Country Report

Russia

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The Economist Intelligence Unit

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"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

Russia

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Briefing sheet

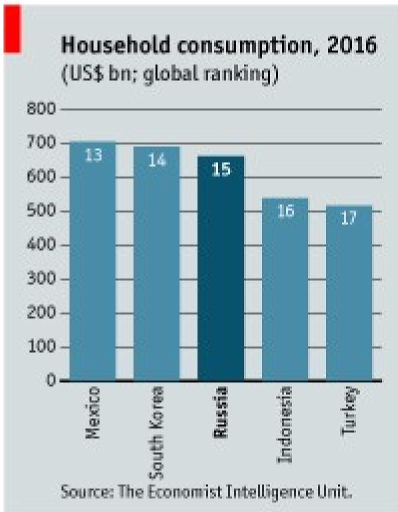
Editor: **Agathe Demarais**

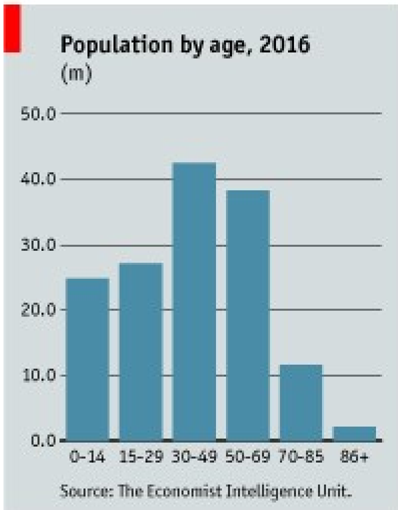
Forecast Closing Date: **January 25, 2018**

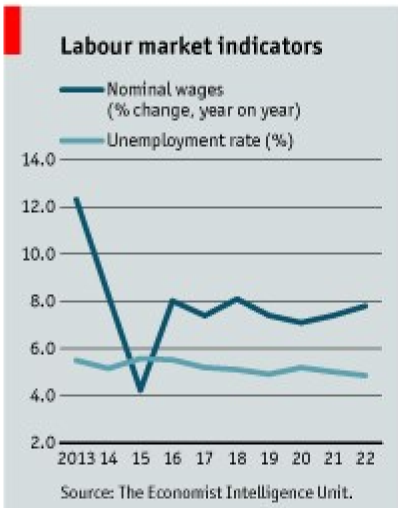
Political and economic outlook

- Despite several risk factors, such as weak economic growth, The Economist Intelligence Unit does not expect political change in the forecast period (2018-22). The government has shown itself to be ideologically adaptable and effective at co-opting opposition.
- Presidential elections will take place in March 2018. We believe that the incumbent, Vladimir Putin, will win them easily in the first round.
- It is highly unlikely that the conflict in eastern Ukraine will be resolved in 2018-22, and certainly not before the 2019 Ukrainian presidential elections. We expect EU and US sanctions, as well as Russian counter-sanctions, to remain in place in the forecast period.
- Radical economic or political reform is unlikely, but there will be incremental efforts to try to improve the efficiency of the system. Economic policy will remain statist, nationalist and protectionist while broadly observing market principles.
- We estimate real GDP growth of 1.8% in 2017 owing to a pick-up in private consumption and investment. In the medium term growth is forecast to average less than 2% per year, assuming annual average oil prices of about US$58-63/barrel.
- We estimate a budget deficit equal to 1.5% of GDP in 2017—a contraction from 3.4% of GDP in 2016—on the back of higher average oil prices. In 2018-22 spending will decline as a share of GDP, leading to smaller average annual deficits of around 0.5-1% of GDP.
- Inflation is estimated to have decreased to 3.7% in 2017 owing to a stronger rouble (against the US dollar) compared with 2015-16. In 2018-22 we forecast average annual inflation of 4.3% as the rouble will remain broadly stable on the back of steady oil prices.

Market opportunities



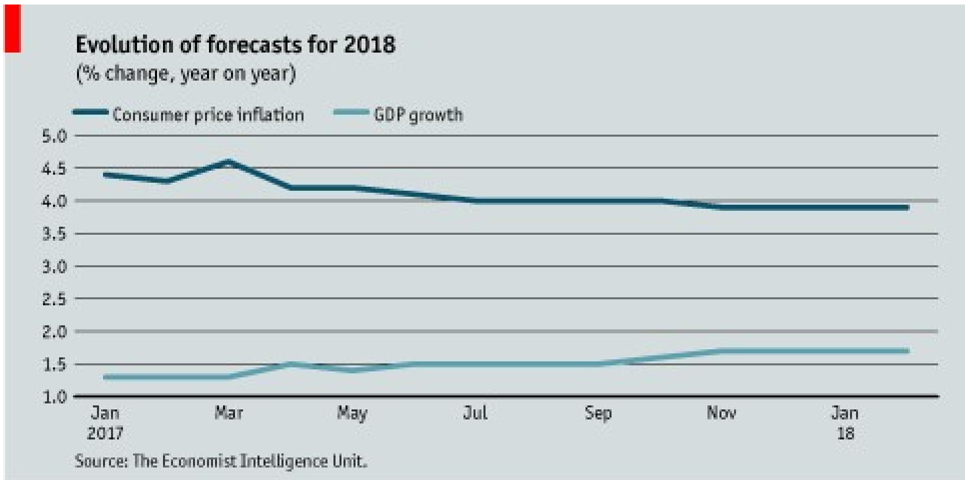




Key indicators

	2017[a]	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]
Real GDP growth (%)[c]	1.8	1.7	1.8	1.6	1.7	1.8
Consumer price inflation (av; %)	3.7	3.9	4.5	4.7	4.3	4.1
Government balance (% of GDP)	-1.5	-1.1	-0.9	-0.7	-0.6	-0.5
Current-account balance (% of GDP)	2.1	3.1	2.7	1.7	1.8	2.3
Money market rate (av; %)	9.1	7.8	8.6	9.2	8.4	8.2
Unemployment rate (%)	5.2	5.1	4.9	5.2	5.0	4.9
Exchange rate Rb:US$ (av)	58.34	60.27	59.54	60.34	59.89	58.07

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Data include a statistical discrepancy.



Key changes since December 21st

- We have revised our global average annual oil price forecast for 2018 to US$63/barrel, from US$59/barrel previously. This upward revision has positive knock-on effects, increasing our 2018 current-account surplus forecast to 3.1% of GDP (from 2.6% previously).
- This oil price revision will also boost government revenue, leading to a smaller government deficit of 1.1% of GDP in 2018 (1.3% of GDP previously) and a higher trade balance of US$143.4bn (US$133bn). The rouble will depreciate more mildly against the US dollar.
- Our upward revision to global oil prices extends to 2019-22, leading to higher trade and current-account surplus forecasts over this period compared with previous forecasts. We expect the budget deficit to shrink more quickly, to 0.5% of GDP by 2022.

The month ahead

- **February 2nd—Real GDP growth (Q4 and full year 2017, flash estimate):** We estimate that after contracting in 2015-16, real GDP growth picked up to 1.8% in 2017 on the back of a pick-up in private consumption and investment. We expect the data release to confirm this estimate.
- **February 6th—Inflation (January):** Annual inflation has stabilised below 3% since September 2017 and we expect the January reading to confirm this trend. However, we do not expect the Central Bank of Russia to lower its interest rate at its next policy meeting on February 9th as it will maintain a cautious stance.
- **February 9th—Trade balance (December 2017):** We believe that despite the rouble having

appreciated against the US dollar and the euro, the trade balance increased significantly in 2017 compared with 2016 on the back of higher average oil prices.

Major risks to our forecast

Scenarios, Q4 2017	Probability	Impact	Intensity
The banking sector experiences a serious crisis	Very High	Very High	25
Relations with the West further deteriorate	High	High	16
Increasingly arbitrary and inconsistent interpretation and implementation of laws deters foreign investment	Very High	Moderate	15
The state of the rail and road infrastructure further deteriorates owing to a lack of public investment	Very High	Moderate	15
The Russian economy enters into recession	Moderate	Very High	15

Note: Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
Source: The Economist Intelligence Unit.

Outlook for 2018-22

Political stability

During Vladimir Putin's third presidential term, which began in 2012, there has been a shift towards "conservative cultural values", a more authoritarian political culture and overt anti-Westernism. This has been compounded by Russia's confrontation with the US and the EU over Ukraine. Despite some pro-market rhetoric, economic policy has grown more statist, nationalist and protectionist. The leadership remains preoccupied with the perceived need to insulate the economy and society from foreign—in particular Western—influence and the perceived threat of foreign intervention. Concern about political stability is likely to hold the government back from pursuing radical reforms, which do not appear to be a priority for the Russian population.

The government has actively renewed its political leaders, although mainly only at the gubernatorial level. Nevertheless, the political system leans heavily on Mr Putin's charismatic leadership and his popularity. The weakness of most political and legal institutions, as well as the personalised, opaque governance system around Mr Putin, could present difficulties in managing an eventual presidential transition. Any successor is likely to come from the team around Mr Putin and will not herald a sharp change in the policy agenda. However, it could be difficult for a successor to build popular legitimacy given the weak long-term economic outlook and the strength of Mr Putin's legacy.

In March, June and October 2017 Aleksei Navalny, an anti-corruption blogger and nationalist opposition politician, called for protests in cities across Russia. The March protests were more numerous and larger than anticipated, but the October demonstrations had a much lower turnout. Mr Navalny's popularity across the country remains low. There does not seem to be serious potential for major political change from below. The authorities have tightened social controls since 2012 and the opposition has been marginalised.

Election watch

The next presidential election will take place in March 2018. The Economist Intelligence Unit expects Mr Putin, who declared his candidacy on December 6th 2017, to win by a wide margin in the first round owing to the lack of any credible alternative candidate. Although he will attempt to campaign, Mr Navalny has been barred from participating following a second conviction for defrauding Kirovles, a timber company. This suggests that the authorities intend to run a tightly controlled contest, offering voters no meaningful alternatives to Mr Putin. We believe that Ksenia Sobchak and Ekaterina Gordon, media personalities who have declared their candidacies, do not represent credible alternatives for the majority of the population. According to a poll conducted by the Levada centre, a Russian polling company (which declared in January that it would no longer publish polls on forthcoming elections as it is registered as a "foreign agent"), 53% of Russians oppose the idea of having a female president, and 87% of them cannot think of a credible female candidate.

The main challenge for the authorities will be to prevent a sharp fall in voter turnout, which would cast doubt on the legitimacy of Mr Putin's popular mandate. However, even if turnout is low, Mr Putin, whose popularity rating has been above 80% since the start of the Ukrainian conflict in 2014, appears set to win comfortably. Therefore only two questions remain. First, who is likely to become Mr Putin's next prime minister? Possible candidates could include, among others, Elvira Nabiullina, the governor of the Central Bank of Russia (CBR), Sergey Sobianin, the mayor of Moscow, and Denis Manturov, the minister of industry and trade. Second, who could replace Mr Putin in 2024? We believe it is too early to identify a possible successor.

International relations

The Ukraine conflict has led to a sharp deterioration in Russia's relations with the West since 2014. In response to the conflict the US and the EU have imposed sanctions on Russian officials as well as on the Russian financial, energy and defence sectors; firms in these sectors can no longer raise capital on US or EU financial markets. Russia has responded with a ban on almost all Western food imports (which has actually helped Russia to develop its food industry). Recent US sanctions also prohibit international companies from conducting business with Russian companies for the construction, modernisation or reparation of energy pipelines (although projects started before August 2017, such as the Nord Stream 2 gas pipeline, are not included). New US sanctions could be announced in February; these would target Russian sovereign debt issuance. However, we believe their impact would be merely symbolic as Russia does not issue debt on US capital markets. We believe that existing US and EU sanctions will be retained over the forecast period (2018-22).

The Minsk II ceasefire agreement, signed in February 2015, is highly unlikely to lead to a resolution of the conflict in Ukraine. Russia sees Ukrainian integration with the EU and NATO as a direct threat to its national interests. The current status quo of a regularly breached ceasefire with contained levels of fighting seems likely to endure for several years, and certainly at least until the 2019 Ukrainian presidential elections. This will serve Russia's interests, as a frozen conflict will prevent any Ukrainian move towards joining the EU and NATO.

There is little prospect of an improvement in US-Russian relations in the short term. There are deep-seated differences on some issues, such as Syria (where Russia props up the regime of Bashar al-Assad, the Syrian president) and Ukraine (whose government Russia opposes). Links between figures close to Donald Trump, the US president, and Russian officials have been intensely scrutinised in Western media, making it difficult for the US administration to take measures that could be perceived as offering concessions to Russia. Although a rapprochement in the forecast period is unlikely, limited co-operation is possible, as the two countries share issues of interest (such as technical collaboration to combat terrorism) and would like to achieve a highly publicised milestone on the international scene (for instance in Syria or Palestine).

Russia will remain vehemently opposed to the integration of countries of the former Soviet Union into the EU and/or NATO. Regime change in any country in Russia’s immediate neighbourhood would trigger a further deterioration in relations between Russia and the West.

Policy trends

Economic reform will be subordinated to the imperatives of political stability and government longevity. We do not expect the government to move towards substantive liberalisation of the economy—and certainly not before the presidential election in March, although some reform, such as increasing the pension age, is possible thereafter.

The government will continue to sell minority stakes in some major state-controlled assets, albeit at a slower pace than originally hoped. However, as with the sale in December 2016 of a 19.5% stake in Rosneft, the Russian oil giant, the government's priority is to raise budget revenue rather than to reduce state influence over the economy.

Russia's stand-off with the West has strengthened statist, nationalist and protectionist trends within the government. Economic sovereignty—understood as insulating the economy from external shocks—will remain a strategic priority. The main elements of this strategy include a large positive sovereign external asset position, protectionist measures to support domestic manufacturing through import substitution, and a cautious approach to foreign investment.

The banking sector has been the cause of growing concern since the end of the second quarter of 2017. Yugra Bank lost its licence in July, and in September the CBR announced that it was taking a majority equity stake in B&N Bank, a major private lender, after having provided the bank with emergency liquidity. By December the CBR had also bought over 99% of Otkritie, formerly Russia's largest private bank, as part of a bail-out process. These bail-outs increase state influence over the banking sector further and fuel fears about a possible contagion effect leading to other state bail-outs.

Fiscal policy

The government faces tight budget constraints as a result of low commodity prices. However, despite international sanctions and the reluctance of Western banks to handle international bond issuances, Russia placed two Eurobonds in June 2017, which were oversubscribed. New US sanctions could possibly complicate sovereign debt issuance, but we expect that strong investor appetite from Asia would mitigate such a development.

The budget deficit narrowed sharply in 2017, to an estimated 1.5% of GDP (compared with 3.4% of GDP in 2016) on the back of higher average oil prices. We expect the Ministry of Finance to continue to trim the deficit in 2018-22, but the adjustment to expenditure is likely to be less radical than planned, particularly in the short term, given the forthcoming presidential election. We believe that the government is unlikely to hold expenditure fixed in nominal terms in 2018-19 as projected, although spending will still decline in real terms, and plans to reduce defence spending have been announced. Under the three-year budget outlook the finance ministry aims to cut the deficit as a share of GDP to 1.6% in 2018, 0.9% in 2019 and 0.8% in 2020, in line with our projections of annual budget deficits below 1% of GDP in 2019-22.

