# Russia Monthly Economic Developments

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THE WORLD BANK
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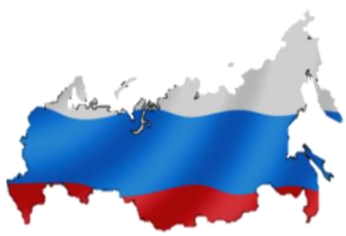
*Global activity appears to be stabilizing, with manufacturing activity in both the United States and China improving in the beginning of 2019. Crude oil prices rose 4 percent in March, extending their recovery since the start of 2019. Prices continued to increase in April, with Brent crude oil reaching $72/bbl and WTI Cushing reaching $64/bbl. The ruble average exchange rate strengthened to 65.1 against the U.S. dollar, gaining 1.6 percent in March compared to the previous month. In the first quarter of 2019, Russia's current account strengthened, albeit slightly, compared to the same period last year, as import values contracted and investment income payments decreased. After picking up in February, industrial production growth slowed down in March. Labor market dynamics were stable in February. In March, annual consumer inflation accelerated to 5.3 percent, y/y, up from 5.2 percent, y/y, in February, but inflation has most probably passed its peak value. On March 22nd, the Central Bank of Russia (CBR) kept the policy rate unchanged at 7.75 percent in annual terms. On the back of stronger non-oil revenues, the federal budget surplus improved to 2.2 percent of GDP in the first quarter of 2019 from 1.8 percent of GDP in the same period last year. The trend towards growth in both retail and corporate segments credits continued in February. Further, key credit risk and performance indicators remained largely stable.*

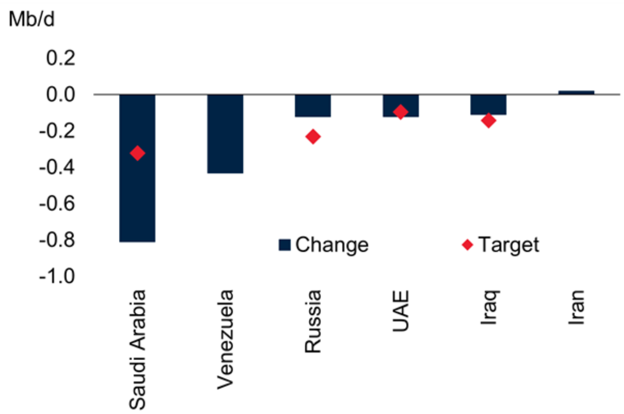
### The Global Context



**Global activity appears to be stabilizing, with manufacturing activity in both the United States and China improving in the beginning of 2019.** However, manufacturing weaknesses in the Euro Area persist amid anemic growth in industrial production, though the services sector remains robust. Global goods trade continues to lose momentum, with container shipping and new export orders pointing to a weak start in 2019. Policy uncertainty remains elevated as the United Kingdom's exit from the European Union and trade negotiations between the United States and China have both yet to be resolved. Global financing conditions continue to ease after a marked tightening last year, with the 10-year Treasury yield falling back to its January 2018 level. Central banks of many emerging market and developing economies (EMDEs) have followed suit by either cutting policy interest rates or pausing tightening cycles in 2019. Inflation in EMDEs, however, has begun to rise again in tandem with oil prices, especially for commodity importers. EMDE financing conditions have improved, with bond-spreads narrowing by 70 basis points since the start of the year.

**Crude oil prices rose 4 percent in March, extending their recovery since the start of 2019. Prices continued to increase in April, with Brent crude oil reaching $72/bbl and WTI Cushing reaching $64/bbl.** Production cuts among OPEC members have been deeper than initially agreed upon, with total crude oil production from the group falling from 32.2 mb/d in the last quarter of 2018 to 30.1 mb/d in March 2019. Saudi Arabia has led the trend, with production down 0.8 mb/d relative to October, and supply disruptions in Iran and Venezuela, which were exempt from the cuts, have also been severe (Figure 1). The ongoing economic and social crisis in Venezuela has seen production fall to just 0.9 mb/d in March, from an average of 1.4 mb/d in 2018. Production in Russia has fallen modestly, and it is expected to reach its target by April. Prices have also been supported by other supply concerns, notably renewed conflict in Libya, which may disrupt production. The U.S. oil rig count dropped to 816 in March, its lowest level in 12 months, before recovering modestly in April.

