

## Russian Bulletin – an Insider’s Outlook

*December, 2008- January, 2009*

*Much has been lately said about Russia – either about its world policies or state of domestic economy. Still, much of the coverage is biased by some reasons – foreign media tend to portray Russia’s assertiveness worldwide as a new threat to the world, while Russian media are committed to state interests. With this bulletin Edelman Imageland Russia will try to provide Edelman colleagues and clients worldwide with a kind of unbiased insiders’ general outlook that might be helpful, when it comes to the relations with Russian partners.*

With the global economic crisis unfolding and much of challenge still looming there will obviously be no safe business heaven on Earth. Still, there are always two sides to a coin.

Bad news is that economic predictions for 2009 sound rather adverse. The decade of economic growth fuelled by high oil and commodity prices is over and leaner times are ahead. **Russian economy is not immune to the crisis.** The demand is record low. Industrial output already fell below the 1998 financial collapse level. Russian companies are cutting jobs. In November only, the industrial output plunged nearly 11 percent while the number of unemployed climbed by 400.000 up to 5 mln people, according to official data. The country's large foreign currency reserves dropped from \$583 bln in August down to \$456 bln by Dec.1, prompting the S&P to downgrade Russia's sovereign credit ratings.

Our short-term predictions are **greater state intervention in business and substantial redistribution of property** in Russia. Some Russian oligarchs may lose their shares in the companies to the state. Russian companies are grossly overleveraged with about \$110 bln of foreign obligations due next year. Almost half of top 25 companies faced margin calls from lenders since August (DB, Bloomberg). Key Russian oligarchs are lining up for \$78 bln of Kremlin loans to survive the credit squeeze. The government runs in to help. But at a price. It will provide (through Vnesheconombank - VEB, the Russian state lender) a one year loan with assets or shares as collateral. That will be difficult to repay in the coming year.

Still, there is a brighter side of the current economic turmoil. The first and the foremost is existential - with the oil and commodity boom being over, Russian economy has an excellent chance to **get rid of a much discussed in media ‘oil curse’** - emerge from the crisis as a modern and sustainable economy.

GDP slowdown to 4-6% per year would still present a **pretty high growth-rate** - much higher than of most highly developed countries. As per the World Bank’s ‘Global Economic Prospects 2009’ report (Dec. 9, 2008), Russia’s GDP growth forecast is going to be 6% (2008), 3% (2009) and 5% (2010).

And a huge \$200 billion-plus **federal bailout and rescue package deployment** for the economy is on the way. The Kremlin is working out a list of strategic enterprises to provide state support. Some 400 public enterprises are to make government allocations (government guarantees on loans, subsidized interest rates, securing the state order or tax relieves etc.).

Russian Central Bank keeps on easing its support of the Russian currency depreciating the ruble against major foreign currencies. **Inflating ruble will result in the least profitable Russian business entities becoming cost-effective.**

Foreign investors are still confident of the Russia's market long-term prospects. Many World business majors consider current crisis to be **the last opportunity to enter Russian market at low cost**. Particularly, *Daimler* has recently paid three times as much a price for a mite Russian commercial automaker *KAMAZ* share.

**'Over-the-horizon' trends are even more promising.** The commodity prices currently plummeting to a historic five-year boom will eventually bounce back as the world's hydro-carbon fuel resources are limited. And *Vladimir Putin* may be right saying that the era of cheap gas is coming to an end. And Russia holds the world's largest gas reserves and is the biggest gas exporter.

The crisis aside, Russian consumer market is far from demand saturation. Unlike people in most leading countries, the Russians still have far lesser level of possession of most consumer goods and products (cars, cell-phones etc.). When the crisis ends we'll see the **surge of differed demand like in the US in 1950's**.

Given the above said, one can't help but agree with *Thomas Omestad's* recent practical anti-crisis advice in *U.S. News & World Report* (Dec.29 - 50 Ways to Improve Your Life; Your Mind - Learn to Speak Russian): «...with Russia widely pegged as a re-emerging great power... - mastering the tongue of the Kremlin could well come to regain some cachet».