

# **Russian regions: emerging opportunities and existing challenges for growth**

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**Analytical Credit Rating Agency (ACRA)**

**Natalia Porokhova**

Head of Sovereign Ratings and Forecasting Group, PhD

natalia.porokhova@acra-ratings.ru

## Key trends in Russian economy that can contribute to future economic growth and development:

- 1. Population ageing** – constrains economic growth but gives additional stimuli for some industries.
- 2. Switching to low inflation mode** – higher predictability for business and cheaper loans, but government and businesses should seek new forms of flexibility.
- 3. New major economic policy measures** – retirement age growth, VAT +2%, rebalancing expenditures (May decrees).
- 4. Turn to East** – increase in share of Asian countries in exports, imports, FDI and external debt.
- 5. Less globalized trade and finance** – sanctions are in the general trend of deglobalization.

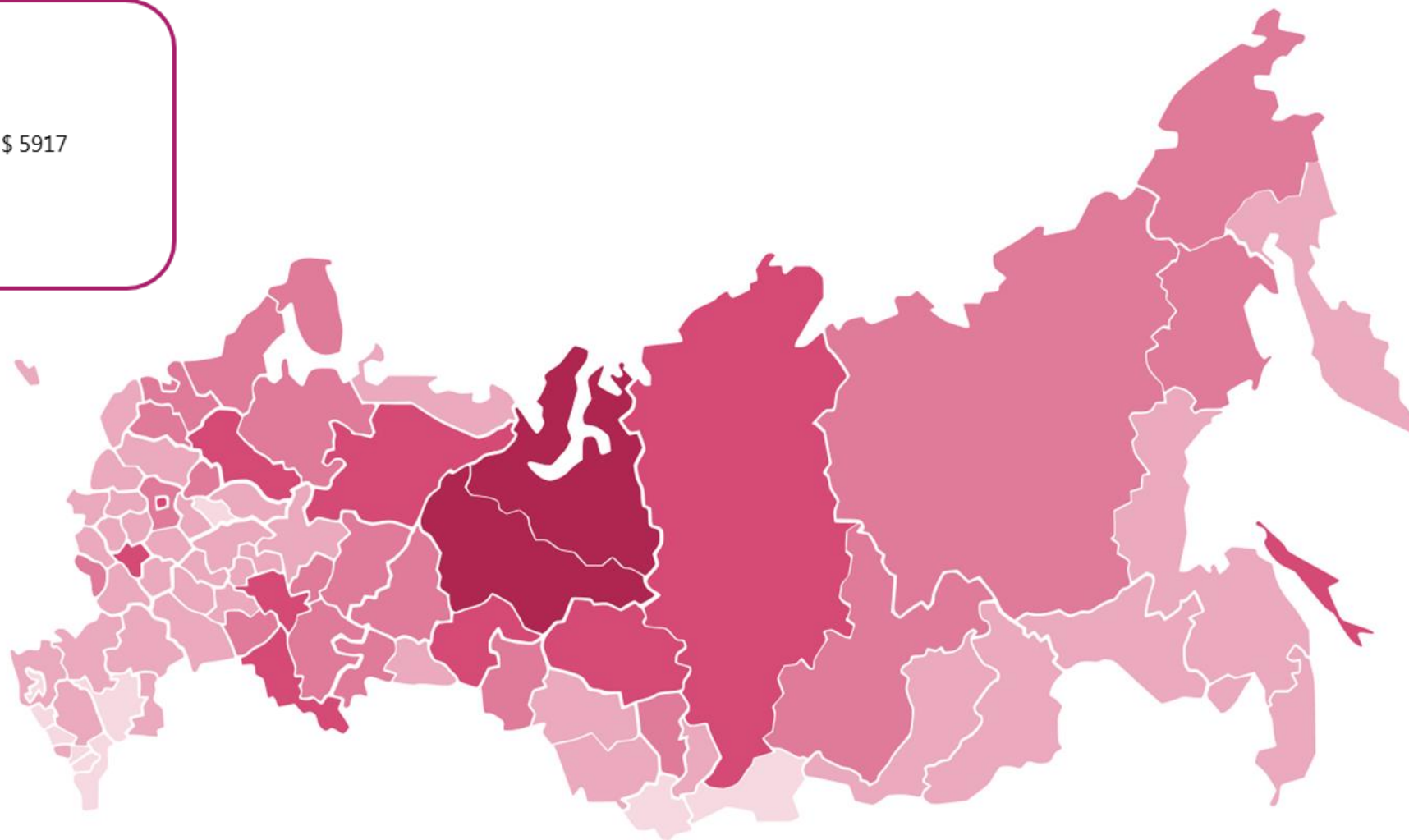
Indicator	2015	2016	2017	2018	2019	2020	2021	2022
Real GDP (% , y-o-y)	-2.5	-0.2	1.5	1.6	1.4	1.5	1.4	1.4
Inflation (% , Dec/Dec)	13.2	5.4	2.5	4.2	4.6	4.0	3.9	3.8
Urals oil price, USD/bbl	51.3	42.3	53.5	72	63	59	61.6	62.8
USD/RUB (12-month average)	61.3	67.2	58.3	63.1	64.1	60.1	61.2	62.6
Unemployment, %	5.6	5.5	5.2	5.2	5.3	5.3	5.3	5.3

Now it is potential. Probability of something negative happening here has increased.

