

# CECE Economic Forum

17 October 2014, 9.30 am to 1pm  
Crowne Plaza, Antwerp



CECE Congress 2014 - 15, 16, 17 October - Antwerp, Belgium



“How to survive in volatile and unpredictable markets”

Joerg Bongartz, Chairman of the Board  
Deutsche Bank Russia

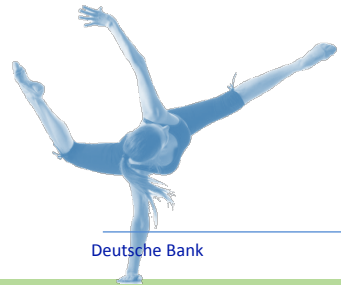


CECE CONGRESS 2014  
Antwerp, Belgium





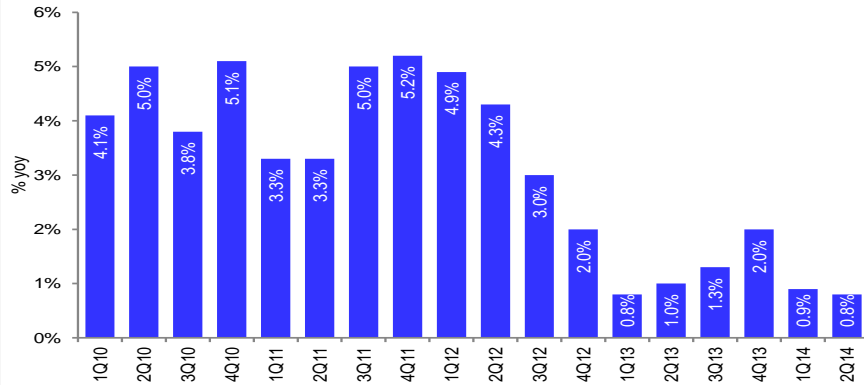
# I. Russia's economy: renewed concerns on the growth front



