



## **\*\*Coronavirus Covid-19 Update\*\***

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

# Country Insight Snapshot Russian Federation

November 2020





## OVERVIEW

### OVERALL COUNTRY RISK RATING: DB5d

**High risk:** Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.



**Rating Outlook:** Deteriorating

## CORE OUTLOOK

- + Russia will continue to develop its hydrocarbon resources and infrastructure, such as rail and road projects and the Northern Sea Route.
- + Russia is a frontrunner in the global race to develop a Covid-19 vaccine. Preorders augur well for the biomedical industry if regulatory approval is given in late 2020.
- + Tax initiatives in Moscow and St. Petersburg have made paying taxes easier via a more efficient VAT application review, as well as software enhancements for tax and payroll.
- + Russia has amassed a USD125bn sovereign wealth fund, which will enable it to withstand a prolonged period of lower international oil prices and help diversify the economy.
- Russia has been hit hard by Covid-19, with more than 1.7m official cases and close to 30,000 deaths. The number of cases rose in October, prompting tighter local restrictions.
- The spring lockdown and falling demand for hydrocarbons are having severe implications: we expect GDP to contract by 4.5% in 2020.
- The poisoning of opposition leader Alexei Navalny with a banned nerve agent is likely to lead to additional economic sanctions from the EU.
- The banking sector avoided liquidity pressures during the deep contraction of Q2 but faces headwinds in 2021, with rising NPLs and squeezed profits amid record-low interest rates.
- Urgent support for the health service and social security system will push the government finances into the red in 2020 - the fiscal deficit is expected to be equivalent to 1% of GDP.

## KEY DEVELOPMENT

Overall prospects of recovery weaken, but precious metals provide a boost for flagging exports as gold exports surpass those of natural gas for the first time in modern Russian history.

## CREDIT ENVIRONMENT OUTLOOK



**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.

## SUPPLY ENVIRONMENT OUTLOOK



**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.

## MARKET ENVIRONMENT OUTLOOK



**Trend:** Stable

Key Development has had a negative impact on the outlook.

## POLITICAL ENVIRONMENT OUTLOOK



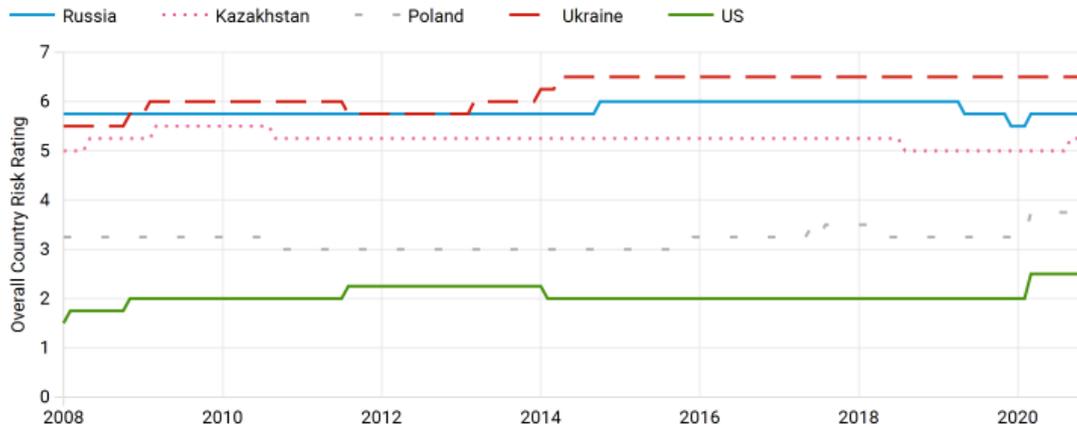
**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.



