



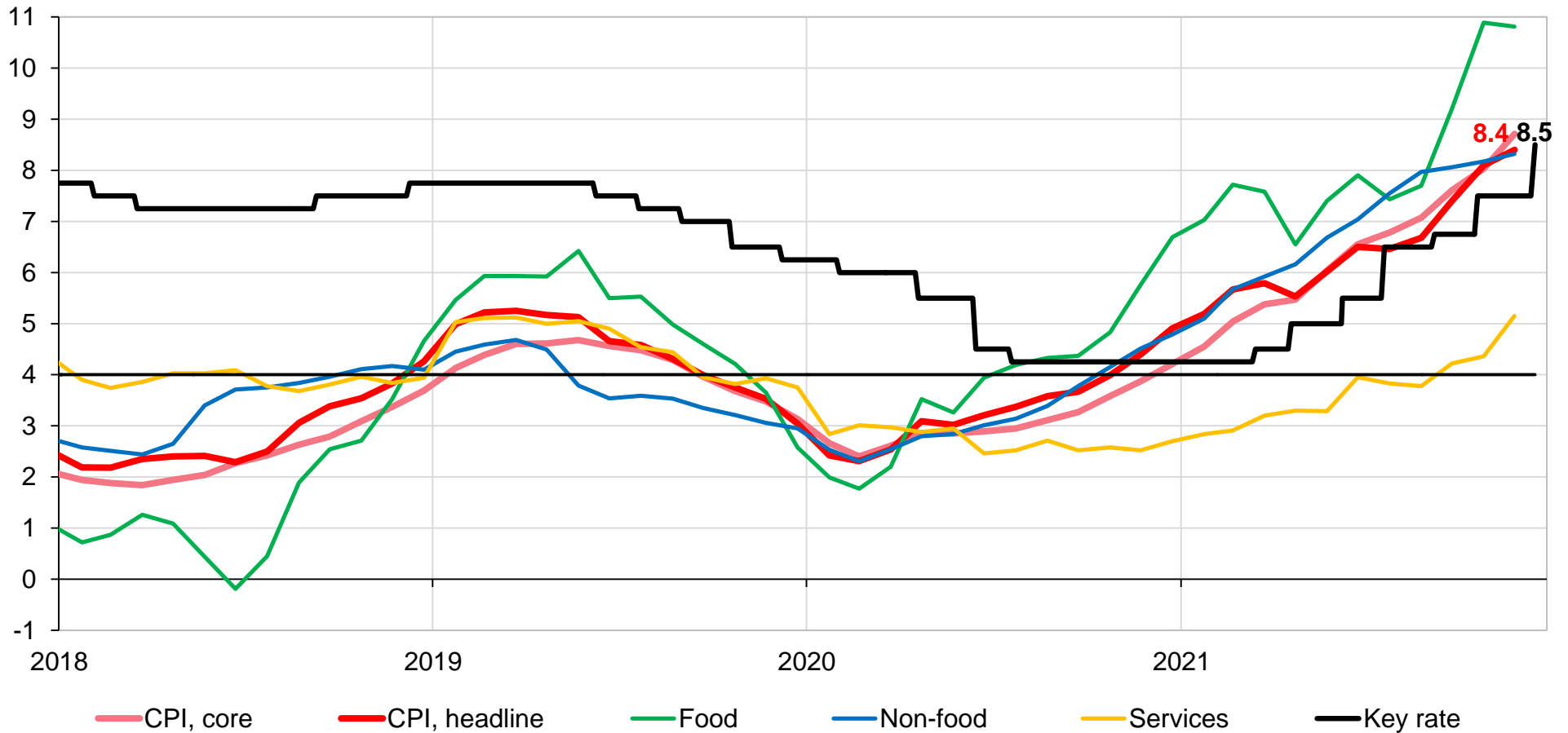
Bank of Russia

RUSSIA'S ECONOMIC OUTLOOK AND MONETARY POLICY

December 2021

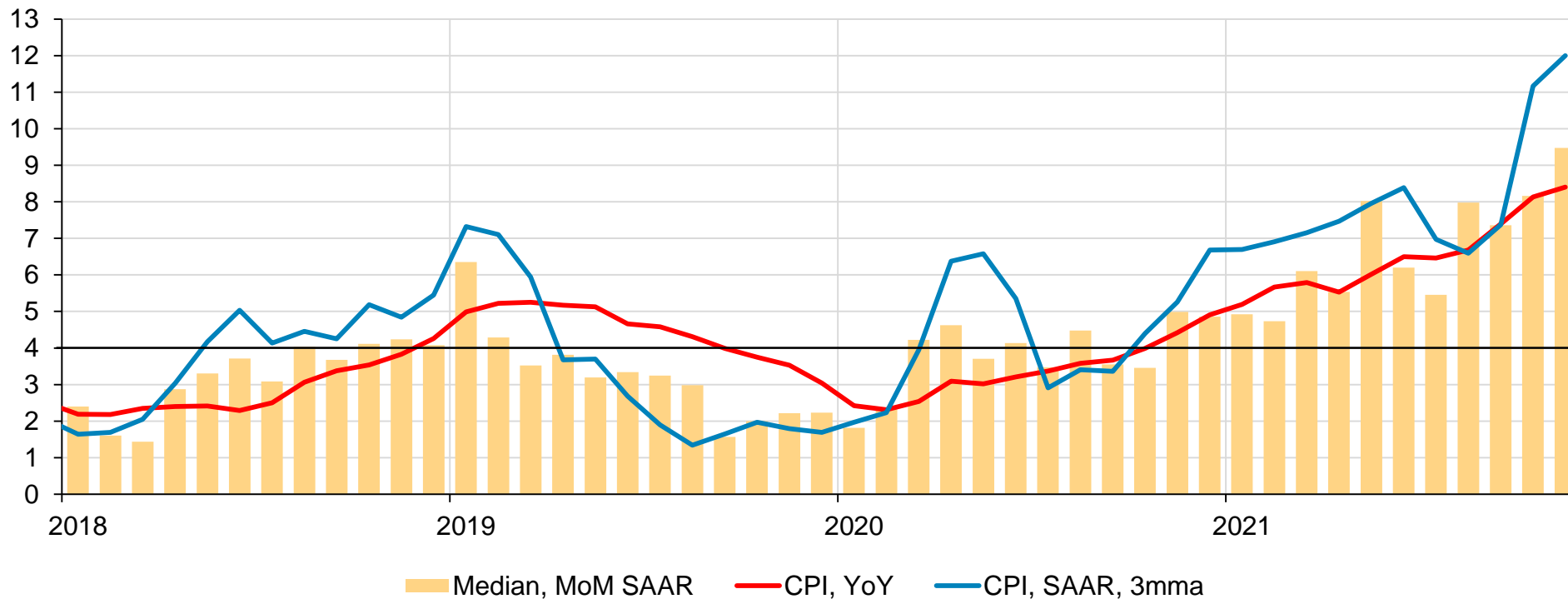
Consumer prices (1)

Inflation by main groups, core inflation (% YoY)
and the Bank of Russia key rate (% p.a.)



Consumer prices (2)