## 10 Years Ago Income Level in Russia Was Closer to Latin America Countries...

GRP per capita (according to PPP) compared to GDP per capita (according to PPP) in group of countries

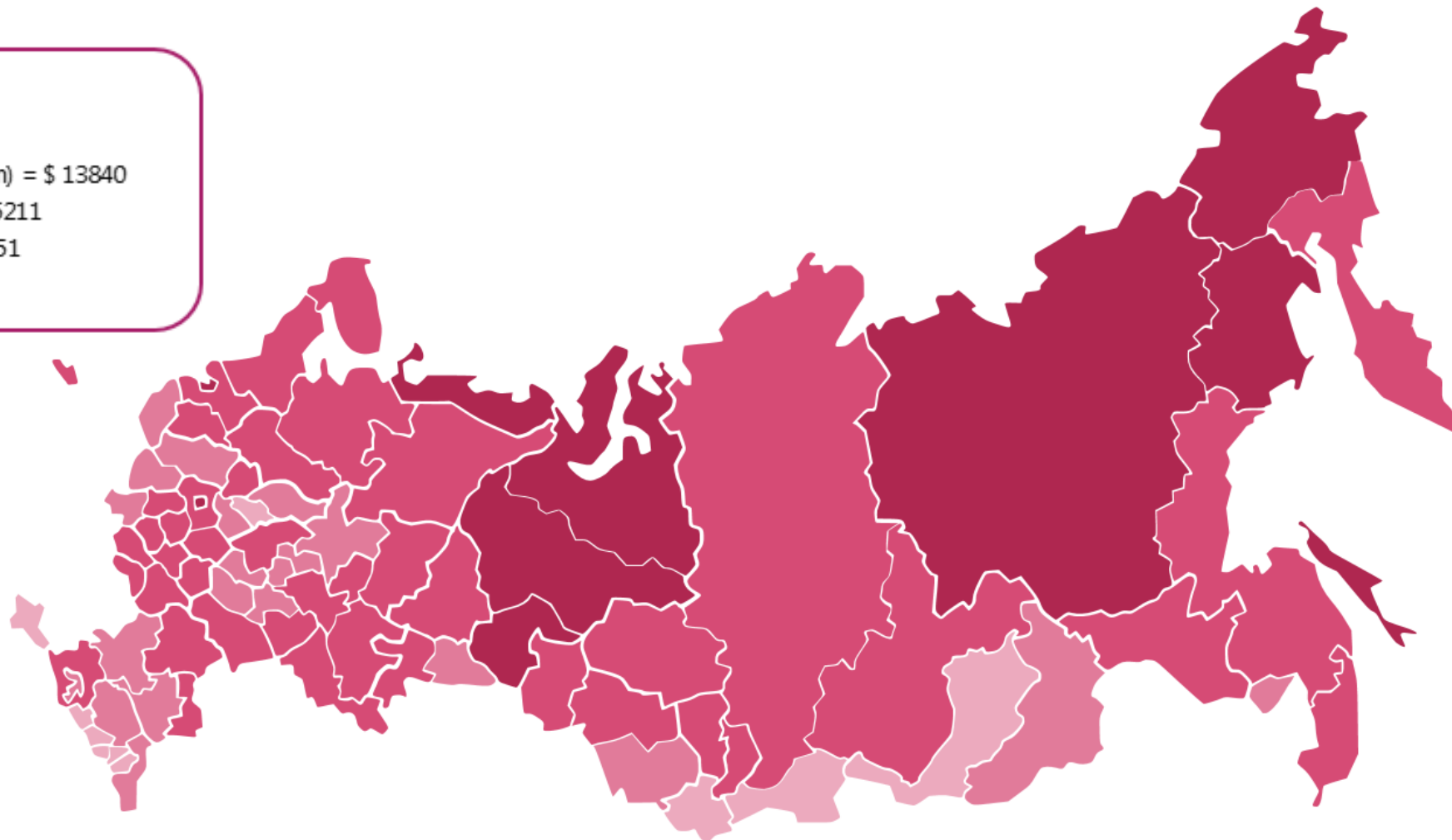
2006



- ✓ **Purchasing power parity (PPP)** states that the purchasing power of a sum of money in one country should be able to purchase the same basket of goods no matter from where the consumption basket was bought.
- ✓ The estimation of PPP for Russian regions is based on the basis of Rosstat statistics depending on different prices on the same consumer basket.

