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Report Sees Possible Economic Upturn

By Irina Filatova

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The Russian economy might see a slight pickup by the end of this year driven by expanding investment and a possible easing of monetary policy by the Central Bank, according to the latest forecast by Morgan Stanley presented Monday.

The GDP growth is likely to expand by 2.2 percent overall in 2013 after a meager 1.4 percent increase in the first half of the year, as the government is expected to start spending 450 billion rubles ($13.6 billion) from the National Welfare Fund to finance infrastructure development, the investment bank's chief economist for Russia, Jacob Nell, told reporters.

"To improve growth you can increase investment," as consumption — the main driver of economic expansion — might be suppressed by a weaker increase of wages later this year, he predicted.

He pointed out that the country had seen a surprising slowdown in investment earlier this year despite fading political uncertainty after the presidential elections and government effort's to woo investors.

This resulted in Morgan Stanley downgrading its GDP forecast for 2013 from an earlier prediction of 2.9 percent. The bank's analysts still remained more optimistic then the Economic Development Ministry, which last month revised its forecast from 2.4 percent to 1.8 percent.

According to Morgan Stanley, the anticipated pickup in investment is likely to follow a slowdown in inflation, which by the end of this month might return to the government's target of 5 to 6 percent a year. This, in turn, would support corporate lending, Nell said, adding that weakening inflation would be likely to push the Central Bank to cut interest rates — a long anticipated move by the regulator.

"Looking ahead, we think that the Central Bank will deliver inflation close to the expected 2014 target of 4.5 percent a year. This is partly a result of the 2013 harvest keeping food prices ... subdued next year, and a new inflation cap on utility prices," Morgan Stanley said in the forecast.

A robust grain crop of 90 million metric tons expected this year is also likely to contribute to 2013 GDP growth, the forecast said.

Contact the author at irina.filatova@imedia.ru

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