

Russia: Economic & Market Outlook



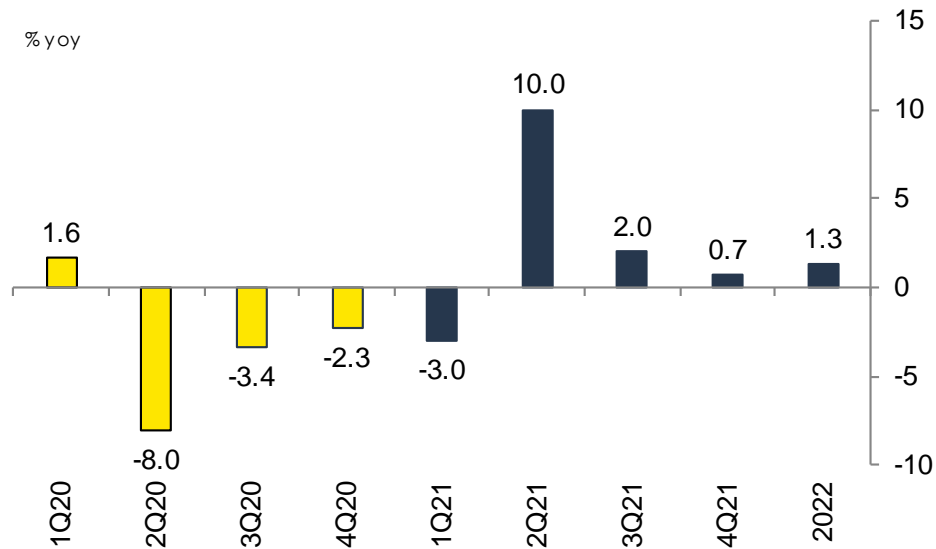
February 2021

Confidential

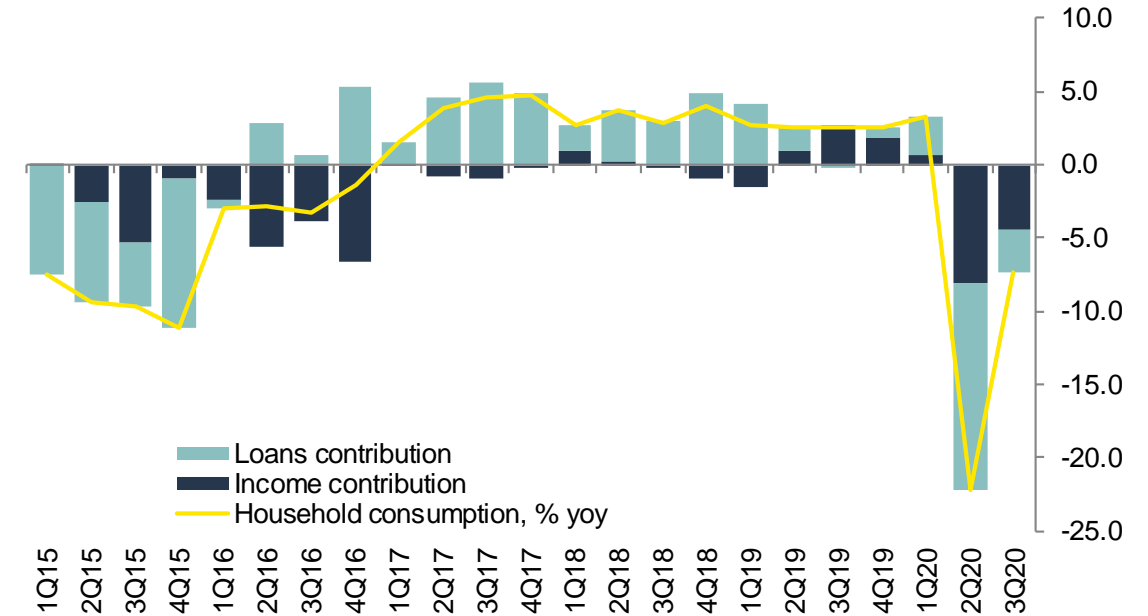
ECONOMIC OUTLOOK

2021: recovery growth after coronavirus crisis

Mild shock in 2020, modest recovery in 2021



Consumer demand is recovering after Covid-19



- Economic results of 2020 look more optimistic than anticipated before even despite a “second wave”. GDP declined by only 3.1% yoy.
- In 2021, the Russian economy will be recovering (GDP +2.3% yoy). The main factors behind this are:
 - the fiscal spending as the federal budget will remain in deficit in 2021-2022,
 - an expected global economic recovery, strengthening in the second half of 2021
 - larger investments by state-owned companies, and
 - the revival of consumer demand.
- The restraining factors are: 1) imports recovery; 2) low oil production and exports growth due to slow OPEC++ agreement easing.

