In May 2021, crude oil prices rose by 5 percent and continued to increase in June. The global economy continues to recover, with global growth expected to reach 5.6 percent in 2021. The number of new COVID-19 cases in Russia has been rising since the beginning of June. On June 30th, Russia registered 21,042 new cases – more than doubling compared to the end of May (8,475 cases on May 31st). The most number of cases is attributed to delta variant, the mutation which is thought to be more transmissible and aggressive than the original virus first spotted in Wuhan in China in 2019. Yet the number of new cases is below the maximum levels reached in December 2020 (29,499 cases). The worsening epidemiological situation forced the authorities of Russia’s regions to introduce additional restrictive measures to prevent the spread of infections. Russia’s stringency index climbed to the levels registered in the end of 2020 (as of June 17), putting pressure on economic rebound especially in services. In May, the average exchange rate of the ruble with respect to the U.S. dollar continued to strengthen in line with currency trends of other EMDEs and commodity exporting countries. Favorable prices for commodities exported by Russia and a more favorable perception of geopolitical risks supported the ruble. Economic activity was strong in April. Industrial production growth accelerated in May despite additional days off. The annual headline consumer price index (CPI) inflation remains elevated, in part due to a rebound in domestic demand, prompting the Central Bank of Russia (CBR) to raise its key interest rate by 50 bp to 5.5 percent on June 11th. Labor market dynamics continued to improve. In the January - May 2021 period, the federal budget’s fiscal position improved amidst an economic rebound, higher oil prices, and a weaker ruble. The federal budget surplus increased to Rub312 billion, compared to a Rub274 billion deficit in the same period last year. In May, both household and corporate sector lending growth accelerated, supported by a nascent economic recovery and public support programs. Banks’ key credit risk and performance indicators remained largely stable, supported by the CBR policy response measures, including regulatory forbearance.

The Global Context

The global economy continues to recover, with global growth expected to reach 5.6 percent in 2021 according to the June 2021 edition of Global Economic Prospects1. The rebound, however, largely reflects robust activity in some large economies while the pace of recovery is held back in many emerging market and developing economies (EMDEs) by unequal access to vaccines and elevated new COVID-19 cases. Meanwhile, incoming economic indicators point to continued momentum. The global composite PMI strengthened again in May, rising to an 11-year high on the back of a strong expansion in several advanced economies, particularly in the United States. Global goods trade volumes have recovered and remain nearly 6 percent above December 2019 levels. Similarly, investor sentiment has continued to improve, with the global Sentix overall economic index reaching a 3-year high in June. Although inflation expectations globally remain relatively well-anchored, supply disruptions in many EMDEs have contributed to rising food price inflation. Crude oil prices rose by 5 percent in May and continued to increase in June. The price of Brent crude oil reached US$74/bbl by mid-June, its highest level since April 2019. Oil demand has continued to recover but remains uneven. Demand rose in OECD countries in 2021Q2, notably the United States and Europe, where widespread vaccination rollouts and a relaxation of restrictions have fostered increased travel (Figure 1). However, renewed outbreaks in some non-OECD countries, including India and Brazil, have suppressed their demand in 2021Q2. The International Energy Agency forecasts that global demand will continue to recover through the rest of 2021 and will regain its pre-pandemic level by the end of 2022. On the supply side, OPEC and its partners increased production in May, in line with previous announcements, and are expected to continue to increase production in

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June and July. However, the group has not provided guidance for production for the rest of this year, and significant additional production will likely be needed to meet the recovery in demand. The group does, however, have substantial spare production capacity available, which would be more than sufficient to meet the expected increase in demand.

**Figure 1: Oil demand has continued to recover but remains uneven**

![Chart showing oil demand recovery](source: IEA, World Bank. Note: 2021 Q2-Q4 show IEA forecasts.)

**Recent economic developments in Russia**

**The number of new COVID-19 cases in Russia has been rising since the beginning of June (Figure 2).** As of June 30, 2021, the total number of COVID-19 cases exceeded 5.5 million in Russia, the 6th highest after the USA, India, Brazil, France, and Turkey. On June 30th, Russia registered 21,042 new cases – more than doubling compared to the end of May (8,475 cases on May 31st). Since the beginning of the pandemic, Russia has registered 135,214 deaths (669 deaths on June 30th). The total number of tests conducted is greater than 149.6 million.