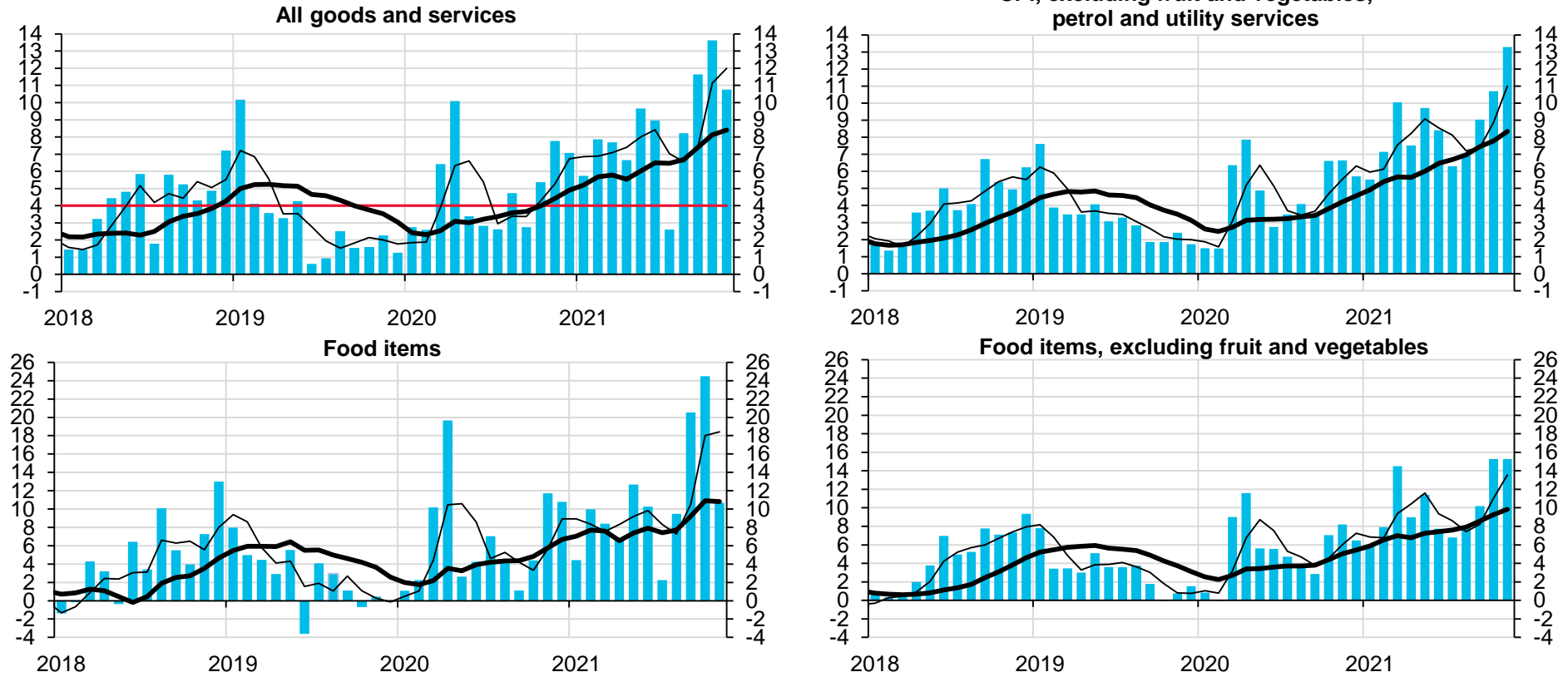
Median and headline inflation, %



Inflation trend is above the Bank of Russia's October forecast. In October and November, seasonally adjusted growth in consumer prices reached a six-year high. Annual inflation went up to 8.4% (from 7.4% in September).

Indicators reflecting the most sustainable price movements still appreciably exceed 4% (annualised), as the Bank of Russia estimates show.

Inflation rates for main groups, seasonally adjusted (1)

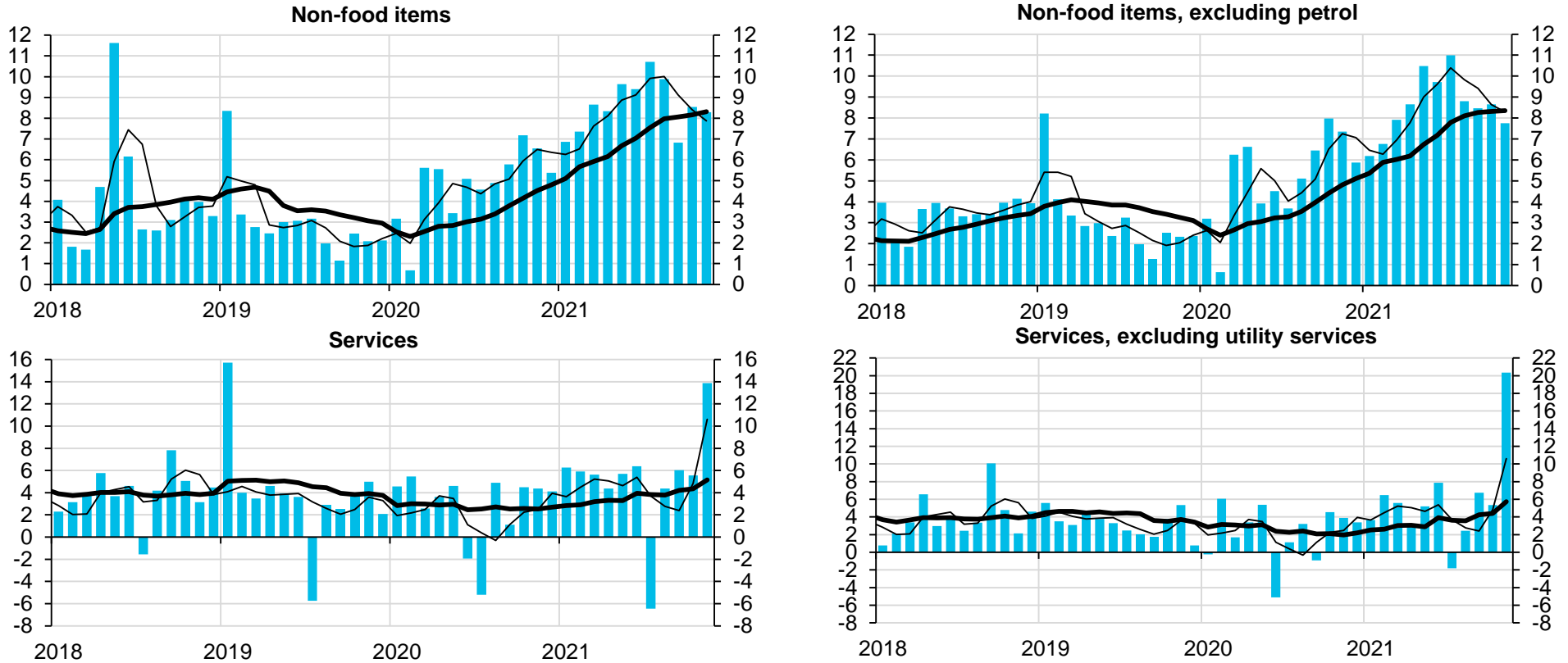


Columns: monthly price growth rate, seasonally adjusted, %
Line: annual inflation, % (rhs); thin line: 3MMA SAAR

Elevated stable inflation indicators largely reflect the fact that the steady growth in domestic demand exceeds production expansion capacity in a wide range of sectors.

In this context, businesses find it easier to pass higher costs on to consumers, including costs increasing on the back of rising global prices.

Inflation rates for main groups, seasonally adjusted (2)

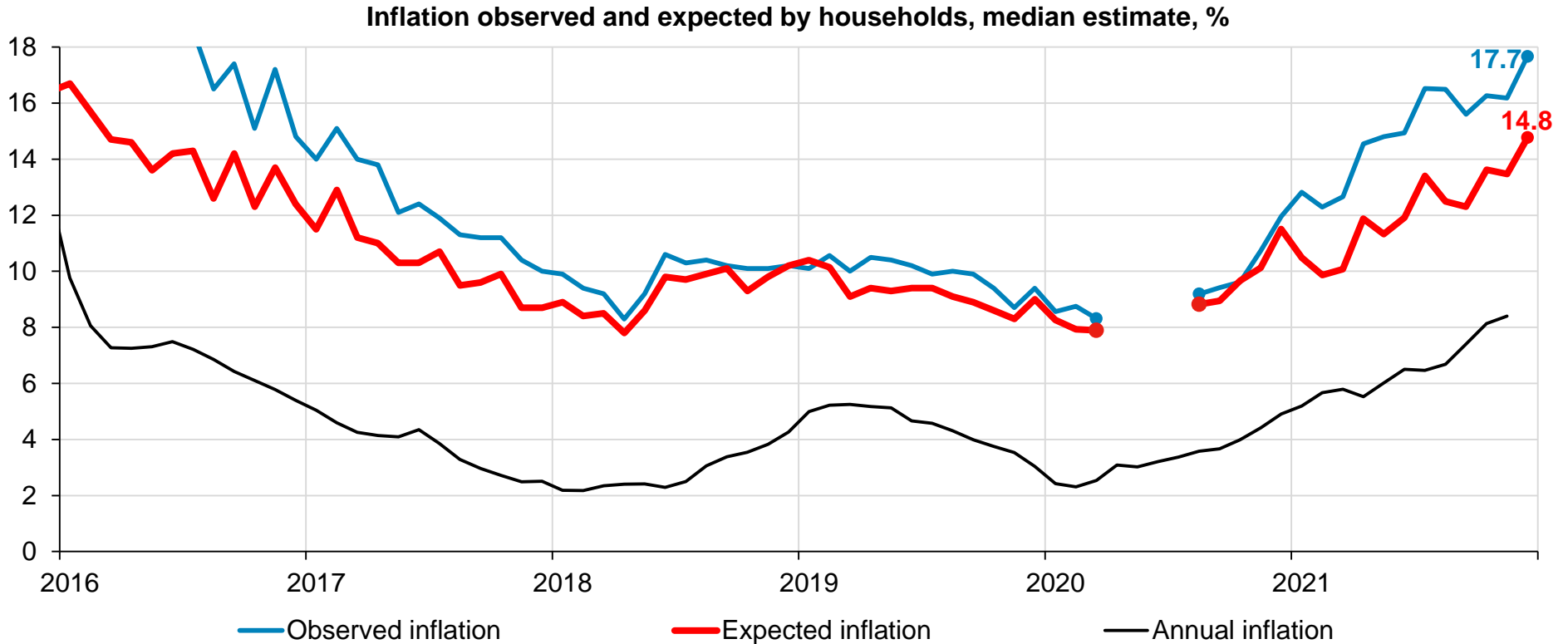


Columns: monthly price growth rate, seasonally adjusted, %
Line: annual inflation, % (rhs); thin line: 3MMA SAAR

The dominating influence of inflationary factors could lead to a more substantial and prolonged deviation of inflation upwards from the target.

The Bank of Russia's monetary policy stance aims to limit this risk and to return the annual inflation down to 4%. Under the baseline scenario, the annual inflation will edge down to 4.0–4.5% by the end of 2022, and will remain close to 4% further on.

Inflation expectations: households

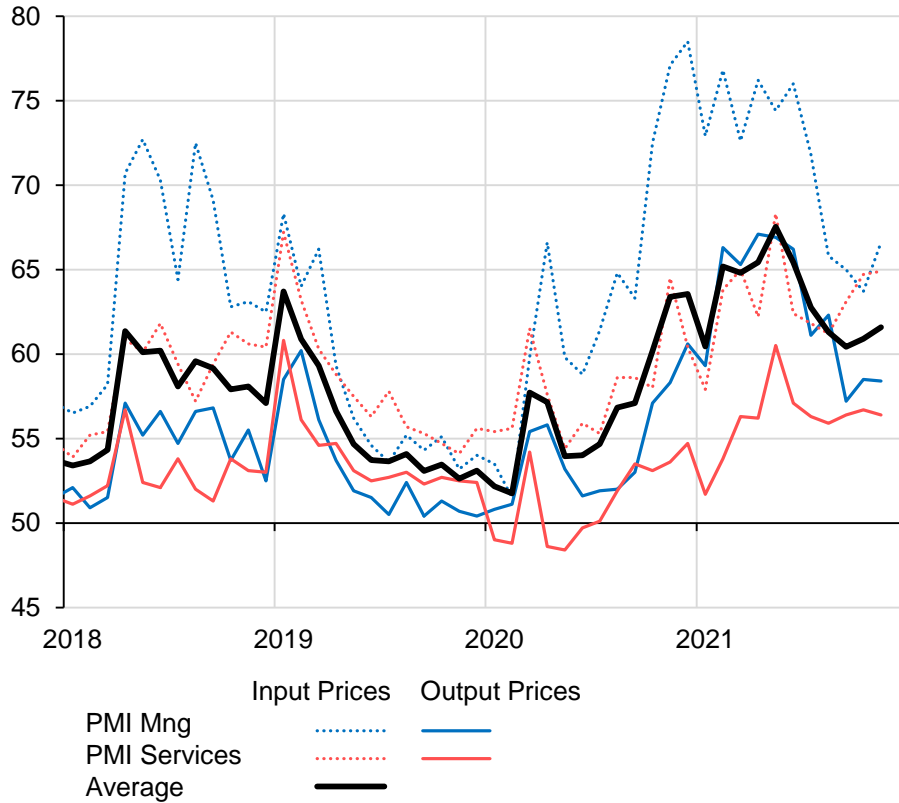


The impact of one-off supply-side drivers of inflation is translating into growing prices for a wider range of goods and services as inflation expectations of households and businesses remain high and unanchored.

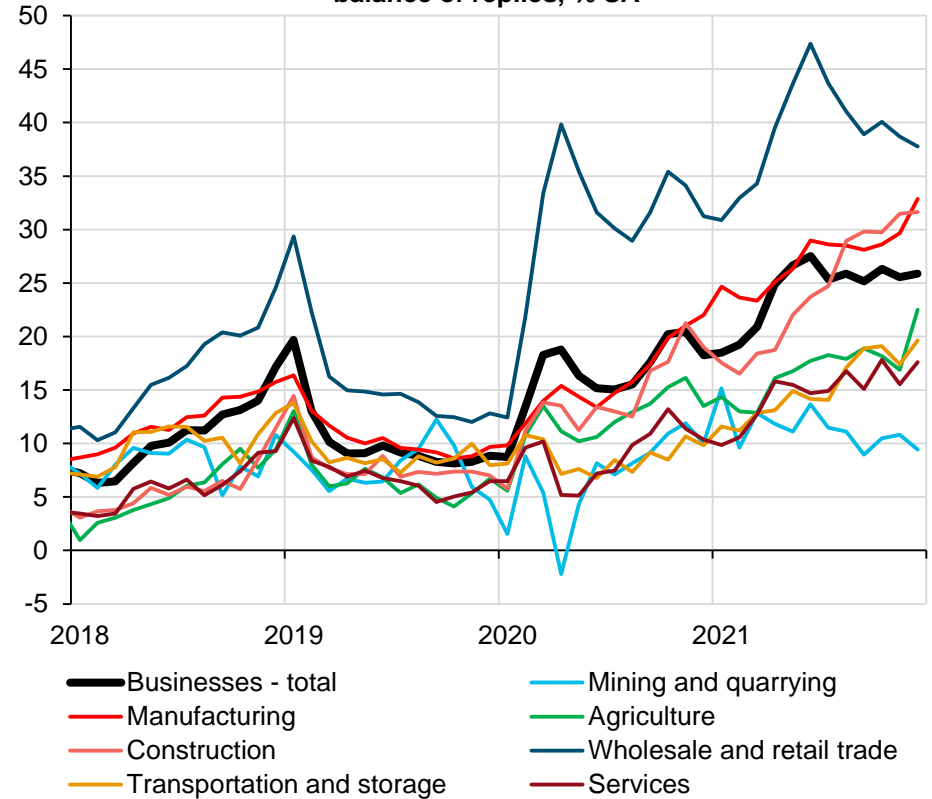
Households' inflation expectations went up again in December, reaching a five-year high.

Price expectations: businesses

PMI survey data for manufacturing and services, diffusion index, pp

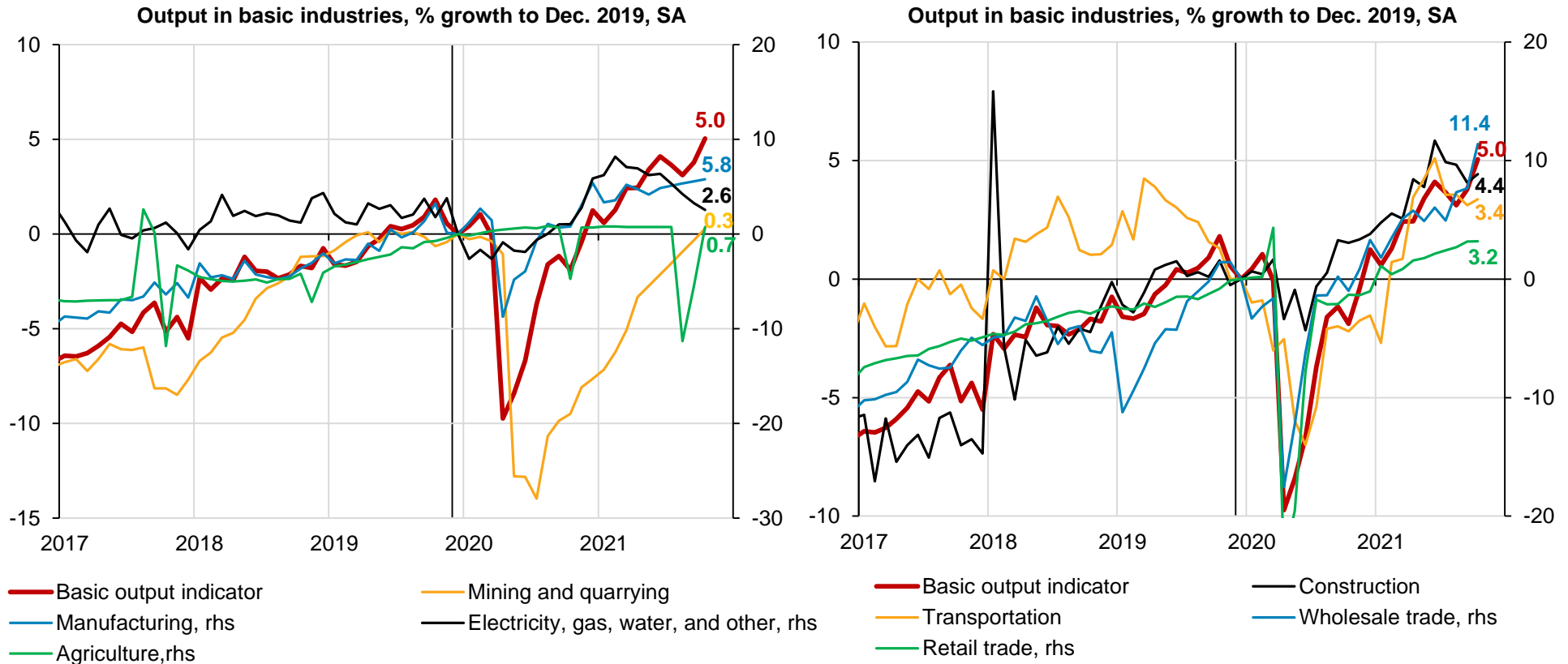


Replies of businesses to the question: “How will the prices of final goods change in the upcoming 3 months (increase/decrease)?”, balance of replies, % SA



Recent data also indicate that businesses’ price expectations remain close to multi-year highs.

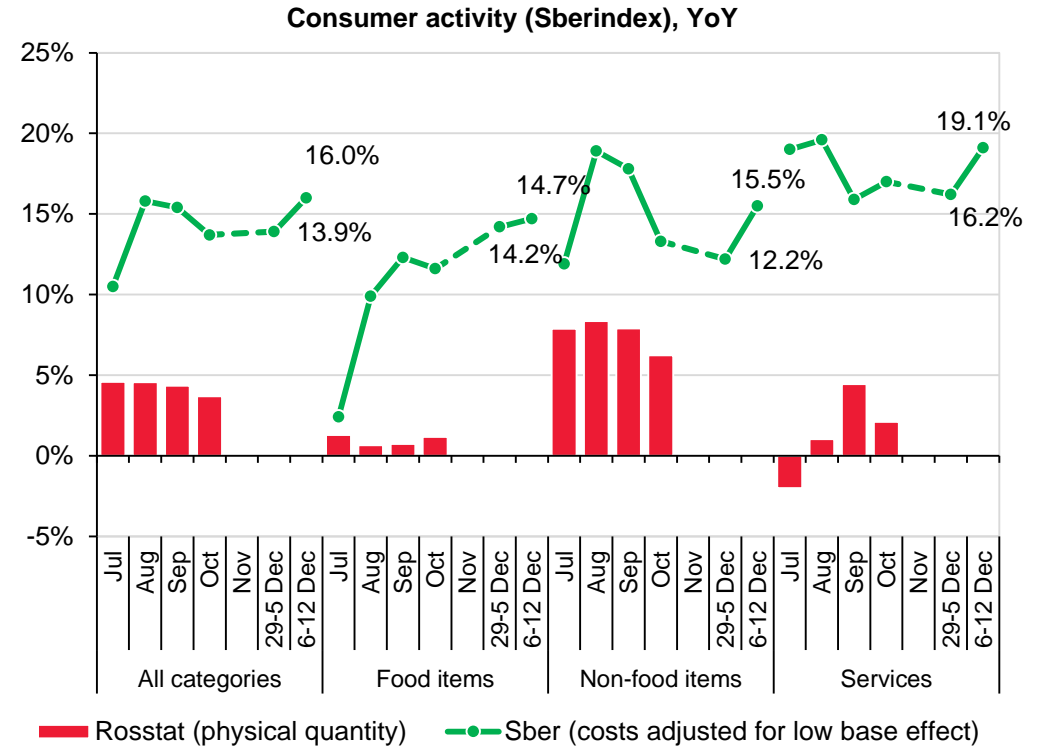
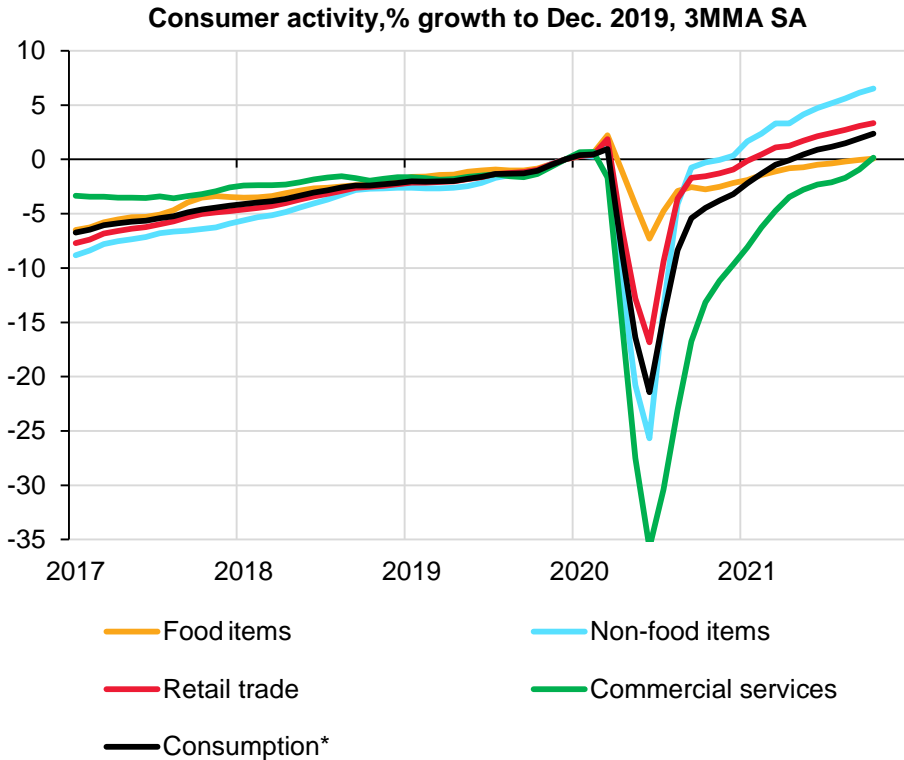
Economic activity: basic output indicator



Economic activity is growing across a wide range of industries. However, supply-side constraints remain strong in a number of sectors. Their restraining effect on business activity may strengthen following the spread of new coronavirus strains and the associated tightening of anti-pandemic measures.

Based on current trends in the Russian and global economy, GDP is projected to grow 4.5% in 2021.

Consumer activity

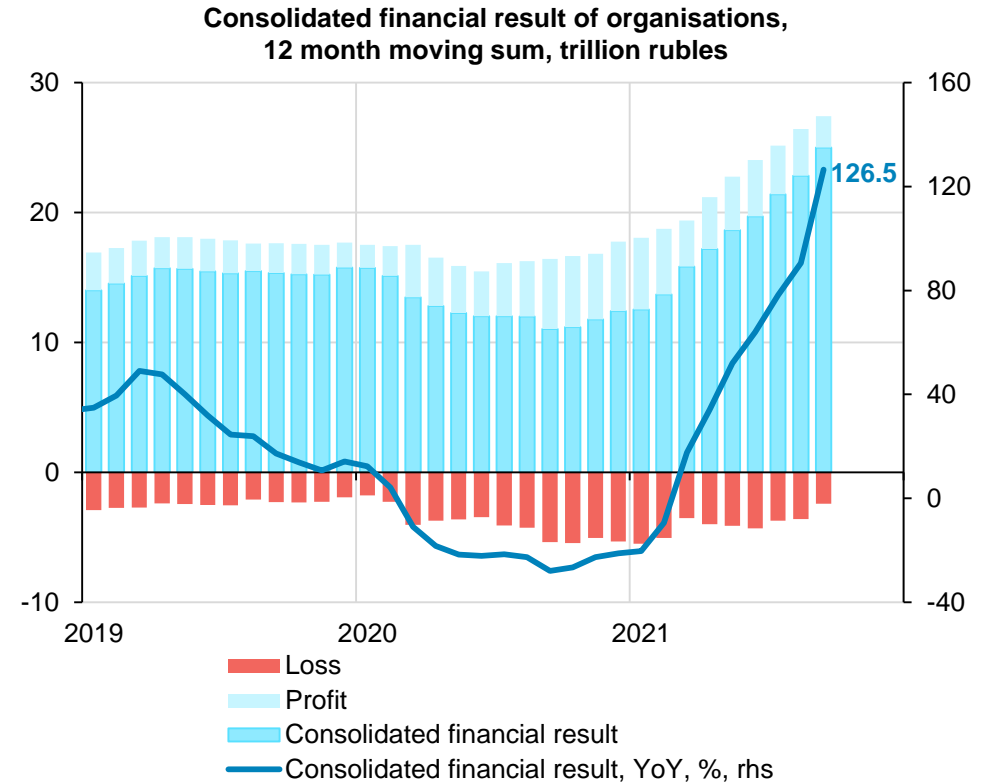
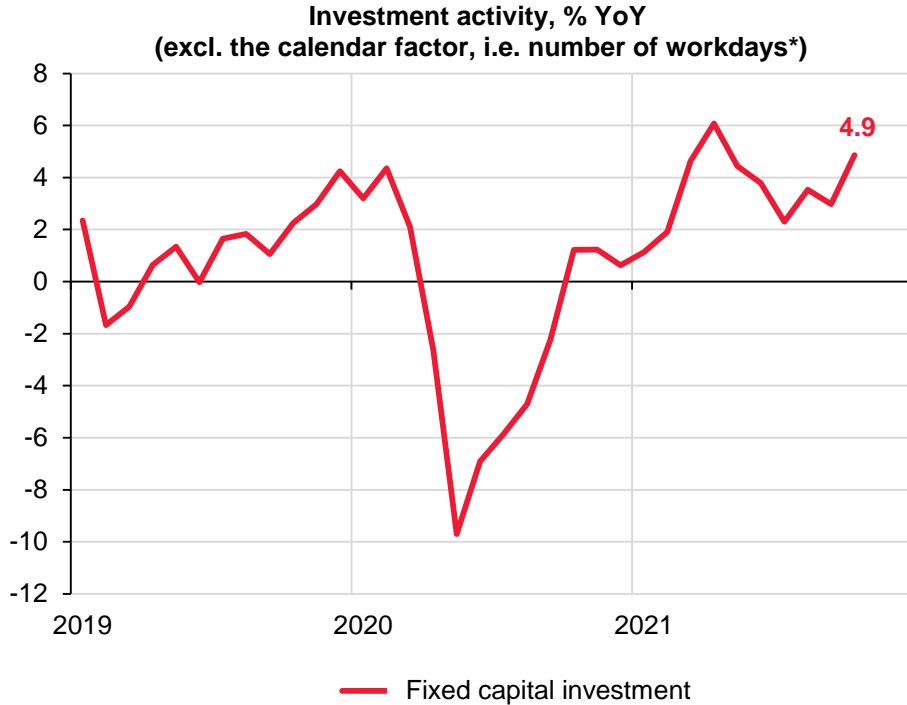


*Consumption is calculated as the weighted growth rates of retail (~¾) and services (~¼).

The rapidly expanding lending, growth in real wages and households' low propensity to save, driven by high inflation expectations, all support rising consumer activity, especially in non-food markets.

Consumption of commercial services is now close to the pre-pandemic level, despite the challenging epidemiological situation.

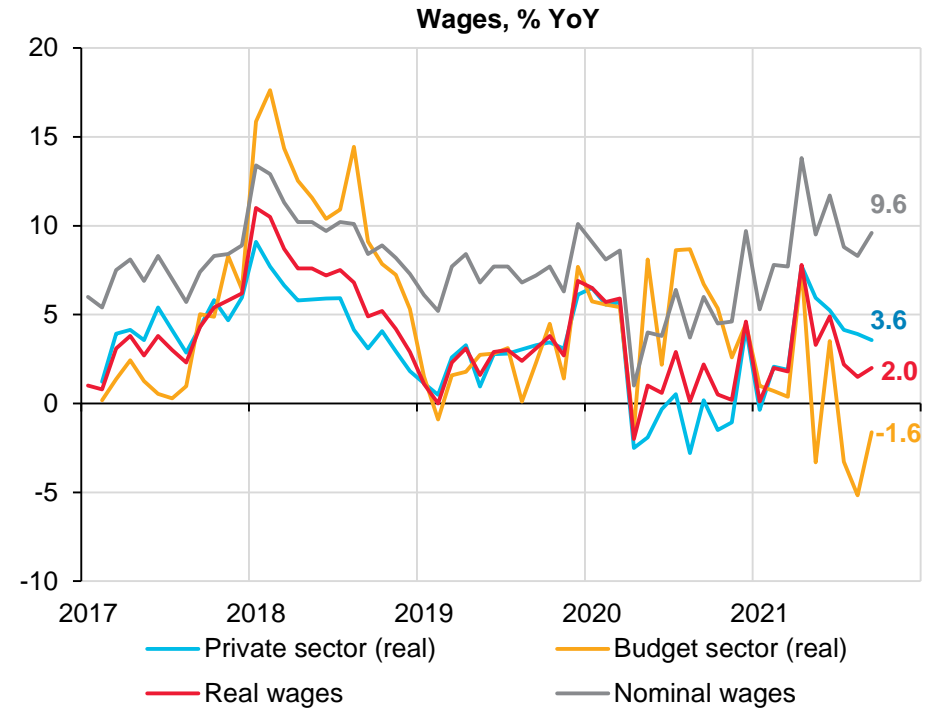
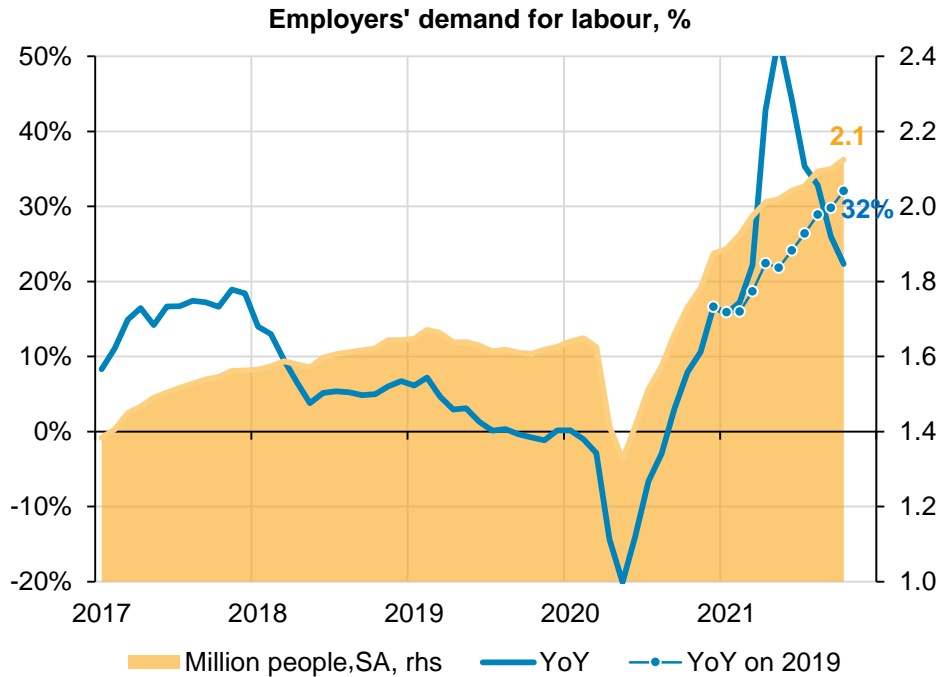
Investment activity



* From April 2021, the data is presented compared to 2019

Growing domestic and external demand and high corporate profits are shoring up investment activity.

Labour market (1)

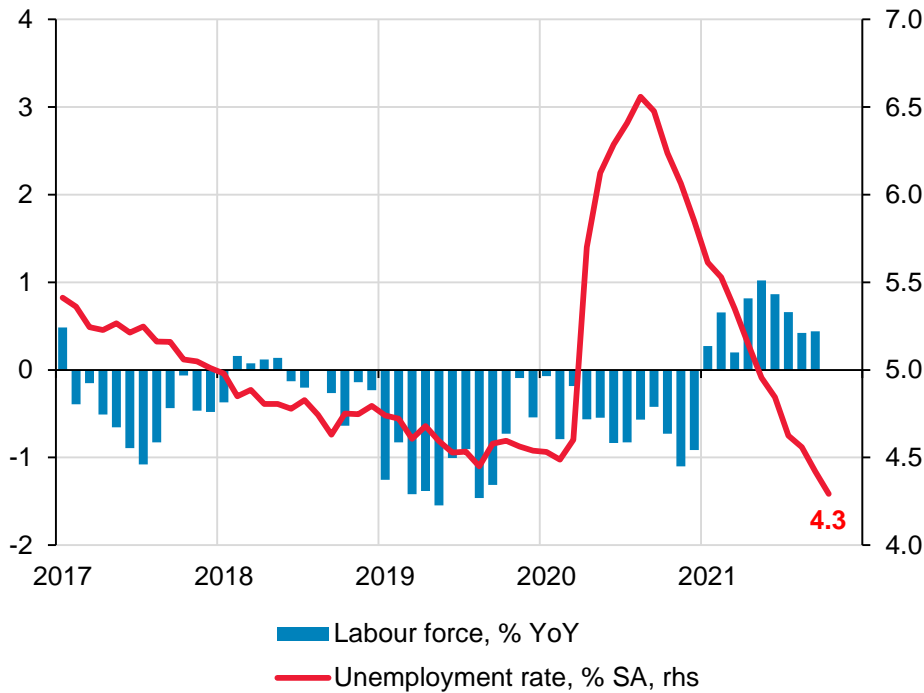


Inflationary pressure from the labour market has intensified.

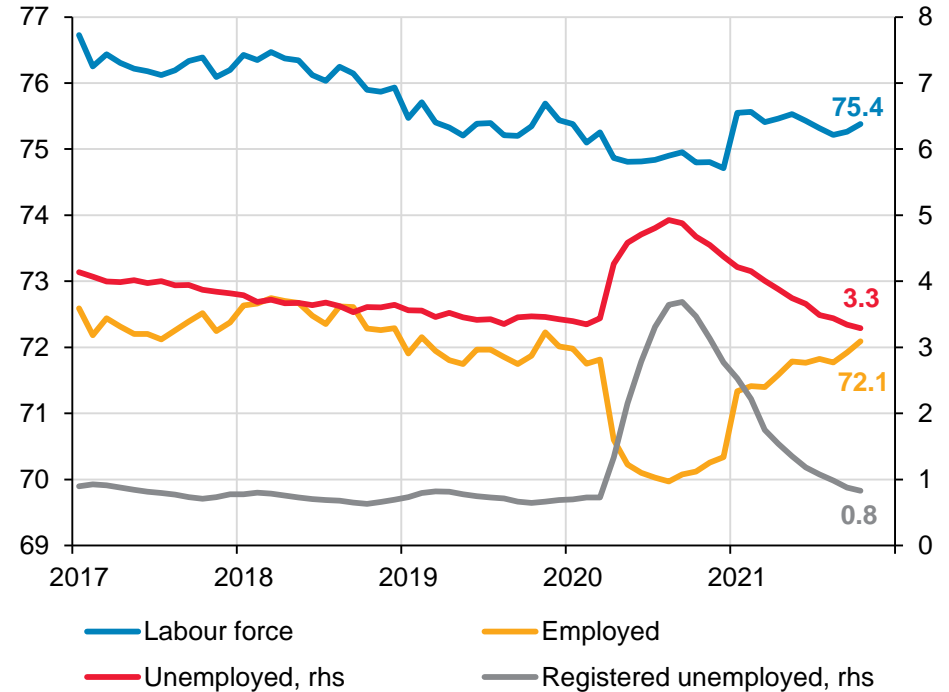
Demand for the labour force is growing in many industries. At the same time, many sectors show labour shortages, despite the inflow of foreign labour.

