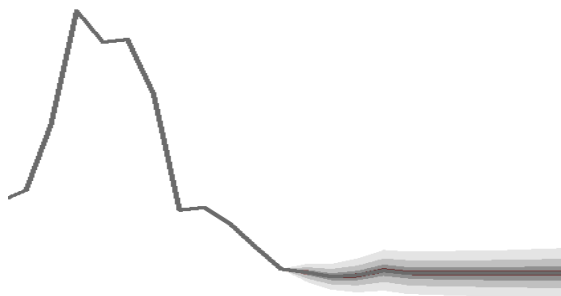


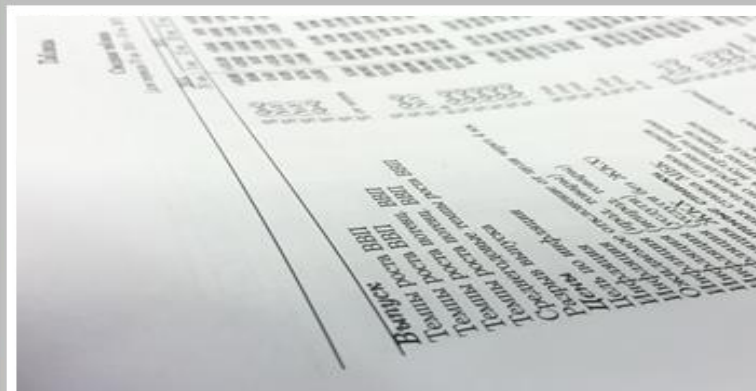


Bank of Russia

The Central Bank of the Russian Federation



4%



RUSSIAN ECONOMIC OUTLOOK AND MONETARY POLICY

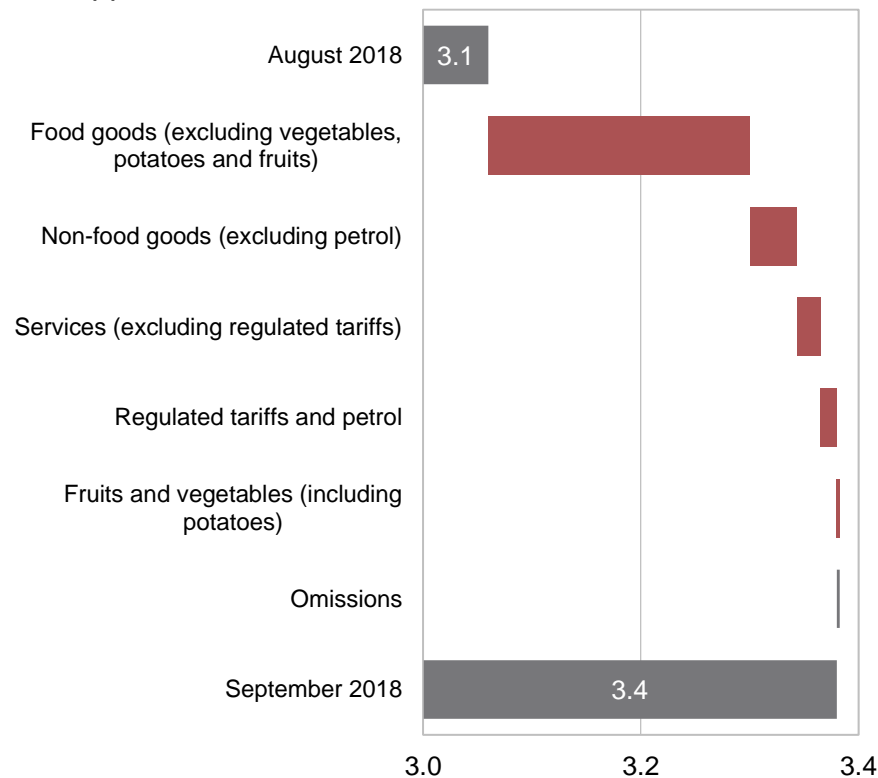
October 2018



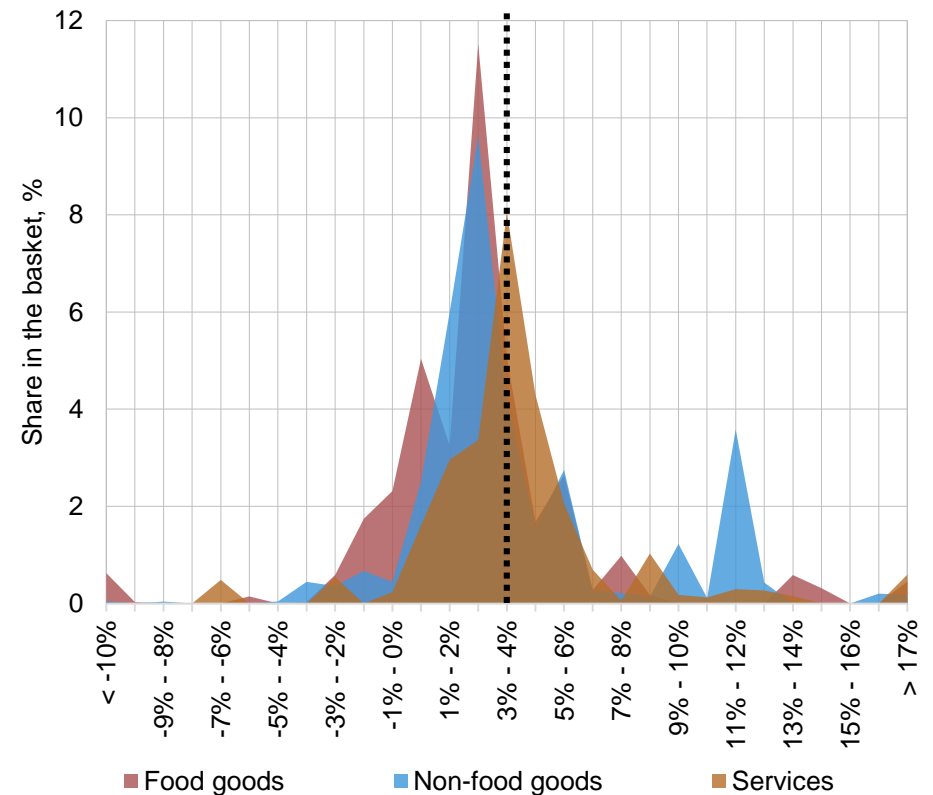
Inflation in September 2018

Annual inflation is on track to return to 4%, consistent with the Bank of Russia forecast. This September's upward movement of inflation was largely driven by annual food price growth accelerating to 2.5%.

