



BLACK SEA TRADE AND DEVELOPMENT BANK

RUSSIA

Country Strategy

2019-2022

RUSSIA COUNTRY STRATEGY

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Table 1: Basic Macroeconomic Indicators at a Glance for RUSSIA

Key Long Term Foreign Currency Sovereign Risk Rating at 31 October, 2019:

Moody's: Baa3 | S&P: BBB- | Fitch: BBB

		2015	2016	2017	Est. 2018	Proj. 2019	Proj. 2020
1	Population (Million)	146.5	146.8	146.9	146.8	146.9	146.8
2	Avg Exch. Rate (Roubles/ US\$)	60.94	67.06	58.34	62.67	67.48	68.99
3	Inflation (CPI Avg.)	15.5%	7.1%	3.7%	2.9%	4.9%	4.3%
4	Average monthly wages (US\$)	555.0	549.3	671.3	693.3		
5	GDP (Roubles million)	83,094,305	86,014,204	92,101,348	103,875,80	111,270,70	118,430,40
6	GDP US\$ million	1,363,595.5	1,282,723.2	1,578,624.0	1,657,553.8	1,648,943.4	1,716,631.4
7	GDP per capita (US\$)	9,305.0	8,737.6	10,747.7	11,292.7	11,224.9	11,693.7
8	Real GDP growth, %	-2.3%	0.3%	1.6%	2.3%	1.5%	1.6%
9	Official Unemployment (end of period) %	5.6%	5.5%	5.2%	4.8%	4.8%	4.8%
10	Industrial Production Growth, %	-0.8%	2.2%	2.1%	2.9%	1.8%	2.3%
11	Agricultural Production Growth %	2.6%	4.8%	3.1%	-0.6%	1.7%	1.5%
12	Domestic Credit Growth %	17.9%	6.1%	6.9%	3.5%	10.3%	4.1%
13	Domestic Credit/ GDP	56.9%	58.3%	58.3%	53.4%	55.0%	53.8%
14	Foreign Direct Investment - \$US million	6,853	32,539	28,557	8,816	22,000	25,000
15	FDI/ GDP	0.5%	2.5%	1.8%	0.5%	1.3%	1.5%
16	Consolidated Budget Balance/ GDP, %	-3.4%	-3.7%	-1.5%	2.9%	2.5%	2.1%
17	Total External Debt- US\$ million	516,802.7	510,523.9	519,367.3	535,389.9	540,853.4	585,371.3
18	Total External Debt/ GDP	37.9%	39.8%	32.9%	32.3%	32.8%	34.1%
19	Public External Debt/GDP	3.1%	4.0%	4.5%	5.1%	6.2%	7.3%
20	Private External Debt/ GDP	34.8%	35.8%	28.4%	27.2%	26.6%	26.8%
21	Exports- \$US million (Goods)	341,419.1	281,709.0	353,547.4	443,070.2	449,357.8	463,289.7
22	Imports- \$US million (Goods)	193,021.1	191,494.3	238,125.4	248,619.7	256,379.0	268,147.0
23	Trade Balance \$US mn (Goods)	148,397.9	90,214.7	115,421.9	194,450.5	192,978.8	195,142.7
24	Trade Balance/ GDP	10.9%	7.0%	7.3%	11.7%	11.7%	11.4%
25	Current Account Balance \$US mn	67,777	24,469	33,156	113,811	107,453	105,401
26	Current Acct. Bal./ GDP	5.0%	1.9%	2.1%	6.9%	6.5%	6.1%
27	Forex Reserves (end period- exc gold) US\$ m	319,835	317,544	356,084	381,575	408,730	425,983

Sources: Central Bank of the Russian Federation; Russian Federation Federal State Statistics Service; IFS –IMF April 2019; IMF Russian Federation: 2018 Article IV Consultation—Staff Report and Public Information Notice on the Executive Board Discussion, Report No. 18/275 September 2014; For projections- World Economic Outlook Database, IMF April 2019;

RUSSIA COUNTRY STRATEGY 2019-2022

I. Summary of Recent Economic Developments and Outlook

Russia is the twelfth largest economy in the world in terms of nominal GDP in US dollar terms (sixth based on Purchasing Power Parity 'PPP'). It is by far the largest economy in the Black Sea Economic Cooperation Region and accounted for around half of the Region's GDP output (in nominal US\$) in 2018. As such, it is also the most important economic partner for a number of other BSEC members, for trade, for investment, and in certain cases for immigration and the related remittances which are then sent to the home countries; in some BSEC states remittances represent the primary form of external financial receipts and are not just a source of foreign exchange but also a key poverty mitigant. Ups and downs in the Russian economy tend to impact these linked states similarly.

