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FOR TRADE

Russia ViewPoint
Macroeconomic and Sectoral Review and Outlook
3Q2020

Edition 2
November 2020

EXECUTIVE SUMMARY: RECOVERY ON HOLD, UNCERTAINTY INCREASING

Gradual removal of restrictions on business and population supported recovery in June-August but after that recovery stalled – as in most of the world outside of China

Monetary policy in Russia will stay looser, we expect final cut of 25 bps in December 2020. After that cuts will be possible only if economy goes into deeper recession

Russia experiences budget deficit in 2020 due to both significant revenues decline and expenditure growth. We expect gradual budget consolidation in 2021-2022

"Second wave" of pandemic will stall recovery in 4Q2020–1Q2021 but losses will be concentrated in consumer sectors while other industries would be boosted by a combination of government spending, weak ruble or inertia, which slows decline but restricts faster recovery

External trade drop is slowing down. Trade with China is in recovery: import has fully recovered; export has been harmed less than with others. Given that East Asia is the only growing part of the world economy, it provides another stabilizer

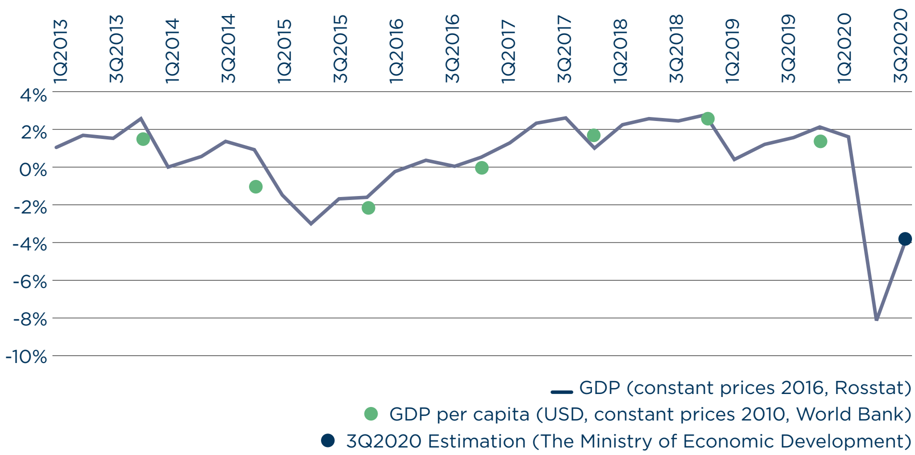
Unemployment will stay concentrated in particular industries and regions – but labor supply declined with departure of significant number of migrant workers

We should not expect big shifts in policy or economic trends at year-end – most actions will happen in early 2021

GRADUAL RECOVERY, THOUGH PATH UNCERTAIN

- 3Q2020 estimate: -3.8% 2020/2019
- **Base scenario:** -3.8% GDP drop for the full 2020 – significantly boosted government spending (50+% increase starting in March) will mitigate some of the drop in consumption and investment
- Social spending picked up even before pandemic, while about 4% of GDP were added in March-June

Chart 1:
GDP dynamic and Q3 2020 estimation.



Source: Rosstat, World Bank, The Ministry of Economic Development

Severe recession, caused by pandemic and restrictive measures continues, however GDP drop for 2020 outlook is much better than the one expected just three months ago. Economic activity hit local peak in August and has been stagnating since then, as proved by both official statistics and payment data. Future economic performance highly depends on pandemic dynamic and level of restrictions imposed to counter it, as well as expansion of support measures from governments and central banks. We expect better management of epidemiological risks but no total lockdowns. But borders mostly closed until the spring of 2021 earliest. Our base scenario includes 3.8% GDP fall in 2020, 3.5% GDP increase in 2021 (mostly on relatively high budget expenditures) and 2.2% GDP increase in 2022.

MACROECONOMIC OUTLOOK: 3Q2020

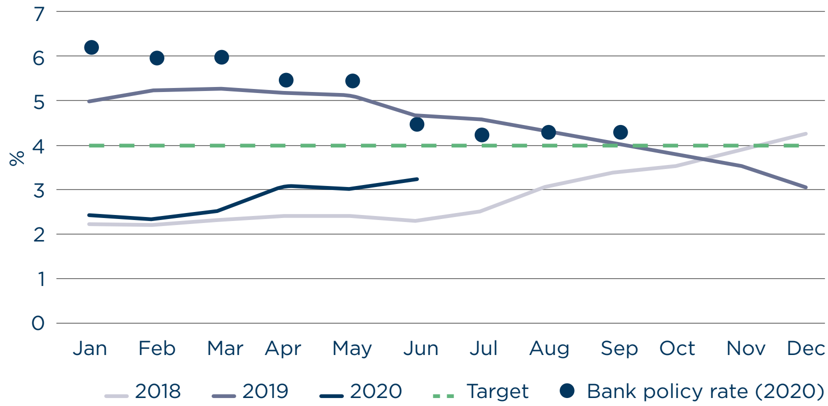
Chart 2:
Key macro parameters, base scenario

	2018	2019	2020E	2021E	2022E
GDP growth (%)	1.7	1.4	-3.8	3.5	2.2
Inflation (%)	3.2	3.2	3.8	3.5	3.5
Bank policy rate (Dec 31) (%)	7.75	6.25	4	4	4.75
RUB/USD (Dec 31)	65	61.5	74	69	69
Brent price (avg), USD	68	65	45	50	52

LOW INFLATION UNDER ACCOMODATIVE MONETARY POLICY

- Inflation in 3Q2020 increased to 3.8%, but is still lower than in 3Q2019 due to a relatively high level last year and a severe reduction of economic activity
- Monetary policy loosening paused: no September and October cuts
- We expect a final cut of this cycle of 25 bps in 2020 and transition to neutral monetary policy by 2022
- Base scenario: inflation at 3.8% in 2020 and staying below target in 2021

Chart 3:
Monthly YoY inflation in 2018, 2019, 2020, The Central Bank of Russia policy rate



