



BNP PARIBAS | **CORPORATE & INVESTMENT BANKING**

Economic trends in 2011-12: the World and Russia

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World Economy: Country Breakdown

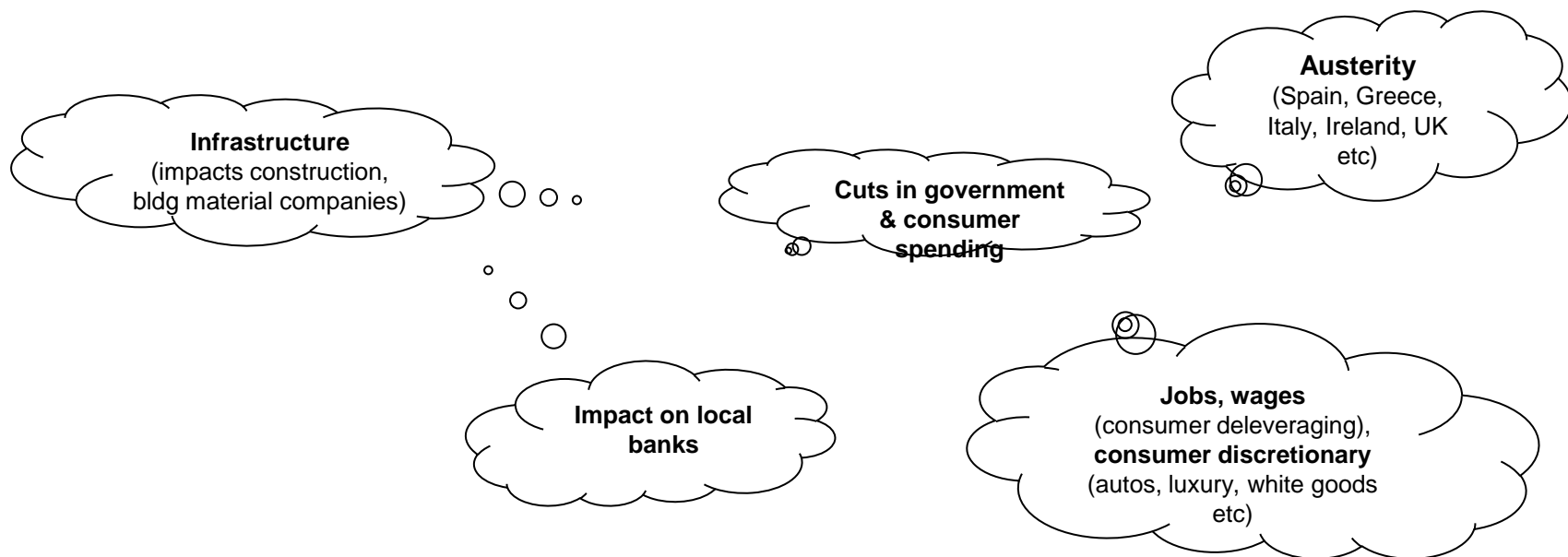
Country	World GDP & GDP Weights			
	Weight	2009	2010	2011
US	20.4	-2.6	2.8	2.7
Japan	6.0	-6.3	3.9	-1.2
Germany	4.0	-4.7	3.5	3.4
France	3.0	-2.5	1.5	2.0
Italy	2.5	-5.2	1.2	0.9
UK	3.1	-4.9	1.3	1.5
Canada	1.8	-2.5	3.1	2.4
China	12.6	9.2	10.3	9.5
Brazil	2.9	-0.6	7.5	3.8
Russia	3.0	-7.9	4.0	5.0
India	5.1	6.7	7.7	8.8
Eurozone	15.1	-4.0	1.7	1.8
World	100.0	-0.6	4.8	4.0

Source: BNP Paribas



Uncertainty ahead?

The Evolution of Global Financial Crisis - 2007 to 2010			
Early 2007 to Present	Mid 2007 to 2008	2008 to Present	2011-12
Real Estate Crisis	Banking Crisis Phase I	Banking Crisis Phase II	Sovereign Credit Risks
Residential Commercial	Securities Market	Bank Loans	



Global Economy: slowdown in growth + inflation challenge

- The Japanese earthquake and tsunami have reduced our forecast of global growth this year to 4% compared with 4.8% in 2010. Japanese GDP has been seriously affected
- We estimate effect of oil price shock at 0.5pp for the US and eurozone (and some more in some emerging markets)
- The US recovery looks better now: we project growth at around 2.5% and 3.1% in 2011 and 2012 respectively. In the eurozone, we expect economic growth to be 1pp below that in the US, but still above potential , averaging 1.65% in 2011-12. Germany continues to outperform
- Chinese growth is slowing but does not rise any concerns
- Global inflation picked up to 3.5% in 2010 – and we expect it to raise further to 4.4% in 2011. Monetary policies still remain stimulative. Stabilisation in food prices and oil prices in 2012 should result in CPI slowing to 3.6% in 2012
- Recent high food prices have a structural component and a more temporary one (La Nina)

GDP Forecast

	2009	2010	2011F	2012F	2013F
World	-0.6	4.8	4.0	4.4	4.2
G7	-3.7	2.8	1.8	2.5	2.4
US	-2.6	2.9	2.5	3.1	2.8
Japan	-6.3	3.9	-1.2	1.6	1.3
Eurozone	-4.0	1.7	1.8	1.5	1.7
China	9.1	10.3	9.5	9.2	8.8
UK	-4.9	1.3	1.5	1.5	2.6
Canada	-2.5	3.1	2.4	2.8	2.9
Asia Ex-Japan	6.2	9.2	8.3	8.1	8.0
CEE	-5.8	3.1	4.0	4.4	3.5
Latin America	-2.0	6.2	4.5	3.1	3.5

