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# RUSSIA VIEWPOINT

MACROECONOMIC  
AND SECTORAL REVIEW  
AND OUTLOOK

ANALYTICS  
AND FORECASTS

**2Q2021**



**coface**  
FOR TRADE



# PREFACE

## Vassiliy Chekulaev

Coface Russia CEO

According to Rosstat, Russia's GDP grew by 1.7% in 2Q2021 relative to the pre-pandemic year of 2019. As before, the rate of economic recovery varies significantly from one sector to another, with export-oriented industries growing the fastest. The retail and service sectors, which were hit the hardest during the first wave of the COVID-19 pandemic, are also restoring faster than all other sectors.

Despite an overall increase in business activity, there are signs of a slowdown in economic growth in some industries. According to Rosstat, manufacturing growth slowed from +2.8% in June to +0.7% in July 2021 compared to the corresponding periods of 2019. According to IHS Markit calculations, Russia's manufacturing PMI decreased from 49.2 points in June to 47.5 points in July, which is the lowest reading since late 2020. Such dynamics can be explained by, first of all, the increasing satisfaction of the post-pandemic pent up demand, and, secondly, by the rising manufacturing costs against the backdrop of more expensive commodities and growing transportation prices in the global market.

Nevertheless, the potential for economic recovery is far from exhausted. In the longer term the dynamics of recovery in the service sector, food services and transport industry will be boosting the national economy's growth rate. Thanks to increase of production quotas as part of the recent OPEC+ deal, the market will also be supported by the growing revenues of the oil industry.

Costs for many producers are rising due to higher prices on the global market, and demand in some industries still exceeds supply, which caused inflation in 2Q2021 to reach a 5-year high of 6.5% in June 2021. The Bank of Russia's July decision to raise its key rate from 5.5% to 6.5% per annum is expected to limit the acceleration of inflation and return its rate to the Central Bank's target of 4% or lower.

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ECONOMIC  
 ACTIVITY IN RUSSIA  
 IS RECOVERING  
 FASTER THAN  
 EXPECTED —  
 IN 2Q2021 THE  
 RUSSIAN MARKET  
 RETURNED TO THE  
 PRE-CRISIS LEVEL.

# CONTENTS

|  |           |
|--|-----------|
| <b>KEY INSIGHTS</b>  | <b>04</b> |
| <b>MACROECONOMIC OVERVIEW<br/>OF 2Q2021 AND FORECASTS FOR 2021</b>     | <b>05</b> |
| GDP  | 05        |
| THE CENTRAL BANK'S KEY RATE AND INFLATION RATE                         | 07        |
| BRENT PRICE AND RUBLE EXCHANGE RATE DYNAMICS                           | 08        |
| POPULATION: INCOMES AND UNEMPLOYMENT RATE                              | 09        |
| EXTERNAL TRADE STATISTICS  | 10        |
| FOREIGN INVESTMENT   | 11        |
| DOMESTIC DEBT  | 12        |
| DYNAMICS OF EXTERNAL DEBT AND RESERVES                                 | 13        |
| <b>SECTORAL OVERVIEW<br/>AND BANKRUPTCIES OUTLOOK</b>                  | <b>14</b> |
| KEY SECTORAL INSIGHTS  | 14        |
| CONSTRUCTION MATERIALS   | 15        |
| METALS INDUSTRY  | 17        |
| PETROCHEMICALS   | 18        |
| AUTOMOTIVE   | 19        |
| ELECTRONICS AND APPLIANCES   | 21        |
| PHARMA AND HEALTH CARE   | 23        |
| COSMETICS INDUSTRY   | 24        |
| BANKRUPTCIES   | 25        |
| <b>EXCLUSIVE COFACE DATA:</b>  | <b>26</b> |
| OVERDUE RECEIVABLES, REPORTED LOSSES BY SECTOR                         | 26        |
| COFACE RUSSIA INDEX – SECTORAL INDICES<br>OF BUSINESS CREDITWORTHINESS | 28        |

# KEY INSIGHTS

- The Russian economy recovered to the pre-crisis level in 2Q2021. According to the Rosstat's preliminary estimate, the country's GDP for 2Q2021 grew by 10.3% relative to the corresponding period of 2020, exceeding the pre-crisis level by 1.7%. The main contribution to economic recovery was made by non-resource industries: manufacturing, agriculture and construction. June 2021 production of mineral resources was 1.2% below the pre-pandemic level (i.e. that of June 2019) due to restrictions of oil production under the OPEC+ agreement.
- According to IHS Markit calculations, Russia's manufacturing PMI decreased from 49.2 points in June to 47.5 points in July, which is the lowest reading since late 2020. A drop in production volumes and a lower number of new orders contributed to this decrease.
- As part of the July decision of OPEC+ countries to start gradually ramping up oil production, Russia will be entitled to increase production by 500 thousand barrels per day, which will allow to reach the pre-crisis level of production in May 2022 and will contribute to the growth of budget revenues and investment activity in the country. The decision to increase oil production will also make it possible to avoid a shortage of raw materials which was looming in 1H2021 (the first half of 2021) and slow down the growth of oil prices.
- In 1H2021 the inflation rate exceeded the forecasts of the Bank of Russia. In June 2021, annual inflation accelerated to 6.5% (after 6% in May), which is a 5-year record. In July, the Bank of Russia updated its inflation forecast for 2021 from 4.7–5.2% to 5.7–6.2% and decided to raise its key rate to 6.5% per annum. According to the updated forecast, annual inflation is expected to return to the Bank of Russia's target of 4% in 2022-2023.
- The population's real incomes continued to recover in 2Q2021, rising by 6.8% compared to 2Q2020, but still remaining 0.8% lower than in the same quarter of 2019. At the same time, the average income per capita showed a 10% increase relative to 2Q2019.
- The federal budget was executed with a surplus of 626 billion rubles in 1H2021. Budget revenues for 1H2021 were 24% higher than revenues for 1H2020 and 18% higher than revenues for 1H2019. The main factors behind this growth were the increase in oil prices by more than 50% compared to 1H2020, higher tax revenues and higher revenues from foreign trade activities, which increased by 34% and 45% respectively compared to 1H2020. According to the budget project, the budget for 2021 is to be executed with a deficit of 2.4% of GDP, but at the end of the first half of the year the budget was executed with a surplus of 1% of GDP.
- In 1H2021 the national debt of the Russian Federation increased by 7.8% and reached 20.4 trillion rubles as of July 1, 2021, which equals to 17.7% of the projected national GDP. To a large extent, the growth of state debt can be explained by a reduction in federal budget revenues due to quarantine restrictions, a drop in oil prices in 2020 and implementation of programs aimed at supporting citizens and businesses from the pandemic's negative economic impact. According to the 2021 budget, the state debt ceiling stands at 20.4% of the projected GDP. Even if this level is reached, Russia will continue to be a low-debt country.
- Nominal exports and imports exceeded pre-pandemic levels of 2Q2019. Exports grew faster than imports in 2Q2021, primarily due to higher prices for raw materials and increased physical volumes of sales amid a rebound in demand on global markets.
- According to Coface's updated forecasts, Russia's GDP will grow by 3.9% to reach 120.4 trillion rubles this year. The annual inflation rate will stand at 6.1%, and the average exchange rate of the Russian currency will reach about 72.3 rubles per dollar by the end of 2021.

# MACROECONOMIC OVERVIEW OF 2Q2021 AND FORECASTS FOR 2021

## GDP

### Current key economic indicators and forecasts

|  | 2019  | 2020  | 2021 (f) | 2022 (f) | 2023 (f) |
|--|-------|-------|----------|----------|----------|
| GDP dynamics, %                                    | 1.3   | -3.0  | 3.9      | 2.0-3.0  | 2.0-3.0  |
| Inflation rate, % to December of the previous year | 3.0   | 4.9   | 6.1      | 4.0-4.5  | 4.0      |
| Key rate annual average, %                         | 7.3   | 5.1   | 5.5-5.8  | 6.0-7.0  | 5.0-6.0  |
| RUB / USD exchange rate (annual average)           | 64.7  | 71.9  | 72.3     | 70.2     | 71.0     |
| Average Brent oil price, USD / bbl                 | 64.34 | 41.69 | 68.71    | 66.04    | n/a      |
| Average Urals oil price, USD / bbl                 | 63.82 | 41.40 | 60.27    | 56.20    | 54.78    |

Sources: Bank of Russia, Ministry of Economic Development, Energy Information Administration of the US Department of Energy (EIA)

According to a preliminary estimate by Rosstat, the Russian GDP grew by 10.3% in 2Q2021 compared to the corresponding period of 2020, exceeding the pre-crisis level by 1.7%.

The Russian economy recovered to the pre-crisis level in 2Q2021. According to a preliminary estimate by Rosstat, the Russian GDP grew by 10.3% in 2Q2021 compared to the corresponding period of 2020, exceeding the pre-crisis level by 1.7%. In 2Q2021, the annual dynamics of macroeconomic indicators were significantly impacted by the low base of the previous year, when quarantine restrictions led to a sharp cooling of the market.

In July, the Bank of Russia, taking into account the recovery of the economy and consumer activity, improved its forecast of GDP growth in 2021 from 3.0-4.0% to 4.0-4.5%, while reducing its forecast of growth in 2022 to 2.0-3.0% from 2.5-3.5%.

The World Bank has improved its forecast for Russian GDP growth in 2021 from 2.9% to 3.2%. According to the latest Coface estimates, the country's GDP will grow by 3.9% this year.

The main contribution to the positive dynamics of Russia's GDP in 2Q2021 was made by non-resource industries — manufacturing (+11.4% over the same period last year) and construction (+10.7%). The recovery of consumer activity also continued — retail turnover increased by 23.5%.

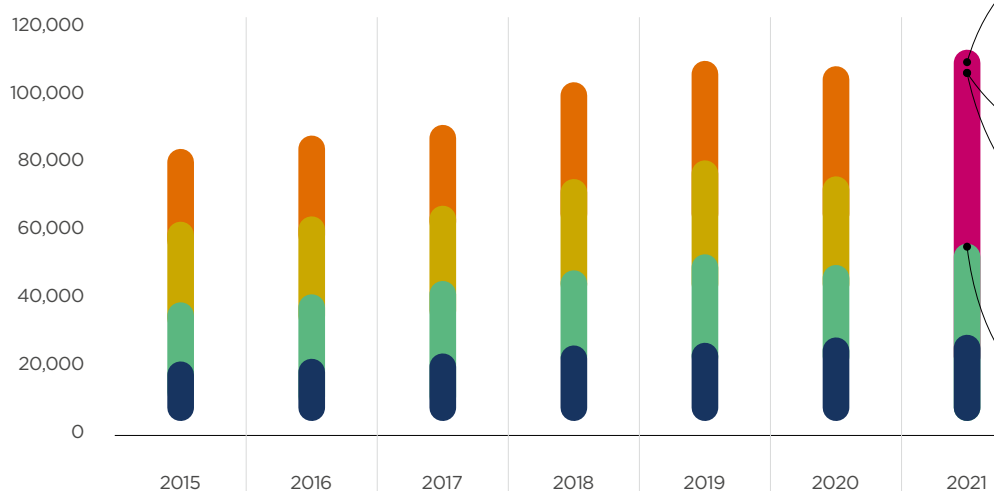


In July the Ministry of Economic Development revised its forecasts for several key economic indicators for 2021. For instance, the retail trade turnover growth forecast was revised

upwards from 5.1% to 6.9%, the growth of investment in fixed assets — from 3.3% to 4.5%, the growth of paid services to the population — from 11.3% to 14.3%. Industrial

production growth forecast was left unchanged for the current year (+2%), and was revised from 3.4% to 3.6% for the next year.

