The Russian Economy: Towards glaciation?



# PANORAMA RUSSIA


SEPTEMBER 2014

THE COFACE ECONOMIC PUBLICATIONS



**By Yves Zlotowski, Chief Economist of Coface**


The Ukrainian crisis has occurred in a context of significant weakening of the Russian economy. In 2013, Russian growth fell to 1.3% after an average GDP progression of 4.8% between 2000 and 2011. The slowdown that Russia is experiencing is not excessively different from that observed in the other BRICS. A number of the major emerging countries have recently been characterised by marked deceleration in investment and, to a lesser extent, consumption. It will be difficult for monetary and fiscal policies to play a countercyclical role. First of all, because interest rate policy is constrained by the announcements of economic policy changes by the Fed, which destabilises the major emerging currencies. But particularly because the slowdown comes from structural deficiencies: problematic infrastructures and particularly a difficult business climate in the case of Russia. On paper from a financial point of view, Russia is in a comfortable situation which may allow it to limit the negative impact of the external shock created by the geopolitical crisis, at least for a certain period of time. The currency reserves are still very high, the current account surplus is maintained and may even increase over 2014, and the public debt is modest. In short, in the face of this dual structural and geopolitical crisis, how can the Russian economy react in the short and medium term and what are the major economic and financial risks? What scenario can we expect for reform and development?

DOSSIER

# THE RUSSIAN ECONOMY: TOWARDS GLACIATION?

BY OUR ECONOMIST

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Completed as of
12 September 2014

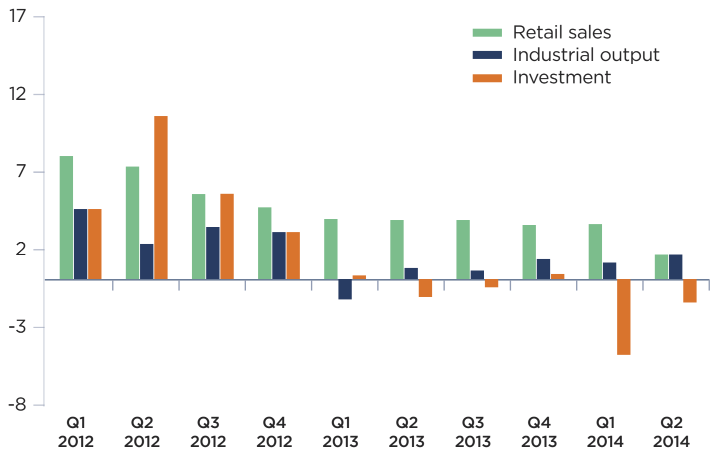
**« A serious risk for the Russian economy is a long-term stagnation »**

## 1 HOUSEHOLDS ARE CONSUMING... BUT FOR HOW LONG?

The real economic data available at the end of August 2014 so far shows a lesser economic shock than the contraction observed in 2008-2009. The GDP for the semester did not contract. It grew at an annual rate of 0.9% and 0.8% respectively for the first and second quarters of 2014. At the end of the first half of the year, the carry-over effect was 0.5%. With the assumptions of a slight contraction of the GDP in the second part of the year (-0.5 in Q3 and -1% in Q4), Coface now predicts growth of 0% for all of 2014 and 1% in 2015.

Figure 1 summarises the strengths and weaknesses of the Russian situation. Although there is a clear slowdown in retail sales, they remain positive (+2.7% for the first half of 2014). Since the arrival of Vladimir Putin to power at the beginning of the 2000s, consumption has been the main driver of Russian growth. Vladimir Putin's great success has been to restart the mechanisms for redistribution of oil and gas income. During the 1990s, salaries and pensions frequently went unpaid. Thanks to the rise in oil prices as well as the boom in the «new» sectors such as distribution, financial services and construction (located principally in the cities), the real income of the population has grown steadily since 2001. Real Incomes were still growing at an annual rate of 5% in 2012 and 2013. The remarkable fall in unemployment – which reached a low point of 5% in June 2014 – is also a factor for the dynamism of household spending. All this combines to make consumption a driver of Russian