## KEY INDICATORS

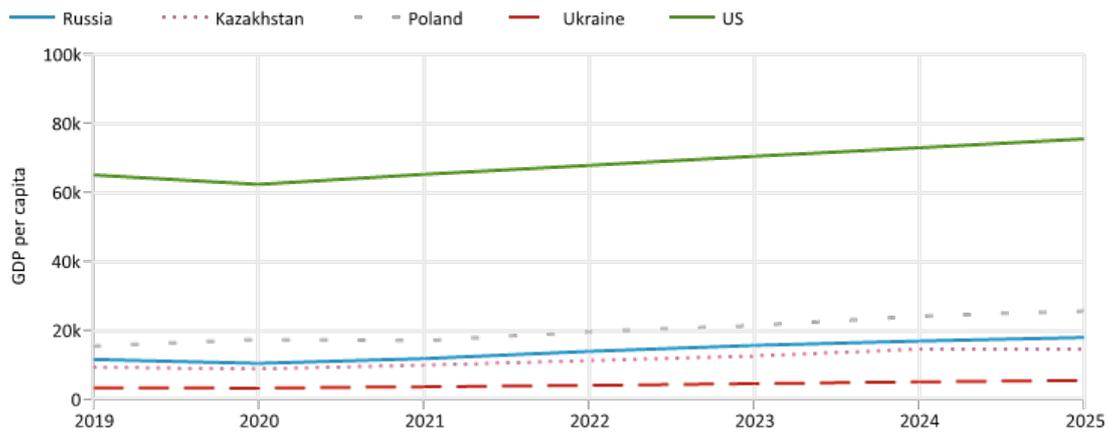
### Rating History and Comparison



Source: Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

### Industrial Production (Index)



Source: Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2018	2019	2020f	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	6.9	3.8	1.2	2.2	2.7	3.4	3.6	3.0
Govt balance, % GDP	2.9	1.9	-5.0	-1.9	1.1	1.0	1.5	1.0
Inflation, annual avge %	2.9	4.5	4.1	3.8	3.7	3.6	3.5	3.6
Real GDP Growth, %	2.5	1.3	-4.5	2.6	3.0	3.2	3.4	3.2
Unemployment (annual avge, %)	4.8	4.6	9.5	8.5	7.3	5.8	5.4	5.8

Source: Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Central bank data shows that Russia's current account surplus narrowed to USD21.7bn in Q1 2020, and shrank to USD0.6bn in Q2 as the Covid-19 pandemic took hold in the context of sharply lower hydrocarbon exports and revenues. Surprisingly high levels of imports of services, given restrictions on international travel, were also a factor. The current account surplus widened to USD2.5bn in Q3 but it is expected to narrow again in the final months of 2020 amid sliding oil and gas prices and falling imports. Over the past two decades, Russia has maintained its current account balance in positive territory, recording a historically-large trade surplus in 2018. The overall trade and commercial environment is gradually improving, but significant challenges remain for businesses in navigating bureaucratic pressures. Weak governance, poor levels of transparency and corruption remain ongoing risks for investors, particularly among smaller companies.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: CLC

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: CiA

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-60 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 0-2 months

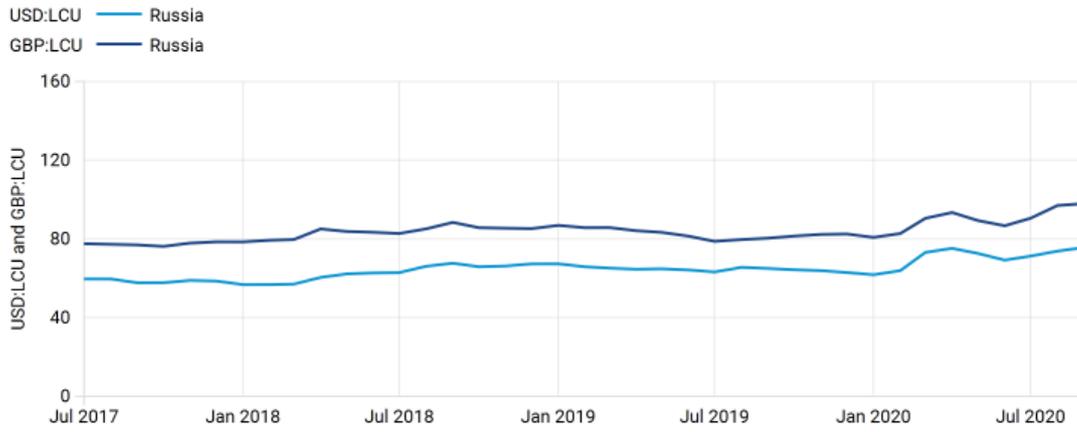
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 0-2 months