**GDP of the Russian Federation in current prices,**  
billion rubles, 2015-2021



The Bank of Russia's forecast:

**+4-4.5%**

The World Bank's forecast:

**+3.2%**

Coface forecast:

**+3.9%**

GDP growth in 2Q2021

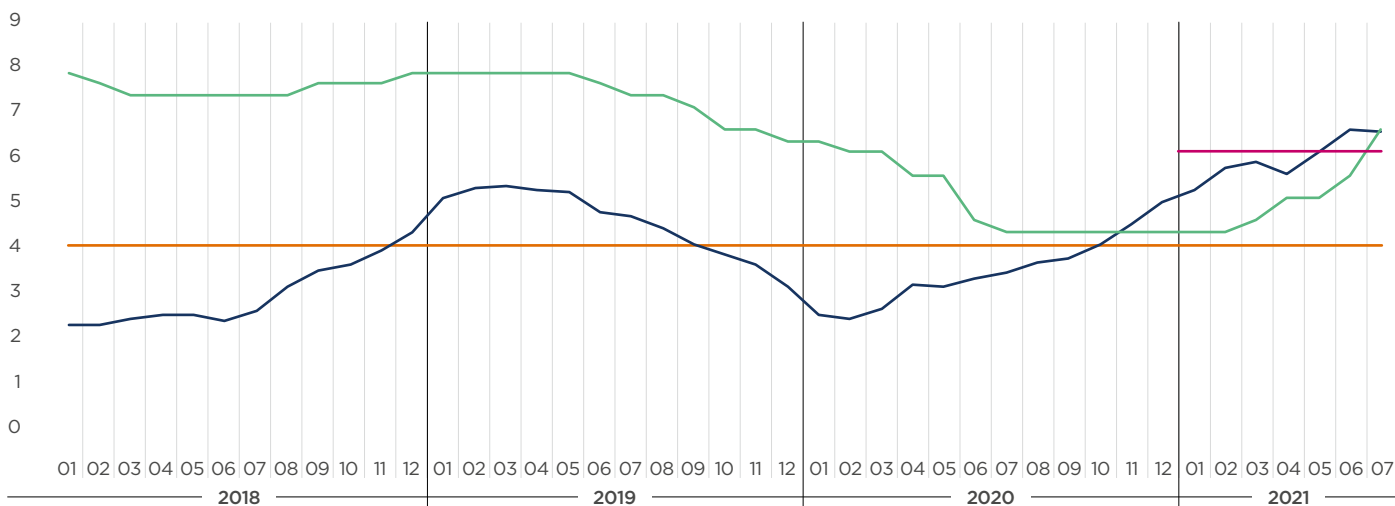
**+10.3%**

Sources: Rosstat, Bank of Russia, World Bank

● GDP in the 1<sup>st</sup> quarter   ● GDP in the 2<sup>nd</sup> quarter   ● GDP in the 3<sup>rd</sup> quarter   ● GDP in the 4<sup>th</sup> quarter

## THE CENTRAL BANK'S KEY RATE AND INFLATION RATE

### Inflation rates in correlation with the key rate of the Central Bank of Russia in 2018–2021



Sources: Bank of Russia, Rosstat

— Inflation,  
% YoY

— Key rate, %

— 4% — the Bank of Russia's  
target inflation rate— 6.1% —  
Coface forecast

The growth rate of consumer prices remained high in 2Q2021. In June, annual inflation rate rose to 6.5% (after 6% in May), in July it slightly decreased (to 6.46%) due to the new harvest which slowed down the growth rate of fruit and vegetable prices. Inflationary pressures remained elevated as a result of rising demand, lower supply and increasing producer costs amid rising prices on global commodity markets.

In July, the Bank of Russia updated its inflation forecast for 2021 from 4.7–5.2% to 5.7–6.2% and decided to raise its key rate to 6.5% per annum. According to the Central Bank's forecast, annual inflation in 2022 will slow down to 4.0–4.5%, and in 2023 will approach the target rate of 4%. In July 2021 the Bank of Russia revised its forecast for the range of the average key rate in 2021 from 4.8–5.4% to 5.5–5.8%.



## BRENT PRICE AND RUBLE EXCHANGE RATE DYNAMICS

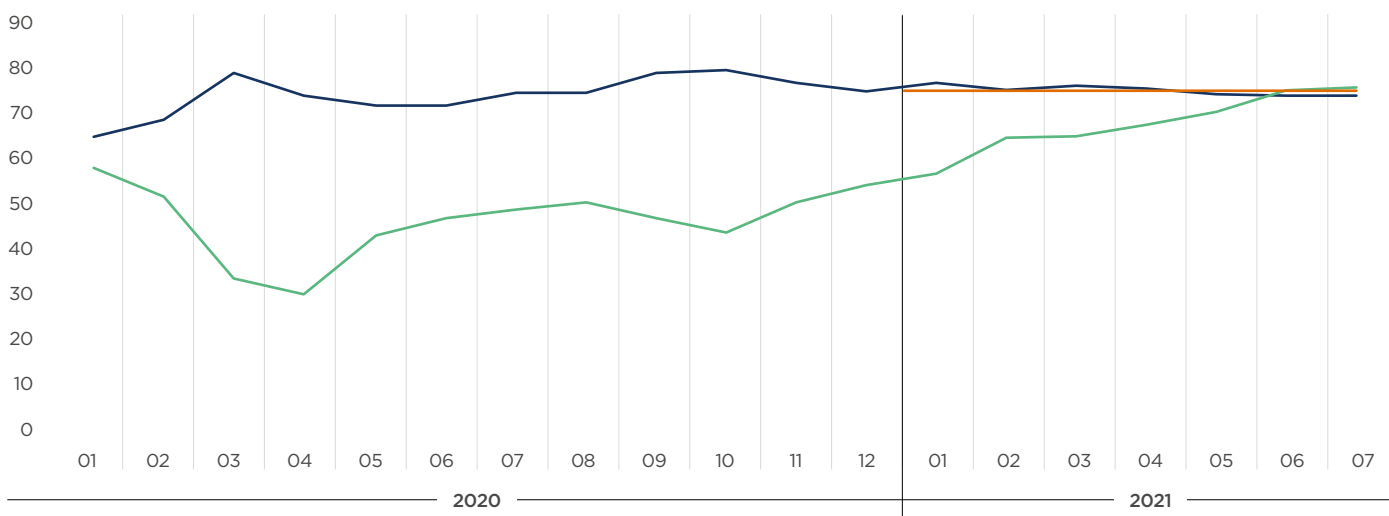
In July 2021, the Ministry of Economic Development revised the April forecast of the average dollar exchange rate in favor of strengthening of the Russian currency, which can be seen as a result of rising oil prices, the increase in the key rate of the Bank of Russia, and a quick recovery of the national economy.

The dollar rate forecast for 2021 was adjusted from 73.3 to 72.8 rubles per US dollar, and from 71.8 to 70.2 rubles per US dollar for 2022.

Due to a sharp rise in oil prices in the wake of a rapid recovery of the global economy, a quick expansion of demand and a lack of supply due to the OPEC+ restrictions, in July 2021, the Ministry of Economic

Development revised the forecast of the average annual price of Urals oil upwards. The forecast of the average annual price of this oil grade for the current year was revised from \$60.3 to \$65.9, for 2022 — from \$56.2 to \$64.8.

### Dynamics of the weighted average dollar exchange rate and the Brent oil price in 2020-2021.



Sources: Bank of Russia, Moscow Exchange

— Average dollar exchange rate, RUB / USD

— Brent price, USD (right axis)

— 72.3 RUB / USD — Coface forecast

A few weeks after the Ministry of Economic Development published the forecast of the dynamics of oil prices, the OPEC+ countries agreed to start gradually ramping up oil production, which could slow down the growth of hydrocarbon prices. As part of the July decision of OPEC+ countries to gradually increase oil production, Russia will be entitled to increase the base production level by 500 thousand

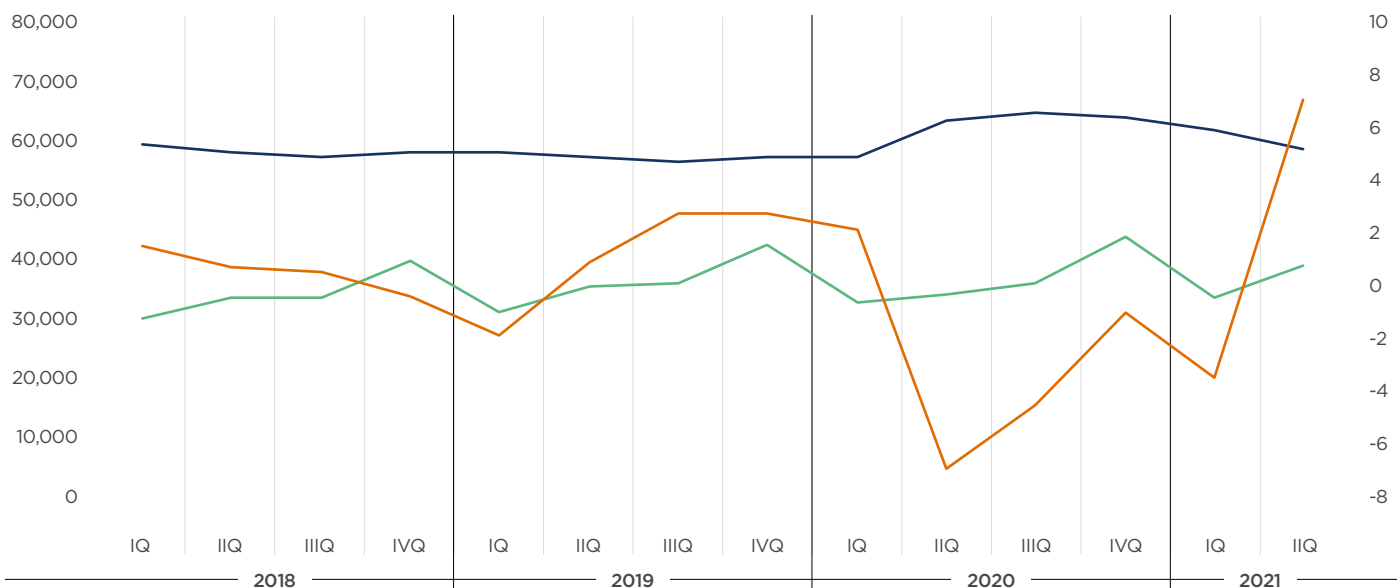
barrels per day, which will bring additional revenues to the Russian budget. The decision to increase oil production will help to avoid the looming shortage of raw materials on the market amid a strong recovery in consumption volumes, as well as limit the rise of oil prices. At the same time, further prospects for oil demand recovery remain unclear because of uncertainty about the evolution of the epidemic situation

amid the spread of the delta strain of coronavirus. In the longer term, the oil market will be influenced by such factors as the development of the 'green' climate agenda, the trend towards the transition of countries to a low-carbon economy and the growing demand for renewable energy sources.



