

Renaissance
Capital

RUSSIA/CIS+ MACRO UPDATE

NOVEMBER 2020

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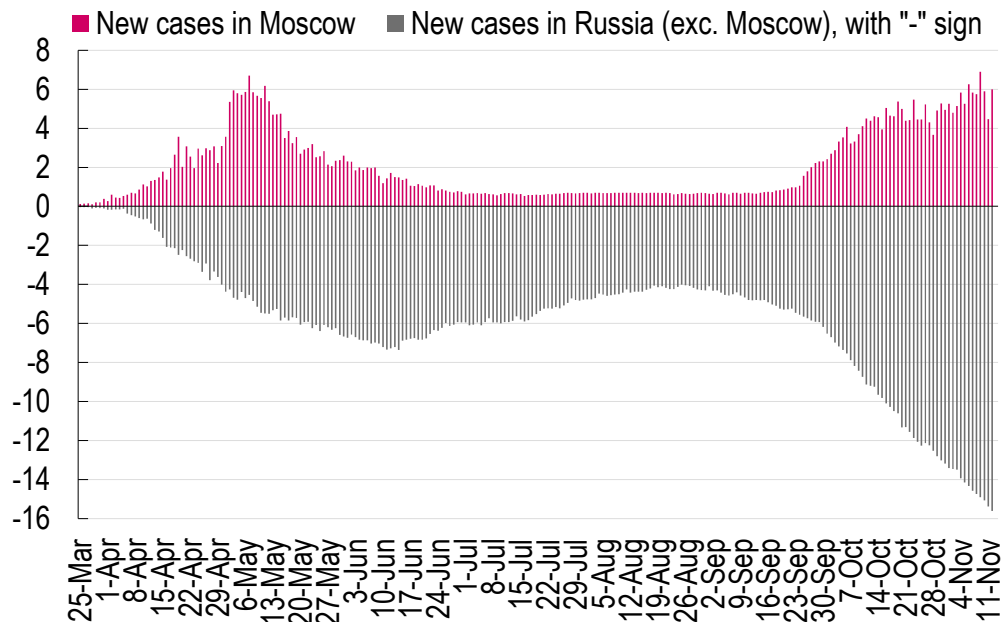
CIS+: 2021 REBOUND AFTER TURBULENT 2020

- **CIS+ region withstood 2020 corona-crisis relatively well with**
 - ✓ Economic contraction below global average
 - ✓ Fiscal deficits below EM peers
 - ✓ Moderate currencies pressure relative to previous crisis
 - ✓ No spike in inflation or dollarization
 - ✓ Only one sovereign rating downgrade while we saw ¼ of all sovereign ratings downgraded in 2020
 - **...but political tensions added to markets' volatility**
 - Sanctions pressure on Russia
 - Elections in Belarus, Georgia, Moldova
 - Military conflict in Nagorno-Kharabakh
 - **We expect a rebound in 2021-2022 supported by**
 - ✓ Global recovery and expected opening of borders
 - ✓ Decent policy stimuli
 - ✓ Solid domestic demand
 - ✓ Stronger sentiments on EM
- ...political development to be monitored**

COVID-19 UPDATE – VACCINE UNDERWAY

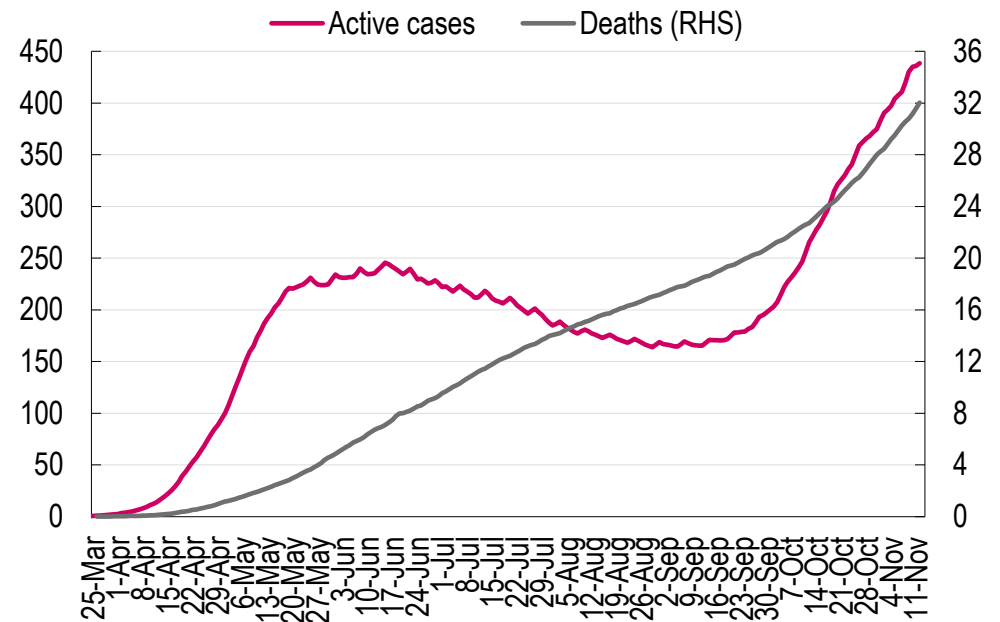
- Two Russian vaccines – **Sputnik V** and **Epivaccorone** – were registered (in August and October) and will be ready to mass production
- **40,000** volunteers vaccinated during testing of the first one
- 5-6mn dozes per month to be produced by end-2020, **15mn dozes per month by Spring 2021** – enough to vaccinate all 60+ aged Russians in two months or all Russians by end-2021
- **Exports likely to start already in 1H21**, 27 countries – potential importers

New daily cases in Russia, `000



Source: Russian government

COVID-19 spread in Russia, `000



Source: Russian government

BULLISH ON RUSSIAN GROWTH

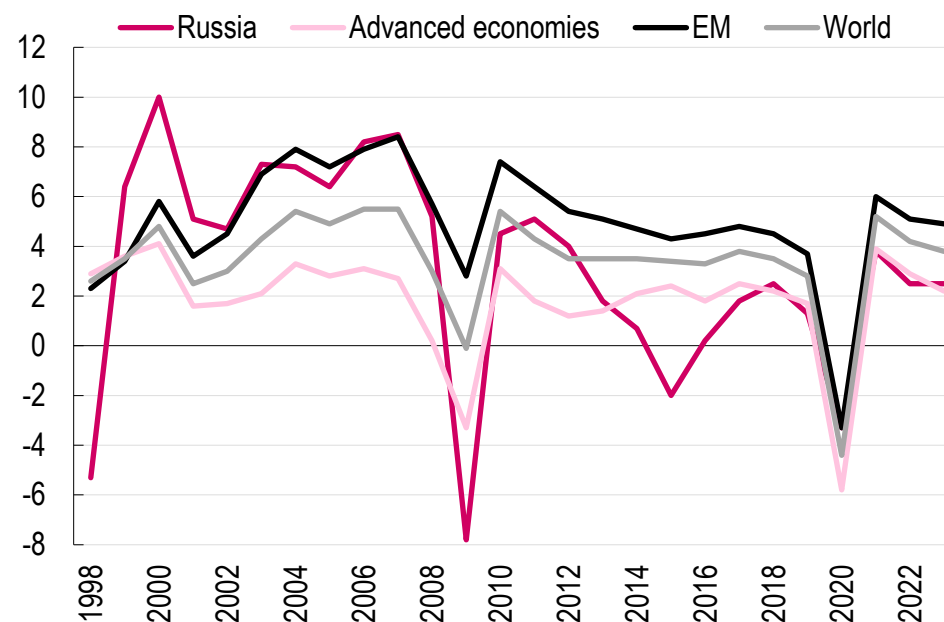
- In 9M20, only 3.5% YoY contraction vs 5-6% YoY early forecasts
- Russia looks **good relative to other oil economies** in 2020
- Supported by (1) strong starting point, (2) moderate structural sensitivities to lockdown's implications, (3) decent policy response
- We estimate a **potential growth for Russia at 2.5-3.0% YoY**

GDP growth, % YoY

	2019	2020E	2021E	2022E
Russia	1.3	-3.3	3.8	2.5
Kazakhstan	4.5	-2.2	5.1	4.2
Azerbaijan	2.2	-3.5	2.9	2.2
Norway	1.2	-2.8	3.6	3.0
Saudi Arabia	0.3	-5.4	3.1	3.4
Canada	1.7	-7.1	5.2	3.4
Oman	-0.8	-10	-0.5	11.0
Advanced economies	1.7	-5.8	3.9	2.9
EM	3.7	-3.3	6.0	5.1
World	2.8	-4.4	5.2	4.2

