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GDP Q3 Growth Slows to 2.7 Percent

By The Moscow Times

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Increased imports, like these roses on sale in a city underpass, were partially responsible for the Q3 deceleration. **Igor Tabakov**

Economic recovery stuttered in the third quarter, the State Statistics Service said Friday, with output growing at the slowest pace this year as record heat triggered crop losses, forced manufacturers to halt output and crimped consumer demand.

Gross domestic product grew 2.7 percent from a year earlier after expanding 5.2 percent in the three months through June, the service said. The median estimate in a Bloomberg survey of nine economists was for 3 percent.

The economy of the world's biggest energy supplier lost momentum as a result of the summer heat wave, which cost the economy as much as 0.8 percentage point of growth this year, the Economic Development Ministry estimates.

"We expect consumption and investment to remain the main drivers of growth, although the heat wave dented the recovery in the third quarter," Anna Zadornova, a London-based

economist at Goldman Sachs Group, wrote in a Nov. 11 report. Goldman predicts a "subdued" 3.5 percent expansion in 2010, followed by a 5 percent increase in 2011.

The ruble weakened 0.6 percent to 30.75 per dollar at the end of trading on Friday, its biggest decline since Oct. 27, and depreciated 0.9 percent to 42.28 against the euro, its first decline against Europe's common currency in six days.

GDP slid a seasonally adjusted 0.7 percent in the third quarter from the previous period after posting gains for four quarters in a row, according to the Economic Development Ministry.

Russia's expansion is lagging behind other BRIC countries. China, the world's second-largest economy, grew 9.6 percent in the third quarter and Brazil's annual GDP growth was 8.8 percent in the second quarter. India's output rose an annual 8.8 percent the three months through June, the fastest pace in 2 1/2 years.

The slowdown has hurt companies including Novolipetsk Steel, billionaire Vladimir Lisin's steelmaker, which forecast a 19 percent drop in third-quarter earnings before interest, tax, depreciation and amortization because of declines of as much as 15 percent in prices of steel products in the period, the company said Oct. 19.

Evraz Group said Oct. 15 that crude steel output declined 8.7 percent in the third quarter from a year earlier.

State spending dropped by about 220 billion rubles ($7.2 billion) last quarter from the same period in 2009, according to UniCredit. Russia is capping expenditures as it seeks to narrow its second budget shortfall since 1999.

"A strong rise in imports, which was sparked by the drought, was one of the fundamental factors that decelerated economic growth," said Vladimir Osakovsky, an economist at UniCredit. "There was also a reversal in the government's fiscal support, which shrank in nominal terms in the third quarter."

Italy's biggest lender forecasts a continued decline in Russia's growth to about 2 percent this quarter, putting the annual GDP gain at about 3.4 percent in 2010, Osakovsky said.

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