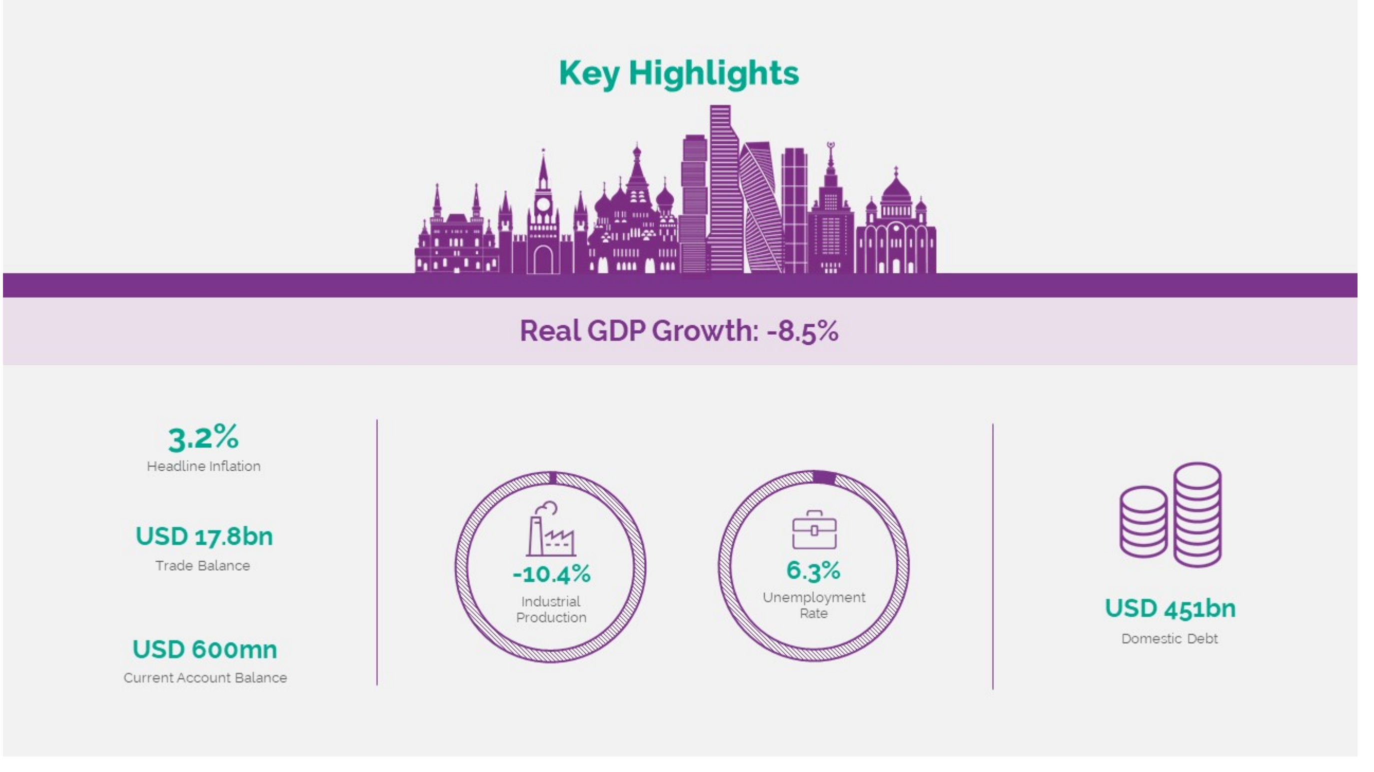
CEIC
In, On and For Emerging Markets

A CEIC Insights Report

Russia Economy in a Snapshot Q3 2020

Executive Summary

Russia Economy in a Snapshot is a quarterly publication produced by the CEIC Macroeconomic Research Team. The report is designed to provide a comprehensive, albeit concise overview of the current economic and financial developments. The Russia Economy in a Snapshot report is produced using data from CEIC's Russia Premium Database and Global Database.



Summary

The lockdown quarantine required to combat the spread of the COVID-19 pandemic and the slump in oil prices caused **GDP** to decline in real terms by 8.5% y/y in Q2 2020 following a rise of 1.6% y/y in Q1, according to the Federal State Statistics Service (Rosstat). All the main economic sectors, apart from agriculture, registered annual declines.

The seasonally adjusted **industrial production** index fell by 10.4% y/y in June, following declines of 7% y/y and 8.7% y/y in April and May, respectively. Industrial production from mining activities shrank by 14.2% y/y in June, while manufacturing production declined by 8.3% y/y in the same period.

Since the lockdown measures were eased in May and June, the rate of decline of the **retail trade index** moderated to 4.3% y/y in June from 16.5% y/y in May.

Although the labour market was in a robust state before the crisis, the strict stay-at-home measures and business shutdowns caused the **unemployment rate** to surge to 6.3% in June 2020.

Consumer price inflation picked up in March to 2.5% and it rose further to 3.2% in June. The upward move was underpinned by a 3.9% y/y rise in food prices in June, while prices of non-food items increased by 3% y/y.

At its July meeting, the central bank cut its **key policy interest rate** by 25bp to a new all-time low of 4.25%.

The main ruble-denominated stock index, **MOEX,** rose by 29.8% from its trough in mid-March to 2,743.2 on June 30, 2020.

In January-May 2020, **consolidated government revenue** amounted to RUB 15.4tn, down by 1.6% from the same five-month period in 2019, underpinned by a 14.1% y/y decline of company profit tax revenues. Over the same period, **consolidated government expenditure** totalled RUB 14.98tn, a rise of 14.6% y/y due to a 9% y/y rise in social security spending.

The **yield** on the benchmark 10-year government bond dropped to an all-time low of 5.7% in May 2020.

The value of **exports** declined by 36.1% y/y to USD 20.9bn in May, caused by oil production cuts and lower crude oil prices. **Imports** remained steadier, declining by 12.9% y/y in May to USD 16.7bn. This led to a sharp decrease in the **trade surplus** to USD 4.2bn in May from USD 14.8bn in January 2020.

