



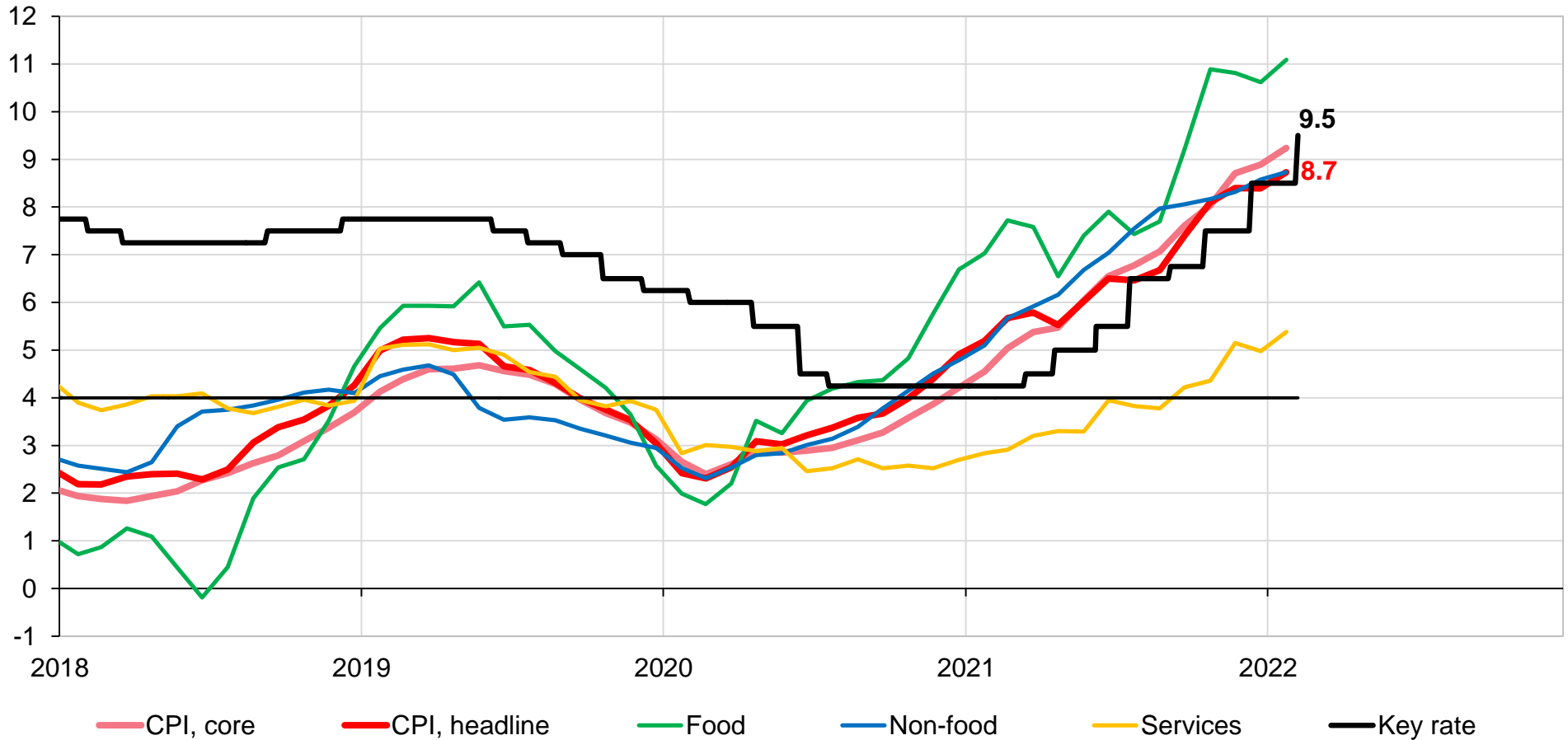
Bank of Russia

# **RUSSIA'S ECONOMIC OUTLOOK AND MONETARY POLICY**

February 2022

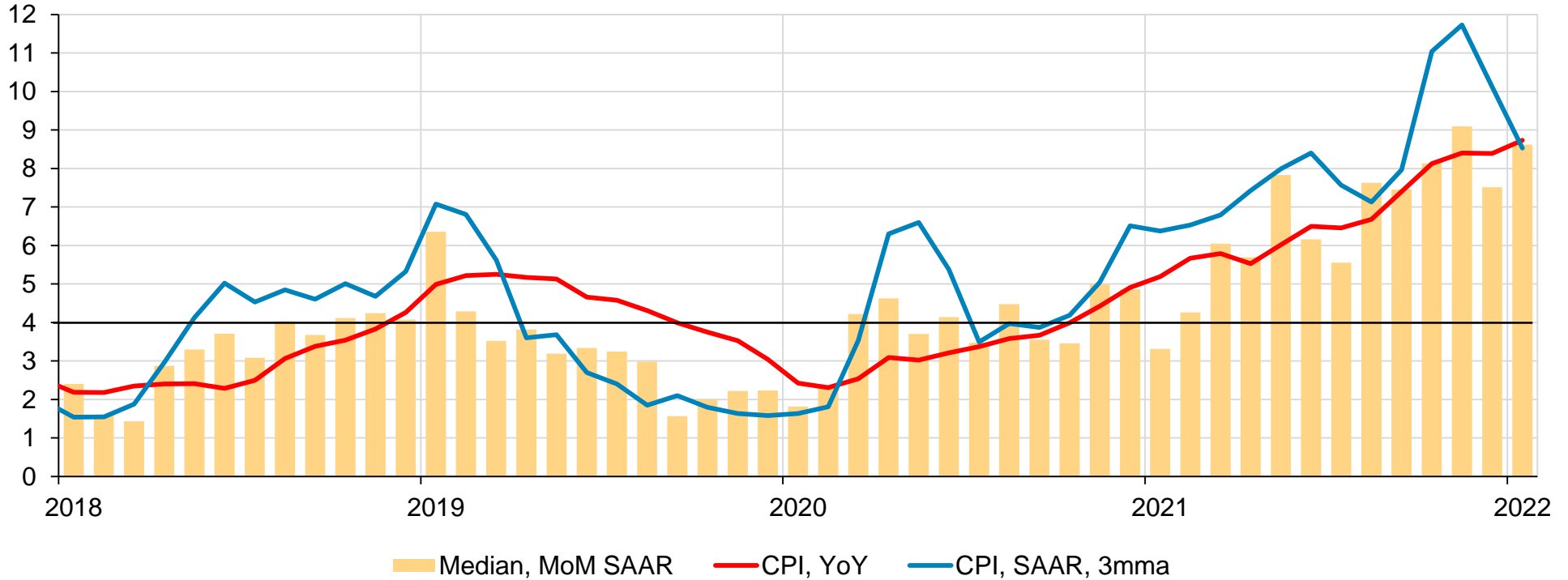
## Consumer prices (1)

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



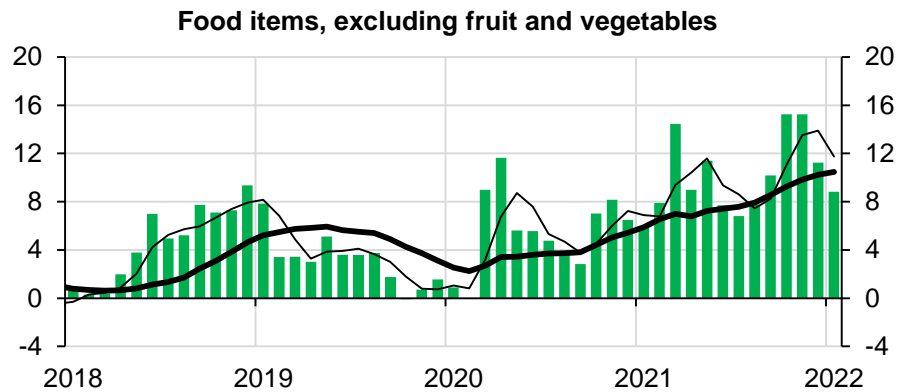
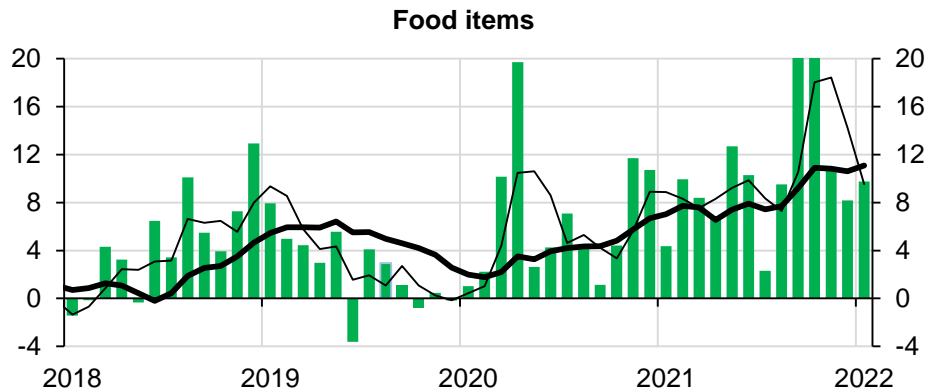
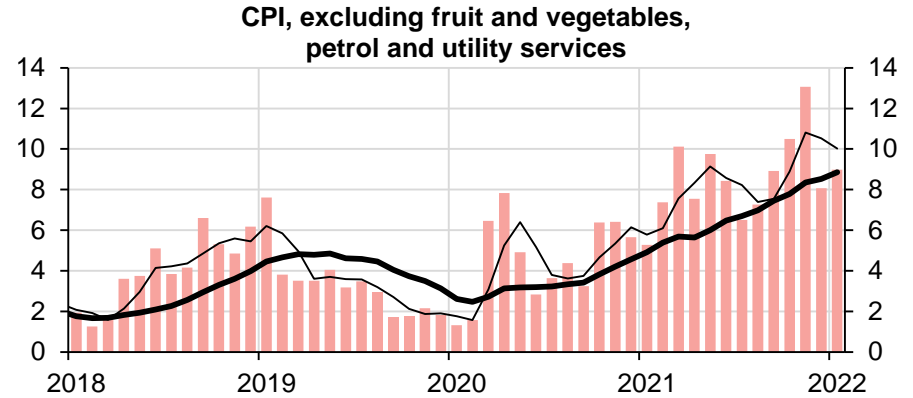
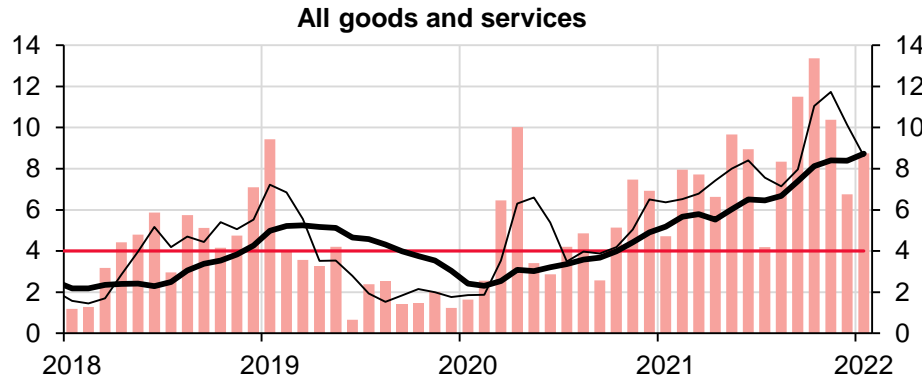
## Consumer prices (2)

Median and headline inflation, %



Inflation is running appreciably above the Bank of Russia's October forecast. In January, monthly seasonally adjusted pace of growth in consumer prices picked up again after dropping in December, though staying below the peak values of the 2021 autumn. Annual inflation in January climbed to 8.7% (vs 8.4% in December 2021).