Labour market (2)

Unemployment and labour force



Labour force, million people, SA

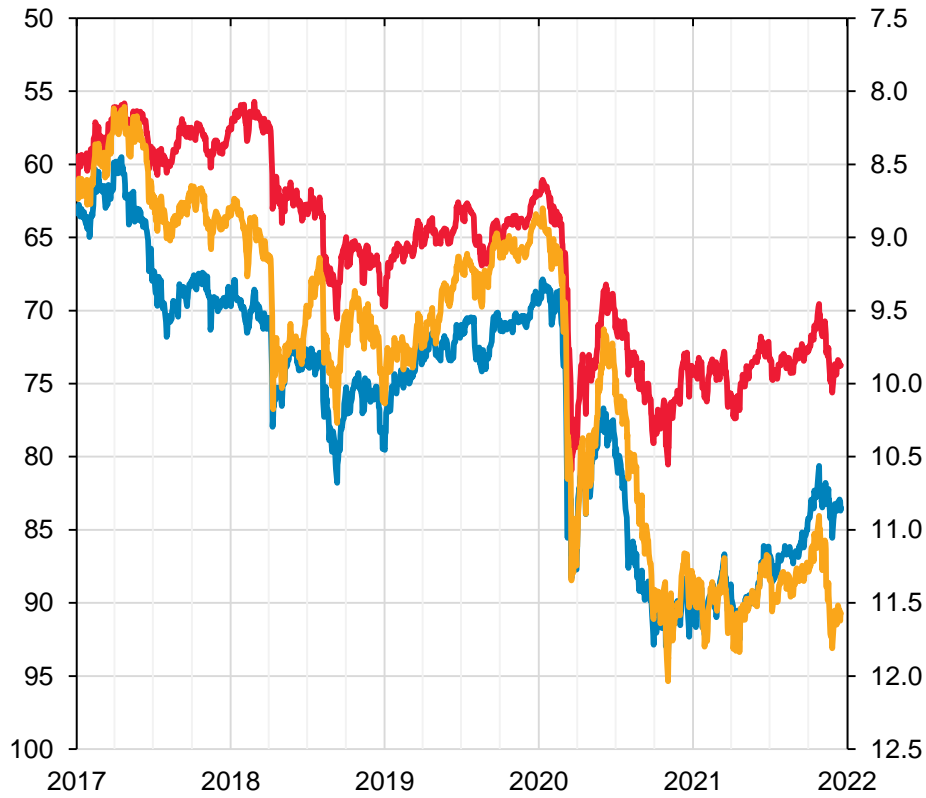


The unemployment rate has dropped to a record low, while the number of vacancies is at a record high.

The state of the labour market suggests that a further increase in steady growth rates of the Russian economy will hinge primarily on the growth pace of labour productivity.

Ruble exchange rate

Nominal ruble exchange rate



— USDRUB — EURRUB — CNYRUB, rhs

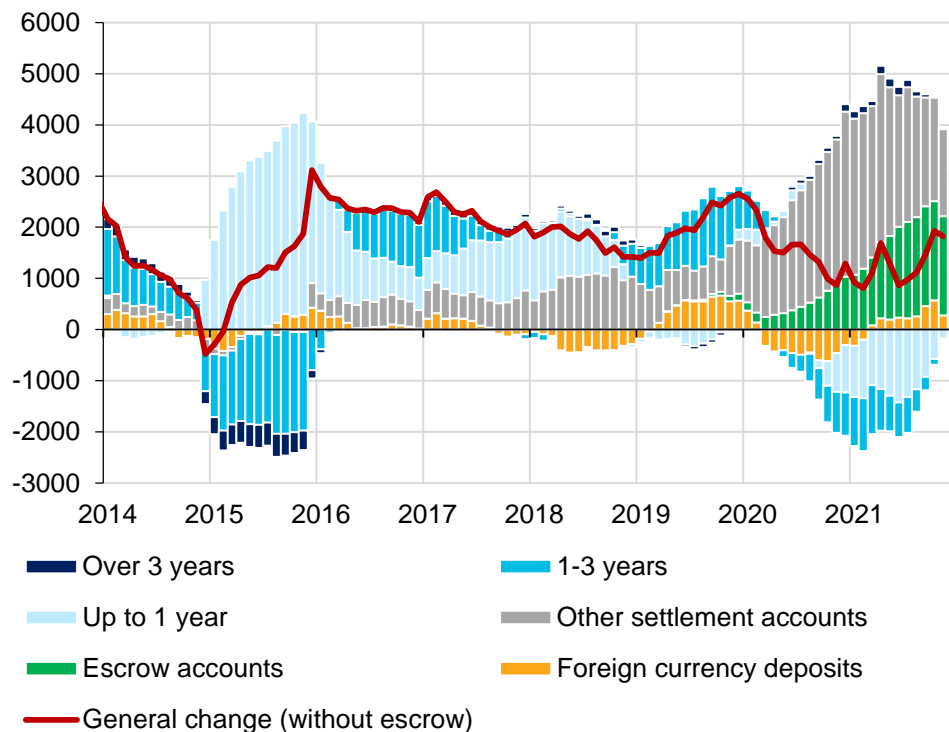
Real effective ruble exchange rate



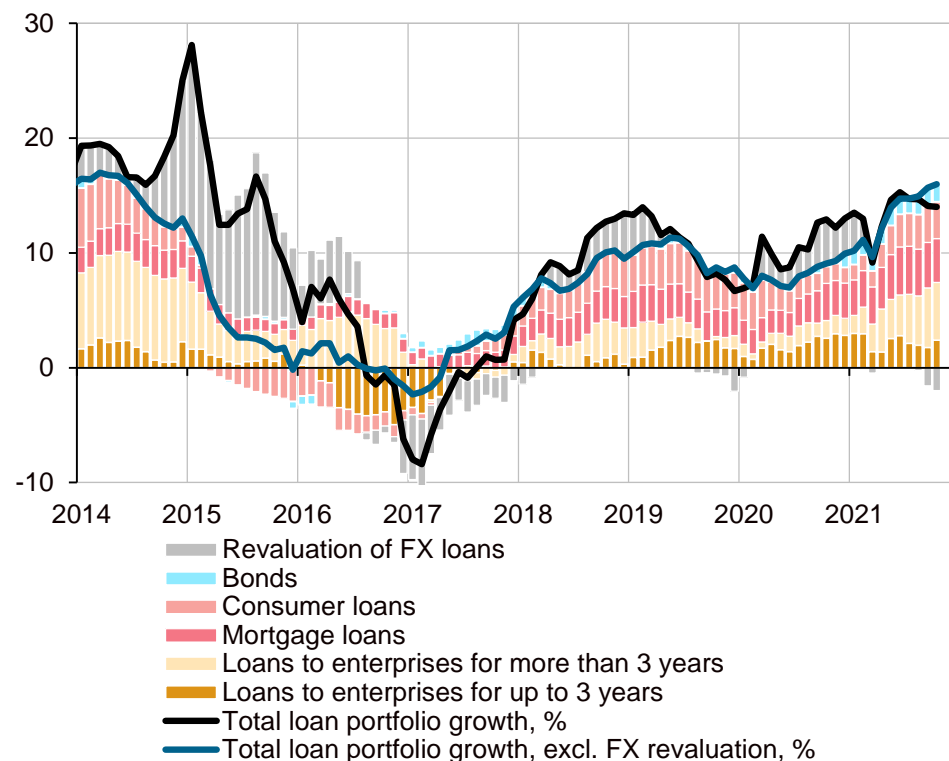
— REER

Deposit and credit market – lending and deposits

Contribution from individual elements to the annual growth of banks' liabilities to the households, billion rubles



Contribution from individual elements to the annual growth of banks' claims to the non-financial sector, pp

