Country Insight Snapshot

Russian Federation

October 2021

Written 08 October 2021

Overall Country Risk Rating: DB5d Last change: March 2020

R

High risk: Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

Rating Outlook: Stable

WorldWatch Headline

The rating outlook turns 'stable' with 3.8% growth rate in 2021 supported by high-energy commodity prices despite restraints on services activity, automotive output, and semiconductor availability.

Recent Changes

- The current rating of DB5d is close to Russia's historical low during the global financial crisis (2008-09) and during the first year of the pandemic (April-November 2020).
- We have upgraded the rating outlook to 'stable' this month in light of a healthy output growth forecast of 3.8% for 2021.

Events to Watch

- We expect a relatively broad-based economic recovery in 2021, driven by international demand for Russia's gas, oil, coal, ores and other commodities.
- The picure for 2022 is less rosy, however, with a faltering recovery in manufacturing and construction amid shortages of materials and rising prices, combined with fiscal tighteninng and a winter resurgence of the Covid-19 pandemic.
- Russia's vaccination effort began with the development of locally made vaccines in late 2020, but it has been hampered by vaccine hesitancy and supply issues.
- Rising prices and deteriorating living standarrds, along with ongoing concerns about the suppression of the opposition and independent media and a perception of mishandling the pandemic may fuel public discontent in 2022.

Call to Action

- Expect exports and investment to support economic growth of around 3.8% in 2021 but for it to slow to around 2% in 2022.

Country Insight Headlines

Credit Environment

Score: DB5a R

Last change: N/A➔DB5a

Rating Outlook: Stable

Risks and Opportunities

- The credit environment score remains at DB5a on a 'stable' trend thanks to the economic recovery in 2021.
- Household finances will be stretched in 2021 and 2022, following a government-induced borrowing binge in 2020 via the preferential mortgage scheme.
- The central bank has hiked its policy rate three times in 2021, to 5.5%, as inflation surged to 6.0%, its highest level in more than four years. Futher rate rises are expected.
- Russian banks face challenges in the near term as the Covid-19 crisis continues to weigh on consumer demand - accelerating unsecured loans - and business investment.
- Policies to strengthen already-robust external balances have reduced the economy's vulnerability to shocks (such as those stemming from oil prices and sanctions).

Trade Terms

Description	
Minimum Terms	CLC
Recommended Terms	CiA
Usual Terms	30-60 days

Source: Dun & Bradstreet

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance.

Call to Action

- Bear in mind that policies to strengthen already-robust external balances have reduced the economy's vulnerability to shocks (such as those stemming from oil prices and sanctions).
- Expect Russian banks to face challenges in the near term as the Covid-19 crisis continues to weigh on consumer demand and business investment.

Supply Environment

Score: DB5d

Last change: N/A➔DB5d

R

Rating Outlook: Improving

Risks and Opportunities

- Supply chains that have been largely restored after major pandemic-caused disruption in 2020 may again be undermined by new restrictions during the winter of 2021/22. Shortages of materials such as timber, steel and semiconductors are driving inflation.
- The authorities have set out ambitious plans to upgrade the country's infrastructure and expand capacity, but progress is likely to be slow.
- Moscow is ranked as the most congested city in the world (out of 416 cities in total) in the TomTom Traffic Index 2020.
- Russia's ranking in the World Bank's Logistics Performance Index has improved, but substantial obstacles to international trade remain.

Call to Action

- Be aware of sectors with just-in-time inventory systems that rely heavily on supplies from overseas and may be affected by bottlenecks in the global container supply chain.
- Be selective when locating businesses, as the quality and efficiency of roads, airports and ports vary across the country.
- Conduct thorough due diligence and engage good legal counsel before investing in or trading with Russia.

Market Environment

Score: DB5c

Last change: N/A➔DB5c

R

Rating Outlook: Stable

Risks and Opportunities

- Russia offers significant potential for investors, given its vast natural resource reserves, large domestic market, improving education system and strategic geographic position.
- In recent years, Russia's rankings have improved in the World Bank's annual *Doing Business* survey and the World Economic Forum's *Global Competitiveness Index*.
- Although investment opportunities exist, some sectors remain off-limits for foreign investors and the overall risk of investing in the country remains high.
- The operating environment remains challenging because of institutional weakness, extensive state involvement in the economy, weak rule of law, and endemic corruption.
- Russia's hydrocarbon-dependent economic growth model is strongly entrenched and is unlikely to change significantly prior to 2030.

Call to Action

- Be aware of Russia's import substitution drive but note that it will likely take years to produce competitive alternatives for many of the goods that Russia currently imports.
- Note that the economy continues to adapt to Western sanctions; if sanctions were to be lifted, we would expect only a small increase in growth prospects.
- Bear in mind that tariff and non-tariff barriers to cross-border trade are relatively high.
- Look for opportunities in the expanding pharmaceutical sector, buoyed by its development and international distribution of Covid-19 vaccines.

Political Environment

Score: DB5b

Last change: N/A➔DB5b

R

Rating Outlook: Stable

Risks and Opportunities

- Tensions with Ukraine and the EU are high, and expected to remain so into 2022, heightened by sharply rising prices for natural gas.
- Ukraine has accused Russia of manipulating the energy crisis for geopolitical gain and forcing the completion of the Nord Stream 2 Russia-Germany pipleline that bypasses Ukraine.
- Stagnant living standards are fuelling discontent, undermining the legitimacy of the ruling elite; the authorities are responding by tightening political freedom.

Call to Action

- Be aware that the focus on curbing 'foreign influence' on domestic politics is likely to endure, along with close controls on civil society, the internet and the media.
- Expect the outbreak of further protests this year, particularly around the parliamentary elections in September.
- Note that we do not foresee a full resolution of the conflict with Ukraine materialising during our forecast period (2021-25).

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