EXECUTIVE SUMMARY

1. Monthly summary

- In August, annual inflation expectedly slowed, mainly on the back of temporary disinflationary factors, and has been near 4%. That said, inflationary pressure, defined as monthly growth in prices for the most stable components of the consumer basket, is holding near the target level. This predetermines the anchoring of inflation close to 4%. Inflation expectations have stabilised, though remaining elevated and unanchored, which suggests that the related medium-term proinflationary risks persist. Despite a steady expansion in lending, economic activity in July-August was overall low, largely due to unfavourable external economic factors. Nevertheless, economic growth is expected to accelerate somewhat throughout the year. This is facilitated by the expected decrease in the budget expenditure underperformance relative to the plan, monetary easing and overall favourable financial markets.

  - Consumer price dynamics and the current inflationary pressure in the economy suggest that inflation will stabilise near 4% in the future. Although short-term disinflationary and pro-inflationary risks are balanced, risks of inflation deviating upwards from the target still prevail in the medium run.

  - Economic activity indicators suggest that Russia’s economic growth accelerated slightly in the third quarter year on year. However, growth remains low as exports decline and domestic demand weakens amid the world economic slowdown, unfavourable demographic trends, and other structural and institutional challenges in the Russian economy. In the second half of the year, budget expenditures and monetary easing will boost an overall increase in demand in the economy, while a slowdown in inflation will underpin consumer demand.

  - As the US Fed and the ECB are willing to loosen their monetary policy amid rising risks for the world economy, moderate risk appetite remains in global financial markets, including Russian. At the same time, there is a growing uncertainty about the ability of central banks to prevent the global economy from sliding into recession amid the ongoing trade disputes.

2. Outlook

- According to GDP growth projections, Russian economic growth will accelerate somewhat in the second half of the year, though remaining below potential.