



Bank of Russia

RUSSIA'S ECONOMIC
OUTLOOK AND
MONETARY POLICY

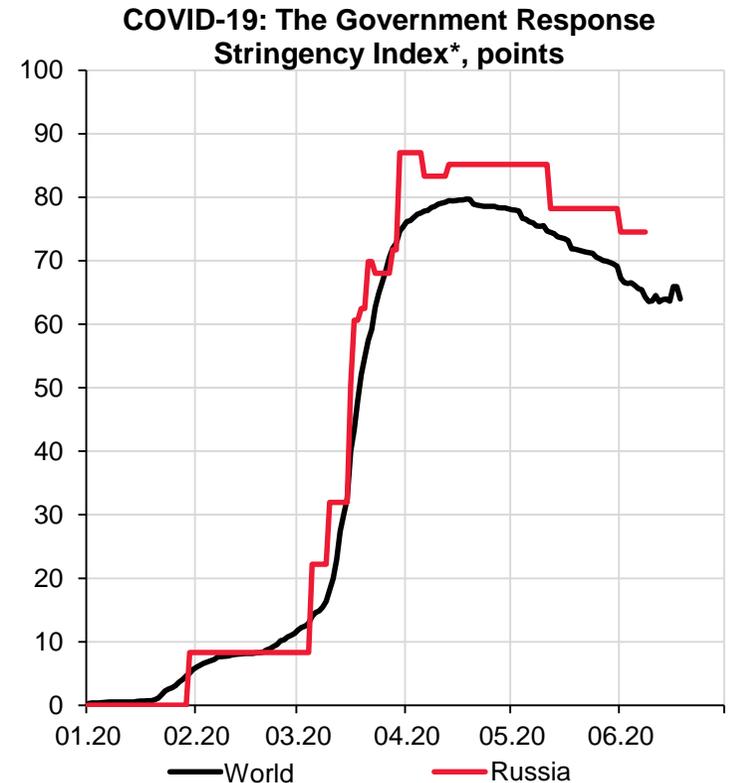
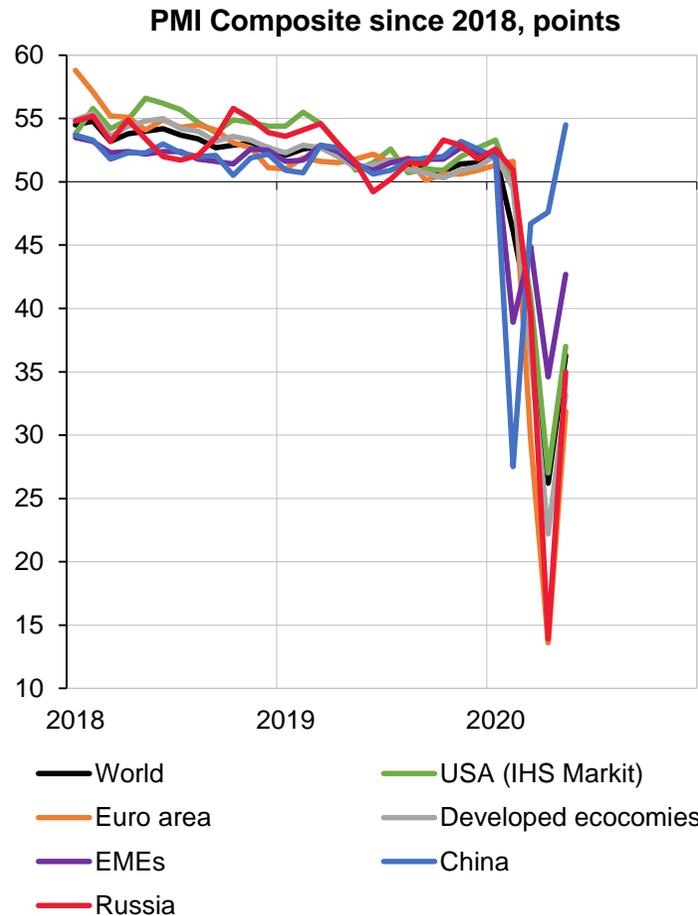
JUNE 2020



Global economy

Significant restrictive measures introduced across the world and in Russia to combat the COVID-19 pandemic continue to exert a negative impact on economic activity.

Uncertainty persists regarding further developments in the COVID-19 pandemic situation in Russia and globally, the scale of possible measures to fight it and their impact on economic activity, as well as the speed at which both the global and Russian economies will recover as restrictive measures are mitigated.



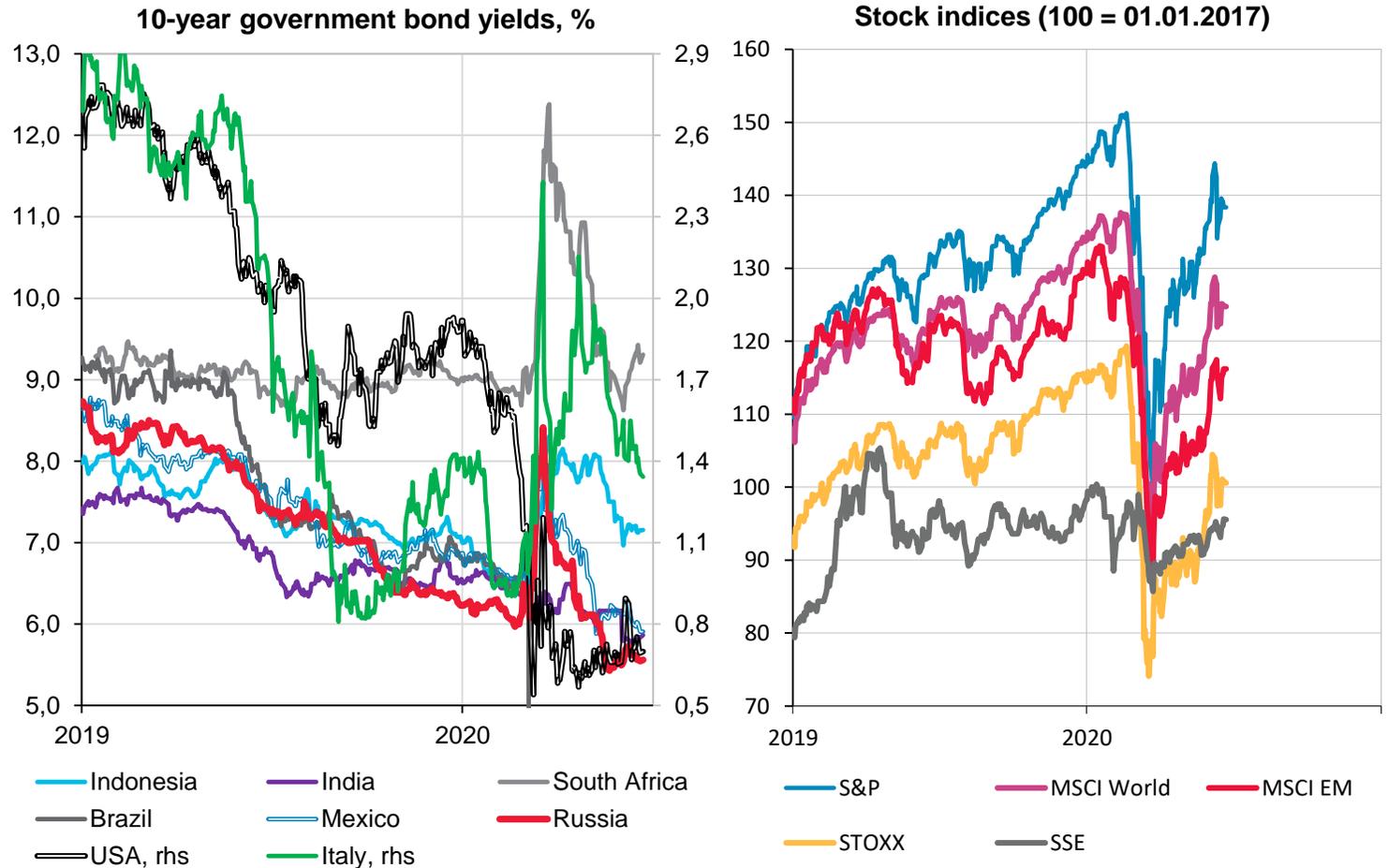
* The Government Response Stringency Index is a composite measure of restrictive measures introduced by governments around the world based on nine response indicators (workplace closures, school closures, travel bans etc.) and rescaled to a value from 0 to 100 (100 = strictest response).

Global financial and commodity markets (1)

The situation in global financial and commodity markets has improved compared to April.

This, in particular, is a result of decisive actions of governments and central banks around the world since March.

At the same time, fundamental indicators of the global economy continue to be weak.