Source: BNP Paribas

CPI forecast

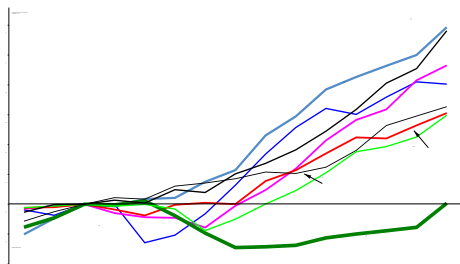
	2009	2010	2011F	2012F	2013F
World	1.8	3.5	4.4	3.6	3.4
G7	-0.1	1.4	2.4	1.6	1.7
US	-0.3	1.6	2.6	1.5	2
Japan	-1.4	-0.7	0.6	0.7	0.7
Eurozone	0.3	1.6	2.7	2	1.5
China	-0.7	3.3	4.3	4	3.8
UK	2.2	3.3	4.6	2.4	1.8
Canada	0.3	1.8	2.1	2.5	2.3
Asia Ex-Japan	0.6	4.5	5.2	4.2	4
CEE	7.9	5.1	7.5	6.3	5.7
Latin America	5.6	7.2	8	7.4	6.6

Source: BNP Paribas



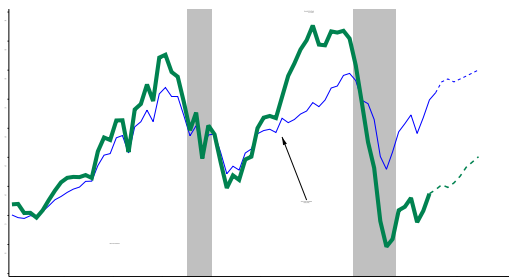
US: Gradually Making Progress

This has been the slowest recovery in the post-war period although there was a pick-up in momentum in Q4 2010.



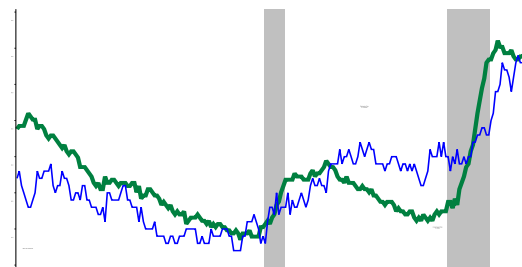
Source: Reuters Ecowin Pro, BNP Paribas

Household net worth is gradually improving as rising stock values and high saving rates more than offset the impact of falling house prices. We expect the gradual improvement to continue.



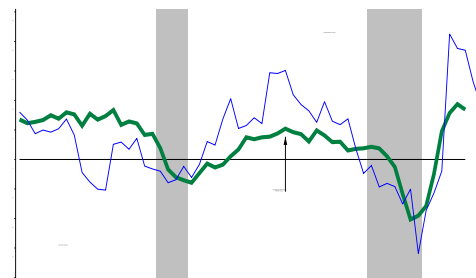
Source: Reuters Ecowin Pro, BNP Paribas

Virtually all of the decline in the unemployment rate from 10.1% in October 2009 to 8.9% in February 2011 is accounted for by declining labour force participation. We expect better job growth and further declines in participation to push the unemployment rate lower.



Source: Reuters Ecowin Pro, BNP Paribas

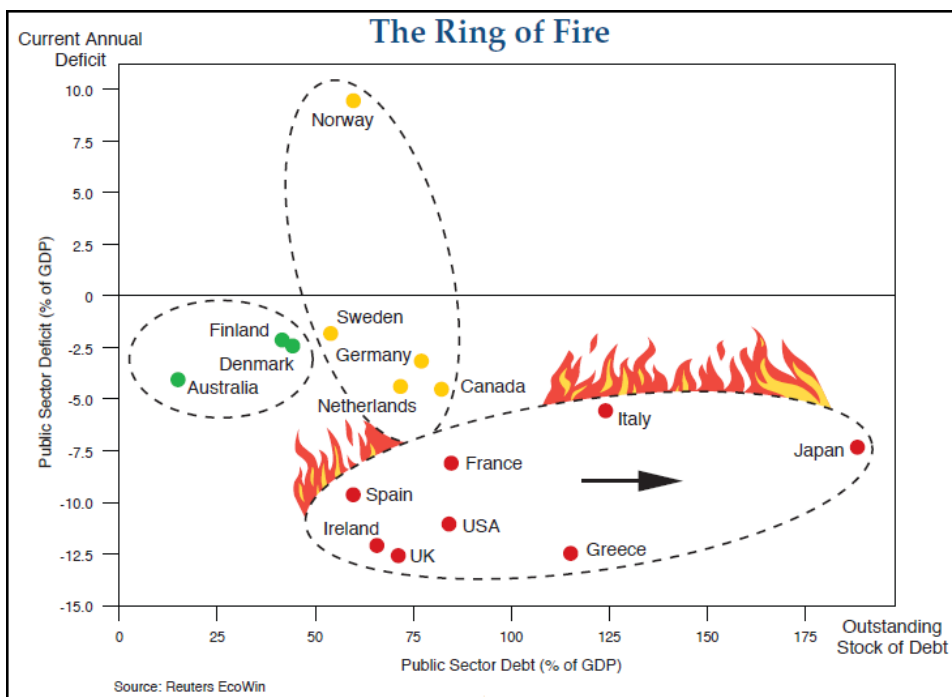
US corporations have proven to be globally competitive and are investing to maintain their edge. Equipment and software investing should continue to be strong.



