
UCBR: Russian economy at a glance

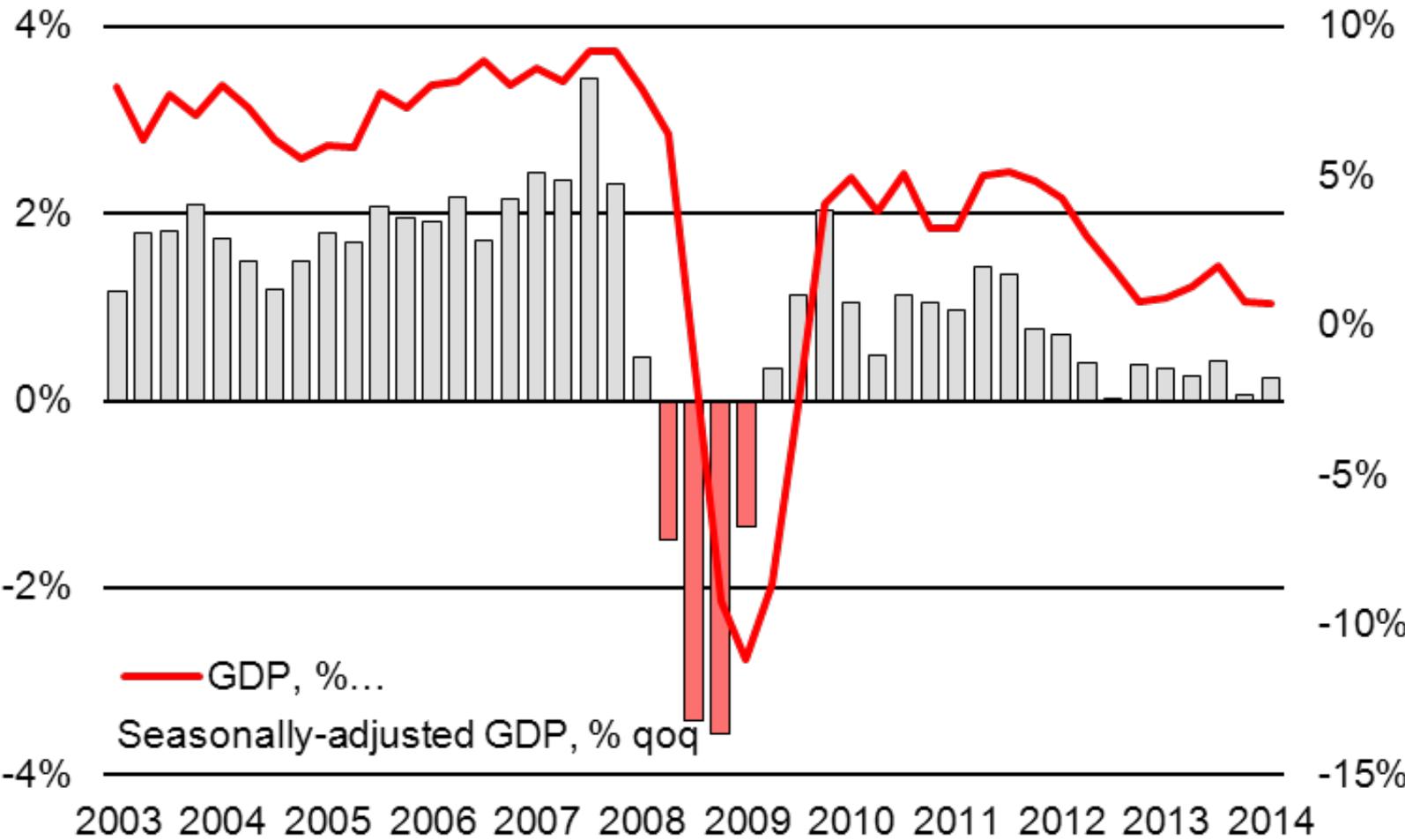
Part I: Assumptions and external conditions

Assumptions and external economic conditions

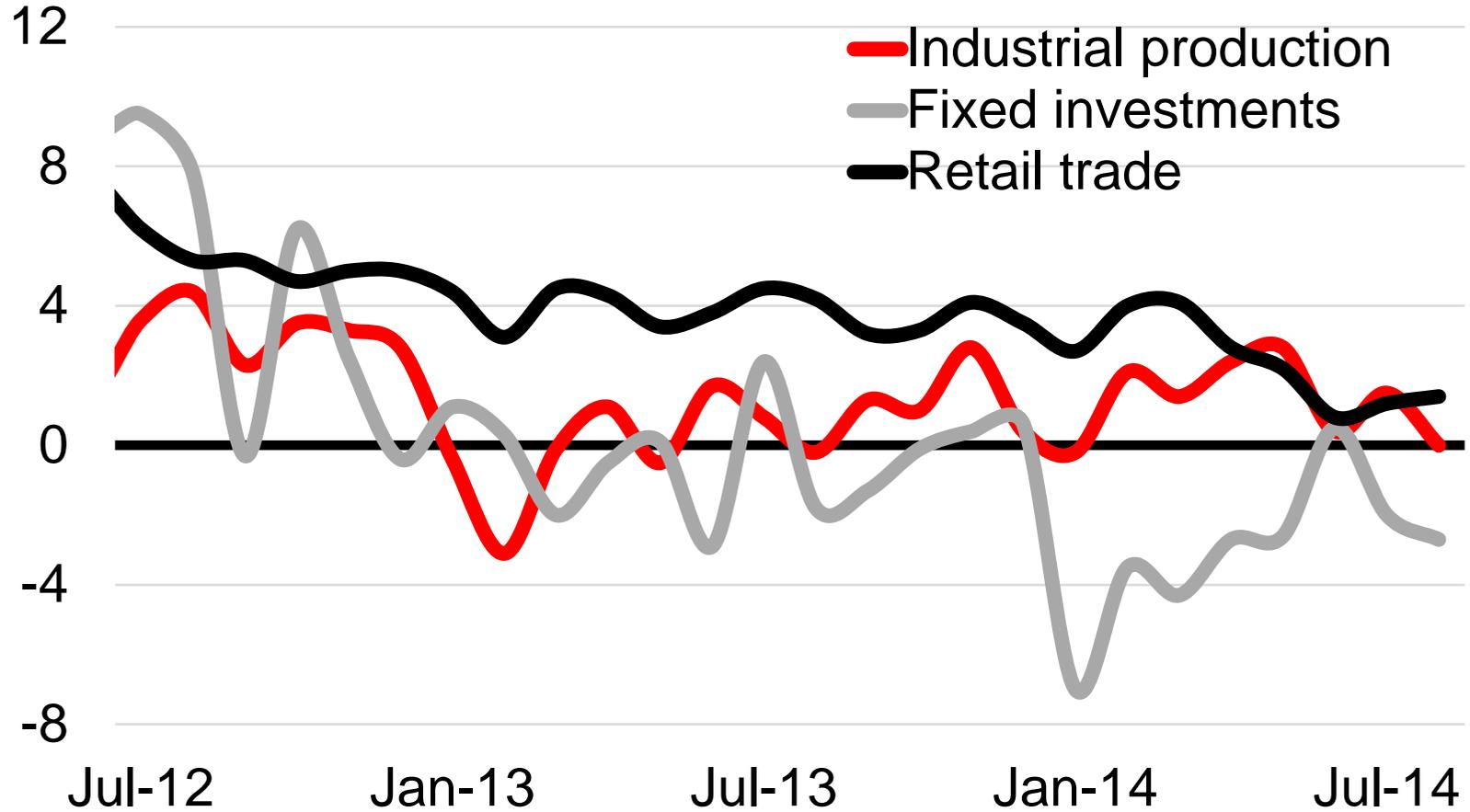
- The tapering will continue, and so USD rates might change earlier than expected, base case – 2nd quarter 2015 (to reach 3,75% in 2016).
- “Normalization” in Europe goes on, however, growth rate has decelerated, so the performance will not be that wonderful. ECB is applying additional measures, but their efficiency has yet to be tested.
- EUR-USD is projected to trend higher, so 2014eop EUR is forecasted at 1.36, with further growth to 1,4 in 2015.
- No upside in oil price is expected due to strong supply and weakening demand. Moreover, the US threatens to open up their strategic reserves. Forecast for 2014: at USD 107 per barrel.
- Most of the currencies of EMs suffered a substantial capital outflows earlier this year, while precious metals’ prices indicated strong demand. Now such risks are much less pronounced.

