Strategic Choice Advisory
Strategy and Transactions

Russia Macro Foresight

Economic Growth Recovers to Recent Levels in Q2 as Consumption Revs Up, Yet It's Still a Mixed Bag Under the Hood

August 2026

GDP growth returns to just over 1% y/y in Q2, but general investor sentiment still quite negative. At the same time, several key segments see evident improvement

- In our last report, we noted overall lackluster economic results, but also a growth uptick in late 2025, adding a **consumption recovery** may be just around the corner. **Well, it has arrived!** But before it could take place, the economy contracted in Jan-Feb, spawning alarmism among economists and media alike. We conducted an interim review in-between our semiannual reports, finding the slump was caused mostly by technical factors, i.e. a high base and lower number of workdays thanks to a longer-than-usual winter break, and the snowiest winter on record in Central European Russia halting deliveries, orders, and, in many cases, production, across the board
- **Real GDP declined 0.2% y/y in Q1, but rebounded to post 1.3% growth in Q2, roughly in line with the 1% reading of full-2025.** In H1, the indicator rose 0.6%. Government had indeed intended to cool down the economy by hiking the key rate. But even though tax rates for SMEs were hiked this year, we reiterate the Q1 blip was mainly technical and weather-related. The weather remains colder than usual this year, seriously affecting agriculture (-0.8% in H1/2026 vs. 4.9% in full-2025), but has somewhat improved in Jul-Aug
- **Household consumption** gained 3.5% y/y in Q1, already an improvement vs. 2.9% in full-2025, and **sped up further to 6% in Q2** (EconMin preliminary data). **Retail trade surged 5.4% over H1**, exceeding the full-2025 result more than 2-fold. Still, **manufacturing (just 0.7%), construction (-5%) and investment (-14.3%) all surprised negatively.** Housing construction took a beating, shrinking 18%

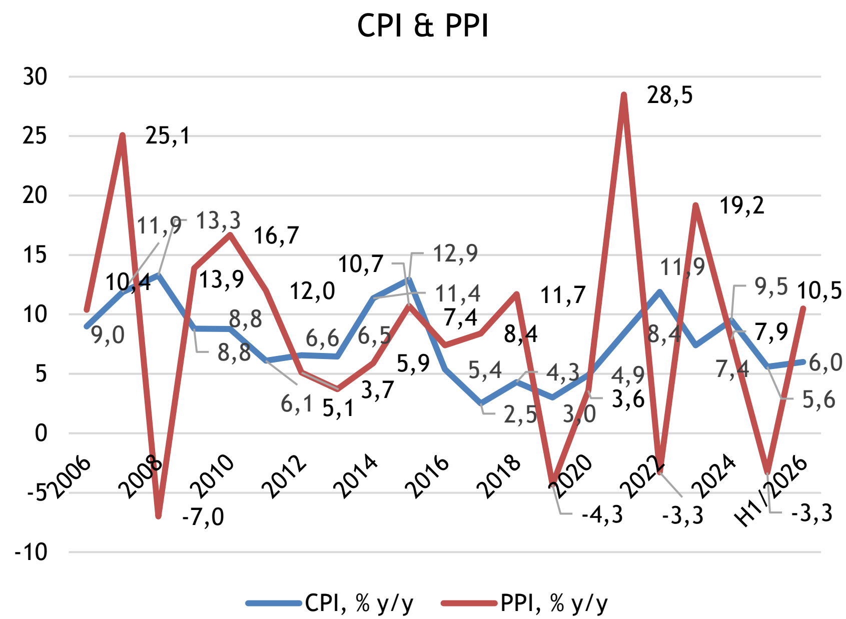
Indicator, % y/y	2023	2024	2025	H1/ 2026
Industrial production:	4.3	5.1	1.3	0.8
Manufacturing	8.7	9.1	3.6	0.7
Cargo transp. turnover:	-0.6	0.5	-0.7	-0.6
Railway	0.0	-4.3	-1.8	-0.7
Automobile	15.4	6.9	2.9	1.0
Agriculture	0.2	-3.3	4.9	-0.8
Retail trade	8.0	7.7	2.6	5.4
Construction:	9.0	3.8	2.5	-5.0
Housing	7.5	-2.4	0.3	-18.0
Fixed capital investment	9.8	7.4	0.5	-14.3*

