

AEB – How Normal Is The New Normal?

October 2015

How is the crisis changing the business and investment climate?

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- The crisis was coming anyway..... it is not being wasted
- The economy and balance sheet are surviving and should be leaner and fitter post crisis provided external factors don't get much worse
- The weak ruble is not a sign of crisis but creates opportunities
- The path out of the crisis will create new opportunities for business and investment
- The response from government agencies has been mainly encouraging and pragmatic....bad politics does not mean bad business for western companies

- ❑ The economy grew only 1.3% in 2013 and by 0.6% in 2014. This year GDP will contract by between 3.5% and 4.0%
- ❑ That is partly the financial sanctions ...partly the oil price ...and partly because of the end of the consumer boom
- ❑ Worst case scenarios have been avoided.
- ❑ There are no difficulties in servicing external debt and the budget deficit is covered from reserves
- ❑ Public support for the government is strong

- ❑ Central Bank is no longer expending reserves in an effort to defend the ruble. Reserves are stable above \$360 bln since end March
- ❑ External debt payments are manageable at \$55 bln in 2015 and 2016
- ❑ Current Account is in surplus...reached \$57 bln in first nine months
- ❑ Capital Outflow has eased back to the level of debt payments + remittances + normal trade flows

- Budget discipline is being maintained.
- There has been a flexible monetary policy response.
- There are no capital controls and no restrictions on capital flows.
- External debt has fallen from \$740 bln at the start of 2014 to an expected \$500 bln by the end of this year.
- The Central Bank is effectively managing the bank sector restructuring.

The slowdown started in 2012

❑ In 2013, growth slowed sharply despite \$110 p/bbl average oil and no sanctions threats

Russia GDP Quarterly Growth Rate (2012-2014)

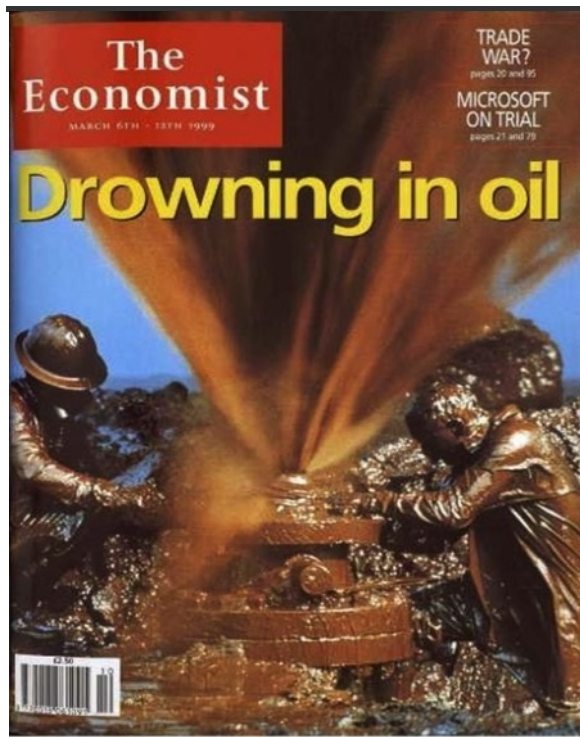


Source: *Tradingeconomics.com, Federal State Statistics Service*

Oil price will not fix the problem

- ❑ In any event it is dangerous to base recovery hopes on an assumed oil price trend