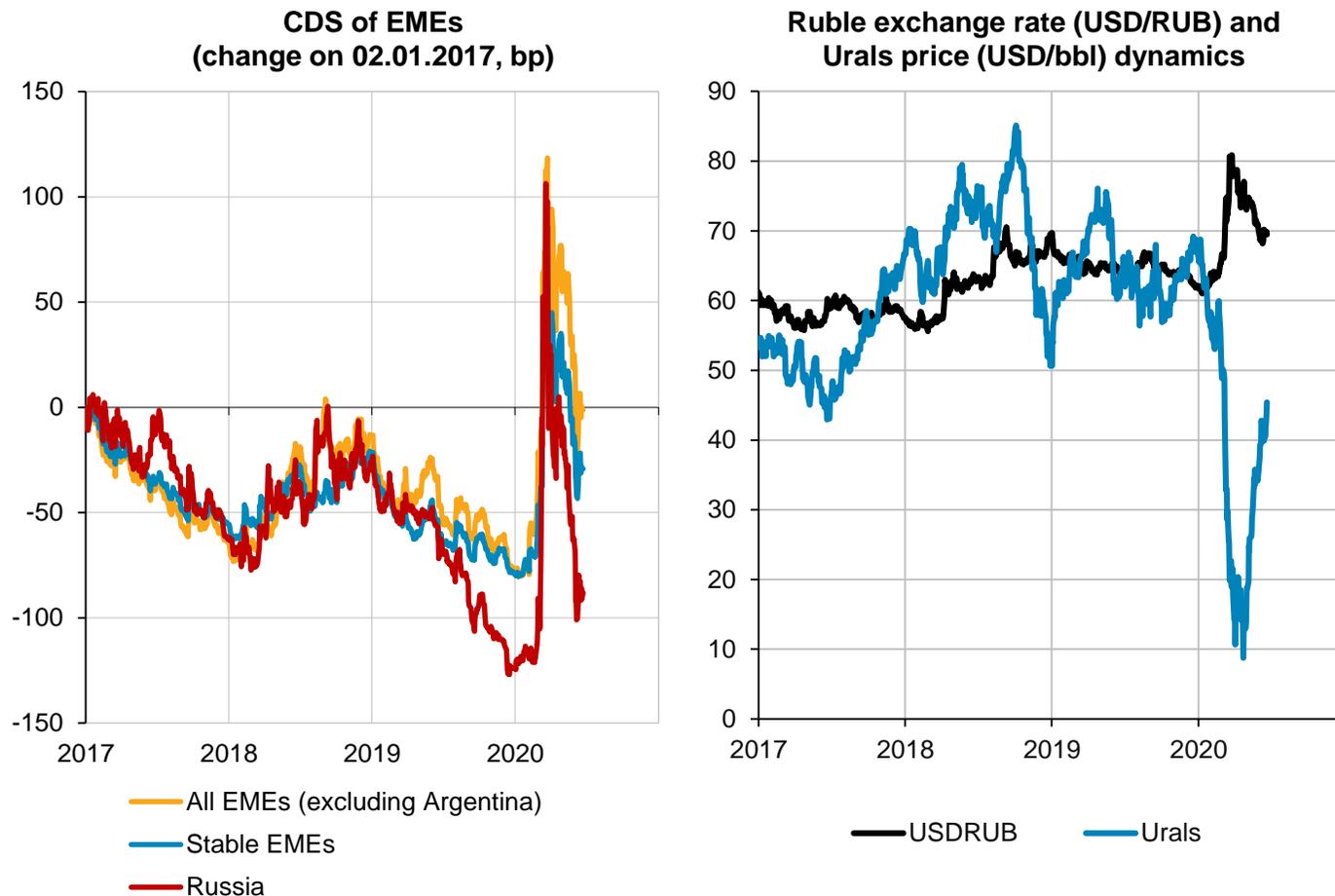


Global financial and commodity markets (2)

As a result of the normalization of the situation in the financial and commodity markets country risk premiums went down, including for Russia.

Oil prices gain support from the recovery of global oil demand amid the gradual easing of restrictive measures and from production cuts under the OPEC+ agreement.

In these circumstances, in May – early June the ruble appreciated.



Consumer prices

May,
YoY, % Δ, p.p.

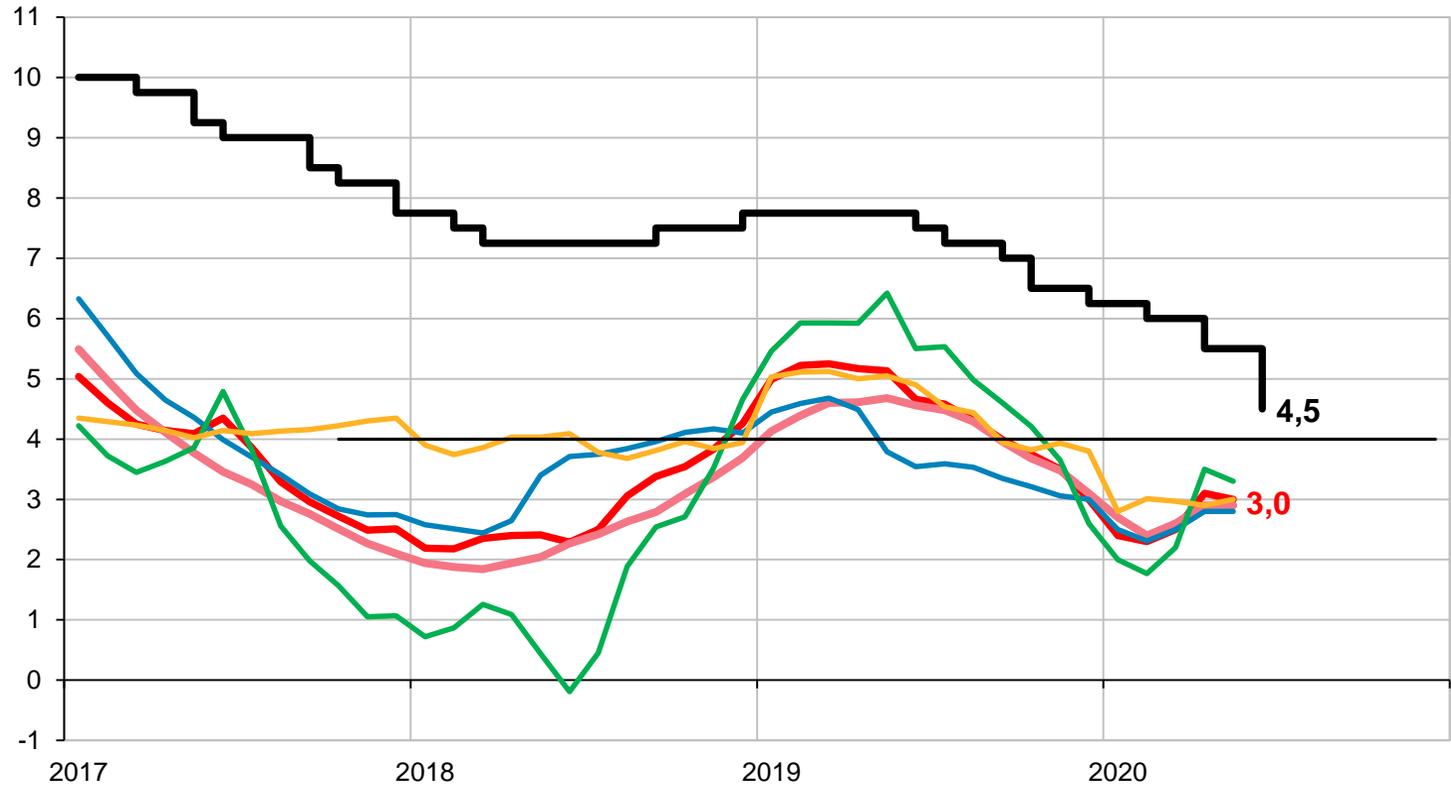
CPI, headline	3.0	-0.1
CPI, core	2.9	0.0

The disinflationary effect of weak demand strengthened, due to the current and postponed economic effects of restrictive measures.

In the context of prevailing disinflationary factors, there is a risk that in 2021 inflation might significantly deviate downwards from the 4% target.

The key rate decision taken by the Bank of Russia is aimed at limiting this risk and maintaining inflation close to 4%.

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



— Key rate — CPI, headline — CPI, core — Non-food goods — Food goods — Services

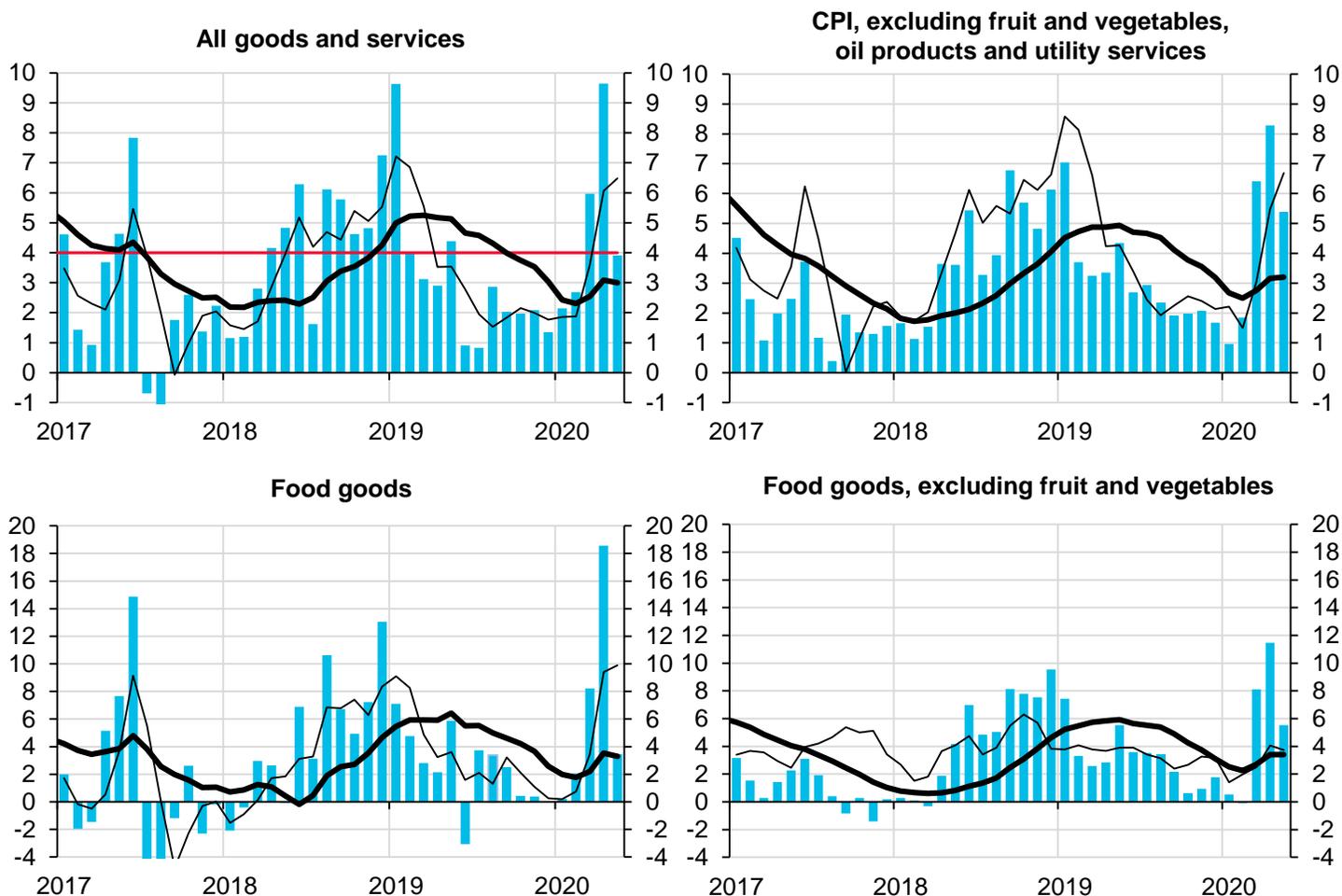
Inflation rates for main groups, seasonally adjusted (1)

May 2020, %	YoY	MoM SAAR
All	3.0	3.9
- ex. F&V, oil prod. and util.	3.2	5.4
Food	3.3	3.5
- ex. F&V	3.4	5.5

The effect of short-term pro-inflationary factors has been exhausted.

