

Russian GDP: 2Q20 drop not as deep as expected

Russian GDP dropped 8.5% YoY in 2Q20, better than consensus, presumably thanks to the small role of services as well as resilient industrial output and exports. Meanwhile, recovery in 2H20 might be challenged by uncertainties on local demand. Our above-consensus expectations of just a 2.5% GDP drop in 2020 still faces downside risks



Source: iStock

-8.5

2Q20 GDP, % YoY

after +1.6% YoY in 1Q20

Better than expected

The 2Q20 GDP underperformed our -7.5% year-on-year forecast, but we are not surprised that the figure turned out better than consensus (-9.6%) that was in line with the preliminary estimates by the government and the Central Bank of Russia. Our expectations

were based on the assumption that the sectors most hit by the Covid-19 lockdown were related to services in the largest cities, while the broader economy showed a more defensive performance. Indeed, the [recovery in consumption](#) in May-June has been robust, the CPI trend has so far shown [little signs](#) of demand-driven disinflation, the drop in construction and [industrial output](#) has been more shallow, and the recent trade balance data points at [higher than expected exports](#) despite Russia's strict OPEC+ compliance.

Meanwhile, the 8% YoY drop in household income in 2Q20 despite the massive increase in the state social support is a factor that might potentially constrain the confidence (and stockbuilding) in the corporate sector. In addition, the likely redistribution of the fiscal priorities from some long-term investment projects towards social spending might be an additional pressure factor for the recovery in the state-driven industries in 2H20.

As a result, while we continue to see the 2020 consensus forecast of a 5-6% YoY GDP drop as a bit pessimistic as a base case, our -2.5% forecast is facing some downside risks as well.

Author

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

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