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macro- economics

macroeconomic environment in 2019

The Russian GDP grew by 1.3% yoy in 2019 (2.5% yoy in 2018).

The main factors of this moderate growth were decrease in exports (-2.3% yoy compared with 5.5% yoy in 2018) and lower final consumption expenditure (2.4% yoy compared to 2.8% yoy in 2018), including household consumption (2.5% yoy compared with 3.3% yoy in 2018). Increased imports (+3.4% yoy compared with 2.6% yoy in 2018), gross capital formation (1.5% yoy compared with 0.2% yoy in 2018) and public spending (+2.2% yoy compared with 1.3% yoy in 2018), supported by the launch of the National projects, did not provide enough to ensure higher growth.

2.4%

∨ 2.9% in 2018

The industrial production growth → %

The industrial production grew by 2.4%, which is 0.5% less than in 2018 (2.9%). The highest growth was observed in basic pharmaceutical products and preparations (+19.6% yoy), fabricated metal products (+8.9% yoy), computers, electronic and optical products (+8.0% yoy), furniture (+6.8% yoy), wood and products of wood and cork (+5.3% yoy). Machinery and equipment declined (-2.4% yoy), while the most significant decline was in the segment of transport equipment (-12.1% yoy).

In 2019, consumer inflation in Russia (the Consumer Price Index) remained low (3.0%). The unemployment rate reached 4.6% at the end of the year, being one of the lowest in the history of the country.

1.3%

∨ 2.5% in 2018

The Russian GDP → %

3.0%

∨ 4.3% in 2018

consumer inflation in Russia → %

In 2019, the world GDP growth slowed down to 2.9% against 3.6% in 2018: advanced economies grew by 1.7% compared with 2.3% in 2018, and emerging markets and developing economies (EMDEs) grew by 3.7% compared with 4.5% in 2018. The main factors of the slow-down included the trading tensions between the United States and China and stagnation in the main European economies. The price of Brent crude oil averaged to US\$ 64 per barrel in 2019, US\$ 7 per barrel lower than its 2018 average (US\$ 71).

64.6bn

∨ 113.7 billion in 2018

current account surplus → US\$

6.25%

∨ 7.75% in 2018

CBR key rate → %

Industrial Producers Price Index declined by 4.3% in 2019. The Central Bank of Russia decreased the key rate 5 times in 2019 (from 7.75% to 6.25%) to support the economic activity on the back of low inflation, which made the loans more available for both business and households.

As a result, the total corporate debt reached Rub 41.9 trillion (+5% yoy) at the end of 2019, while loans to individuals grew up even faster, to the level of Rub 19.1 trillion (+19% yoy), so that the Central Bank of Russia took control measures to limit the credits to individuals with high credit-risk profiles.

Despite the continued sanctions of the United States and the European Union **the Russian ruble remained stable** in 2019: it declined by 3% against the US Dollar (average USD/RUB: from 62.6 to 64.8) and grew by 2% against the Euro (average EUR/RUB from 74.1 to 72.4).

The year 2019 was marked by the beginning of the pension reform in Russia, which will result in the retirement age increase by 5 years for both men (increase from 60 to 65 years) and women (increase from 55 to 60 years). The reform will eventually increase the country's available labor force in the face of the ageing population.

Starting from January 1, 2019, the Value Added Tax in Russia increased from 18% to 20%, which will bring additional revenue into the Russian budget.

The current account surplus was at the level of US\$ 64.6 billion for 2019 (lower than US\$ 113.7 billion in 2018).

Commodities Exports amounted to US\$ 417.9 billion, with US\$ 121.6 billion coming from crude oil, US\$ 66.3 billion – from oil products, US\$ 41.5 billion – from gas, US\$ 8.4 billion – from LNG (total sum of oil and gas exports, including oil products reached US\$ 237.8 billion). Commodities Imports reached Rub 254.8 billion. Direct investments amounted to US\$ 26.9 billion, a significant increase compared to US\$ 5.9 billion in 2018. Exports of services reached US\$ 63.6 billion, while imports of services amounted to US\$ 98.3 billion.

500bn

∧ 9.9% yoy

total external debt of Russia → US\$

The Russian Budget showed a surplus of Rub 1.9 trillion, equal to 1.8% of the GDP. Budget revenue increased by 3.8%, while spending grew by 9.0%. Total external debt of Russia (both government and corporate) increased by 9.9%, to the level of US\$ 500 billion.

