

# Main Economic & Financial Indicators Russian Federation

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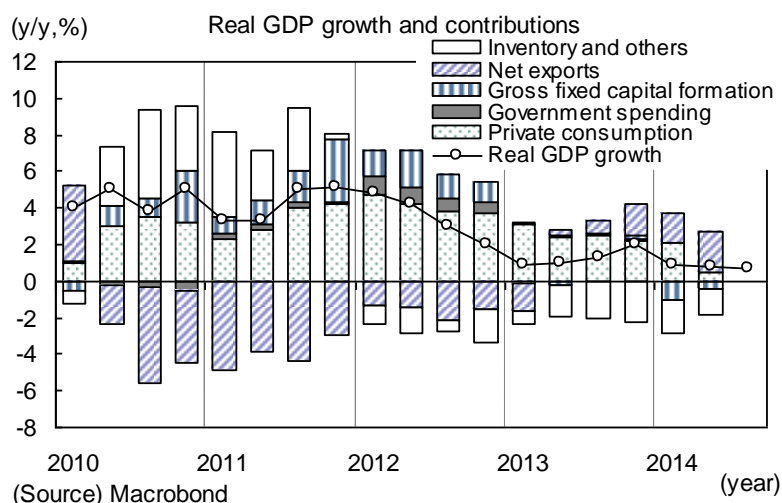
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## Overview

The environment surrounding the Russian economy has been deteriorating significantly. Real GDP growth for Q3 was 0.7% y/y, the pace of growth weakening for the third consecutive quarter. The uncertainties over its economic prospects are growing rapidly in the face of massive capital outflows due to the tighter sanctions imposed by the West, funding difficulties faced by the private corporations, the rouble depreciation and sharp falls in oil prices. Signs of a slowdown in capital flight are not visible so far: in the first 9 months of 2014, private capital net outflows reached \$85.2bn and government officials and the central bank expressed their estimations that capital flight could reach between \$120bn to \$130bn (about 6% of GDP) in the whole year, which is almost double last year's net outflows of \$61bn. Due to the sharp falls in oil prices, exports have started to shrink and the revenue flows into the federal government have become slower, thus undermining Russia's economic foundation. Furthermore, higher inflation has eroded purchasing power, weakening private consumption which had been the major economic driver. The Central Bank of Russia (CBR) has raised the policy rate a total of 11.5% points since the beginning of the year in order to contain the rising inflation and falling currency. However, the sharp rate hikes coupled with the external funding difficulties faced by Russia's private sector would push up domestic borrowing costs further and reduce the already-weak domestic demand.

## GDP

Real GDP growth for Q3 was 0.7% over the year, down from the previous quarter's 0.8% y/y, and the weakest growth rate since 2010. Growth remained unchanged over the quarter. Higher frequency data confirmed that the momentum of domestic demand has weakened considerably. Fixed capital formation for Q3 shrank by 2.5% y/y, down further from the previous quarter's -1.6% y/y. In the latest figure, fixed capital formation fell by 2.9% y/y in October; the pace of the contraction has been accelerating further. Looking at the latest economic data, such as retail sales and exports, has confirmed that both domestic and external activities are slowing down substantially.

