



Bank of Russia

RUSSIA'S ECONOMIC  
OUTLOOK AND  
MONETARY POLICY

OCTOBER 2019

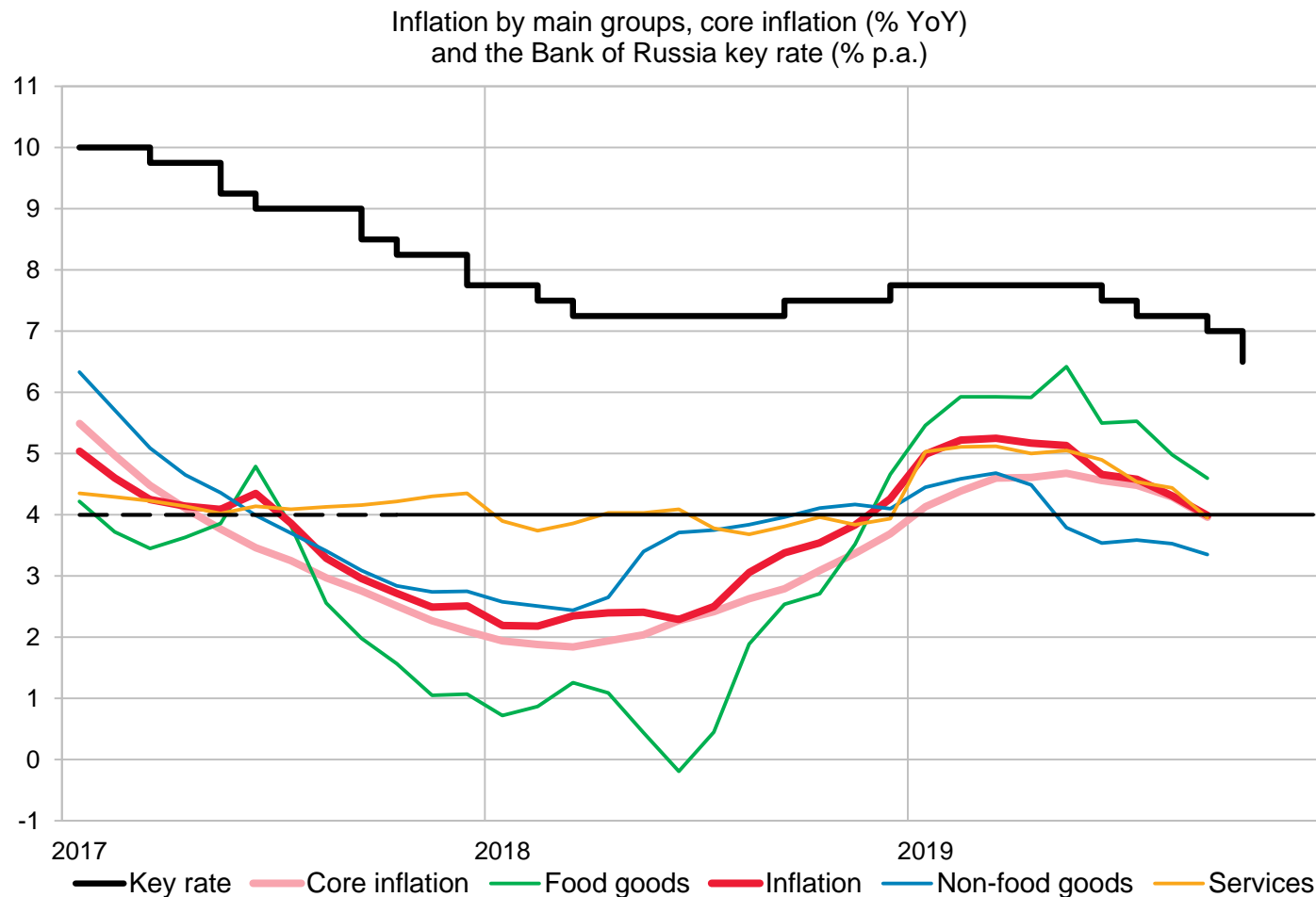


## Consumer prices

Sep 2019	% YoY	Δ, pp
<b>CPI</b>	<b>4.0</b>	<b>-0.3</b>
<b>Core</b>	<b>4.0</b>	<b>-0.3</b>
<b>Median</b>	<b>3.9</b>	<b>-0.2</b>

Inflation slowdown is overshooting the forecast.

In September-October, disinflationary factors had a more pronounced influence on the slowdown of price growth rates than it had been estimated before. At the same time, pro-inflationary risks related to external conditions did not materialise.

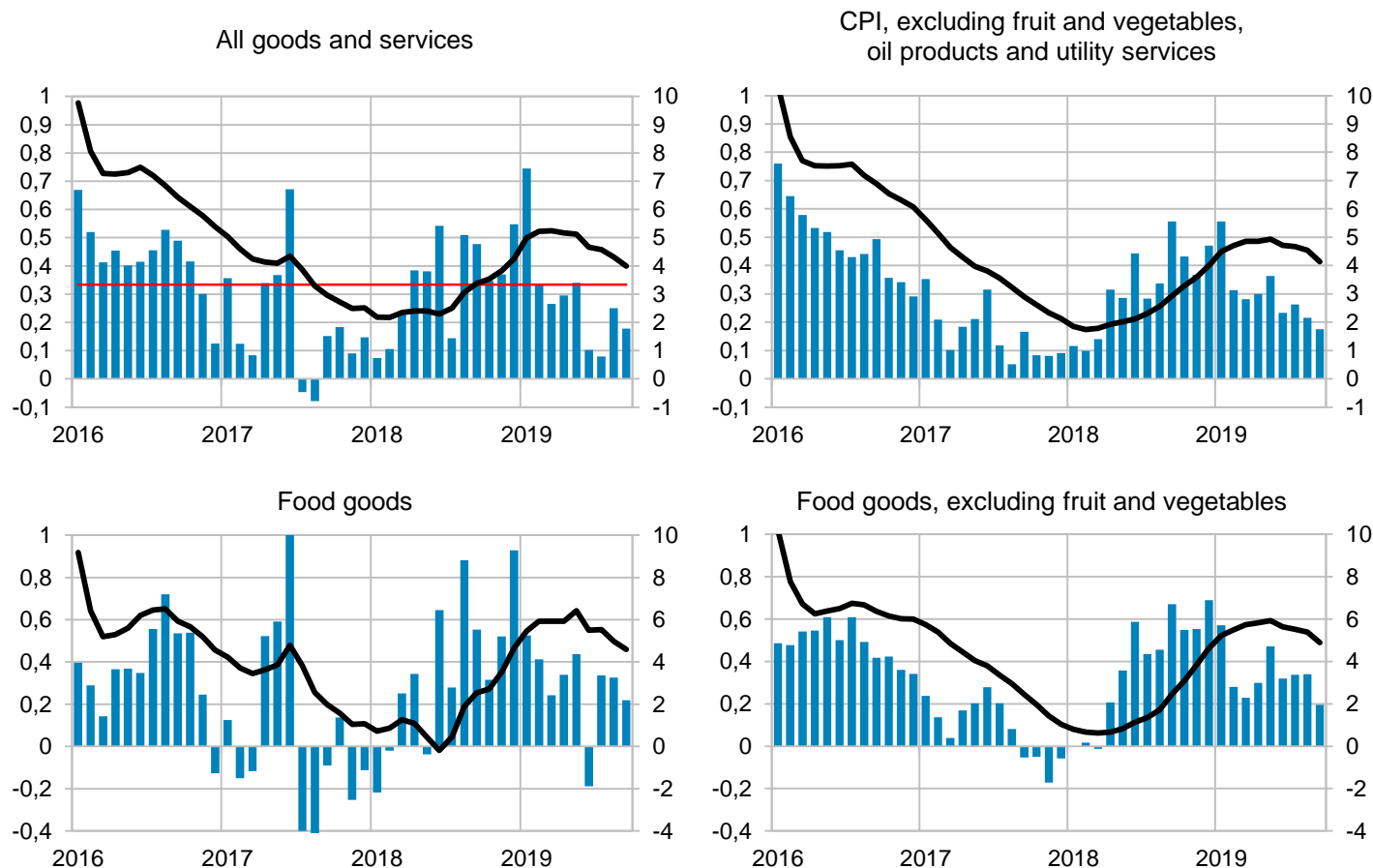


## Inflation rates for main groups, seasonally adjusted (1)

Sep 2019, %	YoY	MoM SA
<b>All</b>	<b>4.0</b>	<b>+0.18</b>
<b>- ex. F&amp;V, oil prod. and util.</b>	<b>4.1</b>	<b>+0.18</b>
<b>Food</b>	<b>4.6</b>	<b>+0.22</b>
<b>- ex. F&amp;V</b>	<b>4.9</b>	<b>+0.20</b>

Taking into account one-off factors amid a good harvest and expanded supply in individual food market segments, seasonally adjusted food price growth rates remained low.

Disinflationary risks associated with movements in prices of certain food products persist, including on the back of a rise in supply of farm produce.