## POPULATION: INCOMES AND UNEMPLOYMENT RATE

Average per capita incomes, real disposable incomes and unemployment rate, 2018–2021



Source: Federal State Statistics Service (Rosstat)

— Average per capita income, rubles

— Unemployment rate, % (right axis)

— Real disposable income of the population in % of the corresponding period of the last year (right axis)

The demand for labor is growing as the economy is recovering. At the same time, in some industries there is a shortage of labor force, which can be accounted for by the closure of borders, due to which migrant workers cannot enter the Russian Federation, as well as by a higher demand for labor in certain industries that even exceeds the pre-pandemic levels.

According to Rosstat, the unemployment rate has been declining for the past 3 quarters and is approaching the pre-pandemic level (4.6% in 2Q2019). At its peak, which was in 3Q2020, the

unemployment rate stood at 6.3%; in 2Q2021, the unemployment rate dropped to 4.9%, and in June 2021, it was even lower at 4.8%. The number of unemployed in 2Q2021 was 3.7 million, down 0.5 million from 1Q2021 and down 1.1 million from the peak of 4.8 million in 3Q2020.

In 2Q2021, real disposable incomes increased (by 6.8% relative to 2Q2020) as expected due to the low base effect of 2Q2020, when real disposable incomes fell sharply (-7.1% relative to the same period of 2019). Despite substantial growth since then, real disposable incomes in 2Q2021 were 0.8% below the level of

2Q2019. According to the April forecast published by the Ministry of Economic Development, the real disposable incomes of the population are expected to grow by 3.0% in 2021.

Average per capita incomes are up 15% from 2Q2020 and 10% from pre-crisis levels in 2Q2019.

A gradual decline in unemployment, the recovery of real disposable incomes, lower inflationary expectations of the population, as well as reduced uncertainty of the epidemic situation will have a positive impact on consumer activity and the pace of demand recovery in the near future.

## EXTERNAL TRADE STATISTICS

In 1H2021, the trade balance (according to the balance of payments method) was in surplus at \$62.4 billion, up 24.8% from 1H2020, mainly due to a twofold increase in 2Q2021 compared to 2Q2020, which in turn is due to the low base effect. The trade balance was 28% lower

than in 1H2019, which is mainly due to the fact that the export volumes are growing slower than the import volumes. Exports in 2Q2021 exceeded the pre-pandemic level of 2Q2019 by 9% and imports — by 23%. This is due to the rapid growth of business activity in the

manufacturing industry in 1H2021. Exports grew faster than imports in 2Q2021, primarily due to higher prices for raw materials and increased physical volumes of sales amid a rebound in demand on global markets.

### Foreign trade main characteristics (balance of payment methodology, US dollars bn)

|                            | 1H2021 (estimate) | 1H2020       | Change YoY, % |
|----------------------------|-------------------|--------------|---------------|
| Trade balance in goods     | 62.4              | 50.0         | 24.8%         |
| <b>Exports</b>             | <b>203.4</b>      | <b>159.8</b> | <b>27.3%</b>  |
| Crude oil                  | 45.5              | 39.2         | 16.1%         |
| Oil products               | 32.2              | 26.1         | 23.4%         |
| Natural gas                | 19.7              | 11.6         | 69.8%         |
| Liquefied natural gas      | 2.3               | 3.9          | -41.0%        |
| Other goods                | 103.7             | 79.0         | 31.3%         |
| <b>Imports</b>             | <b>141.0</b>      | <b>109.8</b> | <b>28.4%</b>  |
| Trade balance in services  | -3.6              | -8.2         | -56.1%        |
| <b>Exports of services</b> | <b>24.4</b>       | <b>23.6</b>  | <b>3.4%</b>   |
| <b>Imports of services</b> | <b>28.0</b>       | <b>31.8</b>  | <b>-11.9%</b> |

Source: Bank of Russia

The growth of exports in 1H2021 was boosted by the improvement of the economic situation in the partner countries of the Russian Federation. According to the Federal Customs Service of Russia, the value of exports to the EU increased by 33% compared to 1H2020, and to China — by 27%. At the same time, the share of the EU countries in the geographical structure of exports increased by 1.2 percentage points to 37.6%, as a result of growth in the value of exports of hydrocarbons to European countries in connection with the recovery of their economic activity.

APEC (Asia-Pacific Economic Cooperation) countries remain the largest suppliers of goods — in the first half of 2021 the share of APEC countries in the import portfolio rose to 44%, with China accounting for half of this volume. Interestingly, in the first half of 2021 the positions of APEC countries in the structure of imports have changed. China reduced its share of imports from 54% in 1H2020 to 52% in 1H2021, while the shares of other Asian countries expanded.

For instance, the Republic of Korea increased its share of imports to 11.8%, Vietnam to 3.8% and Indonesia to 2.0%. The share of the EU countries decreased to 32.7% from 33.5% a year earlier.

According to the Federal Customs Service, Russia's exports in January–June 2021 amounted to 208.7 billion US dollars and increased by 28.7% compared to January–June 2020. The main factor that boosted the value of exports was an increase in oil exports by 21.5% in nominal terms compared to the same period of 2020.

At the same time, the physical volume of Russian oil exports in 1H2021 decreased by 11.8% due to restrictions under the OPEC+ deal, which was in effect until July 2021.

According to the Federal Customs Service, Russia's imports in January–June 2021 increased by 29.0% compared to January–June 2020 and

amounted to 136.6 billion US dollars. The rapid recovery of imports in 1H2021 was largely due to increased activity in the manufacturing and investment goods sectors. In the commodity structure of imports, the largest share belongs to machinery and equipment — 49.5% (in January–June 2020 — 45.9%), the value

volumes of import of which increased by 38.9% compared to the first half of 2020. Also, the increase in the value of imports of consumer goods can be accounted for by an increase in imports of plastics and medicines, the value of imports of which increased in January–June 2021 by 35.5% and 26.9%, respectively.

## FOREIGN INVESTMENT

Russia's net international investment position decreased by 10% since the beginning of 2021 to 459 billion US dollars at the end of 1Q2021, mainly due to a decrease in Russia's foreign assets and an increase in foreign liabilities. The 2.5% decrease in foreign assets compared to the value at the beginning of the year was largely due to exchange rate and market revaluations.

At the end of 1Q2021, foreign investment in the Russian economy grew by 1% to 1066 billion US dollars compared to the beginning of 2021, or by 12% compared to the end of 1Q2020. Direct investments grew to 545 billion US dollars, mainly due to transactions with non-residents, while portfolio investments, which showed the largest annual increase (+25%) in the structure of liabilities since 1Q2020, increased to 261 billion

US dollars due to the growth in prices of Russian securities. The outflow of foreign investments in government securities in the first half of 2021 amounted to 3.9 billion dollars, which was a consequence of the sanctions announced by the USA against the debt instruments issued by the Russian Central Bank, the National Welfare Fund or the Ministry of Finance.

### International investment position of the Russian Federation (USD billion)

| Category   | Date       |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|
|  | 01.01.2020 | 01.04.2020 | 01.07.2020 | 01.10.2020 | 01.01.2021 | 01.04.2021 |
| <b>Net international investment position</b>           | <b>360</b> | <b>521</b> | <b>484</b> | <b>567</b> | <b>511</b> | <b>459</b> |
| <b>Assets</b>  | 1 514      | 1 473      | 1 530      | 1 522      | 1 563      | 1 524      |
| <b>Liabilities</b>                                     | 1 155      | 951        | 1 046      | 955        | 1 052      | 1 066      |
| <b>Direct investments</b>                              | 587        | 481        | 535        | 482        | 540        | 545        |
| Capital participation, investment fund shares or units | 437        | 342        | 389        | 339        | 397        | 407        |
| Debt instruments                                       | 150        | 139        | 147        | 143        | 143        | 138        |
| <b>Portfolio investments</b>                           | 302        | 209        | 243        | 214        | 256        | 261        |
| Capital participation, investment fund shares or units | 211        | 134        | 156        | 135        | 169        | 183        |
| Debt instruments                                       | 91         | 75         | 87         | 79         | 87         | 78         |
| <b>Derivatives</b>                                     | 6          | 11         | 8          | 9          | 8          | 6          |
| <b>Other investments</b>                               | 260        | 251        | 260        | 250        | 248        | 254        |