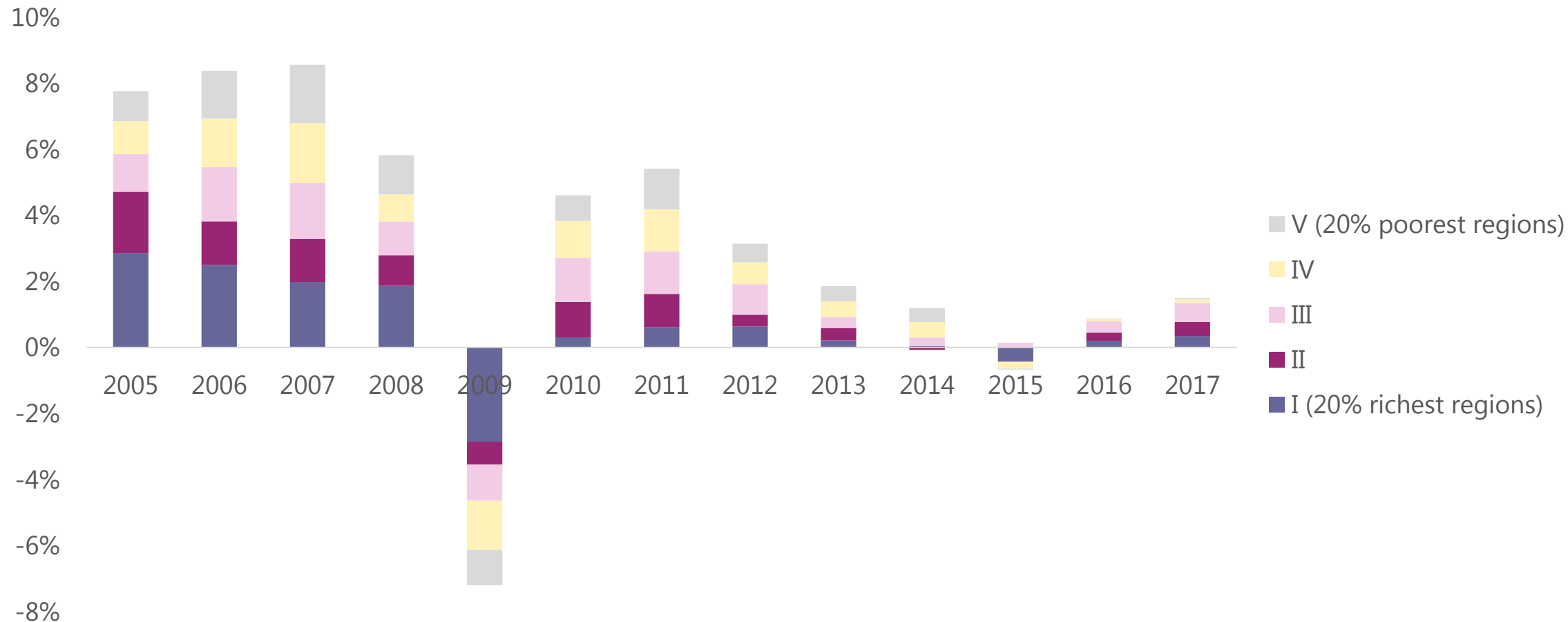
## ...Now It is Closer to Eastern European Countries

GRP per capita (according to PPP) compared to GDP per capita (according to PPP) in group of countries