Monthly inflation in annual terms in May slowed down significantly compared to April and will continue to decline.

At the same time, annual inflation rate will rise in 2020 owing to the low base effect of 2019.

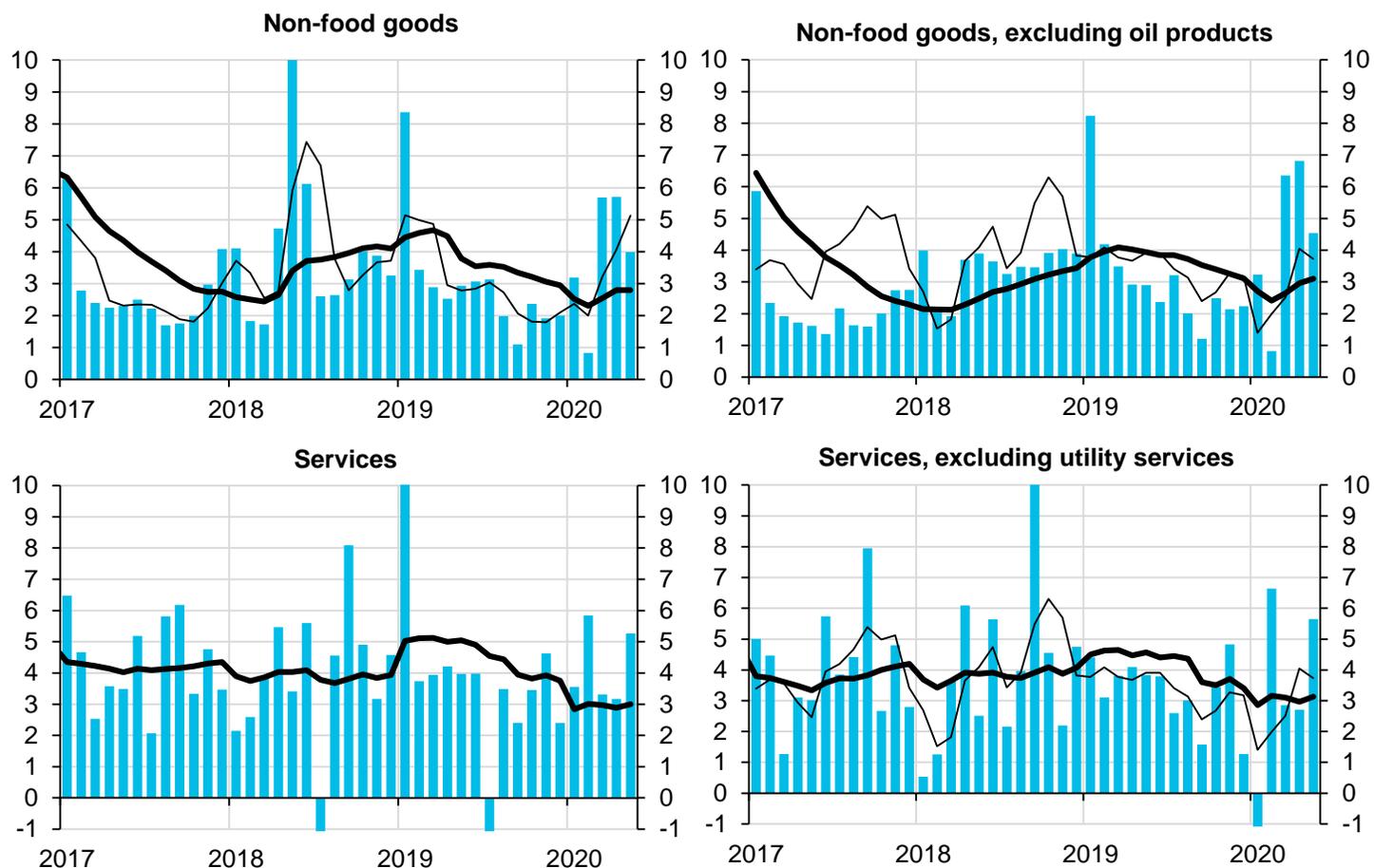


Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR
Red line – 4% SAAR

Inflation rates for main groups, seasonally adjusted (2)

May 2020, %	YoY	MoM SAAR
Non-food	2.8	3.9
- ex. petrol	3.1	4.5
Services	3.0	5.2
- ex. utilities	3.1	5.7

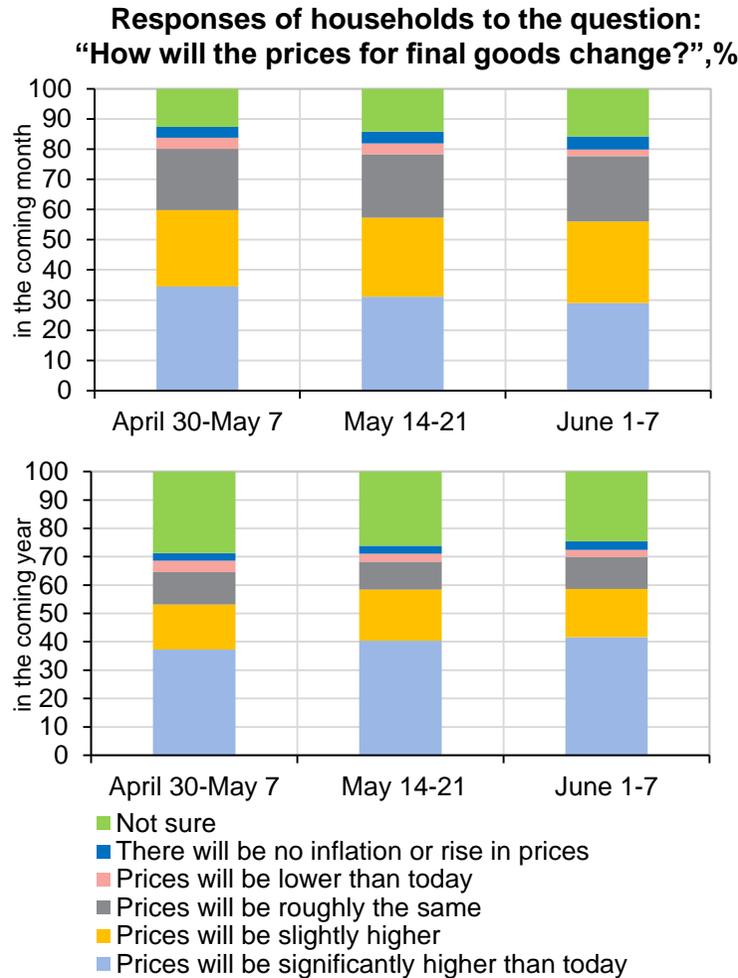
In the coming months, consumer price dynamics will be additionally contained by the strengthening of the ruble observed in May — early June.



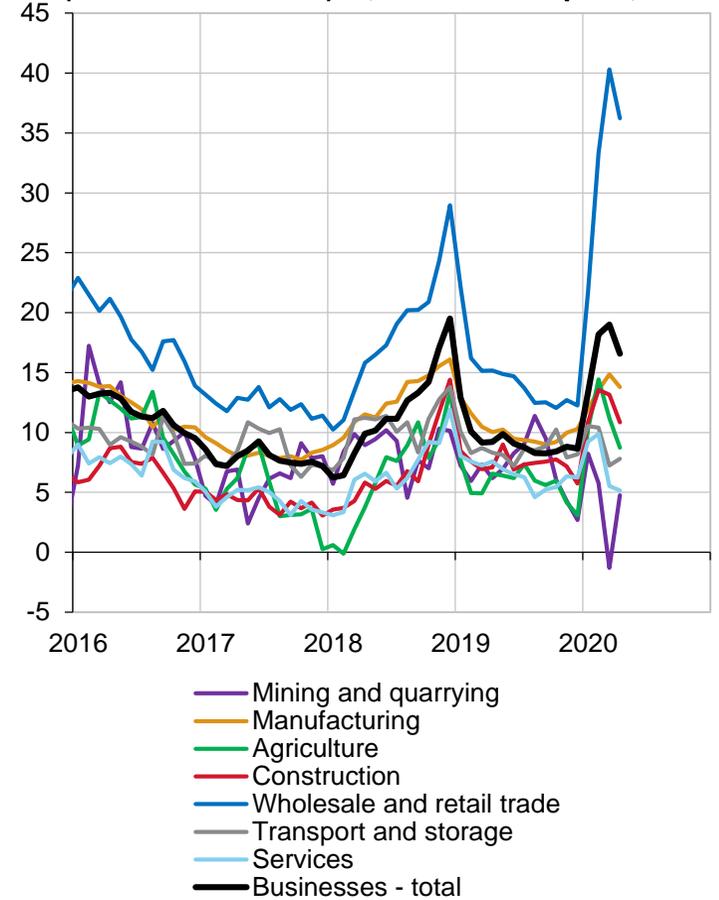
Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR

Inflation expectations

Short-term inflation expectations of households and price expectations of businesses have abated after a temporary growth in March-April.



