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Executive Summary

In the last decade, Eurasian Economic Union (EAEU) foreign trade performance has fluctuated. Trade has increased annually at a moderate rate (despite the drop experienced in 2009) between 2007 and 2012, the year in which there was a peak of USD 1,083Bn (2.9% of global trade) and contracted the subsequent year and until 2016, when trade volume reached its lowest level at USD 591Bn (1.8% of global trade). The dynamics of energy prices and of the economies of the major trading partners, on the one hand, and the evolution of the cycle in the Eurasian region, on the other hand, were the main factors affecting EAEU import and export performance in the period. These were joined in 2014 by the effects of the progressive sanctions and counter-sanctions between Russia and Western countries.

EAEU trade began to recover significantly starting in 2017. Last year, total trading climbed back up to approximately USD 741Bn, a 25% increase over 2016. The increase is due to exports (+26.2% yoy), driven by the partial recovery of fuel prices (over 50%) and the good GDP figures of the trading partners (+2.7% for the EU, from 2% in 2016), as well as imports (+24% approx. yoy), thanks to the improved GDP figures for the Eurasian region (+1.8% from -0.1% in 2016). The data for 1H18, available only for Russia, indicate a further increase, with flows totalling USD 328.5Bn, up 22% yoy over the same period of the previous year. Exports recorded an increase by 26.6% yoy (USD 213Bn), while imports (USD 115Bn) were up by 13.5% yoy.

Pursuant to these marked changes in trade dynamics, EAEU countries experienced significant changes in terms of geographical breakdown, with trade shares transferring from western countries (the EU in particular) toward Asia (in particular China). In the five-year period from 2012 to 2017, the share of Eurasian imports from EU countries dropped from 36% to 32%. Concurrently, China's percentage climbed from approximately 15% to 19.2%. The EU portion of exports also dropped, from 47% to less than 44% while China's portion increased from less than 8% to over 10% last year.

There were, at the same time, changes in terms of sectors, insofar as the portions of the major items that characterise EAEU trade with the rest of the world. With regard to Russian trade (which, on its own, covers approximately 80% of EAEU country trading globally), total machinery purchased in EU countries dropped from 42% in 2012 to just over 33% in 2017 (the USA's percentage dropped from 6% to 5%). Concurrently Chinese sales of machinery rose from 23% to almost 34%. In value terms, the USD 20Bn (approx.) reduction in the period in the imports from major western countries, the EU and USA, was reflected in by more than 3/4 in the global contraction of imports of Russian machinery (approximately USD 26Bn).

In terms of exports, the portion of Russian fuel covered by the EU dropped to less than 45% in 2017, compared to almost 54% in 2012. At the same time, China's percentage increased, as it purchased almost 12% of Russia's exported fuel compared to 6.7% in 2012. In this case as well, it should also be noted that the reduction of exports to the EU in the period (exports to the USA remained at 1.6%) of USD 103Bn are responsible for 2/3 of the global drop (equal to approximately USD 157Bn between those two dates) in the value of exports of Russian fuel.

Among the major export categories and despite having increased slightly between 2012 and 2017 in percentage terms (from 8.5% to 10.4%) of total Russian exports, metal exports dropped from USD 44.4Bn to USD 37.3Bn. 77.5% of the metals category consists of "iron and steel", "iron and steel products" and "aluminium and aluminium products." The major destination markets for the above are the EU and Asia (not including China), while with a modest USD 3.6Bn (approx. 1% of Russian exports) the USA covers a small percentage.

In this context, the direct impact of the USA's tariffs on steel and aluminium on the region's exports as a whole (these rates are 25% and 10%, respectively), levied last March and applicable globally (with a few exceptions), is limited. However, potentially significant repercussions are expected at sectoral level. In fact, the USA is a significant market for aluminium (27.6% of total

Russian exports). Enjoying strong growth in the first quarter of the year (USD 685Mn compared to USD 302M in the first quarter of 2017), it is not surprising that aluminium exports to the USA collapsed in the April-June period, following application of the new rates, dropping from USD 370M in the same quarter in 2017 (and from almost USD 685.2M in 1Q18) to almost USD 145M.

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The United States' decision to increase import tariffs on steel and aluminium is part of a set of measures and positions taken by the Trump Administration, in a marked turn against the guidelines followed by previous Administrations: from pulling out of the TPP (Trans-Pacific Partnership) agreement to the renegotiation of NAFTA agreement, and from the orientation toward bilateral agreements instead of multilateral agreements for international trade regulation purposes to progressively increasing import tariffs.

The purpose of this report is neither to comment on the reasons for this change of policy (the existence of potential benefits for the USA of adopting a protectionist and bilateral approach in trade relations, any shortcomings in the WTO's regulatory structure, the existence of unfair practices in business relations with China), nor to assess the potential final outcome of an escalation of the tariff war between the major global players (mainly China, but also the EU and Russia/EAEU). It is nevertheless clear that in a global scenario in transition, the guidelines announced and the developments insofar as geopolitical relationships between the major players take on particular significance in terms of possible future outcomes.

In EAEU terms, the geopolitical aspect, together with the economic aspect, undoubtedly takes on a central role at the regional and global levels. As indicated in previous issues of this EAEU report, the activities of the EAEU move in two directions, one internal and one external, closely reflecting the path taken by the European Union. The first is devoted to the process of economic integration among Member countries, with the aim of establishing, within the heart of the largest region of Eurasia, an area of free exchange of goods, services and capital, and freedom of movement of persons; the second is addressed to cooperation with external partners, in particular with the countries in the neighbouring regions of Europe (primarily the EU) and Asia (China and Central Asian countries but also the Middle East and South-East Asia), through trade agreements, infrastructure projects (particularly in the areas of transport, logistics and energy) and improvements in security.

Externally, the relations between the EU and the EAEU have not begun officially, due to the current sanctions against Russia. This is an obviously critical factor. The EU requires that any decision of the member states to pursue relations with the EAEU must take place in step with full application of the Minsk Agreements for resolution of the Ukraine crisis. The deterioration of relations with Russia hinders the development of relations between the EAEU and the EU, and even more so precludes the creation of a common space from Lisbon to Vladivostok, in the Russian vision of a *Greater Europe*.

Despite the current sanctions framework and the significant impasse in the relations between the parties, improving the relations between Russia (and the EAEU) and the EU still clearly appears to be in the interests of both parties, in perspective, when considering both the complementary character of the existing trade relations and the reciprocal benefits from a greater level of co-operation as opposed to competition in protecting the relative interests in eastern Europe, the Balkans and the Caucasus, given China's diplomatic and commercial efforts in these same regions.

The collaboration with China is taking on a more and more significant geopolitical role for the EAEU. On 17 May 2018, at the Astana Economic Forum, an economic and trade agreement was signed between the parties. This is an obvious factor of strength. This agreement is part of a much broader project, involving the creation of a Eurasian trade bloc, referred to as the "Great Eurasian Partnership", between the members of the EAEU, the ASEAN and the Shanghai Cooperation Organization.

The apparent alignment between China and Russia in response to diplomatic and trade tensions with the United States could also promote cooperation between the EAEU and China. As they recently declared, Xi Jinping and Putin seem to be ready to counter US measures through (a) intensification of bilateral trade; (b) mutual recognition of their respective currencies in trading; (c) extension of their cooperation to sectors such as defence and security. In fact, one of the themes at the last Shanghai Cooperation Organization summit was the definition of joint steps between EAEU and BRI initiatives. The cooperation concerns the development of railway transport, road, hydroelectric as well as energy infrastructures, trans-border interventions and the launch of a joint fund for innovation.

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Insofar as the trade and investment relations of Italy with EAEU countries, trade volumes began again to climb from 2017 on. At EUR 23Bn last year (of which approx. EUR 20.3Bn with Russia), trade is up by approximately 14% compared to 2016. The EUR 13.8Bn imports indicate a 12.8% recovery yoy, while exports (EUR 9.1Bn) increased by 15.1% yoy. The recovery in energy prices and the positive economic situation in Italy and EAEU countries were the main drivers of growth.

The recovery took place after three years of decline in trade, moving from EUR 36.2Bn (the highest level of the last decade) in 2013 to EUR 20.1Bn (the lowest level of the decade) in 2016 (a 44% drop). In the three-year period 2013-16, exports were down from EUR 12.2Bn to EUR 8Bn (-34%) and imports from EUR 24Bn to EUR 12.2Bn (-49%). The Italian portion of trade with EAEU countries started to climb again in 2017 to 2.7% of the total, compared with 2.6% in 2016.

Italian imports mainly consisted of mineral products, especially energy and refined petroleum products (approx. 80% of the total), followed by metals (approx. 15%), wood and wood products (1.4%) and transport equipment (0.6%). Exports consisted of machinery (about 39% overall), mechanical machinery (30%) and electric and electronic machinery (9%), followed by textiles and clothing (19%), chemical products (7%), metals (7%) and transport equipment (4.5%).

In terms of sector totals, Italy imports approximately 24% of its minerals, over 15% of its refined petroleum products and approximately 5% of its metals and metal processed goods from EAEU countries. In turn, EAEU countries purchase 3.4% of mechanical machinery exported from Italy, 2.8% of electrical devices, 3.4% of the total "fashion" segment, 2.3% of miscellaneous products, primarily consisting of furniture, furnishing products and jewellery.

Trade with Italy amounted to EUR 12.1Bn in 1H18 (+3.6% on an annual basis). However, while imports totalling EUR 7.8Bn increased by 6.5% yoy, exports totalling EUR 4.3Bn dropped by 1.1% yoy, on account of the drop of exports to Russia (-4.6%). Conversely, exports increased (+34%) with Kazakhstan (the country's second largest partner in the region with a 10% share of Italy's total trade with EAEU countries).

The Italian North-West and North-East areas are the geographic areas that export the most towards the EAEU. These two major geographic areas constitute 80% of Italian exports on the EAEU market, equal to EUR 7.3Bn in 2017. In particular, the Italian regions of Lombardy, Emilia-Romagna and the Veneto are at the top of the ranking in terms of exports to this market, with EUR 6Bn in 2017, or 65.8% of the total.

The industrial specialisation of the regions significantly influences the types of goods exported. Almost one-third of exports from the North-East refers to the mechanical engineering industry, with a total value of EUR 1.2Bn; in order of importance, this is followed by the fashion industry (20.8%, equal to EUR 755M), where clothing (14.2%) prevails over the leather goods supply chain (5.2%). The home and housing products sector (12.6%, equal to EUR 457M) is ranked third, led by furniture (5.5%) and followed by construction products and materials, and home appliances (both weighing 3.5%). Non-district export flows are also significant, such as electric engineering goods (EUR 230M, 6.3% of the total exported to these areas from the North-East), chemical products (4.7%, EUR 172M) and metal products (4.4%, EUR 161M).

Mechanical engineering exports also prevail in the North-West (30%, equal to slightly less than EUR 1.1Bn), followed, some way behind, by fashion (13.7%, equal to almost EUR 500M). Export values for other districts goods are lower, despite still exceeding EUR 100M: the home and housing products sector exports EUR 159M and the food sector EUR 173M. Nevertheless, this area also exports a high volume of goods - typically non-district goods - to the Russian market: the chemical industry, for example, obtained sales amounting to EUR 383M, or 10.5% of the total, while electrical engineering goods reached EUR 183M (5%). There is also a good presence on the Russian market of medium-high and high-tech production from the North-West, such as pharmaceuticals (EUR 126M, equal to 3.5% of the total), automotive components (EUR 96M, 2.6%), automotive (EUR 62M, 1.7%), aerospace (EUR 82M, 2.3%) and electronics (EUR 80M, 2.2%).

In 2017, three out of the four geographical areas recorded a significant increase in the export flows, with peaks of 21.6% in the North-West and improvements of 15.3% in the North-East and 13.8% in the Centre respectively. Only Southern Italy experienced a fall in export flows, following the disappearance of the exceptional items that between 2015 and 2016 boosted exports to Kazakhstan: pipes, hollow profiles, cables and related fittings made of steel from Molise and Abruzzo.

The signs of recovery have also been confirmed in the industrial districts which enjoyed an increase of 18.2% in export flows to the EAEU in 2017, corresponding to an increase of EUR 396M over 2016. In 2017, the number of districts which recorded an increase in these markets rose to 46 (out of a total of 55 that in 2017 exported products worth more than EUR 10M to the EAEU). Some sectors have achieved brilliant results: the mechanical engineering districts stand out for their growth (+34.4%, ranked first in their increase in the value of exports), the food hubs (+30.5%) and home appliances (+47.4%). The areas specialising in the manufacture of metal products (+18.6%) and fashion-related consumer goods (+11.2%, ranked as the second sector for its contribution to growth) also displayed excellent results.

2018 began with a slight correction of Italian exports to the EAEU (-1.1% on an annual basis) in the first half of the year. In terms of sectors, the drop of exports is mainly attributable to the mechanical and pharmaceutical sectors, which was not offset by electronics. At the district level, export flows towards EAEU also fell by 2.3% (EUR -28M). Among the districts that in 2017 exported more than EUR 10M to the EAEU, 34 districts recorded a decline on an annual basis in exports and 21 districts recorded an increase. The overall export dynamic was affected above all by the reduction in sales in the mechanical engineering districts (EUR -26M), combined with the losses suffered by the districts specialising in intermediate goods for the fashion industry, food, furniture and construction products and materials, which were then not offset by the increases in home appliances, fashion consumer goods, metal working and metal products.

1. The geopolitics of the Eurasian Economic Union (EAEU)

1.1 The EAEU today

By: Simone Urbani Grecchi (coordinator), Luca Battaglini and Cristiana D'Agostino

The geopolitics inherent in EAEU relations are taking on a central role in Eurasia. By directly involving three of the major regional players (the European Union, Russia and China), EAEU dynamics play a role in defining political and economic developments in the entire area, which is currently characterised by (a) an increasing interest in free trade agreements and (b) a growing appetite for collaboration in strategic areas, such as security and defence[1].

As set in its founding treaty[2], the EAEU was established in 2015 to foster the growth of its member state economies through application of market principles, promotion of the free trade of goods, services, capital and labour, reduction of non-tariff barriers to trade and coordination of macroeconomic policies. The Union has also pursued a coordinated energy policy in areas including electricity, gas, oil and derivatives.

Over the last few months, the EAEU has initiated a series of programmes aimed at liberalising construction, engineering, large scale retail and agriculture. Further progress has also been made in terms of integrating the internal transportation network, safeguarding competition, protecting consumer rights, regulating crypto-currencies, food safety and industrial cooperation in space[3].

The results it has achieved and an apparently favourable public opinion in its regard[4] are evidence of the Organisation's current relevance and potential. In light of 2017 data, intra-EAEU trade (14% of its members' total international trade volumes, compared to 69% for the EU) as well as the volume of trade from Russia to other EAEU countries (6% of Russia's total global trade) indicate that the margins for further growth are promising.

The Eurasian Economic Union is open to onboarding new members. Currently potential candidates include Tajikistan, traditionally a Russian military ally which is also interested in developing a single labour market and Uzbekistan, which recently implemented policies that promote foreign investment and is working to harmonise import tariffs. In 2016, the Union concluded a trade agreement with Vietnam, while other negotiations began for similar agreements with Singapore, India, Egypt, Israel and Serbia. In the second session of the EAEU-Singapore joint working group, discussions were held regarding the prospective reciprocal relations between the two countries and the EAEU's relations with ASEAN (of which Singapore is a member). Greece, the Czech Republic, Cambodia, Bangladesh, Mongolia and Chile are other countries with which the EAEU aims to develop economic relations[5].

[1] See, for example, the Collective Security Treaty Organization (CSTO) and the Shanghai Cooperation Organization (SCO). The CSTO is a defense and security organisation which EAEU countries and Tajikistan are members of. In particular, the CSTO aims to counter global threats such as terrorism, drug trafficking, transnational crimes and illegal immigration. The SCO is a permanent intergovernmental organisation which aims to strengthen reciprocal trust between its member countries (China, Russia, Kazakhstan,Kyrgyzstan, Tajikistan, Uzbekistan, India and Pakistan) and support the common effort to maintain and secure peace, security and stability in the region. The SCO also aims to promote political and economic cooperation between its members. Four additional countries have joined the SCO as observers (Afghanistan, Belarus, Iran and Mongolia), while another six countries are "dialogue partners" (Azerbaijan, Armenia, Cambodia, Nepal, Turkey and Sri Lanka).

[2] See "The Treaty on the Eurasian Economic Union," Eurasian Commission.

[3] See the Eurasian Economic Commission website for further reference.

[4] See 'Eurasian Economic Union: Current state and preliminary results', Evgeny Vinokurov. Russian Journal of Economics, March 2017, and 'EDB Integration Barometer 2017', Eurasian Development Bank, December 2017.

[5] See the Eurasian Economic Commission website for further reference.

1.2 Relations with the EU, China and the United States

The European Union

Diplomatic relations between the EU and the EAEU have not been formalised yet, due to the current sanctions against Russia. Europe has affirmed that any decision of the member states to pursue relations with the EAEU must be taken in step with full application of the Minsk Agreements for resolution of the Ukraine crisis. This is a necessary condition set by the EU if cooperation with Russia and the EAEU is to resume.

Irrespective of the above, the framework of sanctions is not preventing the pursuit of significant collaborations between Russia and the EU, such as, for example:

- significant trade volumes (EUR 191Bn in 2016)[6] and a substantial amount of foreign direct investment (EUR 162Bn towards Russia and EUR 84Bn towards the EU in 2016)[7];
- integration of the transportation infrastructure, digital and energy networks, as recently announced by Markus Ederer, the EU Ambassador to Moscow;
- the collaboration agreement signed in February 2018 between the European Commission and Russia for cooperation in the Baltic Sea Region[8];
- the cross-border collaboration with the European Regional Development Fund 2014-20- funded by the EU (69%), Russia (27%) and Norway (4%), which allocates EUR 324M to promote economic and social development in border regions, deal with common challenges (environment, public health, security) while facilitating the movement of persons, goods and capital;
- higher education, where Russia is the largest non-European partner of the "Erasmus+" programme and the "Bologna Process," which includes 48 countries and aims to facilitate harmonisation of degrees, compatibility between courses and the mobility of students and workers in Europe.

The EU's interest in the region is further demonstrated by the European Neighbourhood Policy (ENP) [9]and other geopolitical and economic actions, including:

- foreign investment flows (mostly from the EU and Russia) into Kazakhstan[10] or Armenia[11];
- the trade agreement between the EU and Azerbaijan (currently being defined), which is expected to be made official in 2019;
- the Comprehensive and Enhanced Partnership Agreement between the EU and Armenia, signed in November 2017 which fosters collaboration in various areas (transportation, energy, telecommunications);

[6] Although the volumes have halved in the last three years, Russia continues to be the European Union's fourth largest trading partner, while the EU is Russia's major partner, in terms of trade and direct investments http://ec.europa.eu/trade/policy/countries-and-regions/countries/russia/.

[7] http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111720.pdf.

[8]The agreement has been extended to cover the following sectors: preservation of the marine environment, development of transportation and the fight against climate change. Finland, Estonia, Lithuania, Latvia, Sweden, Denmark and Norway participate in this project, alongside Russia and Germany.

[9] https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/overview_en.

[10] https://www.export.gov/article?id=Kazakhstan-foreign-direct-investment-statistics.

[11] https://www.export.gov/article?id=Armenia-foreign-direct-investment-statistics.

- the recently concluded agreement between Kazakhstan and the EU (it has already been ratified by 19 member states), which aims to develop trade relations and establish a regulatory framework for collaboration in the areas of defence and security;
- the attention given to the Southern Gas Corridor project,[12] an initiative championed by the EU and many of its member states that will not be subject to U.S. sanctions despite the presence of Iranian capital in the company that has won the construction contract[13];
- Moldavia's participation in Rapid Trident, a multinational military exercise that takes place each year and involves several countries, including EU NATO members[14].

The United Kingdom's upcoming exit from the EU appears to offer an additional reason for keeping the dialogue between the parties open. If one of the most ardent sanction supporters were to be removed, the diplomatic situation could evolve in the medium term, in consideration of:

- the perplexity of many European countries vis-à-vis sanctions, with Germany, Sweden and Finland maintaining close ties with Moscow on account of the North Stream 2 pipeline and France pushing the EU to be more realistic about Russia[15];
- Italy's position, which defines relations with Russia as a "priority" and "strategic";
- the possibility that both Moscow and the EU would strengthen their cooperation to counter the increasing Chinese influence via BRI or diplomatic initiatives such as "China 16+1"[16].

We further highlight here that the sanctions framework limits, but does not prevent, Russia's access to international capital markets. In fact, despite the recent diplomatic rift, Moscow was able to conclude two significant financial transactions on the London Stock Exchange in the days immediately following the expulsion of Russian diplomats from the United Kingdom[17]. This proves that bilateral economic relations are ongoing, although some observers have suggested that the sanctions be extended to cover capital markets as well[18].

China

The increasing level of cooperation between the EAEU and China is taking on a great geopolitical significance. In fact, one of the themes at the last Shanghai Cooperation Organization summit was the definition of joint steps between EAEU and BRI initiatives[19]. In particular, the proposed cooperation agreement is purported to (a) cover railway, road and hydro-electric infrastructure and (b) involve a USD 10Bn intervention by the Russia Direct Investment Fund and China

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[12] This pipeline (length of 3,500km and a USD 40Bn investment) is expected to transport gas from the Shah Deniz 2 field in the Caspian Sea to Europe. The project begins in Azerbaijan and then continues on to Georgia, Turkey, Greece, Albania and Italy.

[13] https://oilprice.com/Latest-Energy-News/World-News/US-Grants-Iran-Sanctions-Waiver-To-Southern-Gas-Corridor.html.

[14] Bulgaria, Canada, Estonia, Italy, Georgia, Lithuania, Moldavia, Norway, Poland, Romania, Turkey, Ukraine, the United Kingdom and the United States.

[15] https://www.reuters.com/article/us-france-finland-defense-russia/its-time-for-realism-in-eu-russia-ties-frances-macron-idUSKCN1LF0UP.

[16] A partnership initiated in 2012 between China and 16 Central and Eastern European countries, comprising 11 EU member states and five countries that have applied for EU membership.

[17] An 11-year bond issue against EUR 4Bn, 1.85 bid-to-cover and a 7-year Gazprom corporate bond against EUR 750M.

[18] http://www.atlanticcouncil.org/blogs/new-atlanticist/russian-sovereign-debt-in-the-crosshairs.

[19] See "Next Steps in the Merger of the Eurasian Economic Union and the Belt and Road Initiative", The Jamestown Foundation, China Brief Volume 18, Issue 11, June 19, 2018.

Development Bank, for cross-border projects and a USD 850M loan from China Development Bank to the Russian VEB Bank, for the launching of an innovation fund.

The apparent alignment between China and Russia in response to diplomatic and trade tensions with the United States could also promote cooperation between the EAEU and China. As they recently declared, Xi Jinping and Putin seem to be ready to counter US measures through (a) the intensification of bilateral trade; (b) mutual recognition of their respective currencies in trading;[20] (c) the extension of their cooperation to[21] sectors such as defence and security. The latter area is currently of particular interest, with Russia, China and Mongolia recently staging joint military drills while the Eastern Economic Forum was being held in Vladivostok[22].

United States

Although the July 2018 meeting had provided a positive signal, at least in terms of personal chemistry between Trump and Putin, the US administration's official position on Russia continues to be that expressed in the National Defence Strategy, which a) calls for diplomatic relations to remain based on the notion of "dominant superiority" of the US and (b) indicates that Russia (and China) are posing a serious threat to the United States by "*building up the material and ideological wherewithal to contest U.S. primacy and leadership in the 21st century*"[23]. In a recent Senate hearing, the US Department of State underlined the effectiveness of this approach in Georgia, Ukraine (where President Trump removed the limitation on arms sales introduced by previous US administrations) and the Baltic countries, which are strategic partners of and supported by the US, including in terms of defence, security and energy procurement.

Regardless of the apparent current stalemate, relations between the United States and Russia remain strategic insofar as the handling of significant international issues, such as the war in Syria (where conditions were put in place to avoid direct confrontation between the two armies), Eastern Ukraine (where diplomatic efforts are ongoing in collaboration with France, Germany and Ukraine), or the pursuit of international nuclear disarmament programmes (with 92% of the world's nuclear warheads today being under Russian or US control)[24].

1.3 Future EAEU prospects

Given the internal integration, the most promising fields for collaboration between EAEU members are military and defence. In a region characterised by significant instability and "unconventional security issues"[25], the EAEU could provide its smaller member states with significant support, which would otherwise be difficult for them to obtain given their budget constraints[26]. At the same time, Russia can benefit significantly from a closer strategic collaboration with the Caucasian and Central Asian countries, in view of China's economic-diplomatic efforts in the region.

Despite the sanctions framework, in the area of international relationships, the conditions seem to be ripe for an improvement in the relations between Russia and the western hemisphere, due

[20] In 2017, the trade volumes between the two countries reached USD 87Bn, while they could reach USD 100Bn, according to some forecasts.

[21] Russia as China's main supplier of petroleum products.

[22] Annual meeting organised by Russia for the promotion of investments in the northeastern part of Russia https://forumvostok.ru/en/.

[23] https://www.reuters.com/article/us-grigas-baltics-commentary/commentary-trump-can-do-more-for-the-baltic-states-idUSKCN1HA2ME.

[24] https://www.sipri.org/media/press-release/2018/modernization-nuclear-weapons-continues-number-peacekeepers-declines-new-sipri-yearbook-out-now.

[25] Against threats such as terrorism, separatism and political-religious extremism.

[26] The military expenditures of Armenia, Kazakhstan and Kirghistan total 4% of Russia's military expenditures.

to the complementary nature of trade and because the greater collaboration between Brussels and Moscow in Eastern Europe, the Balkans and Caucasus could turn out to be an effective instrument for monitoring of their respective interests in the region. The Eurasian Economic Commission (the EAEU's executive body, to a certain extent comparable with the EU's European Commission) also advocates the need to restore trust between the parties, through pragmatic dialogue apt to foster development of the essential economic relations between the EU and the EAEU[27] [28].

However, this does not preclude Russia's "pivot to East", where its trade relations and the significant role it plays in regional affairs (such as the solution of the Korean diplomatic crisis, rather than the protection of the Joint Comprehensive Plan of Action with Iran) make the country a major player in the region. This aspect should be of significant interest to European and United States politics. In fact, if on the one hand the Trump Administration's protectionist policies - mostly targeted against China - are enjoying significant (and bipartisan) support in Congress[29], on the other this approach could progressively foster stronger Russian-Chinese ties and impact US's strategic interests in the region, including:

- the definition of a peace agreement between North and South Korea which, contrary to US demands, could be concluded before the denuclearisation of the Korean peninsula begins;
- the strengthening of bilateral ties with Pakistan, a key interlocutor in Southern Asia on issues such as defence and security;
- maintenance of good, close relationships with Japan, historically a US ally which is nevertheless pursuing an open dialogue with Russia. Once perceived as a threat, Russia is now described in official Japanese documents as a key interlocutor in strategic sectors such as energy and security,[30] despite the territorial issues centred around the Kuril Islands[31];
- the successful conclusion of initiatives such as the Free and Open Indo-Pacific, formalised in 2017 with the participation of Australia, Japan and India.

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[27] Various proposals have been put forth in this regard. See for example, 'Why the EU must align with Eurasia?', Association of Accredited Public Policy Advocates to the European Union, August 2017.

[28] The project is run by IIASA (International Institute for Applied Systems Analysis) and involves the Eurasian Development Bank, the Vienna Institute for International Economic Studies and the Centre for European Policy Studies. The three areas in which the research focused in this phase constituted the object of three different works conducted by Vienna Institute researchers.

[29] https://thediplomat.com/2018/09/trump-has-no-intention-of-making-a-trade-deal-with-china/.

