

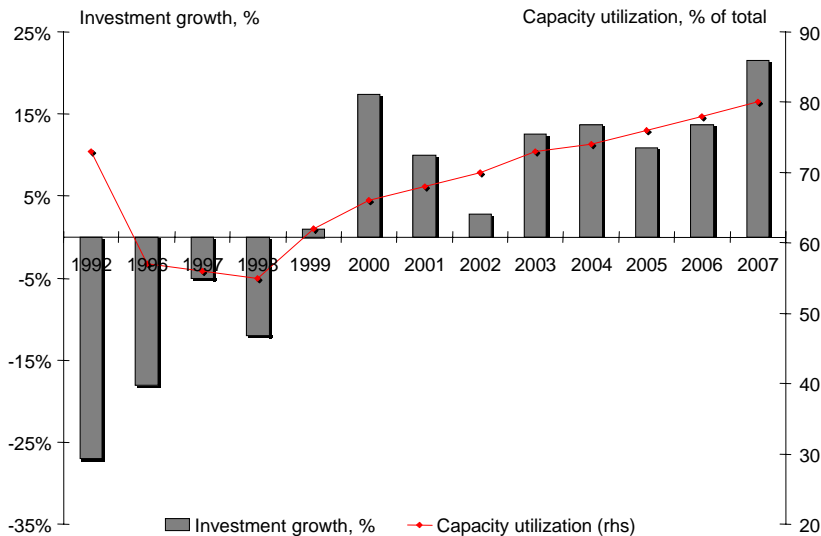
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# Russia 2009: Still a Safe Haven?

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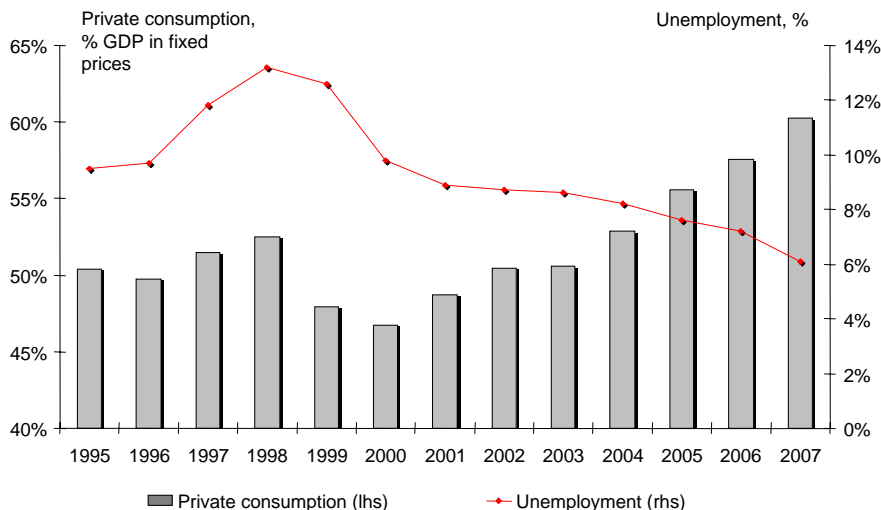
# Russia 2007: Very strong macro picture

## Investment growth exceeded 20% in 2007

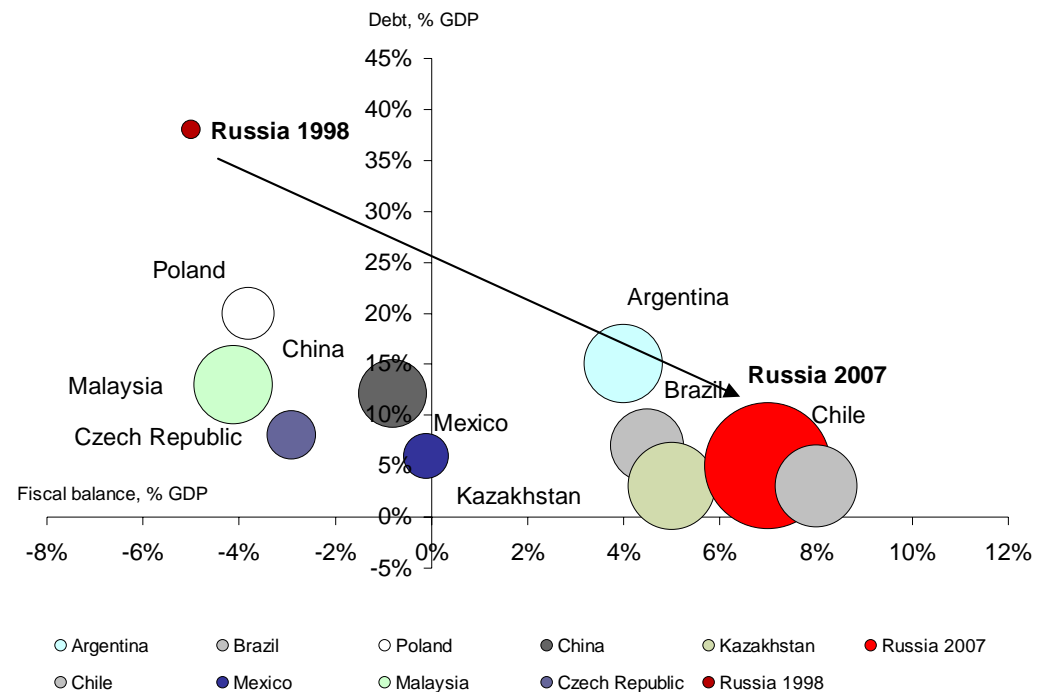


- Macro stability helped to accelerate consumption growth, private consumption rose to 60% of GDP
- Investment growth accelerated to 21% y-o-y in 2007, the highest since 1992; the capacity utilization rate rose to 80%
- In 2007 Russia had one of the world's lowest state debts (3.6% of GDP) and one of its highest fiscal surpluses and held the world's third-largest reserves

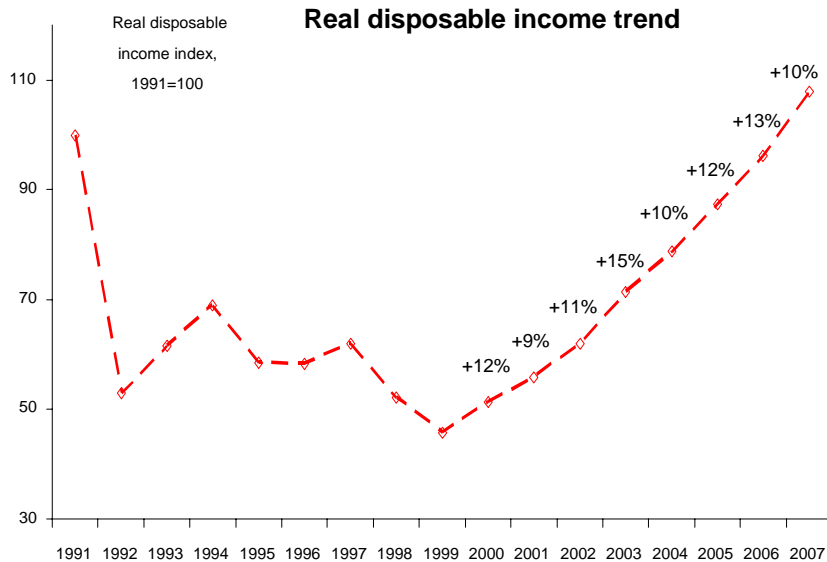
## Lower unemployment supports consumption



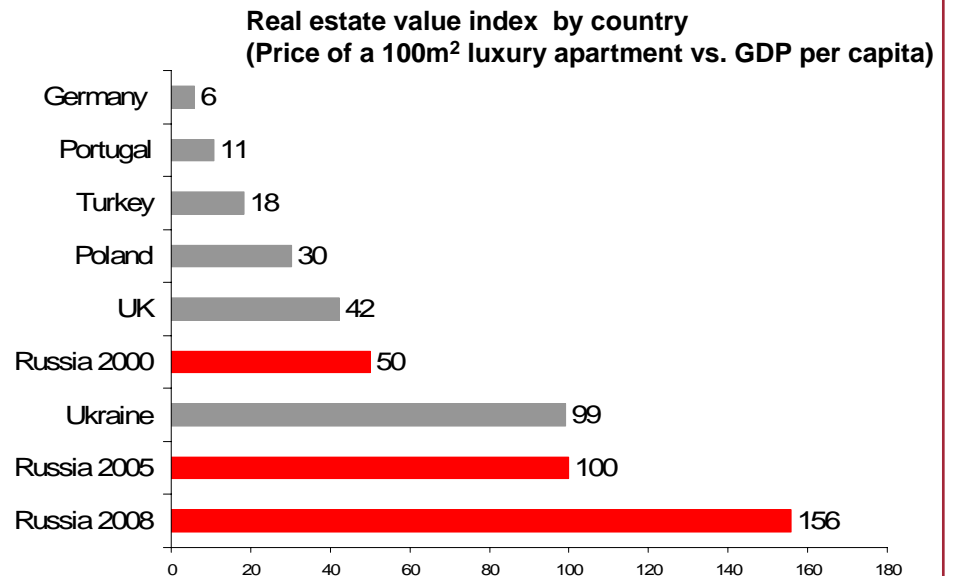
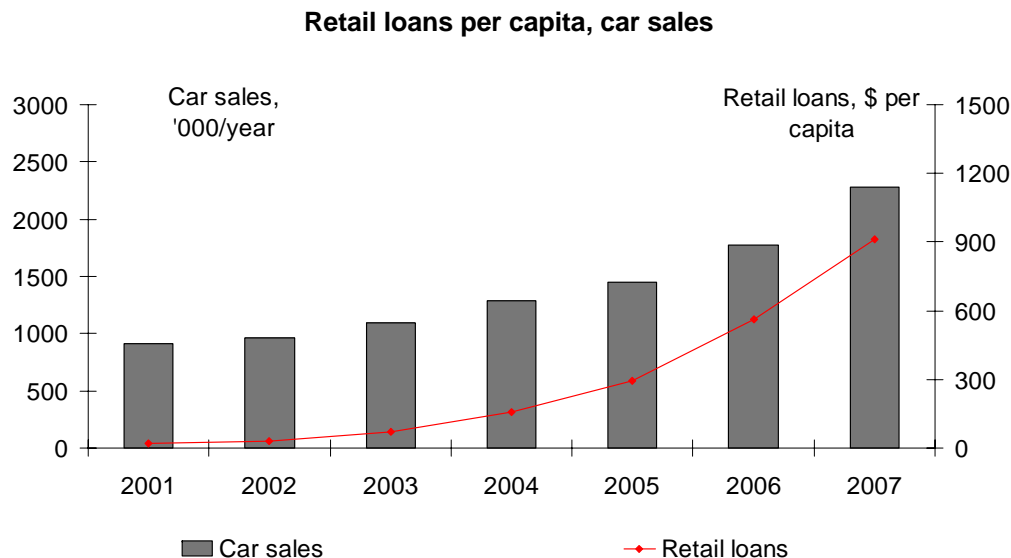
## Countries by budget deficit, reserves and debt in 2007