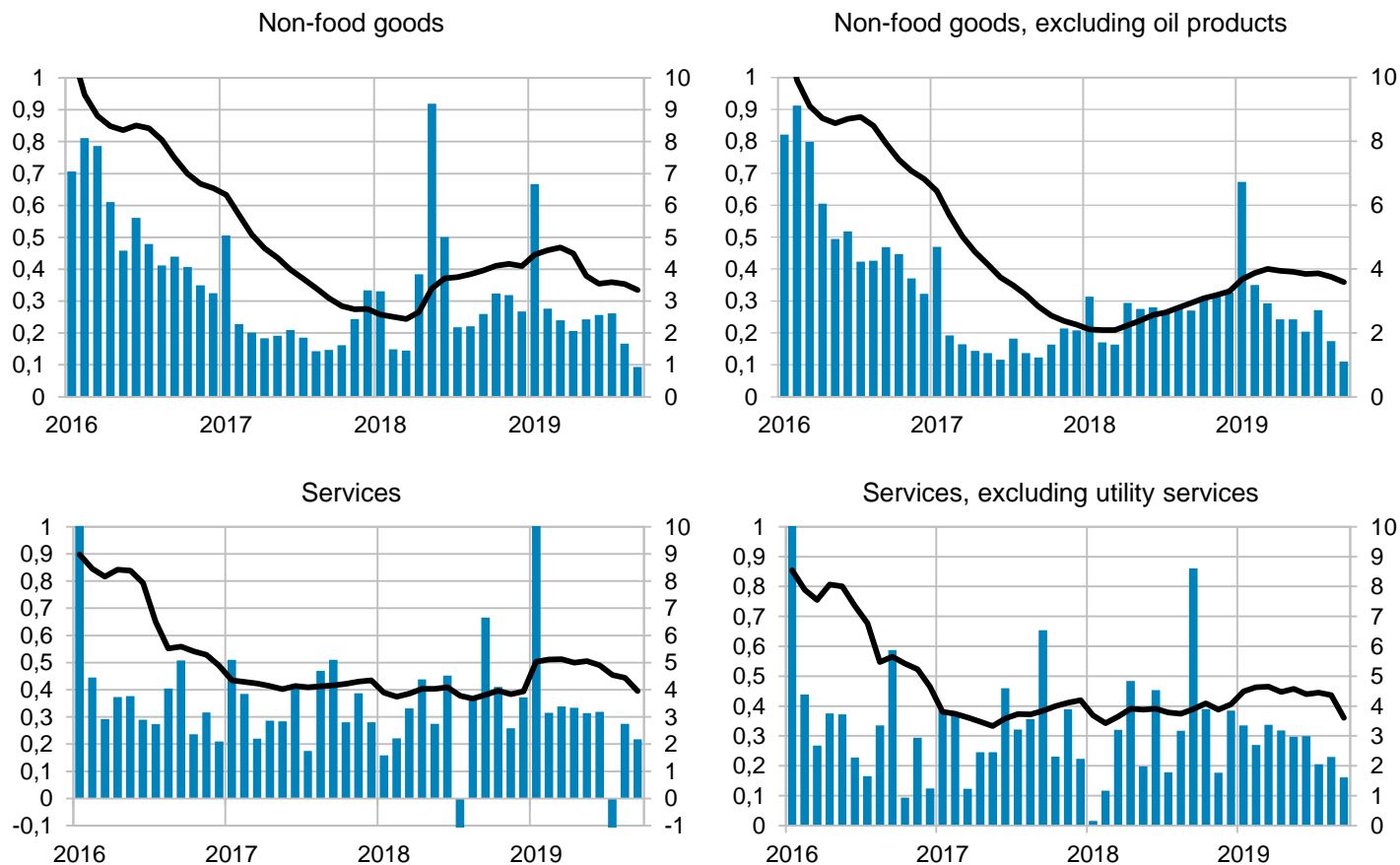
**Columns** – monthly price growth rate, seasonally adjusted, %  
**Line** – annual inflation, % (rhs)  
**Red line** – 4% saar

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

Sep 2019, %	YoY	MoM SA
<b>Non-food</b>	<b>3.4</b>	<b>+0.09</b>
<b>- ex. petrol</b>	<b>3.6</b>	<b>+0.11</b>
<b>Services</b>	<b>4.0</b>	<b>+0.22</b>
<b>- ex. utilities</b>	<b>3.6</b>	<b>+0.16</b>

The ruble appreciation since the beginning of the year alongside with inflation slowdown in Russia's trading partners limits the price growth of imports.

The impact of subdued demand on inflation is becoming increasingly strong.

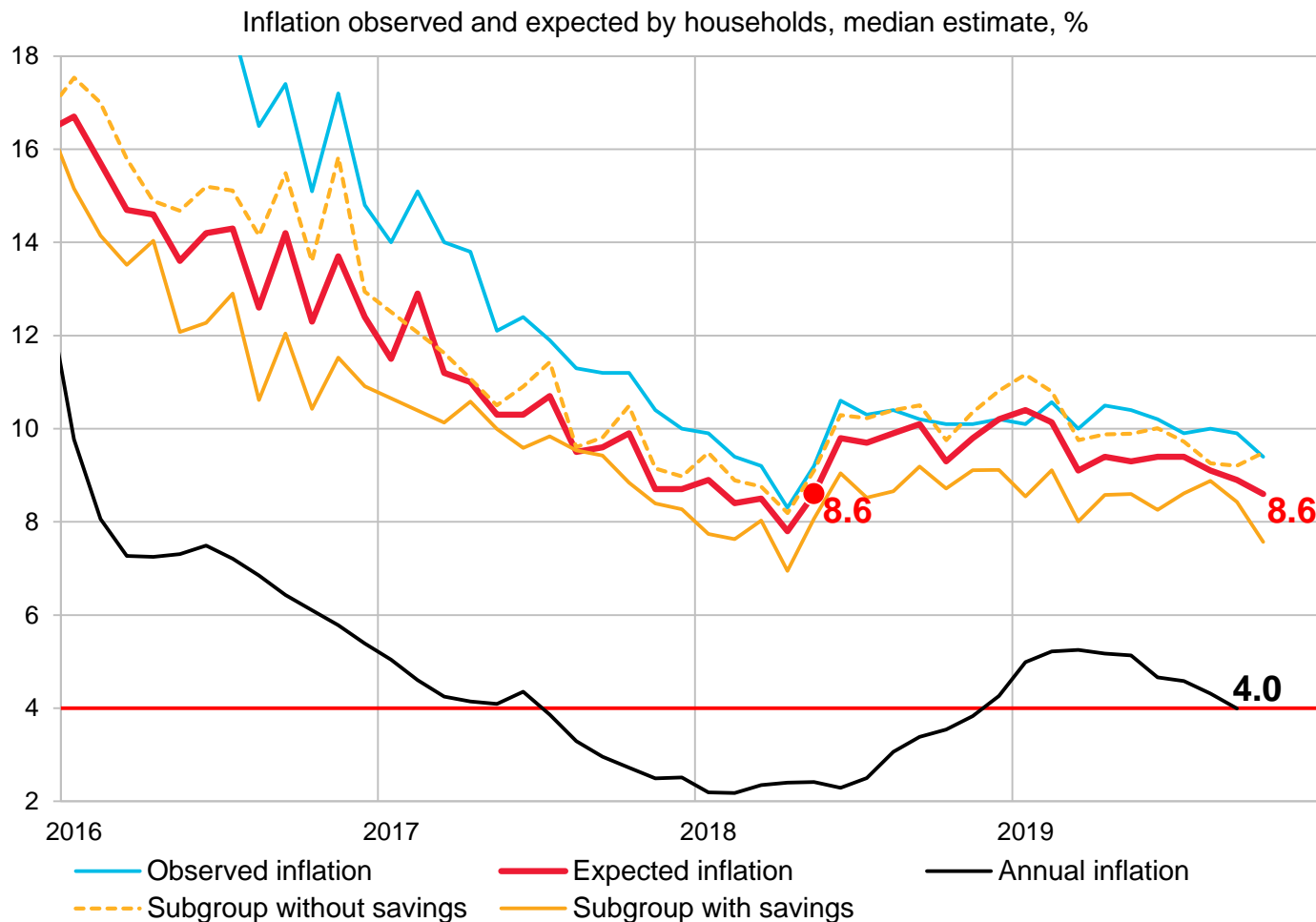


**Columns** – monthly price growth rate, seasonally adjusted, %  
**Line** – annual inflation, % (rhs)

# Inflation expectations – households

Oct 2019	%	MoM, pp
<b>Observed</b>	<b>9.4</b>	<b>-0.5</b>
<b>Expected</b>	<b>8.6</b>	<b>-0.3</b>
<b>- with savings</b>	<b>7.6</b>	<b>-0.8</b>
<b>- w/out savings</b>	<b>9.5</b>	<b>+0.3</b>

In September-October, households' inflation expectations continued to decrease, while remaining elevated.