The worsening epidemiological situation forced the authorities of the regions to introduce additional restrictive measures to prevent the spread of infections. The average daily new cases in Moscow increased dramatically during June, reaching 5,823 on June 30th (compared to 2,614 cases on May 31st).

The Moscow authorities announced non-working days from June 15 to 19th. Among other measures announced were: (i) from June 13th, employers are obliged to transfer at least 30 percent of employees to remote work, as well as all employees over 65 years of age and with chronic diseases, with the exception of those vaccinated; (ii) from June 13, zoos, food courts, and children’s playrooms to be closed for visits; (iii) catering establishments to be closed from 11 pm to 6 am (except for take-out and delivery of orders). The same applies to the provision of consumer services, entertainment, and entertainment in nightclubs, bars, discos, karaoke; (iv) from June 22nd, a temporary ban is introduced on holding concerts, entertainment, and sports events with the presence of more than 500 people; (v) from June 28th, restaurants started operating according to new rules.

Restaurants and cafes can only accept those vaccinated against COVID-19, those who have recovered within the last six months, or those with a negative PCR test valid for three days. A special QR code is provided. Summer terraces can be visited without a QR code until July 12th. Russia’s stringency index \(^2\) climbed to the levels registered in the end of 2020 (as of June 17), putting pressure on economic rebound especially in services. (Figure 3).

**Figure 2: The number of new COVID-19 cases has been increasing in Russia**

![Chart showing daily cases](source: stopcoronavirus.rf)

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2 This is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest).

If policies vary at the subnational level, the index is shown as the response level of the strictest sub-region.

https://ourworldindata.org/coronavirus/country/russia
Figure 3: Russia’s stringency index jumped to the levels of December 2020, but remained below the levels in many peers

Although the vaccination drive against coronavirus remains voluntary for most, in order to prevent the further spread of infection, the authorities have introduced mandatory vaccination for those working in the spheres of trade, health care, education, social protection and social services, catering, transport, housing and communal services, culture, leisure, sports, client departments of financial organizations, multifunctional centers, and organizations providing postal services for state and municipal employees. To date, the mandatory vaccination for these workers has been introduced in 18 regions. In Moscow, the authorities are aiming to vaccinate at least 60 percent of workers in the services spheres, who should receive the first dose of the vaccine by July 15th and the second dose by mid-August. In Buryatia, where, due to the worsening situation with the spread of the coronavirus, a lockdown is in effect from June 27 to July 11th, mandatory vaccination has been introduced for several population groups, including students and people aged over 65 years.

These measures have helped to increase the intensity of the vaccine campaign in terms of quantity. However, the uptake of the vaccine in Russia is still slow compared to other countries based on the share of the total population that has received at least one COVID-19 vaccine dose: Russia (15.2 percent), Israel (64.5 percent), USA (53.8 percent), EU (50.4 percent), Turkey (40.7 percent), Brazil (34.2 percent). As of June 30th, 22.6 million Russian citizens (15.5 percent of the population) have been vaccinated with the first dose of the Sputnik V vaccine, and 17.3 million (11.8 percent of the population) have received two doses of the vaccine.

In May, the average exchange rate of the ruble with respect to the U.S. dollar continued to strengthen in line with currency trends of EMDEs and other commodity exporting countries (Figure 4). Increasing prices for commodities exported by Russia and a more favorable perception of geopolitical risks supported the ruble. The ruble strengthened by an additional 1.9 percent by the end of June.

