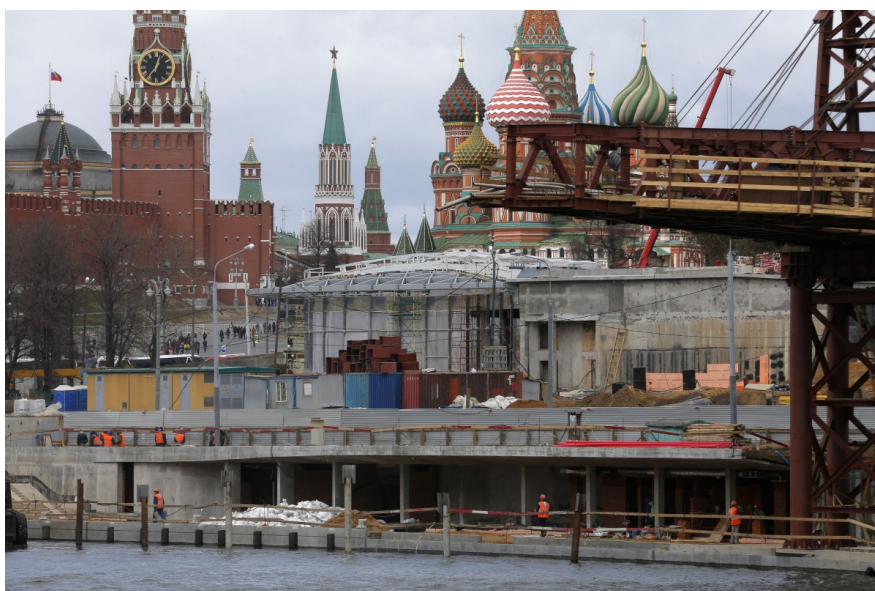


Russian GDP is likely to accelerate this year

Russian GDP growth accelerated from 0.5% to 0.9% YoY between the first and second quarters, slightly exceeding expectations. A planned rise in budget spending should give a boost to otherwise anaemic GDP in the second half of the year. We reiterate our GDP growth target of 1% for 2019



Construction of the new Zaryadye Park in Moscow

+0.9%

2Q19 GDP growth (YoY)

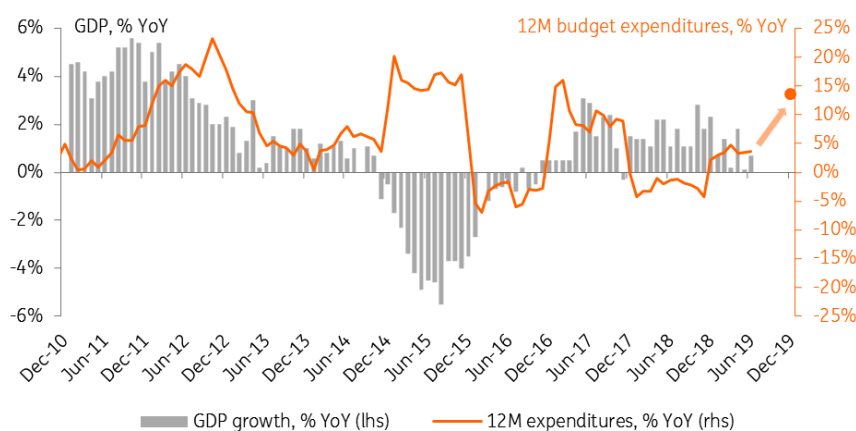
+0.7% for 1H19

Better than expected

Russian GDP growth accelerated from 0.5% YoY in 1Q19 to 0.9% YoY in 2Q19, slightly exceeding the consensus and our forecast of 0.8% YoY. That's according to the State Statistics Service (Rosstat). While the structure of 2Q19 GDP won't be released until 9-10 September (by production) and October 2-3 (by usage), we can still make the following preliminary observations:

- The acceleration of industrial output growth from 2.1% YoY in 1Q19 to 3.0% in 2Q19 was the key positive contributor;
- The contribution of household consumption was neutral to slightly negative, as retail trade growth decelerated from 1.9% YoY in 1Q19 to 1.5% YoY in 2Q19;
- The overall weakness in GDP growth in 1H19 relates to the stringent approach to the budget policy as 1H19 federal budget spending growth totalled 4% YoY vs 8-13% drafted in the official budget plan for the full year;
- The planned acceleration in budget spending in 2H19, mainly related to the National Projects gaining traction, should provide a boost to GDP growth in 2019-20, mainly through higher activity in the industrial and construction sectors;
- The current GDP growth trajectory is in line with 1.0-1.5% expectations for 2019 and 1.8-2.3% for 2020, held by the Bank of Russia, Ministry of Economic Development, World Bank, and IMF;
- No extra monetary or budget measures other than those already planned are required to achieve the expected growth rates in 2019-20. Should the state-sponsored infrastructure construction create some synergies in the private sector, our 1.5% GDP growth forecast for 2020 may have scope for upward revision;
- We continue to see little relevance of the GDP growth rate to the policy rate decisions in the mid-term. Our expectations of another 25 bp rate cut to 7.0% in 2019 and another 50 bp cut to 6.5% in 2020 due to a CPI slowdown remain unchanged given the assumption of an eventual calming of the mood on global markets.

Russian GDP growth vs federal budget spending growth, % YoY



Source: State Statistics Service, Finance Ministry, ING

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