



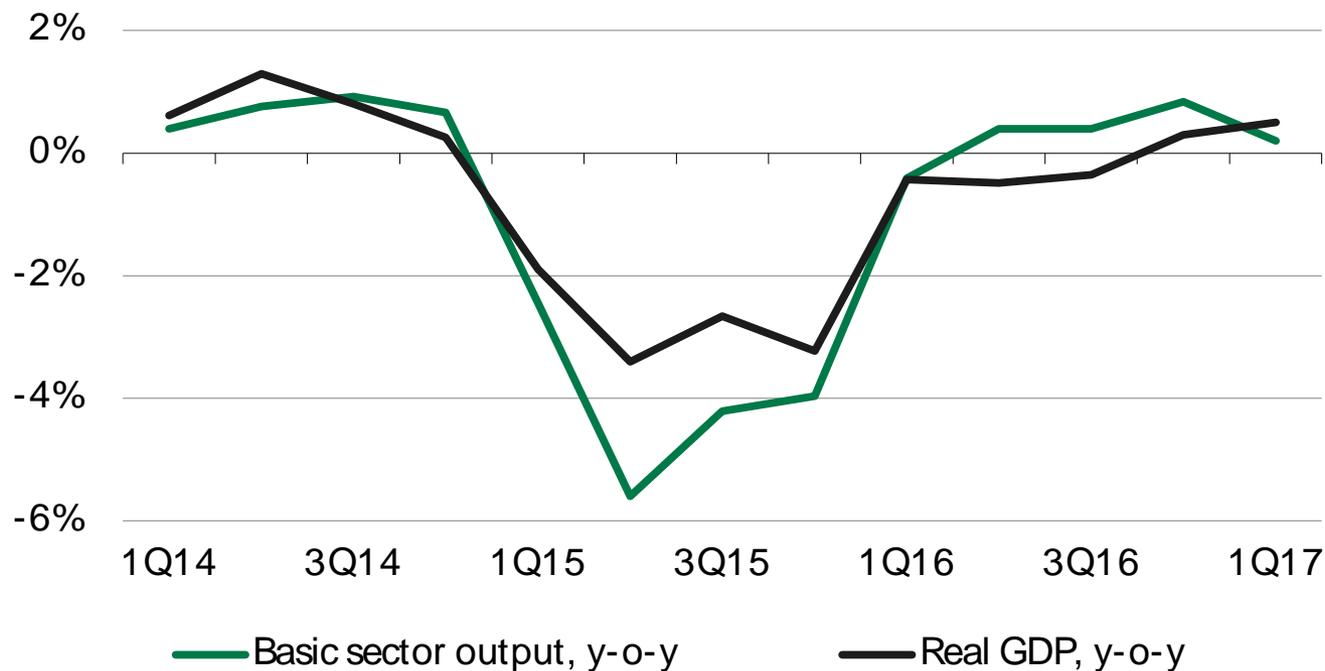
**SBERBANK CIB**

# Russian Economics **Cautious Optimism and Unexpected Obstacles**

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May 2017

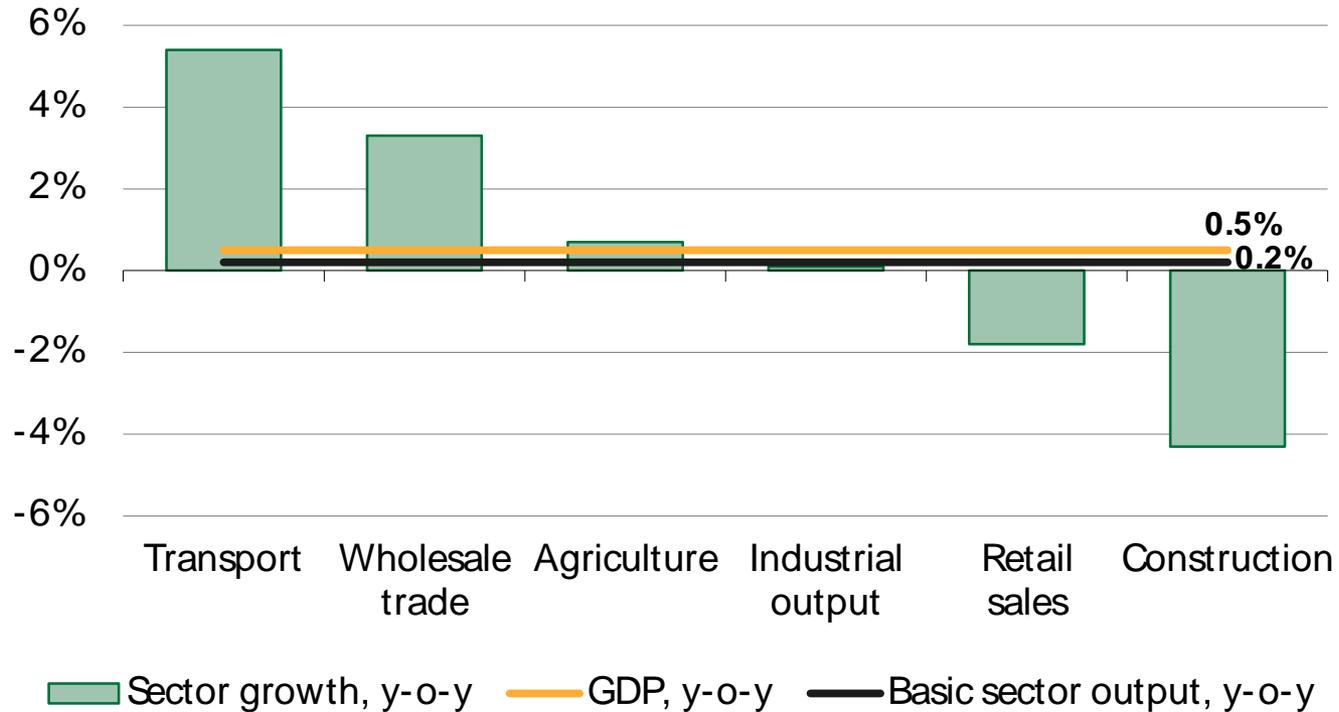
**INVESTMENT RESEARCH**

# GDP dynamics have diverged from basic sector output



Source: State Statistics Service

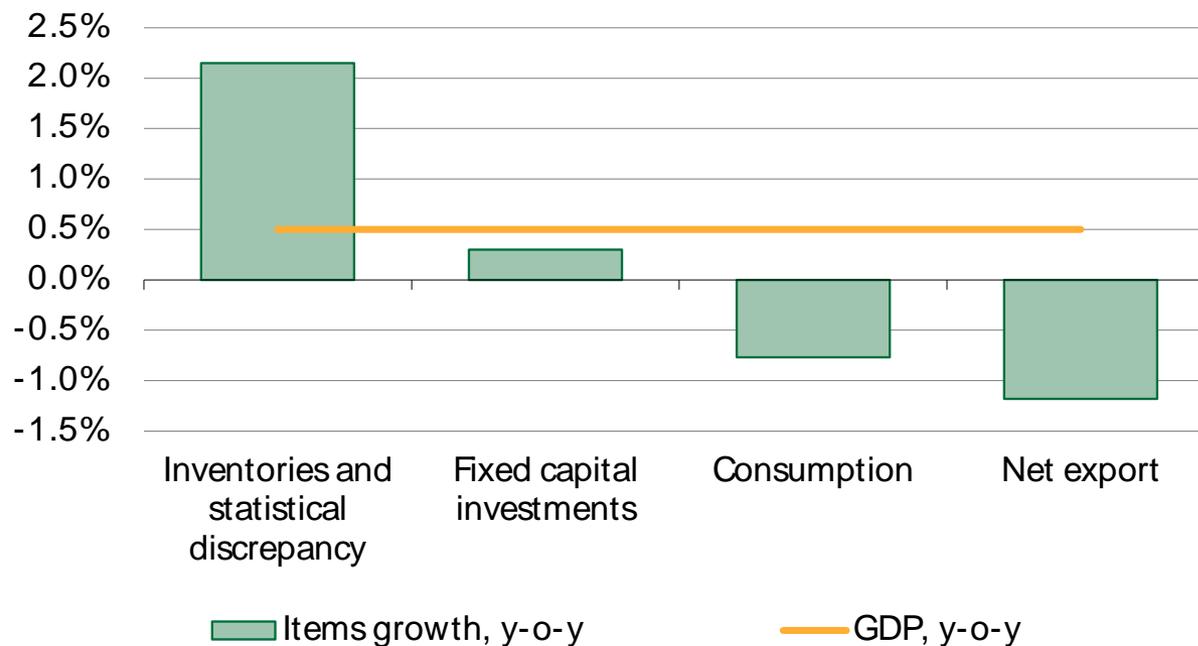
# Transportation and wholesale trade were the main growth drivers in 1Q17, but this is not a sustainable situation