Russia Economy: Statistics at a Glance

名称	03/2019	06/2019	09/2019	12/2019	03/2020	06/2020
Real GDP: Volume Index: Same Qtr PY=100	0.39	1.14	1.54	2.11	1.63	-8.50
Industrial Production Index, % y/y change	2.83	2.02	3.46	0.57	0.00	-10.37
Retail Trade Turnover, % y/y change	8.20	6.52	5.04	4.87	8.44	-4.29
Unemployment Rate, %	4.60	4.60	4.60	4.50	4.60	6.30
Consumer Inflation, %	5.25	4.66	3.99	3.04	2.54	3.21
Policy Rate, % pa	7.75	7.50	7.00	6.25	6.00	4.50
Consolidated Government Revenue, ytd, % y/y change	11.40	10.81	8.58	5.94	6.10	
Consolidated Government Expenditure, ytd, y/y change	3.78	4.52	7.43	9.19	16.90	
Consolidated Government Budget Balance, ytd, RUB bn	1,334.74	2,637.35	3,993.50	2,115.02	621.40	
Domestic Debt, USD bn	422.74	465.80	488.55	495.72	467.34	451.07
Exports, % y/y change	0.52	-11.23	-9.38	-4.08	-18.52	-25.81
Imports, % y/y change	-2.46	-5.44	6.43	8.15	-3.11	-4.81
Trade Balance, USD bn	51.39	42.30	41.47	44.93	36.55	17.83
Current Account Balance, USD bn	33.49	9.90	10.74	11.21	21.73	0.60

Source: CEIC Data, Federal State Statistics Service, Ministry of Economic Development, Ministry of Finance, Treasury, Customs Service, Central Bank

Economic Outlook

The CEIC Leading Indicator has been pointing at a slowdown of economic activity since June 2018. The smoothed version of the indicator peaked at 108.8 in May 2018 and then trended downwards, although the outlook remained positive (a value above 100) through to December 2019. In January, the indicator fell below the 100-threshold dividing expansion from contraction and continued falling through Q1 and Q2 2020 to 85.5 in June. According to the more volatile, non-adjusted version of the leading indicator, the economic contraction has been less severe, rebounding from a low of 77.8 in April 2020, to 92.5 in June.

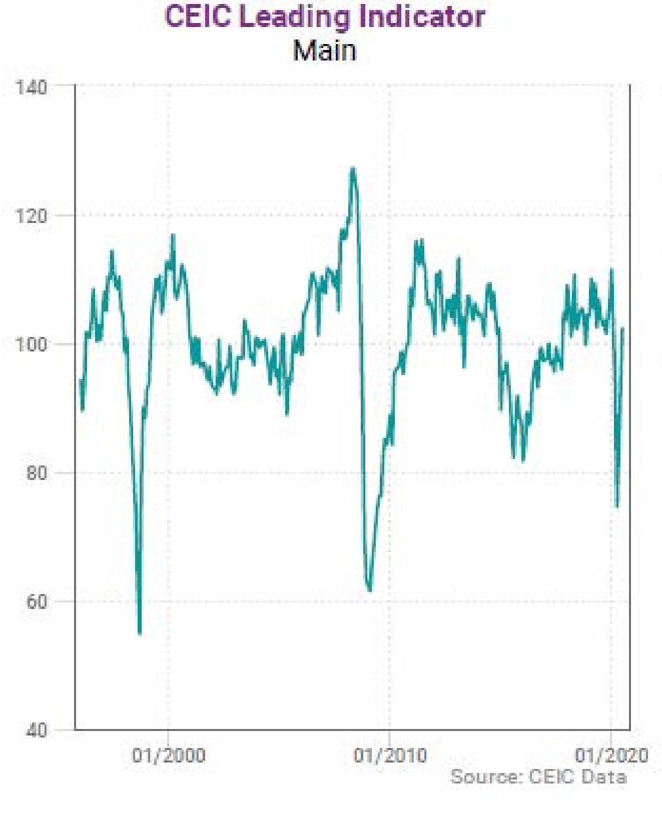
The manufacturing purchasing managers' index (PMI) indicates that a recovery from the April downturn has not materialised so far. Following a slump in the PMI to a seasonally-adjusted 31.3 in April, it rose to 36.2 in May, and 49.4 in June, indicating conditions were stabilising and that a recovery would begin in Q3 2020. Among the components, a positive value was recorded for the new orders index in June, which picked up to 50.3. A strong rebound of the output index to 52.1 also underpinned the rise in the manufacturing PMI. However, the figure for July showed it slipping to 48.4, driven by a decline in the employment index to 44.7.

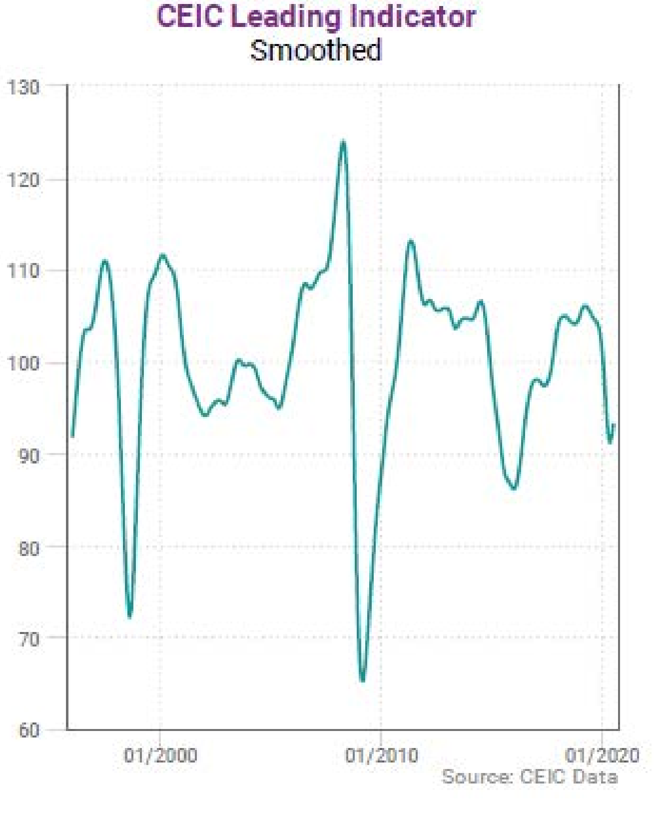
Due to the strict stay-at-home orders imposed in March, April and part of May, the services sector was more adversely affected than manufacturing according to the services PMI. The seasonally adjusted services business activity index slumped to 12.2 in April, after already falling to 37.1 in March from 52 in February. The indicator rose to 47.8 in June and then moved above the 50-threshold dividing a positive from negative outlook in July when it rose to 58.5.

