

October 2018



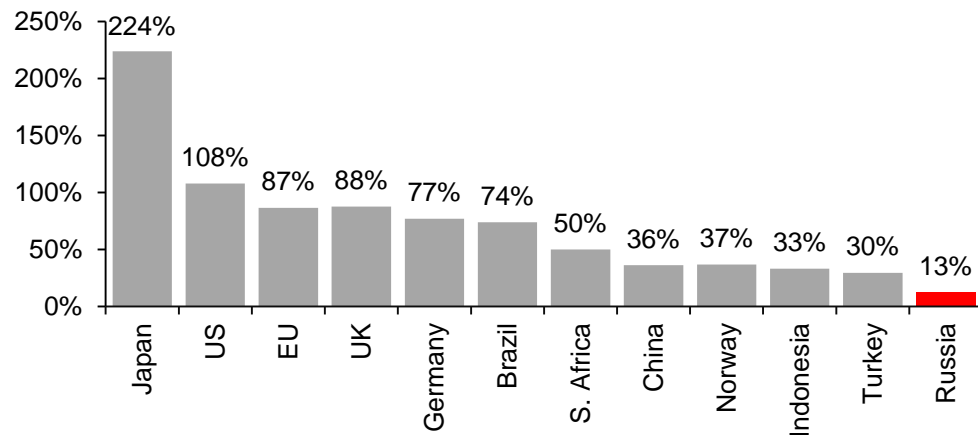
Alfa·Bank

Russia: Macro Outlook for 2019

Natalia Orlova
Head of Alfa Bank Macro Insights
+7 495 795 36 77
norlova@alfabank.ru