Source: State Statistics Service

# An accumulation of inventories seems to have been the biggest change on the usage side of GDP in 1Q17

## Contributions to 1Q17 GDP growth, usage side



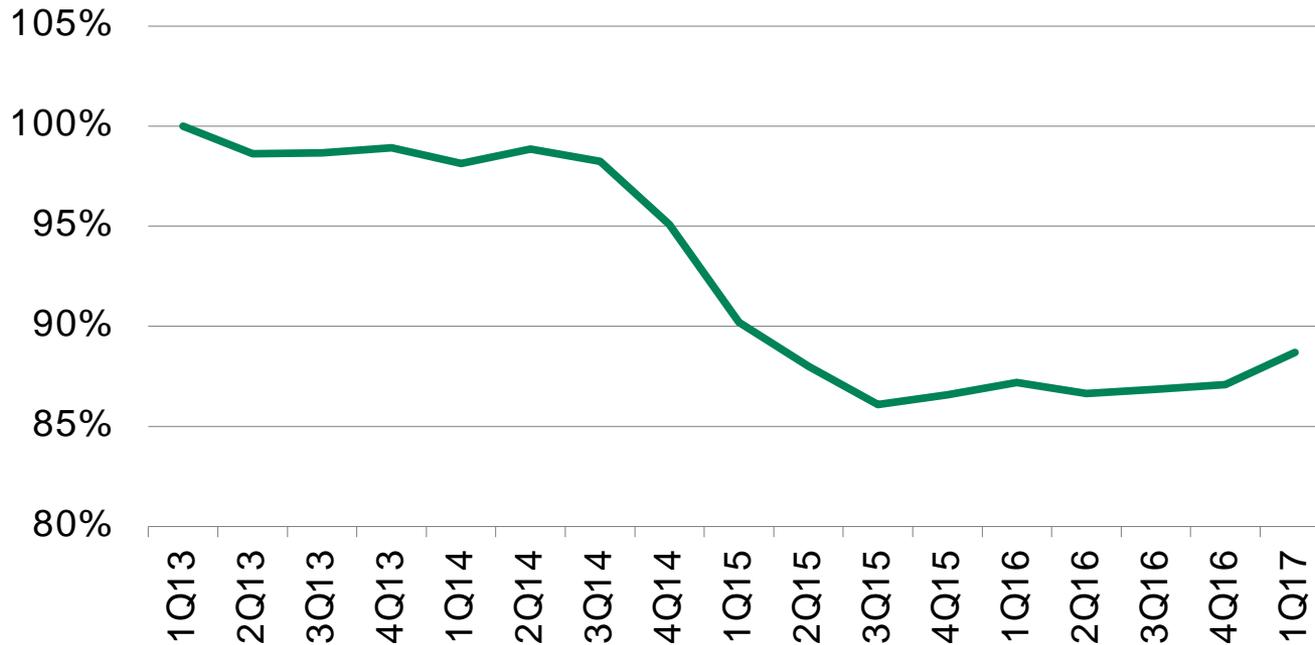
Source: State Statistics Service, Sberbank CIB Investment Research

# In contrast to the overall economic performance the profits of Russian firms continued to soar

|  | Net income in nominal terms |              |              |
|--|-----------------------------|--------------|--------------|
|  | 2015                        | 2016         | 2m17         |
| <b>Economy</b>   | <b>53.1%</b>                | <b>37.9%</b> | <b>53.4%</b> |
| Agriculture, hunting and forestry  | 45.3%                       | 3.2%         | 11.8%        |
| Fishing  | 470.0%                      | 43.0%        | -8.1%        |
| Mining and quarrying   | 13.0%                       | -21.7%       | 29.8%        |
| Manufacturing  | 64.8%                       | 61.5%        | 700.0%       |
| Electricity, gas and water supply  | 52.5%                       | 220.0%       | 23.7%        |
| Construction   | 53.2%                       | 39.5%        | 99.0%        |
| Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | 51.6%                       | 20.6%        | 7.1%         |
| Transport and communications   | 110.0%                      | 110.0%       | 49.4%        |
| Real estate, renting and business activities   | 110.0%                      | 200.0%       | 760.0%       |

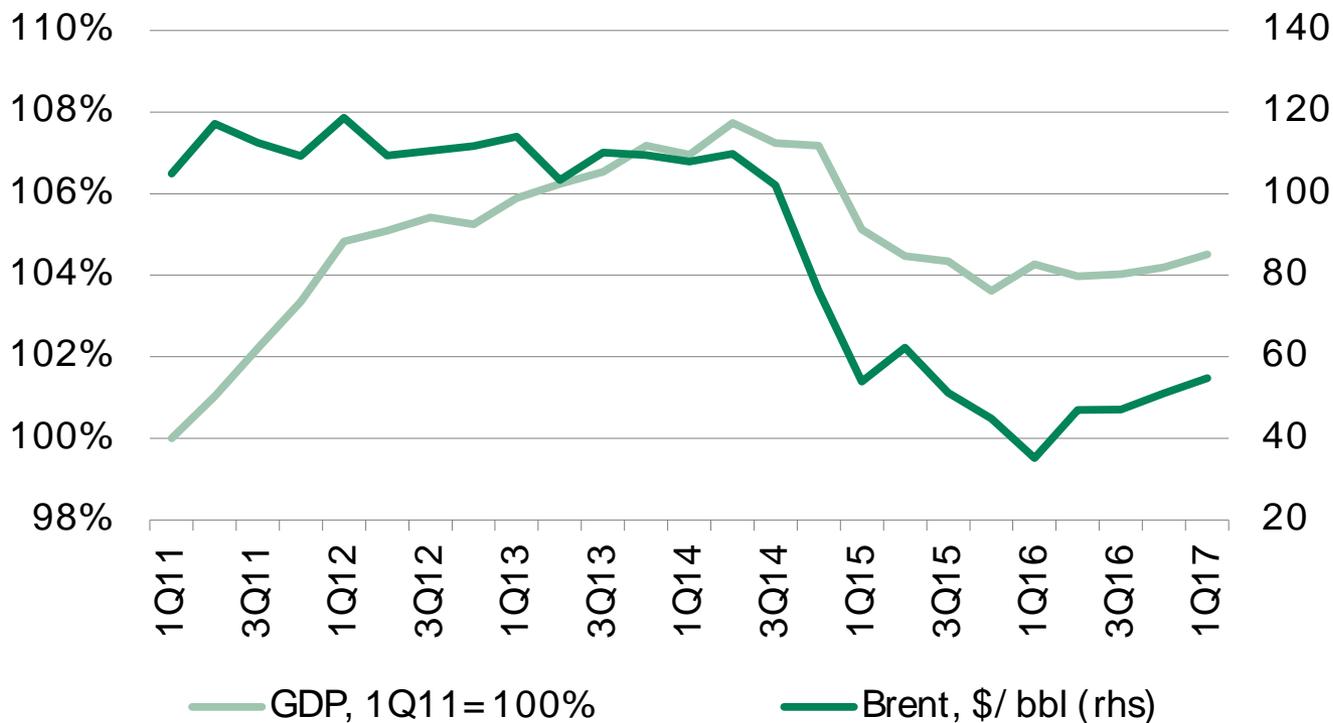
Source: State Statistics Service

# Investment activity started to pick up in 1Q17



Note: Seasonally adjusted data, 1Q13 = 100%.  
Source: State Statistics Service, Sberbank CIB Investment Research