Failed Oil Prediction 1999



Source: Economist Magazine

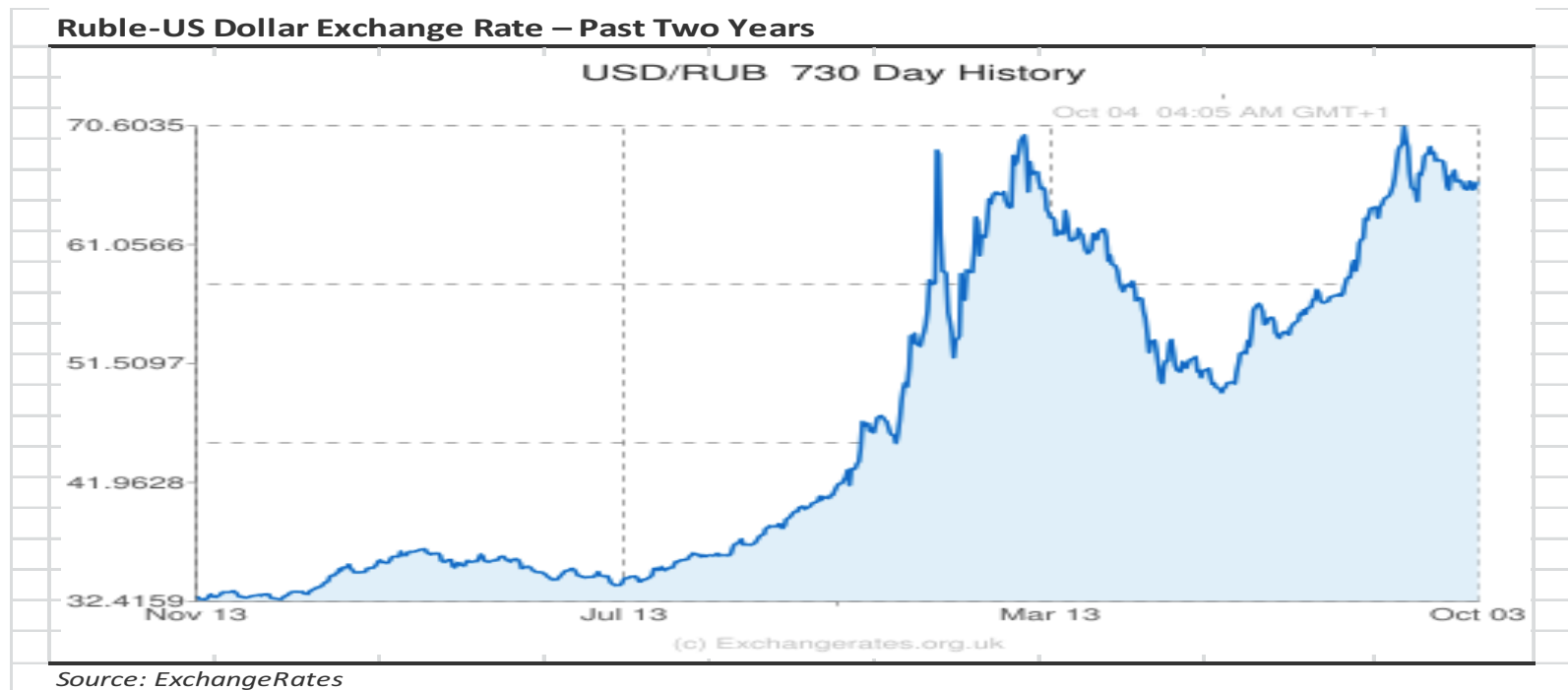
Failed Oil Prediction 2003



Financial Times 2015

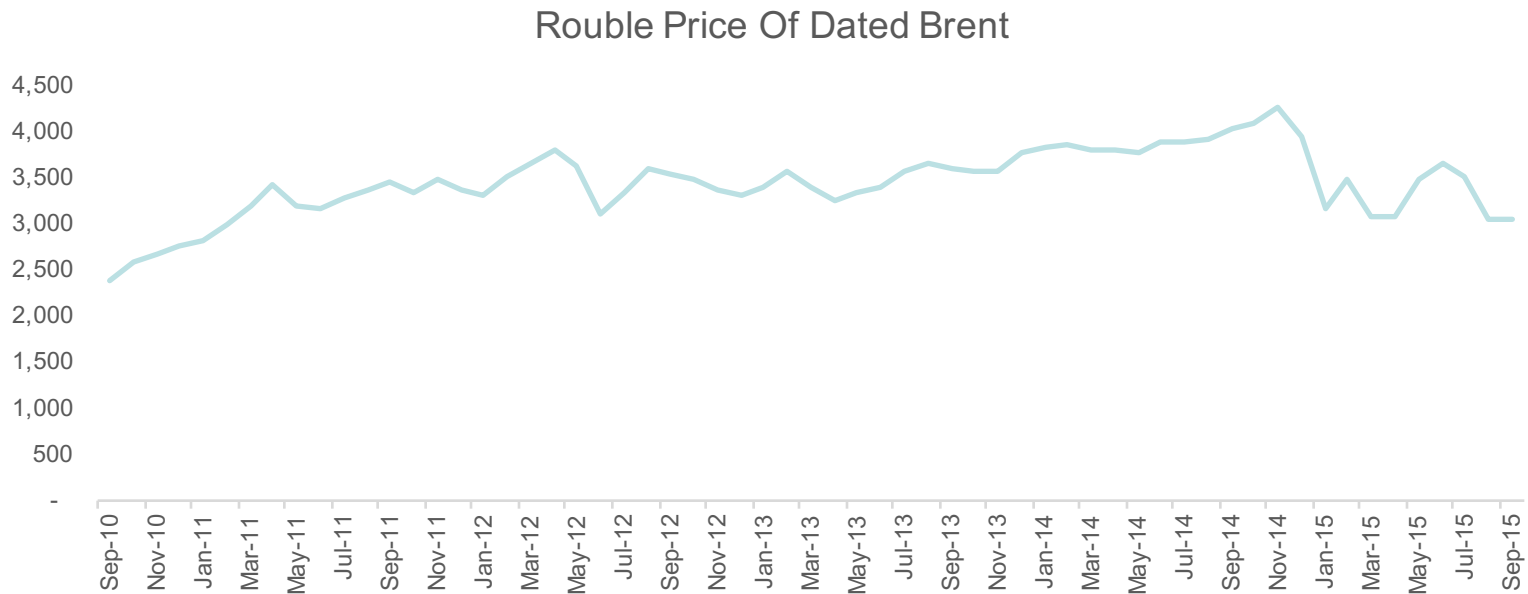


- ❑ The ruble is now free floating with the oil price
- ❑ Weak ruble is now linked with the government's main recovery strategy



The Nabiullina Corridor?

- ❑ Now at the bottom of the range of the RUB price of oil
- ❑ Expect to stay in the bottom half of the corridor



Crisis created opportunities

Russian's remain defiant against Western sanctions ... Moscow's new Bar-Restaurant