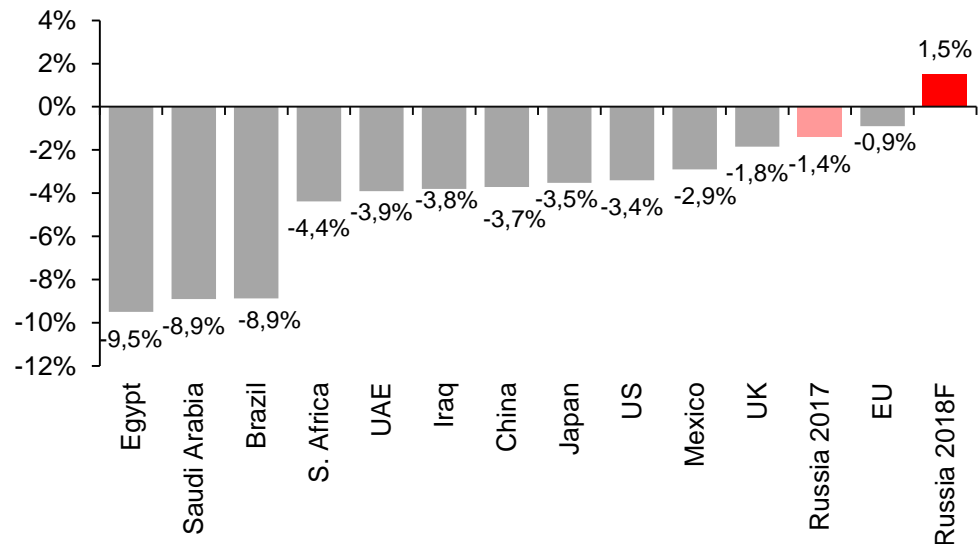
Russia runs a low level of macro risk

State debt, % of GDP

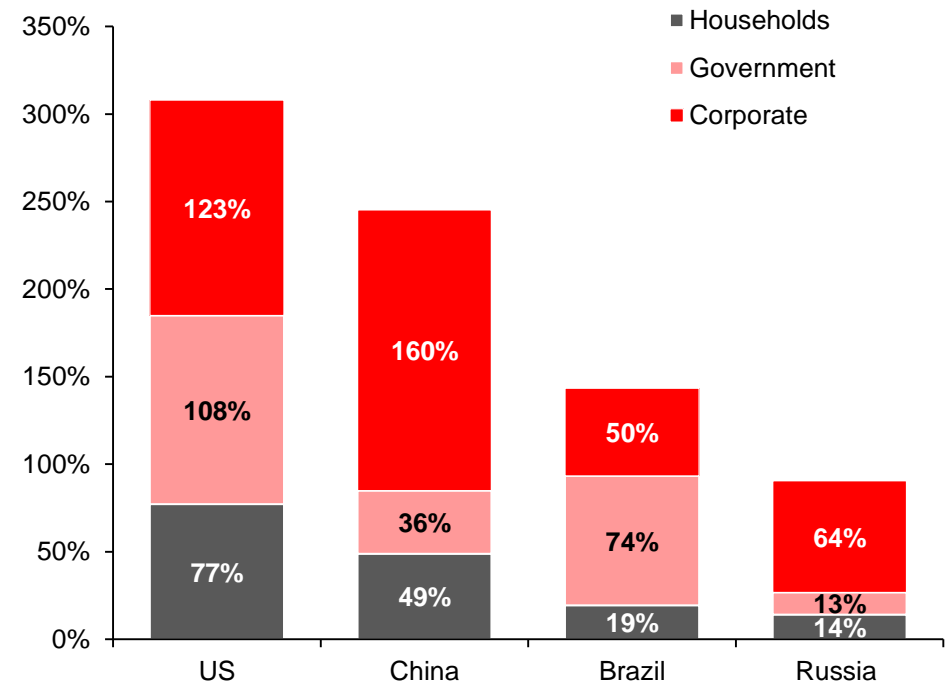


➤ Russia has a low level of macroeconomic risk: it runs one of the world's lowest debt-to-GDP ratios, a modest budget deficit, and its leverage is under control

