



# OPPORTUNITIES IN: RUSSIAN CAPITAL MARKETS

BY BEN ARIS

**Russia boasts some of the best macroeconomic fundamentals of any country. It's the third richest country in the world in terms of gross hard currency reserves and consensus among economists is that the investment boom that is underway could continue for many years.**



**Opportunities in: Russian Capital Markets**, an authoritative report from IFR provides comprehensive analysis of Russia's economy and financial markets. Find out:

- How Russia's performance compares to other **BRIC countries**?
- What is the impact of the latest **banking reforms**?
- Where are the best opportunities in the **US\$2.5bn securitisation** sector?
- What are the main drivers behind **foreign investment inflows**?
- How are foreign companies getting involved in **M&A and LBOs**?
- What is the **CBR's strategy** for bond growth?
- Which foreign **private equity funds** are gaining prominence in Russia?
- What is being done to stimulate further **venture capital** investment?
- How have the **exchanges** grown and what are the trends?
- What is the potential for more **diverse derivatives products**?
- What are the prospects for Russia's burgeoning **mutual funds** sector?

- **Political and economic review**
- **Banking sector analysis**
- **Product trends by asset class**

**Providing expert insight into the barriers and opportunities facing investors in the country, this report is essential reading for anyone looking to capitalise on Russia's prodigious growth.**

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# OPPORTUNITIES IN: RUSSIAN CAPITAL MARKETS

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**After the economic freefall of the 1990s, the Russian economy is now in rude health. The government regularly runs a 7% budget surplus, with tax revenues continuing to rise. Foreign debt has fallen from around 90% of GDP in 1997 to less than 6% by the start of 2007, making it the least indebted of any industrialised nation, while inflation fell to single figures in 2006 for the first time in modern history, ending the year inside the government's self-imposed target of 9%.**

Average Russian incomes have multiplied eightfold since President Vladimir Putin took office in 2000. The "feel good factor" is feeding through to booming consumer spending, investment, increased small business activity and the appearance of financial products like mutual funds.

But huge challenges remain. The Central Bank of Russia (CBR) struggles to contain inflation on the back of the flood of petrodollars, but lacks the tools to carry out an effective monetary policy. And while fixed investment is growing, economists say it is not growing fast enough. Unless the government can continue their reforms to the financial system and make Russian banks more efficient as financial intermediaries, the current economic growth will stall and Russia could go the way of Latin America in the 1970s and 1980s.

## WHO SHOULD READ THIS REPORT?

**Opportunities in: Russian Capital Markets** provides strategic information for any newcomers or companies already active in the region.

Managing directors and senior executives throughout investment banking need to read this report, especially those with responsibility for:

- Fixed income
- M&A
- Loans
- Equity capital markets
- Asset management
- Structured finance
- Strategy and planning

Chief economists and emerging market specialists will also find this report an essential reference tool.

## BANKING SECTOR

Russian bank reform only really took off in 2004 and since then growth in the sector has been astonishing. The country's 30 largest banks increased their net profit 42% over 2005 to RUB279.7bn (US\$10.7bn) roubles. Russia's banking sector has witnessed amazing growth – last year its assets grew by RUB3.6 trillion to RUB13.4 trillion (US\$513bn), a rise of 37% year-on-year.

Not surprisingly, foreign investment has flowed into the sector, but with few listed banks as yet, opportunities are limited. And despite the Kremlin's newly liberal attitude to foreign banks in its home market, it has reserved the right to change its mind.

**Opportunities in: Russian Capital Markets** gives you reliable information on the structure and trends in the banking sector, examining:

- The emergence of specialist retail banks
- Prospects for the consumer credit and mortgage markets
- Falling capital adequacy and the opportunities it brings for investment
- Growth of non-performing loans
- Changing exposure to devaluation and currency risk.

## EXCHANGES

In 1995 the entire market capitalisation of Russia's six exchanges was US\$100m. It now stands at over US\$1trn. Some senior market practitioners even suggest Moscow will one day be Europe's second largest financial centre.

This report tracks the growth in trading volumes on the two dominant exchanges, MICEX and the RTS and reviews the buoyant OTC market in small and medium-sized enterprise stocks.

## CAPITAL MARKETS

For the first time in Russia's recent history, banks are looking to finance the bulk of their investment plans from debt, rather than

their own resources, and are seeking long-term credits on a large scale. This new report:

- Charts the development of the Russian Trading System (RTS)
- Compares Russian market performance against other BRIC countries.
- Reviews the impact of the fully convertible Rouble
- Analyses the effect on liquidity of oil prices, Rouble appreciation, the tax schedule and other key factors.