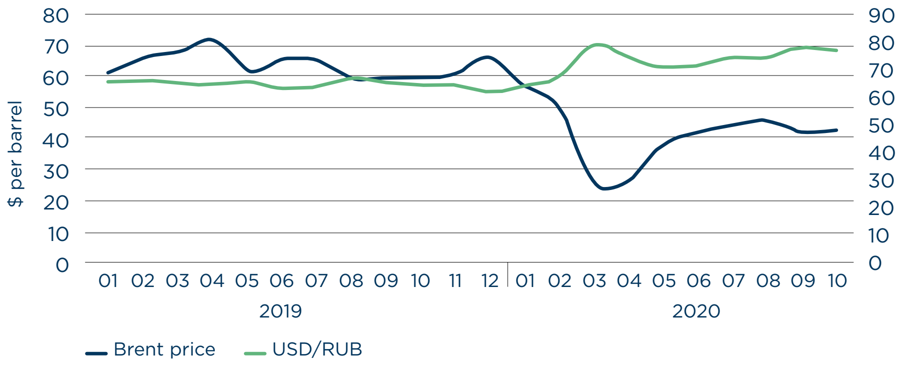
Source: The Central Bank of Russia

Inflation in 3Q2020 is still lower than in 3Q2019 due to high levels a year ago and a severe reduction of economic activity due to anti-pandemic measures. After the rate cut in July, the Bank of Russia decided to keep the key rate steady at 4.25%. We expect a final cut of 25 bps in December, which will finalize softening of the monetary policy. Further rate cuts below the target inflation rate of 4% are possible only if the inflation falls further, this scenario is most likely if the economy slows sharply due to the second wave of pandemic. Without such external shocks we expect transition to a neutral policy and modest rate increases in 2022 toward a neutral level (5% and above), with inflation staying within target levels.

RUBLE PERFORMANCE

- **Ruble weakened by the end of September 2020 (up to 80) due to pandemic uncertainty, loose monetary policy, geopolitical factors, though bounced back in October**
- **The Bank of Russia is back to targeted interventions from the National Wealth Fund, according to "fiscal rule" from October 1 to December 30**
- **We expect ruble to strengthen slightly by year-end (USD/RUB 74) and further appreciate in 2021 (USD/RUB 69)**

Chart 4:
Brent price and ruble exchange rate



Source: The Central Bank of Russia

Year-end 2020 — **USD/RUB 74**

2021 — **USD/RUB 69**

Exchange rate was unexpectedly volatile in 3Q2020 – by the end of September USD/RUB exchange rate approached 80, however by the end of October USD/RUB went back to 76-77. To ease the market panic the Bank of Russia reminded about previously announced currency selling in the domestic market in accordance with the "budget rule" from October 1 to December 30. Ruble volatility caused by high level of uncertainty due to the coronavirus second wave, loose monetary policy, sanctions toughening and other geopolitical factors. We expect ruble to strengthen by the end of the year towards 73-74 and further appreciate by mid-2021 towards 70 rubles per USD.

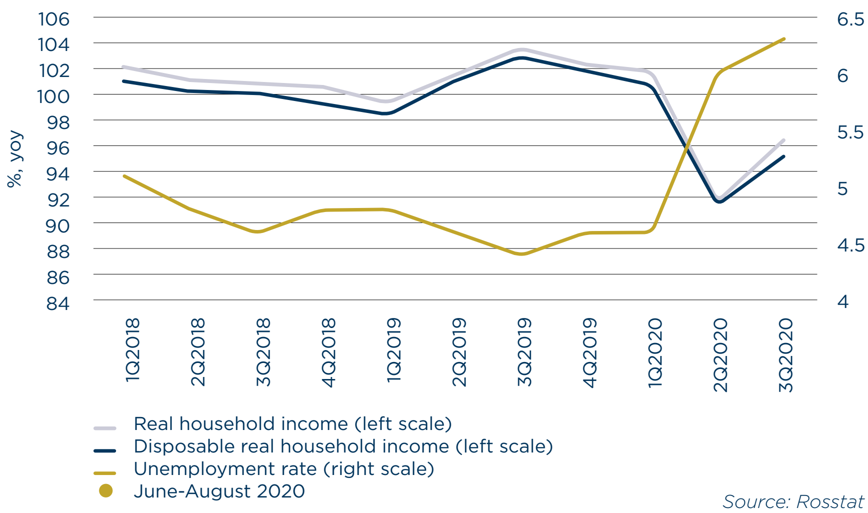
UNEMPLOYMENT AND REAL HOUSEHOLD INCOME

- **Higher unemployment: limited due to government support, tendency to cut wages but not fire people, biggest impact of crisis on industries with big informal employment**
- **Household income dropped dramatically: 1H2020 fall was re-estimated to -8.4%, 3Q2020 – (-4.8%)**
- **We expect year-end drop of 5%, with increase of 4% in 2021**

Year-end 2020 – 5% drop

2021 – 4% increase

Chart 5:
Household income and unemployment rate, YoY%



Source: Rosstat

Real disposable incomes declined significantly in the first half of 2020 and continued descreasing in 3Q2020 – by 4.8% compared with 3Q2019. Moreover, Rosstat adjusted household incomes fall in 1H2020: -8.4% instead of 8%.
The unemployment rate increased significantly in 8 months: in June-August the unemployment rate was 6.2%. Nevertheless, the increase was limited due to government support, tendency to cut wages but not fire people, biggest impact of crisis on industries with big informal employment.

OIL EXPORT REDUCTION: PRICES STABILIZED, VOLUMES SLOWING DOWN THE FALL

Chart 6:
*Foreign trade main characteristics (balance of payment methodology, RUB bln)**

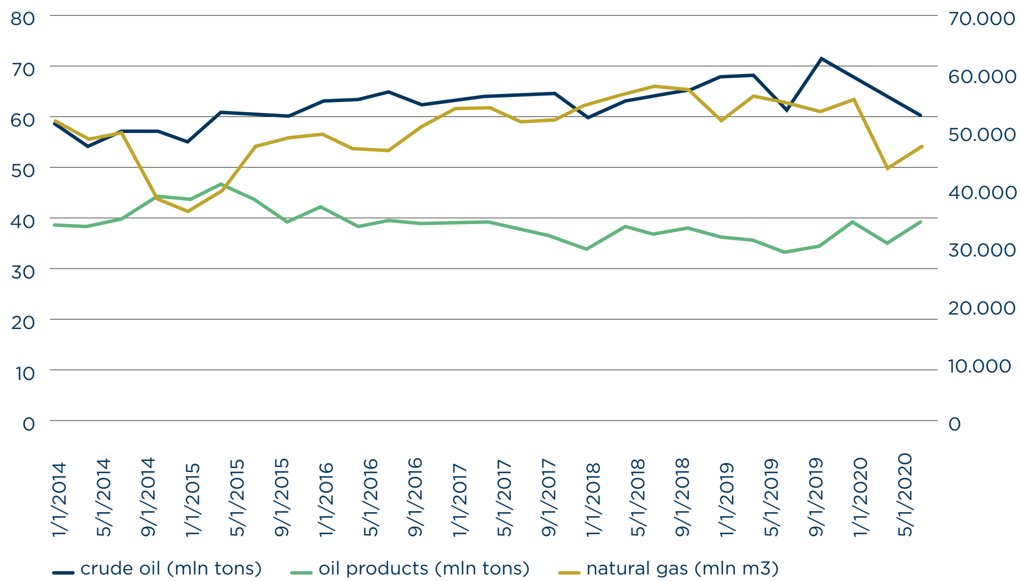
	9M2019	9M2020 (est.)	YoY, %
Trade balance in goods	9 926.6	5 163.3	-48
Export	24 541.0	18 716.8	-24
crude oil	7 282.8	4 326.6	-41
oil products	3 976.0	2 709.1	-32
natural gas	2 478.0	1 282.8	-48
liquefied natural gas	502.0	478.1	-5
other	10 246.8	9 912.2	-3
Import	14 581.4	13 553.6	-7
Trade balance in services	-2 111.5	-972.1	-54
Service export	3 713.1	2 701.2	-27
Service import	5 816.6	3 673.2	-37

