

Main Economic & Financial Indicators Russian Federation

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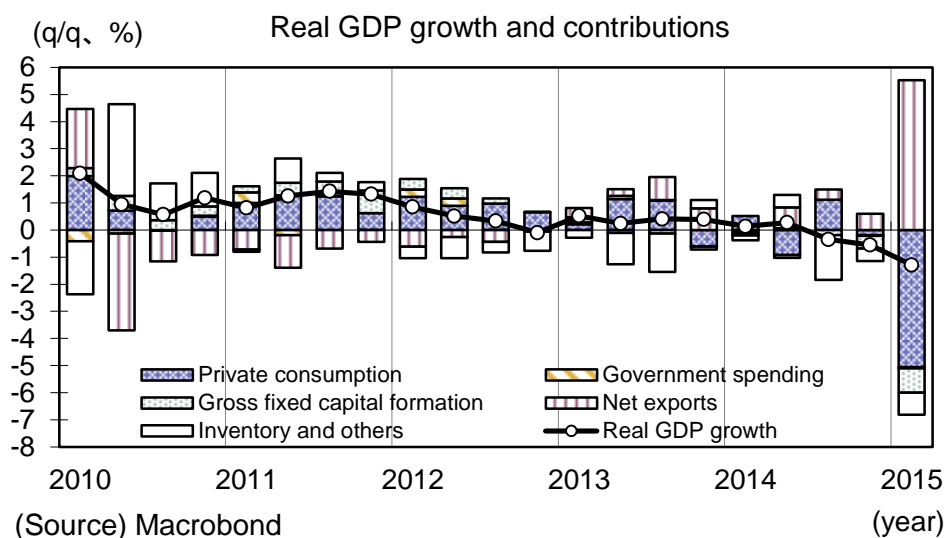
Overview

The Russian economy remains sluggish and any sign of a recovery phase is not yet visible. While the recovery in the rouble exchange rates and the subsequent and marginal easing of inflation have brought about the view that the worst is over for the Russian economy, the environment surrounding the real economy remains challenging due to a substantial fall in investment as well as the extension of economic sanctions by the West. Real GDP growth contracted by 1.3% q/q in Q1 2015, meaning negative growth for the third consecutive quarter. On the annual basis, real GDP fell by 2.2% which was the first annual contraction recorded since Q4 in 2009. Looking at more recent data, the pace of contraction in retail sales has shown some signs of moderation due to a slower decrease of real wages; however, underlying households' appetite for consumption remains weak. In addition, fixed capital formation registered its 18th consecutive decline of 7.1% y/y in June. The decision to extend economic sanctions and subsequent restrictions on foreign financing by Russian companies will continue to put downward pressure on investment.

The Central Bank of Russia (CBR) conducted an additional rate cut in June. A slowdown in the pace of capital outflows along with some recovery in rouble exchange rates and the subsequent inflation easing gave scope for the CBR to make this additional cut to monetary policy rates. The bank forecasts real GDP will contract by 3.2% in 2015 and that the inflation rate will fall below 7% y/y by June 2016. The CBR expects the inflation rate will reach its target of 4% in 2017.

GDP

The pace of real GDP contraction has accelerated further in Q1 2015, contracting by 1.3% q/q. With the revision of the previous GDP data, it has become clear that the quarterly contraction started in Q3 2014. Looking at the GDP components, private consumption registered a steep decline from -0.3% q/q in the previous quarter to -9.0% q/q in Q1, reflecting a substantial decline in households' purchasing power as a result of rising inflation. Fixed capital formation fell by 4.2% q/q, registering negative growth for the 8th consecutive quarter due to a very challenging financing environment. Meanwhile, net exports' contribution to growth recorded a steep increase, reflecting substantial falls in imports (-21.7% y/y) coupled with moderate increases in exports (2.2%y/y).



Output

Industrial production fell by 4.8 y/y in June. Although the pace of contraction slowed somewhat from the previous month, output continued to decrease for the fifth consecutive month. On the back of falling investment, output in investment goods such as machinery has been showing a steeper decline. The manufacturing Purchasing Managers' Index (PMI) has remained in negative territory of below the 50 mark for the 7th consecutive month since last December, and the latest reading in June was 48.7.