Source: Reuters Ecowin Pro, BNP Paribas



Sovereign debt concerns – The Eurozone is not alone



Country	Gross Gov. Debt (% GDP)			
	2009	2010	2011F	2012F
Australia	17.6	21.5	24.0	25.0
Canada	31.3	29.4	30.6	29.8
Denmark	41.4	42.3	44.7	46.7
France	78.3	81.7	84.8	86.8
Germany	73.4	75.1	74.3	73.5
Greece	126.8	142.5	155.5	162.3
Ireland	65.5	99.3	111.4	119.5
Italy	116.0	119.0	119.3	118.8
Japan	173.0	181.0	189.0	195.0
Korea	32.6	33.3	32.5	31.7
Netherlands	60.8	64.3	66.1	65.9
Norway	44.1	45.0	44.1	42.4
Portugal	82.9	92.4	99.7	104.4
Spain	53.2	62.0	67.8	72.2
Sweden	41.9	40.2	38.2	35.3
Switzerland	38.8	38.2	37.5	36.7
UK	71.2	77.5	80.5	83.6
US	53.5	61.2	70.1	75.2
median	57.2	63.2	69.0	72.9
mean	66.8	72.6	76.1	78.0

Redemptions & Funding Needs

	2011	2012	2013
Ireland			
Redemptions (EURbn)	4.4	5.6	6.0
Redemptions (% GDP)	2.7	3.5	3.8
Budget balance (EURbn)	-16.4	-12.9	-10.1
Funding needs (EURbn)	20.8	18.5	16.1
Redemptions as % of Funding Needs	21.1	30.2	37.4
Portugal			
Redemptions (EURbn)	9.6	8.5	8.7
Redemptions (% GDP)	5.8	5.1	5.2
Budget balance (EURbn)	-9.6	-7.0	-5.1
Funding needs (EURbn)	19.3	15.5	13.8
Redemptions as % of Funding Needs	50.0	54.8	63.1
Spain			
Redemptions (EURbn)	45.1	46.4	54.8
Redemptions (% GDP)	4.3	4.4	5.2
Budget balance (EURbn)	-72.1	-54.9	-38.7
Funding needs (EURbn)	117.2	101.3	93.5
Redemptions as % of Funding Needs	38.5	45.8	58.6
Italy			
Redemptions (EURbn)	160.2	187.2	119.1
Redemptions (% GDP)	10.1	11.6	7.2
Budget balance (EURbn)	-74.2	-67.5	-55.5
Funding needs (EURbn)	234.4	254.7	174.6
Redemptions as % of Funding Needs	68.3	73.5	68.2

Source: BNP Paribas, Bloomberg



BNPP view on EUR/USD: Last quarter vs. Current View

BNP Paribas view (as of 2010-end)

- Foreign debt crisis increases risks for EUR
- High refinancing needs from EU periphery (in particular Italy and Spain) increase pressure
- Funding needs in 2011: Ireland (EUR20.8bn), Portugal (EUR19.3bn), Spain (EUR117.2bn), Italy (EUR234.4bn). The peak of demand is expected in Q3'11

	Q211	Q311	Q411	Q112	Q212	Q312	Q412
EUR/USD	1.23	1.22	1.20	1.22	1.24	1.26	1.25
EU Refi Rate (%)	1.00	1.00	1.00	1.00	1.00	1.00	1.25
Fed Funds Rate (%)	0.25	0.25	0.25	0.25	0.25	0.25	0.50

Source: BNP Paribas

BNP Paribas view (as of Mar-2011)

- Less concerns on debt crisis in 2011-12: successful save for Ireland, Greece.
- Developed mechanism of further financial support
- Stronger economic growth in Germany (3.5%/y in 2010)
- ECB is likely to start tightening, which is expected to be aggressive.

	Q211	Q311	Q411	Q112	Q212	Q312	Q412
EUR/USD	1.45	1.46	1.40	1.37	1.33	1.30	1.29
EU Refi Rate (%)	1.25	1.50	1.75	2.00	2.25	2.50	2.50
Fed Funds Rate (%)	0.25	0.25	0.25	0.25	0.25	0.75	1.00

