Russian Federation |

Investment climate

The World Bank Doing business report 2015[1] ranks Russia 62nd among the world's most attractive countries for doing business, increasing its chart position compared to the previous year (64th place in 2014). In 2014, the Economist Intelligence Unit (EIU)[2] listed Russia 15th in its regional rating of business environment attractiveness among other eastern European countries.

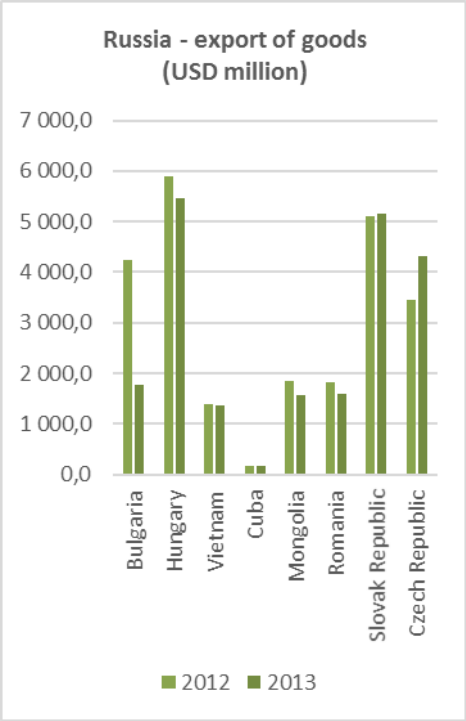
In January and February 2015, International rating agencies S&P and Moody's downgraded Russia's sovereign rating to junk status. It is very likely Fitch will also downgrade Russia's sovereign rating within 2015.

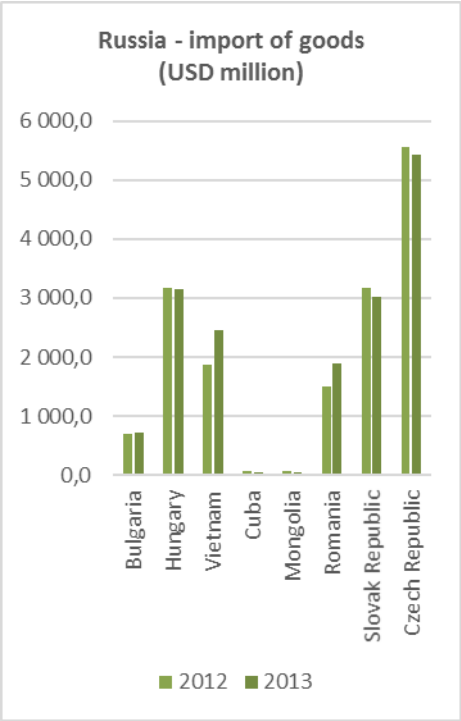
Investment activities will remain low throughout 2015, however as early as the next year they will slowly start gaining confidence, if structural problems are eliminated, business and consumer behaviour start recovering and sanctions are gradually lifted. Successful realization of Import Substitution Programme as well as Draft Budget 2016-2017, which provides for significant structural transformations that are required for sustainable recovery of economic growth in 2016, underlie investor optimism.

In 2014, FDI inflow dropped by 70%. Net capital outflow from the Russian Federation is estimated at USD 30 billion in 2015, and in 2016 – at USD 10 billion. 2017 will see 0% outflow.

Free trade zone within Eurasian Economic Union is consistently expanding. After Vietnam acceded to the free trade zone in May 2015, trade activities between Russia and Vietnam are expected to grow significantly in the nearest future.

Trade and economic relations with the Bank's member states[3]





Area 17 125 187 sq. km
Population (2014) ▼ 142.5 million
Unemployment (2014) ▼ 5.3%
GDP (2014) ▼ $1, 850.8 billion
GDP growth (2014) ▼ 0.6%
Inflation (2014) ▲ 11.4%
Annual average exchange rate (2014) ▲ 38.58 RUB/1 USD
▲ 51.70 RUB/1 EUR
Sovereign debt (2014) ▲ 17.7% GDP
FDI inflow (2014) ▼ $ 21.0 billion
FDI outflow (2014) ▼ $ 56.4 billion
Main industries:
- petrochemicals, engineering
- energy production, IT
- food processing

National Development Bank:
- Vnesheconombank

Participation in IDBs (share in authorized capital):
- World Bank Group – IBRD (2.84%), IFC (3.90%), IDA (0.33%)
- IMF (2.39%)
- EBRD (4.03%)
- EABR (65.00%)
- BSTDB (16.50%)
- AIIB (-)
- IBEC (51.59%)
- Interstate Bank (50%)