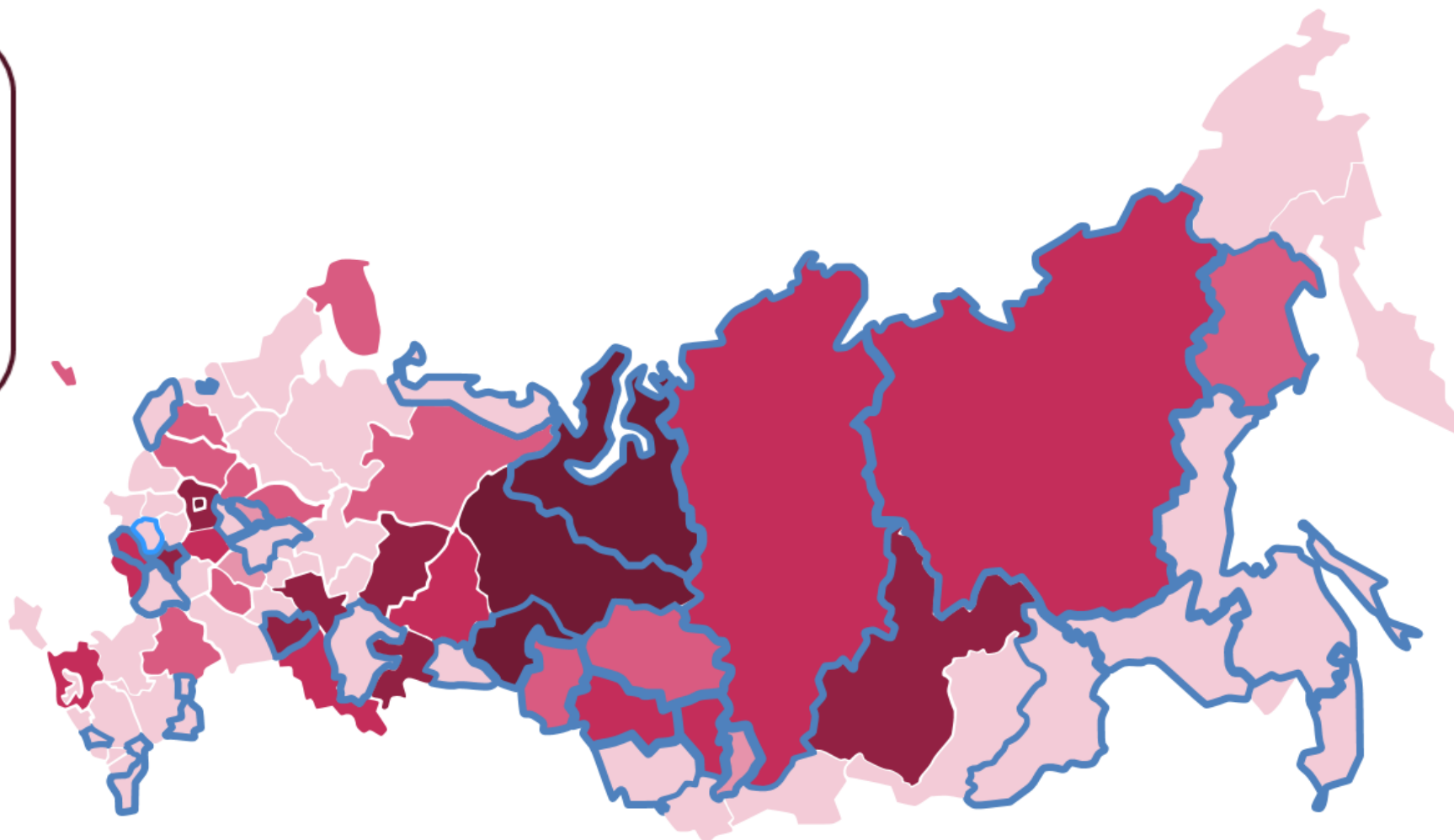
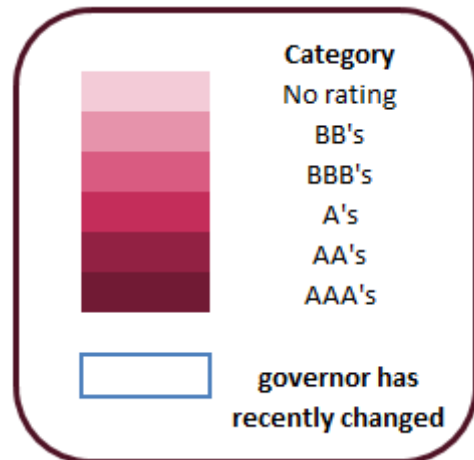
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Russian GDP growth and regions contribution to it, %



## Political Factor Can Influence Regions Credit Quality in the Future

- ✓ Share of regions and municipalities bonds with ACRA rating is 77% (34 out of 84, as at November 9, 2018).
- ✓ In 31 Russian regions governor was changed in 2018.



