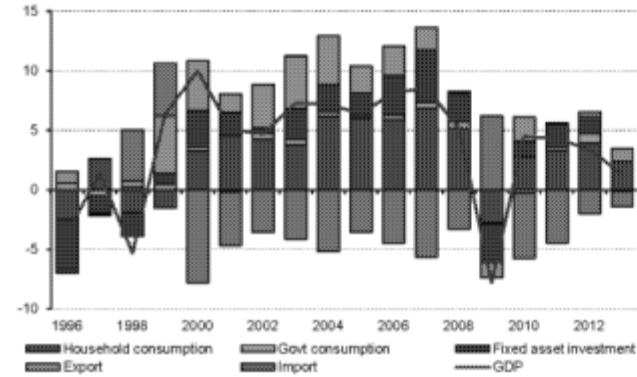




Impact on growth

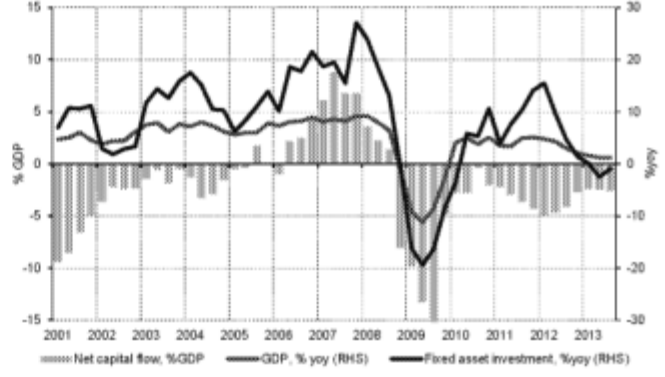
In terms of the impact on growth, capital outflows will undermine investment activity with the funds taken off-shore rather than invested in new production facilities. The uncertainty over the political and economic situation in Ukraine as well as concerns over possible sanctions imposed on Russian businesses could further exacerbate costs.

Figure 9: GDP growth and its components' dynamics, 1996-2013



Source: CBR, Bloomberg Finance LP, Deutsche Bank

Figure 10: Dynamics of real GDP, fixed investment and net capital outflows, 2001-2013



Source: Rosstat, CBR, Bloomberg Finance LP, Deutsche Bank

We base our analysis on the same capital outflow assumptions that we used in the previous section:

- 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, to USD100bn.
- Scenario 3: Capital outflows resemble 2008 and reach USD130bn.

In Figure 11 we illustrate the impact of higher capital outflows on GDP growth. The 'direct impact' column illustrates the first-round effect from higher capital flight, while the 'impact' column also accounts for some second-round effects and the resulting improvement in the CA balance.

Figure 11: Impact of higher capital outflows on GDP growth, scenarios

	Cap outflow, USDbn	add'n to base case, USDbn	add'n to base case, % GDP	Impact on GDP, pp	GDP, % yoy	Direct impact, pp
Base case	30				2.4	
Scenario 1	60	30	1.4	-1.0	1.4	-1.4
Scenario 2	100	70	3.3	-2.3	0.1	-3.3
Scenario 3	130	100	4.7	-3.3	-0.9	-4.7

Source: CBR, Bloomberg Finance LP, Deutsche Bank estimates

Our analysis suggests that capital outflows of USD60bn would prevent the Russian economy from staging a significant acceleration this year, with annual growth of 1.4% yoy vs. 1.3% yoy in 2013, 3.4% yoy in 2012 and 4.3% yoy in 2011.