



Bank of Russia

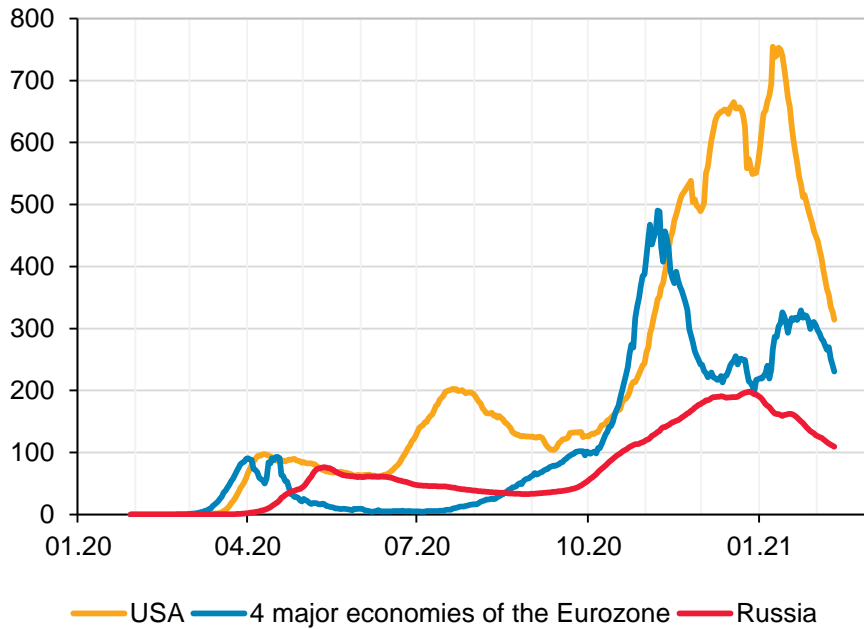
RUSSIA'S ECONOMIC
OUTLOOK AND MONETARY
POLICY

FEBRUARY 2021

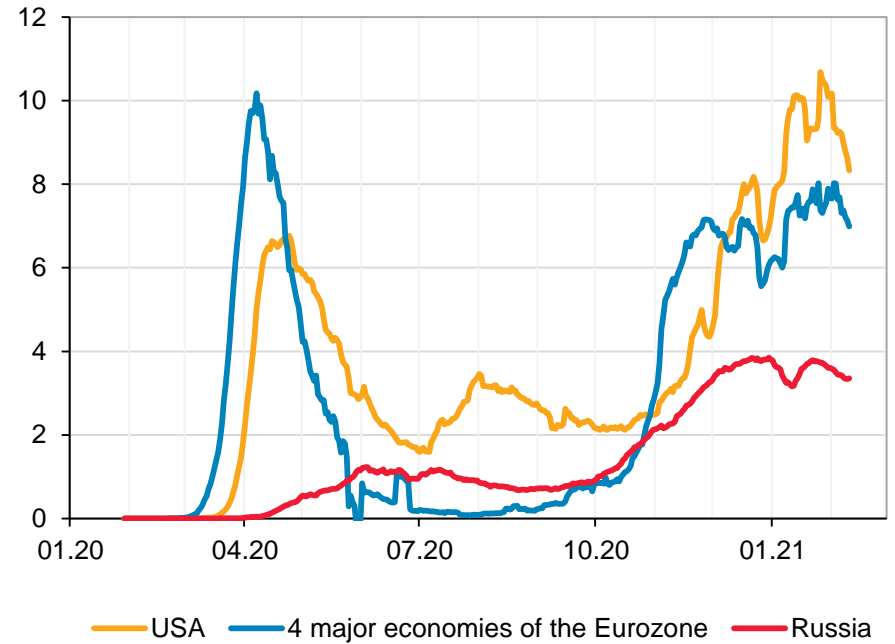


COVID-19 cases

Number of new confirmed cases per million inhabitants, 7dma



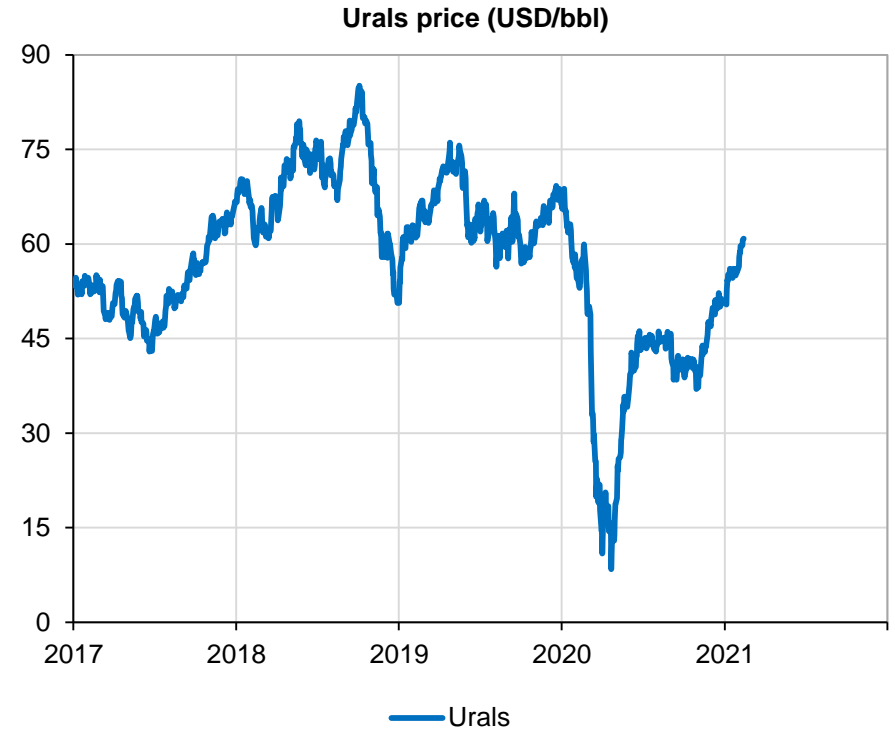
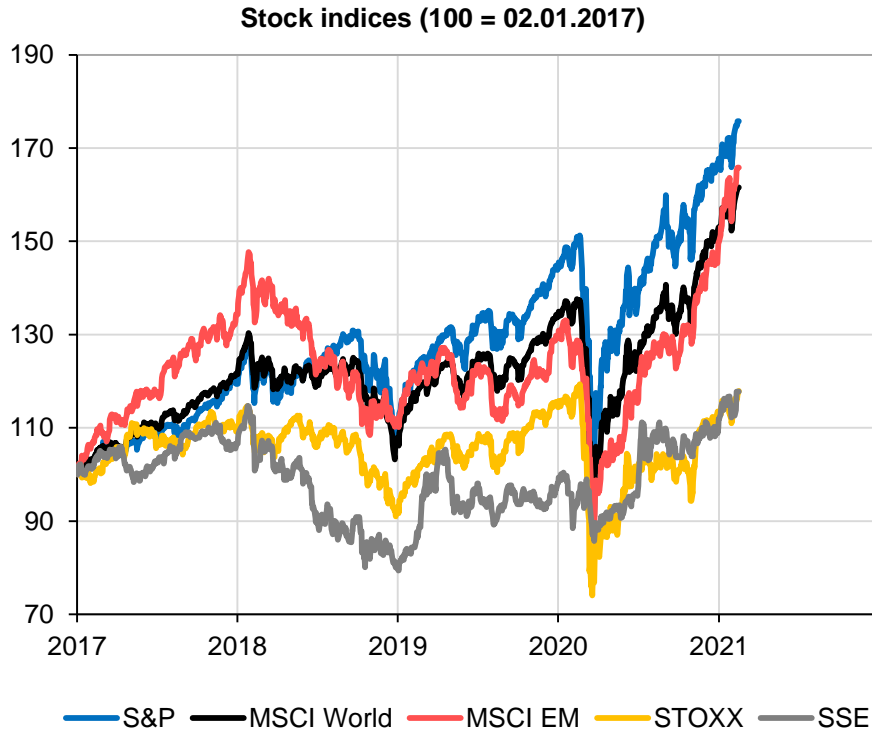
New deaths per million inhabitants, 7dma



4 major economies of the Eurozone – Germany, France, Italy, Spain

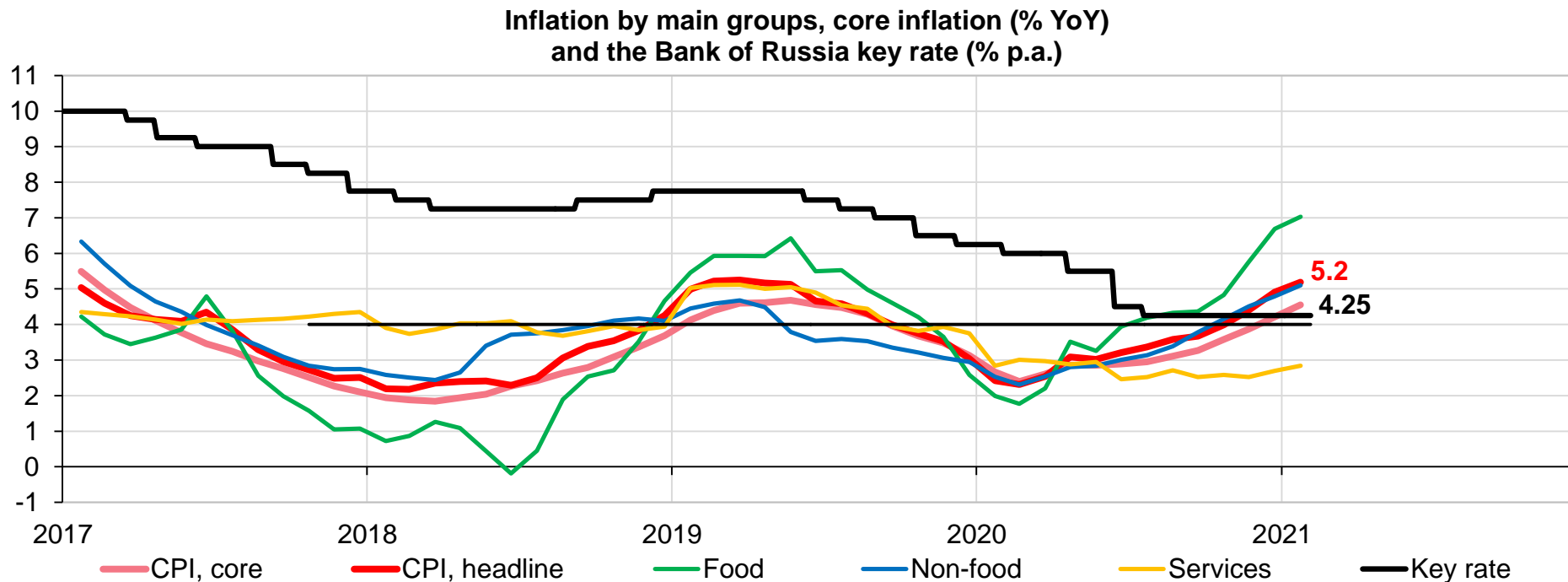
In February the COVID-19 incidence has decreased after rising in previous months.