Over the last two decades, Russia has experienced substantial growth. After emerging from the 1998 financial crisis, it enjoyed a decade of rapid economic growth during which annual real GDP growth averaged 6.9%. Like other BSEC states, Russia suffered a severe economic contraction in 2009, with GDP falling by -7.8%, as a result of the economic downturn which resulted from the global financial crisis of September 2008. However, fueled by rapid export growth, recovery was strong and GDP growth average 4.1% between 2011-2013. Growth slowed again in 2013 and has remained subdued in subsequent years, as a result of a number of structural and contextual factors. These include commodity price volatility, which has affected energy prices, demographic trends, low gross fixed investment and other domestic capacity constraints that have slowed current as well as future potential growth rates, and an increasingly uncertain global economic context in which geopolitical differences have resulted in the imposition of sanctions and counter-measures between the US and EU primarily on the one hand and Russia on the other hand.

Recent macroeconomic trends

Following a 2.3% contraction in 2015, the Russian economy slowly recovered, with growth rate increasing steadily each year and reaching 2.3% in 2018. Over the four year period, annual average growth was subdued at 0.5%, compared to the 2.6% annual average growth rate recorded in the 2011-2014 period. Consistent growth in exports was the main driver of the growth over the period, while household consumption and gross investments declined on average by 1.4% and 1.5% per year from 2015 to 2018.

On the production side, in annual average terms, growth in mining and quarrying improved from 1.9% per annum in 2011-2014 to 2.1% per annum in 2015-2018, while other major categories, including manufacturing, agriculture, construction, trade, and others experienced worsening growth rates.

Nominal GDP of Russia was down from US\$2.2tn in 2012 to US\$ 1.4tn in 2015, mainly due to the devaluation of the Rouble. Since then, with slow albeit positive growth and strengthening of the local currency, GDP in nominal US\$ terms increased to US\$ 1.7tn in 2018. Similarly, following a fall from the record high US\$ 16,000 in 2013 to around US\$ 8,700 in 2016 GDP per capita recovered partially to reach US\$ 11,300 in 2018.

External sector

Compared to the 2011-2014 period, the current account surplus of Russia improved from an annual average of 3.1% of GDP to 4.0% of GDP during the 2015-2018 period. In terms of ratio to GDP, the improvement was mainly driven by the decline in net outflows from the primary income balance, as compensations and investment income declined, and due to the fall in the import of goods. Balance in other categories as a ratio of GDP remained broadly stable. However, there were significant differences from year to year, with the current account surplus to GDP declining from 5.0% of GDP in 2015 to 1.9% of GDP in 2016, picking up slightly to 2.1% in 2017 and finally surging to 6.9% in 2018. This volatility is likely to be shaped by the oil price dynamics while imports remained relatively subdued and flat.

While net capital outflows from Russia continued, their pace retreated in 2015-2018. Together with the stronger current account surplus, this helped to boost reserves of Russia. Leaving aside change in reserves and net errors and omissions, capital outflows from Russia declined from an annual average of 3.3% of GDP in 2011-2014 to 2.8% of GDP in 2015-2018, while in nominal US\$ terms it was down from annual average of US\$ 69.8bn to US\$ 42.2bn.

In nominal US\$ terms gross external debt of Russia peaked at US\$ 750 bn, corresponding to 32.7% of GDP in 2013. Since then external debt in nominal US\$ terms declined, while as a ratio to GDP it continued to increase and reached 39.8% of GDP in 2016 as weakness in the Rouble persisted. However, with GDP recovering and the Rouble stabilizing, the ratio declined in 2017 and 2018 to 27.2% of GDP or US\$ 450 bn. This decline from peak levels in 2013 to 2018 was mainly driven by the declining debt burden of public entities, particularly public banks and non-bank economic enterprises, followed by private sector banks and other entities. As at end of 2018, public sector accounted for 45.6% of the total gross external debt.

Public finances

Russia has historically had a strong fiscal track record. The consolidated budget balance went from a deficit of -3.4% of GDP in 2015 to a surplus of 2.9% of GDP in 2018, while the annual average deficit over the 2015-2018 period stood at -1.4% of GDP compared to a deficit of -0.1% of GDP in 2011-2014 period. The widening of the deficit compared to the previous four year period was driven by falling oil related revenues, which were down from 9.3% of GDP during 2011-2014 period to 7.0% of GDP in 2015-2018 period. This fall was partially compensated by improved non-oil revenues from 24.8% of GDP to 26.7% of GDP. Overall, revenues as a ratio to GDP were down from 34.1% of GDP in 2011-2014 period to 33.7% of GDP in 2015-2018 period. Expenditures over the same period increased from 34.2% of GDP to 35.1% of GDP, mainly driven by increased expenditures on social protection and defense.

With relatively high deficits in 2015 and 2016, government debt increased from 11.2% of GDP in 2014 to 12.4% in 2016 and further up to 13.0% of GDP in 2017, before dropping to 11.5% of GDP in 2018. Over the four year period domestic government debt averaged 9.1% of GDP from 2015 to 2018, compared to 7.8% of GDP in the previous four year period, while external government debt averaged 2.9% of GDP compared to 2.2% of GDP in the previous four year period.

Inflation, exchange rate, and monetary policy

After peaking at 15.5% in 2015, inflation in Russia subsided as the Rouble pared some losses incurred in 2015 and stabilized thereafter. Average annual inflation rate retreated to 7.0%, 3.7%, and 2.9% in 2016, 2017, and 2018 respectively. The inflation rates for 2017 and 2018 are historical lows for Russia, and well below the Central Bank's target of 4.0%. Over the four year period, inflation averaged 7.3% in 2015-2018 slightly up compared to 7.0% average in 2011-2014.

The Russian Rouble reached its lowest level against the US dollar in January 2016, when for a short period of time the RUB/ USD exchange rate crossed 80.0. Since then the Rouble appreciated until early 2018, when the RUB/ USD rate fell below 56.0. Subsequently, RUB depreciated again in the rest of the year, finishing 2018 at 69.5 RUB per US\$. Exchange rate volatility also declined from 2014/2015 to 2017. As depreciation pressure built up in 2018, volatility also picked up again, albeit at far lower levels than in 2014/2015 period.

Falling inflation and the stable Rouble have allowed the Central Bank of the Russian Federation to ease monetary policy since early 2015. The Central Bank's key rate reached a high of 17.00% in late 2014 as the Rouble depreciated and price pressures rose. However, by late March 2018, it had fallen to a low of 7.25%. Although inflation remains low, a rise in inflationary pressures over the latter part of the year led to a reversal of the easing policy, and since September 2018 the Central Bank raised the key rate to 7.50% and then to 7.75% in December 2018.

Banking sector

Deposits of individuals and organizations in the Russian banking sector reached 50.8% of GDP in 2015 and retreated slightly to 48.2% of GDP by 2018. Over the four year period from 2015 to 2018, the ratio averaged 48.5% of GDP, which is higher than the 37.9% of GDP recorded in the previous four year period. In nominal Rouble terms, local currency deposits in 2018 were up 63.4% compared to 2014 levels, while foreign currency deposits were up 3.6%. As a result, dollarization of deposits, which was 37.6% in 2014 and temporarily surged to 41.0% in late 2015, eventually retreated to 27.7% by the end of 2018.

Compared to deposits, the increase in loans was moderate over the four year period covering 2015-2018. The loan to GDP ratio declined from 53.3% in 2014 to 50.9% in 2018, and the four year average was 51.7%, compared to 45.3% for the 2011-2014 period. In nominal Rouble terms, loans in local currency increased 32.6% from 2014 to 2018, while foreign currency loans, in Rouble terms, were up 3.3% over the same period. As a result, compared to 2014, the dollarization ratio for loans was down from 24.4% to 20.1% in 2018.

As a result of these trends, the loan to deposit ratio for individuals and organizations was down from 118.6% in 2014 to 105.6% in 2018, mostly due to the retreat in the ratio for Rouble denominated loans to deposits, which declined from 143.7% to 116.7%, while the ratio for foreign exchange loans and deposits remained broadly flat at slightly less than 77%. Non-performing loans as a share of total loans increased from 4.6% in late 2014 to 6.5% in late 2018. NPLs were up mainly due to real estate, trade, construction and agriculture sectors. The first two sectors accounted for 51.9% of total NPLs as at end of 2018, and the latter two accounted for further a 15.7%.

Outlook

According to official Russian forecasts, the growth rate in Russia will retreat to 1.3% in 2019, before accelerating to 3.2% in 2022, with annual average growth rates from 2019 to 2022 averaging 2.4%. This forecast is based on the assumption that the price of Urals crude oil would hover around US\$ 59 per barrel over this period and oil and gas production in Russia will remain relatively stable. It is forecast that the current account surplus will decline from 5.4% of GDP in 2019 to 2.7% of GDP in 2022, averaging 3.9% of GDP. Inflation is forecast to pick up and reach 5.0% in 2019, then retreat to 3.7% in 2020, and meet the targeted level of 4% in the following years, while RUB/ USD exchange rate is expected to remain broadly stable at around 65 RUB per US\$.

II. Overview of Current BSTDB Portfolio

As of 31 December, 2018, the active BSTDB portfolio in Russia consisted of 15 operations approved by the Board of Directors (BoD), involving an investment of € 316.1 million. Of these, 15 were signed for € 250.6 million and the outstanding disbursements were at € 128.1 million. Russia ranks third in the BSTDB portfolio with 14.0% of BoD approved operations, fourth in terms of commitments with 12.2% of total signed operations, and it ranks fifth in terms of amounts outstanding in the total portfolio at 9.4%. Relative to the Bank's active portfolio at the end of 2014, Board approvals increased by 20.3%, signings by 0.5%, while amounts outstanding decreased by - 43.6%.

Table 2: Active BSTDB Portfolio in Russia as at end December 2018

All Figures in Euros Million	BoD Approval Date	Approved Amount	Signed Amount	Amount Outstanding
Kulon Yugros	6-Aug-09	9.8	4.9	2.8
Kaluga Industrial Park	16-Apr-10	8.6	8.1	0.3
Bank Zenit Subordinated Loan II*	25-Feb-11	17.9	17.9	17.9
Equity to ADM CEECAT Recovery	21-Jul-11	3.3	3.3	1.3

Credit Europe Bank Mortgage	21-Jun-13	30.0	30.0	1.8
Absolut TF*	16-Mar-15	26.2	26.2	0.0
Sovcombank SME III*	20-Jun-15	17.5	17.5	7.8
SUEK Syndicated Debt Facility*	26-Feb-16	26.2	26.2	18.2
Center Invest**	26-May-17	12.5	12.5	7.5
Solikamsk Pul & Paper Company	22-Sep-17/ Sep-18	27.0	27.0	0.0
Sovcombank TF I*	22-Sep-17	17.5	17.5	17.5
Sovcombank TF II*	23-Feb-18	21.8	21.8	21.8
Center Invest SME**	21-Sep-18	12.5	12.5	6.3
STLC*	23-Nov-18	60.3	0.0	0.0
Credit Europe Bank Revolving SME	23-Nov-18	25.0	25.0	25.0
Total		316.1	250.6	128.1

* Financing for Operation provided in USD

** Financing for Operation provided in RUB

III. Review of Country Strategy 2015-2018: Post-Evaluation

The current evaluation was performed by the Bank's Evaluation Office as per the respective Evaluation Policy. It reveals the performance of the Bank's 2015-2018 Country Strategies, to provide accountability to the Board of Directors and Board of Governors as well as facilitate the decision-making on the eventual update of the country strategies.

The evaluation of the respective country strategy compares the stated 2018 targets with actual results as of end of 2018, and provides a country-oriented overview and evaluation rating. The 2015-2018 Country Strategy was approved by the Board of Directors, reflecting the independent evaluation of the implementation of the BSTDB's earlier strategies. It was aligned with the objectives of the Bank's Business Plan 2015-2018 and was therefore evaluated in that context.

The implementation of the Country Strategy was consistent with the Business Plan implementation, particularly in terms of volumes - the achieved volumes reached 157% of the targets. While the previously established concentration in the financial sector was maintained, the Bank was able to cover other priorities as well.

In conclusion, the intended implementation of the strategy is considered achieved, with the volumetric targets exceeded, and the sector coverage moderately implemented. A more comprehensive overview is presented in the table below.

Table 3: Post Evaluation of 2015-2018 Country Strategy for Russia

Post Evaluation of 2015-2018 Country Strategies				
2015- 2018 TARGETS			RESULTS	
Country Strategy	Sectors/Priorities	Target: Signed number/ EUR million	Actual: approved/ signed (EUR million)	Evaluation Summary
Russia	<i>1. Financial sector – priority: share to be reduced below the baseline 81%, focusing on: SME, TF, Equity, Leasing, Mortgage.</i>	16/184	12/290,4	<i>1. Volume: 157%</i>

	2. Energy / Infrastructure: energy (oil/gas, efficiency and renewable), transport, municipal; 3. Manufacturing: SMEs, minerals/mining, air/ports, agri-industry.			2. Sector coverage: AbsoluteBank 2 (FI) Acron Corporate Loan (Materials) Sovcombank (2) (FI) Suek Syndicated PFX type facility Transkapitalbank (FI) Solikamskumprom (Materials) Center Invest Bank 3 (FI) State Leasing transport company Center Invest Bank 4 Credit Europe Bank 2- SME 3. Conclusion: Targets covered at 157%, with remaining concentration in financial sector, the implementation is in line with stated objectives.
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IV. BSTDB Operational Priorities for 2019 - 2022

The Bank's role and priorities are outlined in accordance with (i) the priorities and targets laid out in its *Medium-term Strategy and Business Plan 2019-2022* and (ii) country needs and objectives, and taking due consideration of (iii) available resources, strategies and policies of BSTDB. BSTDB will seek viable opportunities for operational activity and will continue closely monitoring the developments in the Russian economy in order to stand prepared to support bankable projects. Where possible, the Bank will seek to leverage its presence by co-financing with international financial institutions (IFIs), public sector institutions and private partners, per its mandate.

The intention of the Bank is to provide support for the implementation of Government economic priorities, such as the *Comprehensive Plan for the Modernization and Expansion of Trunk Infrastructure for the period up to 2024*, while being responsive to market demand. The Bank will consider undertaking activities and providing services as may advance its purpose, paying special attention to activities that promote regional cooperation, development of infrastructure, increased and diversified export of goods and services, and new employment creation. The Bank will seek to maintain consistency with the UN's Sustainable Development Goals in the context of Russia and its priorities and needs.

In Russia, the Bank will aim to support the objective of promoting diversification of the economic base, particularly with regard to processing, manufacturing and other activities that generate value added. While BSTDB may operate throughout the country, in view of Russia's immense geographic coverage the Bank will, wherever possible, try to pay extra attention to supporting economic activities taking place in the regions on or near the Black Sea (e.g. Rostov, Krasnodar, Stavropol, etc.) or neighboring with other BSEC Member States, due to the added high priority prospect of enhancing linkages with neighboring countries. In recent years Russian firms have become more active in working in neighboring countries, undertaking investment and expanding their market presence. While such operations are attributed to the country in which beneficiary activity takes place, BSTDB will be keen to work with such firms undertaking investment in other BSEC member states, as it promotes regional cooperation in the private sector of member states.

In order to support viable financing opportunities (in sectors such as transport and elsewhere), the Bank will actively explore and use new lending instruments in local currency in eligible projects covered by various state support programs, including the recently introduced project finance factory mechanism.

Based on the 2019-2022 BSTDB Medium Term Strategy and Business Plan, the Bank would expect on average to sign around four new operations each year, for approximately € 120-135 million. Over the four year period, this implies sixteen new commitments (signed operations) for approximately € 510 million (a range of € 480-540 million).

These indicative targets are based on the Base Case Scenario of Growth of the MTSBP 2019-2022¹, and given appropriate circumstances and sufficient operational opportunities, the Bank would seek to exceed this level in order to continue meeting client needs. In case of higher regional economic growth rates, an improved situation in financial markets, and above all, increased demand for Bank funding coming from private and/ or public entities active in the Russian market, the Bank will revise the indicative targets for new operations and commitments proportionately.

A key consideration for the Bank is to increase its relevance in each Member State. Achievement of such greater prominence has both quantitative and qualitative aspects- how much the Bank plans to do, but also where it plans to do so. In line with the MTSBP 2019-2022, the Bank intends to increase its presence in key infrastructure sectors since on the one hand regional investment rates are low while country needs are high, and on the other hand such operations usually have high cooperation and development impact, and positive economic and social returns that exceed the financial returns of the particular operation.

Areas for BSTDB Financing:

Manufacturing and Enterprise Sector

For the 2019-2022 period covered by the Strategy, the focus of the Bank with respect to manufacturing and enterprises will be to support Russian companies which aim (i) to increase their efficiency and competitiveness by introducing new technologies and (ii) to upgrade their activity to international standards for the industry involved. The overall purpose is to contribute to the further diversification of the Russian economy, with an accent on the development of companies involved in processing and manufacturing, in order to expand the production of value added products and services, and therefore lead to better utilization of the rich natural resource base of the country. Activity in 'tradeable' sectors- those which either export oriented or import substituting- will receive particular emphasis.

The Bank will seek to increase its operational activity working with medium to large, domestic or international private enterprises that are active in the following indicative sectors and industries:

- Chemical and pharmaceutical production;
- Minerals and mining
- Development of warehouse facilities and logistics centres;
- Hotels, recreation and health centres;
- Agriculture and food processing to contribute towards greater food security
- Other sectors with the goal of increasing private participation and improving corporate governance and environmental practices.

Bearing in mind that the potential size of transactions, in particularly in mining and chemical industry may be beyond the individual lending capacity of the Bank, BSTDB to the extent practicable will use co-financing structures such as parallel lending or syndications with IFIs and commercial banks present in Russia.

¹ Any revisions to the MTSBP 2019-2022 may affect the indicative targets, as country specific figures might need to be revised accordingly with the overall figures

The Bank will also support Russian corporates investing in eligible sectors of other BSTDB members, thus contributing to intra-regional trade and investment, and enhanced economic cooperation.

The banking instruments to be provided will be adapted to the investment climate and the specific requirements of each individual operation, and will include:

- corporate loans - The use of proceeds may cover working capital requirements and limited re-financing of existing debt (in line with Bank policies) with the aim of improving the balance sheet of the borrowers; such financing may be secured or unsecured, depending upon the overall risk category of the client;
- project finance limited recourse transactions;
- participation in syndications, including issuance of corporate and local government bonds (that may involve fixed and inflation linked rouble bonds) to finance corporate development plans of established corporations or concession arrangements such as public private partnership (PPP) projects in regions with acceptable ratings or risk profiles. An added benefit of such activities is that they would also promote development of domestic financial markets;
- promissory notes and
- unfunded risk participations.

Energy and Infrastructure (E&I)

Given the existing challenges being experienced by the national economy and affecting the macroeconomic environment and the investment climate of the Russian Federation, the Bank will explore opportunities to offer its financial support for “bankable” energy and infrastructure operations.

This applies to all key E&I sectors, including the areas of natural resources (oil and gas), energy and electricity, transportation and transport infrastructure, telecommunications, information technology and municipal & social infrastructure. The presence of an appropriate competitive environment and regulatory framework will be an important consideration in ascertaining ‘bankability’ alongside development impact.

The Bank will continue to ensure that all BSTDB E&I operations in the Russian Federation meet sound banking principles, comply with the Bank’s Environmental Rules and Procedures, and incorporate, where appropriate, Environmental and Social Action Plans.

