



Ukraine's political turmoil poses risks to Russian economy

Putin authorised to send troops to Ukraine

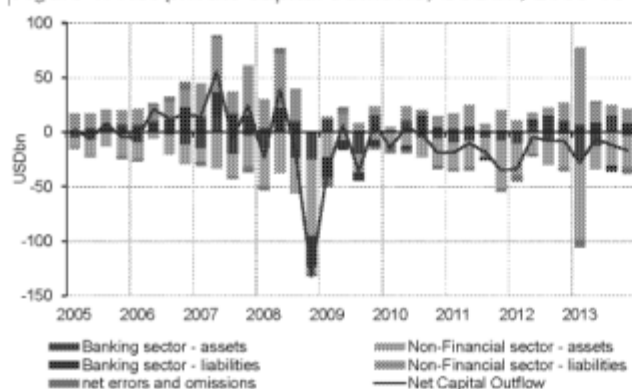
On 1 March, Russia's President Vladimir Putin issued a request to the Federation Council to send troops to the Crimea peninsula, where the Russian fleet is based. This request was swiftly granted, with Russia's officialdom noting that the decision to send troops had not yet been taken by Putin and that such a decision would depend on the course of events in Ukraine. These developments were accompanied by demonstrations in the eastern parts of Ukraine as well as in Crimea. Meanwhile, the latter is preparing for a referendum to get more autonomy from Ukraine or even to join Russia. The measures taken by Russia were met with possibility of sanctions from the West, which may affect Russia's economy. These developments notably increase near-term sovereign risks pertaining to Russia and Ukraine, and are fraught with the potential for acceleration in capital outflows.

Capital flight may erode economic outlook

In terms of the economic impact, the main implication at the macro level for Russia is likely to be a significant rise in capital outflows, which adversely affects the currency as well as the growth trajectory, most notably on the fixed investment side. The overall impact on the ruble could be moderated in part by the relatively favourable global economic backdrop as well as by the tightening of monetary policy (the CBR already 'temporarily' hiked the rates by 150bps at the beginning of March).

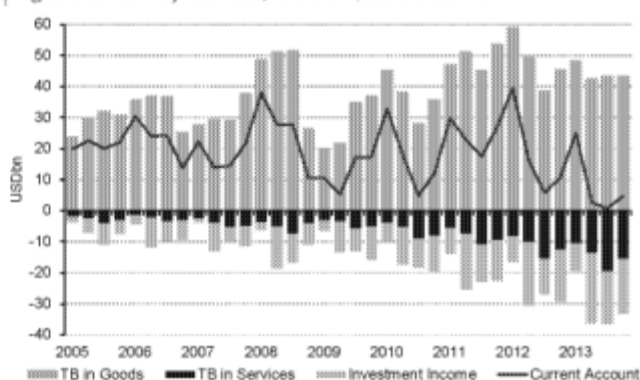
While in 2008-2009 the global economy was sliding into negative territory, which led to a drastic decline in oil prices, in 2014 the pace of economic growth may accelerate to well beyond 3% yoy, which should sustain oil prices at levels not too far off USD100/bbl (our commodities team projects USD97.5/bbl Brent). On the downside, however, the severity of economic isolation along with the resurgence of political uncertainty may exact costs, with considerations regarding macroeconomic fundamentals likely being overshadowed by negative sentiment.

Figure 1: Net private capital outflows, USDbn, 2005-13



Source: CBR, Deutsche Bank

Figure 2: CA dynamics, USDbn, 2005-2013



Source: CBR, Deutsche Bank