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Growth Forecast Cut One-Third To Just 2.4%

By The Moscow Times

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The Economic Development Ministry has cut its economic growth forecast for this year by a third to 2.4 percent, which would be its worst year since 2009 when it was struggling in the wake of the global financial crisis.

The government had previously forecast 3.6 percent growth this year but revised its estimate after consumer demand, investments and exports were weaker than expected in the first quarter.

"GDP growth will come in at 2.4 pct (in 2013)," Interfax cited Deputy Economy Minister Andrei Klepach as saying. The ministry's forecasting department confirmed the new estimates.

That would be the worst performance since 2009 when GDP fell by 7.8 percent in the aftermath of the global financial crisis. Last year gross domestic product rose 3.4 percent.

Economic Development Minister Andrei Belousov said on Sunday that the economy probably only grew 1 percent in the first three months of this year from a year ago.

Klepach said that investment and export data for the first three months bode poorly for the rest of the year. As a result the ministry had cut its forecast for growth in fixed capital investment to 4.6 percent from 6.5 percent. That is well below double-digit growth seen for most of the past decade.

The new GDP forecast is less than half of the government's goal of achieving 5 percent growth annually and also reflects easing consumer demand, which has been the main driver of Russia's economic growth since the early 2000s.

"It's a fully realistic forecast," said Nadezhda Ivanova, an economist at Sberbank.

Retail sales grew by 2.5 percent in February from a year earlier, the most recent available data and below analysts' expectations.

Car sales, a good indicator of consumer demand, fell 4 percent last month while gas exports, one of the country's chief exports, to the European Union and Turkey by gas monopoly Gazprom fell 3.2 percent year-on-year in January to February.

Sentiment in Russia is also being affected by worries about the situation in Cyprus, which had to seek a bailout last month that imposed levies on big bank deposits, many of which are held by Russians.

Slowing growth is adding ammunition to the Economic Development Ministry's calls for the Central Bank to cut interest rates to support industry.

"In the beginning of 2013, it seems that consumer demand is also weakening. It cannot be ruled out that Russia has already entered a recession," analysts at Nomos bank wrote in a note on Tuesday.

Other revised forecasts for 2013 announced Thursday include the predicted price of a barrel of oil, which went from $97 to $105 and capital outflows, which were predicted to be form 0 to $10 billion, and are now seen at $30 billion to $35 billion.

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