Russia

SUPPLY-SIDE DRIVE

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The government has published its definitive policy programme for Putin's new term. Regardless of its chances of ultimate success, this investment-led growth agenda conditions the Russian investment environment. Our wide-ranging survey focuses in particular on two key policies: the pension investment plan (Individual Pension Capital – IPC) and, above all, the innovative exchange rate management feature of the fiscal rule (shorthand: FXFR) – including a modelled analysis of its effect on the oil price/USDRUR correlation.

- A single dominant theme underlies the whole agenda: the core aim of increasing the potential rate of growth produces a strong policy bias in favour of the supply side at the expense of domestic consumption.
- This cardinal feature applies across the board and in all time horizons.
- IPC, shifting increments of take-home pay into long-term savings, exemplifies the longer-term outlook.
- In the here and now, FXFR is already having the desired strategic effect of stabilizing the real exchange rate of the ruble while tactically helping to absorb sanctions shocks – tilting the burden onto the domestic demand side while providing further support to the supply side.
- The economic feel-good factor will be in short supply right up to the 2021 Duma election: this spells risks ranging from geopolitical adventurism to – and more plausibly – a relapse into fiscal pump priming.
- Present policy settings are highly favourable for the domestic debt capital market while the sector winners will be infrastructure-related and tradables across the board.

Worthwhile reading

The policymaking exercise around this year's start of a new six-year political cycle was completed this month with the publication of the Government's strategic plan. This document – entitled *Main Lines of Government Action* – reaffirms seven "national development goals" and sets out detailed policies to attain them. Those goals were initially defined by President Putin in his annual 'state of the nation' address last March. That agenda got its first systematic outing in the inaugural decree of Putin's new term – the "May decree", which additionally mandated 12 national projects as the core framework for pursuing the strategy. The government also followed up on this front last month by issuing detailed documentation on those national projects.

The stage is thus set for action – in fact, policy action is underway. The initial highlights have been the pension age increase and the hike in the main rate of VAT from 18% to 20%. No surprise here: these measures were clearly signalled in advance (though not drawn to the attention of the voters ahead of the presidential election last March). The importance of "hitting the ground running" was Putin's stated rationale for re-appointing Dmitry Medvedev as prime minister and limiting the government reshuffle to the replacement of a few underperformers by figures with stronger credentials and track records.

With the implementation campaign already unfolding, there may seem little point in poring over the latest and final raft of policy programme documents. As is only to be expected, they merely play back, in a more detailed and structured form, the agenda previously set by Putin. Nevertheless, there are two good reasons in our view for paying attention to these written programmes.

- Some of the detail is interesting and relevant for financial markets and the Russia investment case.
- The second, and more important, reason points in the opposite direction – in the sense of the need to look through all the detail and thereby grasp the underlying strategy.

A standard hazard of dense detail is to obscure the important broader picture. In this note, we address this problem of "failing to see the wood for the trees". With the Putin administration's programme fully formulated, now is a good time to step back from the detail and take stock of the chosen ways and means of attaining the long-standing strategic goal of establishing a new investment-led growth model designed to raise potential growth on the basis of sustained productivity gains.

Those ways and means – i.e. the policy environment – have taken definitive shape. The improved visibility stems to a considerable extent from the practical policies which started to be implemented in response to the shocks of 2014 and which have since intensified – especially, as already noted, after the start of Putin's new presidential term last May. Much of the necessary insight can therefore be had from interpreting policy decisions and data rather than parsing wordy programme documents.

That certainly goes for the coordinated macroeconomic policy framework comprising the new fiscal rule and inflation-targeting monetary policy with a 4% target. These cornerstone macro policies get only a brief mention in the government's 100-page *Main Lines* document. Lengthy sections deal with demography, increasing real incomes and pensions, housing, innovation and the digital economy before finally getting to the heart of economic policy. On reaching that point, the document re-states the headline economic goal – for Russia to rank among the world's five largest economies thanks to a sustainable growth rate above the global average – after which, we read simply that this goal will be pursued in a manner consistent with maintaining macroeconomic stability and 4% inflation. Reading on, however, we find that this written programme document casts some new – or, at least, brighter – light on a big policy picture that amounts to a concerted drive to boost the supply side of the economy.

Delving into details

The table below highlights some details from the sections of the government's new programme documents dealing with economic policy. This selection, which will lead back to our main theme – i.e. the supply-side focus of economic policy, serves up-front as an illustration of freshly formulated measures that would be positive for potential growth and Russian markets if implemented.

We also rank policy agenda items by practical credibility. As for the prospects of implementation, the table also shows what we regard as the decisive factor: the extent to which the ground has been laid for one or another measure – both in a political sense and, equally important, by means of thorough preparatory work by officials.