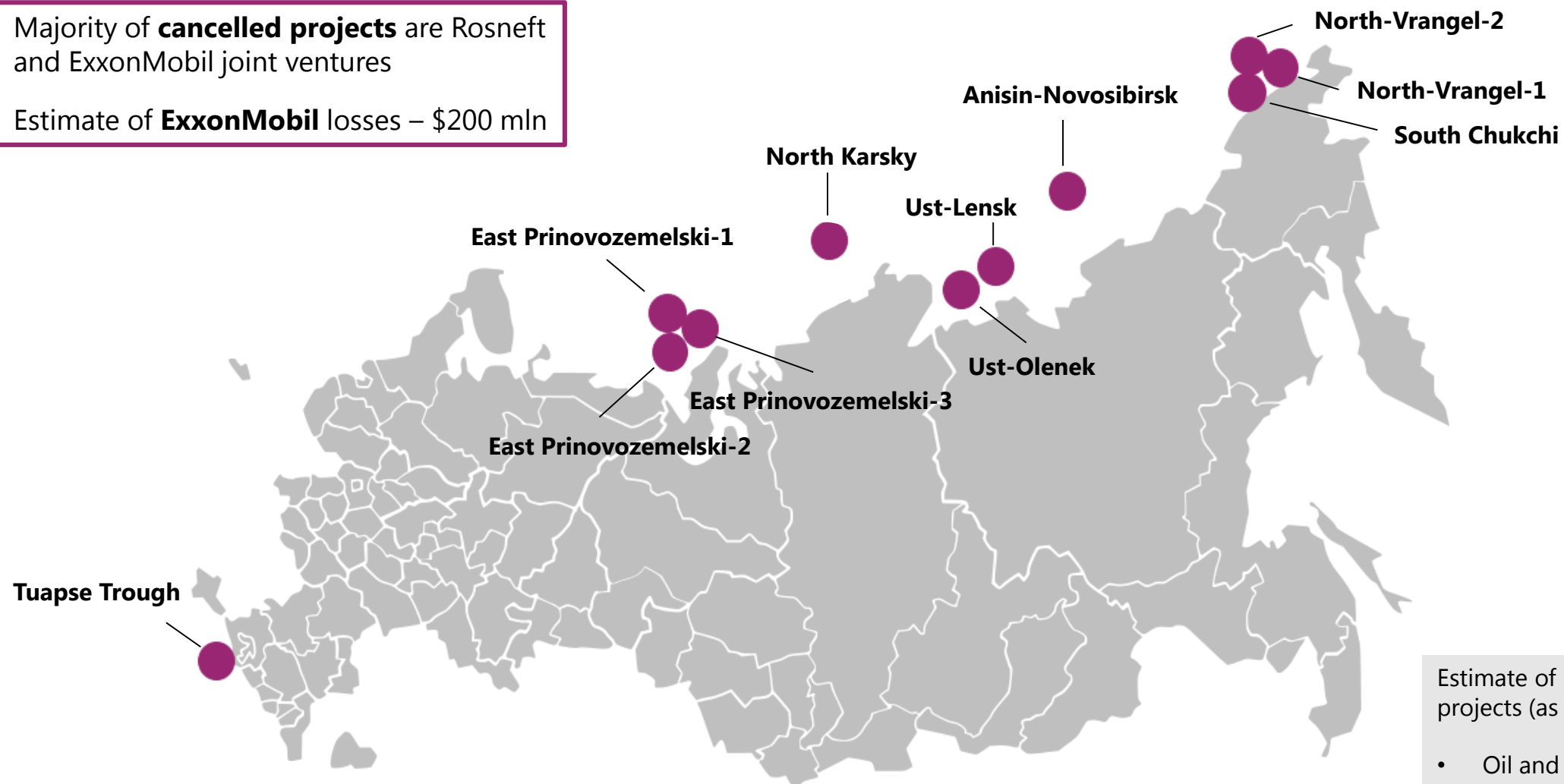
## Budgets of 10 out of 85 Subjects of the Russian Federation Depend on Sanctioned Companies by more than 20%

Share of sanctioned companies  
in budget revenues > 20%



# Number of Long-Term Oil Field Development Projects Were Cancelled after Sanctions

- ✓ Majority of **cancelled projects** are Rosneft and ExxonMobil joint ventures
- ✓ Estimate of **ExxonMobil** losses – \$200 mln

