

**From:** (b)(6)  
**To:** [\\_DL\\_EURASIA\\_LEVANT](#)  
**Cc:** [Gatjanis, Gregory](#); [Baheri, Leila](#)  
**Subject:** FW: Russian ECON Daily 07-31-15  
**Date:** Friday, July 31, 2015 11:46:44 AM  
**Attachments:** [Russia ECON Daily 07-31-15.docx](#)  
[image001.png](#)

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Terrific!!!

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**From:** (b)(6)  
**Sent:** Friday, July 31, 2015 11:44 AM  
**To:** [\\_DL\\_TFI\\_Ukraine\\_Russia](#)  
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**From:** State (b)(6)  
**Sent:** Friday, July 31, 2015 11:40 AM  
**To:** State (b)(6)  
**Subject:** Russian ECON Daily 07-31-15

2018-08-116: 000100

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and research of John Greenewald, Jr., creator of:

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**CBR Cuts Key Interest Rate to 11 Percent:** In a scheduled Central Bank of Russia (CBR) Board of Directors meeting on July 31, the bank [decided cut the key interest rate](#) by 50 basis points, to 11 percent. **The CBR stated in the press release that the rate cut was made while, “taking into account that the balance of risks shifts toward the considerable economy cooling despite a slight increase in inflation risks.” The rate cut was in line with consensus expectations. The next CBR Board of Directors meeting is scheduled for September 11.**

*Nataliya Orlova, the chief economist at Alfa Bank stated, “The CBR said the rate cut was justified by domestic economic trends, underscored by the poor investment and consumption dynamics in 2Q15.” Orlova added, however, “The true reason is the looming deterioration in the global market environment. The introduction of commodity prices into the commentary as a risk for monetary policy conduct confirms this point, in our view.” She predicted that the CBR will make two additional 50bp cuts in 2015, down to 10.0 percent but noted that a weaker ruble might limit the CBR’s willingness to proceed. In her view, the decision to stop FX purchases announced on July 29 indicated that the CBR does not want the exchange rate to go lower than 60-65/\$.*

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*Russia and France signed a \$1.36 billion contract for the purchase of two Mistral-class helicopter carriers in 2011. France suspended the contract in November 2014, following Russia's aggressions in Ukraine.*

**Decree Delineates Destruction Procedures for Confiscated Goods:** Russian Government Decree [No 774](#), signed July 31, lays out procedures for the destruction of confiscated imported food and agricultural products banned by Russian countersanctions. These goods are confiscated either at borders or directly from store shelves. The new procedures will go into effect August 6, and include requirements that the destruction be video-taped and witnessed by at least two individuals. Some commentators [argued against](#) the new decree, citing empty shelves in stores recently, and noted the costs required to implement these procedures could be better spent developing Russia's own agribusiness. The Agriculture Ministry drafted the decree. On July 28, First Deputy Agriculture Minister Yevgeny Gromyko admitted "the flow [of banned goods to Russian food stores] is significant."

*Supposedly, government officials have been removing confiscated goods from circulation. This decree specifies in detail how this will occur during the second year of Russia's food import ban.*

**Russian Air Carriers Request Postponement of National Booking System:** "Russian air carriers plan to appeal to the government with a request to postpone the September 1 deadline for introduction of the national online reservation system," S7 Airline Board Chairman Natalia Fileva said July 27 at a meeting of Russian Union of Entrepreneurs and Industrialists (RSPP)'s Subcommittee on Air Travel, [according to Interfax](#). Fileva argued that the new national system "had not yet been launched and it would take up to six months to test it before implementation." According to the data on-shoring law approved in 2014, many companies operating in Russia will be required to store users' personal data on servers located in Russia effective September 1, 2015. [Rostec's Ruselectronics](#) is developing the national booking system. According to [Vedomosti](#), Ruselectronics plans to start

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**Russian Ministries Disagree on Plan to Charge VAT on Foreign Films:** According to [Kommersant](#) July 30, the Russian Ministry of Economic Development (MED) opposes the Ministry of Culture's plan to charge a value-added tax (VAT) on foreign films shown in Russia. Economic Development Minister Alexey Ulyukayev [stated](#) the Russian government "is inclined to leave the VAT on tickets equal for all Russian and foreign films." A survey by Movie Research determined 82 percent of all movie ticket sales in Russia in 2014 were for foreign films. Concerning the Ministry of Culture's plan, MED spokesperson Elena Lashkina stated: "The proposal is contrary to the obligations the Russian Federation accepted when joining the World Trade Organization (WTO)." The Russian government considered imposing VAT on foreign films in 2013, but the previous plan was abandoned for the same reason. A group of Russian cinema companies, noting on average one ticket is currently sold per Russian inhabitant each year, sent a letter to President Putin opposing the plan because it would raise ticket prices and discourage customers from going to the movies.

*While the plan's main proponent, Minister of Culture Vladimir Medinskiy, endorsed the initiative to support Russian films and "stop subsidizing Hollywood," the plan is not popular with other government agencies and the film industry.*

**Energy Minister Tells OPEC Oil Glut Likely to Continue:** At the [OPEC-Russia](#) Energy Dialogue meeting July 30, Russian Energy [Minister Alexander Novak said](#) "Demand for oil in 2015 will grow by 1.2 – 1.3 million barrels per day (b/d). Economic growth rates across the OECD and the Asia-Pacific regions, as well as in the U.S., will outpace growth rates of crude oil consumption because of new technologies, including in energy efficiency." According to Novak, the parties did not discuss production cuts to stabilize prices during the meeting. "Russia cannot suddenly cut its crude oil production because harsh climate and challenging geology does not allow for simply stopping wells from pumping oil," Novak said. OPEC Secretary-General Abdullah al-Badri stated that Iran would be able to launch new oil projects within the next five to six years, potentially changing the oil market landscape [Note: A recent concern in Russian media.], [Interfax reported](#). The next high-level meeting of the OPEC-Russia Energy Dialogue will be held in Vienna in the second half of 2016.

*OPEC has sought Russian cooperation on oil output levels in the past, offers that Russia has thus far declined.*

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- The program of import substitution of military equipment from Ukraine will be more than 50% completed by the end of 2015, a Russian Defense Ministry spokesman told journalists July 31 according to TASS. He noted that two import substitution programs are currently being implemented in Russia's defense industry to replace equipment from Ukraine and NATO countries. "Both programs are being implemented. Talking about Ukraine, elements will be replaced by 53% by the end of the year, these are spare parts. If we are talking about equipment, then it will be around 67%," the spokesman said.

### Market Update for July 31

	% change as of 12:00	% change on July 30	% change since 03/03/14	% change since 01/01/14
MICEX	-0.2	0.9	13.3	8.8
RTS	-1.9	0.2	-31.5	-39.9
RUB/USD*	1.1	1.8	66.5	82.0
	Interventions on 07/29 (Million USD)		Cumulative since 03/03/14 (Billion USD)	Cumulative since 01/01/14 (Billion USD)
Interventions**	0		64.7	80.0

\*Positive number represents ruble weakening against the dollar.

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**U.S. Embassy Moscow, Russia**  
**RUSSIA ECONOMIC DAILY**  
**July 31, 2015**



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