At the end of 2017 the finance ministry reported that the value of the Reserve Fund, a sovereign wealth fund, had fallen to zero. The fund will be officially closed on February 1st. The Reserve Fund was created in 2008 alongside the National Welfare Fund (NWF) as a successor to the Stabilisation Fund. Its function was to accumulate foreign-currency assets from "excess" hydrocarbon revenue (when oil prices are higher than planned in the government budget) and so reduce the impact of oil price fluctuations on the budget deficit and the currency. In the third quarter of 2014, before the slump in oil prices, the value of the Reserve Fund stood at US$90bn (equivalent to around 5% of GDP). Following the closure of the Reserve Fund, the government is likely to focus on maintaining tight control of expenditure and the budget deficit. Russia will wish to avoid reliance on borrowing, particularly given the risk of further US sanctions, which could place limits on investment in sovereign debt by non-residents. Should the oil price average above US40/barrel (we forecast it will stand at US$63/b), the finance ministry will purchase foreign currency reserves with the additional revenue and replenish the NWF.

Monetary policy

At its December 2017 meeting the central bank cut its policy rate by 50 basis points, to 7.75%. Annual inflation in July-December stood below the CBR's 4% target for the first time since inflation-targeting was introduced in 2014. The relatively stronger rouble (driven by higher oil prices but still weaker than it was in 2010‑14), sluggish consumer demand and an exceptional harvest in 2017 have supported disinflation. The disinflationary exchange-rate effects are expected to dissipate in 2018, although the impact of the strong harvest will continue to hold down food price growth. According to the CBR, inflation expectations are coming down but have not yet anchored at a low level. In its assessment the risk of inflation overshooting its target in the medium term continues to be greater than the risk of inflation undershooting the target. We expect the CBR to maintain a moderately tight monetary policy this year, but a slight loosening is possible. However, with the rouble depreciating in 2018 and inflation increasing slightly, our core scenario is that the CBR will be wary of cutting its policy rate further in 2018.

International assumptions

	2017	2018	2019	2020	2021	2022
Economic growth (%)						
US GDP	2.2	2.3	2.4	0.9	2.1	2.0
Euro area GDP	2.5	2.2	1.9	1.7	1.7	1.7
EU28 GDP	2.5	2.2	1.9	1.7	1.8	1.8
World GDP	3.0	2.9	2.9	2.4	2.8	2.8
World trade	4.6	4.3	4.0	2.8	3.8	3.7
Inflation indicators (% unless otherwise indicated)						
US CPI	2.1	2.2	2.3	1.3	1.8	1.9
Euro area CPI	1.5	1.5	1.6	1.6	1.7	1.8
EU28 CPI	1.7	1.8	1.7	1.7	1.8	1.9
Manufactures (measured in US$)	3.5	4.2	4.0	3.1	3.8	3.3
Oil (Brent; US$/b)	54.4	63.0	60.0	57.8	60.6	63.3
Non-oil commodities (measured in US$)	7.6	2.0	1.3	-3.1	2.1	1.4
Financial variables						
US$ 3-month commercial paper rate (av; %)	1.1	1.7	2.5	2.3	1.5	1.8
€ 3-month rate	-0.3	0.0	0.1	0.2	0.3	0.5
US$:€ (av)	1.13	1.19	1.18	1.21	1.21	1.24
Rb:US$ (av)	58.34	60.27	59.54	60.34	59.89	58.07
Rb:€ (av)	65.9	71.7	70.3	72.7	72.2	71.9

Economic growth

In January-September 2017 Russia experienced a recovery in growth. Real GDP grew by an average of 1.6% year on year, driven by private consumption and investment. Three factors underpinned the recovery in private consumption: a pick-up in household borrowing, the appreciation of the rouble (against the US dollar and the euro) and sharp consumer price disinflation. We estimate that these factors supported a continued recovery in private consumption in the fourth quarter of 2017 and expect them to continue to do so, albeit to a lesser extent, in 2018, when inflation will rise slightly and the rouble will weaken moderately. We estimate that real GDP grew by 1.8% in 2017 as a whole.

As was the case in 2017, private consumption will be the biggest contributor to GDP growth in 2018. The external sector is unlikely to contribute to growth in 2018, reflecting increasing imports. Fiscal consolidation will continue to constrain public consumption and infrastructure spending, all the more so in view of the return to a three-year budgeting framework (which had been abandoned after the fall in oil prices) for 2017-19. Fixed investment grew by 5.5% year on year in the second quarter of 2017, but the medium-term investment outlook is poor. Economic stabilisation and a higher average oil price have led to a pick-up in gross fixed capital formation, but international sanctions, the lack of a "culture of failure" and broader political and business uncertainty will remain significant constraints. All in all, we expect real GDP growth to slow slightly in 2018, to 1.7%.

In the medium term outdated capital stock, a declining workforce, dependence on natural-resource sectors, institutional weaknesses, low investment levels, a weak financial sector, international sanctions, low productivity growth, a difficult business environment and statist policies will limit real GDP growth. We forecast that real GDP growth will average 1.7% per year in 2018–22, mainly driven by private consumption and to a lesser extent fixed investment.

Economic growth

%	2017[a]	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]
GDP[c]	1.8	1.7	1.8	1.6	1.7	1.8
Private consumption	3.5	3.8	3.0	2.7	3.7	3.4
Government consumption	-0.1	0.1	-0.5	0.4	0.3	0.1
Gross fixed investment	3.9	3.2	1.5	1.8	2.0	1.8
Exports of goods & services	4.9	2.7	3.4	1.9	4.4	3.9
Imports of goods & services	12.6	3.2	4.2	3.2	8.6	2.2
Domestic demand	4.1	2.5	1.1	3.2	3.7	1.3
Agriculture	2.0	1.5	1.7	1.5	1.7	1.5
Industry	3.0	1.1	1.3	1.5	1.4	1.6
Services	1.2	2.1	2.1	1.7	1.8	1.9

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Data include a statistical discrepancy.

Inflation

Inflation fell from 5.4% year on year in December 2016 to 2.4% in December 2017, well below the CBR's 4% year-end inflation target. Disinflation has been assisted by record harvests in 2016-1, as well as the relative strength of the rouble (against the US dollar and the euro). We estimate that consumer price inflation averaged 3.7% in 2017.

We expect inflation to remain close to—but slightly above—the 4% target in 2018–22 (that is to say, at very low levels by Russian historical standards). A tightening of monetary policy by the Federal Reserve (Fed, the US central bank) and the possible imposition of new US sanctions will lead to a modest depreciation of the rouble in 2018. However, external inflationary pressures are likely to be relatively low, and average annual inflation will remain below the 4% target of the CBR in 2018. In 2019 expected changes to the tax code will boost inflation slightly. Our forecast for a modest slowdown in the US in 2020 will lead to a depreciation of the rouble, thereby fuelling inflation, which will therefore peak in 2020 before receding in 2021-22.

Exchange rates

Higher oil prices and a relatively tight monetary policy led to an average appreciation of the rouble against the US dollar in 2017. In 2018 we expect the Fed's continued tightening of monetary policy to lead to a depreciation of the rouble against the US dollar, to an average of Rb60.3:US$1. We forecast an overall slight nominal appreciation in 2019-22 owing to increasing oil prices, although a downturn in the US business cycle will lower oil prices slightly and weaken the rouble in 2020. The rouble is correlated with oil prices, so any rapid fall in oil prices could lead to renewed volatility.

External sector

We estimate a current-account surplus equivalent to 2.1% of GDP in 2017 as higher average oil prices boosted the value of exports. This was tempered by increased imports (albeit from a low base) as domestic demand and investment picked up. We expect the current account to remain in surplus in 2018-22, while oil and gas exports will produce substantial trade surpluses. International sanctions and political uncertainty will depress foreign direct investment inflows throughout the forecast period, as they did in 2017. Although we expect these inflows to recover in 2019-22, they will remain below their pre‑2014 levels.

Forecast summary

Forecast summary
(% unless otherwise indicated)

	2017[a]	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]
Real GDP growth[c]	1.8	1.7	1.8	1.6	1.7	1.8
Industrial production growth	0.8	1.8	2.3	2.1	2.4	2.6
Gross fixed investment growth	3.9	3.2	1.5	1.8	2.0	1.8
Crude oil & NGL production (m b/d)	11.0	11.0	11.1	11.1	11.1	11.1
Natural gas production (mtoe)	645.5	652.6	659.8	667.1	674.4	681.8
Unemployment rate (av)	5.2	5.1	4.9	5.2	5.0	4.9
Consumer price inflation (av)	3.7	3.9	4.5	4.7	4.3	4.1
Consumer price inflation (end-period)	2.4	4.2	4.6	4.5	4.2	4.1
Federal budget balance (% of GDP)	-1.5	-1.1	-0.9	-0.7	-0.6	-0.5
Exports of goods fob (US$ bn)	353.7	395.0	407.1	412.2	454.6	489.0
Imports of goods fob (US$ bn)	237.9	251.6	264.6	273.4	302.5	314.9
Current-account balance (US$ bn)	32.7	51.4	48.0	31.3	36.8	50.8
Current-account balance (% of GDP)	2.1	3.1	2.7	1.7	1.8	2.3
External debt (end-period; US$ bn)	537.5	545.8	560.1	582.0	623.9	649.1
Exchange rate Rb:US$ (av)	58.34	60.27	59.54	60.34	59.89	58.07
Exchange rate Rb:US$ (end-period)	57.60	62.22	58.35	61.57	58.55	57.94
Exchange rate Rb:€ (av)	65.89	71.72	70.26	72.71	72.17	71.86
Exchange rate Rb:€ (end-period)	68.87	73.42	69.44	73.88	71.43	72.42

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Data include a statistical discrepancy.

Quarterly forecasts

Quarterly forecasts

	2017				2018				2019			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, quarter on quarter	0.5	1.0	-0.2	1.0	0.4	0.3	0.2	0.3	0.6	0.5	0.5	0.6
% change, year on year	0.5	2.4	1.9	2.4	2.2	1.4	1.9	1.2	1.4	1.6	1.9	2.2
Private consumption												
% change, quarter on quarter	4.3	-0.4	0.7	-2.4	2.2	2.1	2.0	2.1	0.0	-0.1	0.0	0.0
% change, year on year	2.5	4.4	5.2	2.1	0.1	2.6	3.9	8.7	6.3	4.0	2.0	0.0
Government consumption												
% change, quarter on quarter	0.7	0.0	-0.1	-2.4	0.9	0.7	0.7	0.8	-0.6	-0.7	-0.6	-0.6
% change, year on year	0.3	0.4	0.6	-1.8	-1.6	-0.9	-0.1	3.1	1.6	0.1	-1.2	-2.5
Gross fixed investment												
% change, quarter on quarter	1.9	1.6	-0.1	0.4	1.1	1.0	0.9	1.0	0.1	0.0	0.0	0.1
% change, year on year	1.8	5.5	4.5	3.8	3.0	2.4	3.4	4.0	2.9	1.9	1.0	0.1
Exports of goods & services												
% change, quarter on quarter	2.1	-0.5	1.3	1.9	0.3	0.2	0.2	0.3	1.2	1.1	1.2	1.2
% change, year on year	6.5	3.5	4.7	4.9	3.2	3.9	2.7	1.1	2.0	2.9	3.9	4.9
Imports of goods & services												
% change, quarter on quarter	10.4	2.5	-0.7	-12.7	5.7	5.3	5.0	4.9	-1.2	-1.3	-1.2	-1.2
% change, year on year	15.8	20.3	16.9	-1.9	-6.1	-3.5	2.1	22.7	14.6	7.4	1.1	-4.8
Domestic demand												
% change, quarter on quarter	2.3	2.0	-0.7	1.0	-0.5	1.4	1.3	1.4	-0.2	-0.5	-0.4	-0.4
% change, year on year	1.7	5.9	4.2	4.7	1.9	1.2	3.2	3.6	3.9	2.0	0.2	-1.5
Consumer prices												
% change, quarter on quarter	-0.1	1.1	1.0	0.4	1.1	1.1	1.0	0.9	1.2	1.2	1.1	1.0
% change, year on year	4.6	4.2	3.4	2.6	3.8	3.8	3.7	4.2	4.3	4.4	4.5	4.7
Producer prices												
% change, quarter on quarter	5.9	-4.6	0.7	1.0	2.4	2.8	2.0	1.6	0.9	1.0	1.3	0.5
% change, year on year	13.0	5.2	4.4	2.8	-0.6	7.1	8.5	9.2	7.5	5.6	4.9	3.7
Exchange rate Rb:US$												
Average	58.82	57.14	59.00	58.41	58.42	59.84	60.58	62.22	60.89	60.38	58.54	58.35
End-period	56.38	59.09	58.02	57.60	58.42	59.13	60.21	62.22	61.56	60.64	59.46	58.35
Interest rates (%; av)												
Money market rate	10.6	9.1	8.7	8.0	7.6	7.5	7.9	8.3	8.4	8.6	8.5	8.8
Long-term bond yield	9.7	9.1	8.7	8.4	8.4	8.4	8.5	8.6	8.3	8.5	8.7	9.0