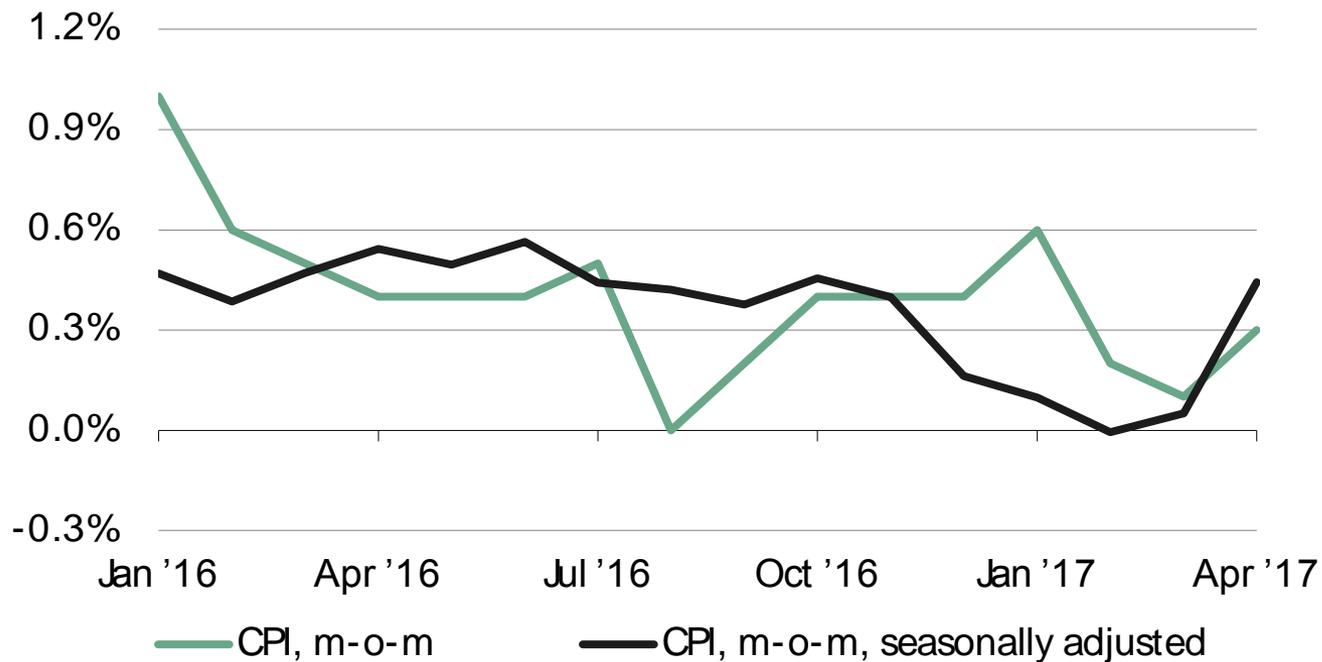
# The economy expanded Q-o-Q in 1Q17, but it needs additional support from retail sales and construction



Source: State Statistics Service, Sberbank CIB Investment Research

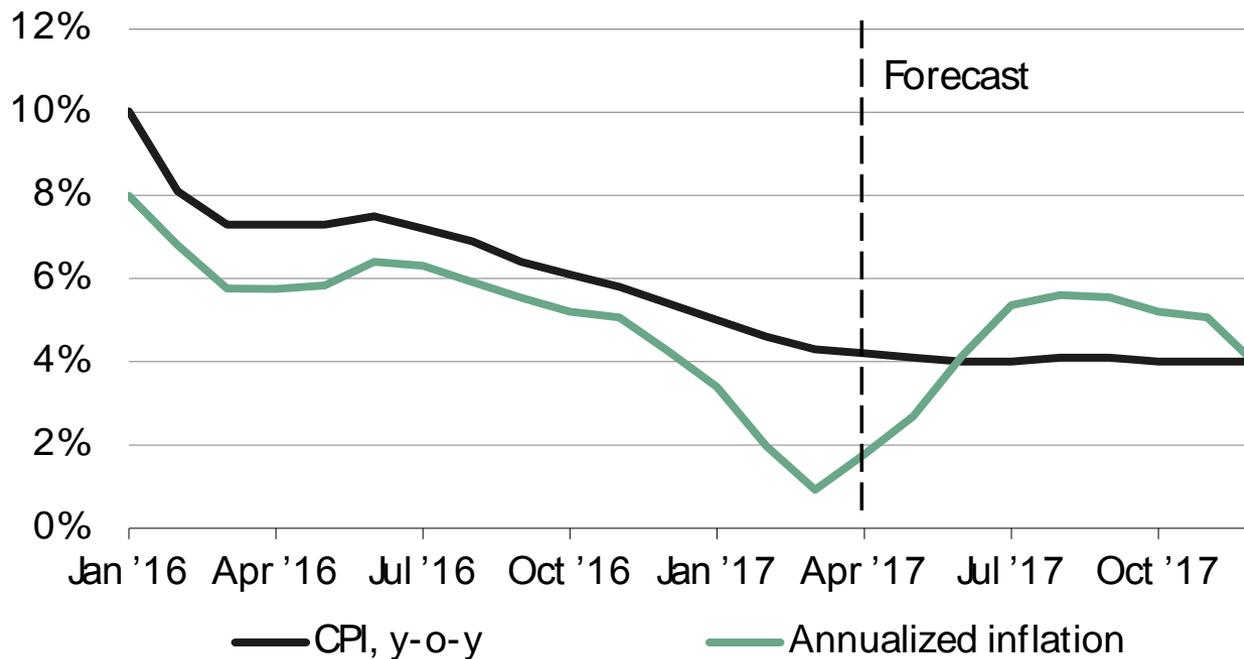
# Inflation was already low at the end of 2016, but disinflation continued in 2017

Monthly inflation slowed rapidly at the end of 2016 and beginning of 2017



Source: State Statistics Service, Sberbank CIB Investment Research

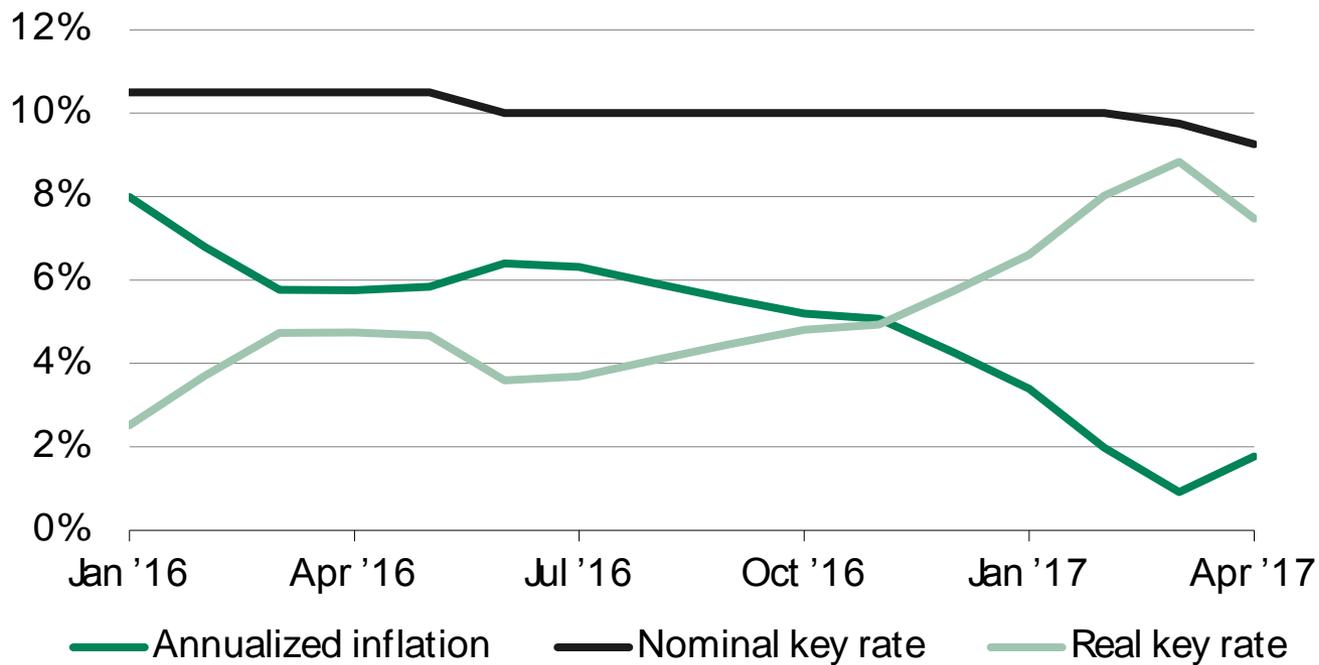
# Annualized inflation is already below 4%, while y-o-y inflation is rapidly catching up



Note: By annualized inflation, we mean the average level of seasonally adjusted monthly inflation in the last four months extrapolated over 12 months.