**Figure n° 1**
Growth rates for retail sales, industrial production and investment (%, yoy)




Source : Rosstat

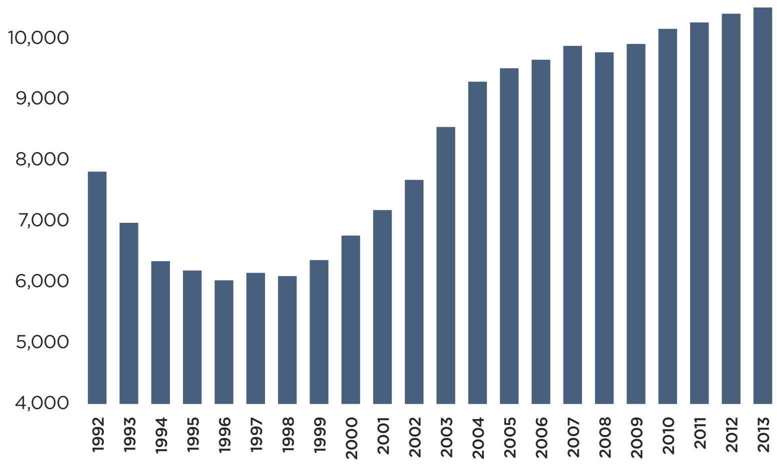
growth in the medium term. The shortage of qualified labour, fuelled by the decline in the labour force (1), creates upward pressure on real wages.
Nonetheless, this favourable trend is counteracted by the current political situation, which is pushing consumers to reduce their spending and businesses to hold down wages. As the political tensions intensify and sanctions worsen, Russian households may increasingly defer spending. Inflation is also a major threat to consumption. After reaching an annual rate of 6.5% at the end of 2013, price increases accelerated to 7.8% in June 2014. This will probably be affected by Russian sanctions on various food imports that were introduced on 7 August concerning meat, fish, fruits, vegetables and milk products from the United States, the European Union, Australia, Canada and Norway. This limitation, together with frequent episodes of rouble depreciation, may maintain Russian inflation at 7-8% at the end of 2014 and in 2015. Finally, consumer credit offers are slowing. On an annual basis, the growth of credits peaked at 40% at the end of 2012 and slowed to 21% at the middle of 2014. Russian households are not over-indebted. Household debt is estimated by Standard and Poor's at 16.4% of GDP in 2014, although this is almost double compared to the ratio estimated in 2010. For households with the lowest income, access to credit has played a role in the growth of spending. However, these households are dependent on their credits to reimburse their interest.

## 2 INVESTMENT, THE MAJOR WEAKNESS OF THE RUSSIAN ECONOMY

The Russian situation may change radically depending on whether households remain resilient or succumb. However, consumption could also recover (2) if the geopolitical situation were to improve. Investment shows a more worrying trend since the trend is more deeply rooted. Investment stagnated in 2013 and contracted by -3% in the first half of 2014. The Ukrainian crisis has accelerated a pre-existing tendency. Why did investment stagnate in 2013 when the Russian political situation was stable? The indicators show a fall in confidence by entrepreneurs who prefer to reduce inventories to meet demand rather than investing. Two major investment projects came to an end in mid-2013, the North Stream pipeline and the Sochi Winter Olympics. Investment stopped after these two mega-projects.

The issue of investment has a dual dimension in Russia. Firstly, the hydrocarbon sector is in need of massive investments. The economy is dependent on gas and oil income, since this sector represents two-thirds of exports. However, the energy sector is facing major challenges. 90% of oil production comes from the operation of fields dating from before 1998 and Western Siberia represents 66% of production. These fields have passed their production peaks. In 2013, oil production reached a record (10.5 million barrels per day), but the production increase is clearly slowing, as shown in Figure 2.

**Figure n° 2**
Oil production by volume, thousands of barrels per day




Source : eia

(1) The labour force fell by 4 million people between 2000 and 2009 but stabilized in 2013It is expected to contract again in 2015-2016 as the population born between the late 1980s and the late 1990s, when the birth rate fell by 50%, will be of reproductive age.

(2) The rise in salaries was not faster than gains in productivity and for this reason it appears to be sustainable at a rate of less than 5%. The diagnosis that consists of making the rise in salaries one of the factors for the weakening of companies does not seem to be confirmed by the World Bank's analysis. In fact, while in non-commercial sectors (education, health, administration, defence) salaries have increased faster than productivity, this is not the case in the commercial sectors which are exposed to international competition (such as extraction, industry and agriculture).Sectors connected with the federal budget are supported through salary increases. Nonetheless, the "non-supported" sectors maintain a wage policy "under constraint". See World Bank (2014), Confidence Crisis exposes Economic Weakness, Russia Economic Report, No. 31, March, page 11.

