

Russia Business Update

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- ❑ **“What?” is more important than “Who?”.** Putin set out his strategy for his fourth term in office before he appointed his Prime Minister – he then chose a team that will implement the strategy
- ❑ **Expected departures.** The departure of Dvorkovich, Shuvalov and Rogozin were not unexpected. It remains to be seen if they are appointed to other posts in the Administration or Government
- ❑ **Dependable Deputies.** The Deputy PMs are likely Putin’s choice – they are all people he has known for a long time and have a track record of delivering big projects
- ❑ **Ministers.** Shows the outcome of various different influence groups – tilt towards youth.
- ❑ **Kudrin’s position is unclear.** Kudrin will be Head of Audit Chamber. In this role he can complain a lot and bring to the attention of the President waste and theft.

- ❑ **Ambitious targets for the new government.** Shortly after his inauguration, President Putin signed a decree establishing national development targets up to 2024. By signing a major decree immediately after taking office, Putin continued the tradition of eleven decrees of 7 May, 2012, which identified the main tasks of the country's socio-economic development for the years to come. The President has given the government until 1 October to come up with specific proposals for implementing the decrees
- ❑ **Aims to be a top-five economy.** The document sets several goals to achieve by 2024, with the aim of Russia's economy being the world's fifth-largest by the end of Putin's term. According to the World Bank, in terms of GDP calculated on a PPP basis, Russia has the potential to be a top-six global economy. These tasks can be subdivided by the two main categories of national projects and the digital economy
- ❑ **US\$126 bln over 6 years.** Putin said that the implementation of his May Decree would require an additional RUB8 trillion (US\$126 bln). Partly this will be funded by cutting back on defence sector spending, while supplemented by the National Fund (which is expected to double in size this year because of higher oil prices)
- ❑ **PPP schemes will be emphasised.** The government also wants to create more PPP schemes to attract foreign investors alongside state enterprise and direct state funding

National Projects 2018-24 (RUB bln)

Focus	Incremental allocation	Total Cost
Health	1,330	
Education	390	870
Demography		3,550
Housing		
International cooperation and export		
Labor productivity		67
SME development		
Roads	1,240	8,420
Ecology	90	120
Digital	1,010	1,310
Science		
Infrastructure		
Culture		

Source: Kommersant

Deputy Prime Ministers	Ministers
Anton Siluanov (1st Deputy) Finance	Maksim Oreshkin Economic Development
Tatiana Golikova Social Policy and Health	Veronika Skvortsova Health Maksim Topilin Labor
Yuri Trutnev Far East	Aleksandr Kozlov Far East Economic Development
Olga Golodets Culture and Sport	Pavel Kolobkov Sport Vladimir Medinskii Culture Mikhail Kotlyukov Science and Higher Education Olga Vasilieva Education
Yuri Borisov Military-Industrial	Denis Manturov Industry and Trade
Alexei Gordeyev Agriculture	Dmitrii Patrushev Agriculture Dmitrii Kobylkin Natural Resources
Dmitrii Kozak Energy	Aleksander Novak Energy
Vitalii Mutko Construction and Regions	Vladimir Yakushev Construction and Housing Sergei Chebotaryov North Caucasus
Maksim Akimov Digital Government, Communications and Transport	Yevgenii Ditrikh Transport Konstantin Noskov Communications and Digital

