



State Debt Committee  
of the City of Moscow

MOSFIN  AGENCY

# Russian Internal Bond Market: Key Indicators & Trends

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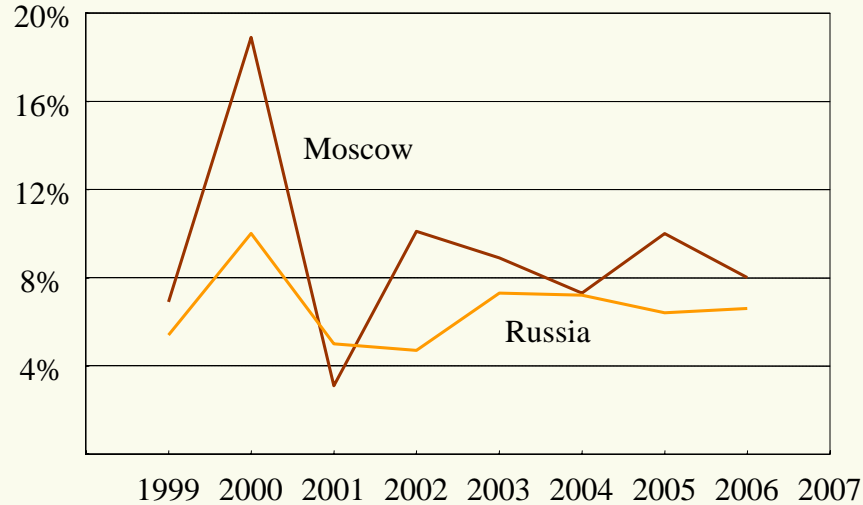
Sergey Pakhomov  
Chairman of State Debt Committee, City of Moscow

