



Bank of Russia

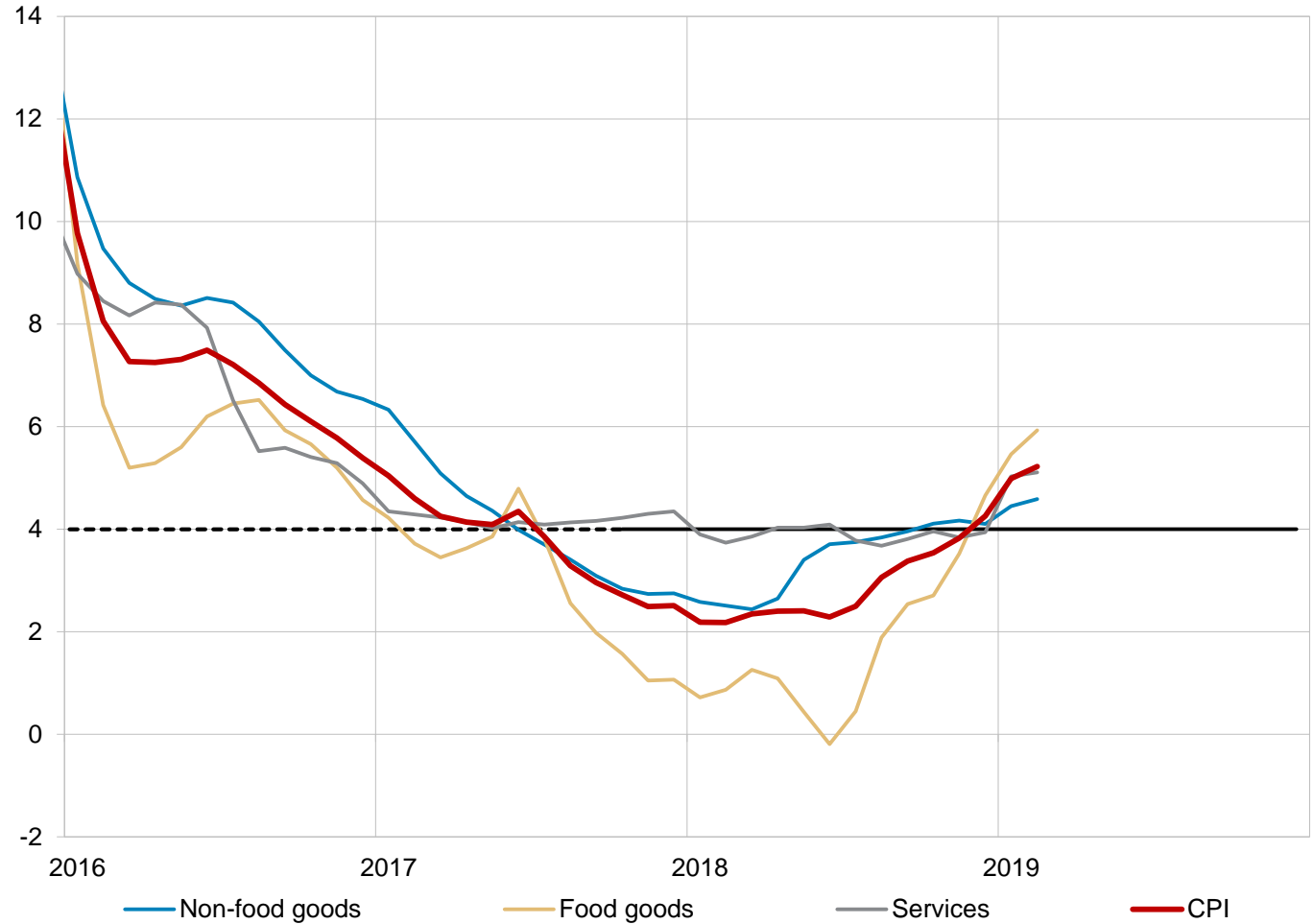
# RUSSIA'S ECONOMIC OUTLOOK AND MONETARY POLICY

MARCH 2019



# Consumer prices

Accelerated to 5,2% in February, but tracks below Bank of Russia's December forecast



## Inflation expectations – summary

Horizon		2017				2018												2019		
		I	II	III	IV	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
<b>Inflation expectations (absolute numbers), %</b>																				
<b>Households</b>																				
FOM	Next 12 months	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	9.8	10.2	10.4	10.1	9.1
FOM (observed inflation)	Prev. 12 months	14.0	12.4	11.2	10.0	9.9	9.4	9.2	8.3	9.2	10.6	10.3	10.4	10.2	10.1	10.1	10.2	10.1	10.6	10.0
FOM (Bank of Russia calculations)	Next 12 months	4.0	4.0	2.8	2.5	2.1	2.1	2.2	2.2	2.2	2.6	2.8	3.5	3.8	3.8	4.4	5.4	6.2	5.9	5.7
<b>Professional analysts</b>																				
Bloomberg	2019									4.0	4.0	4.2	4.4	4.7	4.5	4.6	4.5	4.7	4.6	
Interfax	2019					3.6	3.7	3.8	4.1	4.0	4.1	4.3	4.4	4.3	4.2	4.4	4.7	4.8	4.7	
Reuters	2019								3.9	3.9	4.0	4.3	4.5	4.5	4.5	4.7	5.0	4.8	4.8	
<b>Financial markets</b>																				
OFZ IN (option not subtracted)	2023	4.9	4.6	4.2	5.1	4.0	3.9	3.8	4.1	4.2	4.5	4.6	5.2	5.3	5.1	5.1	5.1	5.1	5.0	4.9
OFZ IN (option not subtracted)	2028									4.3	4.6	4.6	5.0	5.4	5.2	5.1	4.9	4.9	4.9	
<b>Inflation expectations (balanced index*)</b>																				
<b>Households</b>																				
FOM	Next 12 months	-0.4	-0.9	-5.5	-5.6	-5.8	-0.9	-0.9	1.4	4.2	10.6	8.4	10.4	6.2	8.9	11.5	14.5	14.3	11.5	8.5
FOM	Next month	-12.6	-13.7	-15.8	-15.3	-21.3	-16.6	-13.1	-15.6	-12.4	-6.5	-10.3	-6.4	-5.5	-5.5	-5.1	-3.5	1.4	-4.3	-5.0
<b>Businesses</b>																				
Bank of Russia monitoring	Next 3 months	7.4	9.1	7.4	7.0	6.4	6.9	8.5	9.7	10.0	10.8	11.1	12.5	13.2	14.1	16.7	18.9	13.1	12.1	
PMI input prices	Next month	7.8	9.0	12.2	10.6	9.2	11.4	12.2	27.4	27.2	28.4	21.6	22.8	24.2	23.4	22.6	22.0	35.0	26.8	
PMI output prices	Next month	1.0	3.4	6.8	3.0	2.8	2.8	4.0	13.6	6.4	6.6	8.2	6.6	5.8	7.6	7.6	5.6	20.4	14.4	
Retail prices (Rosstat)	Next quarter	27	24	24	22	-	-	20	-	-	20	-	-	20	-	-	19	-	-	
Tariffs (Rosstat)	Next quarter	4	3	0	0	-	-	5	-	-	5	-	-	0	-	-	1	-	-	