Russia enjoys the observer status in:
- Asian Development Bank
- Inter-American Development Bank
- African Development Bank Group

Exports / imports (2014): ▲ $ 551.0 billion/ ▲ $ 423.6 billion

Exports /imports, Russia's share (2013):
- Bulgaria 0.3% / 0.2%
- Hungary 1.0% / 1.0%
- Vietnam 0.3% / 0.8%
- Cuba 0.0% / 0.0%
- Mongolia 0.3% / 0.0%
- Romania 0.3% / 0.6%
- Slovak Republic 1.0% / 1.0%
- Czech Republic 0,8% / 1,7%

[1] Source: World Bank - Doing Business 2015.
[2] Source: Economist Intelligence Unit, Russia: Business environment ranking summary, May 2015.
[3] Source: UNCTAD.

Economic development forecast

The Word Bank's recent forecast[4] holds that stabilized oil prices (average annual oil price in 2015 is estimated at USD 59 per barrel, and in 2016 – at USD 63.6 per barrel) will enable Russia to avoid a GDP slump within this year. Moreover, as early as the next year, it will make it possible to resume economic growth. Therefore, Russia's economy will shrink by 2.7% in 2015 (it was previously forecasted to shrink by 3.8%). In 2016 it will grow by 0.7% (a decline of 0.3% was previously forecasted). Real GDP annual average growth will reach approximately 2% between 2017 and 2019. Inflation in Russia reached 11.4% at the end of 2014, which is twice the target established by Russia's Central Bank. Consumer prices rocketed from mid-December after rouble's devaluation. Inflation peak will occur in Q1 2015, after that inflationary pressure will ease. Official figures provided by the Ministry of Economic Development of Russia estimate inflation at 12.2% in 2015.

Russia's economic growth reached 0.6% at the end of 2014. Sharp fall in oil prices and foreign capital outflow resulted in rouble devaluation at the end of 2014, unfolding inflation and weak domestic spending. Higher inflation levels and deteriorating labour market will lead to further household spending cuts.

At the end of 2014 rouble depreciated dramatically against US dollar and euro. At the end of the year rouble was down 41% against US dollar and 34% to euro. However, as early as February 2015 rouble began to appreciate against the background of recovering global oil prices, reduced capital outflow and moderate improvements in the international environment. Rouble is estimated to fall slightly in H2 2015 due to growing base rates announced in the US, which will lead to increased capital outflow from developing markets.

External sector will partially balance declining domestic demand; for weaker rouble stimulates exports, while declining domestic demand leads to falling imports. Current account surplus will reach 4.5% GDP in 2015 (3.5% at the end of 2014) and will amount, on average, to 4.7% from 2016 to 2019. Trade surplus will increase to 9.5% GDP in 2015 (compared to 7.5% GDP in 2014).

Banking sector

In 2014, Russian credit organisation reported profits in the amount of RUB 589 billion, which is by 40.7% less that in the previous year. Key factor behind this reduction was growth in reserves created by credit institutions to cover possible losses, which have increased since the beginning of 2014 by RUB 1,203 billion (or by 42.2%), compared with the increase of RUB 411 billion (or 16.8%) in 2013.

All in all, 2015 will see a moderate growth of the banking sector owing to corporate lending. However retail segment will experience stagnation. The development of Russia's banking sector will largely depend upon the direction of oil prices.

Given average annual oil prices will dwell at USD 50 per barrel in 2015, bank assets will grow by around 8%, total loan portfolio will grow by 7%. Key bank lending segments, except for lending to large businesses, are expected to shrink. Lending to large businesses will grow by 16%. Funds received by the largest banks under planned additional capitalization programme through federal loan bonds, might be directed to support the segment. Portfolio of loans to small and medium enterprises (SME) will shrink by 8%, whereas fiduciary loans to private persons will fall by 7%. The volume of disbursed mortgage loans will shrink by 70%.

Given that oil prices will reach USD 65 per barrel, asset growth might amount to 11%. This price tag will enable the Bank of Russia to pursue a softer monetary policy, which will promote the reduction of borrowing costs and increase in volume of lending to businesses and households. Central Bank base rate might be reduced to 11%. In this case, consumer and SME loan portfolios will shrink by 4% and 3%, respectively. Volumes of mortgage lending will not contract by more than 45% owing to the reduction of average market rates to 13-14%. However, noticeable lending market recovery might only occur closer to the end of 2015.

[4]Source: World Bank, Russia Monthly Economic Developments, May 2015.