

# Main Economic & Financial Indicators Russian Federation

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## Overview

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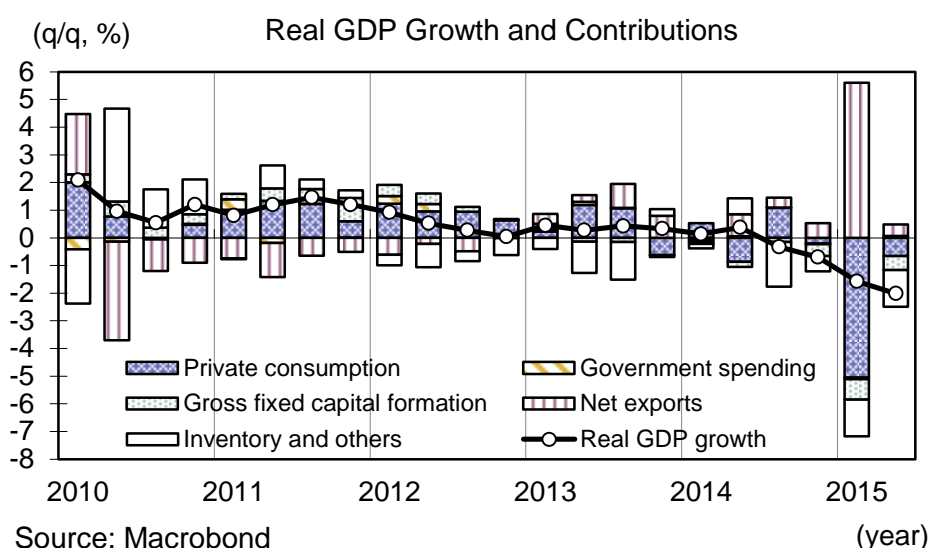
The environment surrounding the Russian economy has worsened further. Private consumption continued to fall, reflecting a decline in real wages due to persistently high inflation. Investment also shrank further in the face of difficulties in the financing environment and the deteriorating economic outlook. Weak oil prices have added strains on the government's fiscal position and the extension of economic sanctions have created additional hardships for the already weakened economy, all of which suggests that the chance of recovery for the Russian economy in the short term is slim.

Real GDP growth contracted by 2.0% q/q (-4.6% y/y) in Q2 2015; the pace of contraction accelerated for the third consecutive quarter. More frequent data confirms that domestic demand is shrinking further, reflected in the acceleration of the decline in retail sales due to a persistent fall in real wages. Moreover, the decline in fixed capital formation continued, falling by 5.6% y/y in September.

In response to rapidly cooling economic activities, the Central Bank of Russia (CBR) switched its monetary policy stance to an easing cycle by cutting its policy rate. However, since September, the bank has paused its easing cycle in the face of the growing inflationary risk. The CBR forecasts real GDP will fall by between 3.9% and 4.4% in 2015, owing to prolonged weak oil prices. Additionally, the bank expects that the contraction in economic activities will continue into 2016. It also noted that due to the recent depreciation in the rouble, inflation expectations were showing a clear upward trend, although high levels of inflation during 2015 and substantial weakening in domestic demand would push down inflation. Thereby, the inflation rate will fall to between 5.5% y/y and 6.5% y/y by the end of 2016, reaching the target rate of 4% in 2017. The higher inflation rate during 2015 and the sharp contraction in domestic demand are likely to create downward pressure on inflation in the coming year.

## GDP

In Q2 2015, real GDP contracted by 2.0% q/q, and the pace of contraction accelerated for the three quarters in a row. A breakdown of the GDP components confirms shrinking domestic demand. Private consumption contracted by 1.2% q/q as did fixed capital formation, but on a larger scale. While the pace of contraction in private consumption eased considerably from the previous quarter - private consumption plummeted as households had to adjust their spending in response to a sharp increase in the inflation rate caused by a nose dive in oil prices - its underlying trend remains very weak. Fixed capital formation also remained subdued, registering a negative growth rate of -2.4% q/q, contracting for the ninth consecutive quarter. Net exports' contribution to growth decreased significantly compared with the previous quarter. In Q1, imports plummeted by 22.7% y/y, reflecting a sharp decline in domestic demand, and pushing up net exports' contribution to growth. However, in Q2, net exports' contributions to growth was much smaller than the previous quarter owing to more moderate import adjustments (-3.6% y/y), coupled with a slight fall in exports (-0.6% y/y).