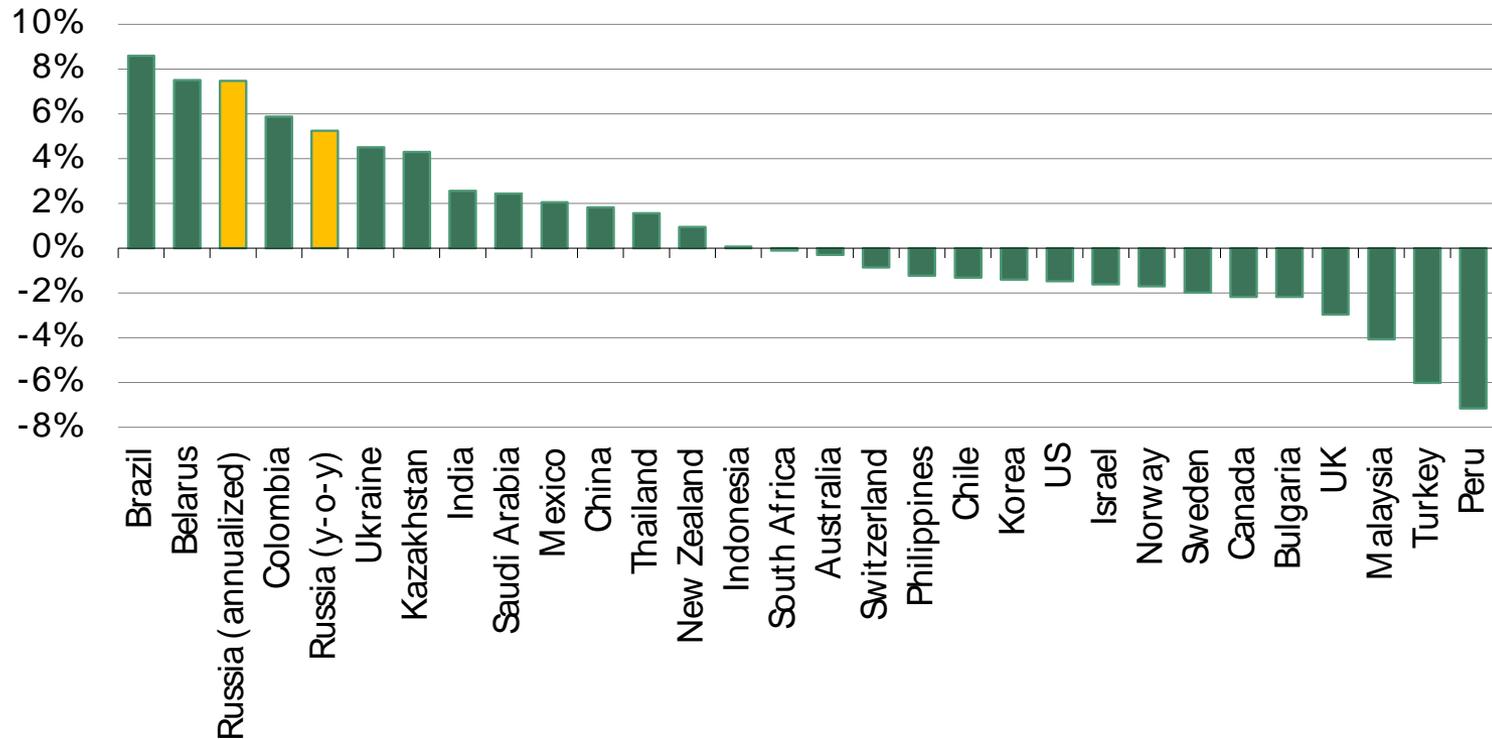
Source: State Statistics Service, Sberbank CIB Investment Research

# Real key rate has increased since mid-2016 on the back of disinflation



Source: CBR, State Statistics Service, Sberbank CIB Investment Research

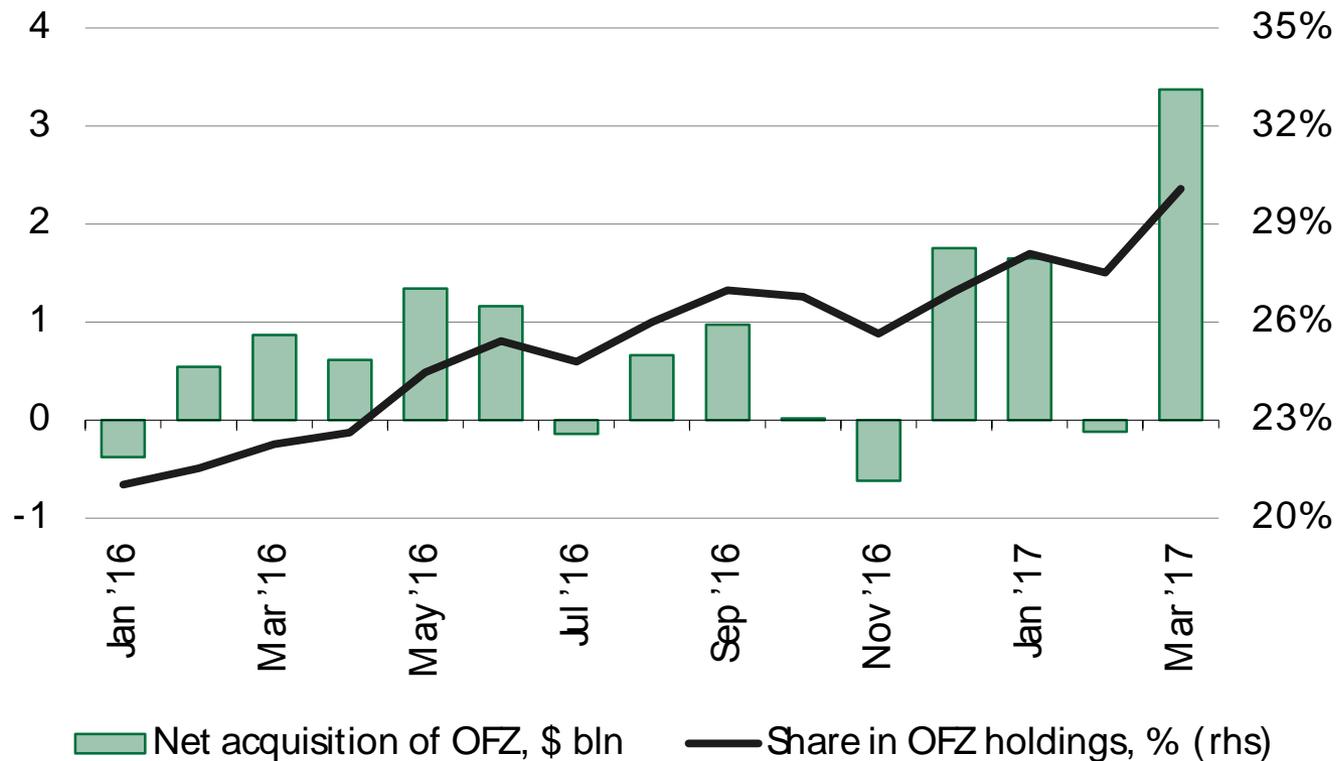
# Real policy rates in different countries: Russia's is one of the highest



Note: Annualized inflation in Russia was 1.8% in April. The calculations for Belarus and Ukraine are based on inflation forecasts for 2016; for other countries, y-o-y inflation is used.

