The global number of confirmed COVID-19 cases raced past the 5 million mark in late-May, after reaching 3 million a month prior. The global composite PMI sank further into contractionary territory to 26.5 in April, below its historical low of 36.8 in November 2008. Industrial output in China, however, registered positive growth for the first time this year at 3.9 percent (y/y). Oil prices reached their lowest levels since 2002 in April, with the price of Brent crude oil falling 30 percent on the month to US$23/bbl. As of May 26, 362,342 COVID-19 cases (3,807 deaths) were registered in Russia. The Russian Government and the Central Bank (CBR) continued to expand and refine their support measures to counter the socioeconomic impacts of the COVID-19 pandemic and to lay a foundation for the recovery phase. In April, the ruble weakened by 2.8 percent against the U.S. dollar m/m. The current account (CA) surplus shrank in January-April, compared to the same period in the previous year, as the trade balance narrowed largely amidst lower energy commodities prices and diminished demand. In 1Q2020, GDP growth slowed to 1.6 percent, y/y, from 2.1 percent, y/y, in 4Q2019. In annual terms, in March 2020, industrial production growth slowed to 0.3 percent, y/y, compared to 3.3 percent, y/y, in February. Consumer price index (CPI) inflation accelerated with to 3.1 percent in April 2020, from 2.5 percent in March. Labor market dynamics deteriorated in March 2020. In the first four months of 2020, the federal budget surplus (cash basis) dropped to 0.4 percent of GDP from 2.4 percent in the same period last year on the back of higher spending. Key credit risk and performance indicators remained stable in March, while credit growth dynamics were mixed.

The Global Context

The global number of confirmed COVID-19 cases raced past the 5 million mark in late-May, after reaching 3 million two weeks prior. While new COVID-19 cases have slowed among advanced economies—prompting some easing of stringency measures—new clusters in Asia fostered renewed fear of a second wave of the pandemic, which was compounded by a sharp rise across major emerging market and developing economies (EMDEs). The uncertainty surrounding the path of the pandemic has contributed to increased volatility in global stock markets. Recently released economic indicators for April have begun to shed light on the impact of COVID-19 and the consequent slowdown in services. The global composite PMI sank further into contractionary territory to 26.5 in April, surpassing its historical low of 36.8 in November 2008. Additionally, U.S. retail sales plummeted by 21.6 percent (y/y), the largest decline since the indicator was first published in January 1967 and almost double the greatest decline experienced during the global financial crisis. Industrial output in China, however, registered positive growth for the first time this year at 3.9 percent (y/y).

Financial conditions have continued to ease around the world, helped by ongoing monetary and fiscal policy responses to counteract the impact of COVID-19. Debt markets are continuing to benefit from easing monetary policy, yet riskier segments of the debt markets remain under stress amid an acceleration in sovereign and corporate bond downgrades. Capital flight from EMDEs eased in April, following record portfolio outflows in March that led to soaring borrowing costs, sharp depreciations, and pressure on reserve buffers in many countries. Measures announced by the G20 to suspend debt repayments of low-income countries asking for forbearance until year-end, as well as a new liquidity line by the IMF to provide short-term balance of payments support for several EMDEs, have provided some relief to the financing conditions in EMDE.

Oil prices reached their lowest levels since 2002 in April, with the price of Brent crude oil falling 30 percent on the month to US$23/bbl. Lockdowns and restriction measures have caused a very sharp drop in oil demand, and the International Energy Agency expects demand to fall by an unprecedented 9 percent this year. However,
The Russian Government and the Central Bank continued to expand and refine their support measures to counter the socio-economic impacts of the COVID-19 pandemic and to lay a foundation for the recovery phase. On May 11, President Putin announced the third package of support measures, with emphasis on families with children and SMEs. These measures include: (i) an additional Rub 5,000 per child for three months for all families (including for April retroactively); (ii) lump sum payments in the amount of Rub 10,000 per child from June 1 for all families with children aged 3 to 16; (iii) increase in the minimum amount of childcare (for children up to the age of 1.5 years) for unemployed (from Rub 3,375 to Rub 6,750); (iv) federal supplementary for employees of social institutions (from April 15 to July 15).

