

Russia

Outlook

	Average 10-14	2015	2016	2017	2018	2019	2020	Forecasts	
								2021	2022
GDP growth (%)	2.4	-2.0	0.2	1.8	2.8	2.0	-3.0	3.0	2.2
CPI Inflation (%)*	7.0	15.5	7.1	3.7	2.9	4.5	4.9	4.7	4.0
Fiscal balance (% of GDP)	-0.7	-3.4	-3.7	-1.5	2.9	1.9	-4.1	-0.8	-0.3
Public debt (% of GDP)	11.8	15.3	14.8	14.3	13.6	13.8	19.3	18.1	17.7
Reference rate (%)*	5.9	12.5	10.5	9.0	7.4	7.3	4.9	5.3	6.0
Exchange rate (RUB/USD)*	32.2	61.3	67.2	58.3	62.7	64.7	72.4	74.0	72.0
Current balance (% of GDP)	3.3	5.0	1.9	2.0	7.0	3.8	2.2	3.0	3.3
External debt (% of GDP)	27.8	37.0	33.6	29.6	25.9	26.2	28.8	27.6	26.8

Note: * Annual average.

Source: CaixaBank Research, based on data from national statistical agencies and the IMF.

- In 2020, Russia's GDP fell by 3.0%, below that of most emerging countries and the global economy as a whole. Growth prospects are favourable, linked to a recovery in global activity and the price of oil.** Unlike other commodity-producing countries, the resilience of the Russian economy in 2020 was due to a more developed macro-financial environment than other commodity exporters and the imposition of a less severe lockdown. Looking ahead, it is expected that the growth of the economy will be based on an increase in domestic demand, thanks to the protectionist measures, the recovery of crude exports and progress with vaccinations. However, despite this favourable macroeconomic background, geopolitical risk is one of the greatest sources of uncertainty.
- Real shock of COVID-19.** The second wave of the pandemic, in Q4 2020, significantly affected Russia, which is currently fourth in number of deaths among emerging countries. However, the fact that the mobility restriction measures were relatively lax, together with the positive balance of net exports and the increase in public expenditure, cushioned the decline in GDP in real terms. In 2021 we foresee a recovery scenario driven, apart from a more dynamic world economy, by the increase in activity in the hydrocarbon sector, insofar as Russia and OPEC agree to increase the supply of crude oil, by an increase in household spending and by continuing with some pandemic relief measures. Additionally, the approval of the Russian vaccine for COVID-19, Sputnik V, by various international medical bodies and its worldwide distribution will support exports and the increase in foreign investment.
- Economic policy response**
 - Fiscal policy.** The fiscal measures applied by Russia during the pandemic, despite being less than those of other emerging countries, pushed the fiscal deficit up to 4.1% of GDP. The Government has announced a fiscal consolidation plan for the next three years (with a 10% reduction in spending and a rise in taxes on large wealth assets), to increase fiscal reserves against potential external shocks (such as sanctions from the United States). Additionally, the rise in crude prices is expected to generate an increase in fiscal revenue (via exports), which will help to reduce the budget deficit below -1% in 2021. However, the legislative elections in September introduce an element of uncertainty over the degree of compliance with the fiscal consolidation programme.

Outlook (continued)

- > **Monetary policy.** Since the start of the year, the Bank of Russia (CBR) has adopted a more restrictive monetary policy (it has raised interest rates +75 bp to 5.00%) due to a notable rise in inflation in Q1. In March, the year-on-year rate stood at 5.7%, well above the central bank's target of 4%, due to strong growth in domestic demand, imbalances in some supply chains and the depreciation of the rouble. The CBR has expressed its intention to implement an inflation control policy, for which it does not rule out raising rates to what is called a "neutral" level (between 5% and 6%) between 2021 and 2022. However, in our opinion, the risks could require a more aggressive adjustment, given the possibility of an increase in commodity prices and new sanctions that could further weaken the rouble.
- **Evolution of the exchange rate.** Macroeconomic and financial fundamentals (stable credit metrics, low external debt and high level of international reserves) should help strengthen the rouble's exchange rate in the medium-term. However, in 2021, the risks arising from the political situation, the unfolding of the pandemic and/or likelihood of new sanctions from the US suggest downward pressure on the currency.

Main risks

The balance of risk is on the downside. The risks are presented in several categories:

- **Political.** They are presented at two levels. Internationally, Russia is exposed to new sanctions by the US, which could destabilise Russia's external funding needs and weaken the rouble. Russia also maintains controversial diplomatic relations with Ukraine, Belarus and Turkey. Domestically, the legislative elections in September are a test for V. Putin's party (United Russia). According to the polls, he has lost some voter's support during the pandemic crisis.
- **Macroeconomic.** The main risk is that the recovery in demand for crude oil could be less robust than expected by OPEC in 2021, and could cause a fall in the price of crude and new production restrictions that could worsen the current balance. There is also the risk linked to the pandemic. Russia, despite being the producer of a vaccine, has one of the lowest vaccination rates among emerging countries.
- **Financial.** The main risk is the effect that US sanctions on Russia may have on the cost of financing the long-term debt and on the rouble exchange rate. Although the sanctions imposed in April had a "contained" effect, an increase in sanctions or political tensions between both countries could lead to a rise in the risk premium demanded on Russia by non-resident investors which would hinder the refinancing of short-term debt and weaken the rouble against the dollar.
- **Sovereign risk outlook.** Even if the above risks do not materialise, based on macro fundamentals we estimate that there could be a decline of around one notch in 2021 in the credit rating and there may be additional downward pressure on it.

	Rating	Last changed	Outlook	Last changed
STANDARD & POOR'S	BBB-	23/02/18	Stable	23/02/18
MOODY'S	Baa3	08/02/19	Stable	08/02/19
FitchRatings	BBB-	09/08/19	Stable	09/08/19

■ Indicates that the country is rated as "investment grade".

□ Indicates that the country is not rated as "investment grade".

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