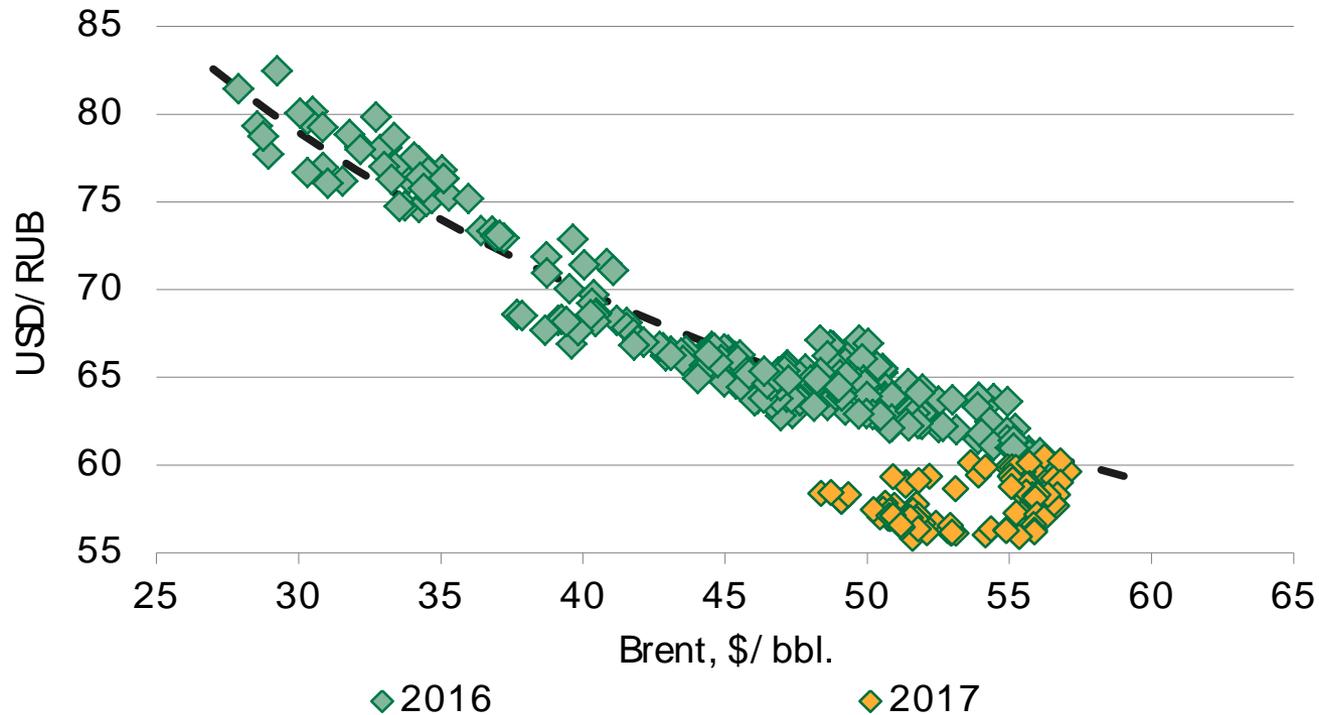
Source: CBR, State Statistics Service, Sberbank CIB Investment Research

