Russia through a lens

Deloitte Research Centre / 14th issue /1Q 2019

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Содержание
We are pleased to present the latest edition of Russia Through a Lens, the macroeconomic journal produced by the Deloitte Research Centre in Moscow.

Established in December 2015, the journal is published quarterly as part of the Research Centre’s monitoring activities.

In Russia Through a Lens, we focus on current key trends in the Russian economy and present our research in the following fields:

• Russia in figures – statistical analysis
• Research Centre market analysis
• Top M&As

If you have any questions or suggestions regarding this research, please do not hesitate to contact us at: cisresearchteam@deloitte.ru

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Russia in figures
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(GDP, inflation, trade indicators, currency rate, Central Bank key rate, commodity price dynamics etc.)

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Russia in figures
The Federal State Statistics Service (Rosstat) estimates that Russian GDP rose 2.3 percent in 2018, a significant increase on the previous forecast of 1.5 percent for 9M 2018. The reason for this difference was Rosstat’s January 2019 revision of year-on-year construction output growth for 11M 2018, from 0.5 percent to 5.7 percent. This radical revision was due to the inclusion of construction work for the third phase of the Yamal LNG plant, which was launched in 2018.

Source: Rosstat, Ministry of Economic Development of the Russian Federation

The Russian Central Bank estimates annual GDP growth in Q1 2019 at 1.0-1.5 percent.

### GDP forecasts

<table>
<thead>
<tr>
<th>Source</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economist Intelligence Unit</td>
<td>+1.5%</td>
<td>+1.6%</td>
<td>+1.7%</td>
</tr>
<tr>
<td>Ministry of Economic Development</td>
<td>+1.3%</td>
<td>+2.0%</td>
<td>+3.1%</td>
</tr>
<tr>
<td>Central Bank of Russia</td>
<td>+1.2%</td>
<td>+1.8%</td>
<td>+2.0%</td>
</tr>
<tr>
<td>IEF RAS</td>
<td>+1.2%</td>
<td>+2.5%</td>
<td>+2.1%</td>
</tr>
<tr>
<td>Standard &amp; Poor's</td>
<td>+1.5%</td>
<td>+1.8%</td>
<td>+1.8%</td>
</tr>
<tr>
<td>Moody's</td>
<td>+1.7%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fitch</td>
<td>+1.5%</td>
<td>+1.9%</td>
<td>-</td>
</tr>
<tr>
<td>European Commission</td>
<td>+1.6%</td>
<td>+1.8%</td>
<td>-</td>
</tr>
<tr>
<td>World Bank</td>
<td>+1.5%</td>
<td>+1.8%</td>
<td>+1.8%</td>
</tr>
<tr>
<td>International Monetary Fund (IMF)</td>
<td>+1.6%</td>
<td>+1.7%</td>
<td>+1.6%</td>
</tr>
<tr>
<td>European Bank for Reconstruction and Development</td>
<td>+1.5%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Organisation for Economic Cooperation and Development</td>
<td>+1.4%</td>
<td>+1.5%</td>
<td>-</td>
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</tbody>
</table>
Inflation

**Inflation rate forecasts**

<table>
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<tr>
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<th>2021</th>
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</thead>
<tbody>
<tr>
<td>IMF</td>
<td>5.7%</td>
<td>4.8%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Economist Intelligence Unit</td>
<td>4.7%</td>
<td>4.1%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Fitch</td>
<td>5.3%</td>
<td>4.0%</td>
<td>-</td>
</tr>
<tr>
<td>Interfax poll (consensus)</td>
<td>4.7%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reuters</td>
<td>4.8%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*The inflation figure is the consumer price growth rate over the corresponding month of the previous year (Rosstat).

**The inflation target is set for the consumer price growth rate over the corresponding month of the previous year (Central Bank of Russia).*

“*We expect to see 2019 inflation at a lower level of between 4.7 percent and 5.2 percent. We had previously forecast 5 percent to 5.5 percent.*

Elvira Nabiullina,
Governor of the Russian Central Bank

Inflation in January-March 2019*: 1.77 percent
Inflation target** for 2019: 4.0 percent
Trade structure

Share of energy products in total exports, %
(January 2006 – January 2019)

Period: January-December 2018

- Foreign trade turnover: USD 692.6 billion (+17.6% YoY)
- Trade balance: surplus of USD 211.6 billion (+USD 80.6 billion YoY)
- Exports: USD 452.1 billion (+25.6% YoY)
  Share of the CIS countries 12.1%, non-CIS countries 87.9%
- Imports: USD 240.5 billion (+5.1% YoY)
  Share of the CIS countries 11.0%, non-CIS countries 89.0%

Period: January 2019

- Foreign trade turnover: USD 47.2 billion (-5.4% YoY)
- Trade balance: surplus of USD 16.0 billion (-USD 2.4 billion YoY)
- Exports: USD 31.6 billion (+7.4% YoY)
  Share of the CIS countries 10.6%, non-CIS countries 89.4%
- Imports: USD 15.6 billion (-1.0% YoY)
  Share of the CIS countries 10.8%, non-CIS countries 89.2%

Share of products in total exports/imports to/from the CIS/non-CIS countries (January-December 2018)

<table>
<thead>
<tr>
<th></th>
<th>To non-CIS countries</th>
<th>To the CIS countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy products</td>
<td>67.6%</td>
<td>35.9%</td>
</tr>
<tr>
<td>Metal products</td>
<td>9.5%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Chemical products</td>
<td>5.2%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Machinery and auto</td>
<td>4.9%</td>
<td>17.8%</td>
</tr>
<tr>
<td>Food and agriculture products</td>
<td>5.0%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Timber, pulp and paper products</td>
<td>2.9%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>From non-CIS countries</th>
<th>From the CIS countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and auto</td>
<td>50.6%</td>
<td>20.5%</td>
</tr>
<tr>
<td>Chemical products</td>
<td>18.7%</td>
<td>14.8%</td>
</tr>
<tr>
<td>Food and agriculture products</td>
<td>11.2%</td>
<td>22.3%</td>
</tr>
<tr>
<td>Metal products</td>
<td>5.9%</td>
<td>17.3%</td>
</tr>
<tr>
<td>Textiles and footwear</td>
<td>6.1%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Energy products</td>
<td>0.6%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>
### Exports (January–December 2018):