Contributions to the change in annual inflation in September 2018, ppts



Annual CPI distribution in September 2018





Most annual inflation indicators reflecting the most sustainable price movements are growing

	Apr.17	May.17	Jun.17	Jul.17	Aug.17	Sen.17	Oct.17	Nov.17	Dec.17	Jan.18	Feb.18	Mar.18	Apr.18	May.18	Jun.18	Jul.18	Aug.18	Sep.18
Annual inflation, %																		
All goods and services	4.1	4.1	4.4	3.9	3.3	3.0	2.7	2.5	2.5	2.2	2.2	2.4	2.4	2.4	2.3	2.5	3.1	3.4
Trimmed inflation indicators: median	4.4	4.0	3.9	3.9	3.7	3.5	3.3	3.2	3.3	2.8	2.8	2.6	2.5	2.5	2.5	2.5	2.6	2.8
CPI without volatile (for 3 months) components	4.0	4.0	4.0	3.6	3.3	3.0	2.7	2.3	2.2	2.6	2.4	2.1	2.5	2.3	2.6	2.8	2.8	3.1
CPI without volatile (for 24 months) components	4.0	3.8	4.0	3.6	3.1	2.7	2.4	2.1	2.3	3.1	2.9	2.7	2.7	3.0	3.1	3.0	3.1	3.2
CPI with different weights: only volatility	4.4	4.3	4.5	4.0	3.9	3.6	3.3	3.1	3.2	2.8	2.6	2.7	2.7	2.7	3.0	2.7	2.9	2.9
CPI with different weights: volatility and persistency	4.5	4.3	4.1	3.9	3.8	3.5	3.2	2.3	2.1	1.9	1.7	1.7	1.6	1.7	1.7	2.0	2.6	3.1
CPI without «volatile» regions	4.2	4.2	4.5	4.0	3.4	3.1	2.9	2.7	2.7	2.4	2.3	2.5	2.6	2.6	2.5	2.7	3.2	3.3
Inflation without exchange rate influence (DRF)	7.2	6.9	6.6	5.7	4.7	4.0	3.6	3.3	3.2	2.8	2.4	2.2	2.0	1.6	1.2	1.4	2.2	2.7
CPI without various components																		
Core inflation	4.1	3.8	3.5	3.3	3.0	2.8	2.5	2.3	2.1	1.9	1.9	1.8	1.9	2.0	2.3	2.4	2.6	2.8
Core inflation without food goods	3.8	3.5	3.2	3.2	3.0	3.1	3.0	3.0	3.1	3.0	3.0	2.9	3.1	3.1	3.3	3.4	3.5	3.1
CPI without housing and communal services	4.0	4.0	4.3	3.8	3.1	2.8	2.5	2.3	2.3	2.0	2.0	2.2	2.2	2.2	2.1	2.4	3.0	3.3
CPI without fruits and vegetables	4.4	4.1	4.0	3.7	3.5	3.2	2.9	2.7	2.6	2.3	2.2	2.2	2.3	2.7	2.9	2.9	3.1	3.4
Monthly inflation (seasonally adjusted, annualised), %																		
All goods and services	4.1	4.4	7.3	-0.1	-0.6	0.9	2.2	1.4	2.1	1.1	1.5	3.0	4.6	4.7	5.7	2.3	6.7	4.8
Trimmed inflation indicators: median	3.1	3.2	3.8	2.3	2.5	1.9	2.3	2.4	2.3	2.4	1.7	1.4	2.9	3.2	3.7	3.3	3.7	3.6
CPI without volatile (for 3 months) components	4.2	4.2	7.9	-0.9	0.1	1.9	2.4	1.1	2.1	2.0	1.6	1.1	2.2	3.0	3.8	3.1	3.7	3.9
CPI without volatile (for 24 months) components	4.0	4.0	8.6	-1.2	-0.6	1.6	2.0	0.6	2.2	2.6	1.9	1.7	3.3	3.5	3.8	1.8	3.8	4.0
CPI with different weights: only volatility	3.0	3.1	3.6	2.2	2.8	4.4	2.2	2.1	2.6	2.1	1.7	1.4	2.7	3.6	3.8	1.6	3.8	4.1
CPI with different weights: volatility and persistency	3.1	3.2	3.2	2.4	3.2	1.5	1.9	1.7	2.0	2.1	1.5	0.7	1.9	2.6	4.1	3.9	3.7	4.3
«Core inflation» (trimming method)	2.7	2.6	2.8	1.4	2.1	1.7	1.9	1.9	2.0	2.0	1.3	1.6	2.9	3.6	4.0	2.4	4.0	3.1
«Core inflation» (without volatile components)	2.8	2.9	3.0	1.7	2.4	1.8	1.7	2.1	2.2	2.4	1.7	1.5	2.9	4.0	3.7	2.5	4.2	3.7
CPI without various components																		
Core inflation	2.0	2.1	1.7	2.0	1.4	1.5	1.5	2.0	2.6	2.1	2.1	2.3	3.1	3.3	3.8	3.6	3.3	3.1
CPI without housing and communal services	4.0	4.4	7.6	0.0	-1.5	0.8	1.9	1.0	1.9	0.6	1.1	2.8	4.6	4.6	5.7	3.6	6.9	4.8
CPI without fruits and vegetables	2.3	2.5	3.6	2.6	3.0	1.2	1.3	1.9	2.2	2.1	1.6	1.8	4.0	6.7	6.4	2.8	4.7	5.2
Inertia measures of inflation, %																		
Trend inflation (DRF)	6.7	6.5	6.5	6.2	5.9	5.8	5.6	5.5	5.5	5.2	5.0	4.9	4.9	4.9	4.9	4.8	5.0	5.1
12MMA	5.9	5.6	5.3	5.1	4.8	4.5	4.2	3.9	3.7	3.5	3.2	3.1	2.9	2.8	2.6	2.5	2.5	2.5
24MMA	9.3	8.8	8.3	7.9	7.3	6.8	6.3	5.8	5.4	5.1	4.8	4.6	4.4	4.2	4.0	3.8	3.6	3.5
Balance indicators of inflation (difference of shares of components with accelerating and decelerating inflation), %																		
Annual inflation	-41.9	-35.1	-37.6	-43.2	-42.2	-50.2	-38.8	-33.4	-30.2	-40.2	-19.8	-30.0	-1.7	14.9	24.9	4.8	9.3	27.1
Monthly (annualised)	-13.0	8.6	22.5	-8.8	-15.7	-21.5	6.1	-12.0	14.9	7.0	-26.4	-7.0	34.2	32.6	35.9	10.8	3.7	10.5

Sources: Rosstat, Bank of Russia

- lower than 4% (more than 0.3 st. dev.)
- close to 4% (±0.3 st. dev.)
- higher than 4% (more than 0.3 st. dev.)



