

# Russia

It is just about to get real interesting

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# Forecasts

## Key macro projections

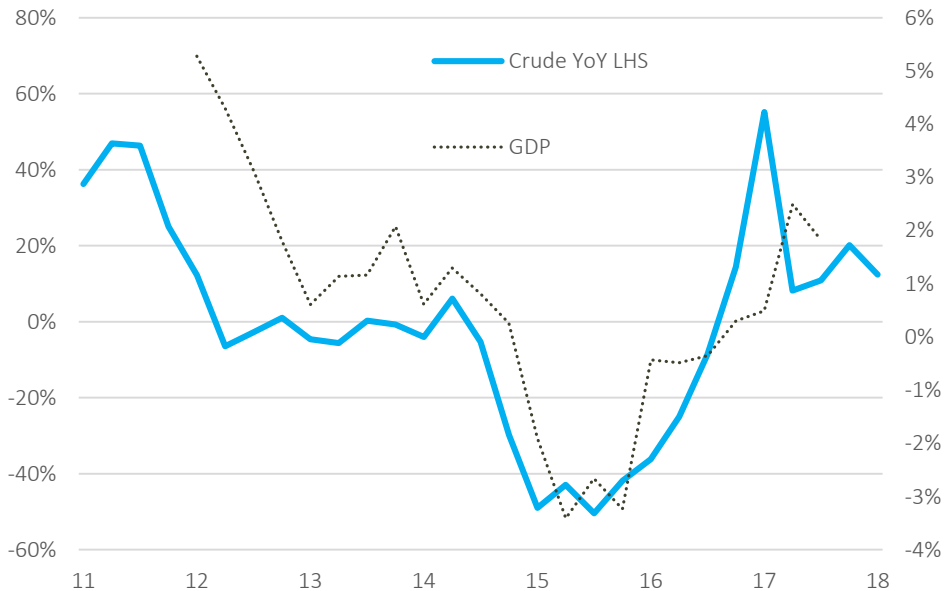
	2013	2014	2015	2016	2017E	2018E	2019E
<b>Real GDP</b>	1.9%	1.1%	-2.7%	-0.5%	1.5%	1.5%	1.5%
<b>Households</b>	4.5%	1.4%	-9.2%	-4.3%	2.9%	2.4%	0.6%
<b>Government</b>	0.9%	-1.5%	-2.9%	-0.6%	1.2%	0.2%	-0.4%
<b>Investment</b>	-3.2%	1.6%	-14.8%	1.6%	3.0%	-2.6%	1.9%
<b>Exports</b>	4.2%	-0.3%	3.6%	3.3%	2.3%	5.5%	3.6%
<b>Imports</b>	3.8%	-3.1%	-25.4%	-2.5%	7.4%	1.4%	1.5%
<b>Nominal GDP (USD bn)</b>	2294	2080	1371	1296	1281	1674	1733
<b>USD/RUB avg</b>	31.09	31.84	38.38	60.94	67.06	55	55
<b>CPI, avg</b>	6.8%	7.8%	15.6%	7.1%	3.7%	3.2%	3.0%
<b>Budget balance % of GDP</b>	0.9%	-0.9%	-2.3%	-2.2%	2.0%	-1.4%	-1.0%
<b>Debt to GDP</b>	11.0%	13.8%	14.1%	13.8%	17.4%	17.7%	18.2%

Source: ADA Economics in association with WOOD Research, Macrobond

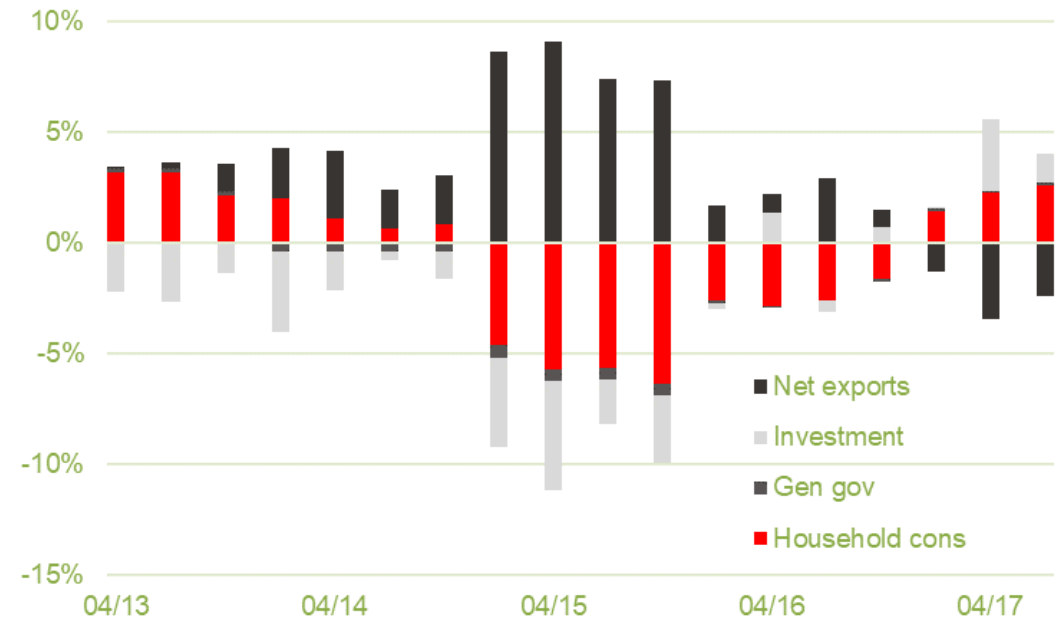
Sources: Eurostat data, ADA Economics

# Big rate cutting cycle still ahead

Growth rebound driven strongly by inventories (and thus oil prices)