Agenda examples: Low credibility

The worst prospects apply to plans that are not just poorly prepared but fly in the face of present politics and practice (left column of the table). We highlight the policy commitment to reduce the state presence in the economy as a topical example since the week following the publication of the government's *Main Lines* document saw the controlling stake in Novorossiysk Sea Trade Port passing into the sole ownership of Transneft, while VTB announced the closing of its acquisition of Vozrozhdeniye Bank. Against this unpromising background, the best that can be said is that there is room for pleasant surprises. The granular approach shown in the table concerns hundreds of small regional state-owned JSCs and "unitary enterprises" where privatizations might progress 'below the radar' in political terms.

"Main Lines" highlights

	"Anti-groundwork"	Coherent concept, but lacking credible preparation	Strong credibility
Granular measures	10% p.a. reduction in the number of enterprises with state shareholdings	Regulation: Risk-based approach replacing rigid prescription; remote e-surveillance vs physical inspections	Easy-tax regime for self-employed and micro-firms
	Privatizations by e-auctions	Audit of all red tape pre-dating 2010	
Grand projects	[ELOQUENT SILENCE ON BREAKING UP SOEs]	Infrastructure financed by the new Development Fund (0.5% of GDP p.a.): Project selection criteria	NEW PENSION INVESTMENT PILLAR ("IPC")

Source: government.ru, TS Lombard

The lacuna here – hence the negative red flag – is the disappearance of any explicit major SOE privatization plans. Here again, this does not rule out pleasant surprises, such as, one fine day perhaps, an initiative to unbundle Gazprom. For now, however, a more constructive trend can be spotted below the surface. Even before any wholesale SOE unbundling, private investment opportunities are forming as several state monopolies – e.g. rail freight, heating and water utilities – are becoming more market based. Examples here include the divestment of businesses belonging to the state railways that have nothing to do with the infrastructure monopoly, and the introduction of a RAB framework for returns on investment in heat generation and distribution.

Agenda examples: Grey zone

The items in the middle column of our table are well established on the policy making agenda. For now, however, there are no credible solutions to perennial bureaucratic problems. As regards the illustrated 'granular measures' designed to tackle the army of officials with regulatory enforcement powers preying on businesses, the problems in question are laid bare by the long record of unavailing efforts to rein in that rent-seeking machine. Moving up to the level of major new policy initiatives, similar doubts apply to the capacity to allocate efficiently the planned material public funds earmarked for large infrastructure projects, mainly in transport. While the framework for project selection has been greatly improved, with requirements to demonstrate positive NPVs and compulsory private sector co-investment, scepticism remains in order as the usual lobbyists will be pressing their pet schemes.

Agenda examples: Green light

As for the more carefully prepared agenda items that offer the best implementation prospects, our 'granular' illustration offers proof of concept in the sense that the relevant enabling legislation was passed by the State Duma this month. The reform now launched as a pilot project in four regions provides for micro-businesses to be taxed at source at a rate of 4% or 6% of their turnover (depending on whether they are physical or legal persons) with no other dues to pay except compulsory health insurance.

The 'grand project' exhibit in this 'well-prepared' column is central to our entire theme – i.e. the new 'Individual Pension Capital' (IPC) scheme. We have long been flagging the importance of this reform of the investment pillar of the pension system based on employee contributions into individual pension investment accounts. As well as being a core component of the financing needed for a successful investment-led growth model, this reform has more down-to-earth relevance for investors given its potential to deepen and enlarge the domestic capital market. The groundwork has been painstakingly laid since 2015 and informal guidance from the Finance Ministry and CBR (twin architects) has been for the enabling legislation to be put through the State Duma in time for the scheme to go live in January 2020. Until now, the IPC initiative has never appeared as a formal commitment. The fact that it does so now in the government's "Main Lines" programme is sufficient in itself to make the publication of this document a noteworthy event as far as the Russian investment case is concerned.

Stepping back to view big picture

All that detail is part of an overarching supply-side strategy. Alongside the IPC highlight, our other selections from the new government programme are representative of the growth strategy of promoting productivity-enhancing investment (along, of course, with technological innovation, which itself is to a large extent investment-dependent). Given Russia's adverse demographics, there is no alternative path to sustainably higher growth.

That said, policy is pushing back against the demographic headwind. Aside from boilerplate commitments to increase skilled immigration, a substantial contribution on this front has come from this year's flagship policy of increasing the pension age. Most public discussion of this reform focuses on its fiscal rationale: but the labour input angle is equally important. In its latest quarterly monetary report, the CBR estimates that the labour increment from this reform will add 0.1ppt to GDP in 2019 and 0.2-0.3ppt in 2020-21. While useful, this contribution is still marginal: there is no available extensive growth model.

