



Bank of Russia

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# **TALKING TRENDS**

## **Economy and markets**

Research and Forecasting Department Bulletin

JUNE 2020

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The Research and Forecasting Department prepared this bulletin based on data as of 01.06.2020

The views and recommendations expressed in the bulletin do not necessarily reflect the official position of the Bank of Russia.

Please send your comments and suggestions to [dip\\_bulletin@mail.cbr.ru](mailto:dip_bulletin@mail.cbr.ru)

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## EXECUTIVE SUMMARY

### 1. Monthly summary

- Inflation slowed to 3.0% in May. The effect of pro-inflationary factors weakened, thanks to, among other things, rouble strengthening. Disinflationary factors, driven above all by April's demand plunge in the economy, started to prevail. Economic activity recovery is set to be gradual, supporting a disinflationary trend in the economy. This helps further monetary easing.
  - The balance of risks shifted to disinflationary factors in May, although the months to come will likely see a temporary acceleration in annual inflation, given the low pace of inflation in the second half of 2019. As a result, beginning from the third quarter, we expect seasonally adjusted consumer price inflation to accelerate at a slower rate than is necessary to stabilise inflation at 4%.
  - Gradual easing of coronavirus-related restrictions which started in May, sparks economic activity recovery in Russia. This process is, however gradual and protracted. First, a number of restrictions are still in place. Second, negative secondary effects of supply and demand constraints, which materialise through inter-sectoral production relationships, make themselves felt with a lag relative to the primary effects. Third, oil extraction suffered a major fall in May. Fourth, in view of the coronavirus, households show increased caution about the consumption of a variety of goods and services; this effect may continue for quite a long time, as long as concerns over the continuation of the pandemic remain. Also, consumers are adapting to the remote forms of work and consumption. As a result, the structure of the economy and demand for some goods is undergoing change.
  - Global financial markets, the Russian market being one of them, were rising most of April and May, responding to massive liquidity injections by global central banks, fiscal programmes and optimism triggered by the start of easing the coronavirus-related restrictions in a number of the major economies. All of this has reduced risks to Russia's financial stability.

### 2. Outlook

- Real-time and leading indicators of business activity suggest a notable economic activity downturn in April and its slight improvement in May, when most of the restrictions were still in place. Government and Bank of Russia steps have mitigated the implications of shocks to the economy and financial system and are set to support the recovery of the economy going forward.

### 3. In focus: mixed prospects of carsharing market

- Prospects for carsharing market development are generally positive, the service may expand in the coming years, reaching a saturation point in Moscow and other big cities. Still, carsharing does not have a *significant* effect on car demand: the share of car owners is generally stable, with the carsharing service used on an ad-hoc basis.
- The financial component of a car purchase indicates that carsharing and private car ownership are not fully interchangeable.
- The adoption of international practices (introduction of special rental rates for long-distance travel with payment for daily mileage, development of peer-to-peer carsharing services using the rental of private cars) will help Russia's carsharing services adjust to consumer demands.

## 1. MONTHLY SUMMARY

### 1.1. Inflation

Following April's acceleration to 3.1%, inflation edged down to 3.0% in May. The effect of short-term pro-inflationary factors associated with rouble weakening and a temporary surge in demand is dying down as the rouble is making up for most of its losses suffered in March. The effect of disinflationary factors is concurrently gaining strength, driven by a fall in household income and demand. Disinflationary factors are beginning to prevail, although annual inflation will likely accelerate for some time to come.

The fiscal stimulus and loose monetary policy will counteract the current disinflationary trends in the economy. As a result, inflation will stabilise close to the target in 2021.

#### 1.1.1. Effect of disinflationary factors gained strength in May

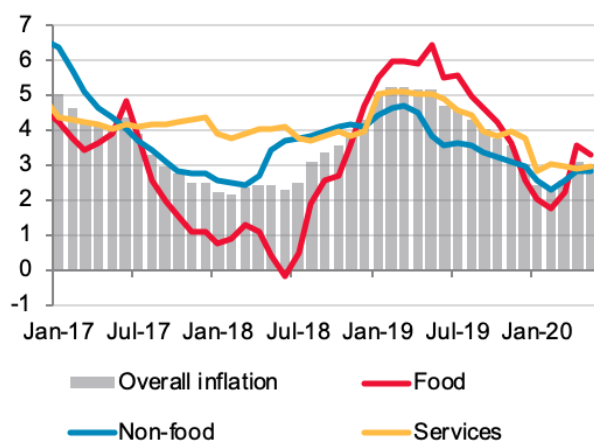
- Seasonally adjusted inflation stood at 0.8% MoM in April. Price rise acceleration which emerged in March was prompted by the effect of temporary pro-inflationary factors, such as the pass-on of rouble weakening and a surge in demand for food and non-food FMCG.
- The pace of change in modified core inflation indicators stabilised in April after its sharp rise in March, signalling the attenuation of pro-inflationary factors. Price movements are set to be restrained by the disinflationary effect of a consumer demand weakening in the coming months.
- Price rises slowed in May to return to a level corresponding to 4% in annualised terms. This suggests that the effect of pro-inflationary factors on consumer prices is weakening, while the impact of disinflationary prices is gaining strength. Price movements in food, FMCG, and medications indicates that most of the pro-inflationary effect sparked by a surge in demand for these goods in the self-isolation period has already materialised.
- A shift of the risk balance towards disinflationary factors helps further monetary easing.

Annual inflation accelerated to 3.09% in April from 2.54% in March (Figure 1). The price movements were driven by temporary pro-inflationary factors: the pass-on of rouble weakening and a surge in demand for food and non-food FMCG. The most notable inflation acceleration was posted in food prices, up 2.80% in April from 2.54% in March, while the services market saw inflation inch down to 2.88% in April from 2.97% in March.

Prices went up 0.83% MoM in April, double the pace of price rises corresponding to an inflation trajectory of 4% in annualised terms (Figure 2). Seasonally adjusted inflation rose to

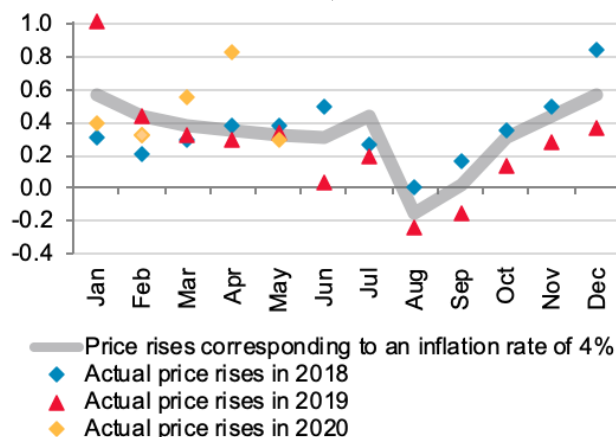
0.77% MoM (9.63% SAAR<sup>1</sup>) in April from 0.49% MoM (6.01% SAAR) in March (6.01% SAAR) in March, driven by the doubled pace of food price growth, up 1.44% MoM in April from 0.67% MoM in March, Figure 3).

**Figure 1. Inflation and its components, % YoY**



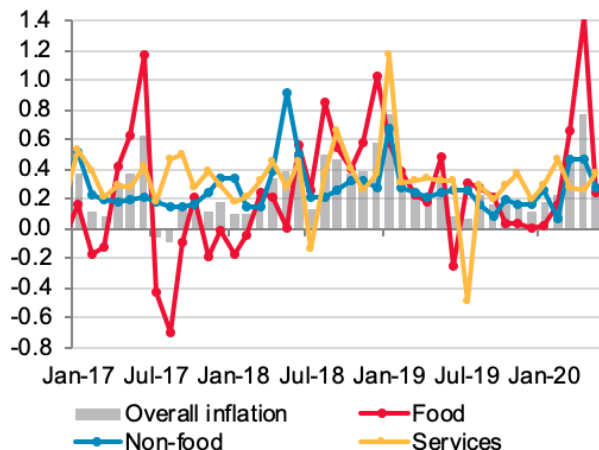
Source: Rosstat.

**Figure 2. Price rises corresponding to an inflation rate of 4%, % MoM**



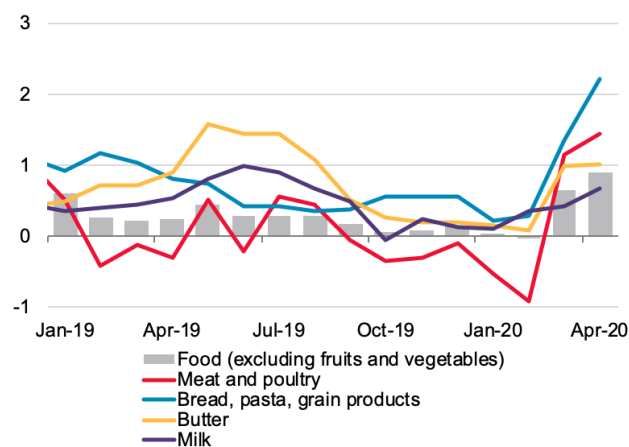
Source: Rosstat, R&F Department estimates.  
The May number is an initial estimate.

**Figure 3. Seasonally adjusted inflation, % MoM**



Source: Rosstat, R&F Department estimates.  
The May number is an initial estimate.

**Figure 4. Seasonally adjusted food inflation, % MoM**



Source: Rosstat, R&F Department estimates.

As in March, a substantial price rise was recorded in goods which people hoarded for the self-isolation period (eggs, sugar, cereals, meat and poultry, Figure 4). Fruit and vegetables also saw a significant price increase of 5.29% MoM in seasonally adjusted terms, which, however was to a greater extent driven by rouble weakening: a seasonal rise in imports starts in the middle of spring. Logistical problems in some market segments may have acted as another factor behind a notable price rise in fruit and vegetable imports.

<sup>1</sup> SAAR – seasonally adjusted annualised price movements.

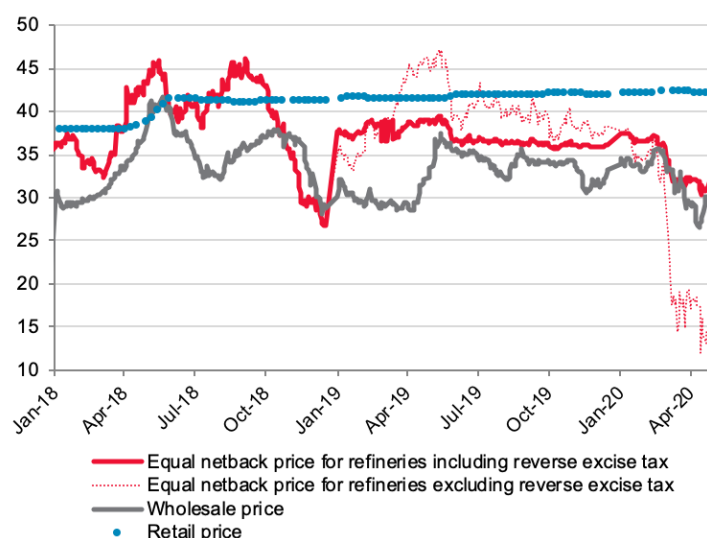
Lemon prices, for example, soared 2.5 times in April, which many experts attribute, on the one hand, to disruptions in deliveries from key supplier countries, and on the other hand, to increased demand for lemons during the pandemic, sometimes provoking suppliers and retail chains to drive their mark-ups sky-high and prompting the Federal Anti-Monopoly Service to look into the situation.<sup>2</sup>

The pace of seasonally adjusted non-food price rises remained unchanged from March at 0.46% MoM. The stabilisation of the pace of price rises after their notable acceleration in March may be driven by a disinflationary effect of falling demand. The price rise slowdown is above all evidenced by price movements in durable goods (electrical appliances and television and radio goods).

Noteworthy is a significant rise in pharmaceutical prices, up 3.18% in April from 1.25% in March, sparked by panic buying amid the unfavourable epidemiological situation. Experts, however, report<sup>3</sup> a return of Russian pharmacies' average daily sales in the middle of April to numbers typical of this period of the year and note a seasonal trend towards their further decline. The stabilisation of demand and significant producers' inventories, as well as distributors and pharmacies' stocks are expected to ensure the stabilisation of pharmaceutical market prices. In fact, medication price rises slowed to 0.5% MoM as early as May.

Despite a slump in oil and refined petroleum product prices in the global market and a fall in domestic demand for petrol, motor fuel prices did not see significant changes: the petrol price declined 0.18% MoM in April (Figure 5), with stabilisation of retail petrol and diesel prices helped by the damper mechanism.

**Figure 5. Prices of AI-92 petrol, rouble/litre**



Source: St Petersburg Commodity Exchange, Rosstat, R&F Department estimates.

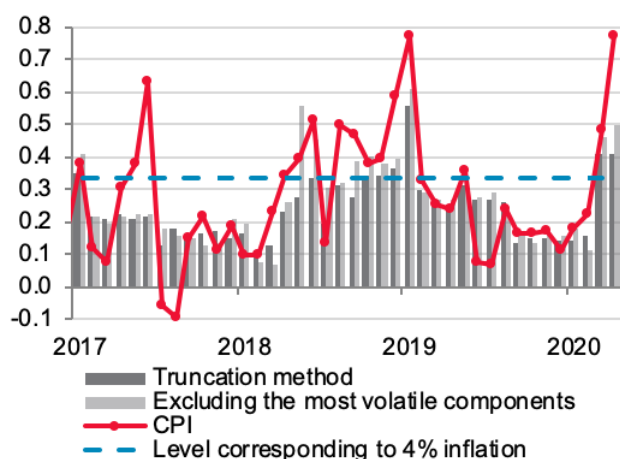
<sup>2</sup> Lemon prices fell 33.6% MoM in May.

<sup>3</sup> Rossiyskaya Gazeta. [“Rosstat reported a record rise in pharmaceutical prices”. 07.05.2020.](#)



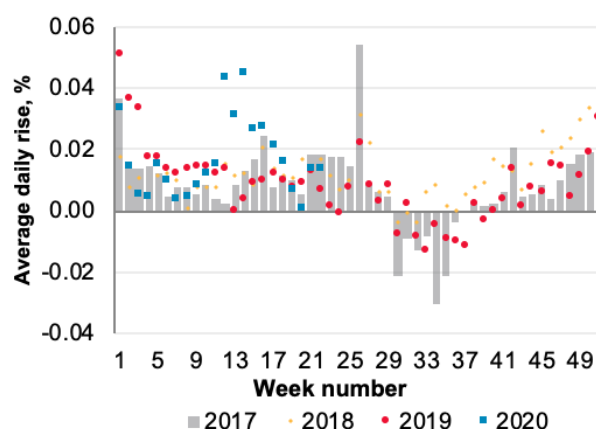
Seasonally adjusted services price inflation remained practically unchanged at 0.26% MoM. This may be due to a disinflationary effect of demand weakening, as suggested by, among other things, the April PMI index for output prices in the services sector, which came in below a “borderline” reading of 50. The April inflation numbers may, however, be misleading, since many businesses in the services and retail sectors suspended their operations in compliance with the coronavirus-related restrictions in place. If data for calculating the CPI is unobtainable, Rosstat uses the method of presumptive prices, therefore, the relationship between pro-inflationary and disinflationary factors in some consumer market segments can only be evaluated after this segment’s companies have returned to their full-scale operations.

**Figure 6. Modified core inflation indicators, % MoM**



Source: Rosstat, R&F Department estimates.

**Figure 7. Average daily price rises, %**



Source: Rosstat, R&F Department estimates.

Indicators showing change in most stable inflation components mostly stabilised in April. The mean of modified core inflation estimates remained all but unchanged from March at 0.47% MoM (5.76% SAAR), confirming the persistence of elevated inflationary pressure in the consumer market during April (Figure 6). Still, the fact that, unlike the headline CPI, a rise in the indicators stopped in April, suggests a gradual attenuation in the impact of pro-inflationary factors.

Indeed, the effect of temporary pro-inflationary factors lost strength as early as May, while the balance of risks gradually shifted towards a disinflationary impact, driven by a fall in consumer demand. Weekly statistics indicated a slowdown in the average daily price growth in May: at the start of May it was notably slower than in the comparable period of last year (Figure 7). Prices rose 0.3% MoM for the whole of May, roughly in line with an inflation rate of 4% in annualised terms (Figure 2). Annual inflation slowed to 3.0% YoY.

According to a preliminary estimate, seasonally adjusted food price inflation slowed to 0.3% MoM in May (about 3.5% SAAR), while the pace of non-food price rises declined to a level just above 0.3% MoM (about 4% SAAR). Meanwhile, services price inflation accelerated to 0.4% MoM (just above 5% SAAR), driven in part by temporary factors (affecting, for



example, the prices of the mobile communication service). Movements in market services prices were mixed, without a significant rise in inflationary pressure in this sector. The lockdown of most businesses in the services sector in April amid the restrictions and the “days-off” regime may have played a certain part in the acceleration of some services price rises: May’s change in prices may effectively reflect price growth accumulated over two months.<sup>4</sup>

As the situation is stabilising in financial markets and there are no signs of secondary inflationary effects, this helps further monetary easing, which is required to keep inflation close to the target over a medium-term horizon.

