



Bank of Russia



OCTOBER 2022

MONETARY POLICY REPORT

8 November 2022

The cut-off date for forecast calculations – 27 October 2022.

If any statistics or other important data are released after the cut-off date, they may be included in the report.

[The electronic version](#) of the information and analytical review is available on the Bank of Russia website in the section Bank of Russia Publications / Monetary Policy Report.

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12 Neglinnaya Street, 107016 Moscow

Phone number: +7 (495) 771-46-74

Bank of Russia website: www.cbr.ru

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STATEMENT BY BANK OF RUSSIA GOVERNOR ELVIRA NABIULLINA

IN FOLLOW-UP TO BOARD OF DIRECTORS MEETING ON 28 OCTOBER 2022



Good afternoon, Today, the Bank of Russia [has decided](#) to keep the key rate at 7.50% per annum.

The major trends observed over recent months remain. The current growth rates of consumer prices are still decreased, and annual inflation is decelerating. The economy continues to adapt to the current changes. However, there are new factors that might have a proinflationary effect in the medium term. In the first place, these are escalating

geopolitical tensions, partial mobilisation, and a worsening situation in the world economy. Considering this, our decision to keep the key rate unchanged appears to be most balanced.

I would now dwell on the reasons behind this decision.

Firstly, inflationary pressure currently remains decreased.

A slight acceleration of price growth in September versus August was primarily caused by one-off factors, namely higher rates in auto insurance and mobile communication. Net of them, pressure on prices will be below 4% in annualised terms. We still observe a downward adjustment of prices for consumer goods that became much more expensive in spring. These are construction materials, furniture, electronics, and some food products. Nevertheless, price growth is still gradually accelerating overall, compared to very low figures in May, June, and July.

Monthly price growth is expected to be notably higher in December, largely due to the pass-through of the indexation of utility tariffs to December. This will increase annual inflation by about 0.5 percentage points this year.

Companies' price expectations continued to go up. Households' inflation expectations remain elevated. However, we still do not observe any rise in consumer activity. Saving behaviour might be explained by elevated uncertainty. Besides, consumers might still continue to adjust to the changed range of goods.

A new factor influencing price trends is partial mobilisation. In the coming months, it will have a disinflationary effect because of lower consumer demand. Nonetheless, later on, it might start to have a proinflationary impact due to changes in the structure of the labour market and a shortage of some specialists. It is now difficult to assess

all economic consequences of the shift in the structure of employment. They will manifest themselves gradually through the adjustment in wages and a possible intensification of the transfer of labour force across industries and regions.

The inflation forecast for this year has been adjusted to 12.0–13.0%, whereas that for the next year remains unchanged, namely 5.0–7.0%. Inflation will return to its target of close to 4% in 2024.

Secondly, as the economy has been adapting to the external restrictions more quickly, the decline in GDP in 2022 will be less significant than assumed in the middle of the year.

This is associated with a more positive situation in the third quarter owing to industrial production and the agricultural sector expecting a record-high harvest this year. Trends in agriculture are covered separately in the October report Regional Economy box. Considering this, we have improved our GDP forecast for this year and believe that the contraction of the economy will be 3.0–3.5%. Nevertheless, according to recent data, economic activity has started to decline again in September after its stabilisation in summer. This might be caused by weaker consumer demand and worse conditions for Russian exports, amongst other reasons.

Heterogeneity across industries and regions remains. After the suspension of operation in spring, the domestic automobile industry has started to recover. The output of medicines and some types of agricultural machinery is expanding at a double-digit pace. There are considerable changes happening in transportation. International cargo traffic has been largely redirected to Far Eastern seaports, with their share in sea container transportation growing from 40% to 70%. The carrying capacity of the railways leading to these seaports has become of paramount importance. Their overload might hinder exports, on the one hand, and restrain the increase in imports from Asia, on the other hand. There are some coal producers, oil refineries, and petrochemical enterprises, for which the redirection of supplies to the East remains a serious logistics problem. Difficulties with sales are forcing individual companies to reduce their output.

In our updated forecast, we have kept Urals crude prices in 2023–2025 unchanged at the level of 70, 60 and 55 US dollars per barrel, respectively. On the one hand, this estimate takes into account the worsened forecast for the world economy, including higher risk of a recession. As a result, global demand for commodities, including Russian oil, might contract. On the other hand, the OPEC+ countries have taken measures to cut the oil production quotas. We believe that these factors are offsetting each other.

The recovery growth of the economy next year will start slightly later than assumed in July. The economy will reach the bottom of the decline in the middle of next year. Demand from the public sector will continue to support economic activity. The forecast of GDP for the next year has remained unchanged: it will shrink by 1.0–4.0% and resume an upward trend in the fourth quarter.

I would like to say a few words about the balance of payments. We have slightly raised the forecast of exports and imports for this year. The forecast of the current account surplus has increased by 10 billion to 253 billion US dollars. Further on over the forecast horizon, imports will be bouncing back as companies find new suppliers and arrange mechanisms of settlements and logistics, whereas exports may be contracting due to the external restrictions. As a result, the current account surplus will be decreasing as well. The path of this decline is approximately in line with our July forecast.

Thirdly, monetary conditions have remained neutral overall. However, they have slightly toughened after the September meeting, despite the key rate reduction.

The main reason was intensifying geopolitical tensions. As a result, yields on federal government bonds, especially long-term ones, have edged up. Besides, banks have raised their deposit rates in response to the outflow of cash. As to credit rates, they have stopped declining. Concurrently, banks have increased their requirements for borrowers. This is evident from a lower share of approved loan applications. Ultimately, there are signs of a slowdown in lending in October.

Nonetheless, credit activity is still high now in both the retail and corporate segments. The growth of corporate loans in rubles is partly associated with the replacement of foreign currency loans and external financing.

Considering the current trends, we have raised our forecast for lending to the economy to 9.0–12.0%. This rate will remain nearly the same in the next few years.

I will now speak on the risks that might cause a deviation from the baseline forecast. Proinflationary risks have risen over the medium-term horizon.

As regards external conditions, the situation in the world economy is deteriorating. Many countries were pursuing accommodative monetary policy for a long period, thus creating an overhang of cheap credit in the economy. Such policy has caused imbalances that are inevitable in this case, exacerbating risks to financial stability in global markets. Responding to high inflation, many countries have raised their policy rates abruptly, which also has negative implications as this will hinder the growth of the world economy and increase debt servicing costs. This is aggravated by the effects of the fragmentation in global markets and the escalation of geopolitical tensions. A further intensification of the crisis processes worldwide and the expansion of the sanctions imply a shift towards a more considerable shrinkage in Russian exports and a potential weakening of the ruble, which might cause proinflationary effects.

As regards internal conditions, important risks for us still include further changes in inflation expectations and a possible impact of their elevated level on households' saving behaviour model.

Moreover, proinflationary risks associated with the labour market have risen. An increase in staff shortages is strengthening companies' competition for employees and pushing up wages that might grow faster than labour productivity.

A considerable group of risks is related to supply-side factors. Enterprises are gradually tackling the problems with maintaining current operations, but investments in the development might be hampered by both overall uncertainty and difficulties with equipment purchases and deliveries. This means that supply might be recovering more slowly in the future.

There are three groups of factors that might have disinflationary effects. First of all, households might continue to prefer savings. Second, a record-high harvest expected in agriculture this year might have an impact on prices in the domestic market amid persistent difficulties with exports. Third, this is a faster rebound in imports of consumer and intermediate goods. Generally, disinflationary factors are weaker than proinflationary ones over the forecast horizon.

Our forecast relies on the already published parameters of the draft budget for the next three years. The predictability of fiscal policy and a consistent reduction in the structural budget deficit over the forecast horizon are essential assumptions behind the monetary policy path presented in the forecast.

Winding up, I would like to comment on our future decisions. Obviously, the Russian economy is experiencing a deep transformation. Consumers are changing their behaviour strategies, and businesses are adapting to the new challenges. The events and risks that have occurred over the past month might have mixed effects on the economy and prices. As we receive data on the economic development in these conditions, we will additionally adjust our estimates of those effects and their impact on the forecast. Our decisions will aim to return inflation to the 4% target in 2024.

Thank you for attention.

Bank of Russia Governor



Elvira Nabiullina

BANK OF RUSSIA'S MEDIUM-TERM FORECAST

FOLLOWING THE BANK OF RUSSIA BOARD OF DIRECTORS' KEY RATE MEETING ON 28 OCTOBER 2022

KEY FORECAST PARAMETERS OF THE BANK OF RUSSIA'S BASELINE SCENARIO
 (growth as % of previous year, if not indicated otherwise)

Table 1

	2021 (actual)	2022	2023	2024	2025
Inflation, as % in December year-on-year	8.4	12.0–13.0	5.0–7.0	4.0	4.0
Inflation, average for the year, as % year-on-year	6.7	13.7–13.9	4.5–6.4	4.1–4.8	4.0
Key rate, <u>average</u> for the year, % per annum	5.7	10.6 ¹	6.5–8.5	6.0–7.0	5.0–6.0
Gross domestic product	4.7	(-3.5)–(-3.0)	(-4.0)–(-1.0)	1.5–2.5	1.5–2.5
– % change, Q4 – Q4 previous year	5.0	(-7.8)–(-6.4)	0.0–1.5	0.5–1.5	1.5–2.5
Final consumption expenditure	7.2	(-2.5)–(-2.0)	(-2.5)–(+0.5)	3.0–4.0	1.5–2.5
– households	9.5	(-3.5)–(-3.0)	(-3.0)–0.0	3.5–4.5	1.5–2.5
Gross capital formation	8.9	(-11.5)–(-10.5)	2.5–6.5	3.0–5.0	2.5–4.5
– gross fixed capital formation	6.8	0.0–1.0	(-7.0)–(-3.0)	3.0–5.0	1.0–3.0
Exports	3.5	(-16.0)–(-15.0)	(-11.5)–(-7.5)	(-3.0)–(-1.0)	0.0–2.0
Imports	16.9	(-23.5)–(-22.5)	(-3.5)–(+0.5)	3.0–5.0	1.0–3.0
Money supply in national definition	13.0	23–26	10–15	9–14	6–11
Claims on organisations and households in rubles and foreign currency ²	13.9	9–12	8–13	9–14	8–13
– on organisations	10.7	10–13	7–12	8–13	8–13
– on households, including mortgage loans	22.0	7–10	9–14	9–14	8–13
	26.7	14–17	10–15	10–15	10–15

¹ Given that from 1 January to 30 October 2022 the average key rate is 11.3%, from 31 October to the end of 2022 the average key rate forecast range is 7.4–7.6%. Additional information on how to interpret the proposed format of the key rate forecast communication is presented in the [methodological note](#).

² 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 USD/RUB exchange rate. Mortgage loans net of claims acquired by banks.

Source: Bank of Russia.

RUSSIA'S BALANCE OF PAYMENTS INDICATORS IN THE BASELINE SCENARIO¹
 (billions of US dollars, if not indicated otherwise)

Table 2

	2021 (actual)	2022	2023	2024	2025
Current account	122	253	123	53	15
Goods and services	170	305	175	105	68
Exports	550	631	515	464	431
Imports	380	326	340	359	363
Primary and secondary income balance	-48	-51	-52	-53	-54
Current and capital accounts balance	122	253	123	53	15
Financial account (including change of reserve assets)	122	250	123	53	15
Net errors and omissions	0	-4	0	0	0
Financial transactions of private sector	74	251	124	54	16
Urals oil price, average for the year, US dollars per barrel	69	78	70	60	55

¹ 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.

Source: Bank of Russia.

KEY ASSUMPTIONS

The Bank of Russia's forecast rests on a number of assumptions the change of which could materially influence the development path of Russia's economy.

- The global economy has deteriorated and its growth is slowing down. Elevated inflationary pressures in advanced economies have not yet abated; and the return to target values is not possible before 2024. The risks of a global recession in 2023 have increased. Risks to global financial stability have also risen.
- The baseline scenario does not assume any significant changes in geopolitical environment until the end of the forecast horizon. The external restrictions imposed on Russian exports, imports, and investment and technology cooperation will remain largely in place over the medium-term horizon.
- Russian export commodities continue to be traded in the world market at a discount, despite its slight decrease in 2022 Q3. The baseline scenario assumes that the discount size will remain close to the current level until the end of the forecast horizon.
- The long-term equilibrium price for Urals crude is assumed to equal \$55 per barrel. For the purpose of baseline model calculations, the average Urals crude price in 2022 is adjusted to \$78 per barrel (taking into account the actual trend). In 2023-2025, the oil price path remains unchanged: \$70 per barrel in 2023, \$60 per barrel in 2024, and \$55 per barrel in 2025.
- The structural transformation of the economy is associated with a large-scale supply shock and the related adjustment of potential output. Cyclical factors, among other things, also influence the current decline in output. During the period of economic transformation, potential growth rates will be lower than previously estimated, but may accelerate later on due to the formation of new production linkages in the economy, improved labour skills, more efficient use of available capital, and the commissioning of new means of production.
- The partial mobilisation had a further impact on economic performance. Until the end of 2022, its effects are largely disinflationary and are associated with a change in consumer sentiment and an increase in the savings ratio. In 2023, the proinflationary effects will intensify and prevail due to their more pronounced manifestation in the labour market.
- The budget assumptions in the baseline scenario are based on the draft Guidelines for the Fiscal, Tax, and Customs and Tariff Policy for 2023–2025.
- The assessment of the longer-run neutral rate during the period of economic transformation is linked to higher uncertainty. There are factors that may push it both upwards and downwards. The Bank of Russia will assess the cumulative impact of these factors in line with incoming data. At present, the Bank of Russia proceeds from its previous assessment of the longer-run real neutral rate of 1–2%, which, given the inflation target being close to 4%, corresponds to a nominal neutral rate of 5–6%.

MAIN FACTORS CHANGING THE FORECAST¹

Global GDP growth for 2022 was adjusted downwards by 0.3 pp, the medium-term path was also reduced:

- The increase in the general price level worldwide remains at multi-year highs. Stable inflation indicators (net of volatile food and energy products) continue to grow. This leads to a decline in real disposable income of households and reduces demand. Companies' profits are also dropping as the opportunity to pass on costs to prices is reduced.
- Central banks in advanced economies are tightening monetary policy to a greater extent and faster than previously expected to return inflation to target. This causes a further slowdown in demand.
- Overall uncertainty and tighter financial conditions are leading to volatility in the financial markets and a decline in production and investment activity. Financial stability risks are mounting, which may constrain central banks in pursuing monetary policy aimed to restore price stability.

Russia's current account surplus was raised from \$243 billion to \$253 billion in 2022:

- Oil and petroleum product exports exceeded the expectations.
- Non-oil and gas exports were also above the expectations.
- Imports surpassed the expected levels due primarily to consumer demand.

Russian GDP will fall by 3.0–3.5% in 2022 (vs 4.0–6.0% forecast in July):

- More moderate contraction in export quantities than expected.
- Smaller contraction in consumption in Q2–Q3 than expected.
- More moderate decline in production activity in Q3 than expected.

At the end of 2022, inflation will be 12–13% (vs 12–15% forecast in July, 11–13% forecast in September):

- The monthly seasonally adjusted price growth rate rose in September after declining during the summer months. The influence of disinflationary factors is abating.
- The preponed indexation of utility prices from June 2023 to December 2022 adds 0.5 pp to the price level.
- Inflation expectations are elevated.
- In the near term, the partial mobilisation will have a disinflationary effect by reducing consumer activity.

The growth rate of lending to the economy has been raised to 9–12% (vs 5–10% forecast in July):

- The actual data on lending dynamics and the performance of the banking sector proved better than expected.
- In 2022, the contraction in output is expected to be smaller compared with the July forecast.

¹ The Bank of Russia's full medium-term forecast was released in the follow-up to the Board of Directors meeting on 22 July 2022. After the Board of Directors meeting on 16 September 2022, the inflation forecast was revised.

EXTERNAL ENVIRONMENT

The state of the world economy has deteriorated. Global price pressures remain elevated, while inflation continues to accelerate in most countries. Inflation forecasts for 2022–2023 are revised upwards. Though steadily declining for several months, supply chain pressures are still high. Concurrently, unemployment in many countries is near multi-year lows. All these factors are forcing foreign central banks to tighten monetary policy more quickly than previously planned. Financial stability risks grew worldwide.

Economic growth is slowing faster than expected in many major economies, and medium-term forecasts are being revised downwards. Fears of a recession are driving down prices in non-energy commodity markets, but energy commodity prices remain high and volatile.

The value of Russian exports is dragged down both by lower prices in commodity markets amid fears of a recession and by lower export quantities due to the entry into force of EU restrictions. The suspension of gas supplies as a result of pipeline accidents became another factor. However, exports are generally better than expected.

The value of imports continues to recover due in part to the imports of investment goods. The Bank of Russia's current account forecast was raised by \$10 billion to \$253 billion. The upward revision of exports is partially offset by larger imports and the deficit of primary and secondary income accounts.

MAIN PARAMETERS OF EXTERNAL CONDITIONS OF THE BANK OF RUSSIA'S BASELINE FORECAST

Table 1

	2019	2020	2021	2022	2023	2024	2025
World GDP, % YoY	2.8	-3.1	6.0	3.0	2.7	3.2	3.4
GDP, USA, % YoY	2.3	-3.4	5.7	1.5	0.7	1.0	1.5
GDP, euro area, % YoY	1.6	-6.4	5.2	2.9	0.3	1.2	1.8
GDP, China, % YoY	6.0	2.2	8.1	2.4	4.9	5.1	5.1
Inflation, USA,* % YoY	1.6	1.5	4.8	4.5	3.3	2.4	2.0
Inflation, euro area,** % YoY	1.3	0.2	2.6	4.8	3.6	1.9	1.4
US Fed rate,*** %, as of the end of 2022	1.75	0.25	0.25	3.75	4.75	3.25	2.25
ECB rate,**** %, as of the end of 2022	-0.5	-0.5	-0.5	1.5	2.7	2.1	1.4

* Core PCE, US.

** Core HICP, euro area.

*** Fed Funds target rate, the upper bound of the range.

**** ECB deposit facility rate.

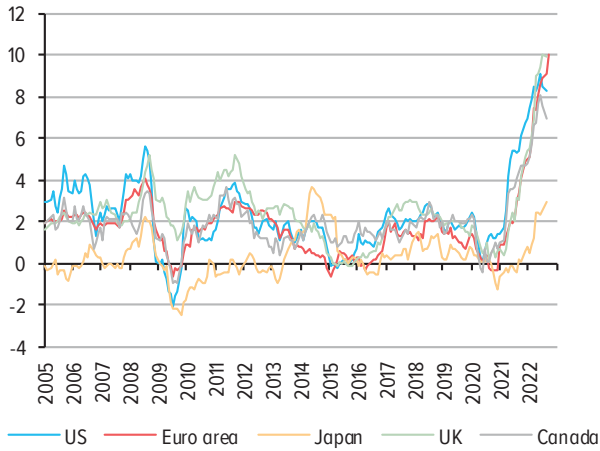
Sources: US Fed, ECB, IMF, Bank of Russia calculations.

GLOBAL INFLATION STAYS CLOSE TO HISTORIC HIGHS

Inflation remains elevated in both advanced economies and EMEs, with inflation persistently picking up in most countries and its forecasts for 2022-2023 being revised upwards. Prices for energy products and other commodities remain generally high and the effects of excessively long stimulus policies implemented by major economies during the pandemic continue to be felt. However, supply chain bottlenecks are dissipating. The Global Supply Chain Pressure Index of the New York Fed dropped from 4.3 p in December 2021 to 1.1 p in September 2022, a value just slightly above the upper bound of the sustainable range of the pre-pandemic index (from -1.0 p to 1.0 p).

INFLATION IN ADVANCED ECONOMIES
(% change YoY)

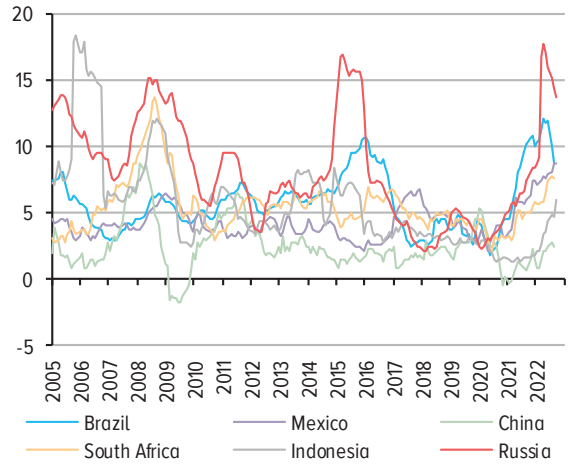
Chart 1



Source: Investing.