Future production increases depend on the operation of new fields, particularly in the Arctic, which require massive investments for development costs (700 billion USD through 2035, according to the IAE). As concerns gas, the reserves are large but the international market is undergoing changes which will have uncertain consequences. What will be the impact on prices when the United States changes from importer to exporter? In addition, the Ukrainian crisis is encouraging the Europeans to reduce their dependence on Russian gas and may encourage the United States to enter the international market earlier than expected.

But non-primary good sectors also need major investments. Contrary to the Gulf monarchies, Russia is not solely a raw material economy dependent on oil and gas. Hydrocarbons in Russia represents 30% of GDP as compared to 50% in Saudi Arabia. As concerns exports and budget revenue, this income represents 70% and 50% respectively for these totals as compared to 90% for both in the case of Saudi Arabia. This shows the importance of manufacturing. Russia produces automobiles, machine tools, agricultural and food products, etc. The manufacturing sector was very affected by the transition in the 1990s.The real appreciation of the rouble – a typical symptom of the Dutch Disease (3) – and the sudden opening, exposed the lack of competitiveness in the industrial sector. Massive investments are necessary in order to improve the competitiveness of these sectors. Foreign investment shave been very favourable as in the case of automobiles. The partnerships formed by Renault, Volkswagen, Ford and General Motors allowed foreign brands to increase over ten years from 0% to 45% of total Russian production in 2012.

Sanctions are causing a contraction of investment. At the end of July 2014, the EU announced a trade embargo on various types of military goods, as well as various so-called 'double-usage' sectors. This list includes, in particular, goods belonging to the electronics and information technology sectors, as well as telecommunications instruments, etc. Sanctions have been completed and hardened September 11. Exports of equipment for deep-water exploration and production in the Arctic or for shale gas were blocked. The EU has also limited Russia's access to advanced equipment and technology for use by the energy sector. Such decisions may cause long-term difficulties for the Russian oil sector which, as we have seen, needs these technologies in order to develop its expansion. Moreover, the limitation on international financing for certain enterprises and public banks (on the American and European markets) (4), connected with the sanctions by Western Countries, constitute a de facto damper on investment. More generally, the climate of political tensions is certainly very unfavourable to the act of investing.

## 3 IN THE SHORT TERM, FINANCIAL FRAGILITY IN A CONTEXT OF DANGEROUSLY ESCALATING SANCTIONS

The vulnerability of Russia's external financial situation is illustrated by changes in the current account balance. The external position of Russia appears to be solid but it is deteriorating. Russia's current account surplus reduced from 5.1% of GDP to 1.6% in 2013. The forecasts for 2014 are very uncertain. The slowdown in domestic demand and the import restrictions allow us to believe that the surplus could be greater than 2%. The long-term reduction in the current account surplus is connected with the liveliness of final demand, which generates dynamic import flows. On the export side, the crisis in the Euro Zone, which remains the principal outlet for hydrocarbons (the 28 countries of the EU represent 51.3% of the export of goods in 2013), has caused a net reduction in the growth of exports (+1.5% in volume in 2013 as compared to growth of greater than 4% in 2011 and 2012). Thus, higher growth of imports than exports over 5 years weakens long term performances of the current account. The situation is still viable. The volatility of the short-term financial data adds to the degradation of the top of the balance of payment.

The exchange rate has fallen since the beginning of 2014. The rouble was affected by the second wave of depreciation of emerging market currencies in the wake of the devaluation of the Argentine peso in January 2014. While the rouble was one of the currencies affected, this was in large part due to poor growth performance. It was then again hit by the Ukrainian crisis, up to the annexation of Crimea (in March 2014). Thus, since the end of 2013, Russia lost nearly 47 billion in reserves. Through this, 10% of the reserves were spent in defence of the exchange rate.

(3) The Dutch Disease affects countries that produce raw materials. The rise in exports of primary products provokes an increase in the exchange rate, which erodes the competitiveness of manufactured goods. Thus primary products end up dominating the specialisation of the country and squeeze out the manufacturing sector. This concept refers to the situation in the Netherlands in the 1960s. The discovery of gas deposits caused a significant increase in foreign currency earnings for the country.

(4) 17 july 2014, the US have announced restrictions on access to financing for maturity over 3 months for companies such as Rossneft, Novatek, Gazprombank, VEB 29 July. The EU has followed the US by restricting access to financing for Russian public banks. New limitations for corporates and banks have been announced 11 September 2014.