Cabinet Ministers: Sticking With The Core Team

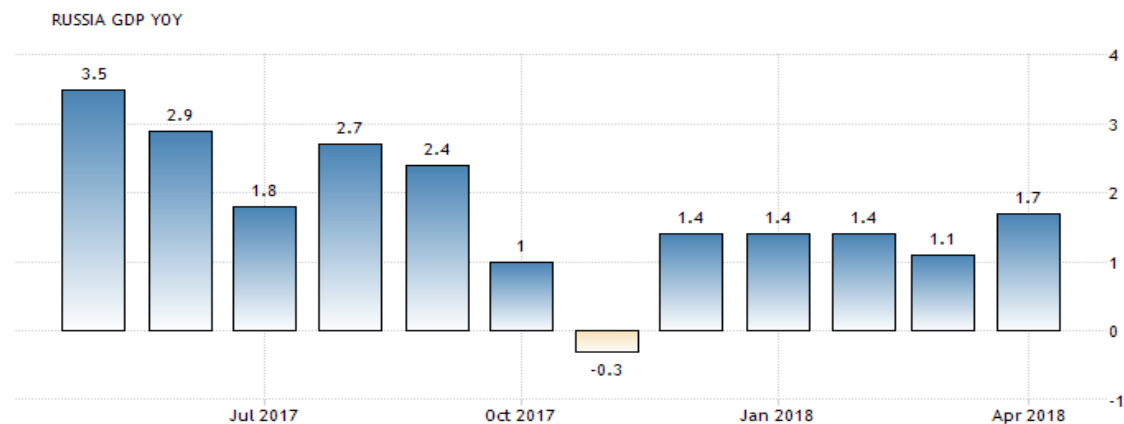
Position	Previous	New
Open Government	Mikhail Abyzov	none
Far East Development	Alexandr Galushka	Alexandr Kozlov
Energy	Alexandr Novak	Alexandr Novak
Economic Development	Maxim Oreshkin	Maxim Oreshkin
Finance	Anton Siluanov	Anton Siluanov
Justice	Alexander Konovalov	Alexander Konovalov
Education	Olga Vasilieva	none
Knowledge (schools)	none	Olga Vasilieva
Higher education and science	none	Mikhail Kotyukov
Natural Resources	Sergei Donskoi	Dmitrii Kobylkin
Sport	Pavel Kolobkov	Pavel Kolobkov
Health	Veronika Skvortsova	Veronika Skvortsova
Transport	Maxim Sokolov	Yevgenii Ditrikh
Housing	Mikhail Men'	Vladimir Yakushev
Communications	Nikolai Nikiforov	Konstantin Noskov
Agriculture	Alexandr Tkachov	Dmitrii Patrushev
Labour	Maxim Topilin	Maxim Topilin
Culture	Vladimir Medinskii	Vladimir Medinskii
North Caucasus	Lev Kuznetsov	Sergei Chebotaryov
Trade & Industry	Denis Manturov	Denis Manturov

Source: Macro-Advisory Ltd.

- ❑ **Consensus is slipping.** According to the latest Interfax survey, the average expectation for 2018 amongst economists is:
 - GDP % YoY Change: +1.5%, down from +1.7% in the March survey
 - Industrial Production: +1.7%, down from +2.0%
 - Fixed Investment: +3.0%, down from +3.6%
 - Inflation, E.O.P.: +4.0%

- ❑ **Economy Ministry is more hopeful.** The Economy Ministry cut its expectation for Industrial Production growth in 2018 to 1.7%, from a previous forecast of 2.5% growth, but is more hopeful about overall growth and retains an optimistic +2.1% growth forecast for GDP this year. This basically assumes that GDP growth will accelerate in 3Q18 and/or 4Q18 to at least 4.0%

GDP Leading Index % YoY



SOURCE: TRADINGECONOMICS.COM | MINISTRY OF ECONOMIC DEVELOPMENT

Source: Ministry of Economic Development

- ❑ **Strong start was not maintained.** The Economy Ministry issued a preliminary reading of GDP for the first three months. It showed GDP growth of 1.4% YoY in January, 1.3% YoY for February and only 0.7% YoY in March. The 1Q18 preliminary estimate is for 1.1% YoY. Last year saw a strong pick up in 2Q17 growth but this year is likely to be more subdued
- ❑ **Sluggish consumer is a concern.** One area of concern is the slow pick up in retail sales. It was expected to be much stronger given the jump in real wages and in real disposable incomes. If retail volumes do not pick up in 2Q18, then government growth estimates will decline

