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Abstracts

Core Views

President Vladimir Putin’s near-record popularity belies the rapidly rising medium-term risks he faces, mostly stemming from economic weakness. Once the ‘high’ of the Ukraine conflict wears off, and ordinary citizens’ livelihoods suffer, Putin will become vulnerable to opposition protests, or even internal rivals, meaning that he will not be guaranteed re-election in 2018.

Russia’s economic weaknesses will constrain its much touted geopolitical ‘revival’. Russia will still defend its perceived vital interests, militarily if necessary, but the costs of doing so will increase. For the next few years, we expect a cool period to prevail in Russia-West relations, which will result in Russia building closer ties with China. However, we think that a genuine strategic partnership between Moscow and Beijing is unlikely to materialise, because the two are ultimately rivals in Central Asia.

The plunge in oil prices throughout H214 has further darkened the macroeconomic outlook for Russia, which is already under severe pressure from geopolitical tensions with the West, prompting us to revise down our growth forecasts for 2014-2016. Nevertheless, there are some mitigating factors which underpin our slightly above-consensus forecasts – of 0.5% and 1.0% for 2014 and 2015, respectively, such as the suppression of import growth. Higher import prices have suppressed import growth, flattering the headline real GDP growth figure, and have boosted somewhat demand for domestic production.

Major Forecast Changes

We expect Russian inflation to increase again over Q414, due to unprecedented rouble depreciation, which will lead the Russian Central Bank to raise its policy rate for the

fourth time in 2014. However, underlying fundamentals within the economy will bring inflation in line over the medium term. We have revised upward our inflation forecast to 7.8% from 7.1% previously.

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Contents

Economic Activity
Oil Prices Aggravating An Already Grim Macro Outlook
The plunge in oil prices throughout H214 has further darkened the macroeconomic outlook for Russia, which is already under severe pressure from geopolitical tensions with the West, prompting us to revise down our growth forecasts for 2014-2016.
table: GDP By Expenditure
Balance Of Payments
Balance Of Payments Crisis Risks Rising
Falling oil prices, restricted access to Western capital and lack of reform are pushing Russia towards a balance of payments crisis. A near-term crisis will probably be averted as tensions with the West ease over the next few quarters, but the damage done to investor perceptions of Russian stability will be lasting.
Table: Current Account
table: Chang es To Priv atis ation Sch edu le
Fiscal Policy
Modest Fiscal Deficits Masking Vulnerabilities
Russia's budget shortfall will rem ain modest in 2015-2016, but the policies envisioned in the 2015-2017 budget plan will further exacerbate Russia's fiscal vulnerabilities. Tapping Russia's rainy day and pension funds, and cutting education and infrastructure spending, among other measures, will limit the country's growth prospects and ability to generate non-oil public revenues in the years ahead.
table: Fiscal Policy
Monetary Policy
Return To Easing in 2015
We expect Russian inflation to increase again over Q414, due in part to the unprecedented rouble depreciation. In light of the recent rate hike by the Russian Central Bank, we do not see any further monetary tightening by end-2014. In the longer term we believe poor underlying fundamentals within the economy will bring inflation in line over the course of 2015.
table: Monetary Policy
Currency Forecast
Rouble To Find Temporary Strength
The current selloff of the rouble is becoming overdone and we expect the currency to consolidate against the US dollar going into 2015. Beyond this we expect the rouble to return to a long-term trend of gradual depreciation owing to lack of structural reform, high inflation and a deteriorating current account position.
table: CURRENCY FORECAST

CHAPTER 3: 10-YEAR FORECAST

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The Russian Economy To 2023

Structural Deficiencies Weighing On Growth

We forecast Russian growth to slow markedly over our 10-year forecast horizon, with average real GDP growth of just 2.7% between 2016 and 2023. During this period the economy will shift increasingly towards domestic demand, with private consumption to account for 57.1% of total GDP in 2023, up from 49% in 2012. While we expect Russia to converge towards developed standards of wealth, structural risks including a weak business environment, poor institutional capacity and declining population pose major challenges to long-term growth.

table: Long-Term Macroeconomic Forecasts

CHAPTER 4: OPERATIONAL RISK

Russia Aggregate SWOT Analysis

Operational Risk Index

Operational Risk

table: Operational Risk

Transport Network

table: Emerging Eu rop e - Transpo rt Network Risks

Economic Openness

table: Europe - Economic Openness Risk

table: Top 5 Product Imports (USDmn)

table: Top 5 Trade Partners - Product Exports (USDmn)

CHAPTER 5: KEY SECTORS

Infrastructure

table: Construction And Infrastructure Industry Data

table: Construction And Infrastructure Industry Data

Oil & Gas

Other Key Sectors

table: Pharma Secto r Key Indic ato rs

table: Telecoms Sector Key Indicators

table: Defence and Security Sector Key Indicators

table: Food and Drink Sector Key Indicators

table: Autos Sector Key Indicators

table: Freight Key Indic ato rs

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CHAPTER 6: BMI GLOBAL ASSUMPTIONS

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