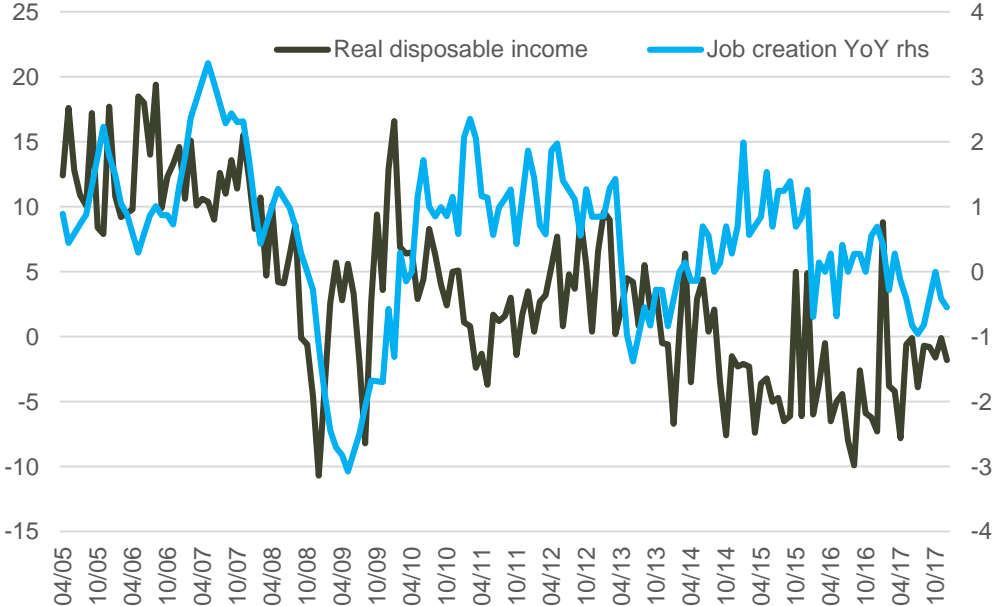
Contributions to yoy growth by key component



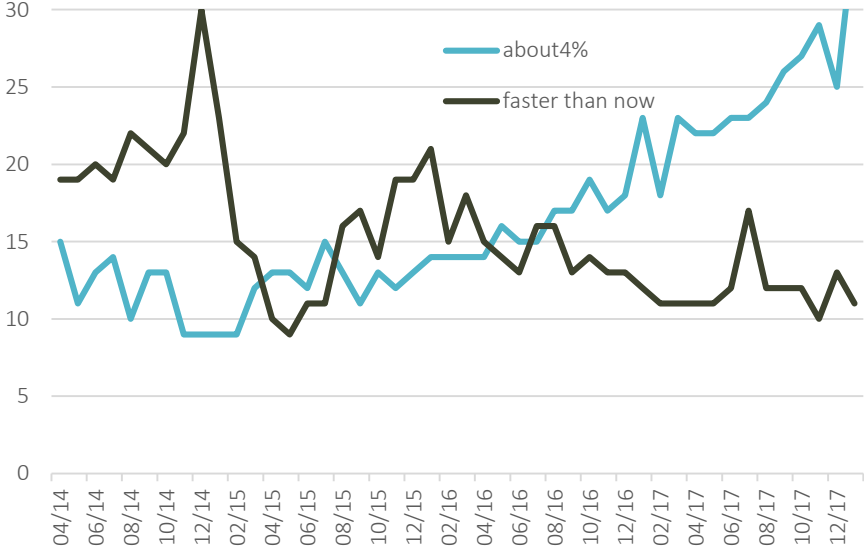
Source: Macrobond, ADA Economics Ltd

# Muted labour market

Real disposable income and job creation yoy



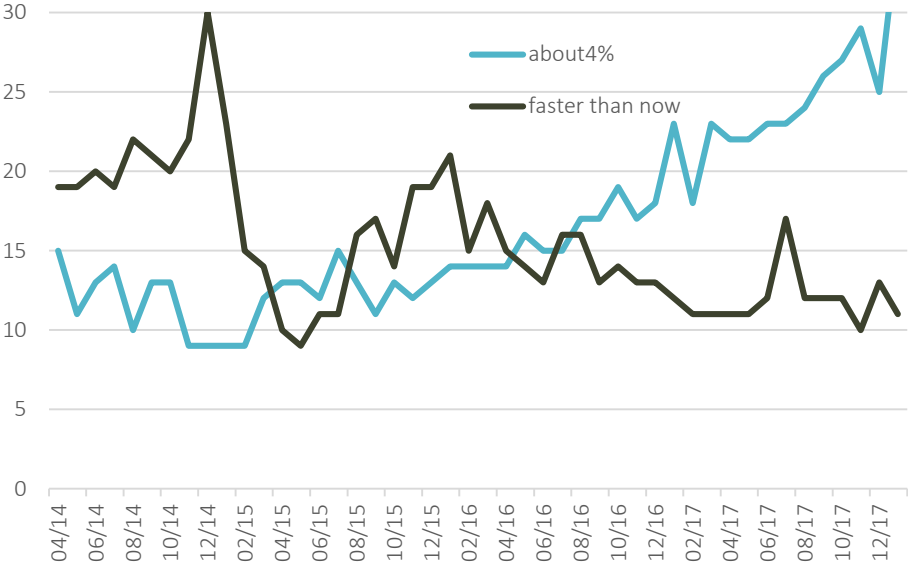
Share of those expecting inflation pick up



