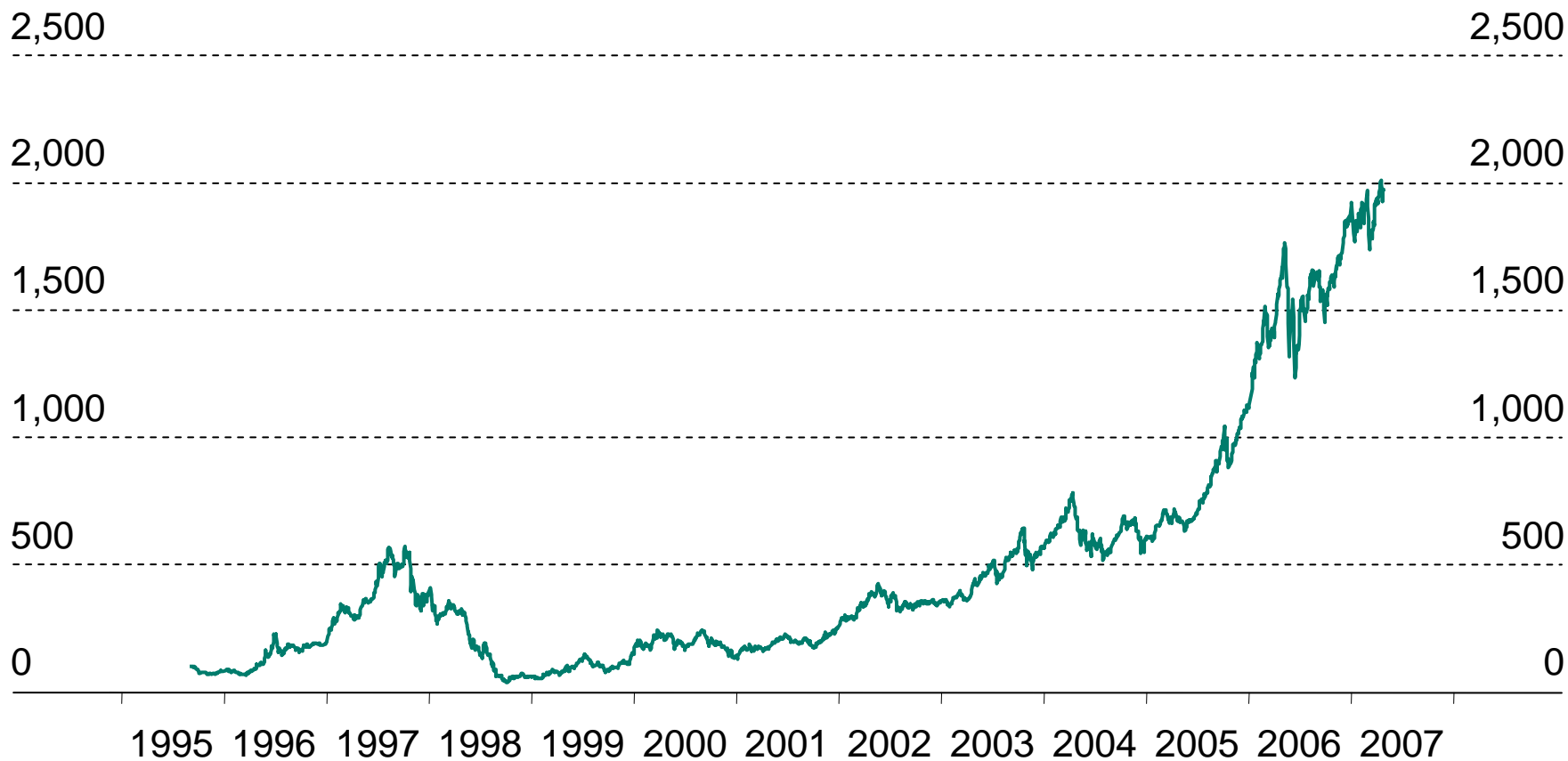


# Russia's macroeconomic performance and the future of financial markets

Evgeny Gavrilentov  
Chief Economist

# Where the RTS index can be in 2015?

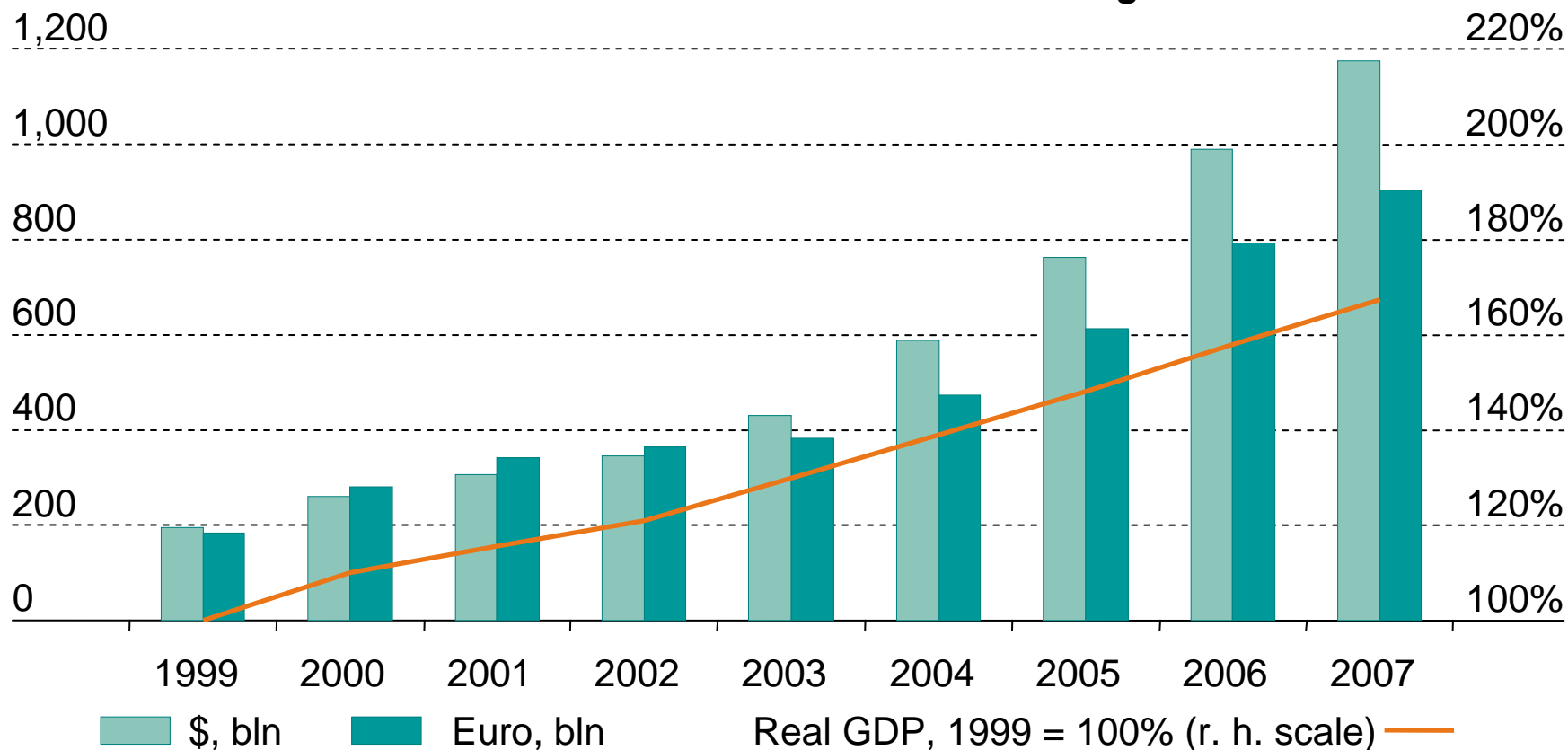


# Macroeconomic conditions look solid, backed by high commodity prices and strong current account

- 2006 was another good year for the Russian economy; the economic growth rate was close to 7%, resulting in nearly 60% cumulative GDP growth since 1999. In dollar terms, Russian GDP is almost \$1 trln.
- At end 2006, external public debt and the stabilization fund were at around 5% and 9% of GDP, respectively. Russia's international reserves are the third largest in the world (over \$356 bln), behind only China and Japan.
- Since 2000, Russia has been a twin-surplus (budget balance and balance of payments) economy. Economic growth continues on the back of ruble appreciation due to growing investment and productivity. In real terms, the effective ruble has exceeded its 1998 level.
- The refinancing mechanism will be switched on, after overnight interbank market rates close in on the Central Bank's base lending rate. The Central Bank's monetary policy, including exchange rate policy, will inevitably change: the Central Bank will eventually become a lender of last resort, less emphasis will be on the forex market.
- Some sectors of the economy got addicted to a permanent appreciation of the ruble and increasingly rely on capital inflows: the question is whether they will be able to withstand potentially possible depreciation of the ruble.

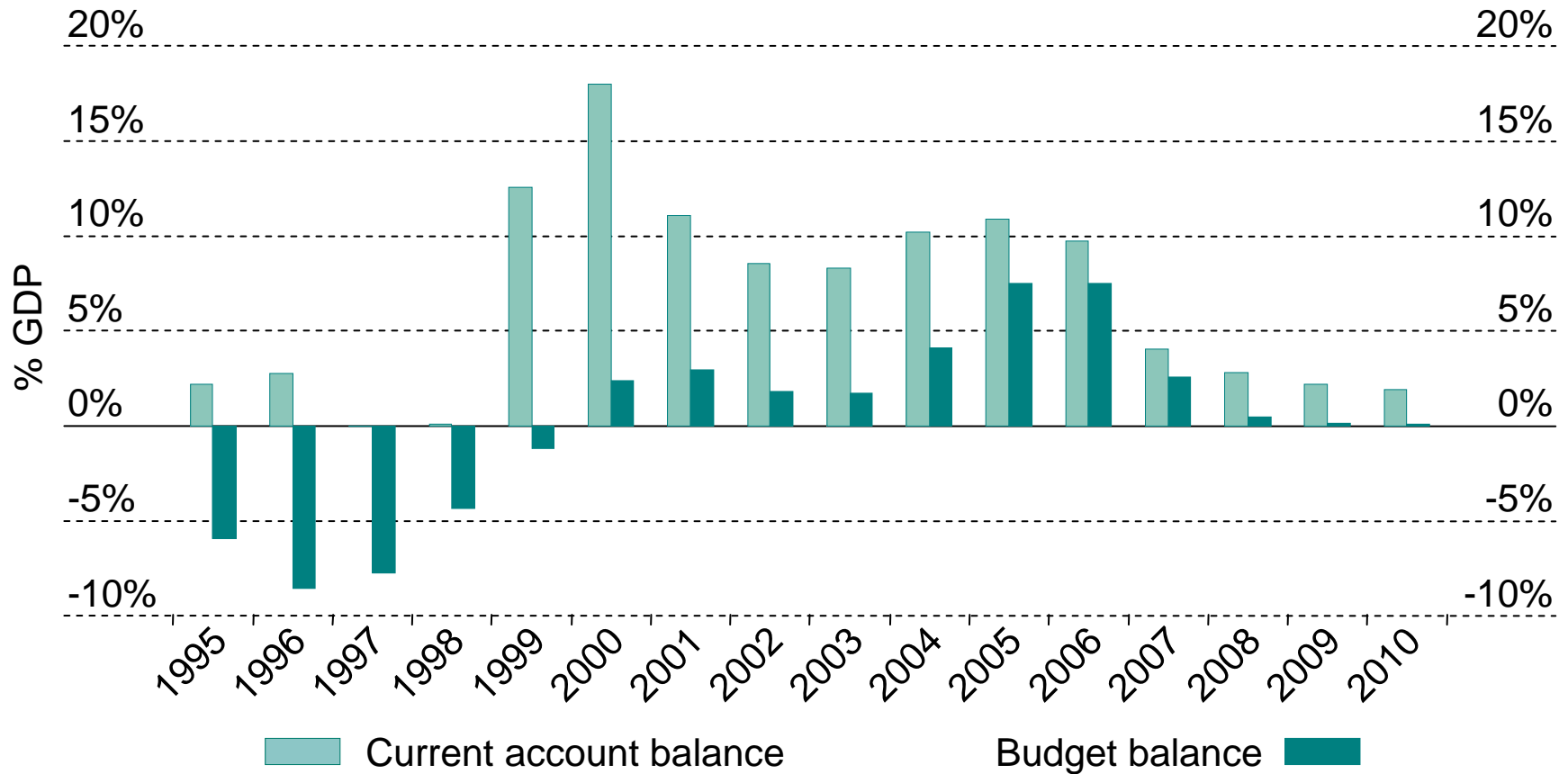
# Economy keeps expanding, especially in dollar terms