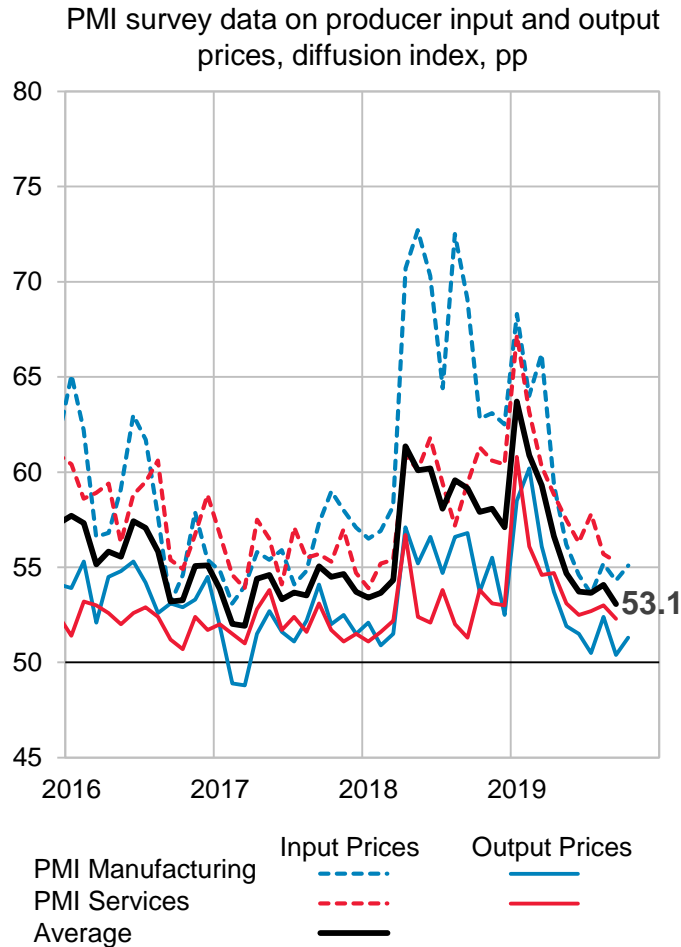


# Price expectations – businesses

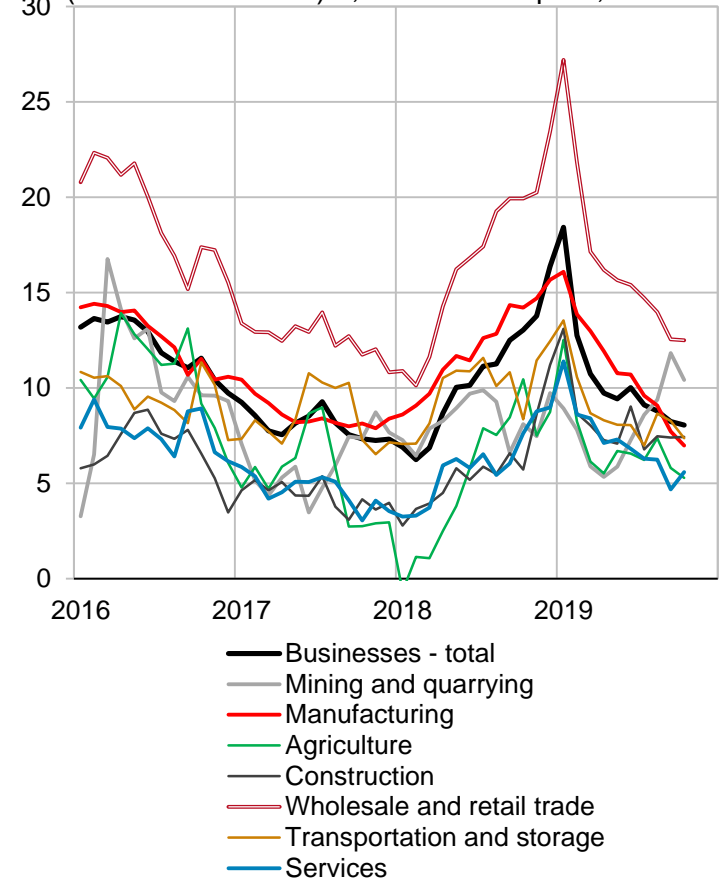
	Sep	Aug	Δ,pp
<b>PMI M Input Prices</b>	<b>54.3</b>	<b>55.2</b>	<b>-0.9</b>
<b>PMI M Output Prices</b>	<b>50.4</b>	<b>52.4</b>	<b>-2.0</b>
<b>PMI S Input Prices</b>	<b>55.3</b>	<b>55.7</b>	<b>-0.4</b>
<b>PMI S Output Prices</b>	<b>52.3</b>	<b>53.0</b>	<b>-0.7</b>

Business price expectations slightly lowered.

Annual inflation slowdown paves the way for a future decline in inflation expectations of households and businesses.



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

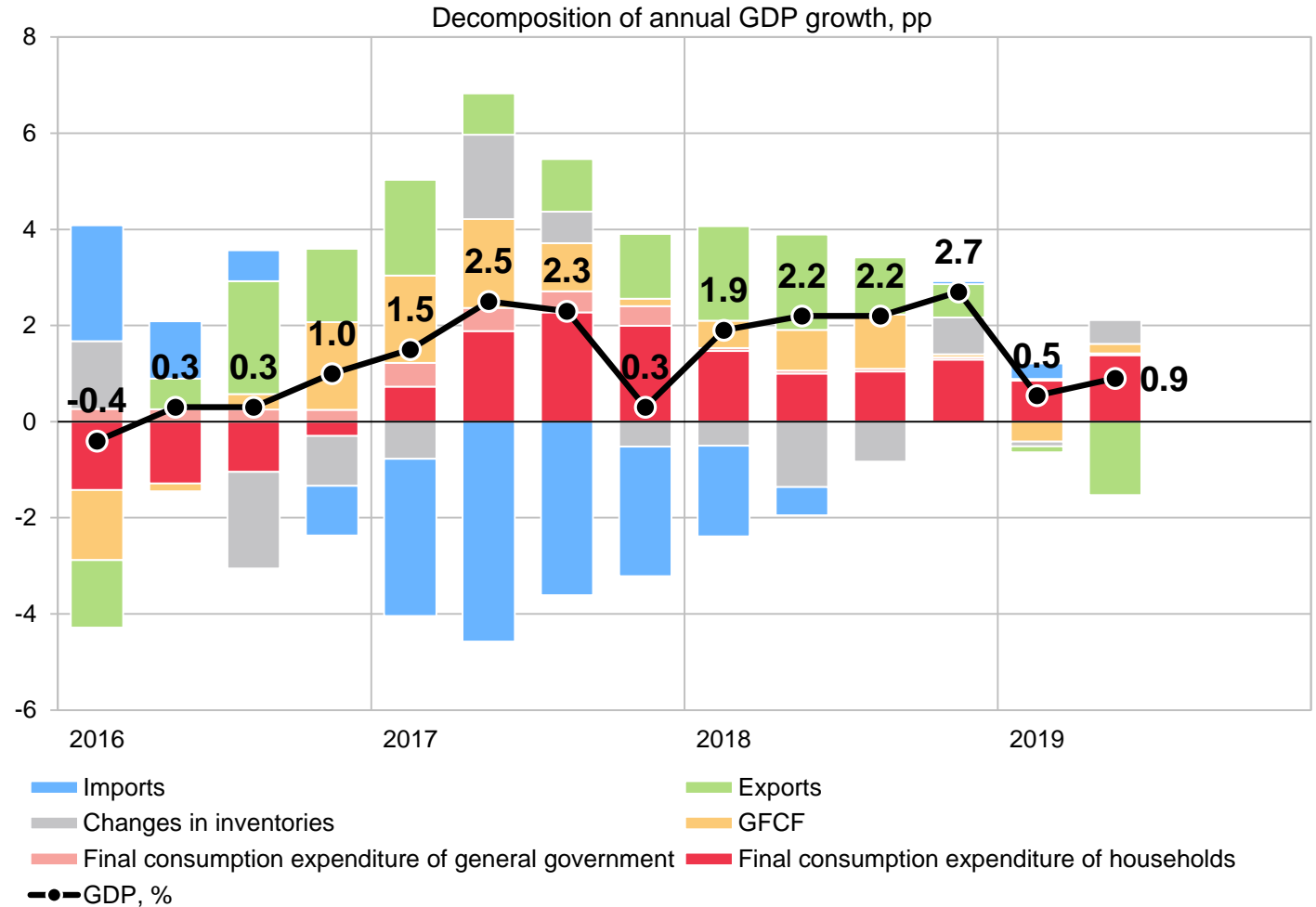


# GDP growth

The Russian economy's growth rate still remains subdued.

However, current data suggests that the growth of the Russian economy might accelerate in 2019 Q3, partially driven by temporary factors.

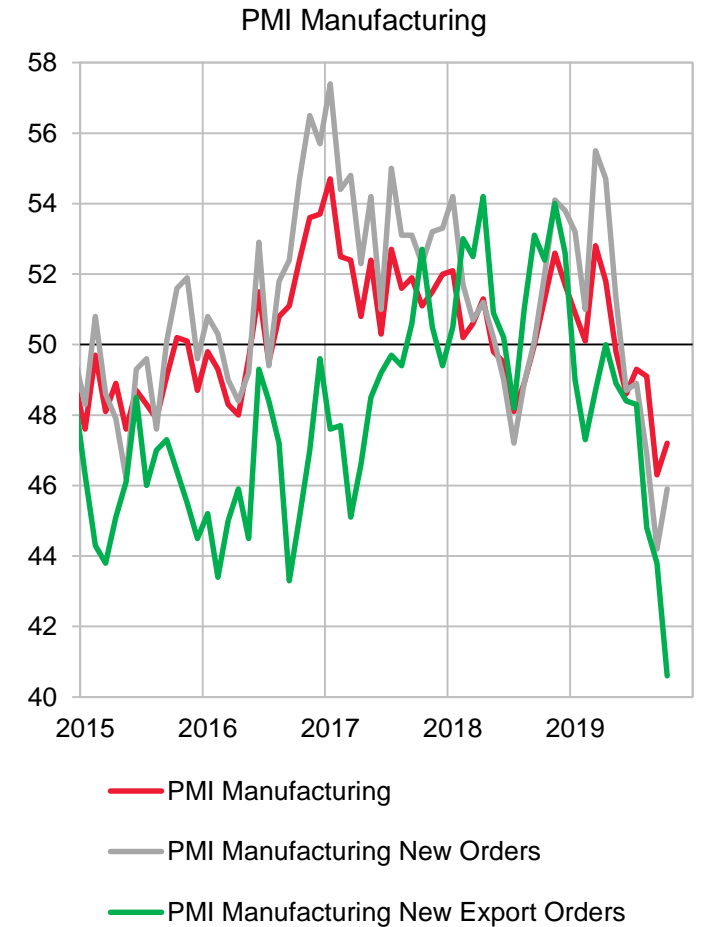
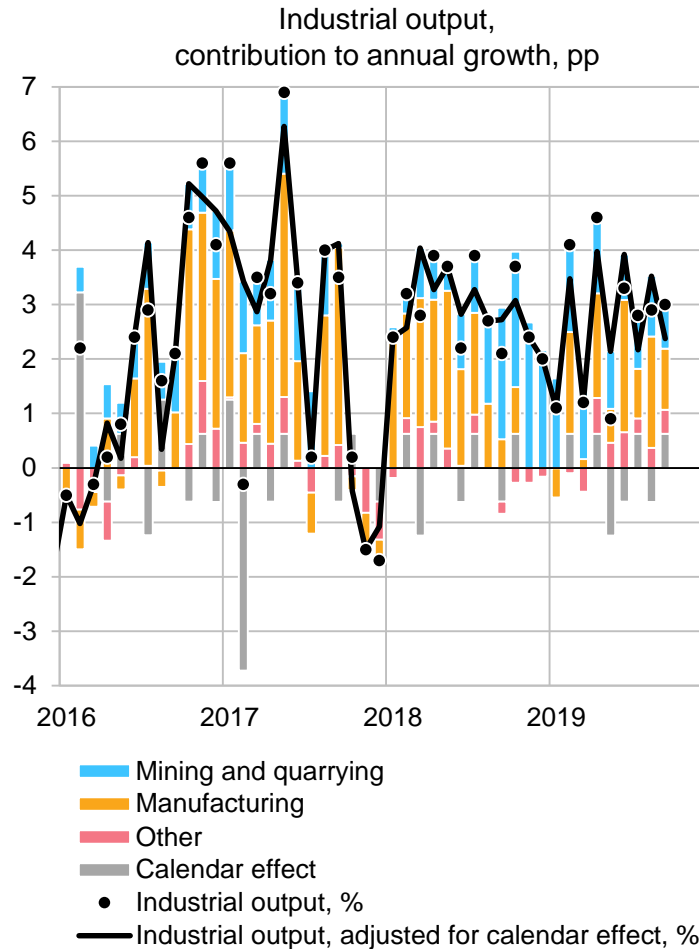
Economic activity continues to be constrained by weakening external demand for Russian exports on the back of a global economic slowdown as well as by weak investment activity dynamics, including government investment expenditures.