Source: Bank of Russia

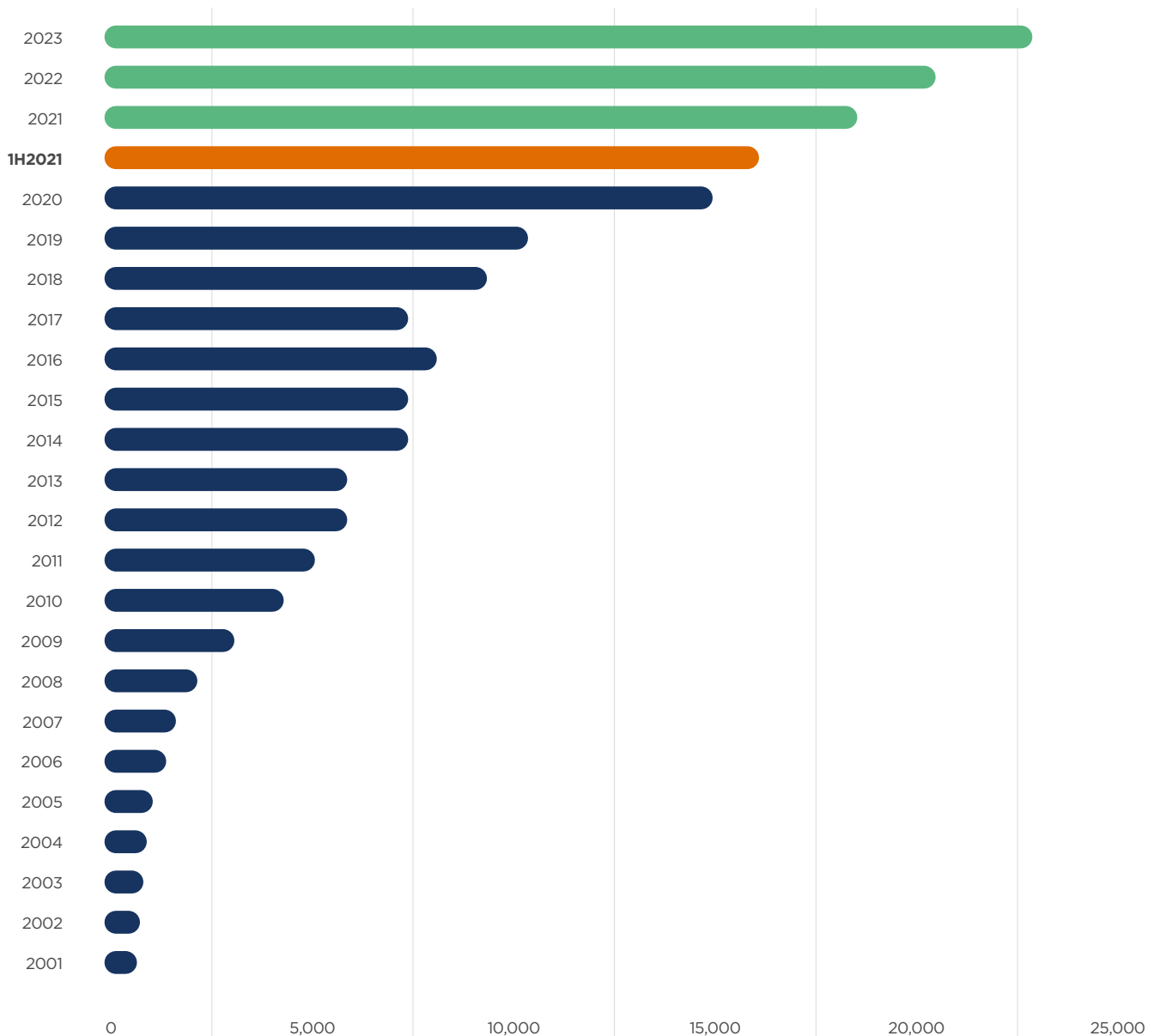
## DOMESTIC DEBT

In 2020 the domestic debt of the Russian Federation increased from 10.2 to 14.8 trillion rubles. This is the sharpest increase in the last 20 years. At the end of the first six months of 2021, it amounted to RUB 16.2 trillion and reached 88.4% of the debt ceiling for 2021. The main factors contributing to the growth of

the debt were the reduction in federal budget revenues due to restricted business activity against the background of the pandemic, the decline in oil prices, as well as the implementation of anti-crisis programs to support citizens and businesses. The share of domestic debt in total public debt of the

Russian Federation was 79.3%. According to the 2021 budget, the state debt ceiling will stand at 20.4% of the projected GDP. Even if this level is reached, Russia will remain among the countries with a low debt burden.

### Domestic state debt of the Russian Federation, billion rubles



## DYNAMICS OF EXTERNAL DEBT AND RESERVES

The Bank of Russia estimates that as of July 1, 2021 Russia's foreign debt was 471.4 billion US dollars, increasing by 0.9% since the beginning of the year and decreasing by 2.5% since July 1, 2020. As of July 1, the debt volume reached 81.3% of the upper limit of external debt for 2021. The dynamics of the index was influenced by the reduction of external debt of the public administration and private sector against the background of the decrease in the interest on the part

of foreign investors as a result of higher rates on international financial markets, as well as by the sanctions announced by the U.S. against the securities issued by the Russian Central Bank, the National Welfare Fund or the RF Ministry of Finance. At the same time, a decline in demand for the Russian government securities on the part of foreign investors in 1H2021 was compensated by an increase in domestic demand on the part of Russian investors.

Russia's international reserves stood at 591 billion US dollars as of July 1 this year, down 0.7% in January–June 2021 and up 3% in Q2 2021 — mainly due to the purchasing of foreign currency under the budget rule. A positive contribution to the change in international reserves volumes also happened due to their revaluation amid rising world gold prices.

Ratio of external debt to international reserves, USD million, 2018–2021



Source: Bank of Russia

● External debt      ● International reserves      — Ratio of external debt to reserves (right axis)



# SECTORAL OVERVIEW AND BANKRUPTCIES OUTLOOK



## KEY SECTORAL INSIGHTS

- According to Rosstat's data, in January–June 2021 the industrial production index increased by 4.4% against the corresponding period of 2020 and amounted to 104.4%, with the quickest rate of growth in May 2021 (+12.3% compared to the same period of 2020).
- A significant contribution to the growth of industrial production was made by non-resource industries: manufacturing, agriculture and construction industry. Production of mineral resources in June 2021 remained 1.2 percent below pre-pandemic levels (i.e., those of June 2019) due to lower oil production under the OPEC+ agreement.
- At the same time, there were signs that in some industries the rate of restorative growth was slowing down. According to Rosstat, manufacturing growth slowed from 2.8% in June to 0.7% in July 2021 compared to the corresponding period of 2019. In processing industry, growth slowed from 4.3% in June to 3.6% in July 2021; in mining, the decline deepened from -1.2% to -3.9%.
- The recovery of consumer activity indicators continued — the growth of retail turnover amounted to +23.5% compared to the first half of 2020, and the volume of paid services to the population in April and May 2021 increased by 54% and 52% respectively compared to the same periods of 2020.
- In the first half of 2021, the number of corporate bankruptcies increased by 9.2% over the same period of 2020, but dropped 19.2% compared to the first half of the pre-crisis year of 2019. This dynamic may be related to the lifting of the moratorium on bankruptcies imposed soon after the start of the pandemic, as well as to the negative impact of the pandemic crisis. On the other hand, state support measures for businesses and a moratorium on bankruptcies had a positive impact on the dynamics of bankruptcies in 1H2021 compared to 1H2019.

## CONSTRUCTION MATERIALS

The industry maintains increased production activity — production of construction materials in 1H2021 grew by 9.8% compared to 1H2020. The dynamics of housing

construction had a significant impact on the volumes of production of construction products. In the first half of 2021, 36.5 million square meters of housing was

commissioned, which is 29.7% more than in the same period of 2020.

### IN JANUARY-JUNE 2021 TO JANUARY-JUNE 2020:

#### ▲ Leaders:

production of ceramic facade tiles and carpets (+38.5%), structures and parts of structures made of ferrous metals (+19.9%), ceramic floor tiles (+17.1%), concrete (+16.4%)

#### ▼ Outsiders:

Ceramic non-refractory building bricks (-5.7%), building bricks made of cement, concrete or artificial stone (-5.5%) gravel stones (-0.6%)

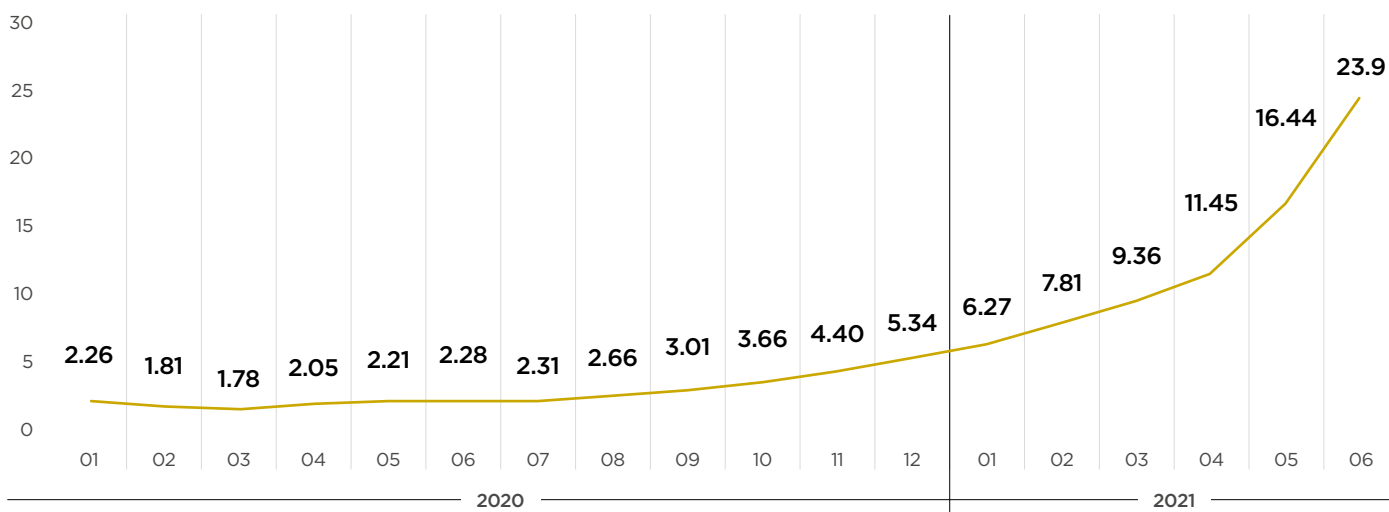
At the same time, starting from May 2021, due to the slowdown of the recovery of the national economy, there was a downward trend in the growth rates of construction materials production. In June 2021, all key construction products, except for building bricks, recorded an increase in production volumes compared to June 2020. At the same time, as compared to May 2021, the

volume of production fell, which indicates a gradual cooling of the construction materials market.

Construction materials prices in June 2021 were up 23.9% compared to June 2020. The dynamics of growth in prices for building materials continues to drastically exceed the overall inflation. The growing prices are mostly associated with an

increase in prices for rolled metal products, as well as a significant increase in the cost of building materials made of wood. The prices of construction materials in the domestic market rose also due to a sharp increase in the prices of materials in foreign commodity markets amid rapid recovery of consumer demand.

### Increase in prices for construction materials, in % to the corresponding month of the previous year





In order to curb prices and protect domestic consumers of construction materials, the government introduced temporary duties on exports of ferrous and nonferrous metals, which will be effective from August 1 to December 31 of this year, as well as temporary export duties on certain types of timber, which will be effective from July 1 to December 31, 2021.

In addition, in August 2021 the government approved a decree on additional support measures for the construction industry that are aimed at tackling a significant rise in prices

of construction materials. Under this decree state contractors may receive a compensation for their increased costs associated with a significant rise in the prices of construction materials.

### Exports and imports in the construction industry

Metals and timber remain the main drivers of growth of construction materials exports volumes, which is due to a sharp rise in their prices on world markets. Compared to

January-June 2020, metal exports increased by 37.2% in value terms (in physical terms — by 1.9%), and timber — by 27.6% (physical — by 6.7%).

The share of metals and metal products in the commodity structure of imports in January-June 2021 remained at the same level as last year, amounting to 6.9%.