Uncertainty persists over the subsequent movements of inflation expectations

Horizon		2016				2017				2018									
		I	II	III	IV	I	II	III	IV	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Inflation expectations (absolute numbers), %																			
Households																			
FOM	Next 12 months	14.7	14.2	14.2	12.4	11.2	10.3	9.6	8.7	8.9	8.4	8.5	7.8	8.6	9.8	9.7	9.9	10.1	9.3
FOM (Bank of Russia calculations)	Next 12 months	7.4	6.7	5.9	5.1	4.0	4.0	2.8	2.4	2.1	2.1	2.2	2.2	2.2	2.6	2.8	3.5	3.8	3.8
Professional analysts																			
Bloomberg	2018						4.0	4.0	4.0	4.0	3.8	3.6	3.6	3.7	3.8	3.8	3.7	3.9	
Interfax	2018					4.2	4.1	4.1	3.9	3.8	3.8	3.7	4.0	3.8	3.8	4.0	4.0	3.9	
Reuters	2018						4.1	4.0	4.1	3.8	3.8	3.6	3.8	3.7	3.8	3.8	3.9	3.9	
Bloomberg	2019													4.0	4.0	4.2	4.4	4.7	
Interfax	2019									3.6	3.7	3.8	4.1	4.0	4.1	4.3	4.4	4.3	
Reuters	2019												3.9	3.9	4.0	4.1	4.2	4.4	
Financial markets																			
OFZ IN (option not subtracted)	Next 5 years	6.9	6.0	5.3	5.4	4.9	4.7	4.3	4.1	4.1	4.0	3.9	4.1	4.2	4.5	4.6	5.2	5.3	
Bond market	Next quarter	12.0	6.9	7.2	6.6	5.2	4.4	4.4	3.0	-	-	2.7	-	-	2.7	-	-	2.6	
Interbank market	Next quarter	9.9	5.3	5.4	5.6	4.6	3.7	3.3	2.3	-	-	1.8	-	-	2.0	-	-	2.6	
Inflation expectations (balanced index*)																			
Households																			
FOM	след. 12 месяцев	84	78	82	80	79	80	82	78	78	75	74	76	76	79	82	82	82	77
FOM	след. месяц	72	68	70	76	68	68	73	73	69	61	62	63	63	71	69	71	70	69
Businesses																			
REB	Next 3 months	14	38	36	46	22	20	14	52	22	24	32	0	14	28	16			
Bank of Russia monitoring (SA)	Next 3 months	13.6	12.2	11.3	9.4	7.4	9.5	7.2	7.2	6.4	6.8	8.5	9.9	10.3	11.2	10.8	12.0		
Retail prices (Rosstat)	Next quarter	32	29	28	27	27	24	24	22	-	-	20	-	-	20	-	-	20	
Tariffs (Rosstat)	Next quarter	5	5	0	0	4	3	0	0	-	-	5	-	-	5	-	-	0	

Change:

- Inflation expectations become better (more than 1 standard deviation)
- Inflation expectations become better (less than 1 standard deviation)
- Inflation expectations unchanged ($\pm 0,2$ standard deviations)
- Inflation expectations become worse (less than 1 standard deviation)
- Inflation expectations become worse (more than 1 standard deviation)

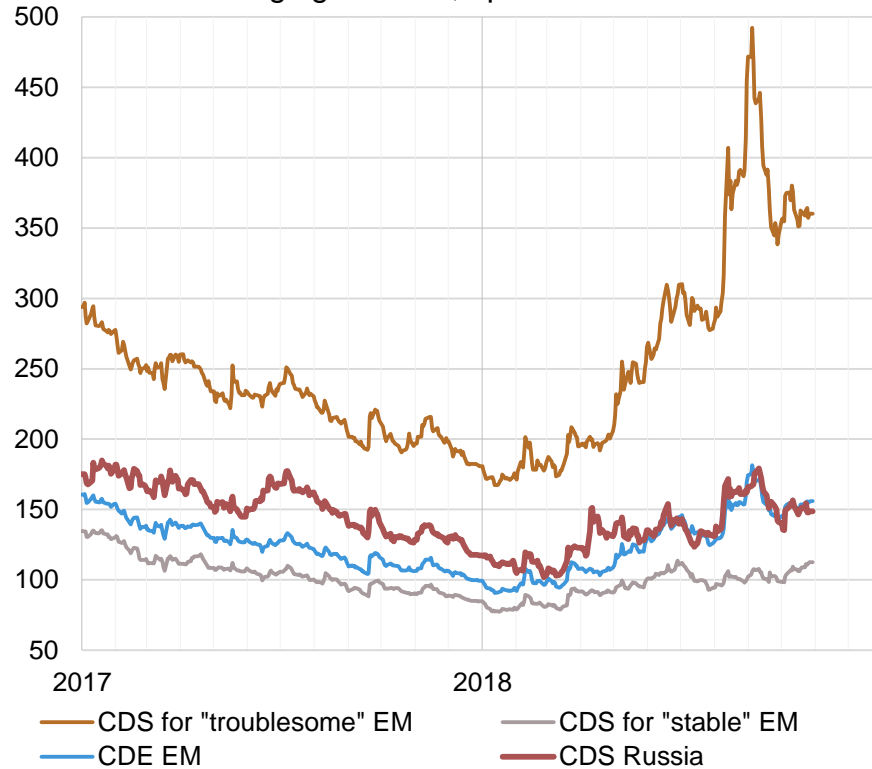
Sources: FOM, Bank of Russia etc.

*Balanced index is the difference between the shares of those who expect prices to rise and to fall



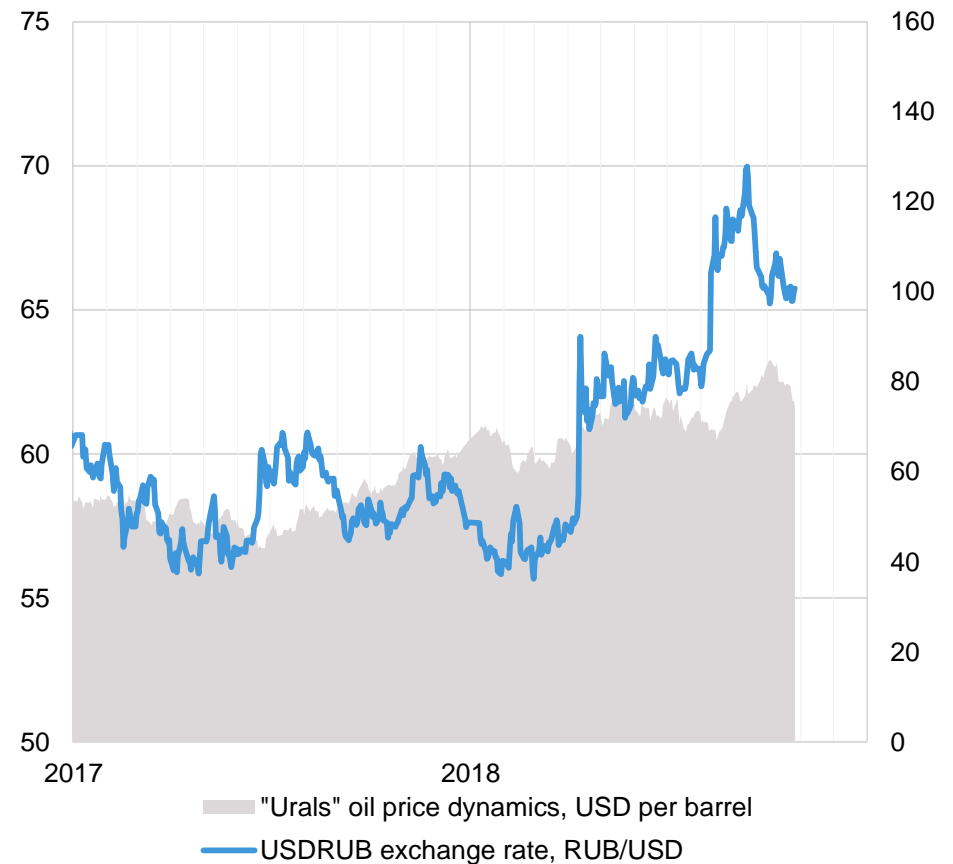
The domestic financial market saw a stabilisation in the second half of September and in October, with exchange rate volatility declining