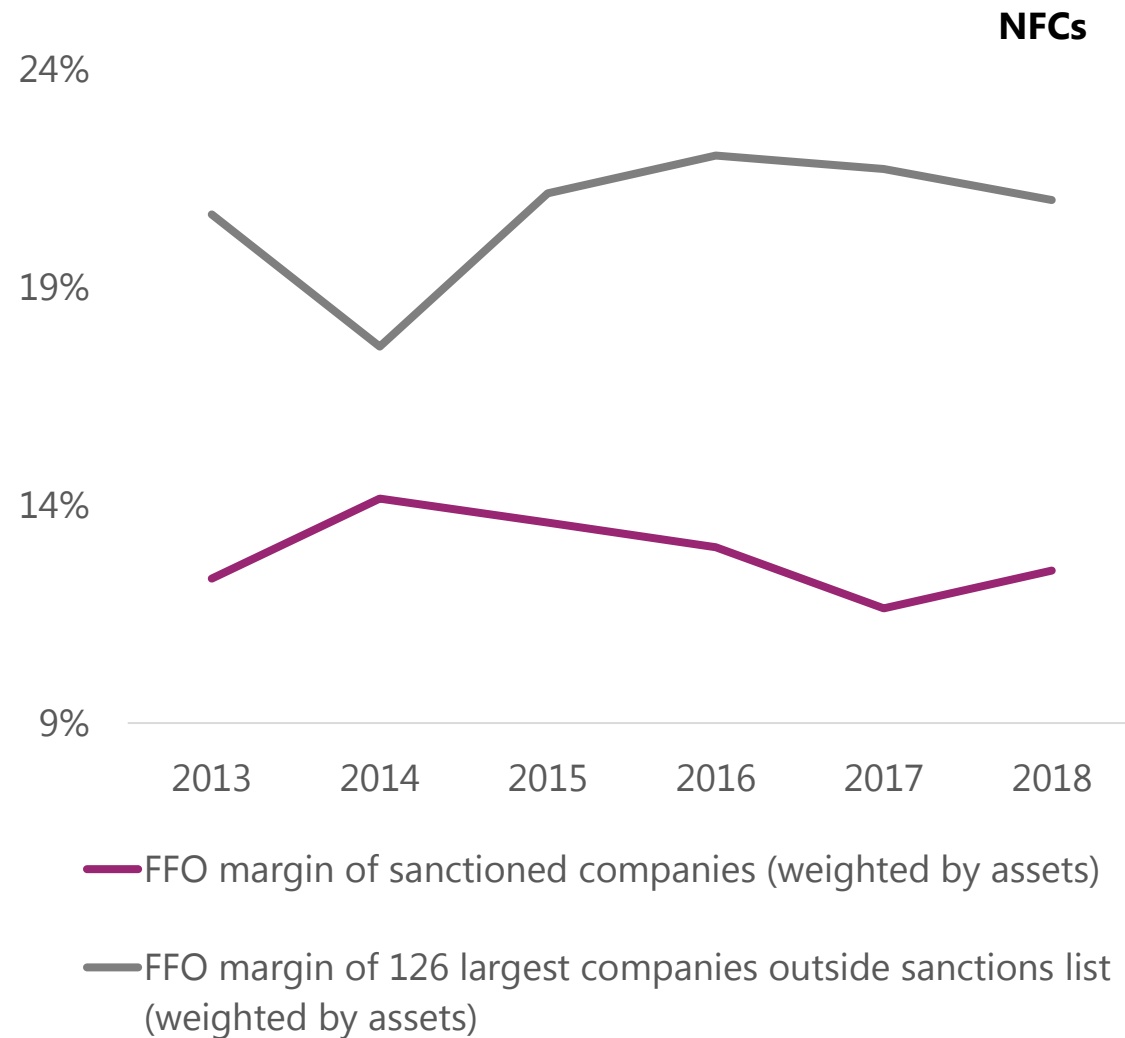
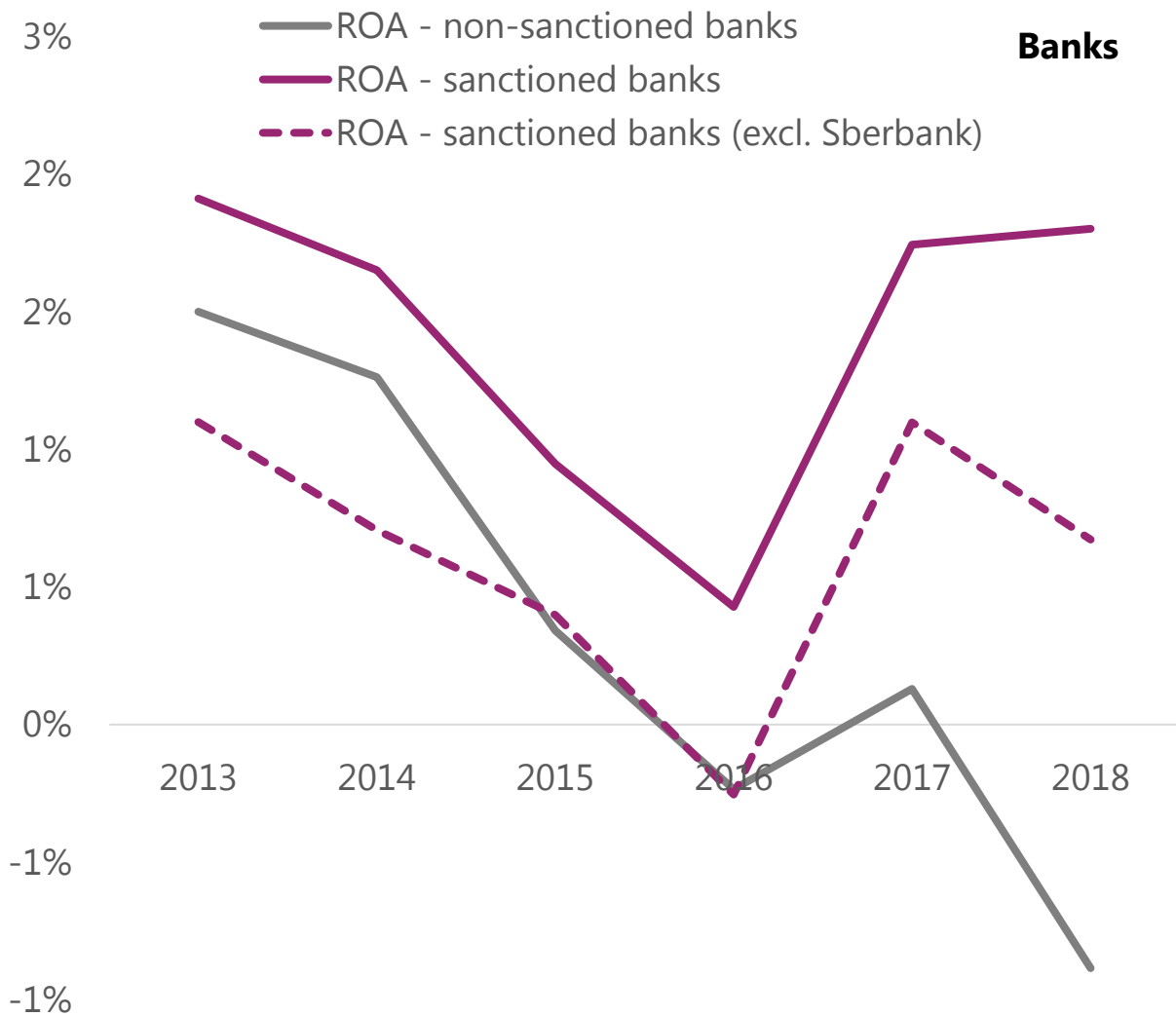


