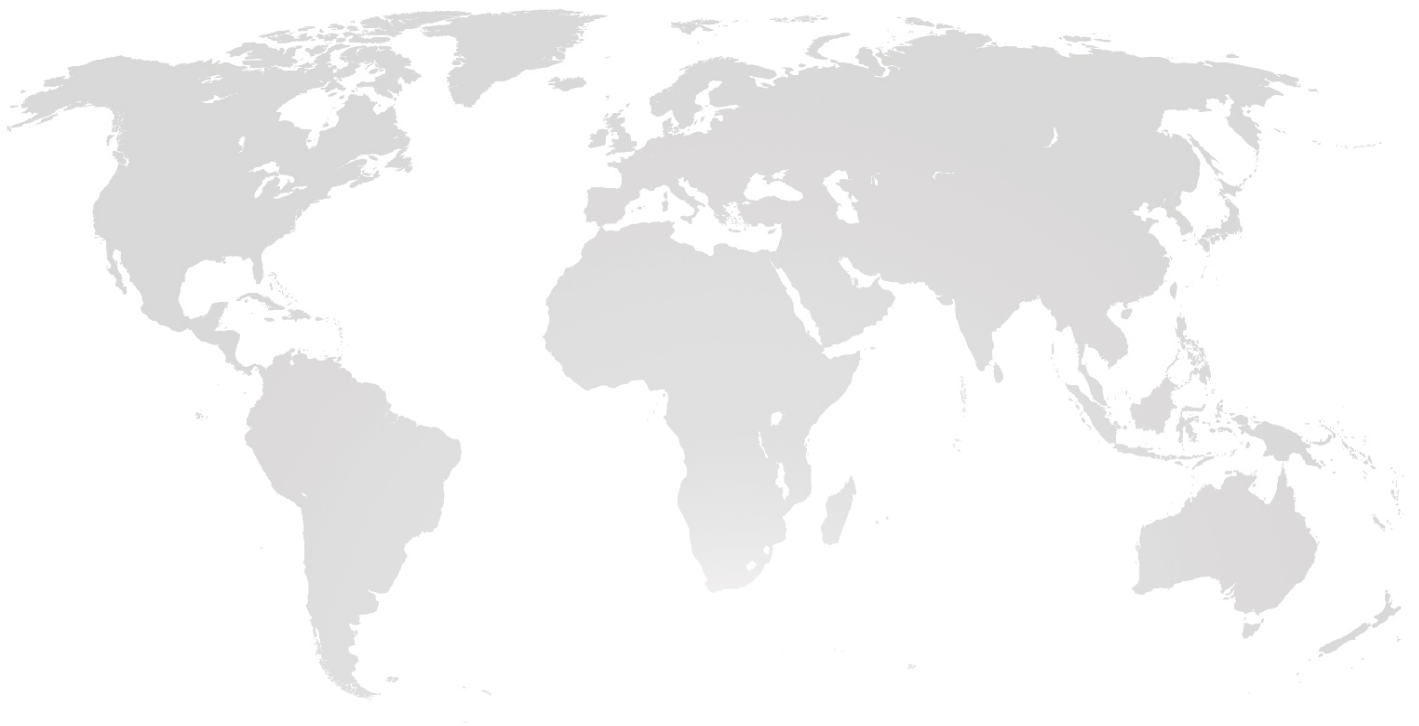


Country Insight Snapshot Russian Federation

September 2015





OVERVIEW

OVERALL COUNTRY RISK RATING: DB6A

Very high risk : Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

R

Rating Outlook:

Stable



CORE OUTLOOK

- + A USD400bn, 30-year gas supply contract between Moscow and Beijing will boost investment from 2015.
- + Russia will remain the biggest market in Eastern Europe for the foreseeable future.
- An ageing population poses problems for further economic development.
- A decline in potential output is set to be a medium-term trend as uncertainty on policy direction, the rule of law and geopolitical stance curb private investment.

KEY DEVELOPMENT

The rouble tumbles to a seven-month low amid an emerging market rout and oil price slide, and recent developments suggest continued weakness ahead.