Data and charts

Annual data and forecast

	2013[a]	2014[a]	2015[a]	2016[a]	2017[b]	2018[c]	2019[c]
GDP							
Nominal GDP (US$ bn)[d]	2,292.8	2,059.0	1,363.4	1,280.1	1,562.7	1,650.0	1,771.4
Nominal GDP (Rb bn)[d]	72,995	79,019	83,085	85,841	91,175	99,439	105,471
Real GDP growth (%)[e]	1.8	0.8	-2.8	-0.2	1.8	1.7	1.8
Expenditure on GDP (% real change)							
Private consumption	5.2	2.0	-9.7	-4.5	3.5	3.8	3.0
Government consumption	0.8	-2.1	-3.0	-0.5	-0.1	0.1	-0.5
Gross fixed investment	1.8	-1.6	-9.3	-2.5	3.9	3.2	1.5
Exports of goods & services	4.5	0.6	3.6	3.1	4.9	2.7	3.4
Imports of goods & services	3.6	-7.1	-25.9	-3.9	12.6	3.2	4.2
Origin of GDP (% real change)							
Agriculture	4.7	1.5	2.9	3.3	2.0	1.5	1.7
Industry	0.6	0.2	-2.4	-0.1	3.0	1.1	1.3
Services	1.6	1.2	-2.9	-0.6	1.2	2.1	2.1
Population and income[f]							
Population (m)	143.6	146.6	146.9	147.0	147.0	147.0	146.9
GDP per head (US$ at PPP)	26,174	25,323	23,576	23,056	23,899	24,881	25,722
Recorded unemployment (av; %)	5.5	5.2	5.6	5.5	5.2	5.1	4.9
Fiscal indicators (% of GDP)							
Central government revenue	17.8	18.3	16.4	15.7	16.5	16.3	16.1
Central government expenditure	18.3	18.8	18.8	19.1	18.0	17.4	17.0
Central government balance	-0.4	-0.4	-2.4	-3.4	-1.5	-1.1	-0.9
Total public debt	8.8	9.4	9.1	10.0	11.5	12.0	12.4
Prices and financial indicators							
Exchange rate Rb:US$ (end-period)	32.73	56.26	72.88	60.66	57.60	62.22	58.35
Exchange rate Rb:€ (end-period)	44.97	68.34	79.70	63.81	68.87	73.42	69.44
Consumer prices (av; %)	6.8	7.8	15.5	7.0	3.7	3.9	4.5
Consumer prices (end-period; %)	6.4	11.4	12.9	5.4	2.4	4.2	4.6
Stock of broad money (% change)	6.6	7.9	-2.5	7.6	0.3	4.0	2.0
Stock of money M2 (% change)	14.7	1.5	11.3	9.2	3.6	6.6	3.7
Lending interest rate (av; %)	9.5	11.1	15.7	12.6	10.6	9.7	10.0
Current account (US$ m)							
Trade balance	180,566	188,931	148,398	90,262	115,781	143,374	142,450
Goods: exports fob	521,836	496,806	341,419	281,850	353,674	394,986	407,061
Goods: imports fob	-341,269	-307,875	-193,021	-191,588	-237,892	-251,612	-264,611
Services balance	-58,259	-55,278	-36,920	-23,827	-30,245	-38,868	-39,879
Primary income balance	-79,604	-67,962	-36,929	-34,616	-45,143	-45,074	-45,967
Secondary income balance	-9,275	-8,178	-5,720	-6,277	-7,643	-8,050	-8,620
Current-account balance	33,428	57,513	68,829	25,543	32,750	51,382	47,984
External debt (US$ m)							
Debt stock	668,459	549,593	467,689	524,686	537,545	545,755	560,053
Debt service paid	50,674	88,276	100,522	71,456	109,348	77,883	80,465
Principal repayments	34,182	68,661	81,731	51,555	92,211	59,074	58,320
International reserves (US$ m)							
Total international reserves	509,593	385,459	368,398	377,738	432,731	457,518	481,873

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] Seasonally adjusted; includes statistical discrepancy. [e] Data include a statistical discrepancy. [f] From 2014 official Russian statistics include economic activity on the Crimean peninsula.

Sources: IMF, International Financial Statistics; Central Bank of Russia; Rosstat; Ministry of Finance.

Quarterly data

	2016				2017			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
General government finance (Rb bn)								
Revenue	2,911	2,958	3,427	4,165	3,633	3,489	3,849	4,118
Expenditure	3,549	3,749	3,507	5,612	3,826	3,704	3,661	5,235
Balance	-639	-791	-80	-1,447	-192	-216	188	-1,117
Output								
GDP at current market prices (US$ bn)	278.7	322.6	336.1	349.9	379.0	395.7	388.7	n/a
Real GDP (Rb bn at 2016 prices)	21,588	21,408	21,474	21,578	21,695	21,920	21,873	n/a
% change, year on year	-0.39	-0.51	-0.43	0.36	0.50	2.39	1.86	n/a
Industrial production index								
% change, year on year	1.4	1.6	1.0	1.5	0.3	4.0	1.1	-2.0
% change, quarter on quarter	-1.6	0.6	0.4	2.1	-2.8	4.4	-2.4	-1.1
Employment, wages and prices								
Employment (m)	71.5	72.2	73.2	72.6	71.6	71.9	72.7	n/a
% change, year on year	-0.2	0.0	0.2	0.4	0.1	-0.5	-0.7	n/a
Unemployment rate (% of the labour force)	5.9	5.6	5.2	5.4	5.5	5.2	5.0	n/a
Average nominal monthly wages (Rb)	34,011	37,405	35,712	39,833	35,939	40,119	37,740	n/a
% change, year on year	7.5	7.7	8.2	8.5	5.7	7.3	5.7	n/a
Consumer prices (2010=100)	158.4	160.8	163.8	165.8	165.7	167.6	169.3	170.1
% change, year on year	8.3	7.3	6.8	5.7	4.6	4.2	3.4	2.6
Producer prices (Dec 2000=100)	571.3	585.3	594.1	609.7	645.7	615.7	620.2	626.6
% change, year on year	4.8	2.8	3.9	4.9	13.0	5.2	4.4	2.8
Financial indicators								
Exchange rate								
Rb:US$ (av)	74.6	65.9	64.6	63.1	58.8	57.1	59.0	58.4
Rb:US$ (end-period)	67.6	64.3	63.2	60.7	56.4	59.1	58.0	57.6
Interest rates (av, %)								
Lending rate	13.3	12.9	12.2	11.9	11.5	10.8	10.3	n/a
Deposit rate	7.8	7.2	6.5	6.4	6.2	6.0	5.8	n/a
Money market rate	12.6	12.2	11.0	10.7	10.6	9.1	8.7	8.0
M2 (local definition; end-period; Rb bn)	34,699	35,868	36,149	38,418	38,555	n/a	n/a	n/a
% change, year on year	11.8	12.2	12.7	9.2	11.1	n/a	n/a	n/a
RTS stock price index (end-period; September 1st 1995=100)	876	931	991	1,152	1,114	1,001	1,137	1,154
% change, year on year	-0.5	-1.0	25.5	52.2	27.1	7.5	14.7	0.2
Sectoral trends								
Oil output (m tonnes)	137	135	136	139	136	136	137	n/a
% change, year on year	4.6	1.4	1.4	3.2	-1.2	1.4	0.5	n/a
Natural gas output (bn cu metres)	169	139	140	190	182	160	160	n/a
% change, year on year	0.1	-2.0	2.1	2.6	7.3	15.1	14.3	n/a
Foreign payments (US$ bn)								
Exports fob	60.5	67.9	70.9	82.6	82.6	83.7	84.3	103.1
Imports fob	-38.1	-45.6	-52.6	-55.3	-48.0	-58.5	-63.8	-67.6
Merchandise trade balance	22.4	22.3	18.3	27.3	34.5	25.2	20.6	35.5
Services balance	-4.8	-6.0	-7.1	-6.0	-5.1	-7.4	-9.6	-8.1
Primary income balance	-3.6	-13.2	-8.4	-9.4	-5.0	-14.1	-10.9	n/a
Net transfer payments	-1.2	-1.1	-2.4	-1.6	-1.8	-1.3	-2.5	n/a
Current-account balance	12.9	2.0	0.4	10.3	22.6	2.3	-2.5	17.8
Reserves excl gold (end-period)	328.9	329.3	332.2	317.5	330.3	343.5	351.2	356.1

Sources: Federal State Statistics Service; IMF, International Financial Statistics; Central Bank of Russia; Ministry of Finance.

Monthly data

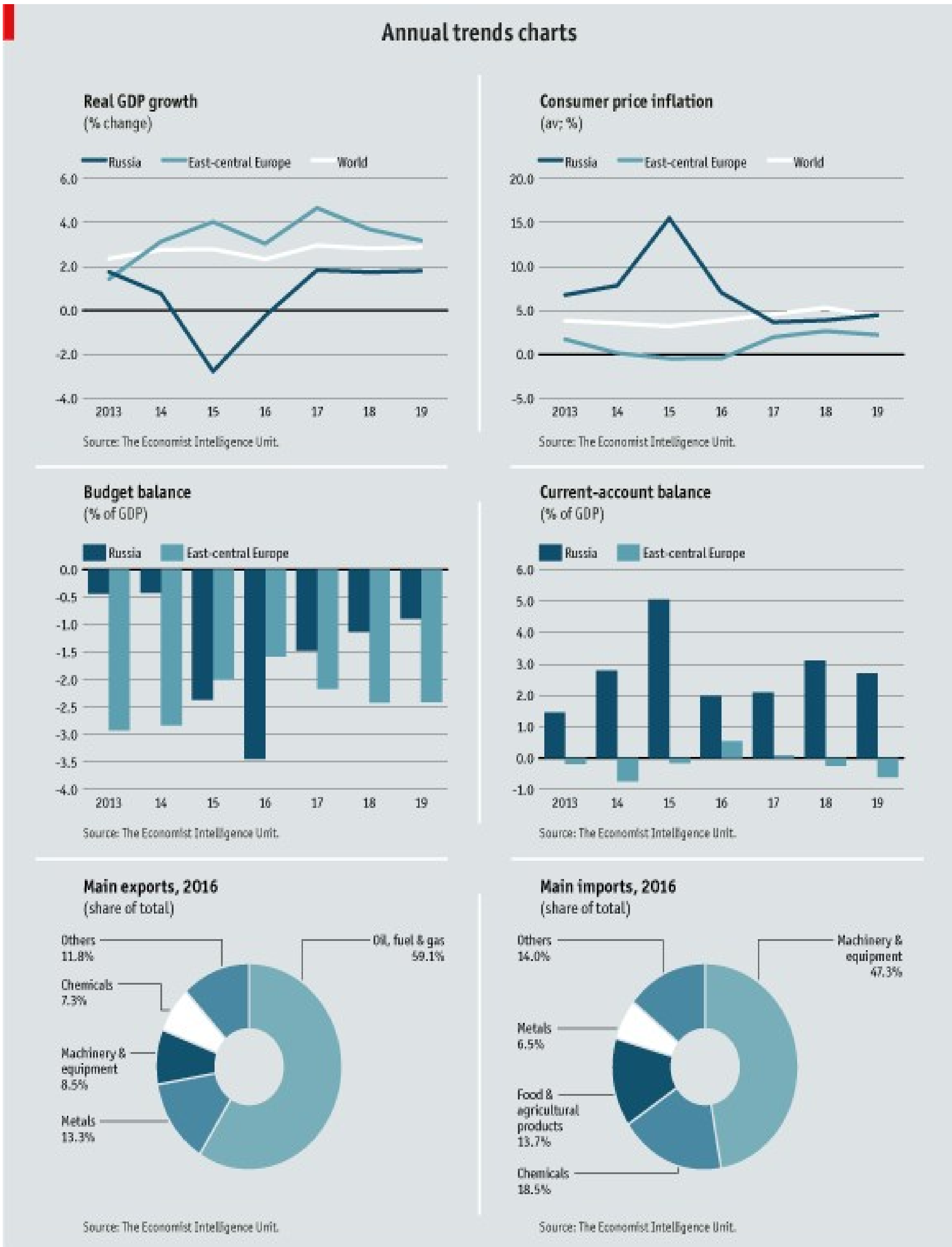
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Rb:US$ (av)												
2015	68.9	61.3	58.5	51.7	53.0	55.5	59.0	66.5	66.2	64.4	66.2	72.9
2016	75.2	75.1	67.6	64.3	66.1	64.3	67.1	64.9	63.2	62.9	64.9	60.7

2017	60.2	57.9	56.4	57.0	56.5	59.1	59.5	58.7	58.0	57.9	58.3	57.6
Real effective exchange rate (1997=100; CPI-based)												
2015	94.9	95.7	105.6	119.6	122.5	114.3	111.4	98.7	97.7	103.7	103.8	97.7
2016	91.5	90.2	98.1	101.9	104.0	105.1	108.1	106.1	106.8	111.5	110.8	117.0
2017	121.6	123.6	124.1	127.3	124.1	122.2	117.0	114.4	117.0	118.5	116.1	115.5
Central budget revenue (Rb bn)												
2015	1,324.2	954.8	1,159.1	1,112.0	810.7	1,260.1	1,175.2	1,163.9	1,185.4	1,191.9	838.9	1,483.1
2016	1,094.0	747.9	1,068.7	999.4	735.6	1,223.0	1,101.6	1,173.7	1,151.4	1,146.2	995.2	2,023.2
2017	1,266.0	1,024.9	1,342.4	1,124.4	1,066.0	1,298.3	1,247.2	1,229.1	1,373.1	1,312.1	1,135.1	1,670.7
Central budget expenditure (Rb bn)												
2015	1,540.0	1,418.7	1,171.3	1,326.8	847.7	1,114.1	1,420.1	1,028.3	927.3	1,189.3	1,037.4	2,599.3
2016	693.6	1,247.1	1,608.6	1,496.5	993.4	1,258.7	1,114.3	1,176.3	1,216.4	1,151.7	1,213.8	3,246.0
2017	1,230.5	1,141.4	1,453.7	1,452.4	1,114.6	1,137.3	1,263.1	1,209.2	1,189.0	1,311.0	1,378.5	2,545.2
Central budget balance (Rb bn)												
2015	-215.9	-463.9	-12.2	-214.7	-37.0	146.0	-245.0	135.6	258.2	2.5	-198.5	-1,116.2
2016	400.4	-499.2	-539.9	-497.1	-257.8	-35.6	-12.8	-2.6	-64.9	-5.5	-218.6	-1,222.8
2017	35.5	-116.5	-111.3	-328.0	-48.6	161.0	-15.9	19.8	184.1	1.1	-243.3	-874.4
M2 (% change, year on year)												
2015	3.9	3.5	5.1	6.2	6.5	6.3	6.3	6.7	5.9	7.8	8.7	11.3
2016	9.5	9.9	11.8	10.7	12.0	12.2	12.3	11.8	12.7	12.1	11.2	9.2
2017	11.9	12.1	11.1	10.1	10.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (%)												
2015	12.3	11.2	11.2	9.0	8.9	9.4	8.7	8.4	8.5	6.9	7.5	8.4
2016	8.2	7.7	7.5	7.7	7.0	6.9	6.8	6.8	6.0	6.0	6.6	6.5
2017	6.5	6.3	5.9	6.3	6.1	5.7	6.1	6.1	5.3	5.7	5.2	n/a
Lending rate (%)												
2015	19.9	18.1	17.9	17.2	16.0	15.5	14.7	14.2	14.0	13.6	13.8	13.8
2016	13.4	13.4	13.2	13.0	13.1	12.7	12.4	12.2	12.1	12.1	11.7	11.8
2017	11.6	11.5	11.4	11.0	10.7	10.7	10.4	10.4	10.0	9.8	9.7	n/a
Industrial production (% change, year on year)												
2015	0.0	-1.8	1.2	-1.8	-2.4	-0.9	-1.5	0.2	-0.3	-1.6	1.0	-1.9
2016	-0.8	3.8	0.3	1.0	1.5	2.0	1.4	1.5	0.1	1.6	3.4	0.2
2017	2.3	-2.7	0.8	2.3	5.6	3.5	1.1	1.5	0.9	0.0	-3.6	-1.5
Retail sales volume (% change, year on year)												
2015	-4.4	-7.4	-8.9	-9.8	-9.4	-9.6	-9.5	-9.4	-10.7	-11.3	-12.2	-14.1
2016	-6.2	-3.7	-5.0	-4.3	-5.3	-5.0	-4.3	-4.2	-3.1	-4.3	-4.2	-5.2
2017	-2.1	-2.6	-0.2	0.4	1.0	1.5	1.3	1.9	3.2	3.1	2.7	n/a
Unemployment rate (% of the labour force)												
2015	5.5	5.8	5.9	5.8	5.6	5.4	5.3	5.3	5.2	5.5	5.8	5.8
2016	5.8	5.8	6.0	5.9	5.6	5.4	5.3	5.2	5.2	5.4	5.4	5.3
2017	5.6	5.6	5.4	5.3	5.2	5.1	5.1	4.9	5.0	5.1	5.1	n/a
RTS Stock Price Index (end-period; September 1st 1995=100)												
2015	737	897	880	1,029	969	940	859	834	790	846	847	757
2016	745	769	876	951	904	931	928	950	991	989	1,029	1,152
2017	1,164	1,099	1,114	1,114	1,053	1,001	1,007	1,096	1,137	1,113	1,132	1,154
Consumer prices (% change, year on year; av)												
2015	15.0	16.7	16.9	16.4	15.8	15.3	15.6	15.8	15.7	15.6	15.0	12.9
2016	9.8	8.1	7.3	7.2	7.3	7.5	7.2	6.8	6.4	6.1	5.8	5.4
2017	5.0	4.6	4.2	4.1	4.1	4.4	3.9	3.3	3.0	2.7	2.5	2.5
Producer prices (% change, year on year; av)												
2015	6.8	9.5	13.0	15.1	13.2	13.1	12.9	13.1	12.7	14.2	14.0	10.7
2016	7.5	4.2	1.7	1.0	3.4	5.2	4.3	2.8	4.4	3.2	4.1	7.4
2017	12.7	14.8	11.1	7.4	5.7	2.9	1.7	4.6	6.7	7.4	8.1	n/a
Average nominal monthly wages (% change, year on year)												
2015	5.3	8.1	4.5	5.2	7.2	5.4	5.0	5.3	3.7	3.4	3.0	3.4
2016	5.8	8.7	8.9	6.1	8.4	8.7	5.8	9.7	8.5	6.5	8.0	8.3
2017	6.0	5.4	7.5	8.1	6.9	8.3	7.0	5.7	7.4	8.3	8.0	n/a
Average real monthly wages (% change, year on year)												
2015	-8.4	-7.4	-10.6	-9.6	-7.4	-8.6	-9.2	-9.0	-10.4	-10.5	-10.4	-8.4
2016	-3.6	0.6	1.5	-1.1	1.0	1.1	-1.3	2.7	1.9	0.4	2.1	2.8
2017	3.1	1.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total exports fob (US$ m)												
2015	28,086	29,316	32,865	30,868	30,669	30,060	27,328	25,330	26,636	27,433	25,762	29,190
2016	17,631	20,296	23,461	22,021	22,171	24,301	22,735	23,330	25,733	25,278	27,093	31,722