Global financial and commodity markets



Accelerated vaccination rates, as well as expectations of additional fiscal support measures in certain countries, contribute to the growth of prices in financial and commodity markets.

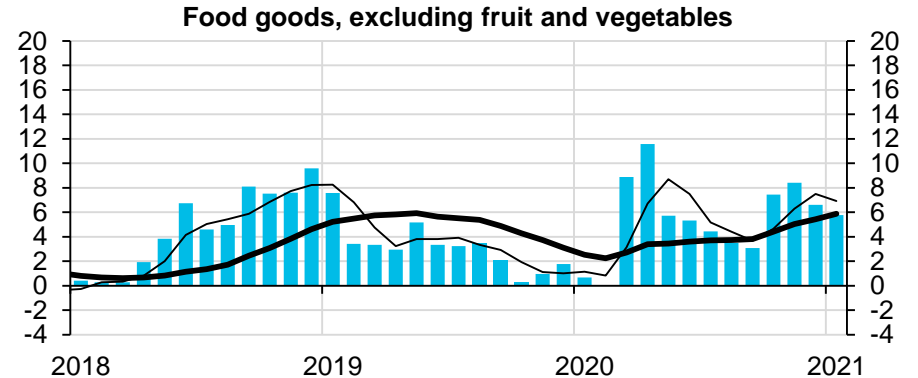
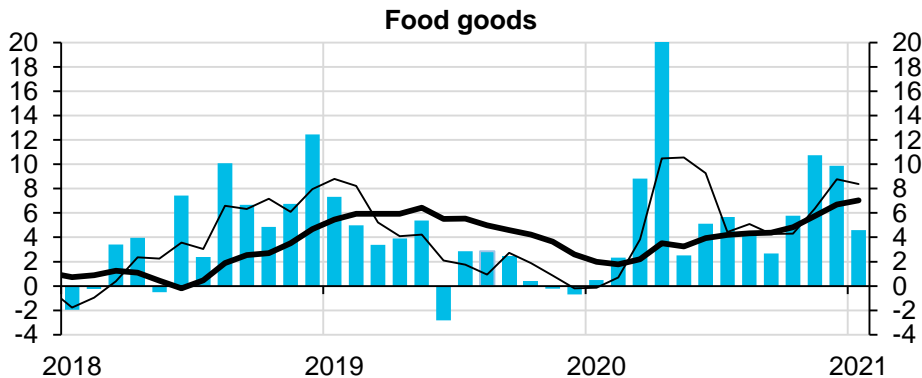
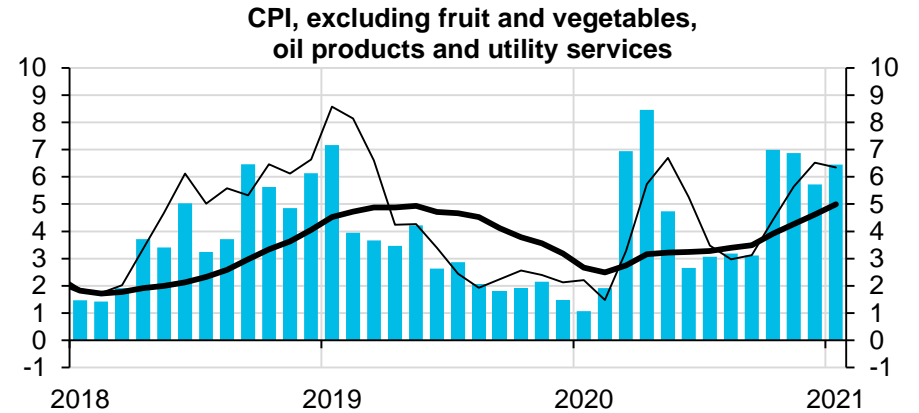
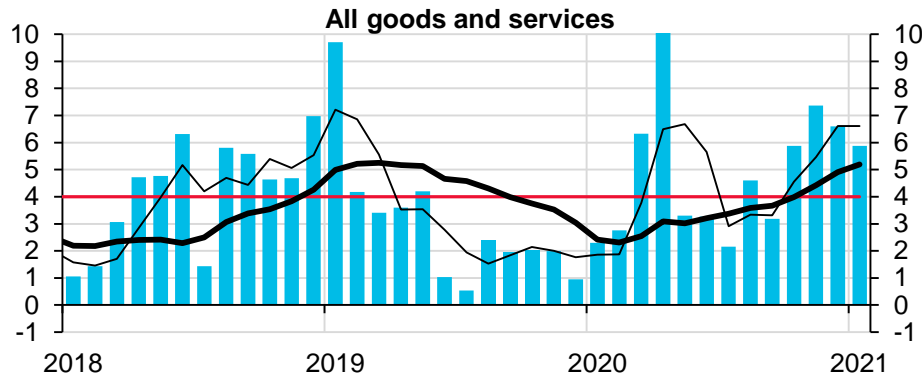
Consumer prices



Inflation is developing above the Bank of Russia's forecast. In January, the annual consumer price growth rate rose to 5.2% vs 4.9% in December. This is largely related to the growth in prices in certain commodity markets and the continuing pass-through of the ruble's earlier weakening to prices.

According to the Bank of Russia's forecast, annual inflation will peak in February-March and decline later on. The path of this decline will be determined by the timing of exhaustion of the effect of proinflationary factors and 2020 base effects. The baseline scenario assumes that, given the current monetary policy stance, annual inflation will reach 3.7–4.2% in 2021 and remain close to 4% later on.

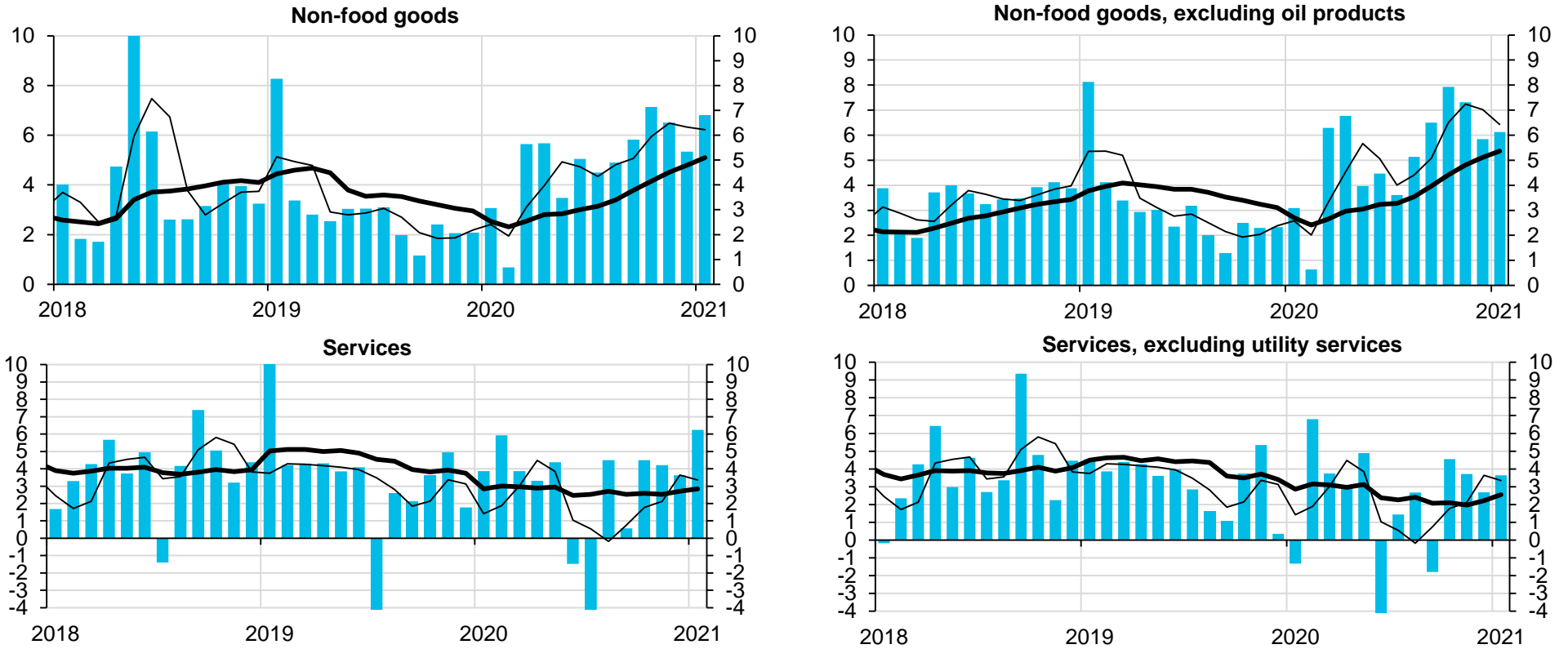
Inflation rates for main groups, seasonally adjusted (1)



Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR; **Red line** – 4% SAAR

According to Bank of Russia estimates, current consumer inflation indicators reflecting the most sustainable price movements are close to 4% (annualised). Government measures constrained the growth of prices for certain goods.

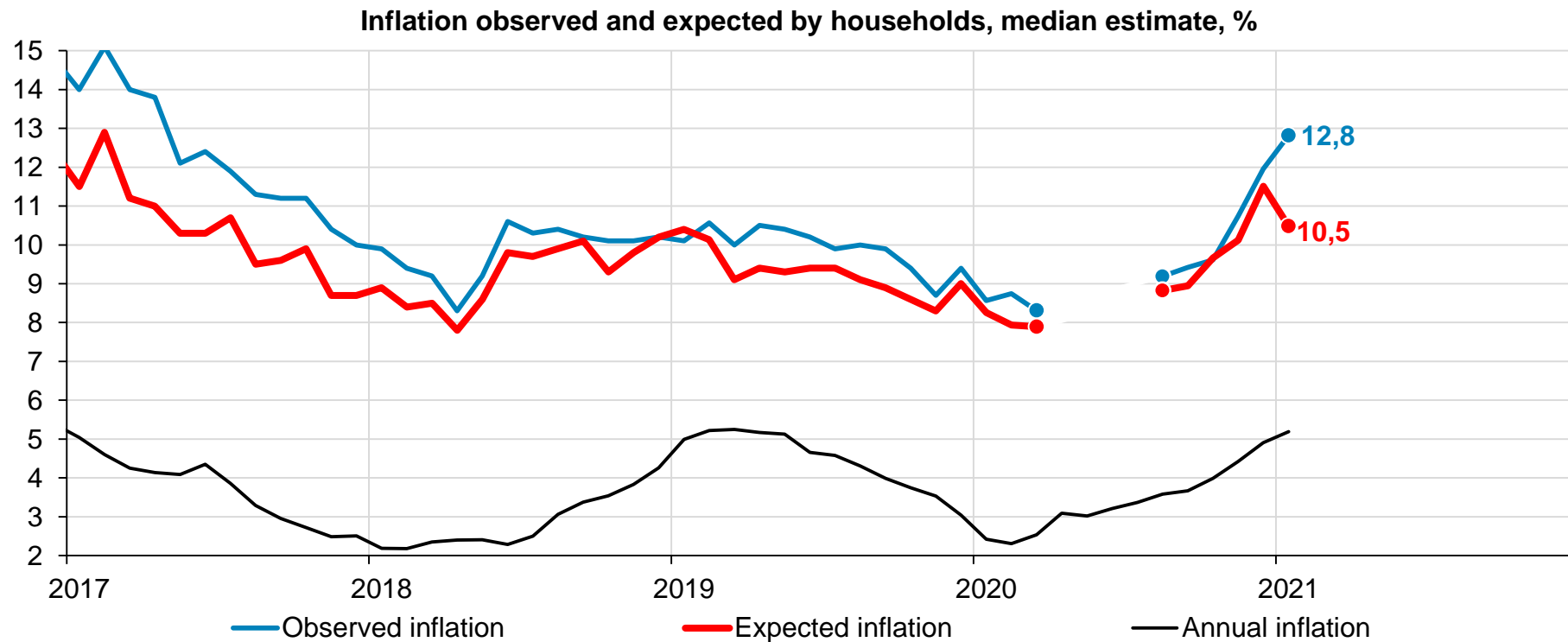
Inflation rates for main groups, seasonally adjusted (2)



Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR

Inflation is still affected by a group of factors associated with the epidemic situation. It includes staff shortages in a number of industries, increased costs incurred by companies to comply with sanitary and epidemiological rules, and persistent temporary delays in supplies due to disruptions in logistics chains. These are supply-side factors putting upward pressure on inflation.