**Figure 1: Production cuts among OPEC members have been deeper than initially agreed upon**

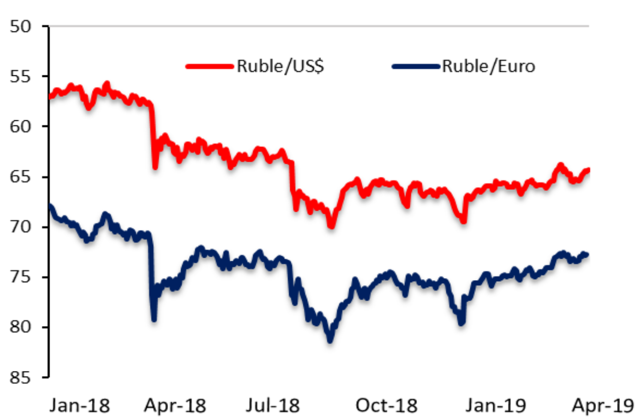



*Source*: International Energy Agency.
*Note*: Blue bars show change in oil production between October 2018 and March 2019. Red diamonds show agreed cuts. Venezuela and Iran exempt from cuts.

## Russia's Recent Developments

**In March 2019, the Russian ruble gained 1.6 percent compared to the previous month, with the ruble average exchange rate strengthening to 65.1 against the U.S. dollar (Figure 2).** The easing of global financing conditions, higher oil prices, and lower risk perceptions supported the ruble. The CDS-spreads decreased further in March. According to the CBR, the share of non-residents among OFZ holders increased from 25.9 percent at the end of February 2019 to 26.2 percent in the first quarter of 2019.

**Figure 2: The average ruble nominal exchange rate strengthened in March 2019**

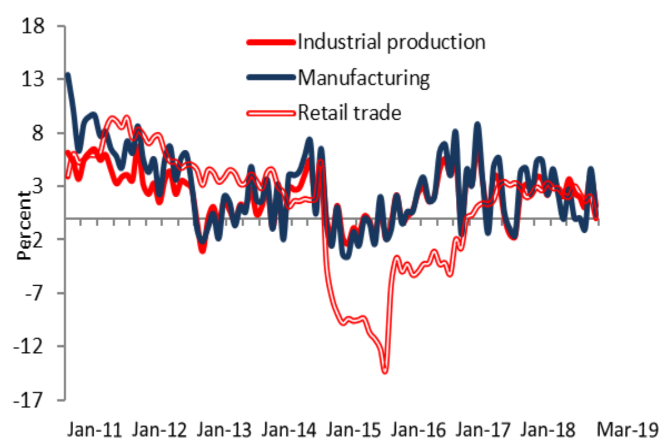



*Source:* CBR.

**Russia's current account strengthened slightly in the first quarter of 2019 compared to the same period last year as import values contracted and investment income payments decreased.** According to preliminary information, in January – March 2019, the current account surplus reached US$32.8 billion compared to US$30 billion in the same period last year. The value of export of goods dropped to US101.2 billion from US$101.7 billion in the same period last year, reflecting lower oil prices, a lower grain harvest in 2018, and lower exports of machines, equipment and transport vehicles. Russia's real effective exchange rate (REER) depreciation weighed down on import values, somewhat strengthening the trade balance. Lower debt levels combined with the weaker ruble supported its investment income balance. In the first quarter of 2019, net capital outflows from the private sector grew to US$25.6 billion from US$20.6 billion in the same period last year, driven mainly by acquisition of foreign assets by the banking sector. International reserves increased by US$18.1 billion largely because of the foreign currency purchases in the fiscal rules framework.

**After picking up in February, industrial production growth slowed down in March (Figure 3).** Growth in industrial production decelerated to 1.2 percent, y/y from 4.1 percent, y/y, in February. Lower growth was mainly the result of weaker growth in manufacturing (0.3 percent, y/y), which came on the back of a drop in production of metallurgical goods and other transportation (possibly related to the military sector).