Frankfurt am Main  
November 2006

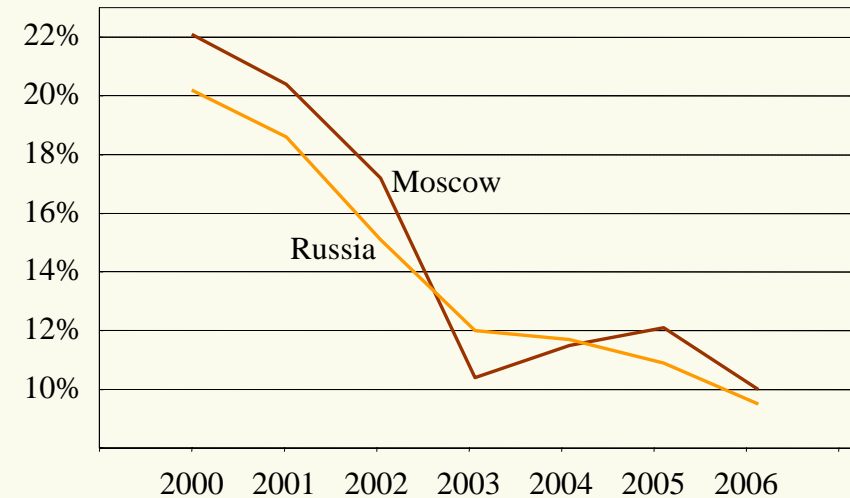


## Economic Indicators

### GDP/GCP Growth



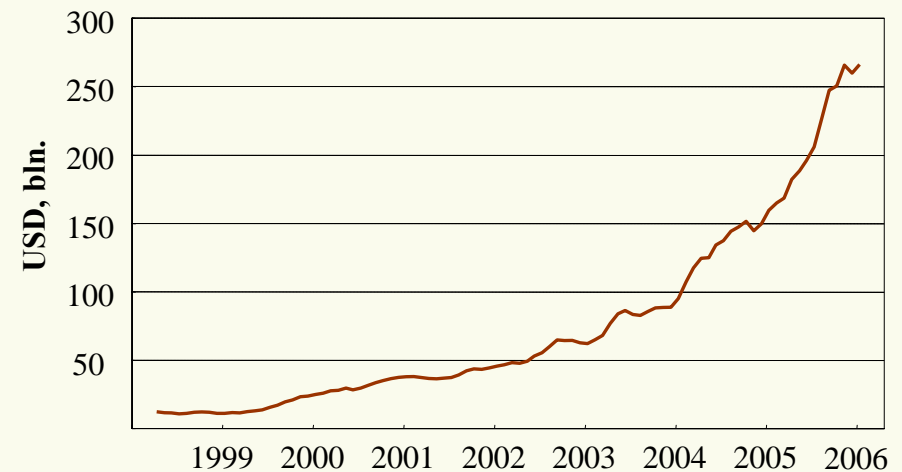
### Inflation



### Rouble exchange rates



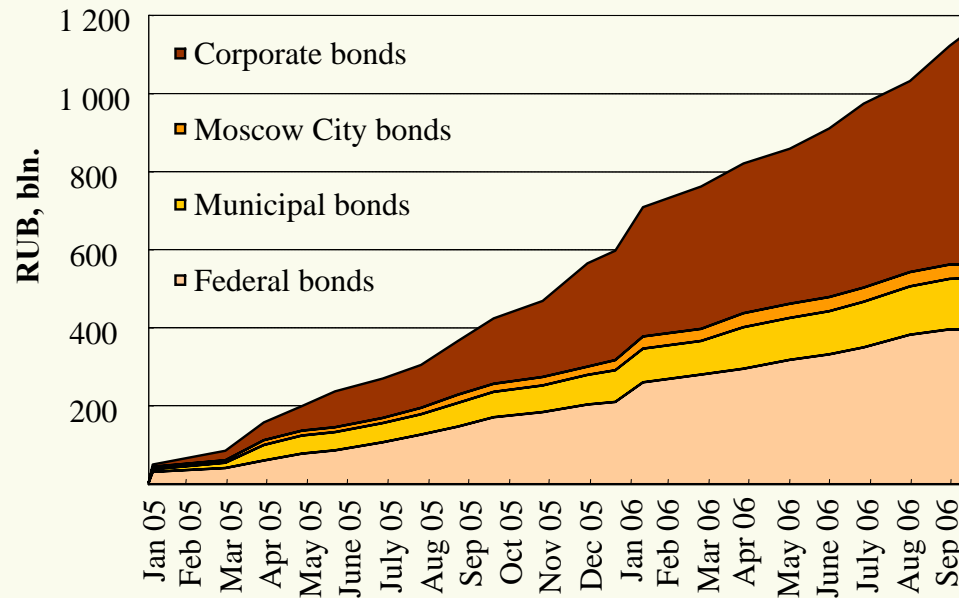
### Foreign currency reserves





## Bond Market: Dynamics and Structure

Total bonds placed since Jan 05

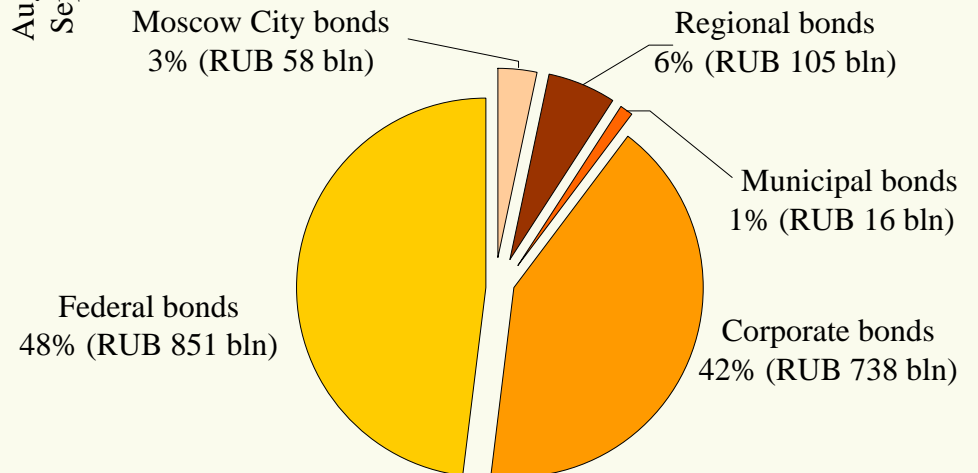


Primary placement of bonds on internal market from January 2005 to October 2006 totaled RUB 1.2 trln (more than USD 40 bln)