### 1.1.2. Global oil slump accelerated producer price drop in April

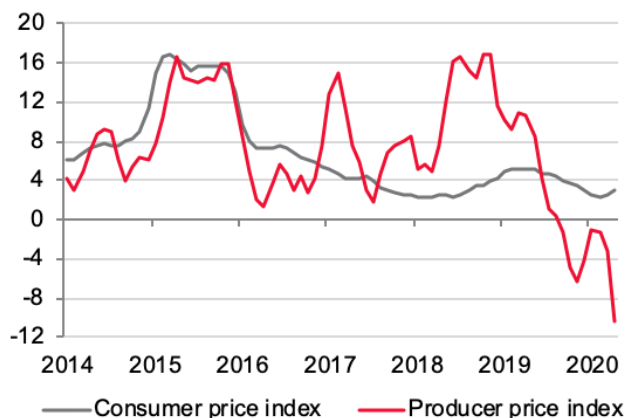
- Producer price decline accelerated to 10.4% YoY in April from 3.2% YoY in March (Figure 8), driven chiefly by mining and quarrying, where the price fall gained pace to reach 34.7% YoY in April compared with 14.3% in March. This was prompted by a sharp fall in world commodity prices, above all those of oil.<sup>5</sup>
- Movements in domestic petroleum product prices are smoothed by the damper mechanism. Domestic producer prices in oil extraction plunged 60% YoY in April, while those in petroleum refining fell 26% YoY. All this smooths the volatility of petrol and diesel consumer prices.
- Annual producer price rises in a variety of consumer goods accelerated somewhat compared with March but kept close to zero on average, suggesting the absence of significant pressure on final prices from producers’ costs and a lesser impact of temporary pro-inflationary factors on output prices at production units (Figure 9).

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<sup>4</sup> As noted above, with no price data available in April, Rosstat may have resorted to calculating presumptive prices.

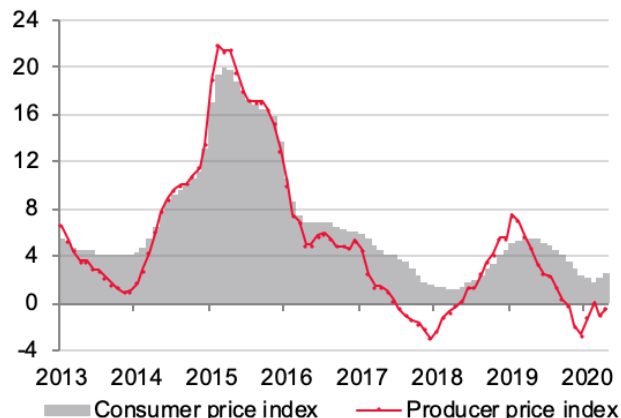
<sup>5</sup> March–April saw the Urals price drop 46% MoM and 38% MoM, respectively.

**Figure 8. Change in the producer price index and consumer price index, % YoY**



Source: Rosstat.

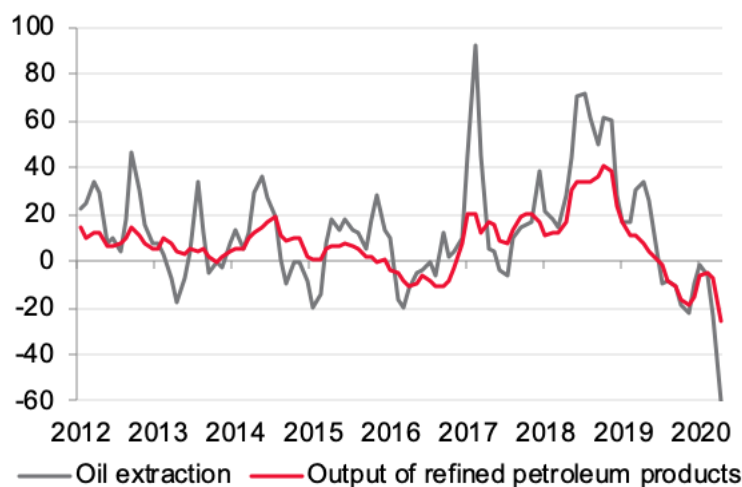
**Figure 9. Change in prices of some goods<sup>6</sup>, % YoY**



Source: Rosstat, R&F Department estimates.

Under Rosstat methodology, the calculation of the producer price indicator excludes VAT, and therefore, does not factor in the impact of the January 2019 VAT hike on producer prices.

**Figure 10. Producer Price Index in oil extraction and petroleum refining, % YoY**



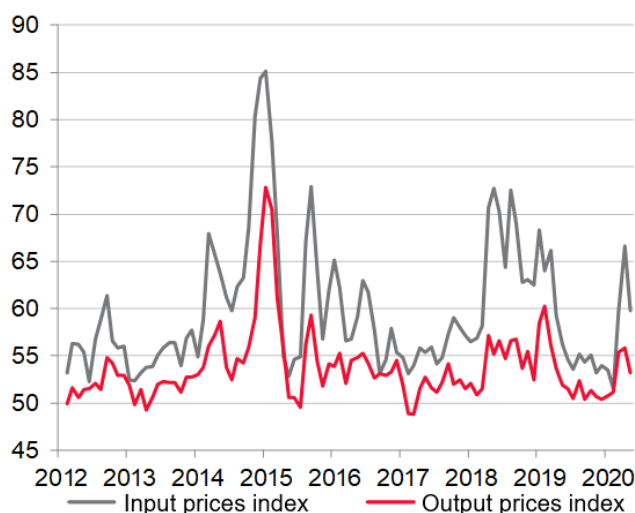
Source: Rosstat.

<sup>6</sup> Comparable goods were used in CPI and PPI calculation, in particular: meat products, fish products, oils and fats, milk products, alimentary products, sugar, tea, coffee, apparel, shoes, washing and cleaning products, perfumes and cosmetics, consumer electronic, furniture. They represent more than 30% of consumer basket.

### 1.1.3. PMI price indexes: services sector saw output price decline in April–May

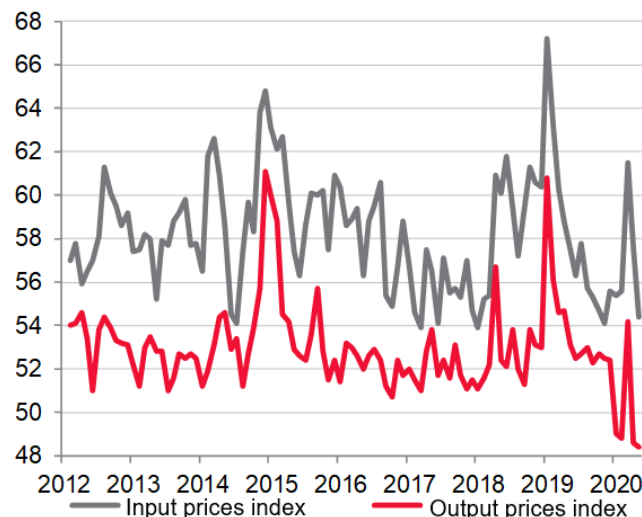
- The PMI price indexes suggest that the pro-inflationary effect of rouble weakening was short-lived, with the balance starting to shift towards the disinflationary impact of the demand drop. This was especially pronounced in the services sector whose costs are less sensitive to exchange rate fluctuations and which suffered a heavier fall in demand than manufacturing did.
- The index of manufacturing input prices rose to 66.6 in April from 59.8 in March as companies' costs rose, driven by rouble weakening and disruptions in deliveries due to restrictions imposed in Russia and other countries. The index declined back to 59.8 in May, remaining elevated. The output price index saw similar changes, rising in April and declining in May: companies can pass on a part of costs to final prices (Figure 11).
- The services sector saw a peak of input price rises in March, followed by a decline in the relevant index, which came close to all-time lows in May. The output price index moved in a similar fashion. After a sharp rise to 54.2 in March, it dropped below the 50 mark in April and May to 48.6 and 48.4, respectively, suggesting a drop in services providers' final prices. These levels of the index were previously seen only in 2009. This stems from competition strengthening in the face of a severe fall in demand.

Figure 11. Change in PMI manufacturing indexes, pp



Source: IHS Markit.

Figure 12. Change in PMI services indexes, pp



Source: IHS Markit.

## 1.2. Economic performance

The Russia economy started the year on the level of potential: according to a preliminary Rosstat estimate, the first quarter GDP rose 1.6% YoY after a 2.1% YoY increase

in the fourth quarter of 2019. Seasonally adjusted growth (excluding the leap-year effect) slowed to 0.4% QoQ from 0.5% QoQ in the fourth quarter of 2019. As in many other countries, the main negative effect on the Russian economy of a fall in external demand and restrictions imposed to combat the spread of the coronavirus will make itself felt in the second quarter.

The Russian economy expectedly suffered a heavy fall in April as coronavirus-related restrictions were put in place in Russia and other countries. Real-time data for May indicate a starting recovery of the economy as the restrictions are lifted. But the secondary effects of the complete or partial suspension of business operations and a fall in final demand, which extend to other industries, combined with the cuts to oil extraction under the OPEC+ agreement make the recovery gradual, protracted and uneven across industries.

At the same time, Russia's services sector accounts for a smaller share of GDP than in OECD countries. Meanwhile, this sector suffered the heaviest blow from the coronavirus shocks. Therefore, the Russian economy's downturn will likely be less extensive than in countries with a better developed services sector.

### 1.2.1. Economy's recovery is contained by secondary effects of restrictions

- The Russian economy expectedly suffered a downturn in April on the back of restrictions put in place to contain the spread of the coronavirus pandemic. Rosstat's April data released in the second half of May confirmed the changes in economic performance which were earlier evidenced by real-time indicators.
- The aggregate changes in high-frequency indicators, including those on electricity consumption, motor traffic, bank and plastic card payments, suggest that the trough of the economic activity downturn triggered by the restrictions in place was seen in April.
- The Russian economy's downturn will likely be less severe than in OECD countries with their better developed services sector, which was hit the hardest by the coronavirus shocks.
- Economic activity began to recover gradually in May as the restrictions were eased. This process, will, however be protracted since:
  - a number of restrictions are still in place;
  - the recovery is restrained by the amplification of negative secondary effects from a complete or partial lockdown of production facilities and the suspension of services providers' operations in April as demand fell;
  - export demand remains weak, exacerbated by the cuts to oil extraction in May under the OPEC+ deal;
  - consumer habits change, affected by the coronavirus and adaptation to the remote forms of work and consumption. This changes the economy's structure, temporarily reducing production potential.

The introduction of the country-wide “day-off” regime as of March 30, which was over as late as May 11, closing of the borders, and a drop in external demand as restrictions were imposed in other countries to combat the pandemic, brought about a record fall in Russia’s economic activity in April. This is evidenced by Rosstat data released in the second half of May (see Subsections 1.2.2, 1.2.4, and 1.2.5). In fact, the analysis of a broad range of indicators tracking short-term changes provided an almost real-time insight into the scale and pace of changes in economic activity.<sup>7</sup>

A partial lockdown of some industrial companies which do not manufacture FMCG, as well as retail businesses (selling mostly non-food goods) and providers of services, many office employees’ shift to work from home, sharply reduced electricity consumption (Figure 13), travel by public transport and private vehicles (Figure 14, Figure 15), incoming and outgoing financial flows (Figure 16), and consumer expenditure (Figure 17, Figure 18, Figure 19). Practically all indicators confirmed graphically that the first “week-off” (March 30– April 5) saw the deepest downturn of economic activity. In the subsequent weeks of April, the economy gradually adapted to restrictions put in place, while the operations of systemic enterprises and industries continued. All this helped a slow recovery of business activity, which, however, remained far below the “pre-coronavirus” levels. That said, the Russian economy’s downturn will likely be much less steep than in OECD countries, with their much better developed services sector. Industries engaged in providing services were hit the hardest in all countries confronted with the spread of the coronavirus and restrictions imposed to combat it. Therefore, a larger share of the services sector in an economy potentially implies its deeper downturn.

Real-time indicators show that economic activity was gradually stepped up during May (especially in the second half of the month), helped by the cessation of the country-wide “day-off” regime after the May holidays and the start of gradual lifting of restrictions in Russia’s regions. We estimate that a reduction in incoming payments (weighted by the share of relevant industries in GDP) effected through the Bank of Russia’s payment system slowed to 12.7% YoY in May from 14.9% YoY in April.<sup>8</sup> Consumer activity gradually rose (or at least stabilised), including in personal services and the sale of non-food goods (fuel among them). However, business activity remains sluggish. The pace of its recovery is hampered by the negative secondary factors related to the restrictions and associated with the propagation of demand-side and supply-side shocks to other industries via production chains. Thus, the lifting of restrictions is not enough for the economy to fully recover after passing a pandemic peak. The recovery is also restrained by the factor of weak external demand, which, among other things, resulted in a new deal with OPEC+, under which Russia drastically cut oil extraction as of the beginning of May.

The secondary effects of restrictions on economic activity will in the coming months materialise via the following channels:

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<sup>7</sup> Data on these indicators appears with a lag ranging from one day to one week, which is much shorter than a lag with which official statistics are released.

<sup>8</sup> To 7.3% from 11.2%, excluding mining and quarrying, petroleum refining and public administration.

- The recent fall in employment and household labour incomes brings down consumer demand. This passes through to changes in demand for products and services of intermediate demand industries.
- The escalation of uncertainty, as well as the likelihood of the second wave of the coronavirus spread, will likely change consumer and saving preferences. This may produce a fairly sustainable change in the structure and level of consumer demand over a medium-term horizon. Accordingly, many industries will encounter a sustainable structural fall in demand even after all restrictions have been lifted, resulting in an uneven recovery of business activity. Adaptation to remote work and consumption may bring about a permanent change in the structure of the economy.
- A fall in domestic and external demand amid escalating uncertainty about the pace of economic activity recovery in Russia and across the world, will lead companies to reconsider their investment plans. This will have a negative effect on investment decision-making, causing a substantial revision to the structure and volumes of investment.<sup>9</sup> A decline in investment demand will also affect the consumption of intermediate goods and business activity of related industries.

Changes in incoming payments indicate that the secondary factors emerged as early as April. April's contraction in many industries' incoming payments prompted a comparable drop in outgoing payments in related industries. This confirms that an economic activity contraction has affected a significant part of industries rather than confine itself to a primary shock in industries whose operations suffered from direct restrictions imposed to combat the spread of the coronavirus. The primary effects started to attenuate in May, whereas the secondary effects, by contrast, began expanding. We estimate that payments in the sectors oriented to final demand rebounded faster in May than in the sectors oriented to intermediate consumption, investment,<sup>10</sup> and exports (Figure 20). Electricity consumption in May also indicates an uneven recovery of economic activity. After narrowing considerably by the fourth "week off" (April 20–26), the gap with last year's level started to widen and in the sixth "week off" became even wider than in the first week (March 30 – April 5). The oil extraction cuts under the OPEC+ deal clearly contributed to it. For instance, a sharp electricity consumption drop was at the beginning of May recorded in the Integrated Power System (IPS) Urals<sup>11</sup> and IPS Middle Volga<sup>12</sup>, which cover most of oil producing regions (Figure 13) and a considerable part of heavy (i.e., power-intensive) industry.

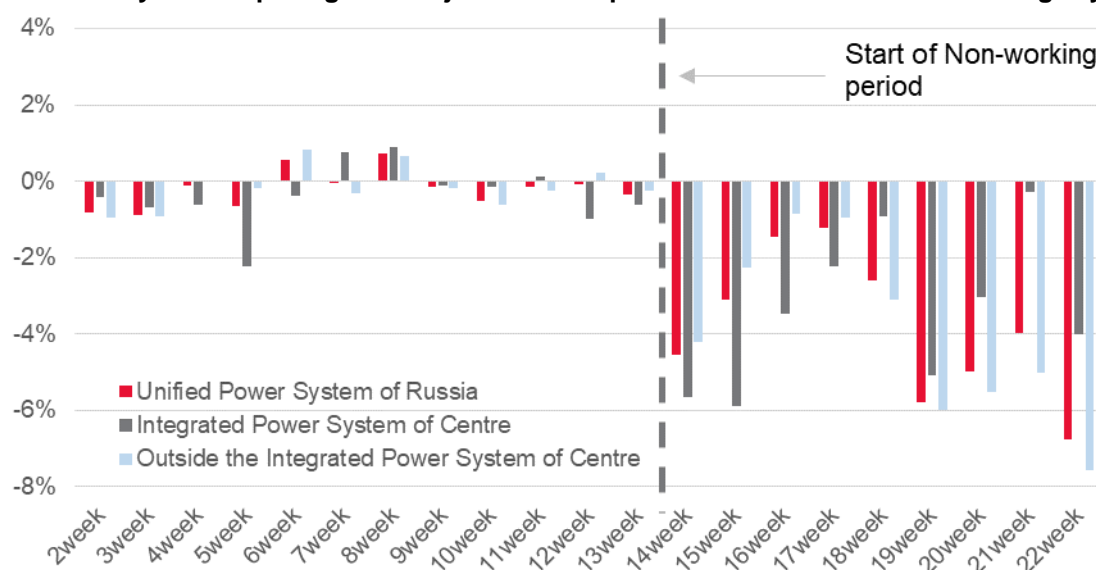
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<sup>9</sup> It has already occurred in some cases. For instance, Russian Railways has reported a reduction in investment planned for 2020 by 200 billion roubles, from 820 billion roubles to 620 billion roubles.

