COLLAPSE UNLIKELY, BUT RUSSIAN ECONOMY DUE FOR LONG SLUMP

News / Business aviation

Natalia Orlova, chief of market analytics with Alfa-Bank, believes Russia's current consumer-spending-based economic model has reached its limits, regardless of the political conflict with the West. Even though the geopolitics matter, she said, the economy works in its own ways, and the overall health of the business aviation sector, worldwide, is deeply affected by its ups and downs. Speaking at the Business Aviation Forum 2015 held in Moscow on the eve of this week's JetExpo show, she said, "There was a period when the Russian economy was overheated, notably in 2005-2007, and even in 2011-2012 when the GDP grew at 4 percent annually. We are unlikely to see such figures any more." This year Russia's GDP is expected to decline by 3-to-3.5 percent and then level off. "At best, if the oil prices rise again to over $100 per barrel," Orlova noted, "we can expect a 2-to-3 percent GDP rise."

Investments are low, at some 20 percent of GDP, compared to around 50 percent for China. Their dynamics are also negative, -2 percent for 2014 and -5.4 percent for 2015. Orlova sees

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demographics as the biggest restriction for Russian economy growth in the long term. Through 2026, the youth market will continue to decrease in numbers.

Unemployment is expected to rise from 4.8 percent in 2014 to 5.3 percent in 2015, but this is not much of an issue: “We used to have 9-to-10 percent in 2009. [Comparatively], we now have [close to] complete employment,” Orlova said. The share of people employed in the public sector is rising, now at 23 percent of the work force, or about 17.4 million people. Russia’s labor productivity remains relatively low at about 40 percent that of the U.S. figure.

The Kremlin is ramping up what it spends on defense, which is also a factor. Defense spending as a percentage to GDP has accelerated from 2.1 percent in 1998, 2.5 percent in the 2000s, to 3.5 percent in 2014 and 4.2 percent in 2015.Russia will record very high inflation this year at 15 percent, but then it is expected to subside and stabilize at 7-to-8 percent, which Alfa-Bank finds bearable. The rouble-to-dollar exchange rate is expected to stabilize at 75:1 by year-end.

The Kremlin is trying to reduce national dependency on oil, and its efforts have been somewhat successful in 2014-2015. Still, to balance income and spending in the 2015 budget, the price of oil needs to increase to $74 per barrel (compared to $104 in 2014, and about $100 in 2009-2011). If that occurs, Orlova said, Russia may expect its budget to become balanced within the next few years. To her mind, this is achievable.

“We have entered a new economic era. Consumers spending will not grow much more. It is a new reality in Russia and in Europe.” Believing that the **Russian** government will continue supporting OEMs, she added, “Consumers will get poorer, but manufacturers will have better operational environment. The next 12 months will be a highly turbulent time, the stagnation of the national economy is likely to continue, but **collapse** of the national economy is very **unlikely**.”

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