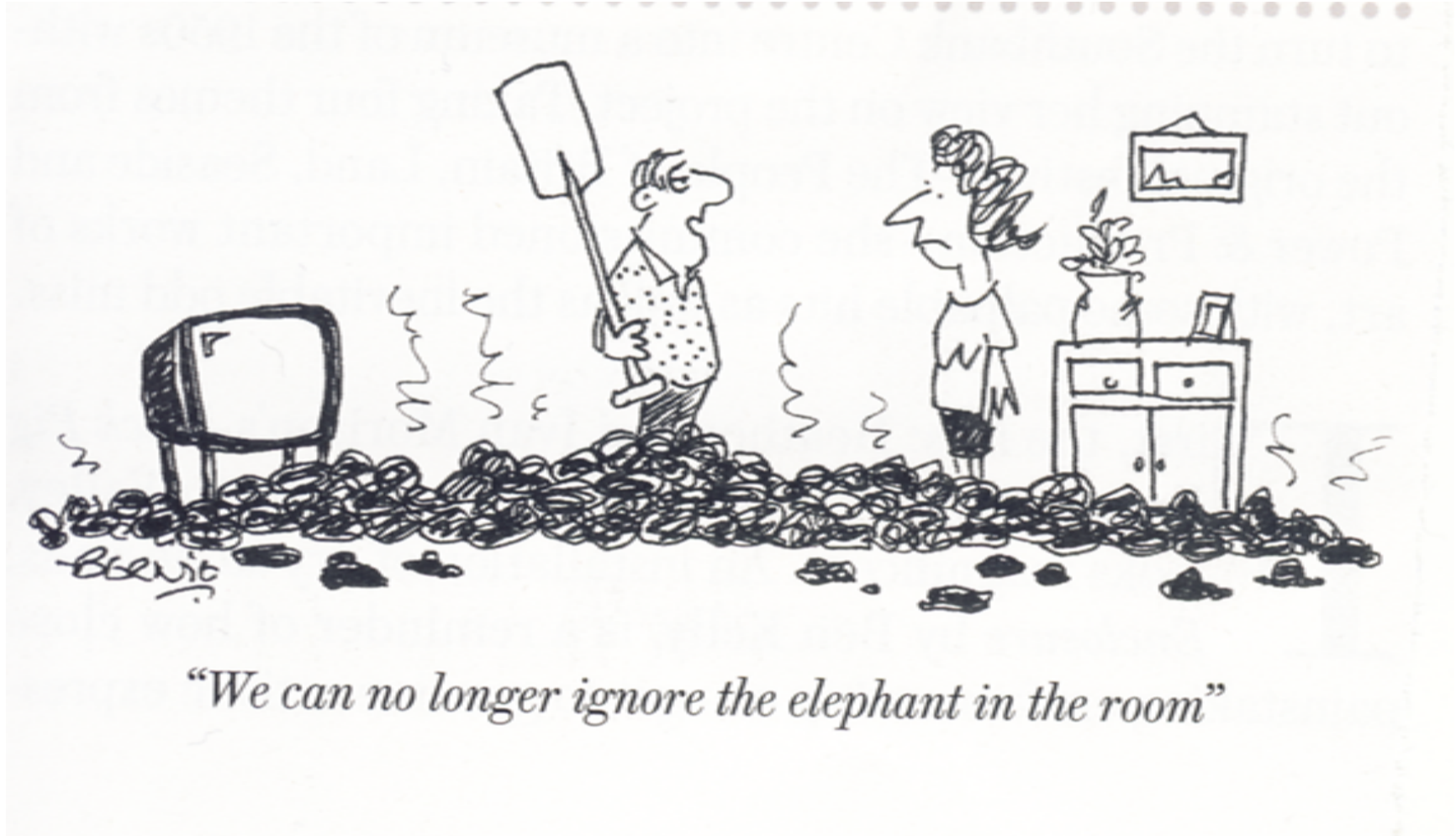


Source: Chris Weafer

- ❑ Import substitution has emerged as the most important policy priority.

- ❑ Key industries targeted are:
 - ❑ Agriculture services,
 - ❑ food,
 - ❑ pharmaceuticals,
 - ❑ auto parts,
 - ❑ machinery and machinery parts,
 - ❑ defence industry equipment,
 - ❑ oil field services, etc.





Russia: Macro Trends & Medium Term Forecasts

	2011	2012	2013	2014	2015E	2016E	2017E
GDP, RUB bln, nominal	55 800	62 098	66 620	70 970	78 065	85 483	92 749
GDP, US\$ bln	1 898	1 988	2 095	1 850	1 259	1 276	1 405
Growth, real % YoY	4.3%	3.4%	1.3%	0.6%	-3.5%	0.5%	1.5%
CPI - year-end, % YoY	6.1%	6.6%	6.5%	11.4%	12.0%	7.0%	6.0%
Gross fixed investment, real % YoY	10.2%	6.0%	-0.3%	-3.5%	-10.0%	-2.0%	2.5%
Industrial production, real % YoY	5.0%	3.4%	0.4%	1.7%	1.0%	2.5%	4.0%
Agricultural output, % change YoY	14.3%	-3.6%	3.1%	1.2%	3.0%	3.3%	3.8%
Central Bank Key Rate, %				17.0%	10.0%	7.5%	7.0%
Bank average lending rate, %	8.5%	9.1%	9.5%	11.3%	13.0%	10.0%	8.5%
Retail sales, % YoY	7.2%	5.9%	3.9%	2.5%	-6.0%	0.0%	2.0%
Real disposable income, % YoY	4.5%	7.3%	4.8%	-1.0%	-6.0%	0.0%	0.5%
Unemployment, % EOP	6.6%	5.7%	5.6%	5.3%	6.5%	6.0%	5.5%
Budget, balance % of GDP	0.8%	0.0%	-0.5%	-0.5%	-2.5%	-1.5%	-1.0%
Current account, % GDP	5.1%	3.7%	1.6%	3.0%	3.0%	2.3%	2.9%
RUB/US\$, year-end	31.4	30.8	32.9	61.4	70.0	68.0	65.0
RUB/US\$, average	29.4	31.1	31.9	38.6	62.0	67.0	66.0
RUB/EUR, year-end	41.5	40.3	45.3	72.0	78.0	75.0	72.0