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



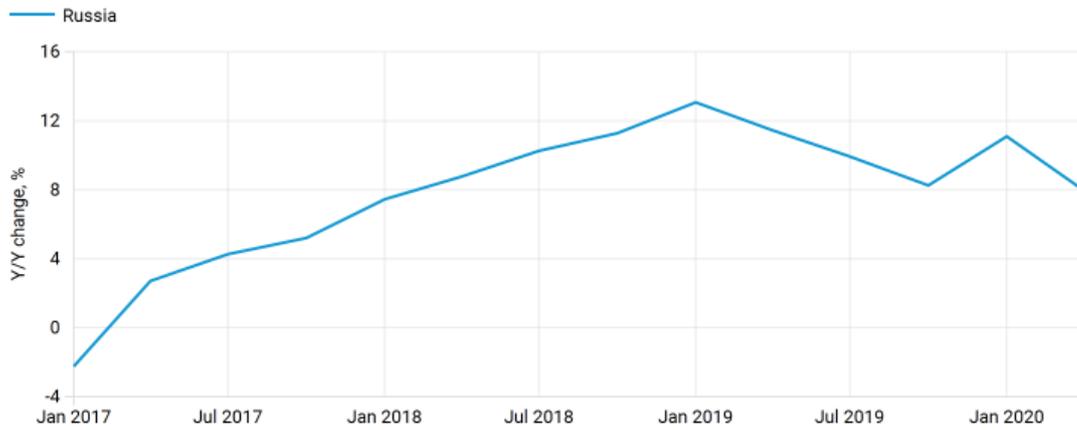
## Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = Russian rouble*

## Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### *Covid-19 cases surge, while vaccine trials and production face challenges*

Registered cases of Covid-19 in Russia passed 1.7m in early November - the fourth-highest number in the world, behind the US, India and Brazil. Infections are rising sharply, with some regions - including Novosibirsk, Altai and Kalmykia - reportedly reaching the capacity of their hospitals and clinics. Containment measures including a requirement for a third of business employees to work remotely during November and home-learning for some students are reportedly not having much effect in slowing the spread of the virus in Moscow. Further restrictions and another national lockdown are therefore likely this autumn and winter, with serious implications for the economy, employment and supply chains.

Additional challenges for the Kremlin include ongoing tensions in neighbouring Belarus and Ukraine, armed conflict between Azerbaijan and Armenia, new EU sanctions in the wake of the poisoning of opposition leader Alexei Navalny, and the prospect of worsening relations with a Joe Biden-led US government.

Mindful of its PR value and potential boost for the pharmaceutical industry, Russia's authorities have been highlighting progress on the local development of a vaccine for Covid-19 at Moscow's Gamaleya Research Institute of Epidemiology and Microbiology (Sputnik V) and more recently the Vector State Research Center in Novosibirsk (EpiVakKorona). Double-blind trials involving 40,000 volunteers are expected to be completed by mid-November. International virology experts are sceptical of early claims of proven safety, however, and suggestions that 5m doses will be produced per month from December appear optimistic, given reports of equipment shortages.

### Market Potential

#### *Precious metals boost flagging exports*

Amid the gloom of Russia's 2020 export statistics is a glimmer of optimism in the form of precious metals. Gold shipments increased almost five-fold y/y in Q1 to a value of USD1.4bn according to SeaNews Russian Foreign Trade Customs Statistics. The lion's share of the gold exports went to the UK, with Switzerland the second-most popular destination. In April and May gold shipments surged to 65.4 tonnes, worth USD6.4bn (14 times higher than recorded in the same period of 2019) as investors sought a safe haven. The central bank's decision not to buy gold at that stage was also a factor.

This marked the first time in modern Russian history that revenue from gold exports surpassed that of natural gas, which dropped to USD2.4bn in April and May as demand cooled during lockdowns in Europe and East Asia. Gold prices rose to a nine-year high of around USD1,800 per ounce and have since risen further. Eight out of the ten largest Russian gold mines have increased their output in 2020. Olimpiados, by far the largest, is located in eastern Siberia and operated by Polyus. The company is reportedly working to secure 100% ownership of the large new Sukhoi Log gold deposit in Siberia.

Exports of platinum group metals also grew strongly in Q1, rising by 68% y/y to a value of USD1.9bn. The precious metals are in high demand in the automotive industry (primarily for catalytic converters). Russia aims to become one of the world's largest producers, centred on deposits on the Taimyr peninsula. Companies considering mining there will need to invest heavily in industrial safety - for example, Norilsk Nickel Co. faces fines of around USD2.4bn after a series of disastrous pollution incidents in Krasnoyarsk Krai over the summer.