# GDP growth dynamics: slowdown continues

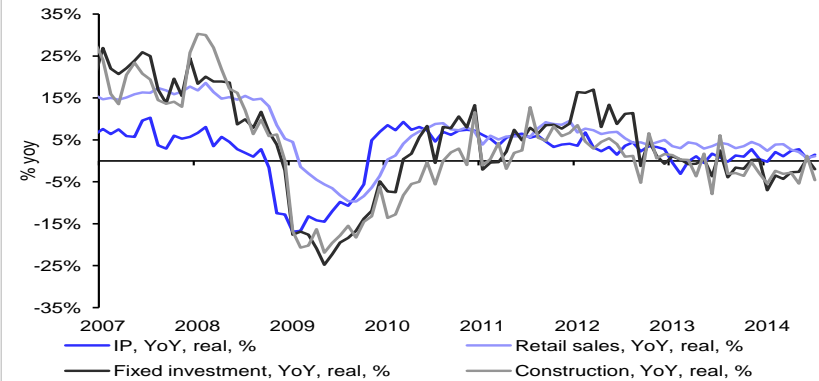


## Russia GDP growth dynamics, yoy



Source: Rosstat, Ministry of Economy, Deutsche Bank

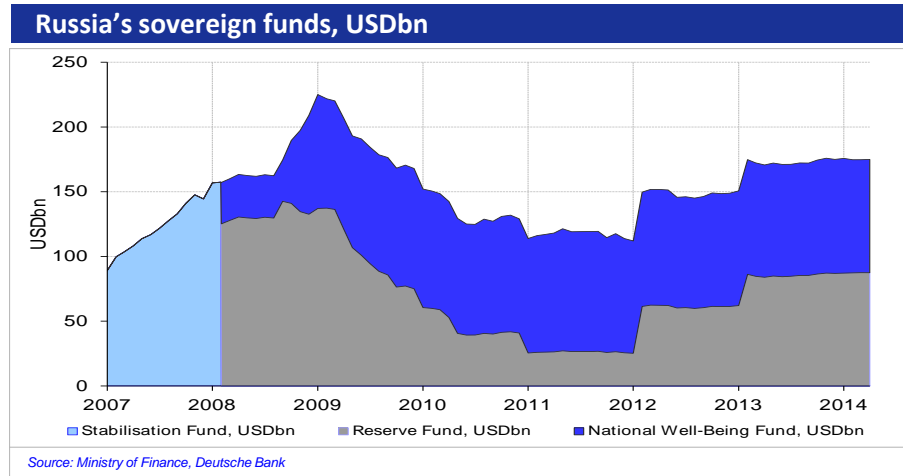
## Russia's key economic indicators



Source: Rosstat, Deutsche Bank

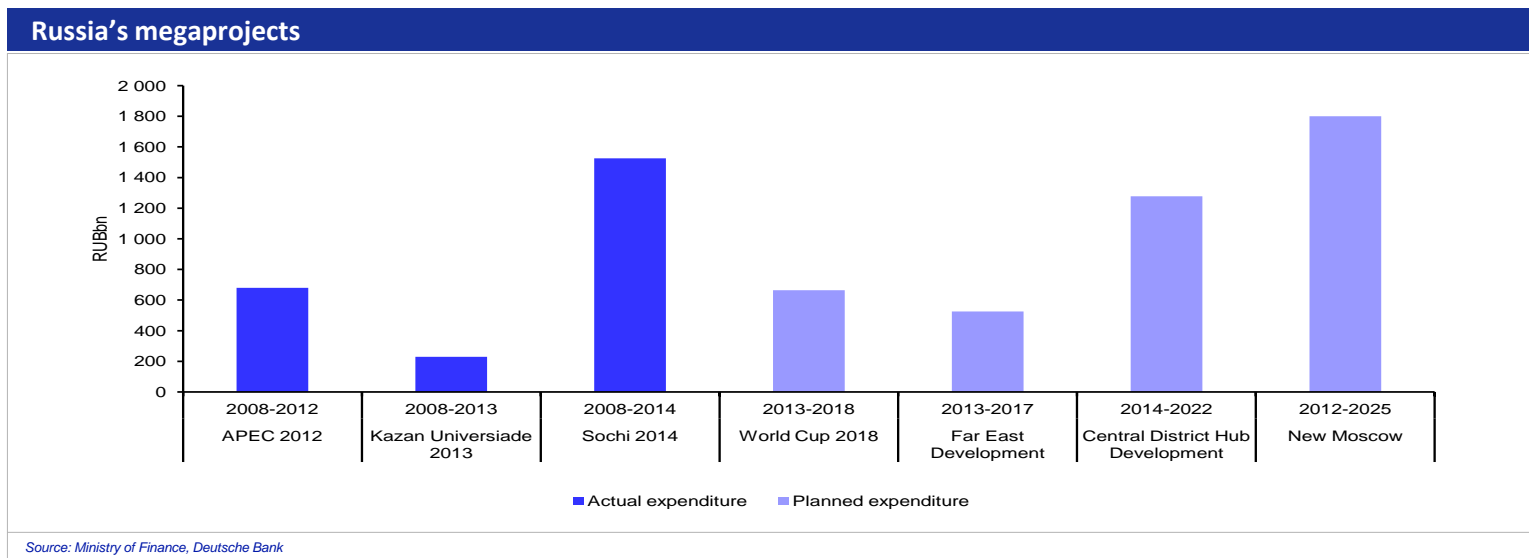
- The most recent data from Rosstat suggests that the economy continued to slow down in 2Q14 as GDP growth decelerated to 0.8 yoy after exhibiting 0.9% growth yoy in 1Q14.
- Industrial production accelerated to 2.5 yoy in 2Q14 ...
- ... mainly on the back of ruble depreciation, with higher production from export-oriented industries, namely metals production, chemicals and refining
- The main driver of growth of past several years, consumption, continued to decelerate with its proxy, retail sales, moderating to 1.9 yoy in Q2 2014 from 3.5 yoy in 1Q14 and 3.7 yoy in 2013.

# Sovereign funds: bastions of macro stability



- At the peak, June 2009, the size of the two oil funds amounted to USD220bn
- After the crisis, the two funds were reduced to slightly above USD110bn
- As of now the total size of the two funds is close to USD 180 bn
- Ministry of Economy estimates the amount of the Reserve Fund at 7% GDP by 2017, if the favorable conditions persist in the long term.

# Top-down modernization: megaprojects



- Sochi provided an important impetus to growth in Southern Russia
- Another infrastructural “hot spot” is the Russian Far East (one of the most depressed regions in Russia currently). Overall, about RUB560bn are to be directed to the renovation of Trans Siberian and Baikal-Amur railways.
- In the longer term, the most important event will likely be the 2018 FIFA World Cup...
- ... as well as development of new Moscow areas.

# Public infrastructure: decrepit and in need of repair



Infrastructure segment	Main features
<b>Railways</b>	
Railcar park (years)	average age 16 years vs. useful economic life of 38 years
Locomotives (years)	average age 27 years vs. useful economic life of 35 years
Average speed of cargo trains	220km per day
Bottlenecks (km)	7,600km or 8.9% of total
<b>Highways</b>	
Hard surface (%)	80% of total
Up to international standards	5% to total
Requiring capital repairs	65% of total
Bottlenecks, km	13,000km or approximately 27% of total
<b>Housing</b>	
Rundown rate (%)	3.00%
Housing stock	2000-2012 CAGR 1.5%, 2005-2012 CAGR 1.8%
Floor space per capita, sq,m	23.4
<b>Public utilities</b>	
Fully depreciated	40.8% in 2012

Source: Rosstat, Ministry of Transport, Ministry of Economy, Vedomosti, Kommersant, Deutsche Bank

