Impact of sanctions on Russian Economy.

Prepared by KSE Institute with Jacob Nell, ICU, Dragon Capital; With materials of NBU communication department media reports ***11.04.2022***

Macro impacts

Growth: Broad agreement on a sharp contraction, but not on how much. Russia's economy may lose 30% in 2022, according to the International Institute of Finance (IIF) Chief Economist. KSE Board Members` estimates suggest that loss may reach ~50% of the economy if all priority sanctions are implemented. EBRD and JP Morgan estimate 10-15% GDP loss. The World Bank predicts an 11.2% fall in 2022. We expect higher inflation to squeeze real wages and hit consumption, and uncertainty and import restrictions to hit investment, but these impacts may be partially cushioned by trade, where imports have so far fallen more than exports. For comparison, Russia contracted by ca. 30-50% in the early 1990s as the USSR broke up, 7% in 1998, 13% in 2009, 3% in 2015, 3% in 2020 – always in conjunction with a sharp fall in the oil price.

Inflation: **A war-time jump**. Since the start of the war, inflation has jumped from 9.2% in February (vs February 2021) to 16.7% in March (vs March 2021), on preliminary data. Annual food inflation is already 18% (35% for fruits and vegetables). The leaders of price growth: onions (+50.1%), sugar (+44%), white cabbage (+39.8%), bananas (+31.5%), carrots (+29.5%). KSE food prices monitoring in Auchan online store in Moscow over the period of 21.02-06.04 shows substantial inflation for pasta (9-20%), oat groats (9-23%), buckwheat (15-55%), rice (16-52%), meat (5-7%), eggs (7-20%), sunflower oil (10-13%), sugar (65%), cabbage (65%), onions (53%). In March, new cars have risen in price by an average of 40%, premium cars - up to 60%, russian-made Lada cars have increased by 28%. Durable goods by the end of March stopped rising due to ruble appreciation and lower demand, however since the start of the war prices are still much higher (TV +32%, Home appliances +30%, smartphone +19%, resorts in Turkey +72%). Some pharma products increased in price by ~25-77%. Over March popular drugs like Analgin, Corvalol, Validol increased in price by 14-21%. There is an additional pressure on drug prices as the packaging materials inflated by 30% and there are logistic problems as well. Retailers restricted quantities/amount of food sold to one person. The government is launching a moratorium on rising bread prices. Inflation is projected at 27.5-29.7% this year (Sberbank Rossii and VEB), though the CBR forecasts it will be back at the 4% target by 2024. CBR reports that inflation expectations have risen sharply**:** citizens expect 18.3% inflation (max level for the last 11 years) over the next 12 mth, whereas 71% of entrepreneurs expect price increase in the next 3 mth (max since 2000)**.**

Monetary policy: CBR has started to ease its tight monetary policy aimed at supporting the RUB and financial system. So far the CBR has acted in an orthodox way, increasing the policy rate at the end of February from 9.5% to 20% in March to support the financial system and prevent uncontrolled price increases, as well as providing liquidity support to the banking system. On April 7 the rate was decreased to 17 % as RUB strengthened and inflation growth slowed down. **CBR also has loosened currency restrictions:** from Apr 8, CBR again buys gold from banks at a negotiated price instead of a fixed one introduced previously; from Apr 11: 12% commission on currency purchase via brokers is canceled, currency withdrawal from foreign currency accounts is eased - citizens will be able to withdraw cash also in euro within the previously established limits, the requirement for banks to limit the difference between the purchase and sale of foreign currency, with the exception of legal entities-importers, is abolished. **In response, RF commercial banks slowly start to decrease rates on deposits and loans, however, much demand acceleration on 2-nd ones is not expected.**

RUB: **Fully rebounded after a sharp initial fall**. With a large portion of international reserves frozen by the sanctioning of the CBR, the CBR's effective deployable international reserves are about half of the current $604 bn headline figure. Moreover, reserves have fallen sharply since the beginning of the war by $38.8 bn, as a result in particular of CBR interventions, and repayment of maturing hard currency debt. As of 1 Apr, reserves slightly recovered to $606.5bn. However, after falling to around 130 RUBUSD, the exchange rate has now recovered to trade close to the pre-war parity at about 80, reflecting Russia's positive trade balance, with imports down more than exports, and high interest rates, supporting domestic demand for RUB. However, this is also a misleading figure, since the RUB is no longer freely convertible, given the restrictions on payments and imports.