## Equities and IPOs

While the international press has been quick to criticise the Kremlin's efforts to reassert control over key money-making sectors like oil and gas as "backdoor re-nationalisation", reforms to deregulate the stock market infrastructure and lift controls on share ownership has gone largely unreported. Between 1995 and 2005 11 IPOs raised just US\$1.3bn, while 2007 alone should see around 90 companies raise up to US\$30bn. **Opportunities in: Russian Capital Markets:**

- Evaluates the performance of IPOs and the RTS index to date
- Discusses diversification away from resource giants to more consumer-oriented businesses
- Examines the shift from a sellers' to a buyers' market and its effects
- Analyses the main drivers behind foreign investment inflows
- Gives insight into the cyclical nature of stock market volatility.

## Bonds

Nowhere has the transformation in Russia's public finances been more clearly seen than in the bond market, where the spread between Russia's sovereign Eurobonds and US treasuries consistently converged until 2006, when it fell to 95bp. Charting the development of both the sovereign, municipal and corporate bond markets, as well as the emergence of more

sophisticated instruments such as Credit-Linked Notes, and ABS, the report offers expert market intelligence into the:

- Structure of the Eurobond and Rouble bond markets
- CBR's strategies to develop the bond market further
- Breakdown of bond issuers and distribution of holders
- Secondary bond market activity
- Performance of Russia's bonds compared to those in other emerging markets.

#### Securitisation

The growth in securitisations is a consequence of the surge in retail lending in 2004. A handful of deals in 2005 arranged by a few pioneering banks raised almost US\$400m, but in 2006 this figure rose to US\$2.5bn. Unlike many emerging markets that tend to focus on one product, such as credit card receipts, before moving on to the next, Russia already offers a wide array of securitisation asset classes.

With no sign of any slowdown in consumer borrowing, the scope for further growth in this market is enormous. **Opportunities in: Russian Capital Markets** investigates the development of the securitisation market and the drivers of growth.

#### Syndicated Loans

Russia is the biggest borrower of syndicated loans among all the emerging markets. Foreign investors are playing an increasing role in the loan market, with the volume of non-resident interbank credit increasing 12-fold to US\$39.5bn between 2002 and 2006. This report tracks the market's growth and examines its makeup.

#### Mergers and Acquisitions

While foreign investors fled Russia en masse during the financial crisis of 1998, Russia's richest businessmen quickly realised that assets across the country were grossly undervalued and ventured back into the market, amassing huge conglomerates. Widespread consolidation has followed, with various sectors at different stages of the process. Foreign companies bought US\$14.5bn worth of Russian assets in 2005, three times the figure in 2005, but two thirds of all deals were conducted between Russian parties.

**Opportunities in: Russian Capital Markets** gives an overview of M&A activity in the major sectors and outlines the prospects for growth in LBOs.

#### Private Equity

While foreign investors dominate in the Central and Eastern Europe private equity business, in Russia it is domestic investors who dwarf all other sources. Poor corporate governance, a weak judicial system and the spectre of renewed instability have kept most foreign investors at bay, but those that are operating funds have all proven to be spectacularly successful. This report analyses:

- Challenges facing private equity funds operating in Russia
- Foreign private equity funds that are gaining prominence
- Where the best opportunities might lie in the future.

#### Venture Capital

With so many opportunities in existing businesses available, there has been little attention paid to startups in Russia, but with the support of the Kremlin together with the Soviet-era legacy of world-class scientists and engineers, foreign venture capital funds are showing increasing interest. **Opportunities in: Russian Capital Markets** looks at what is being done to stimulate venture capital investment.

#### Pension and Mutual Funds

As with many other European countries, Russia's state pension fund is running at a large deficit, and the post-war baby boom demographic will only make matters worse. An attempt in 2003 to reform pensions went badly wrong. This report looks at why it went wrong and what is now being done to try to resolve the problems. It also outlines the prospects for Russia's burgeoning mutual funds.

#### Derivatives

Derivatives were introduced on the St Petersburg exchange in 1992, but battles between international and domestic banks over the legal basis underpinning derivatives killed the market after the crisis in 1998. When legal problems began to be resolved in 2006, the market exploded, at least for futures of deliverables like grain and oil. **Opportunities**

**in: Russian Capital Markets** examines the progress being made on the legal front and assesses the prospects for more diverse derivative products.

## ABOUT THE AUTHOR

**Ben Aris** arrived in Moscow in October 1993 as a reporter two weeks before Boris Yeltsin sent the tanks onto the streets as part of his show down with the Communist-dominated Duma, plunging the country into a violent constitutional crisis.

He spent just over two years travelling throughout the region living and working in many of the former Soviet republics and regions of Russia – including stints in Central Asia and the Baltic States – he arrived back in Moscow in 1996 in time for Yeltsin's dramatic re-election as president of the Russian Federation.

Over the next eight years Ben had a ringside seat to the rise of the oligarchs – interviewing most of them as they built their empires – and reported the first stock market boom for the international press, only to see it collapse again in the 1998 financial crisis.

As the third longest serving foreign correspondent in Russia, Ben has interviewed most of Russia's leading lights and seen first hand the changes the country has gone through since the fall of the Soviet Union.

By 1999 Ben was Moscow bureau chief for the Daily Telegraph and covered the two Chechen wars and the appearance of Putin. However, as the economy began to grow strongly again in 2000 he switched his focus back to business as contributing editor for the Banker and a regular contributor to the Wall Street Journal and other leading business publications.

Ben continues to write regularly for most of the mainstream press, but in 2003 he moved to Berlin as acting bureau chief for the Guardian before leaving to found his own online publication [businessnewseurope.eu](http://businessnewseurope.eu), which specializes in covering business, finance, economics and politics in Eastern, Central and Southeastern Europe.



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### SECTORS SET FOR GROWTH

The report analyses all India's major business sectors, pinpointing the industries with the biggest potential and assessing their future prospects, including India's BPO (Business Process Outsourcing) and telecom industries.

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IFR's unparalleled access to the industry's most senior executives from throughout the government and financial sector, coupled with our leading reporters on the ground, ensures you get the most reliable and authoritative market intelligence available.

The report features interviews with top officials and banking executives, including:

- Finance Minister, P Chidambaram
- Sitaram Yechuri, senior member of the Communist Party of India (Marxist)
- Ex-Finance Minister and Senior BJP leader Yashwant Sinha
- Kalpana Morparia, Joint Managing Director, ICICI Bank
- Sanjay Nayar, CEO of Citigroup, India
- Sanjeev Agrawal, Chief Financial Officer – India & South Asia, Standard Chartered Bank.

Plus, detailed profiles investigate the strengths, performance and future strategies of the key players in Indian banking, including Citigroup, HSBC, ICICI Bank, HDFC Bank, UTI Bank, State Bank of India and more, are also included.

**Everyone who wants to know everything about the current status, workings, challenges and future prospects of the Indian capital markets, should read this report.**

## ABOUT IFR



**International Financing Review (IFR) is the world's leading source of capital markets intelligence. Published weekly, it provides senior investment banking decision-makers with authoritative and unbiased commentary and analysis.**

IFR provides insightful commentary on all international and cross-border bond financings in the Emerging Markets and has now extended its coverage to include equally in-depth analysis of the domestic bond markets in EM countries.

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## OPPORTUNITIES IN: MIDDLE EAST CAPITAL MARKETS

The Middle Eastern capital markets are in the process of an extraordinary transformation that will create some of the most exciting investment opportunities anywhere in the world. The ongoing influx of international investors, the region's intrinsic dynamism and continuing financial strength, and a growing inclination among local investors to keep their money closer to home, are combining to create a powerful new player on the world stage.

**Opportunities in: Middle East Capital Markets** analyses developments across the region and assesses the direction it is likely to take. Most importantly it highlights trends and opportunities for Western institutions to participate, primarily by:

- Providing expertise and know-how to help Western institutions to further expand local financial structures
- Examining a range of dynamic markets where funds can be invested
- Spotlighting new products likely to appeal to wealthy local investors and institutions.

**Opportunities in: Middle East Capital Markets** provides the key market intelligence you need to either develop your existing business interests or devise your entry strategy into this lucrative region.

**The Middle Eastern economy and its place in global financial markets** – with annual inflows of petrodollars estimated at US\$300bn and growing, and with petro-dollar assets estimated at US\$2trn or more, the report weighs up the scale of opportunities balanced against the political risk for the region's economies.

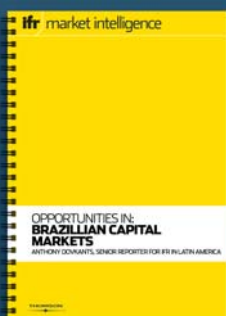
**The Middle East as a borrower in global debt markets** – ratings agencies and tightening bond spreads demonstrate the increasing power and credibility of the region as a global capital markets player. This report reviews borrowing and issuance activity, typical borrowing structures, factors affecting the rating and its likely future trajectory.

**Equity investment and new financial centres** – tracks the remarkable bull-run of the region's stock markets over recent years, and the emergence of the financial centres in Dubai, Bahrain and Qatar. Their products, structures, strategies and opportunities are profiled, plus all other countries in the region are assessed as a destination for private equity investment.

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