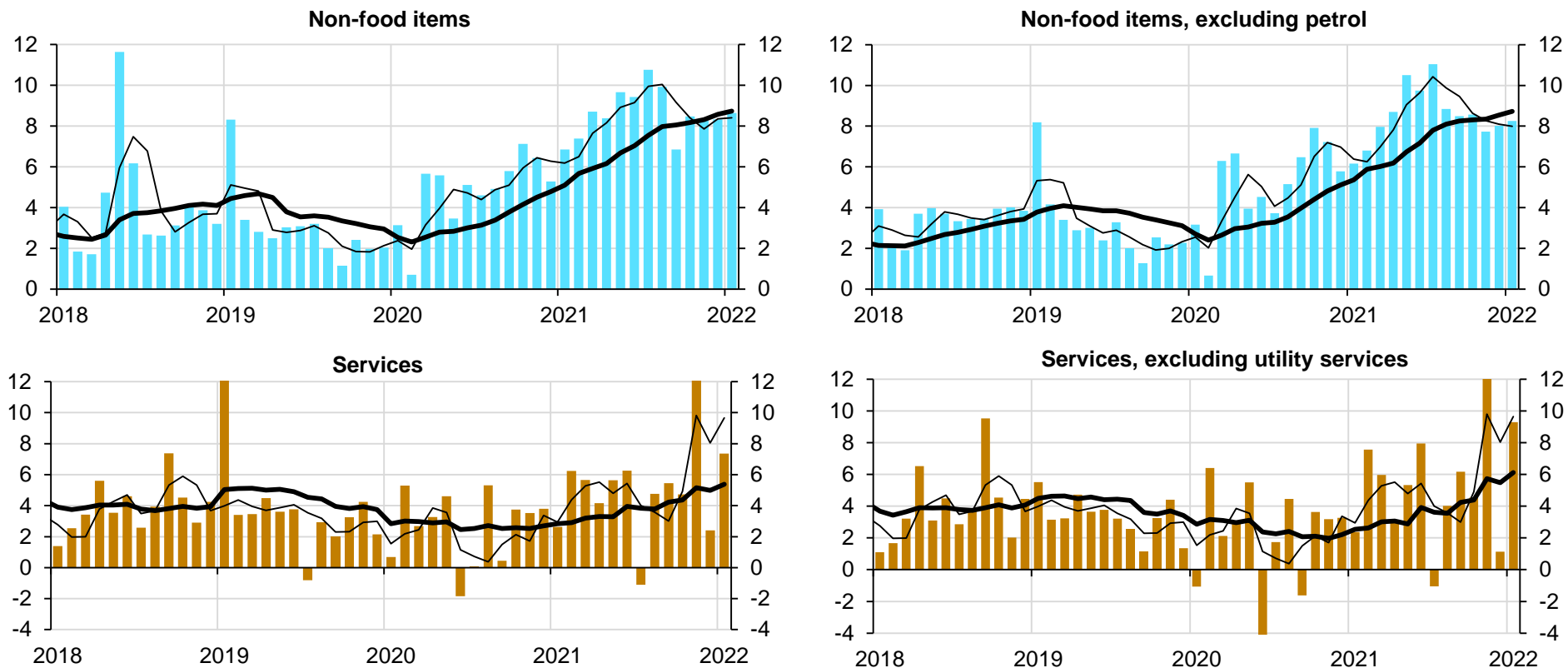
## Inflation rates for main groups, seasonally adjusted (1)



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

Based on Bank of Russia estimates, indicators characterizing the most sustainable price movements substantially overshoot 4% (annualised). This reflects the fact that 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, including on the back of rising global prices, on to consumers.

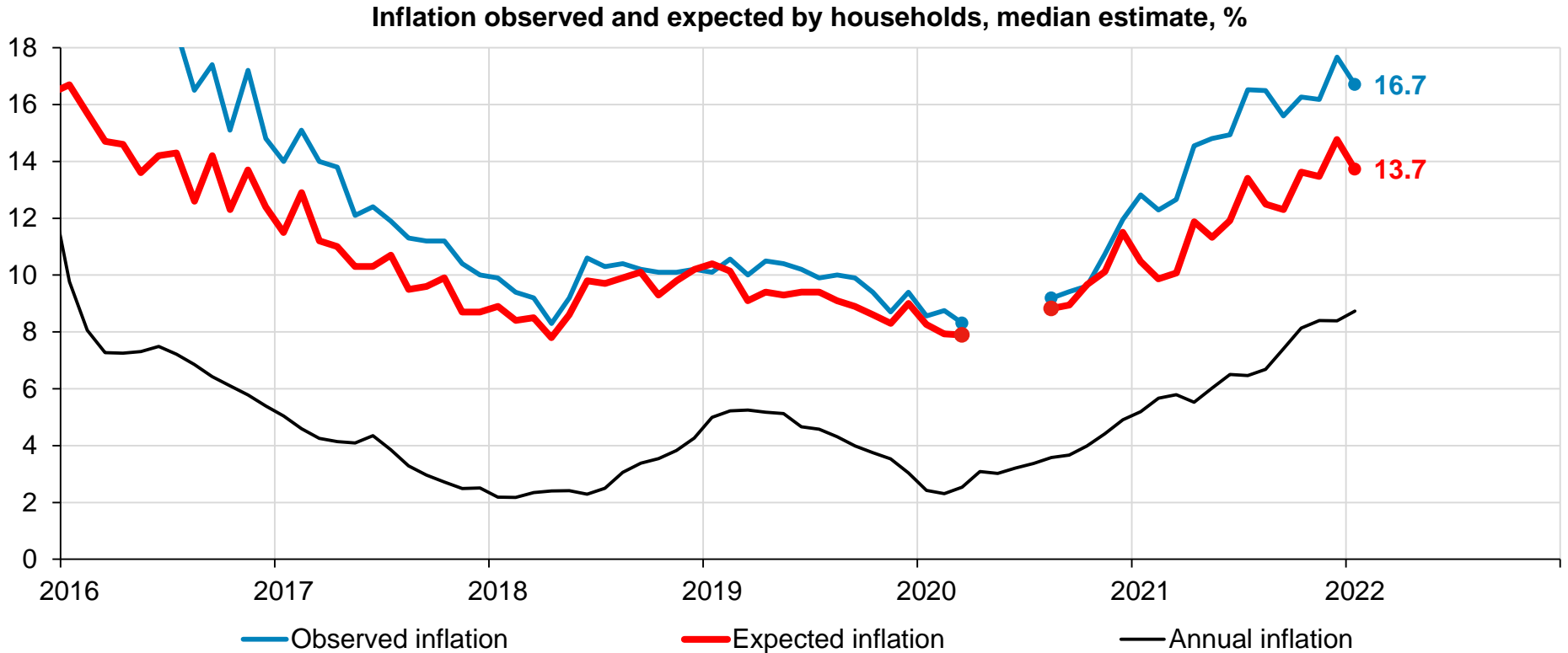
## Inflation rates for main groups, seasonally adjusted (2)



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

The dominating influence of inflationary factors has led to a more substantial and prolonged upward deviation of inflation from the target. According to the Bank of Russia's forecast, given the monetary policy stance, annual inflation will reduce to 5.0-6.0% in 2022 to return to the target in the middle of 2023. Further on, annual inflation will stay close to 4%.

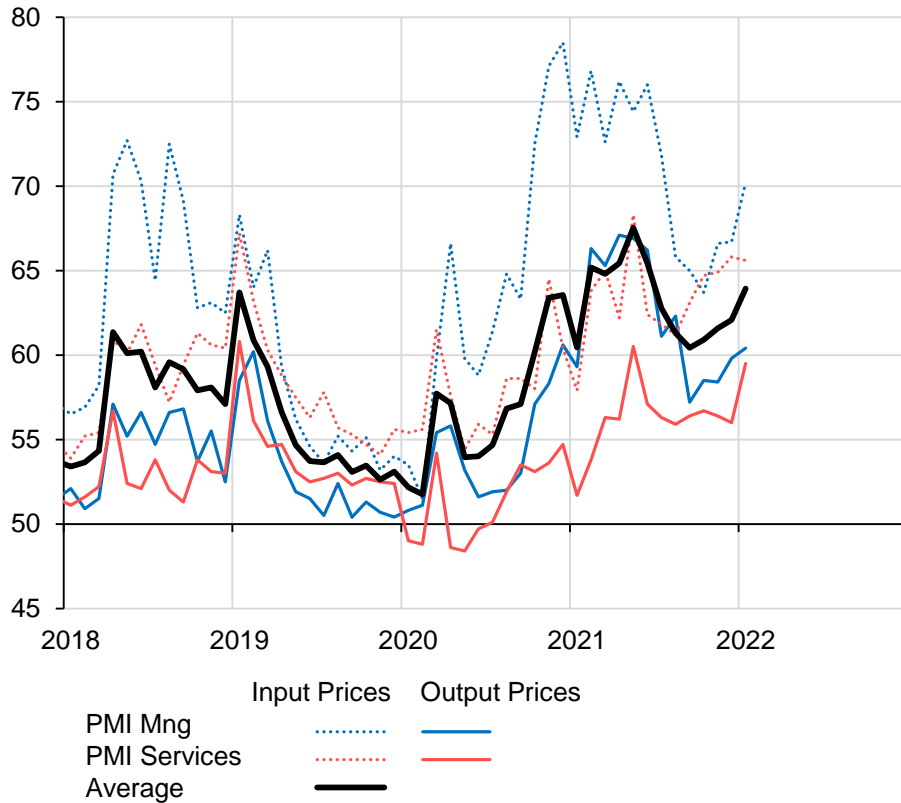
## Inflation expectations: households



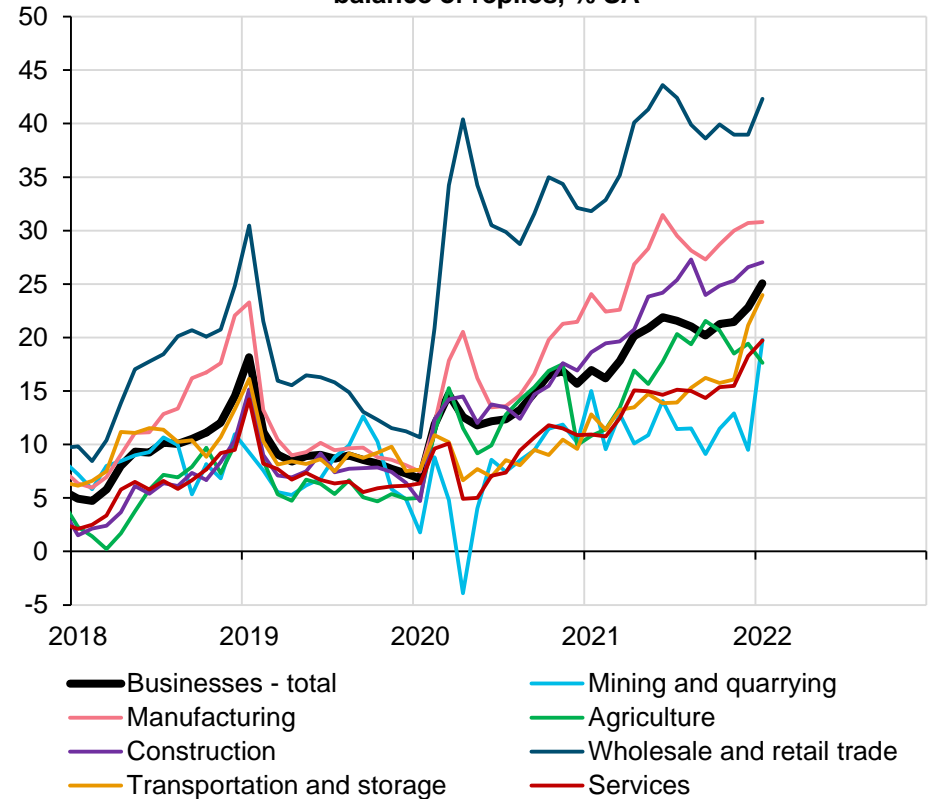
Price growth inertia is intensified by high and unanchored inflation expectations of households and businesses. In January, households' inflation expectations slightly abated, though remaining close to six-year highs.

