Oil prices have been volatile in recent weeks, with Brent prices trading between US$65/bbl and US$76/bbl, as demand-positive news in the U.S. and Europe has been offset by concerns over the COVID-19 Delta variant and its impact on oil demand, especially in Asia. Global economic activity firmed up further in July, as the global composite Purchasing Managers’ Index (PMI) came in at 55.7 (a slight decline from 56.6 in June). Services PMI outpaced its manufacturing counterpart, reaching 56.3, as large economies resumed reopening efforts. Russia’s industrial production growth continued to moderate in July, having shown signs of deceleration since April. In July, core annual inflation continued to rise, reflecting mounting pressures from rebounding domestic demand, enduring supply bottlenecks, as well as higher global prices. Even so, in August, the ruble appreciated by 0.5 percent against the US$, m/m, outperforming other emerging market currencies. The unemployment rate decreased by 0.2 percentage points to 4.7 percent (sa) in June. Banks’ key credit risk and performance indicators have remained largely stable, supported by the CBR’s policy response measures, including regulatory forbearance. Improving business confidence continued to stimulate demand for loans in July. Household lending continued benefiting from the subsidized mortgage loan program launched by the government in April 2020.

The Global Context

Global COVID-19 cases have risen since July as the Delta variant continues to spread, with the United States, parts of Europe, and East Asia and the Pacific experiencing sharp resurgences of new cases. New related deaths have not seen a similar spike in highly vaccinated countries. Although global economic activity remained robust in July, it continued to moderate, with the global composite Purchasing Managers Index (PMI) falling to 55.7 from 56.6 in June. The services PMI continued to outpace its manufacturing counterpart in July, reaching 56.3, as some large economies resumed reopening efforts. Expansion in the manufacturing PMI edged down in July, partly reflecting renewed softness in some large Emerging Markets and Developing Economies (EMDEs)—particularly in those facing sharp COVID-19 resurgences and subsequent mobility restrictions. Another factor is financing conditions, which continue to tighten across EMDEs driven by a range of factors, including policy rate hikes, heightened risk aversion among emerging-market investors, and country-specific risk factors. Portfolio outflows from EMDEs have resumed, despite a modest bounce back in June, triggered in part by heightened market volatility and expectations of policy normalization in advanced economies.

Global energy prices surged in July, led by natural gas and coal, whose prices rose 19 and 17 percent, respectively. Demand for both has been lifted by higher temperatures and increasing demand for electricity for cooling, while drought conditions have simultaneously reduced hydroelectric power supply, including in the United States and Brazil. Crude oil prices rose 2 percent in July, with the price of Brent crude oil averaging at US$74/bbl, its highest level since October 2018. However, oil prices have been volatile in recent weeks, with Brent prices trading between US$65/bbl and US$76/bbl, as demand-positive news in the U.S. and Europe has been offset by concerns over the COVID-19 Delta variant and its impact on oil demand, especially in Asia. The International Energy Agency downgraded its expectation for oil demand in the second half of 2021 by around 0.5 million barrels per day. On the supply side, production rose sharply in July as Saudi Arabia ended its voluntary production cuts, and production is set to continue rising further, with OPEC+ confirming at the September meeting that members will continue to increase production by 0.4mb/d each month until September 2022 when the group’s production cuts are expected to be fully unwound.
Figure 1: Global energy prices surged in July, led by natural gas and coal

![Graph showing energy prices](image)


Recent economic developments in Russia

The number of new COVID-19 cases in Russia continues to decline (Figure 2). Following a peak in mid-July, the incidence of new cases has been on a decline for the past six weeks. By August 30, the number of new COVID-19 cases had fallen below 20,000 per day. The total number of COVID-19 cases exceeds 6.9 million, the 4th highest after the USA (39.7 million), India (32.7 million) and Brazil (20.7 million). Since the beginning of the pandemic, Russia has registered 182,429 deaths (792 deaths on July 30th), which is the sixth highest in the world.

Figure 2: The number of new COVID cases in Russia has continued to decline (Daily new confirmed COVID-19 cases per million people, 7-day rolling average)

![Graph showing COVID-19 cases](image)

Source: Our World in Data.

As of August 29, Russia ranked 75th (out of 192 countries) in terms of the number of new cases weighted by population (129.2 new cases/million of the population, 7-day rolling average) (Figure 3). This is above the World average (82.9), but below the EU average (142.4).

