

Russian GDP accelerates in 3Q on shaky grounds

Russian GDP growth accelerated from 0.9% year-on-year in 2Q to 1.7% YoY in 3Q, possibly on better exports and stockbuilding. A pickup in consumption and investments is still required to assure more sustainable improvement in the growth trend. This is more likely to happen later in 2020 than in the coming couple of quarters



Source: Shutterstock

1.7%

As expected

Russian GDP growth (YoY)

up from 0.9% YoY in 2Q19

3Q19 GDP acceleration not supported by consumption or investments

Rosstat, the Russian State Statistics Service, provided its first estimate of 3Q19 GDP growth at 1.7% YoY, which suggests a gradual acceleration from 0.5% YoY in 1Q19 and 0.9% YoY in 2Q19. This estimate is slightly lower than the initial 1.9% YoY guidance given by the government last month, in line with the market consensus and lower than our 1.2% forecast. Rosstat provided no details regarding the composition of GDP growth (this will be released on 12 December), but there are several considerations which raise questions about the sustainability of 3Q19 growth rates for the near term:

- Consumption is unlikely to have contributed to the acceleration in GDP growth in 3Q19, as retail trade growth decelerated from 1.6% YoY in 2Q19 to 0.8% YoY in 3Q19. 4Q19 consumption faces lower support from consumer lending, which may decelerate following tighter provisioning requirements since 1 October for banks issuing consumer loans for highly leveraged clients.
- Investments failed to see much support from the construction sector, which posted a very minor improvement in the growth rate from 0.1% YoY in 2Q19 to 0.5% YoY in 3Q19. Corporate loan growth (adjusted for the FX revaluation effect), slowed from 6% YoY in June to 3% YoY in September amid more or less stable 5-6% YoY corporate accounts growth, suggesting little change in corporate investment demand over the last quarter.
- Looking at sector output performance, there are no signs of faster industrial output growth, which slowed from 3.0% YoY in 2Q19 to 2.9% YoY in 3Q19. State support to growth did not increase, as budget spending on the National Economy item decelerated from 16% YoY in 2Q19 to 10% YoY in 3Q19. There have been fresh indications from the Finance Ministry that this year's budget spending plan will not be fully fulfilled, with around RUB 200-300 billion (c.0.2-0.3% GDP) underspent.

In the absence of major supportive factors, we suspect the acceleration came from the following factors, which may prove temporary:

- Overall export dynamics in real terms might have posted an improvement compared to the sharp -4.9% YoY drop seen in 2Q19. Preliminary current account data point to an acceleration of the non-fuel exports in USD terms from -2% YoY in 2Q19 to 7% YoY in 3Q19. Fuel exports may have recovered, as the effects of the Druzhba pipeline disruptions dissipated. In addition, 3Q19 has a more favourable statistical base in both real and nominal terms.
- Stockbuilding could have also contributed to the pickup amid expectations of a future acceleration in budget spending. However, given the existing information we do not see this process as broad-based. The main bulk of spending on National Projects (public infrastructure spending) will gain traction only in 2022, which hampers near-term expectations.
- Agricultural sector output and exports may have contributed to the GDP acceleration thanks to the higher and earlier-than-usual harvest collection this year. According to our estimates, around 0.2 percentage points of the overall 0.8 percentage point GDP acceleration could be attributed to the agricultural sector.

<https://think.ing.com/articles/russia-september-activity-interesting-but-uninspiring/#a4>

We continue to see 4Q19 GDP growth in a 1.0-1.5% range, with the 2019 figure around 1.0% YoY, unless some backward-looking statistical revisions take place. Some acceleration to 1.5% is possible in 2020 provided there is an increase in budget spending. As of now, around RUB1.0 trillion (c. 1% GDP) of underspending has accumulated for 2018-19, which needs to be addressed. Additional support may come from the planned RUB1.0 trillion of local investments from the National Wealth Fund over the next three years, including RUB0.2-0.3 trillion in 2020, provided the government will successfully allocate it.

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