## Price expectations: businesses

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

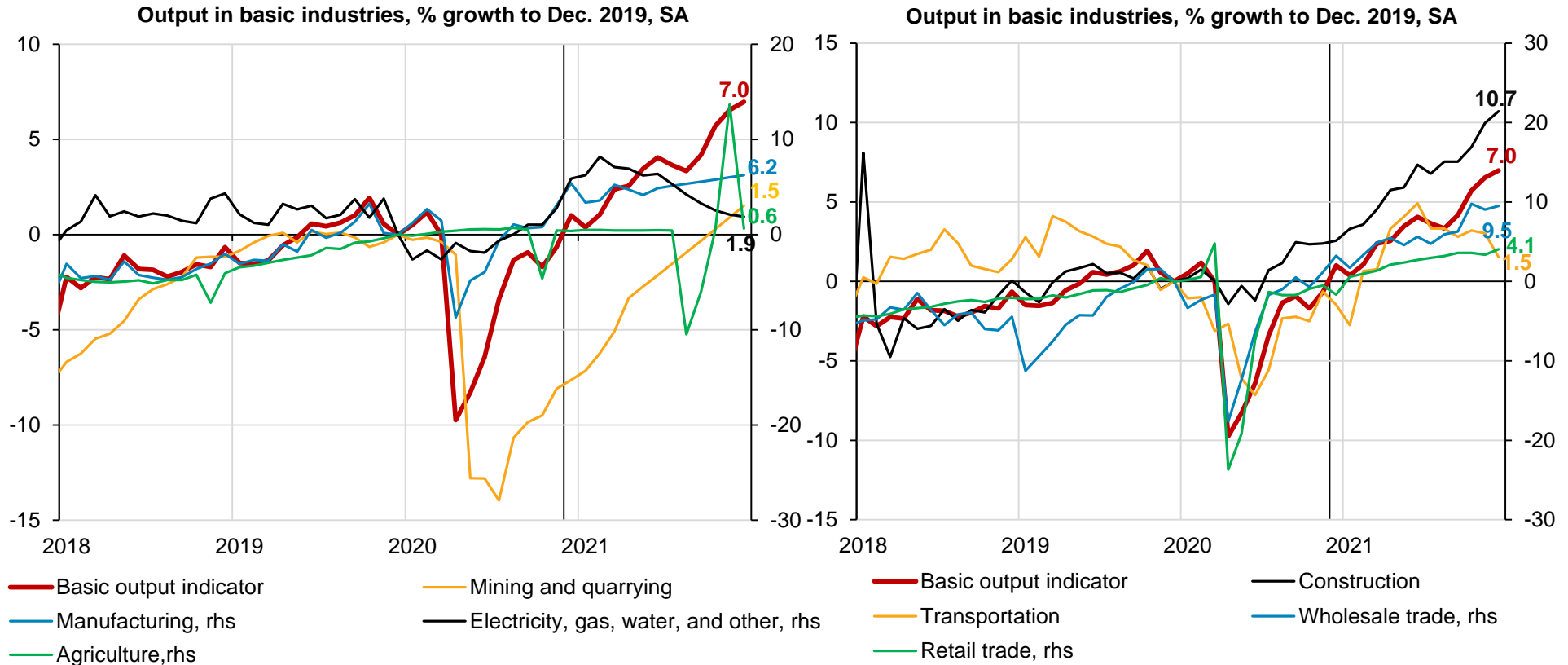


Replies of businesses to the question: “How will the prices of final goods change in the upcoming 3 months (increase/decrease)?”, balance of replies, % SA



Recent data indicate that business price expectations are growing, reaching new multi-year highs.

## Economic activity: basic output indicator

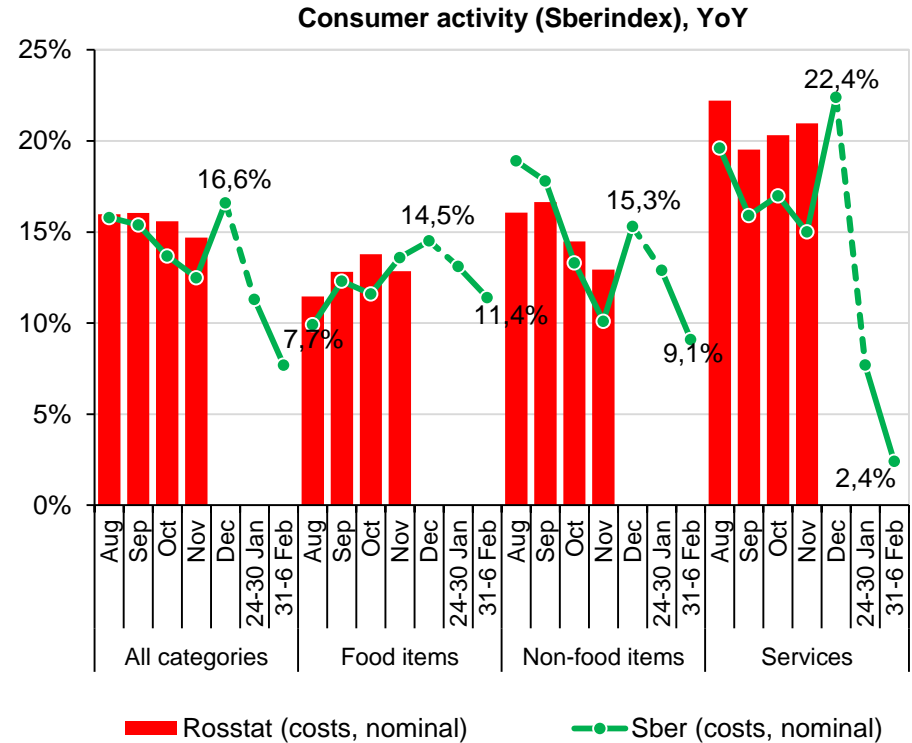
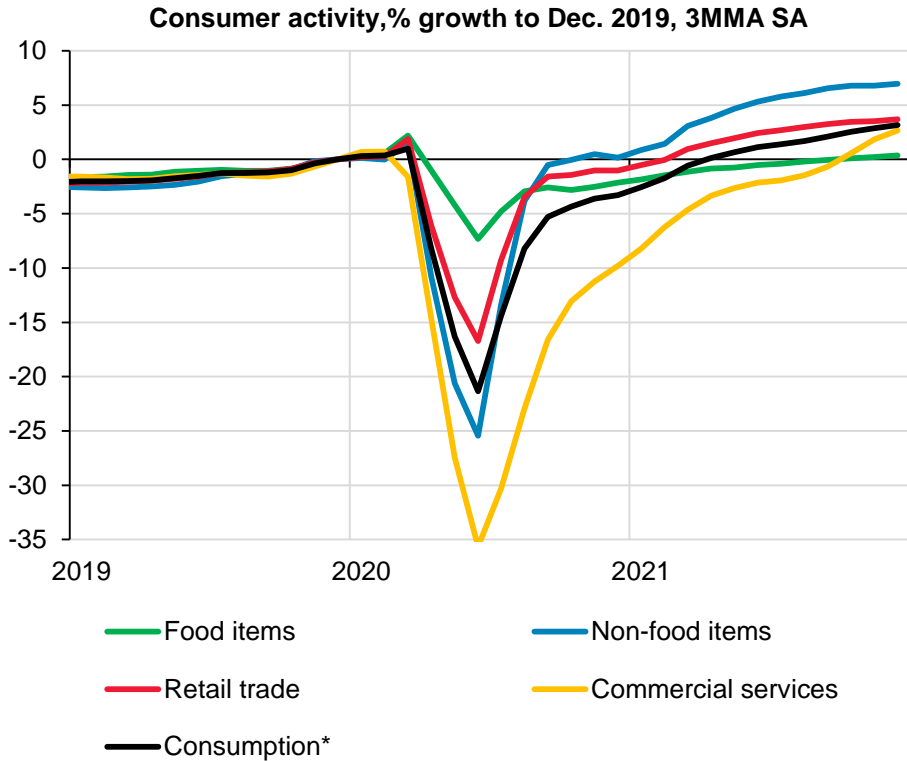


According to Bank of Russia estimates, in 2021 Q4, the Russian economy noticeably deviated upwards from the balanced growth path.

In accordance with the updated baseline forecast, GDP is projected to grow 2.0-3.0% in 2022. As forecast by the Bank of Russia, the annual growth rate of the Russian economy will equal 1.5-2.5% in 2023 and 2.0-3.0% in 2024. This implies that the Russian economy will return to its balanced growth path by the end of 2023 and will develop in line with its potential further on.



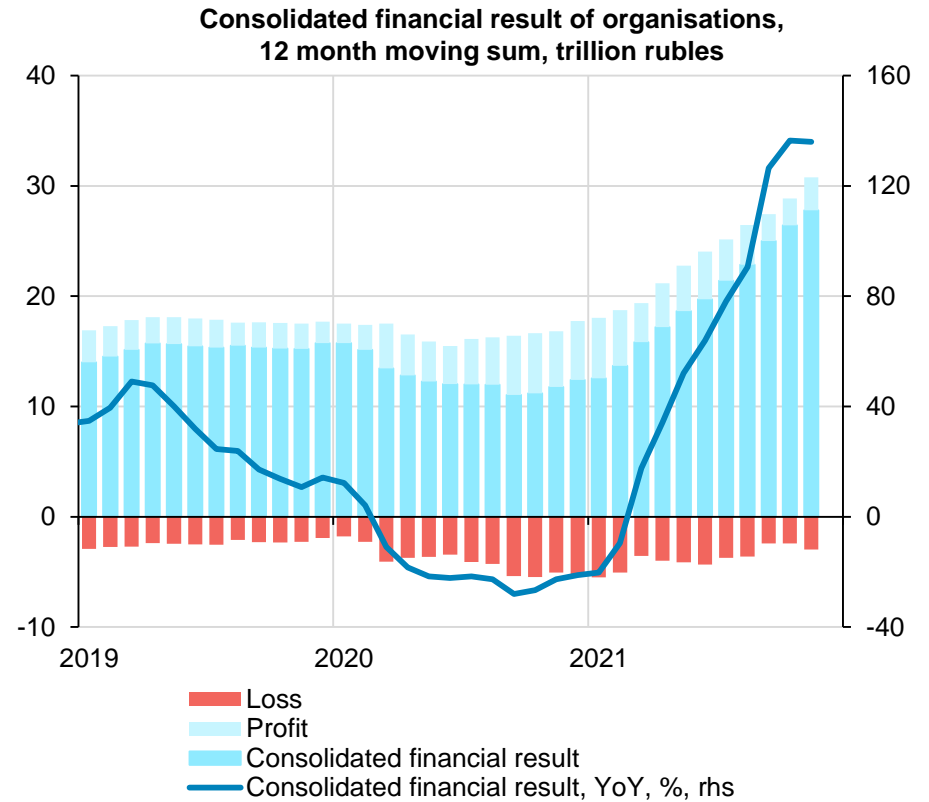
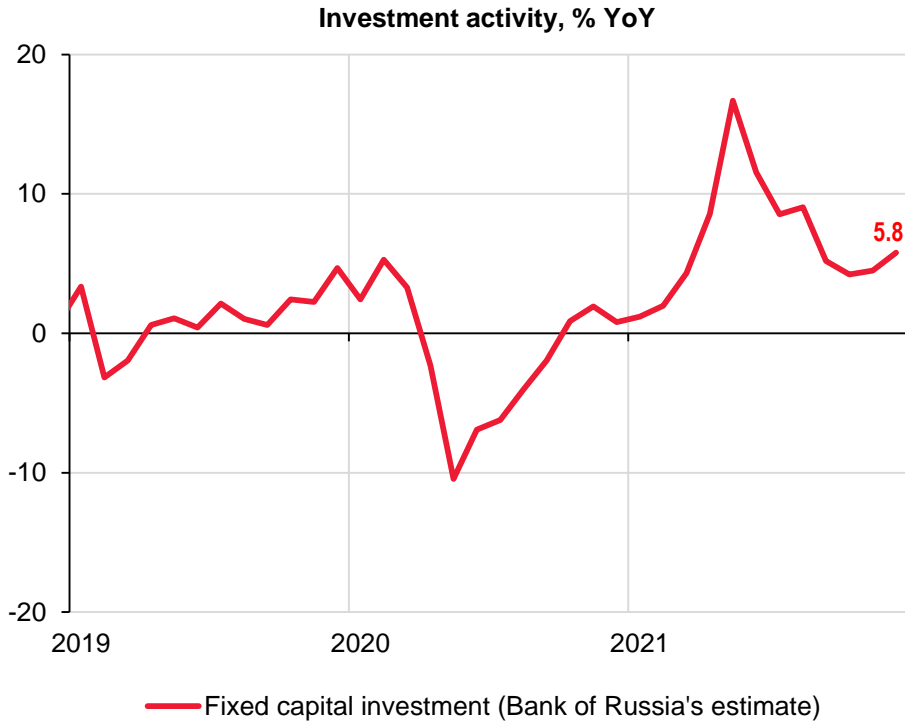
## Consumer activity



\*Consumption is calculated as the weighted growth rates of retail (~3/4) and services (~1/4).

