Bank of Moscow

Economic monthly

October

2010

Frustrated expectations (gliding over a “second bottom”)

CONTENTS

Bank of Moscow

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The start of the autumn heralded a cardinal revision of Russian economic growth projections for 2010. Optimistic GDP growth forecasts that were reflected in the reports of most investment banks, international financial institutions and independent experts (compared with the more moderate official forecasts and CSI Bank of Moscow projections) were all revised downward. Expectations of rapid growth (based on high prices for raw materials and fast recovery of the global economy) gave way to more realistic perceptions of a weak recovery teetering on the brink of stagflation.

The first eight months of 2010 were marked by quick recovery in industry, which occurred at twice the rate as the economy as a whole. Investment activity was sluggish, with no visible prospects of an upturn. Despite declining interest rates, bank lending failed to fuel domestic demand. Notably, economic performance over the past few months has signalled deceleration of growth, which could even come to a halt subject to seasonal factors.

The industrial slowdown hardly seems surprising, for a number of reasons. First, the statistical base has “worsened”, as the economic recovery started in autumn 2009. Second, imports, squeezing out domestic products from the Russian market, demonstrated more substantial growth (22%) against the background of a moderate increase in total domestic demand (16%). Third, corporate bank loan volumes, which had been practically unchanged, are an indirect measure of economic activity. Neither investment loans nor short-term credits to fund working capital have demonstrated any uptrend.

Until pre-crisis levels are achieved, recovery will be a more appropriate term for growth than steady development. But a return to pre-crisis levels (which were the result of skyrocketing oil prices and huge foreign borrowing) should also be predicated on the resolution of structural problems. The experience of 2010 shows that efforts to revive economic growth by old methods (boosting domestic demand through budgetary expenditures and bank lending) have again proven inefficient due to institutional constraints. Expanding domestic demand plays a minor role in bolstering production but is a strong catalyst for imports and inflation. High on the agenda are old issues such as the business climate, market competition, investment activity, foreign direct investment, etc. The urgency of these critical issues (especially the business climate) has never been greater – they are no longer topics for “a roundtable discussion”, but *real constraints* for implementation of economic policy. Today, the changes in monetary, currency and fiscal policies do not generate the type of responses normally expected from banks and companies in a market economy. Institutional problems *dominate and restrict* the efficiency of *any* changes in financial policy. If they are not addressed in the coming years, Russia’s economy will find itself caught between weak recovery and stagnation.

Economic policy

The first signs of stabilization in the Russian economy were observed in mid-2009. By that time, global oil prices had settled at comfortably high levels for Russia, while prices and demand for metals had also picked up. Domestic inflation was steadily declining to record low levels for post-Soviet Russia, and the ruble had almost fully recovered from the devaluation inflicted by the crisis. The bi-currency basket rose 17.7% by late spring 2010 from the lows registered at the beginning of 2009. These events were interpreted by most experts as a basis for optimistic economic growth projections for 2010, which proved to be premature judging by the economic performance over the first eight months of the year.

There were several reasons for such excessive optimism. First, the pace of global economic recovery and demand for raw materials (which is important for Russia) was revised. It became clear by mid-2010 that global economic growth rates, especially in the advanced countries, would be lower than expected. Notably, the recovery of the global capital market proved rather beneficial for Russia – local banks and non-financial companies succeeded in refinancing prior-year debts and even raising new loans at interest rates below pre-crisis levels.

The weather (the abnormally hot summer) made a contribution as well, but the impact of this factor is overestimated by independent experts and was intentionally exaggerated by the authorities. The formal effect of the hot summer on the macroeconomic environment is rather modest. Agriculture and forestry collectively account for slightly more than 4.0% of Russian GDP. In this context, a slump in crop growth of one third (or, according to the government, by a less substantial amount) would cause only a slight change in GDP growth rates versus the planned target. Estimates show that real GDP growth based on figures from 2010 may reach 3.5–3.7% instead of the planned 4.0–4.2%. Sharp growth in energy consumption also contributed to GDP growth.

