

Country Insight Snapshot Russian Federation

August 2018





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

- + Russia will remain the biggest market in Eastern Europe for the foreseeable future.
- An ageing population poses problems for further economic development.
- The implementation of structural reforms to address the economy's over-reliance on natural resource revenues remains stalled.
- Excessive regulation, weak governance and substantial state involvement in the economy continue to discourage efficiency-enhancing investment.

KEY DEVELOPMENT

Although real GDP data for Q2 has not yet been released, proxy indicators suggest that economic growth has continued into the second quarter, albeit at a slower rate.

CREDIT ENVIRONMENT OUTLOOK

R

Trend: Stable →

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

R

Trend: Stable →

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

R

Trend: Stable →

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

R

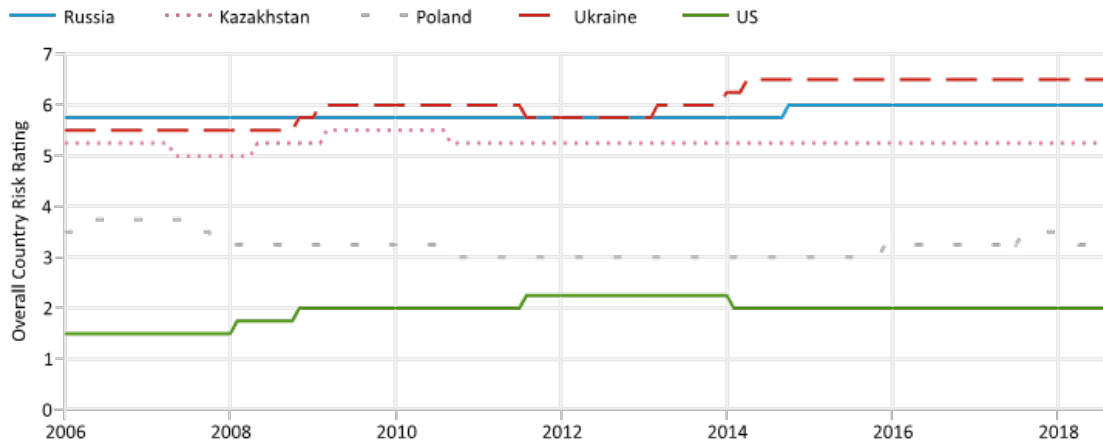
Trend: Stable →

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

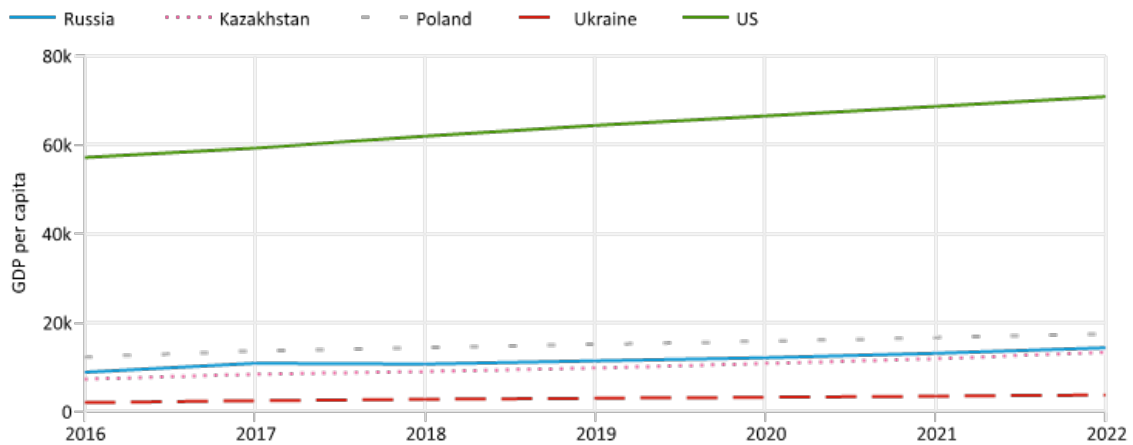
Rating History and Comparison



Source : Dun & Bradstreet

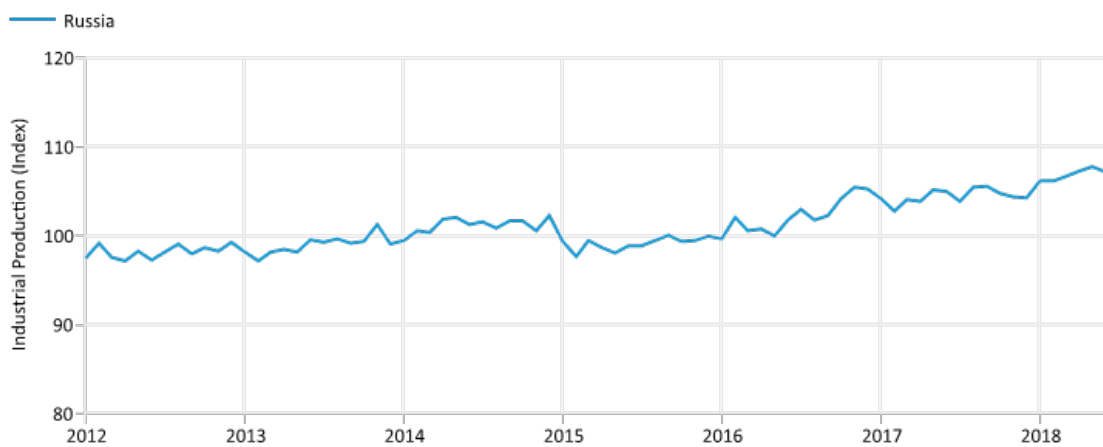
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2015	2016	2017	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	4.9	1.9	2.2	2.1	2.5	2.9	2.9	2.9