As this example of the pension age increase shows, the focus on FAI is not myopic. Another goal that illustrates this point is to boost TFP in areas not linked to new investments.

The centrepiece here is a programme of engagement with 10,000 industrial firms on ways to enhance labour productivity.

The heart of the matter, however, remains an increase in the quantity of FAI (from 20% to 25% of GDP by 2024) – and its quality. The two textbook preconditions for bringing about any such surge in investment are (I) a more attractive risk-reward balance and (II) adequate funding. Looking at the prospects for these preconditions brings us to the main focus of this note – that is, the fundamental strategy that underlies all the detailed policy planning.

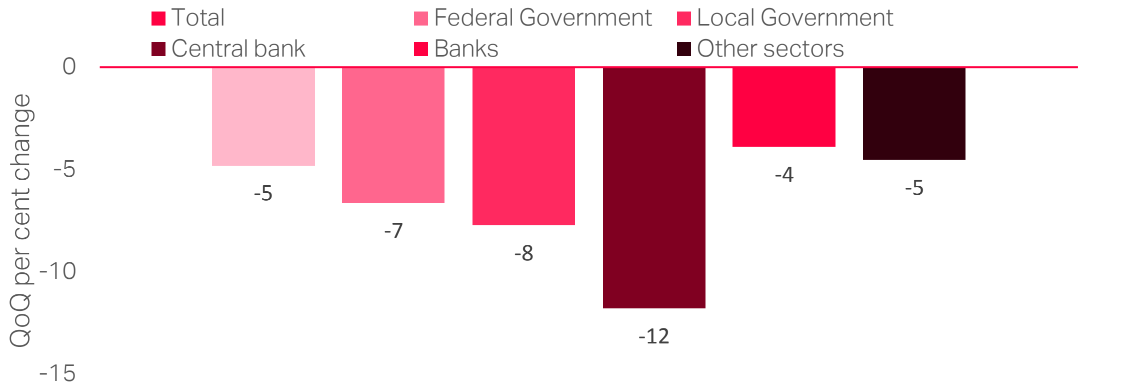
Adequate funding: IPC building on well-laid foundations

IPC is the central building block for this part of the growth strategy. This mobilization of savings into long-term pension investments should be seen, in turn, as part of a wider picture of support for national savings flowing from the inflation-targeting monetary policy framework. We took a detailed looked at this financial deepening story in a report published last August (The local bid).

Since then, a notable milestone in financial deepening has been passed with data for Q1-3/18 showing that domestic pension funds' share in the OFZ market (up from 24% to 37%) has overtaken non-residents (down from 36% to 26%). Another signal is the Economy Ministry's sector-based FAI plan unveiled on 24 October. This envisages a steady contraction in the state share of FAI (from 15% in the last political cycle down to the 12% in the cycle now starting) – increasing the importance of private savings for the financing of investment.

Intensive deleveraging

Debt reduction in Q2/18



Source: CBR

Once fully rolled out by the middle of the next decade, the IPC scheme will be mobilizing funds equivalent to 0.5% of GDP per year. This policy strategy of tapping domestic savings to finance investment-led growth includes the de-dollarization of the financial sector as part of the wider stability agenda including reduced exchange rate volatility. Sanctions reinforce this trend. The most recent debt data show sharp deleveraging in Q2/18 (see chart above) – especially, as revealed in the latest BoP data, on the external side.

Risk-reward: Focus on the second 'R'

Previously policy efforts have focussed more on the 'risk' side. The goal of getting to an investment-led growth model was proclaimed at the start of the last political cycle in 2012. Back then, the stated ambition was to raise the investment rate even higher (to 27% of GDP compared to a 'mere' 25% in the new programme for 2018-24). The difference with today is that the associated policy armoury back then was patchier.

For the crucial purpose of improving the risk-reward balance, the key policy action in the previous cycle focused on the risk component. This took the form of a big initiative to improve the business climate. Putin seized on the World Bank's annual *Doing Business* survey as an accountable metric, and Russia rose from 120th place out of 190 countries in the 2012 ranking, to 35th by 2018.

Impressive in itself, this achievement had two catches. First, there is much more to real business risk than can be captured by *Doing Business*. Improving survey scores co-exist with deterioration in several important aspects and effects of corruption – such as state mafia shake-downs of business. Second, and more important, policy has paid insufficient attention to the 'reward' side of the balance.

