

# Russia's Economy Retracted in January, Report Says

By [The Moscow Times](#)

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A high-ranking official told Vedomosti that the economy saw negative growth during the first month of the year. **M. Stulov**

Russia's economy shrank in the first month of this year, an official said.

At the same time, capital investment slumped sharply, falling far below analysts' expectations.

An unidentified high-ranking official involved in finance and economics told Vedomosti that the economy experienced negative growth in January, though the scale of the decline is not yet known.

Alexander Morozov of HSBC said that it may be too early to use the word recession, a term for two consecutive quarters of economic retraction, but that stagnation is a very likely outcome.

There was no sign in data of a boost from preparations for the Sochi Olympics as investment

fell by 7 percent compared with a year earlier, a huge undershoot compared with analysts' forecast in a Reuters poll of a 0.5 percent rise.

"It's terrible. It's like in 2009," said Natalia Orlova, an economist at Alfa Bank, referring to the year when Russia's economy shrank by 8 percent as the global financial crunch wreaked havoc on corporate finances.

The unexpected plunge in investment last month comes after a year of stagnation. It fell by 0.3 percent in 2013, according to official estimates — a major factor behind lackluster economic growth of 1.3 percent last year.

The investment malaise underscores the poor state of Russia's business climate and boosts the argument of those calling for structural reforms to diversify an economy that is too dependent on stagnant natural resource sectors.

The Central Bank lowered its mid-term economic growth forecasts Tuesday, anticipating growth of below 2 percent until at least 2016, in an acknowledgement that Russia's economy will be sickly for some time.

But many analysts had expected that Russia would see a modest economic rebound in the early months of this year, helped by an expected cyclical recovery and the impact of investments linked to the Winter Olympics now underway in Sochi.

"The bad surprise is that we thought the Olympics preparation would help, at least in the first quarter of this year," said Orlova. "A 7 percent decline [in investment] completely kills this expectation."

#### Bad omens

The latest data comes after earlier bad omens, such as PMI data for manufacturing and services for January, which pointed to an economy that was practically stagnant last month, and coincides with turmoil on global financial markets as investors flee emerging market assets.

Alfa's Orlova said the slump in investment in January may be linked to the recent slide in the ruble, which has made it profitable for Russian companies to buy foreign currency instead of investing in production.

The ruble continued to plunge Wednesday, shedding 0.8 percent against the dollar and at one point hitting a record low against a dollar-euro basket used to gauge Central Bank interventions.

Other data released by the Federal Statistics Service on Wednesday also disappointed expectations, with retail sales rising by 2.4 percent, below analysts' forecasts.

Unemployment remained relatively low at 5.6 percent, however, which may help to maintain wages growth and consumption. Nominal wages rose 8.7 percent in January, with real wages up 2.5 percent.

Darya Isakova, economist at VTB Capital, said that although the overall data was

disappointing, the dramatic slump in investment may be the result of statistical quirks linked to Russia's long holiday in early January.

Investment growth "is negative or close to zero, but not such a sharp move as it appears," she said. But she added that the positive unemployment data was also probably temporary and the rate would rise.

However, other economists disagree. "The question is how much investments will fall in 2014, not how much they will grow," said Yevgeny Nadorshin of Sistema, reported Vedomosti, adding that he expects the situation to become worse for February and March.

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