Global activity likely continued to slow in 19Q3, with weaker growth (y/y) reported so far in several major economies, including the United States and China. Oil prices fell 4.6 percent in October (m/m), reaching their lowest level since January 2019. Despite lower oil prices, the ruble continued strengthening and gained 1 percent with respect to the US dollar, amidst softer global conditions conducive to emerging market currencies. Russia’s current account surplus narrowed to US$65.1 billion in January-October 2019, compared to US$88.6 billion in the same period in the previous year, largely due to a lower trade balance. Supported by manufacturing, industrial production output growth strengthened in October (+0.3 percent, m/m, sa), despite weaker oil production. Agricultural production growth was robust. Construction growth continued to strengthen, pointing to somewhat stronger investment demand. Retail domestic sales growth accelerated to 1.6 percent, y/y, likely supported by lower inflation and acceleration of National Projects. Labor market dynamics were negative in September 2019. Consumer price inflation continued its downward trend in October and dropped below the CBR target of 4 percent in annual terms. In the first ten months of 2019, the federal budget surplus dropped to 3.5 percent of GDP (cash basis) from 3.7 percent of GDP in the same period last year on the back of lower oil and gas revenues and higher non-interest spending. Federal budget spending accelerated in October supported largely by accelerated spending on National Projects. In September, both retail and corporate sector lending growth continued to slow down. Key credit risk and performance indicators remained stable in September.

The Global Context

Global activity likely continued to slow in 19Q3, with weaker growth (y/y) reported in several major economies, including the United States and China. Industrial activity, however, may be stabilizing, as the contraction in global manufacturing PMI eased slightly in October. Global services activity has continued to slow, partly reflecting the VAT hike in Japan, which offset improvement in the Euro Area. Incoming survey data on global trade is mixed, with October data pointing to a deterioration in capital goods and intermediates production in G20 economies, and a slight improvement in manufacturing and services export orders and container shipping. The U.S. Federal Reserve lowered its policy rate by an additional 25 basis points in October, as expected, and the European Central Bank (ECB) began to purchase bonds on a monthly basis, part of the biggest package of rate cuts and economic stimulus in three years, announced by the ECB in September. About a quarter of the bonds issued by governments and companies worldwide are currently trading at negative yields. Negative yielding debt is mostly concentrated in Europe and Japan. A number of Emerging Markets and Developing Economies (EMDEs) have also provided additional stimulus. Investor sentiment and global equity valuations have benefited recently amid tentative signs of progress on the USA-China trade dispute, as well as continued support from global monetary policy easing. Inflation continued to moderate globally, falling to a 3-year low in September, despite food price-driven increases in China and India.

Oil prices fell 4.6 percent in October (m/m), reaching their lowest level since January 2019. The weakness was driven by ongoing worries about slowing global growth, together with a swift recovery in production following the attack on Saudi Arabian oil facilities. Indeed, crude oil production in Saudi Arabia rose by 1.2 million barrels per day (mb/d) in October to 10.2 mb/d (Figure 1). Production in the United States has risen by almost 0.7 mb/d since the start of this year, although the pace of growth is slower than in 2018. The increase has occurred despite continuing falls in the rig count, which fell to 674 in November. Oil prices recovered slightly in November, reflecting increased market optimism about a reduction in trade tensions between the United States and China.
OPEC and its partners are due to meet in December to discuss whether to prolong their current production cuts. An extension of cuts would help support oil prices.

**Figure 1: Crude oil production in US and Saudi Arabia has risen since the beginning of the year**

![Graph showing crude oil production in US, Russia, and Saudi Arabia]

*Source: International Energy Agency.*

**Recent economic developments**

Despite lower oil prices, in October, the ruble continued strengthening and gained 1 percent with respect to the US dollar, amidst softer global conditions conducive to emerging market currencies. The MSCI International Emerging Market Currency Index rose 0.9 percent in October (on average), after increasing by 0.3 percent in the previous month. As of November 1, share of non-residents among federal government bond (OFZ) holders increased to 32 percent, up from 29.8 percent at the end of September.

**Figure 2: In October, the ruble continued to strengthen with respect to the US dollar**

![Graph showing ruble/US$ exchange rate]

*Source: CBR.*

Russia’s current account surplus narrowed to US$65.1 billion in January-October 2019, compared to US$88.6 billion in the same period in the previous year, largely due to a lower trade balance. The trade balance surplus dropped from US$157 billion in January-October 2018 to US$138.6 in 2019, given lower energy commodity prices, Russia’s participation in OPEC+ agreement, and contracting international merchandise trade. Net private sector capital outflows declined to US$31.6 billion in the first 10 months of 2019, compared to US$41.2 billion in the same period of 2018. International reserves rose to US$56.3 billion, up from US$35.7 billion, mainly due to currency purchases in the fiscal rule framework. In January-October, the real effective exchange rate appreciated by 1.7 percent compared to the same period last year.

**Industrial production output growth strengthened in October (+0.3 percent, m/m, sa), despite weaker oil production.** In annual terms, industrial production growth slowed to 2.6 percent, y/y, compared to 3 percent, y/y, in September. Higher growth in manufacturing (3.7 percent, y/y, compared to 3.2 percent, y/y, in September) supported industrial production growth. Production of food products, coke and oil goods, and chemicals contributed the most to growth in manufacturing. Meanwhile, growth in mineral resource extraction slowed down to 0.9 percent, y/y, from 2.5 percent, y/y, in September. Oil production registered negative growth in annual terms, in line with Russia’s participation in the OPEC+ agreement. Daily oil production slowed down compared to the previous month as well, by about 1 percent. Agricultural production growth was robust at 5.2 percent, y/y. Construction growth continued to strengthen, registering 1 percent, y/y, in October compared to 0.8 percent, y/y, in September, pointing to somewhat stronger investment demand. Retail domestic sales growth accelerated to 1.6 percent, y/y, likely supported by lower inflation and acceleration of National Projects.
Figure 3: Industrial production output growth strengthened in October

![Graph showing industrial production, manufacturing, and retail trade growth](image)

Source: Rosstat, Haver Analytics, World Bank team.