## METALS INDUSTRY

### IN JANUARY-JUNE 2021 TO JANUARY-JUNE 2020:

#### ▲ Leaders:

production of other structures and details of structures made of aluminum (+43.7%), structures and parts of structures made of ferrous metals (+19.9%)

#### ▼ Outsiders:

Pipes, hollow sections and their steel fittings (+2%)

After a decline that had started in April 2020, in 2Q2021 there was a trend towards a gradual recovery of metal production. During the three months of 2Q2021, there was an increase in metal output. In June 2021 the growth of metallurgical production was up by 1.3% compared to June 2020 (in April and May 2021 by 1.4% and 2.7%, respectively). Nevertheless, in January-June 2021, the metallurgical production index stood at 99.4% compared to January-June 2020.

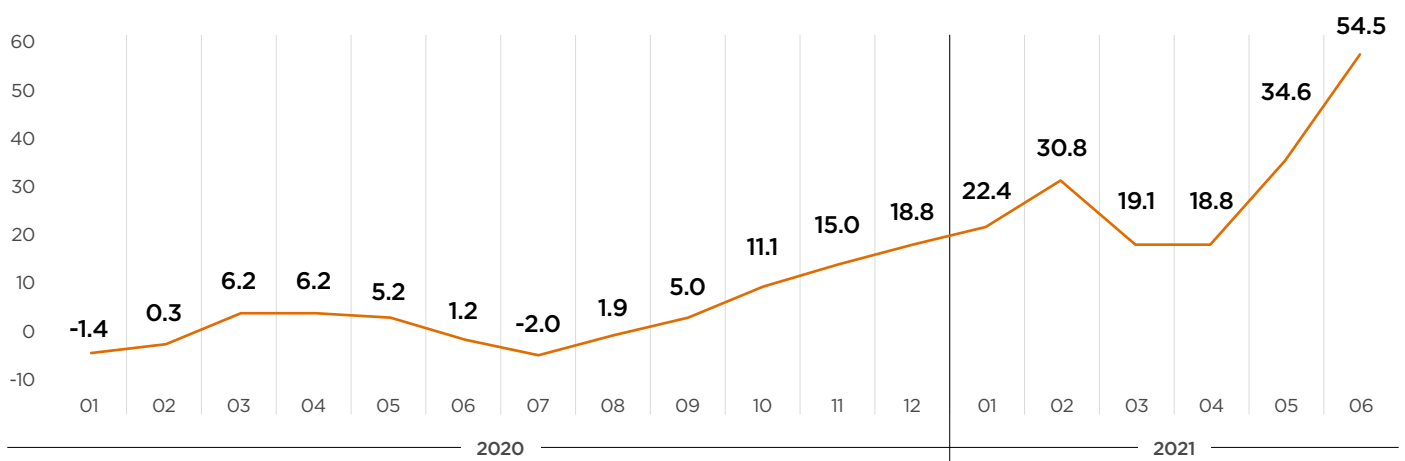
According to Rosstat, the rise in prices for steel products accelerated in May-June 2021. In June 2021, steel prices were up 54.5% compared to

June 2020. The growth of prices of metallurgical products is due not only to extremely favorable external market conditions and a high demand on global commodity markets, but also to positive dynamics in the construction sector in the first half of 2021, which is the main driving force for the Russian market of steel products. Nevertheless, the probability of prices starting to decline in the coming months remains due to the introduction of export duties on August 1, 2021. This could create an oversupply in the domestic market and lead to lower prices for steel products.

The share of metals and metal products in the total value of exports in January-June 2021 was 10.7% (10.0% in January-June 2020). Compared to January-June 2020, the value volume of exported metallurgical goods increased by 37.2%, and the physical volume increased by 1.9%.

The share of metals and metal products in the commodity structure of imports in January-June 2021 remained at the same level as last year, amounting to 6.9%. The value volume of imports of this commodity group increased by 28.2% compared to January-June 2020, and the physical volume increased by 12.1%.

### Increase in prices for metallurgical products, in % to the corresponding month of the previous year



Source: Federal State Statistics Service (Rosstat)

— Metallurgical products, price increase in % to the corresponding month of the previous year

## PETROCHEMICALS

In January–June 2021, the index of production of chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber in primary forms stood at 106.8% compared to January–June 2020.

The crisis of 2020, with a sharp drop in oil prices and rising producer costs in the oil industry, which provides a significant portion of budget revenues, drew the attention of the Russian authorities to the development of the petrochemical

industry. It is worth noting that neither during 2020, nor at the end of the first half of 2021, was there a decrease in production in the industry.

The further plans of the industry development proposed by the government envisage reaching the fourth place in the world in ethylene production by 2030, increasing non-energy exports by more than 5 times, as well as doubling the output of petrochemicals, including an

increase in the production of small and medium-tonnage chemical products by 30% by 2025 and by 70% by 2030.

The share of exports of chemical products in January–June 2021 was 7.7% of total exports (in January–June 2020 – 7.0%). Compared to January–June last year, the value volume of exports of these products increased by 41.8%, and physical – by 14.2%.

### Export of petrochemical products

| Category                        | 1H2021, mln USD | 1H2020, mln USD | Exports dynamics, % |
|---------------------------------|-----------------|-----------------|---------------------|
| Synthetic rubber                | 886.4           | 569.4           | 55.7                |
| Mineral or chemical fertilizers | 4 817.7         | 3 219.7         | 49.6                |

Source: Federal Customs Service of the Russian Federation

As for imports, according to the Federal Customs Service, the share of chemical products in the commodity structure of imports in January–March 2021 was 18.7% (in January–March 2020 – 17.5%). Compared to January–March 2020,

the volume of imports of chemical products increased by 24.3% in terms of value, and the physical volume rose by 2.3%. The physical volume of imports of organic chemicals increased by 4.1%, the volume of inorganic chemicals – by

3.7%, pharmaceutical substances – by 1.9 times, fertilizers – by 8.7%, soaps and detergents – by 2.8%, plastics and plastic products – by 2.2%. The supply of rubber and rubber products decreased by 4.4%, cosmetics – by 7.9%.

### Imports of petrochemical products

| Category                           | 1H2021, mln USD | 1H2020, mln USD | Imports dynamics, % |
|------------------------------------|-----------------|-----------------|---------------------|
| Plastics and products made of them | 5 809.9         | 4 280.3         | 35.7                |
| Natural and synthetic rubber       | 228.5           | 162.9           | 40.3                |
| Rubber tires and tubes             | 1 007.1         | 899.7           | 11.9                |

Source: Federal Customs Service of the Russian Federation



## AUTOMOTIVE

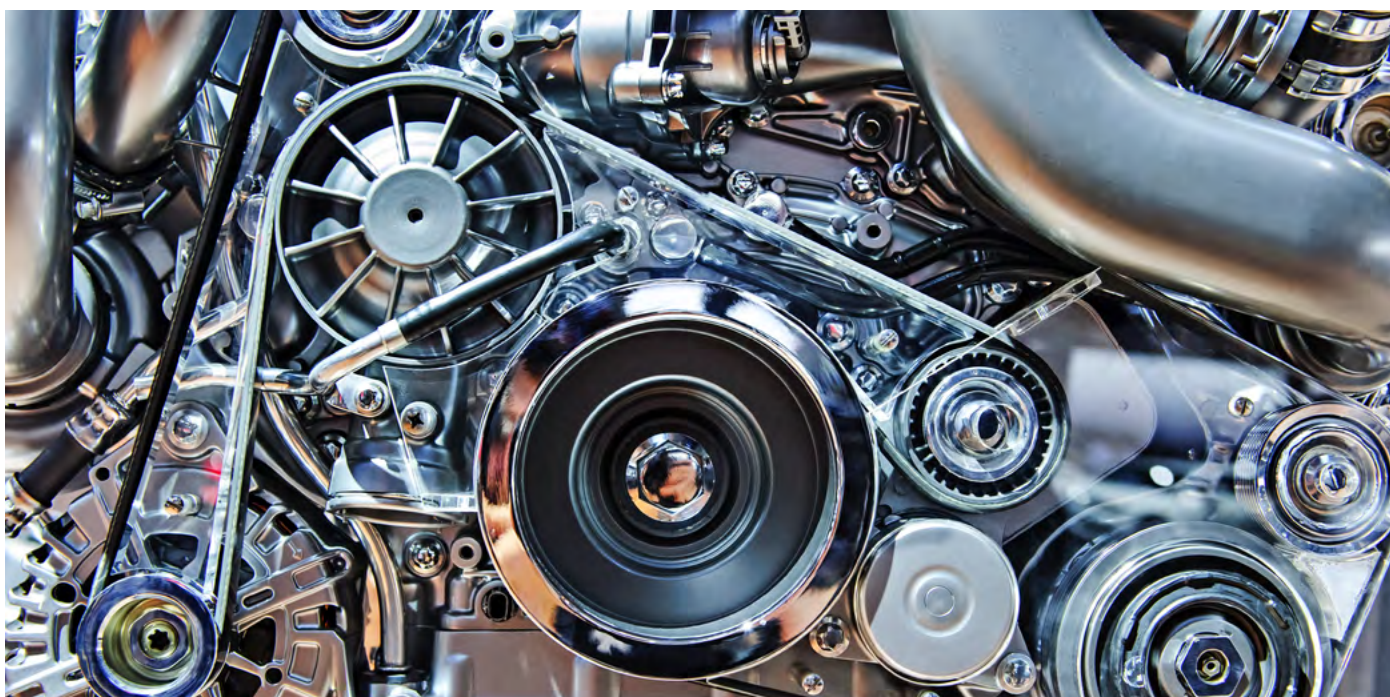
### Output dynamics and key indicators

After a collapse in production in the auto industry that began in April 2020, production of motor vehicles increased sharply by 43.7% in the first half of 2021, showing a nearly three-fold increase in April 2021 compared to April 2020. This growth in auto production in 1H2021 accounted for about a quarter of the growth in all growing manufacturing industries. In January-June 2021, the industry was one of the leaders in terms of its contribution to the expansion of manufacturing output.

However, it is important to note that the rapid growth in production in April 2021 is primarily due to the low-base effect. Last April, amid the pandemic crisis, production more than halved.

The industry's recovery is aided by the pent-up pandemic demand spurred by fears of rising car prices and a slight shortage of vehicles, which to some extent pulls the future demand into the present and contributes to reaching the pre-crisis level of 2019.

State support measures and the expansion of dealers' loan programs significantly stimulated consumer demand. A solid increase in the output rates of passenger cars and the continued recovery in the production of trucks made a significant contribution to the sector's growth. Passenger car production for the first six months of 2021 increased 44.3 percent, with a 4.4-fold increase in April compared to April 2020. Truck production growth, which began back in late 2020, continued, with January-June 2021 production up 59.7% over the same period last year and April 2021 production nearly doubling from April 2020.



### IN JANUARY-JUNE 2021 TO JANUARY-JUNE 2020:

#### ▲ Leaders:

production of trucks (+59.7%), cars (+44.3%), components and accessories for motor vehicles (+38.1%)

#### ▼ Outsiders:

production of buses with GVW up to 5 tons (-2.8%), Buses with GVW over 5 tons (+2.3%)

## Production of basic types of automotive products

The physical volume of exports of passenger cars increased by 43.8%, while the value volume increased by

54.6%. The physical volume of exports of trucks increased by 7.2%, while the value volume grew by 8.8%.