CREDIT ENVIRONMENT OUTLOOK

R

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

R

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

R

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

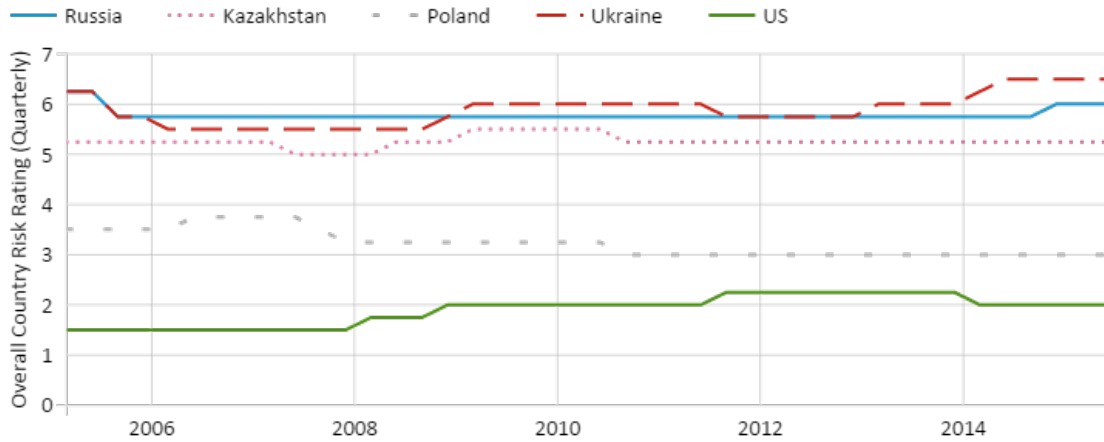
R

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

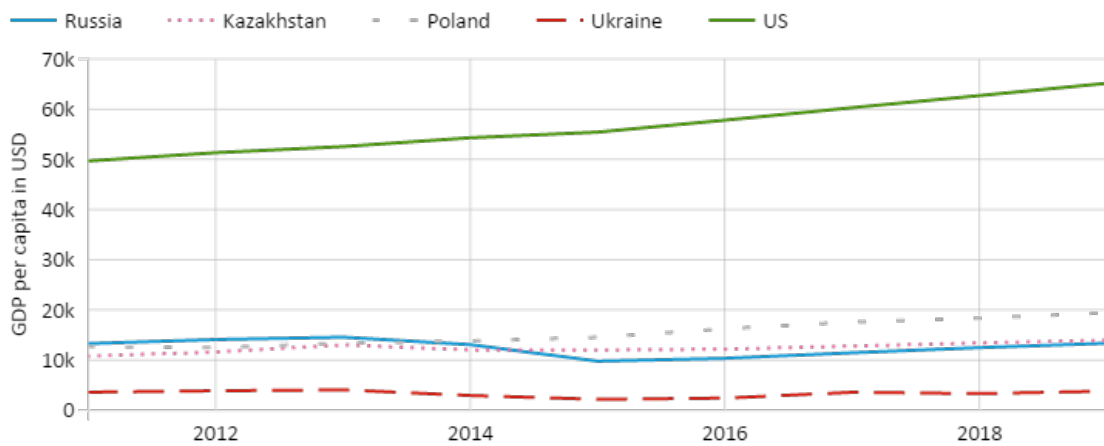
Rating History and Comparison



Source : Dun and Bradstreet

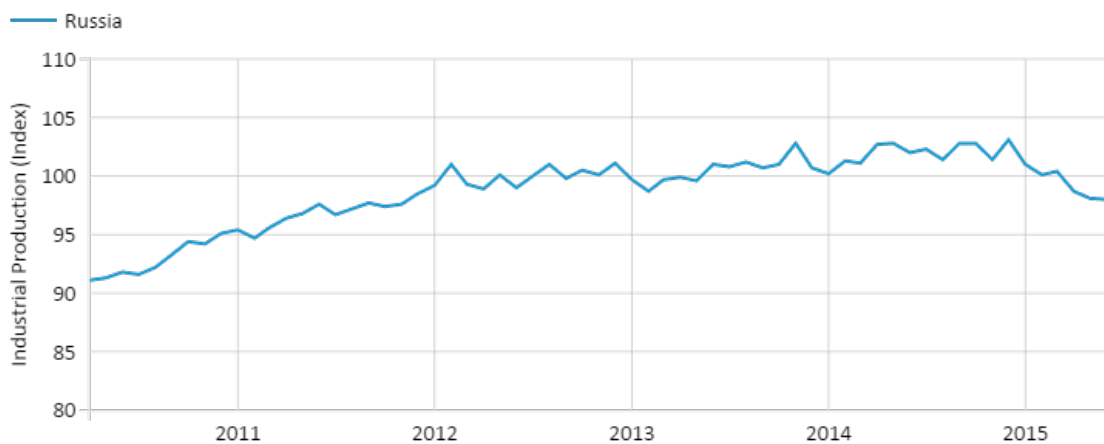
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : D&B

Industrial Production (Index)



Source : National Statistical Offices



Economic Indicators

Indicator	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
C/A balance % GDP	3.5	1.7	3.1	4.5	4.3	4.0	3.7	3.5
Govt balance, % GDP	0.4	-1.3	-1.2	-3.0	-2.0	-1.2	-1.0	-1.0
Inflation, annual avge %	5.1	6.8	7.8	14.5	7.0	6.0	4.8	5.0
Real GDP Growth, %	3.4	1.3	0.6	-3.6	0.3	2.5	2.0	1.6
Unemployment, %	5.4	5.5	5.0	7.0	7.0	6.0	5.5	5.5

Source : Haver Analytics/D&B

TRADE AND COMMERCIAL ENVIRONMENT

Russia's FX reserves stood at USD313bn by the end of July (down from USD339bn at the end of December). In May, the Central Bank of Russia (CBR) started buying foreign exchange to rebuild