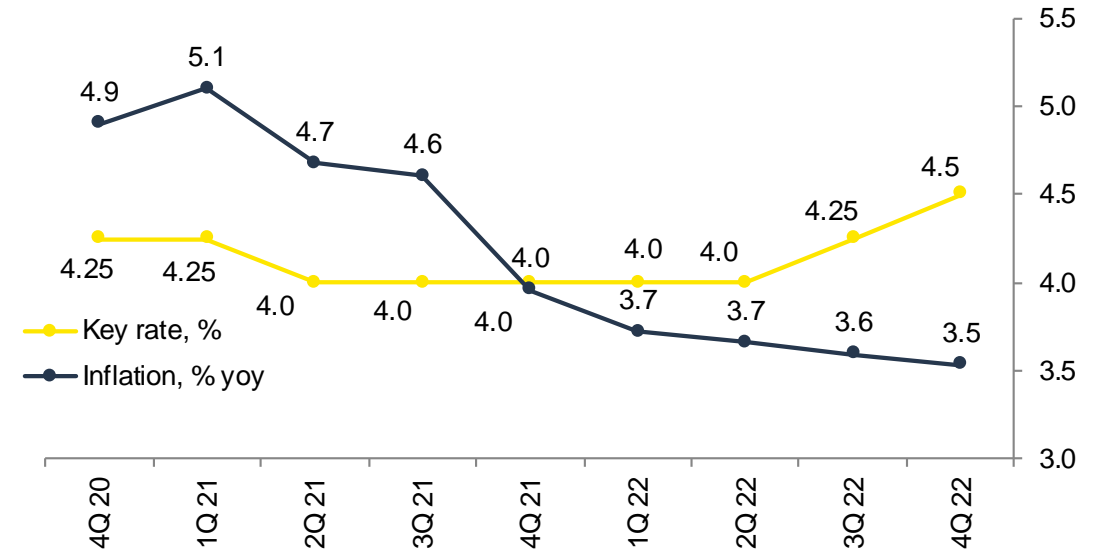


FISCAL AND MONETARY POLICY

The fiscal and monetary policy will remain stimulative in 2021

Federal budget (Minfin plan), RUB tn	2021	2022
Urals, USD/bbl	45.3	46.6
USDRUB	72.4	73.1
Real GDP growth, % yoy	3.3	3.4
INCOME	18.8	20.6
O&G revenue	6.0	6.9
Non O&G revenue	12.8	13.8
EXPENDITURE	21.5	21.9
Balance	-2.8	-1.2

Key rate development



- Federal budget deficit will persist in 2021-2022. In 2021, expenditure will be higher than it is implied by the budget rule. The stimulative fiscal policy is one of the key economic growth factors (especially for investment). In 2021, the Government will execute the main part of the National plan for economic recovery and continue with national projects.
- Similar to 2020, OFZ placements will be the key source of the fiscal deficit financing (RUB 2.9 tn in 2021, RUB 2.1 tn in 2022). NWF utilization will be low (RUB 91 bn in 2021). The NWF will not be replenished in 2021-2022 due to temporary changes in the fiscal rule, the replenishment will restart in 2023. There will not be any investment made from the NWF's liquid part as the latter is not expected to exceed a 7%-GDP threshold.
- In late 2020, the CBR's rhetoric turned hawkish, apparently, due to the rising concerns of the Government regarding the food price hike. However, we do not believe that the CBR has given up on a rate cut in the future and can revert to easing in Q2 2021.
- In Q1 2021 CPI will remain at an elevated level due to the low base effect and as the impact of the food price growth of late 2020 will still be material. On our estimate, CPI will return to the regulator's target by the end of 2021.

Source: Rosstat, CBR, MinFin, Raiffeisenbank's estimates

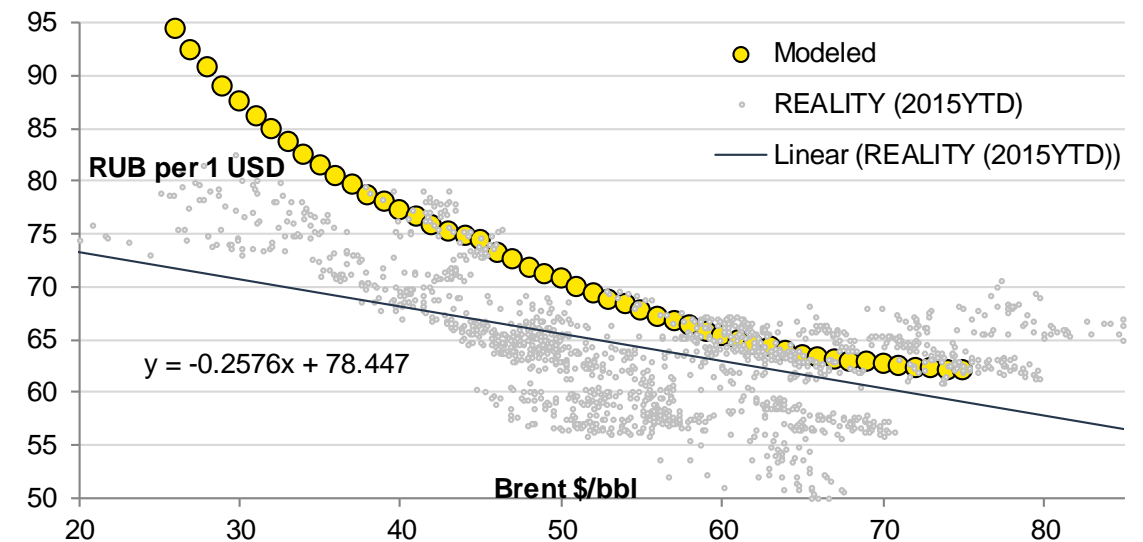
FX MARKET

RUB between sanctions risk and positive seasonality

CA and RUB fundamental interrelations

Brent, USD per bbl	USDRUB	12M Current Account, USD bn
20	110	-47
30	88	-21
40	77	7
50	71	37

The equilibrium* USDRUB rate curve



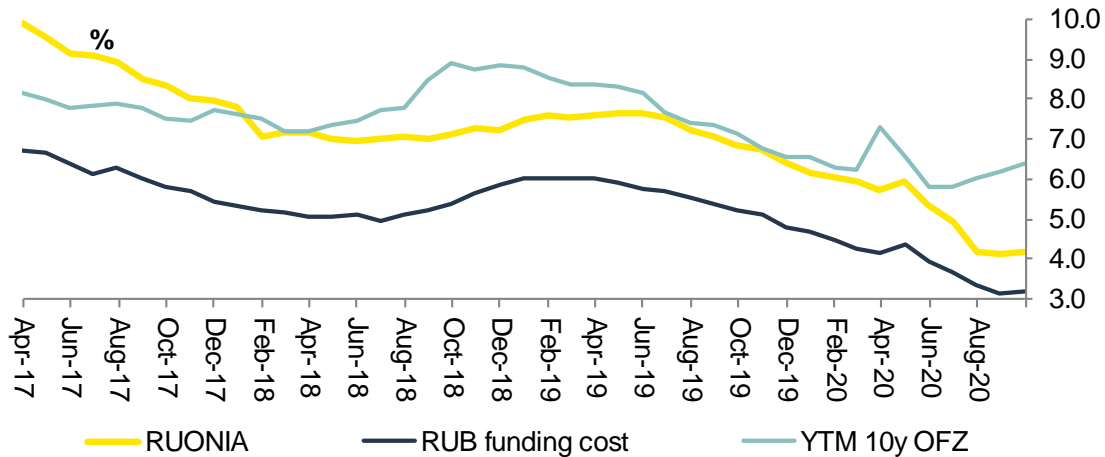
- On our estimate, if the oil price remains at USD ~55 per bbl for the next 12M, the equilibrium USDRUB rate is 68. The current USDRUB implies a significant premium (10-15%) for the risk of new tough sanctions against Russia. If harsh sanctions (such as a ban on owning new Russian debt) are introduced, it may result in a weaker RUB (by 10-15 RUB from its equilibrium level).
- Other things being equal, Q1 is characterized by a seasonally stronger RUB (higher current account surplus due to weak imports). The appreciation may not materialise now due to: 1) FX liquidity shortage in the banking sector; 2) large capital outflow by the private sector; 3) expectation of new sanctions.

* Equilibrium rate is a BoP model outcome on the assumption that the oil price remains on the respective levels during the next 12M without extraordinary interventions by the regulator

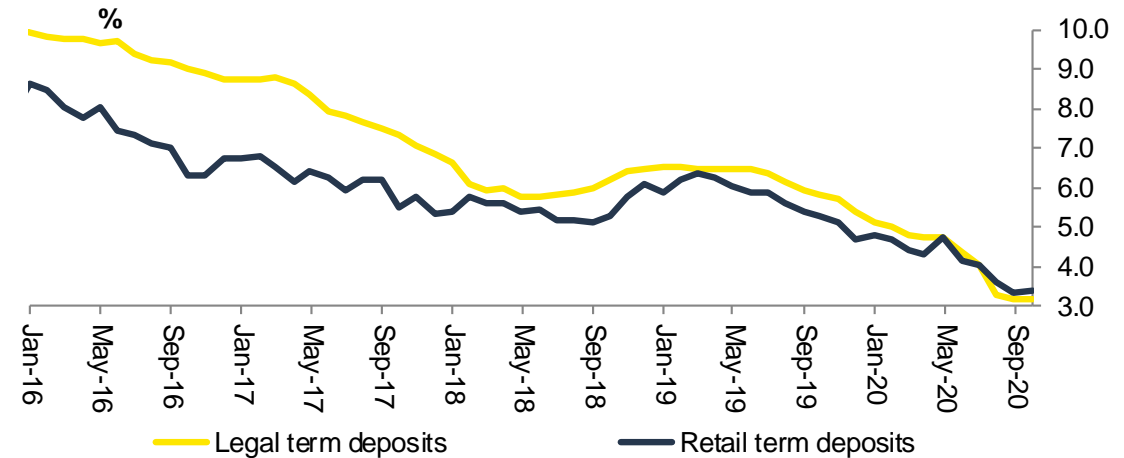
BANKING SECTOR

Credit risk in the banking system remains elevated

RUB funding cost dynamics



Deposit rate dynamics



- Non-resident inflow into OFZs has declined to near-zero levels (vs. + USD19 bn in 2019) due to low yields and weaker macro indicators, which imply significant FX risk. Local banks were the key buyers of OFZs, which MinFin placed in huge amounts in 2020.
- Temporary regulatory easing introduced in 2020 in response to Covid-19 (allowing banks not to reveal bad loans and build provisions) is likely to be extended as there is not much capital surplus in the banking system (to absorb all NPLs). If the easing is cancelled (any time next year) we expect the risk cost to jump, resulting in higher interest rates on loans.
- Despite the federal budget deficit, no RUB liquidity inflow has yet been seen in the banking sector. On the contrary, some banks started to borrow relatively expensive funds from the CBR (due to too large outflow to OFZs and to cash).
- Funding cost does not have much room for further decline (<3% in RUB on average across the segment) as the easing cycle in Russia is close to an end. RUB deposits stopped growing unlike to FX deposits.



MACROECONOMIC FORECASTS

	2020	2021F	2022F
Brent, USD per bbl (avg)	42.4	56.3	58.0
USD/RUB (eop)	74.0	72.2	75.5
USD/RUB (avg)	72.3	71.8	72.5
EUR/RUB (eop)	90.5	88.8	93.6
EUR/RUB (avg)	82.7	87.6	89.5
EUR/USD (eop)	1.22	1.23	1.24
EUR/USD (avg)	1.14	1.22	1.23
RUB key rate, % (eop)	4.25	4.00	4.50
CPI, % yoy (eop)	4.9	4.0	3.5
Real GDP growth, % yoy	-3.1	2.3	1.3
Households consumption	-8.6	1.5	1.5
Investments	-6.2	2.5	2.5
Exports	-5.1	0.0	0.0
Imports	-13.7	1.5	1.5
Industrial production, % yoy	-2.9	2.0	3.0

Source: Rosstat, MinFin, CBR, Raiffeisenbank



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