

## Russia: GDP muted in 2017, but look forward not back

The 1.5% print fell short of expectations, but we see it improving to 2% in 2018. Still, there is room for 25bp or even 50bp rate cuts at the upcoming central bank meeting



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# 1.5%

GDP growth in 2017

vs 1.7% consensus, -0.2% in 2016

Worse than expected

### What to make of the 1.5% growth in 2017?

On the face of it, the 1.5% GDP print for 2017 after -0.2% in 2016 should be welcomed confirming the economic recovery. But pundits and the market are most likely to look past that fact and say the figure undershot consensus of 1.7%.

At ING, we also expected 1.7% while the official forecast was 2.1%, even though the MinEco turned

less optimistic in late 2017 with a 1.4-1.8% range. Pessimists may also note that the annual figure assumes growth moderation to 1.2% in 4Q17 vs 1.8% in 3Q and 2.5% in 2Q. And last (but not the least) common comment could be that all this happened despite the rise in oil prices over 2017.

If we analyse the breakdown, the biggest driver was private consumption (1.8ppt vs -1.5ppt in 2016), inventories (1ppt vs -0.6ppt) and investments (0.8ppt vs 0.2ppt). Government consumption cut 0.2ppt after adding the same amount in 2016. Exports added 1.4ppt (vs 0.9ppt), but it was more than offset by imports (-3.5ppt vs +0.7ppt). Production-wise, we got the well-known picture of the goods-producing sectors dragging the GDP down after adding only 0.2ppt vs 0.1ppt in 2016, but services sector contributed around 1.2ppt vs -0.3ppt in 2017.

Assuming the previously-released quarterly figures are correct, we can also make some interesting inferences about the fourth quarter growth. First, private consumption pace could have moderated to 1.6%YoY from 5.2% in 3Q17, which looks at odds with our consumption proxy (retail and services) accelerating from 1.7% to 2.4%. Online shopping and abroad travel could be a reason for the difference, but we believe the earlier quarterly data was not fully correct and could be revised. Second, investments growth could have moderated to 2.4%YoY over 4Q17 vs 3.9-6.4% in 2Q-3Q17.

Finally, exports growth could have firmed from 4.5% to 6.5% in 4Q17, while imports pace lost some steam and eased from 16.3% to 14.8%.

## Look forward, not back

As we noted earlier today, we stick to a view of 2% GDP growth in 2018 driven by private consumption and investments on the back of the resilient growth in exports and further moderation in imports.

High oil price, if sustained, will be a supportive factor for sentiments towards Russia growth as their direct impact has weakened over 2017 and could be even weaker under the adjustments to the fiscal rule, making RUB less sensitive to oil price swings.

The GDP figure indeed fell short of the CBR's 1.7-2.2% projections for 2017, but still bodes well with the 1.5-2% range expected in 2018. So, formally, there is nothing urgent in terms of the policy response, especially when there is a risk of data revisions. But if we add CPI inflation at 2.2% in late January 2018 and the loss of the growth momentum in 4Q17, then the CBR may think of cutting the key rate by 25bp or even 50bp next Friday, especially after no real headwinds from the US sanctions report and with RUB staying firm.

For now, we favour the -25bp option, but everything is possible given the December 2017 surprise from the CBR and today's Governor comments about a possibility of quicker policy normalisation.