

# Country Insight Snapshot Russian Federation

January 2017



Written 06 January 2017

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## 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

The US imposes sanctions on Russia over alleged hacking during the US presidential election; any attempt to reverse course by the Trump administration will encounter strong Congressional opposition.

### CREDIT ENVIRONMENT OUTLOOK

R

**Trend:** Deteriorating

Key Development has had a neutral 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 neutral impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

R

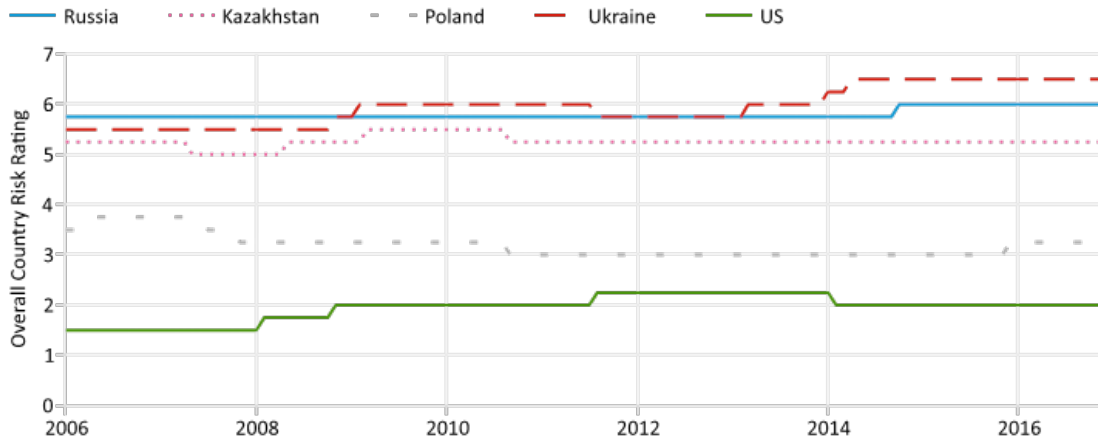
**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.



## KEY INDICATORS

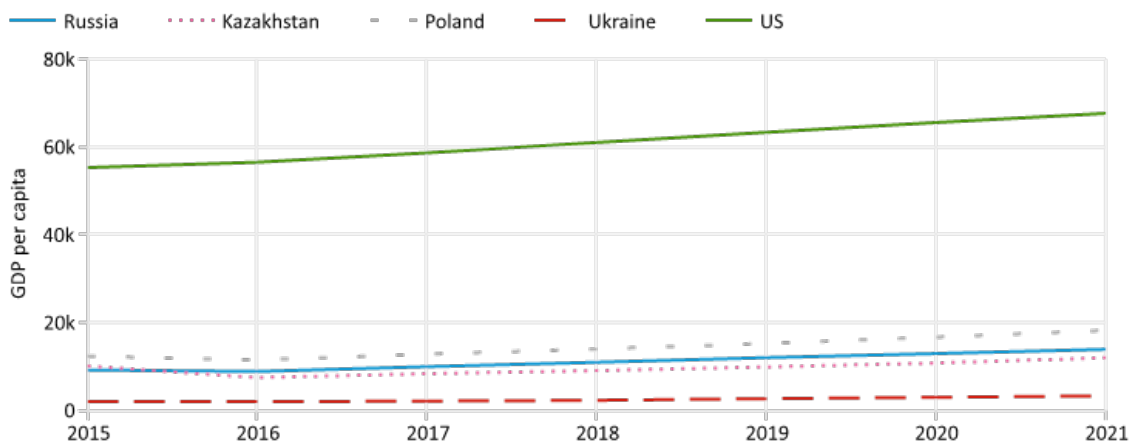
### Rating History and Comparison



Source : Dun & Bradstreet

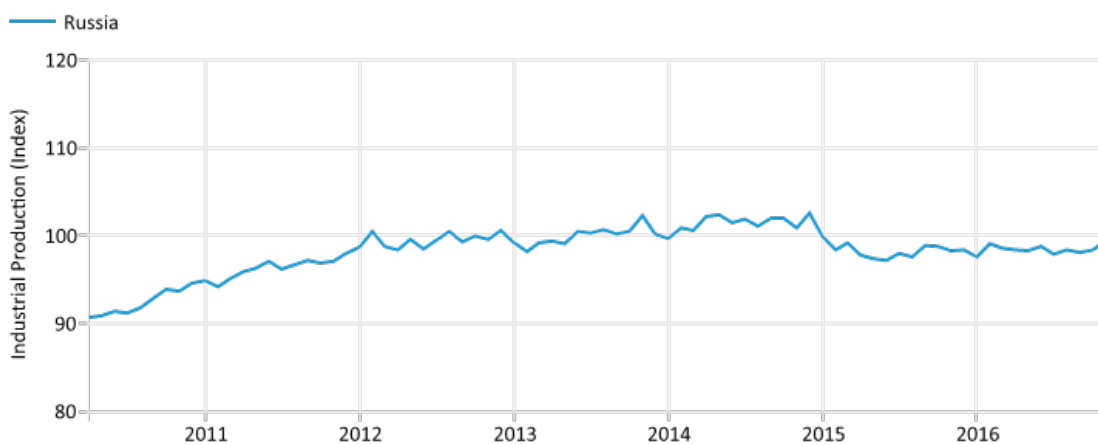
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Industrial Production (Index)