Estimate of resources at the projects (as at 01.01.2018):

- Oil and gas condensate – 12.3 bln tons
- Gas – 15.2 trln m<sup>3</sup>



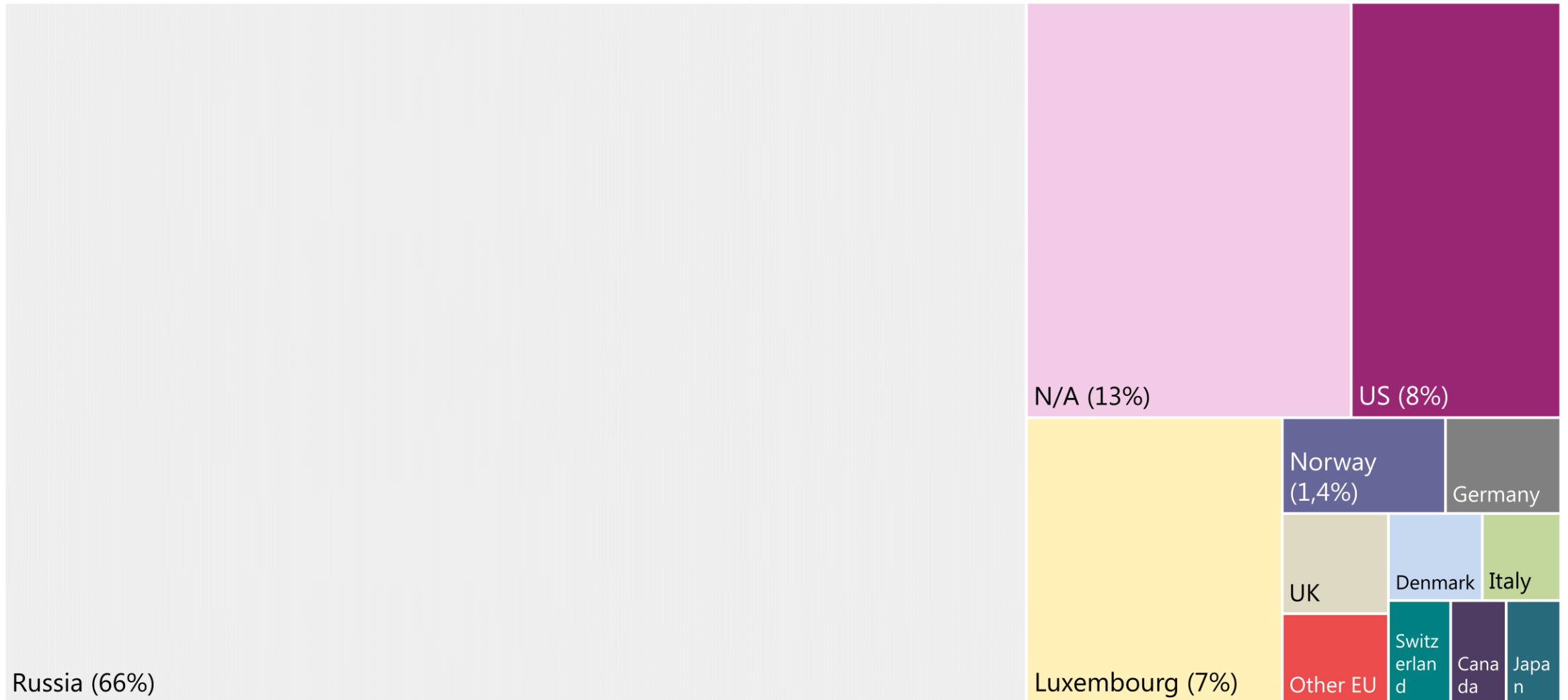
# Sanctions' Effects on the Financial Performance of Companies and Banks Are Weak...



### Sanctions have accelerated the development and implementation of measures aimed at higher sustainability of the Russian economy:

- ✓ **Trade barriers.** Russian countersanctions have limited the imports of certain categories of food products, which led to an increase in their prices. The effect on real incomes of the population is estimated at -2–3 p.p. for 2018.
- ✓ **Financial market infrastructure.** The threat of disruption of the continuous monetary turnover accelerated the development of regulations that stimulate the use of internal alternatives of global financial services in the following areas: payment systems, credit ratings, etc.
- ✓ **Data storage and software localization.** The need to meet the localization regulations increased the costs of technology-intensive and telecommunications companies.
- ✓ **Fiscal policy.** The budget planning process is now based on assumptions that are more conservative. External borrowings are no more considered a reliable source of funding.
- ✓ **International reserves.** The need to preserve liquidity has led to a change in the structure of investments: the share of sovereign securities issued by sanctions initiators has declined (probably, for a long period).