The dynamics of sovereign risk premiums (CDS) for various* emerging markets, bp



* "Troublesome" EM: Turkey, Brazil, South Africa, Argentina
"Stable" EM: Russia, Indonesia, Mexico, China, Malaysia, South Korea, Thailand, Taiwan

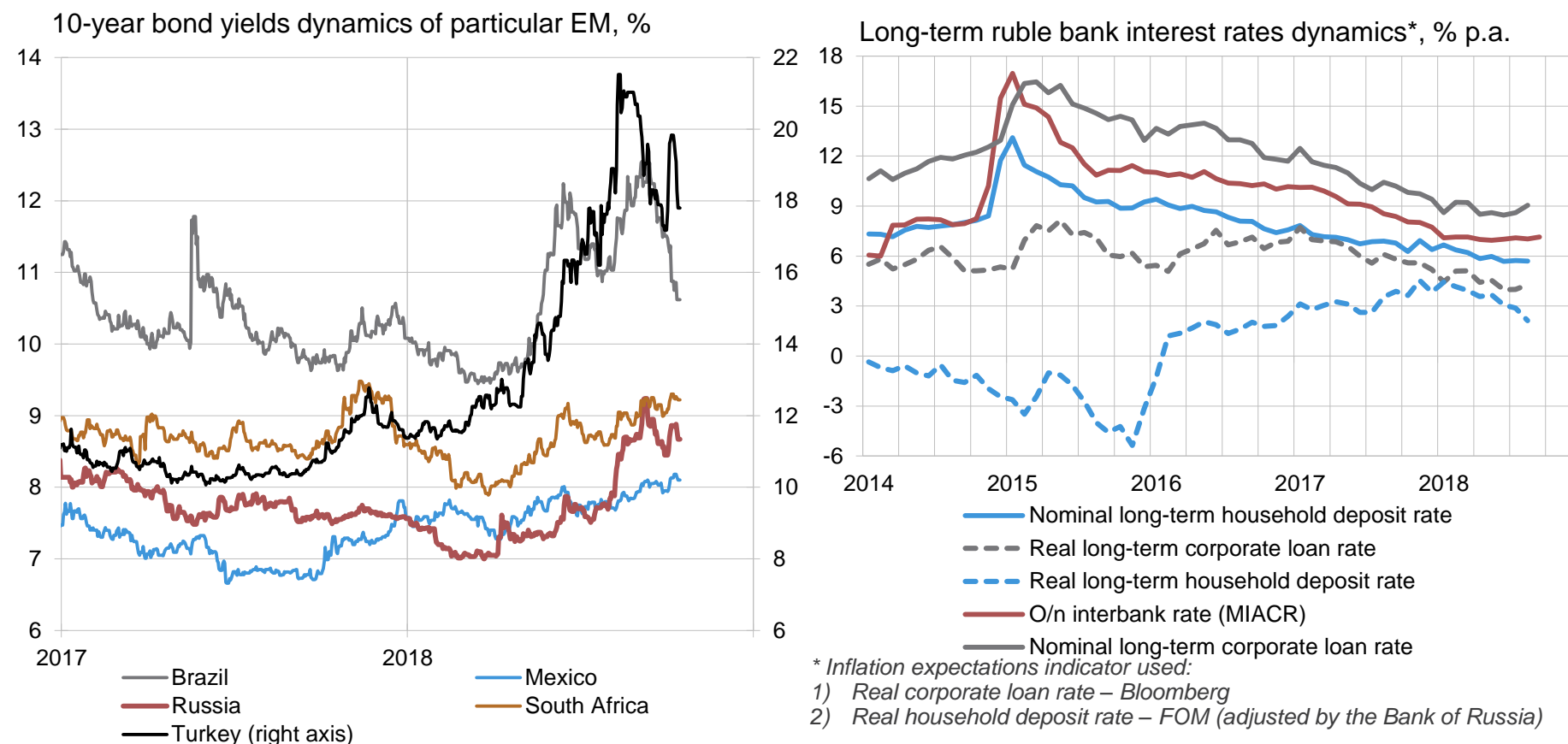
The dynamics of the Ruble exchange rate and "Urals" oil price



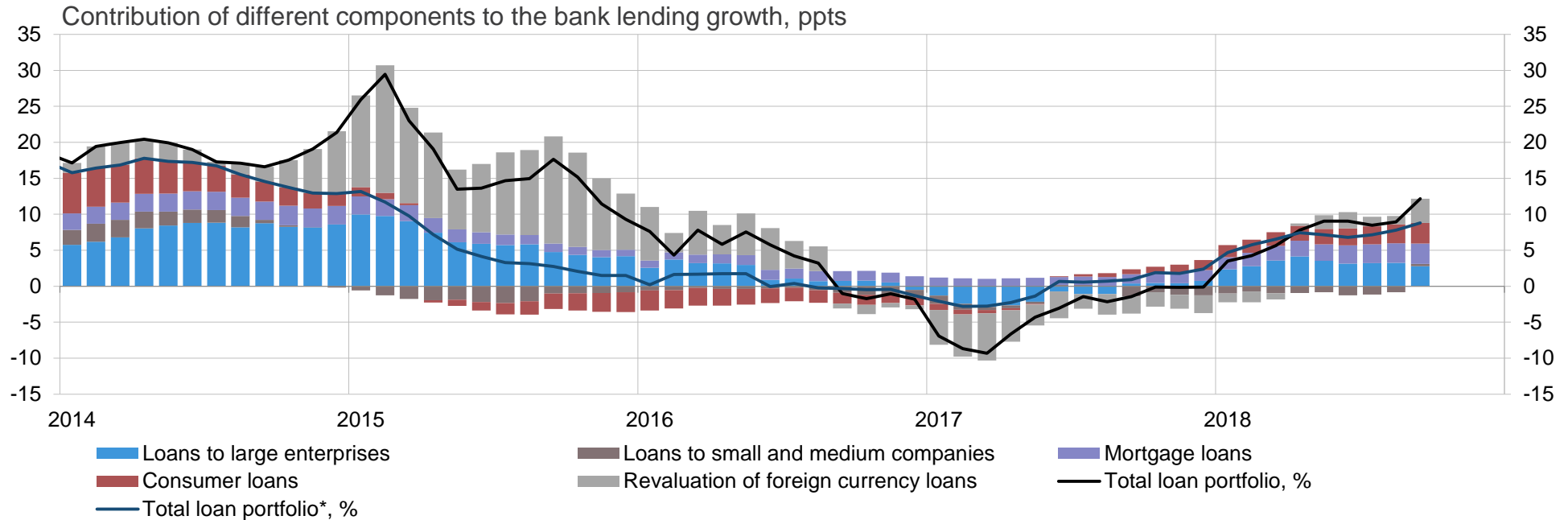


A certain tightening in monetary conditions is ongoing

In the time since the previous Board meeting, OFZ yields have moved lower but are still markedly above this year's Q1 readings. Under these conditions, a further rise in interest rates is progressing in the deposit and credit market