Ever more resources will be needed to maintain growth rates



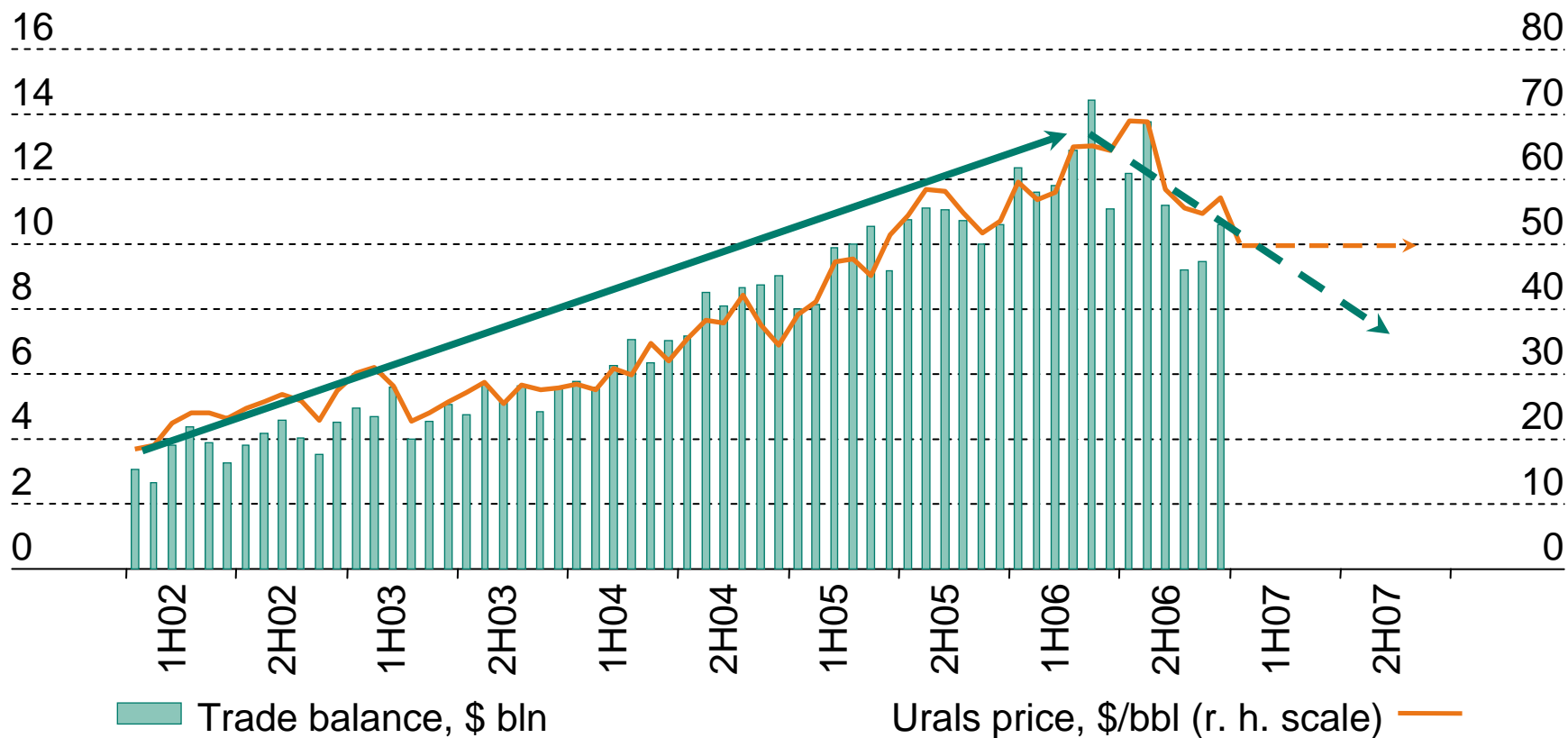
Source: State Statistics Service, Troika Dialog estimates

# Russia runs a “twin surplus”, but they are beginning to shrink



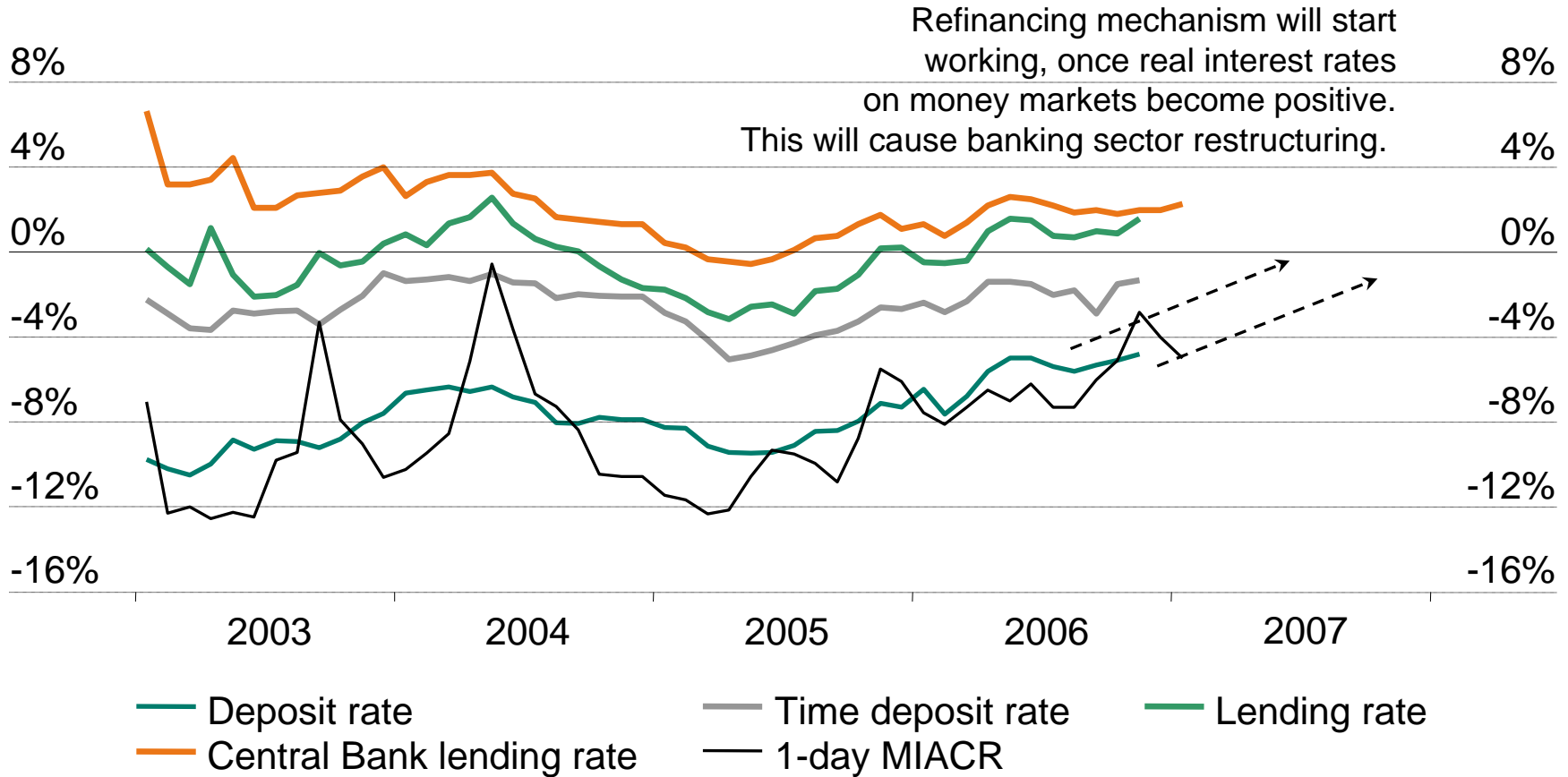
Source: State Statistics Service, Central Bank, Finance Ministry, Troika Dialog estimates

