



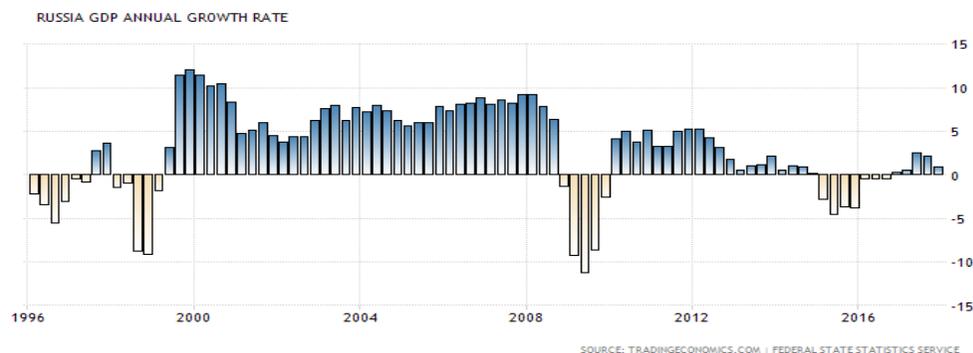
Russia Macro Summary

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- ❑ Russia has come through a four year period of geopolitical uncertainty and economic decline. Today the economy and the country, in general, are stable
- ❑ The government has spent the past 18 months debating policy and spending priorities this this 6 year presidential term. The broad outline has now been set out in the May Decrees
- ❑ A new government team has been put in place, with wide-ranging changes amongst the regional governors having taken place over the past 24 months
- ❑ The clearly stated intention is to focus resources on a number of key sectors and to improve the efficiency and transparency of budget and project spending
- ❑ As always, we will have to wait to see what is actually done and that is more likely in early 2019
- ❑ The main concern remains about the sanctions impact on investment spending and FDI

- ❑ **Returned to growth.** The 2015-16 recession was relatively mild and the economy returned to growth from Q416. The weak ruble was one of the key factors
- ❑ **The boom of the 1990s was led by the consumer.** The boom years were a result of the oil wealth (\$3 trillion earned from 2000-2012) and the emergence of the consumer, plus the low base effect
- ❑ **Future growth will have to be based on investment.** While the economy has now adapted to new conditions (sanctions plus lower oil), to actually drive growth back to the required 4-4.5% annual growth Russia needs a major increase in investment

Quarterly GDP Change, % YoY



Source: Federal Statistics Service

Russia Has Many Problems

- ❑ **Poor perception.** Russia suffers from a very poor international image and this often raises concerns about reputational risk for major investors
- ❑ **Corruption.** It is widely believed that corruption is worse in Russia than is the case for major international investors ... smaller companies and Russian companies certainly do suffer corruption
- ❑ **Workforce demographics.** Russia will see a decline in the active workforce by up to 10% (7 million) over the next 10 years. This could be a driver for change or cause significant economic strains
- ❑ **Inefficiencies.** Russian industry is highly inefficient, especially the state sector companies. This is one of the key reasons why the government wants to attract more foreign companies in JV and PPP roles
- ❑ **Excessive state role.** The state sector accounts for circa 65% of GDP, albeit the grey economy is also very large which understates the size of the real economy
- ❑ **Sanctions.** Even though the economy has largely adjusted to 2014 sanctions, the escalation with the US CAATSA legislation is now causing major challenges and makes it more difficult to attract investment
- ❑ **Hydrocarbons.** Even though the budget now needs much less oil tax revenue to balance, the sector continues to dominate the economy and, for several more years, will remain vulnerable to oil volatility