The Russian Federation enjoys close historical economic ties with neighboring countries, especially in the CIS area. In this respect BSTDB will prioritize projects establishing linkages with neighboring states (e.g. for electricity grids) and it is prepared to support bankable investments and business opportunities that promote regional economic cooperation, and involve investments by Russian companies in E&I projects, in other BSTDB Member Countries.

The Bank will also work in cooperation with international financial institutions (IFIs), commercial banks and export credit agencies (ECAs) as an important source of project co-financing as well as institutional knowledge transfer.

Areas of particular focus include the following:

Natural Resources (Energy Related)

- Projects involving the development and rehabilitation of natural resources facilities upstream, midstream and downstream;
- Projects involving regional energy, transport and handling infrastructure, such as transportation and distribution of natural gas, and rehabilitation of gas processing and storage facilities;

- Provision of financing for ‘downstream’ operations, particularly the upgrading of oil refineries to increase production, and improve the quality and environmental acceptability of refined products);

Electricity

- Projects envisaging upgrading, modernization and expansion of energy and electricity infrastructure (both conventional and renewable) generation, transmission, distribution and storage capacities as well as improvement of energy efficiency

Municipal and Social Infrastructure

- Municipal projects with or without sovereign or municipal undertakings or guarantees
- The Bank will explore the possibility of participating in projects with public sector associated entities, including Public-Private Partnerships (PPPs)

Telecommunications and IT Services

- Projects involving upgrade, development and modernization of telecommunications infrastructure
- In terms of the instrument coverage, BSTDB financing shall be available in the form of corporate finance, project finance and equity instruments.

Transportation Sector

- Priority will be given to providing long term financing support for the development and rehabilitation of key transportation facilities, including motorways, port transshipment terminals, railways and support of public and private entities operating in this sector (including financing of railcars). Projects which aim at establishing linkages with neighboring countries of the Black Sea region will be prioritized.

Financial Sector Strategy

The Bank will remain present in the financial sector in the coming program period in Russia, but expects that it will reduce its exposure relative to the past. The Financial sector in Russia has long been an area in which BSTDB had a sizeable presence. There were periods during which it accounted for about 80% of total Russian exposure. In recent years the exposure to the Russian banking sector has declined. One of the main reasons for this was that the pricing for long- and medium-term financing became increasingly unattractive for Russian banks.

Another factor for the reduction in the number of targeted clients were the presence of restrictions for financing of large state-owned banks (which control nearly two-thirds of the banking market) and the on-going banking sector consolidation which has led to the withdrawal of banking licensees and further limited the potentially targeted clients to several names in the top 50 list of banks.

In the second half of 2018 and beginning of 2019 FI2 approached 12 banks to discuss potential financing opportunities and only three materialized. Given the limited opportunities with banks in Russia, BSTDB also looked into the Russian leasing sector in order to explore possibilities for financing. During the marketing exercise at the beginning of 2019 five to eight eligible potential clients were identified.

With this in mind, the Bank does not expect that financial institutions will continue to have a substantial share in the Russian portfolio in the coming 2019-2022 period. Nevertheless, where it does provide support, the main areas of interest can be identified as follows:

- Particular focus on expanding local currency financing funded via swaps or bond issues.
- Further exploring possibilities for financing of leasing and factoring companies, considering the risk characteristics of these sectors and the applicable market practices. Given the substantial funding needs of the largest players, the Bank will seek co-financing with other institutions.

- Medium- and long-term SME financing for maximizing Bank's revenue to a select group of banks, predominantly existing and potential clients regularly monitored by BSTDB in recent years. The Bank will be cautious with respect to new banks, giving priority to strong financial profiles and following a mean based approach as opportunities arise on this basis. Given the short-term nature of Trade Finance, this type of financing can only be possible in case of pricing competitive in the market.
- In line with the evolving demand of potential clients, BSTDB will explore the possibilities to introduce financing through signing of framework agreements with selected financial intermediaries and taking advantage of simplified disbursement processes. The Bank will target specific sectors – trade finance, infrastructure, municipal, energy efficiency, etc.
- Although the geographic coverage of Russia shall not be limited to particular regions to the exclusion of others, the Bank will try to encourage the deployment/ applications of funds in the Southern regions of Russia nearest the Black Sea.
- The Bank will also seek co-financing opportunities with commercial banks in the real sector.