** - Q1/2026*

Segment, % y/y	2024	2025	H1/ 2026	Segment, % y/y	2024	2025	H1/ 2026
Food products	4.2	-0.4	1.3	Chemicals	4.6	-0.8	-1.5
Textiles	12.0	-0.6	0.3	Rubber & plastic products	3.7	-6.7	1.4
Apparel	12.0	-2.2	-6.3	Pharmaceuticals	19.3	15.4	13.9
Metallurgy	-1.5	-2.1	-9.3	Coke & oil products	-1.4	-0.4	-7.7
Metal products	30.4	18.0	8.8	Machines & equipment	2.2	-6.9	-2.2
Wood products	5.0	-3.5	-3.1	Electrical equipment	9.7	-3.8	-2.5
Furniture	16.3	-6.9	1.3	Automobiles	18.5	-23.1	1.4
Building materials	6.8	-8.3	-6.3	Computers & electronics	26.4	11.7	4.3

CPI inflation edges up, as PPI inflation bounces back. CBR continues nudging down key rate, improving consumers' mood. But rising input price pressures may signal monetary policy reversal

- **CPI inflation edged up to 6% y/y in June vs. 5.6% in Dec 2025.** The SME tax hike definitely had to do with it, but the main reason was **oil&gas prices soaring, causing PPI inflation to pick up to 10.5% vs. -3.3% in 2025.** We predicted inflation would keep slowing, despite tax hikes, but could not foresee either the US&Israel-Iran shootout being as fiery and prolonged as it turned out, or the massive **wipeouts of Russian oil refineries by Ukraine**, resulting in 20% fuel price growth and widespread deficits. Capacity is restored fairly quickly, and anti-air defenses are stepped up, but the hits still continue
- Utility prices also spiked up, perhaps also caused by attacks on energy infrastructure. Chemical prices (PPI-side) jumped 14.2%. Healthcare and HoReCa prices are rising strongly on robust demand. Consumer prices dropped in both horticulture and husbandry, as producers try to spur demand amid bad weather
- **The spike-up of inflation in investment goods we had noted stays intact (10.5% in June**). Whether caused by higher demand (not too likely during an investment rut, but plausible in some segments), deficits due to Western sanctions, or RUB depreciation driving up the cost of imports, **it shows input price pressures are rising**



- Income and wage dynamics are quite peculiar. **Nominal wages rose 13.3%, a bit slower than recently.** Labor shortages still continue, albeit hiring has also subsided. In Apr-May the indicator made up just 11% and 10.1%, affected by the high base. Still, **real wages leapt 7.2%,** as CPI inflation is down y/y. But **the figure made up just 5.1% in April and 4.5% in May**. The share of real estate, entrepreneurial and other non-wage income is also down y/y
- What has caused much alarm in the press was **real disposable income rising just 1.5% in H1.** Yet, we are not dismayed here: **spending notably outpaced income at 13.7% and 7%, respectively.** While this may be a sign of inflation reaccelerating, or the population not feeling secure enough and wanting to spend first of all (savings dropped 11.1% y/y in Q1 - RosStat data), **higher consumption is obviously a boon for the local economy now**
- Wage arrears dipped after a lurch-up, and unemployment stays low at 2.2%

Indicator, % y/y	2023	2024	2025	H1/ 2026
Real disposable income	6.1	8.2	7.4	1.5
Real wages	8.2	9.1	5.2	7.2*
Nominal wages	14.6	18.3	14.3	13.3*

** - Jan-May 2026*

No major real sector breakthroughs observed, and many segments see further deterioration. Still, revivals also observed across the board, as spending power improves, boosting profits

