

Fears of Recession Rise as Russia's Economy Contracts for 2nd Month

By [The Moscow Times](#)

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Russia's economy has contracted in annual terms for two months in a row, the Economy Ministry said Friday, adding to concerns that Russia may be heading for recession as Western sanctions over Ukraine bite.

In a weekly macroeconomic monitoring report, the ministry estimated that gross domestic product had contracted by 0.2 percent in July compared with a year earlier, following a 0.1 percent fall in June.

The ministry's estimate of negative growth in June as well as July contrasts with its earlier estimate of 0.6 percent growth in June, following 1.3 percent growth in May.

"It's quite a sharp revision," said Dmitry Polevoy, chief Russia economist at ING. "Generally this is a worrying sign suggesting that the economy is continuing to lose steam."

The ministry's gloomy growth estimates come a few days after data published by the State Statistics Service showed investment declining by 2 percent in July — resuming a downward trend briefly interrupted in June — and retail sales rising by a sluggish 1.1 percent.

The government officially forecasts economic growth of 0.5 percent in 2014, although Economy Ministry officials have said in recent weeks that they expected growth around 1 percent.

ING's Polevoy said that the latter figure looks harder and harder to achieve. Year-on-year growth was 0.7 percent in the first seven months, the latest ministry data showed, with the growth rate set to shrink as the economy begins to contract.

"The risk of negative annual growth in GDP [in 2014] is still high, and these risks are probably rising on the back of geopolitical tensions," he said.

The decline in economic growth has coincided with a surge in capital outflows and slumping investment, linked by analysts to the Ukraine crisis and the impact of western sanctions.

Economists polled by Reuters at the end of last month predicted that the economy would grow by just 0.3 percent in 2014.

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