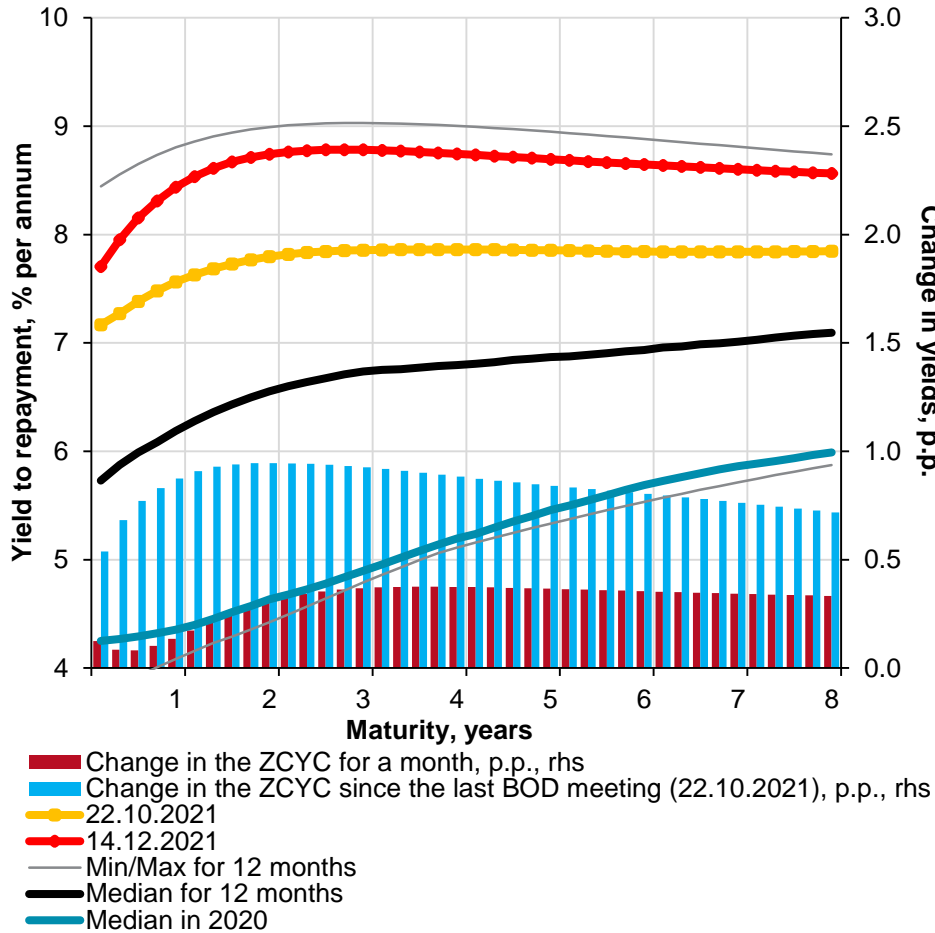


Though the monetary conditions have been tightened since the previous Board meeting, they are still considered neutral. Rising nominal interest rates in the context of elevated inflation expectations have so far made a limited impact on the lending dynamics and the propensity to save.

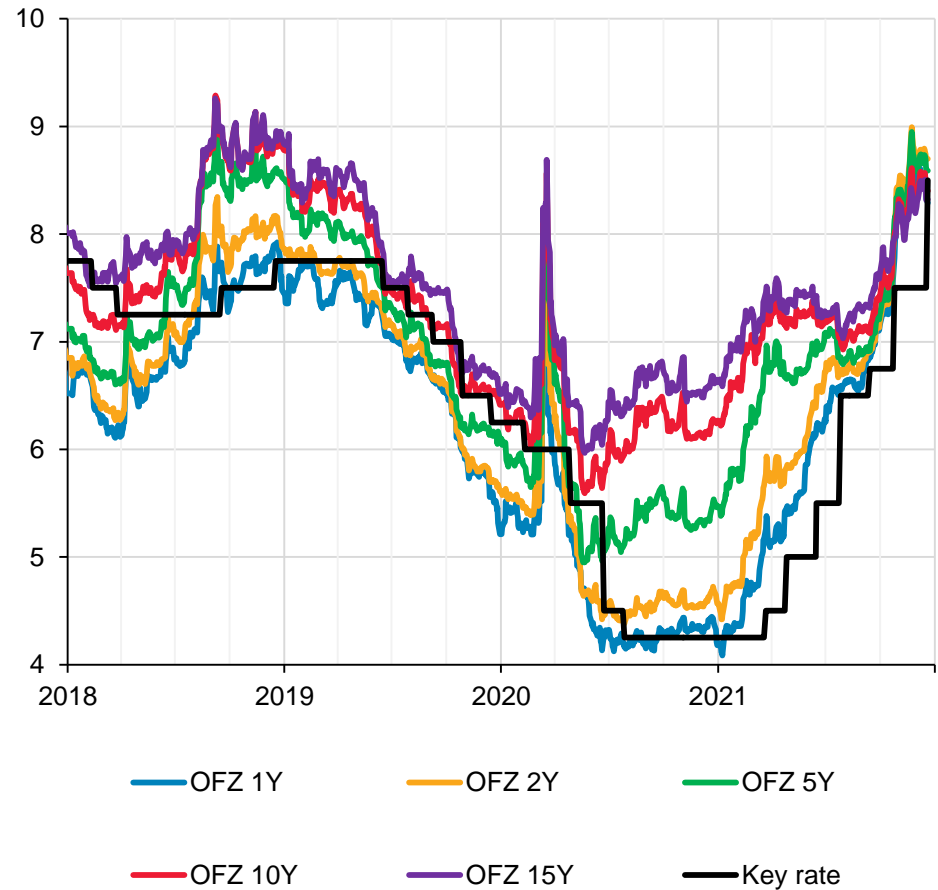
Corporate and retail loan markets still showcase high levels of activity.

OFZ yields

Zero-coupon yield curve (ZCYC), %



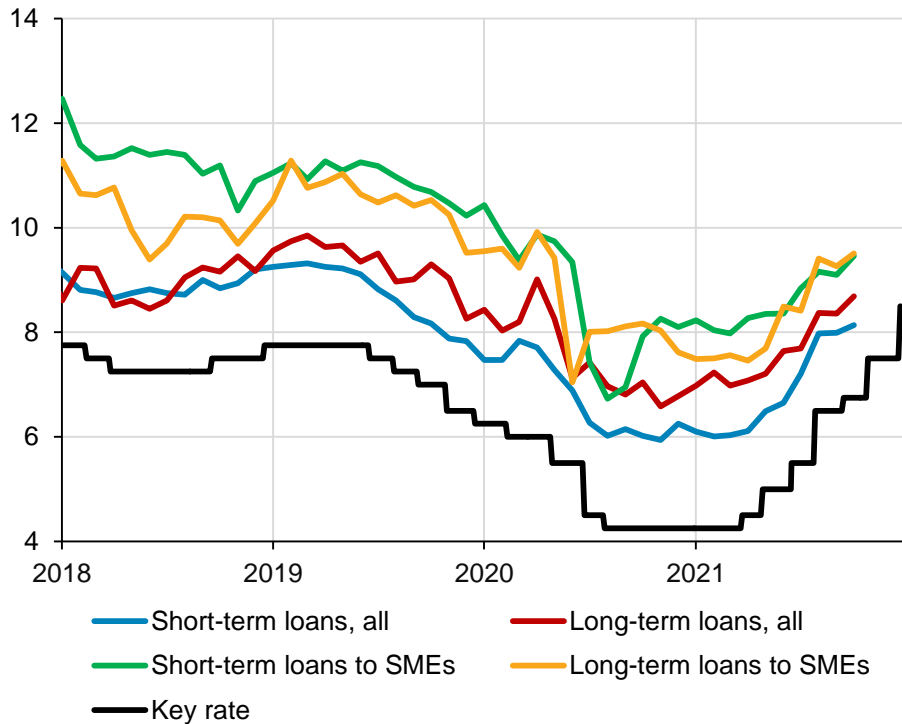
OFZ yields and the key rate, %



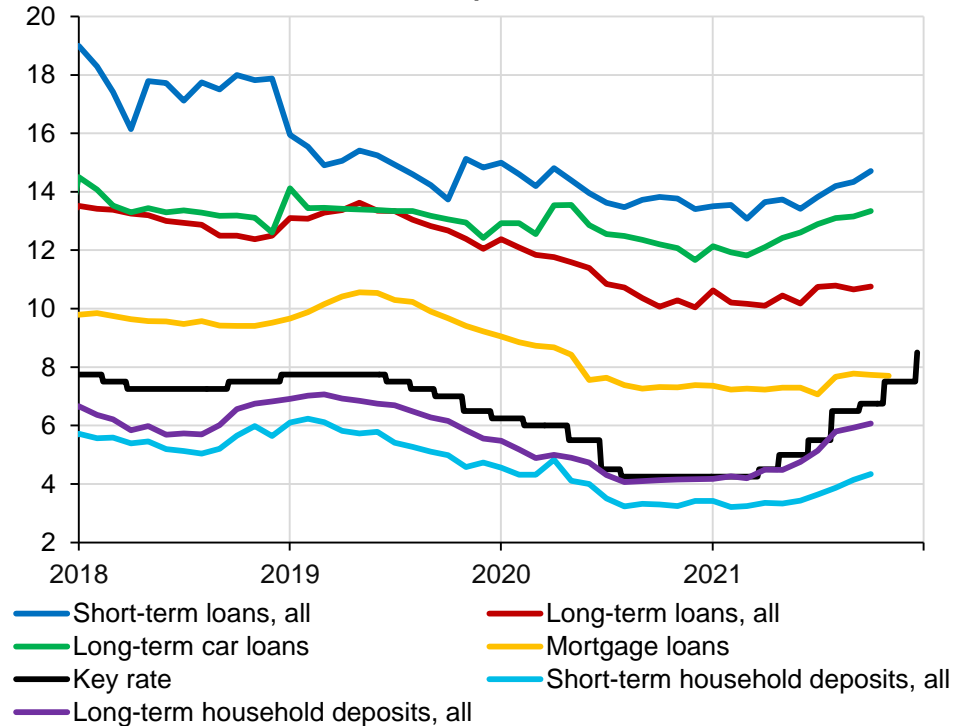
Yields of short-term OFZs are up, reflecting market expectations for the key rate path. Yields on medium- and long-term OFZs have also increased, with increase factors including heightened geopolitical tensions.