# Trade balance is shrinking on the back of capacity constraints and lower oil prices



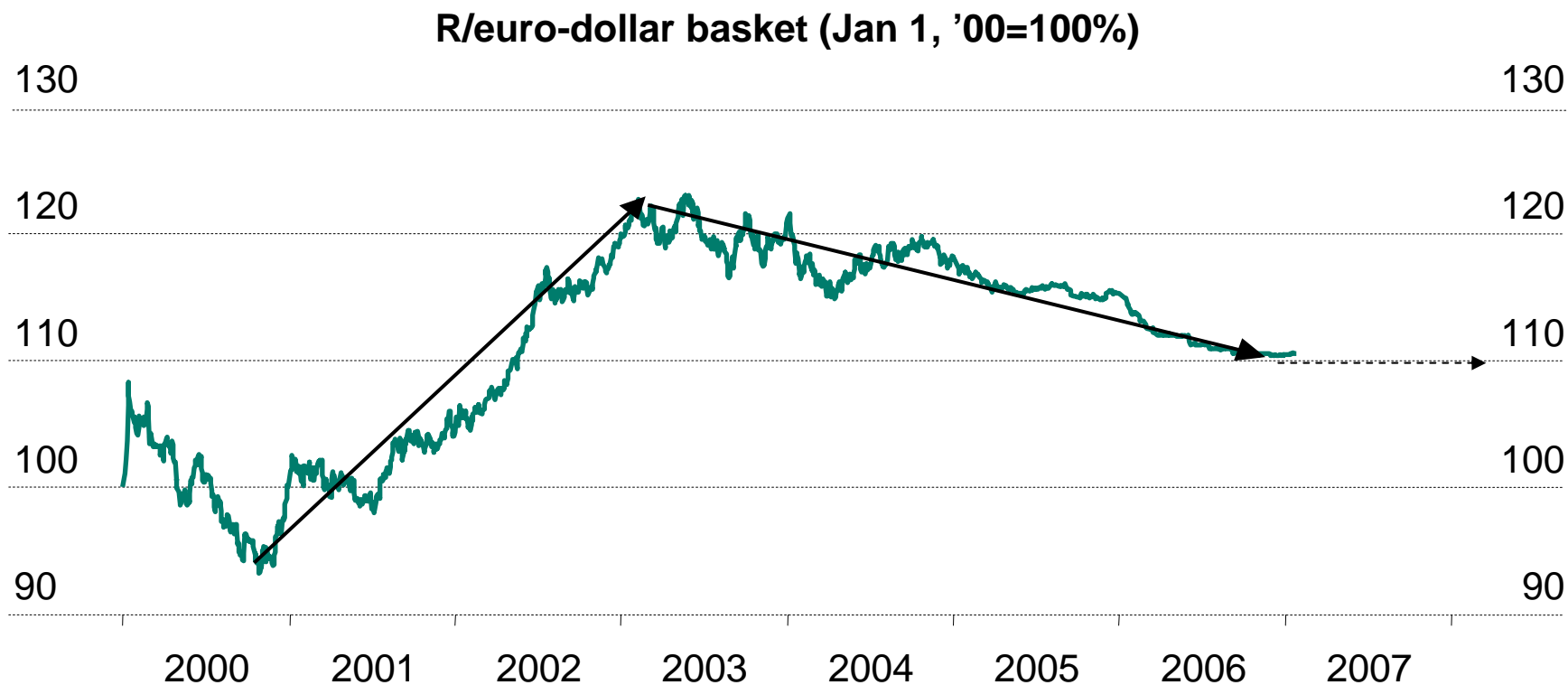
Source: Central Bank, Bloomberg

# Interest rates remain negative in real terms, but will become positive



Source: State Statistics Service, Central Bank, Troika Dialog estimates

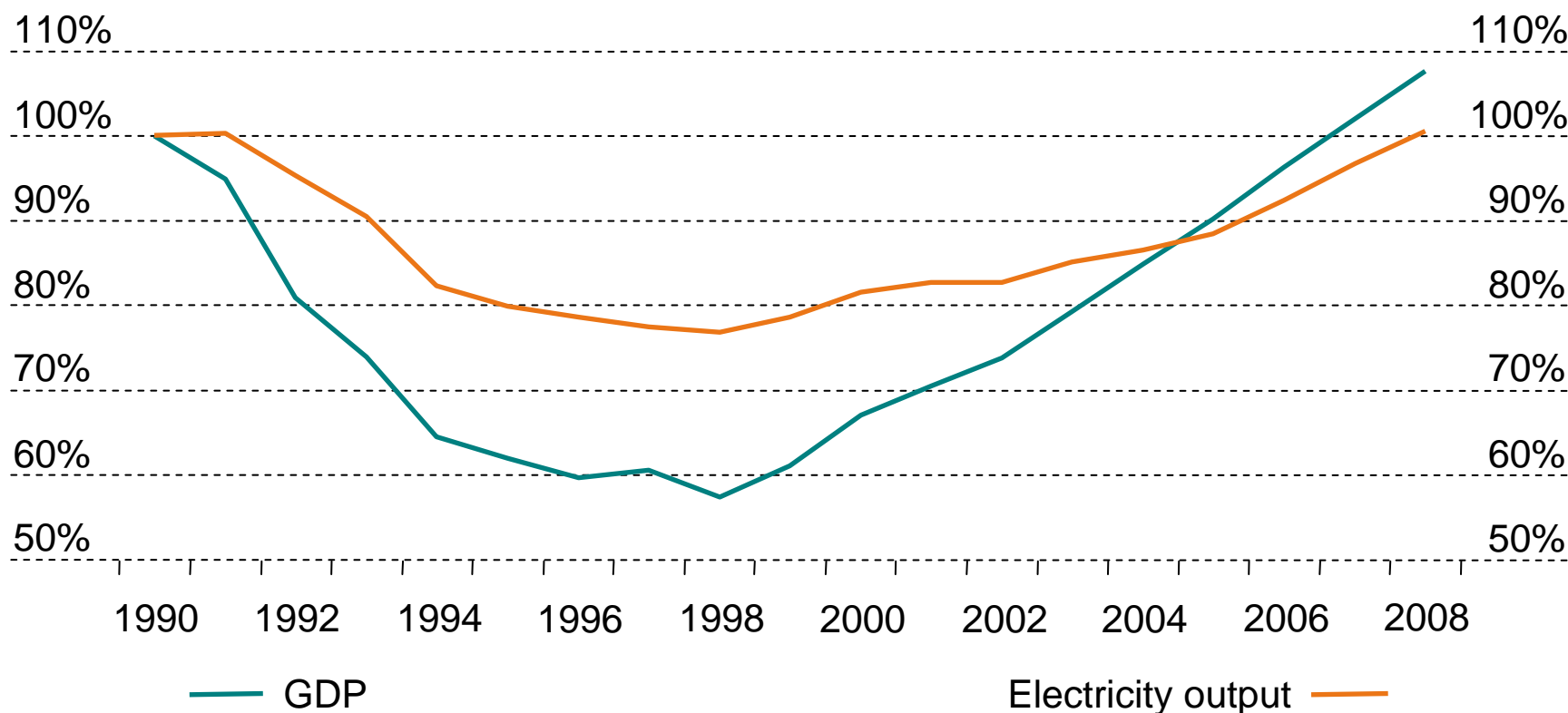
# The exchange rate policy may change this year and the nominal appreciation of the effective ruble will stop



Source: Central Bank, Troika Dialog estimates



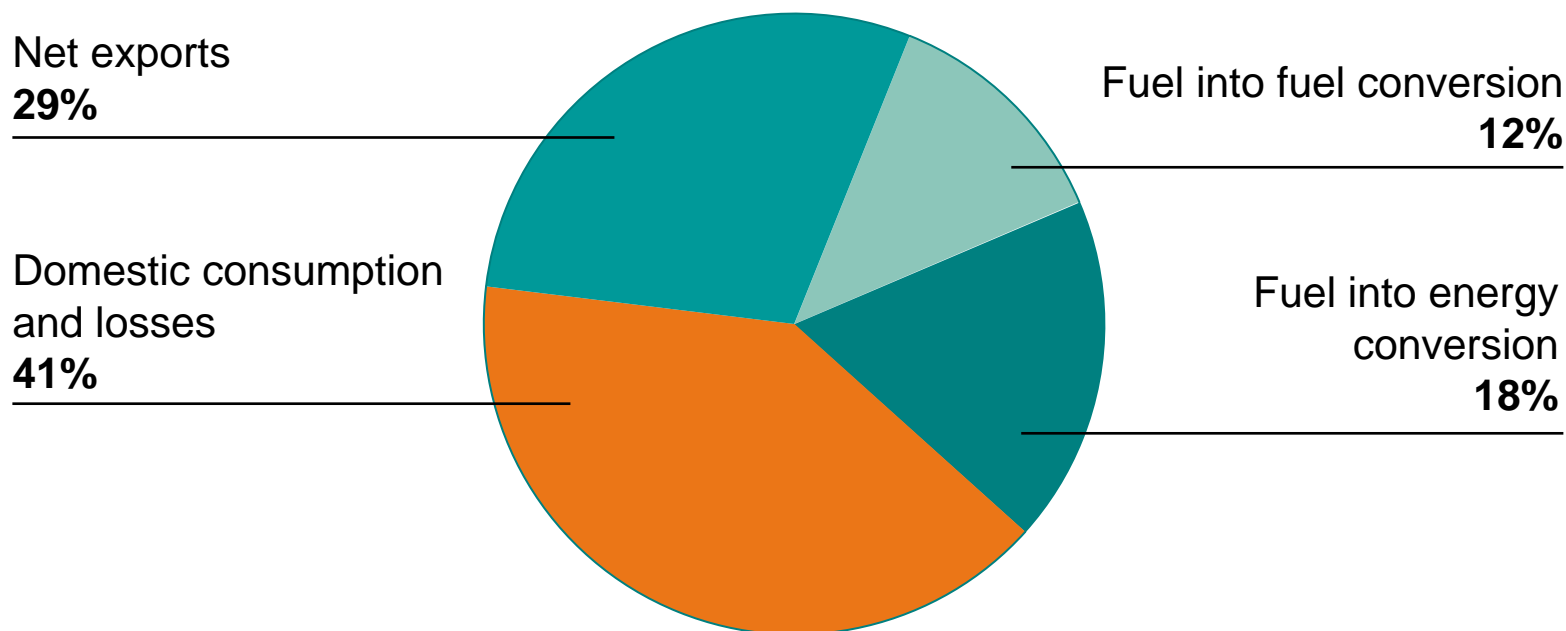
# Ever more energy will be needed to maintain the same GDP growth rates



Source: State Statistics Service, Troika Dialog estimates

# Exports of energy resources account for less than one third of production, energy needed domestically

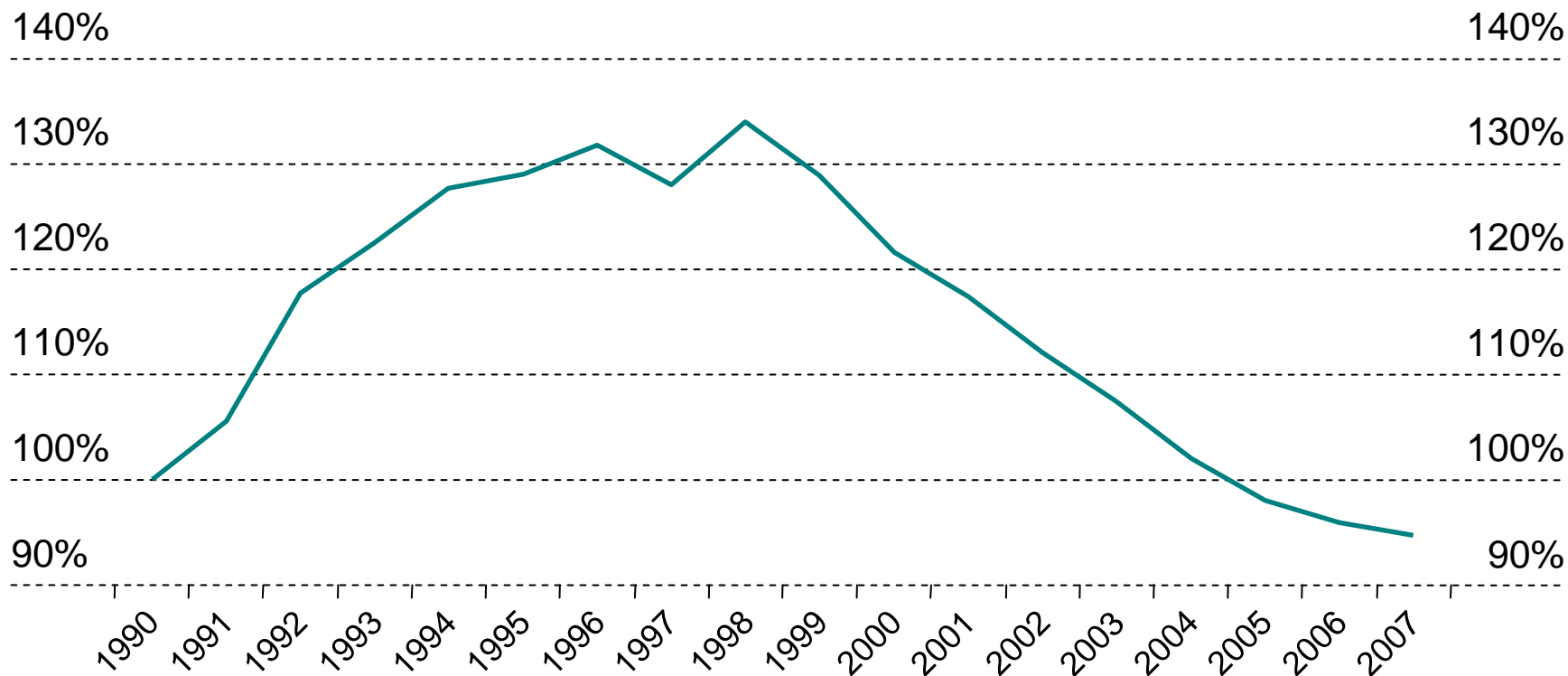
## Distribution of energy resources, tonnes of fuel equivalent



Source: State Statistics Service, Troika Dialog estimates

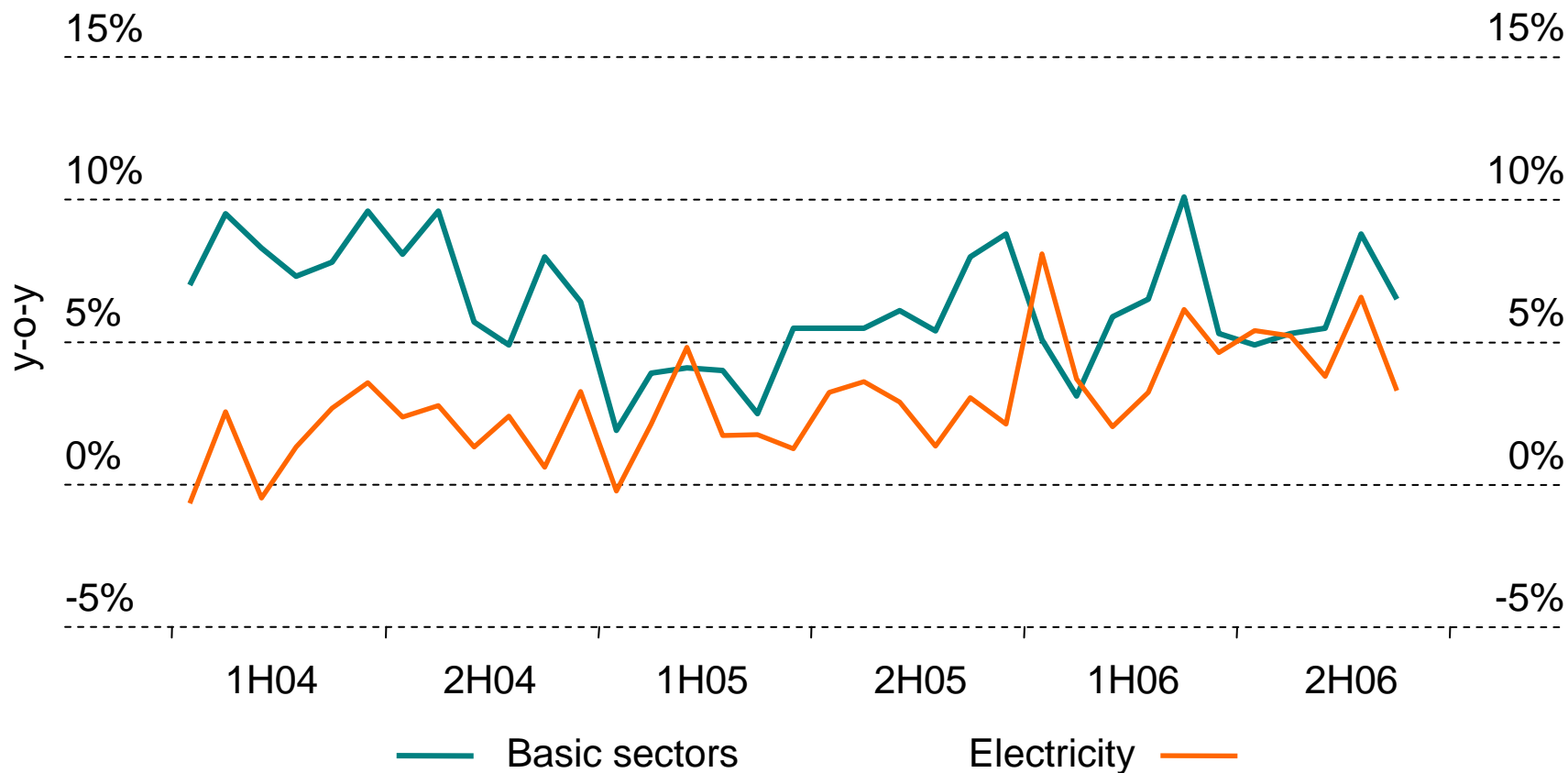
# Energy intensity of Russian GDP is falling, but the trend is losing momentum

