Russian GDP growth gains traction in 2H19

Russian GDP growth accelerated modestly from 0.5% YoY in 1Q19 to 0.9% YoY in 2Q19 amid normalisation of budget spending growth, and some further pick-up is on the cards. Yet the structure of growth suggests little optimism outside state-driven sectors. We keep our conservative GDP growth outlook unchanged

Source: Shutterstock

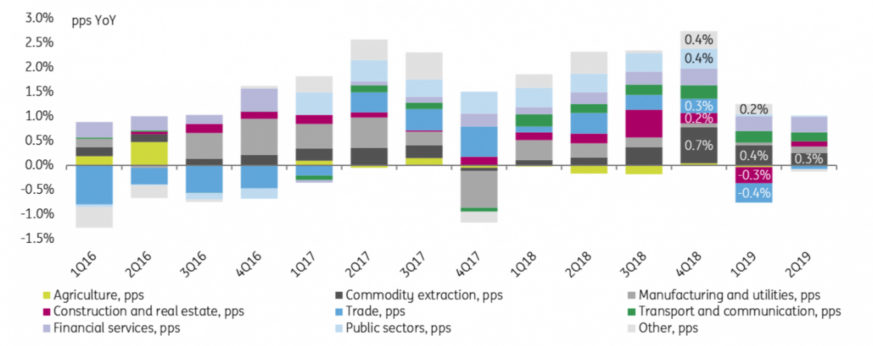
The Russian State Statistics Service (Rosstat) confirmed acceleration of GDP growth from 0.5% year-on-year in 1Q19 to 0.9% YoY in 2Q19, in line with expectations, and provided the structure of growth by sectors. We have the following observations:

- The modest improvement in the growth dynamic in 2Q19 was related to real estate and trade sectors, which after a negative 0.7 percentage point contribution in 1Q19 posted near-zero contribution in 2Q19. The improvement in the trade sector was likely related to the wholesale segment, as the earlier released retail trade data suggested mild deterioration in 2Q19;
- The contribution from the commodity extraction sector continued to decline from 0.7 pps in 4Q18 and 0.4 pps in 1Q19 to 0.3 pps in 2Q19 amid the deceleration in commodity extraction

growth;

- Another constraint to growth was the reduction in net tax on products which may indicate a rise in subsidies, costing another 0.2 pps to the growth rate;
- The financial sector and the transport infrastructure remained a steady positive contributor to growth, while manufacturing, construction, agriculture and public sectors continued making zero contribution.

Russian GDP growth structure by sectors, pps YoY

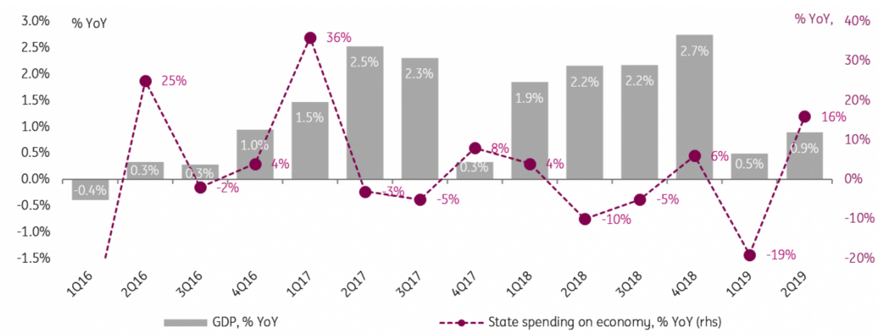


Source: State Statistics Service, ING

In our view, the growth structure confirms our earlier takeaways:

- The acceleration seen in 2Q19 reflects a reaction to the normalisation of the budget spending in the national economy, which after posting a 19% YoY decline in 1Q19, a 3-year low, showed a 16% YoY growth in 2Q19;
- The growth is not diversified, driven primarily by the oil sector (commodity extraction, transportation) and financials (banking and real estate operations), preventing an immediate return to the 1.9% YoY average quarterly GDP growth seen in the previous two years;
- The expected further acceleration in the budget spending growth on the economy - from 1% YoY in 1H19 to 29% YoY in 2H19 - in line with the activisation of National Projects, should provide a further boost to GDP growth through the construction and manufacturing sectors. At the same time, the weakness in consumption-related sectors and declining support from commodity extraction will likely limit the recovery.

GDP growth vs. targeted budget spending, % YoY



We continue to see 2019 GDP growth at a modest 1.0% YoY, which suggests a 1.0-1.5% YoY range for 2H19. Further acceleration in 2020 is possible depending on the traction on the National Projects and the mood in the consumption-driven sectors. In case of negative surprises, the Finance Ministry and CBR may face increased pressure to ease the approach to fiscal and monetary policies.

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