



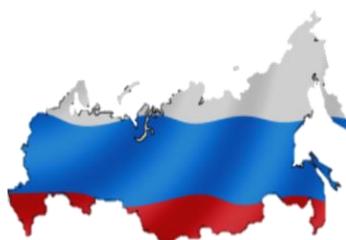
- Oil prices dropped below US\$30 per barrel in mid-January 2016, amid stagnant demand and ample supply.
- The ruble exchange rate hit new record lows as oil prices continued to slide.
- Sanctions against Turkey came into effect on January 1, 2016. In late December, Russia and Ukraine suspended their free trade regime.
- Unemployment rose in November 2015 while real wages and incomes continued to decline.
- In November, the contraction of output and services continued with businesses and consumers showing negative sentiments.
- Despite stable macro prudential and risk indicators for the banking sector, credit growth slowed further in November.

### By mid-January, oil prices dropped below US\$30 per barrel in an environment of stagnant demand and ample supply.

On the demand side, there are concerns about the growth prospects of the global economy, especially of emerging economies where most of the consumption growth takes place. In addition, a mild Northern Hemisphere winter reduced seasonal demand for heating oil. On the supply side, the US shale oil industry appears to be much more resilient than anticipated, in part due to efficiency gains and cost reductions, although the rig count has declined. With the lifting of the Iran sanctions, 40 billion barrels of floating storage are expected to enter the global market in the first quarter of 2016. Since OPEC declined to cut production when it met in December, it is unlikely to engage in supply management actions.

**The ruble exchange rate hit new record lows as oil prices continued to slide.** The average oil prices (Brent) dropped by about 15 percent in December relative to its November level. The US Fed's decision to increase interest rates by 25 basis points has barely affected the demand for the ruble. The stock market (Micex Index) lost on average 2.1 percent in December, while the Ministry of Finance had to offer higher returns on its treasury bonds (OFZs) after two undersubscribed auctions at the beginning of the month. In December, the ruble exchange rate depreciated on average by 7.0 percent against the US dollar, month-on-month, reaching the lowest level of 2015 at 72.9 RUB/US\$ at the end of the month. The loss of the ruble value continued in January and by the middle of the month the exchange rate reached 76.6 RUB/US\$.

**The full sanctions package against Turkey came into effect on January 1, 2016.** The ban of Turkish fresh fruits, vegetables, and chicken is expected to add about 0.5 percentage points to

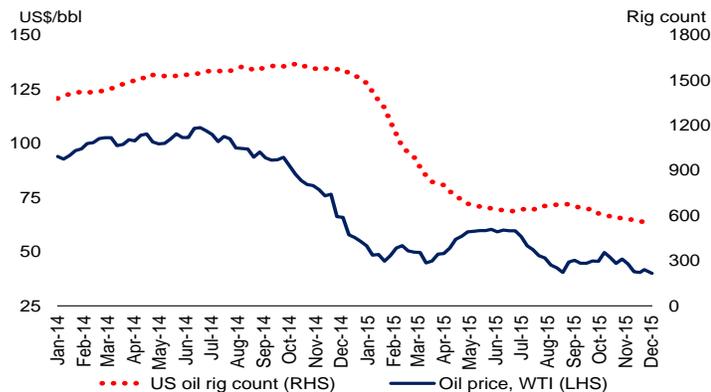


inflation in 2016. The other four sanctions areas include restrictions to economic activities of Turkish companies in Russia, the suspension of the visa-free regime with Turkey, a ban of charter flights between Russia and Turkey, and the sale of tourist packages to Russian citizens. As part of the sanctions package, an exemption list of 53 companies operating in Russia was approved by the government on December 29. These companies –which are allowed to continue employing Turkish citizens– are active in 13 Russian regions in construction, construction material production, the automobile industry, and the production of polymer pipes and fittings.

**In late December 2015, Russia and Ukraine suspended their free trade regime.** Goods imported by Russia from Ukraine accounted for about 3-4 percent of total Russian goods imports in 2015. Machinery and metal products made up about half of those imports. Starting January 1, 2016, WTO tariffs will apply to imports from Ukraine. Goods exported by Russia to Ukraine –mostly energy and chemical products– amounted to around 3 percent of total Russian goods exports in 2015. Trade between Russia and Ukraine has decreased since 2014 and is now expected to decline even further.

**Rosstat's recalculation of Russia's 2011-2014 national accounts indicates a small increase in the 2012 and 2014 GDP growth.** The revisions are based on a new methodology following the 2008 UN System of National Accounts. As a result, real GDP growth for 2012 and 2014 increased slightly (by 0.1 percentage points) to 3.5 and 0.7 percent respectively, while growth in 2013 remained unchanged at 1.3 percent.