Fiscal policy: **No clear shift yet, some additional ad hoc support from the National Wealth Fund (NWF)**. The Russian MinFin proposed the Gov to cut expenditures by 0,5 trln RUB (~$4,8 bln or ~2% of federal budget spending), but this has not happened yet. **To support the economy, the RF Gov increased the reserve fund of the budget by 273.4 bn RUB.** Main source of increase – 271.6 bn RUB of additional oil and gas revenues received in the 1st quarter of 2022. In addition, **RF has started using NWF to support Russian companies and banks.** As of Mar 1, NWF decreased by $20 bln to $154.8 bln due to devaluation of ruble and fall of shares in portfolio, and now equals to 9.7% of projected GDP for 2022. On Mar 9, Putin signed a decree that allowed the purchase of shares of Russian companies for 1 trln RUB from the NWF funds (this equals to ~8% of all NWF's funds). On Apr 1, the State Duma Committee supported (1st reading) a bill, allowing the purchase of preferred shares of credit organizations by RF Minfin at the expense of the NWF. No preliminary (subsequent) consent of the Bank of Russia and the Federal Antimonopoly Service will be required for this. Previously, the NWF's funds were already used to increase the capitalization of banks during the 2008-2009 crisis.

Debt: Heading for default. RF schedule of payment on external debt assumed ~$4.7 bln payment in 2022 since RF foreign reserves had been largely "frozen". ~ $731 mln was paid since then from "frozen reserves" based on the waiver to the US respective sanction. $1.58 bln was bought from (Russian) investors in rubles. $636 mln were to be paid on April 4. The last transaction was rejected by the bank (supposedly, JPMorgan Chase) following the US Treasury decision. RF MinFin sent a RUB payment to the bank in response. Nonetheless, this means that RF will be in sovereign default, since under the contractual conditions on these bonds, it counts as a default if a dollar payment is not paid within 30 days of the due date. On Apr 9, S&P lowered Russia's foreign currency ratings to "selective default" on increased risks that Moscow will not be able and willing to honor its commitments to foreign debt holders.

Balance of payments: Despite sanctions, Russia's BoP surplus may reach an all-time high of $200-300 bn this year (IIF, Goldman Sachs and Renaissance Capital estimates). The key reason is trade: an increase in the value of RF's energy exports combined with compression of imports by 20-50%. For example the preliminary estimate of the current account surplus for Jan-Feb 2022 was $39.2 bn (>2.5 times higher than a year earlier).

Labor market: Falling real wage, employment impact not yet materialized: Real wage forecasted to fall by -18% in 2022 and -25.7% by 2024 (CEBR), -28.4% in 2022 (Sberbank Rossii). Unemployment is forecasted to grow up to 10% in 2022 (up to 4.3 mln of additional unemployed). **CVs to Vacancies ratio continues to grow:** from 3.9 (14-20 Feb) to 5.8 (28 Mar-4 Apr) - HH.ru. **While Russians are looking for additional work,** with 66% of Russians planning to find additional part-time work - Avito. **Russian business already feels the negative effect on its ability to hire labor.** Every 5th Russian company is forced to lay off employees or put them on administrative leave - Aktion Bukhgalteriya poll. **Russian industry also downgraded hiring plans noticeably** - corresponding indicator decreased to the lowest levels of 1998 and 2008-2009 crises - Gaidar Institute for Economic Policy. "Brain-drain" in the IT sector is estimated at 200-300K people since the beginning of war. **On the other hand, GoR tries to support the labor market.** Among proposals - 39 bn RUB were allocated to support the labor market, introduction of possibility of employment by another employer without interrupting labor relations with the main employer and federal retraining program (345K persons are expected to be retrained). RF is updating program for the return of compatriots (highly qualified specialists). **The affected sectors are likely to include** industries that are facing shortage of imported components (automotive industry, household appliances), foreign markets sales squeezed as a result of sanctions (metallurgy, fertilizer production), a drop in domestic demand (wood products) and restrictions on funding from abroad (e-commerce) - Center for Strategic Research.