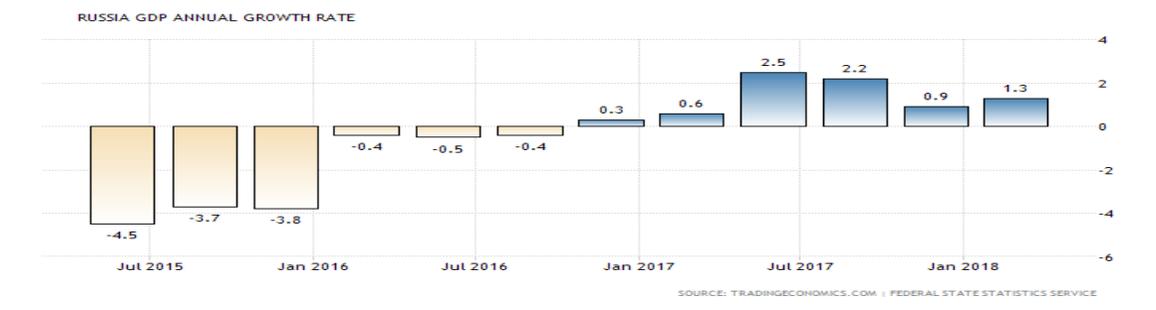
- ❑ President Putin signed a decree establishing national development targets up to 2024
- ❑ The document sets several goals to achieve by 2024, with the aim of Russia's economy being the world's fifth-largest by the end of Putin's term.
- ❑ Putin said that the implementation of his May Decree would require an additional RUB8 trillion (US\$126 bln) of budget spending
- ❑ The government also wants to create more PPP schemes to attract foreign investors alongside state enterprise and direct funding

- ❑ May Decrees set out the policy priorities for the new government
- ❑ Prime Minister said the cost to the state will be 8 trillion rubles (\$126 bln) over the six years
- ❑ Funding is expected to come from:
 - Bond sales to raise RUB3 trln
 - Infrastructure fund RUB3 – 3.5 trln
 - Tax reforms to raise an additional RUB1 – 1.5 trln
- ❑ The tax reform debate is expected to be more prominent in the summer with proposals to raise most of the extra tax money from the oil sector expected
- ❑ The indications are that other previously talked about tax changes, e.g. VAT, personal taxes, etc. should be delayed to 2019, or later

- ❑ Media reports that the government is working on mechanisms and incentives to attract private sector funding, alongside the state funding, so that the total target spending program is set at RUB25 trln (\$400 bln)
- ❑ Deadline for details about how to proceed and the funding is set for October 1st
- ❑ 13 separate project areas, including:
 - Road improvement costing \$135 bln
 - Infrastructure development costing \$28 bln
 - Improving demographics costing \$56.8 bln
 - Digital economy costing \$20.8 bln
 - Healthcare improvement costing \$21.3 bln

- ❑ Recovery is broadening out to most sectors
- ❑ Retail sales gained 2.3% YoY in first four months, driven by 9.6% real wage growth and credit expansion. Retail lending grew 16.6% YoY in April
- ❑ Agriculture output is still expanding with 1-4m growth at 2.6% YoY
- ❑ Construction is lagging a little. Output contracted 2.5% YoY in 1-4M18 but evidence elsewhere suggests recovery in Q2
- ❑ The other area of concern is the slowdown in capital investment, to 3.6% YoY from 6.4% YoY in 4Q17

Quarterly GDP Change, % YoY



Source: Federal Statistics Service

- ❑ Growth was a little better in April, rising 1.7% YoY
- ❑ Economy Ministry will issue revised forecasts for 2018-19 in “late June”
- ❑ The main drag is the expected lower rate of investment & FDI
- ❑ Rising oil revenue is being sanitized via the budget rule

Leading Indicator



Source: Trading Economics

- ❑ Central Bank has revised its guidance for year end inflation to 4.0%
- ❑ No sense of any danger of a higher spike
- ❑ Modest impact from the weaker ruble – import substitution has cut external exposure