Source: The Central Bank of Russia

- Further decrease of trade balance: **-41% in crude oil export, -32% in oil products export, -48% in natural gas export**
- The rate of decline slowed down due to global demand and oil supply recovery
- We expect trade balance to stay positive for the year, but way below 2019 numbers

Chart 7:
Oil, oil products and natural gas export volume

- Volumes of oil and oil products trade continue to drop
- Natural gas traded started to recover



Source: The Federal Customs Service of Russia

We observe oil export reduction continue but at a slower pace. In 3Q2020 trade balance continued to decrease (-55% compared to 3Q2019) along with the raw material exports: for example, oil exports in value terms fell by 41%, petroleum products – by 32%, and natural gas – by 48% in 9 months of 2020. However, the rate of decline slowed down due to recovery of global aggregate demand and decline in oil supply because of OPEC+ deal. Decrease in import of goods is rather insignificant (-7% in 9 months of 2020) in contrast with drop in services trade balance (-54%). The main cause is lower domestic and external demand due to restrictions on economic activities and closed borders in connection with the COVID-19 pandemic. We expect trade balance to stay positive for the year, but way below 2019 numbers.
The decline in the physical volume of oil exports continued in 3Q2020 while export of oil products and natural gas recovered slightly.

***All calculations here and below are based on the RUB/USD exchange rate on 30 September, 2020 (79.68 RUB/USD)**

TRADE WITH CHINA WAS LEAST AFFECTED

- Import from China is in recovery
- Export to China is affected at the smallest degree

Chart 8:
Geographical trade breakdown: 8M2019 vs. 8M2020
Source: The Federal Customs Service of Russia

	Export				Import			
	8M2019 (RUB bln)	8M2020 (RUB bln)	YoY, %	Share	8M2019 (RUB bln)	8M2020 (RUB bln)	YoY, %	Share
World	21 927.9	16 581.4	75.6	100.0%	12 406.2	11 458.0	92.3	100.0%
EU	9 920.2	6 836.5	68.9	41.8%	4 422.2	3 992.0	90.3	38.6%
APEC	5 768.8	4 844.5	84.0	31.9%	5 179.2	4 900.3	94.6	34.7%
including China	2 900.4	2 494.0	85.8	16.3%	2 701.2	2 725.1	100.7	18.6%
CIS	2 756.9	2 270.9	82.2	12.2%	1 426.3	1 258.9	88.2	12.6%
EAEU	1 928.3	1 617.5	83.6	8.6%	1 027.9	924.3	89.6	9.0%

EXPORT STRUCTURE

Chart 9.1:
Main goods export, Jan-Aug 2020
Source: The Federal Customs Service of Russia

Goods	8M2020		YoY, %	
	thousand tons	RUB bln	thousand tons	RUB bln
Crude oil	159 817.6	3 888.3	90.6	4.8
Oil products	93 507.5	2 420.5	101.9	5.5
Diesel fuel that does not contain biodiesel	34 834.7	1 059.5	103.4	5.6
Machinery and equipment	1 262	1 078.6	80	6.6

Chart 9.2:
Main goods export, Jan-Aug 2020
Source: The Federal Customs Service of Russia

Goods	8M2020		YoY, %	
	mln m3	RUB bln	mln m3	RUB bln
Natural gas	123 300	1 140.9	86 000	4.0

IMPORT STRUCTURE

Chart 10:
Main goods import, Jan-Aug 2020
Source: The Federal Customs Service of Russia

Goods	8M2020		YoY, %	
	thousand tons	RUB bln	thousand tons	RUB bln
Machinery and equipment	–	5 326.6	–	7.5
Plastics and products made of them	2 500.60	470.7	94.5	7.3
Clothes	–	366.4	–	7.4
Medication	–	345.5	–	6.1
Ferrous metals	3 426.8	196.2	67.2	5.6

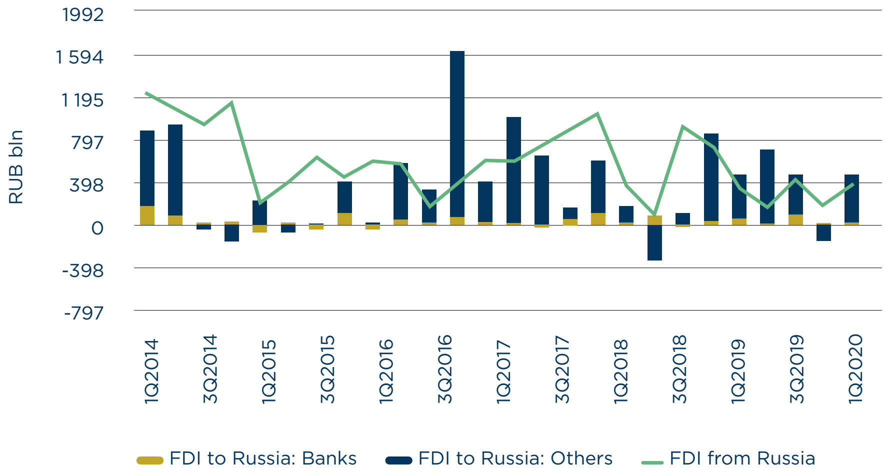
EXTERNAL TRADE

External trade with China is in recovery: export to China is the least affected, import from China in 8M2020 exceeded the one in 8M2019. The reason is probably in the fast recovery of Chinese economy after the pandemic: Chinese exporters are trying to expand the market share while other countries stay under economic restrictions due to the pandemic.
Physical amounts of oil products and diesel fuel export is in recovery, though the value of exported goods is still significantly below export in 8M2019. We expect an increase in physical and cost volume due to loosening of OPEC+ deal and global economic recovery.
Decrease in imports is caused by the ruble volatility, as well as by a high level of uncertainty and pandemic restrictions. We expect a recovery in import volumes after the ruble stabilization in 2021.

