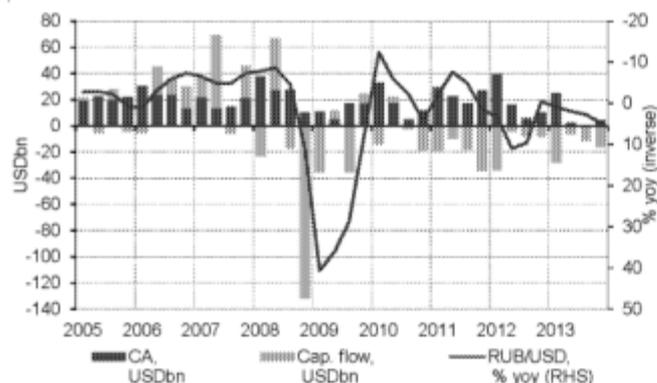




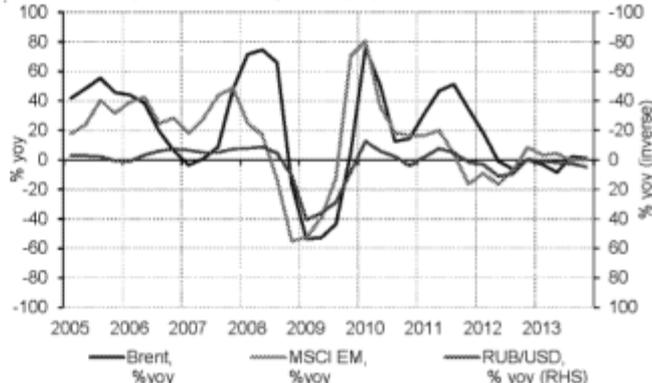
At this juncture there is scope for capital outflows to be significant this year given that, along with rising risks, oil prices are high and the current account is enjoying a surplus.

Figure 6: Ruble dynamics vs. CA surplus and capital outflows, 2005-2013



Source: CBR, Bloomberg Finance LP, Deutsche Bank

Figure 7: Quarterly dynamics of Brent, MSCI EM, RUB/USD, period average, % yoy, 2005-2013



Source: Bloomberg Finance LP, Deutsche Bank

As regards January data, the Ministry of Economy estimates net capital outflow from Russia at USD17bn in January 2014. Given the seasonality of this indicator, outflows appear to be in line with previous years (USD17bn in January 2013 and USD16bn in January 2012). According to Economy Minister Ulyukhaev, this is related to an increase in FX assets in the banking sector. In addition, the population actively purchased currency in January, which contributed to the outflow. We now proceed to look at the sensitivity of Russia's economy to various scenarios of capital outflows.

Impact on the ruble

At this stage we see upside risks to our base case capital outflows scenario for 2014, which we set at USD30bn (see 'Russia-2014: nexus of growth and dividends' published on 12 December).

- Base case: Capital outflows moderate to a level of USD30bn from USD62bn in 2013.
- Scenario 1: Capital outflows intensify to USD60bn, the level of 2011-2013.
- Scenario 2: Capital outflows intensify beyond the average levels of the past several years, namely to USD100bn.
- Scenario 3: Capital outflows resemble 2008 and reach USD130bn.

Our analysis implies that capital outflows of USD60bn would prompt a surge in the RUB/USD rate to a year-average of RUB/USD36.2, while much higher outflows of USD100bn could lead to an average of RUB/USD39.1.

Figure 8: Impact of higher capital outflows on RUB/USD, scenarios

| 2014 | Cap. outflow, USDbn | Impact on RUB, % | RUB/USD, pavg | RUB/EUR, pavg |
|------------|---------------------|------------------|---------------|---------------|
| Base case | 30 | 8.9 | 34.0 | 44.20 |
| Scenario 1 | 60 | 11.9 | 35.6 | 46.25 |
| Scenario 2 | 100 | 19.8 | 38.1 | 49.52 |
| Scenario 3 | 130 | 25.7 | 40.0 | 51.97 |

Source: CBR, Bloomberg Finance LP, Deutsche Bank estimates