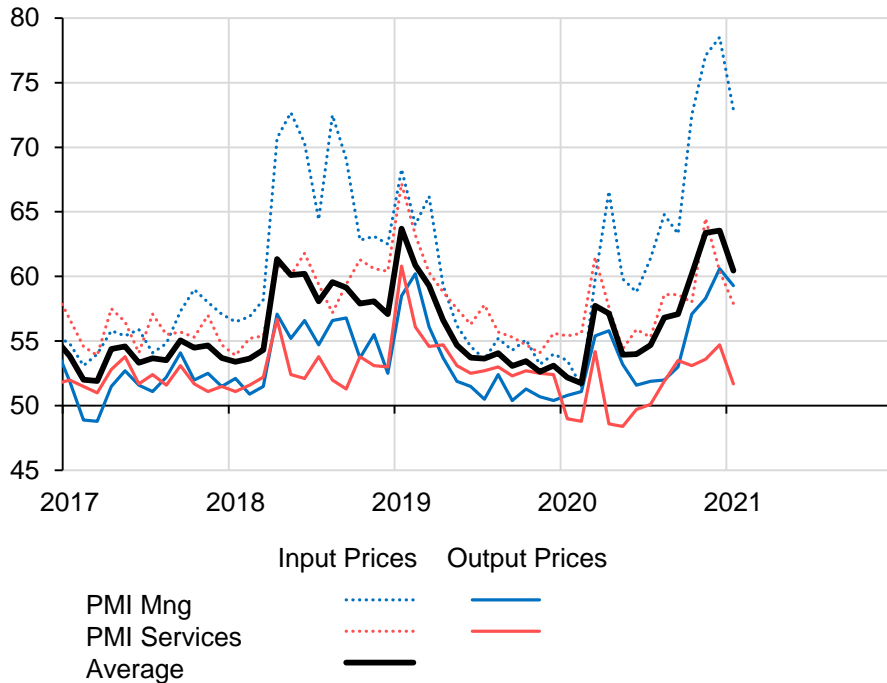
Inflation expectations – households



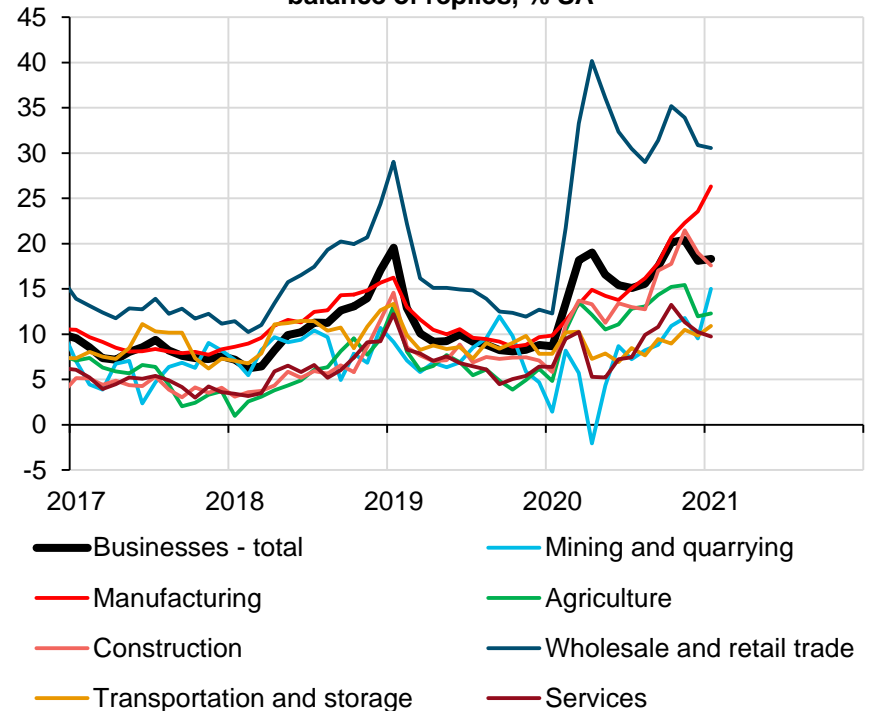
Inflation expectations of households have abated; however, they still remain elevated compared to the pre-pandemic period. This is largely related to the increase in prices for certain everyday goods and exchange rate volatility.

Price expectations – businesses

PMI survey data on producer input and output prices, diffusion index, pp



Replies of businesses to the question: “How will the prices of final goods change in the upcoming 3 months (increase/decrease)?”, balance of replies, % SA

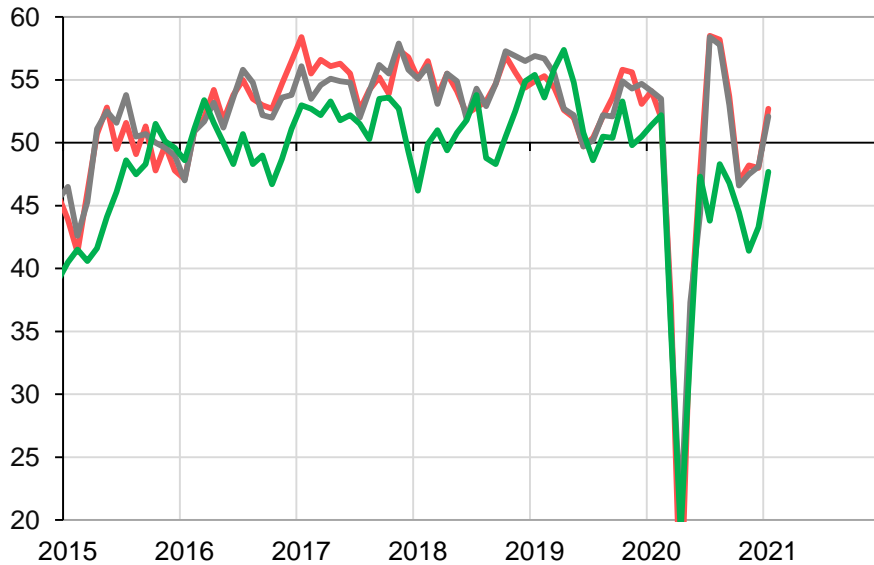


Inflation expectations of businesses have not changed materially after growing over previous months.

The effect of pro-inflationary factors may exert more prolonged influence due to the previous growth in households' and businesses' inflation expectations and remaining supply-side restrictions.

