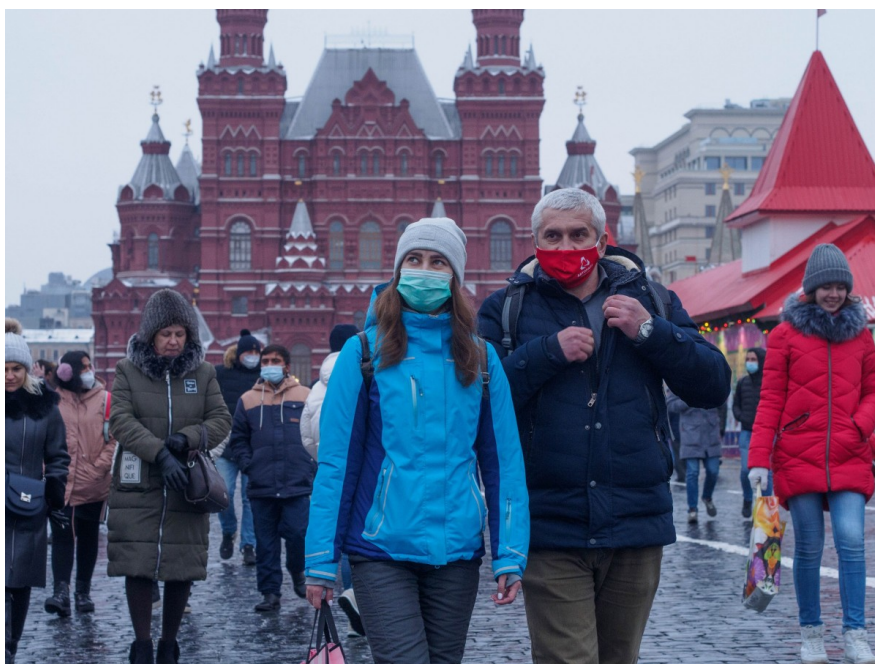


## Russian consumers running out of steam while producers outperform

Russian activity and banking data for November confirm the deterioration of consumer sentiment but producers seem to have become more upbeat. With limited room for further fiscal and monetary support, GDP recovery prospects for 2021 appear modest



People wearing masks as a preventative measure against Covid-19 in Moscow, Russia

Source: Shutterstock

### A hiccup in consumer recovery?

Retail trade in Russia dropped to -3.1% year-on-year in November following the 1-2% YoY drop seen between July- October. Although these numbers are better than our expectations and consensus, they still point towards a hiccup in consumer recovery.

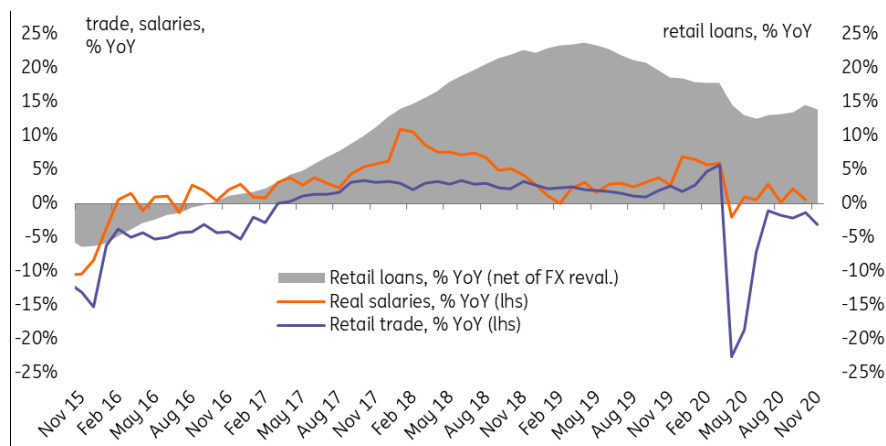
The substantial drop took place amid accelerating [CPI](#), mainly due to higher food prices and a slowdown in nominal and real salary growth despite falling unemployment.

We are particularly concerned that banking sector data shows a continued slow down in retail deposit growth to 5.6% YoY (net of FX revaluation) in November from 6-7% in October, while retail

lending growth also continues to slow down after a brief spike in October, but remains in double-digits. This suggests that a deterioration in consumption is taking place amid a declining savings rate and partly explains the recent announcement of additional social support measures.

For 2021, we remain cautious about household activity and ahead of parliamentary elections will be closely watching social support measures and the inflation trajectory.

## Consumer recovery stalls in November



Source: Bank of Russia, Rosstat, ING

## Producer trend shows a noticeable recovery

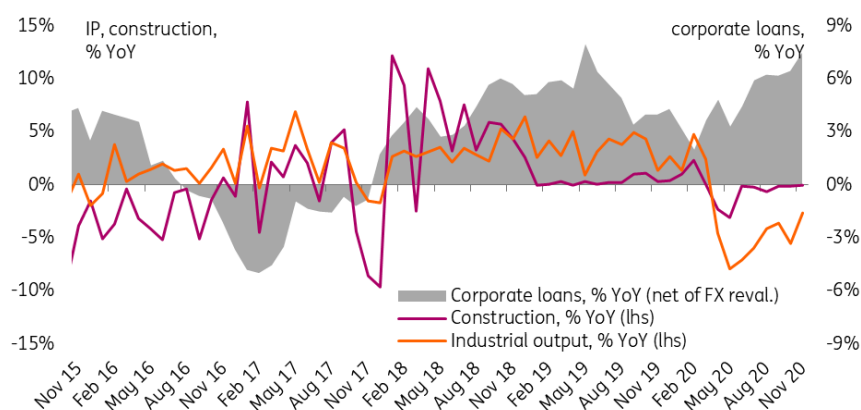
On the positive side, the producer trend showed a noticeable recovery, especially on the industrial output side, with the drop narrowing materially from -5.5% YoY in October to -2.6% YoY in November.

The banking sector data also seems positive at first glance, with corporate loan growth continuing to increase in November despite the active placement of the government bonds, but we have two reservations.

First, we do not exclude that abandoned expectations of a part further drop in interest rate could be part of the reason for faster corporate lending. Second, the improvement in industrial output (especially in construction-focused manufacturing) seems heavily correlated with the year-end budget spending, which picked up from +25% YoY in 10M20 to +56% YoY in November on +156% YoY increase in the 'national economy' item representing state support to the industrial sectors.

This raises questions on the longevity of the industrial recovery trend following the upcoming tightening of the budget policy and its likely repositioning in favour of social support.

## Producer trend received support from the budget



Source: Bank of Russia, Rosstat, ING

## 2020 GDP will be shallower than expected, but 2021 may disappoint

The preliminary estimate of -3.5% YoY GDP drop in 11M20 and the likely upward revisions put the 2020 number close to above-consensus expectations, which is encouraging, however, we remain cautious for 2021 and don't expect a recovery beyond the base effect.

*The risk factors for growth include tightening budget policy, accelerating inflation, lack of clarity on vaccination and restriction measures, and an end to the monetary easing cycle*

The risk factors for growth include tightening budget policy (even though it is unlikely to be as strict as the federal budget draft suggests), accelerating inflation, ending of the monetary easing cycle, lack of clarity on vaccination and restriction measures, and foreign policy uncertainties.

### Author

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group*

*(being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).