INFLATION IN EMES
(% change YoY)

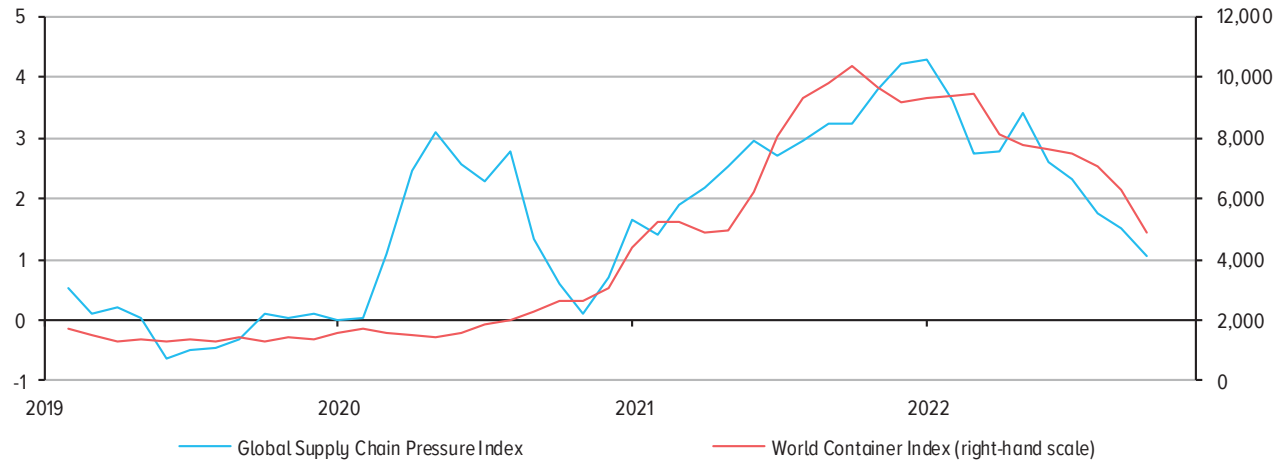
Chart 2



Source: Investing.

CHANGES IN LOGISTICS PERFORMANCE INDICES
(p)

Chart 3



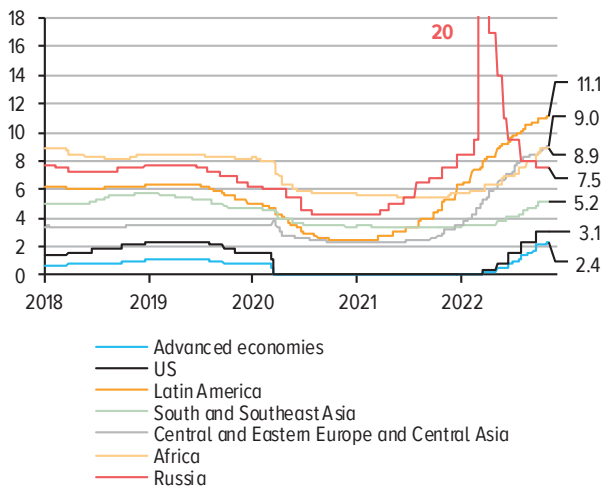
Sources: Investing, New York Fed.

CENTRAL BANKS TIGHTEN MONETARY POLICY MORE THAN PREVIOUSLY EXPECTED

The central banks of major advanced economies and EMEs continue to tighten monetary policy. In EMEs, key rates began to climb up earlier and rose quite substantially, reflecting in part a lower degree of inflation expectations anchoring. In advanced economies, increases in policy rates started later, in parallel with the downsizing of stimulus programmes and fiscal consolidation. In contrast to EMEs, policy rates in developed countries are rising slower and are lagging behind inflation. Overall, many central banks have tightened their rhetoric compared to July and markets expect rates to be higher relative to July expectations. At the same time, despite active policy rate hikes by central banks, real rates in most regions are still deep in negative territory.

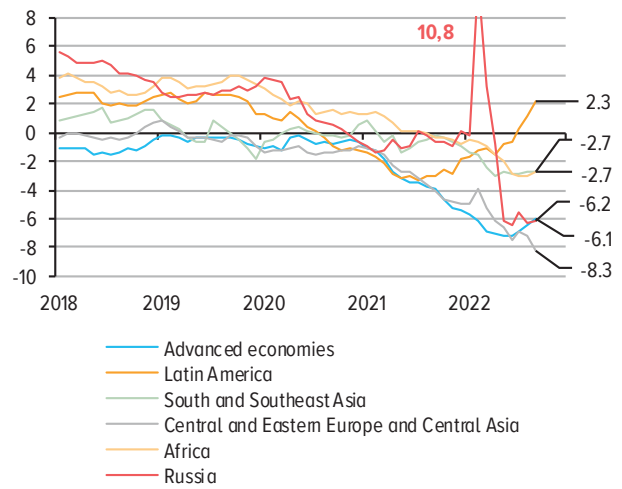
POLICY RATES
(% p.a.)

Chart 4



REAL RATES
(% p.a.)

Chart 5



Note. The calculations are based on the average level of central banks' policy rates weighted by GDP (in current US dollar prices for respective year) within each group. Real rates are based on actual annual inflation.

Groups of countries by region: advanced economies – the US, the euro area, Japan, the UK, Canada, Norway, Sweden, Australia, New Zealand, Israel, Iceland, South Korea, and the Czech Republic; Latin America – Mexico, Columbia, Peru, Brazil, Chile, the Dominican Republic, Jamaica, Costa Rica, Guatemala, Paraguay, and Uruguay; South and Southeast Asia – Thailand, Indonesia, India, the Philippines, and Sri Lanka; Central and Eastern Europe and Central Asia – Poland, Hungary, Romania, Serbia, Albania, Moldova, Kazakhstan, Armenia, Georgia, and Uzbekistan; Africa – South Africa, the Republic of Seychelles, Ghana, Uganda, and Kenya.

Sources: Investing, Bank of Russia calculations.

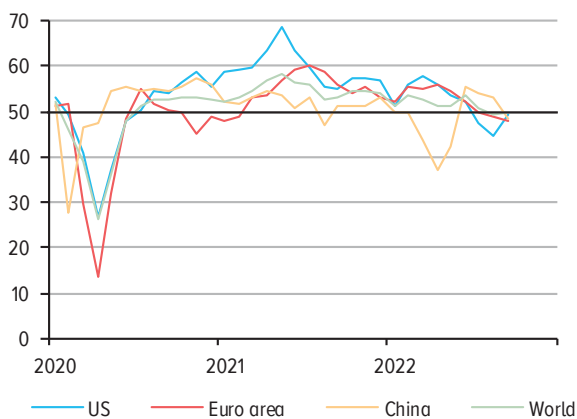
GLOBAL ECONOMY CONTINUES TO SLOW DOWN

The state of the world economy has deteriorated since the release of [MPR 3/22](#). The PMI Composite, which averaged 55 p in the major economies in the first quarter, started to decline in the second quarter and fell below 50 p in several countries in the third quarter. The Global Composite PMI fell below 50 p for the first time since 2020. The PMI for new export orders has been steadily declining for several months in a row.

However, the US economy remains resilient despite negative quarterly growth rates in 2022 Q1 and Q2 and a significant monetary tightening. US economic officials view the slowdown in the first half of the year not as a recession but rather as the return of the economy to equilibrium after the period of high growth. This is indirectly supported by labour market data: the number of job

CHANGES IN PMI COMPOSITE
(p)

Chart 6

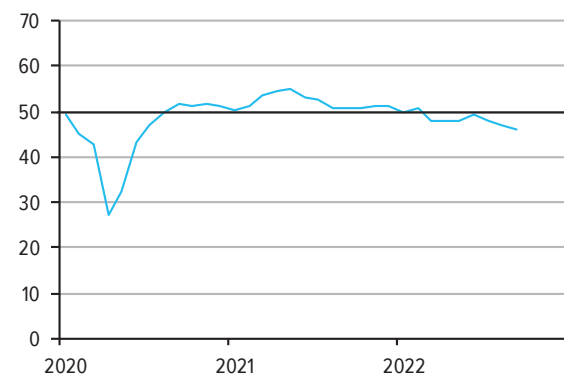


Source: IHS Markit.

CHANGE IN NEW EXPORT ORDERS, GLOBAL
MANUFACTURING PMI

(p)

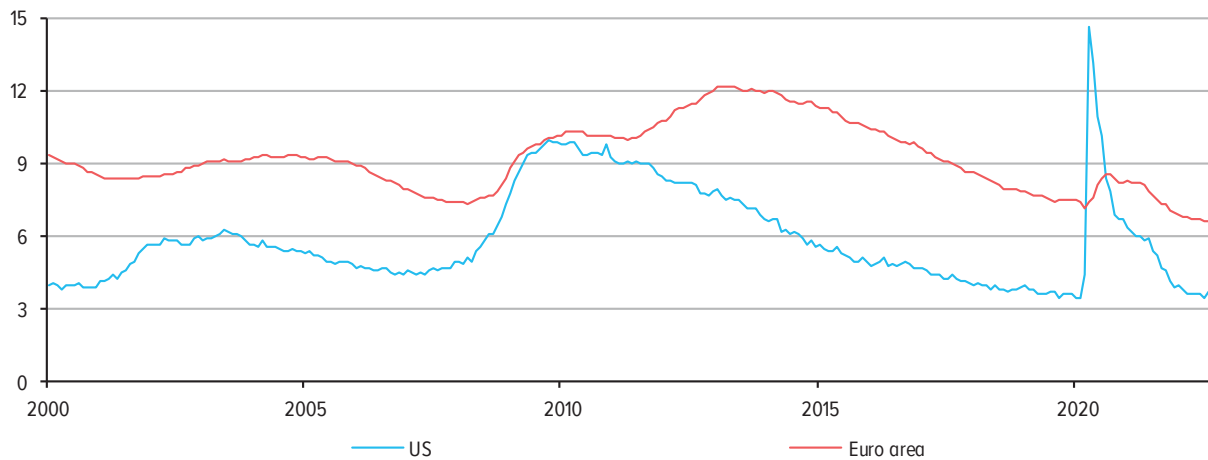
Chart 7



Source: IHS Markit.

UNEMPLOYMENT RATE IN THE US AND THE EURO AREA
(%)

Chart 8



Source: Investing.

openings (JOLTS), which fell from 11,800 in March to 10,100 in August, is still considerably above the average level (around 7,000) observed before the pandemic.

In the euro area, the current situation is more complicated. The possibility of a recession is quite clearly signaled by the Composite PMI figures for the euro area and Germany which fell in September to 48.1 p and 45.7 p, two lows for 20 and 28 months, respectively, while the German economy has already decelerated to almost 0% in 2022 Q2. At the same time, in the euro area, as in the US, the unemployment rate is at its lowest since the 2000s.

In China, the economy faced a downturn in 2022 Q2 due to anti-pandemic restrictions. It is hardly likely to recover rapidly in Q3–Q4, given the ongoing difficulties in the economy. In the real estate sector, there are large volumes of unsold and unfinished construction and possible defaults; the IT sector was subject to tighter regulation; imbalances persist in the financial sector as well as in the fiscal sector at regional level.

FINANCIAL STABILITY RISKS GREW WORLDWIDE

Statements made by central bankers in September were hawkish in the major economies. Yields on ten-year bonds in advanced economies are near record highs since 2008. The declared determination of monetary policy makers to fight inflation calls into question the prospects for global economic growth.

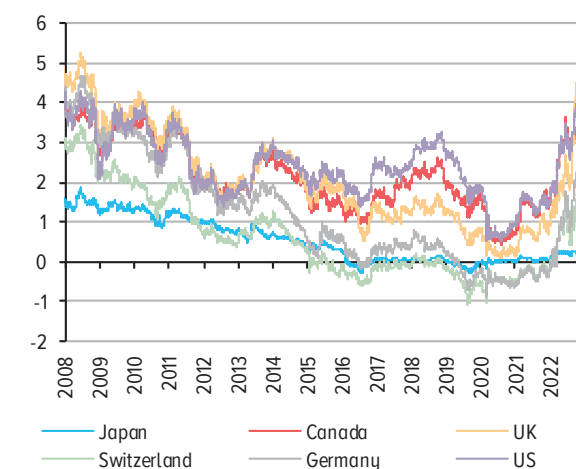
The worsening global economic outlook is reflected in the S&P 500 Index: it has been at its lowest level since early 2021 and there are growing concerns that the 2008 scenario could repeat itself if regulators in developed countries act recklessly.

Investors around the world are revising their risk assessments. Risk cost indicators continue to remain elevated, reflecting concerns about the potential materialisation of financial stability risks in global markets.

CDS index for emerging market economies, spreads between yields on investment-grade and speculative-grade corporate bonds are also near local highs. Against the backdrop of risk aversion among investors, the US dollar index is strengthening at a record pace, which is an additional proinflationary factor for the rest of advanced economies.

10-YEAR YIELDS ON ADVANCED ECONOMIES'
GOVERNMENT BONDS
(%)

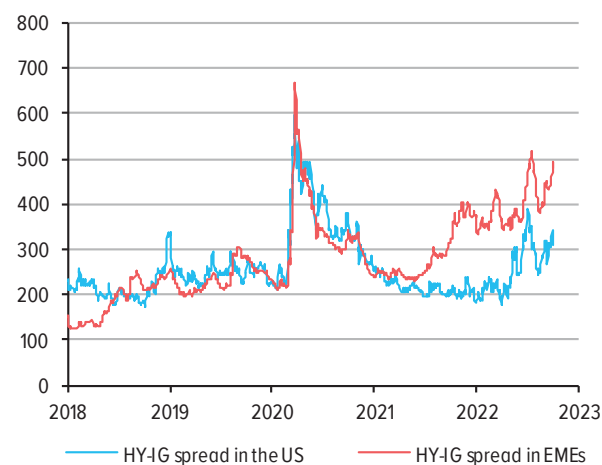
Chart 9



Source: Investing.

YIELD SPREADS IN SEGMENTS OF HY-IG ISSUERS
(bp)

Chart 10



Sources: FRED Economic Data, Bank of Russia calculations.

CHANGES IN CDS INDICES OF EMES
(bp)

Chart 11



Sources: Cbonds, Bank of Russia calculations.

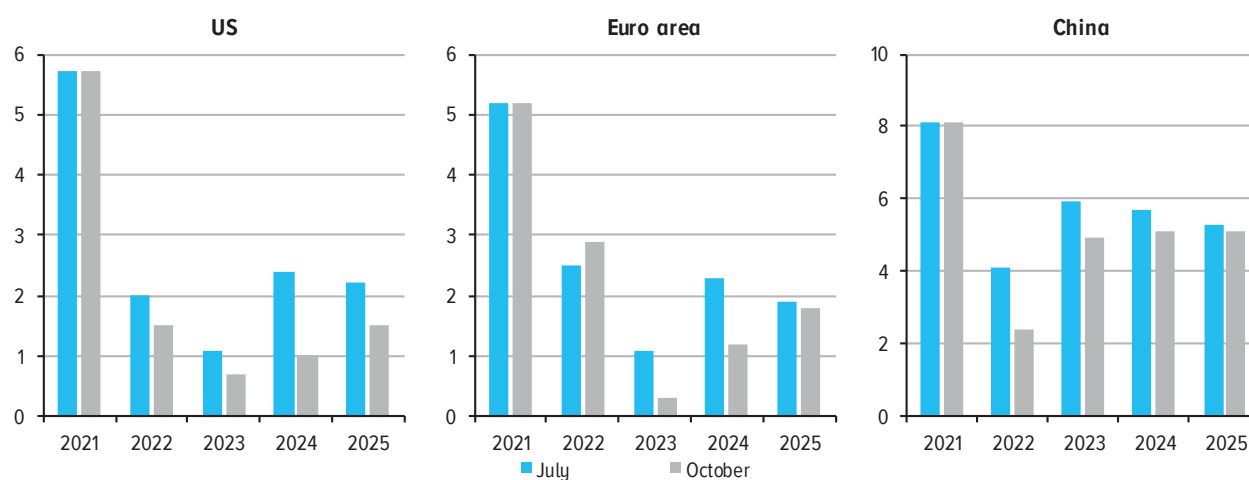
GLOBAL ECONOMIC GROWTH FORECAST WAS DOWNGRADED

Given the current trends in global economic activity, inflation and monetary policy, the Bank of Russia has revised its forecast for major foreign economies and assumes a more considerable slowdown of the global economy than previously believed. According to the forecast, GDP growth in the US, the euro area and China for 2023-2024 is estimated lower than in July, due in part to tighter monetary policy amid persistently high inflation (the forecast for which, in turn, has been revised upwards).

Taking into account recent statistics, the positive output gap estimate for the US has been revised towards a greater overheating of the economy, which entails a higher forecast path for inflation and the monetary policy rate. The current US inflation and policy rate forecast is close to market expectations (US Fed rate is near 4.5% during 2023). As a result, tight monetary policy designed to ensure disinflation over the forecast horizon leads to a lower growth rate of the economy: 0.7% in 2023, 1.0% in 2024, and 1.5% in 2025.

CHANGES IN GDP FORECAST FOR FOREIGN ECONOMIES IN THE BANK OF RUSSIA'S BASELINE SCENARIO

Chart 12



Source: Bank of Russia calculations.

In the euro area, the outlook for economic growth and inflation in 2022–2023 will be significantly influenced by energy commodities (mainly natural gas). For 2022, the GDP growth forecast is raised due to good data in the first six months, especially for southern European countries with a high share of tourism (Italy, Spain). The GDP forecast for 2023–2024 is lowered to 0.3% and 1.2%, respectively. The inflation forecast for the euro area has been substantially raised over the entire forecast horizon. The ECB rate path is also up and broadly in line with market expectations: 1.5% at the end of 2022 and 2.7% at the end of 2023.

The forecast for the Chinese economy has also been downgraded to below 3% in 2022 and below 5% in 2023. In 2024–2025, the Chinese economy may post a trend growth as a result of lifting anti-pandemic restrictions, which, however, is constrained by weak external demand and persistent economic difficulties.

NON-ENERGY COMMODITY PRICES DECLINE, ENERGY COMMODITY MARKETS REMAIN HIGHLY VOLATILE

Price volatility in global commodity markets has generally decreased in recent months (except for oil and gas). Non-energy commodity prices were predominantly declining from July to September due to concerns about a cool-down in demand.

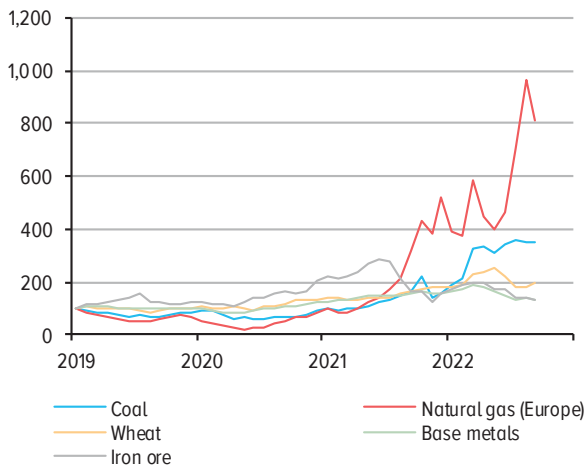
In 2022 Q3, prices of both base and ferrous metals fell by no more than 20% compared to the previous quarter and are 15–20% below the September 2021 levels. Global agricultural prices also continued to decline in 2022 Q3: wheat prices fell by 20% in anticipation of a good harvest and the FAO Food Price Index dropped for the sixth month in a row to 136.3 p in September compared to 154.7 p in June.

There was an elevated volatility in the energy commodities market. The average Urals crude price fell to \$74 per barrel in Q3 from \$79 per barrel in Q2. The price of Brent crude fell more sharply to \$98 from \$112 per barrel, bringing the spread down from \$33 to \$24. The drop in oil prices occurred amid a market surplus and continued sales of US strategic reserves. The OPEC+ decision in early October to reduce production quotas by 2 million barrels per day from November and to extend the deal until the end of 2023 made oil prices return to above \$90 per barrel.

Gas prices in Europe were shaped by pipeline events: the stoppage of Nord Stream 1 and the subsequent shutting-down of both Nord Stream 1 and Nord Stream 2. Reduced Russian gas

COMMODITY PRICES
(01.01.2019 = 100)

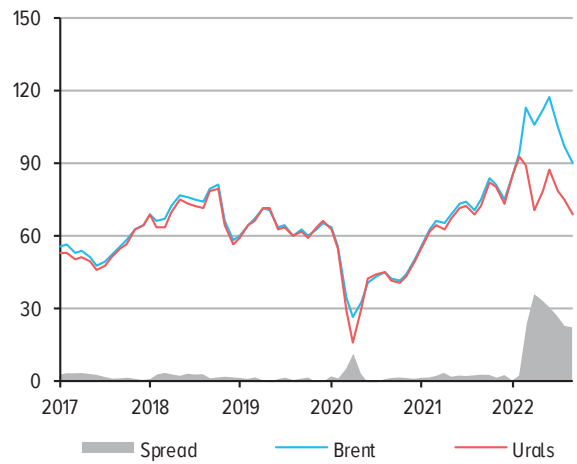
Chart 13



Sources: Bloomberg, World Bank.