The single most important contribution to filling this gap has come from what we regard as the champion policy innovation in the macroeconomic sphere. This is the FX market intervention mechanism in the new, $40/bbl-based fiscal rule. Along with IPC, the development of this policy has been a constant focus of our Russia research since last year. As such, a convenient shorthand is overdue. We go for FXFR (i.e. the exchange rate feature of the fiscal rule).

For the sake of accuracy, we must note up front that our focus on FXFR is designed to aid understanding of the overall policy environment as opposed to being a comprehensive description of policy. Properly viewed, FXFR is not some kind of extraneous exchange rate gadget but rather an integral component of the fiscal rule which, itself dovetailing with inflation-targeting monetary policy, comprises a system of fundamental stabilisers for the fiscal side and the real sector. So, for example, the parts of the fiscal rule that limit budget spending also play an important role in creating the conditions for investment-led growth – by helping to reduce exchange rate volatility and real interest rates. FXFR may, however, be viewed as a 'cutting edge' of policy – and as such it offers a good perspective on the wider picture.

FXFR breakthrough

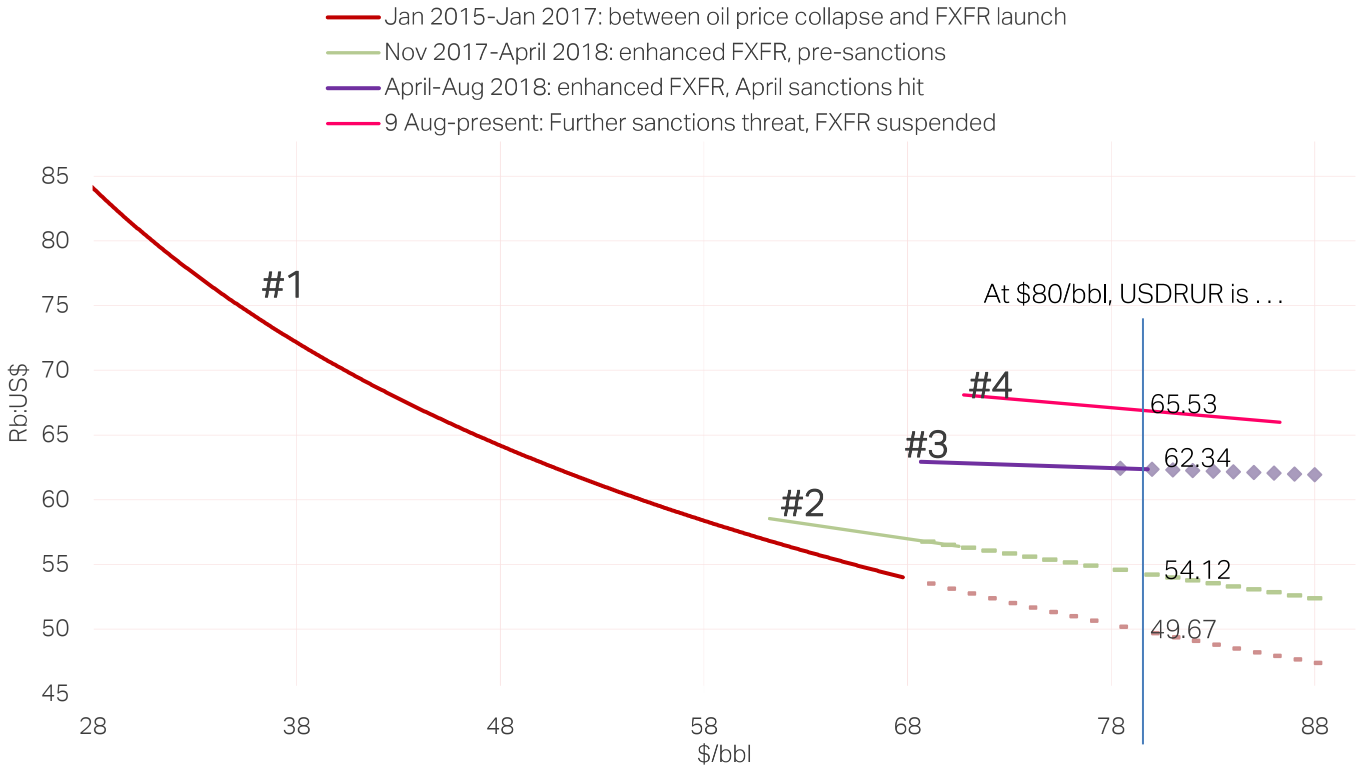
While we highlight FXFR alongside IPC as breakthrough reforms, FXFR differs from IPC in a couple of important ways. First, whereas IPC is still for now a plan awaiting implementation, FXFR has been up and running since February 2017. Second, FXFR does not feature in any government programme documents for the simple reason that, as part of the fiscal rule already formally adopted, it is an established policy. For analytical purposes, this makes for a nice coincidence: the government's definitive future policy plans have appeared at the very moment when the track record of its major previous policy move (FXFR) has become long enough to permit a preliminary verdict on its effectiveness.