Figure 3: By end-August, the number of new cases in Russia weighted by population was above the World average but below the EU average.

![Graph showing COVID-19 cases](image)

Source: Our World in Data.

Enhanced efforts have helped raise vaccination rates: the share of people fully vaccinated reached 24.8 percent on August 29th (compared to 8.6 percent on June 1). While catching up, vaccination rates in Russia remain relatively low compared to other countries: worldwide (26.6 percent), United Kingdom (62.5), China (61.6), USA (51.6 percent) and the EU (51.1).

Given the stabilization of the COVID-19 situation, most restrictions have been lifted. Effective August 13, the Mayor of Moscow has canceled the requirement to transfer at least 30 percent of employees to remote work. Russia’s stringency index\(^1\) subsided slightly in August (43 out of 100) (Figure 4), after peaking at the end of June.

Where 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

\(^1\) 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).
On August 20, the US announced a set of new sanctions against Russia. One part of these sanctions was related to the Nord Stream 2 construction: blocking of property, transaction limits, and ineligibility for employee visas, admission or parole against two Russian companies and two sea vessels. The other part was a second round of sanctions on Russia as required under the Chemical and Biological Weapons and Warfare Elimination Act of 1991 ("CBW-2"): asset freezes and limits on transactions with a range of entities associated with the Russian defense and intelligence services; asset freezes, transaction limits and visa bans on a number of Russian defense and intelligence officers; a ban on imports to the US from Russia of firearms and ammunition, and a tightening of restrictions on exports of nuclear and missile-related goods and technology from the US to Russia. The sanctions had already been anticipated by the markets, which saw limited movement in response to their announcement. The pipeline is expected to be put into operation before the end of 2021.

In August, the ruble appreciated by 0.5 percent, m/m (Figure 5). Despite lower oil prices and new sanctions, the ruble appreciated slightly in August, as the rather dovish tone of the Federal Reserve Chair’s speech at the end of August indicated an improved outlook for ruble investment. Increased tax payments by exporting companies, which raises their demand for the ruble, also supported its exchange rate.
In July, core consumer price annual inflation continued to rise, reflecting mounting inflationary pressures. Core consumer price index (CPI) registered at 6.8 percent, y/y, in July compared to 6.6 percent, y/y, in June. Meanwhile, annual headline CPI inflation has remained unchanged at 6.5 percent, y/y (Figure 7), ranging from 4.5 to 9.1 percent, y/y, across the regions. Food inflation decelerated to 7.4 percent, y/y, compared to 7.9 percent the month before. Non-food consumer goods inflation rose to 7.6 percent, y/y, in July, up from 7.0 percent, y/y, in the previous month, influenced by growing domestic demand and increased costs for producers caused by global and local supply chain problems. In July, the prices of construction materials (30 percent, y/y) and tobacco (16 percent, y/y) increased the most. Inflation in services decelerated slightly to 3.8 percent, y/y due to the relaxation of restrictive measures. Household inflation expectations reached their 5-year high, increasing to 13.4 percent in July, up from 11.9 percent in June.