# Infrastructure stimulus set to be unleashed



## Projects financed from National Well-being fund

National Wellbeing Fund (RUB2.9tr)

BAM, Transsib

RUB150bn

Central Ring Road

RUB150bn

Kyzyl-Kurgagino  
rail road

RUB86bn

Smart power  
grids (Rosseti)

RUB12bn

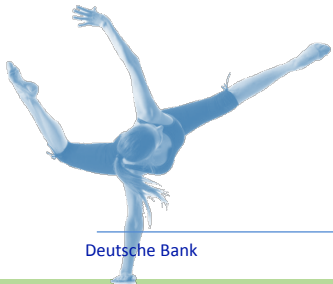
Nuclear Plant  
Hanhikivi

RUB116bn

Liquidation of  
digital inequality

RUB27bn

Source: Vedomosti, Interfax, Lenta.ru, RBC, Ministry of Economy, Ministry of Finance, Deutsche Bank

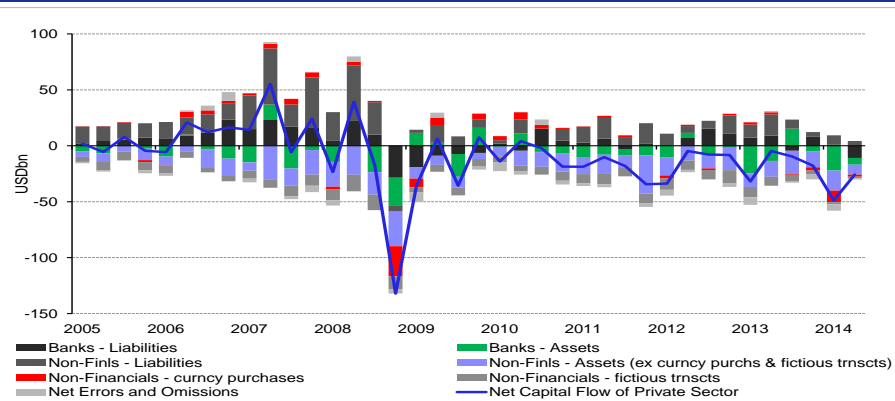




# External sector: net capital flows decelerate

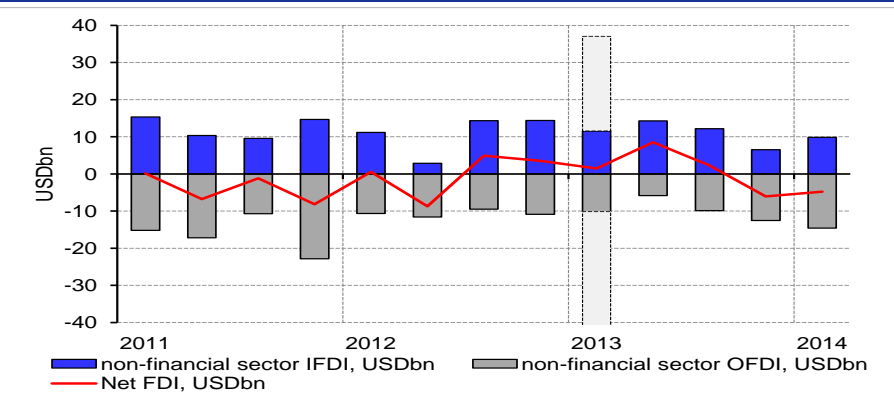


## Net Capital Flows, USDbn



Note: data in 1Q13 is adjusted to TNK-BP deal. Source: Bloomberg Finance LP, CBR, Deutsche Bank

## FDI, USDbn (adjusted to Rosneft/TNK-BP deal)



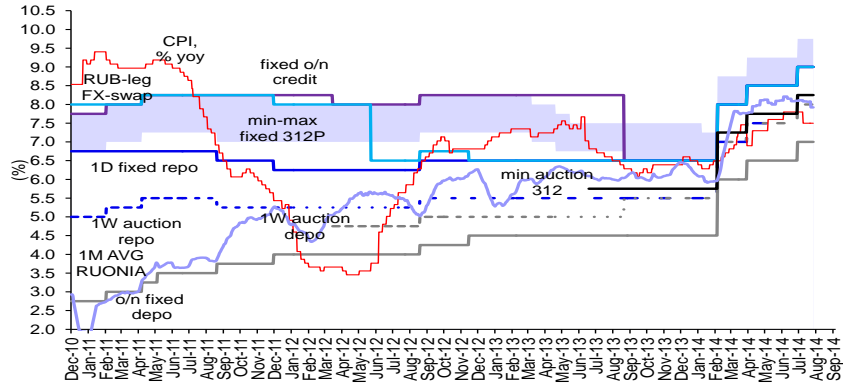
Source: CBR, Bloomberg Finance LP, Rosneft, Vedomosti, Deutsche Bank estimates