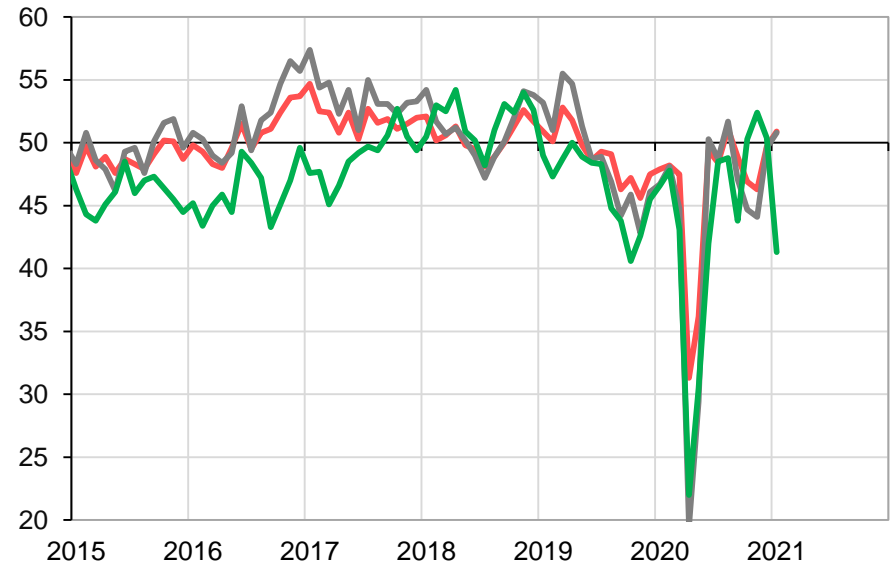
Economic activity surveys

PMI Services



- PMI Services
- PMI Services New Business
- PMI Services New Export Business

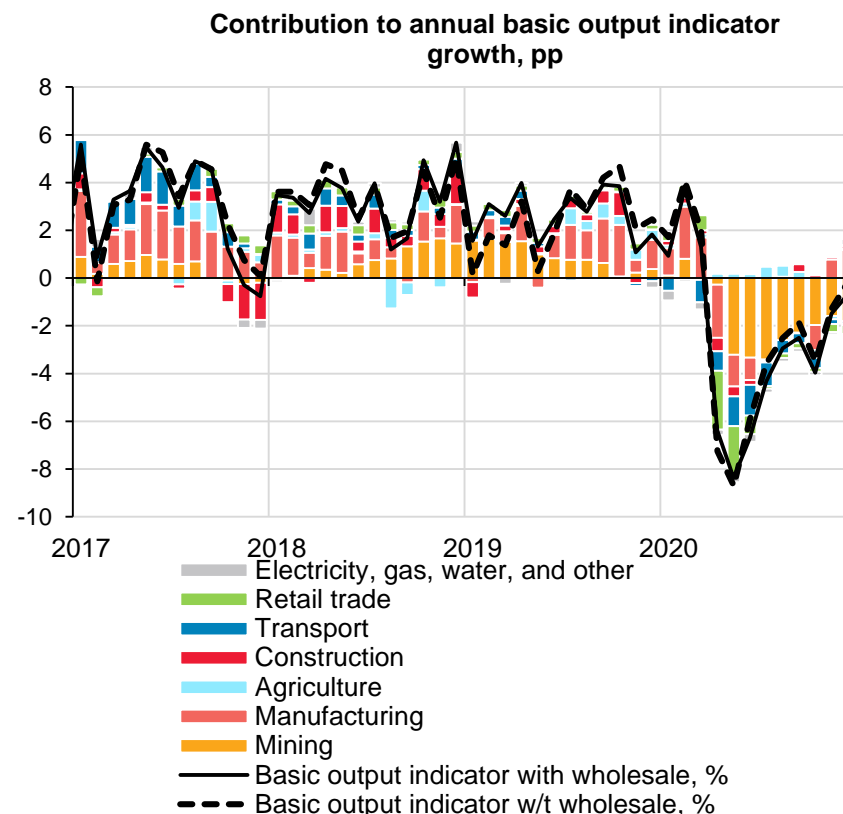
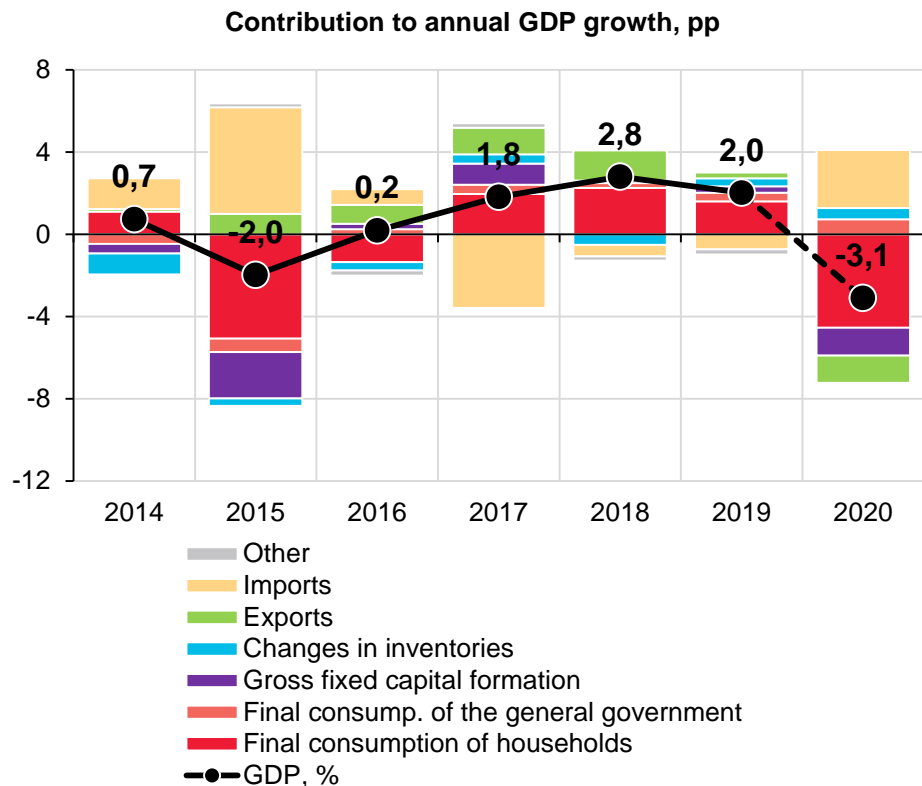
PMI Manufacturing



- PMI Manufacturing
- PMI Manufacturing New Orders
- PMI Manufacturing New Export Orders

High-frequency indicators of economic activity suggest that the economic recovery in early 2021 is ongoing. The paces of recovery are set to gain support from better consumer and business sentiment in the context of partially lifted restrictive measures and coronavirus vaccination coverage.

GDP growth and basic output indicator

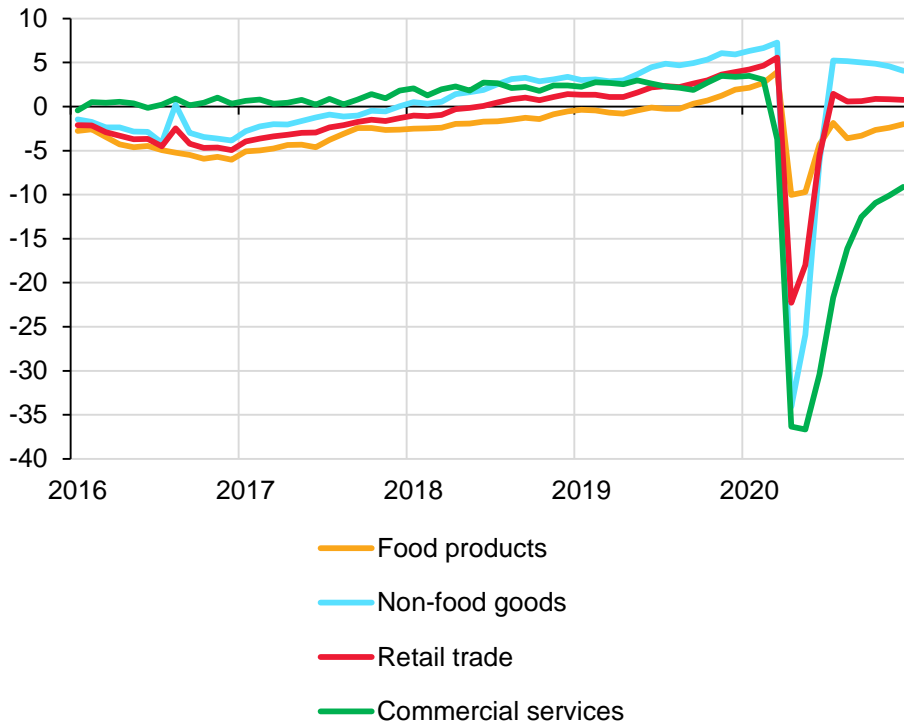


In 2020, GDP fell by 3.1%. This is less than the Bank of Russia expected earlier.

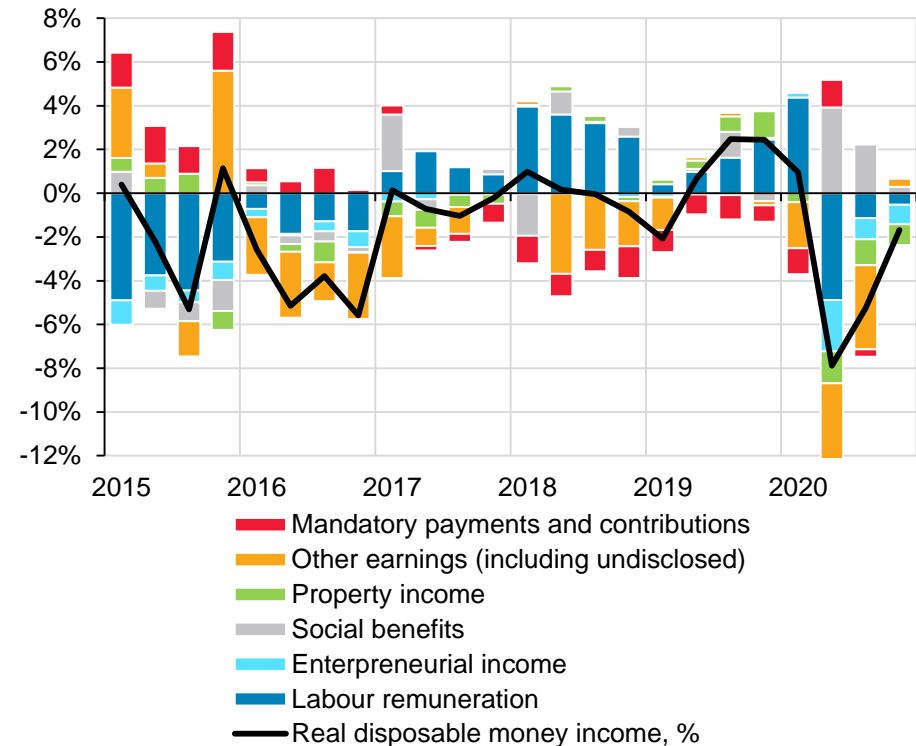
According to the Bank of Russia's estimates, economic recovery also continued in 2020 Q4. The constraining effect of the worsening epidemic situation on the economy in Russia and worldwide was much less than expected. This is related to the targeted nature of restrictive measures and the significant adaptation of households and businesses to the new conditions.

Consumer demand and households' income

Retail trade and commercial services to households, % growth on Dec. 2015, SA



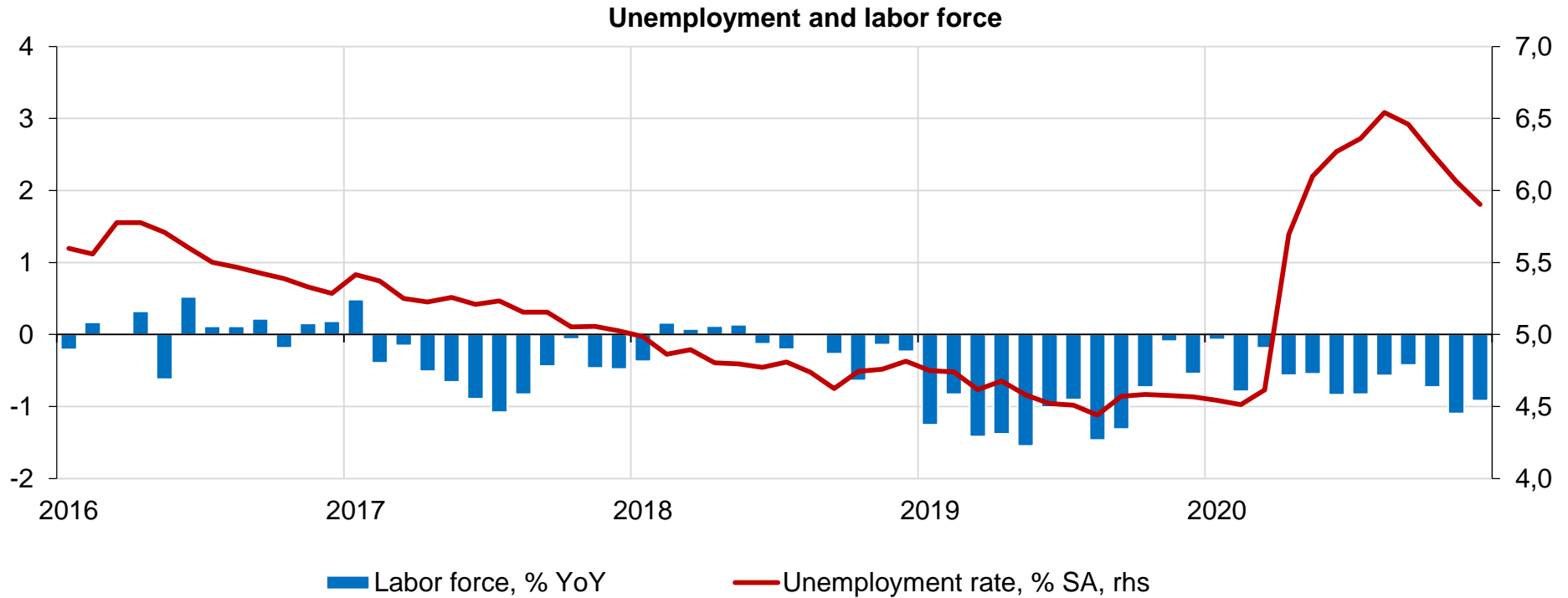
Households real disposable money income, contribution to annual growth, pp



In 2020 Q4, households' real income continued to recover.

