RUSSIAN FEDERATION

Population : 146.7 million (2019)
GDP per capita : 12500.00 USD (2019)
Country risk assessment : B (2019)
Business Climate : C

STRENGTHS

- Abundant natural resources (oil, gas and metals)
- Floating exchange rate of the ruble since November 2014
- Political stability
- Trained workforce
- Low public debt, comfortable foreign exchange reserves and current account surplus
- Ongoing purge of the banking sector with reduction in the number of institutions
- Maintained regional and energy power

WEAKNESSES

- Dependence on the price of hydrocarbons
- Declining demography, except in major cities
- Absence of commercial agreements beyond its immediate neighbours
- Dependence on foreign capital goods and technology
- Weak infrastructure aggravated by lack of investment
- Regional disparities despite redistribution
- American and European sanctions
- Mediocre business climate

COUNTRY RISK: ECONOMY

After some years of negative growth, due to staggering capital flight, the collapse of the rouble, the decline in oil prices and Western trade sanctions because of the Ukraine crisis, the Russian economy returned to modest growth since 2017, driven mostly by mineral resource extractions and private consumption. Growth was estimated by IMF at 1.7% GDP for 2018, supported by rising credit and disposable incomes, and is projected to stagnate at 1.8% GDP in 2019 and 2020. Structural weaknesses, low investment levels and a poor demographic outlook will keep real GDP growth well below 2% per year in the medium term. According to preliminary estimates by Rosstat however, GDP growth accelerated to a six-year high of 2.3% in 2018. Rosstat explained the surprise figure with a sharp upward revision of construction output growth.

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Russia’s economy is recovering from the 2015-16 recession, thanks to the authorities’ effective policy response and higher oil prices. Despite the impact of sanctions-related uncertainty on the ruble and of the oil production cuts on revenue, the country’s external position solidified in 2018. The current account surplus hit a record high (close to USD 100 billion according to IMF estimates), and the country’s external debt was decreased by over 10%. Inflation decreased from 7.1% in 2016 to 2.8% in 2018, but is expected to bounce back to 5.1% in 2019 due to domestic demand recovery, passthrough from the recent ruble depreciation, and the fading of temporary factors. It should remain under the control of the central bank, which had the key rate at 7.5%. Public debt (15% GDP) and its servicing are low, as the sovereign wealth fund was used during the recession. Vladimir Putin, in his May 2018 decree, pledged to increase spending on infrastructure, health and education to 1.1% of GDP each year by 2021. The fiscal policy is set to remain restrictive though, as the 2017/19 three-year budget forecasts a one percentage point reduction in the non-oil deficit each year. The 2019-2021 budget, the first planned in surplus since 2014, reflects the prudent strategy adopted by the authorities. The objective is to store USD 200 billion in rainy-day funds in case of new sanctions or a new global crisis, and to bring a USD 62 billion surplus over the period. Generally, constrained oil production, the hike in the VAT (from 18% to 20%), sanctions-related uncertainty and tight financial conditions would weigh on activity this year. Russia is facing many challenges: a large footprint of the state, governance and institutional weaknesses, insufficient infrastructure, low levels of competitiveness, underinvestment, low production capacity, dependence on raw materials, poor business climate, lack of structural reform and an ageing population.

The unemployment rate, which rose as an effect of the 2008 financial crisis, decreased to 5.5% in 2018, but real wages have fallen. Unemployement rate is expected to fall slowly to 5.3% in 2019 and to 5.1% respectively in 2020 (IMF). Social inequalities remain strong, particularly between big cities and rural areas. Only 1% of the population owns around 70% of private assets. Despite the appearance of an urban middle class, the poverty rate remains at 13%. A middle-class protest movement is demanding an end to corruption and nepotism.

COUNTRY RISK: INTERNATIONAL TRADE

The country is fairly open to foreign trade, which represents 46% of the GDP (World Bank, 2017), despite strict legislation and policies. Russia became a member of the WTO in 2012 and is negotiating a free trade agreement with India. The country is amongst the world's 16 largest exporters and 20 largest importers of merchandise. It mainly exports hydrocarbons (more than 50% of total exports), solid fuels, iron and steel, wheat and meslin, gems and precious metals and wood, and it mainly imports machinery, pharmaceuticals, electronic equipment, vehicles and plastics.

Russia's main trade partners are China, Germany, the Netherlands and the Belarus. Since the conflict in Ukraine and the economic sanctions imposed by the Western countries, the Kremlin has placed an embargo on European and American agricultural products and reconfigured its trade relations.

