

Russian economy

The 8-quarter long recession was the longest in the country's recent history. The Russian economy lost about 5% of GDP and 5 years of development. However, a number of indicators demonstrate that the acute phase of the crisis is already in the past, and growth of the economy is stabilizing

The most plausible scenario is the further adaptation of the economy and growth rates of 1.5%–2% in the medium term. At the same time, risks that the macroeconomic situation may deteriorate remain in place. Key risks are unfavorable changes in oil and gas prices and new sanctions against Russia.

Results of 2016

The trends of Russia's economic development in 2016 can be viewed as positive. Rosstat estimates that GDP declined by 0.2% compared to a 2.8% drop in 2015. On a YoY basis, the GDP decline of 0.4% in Q1 was followed by an increase of 0.3% in Q4 2016. The decline in retail trade and construction was offset by growth in industry, transport, and agriculture.

But the Russian economy is still hampered by weak consumer and investment demand. Weak consumer demand can be explained by a drop in real disposable incomes of 5.9% in 2016, while retail lending came out of stagnation and by the end of the year showed an increase of 1.4% (without FX adjustment). The decline of investments in fixed assets slowed down by the end of the year, which gives hope for the further recovery of investment activity.

Throughout 2016, inflation slowed down under the impact of a tight monetary policy, weak domestic demand, and lower devaluation and sanction-related pressures. Annualized inflation decreased from 12.9% in December 2015 to 5.4% in December 2016, which allowed Bank of Russia to cut its key rate by 0.5 pp twice, in June and September, to eventually reach 10%. However, in the face of persistent inflationary risks, Bank of Russia plans to maintain a tight policy.

Oil prices registered an increase in 2016. In 2016, the average price of Urals oil was \$42.1 per barrel. The exchange rate of the Russian ruble was determined by changes in oil prices and geopolitical risks, while the average USD exchange rate for 2016 was 67 rubles. Capital outflow slowed down to USD 19.2 bln compared to USD 58.2 bln in 2015, but on the contrary the banking sector registered a capital inflow of USD 1.1 bln following the sale of foreign financial assets. The external debt of Russia remained virtually unchanged in 2016, ending the year at USD 513.4 bln.

Urals oil price and ruble / dollar rate dynamics