# General population's purchasing power on the rise

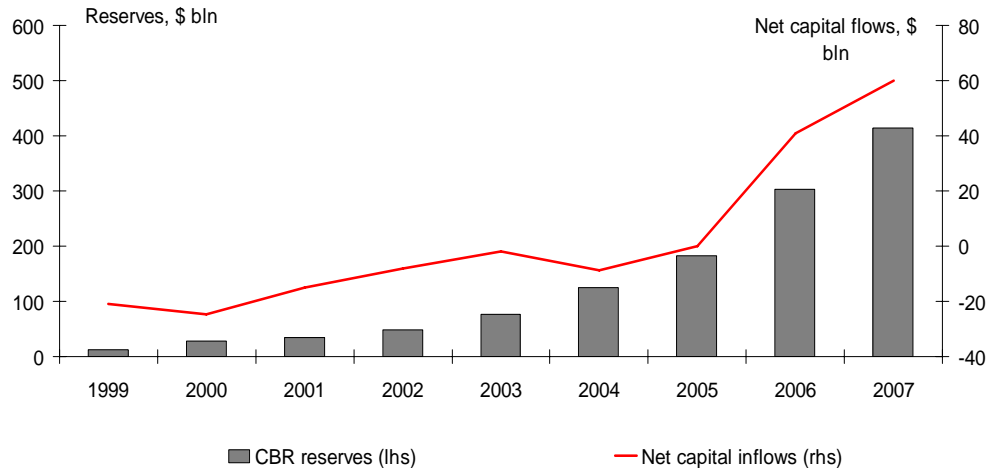


- Substantial growth in real disposable income (+140% since 2000) created an incentive to increase consumption
- Retail loans grew from 0.6% of GDP in 2000 to 10% of GDP in 2008
- Number of cars per capita tripled since 1991, car sales doubled since 2000
- Over 10 mln Russians a year travel abroad
- Increase in retail loans and real estate prices supported the public's high expectations; Russian real estate became among the most expensive in the world



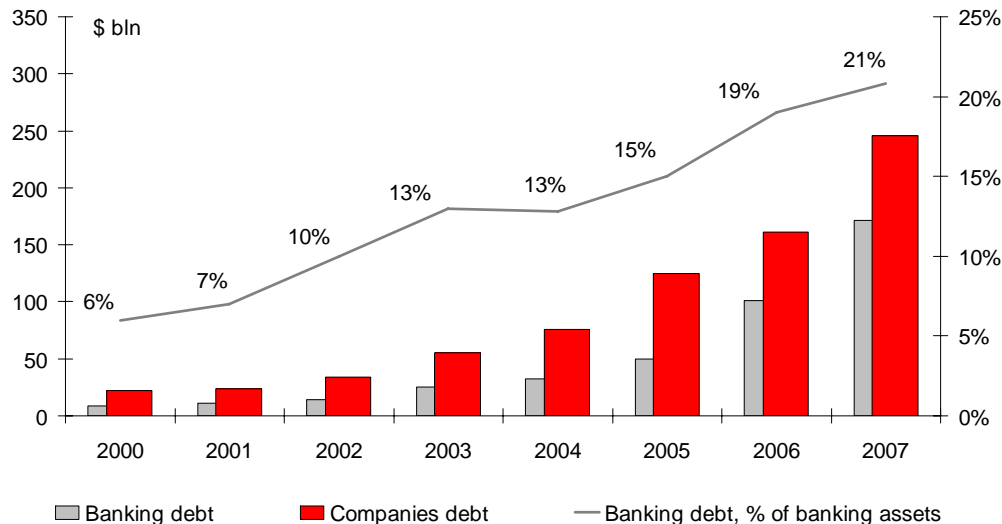
# Very ambitious investment plans

Net capital inflow supported ambitious investment plans

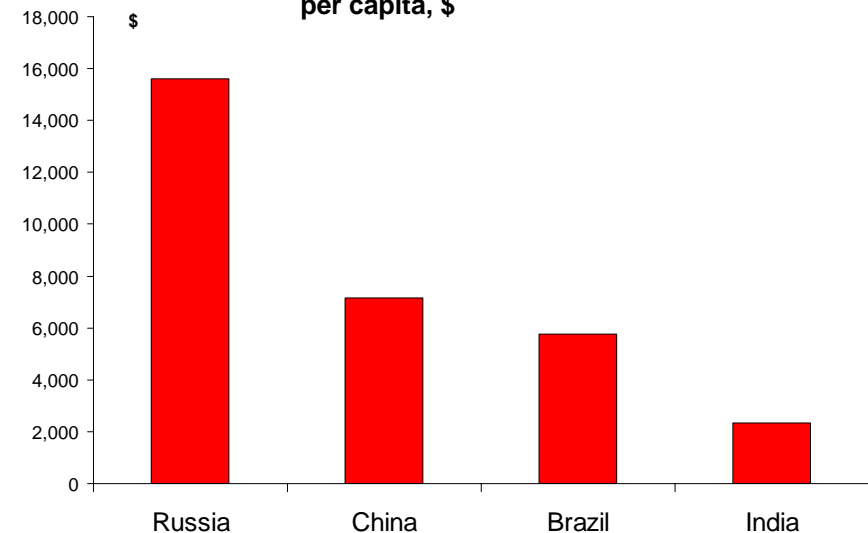


- Access to global capital markets allowed Russia to make ambitious investment plans to be financed from abroad
- Banking and corporate debt totaled \$400 bln by 2008, 21% of banks' assets were financed from abroad
- To support its infrastructure, Russia expected to finance \$ 2.2 trln of investments in 2009-2017, around 10% of total investments expected in EM
- On a per capita basis, Russia's investment spending was expected to be twice as much as China's

Banks' and companies' foreign debt, 2000-2007

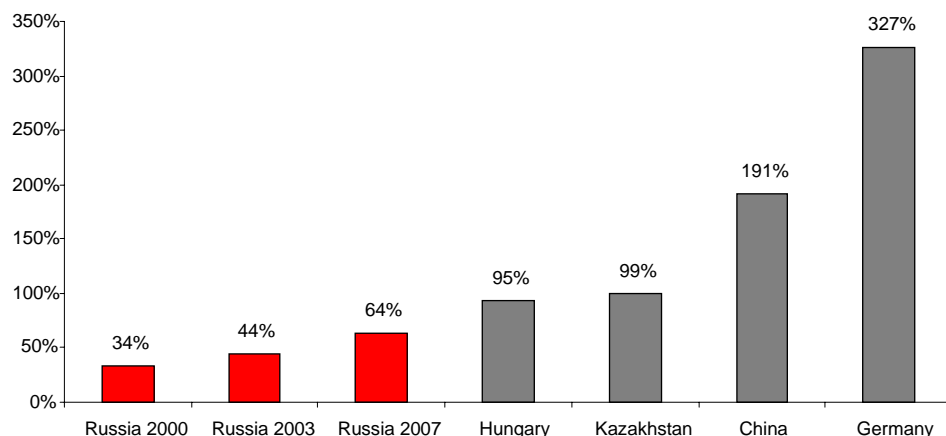


2009-2017 planned investment spending per capita, \$

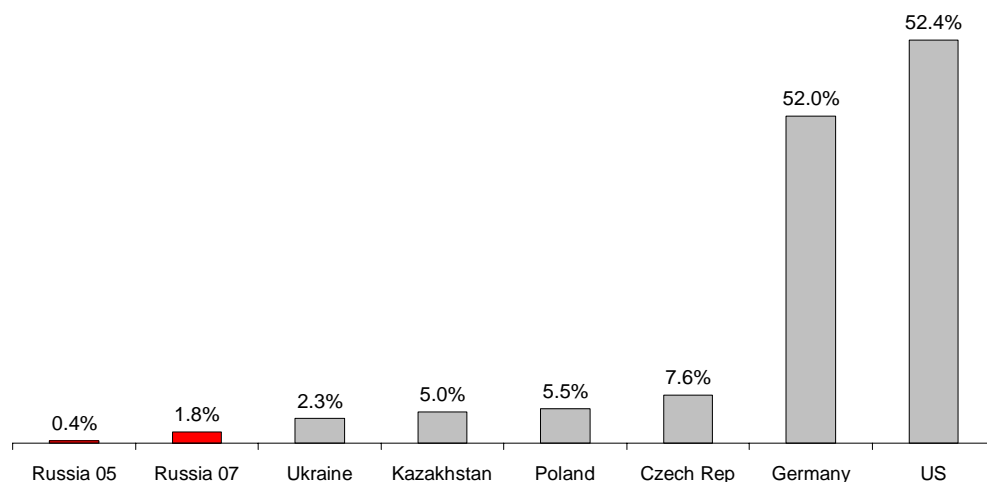


# Russia 2007: Unaffected by sub-prime turmoil

Assets-to-GDP by country



Mortgage-to-GDP by country

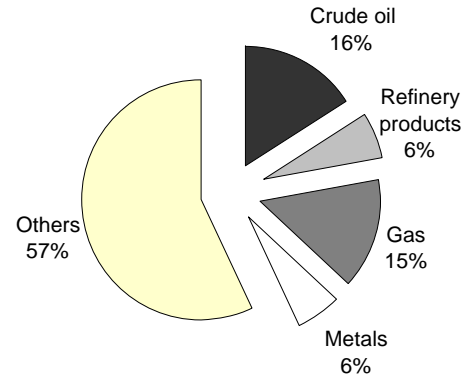


- With banking assets equal to 60% of GDP, retail loans 10% and corporate loans 30%, the Russian banking sector was immune from global financial turmoil in 2007
- Mortgage market was equal to a small 1.8% of GDP as of end-2007
- Growth potential of retail loans was based on expectations of salary increases

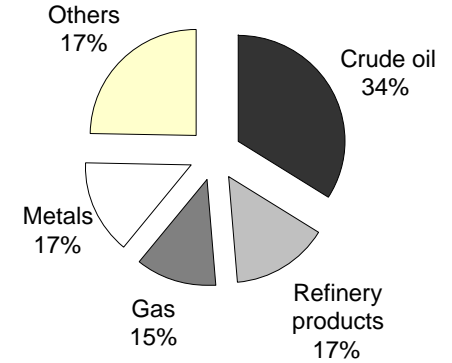
# External environment deteriorated in 2008

- Sudden decline in commodity prices triggered reconsideration of Russia's growth story
- With a 77% decline, the Russian market suffered more than several other EM markets

1995 export structure – fuel is 37%



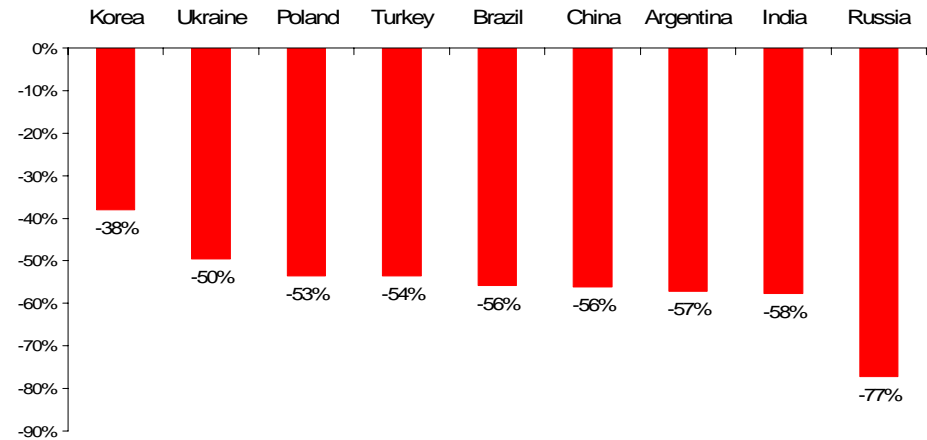
2008 export structure – fuel is 66%



Steel and Urals international prices



MSCI equity index decline by country in 2008

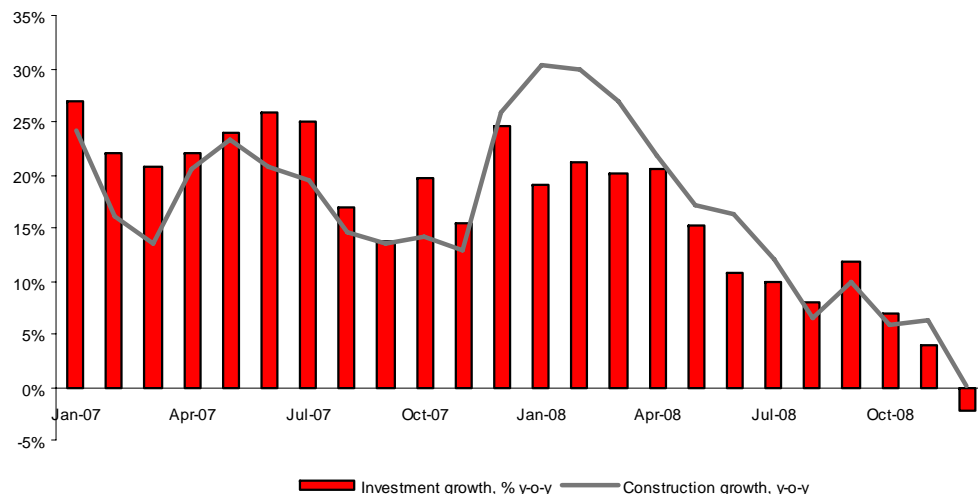


## Huge capital outflow in 4Q08 is the key negative

	2000	2007	9M08	2008
Fiscal surplus, % GDP	1.5%	5.5%	8.1%	4.0%
CBR reserves, \$ bln	28	476	556	427
months of imports	8.0	25.0	23.0	17.5
% foreign debt	18%	103%	106%	79%
Capital inflow/outflow	-\$24.8 bln	\$81.2 bln	\$0.8 bln	-\$130 bln
Foreign-currency deposits, % total	32.5%	13.0%	13.5%	20.0%
State foreign debt, \$ bln	128.6	46.4	38.9	40.0
% GDP	51.2%	3.6%	2.0%	2.0%

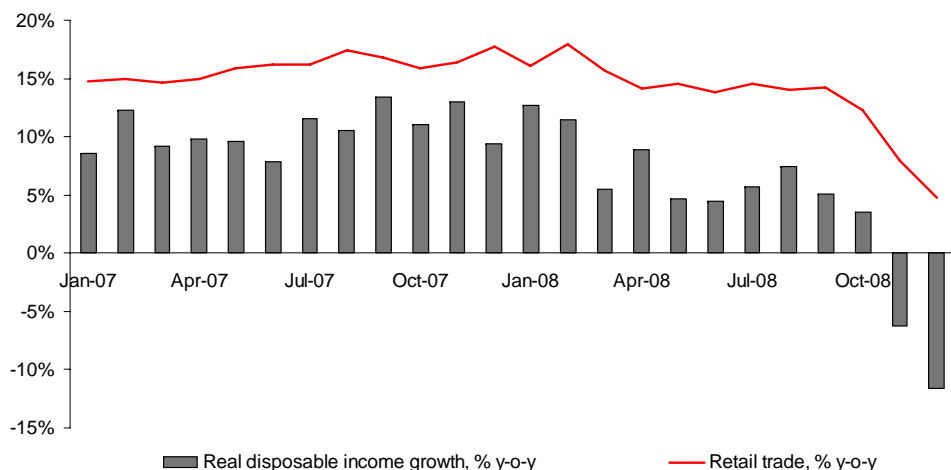
# Russian growth turned negative in 4Q08

Construction and investment growth , y-o-y

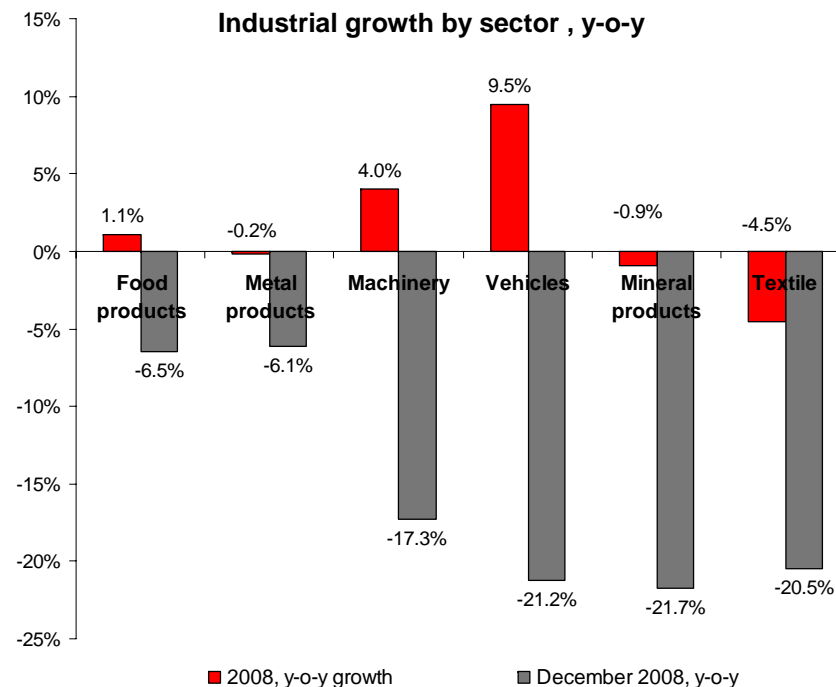


- Investment growth dropped to -2% y-o-y in December
- Real disposable income growth fell from 4% y-o-y in October to -12% y-o-y in December
- A number of key manufacturing sectors saw a decline of around 20% in December
- GDP growth dropped from 8.1% in 1H08 to 5.6% in full-year 2008

Real disposable income and retail turnover



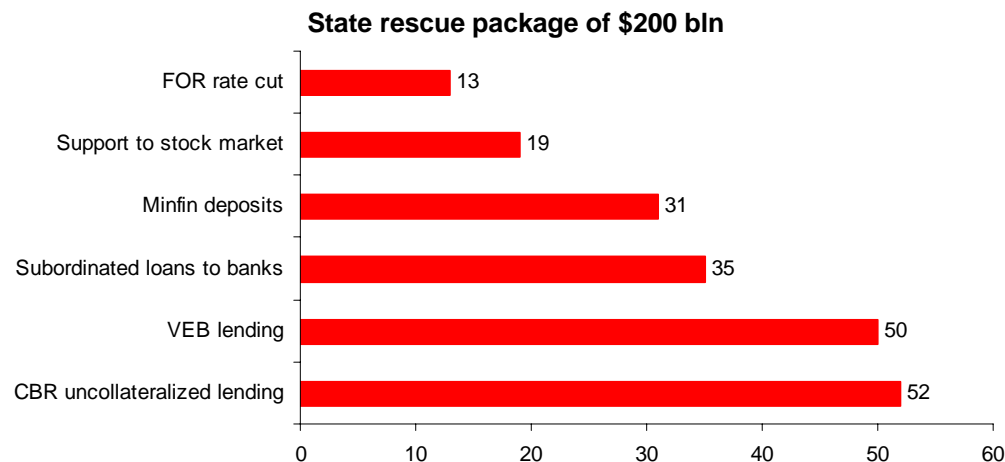
Industrial growth by sector , y-o-y





# State announced \$200 bln package

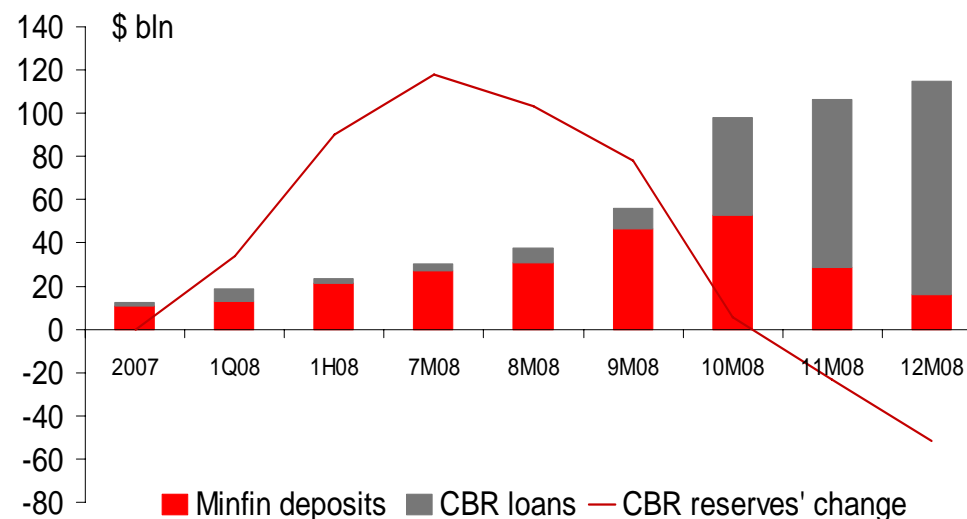
- In response to the crisis, the Russian state announced a financial rescue package of \$200 bln
- The role of state funding increased from 2% of total assets in 1Q08 to 12% of assets in December
- The injection of ruble liquidity from October 2008 financed capital outflow from Russia in 4Q08, resulting in a decline in reserves
- State announced substantial 30% increase in public-sector salaries in 2009, and fiscal deficit may total 10% of GDP this year



Banking system funding structure, \$ bln and % of liabilities

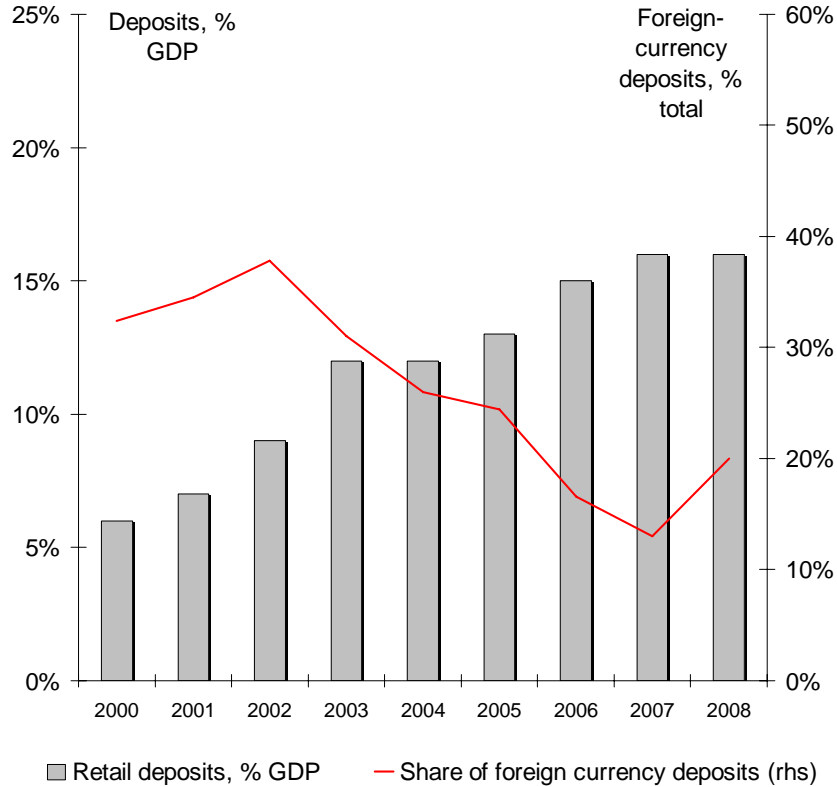
	1Q08	%	3Q08	%	4Q08	%
<b>Total state money:</b>	22	2%	60	6%	110	12%
<b>CBR</b>	6	1%	9	1%	80	8%
<b>Finance Ministry</b>	13	1%	50	5%	29	4%
<b>Retail deposits</b>	221	25%	245	24%	205	21%
<b>Corporate accounts</b>	284	32%	308	30%	264	27%

State injections to Russian banking system, \$ bln

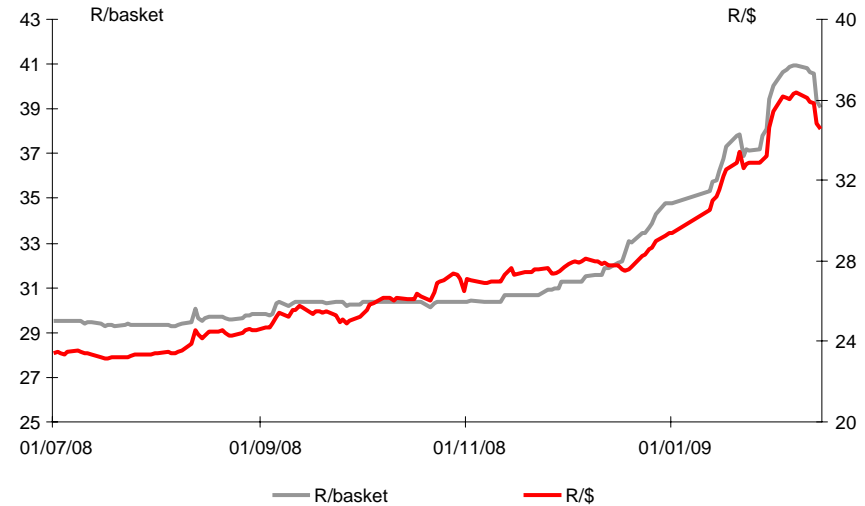


# Flight from ruble intensified liquidity squeeze

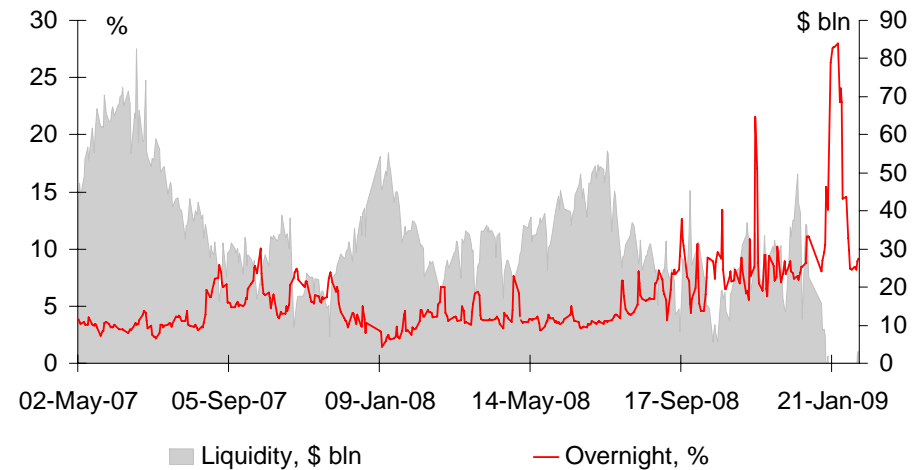
Retail deposits are becoming more dollarized