Russia Macro Data: March 2018, % change YoY

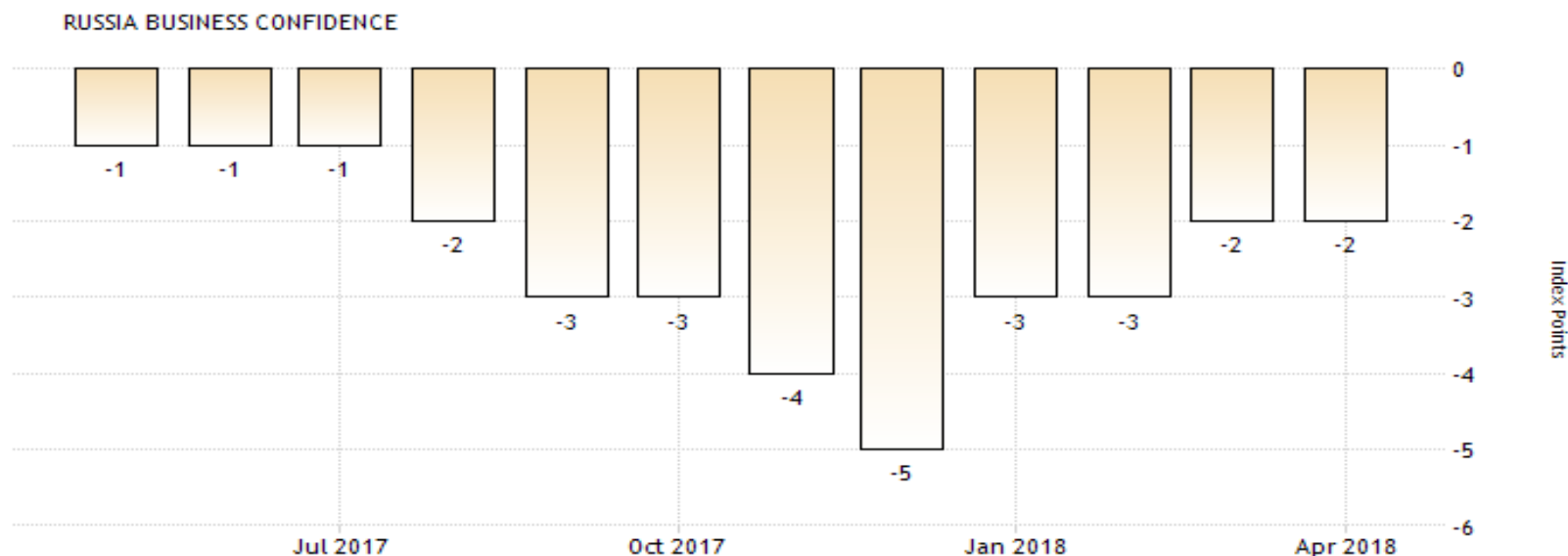
	March Data	February Data	YTD 2018	2017	2016	2015
Real GDP growth, % chg (est) YoY	0.7%	1.5%	1.1%	1.5%	-0.2%	-3.7%
Budget surplus/deficit, % of GDP (annualized)	0.5%	0.3%	1.5%	1.4%	-3.5%	-2.6%
Industrial production, % chg YoY	1.0%	1.5%	1.9%	1.0%	1.1%	-3.4%
Agriculture, % chg YoY	2.7%	2.6%	2.6%	2.4%	4.8%	3.5%
Construction output, % chg YoY	-9.7%	-0.2%	-4.0%	-1.4%	-4.3%	-7.0%
Inflation CPI, % chg YoY	2.4%	2.2%	2.4%	3.7%	7.1%	15.5%
PPI, % chg YoY	4.8%	5.7%	5.2%	7.6%	7.4%	12.4%
Central Bank key rate, %	7.25%	7.25%	7.25%	8.50%	10.0%	13.1%
RUB-USD (end-period) *	57.221p.	56.41p.	57.22p.	57.22	60.91	73.22
<i>RUB-USD average</i>	57.11p.	56.86p.	56.89p.	58.43	67.03	61.50
RUB-EUR (end-period) *	70.470p.	68.77p.	70.47p.	70.47	64.53	78.85
<i>RUB-EUR average</i>	70.41p.	70.25p.	69.92p.	66.05	73.75	67.98
Retail sales, % chg YoY	2.0%	1.8%	2.2%	1.2%	-5.2%	-10.0%
Vehicle sales, % chg YoY	13.9%	24.7%	21.7%	11.9%	-11.0%	-36.0%
Real wages, % chg YoY	6.5%	9.7%	9.5%	3.4%	0.7%	-9.5%
Average monthly wages (RUB)	46,150 p.	39,800 p.	40,495 p.	39,085 p.	36,703 p.	33,925 p.
Real disposable income, % chg YoY	4.1%	4.4%	3.0%	-1.7%	-5.9%	-4.0%
Unemployment, % of active population	5.0%	5.0%	5.0%	5.2%	5.3%	5.6%

