Country Report

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The Economist Intelligence Unit

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"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

Russia

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Briefing sheet

Editor: **Agathe Demarais**

Forecast Closing Date: **August 31, 2018**

Political and economic outlook

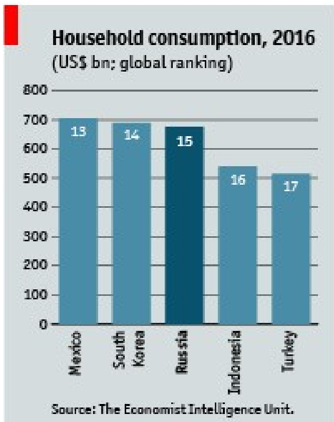
- The president, Vladimir Putin, won a comfortable victory in the first round of the presidential election on March 18th. The Economist Intelligence Unit expects Mr Putin to remain in power over the forecast period (2018-22).
- Despite several risk factors, such as weak economic growth, we do not expect political change during the forecast period. The government has shown itself to be ideologically adaptable and effective at co-opting the opposition.
- It is highly unlikely that the conflict in eastern Ukraine will be resolved in 2018-22, and certainly not before the 2019 Ukrainian elections. We expect EU and US sanctions, as well as Russian counter-sanctions, to remain in place in the forecast period.
- Radical economic reform is unlikely, but there will be incremental efforts to improve the efficiency of the system. Economic policy will remain statist, nationalist and protectionist.
- We forecast real GDP growth of 1.7% in 2018, driven by private consumption and, to a lesser extent, investment. We expect annual average growth to remain below 2% throughout the forecast period, assuming average oil prices of more than US$70/barrel.
- We expect the rouble to depreciate to an average of Rb63.3:US$1 in 2018. Although oil prices are higher than in 2017, monetary tightening in the US and the possible imposition of new US sanctions place negative pressure on the rouble.
- We expect inflation to remain near historical lows in 2018-22, averaging only 4%, owing to steady oil prices (which will support the rouble against the US dollar) and the credible inflation-targeting regime of the Central Bank of Russia (CBR).

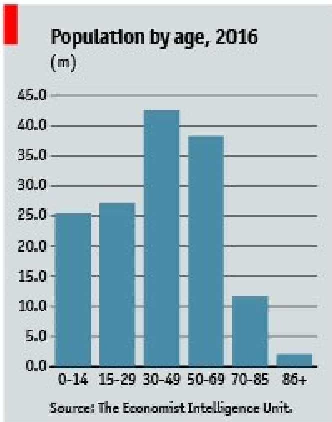
Key indicators

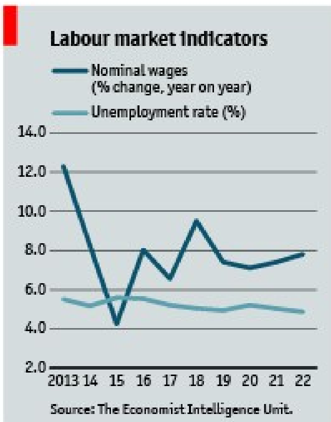
	2017[a]	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]
Real GDP growth (%)[c]	1.5	1.7	1.8	1.6	1.7	1.8
Consumer price inflation (av; %)	3.7	3.1	4.5	4.3	4.1	4.1
Government balance (% of GDP)	-1.4	0.3	0.4	0.6	0.7	0.9
Current-account balance (% of GDP)	2.2	4.1	3.9	3.4	3.8	4.2
Money-market rate (av; %)	9.1	7.1	7.0	8.8	8.4	8.2
Unemployment rate (%)	5.2	5.0	4.9	5.2	5.0	4.9
Exchange rate Rb:US$ (av)	58.34	63.33	66.94	68.43	66.94	65.35

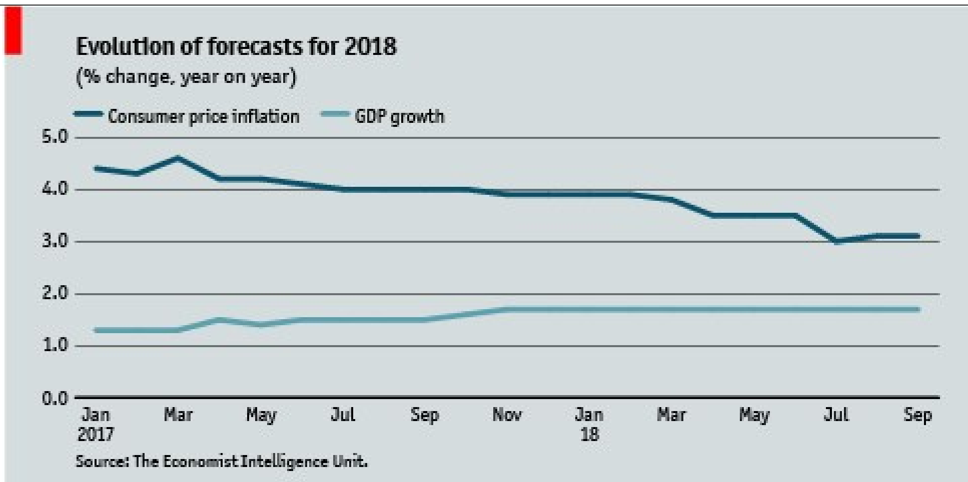
[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Data include a statistical discrepancy.

Market opportunities









Key changes since August 15th

- In a state of the nation address on August 29th, Vladimir Putin, the president, made concessions regarding an unpopular pension reform. He suggested that the retirement age for women should be raised to 60 years, from 55 currently, instead of 63 in initial plans.

The month ahead

- **September 10th—Real GDP (Q2, final):** A flash estimate showed real GDP growth of 1.7% year on year in the second quarter. We expect private consumption to have been the main driver of growth in the second quarter and expect the final data to confirm the preliminary estimate, in line with our forecast for full-year real GDP growth of 1.7%.
- **September 14th—CBR board of directors' monetary policy meeting:** We expect that the CBR will hold its policy rate steady in the face of a weaker rouble against the US dollar and likely price pressures from the January 2019 value-added tax (VAT) rate rise.
- **TBD—Pension reform:** The public response to the planned rise in the pension age has been negative. This may result in the proposal being watered down further, as the government is wary of popular discontent. On August 29th Mr Putin made concessions on the pension issue; other concessions, especially for security services, are possible.

Major risks to our forecast

Scenarios, Q2 2018	Probability	Impact	Intensity
The banking sector experiences a serious crisis	High	Very high	20
Increasingly arbitrary and inconsistent interpretation and implementation of laws deters foreign investment	Very high	Moderate	15
The state of the rail and road infrastructure further deteriorates owing to a lack of public investment	Very high	Moderate	15
The Russian economy enters into recession	Moderate	Very high	15
Western sanctions are tightened and target international payments systems	Moderate	Very high	15

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
Source: The Economist Intelligence Unit.

Outlook for 2018-22

Political stability

On March 18th Vladimir Putin was re-elected as president for a fourth term. The Economist Intelligence Unit expects broad continuity in his policy agenda, which focuses on “conservative cultural values”, an authoritarian political culture and overt antiWesternism. This means ongoing confrontation with the US and the EU over Ukraine, and a continued muscular foreign policy. Despite some pro-market rhetoric, economic policy will remain statist, nationalist and protectionist. Mr Putin’s term runs until 2024, but given how heavily the political system leans on his charismatic leadership and popularity, attention will gradually shift to how he will manage an eventual presidential transition.

The weakness of most political and legal institutions—as well as the personalised, opaque governance system around Mr Putin—risks introducing elevated uncertainty into the political arena during the transition period. Most Russians associate Mr Putin’s tenure with stability and prosperity, in contrast to the tumultuous 1990s; this factors heavily into the popular aversion to political change. Any successor is likely to come from the team around Mr Putin and will not herald a sharp change in the policy agenda. However, it could be difficult for a successor to build legitimacy, given the weak long-term economic outlook and the strength of Mr Putin’s legacy. In the meantime, concern about political stability is likely to deter the government from pursuing radical reforms, especially if these prove unpopular.

For example, public support for the government and Mr Putin has fallen since June, when the government announced its decision to raise the pension age from 2019. Mr Putin offered concessions on this issue on August 29th, when he gave a lengthy state of the nation speech on this specific issue. In doing so, Mr Putin aimed, as often in recent years, to present himself as the guardian of the Russian population against government plans that supposedly run counter to popular interests. The public reaction to these concessions, which the government might have planned to make before it presented its initial pension reform, is not yet clear. The authorities will continue to monitor public opinion closely, as social unrest (probably orchestrated from abroad, in the government’s view) represents the biggest threat to political stability.

Aside from the succession and pension reform issues, the greatest risks to political stability relate to the economy and the financial system. However, there seems little potential for political change. The authorities have tightened social controls since 2012, and the opposition appears marginalised.

Election watch

On March 18th Mr Putin was easily re-elected to a fourth term, securing 77% of the vote. With the election out of the way and Dmitry Medvedev reappointed prime minister (thereby signalling policy continuity), it now remains to be seen who could succeed the president in 2024; we believe that it is too early to identify a possible successor.

International relations

The Minsk II ceasefire agreement, signed in February 2015, is highly unlikely to lead to a resolution of the conflict in Ukraine. Russia sees Ukrainian integration with the EU and NATO as a direct threat to its national interests. The current status quo of a regularly breached ceasefire with contained levels of fighting seems likely to endure for several years—certainly at least until the 2019 Ukrainian presidential elections. This will serve Russia's interests, as a frozen conflict will prevent Ukraine joining the EU and NATO.

The Ukraine conflict has led to a deterioration in Russia's relations with the West since 2014. In response, the US and the EU have imposed sanctions on Russian officials, as well as on the Russian financial, energy and defence sectors; firms in these sectors cannot raise capital on US or EU financial markets. Russia has responded with a ban on almost all Western food imports (which has helped Russia to develop its food industry). Additional US sanctions also prohibit international companies from conducting business with Russian companies for the construction, modernisation or repair of energy pipelines (although projects started before August 2017, such as the Nord Stream 2 gas pipeline connecting Russia to Germany, are excluded from the ban).

We expect existing US and EU sanctions to remain in place over the 2018-22 forecast period. New US sanctions were announced in March, April and August 2018, but their implementation has remained uneven and US statements have proved contradictory. The imposition of the April and August sanctions had wide repercussions in Russia; stockmarkets dipped and the rouble fell against the US dollar on both occasions. Additional US sanctions on Russia are likely, but these will not alter its foreign policy. Tensions between the US and the EU over the sanctions (as is the case with Iran) are probable, as the EU increasingly believes that the US uses sanctions to advance its economic interests.

There is little prospect of an improvement in US-Russian relations in the short term. There are deep-seated differences on some issues, such as Syria (where Russia props up the regime of Bashar al-Assad, the Syrian president) and Ukraine (where Russia backs separatist rebels in the eastern Donbas region).

Policy trends

Russia’s stand-off with the West has strengthened statist, nationalist and protectionist trends within the government. Economic sovereignty—understood as insulating the economy from external shocks—will remain a priority. The main elements of this strategy include a large positive sovereign external asset position, protectionist measures to support domestic manufacturing through import substitution, and a cautious approach to foreign investment.