The recovery of domestic demand will be driven by the cancellation of restrictions as the epidemic situation improves, especially in the service sector.

Employment

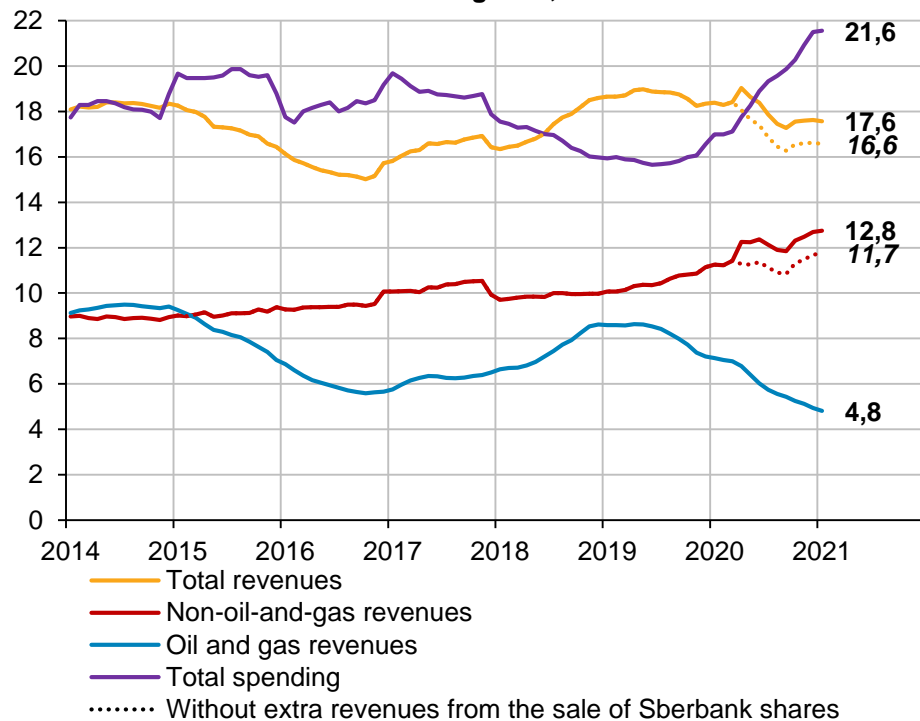


In 2020 Q4 unemployment started to decline.

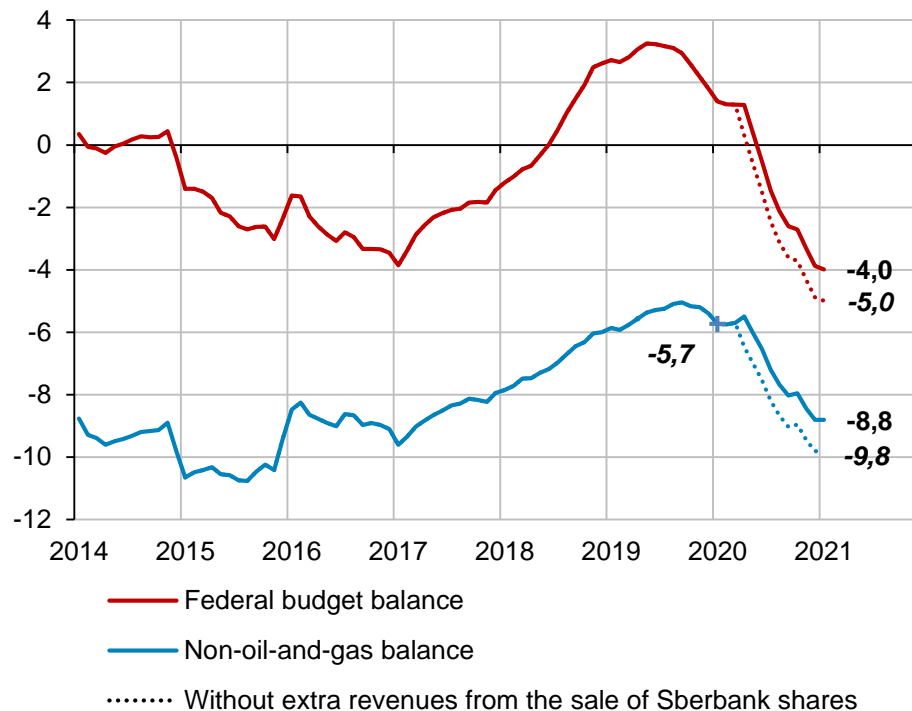
Opening up the borders concurrently with a gradual lifting of restrictions may lead to a recovery in the consumption of foreign services and weaken supply-side constraints in the labour market through inflows of foreign labour force.

Fiscal policy

Federal budget revenues and spending, 12 month moving sum, as % of GDP



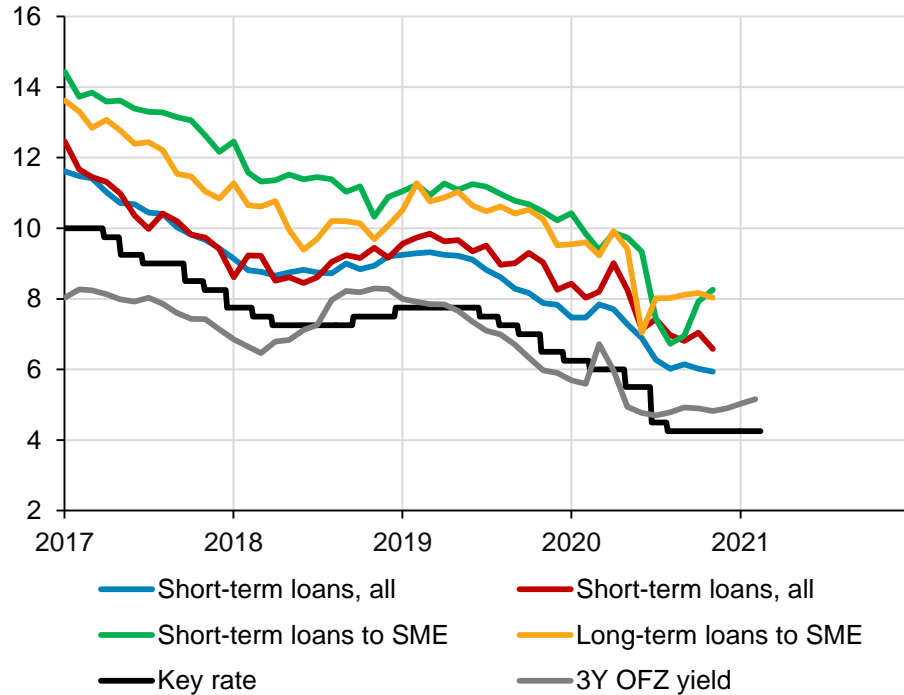
Federal budget balance, 12 month moving sum, as % of GDP



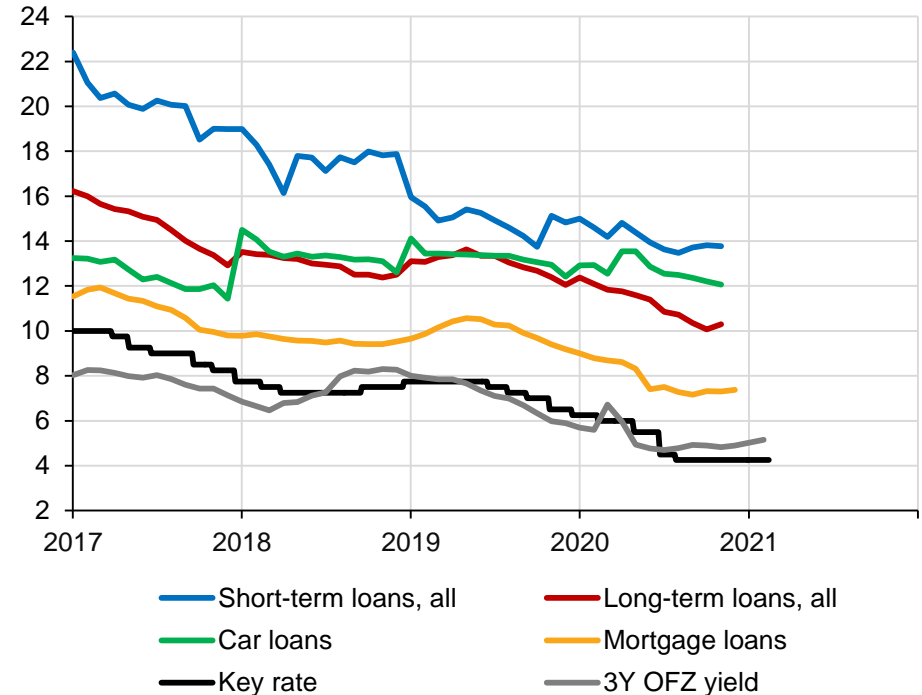
Fiscal measures continued to provide significant support to the economy. The growth of expenditures of the budgetary system in 2020 amounted to more than 13.9%. The effect of stimulus measures is expected to continue in the first half of the year as well. Further on, the scheduled fiscal policy normalisation will reduce the extent of this influence. Nonetheless, the budget will remain expansionary as compared to the long-term parameters provided for by the fiscal rule.

Deposit and credit market – interest rates

Interest rates on corporate loans in rubles, % per annum



Interest rates on retail loans in rubles, % per annum

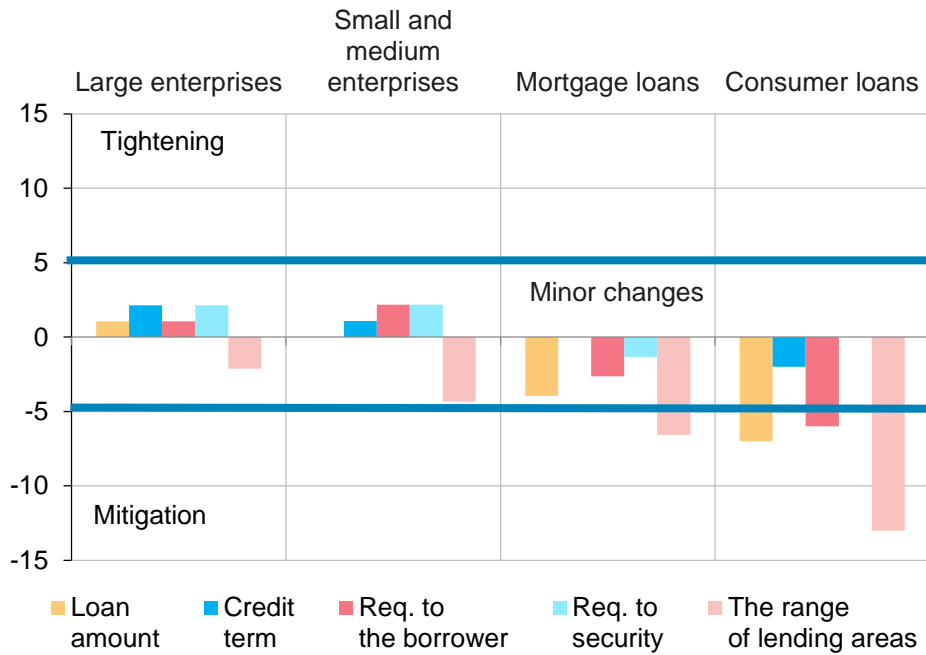


Monetary conditions remain accommodative and have not changed substantially since the previous meeting of the Bank of Russia Board of Directors. OFZ yields grew somewhat, including on the back of rising inflation expectations and climbing long-term interest rates in global financial markets. Loan and deposit rates mainly remained unchanged.