## COUNTRY PROFILE AND STATISTICS

### Overview

Stretching over 11 time zones from the Baltic Sea in the west to the Pacific Ocean in the east, Russia is the world's largest country by area. The country's 84 geographic sub-entities have varying degrees of autonomy, as well as vast political and socioeconomic discrepancies.

The dissolution in 1991 of the Soviet Union (which nominally consisted of Russia and 14 constituent republics) was followed by the erratic presidency of Boris Yeltsin. In 1994, armed conflict broke out over the status of the Caucasian republic of Chechnya, whose authorities sought independence from Russia. Political stability increased under Yeltsin's successor, Vladimir Putin, but has partly been achieved at the expense of a liberal democratic order.

Russia is among the world's biggest oil producers and has the largest proven reserves of natural gas. Historically, a poor business environment and a lack of economic reform have inhibited foreign investment, and the diversification of exports away from their dependence on hydrocarbons is vital. However, this has significantly changed over the last five years as effective government reforms and fiscal policies has diversified Russia's long-term growth model and improved the ability to withstand shocks - particularly from oil prices, sanctions and geopolitical threats.

### Key Facts

Key Fact	Detail
Head of state	President Vladimir PUTIN
Capital	Moscow
Timezone	GMT +03-00
Official language	Russian
Population (millions)	145.9
GDP (USD billions)	1,699.3
GDP per capita (USD)	11,649
Life expectancy (years)	71.9
Literacy (% of adult pop.)	99.7
Surface area (sq km)	17,098,240

Source: Various sources/Dun & Bradstreet

### Historical Data

Metric	2016	2017	2018	2019	2020f
Real GDP growth (%)	0.2	1.8	2.5	1.3	-4.5
Nominal GDP in USDbn	1,275	1,573	1,667	1,699	1,532
Nominal GDP in local currency (bn)	85,485	91,766	104,479	110,008	109,568
GDP per Capita in USD	8,775	10,808	11,440	11,649	10,501
Population (year-end, m)	145.3	145.5	145.7	145.9	145.9
Exchange rate (yr avge, USD-LCU)	67.1	58.3	62.7	64.7	71.5
Current Account in USDbn	23.6	31.3	114.9	65.0	18.5
Current Account (% of GDP)	1.9	2.0	6.9	3.8	1.2
FX reserves (year-end, USDbn)	317.5	356.1	381.6	444.0	320.0
Import Cover (months)	14.4	13.1	13.3	15.1	10.3
Inflation (annual avge, %)	7.0	3.7	2.9	4.5	4.1
Govt Balance (% GDP)	-3.7	-1.5	2.9	1.9	-5.0

Source: Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	2.6	3.0	3.2	3.4	3.2
Nominal GDP in USDbn	1,735	2,039	2,291	2,470	2,615
Nominal GDP in local currency (bn)	116,580	124,391	132,850	142,016	151,674
GDP per Capita in USD	11,890	13,986	15,728	16,987	18,018
Population (year-end, m)	145.9	145.8	145.6	145.4	145.1
Exchange rate (yr avge, USD-LCU)	67.2	61.0	58.0	57.5	58.0
Current Account in USDbn	37.7	54.2	78.0	88.0	78.0
Current Account (% of GDP)	2.2	2.7	3.4	3.6	3.0
FX reserves (year-end, USDbn)	355.0	390.0	450.0	453.0	450.0
Import Cover (months)	10.9	11.4	12.6	12.1	11.4
Inflation (annual avge, %)	3.8	3.7	3.6	3.5	3.6
Govt Balance (% GDP)	-1.9	1.1	1.0	1.5	1.0

Source: Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Russia	Kazakhstan	Poland	Ukraine	US
Income per Capita (USD)	10,501	8,904	17,471	3,361	62,436
Country Population (m)	145.9	18.8	37.8	43.7	331.0
Internet users (% of population)	80.9	78.9	77.5	58.9	87.3
Real GDP Growth (% p.a., 2021 - 2030)	-0.5 - 3.5	0.5 - 6.0	1.5 - 3.5	-1.0 - 3.0	1.5 - 3.3

Source: Various sources/Dun & Bradstreet



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