General company/consumer impacts

Russia PMIs (Purchasing Managers calculated by S&P) fell to a 2 year low. The PMI is the most important near-term growth indicator. In March, the S&P Global Russia **Services PMI fell to a 2-year low,** registering a dramatic low of **38.1** in Mar, down sharply from 52.1 in Feb. The decline in the manufacturing PMI was less dramatic - it dropped to 44.1 from 48.6 in Feb (value below 50 indicates a slowdown in business activity, and above - expansion). Results signal the sharpest decline in the Russian manufacturing sector since the COVID-19 outbreak in May 2020. Reason for decline - sharp increase in the delivery time of products and the associated acute shortage of materials.

Self-sanctioning: As of April 11th, at least 1225 foreign companies from 68 countries and 60 industries suspended or terminated their activities in Russia. Only 317 companies, on which data is available, employ >636k of staff, minimum 83k of staff were already affected by companies which exit the country. Companies that declared a complete withdrawal from Russia had $16.0bn in revenues and $8.8bn in capital; companies that suspended their operations on the Russian market had yearly revenue of $65.9bn and $34.0bn in capital. TOP-10 companies-the largest taxpayers ~ $13,7bn of taxes annually - haven't completely withdrawn yet, although suspended or scaled back. **During the war, companies staying in RF lost -3.8% in their share prices and international capitalization**, as compared to those who suspended or terminated activity (KSE analysis of 590 public companies present in RF). Larger companies, with higher investment in assets, lost more.

50% of Russians stay indifferent to the exit of foreign companies. Those, regretting the exit of foreign business, more often named specific brands (IKEA - 6%, McDonald's - 5%, Apple - 3%, Renault, Procter & Gamble and H&M - 2% each), as well as the sphere (automotive - 6%, pharma, electronics manufacturers, airlines - 2% each) - VTsIOM.

54% of RF businesses report a decrease in sales volumes. 83% have already taken steps to cut costs. Most common measures: reduction of advertising/marketing cost (37%); staff reduction (23%); reduction of salaries (16%) - NAFI. **After**

11-months of optimism, Russian industry's desire to invest dropped by 46 points in the 1st month of the war, falling to the lowest points of the investment crises of 2015–2016 and 2020 - Gaidar Institute for Economic Policy.

Russians change financial habits. 49% of respondents have begun to save more as prices rise and their financial options are significantly reduced. On the contrary, began to spend more, believing it is unreasonable to make savings in conditions of high inflation (SuperJob). **Russians start to feel sanctions. More than 1/2 believe that the sanctions will affect their financial situation:** 25% believe that it will be strong (among poor - 40%), 32% - that it won't be strong, 28% believe that sanctions won't affect them. Among sanctions with the most effect, respondents noted limitation of Visa/Master cards usage abroad, restrictions on the supply of high-tech equipment & electronics to RF, exit of foreign companies. On the contrary, 44% believe that sanctions will have noticeable positive consequences for RF (FOM, poll 18-20 Mar). The share of cash transactions in Mar 2022 rose to 41% (38% in Feb), demand for cash in banks increased by 30%-100%. To replace Visa and Mastercard, Russian banks offer Mir cards (used in 8 countries) and Chinese UnionPay cards (in 180 countries). People also go to Uzbekistan, Kazakhstan, Armenia and Kyrgyzstan to open foreign accounts there and get Visa and Mastercard from these banks. However, the National Bank of Kazakhstan recommended banks not to issue bank cards to non-residents.