OIL PRICES
(US dollar)

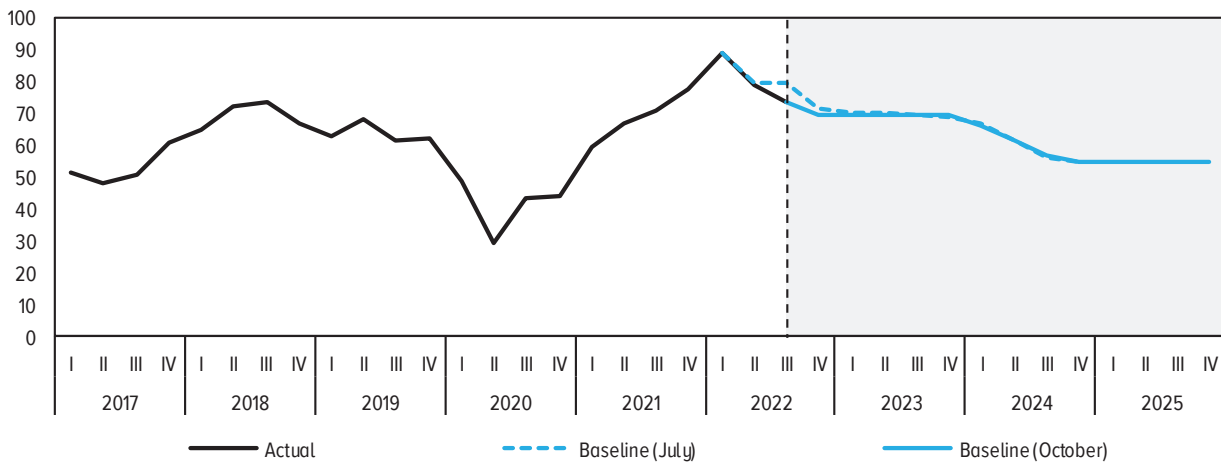
Chart 14



Source: Bloomberg.

OIL PRICE PATH IN THE BANK OF RUSSIA'S BASELINE SCENARIO
(US dollars per barrel)

Chart 15



Note. Nominal prices for Urals crude (the arithmetic mean of prices for Urals crude delivered to the Mediterranean and Northwest European markets).
Source: Bank of Russia calculations.

supplies to the EU and higher risks led to a sharp rise in gas prices in July and August. However, gas prices have corrected downwards after the target for 80% filling of underground gas storage facilities was reached in September and early October. Coal prices continued to rise in the third quarter given the tensions in the gas market.

Considering the current oil price trends, the Bank of Russia has refined the 2022 Urals crude price to \$78 per barrel, leaving the 2023-2025 path unchanged: \$70 in 2023, \$60 in 2024, and \$55 in 2025. The Bank of Russia also expects gas prices to remain at elevated levels until the end of this year and to gradually adjust between 2023 and 2025.

THE CURRENT ACCOUNT SURPLUS IS DECREASING STEP BY STEP

In 2022 Q3, the current account surplus was high at \$52 billion (vs \$36 billion in 2021 Q3). However, its excess over the same period last year decreased.¹

Growth in the value of exports of goods and services slowed to 5% in annualised terms. This was due to the slowdown in the annual growth of world prices for many commodities, the suspension of gas transportation via Nord Stream 1 and the intensifying effect of sanctions.

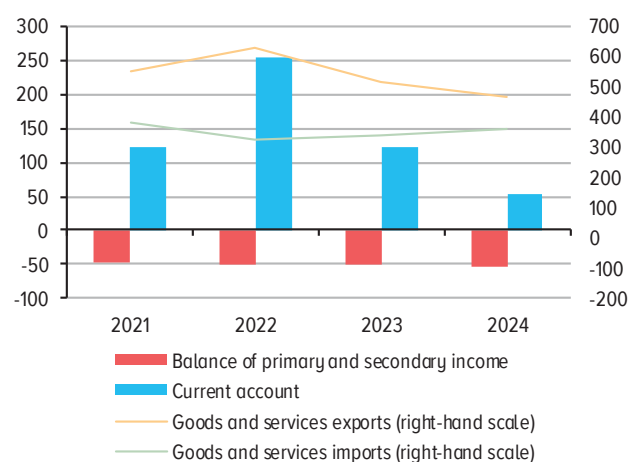
There were recovery trends in imports. The rate of decline in the value of imports of goods and services fell to 14% in annualised terms; more alternative suppliers are emerging, and parallel imports are expanding. In contrast to the previous reporting period, the improvement in imports in 2022 Q3 was determined by investment goods, whereas the recovery of consumer imports slowed down. The recent strengthening of the ruble further boosted import dynamics.

The financial account surplus in 2022 Q3 stood at \$50 billion (vs \$34 billion in 2021 Q3). Net lending to the rest of the world during the quarter was mainly generated by a build up of foreign assets, including in the form of trade credits and advances to foreign partners.

The forecast of a current account surplus in 2022 was raised to \$253 billion. Changes to the forecast were mainly due to the alignment with actual data received in 2022 Q3. The value of exports grew on account of higher quantities of oil and gas exports (the rise in oil export quantities was greater than the decline in gas exports following the suspension of gas transportation through Nord Stream 1) and non-oil and gas exports, which surpassed expectations in 2022 Q3. The substantial revision of the annual forecast of the deficit of primary and secondary income account also reflects its trends in 2022 Q3, including the annual reduction in investment income received. As a result, the upward revision of exports is partly offset by higher imports and a deficit in the primary and secondary income account.

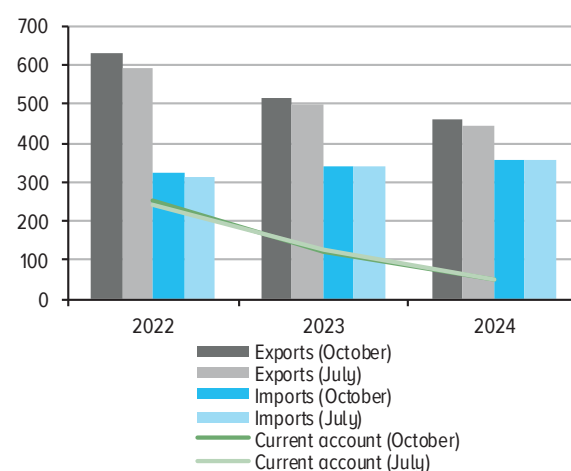
The current account surplus is still expected to decrease between 2023 and 2025 due to a reduction in the value of exports in the context of lower global energy prices after their increase in 2022. The EU's rejection of Russian energy commodities alongside other restrictions will continue to push exports down. In addition, the current account will be affected by the recovery of imports in the medium term.

CURRENT ACCOUNT FORECAST IN THE BANK OF RUSSIA'S BASELINE SCENARIO *Chart 16*
(billions of US dollars)



Source: Bank of Russia calculations.

CHANGE IN THE FORECAST IN OCTOBER VS JULY *Chart 17*
(billions of US dollars)



Source: Bank of Russia calculations.

¹ See [the information and analytical commentary Russia's Balance of Payments, No. 3 \(12\), 2022 Q3](#).

By 2025, the current account surplus will decrease by 94% compared to its 2022 level to \$15 billion, and the surplus in goods and services will decrease by 78%. The larger reduction in the current account surplus than that in the goods and services surplus is due in part to the recovery of the deficit of primary and secondary income account.

The evolution of the financial account balance reflects that of the current account and is associated with a decline in private sector foreign liabilities as well as a significant increase in banks' foreign assets owing to the accumulation of export earnings, which exceed the capacity to pay for imports and repay liabilities.

RUSSIA'S ECONOMY

In 2022 Q3, business activity was better than the Bank of Russia had previously forecast. Output was supported by industrial production, construction works and retail sales, as well as the activity in the agricultural sector, which expects a record harvest this year. At the same time, high-frequency indicators point to a decline in economic activity in September. The main reason is growing uncertainty amid intensified geopolitical tensions and the partial mobilisation. Estimates of the Bank of Russia's Business Climate Index deteriorated in October across all major sectors. Consumer activity remains subdued.

However, more favourable developments in exports and domestic demand compared with the July expectations improve the outlook for 2022. According to the updated baseline forecast of the Bank of Russia, GDP will decline by 3.0–3.5% in 2022. However, supply-side shocks may have longer-lasting influence. The economy will contract by 1–4% in 2023, but growth in 2023 Q4 will be lower than previously forecast. In 2024–2025, GDP growth will be 1.5–2.5%.

The current growth rate of consumer prices in the Russian economy remains subdued, contributing to a further slowdown in annual inflation. The monthly seasonally adjusted price growth rate picked up in September. That came in part on the back of a one-off rise in insurance and mobile communication prices. Stripping out the impact of one-off factors, the monthly growth pace of prices was also up but remained low. Inflation expectations of households and businesses were elevated. Monetary conditions remained broadly neutral, despite a rise in OFZ yields amid heightened geopolitical tensions. The annual inflation forecast for the end of 2022 has been revised to 12.0–13.0%. Given the current monetary policy stance, annual inflation will reduce to 5.0–7.0% in 2023 to return to 4% in 2024.

SHORT-TERM INFLATION AND GDP DYNAMICS

Table 1

	2022 Q1	2022 Q2	2022 Q3 (for reference)	2022 Q4 (for reference)	2021 Q4	2022 Q4 (forecast)	2023 Q4 (forecast)	2024 Q4 (forecast)	2024 Q4 (forecast)
Inflation, % YoY	16.7	15.9	13.7	12.5*	8.4	12.0–13.0	5.0–7.0	4.0	4.0
GDP, % YoY**	3.5	-4.1	-4.0* (estimate)	-7.1*	5.0	(-7.8) – (-6.4)	0.0–1.5	0.5–1.5	1.5–2.5

* The values of the GDP and inflation growth rates for 2022 Q3–Q4 correspond to the centres of the shaded areas in charts 'GDP growth path in the Bank of Russia's baseline scenario' (Chart 31) and 'Inflation path in the Bank of Russia's baseline scenario' (Chart 38) and are provided for reference. The ranges for 2022 Q4, 2023 Q4, and 2024 Q4 are the forecast of the Bank of Russia.

** The average of quarterly growth rates in annualised terms may not coincide with the annual GDP growth rate (the volume index). Quarterly growth rates are calculated on the basis of value added data in a given quarter and could be subsequently revised. The volume index on the previous year is calculated as the quotient of the value added of the reporting year divided by the value of the corresponding indicator of the previous year.

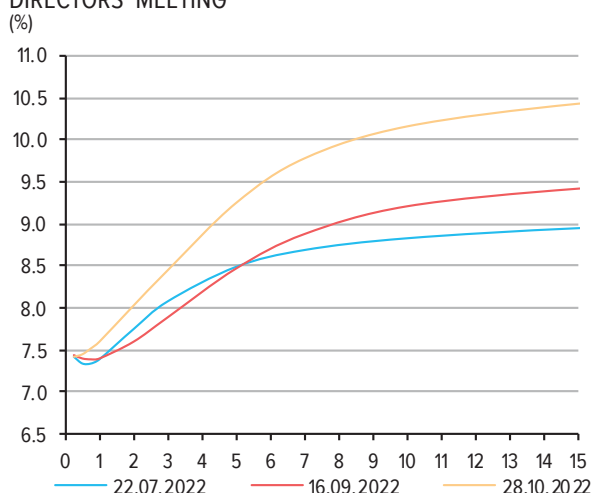
Source: Bank of Russia.

OFZ YIELDS ROSE

Rising market volatility in the second half of September triggered a fall in the debt and equity markets. Investors reviewed inflation expectations and the cost of risk. Yields on the long end of the OFZ curve grew and are at the levels of the first half of May. Implied inflation rate (from OFZ-IN) has also increased and is above the 4% target level due to increased uncertainty about the realisation of proinflationary factors over the near-term horizon.

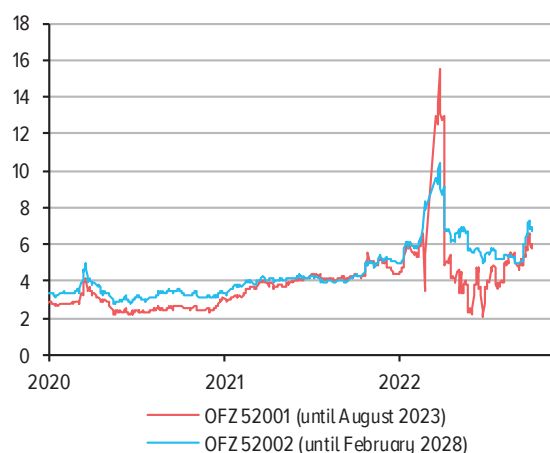
In the corporate debt market, credit spreads also widened markedly in September, but this increase was temporary: spreads subsequently stabilised in the 1–2% range. The level of current rates supports an issuance activity: the volume of placements is still high. However, the Moscow Exchange Index, which plummeted in September to its lowest level since the beginning of the year (below 2,000 p), has been recovering weakly so far. This may reflect investors' perceptions of corporate business outlook.

OFZ ZERO COUPON YIELD CURVES AS OF THE DATE OF THE BANK OF RUSSIA BOARD OF DIRECTORS' MEETING *Chart 18*



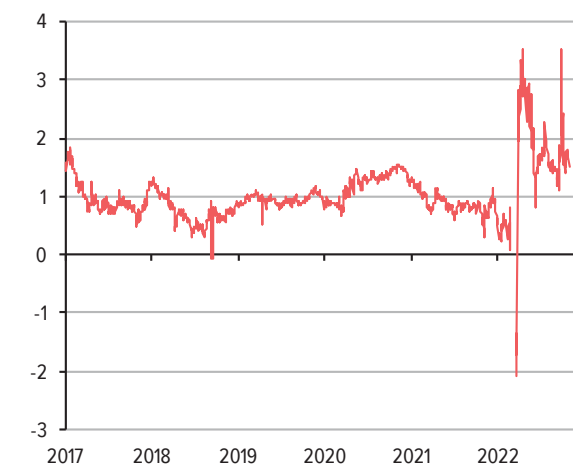
Sources: Moscow Exchange, Bank of Russia calculations.

IMPLIED INFLATION (FROM OFZ-IN) (%) *Chart 19*



Sources: Moscow Exchange, Bank of Russia calculations.

SPREAD BETWEEN YIELDS ON CORPORATE AND GOVERNMENT BONDS (%) *Chart 20*



Sources: Cbonds, Bank of Russia calculations.

MOEX INDEX (p) *Chart 21*

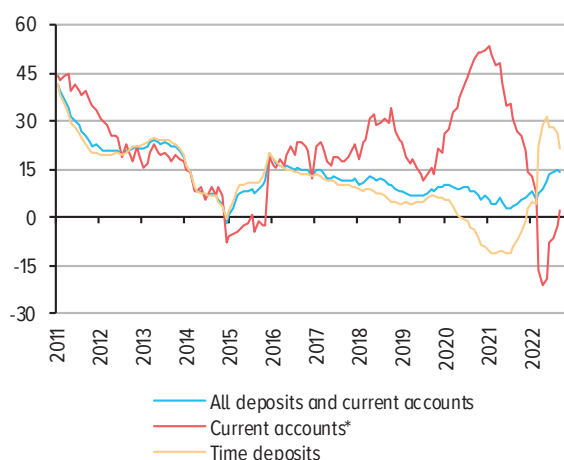


Source: Moscow Exchange.

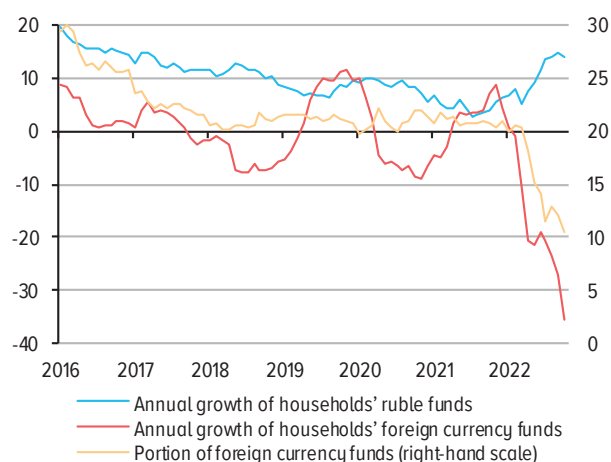
DEPOSITORS' INTEREST IN LONG-TERM DEPOSITS IS RECOVERING

In July–August and the first half of September, bank deposit rates declined smoothly following the reduction in the Bank of Russia key rate. This decline was commensurate with the decrease in inflation. The inflow of funds into bank deposits remained steady.

In the last ten days of September, higher economic uncertainty associated with the partial mobilisation led to a rise in demand for cash and an outflow of funds from household deposits. During September, the amount of cash in circulation (outside the Bank of Russia) grew by almost 1 trillion rubles. As a result, the annual increase in household deposits slowed down from 6.6% at the beginning of September to 4.4% at the end of the month. Seeking to retain depositors, banks raised deposit rates in late September and October. Rising rates, combined with the satisfaction of demand for cash, helped stabilise the situation in the deposit market. By the end of October, the outflow of funds from household deposits had almost come to an end.

ANNUAL GROWTH IN HOUSEHOLDS' RUBLE DEPOSITS*
(%) *Chart 22*

* Including demand deposits.
Source: Bank of Russia.

GROWTH RATE OF HOUSEHOLDS' ACCOUNTS (p) *Chart 23*

Source: Bank of Russia.

The structure of household deposits continued to change over the period since the release of MPR 3/22. The reduction in the portion of foreign currency deposits continued: in July and August, depositors replenished their ruble deposits, while reducing foreign currency ones; in September, foreign currency deposits declined more rapidly. As a result, by the beginning of Q4, the portion of foreign currency deposits in total deposits reached its historic low (less than 11% of total household deposits). In addition, as high-yield deposits opened in March matured, funds continued to flow from short- to long-term deposits (which offer more attractive interest rates) and current accounts (which are more liquid).

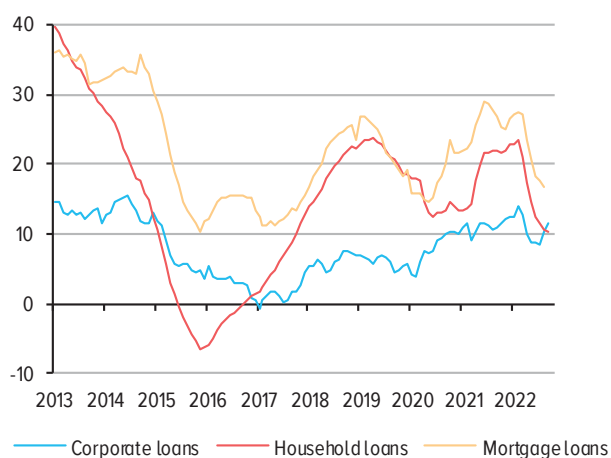
MONETARY CONDITIONS REMAINED BROADLY NEUTRAL

The rising availability of market-based lending, combined with subsidised lending programmes, contributed to the sustainable growth of loan portfolios.

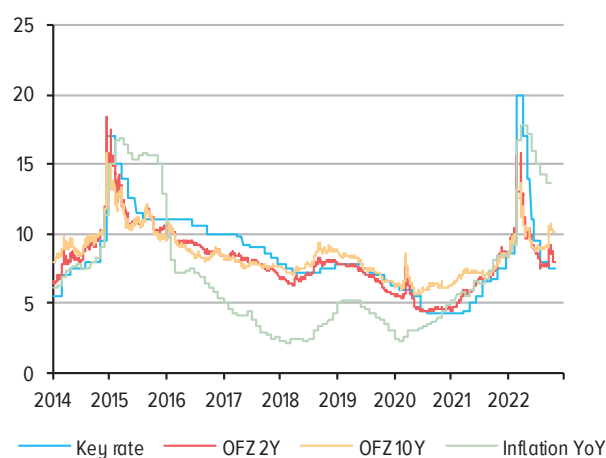
Mortgage loans accounted for more than half of the increase in the retail loan portfolio. The faster recovery of activity in the mortgage segment of the market was facilitated by the government-subsidised lending programmes, as well as by the preferential lending facilities implemented by banks in cooperation with developers. At the same time, rising property prices held back demand for mortgages and annual growth in the retail loan portfolio continued to decline.

In the corporate segment of the market, the volume of lending grew, with subsidised lending programmes and developers' project finance making a significant contribution to lending. The portion of foreign currency facilities in the corporate lending market continued to decrease. Corporate lending for up to three years grew faster in the face of persisting uncertainty.

Tougher requirements for borrowers and rising OFZ rates amid the escalated geopolitical uncertainty and the partial mobilisation at the end of the quarter led to a slight tightening of monetary conditions. However, they remained generally neutral with credit activity showing better trends than the Bank of Russia had expected.

ANNUAL GROWTH OF RUSSIAN BANKS' LOAN PORTFOLIO (%) *Chart 24*

Source: Bank of Russia.

INTEREST RATES AND INFLATION (%) *Chart 25*

Sources: Cbonds, Rosstat.

FORECAST FOR CREDIT GROWTH RATE IN 2022 HAS BEEN RAISED

According to the forecast by the Bank of Russia, at the end of 2022, the growth rate of the banking system's claims on the economy will be in the range of 9–12%, which is in line with the 2018–2020 figure but below the actual reading for 2021. The limiting factor was tighter non-price lending conditions imposed by banks in February and March amid heightened uncertainty along with higher rates compared to 2021. Despite the subsequent relaxation of a number of requirements, banks continue to be conservative in selecting their borrowers.

The growth of the banking system's claims on households in 2022 will be in the range of 7–10%. The forecast assumes an increase in mortgage lending of 14–17%.

In 2023, the structural transformation of the economy may face an accumulated effect of problems that were of secondary importance at the time of initial adjustment in 2022. In particular, a number of previously concluded contracts supporting companies' business activities in 2022 will come to an end. Besides, there may be a greater need to repair imported equipment, for which only a limited number of suppliers manufacture high-quality components. Moreover, the effect of sanctions that were adopted in mid-2022 with their effective periods postponed to late 2022 – early 2023 may become more pronounced.

All these processes will cause banks to remain cautious in their assessment of borrowers; the pace of corporate lending could fall to 7–12% in 2023. Banks may need additional time to check the financial soundness of companies in the new environment, verify their business models, and establish additional evaluation criteria in case of significant changes in operations due to restrictions related to the imports of components or the exports of products.

At the same time, the pace of household lending will increase to 9–14% in 2023, due to a gradual reduction in uncertainty and a labour market tightness, which will improve income growth prospects.

As the economy adapts to the new structure, inflation and the key rate decrease, the growth rate of lending to the economy will stabilise in the range of 8–13%. Banks are likely to gradually relax their requirements for borrowers, which will increase the availability of credit and improve lending activity.

In 2022, money supply growth in the national definition will outpace the growth of claims on the economy due to the significant impact from fiscal stimulus policies as well as the lower attractiveness

of foreign currency deposits. Further out, as fiscal policy is normalised and anti-crisis measures are completed, the contribution of fiscal operations to money supply growth will decline. The potential for funds to flow from foreign currency deposits to ruble deposits will be exhausted. As a result, money supply dynamics will, as in previous years, be largely determined by the increase in claims on the economy.

ECONOMIC ACTIVITY DECLINED IN EARLY AUTUMN

The statistics released in Q3 were generally better than the Bank of Russia's expectations. During the quarter, industrial production rose slightly in sequential terms but declined in annual terms, which mainly came as a result of growth in oil production and refinery. In addition, output was supported by an increase in construction works and retail sales, as well as the activity in the agricultural sector, where a record grain harvest is expected in 2022. Overall, high-frequency indicators show that the reduction in output in Q3 was smaller than anticipated in MPR 3/22.

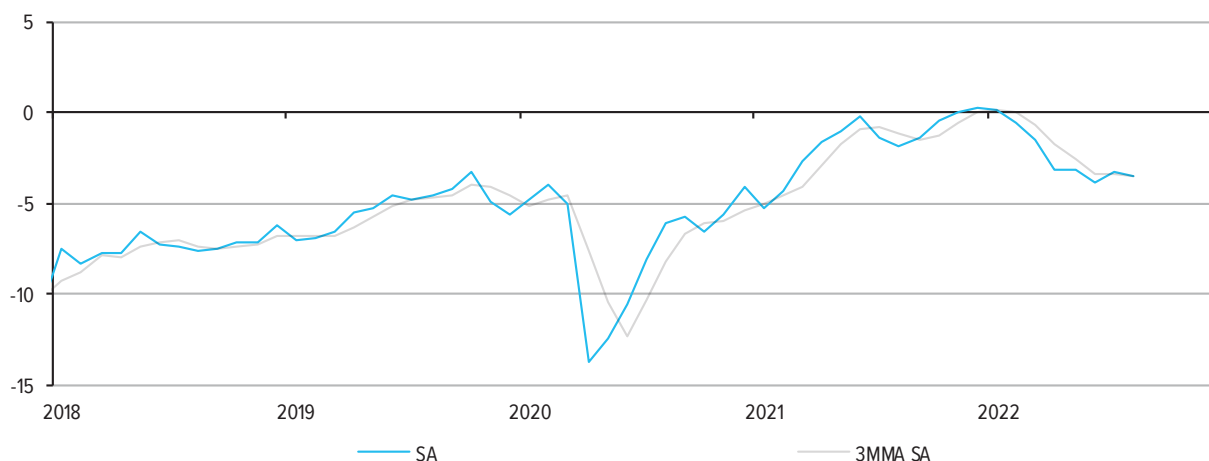
However, the economic recovery came to a halt in September. In sequential terms, output declined in manufacturing (especially engineering products) and in mining and quarrying (mainly natural gas and non-fuel minerals). There was also a decline in non-food retailing, reflecting elevated uncertainty amid the partial mobilisation.

In addition, according to Bank of Russia estimates based on Rosstat and Russian Railways recent data, railway cargo shipments decreased mainly due to the transportation of raw materials and intermediate goods (coal, ferrous metals, and fertilisers). According to Bank of Russia estimates based on data from the System Operator of the Unified Power System (SA and excluding the temperature factor), electricity consumption also declined in September after rising in August. The decrease was due to all power systems except the North-Western and Central regions. The main factor is assumed to be a reduction in the output of energy-intensive industries.

October saw a drop in the Bank of Russia's Business Climate Index.¹ Estimates deteriorated across all major sectors, i.e. manufacturing, agriculture, construction, trade, and services. The decrease in the index value reflects both an intensification of negative effects in current business climate assessments and lower business optimism for the next three months. Companies' expectations returned to the levels of autumn 2020, the period of the second wave of COVID-19.

KEY INDUSTRY INDEX
(% change on 2021 Q4, SA)

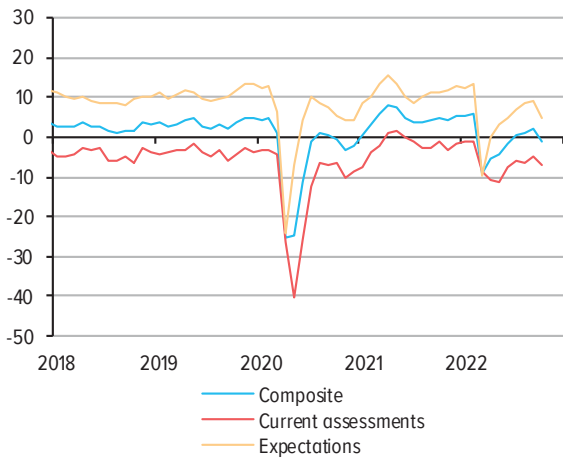
Chart 26



Sources: Rosstat, Bank of Russia calculations.

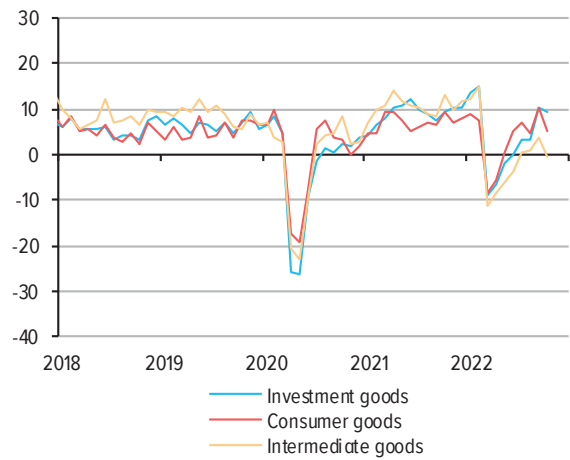
¹ See the [information and analytical commentary Monitoring of Businesses, No. 6, October 2022](#).

THE BANK OF RUSSIA'S BUSINESS CLIMATE INDEX ACROSS THE ECONOMY (p, SA) *Chart 27*



Source: Bank of Russia.

THE BANK OF RUSSIA'S BUSINESS CLIMATE INDEX ACROSS SECTORS (p, SA) *Chart 28*

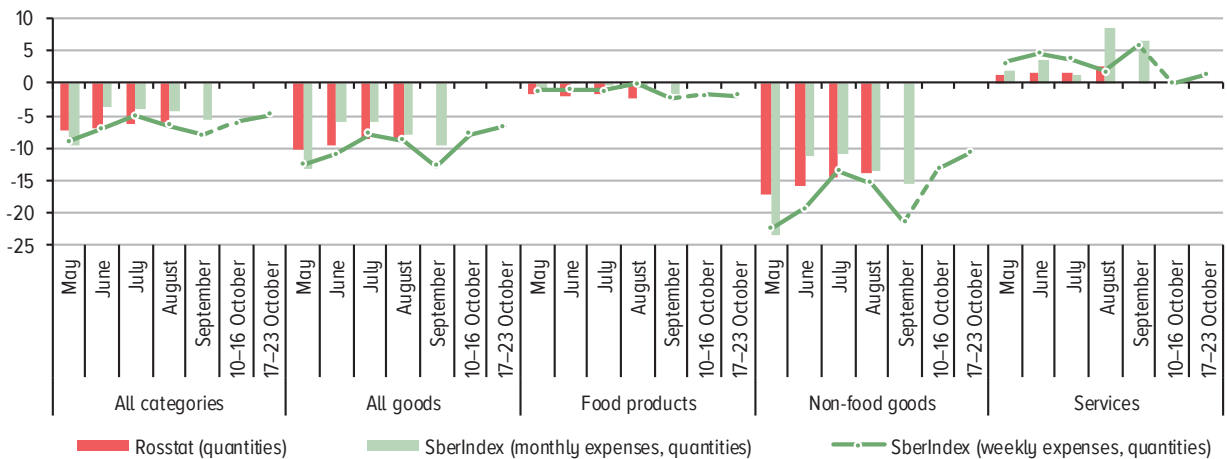


Source: Bank of Russia.

CONSUMER ACTIVITY REMAINS MUTED

After an increase in June–July, August saw a decrease in consumer activity in sequential terms. Household expenditures in the retail trade contracted for both food products and especially for non-food goods. Adjustment to new product lines continues, with a shift in the purchases of expensive non-food goods towards cheaper items and a tendency to postpone purchases for the future. These trends intensified in September against the backdrop of the announced partial mobilisation as demonstrated by both the recent data of the SberIndex laboratory and car sales figures of the Association of European Businesses.

CONSUMER ACTIVITY INDICATORS IN 2022 (% change YoY) *Chart 29*

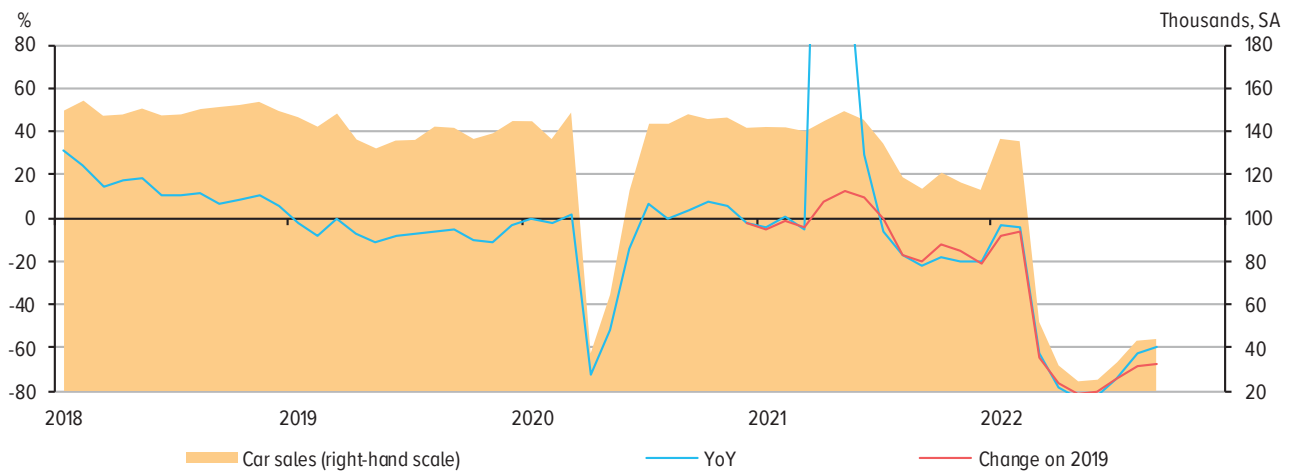


Note. The data of the SberIndex laboratory on consumer spending are published in nominal terms. The volume indices are calculated using the price deflators of retail sales (of food and non-food goods) and the deflator of the value of commercial services to households. Weekly deflators are calculated based on the deflator for the previous month adjusted for the change in weekly inflation. If the monthly deflator of retail sales and the value of commercial services was not released, it is calculated based on the available deflator for the previous month adjusted for the change in monthly inflation.

Sources: Rosstat, SberIndex laboratory, Bank of Russia calculations.

CAR SALES

Chart 30



Sources: Association of European Businesses, Bank of Russia calculations.

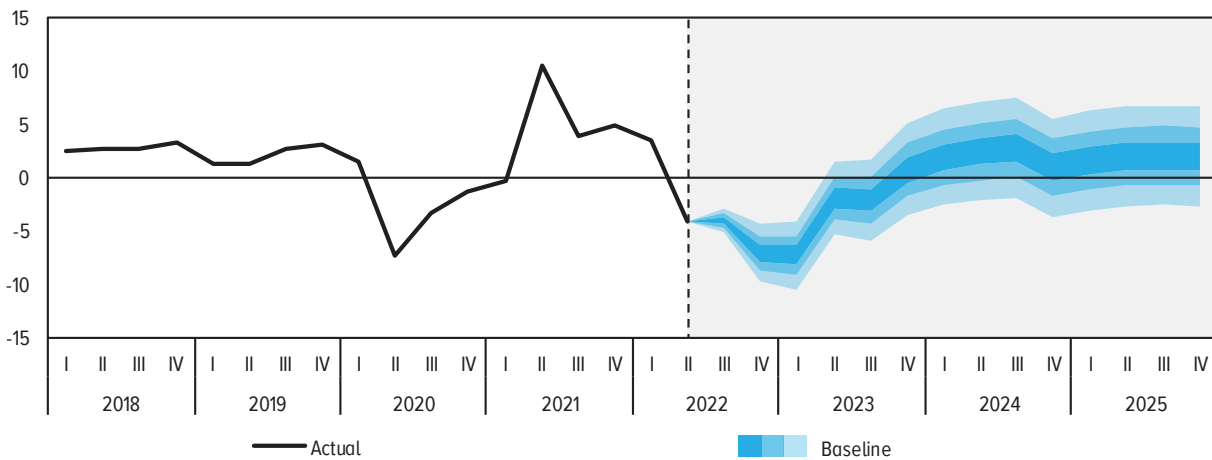
IN 2022, GDP DECLINE WILL BE SMALLER, BUT RECOVERY WILL BE LONGER THAN PREVIOUSLY EXPECTED

Taking into consideration current data, the Bank of Russia has improved its GDP forecast for 2022: its reduction will be 3.0–3.5% vs 4.0–6.0% previously expected. At the same time, supply-side shocks are likely to stay over a longer period. In 2023, the economy will contract by 1–4%, edging up slightly to 1.5% in annualised terms in the fourth quarter. This is less than expected in MPR 3/22 (1.0–2.5%). In 2024, recovery growth will continue, with an annualised growth rate of 0.5–1.5% in the fourth quarter. In 2025, the growth rate of the economy will stabilise in the range of 1.5–2.5%.

- In 2022, household final consumption expenditure will decrease by 3.0–3.5% in annualised terms. Moderate growth will begin in the second half of 2023, but as of the year-end, 2023 will still see a decline in the range of up to 3%. From 2022 to 2023, household consumer sentiment will be influenced by the continuing adjustment of consumption to the new environment, which might be reflected in higher savings. In 2024, the growth rate of household final consumption expenditure will pick up to a recovery rate of 3.5–4.5%, including due to credit support. In 2025, the growth of household expenditure will stabilise in the range of 1.5–2.5%.
- Gross fixed capital formation (GFCF) in 2022 will be almost unchanged compared to the 2021 level – it has been supported by previously approved investment projects, whereas additional budget-funded capital expenditures prevented the contraction of GFCF. However, as early as 2023, the decline in GFCF could range from 3% to 7%. Amid the uncertainty of 2022, many investment projects for the following years have been adjusted and the budget support factor will become less important because of the process of gradual consolidation. In 2024, GFCF will grow at a recovery rate amid an increasingly more sustainable transformation of the Russian economy and will stabilise in the 1–3% range in 2025.
- Export quantities will contract by 15–16% in 2022 under the impact of external constraints and the slowdown of the global economy. In 2023, exports will fall by a further 7.5–11.5% in real terms on the back of the entry into force of the sanctions imposed by the EU. In 2024, the reduction will slow down to 1–3%, and in 2025, a slight growth to 2% is possible due to the ongoing recovery of non-oil and gas exports and services exports.

GDP GROWTH PATH IN THE BANK OF RUSSIA'S BASELINE SCENARIO
(% change YoY)

Chart 31



Note. The shaded blue areas on the forecast horizon show the probability of different GDP growth values. Confidence intervals are symmetrical and based on the historical estimates of GDP growth uncertainty. If baseline scenario assumptions are implemented, the value of GDP growth rate will lie within the darkest central band on only 25 out of 100 occasions. Besides, on 25 out of 100 occasions, outturns will lie within each pair of less dark areas of the fan. As a result, GDP growth rate will have the values of the blue areas on 75 out of 100 occasions. And on the remaining 25 occasions, GDP growth rate may fall anywhere outside the blue areas of the fan. Over the forecast horizon, this has been depicted by the grey background.
Source: Bank of Russia calculations.

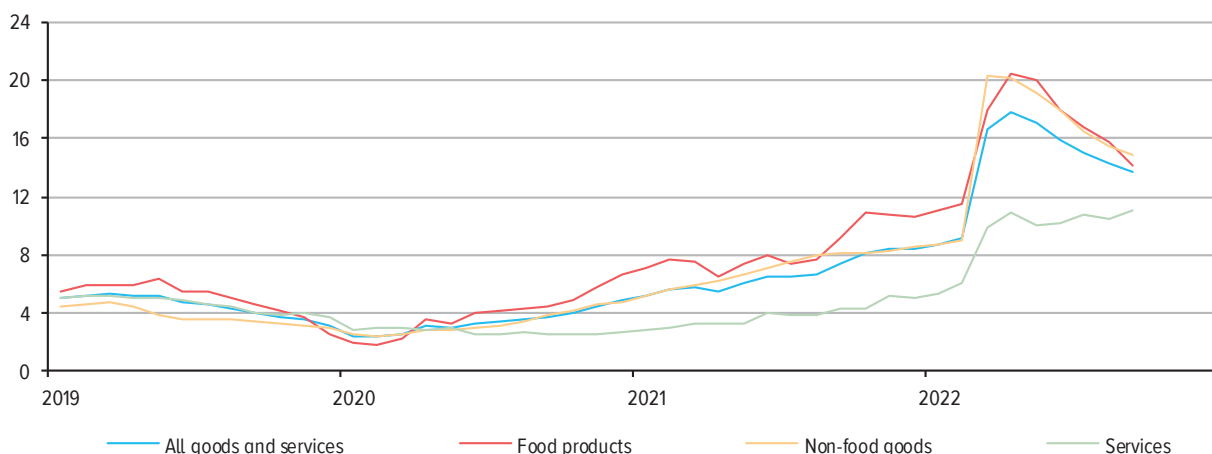
- Import quantities in 2022 are projected to decline in the range of 22.5–23.5% due to the imposed external restrictions. In 2023, the decline in imports in real terms will slow down, and even a slight recovery to 0.5% becomes possible. In 2024, imports will speed up to 3.0–5.0% and stabilise in the range of 1.0–3.0% by 2025, as new foreign economic linkages will develop.

CURRENT INFLATIONARY PRESSURES REMAIN SUBDUED

In the summer months of 2022, prices fell at the fastest rate in Russia's recent history (in seasonally adjusted monthly terms). In September, the decline reversed to the overall increase of the price index. This was largely caused by one-off factors: increases in prices in the auto insurance and mobile communication markets. In addition, fruit and vegetable prices, which were falling at a record pace during the summer months, declined by less compared to seasonal trends. At the same time, the overall change in the nature of price dynamics reflected the gradual exhaustion

PRICES FOR MAIN GROUPS OF GOODS AND SERVICES
(% change YoY)

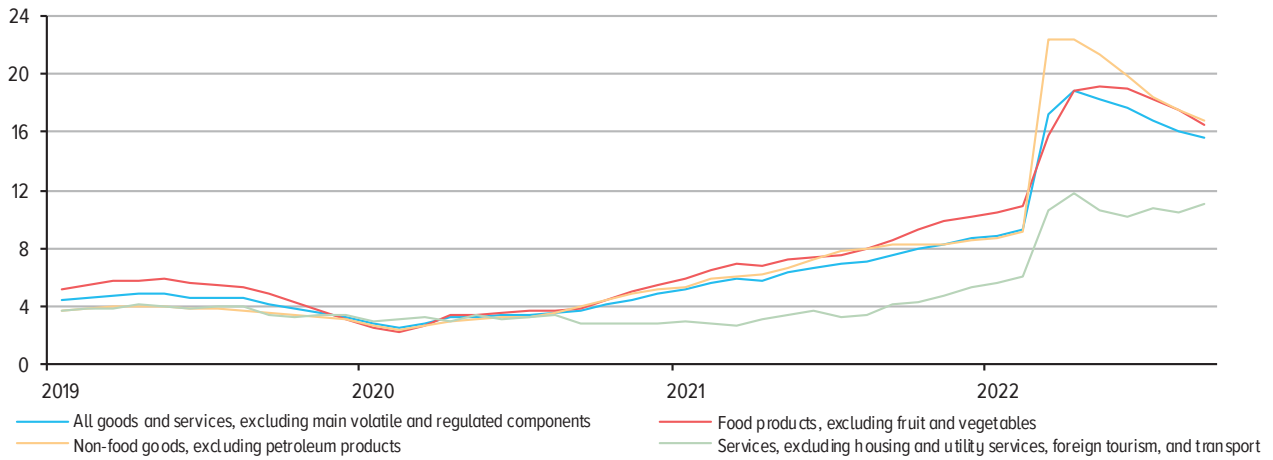
Chart 32



Sources: Rosstat, Bank of Russia calculations.

STEADY COMPONENTS OF INFLATION
(% change YoY)

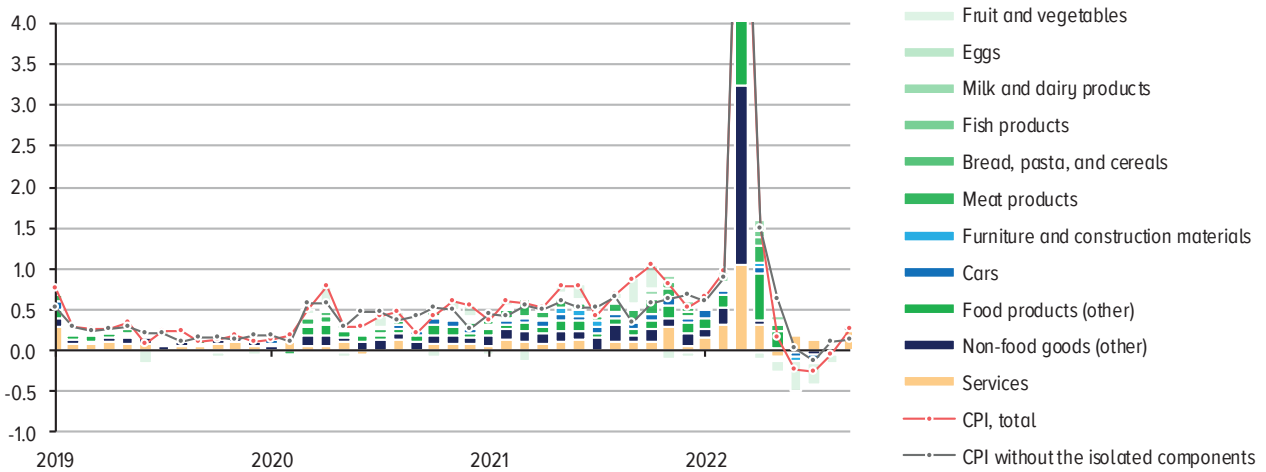
Chart 33



Sources: Rosstat, Bank of Russia calculations.

CONTRIBUTION TO MONTHLY INFLATION (SA)
(pp)

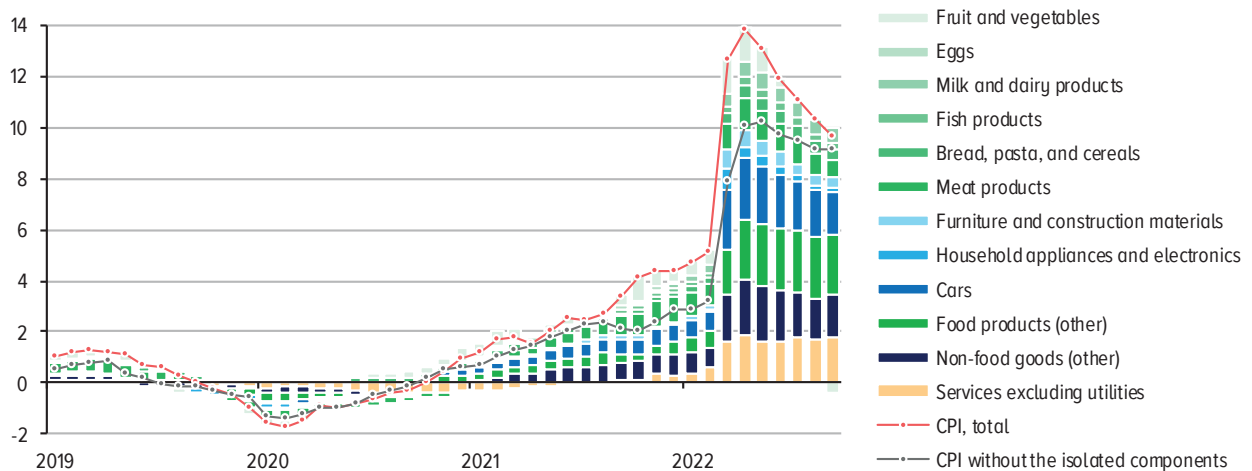
Chart 34



Sources: Rosstat, Bank of Russia calculations.

CONTRIBUTION TO THE DEVIATION OF ANNUAL INFLATION FROM 4%
(pp)

Chart 35



Sources: Rosstat, Bank of Russia calculations.

of disinflationary factors and the intensification of proinflationary ones. Thus, the effects of the correction of commodity prices after the roaring surge in February–March and of the pass-through of the ruble strengthening in Q2 were coming to an end. Price pressures from rising costs in the context of reduced output and restrictions on imports of a number of goods and services persisted.

However, overall proinflationary pressures have so far remained subdued. The rate of increase in prices for the main commodity groups in annualised terms rose in September, but did not exceed 4% SAAR and was lower than a year earlier.

Annual inflation continued to slow down, reaching 13.7% by September. Growth in food prices was contained by an increase in supply, due in part to the high harvest and limited opportunities to expand exports. Prices for non-food goods were prevented from growing by muted household demand, which continues to adjust to new product lines. Annual growth in services prices edged up, while there is still considerable heterogeneity in individual market segments.

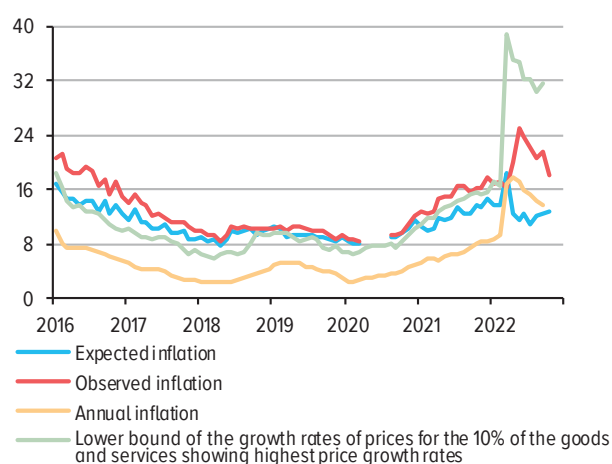
INFLATION EXPECTATIONS ARE ELEVATED

Household inflation expectations increased between August and October. Their median estimate reached 12.8% in October. In September, for the first time since March, inflation expectations rose among respondents with savings; in October, the estimates of this group of respondents remained unchanged.

For the inflation rate observed by households, the downward trend generally continued in August–October, with the exception of a slight rise in September. The median estimate of observed annual inflation was 18.2% in October. The change in estimates of observed inflation was unidirectional among respondents both with and without savings.

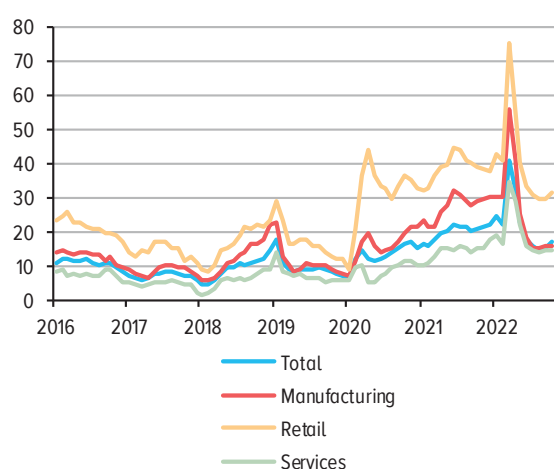
Companies' price expectations, according to the [Bank of Russia's monitoring of businesses](#), rose in September–October for the first time after five months of decline. In October, the average expected rate of price growth over the next three months was 4.1% in annualised terms. According to respondents' estimates, the increase in price expectations is mainly driven by rising uncertainty and geopolitical tensions. Besides, cost growth accelerated in a number of sectors.²

INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS (%) *Chart 36*



Sources: InFOM, Rosstat, Bank of Russia calculations.

COMPANIES' PRICE EXPECTATIONS (balance of responses, % SA) *Chart 37*



Sources: Rosstat, Bank of Russia.

² See the [information and analytical commentary Inflation Expectations and Consumer Sentiment, No. 10 \(70\), October 2022](#).

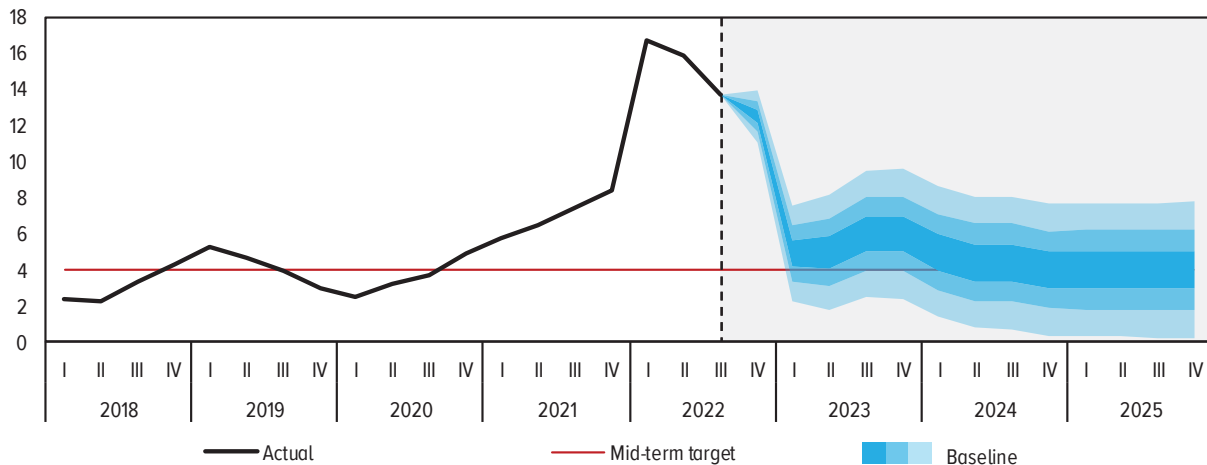
ANNUAL INFLATION WILL SLOW DOWN TO 12–13% BY THE END OF 2022 AND WILL RETURN TO THE TARGET IN 2024

Annual inflation continues to slow in line with the Bank of Russia's forecast. Until the end of 2022, two main factors will influence price growth rates. Firstly, there will be some disinflationary impact from a slowdown in consumer activity due to an increase in the savings rate and some tightening of non-price retail lending conditions. Secondly, there will be a proinflationary impact of tariff indexation, moved from July 2023 to December 2022. The Bank of Russia estimates that the transfer of indexation could contribute around 0.5 pp to the 2022 price level. According to the Bank of Russia's baseline forecast, inflation in 2022 will be in the range of 12–13%.

Inflation in 2023 will be shaped by both the ongoing structural transformation of the economy and the delayed effects of the partial mobilisation. Although the economy has adapted to changed conditions faster than expected, as the effects of inertia fade (including the exhaustion of available stocks and the completion of earlier-concluded contracts), supply shocks may become more pronounced, proving more persistent and longer-lasting than previously anticipated. This, in turn, might lead to an increase in price growth rates. In addition, the delayed effects of the partial mobilisation will gradually manifest themselves through a possible increase in labour flows between industries and regions, shortages of staff of certain professions, and proinflationary wage pressures. Taking all these factors into account, the Bank of Russia assumes that annual inflation in 2023 will be above the target in the range of 5.0–7.0%. Inflation will return to values close to the 4% target in 2024 and remain unchanged thereafter.

INFLATION PATH IN THE BANK OF RUSSIA'S BASELINE SCENARIO
(% change YoY)

Chart 38



Note. The shaded blue areas over the forecast horizon show the probability of different inflation rates. Confidence intervals are symmetrical and based on historical estimates of inflation uncertainty. If baseline scenario assumptions are implemented, the value of inflation path will lie within the darkest central band on only 25 out of 100 occasions. Besides, on 25 out of 100 occasions, outcomes will lie within each pair of less dark areas of the fan. As a result inflation will have the values of the blue areas on 75 out of 100 occasions. And on the remaining 25 occasions, inflation may fall anywhere outside the blue areas of the fan. Over the forecast horizon, this has been depicted by the grey background.

Source: Bank of Russia calculations.

MONETARY POLICY DECISIONS AND KEY RATE PATH

Over the period after the release of MPR 3/22, the Bank of Russia reduced the key rate by 0.5 pp, from 8.0% to 7.5% per annum. Improving economic activity, an ongoing decline in annual inflation and subdued consumer activity formed conditions for the key rate cut by 0.5 pp at the meeting on 16 September 2022. The Bank of Russia noted that the strength of one-off disinflationary factors was gradually dissipating, proinflationary risks were mounting, while the room for further key rate cuts narrowed.

Over the period from 16 September to 28 October, the key trends observed prior to the September decision of the Bank of Russia Board of Directors remained broadly unchanged. The current growth rate of consumer prices was subdued, annual inflation slowed, and the economy continued to adjust to the new conditions. At the same time, proinflationary risks intensified in the second half of September. Above all, they are related to rising geopolitical tensions and the subsequent partial mobilisation, as well as the deterioration of the global economy. The proinflationary impact of the partial mobilisation over the medium-term horizon will mainly manifest itself through the labour market. Changes in the size and structure of the labour force can lead to labour market imbalances and shortages of workers of certain professions. In this situation, productivity will fall due to a reduction in the aggregate skills of the labour force, while wages will rise. As a result, business costs will rise, fuelling price increases in the economy.

In view of all these factors, in October, the Bank of Russia decided to leave the key rate unchanged at 7.5%.

The baseline scenario of the Bank of Russia assumes that, taking into account the 28 October decision, the annual average key rate will be 10.6% p.a. in 2022. If the situation evolves according to the Bank of Russia's baseline forecast, the key rate will be in the range of 6.5–8.5% p.a. in 2023, 6.0–7.0% p.a. in 2024, and will return to the neutral level of 5.0–6.0% p.a. in 2025. Such a key rate path would ensure that annual inflation returns to 4% in 2024 and remains close to 4% thereafter.

The opportunities, timeframe and the pace of key rate decisions will depend on incoming information about actual and expected inflation movements relative to the target, the progress in the structural transformation of the economy, as well as changes in material internal and external conditions and the response of financial markets to them.

MAIN RISKS FOR THE BASELINE SCENARIO

The scenario uncertainty remains high, demonstrating multidimensional nature and dynamically changing relationships. There is a balance between proinflationary and disinflationary risks over a short-term horizon. The medium-term horizon is still dominated by proinflationary risks, which have grown slightly since mid-September. Among the main risks, the Bank of Russia highlights the following.

Proinflationary risks:

- ▲ A further strengthening of external trade and financial restrictions on the Russian economy could lead to a greater reduction in the potential of the Russian economy than expected in the baseline scenario. Specifically, supply-side constraints may build up due to problems with the supply of equipment, a slow replenishment of the stocks of finished products, raw materials and components if negative trends in imports persist.
- ▲ A recession in the world economy could further reduce external demand for Russian exports and, consequently, weaken the ruble.
- ▲ The increase in the labour market tightness could be more pronounced than in the baseline scenario, which would exacerbate business cost pressures.
- ▲ High and unanchored inflation expectations, especially those sensitive to exchange rate fluctuations, may boost consumer demand in an environment of accumulated liquid assets in the savings structure.
- ▲ An additional increase in the budget deficit might require a tighter monetary policy to bring inflation back to the target in 2024 and maintain it close to 4% in the future.

Disinflationary risks:

- ▼ Continuing considerable propensity to save among households amid higher overall uncertainty, as well as a long-term adjustment of households to the new structure of supply in consumer markets may constrain demand to a greater extent and for a longer period of time than expected in the baseline scenario.
- ▼ A faster economic adjustment accompanied, among other things, by a robust import recovery could help offset supply shocks more quickly.
- ▼ A record harvest of agricultural crops in 2022 could influence prices in the domestic market, while exports remain complicated.

BOX

TO WHAT EXTENT ARE COST INCREASES PASSED ON TO CONSUMER PRICES AND ON WHAT FACTORS DOES IT DEPEND?

2022 saw a continuation in the accelerated cost growth of domestic producers of goods and services that started in mid-2020. This growth is driven by soaring world prices for intermediate products and – during some periods – by the weakening of the ruble. Higher import prices and rising export parity prices exerted an upward pressure on costs. In 2022, it was sharply exacerbated by disruptions in global production and supply chains and increasing volatility of demand.

Rising costs lead to lower profitability, which forces producers to revise their product prices upwards. The scale and duration of the pass-through of costs to prices depend on a number of factors. The main ones are the level of, and changes in, the final demand relative to supply, which determine pricing throughout the production chain in competitive market environment. The sectoral specificity of pricing also plays a significant role, due to both the specifics of production processes and capital turnover, and also the parameters of government regulation. The scale and speed with which enterprises are adapting to drastic changes in the business environment are of particular importance in the current conditions.

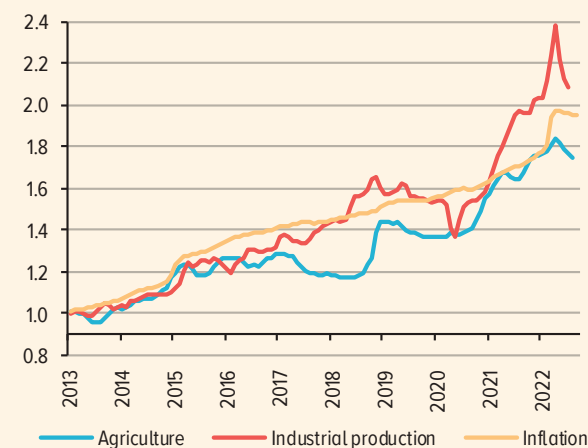
Factors of cost pass-through to prices

Demand and supply. Over the medium-term horizon, producer prices for intermediate and final products as well as consumer prices are rising at comparable paces, with latter being less volatile (Charts B-1 and B-2). This suggests that the balance is generally achieved through the reciprocal impact on prices from producer costs, on the one hand, and from the demand for their products, on the other hand. Nonetheless, one-off factors can lead to temporary disruptions in the relative price system and the structure of prices for individual goods and services.

In March 2022, for example, a surge in demand for a number of goods and services due to the destabilisation of household expectations instantly exceeded current supply, leading to a price spike. The subsequent pause in demand and downward price correction only partly offset the price increase. Thus, producers in various sectors were able to compensate, to a greater or lesser extent, for the preceding increase in costs.

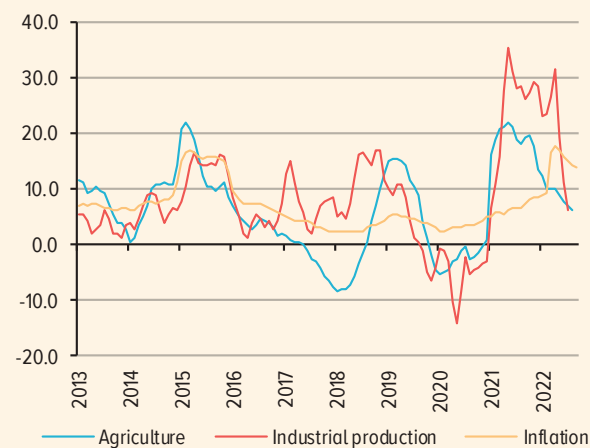
This year, costs and prices have also been affected by longer-term factors. On the demand side, these are primarily changes in consumer preferences of households, i.e. their demand shifts to cheaper

PRODUCER PRICES IN INDUSTRIAL PRODUCTION AND AGRICULTURE AND CPI
(December 2012 = 1) *Chart B-1*



Source: Rosstat.

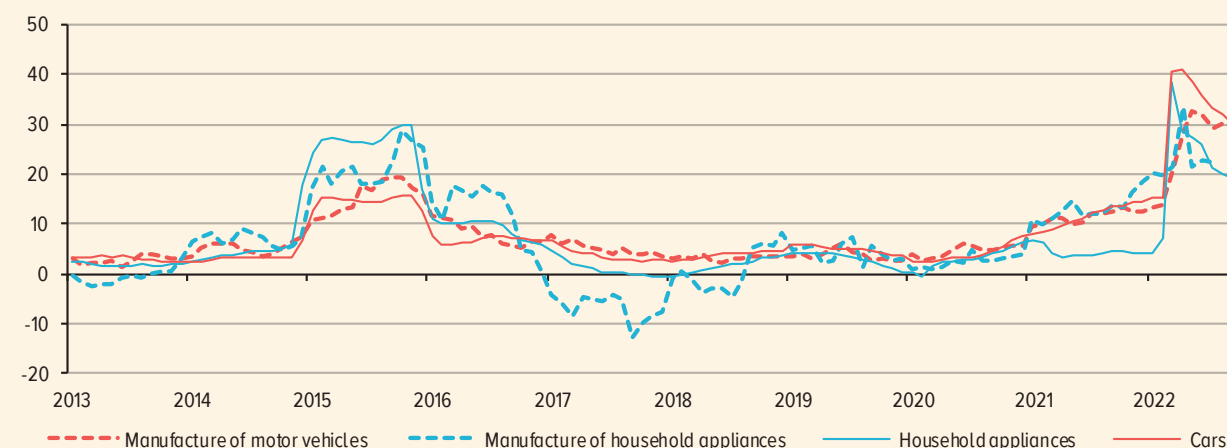
PRODUCER PRICES IN INDUSTRIAL PRODUCTION AND AGRICULTURE AND CPI
(% change YoY) *Chart B-2*



Source: Rosstat.

PRODUCER PRICES AND CONSUMER PRICES OF HOUSEHOLD APPLIANCES AND CARS
(% change YoY)

Chart B-3



Source: Rosstat.

segments and they make fewer large-value purchases (see [the report Regional Economy: Commentaries by Bank of Russia Main Branches. No. 15, October 2022](#)). In a highly competitive market environment, they limited current price increases along the entire production chain, as before, which determined similar producer and consumer price movements (Chart B-3). At the same time, the incentives for enterprises to introduce innovations and restructure production were growing, which would reduce unit costs and their pass-through to prices in the medium term.

Supply-side factors had a mixed impact on pricing in 2022. On the one hand, export restrictions helped expand the domestic supply of a number of commodities (grain, energy, metals, timber, oil refined products, etc.) and slow or reduce producer price increases and inflation. On the other hand, disruptions in value chains led to lower imports, smaller output of some goods and services and higher unit costs. In the short term, local deficits can accelerate price increases and cost pass-through to them.

This can be illustrated by the car market, where the decline in supply accelerated sharply in 2022 as a result of falling imports of finished products and a contraction in domestic output due to disruptions in production chains. After a spike in March–April, price increases slowed, but markedly less than those for other consumer durables. In September, the annual pace of increase in consumer prices for cars remained one of the highest in the subgroup of non-food goods (29.7%). The negative impact of lower car output will be offset by the ongoing transformation of production and logistics in the industry, which, given the complexity of the technological processes, will take time.

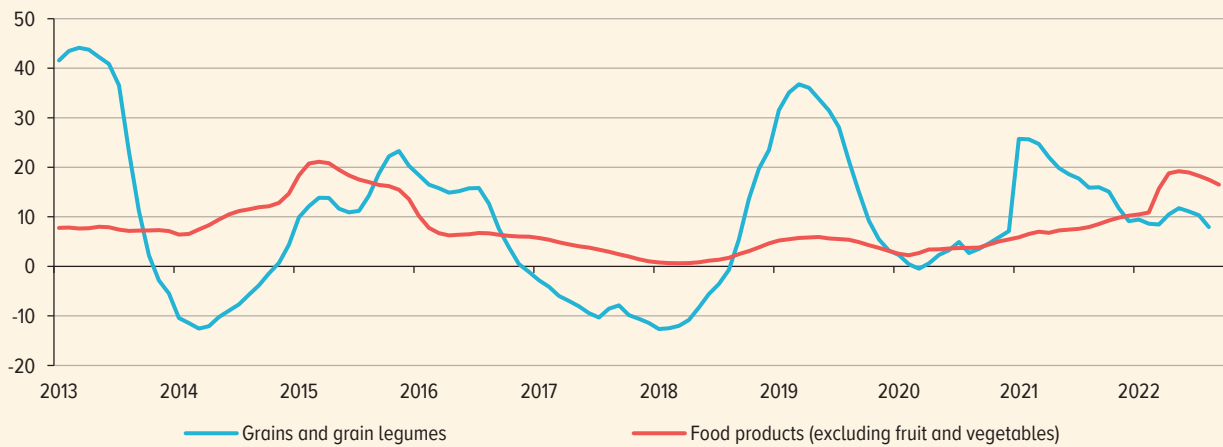
In the coming months, high harvests of some crops (record harvests of cereals and oilseeds) will remain a significant supply-side factor restraining food inflation, given the limited opportunities for export expansion. In the third quarter of this year, consumer prices for food products (excluding fruit and vegetables) remained virtually unchanged (SA). According to surveys by the Bank of Russia, farmers generally are not going to raise prices for their products in the coming months (see [the report Regional Economy: Commentaries by Bank of Russia Main Branches. No. 15, October 2022](#)). Under these conditions, the trend towards slower annual growth in producer prices and food inflation can be expected to remain in effect (Chart B-4). Nevertheless, costs in agriculture and food industry continue to rise. This has a negative effect on the profitability of enterprises and creates incentives to raise product prices in the future.

State regulation. In 2022, government measures had a significant impact on costs and their pass-through to prices. Various subsidies, preferential lending facilities and tax incentives helped reduce producer costs in many industries. Support for domestic supply helped limit the pass-through of costs to consumers.

The standing price (tariff) regulation of the goods and services of infrastructure companies played a significant disinflationary role. These products are at the beginning of value chains, and tariff increases, aligned with the medium-term inflation target, are holding back the growth of costs and prices in almost all activities (Chart B-5).

GRAIN PRODUCER PRICES, FOOD PRODUCER PRICES (EXCLUDING FRUIT AND VEGETABLES)
(% change YoY)

Chart B-4



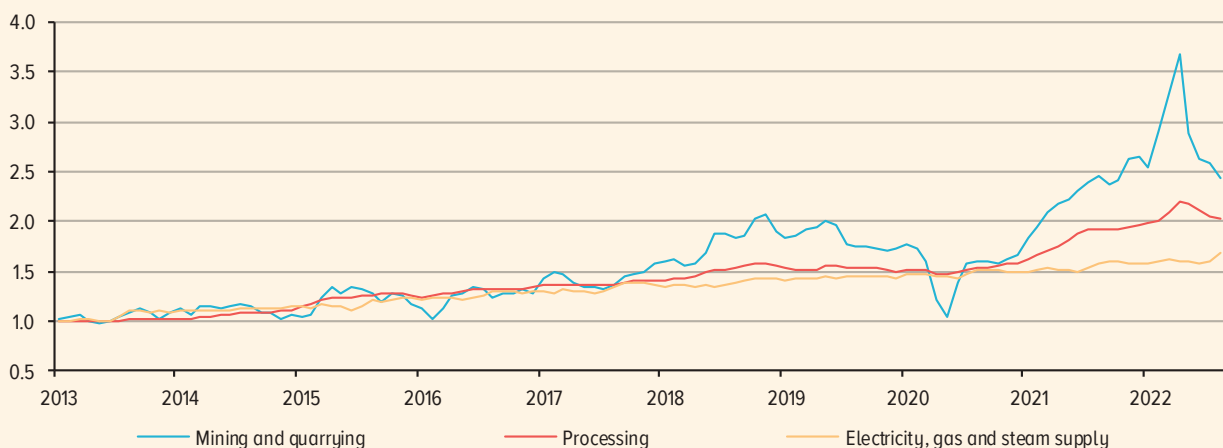
Source: Rosstat.

The regular indexation of administered prices and tariffs took effect from 1 July 2022. As it did not compensate for the higher cost of intermediate products of housing and utility companies, the Russian government decided to shift the indexation of housing and utility tariffs from 1 July 2023 to 1 December 2022. Their increase will average 9% and their additional contribution to inflation is estimated at 0.55 percentage points in 2022. However, the expected slowdown in food price growth will offset this effect for consumers and overall annual inflation will continue to decline in the coming months.

As a result of the earlier and larger-scale tariff indexation, in 2023, household additional expenditure on housing and utility services will amount to up to 0.3 trillion rubles. A corresponding reduction in disposable income could adversely affect household demand for other goods and services. Next year, an additional contribution to inflation will come from the introduction of a new excise tax on sugar-containing drinks (7 rubles per litre) on 1 January 2023. Nevertheless, the scale of its impact on annual inflation in 2023 will be small (about 0.02 pp), given the low weight of these drinks in the consumer basket (0.18%). The conventional indexation of excise duties on alcohol, tobacco products, cars and petroleum products (the weight in the consumer basket is about 15%) is planned at 3–4.5%. Being below the 2022 price growth rate, it will have a disinflationary effect. In case of a complete pass-through effect, the contribution to annual inflation in 2023 is estimated at just over 0.1 percentage points.

PRODUCER PRICES IN MINING AND QUARRYING, PROCESSING AND INFRASTRUCTURE SECTORS
(December 2012 = 1)

Chart B-5



Source: Rosstat.

Business finance as indicators of cost pass-through to prices

The incentives for producers to raise prices because of rising costs can be derived from the financial standing of enterprises. Their values improved in the first half of 2022 across industries closely related to the consumer market. For example, sales profits of agricultural enterprises increased, albeit to a lesser extent than in the first half of 2021, and were twice as high as in 2019.¹ Price factors contributed most to this increase (Chart B-6-1). Profitability of sales remained high (18.9%). All this suggests that rising costs have almost entirely passed on to the prices of agricultural products, due in part to the spring spike in prices. It should be noted that price rises were held back by the compensation of some costs by the government. The net financial result² of the industry was up by 38.9% in the first half of the year.

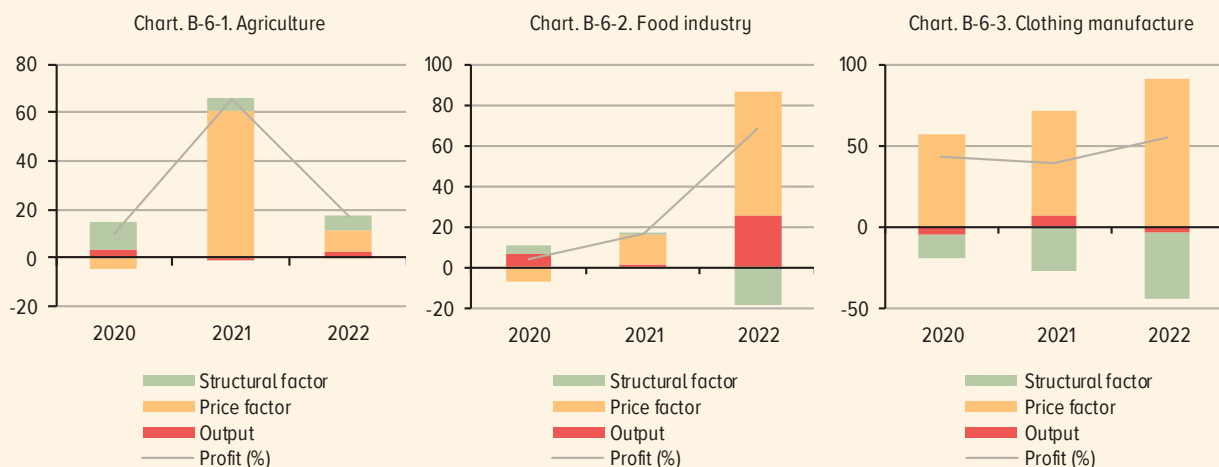
In the food industry, sales profit growth also picked up mainly on the back of price increases outpacing costs (Chart B-6-2). Profitability of sales rose (to 9.1%, up 2.4 pp vs 2021 and 1.9 pp vs 2019). The overall balance of profits and losses was 1.5 times higher than that of the first half of 2021. In general, the financial situation of agricultural enterprises will mitigate the effects of prices lagging behind the typical cost path of bumper-crop years.

The financial standing of sectors producing non-food consumers goods also improved in the first half of this year under the influence of the price factor. Enterprises operating in different environments showed higher profits and better profitability. The automobile industry saw a significant deterioration in conditions and production and financial performance as early as in 2020 amid the spread of the pandemic. The industry then recorded a net loss on sales. In the first half of 2021, sales made a profit amounting to no more than a quarter of the 2019 level. From January to June 2022, as a result of a price hike, sales profit surged (and more than doubled vs the 2019 value), with a 4.3% profit margin (vs 1.8% in 2019). The net financial result also increased. In January–June 2022, profit and profit margin in the production of clothes also rose (vs 2019 and 2021) solely due to the price factor (Chart B-6-3). The contraction in supply following the withdrawal of some foreign companies and lower competition enabled companies to raise prices to a broader extent.

Overall, the consolidated financial performance of consumer-oriented industries suggests that in the first half of 2022, companies were able to largely offset their higher costs at the expense of customers and no overhang of deferred cost pressure bearing considerable proinflationary risks emerged. It can be assumed that disinflationary factors, first of all, conservative consumer behaviour of households and high supply of agricultural products, will be prevailing in the coming months. The main inflation risks are related to global market conditions.

DECOMPOSITION OF CHANGE IN SALES PROFIT IN THE FIRST SIX MONTHS
(pp)

Chart B-6



Sources: Rosstat, Bank of Russia calculations.

¹ Hereinafter, the comparison is made with the comparable period of the indicated year.

² The amount of profit from sales and the balance of extraordinary income and expenses.

ANNEX

SYSTEM OF MONETARY POLICY INSTRUMENTS AND OTHER
MONETARY POLICY MEASURES

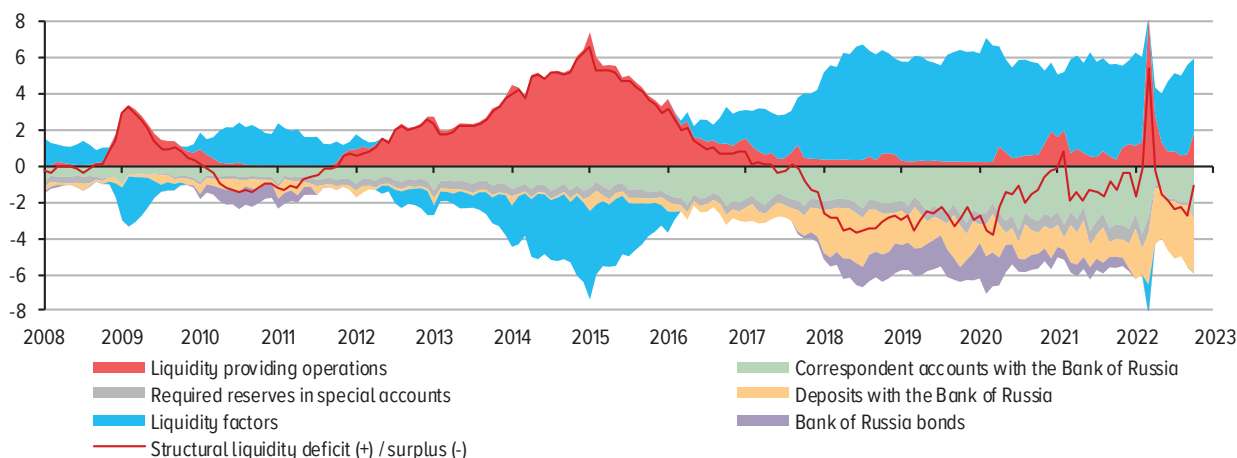
Banking sector liquidity. In the second half of July – first half of September 2022, the structural liquidity surplus averaged ₺2.4 trillion (vs ₺1.8 trillion over the April–June APs) across the required reserve (RR) averaging periods (APs). In July–August, the rise in surplus was driven by receipts from budget and other operations. However, it declined in September–October due to a higher demand for cash and the absorption of some excess liquidity as a result of higher RR ratios.

Budget account operations. In July–October 2022, budget and other operations led to an inflow of liquidity to banks. In the third quarter, budget expenditures increased and revenue decreased in annualised terms. According to the data of the Bank of Russia Payment System, there was a fall in revenues from income tax, mineral extraction tax (MET), dividends, customs payments and excise duties. The Federal Treasury (FT) reduced the amount of funds deposited with banks in order to cover the increased expenditure. In contrast, October saw a budget surplus. This is the month when the tax on additional income from hydrocarbon extraction and income tax for the third quarter is paid. Moreover, revenue growth was boosted by measures implemented in the oil and gas sector.¹ Concurrently, the FT placed more funds with banks, which markedly smoothed out the impact of budget operations on liquidity as in the previous months.

Cash in circulation. In July – the first half of September, cash movements were close to their seasonal values. However, the demand for cash was up at the end of September. In addition to the seasonal increase, cash in circulation rose by roughly ₺1 trillion. Households demonstrate higher propensity to withdraw cash from their bank accounts in the face of elevated economic uncertainty. Some of these funds are then held as liquid savings, while others are used in current transactions instead of cashless payments. A higher demand for cash alone does not lead to an increase in inflation, for example. Cash withdrawals from accounts do not make total money supply grow, but only change its composition, i.e. the amount of funds in bank accounts declines, whereas cash held

THE BANK OF RUSSIA'S BALANCE SHEET
(start of business, trillions of rubles)

Chart A-1



Source: Bank of Russia calculations.

¹ A one-off increase in MET by ₺0.4 trillion from October to December 2022 on a monthly basis in accordance with Federal Law No. 323-FZ, dated 14 July 2022, 'On Amending Part Two of the Tax Code of the Russian Federation'.

by households expands by the same amount. Therefore, the purchasing power of money at the disposal of the population remains unchanged and no additional demand for goods and services emerges. Over time, unspent funds can be returned to accounts with banks. That said, the elevated cash outflow in February – early March reversed to a comparable cash inflow in May–June. Since mid-October, the demand for cash has been returning to its seasonal trend.

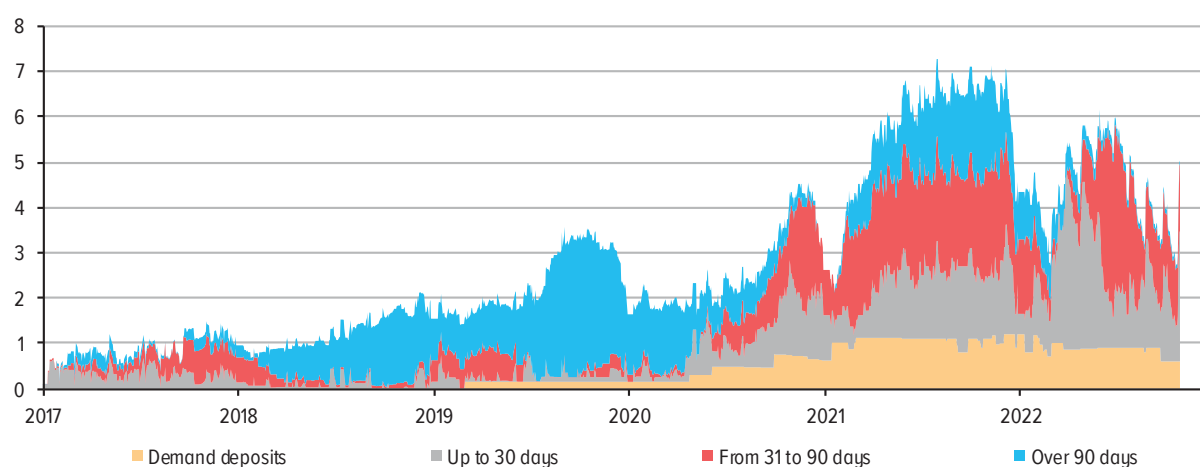
The structural liquidity surplus forecast for the end of 2022 was raised by ₺0.1 trillion and is estimated in the range from ₺3.3 trillion and ₺3.9 trillion. This is due to an increase in the 2022 forecast for cash in circulation by ₺0.9 trillion to ₺1.4–1.6 trillion. In late September and the first half of October, the demand for cash grew markedly. By the end of the year, it is expected to gradually normalise. However, as of the year-end, cash outflow from banks will generally be above the level conditioned on macroeconomic factors. The forecast for the inflow of funds to banks through budget and other operations was also revised upwards, by ₺1.0 trillion. As before, the forecast takes into account the suspension of the fiscal rule by the Russian Ministry of Finance and the assumption about financing of a part of budget expenditures from NWF resources. These operations and investments from the NWF will be the main sources of the inflow of liquidity into banks. The Bank of Russia preserved the assumption that the FT would reduce the amount of temporarily available budget funds deposited with banks. These funds will also be used to cover expenditures.

System of monetary policy instruments and achieving the operational objective of monetary policy. In the July–September 2022 AP, the spread between short-term interest rates in the IBL segment of the money market² and the key rate shrank to -3 bp on average over the APs (vs -43 bp in the April–June AP), fluctuating from -46 bp to +67 bp (vs from -76 bp to +21 bp in the April–June AP).

In the July and September AP, banks' expectations of a key rate change had a smaller effect on the spread. In anticipation of a key rate cut, banks usually tend to place more funds on deposits at the current 'high' interest rate. This exerts a downward pressure on RUONIA and the spread widens. However, banks expected that the key-rate step would be reduced at the Bank of Russia Board of Directors' meetings on 22 July and 16 September. As a result, the spread expanded less significantly than as it did, for example, before the meetings held on 29 April or 10 June. That means that the impact of this factor on the banks' fund placement strategy diminished.

BANKS' OUTSTANDING AMOUNTS ON FEDERAL TREASURY DEPOSITS, REPOS AND SWAPS
(trillions of rubles)

Chart A-2

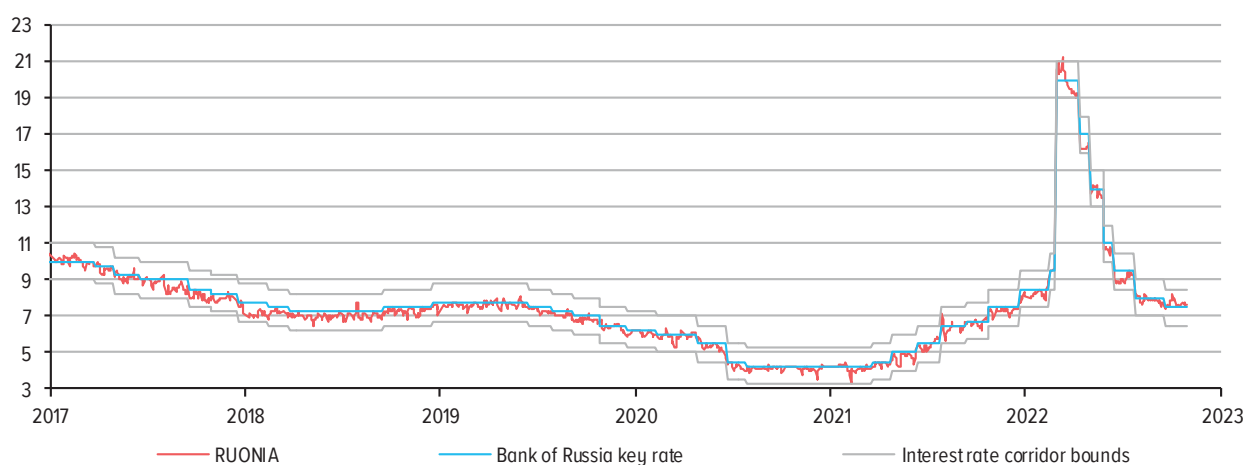


Sources: Federal Treasury, Bank of Russia calculations.

² The IBL interest rate is the RUONIA (Ruble Overnight Index Average) rate, which is the weighted average interest rate on overnight interbank ruble loans (deposits) that reflects the estimated cost of unsecured overnight borrowing.

RUONIA AND BANK OF RUSSIA INTEREST RATE CORRIDOR
(% p.a.)

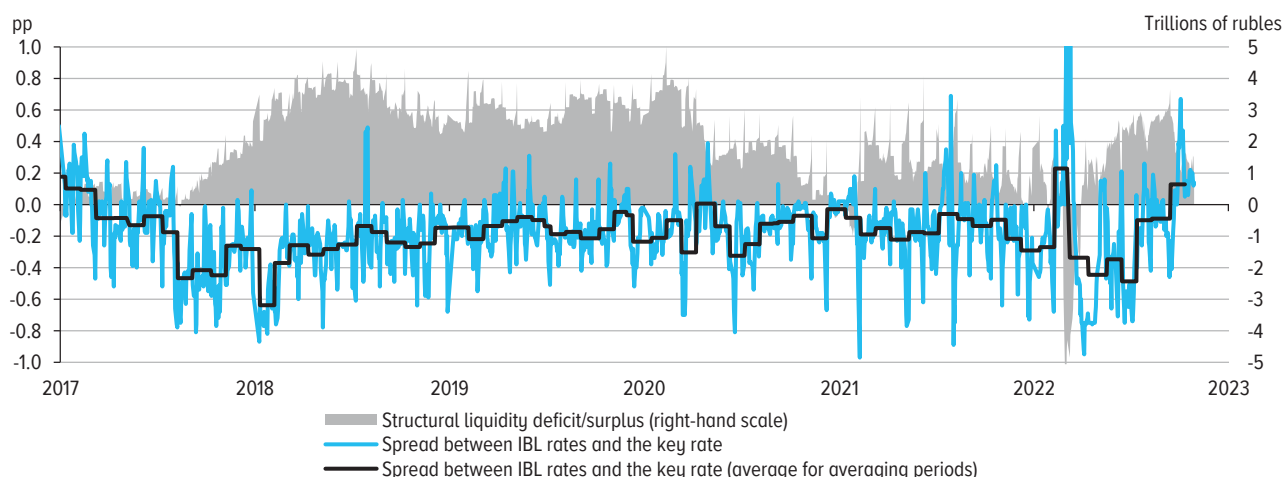
Chart A-3



Source: Bank of Russia.

STRUCTURAL LIQUIDITY SURPLUS AND MONEY MARKET RATES

Chart A-4



Source: Bank of Russia calculations.

In addition, the money market recorded a higher activity and a larger number of participants. This sped up competition for borrowings, including in the IBL segment, and raised their cost.

A rather sharp reduction in the structural surplus in late September and the first half of October also put upward pressure on RUONIA, which was largely associated with the uneven distribution of liquidity among banks. Competition for funds at FT auctions also intensified, especially during the tax period.

The Bank of Russia raised RR ratios in the September AP in order to reduce the volatility of banks' demand for liquidity. As the volume of customer flows recovered, banks maintained more funds in correspondent accounts than they needed to perform RR averaging (forming an overhang) to ensure smooth payments. In addition, the liquidity surplus is expected to rise by the end of 2022 due to inflows through budget operations. Thus, higher RR ratios made it possible to absorb some excess liquidity and reduce the overhang in banks' correspondent accounts.

The Bank of Russia changed the limits of weekly deposit auctions to align them with the movements in cash and budget payments. This mitigates the impact of these factors on liquidity and money market rates. However, banks maintained strong demand for reliable and short-term

STRUCTURAL LIQUIDITY SURPLUS AND LIQUIDITY FACTORS
(trillions of rubles)

Table A-1

	July 2022	August 2022	September 2022	October 2022	2022 (forecast)
1. Liquidity factors	0.1	0.5	-0.8	-0.7	[1.4; 1.8]
– change in the balances of funds in the general government accounts with the Bank of Russia, and other operations*	0.2	0.6	0.1	-0.4	[2.5; 2.7]
– change in the amount of cash in circulation	-0.1	-0.1	-0.9	-0.3	[-1.6; -1.4]
– Bank of Russia interventions in the domestic FX market	-	-	-	-	-0.1
– regulation of banks' required reserves with the Bank of Russia	0	0	0	0.0	0.7
2. Change in free bank reserves (correspondent accounts)	0.2	0	0.8	-0.1	[-0.4; -0.2]
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	-0.4	0.6	-0.5	-0.5	[1.1; 1.7]
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)	-0.2	0.1	1.2	0.1	-0.4
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	-2.2	-2.8	-1.1	-0.6	[-3.9; -3.3]

* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market and other operations.
Source: Bank of Russia calculations.

instruments to place excess funds: secured overnight repos and Bank of Russia standing deposits. At the same time, some banks increased their demand for loans and long-term repo auctions of the Bank of Russia, indicating temporary difficulties experienced by some credit institutions in managing their liquidity through market operations. In view of this, in November, the Bank of Russia raised the limit of the one-month repo auction to ₹1.5 trillion. This measure is aimed at smoothing the temporary imbalances in the maturities of credit institutions' assets and liabilities amid a declining structural liquidity surplus and shorter maturities of credit institutions' liabilities. One of the factors is the seasonality in the execution of budget expenditure at the end of the year relative to the growth rate of the Ministry of Finance's borrowings. These operations will help keep money market rates close to the key rate and therefore will have no impact on the monetary policy stance. Demand for these operations is expected to decrease again once liquidity returns to the banking sector from the budget when expenditures are executed, as it was in early 2021.

LIST OF PUBLICATIONS

The Bank of Russia's information and analytical commentaries released after the publication of MPR 3/22 on 1 August 2022:¹

1. [Consumer Price Dynamics, No. 7 \(79\), July 2022 \(12 August 2022\)](#).
2. [Consumer Price Dynamics, No. 8 \(80\), August 2022 \(19 September 2022\)](#).
3. [Consumer Price Dynamics, No. 9 \(81\), September 2022 \(13 October 2022\)](#).
4. [Inflation Expectations and Consumer Sentiment, No. 8 \(68\), August 2022 \(24 August 2022\)](#).
5. [Inflation Expectations and Consumer Sentiment, No. 9 \(69\), September 2022 \(21 September 2022\)](#).
6. [Inflation Expectations and Consumer Sentiment, No. 10 \(70\), October 2022 \(31 October 2022\)](#).
7. [Monetary Conditions and Monetary Policy Transmission Mechanism, No. 1, July 2022 \(12 August 2022\)](#).
8. [Monetary Conditions and Monetary Policy Transmission Mechanism, No. 2, August 2022 \(20 September 2022\)](#).
9. [Monetary Conditions and Monetary Policy Transmission Mechanism, No. 3, September 2022 \(14 October 2022\)](#).
10. [Russia's Balance of Payments, No. 3 \(12\), 2022 Q3 \(20 October 2022\)](#).

¹ The date in the brackets is the date of publication on the Bank of Russia website.

CALENDAR OF KEY RATE DECISIONS FOR 2022

Date	Event
11 February 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
21 February 2022	Monetary Policy Report
18 March 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
29 April 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
11 May 2022	Monetary Policy Report
10 June 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
22 July 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
1 August 2022	Monetary Policy Report
16 September 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
28 October 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
8 November 2022	Monetary Policy Report
16 December 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia

STATISTICAL TABLES

INTEREST RATES ON MONETARY POLICY INSTRUMENTS¹
(% p.a.)

Table 1

Purpose	Instrument type	Instrument	Maturity	Frequency	Interest rates as spreads to the key rate (pp)	From 19.09.2022													
						From 20.12.2021	From 14.02.2022	From 28.02.2022	From 01.03.2022	From 25.03.2022	From 11.04.2022	From 04.05.2022	From 27.05.2022	From 14.06.2022	From 25.07.2022	From 19.09.2022			
Liquidity provision	Standing facilities	Overnight loans, lombard loans, loans secured by non-marketable assets, repos, FX swaps ²	1 day	Daily	+1.00	9.50	10.50	21.00	21.00	21.00	21.00	21.00	21.00	12.00	10.50	9.00	8.50		
			From 2 to 90 days ³			-	-	-	-	-	-	-	-	-	-	-	-	-	-
			From 2 to 90 days ³			10.25	21.75	21.00	21.00	21.00	21.00	21.00	12.00	10.50	9.00	8.50			
			From 91 to 549 days ³			10.25	21.75	21.75	21.75	21.75	21.75	12.75	11.25	9.75	9.25				
	Open market operations (minimum interest rates)	Auctions to grant loans secured by non-marketable assets	3 months ³	Monthly ⁴	+0.25	8.75	9.75	20.25	20.25	20.25	20.25	17.25	14.25	11.25	9.75	8.25	7.75		
			1 year ³			8.60	9.60	20.10	20.10	20.10	17.10	14.10	11.10	9.60	8.10	7.60			
			1 month																
		Repo auctions	1 week	Weekly ⁵															
			From 1 to 6 days	Occasionally ⁶															
			From 1 to 2 days																
			1 to 6 days	Weekly ⁵															
Open market operations (maximum interest rates)	Deposit auctions	1 week			8.50	9.50	20.00	20.00	20.00	20.00	17.00	14.00	11.00	9.50	8.00	7.50			
		1 day	Daily	-1.00	7.50	8.50	19.00	19.00	19.00	19.00	16.00	13.00	10.00	8.50	7.00	6.50			
Liquidity absorbing	Standing facilities	Deposit operations	1 day	Daily	-1.00	7.50	8.50	19.00	19.00	19.00	16.00	13.00	10.00	8.50	7.00	6.50			

Memo item. From 1 January 2016, the value of the Bank of Russia refinancing rate equals its key rate as of the respective date.

¹ Interest rates established by the Bank of Russia Board of Directors.

² The interest rate is given for the ruble leg, the US dollar interest rate equals SOFR, the euro interest rate equals €STR; operations were suspended due to changes in external economic conditions.

³ Loans and repos at a floating interest rate linked to the Bank of Russia key rate.

⁴ Loan auctions are not held from April 2016; repo auctions were launched in May 2020.

⁵ Depending on the liquidity situation, either a repo auction or a deposit auction is held.

⁶ Fine-tuning operations.

⁷ From 1 March 2022; previously: +1.75%.

Source: Bank of Russia.

Table 2

USE OF MONETARY POLICY INSTRUMENTS
(billions of rubles)

Purpose	Instrument type	Instrument	Maturity	Frequency	Bank of Russia claims under liquidity providing instruments and liabilities under liquidity absorbing instruments										
					As of 01.01.2021	As of 01.04.2021	As of 01.07.2021	As of 01.10.2021	As of 01.01.2022	As of 01.04.2022	As of 01.07.2022	As of 01.10.2022	As of 01.11.2022		
Liquidity provision	Standing facilities	Overnight loans	1 day	Daily	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		Repos			0.1	0.4	0.4	10.6	2.6	91.6	9.9	9.5	1.5		
		FX swaps ¹			118.4	0.0	0.0	0.0	0.0	-	-	-	-		
		Lombard loans			0.0	0.0	0.0	0.0	0.0	38.7	47.3	91.4	111.0		
	Loans secured by non-marketable assets		5.1	246.1	5.4	35.2	790.1	55.5	52.1	1,211.5	1,085.3				
	Auctions to provide loans secured by non-marketable assets		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
	Open market operations	Repo auctions	3 months	3 months	Monthly ²	36.7	52.6	47.9	47.9	15.6	75.1	70.0	166.0	271.5	
			1 year	1 year	Monthly ²	810.2	50.2	100.4	60.3	100.8	11.1	100.7	0.0	100.6	
			1 week	1 week	Weekly ³	0.0	0.0	0.0	0.0	0.0	2,212.2	0.0	0.0	0.0	
		Deposit auctions	From 1 to 6 days	From 1 to 6 days	Occasionally ⁴	843.9	1,650.0	1,190.7	780.0	1,625.9	0.0	1,838.4	1,663.9	1,070.0	
1 week			1 week	Weekly ³	574.9	645.1	626.4	603.4	0.0	0.0	0.0	0.0	0.0		
Up to 3 months			Up to 3 months	Weekly ⁵	376.7	122.1	123.5	243.1	1,177.9	3,107.8	1,341.1	1,291.0	1,388.1		
Standing facilities	Deposit operations	Deposit operations	1 day	Daily											

¹ Suspended from February 2022 due to changes in external economic conditions.

² Loan auctions are not held from April 2016.

³ Depending on the liquidity situation, either a repo auction or a deposit auction is held.

⁴ Fine-tuning auctions.

⁵ Basically, a new OBR issue is offered once a month and subsequently – on a weekly basis. If the reporting date falls on a weekend or holiday, the amount of outstanding OBRs at face value should be specified including the coupon yield accrued as of the first business day following the reporting date. Beginning from 19 October 2021, auctions for placing OBRs are not held.

Source: Bank of Russia.

REQUIRED RESERVE RATIOS
(%)

Table 3

Type of liabilities	Effective period							
	01.12.2017– 31.07.2018	01.08.2018– 31.03.2019	01.04.2019– 30.06.2019	01.07.2019– 02.03.2022 ¹	03.03.2022– 31.03.2022 ²	01.04.2022– 30.04.2022 ³	01.05.2022– 31.07.2022 ⁴	From 01.08.2022 ⁵
Banks with a universal licence								
To households in the currency of the Russian Federation								
Other liabilities in the currency of the Russian Federation	5.00	5.00	4.75	4.75			2.00	3.00
To non-resident legal entities in the currency of the Russian Federation					2.00	2.00		
To households in foreign currency	6.00	7.00	7.00					
To non-resident legal entities in foreign currency				8.00			4.00	5.00
Other liabilities in foreign currency	7.00	8.00	8.00					
Non-bank credit institutions								
To households in the currency of the Russian Federation								
Other liabilities in the currency of the Russian Federation	5.00	5.00	4.75	4.75				3.00
To non-resident legal entities in the currency of the Russian Federation					2.00	2.00	2.00	
To households in foreign currency	6.00	7.00	7.00	8.00				
To non-resident legal entities in foreign currency								5.00
Other liabilities in foreign currency	7.00	8.00	8.00	8.00				
Banks with a basic licence								
To households in the currency of the Russian Federation								
Other liabilities in the currency of the Russian Federation	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
To non-resident legal entities in the currency of the Russian Federation	5.00	5.00	4.75	4.75				
To households in foreign currency	6.00	7.00	7.00		2.00			
To non-resident legal entities in foreign currency				8.00		2.00	4.00	5.00
Other liabilities in foreign currency	7.00	8.00	8.00					

¹ Bank of Russia Ordinance No. 5158-U, dated 31 May 2019. See the press release, dated 31 May 2019, on the Bank of Russia website.

² Bank of Russia Ordinance No. 6082-U, dated 3 March 2022. See the press release, dated 2 March 2022, on the Bank of Russia website.

³ Bank of Russia Ordinance No. 6099-U, dated 23 March 2022. See the press release, dated 21 March 2022, on the Bank of Russia website.

⁴ Bank of Russia Ordinance No. 6135-U, dated 29 April 2022. See the press release, dated 29 April 2022, on the Bank of Russia website.

⁵ Bank of Russia Ordinance No. 6208-U, dated 27 July 2022. See the press release, dated 25 July 2022, on the Bank of Russia website.

Source: Bank of Russia.

REQUIRED RESERVE AVERAGING RATIO

Table 4

Type of credit institutions	Effective period				
	From 01.07.2019 ¹	From 03.03.2022 ²	From 01.04.2022 ³	From 01.05.2022 ⁴	From 01.08.2022 ⁵
Banks with a universal licence and banks with a basic licence	0.8	0.9	0.9	0.9	0.9
Non-bank credit institutions	1.0	1.0	1.0	1.0	1.0

¹ Bank of Russia Ordinance No. 5158 U, dated 31 May 2019, 'On Mandatory Reserve Requirements'.

² Bank of Russia Ordinance No. 6082 U, dated 3 March 2022, 'On Mandatory Reserve Requirements'.

³ Bank of Russia Ordinance No. 6099 U, dated 23 March 2022, 'On Mandatory Reserve Requirements': From 1 August 2004 through 31 March 2022, credit institutions meeting certain criteria are entitled to calculate the averaged amount of required reserves using the averaging ratio not above the averaging ratios established by the Bank of Russia. From 1 April 2022, unified averaging ratios are mandatory.

⁴ Bank of Russia Ordinance No. 6135 U, dated 29 April 2022, 'On Mandatory Reserve Requirements'.

⁵ Bank of Russia Ordinance No. 6208 U, dated 27 July 2022, 'On Mandatory Reserve Requirements'.

Source: Bank of Russia.

Table 5
REQUIRED RESERVES AVERAGING SCHEDULE AND INFORMATION ON CREDIT INSTITUTIONS' COMPLIANCE WITH RESERVE REQUIREMENTS

Averaging period to calculate required reserves for a corresponding reporting period	Averaging period duration (days)	Reporting period	Memo item:		Actual average daily balances in correspondent accounts (billions of rubles)	Required reserves to be averaged in correspondent accounts (billions of rubles)	Required reserves in related accounts (billions of rubles)
			Required reserves regulation period	Required reserves' Required Reserves' ¹			
11.12.2019 – 14.01.2020	35	November 2019	13.12.2019 – 17.12.2019		2,526	2,428	617
15.01.2020 – 11.02.2020	28	December 2019	22.01.2020 – 24.01.2020		2,479	2,418	618
12.02.2020 – 10.03.2020	28	January 2020	14.02.2020 – 18.02.2020		2,474	2,398	613
11.03.2020 – 07.04.2020	28	February 2020	16.03.2020 – 18.03.2020		2,536	2,431	622
08.04.2020 – 12.05.2020	35	March 2020	14.04.2020 – 16.04.2020		2,685	2,605	665
13.05.2020 – 09.06.2020	28	April 2020	20.05.2020 – 22.05.2020		2,700	2,635	671
10.06.2020 – 07.07.2020	28	May 2020	15.06.2020 – 17.06.2020		2,636	2,570	656
08.07.2020 – 04.08.2020	28	June 2020	14.07.2020 – 16.07.2020		2,590	2,529	647
05.08.2020 – 08.09.2020	35	July 2020	14.08.2020 – 18.08.2020		2,632	2,578	659
09.09.2020 – 06.10.2020	28	August 2020	14.09.2020 – 16.09.2020		2,699	2,634	673
07.10.2020 – 10.11.2020	35	September 2020	14.10.2020 – 16.10.2020		2,753	2,688	686
11.11.2020 – 08.12.2020	28	October 2020	16.11.2020 – 18.11.2020		2,806	2,737	699
09.12.2020 – 12.01.2021	35	November 2020	14.12.2020 – 16.12.2020		2,902	2,791	714
13.01.2021 – 09.02.2021	28	December 2020	22.01.2021 – 26.01.2021		2,879	2,818	721
10.02.2021 – 09.03.2021	28	January 2021	12.02.2021 – 16.02.2021		2,895	2,825	722
10.03.2021 – 06.04.2021	28	February 2021	15.03.2021 – 17.03.2021		2,965	2,906	741
07.04.2021 – 11.05.2021	35	March 2021	14.04.2021 – 16.04.2021		3,011	2,934	749
12.05.2021 – 08.06.2021	28	April 2021	18.05.2021 – 20.05.2021		3,082	3,006	772
09.06.2021 – 06.07.2021	28	May 2021	15.06.2021 – 17.06.2021		3,134	3,032	772
07.07.2021 – 10.08.2021	35	June 2021	14.07.2021 – 16.07.2021		3,169	3,039	774
11.08.2021 – 07.09.2021	28	July 2021	13.08.2021 – 17.08.2021		3,194	3,059	778
08.09.2021 – 12.10.2021	35	August 2021	14.09.2021 – 16.09.2021		3,243	3,104	789
13.10.2021 – 09.11.2021	28	September 2021	14.10.2021 – 18.10.2021		3,265	3,132	794
10.11.2021 – 07.12.2021	28	October 2021	16.11.2021 – 18.11.2021		3,292	3,149	800
08.12.2021 – 11.01.2022	35	November 2021	14.12.2021 – 16.12.2021		3,353	3,207	815
12.01.2022 – 08.02.2022	28	December 2021	21.01.2022 – 25.01.2022		3,323	3,245	825
09.02.2022 – 08.03.2022	28	January 2022	14.02.2022 – 16.02.2022		3,307	3,305	843
09.03.2022 – 12.04.2022	35	February 2022	15.03.2022 – 17.03.2022		1,465	1,283	150
13.04.2022 – 17.05.2022	35	March 2022	14.04.2022 – 18.04.2022		1,542	1,421	162
18.05.2022 – 14.06.2022	28	April 2022	23.05.2022 – 25.05.2022 (as recalculated) ¹		1,465	1,326	146
15.06.2022 – 12.07.2022	28	May 2022	17.06.2022 – 21.06.2022		1,774	1,631	146
13.07.2022 – 09.08.2022	28	June 2022	18.07.2022 – 20.07.2022		1,720	1,569	146
10.08.2022 – 13.09.2022	35	July 2022	16.08.2022 – 18.08.2022		1,694	1,562	146
14.09.2022 – 11.10.2022	28	August 2022	16.09.2022 – 20.09.2022		2,452	2,321	146

¹ Effective from April 2022, the required reserves regulation period for credit institutions is established by Bank of Russia Regulation No. 753-P, dated 11 January 2021, 'On Credit Institutions' Required Reserves' (the 12th–14th business days of the month following the reporting month).

REQUIRED RESERVES AVERAGING PERIODS IN 2022

Table 6

Averaging period to calculate required reserves for a corresponding reporting period	Averaging period duration (days)	Memo item:	
		Reporting period	Required reserves regulation period
12.01.2022 – 08.02.2022	28	December 2021	21.01.2022 – 25.01.2022
09.02.2022 – 08.03.2022	28	January 2022	14.02.2022 – 16.02.2022
09.03.2022 – 12.04.2022	35	February 2022	15.03.2022 – 17.03.2022
13.04.2022 – 17.05.2022	35	March 2022	14.04.2022 – 18.04.2022
18.05.2022 – 14.06.2022	28	April 2022	23.05.2022 – 25.05.2022 (as recalculated) ¹
15.06.2022 – 12.07.2022	28	May 2022	17.06.2022 – 21.06.2022
13.07.2022 – 09.08.2022	28	June 2022	18.07.2022 – 20.07.2022
10.08.2022 – 13.09.2022	35	July 2022	16.08.2022 – 18.08.2022
14.09.2022 – 11.10.2022	28	August 2022	16.09.2022 – 20.09.2022
12.10.2022 – 15.11.2022	35	September 2022	18.10.2022 – 20.10.2022
16.11.2022 – 13.12.2022	28	October 2022	17.11.2022 – 21.11.2022
14.12.2022 – 17.01.2023	35	November 2022	16.12.2022 – 20.12.2022

¹ Effective from April 2022, the required reserves regulation period for credit institutions is established by Bank of Russia Regulation No. 753-P, dated 11 January 2021, 'On Credit Institutions' Required Reserves' (the 12th–14th business days of the month following the reporting month).

REQUIRED RESERVES AVERAGING PERIODS IN 2023

Table 7

Averaging period to calculate required reserves for a corresponding reporting period	Averaging period duration (days)	Memo item:	
		Reporting period	Required reserves regulation period
18.01.2023 – 14.02.2023	28	December 2022	24.01.2023 – 26.01.2023
15.02.2023 – 14.03.2023	28	January 2023	16.02.2023 – 20.02.2023 (as recalculated)
15.03.2023 – 11.04.2023	28	February 2023	17.03.2023 – 21.03.2023
12.04.2023 – 16.05.2023	35	March 2023	18.04.2023 – 20.04.2023
17.05.2023 – 13.06.2023	28	April 2023	19.05.2023 – 23.05.2023
14.06.2023 – 11.07.2023	28	May 2023	19.06.2023 – 21.06.2023
12.07.2023 – 08.08.2023	28	June 2023	18.07.2023 – 20.07.2023
09.08.2023 – 12.09.2023	35	July 2023	16.08.2023 – 18.08.2023
13.09.2023 – 10.10.2023	28	August 2023	18.09.2023 – 20.09.2023
11.10.2023 – 14.11.2023	35	September 2023	17.10.2023 – 19.10.2023
15.11.2023 – 12.12.2023	28	October 2023	17.11.2023 – 21.11.2023
13.12.2023 – 16.01.2024	35	November 2023	18.12.2023 – 20.12.2023

Table 8

KEY ECONOMIC AND FINANCIAL INDICATORS

	September 2021	October 2021	November 2021	December 2021	January 2022	February 2022	March 2022	April 2022	May 2022	June 2022	July 2022	August 2022	September 2022	
Real sector														
Inflation	% YoY	7.4	8.1	8.4	8.4	8.7	9.2	16.7	17.8	17.1	15.9	15.1	14.3	13.7
GDP*	% YoY	4.0		5.0	5.0		3.5			-4.1				
GDP in current prices*	trillions of rubles	34.2		38.8			34.6			34.7				
Output by key EA	% YoY	4.1	6.0	7.0	5.6	7.7	4.8	1.6	-2.9	-3.5	-4.7	-2.9	-1.6	
Industrial production	% YoY													
Agricultural output	% YoY	-6.4	4.9	12.0	1.3	0.8	1.1	3.0	3.2	2.1	2.1	0.8	8.8	
Construction	% YoY	1.1	1.7	8.7	8.4	1.6	5.0	5.9	7.9	3.6	0.1	6.6	7.4	
Fixed capital investment*	% YoY	7.9			7.6			12.8		4.1				
Freight turnover	% YoY	5.4	5.9	5.7	2.9	7.8	1.1	3.6	-1.4	-1.8	-5.9	-5.2	-4.2	
PMI Composite Index	% SA	50.5	49.5	48.4	50.2	50.3	50.8							
Retail turnover	% YoY	6.2	4.6	3.6	5.6	3.1	5.5	2.0	-9.8	-10.1	-9.6	-8.7	-8.8	
Real disposable income*	% YoY	8.9			0.0			-1.2		-0.8				
Real wage	% YoY	2.0	0.6	3.4	3.6	1.9	2.6	3.6	-7.2	-6.1	-3.2	-3.2		
Nominal wage	% YoY	9.6	8.8	12.1	12.3	10.8	12.0	20.9	9.4	10.0	12.2	11.4		
Unemployment	% SA	4.4	4.3	4.3	4.3	4.3	4.0	4.1	4.1	4.0	4.0	3.9	3.8	
Banking sector														
Broad money	% YoY, AFCR	10.2	10.7	11.0	11.1	11.6	10.8	11.0	10.7	11.8	12.5	13.6	14.6	14.3
Money supply (M2 monetary aggregate)	% YoY	8.2	8.8	11.0	13.0	13.4	14.6	17.1	15.7	16.6	16.8	19.3	22.6	23.9
Household deposits	% YoY, AFCR	4.6	6.1	5.8	5.5	5.9	1.7	1.4	2.8	5.4	7.2	6.7	6.6	4.4
in rubles	% YoY	4.0	5.5	6.3	6.8	7.8	5.2	7.6	9.0	11.5	13.6	14.1	14.8	14.0
in foreign currency	% YoY	7.0	8.8	4.2	0.8	-1.0	-10.7	-20.5	-21.3	-19.2	-20.4	-23.6	-26.9	-35.6
dollarisation	%	20.8	20.4	20.9	19.9	20.6	20.4	18.2	15.2	14.0	11.5	12.8	12.1	10.5
Loans to financial institutions and non-financial organisations	% YoY, AFCR	11.0	11.7	12.1	12.3	12.5	14.1	12.8	9.9	8.7	8.8	8.5	10.4	11.6
short-term (up to 1 year)	% YoY, AFCR	10.5	12.2	11.5	12.6	13.2	14.8	7.3	4.9	3.9	4.8	5.6	9.0	10.1
long-term (more than 1 year)	% YoY, AFCR	13.4	13.6	13.9	14.2	14.3	15.8	15.4	12.3	11.1	11.7	10.2	11.8	13.1
Household loans	% YoY, AFCR	21.8	21.5	21.8	22.7	23.0	23.4	20.9	17.4	14.6	12.4	11.5	10.5	10.2
housing mortgage loans	% YoY, AFCR	26.7	25.3	25.2	26.7	27.0	27.4	27.2	23.5	20.8	18.3	17.6	16.7	16.8
unsecured consumer loans	% YoY	19.2	19.0	19.7	20.1	20.2	20.5	16.0	12.5	9.7	7.7	6.6	5.8	5.0

Note:

* – data for the quarter;

YoY – on the same period of the previous year;

SA – seasonally adjusted;

EA – economic activities;

AFCR – adjusted for foreign currency revaluation.

Sources: Rosstat, IHS Markit, Bank of Russia calculations.

Table 9

KEY ECONOMIC AND FINANCIAL INDICATORS: BALANCE OF PAYMENTS

	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3 ¹
Balance of payments²											
Urals crude price	-22.6	-57.0	-29.6	-29.1	23.1	126.5	64.7	76.2	48.6	17.8	3.6
Exchange rate against the US dollar ('+' – appreciation and '-' – depreciation of the ruble)	0.0	-10.7	-12.2	-16.4	-11.0	-2.5	0.1	5.0	-12.3	12.4	23.7
Goods and services exports	-11.3	-31.1	-25.1	-15.9	1.6	58.5	63.0	58.5	60.4	26.8	4.6
Goods and services imports	0.6	-23.3	-20.1	-9.3	4.6	40.9	32.5	23.0	12.2	-22.8	-14.4
Current account											
	23.9	1.3	3.8	6.5	22.4	17.3	35.5	47.0	69.8	76.7	51.9
Goods and services	billions of US dollars	billions of US dollars	billions of US dollars	billions of US dollars	billions of US dollars	billions of US dollars	billions of US dollars	billions of US dollars	billions of US dollars	billions of US dollars	billions of US dollars
Exports	27.5	14.6	15.1	19.5	25.7	34.8	47.4	62.2	79.3	90.3	68.4
Imports	103.2	80.7	89.7	107.9	104.8	127.9	146.2	171.0	168.1	162.2	153.0
Balance of primary and secondary income	75.6	66.1	74.6	88.4	79.1	93.2	98.9	108.8	88.8	71.9	84.6
Income receivable	-3.7	-13.3	-11.3	-13.0	-3.3	-17.5	-11.9	-15.2	-9.5	-13.6	-16.5
Income payable	13.7	13.5	14.8	16.2	16.5	19.6	27.4	32.7	12.5	11.0	12.8
Income payable	17.4	26.8	26.1	29.2	19.8	37.1	39.2	48.0	22.0	24.6	29.3
Capital account	0.0	0.0	-0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.7	-0.1
Current and capital account balance	23.9	1.2	3.7	6.5	22.6	17.3	35.5	47.0	69.8	77.4	51.8
Financial account, including changes in reserve assets	24.3	1.5	6.3	7.0	22.6	18.3	33.6	47.8	66.6	79.0	49.6
Net incurrence of liabilities	-13.8	-2.9	-13.3	-9.5	-0.3	2.8	32.1	2.9	-34.6	-53.3	-2.7
Net acquisition of financial assets	10.5	-1.3	-7.1	-2.5	22.3	21.1	65.7	50.6	32.1	25.7	46.9
Net errors and omissions	0.5	0.3	2.5	0.5	0.0	1.0	-1.9	0.8	-3.2	1.6	-2.2

¹ Estimate.² Signs according to BPM6.

GLOSSARY

BALANCE OF PAYMENTS OF THE RUSSIAN FEDERATION

A statistical system reflecting all economic operations between residents and non-residents of the Russian Federation over the course of the reporting period.

BANKING SECTOR LIQUIDITY

Credit institutions' ruble-denominated funds held in correspondent accounts with the Bank of Russia primarily for making payments via the Bank of Russia's payment system and for fulfilling the reserve requirements.

BANK OF RUSSIA KEY RATE

The principal instrument of the Bank of Russia's monetary policy. The key rate is set by the Bank of Russia Board of Directors eight times a year. Changes in the key rate influence credit and economic activity and, ultimately, help achieve the key goal of monetary policy. The key rate corresponds to the minimum interest rate at Bank of Russia one-week repo auctions and to the maximum interest rate at Bank of Russia one-week deposit auctions.

CONSUMER PRICE INDEX (CPI)

The ratio of the value of a fixed set of goods and services in current-period prices to its value in previous (reference) period prices. This index is calculated by the Federal State Statistics Service (Rosstat). The CPI reflects changes over time in the overall level of prices for goods and services purchased by households for consumption. The CPI is calculated based on data on the actual structure of consumer spending and is, therefore, the principal indicators of the cost of living. In addition, the CPI has a range of characteristics making it convenient for common use, namely a simple and clear method of construction, monthly calculation, and timely publication.

CORE INFLATION

An indicator of inflation characterising its most sustainable part. Core inflation is measured based on the Core Consumer Price Index (CCPI). Consumer Price Index (CPI) is that the CCPI is calculated excluding changes in prices for certain products and services that are subject to the influence of administrative and seasonal factors (individual categories of fruit and vegetables, passenger transportation services, communication services, housing and utility services, motor fuel, etc.).

CREDIT DEFAULT SWAP (CDS)

A financial instrument enabling a buyer to insure against a certain credit event (e.g. default) concerning a third party's financial obligations in exchange for regular payments of premiums (CDS spread) to the CDS seller. The higher the premium paid, the more risky are the obligations that are the subject of the credit default swap.

DEFLATION

A steady general decline in prices for goods and services in the economy for at least 12 months and negative annual growth rates of consumer prices.

DOLLARISATION OF BANK DEPOSITS (LOANS)

The portion of foreign currency-denominated deposits (loans) in the banking sector's overall portfolio of deposits (loans).

FINANCIAL STABILITY

A state of the financial system involving no systemic risks which, in the case of their materialisation, might adversely affect the transformation of savings into investment and the real economy. Financial stability improves the resilience of the economy to external shocks.

FLOATING EXCHANGE RATE REGIME

An exchange rate regime where the central bank establishes no targets, including operational ones, whether for the level or movements of the exchange rate, with the exchange rate forming under the influence of market factors. However, the central bank reserves the right to purchase foreign currency to replenish the country's international reserves or to sell foreign currency in the case of any threats to financial stability.

INFLATION

A sustained rise in the overall level of goods and services prices in the economy. Inflation is generally associated with changes over time in the price of the consumer basket, that is, a set of food products, non-food goods, and services consumed by an average household (see also the article Consumer Price Index).

INFLATION EXPECTATIONS

Economic agents' expectations regarding price growth in the future. Inflation expectations are formed by businesses, households, financial markets, and analysts. Economic agents make economic decisions and their plans for the future (including those related to consumption, saving, borrowing, investment, and loan and deposit rates) relying on their expectations. Inflation expectations impact inflation and are, therefore, a critical indicator for making monetary policy decisions.

INFLATION TARGETING

A strategy of monetary policy based on the following principles: price stability is the key goal of monetary policy; the inflation target is clearly specified and announced; under a floating exchange rate regime, monetary policy influences the economy primarily through interest rates; monetary policy decisions are made based on the analysis of a wide range of macroeconomic indicators and their forecasts; the Bank of Russia seeks to provide clear benchmarks for households and businesses, including through enhancing information transparency.

LIQUIDITY ABSORBING OPERATIONS

Reverse operations carried out by the Bank of Russia to absorb liquidity from credit institutions. These are operations either to raise deposits or place Bank of Russia bonds.

MONETARY BASE

The total amount of the components of cash and credit institutions' funds in accounts and Bank of Russia bonds denominated in Russian rubles. In the narrow sense of the term, the monetary base comprises cash in circulation (outside the Bank of Russia) and credit institutions' funds in required reserve accounts for ruble-denominated funds raised by credit institutions. The broad monetary base includes cash in circulation (outside the Bank of Russia) and credit institutions' total funds in accounts and Bank of Russia bonds.

MONEY SUPPLY

The total amount of Russian residents' funds (excluding general government's and credit institutions' funds). For the purposes of economic analysis, various monetary aggregates are calculated (M0, M1, M2, and M2X).

MONEY SUPPLY IN THE NATIONAL DEFINITION (M2 MONETARY AGGREGATE)

The total amount of cash in circulation outside the banking system and of the balances of Russian residents (non-financial and financial (other than credit) institutions and individuals) in settlement, current and other demand accounts (including in bank card accounts), time deposits, and other raised term funds in the banking system denominated in Russian rubles, as well as interest accrued on them.

MSCI INDICES

A group of indices calculated by Morgan Stanley Capital International. The latter calculates indices for individual countries (including Russia), global indices (for various regions, advanced and emerging market economies), and the World Index.

NEUTRAL RATE OF INTEREST

The level of the key rate when monetary policy neither slows down, nor speeds up inflation.

REFINANCING OPERATIONS

Reverse operations conducted by the Bank of Russia to provide liquidity to credit institutions. They may be in the form of loans, repos, or FX swaps.

REQUIRED RESERVE RATIOS

Ratios that may range from 0% to 20% and that are applied to credit institutions' reservable liabilities to calculate the regulatory value of required reserves. These ratios are established by the Bank of Russia Board of Directors.

RUONIA BENCHMARK INTEREST RATE (RUBLE OVERNIGHT INDEX AVERAGE)

Ruble OverNight Index Average (RUONIA) is the weighted interest rate on overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing.

STRUCTURAL LIQUIDITY DEFICIT/SURPLUS OF THE BANKING SECTOR

A structural deficit in the banking sector is a situation when credit institutions demonstrate stable demand for liquidity from the Bank of Russia. A structural surplus is when credit institutions have a steady excess of liquidity and the Bank of Russia needs to carry out liquidity absorbing operations. The estimated level of a structural liquidity deficit/surplus is the difference between the outstanding amount on refinancing operations and the amount of liquidity absorbing operations of the Bank of Russia.

TRANSMISSION MECHANISM

The mechanism through which monetary policy decisions impact the economy in general and price movements in particular; the process of a gradual transmission of the central bank's signal regarding the maintenance of or a change in the key rate and its future path from financial market segments to the real sector of the economy and, ultimately, to the inflation rate. A change in the key rate is translated into the economy through multiple channels (interest rates, credit, foreign exchange, balance sheet, inflation expectations, etc.).

RUONIA BENCHMARK INTEREST RATE (RUBLE OVERNIGHT INDEX AVERAGE)

Ruble OverNight Index Average (RUONIA) is the weighted interest rate on overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing.

ABBREVIATIONS

AFCR – adjusted for foreign currency revaluation

BLC – bank lending conditions

bp – basis point (0.01 percentage points)

BPM6 – the 6th edition of the IMF’s Balance of Payments and International Investment Position Manual

CCPI – Core Consumer Price Index

Coupon OBR – Bank of Russia coupon bond

CPI – Consumer Price Index

ECB – European Central Bank

EME – emerging market economy

EU – European Union

GDP – gross domestic product

GFCF – gross fixed capital formation

IBL – interbank lending

IEA – International Energy Agency

InFOM – Institute of the Public Opinion Foundation

mbd – million barrels per day

MIACR – Moscow Interbank Actual Credit Rate (the actual interest rate on interbank loans extended)

MIACR-B – Moscow Interbank Actual Credit Rate-B-Grade (the actual interest rate on interbank loans extended to banks with a speculative credit rating)

MIACR-IG – Moscow Interbank Actual Credit Rate-Investment Grade (the actual interest rate on interbank loans extended to banks with an investment-grade credit rating)

MPR – Monetary Policy Report (2/22 – No. 2, 2022; 3/22 – No. 3, 2022)

NWF – National Wealth Fund

OBR – Bank of Russia bond

OFZ – federal government bonds

OPEC – Organization of the Petroleum Exporting Countries

PMI – Purchasing Managers’ Index

pp – percentage point

QPM – quarterly projection model of the Bank of Russia

RR – required reserves

Ruble OverNight Index Average (RUONIA) – the weighted interest rate on overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing

SA – seasonally adjusted

SAAR – seasonally adjusted annual rate

SICI – systemically important credit institution

US Fed – US Federal Reserve System

VCIOM – Russian Public Opinion Research Centre

