

Country Insight Snapshot Russian Federation

January 2021





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.

R

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's pharmaceutical industry is set to be bolstered by pre-order agreements with more than 50 countries for the Sputnik V vaccine.
- + Russia has amassed a USD177bn sovereign wealth fund, which will enable it to withstand a prolonged period of lower oil prices and help with efforts to diversify the economy.
- Still-weak domestic activity and the decline in external demand for hydrocarbons amid the ongoing Covid-19 pandemic will limit the extent of Russia's economic recovery this year.
- The banking sector faces headwinds in 2021, with rising NPLs and squeezed profits amid record-low interest rates.
- Urgent support for the underfunded health service and social security system will lead to a projected fiscal deficit equivalent to 2.5% of GDP in 2021.
- A 13% tax on interest from deposits over RUB1m, and a hike in the income tax rate to 15% on incomes over RUB5m, took effect from 1 January 2021.

KEY DEVELOPMENT

Expropriation risk rises following a Russian court ruling that sets a worrying precedent for future disputes between foreign investors and the state.

CREDIT ENVIRONMENT OUTLOOK

R

Trend: Deteriorating 

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Deteriorating 

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable 

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

R

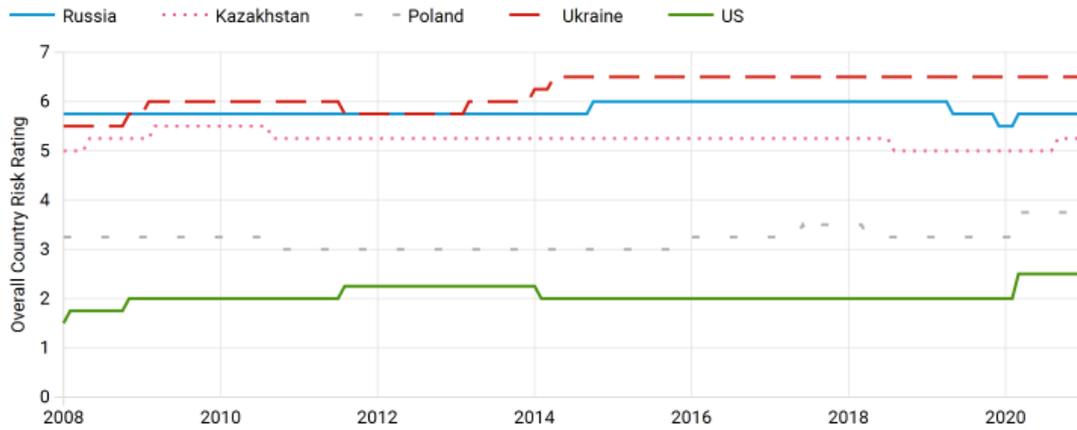
Trend: Deteriorating 

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

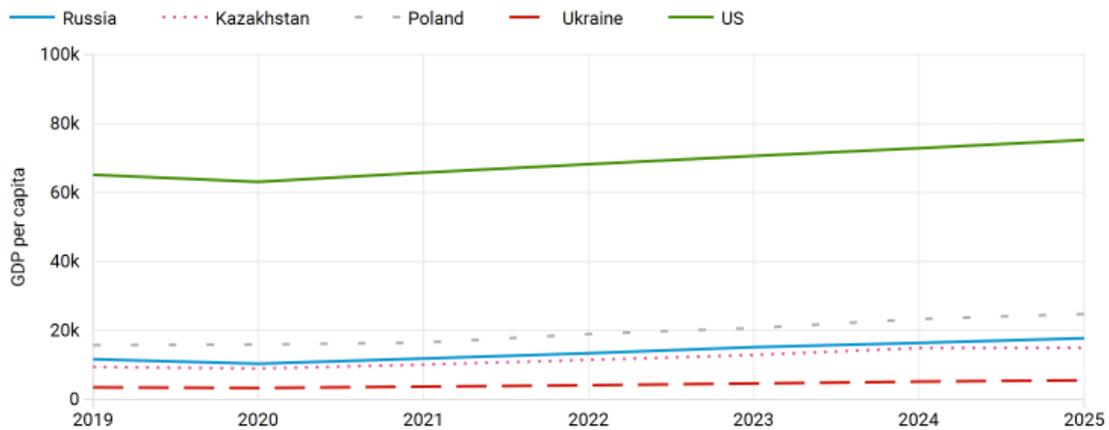
Rating History and Comparison



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	2020e	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	6.9	3.8	1.1	2.0	2.7	3.0	3.0	3.0
Govt balance, % GDP	2.9	1.9	-4.7	-2.5	0.5	1.0	1.2	1.5
Inflation, annual avge %	2.9	4.5	3.4	3.8	3.7	3.6	3.5	3.6
Real GDP Growth, %	2.5	1.3	-4.2	2.8	2.5	2.7	3.0	3.2
Unemployment (annual avge, %)	4.8	4.6	6.1	5.7	5.5	5.2	5.0	4.6