Polling suggests increased support for government and war: 86.6% of Russians tolerate or support a potential assault on Europe; 75.5% approve the idea of a military invasion in the next country, believing it should be Poland; 75% tolerate to a varied extent the use of nuclear weapons by RF (Ukrainian Active Group, poll Mar 16). 76% support the "special military operation" (+11pp to 25.02) - VTsIOM. **Level of support for Putin grew to 83% (+12 pp to Feb).** Share of those who believe that things in the country are generally going in the right direction increased to 69% (+17 pp to Feb) - Levada poll, 24-30 Mar.

Sectoral impacts

Oil and gas: Not accounting for RF threat to cut off 1 mb/d of Kazakh oil - Trafigura Vitol, Gunvor, TS Lombard, IEA forecast 2-3 mb/d in Apr[1]. Prediction materializes: **RF oil exports decreased by 26.4% at the beginning of April or 3.63 mb/d, according to Bloomberg.[3]** Though only the US. and the UK imposed an explicit ban on imports of Russian oil, big companies and traders avoided buying Russian oil and looked for alternative sources. **Deputy Prime Minister Aleksandr Novak projects total RF oil production decrease of 4-5% (about 0.5 mb/d) in April over March**. The effect will rise more (2-3 mb/d) in response to decline in exports because RF lacks storage capacity. Russian refiners are trimming their diesel supply in response to sanction concerns, but sales have fallen by more, driving refiners to reduce production. Amount of oil-on-water increases sharply as Russia has only a tiny storage capacity (180 mb). This is evidenced by the fact that tanker loading with oil is still taking place in Russian ports, yet half of oil tankers report "destination unknown" meaning that they are "floating about". **Revenues from oil and gas-related taxes and export tariffs accounted for 45% of Russia's federal budget in January 2022** or about USD 1.1 bn a day.[2] Given current sanctions, the loss of daily oil and gas revenue to Russia is projected to amount USD 380 m a day in April. Although oil revenues in hard currency will drop by a very substantial amount, the federal budget revenues in rubles may not go down if RUB stays weak.**The Brent price dropped to USD 100/barrel on the news of the IEA pledge to release an additional 120 million barrels from its emergency reserves to the market.** Along with the previous release of 62.7 million barrels by the IEA Member Countries in March it constitutes 9% of the IEA emergency reserves making it the biggest stock release in the IEA history.[1] Meanwhile, giant energy trader Trafigura sold Russian Urals crude with a new record low discount USD 34.8/barrel of Dated Brent.
Russian giant LUKOIL warned the government on the possibility of shutting down two out of its four oil processing plants in Russia because of a shortage of oil products storage facilities In particular, according to LUKOIL, the storages of fuel oil are already full and if the issue is not urgently solved it may result in shutting down the processing plants. There is also a growing issue with LPG storage due to a sharp drop of its sales outside Russia. However, small and medium size refineries producing feedstock for export are affected the most. There are reports that producers of vacuum gasoi (Tuapse and Novoshakhtinsky plants)l and naphtha (Taif refinery), were forced to shut the production due to avoidance by international and Russia petrochemical buyers (Nizhnekamskneftekhim). The disruption for the oil processing industry is projected to exacerbate in May and June due to very tiny storage capacities and inability to quickly adjust production in line with projected drop in demand for Russian oil. While the EU is still divided over imposing full embargo on Russian energy, several EU member states have announced national commitments to avoid buying Russian hydrocarbons. Lithuania was the first EU country which already ceased purchases of Russian gas. Poland announced that it will completely phase out all Russian energy (oil, gas and coal) in its energy balance by the end of 2022 while Denmark

[1] For the individual contributions to the IEA's collective stock draw see https://www.iea.org/news/iea-confirms-member-country-contributions-to-second-collective-action-to-release-oil-stocks-in-response-to-russia-s-invasion-of-ukraine

announced a suspension of Russian oil purchases. Export deliveries of coal from Kuzbass (more than half of Russian coal production) are likely to be redirected to eastern markets, including China and India.