Energy/output ratio, 1990 = 100%



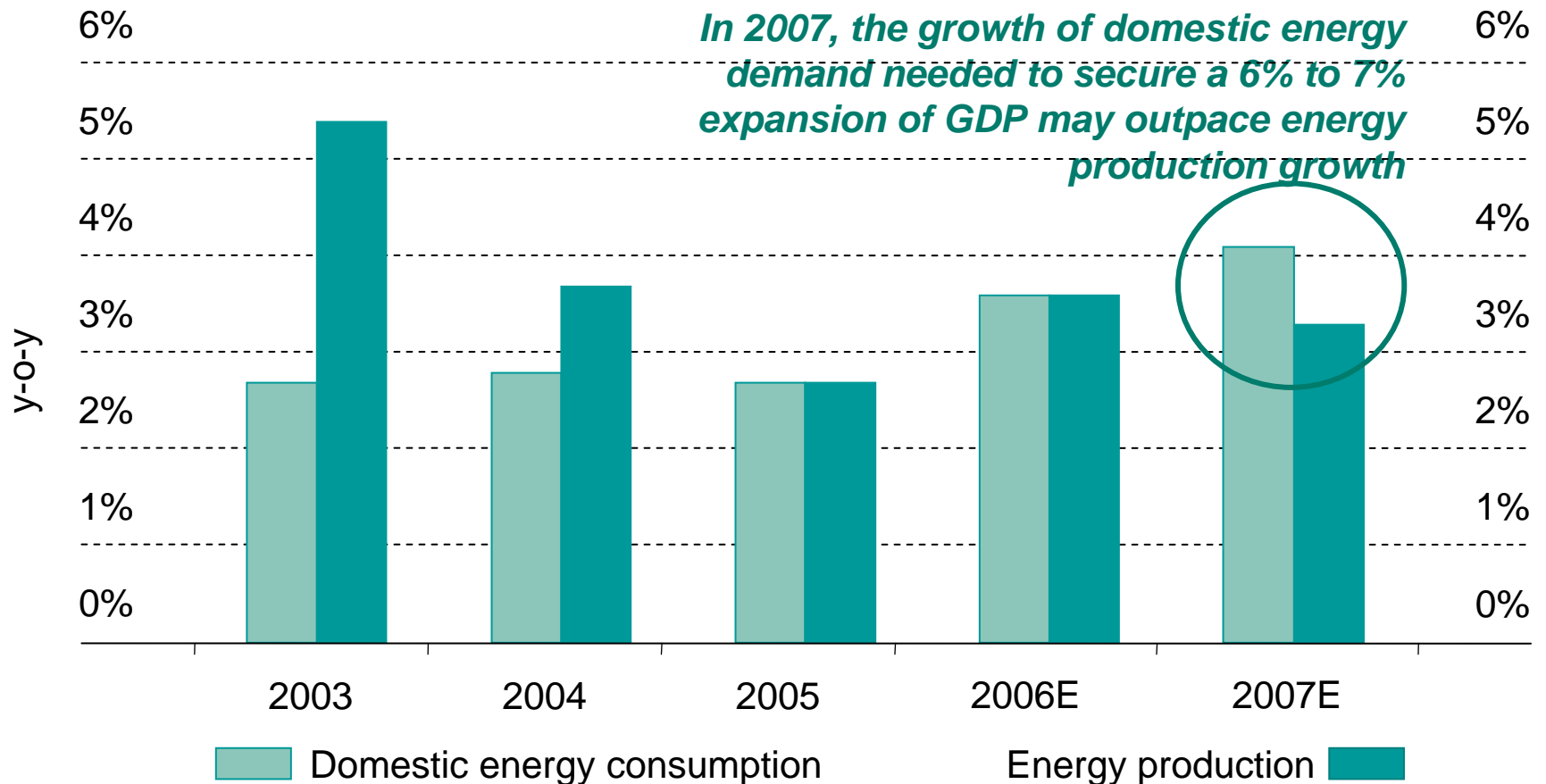
Source: State Statistics Service, Troika Dialog estimates

# Growth rates of GDP and domestic energy consumption converge



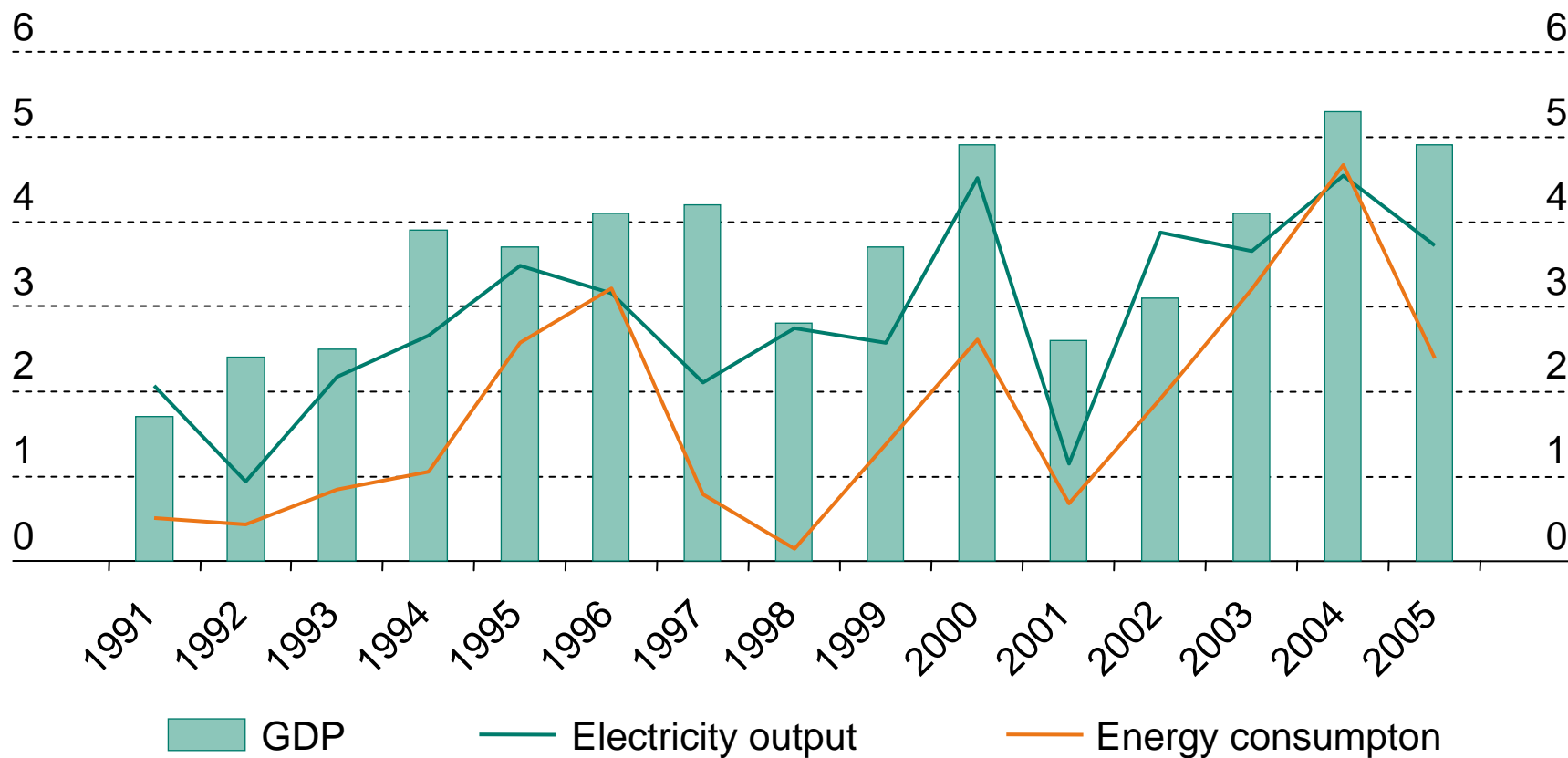
Source: State Statistics Service, Troika Dialog estimates