- In Q1 2014 Russia witnessed the second highest net capital outflow in all of its history, with net outflows reaching USD49bn (the previous high was USD130bn in Q4 2008)
- In Q2 2014 net outflows decelerated to USD25.8bn, providing scope for some recovery in the ruble and fixed investment growth
- The scale of “capital flight” associated with the so-called suspicious/shadow operations has declined in H1 2014 to USD3.6bn compared to USD17.4bn in H1 2013

# CBR: inflation is the main concern

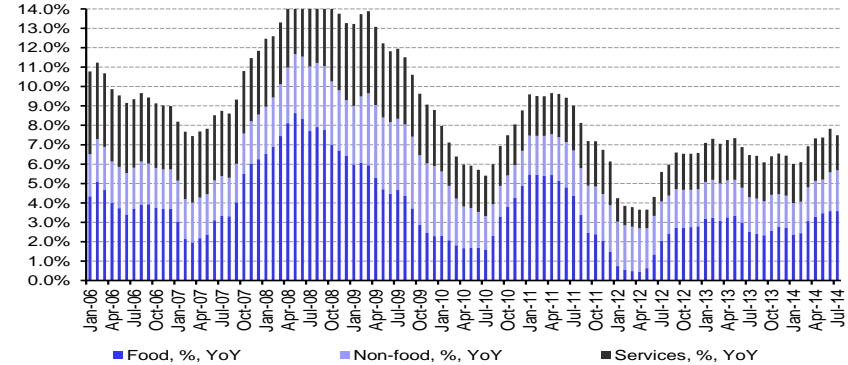


## Monetary policy interest rates



Source: Central Bank of Russia, Bloomberg Finance LP, Deutsche Bank

## CPI dynamics by components



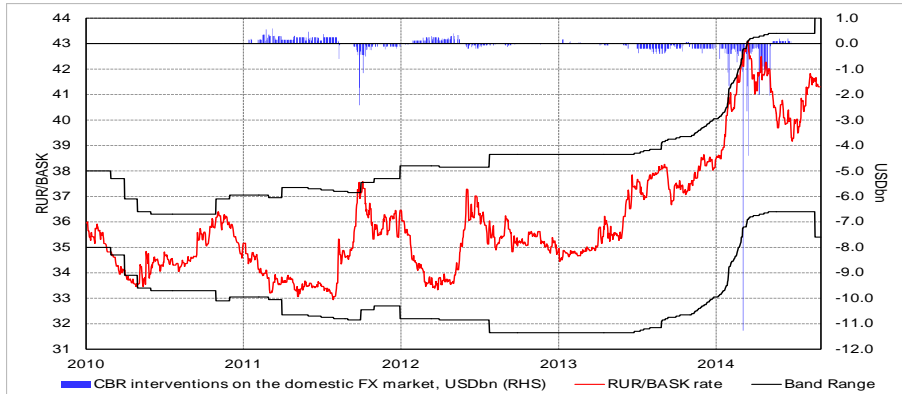
Source: Rosstat, Deutsche Bank

- Inflation is currently the main macroeconomic concern for the CBR, with 12-month CPI reaching 7.6% in the first half of August 2014 ...
- ... which is significantly above the 5% level set by the CBR earlier this year as its target
- One of the key factors stoking inflationary pressures is ruble depreciation
- Another acute concern is food sanctions imposed by Russian government against US, EU, Norwegian, Australian and Canadian importers

# CBR: Ruble flexibility to increase

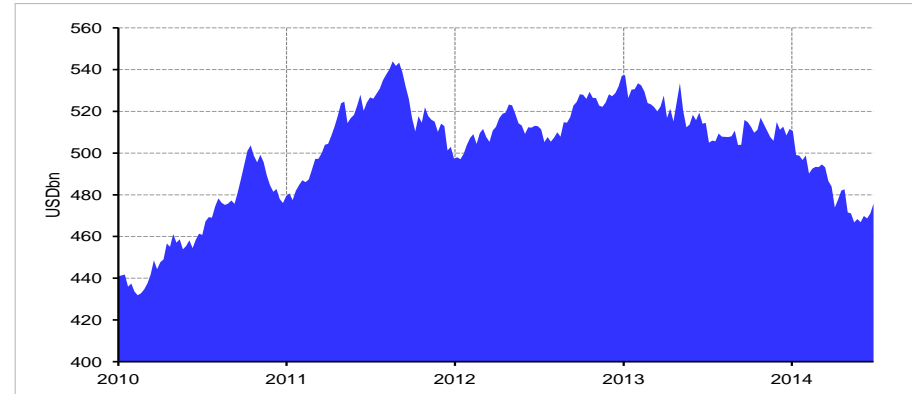


## RUB/BASK targeted band and interventions



Source: Central Bank of Russia, Bloomberg Finance LP, Deutsche Bank

## International Reserves, USDbn



Source: Central Bank of Russia, Deutsche Bank

- Due to the sharp RUB depreciation in 1Q14, CBR increased cumulative interventions to USD1.5bn (every USD1.5bn sold led to a 5 kopecks shift in the targeted interval), then made it discretionary. In July, the CBR decreased the scale of cumulative interventions to USD1bn, which signaled a gradual return to the principles of greater exchange rate flexibility and inflation-targeting
- In mid-August CBR widened the band range from RUB/BASK7.0 to RUB/BASK9.0 with no interventions inside the range and decreased cumulative interventions to USD350m
- The CBR is planning to abandon exchange rate targeting vs the dual currency basket by 2015.