Source: BNP Paribas

Level of uncertainty is remaining high

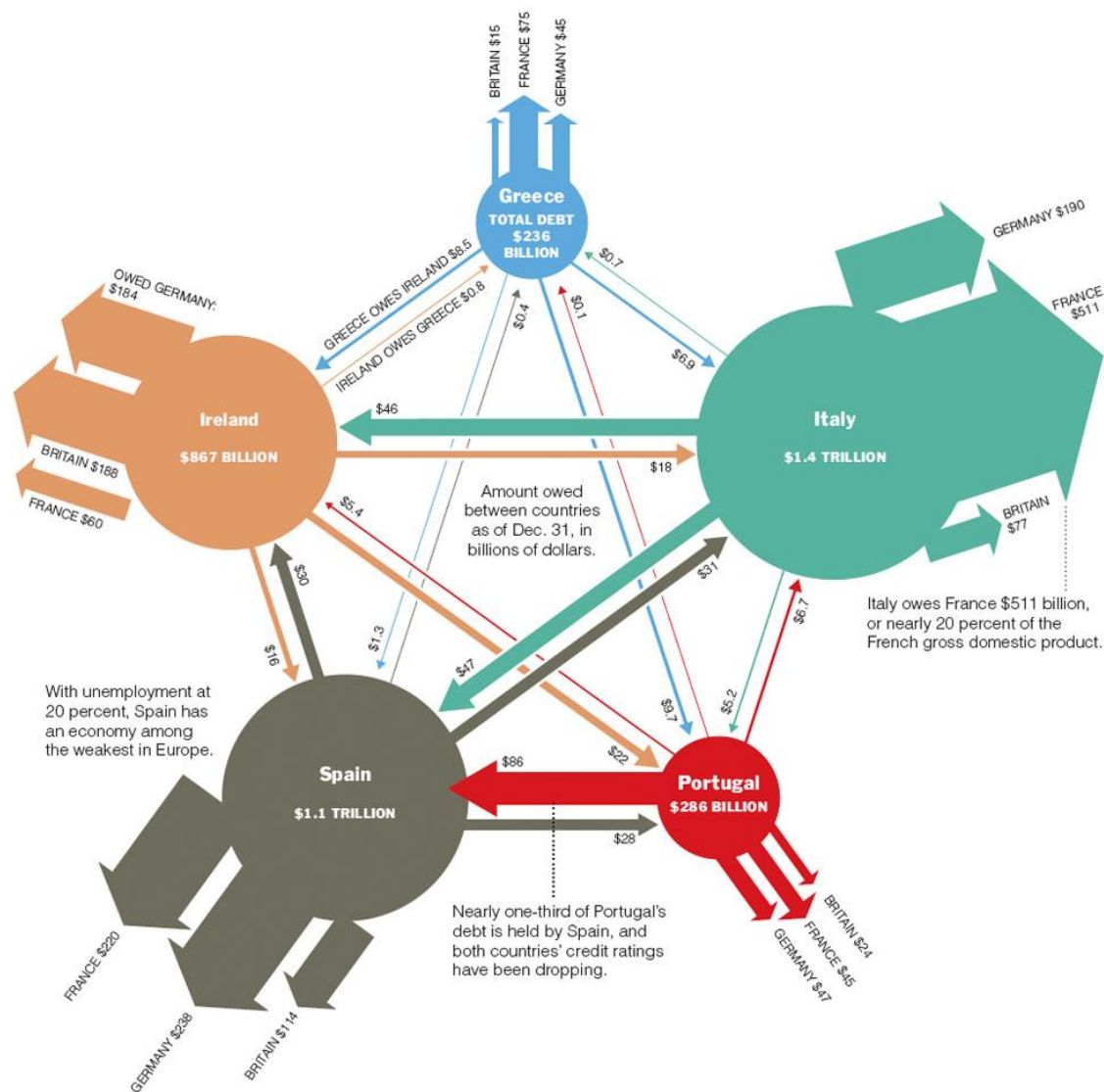
Debt crisis is not over



high volatility is likely



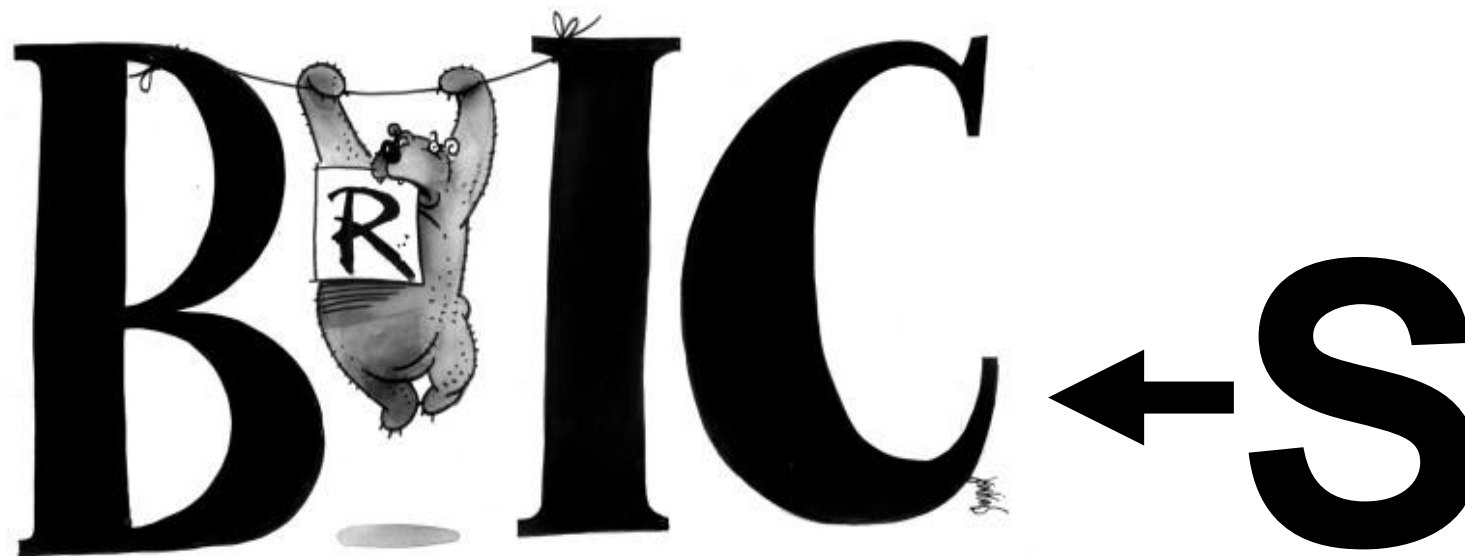
Interconnections Increase Concerns



Source: New York Times



BRIC: Russia Underperformed



Country	GDP growth (% y/y)				Key Policy Rate (%) (year-end)				CPI (% y/y)			
	2010	2011F	2012F	2013F	2010	2011F	2012F	2013F	2010	2011F	2012F	2013F
Brazil	7.5	3.8	2.0	4.1	10.75	13.00	12.00	10.75	5.0	6.7	5.7	4.8
Russia	4.0	5.0	5.7	4.3	7.75	9.00	9.00	8.00	6.9	9.6	8.7	8.0
India	8.6	8.8	8.3	8.6	6.25	7.50	8.00	8.50	9.5	8.0	5.8	5.3
China	10.3	9.5	9.2	8.8	5.81	6.81	7.06	7.06	3.3	4.3	4.0	3.8