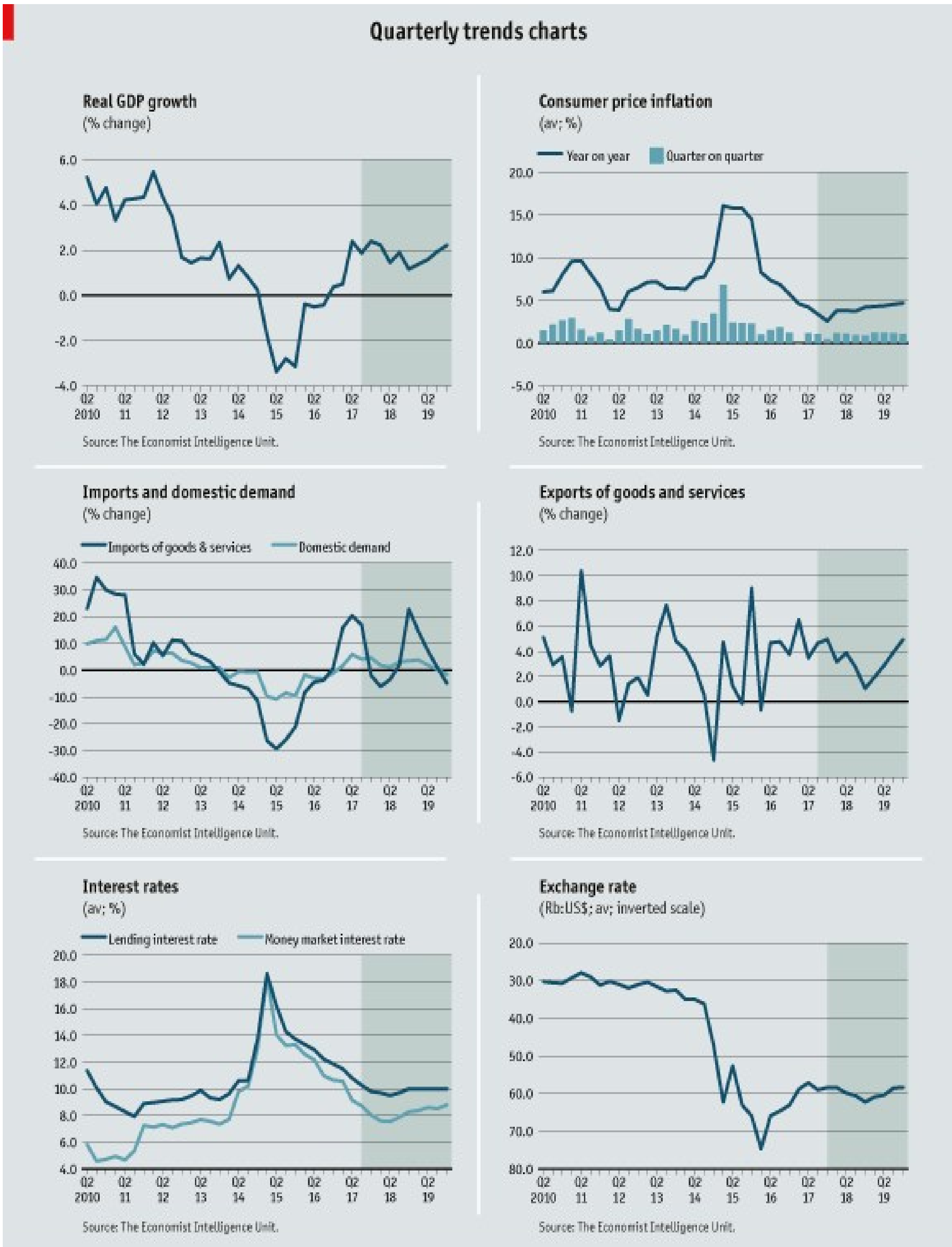
2017	25,890	26,068	31,664	26,268	28,457	29,985	25,119	29,575	31,076	31,720	33,410	n/a
Total imports cif (US$ m)												
2015	11,197	14,621	16,214	15,266	14,254	15,272	15,901	15,492	16,135	16,187	15,654	16,527
2016	9,104	12,194	14,729	14,496	13,735	15,284	15,401	17,715	17,130	17,365	16,718	18,477
2017	12,871	14,709	17,760	17,304	18,818	19,963	19,942	21,583	19,500	20,564	20,633	n/a
Trade balance fob-cif (US$ m)												
2015	16,889	14,695	16,650	15,602	16,416	14,788	11,428	9,838	10,501	11,247	10,108	12,663
2016	8,527	8,103	8,732	7,525	8,436	9,017	7,334	5,616	8,603	7,913	10,375	13,245
2017	13,019	11,359	13,904	8,964	9,639	10,022	5,177	7,992	11,576	11,155	12,776	n/a
Foreign-exchange reserves excl gold (US$ m)												
2015	327,146	313,431	309,092	307,717	308,895	313,341	312,662	318,660	322,374	319,060	317,028	319,835
2016	320,179	323,275	328,871	331,014	329,786	329,258	329,391	330,488	332,231	326,308	323,630	317,545
2017	327,644	330,469	330,332	332,336	336,422	343,460	348,396	350,474	351,154	351,139	355,513	356,084

Sources: IMF, International Financial Statistics; Haver Analytics.

Annual trends charts

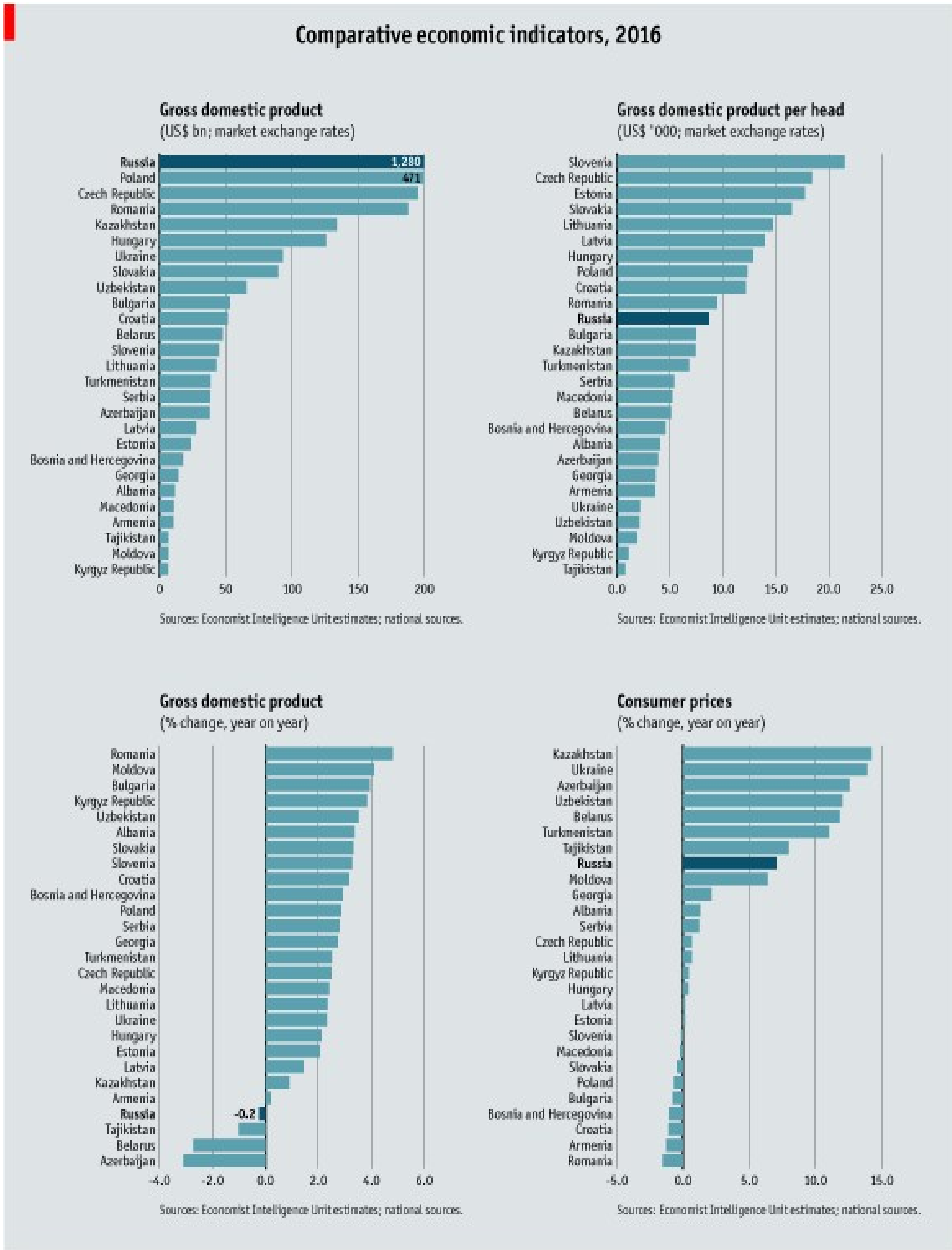


Quarterly trends charts



Monthly trends charts

Comparative economic indicators



Basic data

Land area

17,075,400 sq km

Population

146.8m (local statistics service estimate, includes Republic of Crimea and Sevastopol)

Main towns

Population ('000; official census, 2010)

Moscow (capital): 11,514

St Petersburg: 4,849

Novosibirsk: 1,474

Yekaterinburg: 1,350

Nizhny Novgorod: 1,251

Weather in Moscow (altitude 156 metres)

Hottest month, July, 13-23°C (average daily minimum and maximum); coldest month, January, -16°C to -9°C; driest month, March, 36 mm average rainfall; wettest month, July, 88 mm average rainfall

Languages

Russian and local languages

Weights and measures

Metric system since 1927 (Western calendar since 1917)

Currency

Rouble (Rb); 1 rouble (Rb) = 100 kopeks. The rouble was redenominated on January 1st 1998 at 1 new rouble = 1,000 old roubles

Time

Three hours ahead of GMT in Moscow and St Petersburg; ten hours ahead of GMT in Vladivostok; Russia has 11 time zones

Fiscal year

Calendar year

Public holidays

January 1st-5th (New Year); January 7th (Orthodox Christmas); February 23rd (Day of the Defenders of the Motherland); March 8th (International Women's Day); April 30th-May 1st (Labour Day); May 9th (Victory Day); June 11th-12th (Russia Day); November 4th-5th (Day of National Unity)

Political structure

Official name

The Russian Federation

Form of state

Federal state, with republican form of government. A new constitution was adopted after a national vote on December 12th 1993

Electoral system

Two-chamber legislature: the State Duma (the lower house) has 450 deputies; the Federation Council (the upper house) has 170 deputies, two from each of the 85 republics and regions (including Crimea and the city of Simferopol)

National elections

Most recent: March 4th 2012 (presidential), September 18th 2016 (parliamentary); next elections due in March 2018 (presidential) and September 2021 (parliamentary)

Head of state

Vladimir Putin was elected as president for a six-year term on March 4th 2012 and took office on May 7th

National government

The government is appointed by the prime minister, who is appointed by the president

Main political parties

The most important parties are: United Russia; Communist Party of the Russian Federation (CPRF); Just Russia; and Liberal Democratic Party of Russia (LDPR)

Leading members of the government

Prime minister: Dmitry Medvedev

First deputy prime minister: Igor Shuvalov

Deputy prime ministers:

Dmitry Kozak

Dmitry Rogozin

Arkady Dvorkovich

Aleksandr Khloponin

Sergei Prikhodko

Olga Golodets

Yuri Trutnev

Vitaly Mutko

Key ministers

Agriculture: Alexander Tkachyov

Civil defence, emergencies & disaster relief: Vladimir Puchkov

Communications & mass media: Nikolai Nikiforov

Construction, housing & utilities: Mikhail Men

Culture: Vladimir Medinsky

Defence: Sergei Shoigu

Economic development: Maxim Oreshkin

Emergency situations: Vladimir Puchkov

Education & science: Olga Vasilyeva

Energy: Aleksandr Novak

Far East development: Alexander Galushka

Finance: Anton Siluanov

Foreign affairs: Sergei Lavrov

Health: Veronika Skvortsova

Industry & trade: Denis Manturov

Internal affairs: Vladimir Kolokoltsev

Justice: Aleksandr Konovalov

Labour & social protection: Maksim Topilin

Natural resources & environment: Sergei Donskoi

Sport: Pavel Kolobkov

Transport: Maksim Sokolov

Central bank governor

Elvira Nabiullina

Recent analysis

Generated on March 6th 2018

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

Protesters across Russia call for election boycott

February 1, 2018: Political stability

Event

On January 28th Aleksei Navalny, an opposition politician, organised protests across Russia. The protesters called for a boycott of the March presidential election following the decision in December of the Central Election Commission to bar Mr Navalny from running as a candidate.