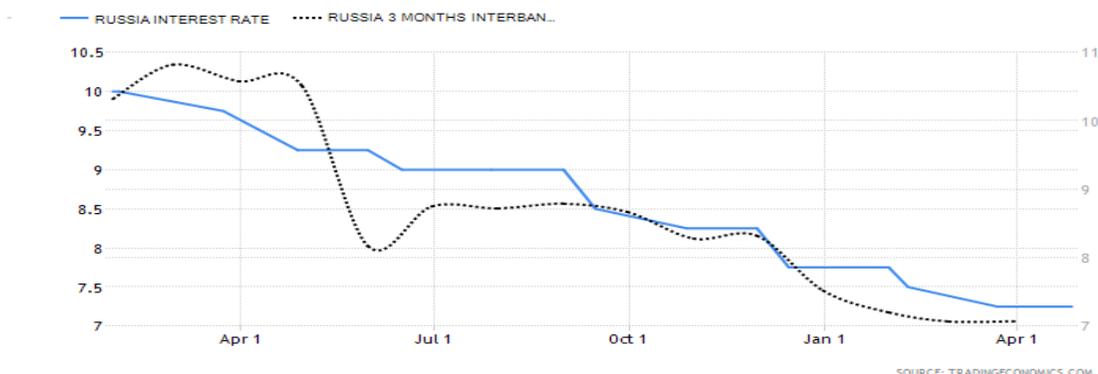
Headline Inflation Rate, YoY % Change



Source: Tradingeconomics.com, Federal State Statistics Service

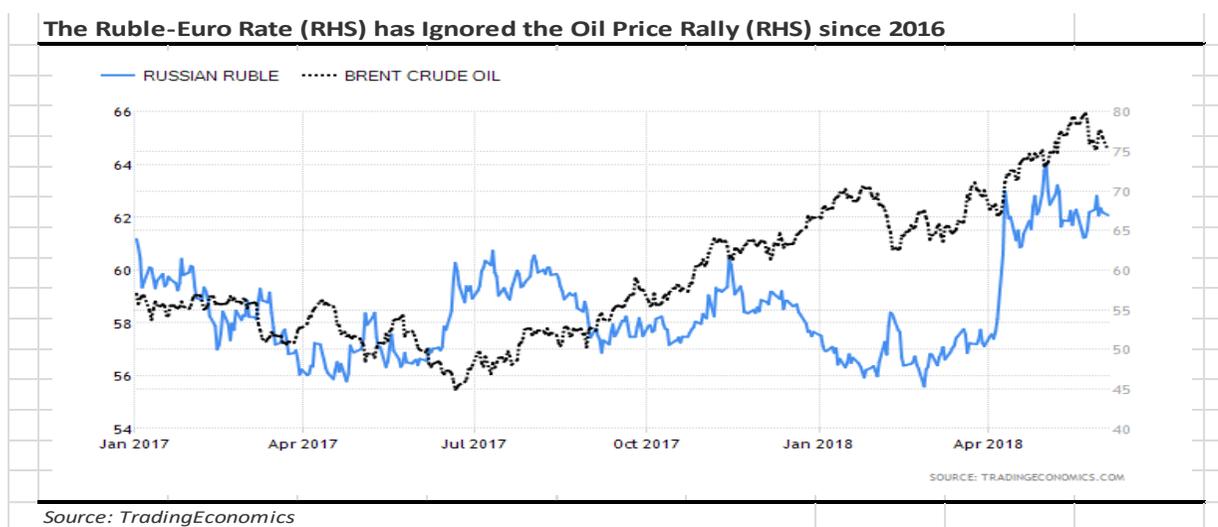
- ❑ Central Bank suspended rate cuts as a result of April 6th sanctions effect
- ❑ A resumption of 25 bps cuts is possible at the June 15th policy meeting
- ❑ 6.5-6.75% year end rate is probable

Russia Key Rate (LHS) and Interbank Rate (RHS)



Source: Tradingeconomics.com, Central Bank of Russia

- ❑ Government remains firm with the weak ruble policy
- ❑ Indicated range of R62-65/\$1 for this year
- ❑ Priority is to boost domestic competitiveness and exports in 2018-2019
- ❑ Ruble may be allowed to strengthen in 24-36 months to help importers and those needing to upgrade equipment and machinery