During Mr Putin’s fourth presidential term, we expect economic reform to continue to be subordinated to the imperatives of political stability and government longevity. The policy agenda will focus on the ambitious national development targets in the May Decree signed by Mr Putin on May 7th. These include boosting investment, improving education and healthcare, and reducing poverty. Despite elevated global oil prices (compared with 2015-17 levels), achieving these goals will be financially challenging. The government is seeking to boost revenue via tax and pension reforms on three main fronts.

- On June 22nd the government submitted a draft bill to the State Duma (the lower house of parliament), proposing to lower gradually the export duty rate on oil and oil products to zero by 2024, while raising the mineral extraction tax correspondingly. According to Dmitry Kozak, a deputy prime minister, the adjustment would raise an additional Rb220bn-270bn (U$3.4bn-4.2bn) per year over the next six years.
- On July 19th the Duma approved by 328 votes to 104 the first reading of a bill to raise the retirement age from 60 to 65 for men by 2028 and from 55 to 63 for women by 2034. However, owing to widespread popular discontent, Mr Putin suggested on August 29th that the retirement age for women should be raised only to 60.
- On August 3rd Mr Putin signed into law amendments to the tax code raising the standard rate of value-added tax (VAT) by 2 percentage points to 20% from January 1st 2019. Anton Siluanov, the finance minister, stated that the increased VAT revenue would cover about 40% of the estimated Rb8trn (US$127bn) required to implement Mr Putin’s May Decree.

The banking sector is fragmented and is still coping with the legacy of the 2008-09 global financial crisis. The imposition of sanctions on Russia from 2014 that prohibit state banks from raising capital in the US and the EU, followed by the collapse of the rouble against the US dollar in 2015, led to a surge in non-performing loans. In 2017 the Central Bank of Russia (CBR) took a majority equity stake in B&N Bank, a major private lender, and bought more than 99% of Otkritie, formerly Russia’s largest private bank, as part of a bail-out process. The situation appears to have improved and the banking sector is no longer an immediate cause for concern. However, the CBR continues to provide funding to support the banks that it has taken over, and the situation could deteriorate quickly if a sharp depreciation of the rouble (not our core forecast) led to corporate defaults on external debt.

Fiscal policy

The government faces budget constraints—although these are abating—as a result of low commodity prices compared with pre-2014 levels, when oil prices exceeded US$100/barrel. We expect average oil prices to remain above US$70/b in 2018-22—an improved outlook compared with an average price of about US$50/b in 2015-17.

The budget deficit narrowed sharply in 2017, to 1.4% of GDP (from 3.4% of GDP in 2016), on the back of higher average oil prices, the implementation of a fiscal rule and cuts in real expenditure. The Ministry of Finance will continue to pursue a conservative fiscal policy in 2018-22, but the adjustment to expenditure is likely to be less radical than planned, particularly in the short term, given Mr Putin's social spending promises, rising global oil prices, plans to reduce defence spending in favour of other areas and the government's conservative oil price forecast (of US$40/b), which almost guarantees that revenue will outperform expectations. We expect the budget to return to a small surplus in 2018, of 0.3% of GDP. The budget surplus will increase, but remain below 1% of GDP throughout our forecast period.

Public debt remains low, at 11.4% of GDP in 2017. The public debt/GDP ratio will fall further, to a mere 6.2% in 2022, as a result of the government budget returning to surplus from 2018 and Russia's access to Western debt markets remaining restricted.

The National Wealth Fund (NWF) had total assets of US$77.2bn at end-July. Under the fiscal rule, additional oil revenue (if oil prices are higher than the budget assumption) is converted into foreign currency to boost the NWF and prevent rouble appreciation.

Monetary policy

At its July 27th meeting the CBR held its policy rate at 7.25%, following cuts in December 2017 and in February and March 2018. Since mid-2017 annual inflation has remained below the CBR's 4% target for the first time since inflation targeting was introduced in 2014. The strengthening of the rouble against the US dollar compared with 2015-16 (driven by higher oil prices), sluggish consumer demand and an exceptional 2017 harvest have all supported disinflation. However, the imposition of additional US sanctions on April 6th and August 8th led to depreciation of the rouble against the US dollar, which will boost inflationary pressures in the remainder of 2018. In addition, the CBR expects the VAT rate rise to add 1 percentage point to headline inflation in 2019, with some price growth already visible in the second half of 2018.

As a result, at its July 2018 meeting the CBR assessed the balance of risks up to the end of 2019 as "pro-inflationary". The CBR also views monetary conditions as moving rapidly to neutral, implying little need for further rate cuts. We expect it to hold its policy rate steady until mid-2019 as it assesses the impact of the VAT rate rise on inflation expectations. Cuts are possible in the second half of 2019, but any shocks to the rouble or the oil price, or any new sanctions on Russia, would prompt the CBR to hold or even tighten policy.

International assumptions

	2017	2018	2019	2020	2021	2022
Economic growth (%)						
US GDP	2.3	2.8	2.2	1.3	1.7	1.9
Euro area GDP	2.6	2.1	1.8	1.6	1.7	1.7
EU28 GDP	2.6	2.1	1.8	1.7	1.8	1.9
World GDP	3.0	3.0	2.8	2.4	2.7	2.8
World trade	5.3	4.0	3.7	3.0	3.9	3.7
Inflation indicators (% unless otherwise indicated)						
US CPI	2.1	2.5	2.4	1.6	1.8	1.9
Euro area CPI	1.5	1.6	1.7	1.7	1.7	1.8
EU28 CPI	1.7	1.8	1.8	1.8	1.8	1.9
Manufactures (measured in US$)	2.0	7.6	3.4	2.2	3.8	3.2
Oil (Brent; US$/b)	54.4	73.5	72.5	70.0	74.8	77.3
Non-oil commodities (measured in US$)	7.6	4.6	1.3	1.7	-1.1	1.5
Financial variables						
US$ 3-month commercial paper rate (av; %)	1.1	2.0	2.7	2.6	1.7	2.0
€ 3-month rate	-0.3	-0.2	-0.1	0.4	0.9	1.4
US$:€ (av)	1.13	1.18	1.19	1.21	1.21	1.24
Rb:US$ (av)	58.34	63.33	66.94	68.43	66.94	65.35
Rb:€ (av)	65.9	74.9	79.5	83.0	80.8	80.9

Economic growth

In 2017 real GDP grew by 1.5%, following a 0.2% contraction in 2016. The return to growth was mainly driven by private consumption and, to a lesser extent, fixed investment. For 2018 we expect a similar picture, with private consumption driving growth as one-off government infrastructure projects are completed. Two factors underpin the recovery in private consumption: a pick-up in household borrowing, and sharp consumer price disinflation. However, its recovery has largely been met by imports. Exports are growing much more slowly in real terms (6.6% year on year, against 9.5% for imports in the first quarter), limiting the headline real GDP growth figure.

As indicated in Mr Putin’s March state of the nation address, government spending on wages and pensions should pick up this year. Economic stabilisation and higher average oil prices are supportive of fixed investment growth, but international sanctions and broader political and business uncertainty will remain significant constraints, as will the lack of a “culture of failure” (the absence of entrepreneurial spirit weighs heavily on innovation and investment). Real GDP grew by 1.3% year on year in the first quarter, driven by private consumption growth of 2.7% and fixed investment growth of 1.9%. According to a flash estimate, real GDP grew by 1.7% year on year in the second quarter, with private consumption again likely to have been the main driver. We expect higher global oil prices to support growth in the rest of 2018. Overall, this points to a slight pick-up in real GDP growth, to 1.7% in full-year 2018.

In the medium term outdated capital stock, a declining workforce, dependence on natural-resource sectors, institutional weaknesses, low investment levels, a weak financial sector, international sanctions, low productivity growth, a difficult business environment and statist policies will limit real GDP growth. We forecast that growth will average 1.7% per year in 2019-22.

Economic growth

%	2017[a]	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]
GDP[c]	1.5	1.7	1.8	1.6	1.7	1.8
Private consumption	3.3	3.8	2.8	2.8	3.6	3.4
Government consumption	0.3	0.9	-0.5	0.4	0.3	0.1
Gross fixed investment	4.4	3.0	1.5	1.8	2.0	1.8
Exports of goods & services	5.1	4.4	4.7	2.8	4.9	4.5
Imports of goods & services	17.4	7.8	7.0	5.1	8.6	2.6
Domestic demand	3.7[d]	3.0	1.8	3.2	3.6	1.3
Agriculture	11.8	-1.0	1.7	1.5	1.7	1.5
Industry	-1.0	1.1	1.3	1.5	1.4	1.6
Services	2.1[d]	0.7	3.2	1.7	2.0	2.0

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Data include a statistical discrepancy. [d] Economist Intelligence Unit estimates.

Inflation

Russia has seen steady consumer price disinflation since late 2015, with inflation at a record low of 2.2% year on year in January-February 2018—far below the CBR’s 4% inflation target. Inflation picked up slightly in March-July, to an average of 2.4% year on year, but remains low by historical standards. Disinflation has been assisted by record harvests in 2016-17 and, until April 2018, the strength of the rouble against the US dollar and the euro. The depreciation of the rouble against the dollar in April does not yet appear to have boosted imported inflationary pressures. In view of its further depreciation in August, however, we expect inflation to pick up, nearing the CBR’s 4% target by end-2018, driven by rising imported inflationary pressures and a weaker harvest, which will push up food prices. We forecast average inflation of 3.1% this year.

In 2019-22 we expect average inflation to remain close to—but slightly above—the 4% target. External inflationary pressures are likely to be relatively low. The VAT rate rise will boost inflation to an average of 4.5% in 2019. Our forecast of a modest slowdown in the US in 2020 will lead to a depreciation of the rouble; this will continue to fuel inflation, albeit at a slightly lower level than in 2019.

Exchange rates

Higher oil prices and relatively tight monetary policy led to an appreciation of the rouble against the US dollar in 2017 and in the first quarter of 2018. However, when the US imposed new sanctions on Russia on April 6th and again on August 8th, the rouble fell against the dollar, reaching Rb69:US$1 by August 13th. It recovered to Rb66.5:US$1 on August 15th, and has remained at around this level since then. The outlook for the rouble in the remainder of 2018 is mixed. Oil prices are forecast to average above US$75/b in the second half of 2018, which will support the rouble. However, the US may impose additional sanctions on Russia in the coming months, weakening the currency. We expect the rouble to average Rb67.3:US$1 in the second half of 2018.

Taking into account the tightening of monetary policy by the Federal Reserve (the US central bank) and the likely imposition of new US sanctions, we forecast a further depreciation of the rouble in 2019. In 2020 a downturn in the US business cycle will lower oil prices slightly and weaken the rouble further. We forecast a slight overall nominal appreciation in 2021-22 as oil prices increase. Risks are to the downside—any rapid fall in oil prices or imposition of new sanctions could lead to renewed volatility. However, our core scenario is that the implementation of the fiscal rule will increase the stability of the rouble.