Govt balance, % GDP	-3.4	-3.7	-2.1	-1.5	-1.2	-1.0	-0.7	-0.5
Inflation, annual avge %	15.5	7.0	3.7	2.8	3.2	3.6	4.0	4.0
Real GDP Growth, %	-2.5	-0.2	1.5	1.7	1.7	1.5	1.5	1.6
Unemployment, %	5.6	5.5	5.2	4.8	4.6	4.6	4.5	4.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The latest Cribis Payment Study report (based on Interfax data) reveals that Russian companies' payment performance was stable in 2017, with 70.9% of total payments made on time, down from 71.2% in 2016. The share of 'bad payers' (over 90 days) declined by 1 percentage point (pp) to 6.0%, while 2.7% of companies paid their suppliers after 60-90 days. The share of medium and large companies paying by the due date rose to 75.1% and 76.8% respectively, up from 74.1% and 73.8% respectively in 2016. Meanwhile, the share of 'good payers' among small companies fell by 3.0pp to 64.3%, while the share of 'bad payers' rose by 0.3pp to 9.6%. A breakdown of payment practice by sector reveals that more than 80% of companies in the pharmaceutical preparations, industrial and commercial machinery and computer equipment, communications, business services, and insurance carriers sectors paid their suppliers on time last year.

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

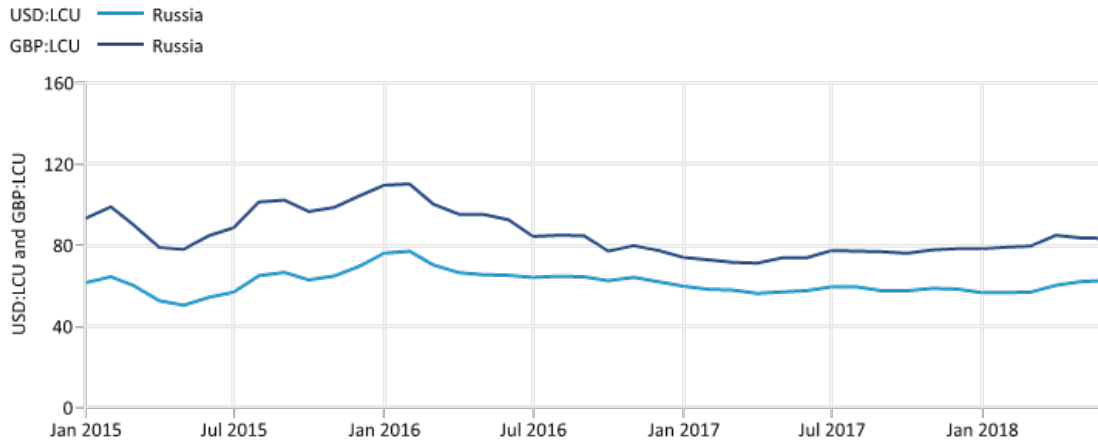
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