Source : Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2014	2015	2016e	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	2.8	5.2	2.4	3.0	4.1	3.9	3.7	3.5
Govt balance, % GDP	-1.1	-3.5	-3.8	-2.8	-1.5	-0.8	-0.5	-0.2
Inflation, annual avge %	7.8	15.5	7.0	5.3	5.0	4.5	4.2	4.0
Real GDP Growth, %	0.7	-3.7	-0.6	1.3	1.4	1.5	1.5	1.6
Unemployment, %	5.2	5.6	5.8	6.0	5.8	5.5	5.3	5.1

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Russia's FX reserves totalled USD323.6bn at end-November, down from USD326.3bn at end-October. While reserves are at comfortable levels, the risk of non-payment and payment delays at the commercial level remains high. Western sanctions continue to restrict banks' access to external financing, while the cost of servicing foreign debt remains elevated owing to rouble weakness. In addition, the weak economy and decline in real earnings implies further rises in NPLs and corporate defaults going forward, placing additional pressure on banks' asset quality and balance sheets. While we continue to believe the authorities have sufficient resources to support all of Russia's systemic banks so as to avert a financial crisis, the weak economic backdrop and liquidity deficit in the banking sector suggest further bank failures are likely. As such, we advise foreign firms to exercise caution in dealings with smaller Russian banks and to monitor capital levels at larger institutions.

## 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

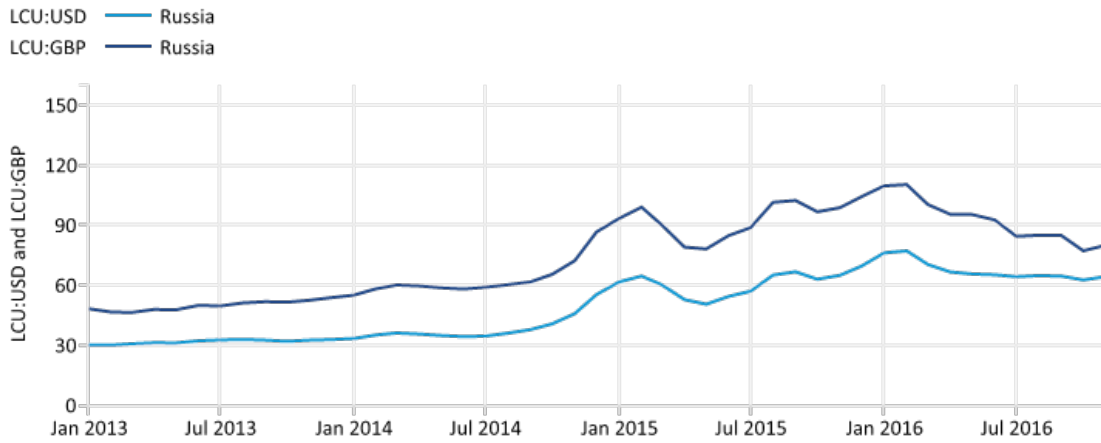
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



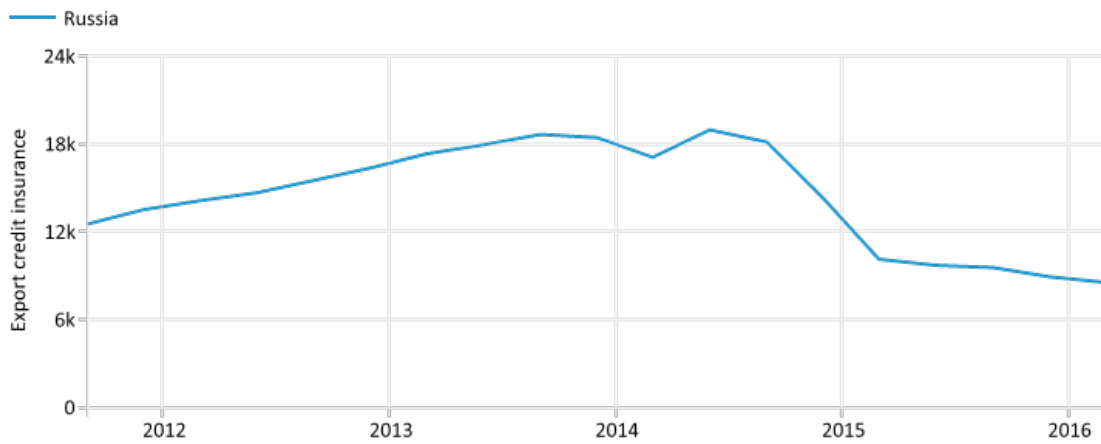
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = Russian rouble*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Political/Insecurity Risk

#### *US imposes more sanctions*

In late December, President Obama's outgoing administration announced the imposition of a range of punitive measures on Russia. These came in retaliation for the Kremlin's alleged hacking into US political party computer networks - action that US intelligence agencies have concluded was undertaken (along with other measures including the spread of propaganda, disinformation and fake news) to undermine faith in US democracy and influence the outcome of November's general election in favour of now-President-elect Donald Trump.