# Energy sector awaits reform in 2007

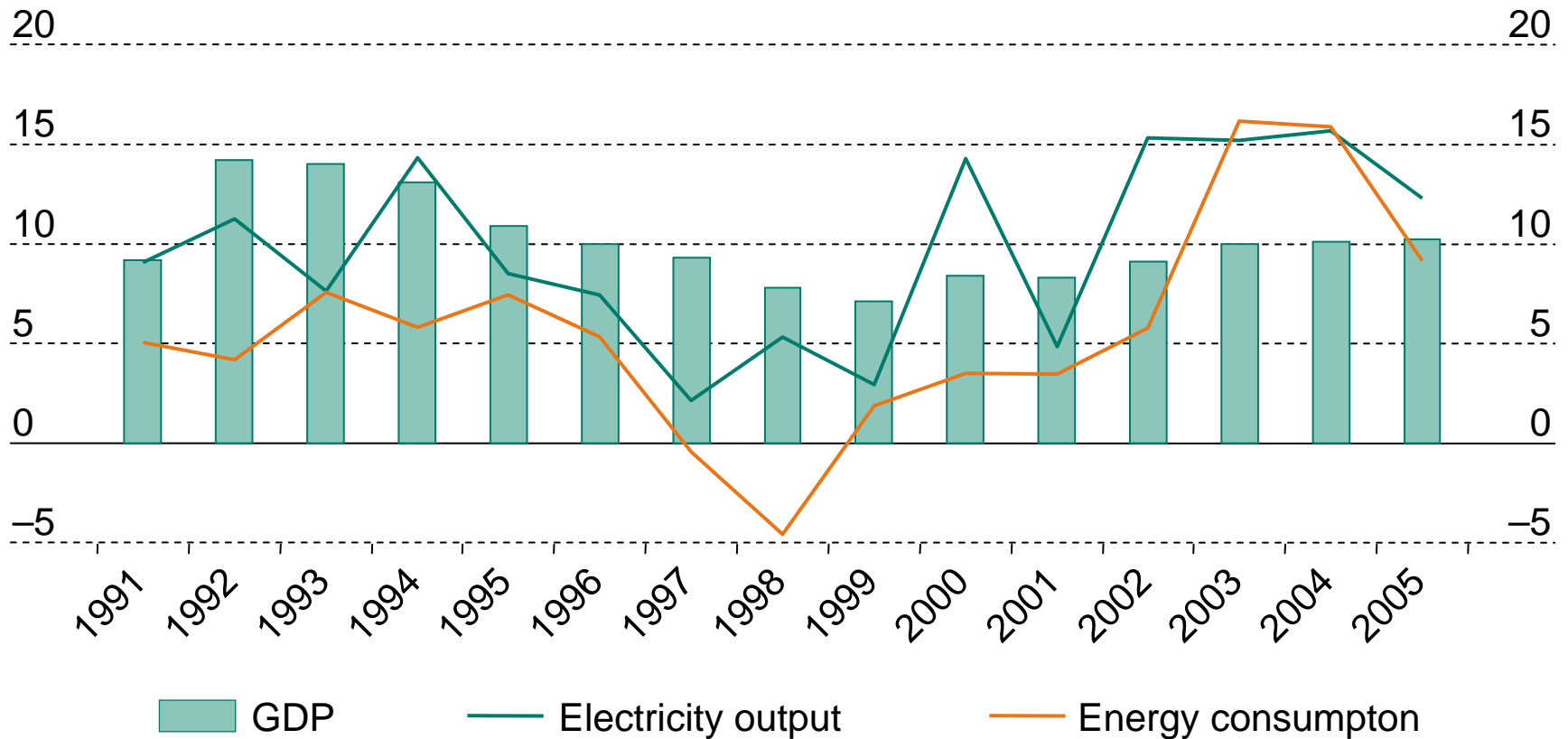


Source: State Statistics Service, Troika Dialog estimates

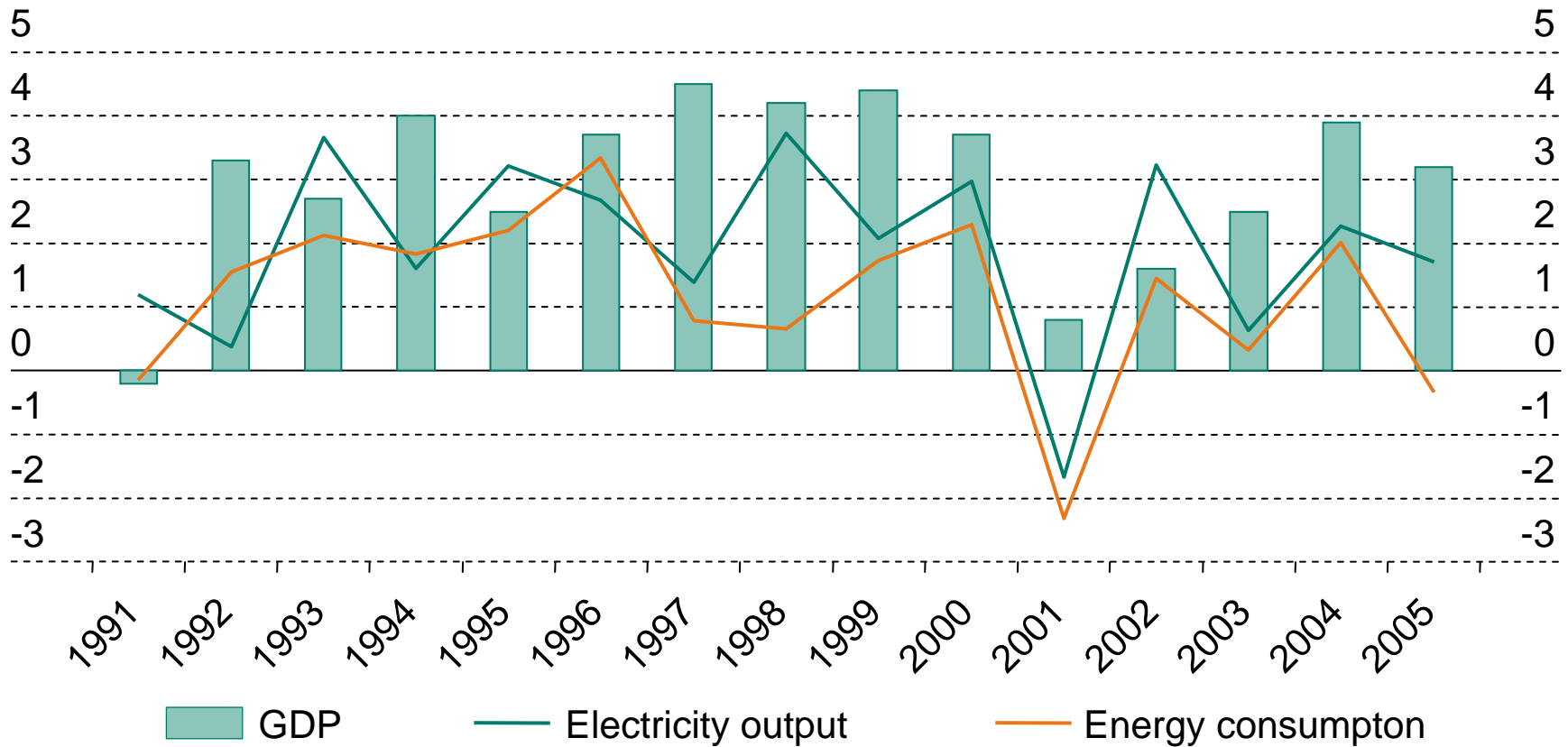
# Paces of world economic growth and electricity output are run somewhat parallel...



...the same trend is observed in developing countries  
(China, for example)...

