Global economic activity continued to lose momentum in August as recovery leveled off and the new Delta variant outbreak applied the brakes on services. The global composite Purchasing Managers’ Index (PMI) declined in 2021Q3, falling from 55.8 in July to just below 53 in September, as the ongoing spread of the Delta variant weighed on services. Global goods trade volume growth eased as pandemic-induced disruptions continued to pressure global supply chains and shipping costs. Eurozone PMI remained solid but also reported significant supply bottlenecks and shipment backlogs. Emerging market and developing economies (EMDEs) showed signs of contraction, with the composite PMI contracting for the first time in over a year in August, driven by a sharp fall in manufacturing activity and weak export orders, though September data point to expansion amid improvement in East Asia and the Pacific. Global financial conditions continue to favor advanced economies with weak portfolio flows to EMDEs as a consequence. Moreover, inflationary pressures continue unabated, particularly among EMDEs in Europe and Central Asia, prompting nearly 60 percent of the region’s central banks to begin tightening their monetary policy.

Energy market developments

Brent crude oil prices have been volatile in recent months, while natural gas and coal prices have soared (Figure 1). Brent crude oil prices rose to US$75/bbl in September from US$70/bbl in August, as concerns over the impact of renewed pandemic outbreaks on oil demand eased, and supply disruptions in the US Gulf of Mexico from Hurricane Ida and outages elsewhere reduced production. Oil prices rose further in early October with Brent surpassing US$80/bbl following the decision by OPEC+ to maintain the pace of its production increases at 400 thousand barrels per day. The substantial rises in natural gas and coal prices in recent weeks have also inflated oil prices. The surge in natural gas and coal prices has been driven by the high demand for fossil fuels for electricity generation in light of economic recovery (particularly in China) and unusually hot weather in certain countries. Reduced renewable electricity production in several countries due to drought and low wind speeds has also played a role.

Figure 1: Natural gas and coal prices have soared

Source: IEA, OPEC, World Bank. Note: Shaded areas indicate forecasts.
Recent economic developments in Russia

COVID-19 cases are on the rise again in Russia. The rate of new cases has seen a sharp upward trend since early September (Figure 2) while rising mortality rates remain near their peak. As of October 3, Russia ranked 51st in the number of new cases weighted by population (158.3 new cases/million people) (Figure 3) and above the EU and global averages. Although vaccination rates are rising, the share of the fully vaccinated population, at 29%, remains well below comparators: World (34%), Turkey (53%), USA (55%), and the EU (63%).

Figure 2: New COVID-19 cases are rising (7-day rolling avg.)

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

Source: Stopcoronavirus.rf.

Higher commodities prices and firm non-oil export performance pushed the current account surplus to an 8-year high. In the first eight months of 2021, the current account surplus reached US$69.7 billion, nearly triple that of a year ago. It was supported by soaring gas prices and robust non-oil export performance, despite strong import growth as domestic demand recovered. Outbound tourism, recorded as service imports, remained subdued. Net capital outflows from the private sector rose to US$51.1 billion compared to US$35.6 billion in the same period of last year. In the first nine months of 2021, Russia’s international reserves increased by US$40.8 billion due to foreign currency transactions carried out by the Bank of Russia under the fiscal rule and Russia’s acquisition of US$17.5 billion equivalent of SDRs following an IMF decision on SDR allocation.

In September, the ruble appreciated by 0.5 percent, m/m, against the US dollar (Figure 4). Despite elevated concerns over the possible introduction of new sanctions (including sanctions on Russia’s public debt purchases in the secondary market), Russia’s strong external performance supported the ruble’s slight appreciation in

Figure 3: By the beginning of October, the number of new cases in Russia weighted by population was above the world and the EU average

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

Source: Our World in Data.

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
September, whereby it outperformed other EMDE currencies. Moreover, despite rising inflation, the real effective exchange rate has been strengthening, up 3.7 percent year to date.

**Figure 4: In September, the ruble appreciated by 0.5 percent, m/m, against the US dollar**

Economic growth momentum weakened in August. Industrial production output dropped in August (-0.8 percent, m/m, sa) (Figure 5). Average daily oil production fell 0.5 percent, m/m. Manufacturing grew 3.1 percent y/y, and activity was flat when compared to July. Temporary export tariffs introduced on August 1 weighed on metallurgical exports and production. In August, agricultural sector performance was weak, shrinking by 10.1 percent, y/y, due to a lower grain harvest. For 2021, the Ministry of Agriculture expects a 5 percent drop in the grain harvest because of adverse weather conditions. Meanwhile, the turnover growth of retail trade has remained strong, up 5.3 percent y/y, compared to 5.1 percent y/y in July amid an improving labor market and continued credit growth.