- Real sector numbers (*see table, p. 2*) were again mixed, but the underlying trends became clearer. Among macro sectors, transport turnover edged down another 0.6% in H1, but this time cargo load slid 4.1% after solid gains. Thus, **distance actually rose notably,** reversing the trend of breaking down routes into shorter sections and between intermediaries. Marine transport soared 2.4-fold, as both load and distance grew dramatically. Truck transport turnover edged up 1%, but cargo load dropped 5.2%, possibly as **Ukraine's rampant attacks on warehouses took their toll.** Once again, we note that distance increased strongly. Logistics are definitely being adapted to this heightened new threat. Transport & storage service sales gained 5.3%. Still, sector profit plummeted 33.5% y/y in Jan-May. And this does not yet reflect the worst of the inflicted damage… Only railway profit posted solid growth (65.4%). **Clearly struggling are extraction** (ex oil&gas and non-ferrous metals, which saw both output and robust profit growth), **and agriculture** (output declines across the board, and plunging profits, despite increased sales)
- Speaking of profit, **total corporate profit declined just a bit, by 1%, showing steady improvement** vs. -3.1% in 2025 and -6.9% in 2024. At that, the share of loss-making entities jumped 6.3pps to 33.4% in Jan-May. This figure is highly seasonal, and it makes sense to see H2 data to make conclusions. While the situation remains challenging for many companies, the overall improvement is also undeniable. Worth noting, recent tax hikes increase the risk of underreporting profits in an attempt to ease the tax burden
- **Manufacturing stays sour, on the whole,** despite positive consumption trends. Growth was just 0.7% in H1 vs. 3.6% in 2025 and 8.7-9.1% in 2023-2024. At that, the 0.7% decline in Q1 was followed by 2% growth in Q2. Still, the situation was dire in a host of segments, including wood products (ex a few items), textiles (ex bedding and tents), clothing, oil products, sulfur, ferrous metals, railway equipment, packaging materials (ex paper/cardboard boxes), road machinery (amid reduced state funding), etc. Sadly, medical equipment output dropped after years of solid growth. Chemicals seem to be feeling the heat as well, as output dipped 1.5% in H1, and profit dropped 41.2% in Jan-May. Total manufacturing profit declined 15.6% in Jan-May. Duly, **the business confidence index in manufacturing retreated below zero** after recovering in late 2025, hitting -3 earlier in the year before settling at -1, -2 in May-Jul
- **But simultaneously, there are positive changes in a widening range of segments,** which are evident just by looking at our color-coded table on p. 2. A lot more greens than before, and far more yellows than reds *(rhs table)*. Various items in metal products, overall pharmaceuticals, fish processing and other seafood, sunflower oil, dairy, sugar, plastics, synthetic fibers, electric motors, fiber-optic cables, electrodes, turbines, presses; automobiles (+1.4% after a drop), especially cars (+16%); furniture, HoReCa, education, etc., are starting to feel it, with some segments in rip'n'tear mode. **Profit and output growth was mainly robust in these segments, while in others, even though output dynamics seemed lackluster, profits were surging** (e.g. foods, beverages, apparel). Even in oil products, profit skyrocketed despite the Ukrainian onslaught. Prices are now shooting through the roof, while costs are reduced (although, again, the longer-term impact is significant). Output growth in machinery is also picking up. Various personal services are staying in the sun, with signs of a growth revival observed in healthcare, which had been under the weather. Non-food sales jumped 10.1% in Q2 and 7.6% over H1! Construction profit declined just 10.3% in Jan-May, despite output plunging, but skyrocketed in infrastructure (3.7-fold!)
- As can be seen, **in some cases improvement is driven by import substitution and risen B2B demand, while in others, it is owed to higher B2C consumption.** Retail trade profit jumped 33.6% in Jan-May, and rebounded in wholesale. The warehouse wipeouts are yet to be reflected, though… Of course, **in some cases military spending serves as a key driver.** Unfortunately, growth is slowing in computers & electronics, and building materials are yet to benefit from stronger consumption (apart from just a few segments)

Banking sector enjoys welcome improvement, but optimism held down by problem loan growth. Retail customers withdraw funds due to lower rates, renewed spending, but corporates stash cash

BANKING SECTOR

- **Further improvement of key indices was seen in the banking sector.** Intriguingly, **corporate loan growth sped up 2pps to 13.6% y/y in H1,** rather unexpectedly for a near-zero-growth economy. It may be both a sign of recovering economic activity, and some corporates requiring extra funding, especially as CBR continues lowering its key rate (now at 14%)
- **While growth of retail loans sped up by 3.5pps to 9.4%, dynamics of constituent components were very uneven.** Mortgage loans surged 13.4%, while **consumer loans gained only 1% y/y (which was much better, though, than -4.6% in full-2025).** Coupled also with the abovementioned decrease of the share of real estate income for consumers, and increased spending, it appears that **interest in real estate investments and activities** is again rising. Indeed, sales of real estate services skyrocketed in H1 (RosStat data)!
- Divergent dynamics were also observed in client funds. **Growth of individuals' funds slowed markedly by 5.8pps to 10.4%, while that of corporate funds picked up notably, by approximately the same margin, to 13.2%.** Lower deposit rates, and rediscovered spending appetites on the back of higher real wage growth are causing customers to withdraw money from banks. Add to that resumed RUB weakening, higher tax burden on SMEs and their willingness to accept more payments in cash, plus widespread Internet coverage problems amid the Ukrainian attacks, and, altogether, **people have more and more incentives to keep at least some cash in their pockets as they go about.** On the corporate side, improved profit dynamics, consumption resurgence in some sectors, and lack of investment appetites all lead to **companies storing more of their unspent funds in banks**
- Altogether, **banking sector profit made up a strong RUB 2.4tn in H1, soaring 32.6% y/y,** and appearing on pace to beat the full-2025 reading of RUB 3.6tn. ROE climbed back up to 20.5% after sinking from 23% to 18% over last year
- **All would be quite well, if it were not for continued growth of problem loans.** The share of problem consumer loans rose 1.4pps y/y to 13.2% in Jan-May, mortgage loans – by 0.5pps to still fairly low 1.9%, corporate loans - by a modest 0.7pps to 11.7% in corporate loans (vs. 13% at 2026-start). **Growth of overdue loans stays moderate,** as corresponding indicators rose 0.5pps y/y in H1 in both consumer (now 5.8%) and corporate (3.6%) segments. **We must note, however, that CBR has been easing loan regulations, including loan loss requirements, especially in the corporate segment,** to help banks deal with and refinance struggling customers