The Bank of Russia (central bank) has maintained an extremely accommodating monetary policy to ease borrowing conditions and encourage lending. On July 24, 2020, the Bank cut its key interest rate to a historic low of 4.25%, showing a willingness to go even further than previously given low inflation and contracting GDP. Consumer price inflation is expected to remain within the 3.7% to 4.2% range in 2020, while real GDP is forecast to shrink by 4.5% to 5.5%.

Russia's fiscal deficit is expected to reach 4% to 5% of GDP in 2020. The government has already put in place several measures to support the economy, including tax deferrals for businesses and cheap loans for small and medium-sized enterprises (SMEs). To finance its rising expenditures, the government will both increase substantially state borrowing and tap into the National Wealth Fund (its sovereign assets). Since the value of the fund has surpassed the 7% of GDP limit prescribed by the fiscal rule, the government is permitted to use anything above this to support its budget operations.

According to the World Bank, the Russian economy will contract by 6% in 2020 given the adverse effect of the COVID-19 pandemic outbreak and low crude oil export prices. The economy is forecast to return to a growth trajectory in 2021-2022.





Real Sector

Real Sector

GDP declined in real terms by 8.5% y/y in Q2 2020 according to preliminary data released by the Federal State Statistics Service (Rosstat), showing a steep contraction caused by the coronavirus lockdown and the fall in oil prices after growing by 1.6% y/y in Q1 2020. The commodity, retail, transport, and services sectors were all hit the hardest by the abrupt change in economic conditions, falling markedly on a y/y basis, leaving agriculture as the only sector growing.

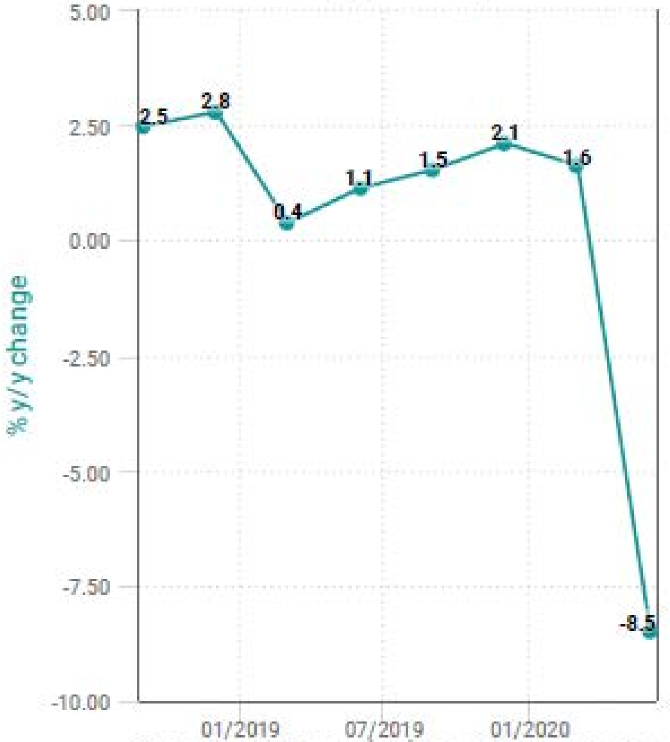
Although the Russian government eased social distancing measures early in Q2 2020, the growth of industrial production deteriorated from April to June. Seasonally adjusted data shows a 7% y/y decline in April, followed by 8.7% y/y and 10.4% y/y falls in May and June respectively. The mining sector did not look resilient even before the Covid-19 pandemic outbreak but it took its hardest hit in Q2 2020. Industrial production from mining activities declined by 14.2% y/y in June following another double-digit drop in May. The value of oil and gas production more than halved in April and May 2020 on the back of the oil price war with Saudi Arabia and supply cuts. Manufacturing production declined by 6.1% y/y in May and 8.3% y/y in June.

Retail sales were strengthening prior to the imposition of lockdown measures, growing by 5.7% y/y in March. Severe restrictions on the free movement of people for a seven-week period led to a 20.6% y/y slump in retail trade turnover in April, followed by a 16.5% y/y decline in May. Retail trade is on the path of recovery as the rate of decline moderated to 4.3% in June.

The real estate sector showed no signs of weakness in Q4 2019. The number of buildings completed grew by 2.12% y/y to 63,501 units. The number of buildings completed in the Central Federal District, which includes Moscow, fell by 10.6% y/y to 16,131 units in Q4 2019, but it was offset by increases in the rest of the country.

