

Main Economic & Financial Indicators Russian Federation

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NAOKO ISHIHARA
ECONOMIST
ECONOMIC RESEARCH OFFICE (LONDON)
T +44-(0)20-7577-2179
E naoko.ishihara@uk.mufg.jp

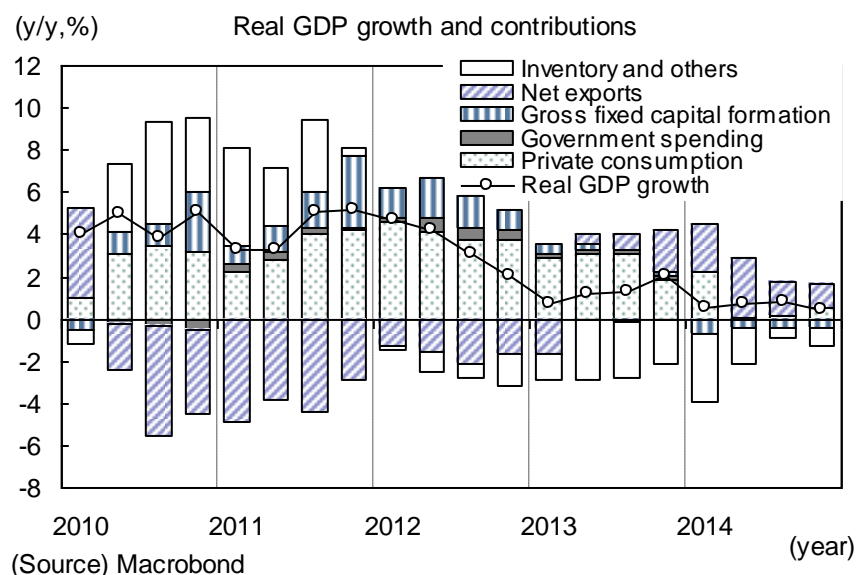
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Overview

The environment surrounding the Russian economy remains challenging. Real GDP growth for 2014 was 0.6% y/y. Due to weaker private consumption and shrinking fixed capital formation and exports, the overall economic growth rate has decreased by roughly half, recording the lowest growth rate since the recession in 2009. Looking at more recent data, the inflation rate in March was up to 16.9% y/y, registering the highest level in nearly 13 years due to higher import prices on the back of the weaker rouble. The fact that higher inflation has eroded purchasing power has become clear in the consumer sector; since the start of the year, the pace of the contraction in retail sales has accelerated substantially. Fixed capital formation also continues the downward trend on the back of ongoing funding difficulties, the deteriorating balance sheets of corporations and high economic uncertainty. In the latest monetary policy report, the Central Bank of Russia (CBR) forecasted that in the first half of 2015 final consumption is set to decrease by 2-2.5% annually as households will cut back on spending due to decreases in real wages and deteriorating consumer sentiment coupled with households' high propensity to save in the face of worsening economic prospects. Fixed capital formation is expected to shrink by 6-7% y/y during the same period as the energy sector is going to reduce or postpone investment programmes. Thus, the CBR forecasted that real GDP is set to fall by around 2% annually in the first half of 2015.

GDP

Real GDP growth for Q4 was 0.4% over the year, down from the previous quarter's 0.9% y/y. While private consumption jumped suddenly in December, pushing up overall growth, this was due to the fact that Russian consumers sought to purchase imported goods before the prices of these items were hiked in response to the sharp depreciation of the rouble against major currencies. Thus, this increase is likely to be short-lived. Meanwhile, government spending and fixed capital formation continued to shrink, declining by 0.2% y/y and 1.2% y/y respectively. The contraction in exports has widened from the previous quarter to 2.3% y/y. However, the faster decline in imports (-7.8%y/y) allowed the net exports contribution to growth to remain positive. Looking ahead, domestic demand is likely to remain subdued due to the prolonged period of higher inflation, the difficult funding environment and Russia's ever more uncertain economic prospects.

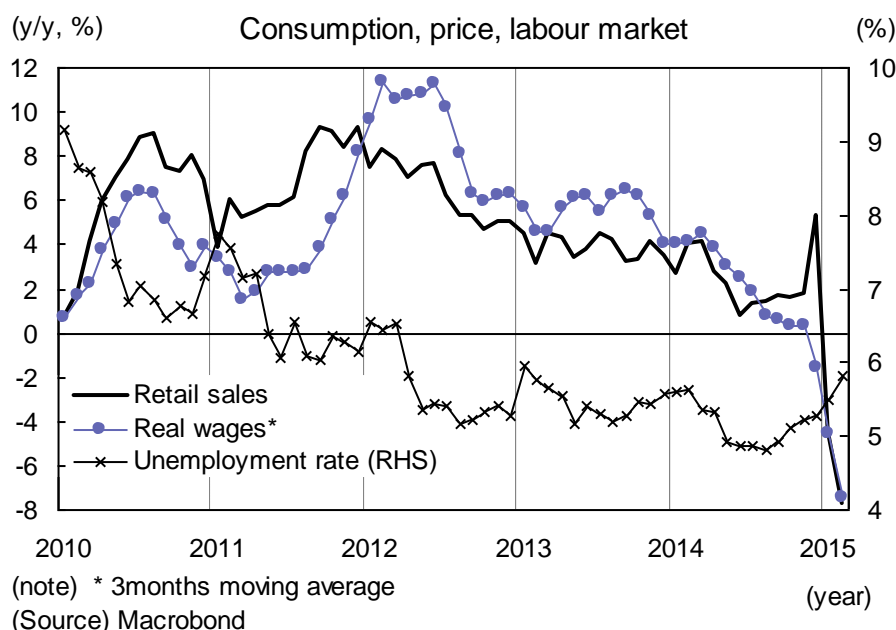


Output

Industrial production fell by 0.6 y/y in March; the pace of the contraction decelerated somewhat as output in the utility sector turned positive. Meanwhile, activities in the manufacturing sector have contracted by 1.9% y/y, and output has continued to fall since the start of the year. While the sector had benefited from the recent demand shift to domestic products owing to the sharp depreciation of the rouble, the impacts of the fall of overall demand have become more prominent lately. The manufacturing Purchasing Managers' Index (PMI) has been in contraction territory since last December, and the latest reading in March fell even further to 48.1. The PMI reading for export new orders registered at a disappointing 43.8. In addition, weakening domestic demand seems to have added further downward pressure.

Consumption

The pace of retail sales contraction accelerated further in March. Retail sales fell by 8.7% y/y from the previous month's -7.2% y/y. Although we saw a jump in private consumption in December, this was because consumers had rushed to purchase imported goods before the imminent price hikes due to the sharp depreciation of the rouble. Hence, this rise was unsustainable. Since the beginning of the year, retail sales have started to shrink substantially. The latest consumer confidence indicators deteriorated to the level (-32) last seen during the recession of 2009, reflecting falling purchasing power and rising unemployment. The PMI for the service sector, which is heavily affected by consumer behaviour, has remained in contraction territory for the last 6 months.



Prices, Monetary Policy

Consumer price inflation reached 16.9% y/y in March, up further from the previous month's 16.7% y/y, recording the highest level in nearly 13 years. Higher imported goods prices due to the weaker rouble have created additional upward pressure on overall prices, which had already been affected by the upward pressure of higher food prices due to the food import embargo. Upward inflationary pressure has been on the rise since last December.

Despite high inflation, the CBR cut the policy rate (one week repo rate) by 1% point in March to 14%. This is the second rate cut since the beginning of the year, totalling 3% points. Last year, the CBR had raised the policy rate by a total of 11.5% in order to cope with the falling rouble and rising inflation. However, since the beginning of this year, the downward pressure on the rouble has subsided somewhat, partly due to the recovering oil prices and the informal capital controls imposed on state-owned exporters that limit the level of foreign exchange assets. Furthermore, the deteriorating economic situation has made the CBR shift its monetary policy stance to a less restrictive one.

Balance of payments

The current account for 2014 was US\$59.5bn in surplus, up from the previous year's US\$34.8bn as the surplus in the trade balance increased and the deficit in the income balance was reduced. While exports declined by 4.9% over the year due to the sharp falls in oil prices, imports contracted even more severely by 9.8% year on year, which allowed the trade balance to increase. Moreover, tighter sanctions imposed by the West on Russia since the third quarter of last year have limited the access of Russian companies and financial institutions to the international financial markets, reducing Russia's overall external borrowing. Thus, the deficit

in the income balance – which consists of dividends, interest and rents – has narrowed markedly from US\$79.6bn to US\$67.3bn in 2014.

Meanwhile, net capital outflow from the private sector (after the adjustment of the amount of foreign currency liquidity provided by the CBR to the credit institutions) reached US\$133.1bn in 2014.

Main Economic & Financial Indicators: Russian Federation

1. Annual & Quarterly data

	2012	2013	2014	14/Q1	14/Q2	14/Q3	14/Q4	15/Q1
GDP (at current prices) (US\$ bn)	2,001.1	2,077.5	1,849.5	441.4	494.6	515.7	415.4	-
Real GDP growth (q/q, %)				-0.2	0.2	0.0	0.0	-
(y/y, %)	3.5	1.3	0.6	0.6	0.7	0.9	0.4	-
(Private consumption) (q/q, %)				1.0	-1.7	1.9	-0.3	-
(y/y, %)	7.9	5.1	1.3	4.0	0.2	0.2	1.0	-
(Gross fixed capital formation) (q/q, %)				-1.0	-0.3	-0.4	-0.6	-
(y/y, %)	6.7	0.9	-2.0	-4.5	-1.9	-1.7	-1.2	-
Industrial production (real) (y/y, %)	3.4	0.4	1.6	1.1	1.9	1.4	2.1	-0.4
Retail sales (real) (y/y, %)	6.5	3.9	2.6	3.9	2.2	1.7	2.9	-6.6
Bank credits to the private sector (y/y, %)	19.6	17.2	22.8	17.4	15.3	15.3	22.8	-
Consumer price index (y/y, %)	5.1	6.8	7.8	6.4	7.6	7.7	9.6	16.2
Average monthly wage growth (nominal) (y/y, %)	13.3	12.3	8.3	9.9	9.0	7.2	7.1	-
Unemployment rate (%)	5.7	5.5	5.2	5.5	5.0	4.9	5.2	-
Trade balance (US\$ mln)	191,663	181,938	189,737	50,508	51,693	45,267	42,269	40,300
Exports (US\$ mln)	527,434	523,276	497,762	123,012	132,323	125,746	116,681	86,600
Export growth (y/y, %)	2.3	-0.8	-4.9	-1.7	4.0	-4.0	-16.5	-29.6
Imports (US\$ mln)	335,772	341,337	308,026	72,504	80,630	80,480	74,412	46,200
Import growth (y/y, %)	5.4	1.7	-9.8	-5.3	-4.5	-7.8	-20.0	-36.3
Current account (US\$ mln)	71,283	34,801	59,462	25,857	12,197	6,019	15,389	23,542
Capital and financial balances (US\$ mln)	20,459	45,819	91,754	46,973	27,688	-4,005	21,098	27,900
Foreign direct investment (US\$ mln)	50,588	69,219	20,958	12,865	12,131	-608	-3,430	-
Foreign reserves (US\$ mln)	486,577	469,603	339,370	442,773	431,956	409,223	339,370	309,093
External debt (US\$ bn)	636,420	728,864	597,254	715,892	732,777	680,857	597,254	559,359
Stock price index (MICEX)	1,453	1,441	1,430	1,426	1,404	1,432	1,456	1,656
Short-term int. rates (Interbank 3m)	7.34	7.32	10.02	7.7	9.3	9.7	13.3	20.1
Rouble/USD	31.07	31.86	38.61	35.0	35.0	36.3	48.0	62.9
Rouble/Euro	39.92	42.32	51.04	48.3	47.9	45.9	58.1	67.6
Rouble/GBP	49.24	49.87	63.42	58.4	59.8	58.8	74.8	93.4
Brent crude price (US\$/Barrel)	111.8	108.7	99.5	108.1	109.7	103.8	76.8	55.2

2. Monthly data

	14/08	9	10	11	12	15/01	2	3
Industrial production (real) (y/y, %)	0.0	2.8	2.9	-0.4	3.9	0.9	-1.6	-0.6
Retail sales (real) (y/y, %)	1.6	1.8	1.7	1.9	5.1	-3.9	-7.2	-8.7
Bank credits to the private sector (y/y, %)	14.5	15.3	16.6	17.9	22.8	25.4	22.2	-
Consumer price index (y/y, %)	7.6	8.0	8.3	9.1	11.4	15.0	16.7	16.9
Average monthly wage growth (nominal) (y/y, %)	5.3	8.8	7.9	7.4	6.3	4.7	4.7	-
Unemployment rate (%)	4.8	4.9	5.1	5.2	5.3	5.5	5.8	-
Trade balance (US\$ mln)	18,076	14,269	16,539	15,317	15,183	17,018	-	-
Exports (US\$ mln)	41,473	38,409	41,506	36,794	37,992	28,210	-	-
Export growth (y/y, %)	-2.3	-15.1	-5.4	-22.4	-23.9	-28.7	-	-
Imports (US\$ mln)	23,397	24,140	24,967	21,477	22,809	11,192	-	-
Import growth (y/y, %)	-10.0	-8.1	-11.1	-21.0	-23.3	-40.9	-	-
Stock price index (MICEX)	1,404	1,442	1,395	1,514	1,467	1,562	1,755	1,660
Short-term int. rates (Interbank 3m)	9.78	9.85	9.96	11.29	18.26	23.75	18.82	17.47
Rouble/USD	36.19	38.05	41.04	46.15	56.50	64.30	64.35	60.18
Rouble/Euro	48.18	49.05	51.94	57.52	70.03	74.92	73.07	65.14
Rouble/GBP	60.42	62.02	65.84	72.99	88.84	97.38	98.71	90.09
Brent crude price (US\$/Barrel)	103.50	99.09	88.63	79.54	62.63	50.07	58.92	56.82

Note: Annual and quarterly trade data is based on Balance of Payment statistics. Q2 trade data is preliminary data
Source: Russian Central Bank, Federal Statistic Office of Russia, Bloomberg etc.

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