Indicator, % y/y	2023	2024	2025	H1/2026
Loans to individuals	26.5	14.3	5.9	9.4
Loans to corporates	20.7	18.7	11.6	13.6
Individuals' funds	19.7	27.7	16.2	10.4
Corporates' funds	14.7	12.9	7.7	13.2

Money supply growth, current account surplus rebound, but external debt again perches up. FX & gold reserves decline notably as RUB depreciates and state budget deficit keeps growing

MONETARY AGGREGATES

- **Growth of key monetary indices picked up in H1,** mirroring banking sector trends. Broad-definition monetary base (incl. FX funds) surged 14.7% y/y vs. 9.7% in full-2025 and 3.2% in H1/2025, while national-definition (RUB) money supply grew 13.2% after slowing to 10.6% in 2025 vs. 19.2-19.4% in 2023-2024. Unsurprisingly by now, **cash in circulation outpaced deposits at 18.5% vs. 12.4%**

EXTERNAL SECTOR

- Following visible improvement in 2025, **external sector data was again mostly encouraging.** Supported by towering oil&gas prices, driven by the US&Israel-Iran shootout, **the current account surplus soared to USD 34.1bn in H1** vs. USD 20.4bn a year ago. Worth noting, the indicator had actually been rising, for three quarters in a row, by the time the first munitions were fired on Iran on Feb 28. Still, the trade surplus posted a more modest gain, from USD 54.2bn in H1/2025 to USD 65.4bn
- **The service deficit stayed roughly unchanged y/y at USD 21.3bn.** The income deficit declined by USD 3.5bn to USD 10.1bn. It may well be that Russia is learning to rely less on foreign intermediaries, building up its own financial and other infrastructure for cross-border transactions. That said, net errors & omissions increased again, from USD 11.2bn to USD 13.6bn. We suppose there may be serious underreporting of some operations, due to understandable reasons
- **Foreign debt declined to USD 299.1bn at end-Q1, shedding USD 25bn since spiking up in H1/2025, but then grew USD 14.2bn to USD 313.3bn at end-Q2.** Debt volume had decreased across all borrower segments before lurching up again in CBR and banks, and corporate segments. Interest in FX debt instruments has thus reemerged. **Debt levels stay low, but the trend merits following**
- Meanwhile, after surging in H1/2025 on seeming breakthroughs in Russia-US talks on Ukraine and overall bilateral relations, **accumulated FDI slid again, by USD 7.3bn, to USD 249.9bn.** The spirit of Anchorage fails to save the day, at least thus far
- Forming a worrying trend, **FX & gold reserves plunged USD 106.5bn from their peak of USD 826.8bn as of Jan 30, to USD 720.3bn as of Jul 31, before bouncing back to USD 740bn as of Aug 7.** There are likely two main reasons: CBR selling FX to curb restarted RUB depreciation (earlier, we posited that the strong RUB limits export competitiveness, and boosts the competitiveness of imports, thus we find the trend reversal rather encouraging), and authorities using FX revenues to plug the widening state budget deficit
- **RUB appreciation in real terms slowed notably, compared to around 30% in 2025,** making up 15.3% vs. USD, 9.4% vs. EUR, and 11.8% vs. CNY. The RUB/USD rate dropped to 71.02 by end-May, but soared all the way to 84.54 as of Aug 15, with similar dynamics vs. EUR. Interestingly, **RUB appreciation vs. the trade-weighted FX basket made up 17.1%, which hints at further FX diversification**

