# Russia: 2Q GDP drop not too deep, but broad-based

Official estimates for the 2Q20 GDP drop have been improved to 8.0% YoY, close to our initial expectations, as sectors hit most by the pandemic played a relatively small role. However, the broad-based nature of the drop suggests that the recovery may still face challenges, and our above-consensus -2.5% forecast for 2020 is still under pressure

Source: Shutterstock

-8.0%

Better than expected

Russian GDP in 2Q20 (YoY)

Revised from -9-10% and -8.5%

## 2Q20 GDP drop narrower than initially expected, but more broad-based

According to the State Statistics Service (Rosstat), Russian GDP dropped 8.0% year-on-year in 2Q20. This is better than Rosstat's own initial -8.5% and the preliminary estimates by the Central Bank and the government of -9-10%. Conversely, this is closer to our initial forecast of -7.5%. In addition to the updated headline estimate, Rosstat provided a breakdown by industry, which confirmed a moderate contribution of the most-hit sectors to the overall drop, but also suggested that the negative reaction has been rather broad-based. Here are the key observations:

- The sectors most hit by the pandemic and quarantine were, as expected, hotels and restaurants (-56.9% YoY output drop in 2Q20), entertainment, sports, and recreation (-28.0% YoY), and other services (-28.6% YoY). Due to the low share of those in the overall GDP structure, however, they contributed only 0.9 percentage points out of the total 8.0% YoY GDP drop. Since the de-facto quarantine has been eased throughout 3Q20, these sectors should be seeing a rebound, however it is also unlikely to play a major role in the improvement in the overall GDP trend.
- The primary contributors to the 2Q20 drop were industrial production (-2.1ppt), trade (-1.7ppt), transport and communication (-1.3ppt), caused by a combination of reduced foreign trade and local quarantines. Russia's continued compliance with OPEC+ commitments and reduced travel should restrain the recovery in industrial production, wholesale trade, and transportation at least until the year-end.
- Public sectors contributed around 1.0ppt of the GDP drop in 2Q20 despite a material acceleration in budget spending from 18% YoY in 1Q20 to 35% YoY in 2Q20. Meanwhile, the room for further expansion of fiscal support appears limited at this point.
- Sectors that showed a defensive performance include financials (+0.3ppt), agriculture (zero contribution), and construction & real estate (-0.2ppt). While the first two are not surprising, the lack of drop in the construction sector is positive. Meanwhile, the postponement of the National Projects (mainly public spending on infrastructure) deadline from 2024 to 2030 is a risk factor to the mood in the construction sector going forward.

A smaller than expected GDP drop in 2Q20 combined with a continued recovery in 3Q20 are addling credibility to our above-consensus GDP expectations for the full year 2020 and serve as an additional argument for a pause in the key rate cut cycle in the near term. Meanwhile, the broad-based nature of the GDP drop suggests that the continued recovery could still be facing challenges. We see the upcoming finalisation of the three-year budget parameters as an important catalyst for local economic confidence.

### Author

**Dmitry Dolgin**
Chief Economist, CIS
dmitry.dolgin@ing.de

## Disclaimer