Analysis

Demonstrations were held in 84 cities. The Ministry of the Interior estimates that 3,500 people attended the protests, including 1,000 in Moscow, the capital. It is likely that turnout was much higher. *Kommersant*, a daily newspaper, reported that 2,000 people attended the protests in Moscow, 2,000 in St Petersburg, 1,500 in Yekaterinburg, over 1,000 in Kazan and 500 in Kaliningrad. Some 300 people were arrested by the police. Mr Navalny was arrested (as usual), but released without charges. His headquarters were raided by the police to disrupt an online broadcast of the protests.

Despite an intense media campaign on the internet (mass media do not cover Mr Navalny, as they are state-controlled), support for Mr Navalny is losing traction. He is currently failing to mobilise as many supporters as last year, when he held election rallies aimed at boosting his popularity in the regions. In March 2017 he held anti-corruption protests in 80 cities, gathering about 60,000 people. Mr Navalny changed strategy when the election commission confirmed on December 25th that he would not be allowed to run as a candidate in the presidential election. He is now pushing for a boycott of the election, which he says cannot be legitimate without his participation. However, Mr Navalny's shift away from protesting against corruption does not seem to inspire the same level of support as his 2017 campaign rallies.

Unconfirmed reports in Russian media claimed last year that Mr Putin aims for a 70/70 victory in the election; that is to say, 70% of the vote with 70% turnout. Mr Navalny is betting that a low turnout will undermine the legitimacy of Mr Putin's new term, but this seems unlikely given the lack of interest in politics among the general population. Mr Navalny is scoring at around 2% in opinion polls. However, he unexpectedly won 30% of the vote in the 2013 Moscow mayoral election, making him a credible opponent in the eyes of Mr Putin.

Impact on the forecast

We believe that Mr Navalny will try to organise more protests in the coming months. However, this will not change the outcome of the presidential election, which we believe Mr Putin will win easily.

Ukraine to resume gas imports from Russia

February 2, 2018: International relations

Event

In 2017 Ukrainian gas imports from EU countries increased by 27% year on year, to 14.1bn cu metres, as Ukraine continued diversifying its gas supply routes to avoid importing Russian gas. However, in late December the Stockholm Arbitration Court ruled that Ukraine must resume importing small volumes (5bn cu metres annually) of Russian gas in 2018.

Analysis

Ukraine suspended gas imports from Russia in late 2015. In a long-running dispute, Russia's state-owned gas monopoly, Gazprom, claimed that Naftogaz, the Ukrainian gas monopoly, owed it US$56bn for unused gas under a so-called take or pay clause. For its part, Ukraine sought compensation from Gazprom for allegedly inflating import prices and lowering gas transit fees in the years before 2015.

Following Russia's annexation of Crimea and the beginning of the Donbas conflict in 2014, Ukraine has sought to decrease its dependence on Russian gas. Ukraine's gas needs are now covered by imports from eastern European countries through reverse gas flows; even though the gas that Ukraine imports through this system is originally from Russia, the price that Ukraine pays for it is much lower than if the gas was directly imported from Russia. In addition, Naftogaz is seeking to increase domestic production by about a third by 2020—an ambitious target, given ongoing administrative hurdles. Gazprom, in turn, is focused on increasing deliveries to European markets and on building pipelines—Nord Stream 2 and Turkish Stream. As these circumvent Ukraine, the country will gradually lose gas transit fees, estimated at US$2bn per year.

Natural gas imports remain a strain on Ukraine's economy, and the sector is a hotbed of corruption. In line with the requirements of the IMF facility from which it benefits, Ukraine raised domestic gas tariffs several times between 2015 and 2017. However, tariff increases came to a halt in 2017 as Ukraine's financial situation started to improve noticeably. Another area where reform has been delayed is the unbundling of gas production, supply and transmission—a requirement to bring the country's regulations in line with those of the EU. However, vested interests are mobilising to retain control of transmission—the most profitable part of the business. This area could become more and more contentious in 2018, as several unbundling bills will be presented to the Rada (parliament).

Impact on the forecast

The resumption of gas imports from Russia will complement existing trade between the two countries; however, we do not expect this development to affect their otherwise hostile relationship.

Russia prepares to host 2018 football World Cup

February 5, 2018: Political stability

Event

On January 22nd *Kommersant*, a daily newspaper, reported that the Federal Security Service (FSB) had ordered several "hazardous industries" in host cities of the FIFA World Cup to stop operations for the duration of the tournament (June 14th-July 15th).

Analysis

The government and the president, Vladimir Putin, have been making increasing efforts to ensure the success of the tournament, which is the most high-profile event to be hosted in Russia since the Sochi Winter Olympics in 2014. The FIFA World Cup should contribute to Mr Putin's popularity after his expected win in the March presidential election. However, this will depend on the tournament running smoothly; any reports of corruption related to deals in the preparation of the World Cup similar to those in the run-up to the Sochi Olympics could spark a scandal (public concern about corruption has been growing in recent months).

Fears about Russian hooligans appear unfounded, as Russian law enforcement has ample experience of riot control (including in sports events) and will probably be fully deployed. Media reports about the FSB closing industries in host cities is another indicator of the importance given to the smooth running of the event from a foreign-policy perspective as the Kremlin seeks to ensure that foreign fans and media do not comment negatively. These reports are also to reassure the international public that security will be the main concern of the authorities.

Local governors are under pressure to make sure that the infrastructure is ready on time and that the tournament takes place without incident. Although success could bring political dividends in the future, any scandal or issues related to the organisation of the event will make governors more vulnerable at a time when Mr Putin could start yet another gubernatorial reshuffle.

The economic impact of the World Cup should be small, with an estimated boost to GDP of just 0.2 percentage points during April-September. The (short-term) economic impact will for the most part be felt in Moscow (the capital) and St Petersburg, but provincial cities with modern infrastructure already in place (such as Kazan, Ekaterinburg and Sochi) will also benefit from increased tourism revenue and recognition.

Impact on the forecast

We expect the World Cup to have a limited impact on the economic outlook, with growth well below 2% in 2018. Barring any negative publicity or corruption scandals, the event is likely to provide a mild political boost to Mr Putin and the relevant regional governors.

US releases new Russia sanctions but declines to impose them

February 5, 2018: International relations

Event

On January 29th the US released two Russia-related reports and a new list of individuals and entities targeted by international financial sanctions as per the Countering America's Adversaries Through Sanctions Act (CAATSA) signed into law in August 2017.

Analysis

The new sanctions target businessmen and senior political figures close to the Russian government, as well as parastatal companies and persons engaging in transactions with the Russian intelligence or defence sectors. The report discusses the effects of expanding sanctions to include Russian sovereign debt and derivative products.

The prospect of the so-called "oligarchs list" had caused concern within business circles in Russia, as many feared that inclusion on the list would lead to subsequent sanctions. In reality, the unclassified report was banal. The list of oligarchs appeared to be taken directly from the 2017 Forbes Rich List (a list of wealthy individuals published by *Forbes*, a journal) and the list of political figures from the Kremlin website. Information on parastatal entities was kept classified. It is likely that the classified annex on businessmen includes meaningful information, such as an assessment of listed individuals' relations with the Russian president, Vladimir Putin, and the ruling elite. Anders Aslund, an expert on Russia matters who was consulted on suggestions for the list, stated on the website of the Atlantic Council, a think-tank, that someone "high up in the administration" had scrapped the expert-informed list and replaced it with the Forbes-based list instead

US legislation requires that the US president, Donald Trump, impose sanctions on anyone who "knowingly engages in a significant transaction with a person that is part of, or operates for or on behalf of, the defence or intelligence sectors" of the Russian government. Yet no new sanctions emerged as a result of the list, as the State Department suggested that existing measures "are deterring Russian defence sales". The report on the effects of expanding sanctions to include sovereign debt and derivative products was classified. However, a leaked US Treasury memo warned that sanctioning Russia's sovereign debt market could have knock-on effects of destabilising other financial markets. The outcome therefore reflected the difference of opinion on Russia that exists between the US administration and Congress.

Impact on the forecast

We believe that the recent sanctions are mainly symbolic and will not have a significant impact on Russia's economy or political landscape.

Ukraine adopts controversial law on re-integration of Donbas

February 5, 2018: International relations

Event

On January 18th the Verkhovna Rada (the Ukrainian parliament) adopted a law on the status of the separatist-held Donbas region, where Ukraine is at war with Russian-backed rebels.

Analysis

The Donbas region has been controlled by Russian-backed separatists since 2014. According to the UN, at least 10,303 people (including 2,523 civilians) have been killed since April 2014. The territory's legal status determines what the Ukrainian government owes its citizens living in the Donbas and how it can act in future negotiations on resolving the conflict.

Changes introduced by the law include: designating Russia as an occupying power, thus making Russia legally responsible for the separatist territories, including the population's energy and nutrition needs as well as human rights violations; ending the anti-terror operation—thus far the official status of the Ukrainian military operation in the Donbas; assigning oversight of all combat units to the Ukrainian armed forces, thereby legalising the military presence in the Donbas without declaring martial law; extending the military powers of Petro Poroshenko, the Ukrainian president, by giving him the right to use the military in the Donbas without parliamentary approval; and recognising only two documents issued by the Donbas rebel authorities—birth and death certificates.

Mr Poroshenko was able to build a broad parliamentary coalition behind the final version of the legislation. In supporting the law, members of parliament (MPs) bent to public pressure; violent protests demanded the bill's quick adoption as it was passed in the first reading in October 2017. The law has drawn criticism from human rights organisations, however, for extending the power of the president and the military beyond constitutional limits, as well as for renouncing responsibility for citizens in separatist-held territories.

Although the Donbas conflict is no longer officially an anti-terror operation, the law avoids referring to it as a war, which could have triggered a stark reaction from Russia. In addition, it lacks any references to the Minsk II agreement, the basic framework for settling the conflict. Ukrainian authorities continue to voice their commitment to the Minsk II agreement, but by officially renouncing responsibility for the Donbas, the Rada has undermined Ukraine's obligation under the deal to grant autonomy to the Donbas.

Impact on the forecast

The changes in the legal status of the Donbas are a symbolic move. We expect them to have little, if any, practical consequences in the medium term. We maintain our view that the Donbas conflict will continue simmering throughout our forecast period.

Still no conclusion on Donbas, despite US-Russia meeting

February 5, 2018: International relations

Event

On January 26th the US special representative for Ukraine, Kurt Volker, and a Kremlin aide, Vladislav Surkov, held their fourth meeting in Dubai. One of the main discussion points was the modalities of a peacekeeping mission being deployed to the separatist-held Donbas region.

Analysis

This meeting took place against a backdrop of challenges, which many presumed would hinder progress. The US had announced that it would provide lethal defence assistance to Ukraine in December; Russia withdrew from the Joint Centre for Control and Co-ordination (JCCC), an international institution monitoring the ceasefire in eastern Ukraine, in December; the Verkhovna Rada (Ukraine's parliament) passed a controversial re-integration law, which names Russia as an aggressor state, in January; and on January 29th the US introduced new sanctions against individuals and entities in eastern Ukraine and Russia.

However, both sides viewed the meeting as more constructive than their previous meeting in November. Although full details of the discussion are not public, Mr Surkov highlighted that a new "quite feasible … at least at first glance" suggestion was made for a phased deployment of a UN peacekeeping mission in co-ordination with the implementation of the political points of the Minsk II agreement.

The mandate of a potential UN peacekeeping mission has been a sticking point since the Russians announced their own proposal in September 2017. Their proposal would see a peacekeeping force as primarily providing protection for the OSCE Special Monitoring Mission. At first this was to be only along the contact line, but Russia modified its position to cover the whole Donbas territory. Russia's main priority is that the peacekeeping mission does not affect Ukraine's obligations to implement the Minsk II agreement and does not signify a UN takeover of the disputed territory.

The US has said that the political steps of Minsk cannot be implemented until there is a secure environment in which to do so. Therefore, the peacekeeping mission must have a stronger mandate that would facilitate a secure environment in which Russian forces can be withdrawn and the political steps outlined in Minsk II, such as elections, can then be implemented. The recent meeting appears to be an attempt towards finding a compromise.

Impact on the forecast

There is still a high degree of scepticism as to whether all parties to the conflict can agree on an implementation plan for a peacekeeping operation. We believe that the Donbas conflict will remain simmering over our 2018–22 forecast period.

Russia and Syrian regime intensify air strikes in Idlib

February 9, 2018: International relations

Event

Russia and Syria have stepped up their air operations against rebel-held areas in Idlib, a city in north-western Syria, after a Russian Su-25 fighter jet was shot down over Idlib on February 3rd.

Analysis

The Russian pilot ejected himself safely from the aircraft, but then later killed himself with a grenade after encountering rebel forces on the ground, according to a statement issued by the Russian Ministry of Defence. It is the first time that a Russian military jet has been shot down by ground fire over Syria; the Russian defence ministry said that the Su-25 has been hit by a missile fired from a portable anti-aircraft system.

The response from Russian and regime aircraft has been substantial, with a significant increase in both the frequency and intensity of air strikes. Non-governmental organisations operating in the target areas said that Syrian government forces made extensive use of chlorine bombs and repeatedly targeted medical centres. Such reports will increase international concern about the campaign in Idlib, which is already in theory an agreed de-escalation zone.

However, the UN currently has little leverage over events in Syria, with Russia dominating peace efforts, as shown by the recent peace conference that it organised in Sochi, Russia, in late January. Meanwhile the US has stopped short of defining chlorine bombs as chemical weapons, indicating a strong desire to avoid targeting the regime and sucking itself further into the conflict. Moreover, with Turkey opening a new front against the Kurds in Afrin and threatening to turn on US-backed mainly Kurdish forces in Manbij, many of the main international actors in the conflict are distracted by events elsewhere, and the government offensive in Idlib is thus likely to continue in the coming months.

The impact will be sizeable from a humanitarian standpoint. Up to 2m refugees had made their way to Idlib prior to the government assault, with a further 200,000 internally displaced in the region since the government advance began. But with Turkey wary of a refugee influx, there are few options available to those fleeing the fighting, suggesting that the civilian casualty count is likely to increase.

Impact on the forecast

The intensification of operations in Idlib reinforces our view that the Syrian war is far from over, that peace talks are unlikely to produce a comprehensive agreement in 2018-22 and that Russia's recently announced decision to withdraw from the Syrian conflict has produced little result so far.

