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21/04/2016



Expert Commentary

Liza Ermolenko, Emerging Market Economist at Capital Economics Ltd, on Russian Economy and RUB

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Recently, the World Bank revised downwards its forecast for Russia’s economic growth for the year 2016, predicting the Russian economy will shrink by 1.9% instead of the 0.7% due to weaker oil market. In your opinion, is there a possibility that the Russian economic growth this year will surpass these expectations and will register a better result?

To my mind, it is certainly possible; however, given the information we have so far, it looks quite unlikely. I believe that the overall picture is that whatever happens, it is going to be a pretty bad year for Russian economy. Nevertheless, it is likely that the recession will not be as deep as it is now expected to. There is a number of the possible factors that could prevent the current recession from being even deeper, for instance, one of the scenarios where oil prices rise or the sanctions on Russia are lifted could help the economy to surpass very pessimistic expectations for growth.

Russia’s inflation rate demonstrated a faster-than-expected slowdown in March, nevertheless, analysts remain sceptical and forecast that the rate will begin to rise again in the near future. Meanwhile, the Russian Central Bank considers the inflation target of 4% to be practical and necessary for the country in 2017. To your mind, is it possible for the country to achieve this goal in view of the current situation?

I share the same opinion; as even though the inflation is falling quite sharply, it looks like most of that has been due to the so-called base effect.

In terms of the Central bank’s target, I suppose there is a number of factors why it could be possible for them to reach the 4% inflation target; however, not by the end of 2017, though. For instance, one of the most important factors would be the fact that following the recession last year and also this year some spare capacity has opened up in the economy, which can potentially drag inflation down over the next few years, so it is possible that inflation could fall quite sharply in the foreseeable future.

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Currently, the Ruble is trading at around 68 against the US Dollar. What other factors besides oil could determine the performance of the currency in the nearest future and what are your forecasts for USD/RUB for the end of 2016?

The main factor is definitely the price of oil that will definitely determine the performance of the currency and result in big movement of the Ruble.

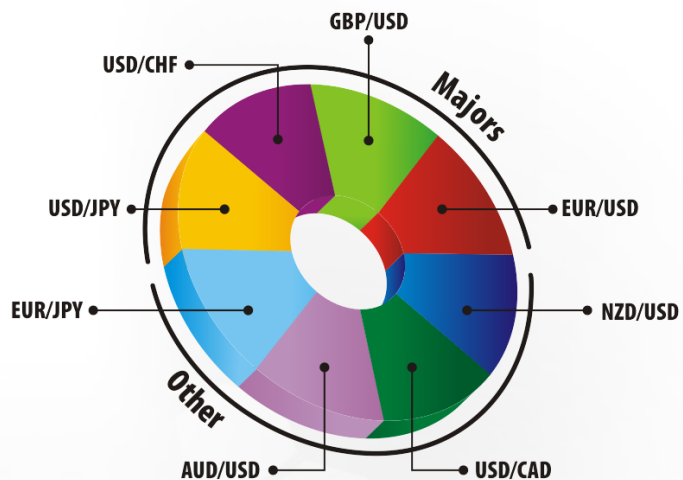
In addition to this, there is another factor - the general investor sentiment - that has impacted the Ruble over the past few months and will continue to do so. Moreover, political situation and already mentioned sanctions are something that change the fund, which could potentially have a significant impact on the Ruble as well.

From our part, we do not expect sanctions do be lifted and we do not expect oil prices to rise significantly; therefore, our forecast for the Ruble for the end of the year, which is based on our expectations for oil prices and sanctions, is that the Russian currency will certainly weaken a bit, to 70 against the US Dollar.

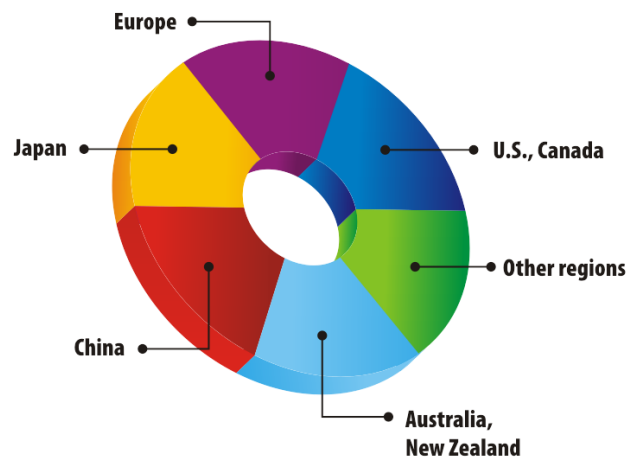
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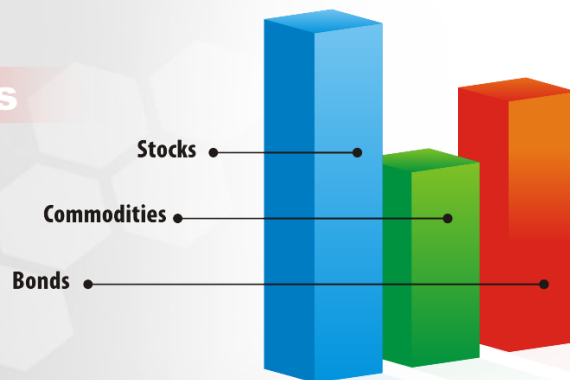
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