The physical volumes and value of imports increased more significantly.

The physical volume of imports of cars and trucks increased by 1.8 times, while the value volume of imports of trucks more than doubled (+130.5%), and the value volume of imports of cars increased by 87.6%.

## Exports of vehicles

| Category | 1H2021, mln USD | 1H2020, mln USD | Exports dynamics, % |
|----------|-----------------|-----------------|---------------------|
| Cars     | 712.5           | 461.0           | 54.6                |
| Trucks   | 160.8           | 147.8           | 8.8                 |

Source: Federal Customs Service of the Russian Federation

## Imports of vehicles

| Category | 1H2021, mln USD | 1H2020, mln USD | Imports dynamics, % |
|----------|-----------------|-----------------|---------------------|
| Cars     | 4 087.1         | 2 178.3         | 87.6                |
| Trucks   | 1 080.0         | 468.5           | 130.5               |

Source: Federal Customs Service of the Russian Federation



## ELECTRONICS AND APPLIANCES

Computer and electronic optical products production grew 20.0% in January–June 2021 compared to January–June 2020, accelerating in

2Q2021 with a 48.6% increase in April 2021 over April 2020. Domestic appliances production increased by 43.4% in 1H2021, showing more than

a three-fold growth in April 2021 compared to the same period of 2020.

### IN JANUARY–JUNE 2021 TO JANUARY–JUNE 2020:

#### ▲ Leaders:

production of semiconductor devices and their parts (+69.4%), household refrigerators and freezer (+62.1%)

#### ▼ Outsiders:

production of electrical, diagnostic and therapeutic equipment (-8.8%), computers, their parts and accessories (-3.2%)

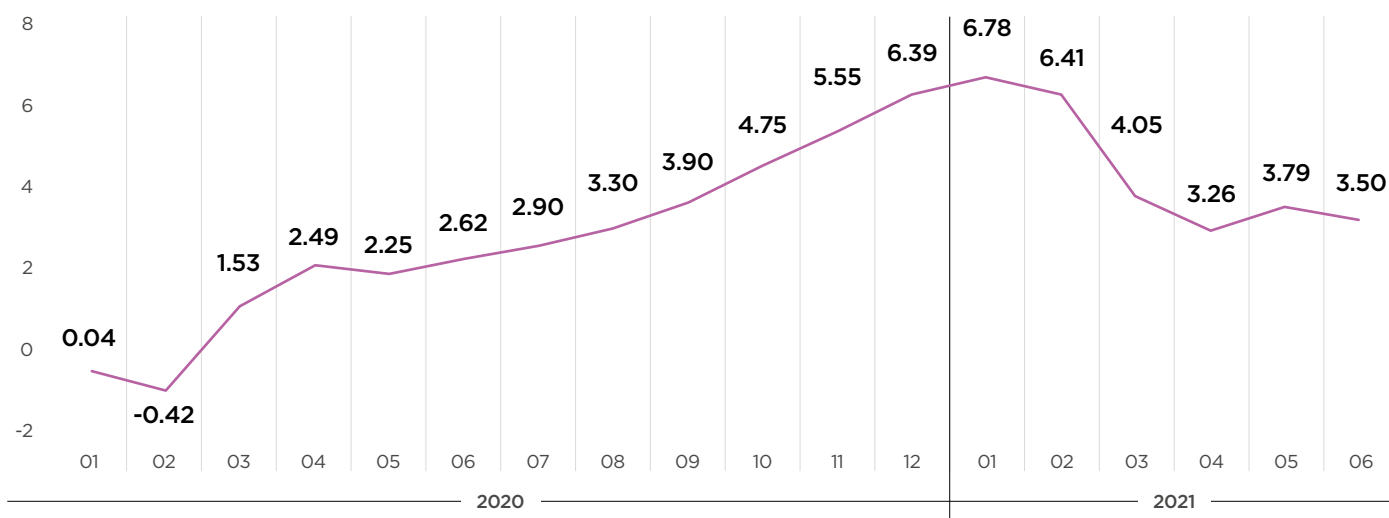
Prices for electronics and appliances rose by 4.61% compared to 1H2020.

While automobile and building materials prices growth rates only accelerated in the first half of the

year, the annual rate of growth of prices for electronics and appliances, which remained high throughout 2020 due to a strong demand expansion and rising costs for

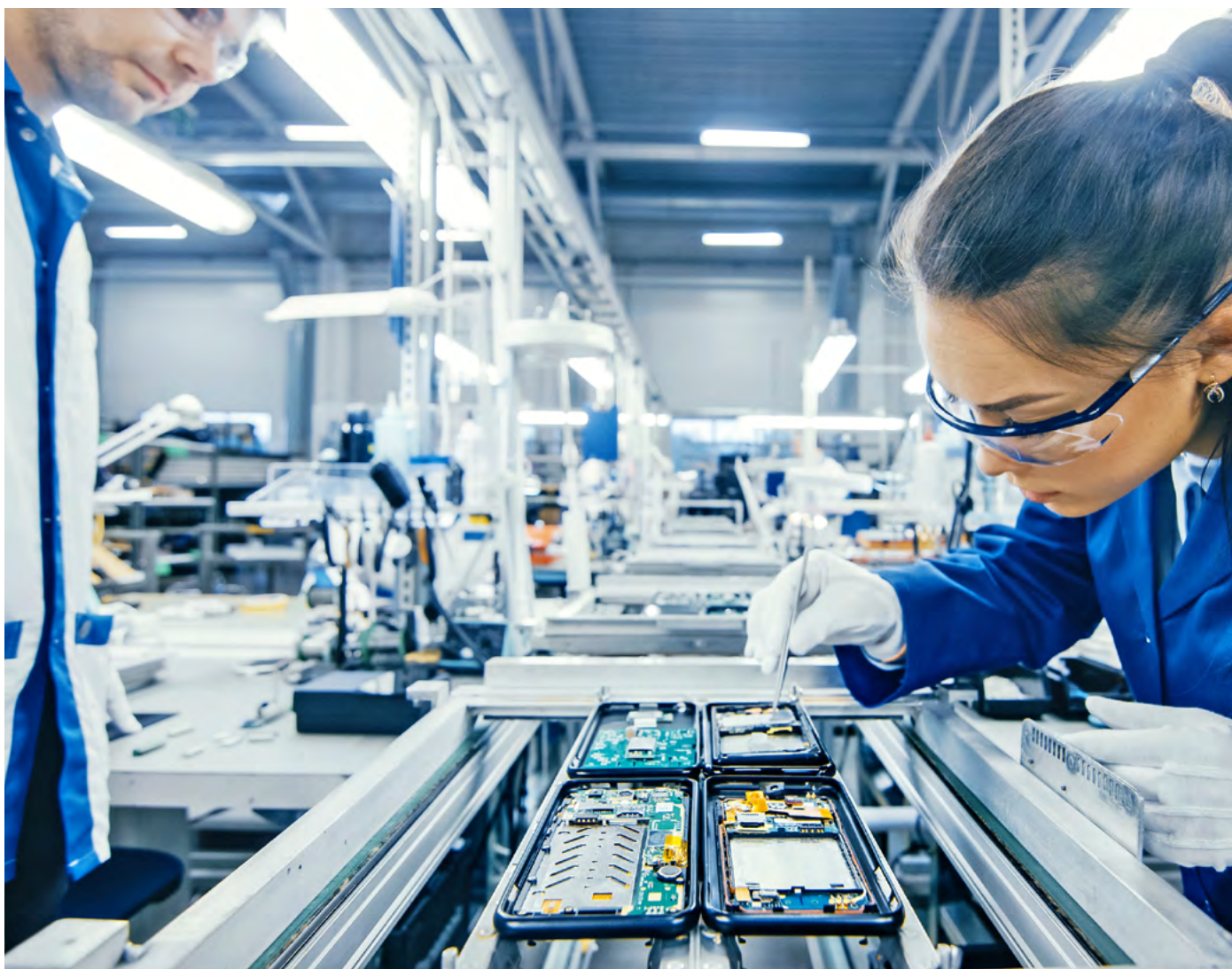
manufacturers, declined during the first six months of 2021. This may indicate a balancing of supply and demand in one of the main segments of the non-food market.

### Increase in prices of electrical goods and other household appliances, in % to the corresponding month of the previous year



Source: Federal State Statistics Service (Rosstat)

— Electrical goods and other household appliances, increase in prices compared to the corresponding month of the previous year, %



Against the background of increasing consumer activity in Russia, there has been an increase in imports of certain types of electronics and household

appliances. According to the Federal Customs Service of Russia, in January-June 2021 compared to January-June 2020 the value volume of imports of vacuum cleaners more

than doubled, household dishwashers — grew by 68,5%, household compression refrigerators — increased by 52,1%.

## Imports of electronics and household appliances

| Category                             | 1H2021, mln USD | 1H2020, mln USD | Imports dynamics, % |
|--------------------------------------|-----------------|-----------------|---------------------|
| Electrical equipment                 | 16 144.1        | 12 411.0        | 30.1                |
| Household refrigerators              | 31.28           | 20.56           | 52.1                |
| Household dishwashers                | 141.58          | 84.01           | 68.5                |
| Vacuum cleaners (1500 watts or less) | 261.01          | 111.16          | 134.8               |

Source: Federal Customs Service of the Russian Federation

## PHARMA AND HEALTH CARE

The rate of growth in the production of medicines and medical materials is declining – in 2Q2021 the industry lost its lead in terms of growth rates among manufacturing industries. Nevertheless, in the first half of 2021 the production grew by 20.7%.

In April, May and June 2021 the growth in the production of drugs and medical supplies was up by

0.4%, 0.5% and 9.2%, respectively, compared to the same months of 2020.

The slowdown in drug production growth in 1H2021 was most likely due to a significant increase in production in 2Q2020 (high-base effect), stabilization of demand and the beginning of vaccination. In the future, the market is expected to be

supported by both consumer demand and the government segment of drug purchases due to increased funding for this area of health care.