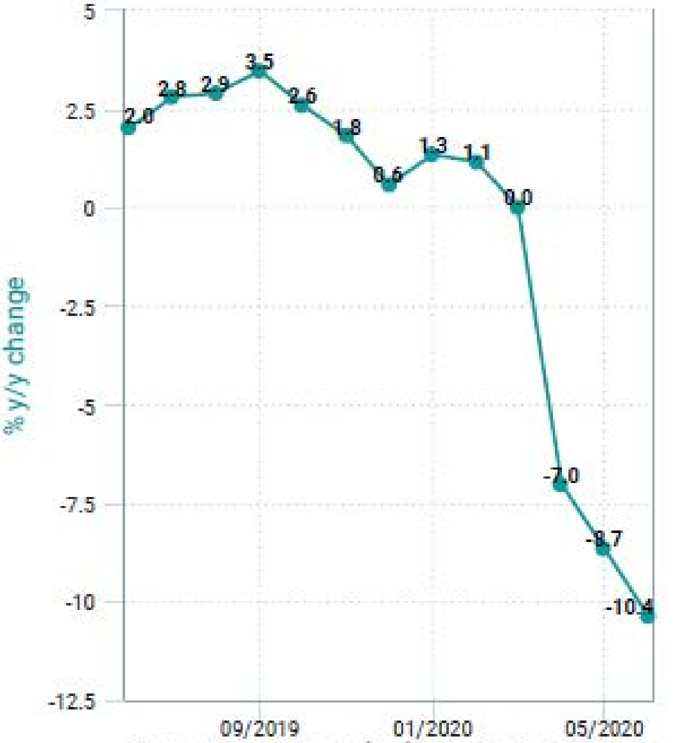
Despite a strong labour market in Q1 2020, the unemployment rate surged in Q2 due to the severe lockdown imposed by the Russian government. Before the social distancing measures were introduced, the seasonally adjusted unemployment rate declined to a record low of 4.5% and remained at this level until February. Due to the strict stay-at-home measures and business shutdowns, the unemployment rate surged to 6.3% in June 2020.

Real GDP, % y/y change



Source: CEIC Data, Federal State Statistics Service

Industrial Production Index

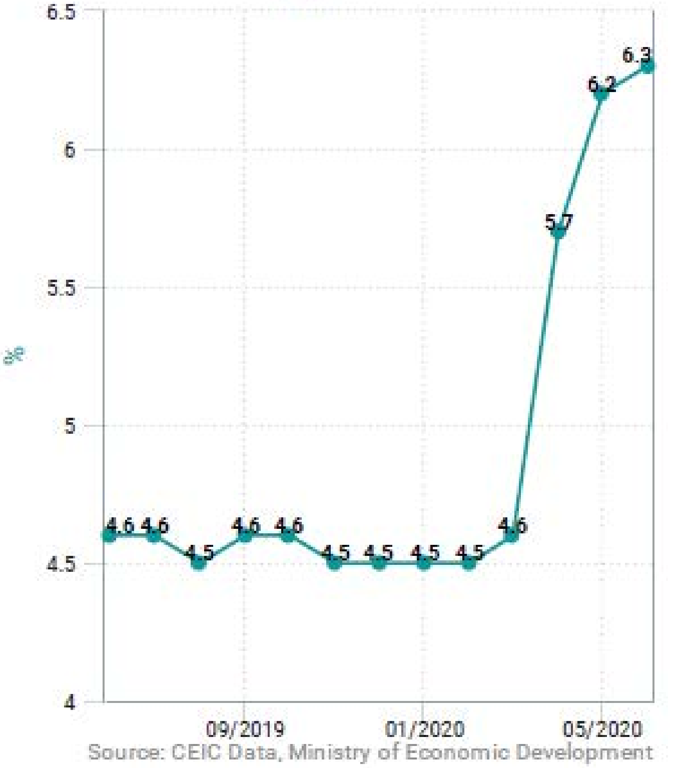


Source: CEIC Data, Federal State Statistics Service

Retail Trade Turnover

Source: CEIC Data, Federal State Statistics Service

Unemployment Rate



Source: CEIC Data, Ministry of Economic Development

Monetary & Financial Sector

Monetary and Financial Sector

Contrary to the trend in most developing economies, consumer price inflation in Russia picked up in Q2 2020. The steady downward trend from 5.3% in March 2019 was brought to a halt in March 2020 when inflation rose to 2.6%. In April,inflation accelerated to 3.1% and after falling slightly in May it ended the quarter at 3.2% in June. Core inflation remained below the headline rate in June, at 2.9%.

Inflation in the food segment was the main driver behind the faster increases in the CPI. Inflation among food items bottomed out at 1.8% in February 2020, but quickly increased to 3.9% in June. Inflation in the non-food segment rose as well, from 2.5% in March to 3% in June. Inflation in the services sector moderated from 3% in March to 2.5% in June.

The cost to businesses has declined in 2020, according to the producer price index (PPI). The annual rate of decline in the PPI was 0.9% in January but it quickened to 9.3% y/y in June. The cost of production in the mining sector declined by 29.1% y/y in June, while in the manufacturing sector it went down by 2.2% y/y.

All measures of the money supply suggest a massive acceleration of money creation on behalf of the Russian central bank. The growth of the M1 aggregate surged by 22.7% y/y in January 2020, it slowed through to April, but then reaccelerated to 18.8% y/y in June. Growth of M2 – the broadest measure of money – accelerated from 10.7% in January to 14.9% in June.