CAPITAL OUTFLOW WIDENS

- The volume of foreign direct investment in Russia recovered in 2Q2020, though the volume of FDI in 1H2020 is still 4 times lower than in 2019
- Significant capital outflow for portfolio investments – on Emerging markets selloffs
- Portfolio investments fall is primarily due to a decrease in equity, not debt
- International Investment Position is significantly affected by reevaluation of hard currency assets
- Capital outflow from banking sector slows down in 3Q2020, though capital outflow from other sectors (i.e. real sector) accelerates

Chart 11:
Foreign direct investments (RUB bln, balance of payments)



Source: The Central Bank of Russia

We observe capital outflow continue in all sectors. Despite a slight recovery in 2Q2020, the volume of foreign direct investment in Russia in 1H2020 remained 4 times lower than in 1H2019.

Chart 12:
Investments in Russia, breakdown by recipients (RUB bln, balance of payments)
Source: The Central Bank of Russia

	1Q2019	2Q2019	3Q2019	1Q2020	2Q2020	3Q2020 preliminary
Federal government agencies	573.7	804.8	111.6	47.8	87.6	-55.8
Regions	0.0	0.0	0.0	0.0	0.0	0.0
Central bank	175.3	-223.1	23.9	-79.7	-103.6	207.2
Banks	-255.0	-533.9	-629.5	-541.8	-733.1	-286.8
Others	454.2	1 035.8	438.2	-470.1	517.9	-948.2

OUTFLOW FROM EQUITY, NOT FROM DEBT

In 2Q2020 foreign direct investments turn out positive, but there was a significant capital outflow in portfolio investments which is completely normal for a developing country under a high level of uncertainty.

Chart 13:
Investments in Russia, breakdown
Source: The Central Bank of Russia

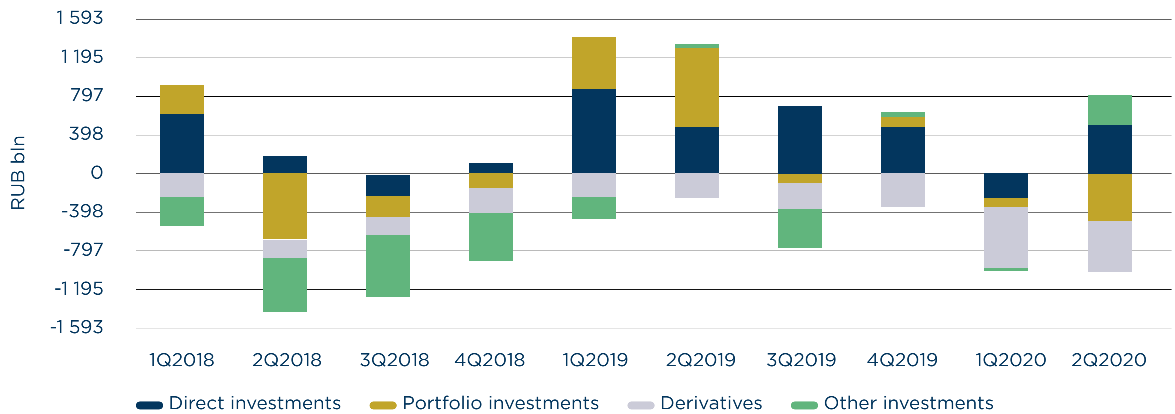


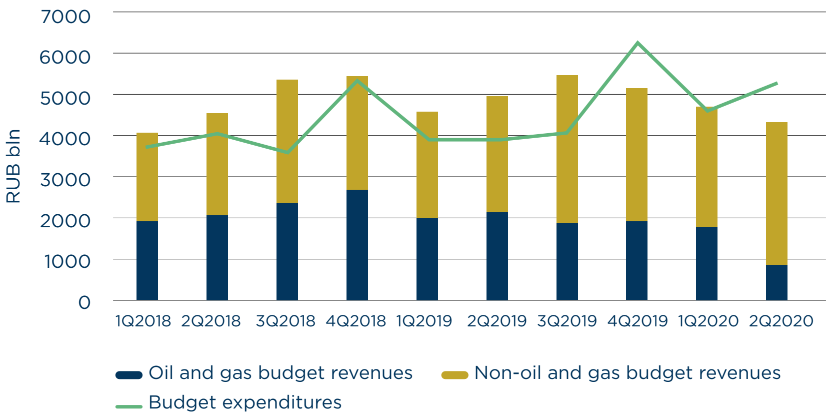
Chart 14:
Russian International Investment Position, liabilities, RUB bln *Source: The Central Bank of Russia*

	4Q2019	1Q2020	2Q2020
Direct investments	46 800	38 200	42 600
Capital participation, investment fund shares or units	**34 800**	**27 100**	**31 000**
Debt instruments	**12 000**	**11 100**	**11 700**
Portfolio investments	24 100	16 700	19 400
Capital participation, investment fund shares or units	**16 800**	**10 700**	**12 400**
Debt instruments	**7 300**	**6 100**	**6 900**
Derivatives	500	900	600
Other investments	20 700	19 800	30 000

In the first quarter, the decline in direct investment in the Russian economy was primarily due to a decrease in equity participation and only to a small extent due to capital outflows from debt instruments. In the second quarter the same situation took place for portfolio investments while FDI were recovering: equity participation fell by 604 bln rubles, while capital inflowed to debt portfolio instruments by 96 bln rubles. However, in Russian International Investment Position amount of direct, portfolio and other investments increased in 2Q2020 due to revaluation.