Source: Federal Statistics Service, RBC, Bloomberg, AEB

* as at 31 March

- Business Confidence.** Despite the controversy created by the early April sanctions and the resulting uncertainty, the April reading remained unchanged from March. Businesses seem more inclined to wait for government changes and plans for the economy than to react to current events

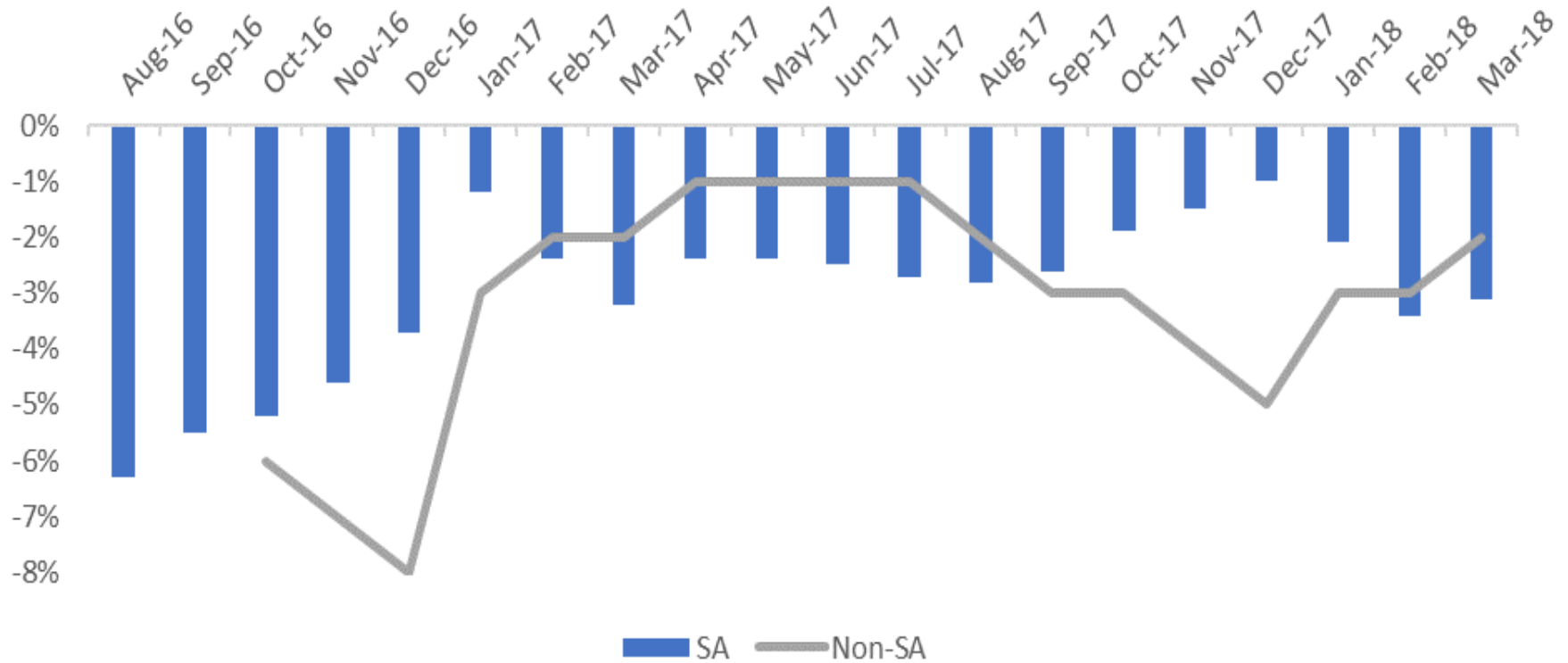
Business Confidence stayed flat in April, despite sanctions