The country has been displaying large and regular trade surpluses since 1998, mainly due to its rich natural resources, especially hydrocarbons (crude oil and natural gas in particular). The trade surplus more than compensates for the services and income deficit. After declining following tensions with Europe and the United States over Ukraine crisis, as well as falling commodity prices, the trade surplus grew again, thanks to the recovery of raw materials prices. According to the latest available data from World Bank, Russia's trade surplus reached in 2017 the total value of nearly USD 115 billion. In 2018, total goods exports reached USD 444 billion (+ 25.5% compared to 2017), while total imports of goods amounted to USD 249 billion (+4.6% compared to 2017). Russia’s trade surplus increased to USD 194 billion, which represents an increase of 69% compared to its 2017 level (Central Bank of Russia, 2019). Russia’s exports benefited from favourable price conditions whilst growth rates of imports slowed. Despite efforts made since the sanctions were imposed, the substitution of domestic products for imports has had little success, except in the agri-food sector.

Main International Economic Cooperation

Russia is a member of the Eurasian Economic Union, heir to the Eurasion Economic Community and CIS, which is a free-trade zone and common economic area.

It has signed a partnership and cooperation agreement with the European Union which aims to create a common economic area. It generally enjoys most favoured nation status (MFN) and benefits from the generalised system of preferences (GSP) in its relations with the United States.

COUNTRY RISK: INVESTMENT

FDI flows into Russia have been on the decline since 2013, due to geopolitical tensions between Russia, Ukraine and the Western countries. While inflows rose to USD 37.2 billion in 2016, they fell once again in 2017 to USD 26 billion and further to USD 13.3 billion last year, their lowest since 2015 (UNCTAD World Investment Report 2019). Russia’s main investing partners are Cyprus, Luxembourg, the Netherlands, the Bahamas, Bermuda, Ireland and the UK. The main invested sectors are mining and quarrying, manufacturing, trade and repair of motor vehicles, financial and insurance activities, public administration, defence and social security and real estate activities.

The share of FDI in the GDP remains relatively low in view of the country's growth and economic potential, and working capital investments represent a large share of overall FDI. In recent years, Russia has undertaken economic reforms, but administrative problems, corruption and uncertainties about regional stability have remained major challenges. Russia has adopted a law allowing it to seize the assets of foreign states on its own territory, in response to the confiscation of Russian property by the European countries in the Yukos affair. According to the Institute of International Finance, Russia is ranked last among 23 emerging economies in terms true FDI, with net flows averaging only 0.2% of its GDP annually over 2015-2018. Russia is ranked 31st (out of 190 countries) of the 2019 Doing Business ranking established by the World Bank, a 4-point increase compared to the previous year. Russia’s main assets are its abundant natural resources (oil, gas and metals) and its large and skilled labour force.

ECONOMIC INDICATORS OF RUSSIA : GROWTH

Main Indicators

Main Indicators	2017	2018	2019 (e)	2020 (e)	2021 (e)
GDP *(billions USD)*	1,579.29e	1,657.29e	1,637.89	1,657.54	1,714.31
GDP *(Constant Prices, Annual % Change)*	1.6e	2.3e	1.1	1.9	2.0
GDP per Capita *(USD)*	10,751e	11,289e	11,163	11,305	11,705
General Government Balance *(in % of GDP)*	-1.0	2.9e	1.0	0.2	-0.3
General Government Gross Debt *(in % of GDP)*	15.465	14.605e	16.486	17.653	18.261
Inflation Rate *(%)*	3.7	2.9e	4.7	3.5	3.9
Current Account *(billions USD)*	32.43	113.46e	93.91	64.95	58.97
Current Account *(in % of GDP)*	2.1	6.8e	5.7	3.9	3.4

Source: IMF – World Economic Outlook Database - October 2018.

Note: (e) Estimated Data

Socio-Demographic Indicators	2019	2020 (e)	2021 (e)
Unemployment Rate *(%)*	4.6	4.8	4.7

Source: IMF – World Economic Outlook Database - Latest available data.

Monetary Indicators	2014	2015	2016	2017	2018
Russian Rouble (RUB) - Average Annual Exchange Rate For 1 EUR	48.95	65.03	71.34	65.90	73.94

Source: World Bank - Latest available data.

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Main Sectors of Industry

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector *(in % of Total Employment)*	5.8	26.9	67.3
Value Added *(in % of GDP)*	3.1	32.1	56.2
Value Added *(Annual % Change)*	-2.0	2.9	-0.5

Source: World Bank - Latest available data.