GRADUAL BUDGET CONSOLIDATION IN 2021-22

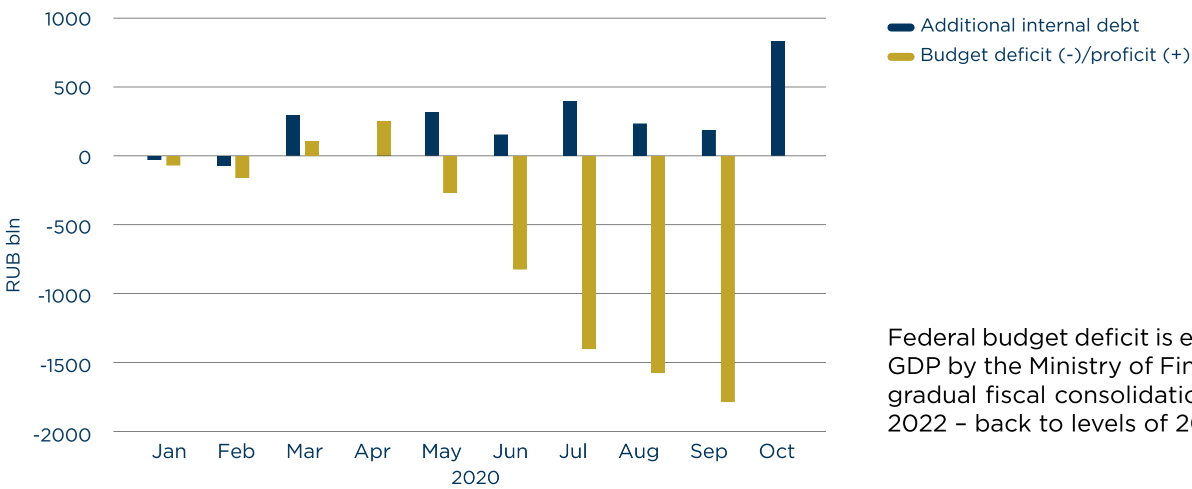
Chart 15:
Government budget revenues and expenditures *Source: The Ministry of Finance*



- **Additional budget spending in 9M2020 +6.5% GDP (including +2.8% to coronavirus measures)**
- **Significant revenue decline: -59% in oil and gas revenues. Non-oil and gas revenues increased due to Sberbank deal (+1100 bln rubles in April)**

Additional expenditure in 3Q2020 amounted to 6.5% of GDP according to the Ministry of Finance, including financing of anti-pandemic measures (2.8%). Federal budget expenditures increased by 26% in 2Q2020 compared to 2Q2019. Meanwhile budget revenues declined due to restrictions of economic activity almost by 5%. Oil and gas budget revenues declined by 59%. Non-oil and gas revenues increased, but it includes 1100 bln rubles from the Sberbank deal: the Bank of Russia sold the controlling stake of Sberbank to the Ministry of Finance as part of the National Wealth Fund usage.

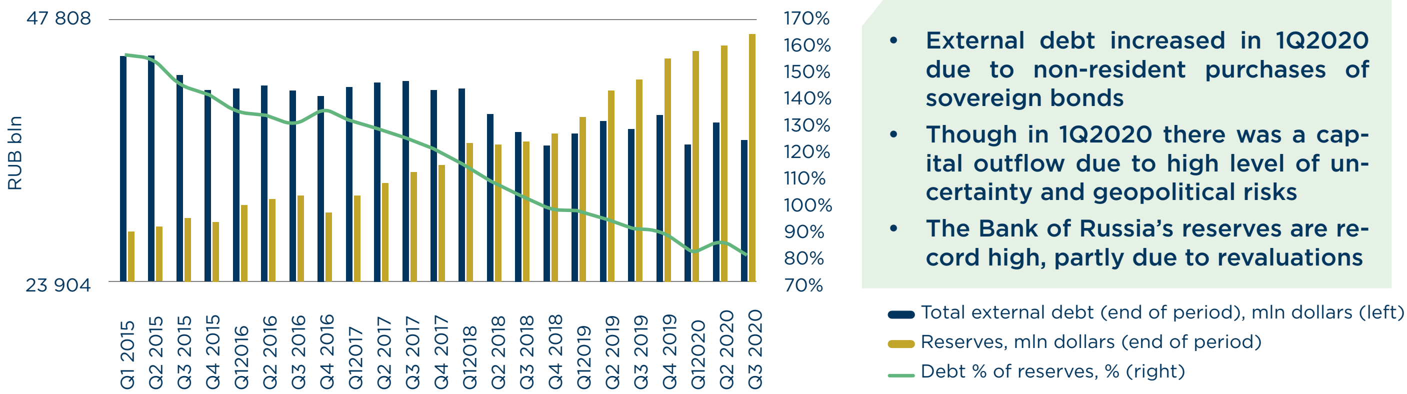
Chart 16:
Budget deficit financing (RUB bln) *Source: The Ministry of Finance*



Federal budget deficit is expected at 4% of GDP by the Ministry of Finance. We expect gradual fiscal consolidation in 2H2021 and 2022 – back to levels of 2019.

RESERVES REMAIN HISTORICALLY HIGH

Chart 17:
External debt to reserves ratio *Source: The Central Bank of Russia*

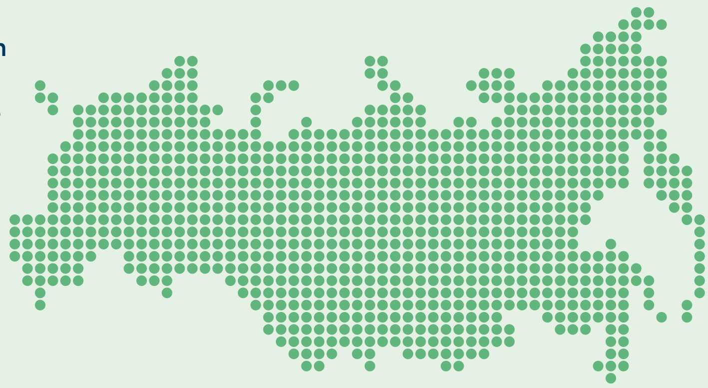


- External debt increased in 1Q2020 due to non-resident purchases of sovereign bonds
- Though in 1Q2020 there was a capital outflow due to high level of uncertainty and geopolitical risks
- The Bank of Russia's reserves are record high, partly due to revaluations

The Central Bank reserves kept increasing mainly due to revaluation of gold reserves. The Bank of Russia suspended gold purchases on April 1, 2020, but the price of gold increased significantly. External debt growth in 1Q2020 was mostly due to purchases of sovereign bonds by non-residents. However, in 2Q2020 external debt dropped to a record minimum on account of additional sanctions and high level of ruble volatility.