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



Economic activity surveys (1)

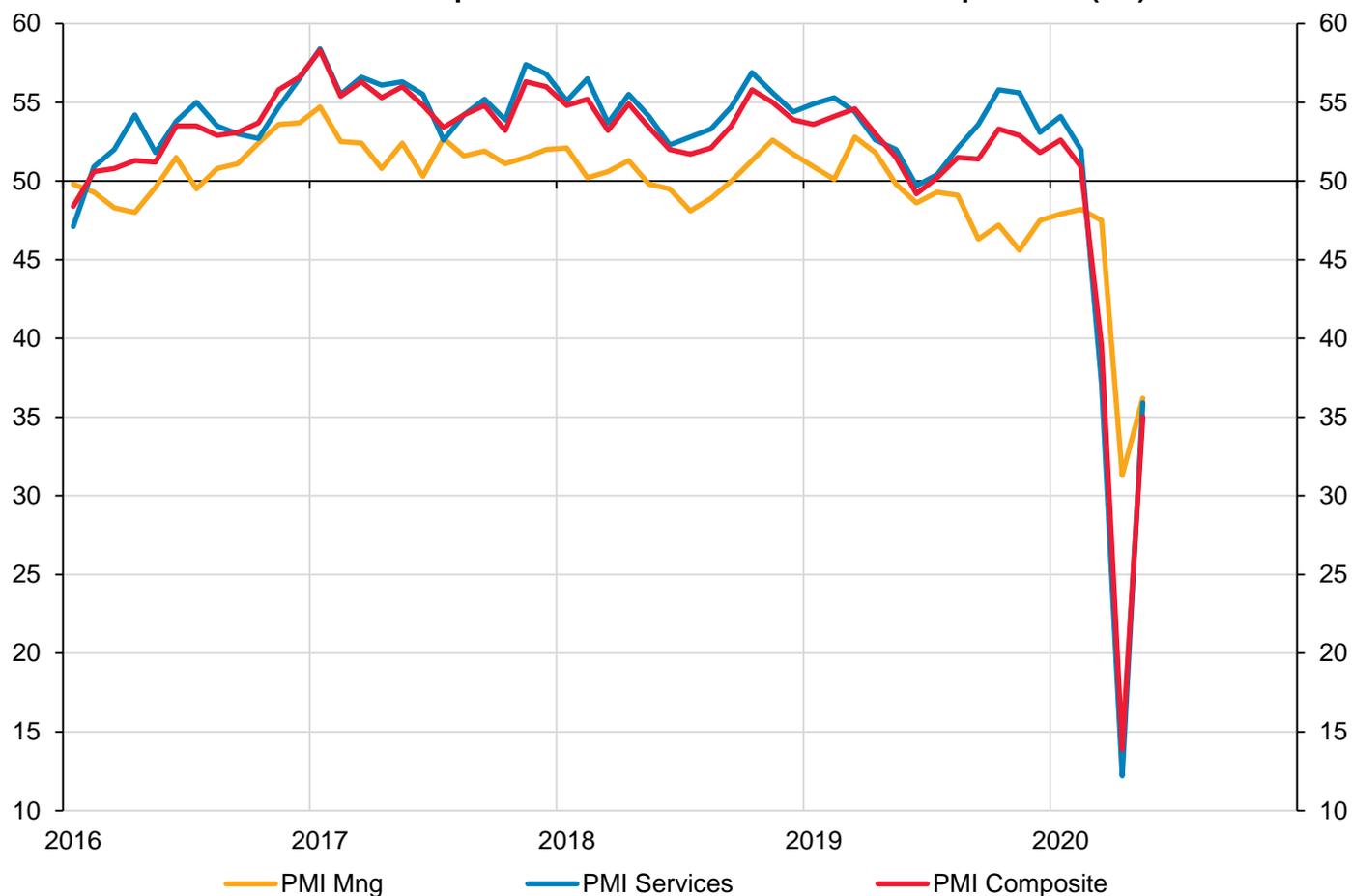
	May	Apr	Δ, п.
PMI Mng	36.2	31.3	4.9
PMI Services	35.9	12.2	23.7
PMI Composite	35.0	13.9	21.1

In May, up-to-date indicators showed signs of a partial recovery in economic activity.

This was driven by the progressive easing of the restrictions in the majority of Russian regions.

At the same time, the duration of restrictive measures was more prolonged than the Bank of Russia expected in April.

PMI Russia: Companies' estimates of demand for their products (SA)

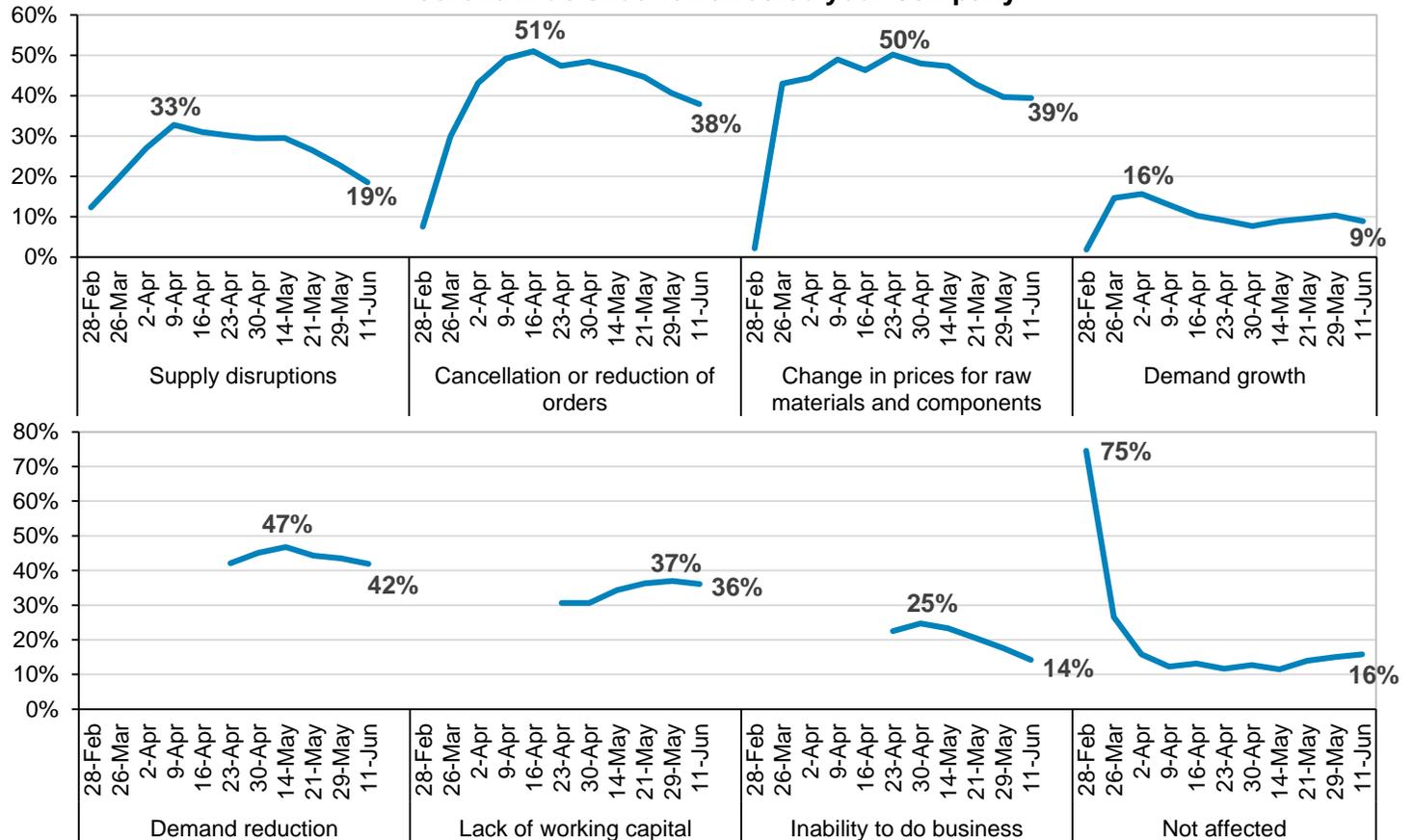


Economic activity surveys (2)

Some of the previously enforced restrictive measures remain in place. Alongside a considerable drop in external demand, the negative pressure this is exerting on economic activity is more extended than the Bank of Russia assumed in April.

Recent business surveys invariably reflect cautious sentiment.