This verdict is displayed in the chart below. Our exhibit shows the results of a single-factor modelling exercise based on regressions showing how much of the variation in the ruble exchange rate can be explained by changes in the oil price. (For the purpose of this exercise we have ignored the USD/oil price correlation factor, as these variables have – unusually – been moving in unison during the past few years; and, as regards the USD-denominated oil price variable, we have not taken account of US inflation since Russia's fiscal rule already incorporates this factor.)

The effect of FXFR is captured by the contrast between the long red curve (labelled #1) – covering the two-year period between the oil price collapse and the introduction of the interventions mechanism in February 2017 – and the other lines (#2, #3 and #4) for more recent periods.

Our exhibit clearly demonstrates two key differences between the pre-FXFR (#1) and the rest. The more recent curves are (a) flatter and (b) have shifted upwards. At this point, we need to dig a bit deeper into these two changes.

USDRUR/oil price correlation
FXFR is working



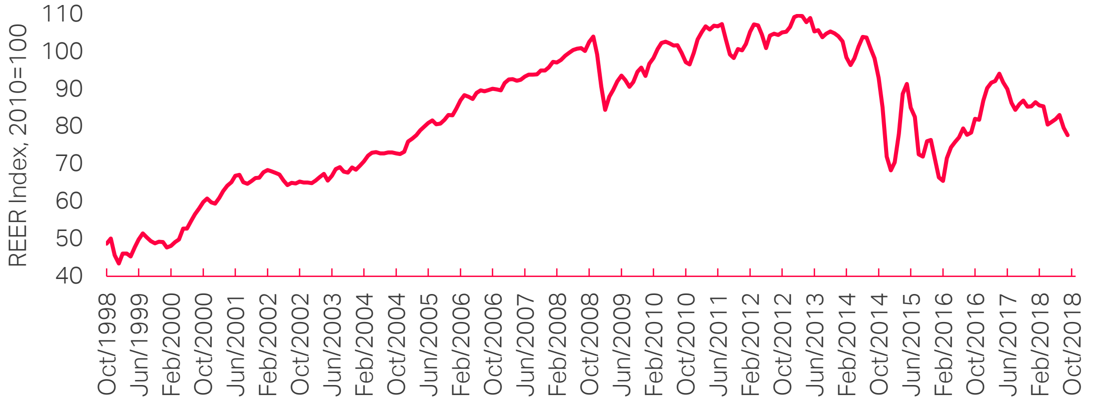
Source: Bloomberg, TS Lombard

Ruble more sheltered from oil price – the 'reward'

The flattening slopes reflect the central effect of the FXFR in sharply reducing the correlation between the oil price and the nominal ruble exchange rate. The R-squared outputs from the regression analysis fall from 0.83 for the pre-FXFR (#1) period to just 0.02 in the period this year between the April sanctions shock and the renewed sanctions threat in August (#3). This material change results from an important refinement of FXFR introduced at the start of this year. This refinement – changing the basis for determining the scale of the FX market interventions – has enhanced the effectiveness of FXFR in stripping out the influence of oil price changes on the exchange rate.

Here we see what matters most about FXFR for the economy and the growth strategy: it works to stabilize the real exchange rate. In particular, FXFR helps prevent the kind of sharp real ruble appreciation seen in previous episodes of high oil prices. The REER chart below brings out the contrast with the previous decade when the Russian economy caught a bad dose of 'Dutch disease': with the ruble appreciating so strongly in real terms, the profitability of the oil and gas sector survived thanks to high oil prices (and fuelled a domestic consumer boom), but other tradable sectors – despite potential comparative advantage – were priced out by the strong ruble. Now, by contrast, FXFR is boosting the competitiveness of tradable sectors. The resulting wider range of profitable opportunities – and more attractive business investments – amounts to the main policy contribution to boosting the 'reward' side of the risk-reward balance. (For the sake of completeness, we should add that FXFR – and the wider fiscal rule – also support the 'reward' side simply by reducing the volatility of the exchange rate.)