### 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)

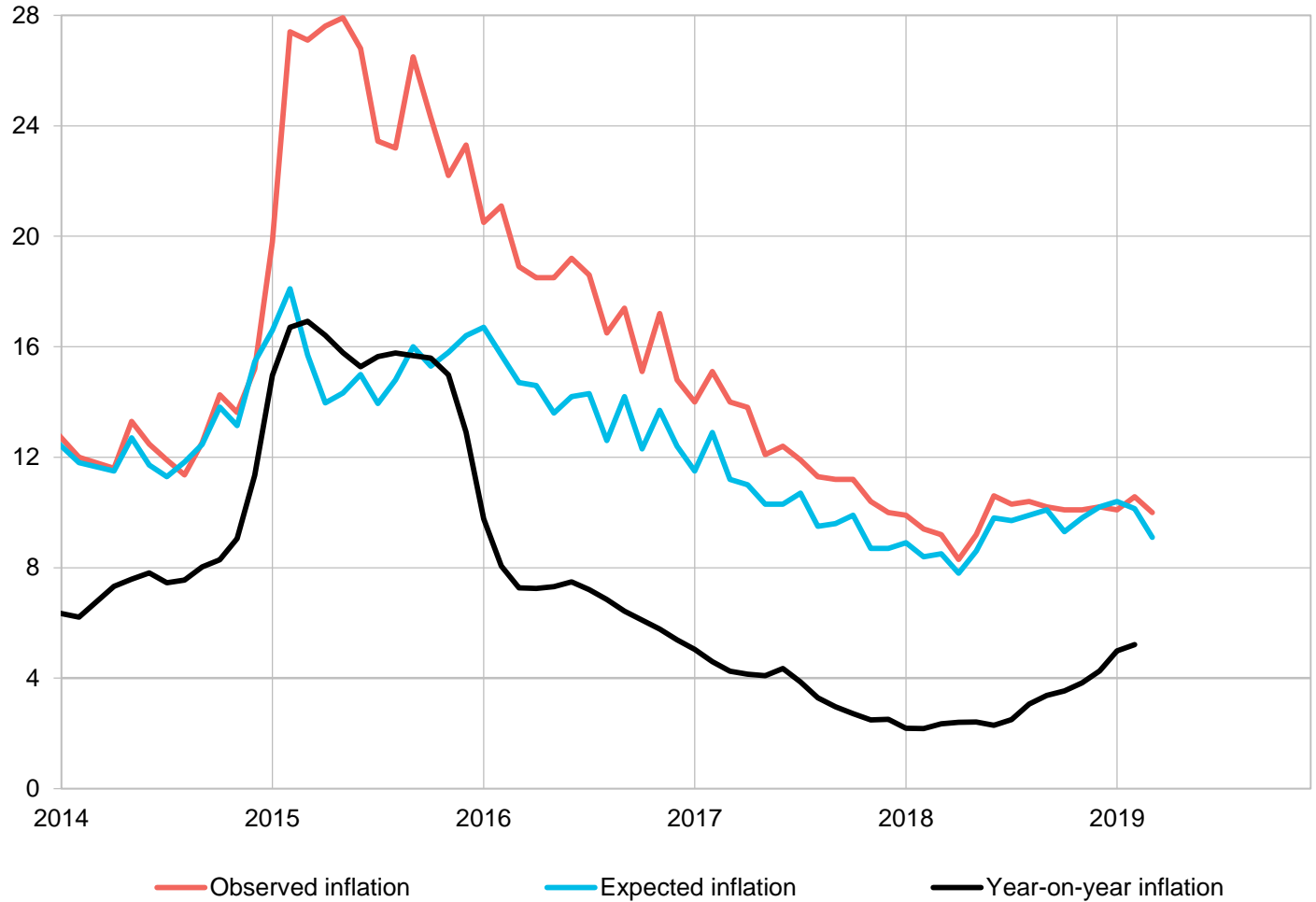
- Inflation expectations become worse (less than 1 standard deviation)

- Inflation expectations become worse (more than 1 standard deviation)