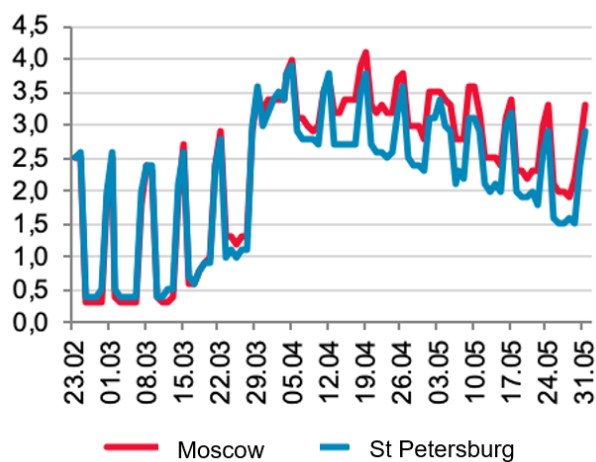
<sup>10</sup> Payments also trailed somewhat in investment goods industries before the last week of May but a sharp rise in payments from public administration, driven by public expenditure growth, prompted a significant improvement in these industries' financial flows.

<sup>11</sup> Covering six regions of the Urals Federal District and five regions of the Volga Federal District: Bashkortostan, the Udmurt Republic, Perm Krai, Kirov, Kurgan, Orenburg, Sverdlov, Cheliabinsk, Tyumen regions and Khanty-Mansi and Yamal-Nenets autonomous districts.

<sup>12</sup> Incorporating nine regions of the Volga Federal District: Penza, Samara, Saratov, Ulyanovsk, and Nizhny Novgorod, republics of Chuvashia, Mary El, Mordovia, and Tatarstan.

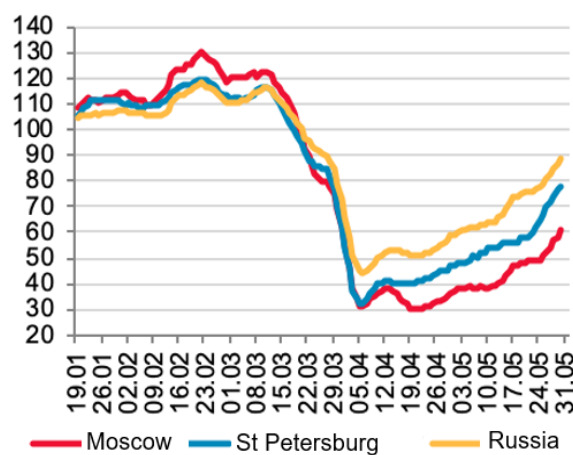
**Figure 13. Electricity consumption growth adjusted for temperatures and the number of working days, % YoY**

Source: System Operator of Unified Power System, R&F Department estimates.

**Figure 14. Self-Isolation Index for Moscow and St Petersburg**

Source: Yandex.

Note: highest score of 5 points – “almost no one in sight”

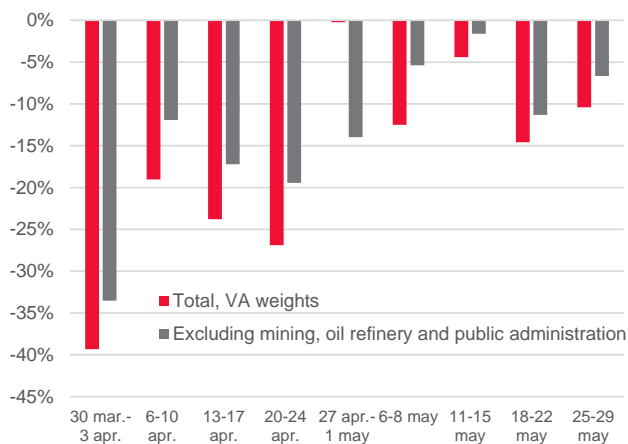
**Figure 15. Mobility in cities relative to 13.01.2020, %**

Source: Apple Mobility trends.

Note: the mean of the index of travel by car and on foot, one-week moving average.



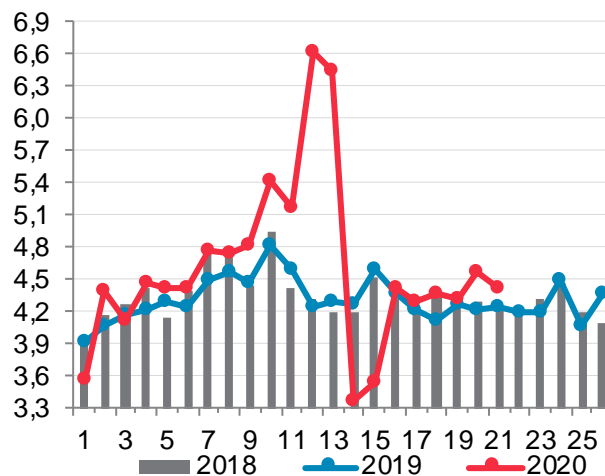
**Figure 16. Deviation of incoming financial flows from “normal” level**



Source: Rosstat, R&F Department estimates.

Note: Estimation of deviation is described in [the sixth issue](#) of Industry-Specific Monitoring of Financial Flows.

**Figure 17. Weekly nominal everyday household expenditure, thousand roubles**



Source: Romir.

**Figure 18. Consumer activity, Sberindex**



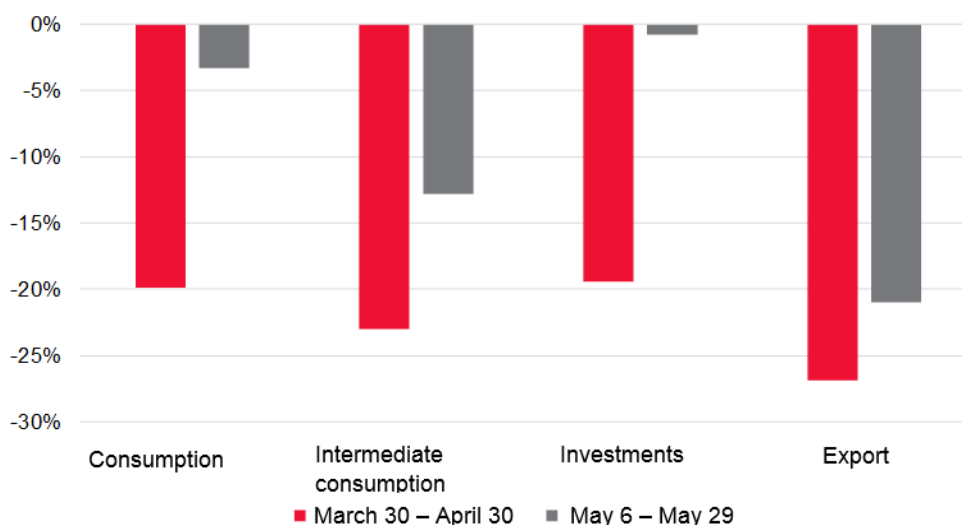
Source: Sberbank.

**Figure 19. Consumer activity, Tinkoff Corona Index**



Source: Tinkoff Bank.

Figure 20. Mean deviation of incoming payments from “normal” level



Source: Bank of Russia, R&F Department estimates.

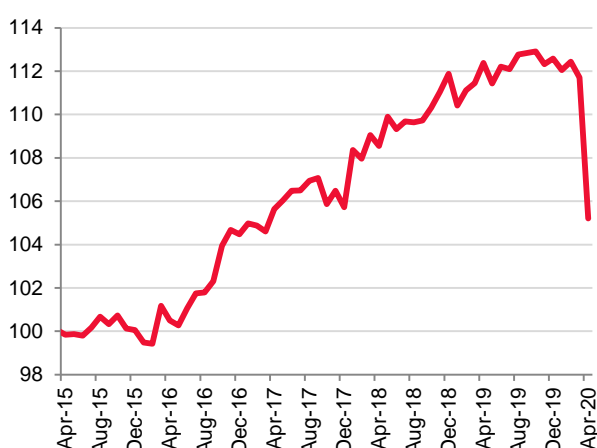
### 1.2.2. Industrial output: contraction was relatively moderate in April, given restrictions in place

- Industrial output contracted 5.7% MoM in April (here and further seasonally adjusted). The contraction was less severe than in many emerging markets and developed countries where restrictions were also imposed to combat the spread of the coronavirus.
- Since mining and quarrying is dominated by enterprises with a continuous production cycle, it posted the same output performance in April as in March at (-0.6% MoM). Compliance with the OPEC+ deal will cause oil extraction to drop sharply in May, which will have an effect on many related industries: petroleum refining, oil field servicing, the pipeline and rail transportation, and wholesale trade.
- Manufacturing output fell 11% MoM. As the restrictions had both a supply-side and demand-side effect, the steepest fall was posted in industries manufacturing durable consumer goods. Investment goods industries also made a significant negative contribution to output contraction.
- The impact of demand contraction on intermediate industries was still not so significant in April but it may strengthen in the coming months. The secondary effects of a business activity decline in industries oriented to final consumption and investment will take a toll also on this sector.

Industrial output dropped 6.6% YoY in April. Seasonally adjusted, output contracted 5.7% MoM compared with March (Figure 21), dragged down mainly by manufacturing. This stemmed from restrictions on the operations of industrial companies where the production

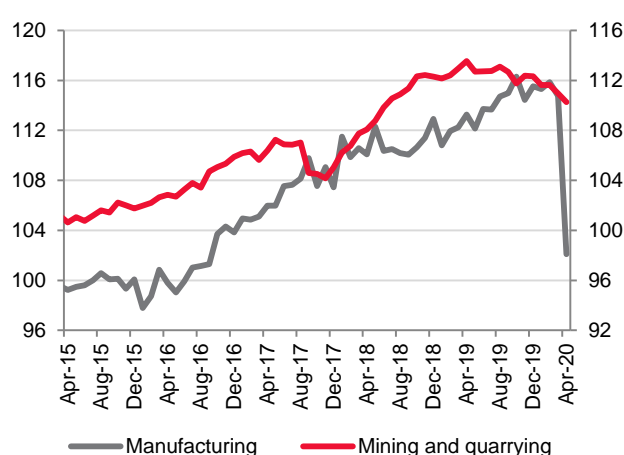
cycle is not continuous. Investment goods companies were hit the hardest by it. Scarce consumer demand for durable goods, due to, among other things, the lockdown of shopping centres, stand-alone shops, and dealer centres played a part. As the restrictions are lifted, supply will rebound, along with consumer demand. In the coming months, however, the negative effect of a fall in demand, including from external markets, may also take a toll on intermediate goods. This may above all affect the largest industries of the manufacturing sector, manufacture of metals and petroleum refining. On top of that, mining and quarrying will also start to have a significant negative effect on the related sectors of industry which will be hurt by oil extraction cuts.<sup>13</sup>

**Figure 21. Change in industrial production index (2002 = 100)**



Source: Rosstat, R&F Department estimates.

**Figure 22. Change in mining and quarrying and manufacturing indexes (2002 = 100)**

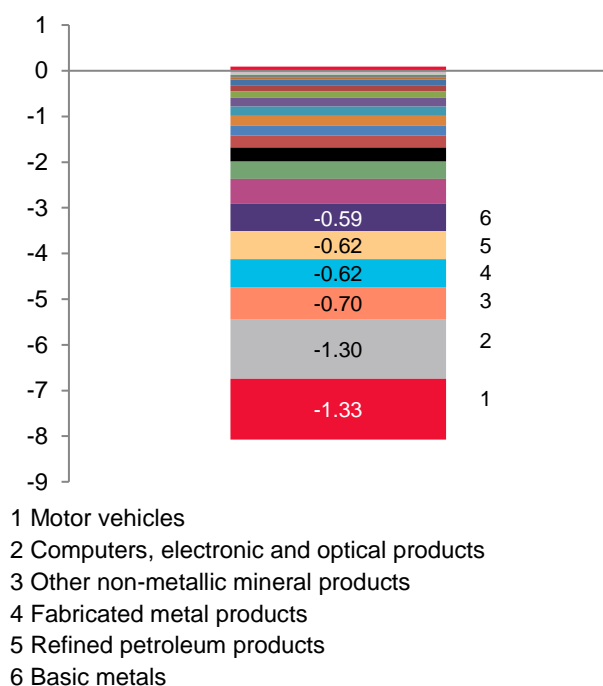


Source: Rosstat, R&F Department estimates.

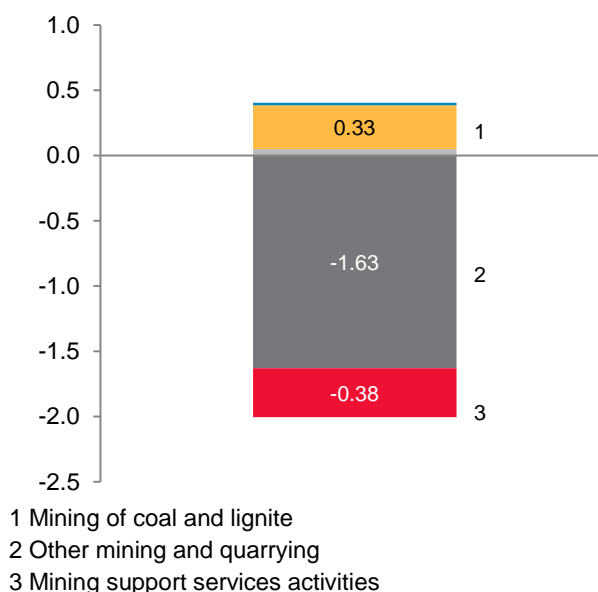
Some enterprises with a continuous production cycle did not suspend their operations in April while the “day-off” regime was in place. As a result, mining and quarrying posted just a minor output decline of 0.6% MoM (Figure 22). Since the OPEC+ agreement did not yet take effect in April, the oil and gas extraction industries even showed growth, up 1.8% MoM. The largest negative contribution to the fall in extraction came from mining and quarrying (Figure 24), which suffered a severe output decline, down 45% MoM. While the extraction of mineral resources for the manufacture of construction materials was stable, posting a rise of 0.9% MoM, other mineral resources saw a precipitous output fall of 83% MoM, which may have stemmed from a drop in the production of precious stones on the back of a sharp demand contraction.

<sup>13</sup> Compliance with the OPEC+ deal will cause a significant decline in oil extraction and, likely, oil field servicing, as well as an output drop in other related industries (petroleum refining, pipeline transportation, and others).

**Figure 23. Individual industries' contribution to manufacturing growth in October 2019, % MoM**



**Figure 24. Individual industries' contribution to mining and quarrying growth in October 2019, % MoM**



Source: Rosstat, R&F Department estimates.

Manufacturing output declined 11% MoM in April. This was the second steepest monthly plunge after November 2008, when a 12.5% MoM contraction was recorded (observation since 2002).

The heaviest output fall was posted in industries manufacturing durable *consumer goods* as supply was limited and demand declined (Figure 25). The manufacture of motor vehicles tumbled 53.2% MoM, car output and sales plunged 73.9% MoM and 74.2% MoM, respectively, dragged down by the lockdown of production facilities and dealer centres in April. Other countries registered similar performance.

