



COMMENTARY ON THE BANK OF RUSSIA'S MEDIUM-TERM FORECAST

The document presents the commentary on the medium-term macroeconomic forecast published following the key rate meeting of the Bank of Russia Board of Directors held on 26 July 2024.

The data cut-off date for the forecast calculations is 25 July 2024.

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THE BANK OF RUSSIA'S MEDIUM-TERM FORECAST FOLLOWING THE BOARD OF DIRECTORS' KEY RATE MEETING ON 26 JULY 2024

KEY FORECAST PARAMETERS OF BANK OF RUSSIA'S BASELINE SCENARIO
(Growth, % YoY, unless indicated otherwise)

Table 1

	2023 (actual)	2024	2025	2026	2027
Inflation, % in December YoY	7.4	6.5–7.0	4.0–4.5	4.0	4.0
Inflation, yearly average, % YoY	5.9	7.8–8.0	4.2–5.8	4.0	4.0
Key rate, yearly average, % per annum	9.9	16.9–17.4 ¹	14.0–16.0	10.0–11.0	7.5–8.5
Gross domestic product	3.6	3.5–4.0	0.5–1.5	1.0–2.0	1.5–2.5
– % change in Q4 YoY	4.9	2.0–3.0	0.5–1.5	1.0–2.0	1.5–2.5
Final consumption expenditure	6.6	3.0–4.0	0.0–1.0	1.0–2.0	1.5–2.5
– households	6.5	4.0–5.0	0.0–1.0	1.0–2.0	1.5–2.5
Gross capital formation	15.8	4.5–6.5	0.0–2.0	0.5–2.5	1.0–3.0
– gross fixed capital formation	8.8	7.0–9.0	0.0–2.0	0.5–2.5	1.0–3.0
Exports	– ²	(–2.0)–(0.0)	1.5–3.5	1.0–3.0	1.0–3.0
Imports	– ²	(–3.0)–(–1.0)	1.0–3.0	1.0–3.0	1.0–3.0
Money supply in national definition	19.4	12–17	5–10	6–11	6–11
Banking system's claims on economy in rubles and foreign currency ³	22.7	10–15	7–12	7–12	8–13
– on organisations	22.6	10–15	7–12	7–12	8–13
– on households, including housing mortgage loans	23.0	10–15	6–11	7–12	8–13
	30.1	7–12	8–13	10–15	10–15

¹ Given that the average key rate is 16.0% from 1 January through 28 July 2024 and is forecast to range from 18.0% to 19.4% from 29 July through 31 December 2024. The format of the key rate forecast is further detailed in the [methodological note](#).

² The 2023 statistics on the share of the exports and imports expenditure item in GDP have not yet been released by Rosstat.

³ The banking system's claims on the economy mean all the claims of the banking system on non-financial organisations, financial institutions, and households in rubles, foreign currency, and precious metals, including loans issued (inclusive of 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 organisations and financial institutions, and other receivables from settlements with non-financial organisations, financial institutions, and households.

Claims' growth rates are given adjusted for 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 into rubles at a period average USD/RUB exchange rate. Housing mortgage loans are net of claims acquired by banks.

Source: Bank of Russia.

RUSSIA'S BALANCE OF PAYMENTS INDICATORS IN BASELINE SCENARIO¹
(\$ bn, unless indicated otherwise)

Table 2

	2023 (actual)	2024	2025	2026	2027
Current account	50	72	57	45	33
Goods	122	135	120	111	102
Exports	424	426	427	429	434
Imports	303	291	307	318	331
Services	–35	–31	–32	–34	–35
Exports	41	43	44	45	46
Imports	76	74	75	78	81
Primary and secondary income balance	–36	–31	–32	–33	–34
Current and capital account balance	49	72	57	45	33
Financial account balance, excluding reserve assets	52	84	56	34	29
Net incurrence of liabilities	–9	–11	3	9	8
Net acquisition of financial assets, excluding reserve assets	43	73	59	42	37
Net errors and omissions	–7	–1	0	0	0
Change in reserve assets	–10	–13	0	11	4
Brent oil price, yearly average, \$ per barrel	82	85	80	75	70

¹ Using the methodology of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). In the financial account, '+' stands for net lending and '–' denotes net borrowing. Due to rounding, total results may differ from the sum of respective values.

Source: Bank of Russia.

MAIN CHANGES IN THE FORECAST

Relative to the forecast presented following the key rate meeting on 26 April 2024, the forecast has been changed as follows:

- **Key rate.** The forecast of the average key rate has been raised to 16.9–17.4% for 2024 and by 4 percentage points (pp) to 14.0–16.0% and 10.0–11.0% for 2025 and 2026, respectively. The revision is associated with the response of monetary policy to more persistent inflationary pressures in the economy, as there remains a considerable deviation of the Russian economy upwards from a balanced growth path. Disinflationary processes may re-emerge in the economy provided tighter monetary conditions remain in place longer than expected before. The key rate is projected to return to an updated neutral range of 7.5–8.5% no sooner than in 2027.
- **GDP.** The 2024 forecast of real GDP growth has been revised up to 3.5–4.0%. This largely reflects new statistics on economic activity in 2024 H1 and high-frequency data as of the beginning of 2024 Q3. Moreover, tighter monetary conditions are expected to impact economic activity over the forecast period. Specifically, the real GDP growth projection has been reduced by 0.5 pp to 0.5–1.5% for 2025 and to 1.0–2.0% for 2026. The economy is predicted to return sustainably to a balanced growth path no sooner than in 2027.
 - **Household final consumption expenditure.** The Bank of Russia has raised its 2024 forecast of household consumption growth by 1.5 pp to 4.0–5.0%. Consumer activity was higher in 2024 H1 than predicted earlier. The expansion of people's incomes was strong enough to drive growth in both savings and consumption. The continuing tightness in monetary conditions over 2025–2026 will ensure a high saving ratio, which will make consumption growth slow down and return to a balanced growth path by the end of the forecast horizon.
 - **Gross capital formation.** The 2024 forecast of the increase in gross capital formation has been raised by 1.5 pp to 4.5–6.5%. The projected growth rate of gross fixed capital formation has been revised up by 4 pp to 7.0–9.0%. The reason is strong 2024 Q1 statistics and continuing growth in investment activity, albeit slower than in 2024 Q2. Investment is largely supported by the public sector and strong corporate performance, whereas tight monetary conditions moderate growth in private investment.
 - **Exports.** Export quantities are expected to be lower than predicted earlier due to higher sanction pressures and restricted exports to individual commodity markets. However, export quantities of goods and services are expected to recover in the future, as has been projected in the April forecast, backed by the expansion of external demand and the arrangement of new export routes.
 - **Imports.** The 2024 forecast of growth in imports has been reduced significantly by 4 pp to (-3.0)–(-1.0) % owing to tougher sanctions on payments and logistics. However, the regulator expects these constraints to be temporary, with the gradual expansion of goods and services imports resuming between 2025 and 2027.
- **Oil prices.** The 2026 forecast of global Brent crude prices has been raised by \$5 to \$75 per barrel. The reason is the anticipated growth in the world economy and the OPEC+ decisions made earlier. The forecasts for the other years have been left unchanged.
- **Balance of payments.** The forecast of the current account surplus has been raised due to a reduction in the import projection. The current account forecast has been also impacted by a lower projection of the primary and secondary income balance due to its steeper-than-expected decline in the first half of