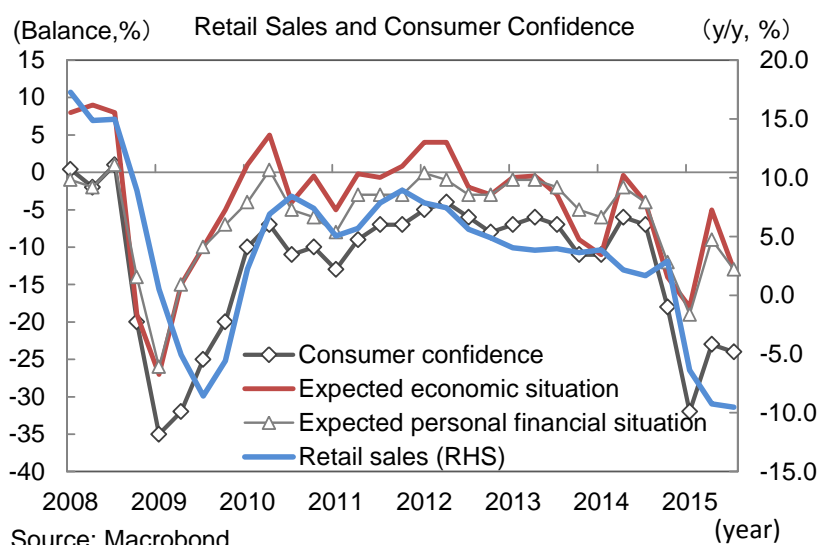


## Output

Industrial production maintained negative growth since February, falling by 3.7 y/y in September, reflecting stagnant output in the manufacturing sector. While the prolonged weak rouble raised hopes for import substitution effects - a decrease in demand for imported goods would be substituted by an increase in domestic products - so far, such a shift has not been observed amid dwindling overall demand. Only food, refinery and chemical products have maintained positive growth. The manufacturing Purchasing Managers' Index (PMI) has turned into positive territory of above the 50 mark for the first time since last November, and the latest reading in October was 50.2.

## Consumption

Retail sales continue to shrink and in September they fell by 10.4% y/y: negative growth for nine months in a row. On the back of persistently high inflation, real wage growth decreased for the eleventh consecutive month, reducing households' real disposable income and depressing private consumption. The inflation rate, which reached its peak in March, was expected to decrease gradually. However, due to renewed falls in oil prices since July, as well as the subsequent rouble depreciation, inflation stayed at a high level. A slowdown in the disinflation process seems to have a negative impact on consumer sentiment which had been showing some signs of improving since spring. The upward trend in sentiment seems to have halted on the back of growing concerns about overall economic prospects as well as personal financial situations.



## Prices, Monetary Policy

Consumer price inflation was 15.7% y/y in September, despite a sharp slowdown in food price increases. The size of the decline was a mere 0.1% point lower than the previous month's 15.8% y/y. The inflation rate has remained at a high level since July (in the upper region of 15%), on the back of renewed oil price falls and the subsequent rouble depreciation, as well as an adjustment in regulated utilities prices.

Due to renewed inflationary pressure, the CBR decided to keep its policy rate (one week repo rate) unchanged at 11% in its monetary policy meeting on 30<sup>th</sup> October. The CBR acknowledged the persistently substantial inflation risk in the economy; however, it noted that the balance of inflationary risk and cooling economic activities remained mainly unchanged. Meanwhile, the bank estimates that given the moderately tight monetary condition, and depressed domestic demand, inflationary pressure would recede and the inflation rate would fall to under 7% in October 2016 and reach 4%, the target rate, in 2017. With the slowdown in inflation in line with the forecast, the CBR is likely to revise its key interest rate downwards. In

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the process, it is expected that the bank will carefully assess the balance between inflationary risks and the risks of economic contraction.

## Balance of payments

For the first nine months of 2015, the current account reached US\$49.9 billion in surplus, up from US\$44.1 billion in same period last year. This was mainly due to a sharp decline in imports which outpaced that of exports. The deficit in the primary income, which is mainly comprised of investment income and compensation of employees, had been showing an upward trend in response to an increase in foreign financing by Russian companies. However, with the imposition of sanctions by the West, restricting access to foreign finances by major Russian companies has reduced overall external debt. As a result, outflows of capital in the form of dividends and interest have decreased substantially, reducing the overall deficit in the primary income of the first nine months of 2015 to US\$30.6 billion from US\$ 53.2 billion in the same period last year.

Net capital outflows from the private sector (after adjustment of foreign currency liquidity provided by the CBR to credit institutions) recorded a negative of US\$1.8 billion in Q3, which means Russia experienced inflows of private capital in Q3 for the first time in nearly five years. However, this flow of capital was a result of sales of foreign assets by Russian companies in order to pay off their foreign debt. Therefore it is likely to be a one-off event.