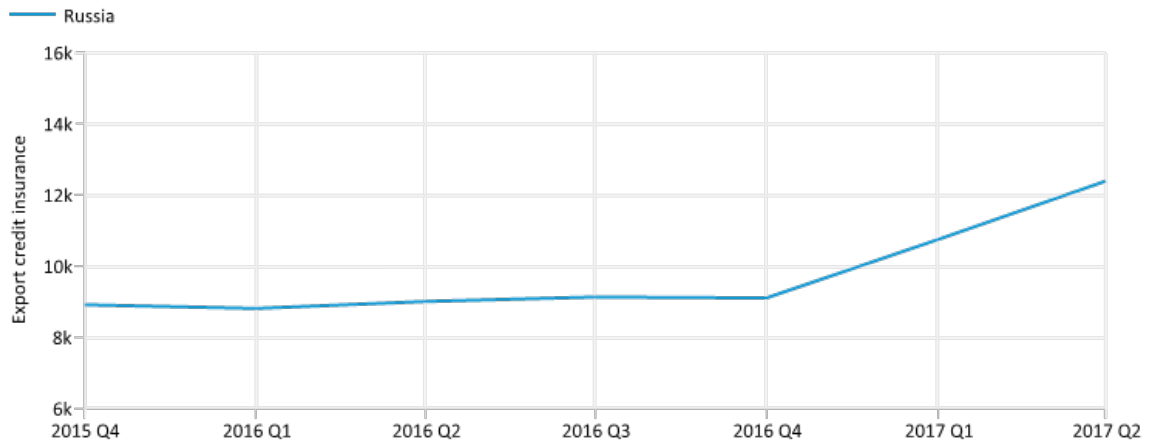
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Russian rouble

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Q2 proxy indicators upbeat

Although real GDP data for Q2 has not yet been released, proxy indicators suggest that economic growth has continued into Q2, albeit at a slower rate than in Q1. After expanding by 2.5% y/y in the first quarter, seasonally-adjusted industrial production went up by an average 2.6% y/y in Q2: data broken down by sector reveals that manufacturing output increased by 4.2% y/y, while production in the mining and quarrying sector expanded by 2.2% y/y. Furthermore, gas and coal production surged by 9.1% y/y and by 8.0% y/y respectively; while crude oil production rose only slightly, up 0.2% y/y.

Positive data also emanates from the retail sector and the labour market: retail sales went up by 5.3% q/q in the three months to June, with sales of both food and non-food products contributing to a push upwards in the headline index. In the meantime, the unemployment rate remained stable in Q2, standing at 4.8%, unchanged from its Q1 value (although the jobless rate increased slightly over the quarter, from 4.8% in May to 4.9% in June). Elsewhere, price pressures were only moderate in Q2: inflation stood at 2.4% y/y, well below the central bank's target of 4.0%. Price growth is likely to remain subdued in the months ahead, but we expect inflation to rise gradually towards the central bank's 4.0% inflation target over the medium term.

Looking ahead, growth should pick up slightly in 2018, to around 1.8%, as rising oil prices (which hit their highest level since 2014 in mid-April, moving above USD74 per barrel) and low interest rates will continue to support economic activity. In particular, companies are likely to increase their investment activity in order to take advantage of lower interest rates: according to Russia's energy minister, Russian companies are expected to invest USD22.5bn in oil production in 2018, with crude output and exports forecast at the same levels as in 2017, when production rose by 10% compared to 2016. That said,, we are currently anticipating subdued economic growth in the medium term, on account of ongoing Western sanctions (which will curb export growth, among other things), unfavourable demographics (the population will fall by more than two million over the next decade, according to UN forecasts), and persisting structural weaknesses.