the year caused by a drop in investment income payable to non-residents, since their equity interests in Russian companies and banks have been shrinking.

- **Monetary indicators.** The 2024 forecast of growth in claims on the economy and money supply has been raised. Borrower demand for loans is supported by stronger-than-predicted investment and consumer activity and a further rise in people's income.
- **Inflation.** The 2024 inflation forecast has been raised to 6.5–7.0%. The revision is associated with greater inflationary pressures amid the active expansion of domestic demand surpassing the capacities to ramp up the supply of goods and services. The measures taken by the Bank of Russia will curb price growth. Its rate is predicted to decrease from the 2024 H1 figures as early as in 2024 H2, with inflation dropping to 4.0–4.5% in 2025 and staying around 4% further on.

KEY ASSUMPTIONS

The Bank of Russia's forecast is based on the assumptions about medium- and long-term trends in the Russian and world economies that have a significant effect on the conditions of the monetary policy implementation.

- **World economy.** Between 2024 and 2026, the world economy will be expanding at a slightly slower rate than the historical average.¹ The fragmentation of the world economy will continue. Inflationary pressures will go on easing gradually worldwide, with central banks cutting their policy rates to neutral levels.
- **Export prices.** Moderate growth rates of the world economy will be containing prices in global commodity markets. The extension of the OPEC+ production cuts, coupled with persisting geopolitical tensions, will prop up crude prices in the short term. However, the Brent crude price will decline by the end of the forecast horizon as the OPEC production quotas will be gradually lifted.

The export price for Russian crude will coevolve with the Brent price. Its specific levels will depend on the weighted average price for Russian crude grades and the size of its discount to Brent. Prices for Russia's non-commodity exports will be rising moderately over the medium-term horizon in line with global inflation trends.

- **Geopolitical conditions.** The calculations for the baseline scenario rely on the assumption that the geopolitical environment will remain unchanged for the Russian economy until the end of the forecast horizon. All the enacted external restrictions on Russian exports, imports, and investment and technology cooperation will stay in effect over the medium-term horizon. The possibility of introduction of new sanctions or tightening of the existing ones is regarded as a risk to the baseline scenario.
- **Potential output.** The external trade and financial restrictions, as well the demographic trends may considerably constrain the expansion of the Russian economy's potential. The baseline scenario, however, assumes that the domestic economy will continue to adjust to the sanction pressures over the medium-term horizon. The import substitution process is expected to encourage a considerable increase in investment in the country's economy compared to 2021, implementation of new production methods, development of new logistics routes, establishment of new business relations, and expansion of sales markets. The use of new production methods and the saving of material resources and labour time

¹ The yearly average over 2000–2019 was 3.8% (according to the IMF).

will trigger growth in total factor productivity, i.e. output per unit of input. Productivity growth boosts economic development and pushes down relative producer costs. The heavy investment in recent years and the adaptation of the Russian economy to the external restrictions suggest stronger GDP growth between 2024 and 2025 than earlier predicted by the Bank of Russia. Nevertheless, given the confluence of factors, the Bank of Russia still estimates the long-term GDP growth at 1.5–2.5%.

- **Fiscal policy.** The fiscal assumptions in the baseline scenario rely on the Guidelines for Fiscal, Tax, and Customs and Tariff Policy for 2024 and the 2025–2026 Planning Period, and amendments to law on the federal budget for 2024, taking into account the macroeconomic parameters of the Bank of Russia's forecast. The Government is expected to progressively normalise fiscal policy in 2024–2026 and return to expenditure budgeting in accordance with the long-term parameters of the fiscal rule² from 2025. The Bank of Russia assumes that the additional expenditures associated with the fulfilment of the Presidential Address to the Federal Assembly of the Russian Federation will be fully financed from extra non-oil and gas revenues, including due to changes in the fiscal system.
- **Neutral interest rate.** The Bank of Russia has revised³ the real neutral rate of interest up to 3.5–4.5% per annum, which corresponds to the nominal neutral rate of 7.5–8.5% per annum, given the inflation target. This level of the neutral rate is set considering several main factors, in particular the estimates of potential growth rates of Russia's economy and changes in its structure, fiscal policy, developments in external environment, and sanctions, including the limited participation of the domestic economy in global capital markets, the country risk premium, and the estimate of the external neutral rate.

EXTERNAL ENVIRONMENT

WORLD ECONOMY

The forecast of global GDP growth for 2024 has been revised slightly mainly on account of a more optimistic projection for the euro area whose economy sped up in early 2024. As for the 2025–2026 forecast, the regulator has primarily raised its predictions for the US economic growth. Despite robust economic activity, inflation in advanced economies has been declining more slowly than anticipated in April. As a result of the slower return of inflation to the target and the revision of the neutral rate estimate in the US, the expected policy rates of the US Fed and the ECB have been revised up over the entire forecast horizon. China's economy has been quite strong: on one hand, industrial production and exports have been showing positive trends, on the other hand, domestic demand (including related disinflationary effects) has been weak. China's economy is generally expected to grow at a rate of around 5% over the medium-term horizon.

² The fiscal rule implies that the maximum amount of federal budget expenditures is determined taking into account basic oil and gas revenues calculated with equilibrium oil and gas prices equalling \$60 per barrel and \$250 per 1,000 cubic metres, respectively.

³ The Bank of Russia updates the estimate of the neutral rate annually and presents it in the Monetary Policy Guidelines.

