

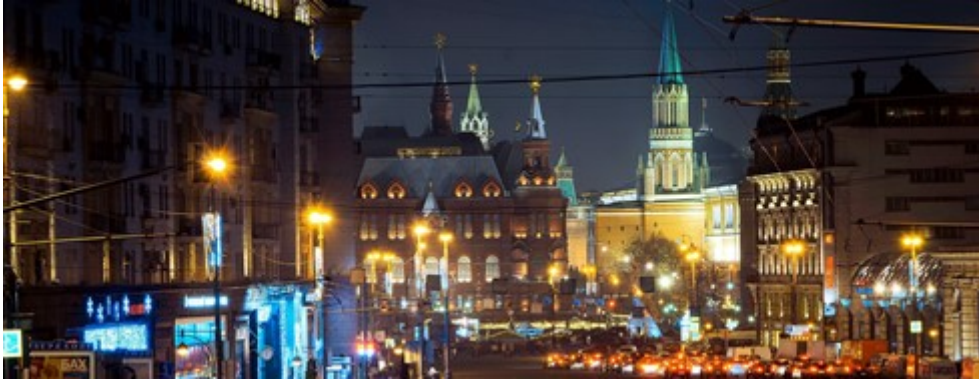
# Russia Watch: recession partly shifts to 2023

According to Rosstat, Russia's GDP shrank 4.1% yoy in Q2 2022 (0.4% in H1 cumulatively). The recession appears to be more L-shaped in comparison to earlier expectations and the shock is likely to shift more into 2023.

GDP turned to the negative zone in Q2 2022 **1**

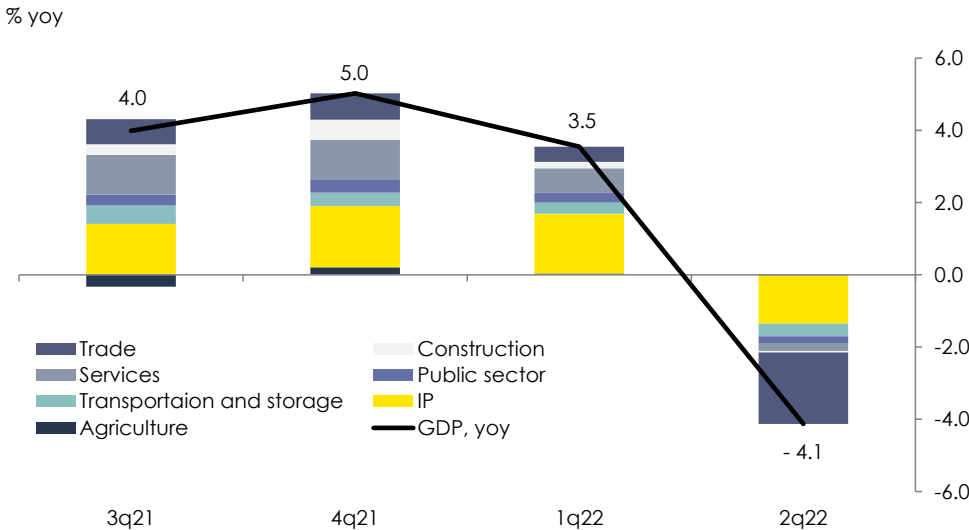
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The official data suggest that **retail and wholesale trade dynamics affected the economy the most**. In Q2 2022 it declined by 14.1% yoy amid (1) shrinking gas exports to the EU, (2) weaker local consumer demand and (3) a slump in car sales due to production shortages and sanctions imposed on imports (however, car sales weight in total sector is only 5-10%).

## GDP turned to the negative zone in Q2 2022



Source: Rosstat, RBI/Raiffeisen Research

**Industrial production declined by 2.5% yoy in Q2.** Compared to Covid-19 shock of Q2 2020 when IP shrank 6.2% yoy, the current slump appears to be mild. In our view, **the key adverse effect should come from the EU oil embargo** (to be implemented stepwise starting from December 2022). On the one hand, **its delayed nature allows for a relatively moderate shock in 2022** but, on the other hand, **it should shift the lowest recession point into 2023**. During this period, the support to the economy is expected to come from (1) increased anti-crisis government spending (the updated budget plan is to be unveiled only in October) and (2) swiftly neutralized monetary policy, which could keep private consumption from additional cooling.

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With this in mind, we have updated our economic forecast. **We now expect GDP decline to be milder in 2022 (-3.5% yoy) this year followed by a comparable downturn in 2023 (-4.0% yoy).** From the midterm perspective, we maintain our conservative view. The eroding impact of sanctions on industrial production could harm the long-term GDP growth potential (0.9% yoy starting from 2024 in our forecast).

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
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
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
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
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