Retail and corporate lending continue to grow



* Excluding foreign currency revaluation

Dollarisation of loan portfolio (%)

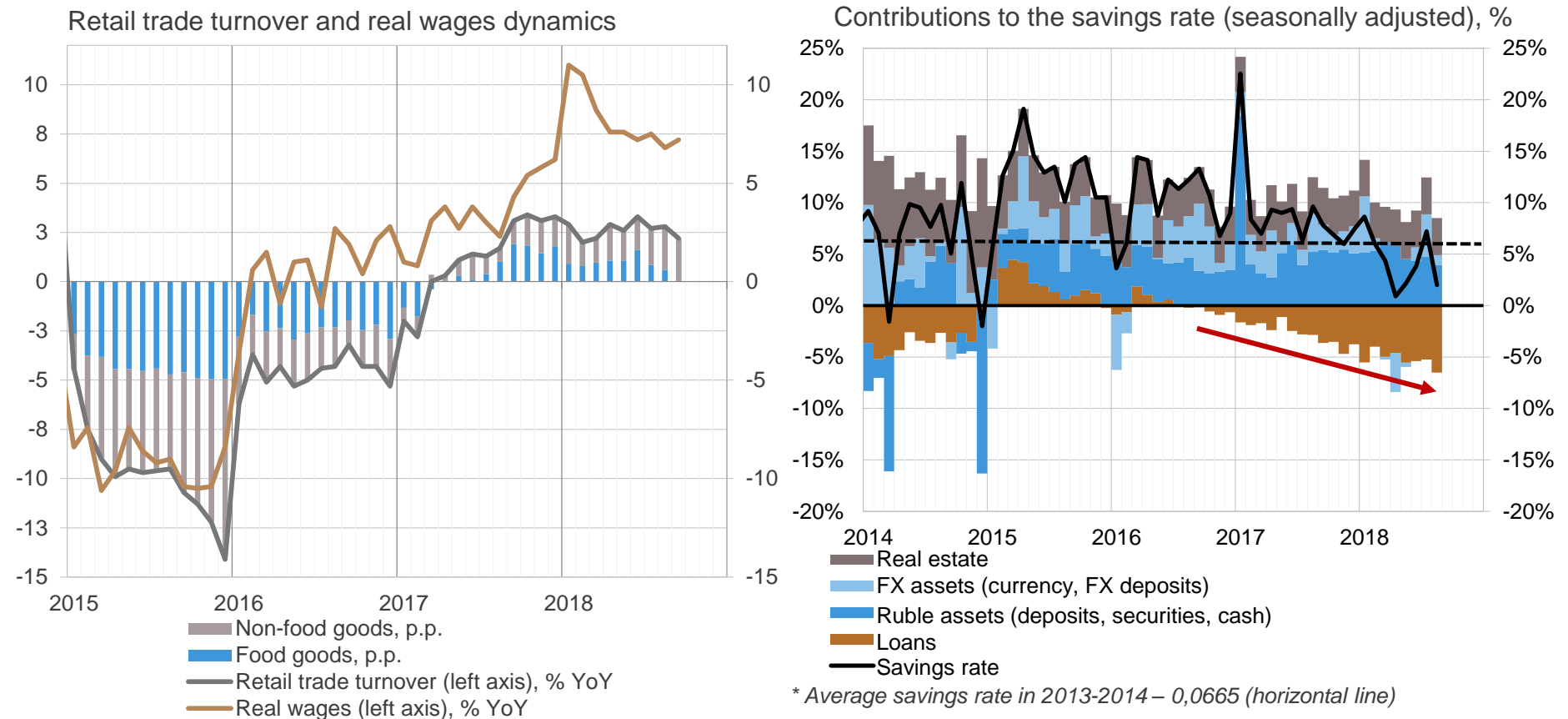
	1.06.18	1.07.18	1.08.18	1.09.18	1.10.18
Loans to non-financial organisations	28.8	28.5	28.2	29.6	29.8
Loans to households	0.8	0.7	0.7	0.7	0.7
Total	20.5	20.3	19.9	21.0	21.0

Dollarisation of deposits (%)

	1.06.18	1.07.18	1.08.18	1.09.18	1.10.18
Household deposits	20.5	20.3	20.5	21.7	21.1
Corporate deposits and current accounts	35.2	33.9	33.5	33.9	33.4
Total	28.0	27.3	27.1	28.0	27.5

Positive real interest rates will support the attractiveness of savings and balanced growth in consumption