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

Table 3

	2019	2020	2021	2022	2023	2024 (forecast)	2025 (forecast)	2026 (forecast)	2027 (forecast)
World GDP, % YoY	2.8	-2.7	6.5	3.5	3.2	3.1	3.2	3.1	3.0
US GDP, % YoY	2.5	-2.2	5.8	1.9	2.5	2.5	2.3	2.0	1.9
Euro area GDP, % YoY	1.6	-6.1	5.3	3.4	0.6	0.8	1.4	1.4	1.5
Chinese GDP, % YoY	6.0	2.2	8.5	3.0	5.2	5.0	5.0	5.1	4.9
Inflation, USA, ¹ % YoY	1.5	1.6	5.2	4.9	2.9	3.1	2.4	2.3	2.2
Inflation, euro area, ² % YoY	1.3	0.3	2.7	5.2	3.4	3.2	2.2	1.9	1.9
Inflation, China, ³ % YoY	1.4	0.4	1.0	0.5	0.6	0.2	0.4	0.8	1.3
US Fed rate, ⁴ %	1.8	0.1	0.1	3.7	5.3	5.1	4.6	4.3	4.1
ECB rate, ⁵ %	-0.5	-0.5	-0.5	1.3	4.0	3.5	3.0	2.7	2.5

¹ Core inflation (Core PCE) in the USA.

² Core inflation (Core HICP) in the euro area.

³ Core inflation (Core CPI) in China.

⁴ US Fed Funds Effective Rate, average for Q4 of the year.

⁵ ECB rate (deposit facility), average for Q4 of the year.

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

COMMODITY MARKETS

As a result of the extension of the additional voluntary oil production cuts by the OPEC+ countries, combined with the persisting geopolitical tensions in the Middle East, oil prices stabilised at \$85 per barrel in 2024 Q2. Given the relatively favourable situation in the oil market, including greater demand, global Brent crude prices will equal \$85 and \$80 per barrel in 2024 and 2025, respectively. Gradually rising supply in part due to an anticipated pick-up in production by OPEC+ countries from October 2024 will push down Brent prices to \$75 and \$70 per barrel in 2026 and 2027, respectively. Global prices for natural gas and coal will remain under pressure because of relatively high stocks, even though gas prices have been briefly supported by the risk of disruptions in gas supplies. In the future, gas prices are expected to decrease further as liquefied natural gas (LNG) capacities expand worldwide.

In 2024, prices for other Russian exports will stay close to the 2023 levels. Between 2025 and 2027, prices for Russia's non-commodity exports will depend on global inflation trends.

INTERNAL CONDITIONS

MONETARY POLICY

- **Key rate.** In its baseline scenario, the Bank of Russia forecasts that the yearly key rate will average 16.9–17.4% per annum in 2024, 14.0–16.0% per annum in 2025, 10.0–11.0% per annum in 2026, and will return to its neutral range of 7.5–8.5% per annum in 2027. The Bank of Russia has revised the forecast ranges of the key rate for 2024–2026 upwards by 1.4–4.0 pp. The reason is the new neutral rate of interest and the recent economic activity and labour market data indicating persistently high inflationary pressures associated with the significant deviation of the Russian economy from a balanced growth path. Monetary conditions should be tighter than earlier expected for disinflationary processes to re-emerge and for inflation to sustainably return to the target.

- **Banking sector liquidity and money market rates.** The forecast of the structural liquidity balance as of 2024 year-end has been raised. The surplus is estimated to range from ₺0.2 trillion to ₺1.0 trillion over the

December required reserve averaging period. The banking sector is expected to have a surplus of liquidity throughout 2024. However, the liquidity surplus is projected to gradually decline until November 2024 partially because the Bank of Russia is mirroring transactions in the domestic foreign exchange market, which are related to the use of the assets of the National Wealth Fund (NWF) in 2023. Nevertheless, the liquidity surplus will grow by the end of the year owing to seasonal increases in budget expenditures and the conversion of the NWF assets beyond the fiscal rule to finance these expenditures.

Cash continued to return to banks in 2024 Q2, since households went on opening deposits at very attractive interest rates, among other reasons. Bearing in mind this effect and assuming that it will remain until the year-end, the regulator has reduced the estimated growth of cash in circulation for 2024 by ₺0.7 trillion. The amount of cash in circulation is projected to change within the range of -₺0.2–0.2 trillion.

The liquidity surplus will force short-term money market rates (RUONIA) to stay below the Bank of Russia key rate. With that said, if Bank of Russia loans continue to be in demand, a positive spread between the cost of short-term liquidity for banks (given the cost of borrowings under Bank of Russia operations) and the key rate will still be 20–40 basis points. This will somewhat tighten monetary conditions.

MONETARY INDICATORS

- **Claims on the economy.** In 2024, the demand for corporate loans is expected to remain high because of a rapid rise in economic and investment activity. However, the expansion of corporate lending will be gradually slowing down due to monetary tightness. By the end of the year, claims on organisations are projected to increase by 10–15%. So far, the tightening of monetary policy has poorly translated into the dynamics of consumer lending because of strong consumer activity and the expansion of people's income. Nevertheless, a longer period of tight monetary conditions, the continuously high household propensity to save, tougher macroprudential regulation in individual high-risk segments of the retail credit market, as well as the termination of the non-targeted preferential mortgage programme and the modification of the family mortgage parameters will make the expansion of the portfolio of claims on households decelerate to 10–15% by the end of this year (from 23.0% in 2023). In 2025, growth in claims on the economy will continue to slow down. In the future, as price lending conditions ease and inflation and inflation expectations stabilise, the growth rate of claims on the economy will rise from 7–12% in 2025–2026 to 8–13% in 2027.

- **Money supply.** Growth of money supply in national definition (M2) will slow down due to the forecast deceleration in credit activity amid the continuing inflow of budgetary funds. As a result, the growth rate of money supply will range from 12% to 17% in 2024. As credit activity slows down and fiscal policy normalises, the growth rate of the M2 aggregate will drop to 5–10% in 2025 and return to the range of 6–11% in 2026 and 2027.

GDP

According to Rosstat's recent statistics, in 2024 Q1 the year-on-year GDP growth was 5.4%, higher than projected by the Bank of Russia. Please note that the growth is an overestimation in annual terms owing to the leap-year effect. However, the sequential growth rates of economic activity (quarter-on-quarter, seasonally adjusted) continued to exceed those attributed to balanced growth. The expansion of economic activity was mainly driven by domestic demand.