External sector

The current-account surplus rose to the equivalent of 2.2% of GDP in 2017, from 1.9% in 2016, as higher oil prices boosted the value of exports. This was tempered by a rise in imports (from a low base) as domestic demand and investment picked up. In view of the discussions at the OPEC meeting in late June, Russia is expected to boost oil output. Given higher oil prices, Russia's trade surplus should rise sharply in 2018; non-hydrocarbon exports have also been performing strongly. We expect the current account to remain in surplus in 2018-22, owing to sizeable trade surpluses. International sanctions will depress foreign direct investment inflows throughout the forecast period, as in 2017. Although we expect these inflows to recover in 2019-22, they will remain below their pre-2014 levels.

Forecast summary

Forecast summary
(% unless otherwise indicated)

	2017[a]	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]
Real GDP growth[c]	1.5	1.7	1.8	1.6	1.7	1.8
Industrial production growth	2.3	3.3	2.5	2.3	2.8	3.1
Gross fixed investment growth	4.4	3.0	1.5	1.8	2.0	1.8
Crude oil & NGL production (m b/d)	11.0	11.0	11.1	11.1	11.1	11.1
Natural-gas production (mtoe)	691.4	699.0	706.7	714.5	722.3	730.3
Unemployment rate (av)	5.2	5.0	4.9	5.2	5.0	4.9
Consumer price inflation (av)	3.7	3.1	4.5	4.3	4.1	4.1
Consumer price inflation (end-period)	2.5	3.9	4.4	4.2	4.1	4.1
Federal budget balance (% of GDP)	-1.4	0.3	0.4	0.6	0.7	0.9
Exports of goods fob (US$ bn)	353.5	444.2	465.8	484.1	539.2	579.4
Imports of goods fob (US$ bn)	238.1	276.4	300.9	318.7	352.9	368.4
Current-account balance (US$ bn)	35.4	65.9	63.5	58.0	70.5	86.9
Current-account balance (% of GDP)	2.2	4.1	3.9	3.4	3.8	4.2
External debt (end-period; US$ bn)	524.4[d]	536.5	541.8	552.7	575.2	580.6
Exchange rate Rb:US$ (av)	58.34	63.33	66.94	68.43	66.94	65.35
Exchange rate Rb:US$ (end-period)	57.60	68.33	67.04	69.82	65.45	65.25
Exchange rate Rb:€ (av)	65.89	74.91	79.50	82.97	80.83	80.87
Exchange rate Rb:€ (end-period)	68.87	78.92	81.46	83.78	80.17	81.56

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Data include a statistical discrepancy. [d] Economist Intelligence Unit estimates.

Quarterly forecasts

Quarterly forecasts

	2017				2018				2019			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, quarter on quarter	0.4	1.0	0.0	-0.4	0.7	1.4	0.1	-0.1	0.8	0.4	0.5	0.5
% change, year on year	0.6	2.4	2.1	1.0	1.3	1.7	1.8	2.0	2.1	1.2	1.6	2.2
Private consumption												
% change, quarter on quarter	2.4	-0.3	2.0	0.2	0.8	1.8	0.8	0.5	0.8	0.4	0.5	0.6
% change, year on year	1.6	3.2	4.1	4.3	2.7	4.9	3.6	4.0	3.9	2.5	2.3	2.3
Government consumption												
% change, quarter on quarter	0.1	0.2	0.0	0.1	0.1	1.0	-0.1	-0.3	0.0	-0.3	-0.3	-0.2
% change, year on year	0.2	0.4	0.4	0.4	0.4	1.3	1.2	0.7	0.6	-0.8	-1.0	-0.8
Gross fixed investment												
% change, quarter on quarter	1.4	0.8	-0.3	1.1	0.3	1.9	0.5	0.4	0.4	0.0	0.1	0.2
% change, year on year	3.1	6.5	5.0	3.1	1.9	3.1	3.9	3.1	3.2	1.3	0.9	0.7
Exports of goods & services												
% change, quarter on quarter	0.5	0.5	3.0	1.2	1.8	-0.3	0.8	-0.2	2.0	1.6	1.7	1.7
% change, year on year	7.2	3.9	4.2	5.2	6.6	5.8	3.4	2.0	2.2	4.2	5.2	7.2
Imports of goods & services												
% change, quarter on quarter	6.7	4.9	0.5	2.5	1.4	2.4	1.6	1.2	2.0	1.6	1.7	1.8
% change, year on year	15.1	21.8	17.5	15.3	9.5	7.0	8.1	6.7	7.4	6.6	6.7	7.3
Domestic demand												
% change, quarter on quarter	1.6	2.4	-0.6	-0.6	0.3	3.3	0.5	0.4	0.1	0.2	0.3	0.3
% change, year on year	1.5	6.3	4.5	2.7	1.5	2.4	3.6	4.6	4.3	1.2	0.9	0.8
Consumer prices												
% change, quarter on quarter	0.6	0.9	0.7	0.3	0.4	1.0	1.7	1.1	1.2	1.0	0.8	0.8
% change, year on year	4.7	4.3	3.3	2.5	2.4	2.4	3.4	4.2	5.0	5.0	4.1	3.9
Producer prices												
% change, quarter on quarter	3.9	-2.1	1.3	4.6	0.9	4.9	0.6	1.0	1.0	1.0	1.3	0.8
% change, year on year	12.6	5.6	4.7	7.9	4.8	12.3	11.4	7.6	7.6	3.6	4.4	4.3
Exchange rate Rb:US$												
Average	58.82	57.14	59.00	58.41	56.87	61.78	66.32	68.33	67.61	66.60	66.52	67.04
End-period	56.38	59.09	58.02	57.60	57.26	62.76	64.05	68.33	67.97	67.11	66.56	67.04
Interest rates (%; av)												
Money-market rate	10.6	9.1	8.7	8.0	7.1	7.1	7.1	7.0	6.8	6.9	7.0	7.3
Long-term bond yield	9.7	9.1	8.7	8.4	7.9	7.7	7.3	7.2	7.1	7.2	7.4	7.3

Data and charts

Annual data and forecast

GDP	2013[a]	2014[a]	2015[a]	2016[a]	2017[a]	2018[b]	2019[b]
Nominal GDP (US$ bn)[c]	2,293.0	2,059.6	1,366.5	1,283.2	1,576.2	1,623.2	1,637.3
Nominal GDP (Rb bn)[c]	73,004	79,043	83,274	86,045	91,960	102,793	109,607
Real GDP growth (%)[d]	1.8	0.8	-2.5	-0.2	1.5	1.7	1.8
Expenditure on GDP (% real change)							
Private consumption	5.2	2.0	-9.3	-2.9	3.3	3.8	2.8
Government consumption	0.8	-2.1	-3.1	0.9	0.3	0.9	-0.5
Gross fixed investment	1.9	-1.5	-10.5	-0.4	4.4	3.0	1.5
Exports of goods & services	4.5	0.6	3.6	3.1	5.1	4.4	4.7
Imports of goods & services	3.5	-7.2	-25.1	-4.0	17.4	7.8	7.0
Origin of GDP (% real change)							
Agriculture	4.7	1.5	2.9	3.3	11.8	-1.0	1.7
Industry	0.6	0.2	-2.4	-0.1	-1.0	1.1	1.3
Services	1.6	1.2	-2.9	-0.6	2.1[e]	0.7	3.2
Population and income[f]							
Population (m)	143.6	146.6	146.9	147.0	147.0	147.0	146.9
GDP per head (US$ at PPP)	26,177	25,650	24,616	24,733	25,479[e]	26,392	27,429
Recorded unemployment (av; %)	5.5	5.2	5.6	5.5	5.2	5.0	4.9
Fiscal indicators (% of GDP)							
Central government revenue	17.8	18.3	16.4	15.6	16.4	17.3	16.9
Central government expenditure	18.3	18.8	18.8	19.1	17.9	17.0	16.4
Central government balance	-0.4	-0.4	-2.4	-3.4	-1.4	0.3	0.4
Total public debt	8.8	9.4	9.1	9.9	11.4	10.2	9.4
Prices and financial indicators							
Exchange rate Rb:US$ (end-period)	32.73	56.26	72.88	60.66	57.60	68.33	67.04
Exchange rate Rb:€ (end-period)	44.97	68.34	79.70	63.81	68.87	78.92	81.46
Consumer prices (av; %)	6.8	7.8	15.5	7.0	3.7	3.1	4.5
Consumer prices (end-period; %)	6.4	11.3	12.8	5.3	2.5	3.9	4.4
Stock of broad money (% change)	6.6	7.9	-2.5	7.6	23.7	18.6	3.8
Stock of money M2 (% change)	14.7	1.5	11.3	9.2	10.5	9.7	2.6
Lending interest rate (av; %)	9.5	11.1	15.7	12.6	10.6	8.8	9.4
Current account (US$ m)							
Trade balance	180,566	188,931	148,398	90,215	115,422	167,832	164,827
Goods: exports fob	521,836	496,806	341,419	281,709	353,547	444,186	465,770
Goods: imports fob	-341,269	-307,875	-193,021	-191,494	-238,126	-276,355	-300,944
Services balance	-58,259	-55,278	-37,152	-23,890	-31,094	-45,384	-45,354
Primary income balance	-79,604	-67,962	-37,749	-35,517	-39,911	-47,295	-46,676
Secondary income balance	-9,275	-8,178	-5,720	-6,291	-8,980	-9,227	-9,287
Current-account balance	33,428	57,513	67,777	24,517	35,437	65,926	63,509
External debt (US$ m)							
Debt stock	668,459	549,593	467,689	524,686	524,443[e]	536,522	541,797
Debt service paid	50,674	88,276	100,522	71,456	109,099[e]	78,690	81,075
Principal repayments	34,182	68,661	81,731	51,555	92,211[e]	59,074	58,317
International reserves (US$ m)							
Total international reserves	509,593	385,459	368,398	377,738	432,731	481,438	513,982

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Seasonally adjusted; includes statistical discrepancy. [d] Data include a statistical discrepancy. [e] Economist Intelligence Unit estimates. [f] From 2014 official Russian statistics include economic activity on the Crimean peninsula.

Sources: IMF, International Financial Statistics; Central Bank of Russia; Rosstat; Ministry of Finance.