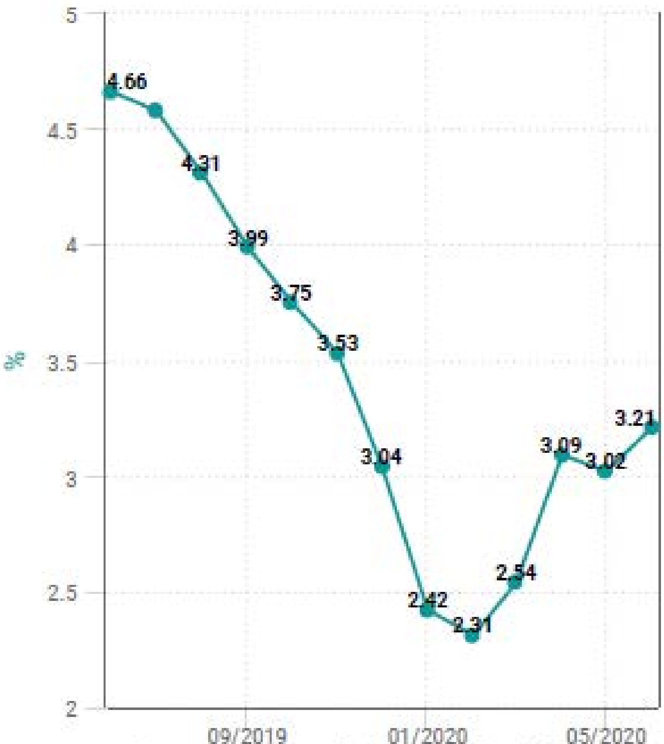
Russia's central bank maintained its ultra-accommodative monetary policy stance in H1 2020. In line with our forecast, the central bank cut its main policy interest rate by 100bp to a record low of 4.5% in June 2020. At its July policy meeting, the central bank lowered the policy rate by another 25bp to a new all-time low of 4.25%. As of July 2020, the key rate was 200bp lower than at the beginning of 2020, with market expectations of at least one more cut before the end of 2020. This loosening of monetary policy is forecast to increase consumer price inflation to around 4%, in line with the central bank's target.

Following a five-year long upward trend, the value of foreign exchange reserves declined to USD 438.1bn in June from a peak of USD 450.6bn in February. The accumulation of gold reserves continued in Q2 2020 with the value of Russia's gold holdings reaching a record high of USD 130.8bn in June, up by 30.4% y/y.

At the peak of the financial markets turmoil in mid-March, investors fled from emerging market assets, causing a steep depreciation of the ruble. On March 24, 2020, the ruble fell to 80.88 per USD. By comparison, in Q4 2019 the ruble traded in the range of 61-64 per USD. The ruble appreciated in Q2 2020 as central banks calmed the markets with large inflows of liquidity resulting in the currency trading in the range of 68.3-69.9 per USD in June 2020. The ruble also depreciated to 87.27 per EUR in mid-March, but partly recovered to 78.68 per EUR by the end of June. Despite this appreciation, the ruble is still significantly weaker in comparison with the beginning of 2020 when it traded in the range of 68-70 per EUR. The ruble traded at 113.04 per 10 yuan on March 20, 2020, but appreciated to 98.8 RUB per 10 yuan by the end of June.

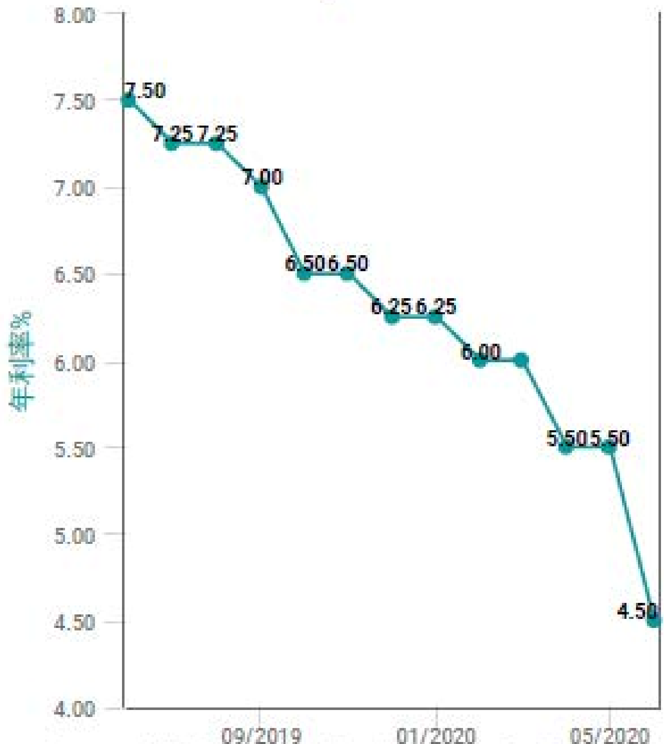
The main ruble-denominated stock index, MOEX, reached a record high of 3,219.92 on January 20, 2020. As fear spread throughout financial markets, the MOEX plunged 34.38% from its peak on March 18, 2020. From its trough, the MOEX then rose by 29.8% to 2,743.2 by June 30, 2020. The main USD denominated index on the Moscow Stock Exchange (the RTS) dropped to a low of 832.26 before recovering to 1,212.63 in the same period.