PUBLIC SECTOR

- **The state budget deficit swelled further to RUB 5.731tn (2.5% of GDP) in H1 and RUB 6.455tn (2.8% of GDP) in Jan-Jul.** The deficit hit RUB 5.645tn in 2025 after staying at RUB 3.24-3.5tn in 2022-2024. Revenues actually grew strongly on higher commodity prices and tighter tax discipline, by 8.8% y/y, but were still outpaced by expenditures (14.5%). National Welfare Fund inched down RUB 0.3tn to RUB 13.1tn. Although lower interest rates somewhat ease the debt servicing burden, it remains significant. **Inevitable war expenses, coupled with the resolve to fulfill social obligations (despite some evident cutbacks), continue to strain public finances**

Summary: consumption recovery starts fueling some segments, while not yet moving the needle in others. Inflation dynamics key to watch, affecting monetary policy and future growth prospects

- The Russian economy nowadays is truly a mixed bag (of wonders). Looking at economic growth resuming, albeit at a very low level, are we optimistic? No. There are numerous problems to deal with, and the outcome still hangs in the balance. But pessimistic we are not, either. Russia has proven incredibly resilient in the face of adversity, and **the slump it went through early this year proved to be mostly technical and weather-related. Now consumption is heating up again,** as we predicted. The country is also becoming even more adroit in combating various sanctions, as evidenced by external sector and transport data
- However, **things are far from rosy, as manufacturing, a key growth driver thus far, spurred by import substitution, has seen growth cool to near-zero, investment has fallen through the floor, as has housing construction, while recent SME tax hikes hurt profitability.** In a handful of manufacturing segments there are just a few items still posting growth. In addition, **intensification of Ukrainian attacks on refineries and other energy infrastructure, warehouses, etc., is bound to hurt corresponding and dependent sectors** down the road (not yet fully reflected in latest available H1 and even July figures)
- **Still, it is clear the situation is starting to take a turn for the better in numerous other segments.** Whether it's output declines decreasing notably, or growth speeding up to new highs, the positive momentum is obvious. In some cases driven by the consumption rebound, in others by unmet demand for investment goods (amid sanctions and restrictions) refueling import substitution, and yet in others by wartime spending. **Nominal wage growth, although slowing slightly, remains high, while real wage growth has reaccelerated** due to CPI inflation slowing. This drives up consumption and feeds into retail and wholesale trade, among other sectors. **Corporate profit growth, having declined for two years, is almost at zero again, and companies are increasing deposits in banks.** Even in segments where output growth is tepid, profit growth is picking up again
- While retail customers withdraw funds for new spending (and due to other reasons described above), **overall funds' inflow stays strong.** Loan growth is speeding up again. Altogether, this boosted banking sector profit notably in H1. **The sharp slowdown in real income growth does not concern us too much at this point,** as expenses have outpaced income this year, driving the consumption rebound. The decrease observed in the share of non-wage income is already being addressed by stepped up investments in real estate. **What does worry us is growth of problem loans.** While generally rather moderate, it just keeps on going, and must be addressed
- **Money supply growth has recovered. The external balance stays solid,** as high oil&gas and other commodity prices benefit the local economy, and external debt stays low (although, has started to rise lately). **But FX & gold reserves have decreased considerably, as CBR has switched to weakening the RUB** (mostly positive, as the strong RUB had started hurting export competitiveness) and needs to stem the depreciation, while **government authorities use export proceeds to plug the growing state budget deficit.** Budget spending continues outpacing revenues, and even though CBR keeps nudging down the key rate, the debt burden stays high
- Looking forward, **our main concern is inflation reaccelerating,** driven both by higher world commodity prices, and Ukrainian attacks. Investment goods price growth has been speeding up for almost a year, and given the constrained imports, **manufacturing equipment and related items is definitely the place to be. But rising inflation risks stopping the monetary easing cycle,** forcing CBR to again start raising the key rate. Earlier, authorities managed to cool down the overheating economy, but what will they do now, when it is just barely able to grow? Last time we described how government was tasked with rethinking and redesigning the economy. Apparently, **the deadline for making these economic policy proposals has been bumped back,** as government has more pressing things to deal with, such as forming fuel and warehouse crises. But new growth impetus will need to be found anyway. To be continued…

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