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

## Inflation expectations – households

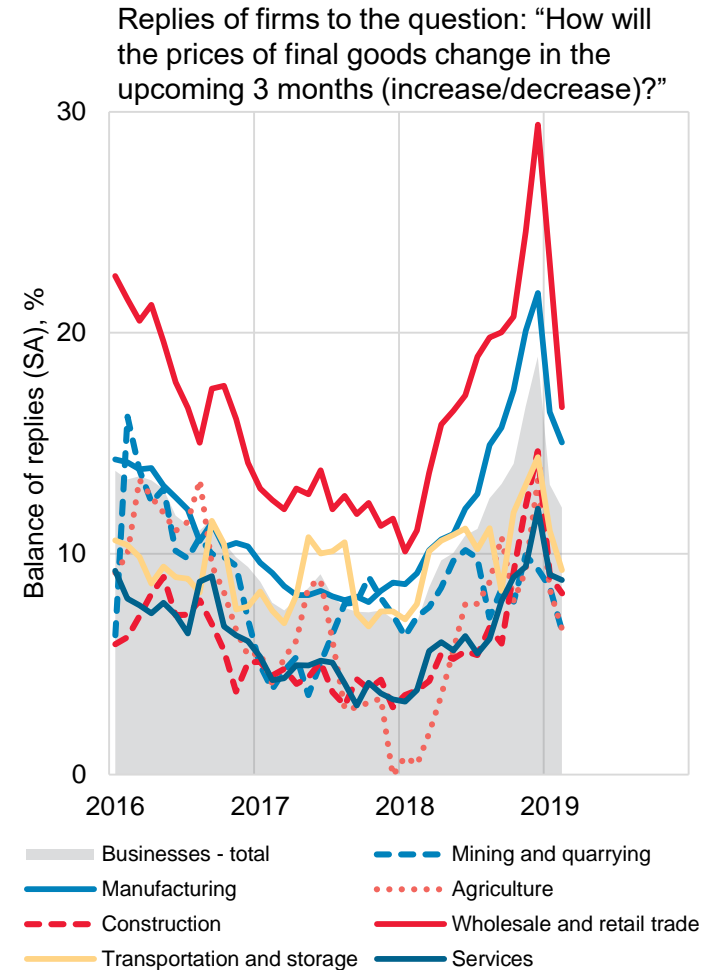
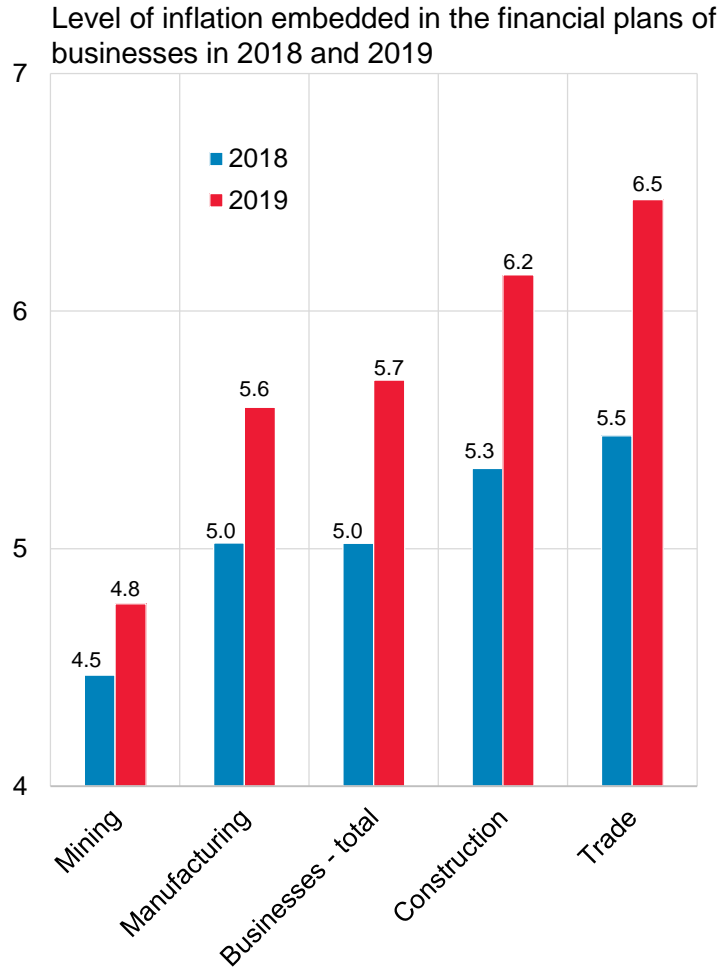
Peaked at 10,4% in January, then retraced to 9,1%, the lowest since May 2018



# Inflation expectations – businesses

Businesses expect 5,7% inflation in 2019

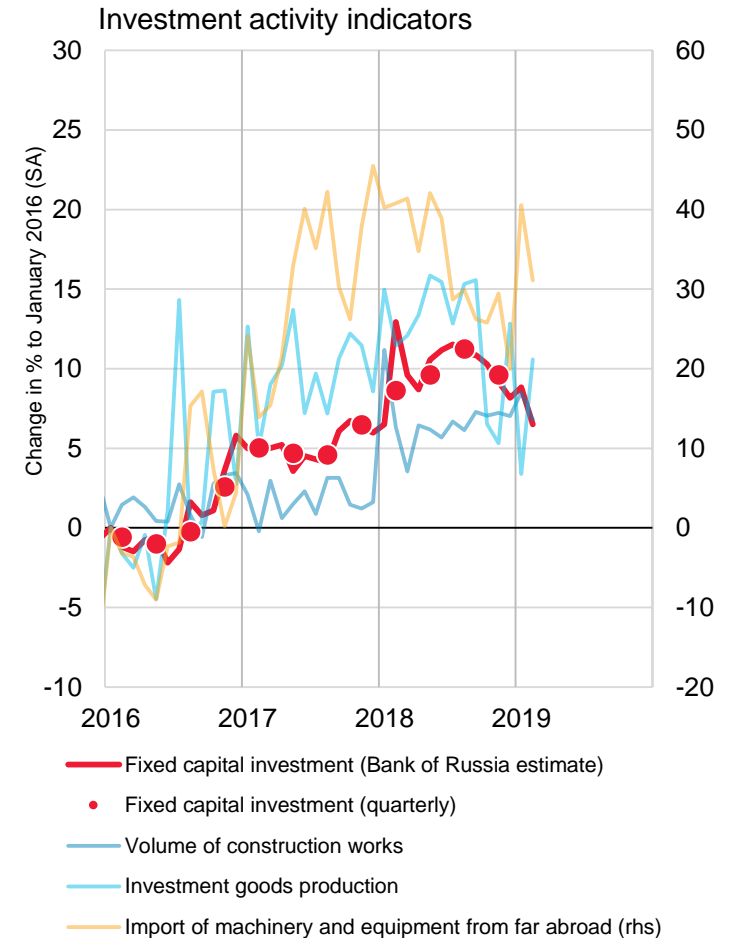
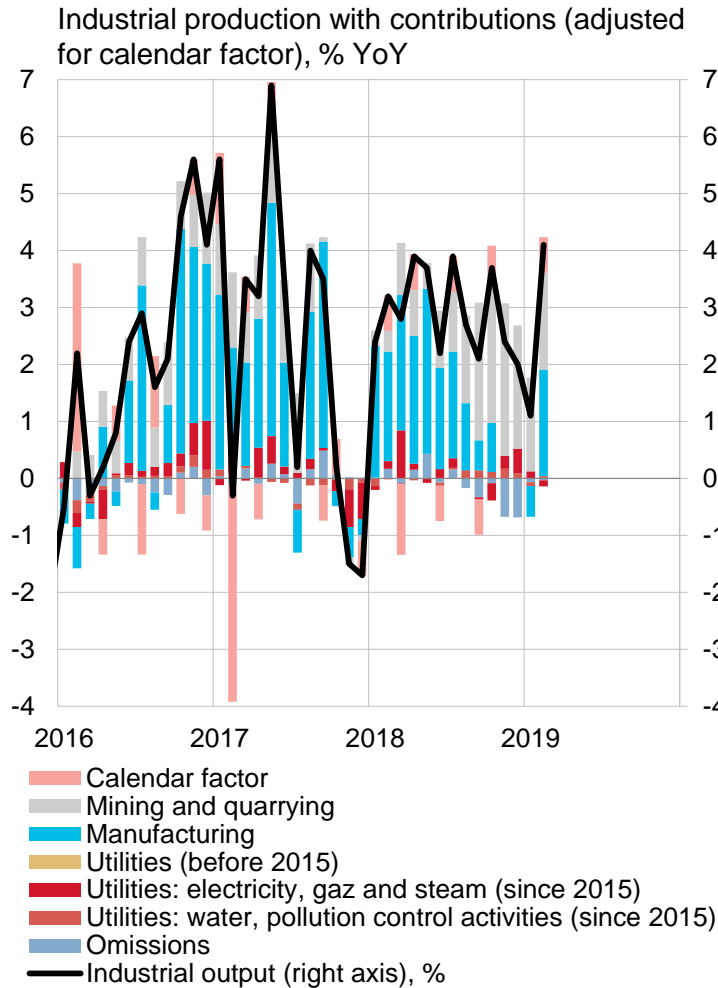
Expectation of output price increases over the next three months dropped from December peak, but remain elevated relative to 2017 marks



# Economic activity – industrial production and investment activity

In 2mo19 YoY industrial production growth was close to 4Q18.

