Research Briefing | Russia
Tracking Russia’s recovery – robust so far

- Our newly launched Russia recovery tracker points to a relatively robust rebound from the April and May lows. The index, which is based on nine different weekly and daily-frequency indicators, stood at 86% of pre-crisis levels in the first week of August, up from a low of 66% at the end of April.

- For the whole of August, the recovery tracker is pointing to activity potentially rebounding to an impressive 94-95% of pre-crisis levels, despite evidence of a slowing pace in July.

- We recently revised our 2020 GDP forecast for Russia up, to -4.9% y/y from -6.2% seen in June.

Over Q2, Russian GDP contracted by 8.5% y/y according to flash estimates. The result was better than expected given that monthly GDP data pointed to a 9.7% contraction, and considering the scale of the double shock of lockdowns and oil prices to the Russian economy. It was also much better than some of the worst-hit advanced economies, whose economies slumped by as much as 19% (France) or 22% (Spain) y/y in Q2. The more moderate hit to Russia’s economy is likely due to a shorter and ‘softer’ lockdown and the lower share of consumer services in Russia’s consumption.

After a slump through April and May, Russia’s recovery got underway in June, by which time monthly GDP was down 6.4% in y/y terms, up from -10.7% in May. To monitor the latest recovery trends, we have developed a Covid-19 recovery tracker, which uses daily and weekly data, and correlates closely with GDP and output readings. The tracker suggests that the pace of recovery has slowed in July, but still points to a potential rebound in output to about 95% of pre-crisis levels.

Figure 1: Our Russia recovery tracker points to a robust, but slowing pace of recovery

Russia: Recovery tracker, as of 13 August

The tracker, having troughed at 65% at the end of April, now stands at 86% of pre-crisis levels, but has stalled in the last weeks of July.

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Introducing the Covid-19 recovery tracker

Building on our earlier research covering the US and Latin American recoveries, we have constructed a recovery index for Russia. Using key high-frequency indicators that are available on a weekly or daily basis, our composite index tracks trends across several key areas affected by the pandemic. These include: oil prices, energy consumption, financial stress, central bank data on financial flows, various measures of mobility (retail, workplace and transport), and trends in the pandemic itself. The result is a weighted-average overall recovery index (see more detail in Box 1).

The pace of recovery has slowed

As Figure 1 shows, the tracker reached a trough at around 65% in the last week of April after five weeks of public holidays-cum-lockdown. With lockdowns being relaxed from May 11, activity has been gradually rebounding, reaching 86% as of August 13. The tracker closely correlates with both monthly GDP estimates and with the total output index (Figure 2). The latest July and August data suggest that the pace of recovery has slowed – the index remains at 86 for five weeks, since mid-July – reflecting a moderate decline in the value of financial flows (as reported by the Central Bank), energy consumption, as well as retail and workplace mobility (Figure 3). But despite this deceleration, the overall tracker still points to growth picking up to -4-5% y/y in July-August (see Figure 2), which would represent 94% from pre-crisis levels (Q1 2020) – a strong outcome, given the scale of the shock. (See the Appendix for more detail on each of the drivers of the recovery tracker).

Oil price (83%; trough 42%)

Accounting for about a third of consolidated budget revenue, and being closely correlated with the RUB exchange rate, the hydrocarbon sector is still one of the key drivers of the economy. Having collapsed by as much as 58% between early March and end of April, oil prices have rebounded after the decision by OPEC+ members to cut output by 10mbd (followed by further voluntary cuts by non-OPEC members). At $45 per barrel as of August 10, its currently 20% below its pre-crisis levels. Higher oil prices have supported the ruble, keeping inflation in check and thus cushioning the blow to real earnings. This has allowed the central bank to proceed with 175bps in interest rate cuts. According to our estimates, this easing will have added about 0.3%-0.4% to GDP in 2020 and about 1.5% in 2021 (relative to the pre-crisis baseline).
**Energy consumption (97%; trough 93%)**

Energy consumption is one of the key leading indicators of economic activity and has an elasticity of about 1.5 with respect to industrial production (i.e. 1% decline in energy consumption is associated with about 1.5% decline in industrial production). Thus, the 6% fall in energy consumption relative to normal levels by the end of June pointed to a 9% decline in industrial production (See Figure 5). By now, with energy consumption at 97% of normal levels (as of August 10), it suggests the contraction in industrial production should narrow significantly (to about 4%-5%) from the 9.4% contraction seen in June.

**Workplace mobility (78%; trough at 58%)**

The Google workplace-related mobility indicator has been closely correlated with monthly GDP series during the pandemic (see Figure 6). Having fallen by 42% from normal levels by the end of April, it has recovered since the “public holidays” period was lifted on May 11, reaching about 80% of normal levels in June. It has stagnated at that level in July and dropped to 78% in August. It remains to be seen how much of this decline is foregone activity, and how much is work-from-home. According to our Covid-19 vulnerability scorecard, 44% of Russia’s employment was in knowledge-intensive sectors, which tend to be more conducive to teleworking. Workplace mobility may therefore remain at suppressed levels while the pandemic persists, but might not be associated with the respectively deep declines in output.

**Retail mobility (92%; trough at 47%)**

In this sub-component we include Google’s retail and recreation mobility data (2/3 of the weight) and Watcom’s shopping index for Moscow (1/3 weight). As Figure 7 shows, Google’s retail and recreation mobility data closely tracks the evolution of retail sales during the pandemic. Having rebounded sharply in the wake of relaxation of the quarantine measures (as of May 11), retail mobility continued to rise throughout July, pointing to a recovery in retail sales to about -4-5% y/y, from -8% in June – a potentially impressive rebound, following the 23% y/y crash in April.

