Russia: GDP back to pre-pandemic levels, growth to moderate in 2H21

Russian GDP recovered by 10.3% year-on-year in 2Q21, slightly above expectations and exceeding the 2Q19 level by 1.7%. With GDP back at the pre-pandemic territory, the growth rate should moderate, unless new drivers arise

Shopping mall in St. Petersburg, Russia

10.3%

GDP growth in 2Q21, % YoY

vs. -0.7% YoY in 1Q21

Better than expected

Russian GDP is back to pre-covid levels

According to the state statistics service, Russian GDP growth totalled 10.3% YoY in 2Q21, which is close to our (9.5%) and market (c.10%) expectations, slightly exceeding the preliminary government estimates of 10.1%. The growth structure will be disclosed later, but a few takeaways could be provided now.

- The double-digit growth in 2Q21 was to be expected given the low base of 2Q21, when the lockdown-hit economy lost 7.8% YoY. The numbers suggest that GDP is now 1.7% higher than in 2Q19, suggesting a return to pre-Covid levels.

- We expect consumption- and construction-focused sectors to have made a significant contribution to the jump, given the recovery seen in the latest economic activity data.
- For 2H21, we expect commodity extraction (part of industrial production) to continue supporting the economic recovery given the continued easing in the OPEC+ restrictions, but the prospects of demand for fuel and metals from Asia and other regions will largely depend on the epidemic situation, which remains unclear.
- Consumption-focused sectors should still maintain momentum in 3Q21 thanks to continued acceleration in retail lending and additional social payments for families with schoolchildren, to be dispersed before the September Parliamentary elections. Further prospects are clouded by the high inflation, tight monetary policy and stricter macro prudential stance on unsecured lending. Ultimately, the consumption growth will largely depend on the private sector's ability to generate income, which so far remains a challenge.
- The growth in construction should moderate, as the state subsidised mortgage programme is coming to a close. Infrastructure-focused manufacturing is also a question mark given the recent decision to postpone additional state investments out of the sovereign fund (we expected up to US$10bn per year starting 2021) till 2022.

Overall, given that we see the potential for credit and deposit financing of the consumption growth to be largely exhausted, and accounting for the risks of restricted mobility in 4Q21 due to mutating virus and sluggish vaccination progress, we continue to expect moderation in GDP growth in 2H21, suggesting a full-year growth target of 3.8%. Meanwhile, a potential easing in the fiscal stance (expansion of the direct budget spending plans) this year still remains an option, which could result in above-expected economic performance in the coming quarters.

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