Source: IMF, Renaissance capital estimates

GDP growth, % YoY

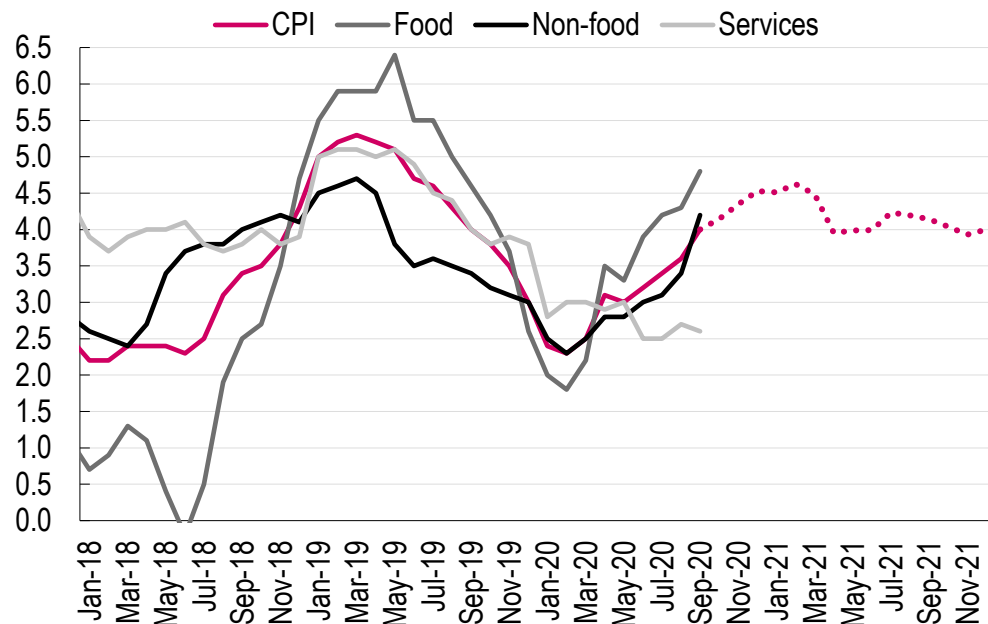


Source: IMF, Renaissance capital estimates

INFLATION...IS NOT DEAD

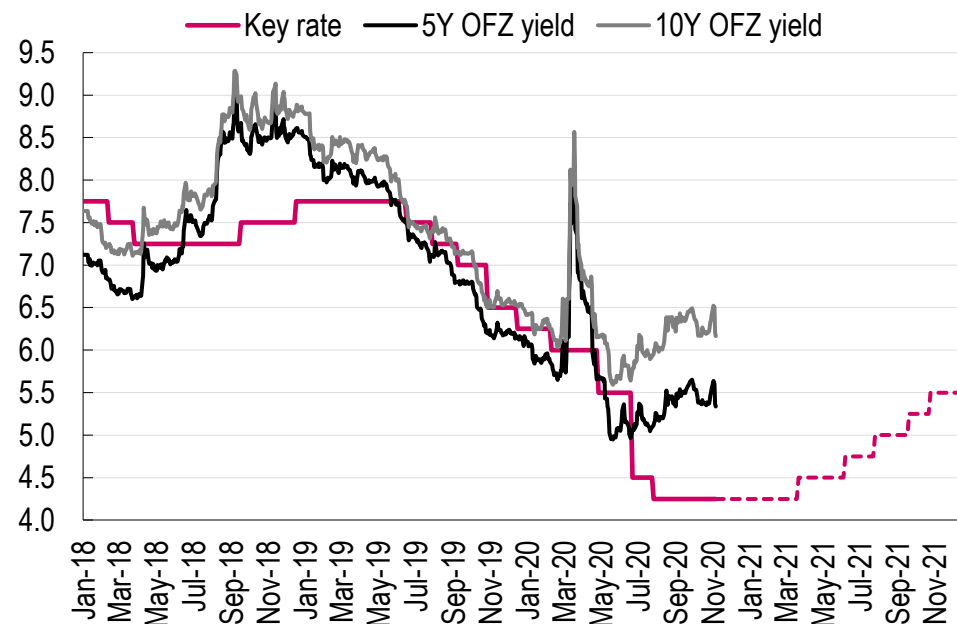
- We expect to see **earlier normalisation of monetary policy** – the key rate hikes starting in 1H21, the **key rate at 5.5% by end-2021** (4.25% market consensus)
- **Sticky inflation at 4%+ in 2021** to be supported by
 - ✓ solid consumer demand recovery amid steady income growth
 - ✓ soft rouble dynamics
- **The Central Bank of Russia (CBR) had a hawkish bias for the last 7 years**

CPI and its components, % YoY



Source: Rosstat, Renaissance Capital estimates

CBR key rate vs OFZ yields, % YoY

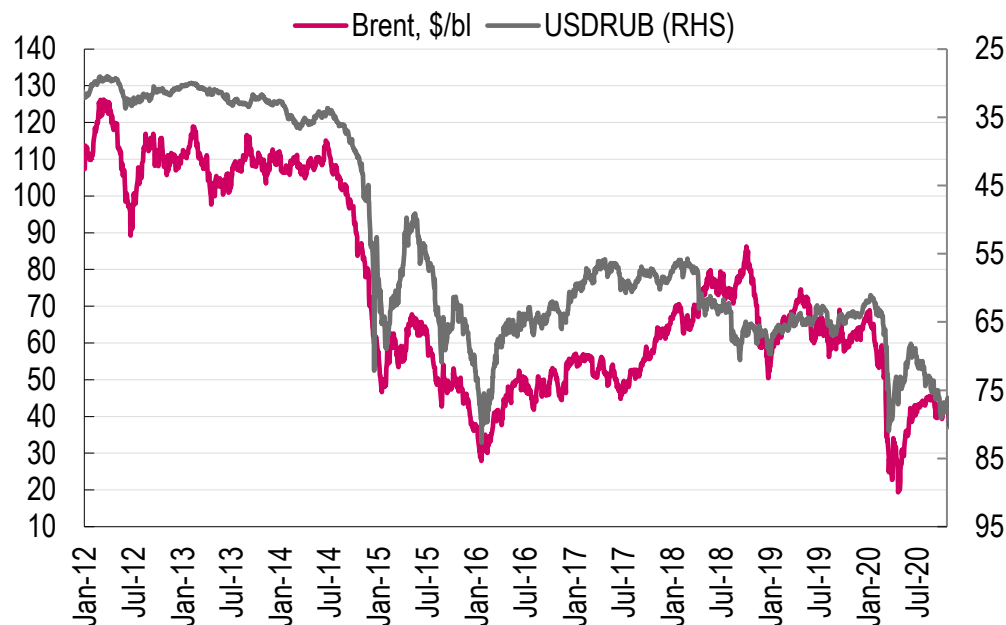


Source: CBR, Renaissance Capital estimates

ROUBLE IS UNDERVALUED

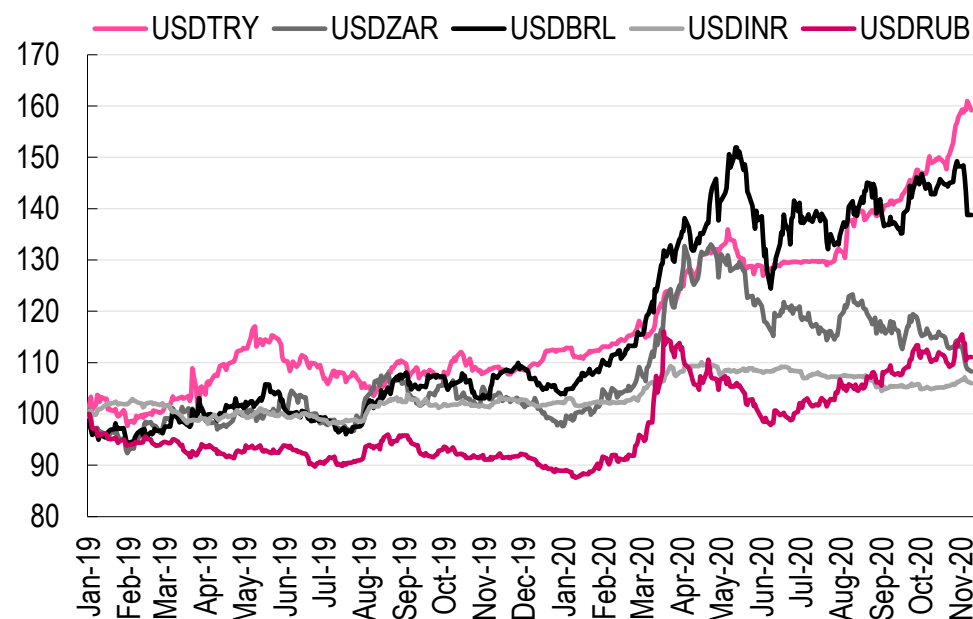
- The rouble is still **5% undervalued** amid elevated uncertainty around potential sanctions pressure and the second wave
- We see **rouble at RUB73-74/\$ in early 2021, RUB76/\$ by end-2021**
- ...assuming the oil prices at \$50/bl in average in 2021-2022, potential sanctions will NOT include any heavy broad sanctions
- The rouble appreciation in 2021 is limited **by import recovery** (including potential \$30bn tourism outflow) and **decrease in the CBR FX interventions**

Russian rouble vs oil



Source: Bloomberg

Russian rouble vs EM peers (Dec-18 = 100)

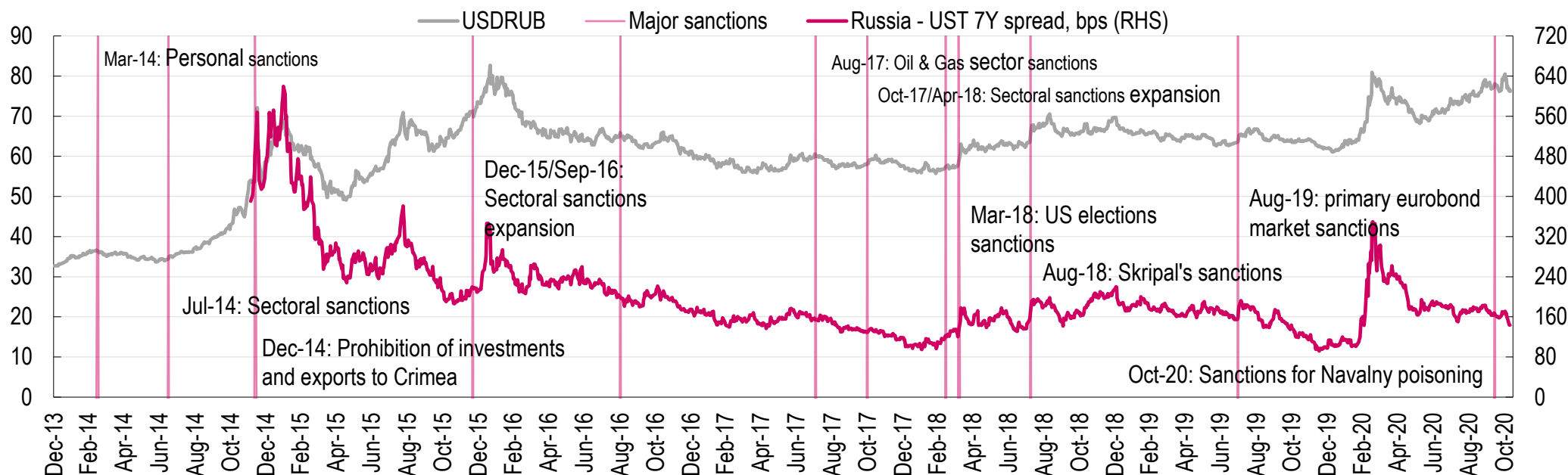


Source: Bloomberg

SANCTIONS: STATUS

Trigger	Sanctions
The annexation of Crimea and escalation in the east of Ukraine	Sanctions against individuals, companies and officials (travel and financial operations ban, asset freeze) Ban on trade, investments and financial operations with Crimea Sectoral sanctions (Restrictions on export for Russian oil & gas sector, defense goods and services, dual-use goods) Restrictions on operations with Russian banks and certain financial assets (providing loans with maturity over 30day , primary eurobonds market)
US elections	Countering America's Adversaries Through Sanctions Act (CAATSA) – restate President's capabilities in lifting sanctions on RU, introduces restrictions on trading Sanctions against Russian individuals, companies (mostly defense) and officials involved in cyber-attack on US
Chemical weapon (Skripal, Navalny)	US to oppose assistance to RU of international organizations Ban on US banks' credit (non-RUB nominated) to RU government

USDRUB, Russian eurobonds T-spread ant major anti-Russian sanctions



SANCTIONS: SCENARIOS

- A report of Director of Intelligence Unit on the potential interference of Russia into elections process should be presented until 18 December
- Nord Stream 2 sanctions included in draft annual US Defense Bill
- Three types of sanctions that could be potentially activated – **mild (expansion of diplomatic sanctions, individual and sectoral sanctions) with 25% probability, moderate (a ban on the primary OFZ market or a ban on the secondary eurobond market) – 7%** and **hard sanctions (both OFZ primary and secondary market operations restricted) – 2%**

Sanctions scenarios

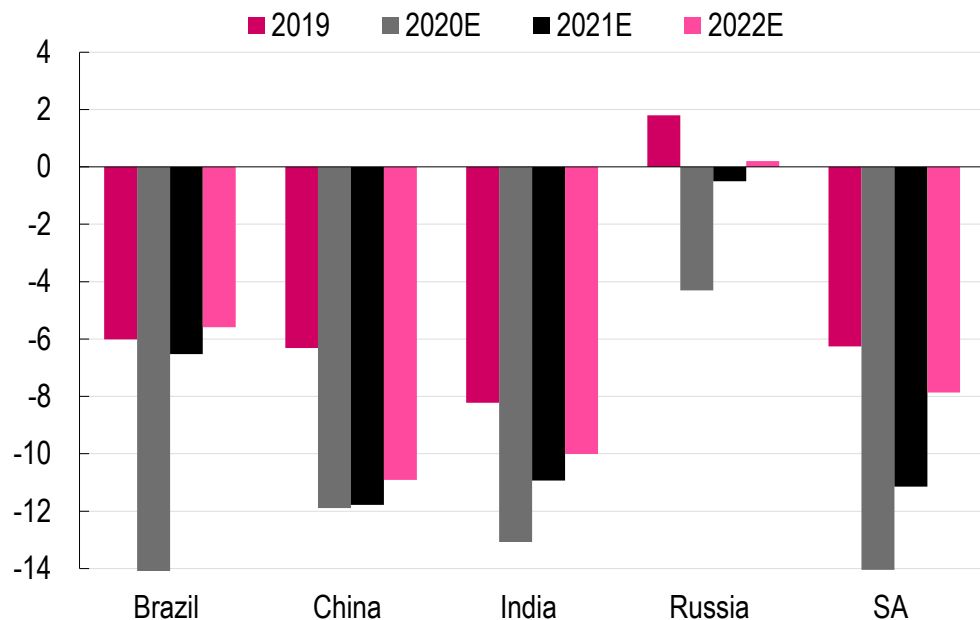
	Base case	Sanctions on primary OFZ market	Sanctions on secondary eurobond market	Sanctions on secondary and primary OFZ market
Russia 5Y CDS, bps	100	+30-50	+30-50	+250-300
RUB/\$, end-2020	73.5	+3-5%	+3-5%	+15-30%
Policy rate by end-2020	4.25%	-	-	+100 bpts in 3M
OFZs/eurobonds yield		+50 bpts	+80 bpts	+300-400 bpts
Market implications		Modest deterioration of OFZ market liquidity Slight flattening of the curve. Splitting of yield curves for existing old issues and new local-only issues (two curves)	Modest deterioration of Eurobond liquidity	Inverted curve Sharp OFZ market liquidity squeeze. Possible changes in regulations (elements of capital controls, fees on OFZ transactions for non-residents etc)

Source: Renaissance Capital estimates

FISCAL STANCE

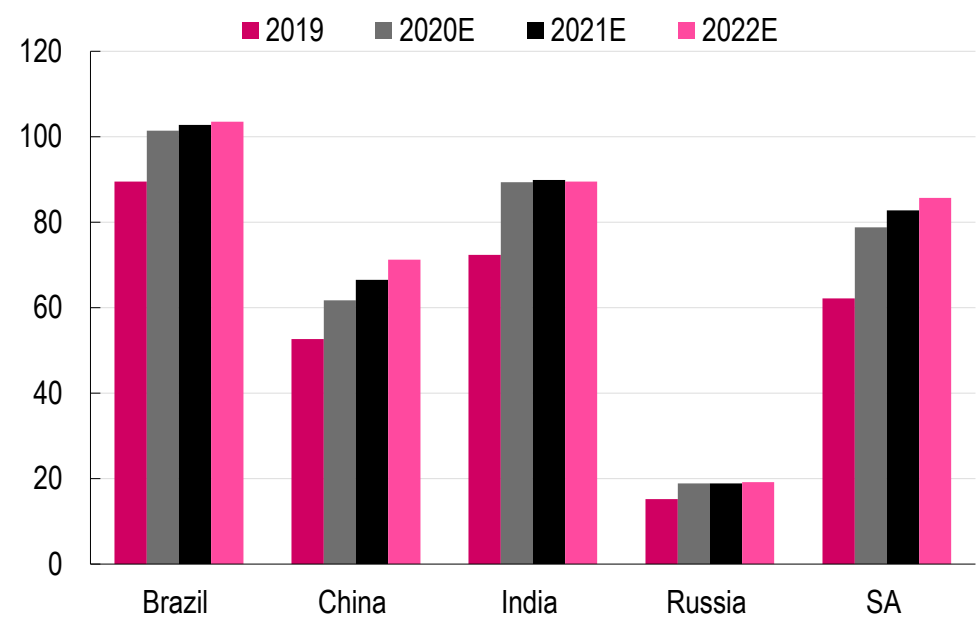
- The **public debt of Russia** remains the lowest in the CIS+ region
- Fiscal savings in the **National Wealth Fund** reached **12% of GDP**, sufficient to cover up to 10 years of oil weakness
- Above **\$500bn FX reserves** covers 30 months of import or the whole external debt

BRICS primary budget balances, % of GDP



Source: IMF, Renaissance Capital estimates

BRICS government debt, % of GDP



Source: IMF, Renaissance Capital estimates

FISCAL STANCE

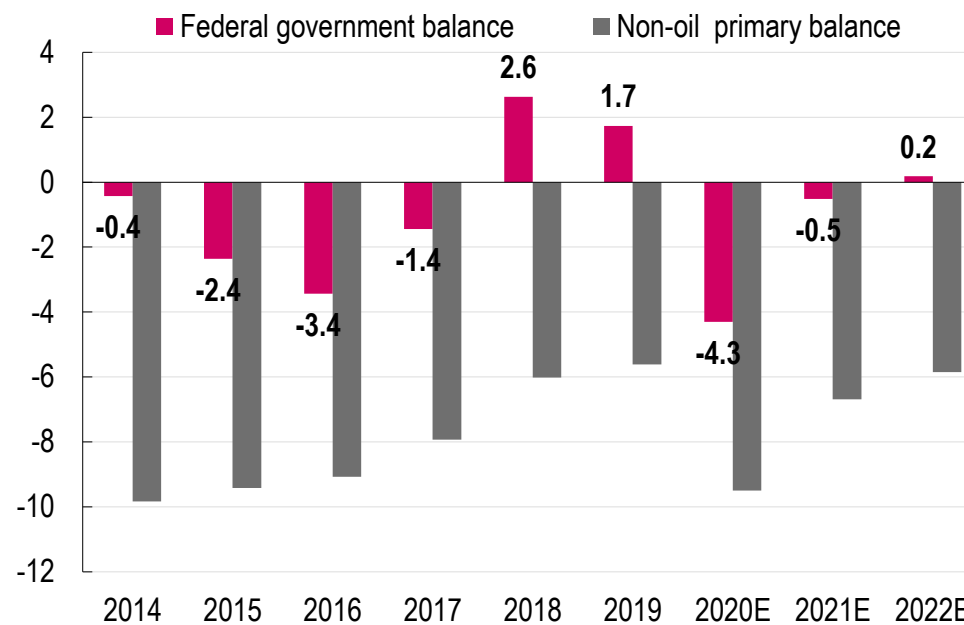
- 2021-2022 **fiscal consolidation will be softer** than 2016-2019 in terms of fiscal expenditures
- **OFZ placements will be moderate** at RUB2.5-3.0trn in 2021-2022 after RUB4.5trn in 2020
- Further **non-oil tax increases** are highly likely in the medium-term

Federal budget parameters, RUB trn

	2019	2020E	2021E	2022E	2023E
Revenues	20,2	17,8	18,8	20,6	22,3
% of GDP	18,5	16,7	16,2	16,6	16,7
Expenses	18,3	22,6	21,5	21,9	23,7
% of GDP	16,7	21,1	18,6	17,6	17,8
Balance	1,9	-4,8	-2,8	-1,3	-1,4
% of GDP	2,6	-4,4	-2,4	-1,0	-1,1
GDP	109,4	106,9	115,7	124,0	132,9

Source: Minfin

Budget balance, % of GDP

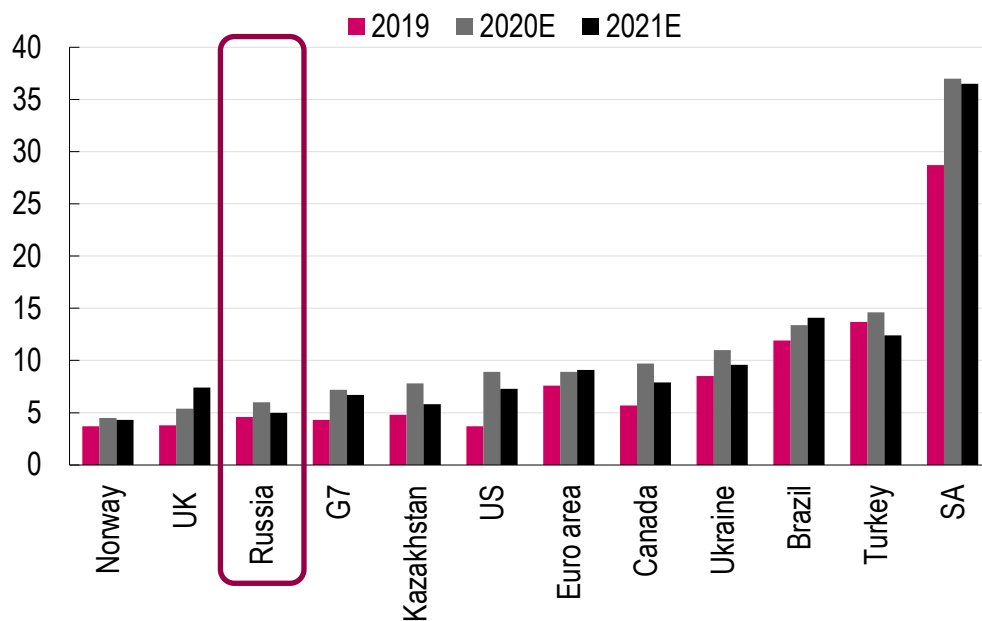


Source: Minfin, Federal Treasury, Renaissance Capital estimates

ROBUST EMPLOYMENT SUPPORTS SENTIMENTS

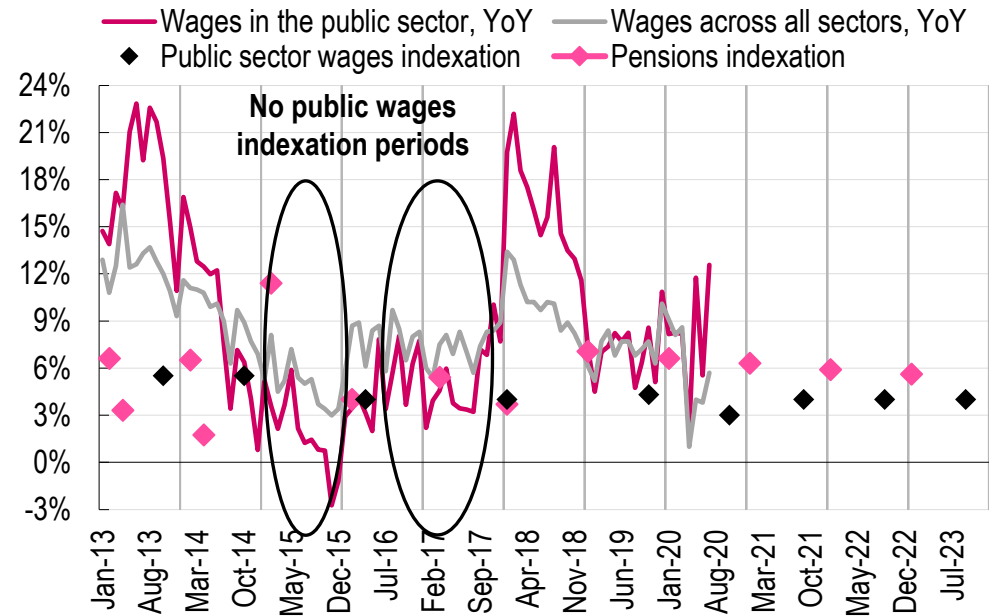
- Robust employment supported by labour supply shortage (labour force decreased by 6% in ten years) and government measures
- The **government plans above 5% indexations in the budget sector and targets 3% YoY real wage growth** in 2021-2022

Unemployment rate



Source: IMF, Renaissance capital estimates

Public sector wages and pension dynamics

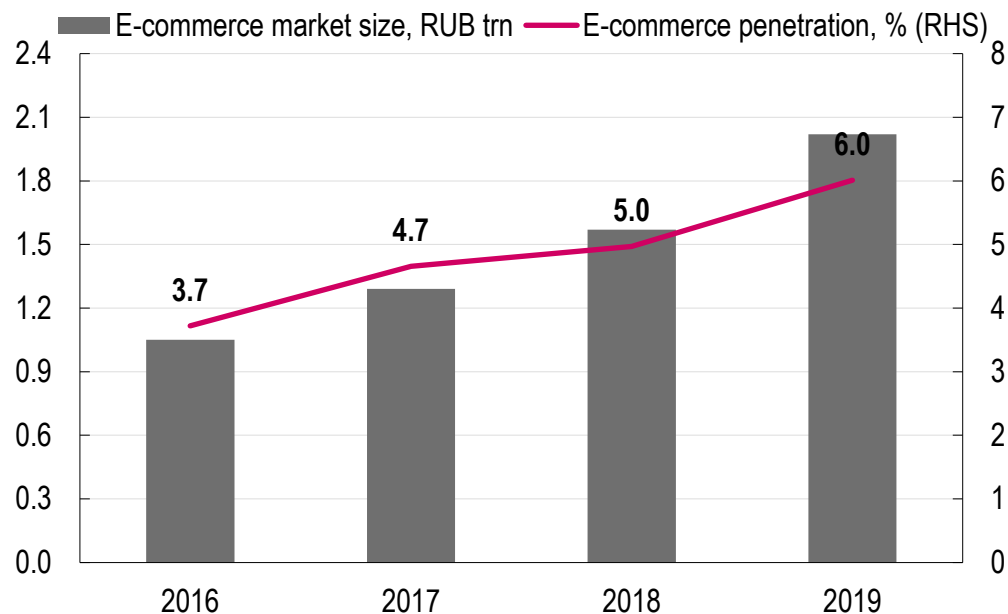


Source: CBR

E-COMMERCE: SCOPE FOR STRONG GROWTH

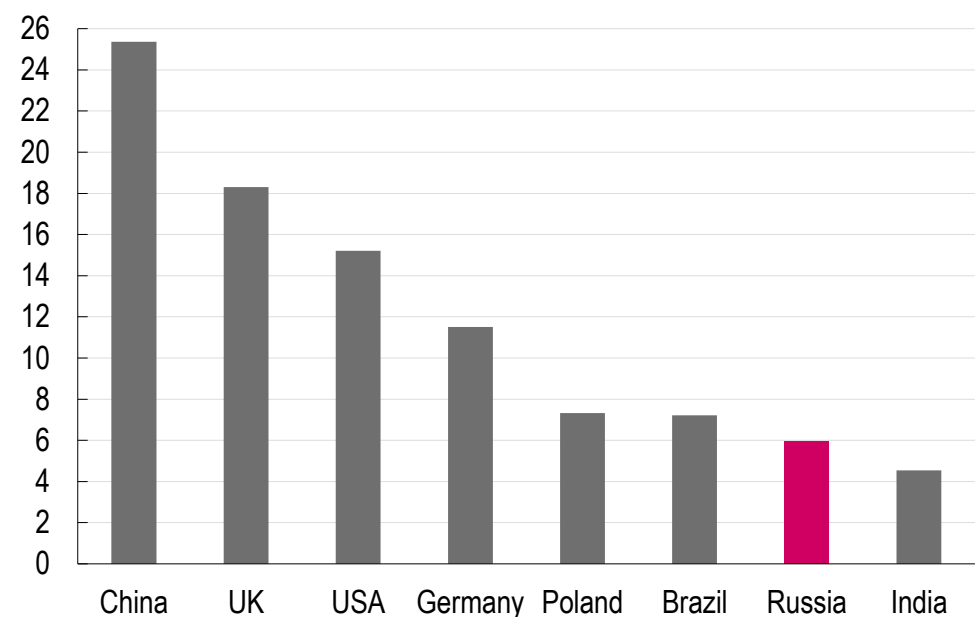
- E-commerce could increase by 10-20% in 2020
- A scope for growth in penetration remains high
- Discussing **consumer market in Russia** in our **Panel Discussion today** at 12:30 (GMT)

E-commerce penetration in Russia



Source: Infoline

E-commerce penetration in 2019, %



Source: Infoline

KAZAKHSTAN: OIL SCENARIOS

- Kazakhstan remains a **top macro story** in the CIS+ region for us
- A mix of strong fundamentals, solid accumulated buffers and a decent policy response are helping the economy to withstand the oil market slump and two domestic lockdowns at a moderate cost
- Oil remains important for KZT outlook, the growth is less sensitive

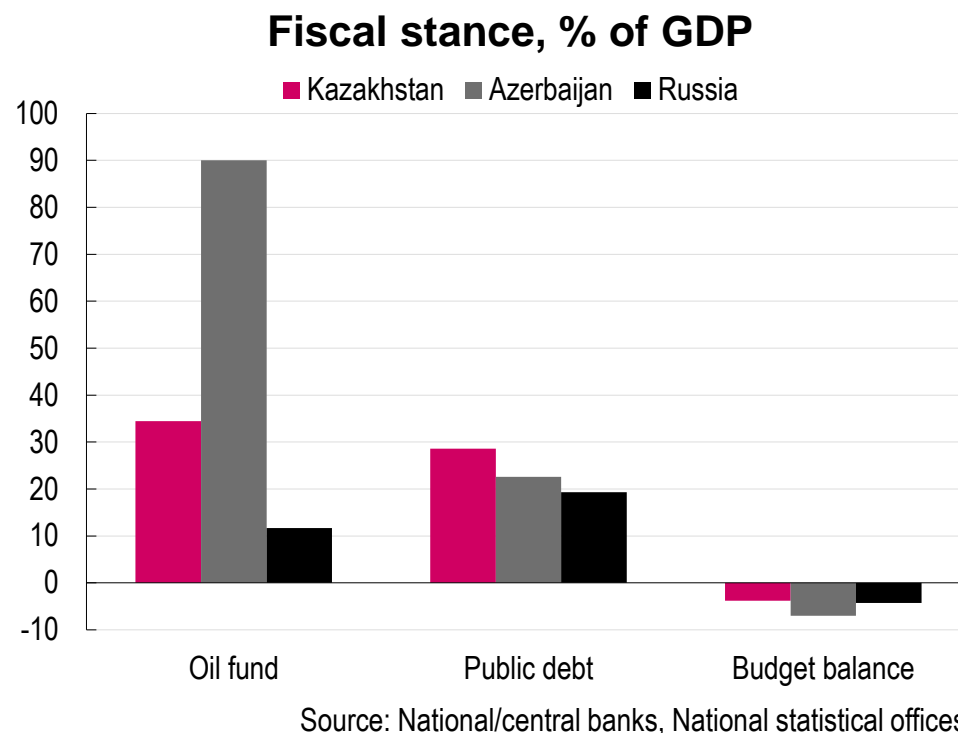
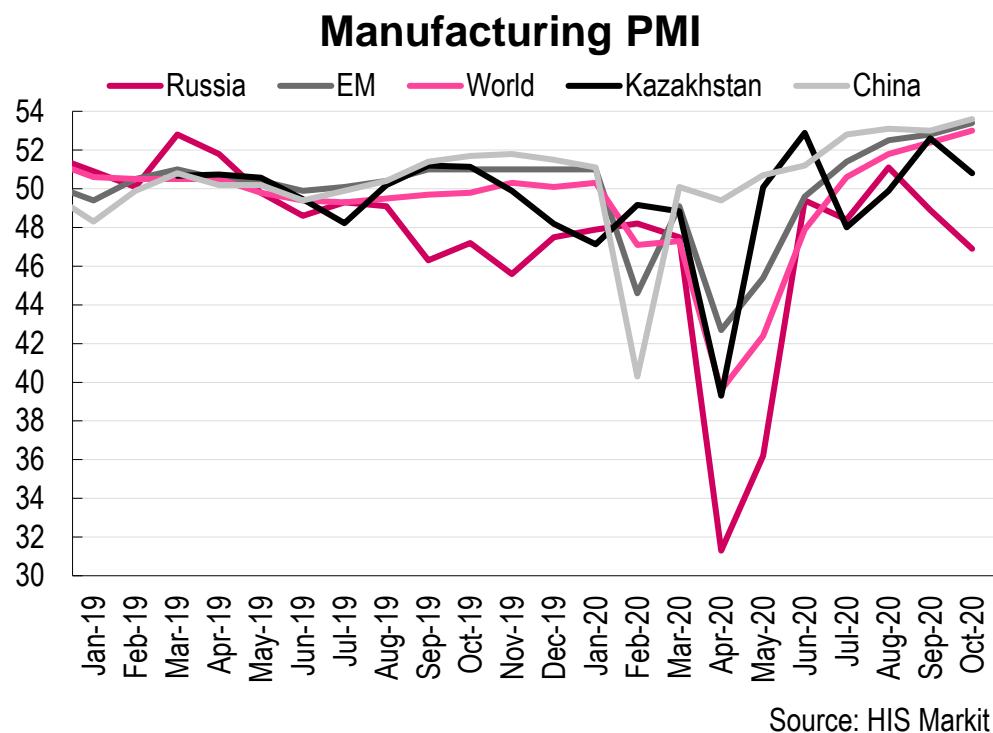
Oil price scenarios for Kazakhstan

Year	2019	2020E	2021E						2022E
Brent oil, \$/bl	63	43	70	60	50 Base case	40	30	20	50
Real GDP growth	4.5%	-2.2%	6.3%	5.8%	5.1%	4.2%	3.3%	2.1%	4.2%
KZT/\$, annual avg	381	414	375	398	414	430	462	505	411
Inflation, annual avg	5.6%	7%	5.8%	6.5%	6.9%	7.1%	8.0%	8.6%	4.9%
Policy rate by year-end	9.50%	9.00%	8.50%	8.75%	9.00%	9.50%	10.00%	10.50%	8.00%
Current account, % of GDP	-3.3%	-4.5%	-1.0%	-1.8%	-3.4%	-4.2%	-5.8%	-7.0%	-3.8%
GDP, \$bn	182.5	166.3	208.1	195.2	186.4	177.9	164.1	148.4	205.2

Source: Renaissance Capital estimates

KAZAKHSTAN: SOLID FISCAL

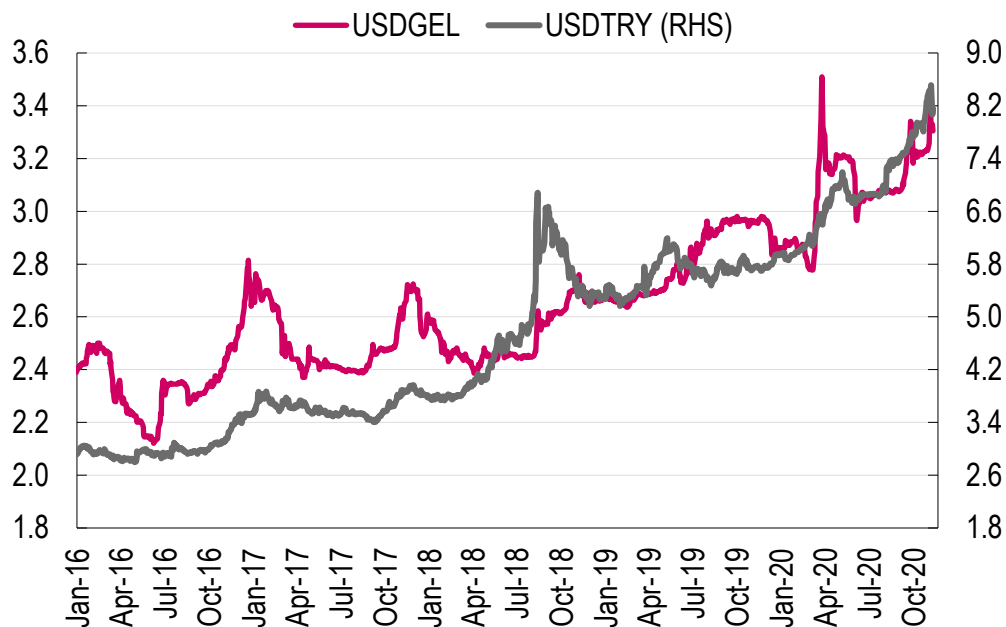
- The share of oil & gas revenues in the fiscal balance of Kazakhstan is the lowest among three CIS+ oil exporters (below 30%)
- No risk for **BBB** sovereign rating



GEORGIA: LARI SENSITIVE TO POLITICAL TENSIONS

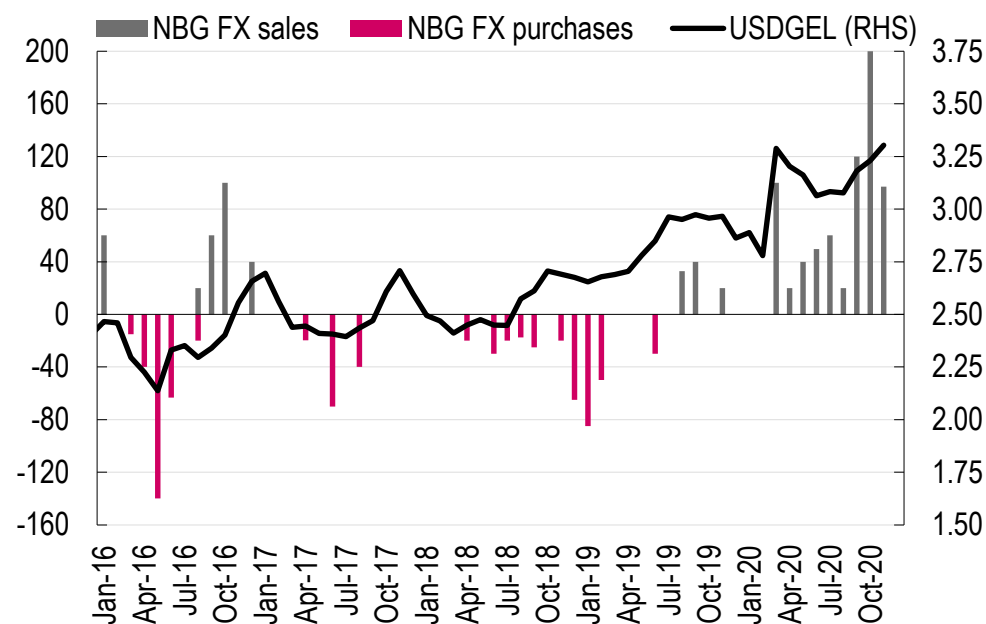
- Post-election political tensions are filtering into GEL and sentiments
- Our base case (70%) – a resolution of the conflict between the ruling party and the opposition until end-2020 with the mediation of external arbiters
- We see the lari at GEL3.3-3.4/\$ until December, appreciating to GEL3.1-3.2/\$ in the start of 2021 and to GEL2.9-2.95 by mid-2021/\$

Georgian lari and Turkish lira



Source: Bloomberg

NBG FX operations, \$mn
(unless otherwise stated)

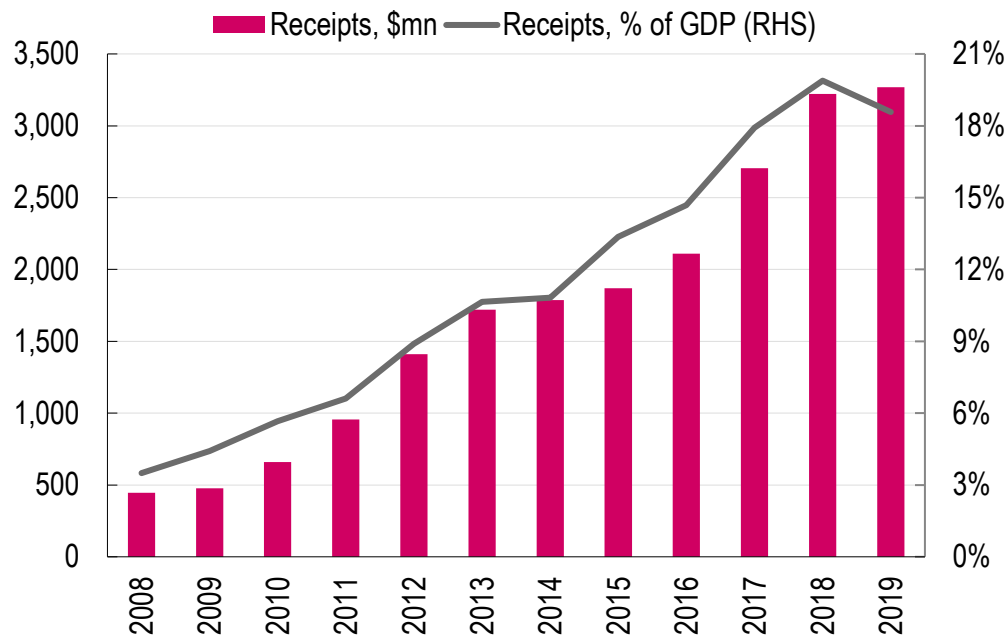


Source: NBG

GEORGIA: POTENTIAL TOURISM REBOUND

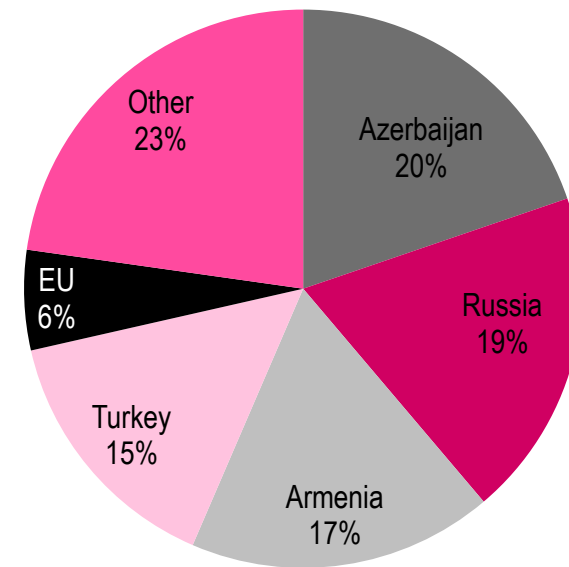
- Tourism could rebound fast in 2021 given the regional nature of the inflow – **80% regional visitors**
- Non-tourism industries performed impressively strong in 2020 – GDP **contraction at 5.0% in 9M20**

International travel receipts



Source: Georgian National Tourism Administration

International visitor trips to Georgia in 2019



Source: Georgian National Tourism Administration

CIS+: GROWTH AND INFLATION

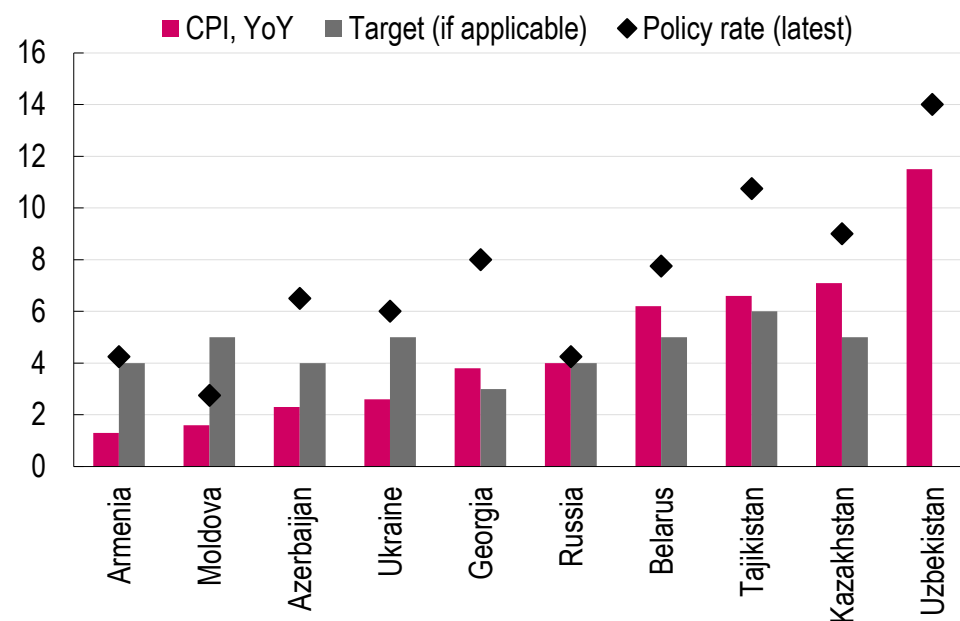
- **No inflation spikes** were seen across the CIS+ countries
- **Uzbekistan** is the only country to avoid recession in 2020 – **one of the strongest medium-term growth stories**
- The growth in 2020-2021 in **Kazakhstan** and **Russia** can surprise on the upside

CIS+ GDP growth, % YoY

	Renaissance Capital			IMF (Oct-20)	
	2019	2020E	2021E	2020E	2021E
Armenia	7.6	-6.5	3.5	-4.5	3.5
Azerbaijan	2.2	-3.5	2.9	-4.0	2.0
Belarus	1.2	-3.6	1.8	-3.0	2.2
Georgia	5.1	-5.8	6.1	-5.0	5.0
Kazakhstan	4.5	-2.2	5.1	-2.7	3.0
Moldova	3.6	-5.5	4.0	-4.5	4.1
Russia	1.3	-3.3	3.8	-4.1	2.8
Tajikistan	7.5	-1.3	5.5	1.0	6.0
Ukraine	3.2	-5.5	2.8	-7.2	3.0
Uzbekistan	5.6	1.5	5.6	0.7	5.0

Source: National statistical offices, IMF, Renaissance Capital estimates

Inflation and policy rates in CIS+, %

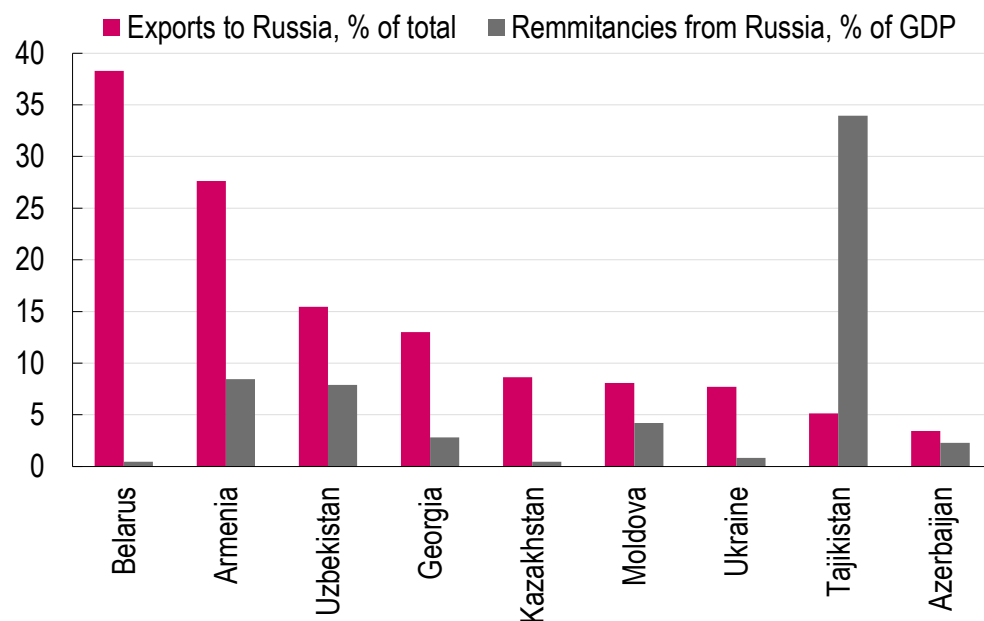


Source: National/central banks, National statistical offices

CIS+: 2021 RECOVERY

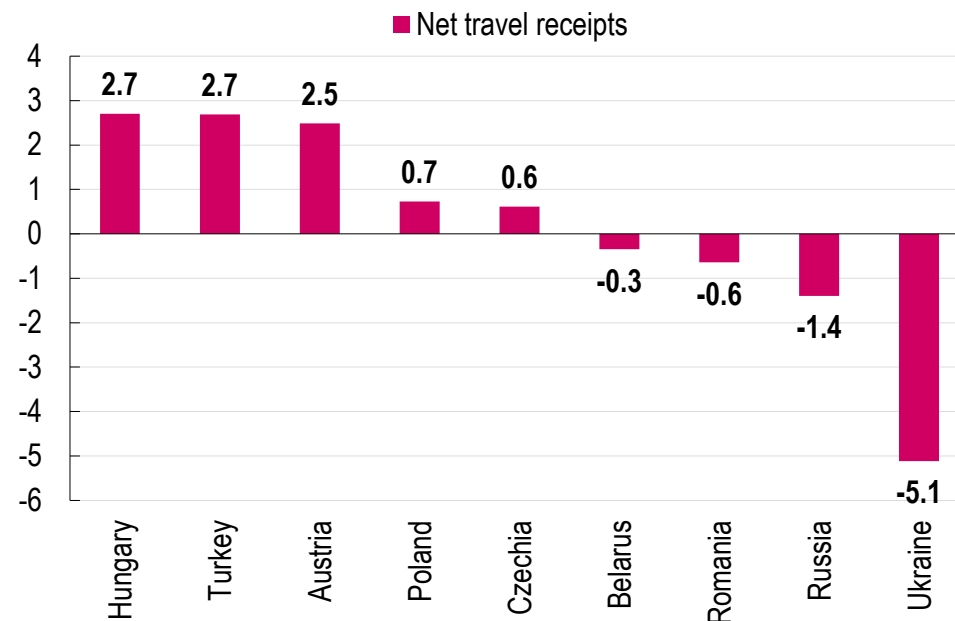
- 2021 to reverse losses of 2020 for **services sector** that has the highest share in **Georgia, Armenia, Moldova**
- An **exposure to Russia** remains the highest for **Tajikistan, Armenia, Belarus and Uzbekistan**

CIS+ exposure to Russia



Source: National/central banks, National statistical offices, Renaissance Capital

Net travel receipts, % of GDP

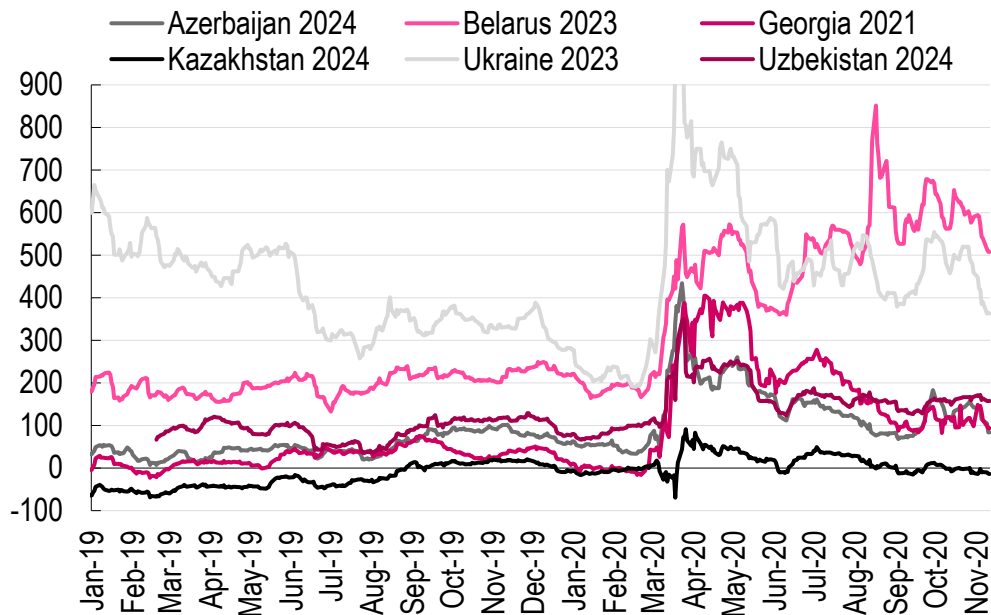


Source: UNCTAD

CIS+: EUROBONDS

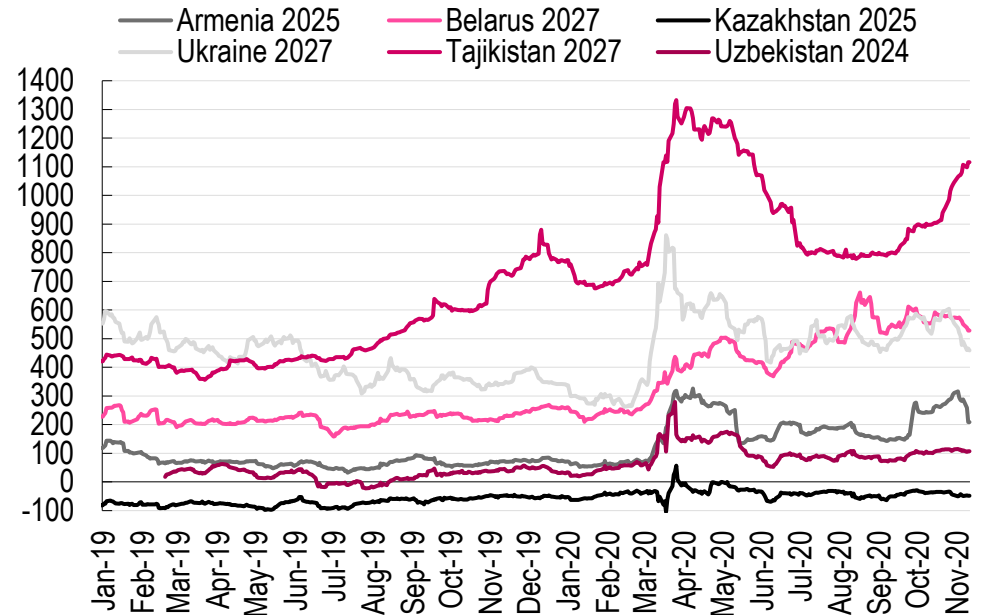
- Only one sovereign rating downgrade in 2020 in CIS+ region (**Armenia** – from BB- to B+)
- Potential for spread compression remains for **Belarus, Tajikistan** in 3-6 months horizon, for **Ukraine** – in 12 months horizon
- Potential eurobond placements in 2021 from **Kazakhstan, Russia, Uzbekistan, Ukraine, Georgia, Moldova**