SOURCE: TRADINGECONOMICS.COM | FEDERAL STATE STATISTICS SERVICE

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

Russian Business Confidence, Seasonally Adjusted and Non-seasonally adjusted



Source: Rosstat

Markit Russia PMI Manufacturing - Slight uptick in April



Source: Markit

- ❑ **Ruble settles.** The ruble has settled into the 61-63 range against the dollar. High oil prices provide support against sanctions uncertainty. This is a comfortable range for the government

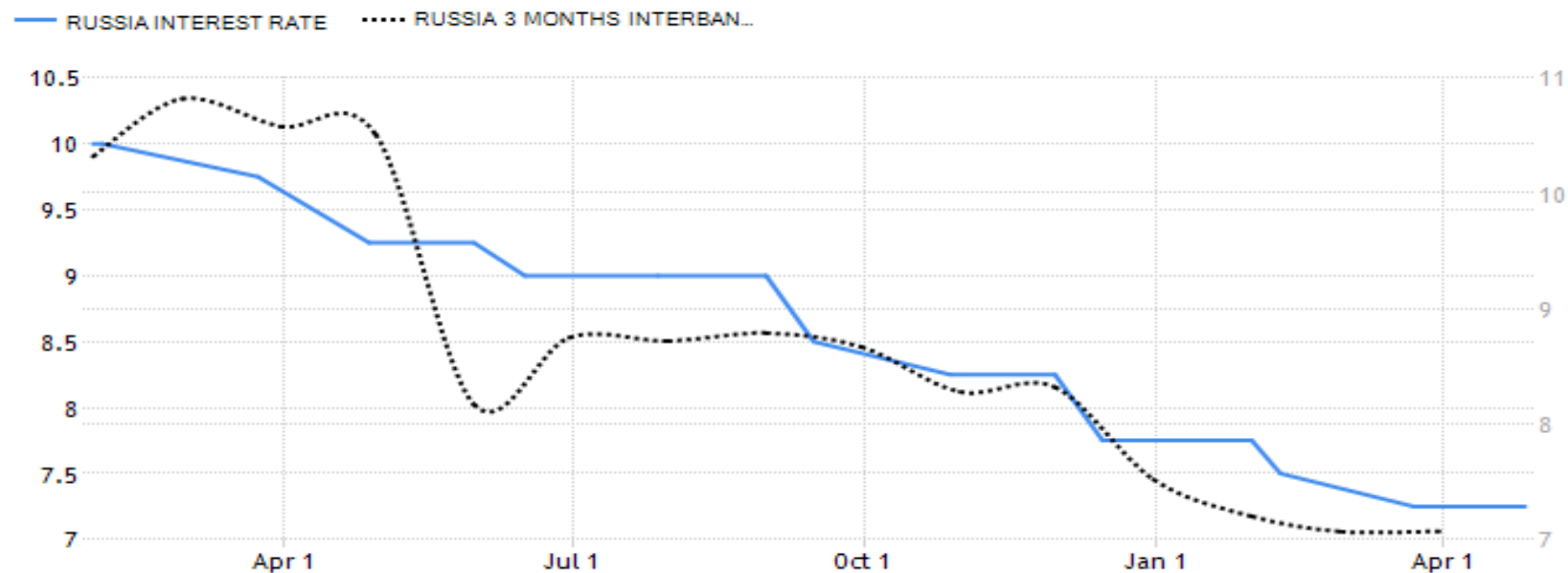
Ruble Has Collapsed Equally Against the Dollar (LHS) and Euro (LHS)