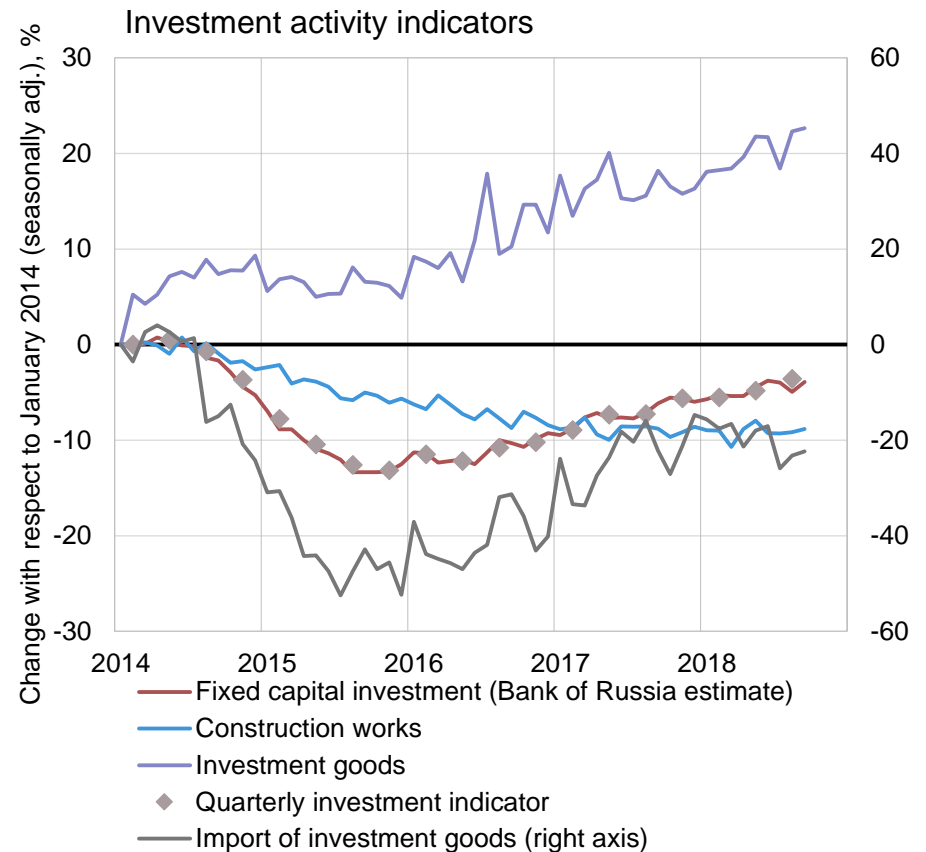
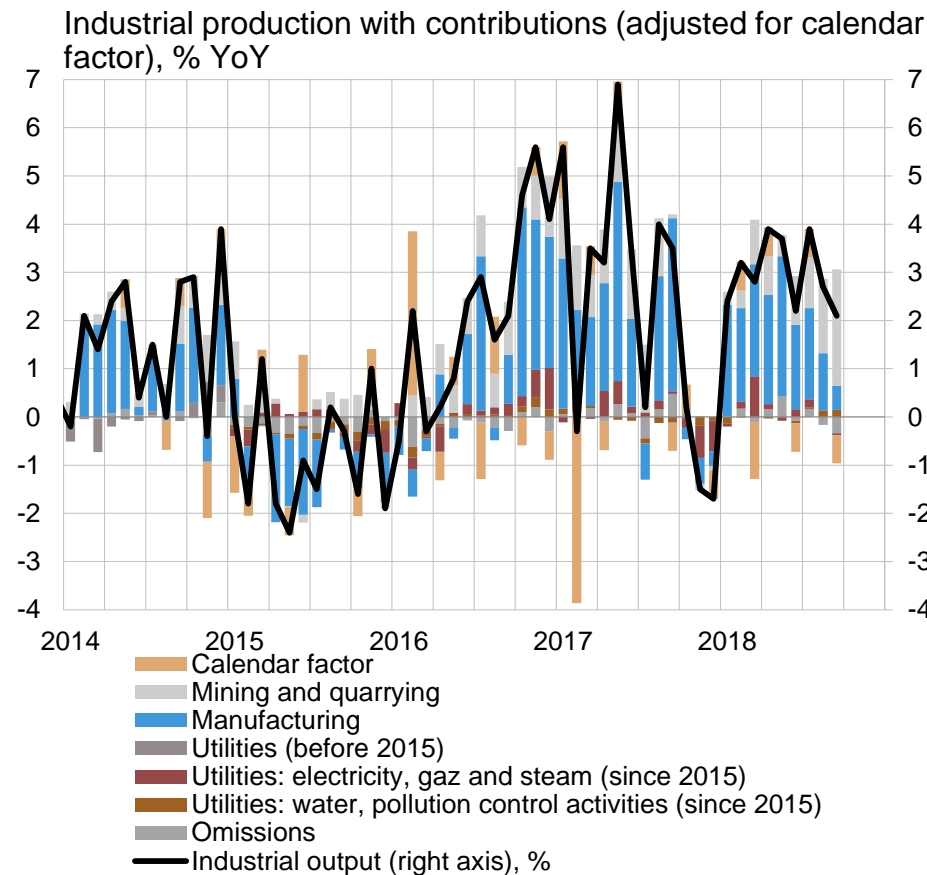
Consumer demand expanded at moderate rates, mainly on the back of non-food sales





The Russian economy is growing at rates close to its potential

This September saw a rise in industrial output; sectoral output trends remained mixed, however. Bank of Russia estimates show that investment growth was continued in the third quarter

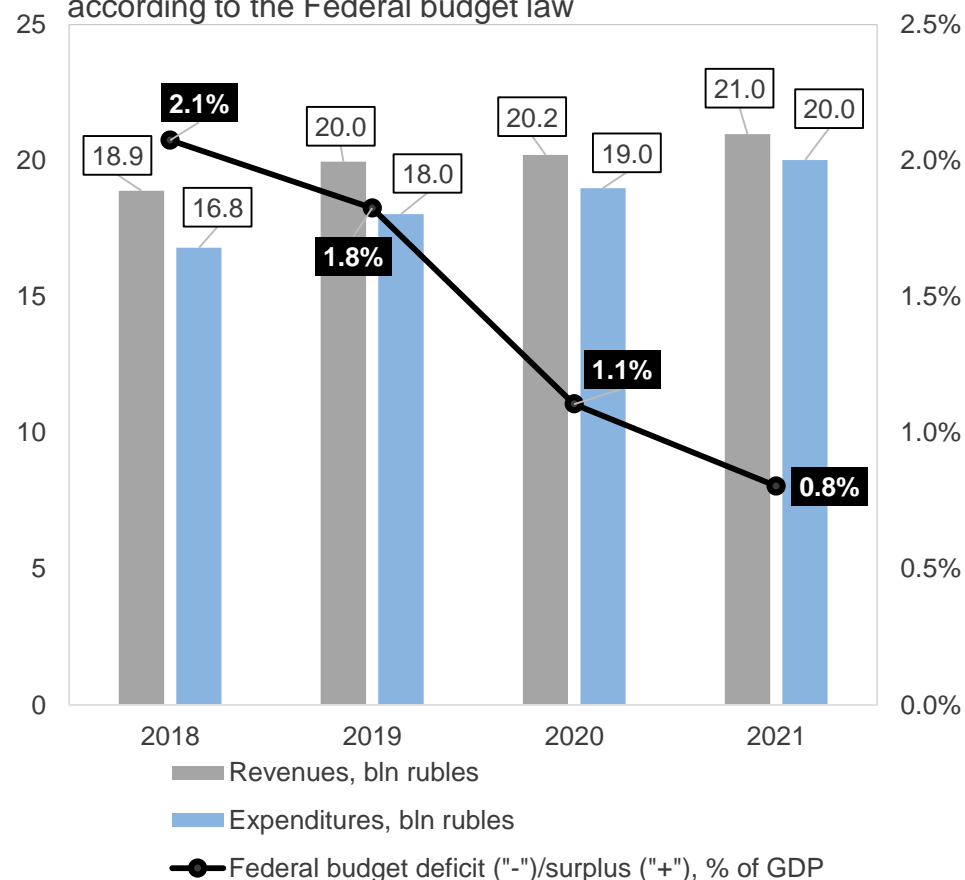


The Bank of Russia's forecast takes into account the set of fiscal and structural measures for 2024 as proposed by the Government

The set of fiscal and structural measures to be taken by 2024:

- The increase of the value-added tax rate from 18% to 20% in January 2019
- The increase of the retirement age from 2019
- Additional expenditures in the amount of 8 trln rubles on infrastructure investment and human capital
- Oil and gas tax maneuver