Figure 4: In May, the average exchange rate of the ruble with respect to the U.S. dollar appreciated compared to the previous month

According to the CBR’s preliminary estimates, in January – May 2021, the current account registered a surplus of US$35.8 billion, about US$7 billion higher than in the same period last year. Higher prices for oil, gas, and metals supported the trade balance, which strengthened by US$5.4 billion to US$49.6 billion. According to available information for January – April 2021, export volume of pipeline gas increased by 15.9 percent, y/y (Figure 5). Meanwhile, the volume of crude oil exports dropped by 21.9 percent from a high base in the same period last year, still subdued by OPEC+ restrictions on oil production. Strengthening global demand, especially from China, boosted exports of base metals (+ 12.9 percent y/y, in real terms). Export volume of aluminum increased by 40.2 percent, y/y, machines and equipment – by 24.5 percent, y/y, fertilizers - by

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3 Source: ourworldindata.org (June 29, 2021).
double digits. With restrictions introduced by the government on exports of wheat, its export volume dropped by about 20 percent, y/y. Restrictions on travel supported the trade balance through lower tourist imports. Imports of some items demonstrated robust growth in January – April 2021 reflecting on rebound in domestic demand (Figure 6). Net private capital outflows dropped to US$24.6 billion, compared to US$32.3 billion in the previous year. Transactions of non-banking sector related both to the reduction of net liabilities to non-residents and to the increase of net investments in financial assets abroad were driving net capital outflows. In the first five months of 2021, international reserves grew by US$12.7 billion, largely due to resumed FX purchases in the fiscal rule framework.

**Figure 5: Global economic recovery pushed up demand for major export items (percent change, January – April 2021, y/y)**

Source: Customs Service of Russia.

**Figure 6: Imports of equipment demonstrated robust growth (percent change, January – April 2021, y/y)**

Source: Customs Service of Russia.

**Economic activity was strong in April.** Output in five basic sectors expanded by 13.8 percent, y/y, from a low base in April 2020, with retail trade growth reaching +34.7 percent, y/y, industrial production expanding by 7.6 percent, y/y, and construction growing by 6.9 percent, y/y. In April, industrial production growth was almost flat in m/m terms (+0.1 percent, m/m), and it exceeded output in April 2019 (pre-pandemic) by 2.2 percent.

**Industrial production growth momentum accelerated in May despite additional days off (Figure 7).** Industrial production growth accelerated (+1.1 percent, m/m) on the back of strong readings in manufacturing. Supported by stronger global and domestic demand, manufacturing grew by 11.4 percent, y/y, and by 6.3 percent compared to May 2019. Output in mineral resource extraction, still constrained by the OPEC+ agreement, was below levels in May 2019 by 2.0 percent.

**Figure 7: Industrial production growth momentum accelerated in May (percent, y/y)**

Source: Rosstat.

The annual headline consumer price index (CPI) inflation remains elevated (Figure 8). Both demand- and supply-side inflationary factors pushed up annual inflation to 6 percent in May (double the rate of 3 percent in May 2020). The acceleration of food inflation continued to contribute the most to the growth of headline inflation (7.4 percent, y/y, compared to 6.6 percent, y/y, in April). Non-food consumer goods inflation accelerated to 6.7 percent, y/y, in May, up from 6.2 percent, y/y, in April. Prices of construction materials (16.4 percent, y/y) and tobacco (13.2 percent, y/y)
accelerated the most. Inflation in services remained at the same level, 3 percent, y/y. In May, the core CPI stood at 6 percent, y/y. Household inflation expectations remained elevated, though they decreased to 11.3 percent in May, down from 11.9 percent in April. Elevated inflationary pressures, coupled with a rebound in domestic demand, prompted the Central Bank of Russia (CBR) to raise its key interest rate by 50 bp to 5.5 percent on June 11th.

Figure 8: In May, the annual headline consumer price index (CPI) inflation accelerated to 6.0 percent

Labor market dynamics continued to improve (Figure 9). In April, the unemployment rate fell to 5.1 percent (sa), down from 5.5 percent (sa) a month before. The number of unemployed people fell from 4.1 million to 3.9 million. Real wages grew by 1.8 percent, y/y, in March (compared to 2 percent, y/y, in February). Overall, the cumulative growth for the first three months of 2021 was 1.6 percent, y/y.