Budget deficit, % of GDP



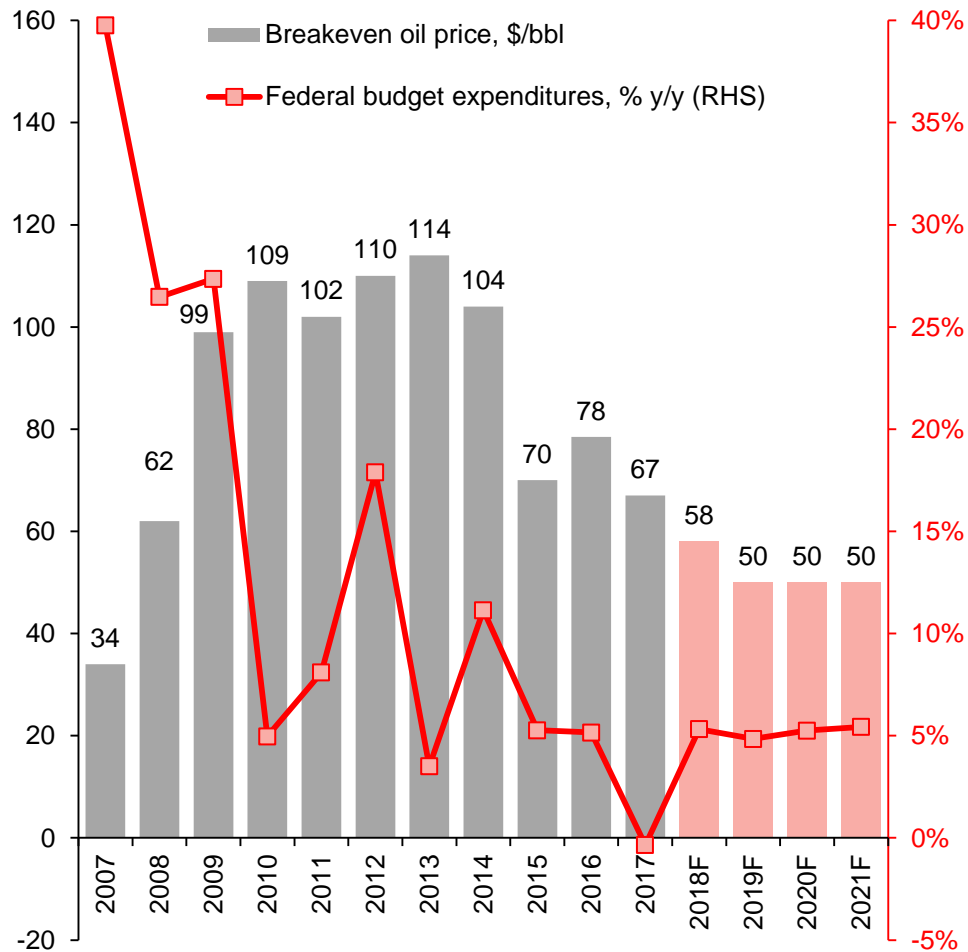
Total debt by country, % GDP



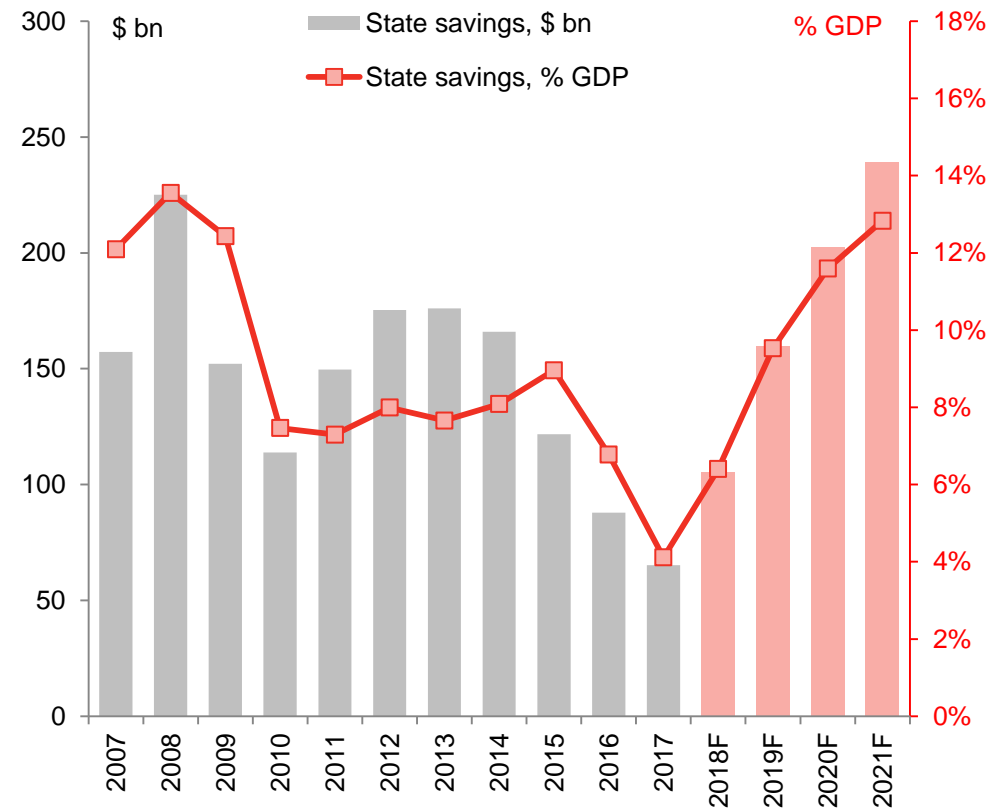
Budget breakeven to oil to decline to \$50/bbl

Budget breakeven oil price is projected to go to \$50/bbl

- The current budget breakeven oil price is still \$67/bbl, justifying the necessity for tax reforms through (1) tax collection improvements and (2) tax rate hikes