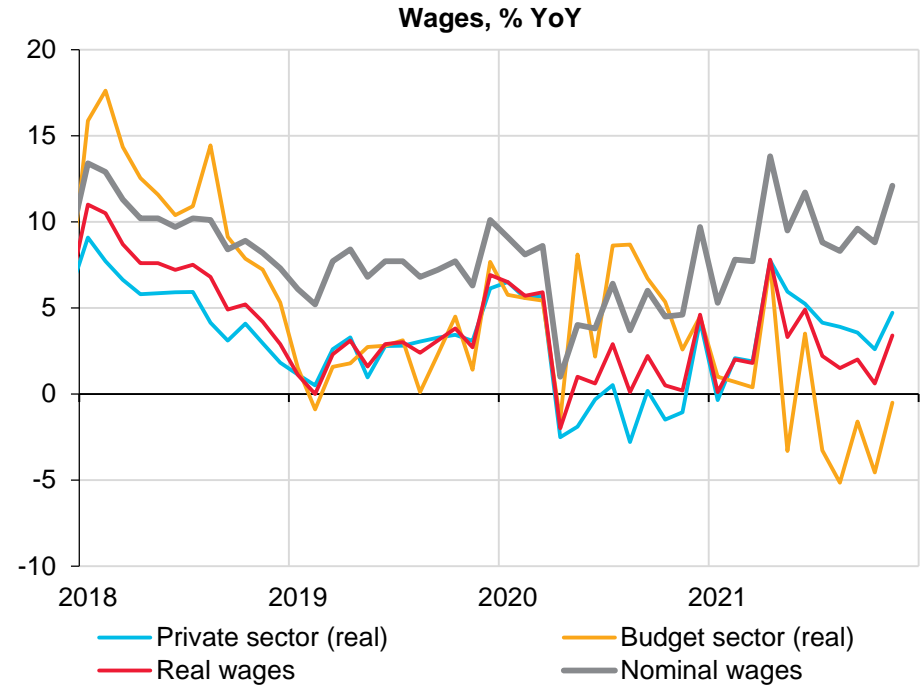
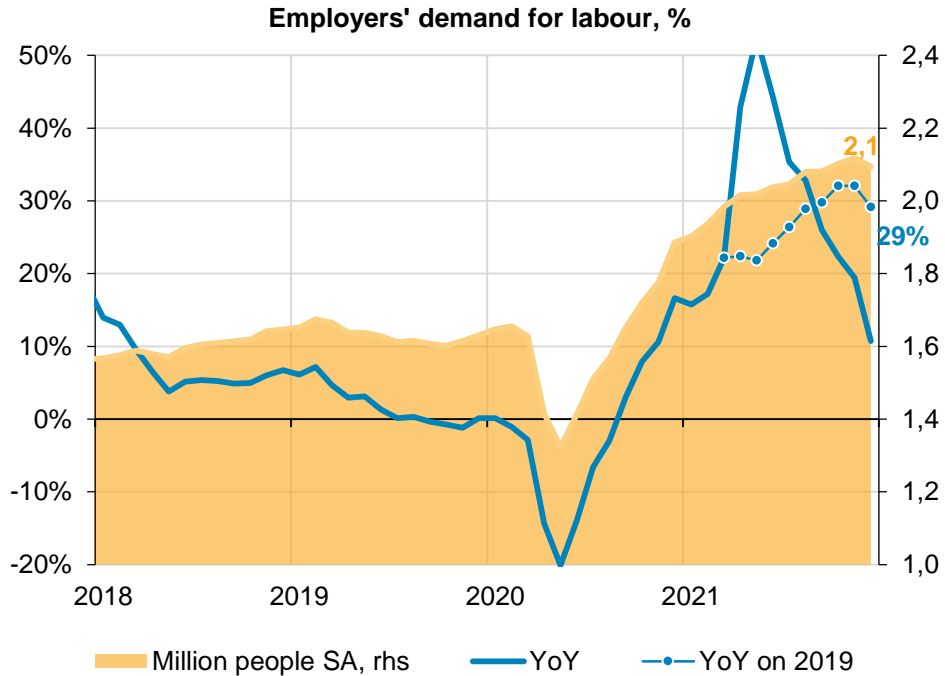
Rapid growth in lending, rising real wages and households' moderate propensity to save, driven by high inflation expectations, support expansion in consumer activity, especially in non-food markets.

## Investment activity



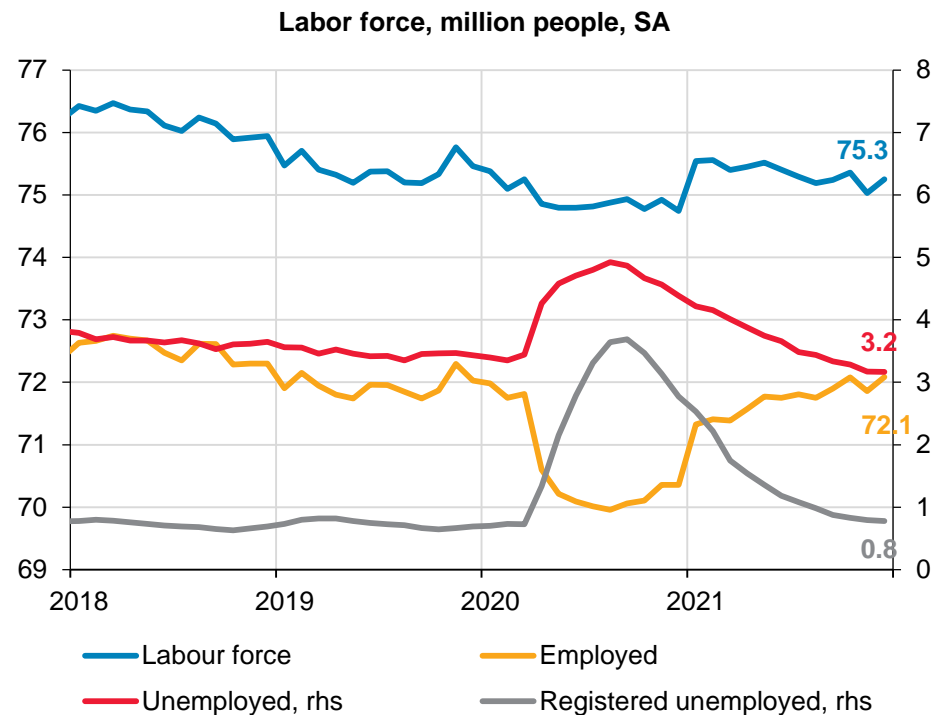
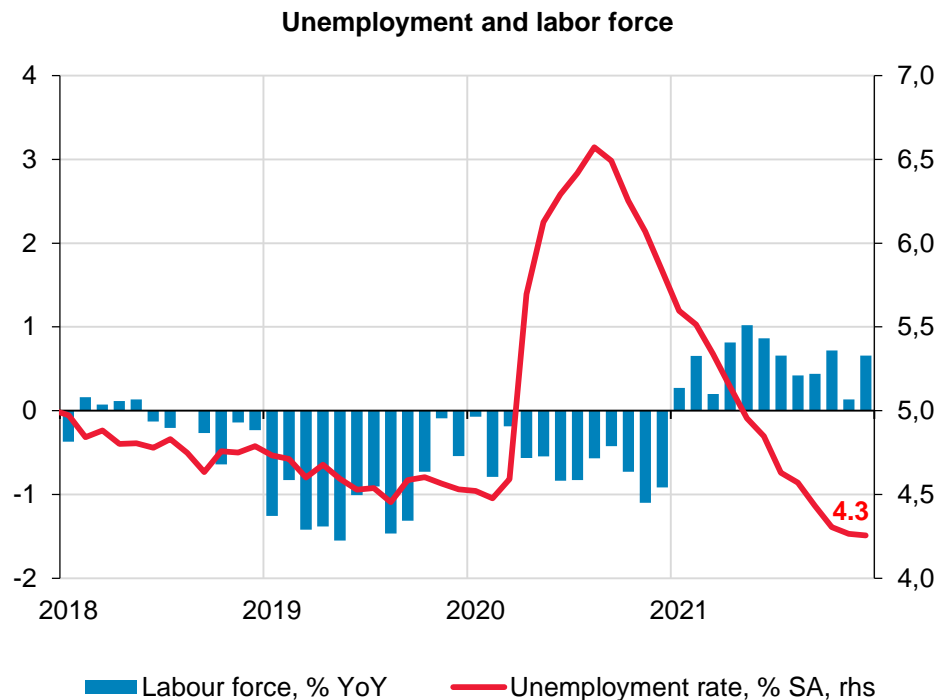
Growing domestic and external demand and high corporate profits shore up investment activity.

## Labour market (1)



Demand for labour force continues to grow in many industries. At the same time, labour shortages are emerging in many sectors, despite the inflow of foreign labour.