Consumer Inflation



Source: CEIC Data, Federal State Statistics Service

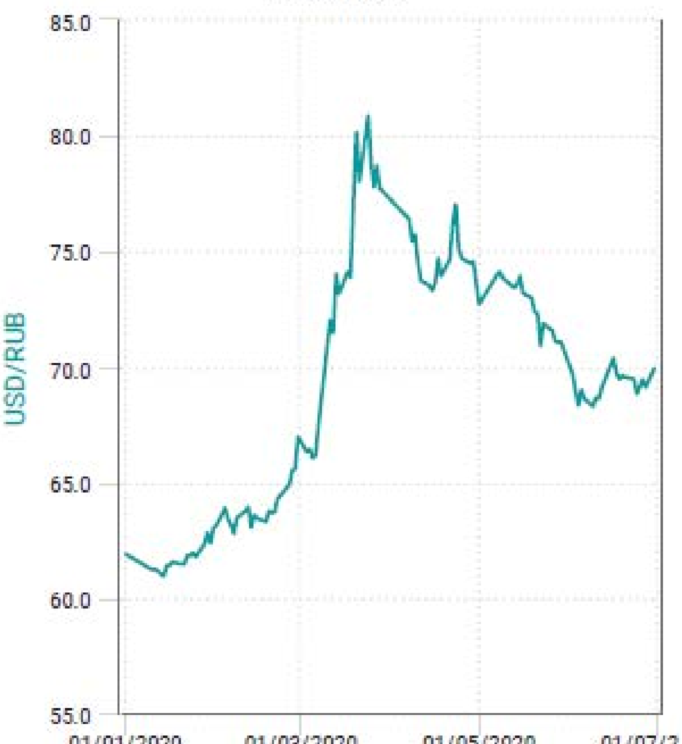
Policy Rate



Source: CEIC Data, Central Bank of the Russian Federation

Foreign Exchange Rate

USD/RUB



Source: CEIC Data, Central Bank of the Russian Federation

MOEX Stock Exchange Index

Source: CEIC Data, Moscow Exchange

Fiscal Sector

Fiscal Sector

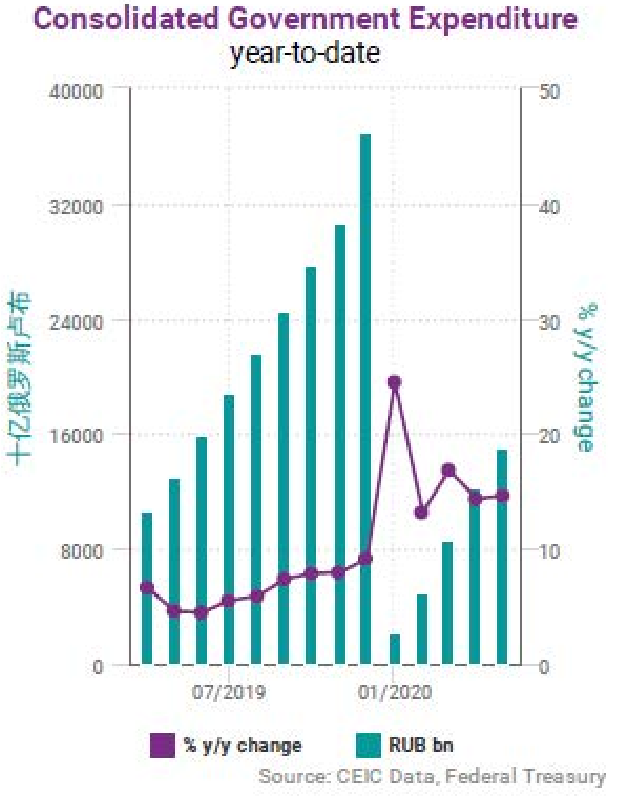
The trend of a declining fiscal surplus which began in Q3 2019 continued in 2020 with it narrowing to 1.3% of GDP in Q1 from 1.9% in the previous quarter. The monthly data suggest that Russia is likely to run a fiscal deficit in Q2 2020. Consolidated government revenue contracted by 27.7% y/y in May 2020 following a 1.6% y/y rise in April. In the January-May 2020 period, the government collected RUB 15.4tn worth of revenue, down by 1.6% from the same five-month period in 2019.

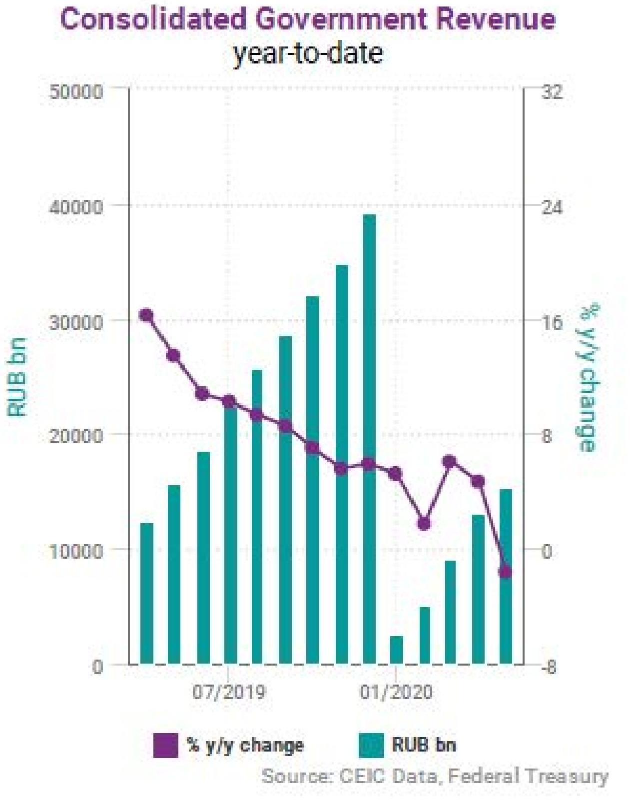
The largest share of the revenues came from taxes and social security payments which amounted to RUB 3.2tn in January to May, up by 4.18% y/y. Due to the mandatory shutdown of a large proportion of normal business activity at the beginning of Q2 2020, revenues from company profit tax totalled RUB 1.9tn in January-May, down by 14.1% y/y. The amount of individual income tax collected in the January-May period declined slightly by 0.7% y/y to RUB 1.45tn.

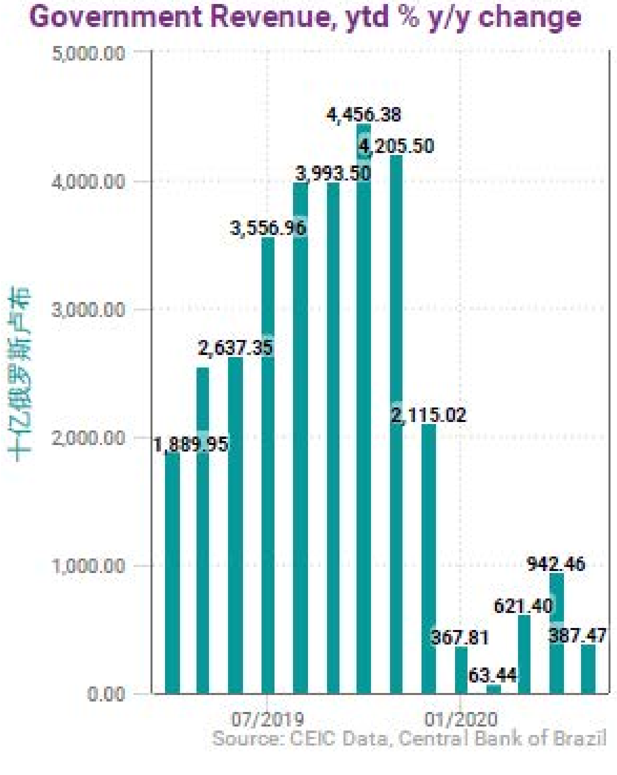
Due to increased spending on unemployment benefits and support for SMEs, consolidated government expenditure rose by 8.9% y/y and 15.9% y/y in April and May, respectively. During the first five months of 2020, the government spent a total of RUB 14.98tn, a rise of 14.6% y/y. Spending on social security amounted to RUB 5.45tn in January-May, up by 8.98% y/y. Expenditure on healthcare saw a significant 35.8% y/y increase in the first five months of 2020 to RUB 1.8tn. Over the same period, the government spent RUB 1.47tn on road infrastructure and transport, which was higher by 24.8% y/y. This led to a budget surplus for the January-May period of RUB 387.5bn, down by 84.8%y/y.