Source: TradingEconomics

- **Rates.** The Central Bank had been expected to cut the key rate by another 25 bps in April but was forced to delay in order to be better able to assess the impact of sanctions and the weak ruble. Very likely it may wait until the September meeting before resuming

Russia Key Rate (LHS) and Interbank Rate (RHS)

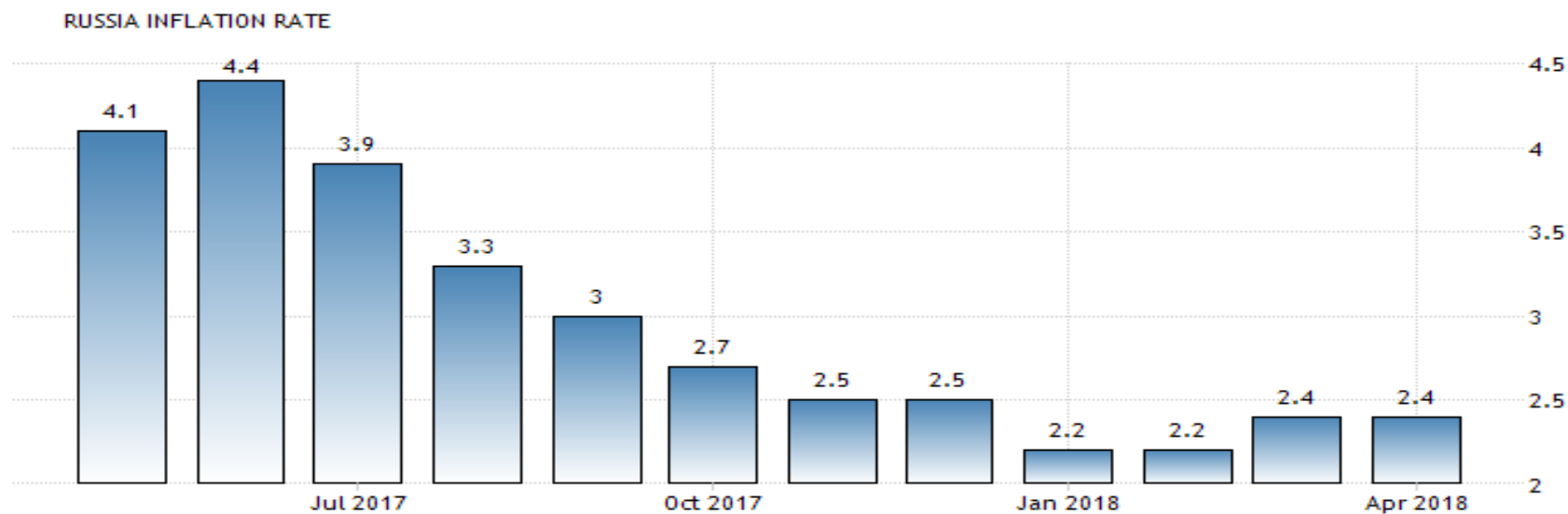


SOURCE: TRADINGECONOMICS.COM

Source: Tradingeconomics.com, Central Bank of Russia

- Inflation.** The headline rate picked up only slightly in March and remained stable to end April at 2.4%. It is expected that inflation will start to pick up in the summer months and autumn as it loses the weak base effect and the impact of the weak ruble kicks in

Headline Inflation Rate, YoY % Change



SOURCE: TRADINGECONOMICS.COM | FEDERAL STATE STATISTICS SERVICE

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

- **Reflecting the changes.** The changes explained in the previous slide are reflected in the revised table below