Ruble REER (CPI-based)
Broad indices, monthly average



Source: BIS

The policy has solid scientific backing. The well-educated economic policymakers in Moscow must have absorbed academic economists' findings on the harm/benefits to productivity and growth from REER over/undervaluation. We have come across, in an unpublished academic paper, this summing up which is highly relevant to Russia (even though the paper itself is about Latin America and Europe):

A stable and competitive REER should be an intermediate target to help investment in tradables, productivity, growth and labour intensity with capital substitution in countries where capital goods are mostly imported. [1]

Ruble more exposed to other factors: sanctions

Turning now to the second main contrast between the curves in our main exhibit on the effects of FXFR – the upward shift in the later curves: this reflects the extent to which the reduced sensitivity of the ruble exchange rate to the oil price increases the importance of other exchange rate drivers. That, in practice, means this year's US sanctions hits and threats.

Sanctions cause capital outflows – such as non-resident investors selling OFZs – that weaken the ruble. As shown in the captions on the chart on the previous page, with the oil price at its recent high level of $80/bbl, the resulting ruble appreciation would, without FXFR, have broken through the Rb50:$1 mark (curve #1). With FXFR, but before this year's sanctions shocks, the ruble would not have strengthened so much (only to Rb54:$1 – curve #2). The first sanctions shock in April would – on its own – have produced, in the FXFR environment, a ruble exchange rate of Rb62.3 with oil at $80/bbl (curve #3). As a result of the threat of still more serious sanctions since August, the ruble has weakened further despite this high oil price – to its present level of Rb65-66:$1 (curve #4).

The FXFR policy now also 'works' through postponement. That curve #4 would be higher still were it not for the decision in August to suspend the FX market interventions under FXFR. At the same time as it hiked rates in mid-September, the CBR announced that this suspension would be prolonged until year-end. Notice that as a result, curve #4 is less flat than curves #2 and #3: in other words, the FXFR suspension has partially reversed the trend of the growing ruble insensitivity to the oil price.

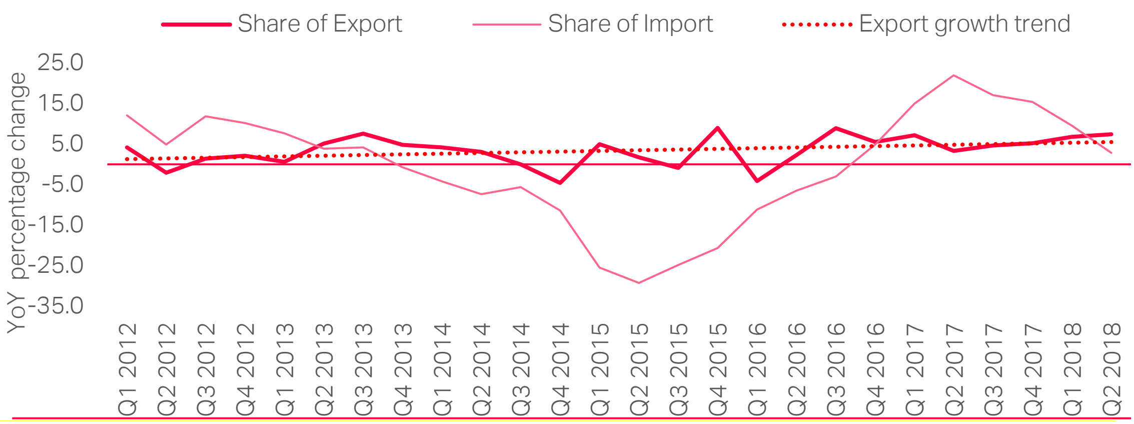
The rationale for this reversal is to avoid exacerbating ruble volatility and, therefore, inflationary pressure. The decision on FXFR postpones, rather than abandons, the ruble interventions called for under the rule. The CBR says that it will catch up on these interventions –

[1] Bagnai, Biagetti and Caram: *Real Exchange Rate Misalignments and Productivity Growth* (forthcoming)

in its own time (i.e. starting at some point after January 2019) and at its own pace – once the situation is calmer. The market believes this: otherwise, curve #4 would have shifted still lower (i.e. the ruble would have been stronger). The counter-inflationary motive for this pragmatic step on FXFR was heightened by the self-reinforcing effects of this sanctions-driven ruble weakness. The soft ruble and higher rates have been encouraging companies to de-lever. When the deleveraging is external, this increases capital outflows – intensifying downward pressure on the ruble.

It is worth pausing here to take a closer look at how, in this sanctions environment, FXFR reinforces the overall supply-side bias of policy. This works through the BoP. In its present refined form, FXFR absorbs about two-thirds of the oil-driven current account surplus. When a sanctions shock triggers capital outflows, there is therefore less available current account 'funding' for those outflows, so the adjustment comes through nominal depreciation and import compression as consumers turn to domestic substitutes for imports (see chart below). At the same time, that domestic consumption continues to be restrained by tight – in fact, as seen last month, tighter – CBR policy. In short, FXFR tilts the burden of absorbing sanctions shocks towards the domestic demand side while supporting the supply side by further boosting exchange rate competitiveness.

External trade shares in GDP



Source: Rosstat

Consumption compression

This close analysis of the FXFR in action amid recent sanctions shocks highlights a general consequence of this whole growth strategy: it crimps domestic consumption. This feature does not depend on sanctions. It is, rather, intrinsic to the model. Long before the success – or otherwise – of this supply-side drive to increase Russia's growth potential becomes apparent, investment strategies in Russia will have to take account of this policy bias against the consumer.

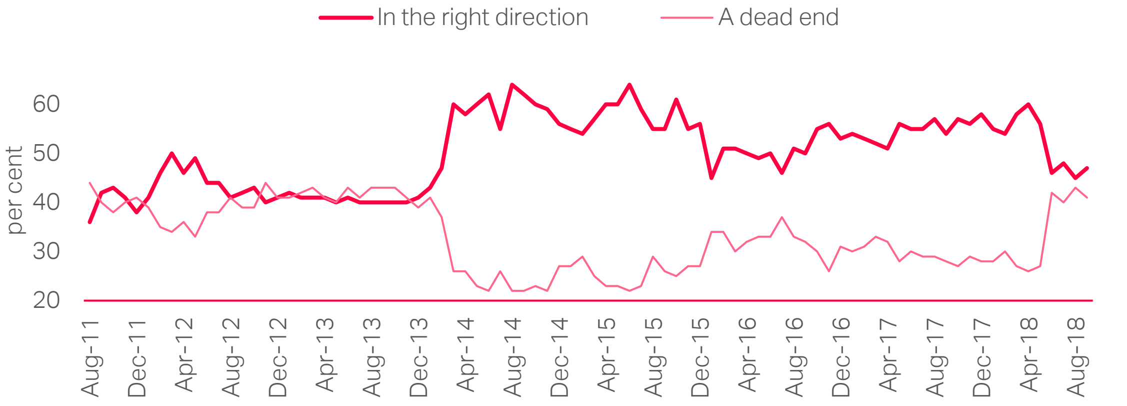
This outlook of compressed consumption applies on all time horizons. The obvious example for the longer-term is IPC, which will reduce take-home pay by increasing increments throughout the first half of the next decade. We have noted how sanctions effects such as external deleveraging and less FDI sharpen the imperative – in any case inherent in the strategy – to mobilize domestic savings. This bakes in the policy bias in favour of savings rather than consumption.

The short-term outlook is stark. The back-up in inflation – aggravated by sanctions – will depress consumption, especially at the start of 2019 when the VAT hike will kick in. It is worth recalling the fiscal policy strategy underlying that VAT hike. While consumers will feel the resulting higher prices, the counterpart tax relief – abandoning a previously programmed hike in payroll taxation – will benefit firms rather than households. Here, once again, we see the supply-side drive in action – in this example, the 'drive' is focused on supporting investment by reducing industry costs. Very few planned spending increases will go into consumers' pockets. With only a few exceptions (in health care and education), public sector wages will be frozen in real terms next year. The main spending increase will be the start of the debt-financed infrastructure build – a pure supply-side move. In its latest quarterly monetary report, the CBR predicts for next year a 1.4ppt reduction in the growth of final consumption expenditure.

Too much to ask of the 'man in the street'?

The pension age increase has already wiped out the 'Crimea' premium in Putin's public approval rating. This shift in the public mood has already had a 'real-world' effect in the defeat of four incumbent (i.e. Kremlin-selected) governors in last September's annual batch of regional elections. A particularly revealing indicator in our view is the long-standing Levada Center survey on the public's overall sense of the state of the country. The latest reading shown in the chart below shows the erosion of large 'positive' lead caused by the annexation of Crimea.

Where is the country heading?



Source: Levada Center

The slight uptick in the 'positive' view in September probably reflects Putin's intervention to soften some aspects the pension age increase. But the trend points to a return towards the situation in 2013 when pessimists outnumbered optimists. The strategic settings of government policies reviewed in this note will support that negative trend.

The next big political challenge falls half through the new six-year political cycle: the national parliamentary (State Duma) election due in September 2021. Judging by the government's own forecasts, the economic feel-good factor will by then have been in short supply. Growth is expected to slow next year towards 1%, quicken somewhat in 2020 back to this year's rate of close to 2% – before finally breaking out in 2021 towards 3%. Even on the optimistic assumption that this forecast proves accurate, the background to the 2021 election looks set to be largely stagnant living standards. Any tangible rewards from the supply-side growth strategy will remain in the future.