# Rapid deceleration of capital outflows



Scenario	Description	Capital Flight, USDbn	GDP, yoy	USD/RUB
<b>Optimistic scenario/ Buy</b>	military operation in eastern Ukraine is discontinued. Russia does not send troops to eastern Ukraine, withdraws troops from the border and eastern regions receive greater autonomy after discussions with Kiev authorities	USD80-90bn	>1 yoy	RUB/USD33-34
<b>Base-case scenario/ Neutral</b>	military operation in the eastern part of Ukraine continues, with discussions on decentralization providing greater autonomy to the regions. Russia does not intervene militarily in eastern Ukraine	USD100-120bn	0.5-1 yoy	RUB/USD34-35
<b>Pessimistic scenario/ Sell</b>	military operation in Ukraine escalates and expands to other regions, discussions on decentralization break down and Russia facing further rounds of sanctions from the West	USD130-150bn	-1-2 yoy	RUB/USD36-37
<b>Most pessimistic scenario/ Sell</b>	military escalation in eastern Ukraine triggers Russia's military intervention and an escalation in sanctions against Russia	>USD200bn	-4 yoy	RUB/USD44-45

# Conclusion: drivers and risks

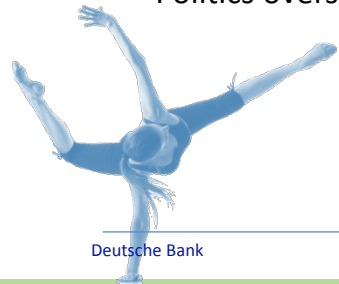


## Drivers at the macro level:

- Economic stimulus via use of sovereign funds
- Improvements in state companies' operational efficiency
- Infrastructure development

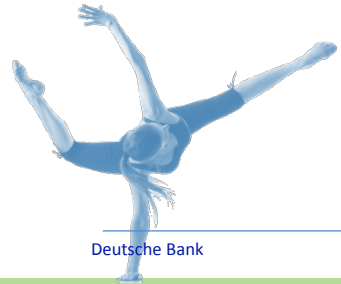
## Risks:

- Geopolitical risk and the escalation of sanctions
- Global economy backdrop: renewed global slowdown
- A wrong paradigm of modernization that targets higher spending rather than higher efficiency
- Politics overshadows economic priorities/reform agenda





## II. International Companies Doing Business in Russia



# Increased levels of uncertainty influence business climate\*



## Current situation

### Current crisis dynamics

- *Significantly weaker economic environment even before the Ukrainian crisis*
- *First indicators of a serious economic crisis*

### Uncertainty influences level of activity of market participants

#### Russian companies

- **Planned investment rescheduled**
- Test of possible options to diversify
- **Financing resources** scarce and expensive

#### Domestic market

- Inflation, Ruble devaluation, decreasing wages
- **Uncertain future developments**
- „Flight“ in high value fixed assets

#### German companies

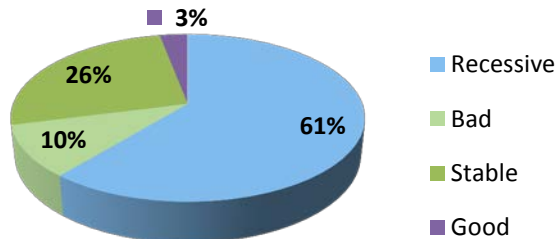
- Operate „**at sight**“
- **Reluctant** in investment planning
- **Turnover** affected both in positive and negative direction

\*Source: Deutsch-Russischen Auslandshandelskammer und EAC- Euro Asia Consulting OOO

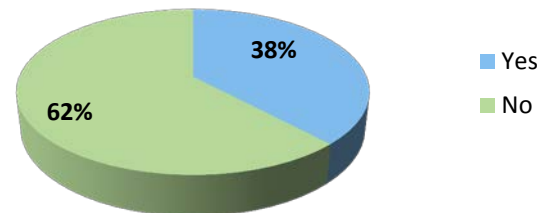
# German Business in Russia: Survey Results\*



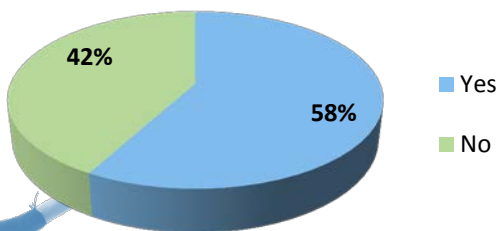
How do you rate current economic situation in Russia?



