

# Russia GDP growth looks weak, but not terrible

The weaker than expected GDP numbers keep the central bank easing story in 2018 intact, but the interest rate path will be data-dependent



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# 1.3%

1Q18 GDP growth

vs 1.5% consensus and 1.8% ING forecast

## A mixed story

The flash GDP growth estimate of 1.3% in 1Q18 undershot consensus expectations of 1.5% and our optimistic forecast of 1.8%. However, it was somewhat better than the preliminary Ministry of Economy (MinEco) estimate of 1.1% and was also a modest improvement from 0.9% observed in 4Q17.

The key components breakdown is unavailable right now, but we know that negative performance in construction, wholesale and some sub-sectors in the industry resulted in weaker 1Q reading in

March than was originally expected in early 2018. The Ministry has recently said it would cut its 2018 growth forecast from the current 2.1% despite a higher oil price assumption.

## We stick to our 2% GDP forecast for 2018

For now, we stick to our GDP growth forecast of 2% in 2018, but downside risks have clearly increased with the weaker-than-expected reading, higher geopolitical/sanction uncertainty and shaky external markets backdrop. The latter two makes external funding conditions more challenging for local corporates and threatens business confidence regarding investment plans.

But there are a few reasons why we're still constructive on the growth outlook for 2018. These are:

- (1) Record-high RUB/bbl oil price levels, which should see some positive (even if not game-changing) effects on growth pattern;
- (2) A rebound in composite PMI index in April to above 1Q average and relative stability in manufacturing confidence gauge of Rosstat; and
- (3) Expectations of a continuing easing of domestic financial conditions with the CBR still having room to cut its key rate further (even if not that aggressively as many expected in 1Q) and banking sector benefiting from structural RUB liquidity surplus.

Also, the relatively weak RUB due to the fiscal rule and sanction effects is to continue supporting exports growth - the idea fully supported by rising export orders component of the PMI manufacturing survey.

As such, we still see private consumption, investments and exports all making a positive contribution to GDP growth in 2018, but the ongoing imports growth will partly offset their contribution to growth.

### Central bank's policy easing story stays intact

The 1.3% growth in 1Q18 came closer to the bottom of the central bank growth expectations of 1.3-1.5%, but it still doesn't materially change the probability of having 1.5-2% growth in 2018 as written in the CBR base-case scenario.

In our view, the data doesn't bring any major changes to the CBR base-case scenario of some remaining potential for interest rate cuts. However, it's clear that uncertainty about both economic and inflation performance over the remainder of 2018 is high, so regulator and market expectations on the key rate path will be data-dependent.

Our base-case scenario of no material changes in sanctions environment assumes three more 25bp rate cuts by 2018-end, from current 7.25% to 6.50% compared to market expectations of only two 25bp cuts to 6.75%.