[30] https://www.cas.go.jp/jp/siryou/131217anzenhoshou/nss-e.pdf.

[31] https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/091218-russia-japan-committed-to-building-closer-energy-ties-despite-geopolitical-risks.

Major EU sanctions and Russian counter-sanctions currently in force

EU SANCTIONS

- Diplomatic measures (March 2014-sine die)
- A series of individuals and entities charged with misappropriation of Ukrainian state funds and human rights violations had their assets frozen and restrictions were placed on their travel. These were "tranches" of economic sanctions: the first expires on 06/03/2019 (decision 2014/119 and Regulation 208/2014) and the second expires on 15/09/2019 (Decision 2014/145 and Regulation 269/2014).
- Restrictions were placed on the economic relations with Crimea and Sevastopol, following their annexation by Russia. These expire on 23/06/2019 (Decision 2014/386 and Regulation 692/2014).
- Measures concerning economic cooperation (July 2014-sine die): BEI and BERS were asked to suspend the conclusion of new loans in the Russian Federation.
- Economic sanctions concerning trade with Russia are in place in specific sectors. These are renewed every six months - the next expiration date is 31/01/2019 (Decision 2014/512 and Regulation 833/2014) and comprise:

- restrictions on the access to primary and secondary EU capital markets by five major Russian state financial entities (SberBank – VTB Bank – GazPromBank – VneshEconomBank / VEB and RosselKhozBank), three large companies operating in the energy sector (RosNeft – TransNeft and GazPromNeft), three large companies operating in the defense sector (OPK OboronProm – United Aircraft Corporation and Uralvagonzavod) and their wholly-owned subsidiaries located outside the EU;
- ban on exporting and importing arms and dual-use goods for military purposes or for disposal to final military users in Russia;
- limitations on Russia's access to specific services and technologies that can be used for oil production and prospecting.

In March 2015, EU leaders decided to connect the current sanctions regime to the full implementation of the Minsk agreements. It is therefore possible that at the upcoming expiration dates, the measures will be unanimously renewed, despite dissenting declarations from various EU member states.

RUSSIAN COUNTER-SANCTIONS AGAINST THE EU (expiring on 31/12/2018)

- Public entities are prohibited from purchasing vehicles and means of transportation, textiles, clothing, furs and leather goods produced in the EU.
- Food imports have been blocked.
- A "black list" has been issued containing the names of 89 European political and military functionaries who are barred from entering Russia.
- Approval of a law that bans many westerns NGOs as undesirable entities.
- A presidential decree ordering the destruction of illegally imported foodstuffs.

Restrictive US measures and Russian countermeasures

US MEASURES

- In 2012, Congress approved the "Magnitsky Act" which bans certain prominent Russian individuals from entering the United States, while freezing their assets and investments held in US financial institutions.

- Subsequently, in 2014 the Obama Administration issued three executive orders (13660, 13661 and 13662), which provided for a further asset freeze and a measure (13685) introducing the following prohibitions applicable to US persons[32] and natural persons with green cards:

  - involvement in transactions related to new debts exceeding 14 days (New Debt) or new investments in risk capital (New Equity) with a series of financial institutions (SberBank – VTB Bank – GazPromBank – VneshEconomBank / VEB – Bank of Moscow and RosselKhozBank);

  - involvement in transactions connected to new debt exceeding 60 days with RosNeft – TransNeft – Novatek and GazPromNeft and/or more than 30 days with Rostec;

  - exporting of products and services that are instrumental to Russia's oil sector with Open Joint-Stock Company RosNeft Oil Company – GazPromNeft – LukOil OAO – OAO GazProm and SurgutNeftGas.

- Additional restrictions were implemented later on with the "Countering Russian Influence in Europe and Eurasia Act of 2017", many of which against non-US persons as well. These restrictions involved: illegal IT activities, sea and rail transports, energy, financial services, corruption of the public administration, incorrect disposal of public assets, transactions with entities/individuals that have violated sanctions or which/who are guilty of serious human rights violations, intelligence sectors and defence.

RUSSIAN COUNTER-MEASURES

- Various US functionaries involved in violating the human rights of detainees are banned from entering Russia; Russian children cannot be adopted by United States citizens.

[32] United States citizens, regardless of their place of residence; natural and legal persons who physically reside in the United States (Companies founded/established in the USA or which are governed by US law).

2. Trade and FDIs of the EAEU

Wilma Vergi

In this chapter, we analyze the dynamics characterizing the overall trade of Eurasian Economic Union countries with the rest of the world and with regard to the major trade partners, i.e. the USA, China and the EU, on a general and sector basis. Detailed information is provided on the performance and composition of EAEU country trade with Italy and between the former and Russia, the largest interlocutor in the region.

Additionally, the volume and recent dynamics of the Foreign Direct Investments (FDI) flow into EAEU countries are examined, with a particular focus on the recent initiatives connected to the Belt and Road Initiative and the agreements with China. Details are concurrently provided regarding Italian FDI in EAEU countries and the presence of Italian companies in the region.

The chapter concludes with a brief mention of certain significant trade agreements concluded recently between the EAEU and Russia, including the particularly important agreement for the creation of a vast Eurasian free trade area (the Great Eurasian Partnership) between EAEU, Asean and the Shanghai Cooperation Organization members and an assessment of the international position of the EAEU countries in the World Bank's classification in terms of trade infrastructure and investment climate.

2.1 Foreign trade of Eurasian Economic Union countries

Based on ITC Comtrade data, EAEU country trade results alternated between highs and lows in the decade starting in 2007 and ending in 2016. Growth was strong (except for 2009, the year of the international financial crisis) until 2012, when trade hit a peak of USD 1083Bn (2.9% on a global basis), but then contracted until 2016, when the lowest level of USD 591Bn was reached (and the global percentage dropped to 1.8%). The evolution of the prices of raw materials and energy in particular and the performance of the economic cycle in Russia (in terms of imports) and between the major trading partners (in terms of exports) were the main factors affecting trade dynamics. These were joined in 2014 by the (negative) effects of the sanctions and counter-sanctions between Russia and Western countries.

Trading recovered significantly in 2017. Last year, total trading climbed back up to approximately USD 741Bn, a 25% increase over 2016. The recovery is due to higher exports (+26.2% yoy), driven by the dynamics of the raw materials prices increases (energy in particular), and a recovery in imports (+24% approx., yoy), thanks to the improved growth profile of the region's economies.

The data for 1H18, available only for Russian trade, indicate a further increase, with flows during the period totaling USD 328.5Bn, up 22% yoy over the same period of the previous year. Exports recorded an increase by 26.6% yoy (USD 213Bn), while imports (USD 115Bn) were up by 13.5% yoy.

The net result is positive on a historical basis: in 2017 it exceeded USD 140Bn, up from 2016 when this figure stood at USD 106Bn, the decade low. The highest level was reached in 2011, with almost USD 252Bn.

Trade performance and EAEU share of global total												
USD Bn	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017[1]	1H17[2]	1H18[2]
Import (cif)	352.4	234.0	294.8	398.2	416.8	417.0	378.3	251.0	242.1	300.3	101.6	115.3
Export (fob)	574.4	368.2	482.1	649.8	666.2	652.4	616.7	419.4	349.0	440.5	168.4	213.2
Balance	222.0	134.2	187.3	251.6	249.4	235.4	238.4	168.5	106.9	140.2	66.8	97.9
Trade	926.8	602.1	776.9	1048	1083	1069.4	995.1	670.4	591.1	740.8	270.0	328.5
Chg. % Import	32.2	-33.6	26.0	35.1	4.7	0.1	-9.3	-33.7	-3.5	24.0	27.8	13.5
Chg. % Export	34.7	-35.9	30.9	34.8	2.5	-2.1	-5.5	-32.0	-16.8	26.2	29.6	26.6
Chg. % Trade	33.7	-35.0	29.0	34.9	3.3	-1.3	-7.0	-32.6	-11.8	25.3	28.9	21.7
% on global Import	2.2	1.9	1.9	2.2	2.3	2.2	2.0	1.5	1.5	1.7	n.a.	n.a.
% on global Export	3.6	3.0	3.2	3.6	3.6	3.5	3.3	2.5	2.2	2.5	n.a.	n.a.
% on global Trade	2.9	2.4	2.6	2.9	2.9	2.8	2.6	2.0	1.8	2.1	n.a.	n.a.
Chg % World	15.9	-22.9	21.9	19.8	1.8	2.4	0.1	-12.7	-2.9	10.1	n.a.	n.a.
RUB/USD	24.6	31.7	30.4	29.3	31.1	31.8	37.3	60.7	67.6	58.4	58.0	58.6
Chg % y/y RUB/USD[3]	-4.0	28.9	-4.1	-3.7	6.4	2.2	17.1	63.0	11.4	-13.6	-17.7	1.0
Chg % y/y Brent[3]	58.9	-60.4	108.9	23.7	11.4	3.1	0.2	-50.3	-33.5	51.6	28.1	34.9

1) provisional data; 2) Russia only; 3) change on the exchange/average rate for the period (change preceded by a positive sign = depreciation) Source: ITC Comtrade

Russia's contribution to total trade within the Eurasian Economic Union was of approximately 79%. The next largest is Kazakhstan (10.5%), then Belarus (8.6%), Kyrgyzstan (0.8%) and lastly Armenia (0.8%).

Geographic breakdown of EAEU trade										
USD Bn	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Russia										
Import (cif)	267.1	170.8	228.9	306.1	316.2	314.9	286.6	182.8	182.3	228.2
Export (fob)	468.0	301.8	397.1	517.0	524.8	527.3	497.8	343.9	285.5	359.2
Balance	200.9	131.0	168.2	210.9	208.6	212.3	211.2	161.1	103.2	130.9
Trade	735.0	472.6	626	823.1	841.0	842.2	784.5	526.7	467.8	587.4
% on EAEU total	79.3	78.5	80.6	78.5	77.7	78.8	78.8	78.6	79.1	79.3
Kazakhstan										
Import (cif)	37.8	28.4	24.0	38.0	44.5	48.8	41.3	30.6	25.2	29.3
Export (fob)	71.2	43.2	57.2	88.1	92.3	84.7	79.5	46.0	36.8	48.3
Balance	33.4	14.8	33.2	50.1	47.7	35.9	38.2	15.4	11.6	19.0
Trade	109.0	71.6	81.3	126.1	136.8	133.5	120.8	76.5	62.0	77.7
% on EAEU total	11.8	11.9	10.5	12.0	12.6	12.5	12.1	11.4	10.5	10.5
Belarus										
Import (cif)	39.4	28.6	34.9	45.8	46.4	43.0	40.5	30.3	27.6	34.2
Export (fob)	32.6	21.3	25.3	41.4	46.1	37.2	36.1	26.7	23.5	29.3
Balance	-6.8	-7.3	-9.6	-4.3	-0.3	-5.8	-4.4	-3.6	-4.1	-5.0
Trade	72.0	49.9	60.2	87.2	92.5	80.2	76.6	57.0	51.1	63.5
% on EAEU total	7.8	8.3	7.7	8.3	8.5	7.5	7.7	8.5	8.7	8.6
Armenia										
Import (cif)	4.1	3.2	3.8	4.1	4.3	4.3	4.2	3.3	3.2	3.9
Export (fob)	1.1	0.7	1.0	1.3	1.4	1.5	1.5	1.5	1.8	2.1
Balance	-3.0	-2.5	-2.8	-2.8	-2.8	-2.8	-2.7	-1.8	-1.4	-1.7
Trade	5.2	3.9	4.8	5.4	5.7	5.7	5.6	4.7	5.0	6.0
% on EAEU total	0.6	0.6	0.6	0.5	0.5	0.5	0.6	0.7	0.9	0.8
Kyrgyzstan										
Import (cif)	4.1	3.0	3.2	4.3	5.4	6.0	5.7	4.1	3.8	4.5
Export (fob)	1.6	1.2	1.5	2.0	1.7	1.8	1.9	1.4	1.4	1.8
Balance	-2.5	-1.8	-1.7	-2.3	-3.7	-4.2	-3.9	-2.6	-2.4	-2.7
Trade	5.7	4.2	4.7	6.2	7.1	7.8	7.6	5.5	5.3	6.3
% on EAEU total	0.6	0.7	0.6	0.6	0.7	0.7	0.8	0.8	0.9	0.8

Source: ITC Comtrade

Imports – By product category	% of total		Contrib. of total chg. % in pp.	
	2012	2017[1]	2012	2017[1]
Rubber and plastic	5.1	5.4	-0.5	1.1
Wood, paper and printing	2.1	1.8	-0.2	0.2
Machinery	29.0	30.4	-3.0	7.4
Electrical machinery	9.8	10.2	-1.0	2.5
Mechanical machinery	16.3	17.6	-1.6	4.4
Optical, photo, medical machinery	2.8	2.4	-0.3	0.5
Miscellaneous goods	1.4	2.0	0.3	-1.8
Metals	8.5	8.3	-0.9	2.4
Transport equipment	15.4	12.2	-2.5	6.0
Minerals	8.0	6.1	-1.2	1.8
Mineral fuels	6.9	4.9	-1.1	1.4
Ores, slag, ash, earths and stone	1.1	1.2	-0.1	0.4
Furniture	1.3	1.1	-0.2	0.4
Stones, glass and ceramics	2.2	2.1	-0.2	0.6
Agricultural products, food and tobacco	12.0	12.7	-1.0	2.1
Chemical products	9.4	11.5	-0.6	2.4
Textiles, clothing, footwear and leather	5.6	6.3	-0.5	1.5
Total in USD Bn and Chg %	416.8	300.3	-10.5	24.1

1 Provisional figures - Source: Comtrade

Exports – By product category	% of total		Contrib. of total chg. % in pp.	
	2012	2017[1]	2012	2017[1]
Rubber and plastic	1.2	1.7	-0.1	0.4
Wood, paper and printing	1.7	3.0	0.0	0.6
Machinery	2.5	3.9	-0.1	0.8
Electrical machinery	0.7	1.1	0.0	0.1
Mechanical machinery	1.4	2.2	-0.1	0.6
Optical, photo, medical machinery	0.2	0.4	0.0	0.1
Miscellaneous goods	0.7	12.4	1.6	2.3
Metals	9.0	11.1	-0.8	3.2
Transport equipment	2.8	2.3	-0.5	1.1
Minerals	69.2	49.6	-11.0	14.7
Mineral fuels	67.5	47.9	-10.8	14.1
Ores, slag, ash, earths and stone	1.6	1.7	-0.2	0.7
Furniture	0.1	0.1	0.0	0.0
Stones, glass and ceramics	3.0	3.5	-0.2	0.7
Agricultural products, food and tobacco	3.8	6.5	0.0	1.4
Chemical products	5.6	5.1	-0.7	0.8
Textiles, clothing, footwear and leather	0.5	0.8	0.0	0.1
Total in USD Bn and Chg %	666.2	440.6	-11.9	26.2

1 Provisional figures - Source: Comtrade

The Eurasian Economic Union's exports in 2017 were represented primarily by minerals (about 50% of the total, or approximately USD 219Bn) followed by miscellaneous goods (12.4%, USD 54Bn), metals (almost 11%, USD 49Bn, in particular, iron and steel, aluminium, copper and nickel), agricultural and food products (approx. 6.5%, USD 29Bn) and chemicals (approximately 5%, equal to almost USD 22.5Bn). Imports primarily consist of mechanical and electrical machinery (totalling approximately 30%, equal to USD 91Bn), followed by agricultural and food products (12.7%, or USD 38Bn, including meat, fruit, vegetables and beverages) transport equipment (12%, USD 37Bn) and chemical products (11.5%, or USD 35Bn, particularly pharmaceutical products, detergents and organic chemical products).

Compared to the situation in 2012, in certain significant sectors, both import and export percentages and amounts in absolute figures underwent changes. Despite a decline from USD 120Bn in 2012 to about USD 91Bn in 2017 (up from USD 73 Bn in 2016), one of the main areas that showed an increase in its percentage share over the total is imported machinery, which moved from 29% to 30.4%. Among exports, minerals, affected by the comparison of the prices on the two dates, fell from USD 461Bn in 2012 to USD 219Bn in 2017 (in his case as well, this represents an increase from the USD 167Bn figure in 2016). Their share of total exports also decreased from over 69% to approximately 50%.

In 2017, machinery and transport equipment were the major contributors to import growth (+24.1%) by over 13 percentage points (pp), following a four-year period of negative results (on the average -5.5 pp per year from 2012 to 2016); while in the export area, the recovery of energy prices allowed minerals to drive growth (+26.2%) with a contribution of slightly over 14 pp, following four years of negative results (on the average -11pp per year from 2012 to 2016).

The geographic distribution of EAEU country trading

In the last decade, Eurasian Union countries have witnessed changes in the geographic distribution of their trading, with goods moving away from the EU towards the east. While imports from

European Union countries has been decreasing, from about 36% in 2012 to about 32% in 2017, imports from China have increased from about 15% in 2012 to 19.2% last year. Conversely, the share of imports from the USA has hardly changed from its placement at around 5%, in the last five years. Imports from ASEAN countries have enjoyed brisk growth, with about 2% of the total in 2012 and 3.4% in 2017. The African continent has also seen its importance grow as a supplier of EAEU countries: while in 2012 it was equal to 0.7% of EAEU imports, in 2017 this percentage rose to over 1%.

Exports to the European Union, still the main trading partner of the Euro countries, are progressively dropping with exports to China concurrently increasing. EU shares dropped from around 47% in 2012 to less than 44% in 2017, while the percentage of exports destined for China increased from almost 8% in 2012 to more than 10% last year. 3.5% of the total exported from EAEU countries went to Africa, therefore almost tripling the latter's importance compared to 2012 when it absorbed only 1.5% of exports. The USA's share fluctuated between 2-2.5%, rising from 2% in 2012 to 2.6% in 2017. Approximately 1% of total EAEU exports went to ASEAN countries, consolidating the 2012 levels.

Imports by EAEU countries – Breakdown by geographical area 2012/2017 – % Shares and USD Bn

	2012		2017[1]	
	USD Bn	%	USD Bn	%
Europe[2]	**266.3**	**63.9**	**174.2**	**58.0**
EU28	151.0	36.2	94.9	31.6
CIS	99.6	23.9	62.6	20.8
Italy	15.5	3.7	11.6	3.9
Asia	**113.8**	**27.3**	**96.8**	**32.2**
China	63.2	15.2	57.7	19.2
Asean	8.6	2.1	10.3	3.4
America	**32.1**	**7.7**	**24.9**	**8.3**
USA and Canada	21.3	5.1	15.8	5.3
LatAm	8.8	2.1	7.2	2.4
Africa	**2.9**	**0.7**	**3.3**	**1.1**
North Africa	1.1	0.3	1.4	0.5
Sub Sahara	1.1	0.3	1.2	0.4
Others	**1.5**	**0.4**	**1.3**	**0.4**

[1]Provisional data [2]Europe includes CIS Source: Comtrade

Exports by EAEU countries – Breakdown by geographical area 2012/2017 – % Shares and USD Bn

	2012		2017[1]	
	USD Bn	%	USD Bn	%
Europe[2]	**446.5**	**67.0**	**298.1**	**67.7**
EU28	310.3	46.6	192.4	43.7
CIS	97.8	14.7	75.6	17.1
Italy	44.2	6.6	22.6	5.1
Asia	**120.5**	**18.1**	**105.5**	**23.9**
China	52.8	7.9	45.2	10.3
Asean	6.1	0.9	4.7	1.1
America	**25.5**	**3.8**	**19.1**	**4.3**
USA and Canada	17.2	2.6	12.3	2.8
LatAm	7.0	1.0	5.2	1.2
Africa	**10.1**	**1.5**	**15.3**	**3.5**
North Africa	8.3	1.2	12.5	2.8
Sub Sahara	1.5	0.2	2.5	0.6
Others	**63.5**	**9.5**	**2.6**	**0.6**

[1]Provisional data [2]Europe includes CIS Source: Comtrade

2.2 EAEU trade with the USA, China and the European Union

EAEU trade with the USA

In 2017, EAEU trade with the USA totaled USD 25.1Bn, up by 8% yoy compared to the previous year. Imports amounted to USD 14.5Bn (+12% yoy), whereas exports reached almost USD 11Bn (+3% yoy). The highest level was recorded in 2014, when imports reached almost USD 21Bn. The highest level was reached in 2011, with exports reaching almost USD 17Bn. In 2012, imports stood at USD 18.5Bn, whereas exports reached almost USD 13.6 Bn.

The balance is historically negative for the EAEU countries: the deficit was about USD 4Bn last year, compared to almost USD 11Bn in 2014. There was a moderate trade surplus only in 2010 and 2011, of approximately USD 1Bn.

The US share of total imports from EU countries was 4.8% in 2017, while the US absorbed 2.4% of total exports. Overall, trade with the USA represents approximately 3.4% of the total (with the highest level exceeding 3.9% in 2016 and the lowest level dipping to 2.95% in 2013).

1H18 figures, covering only Russia, show an increase in trade of 14% yoy, which reached USD 12Bn. At USD 6.6Bn, imports were up by almost 13% yoy, while exports were up by +15% yoy at USD 6.6Bn.

EAEU - USA trade performance	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	1H2018[1]
Import	16.5	11.2	11.9	15.5	18.5	19.8	20.9	13.6	13.0	14.5	6.6
Export	14.5	10.0	13.0	16.8	13.6	11.8	10.2	9.0	10.2	10.6	5.5
Balance	-2.0	-1.2	1.2	1.4	-4.9	-8.0	-10.7	-4.6	-2.7	-3.9	-1.1
Trade	31.0	21.2	24.9	32.3	32.2	31.5	31.1	22.6	23.2	25.1	12.2
Chg % y/y import	41.9	-32.2	5.9	30.5	19.7	6.7	5.5	-34.9	-4.7	11.9	12.9
Chg % y/y export	78.6	-31.1	30.4	29.1	-19.1	-13.7	-13.4	-11.5	13.4	3.4	15.3
Chg % y/y trade	56.9	-31.7	17.4	29.8	-0.5	-1.9	-1.5	-27.2	2.5	8.1	14.0
% USA of tot import	4.69	4.79	4.02	3.89	4.45	4.75	5.52	5.42	5.35	4.83	5.8
% USA of tot export	2.53	2.72	2.71	2.59	2.05	1.8	1.65	2.15	2.93	2.4	2.6
% USA on tot trade	3.35	3.52	3.21	3.08	2.97	2.95	3.12	3.37	3.92	3.38	3.7
Chg % y/y RUB/USD	-4.0	28.9	-4.1	-3.7	6.4	2.2	17.1	63.0	11.4	-13.6	1.0

[1] Russia only source: ITC Comtrade

Imports from the USA mainly comprise transport equipment which enjoyed a share of over 37% in 2017, followed by machinery (33%), mainly mechanical, agricultural and food products (4.5%), metals (4.0%), rubber and plastic (3.5%). Although transport equipment had covered a significant percentage in the past as well, in 2017 the figure was influenced by orders of aircraft imported from Russia (USD 3.5Bn). Exports consisted of metals (over 37% of the total), followed by minerals (31%), mainly energy, various goods (7.6%), stones, glass and ceramics (7.5%) and chemicals (7%).

Metals include steel and aluminium. In March, the United States increased import duties to 25% and 10% respectively. These import duties are applicable to all imports (with a few exceptions). The share that those items represent insofar as the total for the region should be taken into account when assessing the potential impact on exports from the EAEU countries. In 2017, while the item "Aluminium and aluminium products" covered 17.9% of the total exported from EAEU countries to the USA, with a total value of USD 1.9Bn (a sharp increase compared to a share of just over 11% in 2012), although covering 17.1% of total exports, the increase in "Iron and steel" item did not include iron blocks in raw form (constituting approximately 10% of total EAEU exports to the USA). Finally, "Iron and steel items," which includes sub-items that are not affected by the increase in duties, represents a small share of 1.8% of the total (down from more than 2% in 2012) of this EAEU sector's exports to the USA.

In the figures for 1H18, referring only to Russia, it is interesting to note that aluminium exports, which enjoyed strong growth in the first quarter of the year (USD 685M compared to USD 302M in the first quarter of 2017), collapsed in the April-June period, following application of the new rates, dropping from USD 370M in 2017 to almost USD 145M in 2018.

Performance of Russian aluminium, iron and steel, iron and steel items export to the USA 1H18

USD M	1 Q 2017	2 Q 2017	Chg % q/q 2017	1 Q 2018	2 Q 2018	Chg % q/q 2018	1 H 2017	1 H 2018	Chg % y/y H2018/17
Iron and steel	361.8	419.9	16.1	411.3	547.1	33.0	781.8	958.5	22.6
Aluminium and articles thereof	301.8	369.6	22.5	685.2	144.8	-78.9	671.4	830.1	23.6
Articles of iron or steel	20.3	35.7	75.5	29.8	59.5	99.5	56.0	89.3	59.3

Source: ITC Comtrade

Breakdown of EAEU - USA imports (2012-17)	% of total		Contrib. of total chg. % in pp.	
	2012	2017	2016/12 y.a.	2017/16
Rubber and plastic	4.1	3.5	-0.4	0.3
Wood, paper and printing	2.3	0.7	-0.5	0.0
Machinery	37.5	32.9	-3.6	2.5
Electrical machinery	7.9	6.0	-0.8	-0.2
Mechanical machinery	19.9	18.9	-1.7	1.7
Optical, photo, medical machinery	9.7	7.9	-1.1	0.9
Miscellaneous goods	0.4	0.3	4.0	-22.4
Metals	4.8	4.0	-0.3	-1.0
Transport equipment	21.5	37.1	-3.2	29.6
Minerals	1.6	0.5	-0.3	0.1
Mineral fuels	1.5	0.3	-0.3	0.1
Ores, slag, ash, earths and stone	0.1	0.2	0.0	0.1
Furniture	0.4	0.5	0.1	-0.5
Stones, glass and ceramics	0.5	0.7	0.0	0.1
Agricultural products, food and tobacco	13.1	4.5	-2.4	-0.1
Chemical products	12.9	14.4	-0.9	2.1
Textiles, clothing, footwear and leather	1.0	0.9	0.0	-0.2
Total in USD Bn and Chg %	18.5	14.5	-7.5	11.9

Source: ITC Comtrade

Breakdown of EAEU - USA exports (2012-17)	% of total		Contrib. of total chg. % in pp.	
	2012	2017	2016/12 y.a.	2017/16
Rubber and plastic	1.3	1.6	-0.1	0.4
Wood, paper and printing	0.9	1.7	0.5	-1.8
Machinery	2.6	4.7	0.2	0.9
Electrical machinery	0.7	0.7	0.0	-0.1
Mechanical machinery	1.5	3.5	0.2	0.8
Optical, photo, medical machinery	0.4	0.5	0.0	0.1
Miscellaneous goods	0.9	7.6	2.1	-12.4
Metals, of which:	25.1	37.1	-0.9	12.5
Iron and steel	8.9	17.1	0.9	8.7
Articles of iron or steel	2.2	1.8	-0.2	1.3
Aluminium and articles thereof	11.3	17.9	0.5	1.7
Transport equipment	0.9	0.9	0.0	0.0
Minerals	44.6	30.9	-4.9	0.5
Mineral fuels	44.5	30.7	-4.9	0.4
Ores, slag, ash, earths and stone	0.2	0.2	0.0	0.1
Furniture	0.1	0.1	0.0	0.0
Stones, glass and ceramics	5.9	7.5	-0.4	2.2
Agricultural products, food and tobacco	0.5	0.6	0.0	0.0
Chemical products	17.1	7.0	-2.8	1.2
Textiles, clothing, footwear and leather	0.1	0.2	0.0	0.0
Total in USD Bn and Chg %	13.6	10.6	-6.3	3.4

Source: ITC Comtrade

In 2017, transport equipment contributed the most to the increase in imports (+11.9%) on an annual basis, comprising almost 30% of the total. This was partially offset by a negative contribution of miscellaneous goods by over 22%. Among exports (up by 3.4%), the positive contribution of metals (+12.5 pp) was substantially offset by the similarly negative contribution of miscellaneous goods (-12.4%). The relative contribution of stones, glass and ceramics (2.2 pp) and Chemicals (1.2 pp) has allowed the total export dynamic to remain positive.