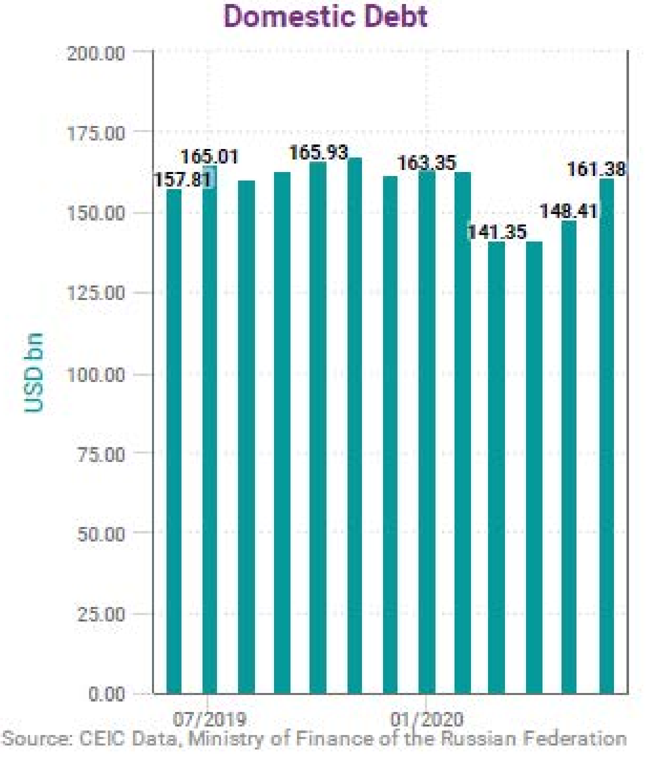
Russia's disciplined macro-prudential policy allowed it to maintain a healthy amount of government debt. Although government debt rose to USD 216.5bn in December 2019 from USD 184.5bn in January 2019, the debt-to-GDP ratio stood at 12.5% in 2019. Following a significant drop to USD 191.8bn in April, the debt burden increased to USD 212.4bn in June and it could potentially rise further in 2020. In June, domestic debt increased by 2.26% y/y to USD 161.4bn while external debt declined by 5.43% y/y to USD 51.1bn.

The yield on the benchmark 10-year government bond dropped to an all-time low of 5.7% in May 2020. Yields on Russian government securities rose in Q1 to 6.83% amid capital flight from emerging markets to "safe haven" countries. As the fear factor gradually faded in April and central banks, including Russia's, injected large amounts of liquidity into the markets, investor sentiment improved in Q2 2020. The increased risk appetite for emerging markets debt caused the Russian 10-year bond yield to fall to the historic low of 5.7% in May and although it picked up to 6.05% by the end of June it fell below 6% again in July. At the shorter end of the yield curve, returns fell to 4.32% in June from 5.89% on the back of large monetary stimulus and the lowest policy interest rate on record.


Consolidated Government Expenditure
year-to-date
十亿俄罗斯卢布
% y/y change
07/2019
01/2020
% y/y change
RUB bn
Source: CEIC Data, Federal Treasury


Consolidated Government Revenue
year-to-date
RUB bn
% y/y change
07/2019
01/2020
% y/y change
RUB bn
Source: CEIC Data, Federal Treasury


Government Revenue, ytd % y/y change
十亿俄罗斯卢布
07/2019
01/2020
Source: CEIC Data, Central Bank of Brazil


Domestic Debt
USD bn
07/2019
01/2020
Source: CEIC Data, Ministry of Finance of the Russian Federation

External Sector

External Sector

The volume and value of external trade have both declined significantly since the beginning of 2020. The value of exports declined to USD 20.9bn in May from USD 30.9bn in January, down by 36.1% y/y, largely due to oil production cuts and lower crude oil prices. Imports remained steadier, declining by 12.9% y/y in May to USD 16.7bn. This led to a sharp decrease in the trade surplus to USD 4.2bn in May from USD 14.8bn in January 2020, which given the concomitant falls in export and import volumes will significantly weigh on GDP growth.

Trade outflows to China – Russia's largest trading partner – declined significantly in Q2 2020. The value of exports stood at USD 3.4bn in April and USD 3.3bn in May, down by 28% y/y and 24% y/y, respectively. Meanwhile, the value of exports to its European trade partners collapsed. Exports to the Netherlands declined to USD 1.6bn in May from USD 2.8bn in March – a value that was not even matched during the global financial crisis of 2007-08. Germany dropped out of Russia's top-five main export partners in May 2020 with Russian exports there declining to USD 918.5mn.

