

VTB Capital

Post-Crisis Challenges and Russian Economy Perspectives

Sergey Dubinin

February 24, 2011





Global Economy: between Recovery and Stagnation

- Decoupling of the nowadays global economy growth cycle:
 - Advanced economies – slow GDP growth about 2-3 per cent per year and deflation danger;
 - Emerging markets - unstable economic growth with inflation perspective.
- Global trade and investment cashflows unbalanced. The international balance surplus cashflows are moving “from below upwards”. From poor economies to the rich ones. For example from China to the USA. Emerging markets countries save more than invest. Theoretically, they as a group, must invest more than save.
- Commodity markets financial instruments instability. Oil prices volatility from min \$40 per barrel to max more that \$100 per barrel WTI.
- Treasury bonds – the most stable assets, both in the USA and the euro zone main countries (Germany and France).
- Goldman Sachs forecast: the emerging markets capitalization increase by 2030 from \$ 14 trln up to \$ 80 trln. The emerging markets capitalization as a quota of all global market volume would move from 31% today up to 55%.

Russian Macroeconomic Trends: sluggish Recovery.

GDP Growth quarterly % YoY

2009				2010		
I	II	III	IV	I	II	III
-9.3	-11.0	-8.6	-2.9	3.1	5.2	2.7

GDP Growth % YoY forecast

2010 (estimate)	2011	2012	2013	2014	2015
4.0	3.4	3.5	4.2	4.4	4.5

Consumer Price Index Forecast

2010 (estimate)	2011	2012	2013	2014	2015
8.8	8.0	6.9	6.4	5.9	5.6

Urals Oil Price Index Forecast

2010 (estimate)	2011	2012	2013	2014	2015
80.3	78.0	81.5	79.2	79.8	81.5

RUR / US dollar exchange rate forecast

2010 (estimate)	2011	2012	2013	2014	2015
30.1	29.9	28.4	28.9	29.5	30.7



Investment Climate Distortion.

- Economic growth rates about 4% are not adequate to economic challenges. Per capita GDP about \$ 13-14 thousand (in consumer price parity estimation) is lower the citizens expectations.
- Per capita Russia GDP and USA GDP in comparison (in per cent)

1991	2008	2009
35.6	31.5	30.1

- General investment quota is 21 % of GDP (including 20,6 % of GDP in fixed capital assets) in 2010. But the innovation projects in industrial capital investments are limited, estimated about 15 per cent of general capital accumulation investments.
- Massive capital flight according official CBR report (\$ US bln.)

2008	2009	2010
130	56.9	36.8



Lingering Illness of Russian Economy

- Overdependence on oil and gas sector.
- Lack of “long – term money” by Russian savers to be transformed in investments.
- Lack of labour market efficiency and labour mobility. Employment remained excessive in industrial sector and even increased in stare sector in crisis period.
- Unprofitable enterprises with out of date technology are numerous. Often they based in “monogorod” - Russia’s single industry towns around one main enterprise.
- Investment risks estimates are extremely high. Russian and foreign entrepreneurs investments are blocked by excessive bureaucracy barriers and corruption burden, so called “administrative rent”.
- Russian legal system, police forces, courts, business arbitration are inadequate and out of date. Many businessmen prefer the UK legislation for deals and contracts.



Low Competition – Low Competitiveness: WTO membership – is it real at Last?

- Cartel style market organization. Regional and sector market monopolistic control by business cartel agreements. Government price control regulators in “natural monopolies” are captured by the private and state business companies shareholders.
- Low competitiveness of Russian business companies under the state custom tariffs and duties umbrella.
- Limited power of the government antimonopolistic authority.
- The main form of the competition on internal market – import deliveries against home-made products. Open economy - the best way to improve Russian business competitiveness. WTO membership – more ideological goal than real business developing instrument. Russia must join WTO to control home market regulations and practices.



New Edition of Economic Programme 2020: Modernization and innovation projects.