its FX reserves, following substantial intervention in the FX market in 2014 in order to dampen the pace of rouble depreciation. However, the bank recently suspended this move given the renewed depreciation of the currency. Moreover, following similar action at the end of 2014, the CBR has resumed putting pressure on exporters to sell their foreign currency revenues in an effort to support the rouble. At the commercial level, the risk of non-payment and payment delays is high. While the central bank has continued to lower interest rates from the peak of 17%, lending conditions have tightened as banks face higher rates of non-performing loans and external refinancing constraints; bankruptcies have increased as a result, and we expect them to increase further, heightening trade risk.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: CLC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: CiA

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-60 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-2 months

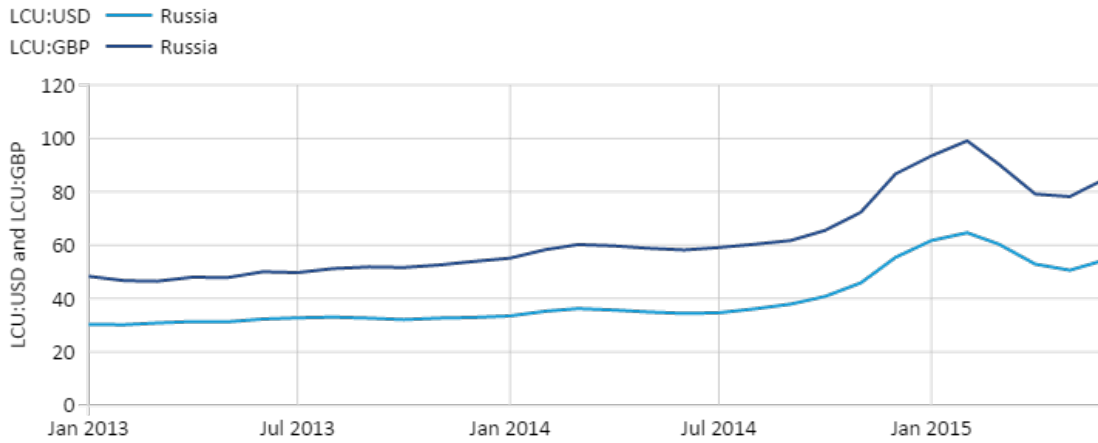
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-2 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