- ❑ Finance Ministry has raised budget revenue projections to RUB17 trln, up from RUB15.3 trln, because of the higher oil price
- ❑ Spending is only slightly tweaked up to RUB16.6 trln, from RUB16.5 trln
- ❑ Finance Ministry now expects a surplus of RUB500 bln (0.5% of GDP), from a previous forecast of a deficit of 1.3% of GDP
- ❑ Budget breaks even at \$54 p/bbl and, at \$75 p/bbl, will run a surplus of \$25 bln
- ❑ Russia and OPEC are expected to agree a new production deal later this month but with higher quotas
- ❑ Oil is well supported because of Venezuela's decline and Iran concerns plus reducing oil inventories combined with steady global demand growth
- ❑ The main threat to the oil price is from the growth in US production and the steady increase in US oil exports

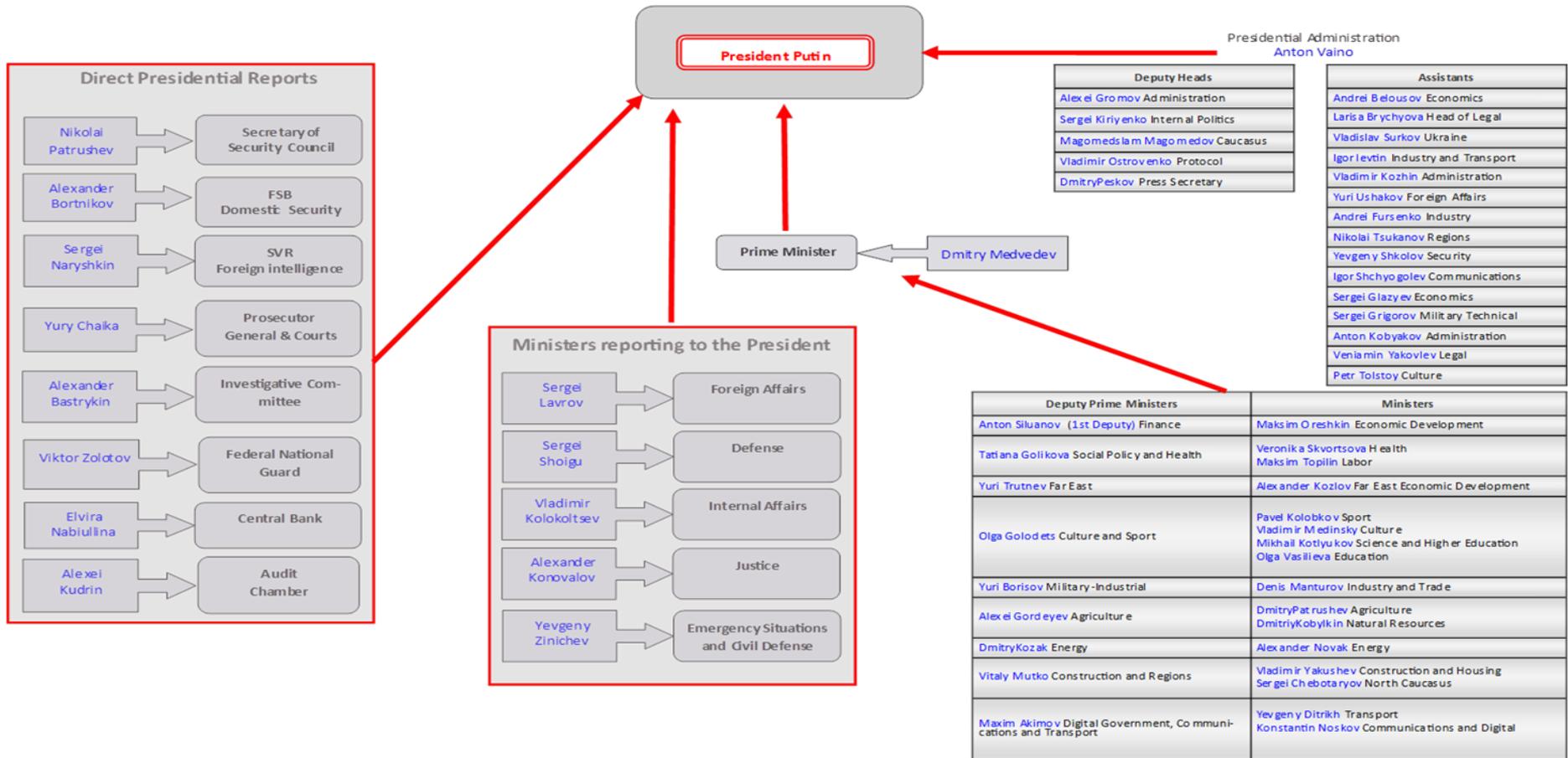
Russia: Macro Trends & Medium Term Forecasts - Base Case Scenario