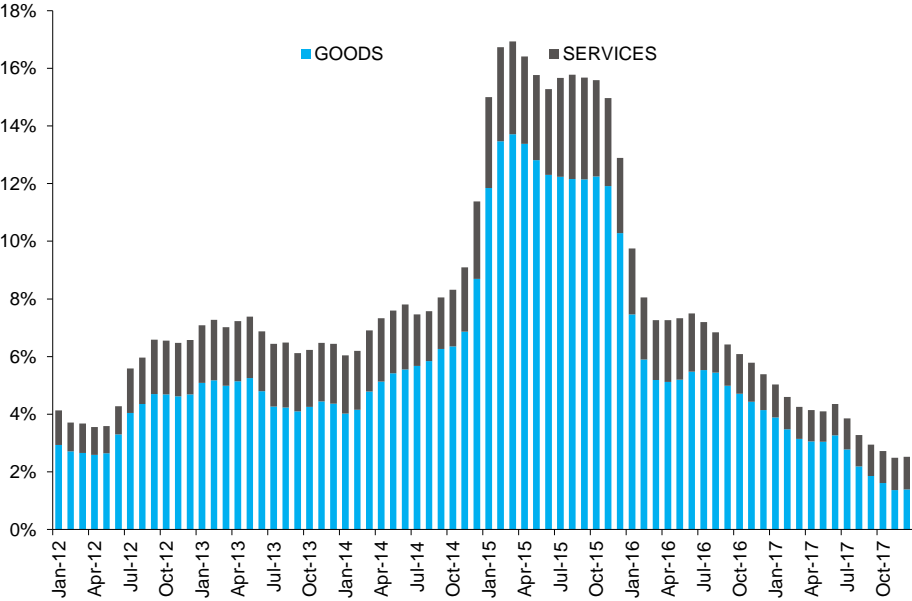
Source: CEIC, ADA Economics Ltd

# We have hit the low point of inflation

Inflation expectations aligning with the CBR's target



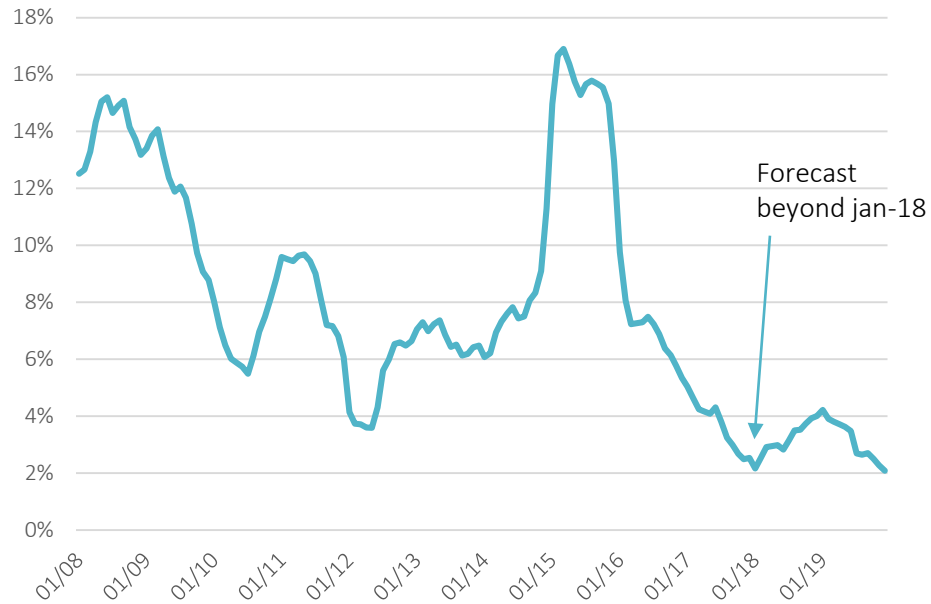
Contributions by key component to yoy inflation



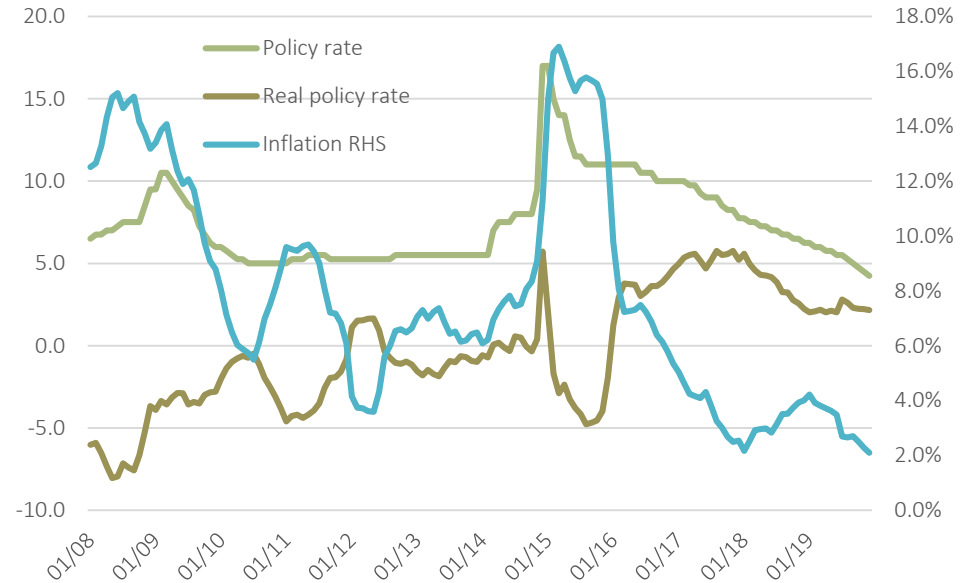
Source: CEIC, ADA Economics Ltd

# ...but not of interest rates

Inflation expectations aligning with the CBR's target



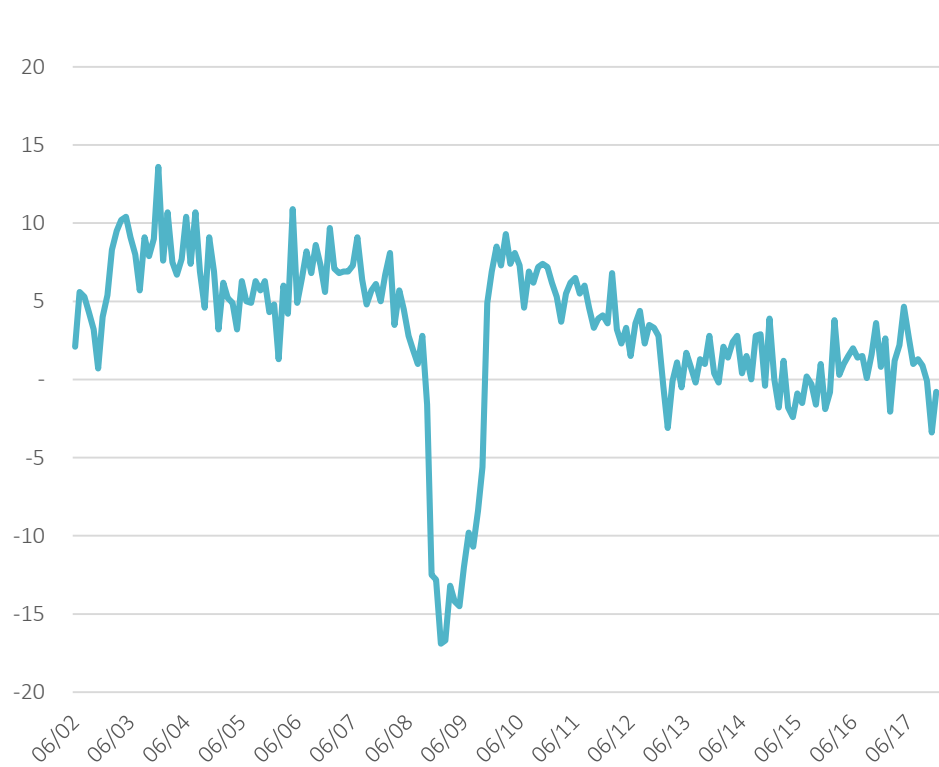
Contributions by key component to yoy inflation



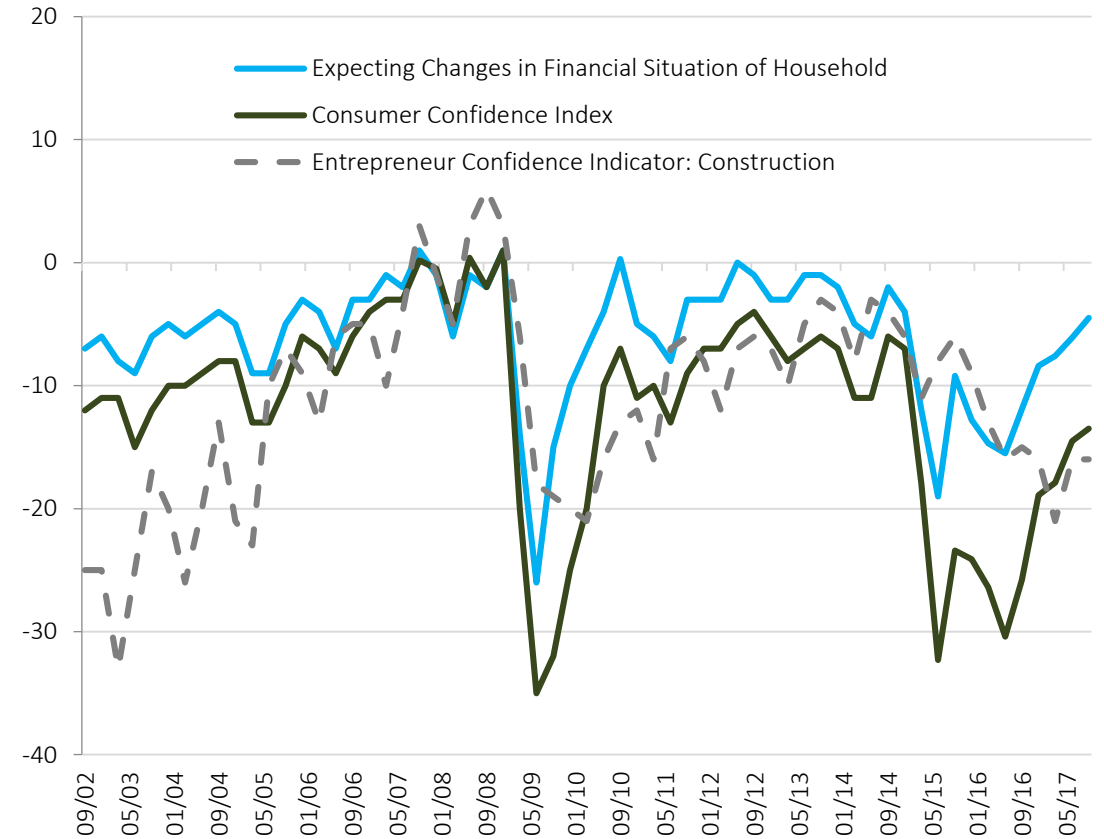
Source: CEIC, ADA Economics Ltd

# Industrial production and sentiment

Yoy change in Industrial Production



Confidence Indicators



Source: Macrobond, ADA Economics Ltd

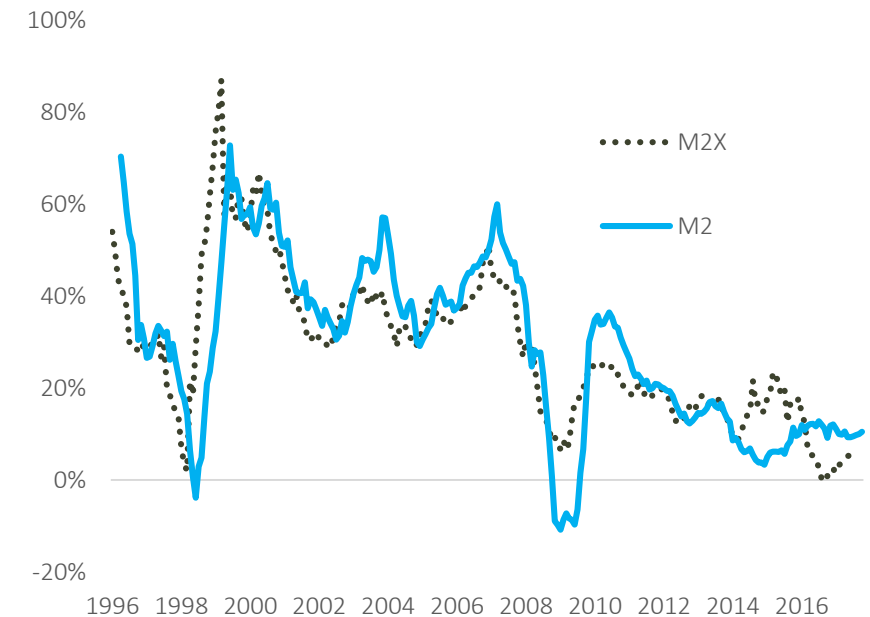
# Money growth at around 12% yoy is low

M2 is a very good leading indicator for real GDP growth in Russia and it seems stubbornly stuck at 10-12%yoy.

Without a significant pick up to 20% or more it is hard for us to forecast growth above 1.5% as an average

That said, in the last few quarters some important dynamics are emerging outside of the M2 definition which may positively affect the economy – see the next slide.

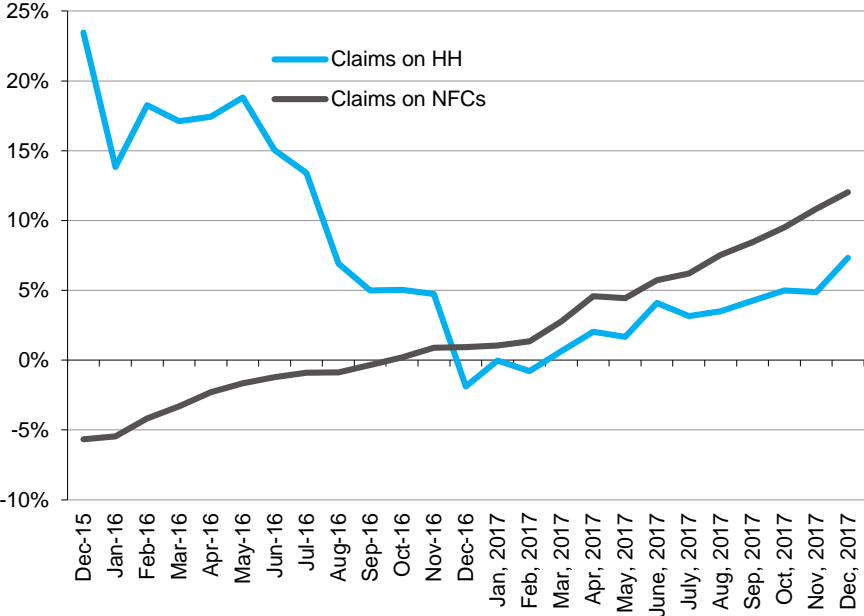
M2 and M2 X



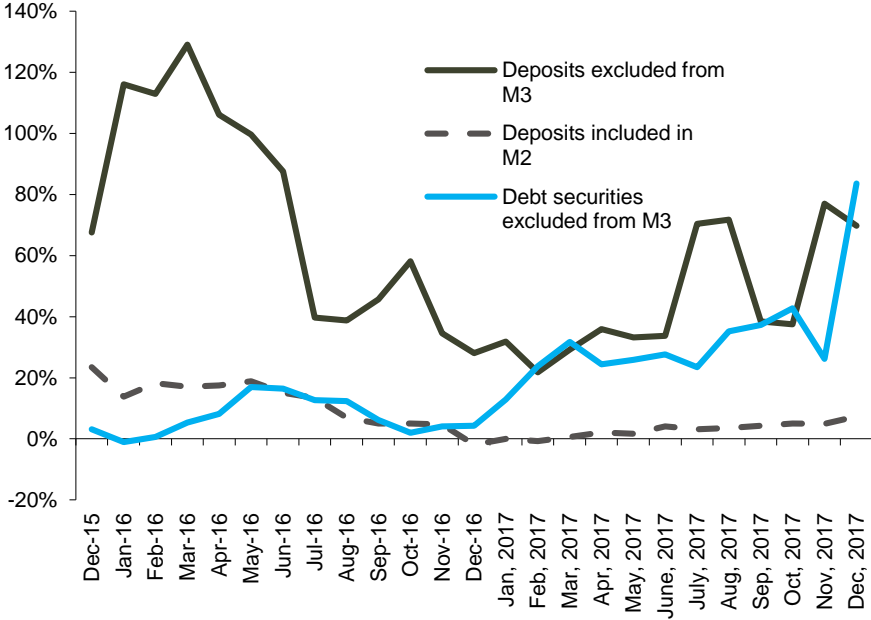


# Money growth at around 12% yoy is low

Credit dynamics, YOY



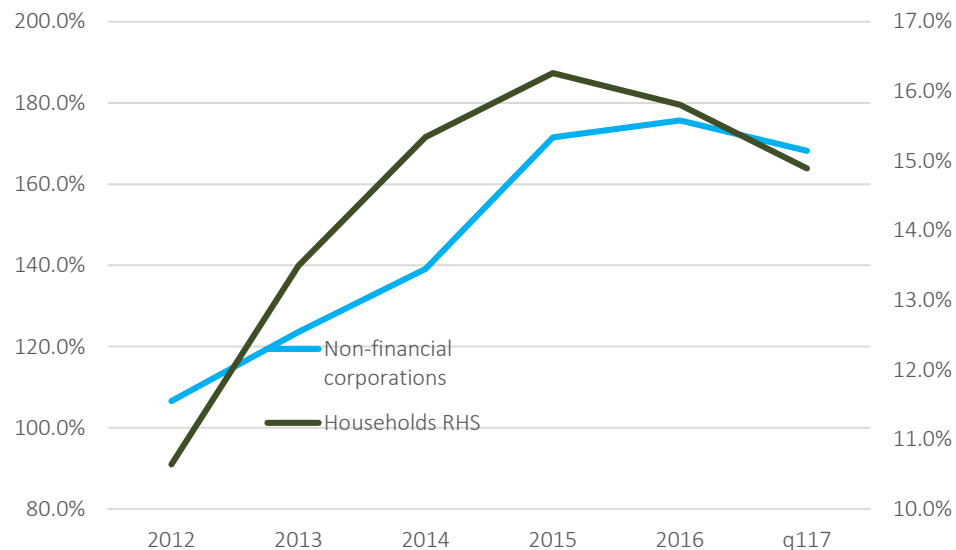
Credit dynamics, YOY



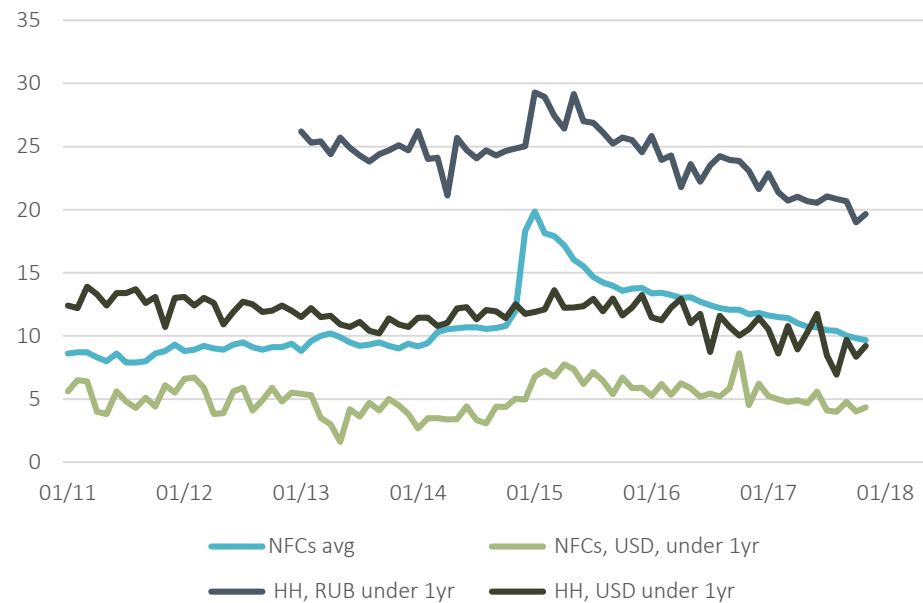
Source: CBR, ADA Economics Ltd

# Deleveraging & refinancing

Debt to GDP measures for companies and households



Retail cost of borrowing%

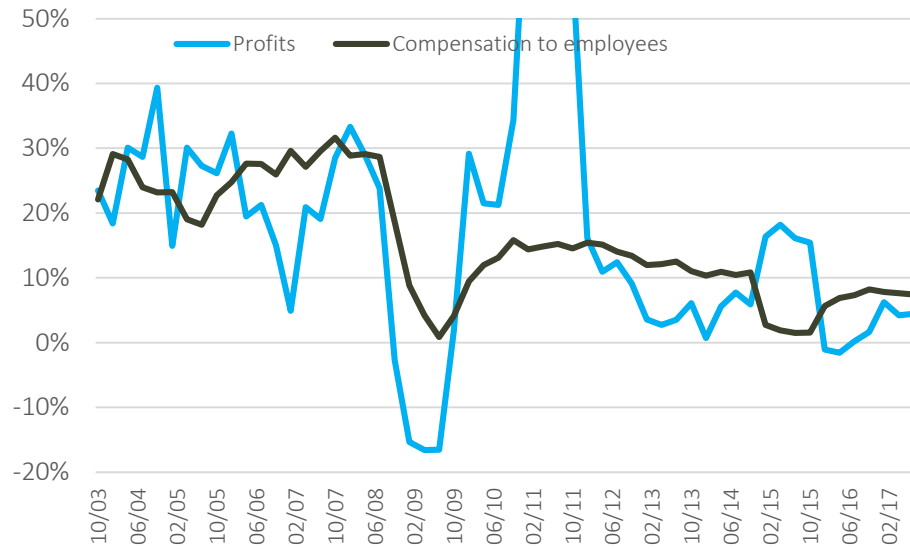


NFC (lha) passed from 100% in 2012 to a peak of 175% in of GDP in 2016 while HH (lha) passed from 11% in 2012 to a peak of 16.3% in 2015

Source: Macrobond, CBR, ADA Economics

# Weak wage & profits go together

Wages and profits (broadest measure)  
YoY changes



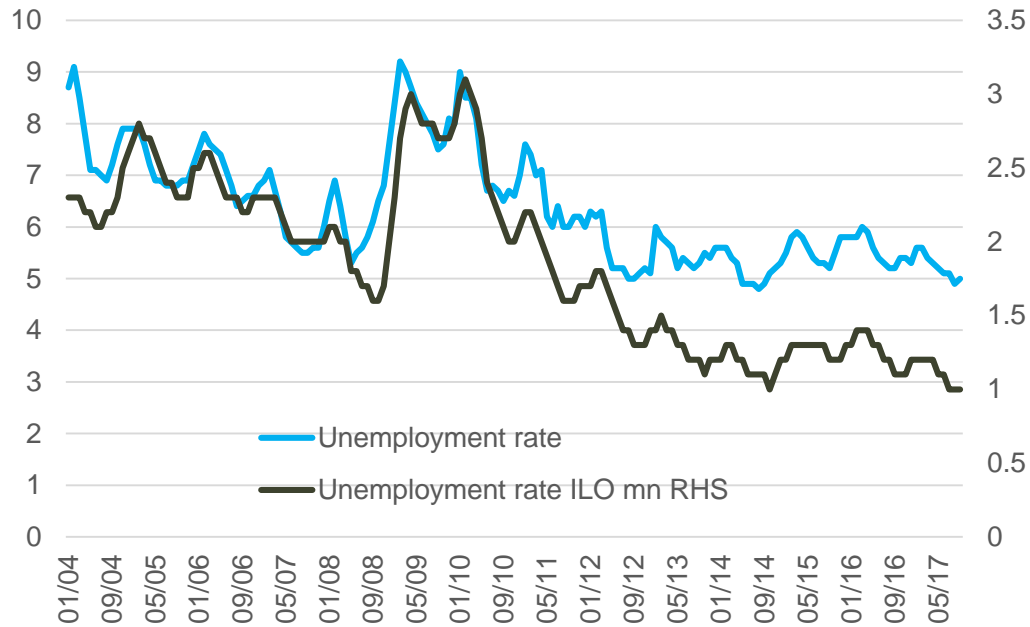
Yoy corporate profit change (big swings cut off)



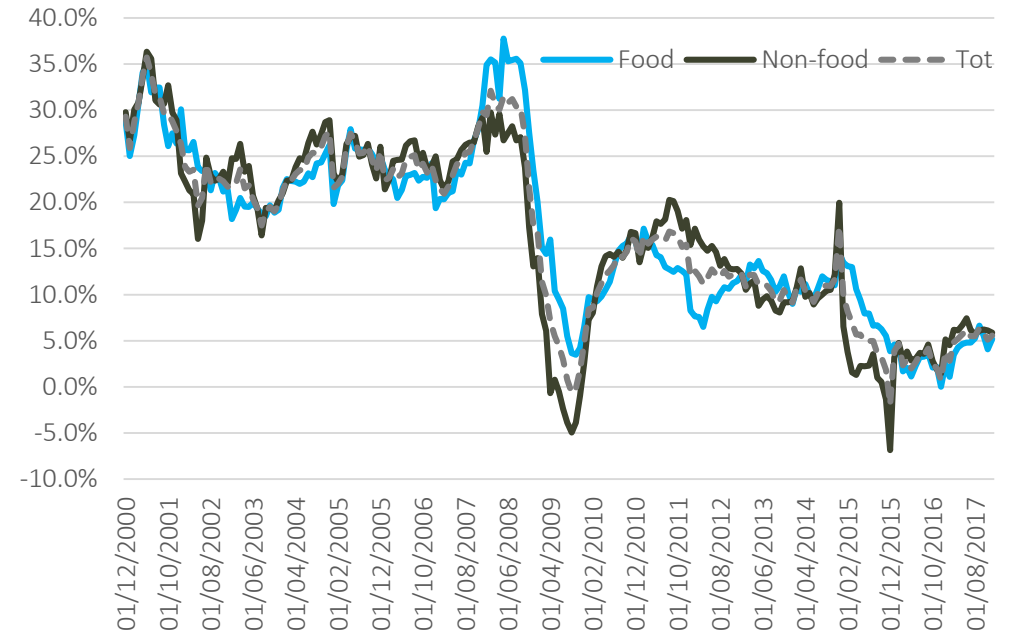
Source: Macrobond, ADA Economics Ltd

# Lukewarm labour market

Unemployment rate in historical context



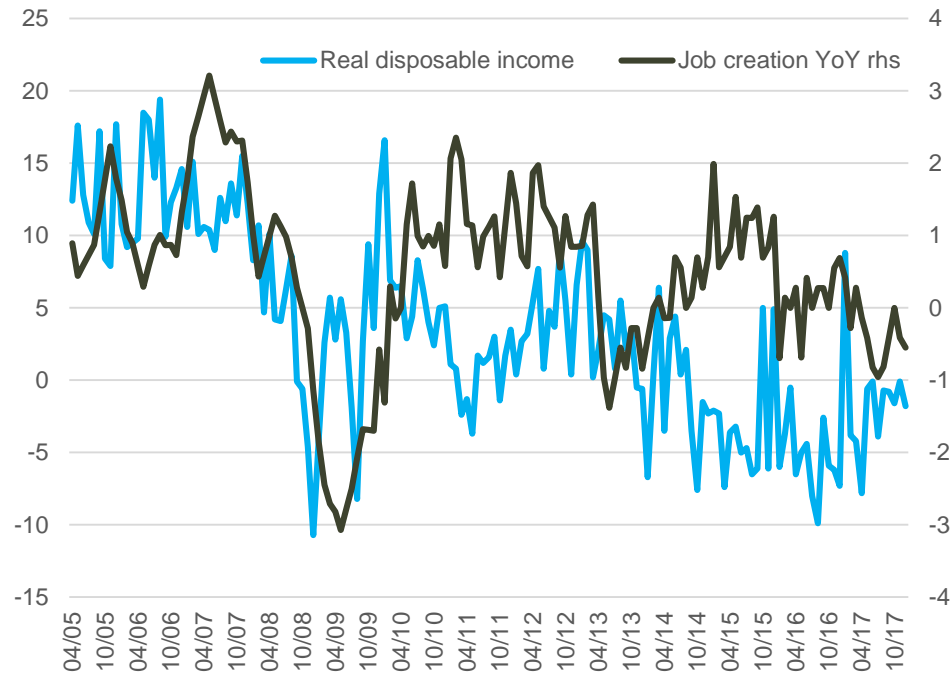
Retail sales, YoY changes



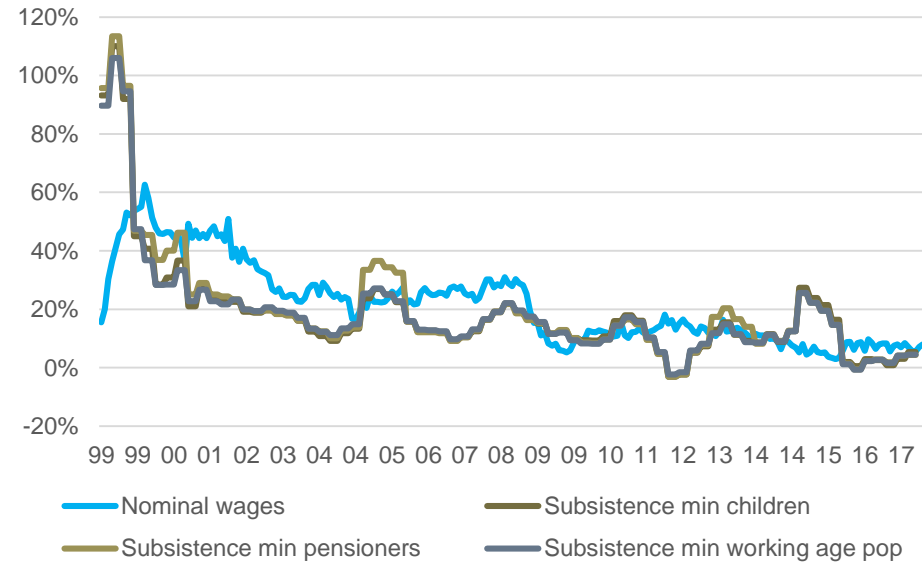
Source: Macrobond, bbg, ADA Economics Ltd

# Lukewarm labour market

## Retail sales & income dynamics



## YoY normal wage growth components



Source: CEIC, ADA Economics Ltd

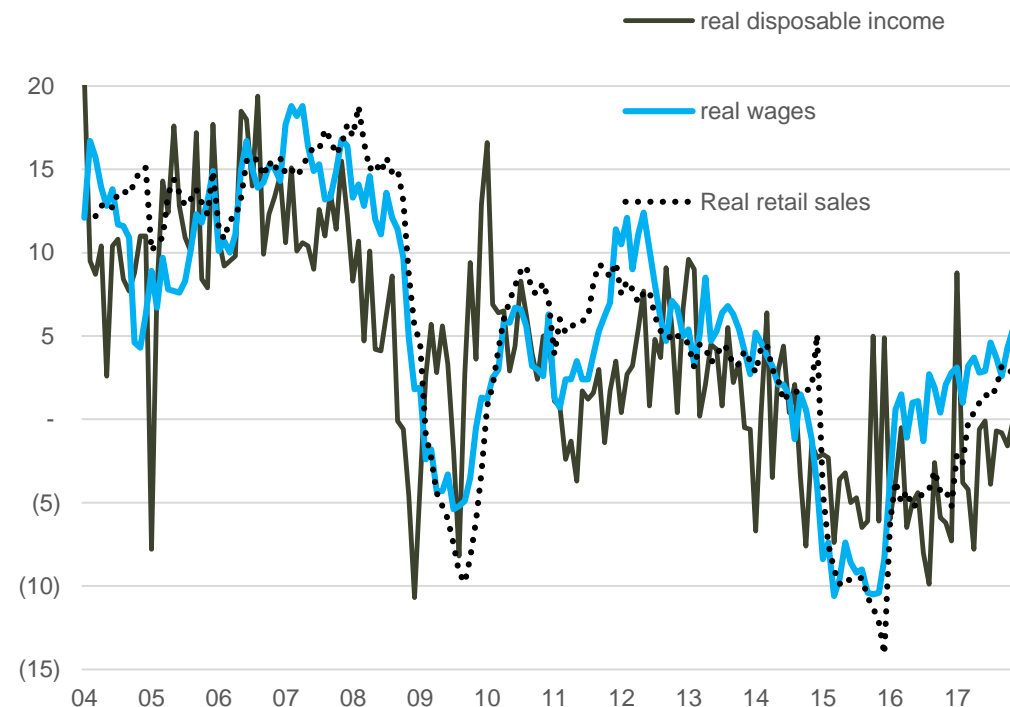
# Real wages and retail spending

In Russia there are various ways of measuring incomes and wages include a variable bonus, which can swing significantly from year to year

The chart shows that basic wages, deflated by CPI, have improved thanks to the fast drop in inflation

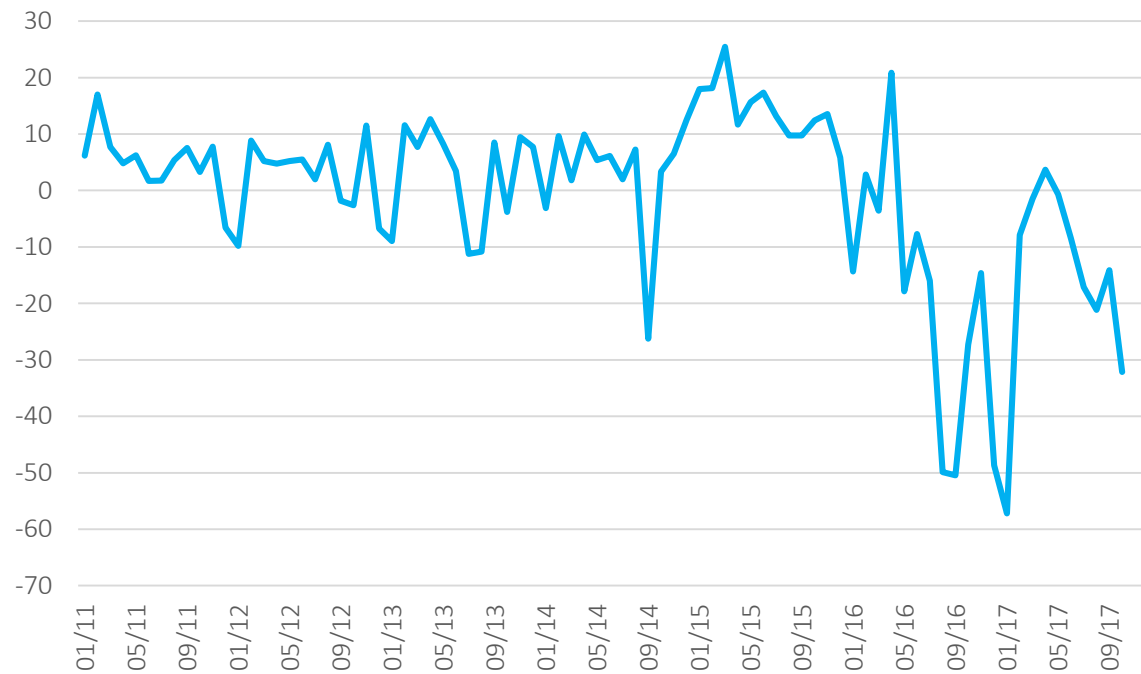
However the broader measures of incomes, such as disposable income, have shown much slower growth both in nominal and in real terms

The low disposable income is a constraint on inflation and ultimately caps the spending recovery

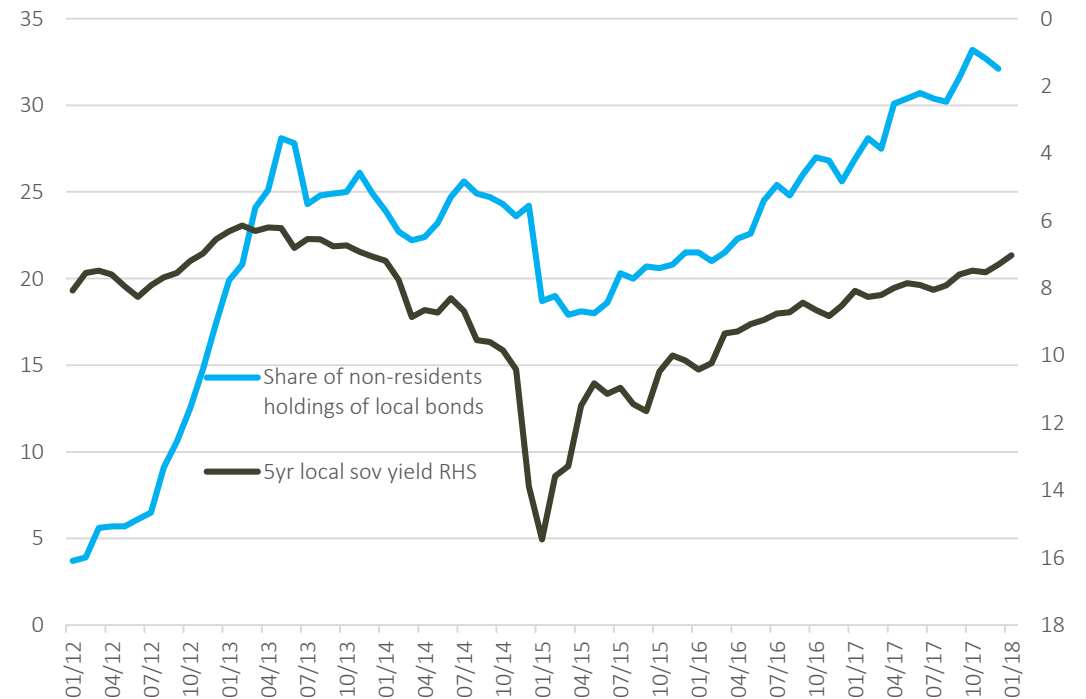


# Shrinking industrial base, favours low CPI

Net balance of newly registered vs. liquidated companies



Non-resident positioning in the local bond market



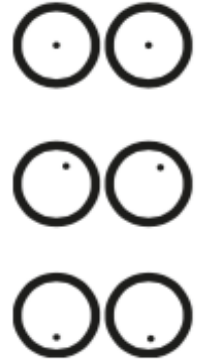
Source: Macrobond, ADA Economics Ltd

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