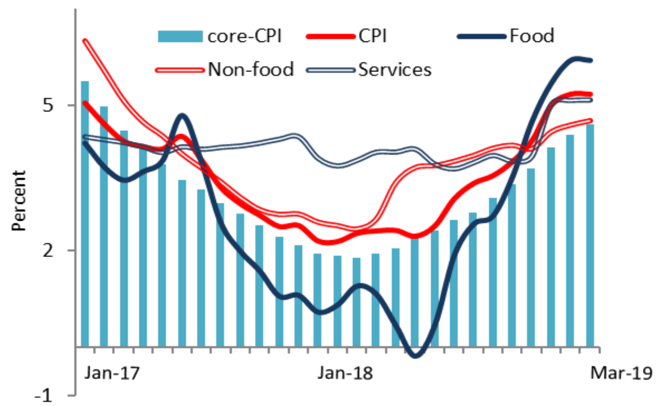
**Figure 3: Industrial production growth was weak in March 2019**




*Source:* Rosstat, Haver Analytics, World Bank team.

**In March 2019, annual consumer inflation accelerated to 5.3 percent, y/y, up from 5.2 percent, y/y, in February (Figure 4).** Prompted by a marginally higher contribution of non-food inflation, the 12-month consumer inflation increased in March. Monthly inflation adjusted for seasonality stayed at the same level as February, suggesting that inflation acceleration has possibly passed its peak. Core inflation increased to 4.6 percent, y/y, in March, up from 4.4 percent, y/y, in the previous month. Household inflation expectations eased to 9.1 percent in March, down from 10.1 percent in February.

**Figure 4: The consumer price index marginally accelerated in March 2019**

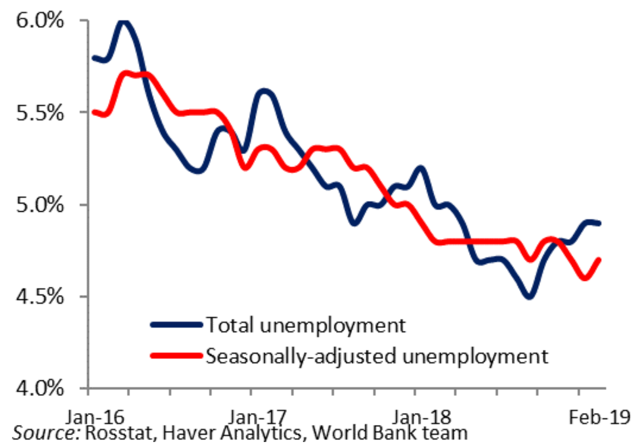



*Source:* Haver Analytics.

**On March 22, 2019, the Central Bank of Russia kept the policy rate unchanged at 7.75 percent in annual terms.** The Central Bank noted that inflation figures for February – March were lower than expected, but pointed to elevated inflation expectations and possible deferred effects of the VAT rate increase. The Central Bank lowered its 2019 end-year consumer inflation forecast from 5.0-5.5 percent to 4.7-5.2 percent, and it expects inflation to return to 4 percent in the first half of 2020.

**Labor market dynamics were stable in February 2019.** The unemployment rate remained at the level of 4.9 percent in February, increasing slightly by 0.1 percentage points after seasonal adjustment (Figure 5). Real wages continued to grow and increased in February by 0.7 percent compared to the same period in 2018 and by 0.3 percent compared to January 2019, following seasonal adjustment. Rosstat changed its methodology of calculating real disposable incomes, and it no longer reports on this indicator on a monthly basis. The poverty rate in 2018 decreased to 12.9 percent from 13.2 percent in 2017, and the number of poor people contracted by 0.4 million to 18.9 million.

