

## Russian Presidential Election: Clear outcome, unclear economic effects

Russians head to the polls this weekend to choose their next President for 2018-2024. There is no intrigue over the winner, but the PM chair, composition of the cabinet and its ability to push through Putin's recently announced priorities remain unclear



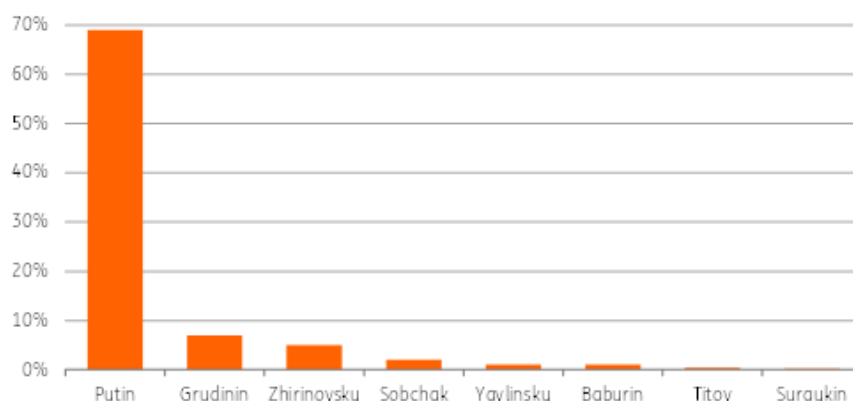
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### Vladimir Putin set to win

This Sunday, 18th of March, Russians will cast their votes for the next President for 2018-2024. According to the latest reports of the Russian Public Opinion Research Center (VCIOM), sentiment has been rather sticky and stable ahead of the vote. The overwhelming majority of voters (69%) support the incumbent president, Vladimir Putin, "if the elections take place this weekend". Other candidates seem to be "out of the race" with Pavel Grudinin (a businessman, The Communist Party candidate) and Vladimir Zhirinovskiy (Liberal Democrats) gaining 7% and 5% of the votes, respectively. Ksenia Sobchak (daughter of ex-Putin boss in Saint-Petersburg, a candidate of opposition Civil Initiative party) has 2% of the vote. Grigory Yavlinsky (Yabloko party), Sergei Baburin (Russian All People Union), Boris Titov (Growth Party) and Maxim Suraykin (Communists of Russia) are all outsiders with 1% or less. Forecasts based on the poll and expected turnout rate (63-66%) assign 69-73% to Putin, 10-14% to Grudinin, 8-12% to

Zhirinovskiy, 2-3% to Sobchak and 1-2% to others.

## VCIOM opinion poll (5-9 March)



## Turnout is key

Despite a predictable outcome, one of the key concerns for officials is voter turnout, with the local authorities (especially in major cities), media and even various state and non-state companies putting in a lot of effort to “attract people to vote”. There is a sort of “verbal suasion” to come to the ballot box. In the VCIOM poll, 74% of respondents said they would participate, so the analyst team expects turnout within 63-67%. That level is needed for the outcome to be legitimate and to quell accusations that the elections aren't fully democratic. When asked about transparency/credibility of the elections, 36% of Russians believe in a fair presidential race while 42% allow for some minor “mistakes” with no real influence to the final outcome.

## What are the market implications?

The elections, per se, should not have any visible market impact as the outcome is fully predictable and thus priced in. Some emotional short-term optimism is possible although this could be offset by global developments and the recent escalation in Russia-UK/West tensions.

What is more important for markets, investors and business is how the new government will look (PM and the cabinet). This will ultimately define how well the government can deliver on all the ambitious priorities (education, healthcare, demography, residential real estate and infrastructure) that Putin announced in the first “economic” part of his March Address to the Federation Council.

The key is how the new government will find a balance between its economic goals and the military bias, which dominated the second part of Putin's Address. This is not just a power balance between “liberals” and “hawks”, but also a funding balance, with limited fiscal room for manoeuvre. This is very important because opinion polls have highlighted the poor quality of healthcare and education and low wages/living standards as the primary challenges that the newly-elected president will need to address. An inability to deliver on these priorities may have negative implications for long-lasting political stability in Russia.

## 'Wait and see'

Our base-case scenario is that there will be no radical change among government members

responsible for economic/fiscal policy, which together with an unchanged central bank team will guarantee full continuity of the currently-credible policy mix. The economy will be able to deliver 2% GDP growth in 2018 due to supportive domestic demand (consumption growth on public wage hikes, rising retail lending and pre-crisis consumer confidence, while investments will benefit from lower post-election uncertainty and easing financial conditions). Non-energy/services exports will also help as the Rouble appreciation in real terms is capped by the new fiscal rule even under high oil prices. And with CPI steadily below the 4% target, the CBR will likely continue cutting its key rate to at least 6.50% in 2018 and 5.75% in 2019.

The latter suggests government OFZ bonds are still appealing, though not to the same extent as in previous years, so the global market and non-market/geopolitical factors may play a bigger role over 2018. However, we are waiting for more clarity on the updated macro and budget forecasts for 2019-21 before factoring any positive effects from the announced economic plans into our current 1.5% growth forecast for 2019. So, just "wait and see".