<table>
<thead>
<tr>
<th>Categories</th>
<th>Percentage of exports</th>
<th>In monetary terms YoY</th>
<th>In physical terms YoY</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energy products</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy products</td>
<td>63.7%</td>
<td>▲ 35.2%</td>
<td>▲ 6.4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 17.5%</td>
<td></td>
<td>Kerosene</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 10.0%</td>
<td></td>
<td>Coal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 3.7%</td>
<td></td>
<td>Natural gas</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▼ -6.0%</td>
<td></td>
<td>Liquid fuels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▼ -6.2%</td>
<td></td>
<td>Coke</td>
</tr>
<tr>
<td><strong>Metal products</strong></td>
<td>9.9%</td>
<td>▲ 19.9%</td>
<td>▲ 8.5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 19.7%</td>
<td></td>
<td>Cast iron</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 11.2%</td>
<td></td>
<td>Copper and copper alloys</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 10.5%</td>
<td></td>
<td>Semi-finished products of iron or non-alloy steel</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▼ -1.3%</td>
<td></td>
<td>Aluminium</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▼ -3.3%</td>
<td></td>
<td>Flat iron non-alloy steel</td>
</tr>
<tr>
<td><strong>Chemical products</strong></td>
<td>6.1%</td>
<td>▲ 14.2%</td>
<td>▲ 3.5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 19.6%</td>
<td></td>
<td>Products of inorganic chemistry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 5.4%</td>
<td></td>
<td>Plastics</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 2.4%</td>
<td></td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 1.5%</td>
<td></td>
<td>Abstergent</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▼ -14.9%</td>
<td></td>
<td>Fertilizers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▼ -19.9%</td>
<td></td>
<td>Paint</td>
</tr>
<tr>
<td><strong>Machinery and auto</strong></td>
<td>6.5%</td>
<td>▲ 2.7%</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 13.0%</td>
<td></td>
<td>Electrical equipment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 6.6%</td>
<td></td>
<td>Mechanical equipment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▼ -7.5%</td>
<td></td>
<td>Optical instruments and apparatus</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 3.0%</td>
<td></td>
<td>Passenger cars</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 10.1%</td>
<td></td>
<td>Trucks</td>
</tr>
<tr>
<td><strong>Food and agriculture products</strong></td>
<td>5.5%</td>
<td>▲ 20.2%</td>
<td>▲ 19.2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 65.6%</td>
<td></td>
<td>Meat</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 33.0%</td>
<td></td>
<td>Wheat</td>
</tr>
<tr>
<td><strong>Timber, pulp and paper products</strong></td>
<td>3.1%</td>
<td>▲ 18.4%</td>
<td>▲ 4.2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 8.7%</td>
<td></td>
<td>Plywood</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 6.7%</td>
<td></td>
<td>Lumber</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲ 0.8%</td>
<td></td>
<td>Cellulose</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▼ -2.1%</td>
<td></td>
<td>Rough wood</td>
</tr>
</tbody>
</table>
**Imports (January–December 2018):**

<table>
<thead>
<tr>
<th>Categories</th>
<th>Percentage of imports</th>
<th>In monetary terms YoY</th>
<th>In physical terms YoY</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy products</td>
<td>1.0%</td>
<td>~ 8.2%</td>
<td>~ -2.0%</td>
<td></td>
</tr>
<tr>
<td>Metal products</td>
<td>7.2%</td>
<td>~ 8.5%</td>
<td>~ 1.6%</td>
<td>Ferrous metals</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ 1.9%</td>
<td>Flat rolled products of iron or non-alloy steel</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ -4.2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ -22.1%</td>
<td>Pipes</td>
</tr>
<tr>
<td>Chemical products</td>
<td>18.3%</td>
<td>~ 8.1%</td>
<td>~ 1.2%</td>
<td>Abstergent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ 7.3%</td>
<td>Rubber</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ 6.9%</td>
<td>Plastics</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ 3.4%</td>
<td>Organic chemistry</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ 1.4%</td>
<td></td>
</tr>
<tr>
<td>Machinery and auto</td>
<td>47.3%</td>
<td>~ 2.0%</td>
<td>n/a</td>
<td>Electrical equipment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ 11.8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ 8.9%</td>
<td>Optical instruments and apparatus</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ 9.5%</td>
<td>Passenger cars</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ -17.9%</td>
<td>Trucks</td>
</tr>
<tr>
<td>Food and agriculture products</td>
<td>12.4%</td>
<td>~ 2.4%</td>
<td>~ 1.6%</td>
<td>Sunflower</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ 27.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ 18.9%</td>
<td>Palm oil</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ 17.9%</td>
<td>Cheese and curds</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ 7.4%</td>
<td>Citrus</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ -10.5%</td>
<td>Butter</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ -21.1%</td>
<td>Milk and cream</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~ -36.7%</td>
<td>Fresh meat and ice meat</td>
</tr>
<tr>
<td>Textiles and footwear</td>
<td>6.2%</td>
<td>~ 9.2%</td>
<td>~ 2.5%</td>
<td></td>
</tr>
</tbody>
</table>
Currency rate

RUB vs. EUR, RUB vs. USD

<table>
<thead>
<tr>
<th>Source</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>IEF RAS</td>
<td>78.1</td>
<td>80.9</td>
<td>83.3</td>
</tr>
<tr>
<td>Economist Intelligence Unit</td>
<td>78.3</td>
<td>84.2</td>
<td>82.1</td>
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</tbody>
</table>

EUR forecast (average per year), RUB

<table>
<thead>
<tr>
<th>Source</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Ministry of Economic Development</td>
<td>66.4</td>
<td>67.2</td>
<td>67.8</td>
</tr>
<tr>
<td>IEF RAS</td>
<td>67.0</td>
<td>68.6</td>
<td>70.6</td>
</tr>
<tr>
<td>Economist Intelligence Unit</td>
<td>67.5</td>
<td>69.0</td>
<td>67.7</td>
</tr>
</tbody>
</table>

USD forecast (average per year), RUB

<table>
<thead>
<tr>
<th>Source</th>
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<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Ministry of Economic Development</td>
<td>66.4</td>
<td>67.2</td>
<td>67.8</td>
</tr>
<tr>
<td>IEF RAS</td>
<td>67.0</td>
<td>68.6</td>
<td>70.6</td>
</tr>
<tr>
<td>Economist Intelligence Unit</td>
<td>67.5</td>
<td>69.0</td>
<td>67.7</td>
</tr>
</tbody>
</table>
The Central Bank’s key rate, indexes and credit ratings

Central Bank of Russia key rate, %

Forecast of the key rate year-end, %

<table>
<thead>
<tr>
<th>Source</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>IEF RAS</td>
<td>7.75</td>
<td>6.75</td>
<td>6.25</td>
</tr>
<tr>
<td>Economist Intelligence Unit</td>
<td>7.75</td>
<td>7.80</td>
<td>7.50</td>
</tr>
</tbody>
</table>

Russia’s credit ratings

<table>
<thead>
<tr>
<th>Agency</th>
<th>Rating</th>
<th>Outlook</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P</td>
<td>BBB-</td>
<td>Stable</td>
<td>16 Jan 2019</td>
</tr>
<tr>
<td>Moody’s</td>
<td>Baa3</td>
<td>Stable</td>
<td>8 Feb 2019</td>
</tr>
<tr>
<td>Fitch</td>
<td>BBB-</td>
<td>Positive</td>
<td>15 Feb 2019</td>
</tr>
</tbody>
</table>

On 22 March 2019 the Russian Central Bank resolved to keep a key rate at 7.75 percent.

“There are reasons to believe that last year’s decisions to raise the key rate will likely be sufficient to ensure that annual inflation returns to the target (around 4 percent) in the first half of 2020. The situation for a number of indicators is developing better than our December expectations: external financial and stock markets have stabilized, the effect of the VAT hike on prices was quite moderate, and inflation expectations have started to decline.”

Elvira Nabiullina, Governor of the Russian Central Bank
Indexes (daily): October 2014–March 2019

The MICEX index hit an all-time high of 2,547 points on 5 February 2019 before correcting, and remained between 2,400-2,500 points throughout the first quarter. The dollar-denominated RTS index, on the other hand, is slightly down on its Q1 2018 level.

Below are the sectoral indices of MICEX, which are calculated on the basis of stock quotes of at least 10 issuers.

**Oil and gas MICEX Index, RUB**
- Change for 2018: +36%
- Change for 1Q2019: +1%

**Metals and mining MICEX Index, RUB**
- Change for 2018: +9%
- Change for 1Q2019: +2%

**Electric utilities MICEX Index, RUB**
- Change for 2018: -11%
- Change for 1Q2019: +5%

**Consumer MICEX Index, RUB**
- Change for 2018: -13%
- Change for 1Q2019: +3%
According to a Central Bank preliminary estimate, Russia’s foreign debt stood at USD 453.7 billion dollars as of 1 January 2019, down USD 64.4 billion or 12.4 percent compared to the previous year. In absolute terms, this is the lowest level of foreign debt since April 2009.
## Investments

### Russian direct investment, USD bln

<table>
<thead>
<tr>
<th>Year</th>
<th>Russian direct investment abroad</th>
<th>Russia's investments in US treasury bonds, USD bln</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>68.2</td>
<td>140</td>
</tr>
<tr>
<td>2014</td>
<td>22.6</td>
<td>120</td>
</tr>
<tr>
<td>2015</td>
<td>6.9</td>
<td>100</td>
</tr>
<tr>
<td>2016</td>
<td>23.3</td>
<td>80</td>
</tr>
<tr>
<td>2017</td>
<td>32.5</td>
<td>60</td>
</tr>
<tr>
<td>2018</td>
<td>31.9</td>
<td>40</td>
</tr>
</tbody>
</table>

### Source
- Russian direct investment abroad
- Foreign direct investment in Russia
- Direct investment, ("+" - inflow/ "-" - outflow)

Source: Central Bank of Russia

Source: U.S. Treasury
Household finances

Inflation for January-March 2019: 1.77%
- Food products: 2.59%
- Non-food products: 1.15%
- Services: 1.46%

Source: Rosstat

The volume of mortgage loans in roubles in 2018 increased by 1.5 times compared with 2017. In total, over 3 trillion roubles were issued during the year.

Source: Central Bank of Russia
Top pricing
(nickel and copper)

Nickel forecast, USD/t

<table>
<thead>
<tr>
<th>Source</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>13,895</td>
<td>14,007</td>
<td>14,124</td>
</tr>
<tr>
<td>IMF</td>
<td>13,776</td>
<td>13,968</td>
<td>14,092</td>
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<tr>
<td>Economist Intelligence Unit</td>
<td>12,385</td>
<td>11,354</td>
<td>11,678</td>
</tr>
<tr>
<td>Citigroup</td>
<td>12,000</td>
<td>13,500</td>
<td>14,000</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>13,306</td>
<td>13,125</td>
<td>-</td>
</tr>
<tr>
<td>Fastmarkets</td>
<td>13,675</td>
<td>-</td>
<td>-</td>
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</tbody>
</table>

Copper forecast, USD/t

<table>
<thead>
<tr>
<th>Source</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>6,642</td>
<td>6,572</td>
<td>6,503</td>
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<tr>
<td>IMF</td>
<td>6,208</td>
<td>6,279</td>
<td>6,318</td>
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<td>Economist Intelligence Unit</td>
<td>6,585</td>
<td>7,113</td>
<td>7,475</td>
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<tr>
<td>Citigroup</td>
<td>6,575</td>
<td>7,000</td>
<td>7,500</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>7,650</td>
<td>6,500</td>
<td>-</td>
</tr>
<tr>
<td>Fastmarkets</td>
<td>6,533</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

"Copper demand growth should slow versus 2018, but anything above 0 percent is sufficient to tighten the market, jolting it from its finely balanced state into outright deficit."

Source: Morgan Stanley
Top pricing (gold and aluminium)

Gold and aluminium

- Aluminium, LME, USD/t
- Gold, COMEX, USD/oz

Source: Finam Holdings

Gold forecast, USD/oz.t.

<table>
<thead>
<tr>
<th>Source</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>1,264</td>
<td>1,229</td>
<td>1,196</td>
</tr>
<tr>
<td>UBS Group AG</td>
<td>1,300</td>
<td>1,325</td>
<td>1,350</td>
</tr>
<tr>
<td>Goldman Sachs Group</td>
<td>1,325</td>
<td>1,425</td>
<td>-</td>
</tr>
<tr>
<td>Economist Intelligence Unit</td>
<td>1,343</td>
<td>1,375</td>
<td>1,270</td>
</tr>
<tr>
<td>RBC Capital Markets</td>
<td>1,338</td>
<td>1,300</td>
<td>1,300</td>
</tr>
<tr>
<td>Citigroup</td>
<td>1,331</td>
<td>1,375</td>
<td>1,400</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>1,294</td>
<td>1,460</td>
<td>-</td>
</tr>
</tbody>
</table>

Aluminium forecast, USD/t

<table>
<thead>
<tr>
<th>Source</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>2,162</td>
<td>2,132</td>
<td>2,104</td>
</tr>
<tr>
<td>UBS Group AG</td>
<td>2,034</td>
<td>2,188</td>
<td>2,205</td>
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<tr>
<td>IMF</td>
<td>2,105</td>
<td>2,137</td>
<td>2,165</td>
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<tr>
<td>Economist Intelligence Unit</td>
<td>1,940</td>
<td>1,975</td>
<td>1,950</td>
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<td>RBC Capital Markets</td>
<td>1,957</td>
<td>1,984</td>
<td>1,984</td>
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<tr>
<td>Citigroup</td>
<td>2,075</td>
<td>2,250</td>
<td>2,300</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>1,971</td>
<td>2,150</td>
<td>-</td>
</tr>
<tr>
<td>Fastmarkets</td>
<td>1,948</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Top pricing (oil and gas)

Brent crude oil and natural gas

Source: Finam Holdings

Natural gas forecast, USD/mmbtu

<table>
<thead>
<tr>
<th>Source</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Energy Information Administration</td>
<td>2.9</td>
<td>3.0</td>
<td>-</td>
</tr>
<tr>
<td>World Bank</td>
<td>2.7</td>
<td>2.7</td>
<td>2.8</td>
</tr>
<tr>
<td>IMF</td>
<td>2.8</td>
<td>2.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Economist Intelligence Unit</td>
<td>2.8</td>
<td>3.2</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Crude oil forecast, USD/bbl

<table>
<thead>
<tr>
<th>Source</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Energy Information Administration</td>
<td>62.8</td>
<td>62.0</td>
<td>-</td>
</tr>
<tr>
<td>Fitch</td>
<td>65.0</td>
<td>62.5</td>
<td>-</td>
</tr>
<tr>
<td>European Commission</td>
<td>61.0</td>
<td>61.0</td>
<td>-</td>
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<tr>
<td>World Bank</td>
<td>75.2</td>
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<td>67.9</td>
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<tr>
<td>IMF</td>
<td>72.3</td>
<td>69.4</td>
<td>66.8</td>
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<tr>
<td>IEF RAS</td>
<td>62.0</td>
<td>65.0</td>
<td>65.0</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>72.6</td>
<td>63.7</td>
<td>-</td>
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<tr>
<td>Economist Intelligence Unit</td>
<td>66.0</td>
<td>60.5</td>
<td>67.5</td>
</tr>
<tr>
<td>Central Bank of Russia (Urals)</td>
<td>55.0</td>
<td>55.0</td>
<td>-</td>
</tr>
<tr>
<td>Ministry of Economic Development (Urals)</td>
<td>63.4</td>
<td>59.7</td>
<td>56.4</td>
</tr>
</tbody>
</table>

OPEC’s crude oil exports in February slumped to their lowest level since 2015. The oil cartel saw exports fall to 23.5 million barrel per day in the first half of February, driven by declining output in Saudi Arabia, coupled with the drop in production in Venezuela and Iran due to US sanctions.

OPEC’s monthly report shows that oil production in Venezuela has fallen by more than 25 percent in the first two months of the year. All of this could lead to a minor deficit on the global market in Q2 2019.

Source: International Energy Agency
Latest from Deloitte Research Centre

Snapshot of the Agroindustry - 2018
Maturity assessment of risk management in Russia
FinTech Market Trends
Snapshot of the agroindustry – 2018

You can find the full report by following the link «Snapshot of the agroindustry – 2018»
Key findings

Key indicators

**Agriculture, 2018**

The index for the current state of the Russian agroindustry** increased by 7 points to 0.40 compared to 2017.

**Agriculture, 2019**

The index for prospects of the Russian agroindustry** fell by 7 points to 0.10.

**Margins, 2018**

The index** for the current state of a company increased by 11 points.

The index** for prospects of the Russian agroindustry** fell by 7 points to 0.10.

The business growth outlook index** edged up by 3 points.

Statistical data

Survey data

Deloitte’s estimates

Growth

No change

Decrease

* The forecast of the Russian Economic Development Ministry

** The index is a weighted indicator on a scale from -1 to +1 based on the answers of the respondents.
Government support for agroindustry

The federal budget expenditures
2017

16,241 RUB billion
1.4%

The impact on corporate profits

158 RUB billion
86%

The profits of agroindustrial companies**
2017

234 RUB billion

The share of subsidies in the profit before tax of agroindustrial companies (crop farming, animal farming)
(%)

Three years total
75 %
54%

Satisfaction with the process of obtaining subsidies (2018, y-o-y)
In 2017, the satisfaction with subsidy experience was at -0.16* versus +0.24 in 2018 (on a scale from -1 to +1)

- completeness and availability of information on preferential loans
- administrative dimension
- amounts of preferential lending

* (on a scale from -1 to +1 where -1 and +1 correspond to a negative view and a positive view, respectively, 1 point = 0.01)
** The profit before tax comprises respective profit indicators in the crop and animal farming industries, according to Rosstat
Challenges and strategies

Top 3 issues for the Russian agroindustrial companies

1. High cost of energy resources
2. Insufficient government support and financing
3. Lack of skilled personnel

Top 3 strategies for the Russian agroindustrial companies

1. Increasing production output
2. Enhancing the production base (launch of new facilities)
3. Cost cutting

Innovation and green agenda

89% of companies stated that they had formalized ‘greening’ in the corporate policy and actively work to implement it.

The weighted rating of innovation adoption by agroindustrial companies is 2 points below that of Russian companies*

Top 3 technologies planned for implementation

1. Smart farms
2. Biotechnology (biopesticides, biofertilizers, biofuel, biopharmaceuticals)
3. Customization of the product mix

Global agroindustry market

Top 5 countries and regions producing agroindustrial products
- Asia (ex-China and India)
- China
- Brazil
- India
- US

Top 5 countries and regions producing agroindustrial goods
- China
- Asia (ex-China and India)
- US
- EU (28 countries)
- India

Forecast for global consumption of key agroindustrial products (2019–2020)
- Corn
- Soybeans
- Wheat
- Dairy products
- Sunflower oil

* (on a scale from -1 to +1 where -1 and +1 correspond to a negative view and a positive view, respectively; 1 point = 0.01)
Assessment of the effect of the Government’s export support program

- **0.3%**
  - The average annual increase in the GDP* until 2024 as a result of the growing agroindustrial export

- **7,175 RUB billion**
  - The total effect of the agroindustrial export support program on the GDP in 2018–2024

- **1,028 RUB billion**
  - The total additional tax revenue in 2018–2024 resulting from an increase in the agroindustrial production and exports

- **2,159 RUB billion**
  - The total effect of the agroindustrial export support program on the GDP in 2024

- **308 RUB billion**
  - Additional tax revenue resulting from an increase in agroindustrial exports in 2024

Top five industries (besides the agroindustry) that are likely to post a maximum production growth upon implementation of the agroindustrial export support program:

1. Transport (17% of the increase in GDP due to the implementation of export support program)
2. Wholesale trade services (9%)
3. Construction (5%)
4. Services related to real estate (5%)
5. Machinery and equipment (3%)

In order to implement this program, the exports of animal farming products (poultry and pork) should be increased 7 and 6 times, respectively, while the exports of oilseeds should grow 6 times.

- **69 percent**
  - Of representatives from agroindustrial companies expect that the export revenue is set to increase in the next five years

* Compared to the GDP in 2017 and flat exports scenario
Russia’s Export Strategy – 2024: assessing the impact

Assessment of the impact

On 10 September 2018, Sergey Levin, Russia’s Deputy Agriculture Minister, presented the federal project for Agroindustry Product Exports. This project is designated to implement the presidential decree on increasing agricultural exports twofold to USD 45 billion by 2024. The additional financing required for the project implementation amounts to RUB 696 billion.

Based on that, Deloitte CIS and the Institute for National Economic Forecasting of the Russian Academy of Sciences (IEF RAS) analyzed the impact of a potential export growth on key economic and industry indicators (the GDP and associated tax revenue).

* The data for 2018–2024 is presented as per the International Cooperation and Export Project
Assessment of the impact on the GDP growth

- Incremental GDP growth (billion roubles)
- Share of GDP (% 2017)

Assessment of the impact on the tax revenue growth*

- Incremental tax growth (billion roubles)

2024 GDP growth (RUB billion)

<table>
<thead>
<tr>
<th>Sector</th>
<th>GDP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agroindustry</td>
<td>528</td>
</tr>
<tr>
<td>Transportation</td>
<td>367</td>
</tr>
<tr>
<td>Retail</td>
<td>196</td>
</tr>
<tr>
<td>Construction</td>
<td>107</td>
</tr>
<tr>
<td>Real estate</td>
<td>107</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>69</td>
</tr>
<tr>
<td>Chemicals</td>
<td>69</td>
</tr>
<tr>
<td>Banks</td>
<td>66</td>
</tr>
<tr>
<td>Government services</td>
<td>59</td>
</tr>
<tr>
<td>Energy</td>
<td>58</td>
</tr>
<tr>
<td>Oil products</td>
<td>55</td>
</tr>
<tr>
<td>Other</td>
<td>478</td>
</tr>
</tbody>
</table>

According to our preliminary estimates prepared jointly with IEF RAS, the total effect on the tax revenue growth (RUB 1,028 billion) will be nearly three times higher than the financial support for the project (RUB 350 billion)**

* Provided that the agroindustrial exports increase compared to the flat exports scenario

** The amount of support cited as per the addendum to the minutes of the meeting no. 24 held by Presidential Presidium for Strategic Development and Priority Projects on 24 September 2018

30
Methodology

The methodology for assessing the tax effect from increasing agroindustrial exports

The assessment of the direct incremental tax revenue growth resulting from the agroindustrial exports growth was calculated in several stages:

- Development of the target export growth scenario based on headline indicators for 2017* and the following breakdown by agroindustrial products (the calculations were linked to the base-case scenario providing for a USD 45 billion increase in agricultural exports by 2024);
- Splitting incremental export revenue between agribusinesses, logistics and wholesale companies in accordance with the expert assessment of the revenue allocation within the value chain per each agroindustrial product item;
- Calculation of the direct tax effect based on expert assessments of the structure of expenditures and taxation parameters for separate agroindustrial product categories, as well as in the logistics and the wholesale trade;
- Calculation of incremental domestic production cost growth in agroindustry (agricultural raw materials in the processing industry and the animal feed, seeds, organic fertilizers, and hatchery eggs in the agriculture), using expert assessments of the material cost structure in various agroindustry’s segments and the share of imports in the respective costs;
- Assessment of incremental tax growth in the agroindustry based on expert assessment of the expenditure structure and tax parameters in production of some types of agri-cultural products for intermediate consumption. In addition, we assessed indirect tax effects in the industries related to agroindustry, logistics and trade. The calculations comprised the following stages:
  - Calculation of incremental growth of other material costs for select domestic agroindustrial products, as well as logistics and wholesale trade as per the expert assessment of the material cost structure in these segments, and the share of imports in the respective costs;
  - Calculation of incremental compensation and profit growth in agroindustry, logistics, and wholesale trade based on the expert assessment the compensation and profit share in the output in these industry;
  - Assessment of incremental final demand growth of households, government and businesses, given the additional revenue.

The required elasticity indicators, e.g. the elasticity of household consumption by revenue was calculated on the basis of the institutional account matrices published by Rosstat. The structure of the final demand (separately for household consumption, fixed asset accumulation and government consumption) was used in order to calculate the incremental final demand growth for products from various segments which took shape in the Russian economy in the base period. These calculations were based on Rosstat’s statistical data reflect in input-output tables (inter-industry balance) for 2015:

- Calculation of the incremental final demand for domestic products from households, government and businesses, given the share of imports in the respective product consumption in various industries. These calculations were performed separately for household consumption, government consumption and fixed asset accumulation. The share of imports in the final consumption on the basis of the import matrix and inter-industry balance for 2015 (released by Rosstat);
- Assessment of the total indirect incremental output growth in various sectors resulting from the incremental growth of final and intermediary demand for domestic products (see paragraphs 2.1 and 2.4). The calculations were performed in accordance with IEF RAS’ methodology based on the static model of the inter-industry balance. The incremental agricultural output growth which has been accounted for in assessing the direct effect from the export expansion was not taken into account in order to avoid double counting;
- Calculation of the total indirect incremental tax growth in various industries based on the tax payment/ output ratio in the based period in those industries (according to the inter-industry balance, as well as Rosstat’s data on the tax revenue extracted from Form 1-NOM for 2015).

* the following commodity groups were selected: grain, fish and seafoods, meat and meat products (excluding end products), fat-and-oil products (excluding oilseeds), confectionery products, beverages, sugar industry products, other food industry products, other products (including oilseeds).

Key scenario assumptions

The calculation of indirect macroeconomic effect on the basis of the static model of the inter-industry balance shows that the export growth should have no significant impact on the structural economic parameters (the structure of material costs in various industries, the share of import in the domestic consumption of various products, the elasticity of final consumption by revenue of households, governments and businesses).

Constant prices were used to perform these calculations. The unit material costs were adjusted to expected productivity growth in using primary resources in order to account for production efficiency in the Russian economy for the forecast period (e.g. the adjustment ratio for 2024 with respect to the 2015 level equaled 0.82). The shares of imports in the final consumption in various industries were constant.

The calculations did not account for effects related to additional investment required for achieving the agroindustrial export growth targets.

Corporate export revenue forecast for the next five years

Sixty nine percent of representatives from agroindustrial companies expect that the export revenue is set to increase in the next five years. One third of the respondents (31 percent) do not expect such changes to take place. Companies with revenue of RUB 2-5 billion (80 percent) and companies with more than 500 employees (80 percent) tend to anticipate export revenue growth more often than other representatives of the agroindustry.
Maturity assessment of risk management in Russia
Executive summary

Risk management profile

4
The average number of employees engaged in risk management

4
The average number of years risk management functions have been operational

Chief Executive Officer
Is most likely to initiate and supervise risk management activities

80%
Of companies have an approved risk management policy

Risk management maturity weak spots in non-financial companies

- The low level of engagement of company executives in risk analysis and the risk management system
- A lack of the necessary competencies to conduct a quantitative assessment of the impact of risk on corporate objectives and budgeting
- A lack of structured and regulated processes, which complicates the implementation of risk management into operating activities

Future risk management developments

- The development of a risk management culture
- The integration of risk management into target-setting and KPI/KRI development
- The integration of risk management into the budgeting process

Cyber risks

85%
Of organisations consider cyber risks to be a major concern

Maturity level: the weighted value of respondents' responses (on a scale from 0 to 1)
Maturity assessment of risk management

20% Think that risk management is integrated into planning and budgeting

24% Said that risk analysis impacts changes to the company’s objectives and budget revisions

11% Think that KPIs are set based on the results of risk analysis and are tracked in terms of risks

18% Think that risk appetite is determined/revised recurrently as the corporate strategy/annual objectives are defined

27% Said that important strategic, budgetary and investment decisions are only made once a risk analysis has been conducted and its results properly documented

44% Think that significant risk management issues are regularly discussed at meetings of management bodies (more often than once per quarter)

13% Said that the risk manager is a fully-fledged member of key management bodies within the company

38% Think that information about risks is communicated to management in full and on time

40% Think that risk management is fully integrated into key operational processes; risks are analysed regularly as part of operating activities

25% Think that internal control activities are conducted based on the risk-oriented approach

31% Said that risk is taken into consideration when carrying out all key back office business processes

27% Think that internal audit activities (audit plan, reporting structure) are conducted based on a risk-oriented approach

18% Said that information about risk management is disclosed in management accounting, rather than in a separate report on risk

16% Disclose information about the risk management function, risk management procedures and results of risk analyses on their corporate website

35% Use up-to-date risk modeling and assessment tools (risk simulation, stress-testing, scenario analysis, decision trees)

0,54* Overall maturity of risk management in 2018

TMT Industry with the highest risk management maturity

RUB 50 - 500 billion Total revenue of companies with the highest risk management maturity

5 000 employees Number of staff in companies with the highest risk management maturity

*On a scale from 0 to 1
Cyber risk management

100% of TMT respondents indicated that cyber risks are a significant concern for their companies. Respondents from the manufacturing and consumer industries were the most likely to say that cyber risks are not a major concern (10 and 12 p.p. above average, respectively). Companies with revenues over RUB 50 billion and staff numbers of over 5,000 were more concerned by cyber risks (92% and 93%).

The impact of third-party cyber risk management on organisations

- Inclusion of penalty provisions in contracts with counterparties for breaching organizational requirements: 58%
- Counterparty requests for audits and reviews: 36%
- Cyber risk assessment conducted on potential counterparties at the bid stage: 34%
- Raising cyber risk awareness of clients: 26%
- Requirements on counterparties to regularly, independently confirm adequate cyber risk management: 13%

Generally, risk appetite was higher in TMT and metal companies than in other sectors (16 and 15 pp higher than the average, respectively). In the manufacturing sector, 9 of 10 companies noted that their risk appetite did not change.

Metallurgical companies are most likely to use risk management tools for innovative technologies at the implementation stage (14 p.p. above average). In contrast, TMT (56%) and manufacturing (57%) companies are most likely to use these tools at the design stage. Respondents from companies with revenues over RUB 500 billion and staff numbers over 5,000 employees were more likely to say that they use risk management tools at the design stage (14 p.p. above average).

Adequate competency level for cyber risk management

- 48%: Not maintained
- 31%: External expertise
- 25%: Training
- 21%: Subscription for regular analytical reports
Denis Lipov, Deloitte Cyber Risk Management Leader

“The overwhelming majority of respondents (85%) confirmed that cyber risks are a significant concern for their organisations’ business activities. However, applying innovative technologies does not usually result in increased risk appetite (with over 70% of respondents reporting risk appetite unchanged).

The desire to keep risk appetite unchanged, while simultaneously applying innovations, necessitates the adoption of a risk-oriented approach at the conceptualisation stage. Respondents confirmed that their companies start managing the risks associated with innovative technologies at the conceptualization stage (over 55%) or at the design stage (35%). At the same time, almost 50% of respondents said that there is an inadequate level cyber risk management competency in their companies. This could suggest that cyber risk management tools are not sufficient effective, despite all efforts made by companies.

One more area of concern is managing cyber risks in the specific business environment where a company operates. The approaches developed to mitigate such risks are mainly non-recurrent (initial bid checks: 34% of respondents) or are applied after the fact (penalties: almost 60% and audit requests: 36% of respondents). Only 13% of respondents indicated regular independent checks on counterparties’ level of cyber risk management. Due to the widespread and rapid adoption of innovations, the reactive approach to cyber risk management cannot ensure the timely identification of threats arising in a company’s business environment.

This means that a proactive approach to cyber risk assessment must be applied more widely.”
Key findings

The FinTech market has three fundamental evolution drivers:

- Growth in demand for online or mobile financial services for households and businesses
- Proactive regulation by the government driving an integrated national FinTech environment and infrastructure
- Market agility, FinTechs responding with high agility to a growth in demand by launching new products/services on a regular basis

**Driver 1. Growth in demand**

**Top 3 reasons:**
- 01. A financial technology boost results in broader availability of financial services for consumers and businesses*
- 02. Financial technology contributes to more agile delivery of financial services to consumers and businesses*
- 03. Financial technology helps to improve living standards and make businesses more competitive, bringing in healthier profitability.

*The agility and availability of financial services tend to increase both geographically and also in terms of making services available to social groups requiring a more focused proposition.*

**Driver 2. Proactive regulation**

**Top 3 reasons:**
- 01. Financial technology is one of the key tools used to strengthen transparency in business and the national economy. It also helps to reduce cyber risks in the finance industry.
- 02. Financial technology can be used as a way to enhance living standards and implement better financial support for businesses.
- 03. Financial technology underpins the development of a FinTech infrastructure. It is already a prerequisite for maintaining growth in the leading national economic sectors.

**Driver 3. Market agility**

**Top 3 reasons:**
- 01. Digitalisation is a trend with relevance across various industries, including agriculture, manufacturing and pharma. It has a profound impact on what businesses need and what clients expect from FinTechs.
- 02. FinTech is a fast-paced and highly competitive market. As a result, FinTechs have to stay aligned to both demand specificity and the behaviour of competitors.
- 03. With an opportunity to draw on successful international practices, the Russian FinTech market is far more dynamic, offering a broader variety of products and services to surpass other industries.

Therefore, the FinTech market as such is one of the drivers enabling a stronger national social and economic climate.

* http://www.cbr.ru/fintech/regulatory_platform
The existing pronounced positive impact from the evolving FinTech market also carries certain risks arising as potential negative consequences. Such risks can generally be divided into three groups:

**01. Infrastructural or market risks**

Volutility is a characteristic feature of the FinTech market. In addition, the demand for FinTech services is quite sensitive to market changes, including regulatory developments. Relatively weaker loyalty to FinTech services results in consumers tending to shift from the existing products to new offerings as soon as new products or regulatory constraints emerge.

This is what characterises the financial services industry as a whole. The scale of impact from errors in automated processes is another dimension of infrastructural risk. The risk of inconsistent processes can emerge from both cyber risks (e.g. data leaks, which also involve the use of data for illegal activities) and technological failures in business processes.

Another important finding from our survey is that FinTechs have not named their potential environmental footprint as a key barrier to the development of the FinTech market. This may lead to a heavier environmental footprint as power consumption and related greenhouse gas emissions grow.

With FinTech products and data centres becoming more widespread, the lack of commercially viable power-saving and alternative energy solutions increases exposure to these risks.

**02. Economic risks**

A potential growth in debt load on businesses and consumers is one of the major economic risks as online loans are one of the key products offered on the existing FinTech market.

Dropping real income would result in an increased debt load, defaults, lower living standards and a weaker economy. However, this risk is directly dependent on the quality of financial services, and high quality hinges on the maturity of financial technology. Macroeconomically, the FinTech market needs support from the government to develop technology and build a stronger infrastructure, which inevitably requires significant public spending.

At the current stage, many private FinTechs have been on the market for less than three years, meaning that the market is still emerging and has not reached maturity. As a result, building a market infrastructure requires huge financial and labour input from the government and the business community, with potential investment returns having a minimum horizon of three to five years.

**03. Social risks**

As with many other tech companies, FinTechs have a significant transformational impact on the labour market. Firstly, the use of automation solutions and RPA technology to develop new services lays off employees who have been responsible for previously unautomated processes. Secondly, FinTechs tend to hire younger professionals, contributing to a widening inequality in terms of employment opportunities for more senior applicants aged 50+.

This could turn into a sensitive issue amid the ongoing pension reform in Russia. Even though these risks also apply to other industries, the financial services industry is one of the largest employers in Russia. Therefore, it should develop along with the transformation of the educational system to prepare professionals who will be sought after in a digital world.
Economic, social and infrastructural risks accompanying the development of the FinTech market are closely related, with the effect that growing barriers trigger risks spanning social, economic and infrastructural areas. As noted above, the FinTech market is characterised by volatility resulting from dynamic changes in offerings, with new products and services regularly launched on the market. However, when it comes to making a decision, consumers do not always have sufficient information on how FinTechs function, including product terms and conditions and the volatility of digital currencies. This leads to socio-infrastructural and socio-economic risks where consumers may face potential issues, including losses.

Even though there is a large number of risk sources, the FinTech market is not the only industry exposed to these risks. Currently, FinTechs account for less than five percent of the financial services sector. Therefore, key mechanisms for mitigating and monitoring the risks identified should and can be used. In addition, FinTechs, as any other financial service providers, are interested in a healthier market climate with a lower number of negative credit histories, reduced consumer debt burden, stronger market transparency, better data quality, higher financial literacy, etc. in a situation where regulation is tightening, providers fail to comply with business operation rules and business efficiency is becoming weaker.

According to FinTech experts, key risk mitigation mechanisms include:

- Better service delivery transparency across FinTech services
- Stronger security for personal data
- Consumer financial and technology education
- Affordable funding for Internet-focused and FinTech companies
- More efficient regulation, especially as regards legal rules and regulations underpinning the development of the FinTech industry
- Bringing private FinTechs under the regulatory umbrella of the Bank of Russia*, as well as making them part of innovation developments and providing them with remote authentication opportunities as part of the project by the Bank of Russia**
- Better FinTech products (i.e. products should become more user-friendly and help businesses and consumers minimise their costs).

These mechanisms will be further strengthened through fundamental drivers that are common across markets and that also support the development of FinTech services. This attests to the fact that this process is organic and has a mid-term potential over a period of three to five years. Accordingly, our survey takes a closer look at the development trends in the Russian FinTech market over a period until 2020. In answering this question, we used in-depth analytics to gain an understanding of the unique quality and quantity data.

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* http://www.cbr.ru/fintech/regulatory_platform
** http://www.cbr.ru/fintech/remote_authentication
## A snapshot of Russia’s FinTech market — 2018

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia’s FinTech market size</td>
<td>48 RUB billion (2017)</td>
</tr>
<tr>
<td>Number of employed in Russia’s FinTech industry</td>
<td>3,652</td>
</tr>
<tr>
<td>Total M&amp;A value</td>
<td>289 USD million (2017)</td>
</tr>
<tr>
<td>The average number of B2C clients</td>
<td>102,000</td>
</tr>
<tr>
<td>Consumer sentiment index*</td>
<td>0.43</td>
</tr>
<tr>
<td>The average number of employees in FinTech companies</td>
<td>15</td>
</tr>
<tr>
<td>FinTech company average age</td>
<td>3 years</td>
</tr>
<tr>
<td>The number of M&amp;A transactions</td>
<td>17</td>
</tr>
<tr>
<td>The average number of B2B clients</td>
<td>352 organizations</td>
</tr>
</tbody>
</table>

* on the scale from -1 to 1
Drivers and barriers for development of Russia’s FinTech market

Top five development strategies for Russia’s FinTech market:
01. Implementation of new technology
02. Launch of new products in the market
03. Entry into new markets
04. Organic growth
05. Higher promotion and marketing expenses

Top five barriers for the development of Russia’s FinTech market:
01. Low appeal for foreign investors
02. Low purchasing power of the population
03. Deficiencies of government regulation of the industry
04. Geopolitical risks
05. Lack of flexibility in the tax system with respect to FinTech

42 percent of FinTech companies assessed the efficiency of the regulator’s current efforts at the average level.

38 percent of FinTech companies believe the efficiency of the regulator’s efforts is low.

20 percent of FinTech companies believe the efficiency of the regulator is low.

Regulator efficiency index with respect to FinTech support and development is at the average level (1.66 out of three possible levels).

Despite the average regulator efficiency scores, 48 percent of FinTech companies see positive changes in the regulator’s efficiency.
The Russian FinTech market development map until 2020

The growth in the market will continue at the same pace within the next two years, and there are two drivers at play: FinTechs are developing new products and services, as well as working on products for related industries.

Andrey Petkov
(MFC «Chestnoe Slovo»)

First, the market is far from reaching saturation, given the fast Internet penetration rates in Russia. Second, the availability of highly qualified IT specialists in the market makes it possible to implement the most complex and nonstandard projects everywhere, in the capital and the regions. Third, both the business and the Government (the Central Bank and the Finance Ministry) actively promote FinTech.

Sergey Sedov
(Zaymer)

The current market size (as at end-2017) — 48 RUB bln

2018

The expected market size (as at end-2018) — 54 RUB bln

2020

76 percent of FinTech companies tend to positively assess the situation in the FinTech market from a standpoint of the business financial wellbeing.

24 percent of FinTech companies have a negative view on the market situation.

60 percent of FinTech companies tend to have a positive view on the future of the Russian FinTech market.

30 percent of FinTech companies do not expect conditions in the Russian FinTech market to change drastically.

10 percent of FinTech companies expect conditions in the Russian FinTech market to deteriorate.

The FinTech sentiment index is positive (0.31*), indicating quite positive financial climate.

The Index of Expectations is positive (0.33*) which indicates that FinTech companies are quite optimistic about the future.
One should realize that in the past ten years Europe and the US has seen the most continuous bull market since mid-20th century which we totally missed. At all. We have had recession since 2010. The private sector contracts while the role of the state increases.

Alexander Dunaev (MoneyMan)

88 percent of FinTech companies assess the uncertainty in the market at the average or above-average levels. 12 percent of FinTech companies believe the uncertainty is low. Despite the high level of uncertainty, 90 percent of the respondents expect the company business to improve by 2020. The remaining 10 percent do not expect significant changes. At the same time, nobody expects that their business will deteriorate.

The uncertainty index in the FinTech market is negative (-0.25*) indicating rather high uncertainty in the Russian FinTech market.
The Russian FinTech market development map until 2020

Top five advanced technologies:
01. Artificial intelligence
02. Machine learning
03. Predictive analytics
04. Deep learning
05. Big data

Top five segments to expand in the future:
01. Digital banks
02. Lending
03. Scoring
04. Marketplace
05. Investments

Top five advanced technologies:  
01. Artificial intelligence  
02. Machine learning  
03. Predictive analytics  
04. Deep learning  
05. Big data

Top five segments to expand in the future:  
01. Digital banks  
02. Lending  
03. Scoring  
04. Marketplace  
05. Investments

«Today, the situation in the FinTech market is mixed while the forecast is negative. There are a plenty of reasons to it, as the roots are of a systemic nature. The first and foremost, startups and smaller companies in the Russian market have no chances to compete with larger players due to the lack of competition between the latter. Although the major players declare that there is competition, in fact, it does not happen in the market, which prevents smaller companies and startups from offering innovations in the market. Hence, the first reason comes from the lack of a real need in innovations from outside on the part of financial institutions. The closed nature of financial institutions is the second reason. The participants of the recently held FinTech power conference agreed that the first reaction of financial institutions to interesting ideas is contemplating the implementation on their own. This poses another obstacle for startups as its life cycle at the seed stage rarely exceeds 2-3 years (provided it is not a ‘zombie’ startup) While major players try it ‘on their own,’ startups are closing due to the lack of first clients. Stagnation in the Russian economy is the third reason. The contracting market, sanctions, rouble volatility, growing tax burden, increasing role of the state in the business, and ‘neo-feudalism’ force young and ambitious innovators to leave the country as it is easier for them launch the business of their own in indisputably more stable conditions in the West where the resources are cheaper and the market is larger and, more importantly, growing. In the West, given the need of western institutions in innovations and tough competition, startups develop faster, raise financing and attract clients easier, as well as can protect their intellectual property in a more secure way. In order to make the robust development of FinTech companies happen in Russia, a lot of reforms need to be performed which is not expected in the short-term. In such conditions, the FinTech market in Russia is destined to contract and remain a subsidized branch of government-owned companies (or a part of ‘innovation cities’ subsidized from the federal budget). There are also two significant obstacles for the Russian FinTech development. First, state companies often buy and integrate FinTech startups instead of helping them to develop, buying their products and services, and providing advice to boost their competitiveness. Second, it is difficult to access global capital markets from Russia which otherwise is vital for modern business models in order to monetize digital products and services. It would take years of work to achieve this through improving the country image which is objectively difficult to ensure in the near future. To sum up, the FinTech community does exists and tries to develop in Russia but the external factors are likely to have a negative impact on the market preventing Russian companies from full-scale competition with western FinTech communities in the mid-term».
Russia’s FinTech contribution to achieving the SDGs

In 2015, 195 Member States of the United Nations adopted the Global Sustainable Development Goals, which underlie a transition from the industrial era to environmentally clean development within cleaner systems. Countries, industries and companies contribute towards these Sustainable Development Goals (SDGs) by the mere fact of operation.

In Russia, FinTech is the main contributor to SDG 9 (Industry, Innovation and Infrastructure). Significant steps are also being taken to contribute towards SDG 8 (Decent Work and Economic Growth) and SDG 1 (No poverty). According to research by SDSN and Bertelsmann, SDGs 8 and 9 are among the Goals with the lowest probability of achievement. Due to the ongoing growth in the Russian FinTech market it may be concluded that there will be positive developments and progress towards SDG 8 and SDG 9.

1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.

1.5 By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.

1.6 Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions.

8.1 Sustain per capita economic growth in accordance with national circumstances and, in particular, at least seven percent gross domestic product growth per annum in the least developed countries.

8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programs on sustainable consumption and production, with developed countries taking the lead.

8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

9.3 Increase the access of small industrial and other enterprises (especially in developing countries) to financial services including affordable loans, as well as expand their integration in production and supply chains and markets.

The list of top FinTech technology products which contribute the most to implementation of SDGs 1, 2, 8, and 9:

- Online lending;
- P2P lending;
- Crowdfunding;
- E-wallets;
- Online payment services;
- Mobile points of sale.
## Top 5 M&As*

(Russian companies)

<table>
<thead>
<tr>
<th>Target company</th>
<th>Industry</th>
<th>Bidder company</th>
<th>Seller company</th>
<th>Deal value (USD, mln)**</th>
<th>Additional information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arctic LNG 2 (10% stake)</td>
<td>Mining</td>
<td>Total</td>
<td>Novatek</td>
<td>2,550</td>
<td>Total's stake in the Arctic LNG 2 project is both direct and indirect, as Total also owns 19.4 percent of Novatek. After the 10 percent acquisition, Total's stake in the project stands at 27.4 percent. Installed capacity at the new plant is 19.8 million tonnes of LNG per year and capex is estimated at USD 20-21 billion.</td>
</tr>
<tr>
<td>Avito Holding AB (29.1% stake)</td>
<td>TMT</td>
<td>Baring Vostok Capital Partners Ltd; Vostok New Ventures Ltd; Filip Stig George Engelbert; Jonas Nordlander</td>
<td>OLX Group</td>
<td>1,160</td>
<td>Naspers, the principal owner of Avito, acquired 29.1 percent of the company from shareholders via its OLX Group structure. Naspers share in Avito has risen from 70.4 percent to 99.6 percent.</td>
</tr>
<tr>
<td>JSC Peter-Service (100% stake)</td>
<td>TMT</td>
<td>IKS Holding LLC Holdings Ltd</td>
<td>USM Holdings Ltd</td>
<td>288</td>
<td>IKS Holding appeared in December 2018 to consolidate the IT assets of Anton Cherepennikov. The main client of Peter-Service is telecoms operator MegaFon, which is controlled by USM Holding.</td>
</tr>
<tr>
<td>JSC Lider-Invest (51% stake)</td>
<td>Real estate</td>
<td>Etalon Group</td>
<td>AFK Sistema</td>
<td>230</td>
<td>Merging the assets of Etalon Group and Lider-Invest will create the market leader in residential real estate, with a project portfolio of 4 million square meters.</td>
</tr>
<tr>
<td>Etalon Group (25% stake)</td>
<td>Real estate</td>
<td>AFK Sistema</td>
<td>Vyacheslav Zarenkov and members of his family</td>
<td>226</td>
<td>AFK Sistema became Etalon Group's largest shareholder following the deal. AFK Sistema earlier signed a binding agreement on the sale of a 51 percent stake in its subsidiary developer JSC Lider-Invest to Etalon Group.</td>
</tr>
</tbody>
</table>

* Mergers and acquisitions
** Public information about the transaction value

Source: Merger Market
Global wind

Top News: Russia and Europe

13 March 2019
Volkswagen to expand localization of engine manufacture in Russia
Volkswagen is planning to localize the production of its 1.4l turbo engine, and is negotiating the terms of a Special Investment Contract (SIC) to double the output of its 1.6l engine, which is manufactured in Kaluga. The SIC will involve investment of RUB 40 billion.

18 February 2019
GAZ Group and Volkswagen planning to expand partnership
GAZ Group and Volkswagen may invest an extra RUB 13.7 billion in the development of jointly manufactured products under the Russian carmaker’s SIC (in addition to the RUB 20.9 billion that has already been announced).

14 February 2019
United Green planning infant formula plant in Russia
The Russian Direct Investment Fund (RDIF) and British United Green Group (UGG) are planning to build an infant formula factory. The plant could be the first fully localized production facility for breast milk substitutes in Russia. The new factory will help reduce imports (over 80 percent of instant infant formula is shipped in from abroad), and will create a regional distribution channel for sales of dried baby food in Russia and the CIS. Planned investment is RUB 10 billion.

12 January 2019
Bettermann expanding production at Lipetsk SEZ
Germany’s Bettermann is expanding the production of electrical equipment at the Lipetsk special economic zone (SEZ). The company will complete the construction of the second phase of its plant in Q1 2019 and will finish phase three, which will launch the manufacture of cable support systems, by the end of 2020. Bettermann will invest a total of RUB 17 billion in the plant.

Top News: Russia and Asia

21 March 2019
Nizhnelenskoye-Tongjiang bridge construction nears completion
The two sides of the railway bridge, that will span Amur River on the Russia-China border, have been connected. Construction is scheduled for completion in July 2019 and rail traffic is expected to start this year. Projected capacity is around 21 million tonnes per year and will be open year-round.

27 February 2019
Chinese investor opens yeast plant in Lipetsk Region
Angel Yeast Co. has opened Russia’s largest yeast plant in the Dankov special economic zone in Lipetsk Region, creating 560 jobs. The Chinese investor spent over USD 100 million to build the factory.

18 February 2019
Japanese investors become partners of a residents of Primorye gaming zone
Japan’s Simple Create Co Ltd. will be involved in the construction of the hotel and casino complex. Total investment in the first phase of the project is USD 70 million, and the second phase will cost USD 200 million. The first phase will create almost 800 jobs.

21 January 2019
Hyundai to start producing engines and automatic transmissions in Russia
Hyundai Motor Group is pledging to invest RUB 16 billion in its Russian plant over the next 10 years. The contract envisages the construction of an engine and automatic transmission plant near to their main production facility in Leningrad Region. Hyundai is also committed to establishing a R&D center in Russia.

Source: InvestinRussia.com
Useful stickers

MAIN TAKEAWAYS FROM DAVOS
The highlights of the World Economic Forum 2019 in Davos

FORBES: RUSSIA’S 100 MOST TRUSTWORTHY BANKS 2019
Subsidiaries of foreign banks and the largest Russian banks make up the top five.

FORBES: 20 RICHEST RUSSIAN BUSINESSMEN
Russian businessmen listed with wealth of over USD 20 billion for the first time since 2011.

FUTURE TODAY: BEST GRADUATE EMPLOYERS
Tech, commodities and consulting companies take the top spots.

WORLD HAPPINESS REPORT
Russia 68th of 156 countries, dropping six places compared to last year.

KEF- 2019 RESULTS
In 2019 the Krasnoyask Economic Forum was held in the format of a Russian Competitiveness Summit.
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