The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Economic Growth Slows Again, Sparking Recession Fears

By Irina Filatova

August 12, 2013

Russia has recorded another quarterly decline in its economic growth rate, fueling concerns about a possible recession and casting doubt on President Vladimir Putin's hopes to attain annual growth of 5 percent over the next few years.

The negative dynamic could intensify pressure on the government and the Central Bank to loosen the current fiscal policy, analysts said.

The economy expanded by 1.2 percent in the period from April to June, compared with the same quarter last year, down from 1.6 percent in the first quarter of 2013, according to the figures released by the State Statistics Service on Friday.

That is far below the forecast by the Economic Development Ministry, which expected the country's economy to expand by 1.9 percent.

"We expected a stagnation in both the first and second quarters. But 1.2 percent is below our expectations. We are trying to work out the reasons," Deputy Economic Development Minister Andrei Klepach said Friday, Prime reported.

The figures are disappointing, given the expectations of the Economic Development Ministry, said Yulia Tseplyayeva, chief economist for Russia and the CIS at BNP Paribas. But "there was nowhere for the growth to come from," she said.

Household consumption — the major driver of Russia's economic growth — slowed in the second quarter; fixed investment saw a dramatic decline, while exports in dollar terms were hit by the economic turbulence in Europe, she said.

The county's second quarter economic growth was significantly below the consensus forecast of 2 percent by the 19 analysts surveyed by Bloomberg.

"Annual growth is now at its weakest since the aftermath of the global financial crisis in 2009," Capital Economics said in a research note.

The figures released by the State Statistics Service indicate that Russia may have seen its second consecutive quarter of output contraction, meaning that the country might have entered recession, according to the estimates by the London-based research firm.

"We estimate that the drop in the annual rate of growth from 1.6 percent in the first quarter is consistent with a quarterly fall in GDP of about 0.5 percent. Given that the economy contracted by 0.1 percent in the first quarter, this would mean that Russia is now in recession," Capital Economics said. Although the data are preliminary, the State Statistics Services's figures do not tend to be significantly revised, it added.

In April, then-Economic Development Ministry Andrei Belousov warned that the economy could enter recession in the fall unless the government takes steps to stimulate growth.

Meanwhile, Klepach said Friday that he expected quarterly GDP growth to resume starting in the the third quarter.

Analysts also took an optimistic stance on the economy's prospects through the rest of the year, but said they do not foresee growth of any impressive magnitude.

"Looking ahead, some of the headwinds facing the economy are likely to ease over the second half of the year," Capital Economics predicted. "Inflation should fall back, which will reduce pressure on real incomes."

A good crop this year and the low base effect in the second half of 2012 will apparently support growth, BNP Paribas's Tseplyayeva said, referring to the effect of slowing growth during the last six months of last year on comparative 2013 figures.

But a surge in Russia's GDP remains unlikely. Given the preliminary growth estimate of 1.4 percent during the first six months of this year, the government's goal of 2.4 percent for this year will be hard to achieve, Tseplyayeva said, adding that the maximum achievable was likely to be 2.2 percent.

Considering the bearish tendency in the economy, the Economic Development Ministry could revise its full-year forecast down from its current 2.4 percent, Klepach told Interfax.

Russia's economic slowdown has now lasted six quarters, in what analysts said should be an indication for the Central Bank to loosen its monetary policy.

"We have been expecting for long that the Central Bank will cut interest rates," Tseplyayeva said.

Putin has repeatedly said the model of economic prosperity based on natural resources was spent; Russia's development goals require at least 5 percent growth over the next decade. In April he demanded that government officials, Kremlin staff and analysts provide proposals for boosting the economy.

The Central Bank kept its key rates unchanged Friday for the 11th consecutive month, saying it expects inflation to fall to the target range of 5 to 6 percent over the next six months, down from 6.5 percent as of Aug. 5, and decline further in 2014.

The bank will "continue to monitor inflationary risks and the risks of an economic slowdown," it said in a statement after its rate-setting meeting. The inflation target and the prospects for economic growth will be the critical factors in any decision on the possible rates cuts, the regulator said.

The Central Bank's statement "hints that the authorities are moving — albeit slowly — toward a looser policy stance," Capital Economics said.

But cutting interest rates alone is unlikely to be sufficient to boost the economic growth, Tseplyayeva said. The Finance Ministry should also step up to increase government spending, using part of the funds stored in the the $86-billion National Welfare Fund, she added.

Earlier this year, Putin advocated using part of those funds to finance there major infrastructure projects — a high-speed railway line between Moscow and Kazan, the modernization of the Trans-Siberian Railroad and the reconstruction of the Central Ring Road around Moscow.

He also said that up to half of the money from the National Welfare Fund would be subsequently invested in other long-term projects in Russia.

However, the idea did not find support with Finance Minister Anton Siluyanov, who claimed last month that the money should be invested into stock market instruments, which provide higher returns.

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