Ruble depreciated to the basket and USD



Banking liquidity and overnight rates

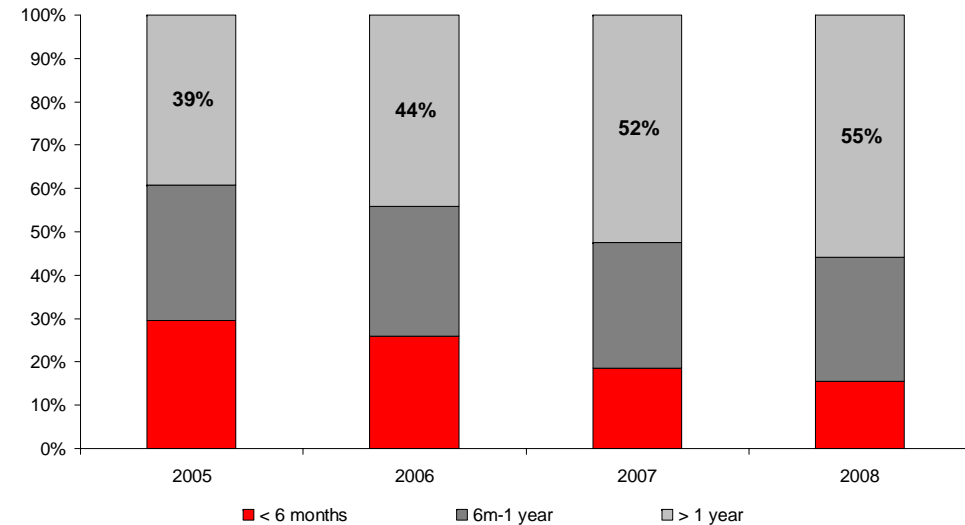


- Rapid ruble depreciation pushed up demand for refinancing, while the liquidity squeeze continued and interest rates jumped
- Rapid depreciation also triggered flight of retail depositors to foreign currency

# Half of loans in foreign currency, short maturity

- Of Russia's \$780 bln in corporate debt, some \$300 bln is foreign debt and another \$120 bln is local debt denominated in foreign currency
- Around 50% of ruble-denominated corporate loans (R4.4 trln) and 30% of foreign currency denominated loans (\$40 bln) are maturing in the next 12 months. Payments on foreign debt are estimated to be \$60-70 bln this year

Structure of corporate loans, %



Country	Corporate banking loans, % GDP	Foreign debt, % GDP	Local debt, % GDP	Share of foreign debt	Total corporate debt, % GDP	Total debt, \$ bln
Malaysia 1997	149%	23%	26%	12%	198%	120
Singapore 1997	90%	3%	5%	3%	98%	130
Philippine 1997	65%	15%	1%	19%	81%	66
Thailand 1997	122%	40%	4%	24%	166%	150
Indonesia 1997	60%	41%	2%	40%	103%	118
Korea 1997	103%	9%	23%	7%	135%	450
Sweden 1991	n.a.	n.a.	n.a.	n.a.	140%	360
Russia 2008	30%	20%	2%	38%	52%	780

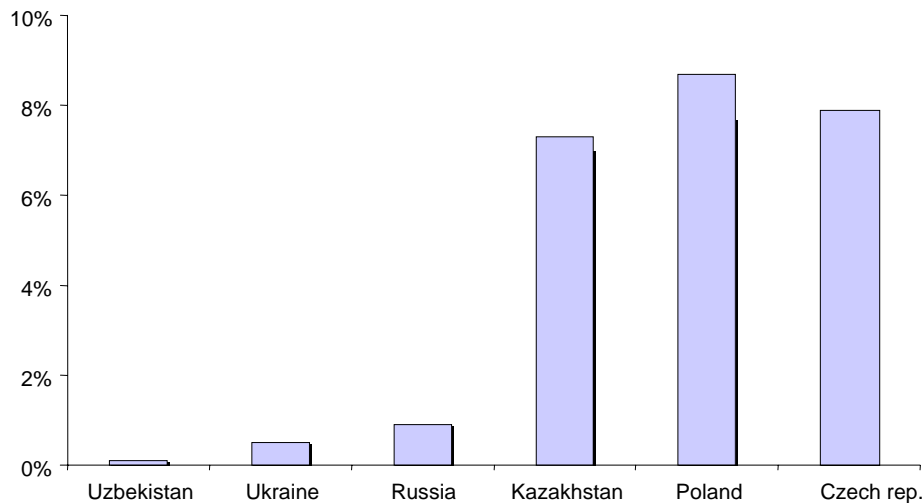
## Bad loans: around 15% at least

Sector	Loans, \$ bln	Share of bad loans	Bad loans, \$ bln
Mortgage	50	5%	2.5
Car loans	30	15%	4.5
Consumer finance	10	15%	1.5
Credit cards	10	5%	0.5
Personal loans	60	5%	3.0
<b>Retail loans</b>	<b>160</b>	<b>8%</b>	<b>12</b>
Agro and food	23	5%	1
Construction	63	40%	25
Metal sector	23	30%	7
Transportation	18	30%	6
Utilities	9	0%	0
Telecommunications	9	0%	0
Trade	90	30%	27
Manufacturing	59	10%	6
Others	40	10%	4
<b>Corporate loans</b>	<b>450</b>	<b>17%</b>	<b>76</b>
<b>Total</b>	<b>610</b>	<b>15%</b>	<b>88</b>

# Lack of savings is a major disadvantage

- Russia failed to generate private savings; slightly above 10% of revenues are saved by households
- In 2H08, the general population started to spend savings in order to maintain consumption standards unchanged
- The Russian pension fund accumulated \$17 bln under management, which is around 1% of GDP

Pension assets are around 1% of GDP



Structure of GDP growth, % of total



Savings are slightly above 10% of revenues

	2004	2005	2006	2007
Savings, % of income	10.8%	13.6%	12.2%	11.4%
Increase in ruble deposits	4.2%	5.0%	7.3%	7.2%
Increase in foreign-currency deposits	0.6%	1.2%	-0.3%	0.0%
Real estate	2.7%	2.8%	3.9%	3.7%
Currency cash	3.3%	4.5%	1.3%	0.5%