Quarterly data

	2016 3 Qtr	2016 4 Qtr	2017 1 Qtr	2017 2 Qtr	2017 3 Qtr	2017 4 Qtr	2018 1 Qtr	2018 2 Qtr
General government finance (Rb bn)								
Revenue	3,427	4,165	3,633	3,489	3,849	4,117	4,076	4,550
Expenditure	3,507	5,612	3,907	3,623	3,661	5,229	3,671	4,008
Balance	-80	-1,447	-273	-134	188	-1,112	405	542
Output								
GDP at current market prices (US$ bn)	336.2	350.4	382.0	398.2	391.9	404.2	426.7	n/a
Real GDP (Rb bn at 2016 prices)	21,489	21,648	21,724	21,942	21,947	21,868	22,012	22,316
% change, year on year	-0.30	0.50	0.64	2.41	2.13	1.01	1.32	1.71
Industrial production index								
% change, year on year	2.1	4.6	3.2	4.6	2.5	-1.0	3.0	3.2
% change, quarter on quarter	2.0	3.0	-1.9	1.4	0.0	-0.5	2.1	1.6
Employment, wages and prices								
Employment (m)	73.2	72.6	71.7	72.1	72.9	72.6	72.1	72.4
% change, year on year	0.2	0.4	0.3	-0.2	-0.5	0.0	0.5	0.5
Unemployment rate (% of labour force)	5.2	5.4	5.5	5.2	5.0	5.1	5.1	4.8
Average nominal monthly wages (Rb)	35,712	39,833	35,939	40,119	37,740	42,793	40,608	44,435
% change, year on year	8.2	8.5	5.7	7.3	5.7	7.4	13.0	10.8
Consumer prices (2010=100)	163.6	165.3	166.3	167.8	169.0	169.5	170.2	171.9
% change, year on year	6.8	5.7	4.7	4.3	3.3	2.5	2.4	2.4
Producer prices (Dec 2000=100)	614.8	624.5	648.8	635.3	643.8	673.7	680.1	713.3
% change, year on year	4.3	4.7	12.6	5.6	4.7	7.9	4.8	12.3
Financial indicators								
Exchange rate								
Rb:US$ (av)	64.6	63.1	58.8	57.1	59.0	58.4	56.9	61.8
Rb:US$ (end-period)	63.2	60.7	56.4	59.1	58.0	57.6	57.3	62.8
Interest rates (av, %)								
Lending rate	12.2	11.9	11.5	10.8	10.3	9.6	8.9	8.8
Deposit rate	6.5	6.4	6.2	6.0	5.8	5.4	5.4	5.3
Money-market rate	11.0	10.7	10.6	9.1	8.7	8.0	7.1	7.1
M2 (local definition; end-period; Rb bn)	36,149	38,418	38,555	39,623	39,571	42,442	42,375	44,125
% change, year on year	12.8	9.2	11.1	10.5	9.5	10.5	9.9	11.4
RTS stock price index (end-period; September 1st 1995=100)	991	1,152	1,114	1,001	1,137	1,154	1,250	1,154
% change, year on year	25.5	52.2	27.1	7.5	14.7	0.2	12.2	15.3
Sectoral trends								
Oil output (m tonnes)	136	139	136	136	137	138	135	137
% change, year on year	1.4	3.2	-1.2	1.4	0.5	-0.9	-0.5	0.2
Natural-gas output (bn cu metres)	140	190	182	160	160	189	191	175
% change, year on year	2.1	2.6	7.3	15.1	14.3	-0.3	5.1	9.1
Foreign payments (US$ bn)								
Exports fob	70.9	82.5	82.6	83.9	84.6	102.6	101.9	110.2
Imports fob	-52.6	-55.4	-48.1	-58.7	-63.8	-67.5	-57.3	-64.2
Merchandise trade balance	18.4	27.1	34.5	25.2	20.7	35.0	44.6	46.0
Services balance	-7.1	-5.9	-5.2	-7.6	-9.9	-8.4	-6.6	-7.1
Primary income balance	-8.6	-9.6	-5.2	-13.9	-11.1	-9.7	-4.6	n/a
Net transfer payments	-2.5	-1.6	-2.0	-1.8	-2.7	-2.4	-2.6	n/a
Current-account balance	0.1	10.1	22.0	1.9	-3.0	14.5	30.8	22.3
Reserves excl gold (end-period)	332.2	317.5	330.3	343.5	351.2	356.1	377.5	378.6

Sources: Federal State Statistics Service; IMF, International Financial Statistics; Central Bank of Russia; Ministry of Finance.

Monthly data

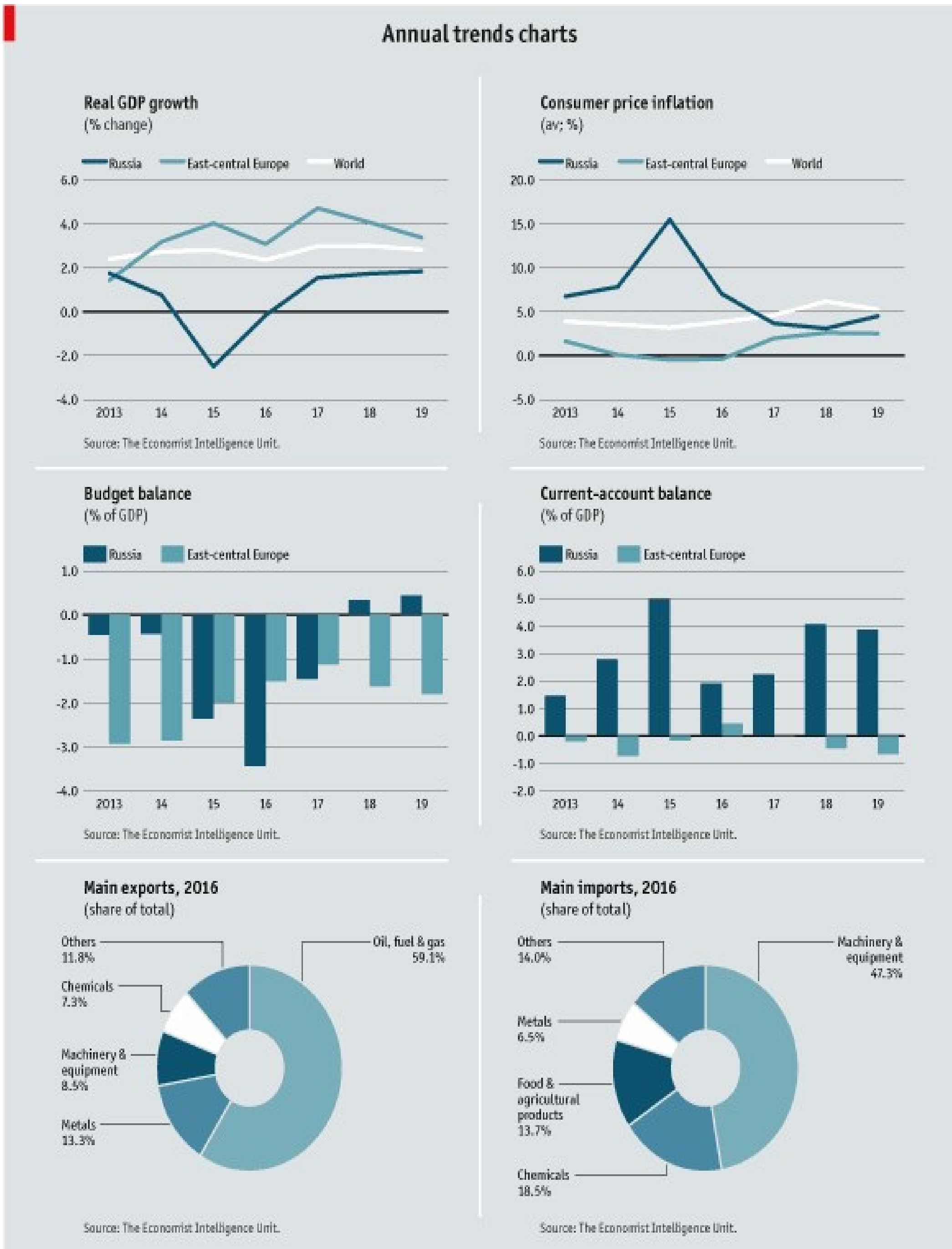
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Rb:US$ (av)												
2016	75.2	75.1	67.6	64.3	66.1	64.3	67.1	64.9	63.2	62.9	64.9	60.7
2017	60.2	57.9	56.4	57.0	56.5	59.1	59.5	58.7	58.0	57.9	58.3	57.6
2018	56.3	55.7	57.3	62.0	62.6	62.8	62.8	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (1997=100; CPI-based)												

2016	91.8	90.5	98.4	102.2	104.2	105.3	108.4	106.3	107.1	111.8	111.1	117.4
2017	121.9	124.1	124.5	127.6	124.4	122.4	117.2	114.6	117.2	118.6	116.5	116.8
2018	118.0	116.6	116.3	110.6	110.5	111.1	111.8	n/a	n/a	n/a	n/a	n/a
Central budget revenue (Rb bn)												
2016	1,094.0	747.9	1,068.7	999.4	735.6	1,223.0	1,101.6	1,173.7	1,151.4	1,146.2	995.2	2,023.2
2017	1,266.0	1,024.9	1,342.4	1,130.4	1,066.8	1,291.5	1,249.1	1,236.7	1,363.6	1,312.1	1,135.1	1,670.2
2018	1,304.5	1,230.3	1,541.6	1,452.7	1,385.9	1,711.9	1,871.1	n/a	n/a	n/a	n/a	n/a
Central budget expenditure (Rb bn)												
2016	693.6	1,247.1	1,608.6	1,496.5	993.4	1,258.7	1,114.3	1,176.3	1,216.4	1,151.7	1,213.8	3,246.0
2017	1,230.5	1,141.4	1,534.8	1,371.3	1,114.6	1,137.3	1,263.1	1,209.2	1,189.0	1,352.5	1,374.0	2,502.6
2018	1,113.4	1,194.2	1,363.5	1,588.7	1,120.3	1,299.0	1,435.6	n/a	n/a	n/a	n/a	n/a
Central budget balance (Rb bn)												
2016	400.4	-499.2	-539.9	-497.1	-257.8	-35.6	-12.8	-2.6	-64.9	-5.5	-218.6	-1,222.8
2017	35.5	-116.5	-192.4	-240.8	-47.7	154.1	-14.0	27.5	174.5	-40.4	-238.8	-832.4
2018	191.1	36.1	178.1	-136.1	265.6	412.9	435.6	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2016	9.5	9.9	11.8	10.8	12.0	12.3	12.3	11.8	12.8	12.1	11.3	9.2
2017	11.9	12.1	11.1	10.1	10.0	10.5	9.0	9.0	9.5	10.0	10.1	10.5
2018	9.4	9.3	9.9	11.5	10.3	11.4	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (%)												
2016	8.2	7.7	7.5	7.7	7.0	6.9	6.8	6.8	6.0	6.0	6.6	6.5
2017	6.5	6.3	5.9	6.3	6.1	5.7	6.1	6.1	5.3	5.7	5.2	5.3
2018	5.5	5.4	5.4	5.3	5.4	5.1	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (%)												
2016	13.4	13.4	13.2	13.0	13.1	12.7	12.4	12.2	12.1	12.1	11.7	11.8
2017	11.6	11.5	11.4	11.0	10.7	10.7	10.4	10.4	10.0	9.8	9.7	9.4
2018	9.1	8.8	8.8	8.7	8.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Industrial production (% change, year on year)												
2016	-0.5	2.2	-0.3	0.2	0.8	2.4	2.9	1.6	2.1	4.6	5.6	4.1
2017	5.6	-0.3	3.5	3.2	6.9	3.4	0.2	4.0	3.5	0.2	-1.5	-1.7
2018	2.4	3.2	2.8	3.9	3.7	2.2	3.9	n/a	n/a	n/a	n/a	n/a
Retail sales volume (% change, year on year)												
2016	-6.2	-3.7	-5.0	-4.3	-5.3	-5.0	-4.3	-4.2	-3.1	-4.3	-4.2	-5.2
2017	-2.0	-2.8	0.0	0.3	1.1	1.4	1.3	1.7	3.1	3.4	3.1	3.3
2018	2.9	2.0	2.2	2.7	2.4	3.0	2.5	n/a	n/a	n/a	n/a	n/a
Unemployment rate (% of labour force)												
2016	5.8	5.8	6.0	5.9	5.6	5.4	5.3	5.2	5.2	5.4	5.4	5.3
2017	5.6	5.6	5.4	5.3	5.2	5.1	5.1	4.9	5.0	5.0	5.1	5.1
2018	5.2	5.0	5.0	4.9	4.7	4.7	4.7	n/a	n/a	n/a	n/a	n/a
RTS stock price index (end-period; September 1st 1995=100)												
2016	745	769	876	951	904	931	928	950	991	989	1,029	1,152
2017	1,164	1,099	1,114	1,114	1,053	1,001	1,007	1,096	1,137	1,113	1,132	1,154
2018	1,282	1,285	1,250	1,154	1,163	1,154	1,173	n/a	n/a	n/a	n/a	n/a
Consumer prices (% change, year on year; av)												
2016	9.8	8.1	7.3	7.2	7.3	7.5	7.2	6.8	6.4	6.1	5.8	5.4
2017	5.0	4.6	4.2	4.1	4.1	4.4	3.9	3.3	3.0	2.7	2.5	2.5
2018	2.2	2.2	2.4	2.4	2.4	2.3	2.5	n/a	n/a	n/a	n/a	n/a
Producer prices (% change, year on year; av)												
2016	8.2	4.7	1.9	1.2	3.6	5.5	4.6	2.9	4.3	2.8	4.0	7.4
2017	12.7	15.0	11.4	7.6	5.9	3.0	1.8	4.7	6.8	7.6	8.0	8.4
2018	5.2	5.3	4.7	7.6	12.3	16.5	17.5	n/a	n/a	n/a	n/a	n/a
Average nominal monthly wages (% change, year on year)												
2016	5.8	8.7	8.9	6.1	8.4	8.7	5.8	9.7	8.5	6.5	8.0	8.3
2017	6.0	5.4	7.5	8.1	6.9	8.3	7.0	5.7	7.4	8.3	8.4	8.9
2018	13.4	12.9	11.3	10.2	10.2	9.7	10.7	n/a	n/a	n/a	n/a	n/a
Average real monthly wages (% change, year on year)												
2016	-3.6	0.6	1.5	-1.1	1.0	1.1	-1.3	2.7	1.9	0.4	2.1	2.8
2017	1.0	0.8	3.1	3.8	2.7	3.8	3.0	2.3	4.3	5.4	5.8	6.2
2018	11.0	10.5	8.7	7.6	7.6	7.2	8.0	n/a	n/a	n/a	n/a	n/a
Total exports fob (US$ m)												
2016	17,631	20,296	23,461	22,021	22,171	24,301	22,735	23,330	25,733	25,278	27,093	31,722
2017	25,899	26,078	31,675	26,275	28,484	30,035	25,137	29,599	31,165	31,800	33,786	37,885
2018	33,987	31,982	37,099	36,514	37,033	36,657	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (US$ m)												

