended forbearance measures regarding provisioning to restructured loans for individuals and SMEs; (ii) lowered the premiums to the risk ratios for unsecured consumer loans; and (iii) kept the countercyclical capital buffer at zero. However, the CBR has stressed that provisions for loans restructured before the end of 2020 must be formed in full by July 1, 2021. The CBR has also decided not to extend certain liquidity easing measures, citing the improvement of the banking-sector’s liquidity since the start of the pandemic.

Despite the negative economic effects of the pandemic, banks’ key credit risk and performance indicators remained stable as banks benefited from the CBR’s support measures \(^2\) (Figure 6). As of June 1, 2020, the aggregate capital adequacy ratio stood at 12.7 percent (against a regulatory minimum of 8 percent). Non-performing loans increased to 9.7 percent of total loans compared to 9.3 and 9.4 percent in March and April, respectively, as household and firm finances started to deteriorate due to disruption in economic activity resulting from the COVID-19 outbreak and a rise in unemployment. Higher provisioning charges and lower earnings, including a substantial drop in fees and commissions, resulted in the banking sector’s profits falling in the second quarter 2020 after recording strong profits in the first quarter. In the first half of 2020, the net banking sector’s profit amounted to Rub630 billion (US$9.1 billion) compared to Rub1,005 billion (US$15.4 billion) in the same period in 2019. As of June 1, the return on assets (ROA) and return on equity (ROE) were 1.9 percent and 17.5 percent, respectively, compared to 2.1 percent and 19.1 percent, respectively, in January.

After a slowdown in April - May, credit growth accelerated in June. Household lending grew by 1.0 percent, m/m, compared to 0.2 percent, m/m, in May and a contraction of 0.7 percent, m/m, in April. Mortgage lending was the major contributor to household credit growth, mainly supported by the government’s preferential 6.5 percent mortgage lending program. However, in annual terms, household lending growth slowed down to 12.6 percent, y/y, in June, versus 18 percent, y/y, at the beginning of the year. Credit to the corporate sector in rubles slightly increased by 0.5 percent, m/m, in June, after zero growth in May. In annual terms, it remained flat, at 7.3 percent, y/y, after adjusting for FX changes—the same as a month before.

On the back of the gradual stabilization of the economic situation, the demand from borrowers, both households and corporates, for the restructuring of their loans, as well as for payment holidays, has started to decrease. According to the CBR, between March 20\(^{th}\) and July 29\(^{th}\), banks restructured loans from 2.4 million individual borrowers. While there was a trend towards a decreasing number of individuals applying for loan restructurings in July, the number of applications submitted by SMEs was

\(^2\) Including regulatory forbearance measures.
almost the same. Overall, for the period of March 20 – July 27, 2020, the volume of corporate restructured loan debt exceeded Rub3.6 trillion (11.9 percent of the total portfolio of the systematically-important credit organizations (excluding SMEs)). The volume of household restructuring loan agreements amounted to Rub697 billion.

On June 19th and July 24th, the CBR cut the key policy rate by 100 and 25 basis points, respectively, to a record low of 4.25 percent. The historically low key policy rate and a 13 percent tax on interest from all bank deposits over Rub1 million (US$14,000), which will become effective in 2021, stimulated an unprecedented surge in retail investors into the Russian stock and bonds market. Retail investors accounted for 42 percent of trading volume on the exchange in June, up from 34 percent a year earlier. More than 5.3 million individual Russians now have brokerage accounts for trading stocks on the local stock market, a rise of 1.5 million since January.

Figure 6: Key credit risk and banking performance indicators remained stable

![Graph showing key credit risk and banking performance indicators]

Source: Bank of Russia.

In its analytical work, the World Bank uses official statistics of the Russian Federation. By relying on these data, the World Bank does not intend to make any judgment on the legal or other status of the territories concerned or to prejudice the final determination of the parties' claims.