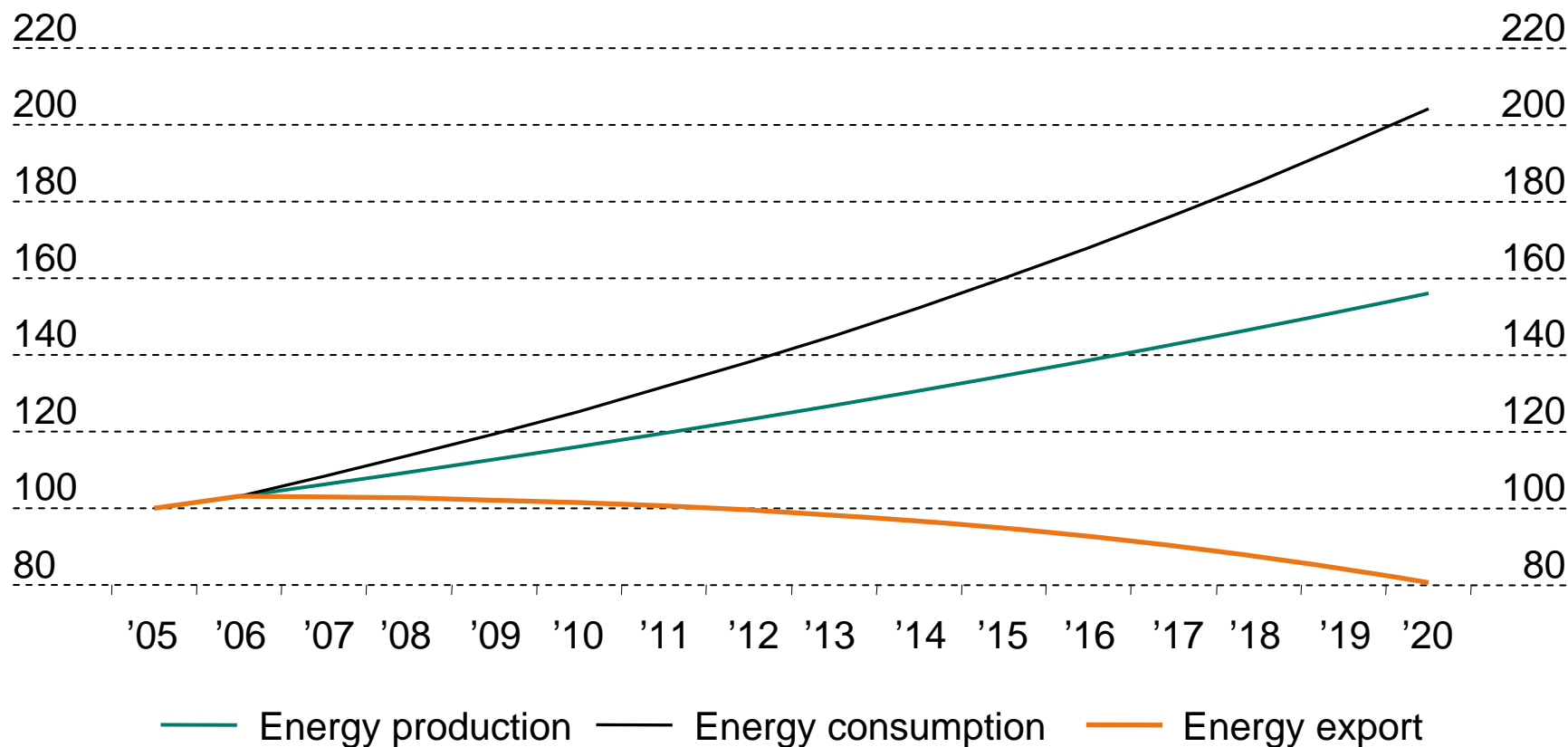


## ...and in developed countries also (the US, for example)





## Exports of energy may start shrinking if economy keep growing fast

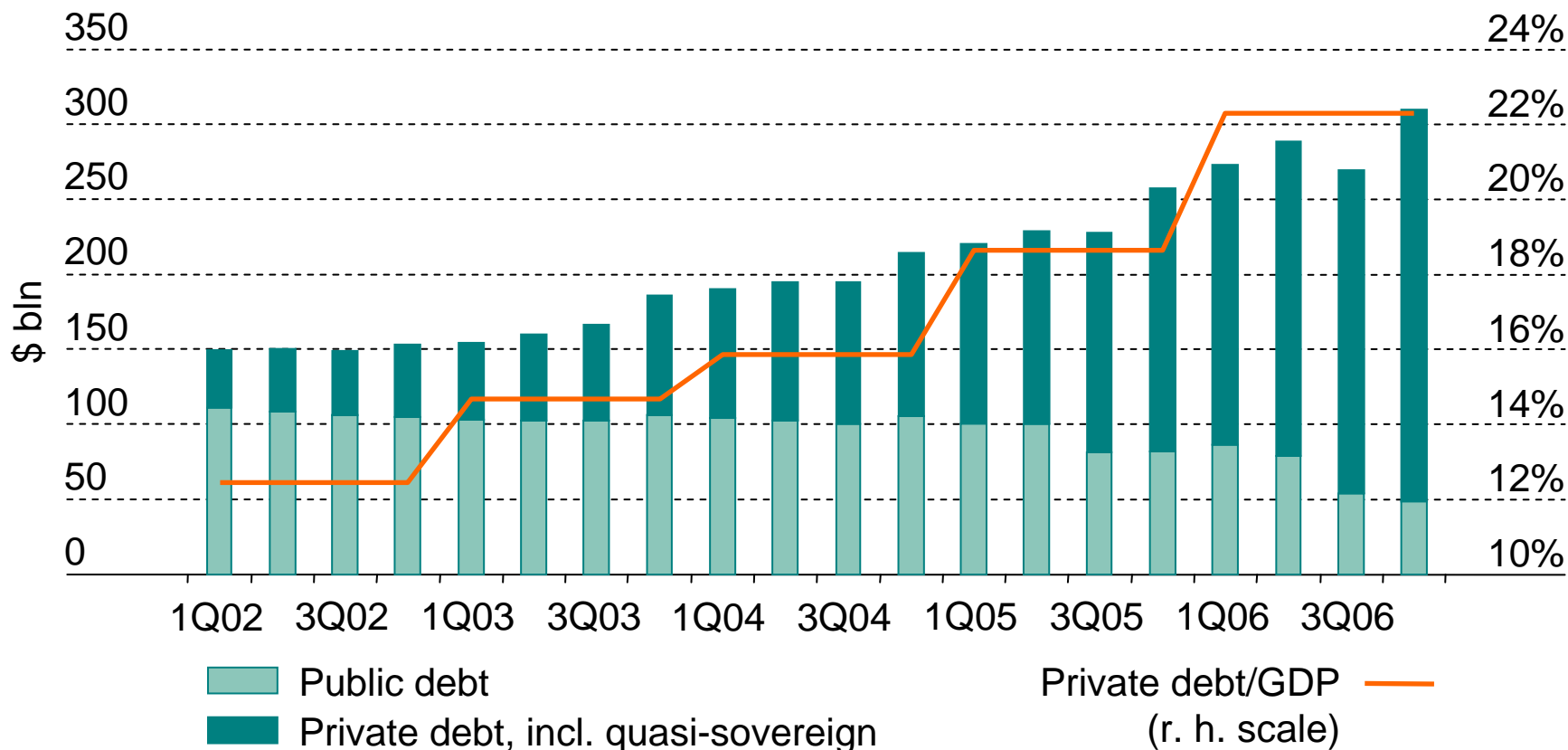


# Financial sector to keep growing faster than GDP

---

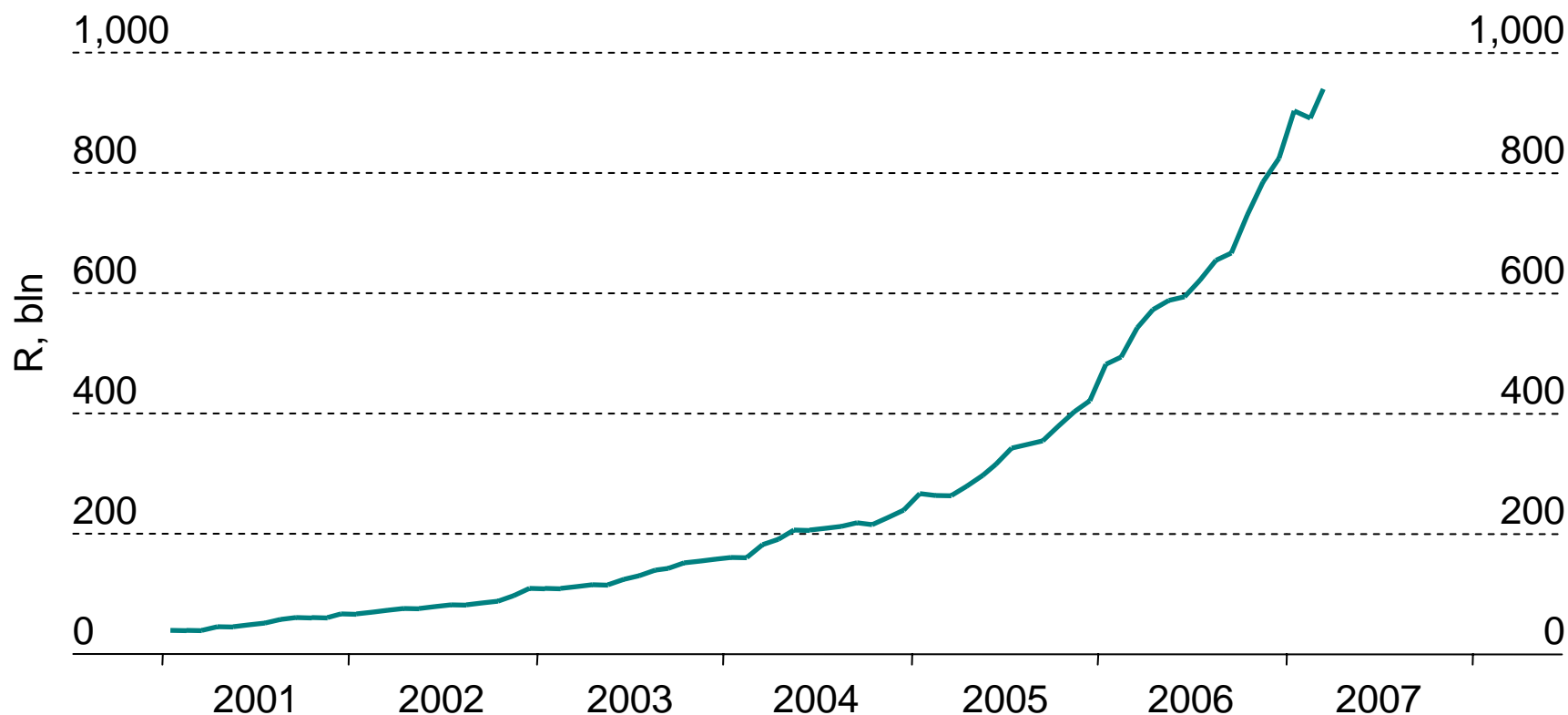
- On back of economic growth and remonetization of the economy, the Russian financial sector will expand faster than GDP.
- Economic diversification will require a more developed financial sector so that almost all segments of the financial system will have strong incentives and opportunities to grow.
- Remonetization will be accompanied by growth in the market's capitalization (supported by new IPOs) and rising capitalization of the banking sector (set to consolidate).
- Domestic bond markets will keep expanding fast as well: even in the developed economies with a more mature and competitive banking sector, corporate bonds remain attractive for corporations with relatively low credit ratings, as borrowing from a number of creditors reduces the risk for lenders and the price for borrowers.
- External borrowing will also remain an integral part of Russia's growth.

# Larger Russian companies are looking for funds overseas...



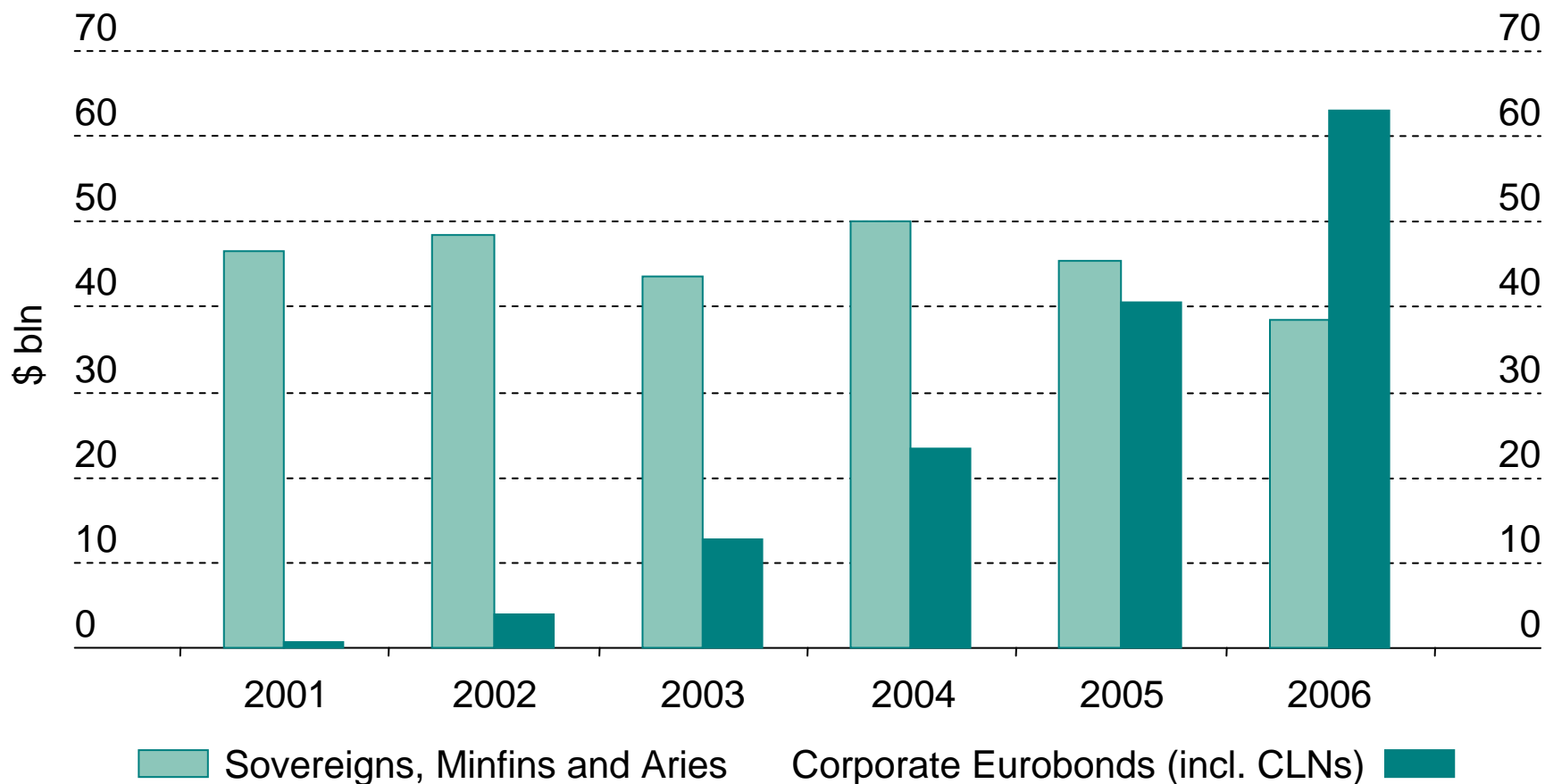
Source: Bank of Russia, State Statistics Committee, Troika Dialog estimate