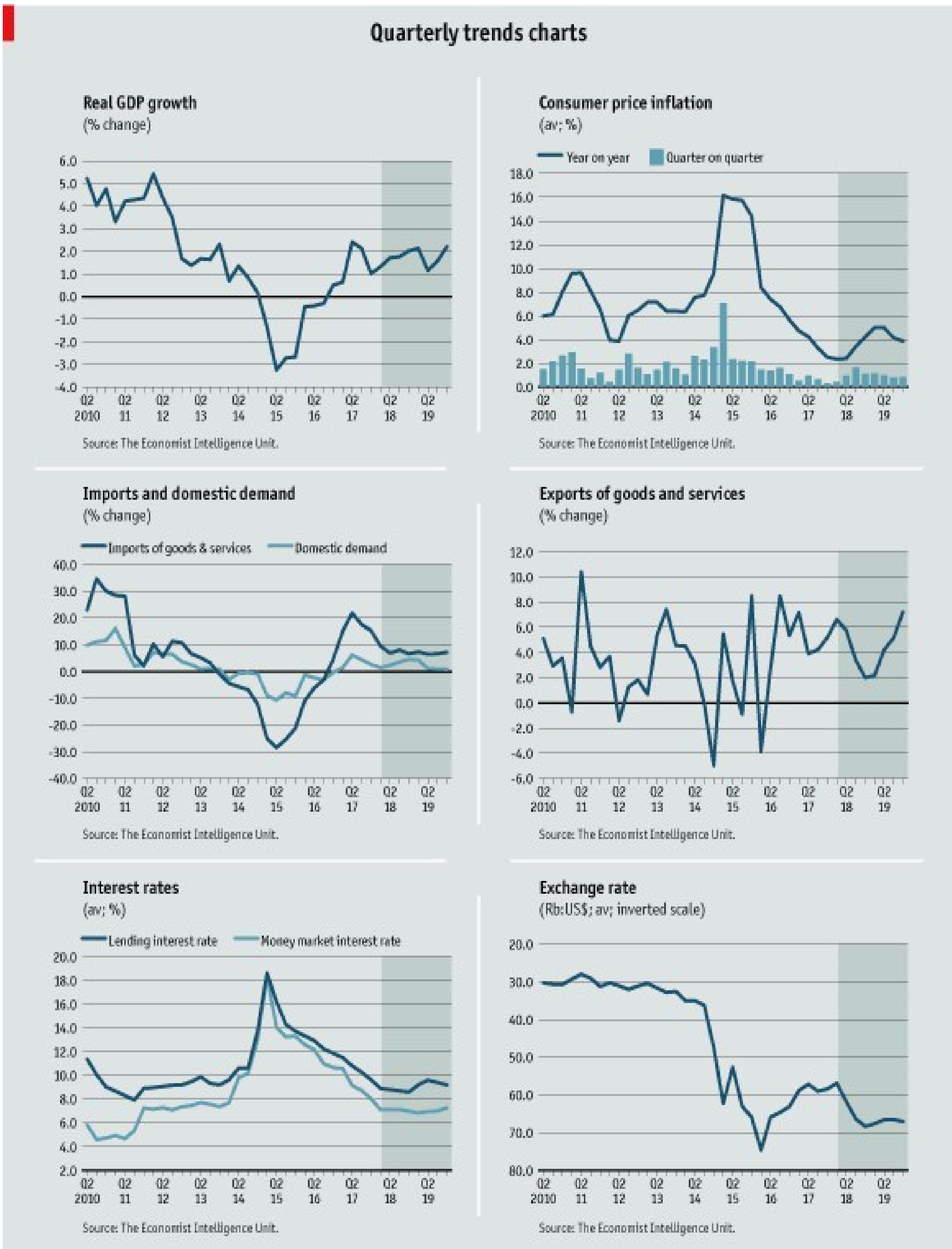
2016	9,104	12,194	14,729	14,496	13,735	15,284	15,401	17,715	17,130	17,365	16,718	18,477
2017	12,880	14,719	17,818	17,369	18,882	20,071	19,969	21,626	19,532	20,597	20,933	23,107
2018	15,618	18,404	20,662	19,880	20,554	20,274	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US$ m)												
2016	8,527	8,103	8,732	7,525	8,436	9,017	7,334	5,616	8,603	7,913	10,375	13,245
2017	13,020	11,359	13,857	8,906	9,601	9,964	5,169	7,973	11,633	11,202	12,853	14,777
2018	18,369	13,578	16,437	16,634	16,479	16,383	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2016	320,179	323,275	328,871	331,014	329,786	329,258	329,391	330,488	332,231	326,308	323,630	317,545
2017	327,644	330,469	330,332	332,336	336,422	343,460	348,396	350,474	351,154	351,139	355,513	356,084
2018	367,339	373,056	377,501	378,718	376,122	378,568	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

Annual trends charts

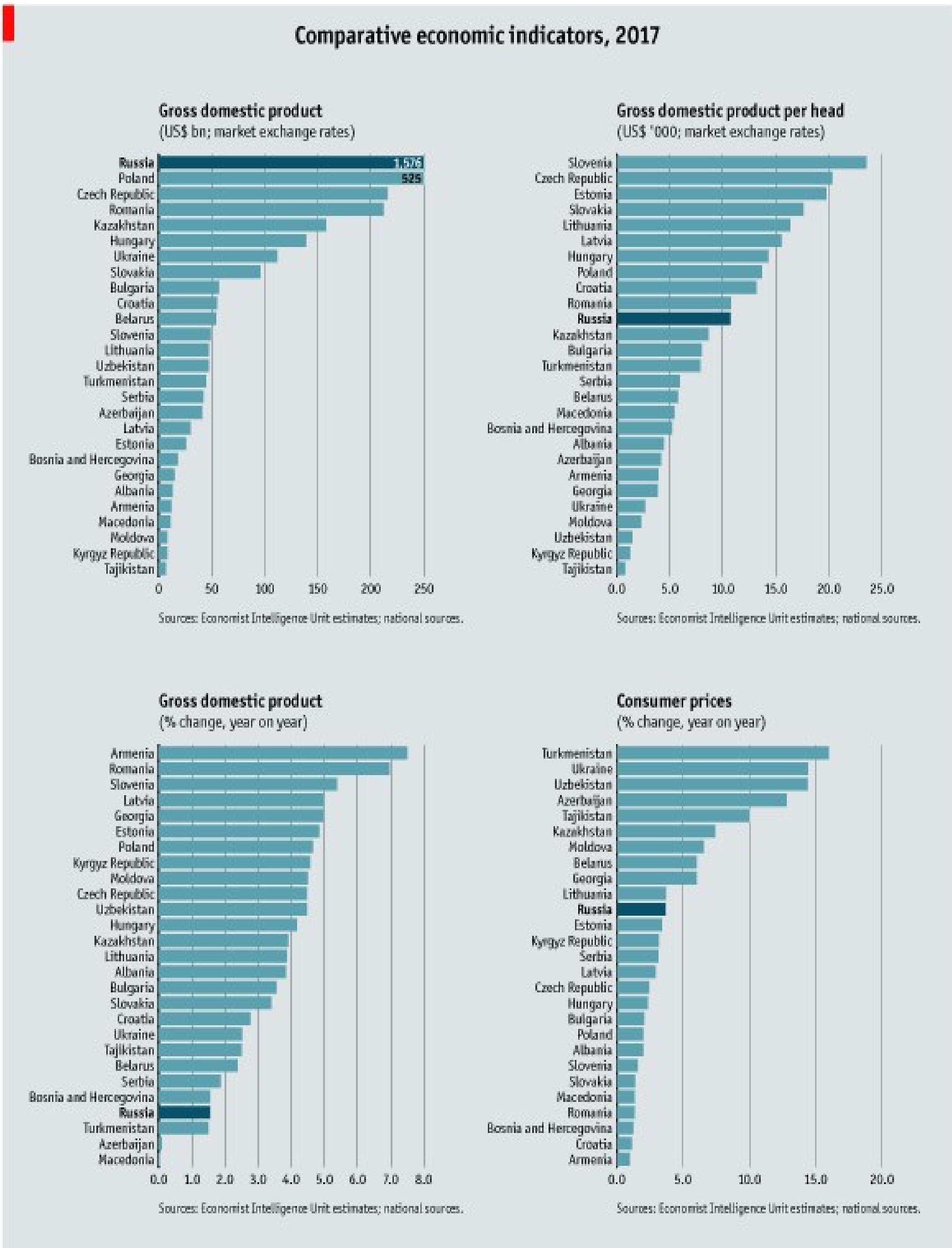


Quarterly trends charts



Monthly trends charts

Comparative economic indicators



Basic data

Land area

17,075,400 sq km

Population

146.8m (local statistics service estimate, includes Republic of Crimea and Sevastopol)