In order to support businesses, starting June 1, a special salary loan program will be launched. Subsidized credits (at 2 percent annual interest rate) will be provided to companies in adversely affected sectors and socially oriented non-profit organizations, with possibility of write-off, conditional on preserving employment. The maturity date is April 1, 2021. For SMEs, individual entrepreneurs, and socially oriented non-profit organizations, all taxes (except VAT) and social security contributions will be deducted for the 2Q2020. For self-employed, provisions allow for: (i) reimbursement of tax income paid in 2019; (ii) “tax capital” in the amount of one minimum wage for tax payments. The total amount of the three fiscal packages announced by the Government is estimated at 2.8 – 3 percent of GDP.

In April, despite extremely low oil prices (average price for Urals oil dropped to US$18.2/bbl, compared to US$29.2 in March), the ruble weakened only by 2.8 percent, m/m, against the U.S. dollar (Figure 2). Lower imports and the CBR’s FX sales (in the framework of Sberbank purchase¹), as well as FX sales in the fiscal rule framework supported the ruble. Earlier, in 1Q2020, the ruble had weakened by 3.6 percent compared to the previous period. Similar dynamics were also registered to be exchanged to rubles to finance purchase of control stake in Sberbank by the government. These sales are conducted in addition to operations in the fiscal rule framework and will be discontinued after September 30, 2020.

Recent economic developments

**As of May 26, 362,342 COVID-19 cases (3,807 deaths) were registered in Russia.** In terms of number of cases, Russia now ranks second in the world (after the U.S.). The period of “mandatory holiday” has ended on May 11. Since May 12, most construction and industrial enterprises resumed their work. Self-isolation, general health and safety requirements are maintained. Further lifting the restrictions imposed due to the pandemic will be phased depending on the situation in particular regions.

¹ On March 19, the CBR established a new mechanism in the domestic FX market. In case the oil price falls below US$25/bbl, the CBR sells FX to replace fall out of oil and gas export revenues. The CBR will use currency from the NWF which needs oil prices recovered in May as lockdown measures have started to ease in some countries, while oil production has also started to fall. Saudi Arabia announced additional production cuts of 1mb/d on top of its existing pledges under the OPEC+ agreement. In the United States, the oil rig count fell to 258, its lowest level since 2009, and more than 60 percent below its March average (Figure 1). Several large U.S. oil producers have announced cuts to production, and the U.S. Energy Information Administration expects oil production to drop to 11mb/d by the end of 2020, from 12.8 mb/d at the start of the year.
for other emerging market currencies, as the MSCI International Emerging Market Currency Index declined by 0.3 percent in April, after a 3.5 percent decline in the previous month. The CBR has taken preventative measures to address exchange rate volatility.

**Figure 2: In April, the ruble weakened by 2.8 percent against the U.S. dollar**

The current account (CA) surplus shrank in January-April, compared to the same period in the previous year, as the trade balance narrowed largely amidst lower energy commodities prices and diminished demand. In January-April, the CA surplus decreased to US$23.5 billion from US$40.1 billion in the same period last year. The trade balance surplus registered at US$35.6 billion, compared to US$61.6 in January-April 2019; the trade balance narrowed more severely in April, as oil prices dropped further. Net private capital outflows narrowed to US$23.9 billion compared to US$27.6 billion in the previous year. Decrease in external liabilities of the banking sector was driving net capital outflows, while acquisition of foreign assets by the non-banking sector decreased compared to last year. International reserves gained merely US$2.6 billion in January-April, compared to US$21.7 billion in the same period last year, as FX purchases in the fiscal rule framework in the beginning of the year turned into FX sales and CBR proceeded with FX sales in the framework of Sberbank purchase.

Rosstat released a flash estimate of GDP growth in the first quarter. In the first quarter of 2020, GDP growth slowed to 1.6 percent, y/y, from 2.1 percent, y/y, in the last quarter of 2019. In March 2020, industrial production growth slowed to 0.3 percent, y/y, compared to 3.3 percent, y/y, in February (Figure 3). This decline reflects the effect of lockdown measures to contain the spread of Covid-19, accompanied by falling commodity prices and declining demand. In particular, the extraction of oil and gas (-1.6 percent, y/y), metal ores (-1.3 percent y/y), and coal (-8.1 percent y/y) contributed to the slowing growth in industrial production; the decline in natural gas was most pronounced, reflecting diminished demand in external markets and warmer weather. At the same time, growth in manufacturing slowed to 2.6 percent in March, y/y, from 5 percent, y/y, in February (February reading was somewhat inflated by the leap year factor).