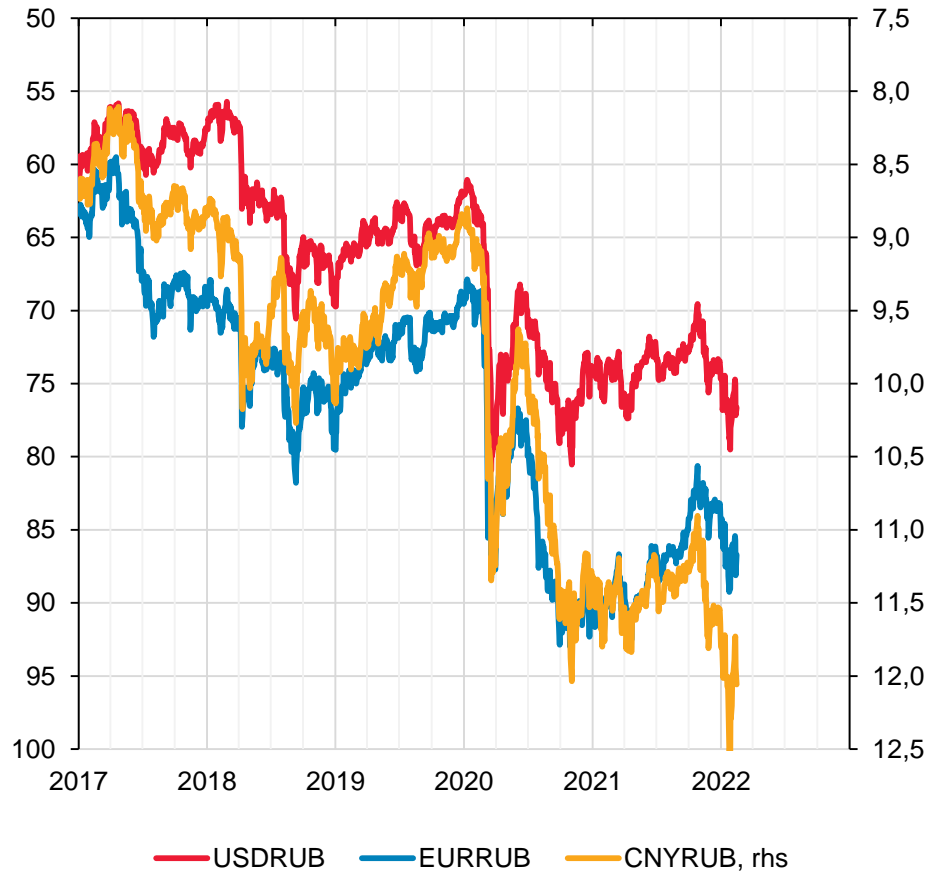
## Labour market (2)



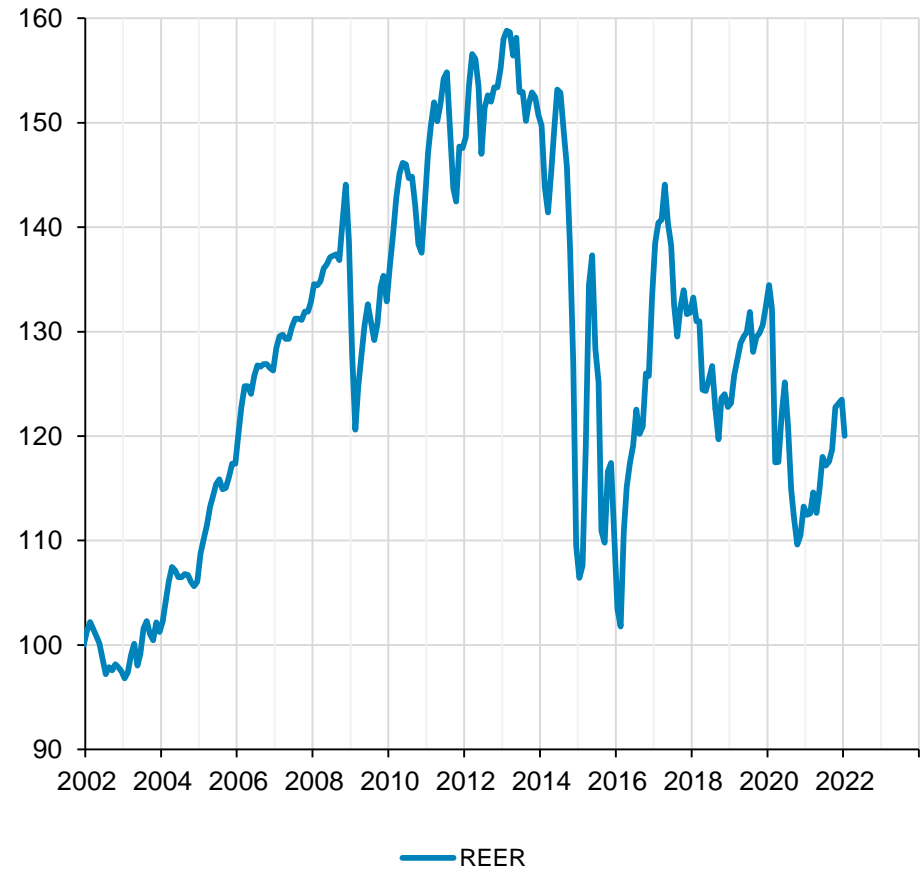
Unemployment is at its record lows, whereas the number of openings was the highest on record. The state of the labour market suggests that a further increase in steady growth rates of the Russian economy will be conditional primarily on the growth paces of labour productivity.