**Figure 5: The unemployment rate edged up in February 2019**




*Source:* Rosstat, Haver Analytics, World Bank team

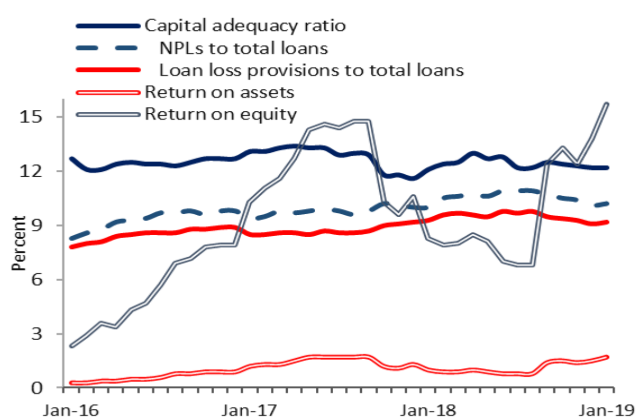
**On the back of stronger non-oil revenues, the federal budget surplus improved to 2.2 percent of GDP in the first quarter of 2019, up from 1.8 percent of GDP in the same period last year.** In the first quarter of 2019, non-oil and gas revenues reached 10.5 percent of GDP compared to 10 percent last year. This was largely the result of a VAT rate increase and a weaker ruble in the first quarter of 2019 compared to the same period last year. The VAT tax rate increase largely affected tax receipts from VAT levied on imported goods and services. The new VAT rate levied on goods and services produced domestically will be reflected in tax receipts starting in the second quarter of 2019. Oil and gas revenues dropped to 8 percent of GDP from 8.4 percent of GDP in the same period last year, and this was on the back of lower oil prices and tax maneuver in the oil sector. Federal budget expenditures dropped to 16.3 percent of GDP, down from 16.5 percent of GDP last year, due to lower interest payments. Meanwhile, primary expenditures edged up to 15.7 percent of GDP from 15.6 percent of GDP in the same period last year due to higher spending on national defense (+0.2 percent of GDP), environmental protection (+0.2 percent of

GDP), health (+0.2 percent of GDP), and social policy (+0.2 percent of GDP). The increase in primary expenditures was outweighed by non-oil/gas revenue increases, which led to an improvement of the non-oil/gas federal budget primary deficit to 5.2 percent of GDP compared to 5.6 percent of GDP in the same period last year. In January – February 2019, the general government balance improved to 3.6 percent of GDP from 2.2 percent of GDP in the same period last year. This was largely the result of lower spending in extra budgetary funds (which include the Pension Fund, Social Security Fund, and Mandatory Health Insurance Fund).

**On March 21, 2019, Russia issued new dollar-denominated Eurobonds.** The amount of Eurobonds totaled US$3 billion, maturing in 2035 with a yield of 5.1 percent. Russia also made a top-up issue of an existing euro-denominated Eurobond totaling 750 million euros, maturing in 2025 at 2.375 percent. The dollar Eurobond was the largest issue for the Ministry of Finance since 2013. Among buyers, British investors bought 55 percent of the dollar-denominated issue and 40 percent of the issue in euros, U.S. investors bought 21 percent of the dollar-denominated issue and 17 percent of the euro-denominated issue, while other European investors bought 8 percent and 18 percent, respectively. In the first quarter of 2019, the federal government's net debt issuance totaled 428 billion rubles (of which net foreign debt issuance reached 120 billion rubles or about US$2 billion). Meanwhile, the federal government continued its foreign currency purchases in the fiscal rule framework, with the amount of purchases totaling Rub 780 billion and exceeding the federal government's net debt issuance.

**The trend towards growth in both retail and corporate segments credits continued in February 2019.** Credit to the corporate sector in rubles grew by 12.1 percent in February, y/y, while loans to households grew by 23.6 percent, y/y. Key credit risk and performance indicators remained largely stable (Figure 6). As of February 1st, the capital adequacy ratio stood at 12.2 percent (against a regulatory minimum of 8 percent). The non-performing loan ratio stood at 10.2 percent in January compared to 10.1 percent in the previous month. The banking sector's profit in January - February 2019 amounted to 445 billion rubles compared to 178 billion rubles in the same period in 2018, although this growth was, in part, affected by a change in reporting methods. At the beginning of 2019, the return on assets (ROA) and the return on equity (ROE) increased to 1.7 percent and 15.7 percent, respectively, up from 1.5 percent and 13.8 percent, respectively, at the end of 2018. The Central Bank continued its efforts to clean up the banking system, sanctioning banks that are non-compliant with regulations and that conduct risky operations: The number of banks in Russia has fallen from 484 at the beginning of 2019 to 478 as of March 1, 2019.