Source: BNP Paribas



RUSSIA

- Economic growth acceleration to 5+% y/y
- Inflation up – tightening ahead
- Balanced budget: SWF preserved, no Eurobond issuance
- Election Season: no changes in economic policy ahead



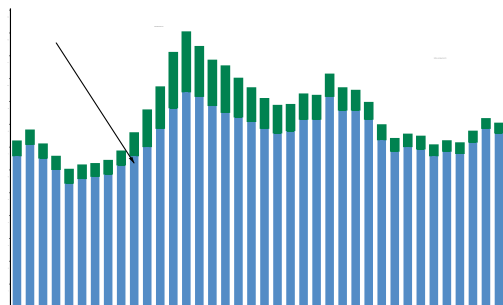
Recovery Continues...trends stabilise

Industrial growth has become the locomotive of recovery. We expect it to remain high at 5.6% y/y in 2011 (8.2% y/y in 2010)



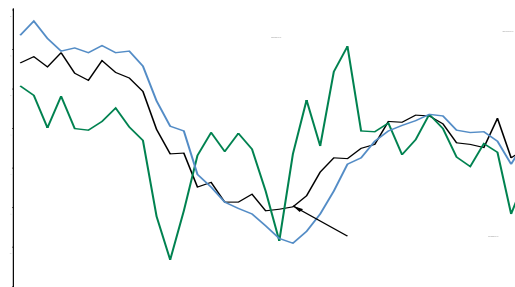
Source: FSSS, Bloomberg, BNP Paribas

Spike in unemployment avoided (% of economically active population). Unemployment is likely to decline further in 2011 (BNPP forecasts 6.9% in 2011 vs. 7.5% in 2010)



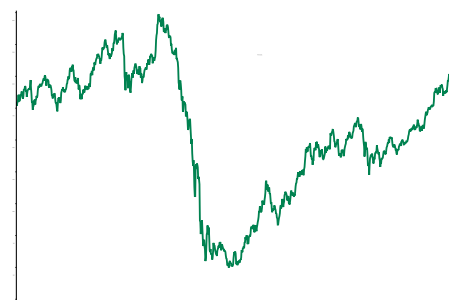
Source: FSSS, BNP Paribas

Recovery in consumption has become visible in 2010 and should be sustainable. We see private consumption accelerating to 5% y/y in 2011



Source: FSSS, BNP Paribas

RTS performance was impressively good in 2009 – but Russia underperforms EMEA in 2010. We expect c.+25% in 2011



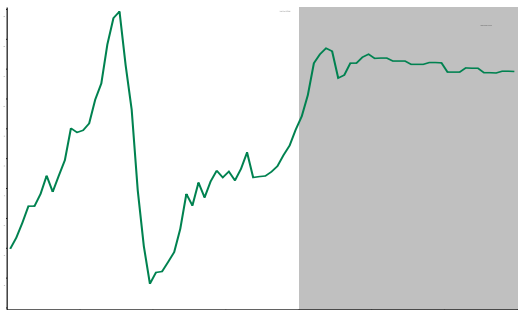
Source: Reuters Ecowin Pro



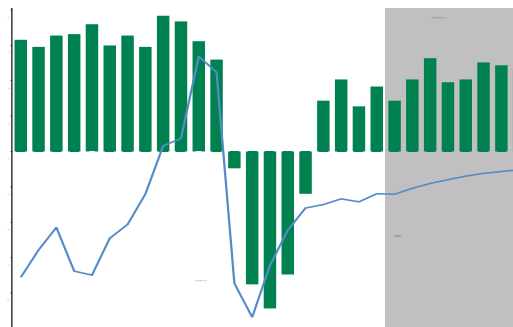
New Optimism: consensus in a range of 4-5% for the medium term

- We expect oil prices to remain favourable for Russia (USD111/bbl and USD112/bbl is expected in 2011 and 2012 respectively)
- We are bullish on the pace of recovery, expecting 5% in 2011 and 5.7% in 2012
- Consensus on economic growth: in the range 4-5%. We expect growth to average 5% in the medium term
- Russia is likely to return to pre-crisis growth rates of 7-8% if oil prices exceed USD120-140/bbl

: We expect Urals to stay around USD110-112/bbl in the coming years



GDP growth has accelerated on the back of higher oil

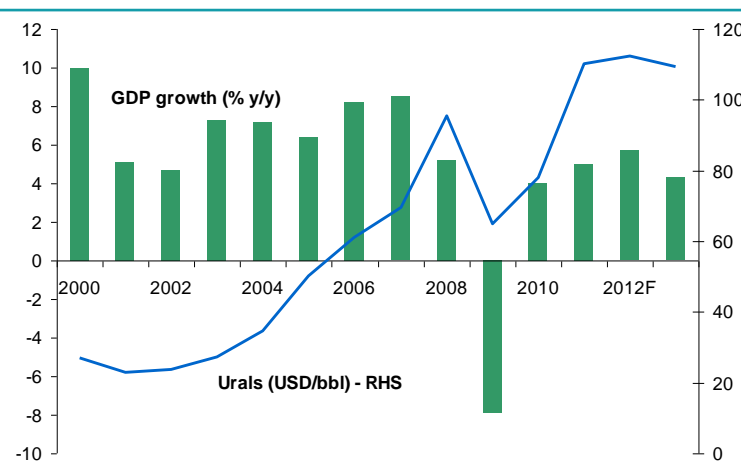


Crude Support

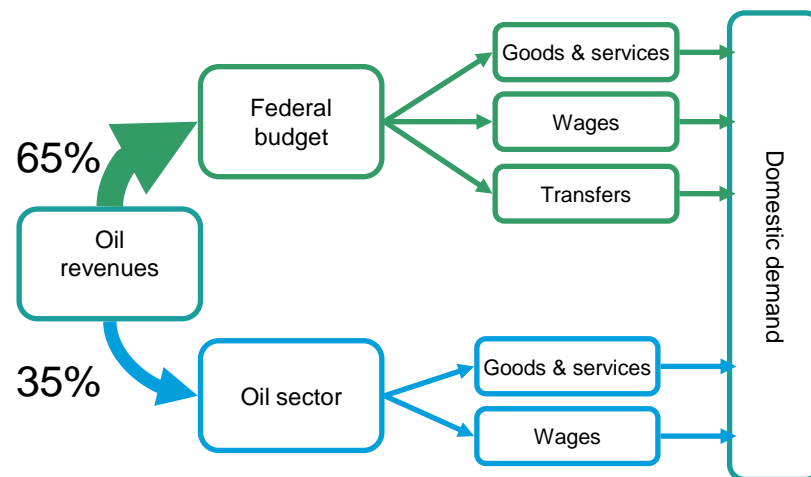
High oil prices essential for acceleration in growth

- Oil prices are the main leading indicator for Russia – with a very short lag
 - USD 10/bbl increase in oil prices adds ~USD 20bn to budget revenues and at least USD 25bn to exports
 - 10% increase in oil prices adds 0.8-0.9pp to GDP growth
 - Higher oil prices = better sentiment on Russia = net capital inflow. Domestic demand strength is a function of oil prices
 - Dependence on oil has increased since pre-crisis period, in particular on the fiscal side
 - Oil and gas sector accounts for 20-22% of GDP, 53-55% of federal budget revenues, 66% of exports and 60+% of the equity market
- Oil price impact is asymmetric: decline is more painful than the same-sized increase is beneficial

GDP growth (% y/y) and oil prices



Source: FSSS, Bloomberg, BNP Paribas



Source: BNP Paribas



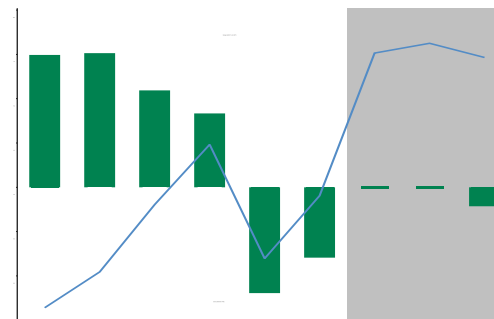
Fiscal Story: Temporary Return to Fiscal Prudence

Budget deficit forecast

	2010	2011 Budget Law	2011 BNPP view	2012 Budget Plan	2012 BNPP view
RUB bn					
Revenues	8304	8618	10718	9504	11504
Oil Revenues	3830	4003	6020	4406	6306
Non-oil Revenues	4474	4615	4730	5097	5197
Expenditures	10116	10385	10750	11237	11500
Deficit	1812	1767	0	1734	0
Reserve Fund Financing	994.0	242.3	0.0	147.1	0.0
Deficit (% of GDP)	-4.1	-3.6	0.0	-3.1	0.0
Urals (USD/bbl)	78.2	75	111	75	113

Source: MoF, BNP Paribas

Budget deficit (% GDP) and oil prices



Source: MoF, Reuters, BNP Paribas

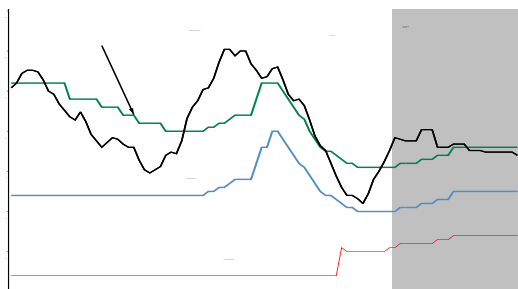
Russia returns to balanced budget on the back of high oil prices

- Although we expect further growth in spending, extra oil revenues should help to balance the budget in 2011-12
- Although the government has stated its intention to limit oil transfers to the budget to 4% of GDP, this is unlikely to materialize. It will continue using significantly more in oil revenues to finance current expenditure
- The Reserve Fund could be fully preserved/ slightly replenished in 2011 (USD 25.4bn at 01.01.2011)
- Financing needs are declining. In 2011, the government is planning to drastically increase privatisation revenues to additionally reduce borrowing requirements
- No further Eurobond placements, in our view (the 2011 budget law allows borrowing of USD 4.8bn)
- Domestic borrowing plan is likely to be revised from RUB 1370bn to RUB 670bn – no serious impact on yields due to massive placement volumes
- Sovereign debt should not exceed 15% of GDP in the medium term – a safe and comfortable level



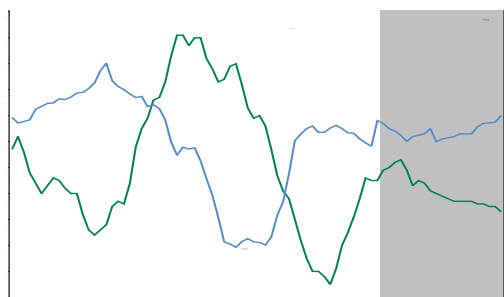
Monetary Tightening Ahead

Acceleration in inflation should result in aggressive monetary tightening



Source: CBR, FSSS, BNP Paribas

Money supply growth is fuelling inflation in 2011 and beyond



Source: CBR, FSSS, BNP Paribas

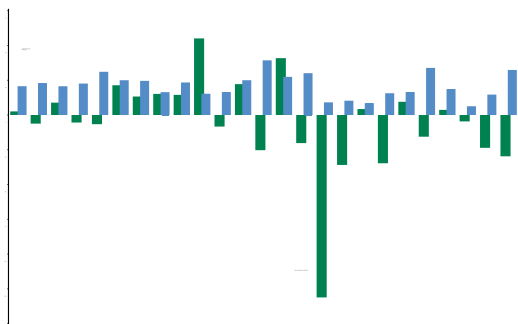
- In 2011, food inflation is likely to remain high with the 15% hike in tariffs also fuelling CPI
- Inflation expectations have also leaped
- We expect money supply growth to remain high on the back of economic recovery and solid petro-dollar inflows (BNPP view: 35% in 2011 vs. 28.5% in 2010)
- We expect CPI inflation to accelerate to 9.6% y/y (2011 average) and 8.7% y/y (end-2011) while the government and CBR maintain their target at 7% (6.5% set in the 2011 budget law)
- The CBR has already begun tightening and we expect it to be aggressive (+125bp in 2011 as a whole). We are maintaining our refi rate forecast of 9% for end-2011
- No impact on growth or lending rates, in our view



Capital Inflows: From Negative to Neutral; From Neutral to Positive

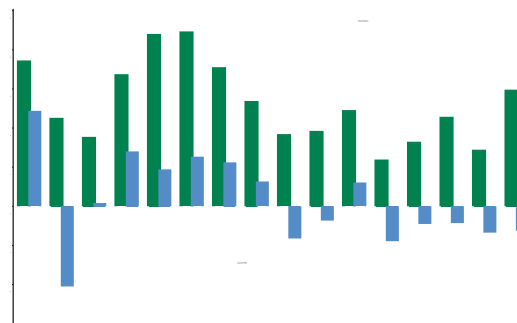
- Capital inflows has become increasingly important for the rouble
- Net capital outflow was sizable at USD 28.8bn in Q1'2011 (USD 52.4bn in 2009 and USD 35.3 in 2010)
- We expect capital inflow of USD 5-10bn in 2011
- Political story may provoke higher capital outflow (risk for 2011-12)
- We expect the debt rollover ratio to increase from 103% in 2010 to 125% in 2011
- Net FDI is likely to remain modest (below 1% of GDP)

Capital outflows and current account



Source: FSSS

Low FDI is a chronic problem



Source: CBR, BNP Paribas



Rouble: Generally, Appreciation...

FX forecast (end of period)

	Q211	Q311	Q411	Q112	Q212	Q312	Q412	Q113	Q213	Q313	Q413
USD/RUB	27.03	27.34	28.22	28.72	28.30	28.63	28.31	27.86	27.32	28.51	27.11
RUB vs. basket	32.50	33.00	33.30	33.50	32.50	32.50	32.00	32.00	31.50	33.00	31.50
EUR/RUB	39.19	39.92	39.51	39.35	37.64	37.22	36.52	37.05	36.61	38.49	36.87
EUR/USD	1.45	1.46	1.40	1.37	1.33	1.30	1.29	1.33	1.34	1.35	1.36

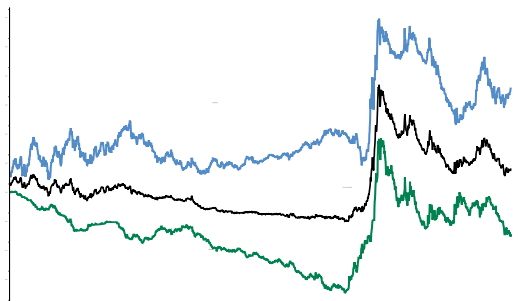
Source: BNP Paribas

- The government may want a weaker rouble to bolster industrial growth, although a stronger rouble is supportive for consumption and investment. It will continue looking for a compromise
- However, the current spike in dollar inflows makes appreciation the only likely scenario
- Rouble remains undervalued (macroeconomic factors support its appreciation). It underperformed EMEA currencies in 2010



...But Higher Volatility

The Rouble vs. the Bi-Currency Basket



Source: Reuters

Tax Schedule

Date	Tax due	Expected amount
		<i>RUB bn</i>
~15	Payments to extra budgetary funds	150
~20	VAT	180
~25-27	Excise duties + Mineral Resources	200
~28-29	Corporate Profit Tax	200

Source: MoF, BNPP

- We consider a drop in oil prices to USD 60-80/bbl (even if short-lived) as the main risk for Russia's economic and FX performance
- The regulator is aiming to shift to a floating exchange rate regime in the medium term. Dirty free floating is a realistic target. Lower interventions of the CBR are strengthening current tendencies in the market
- Recently, the CBR widened its corridor for the rouble to 32.45-37.45 and reduced volumes of interventions from USD 650mn to USD 600mn. These changes are calling for better perception of rouble strengthening. Further liberalization is on horizon
- Rouble volatility has been accepted by the CBR and should help to limit speculative capital inflows and foreign borrowing by the corporate sector
- No strict capital control measures are planned
- Seasonality of the rouble is likely to persist (we expect temporary highs in periods of large tax payments or of sizable foreign borrowing)



Russia: Main Macro Indicators

	Year					2010				2011				2012			
	'09	'10	'11 ⁽¹⁾	'12 ⁽¹⁾	'13 ⁽¹⁾	Q1	Q2	Q3	Q4	Q1 ⁽¹⁾	Q2 ⁽¹⁾	Q3 ⁽¹⁾	Q4 ⁽¹⁾	Q1 ⁽¹⁾	Q2 ⁽¹⁾	Q3 ⁽¹⁾	Q4 ⁽¹⁾
Components of Growth																	
GDP (% q/q) nsa	-	-	-	-	-	-15.0	8.0	10.9	2.7	-15.3	8.9	11.9	1.5	-15.2	10.2	11.7	1.2
GDP (% q/q) sa	-	-	-	-	-	1.0	0.7	-1.0	3.7	0.6	1.6	0.0	2.6	0.8	2.7	-0.2	2.3
GDP (% y/y)	-7.9	4.0	5.0	5.7	4.3	3.5	5.0	3.1	4.5	4.1	5.0	6.0	4.8	5.0	6.2	6.0	5.7
GDP (USD bn)	1225.8	1465	1864	2073	2371	330.0	358.0	384.2	392.3	420.0	455.7	489.0	499.3	467.1	506.7	543.8	555.3
Private Consumption	-4.8	2.7	5.0	5.2	5.5	0.1	4.6	6.7	0.0	3.5	5.0	5.5	6.0	4.8	5.1	5.5	5.5
Public Consumption	-0.5	0.7	0.3	0.0	1.3	1.8	0.7	0.2	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Fixed Investment	-16.2	6.0	8.0	5.0	6.0	-4.1	5.3	7.2	9.8	0.5	9.5	11.0	11.0	5.0	5.2	5.0	4.8
Exports (% y/y)	-4.7	11.1	10.1	0.5	0.5	18.5	3.9	9.5	12.3	11.0	10.0	8.0	11.5	0.5	1.0	0.5	0.0
Imports (% y/y)	-30.4	25.4	20.5	15.0	15.0	10.7	20.8	34.8	35.3	12.0	20.0	25.0	25.0	14.0	14.4	15.5	16.0
Industrial Production	-11.0	8.2	5.6	4.5	4.1	9.5	10.9	6.4	6.5	5.9	5.6	5.6	5.3	3.5	4.5	5.0	4.9
Savings Ratio (%)	18.8	18.0	18.6	21.0	21.0	12.4	19.9	18.8	20.7	17.0	19.0	19.0	19.5	19.5	20.5	22.0	22.0
Inflation & Labour																	
CPI	11.8	6.9	9.5	8.7	8.0	7.2	5.9	6.2	8.1	9.6	9.9	9.3	9.2	8.9	8.7	8.7	8.6
CPI ⁽²⁾	8.8	8.8	8.7	8.5	7.5	6.4	5.8	7.0	8.8	9.6	9.9	9.0	8.7	8.8	8.7	8.7	8.5
Unemployment Rate (%)	8.2	7.5	6.9	6.4	6.2	8.8	7.4	6.8	7.2	7.6	6.8	6.6	6.5	6.5	6.5	6.3	6.3
External Trade																	
Trade Balance (USD bn)	111.6	151.4	150.0	110.0	90.0	46.5	39.2	29.2	36.4	48.2	36.8	32.5	32.5	30.0	30.0	30.0	20.0
Current Account (USD bn)	49.5	71.1	75.0	35.0	15.0	33.3	18.0	5.7	14.1	31.8	20.5	11.4	11.4	10.0	10.0	8.0	7.0
Current Account (% GDP)	4.0	4.9	4.0	1.7	0.6	10.1	5.0	1.5	3.6	7.6	4.5	2.3	2.3	2.1	2.0	1.5	1.3
Net FDI (USDbn)	-7.2	-10.5	5.0	11.0	23.7	-2.2	-2.0	-3.3	-3.0	-1.0	0.0	3.0	3.0	2.5	1.5	4.5	2.5
Net FDI (% GDP)	-0.6	-0.7	0.3	0.5	1.0	-0.7	-0.6	-0.9	-0.8	-0.2	0.0	0.6	0.6	0.5	0.3	0.8	0.5
Financial Variables																	
Gen. Gov. Budget (% GDP)	-6.4	-3.9	0.0	0.0	-1.0	-	-	-	-	-	-	-	-	-	-	-	-
Gross Gov. Debt (% GDP) ⁽²⁾	7.5	7.9	7.8	8.2	9.0	-	-	-	-	-	-	-	-	-	-	-	-
Interest & FX Rates ⁽²⁾																	
Official Interest Rate (%)	8.75	7.75	9.00	9.00	8.00	8.25	7.75	7.75	7.75	8.00	8.50	8.75	9.00	9.00	9.00	9.00	9.00
3-Month Rate (%)	7.05	4.10	4.00	4.50	5.00	4.50	4.00	3.80	4.10	3.96	3.50	3.70	4.00	4.00	4.20	4.40	4.50
USD/RUB	30.24	30.36	28.22	28.31	27.11	29.00	30.23	30.56	30.4	28.43	27.03	27.34	28.22	28.72	28.30	28.63	28.31

Footnotes: (1) Forecast (2) End Period

Figures are year-on-year percentage changes unless otherwise indicated

Source: BNP Paribas



Thank you!



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