**Figure 1: Oil prices dipped below US\$30 per barrel ...**



Source: Bloomberg, Bakes Hughes, and World Bank

**Inflation slowed in December 2015 as weak consumer demand limited the pass-through effect of the depreciating Ruble.**

The 12-month Consumer Price Index decreased from 15.0 percent in November to 12.9 percent in December, down by 4 percentage points from its peak in March. All inflation components saw a small recovery: food inflation decelerated to 14.0 percent (from 16.3 percent in November), and non-food inflation decreased to 13.7 percent (from 15.7 percent in November). However, monthly food inflation remained high in December at 1.2 percent, as pressure from a seasonal increase in fruit and vegetable prices continued. The pass-through effect on prices from the depreciated ruble appeared less potent than in the previous months, most likely due to stronger downward pressure from depressed consumer demand. Monthly non-food inflation decelerated to 0.4 percent in December, from 0.7 percent in November and 1.0 percent in October.

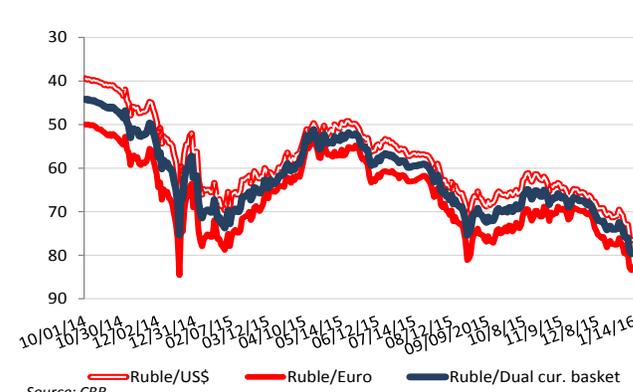
**Unemployment rose in November 2015 while real wages and incomes continued to decline.**

The seasonally adjusted unemployment rate increased to 5.8 percent in November 2015 compared to 5.6 percent the previous month. Real wages shrunk by 9.0 percent on a yearly basis, but they increased by 0.8 percent on a monthly seasonally adjusted basis. Real disposable income contracted strongly, 5.4 percent, year-on-year, and lost 0.6 percent month-on-month seasonally adjusted. Real pensions contracted by 3.6 percent year-on-year and by 0.8 percent month-on-month seasonally adjusted.

**Contracting incomes and pensions contributed in the third quarter of 2015 to a higher poverty rate compared to 2014.**

In the first nine months of 2015 the number of poor people increased by 2.3 million people to 20.3 million people (14.1 percent of population) from 18.0 million (12.6 percent of population) over the same period of 2014. However, the seasonality of poverty is large and compared to the first two quarters in 2015, the World Bank estimates that poverty in

**Figure 2: ... sending the ruble to new record lows**



seasonally adjusted terms slightly declined and reached around 12 percent.

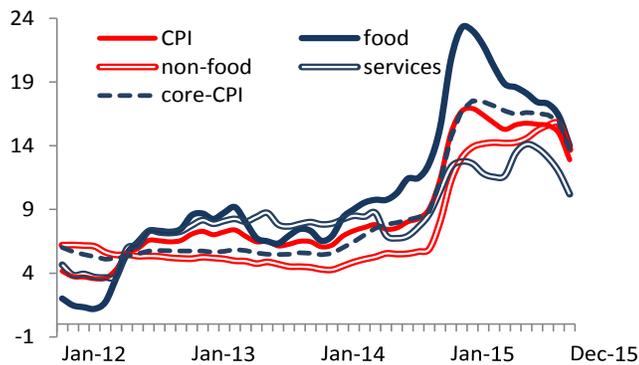
**The demand composition of the 2015 third quarter GDP showed a continued deterioration in consumption, but some improvement in investment demand was supported by slower destocking.**

Household consumption dropped by 9.4 percent, year-on-year, after contracting by 8.7 and 9.0 percent in the second and first quarters respectively. The decline in fixed investment in the third quarter accelerated to 8.1 percent, year-on-year, from 7.4 percent in the second quarter, yet the overall investment demand benefited from a slower pace of inventory destocking. As a result, the contraction in gross capital formation slowed to 18.1, compared to -37.8 percent in quarter two and -28.5 percent in quarter one. Similarly as in the first half of 2015, strong net exports (the results of a 25.5 percent and 1.9 percent contraction in imports and exports respectively) supported growth in the third quarter of 2015.