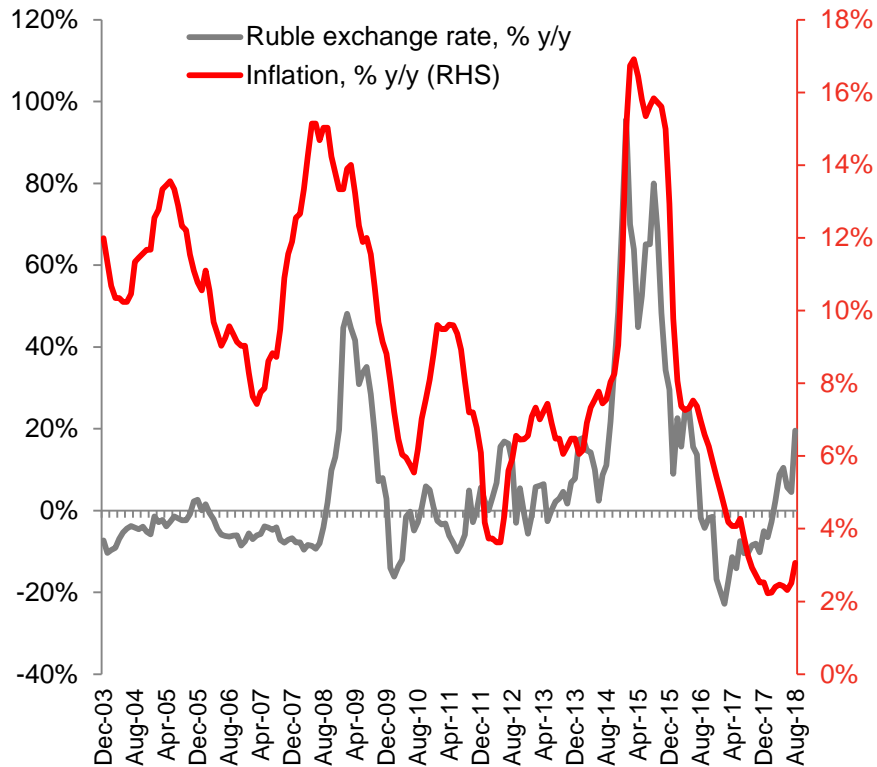


Government savings are projected to go to 12% of GDP



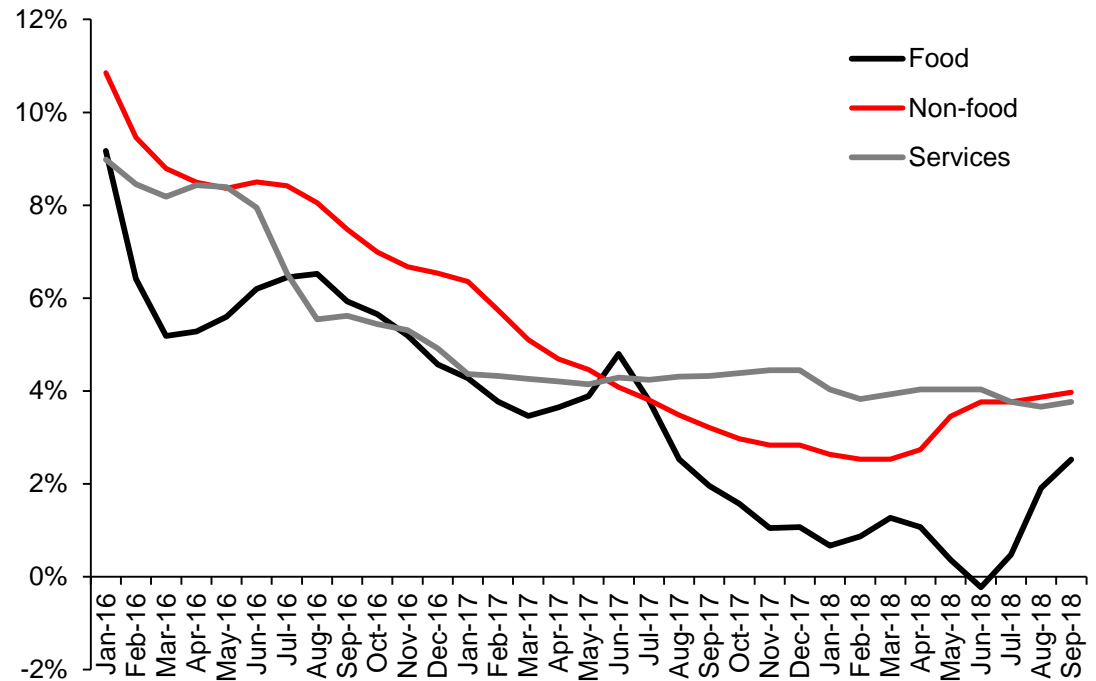
Low inflation may support growth

Ruble exchange rate and inflation in Russia



➤ Due to tight CBR monetary policy, 2017 inflation decelerated to just 2.5% y/y and remains below target. For the moment it's sensitivity to ruble exchange rate volatility is depressed