RUB/EUR, average	41.0	40.0	42.3	51.5	68.0	74.0	73.0
Urals, US\$ p/bbl, average	\$109	\$110	\$108	\$100	\$55	\$60	\$70

Source: State Statistics Agency, Central Bank, Macro-Advisory estimates

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- Commercial, thoughtful, timely, and actionable research product
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Examples of Recent Research Publications:

Macro Monthly:

An Economy Badly In Need of a Fix (September 2015)
Are We There Yet? (August 2015)
Exactly What Is the New Norm? (July 2015)
#realeconomik (June 2015)

Russia Special:

Sanctions: Same As It Ever Was (August 2015)
Sanctions: A frozen conflict buffeted by a cold wind (June 2015)
Capital Markets Outlook (April 2015)
Deteriorating Labor Demographics (January 2015)

Ukraine:

Ukraine Debt & Economy Review: Dangerous Conflicts (June 2015)

Sectors/Commodities:

Pharmaceuticals: The Long Road To Localization (August 2015)
Oil Market Outlook & Impact on Russia (January 2015)

C.I.S/Eurasia:

Georgia: What To Do When Reality Intrudes? (June 2015)
Armenia: Country Profile & Macro Update (May 2015)
Kazakhstan: Country Profile & Macro Update (March 2015)
Turkmenistan: Macro Update (March 2015)
Azerbaijan: Country Profile & Macro Update (February 2015)
Uzbekistan and Mongolia in September 2015

Eurasian Economic Union: Eurasian Economic Union: Planting Acorns (May 2015)

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