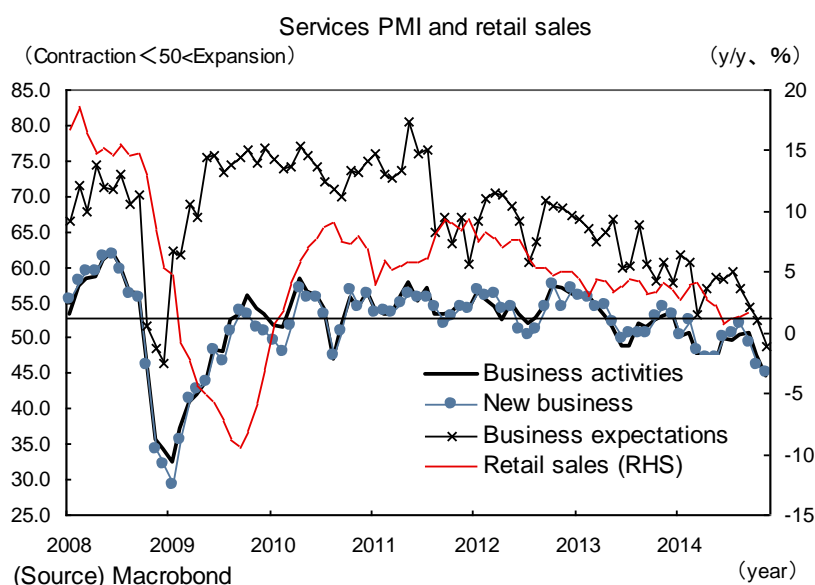


## Output

Industrial production fell by 0.4 y/y in November, the first negative growth in ten months. Activities in the manufacturing sector shrank by 3.0% y/y, registering a substantial fall which drove down overall production growth. Up until now, the sharp depreciation of the rouble has increased demand for domestic products as consumers' demand has shifted from imported goods to domestic products. However, the impacts of falling overall demand have started filtering through gradually. Meanwhile, the manufacturing Purchasing Managers' Index (PMI) stood at 51.7 in November and the PMI reading for overall new orders registered at 53.9, both figures still in expansionary territory, surprisingly. The fact that the export segment of the PMI stood in contraction territory at 47.2 indicates that demand for domestic goods seems to be somewhat on the rise. However, the trend is likely to become weaker over the course of 2015 as overall domestic demand itself is losing momentum.

## Consumption

Growth of retail sales in October was +1.7% y/y, but the momentum is waning. The higher inflation owing to the falling rouble has depressed real wage growth, reducing spending power. In addition, the sharp rate hikes would raise already rising borrowing costs further, putting further downward pressure on consumption. Growth in household lending has slowed to 16.4% y/y, which is nearly a third of the growth rate enjoyed during the peak period. The PMI for the service sector, which is heavily affected by consumer behaviours, stood in contraction territory at 44.5 in November, the lowest level since May 2009.



## Prices, Monetary Policy

Consumer price inflation in November reached 9.1% y/y, up from the previous month's 8.3% y/y, as the reported failed harvest of buckwheat, which is one of Russia's staple food items, pushed food prices up by 12.5% y/y, the third consecutive month of double-digit growth rates on the back of the embargo on food imports. In addition, the sharp depreciation of the rouble has raised imported goods prices considerably, pushing overall goods prices up to 9.3% y/y from the previous month's 8.6% y/y. Even prices of services have contributed to the upward inflationary pressure as they rose by 8.7% y/y from 7.6% y/y in the previous month on the back of rises in utilities and housing costs.

The CBR increased the policy rate (one week repo rate) twice in December, on the 11<sup>th</sup> and the 16<sup>th</sup>, in order to cope with the falling rouble and rising inflation. The policy rate was pushed up from 9.5% to 17%. The second rate hike on the 16<sup>th</sup> was of an unusually large scale at 6.5% points, making the current level of the policy rate significantly higher than the previous peak of 10.5% when the financial crisis hit the Russian economy in 2009.

## Exchange rates

Since the summer when the West imposed tighter economic sanctions, the rouble has plummeted as capital flight has accelerated further. Since then, the pace of currency depreciation has not shown any signs of a slowdown. While the sanctions have restricted Russian state banks and enterprises from accessing the US and EU capital markets, other Russian corporations which are not subject to the sanctions have also found it difficult to refinance at international capital markets, thus forcing many Russian entities to turn to the domestic markets for foreign currencies in order to meet the heavy service requirements of their existing external debt, which has put the rouble under heavy downward pressure. Furthermore, growing concerns over the possible imposition of capital controls have unnerved investors, adding further downward pressure on the rouble. In the face of this heavy depreciation pressure, the CBR decided to set the rouble afloat ahead of the earlier announced target of 1 January 2015, which is aimed at fending off further speculative attacks, thus putting an end to the unnecessary depletion of foreign reserves.