CORPORATE IMPACT OF MACRO

- Loose monetary policy provides low loan interest rates, though a high level of uncertainty combined with low profits due to pandemic restrictions will not allow business to recover through credit and investment activity
- Ruble volatility becomes an obstacle to a long-run planning, but we expect a reduction of the ruble volatility in 2021
- Household demand is unlikely to be a source of profit growth due to a low real disposable household income
- Petroleum industry will recover with the recovery of the global economic activity, OPEC+ loosening could help Russian oil exporters
- Increase in trade with China due to China's successful recovery from pandemic could lead to a higher share of China in Russian external trade
- Capital outflow widens, in 3Q2020 capital outflow from the real sector accelerates, thus, external financing hardly will become a source of recovery for the Russian corporate sector



Pharma and Health Care | Automotive | Construction materials | Metals | Electronics

EXECUTIVE SUMMARY

—
Overall, impact of pandemic and recession for most sectors – both export and domestic oriented – was modest and inertia kept economy from excessive slump

—
Industrial production decreased by 2.9% YoY for January-September 2020 vs 2019, but further recovery stalled and unlikely to continue in 4Q2020

—
Car industry (down 11.3%), metals (down 1.9%), and electronics (down 10.4%) were impacted by restrictions on economic activities and worsened global markets environment. However, pent-up demand from 2Q2020 boosted production and sales

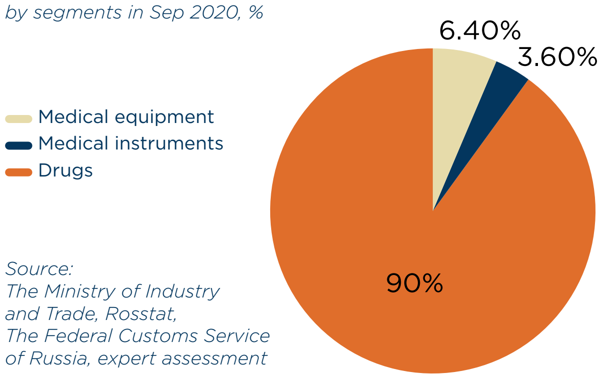
—
Health care and pharma are booming on increased spending both by budget and general public – increase in the output of medicines and medical materials amounted to 22.4%

—
In 3Q2020, moratorium on bankruptcies held up filings, but it expired in October. Second moratorium until January 2021 has a much narrower scope. Thus, we expect more filings but below 2019 levels in 4Q2020, and, we expect the increase of sectoral bankruptcies at the end of 2021-2022 to the level before the pandemic of COVID-19

PHARMA AND HEALTH CARE INDUSTRY

- **Pharmaceuticals market has been relatively stable during the pandemic despite a weaker ruble. Coronavirus led to a sharp increase in the volume of domestic production of medical equipment (22,2%)**
- **After the pandemic we expect an increase of private and public spending on health care to stay, with the focus on import-substitution, which would be beneficial for the industry and will stimulate its consolidation**
- **Prices of medical products are expected to increase ahead of inflation**

Chart 18:
Structure of production of medical products in Russia by segments in Sep 2020, %



Source:
The Ministry of Industry and Trade, Rosstat,
The Federal Customs Service of Russia, expert assessment

Chart 19:
Medical equipment output, RUB bln

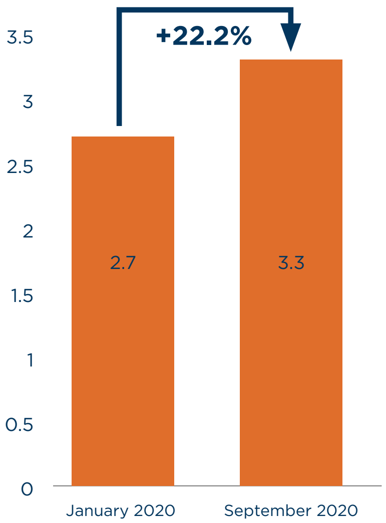
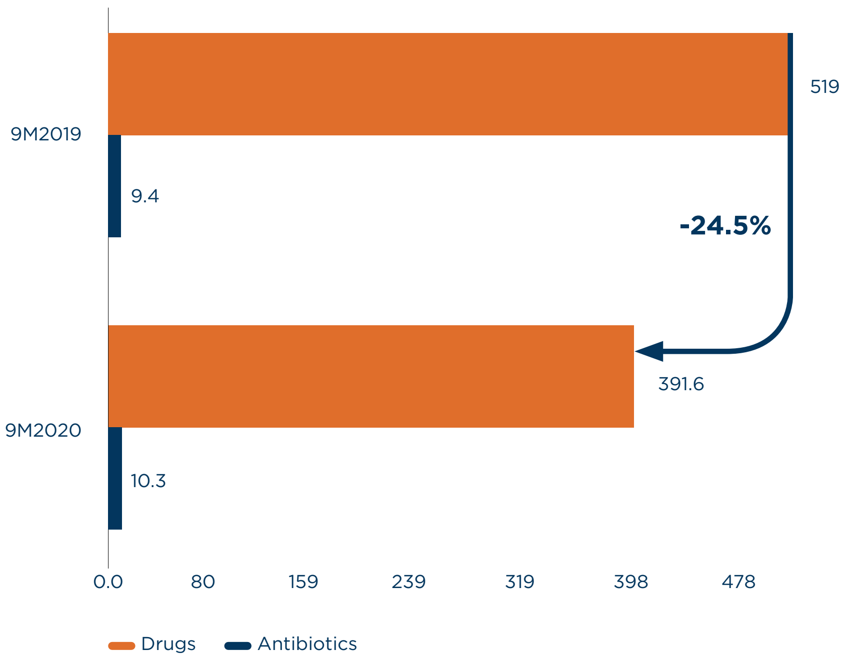


Chart 20:
Imports, RUB bln

Source:
The Ministry of Industry and Trade, Rosstat,
The Federal Customs Service of Russia, expert assessment



- **The Russian pharmaceutical market strongly gravitates towards imports; at the same time, compared to 9M2019 the physical volume of exports of pharmaceutical products increased by 20,1%**
- **The export of drugs is still extremely insignificant, but Russian COVID-19 vaccine is of interest to a number of foreign countries, which have announced their plans to purchase it**

