Oil prices saw sharp moves in June and July as a result of both demand and production factors. The price of Brent crude oil averaged at US$73/bbl in June, marking a seven percent increase from May and its highest level since October 2018, before easing in July following an OPEC+ production agreement. Global activity, while still solid, appears to have moderated somewhat in 2021Q2, with the global composite PMI slowing about 2 index points to 56.6 in June. In that month, the average exchange rate of the ruble with respect to the U.S. dollar continued to strengthen supported by higher oil prices and lower risk perception. Yet in July, when financial volatility reemerged in global markets as mounting new COVID-19 cases triggered concern over the durability of global recovery, the ruble lost 1.8 percent, compared to June. Industrial production growth momentum slowed in June (-0.4 percent, m/m, sa), due mainly to weaker growth momentum in manufacturing. The OPEC+ agreement suggests higher crude oil production in Russia in August – November 2021. In January – June 2021, the current account registered a surplus of US$43.1 billion, US$18 billion higher than in the same period of last year supported by a stronger trade balance and still-subdued travel abroad. Both demand- and supply-side inflationary factors pushed up annual consumer price index (CPI) inflation to 6.6 percent in June - the maximum since August 2016. Elevated inflationary pressures, coupled with a rebound in domestic demand, prompted the Central Bank of Russia (CBR) to raise its key interest rate by 100 bp to 6.5 percent on July 23rd. Labor market dynamics are steadily improving. Banks’ key credit risk and performance indicators have remained largely stable supported by the CBR’s policy response measures, including regulatory forbearance. In June, household sector lending growth slightly accelerated, driven mainly by accelerated growth of mortgage loans.

The Global Context
Global activity, while still solid, appears to have moderated somewhat in 2021Q2, with global composite PMI slowing about 2 index points to 56.6 in June. Expansion in manufacturing PMI also edged down in June, partly reflecting renewed softness in certain large emerging markets and developing economies (EMDEs) in the wake of deteriorating COVID-19 trends. Global daily new COVID-19 cases have trended up alongside the spread of the Delta variant in July. The number of new COVID-19 deaths, however, has diverged amid highly uneven vaccination progress. Countries with relatively high vaccination rates have experienced falling mortality rates, while those with lower vaccination—including several EMDEs—have grappled with an uptick. Meanwhile, financial market volatility has reemerged in July as mounting new COVID-19 cases triggered concern over the durability of global recovery. Equity prices retreated from historically high levels in mid-July but have since recouped most of those losses. Similarly, 10-year U.S. Treasury yields slipped below 1.2 percent—the lowest since early February—with rates only partly recovering in late July. In contrast, lingering uncertainty over the timing of economic recovery has continued to contribute to tighter financing conditions among EMDEs in July, with EMBI spreads widening and portfolio outflows resuming for several EMDEs. Oil prices saw sharp moves in June and July as a result of both demand and production factors (Figure 1). The price of Brent crude oil averaged at US$73/bbl in June, marking a seven percent increase from May and its highest level since October 2018. The recovery in prices was driven partly by improving demand, with the International Energy Agency estimating that demand rose by 3.2 million barrels per day (mb/d) in June to 96.8 mb/d; it expects demand to continue recovering through the rest of the year. Oil prices rose further in July, hitting a peak of US$78/bbl in the first week of the month after a disagreement between certain OPEC+ members on future production quotas. A new agreement was reached on July 19, which resulted in oil prices declining by around 7 percent on the day to under US$70/bbl, although they have since partially recovered. Under the new production agreement, five countries—Iraq, Kuwait, Russia, Saudi Arabia, and the UAE—had their baseline production levels revised upwards. Russia and Saudi Arabia received the largest increases of 500 thousand...
barrels per day (kb/d). The group also agreed to raise production by 400kb/d every month starting in August and continuing until the original cuts of 9.7mb/d effective since May 1, 2020 have been restored, likely toward the end of 2022.

