VEB GDP Index: February 2015

Monthly estimate of Russian GDP

BANK FOR DEVELOPMENT

VEB flash estimate suggests that the GDP decline continued in February 2015. GDP contracted by 0.6% month-on-month and was down by 2.1% year-on-year.

Month-on-month GDP change: contraction slowed down to 0.6%

According to VEB estimate, seasonally adjusted GDP has been declining for two consecutive months. In February GDP contraction slowed to 0.6% after a 1.2% decline in January.

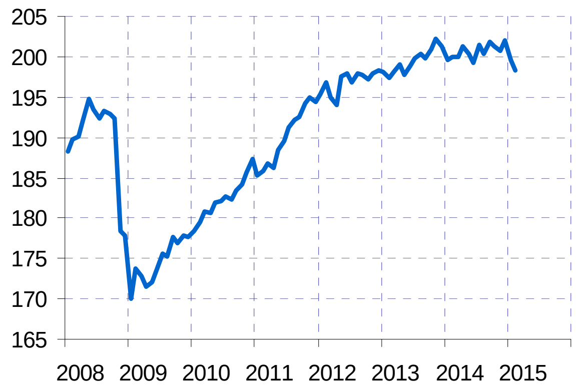
The most important factors behind this downturn were deterioration in trade (-1.9%), manufacturing (-0.9%) and services (-1.2%), as well as net taxes. By contrast, construction and transport services showed signs of recovery, expanding by a respective 0.5% and 0.3%.

Year-on-year GDP change: fall of 2.1%

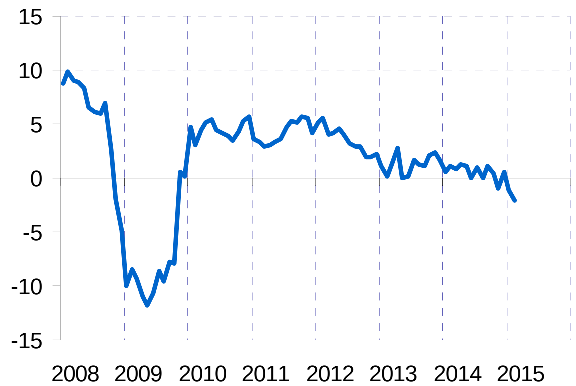
VEB estimate suggests that real GDP decreased by 2.1% year-on-year in February 2015, after a decline of 1% in January 2015.

The worsening of economic activity mainly reflects a deterioration in manufacturing, trade and net taxes. In February the contribution of manufacturing has become negative, amounting to -0.3 p.p. (down from 0 p.p.), while the negative contribution of wholesale and retail trade went from -0.8 p.p. to -1.0 p.p.

VEB GDP Index, January 1999 = 100, seasonally adjusted and adjusted by working days



VEB GDP Index, year-on-year growth, %



Comment by Andrei Klepach, Chief economist of VEB:

"A slowdown in consumption since the beginning of the year has been the main factor behind the contraction in the economy.

The slowdown is a result of constraints in the retail credit market and renewed growth of savings, which was caused by high deposit interest rates and increased uncertainty in the labour market.

At the same time, seasonally adjusted monthly growth of real income of the population remained positive, despite accelerating inflation. A key factor that supported income growth in February was pension indexation.

We believe that the decline in investment that was observed in January and February does not yet fully reflect the change in economic conditions. We expect a further acceleration in investment decline in the coming months, taking into account restrictive interest rates on new loans, high degree of uncertainty and a peak in foreign debt payments.

According to our preliminary estimates, net capital outflow in February increased to 15 bln USD, up from 9 bln USD in January. This is a rather high level, given that population is becoming a less important player on the foreign exchange market".

First estimate of real GDP growth in January 2015 was revised

As new data on January became available, VEB has revised up the estimate of year-on-year GDP growth in January from -1.2% to -1.0%.

The key factor behind the GDP growth upgrade was a 28% increase in exports of oil products that partly softened the negative impact from trade and manufacturing. As compared with the previous month, the decline in GDP was revised up from -1.4% to -1.2%

VEB GDP Index

	Growth		Volume, bln. RUB
	Year-on-year, %	**Month-on-month, %**, seasonally adjusted and adjusted by working days	
October 2014	0.4	0.0	6481
November 2014	-0.9	-0.4	6282
December 2014	0.5	0.6	6367
January 2015	-1.0	-1.2	5068
February 2015	-2.1	-0.6	5837

Main principles and data sources

Monthly VEB GDP index is a leading indicator for quarterly GDP dynamics. Its estimation is based on the production method using available monthly data. Aggregation of GDP indices is done using average annual prices of the previous year.

Year-on-year change in GDP is estimated using Federal State Statistics Service's monthly data on changes in production of goods and services in major industries. Based on this data, we estimate indices of value added in the main industries.

Estimate of net taxes on products and imports is done using Federal State Statistics Service's data on production of excise goods, Ministry of Energy's preliminary data on the volume of exports of oil and gas, Customs Service's data on imports from non-CIS countries and VEB experts' assessment.

Month-on-month change in GDP adjusted for seasonal and calendar factors is estimated using an indirect method, i.e., the key components of GDP are seasonally adjusted and then are aggregated into the overall index. We additionally do seasonal adjustment using a direct method (by directly adjusting the GDP index).

In case of sizeable differences between the adjustments done using indirect and direct methods, the series are normalized by distributing the difference between the two series across adjusted elements.

Nominal GDP is estimated using assessment of the overall deflator index (year-on-year), which aggregates deflators of the main components of value added and net taxes on products and imports.

The calculations are based on Federal State Statistics Service's monthly data on the change in the value of shipment of own production goods, data on activities and own services in mining, manufacturing, production and supply of electricity, gas and water.

The main components of the deflator of net taxes on products are assessed using the dynamics of consumer prices, changes in the exchange rate, changes in the prices of excise goods and changes in world oil prices. The calculations are performed using an algorithm which is used to determine the value added volume indices of the main GDP components.