

Main Economic & Financial Indicators Russian Federation

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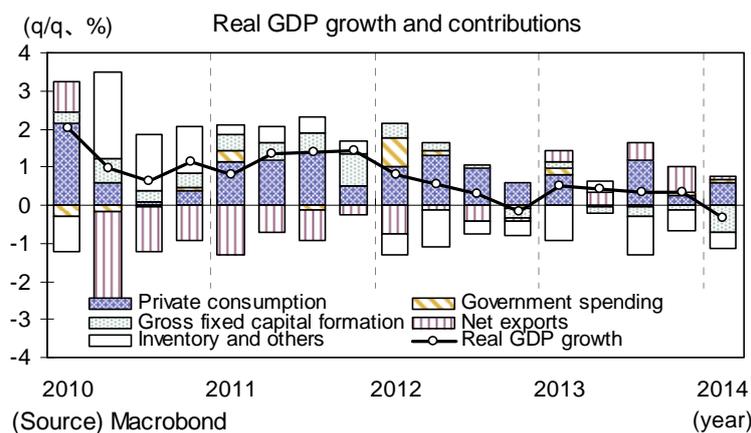
Overview

The Russian economy has been staggering since the start of this year. Real GDP in Q1 contracted by 0.3% over the quarter (+0.9% y/y) on the back of declining fixed capital formation. Given the growing uncertainties surrounding Russia's future economic prospects due to the intensifying conflict in eastern Ukraine together with the sanctions imposed by the Western countries, capital flight has increased substantially, which has created downward pressure on the overall economy. While recent data suggests that outflows of capital have subsided somewhat, which we can see in the recovery of the Russian stock market (whose index has nearly returned to its pre-crisis level) as well as the rouble's gain in the currency markets, downward pressure on the rouble seems to have returned as the West decided to impose additional sanctions on Russia on July 16th.

The depreciation of the rouble has increased inflationary pressure, casting a shadow over the private consumption that had been a major contributor to economic growth. The total rate increase of 2% points by the Central Bank of Russia (CBR) weighed heavily on domestic demand as higher borrowing costs have reduced the borrowing appetite of both businesses and households. The unlikelihood of any energy price increase suggests that energy, which accounts for nearly 70% of total exports, will not be enough to shore up the economy. Furthermore, if the pressure on capital flight intensifies, the economy would contract even further.

GDP

Real GDP growth in Q1 contracted by 0.3% q/q (+0.9% y/y) as fixed capital formation fell substantially, by 3.3% q/q (-7.0% y/y). Higher frequency data suggests that the pace of decrease in investment has slowed down somewhat, from -7.0% y/y in January to -2.6% y/y in May. However, higher borrowing costs and uncertain economic prospects due to the intensifying conflict in eastern Ukraine mean that the investment environment remains very challenging. In addition, a 0.9% decline in exports in Q1 from the previous quarter put additional downward pressure on the overall economy.

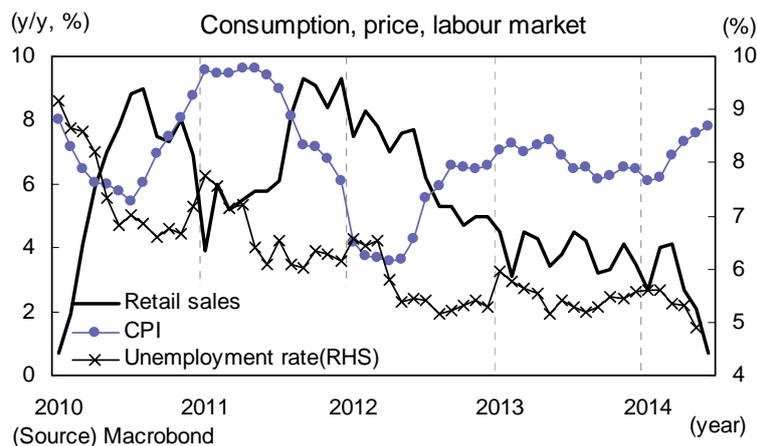


Output

Industrial production (calendar adjusted) rose by only 0.4% y/y in June, down from the previous month's 2.8% y/y. While the mining sector rose by 0.8% y/y, maintaining a similar pace to the previous month's 0.9% y/y, the manufacturing sector increased by only 0.3% y/y, registering a sharp fall compared with the previous month's 4.4% y/y, pulling down the overall growth rate. The manufacturing Purchasing Managers' Index (PMI), which is a leading indicator of economic activities, has been showing some improvement since the beginning of the year, but it stood at 49.1 in June which is still below the 50 mark which separates expansion from contraction. The PMI reading for new orders, particularly for exports, has remained weak, which suggests that industrial production is likely to continue its sluggish pace of growth in the coming months.