Latest polls show still strong support for Putin

February 12, 2018: Political stability

Event

Recent polls indicate that Vladimir Putin, the president, enjoys high levels of popular support in advance of the March presidential election.

Analysis

According to the Levada Center, an independent pollster, in November 2017 Mr Putin enjoyed 81% approval ratings. Levada's data suggest that the ratings have generally stayed around this level after jumping from 69% in February 2014 to 82% in March 2014, when Russia annexed Crimea. This is in contrast to perceptions of the government as a whole. In November 42% of Russians endorsed the work of their government. This was the lowest rating for 2017. The Duma (parliament) was even lower that month, at 35%, a drop from 41% in October, illustrating low and declining levels of trust in government institutions.

Although support for the government's foreign policy has not stayed as constant as that for Mr Putin, and post-Crimea enthusiasm may be waning, it is not disastrously low either. The state-owned pollster All-Russian Centre for the Study of Public Opinion (VTsIOM) tracks Russian public opinion on domestic politics, economic policy, social policy and foreign policy. Between the first and second quarters of 2014, which cover the annexation of Crimea, those that said they were "fully happy" with how the government was managing foreign policy jumped from 50% to 59%, hitting a high of 61% in the third quarter. Although support dipped back down into the 50–59% range thereafter, the latest poll from December was up, at 65%.

Foreign policy is not necessarily the most critical area in deciding a national vote. According to the VTsIOM polls, domestic, economic and social policies have far lower approval ratings. Endorsement of economic and social policy in particular saw a much smaller gap between those who were satisfied with the government's policy versus those that were not. In a Levada poll published in October 2017, when asked what they "did not like" about Mr Putin, the answer with the highest percentage, albeit low at 15%, was that he "did not care about people…has forgotten about ordinary people".

Impact on the forecast

Mr Putin will no doubt be re-elected as president in the first round of the election on March 18th. However, in the medium term the government will have to start addressing economic and social issues, which are clearly of concern to the population. We believe that the government will fail to do so, weighing on Russia's long-term economic outlook but not on social stability.

Israel-Iran clash escalates in Syria, Russia's tack unclear

February 13, 2018: International relations

Event

On February 10th an Israeli fighter jet was shot down and multiple military targets operated by Syrian and Iranian forces in Syria were destroyed in clashes.

Analysis

The fighting was provoked by an Iranian drone that entered Israeli air space. It was shot down by Israeli forces, which then bombed the Iranian-operated launch site near the Syrian town of Palmyra. One of the eight Israeli F-16s on the mission was brought down over Israeli territory by a Syrian anti-aircraft missile. Israel then retaliated by hitting what it said were 12 Syrian and Iranian targets inside Syria. The fighting stopped after six hours, shortly after Vladimir Putin, the Russian president, called Binyamin Netanyahu, the Israeli prime minister; the incident took place near Russian military positions in Syria.

The incident comes amid growing Israeli concern about Iran's widening military presence in Syria. The Israeli government claims that the build-up is not connected with Iran's role in fighting Syrian rebels but in creating a joint front with Iran's Lebanese proxy, Hizbullah, to threaten Israel. Although the US issued a statement unequivocally supporting Israel after the incident, there is no domestic appetite there for an expanded role in a foreign conflict.

Russia therefore remains the main military power in Syria, although it has declared plans to withdraw from the conflict. So far Russia has not taken a clear position on the Israel-Iran issue. On the one hand, Russia benefits from Iran's military support in what it calls an anti-terror operation against rebels opposed to the Syrian regime. On the other, security in Syria could be undermined by a conflict between Israel and Iran. In addition, Russia is conscious that an open conflict between Iran and Israel would help Donald Trump, the US president, to impose new financial sanctions on Iran (he has repeatedly threatened to do so); it is unclear whether these sanctions would benefit or negatively affect Russian business interests. Until now Russia has given Israel a relatively free hand to act in Syria, and Mr Netanyahu has worked to maintain good relations with Mr Putin. However, Russia probably knew about the Iranian drone provocation and did not try to stop it.

Impact on the forecast

We believe that Russia's role in the Syrian conflict will remain crucial. However, the Russian government will find it increasingly hard to manage its (currently good) relationships with both Iran and Israel, two countries that are at odds with each other.

US Department of Justice indicts 13 Russians

February 19, 2018: International relations

Event

Following evidence provided by its special counsel, Robert Mueller, the US Department of Justice issued indictments for 13 Russians and three companies accused of committing fraud against the US government through interfering in the 2016 presidential election.

Analysis

The indictments are centred on a Russian organisation, the Internet Research Agency, employees of which created hundreds of social media accounts that, in the run-up to the 2016 US presidential election, pushed content supportive of Donald Trump, the winning Republican candidate, and critical of his Democratic opponent, Hillary Clinton. Russians living in the US were also alleged to have contributed to these efforts, coordinating with "unwitting" members of the Trump campaign to stage rallies. They also pushed allegations that the Democrats were committing voter fraud. The indictments did not suggest that these actions had swung the election for Mr Trump.

The indictments will not lead to trials, as the suspects are now situated in Russia, a country that does not extradite its citizens to the US. Nor do they explicitly place blame on the Russian government, even if the Kremlin is widely believed to have funded and directed these efforts. However, the charges have several positive consequences for the justice department: first, they reaffirm that there was Russian interference in the election, despite regular denials by Mr Trump; second, they confirm to the US administration the extent and quality of Mr Mueller's work; and, consequently, third, they make sacking Mr Mueller more difficult.

The Mueller investigation remains multi-pronged. Work is continuing on the hacking of Democratic emails and the circumstances surrounding Mr Trump's sacking of the Federal Bureau of Investigation (FBI) director, James Comey. Mr Mueller is keen to interview Mr Trump to discuss the sacking—a prospect that makes Mr Trump's lawyers extremely uncomfortable. More encouraging for Mr Trump is that the indictments did not disclose any evidence that his campaign was aware of the Russians' actions, much less that there was any collusion involved.

Impact on the forecast

We believe that there is little prospect for a rapprochement between the US and Russia in our forecast period owing to intense media scrutiny of Mr Trump's actions and the US Congress's continuing willingness to push for further Russia sanctions.

Putin's speech points to continued confrontation

March 2, 2018: International relations

Event

On March 1st Vladimir Putin, the president, delivered an ambitious state-of-the-nation speech in which he set out some of his socioeconomic goals for his next presidential term, and also emphasised at length Russia's nuclear potential.

Analysis

The first part of Mr Putin's speech consisted of a fairly conventional overview of some of his socioeconomic targets for his fourth presidential term, in view of the upcoming presidential election on March 18th. Mr Putin set an ambitious—and almost certainly unrealistic—goal of raising per capita GDP by 50% by 2025. This would require annual real GDP growth of about 5% per year—far above the 1.5–2% annual rate that we anticipate. Mr Putin correctly identified the low investment rate as the main barrier to higher economic growth, and called for it to be increased to 27% of GDP, from around 21% currently. The investment rate will be supported by the stabilisation of the economy and falling interest rates; however, serious constraints, in particular high levels of business uncertainty and international tensions, are likely to persist. Mr Putin's call for an expansion of house-building and mortgage lending suggests that the government may use its dominance of the banking sector to drive up credit to the construction and small business sectors.

Mr Putin appeared to endorse calls by Aleksei Kudrin, a former finance minister and key adviser, to increase spending on health and human capital. Spending on health should rise to 4% of GDP, and ideally 5% (it was just under 3.1% in 2017). The president also said there should be major increases in infrastructure spending, including a doubling of spending on roads to Rb11trn (US$187bn) in the next six years. Mr Putin called for further rises in public-sector pay, and suggested that pensions should be indexed above the rate of inflation.

Mr Putin devoted the last third of his speech to national defence and a long description of Russia's nuclear capabilities, including a new nuclear-powered missile. This was accompanied by a video graphic that appeared to show a missile strike on the US. Although the military and technological implications of Mr Putin's presentation have been disputed, it signalled that relations between Russia and the West will remain frosty at best in the coming years.

Impact on the forecast

We continue to forecast that Russia's medium-term growth rate will be significantly below the target set by Mr Putin, at around 1.5–2% a year in 2018–22.

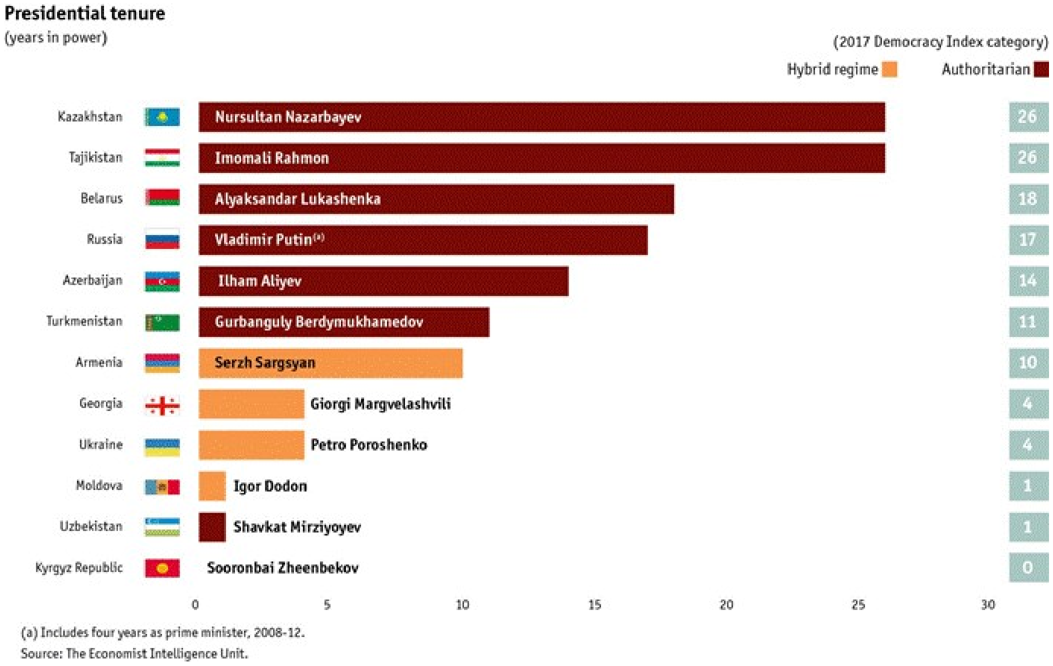
Analysis

Russia in 2018: all quiet on the eastern front?

February 1, 2018: Political outlook

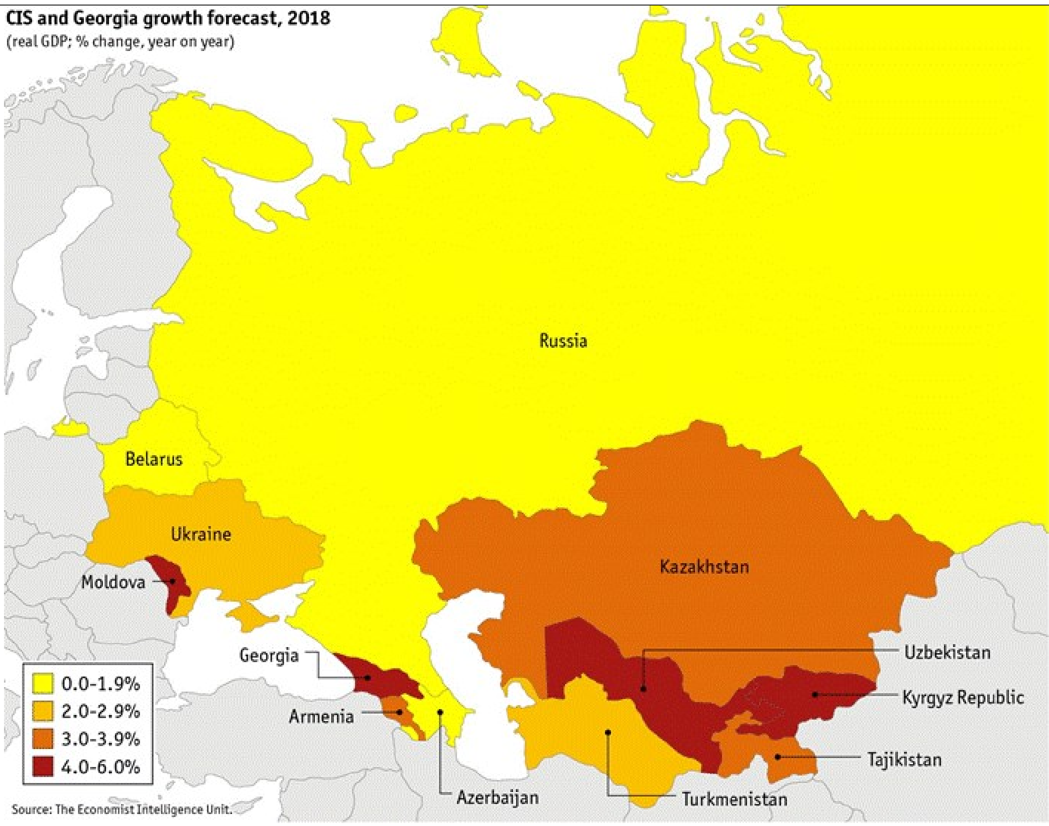
- **We do not expect political or economic upheaval in the Commonwealth of Independent States (CIS) region in 2018.**
- **In Russia Vladimir Putin, the president, will be re-elected for a fourth term. However, vulnerability to political and social instability will remain high.**
- **The economy will be a repeat of 2017, featuring modest real GDP growth and low inflation—provided oil prices remain stable.**
- **In eastern Ukraine we expect the Donbas conflict between Ukraine and Russian-backed rebels to remain simmering.**

With the exception of Ukraine, where the 2014 Euromaidan revolt led to a reconfiguration of the political scene, the CIS region is characterised by low levels of political and social upheaval. From the most authoritarian country (Turkmenistan) to the most democratic (Moldova), the leading political parties and players have seen little renewal in recent years. We do not expect this to change in 2018. Regarding the economy, growth and exchange-rate movements in the region are highly correlated to movements in global oil prices, especially in large oil exporters such as Russia, Kazakhstan and Azerbaijan. Owing to important trade links and high levels of remittance flows, the performance of the Russian economy has a direct impact on that of smaller CIS countries in Central Asia (the Kyrgyz Republic and Tajikistan) and the South Caucasus (Armenia and Georgia—Georgia is not a CIS member, but is included in our discussion of this region). Given our forecast for a broadly stable oil price of US$63/barrel in 2018, the growth outlook for most countries is unlikely to change significantly this year.