Part II: Russian real sector at a glance

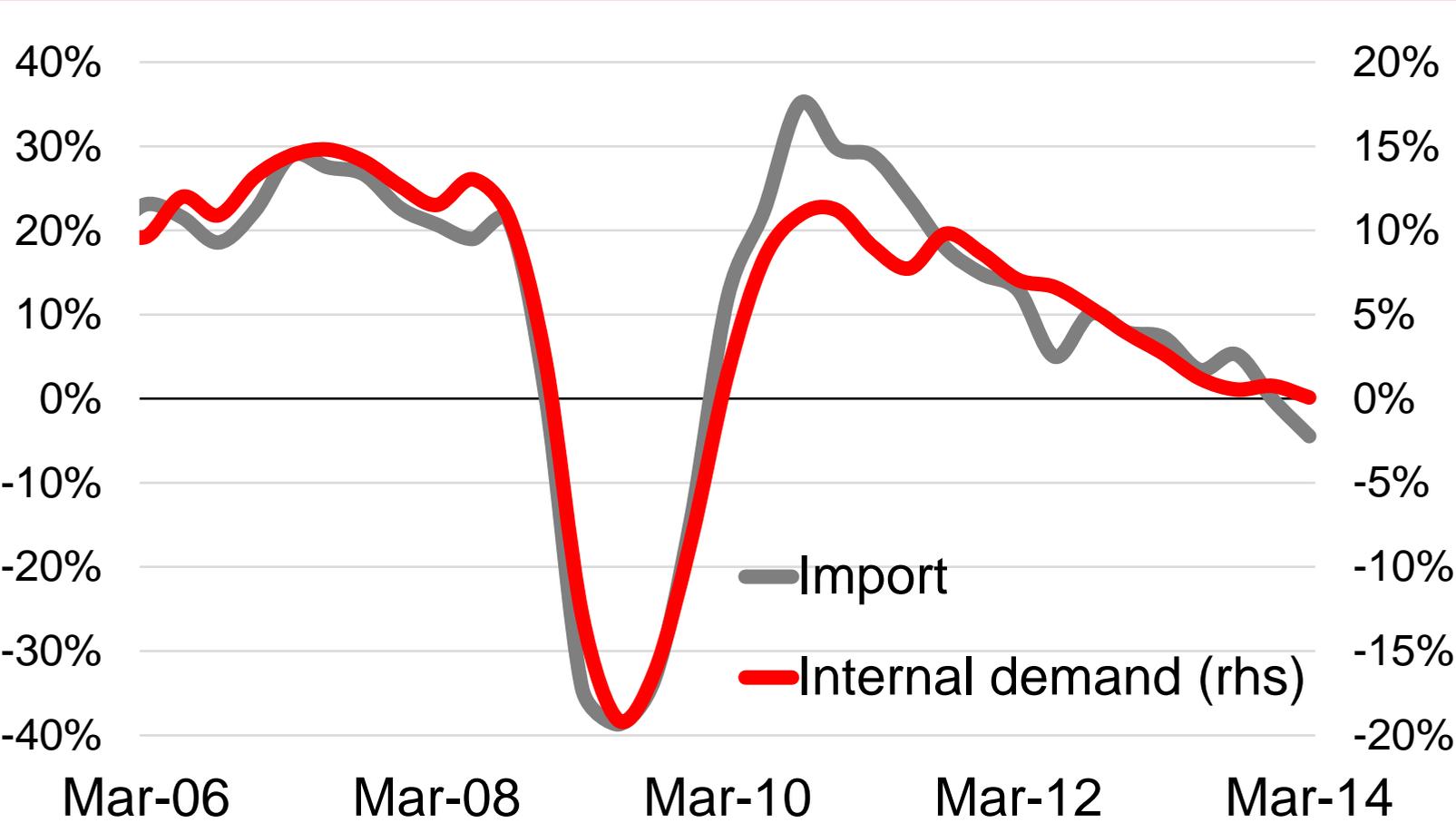
Russian economy managed to avoid recession...



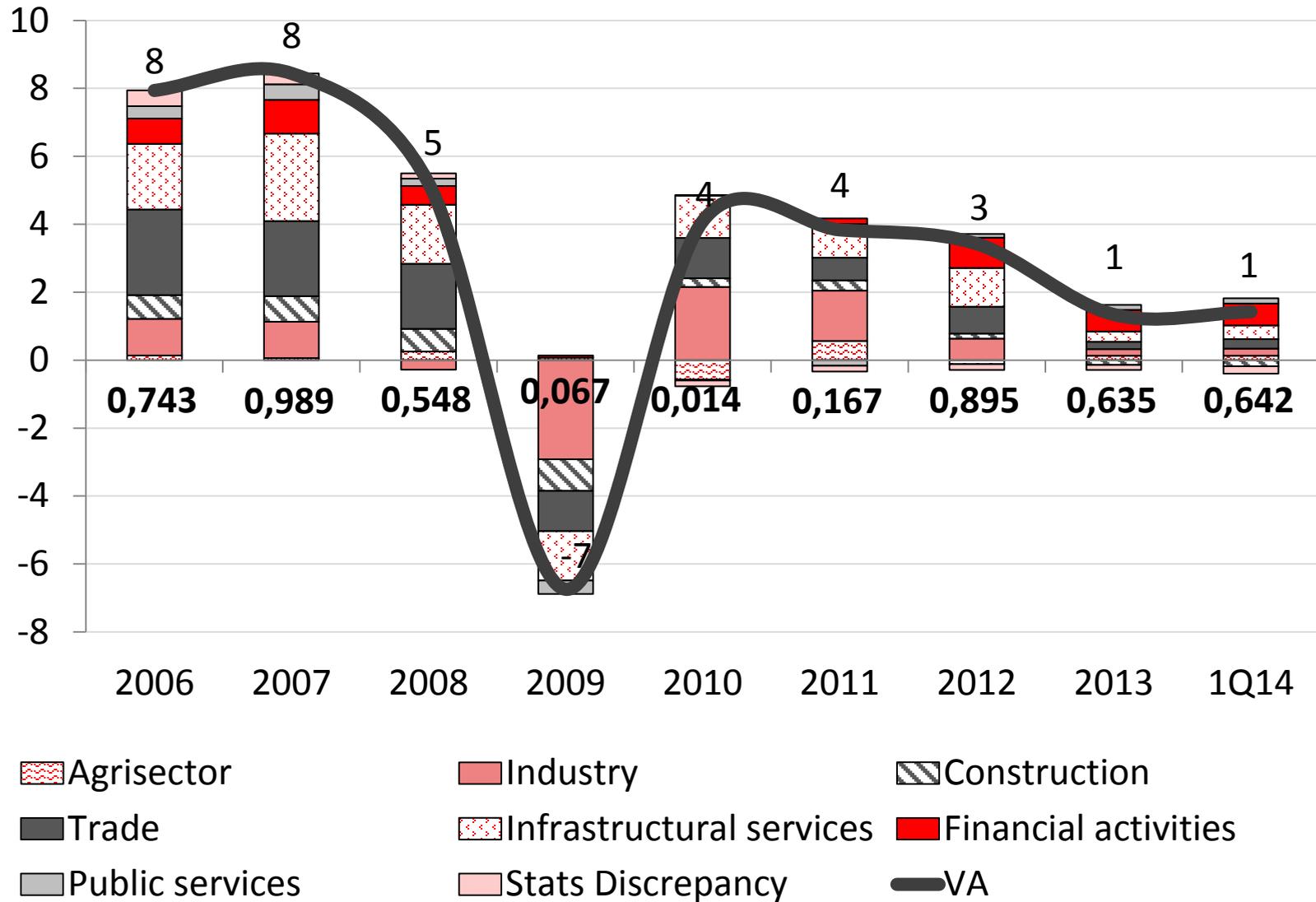
...although major activity indicators remain weak



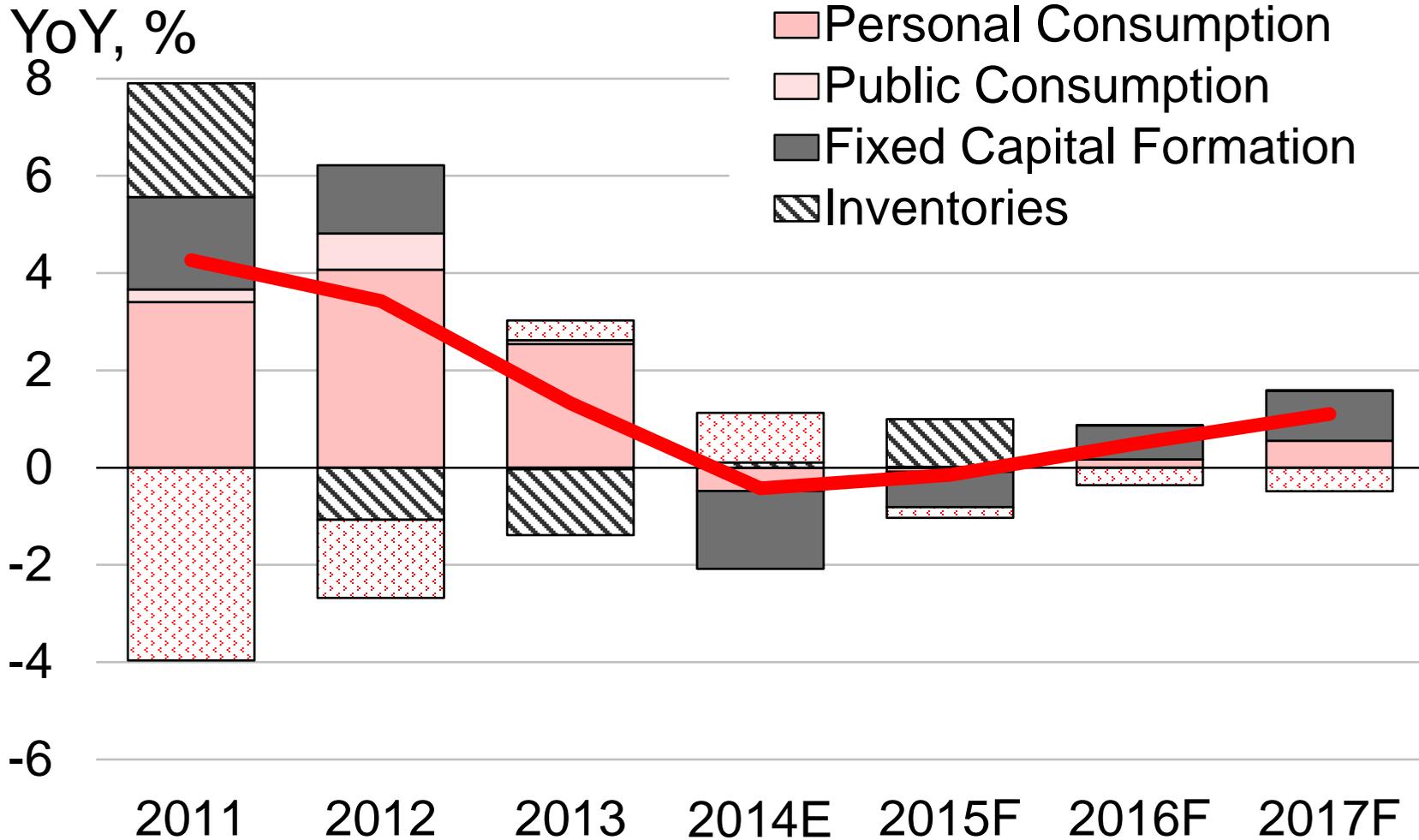
Import contraction added to resilience...



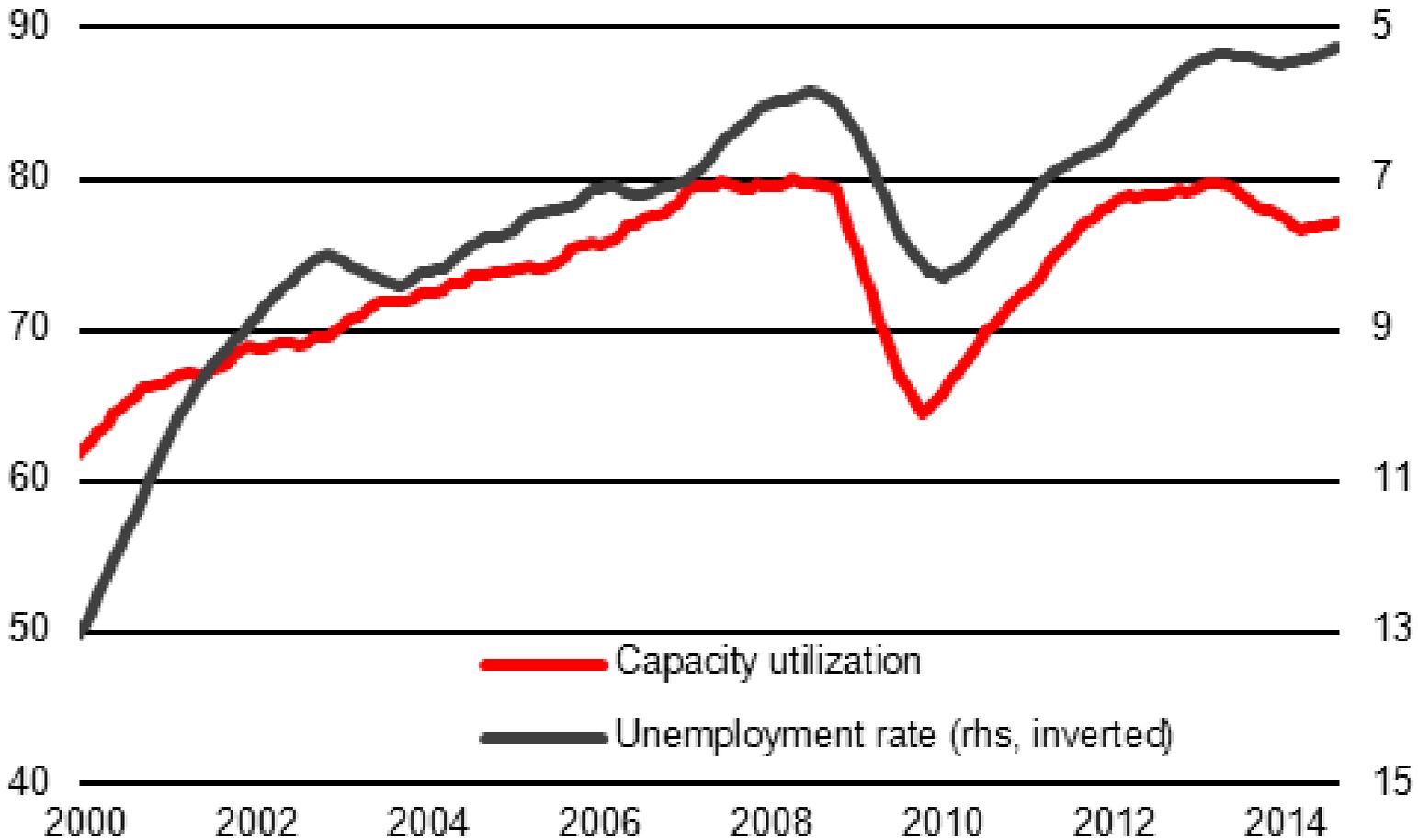
...but growth structure is not sustainable



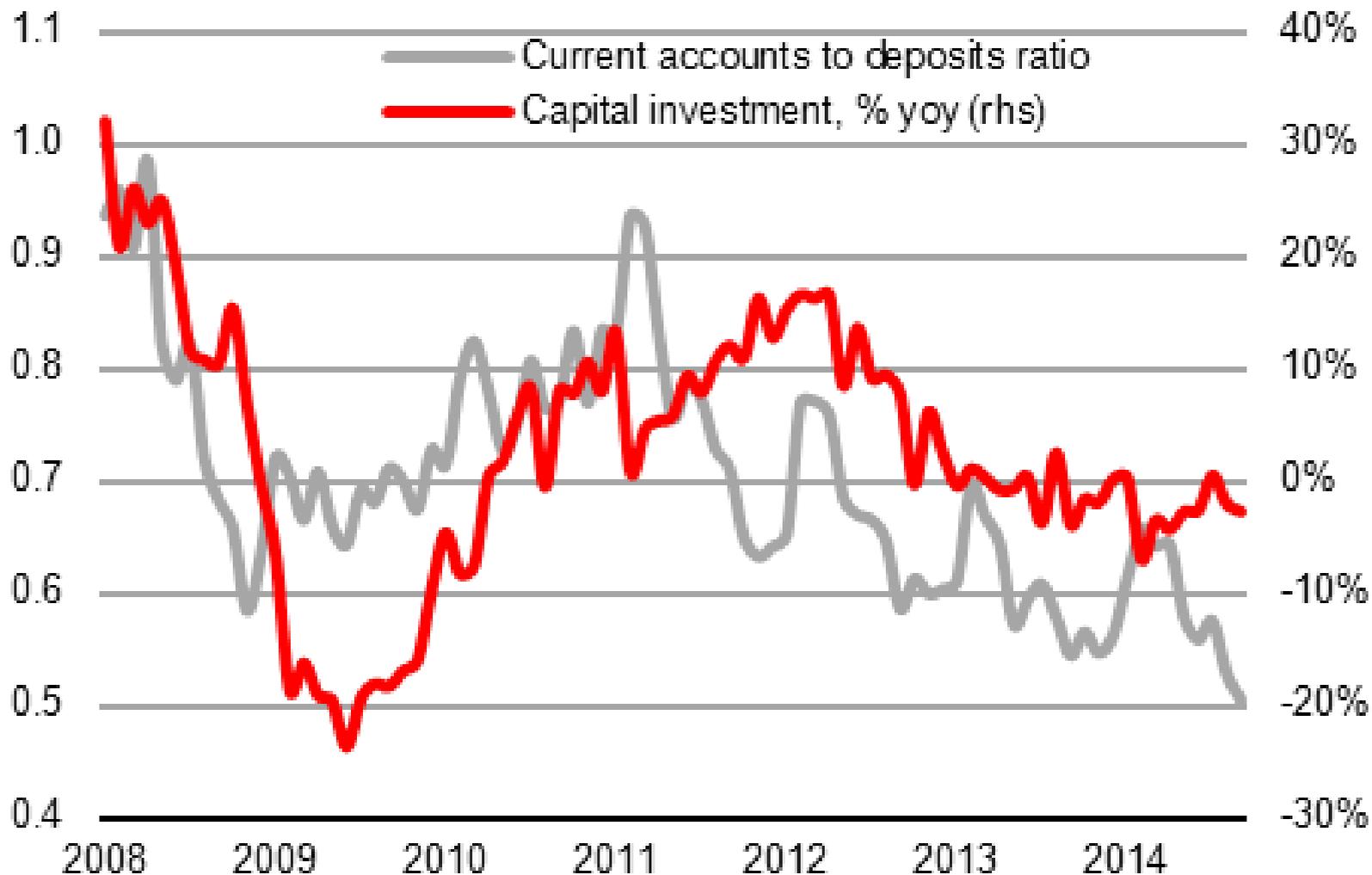
Recession in 2014 is our base case



Blame high capacity utilization...

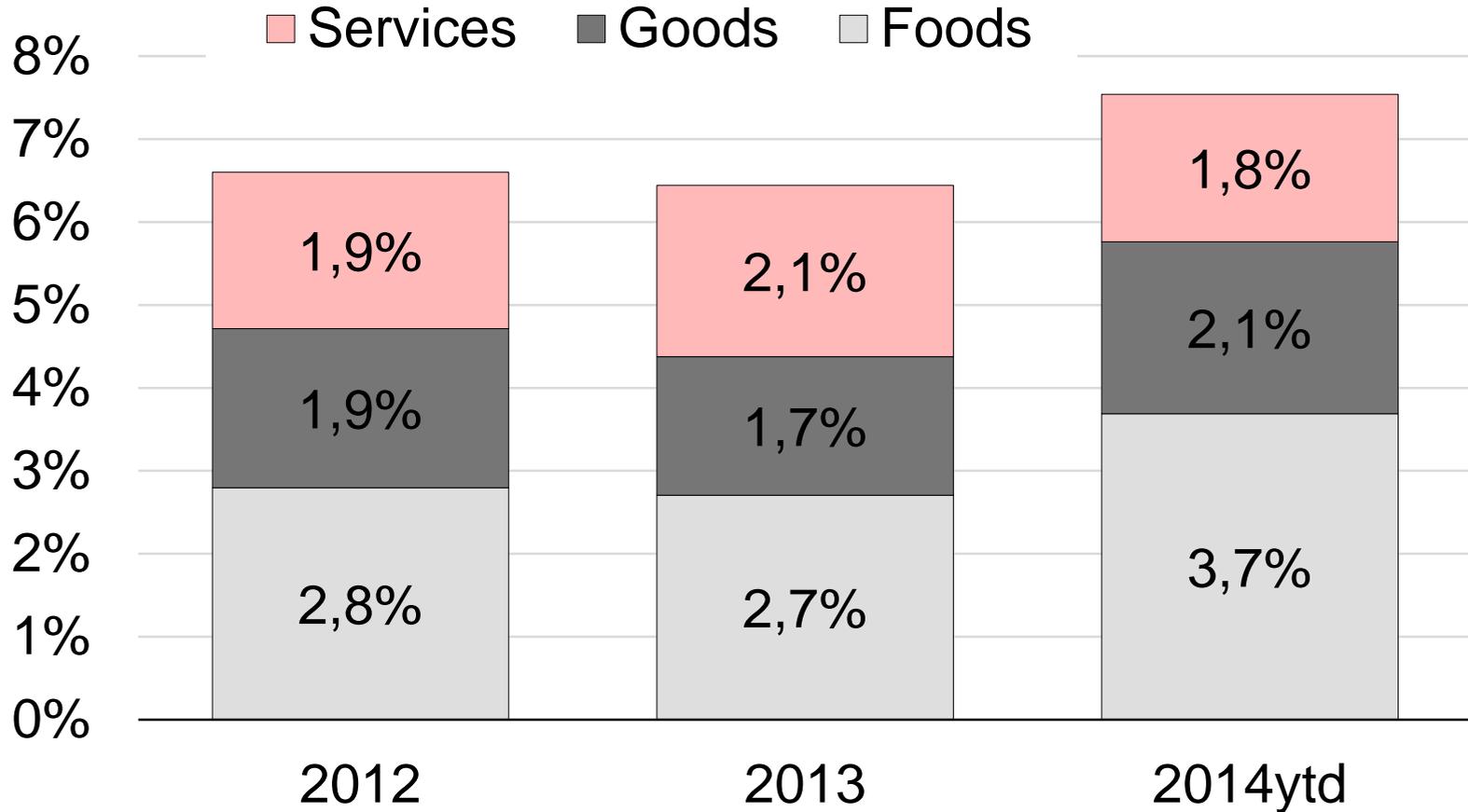


... and low confidence

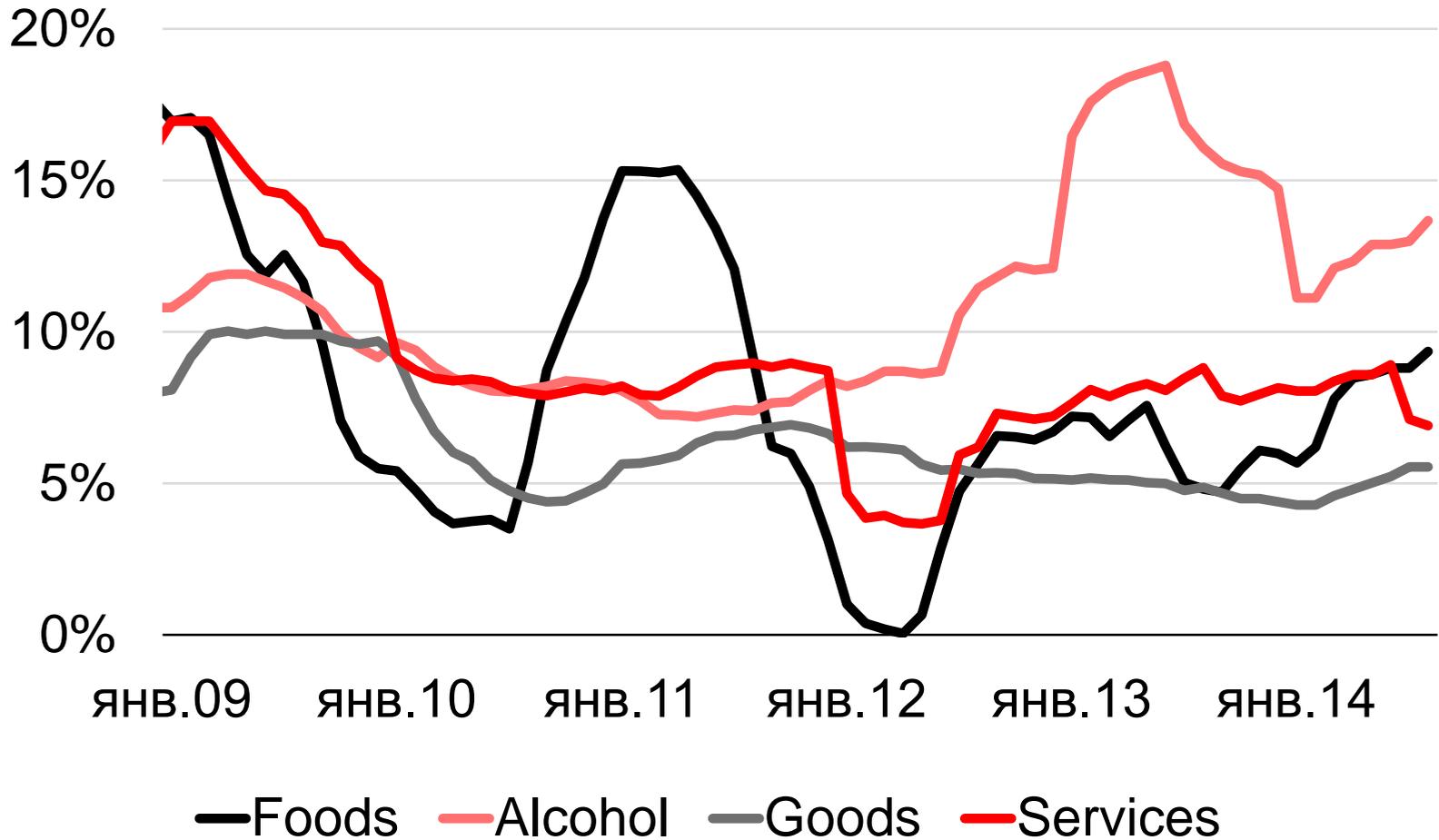


Part III: Inflation outlook

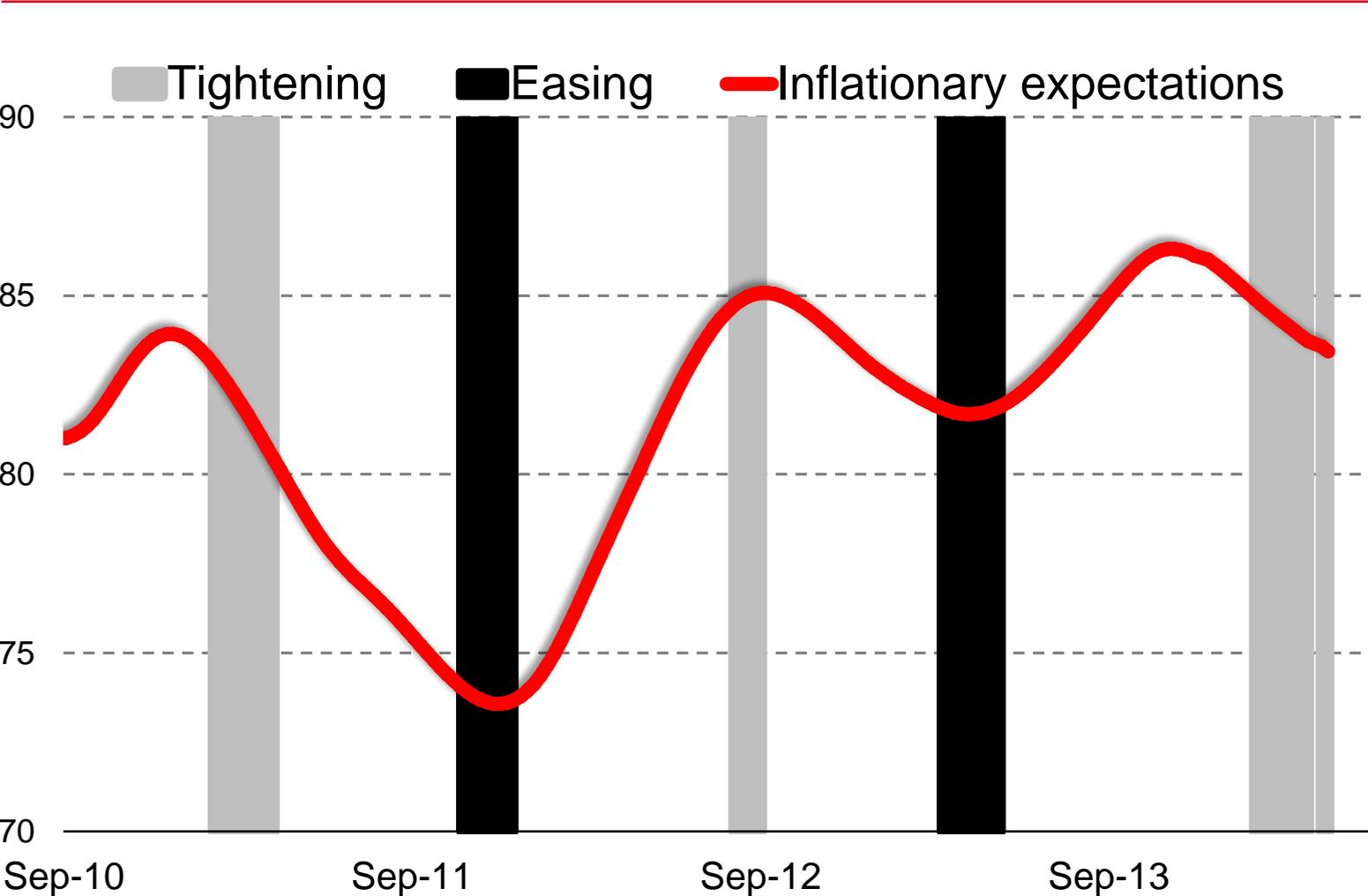
Inflation has accelerated in key components...



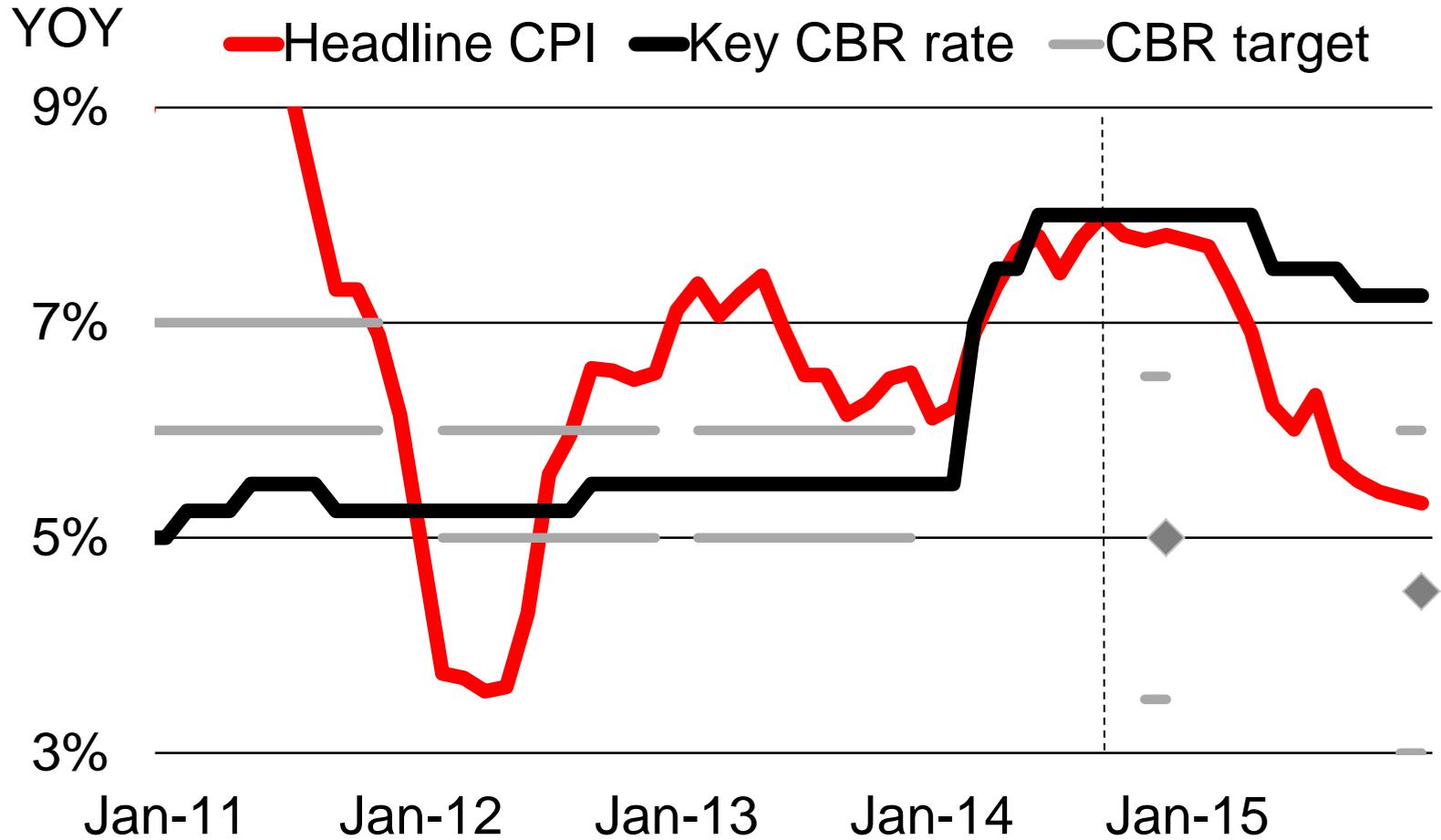
...and the CBR cannot control some of them



Inflation expectations are still high...

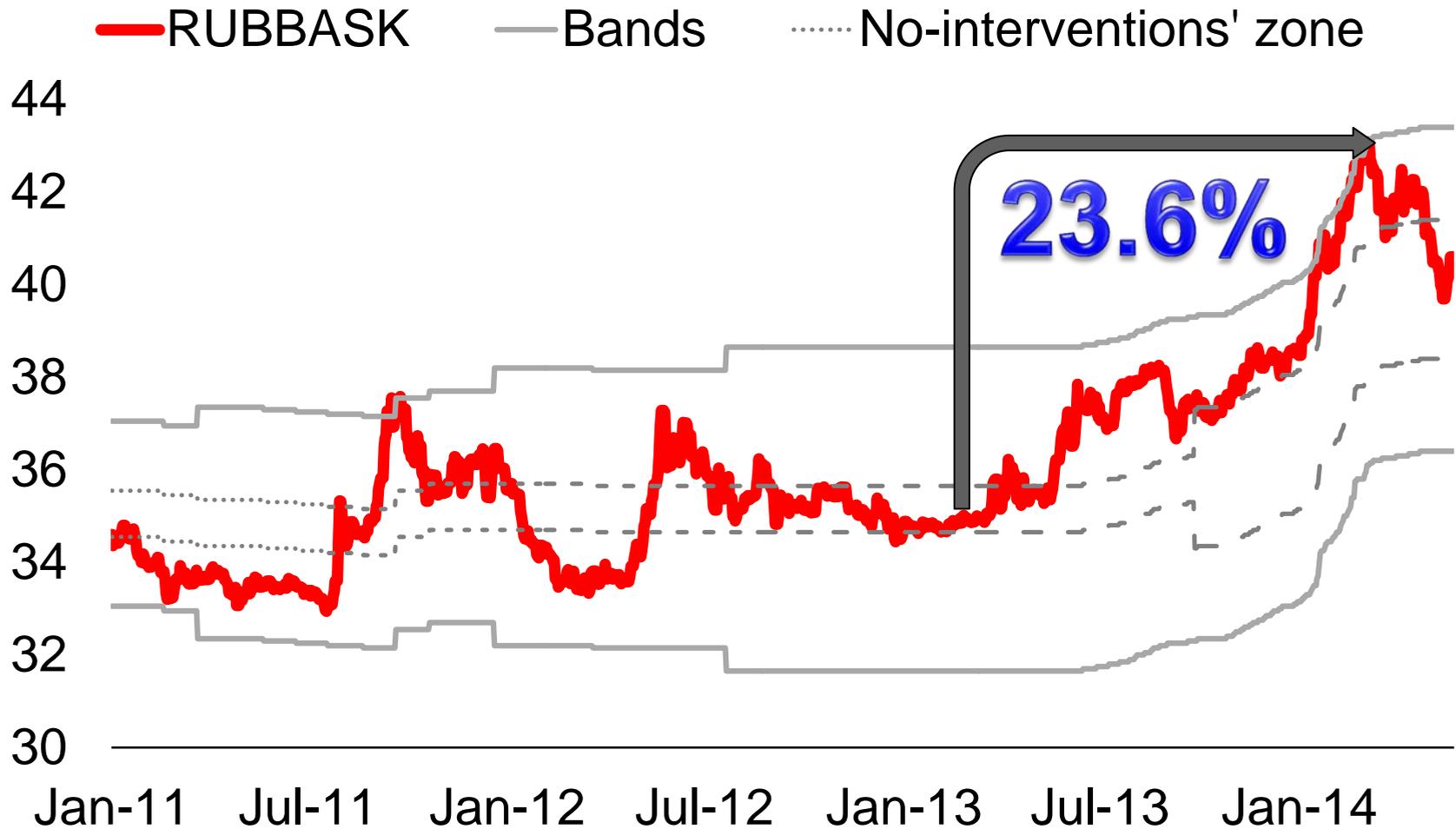


...so the CBR will stay tight for a while

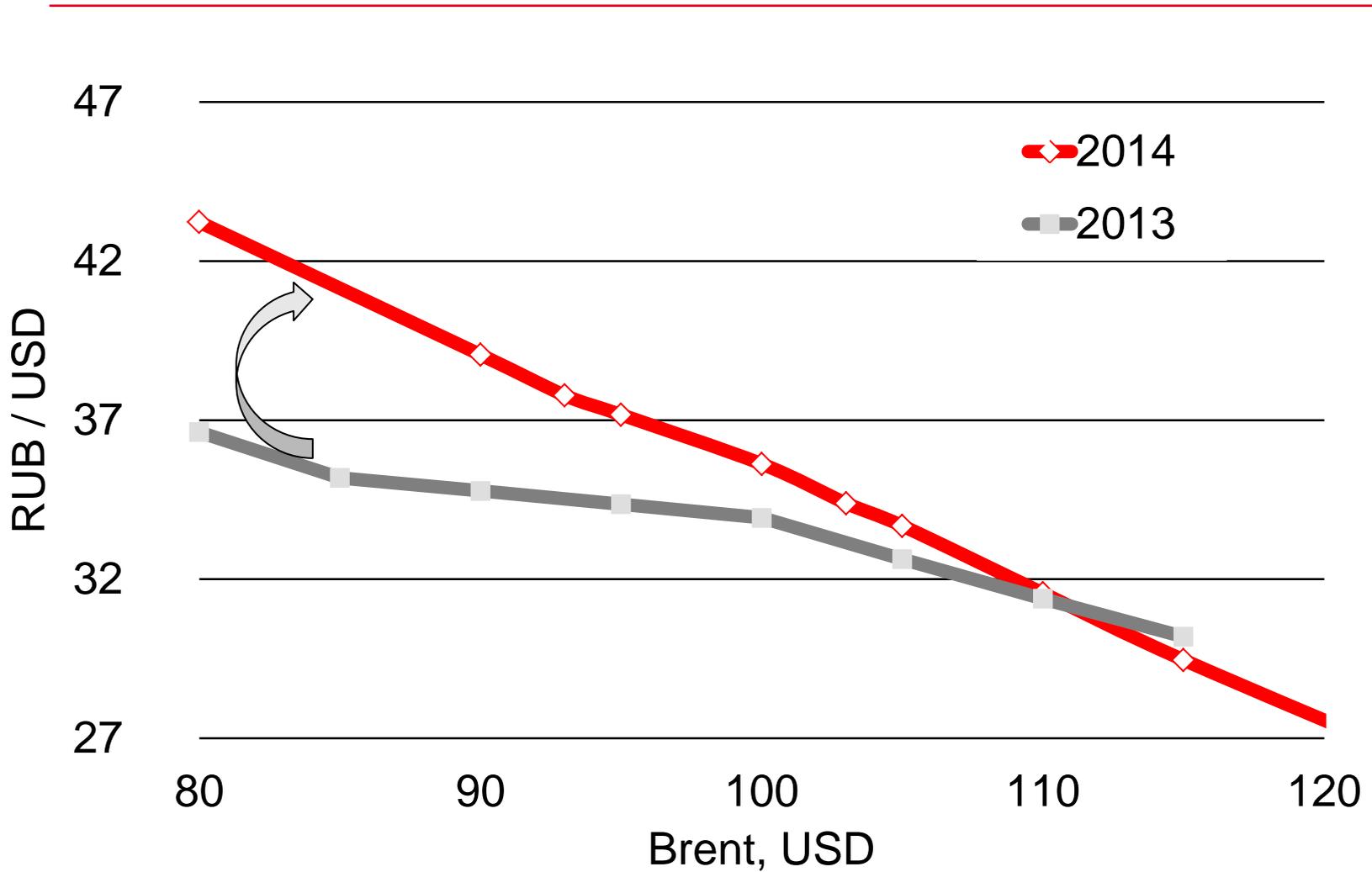


Part IV: Exchange rate outlook

RUB value started to deteriorate in 2013...



...because fundamentally it is weak

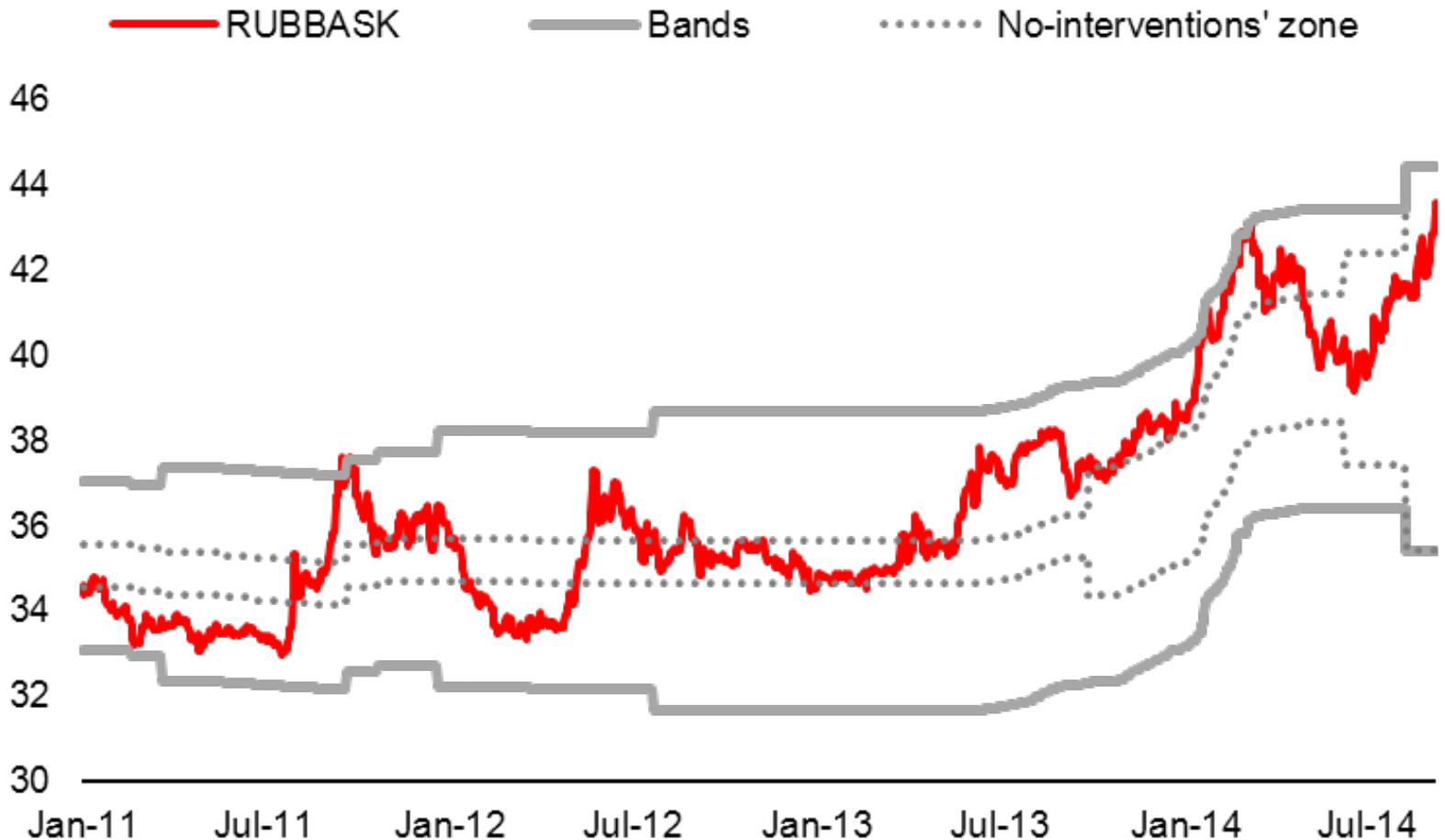


...because fundamentally it is weak

		2014				
		Inflow of capital, USD bn				
		40	50	60	70	80
Outflow of capital, USD bn	80	115.0	110.0	104.5	97.5	89.5
	90	120.0	115.0	110.0	104.5	97.5
	100	125.0	120.0	115.0	110.0	104.5
	110	130.0	125.0	120.0	115.0	110.0
	120	-	130.0	125.0	120.0	115.0
	130	-	-	130.0	125.0	120.0

		2013			
		Inflow of capital, USD bn			
		40	50	60	70
Outflow of capital, USD bn	100	109.0	105.0	100.0	94.0
	110	112.5	109.0	105.0	100.0
	120	115.5	112.5	109.0	105.0
	130	118.0	115.5	112.5	109.0
	140	120.0	118.0	115.5	112.5

CBR policy is aimed at free-floating RUB regime...



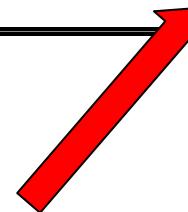
...although price stability is very important

Date		<7-Oct	7-Oct	21-Oct	10-Dec	13-Jan	3-Mar	22-May	17-Jun	15-Aug	
CBR policy intention		Total daily interventions, USD mn									
RUB support	Basket width 7 RUB	-400	-400	-400	-400	-400	-400	-300	-200	***	
		-200	-200	-200	-200	-200	-200	-100			
'Neutral band'		-70									
FX purchase		0	0	0	0	0	0	0	0	0	
		70									
		200	200	200	200	200	200	100			
		400	400	400	400	400	400	300	200		
Daily targeted interventions*		120	120	60	60	0	0	0	0	0	
Accumulated int. to shift band**		400	400	400	350	350	1500	1500	1000	350	

* do not influence the band, USD mn

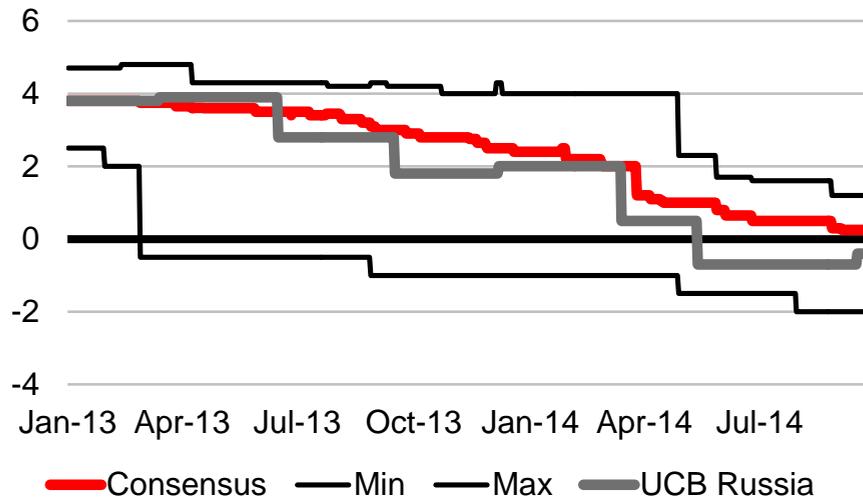
** interventions that affect the basket

*** special technical band for MinFin's operations



Conclusion

Russian economy: summing up our mid-term outlook



- ▶ An adjustment in imports alone is unable to compensate other => GDP is to decline we expect **-0,4% yoy in 2014**, and mild recession / stagnation in 2014-2015
- ▶ Inflationary pressure is high, CPI will stay high (**above 7,5% in 2014**) and the CBR will act accordingly.
- ▶ RUB remains fundamentally weak, but the recent selloff has significantly eroded further weakening potential. RUB will drift to **37,3 per 1 USD** this year but depreciate in subsequent years

Macroeconomic outlook	2011	2012	2013	2014 F	2015 F
GDP, % yoy	4.3%	3.4%	1.3%	-0.4%	-0.1%
- Investment, % yoy	9.1%	6.4%	-0.1%	-7.2%	-3.5%
Brent crude, USD/barrel (pavg)	111	112	109	107	105
Inflation (CPI) yoy, eop	6.1%	6.6%	6.5%	7.8%	5.3%
Central Bank Reference rate, eop	5.3%	5.5%	5.5%	8.00%	7.25%
Current account, % GDP	6.0%	4.1%	1.6%	2.1%	1.5%
RUB/USD (pavg)	29.39	30.37	31.85	35.71	37.67
RUB/EUR (pavg)	40.87	40.23	42.41	48.41	51.89

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