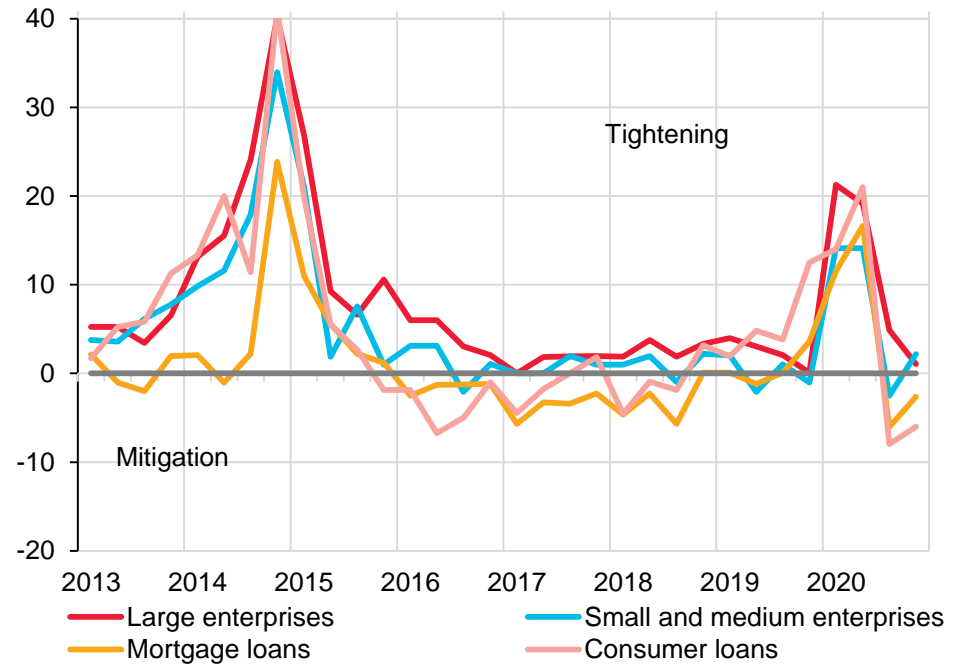
Higher price growth and inflation expectations over recent months mean that price lending conditions have slightly eased in real terms.

Bank lending conditions

Indices of changes in certain non-price lending conditions in Q4 2020, p.p.

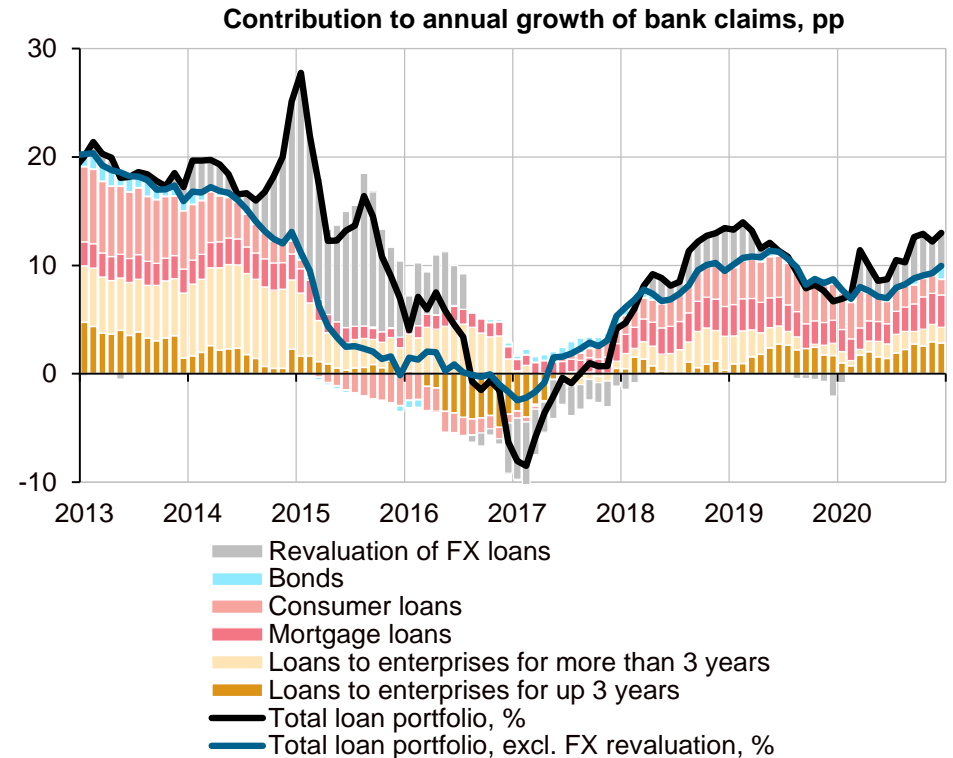
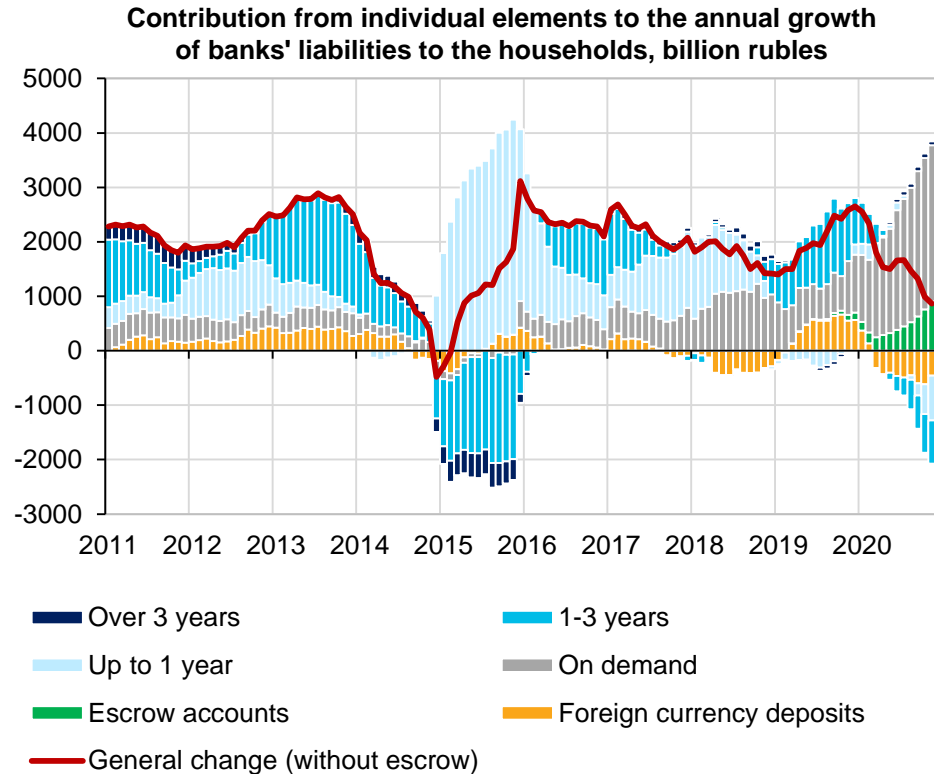


Indices of changes in requirements to the borrower, p.p.



In certain segments, banks continued to ease non-price lending conditions as well.

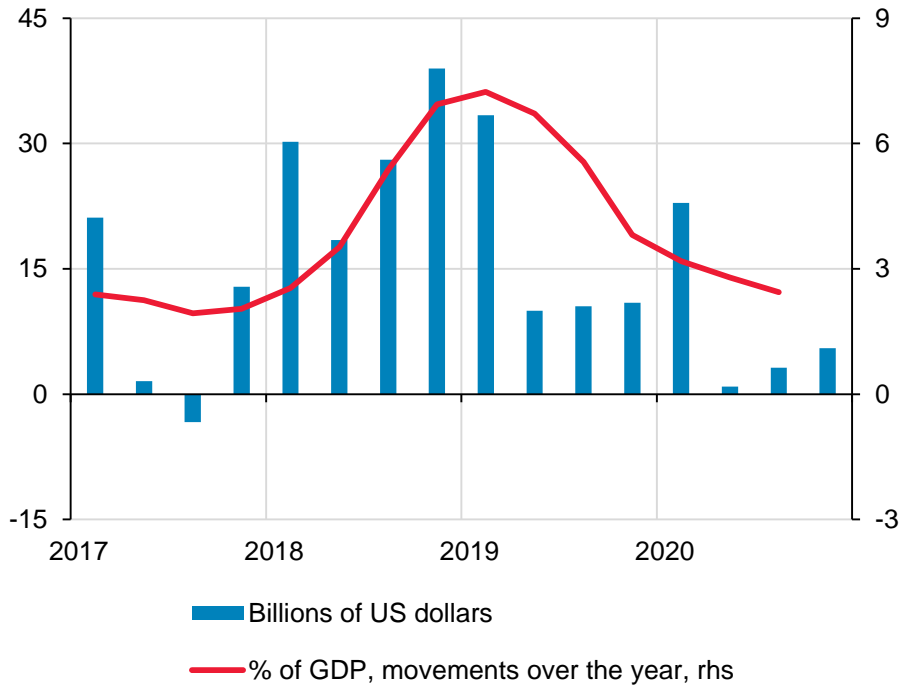
Deposit and credit market – lending and deposits



Lending expansion continues. Alongside with accommodative monetary conditions, lending dynamics are influenced by the preferential programmes implemented by the Government as well as by regulatory relaxations. When making its key rate decisions, the Bank of Russia will assess the impact of cancelling these anti-crisis measures on monetary conditions.