These trends remained in 2024 Q2. As estimated by the Bank of Russia, sequential GDP growth slowed down only slightly. The persistently high output gap continued to push up consumer prices.

As forecast by the Bank of Russia, the current growth rates of GDP will continue to decline in 2024 Q3 owing to the increasing effects of tight monetary conditions. As before, the growth will be driven primarily by great consumer and investment demand. According to the Bank of Russia's forecast, economic activity will expand by 3.5–4.0% in 2024. GDP growth will be 0.5–1.5% and 1.0–2.0% in 2025 and 2026, respectively. The slight slowdown in growth is partially associated with the effect of tighter monetary conditions over the forecast horizon. Nevertheless, investment demand will be steadily rising as before, which reflects the structural shift in the Russian economy towards a greater share of investment. In 2027, investment activity will be up by 1.5–2.5%, implying a sustainable return of the economy to a balanced growth path.

- **Final consumption expenditure.** The final consumption expenditure rose by 4.6% in 2024 Q1, with the public sector consumption dropping by 0.3% but the household expenditure surging by 6.7%. The growth rate of final consumption was still above a balanced growth path.

As assessed by the Bank of Russia, consumer activity continued to expand in 2024 Q2, albeit at a slower pace. Data for April 2024 indicated a sequential slowdown in consumption in seasonally adjusted terms. The reason is a slight shift in consumer expenditures over 2024 Q1 in part owing to changes in the recycling fee calculation procedure for cars and a lower threshold for duty-free import of goods. In May, however, growth resumed. Consumer demand was rising steadily, backed by higher wages amid the persistently tight labour market. The expansion of people's incomes was strong enough to drive growth in both savings and consumption.

According to the Bank of Russia's assessment, growth in consumer activity will slow down in 2024 H2 if monetary conditions tighten further. Household income will continue to rise and in part support consumer demand. However, households will tend to save a major part of their incomes to benefit from high interest rates. Final consumption will increase by 3.0–4.0% in 2024, driven by both households and the public sector. In the future, growth in final consumption is projected to slow down to 0.0–1.0% in 2025 and 1.0–2.0% in 2026, and return to a balanced growth path in 2027.

- **Gross capital formation.** Gross capital formation gained 9.7% in 2024 Q1, backed by the stronger focus of the Russian economy on domestic demand, the promotion of import substitution, and the adaptation to external trade and financial restrictions. Corporate financial performance continued to improve, boosting private investment. The rise in investment activity was also fuelled by investment from the NWF in infrastructure and large investment projects of state-owned companies. The transformation of the Russian economy will continue in 2024, with the increase in gross capital formation reaching 4.5–6.5% as a result of a considerable contribution from government investment. Between 2025 and 2026, tight monetary conditions will make private investment stay close to the level of 2024. Nevertheless, gross capital formation is expected to show positive growth on the back of public demand, in particular within government investment and infrastructure projects. In 2027, investment will increase by 1.0–3.0%, which implies the return to a balanced growth path.

- **Gross fixed capital formation.** Gross fixed capital formation was up by 12.9% in 2024 Q1 to hit a new high since late 2021. As assessed by the Bank of Russia, investment continued to expand rapidly in the second quarter but more slowly than at the beginning of the year. This has been also confirmed by the recent data from the Bank of Russia's monitoring of businesses. Firms were actively building up capital, including by raising loans. Although monetary policy will continue to be tight, the expansion of gross fixed capital formation will be supported by the public sector. Gross fixed capital formation will return sustainably to a growth rate of 1.0–3.0% in 2027 as the economy approaches its balance growth path, pushing down interest rates.

○ **Changes in inventories.** According to Rosstat's data, the contribution of changes in inventories to annual GDP growth was close to zero in 2024 Q1. The Bank of Russia expects inventories to adjust in 2024 after their leap in 2023 and to make a moderate contribution to GDP growth in 2025–2027.

- **Exports.** As forecast by the Bank of Russia, export quantities will drop by 0.0–2.0% in 2024 due to new sanctions and the persistent need for adaptation and redirection of supplies. Exports are predicted to recover gradually between 2025 and 2027 along with the development of new logistics chains and trade relations, as well as global economic growth.
- **Imports.** Import quantities are projected to drop by 1.0–3.0% this year. The reason is sanction pressures and issues with payments and supplies, which are expected to remain over a short-term horizon. As assessed by the Bank of Russia, import quantities will recover gradually. However, the growth rate of imports will be lower than that of domestic demand, which is associated with the ongoing import substitution, among other things. Between 2026 and 2027, the growth rate of imports will settle down at a long-term stable level corresponding to the new structure of the economy.

BALANCE OF PAYMENTS

- **Exports.** As assessed by the Bank of Russia, the value of exports will be rising at a moderate pace over the medium-term horizon. The drop in the nominal value of oil and gas exports is expected to be offset by larger exports of other goods and services. The value of oil exports will coevolve with oil prices, which are projected to decline in 2025–2027 after the pick-up in 2024. The value of gas and LNG exports is predicted to fall over the entire forecast horizon due to its adjustment after the elevated levels of 2023. The value of non-oil and gas exports, however, is expected to grow, fuelled by greater external demand amid global economic growth and rising commodity prices. Nevertheless, exports will still be constrained by sanctions.
- **Imports.** The Bank of Russia predicts that the value of goods and services imports will drop in 2024 because of the logistics and payments issues. These constraints, however, will be temporary and imports are projected to expand in the coming years thanks to the diversification of supplies and the development of new logistics chains. Imports will also be backed by stronger domestic demand. Nonetheless, the imports-to-GDP ratio is expected to stay below the 2021 level over the entire forecast horizon in part due to import substitution.
- **Current account.** The current account surplus is forecast to go up to \$72 billion in 2024 on account of shrinking imports, a slight increase in the value of exports, and a narrower deficit on primary and secondary income balance. Yet, the current account surplus is expected to drop in the coming years along with the recovery of imports, namely to \$57 billion in 2025, \$45 billion in 2026, and \$33 billion in 2027.
- **Financial account.** Having widened to \$84 billion in 2024, the financial account balance, net of reserves, is forecast to shrink to \$56 billion in 2025, \$34 billion in 2026, and \$29 billion in 2027. Over the forecast horizon, it will be driven by the accumulation of foreign assets. That said, the accumulation of foreign assets will slow down in 2025–2027 due to a reduction in foreign trade earnings. Reserves are expected to be down by \$13 billion in 2024 owing to transactions with NWF assets and to start to go up from 2026, as fiscal rule-based foreign currency purchases are projected to exceed other transactions with NWF assets.