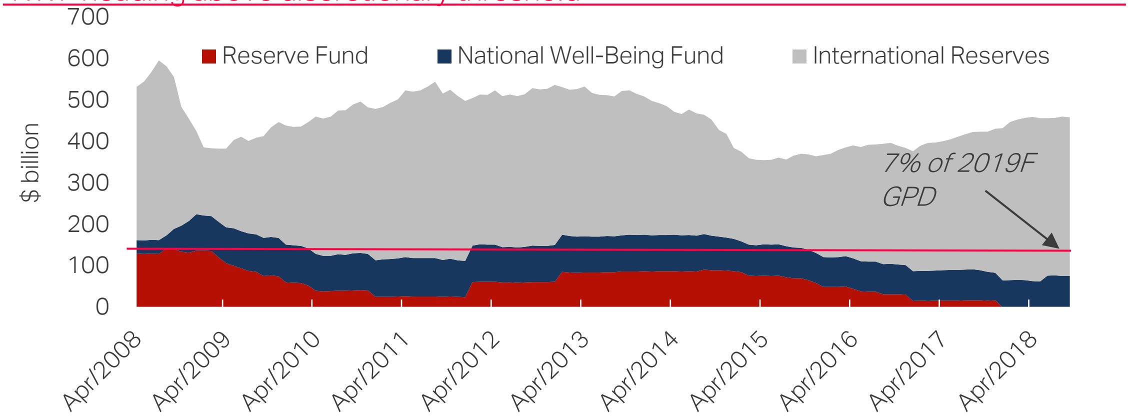
While the main political risk in Russia remains the succession to Putin in 2024, this analysis points to a nearer-term risk. Were the Kremlin to decide between now and the 2021

Duma election that public disenchantment posed a threat to stability (i.e. the stable hold on power of the Putin establishment), two kinds of response can be imagined.

- The first, and more speculative, is **geopolitical**. Inspired by the example of the political effect of the Crimea episode, this school of thought holds that Putin would seek to revive that euphoric moment by means of some new geopolitical gambit. We see Putin as reactive and opportunist rather than a rash adventurist. On that reading, this type of risk would arise by chance rather than design: but such chances can easily happen – just like sequence of events in the 2013-14 Ukraine crisis – and perhaps all the more easily in the present environment of elevated geopolitical tensions.
- The second, and more plausible, risk would involve **compromising the economic strategy** described in this note. The obvious decision in this scenario would be a pro-consumption fiscal loosening. The most plausible route for this may be to spend domestically all or part of the 'excess' funds in the National Welfare Fund above the 7% of GDP buffer laid down in the fiscal rule. That threshold – shown in the chart below – will be passed next year. Present policy calls for the prospective excess to be spent abroad – either by accumulating further liquid reserve assets or by using these resources to fund export credit loans. One possible exception to this rule mentioned so far by the government is yet another recapitalization of VEB. Even that, however, would be a supply side oriented placement. The first sign of a serious policy shift would be a decision to used NWF resources to boost household consumption.

Reserves recovery

NWF heading above discretionary threshold



Source: CBR

Investment conclusion

This review of the overarching policy strategy for Putin's final term has focused on IPC and FXFR as two crucial elements. Those key policies have echoes of the textbook (Asian) emerging market export-oriented growth model founded on the twin planks of exchange rate manipulation and financial repression. Such echoes are even useful in underlining how Russia has now – at last – come up with a pretty coherent strategy policy mix.

'Asian' echoes do not, however, reflect Russian realities. As regards FXFR, the mechanism does comprises the sterilized local currency FX market interventions that characterized the period of epic exchange rate manipulation in China (and other countries). Yet it remains a far cry from that Chinese model. This Russian approach is much more narrowly targeted – at removing the specific REER distortions stemming from the size of Russia's oil industry. Policy aims at a stable – as opposed to chronically undervalued – real exchange rate. For instance, one corollary of the core productivity growth goal is affordable capital goods imports.

Turning to IPC, the clear idea is for the bulk of these pension investments to be directed at the domestic market. We expect this to be achieved as much by suasion as by explicit regulation – and, of course, the ambition that returns on domestic assets should be highly competitive. Here again, (typically Asian-style) financial repression is absent. The main reason is that Russian monetary policy is now credibly committed to positive real interest rates.

These reflections serve to reinforce the conclusions that we have already highlighted in the course of the analysis. Russia now has a serious growth strategy expressed in policies tailored to the country's specific circumstances. The resulting prospect for years to come – and starting very much from early next year – is one of restrained consumption for the sake of boosting supply-side investment. That, however, assumes the policy framework holding firm despite the prospect of increasing public disenchantment. Of all top-down drivers for Russian investing, this last point is the one to watch.

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