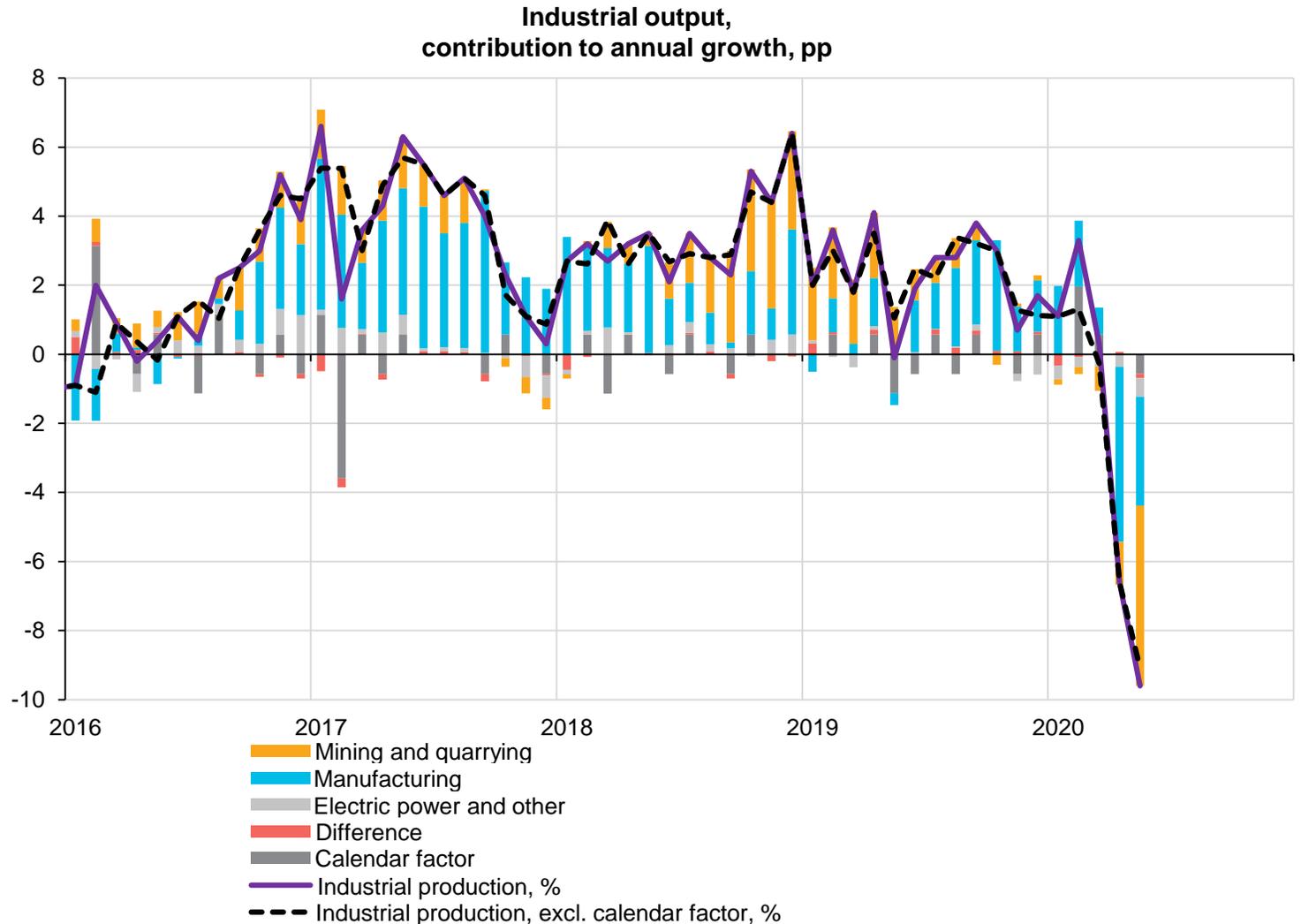
Replies of businesses to the question: «How has the coronavirus situation affected your company?»



Industrial production

All output components contributed to a decline of industrial production in April-May.

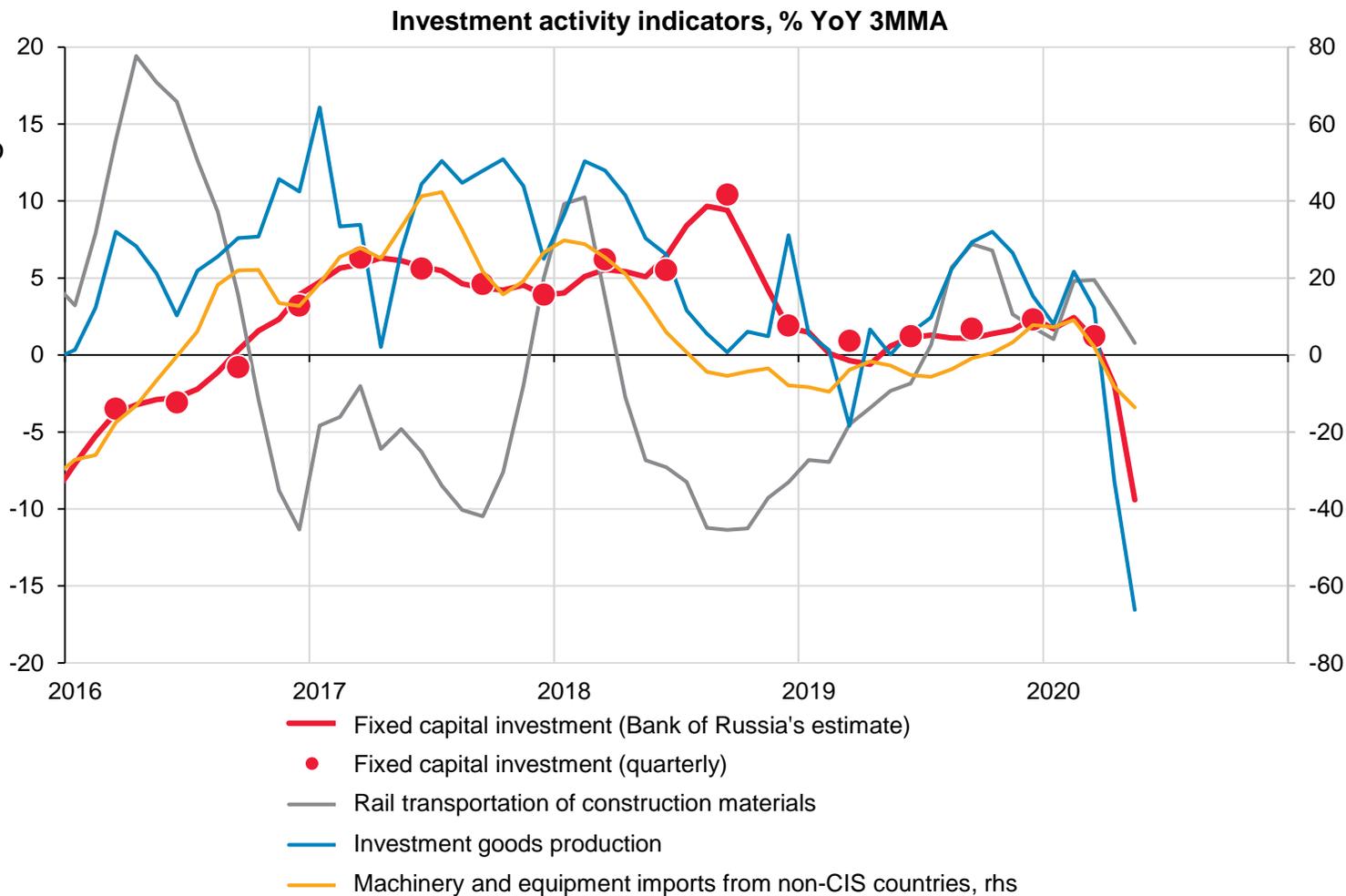
Meanwhile, in May the main contribution to the decline was made by mining and quarrying, which, among other things, is caused by the OPEC+ agreement.



Investment activity

In May, investment activity dropped, despite the recovery of some indirect indicators, which is related to the inertia of a deep fall in April.

Compared to April, investment imports, rail transportation of construction materials and production of investment goods demonstrated some rebound.

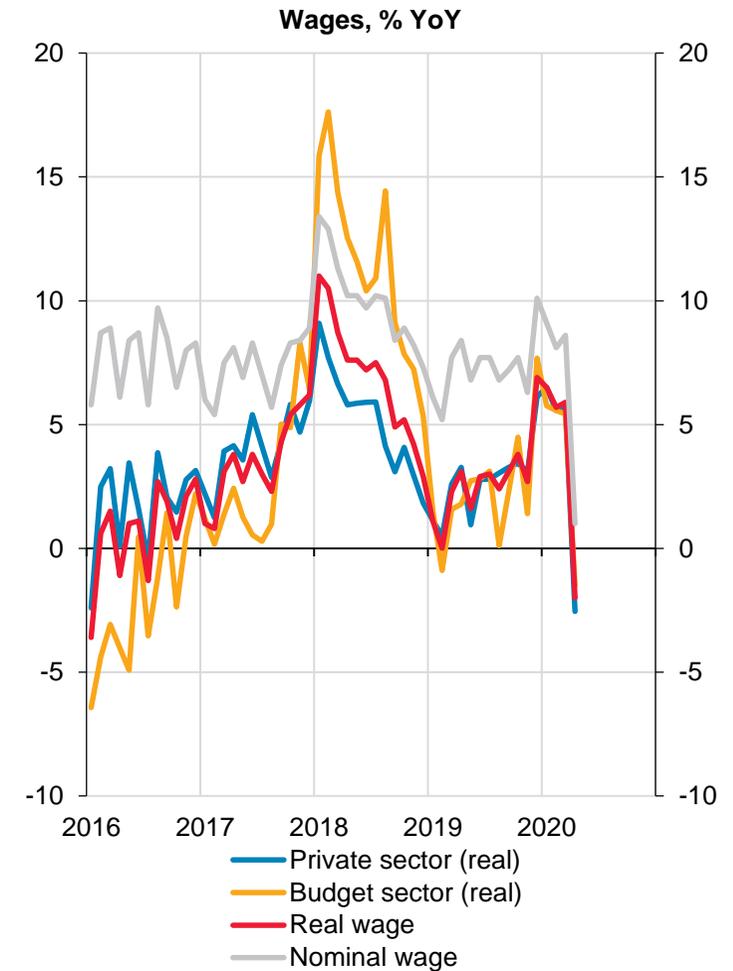
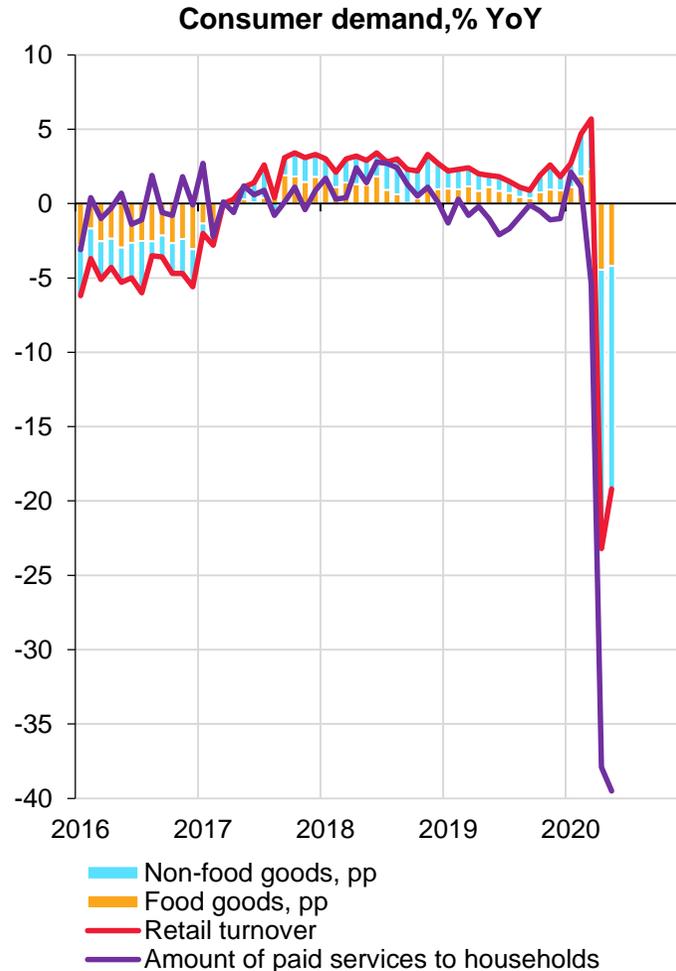