INFLATION

In 2024 Q2, inflation increased to 8.6% (seasonally adjusted annualised rate, SAAR) from 5.8% (SAAR) in 2024 Q1. Current price growth is far above the 4% target. Notably, inflationary pressures, which had been easing since December 2023, stopped declining in April but in May–June, the average growth rate of consumer prices was up. Inflation accelerated in both core and non-core components of the consumer basket. Core inflation rose to 9.2% (SAAR) in 2024 Q2 from 6.8% (SAAR) in 2024 Q1 in part owing to one-off factors, such as the indexation of domestic car prices and the higher volatility of tourism services. Nevertheless, a wide range of underlying inflation measures suggest a rise in inflationary pressure.

A number of inflationary factors emerged in 2024 H1. First, backed by the tight labour market, real wages continued to rise at a pace surpassing the growth in labour productivity. Second, lending was still expanding rapidly, particularly in consumer loans. Third, the positive output gap went on widening in 2024 Q1 and remained significant in 2024 Q2. Fourth, introduction of new sanctions pushed up transaction costs incurred by companies cooperating with foreign firms.

As forecast by the Bank of Russia, tight monetary conditions will make the current inflation rate go down in 2024 Q3. The upward pressure on prices will be easing in the fourth and following quarters as household propensity to save will continue to rise, with a slowdown in economic activity. Consumer prices are predicted to increase by 6.5–7.0% in 2024. Given the current monetary policy stance, inflation will lower to 4.0–4.5% in 2025 and stay close to 4% further on.

INFLATION AND GDP DYNAMICS

Table 4

	Actual / Bank of Russia's forecast							
	2023 Q4 (actual)	2024 Q1 (actual)	2024 Q2 (actual/estimate)	2024 Q3 (forecast)	2024 Q4 (forecast)	2025 Q4 (forecast)	2026 Q4 (forecast)	2027 Q4 (forecast)
Inflation, % YoY ¹	7.4	7.7	8.6	7.8	6.5–7.0	4.0–4.5	4.0	4.0
Inflation, % QoQ, SAAR	8.7	5.8	8.6	7.8	–	–	–	–
GDP, % YoY ^{1, 2}	4.9	5.4	4.4	3.2	2.0–3.0	0.5–1.5	1.0–2.0	1.5–2.5

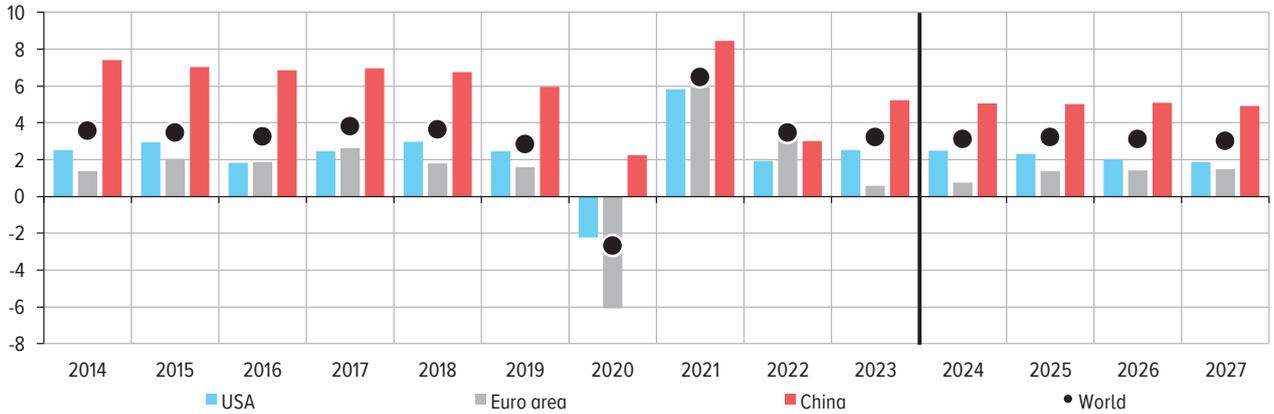
¹ GDP for 2024 Q2–Q3 and the inflation rate for 2024 Q3 are given for reference and show the paths of GDP and inflation close to the middle of the respective forecast ranges for 2024. The figures for 2024 Q4–2027 are the forecast of the Bank of Russia.

² The year 2024 is a leap year, which is why annual growth rates in 2024 might be slightly overestimated relative to regular years.

ANNEX

GDP GROWTH (MAJOR ECONOMIES)
(% YoY)

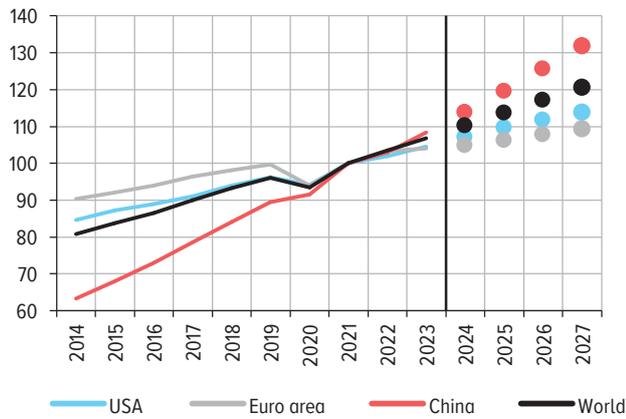
Chart 1



Source: Bank of Russia calculations.

GDP (MAJOR ECONOMIES)
(2021= 100)

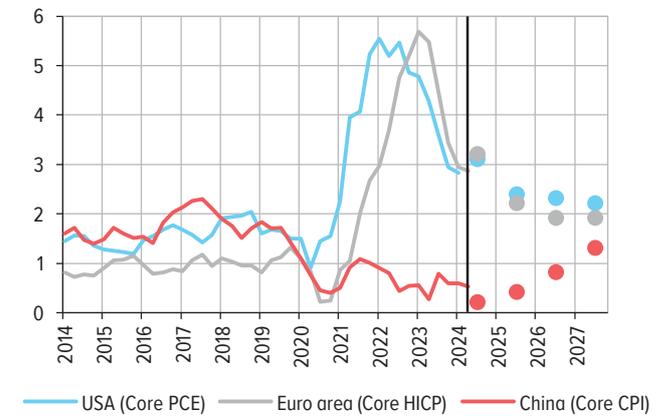
Chart 2



Source: Bank of Russia calculations.

