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INDEPENDENT NEWS FROM RUSSIA

Russia Upgrades Economic Outlook on Strong Data

The hit to GDP is expected to be less severe than first thought.

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The Russian economy has weathered the coronavirus pandemic better than most others in Europe.
Anton Novoderezhkin / TASS

The Russian government expects the coronavirus to inflict significantly less damage on the country's economy than it first feared.

The Economy Ministry is now predicting GDP will fall by 3.9% in 2020, up from its previous forecast of a 5% contraction, Kommersant reported Monday.

Russia's economy has not taken as big a hit from the pandemic as other European economies, recording a contraction of 8.5% in the second quarter of the year, according to official statistics. That compares to a fall of more than 20% in the U.K, and double-digit declines in all of Europe's major economies.

"The more moderate hit to Russia's economy is likely due to a shorter and 'softer' lockdown, and the lower share of consumer services in Russia's consumption," Evghenia Sleptsova, Oxford Economics' senior emerging markets economist wrote in a recent report tracking Russia's economic recovery.

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Economic activity has bounced back strongly from record lows, and is now at around 95% of pre-coronavirus levels, Oxford Economics estimates.

Interest rate cuts from the Central Bank and a stabilization in global oil prices have also helped cushion the blow from the pandemic, economists say — a big difference from the crisis Russia faced in 2014-16, when the country chose to hike interest rates in a bid to stem a rapid depreciation in the value of the ruble.

The Economy Ministry also upgraded its outlook on investment, which it predicts will decline by 6.6% this year, compared to previous expectations of a 12% fall.

Despite a string of upgrades from both official and independent forecasters, there is still a high degree of uncertainty over where the Russian economy will head over the next few months. Economists say the recent uptick in activity could be a short-lived post-quarantine spurt which may fizzle out once the longer-term effects of cuts to wages and investment start to be felt throughout the economy. Meanwhile the prospect of a second wave and another partial economic shutdown remain the biggest risks to the recovery.

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