Consumption

Retail sales continue to shrink and in June they fell by 9.4% y/y: negative growth for six months in a row. While growth in nominal wages has been restricted due to the caps imposed on public sector wages, rising inflation has made real wages fall for the 8th consecutive month, restricting private consumption. After reaching its peak in March, however, the inflation rate has started to come down gradually, thus helping to slow the pace of real wage contraction. The speed of the decline in retail sales started to reflect this decrease and show some signs of moderation. Nevertheless, the PMI for the service sector, which is heavily affected by consumer behaviour, recorded 49.5 in June, returning to contraction territory after temporarily entering expansionary territory in the previous two months.



Prices, Monetary Policy

Consumer price inflation was 15.3% y/y in June, down from the previous month's 15.8% y/y, as a result of slower increases in food prices, especially fresh food. Inflation has shown a moderate downward slope after reaching its peak of 16.9% y/y in March. On the condition that rouble exchange rates will stay at current levels, the downward trend in inflation is expected to be maintained as inflationary pressure from food items is likely to recede in the coming months.

The CBR cut its policy rate (one week repo rate) by 1% point at June's monetary policy committee to 11.5%. This is the fourth rate cut since the beginning of the year, totalling 5.5% points. The CBR expects that lower consumer demand amid contracting real income along with the rouble appreciation in February and May will maintain weak inflationary pressure. Moreover, as the impact of the sharp rises in food prices due to the imposition of food import bans in response to the tighter economic sanctions by the West last July, will drop off from statistics, the inflation rate will gradually come down in the coming months. That said, the CBR noted that further monetary easing would be limited in the next few months due to the prevailing risk of inflation.

Balance of payments

The current account for Q2 2015 was US\$19.2bn in surplus, up from US\$12.1bn in Q2 last year. While the trade surplus shrank due to falling exports, the larger declines in deficit of services and primary income accounts caused the current account surplus increase.

Net capital outflows from the private sector (after adjustment of the amount of the foreign currency liquidity provided by the CBR to credit institutions) were down to US\$15.3 in Q2 from the previous quarter's US\$23.3bn as external debt payments by the most affected Russian companies passed their peak.

In May, supported by the gradual appreciation of the rouble exchange rates, the CBR decided to conduct foreign currency purchases (namely rouble selling) in the domestic forex market in order to replenish its international reserves. At the end of April, Russia's international reserves (excluding gold) were US\$307.7bn, but by the end of June the reserves had reached US\$313.3bn.

