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Russian Economy Returns to Growth, but Economists Warn Rebound May Be Short-Lived

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Russia's economy returned to growth in the second quarter after contracting for the first time since 2023 at the start of the year, official data showed on Wednesday, outperforming government and Central Bank forecasts.

Gross domestic product grew 1.3% in April-June despite Ukrainian strikes on oil refineries that pushed refining volumes to their lowest level in two decades, according to state statistics agency Rosstat. GDP expanded 0.6% in the first half of the year.

The data suggest that government spending on the military and a temporary rise in oil revenues are continuing to support Russia's wartime economy. But economists said high interest rates, disruption from Ukrainian drone strikes and weakness across civilian industries made a sustained recovery unlikely.

First-half growth was half the pace recorded a year earlier and almost seven times slower than during the wartime economic boom of 2023-24.

In April, after Russia's economy contracted 0.2% in the first quarter, President Vladimir Putin publicly remanded economic officials over forecasts that had failed to materialize and demanded "concrete measures" to restore growth. He later called for growth to become "substantial" and "sustainable."

The second-quarter result was stronger than officials had expected, with the Economic Development Ministry having estimated growth at 0.9% and the Central Bank projecting 0.8%. According to Rosstat, the economy recorded its strongest quarterly growth in six quarters.

Economist Yegor Susin said growth was supported by a greater number of working days, improved external conditions and a fiscal boost.

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The war in Iran temporarily pushed Russia's oil revenues to their highest level since the start of the war in Ukraine, while federal budget spending rose 16%, with about one-third going to the military and weapons production, Susin said.

As a result, Russia's military-industrial sector has continued to expand. Civilian manufacturing, however, remained in contraction, falling 3.2% from a year earlier and 4.6% compared with 2024 levels, according to May estimates from the Center for Macroeconomic Analysis and Short-Term Forecasting.

The second-quarter rebound is unlikely to develop into a lasting trend, said Liam Peach, an economist at Capital Economics, who expects Russia to "remain in a state of stagnation" for the foreseeable future.

High interest rates and the country's fuel crisis will continue to weigh on the economy, Peach told Bloomberg.

Long-range Ukrainian drone strikes, which initially targeted oil refineries and later burned down nearly all of Wildberries' largest warehouses, are also "quite seriously undermining the Russian economy," economist Vladislav Inozemtsev said.

He forecast that inflation would rise 2-3 percentage points above previous expectations, living standards and real incomes would stop increasing, economic growth would stall and thousands of business owners would go bankrupt.

But Inozemtsev said the Kremlin's own policies posed an even greater threat to the economy, pointing to tax increases, the seizure of private businesses, increasingly onerous regulation and the possibility of another military mobilization.

"If it begins, it will be the end of the entire Russian economy," he said.

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