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Now It's Trump's Fault That Putin's Economy Just Won't Grow

The U.S. president's trade war with China has weighed on the global economy.

By Bloomberg

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Fresh sanctions imposed last week ban U.S. investors from buying new issues of non-ruble debt. **Gage Skidmore / Flickr / Pixabay / MT**

The Kremlin's bet that Russia's sputtering economy would finally accelerate in the second half of the year is turning into a losing one as international demand for commodities weakens amid the global trade war.

Exports dropped 14% in May from a year ago and Economy Minister Maxim Oreshkin warned last month that coal shipments are "falling sharply." As the world's biggest energy exporter, Russia is heavily dependent on demand for its fuels and other commodities abroad.

"It's clear that the trade war and the retreat from globalization will hit the global economy

hard and weigh on industry and commodity prices," Oreshkin said this week. "We will of course feel the impact here."

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U.S. President Donald Trump's trade war with China has weighed on the global economy, knocking a key support from under the economy just as Russia was hoping to boost growth with a surge in government spending. Oreshkin is under pressure to deliver as five years of falling incomes weigh on President Vladimir Putin's popularity ratings, contributing to increasingly frequent protests.

The economy grew just 0.5% from January to March compared to last year, and economists polled in a Bloomberg survey are forecasting second-quarter growth of 0.8%. The Federal Statistics Service will report its preliminary estimate for economic performance in April-June on Monday.

"Russia's growth was near 0.8% in the second quarter under the best-case scenario, but could have been even a bit lower," said Oleg Shibanov, a finance professor at Moscow's New Economic School. Leading indicators "show Russia is in a hard-core stagnation and even nearly in recession."

Investments in a $400 billion spending plan are expected to start contributing to economic growth in the second half of 2019, although economists have warned the effects may be limited. Dubbed National Projects, the spending program is part of a Putin goal to increase gross domestic product per capita by at least half by the middle of the next decade.

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Fresh sanctions imposed last week that ban U.S. investors from buying new issues of non-ruble debt will further limit Russia's access to Western expertise and funds needed to revamp the economy, according to a report by Moody's Investors Service. The International Monetary Fund, which recently downgraded its growth forecasts for Russia, calculated that sanctions have already shaved 0.2 percentage points off annual growth since 2014.

The IMF cut its global growth projections last month and is now forecasting the economy will expand 3.2% this year and 3.5% next year. A rate of 3.3% or lower would be the weakest since 2009.

"Demand for commodities weakens when China's prospects worsen in any way, which is especially important for Russia since the Chinese market is considerable for Russia," said Sofya Donets, an economist at Renaissance Capital in Moscow. "The worse it is for China, the worse it is for Russia."

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