The measures include fresh sanctions (including travel bans and asset freezes) against Russia's two main intelligence services - the FSB and the GRU - along with sanctions against six individuals (four high-ranking GRU members and two individual Russian hackers). The White House has also ordered the closure of two Russian diplomatic compounds in the US. In addition, it has expelled 35 US-based Russian intelligence operatives in response to what it claims has been a long-running pattern of harassment of US diplomats in Russia, which has allegedly increased in intensity over the past year. While President-elect Trump has stated that he hopes to improve battered bilateral ties with Russia and could seek to overturn US sanctions once he assumes office, he is likely to face strong bipartisan resistance from the US Congress. Indeed, the new sanctions have been welcomed by both Democrats and Republicans in Congress, with many calling for even tougher action.

### Short-Term Economic Outlook

#### *Russia sells 19.5% stake in Rosneft*

Russia has announced that it is to sell a 19.5% stake in state-owned oil giant Rosneft - the country's largest oil producer, which both the US and EU have targeted with punitive sanctions. The deal, worth EUR10.5bn, is the largest under the privatisation programme launched by the Russian government at the start of 2016 and represents one of the biggest ever foreign investments in the country. The stake is to be sold to a consortium composed of Swiss commodity trader Glencore and the Qatar Investment Authority (Qatar's sovereign wealth fund). The Russian government will retain a majority stake in Rosneft, while UK oil company BP holds a 19.75% stake.

The deal comes in spite of US and EU sanctions against Rosneft, which were thought likely to deter the participation of Western companies in the sale. While the sanctions do not prohibit the transaction, foreign companies have previously been wary of dealing with Rosneft for fear of attracting the attention of Western regulators. The agreement provides a significant boost for Russia, which has seen foreign investment plummet over the past two years owing to Western sanctions as well as low oil prices, which have also caused a sharp decline in government revenue. As a result, the government is endeavouring to sell stakes in a number of state-owned assets in a bid to raise money to help to rein in the budget deficit. The Rosneft deal will also allow the government to conserve a greater share of assets in its Reserve Fund.



## 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 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)	143.4
GDP (USD billions)	1,272.2
GDP per capita (USD)	8,869
Life expectancy (years)	70
Literacy (% of adult pop.)	99.7
Surface area (sq km)	17,098,240

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2012	2013	2014	2015	2016e
Real GDP growth (%)	3.6	1.2	0.7	-3.7	-0.6
Nominal GDP in USDbn	2,167	2,227	2,027	1,324	1,272
Nominal GDP in local currency (bn)	66,824	70,890	77,794	80,711	85,876
GDP per Capita in USD	15,122	15,531	14,133	9,233	8,869
Population (year-end, m)	143.3	143.4	143.4	143.5	143.4
Exchange rate (yr avge, USD-LCU)	30.84	31.84	38.38	60.94	67.5
Current Account in USDbn	71.4	33.6	57.6	69.1	30.0
Current Account (% of GDP)	3.3	1.5	2.8	5.2	2.4
FX reserves (year-end, USDbn)	486.6	469.6	339.4	319.8	330.0
Import Cover (months)	13.1	12.0	9.4	13.6	13.3
Inflation (annual avge, %)	5.1	6.8	7.8	15.5	7.0
Govt Balance (% GDP)	0.4	-1.2	-1.1	-3.5	-3.8

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	1.3	1.4	1.5	1.5	1.6
Nominal GDP in USDbn	1,430	1,571	1,721	1,850	1,987
Nominal GDP in local currency (bn)	91,544	97,403	103,247	109,132	115,243
GDP per Capita in USD	9,976	10,966	12,025	12,944	13,929
Population (year-end, m)	143.4	143.3	143.1	142.9	142.6
Exchange rate (yr avge, USD-LCU)	64.0	62.0	60.0	59.0	58.0
Current Account in USDbn	43.0	65.0	67.0	68.0	70.0
Current Account (% of GDP)	3.0	4.1	3.9	3.7	3.5
FX reserves (year-end, USDbn)	333.0	340.0	345.0	352.0	360.0
Import Cover (months)	12.8	12.4	12.0	11.7	11.4
Inflation (annual avge, %)	5.3	5.0	4.5	4.2	4.0
Govt Balance (% GDP)	-2.8	-1.5	-0.8	-0.5	-0.2

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Russia	Kazakhstan	Poland	Ukraine	US
Income per Capita (USD)	9,233	10,125	12,343	2,022	55,326
Country Population (m)	143.5	17.6	38.6	44.8	321.8
Internet users (% of population)	73.4	72.9	68	49.3	74.5
Real GDP Growth (% p.a., 2017 - 2026)	1.5 - 3	2.5 - 5	2 - 4	-0.5 - 3.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet





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