# Industrial production

August-September saw continuing annual growth of industrial production.

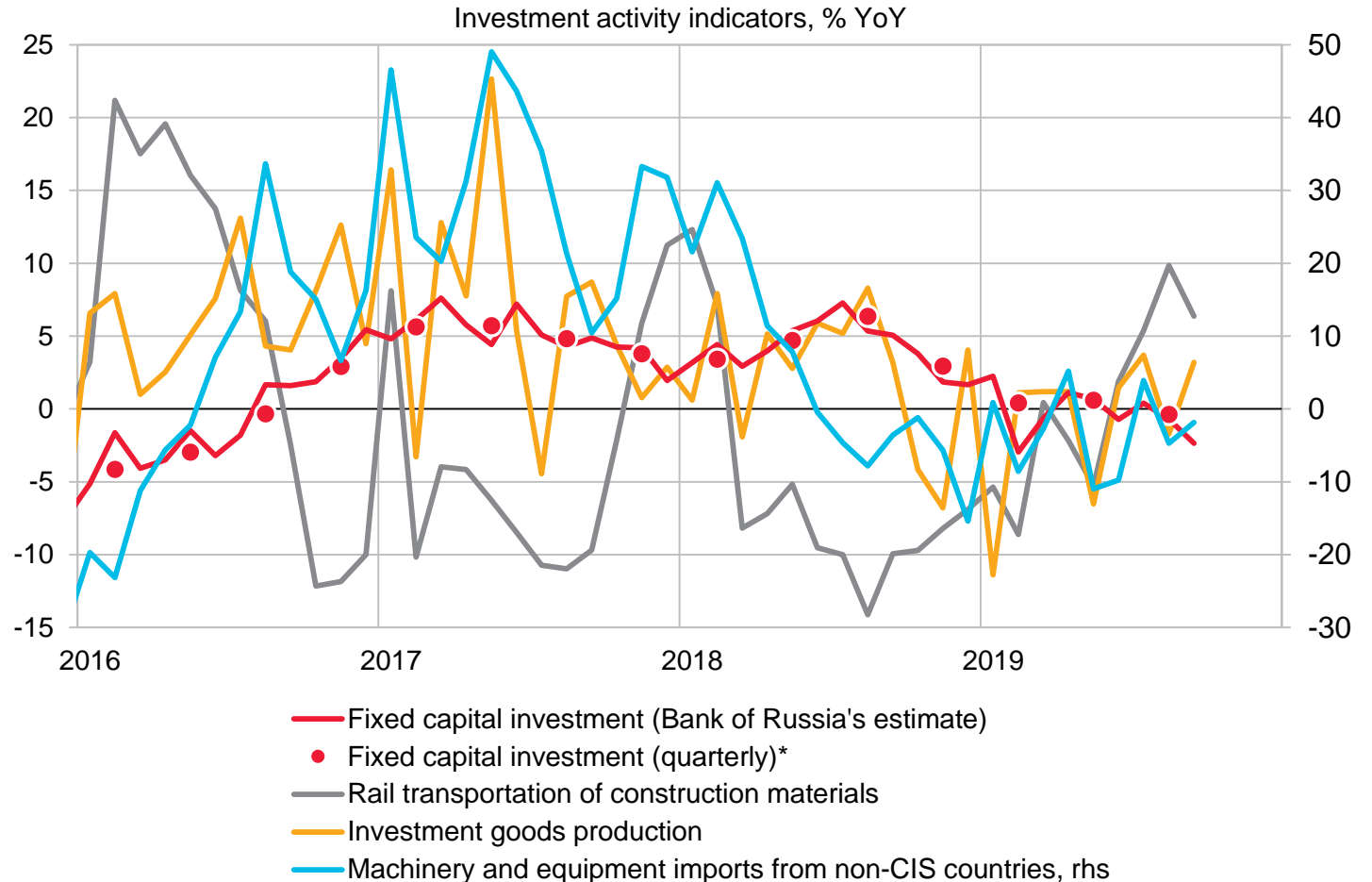
However, leading indicators point to worsening business sentiment in the industrial sector, which is mostly specific of export orders.





# Investment activity

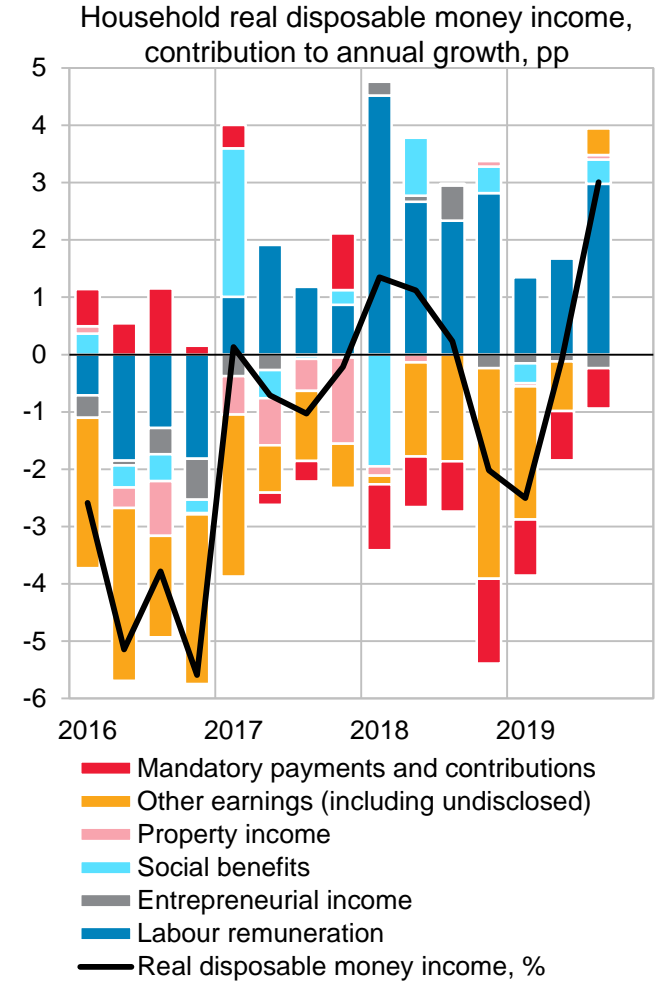
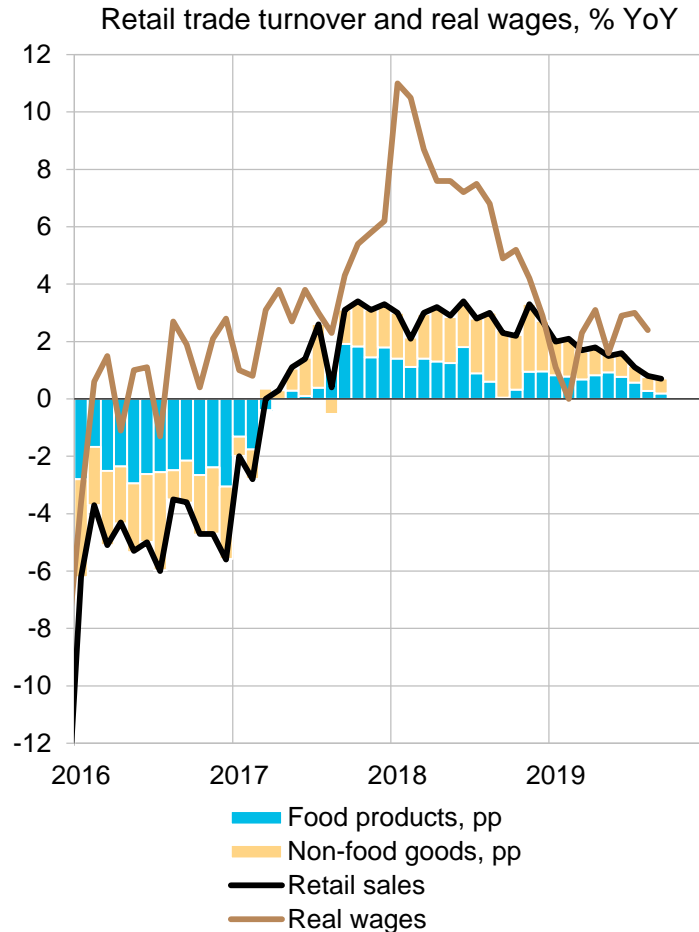
In September, investment demand growth remained moderate, as in the previous months.