Finally, experts underestimated the structural and institutional impediments facing the Russian economy in areas such as the current business climate, expectations of an economic upswing, potential investment activity, competition in different market segments, and the readiness of the financial sector to underpin economic growth. These issues were reflected in the response by Russian companies and the banking system to the government's anti-crisis measures and some improvement in the external environment, which actually resulted in the threat of stagnation after a short spell of recovery.

In the non-financial sector, the anti-crisis measures were mainly focused on sustaining social stability and stimulating domestic demand. There was an increase in budget spending on social payments and support for domestic producers (primarily enterprises operating in the automotive and military industries).

Therefore, the Russian manufacturing sector experienced rapid acceleration – in 8m10 its growth in real terms totaled 13.0% and in 2Q10 it expanded a fantastic 16.3%. But such an upswing in domestic production was rather short-lived: in late summer (July-August), growth in the manufacturing sector slowed to 9.5% y-o-y.

Understandably, expanding domestic demand also fueled imports and inflation. Inflation sped up in August, but the impact of the record-hot summer, in our opinion, is overestimated. The effect of expanding domestic demand is more sustainable and may keep inflation running at 8–9% in 2010 and even next year.

Imports got the best of the advantageous environment. The ruble exchange rate was stable (with an uptrend prevailing) and domestic demand gained momentum. Apart from imports of goods in final demand sectors, imports of semi-finished goods also mounted – for example, the share of imported components in locally assembled automobiles under the old-car recycling program was remarkably high (over 90% for all foreign-brand cars).

The end result was record-high growth in imports. The nominal volume of commodity imports in dollar terms grew 32.5% in 2Q10 and 41.0% in July-August versus similar periods in 2009.

State anti-crisis measures in the *financial sector* included cutting the refinancing rate and pumping liquidity into the banking sector. The apparent positive effect from these measures was stabilization in the banking sector – the bankruptcy of an isolated large or medium-sized bank is not viewed as potentially heralding a second wave of crisis in the banking sector due to mounting bad debts. Overall, the banking system can be currently assessed as operating stably.

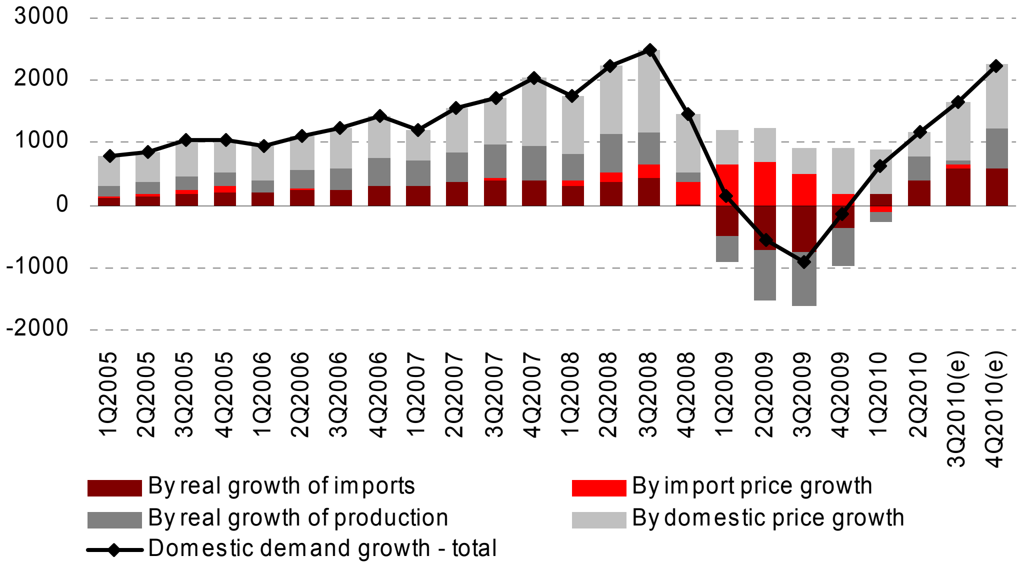
The problem is that the financial system, despite functioning normally, has not in any way contributed to an economic upturn. The unreasonably swift and sizable reduction of the refinancing rate brought about a liquidity overhang. Bank deposits with the CBR and investments in CBR bonds over the past few months have ranged from R1.3–1.5 trln, accounting for 20% of the broad monetary base. The CBR's steps did not help promote greater lending to the real sector or reduce inflation. As we already mentioned, the straightforward monetary regulation measures that were implemented were unable to overcome the structural and institutional problems.