**Figure 1:** Oil prices saw sharp moves in June and July as a result of both demand and production factors

![Graph showing oil prices from January 2021 to July 2021](image)

*Source: IEA.*

**Recent economic developments in Russia**

**By the end of July, the number of new COVID-19 cases in Russia was slightly below its peak in the middle of the month (Figure 2).** As of July 30, 2021, the total number of COVID-19 cases in Russia totaled 6.2 million, the 3rd highest after the USA (35.0 million) and India (31.6 million). On July 30th, Russia registered 23,363 1 new cases – slightly below the peak number of mid-July. Since the beginning of the pandemic, Russia has registered 157,771 deaths (782 deaths on July 30th).

**Figure 2:** The number of new COVID-19 cases in Russia has been slowly decreasing since mid-July (largely due to a lower number of new cases in Moscow)

![Graph showing the number of new COVID-19 cases in Russia and Moscow from January 2021 to July 2021](image)

*Source: stopcoronavirus.ru*

As of end-July Russia ranked 43rd (out of 192 countries) in terms of number of new cases weighted by population (156.6 new cases/million of population, 7-day rolling average) (Figure 3). This is about twice as high as the World average.

**Figure 3:** By end-July, the number of new cases in Russia weighted by population is about two times higher than the World average.

![Bar chart showing new COVID-19 cases per million of population](image)

*Source: Our World in Data.*

The number of regions requiring mandatory vaccination for certain groups of population doubled in July (from 18 regions at the end of June to 35 on July 23rd). In these regions, vaccination is compulsory for certain groups of the population (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). The authorities aim to ensure 80% immunity among staff (share of the vaccinated plus employees recovered from Covid-19 over the past six months), allowing paid leave for vaccinated employees and suspension without pay for those who refuse vaccination. On July 1, the Mayor of Moscow announced the booster campaign, which allows vaccinated residents to get a third shot after six months, as the city contends with the highly contagious Delta variant.

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1 7-day average.

2 7-day average.
Enhanced efforts towards vaccination have helped raise vaccination rates: the share of people fully or partly vaccinated reached 24.4 percent on July 28th (compared to 11.5 percent on June 1). While catching up, vaccination rates in Russia remain relatively low compared to other countries: worldwide (27.8 percent), USA (56.7 percent), France (59.1 percent), Germany (60.9 percent), Italy (62.6 percent), Canada (71.2 percent).

In June, the worsening epidemiological situation has forced the authorities of most Russian regions to introduce additional restrictive measures or strengthen the existing measures to prevent the spread of infection. Many of these measures remain in place. Restrictive measures vary depending on the region, but most common measures include restrictions on operating of cafes and restaurants (ban on night working hours, ban on food courts operation in malls, etc.), restrictions on public events, mandatory remote working regimes (for vulnerable population groups or certain percent of employees), restrictions on theaters and movie theaters capacity, restrictions on hotels operation (mandatory negative PCR test or vaccination certificates for arriving guests). In mid-July, the substantial increase in new cases made the authorities of Tuva Republic introduce complete lockdown. At the same time some regions eased restriction measures as the situation started improving: 2-weeks lockdown ended in Buryatia republic. In addition, Moscow canceled QR codes mandatory for café and restaurants customers and opened food courts in malls and removed the ban on night working hours for cafes and restaurants. Overall, after peaking at the end of June, Russia’s stringency index\(^3\) somewhat subsided in July (Figure 4).

In July, when financial volatility reemerged in global markets as mounting new COVID-19 cases triggered concern over the durability of the global recovery, the ruble lost 1.8 percent, compared to the levels of June (Figure 5). The ruble slightly underperformed other Emerging Market currencies with MSCI Emerging Markets currency index losing 1.1 percent in July compared to June.