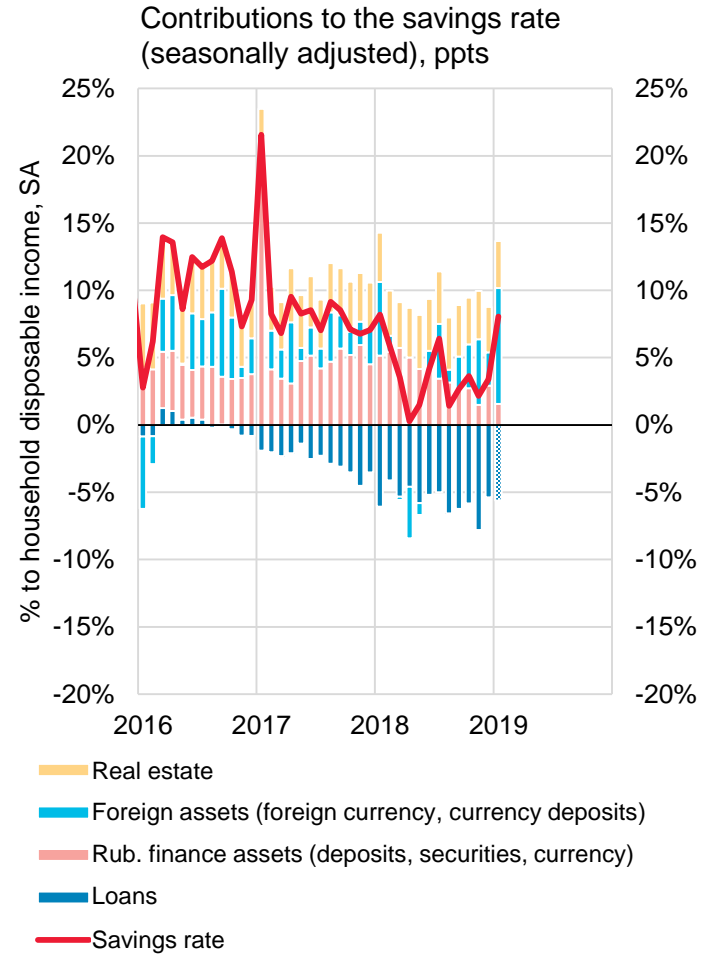
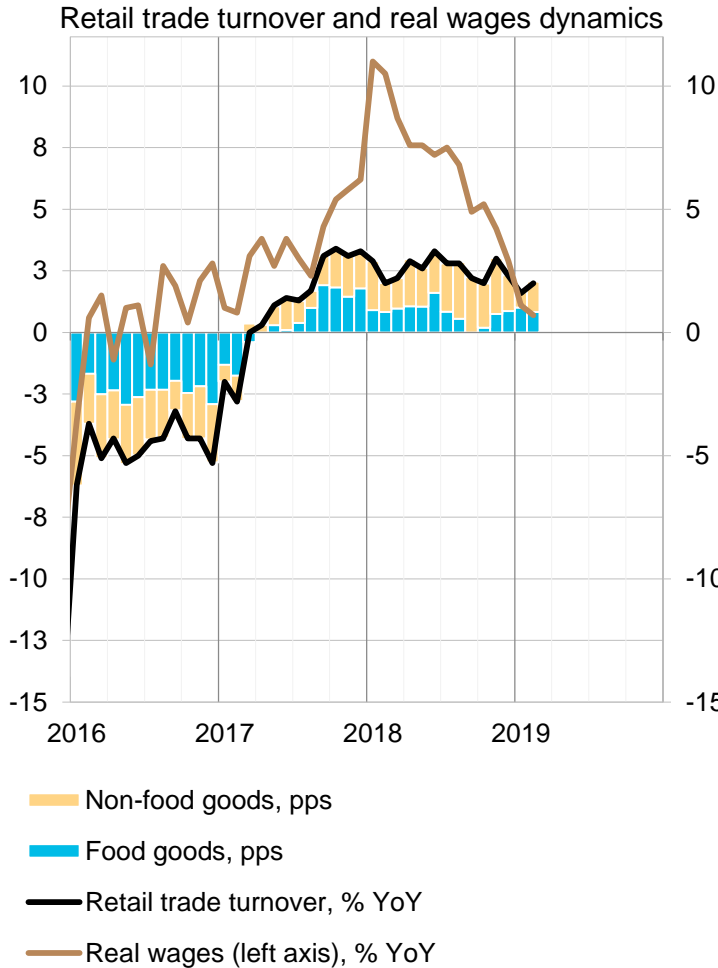
Investment activity is stabilizing after deceleration in 4Q18.



# Retail sales and savings rate

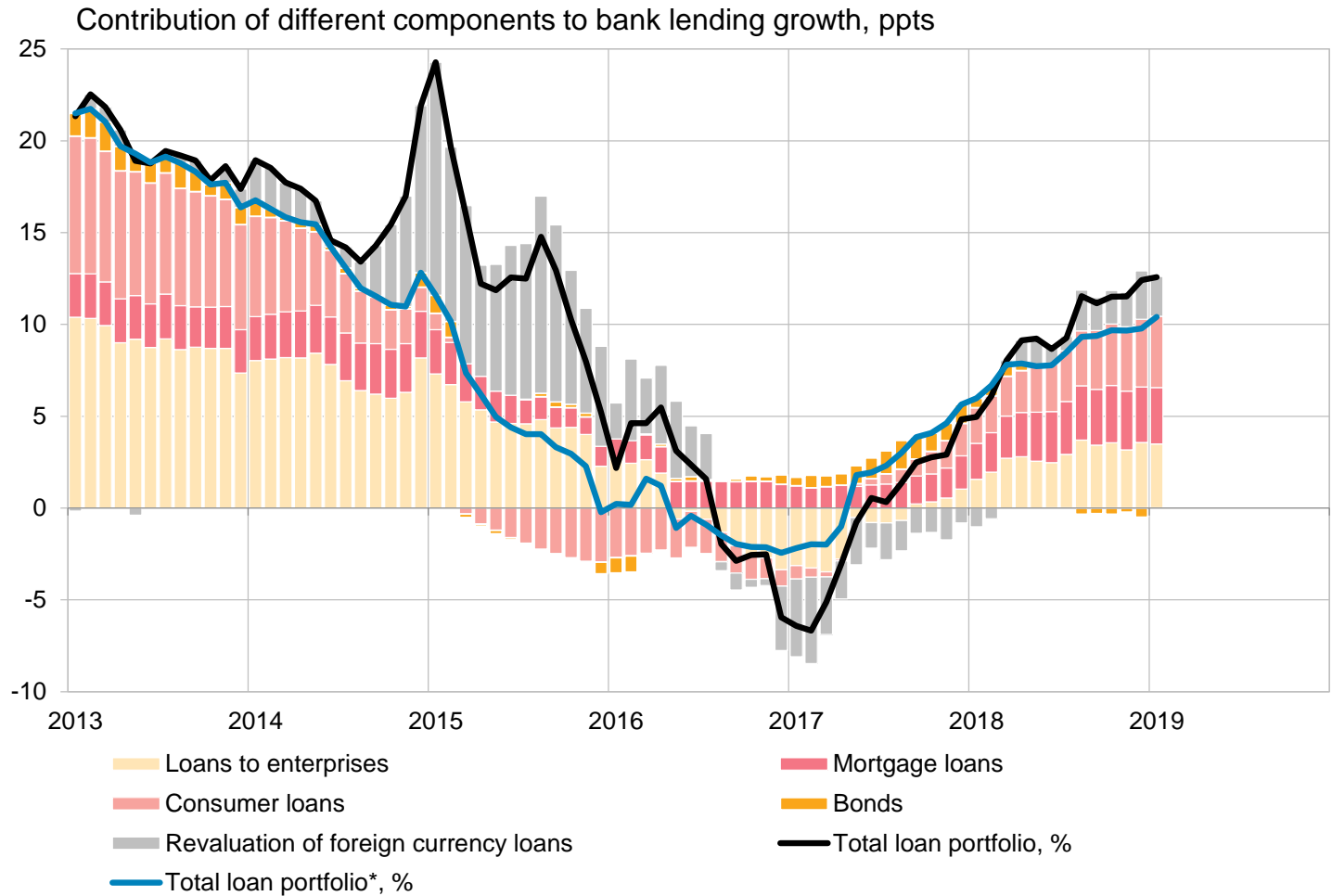
Retail sales growth moderated further at the start of 2018, tracking to slowdown of real wage growth

Savings rate increased in January due to the return of FX deposits into the banking system. Still, it remains well below levels of the previous three years



# Deposit and credit market – lending

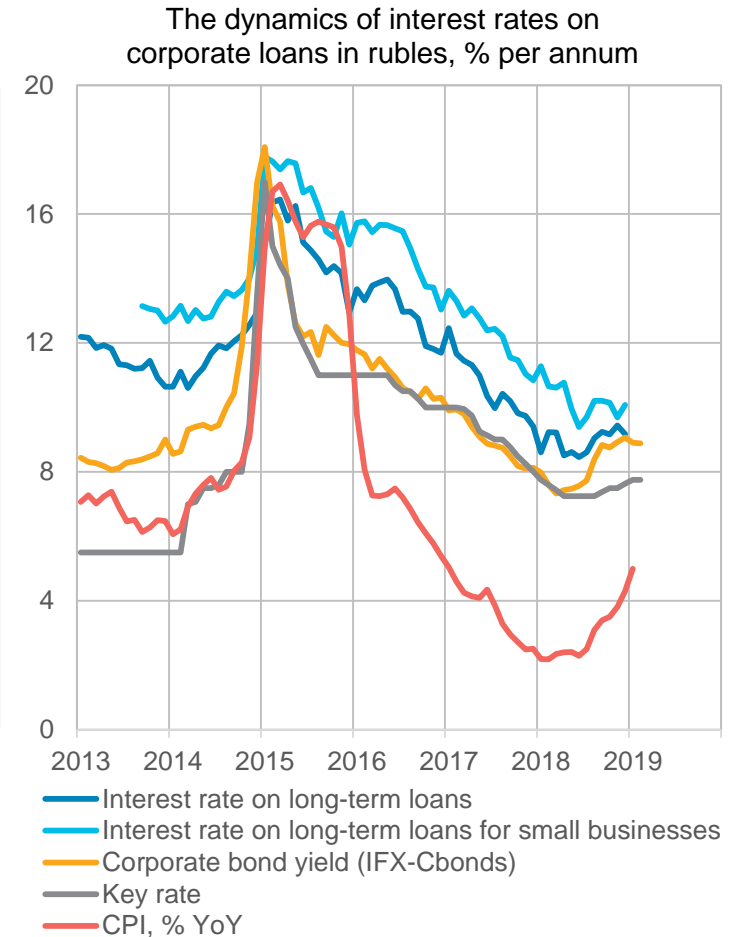
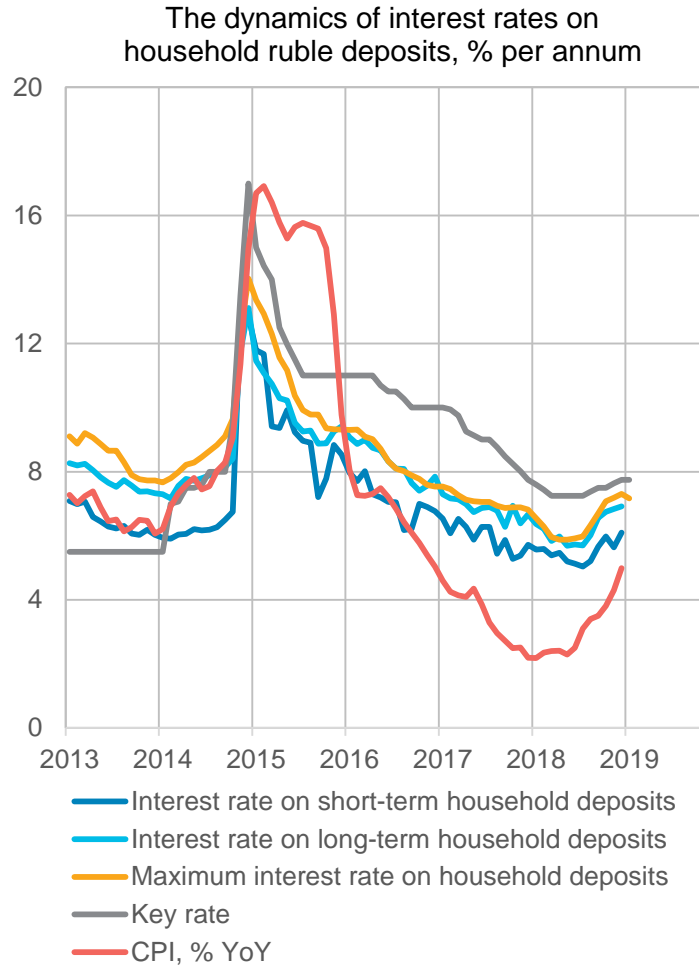
Lending to households remains the main contributor to the growth of loans





# Deposit and credit market – interest rates

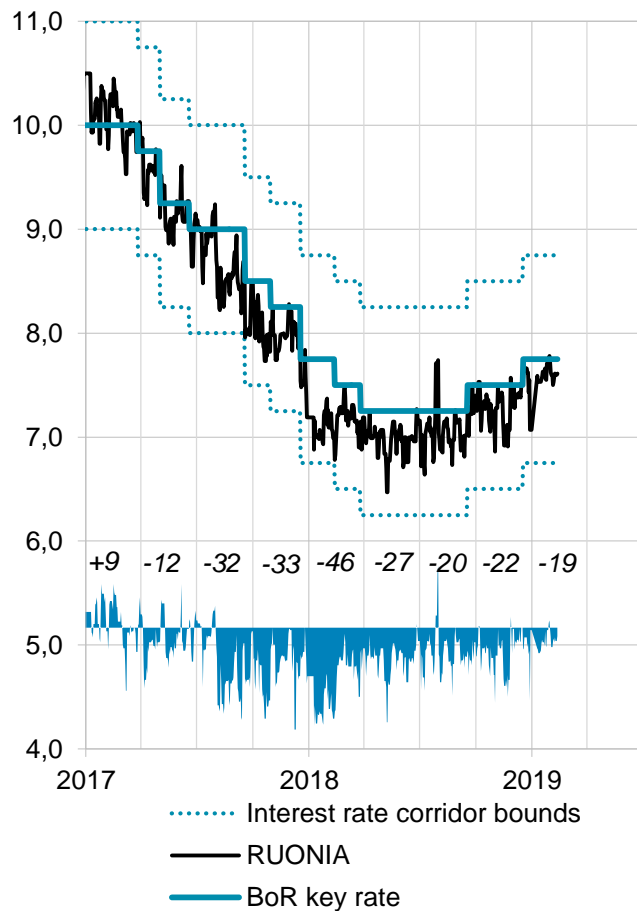
Interest rates trends were mixed in the recent months. Deposit rates slightly increased while credit rates stabilised



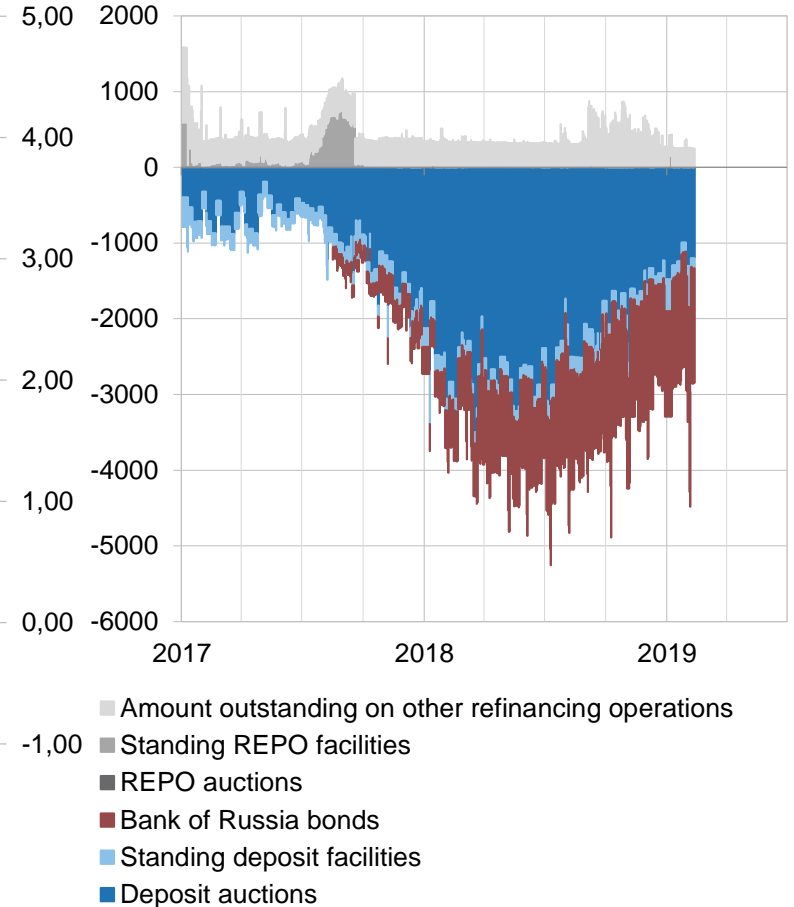
# Money market conditions

Due to the structural liquidity surplus RUONIA remains moderately below the key rate. The spread averaged -19bps YTD (4Q19: -22 bps)

The dynamics of the key rate and RUONIA, % p.a.



The structure of the Bank of Russia's liquidity management operations, bln rubles