For an economy operating under classical market laws, the choice of anti-crisis measures looks quite justified. The state has increased social payments, thereby driving up domestic demand, and each consumer is deciding how the money should be spent. The alternative is for the state to boost domestic demand directly through infrastructure projects and state procurement programs, but that option seems less effective due to the presence of corruption. Now, the choice does not seem so obvious. The first strategy led to a situation in which households chose imports and local producers hiked prices rather than output volumes. Implementation of infrastructure projects would imply the development of sectors less susceptible to import competition, and prices would be set by the customer (i.e. the government).

According to official forecasts, the growth prospects of Russia's economy will depend on world commodity and capital markets (external factors) remaining favorable while domestic demand expands, spurred, among other things, by increased bank lending. Or at least, these are the medium-term prospects for Russia's economic development as outlined by the Economics Ministry and the CBR. Oil prices are projected to be stable and high ($70–75/bbl), but not growing. Interest rates on world capital markets are forecast to be low, but a large-scale (or even noticeable) inflow of foreign investment is not anticipated. Therefore, the authorities do not expect external factors to negatively impact the Russian economic environment, but neither do they foresee any improvements.

Potentially, economic growth may occur on the back of expanding domestic demand. The monetary authorities believe that this growth will be underpinned by mounting household income (and, accordingly, spending) shored up by rising budget expenditures and greater bank lending. But the key requirement for an effective growth model based on expanding domestic demand is the *ability* of Russian companies to respond to increasing demand with *production growth.* Our analysis shows that over the past ten years (2000–08), each R100 expansion of domestic demand was covered by R53–57 of growth in prices for goods and services and R22–25 of import growth, while only R1 of each R5 of growth in domestic demand was covered by increased domestic production.

Domestic demand growth and structure of its coverage, y-o-y, R bln



Source: State Statistics Service, CSI Bank of Moscow estimates.

As the graph above shows, the repercussions of the economic crisis triggered a radical contraction in domestic demand in 2009, primarily affecting investments. A mild decline in exports with a concurrent substantial drop in imports resulted in nearly 150% growth in net exports. External demand propped up Russian GDP, the contraction of which in real terms was almost half that of the slump in domestic demand. Judging by the performance so far in 2010, we can expect an opposite scenario as well – domestic demand may be growing at twice the rate of real GDP. This is a way to achieve pre-crisis correlation, which is *viable in the current institutional environment*. It also means that all of the efforts to spur production by stimulating demand pose a direct threat to the balance of payments (from growing imports) and make the inflation target of 6–7% in 2011 practically unattainable.

More sustainable growth may be generated by high investment activity directly related to the restructuring of Russian industry. However, the basic scenarios in the medium-term forecast used by the Russian government and the CBR do not project any acceleration of investment. In case of 5.0–6.0% real growth in fixed capital investment on an annual basis during 2011–13, we can expect real GDP growth of 4.0–4.5% per year. This is sustainable growth, but its scale does not allow for any qualitative changes in the structure of Russia's economy or its development potential. For comparison, average growth in Chinese GDP over the past 10 years was 10.5% annually.

The table below shows real GDP growth projections based on different investment activity scenarios. Total real GDP growth is the sum of GDP growth indicators as determined by separate components (changes in final consumption expenditure, gross capital formation and net exports). Under both scenarios, final consumption expenditure trends are identical. Net export trends are slightly modified in each scenario, as imports in the high-growth scenario are growing faster, including primarily imports of investment goods.

Real GDP growth, y-o-y, %

	2010 (estimate)	2011 (forecast)	2012 (forecast)	2013 (forecast)
Investments (inertia-based scenario)	**2.5**	**6.0**	**5.0**	**6.0**
Total GDP	3.7	4.1	4.2	4.3
Of which due to changes in:				
Final consumption	2.8	3.0	3.1	3.5
Gross capital formation	4.2	2.2	2.3	1.5
Net export	-3.3	-1.1	-1.2	-0.7
Investments (high-growth scenario)		**20.0**	**20.0**	**20.0**
Total GDP		6.5	7.1	7.4
Of which due to changes in:				
Final consumption		3.0	3.0	3.4
Gross capital formation		5.1	6.1	5.6
Net export		-1.6	-2.0	-1.6

Source: State Statistics Service, CSI Bank of Moscow estimates.