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Russia's current account surplus narrowed sharply in 2020, to an estimated USD17.2bn, from USD64.5bn in 2019. The Covid-19 pandemic took hold in the context of sharply lower oil and gas exports and revenues, while surprisingly high levels of imports of services, given restrictions on international travel, were also a factor. The current account surplus is expected to widen in 2021 amid a projected recovery in hydrocarbon prices and demand. 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

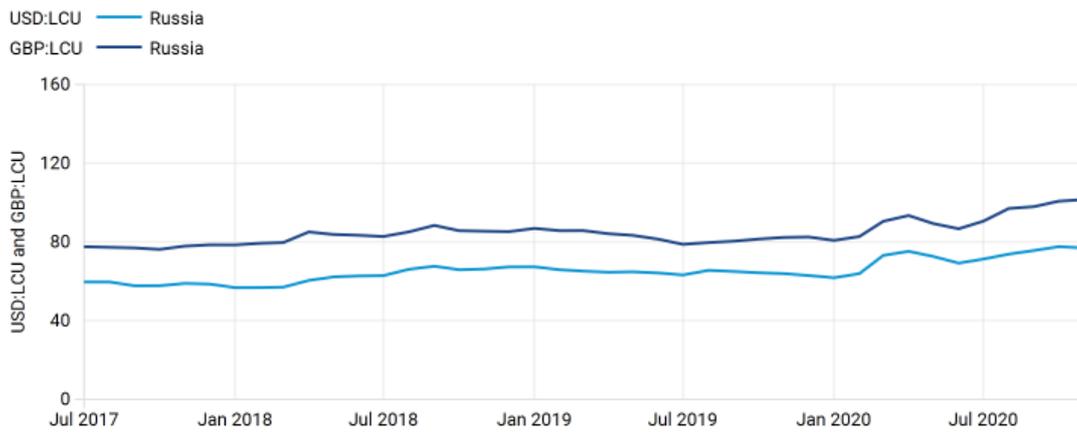
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