Russia's Arctic gas ambitions at risk - although loopholes still exist. RF's Arctic developments include Yamal LNG, Arctic LNG-2, and Sakhalin-2. RF is highly dependent on imports in the construction of a fleet of next-generation icebreakers, therefore, sanctions, in particular the EU ban on exports of vessels, marine systems or equipment to Russia for most purposes, made the shipbuilding process unlikely to progress. However, 3 biggest South Korean shipbuilders (Samsung Heavy Industries, Hyundai Samho Heavy Industries and Daewoo Shipbuilding & Marine Engineering) continue building 35 LNG vessels for RF. **NOVATEK is looking for ways to secure project financing for the Arctic LNG-2 plant.** VEB.RF management was asked to transfer its share in project financing (€ 400 mln) to Gazprombank due to fears that VEB.RF falling under US sanctions will make it difficult to raise funds for the project as a whole. According to Kommersant's sources, €6.54 bln from the total amount of external financing has already been used as of the beginning of March, remaining €2.96 bln are planned to be used before the third quarter. Elsewhere, the US-based ExxonMobil has frozen its "Far Eastern LNG" liquefied natural gas project. The project cost is estimated at $4.2 bn. The terminal was to have a capacity of 6.2 mln tons per year, launch was planned for 2027-2028.The recent EU ban on the supply of equipment for the production of liquefied gas, called into question the implementation of the Arctic LNG-2 and Baltic LNG projects already under construction by NOVATEK and Gazprom.

Status of projects according to expert's opinion: Yamal LNG — 20 mln tons of LNG per year. Investments are finished. There are no problems with sales. Arctic LNG — lines 1 and 3 are suspended, line 2 to be finished in late 2022-early 2023 (6-7 mln tons of LNG per year) There is a problem with American equipment, but most likely the US Department of State will allow the supplies. The project is being built by China, and a German company Linde (general designer) . The other 2 lines depend on them. Russian technology is not good enough. Power of Siberia 2 — at the pre-project stage. Launch will be in 5-7 years. Without this project, RF can't fulfill its obligations on supplies to China through Power 1 and Sakhalin-Khabarovsk. But it isn't the problem of the current time.

Military / defense: The US Department of Commerce added 120 organizations in Russia and Belarus in defense, aerospace, maritime and other strategic industries to the export control blacklist. **Important!** Sanctions on military/defense and dual-use products on Belarus are significantly weaker, which can be used to circumvent sanctions. In March**, over 20 military/defense enterprises were forced to suspend their activities completely or partially due to the lack of spare parts and components.** Experts estimate Russia's import dependence of this sector at the level of 20%. Tanks and armored vehicles: RF's only tank manufacturer, Uralvagonzavod, halted operations due to a lack of foreign components. Same problem also led to disruptions in the current repair of the Russian army's armored vehicles. Aviation: despite the fact that all manufacturers of military aircrafts are already included in the sanction lists, there is no evidence of any impact on military aircrafts building. Missiles manufacture: enterprises producing Kalibr and Smerch missiles transferred to a 24H work mode due to the shortage of these missiles. But German and French components, which are already under sanctions, are needed. Production of airborne missiles at the Russian research and production enterprise Vympel has been halted. Warships: Shipyards in Russia can't produce warships due to lack of foreign components and difficult financial situation. Vostochnaya Verf (Vladivostok) is being prepared for bankruptcy (intelligence data).

Machinery: Annual revenue decreases up to -$15 bln maximum (inc. cars). RF industrial companies are critically dependent on imported equipment (50-60%). The highest dependence faces computers (100%), machine tools (93%), telecom (86%). RF` Gov approved the legalization of parallel imports ("Gray imports") to import products without the permission of the manufacturer / owner of the rights. The list of goods is being developed by the Ministry of Industry and Trade. The Russian government in 2022 will finance 100% of the development of design documentation for import substitution

