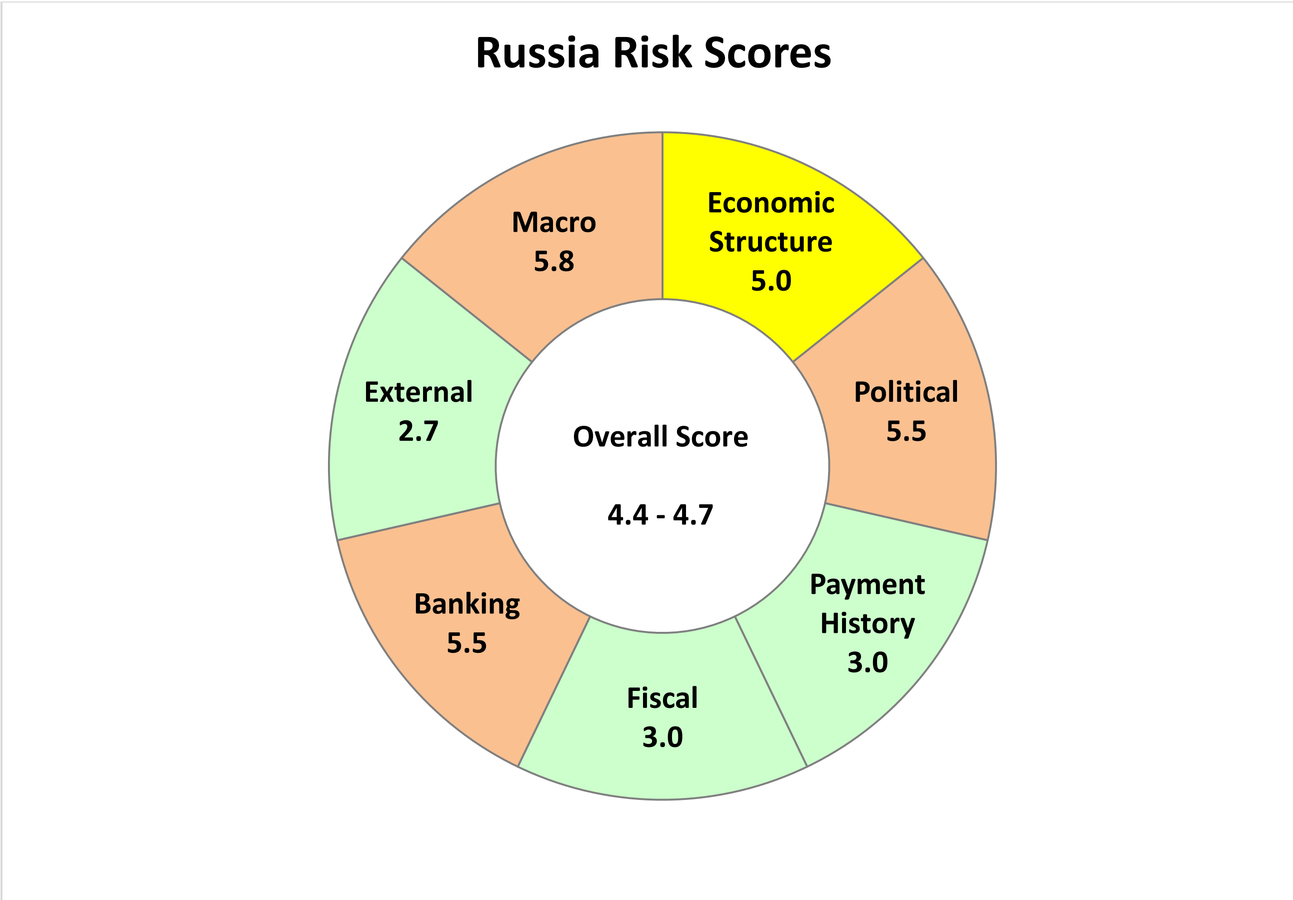

Russia Trend Risks

As other countries acquiesce to the aggressive foreign policies of the Russian leadership and as oil prices stabilize through OPEC actions, the Russian economy will show modest signs of recovery. Real GDP is forecast to rise 1% in 2017, with a modest rebound in domestic demand and investment. Inflation will drop below 6% as the Central Bank maintains a cautious interest rate policy coupled with a flexible exchange rate. Large state subsidies and incomes policies which eased the recession shock in 2015/16 may be withdrawn over the next year.

Russia's fiscal position suffered from plummeting oil prices. In 2016, the overall deficit settled near 4% of GDP due to strict limits on wage increases and delays in capital investment. Higher oil prices and broader fiscal adjustments may bring it into balance by 2019/20. Despite lower energy prices, Russia secured trade and current account surpluses in 2016, allowing it spend foreign currency reserves to pay down state company debts and inject funds into major banks. Structural reforms, urgently needed for long-term growth, are captive to Russian leaders who voice support but delay implementation as a real market economy is not their vision of Russia.