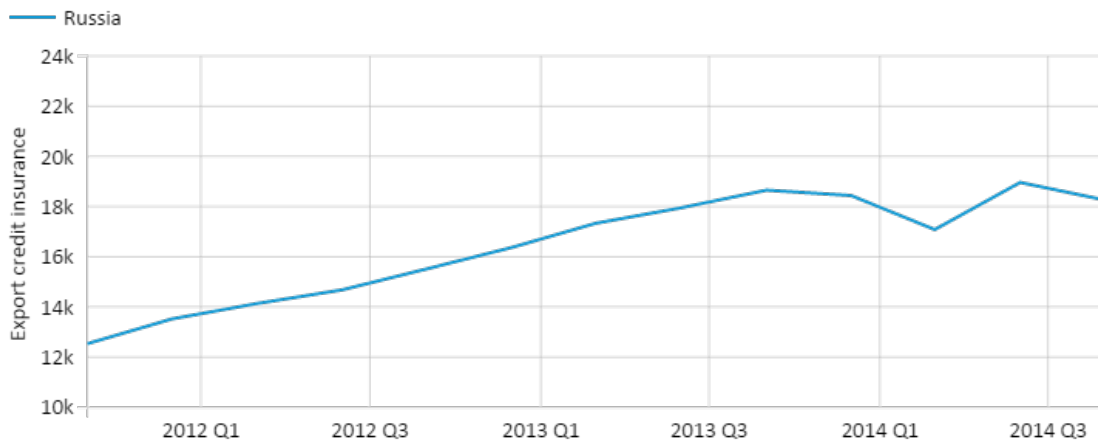
Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

LCU = Local Currency Unit

Credit Conditions



Source : Haver

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

FX Risk

Rouble tumbles to seven-month low

The rouble tumbled to its lowest level in seven months in late August, easing as far as RUB71.65:USD, as concerns regarding China's slowing economy have weighed on commodities. The price of Brent crude oil, the international benchmark, plunged to its lowest level since March 2009, briefly touching USD44.69. Despite a subsequent uptick in the oil price, it remains at depressed levels and we do not anticipate a sustained recovery in the near term. As such, we expect the rouble to remain weak, with downward pressure compounded by our expectation of a US interest rate hike by the end of this year.

China's decision to devalue its currency has also placed downward pressure on the rouble. In response to EU and US sanctions over Ukraine, the Russian government has been seeking to stimulate a trade reorientation toward the east, hoping that China would take a bigger share of Russia's exports. However, this may prove difficult in the short term, as the devaluation of the yuan will make Russian exports to China more expensive.

A raft of domestic issues are also weighing on the currency. The Russian economy slid into recession in Q2, and inflation has been surging while consumer demand is on the decline. Moreover, crippled investor sentiment continues to drive excessive capital flight while the ongoing sanctions continue to place a stranglehold on Russian businesses. Overall, the rouble remains a high-risk currency and we advise customers exposed to the rouble to make use of hedging instruments.

Short-Term Economic Outlook

Recession deepens in Q2

The Russian economy shrank by 4.6% y/y in Q2, the sharpest contraction since 2009, and an increase on the 2.2% y/y GDP decline in Q1. The country is experiencing its first recession in six years, beleaguered by low oil prices, sanctions, fiscal austerity driven by a sharp fall in tax revenues and long-running structural inefficiencies. Consumer demand remains feeble as the rapid depreciation of the rouble has led to a surge in inflation (as imports become much more expensive), which has eroded consumer confidence and purchasing power. Indeed, real wages plunged by 9.2% y/y in July, while retail sales also slumped by 9.2% y/y (and have declined by 8.1% overall since the start of the year). Meanwhile, industrial production fell by 4.7% y/y in July, while the manufacturing PMI slipped to 48.3 from 48.7 in June – falling further below the threshold that separates contraction from expansion, and signals a bleak outlook for businesses in a sector that continues to contend with higher input costs and weaker demand. The market consensus had been that the Russian economy would bottom out at some point in Q2, but the latest data releases suggest worse may be yet to come. We have revised our forecast for 2015 to -3.6% (from -3.0%).