## ...while smaller ones borrow domestically: Russia's corporate bond market is soaring



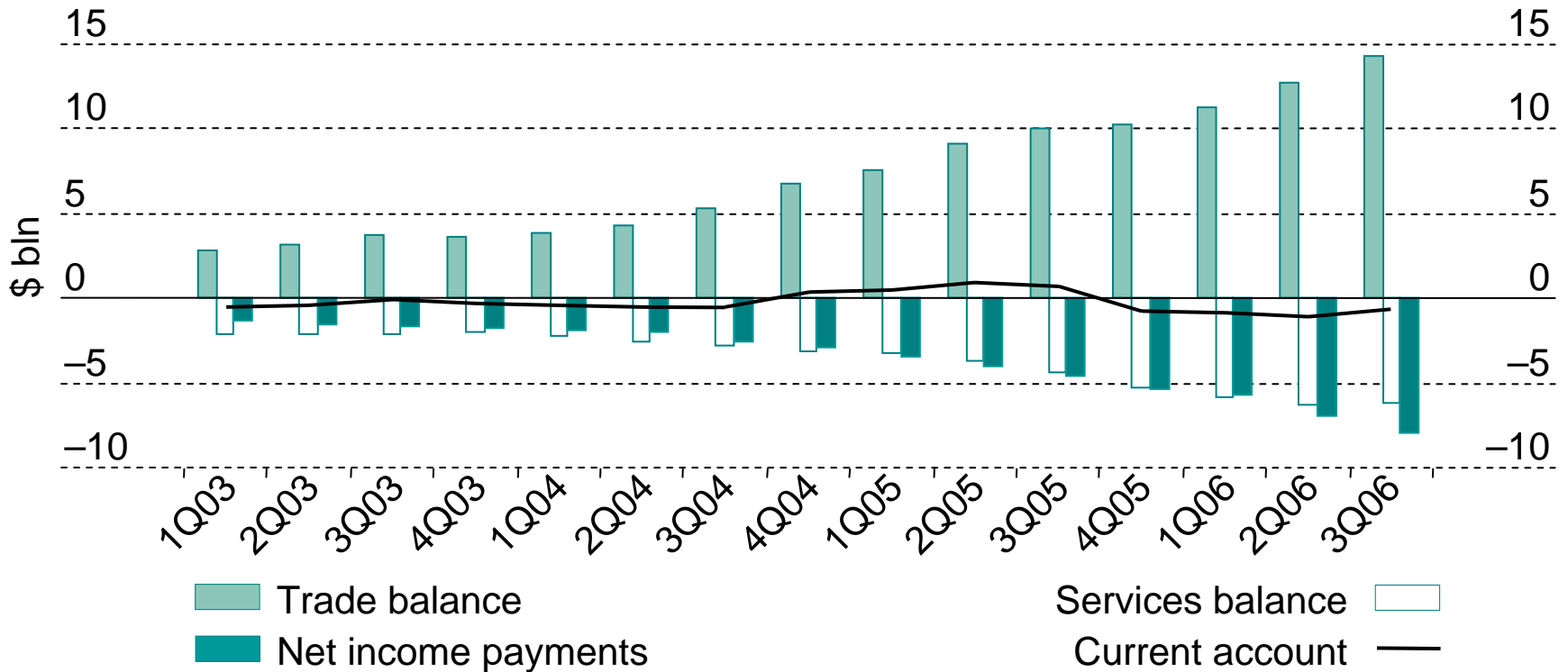
Source: Bloomberg

# External corporate bonds are also growing



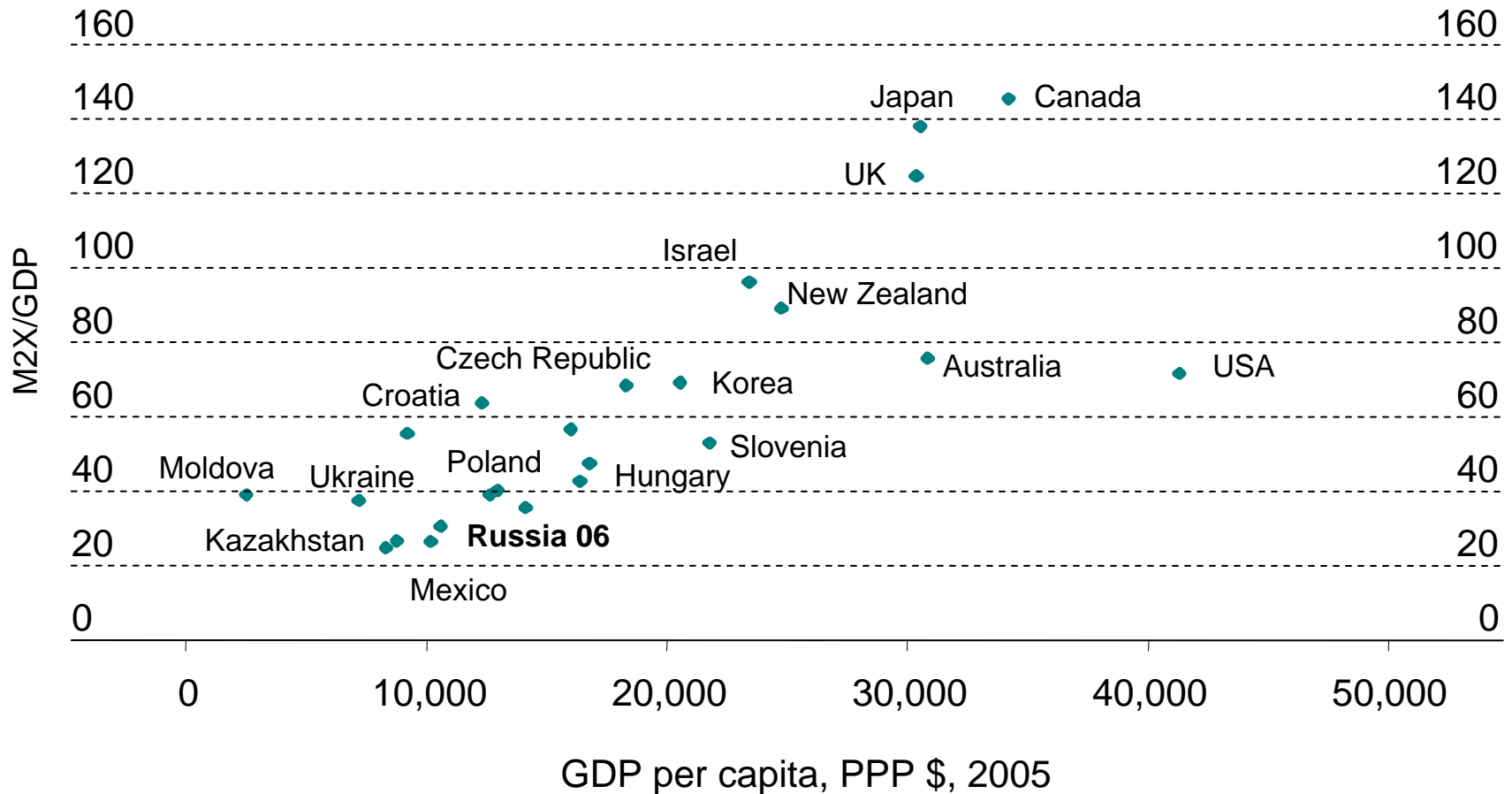
Source: Bloomberg

# Russia's future: Kazakhstan's current account is already negative due to growing foreign debt and rising interest payments

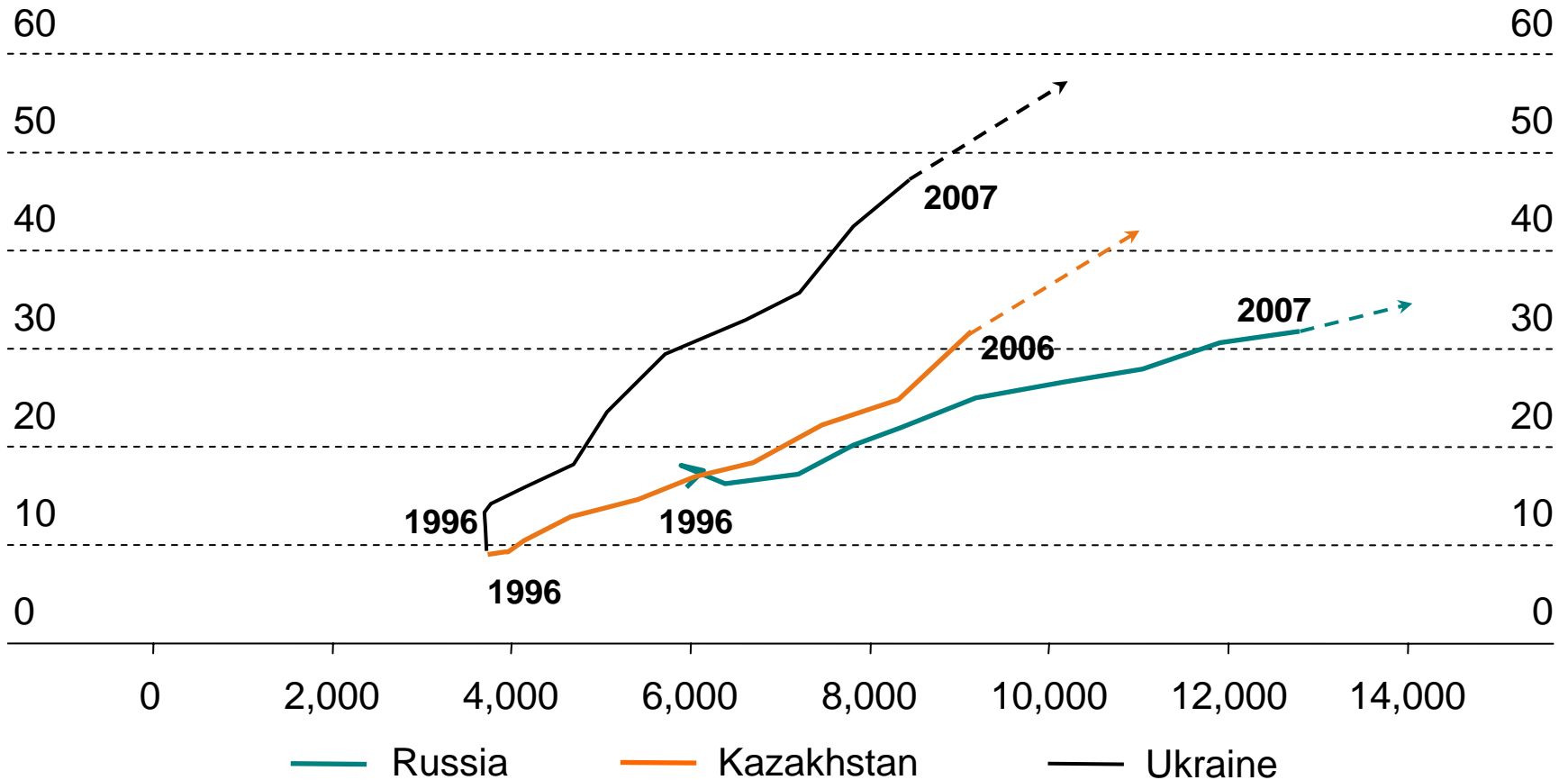


Note: Moving year

# Monetization of the economies rises on back of economic growth...

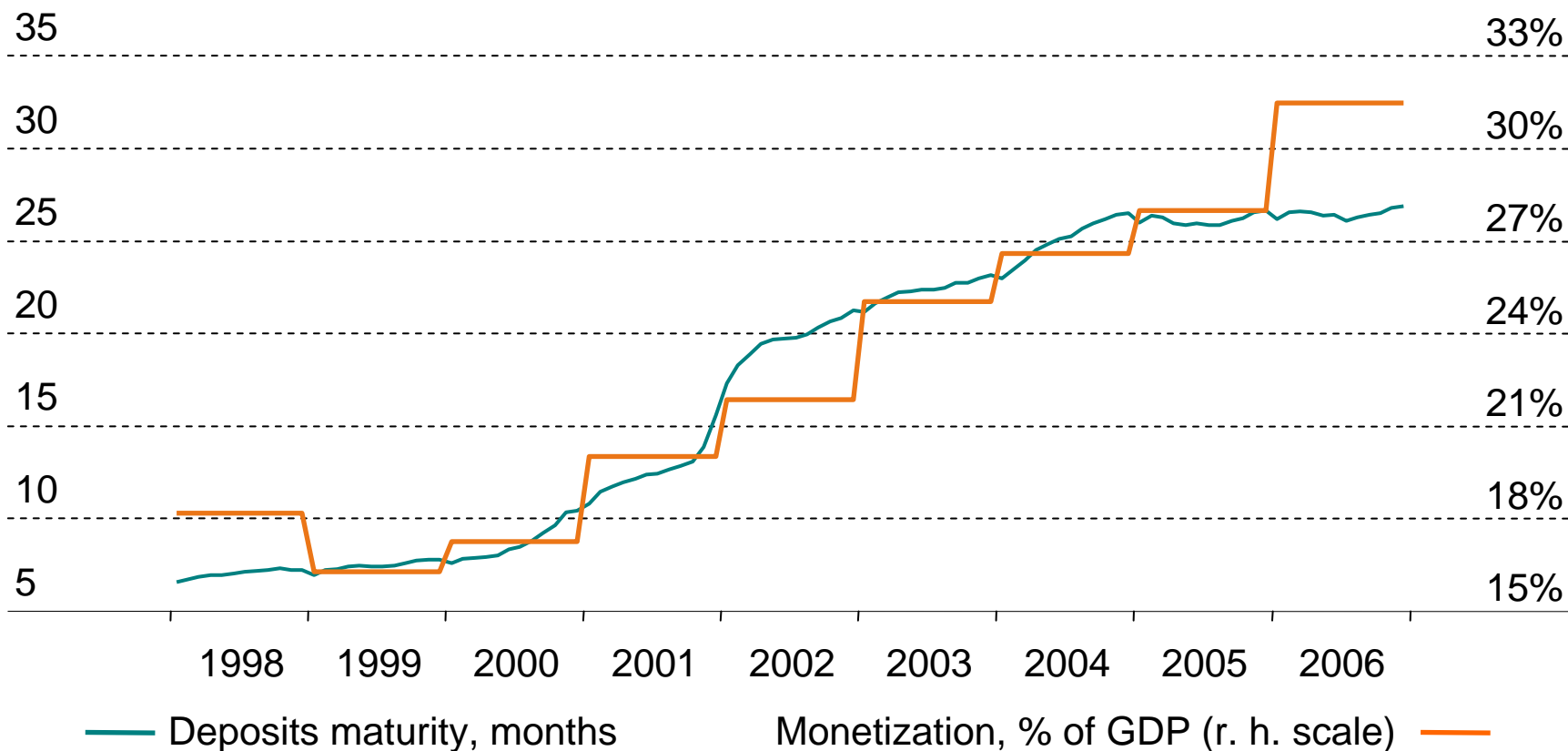


...albeit quite gradually.

