9 September 2010

Flash Comment

Russia: GDP revisions bring no change to our 2010 forecast, 2011 looks brighter

- Russian Q1 10 GDP growth was revised up from 2.9% to 3.1%, for Q2 the preliminary figure of 5.2% was confirmed.
- We keep our 2010 GDP growth forecast steady at 3.6%.
- We believe credit growth will support 2011 growth more than we anticipated earlier and we revise our 2011 GDP growth forecast from 4.1% to 4.8%, with weight on H2 growth.

Assessment and outlook

Russian Q2 GDP growth was 5.2%, as the preliminary estimate indicated in August. Q1 growth was marginally upgraded from 2.9% to 3.1%. This brings H1 10 growth to 4.2% y/y. Unfortunately, as the benign base effect is fading, keeping up the GDP growth rate seen in H1 becomes difficult in H2. Support from trade balance surplus growth is fading and investments have not really started yet, leaving the consumption as the only growth driver constrained by stagnant bank lending growth.

However, money supply growth indicates a rise in bank lending in Q4, which we expect to be driven by the consumer sector. This is likely to support consumption throughout 2011. In addition to this, state companies are planning significant investments next year, which has strengthened our optimism on recovery in investments in late-2011. Due to these factors, we upgrade our GDP forecast for 2011 from 4.1% to 4.8%.

We are also fine-tuning our CPI forecasts due to the unexpected surge in food prices. However, we do not see this as a key inflation driver and expect a bigger acceleration in inflation to emerge starting in November-December this year due to rising real wages, government expenditure, money supply growth and producer price inflation. We expect year-end inflation to reach 8% this year, and CPI to average at 9.5% in 2011.

Russian macro forecasts – Danske Bank

	Year	Gdp[1]	Private. Cons[1]	Fixed Inv[1]	Export[1]	Import[1]	Unem-ploym[3]	Inflation[1]
Russia	2009	-7.9	-7.8	-15.9	-4.2	-29.8	8.2	11.7
	2010	3.6	4.8	1.0	24.0	19.0	7.9	6.8
	2011	4.8	5.9	8.5	13.0	22.0	7.3	9.5
	2012	4.5	6.5	12.0	9.0	21.0	6.9	7.9

1) Average % y/y 2) % of GDP 3) % of total work force

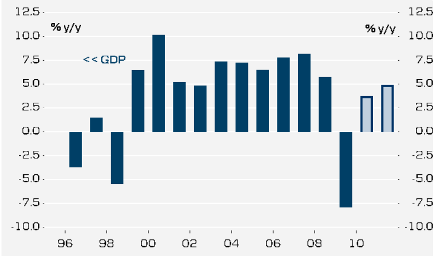
Source: EcoWin Reuters and Danske Markets

Key figure (Q2 GDP growth in Russia)

	Act	Con	Last
Key rate	5.2%	5.6%	3.1%

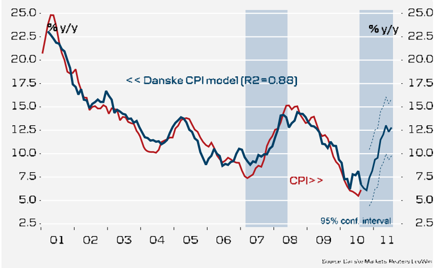
Source: Reuters

We expect stronger growth in 2011



Source: EcoWin Reuters and Danske Markets

CPI is likely to accelerate



Source: EcoWin Reuters and Danske Markets

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Disclosure

This report has been prepared by Danske Research, which is part of Danske Markets, a division of Danske Bank. Danske Bank is under supervision by the Danish Financial Supervisory Authority. The author of this report is Sanna Kurronen, Analyst.

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