Main towns

Population ('000; official census, 2010)

Moscow (capital): 11,514

St Petersburg: 4,849

Novosibirsk: 1,474

Yekaterinburg: 1,350

Nizhny Novgorod: 1,251

Weather in Moscow (altitude 156 metres)

Hottest month, July, 13-23°C (average daily minimum and maximum); coldest month, January, -16°C to -9°C; driest month, March, 36 mm average rainfall; wettest month, July, 88 mm average rainfall

Languages

Russian and local languages

Weights and measures

Metric system since 1927 (Western calendar since 1917)

Currency

Rouble (Rb); 1 rouble (Rb) = 100 kopeks. The rouble was redenominated on January 1st 1998 at 1 new rouble = 1,000 old roubles

Time

Three hours ahead of GMT in Moscow and St Petersburg; ten hours ahead of GMT in Vladivostok; Russia has 11 time zones

Fiscal year

Calendar year

Public holidays

January 1st-5th (New Year); January 7th (Orthodox Christmas); February 23rd (Day of the Defenders of the Motherland); March 8th (International Women's Day); April 30th-May 1st (Labour Day); May 9th (Victory Day); June 11th-12th (Russia Day); November 4th-5th (Day of National Unity)

Political structure

Official name

The Russian Federation

Form of state

Federal state, with republican form of government. A new constitution was adopted after a national vote on December 12th 1993

Electoral system

Two-chamber legislature: the State Duma (the lower house) has 450 deputies; the Federation Council (the upper house) has 170 deputies, two from each of the 85 republics and regions (including Crimea and the city of Simferopol)

National elections

Most recent: September 18th 2016 (parliamentary); March 18th 2018 (presidential).
Next: September 2021 (parliamentary); March 2024 (presidential)

Head of state

Vladimir Putin was re-elected as president for a six-year term on March 18th 2018

National government

The government is appointed by the prime minister, who is appointed by the president

Main political parties

The most important parties are: United Russia; Communist Party of the Russian Federation

(CPRF); Just Russia; and Liberal Democratic Party of Russia (LDPR)

Leading members of the government

Prime minister: Dmitry Medvedev

First deputy prime minister: Anton Siluanov

Deputy prime ministers:

Maxim Akimov

Yury Borisov

Tatyana Golikova

Olga Golodets

Alexei Gordeyev

Dmitry Kozak

Vitaly Mutko

Key ministers

Agriculture: Dmitry Patrushev

Civil defence, emergencies & disaster relief: Yevgeny Zinichev

Construction, housing & utilities: Vladimir Yakushev

Culture: Vladimir Medinsky

Defence: Sergei Shoigu

Digital development & communications: Konstantin Noskov

Economic development: Maxim Oreshkin

Education & science: Olga Vasilyeva

Energy: Aleksander Novak

Far East development: Aleksander Kozlov

Finance: Anton Siluanov

Foreign affairs: Sergei Lavrov

Health: Veronika Skvortsova

Industry & trade: Denis Manturov

Interior affairs: Vladimir Kolokoltsev

Justice: Aleksander Konovalov

Labour & social protection: Maxim Topilin

Natural resources & environment: Dmitry Kobylkin

Sport: Pavel Kolobkov

Transport: Yevgeny Ditrikh

Central bank governor

Elvira Nabiullina

Recent analysis

Generated on September 11th 2018

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

Politics

Forecast updates

Ukraine loses WTO case against Russia

August 17, 2018: International relations

Event

On July 30th a World Trade Organisation (WTO) panel ruled against Ukraine in a dispute between Ukraine and Russia regarding trade of railway equipment. Several arbitration cases between the two countries remain open, but they will not give back to Ukraine access to the Russian market.

Analysis

According to the WTO, Ukraine failed to prove its claim that Russia had consistently put obstacles in the way of Ukrainian exports of railway equipment to Russia. The Ukrainian government claims that the value of railway rolling stock and switches exported to Russia dropped from US$1.7bn in 2013 to US$51m in the first seven months of 2015, severely curbing the activity of factories located in the traditional industrial centres of eastern Ukraine.

The railway equipment case is one of a number of trade disputes between Russia and Ukraine. Ukraine has won some—most notably against Russia's state-owned gas company, Gazprom. However, Ukraine lost a high-profile case related to protective duties that it enacted on imports of Russian ammonium nitrate, used in fertilisers. In the coming months Ukraine could well lose another dispute regarding a Russian ban on the transit of a series of Ukrainian products through Russia; Ukraine argues that this ban cut off Ukrainian access to markets in the Caucasus and Central Asia.

Under WTO terms, WTO members can restrict trade in the interest of national security. This is the argument used by Russia in the railway equipment case (and also by the US in cases related to its recently enacted steel and aluminium tariffs). Perhaps paradoxically, this argument is also used by Ukraine to justify a ban on certain Russian products (Russia is challenging this ban at the WTO).

The conflict between Russia and Ukraine means that Ukraine's loss of access to the Russian market looks set to last in the long term, well beyond our forecast period. Ukraine's free-trade agreement with the EU means that a reorientation of Ukrainian exports towards the EU could theoretically take place. However, Ukrainian industrial products remain uncompetitive in the EU, and investment in much-needed modernisation remains scarce.

Impact on the forecast

We believe that the conflict between Russia and Ukraine, which the WTO cases again illustrate, will continue throughout our forecast period.

Ukraine considers cutting rail ties with Russia

August 23, 2018: International relations

Event

On August 16th Volodymyr Omelyan, the Ukrainian minister of infrastructure, said that his ministry was examining the possibility of severing passenger rail connections between Ukraine and Russia.

Analysis

The plan is in line with a broader trend towards the deintegration of the Ukrainian and Russian economies. Direct flights between the two countries ended in October 2015 after the Ukrainian government put in place a ban on Russian airlines. Russia and Ukraine imposed tit-for-tat embargoes on food imports at the start of 2016 after the Ukrainian government signed an association agreement with the EU. In addition, a Ukrainian ban on arms exports to Russia has ended the close economic ties between the two countries' defence sectors, and Ukraine has halted direct purchases of Russian gas in a bid to reduce its vulnerability to economic pressure. The value of bilateral trade in 2017 was just US$12.9bn, compared with US$73.5bn in 2013, although this also reflects the impact of recession and lower demand in both countries. Bilateral trade restrictions have caused significant disruption to cargo flows from Ukraine to Central Asia.

A substantial number of the 1.5m people displaced by the fighting in the separatist-held Donbas region have moved to Russia; rail passenger flows between Ukraine and Russia were estimated at 2m people in 2017. The severing of rail links could also hit services from Chisinau, the Moldovan capital, to Moscow—currently the only international transit route to Russia that passes through Ukraine. Ending rail connections would provide a further boost to Belarus's national air carrier, Belavia, which has already benefited from the cessation of direct flights between Russia and Ukraine.

This is not the first time that Mr Omelyan has put forward such proposals—in May 2017 he announced that passenger rail links would be cut from July that year, but the plan was rejected by Ukraliznytsia, Ukraine's state railway operator. The Kyiv-Moscow route is one of the few profitable long-distance services run by Ukraliznytsia. The revival of the proposals may be linked to the forthcoming elections in Ukraine, which are due next year, and underlines the role that nationalist sentiment is likely to play in these.

Impact on the forecast

It remains unclear whether the proposals to sever passenger rail connections will be implemented. However, the plan underlines the Ukrainian government's determination to secure a fundamental reorientation of the country's political, economic and social structure away from Russia. This will have long-term, far-reaching implications for Ukraine's development.

Analysis

The Azov Sea: a new flashpoint between Russia and Ukraine?

August 23, 2018

- **The Sea of Azov—a small sea linked to the Black Sea through the Kerch Strait—looks set to become a new flashpoint between Russia and Ukraine.**
- **Both countries have ramped up their rhetoric in recent months—including by placing ships under arrest—as Russia appears keen to restrict Ukraine's access to the Black Sea in order to apply economic and military pressure on the country.**
- **Ports on the Sea of Azov are used to ship grain to Turkey, which is closely monitoring the situation without taking sides.**
- **The fact that the Sea of Azov is legally shared by Ukraine and Russia complicates the issue, making the prospect of a resolution of the conflict remote.**
- **Russia will continue to step up its naval presence in the area, causing further tensions with Ukraine.**

The Sea of Azov increasingly represents a point of contention between Ukraine and Russia. On March 25th Ukraine's maritime border guards detained a Crimean-registered fishing vessel, Nord, charging the captain with entering illegally from Crimea (special immigration procedures are in place between Ukraine and Crimea). Since the end of April, Russia has been conducting a concerted campaign of detentions and inspections of commercial vessels in the area. The shallow-water ports of the Sea of Azov are generally used by small ships to supply Ukrainian- and Russian-produced grain, mainly to Turkey.

Growing tensions at sea

The detention of the Crimean-registered fishing vessel in March was the first in a series of ongoing disputes in the region. Russia claimed that the detention of its captain and crew was illegal and accused the Ukrainians of "state piracy". In retaliation, on May 4th Russian border guards briefly detained the captain of a Ukrainian fishing vessel, accusing him of illegal fishing.

Russia appears keen to place pressure on Ukrainian commercial shipping activity. The Russian coast guard is routinely intercepting and inspecting ships in the Black Sea and the Sea of Azov en route to and from the Ukrainian ports of Berdyansk and Mariupol, causing significant delays and losses. In July, according to Radio Free Europe, a US-sponsored news outlet, officers of the Federal Security Service (FSB, the Russian domestic intelligence service) questioned the crews of Ukrainian ships about their involvement in the Donbas, a region in eastern Ukraine where Russia is backing separatist rebels. Delays have not only applied to Ukrainian ships, but also to vessels from other countries, including many from Turkey that routinely cross the Black Sea to carry agricultural commodities.

According to Ukrainian news outlets, in July the average delay of ships at the Kerch Strait was more than 24 hours, having increased from around three hours. The average rose further, to 33 hours, towards the end of the month, with the longest recorded delay 55 hours. Ukraine's infrastructure ministry stated that by mid-July 148 ships had been temporarily detained by Russia, incurring losses for shipping companies of up to US$50,000 per day. The Ukrainian infrastructure minister, Volodymyr Omelyan, said that the number of commercial vessels docking at Mariupol and Berdyansk had fallen by 10%. Russia did not comment on this.

Russia pressuring Ukrainian ports?

Russia's motivation is likely to put economic pressure on Berdyansk and Mariupol, particularly by deterring international commercial ships from using these ports. Both cities are important trade hubs for Ukraine, particularly for metallurgical and grain exports to Turkey, as well as sources of employment for local residents.

The latest controversy adds to existing issues caused by Russia's construction of the Kerch Strait Bridge, which has allegedly restricted some Ukrainian sea traffic. The bridge allows for the transit of ships with a maximum height of 33 metres—much lower than is customary for such bridges. Russia claims that it took ship dimensions into account when it built the bridge. In return for fewer maritime restrictions, Russia could well be trying to force Ukraine into resuming water supplies to Crimea, cut off by Ukraine in 2014 after Russia's illegal annexation of the peninsula. Crimea relied heavily on these supplies, and drought on the peninsula is currently a concern.