The situation with regard to Russia's external liquidity was thus very affected, but the country maintains a comfortable position. At the end of August 2014, the reserves held by the central bank still represented 423 billion dollars, the equivalent of 9 months of imports [(5)]. The Russian Central Bank has preferred to widen the exchange rate corridor, which it announced on 18 August 2014, rather than constrain its reserves by overly restrictive anchoring. Moreover, the declarations by the Vice Governor appear to indicate that the RCB has decided to abandon any policy of exchange rate intervention and will turn to targeting inflation as from 2015. Thus, 1 September 2014, in the context of a worsening geopolitical situation, the rouble attained a low of 37.296 roubles for one dollar, a loss of 9.2% since the end of June 2014.

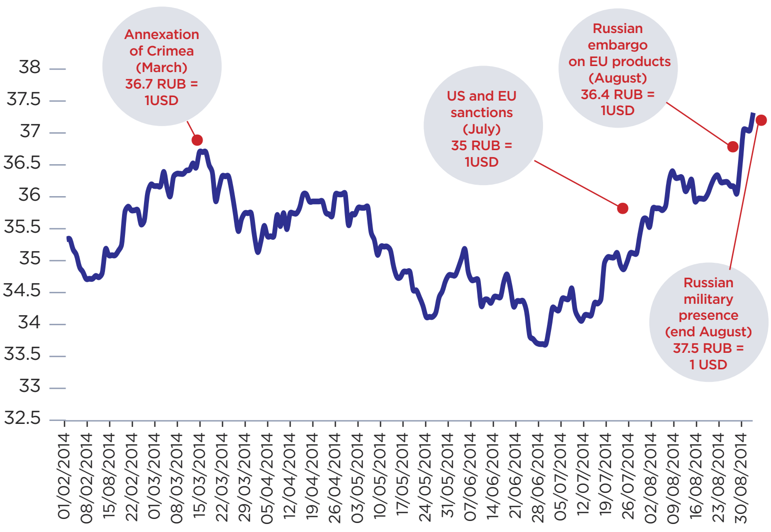
In addition, we have observed massive outflows of capital from the private sector in 2014. Certainly, the amount is lower for the second quarter (-26 billion USD in Q2, after a worrying first quarter in 2014 of -48 billion). A portion of these figures is related to payment for external debt servicing, which, properly speaking, are not in fact capital outflows caused by increased distrust by residents.

Nevertheless, historical data show a rupture after the crisis of 2008-2009.They illustrate the crisis of confidence of resident investors with regard to their own economy. We cannot blame political instability as such. The political situation after 2009 was much more stable than the situation which prevailed in the 1990s. However, the capital outflows were much larger (an average of 46 billion dollars between 2009 and 2013, as compared to 9 billion between 1994 and 2006). This data thus points to a problem that is structural and not related to the economic situation. This trend illustrates short-term strategies of investors who are reluctant to invest in the real domestic economy, largely because of a business climate that is not particularly protective.

The dynamics of the political situation have a major impact on financial risks in Russia, all the more since a large part of the scenario that was observed could not be foreseen. At the beginning of the Ukrainian crisis trade sanctions were not expected. Camille Grand, the director of the foundation for strategic research, noted in an interview with Le Monde at the end of August 2014: «it seems to me that with this rush to action, Putin is almost always one step ahead (...) he has almost always been harder, further and more forceful than the West had anticipated (...). Westerners have often believed that he would not go beyond certain a certain point, that he would not after all send in his troops, that he would not annex Crimea, etc. He has often caught diplomats and analysts off guard with by forging ahead regardless of the dangers» [(6)].

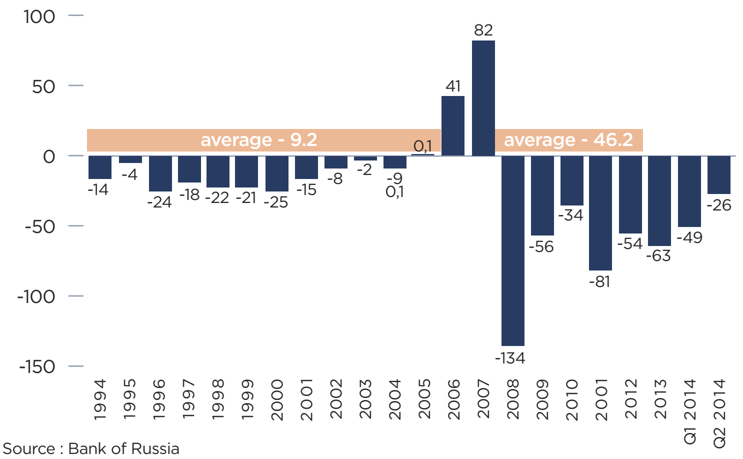
Russia has responded to the limitations imposed by the United States and the European Union with sanctions on imports of various food products from the United States, the EU and other partner countries. Moscow could also impose limitations of imports in the textile-clothing and automotive sectors. The sanctions in themselves, as well as their psychological impact, accentuate the troubles which already prevailed before the Spring of 2014 - such as capital outflows, renewed inflation, destabilisation of the exchange rate and the fall and/or slowing of investment and consumption. However, the first data available for 2014 shows relative resilience. We are far from 2009 when the collapse of Lehman Brothers provoked a contraction in GDP of nearly -8%. The resilience in consumption and industrial production (in Q2 of 2014) is possible because of support by the State via measures to increase salaries in the public sector and a renewal of orders for the defence sector. The indexation of pensions and a probable indexation of wages in the public sector will protect a portion of the population from the inflationary impact of the sanctions.