Key parameters of the Federal budget in 2018-2021 according to the Federal budget law





In September the Bank of Russia decided to extend the suspension of FX purchases in the domestic market under the fiscal rule until the end of 2018

The decision to resume regular foreign currency purchases in the domestic market under the fiscal rule will be based on the assessment of the actual situation in the financial markets

The decision on the foreign currency purchases in the domestic market that were postponed in 2018 will be made **separately** after regular purchases are resumed

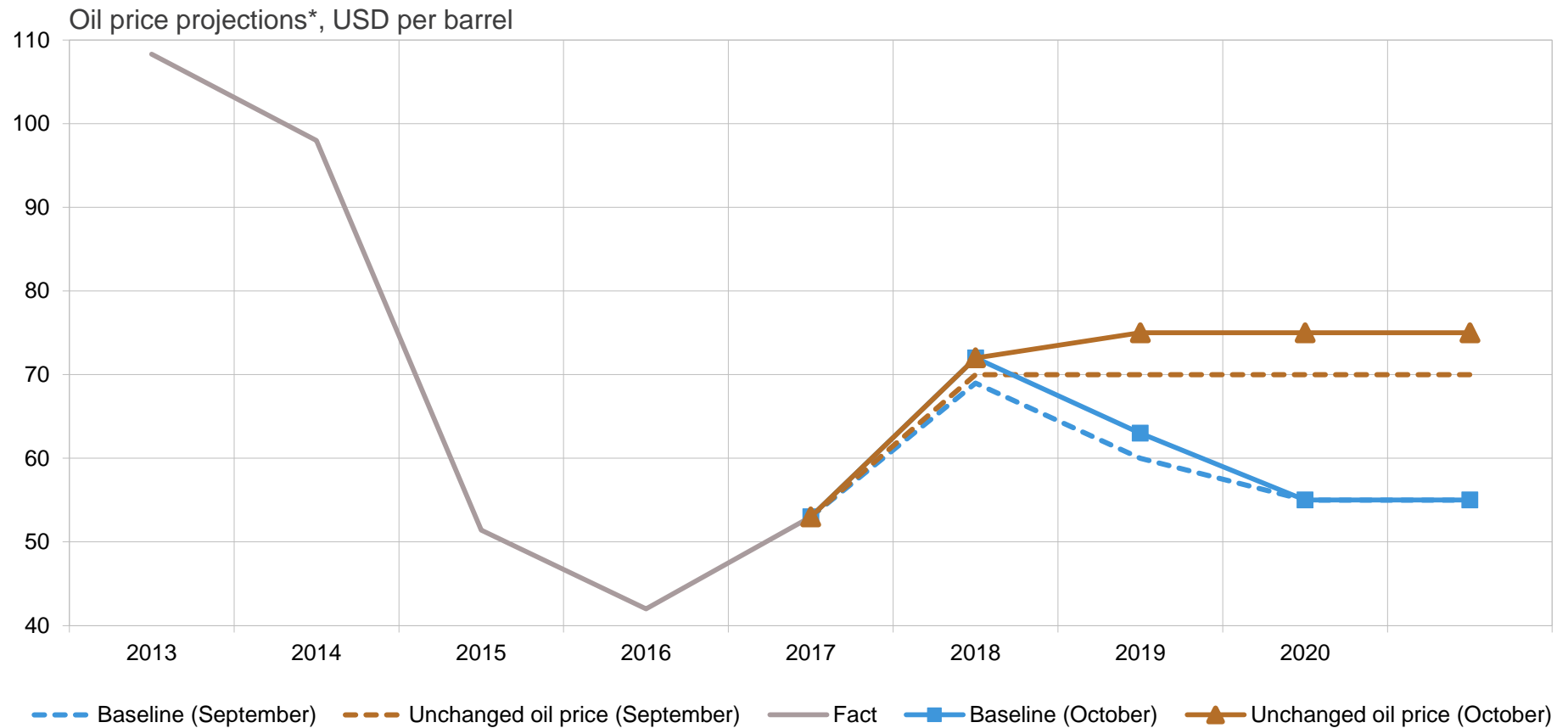
Postponed purchases will be carried out in the course of 2019 and later years

- ✓ **Lowers overall volatility in the financial markets**
- ✓ **Curtails exchange rate volatility and its influence on inflation and inflation expectations over the next few quarters**
- ✓ **Visibility on monetary authorities' actions**



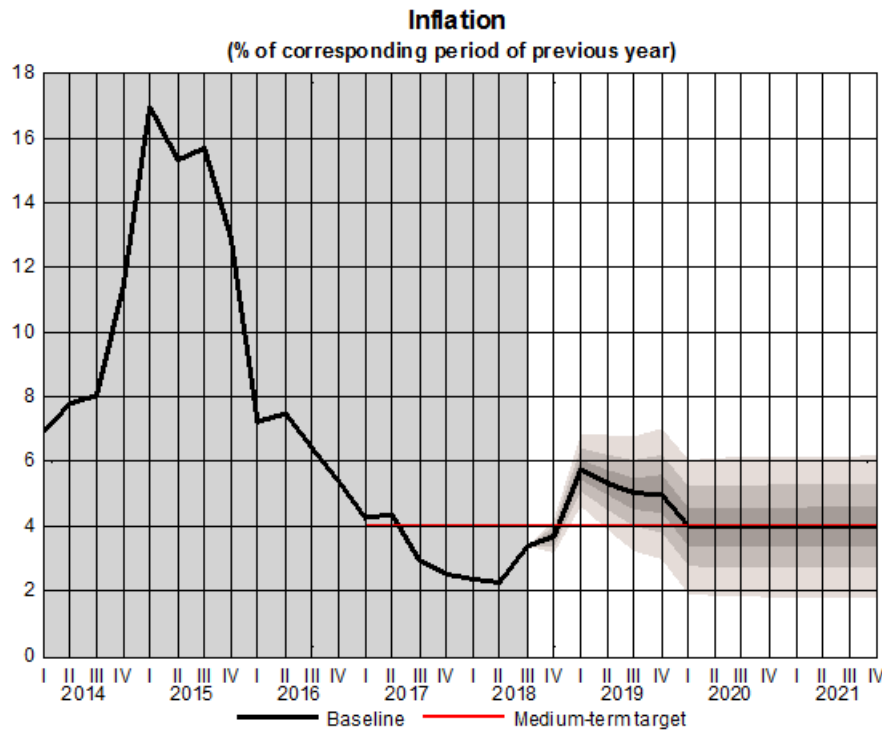
Oil price projection for 2018-2021 shifted moderately higher

The baseline trajectory now stands at \$63/bbl - \$55/bbl - \$55/bbl (from 60-50-50 in September)