AUTOMOTIVE INDUSTRY

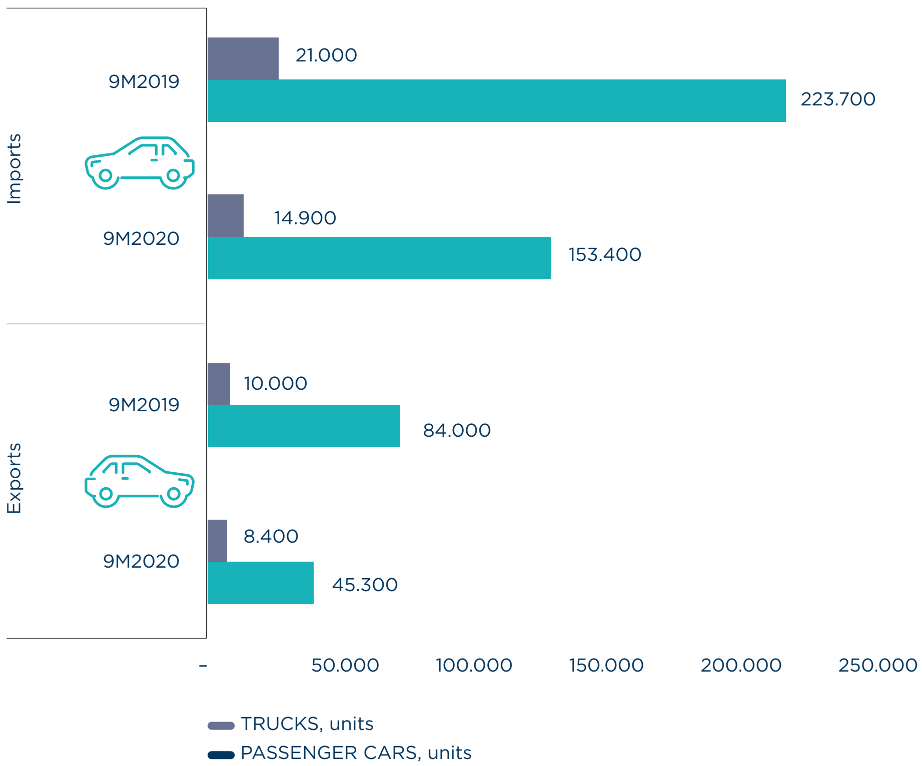
Chart 21:
Production of vehicles (by groups), units

Source: The Ministry of Industry and Trade, Rosstat, The Federal Customs Service of Russia, expert assessment

Category	9M2020	YoY, %
Cars	848 000	-25.9
Trucks	91 400	-16.5
Buses with GVW over 5 tons	9 900	-8.7
Buses with GVW up to 5 tons	13 800	-9.1
Internal combustion engines for cars	205 000	-15.6
Bodies for cars	19 000	-89

- According to the Association of European Businesses (AEB), for 9M2020 1.095 thousand new passenger cars and light commercial vehicles were sold in Russia (1.271 thousand for 9M2019) or -13.9%
- We expect a decrease for the year close to 10% with some of the drop compensated by better financing opportunities and pent-up demand
- Expansion of leasing programs are needed to boost sales in 2021, but they are not under real consideration

Chart 22:
Export and import (by groups in 2019) of vehicles in the Russian Federation, units



Source: The Ministry of Industry and Trade, Rosstat, The Federal Customs Service of Russia, expert assessment

- Compared to 9M2019, imports of passenger cars decreased by 31.4%, and trucks – by 29%, exports of passenger cars decreased by 46%, and trucks – by 16%
- By the end of 2020, we expect a decline in vehicles exports and imports

CONSTRUCTION MATERIALS INDUSTRY

Chart 23:
Production Volume, Construction Materials Industry

	9M2020	YoY, %
Floor, wall or ceiling covering, plastic, mln m2	150	-11.6
Cast, rolled, drawn or blown sheet glass, mln m2	71.2	-15.9
Thermally polished sheet glass and sheet glass with a matte or polished surface, mln m2	84.4	-14.3
Glazed ceramic tiles for interior wall cladding, mln m2	49.4	-4.2
Ceramic tiles, mln m2	71.2	-11.0
Facade ceramic slabs and carpets of them, mln m2	6.2	-13.4
Ceramic non-refractory building bricks, bln bricks	4.2	-2,8
Building bricks (including stones) of cement. concrete or artificial stone. bln conv. bricks	1.7	-10,6
Wall silicate blocks, bln bricks	3.5	-7,3
Blocks and other prefabricated building products, mln m3	15.9	-4.8
Ready-mixed concrete, mln m3	26.8	-2.3
Cement, mln tons	43.2	-4,5

Most segments are within the 10% range of 9M2019 numbers with the demand boosted by an increased volume of construction after the removal of most restrictions.
The Russian construction sector proved to be relatively stable due to the implementation of infrastructure projects and the construction of hospitals.

EXPORT AND IMPORT OF BUILDING MATERIALS IN THE RUSSIAN FEDERATION

- Volume of imports of building materials in 8M2020 dropped by 32.6% vs 8M2019
- Value of exports decreased by 5%, while the physical volume increased by 0.9%
- The trend towards a decrease in imports and an increase in exports will continue, boosted by a weaker ruble, as prices for both imported materials and potentially exportable goods increase well ahead of inflation

Source: ITC Trade Map

METALS INDUSTRY

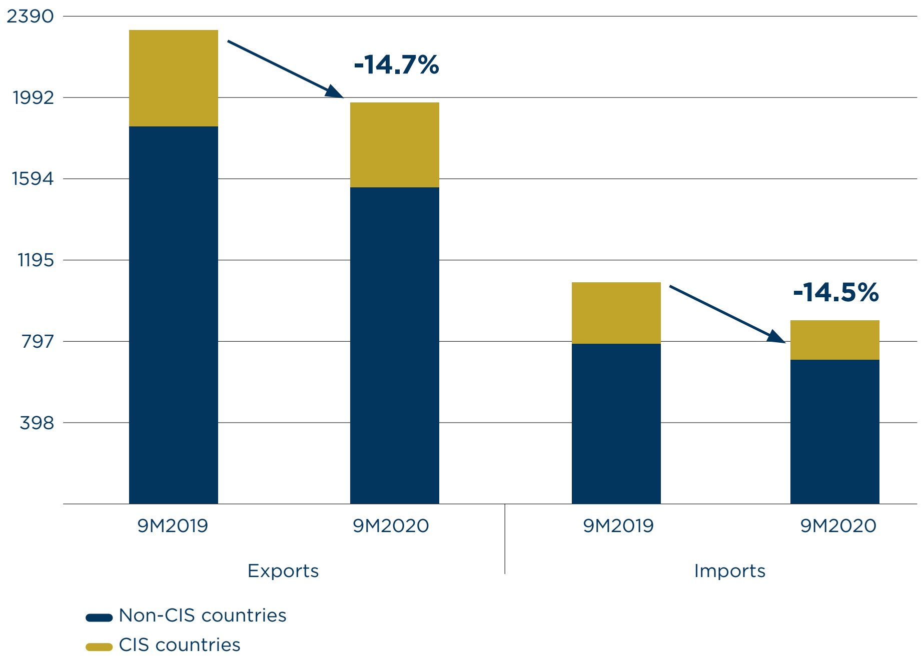
Chart 24:
Metals production

	Output, YoY, %
Metals	-2.4
Pig iron	+1.7
Unfinshed steel	-1.4
Finished products	-0.8
Pipes, hollow sections and their steel fittings	-14.2
Rough or semi-processed gold	-4.4
Primary aluminum	+1.4
Structures and details of structures made of ferrous metals	-2.8
Other structures and details of structures made of aluminum	-3.8
Metal fabric, lattices, nets and fences	-4.5