EAEU Trade with China

Eurasian Union countries traded USD 102Bn with China, a 29% increase yoy, compared to the previous year. Imports totalled USD 58Bn (+26% yoy), whereas exports reached almost USD 44Bn (+34% yoy). The highest level was recorded in 2013, when imports reached almost USD 117Bn. The highest level was reached in 2012, with exports reaching almost USD 53Bn.

The balance is historically negative for the EAEU countries: the deficit was about USD 14Bn last year, compared to almost USD 10Bn in 2012 (the maximum was USD 16Bn in 2013).

China's share of total imports from EU countries was 19.5% in 2017, absorbing 10.1% of total exports. Overall, trade with China represents about 14% of the total, the highest level of the last decade.

The first half of 2018, with data available only for Russia, was characterized by further growth in trade (+30% yoy), which reached almost USD 50Bn. Imports increased to USD 24Bn (+19% yoy), whereas, more importantly, exports reached almost USD 26Bn (+42% yoy). The balance thus turned positive for the first time in recent history for Russia, by about USD 2Bn dollars. China's share of Russian trade exceeds 15%.

EAEU - China trade performance	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017[1]	1H2018[2]
Import	41.9	28.4	45.7	56.6	63.2	66.2	60.7	44.0	45.7	57.7	24.0
Export	29.5	22.8	30.4	51.7	52.8	50.6	48.1	34.8	32.8	43.9	25.9
Balance	-12.4	-5.6	-15.2	-4.9	-10.4	-15.6	-12.6	-9.2	-12.9	-13.9	1.9
Trade	71.3	51.2	76.1	108.2	116	116.7	108.7	78.7	78.5	101.6	49.9
Chg % y/y import	43.0	-32.1	60.8	23.8	11.8	4.7	-8.3	-27.6	4.0	26.3	18.8
Chg % y/y export	38.1	-22.8	33.7	69.8	2.1	-4.2	-5.0	-27.6	-5.7	33.7	42.3
Chg % y/y trade	40.9	-28.3	48.7	42.2	7.2	0.7	-6.9	-27.6	-0.3	29.4	29.9
% China of tot import	11.9	12.1	15.5	14.2	15.2	15.9	16	17.5	18.9	19.5	20.8
% China of tot export	5.1	6.2	6.3	7.95	7.9	7.8	7.8	8.3	9.4	10.1	12.1
% China on tot trade	7.7	8.5	9.8	10.3	10.7	10.9	10.9	11.75	13.3	13.9	15.2

1 provisional data 2 Russia only source: ITC Comtrade

The imports mainly consist of machinery, with a 52% share in 2017. This comprised mainly mechanical machinery (27%) followed by electrical and electronic machinery (almost 23%) and optical, photographic and medical machinery (2%). Textiles and clothing (13%), metals (8.5%), chemicals (5%), rubber and plastic (4%) follow. Exports consisted of minerals (65%), mainly energy (60%), wood, paper and printing (9.5%), metals (7%) and machinery (6%).

Breakdown of EAEU - China imports 2012[1]-17	% of total		Contrib. of total chg. % in pp.	
	2012	2017	2016/12 y.a.	2017/16
Rubber and plastic	4.9	4.4	-0.4	0.9
Wood, paper and printing	1.3	0.9	-0.1	0.1
Machinery	45.2	52.0	-1.9	13.5
Electrical machinery	19.3	22.8	-0.9	6.9
Mechanical machinery	23.9	27.1	-0.9	6.2
Optical, photo, medical machinery	1.9	1.9	-0.1	0.4
Miscellaneous goods	3.7	3.6	-0.3	0.9
Metals	9.9	8.5	-0.9	2.3
Transport equipment	6.9	4.2	-1.0	1.4
Minerals	0.5	0.3	-0.1	0.1
Mineral fuels	0.3	0.2	-0.1	0.1
Ores, slag, ash, earths and stone	0.2	0.1	0.0	0.0
Furniture	2.4	2.0	-0.3	1.0
Stones, glass and ceramics	2.8	2.1	-0.3	0.6
Agricultural products, food and tobacco	3.0	3.6	0.0	0.4
Chemical products	3.6	5.1	0.0	1.3
Textiles, clothing, footwear and leather	15.9	13.4	-1.6	3.7
Total in USD Bn and Chg %	63.2	55.0	-6.9	26.3

1Provisional figures - Source: ITC Comtrade

Breakdown of EAEU - China exports 2012[1]-17	% of total		Contrib. of total chg. % in pp.	
	2012	2017	2016/12 y.a.	2017/16
Rubber and plastic	1.1	1.2	-0.1	0.4
Wood, paper and printing	5.4	9.5	0.3	2.3
Machinery	2.2	5.6	0.2	2.3
Electrical machinery	0.2	1.4	0.0	1.3
Mechanical machinery	1.9	3.6	0.1	1.1
Optical, photo, medical machinery	0.1	0.5	0.1	-0.1
Miscellaneous goods	0.0	0.0	0.3	-2.0
Metals	7.2	6.9	-0.9	3.4
Transport equipment	0.4	0.9	0.0	0.3
Minerals	73.4	65.2	-8.7	25.2
Mineral fuels	64.4	59.8	-7.2	22.5
Ores, slag, ash, earths and stone	8.9	5.4	-1.5	2.7
Furniture	0.0	0.0	0.0	0.0
Stones, glass and ceramics	0.1	0.4	0.0	0.1
Agricultural products, food and tobacco	2.1	4.5	0.3	0.6
Chemical products	8.0	5.4	-1.0	0.7
Textiles, clothing, footwear and leather	0.1	0.3	0.0	0.2
Total in USD Bn and Chg %	52.8	44.9	-9.5	33.7

1Provisional figures - Source: ITC Comtrade

The sectors that have most driven imports in 2017 are machinery (13.5 pp), textiles and clothing (3.7 pp), metals (2.3 pp), transport equipment (1.4 pp) and chemicals (1.3 pp). On the export side, the recovery of minerals was decisive as they contributed to the overall dynamics with 25.2 pp, after a four-year period characterized by an average annual negative contribution of about 9 pp, metals (3.4 pp), wood, paper and printing, as well as machinery, both with 2.3 pp.

EAEU Trade with the European Union

Eurasian Union countries traded almost USD 258Bn with the European Union, a 9% increase yoy, compared to the previous year. Imports totaled USD 95Bn (+15.5% yoy), whereas exports reached almost USD 163Bn (+5% yoy). The highest level was reached in 2013, with imports exceeding

USD 155Bn. For exports, the highest level was reached in 2008, with exports reaching almost USD 313Bn.

The balance is historically positive: the surplus was over USD 68Bn last year, compared to almost USD 159.3Bn in 2012. In 1H18, Russia recorded a surplus of almost USD 56Bn.

The share of total imports to the EU from EAEU countries was 32% in 2017, while 38% of total exports were to EU countries. Overall, trade with the EU represents about 35% of the total, close to the lows of 2015 but still far from the period highs (over 48%) recorded in 2008.

In 1H18, with figures available only for Russia, trading volumes reached USD 144Bn (+21% yoy), driven by exports that reached almost USD 100Bn (+25% yoy), while imports, amounting to approximately USD 44Bn, were up by 14% yoy.

EAEU - EU trade performance

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017[1]	1H2018[2]
Import	135.4	94.2	109.5	141.2	151.1	155.4	141.2	79.2	82.0	94.7	44.0
Export	313.0	190.6	223.7	289.7	310.3	298.3	280.2	170.2	155.2	163.0	99.7
Balance	177.6	96.4	114.2	148.5	159.3	143	138.9	91.0	73.2	68.3	55.7
Trade	448.5	284.8	333.2	430.8	461.4	453.7	421.4	249.3	237.2	257.7	143.7
Chg % y/y import	31.8	-30.5	16.3	28.9	7.0	2.9	-9.1	-44.0	3.6	15.5	14.0
Chg % y/y export	56.9	-39.1	17.4	29.5	7.1	-3.9	-6.1	-39.3	-8.8	5.0	24.6
Chg % y/y trade	48.4	-36.5	17.0	29.3	7.1	-1.7	-7.1	-40.8	-4.8	8.6	21.2
% EU of tot import	38.4	40.3	37.2	35.4	36.2	37.3	37.3	31.5	33.9	32.0	38.2
% EU of tot export	54.5	51.8	46.4	44.6	46.6	45.7	45.4	40.6	44.5	37.6	46.8
% EU on tot trade	48.4	47.3	42.9	41.1	42.6	42.4	42.4	37.2	40.1	35.3	43.7

[1] provisional data [2] Russia only source: ITC Comtrade

The imports mainly consist of machinery, with a 31% share in 2017. This comprised mainly mechanical machinery (20%) followed by electrical and electronic machinery (about 18%) and optical, photographic and medical machinery (3%) Chemicals (21%), transport equipment (15%), agriculture and food products (9%) and rubber and plastic (7%) follow. Exports consist of minerals (75%), mainly energy (74%), metals (8%), stones, glass and ceramics and chemicals (both about 4%).

Last year, the increase in imports from the EU (15.5%) was due to the positive contribution of transport equipment (6.5 pp), chemicals and machinery (both at 3.5 pp) and agricultural and food products (1.5 pp). Miscellaneous goods performed negatively however, at -3.2 pp. For exports as well, the about 17pp contribution of minerals to total growth (+5%), was largely offset by the negative contribution of miscellaneous goods (16.5 pp). Overall growth was substained by metals with a 1.2 pp contribution, transport equipment (0.9 pp), stones, glass and ceramics (0.8 pp).

Breakdown of EAEU - EU imports 2012[1]-17	% of total		Contrib. of total chg. % in pp.	
	2012	2017[1]	2016-12 y.a.	2017-16
Rubber and plastic	5.6	6.9	-0.5	1.1
Wood, paper and printing	2.9	2.7	-0.3	0.1
Machinery	31.9	30.7	-3.6	3.5
Electrical machinery	8.5	7.6	-1.0	0.8
Mechanical machinery	20.1	19.9	-2.2	2.2
Optical, photo, medical machinery	3.3	3.1	-0.4	0.5
Miscellaneous goods	0.9	1.0	0.4	-3.2
Metals	7.3	7.7	-0.8	1.4
Transport equipment	18.4	14.8	-3.2	6.5
Minerals	1.2	0.8	-0.2	-0.1
Mineral fuels	1.0	0.6	-0.1	-0.1
Ores, slag, ash, earths and stone	0.2	0.2	0.0	0.0
Furniture	1.4	1.2	-0.2	0.3
Stones, glass and ceramics	1.5	1.4	-0.2	0.0
Agricultural products, food and tobacco	10.7	8.8	-1.5	1.5
Chemical products	15.9	20.6	-1.2	3.5
Textiles, clothing, footwear and leather	2.4	3.4	-0.2	0.8
Total in USD Bn and Chg %	151.1	94.7	-11.4	15.5

[1]Provisional figures - Source: ITC Comtrade

Breakdown of EAEU - EU exports 2012[1]-17	% of total		Contrib. of total chg. % in pp..	
	2012	2017[1]	2016-12 y.a.	2017-16
Rubber and plastic	0.8	1.2	-0.1	0.3
Wood, paper and printing	1.0	2.1	0.0	0.3
Machinery	0.8	1.7	0.0	0.2
Electrical machinery	0.2	0.3	0.0	0.0
Mechanical machinery	0.5	1.2	0.0	0.2
Optical, photo, medical machinery	0.1	0.2	0.0	0.1
Miscellaneous goods	0.0	0.1	2.1	-16.5
Metals	7.5	8.3	-0.9	1.2
Transport equipment	0.7	1.4	-0.1	0.9
Minerals	81.1	75.3	-12.5	17.2
Mineral fuels	80.7	74.4	-12.5	16.9
Ores, slag, ash, earths and stone	0.5	1.0	0.0	0.4
Furniture	0.0	0.1	0.0	0.0
Stones, glass and ceramics	2.5	4.3	-0.2	0.8
Agricultural products, food and tobacco	1.0	1.5	0.0	0.0
Chemical products	4.3	3.6	-0.7	0.5
Textiles, clothing, footwear and leather	0.3	0.4	0.0	0.0
Total in USD Bn and Chg %	310.3	163.1	-12.5	5.0

[1]Provisional figures - Source: ITC Comtrade

Performance of the major items traded between Russia and the USA, China and the EU

Over the last five years, there have been major shifts in Russia's percentages in foreign imports and exports, insofar as the main trade items (machinery for imports and minerals for export), mainly toward the Asian markets (particularly China) and away from the European Union.

One of the largest import categories, total machinery purchased in EU countries fell from 42% of the total in 2012 to just over 33% in 2017 (or from USD 44Bn to USD 26Bn), while concurrently Chinese supplies rose from 23% to almost 34% (USD 24Bn to USD 26Bn). The shares of Asia (not including China) and the USA adjusted slightly downwards, dropping from 18% to 17% and from almost 6% to 5% respectively in the period ranging 2012 - 2017 (from USD 19Bn to USD 13Bn dollars and from USD 6Bn to USD 4Bn).

Total machinery purchased in EU countries fell from 48% of the total in 2012 to just over 37% in 2017 while concurrently Chinese supplies rose from 22% to over 30%. Asia (not including China) covered almost 15% of the category total, confirming the 2012 percentage. Electric machinery purchased from the EU dropped as well (from 33% to 25%), whereas imports from Asia (not incl. China) dropped from 24% to 22%. On the other hand, China supplied more than 44% of the electric machinery in 2017, as compared to 30% in 2012. The drop in EU exports of optical, photographic, medical and precision instruments was more contained compared to other machinery categories (from 43% to 42%), once again benefiting China (up from 10% to 15%). The USA has gained some albeit limited ground, with an increase from 15% to 16%, while the remaining Asian countries experienced a drop from 16% to 15%.

Vehicles imported to Russia from the EU fell from almost 49% in 2012 to 41% in 2017, as did those imported from Asia (except China) from almost 34% to 28%. China has gained the most ground among the various Asian economies, with exports rising from 6% to 8% of the total in 2017. The significance of the USA in this context has also increased, from 5% in 2012 to over 7%.

In terms of exports, energy minerals are mainly targeted to EU countries, though the percentage has dropped considerably since 2012: in 2017 the percentage stood at 45%, compared to 54% in 2012 (in value terms this is USD 95Bn in 2017, compared to USD 198Bn in 2012). China's significance has increased, as it purchased almost 12% of Russia's exports compared to 6.7% in 2012 (with an increase in absolute terms from USD 24.9Bn to USD 25.2Bn), while the rest of Asia's percentage jumped from 13% to 16% in 2017.

In the metals segment, exports of iron and steel to the EU dropped drastically, from 40% to 24%. Conversely, direct exports to the USA have increased (from 5% to 9%) as well as to Asia (except China) (from 41% to 45%), while China covers a small percentage. For iron and steel items, Russia has experienced a net increase in EU countries (from 8% to over 32%), while there was a drop in the Asian market, not including China, which absorbed a little over 41% in 2017, as compared to over 59% in 2012 and also the US market (a drop from 9% to 5%). Aluminium exports to Europe dropped (from 29% to 23%), offset by the increase experienced in Asian market, not including China (from 39% to 41%), but above all the US market which jumped from 20% to almost 28% in 2017. These percentages are set to change significantly following the tariff increases announced by the US Administration.

Geographic breakdown of Import-Export product categories 2012-17 - Russia

	UE		USA		Asia ex China		China		Other World	
IMPORT	2012	2017	2012	2017	2012	2017	2012	2017	2012	2017
Machinery									10.6	13.2
84 - Mechanical machinery	47.7	37.1	5.4	4.9	14.7	14.6	21.6	30.2	8.9	6.5
85 - Electrical machinery	33.4	24.6	3.6	2.8	23.8	21.8	30.3	44.3	15.5	11.3
90 - Optical, photographic, medical appliance	43.2	42.1	15.4	16.2	15.8	14.9	10.1	15.4	6.4	14.0
87 - Vehicles	48.6	41.0	5.2	7.3	33.9	29.7	5.9	7.9		
EXPORT									25.1	25.4
27 - Mineral fuels, mineral oils and products of their distillation	53.6	44.8	1.6	1.6	12.9	16.2	6.7	11.9	13.9	22.9
72 - Iron and steel	40.2	24.0	4.8	8.6	40.6	44.5	0.5	0.1	21.8	20.9
73 - Articles of iron or steel	7.9	32.1	8.8	4.8	59.4	41.1	2.0	1.2	10.1	7.6
76 -Aluminium and articles thereof	29.3	23.2	20.2	27.6	39.4	40.8	1.1	0.9		

Source: Intesa Sanpaolo processing based on ITC Comtrade figures

2.3 Italy's trade with the EAEU countries and Russia[33]

Italy's trade with the EAEU countries

Italy's trade with the countries of the Eurasian Economic Union amounted to approximately EUR 23Bn in 2017, up by about 14% compared to 2016. The EUR 13.8Bn imports indicate a 12.8% recovery yoy, while exports (EUR 9.1Bn) increased by 15.1% yoy. The recovery in energy prices and the positive economic situation in Russia were the main drivers of growth.

The Eurasian Economic Union countries cover a significant portion of Italy's trade. Based on Istat figures, in 2017 approximately 3.4% of total imports by Italy were from the Eurasian Economic Union, with almost 2% of Italian exports destined to those nations. These percentages are improving compared to 2016, when they stood at 3.3% for imports and 1.9% for exports.

In terms of the EAEU, Italy covered 4.6% in 2017, down from 2012 when this figure was 5.5%.

[33] In this paragraph, the analysis takes place on the Italian side with ISTAT data expressed in Euro.

Italy's trade with the Eurasian Economic Union countries											
EURO Bn	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	1H2018[1]
Import	18.9	13.6	17.1	20.5	23.2	24.0	19.9	16.9	12.2	13.8	7.8
Export	11.7	8.0	9.5	10.8	11.4	12.2	10.9	8.4	7.9	9.1	4.2
Balance	-7.2	-5.5	-7.6	-9.8	-11.8	-11.9	-9.0	-8.5	-4.3	-4.7	-3.6
Trade	30.6	21.6	26.6	31.3	34.6	36.2	30.7	25.3	20.1	22.9	12.1
Chg. % y/y trade	11.5	-29.5	23.0	17.8	10.5	4.7	-15.1	-30.2	-20.3	13.7	3.7
% of import with Italy	4.9	4.6	4.7	5.1	6.1	6.7	5.6	4.6	3.3	3.4	3.7
% of export with Italy	3.2	2.8	2.8	2.9	2.9	3.1	2.7	2.0	1.9	2.0	1.8
% of trade with Italy	4.1	3.7	3.8	4.0	4.5	4.8	4.1	3.2	2.6	2.7	2.7

[1] Provisional figures January - June 2018. Source: Istat

In 1H18, while imports increased by 6.5% yoy, exports dropped by 1.1% yoy. In terms of EAEU countries, imports from Russia were up, as this country plays a leading role in Italy's entire EAEU trade, which increased to 6.6% yoy, while exports dropped by 4.6% yoy. Imports and exports from/to Kazakhstan are brisk, with exports up by 34% and imports up by almost 5% yoy. There were positive change in other EAEU countries as well, though import volumes were more modest.

It is worth mentioning that in 1H18 the volume of trade of EAEU countries with respect to Italy's total consolidated to reach 3.7%, while exports dipped slightly to 1.8%. The share of trade rose to 2.7% of the total, as already recorded in 1H17 (2.7% for the full year). This percentage had peaked in 2013, reaching 4.8%.

Breakdown of Italy's trade with the EAEU countries 2017 – 1H18[1]								
EURO M	2017		Chg % y/y	Chg % y/y	1H2018*		Chg % y/y	Chg % y/y
	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp
Russia	12308.8	7984.7	15.7	19.3	6954.2	3582.4	6.6	-4.6
Kazakhstan	1343.9	632.3	-8.2	-24.7	814.2	407.2	4.7	34.0
Belarus	76.2	367.4	8.8	31.7	41.4	190.6	16.1	9.7
Armenia	33.2	117.1	10.2	23.9	19.4	65.8	31.8	13.3
Kyrgyzstan	13.8	22.2	1282.8	2.0	0.4	10.3	-7.7	8.4
EAEU	13775.9	9123.7	12.8	15.1	7829.7	4256.3	6.5	-1.1
% of world	3.4	2.0			3.7	1.8		

[1] provisional figures. Source: Istat

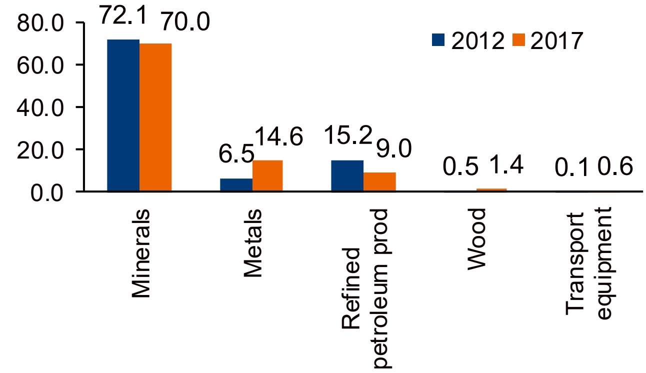
Italy's trade with the EAEU countries - Annual changes in EURO million – 2017 and 1H18[1]								
EURO M	2017				1H2018[1]			
	Imp	Exp	Trade	Balance	Imp	Exp	Trade	Balance
Russia	1665.7	1294.3	2959.9	-371.4	431.3	-174.4	256.9	-605.7
Kazakhstan	-120.8	-207.4	-328.1	-86.6	36.4	103.2	139.6	66.8
Belarus	6.2	88.5	94.6	82.3	5.7	16.8	22.5	11.1
Armenia	3.1	22.6	25.6	19.5	4.7	7.7	12.4	3.1
Kyrgyzstan	12.8	0.4	13.2	-12.3	0.0	0.8	0.8	0.8
EAEU	1566.9	1198.3	2765.3	-368.6	478.1	-45.8	432.3	-523.9

[1] provisional figures. Source: Istat

Italian imports in 2017 were again mostly represented by mineral products, mainly energy (70% of the total), followed by metals (approx. 15%), refined petroleum products (9%), wood and wood products (1.4%) and transport equipment (0.6%). Exports consisted of machinery (about 39% overall), particularly mechanical machinery (30%), textiles and clothing (19%), chemical products (7%), metals (7%) and electric appliances (7%).

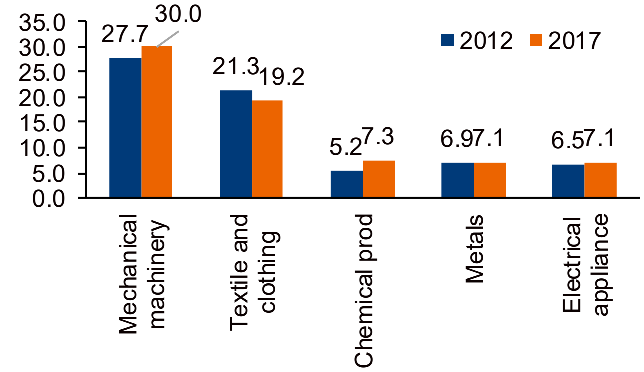
Among the various categories of traded goods, it is worth highlighting the relative importance of the Eurasian Economic Union countries for the supply of minerals, in particular energy mineral products and petroleum products: Italy imports about 24% of total minerals from the Eurasian Economic Union countries, whereas this percentage is equal to almost 15% as regards refined petroleum products. The EAEU countries also provide 5% of total imports of metals and metal products to Italy. As an outlet market, the Eurasian Economic Union countries purchase 3.4% of mechanical machinery exported from Italy, 3.4% of the total "fashion" segment, 2.8% of electric appliances, 2.3% of miscellaneous manufactured goods, primarily consisting of furniture, furnishing products and jewellery.

Breakdown of EAEU imports to Italy by trade category 2017 vs. 2012



Source: Istat

Breakdown of EAEU exports from Italy by trade category 2017 vs. 2012



Source: Istat

The minerals products segment posted the highest positive changes in 2017 (+19% yoy, compare to an average annual drop of almost 13% in the four year period from 2012 to 2016) followed by metals (+12% yoy in 2017, +5% annual average in 2016-12). Conversely, imports of refined petroleum products dropped by over 14% yoy in 2017 (-15% annual avg. in 2016/12).

Among exports, the "Fashion" sector has recovered with a 12.5% increase over last year, after dropping by about 9% in the preceding four year period. The mechanical machinery sector is recovering (+25% yoy), after an annual drop of almost 8% on the average in 2016/12. The performance of electric appliances is also improving, with a 47% increase yoy over 2017 (-10% ann. avg. previously). A similar dynamic exists in transport equipment exports, which grew by 33.5% in 2017, as compared to an average annual drop of 16% previously. Metal export growth rates have been slowing down in both periods examined (-15% yoy; -0.7% annual average). In 2017, the recovery for miscellaneous manufacturing was moderate (+1% yoy), following an average annual drop of almost 9% in 2016-12.

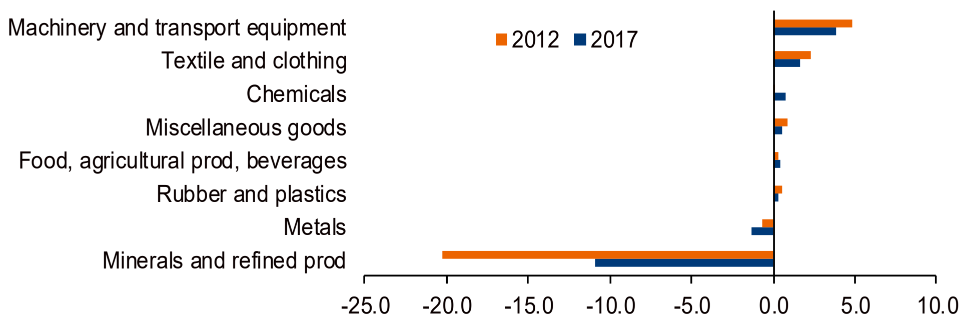
Insofar as contributions to increasing imports (+12.8%), in 2017 mineral (12.9 pp) and metal imports (+1.8 pp) had the largest effect, while refined petroleum products contributed negatively (-1.7 pp) as did transport equipment (-0.6 pp). Among exports (up by 15.1%), the following contributed in a positive sense: mechanical machinery (approx. 7 pp), electric appliances (2.6 pp), textiles and clothing (2.5 pp), food products (1.4 pp) and transport equipment (1.3 pp), while metals had a negative contribution (-1.5 pp).

EAEU Product Category - 2017						
EURO M	Import 2017	Export 2017	Chg % y/y Import 2016-12 y.a.	Chg % y/y Import 2017-16	Chg % y/y Export 2016-12 y.a.	Chg % y/y Export 2017-16
Agricultural products	137.5	46.3	-6.2	4.7	-15.7	3.7
Mining products	9638.3	6.3	-12.9	19.4	-13.7	25.4
Food products	41.6	528.4	-18.1	-23.9	-5.7	26.6
Textiles and clothing	100.2	1750.5	-2.9	-2.6	-8.9	12.5
Wood, paper and printing	187.1	144.0	9.2	10.1	-7.1	-7.4
Refined petroleum products	1241.6	24.1	-14.8	-14.1	-4.4	-6.9
Chemical products	186.5	670.2	-19.9	29.0	0.8	8.8
Pharmaceutical products	2.6	304.7	-6.6	71.3	5.6	25.0
Rubber and plastic	56.1	431.6	68.0	-13.9	-5.3	1.4
Base metals and metal products	2004.7	646.2	4.7	12.3	-0.7	-15.4
Computers, electronic and optical equip	7.4	146.2	1.8	21.8	-12.5	31.9
Electrical equipment	29.9	645.2	6.6	1.0	-10.1	46.8
Mechanical machinery	25.4	2741.3	11.8	8.3	-7.6	24.9
Transport equipment	81.9	412.1	118.7	-46.3	-15.8	33.5
Miscellaneous goods	12.4	607.0	19.7	7.1	-8.6	1.0
Other manufacturing activities	22.5	19.6	2.8	46.5	-15.9	14.8
Total	13775.9	9123.7	-11.8	12.8	-7.6	15.1

Source: Istat

Sector balances in 2017 indicate that the deficit caused by minerals and refined petroleum products is reduced compared to 2012: from over EUR 20Bn to slightly less the EUR 11Bn last year. Metals almost doubled their balance, moving from EUR 0.7Bn to EUR 1.4Bn in 2017. The drop in the surplus generated by the Fashion segment, which dropped to EUR 1.7Bn from EUR 2.3Bn in 2012, as well as machinery and transport equipment (from EUR 4.9Bn to EUR 3.8Bn).

Trade balances of the major product categories - 2012-2017 (Euro Bn)



Source: Istat

In 1H18 an upturn in the imports of metals (+15% yoy) has been recorded, while the recovery in the import of mineral products (+5% yoy) and refined petroleum products (+6% yoy) was more modest. Among the various import sectors, we note the positive change in the chemical sector, with an increase in excess of 18% yoy, followed by wood and wood by-products, with an increase of over 9% yoy. Among the lesser segments, there have been significant increases in imports from the miscellaneous manufacturing area (+202% yoy), mechanical machinery (+60% yoy) and computers and electronic equipment (+62% yoy).

Among exports, almost all segments performed well: among the best performers were electric machinery (+27% yoy) and electronics (+18% yoy), though the major sector which is mechanical machinery suffered a decrease (-8.5%), due to the drop in direct exports to Russia which was not offset by the increase in the flows towards Kazakhstan. Transport equipment also fared well (+12% yoy), as did food products (+10%) and metals (+3.5% yoy). Exports of textiles and clothing remained steady (-1.5% yoy), while chemical products have dropped by 3% yoy and pharmaceuticals have dropped by almost 27%.

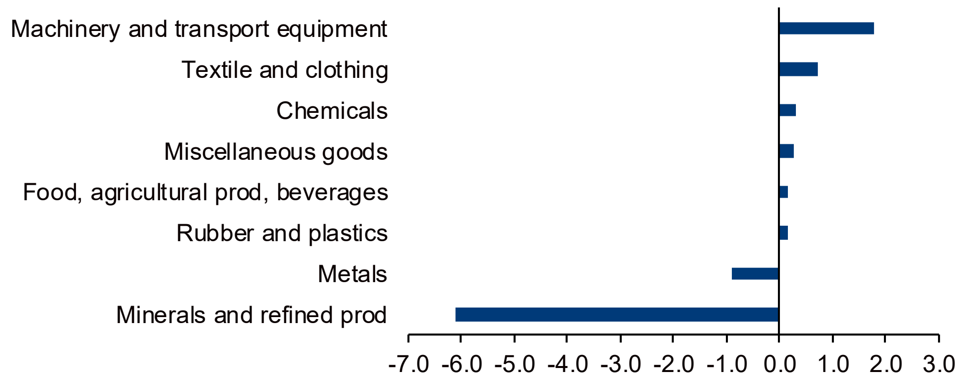
Breakdown by EAEU trade category - 1H18[1]

EURO M	Imp 2018	Exp 2018	Chg y/y imp	Chg y/y exp
Agricultural products	92.5	30.4	6.0	-15.7
Mining products	5321.8	3.1	4.9	-5.4
Food products	22.6	247.9	21.8	9.8
Textiles and clothing	46.2	795.6	-5.3	-1.5
Wood, paper and printing	103.7	67.6	9.4	-8.7
Refined petroleum products	816.0	23.0	6.1	120.5
Chemical products	117.2	323.0	18.3	-3.0
Pharmaceutical products	1.6	117.4	12.0	-26.7
Rubber and plastic	29.3	210.9	-3.0	-2.0
Base metals and metal products	1209.7	317.7	14.6	3.5
Computers, electronic and optical equip	6.0	76.9	61.9	18.3
Electrical equipment	13.0	354.4	-6.3	27.2
Mechanical machinery	14.8	1193.8	60.2	-8.5
Transport equipment	6.7	202.2	-79.3	11.7
Miscellaneous goods	16.2	285.2	201.7	-1.7
Other manufacturing activities	12.5	7.3	39.6	-21.9
Total	7829.7	4256.3	6.5	-1.1

1 provisional figures. Source: Istat

In the first half of 2018, the deficit for mineral and refined petroleum products exceeded EUR 6Bn, while the deficit for metals was EUR 0.9Bn. The net positive balance for machinery and transport equipment was EUR 1.8 billion.

Trade balances of the major product categories - 1H18 (EUR Bn)1



1 provisional figures. Source: Istat

Italy's trade with Russia

Italy's trade with Russia in 2017 showed a marked increase, after three years of decline, which led it to stand at EUR 20.3Bn. Imports (+15.9% yoy) reached EUR 12.3Bn, driven by the recovery in energy prices and the positive economic performance, while exports recorded an increase of 18.8% yoy to EUR 8.0Bn. Albeit in an expansive phase, the value of trade with Russia remains far from the record highs of 2013 when trade stood at EUR 31Bn. Data for 1H18 place trade at EUR 10.5Bn, up by 2.5% yoy. While imports were equal to almost EUR 7Bn (+6.6% yoy), exports dropped by almost 5% to EUR 3.6Bn.

The Italian balance in 2017 was EUR -4.3Bn, compared to EUR -3.9Bn in the previous year. The amount has fallen sharply over the last decade: the record high level was posted in 2013 when the deficit had reached EUR -9.43Bn. The deficit amounted to EUR 3.4Bn in 1H18.

The share of trade with Russia over the Italian total was 2.4% in 2017 and in 2018, up compared to 2016 (2.2%) but down from the highest levels of the last decade (4.1% in 2013).

Italy's trade with Russia

EURO Bn	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	1H18[1]
Import	16.09	12.14	14.63	16.90	18.32	20.20	17.28	14.41	10.62	12.31	6.95
Export	10.47	6.43	7.91	9.31	9.98	10.77	9.50	7.09	6.72	7.98	3.58
Balance	-5.62	-5.71	-6.73	-7.60	-8.34	-9.43	-7.77	-7.31	-3.90	-4.32	-3.37
Trade	26.56	18.57	22.54	26.21	28.30	30.97	26.78	21.50	17.34	20.29	10.54
Chg. % Import	10.1	-24.5	20.5	15.5	8.4	10.2	-14.5	-16.6	-26.3	15.9	6.6
Chg.% export	9.5	-38.6	22.9	17.7	7.2	7.9	-11.8	-25.4	-5.3	18.8	-4.6
Chg. % trade	9.9	-30.1	21.4	16.3	8.0	9.4	-13.5	-19.7	-19.4	17.0	2.5
% of import with Italy	4.2	4.1	4.0	4.2	4.8	5.6	4.8	3.9	2.9	3.1	3.3
% of export with Italy	2.8	2.2	2.3	2.5	2.6	2.8	2.4	1.7	1.6	1.8	1.5
% of trade with Italy	3.5	3.2	3.2	3.4	3.7	4.1	3.5	2.7	2.2	2.4	2.4

Note: [1] 1H18: provisional figures. Source: Istat

In 2017 Italy mainly imported minerals, with a share of 69.8% (especially energy minerals, including natural gas and crude oil), metals (14.5% including iron, cast iron, steel from first processing and ferroalloys, precious metals and finished products, aluminium), refined petroleum products (9.8%), wood and wood products (1.5% including paper and cardboard, veneer sheets and wood-based panels) and chemical products (1.3% and in particular fertilizers and nitrogen compounds).

Exports consist of 29.1% of mechanical machinery (in particular general and special purpose machines, taps and valves, pumps and compressors), 19.7% of textiles and clothing products (outerwear, footwear, miscellaneous clothing and accessories, travel items, bags), chemicals with 7.5% (toiletries: perfumes, cosmetics, soaps and the like, paints, varnishes and enamels, printing inks and synthetic adhesives), miscellaneous goods with 6.9% (furniture, instruments and equipment for dentists) and electrical appliances (6.8%: electrical appliances, motors, generators and electrical transformers).

Breakdown by trade category (volumes, changes and balances) - 2017

EURO M	Volum		Chg % y/y		Balance	
	Import	Export	Import	Export	2017	2016
Agricultural products	84.3	41.5	-16.1	1.0	-42.8	-59.4
Mining products	8586.3	5.6	25.9	38.3	-8580.7	-6816.8
Food products	40.5	482.6	-24.6	27.1	442.1	326.0
Textiles and clothing	52.7	1572.1	-10.7	13.1	1519.4	1331.3
Wood, paper and printing	180.0	121.4	10.6	-11.6	-58.6	-25.5
Refined petroleum products	1208.5	16.0	-15.4	-7.2	-1192.5	-1411.2
Chemical products	155.7	602.8	28.7	8.0	447.1	437.0
Pharmaceutical products	2.6	294.8	71.3	26.5	292.2	231.5
Rubber and plastic	54.7	391.5	-15.1	3.7	336.8	313.1
Base metals and metal products	1781.4	510.8	10.6	10.8	-1270.6	-1149.5
Computers, electronic and optical equip	5.5	121.3	12.6	31.3	115.8	87.5
Electrical equipment	28.2	543.7	-1.1	39.7	515.6	360.9
Mechanical machinery	20.3	2325.8	36.5	32.3	2305.6	1743.3
Transport equipment	80.4	383.7	-46.9	33.6	303.4	135.9
Miscellaneous goods	8.2	552.1	4.3	0.7	543.9	540.2
Other manufacturing activities	19.7	19.0	47.6	17.3	-0.6	2.9
Total	12308.8	7984.7	15.7	19.3	-4324.1	-3952.7

Source: Istat

The breakdown of the net balances by category shows a deficit for Italy in 2017 with regard to agricultural products (EUR 59M), mineral products (EUR 6.8Bn), wood, paper and printing (EUR 25.5M), refined petroleum products (EUR 1.4Bn), metals and metal products (EUR 1.1Bn). A surplus is recorded for food products (approximately EUR 326M), textiles and clothing (EUR 1.3Bn), chemicals (EUR 437M) and pharmaceuticals (EUR 231.5M), rubber and plastics (EUR 313M), computers and electronic equipment (EUR 87.5M), electrical appliances (EUR 361M), mechanical machinery (EUR 1.7Bn), transport equipment (EUR 136M), miscellaneous goods (EUR 540M).

In H1 2018, there was a drop in the value of direct exports to Russia, due mainly to the drop in the exports of mechanical machinery (-18% yoy), following the brisk rates experience in recent years. Electric machinery performed well (+20% yoy) as did electronics (+27% yoy), transport equipment (+13% yoy) and food products (+8.5% yoy). Exports of textiles and clothing and chemicals continue to be weak (-3% yoy and -5% yoy, respectively). Among imports, we note the increase in mineral products (+6.5% yoy) and refined petroleum products (+9% yoy), as well as metals (+8% yoy).

Breakdown by trade category (volumes, changes and balances – 1H18[1])

EURO M	Volum		Chg % y/y		Balance	
	Import	Export	Import	Export	2018	2017
Agricultural products	46.9	25.7	-22.2	-19.8	-21.2	-28.3
Mining products	4766.7	2.5	6.5	-15.9	-4764.2	-4473.2
Food products	21.5	222.3	18.1	8.5	200.8	186.8
Textiles and clothing	23.2	705.1	-12.0	-2.8	681.9	699.2
Wood, paper and printing	98.9	59.7	8.3	-1.9	-39.3	-30.5
Refined petroleum products	810.2	20.8	9.2	201.7	-789.4	-734.9
Chemical products	101.5	287.6	22.7	-5.1	186.2	220.4
Pharmaceutical products	1.6	112.8	12.0	-27.4	111.2	154.0
Rubber and plastic	28.5	192.7	-3.5	-0.3	164.2	163.7
Base metals and metal products	999.6	234.0	7.6	-0.2	-765.6	-694.5
Computers, electronic and optical equip	5.3	69.4	102.3	27.3	64.0	51.8
Electrical equipment	10.9	270.0	-18.9	20.4	259.1	210.7
Mechanical machinery	10.7	921.0	54.7	-17.8	910.2	1114.0
Transport equipment	6.3	189.3	-79.9	13.3	183.0	135.8
Miscellaneous goods	11.6	262.5	180.9	0.3	250.9	257.4
Other manufacturing activities	10.7	7.1	39.4	-22.4	-3.6	1.4
Total	6954.2	3582.4	6.6	-4.6	-3371.8	-2766.1

[1]Provisional figures - Source: Istat

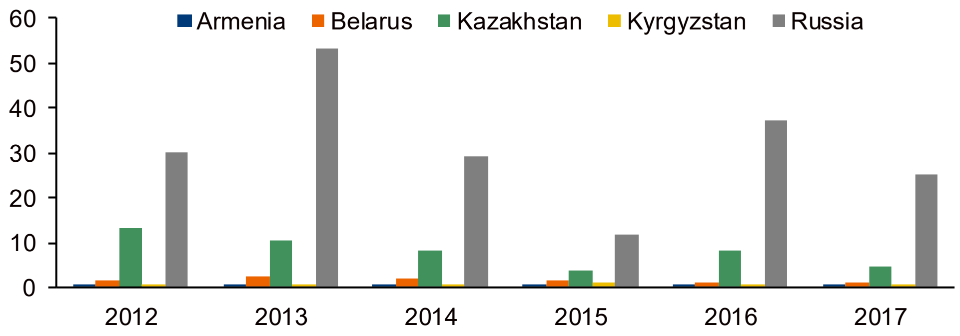
2.4 World and Italian FDIs in the EAEU

Inward and outward investments EAEU countries

The inward stock of foreign direct investments (FDIs) in the Eurasian Economic Union countries amounted to about USD 623.7Bn at the end of 2017 (UNCTAD figures), equal to approximately 2.0% of the global total. This figure is increasing compared to last year's amounts, thanks also to the appreciation of the assets, from USD 565.5Bn to USD 623.7Bn. Russia is the country which receives the majority of FDIs among EAEU countries: in 2017 investments stood at USD 446.6Bn. Kazakhstan comes next with USD 147.1Bn of FDIs.

Compared to last year, in 2017 FDI flows to EAEU countries rose from USD 47.5Bn in 2016 to USD 31.5Bn in 2017 (in particular due to the drop in FDIs to Russia from USD 37.2Bn to 25.3Bn).

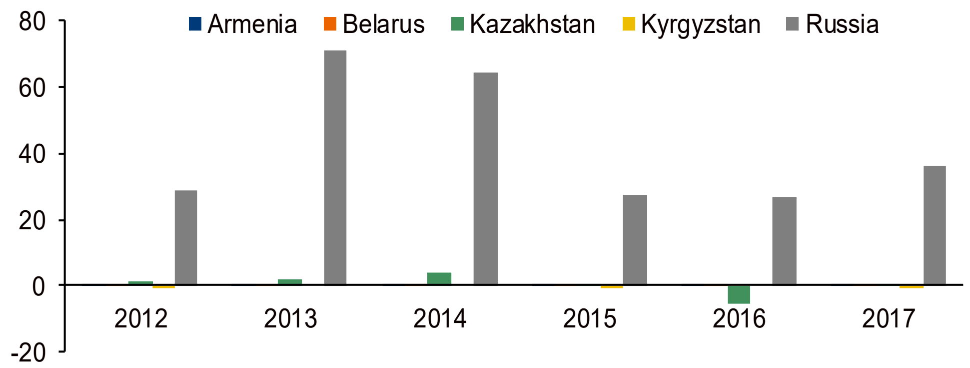
Inward FDI flows (USD Bn)



Source: UNCTAD

Investments made by EAEU countries in the rest of the world (outward FDI stock) stood at USD 404Bn in 2017, about 1.3% of the world's total. The major role is played by Russia in the outward side as well, with USD 382.3Bn invested abroad (1.2% of the world total).

Outward FDI flows (USD Bn)



Source: UNCTAD

Inward FDI stock (USD Bn)

	2012	2017
Armenia	5.3	4.7
Belarus	14.6	19.8
Kazakhstan	119.9	147.1
Kyrgyzstan	3.6	5.5
Russia	438.2	446.6
CIS	690.3	753.9
World	22877.1	31524.4

Source: UNCTAD

Outward FDI stock (USD Bn)

	2012	2017
Armenia	0.4	0.6
Belarus	0.5	0.8
Kazakhstan	22.9	20.5
Kyrgyzstan	0.0	0.0
Russia	332.8	382.3
CIS	371.9	433.9
World	22786.2	30837.9

Source: UNCTAD

Inward FDI stock/GDP ratio	2012	2017
Armenia	49.8	41.1
Belarus	22.2	36.6
Kazakhstan	57.7	90.5
Kyrgyzstan	53.8	77.2
Russia	20.2	29.1
CIS	24.6	37.3
World	30.5	39.2

Source: UNCTAD

Inward FDI stock per capita (in USD)	2012	2017
Armenia	1835	1620
Belarus	1538	2089
Kazakhstan	7088	8078
Kyrgyzstan	635	916
Russia	3055	3102
CIS	2467	2642
World	3221	4190

Source: UNCTAD

Inward FDI stock/global total ratio	2012	2017
Armenia	0.02	0.02
Belarus	0.06	0.06
Kazakhstan	0.52	0.47
Kyrgyzstan	0.02	0.02
Russia	1.915	1.417
CIS	3.02	2.39
World	100.00	100.00

Source: UNCTAD

Inward FDI flows (USD Bn)	2012	2017
Armenia	497	246
Belarus	1429	1276
Kazakhstan	13337	4634
Kyrgyzstan	293	94
Russia	30188	25284
CIS	60319	39367
World	1574712	1429807

Source: UNCTAD

Inward FDI flows/fixed investment ratio	2012	2016
Armenia	19.82	17.98
Belarus	6.51	10.90
Kazakhstan	28.12	26.81
Kyrgyzstan	13.96	28.94
Russia	6.89	15.27
CIS	10.14	16.40
World	8.63	10.09

Source: UNCTAD

Inward FDI flows/exports ratio	2012	2017
Armenia	35.98	10.96
Belarus	3.10	4.37
Kazakhstan	15.43	9.59
Kyrgyzstan	15.45	5.24
Russia	5.70	7.16
CIS	7.56	7.65
World	8.52	8.07

Source: UNCTAD

Inward and outward foreign Direct Investments - Russia

The FDI stock in Russia at the end of 2017 was USD 446.6Bn, according to UNCTAD. This amount was equal to 29.1% of GDP for the same year, up compared to 20.2% in 2012. Russia's share of the world total fell to around 1.4%, from 1.9% in 2012. Compared to the other BRIC countries, Russia is preceded by China and Brazil, respectively with a share of 4.7% and 2.5%.

In 2017 inward FDIs into Russia amounted to USD 25.3Bn according to UNCTAD, down from the previous year, when only USD 37.2Bn flowed into the Russian economy.

Most investments originate from European countries, according to Russian Central Bank figures. Of these, Cyprus stands out with a 13.5% share over total inward FDIs from 2010 to 1Q18; followed by Ireland (9.4%), Netherlands (8.8%), United Kingdom (8.6%), Luxembourg (8.2%) and Bahamas (8.1%). Italy ranked 22nd with 0.4%. Among the major Asian economies, we note Singapore with 6% and China with 1.1%. The main inward FDI target sectors, again on the basis of the data from the Russian Central Bank for the period from 2010 to 1Q18, are trade (22.3%), mining (21.7%), finance (20.5%), manufacturing (18.0%); within the latter, the refined energy products and coke sector (6.6%) stands out.

With reference to Russian FDIs abroad, in 2017 they amounted, according to UNCTAD, to about USD 382.3Bn, an increase compared to 2012 when just under USD 333Bn were invested. Central Russian Bank figures regarding total outward flows from 2010 to 1Q18 indicate that the main recipients of Russian investments are Cyprus (over 33% of the total), followed by the British Virgin Islands (20%), Switzerland, Austria and Netherlands (together approximately 4%). Italy ranks 21st with approximately 0.7%.

Foreign Direct Investments connected to the Belt and Road Initiative and the agreements with China.

Chinese investments in Russia [34] continue to increase thanks to numerous bilateral agreements, in addition to projects that were added to the "New Silk Road Initiative." In this initiative, launched in 2013 by Xi Jinping, Russia is present with numerous initiatives, both in terms of land development with new road and railway links, and maritime links, in addition to the so-called Arctic passage. This transit would allow to significantly shorten both China and Russia's distances and transits to Europe and the Americas through the Bering Strait, in addition to the exploitation of the huge subsoil resources available there. The construction of the CMREC (China Mongolia Russia Economic Corridor)[35] would promote the development above all of infrastructure, trade and investment between the countries involved, Russia in particular.

The main railway links include the completion of the high-speed railway between Moscow and Beijing, currently under construction between Moscow and Kazan, for which the Chinese government has allocated an investment of about USD 6Bn (the cost of the entire project is estimated at around USD 22Bn[36]) and it will be completed by 2022[37]. The consortium that will carry out the work comprises OJSC Mosgiprotrans, OJSC Nizhegorodmetroproekt and China Railway Eryuan Engineering Group Co. This section of the railway line should allow to transport about 10.5 million people initially, to then increase to 20 million in 2035 and 25 million in 2050, as well as an impressive freight movement by cargo. The completion of the work requires the construction of numerous bridges, viaducts, road and railway overpasses and canals. 80% of the materials used in the development of this project will be produced in Russia, both for the work itself and for the rolling stock[38].

There are also several agreements in the energy field, both for the construction of gas pipelines and oil pipelines that reach China from Siberian fields, and for the exploitation of important [39]gas and oil fields: the major projects include Power of Siberia (a gas pipeline which will be fully operational at the end of next year and which will supply China with 38 billion cubic meters of gas over the next thirty years), the exploitation of the field and the construction of the gas condensation plant at Yamal (at 29.9% with Chinese investments), the construction of the Tianwan nuclear power plant.

Special attention is paid to the high-tech industry[40], with the creation, among other things, of a new dedicated industrial park (in Skolkovo in Russia[41]), in which companies from both nations will collaborate. The hi-tech sectors that will benefit from Russia-China collaborations range from aerospace to telecommunications, from defence to aeronautics, from industrial technologies to software, from the Internet to digital multimedia, from e-commerce to semiconductors, from nanotechnology to robotics. Last March an agreement was signed between Roscosmos State Corporation and the Chinese National Space Administration in order to cooperate in joint projects for lunar and space exploration, creating a data center on lunar projects. Russia is planning to launch an orbiting space base in 2022, while China is planning to reach the lunar south pole in 2023.

[34] http://russiancouncil.ru/en/analytics-and-comments/analytics/china-and-russia-explore-bilateral-investment-/
[35] http://www.china.org.cn/english/china_key_words/2017-04/19/content_40651835.htm
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[37] https://www.railwaypro.com/wp/moscow-kazan-high-speed-rail-construction-launched-2018/; https://www.russia-briefing.com/news/will-moscow-kazan-high-speed-train-route-connect-beijing.html/
[38] http://eng.rzd.ru/newse/public/en?STRUCTURE_ID=15&layer_id=4839&refererLayerId=5074&id=106704
[39] http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1475872.shtml
http://en.kremlin.ru/events/president/news/54979
[40] http://www.chinadaily.com.cn/a/201712/08/WS5a2a87d8a310eefe3e99ef6f.html
[41] https://sk.ru/news/m/wiki/17057/download.aspx

In 2017, CEFC and Beijing Enterprise acquired equity in Rosneft totalling approximately 14% of its share capital, against approximately USD 9Bn, to which was added a further investment in a Rosneft investee (20%) of USD 1Bn.[42] Russia has invested approximately USD 3.4Bn in China, in a plant for the production of aluminium panels (Vitay Mashitskyi)[43].

The Chinese Belt and Road initiative also covers other Central Asian countries, including Kazakhstan and Kyrgyzstan and its purpose is to implement the energy, infrastructure (mainly rail, road and port) and logistics connection.

A part of the investments refers to petroleum and natural gas from Xinjiang to western China, then crossing central Asia toward Iran, Turkey and the Arab Peninsula. The China-Central Asia pipeline is the world's longest. Construction work began in 2008 along three lines (A, B and C), of which the third became operational in 2014[44]. The gas pipeline originates in Gedaim, at the border of Turkmenistan with Uzbekistan, crosses Central Uzbekistan and southern Kazakhstan to reach Khorgos in Xinjiang. From here, China's second West-East railroad will be connected. This is currently under construction. In September 2013, China signed intergovernmental agreements with Uzbekistan, Tajikistan, and Kyrgyzstan for the construction of an additional line (line D).[45] The first three lines became operative, while the fourth is encountering many obstacles and the construction of sections in Uzbekistan and Kyrgyzstan has been suspended for technical and funding reasons [46]. The corridor also provides for support until completion and connection with several important railway infrastructures that connect Central Asia, and in particular Kazakhstan with Iran, Turkey and Russia, in cooperation with national plans for railway infrastructures. The high speed Astana-Almaty railway link, for which work began in 2011 with Chinese involvement, is now operational. Another project connects Russia with Kazakhstan[47]. The total cost of the project is slightly below USD 28Bn. It will be financed by the Russian railways (60%) and the remaining 40% will be provided by foreign investment. A Russian-Chinese consortium won the first contract of USD 360M for designing, planning and development of the project between 2015 and 2016.[48]

Kazakhstan's geographic position, at the crossroads between Europe and Asia and its immense richness in petroleum and mineral resources make the country strategically significant in terms of the BRI initiative, which the Country is involved in with projects encompassing more than one corridor. Kazak authorities have already initiated several programmes, including "Strategy 2050" and the "100 precise steps" of Nurly Zhol or the "Path to the Future," which provides for Chinese investments and has objectives that are aligned with those of the BRI. The Nurly Zhol program aims to invest USD 9Bn over three years for infrastructure development for transports and logistics, industry and energy, to improve public water supply and heating networks and residential and

[42] https://www.ice.it/it/news/notizie-dal-mondo/99512; http://www.askanews.it/esteri/2017/10/19/cefc-cina-ingresso-in-rosneft-per-garantirci-approvvigionamenti-pn_20171019_00082/

[43] https://rdk-invest.com/warum-investieren-in-china/

[44] For further details on the China-Central Asia pipelines, see China National Petroleum Company (CNPC) at http://www.cnpc.com.cn/en/FlowofnaturalgasfromCentralAsia/FlowofnaturalgasfromCentralAsia2.shtml

[45] Idem

[46] Casey Michel: "Line D of the Central Asia-China Gas Pipeline Delayed", 31 May 2016, The Diplomat.