## Main Economic & Financial Indicators: Russian Federation

### 1. Annual & Quarterly data

		2012	2013	2014	14/Q3	14/Q4	15/Q1	15/Q2	15/Q3
GDP (at current prices)	(US\$ bn)	2,001.1	2,077.5	1,849.5	515.7	415.4	263.4	331.4	-
Real GDP growth	(q/q, %)				-0.3	-0.7	-1.6	-2.0	-
	(y/y, %)	3.5	1.3	0.6	0.9	0.4	-2.2	-4.6	-
(Private consumption)	(q/q, %)				2.0	-0.4	-8.9	-1.2	-
	(y/y, %)	7.9	5.1	1.2	0.2	1.0	-8.9	-8.6	-
(Gross fixed capital formation)	(q/q, %)				-0.7	-2.0	-3.5	-2.4	-
	(y/y, %)	6.7	0.9	-2.0	-1.7	-1.2	-8.8	-7.4	-
Industrial production (real)	(y/y, %)	3.4	0.4	1.6	1.4	2.1	-0.4	-4.9	-4.2
Retail sales (real)	(y/y, %)	6.5	3.9	2.6	1.7	2.9	-6.4	-9.2	-9.5
Bank credits to the private sector	(y/y, %)	19.6	17.2	22.8	15.3	22.8	18.6	14.8	-
Consumer price index	(y/y, %)	5.1	6.8	7.8	7.7	9.6	16.2	15.8	15.7
Average monthly wage growth (nominal)	(y/y, %)	14.0	12.5	9.4	8.3	7.8	6.0	5.9	4.9
Unemployment rate	(%)	5.7	5.5	5.2	4.9	5.2	5.7	5.7	5.3
Trade balance	(US\$ mln)	191,663	181,939	189,737	45,267	42,269	44,265	42,986	28,200
Exports	(US\$ mln)	527,434	523,275	497,763	125,746	116,681	89,516	91,138	78,500
Export growth	(y/y, %)	2.3	-0.8	-4.9	-4.0	-16.5	-27.2	-31.1	-37.6
Imports	(US\$ mln)	335,771	341,337	308,026	80,480	74,412	45,252	48,152	50,300
Import growth	(y/y, %)	5.4	1.7	-9.8	-7.8	-20.0	-37.6	-40.3	-37.5
Current account	(US\$ mln)	71,282	34,801	58,432	6,172	14,333	28,701	15,818	5,400
Capital and financial balances	(US\$ mln)	20,459	45,817	88,181	-4,018	17,603	37,282	18,453	2,900
Foreign direct investment	(US\$ mln)	50,588	69,219	22,891	-709	-1,059	1,704	2,640	-
Foreign reserves	(US\$ mln)	486,577	469,603	339,370	409,223	339,370	309,092	313,341	322,375
External debt	(US\$ bn)	636,421	728,864	599,041	680,857	599,041	556,149	555,689	521,610
Stock price index (MICEX)		1,453	1,441	1,430	1,432	1,456	1,656	1,668	1,667
Short-term int. rates (Interbank 3m)		7.34	7.32	10.02	9.7	13.3	20.1	14.8	12.9
Rouble/USD		31.07	31.86	38.61	36.3	48.0	62.9	52.8	63.2
Rouble/Euro		39.92	42.32	51.04	45.9	58.1	67.6	58.9	70.5
Rouble/GBP		49.24	49.87	63.42	58.8	74.8	93.4	83.0	95.7
Brent crude price	(US\$/Barrel)	111.8	108.7	99.5	103.8	76.8	55.2	62.7	51.5

### 2. Monthly data

		14/03	4	5	6	7	8	9	10
Industrial production (real)	(y/y, %)	-0.6	-4.5	-5.5	-4.8	-4.7	-4.3	-3.7	-
Retail sales (real)	(y/y, %)	-8.5	-9.6	-8.9	-9.2	-9.1	-9.1	-10.4	-
Bank credits to the private sector	(y/y, %)	18.6	14.6	13.8	14.8	15.2	17.3	-	-
Consumer price index	(y/y, %)	16.9	16.4	15.8	15.3	15.6	15.8	15.7	-
Average monthly wage growth (nominal)	(y/y, %)	4.5	5.2	7.2	5.4	5.0	5.3	4.5	-
Unemployment rate	(%)	5.9	5.8	5.6	5.6	5.3	5.3	5.2	-
Trade balance	(US\$ mln)	16,611	15,548	16,387	14,809	11,518	9,925	-	-
Exports	(US\$ mln)	32,871	30,835	30,620	30,058	27,362	25,340	-	-
Export growth	(y/y, %)	-30.2	-35.3	-30.9	-26.5	-40.6	-38.9	-	-
Imports	(US\$ mln)	16,260	15,287	14,233	15,249	15,844	15,415	-	-
Import growth	(y/y, %)	-36.6	-41.4	-41.5	-39.2	-42.3	-34.1	-	-
Stock price index (MICEX)		1,660	1,677	1,677	1,650	1,628	1,688	1,688	1,702
Short-term int. rates (Interbank 3m)		17.47	15.95	14.55	13.87	13.30	12.69	12.71	-
Rouble/USD		60.18	52.94	50.67	54.63	57.45	65.77	66.73	63.14
Rouble/Euro		65.14	57.20	56.43	61.24	63.21	73.36	74.80	70.95
Rouble/GBP		90.09	79.25	78.22	85.08	89.49	102.21	102.27	96.81
Brent crude price	(US\$/Barrel)	56.82	60.38	65.27	62.45	57.09	48.38	48.54	49.40

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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