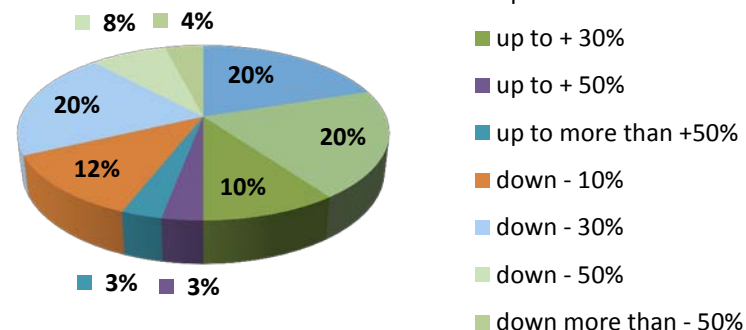
Do sanctions impact your business?



Does the Ukrainian situation directly impact your business?



How will develop turnover of your company until the year end?



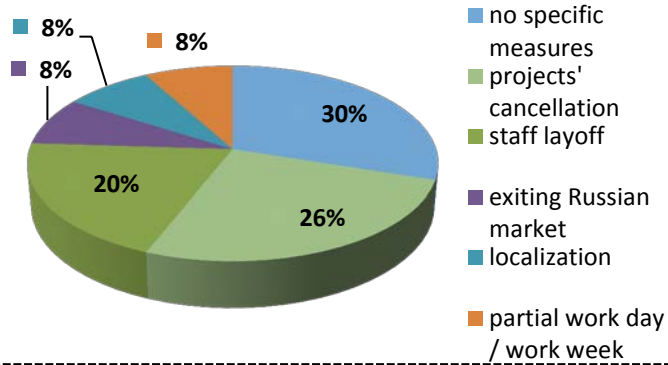
\*Survey conducted by Deutsch-Russischen Auslandshandelskammer; results announced in September 2014.



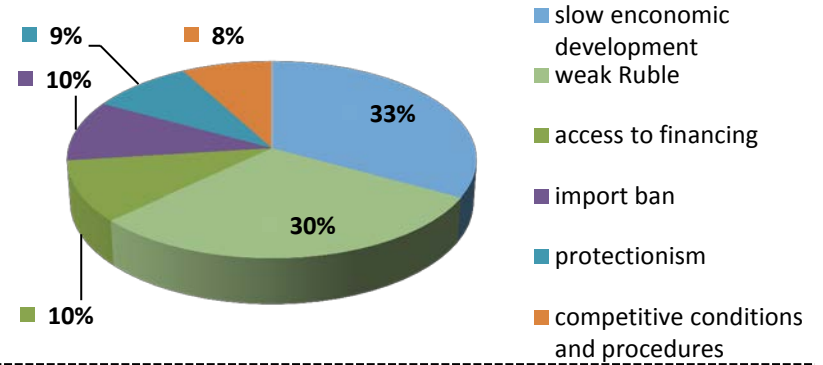
# Survey Results\*



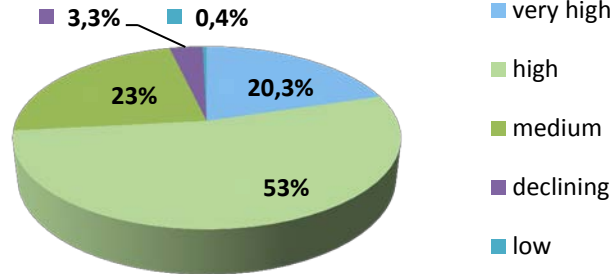
What measures you will be forced to take in current economic environment?



What framework conditions are most tangible for you?