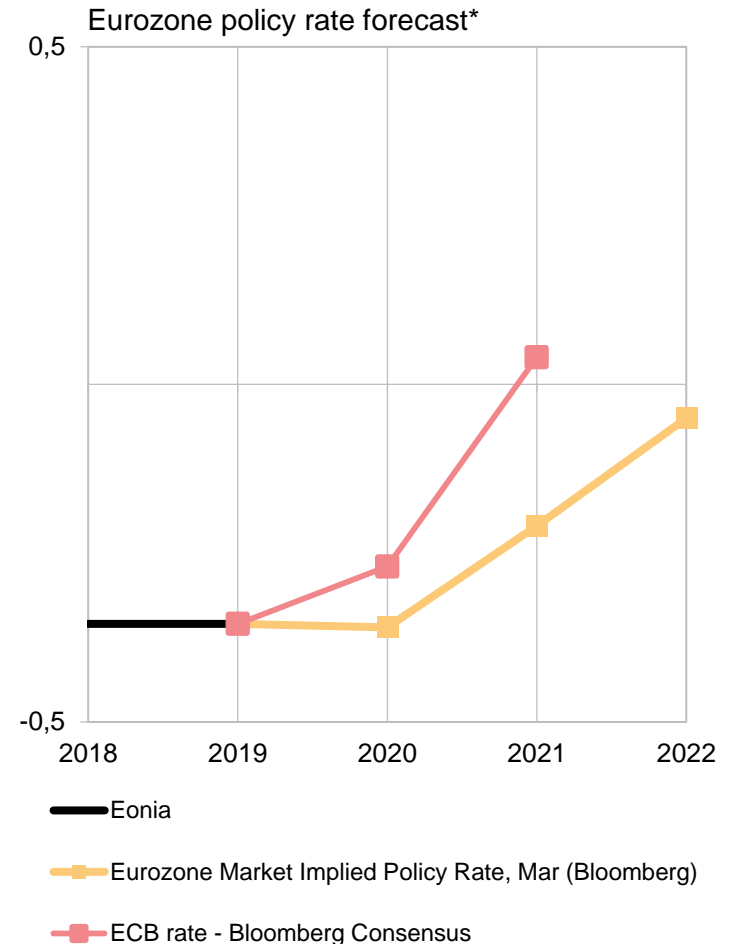
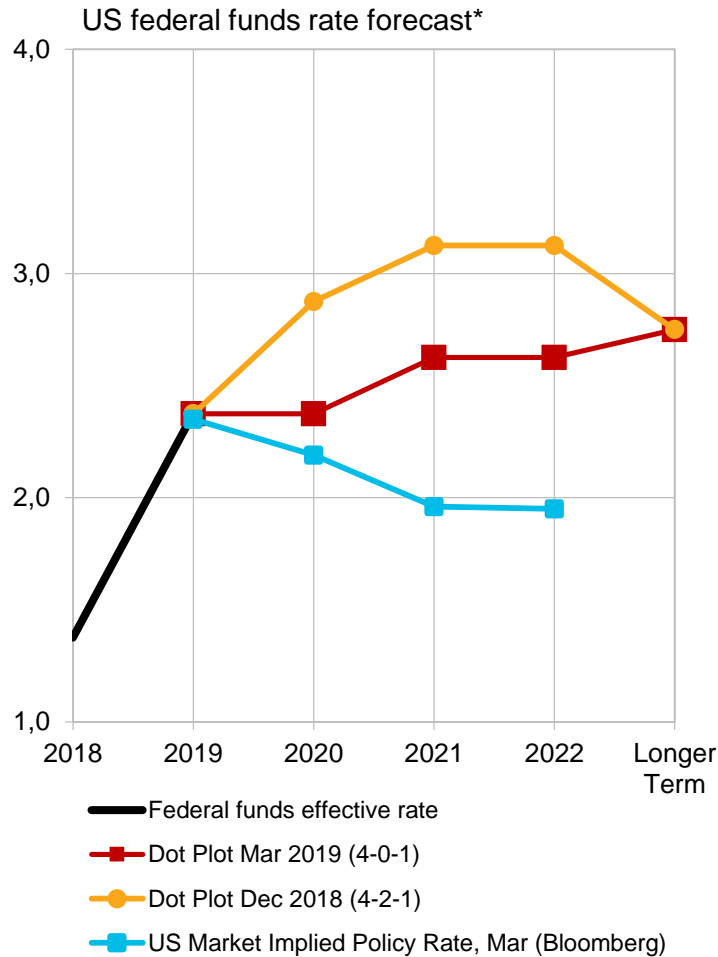


## Assumptions – Fed and ECB monetary policy

Our assumptions for the Fed and ECB policy updated to reflect the changes in their policy guidance since December

For the Fed we use the median trajectory of the FOMC dot-plot (unchanged in 2019, 1x25bps hike in 2020)

For ECB the policy rate lift-off delayed until 2020

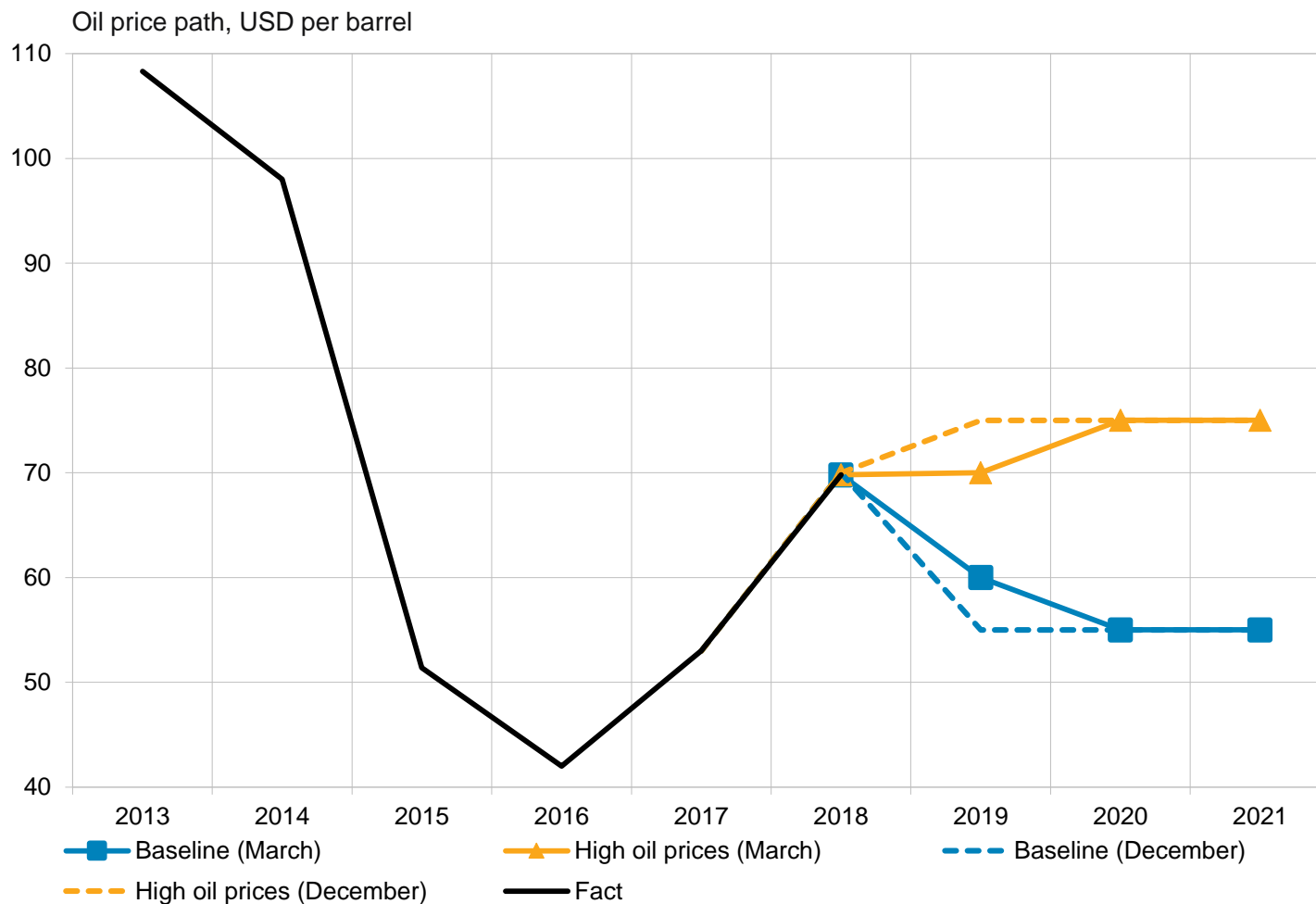


\* On the 1<sup>st</sup> of January of the corresponding year

## Assumptions – Oil price

2020-21 projections for Urals oil price unchanged at \$55/bbl for the baseline and \$75/bbl for the high oil price scenarios