**Transport mobility (97%; trough at 51%)**

This indicator looks at Google mobility’s usage of public transport hubs, such as metro, bus, and train stations. Having halved to 51% of normal levels by the end of April, this indicator has rebounded to nearly pre-crisis levels of 97% as of August 3.
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Finance (97%; trough at 72%)

To gauge financial conditions, we take a weighted average of two components: central bank’s financial flows data and the financial stress indicator (from the Russian credit rating agency ACRA, see weights in Box 1).

CBR fund flows (92%; trough at 78%). As the crisis unfolded, the CBR started to publish weekly data on financial inflows that go through the National Payment System across 97 different sectors of the economy (representing just under half of total financial payments in the country). Having collapsed by 28% in the first week of the lockdown, financial flows have been gradually recovering ever since, and were 6% below pre-crisis (seasonally-adjusted) levels as of July 31. As Figure 9 shows, however, while total flows have been recovering, payments that exclude oil, mining, and state administration have deteriorated since early July, and were 11% below pre-crisis levels by the end of July. But the first week of August has seen an improvement in the latter metric, recovering to only 0.7% below normal levels (the series is volatile, despite the seasonal adjustment).

Financial stress index (105%; trough at 40%). Analytical Credit Rating Agency’s Financial Stress Index, based on 12 different financial indicators, suggests that between March 9 and April 30 Russia’s economy was in a state consistent with a financial crisis (index values exceeding the threshold of 2.5), based on the volatility in bond spreads, currency, stock markets, and oil prices. At 0.9, the index is still above the levels seen at the beginning of the year (0.5), but is clearly signalling that the period of acute financial stress has passed.

Epidemiology: 66% (trough at 35%)

Russia’s pandemic is following a more favourable trajectory than some of the worst-affected economies (e.g. South Africa, Brazil or the United States, see Figure 10). Having peaked at 75 cases per million, coronavirus cases in Russia are declining, having reached 35 cases per million as of August 10.

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1 Values above 100% indicate that financial conditions are more supportive than immediately pre-crisis.
Cross-country comparisons

In our comprehensive mapping of Covid-19 vulnerabilities, Russia was 15th most structurally vulnerable to the pandemic out of 41 major economies (Figure 11), with weaknesses stemming from a high share of the population aged 65+, relatively delayed response to the pandemic, and high dependence on oil. Some of the vulnerability, however, is offset by the high capacity of hospital beds and doctor density, a low overall density of population (although the number of people living in 1 million-plus cities is quite high), low reliance on tourism, supply chains and remittances, and a moderate share of the hospitality sector in the economy.

Russia’s Q2 flash GDP estimate, at -8.5% y/y (which, without potential revisions, would equal -9.6% q/q), appears to be in line with its structural vulnerabilities, as Figure 12 shows. Meanwhile, more vulnerable economies, such as Spain or the UK, experienced much deeper contractions. This suggests that the recovery from the contraction is also likely to be correlated with structural economic and health-related vulnerabilities, with Russia being positioned as medium risk among major economies.

Figure 11: Russia is 15th most vulnerable to Covid-19 among major economies

Figure 12: Russia’s Q2 GDP appears in line with its structural Covid-19 vulnerabilities
Appendix: Russia Weekly Recovery Tracker

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**Russia Recovery Tracker Methodology**

The overall recovery index value is a weighted average of nine sub-components. The weights are based on the correlation between the underlying sub-index and monthly GDP readings. We set the starting levels at the beginning of March to 100, and then grow the index forward depending on the type of data – most of the sub-components are presented as ratios relative to the “normal” levels seen in 2019, whereas oil price and financial stress index are indexed to 100 as of March 2 and grown forward. The index includes the following sub-components:

- **Google mobility, Workplace**: 30% weight. Ratio of actual mobility to “normal levels” seen in respective period of 2019.
- **Energy consumption**: 20% weight. Source: Russia United Power Systems. Daily data on energy consumption, weekends were removed to capture mainly economic activity-related trends. Consumption is calculated as a percentage of the respective period of previous year (e.g. for week beginning March 30, 2020, the respective period is week beginning April 1, 2019).
- **Brent oil price, US$pb**: 13% weight. Source: Haver Analytics.
- **Google mobility, Retail and recreation**: 7% weight. Ratio of actual mobility to “normal levels” seen in respective period of 2019.
- **Watcom shopping index**: Moscow, 3% weight. Ratio of actual attendance of shopping malls to “normal levels” seen in respective period of 2019.
- **Google mobility, Transit stations**: 5% weight. Ratio of actual mobility to “normal levels” seen in the respective period of 2019.
- **Central Bank of Russia fund flows**: 7% weight. Ratio of actual payment inflows to “normal levels” seen in the respective period of 2019. History begins on March 30; due to volatility of the data we use a 4-week moving average, starting from April 20. Missing observations prior to that date are set to 100 for consistency purposes.
- **ACRA Financial Stress Index**: 5% weight. Indexed to March 2 = 100. Higher values mean lower values in the recovery tracker.

**Covid-19 new daily cases per million of population**, 7 day moving average. Source: Our World in Data. Indexed to 100 = 0 cases.