## Ruble exchange rate

Nominal ruble exchange rate

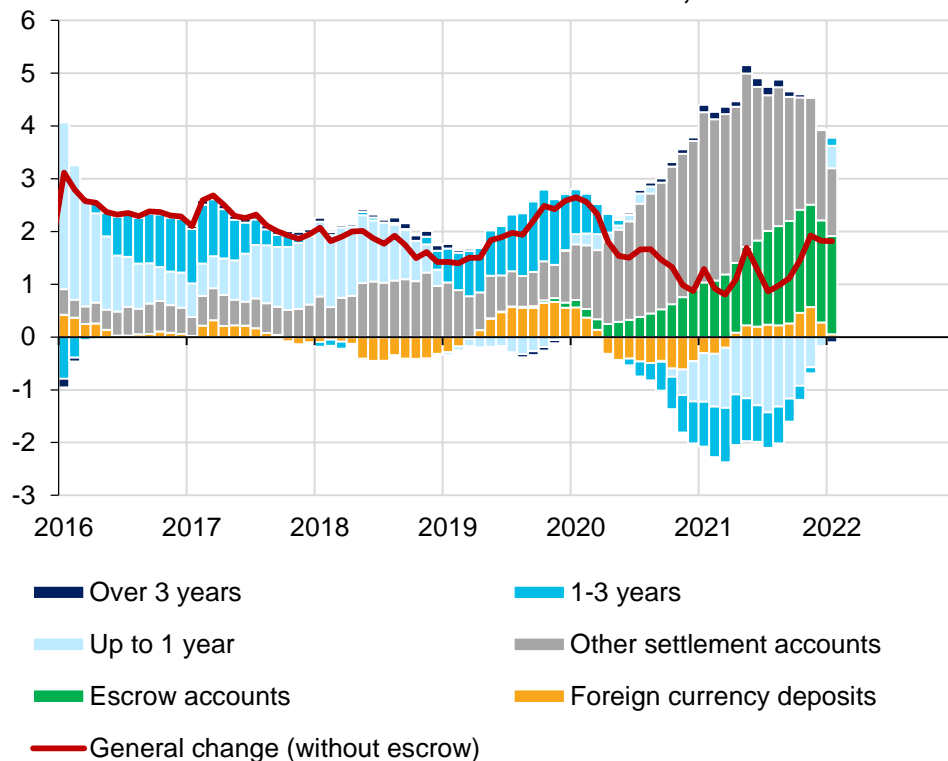


Real effective ruble exchange rate

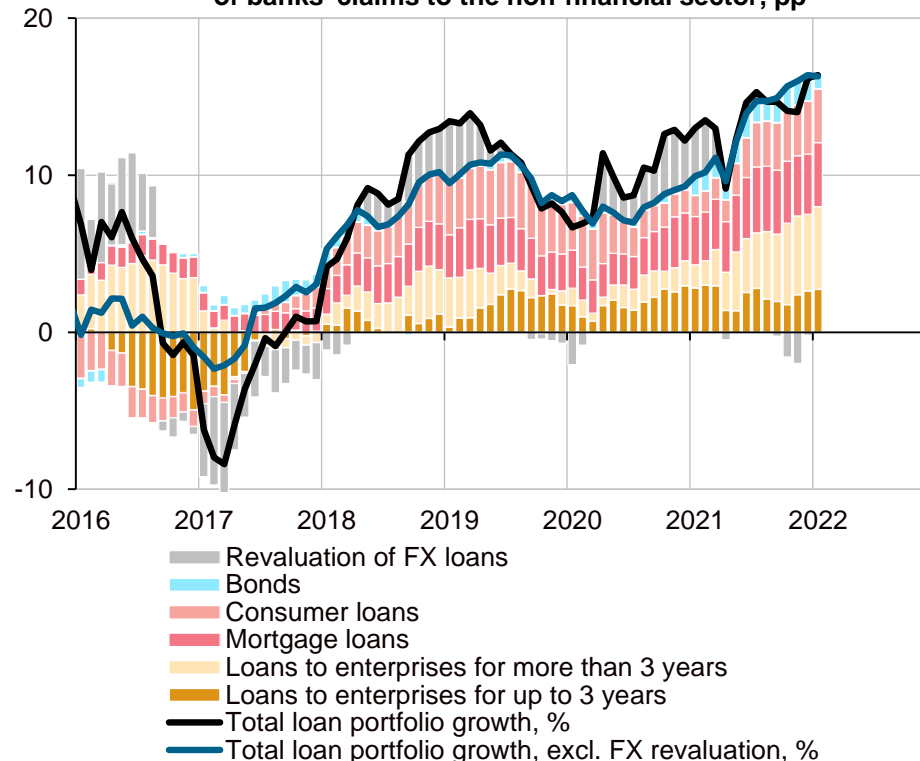


## Deposit and credit market – lending and deposits

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



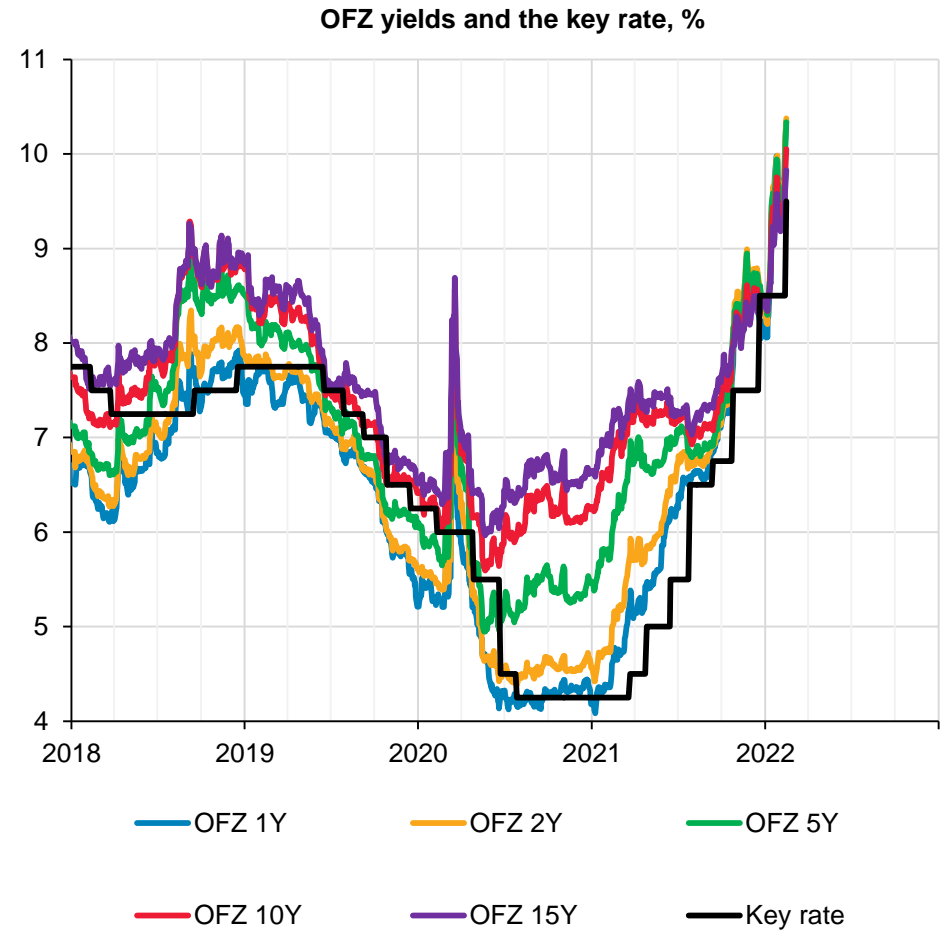
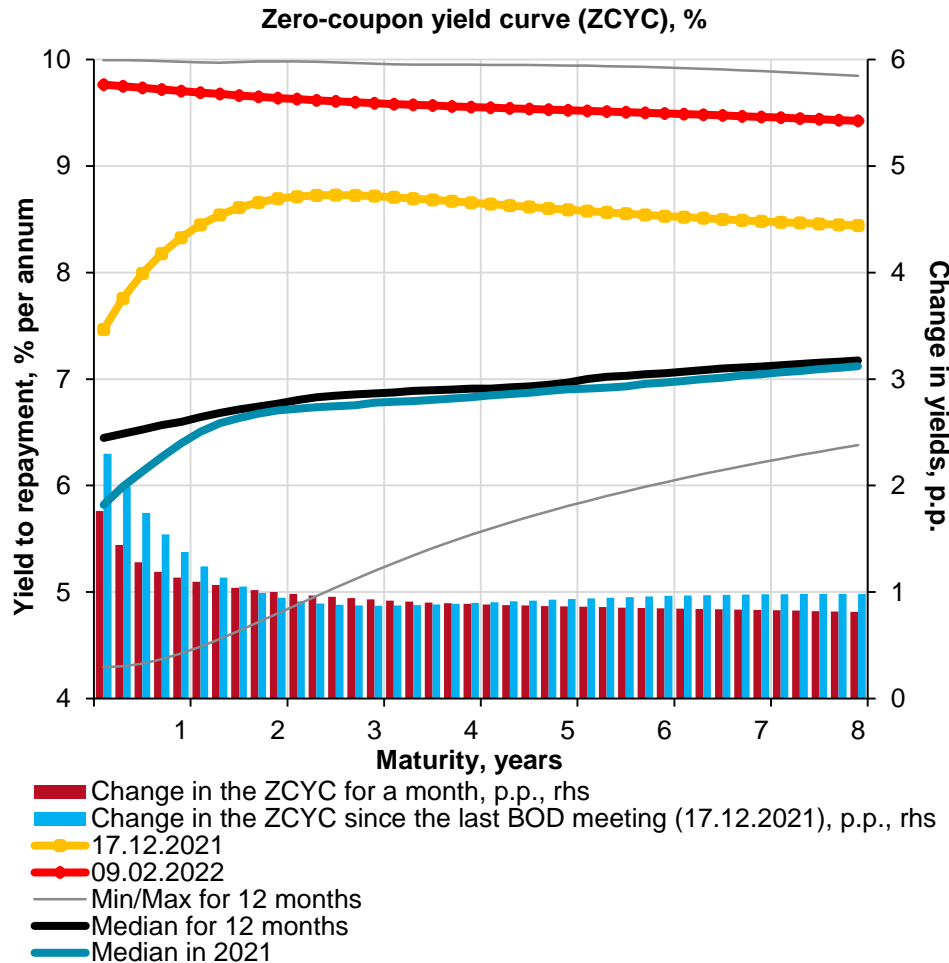
Contribution from individual elements to the annual growth of banks' claims to the non-financial sector, pp



According to Bank of Russia estimates, monetary conditions have changed from accommodative to neutral ones. At present, growing actual inflation and high inflation expectations are constraining their transition to tight territory.

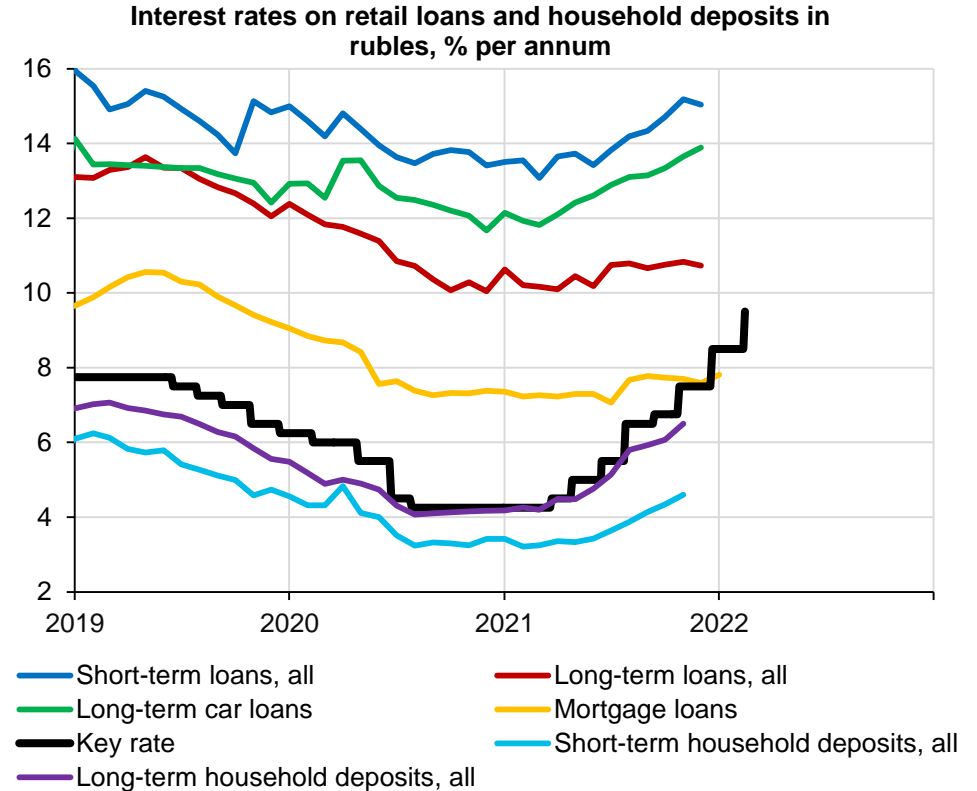
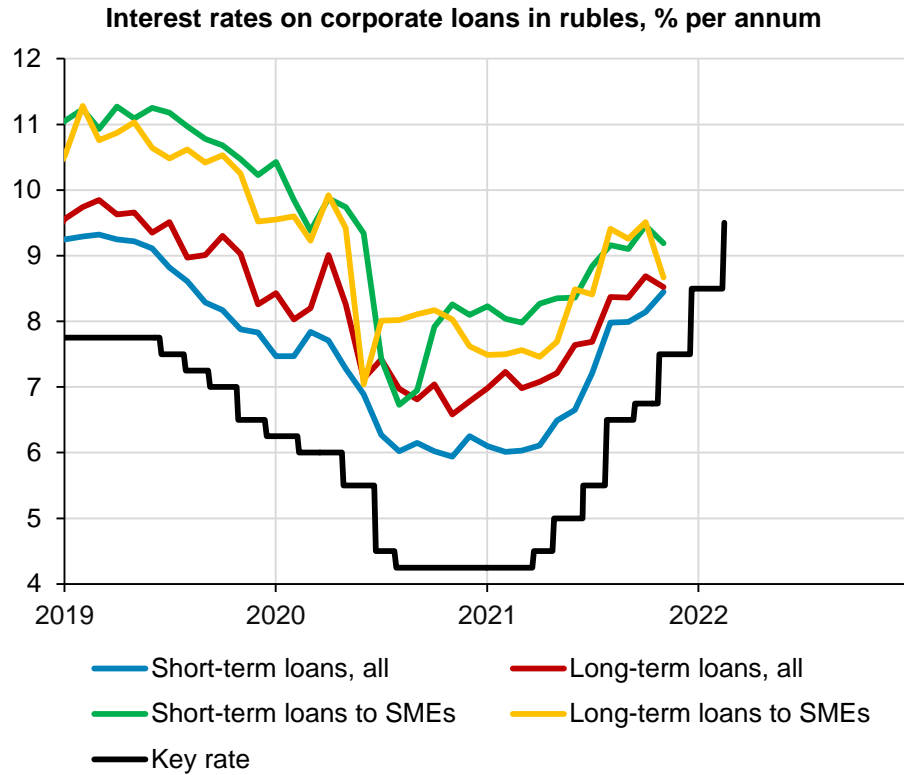
Rising nominal interest rates has not yet ensured a sufficient increase in the propensity to save and more balanced lending dynamics. The inflow of funds to fixed-term ruble deposits is moderate. At the same time, both retail and corporate lending markets maintain high activity.

## OFZ yields



Since the previous meeting of the Bank of Russia Board of Directors, yields of short-term OFZs rose, mostly reflecting the market's expectations for the key rate path. Yields on medium- and long-term OFZs have also increased mainly due to elevated geopolitical tensions.

## Deposit and credit market: interest rates



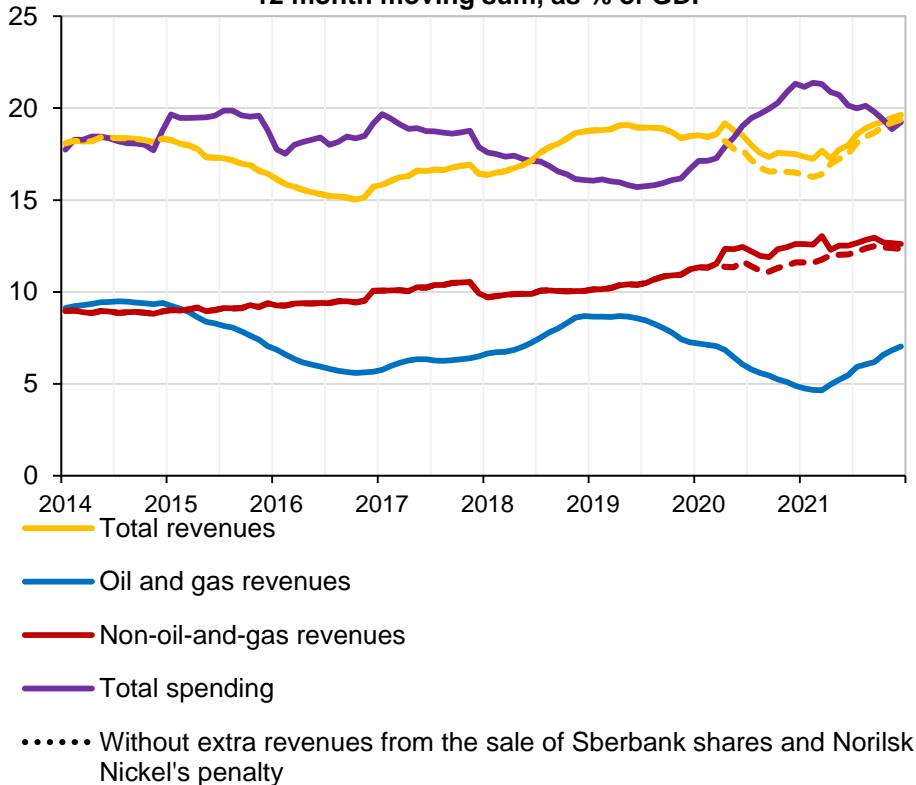
Credit and deposit rates continue to grow.

The Bank of Russia's monetary policy stance will accelerate the formation of tight monetary policy stance needed to return inflation to the target and limit the influence of the currently high inflation on long-term interest rates. This will solidify a trend towards the growing appeal of household deposits, protect the purchasing power of savings and ensure balanced growth of lending and the economy in general.

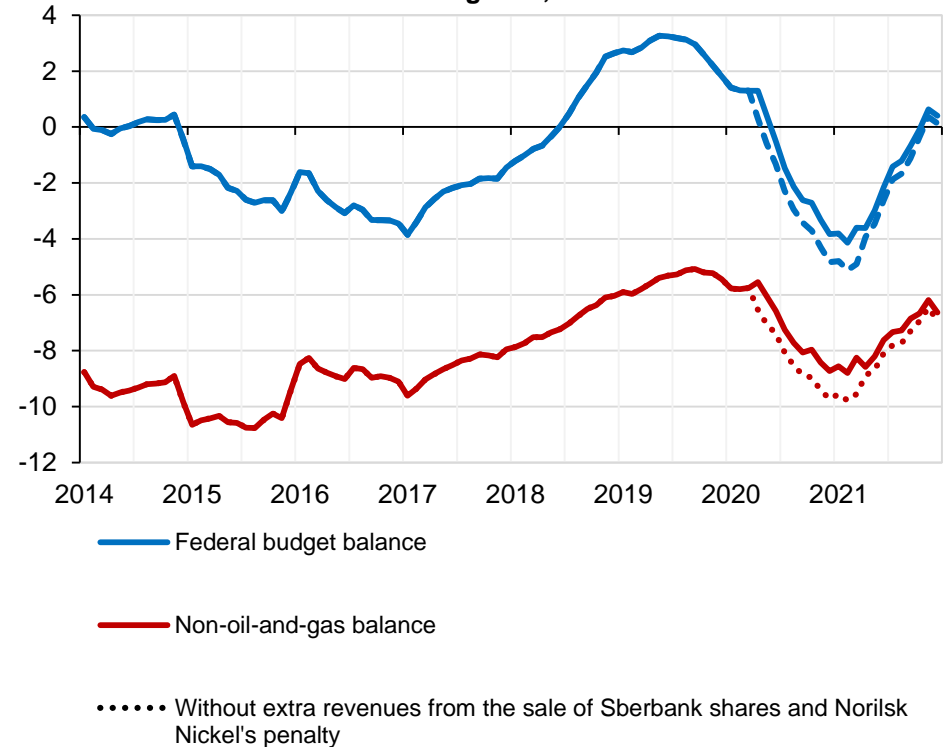


## Fiscal policy

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

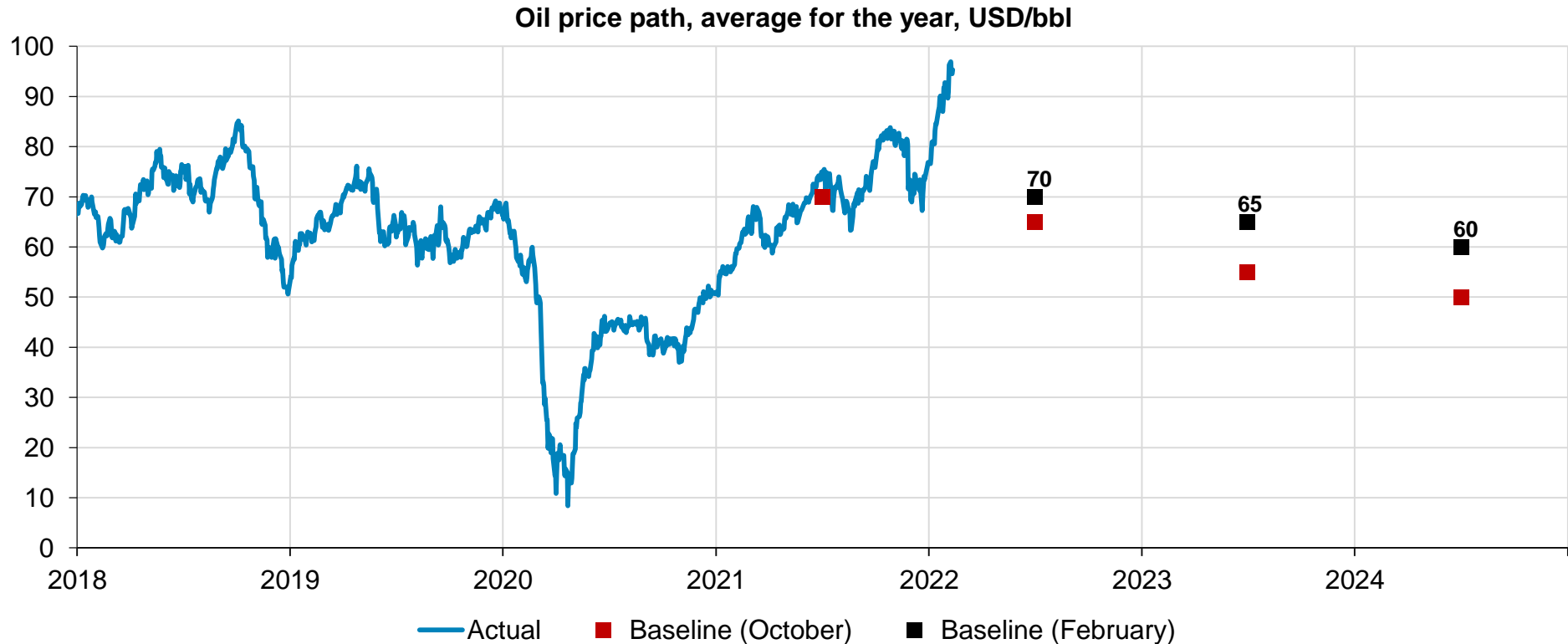


Federal budget balance, 12 month moving sum, as % of GDP



Medium-term inflation is largely impacted by fiscal policy. In its baseline scenario, the Bank of Russia proceeds from the fiscal policy normalisation path stipulated by the Guidelines for Fiscal, Tax and Customs and Tariff Policy, which assumes a return to fiscal rule parameters in 2022. In its forecast, the Bank of Russia also factors in decisions made by the Government of the Russian Federation to invest the liquid part of the National Wealth Fund.

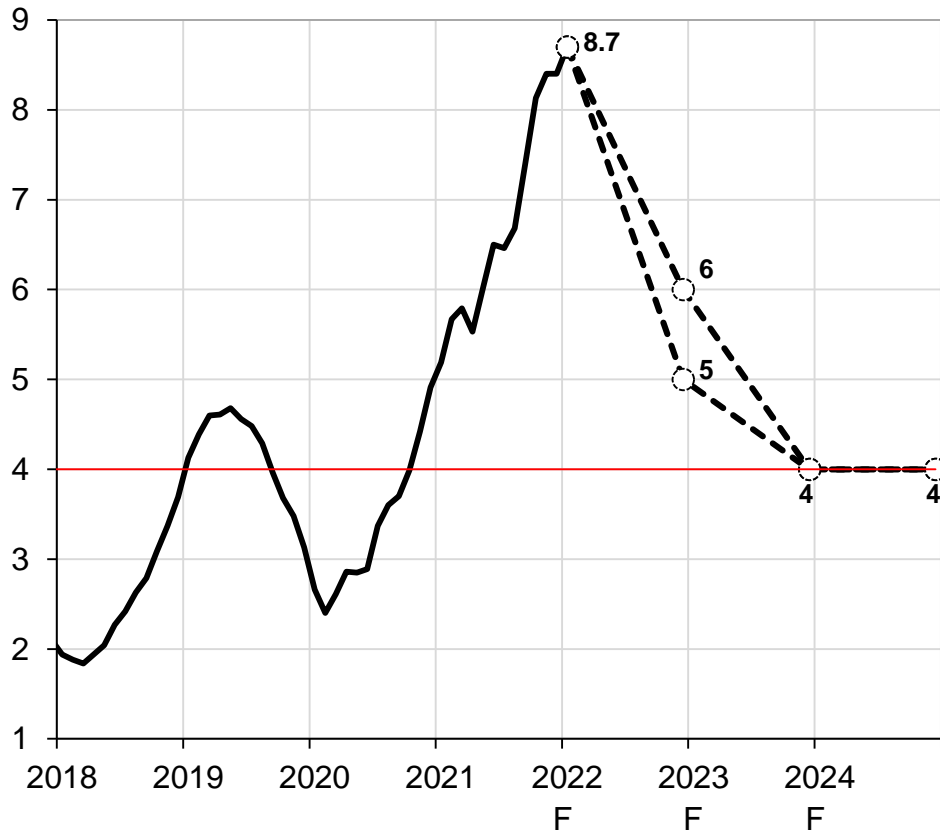
## Bank of Russia's medium-term forecast – Oil price assumptions



The Bank of Russia revised up the oil price path in the baseline scenario: to \$70 per barrel in 2022, \$65 per barrel in 2023 and \$60 per barrel in 2024, taking into account the considerable improvement of the situation in global markets of energy commodities.

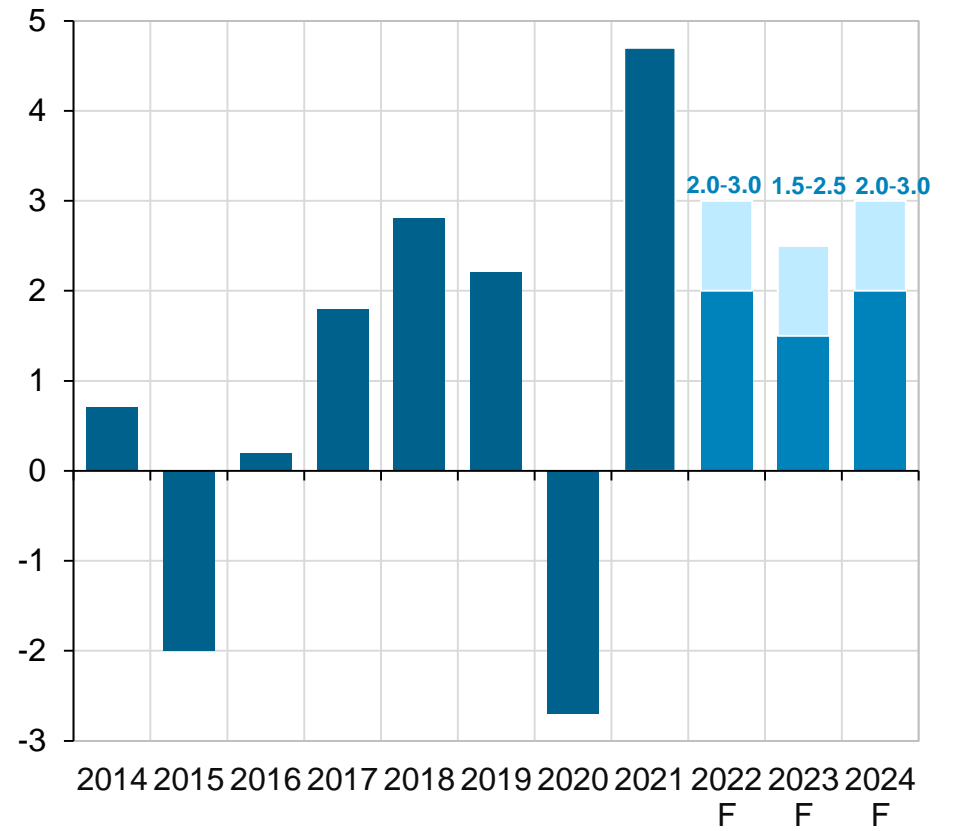
## Bank of Russia's medium-term forecast – CPI and GDP

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



\*as % in December year-on-year

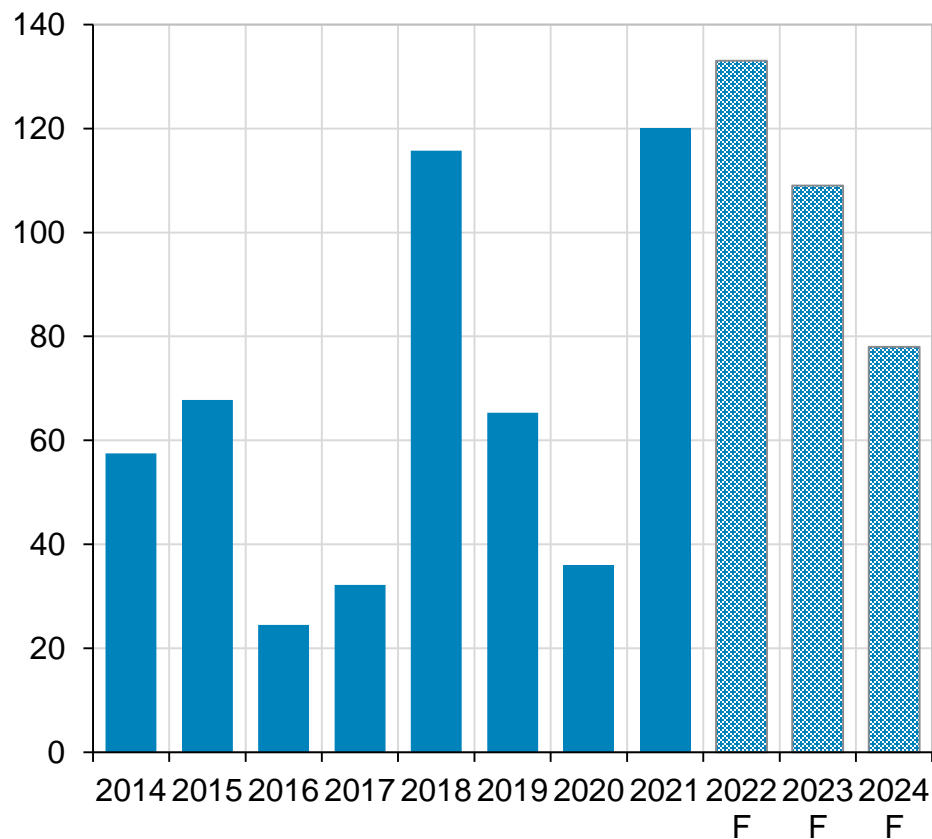
**GDP, % YoY**  
(upper and lower limits of forecast ranges)\*



\*2021 – Bank of Russia's estimate

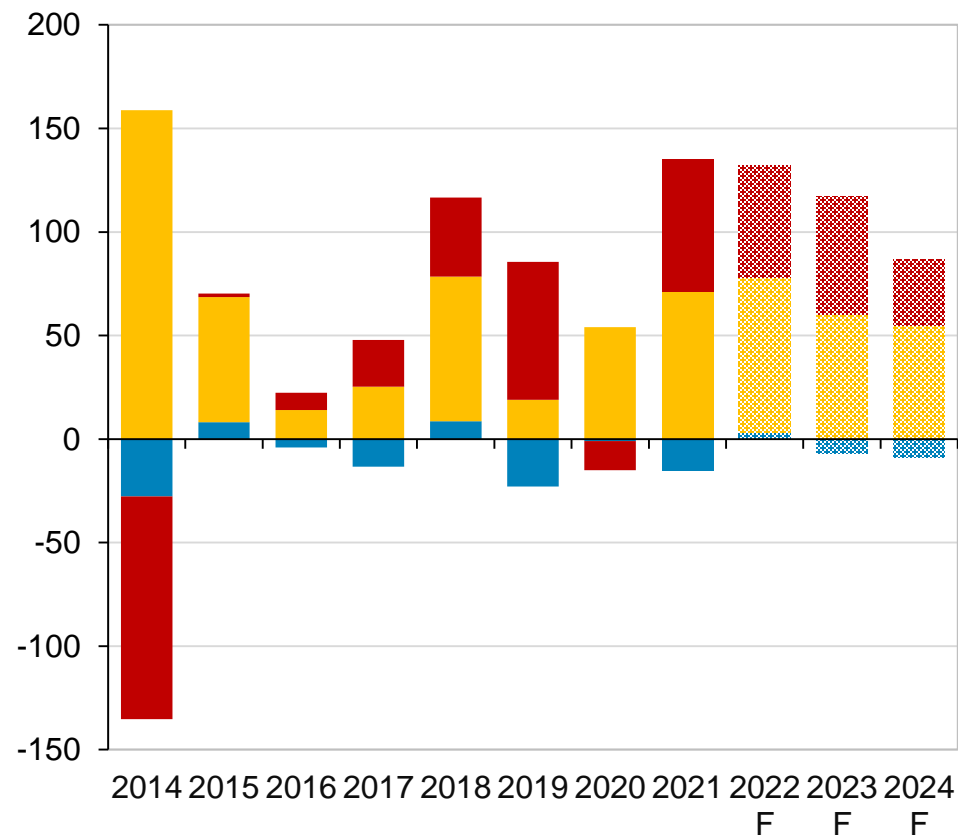
## Bank of Russia's medium-term forecast – Balance of payments

**Current account, billions of US dollars\***



\*2021 – Bank of Russia's estimate

**Financial account & Reserves, \$ bln\***



■ Public Sector ■ Private Sector ■ Change in reserves

\* In BPM6 signs. In the Financial account "+" – net lending, "-" – net borrowing. 2021 – Bank of Russia's estimate

## Bank of Russia's medium-term forecast, February 2022 (1)

Key parameters of the Bank of Russia's baseline scenario (growth as % of previous year, if not indicated otherwise)	2021 (actual / estimate)	BASELINE		
		2022	2023	2024
Inflation, as % in December year-on-year	8.4	5.0-6.0	4.0	4.0
Inflation, average for the year, as % year-on-year	6.7	6.8-7.7	4.0-4.3	4.0
Key rate, <b>average</b> for the year, % per annum	5.7	9.0-11.0*	7.5-9.0	5.0-6.0
Gross domestic product	4.7	2.0-3.0	1.5-2.5	2.0-3.0
Final consumption expenditure	7.6	1.7-2.7	0.6-1.6	1.2-2.2
– households	10.1	2.3-3.3	0.5-1.5	1.2-2.2
Gross capital formation	5.6	0.6-2.6	2.2-4.2	3.4-5.4
– gross fixed capital formation	7.9	0.5-2.0	0.5-2.5	1.7-3.7
Exports	2.1	4.0-6.0	1.6-3.6	1.6-3.6
Imports	13.6	2.2-4.2	0.4-2.4	1.6-3.6
Money supply in national definition	13.0	9-13	8-12	7-11
Claims on organisations and households in rubles and foreign currency**	14.0	9-13	8-12	7-11
– on organisations	10.9	7-11	7-11	7-11
– on households, including	22.0	14-18	10-14	7-11
mortgage loans	26.7	15-19	14-18	12-16

\*Given that from January 1st to February 13th 2022 the average key rate is 8.5%, from February 14th to the end of 2022 the average key rate forecast range is 9.1-11.3%. Additional information on how to interpret the proposed format of the key rate forecast communication is presented in the methodological note [[http://cbr.ru/Content/Document/File/120337/comment\\_20210422\\_e.pdf](http://cbr.ru/Content/Document/File/120337/comment_20210422_e.pdf)].

\*\* Banking system claims on organisations and households means all of the banking system'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.

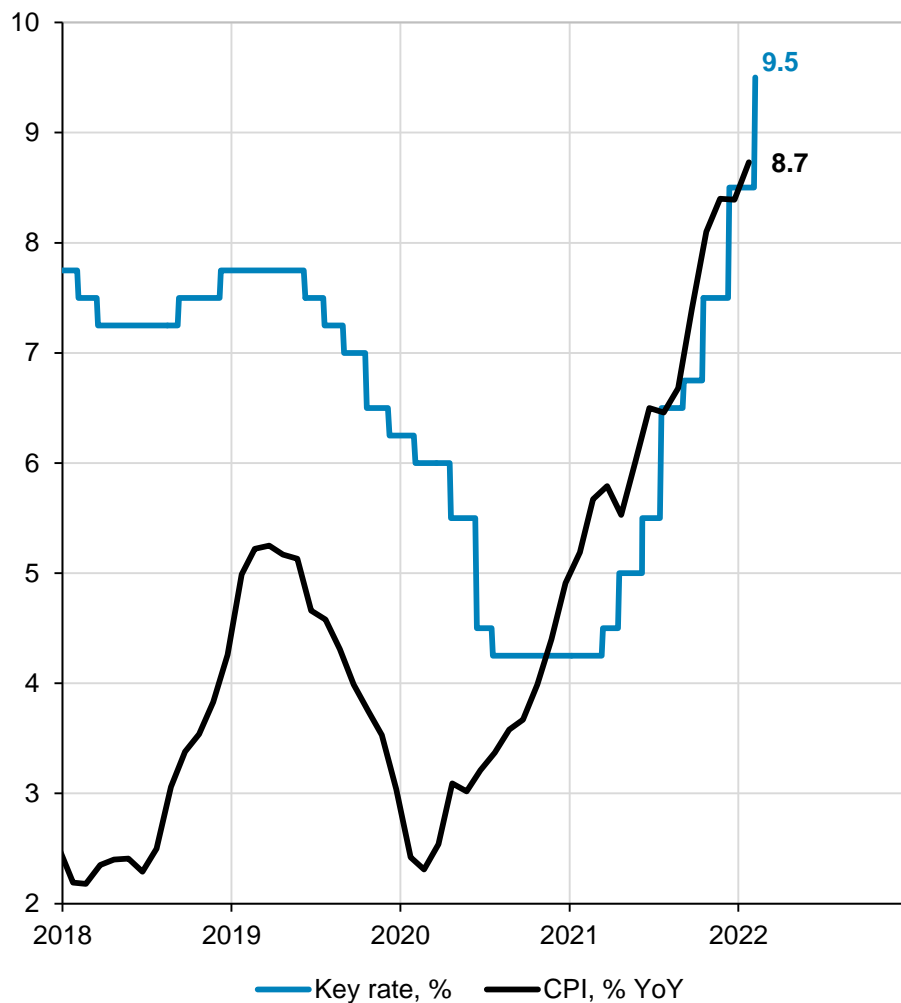
Claims' growth rates are given with the exclusion of foreign currency revaluation. In order to exclude the effect of foreign currency revaluation the growth of claims in foreign currency and precious metals is converted to rubles using the period average USDRUB exchange rate. Mortgage loans net of claims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

## Bank of Russia's medium-term forecast, February 2022 (2)

Russia's balance of payments indicators in the baseline scenario* (billions of US dollars)	2021 (actual / estimate)	BASELINE		
		2022	2023	2024
<b>Current account</b>	<b>120</b>	<b>133</b>	<b>109</b>	<b>78</b>
Balance of trade	186	228	204	182
<i>Exports</i>	490	536	512	498
<i>Imports</i>	304	308	308	316
Balance of services	-20	-31	-30	-38
<i>Exports</i>	55	59	64	69
<i>Imports</i>	74	91	95	107
Balance of primary and secondary income	-46	-64	-65	-66
<b>Current and capital account balance</b>	<b>120</b>	<b>133</b>	<b>109</b>	<b>78</b>
<b>Financial account (excluding reserve assets)</b>	<b>55</b>	<b>79</b>	<b>52</b>	<b>45</b>
Government and the central bank	-15	3	-7	-9
Private sector	71	75	60	55
<b>Net errors and omissions</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>64</b>	<b>54</b>	<b>57</b>	<b>32</b>
<b>Urals price, average for the year, US dollars per barrel</b>	<b>69</b>	<b>70</b>	<b>65</b>	<b>60</b>

\* 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.

## The Bank of Russia's monetary policy decision of 11 February 2022: the key rate is increased by 100 b.p. to 9.50% p.a.



On 11 February 2022, the Bank of Russia Board of Directors decided to increase the key rate by 100 b.p. to 9.50% per annum. **Inflation is running appreciably above the Bank of Russia's October forecast.** Expanding demand continues to exceed the capacity to build up output. Given the limited nature of available labour resources, the rapid recovery of economic activity exacerbates inflationary pressure. The situation in the global commodity markets remains proinflationary. **Inflation expectations do not decline so far, hitting multi-year highs. In this environment, the balance of risks has tilted even more towards proinflationary ones.** The Bank of Russia's monetary policy stance is aimed to return inflation to 4%.

If the situation develops in line with the baseline forecast, **the Bank of Russia holds open the prospect of further key rate increase at its upcoming meetings.** Key rate decisions will be made taking 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 reduce to 5.0-6.0% in 2022 to return to the target in the middle of 2023. Further on, annual inflation will stay close to 4%.**