On the economic front, a repeat of 2017

Despite a presidential election and the football world cup taking place, we do not expect any meaningful political or economic changes in Russia in 2018. After contracting in 2015–16, the Russian economy stabilised in 2017. We expect this stabilisation to continue this year: we forecast modest real GDP growth, low inflation (by Russian standards) and a broadly stable rouble. We believe that international financial sanctions imposed by the EU and the US, which started in 2014 owing to Russia's annexation of Crimea and backing of separatist rebels in Ukraine, will remain in place. The US could impose new individual sanctions, the effect of which will remain limited, as such sanctions are usually symbolic (they restrict only travel to the US and freeze the assets that an individual holds in that country). Additional US sanctions on Russian sovereign debt may also be announced; such sanctions would not complicate debt issuance for the Russian state, although they could have a negative effect on investor sentiment and possibly lead to a depreciation of the rouble. Long-term structural factors (including low productivity growth, a bleak demographic outlook and a weak financial sector) will continue to limit potential growth.



Russia's presidential election: much ado about nothing

On the political scene, Mr Putin will be re-elected for a fourth term in the first round of the presidential election on March 18th. His re-election is assured, given the absence of credible opposition candidates and the backing of state media outlets, which will highlight his (real or imagined) achievements. Even without these supporting factors, the Russian population strongly backs Mr Putin, whose approval ratings have been consistently above 80% since early 2014 (with Russia's actions in Ukraine increasing approval ratings). The only three questions that remain unanswered are that of turnout (which Mr Putin would like to be high to bolster his international credibility); that of the identity of Mr Putin's next prime minister (possible candidates could include, among others, Elvira Nabiullina, the governor of the Central Bank of Russia, Sergei Sobyanin, the mayor of Moscow, and Denis Manturov, the minister of industry and trade); and, in the longer run, that of Mr Putin's successor (we believe that it is too early to say who this will be).

Political instability will remain high

Russia's political stability, buttressed by apparent high public approval ratings for Mr Putin, may be deceptive and only skin-deep. The country may be one of the biggest "black swans" of political risk in 2018. First, high levels of corruption at all levels of society exacerbate economic disparities between the richest and the poorest. The disconnect between Russia's population and its elite used to mitigate this factor in the past. However, with the emergence of social media, the population seems increasingly aware (and more and more reluctant to accept) this disparity, as the protests in early 2017 showed. The second vulnerability relates to low levels of public trust in government (which is seen as a distant apparatus by the majority of the population), compounded by still fresh memories of the collapse of the former Soviet Union. In addition, factionalised Russian elites compete to advance their sometimes conflicting economic interests, which constitutes another area of instability. The third weakness relates to ethnic fragmentation, with tensions especially high in the Caucasus regions of Chechnya and Daghestan, where the oversized Russian security apparatus shows little respect for human rights. Finally, Russia's relationships with Western countries have reached a low point in recent years, after Russia annexed Crimea and started to back rebels in eastern Ukraine in 2014. All in all, the international situation is now less stable and predictable than during the cold war.

The Donbas, not quite frozen

Since 2014 Russian-backed separatist rebels have been at war with the Ukrainian army in Ukraine's eastern Donbas region. According to the UN, at least 10,303 people (including 2,523 civilians) have been killed since the beginning of the conflict in April 2014. After intense fighting in 2014‑15 the conflict now appears frozen and has disappeared from international media headlines. The frozen conflict serves Russian interests, as Mr Putin's diplomatic priorities include preventing Ukraine (or any other CIS country) from joining the EU or NATO and strengthening his credentials on the international scene. In Ukraine, the constitutional reforms required by the Minsk II peace plan are controversial, and a majority of the population opposes some of the provisions of a new Donbas reintegration law. In addition, the Donbas conflict no longer appears to be at the top of diplomatic agenda. For all of these reasons, we believe that no progress will be made regarding the implementation of the Minsk II agreement, at least not before the next presidential election in Ukraine, in 2019. Meanwhile the conflict will keep simmering. At least seven Ukrainian soldiers have died in the Donbas since the beginning of 2018.

UN peacekeeping proposal in Donbas: much ado about nothing

February 14, 2018

In September 2017 Russia surprised Ukraine observers by suggesting that a UN peacekeeping mission could be sent into Ukraine's Donbas region, where the Ukrainian army and Russian-backed rebels have been fighting since early 2014. Given that Russia's UN peacekeeping proposal contained terms that were unacceptable to Ukraine, Russia knew that its proposal had every chance of being rejected. However, such a proposal made it possible for Russia to gauge Western interest in a resolution of the Donbas conflict and for Vladimir Putin, the Russian president, to present himself as a peacekeeper to the Russian public.

In 2014 Russia annexed Crimea and started to back separatist rebels in Ukraine's eastern Donbas region. The gradual anti-Western propaganda campaign that Mr Putin had been building since 2007 culminated in what the Russian public was made to believe was a US-backed intervention against Russian interests. According to the Russian domestic propaganda message, Ukraine's leaders were US puppets bent on violently eradicating the Russian language and culture from Ukraine—a prospect that Russia could not tolerate. Although it is difficult to assess Mr Putin's initial intentions, the Ukraine conflict proved beneficial to his interests; it created a credible external enemy for the Russian public, and also made it difficult for Ukraine to join the EU and NATO (something that Russia would fight at all costs).

The "Ukraine-effect", however, has worn off as Russians have returned to focusing on domestic economic and social problems. A poll published by the Levada Centre, a Russian polling organisation, in December indicates that 20% of Russians do not know whether they will vote in the March 2018 presidential election, with a further 19% saying that it is doubtful that they will vote at all. Whatever the turnout, there is little doubt that Mr Putin will win the election. However, a low turnout could undermine his credibility. RBC, a Russian news website, has reported that officials in the presidential administration want a 70/70 result: a 70% turnout, and 70% of the votes for Mr Putin. To bolster public support, Mr Putin may need to provide the Russian public with a new, unexpected breakthrough.

Mr Putin, the Syrian peacemaker

In Syria Mr Putin has been testing a new public image, branding himself as a peacemaker. Russia has presented the looming defeat of Islamic State (IS) as its achievement and markets its military operation against rebels opposed to Bashar al-Assad, the Syrian president, as an anti-terror intervention against extremist Islamic groups. In addition, Russia's military successes in Syria have lent weight to Russia's yearned-for position as a global power on par with the US, having failed to achieve it in Ukraine.

In September Mr Putin surprised many observers by suggesting that UN peacekeepers could be sent to eastern Ukraine to monitor the Donbas conflict. If these peacekeepers were given a proper mandate to work effectively, such a proposal could have a positive effect on the ground. Mr Putin could therefore claim that he had stopped the fighting in Ukraine, contributed to the implementation of the Minsk II peace agreement and even possibly achieved a special status for the Donbas region.

Russia exploring changing tack, but not interests in Ukraine

So far both the US and Ukraine have rejected Russia's conditions for introducing UN peacekeepers in the Donbas—a refusal that the Russian government probably expected, given the controversial terms of its proposal. Russia initially said that it would consider allowing peacekeepers to provide protection for the Special Monitoring Mission of the Organisation for Security and Co-operation in Europe (OSCE) only on the contact line (which is well inside Ukraine, making this option unacceptable for Ukraine), but would not consider having them stationed on the Ukraine-Russia border (the only option that Ukraine could possibly accept). Russia subsequently declared that a UN peacekeeping mission could possibly be deployed in the whole Donbas territory (another unacceptable proposal for Ukraine), while making it clear that it would not accept a UN takeover of the contested territory. The Russian proposal was further stalled when the US agreed to provide Ukraine with lethal weapons starting in 2018. Two days before the US approved the sale of the weapons, in late December, Russia withdrew from the Joint Centre for Co-ordination and Control, an international institution monitoring the ceasefire in the Donbas region.

By making its UN peacekeeping proposal, it is highly likely that Russia was only trying to test the extent of Western interest in Ukraine. With Syria and Yemen making the headlines, Western interest in Ukraine has waned recently, but Russia's interest has not, as the Russian government believes that time is its best ally in the Donbas conflict. In addition, Russia sees Ukraine as part of its backyard, and most Russians believe that Ukraine historically belongs to Russia and that its independence was merely a mistake made in the aftermath of the cold war. Finally, Russia is keen to avoid Ukraine's accession to the EU and NATO at all costs; by making sure that the Donbas conflict remains simmering, it achieves this objective. It is therefore unlikely that Russia will give up on Ukraine, where it has not much to lose; its support for separatist rebels is not expensive (Russia even manages to deny it), and this conflict gives the Russian government an opportunity to bolster Russia's image as an unmissable global power.

Peacekeeping proposal has now been forgotten

A few months have passed since Mr Putin suggested that a UN peacekeeping mission could be sent to Ukraine. Interest in this short-lived suggestion has now waned. Domestically, most of the Russian government's efforts seem to be focused on measures to ensure a stable economy (such as making sure that the OPEC deal is extended through 2018), preparing for possible further international financial sanctions and doling out cash incentives for families. In Syria Mr Putin has placed himself at the helm of what he describes as the post-war political process (despite a still-raging conflict). Still, Russians care a lot less about Syria than they do about Ukraine, a neighbouring country with which they have strong historical and cultural ties. Any international narrative of Russia-led peace in Ukraine would undoubtedly galvanise the public more than would one of Syria or a stable economy. For now, however, it appears that a simmering Donbas conflict is Mr Putin's best chance of maintaining his popularity.

Belarus: torn between Ukraine and Russia

March 1, 2018

Since the collapse of the former Soviet Union Belarus has been a mere satellite of Russia in the political, economic and military spheres. However, when the conflict between Ukraine and Russian-backed rebels erupted in Ukraine's Donbas region in 2014, Belarus's stance was surprisingly not aligned with that of Russia. This lasted for about three years, before Belarus finally adopted Russia's tough line towards Ukraine in late 2017. This is likely to have been for a pragmatic reason: Russia is Belarus's only financial lifeline. However, a renewed alliance between Russia and Belarus does not have much of an impact on Ukraine, as the country never counted Belarus as one of its closest allies. In the long run, given Russia's bleak economic outlook, Belarus could make other timid overtures towards the West; such a situation would probably prove to become a highly contentious point between Western countries and Russia.

Since the Donbas conflict started in 2014, Belarus's friendly relationship with Ukraine has been a contentious point between Belarus and Russia. Alyaksandar Lukashenka, the Belarusian president, has been on friendly terms with Petro Poroshenko, his Ukrainian counterpart, since Mr Poroshenko came to power in 2014. Mr Lukashenka made a visit to Kiev, the Ukrainian capital, in July 2017 and met Mr Poroshenko in Abu Dhabi, the capital of the United Arab Emirates, in November. Mr Lukashenka has repeatedly expressed support for Ukraine's struggle for independence from Russian influence. Such friendly behaviour towards Ukraine certainly put Mr Lukashenka at odds with Russia, but served to demonstrate that Belarus was not a mere Russian satellite.

The relationship between Ukraine and Belarus soured in late 2017

Despite all the friendly rhetoric, the relationship between Ukraine and Belarus was put under strain starting in the second half of 2017. The first incident to cause tension occurred in August 2017 with the disappearance of a 19-year-old Ukrainian, Pavlo Hryb, who travelled to Homel, a city in Belarus, for a date with a woman he had met online. Until then, Ukrainians used to travel without fear to Belarus despite the country's deep ties with Russia. However, Mr Hryb was arrested in Belarus by Russian security services, on terror charges. According to his father, a former Ukrainian state border guard official, Mr Hryb had written several social media posts criticising Russia for its actions in Crimea and the Donbas. Mr Hryb is now held in a Russian prison near Krasnodar, a city in southern Russia. Following this arrest, Ukrainian officials declared that they would withdraw their support for Belarus to access the World Trade Organisation (WTO). Pavlo Klimkin, the Ukrainian foreign minister, also warned Ukrainians against travelling to Belarus owing to the strong presence of the Russian security services there.

A second incident happened in late November, when the Belarusian State Security Committee (KGB, the Belarusian intelligence agency) arrested a Ukrainian journalist and held him in custody on charges of espionage. In a third incident, a Ukrainian businessman was arrested by the KGB on charges of bribery. The two arrests were made shortly after a meeting between Sergei Lavrov, the Russian minister of foreign affairs, and Uladzimir Makei, his Belarusian counterpart, making it highly plausible that Russia pulled the strings to lead Belarus to adopt a less friendly stance towards Ukraine.

Russia is Belarus's only financial lifeline

Belarus's willingness to allow its relationship with Ukraine to deteriorate is down to Ukraine having little to offer the country, whereas Russia is Belarus's only financial lifeline. Mr Lukashenka has ruled Belarus for more than 23 years, maintaining high employment levels and relatively stable (although low) living standards through a state-controlled economy. As the regime does not appear to be willing to privatise significant parts of the economy, and cannot hope to secure a facility with the IMF owing to its dictatorial nature, it consistently seeks out loans and trade deals to prop the economy up. The regional economic downturn of 2015-16 increased Belarus's financial needs, as remittance inflows from Russia decreased and the Belarusian rouble depreciated sharply (leading to more expensive imports in local-currency terms).

Before 2014 Russia had always supplied Belarus with financial support as need arose. However, as the conflict in the Donbas started and Belarus adopted a friendly stance towards Ukraine (and the West), Russia started to decrease its financial support to Mr Lukashenka's regime. In 2016 a dispute between the two countries emerged over gas prices, which Belarus asked to be cut by around half. With Russia unwilling to renegotiate, Belarus took unilateral action, paying the lower price—thereby accumulating debt to Gazprom, the Russian state gas monopoly, until the dispute was resolved in April 2017. In retaliation, Russia cut the volume of oil it shipped to Belarus in 2016 to 18.5m tonnes, compared with an originally expected 24m tonnes. Oil refining is crucial for Belarus, as the country imports crude oil from Russia (at discounted prices), refines it and then exports it to European markets to earn much needed foreign-exchange revenue.

Such tactics (oil and gas disputes) are similar to those Russia used to try to convince Ukraine in late 2013 not to sign an association agreement with the EU. By using such methods, Russia sent a clear message to Mr Lukashenka's regime: any rapprochement with the West would come at a high financial and political cost, possibly threatening Belarus's political stability (an unthinkable prospect for Mr Lukashenka). The large-scale protests (for Belarusian standards) that took place in the country in early 2017 against the imposition of a so-called parasite tax on unemployed people were probably the deciding factor in reminding Mr Lukashenka that his interests lay with Russia if he wanted to ensure his political survival.

What does the renewed Belarus-Russia alliance mean for Ukraine, and the West?

Belarus's recent re-alignment with Russia was a disappointing, although not surprising, development for Ukraine. It is unlikely that a friendlier relationship between Belarus and Russia could have any impact on the Donbas (ceasefire negotiations take place in Minsk, the Belarusian capital, but this probably has little impact on the stance of the negotiating parties). Whatever happens in Belarus, we believe that this conflict will remain simmering until at least the 2019 presidential election in Ukraine (it seems highly unlikely that the full implementation of the Minsk II peace agreement will have happened by then).

