

## Russia: Recovery sluggish so far

Russian economic activity showed very modest improvement in May, with macro and banking data pointing at restraint by households and corporates despite increasing fiscal and monetary support. Even though the income trend does not seem to be broken, economic recovery in 2H20 may still be pressured by demand-side uncertainties



Crowds at the Moremoll shopping centre in Sochi, Russia

### Russian activity remained weak in May on lockdowns in major cities, risk-off by some households

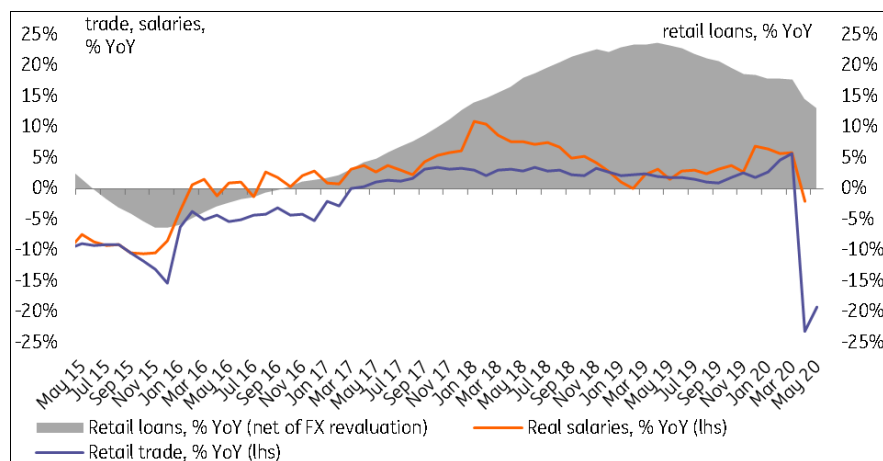
Following the release of the full set of Russian data for May, including estimates of GDP growth, metrics of economic activity by households and corporates, as well as banking statistics, it appears that having passed the low point in April, Russia is now showing some signs of improvement, though at a very modest pace.

- According to preliminary estimates by the government, GDP dropped 10.9% year-on-year in May, suggesting a minor improvement vs. the -12.0% YoY seen in April. While the nation-wide lockdown introduced at the end of March was officially lifted in mid-May, the largest cities maintained significant movement restrictions for the rest of the month, which seems to be the primary obstacle to a more rapid recovery. With restrictions largely lifted, June activity data should be noticeably better, however our initial -7.5% YoY GDP

expectations for 2Q20 still appear too optimistic.

- Consumption remained a drag on the overall activity, as the retail trade drop narrowed from -23.2% YoY in April to -19.2% YoY in May, worse than consensus and our forecasts. With real salary data lagging by one month (the latest available is -2.0% YoY for April) it remains unclear to what extent consumption was pressured by physical restrictions imposed by the lockdown and how much of it was income driven. Meanwhile, there are indirect signs that the income trend is not under strong pressure yet, including modest growth in unemployment from 4.7% in March to 6.1% in May (meaning the number of officially employed dropped by 1.4 million in two months, or by 2%), increased [fiscal support](#) to household income seen in April-May, continued growth in retail deposits by 8% YoY in May (by 10% YoY in the RUB segment), and continued net portfolio inflows into the Russian equity market in May (+RUB30bn in May, +RUB150bn in 5M20), reported by the Moscow Exchange.
- The intensity of households' deleveraging is declining: retail loans saw 0.2% month-on-month growth in May after a 0.7% YoY drop in April. In annual terms, the slowdown in retail lending continued from 14.7% YoY in April to 13.1% YoY in May (see Figure 1). The changed attitude to and availability of retail loans assured around 18 percentage points out of the 23.2% YoY retail trade drop in April and around 9.5 pp out of the 19.2% YoY retail drop in May. Preliminary data for June suggests an acceleration of retail lending to +0.3% during the first half of June, however it seems to be mostly driven by subsidised mortgage rather than consumer lending.

**Figure 1: Consumption remains sluggish on both physical constraints and financial risk aversion**

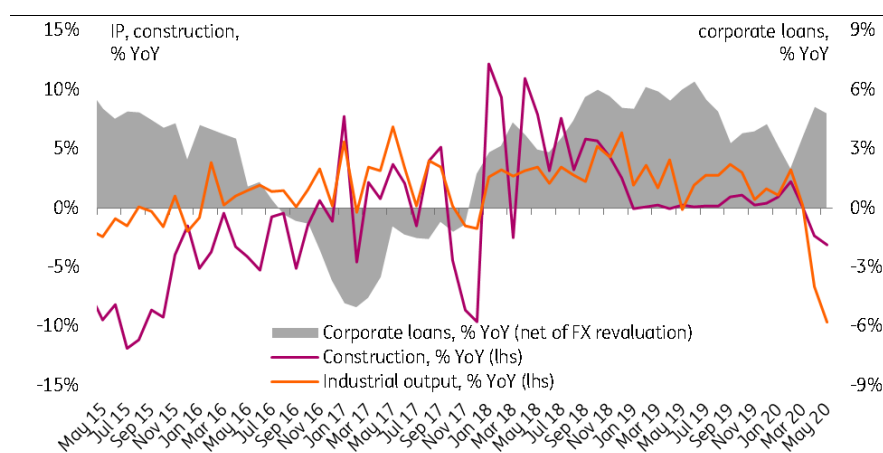


## Corporate side more resilient - so far

- Corporate activity was also weak in May, however the scale of the drop was not as significant as in consumption. The drop in construction deepened from -2.3% YoY in April to -3.1% YoY in May, and the drop in industrial production worsened from -6.6% YoY to -9.6% YoY, respectively. As we mentioned [earlier](#), around 5.0 pp of the latter was caused by the cut in oil production under OPEC+ requirements (and the latter will keep pressuring the output in the coming months), while the drop in manufacturing (the key industrial sector in terms of output and employment) actually narrowed from -10.0% YoY to -7.2% YoY.

- Financially, the corporate sector remains risk-averse, with corporate loan growth (adjusted for the FX revaluation) remaining sluggish at around 5% YoY in May (see Figure 2), and corporate funding growth still elevated at 10% YoY (14% YoY in the RUB segment), exceeding the 2019 dynamic.
- The producer side seems to have weathered the lockdown better than the services sector, however the investment activity in 2H20 may be hampered by uncertainties regarding consumer demand and budget support, which may be diverted from some of the initially planned National Projects into social support to the 41% of the population whose income is directly dependent on the state through pensions, other social benefits, and salaries.

**Figure 2: Producer activity under smaller pressure than consumption - so far**



Source: Rosstat, Bank of Russia, ING

### June data should be better, but a recovery in 2H20 may still be sluggish

June economic activity should be free from most of the lockdown restrictions and should be better than May, especially on the consumer side. At the same time the corporate activity is likely to remain under pressure of OPEC+ commitments and uncertainties related to medium-term consumer demand expectations. Based on this, the Russian fiscal and monetary authorities may experience calls for further support.

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