Source: Rosstat, The Federal Customs Service of Russia, Ministry of Economic Development, expert assessment

- Metals production in 9M2020 vs 9M2019 declined by only 2.4%, we expect the drop to stay within the 3% range as the recovery stalled in 4Q2020
- The financial performance in the industry has deteriorated, despite a weaker ruble, but this is a worldwide trend
- Debt levels of key producers and their credit standing is significantly better than in 2014-16

Chart 25:
Export and Import dynamics in 9M2019 vs 9M2020, RUB bln



Source: Rosstat, The Federal Customs Service of Russia, The Ministry of Economic Development, expert assessment

- A sharp decline in exports of ferrous and non-ferrous metals in 9M2020 caused by global recession
- In the total value of exports, the share of metals amounted to 10.2% (in 2019 - 9.2%). Value of exports decreased by 14.7%
- The share of metals in the commodity structure of imports in 9M2020 amounted to 7.0% (in 2019 - 7.6%). The value of imports was down by 14.5% vs 9M2019, physical volume by 27.6%

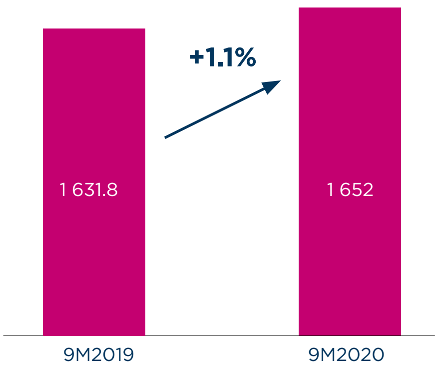
ELECTRONICS

Chart 26:
Production Volume, Electronics Industry

Source:
Rosstat, The Federal Customs Service of Russia,
The Ministry of Economic Development, expert assessment

	9M2020	YoY, %
Computers, their parts and accessories, bln rubles	33.1	+73.6
Radar equipment, radio navigation and radio equipment, remote control, bln rubles	65.8	-10.6
Television receivers, combined or not combined with broadcast radio receivers or equipment for recording or reproducing sound or image, mln units	4.6	-5.4
Household refrigerators and freezers, mln units	2.4	-9.0
Household washing machines, mln units	3.5	+2.0

Chart 27:
Imports of electronics, RUB bln



- Volume of imports of electronics in 9M2020 increased by 1.1% vs 9M2019
- Value of exports decreased by 30.4%
- We expect a decrease in electronics imports due to the ban on government purchases of imported electronics

- Electronics survived the pandemic relatively well, with a higher demand from people and businesses due to self-isolation and distant work, cheaper financing, and roll up of some digital projects by the government.
- We expect a decent performance of this sector in 4Q2020, but a less clear perspective for 2021 as the economy remains slow and the pent-up demand has been already satisfied.

SECTORAL RISKS AND OPPORTUNITIES

- **Main risk is a slow recovery of the consumer and business activity after "the second wave" if global and domestic support programs remain insufficient (either too small, too slow in implementation, or both). Sanctions and commodity prices drop are less important and are overhyped**
- Mortgage boom and concurrent pick-up in construction sector – that never happened during the recession before – provide some opportunities for both suppliers and providers of relevant services for buyers, on the other hand, commercial real estate (except warehouses) will remain under severe pressure
- Health care and pandemic-proof recreational activities are likely to stay in high demand even after a widespread vaccination begins – as fear will hang over consumers and government – and providers of those goods and services will expand even when the rest of the economy remains constrained
- High levels of debt are becoming "new normal" – for both consumer and businesses, thus, financing will be an important factor in buying of high-price goods (such as cars or housing) or services (medical insurance), thus, suppliers should increase offering for their clients in financing (loans or leasing) and insuring their purchases

BANCRUPTCIES OUTLOOK

Court decisions on corporate bankruptcies amounted to 7.393, which is 19.0% less than in 9M2019

In January-September 2020, the number of filings also decreased: by creditors – by 11.1% to 19.225, self-filings – by 1.4% to 1496

The moratorium on the bankruptcy petitions by creditors imposed in April 2020, was extended until January 2021 for the most affected industries

An average bankruptcy procedure takes 5-7 months in Russia

We expect an increase of bankruptcies at the end of 2021-2022 to the level before the pandemic of COVID-19

Chart 28:
Number of bankruptcies *Source: Fedresurs*

Period	9M2019	9M2020	YoY
Number of bankruptcies	9126	7393	-19%

Moratorium on bankruptcy was extended in Russia for companies that suffered from COVID-19 pandemic till 07/01/2021.

Chart 29:
The bankruptcy overview *Source: Fedresurs*

Moratorium led to the drop in both filings and decisions to bankrupt creating a backlog

Chart 30:
Corporate bankruptcy: geographical breakdown (main regions) *Source: Fedresurs*

Region	9M2019	9M2020	YoY, %
All regions	**9126**	**7393**	**-19.00**
Moscow	1903	1528	-19.70
Moscow region	540	526	-2.60
St. Petersburg	572	509	-11.00
Sverdlovsk region	313	254	-18.80
Krasnodar region	243	214	-11.90
Republic of Tatarstan	278	214	-23.00
Novosibirsk region	282	211	-25.20
Rostov region	219	140	-36.10
Khabarovsk region	156	134	-14.10
Samara Region	194	126	-35.10
Irkutsk region	141	113	-19.90
Kemerovo region	125	112	-10.40

DEBTS AND CREDITS IN DIFFERENT SECTORS

Chart 31:
Debts and Credits including bank credits *Source: Rosstat*

Sector	August 2020, RUB bln	By July 2020, %
Pharma and Health Care	21.4	96.3
Automotive	134.4	100.4
Construction Materials	5.2	101.2
Metals	272.8	97.5
Electronics	12.2	98.5

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