Consumer demand and household incomes

Under the restrictive measures being in place, retail trade turnover and the volume of paid services to households showed a record decline.

The drop in household incomes was an additional negative factor.

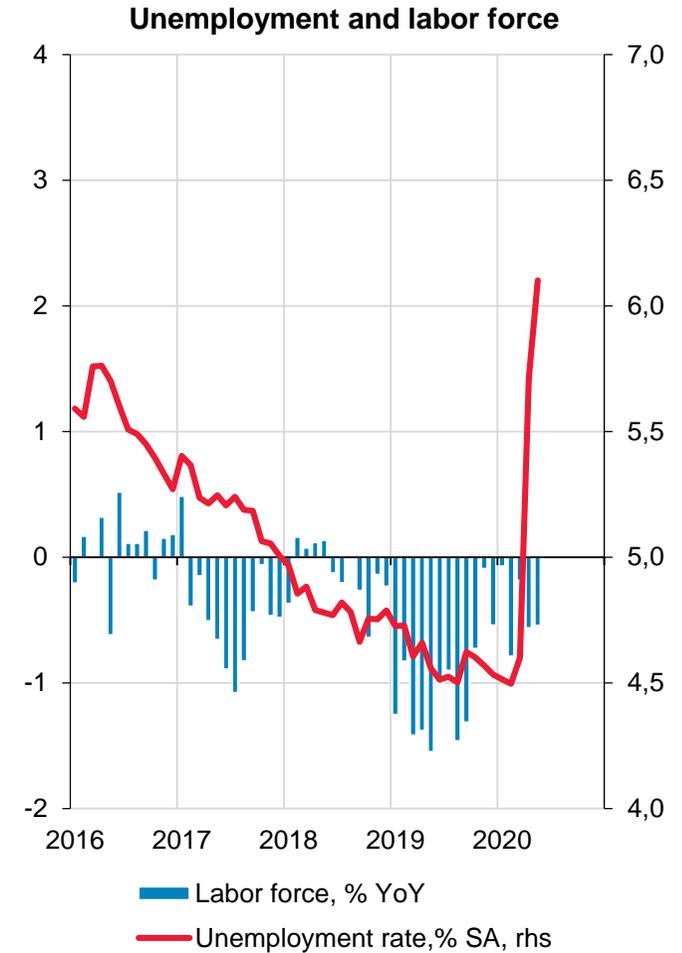
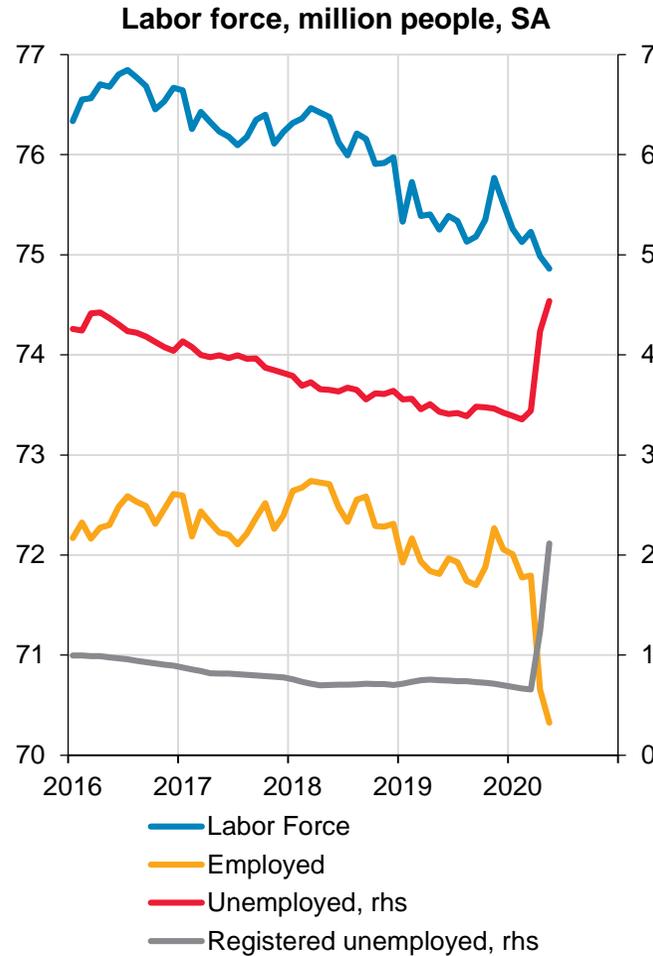
At the same time, refocusing on online sales provided some support for retailers.



Labor market

Mln people, SA	May	Apr	Δ
Lab. force	74.9	75.0	-0.1
Employed	70.3	70.7	-0.3
Unemployed	4.5	4.2	0.3
Reg. unempl.	2.1	1.2	0.9

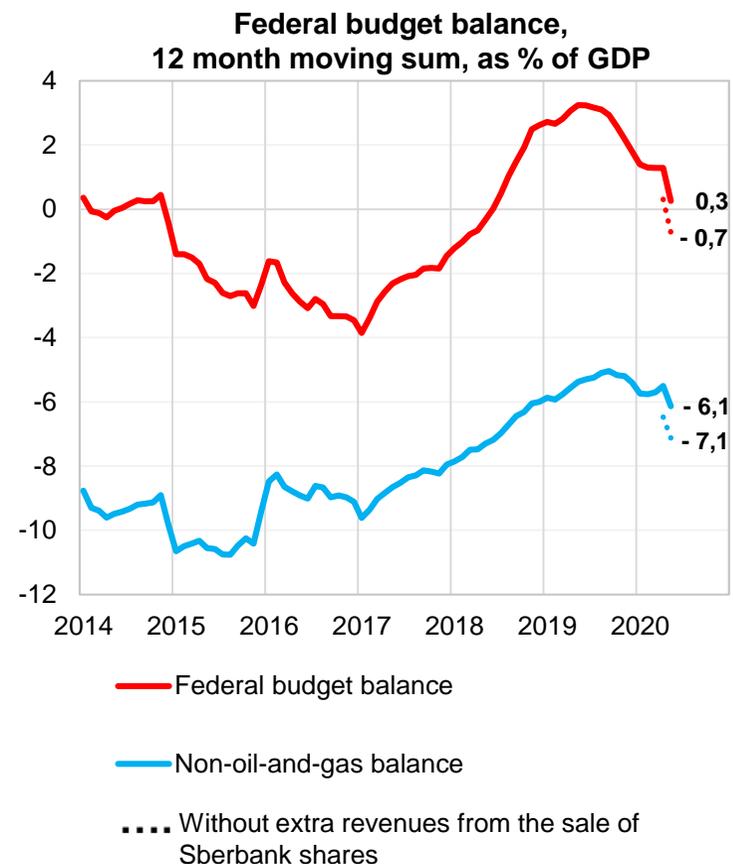
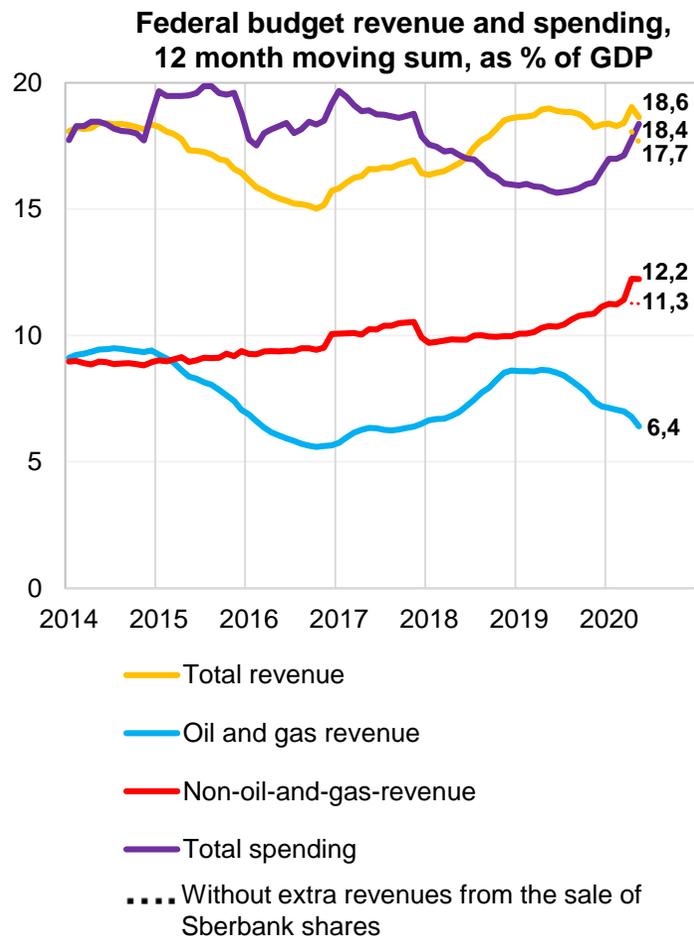
Unemployment increased in April-May due to a drop in employers' labor demand amid the non-working day regime.