Cars: Only ~30% of capacities continue to operate. 8 out of 14 automakers have suspended work, incl. 5 announced the suspension of operations in Russia (staff more than 50k people). Shortage of spare parts is expected (95% dependent on imports). AvtoVAZ closes production for 3 weeks (April 04-24) due to a problem with the supply of components.
Russian media disseminate information about **Volkswagen** plans to resume the work of factories in Russia in June-July 2022. **Renault** is discussing the option of dividing the company into 2 parts. including due to the situation in the Russian market - the 2nd largest for Renault. The KamAZ Group has reduced production due to a shortage of spare parts for the new model range. Truck costs increased by 70% and 100% for Russian and foreign brands, respectively. 60% of vehicles are leased, their cost has increased. Road transportation has already risen in price by 10-12%.RF plans to allocate 55 bln rubles (~$0.6 bln) to support the automotive industry (incl. local production of components). The car market fell by 63% in March. According to the latest data, in March 43% less cars were sold compared to Mar21, QI22 sales were 25% less compared with QI21 (Autostat agency). Data from the Association of European Business is even more dramatic: 62,9% less sold in Mar, the quarterly fall is 28%.

Metallurgy: Iron and Steel: Russian metallurgists can lose up to $12.7 bln annual revenue maximum ($5bln export and $7.7 bln domestic consumption). Russian metallurgy produces 72 mln t, ~40 mln t of which are consumed on the domestic market. Aluminum**:** Russia will lose up to $4 bln annual aluminium exports revenues maximum. To produce it Russia imports alumina for $2 bln (2nd largest importer). 35% of alumina was imported from Ukraine, 25% - from Australia. Both channels were closed. Titanium: Russia will lose up to $0.9 bln annual revenue max. Russia is critically dependent on the supply of titanium raw materials from Ukraine - up to 83% of raw materials. **LME announced a ban on placing metals from the RF** in its warehouses in the UK (due to a 35% UK tax on a group of goods from the Russian Federation). **It is necessary that the EU expand sanctions on all types of steel products and raw materials from Russia**, incl. slabs, pig iron, DRI, iron ore (EU import from Russia - more than $6 bln). And that the allied countries join these sanctions.

Construction: The decline in construction may exceed 20% or maximum of $16 bln of GDP per year (equivalent $35 bln Revenue). Due to high prices for materials and equipment, 40% of construction companies were forced to freeze projects for an indefinite period. The expected decline in residential real estate - 20%, commercial - 40%, industrial - 50% (study of the association "Synergy"). For sectoral support, RF` Gov is planning large-scale infrastructure projects. Since the end of February, the cost of construction has increased by 30-50%.

Aerospace. RF airlines sector seems to be one of the most affected by sanctions: cancellation of certificates/licenses by international air authorities; closure of sky for RF`s civil aircraft, canceled maintenance and spare part delivery of Boeing and Airbus (~70% of ~ 1,000 aircraft flying for RF` carriers); Sheremetyevo airport, Ural Airlines, Royal flight sending personnel on forced downtime. Experts believe that roughly 1/2 of all planes could be grounded by next year due to these actions. Bermuda invalidated all aircraft registrations in the country, which affects more than 70% of Russian-operated aircraft. A total of 1,367 aircraft are in operation in Russia. Of these, 739 are registered in foreign registries. Foreign lessors own 515 aircraft, which were requested for return. Russia has lost 78 aircraft that were seized abroad due to sanctions.

In Mar, Russian airlines landed 1/3 of their fleet (325 out of 980 aircraft in operation). Production of civil aircrafts is significantly delayed due to the impact of sanctions on the spare parts supplies. New MC-21 aircrafts can be produced at the earliest in 2025, SSJ - in 2023. Flight company "Pobeda" will reduce its aircraft fleet by 40% to cover the need for spare parts "until the restoration of lost supply chains". From 9 April Russia will renew flights in 52 countries. This will lead to significant increase of the flight cost, because only SSJ-100 or Russian own aircrafts may be used for such flights to prevent seizure of aircrafts by lessors.

Russian business aviation traffic (600-800 aircraft) decreased by 50-70%. The cost of flights has increased by 1.5-2 times. Approximately 1/3 of the aircraft is put up for sale with a 5-30% discount.

The EU blacklisted 21 Russian-certified airlines (banned their flights to EU airports) since they don't meet international safety standards. But, on the contrary, Turkey plans to set up an airline in Antalya to transport Russian tourists to resorts. In addition, Turkish Airlines has agreed with tour operators from Russia to provide them with blocks of seats on flights.