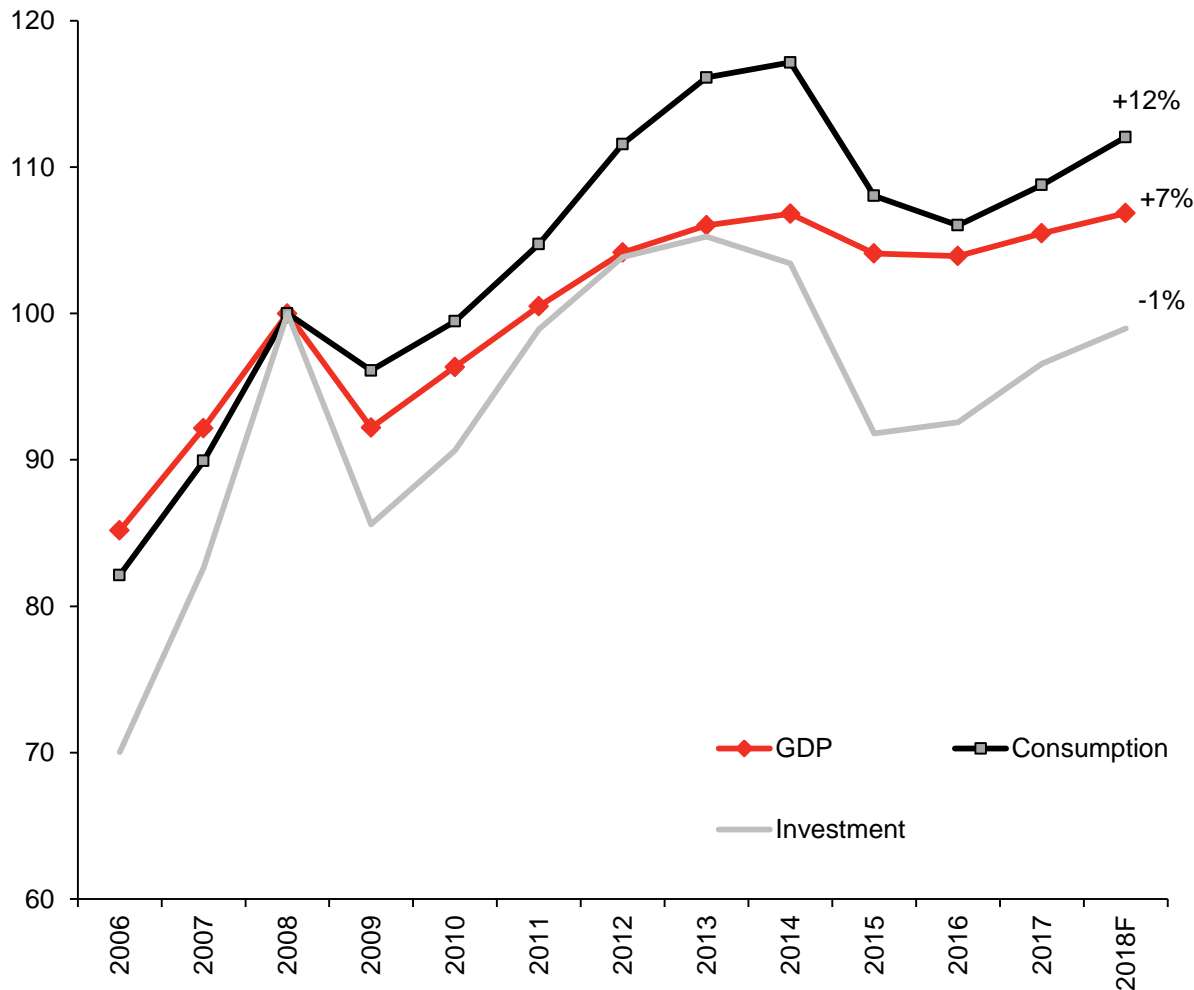
Components of CPI, % y/y



- Policy rate cut cycle ended at 7.5%
- The external environment plays against a hike in local rates – sanctions risk boosts risk premium and rising US rates reduce the rate differential

Russian growth story by phase

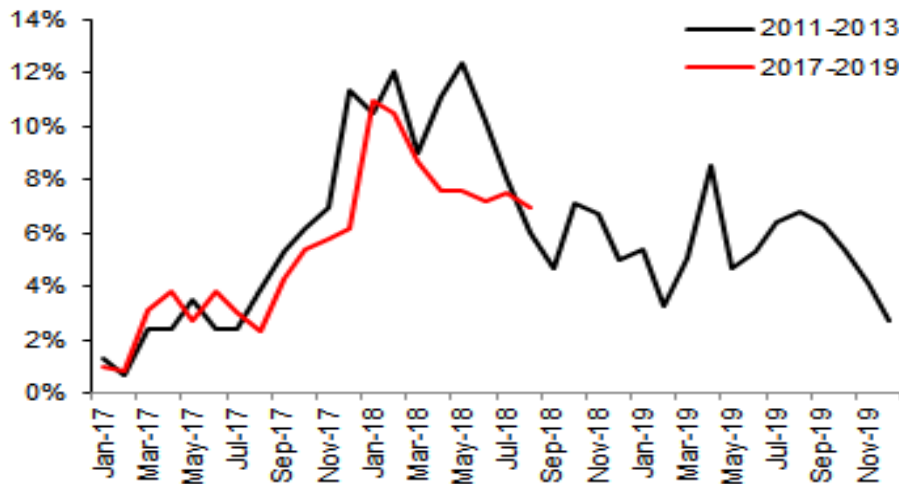
GDP, investment and consumption, 2008=100