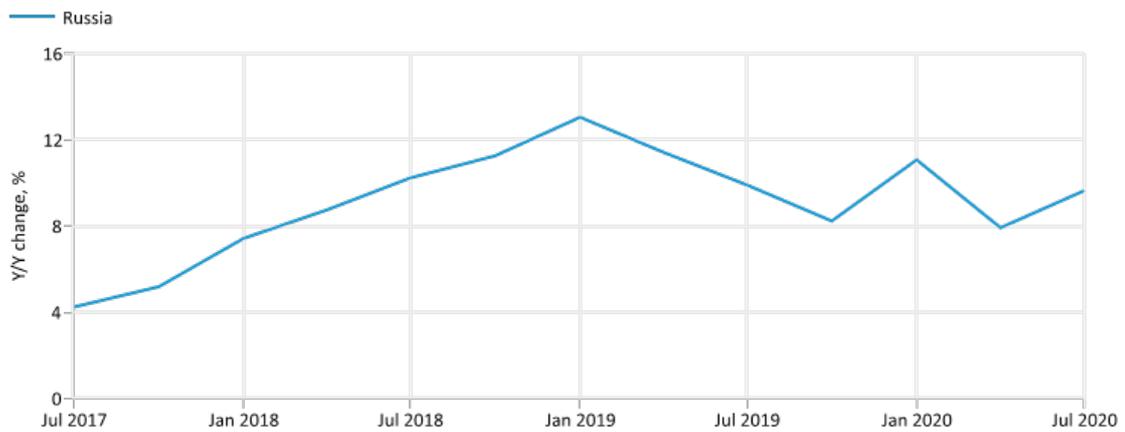
Exchange Rate



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

Expropriation/Nationalisation Risk

Expropriation risk rises following Russian court ruling

Russia's Constitutional Court ruled in December that legal disputes between the state and foreign investors should not be subject to international arbitration, even in cases where this is specified in international agreements that Russia has signed, but not ratified. The ruling pertains to the Energy Charter Treaty (ECT), which was signed by Moscow in 1994 but never ratified, and bolsters the government's case in its long-running dispute with the owners of the now-defunct Yukos Oil Company. In 2014, the International Court of Arbitration in the Hague awarded Yukos's former shareholders USD50bn in damages for actions by the Russian government which were deemed to have forced the company into bankruptcy and the sale of its assets. This was overturned in 2016, but the Hague Court of Appeal confirmed the original ruling in 2020, awarding an additional USD7bn in interest.

The Constitutional Court's ruling sets a worrying precedent for future disputes between foreign investors and the state. This is particularly true for investors in the oil and gas sector, which is covered by the ECT. Overall, the judgement results in a substantial restriction in the recourse of foreign investors in Russia to international arbitration and reaffirms our 'deteriorating' outlook for Russia's overall risk environment. Foreign firms operating in Russia should be mindful that they will now have to depend much more (or potentially even exclusively) on the Russian judiciary in any disputes with the state – a dim prospect given the judiciary's lack of independence and predilection to rule in favour of government interests.

Market Potential

Mortgage scheme fuels construction boom

The government's mortgage subsidy programme, introduced in April 2020 as one of the key elements of its Covid-19 economic support package, has led to a surge in residential property construction. The scheme was recently extended to July 2021, and is part of the government's wider efforts to create alternative drivers of growth in the largely energy-reliant economy. The volume of rouble-denominated mortgages soared by 56% y/y in April-December 2020, reflecting the scheme's popularity. As such, its extension augurs well for the construction sector this year.

Retailers, in contrast, should be mindful that the increase in household leverage will reduce consumption potential. Annual retail sales growth was consistently in negative territory between April-November 2020 – and this trend is likely to continue in early 2021. Indeed, households are already struggling, as unemployment has risen amid the Covid-19 crisis and inflation is accelerating. Consumer price growth hit its highest rate in a year-and-a-half in December, as the weaker rouble has stoked the cost of imports.



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, a number of effective government reforms and policies in recent years have had some success in diversifying Russia's long-term growth model and improving the economy's 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)	1,511.1
GDP per capita (USD)	10,355
Life expectancy (years)	72.3
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	2020e
Real GDP growth (%)	0.2	1.8	2.5	1.3	-4.2
Nominal GDP in USDbn	1,275	1,573	1,667	1,699	1,511
Nominal GDP in local currency (bn)	85,485	91,766	104,479	110,008	109,105
GDP per Capita in USD	8,775	10,808	11,440	11,649	10,355
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	72.2
Current Account in USDbn	23.6	31.3	114.9	64.5	17.2
Current Account (% of GDP)	1.9	2.0	6.9	3.8	1.1
FX reserves (year-end, USDbn)	317.5	356.1	381.6	444.0	447.0
Import Cover (months)	14.4	13.1	13.3	15.1	14.5
Inflation (annual avge, %)	7.0	3.7	2.9	4.5	3.4
Govt Balance (% GDP)	-3.7	-1.5	2.9	1.9	-4.7

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	2.8	2.5	2.7	3.0	3.2
Nominal GDP in USDbn	1,731	1,951	2,207	2,382	2,575
Nominal GDP in local currency (bn)	116,306	123,517	131,298	139,833	149,341
GDP per Capita in USD	11,862	13,383	15,153	16,384	17,741
Population (year-end, m)	145.9	145.8	145.6	145.4	145.1
Exchange rate (yr avge, USD-LCU)	67.2	63.3	59.5	58.7	58.0
Current Account in USDbn	35.2	52.7	65.5	72.4	78.0
Current Account (% of GDP)	2.0	2.7	3.0	3.0	3.0
FX reserves (year-end, USDbn)	450.0	453.0	457.0	461.0	465.0
Import Cover (months)	13.9	13.3	12.8	12.3	11.8
Inflation (annual avge, %)	3.8	3.7	3.6	3.5	3.6
Govt Balance (% GDP)	-2.5	0.5	1.0	1.2	1.5

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Russia	Kazakhstan	Poland	Ukraine	US
Income per Capita (USD)	11,862	10,087	16,479	3,690	65,781
Country Population (m)	145.9	19.0	37.8	43.5	332.9
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



LINKS

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