In January – June 2021, the current account registered a surplus of US$43.1 billion, US$18 billion above the same period of last year. In the first six months of 2021, 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

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\(^3\) 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).
higher prices for oil, gas, and metals supported the trade balance, which strengthened by US$12 billion to US$62.4 billion. According to available information for January – May 2021, the export volume of pipeline gas increased by 15.3 percent, y/y, while the crude oil export volume dropped by 16.9 percent, y/y (Figure 6). Imports of certain items demonstrated robust growth in January – May 2021 reflecting a rebound in domestic demand (Figure 7). Net private capital outflows dropped to US$28.2 billion, compared to US$31.2 billion in the previous year. Transactions of the non-banking sector related both to the reduction of net liabilities to non-residents and to increased net investments in financial assets abroad were drivers of net capital outflows. In the first six months of 2021, international reserves grew by US$12.0 billion\(^4\), largely due to resumed FX purchases in the fiscal rule framework.

**Figure 6: Global economic recovery pushed up demand for major export items (percentage change, January – May 2021, y/y)**

![Figure 6: Global economic recovery pushed up demand for major export items (percentage change, January – May 2021, y/y)](image)

**Source:** Customs Service of Russia.

**Figure 7: Imports of equipment demonstrated robust growth (percent change, January – May 2021, y/y)**

![Figure 7: Imports of equipment demonstrated robust growth (percent change, January – May 2021, y/y)](image)

**Source:** Customs Service of Russia.

**Industrial production growth momentum slowed in June (Figure 8).** Industrial production output declined slightly (-0.4 percent, m/m, sa) on the back of weaker growth momentum in manufacturing. In annual terms manufacturing grew by 7.7 percent, y/y, from a low base last year and by 4.3 percent compared to June 2019\(^5\). Output in mineral resource extraction, still constrained by the OPEC+ agreement, was below levels in June 2019 by 1.2 percent. Recent agreement in the framework of OPEC+ suggests crude oil production growth in August - November by 0.1 million b/d each month to reach 9.9 million b/d in November. According to the Vice Prime Minister, Russia will reach its pre-crisis crude production level in May 2022. In July, for the first time, Rosstat published its estimates of value added produced in oil and gas sector (upstream and downstream companies) in Russia’s GDP. With energy prices going down in 2020, it dropped to 15.2 percent from 19.2 percent in 2019 (current prices).

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\(^4\) *Growth due to BOP operations. In the first six months international reserves dropped to US$591.7 billion from US$595.8 at the end of 2020, largely as a result of asset price movements.*

\(^5\) *Source: Ministry of Economic Development.*
Several demand and supply factors contributed to increasing inflation in June (Figure 9). Among them are recovering domestic demand, increased costs for producers of goods and service providers caused by global and local supply chain problems, as well as requirements for sanitary and epidemic protection, and continuing restrictive measures. The annual consumer price index (CPI) inflation rose to 6.6 percent in June - the highest reading since August 2016. Annual CPI inflation accelerated in most Russian regions and ranged from 3.6 to 9.9 percent. The acceleration of food inflation continued to contribute the most to the growth of headline inflation (7.9 percent, y/y, compared to 7.4 percent, y/y, in May). Non-food consumer goods inflation rose to 7 percent, y/y, in June, up from 6.7 percent, y/y, in May. Inflation in services accelerated to 4 percent, y/y, compared to 3.3 percent, y/y, in the previous month, reflecting high demand for tourism services, both domestic and external. In June, core CPI stood at 6.6 percent, y/y. Household inflation expectations remained elevated, increasing to 11.9 percent in June, up from 11.3 percent in May. Elevated inflationary pressures, coupled with a rebound in domestic demand, prompted the Central Bank of Russia (CBR) to raise its key interest rate by 100 bp to 6.5 percent on July 23rd.