**Figure 6: Key credit risk and banking performance indicators remained stable**




Source: CBR.

## Main Economic Indicators

| | | 2018 | | | | | | | | | | | | | 2019 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Output Indicators** | 2017 | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | 2018 | Jan | Feb | Mar |
| GDP, % change, y-o-y | 1.6 | - | - | 1.9 | - | - | 2.2 | - | - | 2.2 | - | - | 2.7 | 2.3 | - | - | - |
| Basic sectors, % change, y-o-y | 2.5 | 2.3 | 2.7 | 1.9 | 3.7 | 3.7 | 1.6 | 2.8 | 1.2 | 0.7 | 3.6 | 1.8 | 1.9 | 2.9 | 0.4 | 2.1 | |
| Industrial production, % change, y-o-y | 2.1 | 2.4 | 3.2 | 2.8 | 3.9 | 3.7 | 2.2 | 3.9 | 2.7 | 2.1 | 3.7 | 2.4 | 2.0 | 2.9 | 1.1 | 4.1 | 1.2 |
| Manufacturing, % change, y-o-y | 2.5 | 4.3 | 4.7 | 2.2 | 5.3 | 5.4 | 2.2 | 4.6 | 2.2 | -0.1 | 2.7 | 0.0 | 0.0 | 2.6 | -1.0 | 4.6 | 0.3 |
| Retail trade | 1.3 | 2.9 | 2.0 | 2.2 | 2.9 | 2.6 | 3.3 | 2.7 | 2.8 | 2.2 | 2.0 | 3.0 | 2.3 | 2.6 | 1.6 | 2.0 | 1.6 |
| Extraction of mineral resources, % change, y-o-y | 2.1 | 0.8 | 1.2 | 2.4 | 2.5 | 1.3 | 2.8 | 3.2 | 4.5 | 6.9 | 7.4 | 7.8 | 6.3 | 4.1 | 4.8 | 5.1 | 4.3 |
| Construction, % change,y-o-y | -1.2 | 12.2 | 9.4 | -2.5 | 11.0 | 7.9 | 3.1 | -0.7 | 3.3 | 5.9 | 5.7 | 4.3 | 2.6 | 5.3 | 0.1 | 0.3 | 0.2 |
| **Fiscal and Monetary Indicators** | | | | | | | | | | | | | | | | | |
| Federal government balance, % GDP | -1.4 | 2.8 | 1.6 | 1.8 | 0.9 | 1.4 | 1.9 | 2.5 | 3.1 | 3.5 | 3.6 | 3.7 | 2.6 | 2.6 | 4.8 | 2.0 | 2.2 |
| Inflation (CPI), %, y-o-y | 3.7 | 2.2 | 2.2 | 2.4 | 2.4 | 2.4 | 2.3 | 2.5 | 3.1 | 3.4 | 3.5 | 3.8 | 4.3 | 2.9 | 5.0 | 5.2 | 5.2 |
| Inflation expectations, %, y-o-y | 10.3 | 8.9 | 8.4 | 8.5 | 7.8 | 8.6 | 9.8 | 9.7 | 9.9 | 10.1 | 9.3 | 9.8 | 10.2 | 10.2 | 10.4 | 10.1 | 9.1 |
| **Balance of Payment Indicators** | | | | | | | | | | | | | | | | | |
| Trade Balance, billion $ (monthly) | 115.4 | 17.0 | 12.2 | 15.0 | 15.0 | 15.2 | 15.2 | 13.1 | 15.8 | 18.8 | 19.9 | 19.0 | 18.2 | 194.5 | 13.4 | 15.7 | |
| Current Account, billion $, ytd | 35.4 | 12.9 | 20.7 | 30.0 | 39.3 | 46.9 | 47.9 | 56.7 | 64.5 | 75.4 | 89 | 102.7 | 113.8 | 113.8 | | | 32.8 |
| Export of goods, billion $ | 353.5 | 33.4 | 31.2 | 36.9 | 36.2 | 36.5 | 36.6 | 34.4 | 37.4 | 38.7 | 41.3 | 40.5 | 41.4 | 443.4 | 29.8 | | |
| Import of goods, billion $ | 238.1 | 16.4 | 19.0 | 21.9 | 20.9 | 21.4 | 21.0 | 21.0 | 21.6 | 19.8 | 21.6 | 21.5 | 22.5 | 249.0 | 16.5 | | |
| **Financial Market Indicators** | | | | | | | | | | | | | | | | | |
| CBR policy rate, %, end-o-p | 7.75 | 7.50 | 7.50 | 7.25 | 7.25 | 7.25 | 7.25 | 7.25 | 7.25 | 7.50 | 7.50 | 7.5 | 7.75 | 7.75 | 7.75 | 7.75 | 7.75 |
| Credit to households in Rub, % change, y-o-y | 7.4 | 14.5 | 15.2 | 16.1 | 17.1 | 18.5 | 19.4 | 20.3 | 21.1 | 22 | 22.5 | 23.1 | 22.6 | 22.6 | 23.2 | 23.6 | |
| Credit to the corporate sector in Rub, % change, y-o-y | 2.0 | 5.1 | 5.5 | 6.3 | 7.5 | 6.9 | 7.4 | 8.1 | 9.5 | 8.4 | 9.7 | 10.6 | 12.0 | 12.0 | 12.3 | 12.1 | |
| Capital adequacy ratio | 11.6 | 12.1 | 12.4 | 12.5 | 13.0 | 12.7 | 12.8 | 12.2 | 12.2 | 12.5 | 12.4 | 12.3 | 12.2 | 12.2 | 12.2 | | |
| NPLs to total loans | 10.0 | 10.0 | 10.5 | 10.6 | 10.7 | 10.6 | 10.9 | 10.9 | 10.9 | 10.7 | 10.5 | 10.4 | 10.1 | 10.1 | 10.2 | | |
| Loan loss provisions to total loans | 9.2 | 9.3 | 9.6 | 9.7 | 9.6 | 9.5 | 9.8 | 9.7 | 9.8 | 9.5 | 9.4 | 9.3 | 9.1 | 9.1 | 9.2 | | |
| Return on assets (ROA) | 1.3 | 1.0 | 0.9 | 0.9 | 1.0 | 0.9 | 0.8 | 0.8 | 0.8 | 1.4 | 1.5 | 1.4 | 1.5 | 1.5 | 1.7 | | |
| Return on equity (ROE) | 10.6 | 8.3 | 7.9 | 8.0 | 8.5 | 8.1 | 7.0 | 6.8 | 6.8 | 12.4 | 13.3 | 12.4 | 13.8 | 13.8 | 15.7 | | |
| **Income, Poverty and Labor Market** | | | | | | | | | | | | | | | | | |
| Real wages, % change, y-o-y | 6.2 | 11.0 | 10.5 | 8.7 | 7.6 | 7.6 | 7.2 | 7.5 | 6.8 | 4.9 | 5.2 | 4.2 | 2.9 | 7.0 | 1.1 | 0.7 | |
| Unemployment (%, ILO definition) | 5.1 | 5.2 | 5.0 | 5.0 | 4.9 | 4.7 | 4.7 | 4.7 | 4.6 | 4.5 | 4.7 | 4.8 | 4.8 | 4.8 | 4.9 | 4.9 | |
| **Exchange rate** | | | | | | | | | | | | | | | | | |
| USD/ RUB, average | 58.3 | 56.8 | 56.8 | 57.0 | 60.4 | 62.2 | 62.7 | 62.8 | 66.1 | 67.7 | 65.8 | 66.2 | 67.3 | 62.5 | 67.3 | 65.86 | 65.14 |
| Euro/ RUB, average | 65.8 | 69.0 | 70.3 | 70.4 | 74.2 | 73.7 | 73.2 | 73.4 | 76.2 | 79.0 | 75.7 | 75.3 | 76.6 | 73.9 | 76.9 | 75.78 | 73.75 |
| **Oil price** | | | | | | | | | | | | | | | | | |
| Brent, $/bbl | 54.4 | 69.0 | 65.4 | 66.5 | 71.6 | 76.7 | 75.2 | 74.4 | 73.1 | 78.9 | 80.5 | 65.2 | 56.5 | 71.1 | 59.3 | 64.1 | 66.4 |

*Source: Rosstat, CBR, EEG.*

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