### IN JANUARY-JUNE 2021 TO JANUARY-JUNE 2020:

#### ▲ Leaders:

production of medicines and medical materials (+21.8%)

#### ▼ Outsiders:

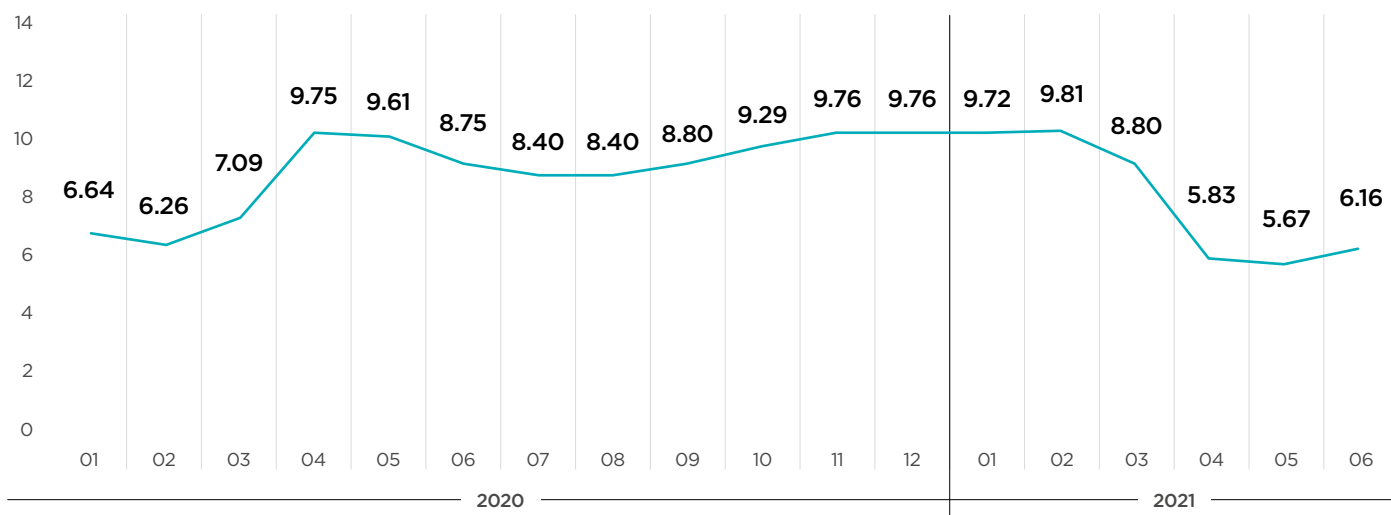
production of pharmaceutical substances (+2.6%)

The inflation rate for pharmaceuticals is much higher than for other categories of non-food products. Medicines prices were up 7.62% in January–June 2021 over the same period of 2020. At the same time,

the high annual rate of medicines price growth associated with the rush in demand in 2020, was decreasing during 2Q2021. The slowdown in the annual growth rate is due, among other things, to

the high-base effect connected to a sharp increase in drug prices in April 2020.

### Increase in prices for medicines, in % to the corresponding month of the previous year



Source: Federal State Statistics Service (Rosstat)

— Medicines, increase in prices to the corresponding month of the previous year, %

At the end of the first half of 2021 the value volume of antibiotics imports increased by 6.4%, while the volume of imports of medicines increased by 27.1%.

In March 2021, the government unveiled 7 initiatives, one of which is titled 'Industry for Health', as part of the 'New Shape of Industry'

manufacturing strategy that is currently being developed. The main goal of this initiative is to establish full-cycle production of critically important medicines, high-tech medical equipment and components. In addition, on July 20, 2021 an updated action plan for import substitution in the pharmaceutical

industry of the Russian Federation until 2024 was approved by order of the Ministry of Industry and Trade. The plan envisages increasing the share of domestic products manufactured by full production cycle to 100% for a large number of important medicines.

## Imports of pharmaceutical products, mln USD

| Category    | 1H2021, mln USD | 1H2020, mln USD | Imports dynamics, % |
|-------------|-----------------|-----------------|---------------------|
| Antibiotics | 94.4            | 88.7            | 6.4                 |
| Medicines   | 4 439.6         | 3 494.0         | 27.1                |

Source: Federal Customs Service of the Russian Federation



## COSMETICS INDUSTRY

At the end of the first half of 2021, the production of cosmetic products increased by 5.6% compared to the same period of 2020. In 2Q2021 the volumes of cosmetic products manufacturing accelerated. The market is recovering as demand for cosmetic products has increased amid easing travel restrictions, many employees coming back to offices from remote workplaces, and the resumption of cultural and recreational activities. Nevertheless, the potential for industry recovery has not yet been exhausted due to

the continued pandemic-related restrictions that reduce the demand for cosmetics products. Interestingly, in March and April 2020, there was a sharp increase in the production of cosmetic products by 23% and 25% respectively, but it was mainly due to increased demand for disinfectants and antibacterials.

Exports of perfumes and cosmetics showed a rapid growth of 87.1% and 32.4% respectively in 1H2021. The main supplier of cosmetic products to the Russian market was France,

with a share of 24% and an increase of 31% in 1Q2021 compared to 1Q2020. The largest contribution to the growth of imports of cosmetics in the first half of 2021 was made by France, South Korea, Italy and the U.S.



## BANKRUPTCIES

In the first half of 2021, corporate bankruptcies were up 9.2% over the same period of 2020, but down 19.2% compared to the first half of the pre-crisis 2019.

The number of monitoring procedures introduced by the courts in the first half of 2021 increased by 26.1% compared to the first half of 2020 and decreased by 16.9% compared to the same period of 2019. The share of rehabilitation procedures (external management and financial rehabilitation) in the first half of 2021 increased to 1.9% of all procedures, except for supervision, as compared to the first half of both 2019 and 2020.

This dynamic may be related to the lifting of the moratorium on bankruptcies imposed soon after the start of the pandemic, as well as to the negative impact of the pandemic crisis. On the other hand, state support measures for businesses and a moratorium on bankruptcies had a positive impact on the dynamics of bankruptcies in 1H2021 compared to 1H2019.

Most of the procedures in January–June 2021 were initiated by bankruptcy creditors – 74.5%, (75.4% in the first half of 2020). The share of procedures initiated by the Federal Tax Service increased from 14.2% to 15.6%, the number of procedures initiated by debtors decreased from 10.4% to 9.3%, and the number of procedures initiated by employees increased from 0.5% to 0.6%.

The number of consumer bankruptcies continued growing at an ever-faster pace. The number of individuals (including individual entrepreneurs) declared bankrupt in the first half of 2021 was 88 046, which is 2.1 times more than in January–June 2020. In January–June 2020, the number of consumer bankruptcies increased 1.5 times over the same period of 2019.

### Corporate bankruptcies: the number of reports on the introduction of bankruptcy proceedings by the Russian courts in relation to legal entities and peasant (farm) enterprises by regions

| Region                    | 1H2020 | 1H2021 | 1H2021 to 1H2020 | Region             | 1H2020 | 1H2021 | 1H2021 to 1H2020 |
|---------------------------|--------|--------|------------------|--------------------|--------|--------|------------------|
| Russian Federation        | 4502   | 4918   | 9.2%             | Chelyabinsk region | 75     | 69     | -8%              |
| Moscow                    | 852    | 969    | 13.7%            | Volgograd region   | 48     | 67     | 39.6%            |
| Saint Petersburg          | 293    | 401    | 36.9%            | Kemerovo region    | 73     | 65     | -11%             |
| Moscow region             | 309    | 358    | 15.9%            | Khabarovsk region  | 91     | 61     | -33%             |
| Sverdlovsk region         | 152    | 171    | 12.5%            | Krasnoyarsk region | 60     | 60     | 0%               |
| Krasnodar region          | 123    | 167    | 35.8%            | Perm region        | 73     | 59     | -19.2%           |
| Republic of Tatarstan     | 141    | 165    | 17%              | Saratov region     | 50     | 56     | 12%              |
| Rostov region             | 91     | 151    | 65.9%            | Stavropol region   | 38     | 56     | 47.4%            |
| Novosibirsk region        | 137    | 139    | 1.5%             | Vologda region     | 39     | 54     | 38.5%            |
| Samara Region             | 80     | 115    | 43.8%            | KhMAO — Yugra      | 55     | 52     | -5.5%            |
| Nizhny Novgorod Region    | 56     | 111    | 98.2%            | Voronezh region    | 31     | 47     | 51.6%            |
| Republic of Bashkortostan | 58     | 102    | 75.9%            | Kaliningrad region | 81     | 47     | -42%             |
| Irkutsk region            | 78     | 76     | -2.6%            | Other regions      | 1 418  | 1 300  | -8.3%            |

Source: The Unified Federal Register of Bankruptcy Information

# EXCLUSIVE COFACE DATA:

## OVERDUE RECEIVABLES, REPORTED LOSSES BY SECTOR

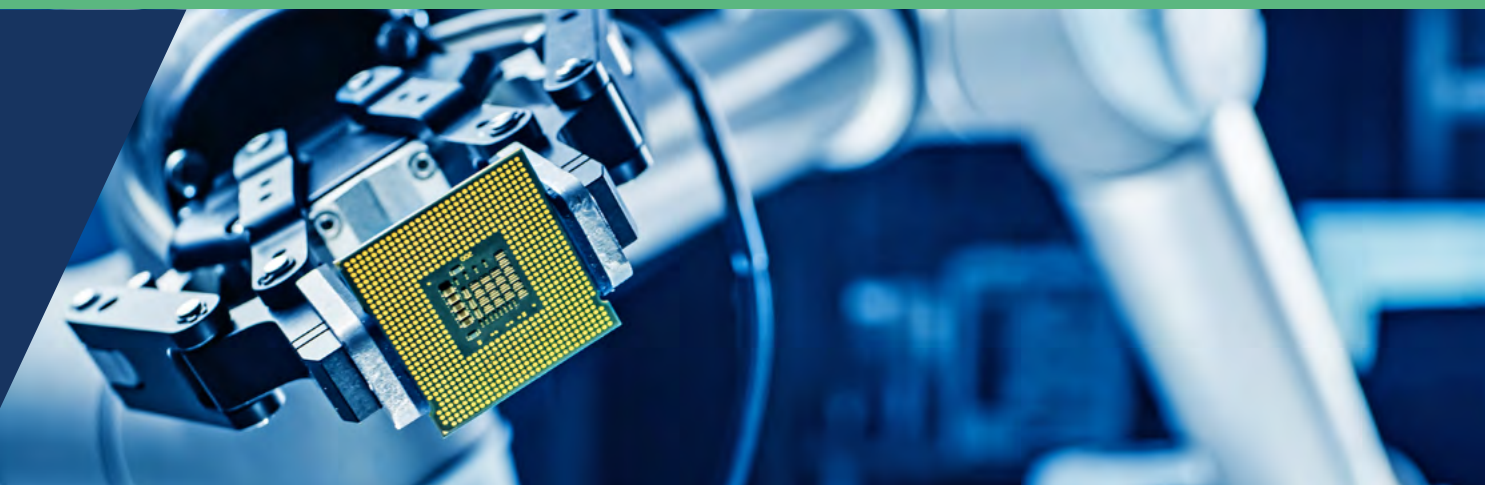
According to Coface internal statistics, the volume of overdue receivables with payment delays of 60 days or more in the corporate segment of the Russian market decreased in all sectors in the first half of 2021 compared to the same period of 2020, except for the sector of healthcare and pharmaceuticals, where it increased by 162.3%. The automotive and cosmetics industries recorded the lowest share

of overdue receivables from the total volume of receivables. On the whole, the decrease in the volume of overdue receivables in the analyzed industries in the first half of 2021 indicates that the financial situation of Russian businesses is gradually normalizing amid recovering demand and improving epidemiological situation in the country.