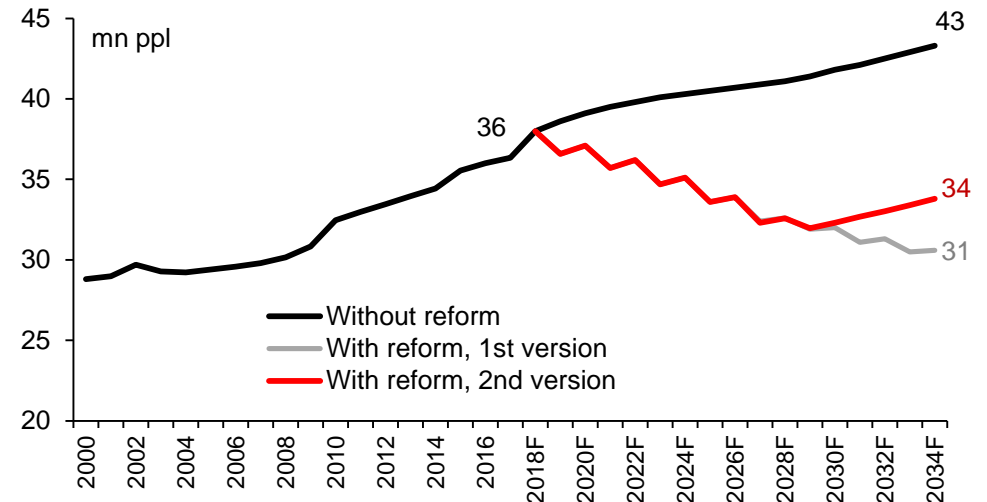
- Russian economy up only 7% from 2008 levels, reflecting a potential growth constraint
- At the moment we estimate the potential growth rate for Russia at 0.7-1.2%, the low level due to demographic and investment constraints
- Russian growth case remains driven by consumption; investments are just recovering to 2008 levels and are experiencing stronger negative downturn during times of crisis

Consumption growth to come under pressure

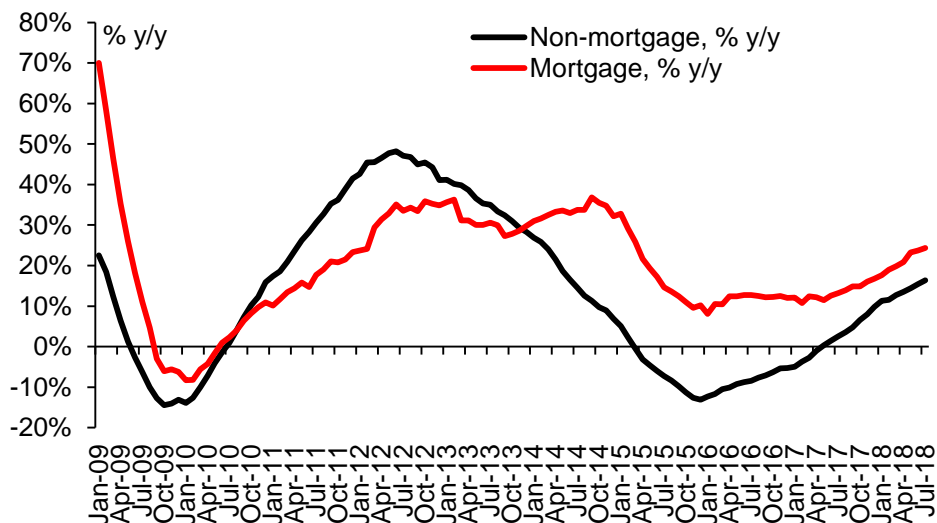
Real salaries in 2011-2013 and 2017-2019F, % y/y



Number of pensioners is projected at 34 mn by 2034



Mortgage and non-mortgage retail lending growth, % y/y



- Electoral cycle is over, which will lead to a deceleration in salary growth, similar to how it was in 2011-13
- Increase in VAT and pension reform will hurt consumption in 2019
- CBR intends to slow the non-mortgage market growth rate, which is above 20% y/y at the moment

Concluding comments

- Russia is back to a consumption-driven cycle, with a very weak potential growth rate, assessed at around 0.7-1.2% per year
- The cabinet is focused on maintaining budget stability: a reduction in the budget's oil-price breakeven to \$50/bbl will be implemented by optimizing tax collections, increasing the tax burden and tightening control over expenditures
- Consumption remains the driving force of growth, however in 2019 consumption growth will not be as strong as previously expected due to the VAT increase and pension reform
- Unlike a number of EM countries, local financial markets are protected by stable macroeconomic policy ...
- ... however, new sanctions may bring additional cost