	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
GDP, RUB bln, nominal	66,865	70,499	77,200	84,320	90,222	95,004	99,469	104,542	109,979
GDP, US\$ bln	2,150	2,210	2,000	1,360	1,347	1,635	1,631	1,686	1,833
Growth, real % YoY	3.4%	1.3%	0.7%	-2.8%	-0.2%	1.5%	1.6%	1.8%	2.0%
CPI - year-end, % YoY	6.6%	6.5%	11.4%	12.9%	5.4%	2.5%	3.8%	3.4%	3.0%
CPI- average, % YoY	5.1%	6.8%	7.8%	15.6%	7.2%	3.8%	3.1%	3.3%	3.2%
Gross fixed investment, real % YoY	6.0%	0.9%	-1.0%	-11.0%	0.8%	3.5%	3.0%	3.6%	4.0%
Industrial production, real % YoY	3.4%	0.4%	1.7%	-3.2%	1.1%	1.0%	1.5%	2.5%	3.0%
Agricultural output, % change YoY	-3.6%	3.1%	1.2%	3.5%	4.8%	2.4%	3.0%	3.5%	3.5%
Central Bank Key Rate, %			17.0%	11.0%	10.0%	7.75%	6.75%	5.75%	5.25%
Bank average lending rate, %	9.1%	9.5%	11.3%	16.0%	13.0%	10.5%	8.8%	8.0%	7.5%
Retail sales, % YoY	5.9%	3.9%	2.5%	-10.0%	-5.2%	1.2%	2.5%	3.5%	4.0%
Real disposable income, % YoY	7.3%	4.8%	-1.0%	-6.5%	-5.9%	-1.7%	1.0%	2.5%	2.5%
Unemployment, % EOP	5.7%	5.6%	5.3%	5.6%	5.4%	5.2%	5.1%	5.1%	5.0%
Budget, balance % of GDP	0.0%	-0.5%	-0.5%	-2.4%	-3.4%	-1.4%	1.0%	1.3%	1.8%
Current account, % GDP	3.7%	1.6%	3.0%	5.3%	1.9%	2.4%	3.4%	3.6%	3.5%
RUB/US\$, year-end	30.8	32.9	61.4	73.5	61.3	57.7	62.0	63.0	59.0
RUB/US\$, average	31.1	31.9	38.6	62.0	67.0	58.1	61.0	62.0	60.0
RUB/EUR, year-end	40.3	45.3	72.0	79.7	64.5	69.7	75.0	76.0	71.0
RUB/EUR, average	40.0	42.3	51.5	67.0	74.0	68.0	74.0	75.0	72.0
Brent, US\$ p/bbl, average	\$110	\$108	\$100	\$54	\$45	\$55	\$68	\$75	\$85

Source: State Statistics Agency, Central Bank, Macro-Advisory estimates

Note: See Russia Macro Monthly report for greater detail

- ❑ Rotation of personnel in the new government rather than significant new faces
- ❑ Deputy Prime Minister level has been strengthened
- ❑ Anton Siluanov's promotion to First Deputy Prime Minister is significant
- ❑ Alexei Kudrin is expected to make the Audit Chamber much more relevant
- ❑ Opinion polls highlight a steady increase in public disappointment with economic performance. Russian Academy of Sciences survey shows 39% of people have "strong concerns" and 15% are "in constant fear" about the worsening state of healthcare
- ❑ Hence the emphasis on economic performance and on social improvements for the new government