Corporate bonds accounted for approximately 50% of total domestic bond placement during January 2005 – October 2006.

At present capitalization of Russian internal bond market equals RUB 1,8 trln (8.3% of GDP).

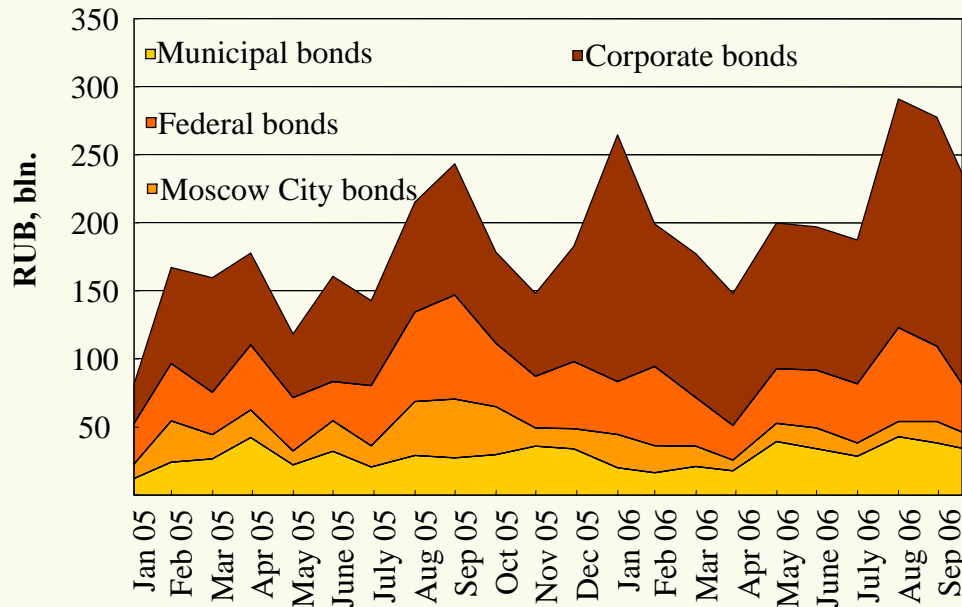
Bond market structure





## Market Liquidity

**Russia: Bond market turnover**



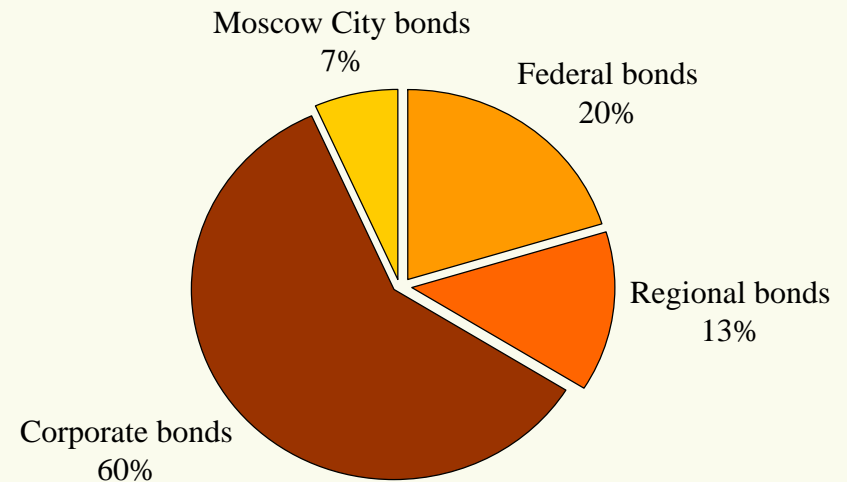
**In the first 10 months 2006 average monthly bond turnover equaled RUB 218 bln (USD 8 bln)**