The estimates show that real growth in fixed capital investment in the near term must be about 20% annually in order to support high GDP growth (at least 7% on an annual basis, which is viewed as a target for the period after 2013). Even under a very cautious inflation forecast, the nominal volume of investment should increase each year by nearly one third. It is worth noting that the nominal volume of fixed capital investment in China over the past ten years has been increasing annually at roughly a comparable rate (25%). And if the return to a command economy is not the dominating vector of Russia's development, a great deal of effort is still required to improve the entrepreneurial climate in a broad sense to boost investment growth tenfold (versus the 2010 level) through domestic and international funding.

Real sector

Accelerating recovery in industrial output over the first six half of 2010 gave way to a noticeable slowdown in July-August. In the first and second quarters, industry grew 10.0% on an annual basis, but subsequently decelerated to 6.5%. The slowdown in the manufacturing sector was even more sizable (from 16.3% in 2Q10 to 9.5% in July-August).

Industrial output in January-August 2010, y-o-y, %

	First quarter	Second quarter	July-August
Industry, total	**9.5**	**10.9**	**6.5**
Mining and quarrying	6.7	4.8	1.7
Manufacturing	12.1	16.3	9.5
Final demand sectors	9.5	12.9	7.5
Investment demand sectors	14.3	30.3	20.1
Intermediate demand sectors	16.2	15.2	8.8
Electricity, gas and water supply	7.7	2.6	3.5
Fixed capital investment	-4.1	5.3	5.8
Commercial freight turnover	11.9	13.1	1.3
Construction	-8.1	-0.1	0.5
Retail trade turnover	1.7	5.3	6.6
Cost of imports from non-FSU countries	17.0	38.1	49.2
Food products and raw materials for their production, textile products and shoes	5.0	33.1	40.0
Mechanical engineering	7.4	40.8	51.5

Source: State Statistics Service, CSI Bank of Moscow estimates.

The abnormal weather in July-August clearly depressed production. Indeed, the second half of the summer was marked by a steep downturn in business activity. This was reflected, for example, in freight turnover trends: after y-o-y growth of 12–13% over the first six months of 2010, last year's indicators were exceeded by a negligible 1.3% in July-August. The heat and smog this summer only helped reveal the problems that had been accumulating during the recovery period. The systemic reasons for the industrial growth slowdown are much deeper, and the growth observed in industry and the economy as a whole over the past few months cannot be viewed as optimistic, even for the near term.

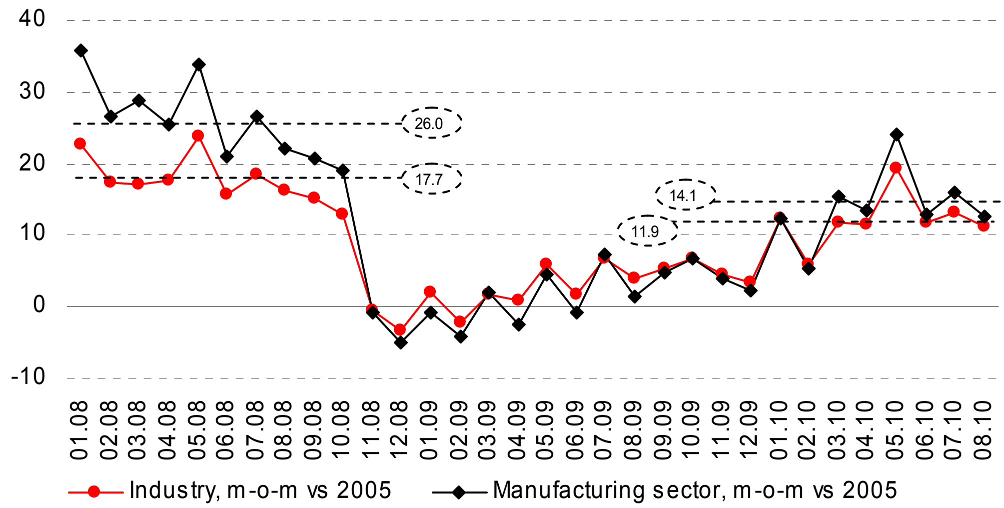
Fast recovery of imports is another well-known problem: this applies to goods produced by the final demand sectors, materials and components for Russian manufacturers, as well as machinery, equipment and instruments, i.e. mechanical engineering products that have no domestic counterparts. Thus, imports from non-FSU countries climbed 17.0% in 1Q10, 38.1% in 2Q10 and nearly 50% on an annualized basis in July-August.

