

BEST'S COUNTRY RISK REPORT

Russia CRT-4

August 22, 2018

Region: Asia

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Russia, a CRT-4 country, has a moderate level of economic risk and high levels of political and financial system risk. Russia's plentiful natural resources and well-educated workforce provide potential for growth. However, international economic and financial system sanctions and heightened political tensions will constrain growth over the near term. In 2017, the Russian economy returned to growth following two years of economic recession. Growth is expected to remain moderate, but below potential, over the near term.
- The majority of countries pictured are categorized as CRT-1, 2, or 3. Notable exceptions are the Eastern European countries Belarus and Ukraine.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Central Asia

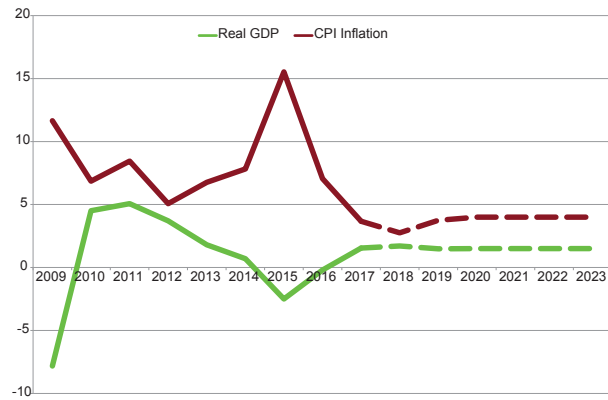
- Economic prospects remain vulnerable due to sanctions against Russia, the region's largest economy, and potential changes in trade policy. Uncertainty surrounding the sanctions, and the potential ripple effects on other countries in the region could lead to slower economic growth, given Russia's importance for trade.
- Political power is highly concentrated. The region suffers from high levels of corruption, a lack of transparency, and regular government interference in the judicial process. A lack of political succession plans in some countries could lead to social unrest and political uncertainty.
- State support of the financial system in recent years has been substantial and will likely remain necessary, to strengthen buffers and facilitate lending growth. Weak banking systems in several countries will continue to lead to higher government debt.
- Additional risks for the region include tightening of global financial conditions, commodity price and exchange volatility, delays in implementing structural reforms, and the potential for trade restrictions.

Vital Statistics 2017		
Nominal GDP	USD bn	1527.47
Population	mil	144.0
GDP Per Capita	USD	10,608
Real GDP Growth	%	1.5
Inflation Rate	%	3.7
United Nations Estimates		
Literacy Rate	%	99.7
Urbanization	%	74.2
Dependency Ratio	%	43.5
Life Expectancy	Years	71.0
Median Age	Years	39.6
Insurance Statistics		
Insurance Regulator	The Central Bank of the Russian Federation	
Premiums Written (Life)	USD mil	5,683
Premiums Written (Non-Life)	USD mil	16,215
Premiums Growth (2016 - 2017)	%	4.4
Regional Comparison		
		Country Risk Tier
Russia		CRT-4
Belarus		CRT-5
China		CRT-3
Kazakhstan		CRT-4
Poland		CRT-2
Ukraine		CRT-5

Source: IMF, UN, Swiss Re, Axco and A.M. Best



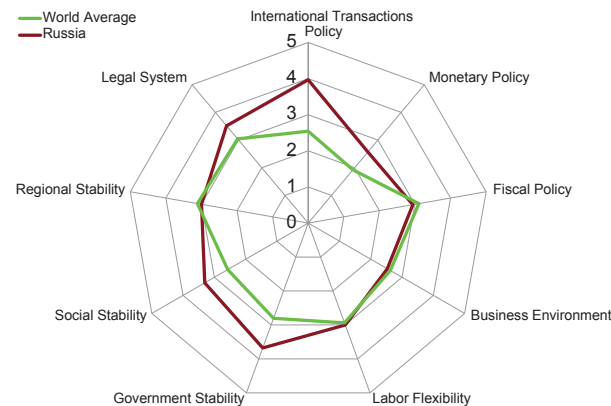
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

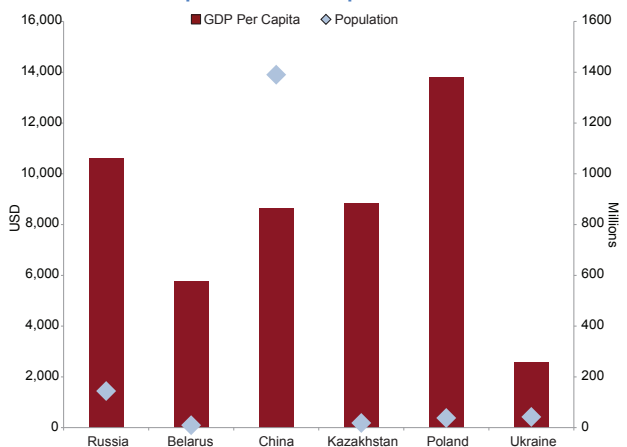
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Moderate

- Russia is a significant commodities exporter, which leaves the country exposed to shifts in global demand and pricing conditions. It is one of the world's leading producers of natural gas and oil, as well as a top exporter of metals, including steel and aluminum.
- Russia faces a wide range of structural issues, including an aging demographic, insufficient infrastructure, and high levels of state control in the economy.
- The US Treasury Department expanded sanctions against Russia in June 2018, following allegations of interference in the 2016 US presidential election. The new sanctions could increase tensions, impact the state's involvement in the economy, and create structural limitations that will remain a drag on growth.
- Despite some worsening headwinds to growth, higher oil prices, lower inflation, and strong domestic demand will support growth in the near term.

Political Risk: High

- In March 2018, Vladimir Putin won a second consecutive term as president (four presidential terms in total). Putin's political party, the pro-Kremlin United Russia Party, has a constitutional majority in parliament. Putin's term runs for six years through 2024.
- Decision-making lies with a narrow group of ruling elites and advisers in the presidential administration. The congressional majority will likely be able to push policy changes that the Kremlin favors. The political system will likely see further centralization of power.
- The government is highly involved in economic activity, particularly in the energy sector. Continued state intervention in the private sector has led to opaque regulations and an inefficient and corrupt legal system that suffers from political interference.
- Corruption in Russia is endemic and remains a significant challenge to conducting business there. The government has launched a high-profile anti-corruption campaign, but the crackdown will likely serve the ruling party's political agenda.
- The government continues to crack down on opposition political parties, limiting their effectiveness.

Financial System Risk: High

- The Central Bank of Russia became the ultimate financial regulator for all financial institutions, including the insurance industry, in 2013. Operations for the Central Bank are carried out by its Financial Markets Service.
- Due to lower levels of inflation and a modestly improving economy, the Central Bank of Russia has been able to decrease its policy interest rate.
- Several large private banks failed in 2017, underscoring the vulnerability of Russia's banking system. The IMF has noted excessive risk concentrations as an issue.