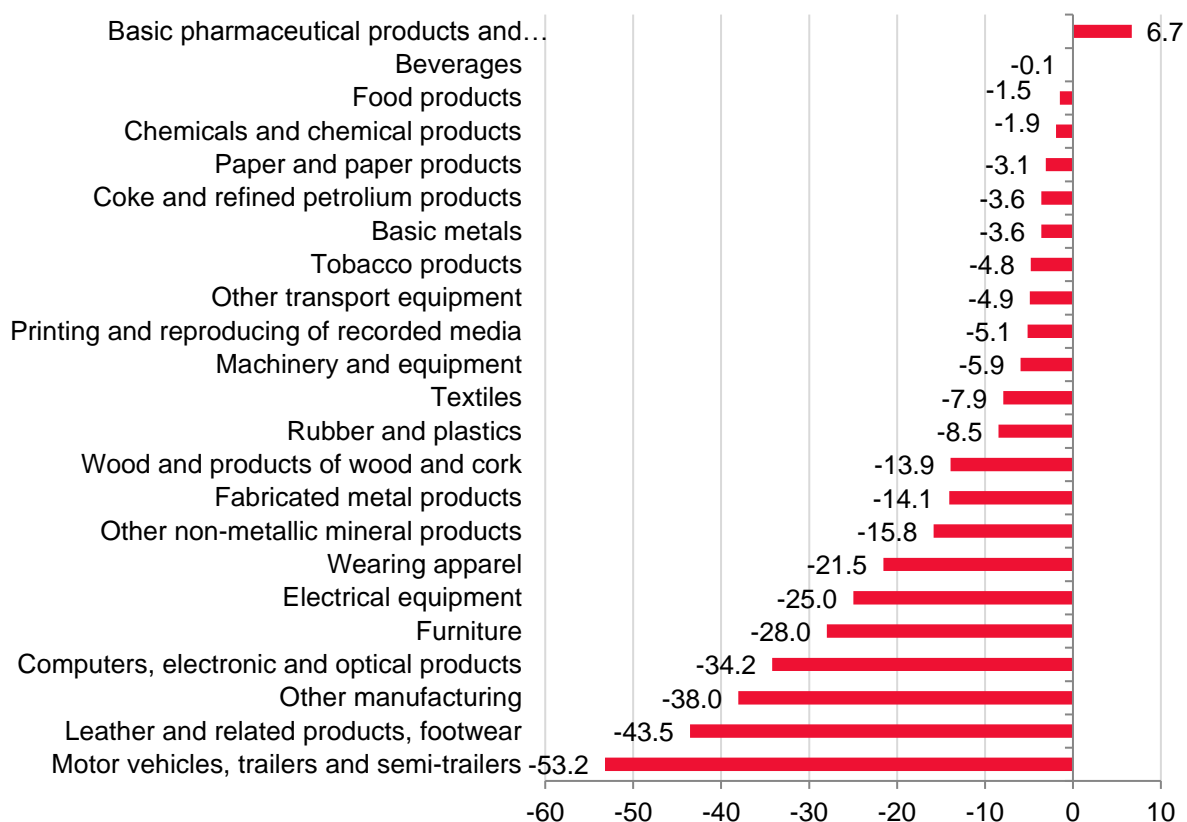
In addition to a decline in the extraction of precious stones, the output of jewellery plummeted 69% MoM. The manufacture of household appliances suffered a very similar fall of 70.9% MoM. The group of industries showing the steepest output decline includes the manufacture of leather and related products, down 43.5% MoM, and manufacture of furniture, with an output drop of 28% MoM. These industries were hurt by the suspension of export deliveries and a lockdown of retail sales facilities. The beginning of April saw a sharp decline in these industries' incoming financial flows, which recovered somewhat towards the end of April – the first half of May but remain sluggish.

Manufacturing downturn was largely driven by industries meeting investment demand. The manufacture of electronic products and electric equipment contracted 34.2% MoM and 25% MoM, respectively, the manufacture of nonmetallic mineral products dropped 15.8% MoM. The output of other transport equipment continued falling, down 4.9% MoM, with railway locomotives and rolling stock taking most of the blame (down 29.1% MoM) (Figure

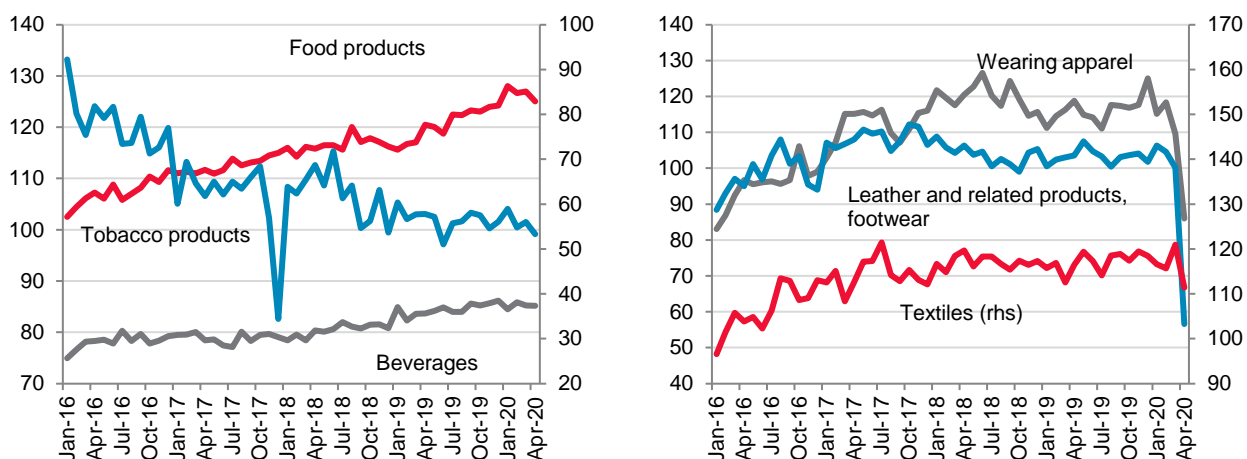
26). The downturn was likely due to, above all, constraints in companies' operations under the "day-off" regime (disruptions in deliveries of raw materials and components, the lockdown of many customer organizations). The significant downturn of economic activity and escalation of uncertainty may lead Russian companies to reconsider their investment plans, therefore the recovery of business activity after the restrictions have been lifted may be gradual and protracted.

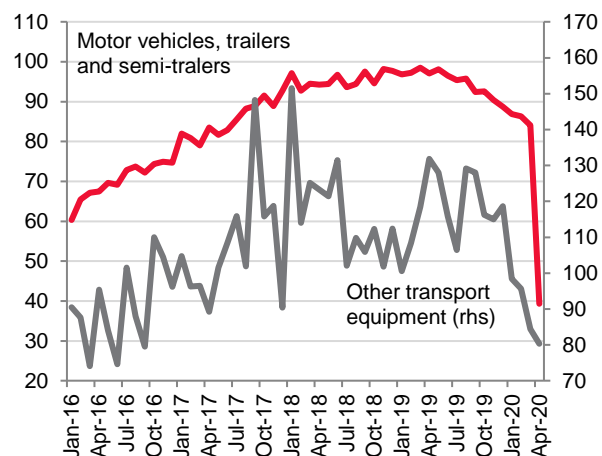
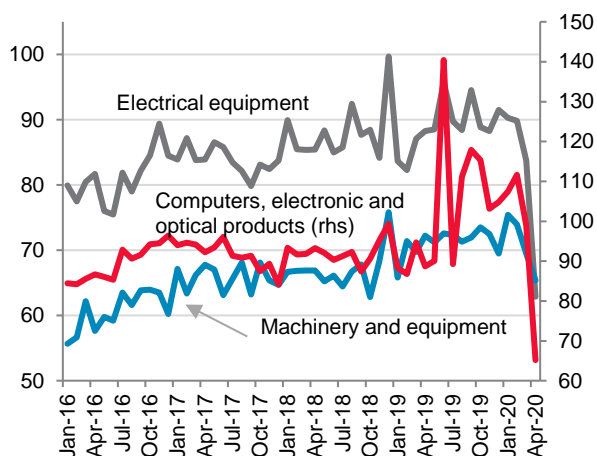
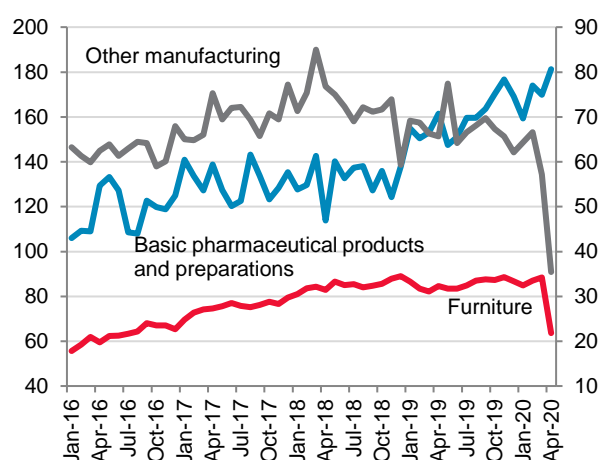
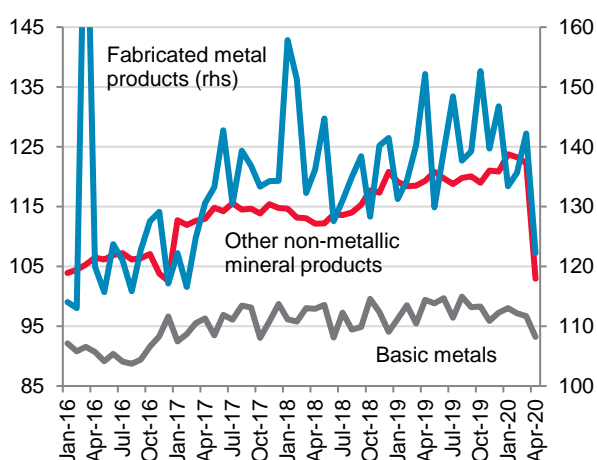
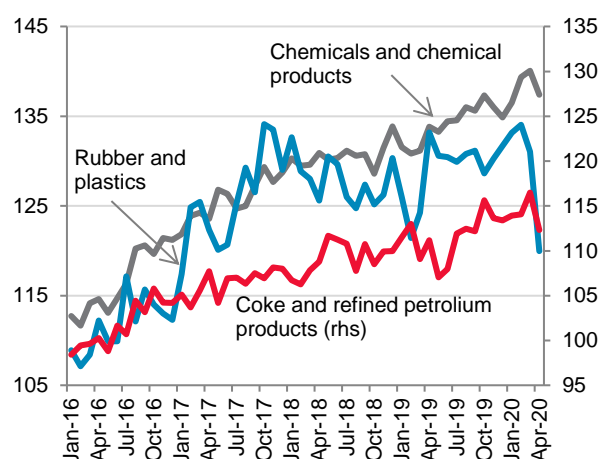
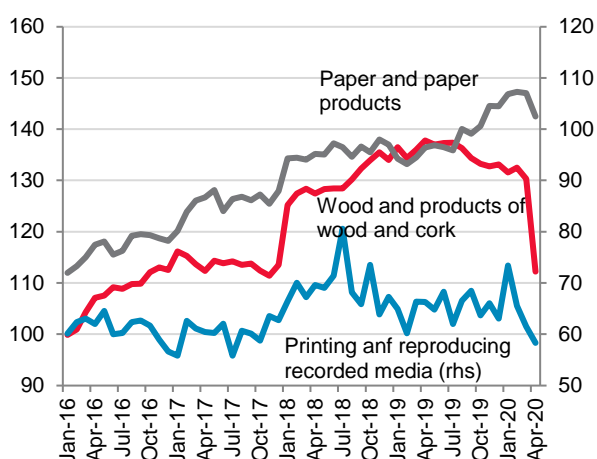
Industries meeting *intermediate demand* posted a moderate output contraction relative to other industries since they have a larger share of enterprises with a continuous production cycle. But given their large share in the structure of manufacturing, their negative contribution to overall industrial output performance was more significant than that of the group of industries manufacturing durable consumer goods (Figure 27). The output of the basic metals industry fell 3.6% MoM. Output contraction was the largest at -5.1% in the pipe and tube industry, continuing last year's negative trend. The oil extraction cuts under the OPEC+ deal will bring down demand for specialty tubes used in oil well drilling and installation. A 3.6% MoM fall in the output of refined petroleum products reflected a sharp drop in demand (external and domestic) on the back of restrictions, which entail a sharp contraction in travel by motor vehicles (private and public). Low demand from both external and domestic markets will in the near future adversely affect this group of industries, taking a toll on manufacturing as a whole.

Industries manufacturing FMCG expectedly saw the least output contraction. The output of food products lost 1.5% MoM, driven mainly by more expensive meat and dairy products, down 2.4% MoM and 2% MoM, respectively. The output of milling products, by contrast, rose 7.9% MoM, thanks to a sharp increase in demand for nonperishable products. The production of beverages remained almost unchanged amid elevated demand for alcohol. The only industry which expectedly showed output growth (+6.7%) was the manufacture of pharmaceutical products, which data on financial flows indicated even before the release of official output statistics.

**Figure 25. Manufacturing industries' output growth in April 2020, %, MoM, seasonally adjusted**

Source: Rosstat, R&F Department estimates.

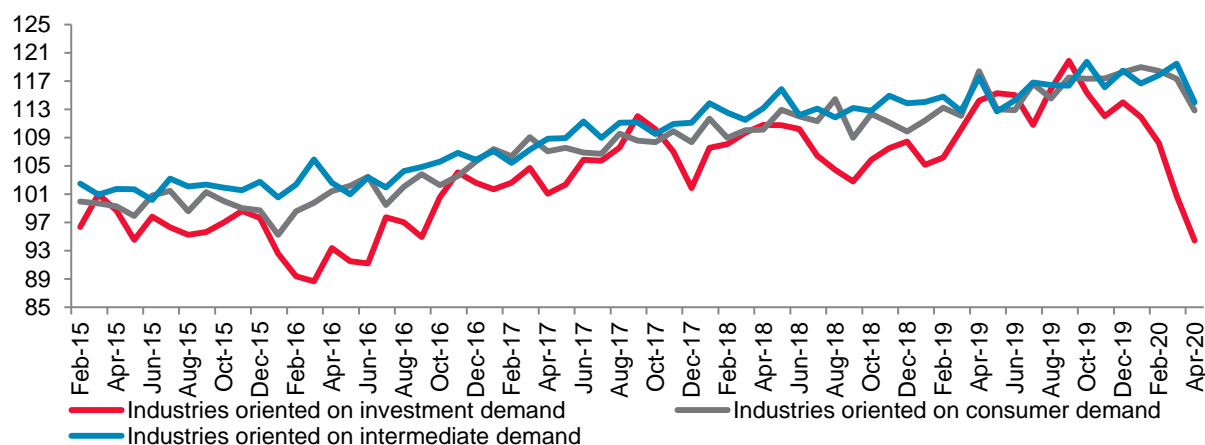
**Figure 26. Manufacturing industries' output, December 2012=100%, seasonally adjusted**



Source: Rosstat, R&F Department estimates.



**Figure 27. Manufacturing output indexes, by industry group, January 2014=100%, seasonally adjusted**



Source: Rosstat, R&F Department estimates.

### 1.2.3. PMI indexes: economic activity slump in April–May

- PMI indexes dropped to all-time lows in April, pointing to a dramatic fall in domestic and external demand on the back of restrictions imposed to contain the coronavirus spread. The indexes rose slightly in May but keep signalling a continued decline in economic activity.
- As many other countries, Russia faced a much steeper index fall in services than in manufacturing. This yet again shows that the services sector was hit the hardest by the coronavirus-related restrictions.
- April–May saw record lows of the employment subindex, suggesting a rise in unemployment, both explicit and hidden. Wage cuts may become another instrument for Russian labour market adjustment to the changing conditions.

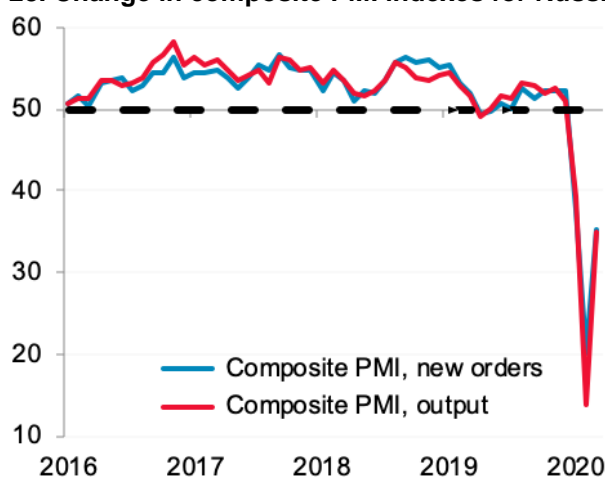
The composite output PMI dropped to 13.9 in April<sup>14</sup> (Figure 28), the lowest reading over the entire history of observations, pointing to a severe economic activity fall amid external and domestic demand contraction on the back of restrictions imposed to combat the coronavirus spread. A significant fall in output and new orders were recorded in production and services.

The composite PMI rose to 35.0 in May, remaining far below the 50 mark, which separates growth and decline. Many countries, developed and developing, saw a similar picture in May. Formally, a reading below 50 indicates economic activity decline but in the current situation such conclusions should be made with caution. Being a diffuse index, PMI, by construction, reflects the difference between the shares of respondents reporting an

<sup>14</sup> Since October 2001.