Against a backdrop of expanding retail trade, imports of foodstuffs, textile products and shoes surged 33% y-o-y in 2Q10 and 40% in July-August. At the same time, Russian final demand sectors experienced much more moderate growth, which slowed in July-August (to 7.5% y-o-y after a 12.9% increase in 2Q10). In terms of investment recovery, imports of mechanical engineering products soared almost 45% in April-August. Meantime, growth in domestic mechanical engineering output was half that level and depended on the state support program to recycle old cars, aimed at supporting the production of Russian cars, primarily by AvtoVAZ.

The technological backwardness of Russian industry and, consequently, the surge of imports dealt a blow to investment recovery and consumer demand growth, reducing their ability to stimulate the economy. Therefore, even such positive trends as a halt in the decline of investment and construction volumes as well as consumer demand growth will be weak drivers of industry and the economy as a whole.

Statistically speaking, the recovery of industrial growth in 2010 highlighted the localization of output growth in the manufacturing sector and industry as a whole, coming within 14% and 12% of the respective volumes of 2005. In other words, most of the recovery in growth of the manufacturing sector and industry as a whole occurred in 2009, triggered by a strong upswing in Russian exports and fast-growing intermediate demand sectors. In 2010, this source of growth was less effective, and recovery of domestic demand in terms of industrial output trends was not sufficiently robust due to the Russian economy's dependence on imports. This creates the threat of touching a "second bottom" instead of achieving steady industrial growth.

Industrial output in 2008–10, y-o-y growth vs 2005, %



Source: State Statistics Service, CSI Bank of Moscow estimates.

In any case, over the next few months Russian industry will grow only modestly, constrained by systemic problems and the base effect, as performance will be compared with production trends that have improved noticeably since June 2009.

Banking system

Error in forecasts a reflection of the trend reversal

This spring, CSI Bank of Moscow compiled a forecast of the Russian banking system's development for 2010 (with dominating inertia-based estimates for 2011). Our underlying assumptions called for:

- moderate growth in bank lending to enterprises; and
- stagnation of the consumer lending market.

In our opinion, the base (and most reasonable) scenario for banking system development in an emerging economic environment involves a maximum focus on revitalizing corporate economic activity with only limited lending to households. This scenario facilitated expansion of short-term bank lending to companies to help them replenish their working capital and stimulate operating activity. Growth in long-term loans (over one year) was not expected due to low investment activity, relatively high interest rates, persistently high inflationary expectations and uncertainty among entrepreneurs regarding improvement in the economic environment and business climate.

