15/12/2016

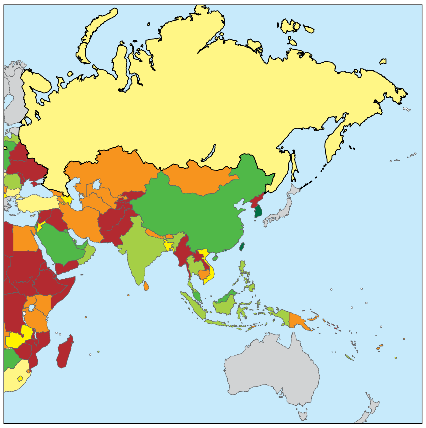
4/7 COUNTRY RISK CATEGORY

COUNTRY RISK ANALYSIS

Russia

0 1 2 3 4 5 6 7

The country risk categories are arranged on a scale of 0 to 7. The lower figure, the better the country's creditworthiness.



Slight recovery in sight

Russia's deep economic recession proved relatively short lived thanks to the introduction of a floating exchange rate in 2014. The country is poised to slowly climb out of the recession, but GDP growth is expected to be low for many years to come. The international reserves have recovered and Russia's debt is low. The EU sanctions will likely remain in place in 2017. The sanctions along with the economy's structural problems, i.e. government dominance and oil dependence, make investment levels low in proportion to the needs of the country's capital-intensive industrial sector. The government's economic policies will remain centrally controlled and dominated by government investment and stimulus. Thanks to its considerable natural resources and buffers, Russia is in a good position to handle the situation and the risk of payment default is low.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

+ Low debt and large international reserves.
+ Enormous natural resources provide a stable foundation for exports and foreign investment.

WEAKNESSES

- The economy is far too dependent on oil exports.
- Sanctions and tense relations with the West.
- Difficult business environment due to weak legal system and widespread corruption.

CONTACT

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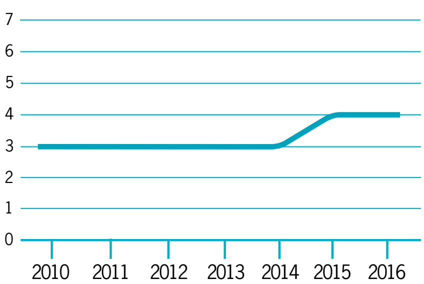
BASIC FACTS

Population	143 million
BNP, nominellt	USD 1,326 billion (2015)
GDP/capita	USD 9,243 (2015)

COUNTRY CLASSIFICATION HISTORY



Source: EKN

SWEDISH EXPORT TO THE COUNTRY

RUSSIA	MSEK
2015	14 688
2014	22 078
2013	23 614
2012	23 641
2011	27 614

Source: SCB

EKN'S EXPOSURE

	MSEK
Guarantees	SEK 13,168 million
Offers	SEK 556 million

EKN'S POLICY

EKN places Russia in country risk category 4 for both short and long-term guarantees – an assessment made in collaboration with the other OECD countries. As a result of the sanctions, applicants for guarantees for exports to Russia must submit information about the product, end user and, where applicable, licences. Normal risk assessment applies to all types of buyers, which means that there are not any specific advance restrictions on the issuing of guarantees.

EKN'S EXPOSURE AND EXPERIENCE

EKN's outstanding guarantees to Russia are equal to SEK 13 billion. This makes Russia one of the largest countries in EKN's portfolio. Most of the guarantees are in the telecom sector. There is also significant exposure in the power sector and the paper/pulp industry. The largest inflow in terms of the number of transactions is in the automotive and engineering industries. We have not seen any substantial increase in amounts in default despite the sharp decline of the rouble. EKN has long-standing experience of payment risks in Russia and its experience is generally positive. Our experience was also positive in the 2014–2016 period in spite of the country's economy being substantially weaker.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

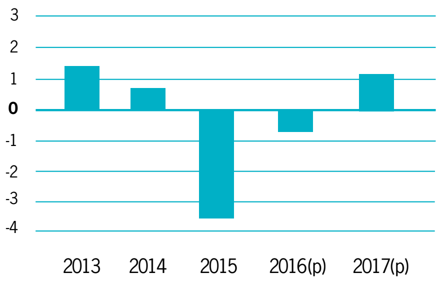
THE POLICY MAY BE MADE LESS RESTRICTIVE IN THE EVENT OF:

- A resolution of the conflict in Ukraine that would lead to easing of sanctions.
- A strong and long-term recovery of oil prices and sweeping reforms of the economy and political system.

THE POLICY MAY BE MADE MORE RESTRICTIVE IN THE EVENT OF:

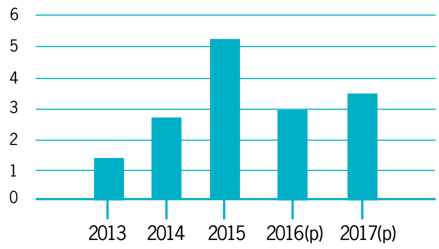
- Long-term or expanded sanctions which restrict access to capital and negatively impact the business environment.
- Persistently low oil prices that threaten the country's ability to pay.

GDP-GROWTH (% PER ANNUM)



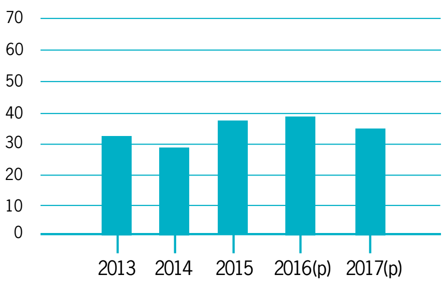
Source: IMF WEO 2016

CURRENT ACCOUNT (% OF GDP)



Source: IMF

EXTERNAL DEBT (% OF GDP)



Source: IMF

COUNTRY ANALYSIS

BACKGROUND

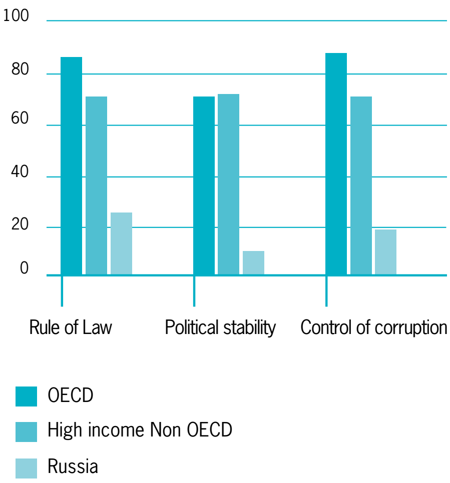
Russia's economy suffers from structural problems. As a result of the weak business climate, investment levels are low in proportion to the large-scale modernisation Russia's capital-intensive industry requires. The attempts at economic diversification that have been made have often been misguided and have not reduced Russia's dependence on the oil and gas sector, which accounts for two-thirds of its exports and over half of government revenues. The slightly negative economic trend accelerated in late 2014 due to the collapsing oil prices and the imposition of sanctions. The sanctions on Russian banks and the oil sector raised uncertainty surrounding the country's growth and have negatively impacted the will to invest. The political trend is negative as well. Russia is developing in a more authoritarian direction and the increasing centralisation of power is occurring at the expense of political openness, local influence and much-needed structural reforms. President Putin's nationalist attitude gave him stronger domestic policy standing in the short term and may be an attempt to shift attention from the weaker economy. A harder line has been taken in foreign policy, which may be rooted in Russia's desire to consolidate its role as a great power. This can be seen in the way Russia has treated Ukraine and in the Russian counter-sanctions in the form of an import ban on certain goods from the West. These Russian actions aim to obstruct Ukraine from getting closer to the EU and simultaneously retain Russian influence in Ukraine by pushing for increased autonomy in the eastern parts of the country.

MOST RECENT TRENDS

GDP growth was held back substantially in 2014 and 2015 by the sharp decline of the rouble, interest rate hikes and rising inflation. The result was a shrinking economy, but the actions taken also made the deep economic recession relatively short lived. Russia is poised to slowly climb out of the recession. The international reserves have recovered and capital flows have returned to normal. The average net capital outflow from 2009 to 2013 was USD 57 billion per year. In 2014, net outflow reached 152 billion, but then went back to 58 billion in 2015. The negative capital balance is covered by the current account surplus. A large share of the outflow is mainly due to difficulties the banks are having in renewing their loans abroad, which has prompted them to pay them off instead. Russia's total external debt has decreased in absolute terms although the ratio to GDP has increased on account of lower gross national product. Russia's debt level is moderate and the international reserves cover 15 months of import needs.

The banking sector is generally weak but stable. The government has supported systematically important Russian banks throughout the crisis, but the central bank has been hard on many small banks which failed to meet statutory requirements. In spite of an economic recession, deposits into the banking system have risen, and liquidity, both in roubles and in hard currency, has increased.

BUSINESS ENVIRONMENT



Source: Världsbanken

LONG-TERM TRENDS

Although Russia will return to positive growth in 2017, the lack of sweeping economic reforms puts Russia on a negative growth trajectory on an overall scale. Weak rule of law and business environment deficiencies will continue to slow down foreign investment. The country's economic policies are dominated by government investment and stimulus, which enables Russia to get by but not excel. Russia's economy will be dependent on oil revenue for a long time, in spite of diversification measures, and the rouble will continue to be strongly correlated to the price of oil. The EU sanctions have been extended to July 2017 as a result of disagreement regarding the peace agreement in eastern Ukraine. There are no indications at present that they will be lifted any time soon, although the consensus within the EU is wavering.

BUSINESS ENVIRONMENT

Russia's business climate is being held back by extensive bureaucratic obstacles, an unpredictable regulatory environment, weak institutional capacity and corruption. Transparency with respect to the financial situation and ownership of companies is poor and investor protection is generally weak. Regulatory changes are commonplace and generate uncertainty for businesses. For example, political action to reduce import dependence in the short term shifted the playing field for many foreign companies. Pursuing court cases and bankruptcy proceedings can be time-consuming and the outcome is unpredictable. It is therefore important to have local knowledge and take action quickly in the face of payment problems.

There are no signs of deep, structural improvements, and the business climate is therefore expected to remain difficult. The situation is being further aggravated by the economic decline and the fact that the sanctions negatively impact investment conditions. Russia is ranked number 119 out of 168 in Transparency International's corruption index, which is far behind other comparable emerging countries, such as Brazil, India, China and South Africa. The World Bank's Doing Business Index ranks Russia 40th out of 190 countries in its most recent rankings. Certain subindexes rank Russia very low and others significantly better, which is why the cumulative ranking is not indicative of all difficulties in the business environment.