# Interest of non-residents in OFZ increases



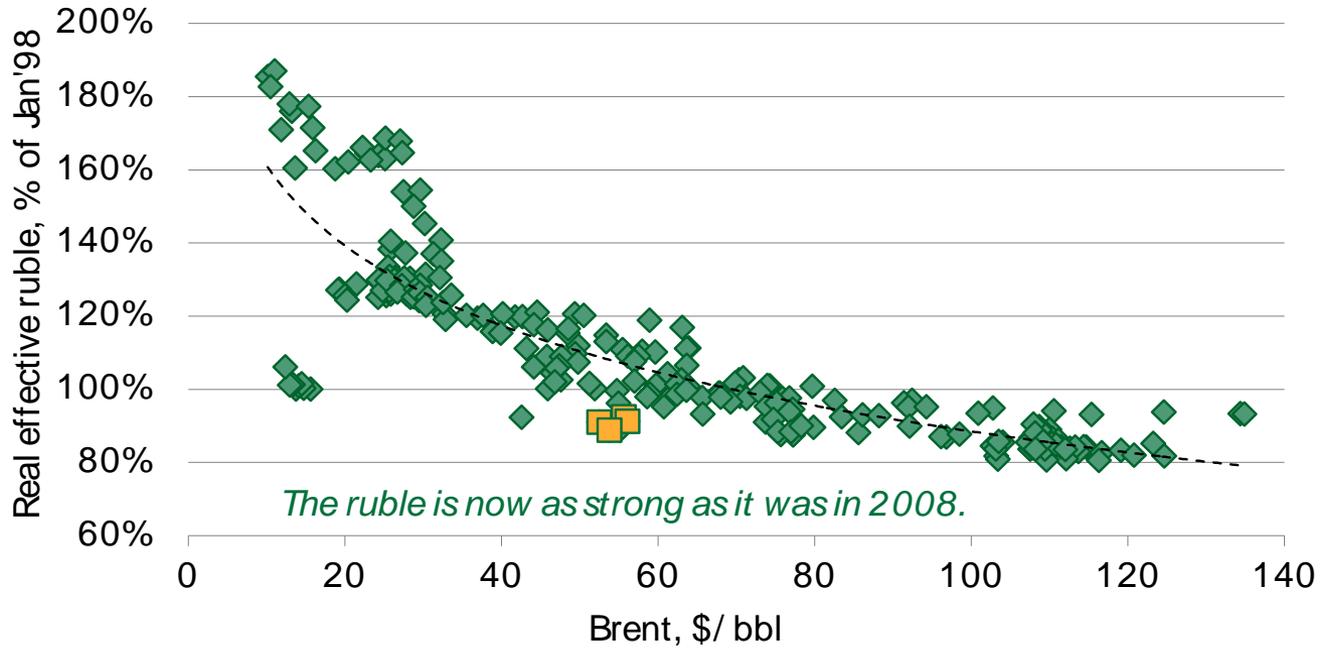
Source: Bloomberg

# USD/RUB rate diverged from the oil price in 2017



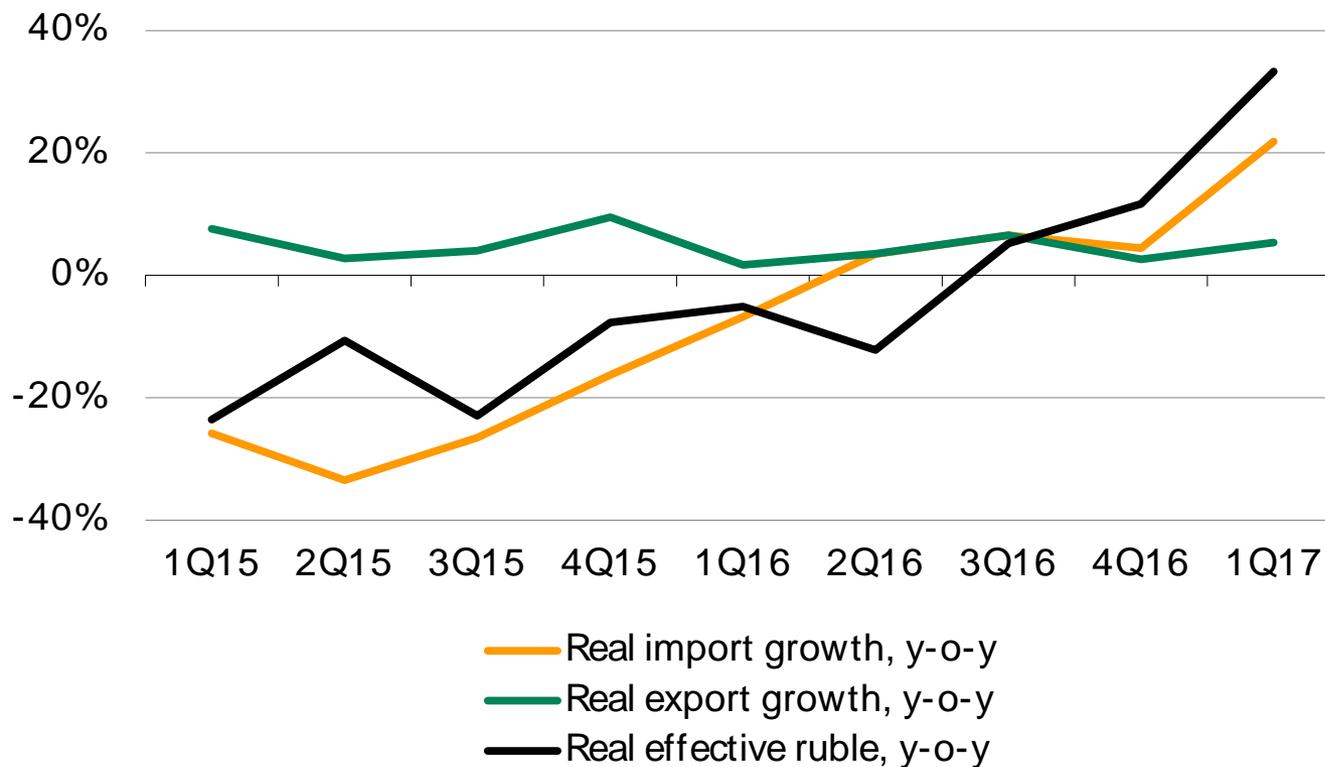
Source: Bloomberg

# The ruble appears to be unsustainably strong



Source: Bloomberg

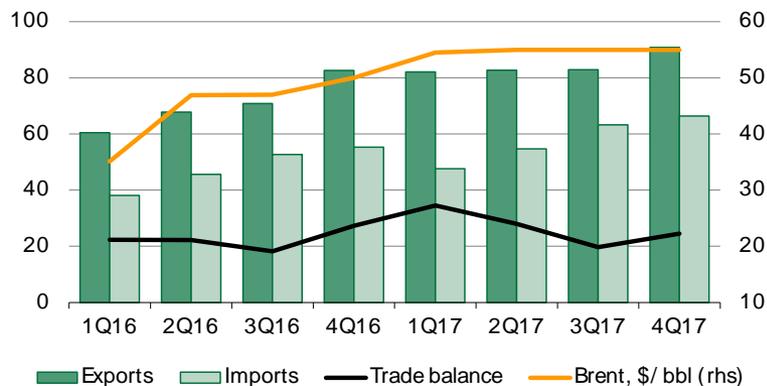
# Imports are growing too fast, while export growth is being driven solely by fuel



Note: Positive real effective ruble dynamics indicate ruble appreciation.  
Source: CBR, Federal Customs Service, Sberbank CIB Investment Research

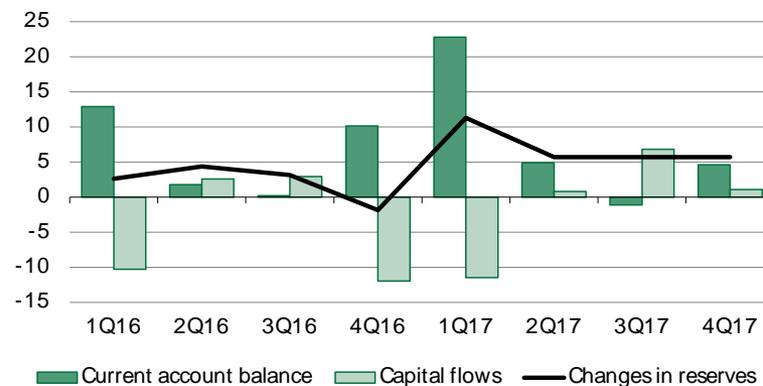
# Balance of payments possible scenario, assuming ruble at USD/RUB 56 and oil price at \$55/bbl

If the ruble remains strong, the trade surplus will start shrinking, \$ bln...



Source: CBR, Sberbank CIB Investment Research

... and net capital inflows will be needed to stabilize the forex market, \$ bln



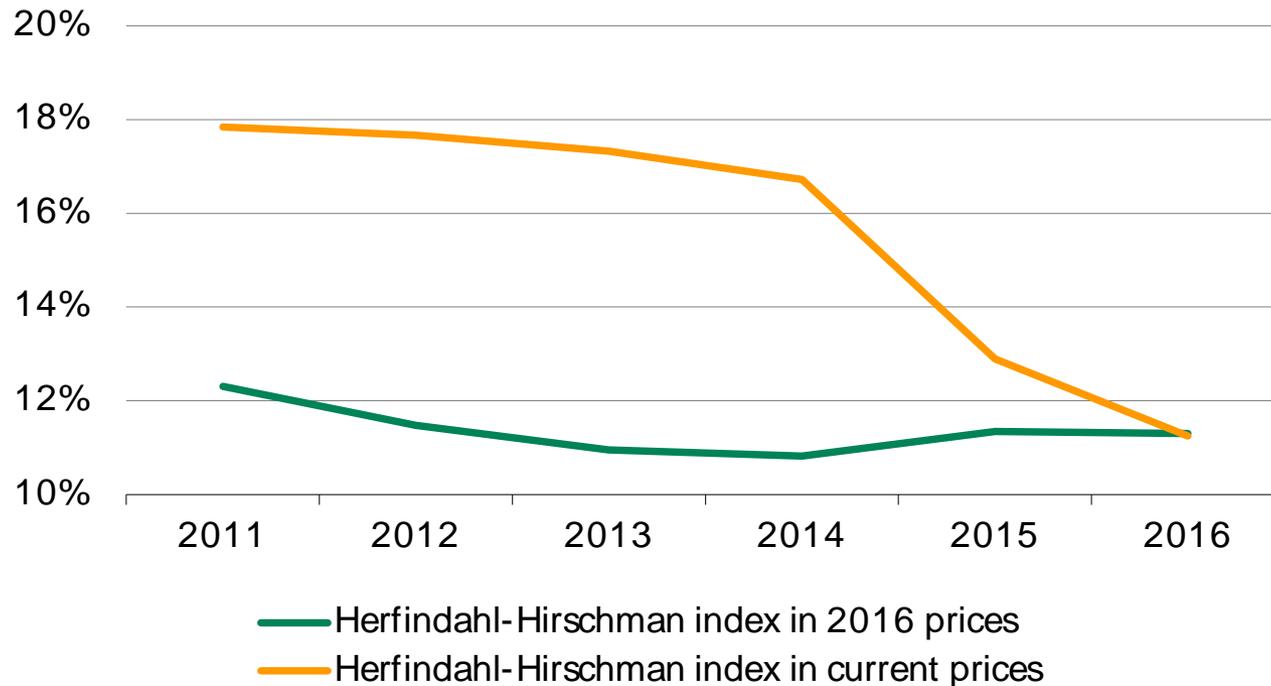
Source: CBR, Sberbank CIB Investment Research

# Macroeconomic performance at different oil prices in 2017

|   |       |       |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|-------|-------|
| Average oil price in 2017, \$/bbl Brent | 30    | 35    | 40    | 45    | 50    | 55    | 60    |
| Average R/\$                            | 73.0  | 70.0  | 67.0  | 63.1  | 61.3  | 59.5  | 58.5  |
| GDP, y-o-y                              | 0.5%  | 0.6%  | 0.8%  | 1.0%  | 1.0%  | 1.0%  | 1.0%  |
| Inflation, Dec-o-Dec                    | 4.9%  | 4.6%  | 4.4%  | 4.0%  | 4.0%  | 4.0%  | 4.0%  |
| Current account, \$ bln                 | 20.0  | 25.0  | 30.0  | 35.0  | 40.0  | 45.0  | 50.0  |
| Budget balance, R trln                  | -4.8  | -4.0  | -3.3  | -2.8  | -2.2  | -1.6  | -1.0  |
| Budget balance, % GDP                   | -5.3% | -4.4% | -3.7% | -3.1% | -2.4% | -1.7% | -1.0% |
| Net borrowing and privatization, R trln | 0.8   | 0.8   | 0.8   | 0.8   | 0.8   | 0.8   | 0.8   |
| Interventions at the forex, \$ bln      | 0.0   | 0.0   | 0.0   | 4.0   | 10.0  | 20.0  | 30.0  |
| Sovereign funds, eop, \$ bln            | 31.4  | 39.9  | 48.0  | 58.2  | 73.6  | 92.9  | 113.4 |