Main Economic & Financial Indicators: Russian Federation

1. Annual & Quarterly data

		2012	2013	2014	14/Q2	14/Q3	14/Q4	15/Q1	15/Q2
GDP (at current prices)	(US\$ bn)	2,001.1	2,077.5	1,849.5	494.6	515.7	415.4	263.4	-
Real GDP growth	(q/q, %)				0.3	-0.3	-0.6	-1.3	-
	(y/y, %)	3.5	1.3	0.6	0.7	0.9	0.4	-2.2	-
(Private consumption)	(q/q, %)				-1.6	2.0	-0.3	-9.0	-
	(y/y, %)	7.9	5.1	1.2	0.2	0.2	0.9	-8.9	-
(Gross fixed capital formation)	(q/q, %)				-0.5	-0.9	-2.2	-4.2	-
	(y/y, %)	6.7	0.9	-2.0	-1.9	-1.7	-1.2	-8.8	-
Industrial production (real)	(y/y, %)	3.4	0.4	1.6	1.9	1.4	2.1	-0.4	-4.9
Retail sales (real)	(y/y, %)	6.5	3.9	2.6	2.2	1.7	2.9	-6.4	-9.4
Bank credits to the private sector	(y/y, %)	19.6	17.2	22.8	15.3	15.3	22.8	18.6	-
Consumer price index	(y/y, %)	5.1	6.8	7.8	7.6	7.7	9.6	16.2	15.8
Average monthly wage growth (nominal)	(y/y, %)	13.3	12.3	8.3	9.0	7.2	7.1	5.1	5.8
Unemployment rate	(%)	5.7	5.5	5.2	5.0	4.9	5.2	5.7	-
Trade balance	(US\$ mln)	191,663	181,939	189,737	51,693	45,267	42,269	44,435	44,100
Exports	(US\$ mln)	527,434	523,275	497,763	132,323	125,746	116,681	89,872	92,700
Export growth	(y/y, %)	2.3	-0.8	-4.9	4.0	-4.0	-16.5	-26.9	-29.9
Imports	(US\$ mln)	335,771	341,337	308,026	80,630	80,480	74,412	45,436	48,500
Import growth	(y/y, %)	5.4	1.7	-9.8	-4.5	-7.8	-20.0	-37.3	-39.8
Current account	(US\$ mln)	71,282	34,801	58,432	12,142	6,172	14,333	28,947	19,200
Capital and financial balances	(US\$ mln)	20,459	45,817	88,069	27,586	-4,018	17,602	37,338	14,500
Foreign direct investment	(US\$ mln)	50,588	69,219	22,857	11,751	-743	-1,059	1,307	-
Foreign reserves	(US\$ mln)	486,577	469,603	339,370	431,956	409,223	339,370	309,092	313,342
External debt	(US\$ bn)	636,421	728,864	599,041	732,779	680,857	599,041	555,862	556,185
Stock price index (MICEX)		1,453	1,441	1,430	1,404	1,432	1,456	1,656	1,668
Short-term int. rates (Interbank 3m)		7.34	7.32	10.02	9.3	9.7	13.3	20.1	14.8
Rouble/USD		31.07	31.86	38.61	35.0	36.3	48.0	62.9	52.8
Rouble/Euro		39.92	42.32	51.04	47.9	45.9	58.1	67.6	58.9
Rouble/GBP		49.24	49.87	63.42	59.8	58.8	74.8	93.4	83.0
Brent crude price	(US\$/Barrel)	111.8	108.7	99.5	109.7	103.8	76.8	55.2	62.7

2. Monthly data

		14/11	12	15/01	2	3	4	5	6
Industrial production (real)	(y/y, %)	-0.4	3.9	0.9	-1.6	-0.6	-4.5	-5.5	-4.8
Retail sales (real)	(y/y, %)	1.9	5.1	-3.6	-7.0	-8.5	-9.6	-9.2	-9.4
Bank credits to the private sector	(y/y, %)	17.9	22.8	25.4	22.2	18.6	14.6	13.8	-
Consumer price index	(y/y, %)	9.1	11.4	15.0	16.7	16.9	16.4	15.8	15.3
Average monthly wage growth (nominal)	(y/y, %)	7.4	6.3	4.7	7.1	3.7	4.3	6.6	6.5
Unemployment rate	(%)	5.2	5.3	5.5	5.8	5.9	5.8	5.6	-
Trade balance	(US\$ mln)	15,317	15,183	16,994	14,733	16,666	15,660	16,476	-
Exports	(US\$ mln)	36,794	37,992	28,189	29,346	32,894	30,914	30,558	-
Export growth	(y/y, %)	-22.4	-23.9	-28.8	-18.5	-30.2	-35.2	-31.0	-
Imports	(US\$ mln)	21,477	22,809	11,195	14,613	16,228	15,254	14,082	-
Import growth	(y/y, %)	-21.0	-23.3	-40.9	-34.5	-36.8	-41.5	-42.1	-
Stock price index (MICEX)		1,514	1,467	1,562	1,755	1,660	1,677	1,677	1,650
Short-term int. rates (Interbank 3m)		11.29	18.26	23.75	18.82	17.47	15.95	14.55	13.87
Rouble/USD		46.15	56.50	64.30	64.35	60.18	52.94	50.67	54.63
Rouble/Euro		57.52	70.03	74.92	73.07	65.14	57.20	56.43	61.24
Rouble/GBP		72.99	88.84	97.38	98.71	90.09	79.25	78.22	85.08
Brent crude price	(US\$/Barrel)	79.54	62.63	50.07	58.92	56.82	60.38	65.27	62.45

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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