2019 projections marked to the fact of 1Q19. Hence, it is increased to \$60/bbl for the baseline, and trimmed to \$70/bbl for the high oil price



## Bank of Russia forecast, March 2019 (1)

Key parameters of the Bank of Russia's forecast scenarios (growth as % of previous year, if not indicated otherwise)	2018 (actual)	BASELINE			HIGH OIL PRICES		
		2019	2020	2021	2019	2020	2021
Urals price, average for the year, US dollars per barrel	69.8	60	55	55	70	75	75
Inflation, as % in December year-on-year	4.3	4.7-5.2	4.0	4.0	4.7-5.2	4.0	4.0
Inflation, average for the year, as % year-on-year	2.9	5.1-5.4	4.0	4.0	5.1-5.4	4.0	4.0
Gross domestic product	2.3	1.2-1.7	1.8-2.3	2.0-3.0	1.2-1.7	2.0-2.5	2.0-3.0
Final consumption expenditure	1.9	1.0-1.5	1.8-2.3	2.0-2.5	1.0-1.5	2.0-2.5	2.0-2.5
– households	2.2	1.0-1.5	1.8-2.3	2.5-3.0	1.0-1.5	2.3-2.8	2.5-3.0
Gross capital formation	1.5	1.0-2.0	3.5-4.5	3.5-4.5	1.0-2.0	3.5-4.5	3.5-4.5
– gross fixed capital formation	2.3	1.0-2.0	3.5-4.5	3.5-4.5	1.0-2.0	3.5-4.5	3.5-4.5
Exports	6.3	2.5-3.0	2.7-3.2	2.7-3.2	2.5-3.0	2.7-3.2	2.7-3.2
Imports	3.8	1.0-1.5	3.8-4.2	4.5-5.0	1.0-1.5	4.0-4.5	4.5-5.0
Money supply in national definition	11.0	7-11	7-12	7-12	8-12	9-13	9-13
Lending to organisations and households in rubles and foreign currency <sup>1</sup>	11.5	7-11	7-12	7-12	8-12	7-12	7-12
– lending to non-financial and financial organisations in rubles and foreign currency, growth as % over year	8.4	7-10	6-10	6-10	8-11	6-10	6-10
– lending to households in rubles and foreign currency, growth as % over year	22.0	12-17	10-15	10-15	13-18	11-16	10-15

<sup>1</sup> 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

\* Published in Monetary policy report №1 (March 2019)

## Bank of Russia forecast, March 2019 (2)

Russia's balance of payments indicators <sup>1</sup> (billions of US dollars)	2018 (estimate)	BASELINE			HIGH OIL PRICES		
		2019	2020	2021	2019	2020	2021
<b>Current account</b>	<b>115</b>	<b>88</b>	<b>58</b>	<b>50</b>	<b>106</b>	<b>114</b>	<b>104</b>
Balance of trade	195	170	146	141	191	204	200
<i>Exports</i>	444	420	410	421	448	481	497
<i>Imports</i>	249	250	264	280	257	277	297
Balance of services	-30	-33	-37	-39	-33	-36	-41
<i>Exports</i>	65	62	63	65	66	70	73
<i>Imports</i>	95	95	100	104	99	106	114
Balance of primary and secondary income	-49	-49	-51	-52	-52	-54	-55
<b>Current and capital account balance</b>	<b>115</b>	<b>88</b>	<b>58</b>	<b>50</b>	<b>106</b>	<b>114</b>	<b>104</b>
<b>Financial account (excluding reserve assets)</b>	<b>83</b>	<b>29</b>	<b>13</b>	<b>9</b>	<b>31</b>	<b>31</b>	<b>25</b>
Government and the central bank	7	-6	-4	-4	-6	-6	-7
Private sector	76	35	17	13	37	37	32
<b>Net errors and omissions</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>38</b>	<b>59</b>	<b>45</b>	<b>41</b>	<b>75</b>	<b>83</b>	<b>79</b>

<sup>1</sup> Using the methodology of the 6th edition of "Balance of Payments and International Investment Position Manual" (BPM6). In the Financial account "+" stands for net lending, "-" – for net borrowing. Due to rounding total results may differ from the sum of respective values.

Published in Monetary policy report №1 (March 2019)

# Monetary policy decision on 22 March 2019

## Inflation and inflation expectations

- Since the start of 2019, annual inflation tracked below the Bank of Russia's December forecast
- The contribution of the VAT increase to annual consumer price growth has been moderate
- Yet, the effect of the VAT increase on inflation can be fully assessed only in 2Q19
- Rouble's appreciation since the start of 2019 also contained price increases
- Inflation expectations of households peaked at 10.4% in January and declined to 9.1% in March
- Price expectations of businesses declined substantially from peak readings
- Both households and businesses inflation expectations remain elevated
- The Bank of Russia forecasts 2019 inflation at 4.7-5.2%, a downward revision from 5.0-5.5%
- Annual inflation will revert to 4% in 1H2020 and remain at the BoR target henceforth

## Monetary conditions

- No significant changes since the last Board meeting
- Decline of OFZ yields shall cap further increases to deposit and lending rates

## Economic activity

- Slowdown of annual growth rates in the first two months of 2019
- Consumer spending trimmed by VAT increase and further deceleration of real wage growth
- Investment activity stabilizes at 4Q18 levels, but indicators mixed so far
- The Bank of Russia maintains its 2019 GDP growth forecast in the range of 1.2-1.7%
- Subsequent years might see acceleration of growth rates as the implementation of national projects progresses

## Short-term proinflationary risks have abated

- **The main risks:** (1) elevated and unanchored inflation expectations, (2) the deferred effects of the VAT increase, (3) slowdown in global economic growth, (4) geopolitical risks, (5) high risks of supply exceeding demand in the oil market in 2019
- **Moderate risks** – estimates are mostly unchanged: (6) wage movements, (7) possible changes in consumer behavior, (8) budget expenditures

## Decision

The Bank of Russia  
**keeps the key rate**  
at 7.75% p.a.

## Signal

*“In its key rate decision-making, the Bank of Russia will take into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets. If the situation develops in line with the baseline forecast, the Bank of Russia admits the possibility of turning to cutting the key rate in 2019.”*