

Russia's Sanction-Hit Economy Shrinks 1.9% in First Quarter of 2015

By [The Moscow Times](#)

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Russian ruble and U.S. dollar notes are stuffed into a replica of the Kremlin.

The Russian economy contracted by 1.9 percent in the first quarter year-on-year, the government's statistics service said Friday, hit by sanctions and falling energy prices.

The reading was broadly in line with estimates given by Prime Minister Dmitry Medvedev and officials from the Economic Development Ministry over the past month, although some analysts said the figure was better than expected.

Russia's economy has slowed sharply since early last year because of Western sanctions over the Ukraine crisis and a sharp slide in global prices for oil, the country's chief export.

However, a recent stabilization of financial conditions, reflected in a rebound of the ruble, has fueled hopes that the worst of the crisis is over, helped by a partial recovery in oil prices and February's peace deal in Ukraine.

April macroeconomic data due next week, including industrial output, investment and retail sales, will shed light on whether the contraction is accelerating or less severe than expected.

"Given the recent stabilization in financial markets, the recovery in oil prices and the broader geopolitical easing related to the Minsk II agreement [regarding Ukraine], it is not unrealistic to start building up scenarios where full-year GDP growth beats expectations," Citibank Russia economist Ivan Tchakarov said in a note.

Economists polled by Reuters at the end of last month predicted the economy would contract by 4.1 percent in 2015. The government officially forecasts a 3 percent contraction but officials have said that this now looks over-pessimistic.

"The best that can be said about Q1 GDP data from Russia is that the economy has avoided outright collapse and is, instead, merely on the cusp of recession," Capital Economics chief emerging markets economist Neil Shearing said in a note.

"There's not much here to justify the growing optimism of both policymakers and some of the more bullish analysts in the market. ... The economy is still on course to contract by around 2.5 percent or so in 2015."

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