As the result of favorable economic conditions, the MOEX Russia Index increased from 2,369 points at the end of 2018 to 3,046 points at the end of 2019 (+29%), with a total capitalization of Rub 11.8 trillion. The RTS Index growth was even higher, from 1,069 points to 1,549 points (+45%) during 2019, with a total capitalisation of US\$ 190.4 billion.

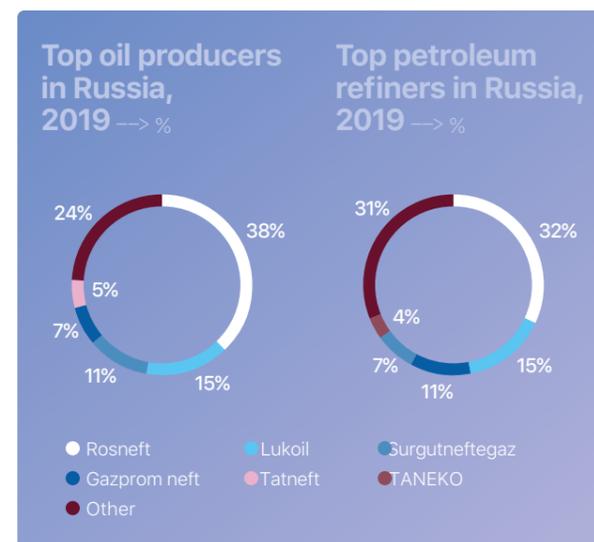
market trends

oil and gas industry

In 2019 extraction of minerals brought 12.6% to the Russian GDP (-0.6% yoy). The oil and gas share in total income of the Federal Budget of Russia decreased from 46% in 2018 to 39% in 2019, as a result of decline of Urals oil price from US\$ 70 per barrel to US\$ 64 per barrel. Yet, the oil price was sufficient to ensure the funding of the Russian Budget and further CAPEX of oil and gas companies.

Russian oil industry consists of a number of large players, 5 largest companies account for 3/4 of country's oil production and refining, while Gazprom is the major gas company in Russia.

About a half of the oil produced is processed at the Russian refineries, while the other half is exported.

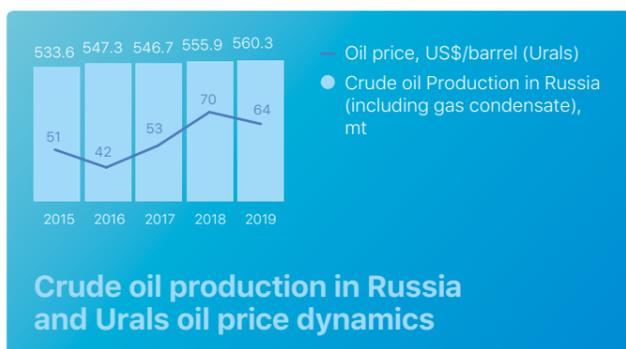


upstream

The overall situation on the oil market remained stable in 2019. Russia increased its production of oil to 560.3 million tons in 2019 (+0.9% yoy). During the year, the country's well stock increased from 181.7 thousand units to 187.1 thousand units (+3% yoy). The total measured drilling depth declined by 1% yoy to 28.4 thousand meters.

Total investments in oil & gas production increased by 7% yoy in 2019, to Rub 2 trillion.

In 2019, 569 wells on new oilfields (not older than five years) were put into operation, including newly launched the Zapadno-Erginskoye, the Traygorodsko-Kondakovskoye and the Lenskoye fields.



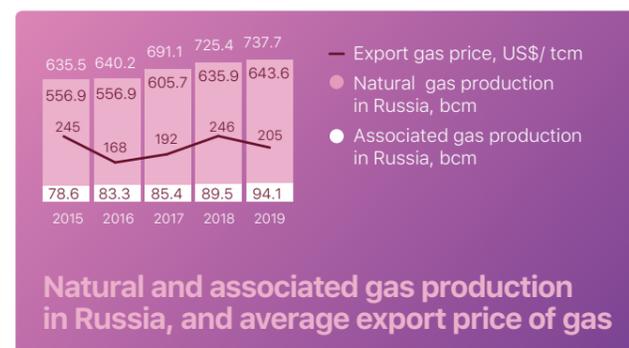
Natural gas extraction in Russia hit the 2018-year record – 737.59 bcm were produced (+1.7% yoy), the average export prices declined by 17% yoy to US\$ 205 bcm, because of growing competition from LNG producers.

In 2019, Gazprom launched the Chayandinskoye gas field – one of the largest fields in Eastern Siberia and continued development of a number of other large projects, including the Kovyktinskoye field and the Achimov deposits of the Urengoykoye field.

29.5mt

^ 9% yoy

The volume of LNG produced in Russia → mt



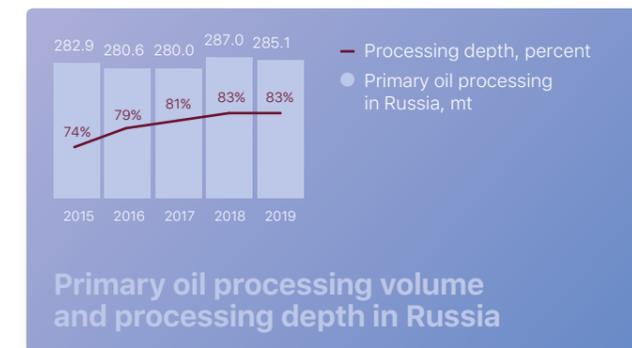
Natural and associated gas production in Russia, and average export price of gas

midstream

As Russian oil fields and gas fields are widespread across the country, Russia has the largest oil and gas pipeline networks in the world, which has been significantly developed during the last ten years.

Transneft is the major operator of the Russian oil trunk pipeline system (51,600 km) and oil-product trunk pipeline system (16,700 km). The annual CAPEX in the oil transport system exceeded Rub 266.7 billion in 2019 (+3% yoy).

The total length of the Russian gas transportation system is ~172,600 km; the only operator of gas pipelines is Gazprom. In 2019, Gazprom launched the Power of Siberia that will supply gas to China, finalized works on the Turk Stream, and continued construction of other pipelines, such as a part of the Sakhalin-Khabarovsk-Vladivostok and the Ukhta-Torzhek (Yamal) pipelines.



Primary oil processing volume and processing depth in Russia

downstream

There are 39 large oil refineries in Russia with total crude oil distillation capacity of 0.8 million tons per day. Rosneft, the leading Russian oil company, is the largest refinery operator owning 12 major refineries. LUKOIL, with 4 major refineries, is the second-largest refineries operator. In Russia, primary oil processing reached 285.1 million tons, a decrease by 0.6% yoy, compared with 2018. The depth of processing remained 83 percent, at the level of 2018.

In 2019, total CAPEX in oil & gas downstream grew by 28% yoy to Rub 0.5 trillion.

A number of future projects on the modernisation of oil refineries as well as new construction are planned on the horizon until 2025. Examples of projects include the construction of new units at Taneco (Tatneft), Khabarovsk refinery (NNK), Orskneftegazsyntez (Safmar).

In 2019, seventeen large gas-processing plants in Russia (processing over 1 bcm per year each) and nineteen smaller plants processed in total 122.37 bcm of natural gas and petroleum associated gas (+13.4% yoy). The main trend in gas processing is the steadily increasing share of LNG production. The volume of LNG produced in Russia reached 29.5 mt compared with 19.8 mt the previous year (+49% yoy). The largest LNG projects include the Yamal LNG and the Arctic LNG-2 (NOVATEK).

/// market trends

power generation

In 2019, Russia continued to increase its electricity output, which reached 1,096.2 billion kWh (+1.2% yoy). Total installed capacity of Russian power system increased by 2.96 GW (+1.1% yoy) and amounted to 252 GW.

Total number of large power plants in Russia is 805 (with installed capacity higher than 5 MW each). The structure of the installed capacity in the Unified power system remained practically unchanged in 2019: thermal power plants accounted for 67 percent of installed capacity, hydro power plants – 20 percent, nuclear power plants – 12 percent.

Total investments in the energy industry declined by 8.8% yoy to Rub 962.1 billion.

Russian energy companies continued construction of new power plants, such as nuclear Kursk-2 NPP, Leningrad-2 NPP, Novovoronezh-2 NPP, conventional Primorskaya TPP, Voronezh TPP (new 115 MW unit) and other.

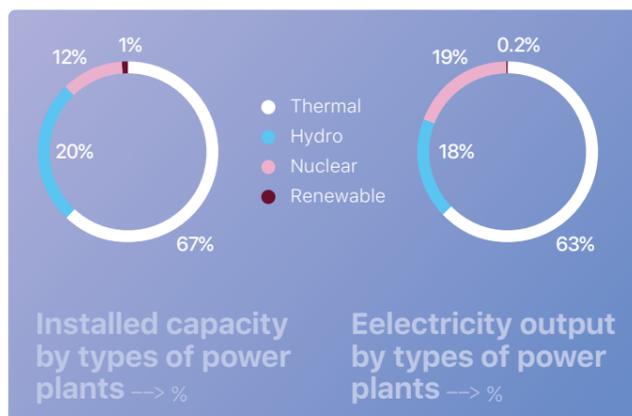
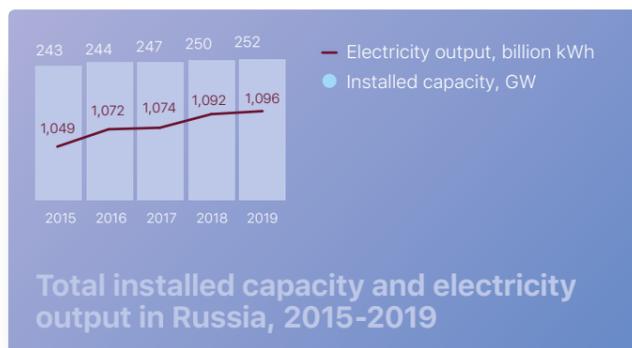
The State Atomic Energy Corporation, ROSATOM, also runs a number of projects on NPP construction abroad with Russian technology and equipment, such as: Akkuyu NPP in Turkey, Kudankulam NPP in India, Buzher NPP in Iran, Belarusian NPP, Tianwan-2 NPP in China and has a number of projects under negotiation.

A new program of TPP modernization was launched in 2019 – new capacity of 17.2 GW will be built in 2022-2025, with total CAPEX over Rub 200 billion.

93.3bn

^ 27% yoy

Crude oil exports brought Russian companies in 2018 → US\$



3.1% yoy

^ in 2019

Overall extraction of mineral resources → %

metals and mining

Mining industry in Russia is highly concentrated, and consists of large companies, which typically have a full production cycle from ore mining to the production of metal products with high value added.

In 2019, overall extraction of mineral resources grew by 3.1% yoy, where:

- Extraction of metal ores increased by 5.2% yoy;
- The volume of coal production amounted to 439.2 million tons, a 0.2% yoy decrease compared with 2018;
- Coal exports decreased to 192.4 million tons (-0.4% yoy).

In 2019, overall investments in metal ores extraction slightly declined to Rub 274.9 billion (-0.2% yoy), while investments in coal industry reached Rub 179.2 billion (+18% yoy).

In 2019, overall production of metals increased by 0.6% yoy, where:

- Production of cast iron was at the level of 51.2 million tons (a 1.2% decrease yoy), while production of stainless steel reached 199 million tons (+4.4% yoy);
- Production of some rare and precious metals showed even higher growth: gold production grew by 17% yoy, cobalt by 5.7% yoy, and titan by 3.6% yoy.

Total investments in the production of metals grew by 6.3% yoy to Rub 324.1 billion.

Russian metals and mining companies continue to implement large-scale investments programs. EVRAZ, Severstal, Rusal, Nornickel and others are running long-term programs on development of new mines and construction of new production units (coke batteries, new furnaces, etc.) that will ensure investments in the industry for the next years.

water utilities

Municipal water utilities were supported by the continued growth of tariffs. For example, in 2019, tariffs for cold water supply increased by 5.0% yoy, hot water supply – by 4.1% yoy, and sewerage – by 6.0% yoy.

Total investments in water utilities and waste utilization in Russia reached Rub 158 billion (+5.7% yoy). Some of the most important ongoing projects in water utilities construction and modernization in 2019 were at St. Petersburg, Belgorod and Saratov water facilities.

In 2019, the implementation of the National project "Ecology" (consisting of 11 Federal projects) continued, that will ensure large modernization of water facilities all over the country, yet it was going much slower than the plan. By November 2019, only 27.1 percent of the planned for the period budget had been spent (Rub 15.4 billion), including only 12.4 percent of the "Clean Water" Federal project budget. The main reason for this delay was the lack of expertise in preparation, approval and implementation of such investment projects.

158bn

^ 5.7% yoy

Total investments in water and waste utilization → Rub