

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.

Author

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by

the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.