How do you evaluate potential of the Russian market from a long term perspective



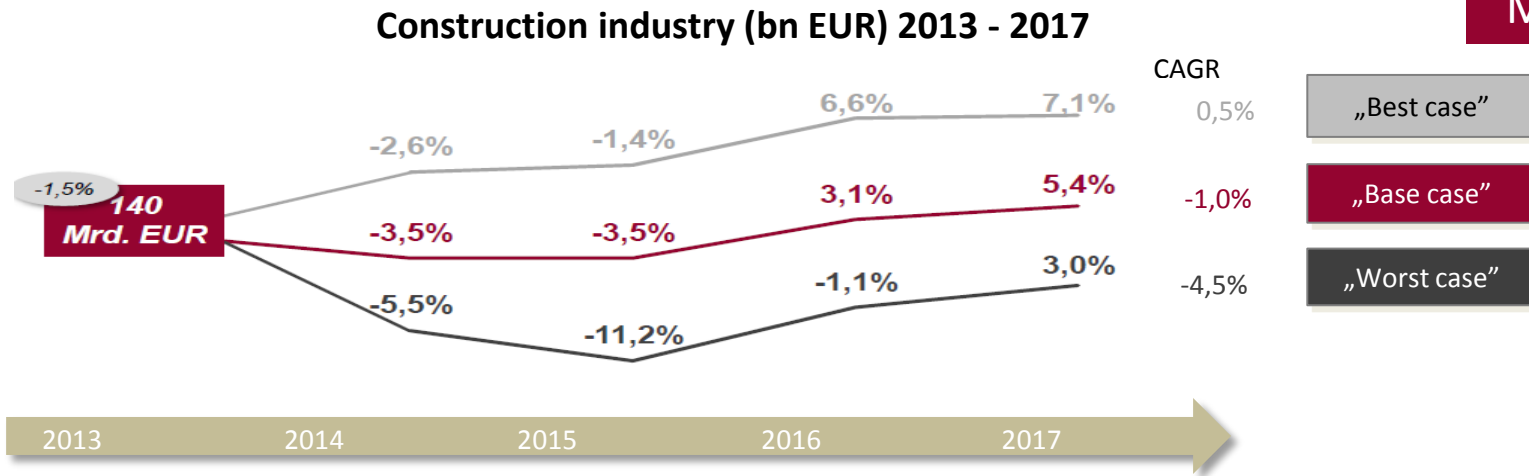
\*Survey conducted by Deutsch-Russischen Auslandshandelskammer; results announced in September 2014.



# Construction sector less affected thanks to government investment and will return into positive territory in 2016\*



Model



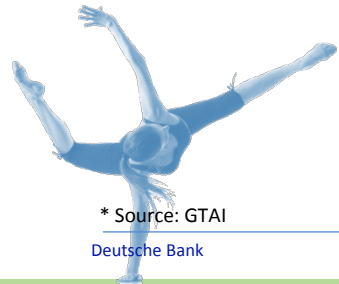
- Market stabilised due to strong demand in residential real estate
- Active involvement of state construction programmes and investment projects
- Planned infrastructure projects most likely to be delayed until 2015/16
- Long-term impuls can be expected from 2018 FIFA Worldcup and Moscow city expansion

\* Source: Deutsch-Russischen Auslandshandelskammer und EAC- Euro Asia Consulting OOO

# Market snapshots - Commercial and residential building\*



- USD 1.6 bn invested in commercial real estate in Q1 and 2 (minus 57% against Q1/2 2013)
- Long term attractiveness of Moscow area (new ring road)
- High lease rates (ca 100% higher than in Central and Eastern Europe), albeit decreasing levels
- Large scale projects to transform former industry areas into commercial and residential areas (Moskvich, Zil)
- Overcapacities in office space: 2014: 1million sqm new space in Moscow
- Special trend: sports facilities. Moscow: 38 new projects until 2016
- Residential real estate: headwinds – after 13% growth in 2013 now lower real income and rising interest rates
- Industrial construction: energy and automotive industries – ongoing projects

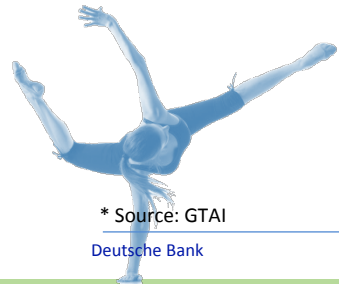


\* Source: GTAI

# Market snapshots - Infrastructure\*



- Rescheduled or shifted projects
- Moscow: public transport, park-and-ride projects, Metro
- High speed railway projects under discussion (Moscow-Kazan)
- Government support for significant rail and road projects (Siberia, Moscow Ring)
- New projects in natural resources: energy, mining in Eastern regions

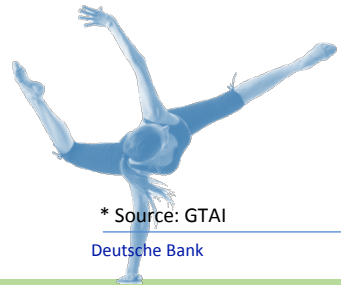


\* Source: GTAI

# Market snapshots - Construction materials: lower growth expectations\*



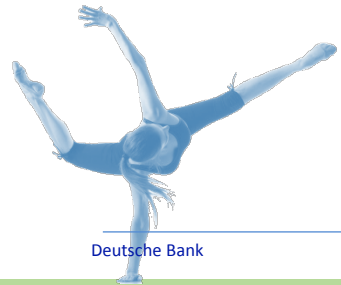
- Lower demand, rising energy and transportation cost in Russia
- Competition from China
- However: still growing production capacities