Consumption

Growth of retail sales in April stood at 0.7% y/y, the slowest pace in five-and-a-half years. Weakening real wage growth due to rising inflation coupled with rate hikes in March and April by the CBR seems to have had a negative impact on consumption. In particular, car sales experienced a significant fall in June, decreasing by 17.3% y/y, accelerating its pace of contraction after the rate hikes. Meanwhile, the consumer confidence indicator improved somewhat to -6 from the previous quarter's -11 on the back of the falling unemployment rate and the recovering stock market. Moreover, the annexation of Crimea in March seems to have played a role in improving sentiment. It's worth noting, however, that the level of the confidence indicator remains low in historical terms, just above the average of 2010 (-8), which suggests that private consumption may no longer be a driving force of overall economic growth.



Prices, Monetary Policy

Consumer price inflation in June rose by 7.8% y/y, continuing its acceleration for the fifth consecutive month. In particular, food prices, which are directly impacted by currency fluctuations, increased by 9.8% y/y, thus pushing up overall inflation. While inflationary pressure subsided somewhat after May due to a recovery in the currency markets, the potential downward pressure on the rouble remains strong as geopolitical risks in eastern Ukraine could return at any moment. In addition, a historically low unemployment rate due to a decline in the working population, a skills mismatch in the labour market and a high capacity utilization rate suggests that potential inflationary pressure from the supply side remains strong. This implies that weak demand would not necessarily reduce the overall inflationary pressure in the coming months.

The CBR decided to maintain the policy rate (one week repo rate) at 7.5% on June 16th. The bank acknowledged that meeting the inflation target of 5% by the end of 2014 would be unlikely due to the persistent inflationary pressure resulting from the weak rouble during the first quarter. While the bank expressed its view that the inflation rate would come down to 6% by the end of the year given the weaker domestic demand and the recent recovery in the currency markets, it also expressed that risks to this scenario remain high as growing geopolitical tensions as well as the further tightening of monetary policy by the major central banks could create downward pressure on the rouble, thus creating higher inflationary pressure. In the case that these risks materialise, the CBR would be ready to make a further rate hike decision

Balance of payments

The current account surplus during the first half of 2014 reached US\$44.2bn, recording a substantial increase from the previous year's US\$26.8bn during the same period. This large increase in the current account was attributed to a rise in the trade surplus. Meanwhile, outflows of private capital in the same period reached US\$74.4bn (US\$62bn in Q1 and USD12.3bn in Q2 respectively).