### Overdue receivables in 1H2021 by sector

| Sector                     | Overdue receivables in 1H2021, RUB | Average share of overdue receivables from total receivables in 1H2021 | Overdue receivables in 1H2020, RUB | Dynamic vs. 1H2020 | Average change in the share of overdue receivables from the total volume of receivables vs. 1H2020 |
|----------------------------|------------------------------------|---|------------------------------------|--------------------|--|
| Pharma and health care     | 231 558 202                        | 2.4%  | 88 293 560                         | 162.3%             | 22.2%  |
| Automotive                 | 213 322                            | 0%  | 3 901 336                          | -94.5%             | -25.6%   |
| Construction materials     | 898 474                            | 0.4%  | 1 421 641                          | -36.8%             | -83.6%   |
| Metals industry            | 8 290 524                          | 0.2%  | 27 090 038                         | -69.4%             | -95.7%   |
| Electronics and appliances | 1 721 045                          | 0.1%  | 2 843 763                          | -39.5%             | -89.3%   |
| Petrochemicals             | 2 844 643                          | 0.4%  | 16 335 893                         | -82.6%             | -43.3%   |
| Cosmetics                  | 85 464                             | 0%  | 141 597 974                        | -99.9%             | -66.7%   |

Source: Coface internal statistics



However, while the amount of reported losses decreased in 1Q2021 compared to 4Q2020, the amount of reported losses in 2Q2021 compared to 1Q2020 increased for all sectors of the economy analyzed.

In the metals sector, the amount of reported losses in 2Q2021 increased by 2756.2% compared to 1Q2021 after a significant decrease (-92%) in 1Q2021 compared to 4Q2020. This sharp increase in the volume of reported losses in metallurgy can be explained by the low-base effect - in

the first quarter of 2021 the total of reported losses in the industry was less than a million rubles, while the second quarter saw a sharp spike in reported losses. Similar dynamics are observed in the construction and petrochemical industries.

The electronics and appliance sector, as well as the automotive industry, which reported no losses in 4Q2020 and 1Q2021, are also seeing an increase in reported losses.

There had been no reported losses in the pharma sector since mid-2018, but starting from 4Q2020, the sector was showing the largest amounts of reported losses, with a 13.4% increase in 2Q2021 compared to 1Q2021.

This may be related to the slowdown of economic recovery in 2Q2021 due to the stabilization of rush demand after the easing of quarantine restrictions.

## Reported losses in 1H2021 by sector

| Sector                     | Reported losses in 2Q2021, RUB | Reported losses in 1Q2021, RUB | Reported losses in 4Q2020, RUB | Dynamic vs. 1Q2021, % | Dynamic vs. 4Q2020, % |
|----------------------------|--------------------------------|--------------------------------|--------------------------------|-----------------------|-----------------------|
| Pharma and health care     | 213,803,812                    | 188,481,958                    | 188,481,958                    | 13.4                  | 13.4                  |
| Automotive                 | 2,898,229                      | 0                              | 0                              |                       |                       |
| Construction materials     | 2,772,035                      | 552,787                        | 1,770,136                      | 401.5                 | 56.6                  |
| Metals industry            | 27,885,755                     | 976,324                        | 11,586,940                     | 2756.2                | 140.7                 |
| Electronics and appliances | 26,191,785                     | 0                              | 0                              |                       |                       |
| Petrochemicals             | 318,000                        | 0                              | 318,000                        |                       | 0.0                   |

Source: Coface internal statistics

## COFACE RUSSIA INDEX – SECTORAL INDICES OF BUSINESS CREDITWORTHINESS

In this issue of the analytical study, Coface is introducing the Coface Russia Index. Coface Russia Index is an integral index of creditworthiness and financial stability of companies in a particular industry, which is calculated on the basis of the internal methodology of debtor default risk assessment (Coface DRA), in which the creditworthiness of a given company is assessed on a scale from 0 to 10.

The Coface Russia Index is calculated based on the DRA scores of the companies whose data is contained in the Coface database. Coface Russia Index can thus be used to assess the economic situation in a particular industry. For instance, despite the negative market dynamics in 2020 due to the pandemic crisis, the pharmaceutical industry saw an increase in the index in 2020-2021, indicating a reduced risk of bankruptcy and improved financial stability of companies compared to 2019. This is due to an improvement in the financial performance of companies in the industry amid rising prices for pharmaceutical products amid the pandemic. The construction and metallurgical industries are in a similar situation owing to a sharp increase in the prices of products of these industries on world markets amid a rush in demand after the pandemic.

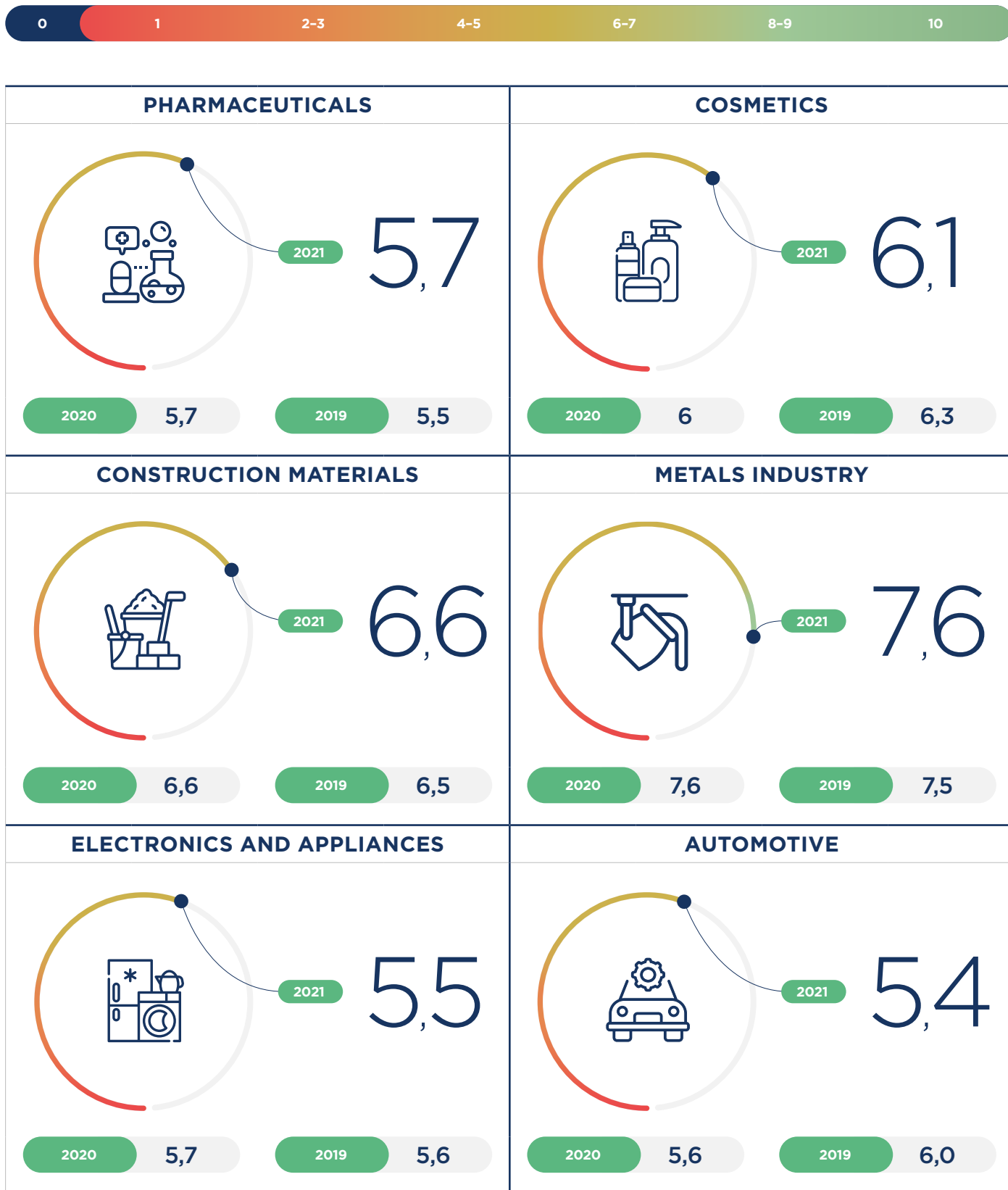
The index of financial soundness of businesses in the cosmetics industry began to gradually increase after dropping to 6.0 points in 2020: in 2021, the index rose to 6.1 points, indicating an improvement in the creditworthiness of businesses in the industry. This is due to an increase in demand for beauty products amid the easing of quarantine restrictions, many employees coming back to offices from remote workplaces, and the resumption of cultural and recreational activities. Nevertheless, the potential for industry recovery has not yet been exhausted due to the continued pandemic-related restrictions that reduce the demand for cosmetics products.

The electronics and home appliances sector saw a deterioration in the index compared to 2020. This can be attributed to higher business risks associated with lower financial stability of one of the largest distributors in the industry.

The automotive industry also saw a decline in the financial strength of companies. The negative dynamics of the index in 2020 can be explained by a sharp decline in demand for the industry's products due to the pandemic and the falling real incomes of the population. The deterioration of the index in 2021, despite the gradual recovery of the market, is due to the specific features of Coface's portfolio of debtors and the lower debtor risk assessment score of a number of major automakers represented in it.



The sectoral index of business creditworthiness (Coface Russia Index), 2019–2021; 10 is the maximum level of business creditworthiness in the sector, 1 is the minimum.



Source: Coface internal statistics

# CONTACTS



## Vassiliy CHEKULAEV

RUSSIA&CIS,  
GENERAL MANAGER

vassiliy.chekulaev@coface.com



## Aleksey FOMICHEV

RUSSIA&CIS,  
COMMERCIAL DIRECTOR

aleksey.fomichev@coface.com



## Grzegorz SIELEWICZ

CER, RUSSIA&CIS,  
ECONOMIST

grzegorz.sielewicz@coface.com

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Over 75 years of experience and the most finely meshed international network have made Coface a reference in credit insurance, risk management and the global economy. With the ambition to become the most agile, global trade credit insurance partner in the industry, Coface's experts work to the beat of the world economy, supporting 50,000 clients in building successful, growing and dynamic businesses. The Group's services and solutions protect and help companies take credit decisions to improve their ability to sell on both their domestic and export markets. In 2020, Coface employed ~4,300 people and registered turnover of €1.45 bln.

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## COFACE RUSSIA

2nd Brestskaya Str., Moscow, 125047  
 Panorama business center, 9th floor  
 Tel.: +7 (495) 785 57 15  
 E-mail: [office@coface.com](mailto:office@coface.com)  
[www.coface.ru](http://www.coface.ru)

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