Major banking liabilities, end of month, % of total

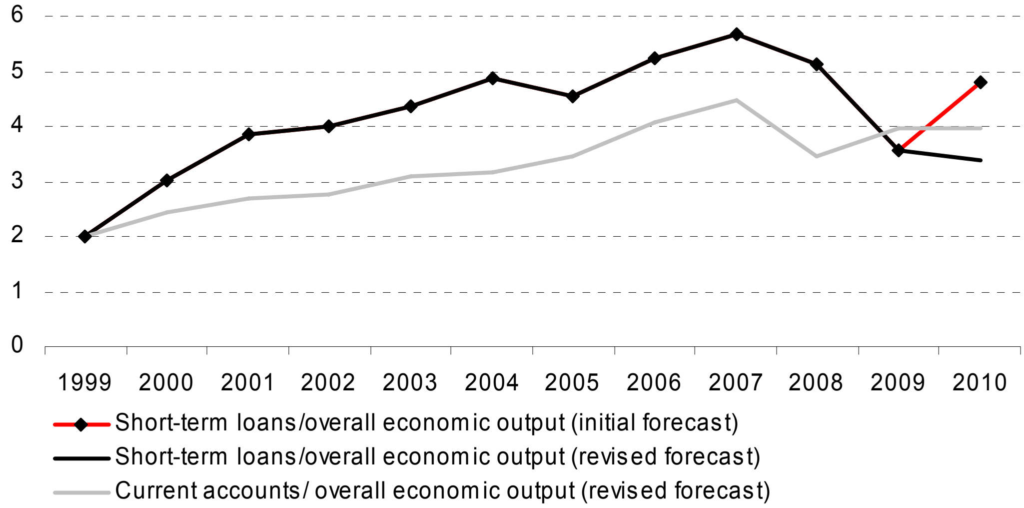
	12.05	12.06	12.07	12.08	03.09	06.09	09.09	12.09	03.10	06.10	08.10
Liabilities (R bln)	**9696**	**13963**	**20125**	**28022**	**28527**	**27776**	**28182**	**29430**	**29284**	**30417**	**30954**
Capital	15.4	14.3	15.3	14.1	15.6	17.1	18.8	19.3	20.1	19.7	20.0
Bank of Russia loans	0.2	0.1	0.2	12.0	11.5	7.2	5.6	4.8	2.3	1.7	1.2
Interbank transactions	4.0	3.4	4.1	4.4	4.3	4.5	4.4	4.8	4.9	5.1	4.9
Foreign liabilities	13.7	17.1	18.1	16.4	16.2	14.8	13.4	12.1	11.8	11.5	11.7
Household deposits	28.9	27.6	26.2	21.5	22.1	23.8	24.2	25.9	27.1	28.3	28.7
Corporate deposits	24.4	24.4	25.8	23.6	22.6	24.0	24.7	25.9	25.6	25.4	24.8
Deposits of federal and local governments	2.0	2.2	1.5	1.0	1.2	2.4	2.4	1.0	1.5	1.8	2.1
Issued securities	7.6	7.2	5.8	4.1	3.7	3.6	3.8	4.1	4.3	4.2	4.3

Source: CBR, CSI Bank of Moscow estimates.

It was further expected that the crisis would make households more cautious, resulting in increased saving activity and a greater inclination to fund purchases with savings rather than borrowing. This assumption implied significant growth of household savings in bank deposits and stagnation of bank lending volumes. Under this scenario, households reinforced their position as a net creditor to the economy.

Under our forecast, corporate bank loans were expected to grow 15% in 2010, and the maximum upswing was expected in ruble-denominated short-term loans. According to our estimates, real GDP growth in 2010 was projected at 4.0% and nominal GDP growth at 15.6%. Overall economic output was expected to grow at approximately the same rate. Obviously, the upturn in production should be underpinned by adequate expansion of short-term bank loans needed to beef up working capital (as there were no sharp leaps in external prices to generate revenues sufficient to replenish companies' own funds).

Ratios of ruble-denominated short-term loans, corporate current accounts and overall economic output, %



Note: (red line – projection, black line – inertia-based estimate of annual performance based on 8m10).
Source: State Statistics Service, CSI Bank of Moscow estimates.

As it turns out, a principally different scenario was unfolding, objectively reflecting the ephemeral nature of the industrial production upturn over the first six months of 2010. Today, coverage of companies' working capital with loans (the ratio of ruble-denominated short-term loans to overall economic output) is at the level of 2000. In fact, short-term loans worth R1.13 trln were not used to sustain current production activity. We might have assumed that enterprises were financing their operations with internal funds, but this is not the case – the ratio of corporate current accounts to overall economic output is currently at the 2005 level.