Deposit and credit market: interest rates

Interest rates on corporate loans in rubles, % per annum



Interest rates on retail loans and household deposits in rubles, % per annum

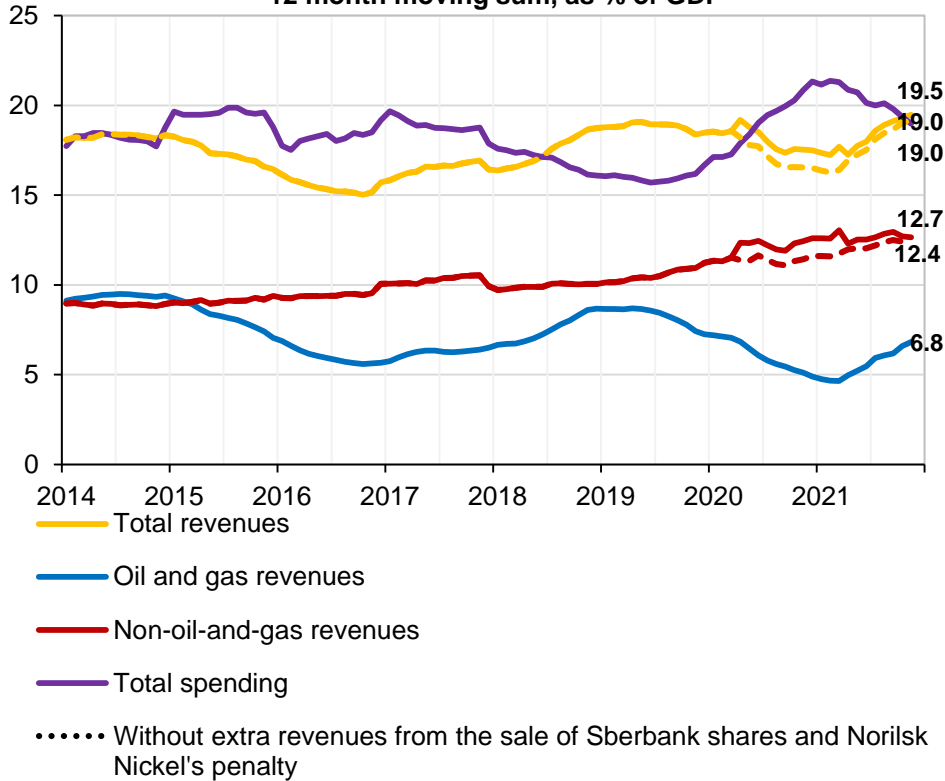


Lending and deposit rates continue their growth driven by the key rate rises between March and October. Funds are gradually flowing into fixed-term ruble deposits.

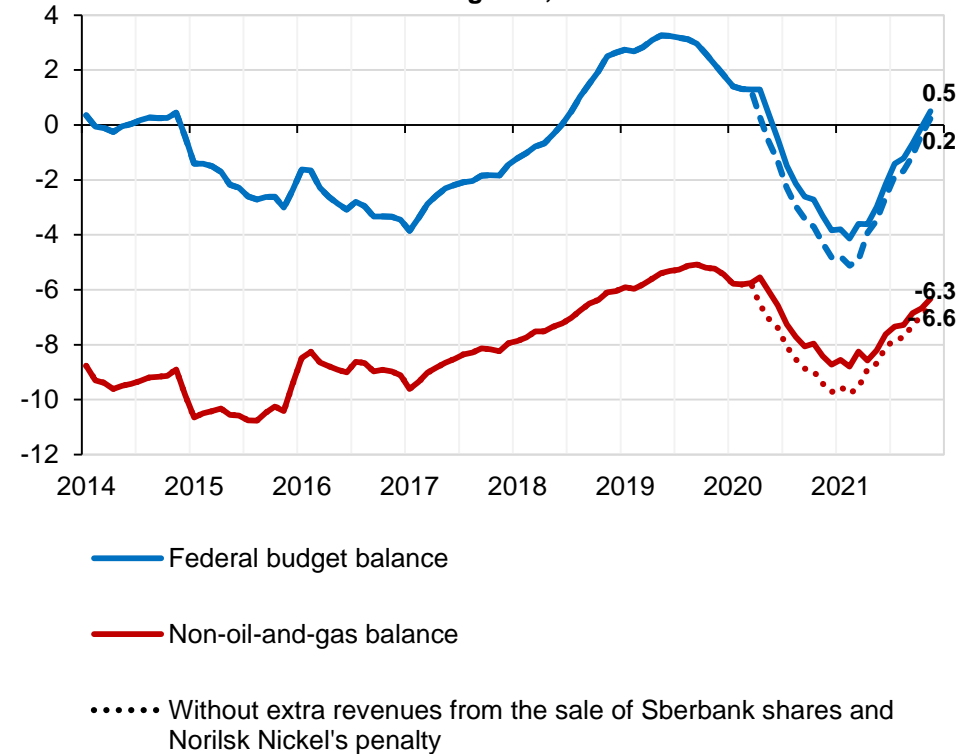
The Bank of Russia's monetary policy stance will help solidify a trend towards the growing appeal of household deposits, protect the purchasing power of savings, and ensure a balanced expansion of lending.

Fiscal policy

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



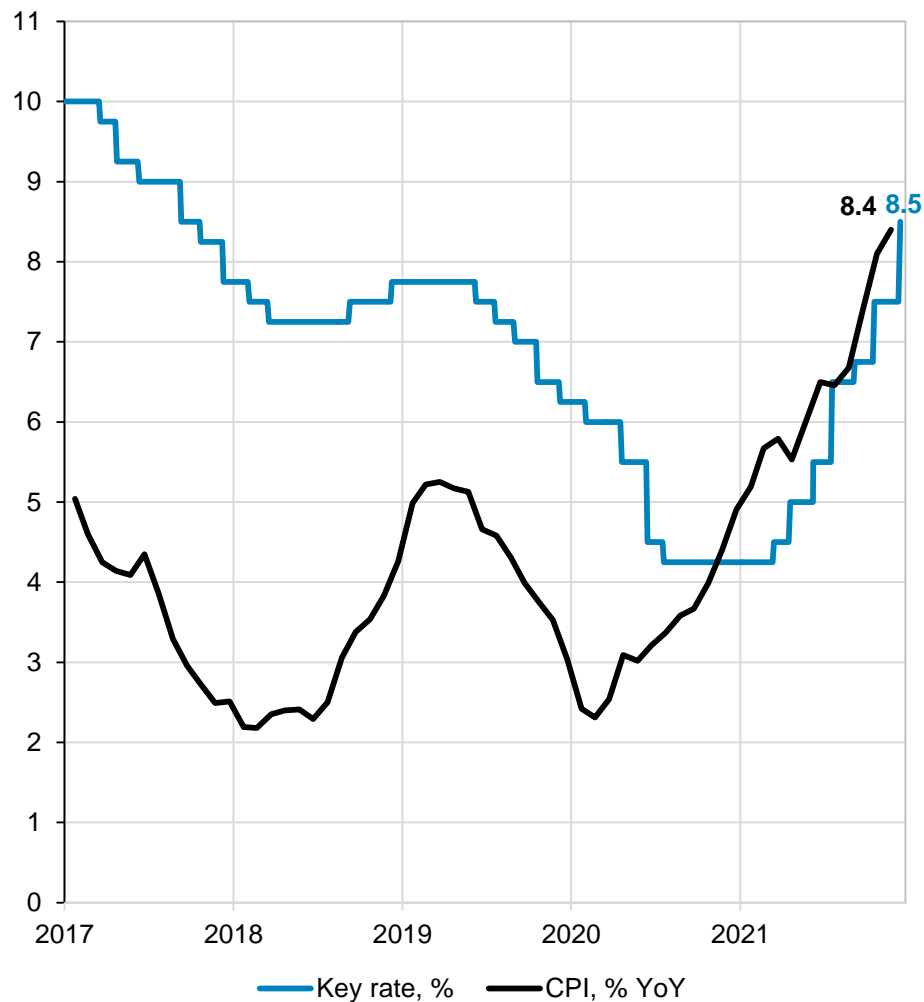
Federal budget balance, 12 month moving sum, as % of GDP



Medium-term inflation is largely influenced by the fiscal policy. The Bank of Russia's baseline scenario accounts for the fiscal policy normalisation path stipulated by the Guidelines for Fiscal, Tax and Customs and Tariff Policy, which assumes a return to the fiscal rule parameters in 2022.

In its forecast, the Bank of Russia also factors in the decisions made by the Government of the Russian Federation to invest the liquid part of the National Wealth Fund.

The Bank of Russia's monetary policy decision of 17 December 2021: the key rate is increased by 100 b.p. to 8.50% p.a.



On 17 December 2021, the Bank of Russia Board of Directors announced its decision to increase the key rate by 100 b.p. to 8.50% per annum. **The inflation trend is above the Bank of Russia's October forecast.** The contribution of persistent factors to the inflation remains considerable due to the pace of growth in demand exceeding the output expansion capacity. In this environment, given the rising inflation expectations, **the balance of inflation risks is markedly tilted to the upside. This may bring about a more substantial and prolonged upward deviation of inflation from the target.** The Bank of Russia's monetary policy stance is aimed at limiting this risk and returning the inflation to 4%.

If the situation develops in line with the baseline forecast, the **Bank of Russia does not rule out further key rate increases at its upcoming meetings.** Key rate decisions will take into account actual and expected inflation movements relative to the target and economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets. Based on the Bank of Russia's forecast, **given the monetary policy stance, annual inflation will edge down to 4.0–4.5% by late 2022 and will remain close to 4% further on.**