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# Goldman Sachs Sees Overheating as Biggest Risk

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The major risks for Russia in the near future are likely to come from an overheated economy, rather than falling oil prices, as accelerating consumption and lagging output might fuel inflation, Goldman Sachs warned Friday.

The drop in unemployment together with the rise in people's incomes are boosting consumption, while output has yet to catch up to meet growing demand, the company said in a presentation.

The trend is unlikely to change in the near future, said Clemens Grafe, Goldman Sachs' chief economist for Russia and CIS.

"The risk in Russia now is overheating, as consumption will accelerate further rather than slowing down to a sustainable path," he told a news conference in the company's Moscow office.

The major reason is the increase in budget spending, which has triggered growth in real wages, Goldman Sachs said.

According to the presentation, the government's fiscal policy was rather tight from the middle of 2010 through the third quarter of last year.

"However, in recent months, spending has sharply increased. With consumption already growing above trend this poses risks," the document said.

Budget spending peaked in the months ahead of the State Duma and presidential elections, with social spending alone rising 20 percent in January compared with the same period a year earlier.

Grafe warned that growing budget spending could put pressure on the Central Bank in the future, as keeping annual inflation at about 5 percent to 6 percent — the rate forecasted by the Economic Development Ministry — might be a hard task for the government.

Inflation stood at 6.1 percent in 2011 — a historical low for the last 20 years.

Goldman Sachs expects inflation to reach 6.2 percent this year, before slowing down to 6 percent in 2013.

Meanwhile, a possible slide in oil prices is unlikely to be a matter of concern in the near future.

Average crude prices are likely to remain at about $120 a barrel this year, supported by the tightening balance between demand and supply, before soaring to $130 a barrel in 2013, Grafe said.

Goldman Sachs predicted that Russia's economic growth would slow down this year to 3.9 percent from 4.3 percent in 2011 due to the export contraction, as demand is weakening globally.

The other reason is modest investment growth in the first half of the year that could be attributed to uncertainty during the election period, while the external risks coming from the global markets don't add any optimism, Grafe said.

The investment bank expects the country's gross domestic product to grow 4.5 percent in 2013, above the Economic Development Ministry's official forecast of 4 percent.

Goldman Sachs said a significant increase in investment is crucial for achieving sustainable economic growth in the future.

The size of investment in Russia's economy has increased by about 7 percent over the last 12 months, but this is "too little to sustain growth in excess of 4 percent in the long run," the company said.

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