INFLATION (MAJOR ECONOMIES)
(% YoY)

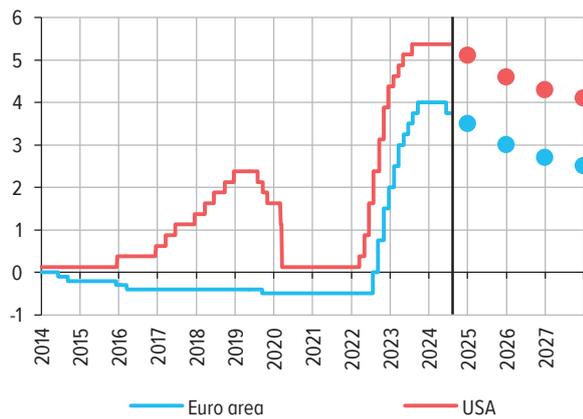
Chart 3



Source: Bank of Russia calculations.

POLICY RATES: US FED FUNDS RATE (UPPER BOUND), ECB DEPOSIT FACILITY RATE
(% per annum)

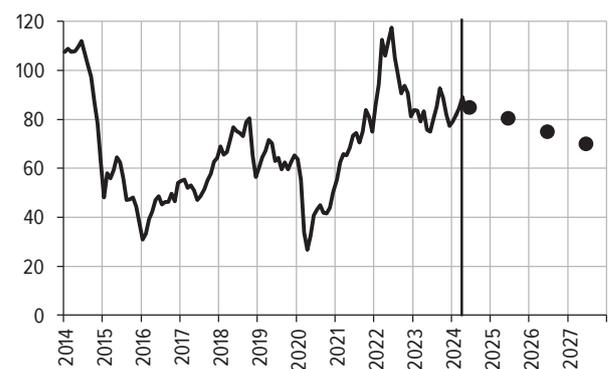
Chart 4



Sources: Cbonds, World Bank, Bank of Russia calculations.

AVERAGE BRENT CRUDE PRICE
(\$ per barrel)

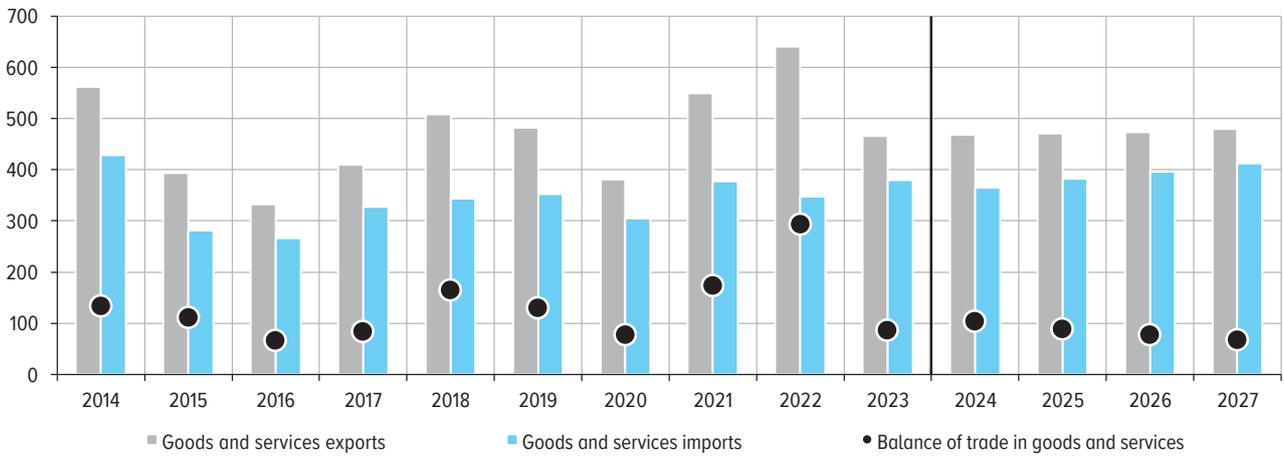
Chart 5



Sources: ICE, Bank of Russia calculations.

FOREIGN TRADE, GOODS AND SERVICES
(\$ bn)

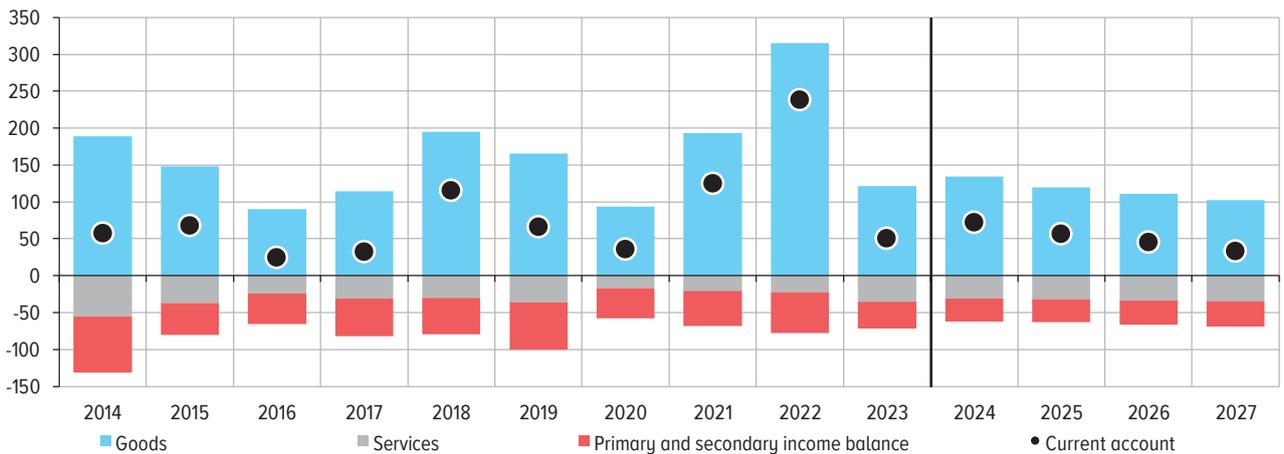
Chart 6



Source: Bank of Russia calculations.