In the January - May period of 2021, the federal budget’s fiscal position improved amidst an economic rebound, higher oil prices, and a weaker ruble. Primary expenditures (+Rub 734 billion or +3.5 percent, y/y, in real terms) increased less than budget revenues (+Rub 1429 billion or +11.9 percent, y/y, in real terms). In the first five months of 2021, federal budget revenues increased as both energy (+Rub 692 billion) and non-energy revenues (+Rub 737 billion) grew. Oil and gas revenue receipts increased on the back of higher oil/gas prices, higher volumes of natural gas exports attributed to a cold winter, and a weaker ruble. Higher non-energy revenues were mostly due to higher VAT receipts, excise taxes, and import customs duties reflecting on Russia’s economy recovery. A weaker ruble and elevated inflation supported non-oil/gas federal budget revenues as well. Despite lower expenditures on health, in the first five months of 2021, primary federal budget expenditures grew by 3.5 percent, y/y, in real terms driven by higher spending on national economy (including higher spending on National Project “Safe and High quality roads”), state management, social policy, communal and housing services, and education. The federal budget surplus increased to Rub 312 billion, compared to Rub 274 billion deficit in the same period last year. Compared to January – May 2020, the federal budget non-oil/gas

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4 With the adjustment for revenues for the Sberbank deal, federal budget non-oil/gas revenues increased by R1603 billion (+29.3 percent, y/y, real terms).
primary deficit improved by Rub 870 billion to Rub 2606 billion.

In the first five months of 2021, the federal government borrowed about Rub 1,085 billion in the domestic market. Economic sanctions, introduced in April, are expected to have a marginal effect on the Russian economy and the government’s access to finance, yet their further escalation may put additional pressure. On April 20th 2021, Russia raised 1.5 billion euros (US$1.83 billion) in two Eurobond issues maturing in 2027 and 2036 with foreign investors showing sufficient interest in investing in Russian debt instruments, stemming from relatively high yields (2.65 percent for 15-year bonds compared to 0.15 percent for 15-year bonds issued by Germany) and low debt levels in Russia.

On June 3, 2021, the government announced that Russia will switch from the U.S. dollar to other currencies in the structure of the National Wealth Fund (NWF) and reduce the share of the British pound within a month: the U.S. dollar share will equal 0 percent, euro – 40 percent, yuan – 30 percent, gold – 20 percent, and pound and yen – 5 percent each. The effect on the ruble is neutral.

**Banks’ key credit risk and performance indicators remained largely stable supported by the CBR policy response measures, including regulatory forbearance (Figure 6).** As of May 1, 2020, the aggregate capital adequacy ratio stood at 12.6 percent (against a regulatory minimum of 8 percent). Non-performing loans remained largely unchanged at 8.7 percent of all loans as banks benefited from the regulatory forbearance measures. The banking sector’s profitability has been showing signs of recovery, supported by strong credit growth fueled by the government’s credit support programs and improving economic conditions. From January – May 2021, the banking sector’s net profit amounted to 995 billion rubles (US$13.3 billion), which is higher compared with the same period in 2020 (561 billion rubles (US$8.1 billion)) even considering the end of regulatory forbearance measures when restructured corporate loans had to be fully provisioned by April 1, 2021. As of May 1, 2020, the return on assets (ROA) and return on equity (ROE) were 1.8 percent and 17.3 percent, respectively, compared to 1.7 percent and 15.7 percent, respectively, at the beginning of the year.

**In May, both household and corporate sector lending growth accelerated, supported by a nascent economic recovery and public support programs.** Household lending growth continued to benefit from the subsidized mortgage loan program. Unsecured lending growth is also strong. In order to limit the risk, the CBR will return to the pre-covid requirements for macro-premums starting July 1st. Overall, in May, credit to households in rubles grew by 20 percent, y/y, compared to 17.8 percent, y/y, in the month prior. Credit to the corporate sector in rubles (after adjusting for FX changes) increased by 11.3 percent, y/y, versus 10.1 percent, y/y, in April, backed by the government programs for the affected industries and systemically important enterprises. In May, on the back of the economic recovery, the demand from both households and companies for the restructuring of their loans continued to decline compared to the beginning of the year.

**Figure 10: As of May 1st, key credit risk and banking performance indicators remained stable**

![Graph showing key credit risk and banking performance indicators remained stable](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.