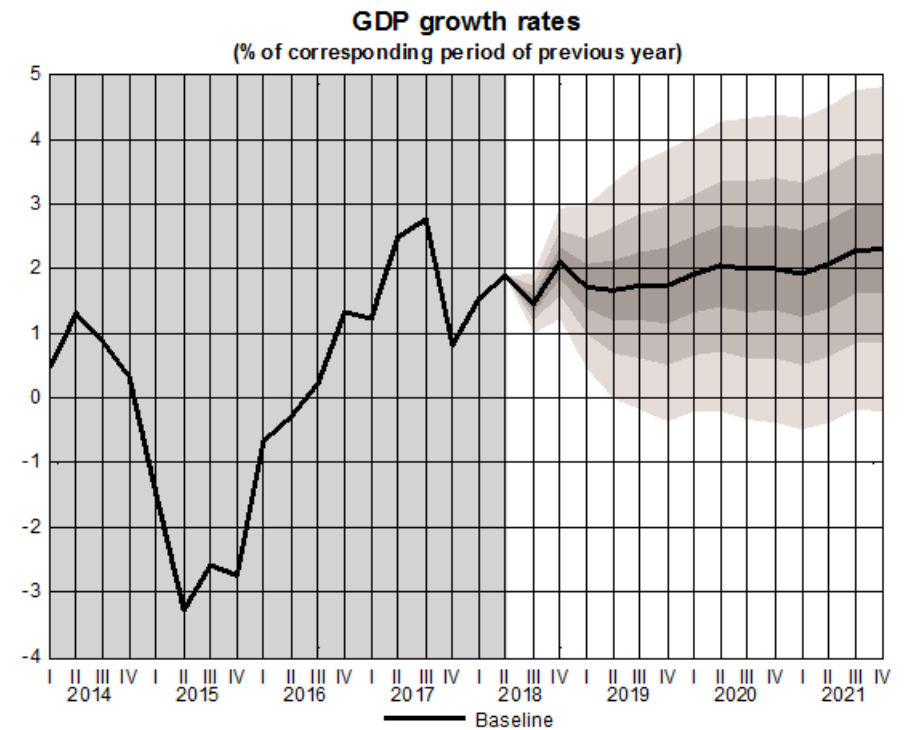
Bank of Russia's baseline scenario in October 2018

Annual inflation will slow down to 4% in the first half of 2020 when the effects of the ruble's weakening and the VAT rise peter out.



Note: shaded areas on the forecast horizon show the probability of different inflation values. Colour gradation reflects probability

Higher potential growth rates in 2020-2021 if the planned fiscal and structural measures are successfully implemented



Note: shaded areas on the forecast horizon show the probability of different inflation values. Colour gradation reflects probability



Baseline forecast: key economic indicators

<i>Increase compared to the previous period in % (unless noted otherwise)</i>	2017	2018	2019	2020	2021
	(fact)	Baseline*			
Urals price (average for year), USD per barrel	53	72	63	55	55
Inflation in December compared to previous December, %	2.5	3.8-4.2	5.0-5.5	4.0	4.0
Inflation (average for year) compared to the previous year, %	3.5	2.9-3.1	5.0-5.5	4.0	4.0
GDP**	1.8	1.5-2.0	1.2-1.7	1.8-2.3	2.0-3.0
Final consumption expenditures	2.5	2.0-2.5	1.0-1.5	1.5-2.0	2.0-2.5
- of households	3.3	2.5-3.0	1.0-1.5	1.5-2.0	2.5-3.0
Gross capital formation	9.3	(-1.5-0.5)	1.5-2.5	2.5-3.5	3.5-4.5
- gross fixed capital formation	4.9	1.5-2.0	1.8-2.3	3.0-3.5	3.5-4.5
Exports	6.0	5.5-6.0	3.2-3.7	2.7-3.2	2.3-3.2
Imports	17.4	4.0-4.5	2.5-3.0	3.5-4.0	4.5-5.0
Money supply (using the national definition)	10.5	12-15	7-11	7-12	7-12
Lending to non-financial organisations and households, in roubles and foreign currencies**	8.2	13-15	7-11	7-12	7-12
- Lending to non-financial and financial organisations, in rubles and foreign currencies	7.1	10-12	7-10	6-10	6-10
- Lending to households, in rubles and foreign currencies	12	21-24	12-17	10-15	10-15

* Published in Monetary Policy Guidelines for 2019-2021

** 2017 data – Bank of Russia estimate with Rosstat-revised industrial production data factored in

*** Banking sector's lending to the economy is defined as all the claims of the banking sector to financial and non-financial organisations as well as households in Russian or foreign currency and precious metals, including loans provided (with overdue debt counting as well), overdue interest on loans, credit institutions' investment in equity and debt securities and promissory notes, any forms of participating in the equity of financial and non-financial organisations, and any other receivables for settlements with financial and non-financial organisations and households



Baseline forecast: balance of payments

<i>USD billions</i>	2017 (estimate)	Baseline*			
		2018	2019	2020	2021
Current account	33	111	95	60	53
Trade balance	115	193	175	143	138
<i>Export</i>	354	444	423	403	416
<i>Import</i>	-238	-251	-249	-259	-277
Balance of services	-31	-31	-30	-30	-31
<i>Export</i>	58	65	65	67	69
<i>Import</i>	-89	-96	-95	-96	-100
Balance of primary and secondary income	-51	-51	-51	-53	-55
Capital account	0	0	0	0	0
Financial transactions account (reserve assets excluded)	-14	-72	-24	-14	-11
<i>Public administration and central banks</i>	13	-6	1	2	3
<i>Private sector</i>	-28	-66	-25	-15	-14
Net errors and omissions	4	0	0	0	0
Change in FX reserves (+ is for decrease, - is for growth)	-23	-38	-70	-46	-41

* Using BPM 5 methodology. Due to rounding total results may differ from the sum of respective values



Monetary policy decision as of 26 October 2018

Инфляция и инфляционные ожидания

- Prices are adjusting to the ruble exchange rate that has weakened since the beginning of the year
- Uncertainty persists over the subsequent movements of inflation expectations
- One-off factors are expected to trigger a temporary acceleration in annual inflation, which will peak in the first six months of 2019
- Annual inflation will slow down to 4% in the first half of 2020 when the effects of the ruble's weakening and the VAT rise peter out

Monetary conditions: their certain tightening is ongoing

Economic activity

- The Bank of Russia's view of the Russian economy's mid-term growth prospects has also remained mainly unchanged
- In 2019, the forthcoming VAT increase might have a slight constraining effect on business activity (mostly in the beginning of the year)
- The following years might see higher growth rates as the planned structural measures are implemented

Pro-inflationary risks remain elevated, especially over a short-term horizon

- The main risks: **(1) Continuing uncertainty over future external conditions and their impact on financial asset prices**
- Moderate risks – estimates are mostly unchanged: (2) oil price volatility, (3) wage movements, (4) possible changes in consumer behavior

Decision

The Bank of Russia keeps the key rate at 7,50% per annum

Signal

“...The Bank of Russia will consider the necessity of further increases in the key rate, taking into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets...”



Банк России

Центральный банк Российской Федерации



APPENDIX



Amid structural liquidity surplus the Bank of Russia mostly conducts deposit auctions, with Bank of Russia's bonds (OBR) being issued since August 2017