CURRENT ACCOUNT AND ITS COMPONENTS
(\$ bn)

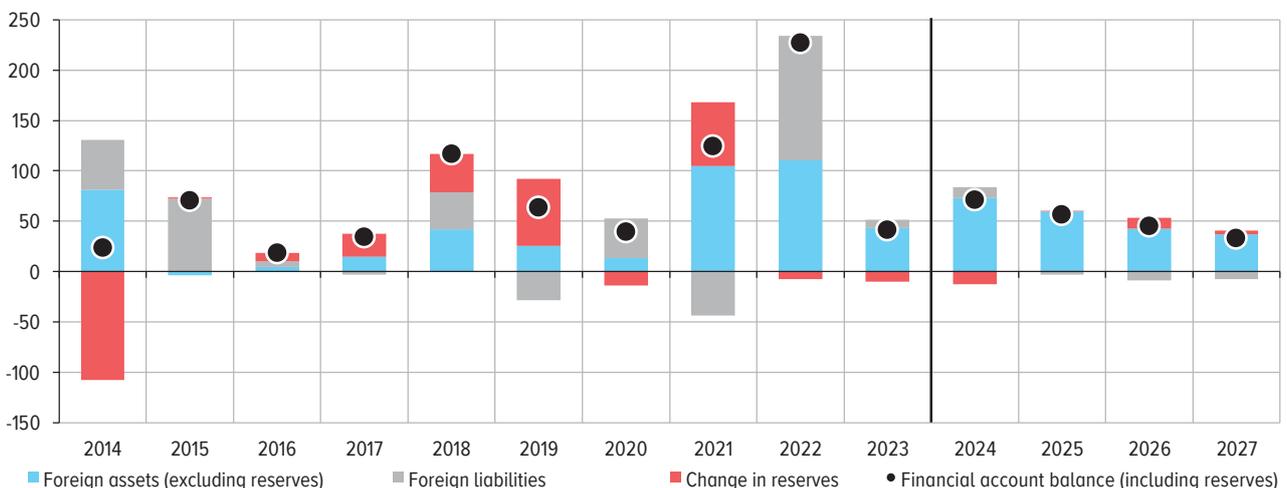
Chart 7



Source: Bank of Russia calculations.

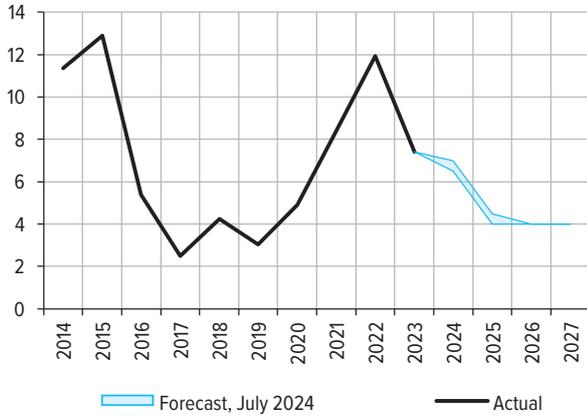
MAIN FINANCIAL ACCOUNT COMPONENTS*
(\$ bn)

Chart 8



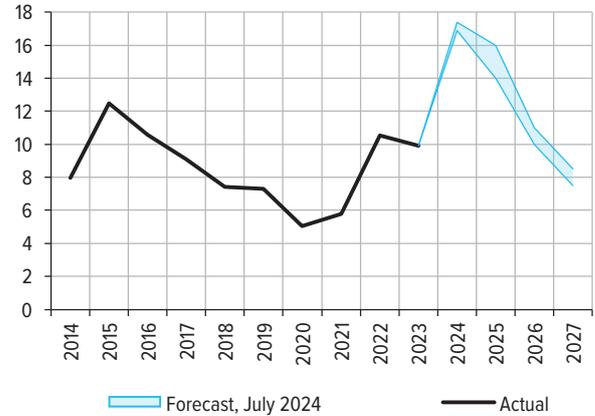
* In the balance item, '-' denotes net borrowing and '+' denotes net lending. In the assets item, '-' denotes a decrease and '+' denotes an increase. In the liabilities item, '-' denotes an increase and '+' denotes a decrease.
Source: Bank of Russia calculations.

INFLATION PATH IN BANK OF RUSSIA'S BASELINE FORECAST **Chart 9**
(% in December YoY)



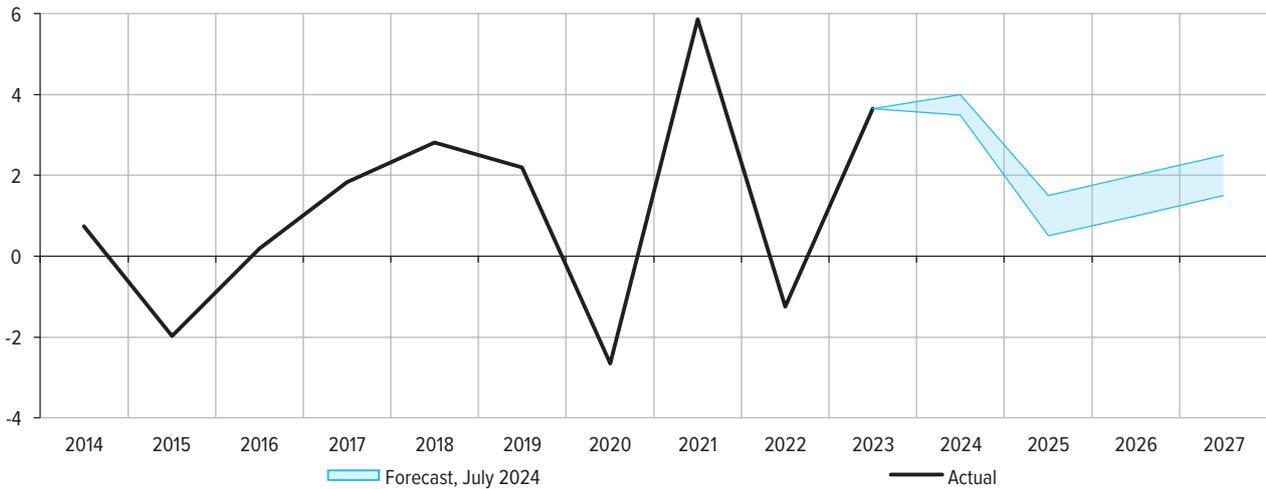
Source: Bank of Russia calculations.

AVERAGE ANNUAL KEY RATE PATH IN BANK OF RUSSIA'S BASELINE FORECAST **Chart 10**
(% per annum)



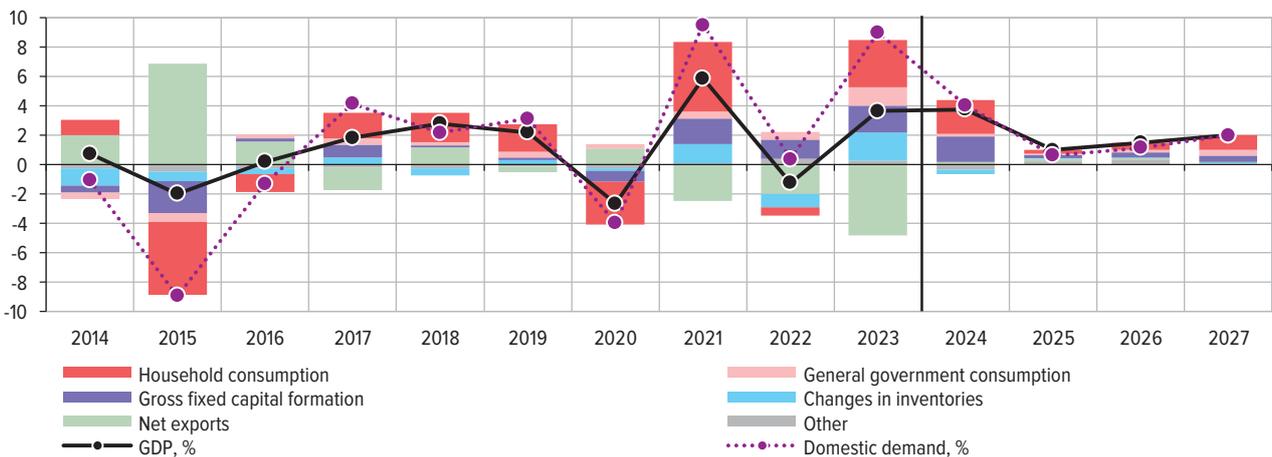
Source: Bank of Russia calculations.

GDP GROWTH PATH IN BANK OF RUSSIA'S BASELINE FORECAST **Chart 11**
(% YoY)



Source: Bank of Russia calculations.

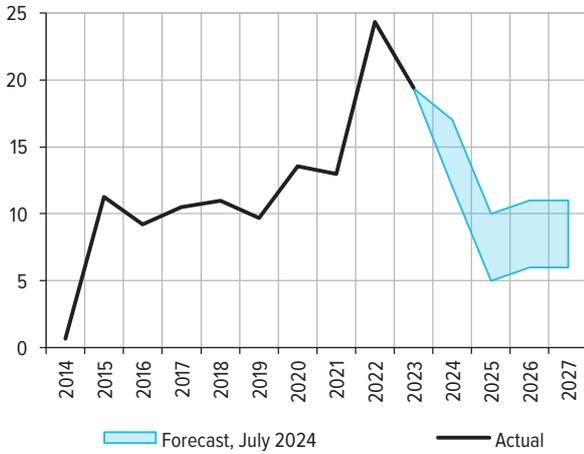
DECOMPOSITION OF ANNUAL GDP GROWTH INTO EXPENDITURE COMPONENTS **Chart 12**
(% YoY, pp, for the year)



Sources: Rosstat, Bank of Russia calculations.

M2
(% YoY)

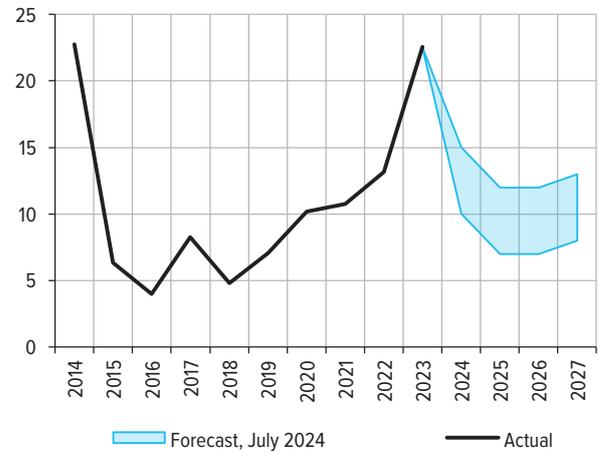
Chart 13



Source: Bank of Russia calculations.

CLAIMS ON ORGANISATIONS
(% YoY, adjusted for foreign currency revaluation)

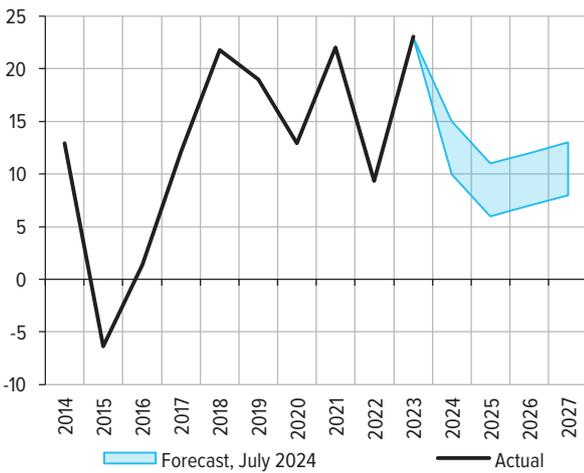
Chart 14



Source: Bank of Russia calculations.

CLAIMS ON HOUSEHOLDS
(% YoY, adjusted for foreign currency revaluation)

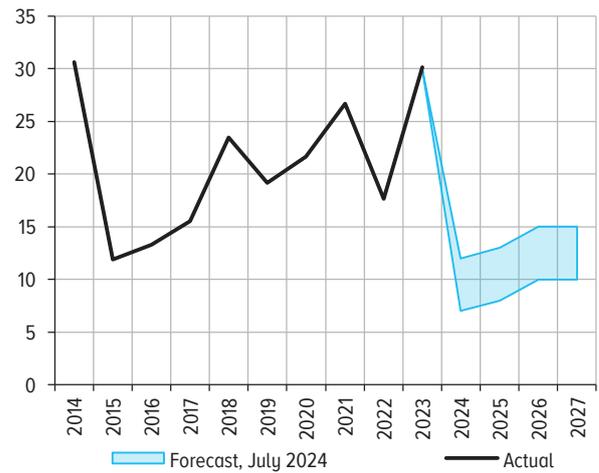
Chart 15



Source: Bank of Russia calculations.

MORTGAGE LOANS*
(% YoY, adjusted for foreign currency revaluation)

Chart 16



* Net of claims acquired by banks.
Source: Bank of Russia calculations.