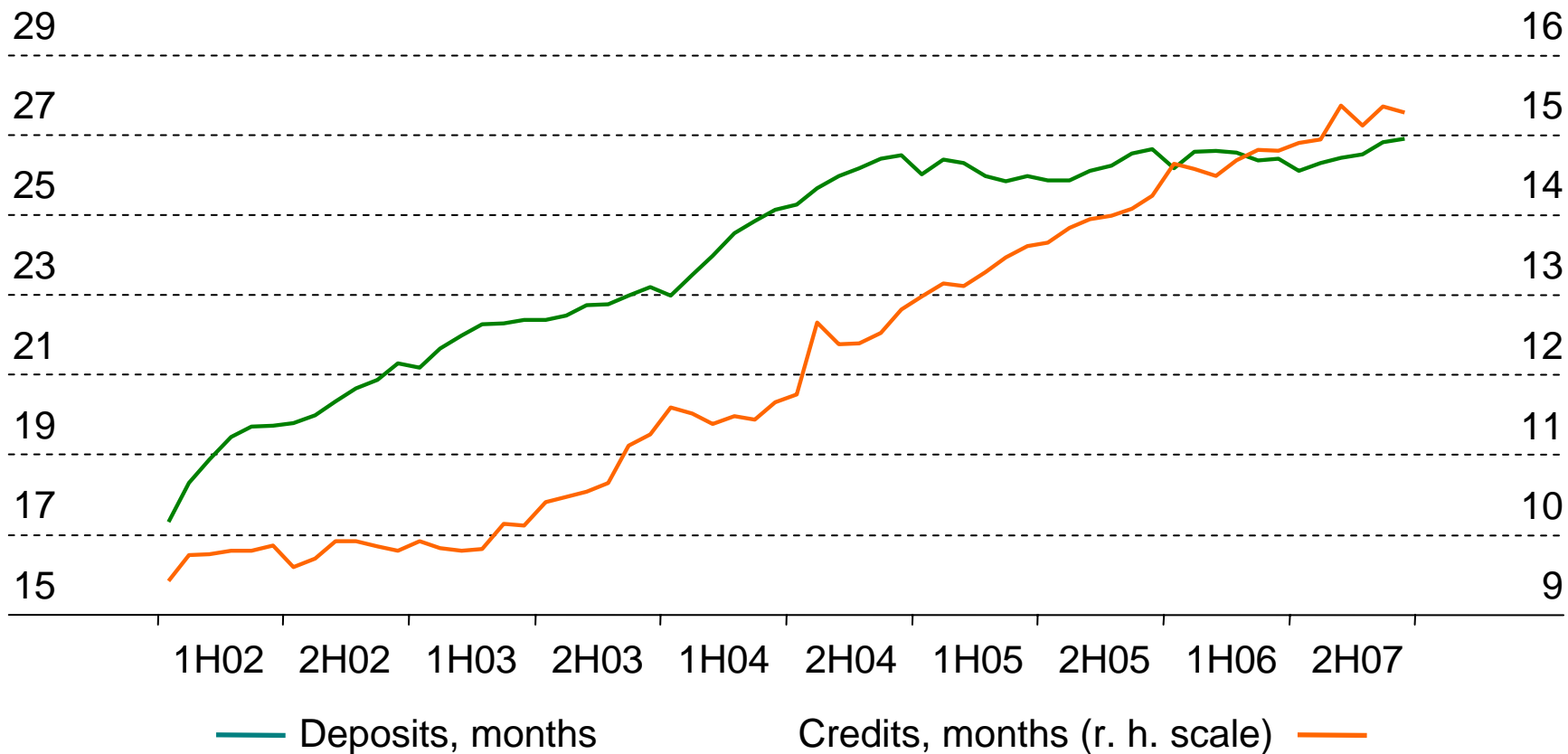




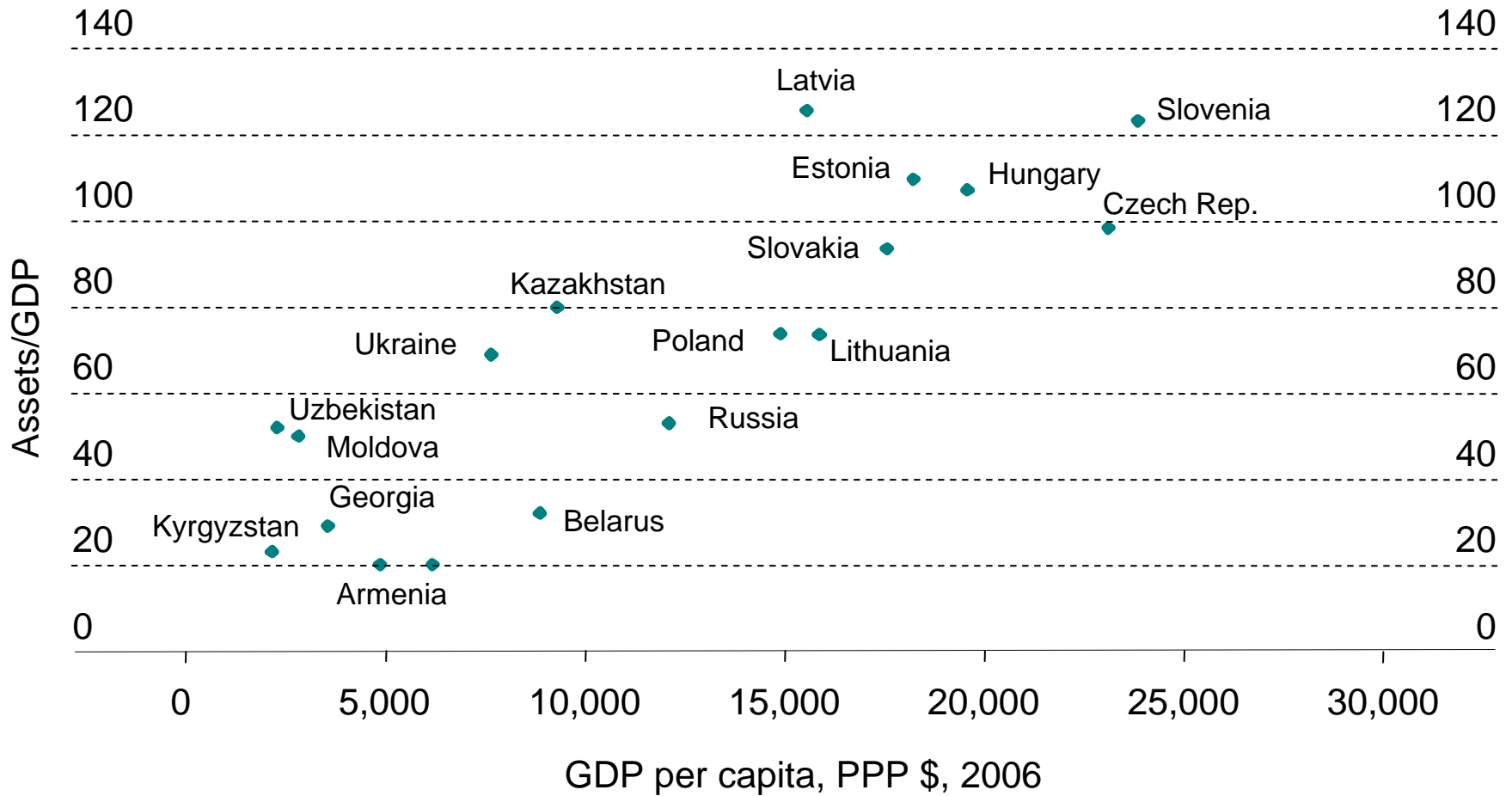
# Money lengthens on back of rising monetization, both with respect to deposit...



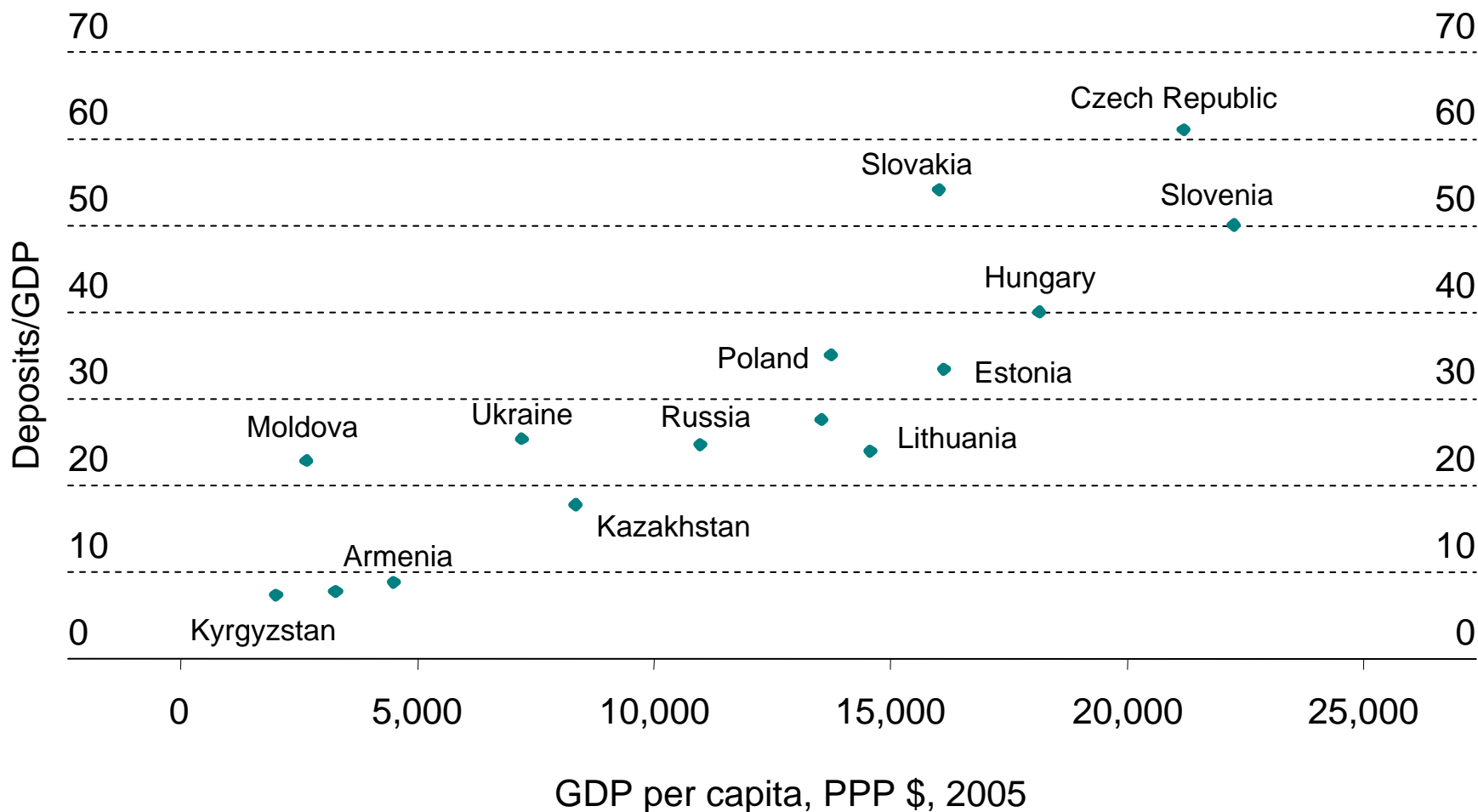
## ...and credit maturities, which are still short.



# Russia remains underbanked economy

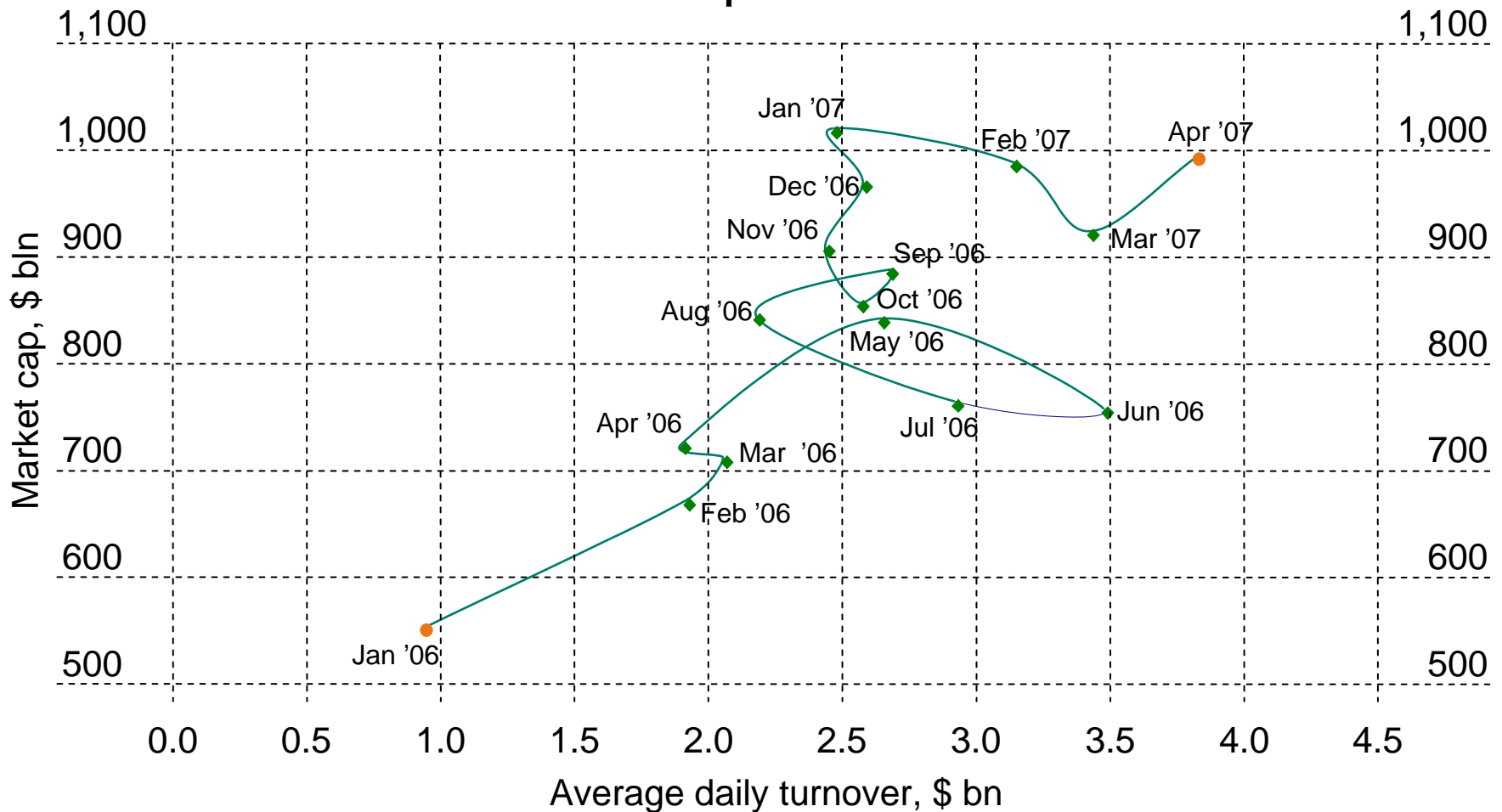


# Deposits will keep rising on back of economic growth



# Growing liquidity will drive the market

## Overall market capitalization vs turnover



## Market cap will rise on back of diversification: the relationship with the oil price was already broken