Fiscal policy

The Russian economy is gaining support from the Government's additional measures aimed at mitigating the economic effects of the COVID-19 pandemic. In these conditions, despite a more prolonged duration of restrictive measures, GDP will decrease by 4-6% in 2020, which corresponds to the April forecast of the Bank of Russia.

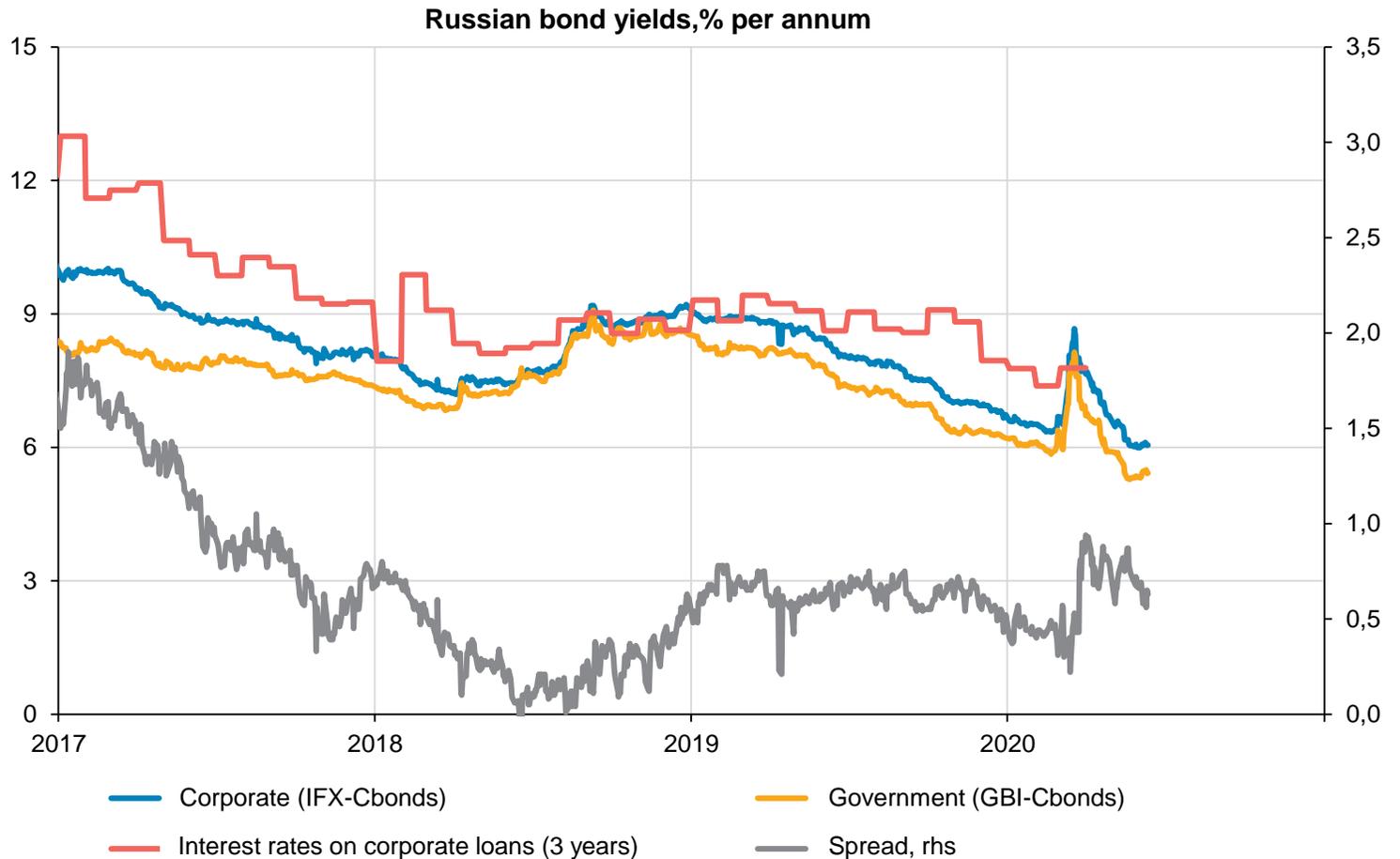
Fiscal policy parameters will significantly affect the medium-term dynamics of inflation. This applies both to the scale and efficiency of the Government's measures towards mitigating the consequences of the COVID-19 pandemic and overcoming structural constraints, as well as to the speed of the 2021-2022 budget consolidation.



OFZ and corporate bond yields

Monetary conditions slightly eased in May-June after some tightening in March-April.

OFZ and corporate bond yields dropped below the levels observed at the beginning of the year, including owing to the current monetary policy stance.



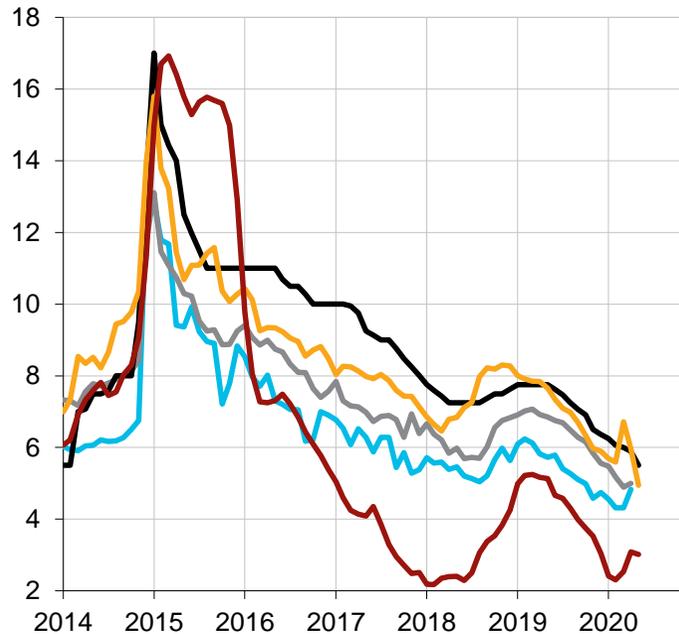
Deposit and credit market – interest rates

Banks are gradually returning to lowering deposit rates amid monetary policy easing and a drop in the yields of market financial instruments.

The dynamics of lending rates is heterogeneous. The inertia of rates is noted in segments associated with a higher level of risk, while in segments receiving state support, lending rates are decreasing. In particular, mortgage rates are going down.

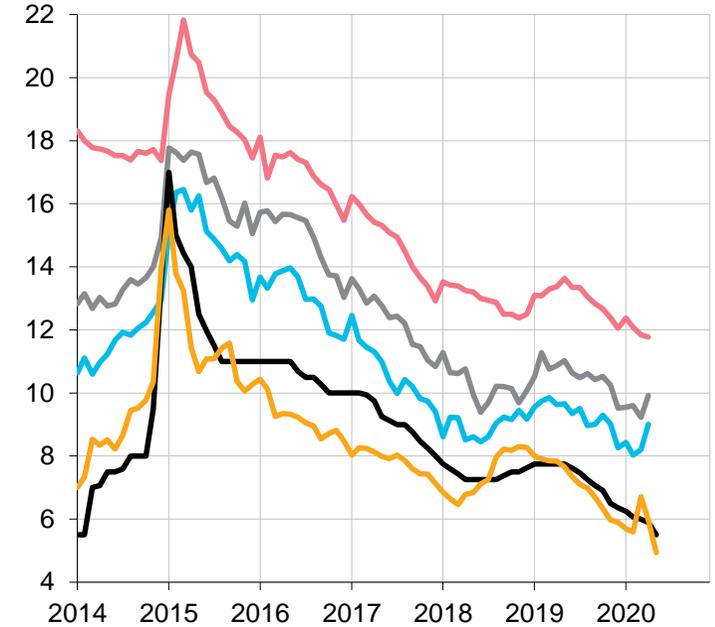
The Bank of Russia's decisions to cut the key rate and a drop in OFZ yields pave the way for reduction of interest rates in other financial market segments.

Interest rates on household ruble deposits, % per annum



- Short-term household deposits
- Long-term household deposits
- Key rate
- 3Y OFZ yield
- CPI, % YoY

Interest rates on long-term loans in rubles to the non-financial sector, % per annum

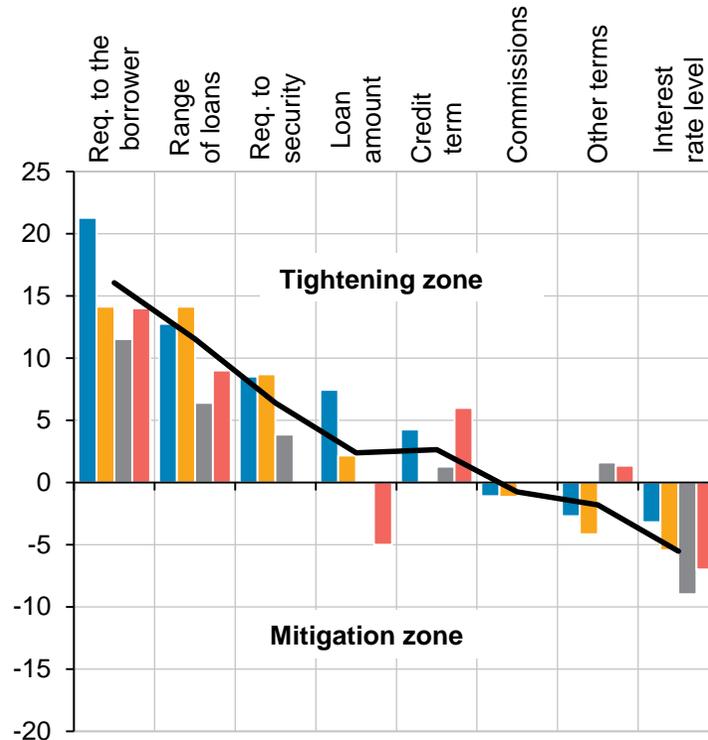


- Loans to non-financial organisations
- Loans to small and medium businesses
- Loans to households
- Key rate
- 3Y OFZ yield