**In Q3 2006 average monthly bond turnover increased by 24% as compared to Q3 2005.**

**Corporate segment is the key driver of bond market growth.**

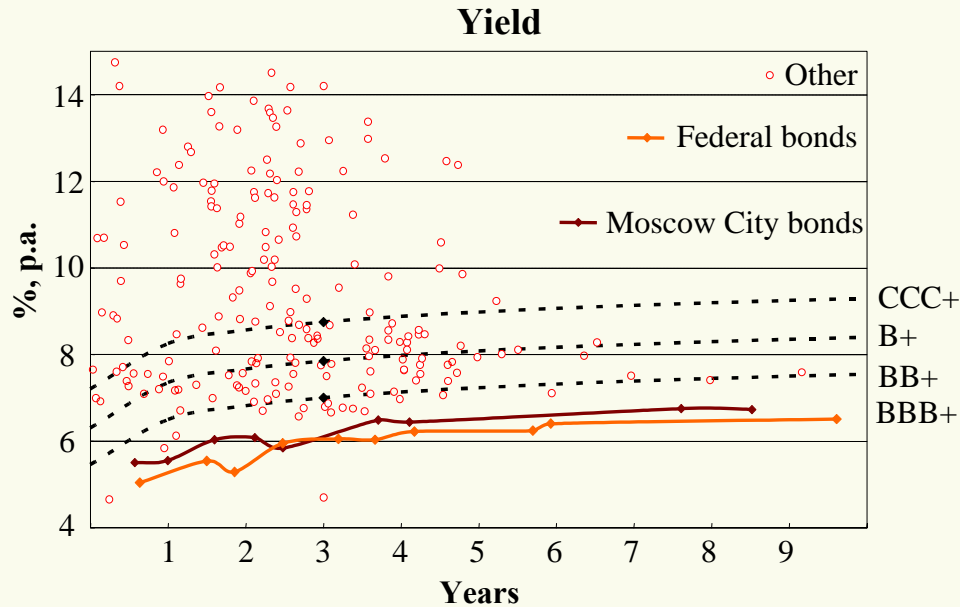
**Bond turnover as percentage to bonds in circulation is the highest among Moscow and large corporations, such as RZD, Unified Energy System and Gazprom.**

**Bonds' turnover**





# Bond Market Yield



**Yields on rouble bonds with investment grade ratings ('BBB') are approximately 6%-7% p.a.**

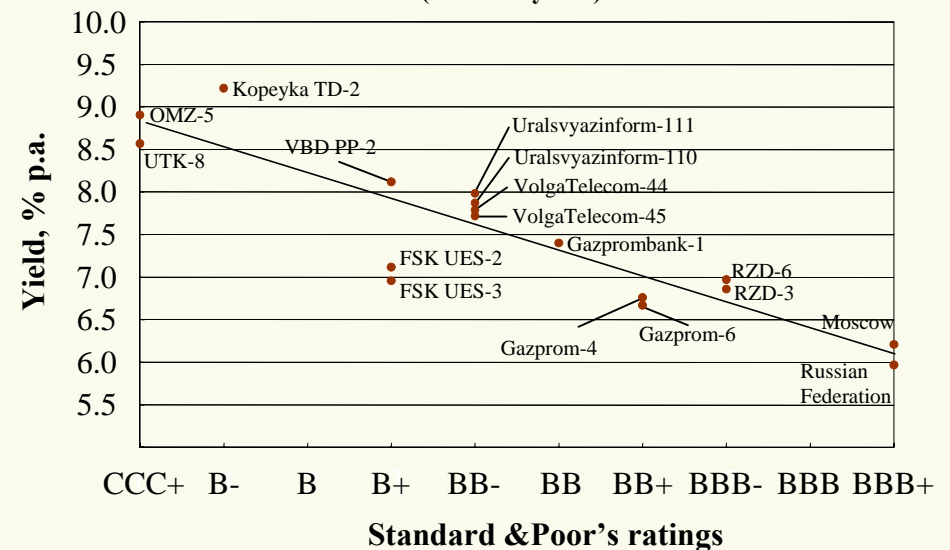
**Bonds with lower ratings ('CCC') have yields of approximately 8% -10% p.a.**