Although the economic factor is important, there has also been greater military activity in the region, which further raises tensions. Since the start of this year Russia has increased its naval presence in the Sea of Azov, and also in the Black Sea. In response, at the end of July Ukraine conducted military drills, including combat helicopters, around the Sea of Azov to practise "repelling the landing of enemy troops". Turkey has not commented on the military activity of Russia or Ukraine, in order to avoid taking sides; Turkey is currently engaged in a geopolitical pivot away from its traditional Western allies, such as the EU and the US, and towards countries such as Russia, China and Iran. As a result, Turkey will be keen not to antagonise Russia or Ukraine, both of which are important trade partners.

Sea status a complicating factor

One factor complicating any resolution of mounting tensions between Ukraine and Russia is the status of the Sea of Azov. It is considered joint territory between Russia and Ukraine, according to a 2003 agreement between the two countries, ratified in 2004. This agreement declared the sea "internal waters" for countries, with both sharing control of it. It also gives commercial and military vessels of both countries free navigation in the Sea of Azov and the Kerch Strait that connects Crimea to Russia. Commercial vessels of other countries can enter the Sea of Azov and pass through the Kerch Strait if they are heading to or returning from Ukrainian or Russian ports.

Ukraine's response mixed

On July 23rd the Ukrainian deputy minister of foreign affairs, Olena Zerkal, stated that the inspections by Russia are in line with international law. She also claimed that the media had been exaggerating the issue. This appears at odds with the more hawkish rhetoric from Ukraine's infrastructure ministry. Mr Omelyan had previously said that his ministry was preparing a plan for sanctions against Russia in response for its actions, although it is doubtful that Ukraine could impose any meaningful measures against Russia at present.

The economic and strategic risk to Ukraine, given Russia's activity in the region, could have a serious economic and geopolitical impact, which could also affect Turkey. Some officials in Berdyansk and Mariupol believe that the Ukrainian government is not doing enough to address the issue, which is not a high-profile topic within the international community. Russia will continue its activity to leverage concessions from Ukraine on supplies to Crimea, but will also solidify its military and political position in the region, continuing to fuel tensions for several years to come.

Economy

Forecast updates

Russia looks to profit from US-China trade dispute

August 17, 2018: Policy trends

Event

The growing trade war between China and the US could encourage China to seek closer economic relations with Russia.

Analysis

Russia has sought to expand trade and financial ties with China to offset the outflow of capital since 2014 caused by Western sanctions. Bilateral relations with China are strong, but so far Russia's "pivot to Asia" has yielded only moderate results. The Power of Siberia natural-gas pipeline is initially due to supply up to 38bn cu m of gas from eastern Siberia to China in 2019. Furthermore, Chinese companies lent US$12bn for the development of the Yamal liquified natural gas (LNG) project in Russia's Far East in 2014, just as sanctions over Ukraine restricted the access of Novatek, the Russian project leader, to Western financing.

However, several projects announced as part of China's Belt and Road Initiative, such as a high-speed rail link from Moscow to Beijing, have advanced only slowly. Russian companies have struggled to replace Western financing with Chinese capital, and Chinese investors have been reluctant to deal with sanctioned Russian firms. For instance, plans to sell a US$9bn stake in Russian state oil company Rosneft to CEFC China Energy collapsed in the first half of 2018.

Nevertheless, the US-China trade war may give new impetus to China-Russia ties, with the Russian state-owned gas monopoly Gazprom a beneficiary. China has threatened to raise its tariffs on US LNG imports, which could increase Chinese interest in the proposed Altai pipeline to supply China from gasfields in western Siberia. These fields are also the principal source of gas supplied to Europe, and the Altai project could theoretically give Gazprom the capacity to switch between consumers, giving the company leverage on pricing. The Yamal LNG project could also be expanded.

The conflict with the US may make China more supportive of Russian efforts to "de-dollarise" its economy and use alternative international financial instruments—such as international development banks and currency swaps—that would reduce the effectiveness of US sanctions. In April, US sanctions on Russian aluminium producer Rusal temporarily prevented the company from exporting, demonstrating the enduring structural economic power of the US.

Impact on the forecast

We expect Russia-China ties to remain strong, and the potential for further energy deals is significant. However, given the large and growing economic asymmetry—and the mutual distrust—between the two countries, Russia will remain on the periphery of any accelerated efforts by China to shape the international economic system.

VAT increase will push up inflation in 2019

August 22, 2018: Inflation

Event

On August 3rd Vladimir Putin, the president, signed a law that will raise the standard rate of value-added tax (VAT) from 18% to 20% from January 1st 2019.

Analysis

In its June communique on monetary policy, the Central Bank of Russia (CBR) estimated that the VAT rate rise would add 1 percentage point to headline inflation in 2019. The pick-up in inflation may be visible in the final months of 2018, prior the implementation of the VAT increase, as consumption is brought forward, pushing up demand. According to its latest macroeconomic forecast, the CBR expects annual inflation to rise to 3.5–4% by the end of the 2018, from 2.5% in July. It anticipates that the inflation rate will briefly rise above 4% in 2019, but that it will fall back to the 4% target level by end-2018.

The year-on-year inflation rate has been significantly below the CBR target this year as a result of relatively tight monetary and fiscal policy, sluggish growth, and high agricultural yields in 2017, which have kept down food prices. However, a number of supply-side factors are likely to push the inflation rate up in the coming months. A new sanctions bill put before the US Senate in early August has led to a significant depreciation of the rouble against the US dollar, and higher oil prices have pushed up fuel prices. As in much of Europe, poor weather has also depressed agricultural yields, although the impact of this in Russia has been mitigated by high grain inventories built up last year.

As a result of increased inflationary pressures and the uncertain external environment, the CBR has held its policy rate at 7.25% since the end of March after a series of cuts over the previous year. Despite Russia's weak growth outlook and low investment rate, the central bank has maintained real interest rates at a relatively high level throughout the crisis and subsequent recovery. It believes the equilibrium real interest rate to be at 2.5-3%. It is, therefore, unlikely that the CBR will cut rates further in the coming year. In a speech in mid-July at the International Financial Congress, the CBR governor, Elvira Nabiullina, indicated that she expected the leading central banks to tighten monetary policy in the coming years.

Impact on the forecast

We expect the VAT increase to lead to a significant rise in prices in 2019, with inflation averaging 4.5%, compared with 3.1% in 2018.

Analysis

US imposes new sanctions on Russia and proposes others

August 16, 2018

- **Donald Trump, the US president, and Vladimir Putin, his Russian counterpart, met in Helsinki, the Finnish capital, on July 16th. Following the meeting US senators called for additional sanctions on Russia.**
- **Two bipartisan Senate bills calling for additional sanctions on Russia gained traction in late July and early August. In addition, the US State Department announced new sanctions against Russia on August 8th.**
- **This precipitated a sell-off in Russian assets and an 8% drop in the rouble against the US dollar. Russia has threatened to retaliate, but has little leverage in its trade and financial ties with the US.**
- **The new US sanctions are relatively minor in scope, and we expect the more draconian measures included in the Senate bills to be watered down if they are ultimately passed into law.**
- **These developments support our forecast that US-Russian relations will remain poor, despite the fact that Mr Trump has consistently expressed a desire to improve relations with Russia.**

On August 8th the US State Department announced new sanctions against Russia relating to the poisoning of a former Russian military intelligence officer, Sergei Skripal, and his daughter, Yulia, with a nerve agent in the UK city of Salisbury in March. The State Department said that the new sanctions were required under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (CBW Act). The new sanctions will have to be implemented in two phases. First, sanctions targeting export licences for dual-use US equipment and technology will go into effect on August 22nd. Second, if Russia fails to meet a series of conditions in the CBW Act within 90 days, a second round of sanctions will go into effect. The conditions include Russia providing "reliable assurances" that it will not use chemical or biological weapons and also allowing on-site inspections by international impartial observers from the UN or "other legitimate outside parties". The second round of sanctions stipulated in the CBW Act is much more draconian and could include the suspension of almost all trade and of diplomatic relations between Russia and the US. The implementation of the CBW Act sanctions is the responsibility of the executive branch, giving Mr Trump ultimate authority over them.

Senate sanction bills gain more traction

The State Department announcement came on the back of a flurry of US legislative action to introduce new sanctions on Russia. This was prompted by Mr Trump's apparent failure at the Helsinki summit to challenge Mr Putin on Russia's alleged meddling in the 2016 US presidential election. On August 1st a bipartisan group of US senators introduced a new sanctions bill, the Defending American Security from Kremlin Aggression Act (DAKSAA). DAKSAA would introduce additional sanctions on Russian individuals, on investment in energy projects outside Russia that have Russian state involvement, and on engaging in transactions with or providing financing for future issuances of Russian sovereign debt. It also calls for a blocking of all transactions in all US property of major state-owned Russian banks, including Vnesheconombank (a development bank for project funding, not a retail bank), Sberbank and VTB Bank.

Another bipartisan Senate bill proposed in January, the Defending Elections from Threats by Establishing Redlines (DETER) Act, attracted more cosponsors in late July after the Helsinki summit. The bill would require the triggering of sectoral sanctions if the US director of national intelligence determined that a foreign government had intervened in a federal election. Both bills have been introduced to the Senate and are under committee review.

How serious are the proposed sanctions?

The CBW sanctions included in the first round are the only ones that are certain to come into effect. This restriction of export licences overlaps significantly with previous US sanctions on exports to Russia, and will therefore have a minor impact. Russia is unlikely to comply with the requirements of the CBW Act, but the US State Department (and ultimately Mr Trump) has leeway in how they apply the second round of sanctions required by the CBW Act. For example, it can symbolically downgrade diplomatic relations, instead of suspending them completely. In addition, Mr Trump could certify to Congress that Russia is meeting the CBW conditions and lift the sanctions.

Modified versions of the DAKSAA and DETER acts are likely to become law or have parts incorporated into other legislation. A previous sanctions bill, the Countering America's Adversaries through Sanctions Act, passed by 98 votes to two in the Senate and by 419 to three in the House of Representatives in August 2017. However, we expect the modifications to the more draconian measures in both bills. The US Treasury Department already told Congress in 2017 that sanctions on sovereign debt would be too damaging to international financial markets and, more importantly, US investors. In addition, Reuters, a news agency, reported that several US congressional aides had expressed doubt that the more stringent proposed sanctions would remain in the bills.

The impact and reaction from Russia

When the State Department announced the new sanctions on August 8th and *Kommersant*, a Russian newspaper, published what it said was a draft of DAKSAA, the consequences were similar to when the US imposed new sanctions on April 6th. Stockmarkets dipped; the rouble lost about 8% of its value, reaching Rb69:US$1 on August 13th; and credit default swaps climbed to a 12-month high on the same day, at 173 basis points. Russian officials denounced the new sanctions as illegal, denied the Russian government's involvement in the Skripal poisoning and said that they would devise retaliatory measures. Anton Siluanov, the Russian finance minister and first deputy prime minister, said on August 12th that Russia would further reduce its holdings of US securities and reliance on the US dollar. He said that Russia would conduct more transactions in currencies including the euro and the Chinese yuan. However, Mr Siluanov ruled out banning the use of the US dollar and said that the government was not planning restrictions on US businesses in Russia.