**Figure 3: In March, industrial production output growth decelerated**

In April 2020, annual consumer price index (CPI) inflation accelerated to 3.1 percent, compared to 2.5 percent in March (Figure 4). The rise in headline CPI inflation was mostly due to the 12-month food inflation price acceleration (3.5 percent, y/y, compared to 2.2 percent in March). Core CPI rose 2.9 percent in April, from 2.6 percent in March. 12-month services inflation decelerated by 0.1pp to 2.8 percent in April. The drop in aggregate demand, in line with restrictive measures to contain the spread of Covid-19, became a disinflationary factor in April, while weaker ruble pushed CPI upwards.

*Source: Rosstat, Haver Analytics, World Bank team.*
Figure 4: In April, consumer price inflation accelerated (yoy % change)

![Graph showing consumer price inflation](image)

Source: Haver Analytics.

Labor market dynamics deteriorated in March 2020. Unemployment rate increased slightly to 4.7 percent in March from 4.6 percent in February. The seasonally adjusted rate increased even more, from 4.3 percent a month ago to 4.6 percent in March (Figure 5). Information on real wage is now being published with one-month lag. In February 2020 this indicator increased by 5.7 percent compared to the same period of 2019.

Figure 5: In March, the labor market dynamics deteriorated

![Graph showing labor market dynamics](image)

Source: Rosstat, Haver Analytics, World Bank team.

In the first four months of 2020, the federal budget surplus (cash basis) dropped to 0.4 percent of GDP from 2.4 percent in the same period last year on the back of the higher spending. With a slump in oil prices, in April, oil and gas revenues declined by 40 percent, y/y. In January–April, oil revenues dropped to 7.2 percent of GDP from 8.1 percent of GDP in the same period last year. A weaker ruble could not fully compensate for the fall in oil prices and weakened economic activity. Non-oil tax receipts declined as well: VAT receipts dropped by 1.1 percent, y/y, in the first four months of 2020 and by 15 percent in April, reflecting a decline in economic activity. CIT dropped by 3.7 percent, y/y, in the first four months of 2020 and by 43 percent in April. Meanwhile total fiscal revenues increased by 3.8 percent of GDP in the first four months of 2020, due to one-off channeling of the receipts from the Sberbank purchase. Primary expenditures increased by 5.8 percent of GDP in January–April 2020. Spending on social policy, national economy, and health were the main drivers of this growth. Compared to the previous year, spending has been increasing since January. In the beginning of the year, this reflected faster implementation of the National Projects. In March–April, higher spending was related to the government response to the spread of the virus and its support to the economy. Higher primary spending led to a deterioration of the non-oil/gas federal budget primary deficit, which reached 6.0 percent of GDP compared to a deficit of 4.9 percent of GDP in the same period last year.

Key credit risk and performance indicators remained stable (Figure 6), while credit growth dynamics were mixed. Since the introduction of the lockdown measures in March the downturn began to influence banks' operations. In order to mitigate the effects of COVID-19 pandemic and to ensure financial stability, the CBR adopted a broad set of measures to support liquidity in the banking sector via targeted interventions and grant temporary regulatory forbearance to banks. As of March 1, 2020, the aggregate capital adequacy ratio stood at 12.5 percent (against a regulatory minimum of 8 percent). Non-performing loans remained largely unchanged at 9.4 percent of total loans. In January-March, the net banking sector’s profit amounted to RUB 528 billion (US$8 billion) compared to RUB 587 billion (US$8.8 billion) in the same period in 2019. As of March 1, return on assets (ROA) and return on equity (ROE) were 2.1 percent and 18.9 percent, respectively, compared to 1.5 percent and 13.8 percent, respectively, in the beginning of the year. Banks' profitability is expected to weaken in 2020 due to asset quality...
weakening, lower lending growth and potential margin narrowing.

In March, households lending growth continued to slow down, reaching 17.8 percent, y/y, versus 18 percent, y/y in January. Banks started to tighten underwriting standards due to increasing pressure on retail borrowers from the coronavirus pandemic and the resulting economic downturn. Credit to the corporate sector in rubles accelerated to 6.1 percent, after adjusting for FX changes, y/y, compared to 4.1 percent a month before. This increase could be attributed to the pre-lockdown situation when companies increased borrowing from banks in anticipation of business closure and need to sustain ongoing payments (salaries, rents, taxes etc.).

Figure 6: In the beginning of 2020, key credit risk and banking performance indicators remained stable

Source: Bank of Russia.