**EMBASSY OF INDIA**

**Economic & Commercial Wing**

**Moscow**

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**ECONOMIC AND COMMERCIAL REPORT FOR THE RUSSIAN FEDERATION FOR THE MONTH OF MAY 2015**

**I. INTERNAL**

* **Russian Economy**
* According to the Russian Economic Ministry the average USD exchange rate at 50–60 Rubles in 2015, lower than 60 rubles predicted earlier. The ruble strengthened by over 22 rubles, or about 30%, against the U.S. dollar as of mid-April compared to late January. Since then, the ruble has stabilized at 49.5–52.5 rubles against the U.S. currency.
* The Russian economy may see a less pronounced contraction in 2015, as compared with an earlier forecast implying a 2.8% downturn. As per the data released by the Federal State Statistical Service the first quarter date a 1.9% contraction in gives reasons for a more positive GDP appraisal in 2015. Further, as per Russian Finance Ministry’s forecast, inflation has stood at 11% for quite a long time, and final inflation may be close to 10.5% in 2015.
* Russia’s gross domestic product (GDP) will shrink by 3.5% in 2015, the European Commission said in a statement, confirming an earlier forecast. The Russian economy will start rebounding in 2016, with GDP rising by 0.2%, the European Commission said, also confirming its previous estimates. However, according to the Russian government’s latest forecast, the economy will fall 2.8% in 2015 but will rise 0.6% in 2016.
* Russian finance ministry has decided to boost Reserve Fund by 402 billion rubles by redirecting the windfall energy revenues to the Reserve Fund, which protects the budget against falls in oil prices. Meanwhile, the National Wealth Fund, designed to secure the country’s pension system, has decreased to 3.946 trillion rubles from 4.347 trillion rubles.
* Deposit Insurance Agency (DIA) is likely to inject 527 billion ruble OFZ money in 8 banks. The money will be placed within Gazprombank, VTB, Russian Agricultural Bank, Rossiysky Capital and four banks that were hit by the Western sanctions – Bank Rossiya, SMP Bank, Sobinbank and Russian National Commercial Bank. The funds will be included in the banks’ tier 1 capital.
* Russia’s federal budget deficit amounted to 995.79 billion rubles in January–April, or 4.4% of gross domestic product (GDP), the Finance Ministry said in a statement citing preliminary data. Revenue amounted to 4.548 trillion rubles and spending amounted to 5.544 trillion rubles in the period. The Federal Tax Service collected 2.456 trillion rubles for the budget in the period, the Federal Customs Service collected 1.568 trillion rubles, the Federal State Property Management Agency collected 9.3 billion rubles, and other federal agencies collected 514.237 billion rubles.
* **Some of the other major macroeconomic parameters were as follows:**
1. Russia’s consumer price inflation index (CPI) amounted to 0.5% in April and reached 7.9% since January 1, while annual inflation fell to 16.4% from 16.9% in March, as per the Federal State Statistic Service.
2. Russia’s Federal Customs Service contributed 354.49 billion rubles to the federal budget in April, down 45.1% on the year, the authority said in a statement. In January–April, the service contributed 1.568 trillion rubles to the federal budget, down 31.6% on the year.
3. Ministry says Russia’s housing construction rises 33% in January–March Housing construction in Russia increased 32.8% on the year in January–March, Housing and Utilities Minister Mikhail Men said at conference.
4. Russia’s foreign exchange and gold reserves fell by 0.1% in April to U.S. $356.005 billion as of May 1,2015.
5. Russia’s potash fertilizer exports rose about 60% on the year to 3.947 million tonnes in January–March, as per data released by the Federal Customs Service.
6. Russia’s wheat exports fell to 1.481 million tonnes in the period from February 1 to April 29 from 3.572 million tonnes in the same period of 2014.
* **Privatisation**
	+ - * Russian President Vladimir Putin has signed into law a bill allowing private oil companies to develop fields in the Baltic Sea. Earlier, companies could not do so because of a law on shelf field access limits adopted in 2008. “The federal law guarantees giving these entities a right to explore and develop parts of mineral resources at the fields that were discovered as a result of geological exploration works on the parts of mineral resources of federal significance located in the Baltic Sea if the right of use of such parts for aims of their geological exploration was given before the named federal law entered into force,” the Government statement said.
			* The Russian government has not chosen the way in which it will privatize the 19.5% stake in oil major Rosneft, Economic Development Minister Alexei Ulyukayev told reporters. “There are no concrete decisions on privatization of Rosneft. This is why, I cannot say whether the government tends to sell the stake to a strategic investor or not. The government has not made any decision in this respect,” he said.
* **Industry and Trade**
* The Russian government has cancelled a wheat export duty. “A decision has been made to abolish an export duty on wheat,” the government statement said. The Agriculture Ministry recently proposed to abolish the duty from Friday and create a new formula of payment for wheat exports, under which the minimum export payment will stand at 1 euro, while the maximum rate will be defined depending on market situation. The new formula will take force on July 1, a spokesperson for the Agriculture Ministry said, adding that various options were being discussed at the moment..
* Russia may reach full milk import substitution in 7–10 years Russian domestic producers of milk and dairy products may satisfy the national demand in 7–10 years at the earliest, Agriculture Minister Alexander Tkachyov said in an interview with Rossiya 1 TV channel. “As for such kinds of foods as pork, poultry, we will fully satisfy demand (for them) by national production during two to three years. As for milk, dairy cattle production, the situation here is more difficult, as the subject is more neglected. It will take about 7–10 years upon condition of significant funding and subsidies, according to our estimates,” he said. Russian Government aims at Import substitution targets in fruit and vegetable production during next three to five years
* **Energy Sector**
	+ - * Russian nuclear power firm Rosatom’s foreign orders portfolio increased by U.S. $34 billion to $101.4 billion in 2014 thanks to the construction of two units at the Busher power station in Iran, two units at Hungary’s nuclear plant Paks, and two power units of the Kudankulam nuclear power plant in India, as per company’s CEO Sergei Kiriyenko
			* Russia’s oil and gas condensate output rose 1% on the year to 174.843 million tonnes in January–April, 2015. Oil exports grew 5.8% to 79.491 million tonnes.
* Russia’s electric power output rose 1.4% on the year to 378.4 billion kilowatt-hours (kWh) in January–April, 2015.
* **Banking & Financial Sector**
* Economic Development Minister Alexei Ulyukayev wants depositors to bear 10% of risk. The Russian government must cut the amount of deposit reimbursement in case of a bank’s bankruptcy to 90% of the whole sum and make a depositor bear the remaining 10% of the risk, told reporters at a press conference.
* The Russian insurance market is unlikely to exceed 1.08 trillion rubles in 2015 and is expected to grow by 6–9% in the period, as per Mr. Igor Yurgens, president of All-Russian Insurance Association. The insurance market rose 9.2% on the year to about 1 trillion rubles in 2014.