**Russian bond market is nonuniform in terms of risks and yields.**

**About 50% of bonds have yields above the level corresponding to the credit rating of 'CCC'.**

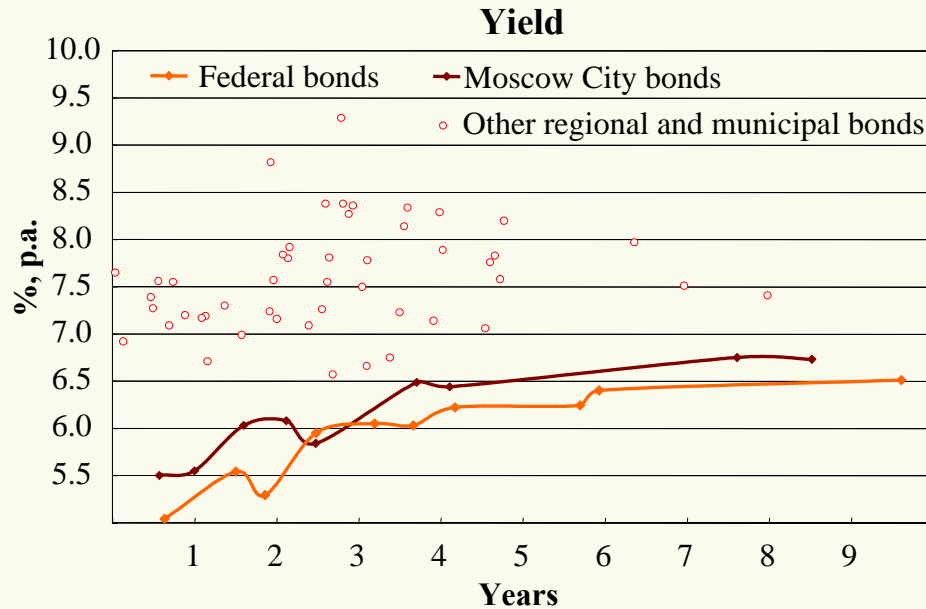
**Large number of bonds in high yield segment indicate possible problems.**

## Yields and corresponding credit ratings (term ~ 3 years)





## Federal, Regional and Municipal Bonds



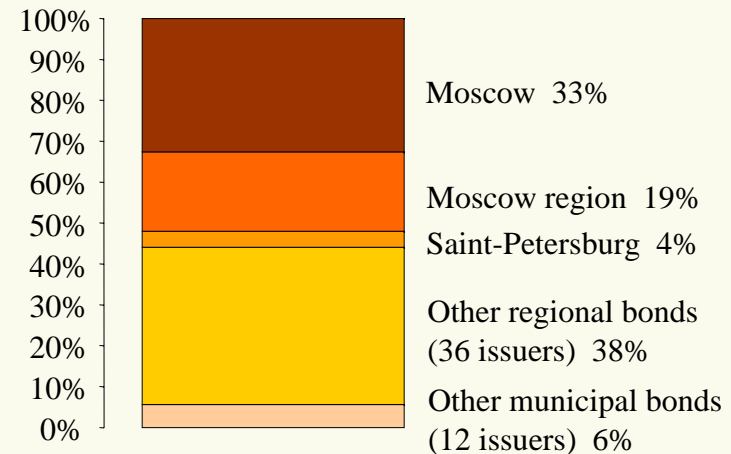
**Regional and municipal bond yield distribution is tighter than corporate bond yield distribution.**