\*3Q'2019 data – Bank of Russia's estimate

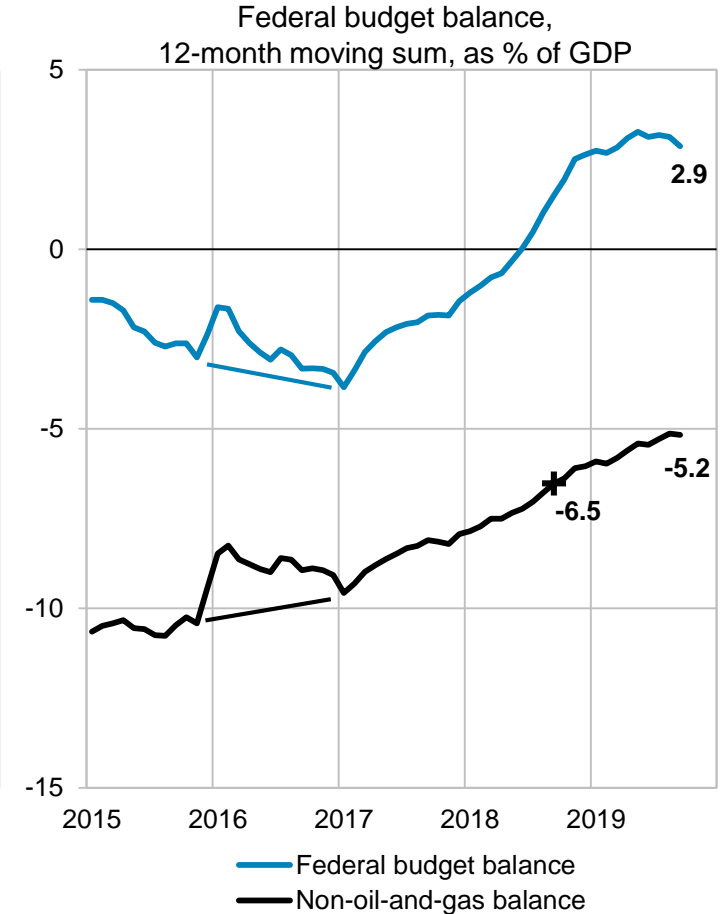
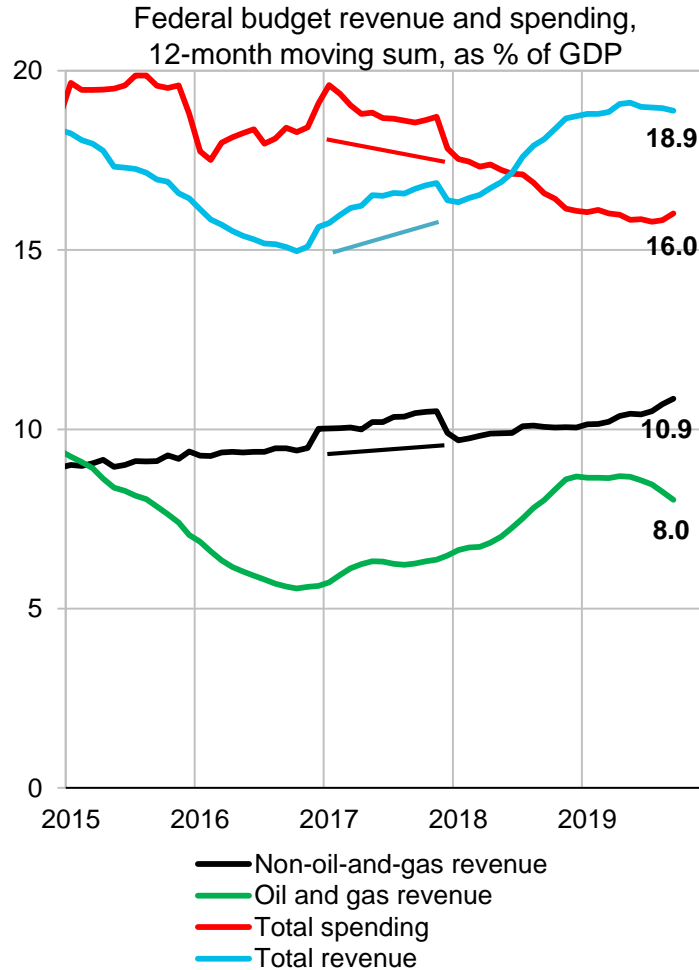
# Retail sales and real disposable incomes

Growth in real disposable household incomes has yet to influence the dynamics of retail trade turnover.



# Fiscal policy (1)

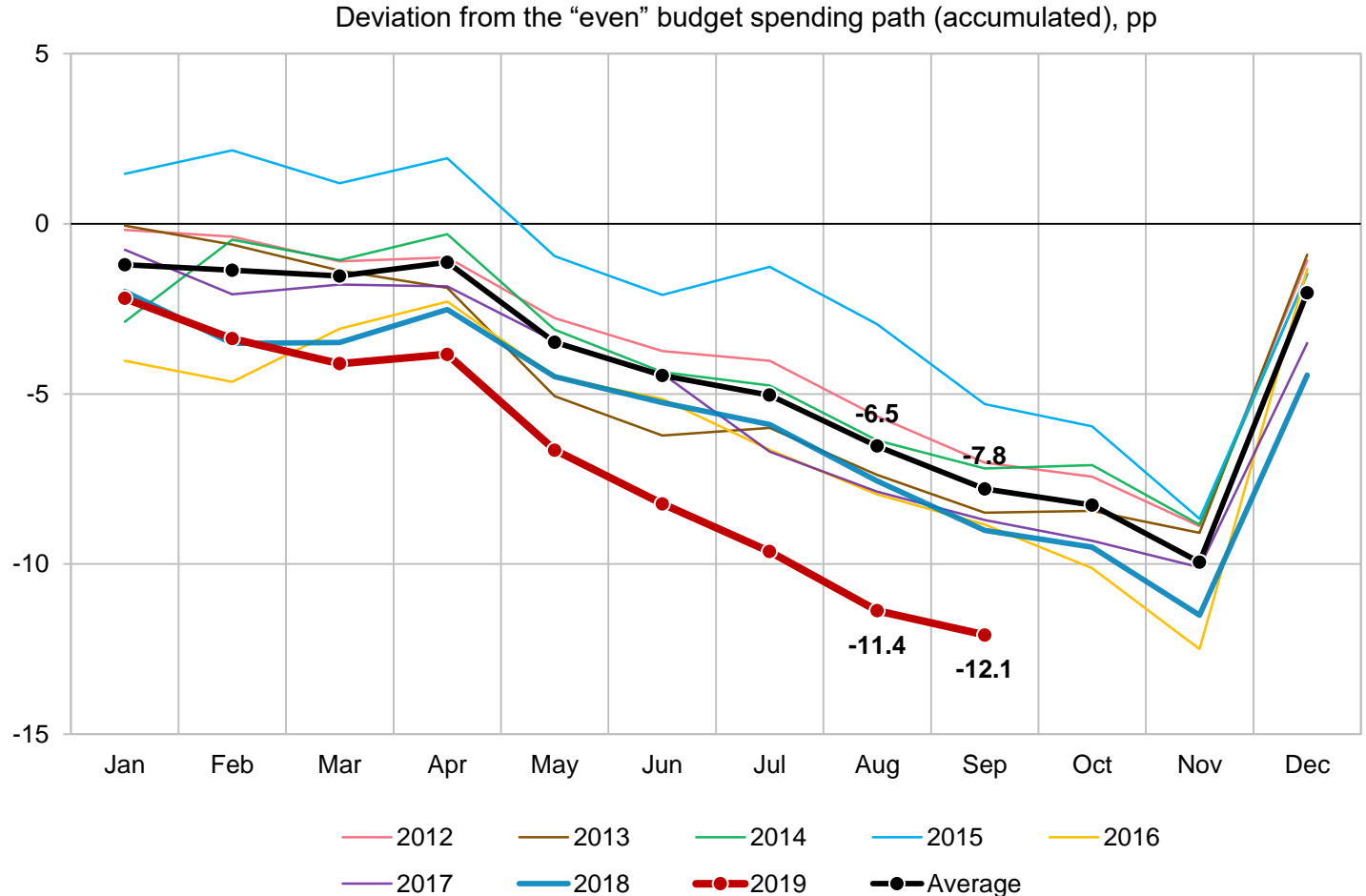
Since the beginning of 2019, fiscal policy has had a constraining effect on economic activity. This is in part related to a slower than expected implementation of national projects planned by the Government.



## Fiscal policy (2)

The cumulative 9M19 spending of the federal budget lags the “even” spending path by some 12% of the total 2019 appropriation, which is markedly below the typical seasonality of public spending.