**Figure n° 3**
Nominal exchange rate of the rouble (for 1 USD)




Source : Fxtop

**Figure n° 4**
Capital outflows from the private sector, billions of USD




Source : Bank of Russia

(5) In addition, both funds (the sovereign and the reserve fund) accounted for 173 billion dollars.

(6) Interview by Camille Grand, the director of the foundation for strategic research, «War in Ukraine: Putin is always one step ahead,» Le Monde, 29 August 2014.

With a public debt of 10.8% of GDP and a budget deficit of -1.3% of GDP in 2013, the Russian government has a margin for manoeuvre to increase public expenditure. Thus, we may expect a public deficit of nearly -2.5% of GDP in 2014 (the IMF's current forecast is -0.7% of GDP, which does not appear to be realistic). This does not bring into question the viability of the Russian sovereign debt. In any event, the Russian economy can absorb a short-term shock and this is most likely what the Russian authorities are anticipating - a violent short-term political shock which a moderately expansionary macropolicy will allow it to absorb.

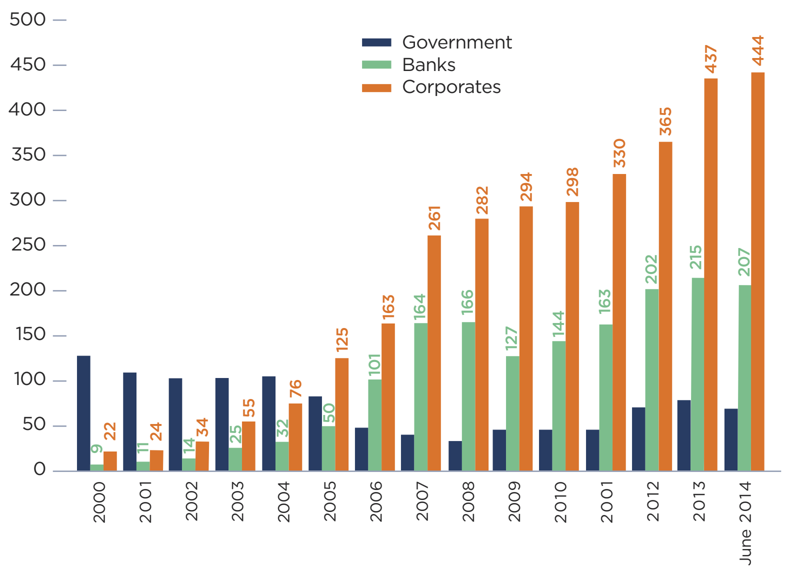
The political scenario remains difficult to predict, as since the Spring of 2014 calms and violent increases in tension have alternated. With hindsight, the tendency appears to be that of a progressive escalation. Faced with newmeasures taken by the West, Russia's weapons of retaliation are not negligible. Various restrictions may be put in place by the Russian authorities who have shown that they do not fear possible costs. With Winter arriving, energy cuts would be very costly for Eastern Europe whose dependence on Russian gas is very great. Gas supplies by Russia to Central and Eastern Europe represent 100% of the gas purchases for the Baltic countries, 80% for Hungary, Slovakia and Bulgaria and more than 50% for Poland and the Czech Republic. Russia could also act on the prices to punish «non-strategic» clients for their active role in the sanctions. In addition, we should remember that European entities are highly exposed to Russian financial risk. In fact, private external debt (of Russian companies and banks) has considerably increased over the 2000s.

Thus, the stock of external debt (excluding the governement) has reached 651 billion dollars. According to a study by Alfa-Bank (7), public entities are indebted in the amount of 310 billion USD out of the total of 651 billion. The debt service is estimated at 120 billion for the principal (up to mid-2015), of which 73 billion are due in the second half of 2014.