**Yields of up to 10% indicate that risks related to regional and municipal bonds are generally lower than risks associated with most of corporate bonds.**

**Moscow is the largest issuer on the regional bond market – 33%**

**Moscow and Moscow region account for 52% of the regional bond market.**

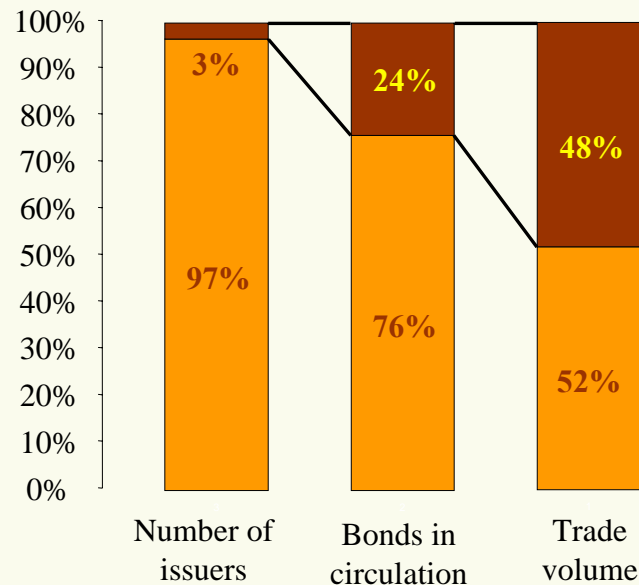
### Structure of regional and municipal bond market





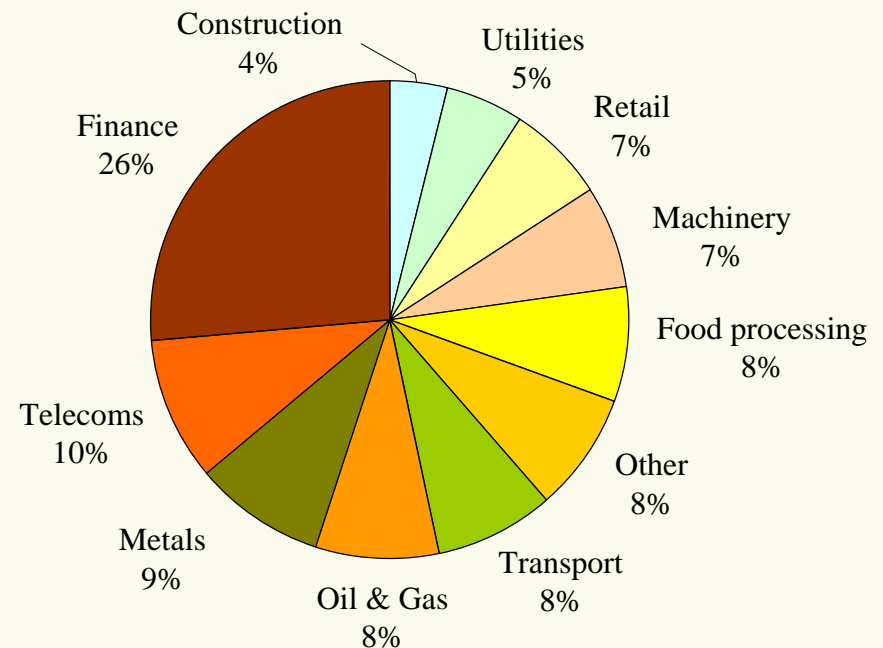
## Corporate Bonds

Concentration of liquidity



Ten largest issuers (3% of total number of issuers) account for almost a half of the corporate bonds' turnover.

