Second-round effects are skewed to the downside

In this report we assess only the sensitivities associated with the direct effects of capital outflows on growth and the exchange rate, and do not take into account the effects of sanctions, changes in interest rates and other factors that may also have a significant effect on the macro outcomes this year. With respect to sanctions, we believe their overall direct effect is likely to be limited for the economy but may add to capital outflows even if sanctions are not fully applied. In terms of the effects of the interest rates changes, their temporary nature is likely to result in a limited effect on lending and growth; however, if the current political uncertainty proves to be persistent, the elevated rates could linger and have a greater adverse effect on growth this year. Another factor that may affect Russia's outlook in the 2014-2015 period is the risk to the sovereign credit rating, something that was stated by Moody's earlier this month. All this implies that the estimates of the costs to the rouble and growth resulting from capital outflows should be seen as the lower bound of the total effect.