Source: Sberbank CIB Investment Research

# Export concentration fell in nominal terms as oil prices eased



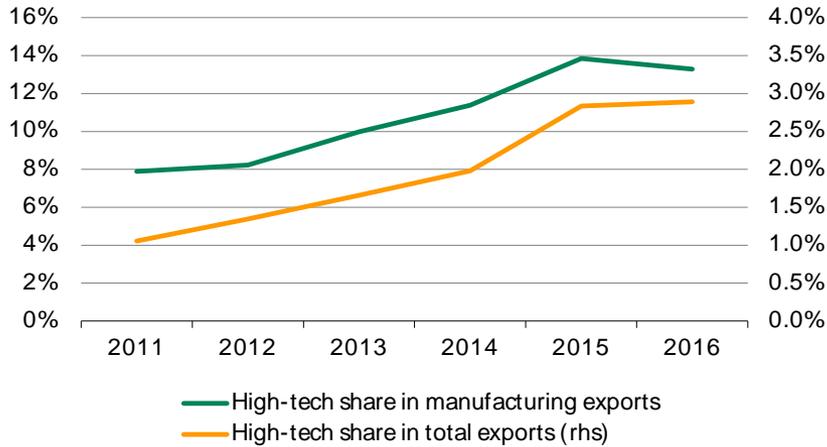
Note: A lower reading indicates greater diversification.

Source: Federal Customs Service, Sberbank CIB Investment Research

*Note: The Herfindahl-Hirschman Index (HHI) is a commonly used measure of market concentration. It has many uses, including estimating product concentration and export diversification. It is calculated by squaring the export shares of individual items and adding up the results. A lower score indicates greater diversification. We have calculated an index in both nominal terms and fixed 2016 prices to highlight the impact of price changes.*

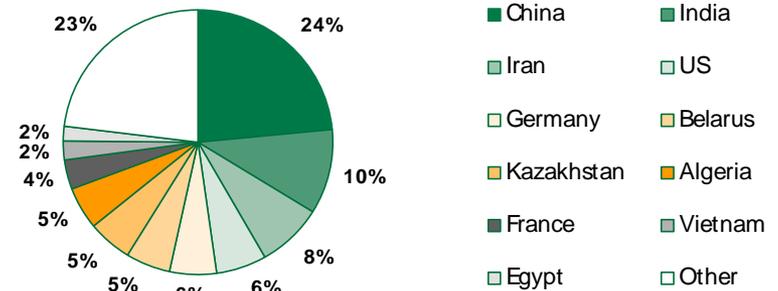
# In recent years, the share of high-tech in total exports and manufacturing exports has been growing

High-tech exports have grown faster than other categories



Source: Federal Customs Service, Sberbank CIB Investment Research

Developing nations are the main customers for Russian high-tech producers



Source: Federal Customs Service, Sberbank CIB Investment Research

# High-tech exports from Russia by category

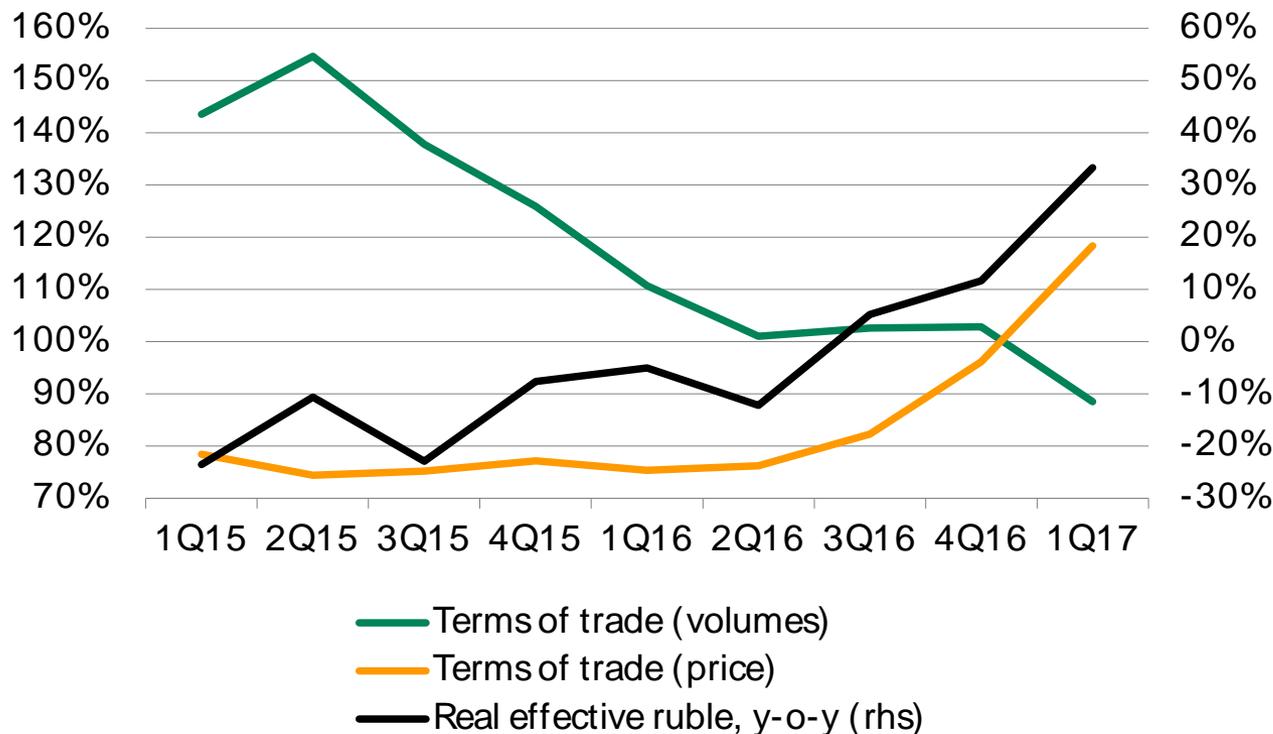
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|                                    | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total</b>                       | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> |
| Aerospace                          | 26.5%         | 33.0%         | 37.9%         | 27.8%         | 31.1%         | 31.9%         |
| Chemicals                          | 18.6%         | 13.1%         | 10.8%         | 10.2%         | 10.1%         | 9.0%          |
| Computers and office machines      | 5.6%          | 5.6%          | 6.4%          | 27.2%         | 25.8%         | 4.8%          |
| Electrical machinery               | 1.0%          | 0.9%          | 0.9%          | 0.7%          | 0.7%          | 0.8%          |
| Electronics and telecommunications | 21.0%         | 22.5%         | 20.4%         | 15.0%         | 15.4%         | 29.2%         |
| Non-electrical machinery           | 1.0%          | 0.5%          | 0.4%          | 0.4%          | 0.2%          | 0.2%          |
| Scientific instruments             | 26.3%         | 24.5%         | 23.1%         | 18.7%         | 16.7%         | 24.1%         |