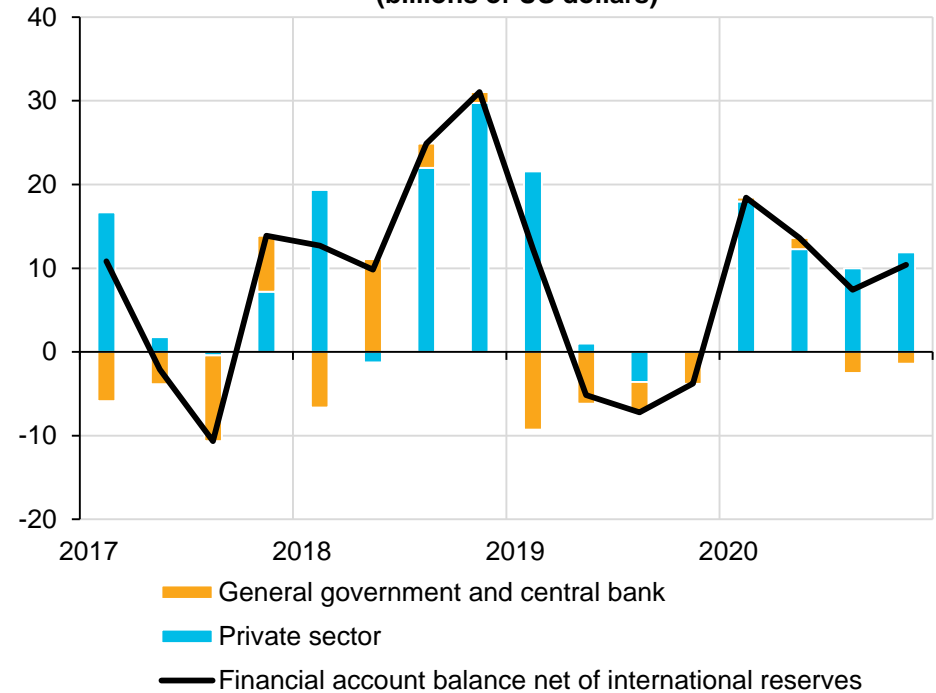
Balance of Payments

Current account



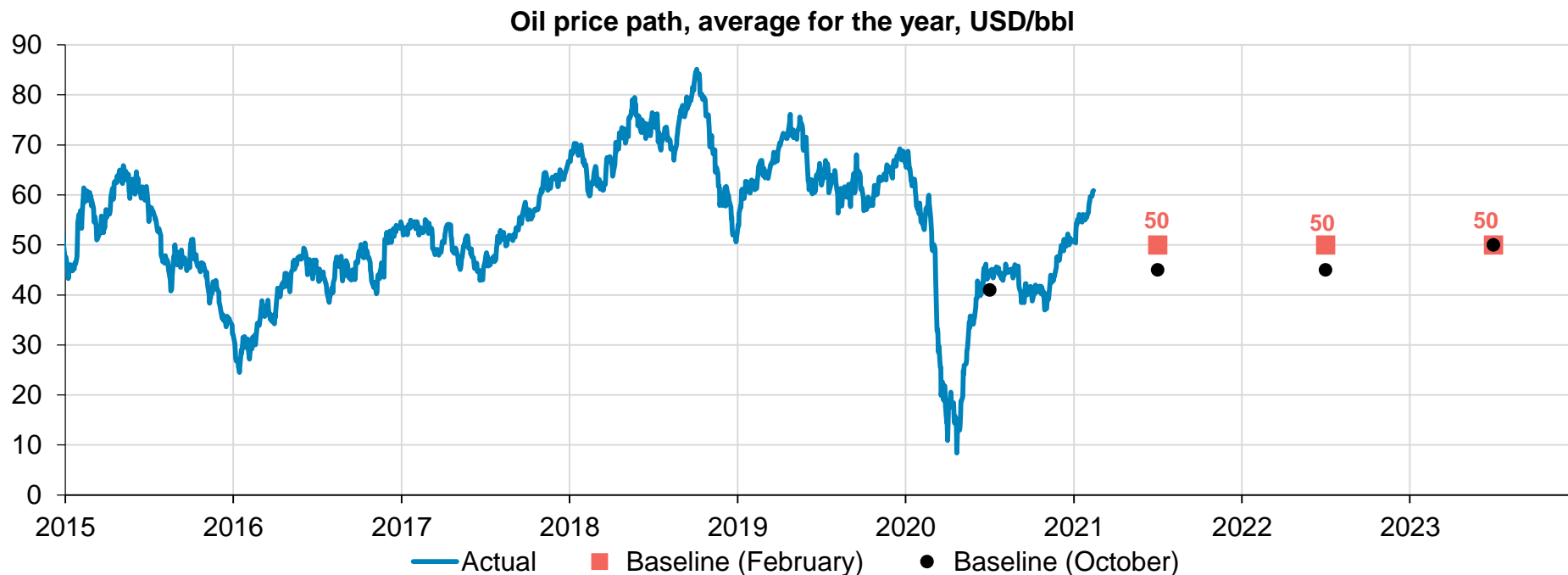
In 2020 Q4 the current account surplus contracted twofold year-on-year. The shrinkage of exports amid the recession in the global economy was partially offset by the decrease in imports and the deficit of other components.

Financial account balance* (billions of US dollars)



In 2020 Q4, net borrowing by general government and the central bank totalled 1 billion US dollars, with federal government bonds and Eurobonds placed by Russia's Ministry of Finance accounting for the largest portion of this amount.

Oil price assumptions

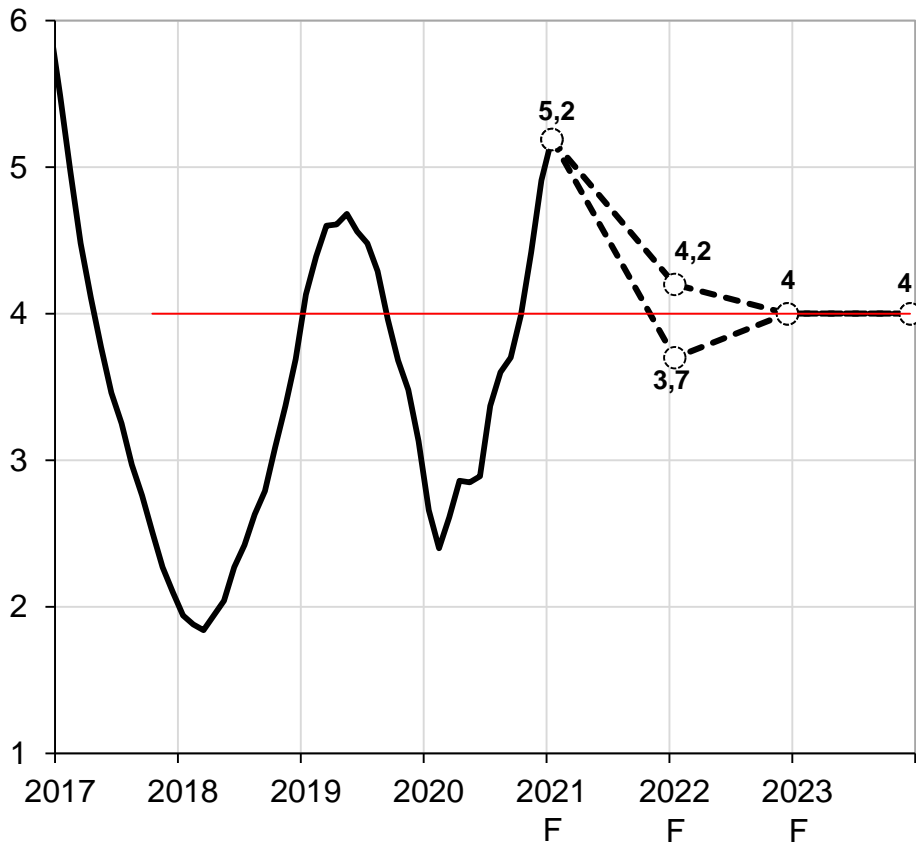


The Bank of Russia has slightly revised up the assumptions for oil prices in the baseline scenario: from USD 45 to USD 50 per barrel in 2021-2022, taking into account the current price dynamics, and also assuming that the situation in the oil market will remain stable.

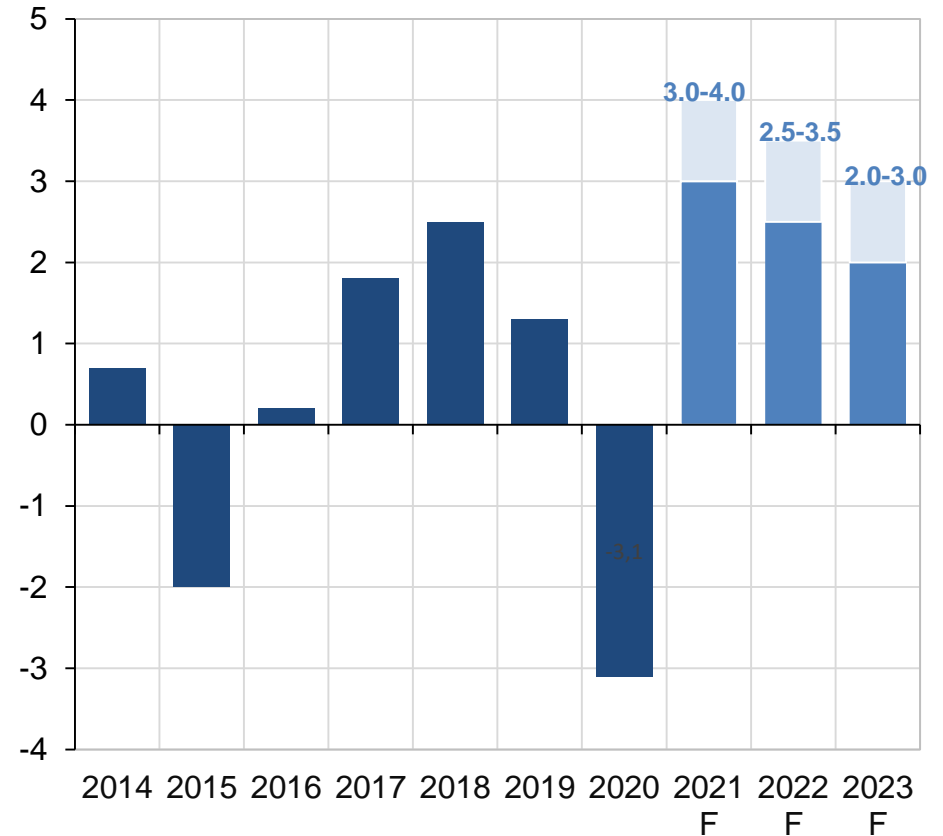
Urals price projections for 2023 remain unchanged (USD 50 per barrel). The longer-term equilibrium is assumed to be at the level of USD 50 per barrel.

