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INDEPENDENT NEWS FROM RUSSIA

Ministry Raises Inflation Forecasts, Halves 2015 Growth Outlook

By The Moscow Times

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Deputy Economic Development Minister Alexei Vedev.

The Economic Development Ministry has ramped up its inflation forecasts and halved its 2015 economic growth forecast, adding to signs that tit-for-tat sanctions over Ukraine are seriously harming its economy.

The ministry's forecasts are closely watched as they are referred to in matters such as budget planning.

Deputy Economic Development Minister Alexei Vedev told a briefing on Tuesday that the ministry now saw inflation standing at 7-7.5 percent at the end of 2014, up from its previous forecast of 6 percent. It cited the impact of a ban on Western food imports that Russia introduced in retaliation for Western sanctions.

Vedev said that the import ban was expected to add around 1 percent to the inflation rate this

year, and 0.5 percent next year. That contradicted earlier assertions by some officials that the ban would not lead to much higher prices.

He added that a new tax on sales to be introduced next year would also add around 1 percent to the inflation rate.

For 2015, the ministry forecast inflation at 6-7 percent by the end of the year, up from its previous forecast of 5 percent.

The new forecasts contrast with those of the Central Bank, which expects inflation to stand at 6 percent at the end of 2014 and aims to reduce that to 4.5 percent next year. Inflation was running at 7.5 percent in July, despite three interest rate hikes this year aimed at reining in price rises.

The ministry left its 2014 gross domestic product growth forecast unchanged at 0.5 percent despite ministry officials having said several times in recent months that they may raise it.

But it halved its economic growth forecast for 2015 to 1 percent from 2 percent.

This follows gloomy economic growth data published last week which showed that the economy contracted in both June and July, fueling economists' fears that Russia is heading for recession.

Vedev said the ministry was cutting growth forecasts for 2015-2017 because of "a strengthening of geopolitical tensions," a reference to the Ukraine crisis which has sunk East-West relations to their lowest ebb since the Cold War.

Economists polled by Reuters at the end of last month, before Russia's food import ban, forecast economic growth of 0.3 percent in 2014, and inflation at 6.5 percent.

"It's positive that the ministry has responded to the new economic reality: that inflation is going to move higher and it is likely to stay there even in 2015," said Dmitry Polevoi, chief Russia economist at ING.

"The GDP growth downgrade for 2015 is moving closer to consensus. We still think there could be downside risks even to the consensus, but now the [Economic Development Ministry] figures look more realistic."

Oil Price Risk

Other government bodies do not always see eye-to-eye with the Economic Development Ministry. Deputy Finance Minister Alexei Moiseyev said Tuesday that his ministry was more optimistic than the Economic Development Ministry about inflation next year but more worried about the oil price, which is crucial for economic growth and the budget.

"Next year, I think we will see that the policy of the Central Bank is directed unambiguously at fighting inflation," Moiseyev told Rossia 24 television, but he added that "most of all, the oil price forecast worries us."

"It seems to us that oil prices are somewhat inflated," he said, predicting that geopolitical

concerns that are presently supporting prices may diminish in future. "Therefore, of course, we're afraid that oil prices could be significantly below the $100 [a barrel] that is forecast by the Economic Development Ministry."

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