Russia could theoretically shift to selling its oil and gas in euro, for example, but this remains an unlikely outcome given that the US dollar remains the overwhelming global reserve currency on which foreign investors rely to repatriate profits. We expect the angry Russian reaction to remain largely rhetorical, given the lack of leverage that Russia holds in trade and investment ties with the US. This view is supported by the counter-sanctions bill signed by Mr Putin on June 4th, which was largely symbolic and clearly avoided imposing additional costs on the Russian economy. However, it is possible that further restrictions will be placed on Western companies or products if US Congress passes versions of DAAKSA or DETER. Meanwhile the Russian rouble has stabilised, to about Rb66.5:US$1 on August 14th, probably supported by the Ministry of Finance's suspension of foreign-currency purchases and the Central Bank of Russia's statement that it would intervene if rouble volatility became too severe.

EIU global forecast - US-China trade war will damage growth

August 16, 2018

Since the start of 2018 trade policy has become the biggest risk to The Economist Intelligence Unit's central forecast for global economic growth. We now expect this risk to materialise in the form of a bilateral trade war between the US and China, with negative consequences for global growth. Although the trade dispute between the US and the EU has paused for now, the dispute between the world's two largest economies only shows signs of escalation. It seems likely that the administration of Donald Trump, the US president, will move ahead with the vast majority of tariff increases on a further US$200bn-worth of Chinese imports. As the economic effect of these tariffs, and those already imposed in the trade dispute, increases over the remainder of 2018, we expect the Trump administration to come under increasing pressure to refrain from further tariff increases. This political pressure, combined with the Republicans' loss of the House of Representatives in the November mid-term elections, which is our expectation, will cause the Trump administration to rethink its trade strategy. At the heart of the dispute between China and the US is a disagreement over intellectual property and China's technology transfer practices, although the US trade team is divided on this issue, with Mr Trump also focusing on the US's trade deficit with China. Given this, discussions thus far between the two countries have failed to solve the dispute, and a resolution looks unlikely in the short term. By 2019 this will dampen growth in both economies and act as a drag on growth in the wider global economy. We had already anticipated a slowdown in the global economy in 2019, as political uncertainty and market turbulence is putting a brake on growth in Latin America. As a result of the trade war, we now expect the slowdown in growth to be more pronounced, at 2.8% (2.9% previously).

Growth in the US and China will slow more than expected in 2019

The trade war comes at a challenging time for the Chinese economy. Concerns over the strength of domestic demand have returned, as momentum in both private consumption and investment has weakened. Central to this slowdown is the deleveraging campaign that began in 2016. The effects of tighter monetary policy, corporate deleveraging efforts and a crackdown on shadow financing have become more apparent in the economy this year, having raised the cost and availability of capital for both firms and consumers. The trade war will lessen the focus on deleveraging, with authorities needing to take measures to support growth in the short term. We are likely to see a moderate easing in fiscal policy, such as cuts to taxes and fees, together with an easing of reserve requirements from the People's Bank of China (China's central bank). There is recognition from policymakers, however, that capacity to support the economy will be limited by China's debt profile. On these assumptions, we have revised China's growth in 2019 down to 6.2%, from 6.4% previously. Although we expect growth to be maintained to reach the government's target of doubling real GDP this decade, the trade war has again raised the spectre of China's financial vulnerabilities, which will cloud the economy's outlook for the foreseeable future.

The trade war will also affect the US economy, which has so far had a stellar year in 2018. We have revised up our forecast for real GDP growth in 2018, to 2.8% (from 2.7% previously), to reflect faster than anticipated growth in the second quarter, of 4.1% in annualised terms, driven by rising domestic demand and a temporary surge in exports. The economy continues to receive support from the Trump administration's fiscal policies, as well as the ongoing strength in the labour market. However, the escalating trade dispute with China will start to weigh on growth later in 2018 and into 2019—we now expect growth to slow in 2019 to 2.2% (2.5% previously). The US manufacturing and agricultural sectors, in particular, will be hit by the trade dispute, and rising interest rates will cause private consumption to slow. Growth will continue to slow in 2020, reaching a nadir of 1.3%, as the lingering effects of the trade dispute, higher interest rates and softening corporate balance sheets result in a business-cycle slowdown. A mild recovery will take place in 2021-22 as these effects unwind, with growth averaging 1.8%.

US protectionism threatens the multilateral system

The Trump administration's protectionist trade strategy has also raised tensions with the US's traditional allies, threatening to upend the multilateral system. Initially, when the US announced import tariffs on steel and aluminium in March, Canada, Mexico and the EU were given exemptions. The exemptions were removed by the Trump administration on June 1st, sparking a round of retaliatory tariffs from these traditional US allies. Reaffirming his transactional approach to US allies, Mr Trump deepened divisions in the G7 on June 8th-9th when he failed to agree to the joint communiqué in support of a rules-based trading system. Mr Trump's European trip in mid-July further demonstrated his lack of concern for the US alliance system. Despite signing a communiqué in support of the NATO alliance, Mr Trump sharply criticised Germany's imports of Russian gas and publicly berated member countries for their contributions to the NATO budget. Given this approach to traditional US alliance structures, we do not expect the Trump administration's transactional approach to trade to differ greatly towards long-standing US allies. Following the withdrawals from the Paris climate accord, the Iran nuclear deal and the Trans-Pacific Partnership, the outcome of the G7 meeting and related trade tensions with key US allies again demonstrate that Mr Trump's "America First" policies do not align with a multilateral system of global governance.

The rest of the world is adjusting to US protectionism by developing regional trade agreements and diversifying their trade partners. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will come into effect in early 2019, after Japan became the second country to ratify the agreement, and additional countries have expressed their interest in joining. We expect more countries to join the CPTPP in the coming years. Japan became a central player in the push to finalise the deal after the US withdrew from the agreement. Further demonstrating the country's commitment to trade liberalisation, Japan signed the world's largest free-trade agreement with the EU this year. The main elements of the deal include the near-elimination of tariffs on Japanese goods entering the EU, but those applied to EU goods by Japan will be reduced in a phased manner. The next stage is for Japan and the EU to ratify the accord. Countries in Latin America, Africa and Asia are also looking to develop regional trade integration. We expect more countries to develop trade ties with new partners, risking the isolation of the US economy and the market share of US exporters.

Global monetary conditions will tighten, but at a slower pace

Heightened international risks will cause some central banks to delay or slow their plans to normalise monetary policy. However, the Federal Reserve (Fed, the US central bank) remains committed to raising interest rates. With US unemployment reaching new lows, but inflation remaining contained, we expect the Fed to continue to raise rates at a steady pace. Reflecting the revised outlook for US growth—stronger this year and weaker next year—we expect a total of four rate rises this year, followed by another three in 2019 as the Fed balances the risks of rising inflation against slowing growth. We expect the Fed to embark on an easing cycle in 2020. Most emerging-market economies should be able to weather this pace of economic tightening, provided that their trading conditions remain favourable. However, investors are on the alert for financial, economic or political weaknesses. The turbulence experienced by Argentina and Turkey in mid-

2018 is a reminder of how difficult it can be for policymakers to regain market confidence where external imbalances are large and macroeconomic policy frameworks fragile. For now, a full-blown emerging-market crisis should be averted, but we expect the number of countries seeing their currencies come under pressure to rise over the next two years. It is likely that we will see periods of volatility as the global trade dispute interacts with the shift away from easy money.

Geopolitical risks foreshadow greater volatility

We also note the economic risks posed by the complex and deepening tensions in the Middle East. Various proxy conflicts between Iran and Saudi Arabia have the potential to further destabilise the region. Mr Trump's decision to withdraw the US from the Iran nuclear deal is another signal that the US is inclined to offer stronger support to its traditional allies in the region, Israel and Saudi Arabia, in the coming years. We expect regional security in the Middle East to deteriorate following the US withdrawal. The move gives hardliners in Iran the upper hand over their moderate counterparts, which is likely to lead to a more confrontational foreign policy. Most worryingly, a proxy conflict between Israel and Iran in southern Syria has a significant chance of escalating.

Heightened geopolitical risk in the Middle East increases the likelihood of volatility in global energy markets. The rebalancing of the oil market pursued by OPEC over the past 18 months means that geopolitical developments now have a more pronounced effect on prices. News of the US's withdrawal from the Iran deal sent prices above US$75/barrel for the first time since 2014. Ismail Kowsari, a senior officer in Iran's Islamic Revolutionary Guards Corps (IRGC), stated on June 4th that Iran would prevent other nations' oil from being exported through the Strait of Hormuz, should its own oil exports be blocked by US sanctions. Although we do not expect Iran to close the Strait of Hormuz, the likelihood of this scenario unfolding will rise as Iran's oil exports decline in 2019-20, and this risk will continue to be incorporated in crude oil prices.

World economy: Forecast summary

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Real GDP growth (%)										
World (PPP[a] exchange rates)	3.4	3.6	3.4	3.2	3.7	3.8	3.7	3.4	3.7	3.7
World (market exchange rates)	2.4	2.8	2.8	2.3	3.0	3.0	2.8	2.4	2.7	2.8
US	1.7	2.6	2.9	1.5	2.3	2.8	2.2	1.3	1.7	1.9
Euro area	-0.2	1.4	2.0	1.8	2.6	2.1	1.8	1.6	1.7	1.7
Europe	0.8	1.9	2.0	1.8	2.7	2.2	2.0	1.8	2.0	2.0
China	7.8	7.3	6.9	6.7	6.9	6.6	6.2	6.1	5.5	5.3
Asia and Australasia	4.6	4.1	4.3	4.1	4.5	4.5	4.4	3.9	4.1	4.2
Latin America	2.8	1.4	0.5	-0.5	1.2	1.5	2.2	2.4	2.8	2.9
Middle East & Africa	2.2	2.8	2.5	4.2	1.7	2.2	2.8	3.0	3.5	3.8
Sub-Saharan Africa	4.7	4.5	3.0	1.1	2.4	3.0	3.0	2.9	3.6	3.9
World inflation (%; av)	**3.9**	**3.5**	**3.2**	**3.8**	**4.5**	**6.0**	**5.1**	**3.4**	**3.4**	**3.5**
World trade growth (%)	**3.3**	**3.1**	**2.2**	**2.3**	**5.3**	**4.0**	**3.7**	**3.0**	**3.9**	**3.7**
Commodities										
Oil (US$/barrel; Brent)	108.9	98.9	52.4	44.0	54.4	73.5	72.5	70.0	74.8	77.3
Industrial raw materials (US$; % change)	-6.8	-5.1	-15.2	-2.2	20.2	4.6	0.8	-0.2	0.5	-0.4
Food, feedstuffs & beverages (US$; % change)	-7.4	-5.2	-18.7	-3.5	-0.9	4.6	1.6	3.2	-2.4	2.9
Exchange rates (av)										
¥:US$	97.6	105.9	121.0	108.8	112.1	108.6	106.8	104.1	100.0	98.3
US$:€	1.33	1.33	1.11	1.11	1.13	1.18	1.19	1.21	1.21	1.24

[a] Purchasing power parity.

Source: The Economist Intelligence Unit.