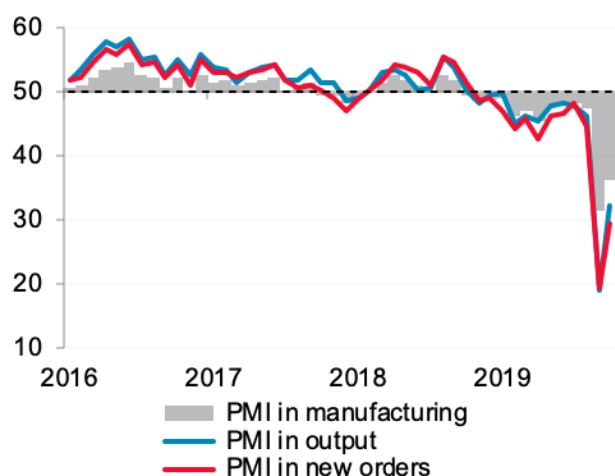
output rise or decline and/or demand for their products rather than the magnitude of change. In April, under the “day-off” regime in Russia, the overwhelming majority of companies eventually faced an output decline, which was what prompted a sharp drop in the PMI index. At the same time, a variety of real-time indicators point to the recovery rather than a slowdown of economic activity decline in May. In the current situation, a PMI reading below 50 does not have to be inconsistent with this trend. It is not ruled out that a recovery in a small number of industries may in total outweigh a continued decline in a larger number of other industries. Moreover, from the perspective of the PMI index, this will mean an economic activity decline, because the share of respondents reporting output contraction still exceeds the share of those who have not reported an output decline.

**Figure 28. Change in composite PMI indexes for Russia, pp**

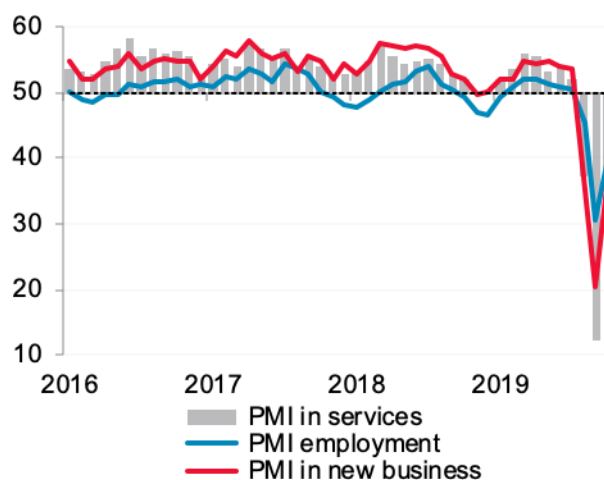


Source: IHS Markit.

The manufacturing PMI index tumbled to 31.3 in April (Figure 29), the lowest reading over the entire history of IHS surveys in Russia (since September 1997). May saw the index rise slightly to 36.2. The key factors of business activity contraction in manufacturing over April and May were a drastic output fall (the relevant index dropped from 46.4 in March to 18.9 in April and went up to 32.3 in May) and a plunge in the number of orders, both domestic and external (the indexes declined from 44.8 in March to 19.5 and 29.4 in April and May and from 43.1 to 22 and 30.5, respectively). A fall in demand was recorded in all manufacturing industries. Industries meeting intermediate demand were hurt the most in April, while investment goods industries were hit the hardest in May.

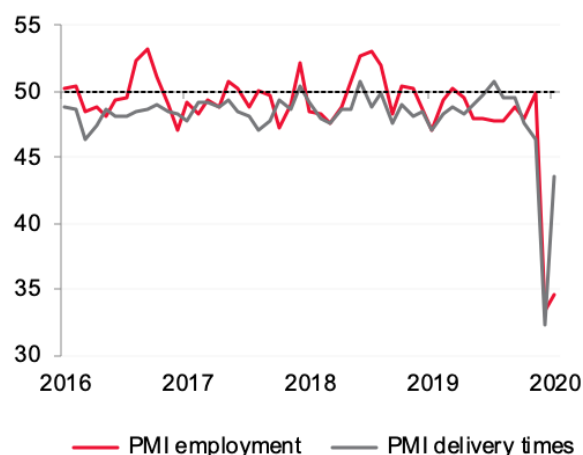
**Figure 29. Change in PMI manufacturing indexes, pp**

Source: IHS Markit.

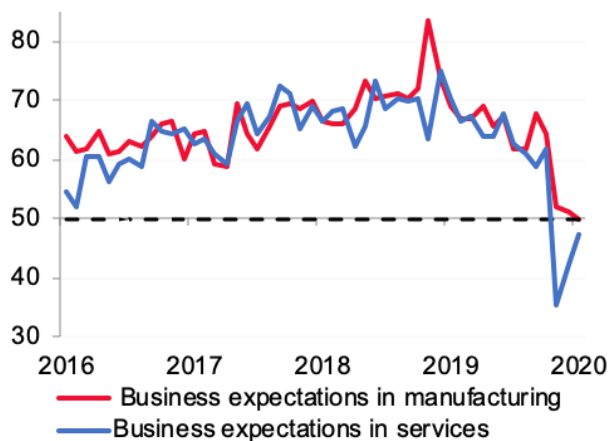
**Figure 30. Change in PMI services indexes, pp**

Source: IHS Markit.

After relatively stable indicators in March, companies cut employment dramatically (the index plunged from 49.9 in March to 33.4 in April, inching up to 34.6 in May) as demand from customers fell substantially (Figure 31). The obvious problems with demand are aggravated by those with suppliers, which cause increasing delays in deliveries, contraction in work in progress and a reduction in purchases.

**Figure 31. Manufacturing PMI indexes for delivery times and employment, pp**

Source: IHS Markit.

**Figure 32. PMI indexes for business expectations**

Source: IHS Markit.

The index of business expectations for output within 12 months to come fell to the lowest level over the entire history of this indicator to come in at 51.3 in April, and hit a new low in May, dropping below 50 for the first time over eight years of observations (49.7) and signalling that producers are expecting a further output contraction from the level which

already declined significantly in April and May (Figure 32). Other leading indicators also point to diminishing optimism about future output: a Rosstat survey showed a drastic decline in the perceptions of prospects for changes in output (to the lowest level since mid-2019).

IHS PMI for the services sector plunged to 12.2 in April (Figure 30). As in other countries, the fall in the services sector index was much steeper than in manufacturing, yet again confirming that the services sector was hit the hardest by the coronavirus-related restrictions. The services index almost returned to the March level in May, rising to 35.9. A fall was posted in both domestic (the index tumbled from 35.4 in March to 20.3 in April, rising to 37.3 in May) and export orders (a plunge from 34.9 in March to 19.0 in April and an increase to 33.5 in May). Self-isolation and quarantine measures led customers to cancel or postpone their orders. A slump in orders triggered a rise in surplus capacities, a drastic decline in new orders and employment reduction (the relevant subindex fell from 45.5 in March to 30.7 in April, rising to 40.1 in May).

#### 1.2.4. Retail sales decline in April's "month off"

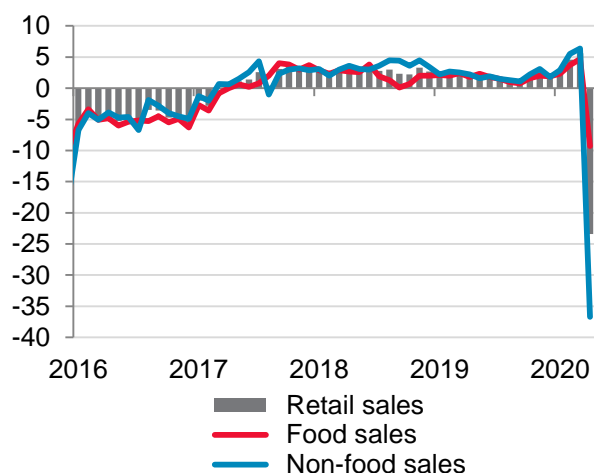
- A retail sales surge in March was followed by a consumer activity plunge on the back of a squeeze in both demand (driven by an income collapse and change in consumer preferences) and supply (due to the lockdown of shopping centres and non-food shops): retail sales plummeted 23.4% YoY in April.
- Since most offline shops were locked down in April, non-food sales suffered the heaviest fall, down 36.7% YoY. The recent explosive rise in online trade supports retail sales but is unable to compensate for such a steep decline in conventional sales.
- Indirect estimates suggest that April saw a savings ratio rise, which may have stemmed from both change in consumer preferences on the back of escalating uncertainty and an impossibility to buy other than basic non-food goods because of a lockdown of non-food shops. The latter indicates a potential for pent-up demand to be realised as the restrictions are lifted.
- May's real-time data indicates a gradual consumer activity increase. But the secondary effects of the coronavirus-related restrictions on economic activity and household income will restrain further consumption recovery, thus providing the key disinflationary factor in 2020 and 2021.

Retail sales contracted sharply by 23.4% YoY in April (Figure 33) after growth acceleration to 5.6% in March amid elevated demand for unperishable food items and other FMCG in the run-up to the imposition of coronavirus-related restrictions. On top of that, other than FMCG non-food sales soared in March on fears of rises in their prices driven by rouble weakening. The shift of many employees to work from home provided an additional stimulus to growth in demand for computers. This surge in sales, was, however, expectedly temporary: the imposition of restrictions affected both supply of goods (shopping centres and

shops selling other than FMCG non-food goods were locked down) and demand for them (due to a fall in income and change in consumer demand along with a lending growth slowdown). This had an especially significant effect on the non-food segment, where sales plunged 36.7% YoY, with new car sales tumbling 72.4% YoY in April.<sup>15</sup> Personal services also saw a slump of 37.9% YoY. Food retail sales, however, posted a much less significant decline of 9.3% YoY. The extensive rise in the online segment of food and non-food retail only partially compensated for the lockdown of conventional offline shops.

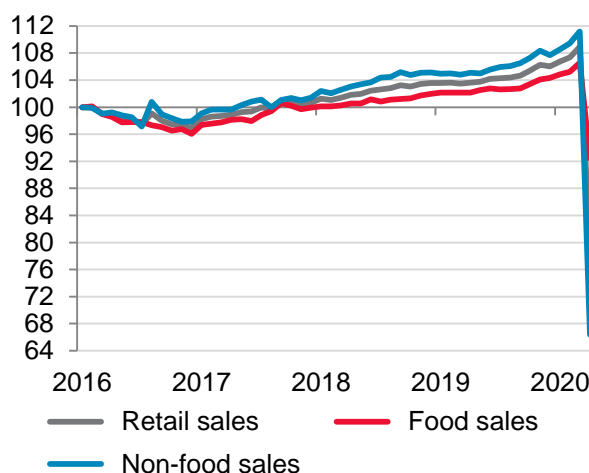
Retail sales dropped 20.8% YoY in nominal terms in April after their 8.3% YoY growth in March. The retail industry's (OKVED2 47)<sup>16</sup> incoming payments showed a similar trend, which was, however, different in magnitude: a 31% YoY growth in March and a 7.4% YoY decline in April.

**Figure 33. Change in retail sales of food and non-food goods and retail sales turnover, % YoY**



Source: Rosstat.

**Figure 34. Change in retail sales turnover, % (January 2016 = 100%, SA)**



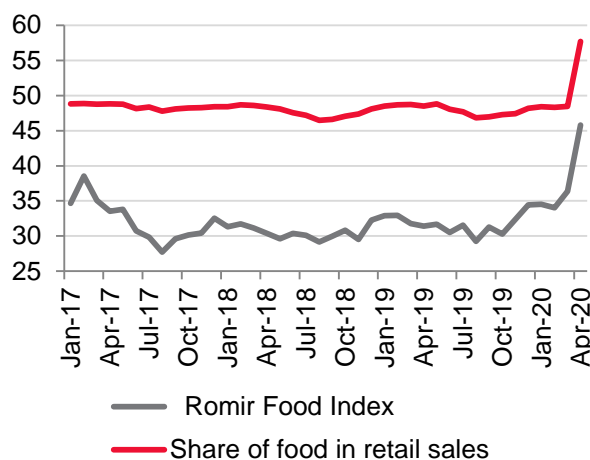
Source: Rosstat, R&F Department estimates.

Seasonally adjusted monthly figures show a retail sales decline of more than 20% MoM (Figure 34). It is noteworthy that restrictions imposed on offline non-food shops in April and consumers' shift to austerity changed the retail sales structure towards food products. The share of food in retail sales rose to a record 57.7% in April from 48.4% in March (Figure 35).

<sup>15</sup> Association of European Businesses data.

<sup>16</sup> A proxy for revenue. April's incoming payments effected through the Bank of Russia's payment system accounted for 27% of retail sales estimated by Rosstat.

**Figure 35. Share of food in retail sales and Romir Food Index, %**



Source: Rosstat, Romir.

Research holding company Romir data on household *FMCG* expenditure indicates a sales contraction in April<sup>17</sup> after a sharp expansion in March (Figure 36). That said, the decline (in *FMCG* expenditure) was moderate in year-on-year terms.

It is difficult at the moment to separate the effects of demand and supply decline on consumption in April, because the estimates of change in household income will appear later. Indirect indicators suggest that the savings ratio increased (due to change in consumer behaviour along with the escalation of uncertainty, as well as impossibility to make purchases because shops were locked down). For example, an increase in household funds on bank accounts and cash in circulation outside the Bank of Russia<sup>18</sup> totalled 940 billion roubles (35% of monthly retail trade and personal services) in April compared with 840 billion roubles (24%) a month earlier. This means that pent-up consumer demand has emerged, creating a certain growth potential to be realised after the restrictions have been lifted.

Real-time data on retailers' incoming payments indicates the rebound of consumer activity in May. The mean deviation of incoming flows from the "normal" level was positive at +13% over the last three weeks (May 2–24), rising from that of the first five "weeks off" (the mean downward deviation from the "normal" level equalled 16%). May data from holding company Romir points to the stabilisation of nominal household income at last year's level after a sharp decline in April.<sup>19</sup> Sberbank and Tinkoff Bank data on household consumer spending via plastic cards also indicates a certain recovery of consumer activity in the first half of May after a gradual easing of coronavirus-related restrictions in some Russian regions. According to Tinkoff Bank estimates, it stood at 80% of the February level on May 11–24.<sup>20</sup> Sberbank data also shows a gradual recovery: as of May 24, the weekly pace of

<sup>17</sup> [Everyday household expenditure contracted sharply in April](#) / Research holding Romir. 14.05.2020.

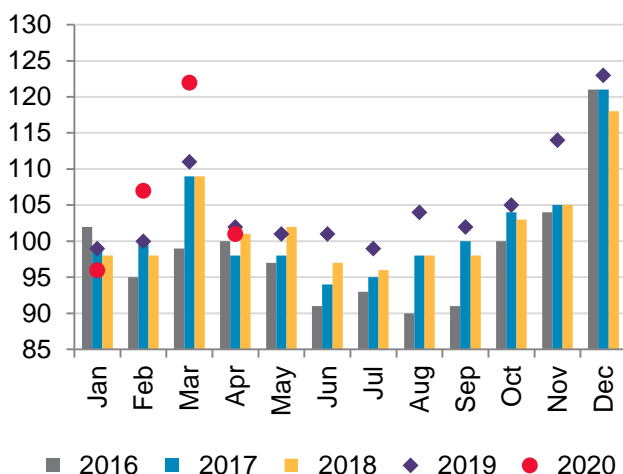
<sup>18</sup> We assume that most of it is cash in the hands of households.

<sup>19</sup> [Weekly spending returns to normal](#) / Research holding Romir. 26.05.2020.

<sup>20</sup> [Tinkoff CoronalIndex: Russia's consumption has started to rebound to the February level](#) / Tinkoff Bank. 26.05.2020.

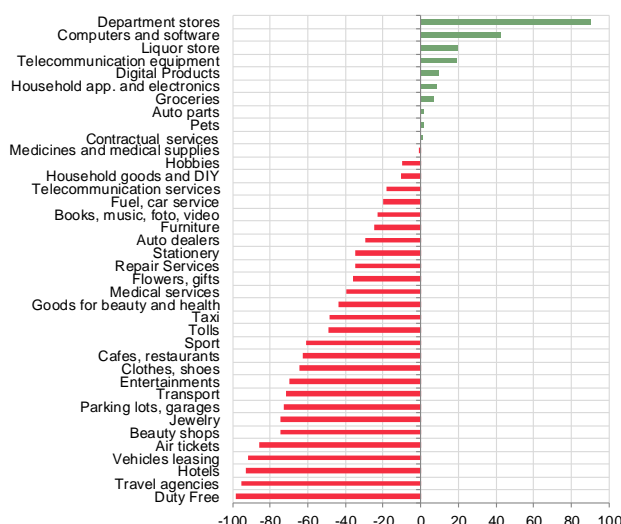
decline in household expenditure on goods and services slowed to 14% YoY.<sup>21</sup> A decline in spending slowed notably for a wide range of goods over three weeks of May (Figure 37).