Yet in the longer run, Belarus's short-lived attempts at courting Ukraine, and Western countries, should not be discounted. Even though Belarus, for now, remains firmly in Russia's orbit, it is highly possible that in the coming years (or decades) the Belarusian regime could increasingly try to strengthen ties with the West. Russia's economic outlook looks bleak, the concession that Russia demands in return for its financial support could prove to be a strain on Belarus's economy, and an eventual liberalisation of the Belarusian economy looks like the best and safest economic bet to ensure the survival of the regime. In addition, and seen from the perspective of the EU, any rapprochement with Belarus could prove highly beneficial in terms of improving the bargaining power of Western countries vis à vis Russia. Russia would react harshly to a thawing of EU-Belarusian relations, and promptly to what it would see as yet another act of Western aggression against its national interest.

Economy

Forecast updates

Central bank cuts policy rate

February 13, 2018: Monetary policy outlook

Event

On February 9th the Central Bank of Russia (CBR, the central bank) cut its policy rate by 25 basis points, to 7.5%.

Analysis

The CBR's decision follows a 50-basis-point cut in the policy rate in December; inflation in January stood at 2.2% year on year, significantly below the central bank's 4% annual target. At the same time industrial production and growth appeared to slow in the second half of 2017, and higher oil prices led to a 15.2% appreciation in the real effective rouble exchange rate in 2017. The CBR's guidance has become notably more dovish in recent months; Elvira Nabiullina, the head of the CBR, declared that given reduced devaluation risks, the central bank would move to a neutral monetary policy "a little faster". The CBR defines this as a policy rate of 6-7%, assuming average annual inflation of 4%.

The main consideration that might have stayed the central bank's hand from cutting the policy rate in February was the US Treasury report on Russian officials and business, published on January 29th, which could form the basis for further sanctions against Russia. However, the public report constituted little more than a list of leading entrepreneurs and members of the government, suggesting that the US executive is reluctant to pursue further measures at this time. The short-term implications of further US sanctions for capital flows and the exchange rate are uncertain—they are likely to depress foreign investment flows further, but they could also encourage some major Russian investors to repatriate capital to avoid asset freezes. A leaked US Treasury report warned against placing restrictions on the trade in Russian sovereign debt, as this could lead to capital outflows from the US.

Further monetary loosening by the CBR, along with a rise in US interest rates, is likely to lead to a depreciation of the rouble against the US dollar in 2018, despite rising average oil prices. The risk of currency volatility arising from shifts in the oil price is mitigated by the Ministry of Finance's budget rule, according to which "excess" hydrocarbon revenues accumulated when the oil price is higher than US$43.8/barrel are sterilised as foreign-currency reserves.

Impact on the forecast

We now expect the CBR to continue cutting its policy rate in 2018 as inflation remains low and growth disappoints. However, should inflation pick up (not our core forecast), the CBR would be quick to hold its monetary policy.

Real GDP grows by a mere 1.5% in 2017

February 14, 2018: Economic growth

Event

According to a first estimate by the Federal State Statistics Service (Rosstat), real GDP grew by only 1.5% in 2017, up from −0.2% in 2016.

Analysis

Fourth-quarter real GDP growth data are not yet available, and our seasonally adjusted real GDP figures are not directly comparable with Rosstat's first estimate. The 2017 1.5% real GDP growth estimate was below our expectation of 1.8% real GDP growth. As we flagged in our last growth update, the determining factor in overall real GDP growth was whether the recovery in private consumption growth (3.4%) would be met by local production or by imports. The latter appears to have been the case, with imports growing by a strong 17% in 2017 (our seasonally adjusted estimate was 14.7%)—much faster than exports (5.4%). This pick-up in imports, along with a weak recovery in gross fixed capital formation (3.6%) and a contraction in government consumption (−0.9%), contributed to the disappointing real GDP growth outcome in 2017. Revisions are likely once fourth-quarter data are published in April and the 2017 statistical discrepancy, equivalent to 1.2% of GDP, is resolved.

In 2017 the recovery in private consumption was supported by a pick-up in household borrowing, the appreciation of the rouble (against the US dollar and the euro) and sharp consumer price disinflation. We expect these factors to continue to support private consumption in 2018, albeit to a lesser extent, with inflation expected to rise slightly in the second half and the rouble forecast to weaken moderately, alongside oil prices. The decline in public consumption in 2017 was expected, in line with fiscal consolidation. We do not expect public consumption to contribute much to growth in view of the return to a three-year budgeting framework (which had been abandoned after the fall in oil prices) for 2017-19. Investment in 2017 was attributed to one-off government infrastructure projects, and the outlook for 2018 will be constrained by tight fiscal policy and uncertainty surrounding economic policy following the March presidential election. Finally, the external sector is unlikely to contribute to growth in 2018, owing to increasing imports and slowing exports (oil prices and export volumes are expected to grow more weakly than in 2017).

Impact on the forecast

We maintain our 2018 real GDP growth forecast of 1.7%, with the main downside risks including a sustained drop in oil prices to less than US$55/barrel, the failure of real wages to pick up or a collapse in household lending.

Analysis

EIU global forecast - Higher interest rates are coming

February 13, 2018

After an encouraging 2017 for the global economy, The Economist Intelligence Unit expects 2018 to proceed along similar lines. The US economy will continue to motor along; the euro area will absorb more of labour market slack; the Chinese government will manage its economic slowdown carefully; and Japan's economy will grow by 1.5%. Higher commodity prices will prove a fillip for emerging-market exporters, as will strong external demand from developed markets. However, 2018 will also be characterised by tightening monetary policy and credit conditions. On balance, the global economy is forecast to expand by 3% in 2018 and 2.9% in 2019, from an estimated 3% in 2017.

Over the next two years the European Central Bank (ECB) will continue to taper its quantitative easing (QE) purchases ahead of a first interest-rate rise in 2020, and we believe that the Bank of Japan (BOJ) will also begin to wind down QE, beginning in 2019. Over these two years there will also be monetary tightening in Canada, the UK and Australasia. Higher borrowing costs in major economies will force other central banks in emerging markets to fall into line. By reducing long-term yields through QE, investors have been forced to look elsewhere for attractive returns. This excess liquidity has pushed up the prices of all manner of assets, including bonds, stocks and property, generating a major risk for the health of the global economy.

It also needs stressing that the effects on financial markets of withdrawing huge amounts of monetary stimulus are not well understood. The Federal Reserve (Fed, the US central bank) is doing its bit to minimise the disruption by outlining how it will taper its QE programme. The ECB and the BOJ are likely to use the same strategy, but the impact on financial markets remains unclear. February's jitters are likely to represent the end of a period of unusual calm in financial markets. We expect there to be further short-lived periods of volatility as global markets adjust to the gradual shift away from easy money.

The business-cycle downturn that we expect in the US in 2020 has become the defining event in our forecast period. It is likely that the long period of economic growth will be interrupted in the coming years. The unemployment rate that is consistent with non-accelerating inflation is very low, at between 3.5% and 4%. Our view of this rate is lower than that assumed by the Fed (4.5%), meaning that inflationary pressures will take longer to build, even allowing for the mild stimulatory effect of the tax-reform package passed in late 2017. With inflation and the pace of monetary policy tightening accelerating, the pressure will be greater than the economy can bear, and we expect private consumption and investment to contract for two quarters in early 2020. Our core forecast is that the dip will be shallow and the rebound relatively rapid, owing to the Fed cutting interest rates aggressively in response to the contraction and some support from fiscal stimulus measures. This means that the recovery in 2021–22 will be brisk.

Against the backdrop of a healthy global economy lies the highest level of political risk in years. The US is sending an ambivalent message to its traditional allies, following its withdrawal from the Paris climate agreement and the Trans-Pacific Partnership, and its stance towards NATO. It is, however, the US's heated rhetoric towards North Korea that could have the greatest potential consequences. Although both sides have a strong incentive not to escalate the situation, we note the small risk of North Korea unleashing its nuclear capability under the belief that a US assault was imminent, or the US attempting to warn off North Korea through a "bloody nose" attack.

Developed world

The US economy is in good shape, and we have revised up economic growth in 2018 to 2.5%, from 2.3% previously. Wage growth is showing signs of accelerating, and the unemployment rate is at its lowest level since 2000. We expect the US economy to show signs of overheating in the next two years, as a result of which the Fed will quicken the pace of monetary tightening, especially given the recent tax changes. Unable to cope with this, the economy will face a downturn in early 2020. The recent revival of the euro zone economy is likely to be sustained, but political risk will remain high. EU leaders are currently boosting the region's resilience to shocks, in part by renewing their push for further integration of the economic and monetary union. A decision on reform proposals will be made at the EU summit in June 2018. Following the renewed landslide secured by the ruling Liberal Democratic Party (LDP) in Japan, Shinzo Abe is in a strong position to secure another term as LDP leader when the party votes in late 2018. This comes in the context of the country's mild economic recovery under the prime minister's recovery plan.

Emerging markets

We expect conditions for emerging markets to become more challenging in the first half of the forecast period as US interest rates continue to rise. India will be Asia's fastest-growing large economy in 2018–22, expanding at an average annual rate of 7.9%. Growth will also remain on track in the Association of South-East Asian Nations (ASEAN) member states, with an average annual expansion of 4.8%. Vietnam, Cambodia and Myanmar, in particular, will continue to record growth rates above 6%, owing to relatively low wage costs and advantageous geographic locations.

We expect the Chinese economy to slowly slightly in 2018, to 6.4%, from an estimated 6.9% in 2017. The government's long-held target of doubling real GDP between 2010 and 2020 is within its grasp; it requires annual average GDP growth of 6.3% in 2018–20. We believe that it will meet this target without requiring significant economic stimulus. We expect China to move away from GDP targeting in the next decade. This is ideologically consistent with the call of the president, Xi Jinping, for more inclusive growth in his landmark speech at the party congress at the end of

2017. As such, we expect growth to continue to slow steadily in the forecast period, reaching 5.2% in 2022.

The ongoing economic recovery in Latin America is forecast to gather momentum in 2018–19, after several years dominated by macroeconomic policy adjustments to the end of the commodities boom of the previous decade. Sustained Chinese growth will continue to provide a favourable external environment for the region, particularly for commodity exporters such as Brazil and Argentina. This, combined with a rise in global risk appetite, as reflected in lower sovereign credit default swap rates (except for Venezuela, which defaulted on some external debt obligations in late 2017, taking the country further into economic and financial crisis), has generated strong growth in local stockmarkets.

At present, seven countries in the Middle East that collectively account for a quarter of the regional population are either torn by civil war or destabilised by Shia-Sunni rivalry. Geopolitical risk has also risen rapidly within the Gulf Co-operation Council (GCC). We expect the boycott of Qatar by some of the GCC countries and Egypt to continue until at least 2021. In this period divisions will harden between Qatar, Turkey and Iran on one side, and Saudi Arabia, the UAE and Egypt on the other. The long-term rivalry between Saudi Arabia and Iran is likely to destabilise a group of other countries in the Middle East, including Iraq, Syria, Lebanon and Yemen. Tensions are likely to increase rather than diminish in the region in the coming months.

Following a dismal performance in Sub-Saharan Africa over 2016–17, we expect a lacklustre recovery to take hold from 2018. This will be driven by a favourable external environment as export prices strengthen and trade gathers pace. However, policy mismanagement, unsupportive political dynamics and gradual tightening of credit conditions in developed economies will weigh on future prospects. On balance, the region is forecast to grow by 3.3% a year in 2018–22.

Exchange rates

The US dollar has continued to depreciate in early 2018, in spite of solid economic data, major tax reform and a clear commitment by the Fed to raising interest rates. Previously, markets did not believe monetary tightening by the Fed to be credible. However, this changed in early February when global stockmarkets fell sharply in response to suggestions of faster US wage growth. Regular interest-rate increases should provide the dollar with fresh support over the next two years, but any rally in 2018–19 will be modest at most. Among G10 currencies, the euro made the biggest gains against the dollar in 2017 as economic data went from strength to strength and some political risk receded. Further supporting the currency, the ECB is slowly becoming more upbeat in its communication. However, we believe that the first interest-rate rise is still two years away, and the euro zone continues to face considerable political challenges, which will limit economic momentum. On balance, we expect the euro to hold steady against the dollar in 2018–19. The yen is expected to appreciate further against the dollar in 2018–19 owing to its safe-haven appeal, and as the BOJ slows the pace of its asset purchases over dwindling bond-market liquidity concerns.

Commodities

The price of crude oil is likely to remain range-bound, at US$60–70/barrel in 2018–19 for dated Brent Blend, despite the efforts of OPEC and its partners, notably Russia, to constrain global supply by extending the existing production-cut deal until the end of 2018. These efforts will be largely offset by US shale, which will provide both a price ceiling and a floor. Industrial raw materials prices are set to rise for a second successive year in 2018 on the back of strong growth in China and strict environmental controls restricting supply. We expect marginal growth in food, feedstuffs and beverages prices, reflecting rising population, incomes and rapid urbanisation.

World economy: Forecast summary

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Real GDP growth (%)										
World (PPP* exchange rates)	3.4	3.6	3.4	3.2	3.7	3.8	3.8	3.5	3.8	3.8
World										

(market exchange rates)	**2.4**	**2.8**	**2.8**	**2.3**	**3.0**	**3.0**	**2.9**	**2.4**	**2.8**	**2.8**
US	1.7	2.6	2.9	1.5	2.3	2.5	2.3	0.8	1.9	1.8
Euro area	-0.2	1.4	2.0	1.8	2.5	2.2	1.9	1.7	1.7	1.7
Europe	0.8	1.9	2.0	1.8	2.6	2.3	2.0	1.8	1.9	1.9
China	7.8	7.3	6.9	6.7	6.9	6.4	6.3	6.2	5.5	5.2
Asia & Australasia	4.6	4.1	4.3	4.1	4.5	4.3	4.4	4.0	4.2	4.2
Latin America	2.8	1.4	0.5	-0.5	1.2	2.1	2.3	2.4	2.8	2.8
Middle East & Africa	2.2	2.7	2.4	4.2	2.2	2.8	3.3	3.5	3.9	4.1
Sub-Saharan Africa	4.8	4.5	3.0	1.0	2.3	2.9	2.9	2.9	3.6	4.0
World inflation (%; av)	**3.8**	**3.5**	**3.2**	**3.8**	**4.5**	**5.3**	**4.4**	**3.1**	**3.1**	**3.1**
World trade growth (%)	**3.3**	**3.1**	**2.3**	**2.3**	**4.6**	**4.3**	**3.9**	**2.8**	**3.8**	**3.7**
Commodities										
Oil (US$/barrel; Brent)	108.9	98.9	52.4	44.0	54.4	63.0	60.0	57.8	60.6	63.3
Industrial raw materials (US$; % change)	-6.8	-5.1	-15.2	-2.2	20.2	5.7	-0.2	-4.7	1.0	-1.7
Food, feedstuffs & beverages (US$; % change)	-7.4	-5.2	-18.7	-3.5	-0.9	0.9	2.8	1.8	0.7	1.6
Exchange rates (av)										
¥:US$	97.56	105.86	121.02	108.76	112.14	111.26	109.06	104.00	100.00	100.20
US$:€	1.33	1.33	1.11	1.11	1.13	1.20	1.18	1.21	1.21	1.24

*PPP = purchasing power parity

Source: The Economist Intelligence Unit.