Bank of Russia medium-term forecast – CPI and GDP

CPI, % YoY
(upper and lower limits of forecast ranges)

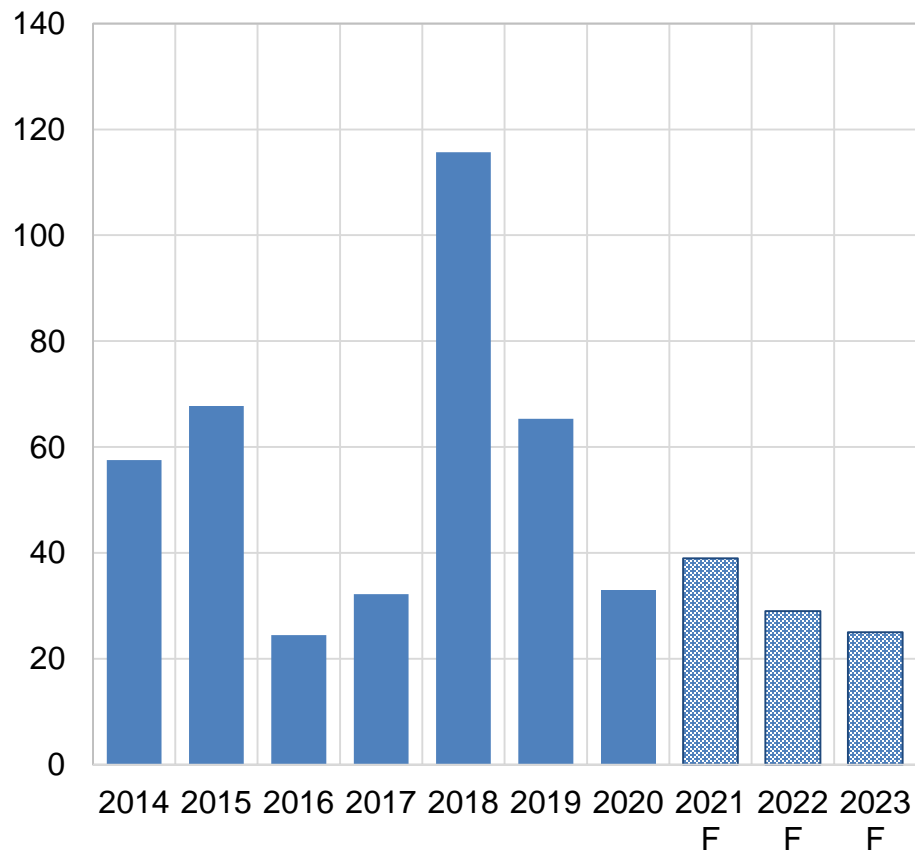


GDP, % YoY
(upper and lower limits of forecast ranges)

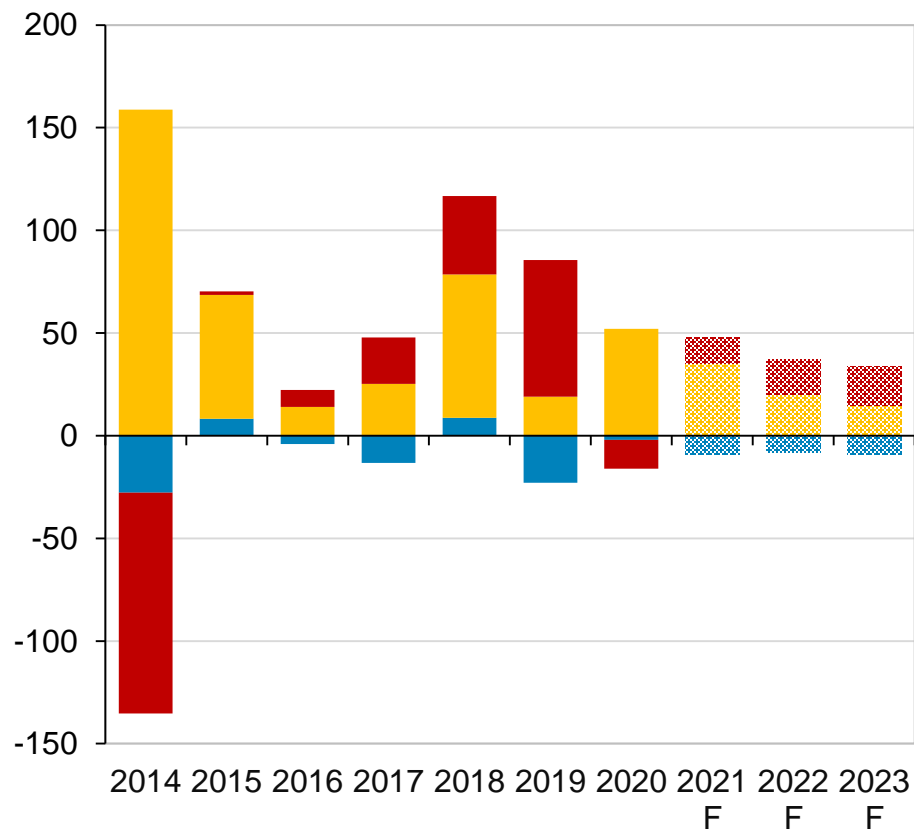


Bank of Russia forecast – Balance of payments

Current account, billions of US dollars



Financial account & Reserves, \$ bln*



Public Sector Private Sector Change in reserves

* In BPM6 signs. In the Financial account “+” – net lending, “-” – net borrowing.

Bank of Russia forecast, February 2021 (1)

Key parameters of the Bank of Russia's baseline scenario (growth as % of previous year, if not indicated otherwise)	2020 (actual / estimate)	BASELINE		
		2021	2022	2023
Inflation, as % in December year-on-year	4,9	3,7-4,2	4,0	4,0
Inflation, average for the year, as % year-on-year	3,4	4,4-4,8	4,0	4,0
Gross domestic product	-3,1	3,0-4,0	2,5-3,5	2,0-3,0
Final consumption expenditure	-5,2	4,7-5,7	2,0-3,0	1,8-2,8
– households	-8,6	5,0-6,0	2,5-3,5	2,0-3,0
Gross capital formation	-4,2	3,9-5,9	3,0-5,0	2,5-4,5
– gross fixed capital formation	-6,2	3,2-5,2	2,4-4,4	2,5-4,5
Exports	-5,1	1,1-3,1	3,6-5,6	2,2-4,2
Imports	-13,7	8,9-10,9	3,4-5,4	2,9-4,9
Money supply in national definition	13,5	10-14	7-11	7-11
Claims on organisations and households in rubles and foreign currency ¹	10,9	9-13	7-11	7-11
– on organisations	10,2	7-11	6-10	6-10
– on households, including mortgage loans	12,9	14-18	10-14	10-14
	21,2	16-20	14-18	14-18

* Banking sector claims on organisations and households means all of the banking sector's claims on non-financial and financial institutions and households in rubles, foreign currency and precious metals, including loans issued (including overdue loans), overdue interest on loans, credit institutions' investment in debt and equity securities and promissory notes, as well as other forms of equity interest in non-financial and financial institutions, and other accounts receivable from settlement operations involving non-financial and financial institutions and households.

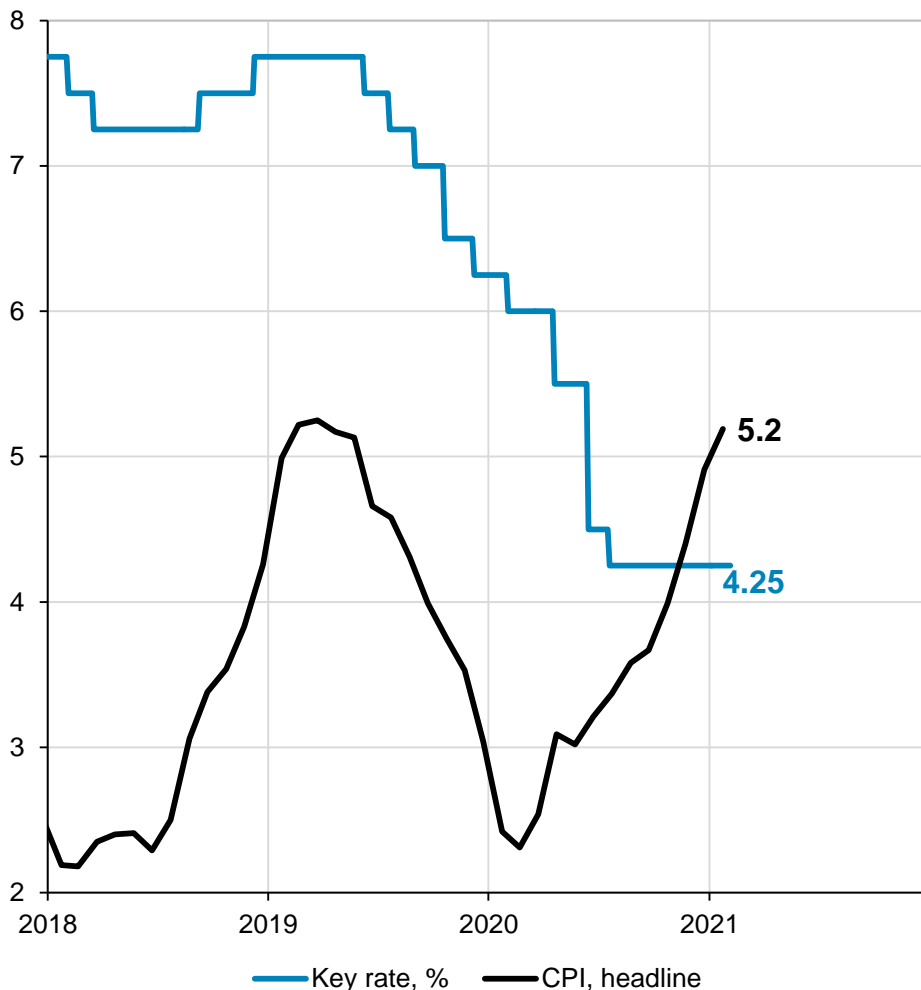
Claims' growth rates are given with the exclusion of foreign currency revaluation. In order to exclude the effect of foreign currency revaluation the growth of claims in foreign currency and precious metals is converted to rubles using the period average USDRUB exchange rate. Mortgage loans net of claims acquired by banks.

Bank of Russia forecast, February 2021 (2)

Russia's balance of payments indicators in the baseline scenario* (billions of US dollars)	2020 (estimate)	BASELINE		
		2021	2022	2023
Current account	33	39	29	25
Balance of trade	89	119	116	119
<i>Exports</i>	330	375	389	406
<i>Imports</i>	240	256	273	287
Balance of services	-18	-35	-41	-48
<i>Exports</i>	45	49	53	58
<i>Imports</i>	63	84	94	106
Balance of primary and secondary income	-39	-45	-46	-47
Current and capital account balance	32	39	29	25
Financial account (excluding reserve assets)	50	26	12	6
Government and the central bank	-2	-9	-8	-9
Private sector	52	35	20	15
Net errors and omissions	4	0	0	0
Change in reserve assets ('+' – increase, '-' – decrease)	-14	13	17	19
Urals price, average for the year, US dollars per barrel	42	50	50	50

* 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.

Monetary policy decision on 12 February 2021



On 12 February 2021, the Bank of Russia Board of Directors **decided to keep the key rate at 4.25% per annum. In December and January, prices continued to grow at an elevated pace. Demand is recovering faster and more sustainably than expected.** At the same time, supply-side restrictions are still in place and continue to exert upward pressure on prices. Inflation expectations of households and businesses remain elevated. Accelerated vaccination rates, as well as expectations of additional fiscal support measures in certain countries, contribute to the growth of prices in financial and commodity markets. **In this context, disinflationary risks no longer prevail over a one-year horizon, and the Bank of Russia has increased its 2021 inflation forecast to 3.7–4.2%.** Moving forward, given the current monetary policy stance, annual inflation will stay close to 4%.

If the situation develops in line with the baseline forecast, the **Bank of Russia will determine the timeline and pace of a return to neutral monetary policy** taking into account the still high heterogeneity of current economic and price movement trends, actual and expected inflation dynamics relative to the target, economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets.