

# AB-ICI: Lack of Momentum

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## Investment Summary

- AB-ICI picked up 3% in December on positive economic and market dynamics, but remained flat in 2012.
- Capital outflow in 2012 was smaller than expected, but will persist due to monetary easing.
- AB-ICI has limited downside in 2013, but weak economic growth prospects will also limit its growth.

**AB-ICI performance suggests no improvement in Russia's investment attractiveness in 2012**

**Capital outflow remains on the agenda for 2013**

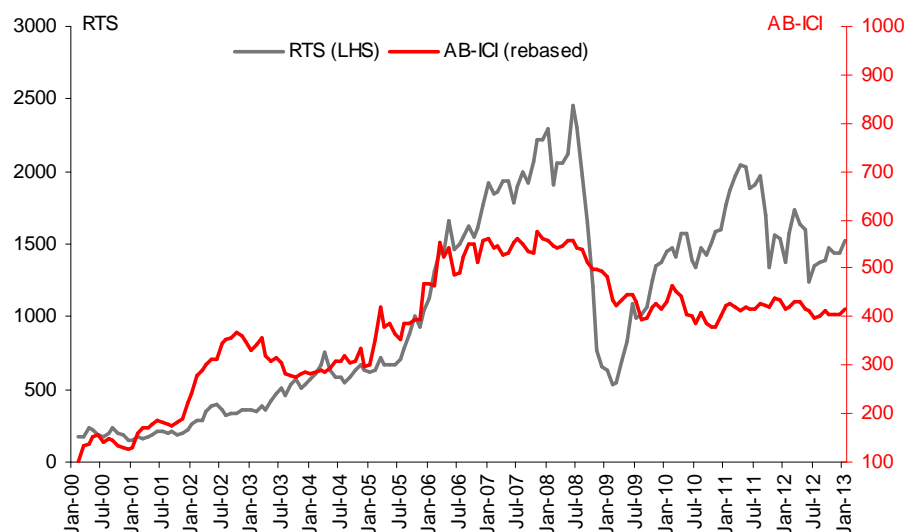
**Russian market underperformed in 2012**

### The AB-ICI increased 3% in December, stayed flat in 2012

The improvement in Russian market conditions combined with positive economic data in December resulted in AB-ICI growing 3% in December, however, that was only enough to keep the AB-ICI flat in 2012, suggesting no improvement in Russia's investment attractiveness. The stock market appears to be sharing this view, as the RTS showed only modest 10% y/y growth in 2012, despite the improvement in the global mood.

- **Economic confidence** increased, reflecting the fact that capital outflow slowed from \$81bn in 2011 to just \$57bn in 2012. That said, trust in the ruble deteriorated, as the population and companies increased forex savings by \$52bn in 2012 vs. just \$9bn in 2011. This is a response to monetary easing by the CBR, which injected RUB1.5tr in 2012, and since we expect another RUB1.5tr this year, capital outflow is likely to continue in 2013.
- **Foreign confidence** remained flat, as no new data were released. For the full year this indicator declined due to persistent shrinking of foreign presence in the Russian banking sector during the year.
- **Market confidence** increased in December, reflecting the end-of-the-year rally. That said, the full-year growth of the Russian stock market was rather modest at 10%, far below most of the peer EMs and DMs. This sluggish performance underscores that the lack of investment catalysts is an important obstacle for the Russian market to compete for international capitals

**Figure 1: AB-ICI was flat in 2012**



Source: New School of Economics, RTS, Alfa Research

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## AB-ICI: lack of momentum

**Zero AB-ICI growth in 2012 corresponds with the lack of positive expectations in the real sector**

**The key surprise of 2012FY was that faster income growth came with slower retail trade growth, which may reflect the high debt service share in individuals' incomes**

The AB-ICI's sluggish performance in 2012 reflects a lack of catalysts for Russia's investment attractiveness and correlates with the overall slowdown of economic momentum. According to the latest data, GDP growth decelerated to 3.4% y/y in 2012 from 4.3% y/y in 2011. While this slowdown was expected, the important difference from 2011 is the significant deceleration of stockbuilding. While in 2011 inventories growth contributed 65% of GDP growth, in 2012 the contribution was only 5%. This corresponds to the deceleration of industrial output growth from 4.7% y/y to 2.6% and suggests very cautious expectations in the real sector regarding future demand. This view is also illustrated by the recent Gaidar Institute polls, which suggests that despite the deceleration of investment growth in 2012, companies are satisfied with their current capex levels. The downbeat mood in the real sector supports our expectations of further deceleration of GDP growth this year.

Another important challenge for 2013 is the unclear prospects for consumer demand. We were surprised to see a deceleration in retail trade from 7.0% y/y in 2011 to 5.9% y/y in 2012, despite the substantial acceleration of real wages to 7.8% y/y from only 2.8% y/y in 2011 and real disposable income to 4.2% y/y from only 0.4% y/y. We believe that income growth was overestimated and that Rosstat will soon revise down the 2012 figures. However, the fundamental concern is that the population is becoming overburdened by short-term debt and has to spend a higher share of income to pay interest on existing loans. In this environment, the 39% y/y retail loan growth in 2012 should be seen not as support for consumption growth, but rather as a risk factor. For this reason, we reiterate our 2.8% y/y GDP growth forecast for 2013E, backed by 4.5% y/y consumption growth and 3.5% y/y investment growth.

**Figure 2: Key macro and banking indicators: 2012 vs. 2012**

	2011	2012
GDP growth, % y/y	4.3%	3.4%
Unemployment, %	6.1%	5.3%
Real disposable income, % y/y	0.4%	4.2%
Real wages, % y/y	2.8%	7.8%
Retail trade, % y/y	7.0%	5.9%
Investments, % y/y	8.3%	6.7%
Construction, % y/y	5.1%	2.4%
...housing, % y/y	6.6%	4.7%
Industrial output, % y/y	4.7%	2.6%
Retail loan growth, % y/y	36%	39%
Corporate loan growth, % y/y	26%	13%

Source: Rosstat, Ministry of Economic Development, CBR, Alfa Research

**We expect the CBR to inject RUB1.5tr to banks in 2013 to prevent an increase in interest rates**

Similar to 2012, we expect the CBR to keep an active role in funding economic growth. Last year, the monetary authorities increased exposure to banks by RUB1.5tr; we anticipate a similar injection to take place in 2013 to prevent a sharp increase in interest rates. This should compensate for the tight budget, which we expect to run a surplus this year and to add around RUB0.5-1tr to the Reserve Fund. However, the CBR's active position will keep deposit growth depressed, being itself an argument for the higher demand for CBR liquidity support. We also believe that the CBR's support to lending growth will not intensify economic growth, but will rather continue to finance capital outflow.

**2013 will be challenging for the AB-ICI, but the downside is limited**

All in all, in 2013 the AB-ICI appears to be in a challenging environment. The only positive side is that producers, consumers and markets are already pricing in those challenges, which suggests limited room for negative surprises.

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