Labor market dynamics continued to improve (Figure 8) in June. The size of the labor force returned to its pre-pandemic levels in June 2021, when the total labor force reached 75.3 million people, the same as in June 2019 (and above the 74.7 million in June 2020). The labor force participation rate reached 62.3 percent in Q2 2021, compared to 61.7 in the same period of 2020 and 62.0 percent in Q2 2019. The unemployment rate also showed improvement. In June 2021, it decreased to 4.7 percent (sa), down from 4.9 percent (sa) a month before and 6.2 percent (sa) in June 2020. The number of unemployed people fell from 3.7 million in May to 3.6 million in June 2021. Real wages grew by 3.3 percent, y/y, in May. Real wages cumulative growth for the first five months of 2021 was 3.0 percent, y/y. On the back of the low base of the previous year, real disposable income increased by 6.8 percent in Q2 2021, vs. minus 3.7 in Q1. Real disposable income was 0.5 percent lower than the pre-pandemic level of Q2 2019. Overall, it grew by 1.7 percent in the first half of the year, vs. a decrease of 2.9 percent in the same period of 2020.
In the first seven months of 2021, the federal government’s fiscal position improved amidst an economic rebound and higher commodities prices. The fiscal position improved as primary expenditures (+Rub 777 billion or +0.3 percent, y/y, in real terms) increased less than budget revenues (+Rub 3,250 billion or +23.1 percent, y/y, in real terms). Federal budget revenues benefited from increases in both energy (+Rub 1,768 billion, y/y) and non-energy revenues (+Rub 1,482 billion, y/y)\(^2\). Oil and gas revenue receipts increased on the back of higher oil/gas prices, and higher volumes of natural gas exports attributed to a cold winter earlier in the year. Higher non-energy revenues were due mostly to higher VAT receipts, excise taxes, import customs duties and corporate income tax, reflecting Russia’s economic recovery. In January – July 2021, federal budget spending on the national economy grew the most (including spending related to the program supporting wage payments of enterprises in 2020\(^3\)), followed by spending on communal and housing services, and the environment. Federal budget spending dropped for health, and inter-budgetary transfers. The federal budget surplus increased to Rub 890 billion, compared to a Rub 1,395 billion deficit in the same period of last year, as the non-oil/gas primary deficit improved by Rub 711 billion to Rub 3,293 billion.\(^4\)

In July, the federal government debt denominated in rubles increased by Rub 152.9 billion. As of August 1, 2021, federal government debt denominated in rubles totaled Rub 16.3 trillion (+10.8 percent since end-2020). In January - July, the federal government placed bonds for Rub 1.7 trillion with annual planned volume of Rub 2.8 trillion. In June, the share of non-residents in government bonds rose to 20.6 percent from 19.7 percent in June.

Banks’ key credit risk and performance indicators remained stable (Figure 9). As of July 1, 2021, the capital adequacy ratio stood at 12.6 percent (against a regulatory minimum of 8 percent). Non-performing loans decreased slightly to 8.4 percent of total loans, down from 8.6 percent in May. The banking sector’s profitability continued to be supported by strong credit growth fueled in turn by the government’s credit support programs and improving economic conditions. From January – July 2021, the banking sector’s net profit amounted to Rub 1.43 trillion (US$19.2 billion), almost double the same period of 2020 (Rub 761 billion, or US$10.7 billion) and near the pre-pandemic 2019 full year net profit of Rub 1.7 trillion (US$ 23.4 billion). As of July 1, 2021, the return on assets (ROA) and return on equity (ROE) were 2.1 percent and 20.4 percent, respectively, compared to 2 percent and 19.2 percent, respectively, in the previous month.

Improved business confidence continued to stimulate demand for loans in July. In July, credit to the corporate sector (in rubles) increased by 9 percent, y/y, compared to 7.4 percent, y/y, in June, (1.7 percent, m/m, versus 1 percent, m/m, respectively). Household lending continued to benefit from the subsidized mortgage loan program launched by the government in April 2020. Starting from July 2021, the mortgage interest rate (for the purchase of new homes) was increased from 6.5 percent to 7 percent. In July, household lending grew by 1.7 percent, m/m, compared to an average 2.1 percent, m/m, in April – June. Overall, in July, credit to households in rubles grew by 13.2 percent, y/y, compared to 12.6 percent, y/y, in the prior month. In order to reduce the incentives of banks to increase risky lending and curb growth of the population’s debt burden, the CBR is set to increase the premium to risk ratio for unsecured consumer loans in rubles extended as of October 1, 2021. In July, the demand for loan restructuring continued to

\(^2\) With the adjustment for revenues for the Sberbank deal, federal budget non-oil/gas revenues increased by Rub 2,348 billion (+28.8 percent, y/y, real terms).

\(^3\) Enterprises applied for loans supporting the payment of wages in the amount of minimum wages. The loans of those enterprises that managed to sustain their employee numbers

at the level of end-April 2020 were converted to grants. This program totaled Rub 0.4 trillion.

\(^4\) With the adjustment for revenues for the Sberbank deal, the federal budget non-oil/gas primary deficit improved by Rub 911 billion.
decline against the background of the gradual recovery of economic conditions.

**Figure 9: As of July 1st, key credit risk and banking performance indicators were stable**

![Graph showing key credit risk and banking performance indicators from January 2019 to May 2021.](Image)

**Source:** Bank of Russia.