One of the major risks is that in the face of new European sanctions, particularly in response to the freeze of assets held by Russian banks or enterprises outside of Russia, the Russian authorities could react by various forms of non-transfer. Non-transfer is a political decision that limits the outflows of foreign currency. This may be a retaliatory measure. Non-transfer may also be the result of a serious crisis of confidence in the rouble, with the objective of halting the fall of the currency and the capital outflows that cause this. The first risk is that this non-transfer will affect the debt servicing in hard currency, particularly by major companies that are themselves affected by the sanctions and subjected, for example, to a freeze of the assets they hold abroad. A freeze on assets of non-residents in the Russian banking system may also be among the arsenal of measures. The exposure of European banks to Russian risk is significant. We note, moreover, according to the figures available from the BIS, that among the declaring institutions, it is the French, Italian and American banks that are the most exposed, followed in 4th position by German banks.

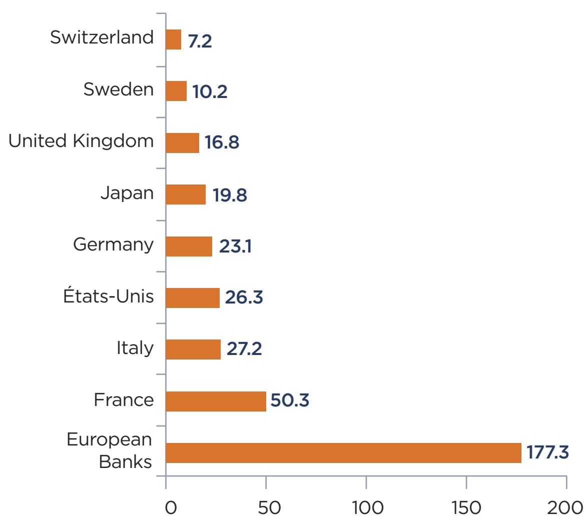
A non-transfer decision would be very costly for Russia. Such decisions have no economic necessity, since the external liquidity position

**Figure n° 5**
External debt of Russian entities, billions of USD




Source : Bank of Russia

**Figure n° 6**
Exposure of the banks declaring to the BIS concerning Russia, end of March 2014, billions of USD,




Source : Bank of International Settlements

(7) Orlova N. et Dolgin D. (2014), Russian Economic Spotlight, Sanctions: The New reality, Macro-Insights, Alfa-Bank, July 31.

of the country is comfortable considering the level of foreign reserves, which represent the equivalent of 9 months of imports. The external position of the banks is favourable. According to the IMF, external assets (with regard to non-residents) exceed external liabilities. Restrictions affecting deposits or any types of commitments of non-residents with regard to Russian banks could seriously destabilise the Russian financial system. In fact, such a measure could affect residents, whose deposits with banks have not increased since the beginning of 2014. A panic by depositors connected with a decision affecting non-residents constitutes a major risk, considering the fragile confidence of households and corporates. Finally, in 2008-2009, when Russian companies were facing difficulties in refinancing their external debt, the Russian executive did everything in order to avoid a financial crash which would have tarnished the reputation of Russia as a payer. The Russian authorities still remember the traumas of the default of 1998. All of these arguments lead us to believe that a non-transfer scenario is not likely to occur. However, the political situation could very clearly increase this probability if we forget the economic and financial mechanisms. As harmful as these measures may be for the Russian economy, in the case of an escalation of tensions, the political necessity may become more important than economic rationality. The trend observed since Spring of 2014 shows that this logic of using the economy as a tool has indeed been at work.

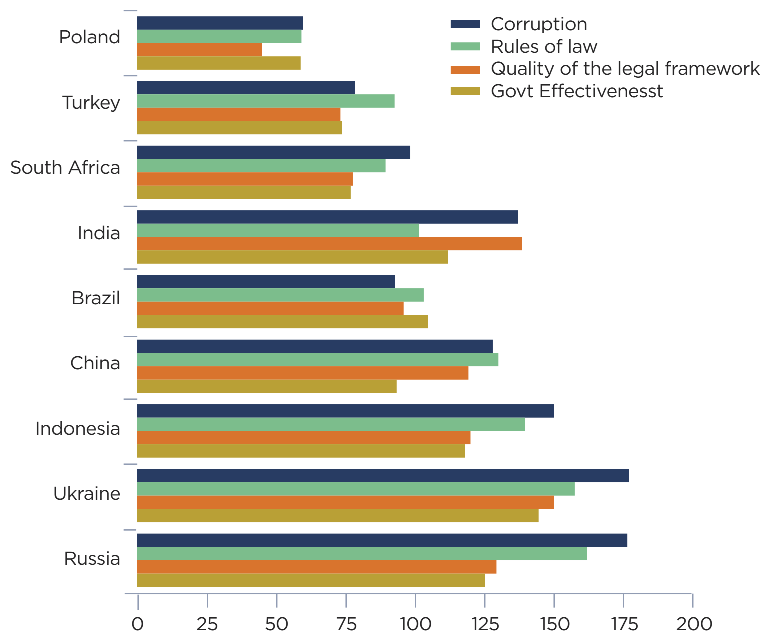
## 4 IN THE MEDIUM-TERM, A MAJOR RISK OF STAGNATION