ECONOMIC INDICATORS OF RUSSIA : TRADE

Foreign Trade Indicators	2014	2015	2016	2017	2018
Imports of Goods *(million USD)*	308,027	194,087	191,406	238,384	248,704
Exports of Goods *(million USD)*	497,764	340,349	281,825	353,104	443,129
Imports of Services *(million USD)*	118,909	86,868	74,379	87,400	93,342
Exports of Services *(million USD)*	64,818	50,984	50,504	56,847	63,836
Imports of Goods and Services *(Annual % Change)*	-7.3	-25.1	-3.6	17.4	2.7
Exports of Goods and Services *(Annual % Change)*	0.5	3.7	3.2	5.0	5.5

Trade Balance *(million USD)*	188,931	148,398	90,215	114,719	194,429
Foreign Trade *(in % of GDP)*	47.8	49.4	46.3	46.8	51.5
Imports of Goods and Services *(in % of GDP)*	20.7	20.6	20.6	20.7	20.8
Exports of Goods and Services *(in % of GDP)*	27.1	28.7	25.7	26.1	30.7

Source: WTO – World Trade Organisation ; World Bank , Latest Available Data

Main Partner Countries

Main Suppliers *(% of Imports)*	2018
China	21.7%
Germany	10.6%
Belarus	5.4%
United States	5.3%
Italy	4.4%

Main Customers *(% of Exports)*	2018
China	12.4%
Netherlands	9.6%
Germany	7.6%
Belarus	5.0%
Turkey	4.7%

Source: Comtrade, Latest Available Data

Main Products

451.5 bn USD of products exported in 2018	
Petroleum oils and oils obtained from bituminous...	28.6%
Petroleum oils and oils obtained from bituminous...	17.3%
Coal; briquettes, ovoids and similar solid fuels...	3.8%
Wheat and meslin	1.9%
Semi-finished products of iron or non-alloy steel	1.8%

240.2 bn USD of products imported in 2018	
Transmission apparatus for radio-telephony,...	3.8%
Parts and accessories for tractors, motor vehicles...	3.7%
Medicaments consisting of mixed or unmixed...	3.3%
Motor cars and other motor vehicles principally...	3.0%
Automatic data processing machines and units...	2.8%

Source: Comtrade, Latest Available Data

Main Services

52.7 bn USD of services exported in 2016	
Transportation	35.49%
Other business services	24.58%
Travel	16.43%
Construction services	7.50%
Computer and information services	5.82%
Communications services	3.11%
Financial services	2.47%

Government services	1.74%
Royalties and license fees	1.16%
Cultural and recreational services	0.89%
Insurance services	0.81%

80.8 bn USD of services imported in 2016	
Travel	32.95%
Other business services	24.01%
Transportation	15.90%
Royalties and license fees	6.88%
Construction services	5.19%
Computer and information services	4.85%
Financial services	2.80%
Communications services	2.60%
Government services	2.07%
Cultural and recreational services	1.41%
Insurance services	1.33%

Source: United Nations Statistics Division, Latest Available Data

ECONOMIC INDICATORS OF RUSSIA : INVESTMENT

FDI in Figures

	Russia	Eastern Europe & Central Asia	United States	Germany

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Index of Transaction Transparency*	6.0	7.0	7.4	5.0
Index of Manager's Responsibility**	2.0	5.0	8.6	5.0
Index of Shareholders' Power***	7.0	6.0	9.0	5.0

Source: Doing Business - Latest available data.

*Note: *The Greater the Index, the More Transparent the Conditions of Transactions. **The Greater the Index, the More the Manager is Personally Responsible. *** The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action. **** The Greater the Index, the Higher the Level of Investor Protection.*

Foreign Direct Investment	2016	2017	2018
FDI Inward Flow *(million USD)*	37,176	25,954	13,332
FDI Stock *(million USD)*	393,910	441,123	407,362
Number of Greenfield Investments***	280	279	325
FDI Inwards *(in % of GFCF****)*	13.9	n/a	n/a
FDI Stock *(in % of GDP)*	29.6	n/a	n/a

Source: UNCTAD - Latest available data.

*Note: * The UNCTAD Inward FDI Performance Index is Based on a Ratio of the Country's Share in Global FDI Inflows and its Share in Global GDP. ** The UNCTAD Inward FDI Potential Index is Based on 12 Economic and Structural Variables Such as GDP, Foreign Trade, FDI, Infrastructures, Energy Use, R&D, Education, Country Risk. *** Green Field Investments Are a Form of Foreign Direct Investment Where a Parent Company Starts a New Venture in a Foreign Country By Constructing New Operational Facilities From the Ground Up. **** Gross Fixed Capital Formation (GFCF) Measures the Value of Additions to Fixed Assets Purchased By Business, Government and Households Less Disposals of Fixed Assets Sold Off or Scrapped.*

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