**Source:** Haver Analytics, Investing.com.

**Consumer price inflation continues inching up.** In August, annual consumer price index (CPI) inflation registered at 6.7 percent (Figure 6), rising further to 7.4 percent in September. Food inflation drove this acceleration with price rises across a broad set of food items (prices of meat, sunflower oil, sugar, and eggs rose by double-digits y/y). Core inflation was 7.6 percent in September (the highest since April 2016), up from 7.1 percent in August. The annual inflation rate in Russian regions ranged from three to 9.3 percent. Recovering demand combined with persisting supply bottlenecks and high global commodity prices has combined to push food prices high and rising. On the other hand, inflation expectations stabilized slightly, falling to 12.3 percent from 12.5 percent in August and down from 13.4 percent in July.

**Source:** Rosstat.
Figure 6: Annual CPI inflation climbed to 7.4 percent

Source: Haver Analytics.

Labor markets continue to show positive dynamics (Figure 7). In July, the total labor force reached 75.5 million people, almost recovering to the pre-pandemic level of 75.6 million people in July 2019. Unemployment rate continued to decrease to 4.4 percent (SA) in July, down from 4.7 percent (SA) a month before and 6.2 percent (SA) a year earlier. Real wages grew by 4.9 percent, y/y, in June. The most significant growth in salaries was concentrated in three economic activities: hospitality services and catering (+30.1 percent, y/y), education (+26.2 percent, y/y), and culture, sport, and leisure (18.8 percent, y/y).

Figure 7: Unemployment rate has continued to show positive dynamics

Source: Rosstat, Haver Analytics.

The budget continues to improve, with strong revenue performance outstripping muted expenditure growth. In the first eight months of 2021, the federal government registered a surplus of 934 billion rubles compared to a deficit of 1,568 billion rubles in the same period of last year. With the lifting of emergency support measures, primary expenditures rose by about 2 percent in real terms (Figure 8). Meanwhile, the economic rebound and higher commodity prices boosted receipts from oil and gas taxes, VAT, and CIT. Federal budget spending on the national economy grew the most in real terms (including spending related to the enterprise wage support payments program in 2020). It was followed by spending on communal and housing services and the environment. Federal budget spending on health and inter-budgetary transfers saw a decline. In the recently published medium-term budget framework for 2022 – 2024, the government plans to restore fiscal rule fully as of 2022.

Figure 8: The federal government’s fiscal position improved in the first eight months of 2021

Source: Haver Analytics.

Banks’ key credit risk and performance indicators remained stable (Figure 9). As of August 1, 2021, the capital adequacy ratio stood at 12.4 percent, down from 12.6 percent a month before. Non-performing loans decreased slightly to 8.2 percent of total loans, down from 8.4 percent in June. Banking sector profitability remained supported by strong credit growth, improving economic conditions, and the low costs of reserves, almost doubling this year to date compared to the same period of last year. The CBR has postponed (from October 1, 2021, to April 1, 2022) the introduction of the...
new procedure for calculating the required reserves amount and the date of changes to the necessary reserve requirements. The new method entails a simplified approach to the formation of required reserves, which will reduce the regulatory burden on credit institutions. As of August 1, the return on assets (ROA) and return on equity (ROE) had improved on the previous month.

**Lending growth decelerated slightly.** In August, corporate sector credit growth, inflation-adjusted, decelerated slightly to 9.7 percent, y/y, vs. 10.3 percent, y/y, a month before. Household lending adjusted for inflation grew by 20.7 percent, y/y. Duly it matched the growth level of the previous month; half of this amount comprised mortgage lending. High mortgage credit growth has not led to an increase in mortgage NPLs thus far. To reduce the incentives for banks to increase risky lending and curb the growth of the population’s debt burden, the CBR has twice increased macro-prudential requirements for unsecured consumer loans: on July 1 (returning to the pre-pandemic level), and then on October 1, 2021, when risk weights were further increased. Furthermore, a draft law empowering the CBR to introduce direct lending restrictions in the unsecured loan segment for banks and MFOs is currently pending approval. The tightening of monetary policy helps to mitigate these risks and supports deposit growth. In August, for the first time since the beginning of the year, time deposits saw an increase (+0.5 percent, m/m).

In September 2021, the CBR sold mid-sized lender Asian-Pacific Bank, with exposure to Russia’s far eastern region, having taken it over in a bailout in 2018.

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

In its analytical work, the World Bank uses official statistics of the Russian Federation. In relying on this 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.