

Russian GDP improves thanks to local consumer demand

Russia's GDP decline narrowed from -8.0% YoY in 2Q20 to -3.6% YoY in the third quarter, in line with our expectations. The positive effect of local consumption recovery outweighed the toll of the OPEC+ deal. In 4Q20, the recovery should not be as pronounced, but the full-year result should be close to our above-consensus expectations of -3.0% YoY



A worker at a car factory just outside Moscow

-3.6%

Russian GDP in 3Q20, YOY

-8.0% YoY in 2Q20

Better than expected

Russia's GDP decline narrowed from -8.0% YoY in 2Q20 to -3.6% YoY in 3Q20, which is close to our expectations of -3.5% YoY and slightly better than consensus. At this point only one number is

available, and the breakdown will follow. However, here are our key takeaways:

- Household consumption was the primary driver of the improvement. Amid the lifting of the lockdowns in July and the socially-focused fiscal stimulus, the retail trade decline narrowed from -16.0% YoY in 2Q20 to -2.5% YoY in 3Q20. This should have added 4.0 percentage points to the GDP to the growth rate. The improvement in the consumer services segment has been more modest (from -40-50% YoY to -20-30% YoY respectively), but their importance to the GDP number is too small to matter. Meanwhile, high-frequency indicators point to a [moderation in consumer recovery](#) that we've seen since September due to renewed Covid-19 fears and end of the peak in fiscal stimulus.
- The recent upgrade to the [industrial output](#) estimates has likely provided additional statistical support to GDP growth by around 0.4 pp in 3Q20. Meanwhile, for 4Q20 the expectations for industrial output growth are more restrained due to a moderation in global and local demand, and a refocusing of local fiscal policy from infrastructure spending to social support.
- Unlike in the second quarter, GDP growth in 3Q20 was negatively affected by exports. According to the customs statistics, Russia's oil exports dropped 24% YoY in physical terms last quarter, which in our estimates knocked off up to 2 pp from the GDP growth rate. In fact, Russia's oil exports have been under pressure since 2Q20, but that has been masked by the low base effect of 2Q19 related to distortions at the Druzhba pipeline. Without that, the 2Q20 GDP drop would have been around 1.0 pp deeper. Still, the negative effect of the export drop in 3Q20 should somewhat be mitigated by imports, which according to the [balance of payments](#) data remained negative in both merchandise and services. For 4Q20, the contribution of net exports to growth should be close to that of 3Q20 given the persistent OPEC+ cuts on the one hand, and the continued pressure on [imports](#) due to RUB depreciation and restrained local demand.

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