

# Economy Expanded 4.3% in 2011

By [The Moscow Times](#)

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Russia's economy grew faster than forecast last year after falling unemployment and record-low inflation helped bolster consumer demand in the fourth quarter.

Gross domestic product, the value of all goods and services produced, rose 4.3 percent, matching a revised 4.3 percent increase in 2010, the State Statistics Service said in an e-mailed statement Tuesday.

The world's biggest energy exporter is recovering from an economic slump of 7.8 percent in 2009, when commodity prices sank after the collapse of Lehman Brothers. Retail-sales growth unexpectedly accelerated to the fastest pace in more than three years last month as the jobless rate fell and inflation reached a two-decade low.

"The figure came in above market consensus because of consistently strong consumer demand and an acceleration in investments toward the end of the year while import growth decelerated," Dmitry Polevoi, chief economist for Russia and Kazakhstan at ING Groep in Moscow, said by e-mail.

The 30-stock MICEX Index was 0.8 percent stronger at 1,507.66 at 4:40 p.m. in Moscow and the ruble strengthened 1.2 percent to 30.0706 per dollar.

Agricultural output surged 16.1 percent last year from a 9.7 percent contraction in 2010 after a drought and forest fires ravaged crops. Construction rose 4.8 percent in 2011, up from a 3.2 percent gain the previous year. Natural resources production advanced 1.7 percent, down from 7.1 percent in 2010, and manufacturing growth slowed to 6.1 percent from 8.3 percent, the service said in the statement.

"Industrial production is in large part tied to trends on export markets and demand for the goods Russia exports," Vladimir Osakovsky, chief economist at Bank of America Merrill Lynch in Moscow, said Monday by phone. "The slowing world economy, including Europe, certainly has a negative effect on industrial output."

Exports of raw materials such as energy and metals account for more than a quarter of Russian GDP, Prime Minister Vladimir Putin, who earlier had estimated last year's growth at 4.2 percent, wrote in an article published Monday in Vedomosti.

Higher energy prices benefited some of Russia's largest oil producers, including LUKoil, TNK-BP and Gazprom Neft, all of which are projected to have had record profit last year. Gazprom, the country's gas export monopoly and largest company, is also forecast to record its biggest-ever profit in 2011.

Urals crude, Russia's main export blend, averaged \$109 a barrel in 2011, 40 percent more than \$78 in the previous year. That helped the budget return to a surplus of 0.8 percent of GDP from initial forecasts of a shortfall.

"The oil price has a major impact on Russia, and the international financial situation has a major impact on Russia," Roland Nash, chief investment strategist at Moscow-based Verno Capital, said Monday in a telephone interview. "Russia grew 4 percent even though the developed world was going through a major international financial crisis."

The ruble-denominated MICEX Index fell 17 percent in 2011 as net capital outflows more than doubled to \$84.2 billion, according to a preliminary estimate by the Central Bank. The ruble weakened 4.9 percent against the dollar to 32.1475.

Putin says Russia needs to grow at least 6 percent a year to become one of the world's five largest economies and should be less reliant on energy exports.

Retail sales jumped 7.2 percent in 2011, faster than a 6.3 percent increase in the previous year, as consumer prices rose at the slowest pace since the collapse of the Soviet Union two decades ago, the service said last week. Inflation totaled 6.1 percent last year, according to the Central Bank, which is seeking to trim price growth to 6 percent in 2012.

Magnit, the country's largest food retailer by market value, was among the companies that benefited from the surge, posting a 20 percent gain in net income last year.

"Domestic demand rose thanks to lending growth, the pre-New Year's mood and higher incomes toward the end of the year," Ksenia Yudayeva, chief economist at Sberbank, said Monday by e-mail.

The International Monetary Fund on Jan. 24 cut its forecast for Russian growth to 3.3 percent in 2012, saying the global economy poses risks. GDP will expand 3.5 percent this year and 3.7 percent in 2013, according to the median estimates of 17 economists in a Bloomberg survey.

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