Main Economic & Financial Indicators: Russian Federation

1. Annual & Quarterly data

		2011	2012	2013	13/Q2	Q3	Q4	14/Q1	14/Q2
GDP (at current prices)	(US\$ bn)	1,904.0	2,002.5	2,095.2	505.0	535.2	571.1	456.7	-
Real GDP growth	(q/q, %)				0.4	0.3	0.3	-0.3	-
	(y/y, %)	4.3	3.4	1.3	1.0	1.3	2.0	0.9	-
(Private consumption)	(q/q, %)				0.0	2.1	0.5	1.1	-
	(y/y, %)	6.8	7.9	4.7	4.4	4.8	4.1	3.7	-
(Gross fixed capital formation)	(q/q, %)				-0.7	-1.1	-0.7	-3.3	-
	(y/y, %)	9.1	6.5	-0.1	-1.3	0.1	0.5	-7.0	-
Industrial production (real)	(y/y, %)	5.1	3.4	0.4	0.8	0.6	1.4	1.1	1.9
Retail sales (real)	(y/y, %)	6.9	6.5	3.9	3.8	4.0	3.6	3.6	1.8
Bank credits to the private sector	(y/y, %)	28.1	19.6	17.2	18.6	18.6	17.2	17.4	-
Consumer price index	(y/y, %)	8.5	5.1	6.8	7.2	6.4	6.4	6.4	7.6
Average monthly wage growth (nominal)	(y/y, %)	11.7	13.3	12.3	13.9	13.3	10.3	9.9	-
Unemployment rate	(%)	6.6	5.7	5.5	5.4	5.3	5.5	5.5	-
Trade balance	(US\$ mln)	196,854	192,296	180,315	42,275	42,814	47,214	50,728	54,500
Exports	(US\$ mln)	515,408	528,005	523,294	127,291	131,052	139,801	123,172	134,600
Export growth	(y/y, %)	31.3	2.4	-0.9	-3.0	4.4	-0.2	-1.6	5.7
Imports	(US\$ mln)	318,555	335,709	342,980	85,016	88,238	92,588	72,444	80,200
Import growth	(y/y, %)	29.7	5.4	2.2	3.8	1.4	-2.1	-6.1	-5.7
Current account	(US\$ mln)	97,274	72,015	32,761	1,080	-1,504	8,883	27,089	17,100
Capital and financial balances	(US\$ mln)	-75,988	-30,895	-42,929	-6,577	-4,341	-19,389	-48,765	-26,600
Foreign direct investment	(US\$ mln)	55,084	50,588	79,262	15,957	14,146	8,539	12,229	-
Foreign reserves	(US\$ mln)	453,948	486,577	469,603	475,233	479,449	469,603	442,773	-
External debt	(US\$ bn)	538,871	636,412	728,859	707,757	716,253	728,859	715,819	720,926
Stock price index (MICEX)		1,606	1,453	1,441	1,369	1,404	1,493	1,426	1,404
Short-term int. rates (Interbank 3m)		5.33	7.34	7.32	7.4	7.3	7.2	7.7	9.3
Rouble/USD		29.39	31.07	31.86	31.7	32.8	32.6	35.0	35.0
Rouble/Euro		40.88	39.92	42.32	41.3	43.4	44.3	48.0	48.0
Rouble/GBP		47.11	49.24	49.87	48.6	50.8	52.7	58.0	58.9
Brent crude price	(US\$/Barrel)	111.0	111.8	108.7	103.5	109.6	109.4	108.1	109.7

2. Monthly data

		13/11	12	14/01	2	3	4	5	6
Industrial production (real)	(y/y, %)	2.8	0.4	-0.2	2.1	1.4	2.4	2.8	0.4
Retail sales (real)	(y/y, %)	4.1	3.5	2.7	4.0	4.1	2.7	2.1	0.7
Bank credits to the private sector	(y/y, %)	18.6	17.2	18.5	18.0	17.4	17.5	17.5	-
Consumer price index	(y/y, %)	6.5	6.5	6.1	6.2	6.9	7.3	7.6	7.8
Average monthly wage growth (nominal)	(y/y, %)	10.4	8.8	10.0	9.9	9.7	9.7	12.0	-
Unemployment rate	(%)	5.5	5.6	5.6	5.6	5.4	5.3	4.9	-
Trade balance	(US\$ mln)	20,192	20,181	20,630	13,748	21,342	21,569	-	-
Exports	(US\$ mln)	47,385	49,915	39,583	36,042	47,110	47,554	-	-
Export growth	(y/y, %)	5.4	5.1	1.5	-15.4	4.8	6.6	-	-
Imports	(US\$ mln)	27,193	29,734	18,953	22,294	25,768	25,985	-	-
Import growth	(y/y, %)	-5.9	0.2	-4.3	-9.5	-3.2	-7.8	-	-
Stock price index (MICEX)		1,496	1,477	1,481	1,476	1,317	1,338	1,390	1,487
Short-term int. rates (Interbank 3m)		7.26	7.26	7.30	7.36	8.53	8.99	9.48	9.44
Rouble/USD		32.75	32.86	33.78	35.29	36.10	35.67	34.86	34.38
Rouble/Euro		44.16	45.03	46.00	48.26	49.95	49.34	47.91	46.75
Rouble/GBP		52.75	53.79	55.66	58.54	60.04	59.77	58.70	58.11
Brent crude price	(US\$/Barrel)	107.88	110.74	107.72	108.66	107.87	108.08	109.29	111.93

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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