

*In April 2019, global growth continued to show signs of deceleration amid weakening industrial activity. Oil prices continued their sustained recovery from early 2019 and remained elevated into May. In April, the Russian ruble strengthened by 0.8 percent compared to the previous month, supported by higher oil prices. In the first quarter of 2019, Russia's current account surplus strengthened to US\$45.5 billion from US\$39.4 billion in the same period last year; net capital outflows from the private sector almost doubled compared to the same period last year, reaching US\$34.7 billion. In the first quarter of 2019, economic growth decelerated to 0.5 percent of GDP, y/y, on the back of the VAT rate hike, a relatively tight monetary policy, and the OPEC+ agreement, which resulted in oil production cuts in Russia. In April 2019, annual consumer inflation slowed to 5.2 percent from 5.3 percent in March 2019. Labor market dynamics were mixed in March 2019. The trend towards growth in both retail and corporate credit continued in February. Key credit risk and performance indicators remained largely stable.*

## The Global Context

### Global growth continues to show signs of deceleration amid weakening industrial activity, ongoing since the start of 2019.

The global manufacturing PMI suggests continued moderation in April as new export orders contract, with particular weaknesses in Europe and Asia. Trade tensions between the United States and China sharply escalated in May as a breakdown in negotiations led to an increase in tariffs by the U.S. and retaliatory actions by China. The resulting impact on trade and policy uncertainty could further dent confidence and investment. Global financing conditions remain favorable as major central banks hold policy stances that are more accommodative than in 2018. However, recent financial market volatility and trade policy uncertainty have reduced the risk appetite for EMDE assets and coincided with a moderation in portfolio inflows to EMDEs in May. Despite broad-based global weakening, the U.S. economy expanded by 3.2 percent (q/q, saar) in the first quarter of 2019, while the Euro Area rebounded to 1.5 percent as Italy came out of recession.

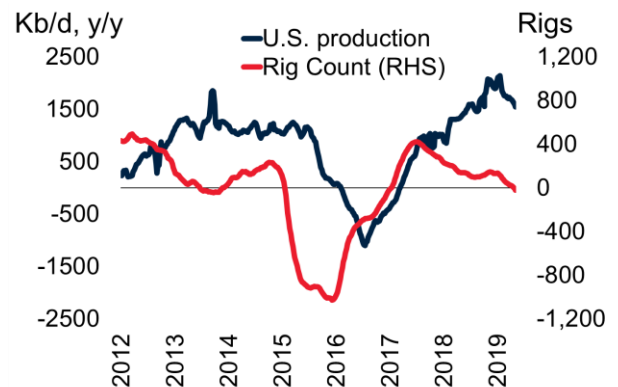
**Oil prices rose 7.5 percent in April (m/m), continuing their sustained recovery since the beginning of 2019, and they remained elevated into May.** Prices were boosted by the United States' decision to terminate waivers to its sanctions on imports of Iranian oil—under



the waivers, Iranian oil exports were averaging 1.4 million barrels per day (mb/d). Geopolitical events, including attacks on two oil tankers in the Strait of Hormuz, a key oil transport route, also supported prices in May. OPEC and its non-OPEC partners exceeded their agreed production cuts in

April, aided by the closure of a major oil field in Kazakhstan. Production in Russia fell by 70 thousand barrels per day, bringing it close to, but still below, its agreed production cut. In the United States, oil production continues to grow rapidly but the pace of growth is slowing, and annual growth in the rig count has turned negative (Figure 1).

**Figure 1: In the United States, oil production continues to grow rapidly**

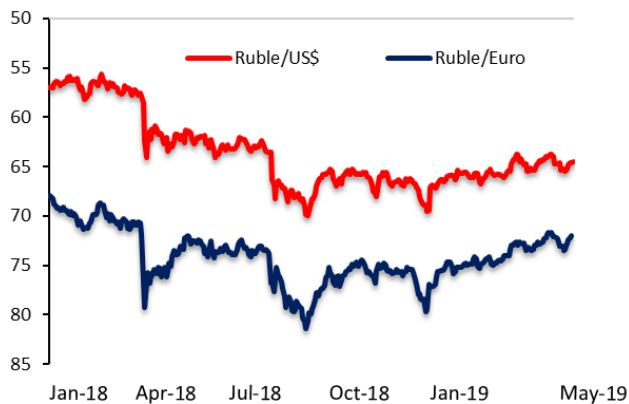


Source: EIA, Baker Hughes, Bloomberg.  
Note: Weekly frequency. Last observation is May 14, 2019.

## Russia's Recent Developments

In April 2019, the Russian ruble strengthened by 0.8 percent compared to the previous month, with the ruble average exchange rate reaching 64.6 against the US dollar (Figure 2). Higher oil prices supported the ruble while somewhat higher debt payments weighed down on the ruble exchange rate dynamics.

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



Source: CBR.

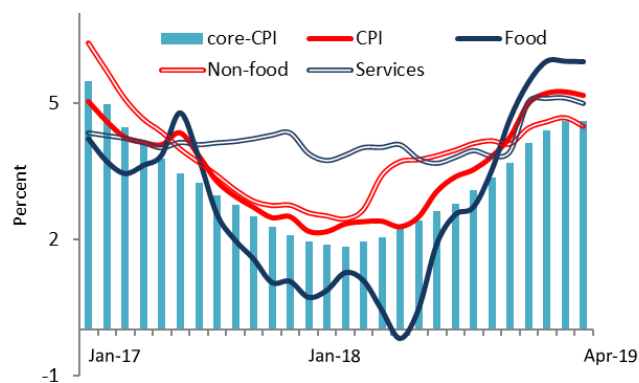
In January – April 2019, the current account surplus strengthened to US\$45.5 billion compared to US\$39.4 billion in the same period last year. According to the Central Bank, the improvement was broad-based and came from all components of the current account. Net private capital outflows increased to US\$34.7 billion compared to US\$18.5 billion in 2018, mainly due to higher net capital outflows in the banking sector. Russia's international reserves gained US\$21.7 billion compared to US\$11.7 billion in the same period last year, largely due to currency purchases in the fiscal rule framework.

In the first quarter of 2019, economic growth decelerated on the back of the VAT rate hike, a relatively tight monetary policy, and the OPEC+ agreement, which resulted in oil production cuts in Russia. Rosstat published a flash estimate of GDP growth in the first quarter of 2019. GDP growth dropped to 0.5 percent, y/y, compared to 2.7 percent, y/y, in the fourth quarter of 2018. Higher inflation, stemming from the VAT rate hike, and relatively tight monetary policy weighed on domestic demand growth. Meanwhile, details on the

supply or demand side are not yet available. Preliminary statistics from Russian customs reveals a drop in exports of base metals, oil products, and machines, suggesting lower export growth. High frequency production side statistics show weaker growth in wholesale trade, transportation, and construction. While oil extraction growth was robust in the first quarter of 2019 in annual terms (3.4 percent, y/y), Russia's oil extraction production is limited by the OPEC+ agreement. Russia has been gradually cutting oil production, and this is expected to continue until mid-May.

In April 2019, the 12-month consumer inflation slowed down to 5.2 percent from 5.3 percent in March 2019 (Figure 3). It decelerated for all categories: food, non-food items, and services. A decrease in non-food inflation mostly contributed to the CPI decline. Core inflation remained at the level of 4.6 percent, y/y, the same as in March 2019. CPI inflation appears to have passed its peak in March. A relatively tight monetary policy and favorable external environment have curbed inflation pressures stemming from the VAT rate hike and the ruble's depreciation at the end of 2018. Meanwhile, inflation expectations remain elevated. In April, household inflation expectations increased slightly to 9.4 percent from 9.1 percent in the previous month.

**Figure 3: Consumer inflation slowed down in April 2019**

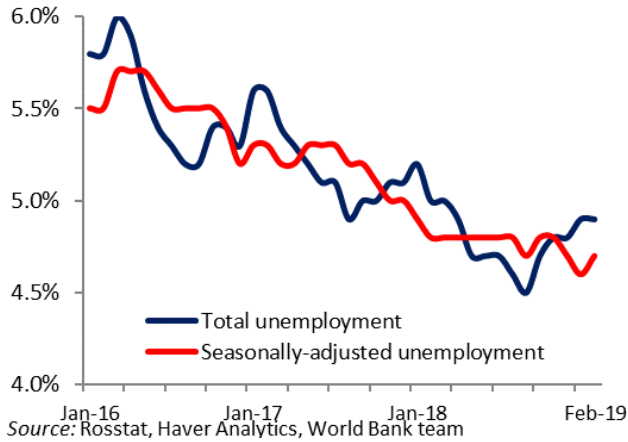


Source: Haver Analytics.

Labor market dynamics were mixed in March 2019. The unemployment rate decreased by 0.2 percentage points to the level of 4.7 percent in March. The

seasonally-adjusted rate, which also decreased by 0.2 percentage points, reached 4.5 percent in March (Figure 4). Real wages did not change compared to the previous month nor the previous year. Real disposable income, measured according to the new methodology, was negative in the first quarter of 2019 compared to the same period of 2018 (-2 percent).

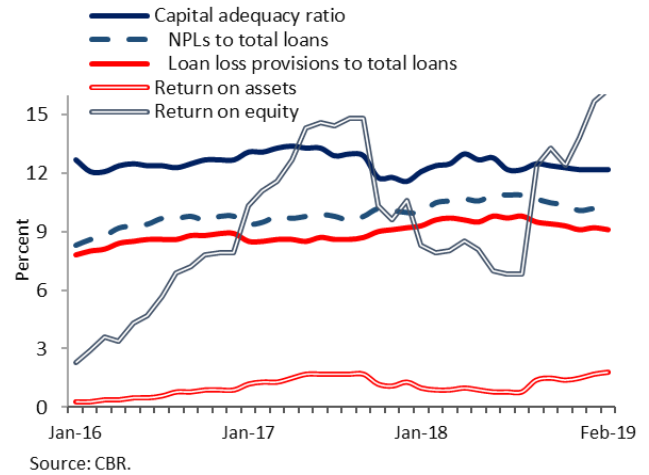
**Figure 4: The unemployment rate decreased in March 2019**



**In February 2019, credit growth continued in both retail and corporate segments.** Corporate demand for new loans strengthened as credit to the corporate sector in rubles grew by 12.1 percent, y/y, as of March 1<sup>st</sup>, while loans to households grew by 23.6 percent, y/y. Key credit risk and performance indicators remained largely stable (Figure 5). In February 2019, the capital adequacy ratio remained unchanged from December 2018, standing at 12.2 percent (against a regulatory minimum of 8 percent). The non-performing loan ratio slightly decreased to 10.1 percent from 10.2 percent a month before. As of the first quarter of 2019, the banking sector’s profits totaled 587 billion rubles (USD 9 billion) compared to 353 billion rubles in the same period of 2018. As of March 1<sup>st</sup>, the return on assets (ROA) and the return on equity (ROE) increased to 1.8 percent and 16.3

percent, respectively, up from 1.7 percent and 15.7 percent, respectively, at the beginning of 2019.

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



**The CBR’s license-revocation activities have slowed as the regulator has focused on the financial rehabilitation of several large financial institutions, including Systemically Important Banks (SIBs).** The number of banks in Russia has fallen from 484 at the beginning of 2019 to 473 as of April 1, 2019. In March 2019, the CBR tested its first attempt to privatize a bank that had been recapitalized by BSCF by putting the Asian-Pacific Bank (APB) up for sale for RUB 9.86 billion (USD 152 million) in an open auction. But ultimately, the CBR had to cancel the auction given the lack of investor interest due to the complexity of the procedure. CBR will postpone APB’s privatization until next year, and will, in the meantime, consider changing its auction format to allow for a broader set of options for privatizing resolved banks.

Main Economic Indicators																		
Output Indicators	2017	2018												2018	2019			
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec		Jan	Feb	Mar	Apr
GDP, % change, y-o-y	1.6	-	-	1.9	-	-	2.2	-	-	2.2	-	-	2.7	2.3	-	-	0.5	-
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	
<b>Fiscal and Monetary Indicators</b>																		
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	5.3	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	
<b>Balance of Payment Indicators</b>																		
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	45.5
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	21.6	19.8	21.6	21.5	22.5	249.0	16.5				
<b>Financial Market Indicators</b>																		
CBR policy rate, %, end-o-p	7.75	7.50	7.50	7.25	7.25	7.25	7.25	7.25	7.50	7.50	7.50	7.5	7.75	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	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	10.1		
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	9.1		
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	1.8		
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	16.3		
<b>Income, Poverty and Labor Market</b>																		
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	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	4.7	
<b>Exchange rate</b>																		
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	64.62
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	72.61
<b>Oil price</b>																		
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	71.2

Source: Rosstat, CBR, EEG.

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

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