Major banking assets, end of month, % of total

	12.05	12.06	12.07	12.08	03.09	06.09	09.09	12.09	03.10	06.10	08.10
Assets (R bln)	**9696**	**13963**	**20125**	**28022**	**28527**	**27776**	**28182**	**29430**	**29284**	**30417**	**30954**
Cash and precious metals	2.7	2.6	2.5	3.0	2.4	2.2	2.1	2.7	2.1	2.1	2.2
Accounts with CBR	7.3	7.5	6.9	7.5	6.7	6.3	3.9	6.9	6.7	7.8	7.2
Interbank transactions	6.3	5.8	5.4	5.2	5.1	5.1	5.0	5.4	6.0	6.2	6.0
Foreign assets	9.1	9.9	9.8	13.8	14.2	13.8	16.0	14.1	13.9	12.7	12.8
Households	12.1	14.7	16.1	15.5	14.6	14.3	13.8	13.1	13.0	13.0	13.2
Corporate sector	47.0	45.3	47.2	44.5	46.1	47.1	46.8	44.5	45.0	45.1	45.0
Government	6.6	5.2	4.1	2.0	3.1	3.3	3.7	4.2	4.5	4.2	4.5
Property	2.4	2.4	2.2	1.9	2.3	2.4	2.5	2.7	2.7	2.7	2.6

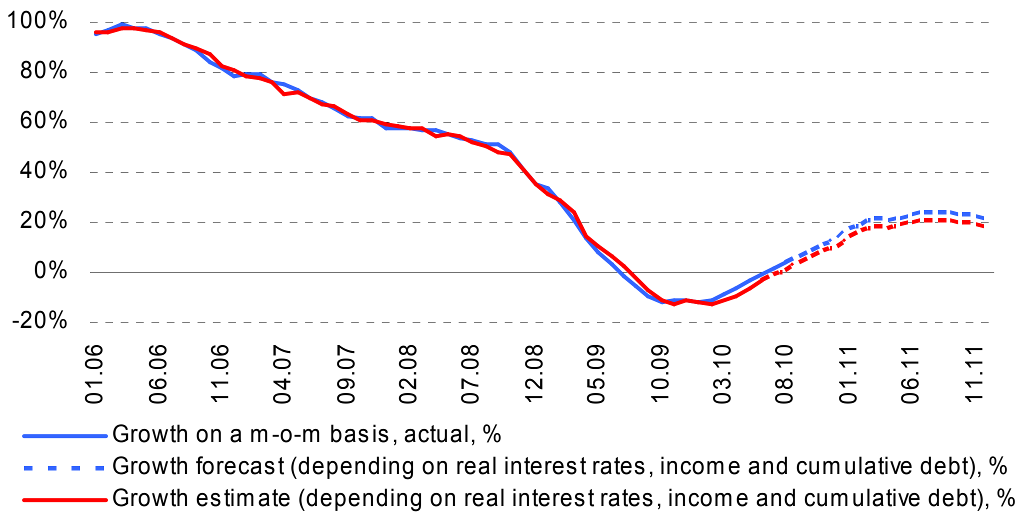
Source: CBR, CSI Bank of Moscow estimates.

The situation with corporate bank loans raised for investment purposes is the worst, as even in the pre-crisis period bank loans did not exceed 10% of total capital investment, and accelerating inflation and inflationary expectations exacerbate interest rate uncertainty. Today, investment activity is low (fixed capital investment is expected to grow just 2.5% in 2010) and bank lending is unable to revive this process.

Therefore, the 15% growth in corporate bank loans hardly seems an achievable target. Today, we project growth in corporate bank lending at 10%, which is below the level of nominal GDP growth. This projection is instead a reflection of the stagnation trends rather than anticipation of a production upturn.

In early 2010, our econometric models indicated growth in consumer lending in the current and following years. We disregarded these estimates, as the model was based on data for 2006–09. The essential element of the historical trends was the transition of households to a credit-driven consumption model. During the crisis, we clearly observed a return to the savings-driven model – households slashed their demand for bank loans and increased savings in the form of bank deposits. In this context, the most likely scenario was for this trend to persist until at least end 2010. Accordingly, we forecast stagnation of consumer lending – growth in bank lending volumes was expected to be within a range of -4% to +2% in early 2011.

Growth in consumer loans (total), m-o-m



Source: CBR, CSI Bank of Moscow estimates.

However, the trends in this segment of banking services have changed. Cuts in the refinancing rate lowered interest rates on loans and deposits, and liquidity in the banking sector picked up. Households returned to credit-driven consumption, as a) interest rates on ruble-denominated deposits sank to psychologically low levels (4–6%); b) inflation switched into high gear; and c) interest rates on loans were brought back to pre-crisis levels.