## Main Economic & Financial Indicators: Russian Federation

### 1. Annual & Quarterly data

|  | 2011    | 2012    | 2013    | 13/Q3   | Q4      | 14/Q1   | 14/Q2   | 14/Q3   |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| GDP (at current prices) (US\$ bn)              | 1,904.0 | 2,002.5 | 2,095.2 | 535.2   | 571.1   | 456.7   | 505.9   | 515.2   |
| Real GDP growth (q/q, %)                       | 4.3     | 3.4     | 1.3     | 0.4     | 0.4     | 0.0     | 0.1     | 0.0     |
| (y/y, %)                                       |         |         |         | 1.3     | 2.0     | 0.9     | 0.8     | 0.7     |
| (Private consumption) (q/q, %)                 | 6.8     | 7.9     | 4.7     | 1.8     | 0.5     | 0.4     | -1.8    | -       |
| (y/y, %)                                       |         |         |         | 4.8     | 4.1     | 3.7     | 0.8     | -       |
| (Gross fixed capital formation) (q/q, %)       | 9.1     | 6.5     | -0.1    | -0.4    | -0.6    | -1.8    | 0.2     | -       |
| (y/y, %)                                       |         |         |         | 0.1     | 0.5     | -7.0    | -2.1    | -       |
| Industrial production (real) (y/y, %)          | 5.1     | 3.4     | 0.4     | 0.6     | 1.4     | 1.1     | 1.9     | 1.4     |
| Retail sales (real) (y/y, %)                   | 6.9     | 6.5     | 3.9     | 4.0     | 3.6     | 3.6     | 1.9     | 1.4     |
| Bank credits to the private sector (y/y, %)    | 28.1    | 19.6    | 17.2    | 18.6    | 17.2    | 17.4    | 15.3    | 15.3    |
| Consumer price index (y/y, %)                  | 8.5     | 5.1     | 6.8     | 6.4     | 6.4     | 6.4     | 7.6     | 7.7     |
| Average monthly wage growth (nominal) (y/y, %) | 11.7    | 13.3    | 12.3    | 13.3    | 10.3    | 9.9     | 9.0     | 7.2     |
| Unemployment rate (%)                          | 6.6     | 5.7     | 5.5     | 5.3     | 5.5     | 5.5     | 5.0     | 4.9     |
| Trade balance (US\$ mln)                       | 196,854 | 191,663 | 181,938 | 43,712  | 46,822  | 50,728  | 51,828  | 48,600  |
| Exports (US\$ mln)                             | 515,408 | 527,434 | 523,276 | 131,048 | 139,787 | 123,172 | 132,299 | 128,400 |
| Export growth (y/y, %)                         | 31.3    | 2.3     | -0.8    | 4.7     | -0.2    | -1.6    | 3.9     | -2.0    |
| Imports (US\$ mln)                             | 318,555 | 335,772 | 341,337 | 87,335  | 92,965  | 72,444  | 80,471  | 72,400  |
| Import growth (y/y, %)                         | 29.7    | 5.4     | 1.7     | 0.4     | -1.7    | -5.4    | -4.7    | -17.1   |
| Current account (US\$ mln)                     | 97,274  | 71,283  | 34,141  | -714    | 8,025   | 26,754  | 14,120  | 11,400  |
| Capital and financial balances (US\$ mln)      | -75,988 | -30,895 | -45,377 | -4,742  | -19,441 | -49,242 | -29,807 | -11,500 |
| Foreign direct investment (US\$ mln)           | 55,084  | 50,588  | 70,653  | 14,090  | 9,147   | 12,600  | 11,195  | 1,000   |
| Foreign reserves (US\$ mln)                    | 453,948 | 486,577 | 469,603 | 479,449 | 469,603 | 442,773 | 431,956 | 409,223 |
| External debt (US\$ bn)                        | 538,884 | 636,421 | 728,864 | 716,260 | 728,864 | 716,365 | 731,204 | 678,435 |
| Stock price index (MICEX)                      | 1,606   | 1,453   | 1,441   | 1,404   | 1,493   | 1,426   | 1,404   | 1,432   |
| Short-term int. rates (Interbank 3m)           | 5.33    | 7.34    | 7.32    | 7.3     | 7.2     | 7.7     | 9.3     | 9.7     |
| Rouble/USD                                     | 29.39   | 31.07   | 31.86   | 32.8    | 32.6    | 35.0    | 35.0    | 36.3    |
| Rouble/Euro                                    | 40.88   | 39.92   | 42.32   | 44.4    | 44.9    | 48.3    | 47.9    | 45.9    |
| Rouble/GBP                                     | 47.11   | 49.24   | 49.87   | 53.1    | 53.9    | 58.4    | 59.8    | 58.8    |
| Brent crude price (US\$/Barrel)                | 111.0   | 111.8   | 108.7   | 109.6   | 109.4   | 108.1   | 109.7   | 103.8   |