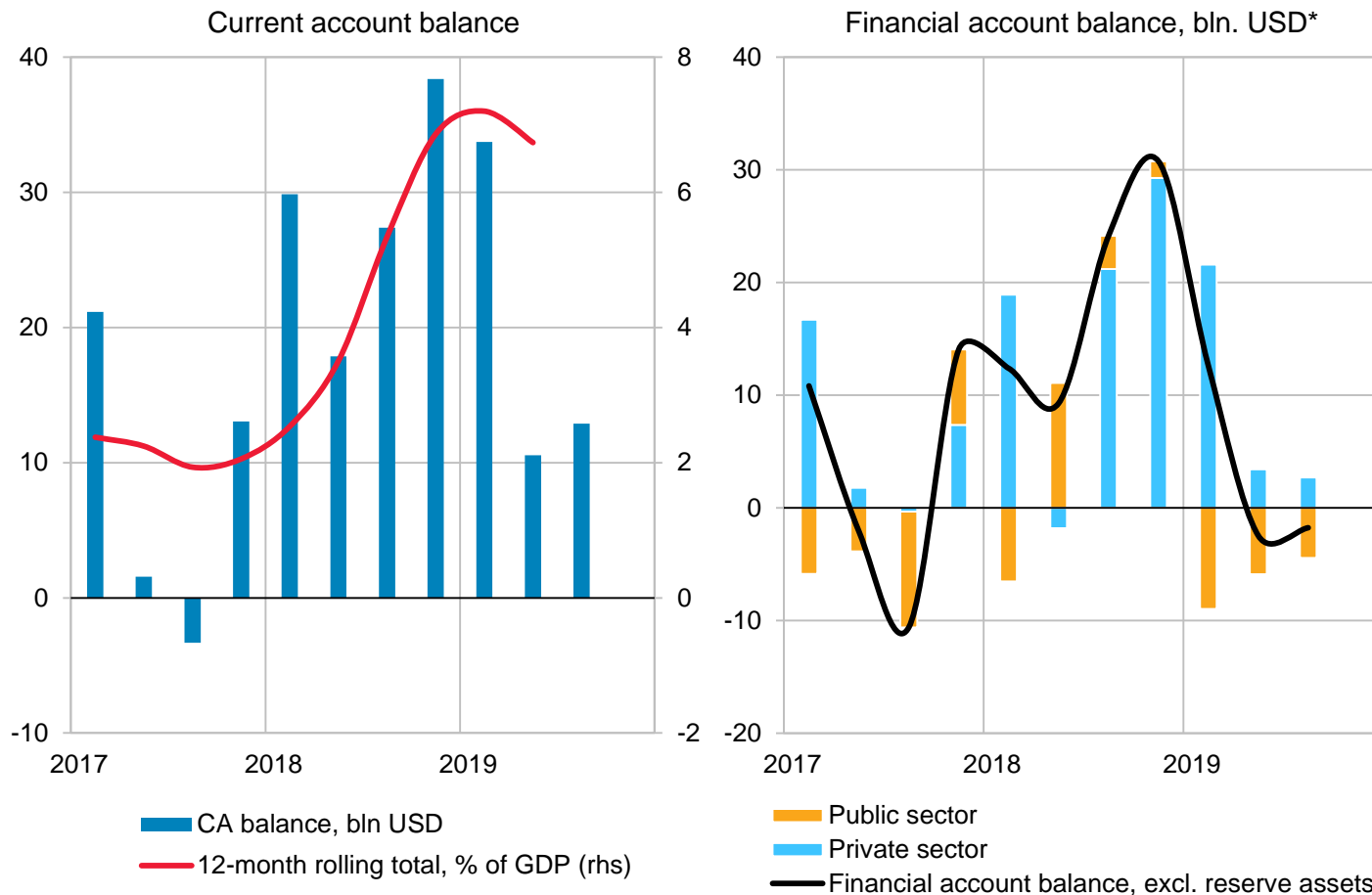
Pro-inflationary risks posed by budget expenditures growth in the second half of 2019-early 2020 hold low because the rise in expenditures is likely to be more distributed over time.



# Balance of payments

In Q3 2019, the current account surplus decreased YoY mainly due to a decline in global energy prices.

Meanwhile, Q3 2019 saw fewer net foreign capital inflows to the public sector than in Q2 2019 on the back of a decrease in OFZ purchases by non-residents in the secondary market. In the private sector, net lending to the rest of the world slowed down (compared to Q2 2019) as foreign assets of banks declined and foreign liabilities of other sectors increased.



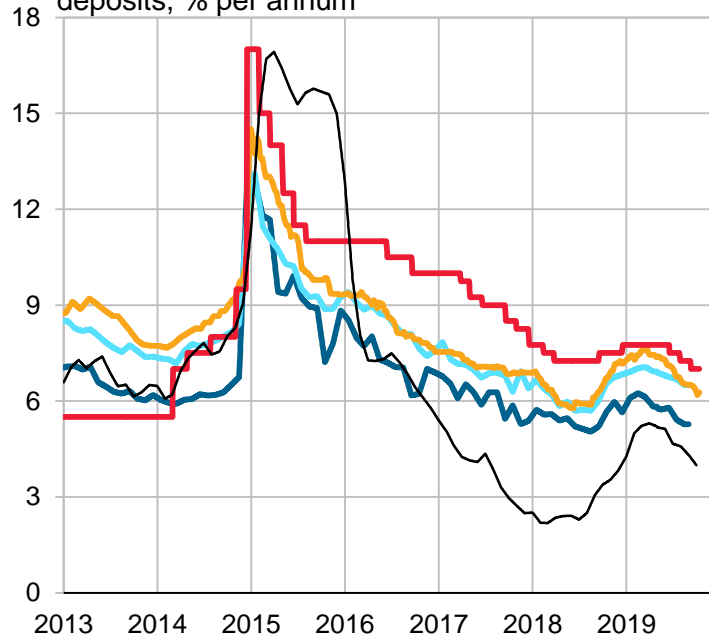
\* "+" – net lending, "-" – net borrowing

# Deposit and credit market – interest rates

Monetary conditions have continued to ease since the last Board meeting.

Among other things, this was driven by the change in expectations of financial market participants with regard to the Bank of Russia’s key rate path.

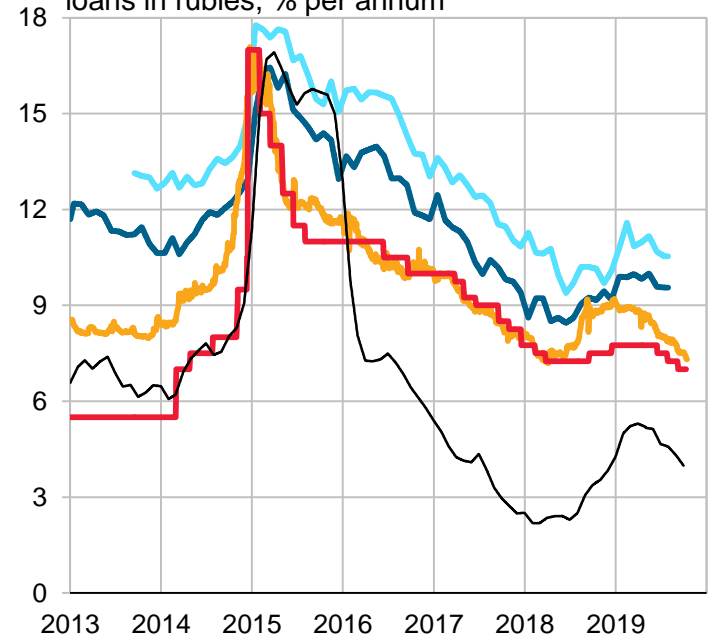
The dynamics of interest rates on household ruble deposits, % per annum



- Interest rate on short-term household deposits
- Interest rate on long-term household deposits
- Maximum interest rate on household deposits\*
- Key rate
- CPI, % YoY

\* Average of maximum declared one-year deposit interest rates (for deposits in top 10 banks amounting to 100 000 RUB, Monetary policy department estimate)

The dynamics of interest rates on corporate loans in rubles, % per annum



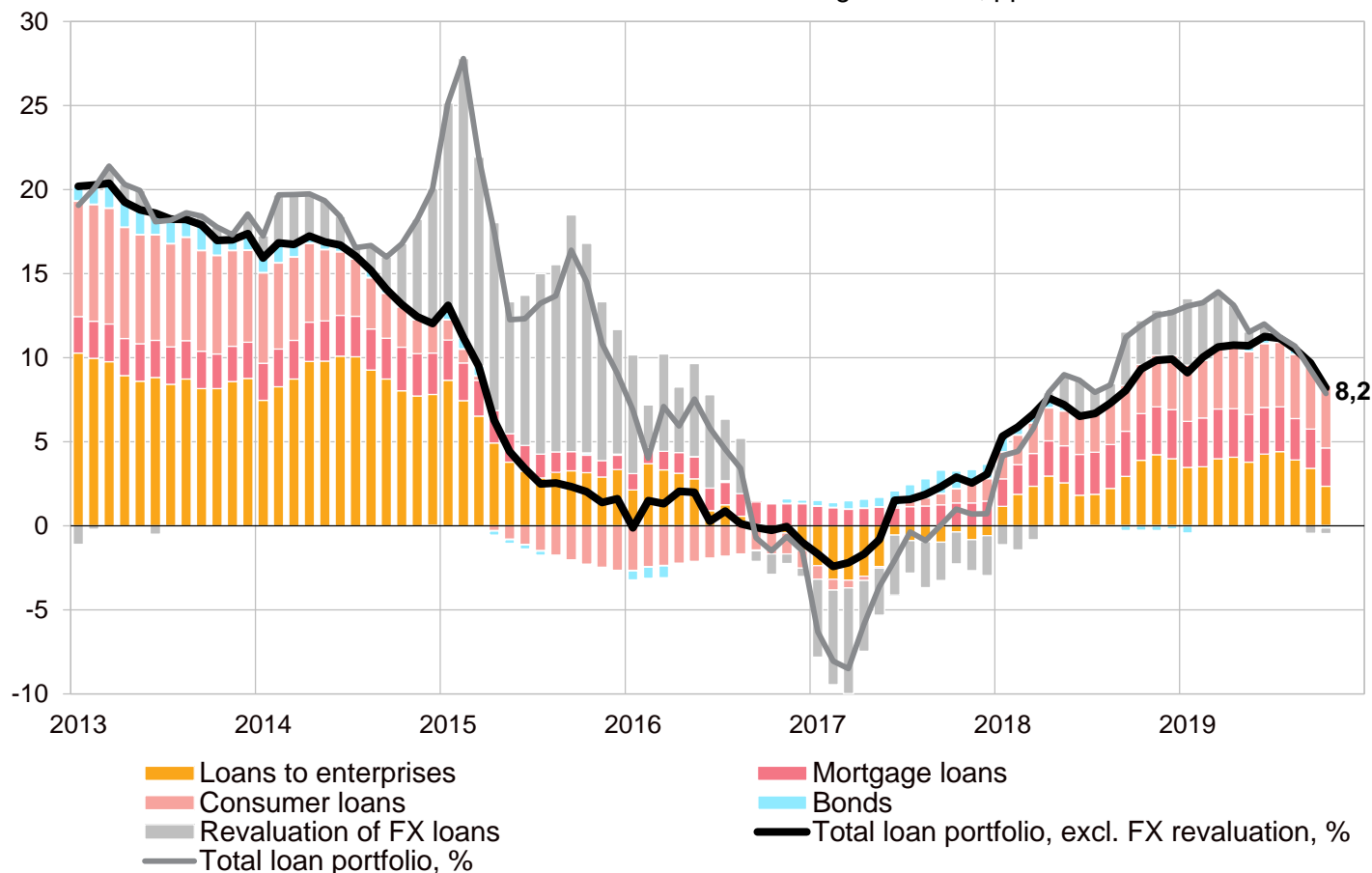
- Interest rate on long-term loans
- Interest rate on long-term loans for small businesses
- Corporate bond yield (IFX-Cbonds)
- Key rate
- CPI, % YoY

## Deposit and credit market – lending

Real sector lending (adjusted for foreign currency revaluation) continues to grow on the back of eased monetary conditions.