Source: CBR, Federal Customs Service, Sberbank CIB Investment Research

# Rising export prices are bringing about a recovery in real imports, while real export growth is not accelerating

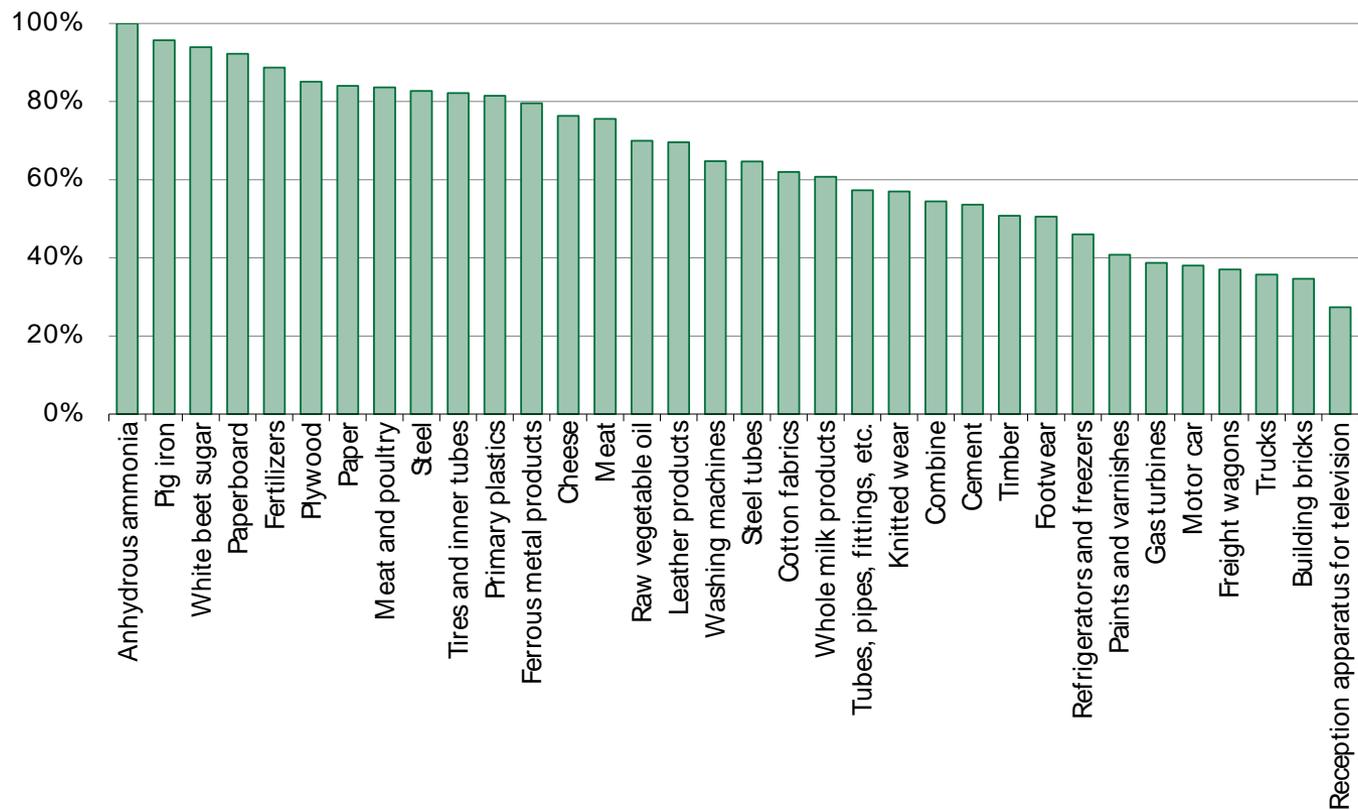
Rising export prices have been offset by a deterioration in real trade conditions



Source: Federal Customs Service, Sberbank CIB Investment Research

Note: The terms of trade indicator is an important gauge of foreign trade. It reflects a country's export prices relative to import prices or the same comparative dynamics of physical volumes. If the indicator rises above 100%, exports are outperforming imports in terms of prices (or volumes), and vice versa.

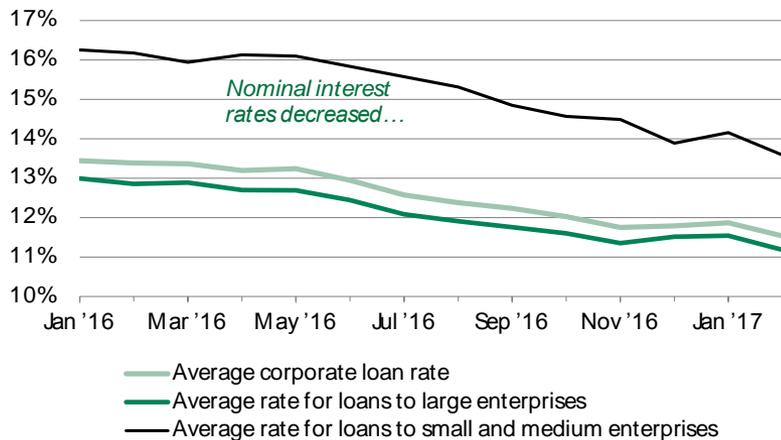
# Capacity utilization in certain sectors, 2016E



Source: State Statistics Service, Sberbank CIB Investment Research

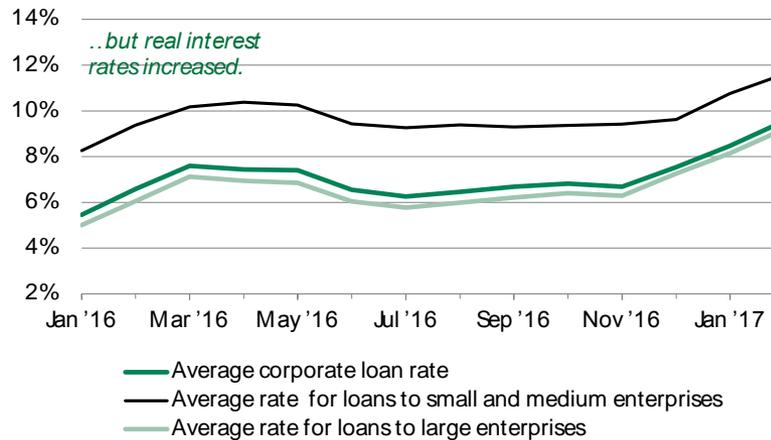
# Small and medium enterprises have faced much more difficult borrowing conditions...

## Nominal interest rates



Source: CBR, State Statistics Service, Sberbank CIB Investment Research

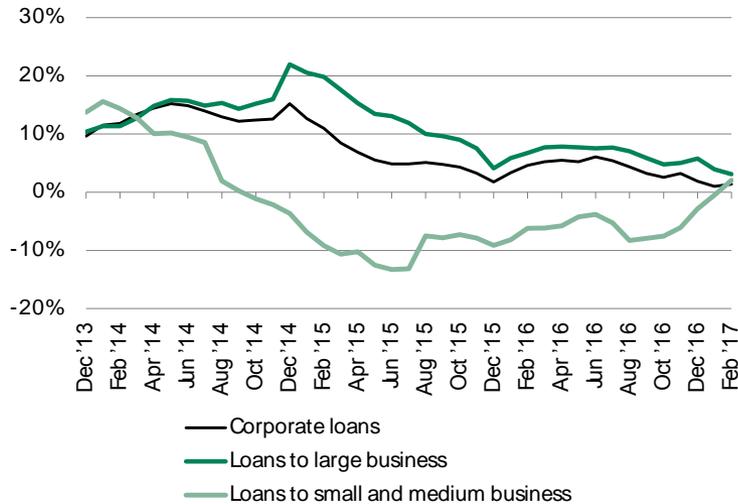
## Real interest rates



Source: CBR, State Statistics Service, Sberbank CIB Investment Research  
 Note: real rates calculated using annualized monthly average inflation for 4 months

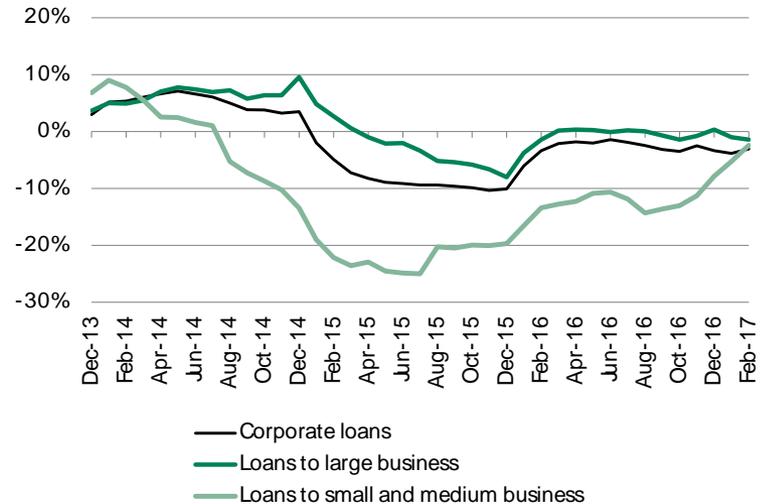
...for this reason, loans to small enterprises have fallen this year, even in nominal terms

**Nominal loan growth, y-o-y**



Source: CBR, State Statistics Service, Sberbank CIB Investment Research

**Real loan growth, y-o-y**



Source: CBR, State Statistics Service, Sberbank CIB Investment Research

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