**Consumer price inflation continued its downward trend in October and dropped below the CBR target of 4 percent in annual terms.** The 12-month consumer price inflation dropped to 3.8 percent in October, down from 4 percent in September. The 12-month food inflation deceleration (4.2 percent, y/y, compared to 4.6 percent, y/y, in September) contributed the most to the decrease in headline consumer price inflation, along with non-food goods inflation. Core consumer price inflation dropped to 3.7 percent in October, down from 4 percent in September.

Figure 4: Consumer price inflation dropped below the CBR target of 4 percent in annual terms

![Graph showing core-CPI, CPI, food, non-food, and services inflation](image)

Source: Haver Analytics.

**Labor market dynamics were negative in September 2019.** The unemployment rate increased by 0.2 percentage points to the level of 4.5 percent in September 2019. The seasonally adjusted rate increased by same amount and reached 4.7 percent (Figure 5). Information on the real rate is now being published with one-month lag. Pensions grew in September by 2.0 percent in real terms. Real disposable income increased in the third quarter of 2019 by 3 percent compared to the same period of 2018. The cumulative growth for nine months was 0.2 percent.

Figure 5: The unemployment rate increased in September (Percent)

![Graph showing total unemployment and seasonally-adjusted unemployment](image)

Source: Rosstat, Haver Analytics, World Bank team.

**In the first ten months of 2019, the federal budget surplus dropped to 3.5 percent of GDP (cash basis) from 3.7 percent of GDP in the same period last year.** This came on the back of lower oil and gas revenues and higher non-interest spending. Non-oil/gas revenues grew to 11.3 percent of GDP in the January-October 2019 period compared to 10.3 percent of GDP in the same period last year. This was largely the result of a VAT rate increase of 2 percentage points, higher non-tax receipts, and a weaker ruble with respect to the US dollar, on annual basis. Oil and gas revenues dropped to 7.6 percent of GDP, from 8.7 percent of GDP in the same period last year, as the weaker ruble was unable to offset lower energy prices. Primary expenditures increased by 0.2 percent of GDP. Spending on environment, housing services, utilities, and health each grew by 0.1 percent of GDP, while spending on social policy and national security each declined by 0.1 percent of GDP. Higher non-oil/gas revenues led to an improved non-oil/gas federal budget primary deficit, which reached 3.4 percent of GDP, compared to a deficit of 4.2 percent of GDP in the same period last year.
GDP in the same period last year. In January-September 2019, the general government balance improved to 5.1 percent of GDP, up from 4.7 percent of GDP in the same period last year.

**Federal budget spending accelerated in October.** In October, federal budget spending increased by about 22 percent, y/y. Largely, this increase was supported by higher spending on National Projects. As of November 8, federal budget spending on national projects totaled 66.1 percent of the planned amount, compared to 52.5 percent at the end of September. Highest share of actual vs planned federal budget spending was registered for Education (92 percent), Demography (84.1 percent), and Culture (77 percent). Digital Economy (17.2 percent), Environment (28.4 percent), and International Cooperation and Export (44 percent) registered the lowest shares of actual vs planned spending. As of November 8, spending on National Projects at the regional level was ahead of federal spending, with shares of actual spending vs planned amount at 88 percent.

**In September, both retail and corporate sector lending growth continued to slow down.** As of October 1, 2019, credits to the corporate sector grew by 3.4 percent, after adjusting for foreign currency (FX) changes, y/y, compared to 5 percent, y/y, a month before. The share of FX-denominated corporate loans has also declined – from 28.8 percent in the beginning of the year to 24.7 percent as of October 1, 2019. Credits to households in rubles grew by 20.8 percent, y/y, compared to 21.3 percent in the previous month and 23.2 at the beginning of the year. Some slowdown in retail lending could be attributed to the CBR regulatory response, with more macroprudential measures establishing surcharges to risk coefficients depending on both the effective interest rate (APR) and the payment-to-income ratio (PTI) taking effect in October 2019.

**Key credit risk and performance indicators remained stable (Figure 6).** As of October 1, 2019, the capital adequacy ratio stood at 12.5 percent (against a regulatory minimum of 8 percent). The non-performing loans continue to stay high at around 10 percent, but adequately provisioned. In the first nine months of 2019, the banking sector profit amounted to RUB 1.5 billion (US$23.1 billion) compared to RUB 1.1 billion (US$17.3 billion) in the same period of 2018. Return on assets (ROA) and return on equity (ROE) reached 1.9 percent and 17.4 percent, respectively, compared to 1.5 percent and 13.8 percent, respectively, in the beginning of the year.

**The CBR continues to remove insolvent banks, albeit at a slower pace.** The number of banks in Russia has fallen from 484 at the beginning of 2019 to 454 as of October 1, 2019.

![Figure 6: Key credit risk and banking performance indicators remained stable in September](image-url)
In its analytical work, the World Bank uses official statistics of the Russian Federation. By relying on these data, the World Bank does not intend to make any judgment on the legal or other status of the territories concerned or to prejudice the final determination of the parties’ claims.