While the geopolitical crisis has uncovered the structural weaknesses of the Russian economy and accentuated tendencies that have been observed over recent years, an easing of tensions will not be a miraculous solution for the economic problems currently observed. The rate of investment that has been characteristic of Russia since the beginning of its economic transition (25%, as compared to 35% in India and more than 50% in China) illustrates a deep-roted problem. The fall in investment since 2013 has been interpreted as the result of «disappointed expectations» and a «crisis of confidence», according to the terms used in the World Bank report concerning structural reforms. During his term in office between 2008 and 2012, President Dmitry Medvedev frequently referred to the business climate, governance and combating corruption. These good intentions had no effect. When Vladimir Putin returned to the presidency in 2012, stakeholders in the Russian economy expected that the reform momentum, at least in terms of the business climate, would give no concrete results. However, the gaps in matters of governance that were frequently mentioned by Dmitry Medvedev constitute one of the «differentiating» characteristics of the Russian economy.

As can be seen, according to the results of the World Bank's World Governance Indicator (2013), Russia has a particularly poor ranking compared to the other major emerging countries, particularly in terms of «rule of law» and corruption.

At the beginning of his accession to the presidency in 2012, Vladimir Putin requested that the government take measures to improve Russia's position in the «doing business» ranking of the World Bank (different from the ranking presented above) with the objective of attaining 50th rank in 2015 and 20th in 2018. In 2013, Russia had already progressed from 112th to 92nd place.

**Figure n° 7**
World Bank classification, World Governance Indicator, 2013




Source : Bank of Russia

This progression was possible because of improvements in the time for connection to the electrical network, for obtaining a construction permit and for registering properties. Outdated electrical installations – more than 60% of the electrical production and transmission facilities are more than 30 years old – and administrative delays constitute serious impediments for the economy. But as the graph above shows, it is in terms of administrative effectiveness that Russia obtains it best ranking (but certainly in a less favourable position than the other BRICS).

The main downside of the Russian business climate is in the area of law and its effectiveness. A correctly applied legal framework allows economic entities to make future plans, with the law outlining and protecting decisions on investment and consumption. It is principally property rights that are problematic in Russia. On the one hand, transparency of ownership is limited. It is often difficult to determine who actually owns a company. The available information is characterised by a complex pyramid of shareholder companies that are frequently based in tax havens. On the other hand, the inviolability of property rights is poorly protected in Russian economic reality. Owners may easily lose ownership of their assets via a bankruptcy operation led by creditors, for example, or via all sorts of pressures.

The lack of transparency and predictability in transfers of ownership is a macroeconomic problem. This lack of visibility has a negative impact on investment and favours short-termist behaviour. It encourages the accumulation of cash to the detriment of capital expansion. Put simply, it is rational for an economic entity to extract the maximum amount of cash from its assets rather than investing, because gains from investment are only recovered over time. In an environment where owners are not sure of being able to maintain ownership of their assets through the term of their investments, investment is simply too risky.
The issue of ownership rights has been overlooked since the beginnings of the transition. While this negligence has a macroeconomic cost, the situation is also explained because this instability favours certain beneficiaries of the system. Any improvement in governance would bring these behaviours into question. In the 1990s, chaotic and illegitimate privatisations gave rise to the famous oligarchs, multi-sectoral businessmen who gain privileged access to assets, in exchange for their support of the power in place. Vladimir Putin's resumption of authority at the expense of the Yeltsin oligarchs after his accession to the presidency at the beginning of the 2000s is illustrated by the progressive rise of the State's shareholding in major enterprises. In 2008, a desire to reduce the State's presence in the economy was announced. The ambitious privatisation plan presented by the government in 2012 has been delayed in implementation and these delays throw doubt on the State's actual desire to relinquish its control over the economy. Moreover, the 2014-2016 plan very clearly revised the ambitions of 2013 downwards.