FX Risk

CBR keeps rates stable

In its last meeting on 27 July, the Bank of Russia (CBR) Board of Directors voted against a rate cut, and decided to keep the main policy key rate steady at 7.25%. The decision not to cut rates followed the consideration that the balance of risk is currently tilted towards proinflationary risks. Furthermore, uncertainty persists over how strongly the tax measures may affect inflation expectations and how the external conditions will develop, according to the CBR. Despite the recent rate cuts, credit conditions remain tight as Russian banks continue to face restricted access to external financing as a result of Western sanctions, while rouble weakness has increased the cost of servicing foreign debt.



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 socioeconomic 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 biggest 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 vital.

Key Facts

Key Fact	Detail
Head of state	President Vladimir PUTIN
Capital	Moscow
Timezone	GMT +03-00
Official language	Russian
Population (millions)	144.0
GDP (USD billions)	1,576.2
GDP per capita (USD)	10,947
Life expectancy (years)	70.7
Literacy (% of adult pop.)	99.7
Surface area (sq km)	17,098,240

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2013	2014	2015	2016	2017
Real GDP growth (%)	1.8	0.8	-2.5	-0.2	1.5
Nominal GDP in USDbn	2,293	2,060	1,367	1,283	1,576
Nominal GDP in local currency (bn)	73,004	79,043	83,274	86,045	91,960
GDP per Capita in USD	15,969	14,326	9,497	8,913	10,947
Population (year-end, m)	143.6	143.8	143.9	144.0	144.0
Exchange rate (yr avge, USD-LCU)	31.8	38.4	60.9	67.1	58.3
Current Account in USDbn	33.2	57.2	67.4	24.2	35.2
Current Account (% of GDP)	1.4	2.8	4.9	1.9	2.2
FX reserves (year-end, USDbn)	469.6	339.4	319.8	317.5	356.1
Import Cover (months)	12.0	9.4	13.5	14.4	13.1
Inflation (annual avge, %)	6.8	7.8	15.5	7.0	3.7
Govt Balance (% GDP)	-1.2	-1.1	-3.4	-3.7	-2.1

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	1.7	1.7	1.5	1.5	1.6
Nominal GDP in USDbn	1,550	1,653	1,751	1,895	2,071
Nominal GDP in local currency (bn)	96,098	100,807	105,948	111,776	118,035
GDP per Capita in USD	10,766	11,485	12,179	13,190	14,436
Population (year-end, m)	144.0	143.9	143.8	143.6	143.4
Exchange rate (yr avge, USD-LCU)	62.0	61.0	60.5	59.0	57.0
Current Account in USDbn	32.0	42.0	50.0	55.0	60.0
Current Account (% of GDP)	2.1	2.5	2.9	2.9	2.9
FX reserves (year-end, USDbn)	360.0	364.0	370.0	375.0	380.0
Import Cover (months)	12.6	12.1	11.8	11.3	11.0
Inflation (annual avge, %)	2.8	3.2	3.6	4.0	4.0
Govt Balance (% GDP)	-1.5	-1.2	-1.0	-0.7	-0.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Russia	Kazakhstan	Poland	Ukraine	US
Income per Capita (USD)	10,766	9,070	14,497	2,846	62,009
Country Population (m)	144.0	18.4	38.1	44.0	326.8
Internet users (% of population)	76.4	76.8	73.3	52.5	76.2
Real GDP Growth (% p.a., 2018 - 2027)	1.5 - 3.0	2.5 - 5.0	2.0 - 4.0	-0.5 - 3.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



LINKS

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Sales

Email: countryinsight@dnb.com

Telephone

UK: +44 (0)1628 492700

US: +1 800 234 3867

Rest of World

contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: countryinsight@dnb.com

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