CIS+ eurobonds spread to Russia 2023, bps



Source: Bloomberg

CIS+ eurobonds spread to Russia 2026, bps



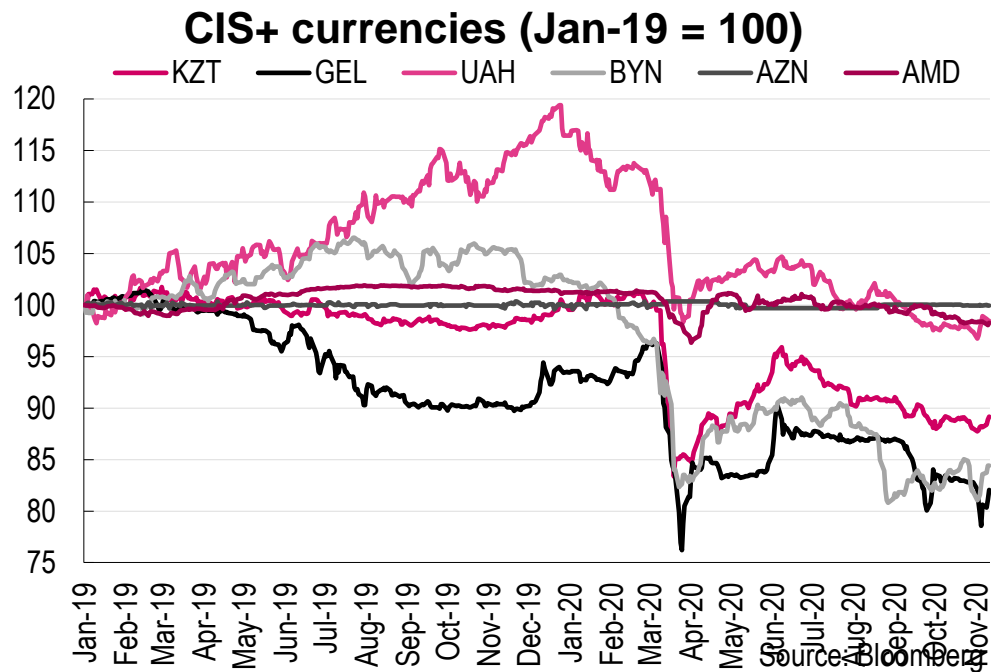
Source: Bloomberg

POLITICAL DEVELOPMENTS TO BE MONITORED

- A timing of the deal around Nagorno-Karabakh was a positive surprise
- Domestic **political developments in Armenia to be monitored**

2021 CIS+ elections – minor risks for now:

- Kazakhstan – Parliament 1Q21
- Russia – Parliament 3Q21
- Uzbekistan – President 4Q21



Armenia-Azerbaijan peace deal

- Armenian forces to withdraw by 15 Nov
- Armenian forces to withdraw by 20 Nov
- Armenian forces to withdraw by 1 Dec
- Areas regained by Azerbaijan in the war
- Area of deployment for Russian peacekeepers

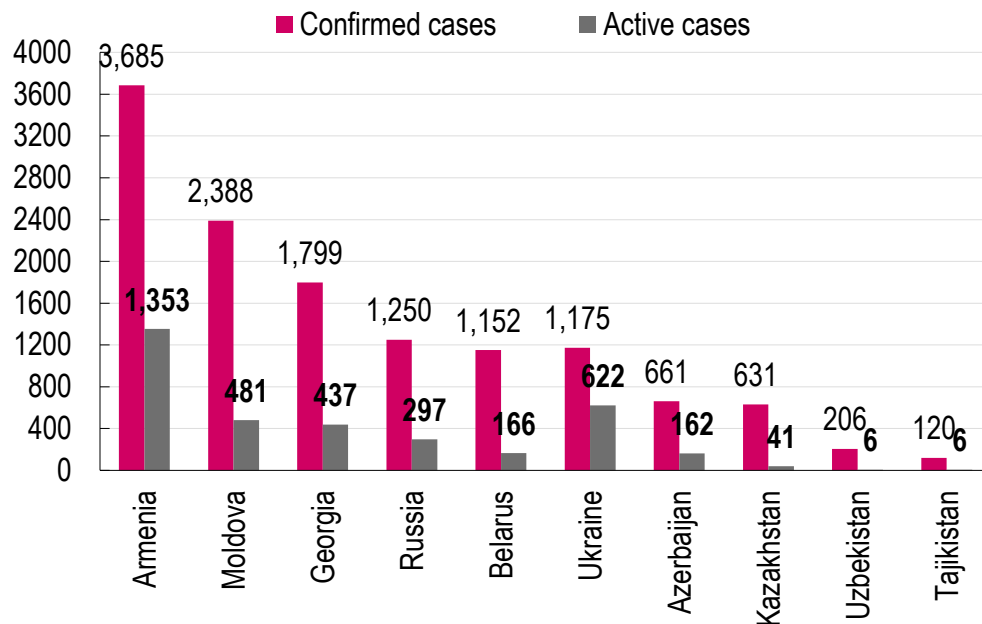


Source: BBC

CIS+: COVID-19

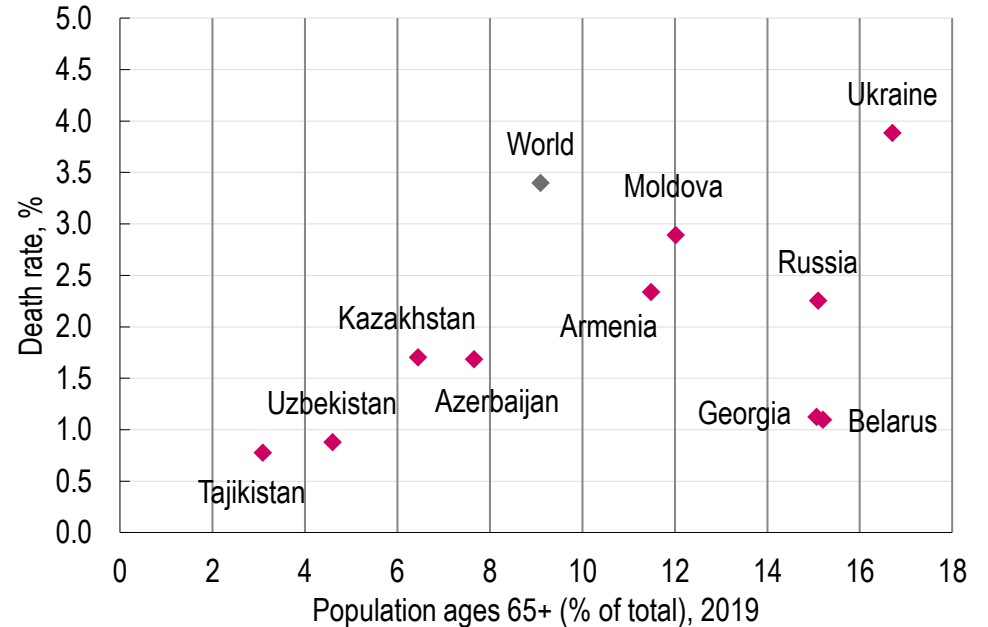
- Costs of COVID-19 will be lower for younger countries, including Kazakhstan, Uzbekistan and Tajikistan
- No heavy lockdowns are expected in CIS+

COVID-19 cases in CIS+, per 100k



Source: Johns Hopkins University, WHO, IMF, Renaissance Capital

COVID-19 death rate vs age distribution



Source: World Bank, Johns Hopkins University, Renaissance Capital

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 - Elections in Belarus, Georgia, Moldova
 - Military conflict in Nagorno-Kharabakh
- **We expect a rebound in 2021-2022 supported by**
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 - ✓ Decent policy stimuli
 - ✓ Solid domestic demand
 - ✓ Stronger sentiments on EM
- **...political development to be monitored**

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