The problematic business climate makes the economy vulnerable to external shocks by means of rapidly deteriorating confidence. The speed with which the exchange rate, capital outflows or real economic indicators react to these external shocks illustrate this vulnerability. Certainly, the financial situation of the State allows it to absorb a portion of these shocks and to protect at least partly of the economy that benefits from public support. But this intervention, while it explains the relative resilience of the Russian economy that we have seen in the first half year of 2014, does not entirely compensate for the external shocks. Moreover, it has an immense medium-term cost. The private sector for services and non-extractive industries will be the first victim of the tensions and the sanctions. However, we have seen the importance of the private sector in the Russian economy. In order to develop, the private sector needs a well-operating financial system, a protective legal framework and political visibility. Without such a framework, the Russian economy is doomed to stagnation because it will be based on an exhausted raw-natural sector.

The political tightening in connection with the Ukrainian crisis reinforces the sentiment that Russia has turned its back on reforms that favour openness, particularly because they are now judged to be a Western influence. Russia seeks to promote its own path, looking on at China, its new favoured partner and model for authoritarian liberalism. The major risk connected with this strategy is the establishment of long-term stagnation characterised by sluggish investment concentrated in the sectors close to the public sphere and its beneficiaries. Such a strategy endangers the perspectives for economic diversification and ultimately political stability, as compared to the 2000s which saw a boom in revenues and consumption. The Russian population, and particularly its youth, may also weary of prolonged stagnation and a closed economy. If they can still travel, they will see that the other emerging countries frequently chose different paths. The recent Article IV from the IMF [(8)] dedicated to Russia, already predicts historically weak growth in its medium-term scenario (1.6% on average between 2014 and 2019), with a definite acceleration in 2018, but growth will remain less than 3%. This scenario did not take into consideration a political and economic «glaciation» which now seems more likely.

(8) International Monetary Fund (2014), Russian Federation 2014 Article IV staff report, IMF Country Report, No. 14/175, July.

## MAIN ECONOMIC INDICATORS RUSSIA

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| GDP growth (%) | 4.3 | 3.4 | 1.3 | 0.0 |
| Inflation (yearly average) (%) | 8.4 | 5.1 | 6.5 | 7.5 |
| Budget balance (% GDP) | 1.5 | 0.4 | -1.3 | -2.5 |
| Current account balance (% GDP) | 5.1 | 3.6 | 1.6 | 2.1 |
| Public debt PIB (% GDP) | 9.8 | 11.8 | 10.8 | 11.6 |

## COUNTRY RISK ASSESSMENT

| | 2011 | 2012 | 2013 | | | | 2014 | | | Business climate |
|---|---|---|---|---|---|---|---|---|---|---|
| | January | January | January | March | June | September | January | April | September | |
| China | A3 | A3 | A3 | A3 | A3 | A3 | A3 | A3 | A3 | B |
| Brazil | A3 | A3 | A3 | A3 | A3 | A3↘ | A3↘ | A4 | A4 | A4 |
| India | A3 | A3 | A4 | A4 | A4 | A4 | A4 | A4 | A4 | B |
| Russia | B | B | B | B | B | B | B | B↘ | B↘ | B |
| Kazakhstan | B | B | B | B | B | B | B | B | B | B |
| Armenia | C | C | C | C | C | C | C | C | C | C |
| Azerbaidjan | C | C | C | C | C | C | C | C | C | C |
| Georgie | C | C | C | C | C | C | C | C | C | C |
| Belarus | D | D | D | D | D | D | D | D | D | D |
| Kyrgyzstan | D | D | D | D | D | D | D | D | D | D |
| Moldova | D | D | D | D | D | D | D | D | D | C |
| Uzbekistan | D | D | D | D | D | D | D | D | D | D |
| Turkmenistan | D | D | D | D | D | D | D | D | D | D |
| Ukraine | D↗ | D↗ | D | D | D | D | D | D | D | D |

• **Country assessment** assesses the average risk of payment defaults by companies in a given country. This evaluation combines economic and political prospects of the country, Coface payment experience and business climate assessment. This evaluation has 7 grades: A1, A2, A3, A4, B, C, D and can be watch listed (positive, ascending arrows in the table; negative descending arrows).

• **Business climate assessment** assesses overall business environment and more precisely whether corporate information is available and reliable and whether the legal system provides fair and efficient creditor protection.



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