COUNTRY PROFILE AND STATISTICS

Overview

Stretching over 11 time zones from the Baltic Sea in the west to the Pacific Ocean in the east, Russia is the world's largest country by area. Its 84 geographic sub-entities have varying degrees of autonomy, and vast political and socio-economic discrepancies.

The dissolution in 1991 of the Soviet Union (which nominally consisted of Russia and 14 constituent republics) was followed by the erratic presidency of Boris Yeltsin. In 1994, armed conflict broke out over the status of the Caucasian republic of Chechnya, whose authorities sought independence from Russia. Political stability increased under Yeltsin's successor, Vladimir Putin, but has partly been achieved at the expense of a liberal democratic order.

Russia is among the world's largest oil producers and has the largest proven reserves of natural gas. A poor business environment and a lack of economic reform have inhibited foreign investment and the diversification of exports away from their dependence on hydrocarbons is a vital necessity.

Key Facts

Key Fact	Detail
Head of state	President Vladimir PUTIN
Capital	Moscow
Timezone	GMT +03-00
Official language	Russian
Population (millions)	142.5
GDP (USD billions)	1,866.8
GDP per capita (USD)	13,103
Life expectancy (years)	68
Literacy (% of adult pop.)	99.4
Surface area (sq km)	17,098,240

Source : UN / Haver Analytics / D&B

Historical Data

Metric	2010	2011	2012	2013	2014
Real GDP growth (%)	4.5	4.26	3.41	1.34	0.5
Nominal GDP in USDbn	1,524.9	1,904.8	2,016.1	2,079.0	1,866.8
Nominal GDP in local currency (bn)	46,309	55,967	62,176	66,190	71,684
GDP per Capita in USD	10,618	13,280	14,082	14,556	13,103
Population (year-end, m)	143.62	143.44	143.17	142.83	142.47
Exchange rate (yr avge, USD-LCU)	30.37	29.38	30.84	31.84	38.4
Current Account in USDbn	67.45	97.27	71.28	34.8	40.85
Current Account (% of GDP)	4.42	5.11	3.54	1.67	2.19
FX reserves (year-end, USDbn)	443.59	453.95	486.58	469.6	383.28
Import Cover (months)	16.58	13.28	13.13	12	10.72
Inflation (annual avge, %)	6.8	8.4	5.1	6.8	7.8
Govt Balance (% GDP)	-3.4	1.5	0.4	-1.3	0.2

Source : D&B



Forecasts

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	-3.6	0.3	2.5	2	1.6
Nominal GDP in USDbn	1,389.3	1,465	1,617.4	1,758.3	1,874.3
Nominal GDP in local currency (bn)	79,190.0	84,971.0	92,193.0	98,462.0	104,960.0
GDP per Capita in USD	9,777	10,337	11,443	12,475	13,340
Population (year-end, m)	142.1	141.7	141.3	140.9	140.5
Exchange rate (yr avge, USD-LCU)	57	58	57	56	56
Current Account in USDbn	62.5	63.2	65	65.8	66.3
Current Account (% of GDP)	4.5	4.31	4.02	3.74	3.54
FX reserves (year-end, USDbn)	310	316.2	322.5	329	335.6
Import Cover (months)	9	11	13	15	15
Inflation (annual avge, %)	14.5	7	6	4.8	5
Govt Balance (% GDP)	-3	-2	-1.2	-1	-1

Source : D&B

Comparative Market Indicators

Indicator	Russia	Kazakhstan	Poland	Ukraine	US
Income per Capita (USD)	13,060	12,014	13,784	2,929	54,295
Country Population (m)	142.5	17.4	38.2	45	319.4
Internet users (% of population)	70.5	54.9	66.6	43.4	87.4
Real GDP Growth (% p.a., 2015 - 2024)	1.5 - 3	5 - 8	2.5 - 5	2 - 4	1.5 - 3

Source : D&B



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