

## Russian government plays catch up on spending

Russian budget spending growth materially accelerated in October, as the government is trying to fulfil the annual spending plan. This is a positive sign for corporate activity and also an argument for the central bank to pause the rate cut cycle



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- The preliminary budget data for 10M19 points towards a material acceleration in the federal spending growth from 5% YoY in 9M19 (downgraded from the initial 6% estimate) to 22% YoY in October.
- Approaching year-end, the government has started to catch up on fulfilling the spending plans, and there's more acceleration to come. 10M19 spending is 74% of the annual plan vs. 76% allocated in 10M18. In order to comply with this year's plan, overall spending growth should pick up from 7% YoY for 10M19 to 18% YoY in November-December 2019.
- The key component contributing to this pick up was the so-called 'National Economy' item, which represents spending on infrastructure and other direct economic support measures, also part of the 'National Projects' programme: the growth of this targeted spending item skyrocketed from 4% YoY in 9M19 to 42% YoY in October.

- In addition to this year's plan, there is a backlog of RUB0.8 tr (c.0.8% of GDP) spending rolled over from 2018, which is unlikely to be released this year either. This will be passed on to the next 2020 plan.
- The current acceleration in budget spending is positive news for corporate activity in 4Q19. While we initially expected industrial output growth to decelerate from 3.0% YoY in September to 2.4% YoY in October (mostly on calendar/workday effects), we now do not exclude a positive surprise.
- The support for the economic activity in 4Q19 may lower the urgency for the central bank to immediately continue its rate cut cycle. The central bank may take a pause to assess the inflationary effect of normalisation of budget spending. According to the ministry of finance, each RUB0.1-0.15 tr of budget underspending has a constraining effect on the CPI in the amount of 0.05 - 0.1 pp. This means that a potential reversal in budget spending, which could return up to RUB1.0 tr of spending backlog (RUB0.2 tr for this year and RUB0.8 tr for 2018) to the economy, is a watch factor for the mid-term CPI trend.

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