

#RF economy weekly

April, 26 - May 2, 2022

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

Russia's economic recovery will take 10 years, Ukraine will need 5 years to do the same - S&P Global Market Intelligence. S&P forecast of the RF GDP dynamics suggests a fall of 11.1% in 2022; they expect the growth to be restored only in 2024 at the level of 1.6%. Experts' GDP forecasts for RF vary between 8.5% by IMF to 30%+ by IIF Chief Economist and KSE. RF MinEcon expects GDP to fall by 8.8%-12.4% in 2022 and grow 1.3% in 2023. CBR expects GDP fall of 8.0-10.0% in 2022 (12.5-16.5% fall in Q4 22). Inflation is expected above 18-23% in 2022 and 6.2% in 2023 (CBR, MinEcon)

Default is not on the agenda - for now. RF made the latest payment of \$636 mln almost reaching the end of the 30-day grace period using domestic reserves. 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 (RF) 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.

CBR decreased its key policy rate to 14.0% – this policy attempts to prevent an economic recession. At the beginning of the war, CBR acted in an orthodox way: the policy rate was increased from 9.5% to 20% to support the financial system and prevent uncontrolled price increases, as well as liquidity support to the banking system, was provided. On Apr 7 the rate was decreased to 17 %.

Deficit budget. The deficit could reach 1.2% of GDP (expected previously for 2022) or ~6.4% of budget revenues (planned previously for 2022) – a shortfall in revenues is to be from NWF. Original budget 2022 assumed a surplus of 1% of GDP. At the same time, RF MinFin is afraid of the complete depletion of NWF and started preparing new budget rules to prevent this.

RF Reserves. The international reserves decreased by \$4bn over the week – to \$607.1bn. Before that, reserves had already lost \$38.8 bn.

The trend for refraining from dividends` payment. RF GoV authorized Russian Railways and VTB Bank (through controlled votes in the supervisory board) to refrain from payments of dividends. Prior to that, CBR issued similar recommendations for all non-credit financial institutions and banks. With such measures Russia is trying to prevent outflows of capital to foreign stock-holders, substitute for investments withdrawn, and compensate for other gaps in the budgets of those companies.

Labor market. RF MinEconomy estimated 250K workers to be idle, whereas Federation Council estimates are at the level of ~600K people that have "gone idle" or are at risk of being fired. Demand for labor in Mar decreased by 0.5% compared to Feb. Since the end of Feb, a sharp reduction in the volume of hiring began - Gaidar Institute for Economic Policy. Real wage is 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). Unemployment in RF in Mar 2022 remained at 4.1% (Rosstat).

Self-sanctioning. Societe Generale's stock price jumped 5% after it announced its exit from RF and incurring a \$3.4bn write-down. This case is supported by the broader trend. During the war, companies staying in RF lost -5.5% in their share prices and international capitalization, as compared to those who suspended (+3%) or terminated (+4%) activity (KSE analysis of 600 public companies present in RF).

Investments. Investment demand inside of Russia is declining due to high economic uncertainty - as can be incurred from the Nabibulina reports. **Large projects.** TotalEnergies, a major French energy company, began to exit RF. The company has written off \$4.1bn invested in the joint project with NOVATEK «Arctic LNG-2». The French energy giant initially refused to cut ties with Moscow, despite other oil majors including BP Plc and Exxon Mobil Corp. and Shell Plc announcing their exit.

Industry. The industrial production index in Mar grew by 3.0% YoY (+9.9% compared to Feb 22). Production of some industrial goods has decreased sufficiently: television receivers (-27%), lead accumulators for starting piston engines (-23%), fiber optic cables (-56%), refrigerators (-40%), washing machines (-44%), internal combustion engines (-54%), cars (-62%), passenger railway cars (-29%). However, increased production of other products (semiconductors (+49%), metal constructions (+17-23%), electric engines and generator sets (+12%), agro vehicles (+15-22%) signals the need to increase pressure on the RF.

Oil & Gas. Rosneft didn't manage to sell 6.5 mln t of oil during the tender, since demanded full advance payment in RUB. Gazprom halted gas supplies to Bulgaria (Bulgargaz) and Poland (PGNiG), since both companies refused to pay for gas in RUB. Against this background, gas prices in the EU rose by 21%, to \$1350 per 1,000 m³. Since Feb 24, RF has earned €62bn on energy exports due to rising prices. RF sold €44 bln in energy to the EU, which is twice the total of the same period in 2021 (reflects the price increase and attempts to fill in the reserves in the EU). According to KSE estimates, during the war period, gas revenues exceeded oil revenues for Russia: this is triggered by RF oil-price discounts and very high gas prices.

Gazprom. Over the last 4 months "Gazprom" gas production decreased by 2.5%, to 175.4 bln cubic meters, while gas exports fell by 27%, to 50.1 bln cubic meters. The average daily export of "Gazprom" in April decreased by 22% compared to March (5% decrease if compared to April 2021), which is a 3-month lowest value.

Trade. Russian gas deliveries to China through the "Sila Sibiri" pipeline in the first four months of 2022 increased by 60% YoY. Overall Russian gas export to China is expected at the level of 48 bln cubic meters this year. According to the data of the GTS Operator of Ukraine, the nomination for pumping Russian gas to the region as of May 2 is 98.9 mln cubic meters, while the application for May 1 was 92.9 mln cubic meters (6.5% increase). After Poland rejected making payments in rubles, the reverse flow through the Yamal-Europe gas pipeline from Germany to Poland was at a maximum level of 31 mln cubic meters per day, which is exactly the volume that Poland previously received in Russia.

War sociology. Share of Russians who had negative attitudes to EU rose from 27% to 64% during the year - VTsIOM.

Demography. Birth rates in RF in Mar decreased by 9.9% YoY. Whereas, mortality increased by 5.1% from 191.3 to 201K people (doesn't take into account war-related deaths).

SANCTION LOOPHOLES. RF plans to organize the production of components for its military and dual-use products in CSTO countries, especially those that require foreign components. It is also planned to re-export Russian products to international markets under the guise of Georgian, Armenian and Azerbaijani products.