## Geography of holders of Russian sovereign debt (Federal Loan Bonds (OFZ) + Eurobonds), as at January 1, 2018



## Forthcoming trainings

- ✓ **Rating modelling fundamentals**  
(November 22–23, 2018)
- ✓ **Fundamentals of credit analysis of regional and municipal authorities**  
(December 3-4, 2018)
- ✓ **Fundamentals of structured finance deals analysis**  
(December 10-11, 2018)
- ✓ **Fundamentals of credit analysis of banks and non-banking credit institutions**  
(January 24-25, 2019)
- ✓ **The art of presentation in credit analysis** hosted and presented by Ekaterina Trofimova, ACRA CEO  
(February 27-28, 2019)
- ✓ **Change management** hosted and presented by Ekaterina Trofimova, ACRA CEO  
(March 22, 2019)
- ✓ **Fundamentals of credit analysis of insurance companies**  
(April 4-5, 2019)
- ✓ **Fundamentals of asset management companies reliability analysis and credit analysis of non-state pension funds**  
(April 18-19, 2019)
- ✓ **Fundamentals of sovereign risk credit analysis**  
(April 23-24, 2019)
- ✓ **Forecasting in credit analysis. Course 1: macroeconomic and industry forecasting fundamentals**  
(May 14-15, 2019)
- ✓ **Advanced analysis of structured finance deals**  
(May 21-22, 2019)
- ✓ **Forecasting in credit analysis. Course 2: practical aspects of economic modeling**  
(September 9-10, 2019)

- ✓ ACRA sees its mission in **developing best practices** that provide the **Russian financial market** with basis for sustainable performance
- ✓ ACRA's expertise is **unique in terms of its competences** and profound understanding of credit risk
- ✓ ACRA trainings are aimed at **enhancing qualifications** of financial market participants and **building up efficiency** of managerial and investment decision making

**For more information and enrollment,  
please contact**

Artem Mayorov, Manager  
artem.mayorov@acra-ratings.ru  
+7 495 139 04 80, ext. 147

# Recent ACRA's Research

## <https://www.acra-ratings.com/research>

Title	Sector	Document Type	Date
<b>Stressful scenarios are becoming more likely for the Russian economy</b> <a href="#">Russia 2022 Economic Outlook Update</a>	<a href="#">Sovereigns</a>	<a href="#">Forecast</a>	25.10.2018
<b>Telecom providers expect CAPEX to grow</b> <a href="#">Russian telecom market: 2022 outlook</a>	<a href="#">Telecommunications</a>	<a href="#">Forecast</a>	12.10.2018
<b>Financial stability in Kazakhstan has reached its pre-crisis level</b> <a href="#">Structural Financial Stress Index for Kazakhstan</a>	<a href="#">Sovereigns</a>	<a href="#">Analytical comment</a>	21.08.2018
<b>US residents hold 8% of Russian sovereign debt</b> <a href="#">Geography of holders of Russian sovereign debt</a>	<a href="#">Sovereigns</a>	<a href="#">Analytical comment</a>	17.08.2018
<b>Growth of dividends paid by Russian major companies is curbed by negative cash flow</b> <a href="#">Analysis of dividend payouts by Russian non-financial companies</a>	<a href="#">Corporates</a>	<a href="#">Research</a>	31.07.2018
<b>Oil dependence recovers along with Azerbaijan economy coming out of stagnation</b> <a href="#">Azerbaijani economy: 2022 outlook</a>	<a href="#">Sovereigns</a>	<a href="#">Forecast</a>	25.07.2018

**Russian website:** [www.acra-ratings.ru](http://www.acra-ratings.ru)

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## **ACRA Rating Agency**

### **General Contacts:**

[info@acra-ratings.ru](mailto:info@acra-ratings.ru)

+7 495 139 04 80

75, Sadovnicheskaya emb.,

Moscow, 115035, Russia

### **Regulatory Affairs & Compliance:**

Head of Compliance and Internal Control

Alexandra Prokudina

[alexandra.prokudina@acra-ratings.ru](mailto:alexandra.prokudina@acra-ratings.ru)

+7 495 139 04 80, ext. 155

### **On Cooperation Issues:**

Client Manager

Marina Leeva

[marina.leeva@acra-ratings.ru](mailto:marina.leeva@acra-ratings.ru)

+7 495 139 04 80, ext. 123

### **Credit Ratings Methodology:**

Director – Head of Methodology

Artem Iskandarov

[artem.iskandarov@acra-ratings.ru](mailto:artem.iskandarov@acra-ratings.ru)

+7 (495) 139 0494

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)  
75, Sadovnicheskaya embankment, Moscow, Russia  
[www.acra-ratings.com](http://www.acra-ratings.com)

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