Assuming that interest rates on loans stay at or slightly below the current level by end 2010, and consumer prices and monetary household income increase by 8% and 10–11%, respectively, we can expect outstanding consumer loan volumes to rise 9–10% in 2010. Further, given a smooth and mild change in interest rates on loans in 2011 with inflation running at 7.5–8.0% and growth in nominal monetary household income at 11.0%, we can expect outstanding consumer loan volumes to rise 19–21% in 2011.

Therefore, 2010 saw a shift from corporate lending to consumer credit activities. Weak economic activity punctured corporate demand for bank loans. Accordingly, high risks and the cost of borrowing did not lead to any considerable interest rate reduction or relaxation of borrower requirements. On the opposite side, expanding consumer lending broadened final demand, thereby spurring inflation and imports. State-owned banks played a key role in speeding up consumer lending.

Forecast of key economic indicators

	Actual			Estimate	Forecast		
	2007	2008	2009	2010	2011	2012	2013
Macroeconomic indicators							
Nominal GDP:							
R. trln	33.3	41.4	39.1	44.9	50.3	56.1	61.7
$ bln	1 300	1 667	1 233	1 488	1 666	1 889	2 092
Real GDP, % y/y	8.5	5.2	-7.9	3.7	4.4	4.1	4.3
Industrial production, % y/y	6.8	0.6	-9.3	7.5	4.1	4.0	5.1
Retail turnover, real, % y/y	15.9	13.5	-4.9	5.0	5.0	5.0	6.0
Gross fixed investments, real, % y/y	22.7	9.8	-17.0	2.5	8.0	5.0	6.0
Exports, real, % y/y	6.4	0.6	-4.7	5.0	2.8	3.7	3.7
Imports, real, % y/y	26.6	15.2	-30.4	22.8	9.0	10.3	7.8
Monetary Aggregates							
M0 (year end), % y/y	32.9	2.5	6.4	22.0	18.7	18.3	17.7
M2 (year end), % y/y	54.1	1.7	16.3	20.5	23.2	19.8	16.8
M2X (year end), % y/y	45.9	14.6	16.4	15.6	21.6	18.3	16.3
Total banking assets, % GDP	60.5	67.6	75.3	73.9	78.6	82.4	87.9
Inflation							
CPI (year end), %	11.9	13.3	8.8	8.1	7.7	6.9	6.5
CPI (year average), %	9.1	14.1	11.7	6.8	8.0	6.5	6.0
Core CPI (year end), %	11.0	13.7	8.5	8.5	7.5	6.5	7.0
Budget							
Federal budget revenues, % GDP	23.4	22.4	18.8	17.3	17.6	16.9	16.8
Federal budget expenditures, % GDP	18.0	18.3	24.6	22.7	21.2	20.0	19.7
Federal budget balance, % GDP	5.4	4.1	-5.9	-5.4	-3.6	-3.1	-2.9
Reserve fund, year end, $ bln	156.8	137.1	60.5	11.5	1.5	1.6	1.6
National wealth fund, year end, $ bln		88.0	91.6	90.6	85.3	91.0	91.1
Balance of Payments							
Exports of goods, $ bln	354	472	303	380	390	420	450
Imports of goods, $ bln	223	292	192	250	270	310	340
Current account, % GDP	6.0	6.2	4.0	3.4	2.1	1.2	0.1
Net capital inflow/outflow, $ bln	81.4	-133.9	-58.8	-10	20	30	40
International reserves, year end, $ bln	479	427	439	468	510	567	613
External Debt							
Foreign public debt, % GDP	3.5	2.4	3.1	2.9	2.8	2.7	2.7
Foreign private debt, % GDP	3.8	3.4	4.7	6.2	8.2	10.0	11.5
Exchange Rate							
R/$:							
end of period	24.5	29.4	30.2	29.8	30.5	29.5	29.0
year average	25.6	24.9	31.7	30.2	30.2	29.7	29.5
Exogenous Parameters							
Urals, $ p/bbl	69.6	94.4	60.7	76.3	77.6	82.6	84.6
$/€	1.37	1.47	1.39	1.33	1.37	1.38	1.39

Source: Rosstat, Bank of Russia, Russian MOF, CSI Bank of Moscow forecast.

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