**In November, the contraction of output and services continued with businesses and consumers showing negative sentiments.**

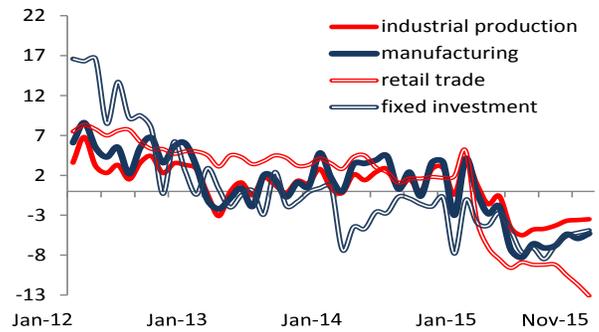
In November, seasonally adjusted industrial output contracted by 0.4 percent, month-on-month, following a 0.1 percent decline in October. Only two manufacturing sectors, chemical production and food processing, reported output expansion in November, while other industries continued to report double digit contractions, year-on-year. Furthermore, the HSBS manufacturing PMI fell in December back into contraction territory, to 48.7 from 50.1 in November. Consumer confidence also continued to weaken, according to Rosstat's survey. Despite slowing inflation, demand for services failed to recover as incomes continued to decline. As a result, retail trade contracted in November by 13.1 percent, year-on-year, in part due to the high base of last year, while other service reported a 2.8 percent contraction.

**Figure 3: Inflation slowly retreated ...**



Source: Rosstat, Haver Analytics, WB team

**Figure 4: ... yet demand for services continued to decline (percent change, y-o-y)**



Source: Rosstat, Haver Analytics, World Bank team

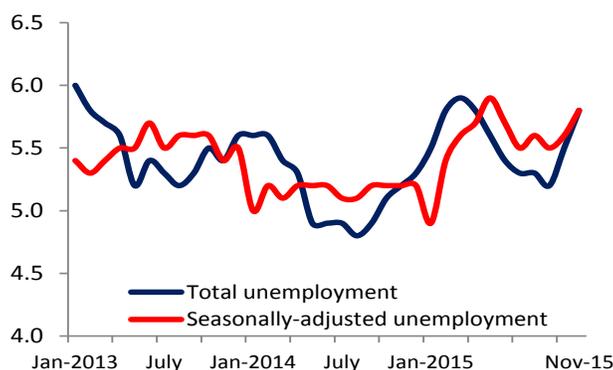
**Despite stable macro prudential and risk indicators for the banking sector, credit growth slowed further in November.**

In November, credit growth to the private sector slowed to 9.3 percent, year-on-year, from 11.4 percent in October compared to 25.9 percent a year ago. This was largely due to a 5.3 percent year-on-year reduction of credits to households, compared to 15.9 percent growth a year ago. At the same time, banks' aggregate profit increased in November to RUB265 billion from RUB193 billion in October, while the number of loss-making banks fell to 211 from 219 in October. Overall, macro prudential and risk indicators were relatively stable in November: the share of non-performing loans stood at 8.3 percent (8.2 percent in October) with regulatory forbearance effective until the year-end. In December, the central bank closed six relatively small banks, bringing the number of banks closed to 104 in 2015.

**In January–November 2015, the federal primary balance deteriorated to a deficit of 0.6 percent of GDP from a 2.6**

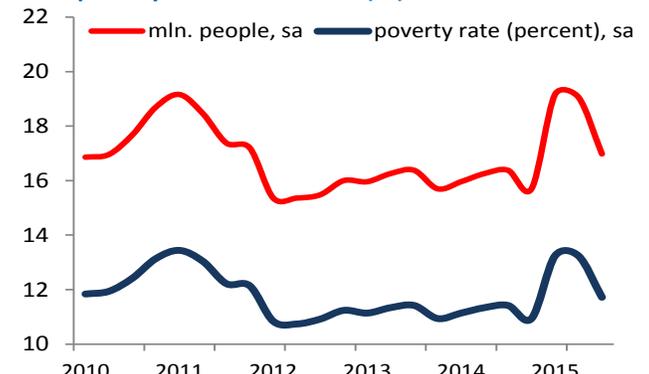
**percent of GDP surplus a year ago.** Federal budget revenue decreased in the first eleven months of 2015 to 18.0 percent of GDP from 19.8 percent of GDP due to a 2.3 percent of GDP drop in oil revenues. At the same time, federal primary expenditure increased by 1.4 percent of GDP (and 11.9 percent in nominal terms) to 18.6 percent of GDP, compared to end-November a year ago, on the back of higher defense and social spending. The non-oil deficit expanded to 9.3 percent of GDP at the end of November from 8.2 percent a year ago. In November, the federal government spent RUB350 billion from the Reserve Fund to finance the federal budget deficit, amounting to RUB1.9 trillion since the beginning of 2015. At the beginning of December, the Reserve Fund stood at US\$59.4 billion (5.3 percent of GDP), compared to US\$87.9 billion (6.8 percent of GDP) at the beginning of 2015. In November, the government bought a second tranche of bonds for US\$1.2 billion (of US\$2.4 billion bought in 2015 in total) from the National Welfare Fund to be invested in a complex for natural gas liquefaction on the Yamal Peninsula.

**Figure 5: Unemployment inches up ... (percent)**



Source: Rosstat, Haver Analytics, World Bank team

**Figure 6: and poverty remains elevated (sa)**



Source: Rosstat, Haver Analytics, World Bank team

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