[47] Ferrovie Russe, 30 April 2016, "Russian-Chinese working group discusses prospects for construction of Moscow-Kazan High Speed Main Line":
http://eng.rzd.ru/newse/public/en?STRUCTURE_ID=15&layer_id=4839&refererLayerId=5074&id=106849

[48] Eva Gray: "Connecting Eurasia: mapping the myriad of high-speed rail routes", 9 July 2015: http://www.railway-technology.com/features/featureconnecting-eurasia-mapping-the-myriad-of-high-speed-rail-routes-4593227/ ; "Chinese company wins $390mn contract to develop Russian high-speed railway" 13 May 2015: https://www.rt.com/business/258241-china-russia-railway-construction/

social infrastructure and to support SMEs[49]. A significant project funded with the contribution of China insofar as interportal infrastructures (Inland Contained Depot, ICD or *dry port*) and the Special Economic Zone (SEZ) of Khorgos, located on the border between Kazakhstan and China, which is expected to become one of the largest "hubs" for the movement of goods throughout the Silk Road Economic Belt. President Nazarbayev announced the project on 2 July 2014[50]. The construction and logistics services are provided by DP World, a large UAE logistics company, therefore the project also involves Arab investors. Khorgos' capacity is currently 200,000 containers per year, but it is expected to reach 500,000 by 2020. China was the main funder and the Province of Jiangsu invested over USD 600M to develop the surrounding infrastructure over the next five years[51]. The track gauges in China are narrower by 85mm than those of the former Soviet countries, so that trains must stop at the border and their loads transferred to local trains in order to proceed, creating a transcontinental "relay" system. DP World is also involved in developing the Port of Aktau, Kazakhstan's largest cargo and dry bulk terminal on the Caspian Sea, which is to be connected to Khorgos via a railway, according to the plans announced by president Nazarbayev in May 2015. The project is joined to a USD 2.7Bn Kazak plan to modernize locomotives, freight wagons and passenger carriages and repair 450 miles of railway[52].

Italian foreign direct investments in EAEU countries and Russia

According to the Italian Ministry of Economic Development, the stock of Italian FDIs in the Eurasian Union countries in 2017 was about EUR 13Bn, the majority of which was mainly invested in Russia (EUR 11.5Bn).

Italian FDIs in the Eurasian Economic Union countries - 2007-17 Flows and 2017 Stock

EURO M	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Stock 2017
Belarus	1	23	-5	8	-6	-24	110	228	692	-208	na	1023[1]
Kazakhstan	6	80	-149	14	76	155	-24	77	267	51	-30	796
Armenia	1	4	-3	1	30	76	-77	20	38	-44	na	47[1]
Kyrgyzstan	0	0	0	0	0	0	0.2	-0.1	-0.2	-0.1	na	0.3[1]
Russia	28	1183	721	1087	1198	2322	-409	998	894	2499	647	11460
EAEU	36	1290	564	1110	1298	2529	-400	1323	1891	2298	617	13326

1 Stock in 2016. Source: Italian Ministry of Economic Development

There are several Italian businesses operating in the Eurasian Economic Union countries. Based on figures from the Italian Ministry of Foreign Affairs, these amount to approximately 850 businesses, operating mainly in the energy, agriculture and food, fashion, telecommunications and car industries. Out of the total of Italian businesses in the Eurasian Economic Union countries, 12 are located in Belarus, 740 in Russia, 87 in Kazakhstan and 6 in Armenia.

Leading Italian companies include:

ENI, ENEL, Prysmian, Saipem and Ansaldo Energia in the energy field;

Finmeccanica, Telespazio, Agusta Westland and Alenia in the aeronautical industry;

Ariston, Indesit, Merloni, Candy, Natuzzi and De Longhi in the furniture and domestic appliances industry;

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49 Marlen Belgibayev e Zhang Xiaotong: "The OBOR and the 'Nurly Zhol - Path to the Future': Complementarity and Challenges", Wuhan University Center for Economic Diplomacy, 4 March 2016.

50 http://akipress.com/news:544066/

51 Dmitriy Frolovskiy: "Kazakhstan's Cina Choice", The Diplomat, 6 July 2016 and Jack Farchy "China seeking to revive the Silk Road", Financial Times, 9 May 2016.

52 John C. K. Daly: "China and Kazakhstan to Construct a Trans-Kazakhstan Railway Line from Khorgos to Aktau", The Jamestown Foundation, Eurasia Daily Monitor Volume: 12 Issue: 94, 20 May 2015.

Manuli Rubber, Pirelli and Technimont in the rubber and plastic industry;

Astaldi, Salini Impregilo and Trevi in the infrastructure sector;

Campari, Colussi, Ferrero, Zuegg, Parmalat, Perfetti, De Cecco and Cremonini for the food industry;

Danieli, Techint, Tenaris and the Marcegaglia Group for mechanical engineering and metal processing;

Fiat and Iveco for transport equipment;

Italcementi, Mapei, Marazzi and Buzzi Unicem in construction materials;

Maire Technimont, Menarini, Esaote and Fidia for the chemical and pharmaceutical industries;

Telecom for communications;

Corneliani, Luxottica and Motivi in the Fashion industry.

The banks include UBI Banca, UniCredit, Intesa Sanpaolo, ICCREA, Popolare di Vicenza, BNL, BPI, UBAE; insurance companies include Generali[53].

2.5 Extra-EAEU trade agreements

In recent years, the Eurasian Economic Union has concluded free trade agreements with Iran [54] and Vietnam[55]. Agreements with India, Singapore, South Korea, Thailand, Pakistan, Bangladesh, Cambodia, Malaysia, Indonesia and the Philippines are currently in the concluding stages. In other geographic areas, agreements are being finalized with Egypt[56] and Tunisia, while trade agreements with Israel, Chile, Turkey, Morocco and Serbia[57] have already been ratified.

[53] Datahttp://www.infomercatiesteri.it/paesi.phpas at 4th October 2018

[54] http://greater-europe.org/archives/5091

[55] http://www.internationaltradecomplianceupdate.com/2016/10/18/eaeu-vietnam-fta-enters-into-force/; http://www.eurasiancommission.org/en/nae/news/Pages/10-10-17-1.aspx

[56] http://www.eurasiancommission.org/en/nae/news/Pages/24-05-2018-3.aspx

[57] https://www.silkroadbriefing.com/news/2018/06/21/eurasian-economic-union-gaining-massive-regional-traction-across-europe-asia-north-africa/

Great Eurasian Partnership

Source: China-Briefing

On 17 May 2018, in Astana (at the Astana Economic Forum) a significant economic and trade agreement was concluded between China and the members of the Eurasian Union[58]. This agreement is part of a much broader project, involving the creation of a Eurasian trade bloc, referred to as the Great Eurasian Partnership, between the members of the EAEU, the ASEAN and the Shanghai Co-operation Organization[59].

In April 2018, at the International Economic Forum at St. Petersburg, an agreement was signed with Japan for the creation of a platform to increase Japanese investments in Russia, while eight investment projects were ratified, totalling approximately USD 120M[60].

The end of the TPP (Trans-Pacific Partnership) has also opened the way to the creation of a free trade zone between Asia and Oceania, in which Russia and with it all EAEU countries together with China will have a leading role [61]; this project was reiterated at the 4th Eastern Economic Forum held in Vladivostok from 11 to 13 September 2018[62].

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[58] http://www.eurasiancommission.org/en/nae/news/Pages/17-05-2018-5.aspx

[59] http://tass.com/economy/974700; http://greater-europe.org/archives/4098; http://www.china-briefing.com/news/2017/08/30/china-russia-bilateral-trade-is-worlds-fastest-growing-opportunity-corridor.html; https://www.russia-briefing.com/news/trump-xi-putin-china-russia-want-asia-pacific-free-trade-deal.html/

[60] https://forumvostok.ru/en/programme/?day=12.09.2018 – Russia Japan

[61] https://www.russia-briefing.com/news/trump-xi-putin-china-russia-want-asia-pacific-free-trade-deal.html/; https://www.silkroadbriefing.com/news/2018/06/14/trump-putin-xi-new-world-trade-order-will-look-2030/

[62] https://forumvostok.ru/en/programme/

Among others, Russia, China, South Korea, North Korea and Japan participated in the Forum; numerous economic and commercial issues were discussed, to consolidate and develop the relations between the various countries in the Asian and Pacific region. In particular, attention was focused on trade development; investments (whether connected to the Silk Road or independent of the latter); empowerment of new special advanced zones with high technological potential[63] in the Russian far east; expansion of energy connections; new trade roads, particularly in the arctic; enhancement of collaborations between various countries in the industrial, aerospace, biomedical, energy, agriculture and food, mining fields; exploitation of the ocean; intensification of collaborations for development of infrastructures, logistics, transports, particularly ports; tourism; cultural and social relations.

2.6 Trade Infrastructures and Business Climate

EAEU countries rank in a mid level position compared to other CSI countries (according to the LPI Index, which summarizes the positioning of countries globally in terms of trade infrastructure) Kazakhstan ranked in the 77th place and Russia in the 99th place, globally. Belarus (120th place), Armenia (141st place) and Kyrgyzstan (146th place) ranked lower. Compared to the other BRIC countries, Russia has the lowest rating. Even looking at the breakdown of the individual components that make up the index, Russia and Kazakhstan always ranks in the middle. The opinions on infrastructure, logistics, traceability and timing of shipments for Russia with respect to other CIS countries are in a slightly more favorable position.

LPI Index 2016 (Logistics Performance Index) – Comparison with BRIC and CIS countries

	Rank (among 160 countries)	LPI	Customers and customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
Brazil	55	3.09	2.76	3.11	2.90	3.12	3.28	3.39
China	27	3.66	3.32	3.75	3.70	3.62	3.68	3.9
India	35	3.42	3.17	3.34	3.36	3.39	3.52	3.74
Russia	**99**	**2.57**	**2.01**	**2.43**	**2.45**	**2.76**	**2.62**	**3.15**
Armenia	**141**	**2.21**	**1.95**	**2.22**	**2.22**	**2.21**	**2.02**	**2.60**
Azerbaijan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Belarus	**120**	**2.40**	**2.06**	**2.10**	**2.62**	**2.32**	**2.16**	**3.04**
Georgia	130	2.35	2.26	2.17	2.35	2.08	2.44	2.80
Kazakhstan	**77**	**2.75**	**2.52**	**2.76**	**2.75**	**2.57**	**2.86**	**3.06**
Kyrgyzstan	**146**	**2.16**	**1.80**	**1.96**	**2.10**	**1.96**	**2.39**	**2.72**
Moldova	93	2.61	2.39	2.35	2.60	2.48	2.67	3.16
Tajikistan	153	2.06	1.93	2.13	2.12	2.12	2.04	2.04
Turkmenistan	140	2.21	2.00	2.34	2.37	2.09	1.84	2.59
Ukraine	80	2.74	2.30	2.49	2.59	2.55	2.96	3.51
Uzbekistan	118	2.40	2.32	2.45	2.36	2.39	2.05	2.83
Memorandum item Italy	21	3.76	3.45	3.79	3.65	3.77	3.86	4.03

Notes: the LPI ranges from 1 to 5. The higher the figures, the better the performance.
- Customers: Effectiveness and efficiency of customers and customs procedures.
- Infrastructure: Quality of transport and technology infrastructure for logistics.
- International shipments: Ease and reliability of transport.
- Logistics: Competence of local logistics industry
- Tracking & tracing: Traceability of shipping
- Timeliness: Timeliness of deliveries
Source: World Bank

The 2018 business climate, measured through the World Bank's Doing Business index, ranks Russia 35th in the global rankings, which include 190 countries, marking an improvement of five

[63] https://erdc.ru/en/about-tor/

places from the previous year. The ratings place Kazakhstan at the 36th place, followed by Belarus at 38th place, Armenia at 47th and Kyrgyzstan at 77th place.

Within the different components making up the overall index, as far as Russia is concerned, extremely positive opinions are noted as regards property registration (12th) and contractual protection (18th), although the country has lost a few places compared to the previous year. The opinion on obtaining credit improved, progressing fifteen places and taking Russia to 29th place. Foreign trade also improved significantly in the rankings, recovering a good forty places, despite remaining in 100th place. Russia, on the other hand, remains at the lower end of the world rankings with regard to the ease of obtaining building permits and licenses (115th place).

The Doing Business Russia Index

Easy of (*)	2018	2017	Chg.		2018	2017	CHG.
Doing business	35	40	-5	Protecting investors	51	53	-2
Starting a business	28	26	2	Paying taxes	52	45	7
Dealing with construction permits	115	115	0	Trading across borders	100	140	-40
Registering property	12	9	3	Enforcing contracts	18	12	6
Getting credit	29	44	-15	Resolving insolvency	54	51	3

Note: (*) ranking out of 190 countries. The lower the number, the greater the efficiency. Source: World Bank

Based on the general index, Russia ranks first compared to the other BRICs, and if compared to the other CIS economies, it is surpassed only by Georgia (9th place).

The Doing Business Index - Comparison of BRIC and CIS countries

	2018	2017
Brazil	125	123
China	78	78
India	100	130
Russia	35	40
Armenia	47	38
Azerbaijan	57	65
Belarus	38	37
Georgia	9	16
Kazakhstan	36	35
Kyrgyzstan	77	75
Moldova	44	44
Tajikistan	123	128
Turkmenistan	n.a.	n.a.
Ukraine	76	80
Uzbekistan	74	87

Note: ranking out of 190 countries. The lower the number, the greater the efficiency. Source: World Bank

3. Exports from Italian regions and districts towards the EAEU

3.1 Structure and composition of exports

Giovanni Foresti

The Italian North-West and North-East areas are the geographic areas that export the most towards the Eurasian Economic Union (EAEU). These two major geographic areas constitute 80% of Italian exports on the EAEU market, equal to EUR 7.27Bn in 2017. In particular, the Italian regions of Lombardy, Emilia-Romagna and Veneto are at the top of the ranking in terms of exports on this market. Their exports to the Customs Union have a combined value of approximately EUR 6Bn, representing 65.8% of the total.

These three regions are also among those with the highest propensity to export[64] towards the Eurasian Economic Union, with values ranging between 2.3% for Lombardy and 2.8% for Emilia-Romagna. Together with these regions, Umbria (2.4%) and, above all, Marche are in the lead, with the highest percentage (4.1%), thanks to a significant presence on the Russian market with their district leather supply chain, which alone represents 40% of the total exported to the Eurasian Union.

87.5% of regional sales in the EAEU are headed towards Russia, which purchases 1.8% of Italian exports, for a value of approximately EUR 7.95Bn, equal to 87.5% of the total amount exported towards the EAEU.

Italian exports towards the Eurasian Economic Union by geographic areas in 2017

	EUR M	%	% Russian on EAEU	As a % of total exports from the region
North-West, of which:	**3,639**	**40.1**	**86.7**	**2.1**
Lombardy	2,797	30.8	85.6	2.3
Piedmont	721	7.9	89.6	1.5
Liguria	114	1.3	96.7	1.4
North-East	**3,630**	**40.0**	**87.9**	**2.5**
Emilia-Romagna	1,651	18.2	87.8	2.8
Veneto	1,530	16.8	86.7	2.5
Friuli-Venezia Giulia	349	3.8	92.9	2.4
Trentino-Alto Adige	99	1.1	92.6	1.2
Centre	**1,422**	**15.7**	**87.8**	**1.9**
Tuscany	578	6.4	86.7	1.7
Marche	481	5.3	88.4	4.1
Lazio	271	3.0	88.4	1.2
Umbria	92	1.0	89.8	2.4
South, of which:	**392**	**4.3**	**90.0**	**0.8**
Abruzzo	163	1.8	91.3	1.8
Campania	93	1.0	89.7	0.9
Puglia	66	0.7	89.0	0.8
Total	**9,083**	**100.0**	**87.5**	**2.1**

Note: only regions which exported more than EUR 50M towards the Eurasian Economic Union are shown.
Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

The sector specialisation of the regions significantly influences the type of goods exported to the Eurasian Economic Union. Almost one-third of exports from the North-East refers to the mechanical engineering industry, with a total value of EUR 1.236Bn; in order of importance, this is followed by the fashion industry (20.8%, equal to EUR 755M)[65], where clothing (14.2%) prevails over the leather goods supply chain (5.2%). The home and housing products sector (12.6%, equal to EUR 457M) is ranked third[66], led by furniture (5.5%) and followed by construction products

[64] In this chapter, "propensity to export towards the EAEU" is intended as the ratio between exports towards these markets and the total exports of the region.

[65] Clothing, textiles, leather industry and jewellery.

[66] Furniture, domestic appliances and construction products and materials.

and materials, and home appliances (both weighing 3.5%). Non-district export flows are also significant, such as electric engineering goods (EUR 230M, 6.3% of the total exported to these areas from the North-East), chemical products (4.7%, EUR 72M) and metal products (4.4%, EUR 161M). Food products also exceed the EUR 100M export threshold (EUR 106.2M, to be precise) from the North-East towards the EAEU, representing 2.9% of total flows; lastly, exports of rubber and plastic goods account for just under EUR 100M.

Mechanical engineering exports also prevail in the North-West (30%, equal to slightly less than EUR 1.1Bn), followed, some way behind, by fashion (13.7%, equal to almost EUR 500M). Export values for other districts goods are lower, despite still exceeding EUR 100M: the home and housing products sector exports EUR 159M and the food sector EUR 173M. Nevertheless, this area also exports a high volume of goods - typically non-district goods - to the Russian market: the chemical industry, for example, obtained sales amounting to EUR 383M (10.5% of the total), while electrical engineering goods reached EUR 183M (5%). There is also a good presence on the Russian market of medium-high and high-tech production from the North-West, such as pharmaceuticals (EUR 126M, equal to 3.5% of the total), automotive components (EUR 96M, 2.6%), automotive (EUR 62M, 1.7%), aerospace (EUR 82M, 2.3%) and electronics (EUR 80M, 2.2%).

Italian exports to the Eurasian Economic Union in 2017, broken down by geographical area and economic sector

	EUR M				%			
	North-West	North-East	Centre	South	North-West	North-East	Centre	South
Total, of which:	3,639.1	3,629.7	1,422.2	391.8	100.0	100.0	100.0	100.0
Mechanical engineering	1,092.3	1,236.2	327.2	77.3	30.0	34.1	23.0	19.7
Wearing apparel	318.2	516.9	151.0	52.4	8.7	14.2	10.6	13.4
Chemicals	382.8	171.9	86.3	24.6	10.5	4.7	6.1	6.3
Leather goods	75.0	190.3	255.7	23.3	2.1	5.2	18.0	5.9
Electrical equipment	182.6	229.8	39.1	6.4	5.0	6.3	2.7	1.6
Metal products	194.9	161.1	50.8	9.2	5.4	4.4	3.6	2.3
Furniture	108.2	201.1	86.5	13.5	3.0	5.5	6.1	3.4
Food products	172.6	106.2	50.1	37.7	4.7	2.9	3.5	9.6
Pharmaceutical products	125.9	47.1	91.3	40.0	3.5	1.3	6.4	10.2
Rubber and plastic products	115.7	96.2	22.1	9.2	3.2	2.6	1.6	2.4
Basic metals	156.2	51.8	15.7	5.7	4.3	1.4	1.1	1.5
Constr. products and materials	29.7	127.9	27.0	2.5	0.8	3.5	1.9	0.6
Domestic appliances	20.8	127.9	34.1	0.3	0.6	3.5	2.4	0.1
Automotive components	95.9	50.0	2.6	10.6	2.6	1.4	0.2	2.7
Textiles	75.6	36.9	42.2	2.1	2.1	1.0	3.0	0.5
Beverages	89.2	43.5	13.6	5.2	2.5	1.2	1.0	1.3
Electronic products	80.0	41.7	22.4	1.7	2.2	1.1	1.6	0.4
Automotive	61.7	13.5	0.6	54.0	1.7	0.4	0.0	13.8
Aerospace	82.1	1.7	12.6	7.4	2.3	0.0	0.9	1.9
Medical devices	35.3	57.6	4.1	0.6	1.0	1.6	0.3	0.1
Paper products	48.2	20.9	25.0	0.4	1.3	0.6	1.8	0.1
Products of wood	17.9	18.3	11.1	0.6	0.5	0.5	0.8	0.2
Jewellery	29.5	11.0	6.7	0.2	0.8	0.3	0.5	0.1
Products of agriculture	1.4	28.2	14.5	1.0	0.0	0.8	1.0	0.2

Note: economic sectors are ordered according to their national relevance. Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

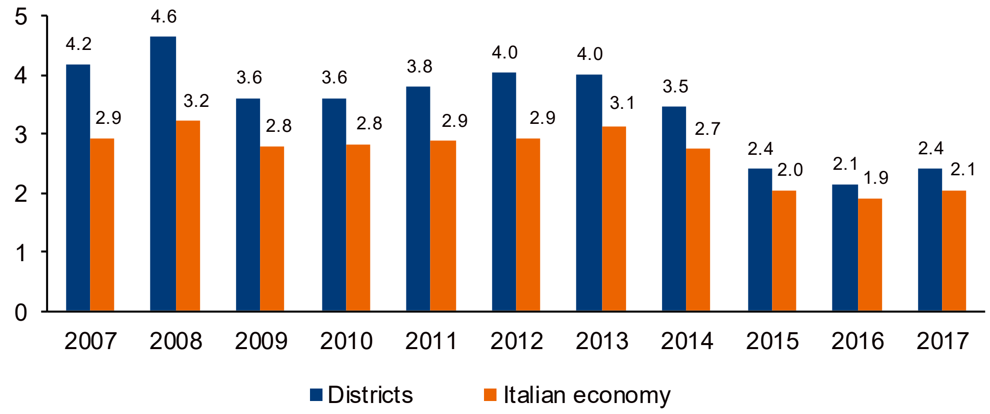
The prevailing exports from the Centre are linked to the fashion industry (EUR 456M) and amount to approximately one-third of total exports to EAEU countries. The leather goods industry (18%) and the clothing sector (10.6%) play an important role. The mechanical engineering industry follows at a distance (accounting for 23% of total exports) and precedes home and housing products (10.4%), where the leading flows are from the furniture industry. Not surprisingly, the kitchen district of Pesaro plays an important role in this area. In recent years, the weight of pharmaceutical exports has also grown significantly, rising to 6.4% in 2017, equal to EUR 91M. Exports of chemical products are also significantly high (EUR 86M, 6.1% of the total).

Although products from the manufacturing districts in the South of Italy do not play a decisive role, they still have a significant weight: both the fashion and mechanical engineering sectors represent 20% of the total exported from this area to the EAEU, while the food industry reaches 9.6%. In addition to these district sectors, two high-tech sectors stand out: the pharmaceutical sector (10.2%) and automotive sector (13.8%). the entire automotive supply chain increases to 16.5% if we also consider automotive components.

It is no coincidence, therefore, that the propensity to export towards countries in the EAEU and, in particular, to Russia, is higher - albeit only slightly - in the industrial districts: 2.4% of exports from districts is, in fact, directed to the EAEU, compared to the Italian average of 2.1%.

The gap, which was more marked in the past, has been considerably reduced in recent years due to the crisis of the Russian market. Suffice it to say that in 2008 the relevance of EAEU countries for the districts was almost double, at 4.6%. between 2009 and 2014, it fluctuated between 3.5% and 4%.

Share of EAEU exports (%) broken down between the Italian economy and districts



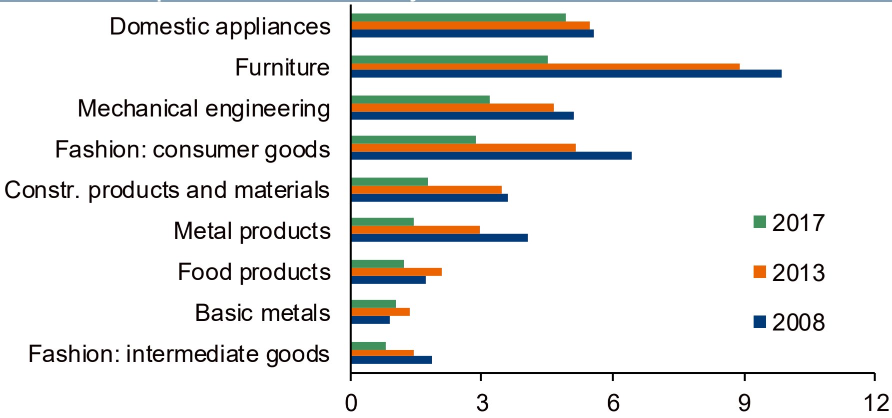
Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

All district supply chains have been affected by a downsizing: over a timespan of 10 years, all furniture districts halved their share in EAEU countries, falling from 9.9% in 2008 to 4.5% in 2017. Districts specialising in fashion-related consumer goods (from 6.4% to 2.9%) and construction products and materials (from 3.6% to 1.8%) were also particularly affected.

Nevertheless, the share of exports absorbed by the EAEU is still particularly high for several Italian districts, with peaks of 21% in the case of Bovolone-style furniture. These are followed, with shares over 10 percent, by clothing from Rimini (15.2%), wines and spirits from the Brescia area (14.4%), footwear from San Mauro Pascoli (13.3%) and footwear from Fermo (12%). The latter, with EUR 164.4M exported to the EAEU, is the number one Italian hub for exports towards these markets.

Keeping on the topic of the fashion industry, other districts mark a particularly solid presence in EAEU countries: among these, the knitwear and clothing production from Perugia (7.7%, equal to approximately EUR 32M), clothing from the Naples area (6.9%), clothing from the Marche region (6.5%) and leather goods from the Tolentino area (5.8%).

Share of EAEU exports (%) broken down by sector



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

The furniture districts also report high export volumes towards the EAEU: in addition to the Bovolone district, it is worth mentioning the kitchens from Pesaro, with a percentage of 9.8%, equal to an export value of EUR 31M and furniture from the Bassano area (8.8%, EUR 34M). The Brianza and the Livenza and Quartier del Piave districts, the two major hubs for Italian wood furniture, export 4.7% (EUR 93M, ranked fourth among the districts in terms of export value towards these markets) and 3.6% (EUR 89M) respectively. The home and housing products sector includes taps, valves and pans from the Lumezzane area (ranked fifth among the districts in terms of export value towards the EAEU), home appliances from the so-called Inox valley and tiles from Sassuolo, all with export values towards EAEU countries ranging between EUR 64M and EUR 93M. This is followed by the thermomechanical sector from Padua, the thermomechanical from Verona, taps and valves from Cusio-Valsesia and extractor hoods and home appliances from Fabriano, with exports between EUR 31.5M and EUR 50M.

In the mechanical engineering districts, the propensity to export towards the Eurasian Economic Union is rated with lower percentages compared to the fashion industry and home and housing product districts. In this sector, in particular, the packaging machinery district in Bologna (ranked second among the districts in terms of export values towards the EAEU, after footwear from Fermo), the precision instrument engineering district in Vicenza and the mechanical engineering district in Udine and Pordenone are highlighted, with a share of export towards the EAEU countries of approximately 4% and export values between EUR 60M and EUR 102M. These are followed by export values between EUR 35M and 50M, which include precision instrument engineering in Bergamo, metalworking in the southern area of Mantua, food machinery in Parma, precision instrument engineering in Varese, metalworking in Lecco and mechatronics in Trento.

Lastly, the propensity to export towards the EAEU is still modest for manufacturers of intermediate goods in the fashion industry, which are affected by the limited development of the local consumer goods sector in the fashion industry, and for food product districts, which are also hampered by the absence of Italian distribution chains in the areas of the Union. Indeed, the first leather tanning district, located in Arzignano, is ranked in the fiftieth position in terms of export value, below the threshold of EUR 15M (just over 0.6% of the export value of the leather tanning hub). In terms of the food sector, the first district, which includes the wines from the Langhe, Roero and Monferrato areas, ranks twenty-third. even further behind are confectionery products in Alba and Cuneo (thirty-third), coffee, confectionery and chocolate from the Turin area (thirty-fifth) and wines and spirits from the Brescia area (forty-third). In the latter case, however, the Russian market plays an important role, representing 14.4% of the district's total exports, equal to EUR 19M.

Top 45 Italian districts in terms of value of exports to the Eurasian Economic Union, 2017

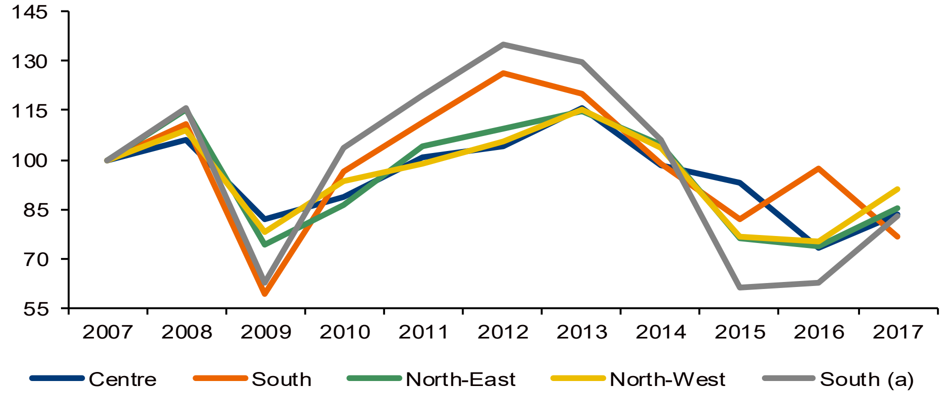
	EUR M	As a % of total exports from district
Total, of which:	2,568.7	2.4
Fermo shoes	164.4	12.0
Bologna Packaging machinery	101.7	4.2
Rimini clothing	95.9	15.2
Brianza wood and furniture	93.3	4.7
Lumezzane taps, valves and pans	92.8	2.8
Vicenza instrumental engineering	89.1	3.9
Livenza e Quartiere del Piave forniture	88.9	3.6
Inox Valley domestic appliances	83.1	5.5
Sassuolo tiles	64.4	1.9
Udine & Pordenone industrial engineering	60.1	3.8
Treviso, Vicenza and Padua plastics industries	54.2	3.7
Bergamo instrumental engineering	51.7	2.1
Padova thermomechanical engineering	49.2	4.6
Schio-Thiene-Valdagno textiles and apparel	47.8	3.1
Basso mantovano industrial engineering	47.3	5.2
Parma food machinery	46.1	3.5
Treviso textile and clothing	43.2	4.0
Empoli clothing	41.9	3.1
Brescia metal products	41.5	1.2
Florence leather goods and shoes	41.4	1.1
San Mauro Pascoli shoes	40.5	13.3
Verona thermomechanical engineering	39.3	2.6
Langhe, Roero e Monferrato wines	38.4	2.8
Varese instrument engineering	36.4	3.6
Lecco industrial engineering	36.2	1.4
Trento mechatronics	34.9	3.2
Cusio-Valsesia taps and valves	34.9	2.5
Bassanese artistic furniture	34.0	8.8
Belluno eyewear	31.7	1.1
Perugia knitwear and clothing	31.7	7.7
Fabriano hoods and domestic appliances	31.5	5.6
Pesaro kitchen furniture	30.9	9.8
Alba and Cuneo confectionery	30.9	2.6
Montebelluna sports footwear	28.7	2.1
Turin coffee, confectionery and chocolate	28.5	5.8
Brescia instrumental engineering	28.0	3.0
Prato textiles and apparel	25.7	1.5
Marche clothing	24.2	6.5
Naples clothing	23.6	6.9
Tolentino leather goods	22.4	5.8
Bovolone refined furniture	22.0	21.1
Bari mechatronics	19.9	1.6
Brescia wines and spirits	19.1	14.4
Alto Adige mechatronics	18.7	1.3
Riviera del Brenta shoes	18.1	2.3

Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

3.2 Signs of recovery in 2017

After the collapse in 2009, exports towards the Eurasian Economic Union strengthened in the following years, reaching a new all-time peak in the South in 2012 and for all other geographical areas in 2013, with the exception of the North-East (which nevertheless came close to 2008 levels).

Trend of Italian exports towards EAEU countries, broken down by geographic areas (2007=100)



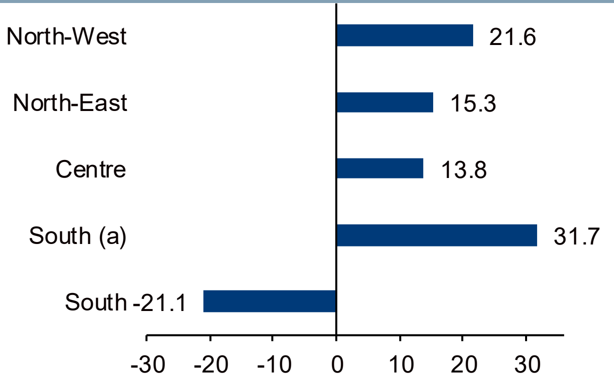
Note: (a): metallurgy is not included in the exports from the South of Italy.
Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

Subsequently, the flows towards the EAEU, and especially towards Russia, collapsed between 2013 and 2015, driven by the Russia-Ukraine crisis, the sharp fall in energy commodity prices, the depreciation of the ruble and weak domestic demand. With the exception of the South, exports shrank further in 2016. However, unlike the results in previous years, the losses this time were not widespread, affecting only specific sectors such as mechanical engineering, home and housing products, electronics and electrical engineering. The other sectors, conversely, showed signs of a turnaround across a wide range of geographical areas: agricultural and food products, clothing, textiles, chemicals, metalworking, rubber and plastics, paper products and the automotive industry.

Over the four-year period ranging from 2013 to 2016, the track record was decidedly unfavourable in three out of the four geographical areas: between 2013 and 2016, exports to the EAEU fell by 36.7% in Central Italy, by 35.6% in the North-East and by 34.8% in the North-West. A more modest decline was felt in Southern Italy (-19%) as a result of the positive results achieved in 2016. However, excluding the exceptional flow of pipes, hollow profiles, cables and related fittings made of steel towards Kazakstan, even this area experienced a significant reduction, equal to 51%.

A reversal in the trend of flows headed towards EAEU countries was observed in 2017. Three out of the four geographical areas recorded a significant increase in the export flows, with peaks of 21.6% in the North-West and improvements of 15.3% in the North-East and 13.8% in the Centre respectively. Only Southern Italy endured a fall in export flows to the Eurasian Economic Union, following the disappearance of the exceptional items that between 2015 and 2016 boosted exports to Kazakhstan: pipes, hollow profiles, cables and related fittings made of steel from Molise and Abruzzo. Excluding this item, Southern Italy also recorded an increase in sales to the EAEU (+31.7%), even higher than that observed in the other geographic areas. this was a result of the driving force of mechanical engineering, which more than doubled between 2016 and 2017, reaching EUR 77M, following the EUR 30M recorded in the previous year.

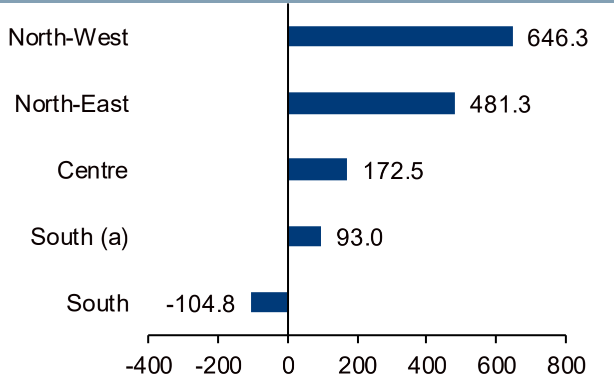
Italian exports towards the Eurasian Economic Union, broken down by geographical area: % change in 2017



Note: (a): metallurgy is not included in the exports from the South of Italy.

Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

Italian exports towards the Eurasian Economic Union, broken down by geographical area: change in EUR M between 2016 and 2017



Note: (a): metallurgy is not included in the exports from the South of Italy.

Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

The cross-referencing of figures across geographical areas, together with those of the various sectors, allows to observe a fairly widespread improvement. Particularly noteworthy is the intensity of the increase in exports of mechanical engineering products, growing in all four geographical areas. Other sectors also show an increase in export values in all: these include the supply chains in the leather, food, clothing and chemical industries. Widespread positive developments were achieved in the pharmaceutical sector, with the exception of the South of Italy.

Trend in exports towards EAEU countries in 2017: difference in EUR M compared to 2016

	North-West	North-East	Centre	South
Total, of which:	646.3	481.3	172.5	-104.8
Mechanical engineering	204.3	224.0	68.2	47.1
Chemicals	16.4	2.1	22.2	13.0
Leather goods	17.3	22.7	28.1	2.3
Food products	26.8	14.8	13.4	1.9
Wearing apparel	55.0	63.5	10.5	4.7
Pharmaceuticals	35.7	11.9	13.6	-0.3
Automotive	24.4	3.8	-0.3	12.5
Aerospace	66.9	0.6	6.2	3.5
Paper products	-2.5	-3.0	6.6	-0.1
Metal products	49.0	-6.3	4.0	2.0
Beverages	34.2	9.0	3.3	1.1
Electronic products	26.7	5.3	3.1	0.4
Shipbuilding	-0.9	-42.9	0.1	2.3
Automotive components	23.1	3.5	0.3	1.4
Electrical equipment	44.0	113.9	0.7	0.8
Domestic appliances	4.5	38.4	2.1	-0.6
Textiles	-11.6	5.1	0.7	0.5
Medical devices	1.4	9.7	0.3	-0.4
Products of wood	-3.5	-9.1	0.8	-0.9
Rubber and plastic products	2.3	13.3	-1.7	0.5
Products of agriculture	-0.5	5.1	-3.7	0.6
Furniture	-6.0	-3.2	-5.2	1.0
Basic metals	27.2	0.7	4.1	-197.8

Note: only areas where the change in exports in at least one of the geographical areas was higher/lower than EUR +5/-5M are displayed. Green denotes the sectors with an increase in exports exceeding EUR 10M. red denotes the sectors with a reduction in exports exceeding EUR -10M.

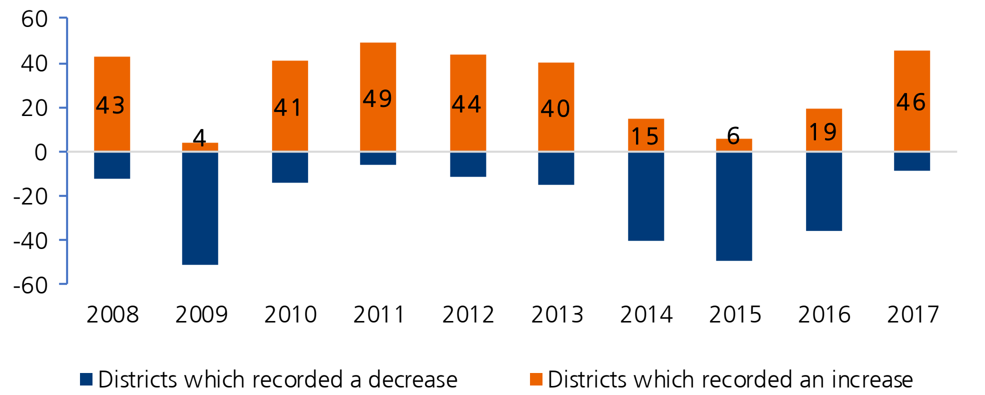
Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

In the other sectors, the performance of the North-West stands out, having achieved significant increases in exports for the entire automotive supply chain, aerospace, metal products, electrical engineering, beverages, metallurgy and electronics. In addition to mechanical engineering, the North-East stands out particularly for the export of electrical engineering and home appliances. Lastly, the South has shown significant variations in a limited number of sectors and has reported, as already mentioned, considerable growth for mechanical engineering goods and a solid increase in sales of chemical and automotive products, more than offset by the return of extraordinary flows of metallurgy in the two-year period between 2015 and 2016.

Other sectors reported significant reductions in exports in 2017 in specific geographical areas: the shipbuilding industry in the North-East (suffering from the end of a job order in 2016) and the textile industry in the North-West.

The signs of recovery that emerged at the national level have also been confirmed in the industrial districts which have registered in 2017 an increase of 18.2% in export flows to the EAEU, amounting to EUR 396M more than in 2016. In 2017, the number of districts which recorded an increase in these markets rose to 46 (out of a total of 55 that in 2017 exported products worth more than EUR 10M to the EAEU).

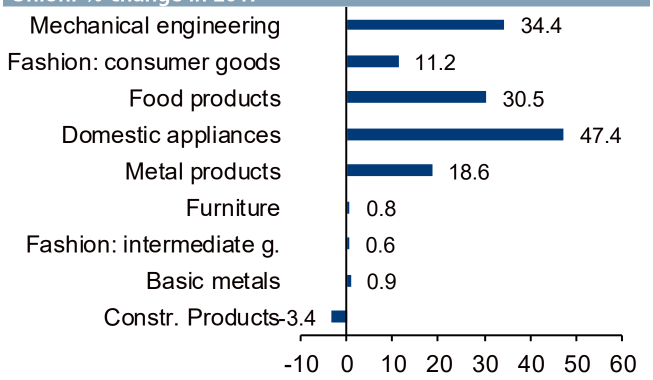
Number of districts showing growth in exports towards the Eurasian Economic Union



Note: only the 55 districts that exported more than EUR 10M to EAEU countries in 2017 were considered.
Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

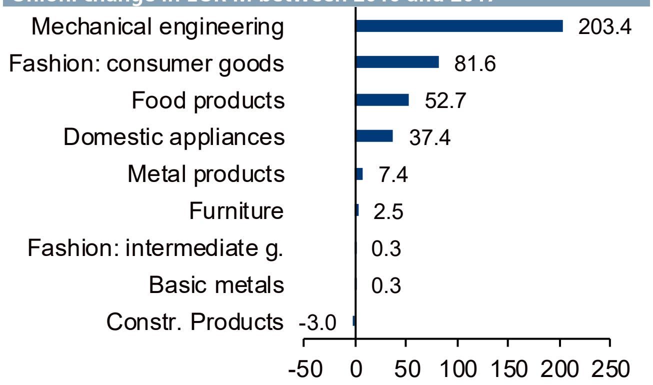
Some sectors have achieved brilliant results: the mechanical engineering districts stand out for their growth (+34.4%, ranked first in their increase in the value of exports), the food hubs (+30.5%) and home appliances (+47.4%). The areas specialising in the manufacture of metal products (+18.6%) and fashion-related consumer goods (+11.2%, ranked as the second sector for its contribution to growth) also displayed excellent results.

Exports from Italian districts towards the Eurasian Economic Union: % change in 2017



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

Exports from Italian districts towards the Eurasian Economic Union: change in EUR M between 2016 and 2017

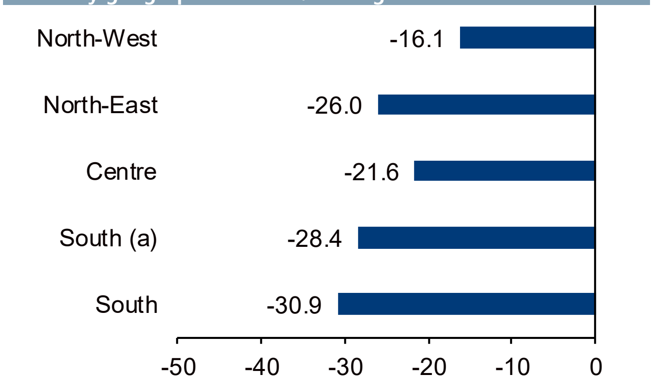


Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

How far behind are the export values of the past

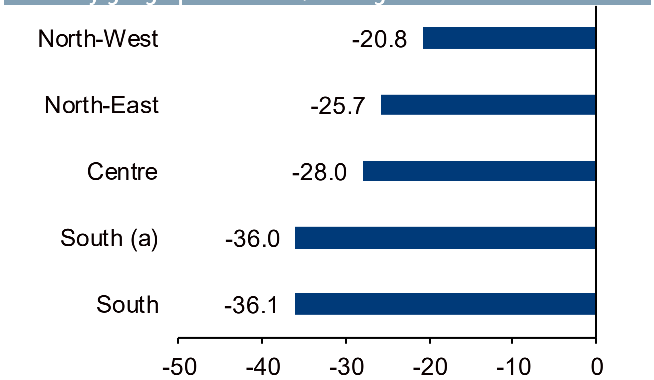
The recovery seen in 2017, however, leaves the export values far behind not only from the peak recorded in 2013 but also from the levels reached in 2008. All the geographical areas are lagging behind compared to the values observed in 2013, ranging from -20.8% in the North-West to -36.1% in the South.

Italian exports towards the Eurasian Economic Union, broken down by geographical area: % change between 2008 and 2017



Note: (a): metallurgy is not included in the exports from the South of Italy.
Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

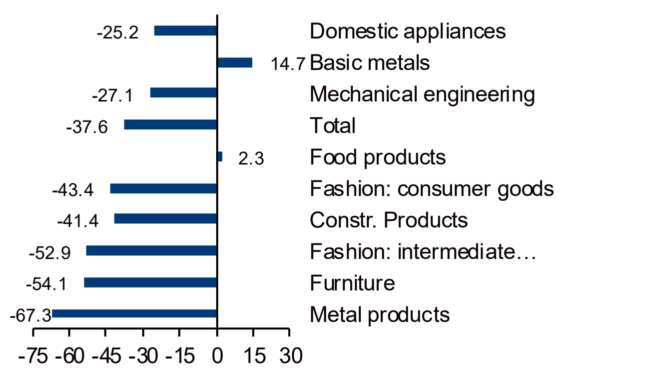
Italian exports towards the Eurasian Economic Union, broken down by geographical area: % change between 2013 and 2017



Note: (a): metallurgy is not included in the exports from the South of Italy.
Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

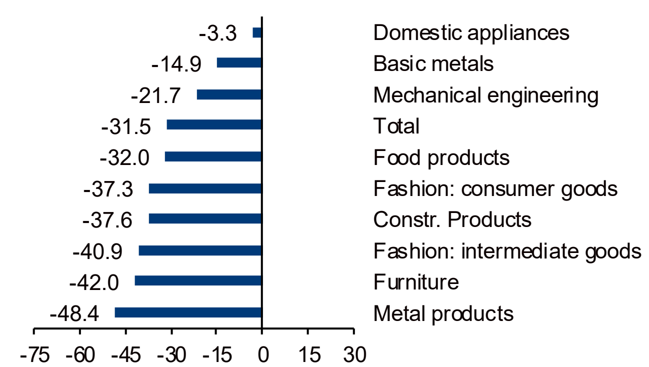
The same applies to the district supply chains: these display a gap close to 40% for those districts that produce consumer goods in the fashion industry, those specialising in construction products and materials, fashion intermediates and furniture. The hubs specialising in metal products display export values which have almost halved compared to those seen in 2013. For the districts, the differential compared to 2008 is even greater than that for 2013 (-37.6% vs. -31.5%), with supply chains that suffer losses greater than 50% (intermediaries of the fashion industry, furniture and metal products).

Exports from Italian districts towards the Eurasian Economic Union: % change between 2008 and 2017



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

Exports from Italian districts towards the Eurasian Economic Union: % change between 2013 and 2017



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

3.3 The slowdown in the first half of 2018

2018 began with a slowdown of Italian exports towards the Eurasian Economic Union countries (-1% change on an annual basis during the first six months of the year), solely as a result of the reduction in flows to the Russian market (-4.6%, equal to EUR -172M). Italian exports to other

EAEU countries have, in fact, increased: particularly in Kazakhstan (+34.3%, equal to EUR 103M), where all four geographical area have grown.

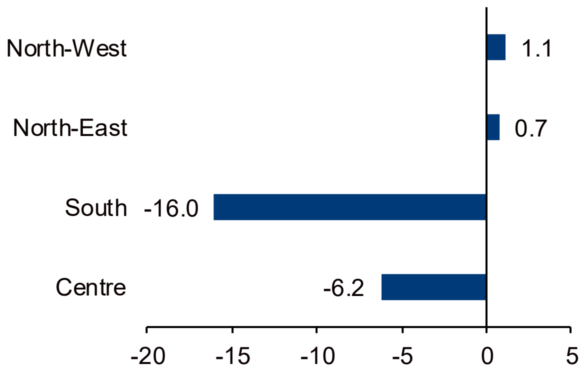
Trend of exports towards the EAEU broken down by geographical area: difference in EUR M between 1H17 and 1H18

	Armenia	Belarus	Russia	Kazakistan	Kirghizistan	Total
Centre	0.4	-20.7	-81.6	57.9	1.2	-42.9
South	0.5	-0.6	-35.9	4.9	-0.2	-31.3
North-East	5.2	30.0	-33.2	10.6	0.3	12.9
North-West	1.7	8.1	-21.4	30.1	-0.4	18.2
Total	7.7	16.8	-172.1	103.4	0.8	-43.2

Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

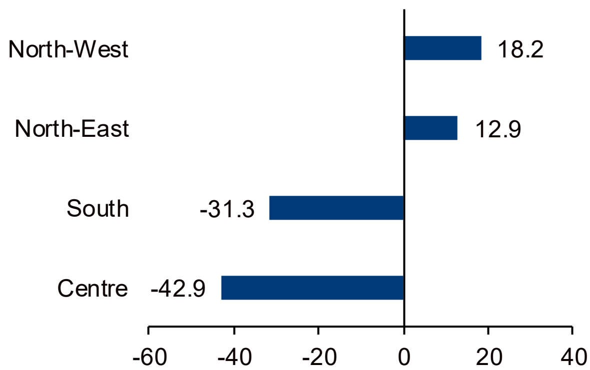
It is also apparent that two out of four geographical areas have shown a slight increase in the overall flows to EAEU countries (North-West and North-East), but not enough to offset the setbacks suffered by the South and Centre.

Italian exports towards the Eurasian Economic Union, broken down by geographical area: % change in 1H18



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

Italian exports to the Eurasian Economic Union, broken down by geographical area: change in EUR M between 1H17 and 1H18



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

The cross between sectors/geographical areas reveals a very heterogeneous picture, with sectors displaying a general or near-general decline (mechanical engineering and pharmaceuticals) and sectors with a widespread growth (electrical engineering).

Trend in exports towards EAEU countries in 1H18: difference in EUR M compared to the corresponding period in 2017

	North-West	North-East	South	Centre
Total, of which:	18.2	12.9	-31.3	-42.9
Mechanical engineering	-25.1	-11.6	-5.0	-70.4
Pharmaceutical products	-14.6	3.0	-19.2	-11.5
Auto & Auto components	6.4	-4.5	-17.0	-0.1
Leather goods	3.1	-2.3	-1.9	-12.8
Textiles	-5.2	-2.3	-0.3	-4.7
Chemicals	-8.2	3.5	-2.6	-1.5
Constr. products and materials	3.2	-8.8	-0.3	-1.6
Food products	2.1	8.3	1.7	-5.8
Electronic products	-5.2	8.5	5.9	2.7
Refined petroleum products	0.3	0.0	12.6	-0.2
Wearing apparel	3.3	11.6	-7.4	6.8
Tobacco	19.6	0.1	0.0	-0.3
Aerospace	31.9	-0.1	-0.3	8.2
Electrical equipment	6.8	9.7	1.4	53.2

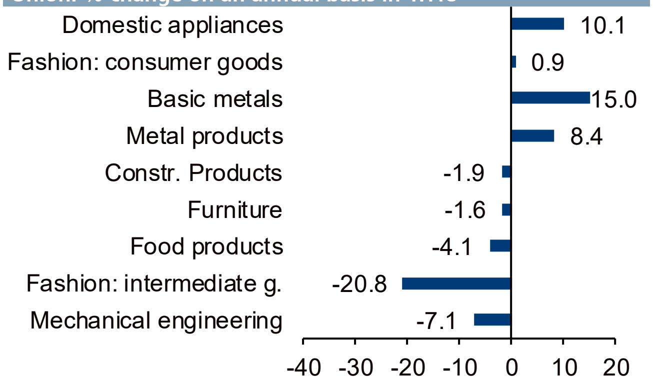
Note: only areas where the change in exports in at least one of the geographical areas was higher/lower than EUR +5/-5M are displayed. Green denotes the sectors with an increase in exports exceeding EUR 8M. red denotes the sectors with a reduction in exports exceeding EUR - 8M.

Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

In the rest of the sectors, different trends were observed in the geographical areas: in the automotive sector, for example, the South and North-East have suffered drops in exports towards EAEU countries, while the North-West has recorded increases in sales. The leather goods supply chain in the Centre has dropped, while the North-West has growth. The chemical products sector in the North-West has undergone a resizing, while the North-East has grown. The following sectors display a widespread growth and stand out: electronics, aerospace (particularly in the North-West, but also in the Centre), the tobacco industry (North-West), clothing (North-East and Centre), electronics (North-East) and food (North-East).

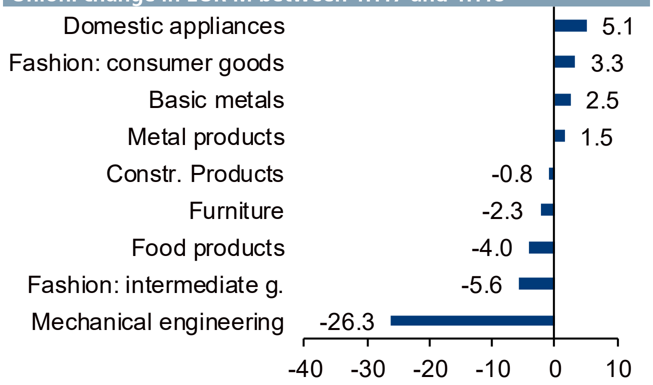
At the district level, export flows fell by 2.3% in 1H18 (EUR -28M). The context is also heterogeneous in this case: during the first six months of 2018 and among the districts that in 2017 exported more than EUR 10M to the EAEU, 34 districts recorded a downward trend in exports and 21 districts recorded an increase. The overall trend was affected above all by the reduction in sales in the mechanical engineering districts (EUR -26M), combined with the losses suffered by the districts specialised in intermediaries for the fashion industry, food, furniture and construction products and materials. These setbacks were not offset by the growth in exports of home appliances, consumer goods of the fashion industry, metallurgy and metal products.

Exports from Italian districts towards the Eurasian Economic Union: % change on an annual basis in 1H18



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

Exports from Italian districts towards the Eurasian Economic Union: change in EUR M between 1H17 and 1H18



Source: Intesa Sanpaolo calculations based on figures from the Italian National Institute of Statistics (Istituto Nazionale di Statistica, ISTAT)

4. The economy of Eurasian Economic Union

4.1 Growth profile and financial position of the region

Giancarlo Frigoli

The Eurasian Economic Union (EAEU), which currently includes Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan, shows (as of 2017) a weight of almost 4% of global GDP and 2% of both trade and foreign direct investment. The population is relatively low (181 million inhabitants) and is distributed over a very extensive area (more than 20 million km^2, equal to 13% of the Earth's land above sea level). EAEU countries are rich in raw materials (mainly hydrocarbons) and occupy a strategic position between the markets of Western Europe and Asia.

Eurasian Economic Union: some benchmark statistics

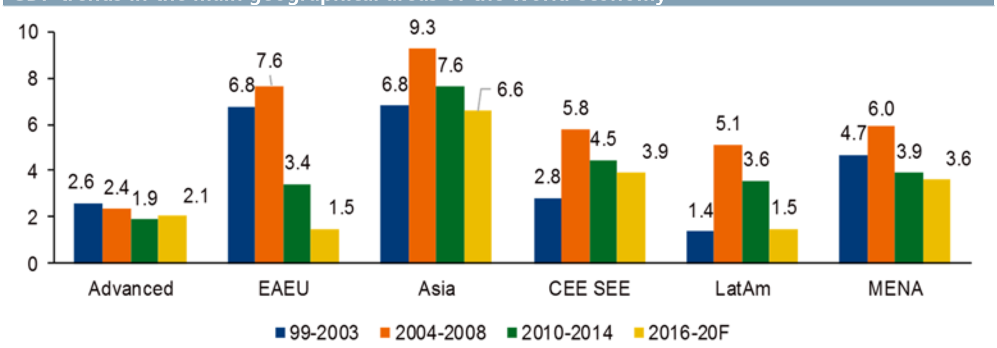
	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	EAEU
GDP (USD Bn)2017	10.5	47.7	160.8	7.2	1,572.4	1,798.6
GDP (share world at PPP) 2017	0.02	0.14	0.38	0.02	3.2	3.76
Population (M)	3.0	9.5	18.2	6.3	144	181
GDP (per capita at PPP USD) 2017	9,456	18,931	26,252	3,667	27,834	Ns.
Land area (sq. Km)	30	208	2,717	200	17,098	20,253

Source: EIU, National Statistics

During their transition from planned economies to market-oriented economies between the end of the 1990s and the start of the new millennium, and also during the bullish commodity cycle between 2004 and 2008, EAEU countries recorded sustained growth rates (6.8% and 7.6% respectively for the two periods).

After the 2009 recession, as a result of the international financial crisis, in the five-year period between 2010 and 2014, EAEU countries returned to grow; similarly to other world regions which are mainly oriented towards the export of raw materials, EAEU grew at a more modest pace compared to areas specialised in manufacturing (in particular, China in Asia and CEE/SEE countries in Europe). This weakness is linked to well-known economic factors, which are both short-term (mainly the dependence on the cycle of raw materials) and structural (the slow pace at which the process of diversification of production progresses and the relative lack of infrastructure); however, more recently, it is also the result of geopolitical factors. Specifically, these are linked to negative impact on investment projects and financing opportunities on international markets due to the spiral of Western sanctions and Russian counter-sanctions triggered by the Ukraine crisis. It is not surprising that the region's economy has suffered a new contraction in 2015 due to a sharp fall in oil prices, and, in parallel, growing geopolitical tensions between Western countries and Russia.

GDP trends in the main geographical areas of the world economy



Source: IMF

In the current five-year period (2016-2020), the region's economy has returned to grow thanks to the recovery of the hydrocarbon market (with a positive impact on domestic and foreign financial accounts) and the macroeconomic and financial stabilisation policies adopted by the authorities. After GDP dipped by -0.1% again in 2016, the GDP trend of EAEU countries accelerated to 1.8% in 2017 and is expected to average around 2% in the three-year period between 2018 and 2020.

In 2017 and the first months of 2018, the increase in hydrocarbon prices (the average price of oil rose by a further 40% in the first half of 2018 after a 20% increase in 2017) drove a significant improvement of both public and current balances in the balance of payments of Kazakhstan and Russia, with positive repercussions on the growth and external financial position of the beneficiary countries. Nonetheless, although favourable, several factors render uncertain the outlook for 2019-2020.

However, the growth of EAEU countries in the upcoming two years remains linked not only to economic factors (oil cycle, structural reforms and progress in the production diversification process) but also to geopolitical factors (first and foremost, the development of relations between Russia and the EAEU with the EU and Western countries, on the one hand, and China and the Asian region, on the other). Investments in infrastructure and directed to the exploitation of natural resources are expected to benefit from the integration of advanced projects at local level (in particular in Russia, Kazakhstan and Kyrgyzstan) with the combination of the projects associated with the *Belt and Road Initiative* promoted by China (please refer to the information sheets on the individual EAEU countries). Energy investments and investments directed to sectors for the diversification of production could, in turn, receive a major boost (as a result of increased FDI inflows and unrestricted access to international capital markets) from Russia's improved relations with Western countries, which are still stalled at the moment.

EAEU: GDP growth (% change)

	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	EAEU
2015	3.0	-3.8	1.2	3.9	-2.8	-2.1
2016	0.3	-2.5	4.3	3.8	-0.2	-0.1
2017	7.5	2.4	4.0	4.5	1.5	1.8
2018F	7.6	2.8	3.5	-0.3	1.7	2.0
2019F	5.0	2.0	3.8	4.0	1.5	1.7
2020F	4.0	2.2	3.5	3.4	2.0	2.2

Source: EIU, National Statistics

The international financial position of the region is generally positive, thanks to Russia's relatively strong position. Public debt (17.4%) and foreign debt (33.9%) in relation to GDP are still contained, despite the fact that the country has faced significant external financial shocks. Russia also has a sizeable net financial position of USD 285Bn (17.4% of GDP), which is positive at the international level. For Kazakhstan, in addition to a low public debt to GDP ratio, there is a substantial foreign debt to GDP ratio for the private sector, which, however, is largely due to inter-company debt. The government authorities of this country also intervened last year (as they had previously done in 2008 and 2009) to support the crisis-ridden banking system with capital injections and take over of non-performing loans. The international financial position is negative, totalling USD 56.3Bn (equal to 35.1% of GDP). Other EAEU countries, on the other hand, display high public debt and foreign debt to GDP ratios, although declining from last year. These countries have a weaker international financial position and had to claim, as a result of difficult situations, financial support from the IMF and the Eurasian Stabilisation and Development Fund. Aid was granted between 2014 and 2016 to Armenia, Belarus and Kyrgyzstan. The first two countries have a low coverage of foreign funding requirements, guaranteed by foreign currency reserves, while Kyrgyzstan is highly vulnerable to external shocks. Russia and Kazakhstan, thanks to the substantial foreign currency reserves and the availability of sovereign wealth funds, present a high reserve cover ratio which has allowed them, even in recent times, to emerge from financial crises without having to resort to external financial support.

Over the past year, sovereign debt with currencies pertaining to the major EAEU countries has been subject to widespread rating increases. Russia regained the investment grade assigned by S&P and Fitch (at BBB- from BB+), which it had lost during the financial crisis between 2015 and 2016 (only Moody's still considers Russia's debt as a speculative investment with a Ba1 rating, albeit with a positive outlook). Kazakhstan also has a rating in the investment area (Fitch and S&P assigned a BBB- rating, while Moody's assigned a Baa3 rating). Other countries' debt is still considered to be a highly speculative investment. Nevertheless, over the past year Fitch and Moody's have added a positive outlook to Armenia's rating (B+ and B1, respectively) and all three major agencies have raised their ratings of Belarus (S&P and Fitch raised their rating to B from B-, while Moody's raised the rating to B3 from Caa1 Moody's).

Eurasian Economic Union: financial position

	Armenia	Belarus	Kazakhstan	Kyrgyzstan	EAEU
State balance/GDP 2015-17	-2.8	-2.8	-6.1	-3.1	-3.1
Budget debt/GDP 2017	53.1	58.7	20.8	57.1	17.4
Current balance/GD 2015-17	-2.6	-3.1	-4.2	-11.1	3.1
Foreign debt/GDP 2017	91.1	73.3	105.1	113.9	33.9
FX reserve/External funding 2019F	0.5	0.2	0.5	1.1	5.3
Reserve cover ratio (months) 2017	5.8	2.0	9.1	5.0	17.0
Net financial position (USD Bn)2017	-8.8	-41.5	-56.3	-6.9	285.0
Rating (S&P)	B+/P(*)	B	BBB-	B2(**)	BBB-

(*) Fitch, (**) Moody's. Source IMF, EIU, Thomson Reuters

4.2 The economic performance of EAEU Countries

Russia

Growth prospects

In the first half of 2018, GDP grew by 1.6% in real terms, in line with the pace of growth seen in the second half of 2017. In the first half of this year, economic activity was boosted mainly from manufacturing output (+4%), while construction was relatively weak (-0.7%). In turn, sales services recorded a real increase of 2.5%, the same pace as in the second half of 2017. GDP grew by 1.8% in July.

Real GDP - supply

Sectors	Weight %	% change yoy		
	2017	1H2018	2H2017	2017
Agriculture	4.3	2.3	1.9	1.4
Mining	9.2	1.8	1.6	2.2
Manufacturing	17.7	4.0	1.5	2.8
Utilities	2.7	0.0		
Construction	5.3	-0.7	-0.5	-2.0
Retail sales	60.8*	2.5	2.5	1.2
GDP	100	1.6	1.6	1.5

(*) % weight refers to total services Source: Office of Statistics

Real GDP - demand

	2019F	2018F	2017	2016
	% change yoy			
Private consumption	2.2	3.8	3.3	-2.9
State consumption	-0.3	-0.3	-0.1	0.4
Gross fixed investment	1.5	3.0	4.4	-0.4
Inventories chg.	0.0	0.0	0.7	-0.2
Exports	3.7	4.4	5.1	3.1
Imports	5.5	7.8	17.4	-4.0
GDP	1.5	1.7	1.5	-0.2
Inflation (avg.)	5.0	4.0	4.2	7.1

Source: MF, Intesa Sanpaolo Research Department

In the second half of this year, the part of the economy involved in the hydrocarbon industry is expected to benefit from OPEC's decision, endorsed by Russia, to increase production. The improvement of employment and real wage growth are expected to drive consumption. Furthermore, domestic demand is expected to benefit from higher public spending as a result of the margins opened up by higher income from hydrocarbons. The Central Bank forecasts GDP will grow between 1.5% and 2% for the entire 2018; according to the monetary authority (and IMF), this assessment corresponds to potential.

Nevertheless, as Elvira Nabiullina, the Governor of the Russian Central Bank, pointed out in the monetary policy report issued last mid-September at the meeting of the Monetary Policy Committee which decided to raise the official rate (see below), growth prospects in the short term continue to be negatively affected by external factors (sanctions and the expected slowdown in demand from specific markets such as Turkey, which will result in a slowdown in exports) and internal factors (fiscal measures to increase VAT from next year, which will result in a slowdown in consumption). For this reason, the Central Bank and the Government have recently cut GDP growth forecast for 2019 to a range between 1.2% and 1.7% (Central Bank) and 1.3% (Government). The expected slowdown in growth in 2019 is seen as temporary, stemming from cyclical factors. Indeed, the Central Bank expects a rebound between 1.8% and 2.3% in 2020.

In the longer term, the slow pace of economic diversification and tensions with the West have a major impact. The difficult relations with the West have a negative impact on the business climate, on investments from abroad and on the possibility to draw resources from international financial markets and technology from abroad, which is useful for the exploitation of important natural resources and technological innovation. On the other hand, a boost to investments (and growth) is expected from the integration of local projects with the initiatives planned under the Belt and Road Initiative promoted by China. In particular, this refers to the development of communication corridors between China and Europe, and between the eastern regions of the EAEU countries and China, to economic cooperation agreements in mining, forestry, agriculture and aerospace between Russia and China, which were furthermore strengthened at the 4th Eastern Economic Forum (EEF), recently held in Vladivostock.

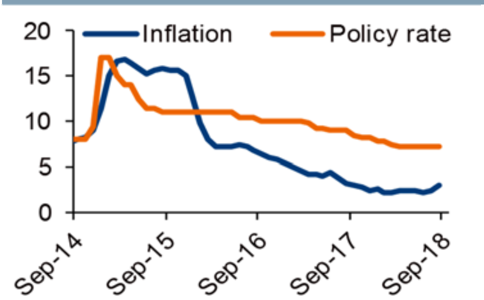
In his inauguration speech last May, President Vladimir Putin announced the creation of a development fund, holding a budget of USD 52.4Bn. By 2024 (end of the new six-year office term of the President), this fund is planned to be used for investments in infrastructure both within Russia (mainly strengthening the road links between Moscow and the Ural region, and the airport network) and in friendly nations (among others, Russia has committed to finance an industrial development area along the Suez Canal in Egypt).

Interest rates, exchange rates and external financial position

In August 2018, the annual inflation rate, although increasing compared to the end of 2017 (at 3% from 2.5%) remained below the 4% target value of the Central Bank. The monetary authority believes that the recent depreciation of the rouble, combined with the increase in fuel prices and the recently announced VAT rate increase from 18% to 20% as from 2019 announced by the Government will lead to an acceleration of the annual rate of price growth, estimated between 5% and 5.5% during 2019. These pressures are expected to ease in 2020, benefiting from the reduction of the scale effect from the VAT increase, when inflation is expected to return within the 4% target value.

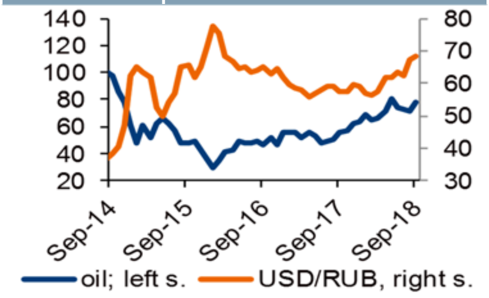
The long bearish interest rate cycle, which began in early 2015 and has seen the reference rate go from 17% to 7.25%, seems to be finally over. In the mid-September meeting, the Central Bank raised its benchmark rate to 7.5%. The decision of the monetary authority was affected by the turbulence on the international currency markets, the increase in the risk premium (the CDS spread was close to 200 bps in mid-September 2018 from 130 bps at the end of 2017) and the aforementioned inflation expectations. The Governor of the Central Bank did not rule out new restrictive measures with regard to possible new inflationary risks.

Benchmark rate and inflation



Source: Thomson Reuters – Datastream

Rouble and oil price



Source: Thomson Reuters – Datastream

During 2018, the relationship between the rouble and the price of oil loosened. The Russian currency did not benefit from the recent further rise in oil prices. Between January and mid-September 2018, the Russian rouble depreciated by 15% against the US dollar, reaching RUB 66 : USD 1. Meanwhile, in the same period, the average price of oil was about 40% higher than in 2017. The rouble was mainly affected by external economic factors: in particular, the rise of the US dollar's interest rate pitted against a fall in rouble's interest rate, the overall appreciation of the dollar against the main global currencies and a general increase in the risk premium on international capital markets. It was also affected by external geopolitical factors such as western sanctions. These factors are expected to continue to negatively affect the rouble in the short/medium term. However, the real effective exchange rate has fallen below its long-term average and the current account portion of the balance of payments has improved. On the contrary, looking ahead, these other developments are expected to support the rouble.

In 2018 the federal budget should record a surplus (in the first six months of this year, the budget's balance has shown positive results and is equal to 1.9% of GDP). The price of a fiscal breakeven for oil is, in fact, estimated (for the Ural type) at USD 53 per barrel this year (well below the current market price); this is a significant improvement from the estimated USD 60 in 2017 and USD 98 in 2014. Russia's public debt to GDP ratio remains modest (17.4% in 2017 from 15.7% in 2016). Only a third of the country's public debt is owned by foreign investors.

In the period between January and August 2018, the surplus of the current account portion of the Balance of Payments rose to USD 69Bn, equal to more than three times the amount of the corresponding period in 2017 and, as a share of GDP, it is expected to rise to around 5% during the full length of 2018, from 2.3% in 2017. From January to August, however, the financial side of the balance of payments deteriorated, recording a deficit of USD 32.9Bn, compared to a surplus of USD 6.8Bn in the same months of 2017, as a result of net capital outflows from the private sector totalling USD 26.5Bn, compared to outflows of USD 9.6Bn the year before. In August, foreign exchange reserves rose to USD 373.5Bn (+36Bn since the end of 2017). The reserves easily cover the foreign funding requirements for 2019, which is estimated at USD 85Bn (reserve cover ratio of 5.3). In June 2018, Russia's foreign debt amounted to USD 485Bn (29.6% of GDP), down from USD 518Bn (33.9% of GDP) at the end of 2017.

Within this scenario of relative improvement of the country's external financial position, sovereign debt in Russian currency was affected by new upgrades in the ratings of the major agencies in 2018, returning to a non-speculative investment for two of the three main rating agencies (S&P and Fitch). Moody's, which still considers Russia's debt as a speculative investment with a Ba1 rating, has nevertheless recently added a positive outlook. Rating agencies have rewarded the strengthening of the fiscal position, the reduction of foreign debt in relation to GDP, the partial replenishment of foreign exchange reserves (the drainage started in 2014 with the introduction of the first sanctions as a result of the Ukrainian crisis and then accelerated with the beginning of the economic downturn of exported commodities, which in turn led to a decrease of USD 150Bn in foreign exchange reserves between 2014 and 2015; from the minimum level reached at the end of 2015, foreign exchange reserves increased by USD 70Bn), the effective management of monetary policy (attentive to the inflation targets and encouraging the stabilisation of the macroeconomic framework) the transition to a system of currency flexibility that has increased the degree of freedom of economic policy. These positive developments, combined with the recovering oil price, encouraged the progressive stabilisation of the domestic financial framework despite the conditions imposed by the sanctions.

Balance of payments

USD billions	8M2018	8M2017	2017	2016
Current balance	69	19.1	35.4	25.0
Trade balance	119.9	70.2	115.4	90.0
Exports			353.5	281.7
hydrocarbon			193.5	151.1
Imports			238.1	191.7
Services balance			-31.1	-23.9
Income balance			-39.6	-34.8
Transfer balance			-9.2	-6.4
Financial balance	-32.9	6.8	-16.4	-13.9
FDI			-11.4	11.0
Portfolio			5.9	1.6
Other items			-10.9	-26.5
Errors			3.8	-2.9
Fx reserve chg.(*)	-36.1	-25.9	-22.6	-8.2
Private capital flow	-26.5	-9.6	-24.8	-19.2

Note: (*) The (-) sign indicates an increase in reserves.
Source: Central Bank

NFP (March 2018), Reserves and Foreign debt

USD billions	Assets	Liabilities
FDI	488	556
Portfolio	74	250
Derivatives	5	4
Other items	370	300
FX & gold reserves	458	
Total	1395	1110
NFP (3/2018)	285	
NFP/GDP %	17.4	
FX reserves USD Bn 7/2018		374
Reserve cover ratio 2019F		5,3
Import cover ratio 2017 (months)		17
Foreign debt USD Bn 6/2018		485

Source: Central bank, EIU

Kazakhstan

Growth prospects

After two years of slow growth (just over 1% in the two-year period between 2015 and 2016) due to the economic downturn of the hydrocarbon market and the fall in exports, Kazakhstan's economy has returned to a path of sustained expansion, recording, in real terms, a growth of 4% in 2017 and 4.1% in the first half of 2018.

The recovery came mainly as a result of the growth of the mining industry, with the rise in oil prices and the resumption of mining activity in Kashagan, the most important offshore well outside the Middle East. In turn, the increase in oil revenues had a positive impact on sales, transport and communication services. Manufacturing output also showed sustained growth, driven by refining, food processing and pharmaceuticals. In 1H18, the more contained growth of hydrocarbon operations (+5.2, from +10.7% in 2017), as a result of the less favorable comparison effect with the previous year (the impact of the recovery in Kashagan hydrocarbon production no longer applies) was more than offset by the further sustained performance of non-hydrocarbon operations in the economy, which grew by 3.8% in 1H18, from 1.9% for the entire 2017.

Looking forward, investments, partly fuelled by foreign direct investment, will be an important driver of growth, supported by the final phase of implementation of the five-year plan for the period between 2015 and 2019 called Nurly Zhol. Totaling USD 21Bn, the plan is intended for the creation of communication, social and housing infrastructures and the development of non-extractive industrial sectors. Elements of the interventions envisaged in the Nurly Zhol project are parts of the opening of commercial routes from and to China, known as Belt and Road Initiative (BRI) project, since Kazakhstan's land-locked production activities will benefit significantly from enhanced freight movement services. Two of the BRI land corridors - the *Eurasian Land Bridge corridor* and the China-Central Asia-West Asia corridor - pass through the Kazakh land port of Khorgos, on the border with China. These works are aimed at improving and expanding the internal communication network and its integration with major international road and rail corridors. The works covered by the plan include the links between Astana and the other major cities in the country, the Almaty ring road, additional work on the Kazakh section of the Western Europe-Western China corridor and the expansion of the Astana airport. In addition, according to the agreement reached between China and Russia at the end of November last year, work on the high-speed rail corridor that will link China to Europe is scheduled to begin in Kazakhstan. Last July, the Astana International Financial Centre (AIFC) was inaugurated with the aim of establishing it as a regional hub. These initiatives are expected to generate substantial foreign direct investment and encourage the diversification of the economy by reducing its dependence on hydrocarbons.

Consumption, however, has accelerated as a result of the slowdown in inflation and the drop in the cost of money, but the reduction in real disposable income recorded in the recent past will continue to weigh heavily. Finally, the contribution of foreign trade to GDP is expected to decline due to the rebound in imports.

GDP - Supply	2017	1H2018	2017	2016
	weight	% change yoy		
Agriculture	4.4	4.0	2.8	5.4
Mining	19.5	5.5	9.3	-2.2
Manufacturing	12.2	5.2	5.5	-2.2
Utilities	2.2	3.7	4.5	-1.7
Construction	6.6	3.8	1.9	7.4
Trade	15.8	5.9	2.7	-1.8
Transport	7.7	4.9	4.8	3.5
Communication	2.8	5.9	3.2	0.8
Financials	2.7	1.9	0.8	0.7
Hotels	1.0	4.0	4.3	1.0
Real estate	7.9	2.0	2.0	2.6
Public	12.8	0.8	2.6	1.3
Professional	4.4	2.1	0.8	0.8
GDP	100	4.1	4.0	1.1
GDP oil	19.7	5.2	10.7	-1.2
GDP non-oil	80.3	3.8	1.9	1.8

Source: Office of Statistics

GDP – Demand	2019F	2018F	2017	2016
	% change yoy			
Private consumption	2.5	2.1	1.5	1.2
State consumption	1.0	1.0	2.1	2.3
Gross fixed investment	4.0	4.1	4.0	3.0
Inventories chg.	0.6	-0.1	0.0	0.7
Exports	3.1	5.8	2.2	-4.5
Imports	5.0	5.2	-4.5	-2.0
GDP	3.1	3.7	4.0	1.1
Inflation (avg.)	5.2	6.2	7.4	14.2

Note: F (forecasts). Source: EIU, IMF

The stronger-than-expected economic performance has led to widespread upward revisions in GDP growth estimates, now with an increase of 3.7% in real terms in 2018; however, this was a contained slowdown compared to 2017. As previously mentioned, the decline in oil extraction activity weighs heavily (since mid-August, extraction in Kashagan has decreased by a third from 349,000 barrels to 210,000 barrels a day as a result of maintenance work). A major slowdown is expected in 2019 due to the closure of the Kashagan site for about two months for interventions aimed at subsequently increasing production to 370.000 barrels.

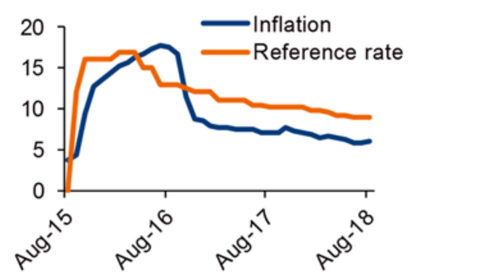
Interest rates, exchange rates and external financial position

The annual rate of inflation. which slowed from 7.1% at the end of 2017 to 6% in August 2018, is back within the target range of 5-7%. The low inflationary pressures allowed the Central Bank to further cut the benchmark rate, which fell from 10.25% at the end of 2017 to 9% in August 2018. The monetary authority has recently reported that the process of lowering interest rates is now over, highlighting certain upside risks should the depreciation of the exchange rate drive inflationary pressures.

Since the fixed exchange rate with the US dollar was abandoned in the summer of 2015 in favour of a controlled fluctuation, the Kazakh currency has lost about half of its value to the US dollar. This year, the weakness of the Russian rouble and the interest rates cuts, together with the increase in the risk premium on the international markets, weighed heavily on the tenge: between January and September 2018, the currency depreciated by about 10% against the US dollar, reaching KZT 360 : USD 1. The depreciation of the nominal exchange rate, only partly offset by inflation (which still remains high), when compared with that of the main trading partners, has led to a depreciation of the real effective exchange rate, which continues well below its long-term average. Looking forward, the currency is expected to benefit from the inflow of foreign funding as a result of direct investments in privatised companies and projects which are part of the Belt and Road Initiative programme. Moreover, portfolio flows from abroad are expected to come in when the announced liberalisation of the domestic bond market will be implemented. The clearing company Clearstream International has been handling Kazakh government debt since June 2018. A flow of investments towards the tenge can be expected in light of the non-speculative investment rating of the country's sovereign debt and the interest of international capital for high-yield securities: this will further support the exchange rate.

Public deficit rose from 2.6% of GDP in 2016 to 2.9% at the end of 2017. Including off-balance sheet items (such as infrastructure investments financed by the sovereign wealth fund and aid to distressed banks as a result of falling deposits and the depreciation of the exchange rate in a US dollar-based economy), the public deficit to GDP ratio dropped from 5.4% in 2016 to 6.5%, according to IMF estimates. In 2018, the Government indicated a target deficit of 1.1% of GDP with an oil price of USD 45 a barrel and a 3.1% real GDP growth. Should off-balance sheet items be included, such as the annual share totalling USD 1.2Bn (0.7% of GDP) of the 2015-2019 Nurly Zhol five-year plan borne by the sovereign wealth fund, then the deficit would be higher. This year's oil price trend, higher than the benchmark price indicated in the budget and the fiscal breakeven price (estimated by the IMF at USD 60.6 per barrel), leaves plenty of room for manoeuvre to the authorities. According to IMF estimates, the share of oil revenues will rise from 32.9% in 2017 to 37.2% in 2018; in addition, the budget could record a surplus of more than 1% of GDP. The public debt to GDP ratio has dropped from 20.8% in 2017 to 17.8% this year.

Inflation and policy rate



Source: Thomson Reuters

Balance of payments and external position

USD billions	1H2018	1H2017	2016
Current balance	-1.4	-2.8	-5.3
Trade balance	12.5	8.4	17.4
Services balance	-1.8	-1.9	-4.4
Income balance	-12.0	-9.1	-17.9
Transfer balance	-0.1	-0.2	-0.5
Financial balance	0.2	2.6	6.0
FDI	4.8	3.0	3.8
Portfolio	-2.0	2.0	5.4
Other items	-2.6	-2.4	-3.2
Errors	0.3	-0.7	-2.3
FX reserve chg. (*)	0.9	0.9	1.6
FX reserves USD Bn (7/2018)			17.3
Reserve cover ratio 2019			0.5**
Import cover ratio 2017			9.1
Foreign debt/GDP 2017			105.1

Note: (*) The (-) sign indicates an increase in reserves.
(**) The reserve cover ratio is well above the unit, taking into account the foreign investments of the sovereign wealth fund
Source: Central Bank

In the first seven months of 2018, the current account deficit of the Balance of Payments dropped further to USD 1.4Bn, half of the amount of the corresponding period in 2017 (USD 2.8Bn), as a result of the trade surplus increase (up to USD 12.5Bn from 8.4Bn in the corresponding months of 2017), only partially offset by the increase of the deficit in the income account. The Central Bank predicts that the current account deficit will drop from 3.3% of GDP in 2017 to 2.3% of GDP this year. In 1H18, the surplus of the financial part of the balance of payments was almost down to zero as a result of the decrease in FDI and net portfolio divestments. In July 2017, currency reserves totalled USD 17.3Bn. Kazakhstan also has a sovereign wealth fund: the Kazakhstan National Fund. As of July 2018, the fund's assets totalled USD 57.9Bn. At the end of 2017, the net financial position was passive, totalling USD 56Bn (35% of GDP). The foreign debt to GDP ratio is high (102.2% in April 2018). However, more than 60% of debt is composed by intercompany loans, while the State's share is modest (just over 6% of total foreign debt). Sovereign debt in Kazakhstan's currency is considered a non-speculative investment by the three major rating agencies (BBB-/N rating by S&P, BBB/S rating by Fitch and Baa3/S rating by Moody's, as of last April).

Belarus

Growth prospects

After two years of recession, the economy of Belarus returned to grow (+2.4% real GDP) in 2017. In the two-year period between 2015 and 2016, the macroeconomic stabilisation measures and the effects of the economic downturn in the hydrocarbon market led to a contraction in economic activity of more than 6%. In 1H18, GDP growth accelerated further (+4.5% yoy). The manufacturing sector, which accounts for more than 20% of the overall economy, benefited from the recovery in oil prices, which in turn supported refining activity. It should be reminded that Belarus is able to purchase crude oil from Russia at a favourable price, process it and then re-export it at market prices. On the demand side, the slowdown in inflation, wage increases and the flow of remittances are driving consumption.

However, GDP growth in the first months of the second half of the year slowed mainly due to the poor summer harvest (according to data provided by the office of statistics, agricultural production fell from +3.7% in the first half of the year to -5.5% in the period between January and August) and, according to preliminary estimates by the office of statistics, in the period between January and August 2018, GDP grew by 3.7%. The European Bank for Reconstruction and Development (EBRD) forecasts a 3.8% increase in real GDP for the whole of 2018, in line with the forecast of the Eurasian Development Bank (EDB). Afterwards, forecasts predict that GDP growth will halt due to the slowdown in consumption (caused by higher inflation and the drop in remittances) and exports to Russia, around 2% in 2019.

GDP - Supply	2015	1H2018	2017	2016
	weight	% change yoy		
Agriculture	6.9	3.7	5.6	3.8
Mining	0.6	3.7	3.7	-0.7
Manufacturing	20.2	7.9	7.0	-0.2
Utilities	4.5	4.5	2.6	-0.9
Construction	5.7	7.5	-2.4	-15.8
Trade	11.0	7.8	3.0	-7.3
Transport	5.7	3.9	5.6	-0.3
Communication	4.9			6.3
Financials	4.1			-6.3
Real estate	5.7			-3.2
Hotels	0.8			-1.9
Government	3.5			-0.6
Healthcare	3.5			2.2
Education	4.1			0.1
Others	18.8			
GDP	100	4.5	2.4	-2.5

Source: Central Bank, EIU

GDP - Demand	2019F	2018F	2017	2016
	% change yoy			
Private consumption	2.6	3.0	2.1	-3.7
State consumption	0.5	-0.8	-1.0	0.3
Gross fixed investment	2.5	3.0	2.8	-12.8
Inventories chg.	0.0	0.0	0.1	1.5
Exports	4.1	9.4	5.6	3.0
Imports	5.5	11.3	4.8	-1.6
GDP	2.0	3.8	2.4	-2.5
Inflation (avg.)	5.5	5.0	6.0	11.8

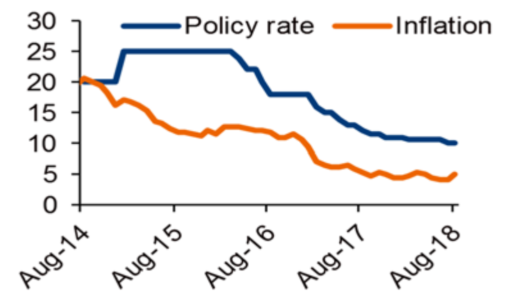
Note: F (forecasts). Source: Central Bank, EIU

Interest rates, exchange rates and external financial position

Since 2015 the Belorussian rouble has been following a controlled-fluctuation regime with regard to a mixed basket, calculated as the geometric mean of the bilateral exchange rates to the Russian rouble (with a weight of 50%), to the US dollar (with a weight of 30%) and to the euro (with a weight of 20%). In the period between January and September 2018, the Belorussian rouble appreciated by 1.2% compared to the basket, following the strengthening of the Belorussian rouble on the Russian one. The IMF had highlighted, with reference to the third quarter of 2017, an 5% undervaluation of the real effective exchange rate of the Belorussian rouble, which now is subsided after the subsequent high appreciation of the nominal exchange rate against the Russian rouble, by far the country's main trading partner.

In 2018, the annual inflation rate (5% in August) remained sustained under the 6% target value. The favourable exchange rate and inflation trends prompted the Central Bank to slash the reference rate again this year, dropping it to 11% at the end of 2017 and 10% in August 2018.

Inflation and benchmark interest rate



Source: Central Bank

Balance of payments

USD billions	1H2018	1H2017	2017
Current balance	-0.8	-0.3	-0.9
Trade balance	-1.4	-0.8	-2.9
Services balance	1.7	1.5	3.0
Income balance	-1.8	-1.2	-2.0
Transfer balance	0.6	0.3	1.0
Financial balance	0.3	1.8	1.8
FDI	1.0	0.8	1.2
Portfolio	-0.4	1.4	1.3
Other items	-0.3	-0.4	-0.7
Errors	0.1	0.0	0.5
FX reserves chg. (*)	0.4	-1.5	-1.4
FX reserves USD Bn 6/2018			4.4
Reserve cover ratio			0.2
Import cover ratio			2.0
Foreign debt USD Bn 6/2018			39.3

Note (*) The (-) sign indicates a decrease.
Source: Central Bank

The current account deficit to GDP ratio dropped by half, from 3.5% in 2016 to 1.7% in 2017, following the growth in remittances and the increased revenue from services. Still last year, the financial part surplus of the Balance of Payments grew from USD 1.2Bn in 2016 to USD 1.7Bn, mainly as a result of the Government's currency funding. In 1H18, the current deficit increased again (USD 0.8Bn, up from USD 0.3Bn in the corresponding period in 2017), as a result of the widening trade deficit and the higher return on the capital invested in the country. Throughout the whole of 2018, the current account deficit to GDP ratio doubled to close to 4%. Always in the first half of the current year, the financial account surplus fell from USD 1.8Bn to 0.3Bn, following net portfolio outflows. In June 2018, currency reserves totalled USD 4.4Bn, down from USD 4.8Bn at the end of 2017.

Fiscal and monetary stabilisation measures and the (partial) exchange rate and price liberalisation measures have reduced domestic and external imbalances, improving the country's financial position. Belarus was thus able to finance itself on the international capital market once again (USD 600M were issued last February). Over the past year, sovereign currency debt has been rated more positively by the three main rating agencies (ratings between B- to B by Fitch and S&P, and between Ba3 by Caa1 by Moody's), although it remains a highly speculative investment. The external position continues to present high vulnerability. The reserve level is low compared to foreign funding requirements (0.2 reserve cover ratio) and the external debt to GDP ratio is high (73.3% at the end of 2017) and over 60% of this debt is owned by the State.

Armenia

After real GDP growth in Armenia slowed to 0.2% in 2016, it accelerated to 7.5% in 2017, the best performance since 2007. GDP performance continued to remain strong in 1H18 (+8.4%), although annual growth slowed down compared to the double-digit increase (+11%) seen in the fourth quarter of 2017. Armenia's economy is benefiting from the price recovery of copper and other metals (mining and processing contribute to more than 10% of GDP) and the growth of remittances from migrant workers, especially in Russia. Domestic demand for consumer goods is supported not only by remittances, but also by the slowdown of inflation and the reduction in pension contributions voted by the Government at the beginning of the year, which have a positive impact on disposable income. Metals are entering into a favourable cycle, offering a boost to investment in mining and manufacturing.

On the other hand, the economic outlook is weighed down by Russia's relatively weak growth, upon which Armenia depends heavily for both exports and remittances. In addition, it is weighed down by internal and external political tensions which are the result, in particular, of the relations with Azerbaijan concerning an ongoing dispute over the sovereignty of the Nagorno-Karabakh region.

GDP - Supply

	2017	1H2018	2017	2016
	%weight	% change yoy		
Agriculture	17.8	4.3	-4.3	-2.3
Mining	2.6	10.6	18.4	6.8
Manufacturing	10.6	9.3	6.0	10.8
Utilities	5.0	3.7	2.1	2.9
Construction	9.2	10.2	-0.5	-11.7
Trade	12.1	11.2	20.6	5.2
Transport	2.9	13.7	15.7	17.1
Communication	3.6	5.5	5.7	6.1
Financial	4.3	13.8	17.6	9.0
Real estate	10.1	3.7	6.0	-10.3
Others	22.3	11.7	12.4	8.8
GDP	100.0	8.4	7.5	0.3

Source: Office of Statistics

GDP - Demand and inflation

	2019F	2018F	2017	2016
	% change yoy			
Private consumption	4.4	5.5	8.8	-2.4
State consumption	1.2	1.6	13.1	-2.4
Gross fixed investment	4	12	7.7	-11.4
Inventories chg.	0.4	0.3	1.3	0.6
Exports	5.7	15.3	19.7	19.1
Imports	5.9	18.3	26.8	7.6
GDP	5.0	7.6	7.5	0.2
Inflation (avg.)	3.8	2.9	1.0	-1.4

Note: F (forecasts). Source: EIU, IMF

GDP growth throughout the entire 2018 is expected to be in line with that of 2017.

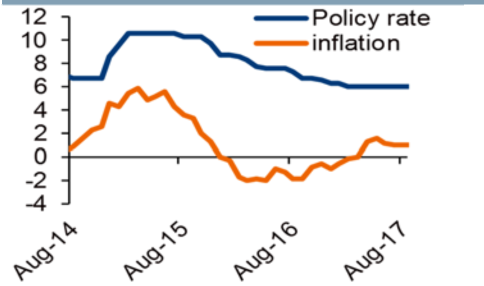
Interest rates, exchange rates and external financial position

In 1H18, the price spikes of imported goods (mainly hydrocarbons and food products) caused an increase in inflation (average rate of 2.5% from January to August 2018, compared with 1% for the whole of 2017; annual rate of 3.3% in August); however, this remains below the central value of the target range (4% +/-1.5%). Against the backdrop of a moderate recovery in inflation, the Central Bank has left the benchmark rate unchanged at 6%.

The banking system's high degree of dependency on the US dollar leads the authorities to try to limit the currency's (dram) exchange rate fluctuations against the US dollar. Even in the period between January and September 2018, as well as the two-year period between 2015 and 2016 which followed the significant depreciation of 2014 (20%), the exchange rate to the US dollar showed substantial stability, remaining at approximately AMD 480 : USD 1.

In 2017, the public deficit to GDP ratio fell from 3.5% in 2016 to 3.2% as a result of sustained economic growth. The 2018 budget indicates a target deficit of 2.7% of GDP, assuming a 4.5% GDP growth rate. Notwithstanding, the public debt to GDP ratio has increased to over 60% in 2017.

Benchmark rate and inflation



Source: Thomson Reuters Datastream

Balance of payments and NFP

USD billions	Q12018	Q12017	2017	2016
Current balance	-0.21	-0.09	-0.33	-0.24
Trade balance	-0.34	-0.22	-1.41	-0.94
Services balance	0.01	0.02	-0.04	-0.07
Income balance	-0.04	-0.02	0.46	0.22
Transfer balance	0.16	0.13	0.66	0.55
Capital account	0.02	0.01	0.05	0.03
Financial balance	0.16	-0.19	0.59	0.89
FDI	0.11	0.06	0.23	0.27
Portfolio	0.00	-0.05	-0.09	0.03
Derivatives	0.00	0.00	0.00	0.00
Other items	0.04	-0.21	0.45	0.58
Errors	-0.06	0.11	-0.26	-0.23
FX reserves chg.*	0.10	0.16	-0.05	-0.45
FX reserves USD Bn 7/2018				2.05
Reserve cover ratio 2019F				0.47
Import cover ratio 2017				5.8
Foreign debt USD Bn 3/2018				10.7

Note: (*) The (-) sign indicates an increase in reserves. F (forecasts)
Source: Central Bank

In 2017, despite the increase in the trade deficit as a percentage of GDP from 8.9% in 2016 to 12.2% as a result of the sustained growth in imported items (mainly hydrocarbons), the current deficit as a percentage of GDP remained modest, increasing slightly from 2.3% to 2.8%. The current portion of the Balance of Payments has benefited from the additional recovery of flows from remittances sent by migrant workers, even if these are far less than the peaks reached at the beginning of the decade (20% of GDP, while presently they consist of 6% of GDP). This year, the further increase in the prices of imported hydrocarbons and the increase of imports due to sustained domestic demand are expected to result in a significant widening of the current account deficit, expected to rise from 2.8% of GDP in 2017 to 5.9%.

At the end of July 2018, currency reserves amounted to USD 2.05Bn, down from USD 2.3Bn at the end of December 2017. Reserves guarantee almost 6 months of imports, but are lower than the 2019 foreign funding requirements (USD 4.4Bn, with a 0.47 reserve cover ratio). The considerable current account deficits of the past, combined with the modest growth of nominal GDP, led to considerable foreign debt, totalling 91% of GDP at the end of 2017. The rating agencies consider sovereign debt in Armenian currency to be a highly speculative investment (B+ rating by Fitch and B1 rating by Moody's).

Kyrgyzstan

The economy of Kyrgyzstan is strongly dominated by gold mining and gold processing activities, and by the remittances of migrant workers. GDP grew by 4.6% in 2017, representing a modest acceleration compared with +4.3% in 2016. Economic activity continued to benefit from the positive trend of the gold market. Half of the manufacturing output, totalling 15.1% of GDP, consists of the gold mining and gold processing. In addition, the recovery of the region's economies has supported both domestic demand - through the growth of remittances from migrant workers - and exports.

On the other hand, GDP decreased by 0.2% in the period between January and July 2018 due to the collapse of extraction activity (-31.8%), which was reflected in manufacturing output, following the drop in metal processing. Excluding those activities related to the important gold mine of Kumtor from the figures, GDP in the first seven months of the current year increased by 2.2%, driven mainly by construction and sales. Investments in infrastructure, especially transportation, remain one of the main drivers of growth. These investments are largely financed by Chinese capital (Kyrgyzstan and China signed agreements for ten investment projects amounting to USD 1.8Bn in 2017) as part of Beijing's Belt and Road Initiative, where Kyrgyzstan is seen as an important trade hub between China and Europe. Last October, the first land convoy from Tashkent (capital of Uzbekistan) to Kashgar (China) passed through the towns of Osh and Irkeshtam (Kyrgyzstan); furthermore, the three countries are considering the construction of a railway line. These connections are among the shortest routes for the transport of Chinese goods to Europe. Demand is also driven by investments in mining (metals such as gold - where gold products contribute to about half of exports, and exploration for the exploitation of gas reserves), financed mainly by Russian, Kazakh, Chinese and western capital (Canada).

After the contraction expected this year (-0.3%), GDP growth is expected to pick up again in 2019 (+4%) as a result of the recovery in extraction activity.

GDP - Supply	2017	7M2018	2017	2016
	Weight	% change yoy		
Agriculture	12.3	2.1	2.2	2.9
Mining	1.0	-31.8	78.4	27
Manufacturing	15.1	-8.3	7.6	5.8
Electricity	1.9	2.5	10.1	-2.6
Water	0.2	10.5	6.6	3.3
Construction	8.2	6.4	7.1	9.3
Trade	17.9	3.6	3.5	8.0
Transport	3.9	3.4	7.6	0.1
Communication	3.6	-7.4	-0.6	-9.1
Others	22.6	n.a.	1.5	2.4
GDP	100	-0.2	4.6	4.3
GDP ex Kumtor		2.2	4.7	4.3

Source: EIU

GDP – Demand	2019F	2018F	2017	2016
	% change yoy			
Private consumption	5.1	4.8	4.6	2.3
State consumption	2.9	3.3	1.5	1.5
Gross fixed investment	5.1	4.8	3.9	8.1
Inventories chg.	-1.3	-1.7	0.4	0.1
Exports	1.4	-20	3.1	-3.8
Imports	1.3	1.2	-1.7	-1.1
GDP	4.0	-0.3	4.6	4.3
Inflation (avg.)	2.0	1.7	3.2	0.4

Note: F (forecasts). Source: EIU, IMF

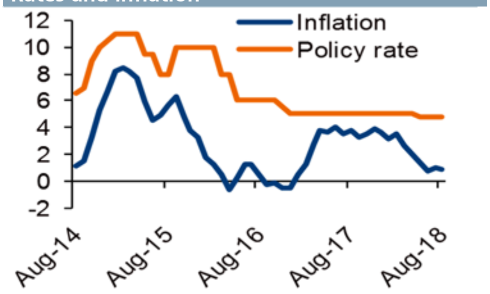
Interest rates, exchange rates and external financial position

The annual inflation rate dropped to 0.9% in August 2018, from 3.6% in December 2017. Inflation was halted by the slowdown in food prices after a particularly positive agricultural season. In August 2018, the core inflation rate was 2.3%, unchanged since December 2017. Both inflation rates are well below the target range of 5% - 7% set by the Central Bank. The low inflationary pressures allowed the Central Bank this year to resume the accommodating monetary policy rate which was interrupted in 2017; the benchmark rate was reduced from 5% at the end of 2017 to 4.75%.

Last year and from January to mid-September 2018, the som remained stable against the US dollar (around KGS 69 : USD 1), while it rose against the rouble. Between the end of 2017 and the beginning of 2018, the Central Bank intervened to limit the volatility of the exchange rate and ensure the stability of the financial system due to the high degree of dependency of the currency on the US dollar (approximately 50% of loans and deposits are in foreign currency).

In 2017, the public deficit was on target (3.5% of GDP), despite the increase in expenditures as part of the election year. Public accounts have seen a significant increase in revenues as a result of sustained economic growth. The public debt to GDP ratio is modest (58.2% in 2017) when compared to countries with the same rating.

Rates and inflation



Source: Thomson Reuters

Balance of payments

USD billions	Q12018	Q12017	2017
Current balance	-0.417	-0.108	-0.489
Trade balance	-0.731	-0.400	-2.383
Services balance	-0.048	-0.042	-0.092
Income balance	-0.082	-0.059	-0.380
Transfer balance	0.443	0.392	2.366
Financial balance	0.041	0.083	0.479
Capital account balance	0.261	0.050	0.132
FDI	-0.130	-0.048	-0.078
Portfolio	-0.010	-0.005	-0.025
Derivatives	0.000	0.001	0.003
Other items	-0.080	0.086	0.448
Errors	0.396	-0.006	0.157
FX reserve change*	-0.020	0.031	-0.147
FX reserves USD Bn (7/2018)			1.64
Reserve cover ratio 2019P			1.1
Import cover ratio 2017			5.0
Foreign debt USD Bn (2017)			8.15

Note (*) The (-) sign indicates an increase in reserves; F (forecast)
Source: Central Bank

In 2017. the resumption of remittances from migrant workers. risen to USD 2.36Bn (33% of GDP). has almost halved the current account deficit to GDP ratio (from 12% to 6.8%). but has remained substantial nonetheless. In the first quarter of 2018. the increase in the trade deficit as a result of the fall in gold exports led to a further widening of the current account deficit. The negative effects on exports of the drop in gold mining also weighed on the balance of payment in the following months; the current account deficit is expected to double this year. reaching double-digits as a percentage of GDP (14.1%). In July 2018. reserves amounted to USD 1.64Bn. up from USD 1.72Bn at the end of 2017: these exceeded the entire funding requirements for 2019 (1.1 reserve cover ratio). Foreign debt. amounting to almost USD 8.157Bn at the end of 2017. remains high as a percentage of GDP (approximately 113.9%). In May 2015. the country was granted credit facilities from the IMF totalling USD 92.4Bn for a three-year period under the ECF (Extended Credit Facility) programme. As of December 2017. Kyrgyzstan has received USD 80.7M of the loan.

Tables of macroeconomic data

Russia

Real economy	2015	2016	2017	2018F	2019F
Population (million)	143.9	144.0	144.0	144.0	143.9
Per capita GDP (dollar PPP)	26,658	26,930	27,834	28,958	30,040
Real GDP (% change) %)^	-2.8	-0.2	1.5	1.7	1.5
Inflation (average) (%) ^	15.6	7.1	3.7	2.9	5.2
Government budget balance/GDP (%)	-3.4	-3.7	-1.5	0.3	0.4
Government debt/GDP	15.9	15.7	17.4	18.7	19.5
3-month MosPrime rate (%) ^	14.1	11.2	9.4	7.6	7.9
Exchange rate local currency/USD (average)^	61.0	67.0	58.3	63.2	65.9
Exchange rate local currency/EUR (average)^	68.2	74.4	65.8	74.6	77.9

External vulnerability	2015	2016	2017	2018F	2019F
Current balance (USD Bn)	68.8	25.5	35.4	86	91
Current balance/GDP (%)	5.0	2.0	2.3	5.0	3.8
Foreign debt/GDP (%)	37.9	40.0	33.9	32.6	31.5
FX reserves (months of imports)	10.8	15.7	17.0	15.9	15.2

Outlook and risks	Last	Previous
Political Risk (1=maximum ; 10= minimum.)	5.1	5.1
Spread (CDS 5y)	160 (26 Sept 2018)	153 (25 Sept 2017)
Fitch*	BBB-/P (Sept 2017)	BBB-/S
Standard&Poor's*	BBB-/S (Feb 2018)	BB+/P
Moody's*	Ba1/P (Jan 2018)	Ba1/S

Note: (^) Forecast: Intesa Sanpaolo – Research Department; F (forecasts)
(*) Rating of long-term foreign currency sovereign debt.

Sources: EIU. Thomson Reuters-Datastream. Moody's. JP Morgan. IIF. IMF. World Bank. EBRD. ISI. EC. ICE. Transparency International. Heritage Foundation

Kazakhstan

Real economy	2015	2016	2017	2018F	2019F
Population (million)	17.7	17.9	18.2	18.5	18.7
Per capita GDP (dollar PPP)	24940	25167	26252	27293	28255
Real GDP (% change) %)^	1.2	1.1	4.0	3.7	3.1
Inflation (average) (%) ^	6.6	14.2	7.4	6.2	5.2
Government budget balance/GDP (%)	-6.3	-5.4	-6.5	-1.5	-1.4
Government debt/GDP	21.9	19.7	20.8	17.8	16.8
3-month MosPrime rate (%)	12.7	14.5	10.5	10.0	10.0
Exchange rate local currency/USD (average)	222	342	327	340	340
Exchange rate local currency/EUR (average)	248	379	369	402	402

External vulnerability	2015	2016	2017	2018F	2019F
Current balance (USD Bn)	-5.2	-8.7	-5.3	-4.1	-4.8
Current balance/GDP (%)	-2.8	-6.5	-3.3	-2.3	-2.5
Foreign debt/GDP (%)	83.2	119.2	105.1	96.7	95.2
FX reserves (months of imports)	6.2	7.4	9.1	8.6	8.3

Outlook and risks	Last	Previous
Political Risk (1=maximum ; 10= minimum.)	6	6
Spread (CDS 5y)	n.d.	n.d.
Fitch*	BBB/S (Apr 2016)	BBB+/N
Standard&Poor's*	BBB-/S (Feb 2016)	BBB/N
Moody's*	Baa3/S (Apr 2016)	Baa2/N

Note: (*) rating of long-term sovereign debt in foreign currency; F (forecasts)
Sources: EIU. Thomson Reuters - Datastream. Moody's. JP Morgan. IIF. IMF. World Bank. EBRD. ISI. EC. ICE. Transparency International. Heritage Foundation

Belarus

Real economy	2015	2016	2017	2018F	2019F
Population (million)	9.5	9.5	9.5	9.4	9.3
Per capita GDP (dollar PPP)	18342	18074	18931	20008	21048
Real GDP (% change) %)^	-3.8	-2.5	2.4	3.8	2.0
Inflation (average) (%) ^	13.5	11.8	6.0	5.0	5.5
Government budget balance/GDP (%)	-2.0	-3.3	-3.1	-5.5	-6.4
Government debt/GDP	50.9	53.7	58.7	66.0	71.7
3-month MosPrime rate (%)	25.0	21.2	13.4	10.3	11.0
Exchange rate local currency/USD (average)	1.59	1.99	1.93	2.03	2.14
Exchange rate local currency/EUR (average)	1.78	2.21	2.18	2.40	2.53

External vulnerability	2015	2016	2017	2018F	2019F
Current balance (USD Bn)	-1.8	-1.7	-0.9	-2.1	-1.4
Current balance/GDP (%)	-3.3	-3.5	-1.7	-3.7	-2.3
Foreign debt/GDP (%)	67.9	78.6	73.3	71.2	78.9
FX reserves (months of imports)	1.4	1.5	2.0	2.4	2.2

Outlook and risks	Last	Previous
Political Risk (1=maximum ; 10= minimum.)	NA	6
Spread (CDS 5y)	NA	NA
Fitch*	B/S (Jan 2018)	B-/S
Standard&Poor's*	B/S (Oct 2017)	B-/S
Moody's*	B3/S (Mar 2018)	Caa1/N

Note: (*) rating of long-term sovereign debt in foreign currency; F (forecasts)
Sources: EIU. Thomson Reuters - Datastream. Moody's. JP Morgan. IIF. IMF. World Bank. EBRD. ISI. EC. ICE. Transparency International. Heritage Foundation

Armenia

Real economy	2015	2016	2017	2018F	2019F
Population (million)	3.0	3.0	3.0	3.0	3.0
Per capita GDP (dollar PPP)	8513	8643	9456	9999	10572
Real GDP (% change) %)^	3.0	0.2	7.5	7.6	5.0
Inflation (average) (%) ^	3.7	-1.4	1.0	2.9	3.8
Government budget balance/GDP (%)	-4.8	-3.5	-3.2	-2.7	-2.4
Government debt/GDP	43.0	51.8	53.1	54.3	54.3
3-month MosPrime rate (%)	13.5	10.4	9.0	9.0	9.0
Exchange rate local currency/USD (average)	478	480	482	485	490
Exchange rate local currency/EUR (average)	535	532	543	573	579

External vulnerability	2015	2016	2017	2018F	2019F
Current balance (USD Bn)	-0.3	-0.2	-0.3	-0.7	-0.9
Current balance/GDP (%)	-2.7	-2.3	-2.8	-5.9	-6.2
Foreign debt/GDP (%)	84.4	94.1	91.1	89	83.1
FX reserves (months of imports)	3.3	4.8	5.9	4.9	3.5

Outlook and risks	Last	Previous
Political Risk (1=maximum ; 10= minimum.)	NA	NA
Spread (CDS 5y)	NA	NA
Fitch*	B+/P (Dec 2017)	B+/S
Standard&Poor's*	NA	NA
Moody's*	B1/P (Mar 2018)	B1/S

Note: (*) rating of long-term sovereign debt in foreign currency; F (forecasts)

Source: EIU. Thomson Reuters - Datastream. Moody's. JP Morgan. IIF. IMF. World Bank. EBRD. ISI. EC. ICE. Transparency International. Heritage Foundation

Kyrgyzstan

Real economy	2015	2016	2017	2018F	2019F
Population (million)	6.0	6.1	6.3	6.4	6.5
Per capita GDP (dollar PPP)	3412	3517	3667	3800	3994
Real GDP (% change) %)^	3.9	4.3	4.6	-0.3	4.0
Inflation (average) (%) ^	6.5	0.4	3.2	1.7	2.5
Government budget balance/GDP (%)	-1.2	-4.6	-3.5	-2.5	-2.5
Government debt/GDP	64.9	58.1	57.1	58.2	58.4
3-month MosPrime rate (%)	10	7.0	5.0	4.8	4.8
Exchange rate local currency/USD (average)	64.5	69.7	68.5	68.5	69.6
Exchange rate local currency/EUR (average)	72.2	77.3	77.2	81.0	82.3

External vulnerability	2015	2016	2017	2018F	2019F
Current balance (USD Bn)	-1.1	-0.8	-0.5	-1.1	-0.5
Current balance/GDP (%)	-15.7	-11.6	-6.4	-14.1	--5.7
Foreign debt/GDP (%)	115.3	120.1	113.9	115.2	116.1
FX reserves (months of imports)	3.6	4.4	5.0	5.1	4.5

Outlook and risks	Last	Previous
Political Risk (1=maximum; 10= minimum.)	NA	NA
Spread (CDS 5y)	NA	NA
Fitch*	NA	NA
Standard&Poor's*	NA	NA
Moody's*	B2	NA

Note: (*) rating of long-term sovereign debt in foreign currency; F (forecasts)

Source: EIU. Thomson Reuters - Datastream. Moody's. JP Morgan. IIF. IMF. World Bank. EBRD. ISI. EC. ICE. Transparency International. Heritage Foundation

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This Report has been prepared with the information available as of 30th September 2018

Important Information