**II. EXTERNAL**

**Brazil:** Rosneft, Russia’s largest oil producer, has taken control of an exploration venture in the Brazilian Amazon, on May 16, 2015 CEO Igor Sechin announced. Rosneft will hold 100% of two onshore oil and natural gas exploration leases in the Amazon’s Solimoes Basin after buying a stake from PetroRio. The deal is valued at U.S. $55 million and will be announced as early as Monday, one of the people said.

**BRICS**: The BRICS countries will start the discussion of Greece accession to the organization’s development bank at their summit in July, Russian Deputy Finance Minister Sergei Storchak told reporters. Earlier, Storchak invited Greece to become a member of the new development bank of the BRICS. “In accordance with the constitutional documents, the new development bank is open for any sovereign member of the United Nations. This is the whole position,” he said.

**China**: Russian President Vladimir Putin ratified an intergovernmental agreement with China on gas supplies through the eastern route, or the Sila Sibiri pipeline, on May 2, 2015. The agreement, signed by the two countries in October 2014, envisages relieving all imports for the construction of the pipeline’s section running across the Amur River of value-added tax and all customs duties and collections.

**Iran**: Russia may implement a barter deal with Iran to exchange grain for Iranian meat, fish products and cheeses, Alexei Alexeyenko, aide to the Federal Service for Consumer Rights Protection and Human Welfare Oversight’s head said. “During negotiations in Teheran we discussed an opportunity to exchange grain (from Russia) for meat or fish products, or cheeses (from Iran). This is a barter transaction,” he said.

**Kyrgyzstan:** Russia’s State Duma, the parliament’s lower house, ratified a Russian–Kyrgyz agreement on creation of a U.S. $1 billion development fund. Russia and Kyrgyzstan signed the agreement to create the fund, which will promote economic cooperation between the two countries, in November 2014. The fund’s charter capital of $500 million is being formed with funds of the Russian federal budget in 2014–2016. Russia transferred the first, $100 million tranche to the capital in December 2014 and will transfer $250 million in 2015 and $150 million in 2016.

**Vietnam:** Russian Prime Minister Dmitry Medvedev has signed an agreement on free trade between the Eurasian Economic Union and Vietnam, on May 25, 2015. By virtue of the agreement, tariff protection will be retained for products in the most sensitive branches of the national industries, while for the rest of goods, duties will be reduced or set at zero.

**III. BILATERAL**

* Ambassador P S Raghavan told reporters on May 22, 2015, that India is in active talks to buy Russia’s Ka-226T helicopters India is now holding talks over buying Russia’s Ka-226T helicopters. India is also discussing with Russia the possibility of opening a center for maintenance, repairs, and modernization of earlier acquired Russian helicopters. In May, media reported that India approved buying a batch of helicopters from Russia’s Kamov that would be produced in India.
* Russia plans to attract Indian companies to the development of the Arctic shelf, Yury Ushakov, aide of President Vladimir Putin, told reporters on May 6, 2015. “There are plans to engage Indian companies in the development of hydrocarbons deposits on Russia’s Arctic shelf,” he said.
* Russia’s Rosatom’s Deputy CEO Alexander Lokshin told reporters that Rosatom plans to launch the second unit of the Kudankulam nuclear power plant in India in June–August, 2015.
* **VISITS/EVENTS**
* At the invitation of President of Russia, President of India visited Russia from 7-11 May, 2015 and participated in the 70th Anniversary of the Victory Day. He was accompanied by Shri Manoj Sinha, Minister of State for Railways and other senior officials, including an academic delegation from leading academic institutions in India.
* Ambassador visited the Tomsk and Novosibirsk regions from 18-22 May 2015 as a part of Embassy’s initiative to reach out to the federal regions in Russia. Ambassador was accompanied by embassy officials and a business delegation interested in exploring trade and commercial opportunities in the respective regions. Ambassador paid a visit to the Imperial Energy plant in Tomsk region which is one of the major investments of ONGC Videsh Limited in Russia besides Sakhalin. Ambassador met with the Governors and Mayors of the two regions and also had business meetings with the Chambers of Commerce and interaction with the student from leading universities in the region.

 **Trade Inquires**:

* From India – 19
* From Russia: 3

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