

Euler Hermes: Cautious optimism forecast for Russian economy in 2018

MOSCOW, 27 OCTOBER 2017 - Russian GDP is set to grow by 1.9%, the oil price will move to \$56 per barrel, Russian exports are set to increase by \$26bn, and both insolvencies and the negative impact of international sanctions on investment will decline in 2018 forecasts Euler Hermes, the world's leading trade credit insurer. With this background demand for trade credit insurance is set to grow.

This was announced on October 26th during the first official meeting of Euler Hermes representatives with Russian media.

The insurer forecasts that Russia is expected to benefit from an improvement of global macroeconomic conditions embodied by a world growth reaching 3% Year on Year (YoY) both in 2017 and 2018, after achieving 2.9% YoY and 2.6% YoY respectively in 2015 and 2016. This improvement has a threefold impact; a better synchronization of national economic cycles, a rebound of global trade and highly supportive monetary policy and financial conditions.

These three factors will coalesce into moderately firming commodity prices (Euler Hermes expects oil prices to increase to USD56 per barrel on average in 2018) and a moderate appreciation of the Ruble against the USD. The recovery in Russian exports is expected to continue in 2018, albeit at a more moderate pace: +USD 26bn after +USD 60bn in 2017.

Euler Hermes experts have developed the Export Insolvency Index (IDEX) for regular monitoring and analysis of global trade and insolvency trends. The index for Russia is expected to improve to -3% in 2018. A negative value means that insolvency risk in Russia's main trading partners will decline, on average, yet many hot spots persist. Insolvencies in Russia will also improve in 2018, while global insolvencies will see a rise.

In this environment, domestic Russian factors will represent another tailwind on the back of accelerating credit, easing of monetary policy and strengthening confidence in both the consumer and corporate sectors. These positive factors will offset the negative impact of international economic sanctions, which will become less and less relevant in discouraging inward foreign direct investments. All in all, Russia's GDP is expected to accelerate to 1.5% YoY in 2017 and 1.9% YoY in 2018, after a contraction by -0.2% YoY in 2016. However many risk areas remain.

"Chemicals and services insolvencies are expected to rise in 2018, while recent banking failures and lingering threats of economic sanctions could have negative impacts on Russian business," says **Ludovic Subran, Chief Economist at Euler Hermes**. In addition to this agriculture is expected to benefit from import substitution policy, with food and metals seeing lower levels of insolvencies.

Euler Hermes analysis estimates that one in every four bankruptcies in the world is related to delays in payments by clients. In 2016 one in four companies globally had to wait for 88 days or more to get paid for goods shipped and services provided. On average this indicator is 64 days worldwide. In Russia this indicator is 58 days.

That is to say the Days Sales Outstanding (DSO) indicator for Russia is six days below the global average, which puts Russia in the same group of countries as the UK and Germany (53 days), Canada (54 days), Norway (56 days) and Brazil (61 days). However this indicator is still very uneven across industry sectors globally as well as in Russia.

Between January and September 2017 the courts in Russia reported 9,702 companies went bankrupt, which is 5% more YoY than last year¹. When companies go into bankruptcy their creditors are affected the most: about 70% of those which become insolvent do not pay their creditors.

Moscow is leading among other regions of Russia by the number of bankruptcies with a share of 19% (1,800 bankrupt companies) of all bankruptcies claimed; Saint Petersburg is following Moscow with a share of 5% or 529 bankrupt companies. Moscow Region and Tatarstan are ranked the third and the fourth with shares of 5% (499 companies) and 4% (359 companies) respectively. Thus Euler Hermes forecasts that even if bankruptcies are to register a small decline in 2018, risks for business are still in place.

“After a period of contraction the economy is now more stable and many businesses are now considering making new investment and expansion. Even during a time of growth and positive economic indicators for key sectors business owners need to be cautious. Payments due are frequently a business’ major asset so a late or non-payment could put a company at serious financial risk and can create problems throughout an entire supply chain” says **Fabrice Desnos, CEO of Euler Hermes Northern Europe Region.**

The demand for trade credit insurance is growing, as the share of assets held in Russian companies is accumulated in accounts receivables. Since 2013 the Russian trade credit insurance market has grown by around 30%. The volume of premium collected by insurance companies during the first half of 2017 is RUB 2.5bn. This is the best result for a first half in the last five years². By comparison losses paid for by the Russian trade credit insurance market in the first half of 2017 were RUB 1.1bn.

Low penetration is one of the characteristics of the Russian trade credit insurance market. The worldwide ratio of trade credit insurance premiums to GDP is 0.018%; in Western Europe this ratio is 0.034%, while in Russia it is only 0.002%. In addition to this, Russian businesses are still very conservative in managing their risks and insurers are setting high standards for the quality of information and its accuracy.

Daria Yakovleva, CEO Euler Hermes Russia says: “The Russian trade credit insurance market is developing in a complicated economic situation affected by factors such as non-transparent financial statements, high tax risks, frequent changes of legal entities by Russian businesses and insecurity of creditors in courts.”

“Insurers are steadily educating the market and their customers. More and more companies are sharing information for auditing purposes and transitioning to international financial reporting standards. Russian companies are gradually recognizing the role of insurers and their impact on business and they are improving their interaction with clients and their payment discipline. We have a long-term positive experience with our Russian customers and we are optimistic about the future,” Daria Yakovleva says.

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¹ As per Unified Federal Bankruptcy Register data

² as per Central Bank of Russia and public financial reporting of Russian insurance companies

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Further information: www.eulerhermes.com, [LinkedIn](#) or Twitter [@eulerhermes](#).

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