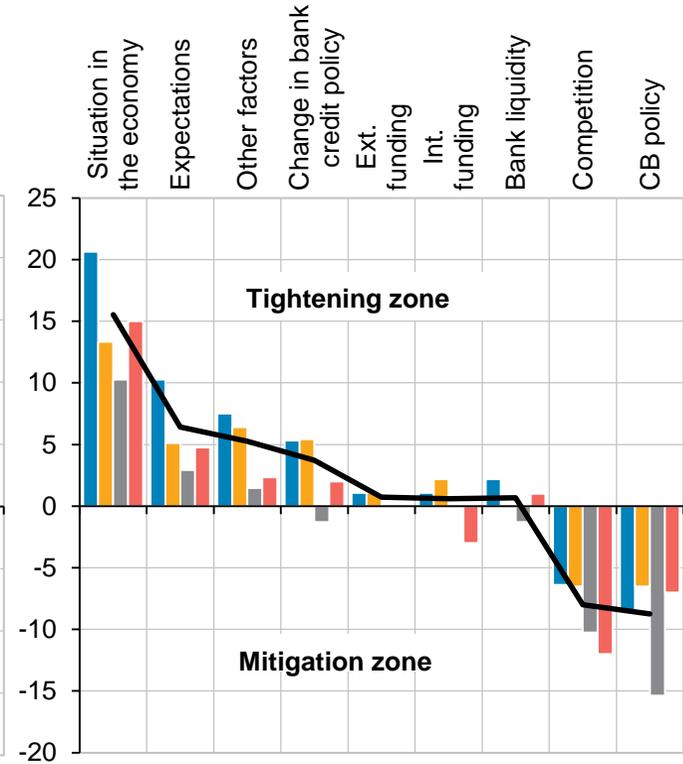
Bank lending conditions

The increased credit risks in the real sector lead to a tightening of non-price lending conditions in certain market segments.

Indices of changes in individual lending conditions in Q1 2020 (pp)



The influence of certain factors on changes in lending conditions in Q1 2020 (pp)

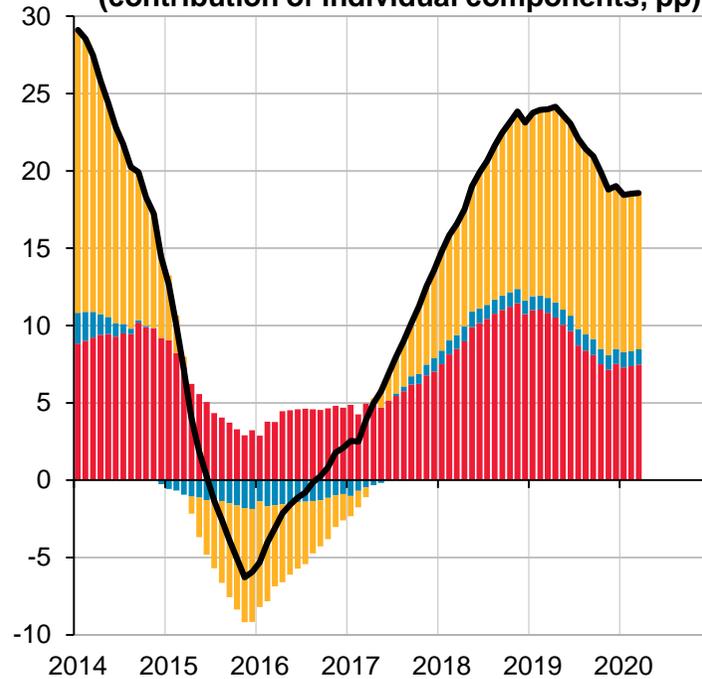


■ Large enterprises ■ Small and medium enterprises ■ Mortgage loans
■ Consumer loans — All categories of borrowers

Deposit and credit market – lending

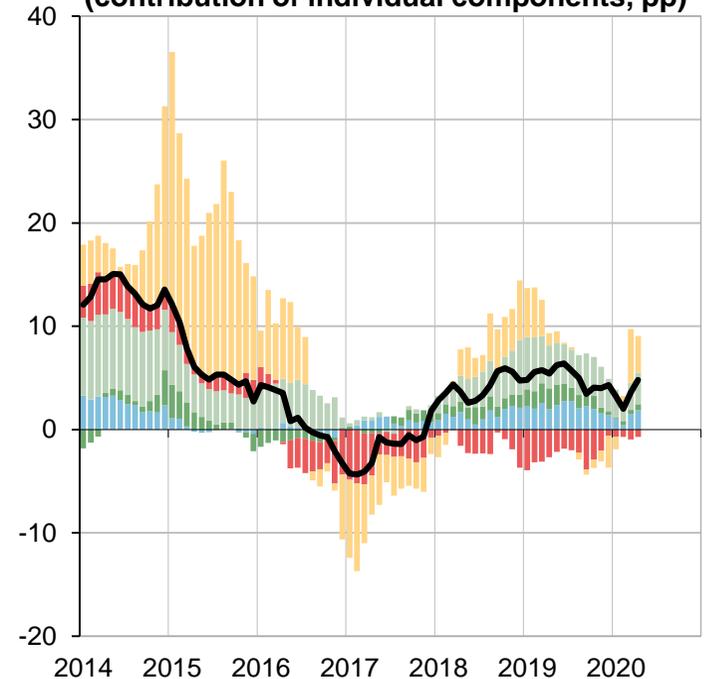
The Government's measures and the Bank of Russia's decisions to cut the key rate, alongside with other Bank of Russia's measures, will support lending in the most vulnerable sectors of the economy.

Annual growth of retail loan portfolio (contribution of individual components, pp)



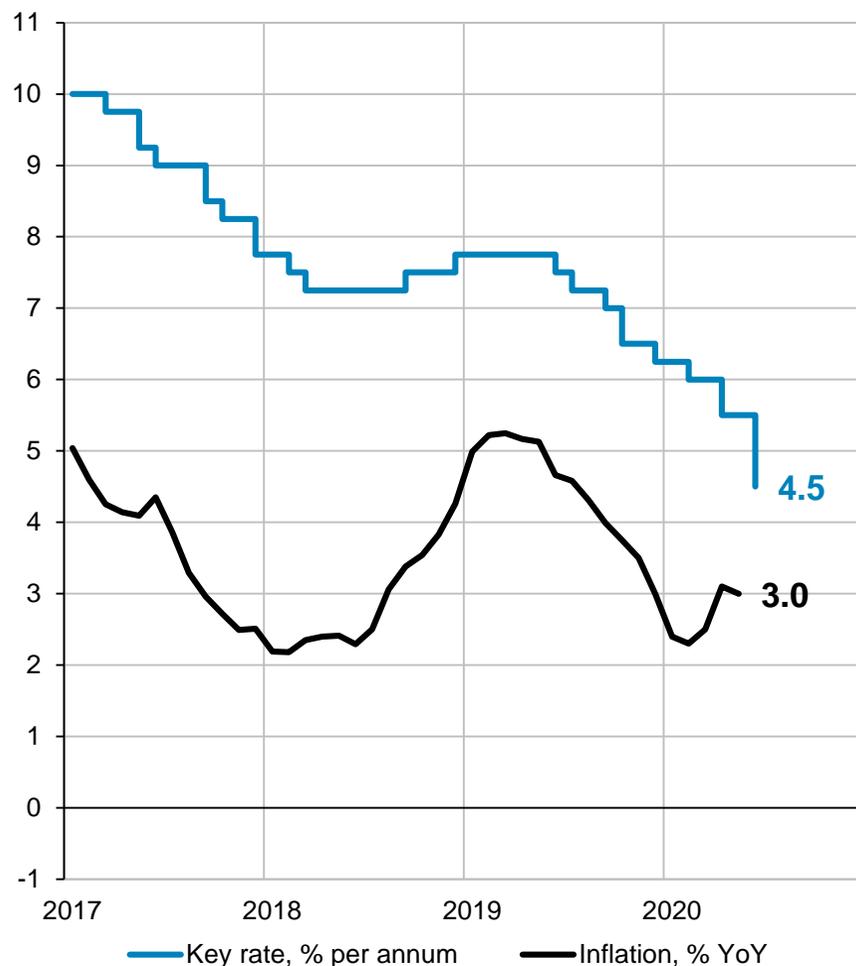
- Consumer loans
- Car loans
- Mortgage loans
- Total retail portfolio growth, %

Annual growth of corporate loan portfolio (contribution of individual components, pp)



- Revaluation of foreign currency loans
- Foreign currency loans
- Ruble loans (over 3 years)
- Ruble loans (1 to 3 years)
- Ruble loans (up to 1 year)
- Total growth, % AFCR

Monetary policy decision on 19 June 2020



On 19 June 2020, the Bank of Russia **decided to cut the key rate by 100 bp to 4.50% per annum. Disinflationary factors have been more profound than expected** due to a longer duration of restrictive measures in Russia and across the world. **The effect of short-term pro-inflationary factors has been largely exhausted.** Financial stability risks related to the situation in global financial markets have declined. Household and business inflation expectations have abated. In these circumstances, **there is a risk that in 2021 inflation might significantly deviate downwards from the 4% target. The key rate decision taken by the Bank of Russia is aimed at limiting this risk and maintaining inflation close to 4%.**

If the situation develops in line with the baseline forecast, **the Bank of Russia will consider the necessity of further key rate reduction at its upcoming 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.