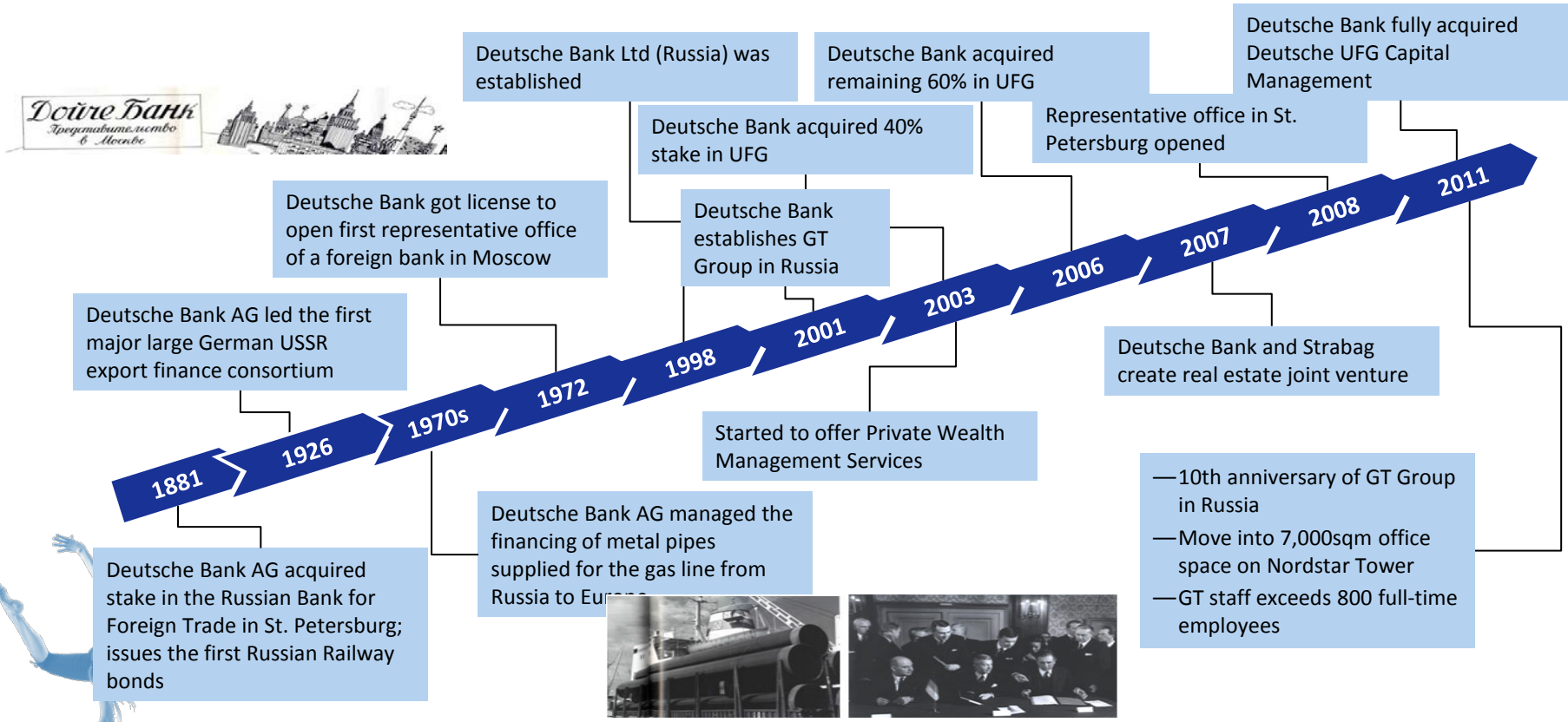
\* Source: GTAI



### III. Deutsche Bank in Russia



# Deutsche Bank in Russia



# Deutsche Bank Product Offering for International Companies in



## Russia

<b>Product Offering</b>	
<b>Financing</b>	<ul style="list-style-type: none"><li>– Short- and medium-term credit facilities</li><li>– Financing of investments</li><li>– Syndicated lending</li><li>– ECA covered financing</li></ul>
<b>Corporate Treasury Sales</b>	<ul style="list-style-type: none"><li>– Plain vanilla and Enhanced yield deposits</li><li>– Structured Products</li><li>– FX</li><li>– Hedging strategies</li></ul>
<b>Cash Management</b>	<ul style="list-style-type: none"><li>– Trade with sovereign, municipal and corporate bonds</li><li>– Current/Deposit accounts in all tradable currencies</li><li>– Overdrafts in RUB, EUR, USD and in other tradable currencies</li><li>– Same day settlement for RUB payments</li><li>– Customs Card</li><li>– Liquidity management (RUB)</li><li>– Cash Collection via Third-party provider (Inkakhran)</li></ul>
<b>Trade Finance</b>	<ul style="list-style-type: none"><li>– Documentary collections</li><li>– Letters of Credit/Guarantees</li><li>– Supplier finance</li><li>– Receivables finance</li><li>– Customs guarantees</li></ul>
<b>Securities Services</b>	<ul style="list-style-type: none"><li>– Portfolio safekeeping</li><li>– Corporate Trustee agency services</li><li>– M&amp;A operations/settlement</li></ul>



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