- Prime Minister Vladimir Putin has ordered to elaborate a new post-crisis economic and social strategy – new version of Long-term Social Programme for 2020.
- Initiative - the letter of two rectors of Universities: chancellor of the Higher School of Economics Yaroslav Kuzminov and chancellor of the Academy of National Economy Vladimir Mau: “The crisis has not played the traditional role of nursing the economy”. So that is the time to activate the government policy.
- The task of programme – to form the post – crisis model of the economic growth for Russian economy:
 - alternative scenarios of the economic policy;
 - task-projects – social and economic goals achieving approach;
 - structural changes on the basis of stimulation of nonoil and gas sectors investments;
 - Second wave of state assets privatisation.



Government Modernization and Innovation Initiatives

- At Davos Forum 2011 president Medvedev gave a vigorous message to foreign investors to establish a fund to attract the foreign long-term money into Russian economy. The Investment Fund might be formed by government investment resources to engage private foreign business direct investments in proportion 1 RUR to 3 RUR.
- The “Skolkovo” (Innovation Centre) project main target – to create the cluster of innovation and modernization investment projects and scientific cooperation between Russian and foreign businesses. The legal, tax and institutional regulation frameworks elaborated in the “Skolkovo” might be used on All-Russian economy scale.
- Russian decision to join the Bologna educational and training process stimulated the educational system reforms. Establishing of Scientific-Educational centers on the university basis started in different regions of Russian Federation. The target – concentration of the research resources and international cooperation.



Russian Bank Sector Alternatives.

- The dual nature of Russian bank sector is obvious: the largest 73 banks concentrate more than 85% of the sector assets. So about 1000 banks have less 15% of assets.
- The number of Russian banks has declined since 2005. From 1409 in 2005 to 1157 in 2010. In crisis period 2008-2009 the Bank of Russia sanctions were rather limited. Only 80 bank licenses were withdrawn.
- Valuations remain some 30% below pre-crisis levels. Increasing competition and declining profitability will favor large banks, encouraging sector consolidation.
- CBR has organized the “stress-testing” of the key banks. The risk test and audit of the bank assets – the most important task. But the information of the test results is closed.



Russian Bank Sector Alternatives.

- In 2010 the new lending cycle began. Credit volume of the bank sector to companies increased by 14%, credit to households increased by 14,7%. Credit volume growth expected in 2011-2012 12-15% per year vs. 30-40% before the crisis.
- Gross Bank Sector assets in Russia in 2010 – 75% of GDP. Peak of NPLs assets passed in 2009 was at about 10 per cent, one year later in 2010 – 5,0-5,5 per cent.
- Equity (Tier 1 and Tier 2) assets quota in Bank Sector is stable. In 2010 equal 13,0-13,2 per cent.
- Russian Bank Sector is very close to the Basel-3 requirements. Tier 1 capital / assets quota is more 11 per cent. Russian banks must move forward to the buffer capital formation.



Russian Monetary and Budget Policy.

- Central Bank of Russia (CBR) and Ministry of Finance were applied bind over the anticrisis credit and budget expenditure programme. The money supply growth 28 per cent in 2010. M₂ growth – from 100,00 bln. RUR to 128.5 bln RUR.
- Central Bank of Russia (CBR) rouble discount rate for the Bank Sector is 7,75%. The rouble swaps rate is about 6%.
- Alexey Kudrin, Minister of Finance, Vice Chairman of the Government: "We see no possibility to increase amount of budget spending in years to come. The nowadays task is to improve the effectiveness of Budget funds using..."
- State federal budget expenditures and debt policy is under control. Budget deficits less 5,5 per cent of GDP and Federal debt about 10 per cent. Minfin plans to place the RUR Treasury bonds on the European Market.

Контакты

ВТБ Капитал, Инвестиционный Бизнес Группы ВТБ

Адрес

Москва, 123100, Пресненская наб., 12, башня "Федерация"

14 Cornhill, London EC3V 3ND

9 Battery Road, Straits Trading Building, #27-01, Singapore 049910

Office 18-19, Level 15, Gate Building, Dubai International Financial Centre, Dubai, UAE,

P.O.Box: 125 115

Телефон

+7 (495) 960 9999

Факс

+7 (495) 663 4700

Интернет-сайт

www.vtbcapital.com

E-mail

info@vtbcapital.com