**Figure 36. Real everyday household expenditure, % (2012 median = 100%)**



Source: Romir.

**Figure 37. Change in real expenditure on goods and services in May (May 4–24, 2020), % YoY**



Source: «SberData» Lab.

### 1.2.5. Unemployment rise in April

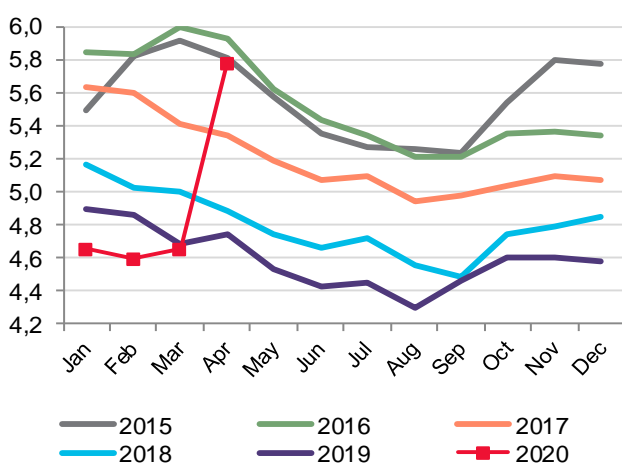
- Based on a Rosstat estimate, the unemployment headcount increased by 800 thousand to 4.3 million in April. The unemployment rate soared to 5.8%, the 2015 level (Figure 38). Seasonally adjusted, the unemployment rate stood at 5.6%, up 1.0 pp from March (Figure 39).
- The unemployment rate has risen much less than in other countries. On the one hand, this may reflect the specifics of Russia's labour market, where adjustment to shocks traditionally relies on wage and working time flexibility and to a lesser extent on employment reduction. On the other hand, the above employment rate estimate is approximate: since interviews had to be conducted by phone, the data is not comparable with that obtained earlier via face-to-face interviews.
- According to an inFOM survey conducted at the Bank of Russia's request, over a third of Russians reported a loss of jobs by acquaintances of theirs. A Levada-Center poll conducted on April 24–27 showed that 20% of respondents were laid off, sent on a partially paid leave, furloughed, or had to work reduced hours. Based on the second stage of a Chamber of Commerce and Industry business sentiment poll conducted in May, a third of businessmen said they had to start layoffs.

<sup>21</sup> [Real-time estimate of Russian households' consumer activity on 18–24 May](#) / SberData Laboratory. 26.05.2020.



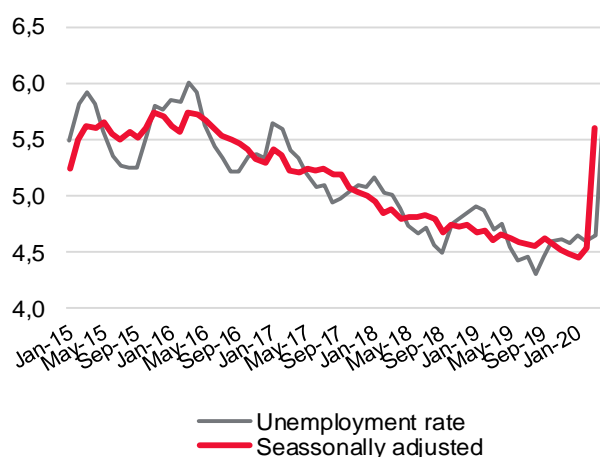
- Based on data from the job-search and head-hunting website hh.ru, the number of vacancies and CVs decreased over the self-isolation period. The number of vacancies declined 7.0% YoY in April; the number of CVs continued to increase but the rate of increase slowed to 6.0% YoY. Hh.ru reports that the hiring of new personnel continues in industries boasting a relatively stable condition, while industries facing difficulties resort to pinpoint recruitment.
- Wages continued to rise *in March*: nominal wages added 8.6% YoY compared with 8.1% YoY a month earlier, real wages rose 5.9% after 5.7% YoY a month earlier, with unemployment remaining low (Figure 40). March saw wage growth in practically all economic activity types, except for those which faced the effect of the coronavirus spread even before the restrictions were put in place, i.e., hotels and restaurants.

Figure 38. The unemployment rate by year, %



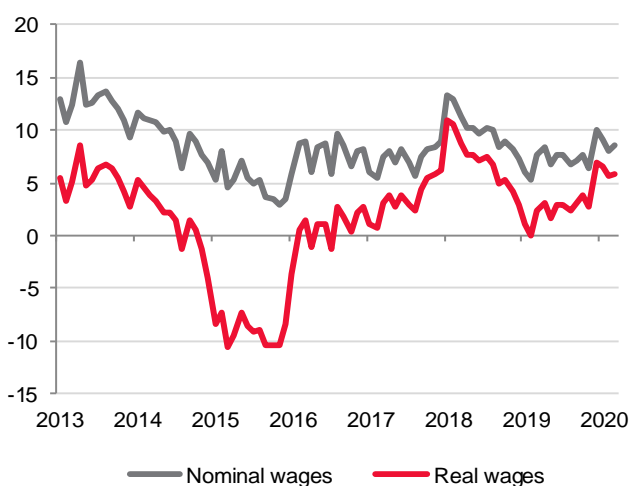
Source: Rosstat.

Figure 39. Unemployment rate, %



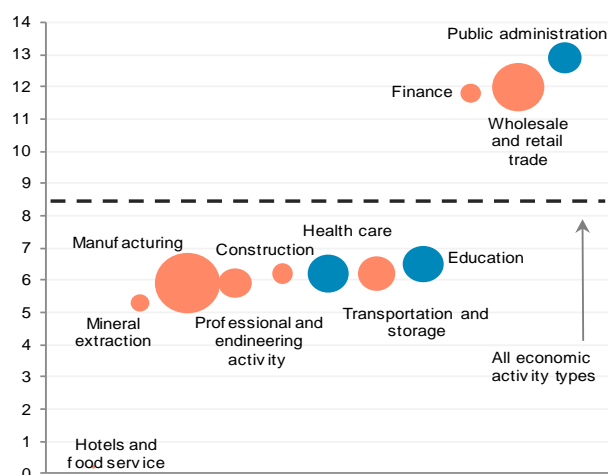
Source: Rosstat, R&amp;F Department estimates.

Figure 40. Wage growth rate, % YoY



Source: Rosstat.

Figure 41. Nominal wage growth by industry in March, % YoY



Source: Rosstat. The size of the circles corresponds to an activity type share in the payroll fund.

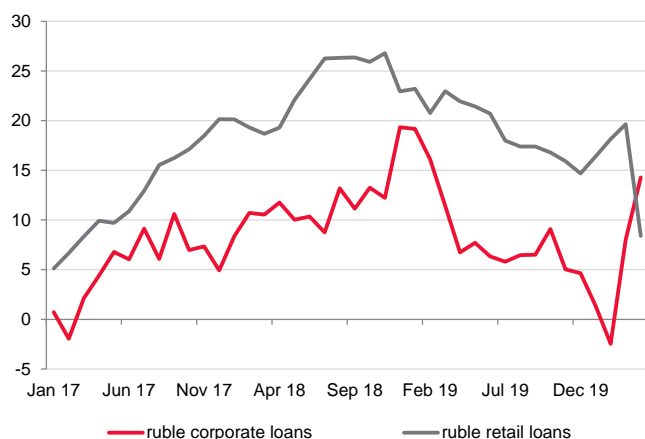
### 1.2.6. Retail lending contracted, corporate lending growth gained pace in April

- Banks' retail loan portfolio dwindled in April. Coronavirus-related restrictions brought down both demand (loan applications) and supply (the share of loan applications approved by banks). Demand for loans was partially supported by the online sales channel.
- The monthly rate of retail lending growth will become positive (in seasonally adjusted terms) as the restrictions are lifted. The growth pace will, nevertheless, be slower than before the coronavirus times due to both the household income fall and banks' more conservative policies.
- Corporate lending expansion continued to gain pace in April – companies compensate for an income shortfall, relying on programmes for lending and employment support.
- Growth in loan-loss provisions was moderate in April: prudential easing by the Bank of Russia allows loan quality deterioration to be temporarily disregarded. Most borrowers are expected to be able to return to normal debt servicing, while restructurings which will, after all, end up as non-performing will be covered by loan-loss reserves set aside by banks in the medium term.

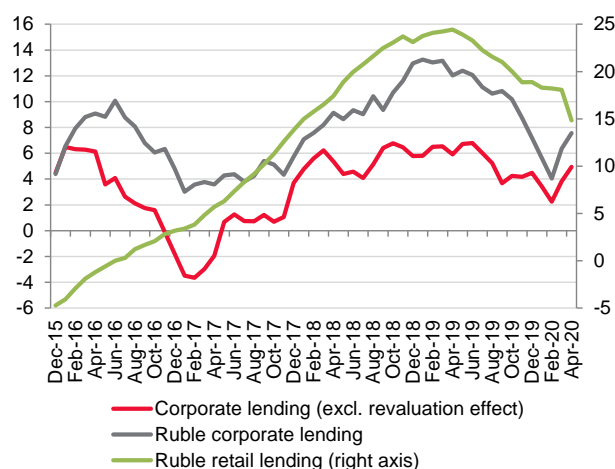
April saw retail lending contract 1% MoM in seasonally adjusted terms<sup>22</sup> (Figure 42). In year-on-year terms, portfolio expansion slowed from 17.8% to 14.7% (Figure 43). Monthly portfolio contraction largely resulted from a fall in auto loans, down 3.4% MoM, with unsecured consumer lending also making a contribution (a 2.1% MoM decrease, Figure 45). This was to be expected amid a household income downturn and/or escalation of uncertainty over its further trend, along with the lockdown of a large part of non-food retail facilities as part of restrictions imposed to contain the spread of the coronavirus. According to [research holding Romir data](#), a drop in consumer demand in Russia involved 90% of goods and services categories. As a result, National Bureau of Credit Histories data indicated a significant decrease in the number of loan applications in April, down 50–70% from the highest level recorded in March.

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<sup>22</sup> Here and further on, in seasonally adjusted terms, unless otherwise stated.

**Figure 42. Annualized 3-month average credit growth rates, %**

Source: Bank of Russia.

**Figure 43. Annual growth rates, y-o-y**

Source: Bank of Russia.

At the same time, a drop in new mortgage loans was much less significant at -15% YoY (Figure 44) than in other retail lending segments.<sup>23</sup> One explanation is that the conclusion of purchase and mortgage lending contracts takes some time and therefore transactions started prior to the quarantine may have been closed in April. On top of that, mortgage lending is shored up by debt refinancing loans, which were double the total of April last year.<sup>24</sup>

The mortgage lending segment avoided a contraction in overall mortgage loan debt, although a preliminary estimate of a 0.4% MoM rise is far below the previous rate of this segment's growth. The launch of government-supported programme for mortgage lending at 6.5% p.a., which some banks offer at even lower rates, may buoy mortgage lending demand and its growth pace going forward.

We note that retail lending downturn in April was driven not only by demand factors but also by those of supply. The escalation of uncertainty prompted banks to tighten their lending policies. According to National Bureau of Credit Histories data, just one fifth of April's applications for loans to finance the purchase of consumer goods were approved.<sup>25</sup> This is the lowest level since 2017, when these statistics started to be collected. The Equifax credit bureau also reported that the share of approved loan applications was close to an all-time lows, returning to the numbers of early 2015, when creditors tightened their lending policies significantly in the wake of economic sanctions.<sup>26</sup>

<sup>23</sup> According to National Bureau of Credit Histories data, unsecured consumer loans dwindled by almost two thirds over the month, with auto loans falling more than 80%.

<sup>24</sup> However, the share of such loans in overall lending is less than 10%, hence it does not have a significant effect on total lending.

<sup>25</sup>

<https://www.kommersant.ru/doc/4342660>.[https://ria.ru/20200513/1571363842.html?utm\\_source=yxnews&utm\\_medium=desktop&utm\\_referrer=https%3A%2F%2Fyandex.ru%2Fnews](https://ria.ru/20200513/1571363842.html?utm_source=yxnews&utm_medium=desktop&utm_referrer=https%3A%2F%2Fyandex.ru%2Fnews)

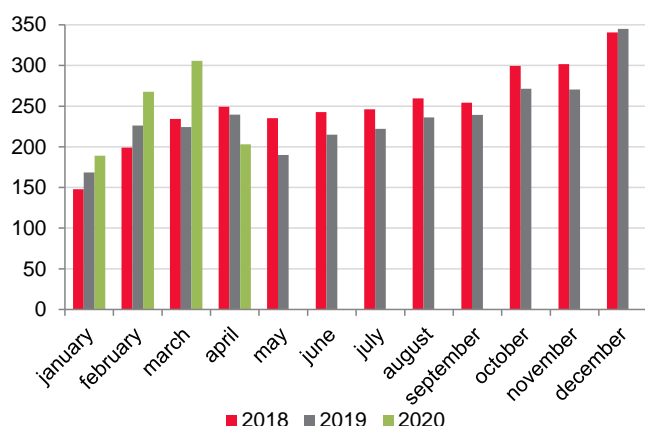
<sup>26</sup>

[https://www.kommersant.ru/doc/4342660?utm\\_source=yxnews&utm\\_medium=desktop&utm\\_referrer=https%3A%2F%2Fyandex.ru%2Fnews](https://www.kommersant.ru/doc/4342660?utm_source=yxnews&utm_medium=desktop&utm_referrer=https%3A%2F%2Fyandex.ru%2Fnews)[https://ria.ru/20200513/1571363842.html?utm\\_source=yxnews&utm\\_medium=desktop&utm\\_referrer=https%3A%2F%2Fyandex.ru%2Fnews](https://ria.ru/20200513/1571363842.html?utm_source=yxnews&utm_medium=desktop&utm_referrer=https%3A%2F%2Fyandex.ru%2Fnews)

*Ibid*

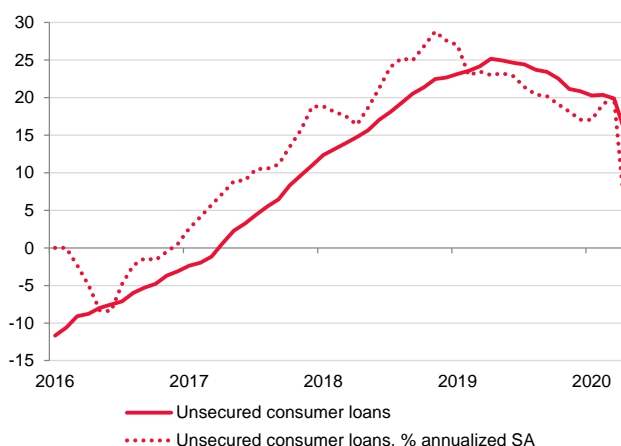
It should be noted that a fall in demand for loans would have been even deeper if there had been no online lending channels. Indeed, according to National Bureau of Credit Histories data, unsecured consumer loans dropped to almost zero in the offline lending segment, whereas loans extended online rose at some banks.<sup>27</sup> It appears that online channels will be the key factors of lending growth going forward.

**Figure 44. New issued mortgage loans volume, bln. rub**



Source: Bank of Russia.

**Figure 45. Unsecured consumer lending dynamics, %**



Source: Bank of Russia.

The monthly rate of retail lending will become positive (in seasonally adjusted terms) as coronavirus-related restrictions are eased. The previous growth pace is, however, unlikely to be achieved. The recovery of consumer activity may be very gradual even after the restrictions have been fully lifted – because of the income fall along with change in consumer habits and consumption structure.

A monthly rise in rouble lending to nonfinancial organizations stood at 1.3% in seasonally adjusted terms. Corporate lending growth is notably above the average numbers of previous years, reflecting companies' rising need for bank lending as cash flows fall,<sup>28</sup> the government and the Bank of Russia launch lending and employment support programmes, and the bond market narrows. Moreover, as the index of small and medium-sized business activity (the Opora RSBI) shows, the availability of bank lending to companies of various sizes is the only component of this index which shows an improvement. This suggests the availability of bank credit to companies of various sizes. What is more, a total of undrawn rouble credit lines increased in April, suggesting potential for further lending expansion (Figure 46).

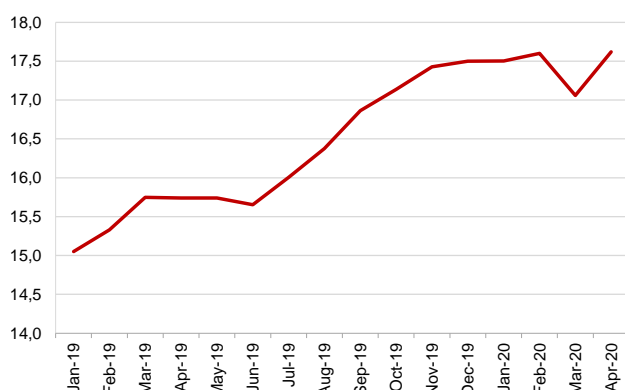
Loan-loss provisions, excluding adjustments, rose just 0.6% in April, less than 4.0% in March (Figure 47). Lack of a significant rise in loan-loss provisions coupled with almost no increase in nonperforming loans may be owed to recent regulatory easing by the Bank of Russia. Under the new regulatory regime, banks are in some cases allowed not to set aside additional provisions if a borrower's financial position or debt servicing quality deteriorate

<sup>27</sup> <https://www.nbki.ru/company/news/?id=102374>.

<sup>28</sup> [http://www.cbr.ru/Collection/Collection/File/27876/finflows\\_20200514.pdf](http://www.cbr.ru/Collection/Collection/File/27876/finflows_20200514.pdf)

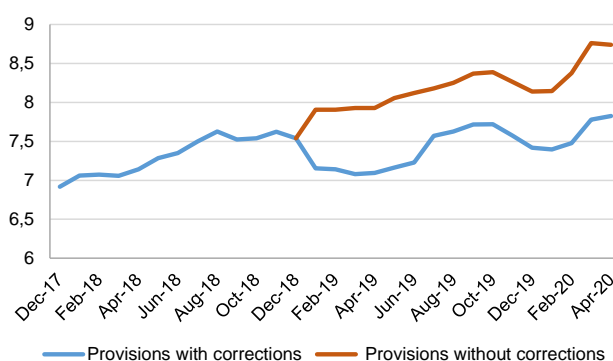
temporarily. Most borrowers are very likely to be able to return to normal debt servicing, while restructurings which will, after all, end up as non-performing will be covered by provisions gradually set aside by banks. Because of this, expansion in non-performing loans and loan-loss provisions can only be expected in the medium term. A stress-test of the largest 20 banks has shown that banks can, at any one time, recognize the loss of up to 10% of the loan portfolio value without breaching capital requirements. This exceeds a total of losses which the banking system sustained during the 2008–2009 and 2014–2015 crises.

**Figure 46. Undrawn rouble credit lines, trillion roubles**



Source: Bank of Russia.

**Figure 47. Loan-loss provisions, trillion roubles**



Source: Bank of Russia.

*Note: the adjustments were made following the introduction as of the start of 2019, of the IFRS 9 standard as part of Bank of Russia effort to bring the Russian regulatory rules in line with international practices.*

### 1.2.7. April saw sharp rise in “anti-coronavirus” budget expenditure

- As measures to combat the pandemic implications were launched, April saw a dramatic growth acceleration in federal budget expenditure, primarily that of the social block and the Nationwide Issues section.
- The budget remained in surplus thanks to the transfer of part of the Bank of Russia's profit from the sale of Sberbank's controlling interest. Also, the April statistics only partially reflected the negative impact of the pandemic on economic activity and budget revenue.
- In May, the budget surplus is expected to change to a deficit, which will expand further in the months to come. With measures to support the economy scaled up, extensive growth in budget expenditure is set to continue. Meanwhile, budget revenue will be adversely affected by low export prices of energy resources and a general tax revenue decline on the back of the economic activity squeeze arising from the pandemic.

- The shortfall of oil and gas revenue is financed from the National Wealth Fund, while the rest of budget deficit covered by borrowings.

According to RF Treasury real-time data, an increase in federal budget expenditure accelerated sharply in April. Non-interest expenditure showed a rise of 40.2% YoY (expenditure stood at 34.5% of projected monthly GDP<sup>29</sup>) versus 18.1% YoY in the first quarter. The social block and the Nationwide Issues section accounted for the bulk of the expenditure increase (54.4% YoY; 16.6% of GDP and 64.9% YoY; 3.4% of GDP, respectively). Expenditure growth acceleration arose from the launch of measures to combat the implications of the pandemic, including increased unemployment benefits and support for families with children, as well as additional payments to medical personnel and upgrading the equipment of health care institutions. Also, inter-government transfers rose significantly, likely reflecting increased support for regional budgets (34.3% YoY; 2.8% of GDP).<sup>30</sup>

The expenditure growth was offset by a comparable increase in federal budget revenue. April saw a severe fall in oil and gas revenue, down 69.7% YoY (6.1% of GDP), triggered by a global commodity price slump. But budget revenue was shored up by a one-off transfer of the Bank of Russia's profit from the sale of Sberbank's majority stake for a total of 1.07 trillion roubles. Also, given a lag between the formation of the tax base and the revenue transfer to the budget, the April statistics only partially reflected the negative impact of the pandemic on economic activity. As a result, budget revenue showed a substantial rise of 28.2% YoY (36.0% of GDP) in April. Net of the transfer to the budget of a part of the Bank of Russia's profit from the sale of Sberbank shares, revenue would have tumbled 32.0% YoY (19.1% of GDP).

As a result, the federal budget ran a surplus of 0.2% of GDP for April and 0.4% of GDP for the first four months of the year. Net of the Bank of Russia's profit from the sale of Sberbank's controlling interest, the budget would have run a deficit of 16.7% and 3.1% of GDP, respectively.

May will likely see the budget surplus change to a deficit, which is set to expand in the subsequent months. Given an increase in financing measures to support the economy, budget spending will continue to rise extensively. Meanwhile, budget revenue will be adversely affected by low export prices of energy resources and a general tax revenue reduction due to an economic activity decline prompted by the pandemic.

The shortfall of the baseline oil and gas revenue is compensated by National Wealth Fund revenue, with the rest of budget deficit financed by borrowings.

<sup>29</sup> Here and further on in this section, the number in parentheses indicates the level of expenditure or revenue as a percentage of GDP for the relevant period.

<sup>30</sup> Preliminary data on federal budget expenditure is, as a rule, somewhat overstated, and the final numbers may come in lower, but a significant expenditure growth acceleration relative to April 2019 is bound to remain after the numbers have been updated.

### 1.2.8. Narrowing of current account surplus

- The current account surplus narrowed in January–April 2020 compared with the same period of last year on the back of a dwindling trade surplus. A dramatic fall in external demand reduces exports. Imports also decline due to the coronavirus-related restrictions and lockdown of production facilities in both Russia and other countries.
- A turnaround of global financial markets and rising risk appetite brought non-residents back to the OFZ market. As a result, government sector liabilities to non-residents edged up after their sharp fall in March.

The current account surplus plunged to USD25.3 billion in January–April 2020 from USD40.1 billion a year earlier. This was driven mainly by a trade surplus shrinkage to USD35.6 billion from USD61.6 billion as exports fell. Meanwhile, the non-trade surplus (the balance of services and the balance of income and current transfers) amid the COVID-19 implications is estimated to have tumbled to USD12.1 billion from USD21.5 billion a year earlier.

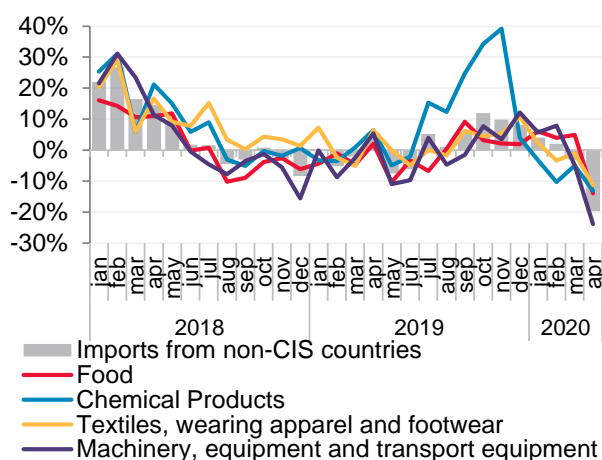
According to Federal Customs Service data, a fall in imports from other than former USSR countries accelerated to 19.8% YoY (versus -3.1% YoY in March), reflecting the consequences of suspending the operations of a significant part of companies in both Russia and across the world on the back of the coronavirus-related restrictions. April's sharp import contraction in both month-on-month and year-on-year terms was posted in all the key categories (Figure 48) and was the most significant at 14.5% YoY in investment imports (Figure 49). This is also generally consistent with the domestic output of investment goods.

Machinery and equipment imports contracted the most by 23.9% YoY in April. Food imports fell 14% YoY, the import of chemical products declined 13.1 YoY, that of textiles, wearing apparel and footwear dropped 11.3% YoY.

Chemical products suffered a deterioration of import performance in both month-on-month and year-on-year terms in all key categories. Pharmaceutical products were one exception of the general trend, recording an import jump of 36.5% MoM compared with March and a twofold slowdown in the year-on-year import contraction to -15% YoY. Regarding other goods, the most significant import decline was posted in perfumery and cosmetic products, down 28.7% YoY, as well as polymer and rubber products (a 15.5% YoY decline).

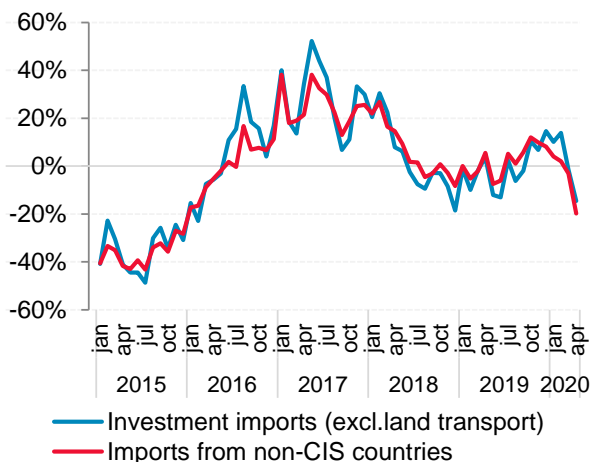


**Figure 48. Growth in the components of imports from non-CIS countries, USD, rate of growth, YoY**



Source: Bank of Russia, R&F Department estimates.

**Figure 49. Growth in imports from non-CIS countries and investment imports<sup>31</sup>, USD, rate of growth, YoY**



Source: Bank of Russia, R&F Department estimates.

The import of mechanical equipment, accounting for about 40% of machinery and equipment imports, posted a decline for the first time in half a year, contracting 16.9% YoY. In addition to that, the key contribution to the worsening of investment imports came from a severe drop in deliveries of land transport equipment, down 55.2%, vessels and floating structures (a 76% YoY slump), and an import contraction in electrical equipment, down 16.7% YoY, as well as instrument and optical equipment (-2.3% YoY). A minor positive contribution was only provided by the import of aircraft, up 12.9% YoY, and railway locomotives, with a rise of 20.3% YoY.

Key to estimating contraction in trade activity and domestic demand is a decline in the import of textiles, wearing apparel and footwear. The import fall in this category was the steepest since 2016 at 11.3% YoY in April, with a decrease also continuing in month-on-month terms. The most significant drop was posted in the import of knitwear, down 54.0% YoY, footwear (a 40.9% YoY plunge), knit fabric (-38.9% YoY). The import of finished textiles, by contrast, soared 4.2 times, up an impressive 323.9% YoY. We also note a worsening in the import of other consumer goods (some types of household chemical and food products).

Narrowing of the services balance deficit is driven by a services import contraction, with services exports also declining. The latter reflects a fall in external demand. It should be noted that the shrinkage of the services balance deficit makes a significant contribution to the maintenance of the current account surplus. Still, this factor will not in itself be able to offset a trade surplus reduction in the near future.

Russia's international reserves declined USD2.4 billion in April after falling USD9.9 billion in March and rising USD7.8 billion in February. This took place as foreign currency sales under the fiscal rule decreased in the wake of some oil price rebound. The continuation

<sup>31</sup> Investment imports are estimated as the difference between total machinery and equipment imports and land transport imports from other than former USSR countries.

of foreign currency sales (although at a smaller scale) via the exchange rate channel had a restraining effect on import contraction.

April saw risk appetite rising in global financial markets. Against this background, the outflows of non-residents' investments in OFZs seen in March gave place to minor inflows in April.

The private sector's net lending to the rest of the world declined to USD23.9 billion in January–April 2020 from USD27.6 billion a year earlier. Banks scaled down foreign liabilities significantly in the first four months of 2020.

## 2. In focus: mixed prospects of carsharing market

- Prospects for carsharing market development are generally positive, the service may expand in the coming years, reaching a saturation point in Moscow and other big cities. Still, carsharing does not have a significant effect on car demand: the share of car owners is generally stable, with the carsharing service used on an ad-hoc basis.
- The financial component of a car purchase indicates that carsharing and private car ownership are not fully interchangeable.
- The coronavirus pandemic may have a partial effect on the change of consumer attitudes: carsharing will likely become a safer alternative to public transportation or the taxi service.
- The adoption of international practices (introduction of special rates for long-distance travel with payment for daily mileage, development of peer-to-peer carsharing services using the rental of private cars) will help Russia's carsharing services adjust to consumer demands.

As global car demand declines and carsharing becomes increasingly popular in big cities, the issue of whether it has potential as a substitute for private cars has been gaining relevance in recent years. Car demand is a driver of multiple industries' performance and one indicator of consumer demand and attitudes to major purchases in economies at large. To accurately assess car market prospects, it is important to get an insight into the nature of the current car demand contraction, specifically, the relative roles of structural and cyclical factors in it.

There are now 24 carsharing companies in Russia, most of them operating in the largest cities with high population density, chiefly Moscow and St Petersburg. Some carsharing platforms are however also found in other regions. The Delimobil service, one of the top three companies by car fleet with a total of 12 thousand cars in all regions of its presence, boasts the widest region coverage.<sup>32</sup> Meanwhile, in view of a high carsharing service concentration in the metropolitan region,<sup>33</sup> it is in this case worthwhile to assess market parameters using the example of Moscow.

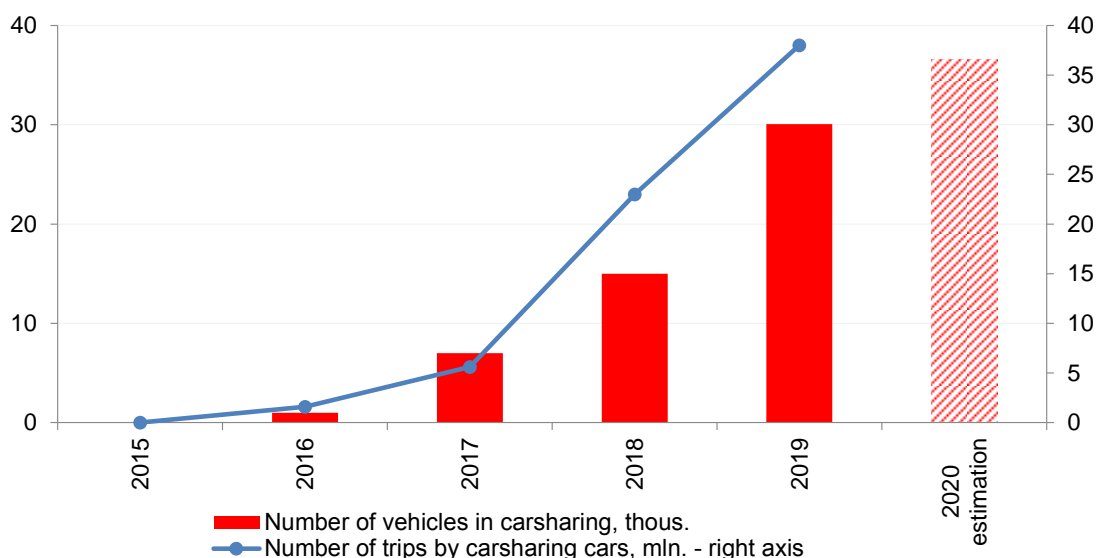
According to expert [community](#) estimates, the capital's carsharing fleet now totals about 26 thousand cars owned by nine operators. Moscow's largest (by the number of vehicles) carsharing services are now Yandex Drive, Delimobil, BelkaCar, and YouDrive. The Moscow Department for Transport and Road Infrastructure Development forecasts that the city's carsharing fleet may exceed 30-35 thousand vehicles in 2020 (Figure 50).

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<sup>32</sup> In addition to Moscow and St Petersburg, operates in Ufa, Nizhny Novgorod, Yekaterinburg, Novosibirsk, Samara, Grozny, Krasnodar, Krasnoyarsk, Rostov-on-Don.

<sup>33</sup> The carsharing market is dominated by Moscow and Moscow region, holding 84.6% of the market by travel frequency, St Petersburg and Leningrad region with 8.3%, and Sverdlovsk region accounting for 6%, with other operators accounting for a total of about 1.1%.

Figure 50. Carsharing service development in Moscow



Source: Centre for Road Traffic Organization of Moscow Government.

The frequency of travel by private cars registered in the Moscow transport hub is 1.02 trips per day based on 2019 data (Table 1).

This indicator has declined by one third over the last 10 years,<sup>34</sup> which may point to a less extensive private car use and a longer car life. In megalopolises, above all in Moscow and St Petersburg, giving up private car ownership may be owed to the expansion of the public transport infrastructure amid inevitable traffic jam and parking problems which emerged in the period of the fastest car ownership rise in cities. The hypothesis that car owners who have not switched to public transport have changed their behaviour model is in large part accurate: with new car prices rising as household income has stagnated for a long time,<sup>35</sup> car owners have become less inclined to change their cars. As a result, average car ownership length has almost doubled over the past decade.<sup>36</sup> A reduction in the frequency of private car travel and a longer car life are among factors bringing down car demand.

Relative indicators of the carsharing services development in Moscow are quite modest: the share of daily carsharing use in the overall daily car travel (by private cars, carsharing vehicles, and taxis) stands at about 3%, according to our estimates based on data from the Moscow Department for Transport and Road Infrastructure Development, the Centre for Road Traffic Organization of the Moscow Government, and RBC (a number of other sources estimate it at about 4%<sup>37</sup>). The ratio of daily travel by carsharing vehicles to that by private cars equals 4-5%. These, so far relatively modest, numbers, *on the one hand* suggest that,

<sup>34</sup> Autonews with reference to data on the frequency of daily travel by passenger cars registered in the Moscow Transport Hub.

<sup>35</sup> Rosstat data on real disposable household income.

<sup>36</sup> Ten years ago, average length of car ownership was 3-4 years, currently it is 6-7 years.

<sup>37</sup> [Motor.ru](http://Motor.ru), [Center for Road Traffic Organization](http://Center for Road Traffic Organization), [autonews.ru](http://autonews.ru), [mos.ru](http://mos.ru)

despite a rapid rise in the popularity of Moscow's carsharing service, this transportation option is currently not a full-fledged substitute for private cars. *On the other hand*, one needs to be aware that until the *carsharing* service, which is still in its infancy in Russia, emerges in full force and is popularized accordingly, it cannot expect to generate demand from Russian auto-owners who have already bought a car and are continuing to use it (see also statistics below).

In light of the last argument, one can assume that a ratio of travel by carsharing vehicles to that by private cars will increase going forward as young people increasingly decide against buying their first cars, switching to alternative transport options, and other auto-owners decide against replacing their old cars with new ones (for example, because of the above-mentioned car life increase or the sale of a car) and switch to cutting transportation expenditure, especially amid an income decline during the crisis. But as the number of carsharing vehicles is close to a saturation point in Moscow,<sup>38</sup> a significant effect of the carsharing service on demand for new cars is, nevertheless, possible only if car-owners' current stance changes much more radically. It would therefore be premature to explain the rising demand for carsharing services<sup>39</sup> by a structural factor of falling demand for private cars.

The expansion of alternative transportation types, including carsharing services, gradually changes behaviour patterns of auto-owners (45% of car owners [have reduced the frequency of private car travel](#) over the past year, but only 7% of auto-owners are ready to give up their private cars), with more than half of them using carsharing services several times a week. About 54% of Russians are not prepared to give up car ownership even if a [carsharing service](#) fully meeting their needs becomes available, regarding this service as a temporary alternative (e.g., for tourist travel and travel to work, education facilities, an airport or railway station). Carsharing is almost never used to travel out of the city.

Car market [experts](#) point out the image component of a car purchase and do not view carsharing as a threat to the car market, regarding it just as competition to taxi services. The financial component of a car purchase indicates an incomplete interchangeability between carsharing and private car ownership: studies<sup>40,41</sup> find that the choice of transport should be based on the expected travel distance: if a total travel distance is expected to be about 5 thousand km per year, carsharing makes more sense financially, while a private car pays off if it is expected to travel more than 20 thousand km a year (Figure 51). Carsharing, however, implies some "hidden" expenses (payment of franchise fees included in CNC insurance in case of a road accident through a fault of a rented car driver), and comparison with a comfort a private car owner feels in driving his or her own car, which also affects the choice of a transportation option.

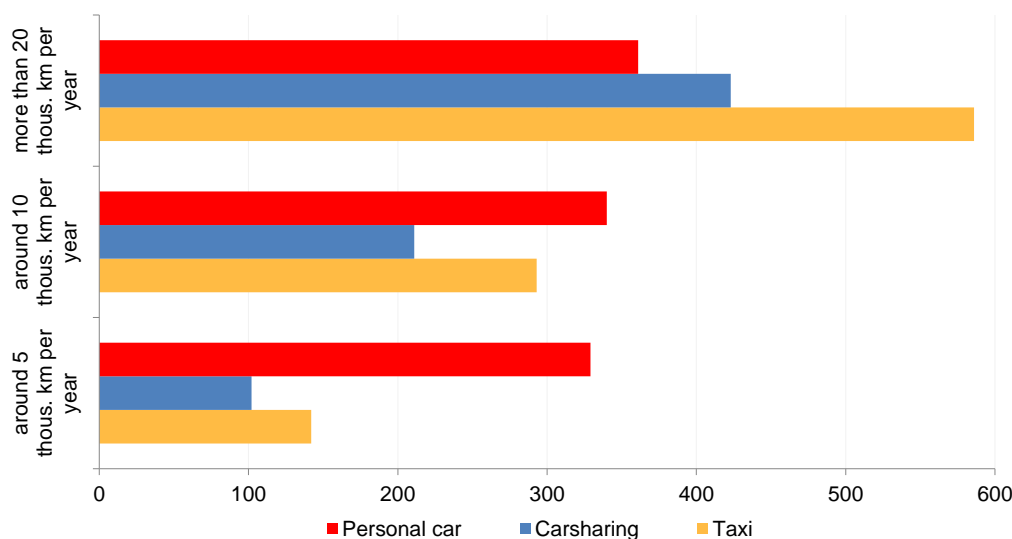
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<sup>38</sup> According to a PWC estimate, a saturation point for Moscow is about 30 thousand carsharing vehicles.

<sup>39</sup> "All key indicators – the number of users, revenue, car fleet, rose 5 times in 2018". SberData study *Russia's Carsharing Market*.

<sup>40</sup> [TASS](#) with reference to a joint survey of Yandex.Taxi and Datainsight.

<sup>41</sup> [Kommersant Daily](#) based on an HSBC survey.

**Figure 51. Comparative costs of travel options, for Hyundai Solaris, thousand roubles per year**

Source: Yandex.Taxi and Datainsight estimates.

Industry experts do not currently view carsharing as a factor capable of significantly affecting car sales.<sup>42,43</sup> Among the key causes of global fall in demand are:

- rises in the prices of new cars driven by tougher environmental requirements and safety standards (consumers are gradually shifting to used cars);
- market oversaturation with cars featuring similar technical characteristics;
- macroeconomic situation affecting component production chains, trade wars between major automaking countries (the USA, China).

Global experience shows that a demand decline in the car market may stem from macroeconomic factors, such as a banking sector crisis (India), expectations of national currency weakening on the back of economic sanctions, as well as household income contraction.

Market experts currently also lack consensus about prospects for further carsharing development and its effect on global car demand. Some studies<sup>44,45</sup> forecast a “car paradox” (there will be fewer cars used more extensively) and suggest that rising popularity of carsharing will, as early as within five years, bring down car demand, which will decline even further as driverless taxis come onto the market. Other experts assess prospects for private car replacement by carsharing services more cautiously, forecasting a gradual controlled shift of emphasis onto carsharing, with enough time for car makers to adapt to new realities; their

<sup>42</sup> [RBC](#).

<sup>43</sup> [Nezavisimaya Gazeta](#).

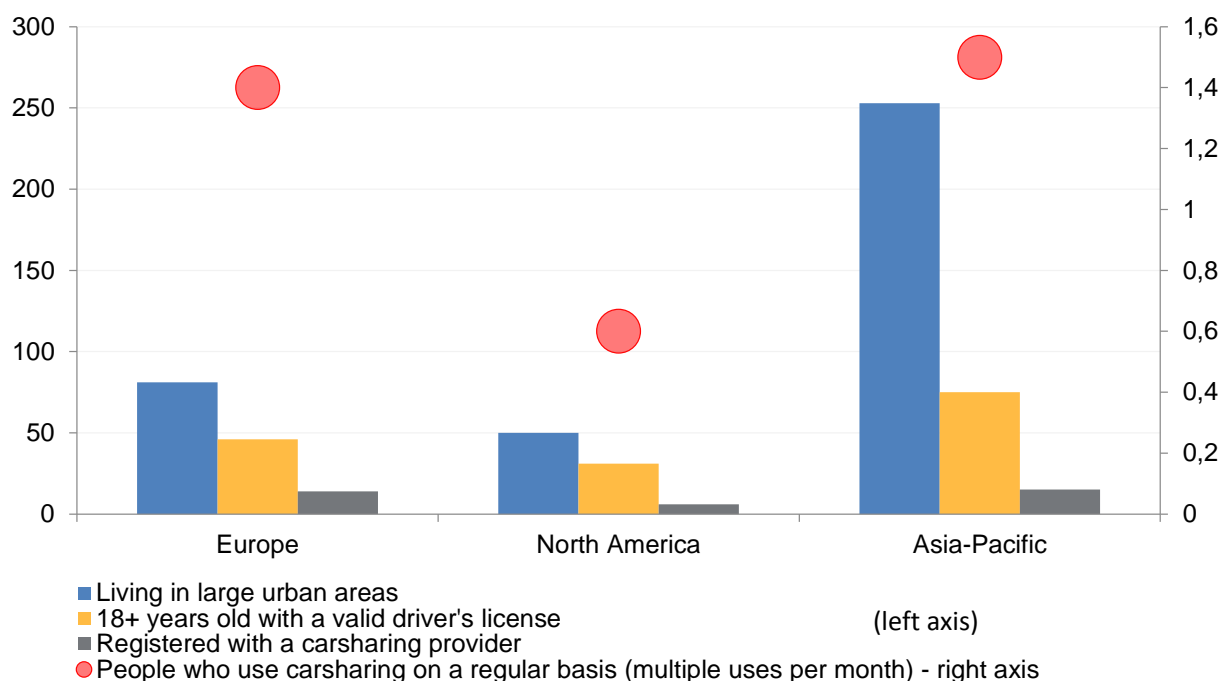
<sup>44</sup> [IHS Markit](#).

<sup>45</sup> [RBC based on a Canalys survey](#).

forecast is that in the next ten years, various carsharing options will reduce car sales no more than 2.5%.<sup>46</sup>

Global carsharing users are forecast to reach 36 million people driving about 427 cars<sup>47</sup> by 2025, while the total number of active service users in three continents (Europe, North America, and Asia) is estimated to total 3.5 million<sup>48</sup> in 2021 (Figure 52). Russia's performance is in line with the global trend: the number of Moscow residents per carsharing vehicle will in the next few years [reach the level of world capitals](#), such as Toronto (498 residents per carsharing vehicle), Madrid (500), New York (525). Roughly 10% of cars (about 200 thousand vehicles) are expected to be purchased for carsharing purposes<sup>49</sup> within seven years in Russia. The total number of carsharing vehicles will continue to grow – to 10 million units<sup>50</sup> globally by 2040 and 100 thousand cars by 2023 [in Russia](#).

**Figure 52. Forecast of world's regular carsharing users in 2021, million**



Source: BCG study.

Moscow's carsharing users currently total 1 million people,<sup>51</sup> whereas the metropolitan area population aged 18–79 years stood at 9.9 million<sup>52</sup> as of 1 January 2019. The share of people registered in Moscow's carsharing services is thus about 10.1% of the city's population aged between 18 and 79 years, suggesting a possible potential for a further rise in

<sup>46</sup> R&F Department estimates based on BCG data and "Strategy of the Russian Federation's automotive industry development until 2025".

<sup>47</sup> [RBC with reference to a McKinsey survey](#).

<sup>48</sup> [RBC with reference to a BCG study](#).

<sup>49</sup> "Strategy of the Russian Federation's automotive industry development until 2025".

<sup>50</sup> [IHS Markit survey](#)

<sup>51</sup> <https://rg.ru/2019/09/13/reg-cfo/chislo-polzovatelej-karsheringa-v-moskve-dostiglo-1-mln-chelovek.html>.

<sup>52</sup> R&F Department estimates based on Rosstat data on gender and age structure of Moscow population.



carsharing penetration in Moscow (carsharing services have yet to reach out to about 90% of Moscow residents). The typology of Moscow's carsharing users<sup>53</sup> shows that the service is most extensively used by people aged 21–35 years with daily carsharing expenses in the range from 1,942 roubles to 4,617 roubles (between 7 and 19 trips per month using 2-5 carsharing services).

Given the age structure of Russia's population and the demographic trough of the 1990s, this category of Moscow's active carsharing users is fairly small in number (about 2.6 million people aged from 18 to 79 years). This may point to the need for carsharing companies to adjust their marketing policies so as to win over people older than 35 years. It would also be worthwhile for the services to look into the underlying causes of customers' dissatisfaction, such as the shortage of big cars and a rise in rental rates amid strong demand, relying on their findings as growth potential.

Government support via subsidised parking charges (the price of a parking pass for a carsharing vehicle is 15 times lower<sup>54</sup> than that for a private car) can be regarded as another source of growth. Carsharing services provide potential for scaling down metropolitan road traffic: about 24 thousand carsharing vehicles can replace [up to 150 thousand private cars](#), while each of 12 thousand Delimobil vehicles is driven by 10 users daily, allowing [over one million of private cars to be replaced in one year](#). The adoption of international practices would help Russia's carsharing services to adapt to consumer demands by, among other things, introducing special rental rates for long-distance travel with payment for daily mileage (as in the USA) rather than for the time of use, developing peer-to-peer carsharing services using private car rental.

As restrictions were imposed to combat the spread of the coronavirus pandemic, provision of carsharing services had to be temporarily suspended in Russia. The availability of online platforms allowed the services to promptly reformat their operations, switching to badly needed delivery services. The leasing payment expenses, however, still had to be paid, with every week of their core operations costing the services [250 million roubles](#). During the first day of carsharing service resumption after the restrictions were eased, 1.5 thousand cars were rented for five days in Moscow (less than 5% of the total number of cars), meanwhile, the services do not expect to recover before the restrictions are fully lifted.

Global trends suggest that the need to comply with social distancing while the coronavirus is still there may affect customer choice going forward: the use of carsharing will likely be preferred over public transport or taxis but will be less in demand than private car ownership, interest in which rose during the pandemic, judging by [search requests and household surveys](#).

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<sup>53</sup> Sberbank's SberData study "Russia's Carsharing Market".

<sup>54</sup> [PwC Technology](#).



**Table 1. Comparative analysis of car travel options for Moscow**

No.	Indicator	Carsharing	Taxi	Private car
1.	Car fleet	<p>26 thousand cars</p> <p>23 thousand cars (June 2019)</p> <p>Moscow's car fleet is expected to expand to 30 thousand cars in 2020</p> <p>Car fleet is expected to increase to 39 thousand by 2025 in Moscow and 22 thousand vehicles in Russian regions</p>	48 thousand cars (2019)	<p>296.2 private passenger cars per 1,000 population (2018)</p> <p>3.959 million cars (as of end-2018)</p> <p>"...3.5 million cars travel daily on Moscow roads"</p> <p>An average of 3 million cars travelled daily on Moscow roads in January 2020</p>
2.	Number of trips for the period	<p>36 million trips from January to September 2019</p> <p>24 million trips over the first half of 2019</p> <p>67% of Russian carsharing customers make 1–5 trips per month,</p> <p>9% of Russian carsharing customers make more than 15 trips per month</p>		
3.	Average number of trips by one car per day	<p>An average of seven trips daily</p> <p>Number of trips is expected to rise to 10-12 per day by 2025</p>		1.02 trips per day by private car (2019)
4.	Average number of trips per day depending on the car fleet size	<p>Average of about 132.4 thousand trips per day (based on data for January–September 2019)</p> <p>Average 133.3 thousand trips per day (based on data for the first half of 2019)</p> <p>About 182.0 thousand trips per day</p> <p>About 429.0 trips per day expected by 2025</p>	About 890 thousand trips per day (2019)	3570 thousand trips by private car, daily average

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5.	Average cost of one trip	<p>Average price of one trip varies across regions: 183.6 roubles in Baskortostan, 256.9 roubles in Moscow, 296.1 roubles in St Petersburg and Leningrad region based on 2018 data</p> <p>Average price of one trip for a typical carsharing user is 260 roubles (monthly cost is 3,469 roubles based on 2018 data)</p> <p>Carsharing prices are expected to rise 8% a year</p>	<p>Average check for one trip – 464 Q2 2019 average, Q1 2019 average is the same)</p> <p>455 roubles in 2018</p> <p>(about 130 roubles for Russia)</p>	—
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Source: surveys, media reports, R&F Department estimates.

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