

## Russia: Positive past, cloudy future

The acceleration of GDP growth from 1.6% in 2017 to 2.3% in 2018 is a positive surprise, but its concentration in the oil and gas sector and persistent weakness in investment growth - even after upward revisions - suggest we shouldn't get too excited about 2019



Source: Shutterstock

**2.3%** 2018 GDP growth  
vs. 1.6% in 2017

Better than expected

The first official estimate of Russian GDP growth for 2018, at 2.3%, came as a positive surprise. Even after incorporating the previously announced upgrade of construction growth, we and the consensus did not expect the full-year figure to exceed the 2.0% level. The key reason for this outperformance seems to be a higher than expected revision to investment growth, which is the only component that showed improvement in the full-year estimate compared to the nine-month figure (2.3% vs. 1.9%). However, there are several reasons why this seemingly positive

statistical take on Russia's recent past does not warrant an improvement in the outlook for its future:

- Even after several upward revisions, investment remains Russia's weak link. Despite a number of large state-sponsored infrastructure projects and investments in the oil and gas industry, overall investments slowed materially from the 5.5% rate seen in 2017 and their annual volume in real terms barely reached the level seen in 2008 (while private consumption, despite weakness in 2015-16, is still 16% above its 2008 levels).
- Consumption growth, even after accounting for cross-border e-commerce, showed a material deceleration from 3.0% in 2017 to 1.9%, confirming a weakening in local demand, which is unlikely to reverse any time soon given the VAT hike and slowdown in salary and retail lending growth seen at the end of 2018.
- The only component that positively contributed to the acceleration of GDP growth in 2018 vs. 2017 was net exports, which was in part due to a strong slowdown in import growth (from 17.4% to 3.8% due to weakness in the rouble and local demand) and also in part thanks to an acceleration in export growth (mainly oil and gas), from 5.0% to 6.3%, which is now in doubt because of Russia's OPEC+ commitments.
- GDP growth is not broad-based, as around 50% of 2018 GDP growth was due to sectors that account for only 25% of the economy, including commodity extraction, construction (of oil and gas infrastructure), transportation (of oil and gas products), the financial sector (servicing the flows of the external sector), and state administration.

Overall, given the structure of 2018 GDP growth and the upcoming headwinds to domestic demand, we continue to believe that any growth above 1.0% in 2019 should be considered a positive surprise.

## Author

### Dmitry Dolgin

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial

Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.