Logistics. Companies are trying to solve the problems of blocked air and maritime routes. Uncertainty remains one of the key problems - Russians do not know what sanctions will be imposed in future and therefore can't plan the new routes. They have redirected some routes through Turkey. The main part of sea cargo in the European part of Russia now comes to Novorossiysk, where some foreign lines continue to call. In the Far East, Russia continues business with the Korean Sinokor, the Chinese Huaxin, Jun An and SITC. Now Russian logistics companies are actively replacing these transportations by road and rail transport through Belarus and China. To overcome logistics problems, RF plans to ensure year-round navigation along the Northern Sea Route. **New sanctions already affect road transportation:** at the EU-Belarus border >2,400 trucks are expected to leave the bloc by April 16 as part of new sanctions. On 09.04, Latvian border guards deployed 152 trucks from Belarus and Russia at the border due to EU sanctions.

Marine. London Marine Insurance Market has declared all Russian maritime waters a "war zone". These are the waters of the Black Sea, the Baltic and the ports of the Far East. If a ship wishes to enter such an area, the shipowner is obliged to notify his insurer and pay a special "military premium" of up to 5% of the value of the entire vessel. As a counter-measure RF`Mintrans proposed to export Russian cargo only on ships of Russian companies in order to increase the load on the fleet of Russian shipowners.

Railway. The Finnish railway operator - BP, announced the termination of the railway communication with the Russian Federation. The company estimates that this process may take several months. **On Apr 11, Russian Railways JSC has been ruled in default on a bond after missing an interest payment last month** – this first such decision since Russia was slapped with harsh sanctions that complicated financial transactions Bloomberg.

Agriculture: None of the most prominent players supplying crucial inputs for agro production entirely terminated activities in Russia. The projected volume of RF wheat export in Mar is 2 mln tons. As of Mar 10th, agro export is down 30% compared to the same period last year, although the exact reasons for this fall are subject to further analysis. Exporters face difficulties due to the differences in the currency exchange rates (have to sell foreign currency at the “official” rate while having to buy currency at the market rate to pay for their credits). RF keeps increasing the export duty on main agricultural commodities. On wheat export alone, Russia is projected to make $435mln in export duties in the next 3 months. In some regions, Russia has already started a sowing campaign. Amidst increased input prices, farmers face a lack of working capital. In April's report, USDA revised its projection for Russian grain import to 33 m. tonnes in the 2021/2022 season. It's a 1 m. tonnes increase from March's projection, but still below last year's export volume of 39 m. tonnes.

Fertilizers: One of the RF sectors not under sanctions yet. On 24.03, OFAC (US Treasury) added fertilizers to the list of essential goods (with agro products, medicines and medical products), which protected fertilizers from potential sanctions. EU imposed restrictions on imports of potash and complex fertilizers from Russia (5th package) - sales losses - $1.2 billion per year ($0.6 bln in 2022)

Food: To ensure physical food security Russia imposed an export ban on sugar and plans to impose new quotas and tariffs on sunflower oil and sunflower meal. To encourage food import (mostly of meat, dairy, animal feed, and fish products), Russia eases its non-tariff measures. Retailers imposed “voluntary” markup restrictions for selected products. Due to currency depreciation and high grain prices - livestock producers see approximately a 23% increase in the cost of production.

Information and communication technologies (ICT) and tech. RF ICT is estimated to lose -$10.8 bln Revenue annually (sector decline by 20%). More than 1.8 million people work in the sector. Expected outflow of specialists abroad - 0.36 million (20%). **Experts also expect a 20-30% decrease of the IT sector market size, which is up to $3.7 bln loss.** Telecom is significantly affected by the currency devaluation because its expenses (mostly equipment) is in foreign currency, but no currency revenue to overcome this negative effect. IT Security companies experience difficulties due to absence of equipment and software. 11% of them reported that it's impossible to continue services in Russia. **The US Treasury eased sanctions in telecommunications** - it allowed the export to Russia of services, software, equipment or technologies related to messaging over the Internet (General License No 25).