### 2. Monthly data

|  | 14/04  | 5      | 6      | 7      | 8      | 9      | 10    | 11    |
|--|--------|--------|--------|--------|--------|--------|-------|-------|
| Industrial production (real) (y/y, %)          | 2.4    | 2.8    | 0.4    | 1.5    | 0.0    | 2.8    | 2.9   | -0.4  |
| Retail sales (real) (y/y, %)                   | 2.8    | 2.2    | 0.8    | 1.2    | 1.4    | 1.7    | 1.7   | -     |
| Bank credits to the private sector (y/y, %)    | 17.5   | 17.5   | 15.3   | 15.2   | 14.5   | 15.3   | 16.6  | -     |
| Consumer price index (y/y, %)                  | 7.3    | 7.6    | 7.8    | 7.5    | 7.6    | 8.0    | 8.3   | 9.1   |
| Average monthly wage growth (nominal) (y/y, %) | 9.7    | 8.6    | 8.8    | 7.6    | 5.3    | 8.8    | 7.8   | -     |
| Unemployment rate (%)                          | 5.3    | 4.9    | 4.9    | 4.9    | 4.8    | 4.9    | 5.1   | -     |
| Trade balance (US\$ mln)                       | 21,664 | 19,982 | 15,771 | 18,680 | 18,179 | 14,510 | -     | -     |
| Exports (US\$ mln)                             | 47,748 | 44,347 | 40,876 | 46,098 | 41,491 | 37,940 | -     | -     |
| Export growth (y/y, %)                         | 7.0    | 7.4    | -3.1   | 5.3    | -2.3   | -16.1  | -     | -     |
| Imports (US\$ mln)                             | 26,084 | 24,365 | 25,105 | 27,418 | 23,312 | 23,430 | -     | -     |
| Import growth (y/y, %)                         | -7.5   | 0.2    | -3.8   | -2.2   | -10.3  | -10.8  | -     | -     |
| Stock price index (MICEX)                      | 1,338  | 1,390  | 1,487  | 1,449  | 1,404  | 1,442  | 1,395 | 1,514 |
| Short-term int. rates (Interbank 3m)           | 8.99   | 9.48   | 9.44   | 9.54   | 9.78   | 9.85   | 9.96  | 11.29 |
| Rouble/USD                                     | 35.67  | 34.86  | 34.38  | 34.74  | 36.19  | 38.05  | 41.04 | 46.15 |
| Rouble/Euro                                    | 49.34  | 47.91  | 46.75  | 47.00  | 48.18  | 49.05  | 51.94 | 57.52 |
| Rouble/GBP                                     | 59.77  | 58.70  | 58.11  | 59.30  | 60.42  | 62.02  | 65.84 | 72.99 |
| Brent crude price (US\$/Barrel)                | 108.08 | 109.29 | 111.93 | 108.64 | 103.50 | 99.09  | 88.65 | 80.06 |

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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