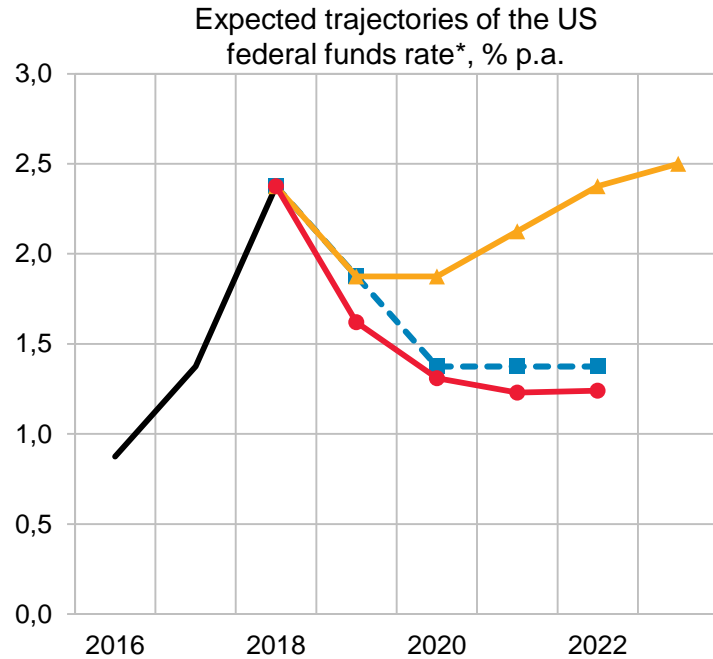
At the same time, annual growth in lending to households has been slowing down since June after noticeable growth in 2018 - early 2019.

Contribution of various components to annual growth of bank claims on non-financial organisations, pp

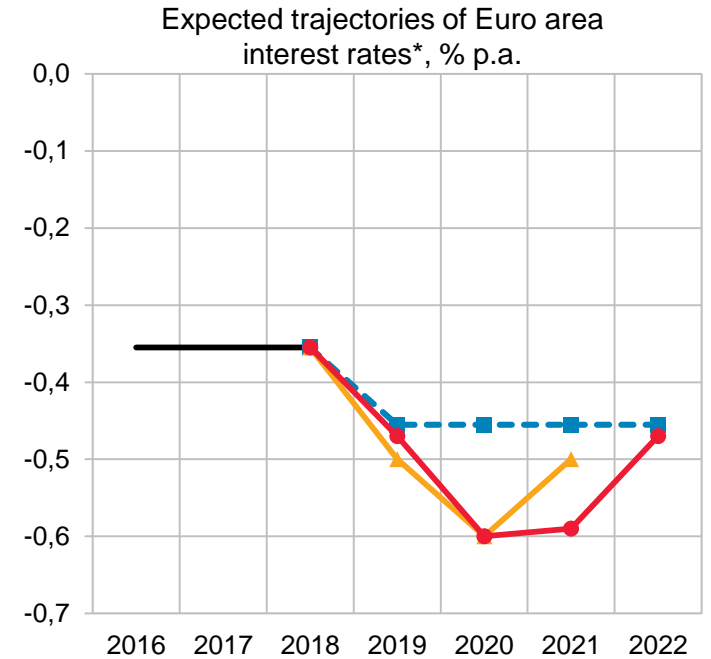


# Assumptions – US Fed and ECB monetary policy

In the baseline scenario the Bank of Russia assumes that accommodative monetary policy will be pursued in the US and the euro area over the forecast horizon.



- US federal funds rate
- Baseline scenario (October 2019)
- ▲- US Fed dot plot (September 2019)
- Market implied trajectory of federal funds rate (Bloomberg, October 2019)



- Eonia
- Baseline scenario (October 2019)
- ▲- Bloomberg analysts' consensus forecast of ECB deposit rate movements (October 2019)
- Eonia rate path assumed by the market (Bloomberg, October 2019)

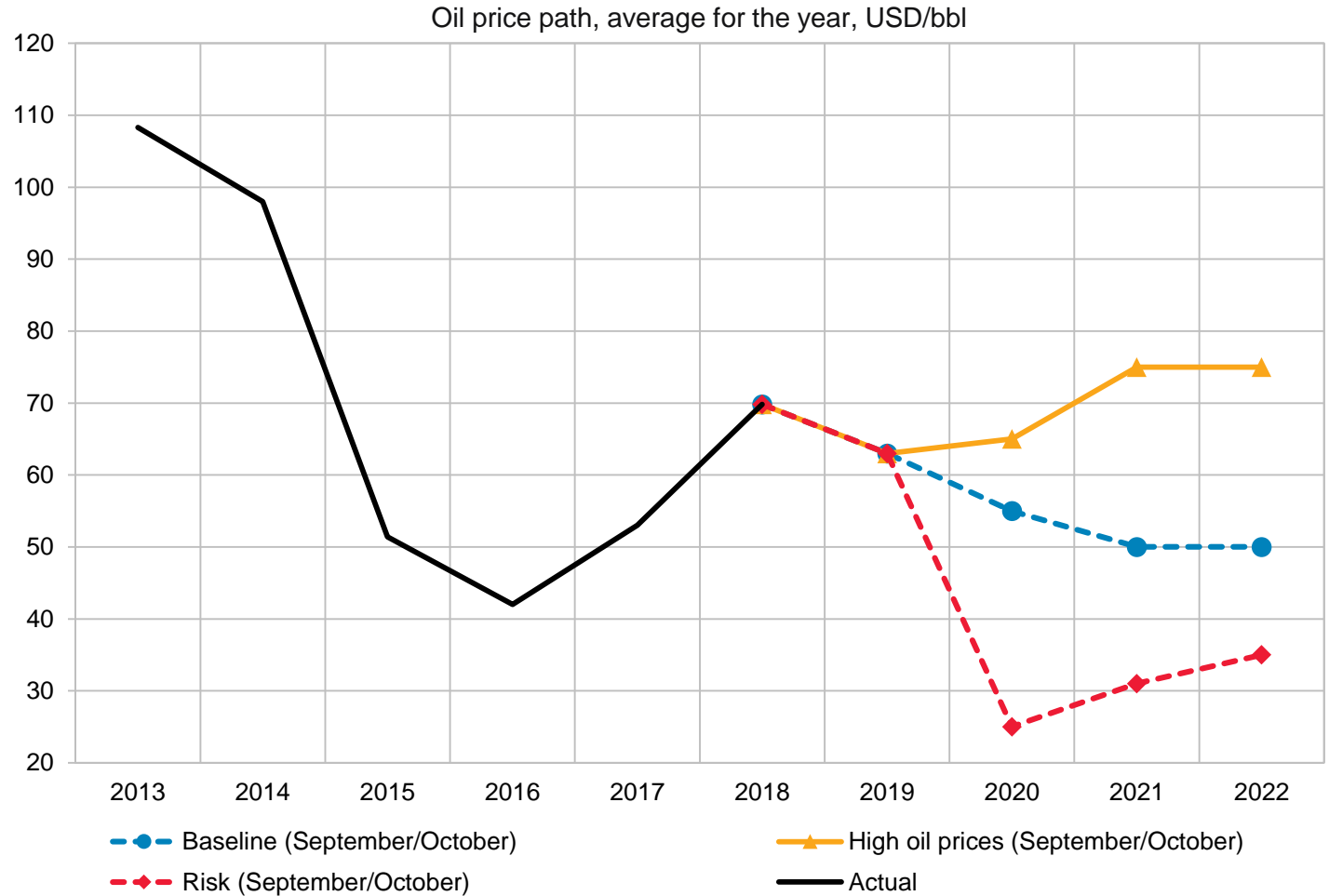
\* Values are given as of the end of each period.



## Assumptions – Oil price

Bank of Russia has kept its Urals price projections in the baseline and supplementary scenarios unchanged compared to September.

Baseline oil price path: \$63/bbl in 2019, \$55/bbl in 2020 with \$50/bbl in the longer-run.



## Bank of Russia forecast, October 2019 (1)

Key parameters of the Bank of Russia's baseline scenario (growth as % of previous year, if not indicated otherwise)	2018 (actual)	BASELINE			
		2019	2020	2021	2022
Urals price, average for the year, US dollars per barrel	69.8	63	55	50	50
Inflation, as % in December year-on-year	4.3	3.2-3.7	3.5-4.0	4.0	4.0
Inflation, average for the year, as % year-on-year	2.9	4.5-4.6	3.1-3.5	4.0	4.0
Gross domestic product	2.3	0.8-1.3	1.5-2.0	1.5-2.5	2.0-3.0
Final consumption expenditure	1.8	1.3-1.8	1.5-2.0	1.5-2.0	1.8-2.3
– households	2.3	1.5-2.0	2.0-2.5	2.0-2.5	2.0-2.5
Gross capital formation	0.8	0.5-1.5	3.5-4.5	3.5-4.5	2.5-3.5
– gross fixed capital formation	2.9	0.0-1.0	3.5-4.5	3.5-4.5	2.5-3.5
Exports	5.5	-(1.3-1.8)	2.0-2.5	2.0-2.5	2.5-3.0
Imports	2.7	0.0-0.5	3.0-3.5	3.5-4.0	2.5-3.0
Money supply in national definition	11.0	8-11	7-12	7-12	7-12
Claims on organisations and households in rubles and foreign currency*	11.5	8-11	7-12	7-12	7-12
– on organisations, growth as % over year	8.4	5-8	6-10	6-10	6-10
– on households, growth as % over year	22.0	17-20	10-15	10-15	10-15

\* Banking sector claims on organisations and households means all of the banking sector's claims on non-financial and financial institutions and households in the currency of the Russian Federation, a 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.

