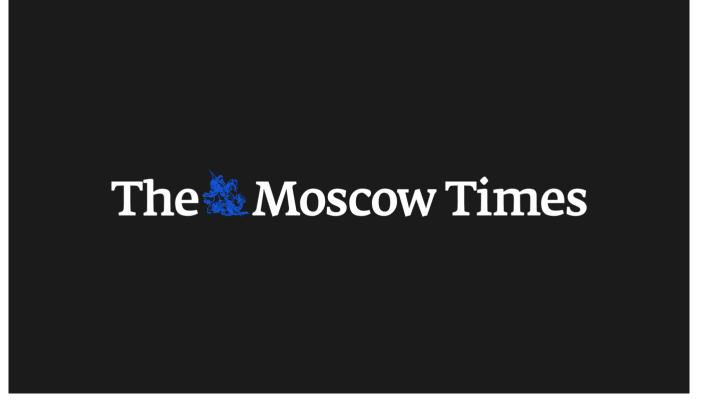


Central Bank Downgrades Medium-Term Economic Growth Forecast

By The Moscow Times

February 18, 2014



The Central Bank said Tuesday that the country's output may grow by 1.7 to 2.0 percent from 2015 to 2016, an outlook that underscores the weak state of the economy.

The forecast, in a quarterly monetary policy report, implies a downward revision compared with its earlier predictions. The bank said in the previous quarterly report that it saw Russia's medium-term growth potential as 2 to 2.5 percent.

The bank predicted growth of 1.5 to 1.8 percent this year, down from a forecast of 2 percent made last quarter.

Central Bank governor Elvira Nabiullina said last week that the bank had revised down its forecast because it was surprised by last year's poor growth rate of 1.3 percent.

In its report, the Central Bank said it expected annual growth in household consumption

to fall to 3.1 to 3.3 percent in 2014 from 4.7 percent in 2013. Fixed-investment growth was forecast at 1.4 to 1.6 percent in 2014, up from 0.3 percent in 2013.

The Central Bank said the slight improvement in growth expected over the next two years was "in line with the revival of the global economy and thanks to a gradual improvement in the investment climate and the mood of economic agents in Russia." It still expects output to remain slightly below its potential.

The bank said the Sochi Winter Olympics should boost growth in the first half of 2014, which it estimated at 0.3 percentage points.

But the Central Bank warned that the price of oil, Russia's major export, could fall in the short term because of weakening business activity in China and increased deliveries from Iran and Libya.

It also predicted Russian borrowers would have a harder time in international capital markets in 2014. It said investors were likely to steer clear of emerging markets as the U.S. Federal Reserve winds down its monetary stimulus. That will dry up a stream of money that had been flowing into the developing world.

The Fed's change in policy could end up raising yields on Russia's long-term OFZ treasury bonds by 1.2 to 1.7 percentage points, according to the bank's analysis.

The bank said the ruble's weakening at the end of 2013 and the beginning of 2014 could add 0.3 to 0.5 percentage points to the inflation rate, but it predicted that the effect would be offset by weak demand.

It maintained its forecast that the annual increase in consumer prices would fall to 5 percent this year, 4.5 percent in 2015 and 4 percent in 2016. Weak economic activity and reduced inflationary expectations would lower the inflation rate, it said.

But the bank warned that a weaker ruble implied long-term risks to the economy.

"It could lead to an increase in inflationary pressure, and also encourage the conservation of the economic structure and in the long term lower the potential for its modernization and reform," the bank said.

Original url:

https://www.themoscowtimes.com/2014/02/18/central-bank-downgrades-medium-term-economic-growth-forecast-a 32235