In the first half of 2021, the federal budget’s fiscal position improved amidst an economic rebound, higher oil prices, and elevated inflation. The fiscal position improved as primary expenditures (+Rub 568 billion or...
+0.1 percent, y/y, in real terms) increased less than budget revenues (+Rub 2173 billion or +17.3 percent, y/y, in real terms). In the first six months of 2021, federal budget revenues increased as both energy (+Rub 1115 billion, y/y) and non-energy revenues (+Rub 1058 billion, y/y)\textsuperscript{6} 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 economic recovery. Elevated inflation supported non-oil/gas federal budget revenues as well. In January – June 2021, federal budget spending on the national economy grew the most (including spending related to the program supporting wage payments of enterprises in 2020\textsuperscript{7}), state management, national defense, environment, communal and housing services, and education. Federal budget spending dropped for social policy, health, and interbudgetary transfers. The federal budget surplus increased to Rub 626 billion, compared to a Rub 823 billion deficit in the same period of last year. Compared to January – June 2020, the federal budget non-oil/gas primary deficit improved by Rub 490 billion to Rub 2,644 billion\textsuperscript{8}.

In June, the federal budget debt denominated in rubles increased by Rub 206.5 billion (+ Rub 203.8 billion in securities and +Rub 2.7 billion in state guarantees). As of July 1, 2021, federal budget debt denominated in rubles totaled Rub15.5 trillion (+10 percent since end-2020). In June, the federal government placed bonds for Rub 194.9 billion compared to Rub 530.3 billion in May 2021. In June, the share of non-residents in government bonds slightly rose to 19.7 percent from 19.5 percent in May.

Banks’ key credit risk and performance indicators remained largely stable supported by CBR policy response measures, including regulatory forbearance (Figure 11). As of July 1, 2021, the capital adequacy ratio stood at 12.6 percent (against a regulatory minimum of 8 percent). Compared to May 2021, non-performing loans remained largely unchanged at 8.6 percent of all loans as banks benefited from regulatory forbearance measures. The banking sector’s profitability has been showing signs of recovery, supported by strong credit growth fueled in turn by the government’s credit support programs and improving economic conditions less demanding for reserves. From January – June 2021, the banking sector’s net profit amounted to Rub 1.2 trillion rubles (US$16.4 billion), which is almost double the same period of 2020 (Rub 630 billion or US$9.1 billion) despite the ending of regulatory forbearance measures, when restructured corporate loans had to be fully provisioned, on April 1, 2021. As of June 1, 2020, the return on assets (ROA) and return on equity (ROE) was 2 percent and 19.2 percent, respectively, compared to 1.7 percent and 15.7 percent, respectively, at the beginning of the year.

In June, household lending growth slightly accelerated, driven mainly by higher growth of mortgage loans. Credit to the corporate sector remained strong. In June, household lending grew by 2.5 percent, m/m (compared to average 2.2 percent m/m in March - May). Household lending growth continued to benefit from the subsidized mortgage loan program. Unsecured lending growth was also strong, revealing its importance in the economic recovery. Overall, in June, credit to households in rubles grew by 24 percent, y/y, compared to 22 percent, y/y, in the prior month. Household funding side dynamics remains weak. The total retail funding side reported growth of 2.9% y/y (+0.4 m/m). The trend for increasing share of current accounts persisted with retail deposits showing limited response to the policy rate increase so far. In June, credit to the corporate sector (in rubles) increased by 15.4 percent, y/y, versus 15.3 percent, y/y, in May, backed by government programs for affected industries and systemically important enterprises. In the second quarter of 2021, the demand from households

\textsuperscript{6} With the adjustment for revenues for the Sberbank deal, federal budget non-oil/gas revenues increased by R1924 billion (+28.4 percent, y/y, real terms).

\textsuperscript{7} Enterprises applied for loans supporting payment of wages in the amount of minimum wages. The loans of those enterprises that managed to sustain their employee numbers

\textsuperscript{8} With the adjustment for revenues for the Sberbank deal, federal budget non-oil/gas primary deficit improved by Rub 1299 billion.
for the restructuring of their loans continued to decline compared to the beginning of the year. On the back of the growing spread of coronavirus infection and the imposed restrictive measures, the CBR recommended that credit institutions continue to restructure loans and borrowings for citizens and SMEs until October 1, 2021.

Figure 11: As of June 1st, key credit risk and banking performance indicators had remained stable

Source: Bank of Russia.