Russia: Macro Trends & Medium Term Forecasts - Base Case Scenario

	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
GDP, RUB bln, nominal	66,865	70,499	77,200	84,320	90,222	95,004	99,469	104,542	109,979
GDP, US\$ bln	2,150	2,210	2,000	1,360	1,347	1,635	1,631	1,686	1,833
Growth, real % YoY	3.4%	1.3%	0.7%	-2.8%	-0.2%	1.5%	1.6%	1.8%	2.0%
CPI - year-end, % YoY	6.6%	6.5%	11.4%	12.9%	5.4%	2.5%	3.8%	3.4%	3.0%
CPI- average, % YoY	5.1%	6.8%	7.8%	15.6%	7.2%	3.8%	3.1%	3.3%	3.2%
Gross fixed investment, real % YoY	6.0%	0.9%	-1.0%	-11.0%	0.8%	3.5%	3.0%	3.6%	4.0%
Industrial production, real % YoY	3.4%	0.4%	1.7%	-3.2%	1.1%	1.0%	1.5%	2.5%	3.0%
Agricultural output, % change YoY	-3.6%	3.1%	1.2%	3.5%	4.8%	2.4%	3.0%	3.5%	3.5%
Central Bank Key Rate, %			17.0%	11.0%	10.0%	7.75%	6.75%	5.75%	5.25%
Bank average lending rate, %	9.1%	9.5%	11.3%	16.0%	13.0%	10.5%	8.8%	8.0%	7.5%
Retail sales, % YoY	5.9%	3.9%	2.5%	-10.0%	-5.2%	1.2%	2.5%	3.5%	4.0%
Real disposable income, % YoY	7.3%	4.8%	-1.0%	-6.5%	-5.9%	-1.7%	1.0%	2.5%	2.5%
Unemployment, % EOP	5.7%	5.6%	5.3%	5.6%	5.4%	5.2%	5.1%	5.1%	5.0%
Budget, balance % of GDP	0.0%	-0.5%	-0.5%	-2.4%	-3.4%	-1.4%	1.0%	1.3%	1.8%
Current account, % GDP	3.7%	1.6%	3.0%	5.3%	1.9%	2.4%	3.4%	3.6%	3.5%
RUB/US\$, year-end	30.8	32.9	61.4	73.5	61.3	57.7	62.0	63.0	59.0
RUB/US\$, average	31.1	31.9	38.6	62.0	67.0	58.1	61.0	62.0	60.0
RUB/EUR, year-end	40.3	45.3	72.0	79.7	64.5	69.7	75.0	76.0	71.0
RUB/EUR, average	40.0	42.3	51.5	67.0	74.0	68.0	74.0	75.0	72.0
Brent, US\$ p/bbl, average	\$110	\$108	\$100	\$54	\$45	\$55	\$68	\$75	\$85

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

- ❑ **Duma sanctions debate.** It is expected that the first reading of the proposed counter-sanctions bill is scheduled for May 15th or shortly afterwards. Expect an escalation in anti-US/UK commentary for a few weeks
- ❑ **SPIEF.** This year's SPIEF will take place May 24th to 26th. The highest profile guest is expected to be President Macron of France. US Ambassador Huntsman will also attend
- ❑ **G7 Summit.** This year's G7 Leaders Summit will take place in Quebec on June 8th & 9th. Expect lots of Russia criticism
- ❑ **June 12th.** National holiday in Russia marking National Unity Day
- ❑ **World Cup.** The World Cup kicks off June 14th and the Final will be on July 15th. Expect the same sort of media coverage as was seen in the lead up to and during the Sochi Olympics, only worse
- ❑ **Central Bank meeting.** The next policy meeting will take place on June 15th. Very likely the CBR will again delay any rate cut and cite uncertainty over inflation and sanctions as the reason
- ❑ **Russia-OPEC meeting.** The two sides are expected to meet in June 22nd to discuss a deal extension

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