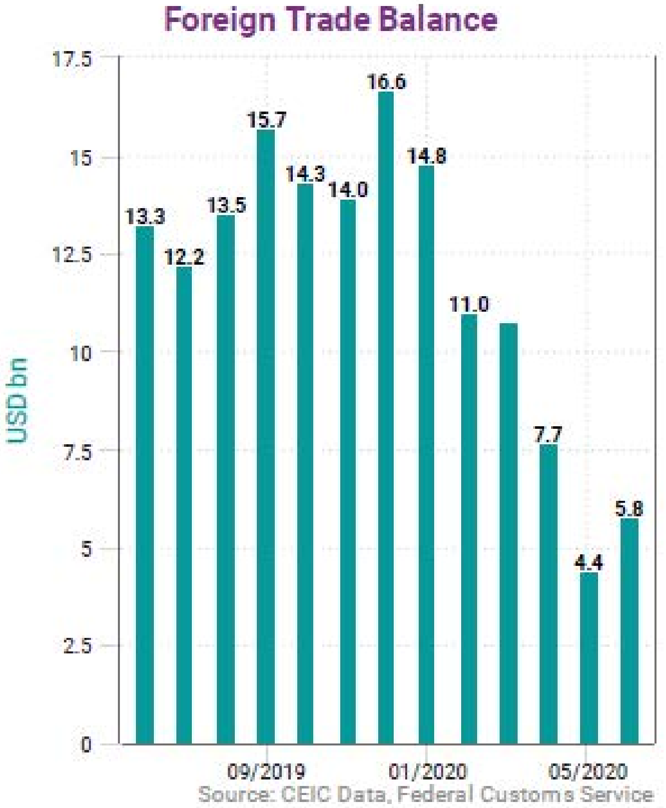
Crude oil exports – the main export commodity – plummeted in value in Q2 to USD 3.6bn in May from USD 7.5bn in March. Amid a plunge in global demand for oil, Saudi Arabia and Russia engaged in a price war at the end of Q1 2020 which drove prices that were already sliding even lower. Eventually, OPEC and its allies, including Russia, reached an agreement to cut oil production by 9.7mn barrels per day, or 10% of global demand from May onwards, which has weighed on Russia's oil-related revenues. Exports of petroleum products plummeted by 52.1% y/y to USD 2.6bn in May.

Imports from China rebounded strongly in Q2 2020 on the back of its rapid economic recovery. The value of imports declined to USD 3.5bn in March, but quickly rose to USD 4.5bn in May, up by 11.5% y/y. A trend in the opposite direction was recorded for imports of US goods. The value of imports from the US rose to USD 1.5bn in March, but following the rapid spread of COVID-19 across the US in Q2, imports fell to USD 1.1bn in May, down by 17.6% y/y. Imports from Germany remained subdued at USD 1.7bn in May, down by 13.6% y/y. Imports of machines and equipment declined in May by 11.1% y/y to USD 7.8bn. Imports of pharmaceuticals totalled USD 726.2mn in May and imports of passenger cars halved on an annual basis to USD 235mn.

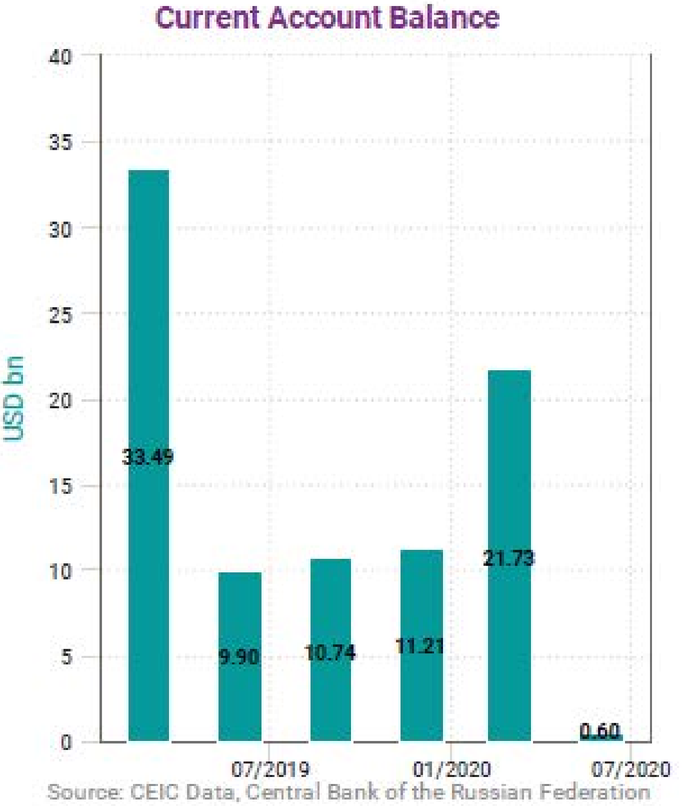
The current account surplus narrowed to just USD 600mn in Q2, underpinned by a declining trade surplus. Data on the financial account is released later. The most recent data for Q1 2020 show a larger surplus of USD 21.5bn in Q1 2020, rising from USD 11.6bn in the previous quarter. The outflow of direct investment which amounted to USD 616mn in Q4 2019 turned into an inflow of USD 3.9bn in Q1 2020. The value of portfolio investment altered from an outflow of USD 504mn in Q4 2019 to an inflow of USD 6.7bn in Q1 2020, boosting the financial account surplus. The inflow of reserve assets declined from USD 15.4bn in Q4 2019 to USD 5bn in Q1 2020.

Source: CEIC Data, Federal Customs Service

Source: CEIC Data, Federal Customs Service



Source: CEIC Data, Federal Customs Service



Source: CEIC Data, Central Bank of the Russian Federation

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About CEIC Data

CEIC is an ISI Emerging Markets Group Company specialized in high quality macroeconomic databases. CEIC's databases have earned a world-class reputation among financial institutions, government agencies, universities, and corporations due to accuracy and comprehensiveness. Today, we are the service of choice for economic research on emerging and developed markets by economists around the globe.

CEIC Insights

CEIC Insights is a unit of CEIC Data that produces proprietary research and analysis. The service features data templates with dynamic visuals for Emerging and Developed markets, providing instant insight from macro overviews to individual sector analysis.

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