Market structure

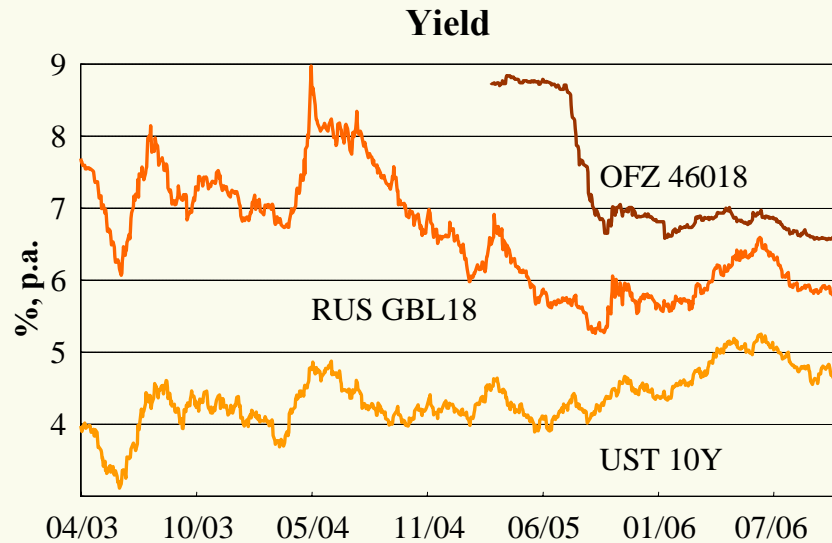


Internal bond market is represented by issuers from all main sectors of economy.

Bonds circulated on internal market are mainly issued by financial and industrial enterprises.



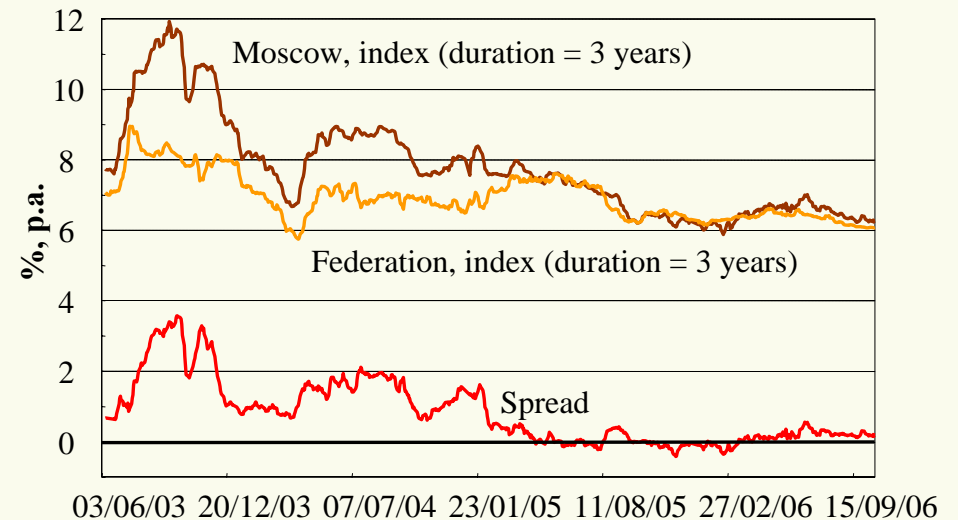
# Yield Dynamics



**Reduction in yields on Russian domestic bonds despite increase in yields on the base asset (US bonds) is due to significant reduction of sovereign credit spread and currency risk.**

**City's top credit ratings at the federal level together with highly liquid City bond market brought down spreads between the Federal and City rouble bonds to almost a zero mark.**

## Bond Yields: Russian Federation Vs Moscow City





## Internal Bond Market: Strengths and Risks

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### Strengths

- **Growing economy**
- **Strong national currency**
- **Growing credit ratings of the Russian Federation**
- **High potential for market capitalization and liquidity growth**
- **Growing variety of investment instruments**

### Risk factors

- **High sensitivity to external risk factors**
- **Low diversification of economy**
- **Significant number of instruments with high level of credit risk**
- **Restricted number of highly liquid assets**