## Bank of Russia forecast, October 2019 (2)

Russia's balance of payments indicators in the baseline scenario* (billions of US dollars)	2018 (actual)	BASELINE			
		2019	2020	2021	2022
<b>Current account</b>	<b>113</b>	<b>75</b>	<b>52</b>	<b>34</b>	<b>23</b>
Balance of trade	194	162	138	122	116
<i>Exports</i>	443	412	392	385	392
<i>Imports</i>	249	250	254	263	277
Balance of services	-30	-33	-35	-37	-40
<i>Exports</i>	65	63	63	65	67
<i>Imports</i>	95	97	98	101	107
Balance of primary and secondary income	-51	-53	-51	-52	-53
<b>Current and capital account balance</b>	<b>112</b>	<b>75</b>	<b>52</b>	<b>34</b>	<b>23</b>
<b>Financial account (excluding reserve assets)</b>	<b>77</b>	<b>14</b>	<b>14</b>	<b>9</b>	<b>9</b>
Government and the central bank	9	-23	-6	-6	-6
Private sector	68	37	20	15	15
<b>Net errors and omissions</b>	<b>2</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>38</b>	<b>63</b>	<b>38</b>	<b>25</b>	<b>14</b>

\* Using the methodology of the 6th edition of "Balance of Payments and International Investment Position Manual" (BPM6). In the Financial account "+" stands for net lending, "-" – for net borrowing. Due to rounding total results may differ from the sum of respective values.

## Bank of Russia forecast, October 2019 (3)

Key parameters of the Bank of Russia's supplementary scenarios (growth as % of previous year, if not indicated otherwise)	2018 (actual)	HIGH OIL PRICES				RISK			
		2019	2020	2021	2022	2019	2020	2021	2022
Urals price, average for the year, US dollars per barrel	69.8	63	65	75	75	63	25	31	35
Inflation, as % in December year-on-year	4.3	3.2-3.7	3.5-4.0	4.0	4.0	3.2-3.7	6.5-8.0	3.0-4.0	3.0-4.0
Inflation, average for the year, as % year-on-year	2.9	4.5-4.6	3.1-3.5	4.0	4.0	4.5-4.6	6.0-7.5	4.0-5.0	3.0-4.0
Gross domestic product	2.3	0.8-1.3	2.0-2.5	2.0-3.0	2.0-3.0	0.8-1.3	-(1.5-2.0)	1.0-2.0	3.5-4.0
Final consumption expenditure	1.8	1.3-1.8	2.0-2.5	1.8-2.3	1.8-2.3	1.3-1.8	-(1.3-1.8)	2.3-2.8	3.5-4.0
– households	2.3	1.5-2.0	2.3-2.8	2.0-2.5	2.0-2.5	1.5-2.0	-(1.5-2.0)	2.7-3.2	4.0-4.5
Gross capital formation	0.8	0.5-1.5	4.5-5.5	4.0-5.0	2.5-3.5	0.5-1.5	-(14-15)	1.0-2.0	8.0-9.0
– gross fixed capital formation	2.9	0.0-1.0	3.5-4.5	4.0-5.0	2.5-3.5	0.0-1.0	-(5.5-6.5)	1.0-2.0	8.0-9.0
Exports	5.5	-(1.3-1.8)	2.7-3.2	2.7-3.2	2.5-3.0	-(1.3-1.8)	0-0.5	-(0.8-1.3)	1.5-2.0
Imports	2.7	0.0-0.5	3.3-3.8	4.0-4.5	2.5-3.0	0.0-0.5	-(12.5-13.0)	2.3-2.8	4.7-5.2
Money supply in national definition	11.0	8-11	8-13	8-13	8-13	8-11	2-7	3-8	4-9
Claims on organisations and households in rubles and foreign currency*	11.5	8-11	7-12	7-12	7-12	8-11	6-11	4-9	8-13
– on organisations, growth as % over year	8.4	5-8	6-10	6-10	6-10	5-8	10-15	3-8	7-12
– on households, growth as % over year	22	17-20	11-16	10-15	10-15	17-20	-(5)-2	7-11	9-14

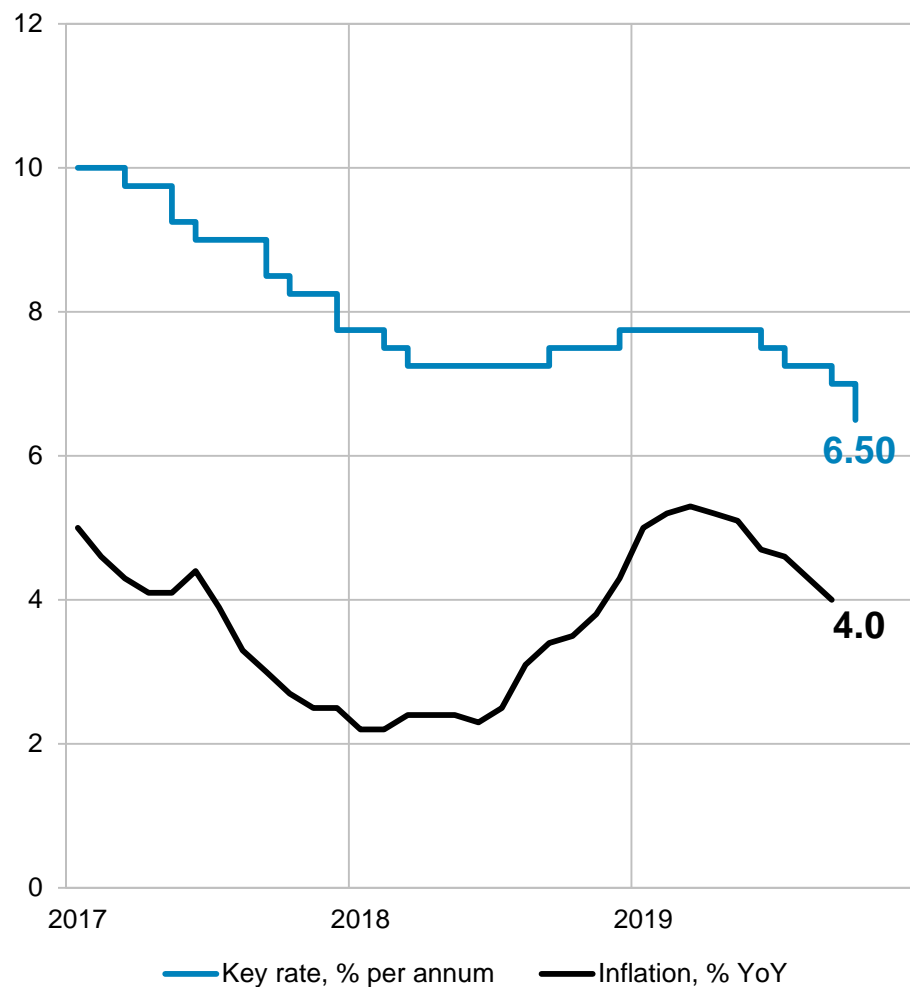
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## Bank of Russia forecast, October 2019 (4)

Russia's balance of payments indicators in the supplementary scenarios* (billions of US dollars)	2018 (actual)	HIGH OIL PRICES				RISK			
		2019	2020	2021	2022	2019	2020	2021	2022
<b>Current account</b>	<b>113</b>	<b>75</b>	<b>80</b>	<b>108</b>	<b>101</b>	<b>75</b>	<b>12</b>	<b>4</b>	<b>1</b>
Balance of trade	194	162	169	199	200	162	59	63	65
<i>Exports</i>	443	412	433	484	503	412	236	262	284
<i>Imports</i>	249	250	264	284	303	250	177	199	219
Balance of services	-30	-33	-36	-36	-42	-33	-15	-26	-32
<i>Exports</i>	65	63	66	74	75	63	58	60	63
<i>Imports</i>	95	97	102	110	118	97	73	86	94
Balance of primary and secondary income	-51	-53	-53	-55	-56	-53	-32	-33	-33
<b>Current and capital account balance</b>	<b>112</b>	<b>75</b>	<b>80</b>	<b>108</b>	<b>101</b>	<b>75</b>	<b>12</b>	<b>4</b>	<b>1</b>
<b>Financial account (excluding reserve assets)</b>	<b>77</b>	<b>14</b>	<b>18</b>	<b>24</b>	<b>29</b>	<b>14</b>	<b>50</b>	<b>30</b>	<b>16</b>
Government and the central bank	9	-23	-6	-6	-6	-23	10	0	0
Private sector	68	37	25	30	35	37	40	30	16
<b>Net errors and omissions</b>	<b>2</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>38</b>	<b>63</b>	<b>62</b>	<b>84</b>	<b>72</b>	<b>63</b>	<b>-38</b>	<b>-26</b>	<b>-15</b>

\* Using the methodology of the 6th edition of "Balance of Payments and International Investment Position Manual" (BPM6). In the Financial account "+" stands for net lending, "-" – for net borrowing. Due to rounding total results may differ from the sum of respective values.

## Monetary policy decision on 25 October 2019



On 25 October 2019, the Bank of Russia Board of Directors decided to **cut the key rate by 50 bp to 6.50% per annum**. Inflation slowdown is overshooting the forecast. Inflation expectations continue to decrease. The Russian economy's growth rate still remains subdued. Risks of a substantial global economic slowdown persist. **Disinflationary risks exceed pro-inflationary risks over the short-term horizon**. In these circumstances, the Bank of Russia has lowered its annual inflation forecast for 2019 from 4.0–4.5% to 3.2–3.7%. Given the monetary policy stance, **annual inflation will come in at 3.5–4.0% in 2020 and will remain close to 4% further on**.

If the situation develops in line with the baseline forecast, **the Bank of Russia will consider the necessity of further key rate reduction at one of the upcoming Board of Directors' meetings**. In its key rate decision-making, the Bank of Russia will take into account actual and expected inflation dynamics relative to the target and economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets.