EmergingMarketWatch

Russia Country Snapshot Reports | Nov 23, 2020

MAIN DEVELOPMENTS

KEY STATISTICS

FEDERAL BUDGET 2021

Parliamentary committee recommends approval of budget 2021

Russia | Oct 26, 19:16

- **Duma to discuss draft budget in first reading on Oct 28**

Budget 2021-23: gradual fiscal consolidation on back of expentiture containment

Russia | Oct 22, 12:55

- **Optimism prevails in GDP forecasts for 2020 and 2021**
- **Revenues to increase, supported by recovering economic activity and some tax hikes**

- Expenditures marks shift of budget focus from investments to social policies
- Deficits to be mainly financed by domestic debt placement
- Public debt burden to remain among the lowest in the world around 20% of GDP

FinMin proposes higher personal income tax not to apply to property sales

Russia | Oct 22, 08:47

- Most individuals do not pay income tax on real estate sale, so amendment should have small impact

Duma approves 20% tobacco excise tax hike in final reading

Russia | Sep 24, 08:50

- Measure should lead to 17% increase of cigarette prices, boosting CPI inflation by 0.2pps
- Tobacco excise duty to increase with previous year's inflation in 2022-23

Putin confirms 6.3% pension hike in 2021

Russia | Sep 23, 16:49

- Pension spending to reach RUB 7.8tn next year
- Pension hike is in line with government change of focus to social policies

Duma approves higher tax for metal, fertilizer companies

Russia | Sep 22, 19:02

- Hike should bring RUB 56bn to budget

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RUSSIA AND THE BELARUSIAN CRISIS

Duma adopts changes allowing government to lend USD 1.5bn to Belarus

Russia | Sep 15, 16:31

- Money will come from federal budget reserves
- Loan is of critical importance for Belarus

PM Mishustin and Lukashenko agree on deeper economic integration

Russia | Sep 04, 08:57

- Russia speaks of redirecting Belarusian export flows through it
- More precise announcements should come after Putin-Lukashenko meeting in next two weeks

Russia opposes strongly any sanctions against Belarus

Russia | Sep 02, 08:50

- Kremlin still sees no reason to send security "reserve" to Belarus
- Moscow continues to signal it will not tolerate any interference in Minsk by other countries

Putin forms special security reserve to help Belarus if necessary

Russia | Aug 27, 18:28

- This is likely aimed at assuring Belarusian security personnel that Moscow is behind Lukashenko

- We believe sending Russian forces to Belarus is measure of last resort

FinMin willing to consider refinancing Belarusian loans

Russia | Aug 25, 16:21

- Russian financing becomes more important for Minsk ahead of possible EU sanctions
- External politics to remain key factors in lending to other countries, despite new FinMin rules

Kremlin not to enter talks with Belarusian opposition

Russia | Aug 24, 18:28

- Russia follows closely positions on future cooperation with Belarus
- Moscow reportedly expects Lukashenko to remain in power, plans to exploit his weaker position

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ALEXEY NAVALNY'S SUSPECTED POISONING

Russia to blacklist German, French officials in response to Navalny sanctions

Russia | Nov 12, 16:11

- Action was expected and again highlights elevated Russia-West tensions

German govt complains Russia has not provided all information on Navalny case

Russia | Nov 06, 18:21

- Berlin and Moscow likely to continue exchange of harsh words, but new sanctions over case seem unlikely

EU blacklists high ranking Russian officials and one entity over Navalny case

Russia | Oct 15, 15:42

- EU concludes use of Novichok could not take place without approval of Russian authorities
- We continue to believe economic sanctions over case are unlikely

Russia to implement countersanctions to EU's blacklisting over Navalny

Russia | Oct 15, 10:14

- EU to sanction top Russian officials over poisoning
- We do not expect any major further escalation and view harsh rhetoric as result of already elevated tensions

Foreign minister Lavrov speaks of possible end of dialogue with EU

Russia | Oct 14, 08:34

- Russia and West continue to exchange attacks as tensions remain high

EU approves Franco-German proposal for individual sanctions over Navalny case

Russia | Oct 12, 19:07

- Like in Skripal case sanctions envisage asset freezes, entry bans on Russian military intelligence officials

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CORONAVIRUS OUTBREAK

Kremlin again rules out lockdown

Russia | Nov 13, 19:17

- Central government shifts responsibility for restrictions to regional authorities
- Covid cases continue to increase, hospitals overburdened all across country

PM Mishustin extends tax deferral for SMEs until year-end

Russia | Nov 12, 16:43

- Government hopes to avoid need for more significant support by not introducing lockdown

Moscow closes nightclubs, students switch to remote learning for two months

Russia | Nov 10, 17:18

- Cinemas, theaters and concert halls to work at 25% of capacity
- Saint Petersburg already extended ban on nighttime work of entertainment facilities
- Third Russian vaccine to be registered soon, Putin says

Trade ministry calls for avoiding new lockdown

Russia | Nov 10, 16:05

- Health watchdog projects growth in new cases to continue for at least 7-10 days
- Moscow authorities pledge to offer support to businesses in case of harsher restrictions
- PM encourages regional officials to implement new restrictions after new daily cases exceed 20K

Authorities assure Covid situation is under control despite recent worsening

Russia | Nov 05, 14:02

- Moscow mayor extends remote learning by two weeks, acknolwdges situation starts to worsen
- Despite lack of harsher restrictions, short-term indicators already point at steep fall of consumer spending

Russia registers more than 18K Covid cases for fifth day in row

Russia | Nov 03, 13:35

- Hospitalisations in Moscow, which remains outbreak hotspot, decrease over past days
- Authorities remain reluctant to implement stricter restrictions

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OIL PRODUCTION AGREEMENT WITH OPEC

It is too early to speak on change of OPEC+ deal – energy minister

Russia | Nov 11, 08:59

- Managers of oil companies already vowed support for current deal envisaging relaxing oil output cut to 5.8mn bpd as of Jan

Oil companies support scheduled increase of oil output by 2mn bpd as of January

Russia | Nov 02, 17:56

- At meeting with energy minister Novak, some companies even wanted stronger reduction

Energy minister Novak expects oil price to equal USD 50-55 in 2021

Russia | Sep 04, 19:06

- Novak sees high volatility in 2021 with uncertainty due to Covid remaining high

Energy minister Novak expects relaxation of oil production cuts in August

Russia | Jul 02, 18:16

- Oil consumption unlikely to recover to pre-crisis level before end-2021
- OPEC+ sources say output cuts to be eased to 7.7mn bpd until Dec

Record high oil production cuts should not be extended further – RDIF head

Russia | Jun 19, 17:01

- Economies and oil demand are recovering from coronavirus

OPEC, Russia agree to extend current oil production cut by one month

Russia | Jun 08, 08:57

- Further actions will depend on improved compliance

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EUROBOND ISSUANCE

Current conditions not good for eurobond issuance – Siluanov

Russia | Sep 17, 08:30

- Issuance cannot be ruled out later this year if situation improves

Audit Chamber projects 2020 state debt issuance will equal RUB 4.1tn

Russia | Aug 20, 15:07

- Higher OFZ placement to be used to cover most of fiscal deficit, which widens due to Covid
- Relatively low debt burden, significant reserves limit risks related to higher borrowing

FinMin sees market environment as favourable for Eurobond issuance

Russia | Feb 19, 17:20

- Budget 2020 provides for up to USD 3bn eurobond issuance
- Earlier reports indicated Russia was considering eurobond placement in Q1

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UKRAINIAN CRISIS AND WESTERN SANCTIONS

Putin extends Crimea counter sanctions until end-2021

Russia | Nov 23, 07:38

- **Foreign ministry announces entry bans in response to London's Magnitsky blacklisting in July**
- **Moscow retains tit-for-tat approach amid elevated tensions with West**

US indicts six Russian military officers for global cyber-attacks

Russia | Oct 20, 08:55

- **London and Washington accuse Moscow of attacks on Olympic Games**
- **Incident again highlights elevated tension between West and Russia**

EU widens sanctions over Russian bridge to Crimea

Russia | Sep 28, 16:44

- **West and Russia have exchanged individual sanctions over past month**
- **More concrete actions could come after US presidential vote, dealing with second Covid wave**

CIA reportedly concluded Kremlin probably directs campaign against Biden

Russia | Sep 23, 07:16

- **Moscow allegedly uses lobbyists, US media to disseminate information against Democratic nominee**
- **This comes amid spike of Russia-West tensions over poisoning of Navalny**

US blacklisting of people aggravates relations with Russia - foreign ministry

Russia | Sep 11, 14:02

- **This comes in response to US blacklisting of four individuals over meddling in 2020 elections**

EU extends sanctions over Crimea for another six months

Russia | Sep 11, 08:55

- **Sanctions involve travel restrictions, asset freezes of 175 people and 44 entities**

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KEY STATISTICS

Lending growth quickens to 1.3% m/m in October

Russia | Nov 23, 10:17

- **Corporate lending edges up to 1.0% m/m due to loans to big companies**
- **Mortgage lending growth quickens for fifth consecutive months boosted by govt mortgage programme**
- **Banks' liquidity falls in Oct due to tax and dividend payment, but remains solid**

Lending growth quickened to 1.3% m/m in October from 1.1% m/m in September, according to data published by the CBR on Friday. Corporate lending increased by 1.0% m/m in October, compared to 0.8% m/m in September.

The expansion was driven by crediting of big companies. As a result, corporate loans increased 8.7% since the beginning of the year, which is the strongest growth since 2014, the CBR noted. Retail lending remained at relatively elevated level as it rose by 1.9% m/m, which the central bank attributed to the recovering economic activity over the past months, as well as the government mortgage lending programme. We recall that the government already extended the programme until Jul 2021, although the CBR had warned on several occasions such extension brings risks for formation of housing market bubbles. According to the figures published on Friday, mortgage lending growth steepened for fifth consecutive months, reaching 3.1% m/m in September (data for Oct should be published next month) from 2.2% m/m in August. In y/y terms, the growth reached 18.3% y/y from 16.3% y/y in the previous month. Meanwhile, the increase of consumer loans stabilised at 1.0% m/m due to the only moderate recovery of incomes.

Banks' liquidity fell in October mainly due to the tax and dividend payments, but still remains at stable level. Foreign-currency liquid assets fell to USD 41.3bn from USD 44.4bn and remains at comfortable level covering 29% of foreign currency liabilities to corporate clients and 14% of all, the central bank said.

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Decline of retail sales eases to 2.4% y/y in October

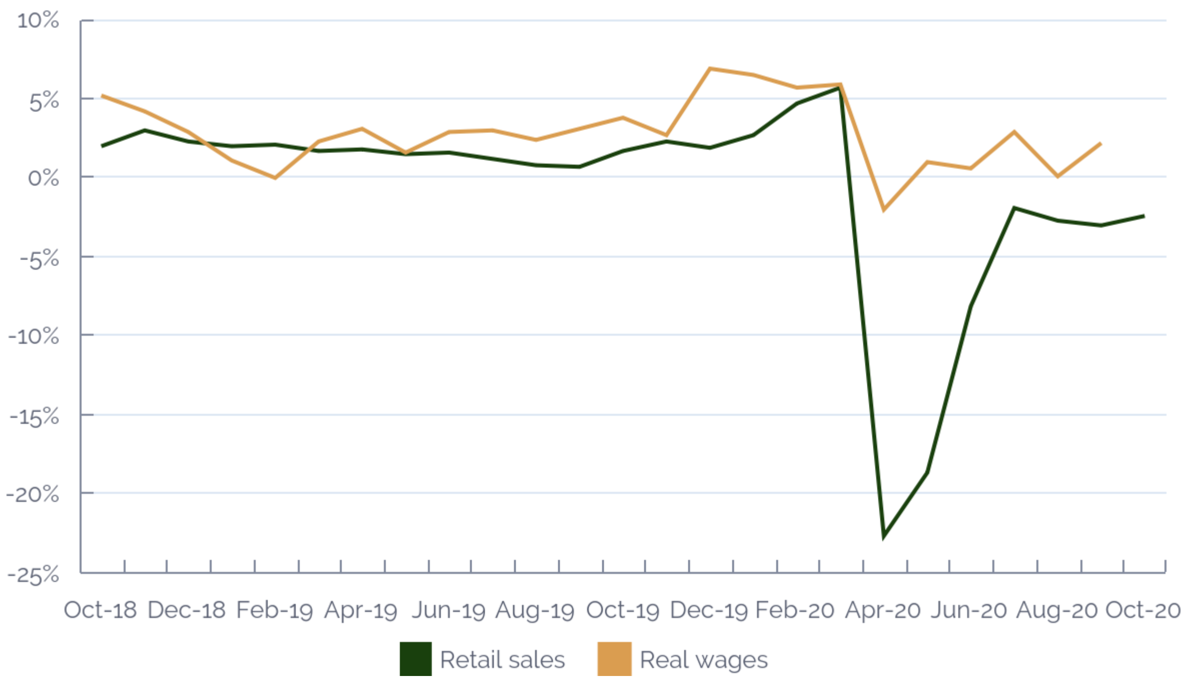
Russia | Nov 20, 18:47

- **October real sector data are very similar to September**
- **We expect to see worsening, but it will be much smaller than in spring**

Retail sales fell by 2.4% y/y in October, improving from the 3% decline in September, according to the new real sector report published by Rosstat on Friday. The improvement is driven primarily by food sales, where the decline eased to 3.6% y/y from 4.6% y/y in September. This is expected given the increased spending on essentials as the epidemiological situation worsens, at the expense of the services sector. Household consumption is supported also by real wage growth, which rose to 2.2% y/y in September, as well as higher bank lending.

Retail sales and income (% y/y)

Source | Rosstat



On the supply side, the figure show very similar performance to September for construction and transportation. The biggest change is seen in agriculture, where steady growth in the previous months is followed by a decline of 6.6% y/y. Most probably this reflects an earlier grain harvest this year, but the weight of agriculture is rather low outside the summer months. Unemployment was also flat at 6.3% in October, which is a result of the low flexibility of the labour market and tight labour supply due to poor demographics, which makes companies reluctant to lay off people.

Real sector indicators (% y/y)

	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Real wage growth	0.6%	2.9%	0.1%	2.2%	-
Construction	-0.1%	-0.2%	-0.6%	-0.1%	-0.1%
Agriculture	3.0%	4.2%	4.1%	1.4%	-6.6%
Transport	-9.6%	-8.3%	-5.0%	-3.9%	-4.0%
Retail sales	-8.1%	-1.9%	-2.7%	-3.0%	-2.4%

Source: Rosstat

Overall, the figures confirm that the second covid wave will have a much smaller effect on macro indicators compared to spring. This said, we expect to see some worsening, mainly in the services sector, although in the early stages it will be compensated by higher than usual demand for essentials and medicines. In this regard, we noted a recent statement by the health minister that sales of medicines have increased 15 times during the second week of November. The CBR expects that GDP will decline by at least 5% y/y in Q4, worsening from the 3.6% y/y fall in Q3. This seems realistic and it will bring the annual fall to slightly more than 4%. We think this is still a very good number, considering that Russia faced both a coronavirus shock and an oil price/volume shock this year.

Decline of industrial output deepens to 5.9% y/y in October

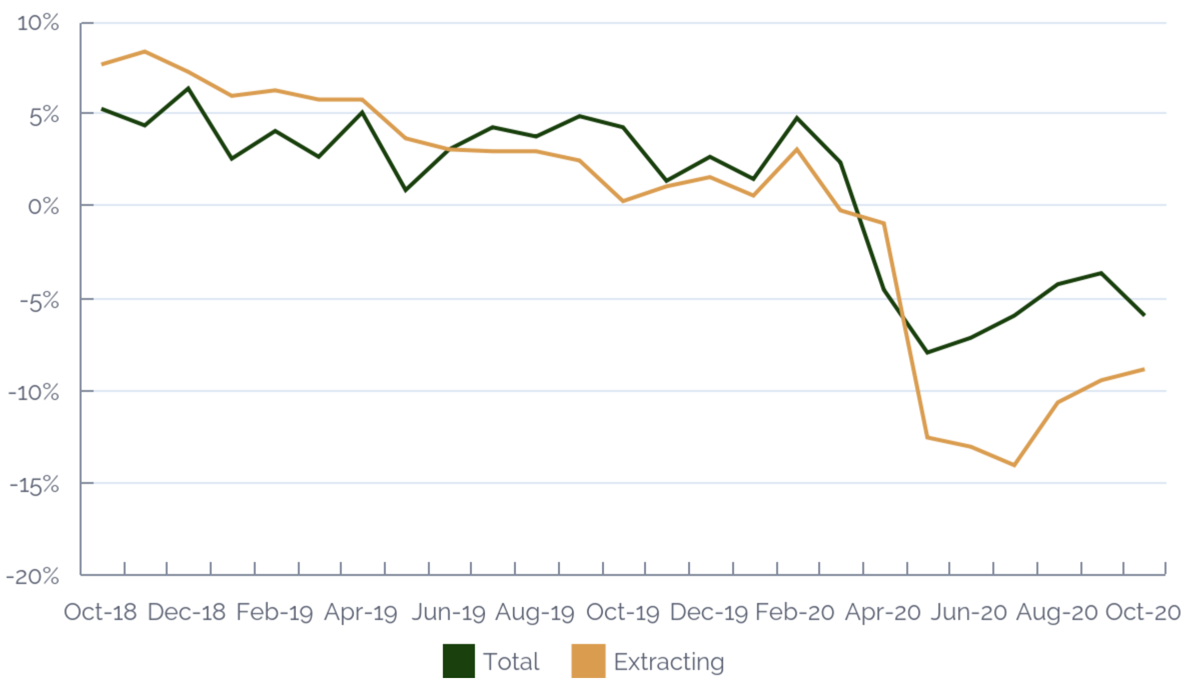
Russia | Nov 17, 19:30

- **Result is partly due to negative working day effect**
- **Decline in extraction remains strong due to 11.2% y/y fall of oil production**
- **Output in manufacturing contracts again after small growth in September**

The decline of industrial output deepened to 5.9% y/y in October after a revised 3.6% y/y in September, according to figures published by the statistical office on Tuesday. The deterioration is partly due to the fact that October last year had one more working day, reversing the positive effect from September. In monthly seasonally adjusted terms industrial output was flat in October, similar to the 0.1% growth reported for September.

Industrial output (% y/y)

Source | Rosstat



The extracting industry is almost unaffected by working day effects and the decline there eased slightly to 8.8% from 9.4%, but it remains significant. The main reason remains the OPEC+ oil production cut, which reduced oil production by 11.2% y/y. The entire oil&gas sector saw output decline by a smaller 9.8% y/y as natural gas production grew by 2.7% y/y. Apart from the OPEC deal, lower oil prices and uncertainty have reduced significantly drilling, resulting in 8.2% y/y fall of services in the sector.

Industrial output (% y/y)

	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Extracting	-13.0%	-14.0%	-10.6%	-9.4%	-8.8%
Manufacturing	-3.0%	-0.1%	0.4%	0.5%	-4.4%
Utilities	-3.7%	-1.1%	-2.1%	-2.4%	-3.7%
Total	**-7.1%**	**-5.9%**	**-4.2%**	**-3.6%**	**-5.9%**

Source: Rosstat

In manufacturing, output declined by 4.4% y/y after small growth of 0.5% y/y in September (revised from 1.6% y/y decline reported earlier). Here the working day effect is strongest and it largely explains the worsening. Among key sectors, the food industry continued to grow, benefiting from higher demand for essentials, but production of medicines was down slightly after unusually strong growth in September. Output of the oil processing industry continued to decline, similarly to metal industries and electronic equipment.

Industrial output is now down by 3.1% y/y in Jan-Oct with prospects for further deterioration due to the second wave of the pandemic. Still, in the absence of harsh lockdown measures, the decline is likely to be modest and the government's forecast for 4.1% fall of industrial output in 2020 looks achievable.

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Federal budget posts RUB 144bn deficit in October

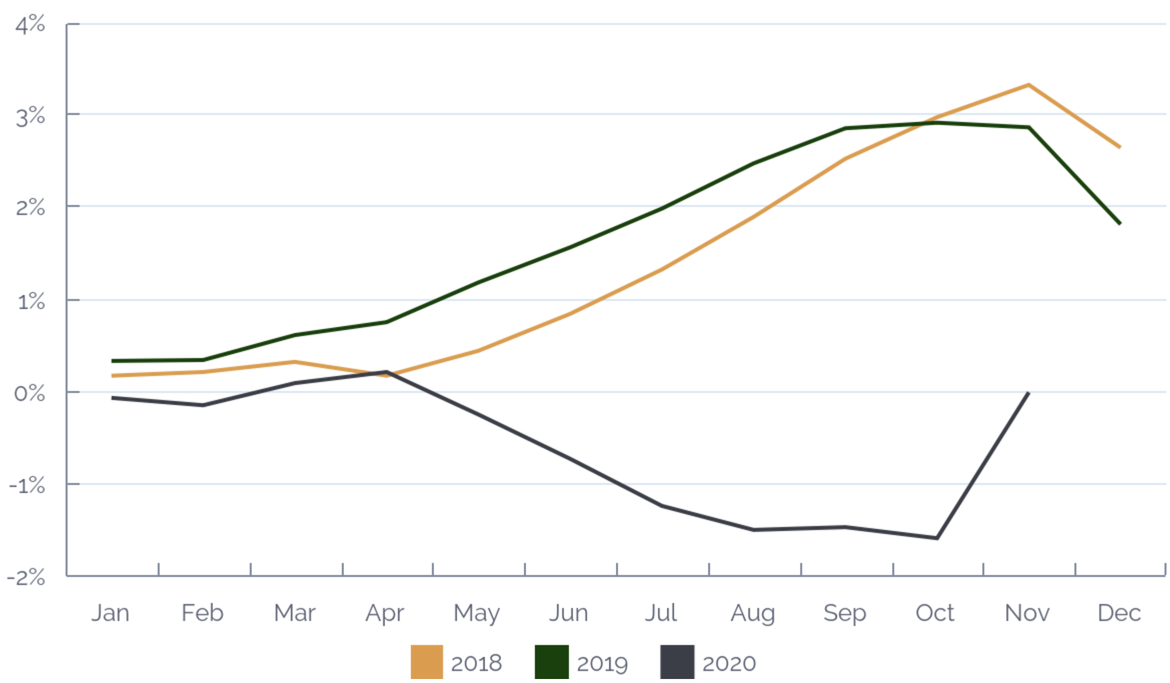
Russia | Nov 13, 08:40

- **Deficit climbs to 1.6% of annual GDP in Jan-Oct**
- **Revenues increase by 17.9% y/y in Oct, supported by one-off transfers from wealth fund**
- **Expenditures increase tangibly in Jan-Oct with main contribution from social policy and healthcare spending**

The federal budget posted RUB 144bn deficit in October, bringing the total to RUB 1.8tn in Jan-Oct, according to data published by the finance ministry on Thursday. Thus, it represented 1.6% of the expected nominal GDP. The FinMin revised downwards the deficit for the previous month on lower spending and the gap stood at RUB 172bn in September.

Federal budget balance (% of annual GDP)

Source | FinMin



Budget revenues reported significant increase of 17.9% y/y to RUB 15.1tn, mainly as a result of one-off "other" items. This includes the dividend for the Sberbank stake, received from the National Wealth Fund in October (RUB 211bn). VAT proceeds were up by 42.1% y/y, which also helped the overall result, but they are rather volatile and the increase comes against a very low base in October 2019. We recall that the government allowed tax and social security contributions for SMEs until year-end, but the measure does not cover VAT. There was also some uptick in import-related taxes again with the biggest contribution coming from VAT receipts. On the downside, oil revenues shrank by 29% y/y in October, worsening from 25% decline in September. In cumulative terms, budget revenues dropped by 9.2% y/y, mainly as a result of the 35% fall of oil revenues.

On the other hand, expenditures rose by 25.4% y/y to RUB 16.9tn in Jan-Oct. The main drivers were expenditures on social policy and healthcare once again upped due to the crisis. All the other categories also reported growth with the exception of sports, where spending was affected by the social isolation efforts. In a recent analysis the CBR noted that public consumption is increasingly centralized to the Central Federal District covering Moscow, which could bring distortions in the assessment of overall economic activity. The deficit was again financed through OFZ, which are mainly bought by big state-owned banks (especially the floaters). Domestic bonds should remain the main financing source with demand for them underpinned by banks' ample liquidity and the low key interest rate.

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GDP surprises positively as Q3 contraction equals 3.6% y/y – preliminary

Russia | Nov 12, 18:51

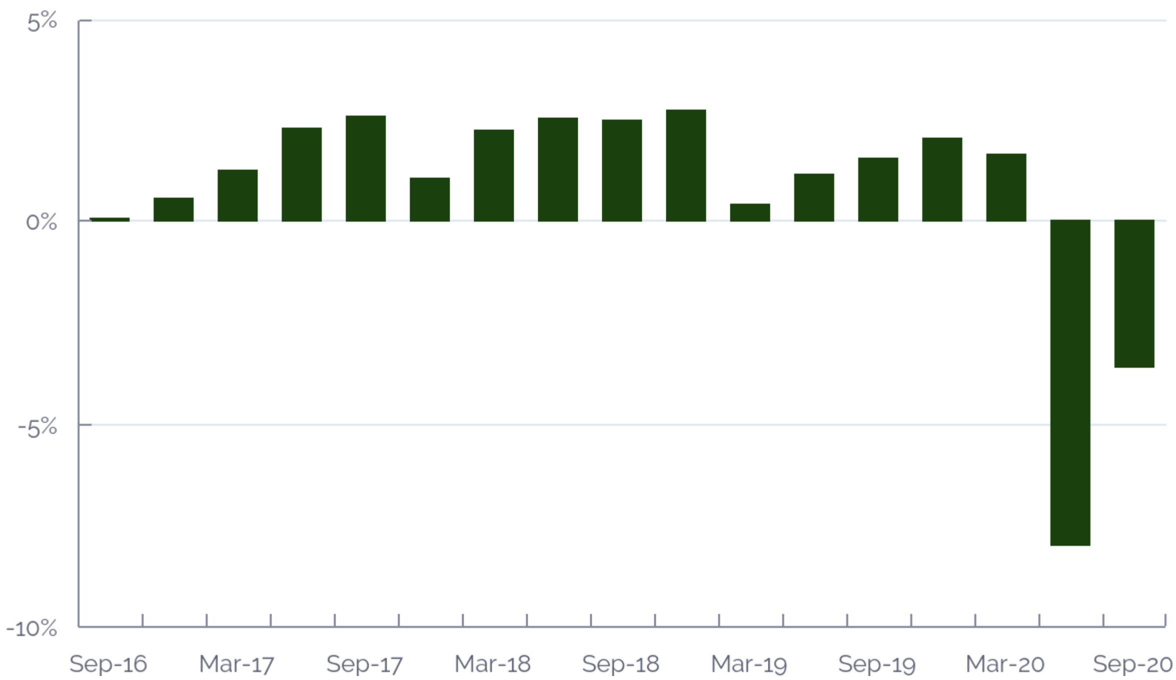
- **Govt 2020 forecast for 3.9% contraction to meterialise if Q4 drop equals 4.6% y/y**
- **Short-term data suggests Q3 improvement is driven by recovering domestic demand**

GDP contraction came in at 3.6% y/y in Q3, better than the consensus forecast of 4.5% y/y, according to a preliminary estimate published by the stat office on Thursday. This comes after the decline in Q2 was also tangibly better than expected standing at 8.0% y/y. As a result, the GDP contraction reached 3.6% y/y in Jan-Sep. This means that if the GDP contraction is 4.6% y/y in Q4, government's full-year forecast for 3.9% decline would materialize, although it was previously seen as optimistic. Still, the uncertainty remains high and noticeable deepening of the economic decline in Q4 looks very likely.

The stat office did not publish a breakdown, but judging from short-term indicators it was the recovery of consumption and to a lesser extent investments that drove the deceleration of the GDP decline in Q3. This respectively resulted in moderating import contraction, which reached 7.8% y/y, according to customs office data. Data from the institution also showed that the decline of exports eased somewhat, but remained robust at 24.6% y/y affected by the OPEC+ agreement. Here it is worth noting that exports of crude oil turned to a decline only as of Q3 because due to the low base from Q2 2019, when there was disruption of the Druzhba pipeline, the volume of crude oil exports actually rose by 0.9% y/y in Q2.

GDP Growth (% y/y)

Source | Rosstat



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CA surplus narrows to USD 29.9bn in Jan-Oct - preliminary

Russia | Nov 12, 08:49

- **Significant decline of merchandise exports offsets decline of investment income deficit**
- **Financial account net outflow increases mostly on back of falling bank's foreign liabilities**

The CA surplus narrowed to USD 29.9bn in Jan-Oct from USD 60.5bn in the corresponding period a year ago, according to preliminary data published by the CBR on Wednesday. This mainly reflected significant contraction of merchandise exports, which were heavily influenced by the OPEC+ oil output cut and lower energy prices. On the other hand, narrowing investment income deficit mitigated stronger decline of the CA deficit.

The financial account net outflow increased to USD 44.4bn from RUB 26.4bn in Jan-Oct 2019. This was largely driven by falling banks' foreign liabilities. In the meantime, forex reserves dropped by USD 10.7bn compared to USD 56.3bn increase a year ago. We recall that CBR's data showed that foreign exchange reserves fell by USD 11bn in September, driven by revaluation changes.

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Merchandise trade surplus narrows to USD 10.8bn in September

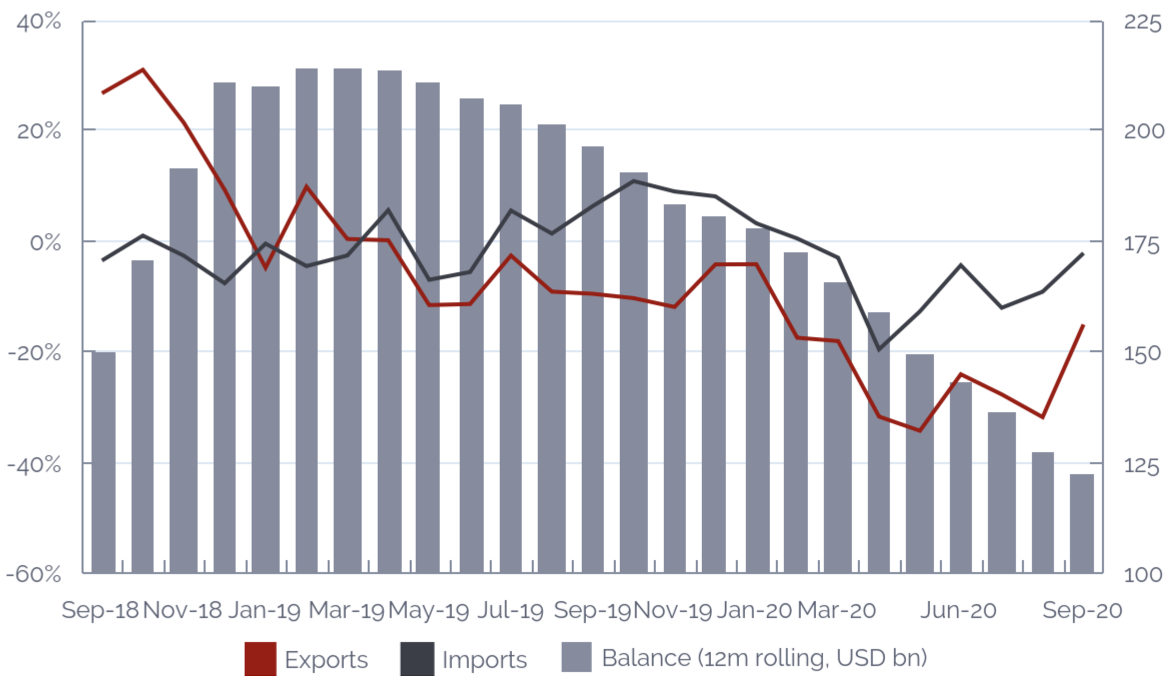
Russia | Nov 11, 19:19

- **Exports decline by 14.9% y/y as lower oil output and prices continue to weigh**
- **Import decline eases to 2.0% y/y, in line with other short-term indicators showing recovering domestic demand in September**

The merchandise trade surplus narrowed to USD 10.8bn in September from USD 15.7bn a year ago, according to data of the customs office. Exports declined by 14.9% y/y on the back of 16.5% y/y contraction of exports to non-CIS countries. The biggest contribution came from the decline of exports of crude oil and oil products, which exceeded 40% y/y, affected by the production cut and lower energy prices. The latter also resulted in nearly 14% y/y drop of coal exports. On the other hand, wheat exports rose by more than 25% y/y thanks to the earlier harvest and higher yields. Moreover, machinery and equipment exports rose significantly possibly because of execution of previously delayed orders.

Merchandise trade (% y/y)

Source | Customs office



On the import side, the decline of imports eased to 2.0% y/y from 9.0% y/y in August. Clothing sales rose by nearly 6% y/y, which is in line with other short-term indicators showing recovering household demand during the month. Machinery and equipment imports also reported growth thanks to gradual recovery of investments as suggested by CBR's financial flows data. However, the ongoing spike of Covid cases, which started in October, will certainly depress domestic demand and respectively imports.

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CPI inflation picks up to 4.0% y/y in October as expected

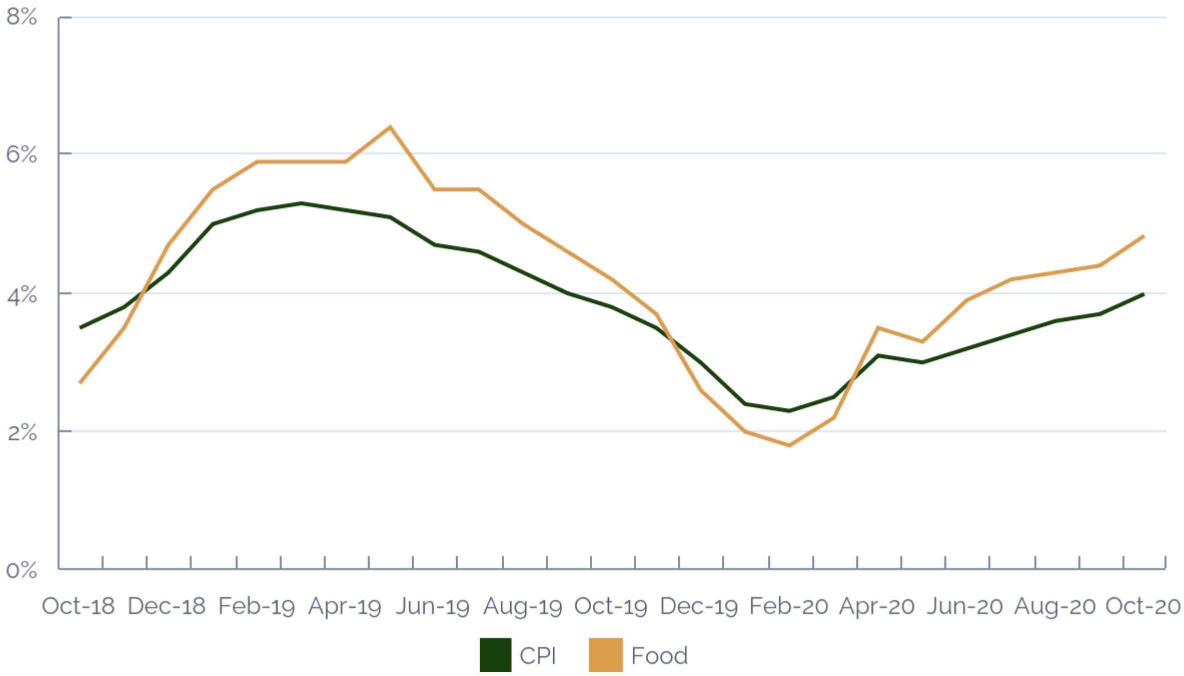
Russia | Nov 09, 08:21

- **Ruble depreciation continues to exert upwards pressure**
- **Weaker demand contained growth in service prices**
- **We do not expect significant inflation changes in November and December**

CPI inflation picked up to 4.0% y/y in October from 3.7% y/y in the month before, according to data published by the stat office on Friday evening. This is in line with the consensus forecast and the weekly surveys. In monthly terms, CPI was up by 0.4% in October after falling by 0.1% in September.

CPI inflation (% y/y)

Source | Rosstat



The main contribution came from food prices where growth quickened to 4.8% y/y from 4.4% y/y in September. Fruit and vegetable prices rose by 9.0% y/y, while sugar prices more than doubled. Some upward pressure could have come from an uptick in demand as there have been reports that similarly to spring households upped spending on food and essentials, while slashing those on services and other goods. However, this was a one-off boost and combined with the fact that some supermarket chains implemented moratorium on supply price hikes knowing consumers would not tolerate significant price hikes amid stagnant real incomes suggests some easing of food price growth could be observed in November and December.

This change in consumer behaviour likely contained stronger increase of services prices, which picked up only marginally to 2.6% y/y. Meanwhile, the growth of non-food product prices accelerated to 4.2% y/y as the significant ruble depreciation in September likely continued to play a role. In this category, the growth was the biggest in medicine prices, where it reached 9.3% y/y, underpinned by strong demand. Further noticeable steepening in drug price growth seems very unlikely, after in September the government was allowed to cap prices there in case of emergency and more recently PM Mikhail Mishustin said that the authorities will closely monitor prices of imported medicines and demand their reduction.

Looking ahead, we do not expect significant changes in CPI inflation in November and December, although inflation expectations rose to 9.7% in October. The CBR now expects inflation to reach 3.9-4.2% at the end of the year. The institution noted that short-term proinflationary risks increased due to the ruble weakening, but still disinflationary pressures are set to prevail in the medium term.The EconMin expects November inflation to remain at 0.4% m/m, which would raise the y/y rate to 4.1-4.2%.

Headline CPI inflation (% y/y)

	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Food (% y/y)	3.9%	4.2%	4.3%	4.4%	4.8%

Goods	3.5%	3.7%	3.9%	4.1%	4.5%
Food excl. fruit&veg	3.6%	3.7%	3.7%	3.8%	4.4%
Non-food (% y/y)	3.0%	3.1%	3.4%	3.8%	4.2%
Services (% y/y)	2.5%	2.5%	2.7%	2.5%	2.6%
CPI (% y/y)	**3.2%**	**3.4%**	**3.6%**	**3.7%**	**4.0%**

Source: Rosstat

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Gross external debt falls to USD 461.2bn at end-Q3

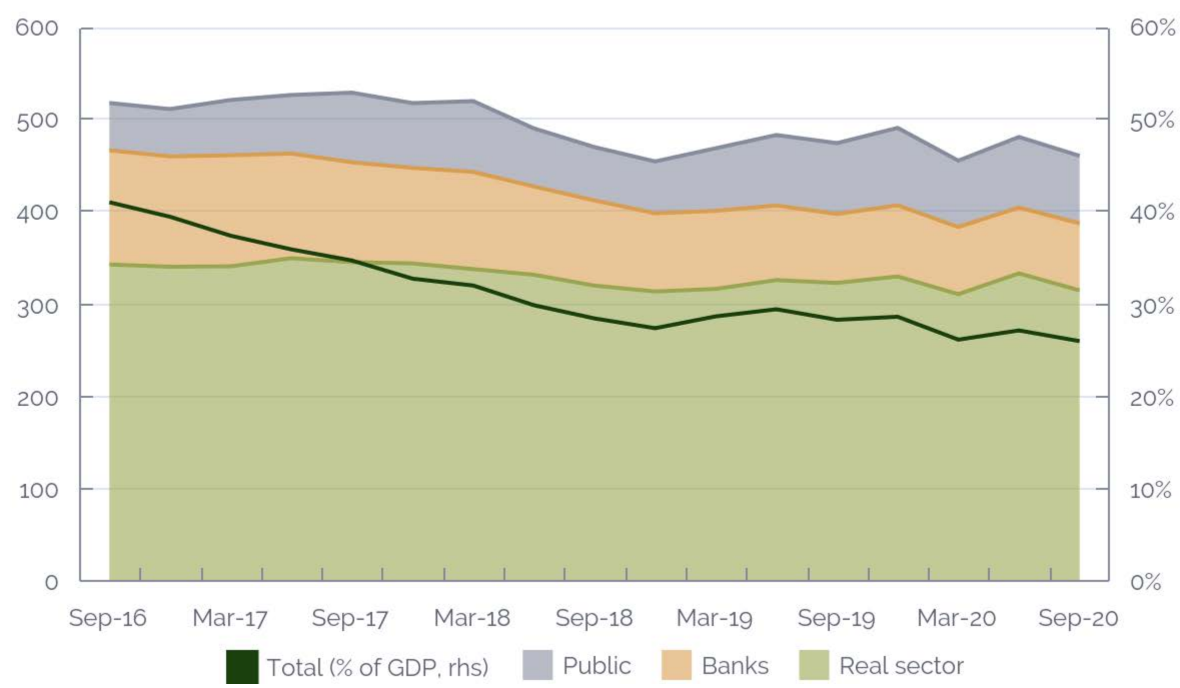
Russia | Oct 13, 18:52

- **Decline driven by falling foreign debt of real sector**
- **External debt burden remains rather low at slightly above 26% of GDP**

Gross external debt fell by 4.2% q/q and reached USD 461.2bn at end-Q3, according to preliminary data published by the CBR on Tuesday. This was mainly driven by the real sector, whose foreign liabilities dropped by 5.5% q/q to USD 315.5bn, affected by revaluation changes, the central bank said. Moreover, government's external debt dropped by 8.9% q/q due to a decrease of nonresident holdings of ruble denominated bonds. However, the biggest state-owned local banks compensated for this and allowed the government to exceed its RUB 1.0tn OFZ placement target for Q3. In contrast, external debt of the CBR and commercial banks increased noticeably to USD 13.6bn and USD 72.5bn, respectively.

Gross external debt (USD bn)

Source | CBR



The gross external debt-to-GDP ratio was slightly above 26% and thus risks related to it are rather limited. We recall that net outflows in the financial account fell to USD 3.2bn in Q3 from USD 13.8bn in Q2 and USD 17.3bn in Q1. In our view, nonresidents will further reduce their Russian holdings in case of further escalation of tensions between Russia and the West, which spiked after the poisoning of opposition leader Alexey Navalny in late August. Some risks also come from Moscow's role in the Belarusian political crisis. On the other hand, the zero interest rates in the US make Russian assets more attractive, but this is not enough to compensate entirely for the geopolitical risks.

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