Source: Media & public sources * Currently prominent or influential ** Active in Russian business *** stock-market

Note: Refer to *Old wine in new bottles* report for greater detail

- ❑ US Treasury Department appears ready to remove Rusal from SDN list
- ❑ US Secretary of State continues to threaten new sanctions but no major action is expected unless there is a fresh catalyst
- ❑ Catalysts may include:
 - An escalation in fighting in Eastern Ukraine
 - Allegations of Russian interference in US mid-term elections
 - Another “Skripal” event
 - Syria
- ❑ No evidence that the EU will relax any sanctions without a major move in Ukraine. Equally there is no evidence that the EU will replicate the US escalation
- ❑ The Russian counter-sanctions bill has been heavily diluted and poses no major threat
- ❑ The current bill to criminalize sanctions compliance in Russia needs to be neutered or killed

- ❑ **Five states.** The Eurasian Economic Union (EaEU) current membership is Armenia, Belarus, Kazakhstan, Kyrgyz Republic and Russia
- ❑ **Keeps Russia as the political power in Central Asia.** Moscow was originally keen on the project and strongly supported the EaEU project as a direct response to China's BRI. It is a way for Moscow to maintain a strong political role in the region as well as boosting trade and investment flows
- ❑ **Distractions have slowed progress.** Development of the EaEU has been quite slow in recent years as Moscow was dealing with the deteriorating relations with the US and EU and all economies in the region faced varying degrees of economic difficulties. Kazakhstan was also busy with the Expo2017 project
- ❑ **The pace will pick up this year.** Russia has assumed the presidency of the EaEU for 2018. Both Russia and Kazakhstan have committed to a more active programme this year, specially with regard to easing trade difficulties within the region and externally for the group
- ❑ **Iran is expected to work more closely with the EaEU.** Iran is in advanced talks (reported) to sign a formal trade agreement with the EaEU. The US withdrawal of the nuclear deal, and the resulting difficulties faced by EU companies, may accelerate an Iran-EaEU deal
- ❑ **Tajikistan may be the next state to join.** Uzbekistan is expected to sign a trade deal but is probably some way off even considering formal membership

<input type="checkbox"/> Economic Growth	Stable but unexciting
<input type="checkbox"/> Balance Sheet	Improving but facing heavy spending demands
<input type="checkbox"/> Investments	Slowing in 2018 due to sanctions uncertainty
<input type="checkbox"/> Sanctions	Threat level will remain elevated from the US all year
<input type="checkbox"/> Politics	Improvement in the Cabinet line-up and with a clearer agenda
<input type="checkbox"/> Threats	East Ukraine, US sanctions escalation, global trade war, US oil
<input type="checkbox"/> Positive Themes	Agriculture Healthcare Construction & Housing Technology & IT Transport sectors, including logistics Financial services, insurance and digital-economy related Consumer sectors, including e-commerce Sectors benefiting from a weaker for longer ruble

- ❑ Macro-Advisory is an independent Eurasia-based consultancy providing international companies and investors with strategic advisory services throughout the greater CIS-Eurasia region
- ❑ Our team of experts has a combined experience of over 100 years working in the region
- ❑ For our clients we carry out market and sectoral analysis, risk assessments, and deep due-diligence work across all of the key industry sectors in all of the countries in the region
- ❑ We keep our clients fully informed of the relevant trends and events which impact their business
- ❑ Assist local business teams and management in headquarters to help ensure strategic focus and success of our clients' businesses
- ❑ We are experts on the Eurasian Economic Union (EaEU) and Chinese sponsored Belt & Road Initiative (BRI). We help our clients assess the opportunities and implications of these increasingly important developments
- ❑ We combine coverage of economics, politics, industry and social trends to provide the most comprehensive analysis for our clients. All of our reports come with commercially relevant and, more importantly, actionable recommendations

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Macro Monthly
December 2017

Key Macro Forecasts - Base Case

	2017E	2018E
Growth, real % YoY	1.8%	1.7%
GPI, real % YoY	2.0%	3.5%
Retail sales, % YoY	2.0%	3.0%
CR - year-end, % YoY	2.8%	3.6%
Budget balance, % GDP	-1.3%	-1.5%
Current account, % GDP	1.9%	1.9%
Unemployment, % emp	5.5%	5.4%
CPI base rate, %	8.0%	8.5%

Tempered holiday mood

"Once again, we come to the Holiday Season, a deeply religious time that each of us observers, in his own way, by going to the mall of his choice"

Dave Barry, American author and satirist

* Investors and government are waiting for sanctions. The CAATS act

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Uzbekistan Update
September 2017

Key Statistics

GDP, US\$ bn (2015 est)	148.5
Population, mln	21.1
GDP/capita, US\$	12,297
GDP/capita, PPP basis, US\$	16,039

Source: World Bank

Key Macro Indicators

* Off the blocks quickly. Uzbekistan is playing catch-up with the rest of

Catch-up is neither a sprint nor a marathon

"It's time for Uzbekistan to wake up"

Opening statement on Qzbekistan-24, the country's first 24-hour news channel

MACRO ADVISORY
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Russia Agriculture
November 2017

Key Macro Forecasts

	2017E	2018E
Growth, real % YoY	1.8%	2.0%
GPI, real % YoY	2.0%	3.5%
Retail sales, % YoY	2.0%	3.0%
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CPI base rate, %	8.0%	8.5%

Can Russia Feed the World?

"Russia will feed the world. No doubt. We have ample land, water technology and infrastructure, already in place. Countries will simply be faced with a scarcity of food, so they will look at Russia and invest in Russia"

Andrei Guryev, CEO PhosAgro

* Economy grows. The Russian economy is now growing again. The

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Eurasian Economic Union
September 2017

Population and PPP/Cap*

	Population million	GDP / Cap US\$ PPP
Armenia	3.0	58,174
Belarus	9.5	516,742
Kazakhstan	18.1	523,500
Kyrgyzstan	6.1	53,292
Russia Federation	144.8	324,025

Slowly Consolidating

"It's a purely economic union, which serves the interests of all our countries."

President Nursultan Nazarbayev (Kazakhstan), July 2017

* Steady Progress. Progress in building the trade and legislative

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What Lies Beneath
April 18th, 2017

PRIVILEGED AND CONFIDENTIAL

"What Lies Beneath" is a series of limited distribution reports prepared exclusively for Macro-Advisory clients that look at headline grabbing events, going deeper than the headlines.

Political Evolution, not Revolution

Russia Macro Monthly. This monthly update provides both a record of all of the events which investors in Russia are interested in, such as economics, politics, monetary policy, capital markets and all business related developments. This publication also has updated economic forecasts for Russia and all of the CIS-Eurasia states. We also provide reviews of all new books published which are focused on the Eurasia region or on topics which may have some impact on the region.

Eurasia country reports. We issue regular updates for all of the countries in the CIS-Eurasia region. These will cover not only macro and political events but will also highlight business trends and focus on opportunities for investors, both existing and emerging. These reports also look at and explain any risks in respective investment scenarios.

Industry reports. The bulk of the work we undertake for our clients, for example, strategic industry analysis, is customized and is exclusive for the client. But, from time to time, we cover the general trends and focus on opportunities for investors in sectors which we believe have high growth potential. Over the past year we have issued reports covering agriculture, e-commerce, insurance, pharmaceuticals, construction, and many others.

Thematic reports. In this series of reports we look at interesting and emerging themes which have relevance across the CIS-Eurasia region and are not exclusive to one country. We issue regular updates on, for example, the development of the Eurasian Economic Union (EaEU), the expanding Belt & Road network and the investment opportunities arising from this, Caspian Corridor developments, etc.

Political briefings. For our clients we issue regular updates covering sensitive political issues in all countries of Eurasia. In these tightly controlled reports we are able to offer an un-biased and frank opinion about the events and set out the implications for businesses and investment risk

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